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## **OREGON DEPARTMENT OF AVIATION Oregon Statewide DBE Disparity Study**



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## **EXECUTIVE SUMMARY.**

### **2021 Oregon Statewide Airport DBE Disparity Study Keen Independent Research LLC**

The federal government requires state and local governments to operate the Federal Disadvantaged Business Enterprise (DBE) Program if they receive a certain level of Federal Airport Administration (FAA) funds for airport projects. The Oregon Department of Aviation (ODA) has operated the Federal DBE Program since it became an independent agency in 2000. Every three years, ODA and other NPIAS airports<sup>1</sup> must set an overall annual goal for participation of DBEs in those FAA-funded contracts.

The 2021 Oregon Statewide Airport DBE Disparity Study provides information about minority- and women-owned firms and DBEs to help ODA and other airports set overall DBE goals and operate the Federal DBE Program.<sup>2</sup> ODA engaged Keen Independent Research (Keen Independent) to complete this study.

Keen Independent has led similar disparity studies for public entities across the country, including for the Oregon Department of Transportation. These research projects are called “disparity studies” because they determine if there is a disparity between the utilization and availability of minority- and women-owned firms in an agency’s contracts.

#### **Disparity Study Research**

The Disparity Study began in fall 2019.

- Throughout the study, Keen Independent consulted with ODA Planning and Programs Division staff and external stakeholders that included businesses and trade associations.
- Keen Independent examined ODA and other airport FAA-funded contracts from October 2014 through September 2019. Keen Independent analyzed more than 1,000 prime contracts and subcontracts.
- About 88 percent of ODA and other airports contract dollars went to firms with addresses in Oregon or within Clark and Skamania counties in Washington or Payette County in Idaho. Therefore, Keen Independent focused on this region when collecting data about marketplace conditions for minority- and women-owned firms.
- The study team also collected qualitative information and other input from Oregon businesses, trade associations and other groups.

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<sup>1</sup> FAA’s National Plan of Integrated Airport Systems (NPIAS) identifies existing and proposed airports that are included in the national airport system, the roles they currently serve, and the amounts and types of airport development eligible for Federal funding under the Airport Improvement Program (AIP) over the next 5 years.

<sup>2</sup> The Port of Portland did not participate in this study as it had already completed a disparity study for its contracts.



- The study team completed telephone surveys with 4,889 businesses in Oregon and those Washington and Idaho counties to determine the availability of firms indicating qualifications and interest in airport-related types of work. After considering answers to several screening questions, Keen Independent included 803 companies in the final availability database. These firms provided information such as the race, ethnicity and gender of the business owner and the regions of Oregon where they perform work.
- To determine utilization results, Keen Independent identified the race, ethnicity and gender ownership of companies receiving ODA and other airport prime contracts and subcontracts through sources including telephone interviews with those firms. This analysis produced utilization results for minority-owned firms (by race and ethnicity), white women-owned firms and majority-owned firms (firms that are not minority- or women-owned). ODA reviewed the ownership data before Keen Independent performed the utilization analysis.
- The study team performed disparity analyses by comparing the utilization of minority- and women-owned firms (by race/ethnicity and gender) to the availability benchmarks for each group developed in the study.
- Keen Independent provided instructions for how ODA and other airports can apply the above data to establish future overall DBE goals for FAA-funded contracts and project the portion of those goals to be met through race- and gender-neutral means. ODA and other airports can use this information to update current overall DBE goals and program operation as well.
- For each ODA airport, the study team calculated overall DBE goals for ODA consideration.
- ODA and other airports currently use race- and gender-neutral means to attempt to meet their overall goals for DBE participation. Most participating airports with a current overall DBE goal of more than 0 percent have not met their overall DBE goals in recent years. Keen Independent recommended options for ODA and other airports to consider to better meet their overall goals, including a DBE contract goals program.

### **Federal Regulations Governing Overall DBE goals**

Keen Independent followed federal regulations in Title 49 Code of Federal Regulations (CFR) Part 26 and USDOT Guidance when instructing ODA and other airports how to (a) set overall DBE goals for FAA-funded contracts, (b) project how much of a goal will be met through race-neutral means, and (c) project the portion of the goal (if any) to be met through DBE contract goals.

The 2005 Ninth Circuit Court of Appeals decision in *Western States Paving Co. v. Washington State DOT* is also important for this study. The Court upheld the constitutionality of the Federal DBE Program, but it found that the Washington State DOT failed to show its implementation of the Federal DBE Program to be narrowly tailored (see Chapter 2 and Appendix B of the full report). The disparity study provides information for ODA and other airports to consider in order to meet these legal requirements.

## Summary of Study Results

The full report explains availability, utilization and disparity results in detail, along with information about conditions in the Oregon marketplace. Key results are summarized below.

**Availability of minority- and women-owned firms and other businesses for ODA and other airport contracts.** Figure ES-1 provides the race, ethnicity and gender ownership of the 803 firms in the availability database for this study. Minority-owned firms (MBEs) comprise about 10 percent of businesses in Oregon available for airport contracts. White women-owned firms (WBEs) account for about 14 percent of the companies available for ODA’s and other airports’ work.

Figure ES-1.  
Number of businesses  
in the availability database

Note:  
Numbers rounded to nearest tenth  
of 1 percent.  
Percentages may not add to totals due to  
rounding.

Source:  
Keen Independent Research availability  
analysis.

| Race/ethnicity and gender         | Number<br>of firms | Percent<br>of firms |
|-----------------------------------|--------------------|---------------------|
| African American-owned            | 10                 | 1.2 %               |
| Asian-Pacific American-owned      | 17                 | 2.1                 |
| Subcontinent Asian American-owned | 2                  | 0.2                 |
| Hispanic American-owned           | 33                 | 4.1                 |
| Native American-owned             | 19                 | 2.4                 |
| <b>Total MBE</b>                  | <b>81</b>          | <b>10.1 %</b>       |
| WBE (white women-owned)           | 110                | 13.7                |
| <b>Total MBE/WBE</b>              | <b>191</b>         | <b>23.8 %</b>       |
| Majority-owned firms              | 612                | 76.2                |
| <b>Total firms</b>                | <b>803</b>         | <b>100.0 %</b>      |

The study team identified the specific characteristics of each of the 1,076 FAA-funded prime contracts and subcontracts from October 2014 through September 2019 that were included in the study and counted the number of minority-, women- and majority-owned businesses available for each of those prime contracts and subcontracts. Type, size and location of that work were considered. Importantly, the results took into account the “bid capacity” that each firm indicated in the availability survey.<sup>3</sup>

<sup>3</sup> Firms were asked to identify the size of the largest contract the firm had won or bid on in recent years. As an example, if a firm had only bid on contracts or subcontracts up to \$1 million, it was not counted as available for a \$5 million ODA and other airports contract.

Once availability for each contract and subcontract was determined, Keen Independent dollar-weighted results based on the dollars for the contract or subcontract to develop availability benchmarks for all contracts combined.

Although MBE/WBEs accounted for about 24 percent of available firms, the availability benchmark for MBE/WBEs on a dollar-weighted basis was about 15 percent of contract dollars after performing the analysis described above (see Figure ES-2).

Figure ES-2.  
Overall dollar-weighted availability estimates for MBE/WBEs for FAA-funded contracts for ODA and other airports, October 2014–September 2019

Note:  
Numbers rounded to nearest tenth of 1 percent. Percentages may not add to totals due to rounding.  
Weighted availability figures do not include one majority-owned firm that went out of business between the availability survey and the time of this writing.

| Race/ethnicity and gender         | Dollar-weighted availability |
|-----------------------------------|------------------------------|
| African American-owned            | 0.19 %                       |
| Asian-Pacific American-owned      | 1.95                         |
| Subcontinent Asian American-owned | 0.11                         |
| Hispanic American-owned           | 2.70                         |
| Native American-owned             | 1.04                         |
| <b>Total MBE</b>                  | <b>6.00 %</b>                |
| WBE (white women-owned)           | 9.29                         |
| <b>Total MBE/WBE</b>              | <b>15.28 %</b>               |

Source:  
Keen Independent Research availability analysis.

Keen Independent used detailed availability results by region to demonstrate how an individual airport can develop its overall DBE goal. The study team calculated overall DBE goals for each ODA airport, as described later in this Executive Summary.

**Utilization of minority- and women-owned firms and DBEs.** The top portion of Figure ES-3 on the following page presents utilization of minority-owned firms (by group) and white women-owned firms on FAA-funded contracts. MBE/WBEs received 2.8 percent of the contract dollars. As shown, Asian-Pacific American- and white women-owned firms accounted for much of this utilization.

The bottom portion of Figure ES-3 shows participation of firms certified as DBEs during the study period. In total, firms certified as DBEs obtained 1.7 percent of FAA-funded contract dollars. DBEs owned by Asian-Pacific American-owned accounted for one-half of the DBE utilization on these contracts.

Figure ES-3.

MBE/WBE and DBE share of ODA and other airport prime contracts and subcontracts for FAA-funded contracts, October 2014–September 2019

|                                   | Number of<br>contracts* | \$1,000s          | Percent<br>of dollars |
|-----------------------------------|-------------------------|-------------------|-----------------------|
| <b>MBE/WBEs</b>                   |                         |                   |                       |
| African American-owned            | 3                       | \$ 194            | 0.1 %                 |
| Asian-Pacific American-owned      | 3                       | 2,338             | 0.8                   |
| Subcontinent Asian American-owned | 7                       | 810               | 0.3                   |
| Hispanic American-owned           | 11                      | 690               | 0.2                   |
| Native American-owned             | 8                       | 218               | 0.1                   |
| <b>Total MBE</b>                  | <b>32</b>               | <b>\$ 4,251</b>   | <b>1.5 %</b>          |
| WBE (white women-owned)           | 83                      | 3,695             | 1.3                   |
| <b>Total MBE/WBE</b>              | <b>115</b>              | <b>\$ 7,945</b>   | <b>2.8 %</b>          |
| Total majority-owned              | 961                     | 279,595           | 97.2                  |
| <b>Total</b>                      | <b>1,076</b>            | <b>\$ 287,541</b> | <b>100.0 %</b>        |
| <b>DBEs</b>                       |                         |                   |                       |
| African American-owned            | 2                       | \$ 178            | 0.1 %                 |
| Asian-Pacific American-owned      | 1                       | 2,306             | 0.8                   |
| Subcontinent Asian American-owned | 6                       | 756               | 0.3                   |
| Hispanic American-owned           | 5                       | 142               | 0.0                   |
| Native American-owned             | 8                       | 218               | 0.1                   |
| <b>Total MBE</b>                  | <b>22</b>               | <b>\$ 3,599</b>   | <b>1.3 %</b>          |
| WBE (white women-owned)           | 42                      | 1,165             | 0.4                   |
| <b>Total DBE-certified</b>        | <b>64</b>               | <b>\$ 4,764</b>   | <b>1.7 %</b>          |
| Non-DBE                           | 1,012                   | 282,777           | 98.3                  |
| <b>Total</b>                      | <b>1,076</b>            | <b>\$ 287,541</b> | <b>100.0 %</b>        |

Note: Includes subcontracts.

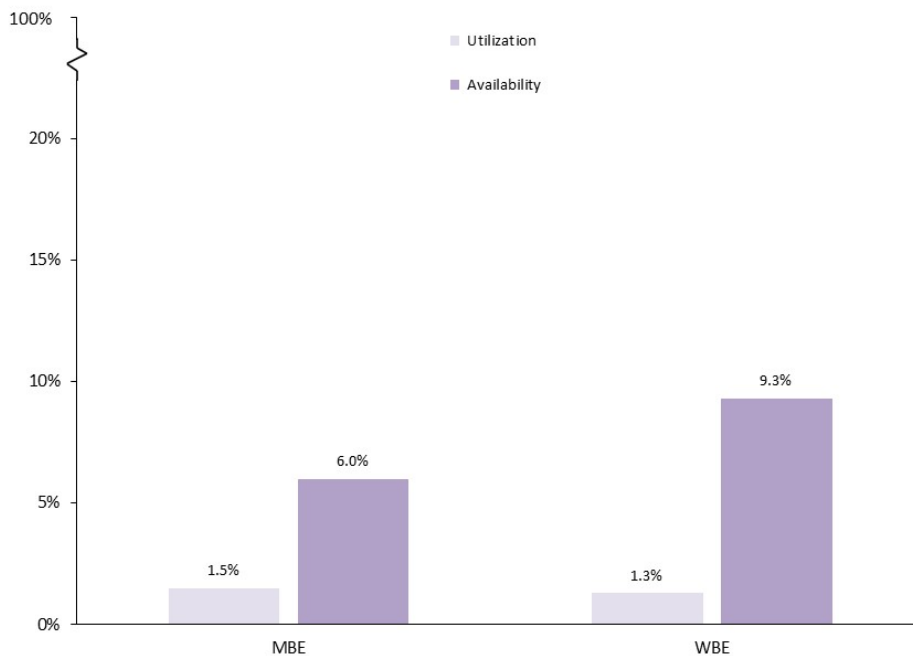
Source: Keen Independent from ODA and other airport contract data.

**Disparity analysis results for minority- and women-owned firms on FAA-funded contracts.**

Minority-owned firms received 1.5 percent of FAA-funded contracts, a result that was below what might be expected from the availability analysis — 6.0 percent. As presented in Chapter 7 of the report, further analysis by racial and ethnic group identified substantial disparities for African American-, Asian-Pacific American-, Hispanic American-, and Native American-owned firms. There was no disparity for Subcontinent Asian American-owned firms for these contracts.

Figure ES-4 shows that white women-owned firms received 1.3 percent of FAA-funded contract dollars, substantially less than the 9.3 percent that might be expected from the availability analysis.

Figure ES-4.  
MBE and WBE utilization and availability for FAA-funded contracts at ODA and other airports, October 2014–September 2019



Note: Number of contracts/subcontracts analyzed is 1,076.

Source: Source: Keen Independent from ODA and other airport contract data.

**Quantitative and qualitative information about the local marketplace.** Federal courts have found that Congress “spent decades compiling evidence of race discrimination in government highway contracting, barriers to the formation of minority-owned construction businesses, and barriers to entry.”<sup>4</sup> Congress found that discrimination has impeded the formation and expansion of qualified MBE/WBEs. The evidence examined in this disparity study indicates that the barriers that Congress found on a national level also appear in Oregon. Quantitative and qualitative information about the Oregon marketplace suggests that there is not a level playing for minority- or women-owned firms.

<sup>4</sup> *Sherbrooke Turf, Inc. v. Minnesota DOT*, 345 F.3d, 970 (8th Cir. 2003) (citing *Adarand Constructors, Inc.*, 228 F.3d at 1167 – 76); *Western States Paving Co. v. Washington State DOT*, 407 F.3d 983, 992 (9th Cir. 2005).

**Entry and advancement.** Keen Independent identified barriers for people of color and women entering and advancing in the Oregon construction and architecture and engineering industries, which negatively affected the number of MBE/WBE construction and engineering companies in business today.

**Business ownership rates for minorities and women in the transportation contracting industry.** The study team identified disparities in business ownership rates for minorities and women that depress the relative number of MBE/WBEs available for construction and engineering work.

**Access to capital.** Potential barriers associated with access to capital may affect business outcomes for MBE/WBEs. There is evidence that minority- and women-owned firms do not have the same access to capital as majority-owned firms.

**Success of businesses in the construction and engineering industries.** Minority- and women-owned construction and engineering firms in Oregon had lower revenue than majority-owned firms. This may indicate discrimination and it also demonstrates that any disadvantages for small businesses disproportionately affect MBEs and WBEs.

Some minority and women business owners reported that they were disadvantaged by their size and had difficulty learning about bid or subconsulting opportunities with airports. Some interviewees also reported negative stereotypes and other forms of discrimination against minority- and women-owned firms.

## **Development of the Overall DBE Goals and Neutral Projections**

As described earlier in this Executive Summary, Keen Independent compiled availability data through surveys with businesses in Oregon and surrounding communities. Only businesses reporting their qualifications and interest in public sector prime contracts and subcontracts related to airport work were included in the final analyses. Some of those firms were DBEs.

**Base figure analysis using results of dollar-weighted availability.** Keen Independent collected information from ODA about future FAA-funded contracts at each of its airports. To calculate availability of DBEs for a prime contract or subcontract, Keen Independent calculated:

- (a) Number of current DBEs available for that type, size and location of work;
- (b) Total number of firms available for that work; and
- (c) Percentage DBE availability for that contract, calculated by dividing (a) by (b).

The study team incorporated information about the subcontracts typically associated with each type of airport project when determining DBE availability at the project level.

Keen Independent then dollar-weighted the percentage DBE availability results for each contract and subcontract to develop overall DBE availability figures by region and type of project.

**Step 2 adjustments.** Federal regulations require agencies to consider “step 2 adjustments” when determining their overall DBE goals. These adjustments can raise or lower the overall goal from what it would be only considering current availability of DBEs for an agency’s contracts (which is called the “base figure” in the federal regulations).

The Federal DBE Program outlines factors that an agency must consider when assessing whether to make any step 2 adjustments to its base figure:

1. Current capacity of DBEs to perform work, as measured by the volume of work DBEs have performed in recent years;
2. Information related to employment, self-employment, education, training and unions;
3. Any disparities in the ability of DBEs to get financing, bonding and insurance; and
4. Other relevant factors.

Keen Independent completed an analysis of each of the above step 2 factors and was able to quantify the effect of certain factors on the base figure for each ODA airport (see Chapter 9 for details). Figure ES-5 on the following page shows calculation of potential overall goals for ODA airports after downward adjustments (left-hand column of results) and upward adjustments (right-hand column of results). ODA can choose to make either adjustment or no adjustment at all when determining its overall DBE goals for its airports.

Other airports can follow the same process when determining potential step 2 adjustments for their overall DBE goals.

Figure ES-5.

Base figure and potential step 2 adjustments to ODA airports’ overall DBE goals for FAA-funded contracts, FFY 2021–FFY 2023

| ODA airport                        | FFY 2021–FFY 2023   |             |                   |
|------------------------------------|---------------------|-------------|-------------------|
|                                    | Downward adjustment | Base figure | Upward adjustment |
| Aurora State Airport               | 5.45 %              | 10.61 %     | 15.50 %           |
| Chiloquin State Airport            | 4.10                | 8.21        | 11.99             |
| Condon State Airport-Pauling Field | 5.01                | 10.02       | 14.64             |
| Cottage Grove State Airport        | 2.65                | 5.31        | 7.75              |
| Independence State Airport         | 3.18                | 6.36        | 9.29              |
| Joseph State Airport               | 5.88                | 11.75       | 17.16             |
| Lebanon State Airport              | 5.15                | 10.29       | 15.03             |
| McDermitt State Airport            | 4.31                | 8.61        | 12.57             |
| Mulino State Airport               | 3.62                | 7.25        | 10.58             |
| Siletz Bay State Airport           | 7.57                | 8.75        | 12.77             |

Note: Bandon State Airport does not project that it will award any contracts during the FFY 2021 through FFY 2023 goal-setting period and is exempt from setting a DBE goal for that period.

Source: Source: Keen Independent Research.

**Projections of the share of the overall goal to be met through neutral means.** When ODA prepared its overall DBE goals for each airport for the three years starting FFY 2019, it projected that it would meet those goals entirely through race- and gender-neutral means (see left column of Figure ES-6). In each case, it projected “0%” as the amount of DBE participation it intended to achieve through race- and gender-conscious means. ODA fell short of those goals and study results suggest that ODA may need to use DBE contract goals (a race-conscious measure) to meet its overall DBE goals. (Chapters 7, 8, 10 and 11 discuss these analyses in detail.)

Figure ES-6 on the following page shows Keen Independent’s projections of how much of its overall DBE goals ODA can meet through race- and gender-neutral means and race- and gender-conscious means (using DBE contract goals) in the future. Figure ES-6 provides three columns of goals and projections depending on whether ODA makes a downward or upward adjustment to its overall DBE goals at an airport.



Figure ES-6.

ODA airports' overall DBE goals and race-neutral projections for FAA-funded contracts for FFY 2019 and examples of overall goals and projections for FFY 2021–FFY 2023

| ODA airport                               | FFY 2019      | FFY 2021–FFY 2023   |               |                   |
|---|---------------|---------------------|---------------|-------------------|
|   |               | Downward adjustment | Base figure   | Upward adjustment |
| <b>Aurora State Airport</b>               |               |                     |               |                   |
| Overall goal                              | 6.00 %        | 5.45 %              | 10.61 %       | 15.50 %           |
| Neutral projection                        | - <u>6.00</u> | - <u>0.29</u>       | - <u>0.29</u> | - <u>0.29</u>     |
| Race-conscious projection                 | 0.00 %        | 5.16 %              | 10.32 %       | 15.21 %           |
| <b>Chiloquin State Airport</b>            |               |                     |               |                   |
| Overall goal                              | 0.60 %        | 4.10 %              | 8.21 %        | 11.99 %           |
| Neutral projection                        | - <u>0.60</u> | - <u>0.00</u>       | - <u>0.00</u> | - <u>0.00</u>     |
| Race-conscious projection                 | 0.00 %        | 4.10 %              | 8.21 %        | 11.99 %           |
| <b>Condon State Airport-Pauling Field</b> |               |                     |               |                   |
| Overall goal                              | 0.00 %        | 5.01 %              | 10.02 %       | 14.64 %           |
| Neutral projection                        | - <u>0.00</u> | - <u>0.00</u>       | - <u>0.00</u> | - <u>0.00</u>     |
| Race-conscious projection                 | 0.00 %        | 5.01 %              | 10.02 %       | 14.64 %           |
| <b>Cottage Grove State Airport</b>        |               |                     |               |                   |
| Overall goal                              | 5.50 %        | 2.65 %              | 5.31 %        | 7.75 %            |
| Neutral projection                        | - <u>5.50</u> | - <u>0.00</u>       | - <u>0.00</u> | - <u>0.00</u>     |
| Race-conscious projection                 | 0.00 %        | 2.65 %              | 5.31 %        | 7.75 %            |
| <b>Independence State Airport</b>         |               |                     |               |                   |
| Overall goal                              | 3.66 %        | 3.18 %              | 6.36 %        | 9.29 %            |
| Neutral projection                        | - <u>3.66</u> | - <u>0.00</u>       | - <u>0.00</u> | - <u>0.00</u>     |
| Race-conscious projection                 | 0.00 %        | 3.18 %              | 6.36 %        | 9.29 %            |

Figure ES-6 (continued).

ODA airports' overall DBE goals and race-neutral projections for FAA-funded contracts for FFY 2019 and examples of overall goal and projections for FFY 2021 through FFY 2023

| ODA airport                     | FFY 2019      | FFY 2021–FFY 2023   |               |                   |
|---------------------------------|---------------|---------------------|---------------|-------------------|
|                                 |               | Downward adjustment | Base figure   | Upward adjustment |
| <b>Joseph State Airport</b>     |               |                     |               |                   |
| Overall goal                    | - %           | 5.88 %              | 11.75 %       | 17.16 %           |
| Neutral projection              | - <u>-</u>    | - <u>0.00</u>       | - <u>0.00</u> | - <u>0.00</u>     |
| Race-conscious projection       | - %           | 5.88 %              | 11.75 %       | 17.16 %           |
| <b>Lebanon State Airport</b>    |               |                     |               |                   |
| Overall goal                    | - %           | 5.15 %              | 10.29 %       | 15.03 %           |
| Neutral projection              | - <u>-</u>    | - <u>0.00</u>       | - <u>0.00</u> | - <u>0.00</u>     |
| Race-conscious projection       | - %           | 5.15 %              | 10.29 %       | 15.03 %           |
| <b>McDermitt State Airport</b>  |               |                     |               |                   |
| Overall goal                    | 0.00 %        | 4.31 %              | 8.61 %        | 12.57 %           |
| Neutral projection              | - <u>0.00</u> | - <u>0.00</u>       | - <u>0.00</u> | - <u>0.00</u>     |
| Race-conscious projection       | 0.00 %        | 4.31 %              | 8.61 %        | 12.57 %           |
| <b>Mulino State Airport</b>     |               |                     |               |                   |
| Overall goal                    | 0.00 %        | 3.62 %              | 7.25 %        | 10.58 %           |
| Neutral projection              | - <u>0.00</u> | - <u>0.00</u>       | - <u>0.00</u> | - <u>0.00</u>     |
| Race-conscious projection       | 0.00 %        | 3.62 %              | 7.25 %        | 10.58 %           |
| <b>Siletz Bay State Airport</b> |               |                     |               |                   |
| Overall goal                    | 4.30 %        | 7.57 %              | 8.75 %        | 12.77 %           |
| Neutral projection              | - <u>4.30</u> | - <u>6.39</u>       | - <u>6.39</u> | - <u>6.39</u>     |
| Race-conscious projection       | 0.00 %        | 1.18 %              | 2.35 %        | 6.38 %            |

Note: Bandon State Airport does not project that it will award any contracts during the FFY 2021 through FFY 2023 goal-setting period and is exempt from setting a DBE goal for that period.

Source: Source: Keen Independent Research.

## Recommendations Concerning Program Elements

Keen Independent suggests that ODA and other participating airports consider the following actions.

**Recommendations concerning race- and gender-neutral program measures.** Regulations in 49 CFR Section 26.51 require agencies operating the Federal DBE Program to meet the maximum feasible portion of their overall DBE goal through race- and gender-neutral means. Such neutral measures include removing barriers to the participation of businesses in general or promoting the participation of small businesses. If an agency can meet its overall DBE goal solely through race- and gender-neutral means, it must not use race- and gender-conscious measures as part of its implementation of the Federal DBE Program.

In their program documents, Oregon airports reported that they had planned to implement race-neutral measures such as arranging solicitations and times for the presentation of bids, quantities, specifications and delivery schedules in ways that facilitate DBE and small business participation; carrying out information and communication programs on contracting procedures and specific contracting opportunities; and ensuring the distribution of DBE directories to the widest feasible universe of potential prime contractors.

ODA and some other airports have employed neutral measures such as participating in networking events like the Governor's Marketplace and other trade shows. It is unclear how many of the other measures have been effectively implemented across Oregon airports, however.

**Recommendation that certain ODOT neutral programs be applied to ODA FAA-funded contracts.** Because it receives USDOT funds for highway contracts, the Oregon Department of Transportation also operates the Federal DBE Program, including neutral efforts to encourage DBE participation. ODOT neutral activities include:

- A Small Contracting Program;
- A DBE Supportive Services Program that provides outreach and technical assistance;
- Efforts to un-bundle contracts into smaller segments;
- Participation in networking events; and
- A project-specific mentor-protégé program.

Procurements for ODA price agreements and construction contracts are handled by the ODOT Procurement Office unless they are considered to be construction contracts that are not defined as public improvements in the State of Oregon Public Code. There is also some overlap in the disciplines involved in airport contracts and ODOT highway contracts. In addition, ODOT has many years of experience successfully operating race- and gender-neutral elements of the Federal DBE Program for its contracts funded by the Federal Highway Administration (FHWA).

Keen Independent recommends that ODA consider whether any of the current ODOT neutral efforts can apply to ODA's FAA-funded contracts and DBEs involved in airport work. Rather than duplicate efforts, ODA might consult with ODOT to determine if certain of its neutral efforts can also apply to ODA.

**Recommendation that ODOT and Port of Portland neutral programs might be applied to FAA-funded contracts at other airports.** For the reasons as discussed above, other airports might also consider partnering with ODOT on delivery of neutral programs to DBEs and other small businesses. Airports close to Portland might also coordinate neutral programs with the Port of Portland. For example, airports could ask to attend Port of Portland networking events with prime contractors and potential DBE subcontractors to discuss opportunities at their airports.

**Recommendation concerning potential development of a small business contract goals program.** ODA and other airports might consider setting contract goals for small businesses (SBEs) on their FAA-funded contracts. DBEs would automatically qualify for the program, but other firms could apply for small business certification as well. An airport might decide to only operate the SBE contract goals program with no use of DBE contract goals or to operate the programs in parallel (some contracts would have an SBE goal and some would have a DBE goal).

If ODA were to explore implementing an SBE contract goals program, it would need to coordinate with the State of Oregon Certification Office for Business Inclusion and Diversity (COBID) or another group regarding potential certification of SBEs and might approach ODOT for assistance with program rules and operation.

**Recommendation concerning enforcement of prompt payment requirements.** Federal regulations (49 CFR Section 26.29) require prime contractors on FAA-funded contracts to promptly pay all subcontractors performing work on those projects. ODA and other airports must require this provision in their DBE Program Plans and contracts for FAA-funded work, and monitor that prime contractors comply with this provision.

To improve the timeliness of invoice payments to consultants and their subconsultants, ODOT recently implemented an invoice partial payment process. A partial payment of 40 percent was determined by analyzing past data and through discussions with industry. ODA's Price Agreements and Work Order Contracts now reflect the ability to make partial payments. Keen Independent recommends that ODA continue to use this new provision as a standard practice in its future contract management.

**Recommendations concerning race- and gender-conscious program elements.** Regulations in 49 CFR Section 26.51(d) require agencies to use DBE contract goals to meet any portion of their overall DBE goals that they do not project to meet solely through neutral programs. ODOT and the Port of Portland currently operate DBE contract goals programs for their USDOT-funded contracts and COBID certifies firms as DBEs in the state.

Regulations governing the Federal DBE Program outline how an agency such as ODA would operate such a program. They include the following instructions.

- An agency using such a program would set goals expressing the percentage of contract dollars going to DBEs on certain FAA-funded contracts. It would determine those goals based on an assessment of the subcontracting opportunities on each contract, the availability of DBEs to perform that work and other factors.

- Prime contractors bidding on a contract with a DBE goal must either meet that goal or demonstrate good faith efforts to do so (sometimes shortened to “GFE”). Federal regulations govern what actions, when combined, constitute good faith efforts on the part of the prime contractor to meet a DBE contract goal (see 49 CFR Section 26.53).
- Contracts awarded with DBE goals must contain certain language committing the prime contractor to actions governing use of the DBEs that the contractor has listed for the project.
- When an airport has a contract with a DBE goal, it must monitor DBE participation in that contract to ensure that committed DBE participation is achieved by the prime contractor. There are provisions in the federal regulations that allow flexibility in the use of a specific DBE.
- There are provisions in the regulations (49 CFR Section 26.55) outlining how an agency should count DBE participation toward a goal, including determining whether the DBE is performing a commercially useful function on a contract.

The above points are examples of the requirements that an airport operating a DBE contract goals program must meet. Regulations and Official Guidance from USDOT supply additional provisions.

**Recommendation to consider implementing DBE contract goals programs.** If ODA or another airport participating in this study determines that it cannot meet its overall DBE goal solely through neutral means, it should consider the evidence presented in the study and other information to determine if it should operate a DBE contract goals program to help it meet its overall goal.

**Recommendation to request a waiver from FAA concerning eligibility of DBE groups to meet contract goals.** Keen Independent did not identify a disparity between the utilization and availability of Subcontinent Asian American-owned firms on airport FAA-funded contracts during the study period.

Ninth Circuit Court of Appeals rulings in *Western States Paving v. WSDOT* and in *AGC, San Diego v. Caltrans* as well as USDOT Guidance instruct agencies within the Ninth Circuit about how to operate race- and gender-conscious programs when it does not have sufficient evidence of discrimination for a particular DBE group. If ODA or other airports choose to use a DBE contract goals program, Keen Independent recommends that it request a waiver from FAA so that all DBEs except for those owned by Subcontinent Asian American men would be eligible to meet a DBE contract goal.

DBEs owned by Subcontinent Asian American men would still participate in other aspects of the Federal DBE Program and their participation would count toward achieving an airport’s overall DBE goal. Because there was evidence of discrimination against women identified in this study, including disparities in the utilization of white women-owned firms on airport contracts, DBEs owned by Subcontinent Asian American women would still be eligible for participation.

**Recommendation for ODA to consider coordinating with ODOT in operating any DBE contract goals program.** ODOT already uses DBE contract goals to help meet its overall DBE goal for its FHWA-funded contracts and plays a role in the contracting phase of many ODA FAA-funded contracts. Keen Independent recommends that ODA consult with ODOT concerning key elements of its DBE contract goals program based on its expertise and past success, especially for the steps prior to contract execution. ODA would perform needed contract compliance.

**Recommendation for small non-ODA airports to consider obtaining external expertise when operating any DBE contract goals programs.** Many agencies that operate small airports have retained consulting engineers to assist them in awarding and managing airport contracts. These engineering firms or their subconsultants may have the necessary expertise to help these airports operate a DBE contract goals program, including assistance in setting overall DBE contract goals, evaluation of any good faith effort submissions and contract compliance. Keen Independent recommends that non-ODA airports consider using this expertise if they implement a DBE contract goals program.

**Other recommendations for DBE Program operations.** ODA and other airports should review the following recommendations as well.

**Focus on FAA-funded contracts.** This disparity study only examined FAA-funded contracts at ODA and participating airports and no contracts entirely funded by state or local funds. Therefore, the recommendations made here are specific to FAA-funded contracts.

**Necessity of following all federal regulations when implementing any DBE contract goals programs.** Keen Independent has summarized key elements of program operations, but ODA and other airports should refer to comprehensive regulations in 49 CFR Part 26 and associated USDOT Guidance when designing and operating any DBE contract goals programs. There are many important components to program operation beyond those mentioned in this report.

**Monitoring potential overconcentration of DBEs in certain types of work.** Regulations in 49 CFR Section 26.33 require agencies operating the Federal DBE Program to take certain steps if they determine that DBEs are overconcentrated in a certain type of work in a way that would unduly burden non-DBE firms to participate in that type of work. Keen Independent's analysis did not find such overconcentration. Assessment of potential overconcentration should be a topic in airports' periodic review of program operation, as discussed below.

**Periodic review.** Many of the public agencies located within the Ninth Circuit that have DBE contract goals programs conduct disparity studies every three to five years. Those studies help agencies update availability information as well as assess whether there is current evidence supporting continued use of any race- and gender-conscious programs.

Keen Independent recommends that ODA and other airports periodically update this disparity study to remain in compliance with USDOT regulations and Guidance and relevant court decisions, especially if they implement race- and gender-conscious programs such as DBE contract goals.

## **Public Comment Process for the 2021 Disparity Study Report**

ODA and Keen Independent held public meetings from the beginning of the study to obtain input from stakeholders and other interested groups. Information about the public meetings was available on the study website. Public meetings included:

- Fall 2019 OAMA Conference, Crater Lake-Klamath Regional Airport;
- December 2019 Board Meeting, Corvallis;
- Spring 2020 OAMA Conference, Salem;
- April 2020 ODA Board Meeting, virtual;
- August 2020 ODA Board Meeting, virtual;
- November 2020 OAMA Meeting, virtual;
- February 2021 ODA Board Meeting, virtual; and
- Spring 2021 OAMA Business Teleconference, virtual.

Keen Independent published the 2021 Oregon Statewide Airport DBE Disparity Study report for public comment before finalizing the report. The public had the opportunity to submit feedback and provide written comments to Keen Independent via the study website, telephone hotline, email and regular mail or by contacting ODA directly. The public comment period extended from late January to late February 2021.

The final report reflects comments received on the draft report during the public comment period.

ODA and other airports will be able to review this information when determining their overall DBE goals and approach to meeting those goals prior to submission to FAA.

# CHAPTER 1.

## Introduction

Keen Independent Research LLC (Keen Independent) conducted a statewide disparity study for Oregon Department of Aviation. Nearly every publicly owned NPIAS airport<sup>1</sup> in Oregon is participating in this study, except Portland International Airport which previously conducted its own disparity study.

The 2021 Oregon Statewide Airport DBE Disparity Study helps airports in Oregon operate the Federal Disadvantaged Business Enterprise (DBE) Program.<sup>2</sup> This will assist airports as they set their overall annual goals for DBE participation in Federal Airport Administration (FAA)-funded contracts and determine whether they need to apply DBE contract goals. The study included:

- A survey of firms that perform airport-related work in Oregon.
- Analysis of prime contractors and subcontractors on past FAA-funded contracts for the Oregon Department of Aviation (ODA) and other airports (including DBEs and non-DBEs).
- Interviews with business owners.
- Public meetings throughout the state.

The study workscope excluded examination of airport concessions.

The Federal Aviation Administration provided final approval and funding for this project in 2019. The 2021 DBE Disparity Study started in fall 2019 with early 2021 completion.

The balance of Chapter 1:

- A. Introduces the study team;
- B. Identifies participating airports;
- C. Provides background on the Federal DBE Program;
- D. Discusses previous disparity studies conducted in Oregon;
- E. Outlines the analyses in the 2021 DBE Disparity Study and describes where results appear in the report;
- F. Summarizes the public participation process in the 2021 DBE Disparity Study; and
- G. Provides information about the public comment process for the draft report.

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<sup>1</sup> FAA's National Plan of Integrated Airport Systems (NPIAS) identifies existing and proposed airports that are included in the national airport system, the roles they currently serve, and the amounts and types of airport development eligible for Federal funding under the Airport Improvement Program (AIP) over the next 5 years.

<sup>2</sup> The Oregon Department of Aviation operates the Federal DBE Program for Federal Aviation Administration (FAA) funding that the State of Oregon receives.



## A. Study Team

David Keen and Annette Humm Keen, Principals of Keen Independent, directed this study. They have led similar studies for more than 100 public agencies throughout the country, including the recent studies for the Oregon Department of Transportation. Keith Wiener from the law firm Holland & Knight provided the legal framework for this study. Mr. Wiener has extensive experience with disparity studies as well and has worked with Mr. Keen in this field since the early 1990s.

Mr. Keen and Mr. Wiener have helped public agencies successfully defend DBE and minority business enterprise programs in court. They are joined by the telephone survey firm Customer Research International (CRI) and Donaldson Consulting, a research specialist in the Portland area.

## B. Participating Airports

The 2021 DBE Disparity Study includes all NPIAS airports in Oregon other than those operated by the Port of Portland. The figure below identifies the airports participating in the disparity study. Each of these airports operates the Federal Disadvantage Business Enterprise (DBE) Program described on pages 3 through 5 of this chapter.

Figure 1-1.

ODA-operated Airports and other NPIAS airports

| Participating airports                                 |   |
|--|---|
| <b>ODA-operated airports</b>                           |   |
| Aurora State Airport                                   | Independence State Airport                |
| Bandon State Airport                                   | Joseph State Airport                      |
| Chiloquin State Airport                                | Lebanon State Airport                     |
| Condon State Pauling Field Airport                     | McDermitt State Airport                   |
| Cottage Grove State Airport                            | Mulino State Airport                      |
|  | Siletz Bay State Airport                  |
| <b>Other participating airports</b>                    |   |
| Albany Municipal Airport                               | Illinois Valley Airport                   |
| Ashland Municipal Airport                              | Ken Jernstedt Airfield (Hood River)       |
| Astoria Regional Airport                               | Crater Lake — Klamath Regional Airport    |
| Baker City Municipal Airport                           | La Grande/Union County Airport            |
| Bend Municipal Airport                                 | Lake County Airport (Lakeview)            |
| Brookings Airport                                      | Lexington Airport                         |
| Burns Municipal Airport                                | Madras Municipal Airport                  |
| Christmas Valley Airport                               | McMinnville Municipal Airport             |
| Columbia Gorge Regional Airport (The Dalles)           | Newport Municipal Airport                 |
| Corvallis Municipal Airport                            | Ontario Municipal Airport                 |
| Creswell Hobby Field Airport                           | Prineville Airport                        |
| Eastern Oregon Regional Airport - Pendleton            | Redmond Municipal Airport (Roberts Field) |
| Eugene Airport Mahlon Sweet Field                      | Rogue Valley International                |
| Florence Municipal Airport                             | Roseburg Regional Airport                 |
| Gold Beach Municipal Airport                           | Salem McNary Field Airport                |
| Grant County Regional Airport Ogilvie Field (John Day) | Scappoose Industrial Airpark              |
| Grants Pass Airport                                    | Seaside Municipal Airport                 |
| Hermiston Municipal Airport                            | Southwest OR Regional Airport             |
|  | Tillamook Airport                         |

### C. Federal Disadvantaged Enterprise Program

The federal government requires state and local governments to operate the Federal DBE Program if they receive FAA funds for airport projects. The Oregon Department of Aviation (ODA) has operated some version of the Federal DBE Program for decades.

Contracts that ODA and other airports award that use FAA funds are the focus of the Oregon Statewide Airport DBE Disparity Study.

**Key Program elements.** The Federal DBE Program includes the following elements.

**Setting an overall goal for DBE participation.** ODA and other NPIAS airports must develop overall three-year goals for DBE participation in their FAA-funded contracts. The Federal DBE Program sets forth the steps an agency must follow in establishing its goal, including development of a “base figure” and consideration of possible “step 2” adjustments to the goal.<sup>3</sup>

An agency’s failure to meet an annual DBE goal does not automatically cause any FAA penalties unless that agency fails to administer the DBE Program in good faith. However, if an agency does not meet its overall DBE goal, federal regulations require it to analyze the reasons for any shortfall and develop a corrective action plan to meet the goal in the next fiscal year.<sup>4</sup>

**Establishing the portion of the overall DBE goal to be met through neutral means.** The Federal DBE Program allows for agencies to operate the program without the use or with limited use of race- or gender-based measures such as DBE contract goals. According to regulations in 49 Code of Federal Regulations (CFR) Section 26.51, a state or local agency must meet the maximum feasible portion of its overall goal for DBE participation through “race-neutral means.”

Race-neutral program measures include removing barriers to participation and promoting use of small or emerging businesses. The Federal DBE Program requires agencies to develop programs to assist small businesses.<sup>5</sup> For example, small business preference programs, including reserving contracts on which only small businesses can bid, are allowable under the Federal DBE Program.

If an agency can meet its goal solely through race-neutral means, it must not use race-conscious program elements. The Federal DBE Program requires that an agency project the portion of its overall DBE goal that it will meet through neutral measures and the portion, if any, to be met through race-conscious measures such as DBE contract goals. The U.S. Department of Transportation (USDOT) has outlined a number of factors for an agency to consider when making that determination.<sup>6</sup>

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<sup>3</sup> 49 CFR Section 26.45.

<sup>4</sup> 49 CFR Section 26.47.

<sup>5</sup> 49 CFR Section 26.39.

<sup>6</sup> See Chapter 10 of this report for an in-depth discussion of these factors.

Some agencies operate a 100 percent race- and gender-neutral program and do not apply DBE contract goals. Other agencies project that they will meet their overall DBE goal through a combination of race-neutral and race-conscious measures.

The 2021 DBE Disparity Study provides information for ODA and other NPIAS airports to make this projection.

**Determining whether all racial/ethnic/gender groups will be eligible for race or gender-conscious elements of the Federal DBE Program.** To be certified as a DBE, the firm’s owner must be both socially and economically disadvantaged. Under the Federal DBE Program, the following racial, ethnic and gender groups can be presumed to be socially disadvantaged:

- Black Americans (or “African Americans” in this study);
- Hispanic Americans;
- Native Americans;
- Asian-Pacific Americans;
- Subcontinent Asian Americans; and
- Women of any race or ethnicity.

To be economically disadvantaged, a company must be below a revenue limit for its industry and its firm owner(s) must be below person net worth limits.<sup>7</sup> White male-owned firms and other ethnicities not listed above can also meet the federal certification requirements and be certified as DBEs if they demonstrate that they are both socially and economically disadvantaged, as described in 49 CFR Part 26.67(d).

The Keen Independent 2021 DBE Disparity Study includes information as ODA and other participating NPIAS airports consider whether all DBE groups or only some of the groups will be eligible for the DBE contract goals element of the Federal DBE Program (if they choose to use DBE contract goals).

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<sup>7</sup> 49 CFR 26 Subpart D provides certification requirements. There is a size limit (depending on the applicable NAICS code) and a personal net worth limit (currently \$1.32 million excluding equity in the business and primary personal residence) that firms and firm owners must fall below to be able to be certified as a DBE. <http://www.ecfr.gov/cgi-bin/text-idx?SID=5423bdfc26e2255aef5fb43e3f450a13&node=49:1.0.1.1.20.4&rgn=div6>. Under 49 CFR Section 26.67(b), a certifying agency may consider other factors to determine if an individual is able to accumulate substantial wealth, in which certification is denied (annual gross income of the owner and whether the fair market value of the owner’s assets exceed \$6 million are two such factors that may be considered).

**Past court challenges to the Federal DBE Program and to state and local agency implementation of the Program.** Although agencies are required to operate the Federal DBE Program in order to receive USDOT funds, different groups have challenged program operation in court.

- A number of courts have held the Federal DBE Program to be constitutional, as discussed in Chapter 2 and Appendix B of this report.
- State transportation departments in California, Illinois, Minnesota, Montana and Nebraska successfully defended their operation of the Federal DBE Program, as have several cities and other local government agencies. In 2005, the Washington State Department of Transportation was not able to successfully defend its operation of the Federal DBE Program. (See Chapter 2 and Appendix B.)

The Ninth Circuit Court of Appeals examined the methodology and results of the disparity study David Keen directed for the California Department of Transportation (Caltrans) in *Associated General Contractors of America, San Diego Chapter, Inc. v. California Department of Transportation*. As discussed in more detail in Chapter 2 and Appendix B, the Ninth Circuit favorably reviewed the methodology and the quantitative and qualitative information provided in the disparity study and determined that the information justified Caltrans' operation of the Federal DBE Program. Keen Independent's methodology in the 2021 DBE Disparity Study follows what the court favorably reviewed in the Caltrans case.

#### **D. Previous Disparity Studies Conducted in Oregon**

USDOT recommends that agencies such as ODA conduct disparity studies to develop the information needed to effectively implement the Federal DBE Program.

The 2021 Oregon Statewide DBE Disparity Study conducted by Keen Independent is ODA's first disparity study. Other statewide studies conducted by Keen Independent for agencies in Oregon include the:

- Oregon Department of Transportation 2016 Availability and Disparity Study; and
- Oregon Department of Transportation 2019 Availability Study used by ODOT to set its overall DBE Goal on FHWA-funded contracts.

David Keen also directed disparity studies for the City of Portland and the Portland Development Commission in 2011.

The Port of Portland also completed a disparity study in 2018.

## E. Analyses Performed in the 2021 DBE Disparity Study and Location of Results

The figure below outlines the chapters in the 2021 DBE Disparity Study.

Figure 1-2.

Chapters in 2021 DBE Disparity Study report (draft, to be updated)

| Report chapter  | Description   |
|---|---|
| ES. Executive Summary   | Brief summary of study results  |
| 1. Introduction   | Study purpose, study team and overview of analyses  |
| 2. Legal Framework  | Summary of Federal DBE Program regulations and relevant court decisions   |
| 3. ODA Aviation Contracts                                       | How the study team collected ODA contract data and defined the geographic area and aviation contracting industry  |
| 4. ODA Operation of the Federal DBE Program                     | Review of ODA's and other participating NPIAS airports' implementation of the Federal DBE Program as well as other programs and other technical assistance programs in Oregon |
| 5. Marketplace Conditions                                       | Summary of quantitative and qualitative information about the Oregon aviation contracting marketplace   |
| 6. Availability Analysis  | Methodology and results regarding availability of minority- and women-owned firms and other businesses for ODA contracts and subcontracts                                     |
| 7. Utilization and Disparity Analysis                           | Comparison of utilization and availability of minority- and women-owned firms (disparity analysis)  |
| 8. Exploration of Neutral Explanations for any Disparities      | Further examination of disparity results to determine if any can be explained by neutral factors  |
| 9. Overall Annual DBE Goal                                      | Information to review when setting a three-year overall DBE goal, including consideration of a "step 2 adjustment"  |
| 10. Portion of Overall DBE Goal to be Met Through Neutral Means | Information to review when determining the portion of the overall DBE goal to be met through neutral means  |
| 11. Recommendations   | Study team recommendations concerning future implementation of the Federal DBE Program and other ways to assist small businesses and minority- and women-owned companies      |

The following briefly describes where to find specific information in the 2021 Disparity Study report.

**Definition of terms.** Appendix A provides explanations of acronyms and definitions of key terms used in the study.

**Legal framework.** Chapter 2 summarizes the legal framework for the study. Appendix B presents detailed analyses of relevant cases.

**Collection of prime contract and subcontract information for past FAA-funded contracts.** The study team collected information about past FAA-funded contracts for ODA or other participating NPIAS airports from October 1, 2014 through September 20, 2019. Chapter 3 outlines the data collection process and describes these contract data. Appendix C provides additional documentation.

**ODA and other participating NPIAS airports' programs.** Chapter 4 summarizes how ODA and other airports currently operate the Federal DBE Program. Appendix K discusses business assistance programs in Oregon and Appendix L provides additional detail on procurement practices and operation of the DBE program across Oregon airports.

**Analysis of local marketplace conditions.** The study team examined quantitative and qualitative information relevant to the Oregon aviation contracting industry. Chapter 5 synthesizes results concerning marketplace conditions. In accordance with USDOT guidance, Keen Independent analyzed:

- Any evidence of barriers for minorities and women to enter and advance in their careers in the construction and engineering industries in Oregon (detailed results in Appendix E);
- Any differences in rates of business ownership in Oregon (discussed in Appendix F);
- Access to business credit, insurance and bonding (detailed results in Appendix G); and
- Any differences in measures of business success (examined in detail in Appendix H).

Chapter 5 also summarizes analysis of qualitative information, including results of in-depth personal interviews with business owners and trade associations as well as comments from business owners and managers provided through online and telephone surveys. The study team also gathered additional input from ODA, other airport staff and local public agencies. Keen Independent obtained public input as part of the public meetings and public comment process held throughout the study. Appendix J of this report provides detailed analysis of this qualitative information.

**Availability analysis, including calculation of base figure for overall DBE goals.** The availability analysis generates benchmarks to use when assessing airports’ utilization of minority- and women-owned firms. The availability results also provide information for airports to use when setting their next three-year goals for DBE participation on FAA-funded contracts.

Chapter 6, which presents these results, is organized as follows:

- The methods used to collect and analyze availability of minority-, women- and majority-owned firms;
- Availability benchmarks used in the disparity analysis; and
- Information relevant to ODA’s and other participating NPIAS airports’ “base figure” for overall DBE goals for FAA-funded contracts.

**MBE/WBE utilization and disparity analysis.** Chapter 7 analyzes the utilization of minority- and women-owned businesses in airports’ FAA-funded contracts during the study period. The disparity analysis in Chapter 7 compares utilization to availability to determine whether there is underutilization of minority- or women-owned firms in airport contracts.

Chapter 8 further explores this information, including utilization and disparity results for different types of airport contracts. It also explores whether there is any evidence of overconcentration of DBEs in particular fields.

**Information for overall DBE goal and DBE Program operation for FAA-funded contracts.**

Chapter 9 presents information about overall DBE goals for FAA-funded contracts for ODA airports and provides information for other airports to use when preparing overall DBE goals.

**Portion of overall DBE goal to be met through neutral means.** Chapter 10 provides information for ODA and other airports to project the portion of their overall DBE goals that can be met through neutral means and the portion, if any, to be met through race- and gender-conscious programs such as DBE contract goals. ODA and other participating NPIAS airports can review this information as they determine how they will implement the Federal DBE Program, including which racial, ethnic and gender groups of DBEs, if any, will participate in a DBE contract goals program.

**Recommendations.** Keen Independent suggests refinements to ODA’s and other participating NPIAS airports’ implementation of the Federal DBE Program and other efforts to include small and minority- and women-owned businesses in contracts. Chapter 11 provides these recommendations for ODA’s and other participating NPIAS airports’ consideration.

## **F. Public Participation in the 2021 DBE Disparity Study**

Keen Independent and ODA implemented an extensive public participation process as part of the 2021 DBE Disparity Study. To date, these activities include:

- An External Stakeholder Group that met with the study team and ODA at key junctures of the study process.
- Information provided to interested groups through press releases, email blasts and presentations.
- A study website that posted information about the 2021 DBE Disparity Study from the outset of the study.
- A telephone hotline and dedicated email address for anyone wishing to comment.
- Opportunities for company owners and managers to provide information about their businesses and any perceived barriers in the marketplace. The study team successfully reached about 5,000 businesses through online surveys and telephone surveys conducted in spring 2020.
- In-depth personal interviews with more than 40 business owners and managers as well as trade association representatives throughout the state. The study team also gathered input from ODA and other participating NPIAS airports staff and other public agencies in Oregon.

ODA and Keen Independent also held eight public meetings throughout the study to obtain input from stakeholders and other interested groups. Public meetings were held at key events convenient to businesses across the state:

- Fall 2019 OAMA Conference, Crater Lake-Klamath Regional Airport;
- December 2019 Board Meeting, Corvallis;
- Spring 2020 OAMA Conference, Salem;
- April 2020 ODA Board Meeting, virtual;
- August 2020 ODA Board Meeting, virtual;
- November 2020 OAMA Meeting, virtual;
- February 2021 ODA Board Meeting, virtual; and
- Spring 2021 OAMA Business Teleconference, virtual.

## **G. Public Comment Process for the 2021 DBE Disparity Study Draft Report**

Keen Independent published the 2021 Oregon Statewide Airport DBE Disparity Study report for public comment before finalizing the report. Keen Independent incorporated information from comments into the final report. The report was available for comment from late January to late February 2021.



## CHAPTER 2.

### Legal Framework

The legal framework for this disparity study is based on regulations for the Federal DBE Program, Official USDOT Guidance and other sources including court decisions related to the Federal DBE Program and minority- and women-owned business enterprise programs.

- The 1989 U.S. Supreme Court decision in *City of Richmond v. J.A. Croson Company* established the strict scrutiny standard of review for race-conscious programs adopted by state and local governments<sup>1</sup> and its 2005 decision in *Adarand Constructors, Inc. v. Peña* established the same standard of review for federal race-conscious programs.<sup>2</sup>
- The Federal DBE Program has been held to be constitutional “on its face” in subsequent legal challenges, but a court may still find that an agency implementing the program fails to meet the strict scrutiny legal standard in its implementation of the Program (see Appendix B).
- In 2005, Western States Paving Company successfully challenged Washington State Department of Transportation’s implementation of the Federal DBE Program. The U.S. Ninth Circuit Court of Appeals decision in *Western States Paving*<sup>3</sup> affected agencies operating the Federal DBE Program located in the Ninth Circuit.
- Many state and local agencies within the Ninth Circuit adjusted their implementation of the Federal DBE Program to comply with the *Western States Paving* case and the Official USDOT Guidance issued in response to the decision. ODOT, for example, discontinued use of DBE contract goals for its USDOT funded contracts at that time.
- After completing disparity studies, ODOT, the Port of Portland and many other agencies within the Ninth Circuit reinstated use of DBE contract goals.
- When the California Department of Transportation (Caltrans) returned to using DBE contract goals, it was challenged in court. In 2013, the Ninth Circuit Court of Appeals held in *AGC, San Diego Chapter v. California DOT*<sup>4</sup> that Caltrans’ implementation of the Federal DBE Program was valid and complied with its decision in *Western States Paving*.
- In *M.K. Weeden*, Montana also upheld the validity of the MDT DBE Program implementing the Federal DBE Program.<sup>5</sup>

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<sup>1</sup> *City of Richmond v. J.A. Croson Company*, 488 U.S. 469 (1989).

<sup>2</sup> *Adarand Constructors, Inc. v. Peña*, 515 U.S. 200 (1995).

<sup>3</sup> *Western States Paving Co. v. Washington State DOT*, 407 F.3d 983 (9th Cir. 2005), cert. denied, 546 U.S. 1170 (2006).

<sup>4</sup> *Associated General Contractors of America, San Diego Chapter, Inc. v. California Department of Transportation, et al.*, 713 F. 3d 1187 (9th Cir. 2013).

<sup>5</sup> *M.K. Weeden Construction* 2013 WL 4774517 (D. Mont. 2013).

To further understand the legal framework and context for the study, it is useful to review:

- A. The Federal DBE Program;
- B. Similar state and local MBE/WBE programs in the United States; and
- C. Legal standards that race- and gender-conscious programs must satisfy.

### **A. The Federal DBE Program**

Federal regulations govern how agencies implement the Federal DBE Program. Three important requirements are:

- **Setting overall goals for DBE participation.** (49 CFR Section 26.45)
- **Meeting the maximum feasible portion of the overall DBE goal through race- and gender-neutral means.** (49 CFR Section 26.51)
  - Race- and gender-neutral measures include promoting the participation of small or emerging businesses.<sup>6</sup>
  - If an agency can meet its overall DBE goal solely through race- and gender-neutral means, it must not use race- and gender-conscious measures when implementing the Federal DBE Program.
- **Appropriate use of race- and gender-conscious measures, such as contract-specific DBE goals.** (49 CFR Section 26.51)
  - Because these measures are based on the race or gender of business owners, use of these measures must satisfy stringent court imposed legal and regulatory standards in order to be legally valid.<sup>7</sup>
  - Measures such as DBE quotas are prohibited; DBE set-asides may only be used in limited and extreme circumstances (49 CFR Section 26.43).
  - Some agencies restricted eligibility to participate in DBE contract goals programs to certain racial, ethnic and gender groups based on pertinent evidence of discrimination for those groups. For example, USDOT provided a waiver to ODOT for several years that limited participation in its DBE contract goals to certain racial/ethnic/gender groups of DBEs.

Based on these requirements, airports receiving USDOT funds set overall goals for DBE participation and use certain race-neutral measures to encourage DBE participation. Some airports, including Port of Portland, also use race- and gender-conscious measures such as DBE contract goals to help meet their overall DBE goals.

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<sup>6</sup> Note that all use of the term “race- and gender-neutral” refers to “race-, ethnic- and gender-neutral” in this report.

<sup>7</sup> Certain Federal Courts of Appeal, including the Ninth Circuit Court of Appeals, apply the “intermediate scrutiny” standard to gender-conscious programs. Appendix B describes the intermediate scrutiny standard in detail.

The USDOT instructs that agencies should ascertain evidence for discrimination and its effects separately for each group presumed to be disadvantaged in 49 CFR Part 26.<sup>8</sup> The USDOT suggests consideration of both statistical and anecdotal evidence. The USDOT's Guidance provides that recipients should consider evidence of discrimination and its effects.<sup>9</sup> The USDOT's Guidance is recognized by the federal regulations as "valid, and express the official positions and views of the Department of Transportation"<sup>10</sup> for state and local governments in the Ninth Circuit.

As mentioned above, some agencies limit participation in DBE contract goals to those DBE groups for which there is sufficient evidence of discrimination in the transportation contracting industry in their market area (sometimes called "underutilized DBE" or "UDBE" contract goals programs). Implementation of such contract goals programs requires approval of a waiver from USDOT.<sup>11</sup>

## **B. State and Local MBE/WBE Programs in the United States**

In addition to USDOT-funded contracts, ODA and other airports award transportation contracts that are solely funded through state or local sources. The Federal DBE Program does not apply to those contracts.

Some airports operate minority- and women-owned business enterprise (MBE/WBE) programs for their non-federally funded contracts. For example, the City and County of Denver has an MBE/WBE program that applies to certain non-federally funded contracts at Denver International Airport.

Although ODA and other airports do not have race- or gender-conscious programs for their state- and locally funded contracts, court decisions regarding MBE/WBE programs are still instructive for this disparity study. Appendix B examines insights from these cases.

## **C. Legal Standards that Race- and Gender-Conscious Programs Must Satisfy**

Different legal standards apply for judicial review of programs that are race- and gender-conscious and equity programs that have no race or gender component.

**Race-based programs.** In *City of Richmond v. J.A. Croson Company*, the U.S. Supreme Court established that government contracting programs with race-conscious measures must satisfy the strict scrutiny standard of constitutional review. As described in detail in Appendix B, the strict scrutiny standard is very difficult for a government entity to meet.

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<sup>8</sup> Questions and Answers Concerning Response to *Western States Paving Company v. Washington State Department of Transportation* (January 2006) [hereinafter USDOT Guidance], available at 71 Fed. Reg. 14,775; see 49 CFR Section 26.9; see, also, 49 CFR Section 26.45.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*, 49 CFR Section 26.9; See, 49 CFR Section 23.13.

<sup>11</sup> 49 CFR Section 26.15.

Under the strict scrutiny standard, a governmental entity must have a strong basis in evidence that:

- There is a *compelling governmental interest* in remedying specific past identified discrimination or its present effects; and
- Any program adopted is *narrowly tailored* to remedy the identified discrimination. There are a number of factors a court considers when determining whether a program is narrowly tailored (see Appendix B).

A government agency must satisfy both components of the strict scrutiny standard. A race-conscious program that fails to meet either one is unconstitutional.

**Gender-conscious programs.** Certain Federal Courts of Appeal, including the Ninth Circuit Court of Appeals, apply the “intermediate scrutiny” standard to gender-conscious programs. It is more easily met than strict scrutiny.

The courts have interpreted this intermediate scrutiny standard to require that gender-based classifications be:

- Supported by both “sufficient probative” evidence or “exceedingly persuasive justification” in support of the stated rationale for the program; and
- Substantially related to the achievement of that underlying objective.<sup>12</sup>

Intermediate scrutiny, as interpreted by the Ninth Circuit and other federal circuit courts of appeal, requires a direct, substantial relationship between the objective of the gender preference and the means chosen to accomplish the objective. The measure of evidence required to satisfy intermediate scrutiny is less than that necessary to satisfy strict scrutiny. Unlike strict scrutiny, it has been held that the intermediate scrutiny standard does not require a showing of government involvement, active or passive, in the discrimination it seeks to remedy.<sup>13</sup>

Appendix B describes the intermediate scrutiny standard in detail.

**Small business programs and other neutral efforts.** Small business programs and other race- and gender-neutral efforts are not subject to strict scrutiny or intermediate scrutiny standards of legal review. They can be challenged in court but are more easily defended.

Where a challenge to the constitutionality of a statute or a regulation does not involve a fundamental right or a suspect class, the appropriate level of scrutiny to apply is the rational basis standard. When applying rational basis review under the Equal Protection Clause of the Fourteenth Amendment of the United States Constitution, a court is required to inquire “whether the challenged classification

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<sup>12</sup> See e.g., *AGC, SDC v. Caltrans*, 713 F.3d at 1195; *H. B. Rowe, Inc. v. NCDOT*, 615 F.3d 233, 242 (4th Cir. 2010); *Western States Paving*, 407 F.3d at 990 n. 6; *Coral Constr. Co.*, 941 F.2d at 931-932 (9th Cir. 1991); *Equal Found. v. City of Cincinnati*, 128 F.3d 289 (6th Cir. 1997); *Eng’g Contractors Ass’n*, 122 F.3d at 905, 908, 910; *Ensley Branch N.A.A.C.P. v. Seibels*, 31 F.3d 1548 (11th Cir. 1994); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d at 1009-1011 (3d Cir. 1993); see also, *U.S. v. Virginia*, 518 U.S. 515, 532 and n. 6 (1996) (“exceedingly persuasive justification.”)

<sup>13</sup> *Coral Constr. Co.*, 941 F.2d at 931-932; see *Eng’g Contractors Ass’n*, 122 F.3d at 910.

has a legitimate purpose and whether it was reasonable [for the legislature] to believe that use of the challenged classification would promote that purpose.”<sup>14</sup>

Courts applying the rational basis test generally find that a challenged law is upheld “as long as there could be some rational basis for enacting [it],” that is, that “the law in question is rationally related to a legitimate government purpose.”<sup>15</sup> So long as a government legislature had a reasonable basis for adopting the classification the law will pass constitutional muster.<sup>16</sup>

Therefore, state and local governments can defend programs for *all* economically disadvantaged firms or *all* small businesses if they can meet the rational basis test, which is much more easily satisfied than the strict scrutiny or intermediate scrutiny standards of review for programs that provide preferences on the basis of race or gender.

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<sup>14</sup> See, e.g., *Heller v. Doe*, 509 U.S. 312, 320 (1993); *Cunningham v. Beavers* 858 F.2d 269, 273 (5th Cir. 1988); see also *Lundeen v. Canadian Pac. R. Co.*, 532 F.3d 682, 689 (8th Cir. 2008) (stating that federal courts review legislation regulating economic and business affairs under a ‘highly deferential rational basis’ standard of review).

<sup>15</sup> See, e.g., *Kadmas v. Dickinson Public Schools*, 487 U.S. 450, 457-58 (1998); *Cranford v. Antonio B. Won Pat International Airport Authority*, 917 F.3d 1081, 1095-1096 (9th Cir. 2019); *Gallinger v. Becerra*, 898 F.3d 1012, 1016-1018 (9th Cir. 2018); *Price-Cornelison v. Brooks*, 524 F.3d 1103, 1110 (10th Cir. 1996); *White v. Colorado*, 157 F.3d 1226, (10th Cir. 1998) see also *City of Cleburne v. Cleburne Living Ctr., Inc.*, 473 U.S. 432, 440, (1985) (citations omitted); *Heller v. Doe*, 509 U.S. 312, 318-321 (1993) (Under rational basis standard, a legislative classification is accorded a strong presumption of validity); see, e.g., *Sherman v. Department of Revenue*, 335 Or. 468, 71 P.3d 67 (Or. S. Ct. 2003); *Knapp v. City of Jacksonville*, 342 Or. 268, 151 P.3d 143 (Or. S. Ct. 2007); *Qwest Corp. v. Public Utility Comm’n*, 205 Or. App. 370, 135 P.3d 321 (Or. App. 2006); *Kane v. Beaverton*, 202 Or. App. 431, 122 P.3d 137 (Or. App. 2005).

<sup>16</sup> *Id.*; *Cranford v. Antonio B. Won Pat International Airport Authority*, 917 F.3d 1081, 1095-1096 (9th Cir. 2019); *Gallinger v. Becerra*, 898 F.3d 1012, 1016-1018 (9th Cir. 2018); *Wilkins v. Gaddy*, 734 F.3d 344, 347 (4th Cir. 2013), (citing *FCC v. Beach Comm’n, Inc.*, 508 U.S. 307, 315 (1993)); see, e.g., *Sherman v. Department of Revenue*, 335 Or. 468, 71 P.3d 67 (Or. S. Ct. 2003); *Knapp v. City of Jacksonville*, 342 Or. 268, 151 P.3d 143 (Or. S. Ct. 2007); *Qwest Corp. v. Public Utility Comm’n*, 205 Or. App. 370, 135 P.3d 321 (Or. App. 2006); *Kane v. Beaverton*, 202 Or. App. 431, 122 P.3d 137 (Or. App. 2005).

## CHAPTER 3.

### ODA and Local Airports Contracts

Many components of the disparity study require contract and subcontract data for participating airports as building blocks for the analysis. When designing the availability research, for example, it is important to understand the geographic area from which ODA and local airports draw contractors and consultants and the types of work involved in those contracts. The utilization and disparity analyses are also based on ODA and local airport prime contracts and subcontracts.

Before conducting other analyses, Keen Independent collected information about FAA-funded contracts from ODA and local airports for the October 1, 2014 through September 30, 2019 study period. Chapter 3 describes the study team’s process for compiling these data. Chapter 3 consists of four parts:

- A. Overview of airport contracts;
- B. Collection and analysis of contract data;
- C. Types of work involved in airport contracts; and
- D. Location of businesses performing airport contracts.

Appendix C provides additional detail concerning collection and analysis of contract data.

#### A. Overview of Airport Contracts

ODA and local airports use FAA funds to build and maintain airport facilities. The study included contracts awarded by ODA and NPIAS airports in Oregon during the study period that received FAA funds.<sup>1</sup>

- Examples of construction projects include building and maintaining airport runways and taxiways as well as apron paving.
- Engineering-related work includes design and management of projects, planning and environmental studies, surveying and other airport-related consulting services.
- There were also some FAA-funded design-build contracts that combined engineering and construction project activities.

A single airport project can involve many types of businesses, as described below.

**Prime contracts, subcontracts, trucking and materials supply.** A typical construction project includes a prime contractor and one or more subcontractors. Trucking companies and materials

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<sup>1</sup> The disparity study included 56 National Plan of Integrated Airport Systems (NPIAS) airports that received FAA funds during the study period. Keen Independent, after conferring with ODA Planning & Programs Division, excluded eight airports from the study because those airports were already part of a previous disparity study or did not receive FAA funds during the study period.

suppliers are often involved in construction projects as well. Keen Independent examined ODA’s and local airports’ contract information for each level of participants.

Many ODA and local airport projects have an engineering phase prior to construction that requires work performed by engineering companies and related firms. The engineering prime consultant retains the specialized subconsultants needed to complete these contracts. ODA and local airports sometimes contract with engineering companies through on-call agreements. When specific work is needed, ODA and local airports issue task orders to those firms. Keen Independent included engineering task orders in this analysis.

For both construction and engineering contracts, Keen Independent separated the contract dollars going to subcontractors (and truckers and suppliers) from the dollars retained by the prime contractor. Keen Independent calculated the total dollars going to the prime contractor by subtracting subcontract dollars from the total contract value. This step was important for both the availability analyses and the utilization analyses performed in the study.

**Airport-related contracts.** The study focused on airport construction and engineering contracts and does not include acquisition of real property. The study team excluded any contracts to not-for-profit entities or government agencies.

**Regions.** Based on ODA and industry input, Keen Independent divided the Oregon contracting market into five regions shown in Figure 3-1 (which corresponds to the five administrative regions of the Oregon Department of Transportation). “Location” refers to physical location of the airport. Keen Independent coded ODA’s statewide assignments and work that were not in a single physical location as “statewide.”

Figure 3-1.  
Study regions



## B. Collection and Analysis of Contract Data

As shown in Figure 3-2, Keen Independent obtained prime and contract data directly from ODA and local airports. Keen Independent used the Airport IQ System Manager (ASM) to identify all airport Statewide Capital Improvement Program (CIP) projects that had FAA funding in Oregon. Keen Independent used the CIP projects in ASM to make individual data requests to each of the 48 participating airports. The study team requested prime and subcontract information related to each of the FAA-funded projects identified in ASM.

Keen Independent merged prime and subcontractor information from each airport into one database and then sorted by airport.

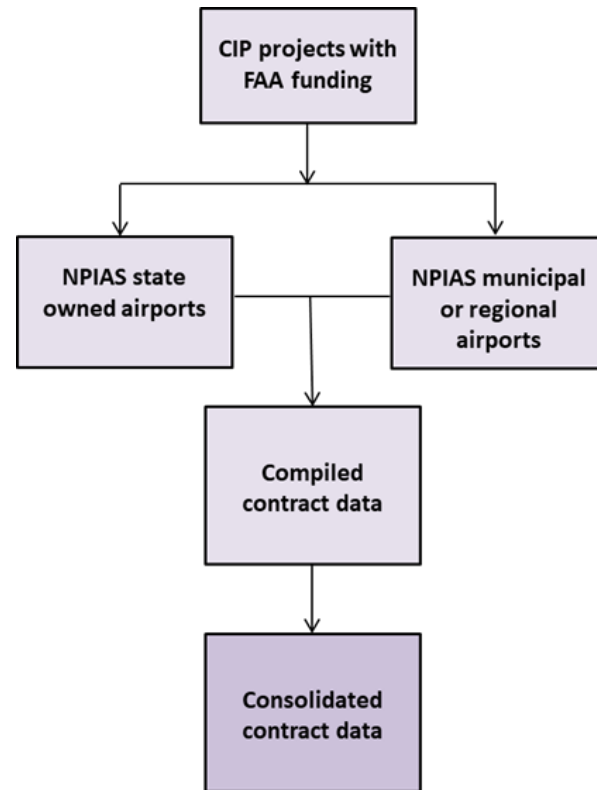
**Study period.** Keen Independent examined contracts awarded from October 1, 2014 through September 30, 2019.

- **Study period end date.** Keen Independent attempted to collect data for the most recent contracts. Because Keen Independent began compiling contract data in late 2019, it was appropriate to choose the close of the most recent complete federal fiscal year (September 2019) as the study period end date.
- **Study period start date.** To capture the last five federal fiscal years of contract data, Keen Independent collected data for contracts awarded on or after October 1, 2014.

**Data sources for ODA and local airports contracts.** Keen Independent obtained data on prime contracts, and subcontracts from ODA and local airport records. To the extent possible, the dollar amounts used by the study team correspond to the total dollars paid or expected to be paid to the firm for services on that contract or subcontract.<sup>2</sup>

ODA's and local airports' contract records provided information about award date as well as firms performing the contracts and subcontracts.

Figure 3-2.  
Collection of contract data



<sup>2</sup> For example, Keen Independent examined the *total* value of the awarded contract and related subcontracts for a contract, not what was paid on that contract before the September 2019 study period end date.



**Limitations concerning contract data.** As discussed in Appendix C, ODA and local airports have not maintained comprehensive data concerning every subcontractor, trucker and supplier involved in airport contracts during the October 2014 through September 2019 study period. This limitation concerning data for past contracts does not appear to have a meaningful effect on overall study results.

### C. Types of Work Involved in Airport Contracts

Keen Independent included 332 airport prime contracts totaling nearly \$288 million for October 2014 through September 2019. There were 744 subcontracts identified for these contracts (\$79 million of the total contract dollars were for subcontracts). Dollars for prime contracts (\$208 million) are based on the contract dollars retained (i.e., not subcontracted out) by the prime contractor or prime consultant.

Figure 3-3 presents the number and dollar value of contracts in FAA-funded contracts.

Figure 3-3.  
Number and dollars of ODA and local airport FAA-funded contracts, October 2014–September 2019

Note:  
Numbers may not add due to rounding.

Source:  
Keen Independent Research from ODA and local airports data.

| ODA and local airports |               |
|------------------------|---------------|
| Number of contracts    |               |
| Prime contracts        | 332           |
| Subcontracts           | 744           |
| <b>Total</b>           | <b>1,076</b>  |
| Dollars (millions)     |               |
| Prime contracts        | \$ 208        |
| Subcontracts           | 79            |
| <b>Total</b>           | <b>\$ 288</b> |

The study team coded types of work involved in each prime contract and subcontract based upon data in ODA and local airport contract records and, as a supplement, information about the primary line of business of the firm performing the work. Keen Independent developed the work types based in part on the work type descriptions used by ODA and local airports as well as Dun & Bradstreet’s 8-digit classification codes.

**Contract dollars by type of work for FAA-funded contracts.** Figure 3-4 on the following page presents information about contract dollars for 18 specific types of prime contract and subcontract work, as well as other construction, professional services and goods contracts that did not fit within one of the 18 specific categories of work.

Figure 3-4.

Dollars of ODA and local airports FAA-funded prime contracts and subcontracts by type of work, October 2014–September 2019

| Type of work  | Dollars<br>(1,000s) | Percent        |
|---|---------------------|----------------|
| Airport runway, taxiway or apron paving                           | \$ 139,532          | 48.5 %         |
| Design engineering  | 37,210              | 12.9           |
| Electrical work   | 27,400              | 9.5            |
| Office, industrial and public building construction               | 13,722              | 4.8            |
| Construction management   | 9,895               | 3.4            |
| Excavation, site prep, grading and drainage                       | 4,754               | 1.7            |
| Wrecking and demolition   | 4,202               | 1.5            |
| Surveying and mapping   | 3,862               | 1.3            |
| Plumbing, heating and air conditioning                            | 3,764               | 1.3            |
| Geotechnical including soils and materials testing and inspection | 3,588               | 1.2            |
| Environmental consulting  | 3,334               | 1.2            |
| Concrete work   | 3,051               | 1.1            |
| Elevators, escalators, automatic doors and baggage systems        | 2,839               | 1.0            |
| Pavement surface treatment (such as sealing)                      | 1,964               | 0.7            |
| Pavement marking  | 1,849               | 0.6            |
| Installation of guardrails and fencing                            | 1,131               | 0.4            |
| Trucking and hauling  | 960                 | 0.3            |
| Road construction   | 137                 | 0.0            |
| Other construction-related work                                   | 10,932              | 3.8            |
| Other professional services                                       | 3,523               | 1.2            |
| Other goods   | 9,891               | 3.4            |
| <b>Total</b>  | <b>\$ 287,541</b>   | <b>100.0 %</b> |

Note: Numbers may not add to totals due to rounding.

Source: Keen Independent Research from ODA and local airports contract data.

As shown in Figure 3-4, the top three general types of work account for more than 70 percent of FAA-funded airport contract dollars.

- Prime contracts and subcontracts for airport runway, taxiway or apron paving accounted for about \$140 million of the FAA-funded contract dollars examined, including prime contracts and subcontracts. This type of work was about one-half of the contract dollars examined.
- Design engineering accounted for \$37 million or 13 percent of FAA-funded prime contracts and subcontracts.
- Electrical work totaled about \$27 million of FAA-funded prime contracts and subcontracts. This was about 10 percent of the total contract dollars studied.

Types of work that did not fit into the categories listed in Figure 3-4 were included in “other construction-related work,” “other professional services” or “other goods” as appropriate. Together, these three “other” categories comprised 8 percent of FAA-funded contract dollars, as shown in Figure 3-4.

#### D. Location of Businesses Performing Airport Contracts

In this study, analyses of local marketplace conditions and the availability of firms to perform contracts and subcontracts focus on the “relevant geographic market area” for ODA and local airport contracting. Keen Independent determined the relevant geographic market area through the following steps:

- For each prime contractor and subcontractor, determined whether the company had an establishment in Oregon, two counties in Washington (Clark and Skamania) or Payette County in Idaho.
- Added the dollars for firms in that area and compared with the total.

Based upon analysis of combined ODA and local airport contract dollars from October 2014 through September 2019, firms with locations in Oregon, two counties in Washington (Clark and Skamania) and Payette County in Idaho obtained 88 percent of FAA-funded contract dollars. Figure 3-5 presents these results.

Figure 3-5.  
Dollars of ODA and local airport prime contracts and subcontracts  
by location of firm, October 2014–September 2019

|   | Dollars<br>(millions) | Percent        |
|---|-----------------------|----------------|
| Oregon, Clark and Skamania, WA<br>Payette, ID | \$ 252                | 87.7 %         |
| Other   | <u>35</u>             | <u>12.3</u>    |
| <b>Total</b>                                  | <b>\$ 288</b>         | <b>100.0 %</b> |

Note: Numbers may not add to totals due to rounding.

Source: Keen Independent Research from ODA and local airports contract data.

Based on this information, Keen Independent determined that Oregon as well as Clark and Skamania counties in Washington and Payette County in Idaho should be selected as the relevant geographic market area for ODA and local airports contracting.

Therefore, Keen Independent’s availability analysis examines firms with locations in Oregon, two counties in Washington (Clark and Skamania) and Payette County in Idaho. The analyses of marketplace conditions in Chapter 5 and Appendices E through J also focus on Oregon as well as Clark and Skamania counties in Washington and Payette County in Idaho.

## CHAPTER 4.

### Contracting Practices and DBE Program Implementation

Chapter 4 examines contracting practices that ODA and local airports in the State of Oregon use to award contracts in study industries. In addition, Chapter 4 explores the Federal DBE Program that ODA and local airports use to encourage participation of disadvantaged businesses, including minority- and women-owned firms.

Chapter 4 is organized in two parts:

- A. Current ODA and local airport contracting and procurement practices; and
- B. Federal DBE Program.

#### **A. Current ODA and Local Airport Contracting and Procurement Practices**

ODA and local airports use specific guidelines when procuring goods and services from vendors. These usually depend on the industry a procurement is related to, such as construction or professional services. Keen Independent studied these contracting guidelines and examined the bid process for a vendor looking to participate in airport contracts.

**ODA and local airport bid process for construction contracts.** Much of the FAA-funded work at ODA and other airports is for construction. Keen Independent examined ODA and other airport requirements for bidding on construction contracts, processes for notifying potential bidders of construction contract opportunities and methods for selecting a prime contractor to perform work.

**State code.** Contracts for construction projects for non-ODA airports are awarded based on the laws pertaining to the public bodies authorized to conduct public works procurements for those airports (often a city, county or port). In the case of ODA airports, procurements for price agreements and construction contracts are handled by the Oregon Department of Transportation (ODOT), unless these are considered to be construction contracts that are not defined as public improvements in the State of Oregon Public Code.

For both ODA and non-ODA projects, if the contract involves federal funds, it must also comply with federal requirements as well. There is typically little overall difference in how a state or local contract and a federally funded airport construction contract is awarded.

Oregon Revised Statutes 270A–270C and the Oregon Attorney General Model Rules Chapter 137, Division 46–49 are among the laws that govern state and local agency purchases of construction and ancillary services, such as consulting services. Contracting agencies generally adhere to these requirements but may also follow their own procurement codes that include laws pertaining to public works contracts for their respective jurisdictions.

**Bonding.** Bid, payment and performance bonds are required by most of the study airports' contracting agencies for public works contracts. Bid bonds are required to be 5 to 10 percent of the proposed bid. Payment and performance bonds are normally 100 percent of the amount specified in the contract. Bid securities and bonds can be exempted or lowered by contracting agencies to ensure the performance of a contract under certain guidelines.

**Advertisement of invitations to bid.** Public advertisement of the opportunity to bid on a construction contract is generally required by a contracting agency's procurement guidelines. Contracting agencies typically advertise construction contract bid opportunities on their respective websites and at least one statewide trade publication if the contract is expected to be at least for \$250,000. Online bid services such as ORPIN also provide information on airport contracts that are available to bid.

**Bid process.** Firms seeking to bid on airport construction prime contracts normally follow the process below:

- The firm may need to be prequalified to bid on a contract based on the type of work to be performed and sometimes considering the size of the contract (explained further below);
- The firm must obtain project and bidding materials from the contracting agency; and
- The firm must submit a bid, typically through electronic bidding system utilized by the contracting agency.

**Prequalification requirement for construction prime contractors.** Firms wishing to bid as a prime contractor on airport construction projects may first need to be prequalified. To become prequalified, a firm must submit a prequalification application, which is then evaluated by the contracting agency.

A prequalification application might take into account:

- Whether the bidder's financial, material, equipment, facility and personnel resources and expertise, or ability to obtain such resources and expertise, indicate that the bidder is capable of meeting all contractual responsibilities;
- The bidder's performance record; and
- The bidder's record of integrity.

Applications for prequalification are typically required to be submitted at least 30 calendar days prior to the bid opening date of a project a contractor wishes to bid. This allows time for their prequalification application to be reviewed and either approved or denied.

**Contract award.** ODA and other agencies typically award construction contracts to the low bidder that is deemed responsive and responsible.

**Intermediate procurements.** Many agencies have somewhat streamlined methods to procure construction work estimated to be less than \$100,000.

**ODA and local airport contract award process for professional services contracts.** Professional services procurements include contracts for consulting services such as architecture and engineering. Procedures for procuring A&E-related services can differ from other professional services. For example, the threshold at which public advertisement is required is sometimes higher for A&E contracts and some contracting agencies make A&E contract awards based on qualifications and other non-price factors while other professional services procurements consider price.

**Advertisement of requests for proposals.** Contracting agencies typically advertise opportunities to propose on professional services contracts following the same procedures as for construction contracts, as described above. To respond, firms submit qualifications statements or proposals for that work to the contracting agency.

Some contracting agencies, for some contracts, may require prequalification of companies to compete for specific professional services contracts (see prequalification steps and criteria above).

**Evaluation.** The evaluation procedure for architecture and engineering and other professional services proposals follows a competitive sealed proposals award process. The contracting agency is required to negotiate a contract with the most qualified bidder, taking into account the estimated value, the scope, the complexity and the nature of the services to be rendered.

The scoring rubric is included in the Request for Proposals. Evaluation criteria and total number of points available change from project to project, but the contracting agency typically evaluates consultants based on factors such as experience, past performance, financial situation, and ability to meet the performance schedule.

**Interviews.** In addition to scoring written proposals, contracting agencies may also interview all or a subset of proposers. In some cases, revisions of proposals may also be permitted before contract award. For example, a contracting agency will sometimes request best and final offers from proposers before final evaluation.

**Intermediate procurements.** Many agencies have somewhat streamlined methods to procure professional services contracts less than \$150,000 (or sometimes less than \$250,000 if approved as a Special Procurement). For this type of procurement, an agency must seek at least three informally solicited competitive price quotes or competitive proposals from prospective contractors and typically must post a notice of competitive solicitation through ORPIN.

## **B. Federal DBE Program**

Chapter 1 of this report summarizes requirements regarding operation of the Federal DBE Program. Keen Independent analyzed the way that ODA and other airports have, in practice, implemented the Federal DBE Program. Appendix L provides a detailed analysis of how each study airport has operated the Federal DBE Program in recent years.

**Meeting DBE Program requirements.** The majority of study airports meet the minimum requirements set by the Federal DBE Program, including establishing overall goals for DBE participation on FAA-funded contracts and reporting DBE participation each year.

- For all Oregon airports reviewed, the average overall DBE goal for FFY 2015 through FFY 2019 was 4.6 percent, and the median overall DBE goal was 2.9 percent. Of all Oregon airports reviewed, 38 percent had overall DBE goals of 0 percent.
- On average, overall DBE goals for ODA airports (6%) were higher than goals for airports not administered by ODA (4%).
- Airports often determine relative availability of DBEs with information from the Oregon DBE Directory (for DBEs) and the U.S. Census Bureau (for all firms). Airports then use this information to calculate the “base figure” for the overall DBE goal.
- Airports must also consider whether to make a “step 2” adjustment to their base figure. Step 2 adjustments may be informed by historical DBE participation, disparity studies, work item analysis and other factors including information about barriers to entry and past competitiveness of DBEs on projects. In FFY 2015 through FFY 2019, most Oregon airports made no step 2 adjustments when calculating their overall DBE goals.
- Airports are also required to consult with local agencies and accept public comments before finalizing their goal. Based on the information reviewed by Keen Independent, it is unclear how much feedback and public input Oregon airports received.

The study team identified some discrepancies in the way that certain agencies develop DBE goals, which may point to a need for increased training and clarification of goal setting and reporting procedures. Some DBE program documents appear to have been submitted prematurely and have significant inconsistencies. This may be due to a lack of exposure to the DBE Program or insufficient training for staff. (See Appendix L for more information.)

**Methods used to meet overall DBE goals.** Most Oregon airports in the study period solely used race- and gender-neutral means to meet their overall DBE goals.

For at least some years in the study period, two non-ODA airports indicated in their goal documents or their Uniform Reports that they had projected some portion of their overall DBE goal would be met through race-conscious means. There was no indication that they actually set DBE contract goals for any FAA-funded contracts.

**Meeting DBE goals.** Most of the study airports did not meet their overall DBE goals for years during the study period. Most of those that did not fall short of their overall DBE goal only did so because they had a DBE goal of 0 percent.

Based on the reported DBE participation data, ODA’s and other airports’ operation of the Federal DBE Program generated little utilization of DBEs in FAA-funded contracts.

## CHAPTER 5.

### Marketplace Conditions

Federal courts have found that Congress “spent decades compiling evidence of race discrimination in government highway contracting, barriers to the formation of minority-owned construction businesses, and barriers to entry.”<sup>1</sup> Congress found that discrimination has impeded the formation and expansion of qualified minority- and women-owned businesses (MBE/WBEs).

Keen Independent conducted quantitative and qualitative analyses of conditions in the Oregon marketplace to examine whether barriers that Congress found on a national level also appear in Oregon. The study team analyzed whether barriers exist in the Oregon construction and engineering industries for minorities, women and MBE/WBEs, and whether such barriers might affect opportunities on ODA and local airport contracts. Keen Independent also reviewed other disparity studies that have considered marketplace conditions in Oregon.

Understanding current marketplace conditions is important as ODA and individual airports determine their overall goals for DBE participation in FAA-funded contracts and project the portion of their overall DBE goals to be met through neutral means.

Keen Independent organized Chapter 5 to provide some of the historical context in which market conditions affecting minorities and women have evolved, as well as examine current conditions in the Oregon marketplace:

- A. Historical context in Oregon;
- B. Entry and advancement;
- C. Business ownership;
- D. Access to capital, bonding and insurance;
- E. Success of businesses; and
- F. Summary.

Chapter 5 also summarizes the analysis of input from more than 240 individuals representing businesses, trade associations and other groups throughout the state.

- The Keen Independent study team conducted in-depth personal interviews involving more than 40 businesses, trade organizations and industry associations. There were comments from more than 200 businesses through telephone and online availability surveys.

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<sup>1</sup> *Sherbrooke Turf, Inc. v. Minnesota DOT*, 345 F.3d, 970 (8<sup>th</sup> Cir. 2003) (citing *Adarand Constructors, Inc.*, 228 F.3d at 1167–76); *Western States Paving Co. v. Washington State DOT*, 407 F.3d 983, 992 (9<sup>th</sup> Cir. 2005).



- ODA held eight public meetings where Keen Independent presented updates on the disparity study:
  - Fall 2019 OAMA Conference, Klamath Falls;
  - December 2019 Board Meeting, Corvallis;
  - Spring 2020 OAMA Conference, Salem;
  - April 2020 ODA Board Meeting, virtual;
  - August 2020 Board Meeting, virtual; and
  - November 2020 OAMA Meeting, virtual;
  - February 2021 ODA Board Meeting, virtual; and
  - Spring 2021 OAMA Business Teleconference, virtual.
  
- The study team developed a website, an email address and dedicated telephone hotline for the study that provided interested individuals opportunity to provide comments. Input received through these and other efforts is included as well.
  
- Keen Independent also facilitated discussions and communications with ODA airports and other airports throughout the study.

Appendices E through H present detailed quantitative information concerning conditions in the Oregon marketplace. Appendix I discusses data sources. Appendix J provides a comprehensive review of qualitative information collected in the study.

## **A. Historical Context in Oregon**

In the 2016 Availability and Disparity Study for the Oregon Department of Transportation (ODOT), Keen Independent discussed historic examples of discrimination against African Americans, Hispanic Americans, Asian Americans, Native Americans and women in Oregon that predated establishment of Oregon as a state in 1859.<sup>2</sup> Some of the discrimination was state-sponsored, including examples of discrimination regarding state transportation infrastructure.<sup>3</sup> In sum, Oregon has not been immune to the acts of discrimination against people of color and women.

The following examples include additions to the discussion in the 2016 ODOT Availability and Disparity Study. It is not intended to provide a comprehensive historical narrative on all groups, or the subsequent efforts of individuals of all backgrounds to right these wrongs.

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<sup>2</sup> Keen Independent Research. (2016, June). *Oregon Department of Transportation 2016 Availability and Disparity Study* (Rep.). Retrieved November 13, 2020 from the State of Oregon website: <https://www.oregon.gov/ODOT/Business/OCR/Documents/keen-independent-2016-odot-disparity-study-final-report-06302016.pdf>

<sup>3</sup> For example, an 1862 poll tax required that all Chinese, African Americans and Hawaiians in Oregon pay an annual tax of two dollars; if they could not pay this tax, the penalty was to maintain state roads for 50 cents a day. See Bancroft, H. (1888). *History of Oregon, Vol. II 1848-1888*. San Francisco, CA: The History Company, Publishers.

- **African Americans.** As discussed in the 2016 ODOT Disparity Study, Oregon was the only free state accepted in the Union with an exclusionary clause in the state constitution. The State prohibited African Americans to be in the state, own property and make contracts. The exclusionary laws in Oregon remained intact and continued to deem it illegal for African Americans to live in Oregon even after federal passage of the Fourteenth Amendment.<sup>4</sup> It was not until voters repealed these laws in 1926 and changes to the state constitution in 2002 were made that the vestiges of racial discrimination were completely removed from Oregon’s state constitution.

There is a long history of exclusionary practices aimed at African Americans in Oregon concerning employment, union membership, marriage, education, housing and many other aspects of daily life.<sup>5, 6, 7</sup> Examples from the past 60 years include redlining in low-income African American communities,<sup>8</sup> shutting down speeches from African American leaders,<sup>9</sup> unofficial “Sundown Laws” in certain Oregon communities that warned people of color to be out of town by sundown,<sup>10</sup> and disparities caused by environmental racism and economic displacement of families in the Portland area.<sup>11, 12</sup>

- **Chinese Americans.** The 2016 ODOT Availability and Disparity Study also discussed past discrimination against Chinese Americans in Oregon. As with African Americans, Oregon enacted anti-Chinese provisions regarding landholding, taxation and suffrage provisions in its constitution.<sup>13</sup> There was violence against people from China that

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<sup>4</sup> Rector, E. (2010, May 16). *Looking back in order to move forward: An often untold history affecting Oregon’s past, present and future.* Portland, OR: Oregon Center for Education Equality. Retrieved September 14, 2015, from <https://www.portlandoregon.gov/bps/article/412697>

<sup>5</sup> Nokes, G. (2015). *Black exclusion laws in Oregon.* Retrieved September 1, 2015, from the Oregon Encyclopedia: [http://oregonencyclopedia.org/articles/exclusion\\_laws/#.VeYdPPiVhBc](http://oregonencyclopedia.org/articles/exclusion_laws/#.VeYdPPiVhBc)

<sup>6</sup> Rector, E. (2010, May 16). *Looking back in order to move forward: An often untold history affecting Oregon’s past, present and future.* Portland, OR: Oregon Center for Education Equality. Retrieved September 14, 2015, from <https://www.portlandoregon.gov/bps/article/412697>

<sup>7</sup> Shaw, P. (2012, November 28). *Why aren’t there more black people in Oregon?* Retrieved September 11, 2015, from <http://www.portlandoccupier.org/2012/11/28/why-arent-there-more-black-people-in-oregon>

<sup>8</sup> Oh, S., & Wang, X. (2018) Urban rail transit provides the necessary access to a metropolitan area: A case study of Portland, Oregon, USA. *Urban Rail Transit* 4(4), 234-248.

<sup>9</sup> Harrell, S. (2020, January 2). *Exclusion, housing discrimination and rumored riots: panel explores Oregon’s civil rights movement.* The Salem Reporter. Retrieved from <https://www.salemreporter.com/posts/1649/exclusion-housing-discrimination-and-rumored-riots-panel-explores-oregons-civil-rights-movement>

<sup>10</sup> Rector, E. (2010, May 16). *Looking back in order to move forward: An often untold history affecting Oregon’s past, present and future.* Portland, OR: Oregon Center for Education Equality. Retrieved September 14, 2015, from <https://www.portlandoregon.gov/bps/article/412697>

<sup>11</sup> Stround, Ellen (1999). Troubled Waters in Ecotopia: Environmental Racism in Portland, Oregon. *Radical History Review* 74, 65-95.

<sup>12</sup> Goodling, E., Green, J., & McClintock, N. (2015). Uneven development of the sustainable city: Shifting capital in Portland, Oregon. *Urban Geography* 36(4), 504-527.

<sup>13</sup> Chung, S. F. (2011). *In pursuit of gold: Chinese American miners and merchants in the American west.* Chicago, IL: University of Illinois Press; Grantham, A. (2015). *Expulsion of Chinese from Oregon City, 1886.* Retrieved September 8, 2015 from the Oregon Encyclopedia: [http://oregonencyclopedia.org/articles/expulsion\\_of\\_chinese\\_from\\_oregon\\_city\\_1886/#.Ve9nbflVhBc](http://oregonencyclopedia.org/articles/expulsion_of_chinese_from_oregon_city_1886/#.Ve9nbflVhBc)

included massacres.<sup>14</sup> Communities were segregated, public education of children was banned and Chinese Americans faced other forms of discrimination in Oregon well into the 1900s.<sup>15</sup>

- **Japanese Americans.** As described in the 2016 ODOT Availability and Disparity Study, Japanese workers began coming to Oregon after the United States prohibited immigration of Chinese workers in the late 1800s. By the 1920s, the Oregon state legislature enacted laws that prohibited first-generation Japanese Americans from owning or leasing land and receiving business licenses.<sup>16</sup> Groups like the American Legion Native Sons and Daughters of the Golden West perpetuated and solidified anti-Japanese sentiment, which unfortunately helped lead to the Immigration Act of 1924, and eventually justified Japanese internment during WWII.<sup>17</sup> Most Japanese living in Oregon at the outbreak of World War II were removed to out-of-state internment camps such as Tule Lake in northern California.<sup>18</sup> After the war, many campaigned to discourage Japanese Americans' return. Most did return to Oregon, but often came back to vandalized homes, boycotts of their businesses, or loss of their property altogether.<sup>19, 20</sup>
- **People from India.** Oregon saw immigration of men from India in the 1890s and early 1900s who were attracted to jobs in the lumber and railroad industries. There was substantial violence against Indians by those who believed they were unfairly competing for jobs. Waves of violence against East Indians extended across the Pacific Northwest, including a 1907 killing in Boring and attacks in 1910 against Indians in the St. Johns neighborhood of Portland. The Oregon constitution also prohibited Indians from becoming citizens or voting.<sup>21, 22</sup> The federal Immigration Act in 1917 outlawed immigration from India along with many other Asian countries.

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<sup>14</sup> Lee, D. (2015). *Chinese Americans in Oregon*. Retrieved September 3, 2015, from the Oregon Encyclopedia: [http://oregonencyclopedia.org/articles/chinese\\_americans\\_in\\_oregon/#.Veh0CPIVhBd](http://oregonencyclopedia.org/articles/chinese_americans_in_oregon/#.Veh0CPIVhBd)

<sup>15</sup> Ibid.

<sup>16</sup> Rector, E. (2010, May 16). *Looking back in order to move forward: An often untold history affection Oregon's past, present and future*. Portland, OR: Oregon Center for Education Equality. Retrieved September 14, 2015, from <https://www.portlandoregon.gov/bps/article/412697>

<sup>17</sup> Edited by Lee, J. (2017). *Japanese Americans: The history and culture of a people*. Santa Barbara, CA: ABC-CLIO.

<sup>18</sup> Caragozian, J. S. & Warner, D. E. (2019). *When Japanese Americans were pressured to renounce their U.S. citizenship*. California Supreme Court Historical Society Review. Retrieved from <https://www.cschs.org/wp-content/uploads/2019/12/2019-CSCHS-Review-Fall.pdf#page=2>

<sup>19</sup> Rector, E. (2010, May 16). *Looking back in order to move forward: An often untold history affection Oregon's past, present and future*. Portland, OR: Oregon Center for Education Equality. Retrieved September 14, 2015, from <https://www.portlandoregon.gov/bps/article/412697>

<sup>20</sup> Collisson, C. (2015). *Japanese American wartime incarceration in Oregon*. Retrieved September 8, 2015, from the Oregon Encyclopedia: [http://oregonencyclopedia.org/articles/japanese\\_internment/#.VeYxcPIVhBc](http://oregonencyclopedia.org/articles/japanese_internment/#.VeYxcPIVhBc)

<sup>21</sup> Koritala, S. *A historical perspective of Americans of Asian Indian origin 1790-1997*. Retrieved January 4, 2016, from [http://www.infinityfoundation.com/mandala/h\\_es/h\\_es\\_korit\\_histical.htm](http://www.infinityfoundation.com/mandala/h_es/h_es_korit_histical.htm)

<sup>22</sup> Ogden, J. (2016). *East Indians of Oregon and the Gbadar Party*. Retrieved January 4, 2016, from the Oregon Encyclopedia: [http://www.oregonencyclopedia.org/articles/east\\_indians\\_of\\_oregon\\_and\\_the\\_ghadar\\_party/#.VoqrQvZIjcs](http://www.oregonencyclopedia.org/articles/east_indians_of_oregon_and_the_ghadar_party/#.VoqrQvZIjcs)

- **Mexican Americans.** The railroad and agricultural industries sought Mexican workers to fill jobs in Oregon during World War I.<sup>23</sup> After federal policies changed in the 1930s, many Mexican nationals and Mexican American citizens were deported. “Whites-only” employment practices in Oregon largely restricted Latino workers to jobs in orchards and the fields. Other forms of discrimination included a 1935 Oregon law that segregated Mexican students who had observable Indian blood.<sup>24</sup> Housing discrimination affected Mexican Americans as well.<sup>25</sup>
- **Native Americans.** Oregon’s early history included the killing and dislocation of Native peoples throughout the state. As discussed in the 2016 Availability and Disparity Study for ODOT, federal policy against tribal self-determination in the 1950s resulted in 62 tribes and bands being “terminated” in the state. Researchers have found that termination has had severe negative effects on Native peoples in Oregon.<sup>26, 27</sup>
- **Women.** The 2016 ODOT Availability and Disparity Study also discussed the long history of discrimination against women since Oregon became a state. State laws and practices prohibited women from owning property, voting and operating certain businesses. In the past 60 years, state laws regulated which genders could participate in certain occupations or events<sup>28</sup> and women frequently faced discrimination from landlords and lenders.<sup>29</sup>

**Summary effects of historic discrimination in Oregon.** Past societal discrimination has shaped the composition of the Oregon population, affected inter-generational creation of wealth, and established long-lasting stereotypes for certain “outside” groups.

Although it may no longer be codified in state and local laws, instances of discrimination against people of color and women in Oregon continue today based on information from disparity studies and other research conducted in Oregon in recent years. For example, a 2011 and a 2015 Fair Housing Council of Oregon audit found barriers in the housing market for black and Latino renters

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<sup>23</sup> Garcia, J. (2015). *Latinos in Oregon*. Retrieved December 31, 2015, from the Oregon Encyclopedia: [http://oregonencyclopedia.org/articles/hispanics\\_in\\_oregon/#.VoW72vkrJpg](http://oregonencyclopedia.org/articles/hispanics_in_oregon/#.VoW72vkrJpg)

<sup>24</sup> Rector, E. (2010, May 16). *Looking back in order to move forward: An often untold history affection Oregon’s past, present and future*. Portland, OR: Oregon Center for Education Equality. Retrieved September 14, 2015, from <https://www.portlandoregon.gov/bps/article/412697>

<sup>25</sup> Nelson, L. (2008) Racialized landscapes: whiteness and the struggle over farmworker housing in Woodburn, Oregon. *Cultural Geographies* 15(1): 41-62.

<sup>26</sup> Quigley, K. *Introduction to Oregon’s Indian tribes*. Retrieved January 2, 2016, from Oregon Secretary of State: <https://sos.oregon.gov/blue-book/Pages/national-tribes-intro.aspx>

<sup>27</sup> Fixico, D. (2016). *Termination and restoration in Oregon*. Retrieved January 5, 2016, from the Oregon Encyclopedia: [http://oregonencyclopedia.org/articles/termination\\_and\\_restoration/#.VovhNPZljcs](http://oregonencyclopedia.org/articles/termination_and_restoration/#.VovhNPZljcs)

<sup>28</sup> *State v. Hunter*, 208 Or. 282, 300 P.2d 455 (1956).

<sup>29</sup> Fair Housing Council of Oregon. *Sex discrimination*. Retrieved December 31, 2015, from <http://www.fhco.org/discrimination-in-oregon/protected-classes/sex>

in Portland.<sup>30, 31</sup> More recently, analysis of phone calls to a housing discrimination hotline revealed that many callers still face racial discrimination.<sup>32</sup>

The historical information above provides context for Keen Independent’s analysis of the Oregon construction and engineering industries and topics such as access to capital in the state.

## **B. Entry and Advancement**

Several studies throughout the United States have indicated that race and gender discrimination has affected the employment and advancement of certain groups in the construction and architecture and engineering (A&E) industries (see Appendix E). Because individuals who form construction and A&E businesses tend to work in those industries before starting their own businesses, any barriers related to entry or advancement may prevent some minorities and women from starting businesses in those industries.

Keen Independent examined outcomes for people of color and women working in these industries in Oregon primarily using data from the 2014-2018 American Community Survey (ACS). Appendix E presents detailed results.

### **Quantitative information concerning entry into construction and A&E industries in Oregon.**

Keen Independent’s analyses suggest that certain minority groups and women are encountering barriers to jobs in the construction and A&E industries in Oregon:

- Fewer African Americans, Asian Americans and women worked in the Oregon construction industry than what might be expected based on representation in other industries.
- Fewer Asian Americans and women worked in the Oregon A&E industry than what might be expected based on analyses of workers with a four-year college degree. There were also fewer African American and women civil engineers in Oregon than what might be expected based on their representation among all people who have a four-year college degree.

**Quantitative information concerning advancement in the Oregon construction industry.** Keen Independent’s examination of advancement in the Oregon construction industry showed:

- Minority representation much lower in certain construction trades than others;
- Nearly all male workers in most construction trades; and
- Low representation of African Americans, Hispanic Americans and women among people working as managers.

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<sup>30</sup> Hannah-Jones, N. (2011, May 10). Portland housing audit finds discrimination in 64 percent of tests; city has yet to act against landlords. *The Oregonian*.

<sup>31</sup> Schmidt, B. (2015, April 21). Portland housing audit shows blacks, Latinos face discriminatory barriers. *The Oregonian*.

<sup>32</sup> Friedman, Gordan R. (2018, Nov. 21) Portland housing audit finds renters still face discrimination. *Oregon Live*. Retrieved from <https://www.oregonlive.com/news/2018/11/portland-housing-audit-finds-renters-still-face-discrimination.html>

**Qualitative information about entry and advancement.** Keen Independent collected qualitative information about entry and advancement in the Oregon construction and A&E industries through surveys, interviews and stakeholder input as described at the beginning of Chapter 5.

- Many Oregon business owners reported they worked in the construction or A&E industry before starting their businesses. Any barriers to entry and advancement in these industries may reduce the number of construction and A&E businesses owned by certain minority groups and women.
- Some interviewees described marketplace conditions such as stereotyping that are unfavorable to women and minorities in the Oregon construction and engineering industries.

Other research conducted in the Oregon marketplace have reached similar conclusions. Some in the area have reported that sexism and bias limit their opportunities,<sup>33</sup> and others reported a variety of difficulties in the local construction and professional services industries, including unfavorable work environments, offensive comments or behavior and stereotypical attitudes.<sup>34</sup> Some also have reported sexual harassment on job sites.<sup>35</sup>

**Effects of entry and advancement on the Oregon transportation contracting industry.** If there are barriers for people of color and women entering and advancing within the Oregon construction and A&E industries, there could be substantial effects on the number of minority- and women-owned construction and A&E-related businesses.

Underrepresentation of certain minority groups and women in the Oregon construction and A&E industries — particularly in managerial roles — may perpetuate any beliefs or stereotypical attitudes that MBE/WBEs may not be as qualified as majority-owned businesses. Any such beliefs may also be making it more difficult for MBE/WBEs to win work in Oregon, including work with airports.

### **C. Business Ownership**

National research and studies in other states have found that race, ethnicity and gender also affect opportunities for business ownership, even after accounting for race- and gender-neutral factors (see Appendix F). Figure 5-1 on the following page summarizes how courts have used information from such studies — particularly from regression analyses — when considering the validity of an agency’s implementation of the Federal DBE Program.

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<sup>33</sup> Colette Holt & Associates. (2018). *The Port of Portland Small Business Program Disparity Study 2018* (Rep.). Retrieved November 13, 2020 from <https://popcdn.azureedge.net/pdfs/Port%20of%20Portland%20Disparity%20Study%20Report%20-%20Final%20November%209%202018.pdf>

<sup>34</sup> BBC Research & Consulting. (2011, June 22). *City of Portland disparity study* (Rep.). Retrieved November 13, 2020 from City of Portland, Oregon website: <https://www.portlandoregon.gov/brfs/article/344746>

<sup>35</sup> Keen Independent Research. (2016, June). *Oregon Department of Transportation 2016 Availability and Disparity Study* (Rep.). Retrieved November 13, 2020 from the State of Oregon website: <https://www.oregon.gov/ODOT/Business/OCR/Documents/keen-independent-2016-odot-disparity-study-final-report-06302016.pdf>

### **Quantitative information about business ownership.**

The study team used ACS data from 2014–2018 to examine whether there were differences in business ownership rates between people of color and non-Hispanic whites and between women and men in the Oregon construction and A&E industries. Keen Independent used regression analyses to examine whether those racial and gender differences in business ownership rates persisted after accounting for other personal characteristics.

For people working in the construction industry, there were disparities in business ownership rates in 2014–2018 for women and for all minority groups other than Asian Americans as well as for non-Hispanic white women. After statistically controlling for other factors, statistically significant disparities in business ownership rates were found for each of these groups. These disparities were substantial.

People of color and women working in the A&E industry also had lower business ownership rates when compared with non-Hispanic whites and males, respectively. After controlling for education, age and other personal characteristics, people of color and non-Hispanic white women had statistically significant disparities in business ownership rates. These disparities were substantial.

Appendix F presents detailed results from the quantitative analyses of business ownership rates.

**Qualitative information about business ownership.** Keen Independent collected qualitative information about business ownership in the Oregon construction and A&E industries through in-depth interviews, availability interviews, stakeholder input and other means. Many of the comments related to how the Great Recession and the COVID-19 pandemic have impacted the opportunity to start and sustain businesses in the Oregon construction and A&E industries.

Interviewees indicated that the Great Recession that began in 2007 made it extremely difficult for any owner of a construction or engineering firm to stay in business in Oregon, making downsizing and closures prevalent in state. Almost 13 years later, many interviewees still viewed the Great Recession as a continued barrier to success and expansion.

- Business owners called the prolonged national economic downturn a “pretty dark” period, with one owner of a professional services firm reporting that “struggling through the recessions is the only thing that slowed me down from expanding.”

Figure 5-1.

### **Use of regression analyses of business ownership in defense of the Federal DBE Program**

State and federal courts have considered differences in business ownership rates between minorities and women and non-Hispanic whites and males when reviewing the implementation of the Federal DBE Program. For example, disparity studies in California, Illinois and Minnesota used regression analyses to examine the impact of race, ethnicity and gender on business ownership in the construction and engineering industries. Results from those analyses helped determine whether differences in business ownership exist between minorities and women and non-Hispanic white males after statistically controlling for race- and gender-neutral characteristics. Those analyses, which were based on Census data, were included in materials submitted to the courts in subsequent litigation concerning the implementation of the Federal DBE Program.

- A local trade association representative reported, “We lost about a third of the construction companies in this region during the downturn, and those that survived became very efficient, they downsized themselves, they learned how to do more with fewer people, and for the most part, they have not really grown their core team very much since then.”
- The woman owner of a DBE/WBE specialty contracting firm indicated that “when the economy went south,” a lot of companies moved to public contract work. The result was extreme competition and price pressure in the public sector that persists.

Many business owners and representatives reported on the effects of the COVID-19 pandemic.

- Several business owners reported uncertainty in the marketplace. “When things get uncertain, clients stop spending money” according to one business owner.
- An owner of an MBE construction firm reported downsizing after having public sector projects cancelled (including airport-related projects).

Results from quantitative and qualitative analyses in other studies in Oregon indicate that minorities and women may face additional difficulties related to business ownership. In a 2011 study for the City of Portland, some interviewees reported barriers with starting and maintaining a business, including difficulties related to experience and expertise, recruiting qualified personnel and being excluded from industry networks. Several respondents cited the existence of “good ol’ boy” networks when discussing these barriers.<sup>36</sup>

**Effects of disparities in business ownership rates for people of color and women.** Disparities in business ownership rates result in relatively fewer minority- and women-owned companies in the Oregon construction industry and fewer women-owned firms in the A&E industry. MBE/WBE availability discussed in Chapter 6 might be higher but for these disparities.

#### **D. Access to Capital, Bonding and Insurance**

Because capital is required to start companies, any discrimination affecting access to capital can depress the number of minorities and women who own businesses. It can also negatively affect the ability of MBE/WBE to grow.

- As discussed in Appendix G, there is national evidence that minorities and women face certain disadvantages in accessing the capital necessary to start, operate and expand businesses.
- In addition, minorities and women start business with less capital, which negatively affects prospects for those businesses.

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<sup>36</sup> BBC Research & Consulting. (2011, June 22). *City of Portland disparity study* (Rep.). Retrieved November 13, 2020 from City of Portland, Oregon website: <https://www.portlandoregon.gov/brfs/article/344746>



Keen Independent examined whether current and potential business owners who are people of color and women have access to capital that is comparable to that of non-minorities and men. In addition, the study team examined information about whether minority- and women-owned firms face any barriers in obtaining bonding and insurance.

**Quantitative information about homeownership and mortgage lending.** Wealth created through homeownership can be an important source of funds to start or expand a business. Barriers to homeownership or home equity can affect business opportunities by limiting the availability of funds for new or expanding businesses.

Keen Independent analyzed 2014-2018 American Community Survey (ACS) data to determine if there were any differences in homeownership in Oregon by racial and ethnic groups. The study team examined the potential impact of race and ethnicity on mortgage lending in Oregon based on Home Mortgage Disclosure Act (HMDA) data for 2013, 2017 and 2018. Results from examination of these data sources were as follows.

- **Homeownership rates.** Relatively fewer African Americans, Asian Americans, Hispanic Americans and Native Americans in Oregon owned homes compared with non-Hispanic whites. These differences in homeownership rates are statistically significant.
- **Mortgage lending.** In 2013, high-income African Americans, Hispanic Americans and Native Americans applying for home mortgages in Oregon were more likely than high-income non-Hispanic whites to have their applications denied. Disparities were also evident for African Americans, Asian Americans and Hispanic Americans in both 2017 and 2018.

Mortgage lending discrimination can also occur through higher fees and interest rates. Subprime lending is one example of such types of discrimination through fees associated with various loan types. Because of higher interest rates and additional costs, subprime loans affected homeowners' ability to grow home equity and increased their risks of foreclosure. There is national evidence that predatory lenders disproportionately targeted minorities with subprime loans, even when applicants could qualify for prime loans. Analysis of data for 2013 for Oregon indicates that a relatively high share of conventional home purchase loans and conventional home refinance loans were subprime for African Americans, Hispanic Americans, Native Americans, and Native Hawaiians and other Pacific Islanders. In 2017 and 2018, subprime loans continued to be a relatively high share of conventional home purchase loans for African Americans, Hispanic Americans and Native Americans in Oregon.

In conclusion, there is substantial quantitative evidence of disparities in homeownership and home mortgage lending for racial and ethnic minorities in Oregon. Any past discrimination against people of color that affected the ability to purchase and stay in homes could have long-term impacts on the home equity available to start and expand businesses, the ability of minority business owners to access business credit, and access to bonding for construction business owners.

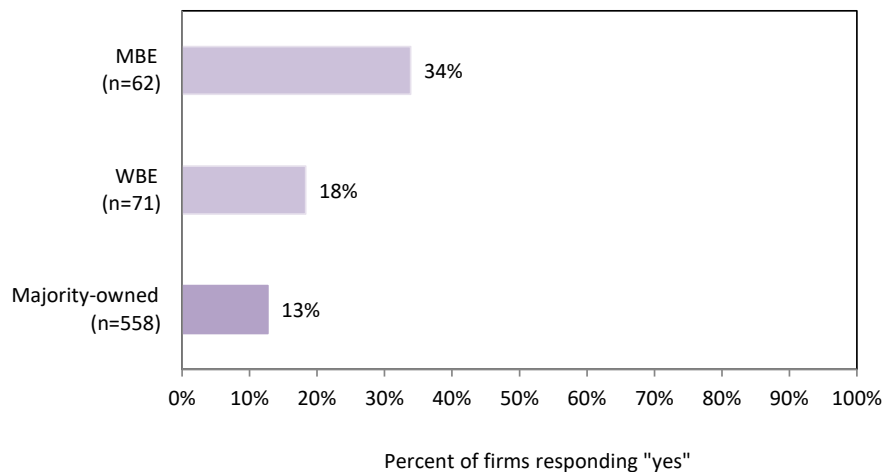
**Quantitative information about business credit.** Any race- or gender-based barriers in the application or approval processes of business loans could affect the formation and success of MBE/WBEs.

As part of availability surveys the study team conducted in 2020, Keen Independent asked firms several questions related to potential barriers or difficulties in the local marketplace. The interviewer introduced these questions with the following: “Finally, we’re interested in whether the company has experienced barriers or difficulties associated with business start-up or expansion, or with obtaining work. Think about your experiences within the past six years as you answer these questions.”

The first question was, “Has your company experienced any difficulties in obtaining lines of credit or loans?” Minority-owned firms were more than three times as likely as majority-owned firms to report that they had such difficulties. As shown in Figure 5-2, about 34 percent of MBEs reported difficulties obtaining lines of credit or loans, compared with 13 percent for majority-owned firms. About 18 percent of WBEs reported that they had experienced difficulties obtaining lines of credit or loans.

These results appear to be consistent with the other data summarized in Chapter 5 concerning greater difficulties concerning access to financing for minority- and women-owned firms.

Figure 5-2.  
Percent responding “yes” to, “Has your company experienced any difficulties in obtaining lines of credit or loans?” for MBEs, WBEs and majority-owned firms in Oregon construction and engineering industries



Source:  
2020 Availability surveys.

**Quantitative information about bonding and insurance.** Keen Independent also examined whether businesses face difficulties obtaining bonding and insurance as part of the availability surveys. Based on 2020 availability survey results for those firms that had obtained or tried to obtain a bond for a project, 27 percent of MBEs indicated difficulties obtaining bonds needed for a project compared with 4 percent of majority-owned firms and 3 percent of WBEs.

**Qualitative information about access to capital, bonding and insurance.** Keen Independent collected qualitative information about access to capital, bonding and insurance for businesses in the Oregon construction and engineering industries through in-depth interviews, availability surveys, stakeholder input and other means.

**Business financing.** Many firm owners reported that obtaining financing was important in establishing and growing their businesses (including financing for working capital and for equipment) and surviving poor market conditions. Some interviewees reported that it was more difficult for women and minorities to obtain financing.

Also, if business size and personal net worth are affected by race or gender discrimination, such discrimination could also impact the ability to obtain business financing. This can have a self-reinforcing effect, as many interviewees noted the importance of business capital and credit to pursue larger construction and A&E contracts.

Previous research in both the Oregon and the Portland marketplace also found qualitative evidence that some minority- and women-owned firms may face additional barriers to business financing.<sup>37, 38</sup> Another study found that in the Portland area, business credit was difficult to obtain, and discrimination increased those difficulties. Additionally, the same study found that minority- and woman-owned firms in the local construction and professional services industries were more likely than majority-owned firms to report experiencing difficulties in obtaining lines of credit or loans.<sup>39</sup>

**Bonding.** For ODA and other airport construction contracts, surety bonds are typically required to bid on projects. Sometimes prime contractors require subcontractors on a project to have bonds.

To obtain a bond, businesses must provide company history and evidence of financial strength to a bonding company. The bonding company uses this information to determine whether to issue a bond of a particular size. Consequently, any reduced access to capital may negatively impact the ability to obtain a bond. Bonding companies also use different ratios to calculate bonding capacity and they charge different rates based on a number of factors, which can affect the cost-competitiveness of a firm's bids.

According to business owners and other individuals interviewed:

- Many small construction companies cannot obtain the necessary bonding to bid on ODA airports and other airports contracts or certain sizes of contracts. Bonding for these firms is even more difficult if they are new. A representative of an African American-owned construction-related firm reported, “getting bonding for a start-up is next to impossible.”

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<sup>37</sup> Keen Independent Research. (2016, June). *Oregon Department of Transportation 2016 Availability and Disparity Study* (Rep.). Retrieved November 13, 2020 from the State of Oregon website: <https://www.oregon.gov/ODOT/Business/OCR/Documents/keen-independent-2016-odot-disparity-study-final-report-06302016.pdf>

<sup>38</sup> Colette Holt & Associates. (2018). *The Port of Portland Small Business Program Disparity Study 2018* (Rep.). Retrieved November 13, 2020 from <https://popcdn.azureedge.net/pdfs/Port%20of%20Portland%20Disparity%20Study%20Report%20-%20Final%20November%209%202018.pdf>

<sup>39</sup> BBC Research & Consulting. (2011, June 22). *City of Portland disparity study* (Rep.). Retrieved November 13, 2020 from City of Portland, Oregon website: <https://www.portlandoregon.gov/brfs/article/344746>

- Bonding is linked to company assets. For example, a Native American owner of a construction-related firm self-described as “small” reported that despite over 30 years in the industry he could not “prime over \$1 million due to cash reserves required by bonding companies.”

Previous research in the Oregon marketplace has also found evidence that bonding may present a more significant barrier for minority- and women-owned businesses. A 2016 study conducted for ODOT found that many MBEs, WBEs and other small construction companies cannot obtain the necessary bonding to bid on ODOT and other public contracts or certain sizes of contracts. There was also evidence that minority- and women-owned firms were treated differently by bonding companies.<sup>40</sup>

Similarly, interviews conducted in a study for the City of Portland indicated that securing bonding or financing acted as a barrier to working as a prime contractor and, because of that, some companies had been working primarily as subcontractors.<sup>41</sup>

**Access to insurance.** Construction and A&E firms bidding or proposing on ODA airports and other airports contracts must meet those agencies’ insurance requirements. Provisions often apply to subcontractors and subconsultants.

If a small business owner decides that the premiums for a certain level of insurance are cost-prohibitive, it may preclude the firm from bidding on certain contracts, especially public sector contracts.

- One contractor reported “frustration” with the increasing “scrutiny” and expanded insurance requirements in his industry.
- A female owner of a professional services firm reported difficulty securing “errors and omissions insurance that was sized for a business like mine.”
- Another owner of a professional services firm recommended doing away with “blanket insurance” requirements, and instead “have an insurance statement that’s proportional with what kind of work is going to be done.”

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<sup>40</sup> Keen Independent Research. (2016, June). *Oregon Department of Transportation 2016 Availability and Disparity Study* (Rep.). Retrieved November 13, 2020 from the State of Oregon website: <https://www.oregon.gov/ODOT/Business/OCR/Documents/keen-independent-2016-odot-disparity-study-final-report-06302016.pdf>

<sup>41</sup> BBC Research & Consulting. (2011, June 22). *City of Portland disparity study* (Rep.). Retrieved November 13, 2020 from City of Portland, Oregon website: <https://www.portlandoregon.gov/brfs/article/344746>

These findings are largely consistent with the results of other studies in Oregon.<sup>42</sup> A study conducted for the Port of Portland found that insurance requirements prevented some small firms from submitting bids or proposals.<sup>43</sup> Similarly, a study for the City of Portland found that minority-owned business in the local construction and professional services industry were almost twice as likely than their majority-owned counterparts to report difficulties due to insurance requirements. Woman-owned firms in those industries were also more likely to report that insurance requirements presented a barrier to bidding than majority-owned firms. Some interviewees reported that bonding and insurance requirements were disproportionately affecting minority- and woman-owned firms.<sup>44</sup>

### **Effects of access to capital, bonding and insurance on the transportation contracting industry.**

Bonding and insurance are required to bid as a prime contractor on ODA and other airport construction contracts. Interviewees report that these requirements limit the types and sizes of jobs firms can bid.

- Compared with majority-owned firms, MBE/WBEs in the Oregon construction and A&E industries are disproportionately small. Obtaining business financing, bonding and insurance is more of a barrier to small businesses than large businesses. The effect of such barriers is to make it less likely that a small firm can expand or successfully pursue public sector work.
- There is evidence that minorities do not have the same personal access to capital as non-minorities, which affects their financial resources and can limit their businesses. For example, the owner of a minority-owned construction firm reported that with limited access to capital, his business is based on cash flow, “I have to have some sort of cash flow to buy materials and [supplies].”

A Hispanic American female owner of a professional services firm reported relying on personal savings and not taking pay, at times, to fund her business. Another person of color reported difficulty building “enough credit for equipment.”

- A white woman business owner reported, although she was able to secure personal credit cards, it was difficult for her to get a credit card for her business.

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<sup>42</sup> Keen Independent Research. (2016, June). *Oregon Department of Transportation 2016 Availability and Disparity Study* (Rep.). Retrieved November 13, 2020 from the State of Oregon website: <https://www.oregon.gov/ODOT/Business/OCR/Documents/keen-independent-2016-odot-disparity-study-final-report-06302016.pdf>

<sup>43</sup> Colette Holt & Associates. (2018). *The Port of Portland Small Business Program Disparity Study 2018* (Rep.). Retrieved November 13, 2020 from <https://popcdn.azureedge.net/pdfs/Port%20of%20Portland%20Disparity%20Study%20Report%20-%20Final%20November%209%202018.pdf>

<sup>44</sup> BBC Research & Consulting. (2011, June 22). *City of Portland disparity study* (Rep.). Retrieved November 13, 2020 from City of Portland, Oregon website: <https://www.portlandoregon.gov/brfs/article/344746>

## E. Success of Businesses

Keen Independent completed quantitative and qualitative analyses that assessed whether the success of minority- and women-owned firms differs from majority-owned businesses in Oregon. The study team examined success in terms of business closures, expansions and contractions; business receipts and earnings; relative bid capacity; and difficulties experienced in the local marketplace. Appendix H provides details about these quantitative analyses of success of businesses. Keen Independent also collected information from interviews, surveys and other input from those knowledgeable about the Oregon marketplace.

**Quantitative analysis of business closure, expansion and contraction.** Based on U.S. Small Business Administration analyses for 2002 to 2006 for Oregon, African American-, Asian American- and Hispanic American- firms were more likely than white-owned businesses to close.

**Quantitative analysis of business receipts and earnings.** Keen Independent examined business earnings data for Oregon construction and A&E industries from the U.S. Census Bureau and the 2020 availability surveys with Oregon businesses. The data for annual revenue pertained to 2012, 2014 through 2018 and 2015 through 2019.

- With only a few exceptions, across time periods and data sources, minority- and women-owned firms had lower revenue than majority-owned firms.
- Regression analyses that include data on personal characteristics of business owners indicated that women-owned and Hispanic American-owned construction businesses had lower earnings than other businesses, after controlling for other factors.

**Quantitative analysis of bid capacity.** Keen Independent drew on information from availability surveys to examine any differences in the size of contracts that MBE, WBE and majority-owned business bid. After controlling for subindustry and length of time in business, there was no statistically significant difference in the bid capacity of MBEs and WBEs compared with majority-owned firms. Appendix H describes these analyses.

### **Quantitative analysis of telephone survey results concerning potential barriers.**

Keen Independent's availability surveys with Oregon construction and engineering businesses included questions about whether firms had experienced barriers or difficulties associated with starting or expanding a business

- When compared to majority-owned firms, relatively more MBEs and WBEs had difficulty learning about bid opportunities with airports, bid opportunities in the private sector and subcontracting or subconsulting opportunities.
- In the engineering industry, relatively more minority- and women-owned firms reported barriers related to prequalification, large project size, receiving payment from local agencies in Oregon that operate airports, and obtaining approval from inspectors or prime contractors.
- Among construction firms, relatively more MBEs and WBEs indicated difficulties related to receiving payment (from ODA, other local agencies that operate airports, prime contractors and other customers).

### **Qualitative information about success of businesses in the Oregon marketplace.**

Keen Independent collected qualitative information about success of businesses in the Oregon marketplace through in-depth personal interviews, availability surveys, stakeholder input and other avenues. Comments related to the Great Recession and the COVID-19 pandemic were noted earlier in Chapter 5.

**Fluid employment size, types of work and location of work.** Interviewees explained that firms in the Oregon marketplace must continuously adapt their operations in response to market conditions or seasonal fluctuations. This flexibility includes the size of a company's permanent and temporary workforce, owned and leased equipment, the types and sizes of contracts they pursue and where they work within the state.

**Importance of business relationships.** Existing relationships are an important factor in finding opportunities to bid on work according to many prime and subcontractors. Interviewees reported the following:

- Interviewees reported that fruitful business relationships take time to “build” and become “comfortable.” For some firms, relationship-building posed a barrier to securing work on large contracts, particularly when their businesses are shut out of closed networks.
- Prime contractors often look to subcontractors they already know. For example, a representative of a professional services firm remarked, “Generally, there isn’t a selection process that’s required, it’s usually people that we’re familiar with and that we team with on previous projects.”
- Business owners reported relying on and cultivating business relationships to pursue work with ODA airports or other airports. For instance, a representative of a professional services firm stated that her firm met “regularly with the civil engineering consultants who work at the airports” and relied on their networks to obtain work at ODA airports and other airports.

Many minority, female and white male interviewees reported the presence of a “good ol’ boy” network in Oregon that spans industries. For example:

- The president of a WBE professional service firm reported, “For many years, there’s been a network of male consultants from the ... industry, and somehow they put themselves in a position through the ... organization to review all new job opportunities before they get posted. That allows them to jump in and offer to be consultants before posting to the general public.”
- A white woman owner of a professional services firm reported that a “good ol’ boy” network exists, remarking that many firms in the marketplace are controlled by men. To be competitive, the owner felt she had to work to develop good relationships within the “good ol’ boy” network.

- There were also interviewees who did not have any negative experiences with closed networks or thought the exclusivity of “good ol’ boy” networks had diminished. A woman representative of a professional services firm reported, “I would be naïve to say that they don’t exist. I don’t think it’s as bad as it used to be by any means, just because that market has been doing so well, it’s become a lot more competitive. I’ve tended to see it in smaller towns where it may still exist.”

These findings are largely consistent with those of previous studies. For example, a 2016 ODOT study reported that previous relationships play a significant role in the subcontractor selection process, and that it can be difficult to cultivate new relationships with both prime contractors and new customers.<sup>45</sup> A study done for the Port of Portland found that about 25 percent of interviewed DBEs, MBEs and WBEs reported barriers to equal contracting opportunities and less access to business networks and information. This study also found that some minority and female business owners suffered from biased perceptions and stereotypes about their competency and professionalism.<sup>46</sup> Similarly, a study conducted for the City of Portland identified evidence that some business owners were excluded from industry networks, had difficulties due to a “good ol’ boy” network and had unfavorable prime contractor- subcontractor relationships due to race, ethnicity or gender.<sup>47</sup>

**Disadvantages for small businesses.** Many interviewees indicated that small businesses are at a disadvantage when competing in the construction and engineering industries.

- Access to financing can be affected by business size. For example, a part owner of a certified firm reported that, “If you’re a small business and you don’t have much assets, or security to be able to back up a business, [it’s challenging].”
- Some interviewees reported that small businesses may be at a disadvantage because the acquisition of equipment and supplies is affected by the financial health of the company and its ability to obtain financing. For example, the owner of a Hispanic American-owned construction related firm reported difficulty securing “enough credit for equipment,” and consequent barriers to building necessary credit.

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<sup>45</sup> Keen Independent Research. (2016, June). *Oregon Department of Transportation 2016 Availability and Disparity Study* (Rep.). Retrieved November 13, 2020 from the State of Oregon website: <https://www.oregon.gov/ODOT/Business/OCR/Documents/keen-independent-2016-odot-disparity-study-final-report-06302016.pdf>

<sup>46</sup> Colette Holt & Associates. (2018). *The Port of Portland Small Business Program Disparity Study 2018* (Rep.). Retrieved November 13, 2020 from <https://popcdn.azureedge.net/pdfs/Port%20of%20Portland%20Disparity%20Study%20Report%20-%20Final%20November%209%202018.pdf>

<sup>47</sup> BBC Research & Consulting. (2011, June 22). *City of Portland disparity study* (Rep.). Retrieved November 13, 2020 from City of Portland, Oregon website: <https://www.portlandoregon.gov/brfs/article/344746>



Owners and managers of small businesses reported that public agency contracting processes and requirements often put small businesses at a disadvantage when competing for public sector work. Barriers related to bonding and insurance were discussed previously in this chapter. There was also qualitative evidence of the following barriers.

- It is more difficult for smaller firms to market and identify contract opportunities. Many rely on self-conducted research such as performing web-based searches for bidding advertisements, looking at “local business exchange[s],” scanning ORPIN and via industry contacts (e.g., primes looking for subconsultants).
- The bidding process can be difficult for small firms. One business owner reported that larger businesses have the marketing resources and manpower that smaller firms lack, and consequently, “it is difficult to compete against them” during proposal writing and bidding stages.
- Large size and scope of public sector contracts and subcontracts present a barrier to bidding.
- Excessive paperwork that often comes with public sector work is an added burden to small businesses.
- Interviewees indicated that public agencies favor bidders and proposers they already know and/or have a public marketing presence, limiting opportunities for other businesses.
- Slow payment or non-payment by government agencies or by prime contractors can be especially damaging to small businesses and represent a barrier to performing work. (Some interviewees reported that they do not have sufficient capital to wait to be paid when working on large contracts.) Delayed payment was attributed by interviewees to government bureaucracy or paperwork errors. One interviewee said, “In general, the procurement and payment processes are lengthy with multiple barriers and it is difficult to ‘get it correct’ the first time through.”

Any barriers for small businesses may have a disproportionate effect on MBEs and WBEs.

These results are largely consistent with the results of previous research. For example, a recent study conducted for ODOT showed evidence that small businesses are at a disadvantage when competing in the transportation contracting industry. Interviewees cited, among other things, difficulties learning about work, difficulties due to bonding or insurance requirements, excessive paperwork, the reliance on previous relationships when contracts are awarded, the large size and scope of projects, difficulties due to prequalification requirements, and difficulties due to slow payment or non-payment.<sup>48</sup>

In a study done for the Port of Portland, some interviewees reported that larger prime contractors do not use smaller firms to their full capabilities. Additionally, some reported limited outreach to small businesses, and that large and complex projects disincentivized small firms from seeking Port contracts.<sup>49</sup> Research done for the City of Portland found that minority- and woman-owned firms were more likely to report difficulties learning about subcontracting opportunities. This study also found evidence that some in the local marketplace have had difficulties with receipt of payment, which disproportionately impact small businesses.<sup>50</sup>

**Evidence of stereotyping and other race and gender discrimination.** In the interviews, surveys and other information the study team analyzed as part of the study, some interviewees indicated difficulties for minorities and women other than those associated with being a small business. There was some evidence that some prime contractors or customers held negative stereotypes concerning minority- and women-owned firms. Also described were double standards for MBEs and WBEs. Consequently, minority and women business owners reported having to “prove” themselves.

- One woman reported that some clients do not “trust me because I’m a woman, or think that I can be walked all over because I was a woman.”
- A woman owner of a professional services firm reported, “I certainly think being women-owned sometimes has not necessarily been a benefit ... in some aspects [it] has been difficult, especially in a very ‘male-dominated’ industry.”
- Several minority and female business owners described being treated differently on projects than similar majority-owned firms. A Hispanic American female owner of a certified firm reported that, when goals are in place, some primes assume poor performance and do not want “to have you.” She remarked, “that feeling is horrible.”

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<sup>48</sup> Keen Independent Research. (2016, June). *Oregon Department of Transportation 2016 Availability and Disparity Study* (Rep.). Retrieved November 13, 2020 from the State of Oregon website: <https://www.oregon.gov/ODOT/Business/OCR/Documents/keen-independent-2016-odot-disparity-study-final-report-06302016.pdf>

<sup>49</sup> Colette Holt & Associates. (2018). *The Port of Portland Small Business Program Disparity Study 2018* (Rep.). Retrieved November 13, 2020 from <https://popcdn.azureedge.net/pdfs/Port%20of%20Portland%20Disparity%20Study%20Report%20-%20Final%20November%209%202018.pdf>

<sup>50</sup> BBC Research & Consulting. (2011, June 22). *City of Portland disparity study* (Rep.). Retrieved November 13, 2020 from City of Portland, Oregon website: <https://www.portlandoregon.gov/brfs/article/344746>

- A woman engineer indicated that a “good ol’ boy mentality” prevails in Oregon where the “good ol’ boys” are “not quite sure if a woman can pull off a job” even when women engineers have “the same stamp and license” as male engineers.
- One white male interviewee explained that relationships are built when “you all come from the same background and you all go fish so you look out for each other” adding that these networks often prohibit businesses owned by persons of color from getting work or question the qualifications of women-owned firms.

Appendix J provides views about this topic from business owners and managers, trade association representatives and others.

These results are largely consistent with evidence of sexism and discrimination found in other local studies.<sup>51</sup> A Port of Portland study found evidence that sexual harassment remains an issue for women, regardless of their industry. Many interviewees reported that sexism and unconscious bias limit their opportunities, but some younger women reported that blatant sexism has subsided. Of those interviewed for this study, 10 percent of DBEs, MBEs and WBEs reported job-related sexual or racial harassment or stereotyping, and 25 percent reported having their competency questioned because of their race or gender. Overall, this study found some evidence of sexism and bias limiting opportunities and adversely affecting some businesses.<sup>52</sup>

Similarly, a study conducted for the City of Portland reported that some business owners in the local marketplace experience stereotyping and other race and gender discrimination. Several interviewees reported being denied the opportunity to bid on contracts or being denied contract or subcontract awards because of issues related to ethnicity, race or gender. Further, some interviewed reported difficulties due to stereotypical attitudes, offensive comments or behavior and the existence of a “good ol’ boy” network.<sup>53</sup>

**Summary concerning success of businesses in the Oregon construction and engineering industries.** Minority- and women-owned construction and engineering businesses in Oregon are more likely to be small businesses than majority-owned businesses. Any disadvantages for small businesses disproportionately affect MBEs and WBEs.

In addition, some of the minority and female interviewees reported unequal treatment, negative stereotypes and other forms of discrimination. The survey of firms in the Oregon construction and

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<sup>51</sup> Keen Independent Research. (2016, June). *Oregon Department of Transportation 2016 Availability and Disparity Study* (Rep.). Retrieved November 13, 2020 from the State of Oregon website: <https://www.oregon.gov/ODOT/Business/OCR/Documents/keen-independent-2016-odot-disparity-study-final-report-06302016.pdf>

<sup>52</sup> Colette Holt & Associates. (2018). *The Port of Portland Small Business Program Disparity Study 2018* (Rep.). Retrieved November 13, 2020 from <https://popcdn.azureedge.net/pdfs/Port%20of%20Portland%20Disparity%20Study%20Report%20-%20Final%20November%209%202018.pdf>

<sup>53</sup> BBC Research & Consulting. (2011, June 22). *City of Portland disparity study* (Rep.). Retrieved November 13, 2020 from City of Portland, Oregon website: <https://www.portlandoregon.gov/brfs/article/344746>

engineering industries indicated that MBEs and WBEs were more likely to report difficulties regarding specific types of barriers in the marketplace.

Success in the transportation contracting industry depends on business relationships within public and private agencies, as well as with customers. There is evidence that “good ol’ boy” networks play a role in the success of construction and engineering firms in Oregon.

## **F. Summary**

As discussed in this chapter and supporting appendices, there is quantitative and qualitative information suggesting that there is not a level playing field for minority- and women-owned businesses in the Oregon construction and engineering industries. Such information is important when ODA and other airports examine overall goals for DBE participation (Chapter 9) and operation of the Federal DBE Program for FAA-funded contracts (Chapters 10 and 11).

## CHAPTER 6.

### Availability Analysis

Keen Independent analyzed the availability of minority- and women-owned business enterprises (MBE/WBEs) that are ready, willing and able to perform construction and engineering contracts and subcontracts at ODA airports and other airports. The study team uses these results in Chapter 7 to examine whether there is a disparity between the utilization and availability of MBE/WBEs on ODA and other airport contracts. ODA airports and other airports can also use availability results to set overall DBE goals, which is discussed in Chapter 9.

Chapter 6 describes the study team’s availability analysis in seven parts:

- A. Purpose of the availability analysis;
- B. Definitions of MBEs, WBEs, certified DBEs, potential DBEs and majority-owned businesses;
- C. Information collected about potentially available businesses;
- D. Businesses included in the availability database;
- E. Availability calculations on a contract-by-contract basis;
- F. Availability results for minority- and women-owned firms; and
- G. Availability results for current and potential DBEs.

Appendix D provides supporting information about availability survey methodology and results.

#### **A. Purpose of the Availability Analysis**

Keen Independent examined the availability of minority- and women-owned firms for airport contracts to develop:

1. Benchmarks used in the disparity analysis; and
2. The base figure for the overall DBE goal for each airport for its FAA-funded contracts.

**1. Benchmarks in the disparity analysis.** The disparity analysis compares utilization of MBE/WBEs, by group, against benchmarks developed through the availability analysis. Specifically, the disparity analysis in Chapter 7 of this report compares:

- The percentage of ODA and other airport contract dollars going to minority- and women-owned firms (MBE/WBE “utilization”); and
- The percentage of dollars that might be expected to go to those businesses based on their availability for specific types, sizes and locations of contracts at ODA airports and other airports (MBE/WBE “availability”).

The utilization, availability and disparity analyses are conducted for firms owned by each racial, ethnic and gender group included in the Federal DBE Program to determine whether disparities exist and, if so, the groups affected. Chapter 7 presents these utilization, availability and disparity results.

**2. Base figure for ODA airports and other airports overall DBE goal.** As part of its operation of the Federal DBE Program, ODA airports and other airports must establish an overall goal for DBE participation in its FAA-funded contracts. The 2021 DBE Disparity Study examines information for the three-year goals for FAA-funded contracts at ODA airports and other airports, following regulations in 49 CFR Section 26.45(c). Setting overall DBE goals must start by calculating a “base figure” for each overall DBE goal.

- Keen Independent’s process for calculating the base figure for an overall DBE goal is the same as for determining MBE/WBE availability in a disparity analysis.
- However, the base figure calculation only includes current DBEs and those MBE/WBEs that appear to be eligible for DBE certification (“potential DBEs”). Therefore, businesses that have been denied certification, have been decertified, have graduated from the DBE Program, appear to have current average annual revenue that exceeds certification limits, or otherwise appear that they could not be certified as DBEs should not be counted in the base figure.

This process follows guidance in the Final Rule effective November 3, 2014 and the United States Department of Transportation’s (USDOT’s) “Tips for Goal-Setting” that explains that minority- and women-owned firms that are not currently certified as DBEs but could be DBE-certified should be counted as DBEs in the base figure calculation.

The balance of Chapter 6 explains each step in determining the MBE/WBE availability benchmarks and the base figure for the overall DBE goals for ODA airports and other airports, beginning with definitions of terms.

## **B. Definitions of MBEs, WBEs, Certified DBEs, Potential DBEs and Majority-Owned Businesses**

The following definitions of terms based on ownership and certification status are useful background to the availability analysis.

**MBE/WBEs.** The availability benchmark and the base figure analyses use the same definitions of minority- and women-owned firms (MBE/WBEs) as do other components of the 2021 DBE Disparity Study.

**Race, ethnic and gender groups.** As specified in 49 CFR Part 26, the study team separately examined utilization, availability and disparity results for businesses owned by:

- African Americans;
- Asian-Pacific Americans;
- Subcontinent Asian Americans;
- Hispanic Americans;
- Native Americans; and
- Non-Hispanic white women.

Firms owned by minority women are grouped with businesses owned by minority men, so “WBEs” refers to white women-owned companies. Note that the term “majority-owned businesses” refers to businesses that are not minority- or women-owned.

**Certified DBEs.** Certified DBEs are businesses that are certified as such through Oregon’s Certification Office for Business Inclusion and Diversity (COBID) as Disadvantaged Business Enterprises, which means that they are businesses that:

- Are owned and controlled by one or more individuals who are presumed to be both socially and economically disadvantaged according to 49 CFR Part 26;<sup>1</sup> and
- Have met the SBA size standards and personal net worth requirements described in 49 CFR Part 26.

**Potential DBEs.** For the purposes of this study, potential DBEs are minority- and women-owned firms that are DBE-certified or appear that they could be DBE-certified based on SBA size standards as described in 49 CFR Section 26.65 (regardless of actual certification). Potential DBEs do not include businesses that have been denied certification or have graduated or been decertified from the DBE Program. Keen Independent provides information about potential DBEs for airports’ use in establishing their overall DBE goals for FAA-funded contracts.

Figure 6-1 further explains Keen Independent’s definition of potential DBEs.

Figure 6-1.

### Definition of potential DBEs

Keen Independent did not include the following types of MBE/WBEs in its definition of potential DBEs:

- MBE/WBEs that had graduated from the DBE Program and not been recertified, or were de-certified;
- MBE/WBEs that are not currently DBE-certified that had applied for certification and had been denied; and
- MBE/WBEs not currently DBE-certified that appear to have exceeded the five-year average annual revenue limits for DBE certification.

At the time of this study, there was no overall revenue limit for firms to qualify as DBEs for FAA-funded contracts. Revenue limits were applied for subindustries (based on NAICS code) according to the U.S. Small Business Administration small business standards. Some MBE/WBEs exceeded the subindustry revenue limits based on information that they provided in the availability surveys.

Business owners must also meet USDOT personal net worth limits for their businesses to qualify for DBE certification. Personal net worth was only a factor in the base figure calculations when a firm had graduated or been denied certification based on personal net worth that exceeded certification limits.

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<sup>1</sup> The Federal DBE Program specifies that African Americans, Hispanic Americans, Native Americans, Asian-Pacific Americans, Subcontinent Asian Americans, women of any race or ethnicity, and any additional groups whose members are designated as socially and economically disadvantaged by the Small Business Administration are presumed to be disadvantaged.

Keen Independent obtained information from the USDOT Decertified DBEs, Denials and DBE Appeal Decisions online database to identify firms that, in recent years, had graduated from the DBE Program, been denied DBE certification or had been decertified (and had not been recertified).

**Majority-owned businesses.** Majority-owned businesses are businesses that are not owned by minorities or women (i.e., businesses owned by non-Hispanic white males).

- In the utilization and availability analyses, the study team coded each business as minority-, women- or majority-owned.<sup>2</sup>
- Majority-owned businesses include any non-Hispanic white male-owned firms that are certified as DBEs.

### C. Information Collected About Potentially Available Businesses

Keen Independent’s availability analysis focused on firms with locations in Oregon, two counties in Washington State (Clark and Skamania County) and one county in Idaho (Payette County) that work in subindustries related to airport construction and engineering contracts.

Based on review of ODA airports and other airports prime contracts and subcontracts during the study period, the study team identified specific subindustries for inclusion in the availability analysis. Keen Independent contacted businesses within those subindustries by telephone and other survey methods to collect information about their availability for specific types, sizes and locations of ODA airports and other airports prime contracts and subcontracts.

Keen Independent’s method of examining availability is sometimes referred to as a “custom census” and has been accepted in federal court. Figure 6-2 summarizes characteristics of Keen Independent’s approach to examining availability.

Figure 6-2.  
Summary of the strengths of Keen Independent’s “custom census” approach

Federal courts have reviewed and upheld “custom census” approaches to examining availability. Compared with some other previous court-reviewed custom census approaches, Keen Independent added several layers of screening to determine which businesses are potentially available for airport construction and engineering work in Oregon.

For example, the Keen Independent analysis included discussions with businesses about interest in ODA and other airport work, whether they had bid on or performed similar work in the past, contract role and geographic locations of their work — items not included in some of the previous court-reviewed custom census approaches. Keen Independent also analyzed the sizes of contracts and subcontracts that businesses have bid on or performed in the past (referred to as “bid capacity” in this analysis).

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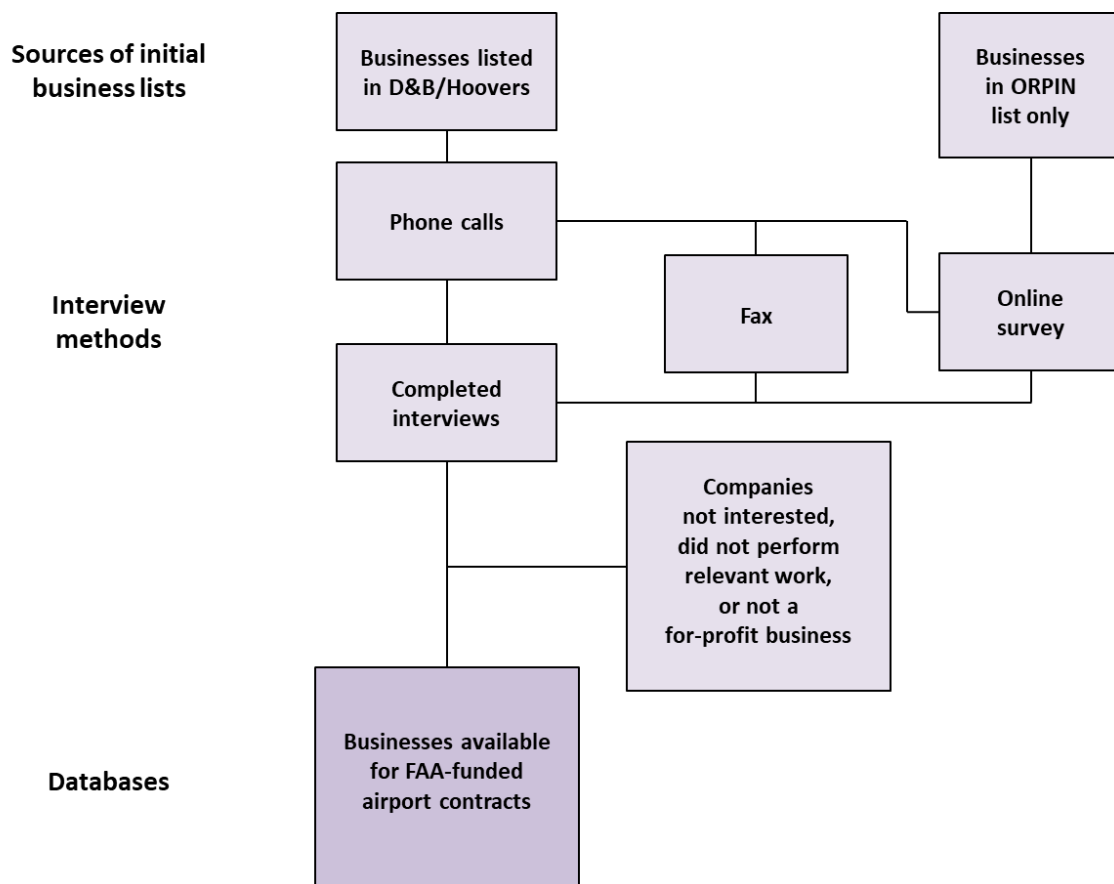
<sup>2</sup> Keen Independent did not identify any DBE-certified white male-owned firms in the study area in the availability interviews.



**Overview of availability surveys.** The study team conducted telephone surveys with business owners and managers to identify businesses that are potentially available to ODA airports and other airports for construction- and engineering-related prime contracts and subcontracts.<sup>3</sup> Figure 6-3 summarizes the process for identifying businesses, contacting them and completing the surveys.

Keen Independent began by compiling lists of business establishments that: (a) previously identified themselves as interested in learning about future public sector bid opportunities by listing themselves on the Oregon Procurement Information Network (“ORPIN”); or (b) were included in the Dun & Bradstreet/Hoovers database of firms, performed work relevant to airport contracts, and had a location in Oregon or the three counties in Washington and Idaho within the market area.<sup>4</sup>

Figure 6-3.  
Availability survey process



Source: Keen Independent Research.

<sup>3</sup> The study team offered business representatives the option of completing surveys via fax or email if they preferred not to complete surveys via telephone.

<sup>4</sup> D&B’s Hoover’s database is accepted as the most comprehensive and complete source of business listings in the nation. Keen Independent collected information about all business establishments listed under 8-digit work specialization codes (as developed by D&B) that were most related to the airport construction and engineering contracts that ODA awarded during the study period.

**Telephone surveys.** Figure 6-3 outlines the process Keen Independent used to complete surveys with businesses possibly available for ODA airports and other airports contracting or engineering-related work.

- The study team contacted firms by telephone to ask them to participate in the surveys (identifying ODA as the organization requesting the information). Firms indicating over the phone that they were not interested or not involved in airport contracting or engineering-related work were not asked to complete the remaining survey questions. Surveys for the 2021 DBE Disparity Study began in March and were completed in July 2020. (The months when a firm could complete a survey online or by phone were extended to accommodate COVID-19 conditions in Oregon in spring 2020.)
- Some firms completed surveys when first contacted. For firms not immediately responding, the study team executed intensive follow-up over many weeks.
- When a business was unable to conduct the survey in English, the study team called back with a bilingual interviewer (English/Spanish) as appropriate to collect basic information about the company and offer alternative means of completing the survey.
- Businesses could also learn about the availability surveys or complete the surveys via other methods such as:
  - Fax or email; and
  - Through the disparity study websites that Keen Independent and ODA maintained throughout the project. (Interested companies that learned about the surveys through the website could complete the questionnaire online.)

**Online surveys.** For firms from ORPIN that had email addresses, ODA staff distributed an email request through the eGovDelivery list service for businesses to complete the online availability survey.

**Information collected in availability surveys.** Survey questions covered many topics about each organization, including:

- Status as a private business (as opposed to a public agency or not-for-profit organization);
- Status as a subsidiary or branch of another company;
- Types of airport construction or engineering-related work performed, from electrical work to runway paving for construction, and from design engineering to surveying for engineering-related work (Figure D-1 in Appendix D provides a list of work categories included in the surveys);
- Qualifications and interest in performing airport contracting or engineering-related work for ODA airports and other airports in Oregon;

- Qualifications and interest in performing public sector work as a prime contractor or subcontractor (note that “prime consultant” and “subconsultant” were the terms used in the interviews of professional services companies);
- Past work in Oregon as a prime contractor or as a subcontractor, trucker or supplier;
- Ability to work in specific geographic regions (Portland/Hood River region, Willamette Valley and Northwest Oregon region, Southwestern Oregon, Central Oregon and Eastern Oregon);
- Largest prime contract or subcontract bid on or performed in Oregon in the previous six years (“bid capacity”);
- Year of establishment; and
- Race/ethnicity and gender of ownership.

Appendix D provides an availability survey instrument.

**Screening of firms for the availability database.** The study team asked business representatives several questions concerning the types of work that their companies performed; their past bidding history; and their qualifications and interest in working on contracts for ODA airports and other airports, among other topics. Keen Independent considered businesses to be potentially available for ODA airport prime contracts or subcontracts if they reported:

- a. Being a private business (as opposed to a public agency or not-for-profit organization);
- b. Performing work relevant to airport contracting or engineering; and
- c. Qualifications for and interest in public sector work.<sup>5</sup>

#### **D. Businesses Included in the Availability Database**

The study team used the availability database to produce availability benchmarks to:

- Determine whether there were any disparities in ODA and other airport utilization of MBE/WBEs during the study period; and
- Help ODA and local airports determine their overall DBE goals for FAA contracts.

Data from the availability surveys allowed Keen Independent to develop a representative depiction of businesses that are qualified and interested in the highest dollar volume areas of ODA and other airport work related to airport contracting or engineering, but it should not be considered an exhaustive list of every business that could potentially participate in airport contracts (see Appendix D).

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<sup>5</sup> Separate survey questions were asked about prime contract work and subcontract work.

After completing surveys with 4,889 businesses in Oregon (and certain bordering counties in Washington and Idaho), the study team reviewed responses to develop a database of information about businesses that are potentially available for ODA and other airport contracting or engineering work. The study team’s research identified 803 businesses reporting that they were available for specific types of work related to airport contracts subcontracts that ODA and other airports awarded during the study period. Of those businesses, 191 (24%) were minority- or women-owned. Figure 6-4 presents the number of businesses that the study team included in the availability database for each racial/ethnic and gender group.

Because the results in Figure 6-4 are based on a simple count of firms with no analysis of availability for specific ODA airports and other airports contracts, they only reflect the first step in the availability analysis.

**Figure 6-4.**  
Number of businesses included in the availability database

Note:  
Numbers rounded to nearest tenth of 1 percent. Percentages may not add to totals due to rounding.

Source:  
Keen Independent Research availability analysis.

| Race/ethnicity and gender         | Number of firms | Percent of firms |
|-----------------------------------|-----------------|------------------|
| African American-owned            | 10              | 1.2 %            |
| Asian-Pacific American-owned      | 17              | 2.1              |
| Subcontinent Asian American-owned | 2               | 0.2              |
| Hispanic American-owned           | 33              | 4.1              |
| Native American-owned             | 19              | 2.4              |
| <b>Total MBE</b>                  | <b>81</b>       | <b>10.1 %</b>    |
| WBE (white women-owned)           | 110             | 13.7             |
| <b>Total MBE/WBE</b>              | <b>191</b>      | <b>23.8 %</b>    |
| Majority-owned firms              | 612             | 76.2             |
| <b>Total firms</b>                | <b>803</b>      | <b>100.0 %</b>   |

### E. Availability Calculations on a Contract-by-Contract Basis

Keen Independent analyzed information from the availability database to develop dollar-weighted availability estimates for use as a benchmark in the disparity analysis. The study team also examined availability results to help ODA and each local airport set overall DBE goals for their FAA-funded contracts.

- Dollar-weighted availability estimates represent the percentage of ODA and other airport FAA-funded contract dollars that MBE/WBEs might be expected to receive based on their availability for specific types and sizes of ODA and other airports contracting or engineering-related prime contracts and subcontracts.
- Keen Independent’s approach to calculating availability is a bottom up, contract-by-contract process of “matching” available firms to specific prime contracts and subcontracts.

**Steps to calculating availability.** Only a portion of the businesses in the availability database were considered potentially available for any given ODA or other airport airport construction or engineering prime contract or subcontract (referred to collectively as “contract elements”). The study team took the following steps:

- Examined the characteristics of each specific contract element, including type of work, location of work, contract size and contract date; and
- Identified businesses in the availability database that perform work of that type, in that location, of that size, in that role (i.e., prime or sub), and that were in business when the contract was awarded.

**Steps to the availability calculations.** The study team identified the specific characteristics of each of the 1,076 prime contracts and subcontracts included in the utilization analysis and then took the following steps to calculate availability for each contract element:

1. For each contract element, the study team identified businesses in the availability database that reported in the telephone or online survey that they:
  - Are qualified and interested in performing public sector construction or engineering-related work in that particular role, for that specific type of work, or had actually performed work in that role based on airport contract data for the study period;
  - Had performed work in the particular role (prime or sub) in Oregon within the past six years (or had done so based on contract data for the study period);
  - Are able to do work in that geographic location;
  - Had bid on or performed work of that size in Oregon in the past five years (or had done so based on contract data for the study period); and
  - Were in business in the year that the contract or task order was awarded.
2. For the specific contract element, the study team then counted the number of MBEs (by race/ethnicity), WBEs and majority-owned businesses among all businesses in the availability database that met the criteria specified in step 1 above.
3. The study team translated the numeric availability of businesses for the contract element into percentage availability (as described in Figure 6-5).

**Figure 6-5.**  
Example of an availability calculation

One of the subcontracts examined was for electrical work (\$57,140) on a 2015 FAA-funded contract for an airport in Northwest Oregon. To determine the number of MBE/WBEs and majority-owned firms available for that subcontract, the study team identified businesses in the availability database that:

- a. Were in business in 2015;
- b. Indicated that they performed electrical work;
- c. Reported working or bidding on subcontracts in Oregon in the past six years;
- d. Reported bidding on work of similar or greater size in the past six years;
- e. Reported ability to perform work in Northwest Oregon; and
- f. Reported qualifications and interest in working as a subcontractor on public sector projects.

There were 42 businesses in the availability database that met those criteria. Of those businesses, 9 were MBEs or WBEs. Therefore, MBE/WBE availability for the subcontract was 21 percent (i.e.,  $9/42 = 21\%$ ).

The weight applied to this contract was  $\$57,140 \div \$288 \text{ million} = 0.02\%$  (equal to its share of total FAA-funded contract dollars). Keen Independent made this calculation for each prime contract and subcontract.

The study team repeated those steps for each contract element examined in the Disparity Study. The study team multiplied the percentage availability for each contract element by the dollars associated with the contract element, added results across all contract elements, and divided by the total dollars for all contract elements. The result was a dollar-weighted estimate of overall availability of MBE/WBEs and estimates of availability for each MBE/WBE group. Figure 6-5 provides an example of how the study team calculated availability for a specific subcontract in the study period.

**Special considerations for supply contracts.** When calculating availability for a particular type of materials supplies, Keen Independent counted as available all firms supplying those materials that reported qualifications and interest in that work and indicated that they could provide supplies in the pertinent region of the state. Bid capacity was not considered in these calculations.

**Improvements on a simple “head count” of businesses.** Keen Independent used a dollar-weighted approach to calculating MBE/WBE availability for ODA airports and other airports work rather than using a simple “head count” of MBE/WBEs (i.e., simply calculating the percentage of all Oregon airport contracting or engineering businesses that are minority- or women-owned). Using a dollar-weighted approach typically results in lower availability estimates for MBEs and WBEs than a headcount approach due in large part to Keen Independent’s consideration of types and sizes of work performed when measuring availability, and because of dollar-weighting availability results for each contract element (a large prime contract has a greater weight in calculating overall availability than a small subcontract). The types and sizes of contracts for which MBE/WBEs are available in Oregon tend to be smaller than those of other businesses. Therefore, MBE/WBEs are less likely to be identified as available for the largest prime contracts and subcontracts.

There are several important ways in which Keen Independent’s dollar-weighted approach to measuring availability is more precise than completing a simple head count approach.

**Keen Independent’s approach accounts for type of work.** USDOT suggests calculating availability based on businesses’ abilities to perform specific types of work. USDOT gives the following example in Part II F of “Tips for Goal-Setting in the Disadvantaged Business Enterprise (DBE) Program”:

*For instance, if 90 percent of your contract dollars will be spent on heavy construction and 10 percent on trucking, you should weight your calculation of the relative availability of firms by the same percentages.<sup>6</sup>*

The study team took type of work into account by examining 22 different subindustries related to airport construction, engineering and associated purchases as part of estimating availability for ODA airports and other airports work.

**Keen Independent’s approach accounts for qualifications and interest in airport contracting or engineering-related prime contract and subcontract work.** The study team collected information on whether businesses are qualified and interested in working as prime contractors, subcontractors, or both on ODA airports and other airports contracting or engineering work, in addition to the

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<sup>6</sup> Tips for Goal-Setting in the Federal Disadvantaged Enterprise (DBE) Program. (2013, June 25). Available at <http://www.dot.gov/osdbu/disadvantaged-business-enterprise/tips-goal-setting-disadvantaged-business-enterprise>

consideration of several other factors related to prime contracts and subcontracts (e.g., contract types, sizes and locations):

- Only businesses that reported being qualified for and interested in working as prime contractors were counted as available for prime contracts (or included because contract data for ODA airports and other airports indicated that they had prime contracts in the past six years).
- Only businesses that reported being qualified for and interested in working as subcontractors were counted as available for subcontracts (or included because contract data for ODA airports and other airports indicated that they had subcontracts in the past six years).
- Businesses that reported being qualified for and interested in working as both prime contractors and subcontractors were counted as available for both prime contracts and subcontracts.

**Keen Independent’s approach accounts for the size of prime contracts and subcontracts.** The study team considered the size — in terms of dollar value — of the prime contracts and subcontracts that a business bid on or received in the previous five years (i.e., bid capacity) when determining whether to count that business as available for a particular contract element. When counting available businesses for a particular prime contract or subcontract, the study team considered whether businesses had previously bid on or received at least one contract of an equivalent or greater dollar value in Oregon in the previous six years, based on the most inclusive information from survey results and analysis of past ODA airports and other airports prime contracts and subcontracts.

Keen Independent’s approach is consistent with many recent, key court decisions that have found relative capacity measures to be important to measuring availability (e.g., *Associated General Contractors of America, San Diego Chapter, Inc. v. California Department of Transportation, et al.*; *Western States Paving Company v. Washington State DOT*; *Rothe Development Corp. v. U.S. Department of Defense*,<sup>7</sup> and *Engineering Contractors Association of S. Fla. Inc. vs. Metro Dade County*).<sup>8</sup>

**Keen Independent’s approach accounts for the geographic location of the work.** The study team determined the location where work was performed for ODA airports and other airports: Portland/Hood River (Region 1), Willamette Valley and Northwest Oregon (Region 2), Southwestern Oregon (Region 3), Central Oregon (Region 4) and Eastern Oregon (Region 5).

**Keen Independent’s approach generates dollar-weighted results.** Keen Independent examined availability on a contract-by-contract basis and then dollar-weighted the results for different sets of contract elements. Thus, the results of relatively large contract elements contributed more to overall availability estimates than those of relatively small contract elements. This approach is consistent with USDOT’s “Tips for Goal-Setting in the Disadvantaged Business Enterprise (DBE) Program,” which suggests a dollar-weighted approach to calculating availability.

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<sup>7</sup> *Rothe Development Corp. v. U.S. Department of Defense*, 545 F.3d 1023 (Fed. Cir. 2008).

<sup>8</sup> *Engineering Contractors Association of S. Fla. Inc. vs. Metro Dade County*, 943 F. Supp. 1546 (S.D. Fla. 1996).

## F. Availability Results for Minority- and Women-Owned Firms

Keen Independent used the approach described above to estimate the availability of MBE/WBEs and majority-owned businesses for FAA-funded prime contracts and subcontracts that ODA airports and other airports awarded during the study period.

Figure 6-6 presents overall dollar-weighted availability estimates by MBE/WBE group for those contracts. Overall, MBE/WBE availability for FAA-funded contracts is 15.28 percent. This result is lower than the percentage of available firms that are MBE/WBE (24%) in Figure 6-4. Dollar-weighted availability was less for minority-owned firms (6.00%) than white women-owned firms (9.29%). Availability was 0.19 percent for African American-owned businesses, 1.04 percent for Native American-owned firms and 2.70 percent for Hispanic-owned businesses. Availability was 1.95 percent for Asian-Pacific American-owned businesses and 0.11 percent for Subcontinent Asian American-owned firms.

Figure 6-6.  
Overall dollar-weighted availability estimates for MBE/WBEs for FAA-funded contracts at ODA airports and other airports, October 1, 2014–September 20, 2019

**Note:**

Numbers rounded to nearest hundredth of 1 percent. Percentages may not add to totals due to rounding.

Weighted availability figures do not include one majority-owned firm that went out of business between the availability survey and the time of this writing.

| Race/ethnicity and gender         | Dollar-weighted availability |
|-----------------------------------|------------------------------|
| African American-owned            | 0.19 %                       |
| Asian-Pacific American-owned      | 1.95                         |
| Subcontinent Asian American-owned | 0.11                         |
| Hispanic American-owned           | 2.70                         |
| Native American-owned             | <u>1.04</u>                  |
| <b>Total MBE</b>                  | <b>6.00 %</b>                |
| WBE (white women-owned)           | <u>9.29</u>                  |
| <b>Total MBE/WBE</b>              | <b>15.28 %</b>               |

**Source:**

Keen Independent Research availability analysis.



Figure 6-7 provides MBE/WBE availability results for FAA-funded contracts for airports in each region. Availability varies by region because of the differences in the mix of FAA-funded projects and because relative availability of MBE/WBEs varies by region (based on where firms indicated that they able to work).

Figure 6-7.

Overall dollar-weighted availability estimates for MBE/WBEs for ODA and other airport FAA-funded contracts, by region

|                                   | Portland/Hood<br>River region | Northwest<br>Oregon | Southwest<br>Oregon | Central<br>Oregon | Eastern<br>Oregon |
|-----------------------------------|-------------------------------|---------------------|---------------------|-------------------|-------------------|
| African American-owned            | 0.69 %                        | 0.16 %              | 0.19 %              | 0.19 %            | 0.40 %            |
| Asian Pacific American-owned      | 3.78                          | 1.83                | 3.03                | 1.65              | 2.36              |
| Subcontinent Asian American-owned | 0.01                          | 0.12                | 0.07                | 0.15              | 0.00              |
| Hispanic American-owned           | 2.49                          | 5.62                | 1.40                | 0.90              | 1.61              |
| Native American-owned             | 0.38                          | 1.12                | 1.53                | 0.56              | 1.11              |
| <b>Total MBE</b>                  | <b>7.36 %</b>                 | <b>8.86 %</b>       | <b>6.22 %</b>       | <b>3.45 %</b>     | <b>5.48 %</b>     |
| WBE (white women-owned)           | 11.09                         | 9.67                | 7.21                | 9.96              | 10.31             |
| <b>Total MBE/WBE</b>              | <b>18.45 %</b>                | <b>18.52 %</b>      | <b>13.43 %</b>      | <b>13.41 %</b>    | <b>15.78 %</b>    |

Note: Percentages may not add to totals due to rounding.

Source: Keen Independent Research availability analysis.

## G. Availability Results for Current and Potential DBEs

Establishing a base figure is the first step for an airport to calculate its overall goal for DBE participation for its FAA-funded contracts. These availability calculations focus on current and potential DBEs. Not all MBE/WBEs are current or potential DBEs, and majority-owned firms can be certified as DBEs and included in the total of current DBEs.

Keen Independent’s approach to examining availability of current and potential DBEs is consistent with:

- Court-reviewed methodologies in several states, including Washington, California, Illinois and Minnesota;
- Instructions in The Final Rule effective February 28, 2011 that outline revisions to the Federal DBE Program; and
- USDOT’s “Tips for Goal-Setting in the Disadvantaged Business Enterprise (DBE) Program.”

**Businesses in the availability database that are current or potential DBEs.** Keen Independent counted two groups of firms as DBEs in the base figure analysis: current DBEs and “potential DBEs” that are not currently DBE-certified.

**Current DBEs.** When performing the base figure analysis for the overall DBE goal, the study team identified firms in the availability database as “current DBEs” if they were certified as DBEs in Oregon as of October 2020. Keen Independent obtained certification information from the COBID Certification Management System.

**Potential DBEs that are not currently certified.** Keen Independent counted MBE/WBEs as potential DBEs in the availability calculations for USDOT-funded contracts if they:

- Had not graduated from the DBE Program in recent years, were not decertified from the Program and had not applied for DBE certification with ODA and were denied;<sup>9</sup> and
- Had not reported in the availability survey average annual revenue over five years exceeding SBA size standards for DBE certification for their subindustry.

There were some minority- and women-owned firms identified in the availability survey that were not counted as current or potential DBEs, as shown in Figure 6-8. In total, 23 percent of firms in the availability database were current or potential DBEs. (About 2 percent of total firms were current DBEs and 21 percent were potential DBEs.)

**Figure 6-8.**  
Number of current or potential DBEs businesses and non-DBEs in the availability database

Note:  
Numbers rounded to nearest tenth of 1 percent. Percentages may not add to totals due to rounding.

Source:  
Keen Independent Research availability analysis.

| Race/ethnicity and gender              | Number of firms | Percent of firms |
|--|-----------------|------------------|
| <b>Current or potential DBEs</b>       |                 |                  |
| African American-owned                 | 10              | 1.2 %            |
| Asian-Pacific American-owned           | 16              | 2.0              |
| Subcontinent Asian American-owned      | 2               | 0.2              |
| Hispanic American-owned                | 33              | 4.1              |
| Native American-owned                  | 18              | 2.2              |
| WBE (white women-owned)                | 107             | 13.3             |
| Majority-owned firms                   | 0               | 0.0              |
| <b>Total current or potential DBEs</b> | <b>186</b>      | <b>23.2 %</b>    |
| <b>Non-DBEs</b>                        |                 |                  |
| African American-owned                 | 0               | 0.0 %            |
| Asian-Pacific American-owned           | 1               | 0.1              |
| Subcontinent Asian American-owned      | 0               | 0.0              |
| Hispanic American-owned                | 0               | 0.0              |
| Native American-owned                  | 1               | 0.1              |
| WBE (white women-owned)                | 3               | 0.4              |
| Majority-owned firms                   | 612             | 76.2             |
| <b>Total current or potential DBEs</b> | <b>617</b>      | <b>76.8 %</b>    |
| <b>Total firms</b>                     | <b>803</b>      | <b>100.0 %</b>   |

<sup>9</sup> Based on USDOT Decertified DBEs, Denials and DBE Appeal Decisions online database.

**Contract-by-contract, dollar-weighted analysis of current and potential DBEs.** The study team completed the same contract-by-contract, dollar-weighted availability analysis for current and potential DBEs as described in this chapter for MBE/WBEs. Because not all MBE/WBEs can be counted as current or potential DBEs, the availability results were lower.

**Difference between MBE/WBE availability and availability of current and potential DBEs.**

Figure 6-9 provides the calculations to derive current/potential DBE availability when starting from the 15.28 percent MBE/WBE availability figure.

When calculating the base figure, Keen Independent did not count firms as potential DBEs if they exceeded the revenue thresholds when calculating the base figure.<sup>10</sup> Adjusting for this reduces the base figure for FAA-funded contracts by 1.60 percentage points (see Figure 6-9).

For just currently certified DBEs, dollar-weighted availability is 6.90 percent. (“Potential DBEs” are included in the analysis but counted as non-DBEs.)

Figure 6-9.

Overall dollar-weighted availability estimates for current and potential DBEs for FAA-funded contracts, October 1, 2014–September 30, 2019

| Calculation of base figure  |             |
|---|-------------|
| Total MBE/WBE   | 15.28 %     |
| Less firms that graduated from the DBE Program or exceed revenue thresholds | <u>1.60</u> |
| Subtotal  | 13.69 %     |
| Plus white male-owned DBEs  | <u>0.00</u> |
| Current and potential DBEs  | 13.69 %     |
| Current DBEs  | 6.90 %      |

Note: Percentages may not add to totals due to rounding.

Source: Keen Independent Research availability analysis.

<sup>10</sup> The study team did not count MBE/WBEs as potential DBEs if they reported average annual revenue over the most recent five years (at the time of the 2020 survey) that exceeded the revenue limits for DBE certification for their subindustry (as of 2020). There were five MBE/WBEs that appeared to be too large to be DBE-certified based on these data.

Because the 13.69 percent availability figure for current and potential DBEs is based on all FAA-funded contracts from October 2014 through September 2019 for all airports in this study, it might not accurately represent the base figure for the overall DBE goal for any individual airport. One reason for this is that availability of DBEs varies by region.

**Analysis by region.** Figure 6-10 shows availability of MBE/WBEs, current and potential DBEs, and currently certified DBEs for the regions of the state where airports are located. Dollar-weighted availability calculations for current and potential DBEs are highest for airports in the Portland/Hood River and Northwest Oregon regions and lower in other regions.

Note that the analysis of availability by region is based on the mix of FAA-funded contracts for FFY 2015 through FFY 2019 for airports in each region as well as the reported ability of firms to work in different regions of the state.

**Figure 6-10**  
Overall dollar-weighted availability estimates for current and potential DBEs for airport FAA-funded contracts by region

| Calculation of base figure  | Portland/Hood River region | Northwest Oregon | Southwest Oregon | Central Oregon | Eastern Oregon |
|---|----------------------------|------------------|------------------|----------------|----------------|
| Total MBE/WBE   | 18.45 %                    | 18.52 %          | 13.43 %          | 13.41 %        | 15.78 %        |
| Less firms that graduated from the DBE Program or exceed revenue thresholds | <u>0.06</u>                | <u>1.80</u>      | <u>2.58</u>      | <u>0.97</u>    | <u>0.54</u>    |
| Subtotal  | 18.39 %                    | 16.73 %          | 10.86 %          | 12.44 %        | 15.25 %        |
| Plus white male-owned DBEs  | --                         | --               | --               | --             | --             |
| Current and potential DBEs  | 18.39 %                    | 16.73 %          | 10.86 %          | 12.44 %        | 15.25 %        |
| Current DBEs  | 7.43 %                     | 8.43 %           | 3.79 %           | 7.18 %         | 6.72 %         |

Note: Percentages may not add to totals due to rounding.  
Source: Keen Independent Research availability analysis.

Chapter 9 of the report uses more detailed availability results to demonstrate how an individual airport can develop its overall DBE goal.

## **CHAPTER 7.**

### **Utilization and Disparity Analysis**

Keen Independent’s utilization analysis reports the percentage of ODA and other airport FAA-funded contract dollars going to minority- and women-owned firms. The disparity analysis compares that utilization with the participation of minority- and women-owned firms that might be expected based on the availability analysis. (Chapter 6 and Appendix D explain the availability analysis.) The study team also examined participation of DBEs (certified firms) on airport contracts.

Chapter 7 discusses the utilization and disparity analysis in five parts:

- A. Overview of the utilization analysis;
- B. MBE/WBE and DBE utilization on ODA and other airport contracts;
- C. Utilization by racial, ethnic and gender group for FAA-funded contracts;
- D. Disparity analysis for ODA and other airport contracts; and
- E. Statistical significance of disparity analysis results.

#### **A. Overview of the Utilization Analysis**

Keen Independent examined the participation of minority- and women-owned firms on ODA and other airport contracts from October 1, 2014 through September 30, 2019. Keen Independent’s utilization analysis included 1,076 contracts and subcontracts totaling \$288 million. Results pertain to contracts using FAA funds.

The study team collected information about FAA-funded contracts awarded by ODA and other NPIAS airports in Oregon through the steps described in Chapter 3 and Appendix C. In that chapter and appendix, Keen Independent also explains how the study team determined the racial, ethnic and gender ownership of individual firms.

Note that ODA and other airports award work through a variety of purchasing agreements. To simplify, the utilization analysis refers to all such work as “contracts.”<sup>1</sup>

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<sup>1</sup> Also, prime contractors, not ODA or airports, “award” subcontracts to subcontractors. To streamline the discussion, ODA and other airport “award” of contract elements is used here and throughout the report.

**Calculation of “utilization.”** The study team measured MBE/WBE “utilization” as the percentage of prime contract and subcontract dollars awarded to minority- and women-owned firms during the study period (see Figure 7-1). Keen Independent calculated MBE/WBE utilization by dividing the contract dollars going to MBE/WBEs by the contract dollars for all firms.

To avoid double-counting contract dollars and to better gauge utilization of different types of firms, Keen Independent based the utilization of prime contractors on the amount of the contract retained by the prime after deducting subcontract amounts. In other words, a \$1 million contract that involved \$400,000 in subcontracting only counts as \$600,000 to the prime contractor in the utilization analysis.

**Different results than in ODA and other airport Uniform Reports of DBE Commitments/Awards and Payments.** USDOT requires agencies to submit reports about DBE utilization on their USDOT-funded transportation contracts.

Keen Independent’s analysis of MBE/WBE utilization goes beyond what ODA and other airports currently report to FAA, as explained below.

- **All MBE/WBEs, not just certified DBEs.** Per USDOT regulations, ODA and other airport Uniform Reports focus exclusively on certified DBEs. Keen Independent’s utilization analyses examine the utilization of minority- and women-owned firms, including but not limited to certified DBEs. The study team’s analysis includes the utilization of MBE/WBEs that may have once been DBE-certified and graduated (or let their certifications lapse) and the utilization of MBE/WBEs that have never been DBE-certified. (Keen Independent separately reports utilization of MBE/WBEs that were DBE-certified during the study period.)
- **More complete contract information.** Through ODA’s and other airports’ assistance during the disparity study, the study team may have been able to analyze more complete data than ODA and other airports had in their Uniform Reports. As a result, Keen Independent’s estimates of DBE participation during the study period may differ from the overall DBE participation ODA and other airports reported to FAA for these years.

**Figure 7-1.**  
**Defining and measuring “utilization”**

“Utilization” of MBE/WBEs refers to the share of prime contract and subcontract awarded to MBE/WBEs during a particular time period. Keen Independent measures the utilization of all MBE/WBEs, regardless of certification. The study team reports utilization for firms owned by different racial, ethnic and gender groups.

Keen Independent measures MBE/WBE utilization as a percentage of total prime contract and subcontract dollars. For example, if 5 percent of prime contract and subcontract dollars went to WBEs during the study period, WBE utilization would be 5 percent.

Information about MBE/WBE utilization is instructive on its own, but it is even more useful when it is compared with the utilization that might be expected based on the availability of MBE/WBEs for ODA and other airport work. The study team presents such comparisons as part of the “disparity analysis” later in Chapter 7.

## B. MBE/WBE and DBE Utilization on ODA and Other Airport Contracts

Figure 7-2 presents overall MBE/WBE utilization for the 1,076 ODA and other airport prime contracts and subcontracts receiving FAA funds.

- Overall, MBE/WBEs received \$7.9 million, or 2.8 percent of contract dollars.
- About \$4.8 million (1.7%) of contract dollars went to MBE/WBEs that were DBE-certified during that time period.
- Minority- and women-owned firms not certified as DBEs accounted for \$3.2 million, or 1.1 percentage points of the total 2.8 percent MBE/WBE participation.

Some of the MBE/WBEs that are not DBE-certified appear that they might be eligible for certification (see Appendix C). These “potential DBEs” accounted for less than a percentage point of total utilization for FAA-funded contracts.

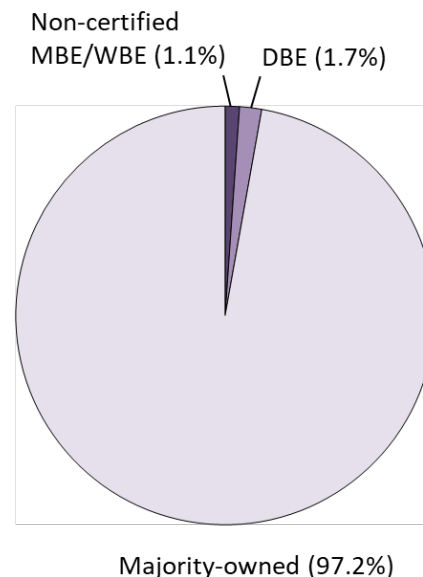
**Figure 7-2.**  
MBE/WBE and DBE share of prime contract/subcontract dollars for ODA and other airport FAA-funded contracts, October 2014–September 2019

**Note:**

Number of contracts/subcontracts analyzed is 1,076.

**Source:**

Keen Independent from ODA and other airport contract data.



## C. Utilization by Racial, Ethnic and Gender Group for FAA-Funded Contracts

The top portion of Figure 7-3 on the following page presents results for minority- and women-owned firms by race, ethnicity and gender (including certified and non-certified companies):

- Total number of prime contracts and subcontracts awarded to firms in that group (e.g., 83 prime contracts and subcontracts to white women-owned firms);
- Combined dollars of prime contracts and subcontracts going to the group (e.g., \$3,695,000 to white women-owned firms); and
- The percentage of combined contract dollars for the group (e.g., white women-owned firms received 1.3% of total contract dollars).

Minority-owned firms represented more than one-half of total MBE/WBE participation. Asian-Pacific American-owned firms accounted for much of that participation.

The bottom half of the table disaggregates results based on whether the firm was certified as a DBE. Some of the “non-DBEs” in the last row of the table are MBE/WBEs that were not DBE-certified. Similar to the results in the top portion of Figure 7-3, minority-owned DBEs accounted for much of the total DBE utilization. Asian American-owned DBEs obtained about \$3.6 million of the \$4.7 million going to all DBEs.

Figure 7-3.  
 MBE/WBE and DBE share of ODA and other airport prime contracts and subcontracts for FAA-funded contracts, October 2014–September 2019

|                                   | Number of contracts* | \$1,000s          | Percent of dollars |
|-----------------------------------|----------------------|-------------------|--------------------|
| <b>MBE/WBEs</b>                   |                      |                   |                    |
| African American-owned            | 3                    | \$ 194            | 0.1 %              |
| Asian-Pacific American-owned      | 3                    | 2,338             | 0.8                |
| Subcontinent Asian American-owned | 7                    | 810               | 0.3                |
| Hispanic American-owned           | 11                   | 690               | 0.2                |
| Native American-owned             | 8                    | 218               | 0.1                |
| <b>Total MBE</b>                  | <b>32</b>            | <b>\$ 4,251</b>   | <b>1.5 %</b>       |
| WBE (white women-owned)           | 83                   | 3,695             | 1.3                |
| <b>Total MBE/WBE</b>              | <b>115</b>           | <b>\$ 7,945</b>   | <b>2.8 %</b>       |
| Total majority-owned              | 961                  | 279,595           | 97.2               |
| <b>Total</b>                      | <b>1,076</b>         | <b>\$ 287,541</b> | <b>100.0 %</b>     |
| <b>DBEs</b>                       |                      |                   |                    |
| African American-owned            | 2                    | \$ 178            | 0.1 %              |
| Asian-Pacific American-owned      | 1                    | 2,306             | 0.8                |
| Subcontinent Asian American-owned | 6                    | 756               | 0.3                |
| Hispanic American-owned           | 5                    | 142               | 0.0                |
| Native American-owned             | 8                    | 218               | 0.1                |
| <b>Total MBE</b>                  | <b>22</b>            | <b>\$ 3,599</b>   | <b>1.3 %</b>       |
| WBE (white women-owned)           | 42                   | 1,165             | 0.4                |
| <b>Total DBE-certified</b>        | <b>64</b>            | <b>\$ 4,764</b>   | <b>1.7 %</b>       |
| Non-DBE                           | 1,012                | 282,777           | 98.3               |
| <b>Total</b>                      | <b>1,076</b>         | <b>\$ 287,541</b> | <b>100.0 %</b>     |

Note: \* Number of prime contracts and subcontracts.  
 Numbers rounded to nearest tenth of 1 percent. Numbers may not add to totals due to rounding.

Source: Keen Independent from ODA and other airport contract data.



## D. Disparity Analysis for ODA and Other Airport Contracts

To conduct the disparity analysis, Keen Independent compared the actual utilization of MBE/WBEs on ODA and other airport prime contracts and subcontracts with the percentage of contract dollars that MBE/WBEs might be expected to receive based on their availability for that work.

Keen Independent made those comparisons for individual MBE/WBE groups. Chapter 6 explains how the study team developed benchmarks from the availability data.

To make results directly comparable, Keen Independent expressed both utilization and availability as percentages of the total dollars associated with a particular set of contracts (e.g., 5% utilization compared with 4% availability). Keen Independent then calculated a “disparity index” to easily compare utilization and availability results among MBE/WBE groups and across different sets of contracts.

- A disparity index of “100” indicates an exact match between actual utilization and what might be expected based on MBE/WBE availability for a specific set of contracts (often referred to as “parity”).
- A disparity index of less than 100 may indicate a disparity between utilization and availability, and disparities of less than 80 in this report are described as “substantial.”<sup>2</sup>

Figure 7-4 describes how Keen Independent calculated disparity indices.

**Results for minority- and women-owned firms on airport contracts.** For ODA and other airport FAA-funded contracts combined, there were disparities between the utilization and availability of white women-owned firms and each group of minority-owned firms except for Subcontinent Asian American-owned businesses.

For example, white women-owned firms received 1.28 percent of contract dollars. This utilization was below what might be expected from the availability analysis — 9.29 percent. The resulting disparity index for WBEs is 14 (1.28% divided by 9.29%, multiplied by 100).

Figure 7-4.  
Calculation of disparity indices

The disparity index provides a straightforward way of assessing how closely actual utilization of an MBE/WBE group matches what might be expected based on its availability for a specific set of contracts. With the disparity index, one can directly compare results for one group to that of another group, and across different sets of contracts. Disparity indices are calculated using the following formula:

$$\frac{\% \text{ actual utilization} \times 100}{\% \text{ availability}}$$

For example, if actual utilization of MBEs on a set of ODA and other airport contracts was 2 percent and the availability of MBEs for those contracts was 4 percent, then the disparity index would be 2 percent divided by 4 percent, which would then be multiplied by 100 to equal 50. In this example, MBEs would have actually received 50 cents of every dollar that they might be expected to receive based on their availability for a particular set of contracts.

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<sup>2</sup> Some courts deem a disparity index below 80 as being “substantial” and have accepted it as evidence of adverse impacts against MBE/WBEs. For example, see *Associated General Contractors of America, San Diego Chapter, Inc. v. California Department of Transportation, et al.*, 713 F. 3d 1187, 2013 WL 1607239 (9<sup>th</sup> Cir. April 16, 2013).; *Rothe Development Corp v. U.S. Dept of Defense*, 545 F.3d 1023, 1041; *Eng’g Contractors Ass’n of South Florida, Inc. v. Metropolitan Dade County*, 122 F.3d at 914, 923 (11<sup>th</sup> Circuit 1997); *Concrete Works of Colo., Inc. v. City and County of Denver*, 36 F.3d 1513, 1524 (10<sup>th</sup> Cir. 1994). Also see Appendix B for additional discussion.

Minority-owned firms received 1.48 percent of ODA and other airport contract dollars, a result that was also below what might be expected from the availability analysis — 5.99 percent. Results in Figure 7-5 show substantial disparities for African American-, Asian-Pacific American-, Hispanic American-, and Native American-owned companies. There was no disparity identified for Subcontinent Asian American-owned firms.

Figure 7-5.  
 MBE/WBE utilization and availability for ODA and other airport FAA-funded contracts,  
 October 2014–September 2019

|                                   | Utilization     | Availability    | Disparity index |
|-----------------------------------|-----------------|-----------------|-----------------|
| African American-owned            | 0.07 %          | 0.19 %          | 36              |
| Asian-Pacific American-owned      | 0.81            | 1.95            | 42              |
| Subcontinent Asian American-owned | 0.28            | 0.11            | 200+            |
| Hispanic American-owned           | 0.24            | 2.70            | 9               |
| Native American-owned             | 0.08            | 1.04            | 7               |
| Total MBE                         | 1.48 %          | 5.99 %          | 25              |
| WBE (white women-owned)           | 1.28            | 9.29            | 14              |
| <b>Total MBE/WBE</b>              | <b>2.76 %</b>   | <b>15.28 %</b>  | <b>18</b>       |
| Total majority-owned              | 97.24           | 84.72           | 115             |
| <b>Total firms</b>                | <b>100.00 %</b> | <b>100.00 %</b> |                 |

Note: Number of contracts/subcontracts analyzed is 1,076.

Source: Keen Independent from availability survey data and data on ODA and other airport contracts.

**Utilization and disparity results for other sets of ODA and other airport contracts.** Chapter 8 examines utilization results for subsets of ODA and other airport contracts to further explore factors behind the disparities identified in Chapter 7.

## E. Statistical Significance of Disparity Analysis Results

Testing for statistical significance relates to testing the degree to which a researcher can reject “random chance” as an explanation for any observed differences.

Random chance in data sampling is the factor that researchers consider most in determining the statistical significance of results. The study team attempted to reach each firm in the relevant geographic market area identified as possibly doing business within relevant subindustries, mitigating many of the concerns associated with random chance in data sampling as they may relate to Keen Independent’s availability analysis.

The utilization analysis attempted to represent a complete “population” of contracts.

Therefore, one might consider any disparity identified when comparing overall utilization with availability to be “statistically significant.”

Figure 7-6 explains the high level of statistical confidence in the utilization and availability results. As outlined on the next page, the study team also used a sophisticated statistical simulation tool to further examine statistical significance of disparity results.

### Figure 7-6. Confidence intervals for availability and utilization measures

As discussed in Appendix D, Keen Independent successfully reached 4,889 business establishments in the availability telephone survey — a number of completed surveys that might be considered large enough to be treated as a “population,” not a sample.

However, if the results are treated as a sample, the reported 23.8 percent representation of MBE/WBEs among available firms is accurate within about +/- 0.8 percentage points. (This was MBE/WBE availability before dollar-weighting.) By comparison, many survey results for proportions reported in the popular press are accurate within +/- 5 percentage points. (Keen Independent applied a 95 percent confidence level and the finite population correction factor when determining these confidence intervals.)

Keen Independent attempted to collect data for all FAA-funded ODA and other airport contracts during the study period and no confidence interval calculation applies for the utilization results.

**Monte Carlo analysis.** There were many opportunities in the sets of prime contracts and subcontracts for MBE/WBEs to be awarded work. Some contract elements involved large dollar amounts and others involved only a few thousand dollars.

Monte Carlo analysis was a useful tool for the study team to use for statistical significance testing in the disparity study because there were many individual chances at winning ODA and other airport prime contracts and subcontracts during the study period, each with a different payoff.

Figure 7-7 describes Keen Independent’s use of Monte Carlo analysis.

**Results.** Figure 7-8 presents the results from the Monte Carlo analysis as they relate to the statistical significance of disparity analysis results for MBEs and WBEs for all contracts.

The Monte Carlo simulations produced utilization equal to or less than the observed utilization for MBEs in just one of the 10,000 simulations. Therefore, one can be confident that the disparity observed for minority-owned firms in FAA-funded contracts is not due to chance in contract awards.

The Monte Carlo simulations did not produce utilization equal to or less than the observed utilization for WBEs in any of the 10,000 simulations.

It is important to note that this test may not be necessary to establish statistical significance of results (see discussion in Figure 7-6 and elsewhere in this chapter), and it may not be appropriate for very small populations of firms.<sup>3</sup>

### Figure 7-7

#### Monte Carlo analysis

The study team began the Monte Carlo analysis by examining individual contract elements. For each contract element, Keen Independent’s availability database provided information on individual businesses that were available for that contract element, based on type of work, contractor role, contract size and location of the work.

The study team assumed that each available firm had an equal chance of “receiving” that contract element. For example, the odds of an MBE receiving that contract element were equal to the number of MBEs available for the contract element divided by the total number of firms available for the work. The Monte Carlo simulation then randomly chose a business from the pool of available businesses to “receive” that contract element.

The Monte Carlo simulation repeated the above process for all other elements in a particular set of contracts. The output of a single Monte Carlo simulation for all contract elements in the set represented simulated utilization of MBEs for that set of contract elements.

The entire Monte Carlo simulation was then repeated 10,000 times. The combined output from all 10,000 simulations represented a probability distribution of the overall utilization of MBEs and utilization of WBEs if contracts were awarded randomly based on the availability of businesses working in the ODA and other airport contracting industry.

The output of the Monte Carlo simulations represents the number of runs out of 20,000 that produced a simulated utilization result that was equal or below the observed utilization in the actual data for each MBE/WBE group and for each set of contracts. If that number was less than or equal to 500 (i.e., 2.5% of the total number of runs), then the disparity index is considered statistically significant.

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<sup>3</sup> Even if there were zero utilization of a particular group, Monte Carlo simulation might not reject chance in contract awards as an explanation for that result if there were a small number of firms in that group or a small number of contracts and subcontracts included in the analysis. Results can also be affected by the size distribution of contracts and subcontracts.

Figure 7-8.  
 Monte Carlo results for MBEs and WBEs for ODA and other airport  
 FAA-funded contracts, October 2014–September 2019

|   | MBE    | WBE    |
|---|--------|--------|
| Disparity index   | 25     | 14     |
| Number of simulation runs out of 10,000<br>that replicated observed utilization | 1      | 0      |
| Probability of observed disparity<br>occurring due to "chance"                  | 0.01 % | 0.00 % |
| Reject chance in awards of contracts<br>as a cause of disparity?                | Yes    | Yes    |

Source: Keen Independent from availability survey data and data on ODA and other airport contracts.

## CHAPTER 8.

### Further Exploration of MBE/WBE and DBE Utilization

Building upon the analysis presented in Chapter 7, Keen Independent further examined the utilization of minority- and women-owned firms for different types and locations of FAA-funded contracts. Chapter 8 also reports DBE participation. Keen Independent presents results as follows:

- A. Construction and engineering contracts;
- B. Prime contracts and subcontracts;
- C. Contracts by region;
- D. ODA-owned airports;
- E. Large and small prime contracts and subcontracts; and
- F. Overconcentration analysis.

#### A. Construction and Engineering Contracts

Figure 8-1 presents MBE/WBE participation for construction contracts and engineering-related contracts.

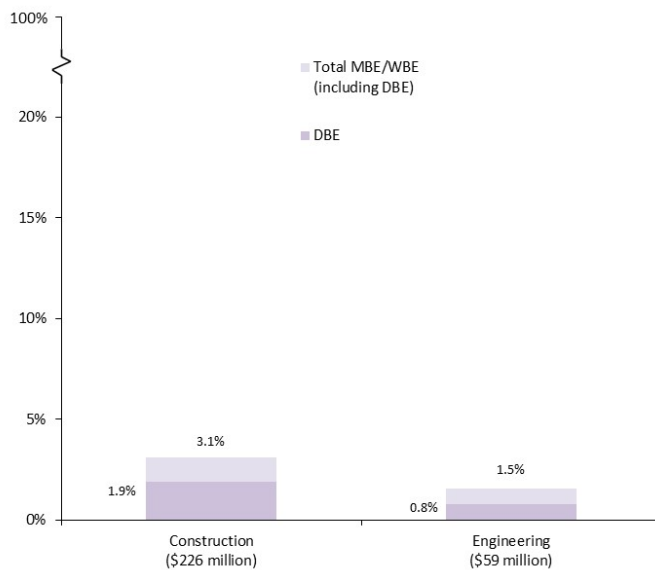
**Figure 8-1.**  
**MBE/WBE and DBE share of dollars**  
**for FAA-funded construction and**  
**engineering contracts,**  
**October 2014–September 2019**

**Note:**

Dark portion of bar is certified DBE utilization.  
 Number of contracts/subcontracts analyzed is 533 for construction and 533 for engineering-related contracts. Does not include goods purchases (totaling \$3 million).

**Source:**

Keen Independent Research from ODA and other airport contract data.



Overall, MBE/WBE participation was higher on construction contracts (about 3.1%) than engineering-related contracts (1.5%).<sup>1</sup> Participation of DBEs was also higher on construction contracts than engineering-related contracts (1.9% compared with 0.8%). (Note that Figure 8-1 does not include goods purchases.)

<sup>1</sup> Results group a subcontract according to the industry associated with the prime contract (e.g., surveying on a construction contract is included with construction results).

There were disparities between MBE/WBE utilization and availability for both construction and engineering contracts.

- The 3.1 percent MBE/WBE utilization on construction contracts was substantially below the 14.8 percent availability for those contracts, with a disparity index of 21.
- There was a substantial disparity between the 1.5 percent utilization of MBE/WBEs on engineering contracts and the 16.4 percent MBE/WBE availability those contracts (disparity index of 9).

## B. Prime Contracts and Subcontracts

Figure 8-2 presents the percentage of airport prime contract dollars and subcontract dollars going to MBE/WBEs and DBEs. (These results combine construction and engineering contracts.)

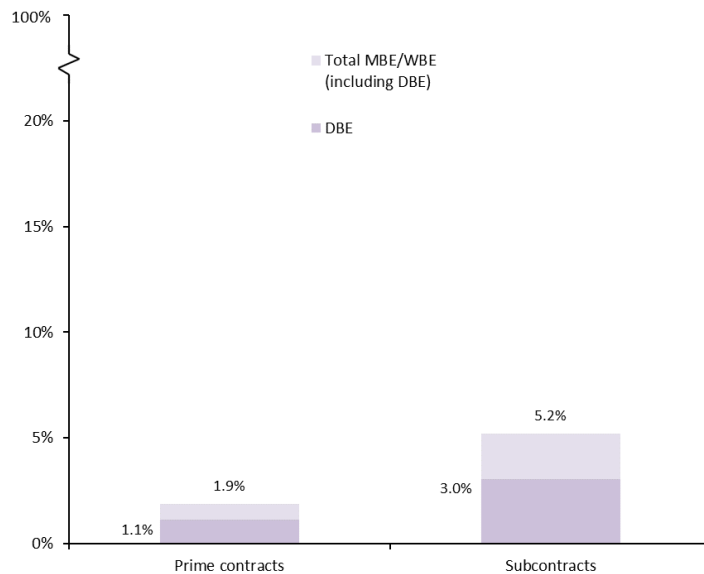
**Subcontracts.** Subcontracts accounted for about one-third of the total contract dollars examined in this study. MBE/WBEs obtained about 5 percent of ODA and other airport subcontract dollars and majority-owned firms received 95 percent of subcontract dollars. DBEs accounted for 3 percentage points of the overall utilization of MBE/WBEs in ODA and other airport subcontracts.

**Prime contracts.** The study team also analyzed dollars going to prime contractors based on amounts retained by prime contractors after subtracting the value of subcontracts. MBE/WBEs received 1.9 percent of prime contract dollars. DBEs accounted for 1.1 percent of total prime contract dollars.

**Figure 8-2.**  
**MBE/WBE and DBE share of dollars**  
**for FAA-funded prime contracts**  
**and subcontracts, October 2014–**  
**September 2019**

**Note:**  
 Dark portion of bar is certified DBE utilization.  
 Number of prime contracts analyzed is 324.  
 Number of subcontracts analyzed is 742.

**Source:**  
 Keen Independent Research from ODA and other airport contract data.



The 5.2 percent of subcontract dollars going to MBE/WBEs was substantially below the 19.2 percent that might be expected based on the availability analysis (disparity index of 27).

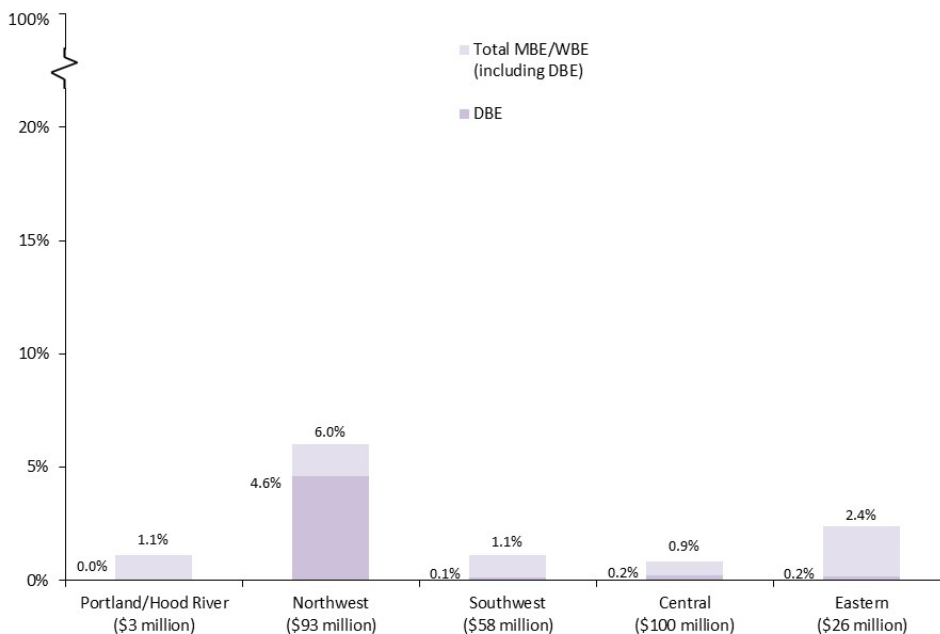
There was also a substantial disparity between utilization (1.9%) and availability (13.8%) for MBE/WBEs as prime contractors. The disparity index was 14 for MBE/WBEs for prime contracts.

### C. Contracts by Region

Figure 8-3 compares MBE/WBE participation for ODA and other airports by region in which the airports are located. Results are for all FAA-funded prime contracts and subcontracts.<sup>2</sup>

- MBE/WBE utilization participation was highest in the Northwest region (6%), which includes Salem, Newport and Eugene. Of the total MBE/WBE participation in this region, 4.6 percentage points went to firms certified as DBEs.
- The Eastern and Portland/Hood River regions showed participation in the range of 2.4 to 1.1 percent for MBE/WBEs. There was little or no utilization of DBEs in those regions.
- MBE/WBE and DBE participation was lowest in Southwest and Central Oregon. In those regions, about 1 percent of contract dollars went to MBE/WBEs, of which 0.3 percentage points went to DBEs.

Figure 8-3.  
MBE/WBE and DBE share of dollars for FAA-funded contracts by region,  
October 2014–September 2019



Note: Dark portion of bar is certified DBE utilization.

Number of contracts/subcontracts analyzed is: Portland/Hood River (34), Northwest (325), Southwest (187), Central (292) and Eastern (161).

Source: Keen Independent Research from ODA and other airport data.

<sup>2</sup> The analysis does not include statewide or multiple location contracts.



There were substantial disparities between MBE/WBE utilization and availability for each region.

- The disparity index for MBE/WBEs for contracts in the Northwest area was 32, a substantial disparity.
- The disparity indices were 8 and 6 for Southwest and Central regions, respectively.
- There were also substantial disparities for MBE/WBEs in Eastern (index of 15) and Portland (index of 6) regions.

#### D. ODA-Owned Airports

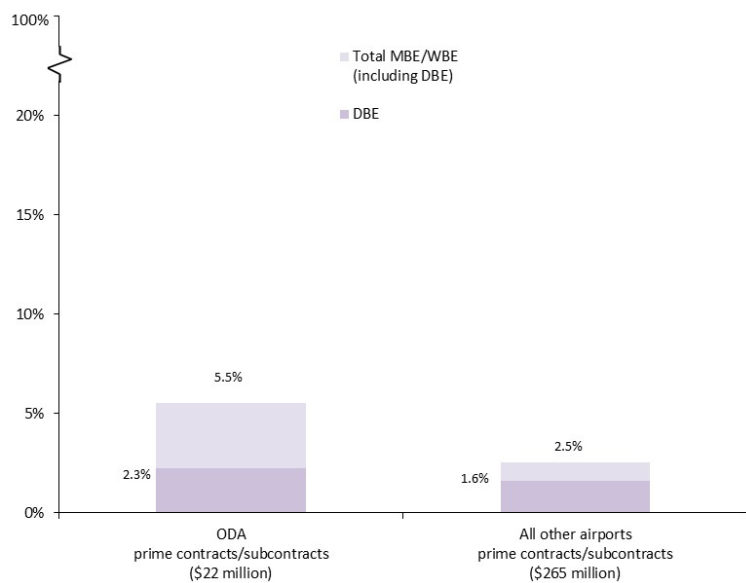
The study team also analyzed the utilization of MBE/WBEs and DBEs by ODA and for all other airports combined.

Including FAA-funded contracts at individual ODA airports and statewide contracts, MBE/WBE participation was higher for ODA (5.5%) than for other airports' contracts (about 2.5%). Participation of DBEs was also higher for ODA contracts than other airport contracts (2.3% compared with 1.6%).

**Figure 8-4.**  
**MBE/WBE and DBE share of dollars**  
**for FAA-funded contracts at ODA**  
**airports and all other airports,**  
**October 2014–September 2019**

**Note:**  
 Dark portion of bar is certified DBE utilization.  
 Number of contracts/subcontracts analyzed is:  
 223 for ODA airports and 853 for other airports.

**Source:**  
 Keen Independent Research from ODA and  
 other airport contract data.



There were disparities between MBE/WBE utilization and availability for FAA-funded contracts for both ODA airports and other airport contracts.

- The 5.5 percent MBE/WBE utilization on ODA-owned airport contracts was substantially below the 17 percent availability for those contracts, resulting in a disparity index of 32.
- There was a substantial disparity between the 2.5 percent utilization of MBE/WBEs on all other airports' contracts and the 15.1 percent MBE/WBE availability those contracts (disparity index of 17).

## E. Large and Small Prime Contracts and Subcontracts

Keen Independent also analyzed MBE/WBE and DBE participation on large and small prime contracts and subcontracts during the October 2014 through September 2019 study period.

**Overall results.** Combining construction and engineering, MBE/WBE utilization for large and small prime contracts and subcontracts was as follows:

- MBE/WBEs received 1.9 percent of contract dollars on large prime contracts and subcontracts (\$250,000 or more for construction contracts and \$100,000 or more for engineering contracts) and 10.3 percent for small prime contracts and subcontracts; and
- Included in the MBE/WBE utilization in Figure 8-5, DBE participation was 1.2 percent for large prime contracts and subcontracts and 5.7 percent for small prime contracts and subcontracts.

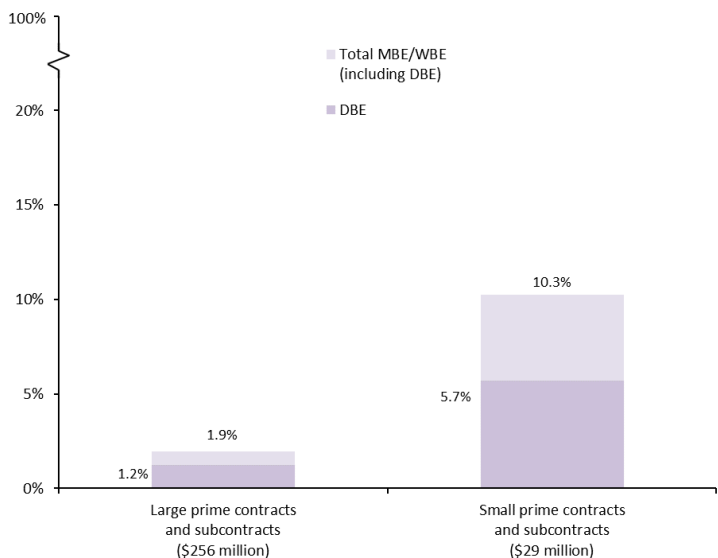
**Figure 8-5**  
**MBE/WBE and DBE share of dollars**  
**for ODA and other airport**  
**FAA-funded prime contracts and**  
**subcontracts by size of contract,**  
**October 2014–September 2019**

**Note:**

Number of contracts/subcontracts analyzed is 289 large prime contracts and subcontracts and 777 small prime contracts and subcontracts. Does not include goods purchases (totaling \$3 million).

**Source:**

Keen Independent Research from ODA and other airport contracts and subcontracts, October 2014–September 2019.



Keen Independent also analyzed MBE/WBE and DBE participation by large and small construction and large and small engineering prime contracts and subcontracts. For construction prime contracts and subcontracts, “large” meant that they were \$250,000 or more. For engineering, “large” prime contracts and subcontracts were those of \$100,000 or more.

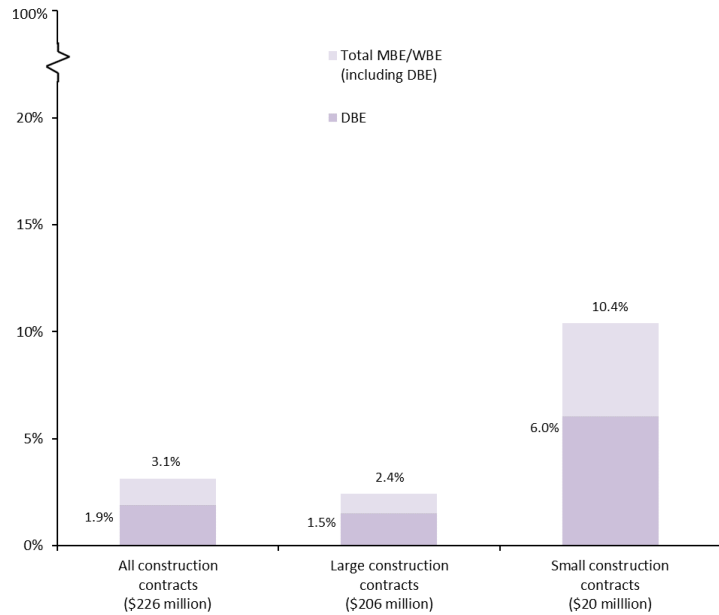
**Utilization of MBE/WBEs and DBEs on large and small construction prime contracts and subcontracts.** Including both large and small contracts, minority- and women-owned firms won 72 or 13.5 percent of the 533 prime contracts and subcontracts for FAA-funded construction projects during the study period. Because minority- and women-owned firms won smaller prime contracts and subcontracts, on average, MBE/WBEs only received 3.1 percent of construction contract dollars, or \$7 million out of \$226 million of the total dollars.

DBEs won 44 construction prime contract and subcontracts totaling \$4.3 million during the study period (1.9% of the total dollars). Figure 8-6, below, shows these results.

**Figure 8-6.**  
**MBE/WBE and DBE share of dollars of FAA-funded construction prime contracts and subcontracts, October 2014–September 2019**

**Note:**  
 Number of contracts analyzed for all prime contracts and subcontracts is 533. Number of prime contracts analyzed is 137 for large contracts and 396 for small contracts.

**Source:**  
 Keen Independent Research from ODA and other airport contract data.



**Large construction prime contracts and subcontracts.** Of the 137 large construction prime contracts and subcontracts, MBE/WBEs won eight, or 5.8 percent of the total. MBE/WBEs accounted for 2.4 percent of prime contract and subcontract dollars. The disparity index for MBE/WBEs was 17 for large construction prime contracts and subcontracts, indicating a substantial disparity. DBEs were awarded three of these large prime contracts and subcontracts (1.5% of dollars.)

**Small construction prime contracts and subcontracts.** MBE/WBE contractors were awarded 64 or 16 percent of the 396 construction prime contracts and subcontracts less than \$250,000. MBE/WBEs received 10.4 percent of prime contract and subcontract dollars. Of the 396 small prime contracts and subcontracts, 41 (or 10%) were awarded to DBEs. About 6 percent of small construction dollars went to DBEs.

Even though MBE/WBE utilization was higher on small prime contracts and subcontracts, it was less than the 22.7 percent that might be expected based on availability analysis for these prime contracts and subcontracts (disparity index of 46).

**Utilization of MBE/WBEs and DBEs as consultants on large and small engineering-related prime contracts and subcontracts.** Keen Independent also explored participation of minority- and women-owned firms in the 533 prime contracts and subcontracts involved in FAA-funded engineering contracts during the study period. MBE/WBEs were awarded 43 engineering-related prime contracts and subcontracts (8% of total contracts).

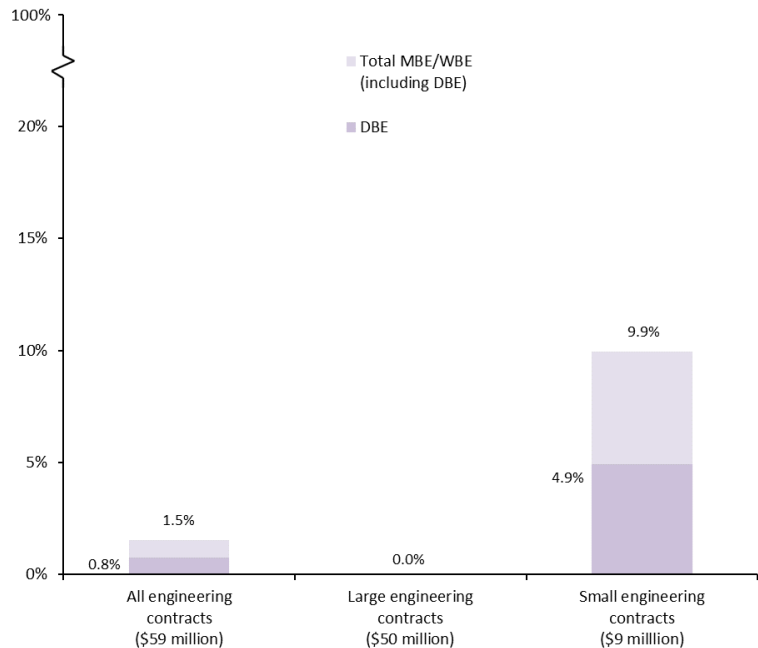
About \$1 million in engineering prime contracts and subcontracts went to MBE/WBEs, about 1.5 percent of total engineering contract dollars. Availability analysis for engineering-related prime contracts and subcontracts indicated that MBE/WBEs might be expected to receive 14.8 percent of those contract dollars (disparity index of 10).

DBEs were awarded 20 engineering-related prime contracts and subcontracts (3.8% of the total) amounting to 0.8 percent of the engineering contract dollars. Figure 8-7 presents the utilization of MBE/WBEs and DBEs as prime consultants or subconsultants on engineering-related contracts.

**Figure 8-7.**  
**MBE/WBE and DBE participation in FAA-funded engineering-related prime contracts and subcontracts, October 2014–September 2019**

**Note:**  
 Number of contracts analyzed for all prime contracts and subcontracts is 533. Number of contracts analyzed is 152 for large contracts and 381 for small contracts.

**Source:**  
 Keen Independent Research from ODA and other airport contract data.



Keen Independent also examined number and dollars of engineering-related contracts going to MBE/WBEs and DBEs for large contracts (\$100,000 or more) and small contracts (less than \$100,000).

**Large contracts.** Keen Independent did not identify any of 152 large engineering prime contracts and subcontracts awarded to MBE/WBEs or DBEs. The disparity index was 0 for MBE/WBEs when examining utilization and availability for these contracts.

**Small contracts.** MBE/WBEs received 43 small engineering-related prime contracts and subcontracts, which was 11 percent of the total small engineering prime contracts and subcontracts. MBE/WBE received 9.9 percent of these contract dollars. This utilization of MBE/WBEs was less than the 21 percent availability benchmark for those contracts (disparity index of 48). DBEs were awarded 20 of those small engineering-related contracts.

## F. Overconcentration Analysis

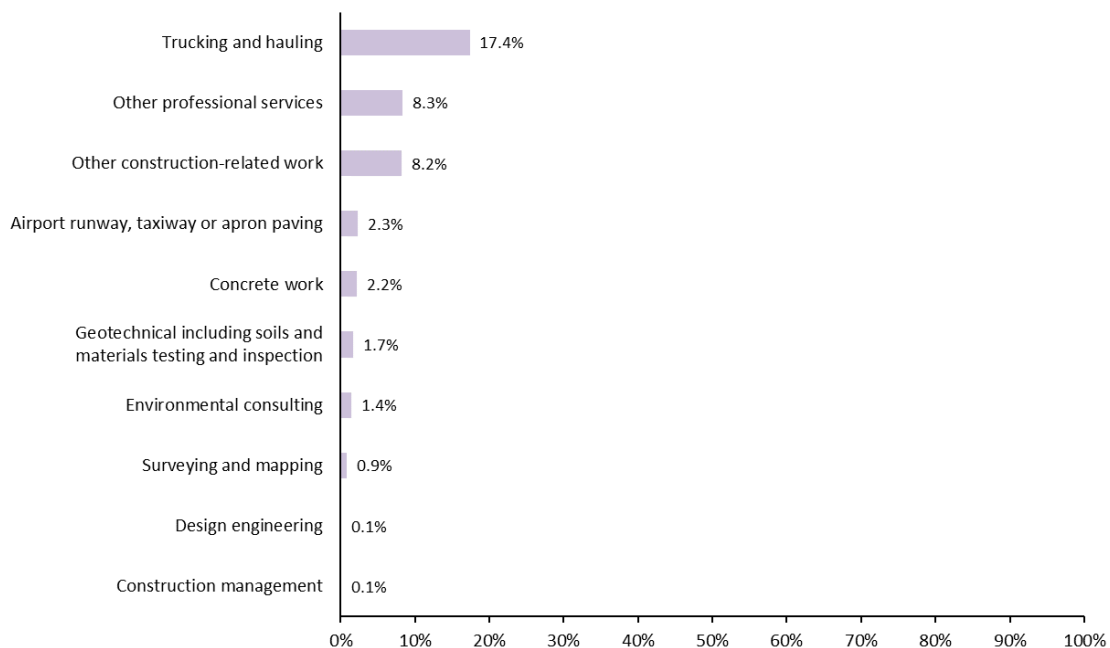
The Federal DBE Program requires agencies implementing the program to take certain steps if they determine that “DBE firms are so overconcentrated in a certain type of work as to unduly burden the opportunity of non-DBE firms to participate in this type of work” (see 49 CFR Section 26.33(a)). The Federal DBE Program does not specifically define “overconcentration.”

Keen Independent examined the representation of DBEs and work going to DBEs in three ways:

- Share of airport FAA-funded contract dollars within a type of work going to DBEs;
- Distribution of DBE dollars by work type; and
- Representation of DBEs among all firms available for specific types of contracts and subcontracts.

**Share of airport FAA-funded contract dollars within a type of work going to DBEs.** For each specific type of work examined in the study, the study team calculated the share of dollars going to DBE firms. There was no industry in which DBEs accounted for a majority of contract dollars. Figure 8-8 shows that DBEs accounted for 17 percent of trucking dollars on FAA-funded contracts. DBEs accounted for less than 10 percent of the contract dollars for each of the other types of work.

Figure 8-8.  
DBE share of total contract dollars, October 2014–September 2019



Note: Number of prime contracts/subcontracts analyzed is 1,076.

Source: Keen Independent Research from ODA and other airport data.

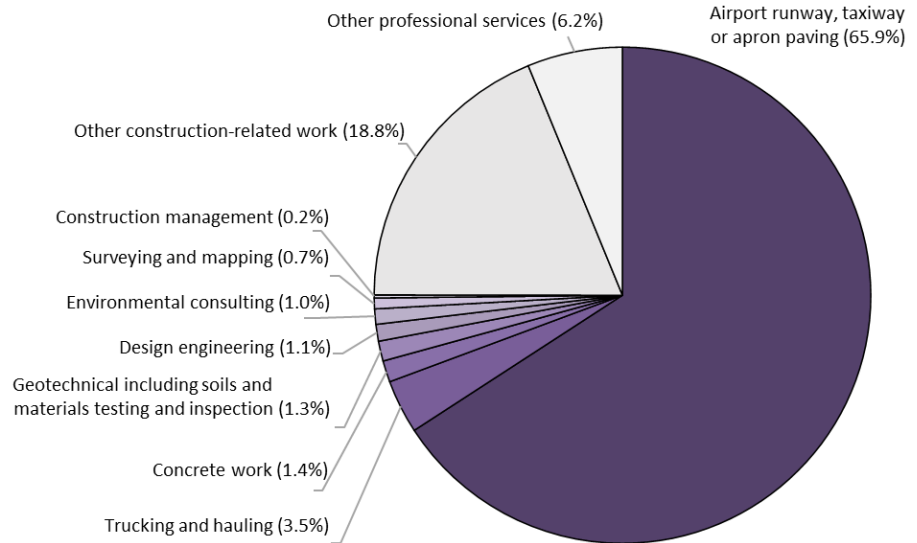
**Distribution of DBE contract dollars across types of work.** Another way to examine potential overconcentration of DBEs is whether DBE participation is only found in certain types of work.

In the study period, airport runway, taxiway or apron paving accounted for two-thirds of DBE participation. Even though this was a large share of the total DBE participation, DBEs received only 2 percent of the dollars for runway, taxiway or apron paving work. Figure 8-9 presents these results.

**Figure 8-9.**  
DBE share of total contract dollars, Oct. 2014–Sept. 2019

Note:  
Number of prime contracts/subcontracts analyzed is 1,076.

Source:  
Keen Independent Research from ODA and other airport contract data.



**Representation of DBEs among firms available for particular types of contracts or subcontracts.** Finally, Keen Independent analyzed whether DBEs accounted for a dominant share of firms available for specific types of work.

Based on firms in the availability database, there was no worktype where DBEs were more than 20 percent of available firms reporting that they performed that type of work. DBEs did not appear to constitute a dominant portion of firms available for any type of ODA and other airports work.

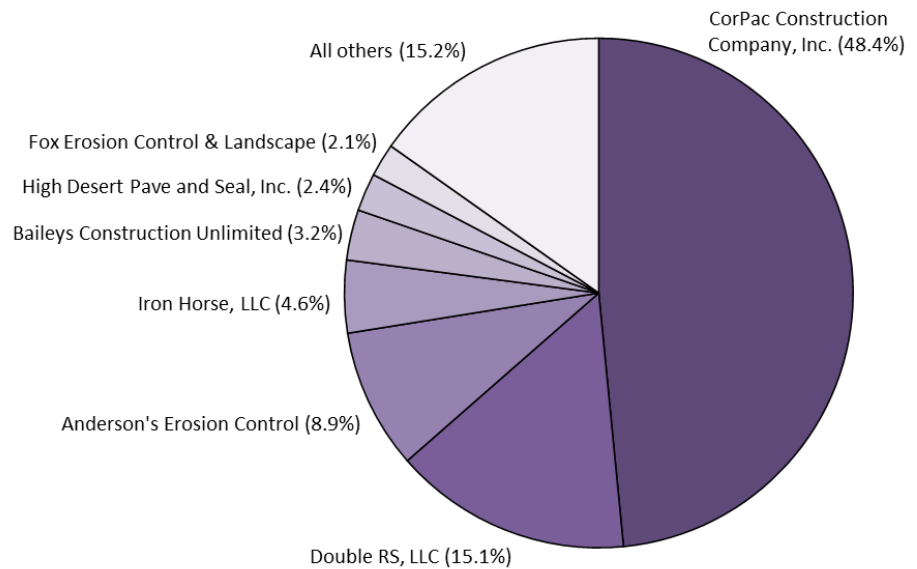
**Participation of individual DBEs in ODA and other airport contracts.** Seven DBEs accounted for most (85%) of the total FAA-funded contract dollars going to DBEs during the study period. One DBE firm received about one-half of those dollars: CorPac, an Asian-Pacific American-owned business that won a prime contract with Astoria Airport in 2016. Double RS, LLC, also obtained a large share of the work. It is a Subcontinent Asian American-owned firm that obtained two subcontracts during the study period. Figure 8-10 on the following page presents these results.

Bailey’s Construction Unlimited (an African American-owned firm) and High Desert Construction & Irrigation (a white female-owned company) were no longer DBE-certified at the time of this report.

**Figure 8-10.**  
**Firms accounting for the**  
**most dollars of DBE**  
**participation in FAA-**  
**funded airport contracts,**  
**Oct. 2014–Sept. 2019**

**Note:**  
 Number of prime  
 contracts/subcontracts analyzed  
 is 1,076.

**Source:**  
 Keen Independent Research  
 from ODA and other airports  
 contract data.



### Summary

Further examination of different types, sizes and locations of work found in Chapter 8 show results consistent with the analysis of utilization and availability of MBE/WBEs for all FAA-funded airport contracts discussed in Chapter 7. There was still a pattern of disparities for minority- and women-owned firms for the subsets of contracts analyzed in Chapter 8. For example, although utilization of MBE/WBEs was higher for small prime contracts and subcontracts, there were still disparities between MBE/WBE utilization and availability.

Further, it does not appear that there is overconcentration of DBEs in any one type of work.

## CHAPTER 9.

# Steps to Calculating Overall DBE Goals for ODA Airports and Other Airports

Chapter 9 uses information from the availability analysis to calculate overall DBE goals for each ODA airport for FFY 2021 through FFY 2023. This chapter also provides other airports with an outline for establishing their overall DBE goals. ODA can use these methods to refine overall DBE goals for any of its airports if their expected contracting mix substantially changes, as well as use this approach and data sources when establishing overall DBE goals for FFY 2021 through FFY 2023.

Chapter 9 provides goal-setting information in three parts:

- A. Identification of types of work and dollars spent by airport;
- B. Calculating the base figure for individual airports based on expected mix of contracts; and
- C. Consideration of a step 2 adjustment.

### **A. Identification of Types of Work and Dollars Spent by Airport**

The first step in setting overall DBE goals for an individual airport is to identify the airport's projected spending for FAA-funded contracts for the three-year goal period based on:

- The types of work anticipated in that airport's FAA-funded contracts during the goal period; and
- The anticipated amount of contract dollars for each type of work.

**Overview.** Calculation of overall DBE goals for a three-year period begins with an airport's projections of FAA-funded work expected at that airport for those years. Keen Independent developed DBE availability estimates for each type of project that incorporates typical tasks for that type of project performed by the prime contract and subcontractors.

The availability survey asked firms to identify the specific types of construction, engineering-related services and other work found in airport contracts. As discussed in Chapter 6, Keen Independent determined relative DBE availability for each type of work. Using information about how much of a contract is typically subcontracts, and for what types of work, the study team combined the availability information to provide estimates of DBE availability at the contract level.



**Types of prime contracts.** The first column of Figure 9-1 identifies the types of prime contracts for which Keen Independent developed availability estimates. The second column provides more detailed information about the types of projects that fit within each category of work. Because the study team has already incorporated data about typical subcontracts for each type of work into its availability analyses, airports need not attempt to project subcontract spending for each prime contract.

Figure 9-1.  
Types of work identified in ODA airports and other airports FAA-funded contracts, FFY 2015–2019

| Type of prime contract  | Example keywords used to identify this type of work                  |
|---|--|
| <b>Construction</b>   |  |
| Airport runway, taxiway or apron paving                         | Runway extension, runway construction, taxiway/runway rehabilitation |
| Concrete work   | Concrete, foundation   |
| Electrical work (including airfield lighting)                   | Electric, wires, lighting  |
| Excavation, site prep, grading and drainage                     | Excavation, drain, digging   |
| Installation of guardrails and fencing                          | Installing fence, installing gate, fence/gate construction           |
| Office and public building construction                         | Building construction, office renovation, building expansion         |
| Pavement surface treatment (such as sealing)                    | Sealing, pavement treatment  |
| Wrecking and demolition   | Wrecking, demolition, blasting                                       |
| Other construction work   | Construction services that do not match any of the other categories  |
| <b>Professional services</b>                                    |  |
| Construction management   | Construction management  |
| Design engineering  | Master Plan update, design, survey and design                        |
| Environmental consulting  | Environmental assessment, EA   |
| Geotechnical including soils & materials testing and inspection | Inspection, geotechnical, materials testing                          |
| Surveying and mapping   | Survey, mapping, GIS   |
| Other professional services                                     | Professional services that do not match any of the other categories  |
| <b>Other goods and services</b>                                 |  |
| Other services  | Services that don't match any of the other categories                |

Source: Keen Independent Research.

**Aurora State Airport prime contracts.** Through Chapter 9, Keen Independent illustrates how an overall DBE goal can be established using ODA’s Aurora State Airport as an example. Figure 9-2 presents the types of prime contracts expected to be involved in Aurora State Airport’s FAA-funded projects for FFY 2021 through FFY 2023.

The third contract in the table — Obstruction removal Phase II (\$971,000) — could not be classified under one type of prime contract, so the study team divided the contract into four segments with projected percentages of the total expected spending: Easement acquisition (50%); excavation, site prep, grading and drainage (30%); surveying and mapping (10%) and other professional services (10%). Because spending to acquire easements is not subject to DBE goal setting, that amount (\$486,000) is subtracted from the total projected spending (\$2.4 million) which results in \$1.9 million total anticipated contracting subject to DBE goal setting (see Figure 9-2).

Figure 9-2.  
Projected types of work, Aurora State Airport, FFY 2021 through FFY 2023

| Project Description  | Type of work   | Dollars             |
|--|--|---------------------|
| <b>Master Plan Update</b>  | Design engineering   | \$ 839,526          |
| <b>Obstruction removal – Phase I survey and design</b>   | Design engineering   | 90,900              |
| <b>Obstruction removal – Phase II design, easement acquisition, and obstruction removal construction</b> | - Easement acquisition (exempt from DBE goal-setting) (estimated 50% of dollars) | 485,500             |
|  | - Excavation, site prep, grading and drainage (estimated 30% of dollars)         | 291,300             |
|  | - Surveying and mapping (estimated 10% of dollars)                               | 97,100              |
|  | - Other professional services (estimated 10% of dollars)                         | 97,100              |
|  | Total dollars  | \$ 971,000          |
| <b>Environmental Assessment – Property Purchase and Runway Extension</b>                                 | Environmental consulting   | \$ 522,000          |
| <b>Total projected spending</b>  |  | <b>\$ 2,423,426</b> |
| Less exemption for easement acquisition  |  | - 485,500           |
| <b>Total spending subject to DBE goals</b>   |  | <b>\$ 1,937,926</b> |

Source: Keen Independent Research; ODA reports of projected FAA-funded contracts, FFY 2021–FFY 2023.

**Contract dollars by type of work.** Once an airport has identified the type of work for each anticipated prime contract, the airport should next sum the total dollars for each type of work. Figure 9-3 presents anticipated spending for Aurora State Airport, arranged by type of work. Anticipated easement acquisition spending is not included, as it is not subject to DBE goals.

Figure 9-3.  
Aurora State Airport calculations for contracting dollars  
by type of work, FFY 2021–2023

| Type of prime contract  | Dollars             |
|---|---------------------|
| <b>Design engineering</b>   |                     |
| Master Plan Update  | \$ 839,526          |
| Obstruction removal – Phase I survey and design   | 90,900              |
| Total design engineering  | \$ 930,426          |
| <b>Excavation, site prep, grading and drainage</b>  |                     |
| Obstruction removal – Phase II design, easement acquisition, and obstruction removal construction ( <b>Excavation, site prep, grading and drainage are 30% of projected dollars</b> ) | 291,300             |
| <b>Surveying and mapping</b>  |                     |
| Obstruction removal – Phase II design, easement acquisition, and obstruction removal construction ( <b>Surveying and mapping is 10% of projected dollars</b> )                        | 97,100              |
| <b>Other professional services</b>  |                     |
| Obstruction removal – Phase II design, easement acquisition, and obstruction removal construction ( <b>Other professional services are 10% of projected dollars</b> )                 | 97,100              |
| <b>Environmental Consulting</b>   |                     |
| Environmental Assessment – Property   |                     |
| Purchase and Runway Extension   | 522,000             |
| <b>Total projected spending subject to DBE goals</b>  | <b>\$ 1,937,926</b> |

Source: Keen Independent Research; ODA reports of projected FAA-funded contracts, FFY 2021–FFY 2023.

## B. Calculating the Base Figure for Individual Airports Based on Expected Mix of Contracts

Next, the airport must calculate its base figure, using its projected spending by type of work and Keen Independent’s calculations of region-specific availability for each of those types of contracts.

**Weighted availability by region and type of work.** Chapter 6 and Appendix D of this report provide detailed methodology and results measuring the relative availability of different types of firms to perform work for ODA and other airports in different regions of the state.<sup>1</sup> (In doing so, Keen Independent incorporated information about firms that work across multiple regions.)

Using that information, the study team calculated availability of current DBEs by region and type of prime contract. Figure 9-4 provides these results. Note that “region” refers to location of the airport.

Figure 9-4.

Weighted availability benchmarks by region and type of prime contract (current DBEs)

| Type of prime contract  | Portland/Hood River region | Northwest Oregon | Southwest Oregon | Central Oregon | Eastern Oregon |
|---|----------------------------|------------------|------------------|----------------|----------------|
| <b>Construction</b>   |                            |                  |                  |                |                |
| Airport runway, taxiway or apron paving                         | 9.1 %                      | 8.6 %            | 4.7 %            | 4.9 %          | 5.2 %          |
| Concrete work   | 5.6                        | 5.1              | 6.1              | 5.9            | 6.5            |
| Electrical work   | 4.2                        | 4.1              | 4.8              | 4.3            | 4.8            |
| Excavation, site prep, grading and drainage                     | 6.8                        | 6.1              | 5.0              | 4.6            | 5.3            |
| Installation of guardrails and fencing                          | 3.6                        | 3.2              | 3.8              | 3.7            | 4.3            |
| Office and public building construction                         | 6.0                        | 5.6              | 4.8              | 4.5            | 4.5            |
| Pavement surface treatment (such as sealing)                    | 1.1                        | 1.1              | 1.4              | 1.3            | 1.3            |
| Wrecking and demolition   | 9.7                        | 9.0              | 5.1              | 5.0            | 5.4            |
| Other construction work   | 0.0                        | 0.0              | 0.0              | 0.0            | 0.0            |
| <b>Professional services</b>                                    |                            |                  |                  |                |                |
| Construction management   | 8.2 %                      | 9.0 %            | 8.2 %            | 8.9 %          | 9.8 %          |
| Design engineering  | 8.8                        | 10.3             | 7.9              | 10.0           | 8.6            |
| Environmental consulting  | 13.2                       | 14.5             | 10.5             | 14.5           | 11.8           |
| Geotechnical including soils & materials testing and inspection | 0.6                        | 0.6              | 0.5              | 0.6            | 0.6            |
| Surveying and mapping   | 6.9                        | 6.9              | 6.9              | 6.4            | 7.4            |
| Other professional services                                     | 10.0                       | 10.0             | 10.0             | 10.4           | 10.5           |
| <b>Other goods and services</b>                                 |                            |                  |                  |                |                |
| Other services  | 3.2 %                      | 2.9 %            | 3.4 %            | 3.3 %          | 0.0 %          |

Note: Results incorporate DBE availability for anticipated subcontracts for a given type of prime contract.

Source: Keen Independent Research.

**Calculation of base figure.** Next an airport must calculate its overall DBE availability figure, or base figure. Figure 9-5 on the following page presents calculations for Aurora State Airport’s base figure. Each column provides a different portion of the calculation. Other airports can use the following process, demonstrated in Figure 9-5, to calculate their respective base figures.

<sup>1</sup> Those sections of this report examine both current and potential DBEs in the study area. Chapter 9 only includes current DBEs in its calculations of relative DBE availability.

a. **DBE availability by worktype and region.** Using values from Figure 9-4, column (a) of Figure 9-5 presents DBE availability for each type of prime contract. Aurora State Airport is in the Northwest Oregon region, where the DBE availability figure for excavation, site prep, grading and drainage contracts is 6.1 percent. DBE availability ranges from 6.9 percent to 14.5 percent for design engineering, surveying and mapping, environmental consulting, and other professional services in this region. These figures are presented in column (a) of Figure 9-5.

b. **Dollars per worktype.** Column (b) of Figure 9-4 presents projected FAA-funded spending at Aurora State Airport by type of work, as calculated in Figure 9-2. Other airports would include their respective dollar amounts by type of work in this portion of the calculation.

c. **Calculate each worktype dollar amount as a percentage of total projected contracting dollars.** The study team next calculated the share of total FAA-funded spending for each type of work. Aurora State Airport expects to spend about \$930,000 on design engineering (see Figure 9-3). This dollar amount, presented in column (b), is 48 percent of the total projected spending for Aurora State Airport during FFY 2021–FFY 2023. Column (c) presents this figure.

Other airports can perform similar calculations to identify the share of FAA-funded contract dollars going to different types of work.

d. **Calculate the weighted availability by type of work and the overall weighted availability.** Finally, as presented in column (d) of Figure 9-5, the study team multiplied the availability figure for each worktype by its relative dollar amount. For example, for design engineering, the 10.3 percent figure in column (a) was multiplied by the 48.0 percent figure in column (c), which yielded a weighted availability figure of 4.94 percent ( $10.3\% \times 48.0\% = 4.94\%$ ). The study team performed similar calculations for each projected worktype and summed those figures, arriving at an overall base figure of 10.61 percent.

Other airports can identify weighted availability values by multiplying DBE availability (from Figure 9-4) by the percent of total dollars expected for that type of work. Then they can add the figures for each worktype to find the overall dollar-weighted DBE availability figure.

Figure 9-5.

Weighted availability calculations for Aurora State Airport, based on projected spending and DBE availability by region and type of work, FFY 2021–2023

|  | (a)                         | (b)   | (c)                               | (d)                                   |
|--|-----------------------------|---|-----------------------------------|---------------------------------------|
| Calculations based on current DBE availability | DBE availability for region | Dollars of FAA-funded contracts for 3 years | Percent of total contract dollars | Weighted average availability (a x c) |
| Design engineering                             | 10.3 %                      | \$ 930,426                                  | 48.0 %                            | 4.94 %                                |
| Excavation, site prep, grading and drainage    | 6.1                         | 291,300                                     | 15.0                              | 0.92                                  |
| Surveying and mapping                          | 6.9                         | 97,100                                      | 5.0                               | 0.35                                  |
| Environmental consulting                       | 14.5                        | 522,000                                     | 26.9                              | 3.91                                  |
| Other professional services                    | 10.0                        | 97,100                                      | 5.0                               | 0.50                                  |
| <b>Total</b>                                   |                             | <b>\$ 1,937,926</b>                         | <b>100.0 %</b>                    | <b>10.61 %</b>                        |

Note: Numbers may not add to totals due to rounding.

Source: Keen Independent Research.

Figure 9-6 presents base figure calculations for other ODA airports. Bandon State Airport is not shown in this table because ODA does not expect to have any contracts using FAA funding at that airport during the FFY 2021–FFY 2023 goal period.

Figure 9-6.  
Base figure calculations for other ODA airports

| <b>Chiloquin State Airport</b>                        |                                    |  |  |  |
|---|------------------------------------|--|--|--|
| <b>Chiloquin State Airport</b>                        | <b>(a)</b>                         | <b>(b)</b>   | <b>(c)</b>                               | <b>(d)</b>                                   |
| <b>Calculations based on current DBE availability</b> | <b>DBE availability for region</b> | <b>Dollars of FAA-funded contracts for 3 years</b> | <b>Percent of total contract dollars</b> | <b>Weighted average availability (a x c)</b> |
| Design engineering                                    | 10.0 %                             | \$ 682,775   | 59.2 %                                   | 5.94 %                                       |
| Excavation, site prep, grading and drainage           | 4.6                                | 352,613  | 30.6                                     | 1.41   |
| Surveying and mapping                                 | 6.4                                | 58,769   | 5.1                                      | 0.33   |
| Other professional services                           | 10.4                               | 58,769   | 5.1                                      | 0.53   |
| <b>Total</b>  |                                    | <b>\$ 1,152,925</b>                                | <b>100.0 %</b>                           | <b>8.21 %</b>                                |
| <b>Condon State Airport</b>                           |                                    |  |  |  |
|   | <b>(a)</b>                         | <b>(b)</b>   | <b>(c)</b>                               | <b>(d)</b>                                   |
| <b>Calculations based on current DBE availability</b> | <b>DBE availability for region</b> | <b>Dollars of FAA-funded contracts for 3 years</b> | <b>Percent of total contract dollars</b> | <b>Weighted average availability (a x c)</b> |
| Design engineering                                    | 10.0 %                             | \$ 334,000   | 100.0 %                                  | 10.02 %                                      |
| <b>Total</b>  |                                    | <b>\$ 334,000</b>                                  | <b>100.0 %</b>                           | <b>10.02 %</b>                               |
| <b>Cottage Grove State Airport</b>                    |                                    |  |  |  |
|   | <b>(a)</b>                         | <b>(b)</b>   | <b>(c)</b>                               | <b>(d)</b>                                   |
| <b>Calculations based on current DBE availability</b> | <b>DBE availability for region</b> | <b>Dollars of FAA-funded contracts for 3 years</b> | <b>Percent of total contract dollars</b> | <b>Weighted average availability (a x c)</b> |
| Design engineering                                    | 10.3 %                             | \$ 200,000   | 29.5 %                                   | 3.04 %                                       |
| Installation of guardrails and fencing                | 3.2                                | 478,147  | 70.5                                     | 2.27   |
| <b>Total</b>  |                                    | <b>\$ 678,147</b>                                  | <b>100.0 %</b>                           | <b>5.31 %</b>                                |
| <b>Independence State Airport</b>                     |                                    |  |  |  |
|   | <b>(a)</b>                         | <b>(b)</b>   | <b>(c)</b>                               | <b>(d)</b>                                   |
| <b>Calculations based on current DBE availability</b> | <b>DBE availability for region</b> | <b>Dollars of FAA-funded contracts for 3 years</b> | <b>Percent of total contract dollars</b> | <b>Weighted average availability (a x c)</b> |
| Installation of guardrails and fencing                | 3.2 %                              | \$ 583,141   | 72.2 %                                   | 2.33 %                                       |
| Environmental consulting                              | 14.5                               | 225,000  | 27.8                                     | 4.04   |
| <b>Total</b>  |                                    | <b>\$ 808,141</b>                                  | <b>100.0 %</b>                           | <b>6.36 %</b>                                |

Figure 9-6 (continued).  
Base figure calculations for other ODA airports

| <b>Joseph State Airport</b>                    |                             |   |                                   |                                       |
|--|-----------------------------|---|-----------------------------------|---------------------------------------|
|  | (a)                         | (b)   | (c)                               | (d)                                   |
| Calculations based on current DBE availability | DBE availability for region | Dollars of FAA-funded contracts for 3 years | Percent of total contract dollars | Weighted average availability (a x c) |
| Environmental consulting                       | 11.8 %                      | \$ 229,500                                  | 100.0 %                           | 11.75 %                               |
| <b>Total</b>                                   |                             | <b>\$ 229,500</b>                           | <b>100.0 %</b>                    | <b>11.75 %</b>                        |
| <b>Lebanon State Airport</b>                   |                             |   |                                   |                                       |
|  | (a)                         | (b)   | (c)                               | (d)                                   |
| Calculations based on current DBE availability | DBE availability for region | Dollars of FAA-funded contracts for 3 years | Percent of total contract dollars | Weighted average availability (a x c) |
| Design engineering                             | 10.3 %                      | \$ 300,000                                  | 100.0 %                           | 10.29 %                               |
| <b>Total</b>                                   |                             | <b>\$ 300,000</b>                           | <b>100.0 %</b>                    | <b>10.29 %</b>                        |
| <b>McDermitt State Airport</b>                 |                             |   |                                   |                                       |
|  | (a)                         | (b)   | (c)                               | (d)                                   |
| Calculations based on current DBE availability | DBE availability for region | Dollars of FAA-funded contracts for 3 years | Percent of total contract dollars | Weighted average availability (a x c) |
| Design engineering                             | 8.6 %                       | \$ 121,500                                  | 100.0 %                           | 8.61 %                                |
| <b>Total</b>                                   |                             | <b>\$ 121,500</b>                           | <b>100.0 %</b>                    | <b>8.61 %</b>                         |
| <b>Mulino State Airport</b>                    |                             |   |                                   |                                       |
|  | (a)                         | (b)   | (c)                               | (d)                                   |
| Calculations based on current DBE availability | DBE availability for region | Dollars of FAA-funded contracts for 3 years | Percent of total contract dollars | Weighted average availability (a x c) |
| Design engineering                             | 8.8 %                       | \$ 105,700                                  | 13.8 %                            | 1.22 %                                |
| Excavation, site prep, grading and drainage    | 6.8                         | 569,250                                     | 74.5                              | 5.04                                  |
| Surveying and mapping                          | 6.9                         | 44,640                                      | 5.8                               | 0.40                                  |
| Other professional services                    | 10.0                        | 44,640                                      | 5.8                               | 0.58                                  |
| <b>Total</b>                                   |                             | <b>\$ 764,230</b>                           | <b>100.0 %</b>                    | <b>7.25 %</b>                         |
| <b>Siletz Bay State Airport</b>                |                             |   |                                   |                                       |
|  | (a)                         | (b)   | (c)                               | (d)                                   |
| Calculations based on current DBE availability | DBE availability for region | Dollars of FAA-funded contracts for 3 years | Percent of total contract dollars | Weighted average availability (a x c) |
| Design engineering                             | 10.3 %                      | \$ 250,000                                  | 10.5 %                            | 1.08 %                                |
| Airport runway, taxiway or apron paving        | 8.6                         | 2,140,200                                   | 89.5                              | 7.67                                  |
| <b>Total</b>                                   |                             | <b>\$ 2,390,200</b>                         | <b>100.0 %</b>                    | <b>8.75 %</b>                         |

Note: Numbers may not add to totals due to rounding.

Bandon State Airport does not project that it will award any contracts during the FFY 2021 through FFY 2023 goal-setting period and is exempt from setting a DBE goal for that period.

Source: Keen Independent Research.

Note that Keen Independent calculated these overall DBE goals using data on current DBEs. Based on USDOT Guidance, ODA and other airports can set these goals using data on the number of firms that could potentially be certified as DBEs as well as the number of current DBEs. Keen Independent has provided this information as well.

### **C. Consideration of a Step 2 Adjustment**

Per the Federal DBE Program, an airport must consider potential step 2 adjustments to the base figure as part of determining its overall annual DBE goal for FAA-funded contracts. The airport must explain its consideration of possible step 2 adjustments in its Goal and Methodology document.

The Federal DBE Program outlines factors that an airport must consider when assessing whether to make any step 2 adjustments to its base figure:

1. Current capacity of DBEs to perform work, as measured by the volume of work DBEs have performed in recent years;
2. Information related to employment, self-employment, education, training, and unions;
3. Any disparities in the ability of DBEs to get financing, bonding and insurance; and
4. Other relevant factors.

Keen Independent completed an analysis of each of the above step 2 factors and was able to quantify the effect of certain factors on the base figure. Other information examined was not as easily quantifiable but is still relevant to ODA airports and other airports as they determine whether to make any step 2 adjustments.

The following pages describe how Keen Independent calculated potential step 2 adjustments for the overall DBE goals for ODA airports. Other airports can follow the same process when determining potential step 2 adjustments for their overall DBE goals.

**1. Current capacity of DBEs to perform work, as measured by the volume of work DBEs have performed in recent years.** USDOT’s “Tips for Goal-Setting” suggests that agencies should examine data on past DBE participation on their USDOT-funded contracts in recent years (i.e., the percentage of contract dollars going to DBEs).

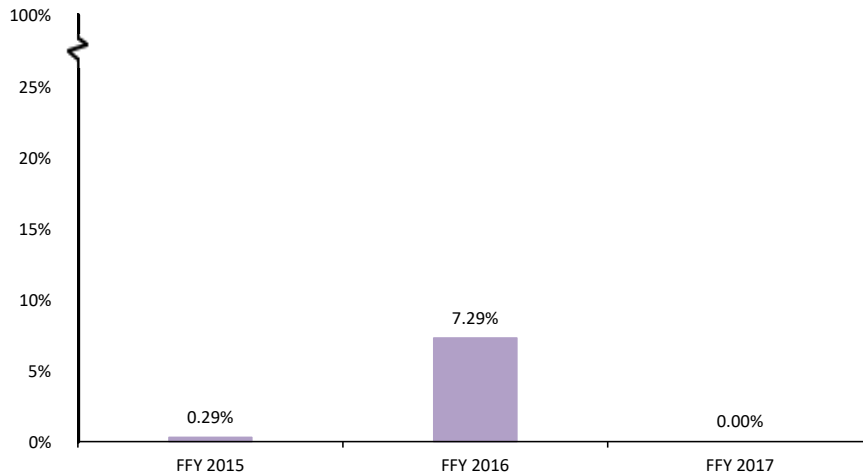
**DBE participation based on commitments/awards reported in Uniform Reports to FAA.** The study team calculated median DBE participation based on commitment/award data from Aurora State Airport Uniform Reports. The study team examined five recent fiscal years (FFY 2015–FFY 2019).

Based on Uniform Reports to FAA, Aurora State Airport did not award any FAA-funded contracts during FFY 2018 or FFY 2019, so the study team did not include those years in its calculation of median DBE participation. Aurora State Airport’s median past DBE participation for FFY 2015 through FFY 2017 is 0.29 percent, a value which suggests a possible downward step 2 adjustment based on this factor. The participation figures are presented in Figure 9-7 on the following page. The study team performed similar calculations for each ODA airport.



Figure 9-7.

Aurora State Airport DBE participation on FAA-funded contracts based on Uniform Reports to FAA, fiscal years for which Uniform Reports were required, FFY 2015–FFY 2017



Note: Aurora State Airport did not award any prime contracts during FFY 2018 or FFY 2019.

Source: Aurora State Airport Uniform Reports to FAA for FFY 2015 through FFY 2019.

**Calculating past DBE participation for other airports.** Other airports can consider a step 2 adjustment based on median past DBE participation as well. To do so, an airport would calculate the median participation for either the past three or five years. The calculation would include only federal fiscal years in which a given airport:

- Awarded at least one prime contract; and
- Was required to provide Uniform Reports to FAA.

The summary portion at the end of this section demonstrates how airports can use the median past DBE participation figure to calculate a potential step 2 adjustment.

Note that this adjustment can be upward if the past DBE participation for an airport is higher than its base figure.

## **2. Information related to employment, self-employment, education, training and unions.**

Chapter 5 summarizes information about conditions in the Oregon construction and engineering industries for minorities, women and MBE/WBEs. Detailed quantitative analyses of marketplace conditions in Oregon are presented in Appendices E through H.

Keen Independent’s analyses indicate there are barriers that certain minority groups and women face related to entry and advancement and business ownership in the Oregon construction and engineering industries. Such barriers may affect the availability of MBE/WBEs to obtain and perform ODA and other airports contracts.

Although it may not be possible to quantify the cumulative effect that barriers in employment, education and training may have had in depressing the availability of minority- and women-owned firms in the Oregon marketplace, the effects of barriers in business ownership can be quantified as explained below.

**Analysis of any underrepresentation of minority and women business owners.** The study team used regression analyses to investigate whether race, ethnicity and gender affected rates of business ownership among workers in the Oregon construction and engineering industries. The regression analyses allowed the study team to examine those effects while statistically controlling for various personal characteristics including education and age (Appendix F provides detailed results of the business ownership regression analyses).<sup>2</sup>

- Those analyses revealed that African Americans, Hispanic Americans and Native Americans and white women were less likely than white men to own construction firms, even after accounting for various race- and gender-neutral personal characteristics. Each of these disparities was statistically significant.
- In addition, there was a substantial, statistically significant disparity in firm ownership for minorities and white women working in the Oregon architecture and engineering industry.

**Calculation of impacts on the base figure.** Keen Independent analyzed the impact that barriers in business ownership would have on the base figure if African Americans, Hispanic Americans, Native Americans and white women owned businesses at the same rate as similarly situated non-minorities and white men, respectively. This type of inquiry is sometimes referred to as a “but for” analysis because it estimates the availability of MBE/WBEs *but for* the effects of race- and gender-based discrimination.

For this analysis, Keen Independent compares overall dollar-weighted availability of minority- and women-owned firms with what that availability might be but for disparities in business ownership rates. The study team calculated a percentage difference in availability for MBE/WBEs and applied that same adjustment to the base figure for DBE participation (only counting firms certified as DBEs).

- As shown in Figure 9-8 on the following page, overall MBE/WBE availability of 15.28 percent (from Chapter 6) would be 22.32 percent if there were no disparities in business ownership rates.
- Dividing the 7.05 percentage point increase by 15.28 percent indicates a 46 percent increase in overall availability.
- Keen Independent applied that 46 percent upward adjustment factor to the base figures for each ODA airport to determine their upward step 2 adjustments. Later in this chapter, Figure 9-9 shows this calculation for Aurora State Airport.

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<sup>2</sup> The study team examined U.S. Census data on business ownership rates using methods similar to analyses examined in court cases involving state departments of transportation in California, Illinois and Minnesota.

Figure 9-8.

Potential step 2 adjustment considering disparities in the rates of business ownership

|  | a.                   | b.                                     | c.                                     | d.                                 | e.   |
|--|----------------------|--|--|------------------------------------|--|
| All MBE/WBEs   | MBE/WBE availability | Disparity index for business ownership | Availability after initial adjustment* | Availability after scaling to 100% | Components of overall MBE/WBE availability** |
| <b>Construction</b>                                      |                      |  |  |                                    |  |
| African Americans  | 0.24 %               | 30                                     | 0.80 %                                 | 0.74 %                             |  |
| Hispanic Americans                                       | 3.06                 | 56                                     | 5.46                                   | 5.05                               |  |
| Native Americans   | 1.10                 | 66                                     | 1.67                                   | 1.54                               |  |
| Other minorities   | 0.71                 | n/a                                    | 0.71                                   | 0.66                               |  |
| White women  | <u>9.67</u>          | 67                                     | <u>14.43</u>                           | <u>13.33</u>                       |  |
| Minorities and women                                     | 14.78 %              | n/a                                    | 23.07 %                                | 21.31 %                            | 16.75 %                                      |
| All other businesses                                     | <u>85.22</u>         | n/a                                    | <u>85.22</u>                           | <u>78.69</u>                       |  |
| <b>Total firms</b>                                       | <b>100.00 %</b>      | n/a                                    | <b>108.29 %</b>                        | <b>100.00 %</b>                    |  |
| <b>Engineering and other subindustries</b>               |                      |  |  |                                    |  |
| Minorities   | 9.24 %               | 63                                     | 14.67 %                                | 13.08 %                            |  |
| White women  | <u>7.86</u>          | 54                                     | <u>14.56</u>                           | <u>12.98</u>                       |  |
| Minorities and women                                     | 17.10 %              | n/a                                    | 29.22 %                                | 26.06 %                            | 5.58 %                                       |
| All other businesses                                     | <u>82.90</u>         | n/a                                    | <u>82.90</u>                           | <u>73.94</u>                       |  |
| <b>Total firms</b>                                       | <b>100.00 %</b>      | n/a                                    | <b>112.12 %</b>                        | <b>100.00 %</b>                    |  |
| <b>All MBE/WBE</b>                                       | <b>15.28 %</b>       | n/a                                    | n/a                                    |                                    | <b>22.32 %</b>                               |
| <b>Difference from base figure (absolute change)</b>     |                      |  |  |                                    | <b>7.05 %</b>                                |
| <b>Percentage change from base figure (7.05%/15.28%)</b> |                      |  |  |                                    | <b>46 %</b>                                  |

Note: Numbers may not add to 100.00% due to rounding.

\* Initial adjustment is calculated as current availability divided by the disparity index.

\*\* Components of goal calculated as value after adjustment and scaling to 100% multiplied by percentage of total ODA and other airport contract dollars in that category (construction = 78.6%, engineering = 21.4%).

Source: Keen Independent based on F-funded contracts for October 2014 through September 2019 and statistical analysis of U.S. Census Bureau American Community Survey data for 2014–2018.

**Explanation of “but for” methodology.** The study team completed these “but for” analyses separately for construction and engineering contracts and then weighted the results based on the proportion of FAA-funded contract dollars that ODA and other airport awarded for construction and engineering for October 2014 through September 2019 (i.e., a 78.6% weight for construction and 21.4% weight for engineering).

The rows and columns of Figure 9-8 present the following information from Keen Independent’s “but for” analyses:

- a. **Current availability.** Column (a) presents the current availability of MBE/WBEs by group for construction and for engineering and other subindustries. Each row presents the percentage availability for MBEs and WBEs. The current combined availability of MBE/WBEs for ODA and other airport FAA-funded transportation contracts for October 2014 through September 2019 is 15.28 percent, as shown in the bottom row of column (a). Chapter 6 explains those calculations.
- b. **Disparity indices for business ownership.** As presented in Appendix F, African Americans, Hispanic American, Native Americans and white women were significantly less likely to own construction firms than similarly situated non-minorities and white men, respectively. Keen Independent calculated simulated business ownership rates if those groups owned businesses at the same rate as non-minorities and white males who share similar personal characteristics. The study team then calculated a business ownership disparity index for each group by dividing the observed business ownership rate by the benchmark business ownership rate and then multiplying the result by 100.

Column (b) of Figure 9-8 presents disparity indices related to business ownership for the different racial/ethnic and gender groups. For example, as shown in column (b), African Americans in Oregon own construction businesses at 30 percent of the rate that would be expected based on the simulated business ownership rates of non-minorities who share similar personal characteristics. Appendix F explains how the study team calculated the disparity indices.

- c. **Availability after initial adjustment.** Column (c) presents availability estimates for MBEs and WBEs by industry after initially adjusting for statistically significant disparities in business ownership rates. The study team calculated those estimates by dividing the current availability in column (a) by the disparity index for business ownership in column (b) and then multiplying by 100.
- d. **Availability after scaling to 100%.** Column (d) shows adjusted availability estimates that were re-scaled so that the sum of the availability estimates equals 100 percent for each industry. The study team re-scaled the adjusted availability estimates by taking each group’s adjusted availability estimate in column (c) and dividing it by the sum of availability estimates shown under “Total firms” in column (c) — and multiplying by 100. For example, the re-scaled availability estimate for Hispanic Americans shown for construction was calculated in the following way:  $(5.46\% \div 108.29\%) \times 100 = 5.05\%$ .
- e. **Components of overall DBE goal with upward adjustment.** Column (e) of Figure 9-8 shows the component of the total base figure attributed to the adjusted MBE and WBE availability for construction versus engineering and other subindustries. The study team calculated each component by taking the total availability estimate shown in column (d) for construction and for engineering/other — and multiplying it by the proportion of total FAA-funded contract dollars in each industry (i.e., 78.6% for construction and

21.4% for engineering). For example, the study team used the 21.31 percent shown for MBE/WBE availability for construction firms in column (d) and multiplied it by 78.6 percent for a result of 16.75 percent. A similar weighting of MBE/WBE availability for engineering and other subindustries produced a value of 5.58 percent.

The values in column (e) were then summed to equal the overall base figure adjusted for barriers in business ownership, which is 22.32 percent as shown in the bottom of column (e).

Finally, Keen Independent calculated the difference between the “but for” MBE/WBE availability (22.32%) and the MBE/WBE availability (15.28%) to calculate the impact of adjusting for disparities in business ownership rates. The absolute change is 7.05 percentage points ( $22.32\% - 15.28\% = 7.05\%$ ). The ratio of the change to the base figure is 46 percent ( $7.05\% / 15.28\% = 0.46$  or 46%).

Keen Independent calculated a ratio (a percentage increase) because the overall DBE goals are not based on availability of all MBE/WBEs, instead using current DBEs. Later in this chapter, the study team shows a possible upward step 2 adjustment equal to 46 percent of the base figure (see the bottom portion of Figure 9-9 for Aurora State Airport).

**3. Any disparities in the ability of DBEs to get financing, bonding and insurance.** Analysis of access to financing and bonding revealed quantitative and qualitative evidence of disadvantages for minorities, women and minority- and women-owned firms that could also impact the base figure.

- Any barriers to obtaining financing and bonding might affect opportunities for minorities and women to successfully form and operate construction and engineering businesses in the Oregon marketplace.
- Any barriers that minority- and women-owned firms face in obtaining financing and bonding would also place those businesses at a disadvantage in winning ODA and other airport construction and engineering prime contracts and subcontracts.

Note that financing and bonding are closely linked, as discussed in Chapter 5 and Appendix J.

There is also evidence that some firms cannot bid on certain public sector projects because they cannot afford the levels of insurance required by a public agency. This barrier appears to affect small businesses, which might disproportionately impact minority- and women-owned firms.

The information about financing, bonding and insurance supports an upward step 2 adjustment in ODA airports and other airports’ overall annual goals for DBE participation in FAA-funded contracts. Although the impact on the overall DBE goal cannot be specifically quantified, airports can still consider this factor when deciding whether to make an upward adjustment.

**4. Other factors.** The Federal DBE Program suggests that federal aid recipients also examine “other factors” when determining whether to make any step 2 adjustments to their base figure.<sup>3</sup>

Among the “other factors” examined in this study was the success of MBE/WBEs relative to majority-owned businesses in the Oregon marketplace. There is quantitative evidence that certain groups of MBE/WBEs are less successful than majority-owned firms, and face greater barriers in the marketplace, even after considering neutral factors. Chapter 5 summarizes that evidence and Appendix H presents supporting quantitative analyses. There is also qualitative evidence of barriers to the success of minority- and women-owned businesses, as summarized in Chapter 5. Some of this qualitative information suggests that discrimination on the basis of race, ethnicity and gender affects minority- and women-owned firms in the Oregon construction and engineering industry.

There is no straightforward way to project the number of MBE/WBEs available for ODA airports and other airports work but for the effects of these other factors. These effects can still be considered, however, when deciding whether to make an upward step 2 adjustment to an overall DBE goal.

**Approaches for making step 2 adjustments.** The following pages describe the math used to potentially make a step 2 adjustment to an overall DBE goal, using Aurora State Airport as an example.

**1. Current capacity of DBEs to perform work, as measured by the volume of work DBEs have performed in recent years.** The median DBE participation on FAA-funded contracts at Aurora State Airport was 0.29 percent, based on awards and commitments (from Figure 9-7). Analysis of this factor would indicate a downward step 2 adjustment for its overall DBE goal reflecting past DBE participation for recent years.

USDOT “Tips for Goal-Setting” suggests taking one-half of the difference between the base figure and evidence of current capacity as one approach to calculate the step 2 adjustment for that factor.

The difference between the 10.61 percent base figure (calculated in Figure 9-5) and 0.29 percent DBE participation is 10.32 percentage points ( $10.61\% - 0.29\% = 10.32\%$ ). One-half of this difference is a downward adjustment of 5.16 percentage points ( $10.32\% \div 2 = 5.16\%$ ). The goal would then be calculated as follows:  $10.61\% - 5.16\% = 5.45\%$ . (These calculations are presented in the top portion of Figure 9-9 on the following page).

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<sup>3</sup> 49 CFR Section 26.45.

Other airports could use the type of calculation in the top portion of Figure 9-9 to identify a potential downward step 2 adjustment. An airport would do this by:

- Substituting its base figure (calculated using the steps earlier in this chapter) for Aurora State Airport’s base figure (10.61%) on the top line of the figure;
- Substituting its median past DBE participation in the second line of the table in place of Aurora State Airport’s 0.29 percent figure; and
- Performing the calculations as outlined in the rest of the top portion of the figure.

Figure 9-9.  
Potential step 2 adjustments to Aurora State Airport’s overall DBE goal for FAA-funded contracts, FFY 2021–FFY 2023

| Step 2 adjustment component            | Value          | Explanation  |
|--|----------------|--|
| <b>Lower range of overall DBE goal</b> |                |  |
| Base figure (current DBEs)             | 10.61 %        | From base figure analysis                          |
| Evidence of current capacity           | - 0.29         | Past DBE participation (Uniform DBE reports)       |
| Difference                             | 10.32 %        |  |
|  | ÷ 2            | Reduce by one-half                                 |
| Adjustment                             | 5.16 %         | Downward adjustment for current capacity           |
| Base figure                            | 10.61 %        | From base figure analysis                          |
| Adjustment for current capacity        | - 5.16         | Downward step 2 adjustment                         |
| <b>Overall DBE goal</b>                | <b>5.45 %</b>  | <b>Lower range of DBE goal</b>                     |
| <b>Upper range of overall DBE goal</b> |                |  |
| Base figure                            | 10.61 %        | From base figure analysis                          |
| Adjustment for "but for" factors       | + 4.88         | "But for" step 2 adjustment for business ownership |
| <b>Overall DBE goal</b>                | <b>15.50 %</b> | <b>Upper range of DBE goal</b>                     |

Note: Numbers may not add to totals due to rounding.

Source: Keen Independent Research analysis.

2. Information related to employment, self-employment, education, training and unions. The study team was not able to quantify all of the information regarding barriers to entry for MBE/WBEs. Quantification of the business ownership factor indicates an upward step 2 adjustment of 46 percent of the base figure to reflect the “but for” analyses of business ownership rates presented in Figure 9-9. For Aurora State Airport, this would be an adjustment of 5.25 percentage points (10.61% x 0.46 = 4.88%). If Aurora State Airport made this adjustment, the overall DBE goal for FAA-funded contracts would be 15.50 percent (10.61% + 4.88% = 15.50%). Figure 9-9 summarizes these calculations.

Another airport could perform this calculation by:

- Substituting its base figure for the Aurora State Airport base figure in the top line of the bottom portion of Figure 9-9;
- Multiplying the base figure by 0.46 to identify the potential upward adjustment; and
- Adding the base figure and the adjustment together.

**3. Any disparities in the ability of DBEs to get financing, bonding and insurance.** Analysis of financing, bonding and insurance indicates that an upward adjustment is appropriate. (The impact of these factors on availability could not be quantified.)

**4. Other factors.** Although the impact of the many barriers to success of MBE/WBEs in Oregon could not be specifically quantified, the evidence supports an upward adjustment.

**Summary.** ODA and other airports will need to consider whether to make a downward, upward or no step 2 adjustment when determining their overall DBE goals.

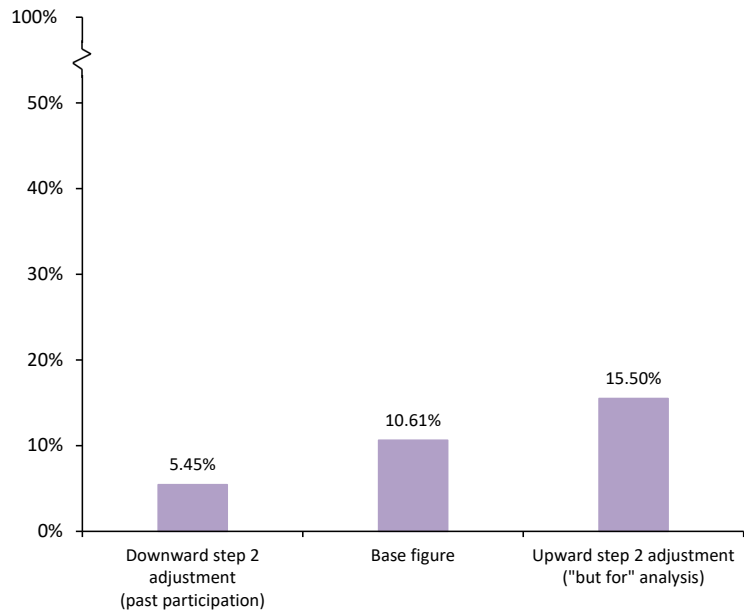
- If ODA makes a downward step 2 adjustment for Aurora State Airport reflecting current capacity to perform work, its overall DBE goal for FAA-funded contracts would be 5.45 percent.
- If Aurora State Airport decides to not make a downward adjustment and to instead make an upward adjustment that reflects analyses of business ownership rates, its overall DBE goal would be 15.50 percent.
- Or, ODA could examine the rationale for downward and upward adjustments and decide to make no adjustment at all. The overall DBE goal for Aurora State Airport would be 10.61 percent.

Figure 9-10 summarizes the potential adjustments for Aurora State Airport described in this chapter.



Figure 9-10.  
Potential step 2  
adjustments  
to Aurora State Airport’s  
overall DBE goal for  
FAA-funded contracts

Source:  
Keen Independent Research  
analysis.



The study team performed similar calculations to identify potential upward and downward adjustments for other ODA airports. Figure 9-11 provides these results.

Figure 9-11.  
Potential step 2 adjustments to ODA Airports’ overall DBE goals for FAA-funded contracts,  
FFY 2021–FFY 2023

| Component of overall DBE goal      | FFY 2021 - FFY 2023 |             |                   |
|------------------------------------|---------------------|-------------|-------------------|
|                                    | Downward adjustment | Base figure | Upward adjustment |
| Chiloquin State Airport            | 4.10 %              | 8.21 %      | 11.99 %           |
| Condon State Airport-Pauling Field | 5.01                | 10.02       | 14.64             |
| Cottage Grove State Airport        | 2.65                | 5.31        | 7.75              |
| Independence State Airport         | 3.18                | 6.36        | 9.29              |
| Joseph State Airport               | 5.88                | 11.75       | 17.16             |
| Lebanon State Airport              | 5.15                | 10.29       | 15.03             |
| McDermitt State Airport            | 4.31                | 8.61        | 12.57             |
| Mulino State Airport               | 3.62                | 7.25        | 10.58             |
| Siletz Bay State Airport           | 7.57                | 8.75        | 12.77             |

Source: Keen Independent Research analysis.

## CHAPTER 10.

### Portion of DBE Goal for FAA-Funded Contracts to be Met Through Neutral Means

The Federal DBE Program requires ODA and other airports to meet the maximum feasible portion of their overall DBE goals using race- and gender-neutral measures.<sup>1</sup> Race- and gender-neutral measures are initiatives that encourage the participation of all businesses, or all small businesses, and are not specifically limited to MBE/WBEs or DBEs. Agencies must determine whether they can meet their overall DBE goals solely through neutral means or whether race- and gender-conscious measures — such as DBE contract goals — are also needed. As part of doing so, agencies must project the portion of their overall DBE goals that they expect to meet (a) through race- and gender-neutral means, and (b) through race- and gender-conscious programs (if any).

- If an agency determines that it can meet its overall DBE goal solely through race- and gender-neutral means, then it would propose using only neutral measures as part of its program. The agency would project that 100 percent of its overall DBE goal would be met through neutral means and that 0 percent would be met through race- and gender-conscious means.
- If an agency determines that a combination of race- and gender-neutral and race- and gender-conscious measures are needed to meet its overall DBE goal, then the agency would propose using a combination of neutral and conscious measures as part of its program. The agency would project that some percent of its overall DBE goal would be met through neutral means and that the remainder would be met through race- and gender-conscious means.

USDOT offers guidance concerning how transportation agencies should project the portions of their overall DBE goals that will be met through race- and gender-neutral and race- and gender-conscious measures, including the following:

- USDOT Questions and Answers about 49 CFR Part 26 addresses factors for federal aid recipients to consider when projecting the portion of their overall DBE goals that they will meet through race- and gender-neutral means.<sup>2</sup>
- USDOT “Tips for Goal-Setting” also suggests factors for federal aid recipients to consider when making such projections.<sup>3</sup>

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<sup>1</sup> 49 CFR Section 26.51.

<sup>2</sup> See <https://www.transportation.gov/sites/dot.gov/files/docs/mission/civil-rights/disadvantaged-business-enterprise/55851/official-questions-and-answers-disadvantaged-business-enterprise-program-regulation-49-cfr-26-4-25.pdf>

<sup>3</sup> See [https://www.transportation.gov/sites/dot.gov/files/docs/Tips\\_for\\_Goal-Setting\\_in\\_DBE\\_Program\\_20141106.pdf](https://www.transportation.gov/sites/dot.gov/files/docs/Tips_for_Goal-Setting_in_DBE_Program_20141106.pdf)

- A past USDOT template for how it considers approving DBE goal and methodology submissions includes a section on projecting the percentage of overall DBE goals to be met through neutral and conscious means. An excerpt from that template is provided in Figure 10-1.

Based on 49 CFR Part 26 and the resources above, general areas of questions that transportation agencies might ask related to making any projections include:

- A. Is there evidence of discrimination within the local construction and engineering marketplace for any racial, ethnic or gender groups?
- B. What has been the airport's past experience in meeting its overall DBE goal?
- C. What has DBE participation been when the agency did not use race- or gender-conscious measures?
- D. What is the extent and effectiveness of race- and gender-neutral measures that the agency could have in place for the next fiscal year?

The balance of Chapter 10 is organized around each of those general areas of questions. As in Chapter 9, Keen Independent applies each question to Aurora State Airport as an example for other airports.

Figure 10-1.  
Excerpt from Explanation of Approval  
of [State] DBE Goal Setting Process  
for FY [Year]

You must also explain the basis for the State's race-neutral/race-conscious division and why it is the State's best estimate of the maximum amount of participation that can be achieved through race-neutral means. There are a variety of types of information that can be relied upon when determining a recipient's race-neutral/race-conscious division.

Appropriate information should give a sound analysis of the recipient's market, the race-neutral measures it employs and information on contracting in the recipient's contracting area. Information that could be relied on includes: the extent of participation of DBEs in the recipient's contracts that do not have contract goals; past prime contractors' achievements; excess DBE achievements over past goals; how many DBE primes have participated in the state's programs in the past; or information about state, local or private contracting in similar areas that do not use contracting goals and how many minority and women's businesses participate in programs without goals.

Source:

FHWA, Explanation for Approval of [State] DBE Program Goal Setting Process for FY [Year].

## **A. Is There Evidence of Discrimination Within the Local Construction and Engineering Marketplace for Any Racial, Ethnic or Gender Groups?**

Chapter 5 and Appendices E through H of this report provide analyses of whether barriers to minorities, women and minority- and women-owned businesses appear in the Oregon marketplace. Quantitative and qualitative information is summarized below.

The following results are relevant to all airports participating in this study.

**Marketplace conditions.** As discussed in Chapter 5, Keen Independent examined conditions in the Oregon marketplace, including:

- Entry and advancement;
- Business ownership;
- Access to capital, bonding and insurance; and
- Success of businesses.

There was quantitative evidence of disparities in outcomes for certain MBE groups and for women-owned firms concerning the above issues. Qualitative information indicated some evidence that discrimination may have been a factor in these outcomes.

**Results of the disparity analysis for FAA-funded contracts.** Chapter 7 of this report examines disparity in ODA and other airport contracting. Utilization of certain MBE groups and minority-owned and women-owned businesses in general on ODA and other airports FAA-funded contracts was substantially below what might be expected from the availability analysis. Further exploration examined MBE/WBE disparity for contracts in different regions, MBE/WBE participation on small and large prime contracts and subcontracts, as well as results for airports with different ownership (ODA-owned airports and all other airports). These analyses identified generally consistent results (substantial disparities) for MBEs and white women-owned businesses overall (see Chapter 8). For Subcontinent Asian-owned firms, disparity analyses did not indicate disparity for that group.

**Summary.** ODA and other airports should review the information presented in Chapters 5, 7 and 8 and Appendices E through H, as well as other information it may have, when considering the extent to which it can meet its overall DBE goal through neutral measures. The combined information from the marketplace analyses and the disparity analyses indicates substantial evidence of different outcomes for the following groups of firms included in the Federal DBE Program: African American-, Asian-Pacific American-, Hispanic American-, Native American- and white women-owned firms.

Similar disparities in utilization were not observed for Subcontinent Asian American-owned firms.

ODA and other airports might also consider all of this information when determining whether (a) they will use any race- and gender-conscious programs such as DBE contract goals, and if so (b) whether Subcontinent Asian-owned firms will be eligible for race-conscious programs. If they do not include Subcontinent Asian American-owned DBEs in any DBE contract goals program, they would need to request a waiver from FAA.

## B. What Has Been the Airport’s Past Experience in Meeting Its Overall DBE Goal?

ODA airports and other airports might also consider whether they have been successful in meeting overall DBE goals in recent fiscal years. Results are specific to each airport; the study team describes the analysis for Aurora State Airport as an example.

**Aurora State Airport.** Figure 10-2 summarizes Aurora State Airport’s reported certified DBE participation for five recent fiscal years. As shown, reported DBE participation based on DBE commitments/awards on FAA-funded contracts was above the Aurora State Airport DBE goal only in years when its goal was 0.00 percent. Similarly, payments to DBEs met or exceeded the goal only when the goal was 0.00 percent. (Note that data for contracts for a particular grant may appear in the years after the year of the grant, so there can be a mismatch in the timing of the reporting of DBE participation and the overall DBE goal for that participation.)

Figure 10-2.

Aurora State Airport overall DBE goal and reported DBE participation on FAA-funded contracts, FFY 2015 through FFY 2019

| Federal fiscal year | DBE goal | DBE commitments/awards | DBE payments | Difference from DBE goal |          |
|---------------------|----------|------------------------|--------------|--------------------------|----------|
|                     |          |                        |              | Awards                   | Payments |
| 2015                | 37.46 %  | 0.29 %                 | 0.00 %       | -37.17 %                 | -37.46 % |
| 2016                | 0.00     | 7.29                   | 7.19         | 7.29                     | 7.19     |
| 2017                | 0.00     | 0.00                   | 0.28         | 0.00                     | 0.28     |
| 2018                | 0.00     | -                      | 9.46         | -                        | 9.46     |
| 2019                | 6.00     | -                      | 0.00         | -                        | -6.00    |

Source: Uniform Reports of DBE Awards/Commitments and Payments.

**Other ODA airports.** Figure 10-3 on the following page presents results for other ODA airports. As with Aurora State Airport, when considering both awards and payments to DBEs, each ODA airport was only successful in meeting or exceeding its DBE goal when the overall goal was 0.00 percent. The sole exception was for Siletz Bay, where awards/commitments to DBEs in FFY 2019 (6.39%) exceeded its goal for that federal fiscal year (4.30%).

**Other non-ODA airports.** Appendix L provides similar information for non-ODA airports collected at the time of this report. Those agencies could follow the steps described above when determining past DBE participation without use of DBE contract goals for their airports.

Figure 10-3.

Overall DBE goals and reported DBE participation on FAA-funded contracts at ODA airports, FFY 2015 through FFY 2019

| Federal fiscal year                       | DBE goal | DBE commitments/awards | DBE payments | Difference from DBE goal |          |
|---|----------|------------------------|--------------|--------------------------|----------|
|   |          |                        |              | Awards                   | Payments |
| <b>Bandon State Airport</b>               |          |                        |              |                          |          |
| 2015                                      | -        | -                      | -            | -                        | -        |
| 2016                                      | -        | -                      | -            | -                        | -        |
| 2017                                      | -        | -                      | -            | -                        | -        |
| 2018                                      | 0.00 %   | 5.62 %                 | 0.00 %       | 5.62 %                   | 0.00 %   |
| 2019                                      | 4.50     | -                      | 0.00         | -                        | -        |
| <b>Chiloquin State Airport</b>            |          |                        |              |                          |          |
| 2015                                      | -        | -                      | -            | -                        | -        |
| 2016                                      | -        | -                      | -            | -                        | -        |
| 2017                                      | -        | -                      | -            | -                        | -        |
| 2018                                      | 0.00 %   | -                      | 0.00 %       | -                        | 0.00 %   |
| 2019                                      | 0.60     | 0.00 %                 | 0.00         | -0.60 %                  | -0.60    |
| <b>Condon State Airport-Pauling Field</b> |          |                        |              |                          |          |
| 2015                                      | -        | -                      | -            | -                        | -        |
| 2016                                      | 17.66 %  | 0.00 %                 | 0.00 %       | -17.66 %                 | -17.66 % |
| 2017                                      | 32.16    | 1.45                   | 0.00         | -30.71                   | -32.16   |
| 2018                                      | 0.00     | -                      | 8.71         | -                        | 8.71     |
| 2019                                      | 0.00     | 0.00                   | 7.53         | 0.00                     | 7.53     |
| <b>Cottage Grove State Airport</b>        |          |                        |              |                          |          |
| 2015                                      | 5.21 %   | -                      | 3.84 %       | -                        | -1.37 %  |
| 2016                                      | 5.21     | -                      | 0.00         | -                        | -5.21    |
| 2017                                      | -        | -                      | -            | -                        | -        |
| 2018                                      | 0.00     | 0.00 %                 | 0.00         | 0.00 %                   | 0.00     |
| 2019                                      | 5.50     | 0.00                   | 0.00         | -5.50                    | -5.50    |
| <b>Independence State Airport</b>         |          |                        |              |                          |          |
| 2015                                      | -        | -                      | -            | -                        | -        |
| 2016                                      | -        | -                      | -            | -                        | -        |
| 2017                                      | 0.00 %   | 0.00 %                 | 0.00 %       | 0.00 %                   | 0.00 %   |
| 2018                                      | 0.00     | -                      | 0.00         | -                        | 0.00     |
| 2019                                      | 3.66     | 0.00                   | 0.00         | -3.66                    | -3.66    |

Note: Bandon State Airport is included in this figure. This airport does not need to set goals for FFY 2021 through FFY 2023. If the airport's projected spending substantially changes it might consider these figures when determining race-neutral and -conscious projections.

A value of 0.00 percent indicates that the airport spent dollars in that federal fiscal year, but no awards/commitments or payments were made to DBEs. Blank values indicate that Uniform Reports were not required for a given airport in a given federal fiscal year. Such years were not included in calculations of median annual DBE participation.

Source: Uniform Reports of DBE Awards/Commitments and Payments.

Figure 10-3 (continued).

ODA airports overall DBE goal and reported DBE participation on FAA-funded contracts, FFY 2015 through FFY 2019

| Federal fiscal year             | DBE goal | DBE                |              | Difference from DBE goal |          |
|---------------------------------|----------|--------------------|--------------|--------------------------|----------|
|                                 |          | commitments/awards | DBE payments | Awards                   | Payments |
| <b>Joseph State Airport</b>     |          |                    |              |                          |          |
| 2015                            | -        | -                  | -            | -                        | -        |
| 2016                            | -        | -                  | -            | -                        | -        |
| 2017                            | -        | -                  | -            | -                        | -        |
| 2018                            | -        | -                  | -            | -                        | -        |
| 2019                            | -        | -                  | -            | -                        | -        |
| <b>Lebanon State Airport</b>    |          |                    |              |                          |          |
| 2015                            | 19.37 %  | 0.00 %             | 0.00 %       | -19.37 %                 | -19.37 % |
| 2016                            | 16.43    | 0.00               | 0.00         | -16.43                   | -16.43   |
| 2017                            | 19.37    | -                  | 0.00         | -                        | -19.37   |
| 2018                            | 0.00     | -                  | 12.27        | -                        | 12.27    |
| 2019                            | -        | -                  | -            | -                        | -        |
| <b>McDermitt State Airport</b>  |          |                    |              |                          |          |
| 2015                            | -        | -                  | -            | -                        | -        |
| 2016                            | 0.00 %   | 0.00 %             | 0.00 %       | 0.00 %                   | 0.00 %   |
| 2017                            | 5.73     | 0.00               | 0.00         | -5.73                    | -5.73    |
| 2018                            | 0.00     | 0.00               | 0.00         | 0.00                     | 0.00     |
| 2019                            | 0.00     | -                  | 0.54         | -                        | 0.54     |
| <b>Mulino State Airport</b>     |          |                    |              |                          |          |
| 2015                            | -        | -                  | -            | -                        | -        |
| 2016                            | -        | -                  | -            | -                        | -        |
| 2017                            | -        | -                  | -            | -                        | -        |
| 2018                            | 0.00 %   | 0.00 %             | 0.00 %       | 0.00 %                   | 0.00 %   |
| 2019                            | 0.00     | -                  | 0.00         | -                        | 0.00     |
| <b>Siletz Bay State Airport</b> |          |                    |              |                          |          |
| 2015                            | -        | -                  | -            | -                        | -        |
| 2016                            | -        | -                  | -            | -                        | -        |
| 2017                            | -        | -                  | -            | -                        | -        |
| 2018                            | -        | -                  | -            | -                        | -        |
| 2019                            | 4.30 %   | 6.39 %             | 0.00 %       | 2.09 %                   | -4.30 %  |

Note: A value of 0.00 percent indicates that the airport spent dollars in that federal fiscal year, but no awards/commitments or payments were made to DBEs. Blank values indicate that Uniform Reports were not required for a given airport in a given federal fiscal year. Such years were not included in calculations of median annual DBE participation.

Source: Uniform Reports of DBE Awards/Commitments and Payments.

### **C. What Has DBE Participation Been When the Agency Did Not Use Race- or Gender-Conscious Measures?**

Airports did not appear to implement race- and gender-conscious DBE contract goals during the study period, so all reported DBE participation for each airport occurred in a neutral environment.

**DBE awards/commitments for ODA airports.** Among ODA airports only Aurora State Airport (0.29%) and Siletz Bay State Airport (6.39%) achieved median DBE participation above 0 percent in terms of awards/commitments for the study period (see Figures 10-2 and 10-3).

**DBE payments for ODA airports.** Only two ODA airports had median participation over 0 percent in terms of payments to DBEs: Aurora State Airport and Condon State Airport-Pauling Field.

**DBE participation as prime contractors for ODA airports.** Additionally, the study team considered DBE participation as prime contractors at each ODA airport studied. Based on Uniform Reports to FAA, ODA airports did not award any prime contracts to DBEs during FFY 2015–2019.

### **D. What Is the Extent and Effectiveness of Race- and Gender-Neutral Measures That the Agency Could Have in Place for the Next Fiscal Years?**

When determining the extent to which it could meet its overall DBE goal through the use of neutral measures, ODA and other airports must review their race- and gender-neutral measures that it and other organizations have in place, and other programs that could be considered for future implementation.

Keen Independent’s discussion of neutral remedies in Appendix L indicates that in DBE program documents, Oregon airports reported that they had planned to implement race-neutral measures as outlined in FAA’s sample DBE program. These planned measures include arranging quantities, specifications, delivery schedules and solicitations and times for the presentation of bids in ways that facilitate DBE and small business participation; carrying out information and communication programs on contracting procedures and specific contracting opportunities; and ensuring the distribution of DBE directories to the widest feasible universe of potential prime contractors. It is unclear how many of these measures have been implemented.

As required by 49 CFR Part 26, Oregon airports have established a small business element aimed at structuring contracting requirements in a way that encourages the participation of small businesses. These efforts include eliminating unnecessary and unjustified bundling of contract requirements.

At this time, it is difficult to quantify how much additional measures can increase race-neutral participation of DBEs in ODA’s and other airports’ FAA-funded contracts for FFY 2021 through FFY 2023 or other upcoming fiscal years.

### **Summary**

Chapter 10 provides information to ODA and other airports as they consider (1) projections of the portion of its overall DBE goal to be achieved through neutral means, and (2) if all DBE groups will be allowed to participate in any DBE contract goals program, or whether they will request a waiver that limits participation to certain groups.



**1. Should ODA airports and other airports project that they can meet all of their overall DBE goal through neutral means?** ODA and other airports must consider whether they can achieve 100 percent of their overall DBE goals through neutral means or whether race-conscious programs are needed. Such a determination depends in part on the level of the overall DBE goal.

**Aurora State Airport.** If Aurora State Airport’s overall DBE goal for FAA-funded contracts is in the range of 5.45 percent or higher as calculated in Chapter 9 of this report, the evidence presented in this report indicates that this airport would not meet its DBE goal solely through neutral means.

**ODA airports.** Based on the results summarized here, if it solely used neutral means ODA might not be expected to meet the DBE goals for its other airports outlined in Chapter 9 of this report.

**2. If an airport uses a combination of neutral means and DBE contract goals, how much of the overall DBE goal can they project to be met through neutral means?** ODA and other airports will need to choose the appropriate neutral projection based on information in this study and other information it may have. Keen Independent analyzed past DBE participation in a neutral environment for each ODA airport.

**Aurora State Airport.** The median race-neutral portion of Aurora State Airport’s DBE participation was 0.29 percent based on Uniform Reports for FFY 2015 through FFY 2019 (presented earlier in this chapter). For this reason, Aurora State Airport might consider a race-neutral projection of about 0.29 percentage points for its overall DBE goal for FFY 2021 through FFY 2023.

Aurora State Airport projected a 6.00 percentage point neutral and 0.00 percentage point race-conscious split when it prepared its overall DBE goal of 6.00 percent for FFY 2019. The first column of Figure 10-4 presents these recent projections.

The second column of numbers in Figure 10-4 is an example of projections using an overall DBE goal of 5.45 percent and a 0.29 percentage point race-neutral projection for FFY 2021 through FFY 2023. The race-conscious portion of the goal would be 5.16 percentage points. The other columns of Figure 10-4 show the projections for different levels of overall DBE goals for this airport.

Figure 10-4.

Aurora State Airport overall DBE goal and race-neutral projections for FAA-funded contracts and examples of overall goal and projections for FFY 2021 through FFY 2023

| Component of overall DBE goal | FFY 2019-FFY 2020 | FFY 2021 - FFY 2023 |             |                   |
|-------------------------------|-------------------|---------------------|-------------|-------------------|
|                               |                   | Downward adjustment | Base figure | Upward adjustment |
| <b>Aurora State Airport</b>   |                   |                     |             |                   |
| Overall goal                  | 6.00 %            | 5.45 %              | 10.61 %     | 15.50 %           |
| Neutral projection            | - 6.00            | - 0.29              | - 0.29      | - 0.29            |
| Race-conscious projection     | 0.00 %            | 5.16 %              | 10.32 %     | 15.21 %           |

Source: Keen Independent analysis.

**Other ODA airports.** Figure 10-5 presents similar calculations for other ODA airports, using each airport’s respective median past neutral DBE participation figure in the projection of future neutral DBE participation. Most of the airports in Figure 10-5 have median past neutral participation of 0.00 percent and are therefore projected to require race-conscious programs to achieve their respective DBE goals. For example, if Chiloquin State Airport were to take a downward adjustment and set a DBE goal of 4.10 percent, it might be expected that all 4.10 percentage points of that goal would need to be achieved using race-conscious measures (see Figure 10-5).

Siletz Bay State Airport, however, achieved median past race-neutral DBE participation of 6.39 percent. If ODA were to elect a downward adjustment that the DBE goal for that airport was 7.57 percent, it might be expected to achieve all but 1.18 percentage points of that goal through neutral measures (see results for Siletz Bay State Airport in Figure 10-5 on page 10).

Figure 10-5.

ODA airports overall DBE goal and race-neutral projections for FAA-funded contracts for FFY 2019 and examples of overall goal and projections for FFY 2021 through FFY 2023

| Component of overall DBE goal             | FFY 2019 | FFY 2021 - FFY 2023 |             |                   |
|---|----------|---------------------|-------------|-------------------|
|   |          | Downward adjustment | Base figure | Upward adjustment |
| <b>Chiloquin State Airport</b>            |          |                     |             |                   |
| Overall goal                              | 0.60 %   | 4.10 %              | 8.21 %      | 11.99 %           |
| Neutral projection                        | - 0.60   | - 0.00              | - 0.00      | - 0.00            |
| Race-conscious projection                 | 0.00 %   | 4.10 %              | 8.21 %      | 11.99 %           |
| <b>Condon State Airport-Pauling Field</b> |          |                     |             |                   |
| Overall goal                              | 0.00 %   | 5.01 %              | 10.02 %     | 14.64 %           |
| Neutral projection                        | - 0.00   | - 0.00              | - 0.00      | - 0.00            |
| Race-conscious projection                 | 0.00 %   | 5.01 %              | 10.02 %     | 14.64 %           |
| <b>Cottage Grove State Airport</b>        |          |                     |             |                   |
| Overall goal                              | 5.50 %   | 2.65 %              | 5.31 %      | 7.75 %            |
| Neutral projection                        | - 5.50   | - 0.00              | - 0.00      | - 0.00            |
| Race-conscious projection                 | 0.00 %   | 2.65 %              | 5.31 %      | 7.75 %            |
| <b>Independence State Airport</b>         |          |                     |             |                   |
| Overall goal                              | 3.66 %   | 3.18 %              | 6.36 %      | 9.29 %            |
| Neutral projection                        | - 3.66   | - 0.00              | - 0.00      | - 0.00            |
| Race-conscious projection                 | 0.00 %   | 3.18 %              | 6.36 %      | 9.29 %            |

Figure 10-5 (continued).

ODA airports overall DBE goal and race-neutral projections for FAA-funded contracts for FFY 2019 and examples of overall goal and projections for FFY 2021 through FFY 2023

| Component of overall DBE goal   | FFY 2019 | FFY 2021 - FFY 2023 |             |                   |
|---------------------------------|----------|---------------------|-------------|-------------------|
|                                 |          | Downward adjustment | Base figure | Upward adjustment |
| <b>Joseph State Airport</b>     |          |                     |             |                   |
| Overall goal                    | - %      | 5.88 %              | 11.75 %     | 17.16 %           |
| Neutral projection              | - -      | - 0.00              | - 0.00      | - 0.00            |
| Race-conscious projection       | - %      | 5.88 %              | 11.75 %     | 17.16 %           |
| <b>Lebanon State Airport</b>    |          |                     |             |                   |
| Overall goal                    | - %      | 5.15 %              | 10.29 %     | 15.03 %           |
| Neutral projection              | - -      | - 0.00              | - 0.00      | - 0.00            |
| Race-conscious projection       | - %      | 5.15 %              | 10.29 %     | 15.03 %           |
| <b>McDermitt State Airport</b>  |          |                     |             |                   |
| Overall goal                    | 0.00 %   | 4.31 %              | 8.61 %      | 12.57 %           |
| Neutral projection              | - 0.00   | - 0.00              | - 0.00      | - 0.00            |
| Race-conscious projection       | 0.00 %   | 4.31 %              | 8.61 %      | 12.57 %           |
| <b>Mulino State Airport</b>     |          |                     |             |                   |
| Overall goal                    | 0.00 %   | 3.62 %              | 7.25 %      | 10.58 %           |
| Neutral projection              | - 0.00   | - 0.00              | - 0.00      | - 0.00            |
| Race-conscious projection       | 0.00 %   | 3.62 %              | 7.25 %      | 10.58 %           |
| <b>Siletz Bay State Airport</b> |          |                     |             |                   |
| Overall goal                    | 4.30 %   | 7.57 %              | 8.75 %      | 12.77 %           |
| Neutral projection              | - 4.30   | - 6.39              | - 6.39      | - 6.39            |
| Race-conscious projection       | 0.00 %   | 1.18 %              | 2.35 %      | 6.38 %            |

Note: Bandon State Airport does not project that it will award any contracts during the FFY 2021 through FFY 2023 goal-setting period and is exempt from setting a DBE goal for that period.

Source: Keen Independent analysis.

## CHAPTER 11.

### Summary of Evidence and Program Recommendations

Chapters 9 and 10 present information that will assist ODA and other airports as they set overall goals for participation of DBEs in FAA-funded contracts and project the portion of those goals to be met through neutral means. Chapter 11 recommends improvements in how ODA and other airports can operate the Federal DBE Program and potentially operate a race- and gender-conscious DBE contract goals program for their FAA-funded contracts. Recommendations concern:

- Establishing overall DBE goals;
- Operating neutral program elements;
- Developing and operating race- and gender-conscious programs, such as DBE contract goals; and
- Other recommendations for DBE Program operations.

Before proceeding to these analyses, it is useful to summarize the information presented in earlier chapters concerning the marketplace and the disparity analyses for ODA and other airport FAA-funded contracts. Keen Independent also suggests additional race- and gender-neutral remedies that might be considered.

#### A. Summary of Evidence from Marketplace and Disparity Analyses

Evidence from the marketplace and the disparity analyses is important when ODA and other airports consider any future use of race- or gender-conscious programs related to FAA-funded contracts.

**Marketplace analyses.** Information in Chapter 5 and supporting appendices includes quantitative and qualitative evidence that there is not a level playing field for minority- and women-owned businesses in the Oregon marketplace.

For certain minority groups and women, there is evidence of:

- Unequal opportunities to entry and advancement as employees within the Oregon construction and architecture and engineering industries;
- Disparities in the rates of business ownership in construction and A&E industries in Oregon;
- Disparities in access to capital (nationally, regionally and in Oregon);
- Disparities in business revenue for construction and engineering firms in Oregon; and
- Barriers to business success affecting a disproportionate share of minority- and women-owned construction and engineering firms in Oregon.

Although such evidence was not necessarily identified for each specific racial/ethnic group included in the study, marketplace analyses identified some evidence of disparities in outcomes for:

- African Americans, Asian Americans,<sup>1</sup> Hispanic Americans, Native Americans and women in Oregon; and
- Businesses owned by each minority group and white women in Oregon.

There is also qualitative evidence that stereotyping and other forms of race and gender discrimination affected minority- and women-owned firms, as discussed in Chapter 5 and Appendix J.

ODA and other airports should consider this information when interpreting the results of the disparity analysis for FAA-funded contracts and determining whether or not to use a race- and gender-conscious DBE contract goals program when operating the Federal DBE Program for FAA-funded contracts.

**Disparity analyses for minority- and women-owned firms on ODA and other airport contracts.**

Keen Independent examined the utilization of minority- and women-owned firms for ODA and other airport contracts from October 2014 through September 2019. The study team then compared those outcomes with the utilization that might be expected based on relative availability of minority- and women-owned firms for those contracts. These results were for contracts for which only race- and gender-neutral programs applied.

Keen Independent reported disparity results for each DBE group presumed to be socially disadvantaged in the Federal DBE Program. Chapter 7 presents these results.

- There were substantial disparities between the utilization and availability for firms owned by the following DBE groups:
  - African Americans;
  - Asian-Pacific Americans;
  - Hispanic Americans;
  - Native Americans; and
  - Women.
- In total, minority- and women-owned firms received 2.76 percent of airports' FAA-funded contract dollars, substantially less than the 15.28 percent expected if there were a level playing field for those firms.
- Subcontinent Asian American-owned firms received 0.28 percent of contract dollars, which exceeded what might be expected based on the availability analysis (0.11%) for those companies. Although the utilization of Subcontinent Asian American-owned businesses was very small, there was no indication of a disparity for this group of firms.

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<sup>1</sup> Note that Census and certain other data sources did not supply sufficient information to separate results for Asian-Pacific Americans and Subcontinent Asian Americans.

Keen Independent also examined whether the disparities for MBEs and for WBEs could be replicated simply through “chance” in award of prime contracts and subcontracts to available firms. The study team determined that the disparities for MBEs and for WBEs were statistically significant and cannot be reasonably replicated by chance.

The study team analyzed the utilization and availability of minority- and women-owned firms for subsets of ODA and other airport prime contracts and subcontracts. Keen Independent identified a pattern of disparities in the utilization of MBE/WBEs across different subsets of airport contracts, including by contract type and by region.

In sum, the marketplace evidence and results of the disparity analysis support stronger measures than ODA and other airports now employ to encourage utilization of African American-, Asian-Pacific American-, Hispanic American-, Native American- and women-owned firms (of any race or ethnicity) on airport FAA-funded contracts.

## **B. Recommendations Concerning Establishing Overall DBE Goals**

Keen Independent reviewed how ODA and other airports set overall DBE goals for FAA-funded contracts. (Chapter 4 and Appendix L provide a more detailed assessment.)

- Oregon airports often determine relative availability of DBEs with information from the Oregon DBE Directory (for DBEs) and the U.S. Census Bureau (for all firms). Airports then use this information to calculate the “base figure” for their overall DBE goal.
- Federal regulations also require that airports must consider whether to make a “step 2” adjustment to their base figure when preparing their overall DBE goals. Step 2 adjustments may be informed by historical DBE participation, disparity studies, work item analysis and other factors including information about barriers to entry and past competitiveness of DBEs on projects. In FFY 2015 through FFY 2019, most Oregon airports made no step 2 adjustments when calculating their overall DBE goals.
- Airports are also required to consult with local agencies and accept public comments before finalizing their goal. Based on the information reviewed by Keen Independent, it is unclear how much feedback and public input Oregon airports received.

Keen Independent recommends the following improvements to how agencies establish their overall DBE goals.

**Recommended improvements to calculating the base figure for overall DBE goals.** Although most airports appear to have used USDOT-approved methods to set overall DBE goals, the disparity study provides enhanced availability data to establish future goals.

**Use of enhanced availability data for DBEs and all firms.** For example, the data are specific to firms expressing qualifications and interest in this work that perform particular types of airport-related work. The data also indicate the Oregon regions where a firm reports being able to work, which allows more geographic specificity when calculating overall DBE goals.

Keen Independent recommends that ODA and other airports use the information about DBE and total firm availability by types of projects in each to establish future overall DBE goals. Chapter 9 provides this information and explains the steps to calculating a goal using these data. ODA and individual airports might also choose to update current overall DBE goals using this information.

At the time of this report, 38 percent of Oregon airports studied had overall DBE goals of 0 percent. However, the new data produced through the disparity study indicate some availability of DBEs for nearly every type of work in every region of the state. Using these enhanced availability data and the steps described in Chapter 9, it is unlikely that any airport would set a 0 percent overall goal for future DBE participation.

**Consideration of potential DBEs as well as current DBEs when establishing overall DBE goals.**

The study team provided data on firms currently certified as DBEs to calculate overall DBE goals. Keen Independent also identified firms in the availability data that could potentially be certified as DBEs. Potential DBEs are minority- and women-owned firms not currently certified as DBEs that appear to be within the revenue limits for certification and that have not graduated from the program or been recently denied DBE certification.

Keen Independent developed this additional information based on guidance in the Final Rule effective November 3, 2014 and USDOT's "Tips for Goal-Setting" that explain that minority- and women-owned firms that are not currently certified as DBEs, but could be DBE-certified, can be counted as DBEs in the base figure calculation.

The State of Oregon Certification Office for Business Inclusion and Diversity (COBID) certifies firms as DBEs in Oregon. ODA and other airports in Oregon are not certifying agencies and do not have a role in the certification process. In addition, some firms that appear to be eligible for DBE certification may not choose to pursue that certification. These are factors to consider when determining whether calculations of overall DBE goals should assume that non-certified firms can be certified within the time frame of upcoming three-year DBE goals for these airports.

**Recommended improvements to calculating potential step 2 adjustments.** The overall DBE goals for most Oregon airports in recent years reflect no step 2 adjustments when calculating those goals. Regulations in 49 CFR Section 26.45(d) require consideration of such adjustments, even if an airport chooses not to make such an adjustment.

Chapter 9 provides instructions on how airports can use information from the study to calculate potential step 2 adjustments to the base figures for their overall DBE goals. Keen Independent recommends that each airport make these calculations and consider the results before establishing its future or amended overall DBE goal.

**Recommendations concerning more public input on proposed overall DBE goals.** Airports are also required to consult with local agencies and accept public comments before finalizing their overall DBE goal. The information reviewed by Keen Independent was unclear on how much feedback and public input Oregon airports have actually received about their overall DBE goals. For future goals,

ODA and other airports might obtain wider input on those goals through joint communications with the industry and other stakeholders.

**Recommendations concerning training for airports on how to set overall DBE goals.** The study team identified some discrepancies in the way that certain airports develop DBE goals, which may point to a need for increased training and clarification of goal setting and reporting procedures. Some program documents appear to have been submitted prematurely and have significant inconsistencies. This may be due to a lack of exposure to the Federal DBE Program or insufficient training for staff or the consultants they retain to prepare those goals. (See Appendix L for more information.)

ODA and other airports also have the challenge of FAA changes to a capital investment plan after they have set overall DBE goals. It can be difficult for ODA and other airports to update overall DBE goals when a CIP changes. ODA and other airports might seek more assistance from FAA when changes occur.

### **C. Recommendations Concerning Neutral Program Elements**

Regulations in 49 CFR Section 26.51 require agencies to meet the maximum feasible portion of the overall DBE goal through race- and gender-neutral means. Such neutral measures include removing barriers to the participation of businesses in general or promoting the participation of small businesses. If an agency can meet its overall DBE goal solely through race- and gender-neutral means, it must not use race- and gender-conscious measures as part of its implementation of the Federal DBE Program.

According to the FAA's sample DBE program,<sup>2</sup> examples of race- and gender-neutral measures include, but are not limited to:

- Providing technical, financial and other business assistance;
- Simplifying bidding procedures;
- Mentoring opportunities such as mentor-protégé programs;
- Ensuring prompt payments to subcontractors and smaller businesses;
- Soliciting small contracts that are more accessible to smaller businesses;
- Advertising business opportunities;
- Sponsoring network events;
- Creating and distributing MBE/WBE and DBE directories; and
- Other outreach programs and efforts.

In their program documents, Oregon airports reported that they had planned to implement a similar set of race-neutral measures such as arranging solicitations and times for the presentation of bids, quantities, specifications and delivery schedules in ways that facilitate DBE and small business participation; carrying out information and communication programs on contracting procedures and

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<sup>2</sup> For a sample DBE program last revised July 2020, see: [https://www.faa.gov/about/office\\_org/headquarters\\_offices/acr/bus\\_ent\\_program/dbe\\_program\\_adm/media/Sample\\_DBEPROGRAM\\_Revised.pdf](https://www.faa.gov/about/office_org/headquarters_offices/acr/bus_ent_program/dbe_program_adm/media/Sample_DBEPROGRAM_Revised.pdf)



specific contracting opportunities; and ensuring the distribution of DBE directories to the widest feasible universe of potential prime contractors.

ODA and some other airports have demonstrated use of measures such as participation in networking events like the Governor’s Marketplace and other trade shows. It is unclear how many of the other measures have been effectively implemented across Oregon airports, however.

**Recommendation that certain ODOT neutral programs be applied to ODA FAA-funded contracts.** Because it receives USDOT funds for highway contracts, the Oregon Department of Transportation also operates the Federal DBE Program, including neutral efforts to encourage DBE participation.

ODOT neutral activities include:

- A Small Contracting Program, which encourages small businesses to develop prime contracting relationships with ODOT;
- A DBE Supportive Services Program that provides outreach and technical assistance to DBEs and other firms;
- Efforts to un-bundle contracts into smaller segments;
- Participation in networking events; and
- A project-specific mentor-protégé program.

Other organizations across the state also provide small business assistance (see Appendix K of this report). ODOT partners with some of these organizations as well.

Procurements for ODA price agreements and construction contracts are handled by ODOT, unless these are considered to be construction contracts that are not defined as public improvements in the State of Oregon Public Code. There also appears to be some overlap in the contracting disciplines involved in airport contracts and ODOT highway contracts based upon information in the 2016 Disparity Study and 2019 Disparity Study Update that Keen Independent prepared for ODOT. In addition, ODOT has many years of experience successfully operating race- and gender-neutral elements of the Federal DBE Program.

Keen Independent recommends that ODA and ODOT consider whether any of the current ODOT neutral efforts can apply to ODA’s FAA-funded contracts and DBEs involved in airport work. Rather than duplicate efforts, ODA might request that ODOT operate certain neutral efforts on ODA’s behalf.

In addition, the study team recommends that ODA consider whether it can more frequently solicit proposals for its professional services work. Its current use of five-year price agreements for those types of services constrains the number of times it puts those proposals out for bid, which can negatively affect small businesses seeking such work as prime consultants.

There may also be opportunities for ODA to partner with the Port of Portland on certain assistance that the Port provides to DBEs and other small businesses.

**Recommendation that ODOT and Port of Portland neutral programs might be applied to other airports' FAA-funded contracts.** For the some of the same reasons as discussed above, other airports might also consider partnering with ODOT on delivery of neutral programs to DBEs and other small businesses.

Those airports close to Portland might also coordinate neutral programs with the Port of Portland. For example, airports could approach the Port of Portland to participate in its networking events with prime contractors and potential DBE subcontractors to discuss opportunities at their airports.

**Recommendation concerning potential development of a small business contract goals program.** ODA and other airports might consider setting contract goals for small businesses (SBEs) on their FAA-funded contracts. DBEs would automatically qualify for the program, but other firms could apply for small business certification as well. ODA and other airports would set an SBE or a DBE goal on a contract, but not both. An airport might decide to only operate the SBE contract goals program with no use of DBE contract goals or to operate the programs in parallel (some contracts would have an SBE goal and some would have a DBE goal).

COBID certifies firms as Emerging Small Businesses (ESBs), as discussed in Appendix K. Standards for certification as ESBs differ from those for SBEs under the Federal DBE Program. A separate SBE certification appears to be needed. For example, ESB certification is limited to Oregon businesses, which might be inconsistent with a small business goals program for FAA-funded contracts.

If ODA were to explore implementing an SBE contract goals program, it would need to coordinate with COBID or another group regarding potential certification of SBEs and might approach ODOT for assistance with program rules and operation.

**Recommendation concerning enforcement of prompt payment requirements.** Federal regulations (49 CFR Section 26.29) require prime contractors on FAA-funded contracts to promptly pay all subcontractors performing work on those projects. ODA and other airports must require this provision in their DBE Program Plans and contracts for FAA-funded work, and monitor that prime contractors comply with this provision.

The federal regulations require prime contractors to pay subcontractors for satisfactory performance of their contracts within 30 days of the prime contractor receiving payment for that work. Agencies can require even more accelerated payment (such as 10 days) if desired.

To improve the timeliness of invoice payments to consultants and their subconsultants, ODOT recently implemented an invoice partial payment process. A partial payment of 40 percent was determined by analyzing past data and through discussions with industry. ODA's Price Agreements and Work Order Contracts now reflect the ability to make partial payments. Keen Independent recommends that ODA continue to use this new provision as a standard practice in its future contract management.

## **D. Recommendations Concerning Race- and Gender-Conscious Program Elements**

Regulations in 49 CFR Section 26.51(d) require agencies to use DBE contract goals to meet any portion of their overall DBE goals that they do not project to meet solely through neutral programs. ODOT and the Port of Portland currently operate DBE contract goals programs for their USDOT-funded contracts. COBID certifies firms as DBEs in the state, so there would be no responsibility for ODA or other airports to create or operate a DBE certification program.

Regulations govern how agencies operate such a program, including the following:

- An agency using such a program would set goals expressing the percentage of contract dollars going to DBEs on certain FAA-funded contracts. It would determine those goals based on an assessment of the subcontracting opportunities on each contract, the availability of DBEs to perform that work and other factors. A DBE contract goal could be higher or lower than the overall DBE goal for that airport. FAA does not need to approve individual DBE contract goals.
- Each goal is for all DBEs combined that would be eligible for participation in the program. An agency would not bifurcate a DBE contract goal into an MBE and a WBE portion, for example.
- An airport using DBE contract goals is not required to set a contract goal on every FAA-funded contract.
- Prime contractors bidding on a contract with a DBE goal must either meet that goal or demonstrate good faith efforts to do so (sometimes shortened to “GFE”). Either method of complying with the program is acceptable. Federal regulations govern what actions, when combined, constitute good faith efforts on the part of the prime contractor to meet a DBE contract goal (see 49 CFR Section 26.53).
- Contracts awarded with DBE goals must contain certain language committing the prime contractor to actions governing use of the DBEs that the contractor has listed for the project.
- When an airport has a contract with a DBE goal, it must monitor DBE participation in that contract to ensure that committed DBE participation is achieved by the prime contractor. There are provisions in the federal regulations that allow flexibility in the use of a specific DBE, for example, good cause to terminate the subcontractor for the DBE firm (see 49 CFR Section 26.53). The agency can penalize a contractor that fails to make good faith efforts to meet its DBE commitments (and there should be language in contracts that outline those potential actions).
- Federal regulations in 49 CFR Section 26.53 also describe how DBE contract goals can be used on non-traditional projects, including design-build contracts.
- There are provisions in the regulations (49 CFR Section 26.55) outlining how an agency should count DBE participation toward a goal, including determining whether the DBE is performing a commercially useful function on a contract.

The above points are examples of the requirements that an airport operating a DBE contract goals program must meet. Regulations and Official Guidance from USDOT supply additional provisions.

**Recommendation to consider implementing DBE contract goals programs.** If ODA or another airport participating in this study determines that it cannot meet its overall DBE goal solely through neutral means, it should consider the evidence presented in the 2021 Oregon Statewide Airport DBE Disparity Study and other information to determine if it should operate a race- and gender-conscious DBE contract goals program to help it meet its overall goal.

If an agency can meet its overall DBE goal solely through race- and gender-neutral means, it cannot use race- and gender-conscious measures as part of its implementation of the DBE Program.

**Recommendation to request a waiver from FAA concerning eligibility of DBE groups to meet contract goals.** Keen Independent did not identify a disparity between the utilization and availability of Subcontinent Asian American-owned firms on airport FAA-funded contracts during the study period. Based on the Ninth Circuit rulings in *Western States Paving v. WSDOT* and in *AGC, San Diego v. Caltrans* and USDOT Guidance, the study team recommends that ODA or any airport choosing to operate a DBE contract goals program request a waiver from FAA so that all DBEs except for those owned by Subcontinent Asian American men would be eligible to meet a DBE contract goal.

DBEs owned by Subcontinent Asian American men would still participate in other aspects of the Federal DBE Program and their participation would count toward achieving an airport's overall DBE goal.

Because there was evidence of discrimination against women identified in this study, including disparities in the utilization of white women-owned firms on airport contracts, DBEs owned by Subcontinent Asian American women would still be eligible for participation.

**Recommendation for ODA to consider coordinating with ODOT in operating any DBE contract goals program.** ODOT already uses a race- and gender-conscious DBE contract goals program to help meet its overall DBE goal for its USDOT-funded contracts and ODOT plays a role in the contracting phase of many ODA FAA-funded contracts. Keen Independent recommends that ODA consult with ODOT regarding key elements of its DBE contract goals program based on its expertise and past success, especially for the steps prior to contract execution.

Keen Independent recommends that ODA perform needed contract compliance for any future DBE contract goals program, consulting with ODOT when necessary.

**Recommendation for small non-ODA airports to consider obtaining external expertise when operating any DBE contract goals programs.** Many agencies that operate small airports have retained consulting engineers to assist them in awarding and managing airport contracts. These engineering firms or their subconsultants may have the necessary expertise to help these agencies operate a DBE contract goals program, including assistance in setting overall DBE contract goals, evaluation of any good faith effort submissions and contract compliance. Keen Independent recommends that non-ODA airports consider using this expertise if they implement a DBE contract goals program.

## E. Other Recommendations for DBE Program Operations

ODA and other airports should review the following recommendations as well.

**Focus on FAA-funded contracts.** This disparity study only examined FAA-funded contracts at ODA and participating airports. It did not examine contracts entirely funded by state or local funds. Therefore, the recommendations made here are specific to FAA-funded contracts.

**Necessity of following all federal regulations when implementing any DBE contract goals programs.** Even if this study and other information provide a foundation for ODA and other airports to operate race- and gender-conscious programs, ODA and other airports can face legal challenges if they do not follow federal regulations when operating a DBE contract goals program for FAA-funded contracts.

Keen Independent has summarized key elements of program operations, but ODA and other airports should refer to comprehensive regulations in 49 CFR Part 26 and associated USDOT Guidance when designing and operating any DBE contract goals programs. There are many important components to program operation beyond those mentioned in this report.

**Monitoring potential overconcentration of DBEs in certain types of work.** Regulations in 49 CFR Section 26.33 require agencies operating the Federal DBE Program to take certain steps if they determine that DBEs are overconcentrated in a certain type of work in a way that would unduly burden non-DBE firms to participate in that type of work.

In Chapter 8, Keen Independent examined this issue by analyzing DBE participation on airport FAA-funded contracts from October 2014 through September 2019. It did not appear that DBEs were overconcentrated in certain types of work in a way that would unduly burden non-DBE companies.

Assessment of potential overconcentration should be a topic in airports' periodic review of program operation, as discussed below.

**Periodic review.** Many of the public agencies located within the Ninth Circuit that have DBE contract goals programs conduct disparity studies every three to six years. Those studies help agencies update availability information as well as assess whether there is current evidence supporting use of any race- and gender-conscious programs.

In some instances, these updated disparity studies have supported expanding the inclusion of DBE groups in DBE contract goals programs. For example, Keen Independent's 2016 Disparity Study for ODOT supported expansion of groups eligible for DBE contract goals in FHWA-funded contracts.

Keen Independent recommends that ODA and other airports periodically update this disparity study to remain in compliance with USDOT regulations and Guidance and relevant court decisions, especially if they implement race- and gender-conscious programs such as DBE contract goals.

## APPENDIX A.

### Definition of Terms

Appendix A provides explanations of terms useful to understanding the disparity study. These definitions are only relevant in the context of this report.

**A&E.** “A&E” refers to architecture and engineering (i.e., “A&E contracts”).

**Anecdotal evidence.** Anecdotal or “qualitative” evidence includes personal accounts and perceptions of incidents, including any incidents of discrimination, told from each individual interviewee’s or participant’s perspective.

**Availability.** Availability benchmarks refer to the percentage of contract dollars that might be expected to go to minority- or women-owned firms based on analysis of the specific type, location, size and timing of each airport prime contract and subcontract and the relative number of minority- and women-owned firms available for that work.

**Availability analysis.** The availability analysis examines the number of minority-, women-owned and majority-owned businesses ready, willing, and able to perform transportation-related construction and engineering work for ODA or local airports in Oregon.

**Business.** A business is a for-profit enterprise, including all its establishments (synonymous with “firm” and “company”).

**Business establishment.** A business establishment (or simply, “establishment”) is a place of business with an address and working phone number. One business can have many business establishments in different locations.

**Business listing.** A business listing is a record in the Dun & Bradstreet (D&B) database (or other database) of business information. A D&B record is a “listing” until the study team determines it to be an actual business establishment with a working phone number.

**Certification Office of Business Inclusion and Diversity (COBID).** The Certification Office of Business Inclusion and Diversity or “COBID” is the state agency responsible for certification of minority- and women-owned firms, Disadvantaged Business Enterprises, Airport Concessions Disadvantaged Business Enterprises (ACDBEs) and Emerging Small Businesses (ESBs) in Oregon. COBID also administers a Service Disabled Veteran (SDV) certification.

**Certified MBE or WBE.** A firm certified as a minority- or women-owned business. Without the word “certified” in front of “MBE” or “WBE,” Keen Independent is referring to a minority- or women-owned firm that might or might not be certified as such.

**COBID.** See Certification Office of Business Inclusion and Diversity.

**Code of Federal Regulations or CFR.** Code of Federal Regulations (“CFR”) is a codification of the federal agency regulations. An electronic version can be found at <http://www.gpo.gov/fdsys/browse/collectionCfr.action?collectionCode=CFR>.

**Contract.** A contract is a legally binding agreement between the purchaser and seller of goods or services.

**Contract element.** A contract element is either a prime contract or subcontract that the study team included in its analyses.

**Consultant.** A consultant is a business performing professional services contracts.

**Contractor.** A contractor is a business performing construction contracts.

**Controlled.** Controlled means exercising management and executive authority for a business.

**Disadvantaged Business Enterprise (DBE).** A “DBE” is a firm certified as such. A small business that is 51 percent or more owned and controlled by one or more individuals who are both socially and economically disadvantaged according to the guidelines in the Federal DBE Program (49 CFR Part 26). Members of certain racial and ethnic groups identified under “minority-owned business enterprise” in this appendix may meet the presumption of social and economic disadvantage. Women are also presumed to be socially and economically disadvantaged. Examination of economic disadvantage also includes investigating the five-year average gross revenues and the business owner’s personal net worth (at the time of this report, a maximum of \$1.32 million excluding equity in the business and primary personal residence).

Some minority- and women-owned businesses do not qualify as DBEs because of SBA size standards or net worth limits.

A business owned by a non-minority male may also be certified as a DBE on a case-by-case basis if the enterprise meets its burden to show it is owned and controlled by one or more socially and economically disadvantaged individuals according to the requirements in 49 CFR Part 26.

**Disparity.** A disparity is an inequality, difference, or gap between an actual outcome and a reference point or benchmark. For example, a difference between an outcome for one racial or ethnic group and an outcome for non-minorities may constitute a disparity.

**Disparity analysis.** Disparity analysis compares actual outcomes with what might be expected based on other data. Analysis of whether there is a “disparity” between the utilization and availability of minority- and women-owned businesses is one tool used to examine whether there is evidence consistent with discrimination against such businesses.

**Disparity index.** A disparity index is a measure of the relative difference between an outcome, such as percentage of contract dollars received by a group, and a corresponding benchmark, such as the percentage of contract dollars that might be expected given the relative availability of that group for those contracts. In this example, it is calculated by dividing percent utilization (numerator) by percent availability (denominator) and then multiplying the result by 100. A disparity index of 100 indicates “parity” or utilization “on par” with availability. Disparity index figures closer to 0 indicate larger disparities between utilization and availability. For example, the disparity index would be “50” if the utilization of a particular group was 5 percent of contract dollars and its availability was 10 percent.

**Dun & Bradstreet (D&B).** D&B is the leading global provider of lists of business establishments and other business information (see [www.dnb.com](http://www.dnb.com)). Hoovers is the D&B company that provides these lists. Obtaining a DUNS number (a unique nine-digit identifier for businesses) and being listed by D&B are free to listed companies. Companies are not required to pay to be listed in its database.

**Emerging Small Business (ESB).** Emerging small businesses (ESBs) are those certified by the State of Oregon as small businesses, with a time limit for participation in the program (hence “emerging”). Certification is limited to for-profit firms, not part of a larger company, with a principal place of business in Oregon. ESB certification includes two tiers:

- Tier 1 for businesses with 19 or fewer employees that have average annual gross receipts below \$1,846,996 for construction businesses or \$738,798 for non-construction firms; and
- Tier 2 for businesses with 29 or fewer employees that have annual gross receipts less than \$3,693,992 for construction firms or \$1,231,331 for non-construction firms. (Values are as of the time of this report.)

**Employer firms.** Employer firms are firms with paid employees other than the business owner and family members.

**Engineering-related services.** For purposes of this study, engineering services include engineering and fields such as surveying, transportation planning, environmental consulting, construction management and certain related professional services.

**Enterprise.** An enterprise is an economic unit that is a for-profit business or business establishment, not-for-profit organization or public sector organization.

**ESB.** See Emerging Small Business.

**Establishment.** See business establishment.

**Federal Aviation Administration (FAA).** The FAA is an agency of the United States Department of Transportation that plans and develops projects involving airports, overseeing their construction and operations.



**Federal Disadvantaged Business Enterprise (DBE) Program.** Federal DBE Program refers to the Disadvantaged Business Enterprise Program established by the United States Department of Transportation after enactment of the Transportation Equity Act for the 21st Century (TEA-21) as amended in 1998. The regulations for the Federal DBE Program are set forth in 49 CFR Part 26.

**Federal fiscal year.** The federal fiscal year (FFY) is the time period from October 1 through September 30 of the following year. For example, FFY 2021 extends from October 1, 2020 through September 30, 2021.

**Federally funded contract.** A federally funded contract is any contract or project funded in whole or in part (a dollar or more) with United States Department of Transportation financial assistance, including loans. As used in this study, it is synonymous with “USDOT-funded contract.”

**Firm.** See business.

**Fiscal year.** ODA’s fiscal year is the time period from July 1 through June 30 of the following year. For example, FY 2021 is the twelve-month period ending on June 30, 2021.

**Industry.** For the purpose of this study, an industry is a broad classification for businesses providing transportation-related construction and engineering work.

**Legal framework.** Legal framework is the review of relevant case law used as the basis for study methodology.

**Local agency.** A local agency is any public sector entity that is a political subdivision of the state government.

**Majority-owned business.** A majority-owned business is a for-profit business that is not owned and controlled by minorities or women (see definition of “minorities” below).

**Market area.** The market area is the geographic area from which ODA makes most of its purchases, based on dollars. Also, see relevant geographic market area.

**MBE.** Minority-owned business enterprise. See minority-owned business.

**Minorities.** Minorities are individuals who belong to one or more of the racial/ethnic groups identified in the federal regulations in 49 CFR Section 26.5:

- Black Americans (or “African Americans” in this study), which include persons having origins in any of the black racial groups of Africa.
- Hispanic Americans, which include persons of Mexican, Puerto Rican, Cuban, Dominican, Central or South American, or other Spanish or Portuguese culture or origin, regardless of race.

- Native Americans, which include persons who are American Indians, Eskimos, Aleuts or Native Hawaiians.
- Asian-Pacific Americans, which include persons whose origins are from Japan, China, Taiwan, Korea, Burma (Myanmar), Vietnam, Laos, Cambodia (Kampuchea), Thailand, Malaysia, Indonesia, the Philippines, Brunei, Samoa, Guam, the U.S. Trust Territories of the Pacific Islands (Republic of Palau), Republic of the Northern Marianas Islands, Macao, Fiji, Tonga, Kiribati, Tuvalu, Nauru, Federated States of Micronesia or Hong Kong.
- Subcontinent Asian Americans, which include persons whose origins are from India, Pakistan, Bangladesh, Bhutan, the Maldives Islands, Nepal or Sri Lanka.

**Minority-owned business (MBE).** An MBE, sometimes referred to as a minority-owned business, is a business that is at least 51 percent owned and controlled by one or more individuals that belong to a minority group. Minority groups in this study are those listed in 49 CFR Section 26.5. For purposes of this study, a business need not be certified as such to be counted as a minority-owned business. Businesses owned by minority women are also counted as MBEs in this study (where that information is available). In this study, “MBE-certified businesses” are those that have been certified by a public agency as a minority-owned company.

**National Plan of Integrated Airport Systems (NPIAS).** NPIAS is a national inventory of nearly 3,300 current and proposed aviation infrastructure assets including airports that comprise the national airport system.

**Neutral remedy.** Actions that remove barriers, open opportunities, and strengthen businesses without regard to race, ethnicity, or gender.

**Non-DBEs.** Non-DBEs are firms that are not certified as DBEs, regardless of the race/ethnicity or gender of the owner.

**Non-response bias.** Non-response bias occurs when the observed responses to a survey question differ from what would have been obtained if all individuals in a population, including non-respondents, had answered the question.

**North American Industry Classification System (NAICS) codes.** NAICS codes identify the primary line of business of a business enterprise. See [www.census.gov/epcd/www/naics.html](http://www.census.gov/epcd/www/naics.html).

**Oregon Bureau of Labor and Industries (BOLI).** Oregon Bureau of Labor and Industries (BOLI) is the state agency responsible for enforcement of anti-discrimination laws that apply to workplaces, housing and public accommodations; enforcement of state laws related to wages, hours and terms and conditions of employment; education of employers concerning wage, hour and civil rights laws; and workforce development through apprenticeship programs and other efforts. This agency also maintains the List of Contractors Ineligible to Receive Public Works Contracts.

**Oregon Department of Aviation (ODA).** ODA is the state agency responsible for the development of aviation and the safety of the airways as part of the state’s transportation system. It operates 28 airports owned by the State of Oregon and provides regulatory information to more than 450 public or private airports, heliports and landing areas. It also registers all non-military aircraft based within the state.

**Oregon Office of Minority, Women and Emerging Small Business (OMWESB).** The Office of Minority, Women and Emerging Small Business is the certification authority for certification of minority- and women-owned firms, Disadvantaged Business Enterprises, Airport Concessions Disadvantaged Business Enterprises (ACDBEs) and Emerging Small Businesses (ESBs) in Oregon. Beginning January 1, 2016, OMWESB became the Certification Office of Business Inclusion and Diversity (COBID). (See Certification Office of Business Inclusion and Diversity (COBID) on page 1 of this appendix.)

**Oregon Procurement Information Network (ORPIN).** State of Oregon agencies use the ORPIN program to disseminate notices of certain contracting and procurement opportunities to interested companies that are registered in the system. Many local government agencies in Oregon participate in ORPIN as well.

**ORPIN.** See Oregon Procurement Information Network.

**Owned.** For purposes of the utilization and availability analysis in this study, “owned” indicates at least 51 percent ownership of a company.

**Potential DBE.** A potential DBE is a minority- or woman-owned business that appears that it could be DBE-certified (and is not currently DBE certified) based on revenue requirements specified as part of the Federal DBE Program.

**Prime consultant.** A prime consultant is a professional services firm that performs a prime contract for a client such as ODA.

**Prime contract.** A prime contract is a contract directly between a contractor or a consultant and the client such as ODA.

**Prime contractor.** A prime contractor is a construction or consulting firm that performs a prime contract for a client such as ODA.

**Procurement.** A direct purchase, consulting agreement, contract or other acquisition of construction, professional services, goods or other services. This term is intended to encompass all types of government purchasing and contracting.

**Project.** A project refers to an ODA or other airport transportation construction, environmental assessment and/or engineering endeavor. A project could include one or more prime contracts and corresponding subcontracts.

**Race-and gender-conscious measures.** Race- and gender-conscious measures are programs in which businesses owned by some minority groups or women may participate but majority-owned firms typically may not. A program that sets DBE goals for individual contracts and requires bidders to meet that goal or show good faith efforts to do so is one example of a race- and gender-conscious measure.

Note that the term is a shortened version of “race-, ethnicity-, and gender-conscious measures.” For ease of communication, the study team has truncated the term to “race- and gender-conscious measures.”

**Race- and gender-neutral measures.** Race- and gender-neutral measures apply to businesses regardless of the race/ethnicity or gender of firm ownership. Race- and gender-neutral measures may include assistance in overcoming bonding and financing obstacles, simplifying bidding procedures, providing technical assistance, establishing programs to assist start-up firms, and other methods open to all businesses or any disadvantaged business regardless of race or gender of ownership. A broader list of examples can be found in 49 CFR Section 26.51(b).

Note that the term is more accurately “race, ethnicity, and gender-neutral” measures. However, for ease of communication, the study team has shortened the term to “race- and gender-neutral measures.”

**Racial or ethnic minority group.** See minorities.

**Relevant geographic market area.** The relevant geographic market area is the geographic area in which the businesses receiving most ODA and local airport procurement dollars are located. The relevant geographic market area is also referred to as the “local marketplace.” Case law related to race- and gender-conscious programs requires disparity analyses to focus on the “relevant geographic market area.”<sup>1</sup> Also, see “market area.”

**Remedial measure.** A remedial measure, sometimes shortened to “remedy,” is a program designed to address barriers to full participation of minorities or women, or minority- or women-owned firms.

**Remedy.** See remedial measure.

**SBA.** See Small Business Administration.

**SBA 8(a).** SBA 8(a) is a U.S. Small Business Administration business assistance program for small disadvantaged businesses owned and controlled by at least 51 percent socially and economically disadvantaged individuals.

**Small business.** A small business is a business with low revenue or number of employees relative to other businesses in the industry. In this study, “small business” does not necessarily mean that the business is certified as such.

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<sup>1</sup> See, e.g., *Croson*, 448 U.S. at 509; 49 CFR Section 26.35; *Rothe*, 545 F.3d at 1041-1042; *N. Contracting*, 473 F.3d at 718, 722-23; *Western States Paving*, 407 F.3d at 995.

**Small Business Administration (SBA).** The SBA refers to the United States Small Business Administration, which is an agency of the United States government that assists small businesses.

**Small Business Enterprise (SBE).** A firm certified as a small business according to the size criteria of the certifying agency.

**Standard Industrial Classification (SIC Code).** A SIC code is a four-digit numerical code system developed by the U.S. Government to identify the primary line of business of a business establishment.

**State- or locally funded contract.** A state-funded contract is any contract or project that is entirely or partially funded with State of Oregon funds (and no federal funds). A locally funded contract does not include any state or federal funds.

**Statistically significant difference.** A statistically significant difference refers to a quantitative difference for which there is a high probability that random chance can be rejected as an explanation for the difference. This has applications when analyzing differences based on sample data such as most U.S. Census datasets (could chance in the sampling process for the data explain the difference?), or when simulating an outcome to determine if it can be replicated through chance. Often a 95 percent confidence level is applied as a standard for when chance can reasonably be rejected as a cause for a difference.

**Subconsultant.** A subconsultant is a professional services firm that performs services for a prime consultant as part of the prime consultant's contract for a client such as ODA.

**Subcontract.** A subcontract is a contract between a prime contractor or prime consultant and another business selling goods or services to the prime contractor or prime consultant as part of the prime contractor's contract for a client such as ODA.

**Subcontract goals program or contract goals program.** A program in which a public agency sets a percent goal for participation of DBEs, MBE/WBEs, ESBs, small businesses or another group on a particular contract. These programs typically require that a prime contractor or prime consultant either meet the percentage goal with members of the group or show good faith efforts to do so as part of its bid or proposal.

**Subcontractor.** A subcontractor is a construction firm that performs contractual services for a prime contractor as part of a larger project.

**Subindustry.** For this study, a specialized component of a broader economic sector. Electrical work is a subindustry within the construction industry, for example.

**Subrecipient.** A subrecipient is a local entity receiving financial assistance passed through another governmental unit.

**Substantial disparity.** Several courts have held that a "substantial disparity" is one where the Disparity Index is less than "80," which indicates evidence of discrimination affecting the outcome.

**Supplier.** In this study, supplier refers to a firm that generally is the producer of goods (such as construction materials) that are sold to a business performing a project for another customer such as ODA or another airport.

**United States Department of Transportation (USDOT).** USDOT refers to the United States Department of Transportation, which includes the Federal Highway Administration, the Federal Transit Administration, the Federal Aviation Administration and the Federal Rail Administration. Note that the Federal DBE Program does not apply to contracts solely using funds from the Federal Rail Administration (at the time of this report).

**Utilization.** Utilization refers to the percentage of total contracting dollars of a particular type of work going to a specific group of businesses (for example, DBEs).

**Vendor.** A vendor is a business that is directly providing goods or services to a customer such as ODA or another airport.

**WBE.** Woman-owned business enterprise. See women-owned business.

**Women-owned business (WBE).** A WBE is a business that is at least 51 percent Owned and controlled by one or more individuals that are non-minority women. A business need not be certified as such to be included as a WBE in this study. For this study, businesses owned and controlled by minority women are counted as minority-owned businesses. In this study, a “WBE-certified businesses” is one certified as a woman-owned firm by a public agency.

# APPENDIX B.

## Legal Framework and Analysis

### EXECUTIVE SUMMARY

#### A. Introduction

In this appendix, Holland & Knight LLP analyzes recent cases regarding the Transportation Equity Act for the 21st Century (TEA-21) as amended and reauthorized (“MAP-21,” “SAFETEA” and “SAFETEA-LU”),<sup>1</sup> and the United States Department of Transportation (“USDOT” or “DOT”) regulations promulgated to implement TEA-21 known as the Federal Disadvantaged Business Enterprise (“Federal DBE”) Program,<sup>2</sup> which DBE Program was continued and reauthorized by the Fixing America’s Surface Transportation Act (FAST Act).<sup>3</sup> Most recently, in October 2018, Congress passed the FAA Reauthorization Act.<sup>4</sup> The appendix also reviews recent cases involving state and local minority and women-owned business enterprise (“MBE/WBE”) programs, which are instructive to the study. The appendix provides a summary of the legal framework for the disparity study as applicable to the Oregon Department of Aviation.

Appendix B begins with a review of the landmark United States Supreme Court decision in *City of Richmond v. J.A. Croson*.<sup>5</sup> *Croson* sets forth the strict scrutiny constitutional analysis applicable in the legal framework for conducting a disparity study. This section also notes the United States Supreme Court decision in *Adarand Constructors, Inc. v. Peña*,<sup>6</sup> (“*Adarand I*”), which applied the strict scrutiny analysis set forth in *Croson* to federal programs that provide federal assistance to a recipient of federal funds. The Supreme Court’s decisions in *Adarand I* and *Croson*, and subsequent cases and authorities provide the basis for the legal analysis in connection with the study.

The legal framework analyzes and reviews significant recent court decisions that have followed, interpreted, and applied *Croson* and *Adarand I* to the present and that are applicable to this disparity study, the Federal DBE Program and Federal ACDBE Program (49 CFR Part 23 — Participation of Disadvantaged Business Enterprise in Airport Concessions) and their implementation by state DOTs and state and local government recipients of federal funds, MBE/WBE/DBE programs, and the strict scrutiny analysis. In particular, this analysis reviews in Section D below recent Ninth Circuit Court of Appeals decisions that are instructive to the study, including the recent decisions in *Associated General Contractors of America, San Diego Chapter, Inc. v. California Department of Transportation*

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<sup>1</sup> Moving Ahead for Progress in the 21st Century Act (“MAP-21”), Pub L. 112-141, H.R. 4348, § 1101(b), July 6, 2012, 126 Stat. 405; preceded by Pub L. 109-59, Title I, § 1101(b), August 10, 2005, 119 Stat. 1156; preceded by Pub L. 105-178, Title I, § 1101(b), June 9, 1998, 112 Stat. 107.

<sup>2</sup> 49 CFR Part 26 Participation by Disadvantaged Business Enterprises in Department of Transportation Financial Assistance Programs (“Federal DBE Program”).

<sup>3</sup> Pub. L. 114-94, H.R. 22, § 1101(b), December 4, 2015, 129 Stat. 1312.

<sup>4</sup> Pub L. 115-254, H.R. 302 § 157, October 5, 2018, 132 Stat 3186.

<sup>5</sup> *City of Richmond v. J.A. Croson*, 488 U.S. 469 (1989).

<sup>6</sup> *Adarand Constructors, Inc. v. Peña*, 515 U.S. 200 (1995).

(“Caltrans”), *et al.*,<sup>7</sup> *Western States Paving Co. v. Washington State DOT*,<sup>8</sup> *Orion Insurance Group*, and *Ralph G. Taylor v. Washington State Office of Minority and Woman’s Business Enterprises, United States DOT, et al.*,<sup>9</sup> *Mountain West Holding Co. v. Montana, Montana DOT, et al.*,<sup>10</sup> and the District Court decision in *M.K. Weeden Construction v. Montana, Montana DOT, et al.*<sup>11</sup>

The significant 2005 decision in *Western States Paving v. Washington DOT*, USDOT and FHWA set forth legal standards in the Ninth Circuit Court of Appeals for state DOTs to satisfy the strict scrutiny standard for determining whether there is a compelling governmental interest to have a narrowly tailored race and ethnic conscious DBE program in compliance with the Federal DBE Program, and for cases involving challenges to the Federal DBE Program and its implementation by state DOTs. As discussed in this Executive Summary and in the detailed analysis at Section D below, the *Western States Paving* decision resulted in a specific USDOT Official Guidance for states in the Ninth Circuit, including the Oregon Department of Aviation, to follow. (See page 73 below for a detailed summary of the decision.)

In addition, the analysis reviews in Section E below recent federal cases that have considered the validity of the Federal DBE Program and its implementation by state DOTs and local or state government agencies and the validity of local and state DBE programs, including: *Midwest Fence Corp. v. USDOT, FHWA, Illinois DOT, Illinois State Toll Highway Authority, et al.*,<sup>12</sup> *Dunnet Bay Construction Co. v. Illinois DOT*,<sup>13</sup> *Northern Contracting, Inc. v. Illinois DOT*,<sup>14</sup> *Sherbrooke Turf, Inc. v. Minnesota DOT and Gross Seed v. Nebraska Department of Roads*,<sup>15</sup> *Geyer Signal, Inc. v. Minnesota DOT*,<sup>16</sup> *Adarand Constructors, Inc. v. Slater*<sup>17</sup> (“Adarand VII”), *Geod Corporation v. New Jersey Transit Corporation*,<sup>18</sup> and *South Florida Chapter of the A.G.C. v. Broward County, Florida*.<sup>19</sup> The analysis also reviews recent court decisions that involved challenges to MBE/WBE/DBE programs in other jurisdictions in Section F below, which are informative to the Oregon Department of Aviation and the study.

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<sup>7</sup> *Associated General Contractors of America, San Diego Chapter, Inc. v. California Department of Transportation, et al.*, 713 F.3d 1187, (9th Cir. 2013).

<sup>8</sup> *Western States Paving Co. v. Washington State DOT*, 407 F.3d 983 (9th Cir. 2005), *cert. denied*, 546 U.S. 1170 (2006).

<sup>9</sup> *Orion Insurance Group, Taylor v. WSOMWBE, U.S. DOT, et al.*, 2018 WL 6695345 (9th Cir. 2018), Memorandum opinion (not for publication and not precedent); Petition for Writ of Certiorari filed with the U.S. Supreme Court on April 22, 2019, which was denied on June 24, 2019.

<sup>10</sup> *Mountain West Holding Co., Inc. v. The State of Montana, Montana DOT, et al.*, 2017 WL 2179120 Memorandum Opinion (Not for Publication and not precedent) (9th Cir. May 16, 2017). The case on remand was voluntarily dismissed by stipulation of the parties (March 2018).

<sup>11</sup> *M. K. Weeden Construction v State of Montana, Montana DOT*, 2013 WL 4774517 (D. Mont. 2013).

<sup>12</sup> *Midwest Fence Corp. v. U.S. DOT, Illinois DOT, et al.*, 840 F.3d 932, 2016 WL 6543514 (7th Cir. 2016), *cert. denied*, 2017 WL 497345 (2017).

<sup>13</sup> *Dunnet Bay Construction Co. v. Borggren, Illinois DOT, et al.*, 799 F.3d 676, 2015 WL 4934560 (7th Cir. 2015), *cert. denied*, 2016 WL 193809 (2016); *Dunnet Bay Construction Co. v. Illinois DOT*, et. al. 2014 WL 552213 (C. D. Ill. 2014), *affirmed by Dunnet Bay*, 2015 WL 4934560 (7th Cir. 2015).

<sup>14</sup> *Northern Contracting, Inc. v. Illinois DOT*, 473 F.3d 715 (7th Cir. 2007).

<sup>15</sup> *Sherbrooke Turf, Inc. v. Minnesota DOT and Gross Seed v. Nebraska Department of Roads*, 345 F.3d 964 (8th Cir. 2003), *cert. denied*, 541 U.S. 1041 (2004).

<sup>16</sup> *Geyer Signal, Inc. v. Minnesota DOT*, 2014 W.L. 1309092 (D. Minn. 2014).

<sup>17</sup> *Adarand Constructors, Inc. v. Slater, Colorado DOT*, 228 F.3d 1147 (10th Cir. 2000) (“Adarand VII”).

<sup>18</sup> *Geod Corp. v. New Jersey Transit Corp.*, 766 F. Supp.2d. 642 (D. N.J. 2010).

<sup>19</sup> *South Florida Chapter of the A.G.C. v. Broward County, Florida*, 544 F. Supp.2d 1336 (S.D. Fla. 2008).



The analyses of these and other recent cases summarized below are instructive to the disparity study because they are the most recent and significant decisions by federal courts setting forth the legal framework applied to the Federal DBE Program and its implementation by state DOTs, MBE/WBE/DBE Programs and disparity studies, and construing the validity of government programs involving MBE/WBE/DBEs and ACDBEs.

The analyses of the Ninth Circuit decisions in *AGC, SDC v. Cal. DOT*, *Western States Paving, Orion Insurance Group*, and *Mountain West Holding, Inc.*, and the District Court decision in *M.K. Weeden*, and these other recent cases from other jurisdictions are instructive to the disparity study because they are the most recent and significant decisions by federal courts setting forth the legal framework applied to the Federal DBE Program and its implementation by state DOTs and recipients of federal financial assistance governed by 49 CFR Part 26. They also are applicable in terms of the preparation of a DBE Program submitted in compliance with the Federal DBE Program regulations.

As stated above and shown in detail below in Section D, the *Western States Paving* decision is a leading case in the Ninth Circuit establishing legal standards for satisfying the strict scrutiny test regarding whether there is the compelling governmental interest in a state's transportation marketplace to have a narrowly tailored race and ethnic conscious DBE program in compliance with the Federal DBE Program, that the state DOT DBE Program is narrowly tailored and properly implements the federal regulations at 49 CFR Part 26 and the Federal DBE Program, and the standard relevant to cases involving challenges to the Federal DBE Program and its implementation by state DOTs. In *Western States Paving*, the Ninth Circuit upheld the validity of the Federal DBE Program, but the Court held invalid Washington State DOT's DBE Program implementing the DBE Federal Program. The Court held that mere compliance with the Federal DBE Program by state recipients of federal funds, absent independent and sufficient state-specific evidence of discrimination in the state's transportation contracting industry marketplace, did not satisfy the strict scrutiny analysis.

Following *Western States Paving*, the USDOT, in particular for agencies, transportation authorities, airports and other governmental entities implementing the Federal DBE Program in states within the jurisdiction of the Ninth Circuit Court of Appeals, recommended the use of disparity studies by recipients of federal financial assistance to examine whether or not there is evidence of discrimination and its effects, and how remedies might be narrowly tailored in developing their DBE Program to comply with the Federal DBE Program.<sup>20</sup> The USDOT suggests consideration of both statistical and anecdotal evidence. The USDOT instructs that recipients should ascertain evidence for discrimination and its effects separately for each group presumed to be disadvantaged in 49 CFR Part 26.<sup>21</sup> The USDOT's Guidance provides that recipients should consider evidence of discrimination and its effects.<sup>22</sup>

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<sup>20</sup> Questions and Answers Concerning Response to *Western States Paving Company v. Washington State Department of Transportation* (January 2006) [hereinafter USDOT Guidance], available at 71 Fed. Reg. 14,775 and [http://www.fhwa.dot.gov/civilrights/dbe\\_memo\\_a5.htm](http://www.fhwa.dot.gov/civilrights/dbe_memo_a5.htm); see 49 CFR § 26.9; see, also, 49 CFR Section 26.45.

<sup>21</sup> USDOT Guidance, available at [http://www.fhwa.dot.gov/civilrights/dbe\\_memo\\_a5.htm](http://www.fhwa.dot.gov/civilrights/dbe_memo_a5.htm) (January 2006)

<sup>22</sup> *Id.*

The USDOT's Guidance is recognized by the federal regulations as "valid, and express the official positions and views of the Department of Transportation"<sup>23</sup> for states in the Ninth Circuit.

In *Western States Paving*, the United States intervened to defend the Federal DBE Program's facial constitutionality, and, according to the Court, stated "that [the Federal DBE Program's] race-conscious measures can be constitutionally applied only in those states where the effects of discrimination are present."<sup>24</sup> Accordingly, the USDOT advised federal aid recipients that any use of race-conscious measures must be predicated on evidence that the recipient has concerning discrimination or its effects within the local transportation contracting marketplace.<sup>25</sup>

In *Associated General Contractors of America, San Diego Chapter, Inc. v. California Department of Transportation ("Caltrans"), et al.*, ("*AGC, SDC v. Cal. DOT*" or "*Caltrans*"), the Ninth Circuit in 2013 upheld the validity of California DOT's DBE Program implementing the Federal DBE Program, and found that Caltrans followed the standards set forth in the *Western States Paving* case. The Ninth Circuit Court of Appeals and the United States District Court for the Eastern District of California in *AGC, San Diego Chapter, Inc. v. California DOT, et al.* held that Caltrans' implementation of the Federal DBE Program is constitutional.<sup>26</sup> The Ninth Circuit found that Caltrans' DBE Program implementing the Federal DBE Program was constitutional and survived strict scrutiny by: (1) having a strong basis in evidence of discrimination within the California transportation contracting industry based in substantial part on the evidence from the Disparity Study conducted for Caltrans; and (2) being "narrowly tailored" to benefit only those groups that have actually suffered discrimination.

The District Court had held that the "Caltrans DBE Program is based on substantial statistical and anecdotal evidence of discrimination in the California contracting industry," satisfied the strict scrutiny standard, and is "clearly constitutional" and "narrowly tailored" under *Western States Paving* and the Supreme Court cases.<sup>27</sup>

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<sup>23</sup> *Id.*, 49 CFR § 26.9; *See*, 49 CFR § 23.13.

<sup>24</sup> *Western States Paving*, 407 F.3d at 996; *see, also*, Br. for the United States, at 28 (April 19, 2004).

<sup>25</sup> DOT Guidance, available at 71 Fed. Reg. 14,775 and [http://www.fhwa.dot.gov/civilrights/dbe\\_memo\\_a5.htm](http://www.fhwa.dot.gov/civilrights/dbe_memo_a5.htm) (January 2006).

<sup>26</sup> *Associated General Contractors of America, San Diego Chapter, Inc. v. California DOT*, 713 F.3d 1187 (9th Cir. April 16, 2013); *Associated General Contractor of America, San Diego Chapter, Inc. v. California DOT*, U.S.D.C. E.D. Cal., Civil Action No.S:09-cv-01622, Slip Opinion (E.D. Cal. April 20, 2011) *appeal dismissed based on standing, on other grounds* Ninth Circuit held Caltrans' DBE Program constitutional, *Associated General Contractors of America, San Diego Chapter, Inc. v. California Department of Transportation, et al.*, 713 F.3d 1187, (9th Cir. April 16, 2013).

<sup>27</sup> *Id.*, *Associated General Contractors of America, San Diego Chapter, Inc. v. California DOT*, Slip Opinion Transcript of U.S. District Court at 42-56.

There have been other recent cases in the Ninth Circuit instructive for the study, as follows:

In *Mountain West Holding Co., Inc. v. The State of Montana, Montana DOT, et al.*,<sup>28</sup> the Ninth Circuit and the district court applied the decision in *Western States*,<sup>29</sup> and the decision in *AGC, San Diego v. California DOT*,<sup>30</sup> as establishing the law to be followed in this case. The district court noted that in *Western States*, the Ninth Circuit held that a state’s implementation of the Federal DBE Program can be subject to an as-applied constitutional challenge, despite the facial validity of the Federal DBE Program.<sup>31</sup> The Ninth Circuit and the district court stated the Ninth Circuit has held that whether a state’s implementation of the DBE Program “is narrowly tailored to further Congress’s remedial objective depends upon the presence or absence of discrimination in the State’s transportation contracting industry.”<sup>32</sup> The Ninth Circuit in *Mountain West* also pointed out it had held that “even when discrimination is present within a State, a remedial program is only narrowly tailored if its application is limited to those minority groups that have actually suffered discrimination.”<sup>33</sup>

Montana, the Court found, bears the burden to justify any racial classifications. *Id.* In an as-applied challenge to a state’s DBE contracting program, “(1) the state must establish the presence of discrimination within its transportation contracting industry, and (2) the remedial program must be ‘limited to those minority groups that have actually suffered discrimination.’”<sup>34</sup> Discrimination may be inferred from “a significant statistical disparity between the number of qualified minority contractors willing and able to perform a particular service and the number of such contractors actually engaged by the locality or the locality’s prime contractors.”<sup>35</sup>

The Ninth Circuit reversed the District Court’s grant of summary judgment to Montana based on issues of fact as to the evidence and remanded the case for trial. The *Mountain West* case was settled and voluntarily dismissed by the parties on remand in 2018.

It is noteworthy that the Ninth Circuit in *Mountain West* stated in its Memorandum Opinion that the case is not appropriate for official publication and is not precedent. The Memorandum order expressly provides: “This disposition is not appropriate for publication and is not precedent except as provided by Ninth Circuit Rule 36-3.” Thus, the decision may not be cited as binding precedential authority in the Ninth Circuit.

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<sup>28</sup> 2017 WL 2179120 (9th Cir. 2017), Memorandum opinion, (Not for Publication and not precedent), dismissing in part, reversing in part and remanding the U.S. District Court decision at 2014 WL 6686734 (D. Mont. 2014).

<sup>29</sup> 407 F.3d 983 (9th Cir. 2005)

<sup>30</sup> 713 F.3d 1187 (9th Cir. 2013)

<sup>31</sup> 2014 WL 6686734 at \*2 (D. Mont. 2014)

<sup>32</sup> *Mountain West*, 2014 WL 6686734 at \*2, quoting *Western States*, at 997-998, and *Mountain West*, 2017 WL 2179120 at \*2 (9th Cir. 2017) Memorandum, at 5-6, quoting *AGC, San Diego v. California DOT*, 713 F.3d 1187, 1196. The case on remand voluntarily dismissed by stipulation of parties (March 14, 2018).

<sup>33</sup> *Mountain West*, 2017 WL 2179120 at \*2, Memorandum, at 6, and 2014 WL 6686734 at \*2, quoting *Western States*, 407 F.3d at 997-999.

<sup>34</sup> *Mountain West*, 2017 WL 2179120 at \*2 (9th Cir.), Memorandum, at 6-7, quoting *Assoc. Gen. Contractors of Am. v. Cal. Dep’t of Transp.*, 713 F.3d 1187, 1196 (9th Cir. 2013) (quoting *W. States Paving*, 407 F.3d at 997-99).

<sup>35</sup> *Mountain West*, 2017 WL 2179120 at \*2 (9th Cir.), Memorandum, at 6-7, quoting *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469, 509 (1989).

The District Court decision in the Ninth Circuit in Montana, *M.K. Weeden*,<sup>36</sup> followed the *AGC, SDC v. Caltrans* Ninth Circuit decision, and held as valid and constitutional the Montana Department of Transportation's implementation of the Federal DBE Program.

In a very recent case in the Ninth Circuit, *Orion Insurance Group; Ralph G. Taylor, Plaintiffs v. Washington State Office of Minority & Women's Business Enterprises, United States DOT, et. al.*<sup>37</sup> Plaintiffs, Orion Insurance Group ("Orion") and its owner Ralph Taylor, alleged violations of federal and state law due to the denial of their application for Orion to be considered a DBE under federal law.

Plaintiff Taylor received results from a genetic ancestry test that estimated he was 90 percent European, 6 percent Indigenous American, and 4 percent Sub-Saharan African. Taylor submitted an application to OMWBE seeking to have Orion certified as an MBE under Washington State law. Taylor identified himself as Black. His application was initially rejected, but after Taylor appealed, OMWBE voluntarily reversed their decision and certified Orion as an MBE. Plaintiffs submitted to OMWBE Orion's application for DBE certification under federal law. Taylor identified himself as Black and Native American in the Affidavit of Certification.

Orion's DBE application was denied because there was insufficient evidence that: he was a member of a racial group recognized under the regulations; was regarded by the relevant community as either Black or Native American; or that he held himself out as being a member of either group. OMWBE found the presumption of disadvantage was rebutted and the evidence was insufficient to show Taylor was socially and economically disadvantaged.

The District court held OMWBE did not act arbitrarily or capriciously when it found the presumption was rebutted that Taylor was socially and economically disadvantaged because there was insufficient evidence he was either Black or Native American. By requiring individualized determinations of social and economic disadvantage, the court found the Federal DBE Program requires states to extend benefits only to those who are actually disadvantaged.

The District court dismissed the claim that, on its face, the Federal DBE Program violates the Equal Protection Clause, and the claim that the Defendants, in applying the Federal DBE Program to him, violated the Equal Protection Clause. The court found no evidence that the application of the federal regulations was done with an intent to discriminate against mixed-race individuals or with racial animus, or creates a disparate impact on mixed-race individuals. The court held Plaintiffs failed to show that either the State or Federal Defendants had no rational basis for the difference in treatment.

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<sup>36</sup> M.K. Weeden, 2013 WL 4774517.

<sup>37</sup> 2018 WL 6695345 (9th Cir. December 19, 2018)(Memorandum)(Not for Publication).

The District court dismissed claims that the definitions of “Black American” and “Native American” in the DBE regulations are impermissibly vague. Plaintiffs’ claims were dismissed against the State Defendants for violation of Title VI because Plaintiffs failed to show the State engaged in intentional racial discrimination. The DBE regulations’ requirement that the State make decisions based on race was held constitutional.

On appeal, the Ninth Circuit in affirming the District court held it correctly dismissed Taylor’s claims against Acting Director of the USDOT’s Office of Civil Rights, in her individual capacity, Taylor’s discrimination claims under 42 U.S.C. §1983 because the federal defendants did not act “under color or state law,” Taylor’s claims for damages because the United States has not waived its sovereign immunity, and Taylor’s claims for equitable relief under 42 U.S.C. §2000d because the Federal DBE Program does not qualify as a “program or activity” within the meaning of the statute.

The Ninth Circuit held OMWBE did not act in an arbitrary and capricious manner when it determined it had a “well-founded reason” to question Taylor’s membership claims, determined that Taylor did not qualify as a “socially and economically disadvantaged individual,” and when it affirmed the state’s decision was supported by substantial evidence and consistent with federal regulations. The court held the USDOT “articulated a rational connection” between the evidence and the decision to deny Taylor’s application for certification.

It also is noteworthy that the Ninth Circuit in *Orion* stated in its Memorandum decision that the case is not appropriate for official publication and is not precedent. Thus, the case may not be cited as controlling precedential authority in the Ninth Circuit.

Also, recently in other jurisdictions the Seventh Circuit Court of Appeals in *Midwest Fence Corp. v. USDOT, FHWA, Illinois DOT, Illinois State Toll Highway Authority, et al.*,<sup>38</sup> and in *Dunnet Bay Construction Co. v. Borggren, Illinois DOT, et al.*,<sup>39</sup> upheld the implementation of the Federal DBE Program by the Illinois DOT.<sup>40</sup> The court held Dunnet Bay lacked standing to challenge the IDOT DBE Program, and that even if it had standing, any other federal claims were foreclosed by the *Northern Contracting v. Illinois DOT, et al.* decision because there was no evidence IDOT exceeded its authority under federal law.<sup>41</sup> The Seventh Circuit in *Midwest Fence* also held the Federal DBE Program is facially constitutional. The court agreed with the Eighth, Ninth, and Tenth Circuits that the Federal DBE Program is narrowly tailored on its face, and thus survives strict scrutiny.<sup>42</sup>

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<sup>38</sup> 840 F.3d 932, 2016 WL 6543514 (7th Cir. 2016).

<sup>39</sup> 840 F.3d 932, 2016 WL 6543514 (7th Cir. 2016).

<sup>40</sup> 799 F. 3d 676, 2015 WL 4934560 (7th Cir. 2015).

<sup>41</sup> *Id.*

<sup>42</sup> 840 F.3d 932, 2016 WL 6543514 (7th Cir. 2016).

## B. U.S. Supreme Court Cases

### 1. *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469 (1989)

In *Croson*, the U.S. Supreme Court struck down the City of Richmond’s “set-aside” program as unconstitutional because it did not satisfy the strict scrutiny analysis applied to “race-based” governmental programs.<sup>43</sup> J.A. Croson Co. (“Croson”) challenged the City of Richmond’s minority contracting preference plan, which required prime contractors to subcontract at least 30 percent of the dollar amount of contracts to one or more Minority Business Enterprises (“MBE”). In enacting the plan, the City cited past discrimination and an intent to increase minority business participation in construction projects as motivating factors.

The Supreme Court held the City of Richmond’s “set-aside” action plan violated the Equal Protection Clause of the Fourteenth Amendment. The Court applied the “strict scrutiny” standard, generally applicable to any race-based classification, which requires a governmental entity to have a “compelling governmental interest” in remedying past identified discrimination and that any program adopted by a local or state government must be “narrowly tailored” to achieve the goal of remedying the identified discrimination.

The Court determined that the plan neither served a “compelling governmental interest” nor offered a “narrowly tailored” remedy to past discrimination. The Court found no “compelling governmental interest” because the City had not provided “a strong basis in evidence for its conclusion that [race-based] remedial action was necessary.”<sup>44</sup> The Court held the City presented no direct evidence of any race discrimination on its part in awarding construction contracts or any evidence that the City’s prime contractors had discriminated against minority-owned subcontractors.<sup>45</sup> The Court also found there were only generalized allegations of societal and industry discrimination coupled with positive legislative motives. The Court concluded that this was insufficient evidence to demonstrate a compelling interest in awarding public contracts on the basis of race.

Similarly, the Court held the City failed to demonstrate that the plan was “narrowly tailored” for several reasons, including because there did not appear to have been any consideration of race-neutral means to increase minority business participation in city contracting, and because of the over inclusiveness of certain minorities in the “preference” program (for example, Aleuts) without any evidence they suffered discrimination in Richmond.<sup>46</sup>

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<sup>43</sup> 488 U.S. 469 (1989).

<sup>44</sup> 488 U.S. at 500, 510.

<sup>45</sup> 488 U.S. at 480, 505.

<sup>46</sup> 488 U.S. at 507-510.

The Court stated that reliance on the disparity between the number of prime contracts awarded to minority firms and the minority population of the City of Richmond was misplaced. There is no doubt, the Court held, that “[w]here gross statistical disparities can be shown, they alone in a proper case may constitute prima facie proof of a pattern or practice of discrimination” under Title VII,<sup>47</sup> but it is equally clear that “[w]hen special qualifications are required to fill particular jobs, comparisons to the general population (rather than to the smaller group of individuals who possess the necessary qualifications) may have little probative value.”<sup>48</sup>

The Court concluded that where special qualifications are necessary, the relevant statistical pool for purposes of demonstrating discriminatory exclusion must be the number of minorities qualified to undertake the particular task. The Court noted that “the city does not even know how many MBE’s in the relevant market are qualified to undertake prime or subcontracting work in public construction projects.”<sup>49</sup> “Nor does the city know what percentage of total city construction dollars minority firms now receive as subcontractors on prime contracts let by the city.”<sup>50</sup>

The Supreme Court stated that it did not intend its decision to preclude a state or local government from “taking action to rectify the effects of identified discrimination within its jurisdiction.”<sup>51</sup> The Court held that “[w]here there is a significant statistical disparity between the number of qualified minority contractors willing and able to perform a particular service and the number of such contractors actually engaged by the locality or the locality’s prime contractors, an inference of discriminatory exclusion could arise.”<sup>52</sup>

The Court said: “If the City of Richmond had evidence before it that nonminority contractors were systematically excluding minority businesses from subcontracting opportunities it could take action to end the discriminatory exclusion.”<sup>53</sup> “Under such circumstances, the city could act to dismantle the closed business system by taking appropriate measures against those who discriminate on the basis of race or other illegitimate criteria.” “In the extreme case, some form of narrowly tailored racial preference might be necessary to break down patterns of deliberate exclusion.”<sup>54</sup>

The Court further found “if the City could show that it had essentially become a ‘passive participant’ in a system of racial exclusion practiced by elements of the local construction industry, we think it clear that the City could take affirmative steps to dismantle such a system. It is beyond dispute that any public entity, state or federal, has a compelling interest in assuring that public dollars, drawn from the tax contributions of all citizens, do not serve to finance the evil of private prejudice.”<sup>55</sup>

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<sup>47</sup> 488 U.S. at 501, quoting *Hazelwood School Dist. v. United States*, 433 U.S. 299, 307–308, 97 S.Ct. 2736, 2741.

<sup>48</sup> 488 U.S. at 501 quoting *Hazelwood*, 433 U.S. at 308, n. 13, 97 S.Ct., at 2742, n. 13.

<sup>49</sup> 488 U.S. at 502.

<sup>50</sup> *Id.*

<sup>51</sup> 488 U.S. at 509.

<sup>52</sup> *Id.*

<sup>53</sup> 488 U.S. at 509.

<sup>54</sup> *Id.*

<sup>55</sup> 488 U.S. at 492.

## **2. *Adarand Constructors, Inc. v. Pena* (“*Adarand I*”), 515 U.S. 200 (1995)**

In *Adarand I*, the U.S. Supreme Court extended the holding in *Croson* and ruled that all federal government programs that use racial or ethnic criteria as factors in procurement decisions must pass a test of strict scrutiny in order to survive constitutional muster.

The cases interpreting *Croson* and *Adarand I* are the most recent and significant decisions by federal courts setting forth the legal framework for disparity studies as well as the predicate to satisfy the constitutional strict scrutiny standard of review, which applies to the implementation of the Federal DBE Program by recipients of federal funds.

### **C. The Legal Framework Applied to the Federal DBE and ACDBE Programs and State and Local Government MBE/WBE Programs**

The following provides an analysis for the legal framework focusing on recent key cases regarding the Federal DBE Program and state and local MBE/WBE programs, and their implications for a disparity study. The recent decisions involving the Federal DBE Program are instructive to the disparity study because they concern the strict scrutiny analysis, the legal framework in this area, challenges to the validity of MBE/WBE/DBE programs, an analysis of disparity studies, and implementation of the Federal DBE and ACDBE Programs by state DOTs and recipients of federal financial assistance (USDOT funds) based on 49 CFR Part 26 and 49 CFR Part 23.

#### **1. The Federal DBE Program (and ACDBE Program)**

After the *Adarand* decision, the U.S. Department of Justice in 1996 conducted a study of evidence on the issue of discrimination in government construction procurement contracts, which Congress relied upon as documenting a compelling governmental interest to have a federal program to remedy the effects of current and past discrimination in the transportation contracting industry for federally-funded contracts.<sup>56</sup> Subsequently, in 1998, Congress passed the Transportation Equity Act for the 21st Century (“TEA-21”), which authorized the United States Department of Transportation to expend funds for federal highway programs for 1998 - 2003. Pub.L. 105-178, Title I, § 1101(b), 112 Stat. 107, 113 (1998). The USDOT promulgated new regulations in 1999 contained at 49 CFR Part 26 to establish the current Federal DBE Program. The TEA-21 was subsequently extended in 2003, 2005 and 2012. The reauthorization of TEA-21 in 2005 was for a five-year period from 2005 to 2009. Pub.L. 109-59, Title I, § 1101(b), August 10, 2005, 119 Stat. 1153-57 (“SAFETEA”). In July 2012, Congress passed the Moving Ahead for Progress in the 21st Century Act (“MAP-21”).<sup>57</sup> In December 2015, Congress passed the Fixing America’s Surface Transportation Act (“FAST Act”).<sup>58</sup> Most recently, in October 2018, Congress passed the FAA Reauthorization Act.<sup>59</sup>

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<sup>56</sup> *Appendix-The Compelling Interest for Affirmative Action in Federal Procurement*, 61 Fed. Reg. 26,050, 26,051-63 & nn. 1-136 (May 23, 1996) (hereinafter “The Compelling Interest”); see *Adarand VII*, 228 F.3d at 1167-1176, citing *The Compelling Interest*.

<sup>57</sup> Pub L. 112-141, H.R. 4348, § 1101(b), July 6, 2012, 126 Stat 405.

<sup>58</sup> Pub. L. 114-94, H.R. 22, § 1101(b), December 4, 2015, 129 Stat. 1312.

<sup>59</sup> Pub L. 115-254, H.R. 302 § 157, October 5, 2018, 132 Stat 3186.



The Federal DBE Program as amended changed certain requirements for federal aid recipients and accordingly changed how recipients of federal funds implemented the Federal DBE Program for federally-assisted contracts. The federal government determined that there is a compelling governmental interest for race- and gender-based programs at the national level, and that the program is narrowly tailored because of the federal regulations, including the flexibility in implementation provided to individual federal aid recipients by the regulations. State and local governments are not required to implement race- and gender-based measures where they are not necessary to achieve DBE goals and those goals may be achieved by race- and gender-neutral measures.<sup>60</sup>

The Federal DBE Program and ACDBE Program established responsibility for implementing the DBE and ACDBE Programs to state and local government recipients of federal funds. A recipient of federal financial assistance must set an annual DBE and/or ACDBE goals specific to conditions in the relevant marketplace. Even though an overall annual 10 percent aspirational goal applies at the federal level, it does not affect the goals established by individual state or local governmental recipients. The Federal DBE and ACDBE Programs outline certain steps a state or local government recipient can follow in establishing a goal, and USDOT (FHWA and FAA) considers and must approve the goal and the recipient's DBE and ACDBE programs. The implementation of the Federal DBE and ACDBE Programs are substantially in the hands of the state DOT and state or local government recipient and is set forth in detail in the federal regulations, including 49 CFR § 26.45 and 49 CFR §§23.41-51.

Provided in 49 CFR § 26.45 and 49 CFR §§ 23.41-51 are instructions as to how recipients of federal funds should set the overall goals for their DBE and ACDBE Programs. In summary, the recipient establishes a base figure for relative availability of DBEs and ACDBEs.<sup>61</sup> This is accomplished by determining the relative number of ready, willing and able DBEs and ACDBEs in the recipient's market.<sup>62</sup> Second, the recipient must determine an appropriate adjustment, if any, to the base figure to arrive at the overall goal.<sup>63</sup> There are many types of evidence considered when determining if an adjustment is appropriate, according to 49 CFR § 26.45(d) and 49 CFR § 23.51(d). These include, among other types, the current capacity of DBEs and ACDBEs to perform work on the recipient's contracts as measured by the volume of work DBEs and ACDBEs have performed in recent years. If available, recipients consider evidence from related fields that affect the opportunities for DBEs and ACDBEs to form, grow, and compete, such as statistical disparities between the ability of DBEs and ACDBEs to obtain financing, bonding, and insurance, as well as data on employment, education, and training.<sup>64</sup> This process, based on the federal regulations, aims to establish a goal that reflects a determination of the level of DBE and ACDBE participation one would expect absent the effects of discrimination.<sup>65</sup>

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<sup>60</sup> 49 CFR § 26.51. *See*, 49 CFR §23.25.

<sup>61</sup> 49 CFR § 26.45(a), (b), (c); 49 CFR § 23.51(a), (b), (c).

<sup>62</sup> *Id.*

<sup>63</sup> *Id.* at § 26.45(d); *Id.* at §23.51(d).

<sup>64</sup> *Id.*

<sup>65</sup> 49 CFR § 26.45(b)-(d); 49 CFR § 23.51.

Further, the Federal DBE Program and ACDBE Program require state and local government recipients of federal funds to assess how much of the DBE and ACDBE goal can be met through race- and gender-neutral efforts and what percentage, if any, should be met through race- and gender-based efforts.<sup>66</sup> A state or local government recipient is responsible for seriously considering and determining race-and gender-neutral measures that can be implemented.<sup>67</sup>

Federal aid recipients are to certify DBEs and ACDBEs according to their race/gender, size, net worth and other factors related to defining an economically and socially disadvantaged business as outlined in 49 CFR §§ 26.61-26.73.<sup>68</sup>

**F.A.A. Reauthorization Act of 2018, FAST Act and MAP-21.** In October 2018, December 2015 and in July 2012, Congress passed the F.A.A. Reauthorization Act, FAST Act and MAP-21, respectively, which made “Findings” that “discrimination and related barriers continue to pose significant obstacles for minority- and women-owned businesses seeking to do business in airport-related markets,” in “federally-assisted surface transportation markets,” and that the continuing barriers “merit the continuation” of the Federal ACDBE Program and the Federal DBE Program.<sup>69</sup> Congress also found in the F.A.A. Reauthorization Act of 2018, the FAST Act and MAP-21 that it received and reviewed testimony and documentation of race and gender discrimination which “provide a strong basis that there is a compelling need for the continuation of the” Federal ACDBE Program and the Federal DBE Program.<sup>70</sup>

#### **F.A.A. Reauthorization Act of 2018 (October 5, 2018)**

- Extends the FAA DBE and ACDBE programs for five years.
- Contains an additional prompt payment provision.
- Increases in the size cap for highway, street, and bridge construction for construction firms working on airport improvement projects.
- Establishes Congressional findings of discrimination that provides a strong basis there is a compelling need for the continuation of the airport DBE program and the ACDBE program to address race and gender discrimination in airport related business.

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<sup>66</sup> 49 CFR § 26.51; 49 CFR § 23.51(a).

<sup>67</sup> 49 CFR § 26.51(b); 49 CFR § 23.25.

<sup>68</sup> 49 CFR §§ 26.61-26.73; 49 CFR §§ 23.31-23.39.

<sup>69</sup> Pub L. 115-254, H.R. 302 § 157, October 5, 2018, 132 Stat 3186; Pub L. 114-94, H.R. 22, §1101(b), December 4, 2015, 129 Stat 1312; Pub L. 112-141, H.R. 4348, § 1101(b), July 6, 2012, 126 Stat 405.

<sup>70</sup> Id. at Pub L. 115-254, H.R. 302 § 157, October 5, 2018, 132 Stat 3186; Pub L. 114-94. H.R. 22, § 1101(b)(1) (2015).

## SEC. 150 DEFINITION OF SMALL BUSINESS CONCERN.

Section 47113(a)(1) of title 49, United States Code, is amended as follows:

(1) ‘Small business concern’

A. Has the meaning given the term in section 3 of the Small Business Act (15 U.S.C. 632); but in the case of a concern in the construction industry, a concern shall be considered a small business concern if the concern meets the size standard for the NAICS Code 237310, as adjusted by the SBA.

## SEC. 157 MINORITY AND DISADVANTAGED BUSINESS PARTICIPATION.

(a) Findings. Congress finds the following:

- (1) While significant progress has occurred due to the establishment of the airport disadvantaged business enterprise program (sections 47107(e) and 47113 of title 49, United States Code), discrimination and related barriers continue to pose significant obstacles for minority- and women-owned businesses seeking to do business in airport-related markets across the nation. These continuing barriers merit the continuation of the airport disadvantaged business enterprise program.
- (2) Congress has received and reviewed testimony and documentation of race and gender discrimination from numerous sources, including congressional hearings and roundtables, scientific reports, reports issued by public and private agencies, news stories, reports of discrimination by organizations and individuals, and discrimination lawsuits. This testimony and documentation show that race- and gender-neutral efforts alone are insufficient to address the problem.
- (3) This testimony and documentation demonstrate that discrimination across the nation poses a barrier to full and fair participation in airport-related businesses of women business owners and minority business owners in the racial groups detailed in 49 C.F.R. Parts 23 and 26, and has impacted firm development and many aspects of airport-related business in the public and private markets.
- (4) This testimony and documentation provide a strong basis that there is a compelling need for the continuation of the airport DBE program and the ACDBE program to address race and gender discrimination in airport related business.

### **“Fixing America’s Surface Transportation Act” or the “FAST Act” (December 4, 2015)**

On December 3, 2015, the Fixing America’s Surface Transportation Act” or the “FAST Act” was passed by Congress, and it was signed by the President on December 4, 2015, as the new five-year surface transportation authorization law. The FAST Act continues the Federal DBE Program and makes the following “Findings” in Section 1101 (b) of the Act:

## SEC. 1101. AUTHORIZATION OF APPROPRIATIONS.

### (b) Disadvantaged Business Enterprises —

#### (1) FINDINGS — Congress finds that —

- (A) While significant progress has occurred due to the establishment of the disadvantaged business enterprise program, discrimination and related barriers continue to pose significant obstacles for minority- and women-owned businesses seeking to do business in federally assisted surface transportation markets across the United States;
- (B) The continuing barriers described in subparagraph (A) merit the continuation of the disadvantaged business enterprise program;
- (C) Congress has received and reviewed testimony and documentation of race and gender discrimination from numerous sources, including congressional hearings and roundtables, scientific reports, reports issued by public and private agencies, news stories, reports of discrimination by organizations and individuals, and discrimination lawsuits, which show that race- and gender-neutral efforts alone are insufficient to address the problem;
- (D) The testimony and documentation described in subparagraph (C) demonstrate that discrimination across the United States poses a barrier to full and fair participation in surface transportation-related businesses of women business owners and minority business owners and has impacted firm development and many aspects of surface transportation-related business in the public and private markets; and
- (E) The testimony and documentation described in subparagraph (C) provide a strong basis that there is a compelling need for the continuation of the disadvantaged business enterprise program to address race and gender discrimination in surface transportation-related business.

#### (2) DEFINITIONS — In this subsection, the following definitions apply:

##### (A) SMALL BUSINESS CONCERN —

- (i) **IN GENERAL** — The term ‘small business concern’ means a small business concern (as the term is used in section 3 of the Small Business Act (15 U.S.C. 632)).
- (ii) **EXCLUSIONS** — The term ‘small business concern’ does not include any concern or group of concerns controlled by the same socially and economically disadvantaged individual or individuals that have average annual gross receipts during the preceding three fiscal years in excess of \$23,980,000, as adjusted annually by the Secretary for inflation.<sup>71</sup>

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<sup>71</sup> Pub. L. 114-94, H.R. 22, § 1101(b), December 4, 2015, 129 Stat. 1312.

Therefore, Congress in the FAST Act passed on December 3, 2015, again found based on testimony, evidence and documentation updated since MAP-21 was adopted in 2012 as follows: (1) discrimination and related barriers continue to pose significant obstacles for minority- and women-owned businesses seeking to do business in federally assisted surface transportation markets across the United States; (2) the continuing barriers described in § 1101(b), subparagraph (A) above merit the continuation of the disadvantaged business enterprise program; and (3) there is a compelling need for the continuation of the disadvantaged business enterprise program to address race and gender discrimination in surface transportation-related business.<sup>72</sup>

### **USDOT Final Rule, 79 Fed. Reg. 59566 (October 2, 2014)**

#### **DBE: Program Implementation Modifications for 49 CFR Part 26 (Effective Nov. 3, 2014).<sup>73</sup>**

On September 6, 2012, the Department of Transportation published a Notice of Proposed Rulemaking (“NPRM”) entitled, “Disadvantaged Business Enterprise: Program Implementation Modifications” in the Federal Register.<sup>74</sup>

The USDOT noted the DBE Program was reauthorized in the Moving Ahead for Progress in the 21st Century Act (“MAP-21”), Public Law 112-141 (enacted July 6, 2012), and that the Department believes this reauthorization is intended to maintain the status quo of the DBE Program.<sup>75</sup>

The Final Rule amending the Federal DBE Program at 49 C.F.R. Part 26 provided substantial changes and additions to the implementation and administration of the Federal DBE Program regulations in three primary areas:

- (1) The Rule revised the Uniform Certification Application and reporting forms, establishes a uniform personal net worth form as part of the Uniform Certification Application, and provides for data collection required by the USDOT statutory reauthorization, MAP-21;
- (2) The Rule revised the certification-related program provisions and standards; and
- (3) The Rule amended and modified several program provisions, including overall goal setting by recipients of federal funds, good faith efforts, guidance and submissions, transit vehicle manufacturers, counting for trucking companies, and program administration.<sup>76</sup>

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<sup>72</sup> *Id.*

<sup>73</sup> 79 F.R. 59566-59122 (October 2, 2014).

<sup>74</sup> 77 F.R. 54952-55024 (September 6, 2012).

<sup>75</sup> 77 F.R. 54952.

<sup>76</sup> 79 F.R. 59566-59622 (October 2, 2014).

The new and revised forms included the USDOT personal net worth form, a revised uniform application form and checklist, and a revised uniform report of awards or commitments, and payments. The new provisions included reporting requirements under MAP-21, adding a new provision authorizing summary suspensions of DBEs under certain circumstances, and new record retention requirements.<sup>77</sup>

Several of the areas revised included:

- The size standard on statutory gross receipts has been increased for inflation;
- The ownership and control provisions have been amended, including a new rule examining whether there are any agreements or practices that give a non-disadvantaged individual or firm a priority or superior right to a DBE's profits, and setting forth an assumption of control when a non-disadvantaged individual who is a former owner of the firm remains involved in the operation of the firm;
- Certification procedures and grounds for decertification are revised including the areas of prequalification, grounds for removal, summary suspension, and certification appeals;
- The overall goal setting obligations, including methodology and process, data sources to determine the relative availability of DBEs, and any step two adjustments by the recipient of federal funds to the base figure supported by evidence;
- The submission of good faith efforts as a matter of “responsiveness” or as a matter of “responsibility,” including reduction in number of days as to when the information of good faith efforts must be submitted either at the time of bid or after bid opening;
- Guidance on good faith efforts, including examples of the kinds of actions that recipients may consider when evaluating good faith efforts by bidders and offerors;
- Provisions relating to the replacing of DBEs; and
- Counting of DBE participation, including trucking services and expenditures with DBEs for materials and supplies and related matters.<sup>78</sup>

In terms of forms and data collection, the 2014 Rule attempted to simplify the Uniform Certification Application; established a new USDOT personal net worth form to be used by applicants; established a uniform report of DBE awards or commitments and payments; captured data on minority women-owned DBEs and actual payments to DBEs reporting; and provided for a new submission required by MAP-21 on the percentage of DBEs in the state owned by non-minority women, and men.<sup>79</sup>

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<sup>77</sup> *Id.*

<sup>78</sup> 79 F.R. 59566-59622.

<sup>79</sup> *Id.*

The 2014 Rule made certain changes in connection with program administration, including: adding to the definitions of “immediate family members” and “spouse” domestic partnerships and civil unions; the retention of all records documenting a DBE’s compliance with the eligibility requirements, including the complete application package and subsequent reports; and adding to the provisions relating to the contract clause included in each DOT-assisted contract that obligates the contractor to comply with the DBE Program regulations in the administration of the contract, and specifying that failure to do so may result in termination of the contract or other remedies.<sup>80</sup>

The Rule also provided changes to the definitions in the federal regulations, including for the following terms: assets, business, business concern, business enterprise, contingent liability, liabilities, primary industry classification, principal place of business, and social and economically disadvantaged individual.<sup>81</sup>

### **USDOT Order 4220.1 (February 5, 2014).**

USDOT Order 4220.1 is the USDOT’s Order on the Coordination and Oversight of the DBE Program. According to the USDOT, this Order clarified the leadership roles and responsibilities of the various offices and Operating Administrations within the USDOT responsible for supporting and overseeing the implementation of the Federal DBE Program. The Order further established a framework for coordination, overall policy development, and program oversight among these offices. The Order provided that the Departmental Office of Civil Rights will act as the lead office in the Office of Secretary for the DBE program. The Operating Administrations will continue to be the first points of contacts regarding, and primarily responsible for overseeing and enforcing, the day-to-day administration of the program by recipients.

The USDOT Order also established a framework for coordination, overall policy development, and program oversight among these offices. The Order provided that these offices will engage in systematic coordination regarding the administration and implementation of the DBE program by DOT recipients.

The Order sets forth specific programmatic responsibilities for the Departmental Office of Civil Rights, the rules and responsibilities of the General Counsel as Chief Legal officer of the USDOT, and the Office of Small and Disadvantaged Business Utilization within the Office of the Secretary. The Order clarified rules and responsibilities for the Operating Administrations in their overseeing of the day-to-day administration of the Federal DBE Program by recipients, providing training and technical assistance, maintaining current and up-to-date DBE websites and, taking appropriate actions to ensure program compliance.

The USDOT Order also established the DBE Oversight and Compliance Council that will facilitate collaboration, communication, and accountability among the DOT components responsible for the DBE program oversight, and assist in the formulation of policy regarding DBE program management and operation. The Order provided that the Office of the General Counsel established DBE Working Group, which generates rules changes and official DOT guidance, will continue to coordinate the development of formal and informal guidance and interpretations, and to ensure

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<sup>80</sup> *Id.*

<sup>81</sup> *Id.*

consistent and clear communications regarding the application and interpretation of DBE program requirements.

The USDOT Order 4220.1 may be found at: [www.civilrights.dot.gov/disadvantaged-business-enterprise](http://www.civilrights.dot.gov/disadvantaged-business-enterprise).

**MAP-21 (July 2012).**

In the 2012 Moving Ahead for Progress in the 21st Century Act (MAP-21), Congress provided “Findings” that “discrimination and related barriers” “merit the continuation of the” Federal DBE Program.<sup>82</sup> In MAP-21, Congress specifically found as follows:

- “(A) While significant progress has occurred due to the establishment of the disadvantaged business enterprise program, discrimination and related barriers continue to pose significant obstacles for minority- and women-owned businesses seeking to do business in federally-assisted surface transportation markets across the United States;
- (B) The continuing barriers described in subparagraph (A) merit the continuation of the disadvantaged business enterprise program;
- (C) Congress has received and reviewed testimony and documentation of race and gender discrimination from numerous sources, including congressional hearings and roundtables, scientific reports, reports issued by public and private agencies, news stories, reports of discrimination by organizations and individuals, and discrimination lawsuits, which show that race- and gender-neutral efforts alone are insufficient to address the problem;
- (D) The testimony and documentation described in subparagraph (C) demonstrate that discrimination across the United States poses a barrier to full and fair participation in surface transportation-related businesses of women business owners and minority business owners and has impacted firm development and many aspects of surface transportation-related business in the public and private markets; and
- (E) The testimony and documentation described in subparagraph (C) provide a strong basis that there is a compelling need for the continuation of the disadvantaged business enterprise program to address race and gender discrimination in surface transportation-related business.”<sup>83</sup>

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<sup>82</sup> Pub L. 112-141, H.R. 4348, § 1101(b), July 6, 2012, 126 Stat 405.

<sup>83</sup> Pub L. 112-141, H.R. 4348, § 1101(b), July 6, 2012, 126 Stat 405.



Thus, Congress in MAP-21 determined based on testimony and documentation of race and gender discrimination that there was “a compelling need for the continuation of the” Federal DBE Program.<sup>84</sup>

**USDOT Final Rule, 76 Fed. Reg. 5083 (January 28, 2011).**

The United States Department of Transportation promulgated a Final Rule on January 28, 2011, effective February 28, 2011, 76 Fed. Reg. 5083 (January 28, 2011) (“2011 Final Rule”) amending the Federal DBE Program at 49 CFR Part 26.

The Department stated in the 2011 Final Rule with regard to disparity studies and in calculating goals, that it agrees “it is reasonable, in calculating goals and in doing disparity studies, to consider potential DBEs (e.g., firms apparently owned and controlled by minorities or women that have not been certified under the DBE program) as well as certified DBEs. This is consistent with good practice in the field as well as with DOT guidance.”<sup>85</sup>

The United States DOT in the 2011 Final Rule stated that there was a continuing compelling need for the DBE program.<sup>86</sup> The DOT concluded that, as court decisions have noted, the DOT’s DBE regulations and the statutes authorizing them, “are supported by a compelling need to address discrimination and its effects.”<sup>87</sup> The DOT said that the “basis for the program has been established by Congress and applies on a nationwide basis . . .,” noted that both the House and Senate Federal Aviation Administration (“FAA”) Reauthorization Bills contained findings reaffirming the compelling need for the program, and referenced additional information presented to the House of Representatives in a March 26, 2009 hearing before the Transportation and Infrastructure Committee, and a Department of Justice document entitled “The Compelling Interest for Race- and Gender-Conscious Federal Contracting Programs: A Decade Later An Update to the May 23, 1996 Review of Barriers for Minority- and Women-Owned Businesses.”<sup>88</sup> This information, the DOT stated, “confirms the continuing compelling need for race- and gender-conscious programs such as the DOT DBE program.”<sup>89</sup>

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<sup>84</sup> *Id.*

<sup>85</sup> 76 F.R. at 5092.

<sup>86</sup> 76 F.R. at 5095.

<sup>87</sup> 76 F.R. at 5095.

<sup>88</sup> *Id.*

<sup>89</sup> *Id.*

## 2. Strict Scrutiny Analysis

A race- and ethnicity-based program implemented by a state or local government is subject to the strict scrutiny constitutional analysis.<sup>90</sup> The implementation of the Federal DBE Program and ACDBE Program by state DOTs and recipients of federal funds are subject to and must follow the strict scrutiny analysis if they utilize race- and ethnicity-based measures.<sup>91</sup> The strict scrutiny analysis is comprised of two prongs:

- The program must serve an established compelling governmental interest; and
- The program must be narrowly tailored to achieve that compelling government interest.<sup>92</sup>

### a. The Compelling Governmental Interest Requirement.

The first prong of the strict scrutiny analysis requires a governmental entity to have a “compelling governmental interest” in remedying past identified discrimination in order to implement a race- and ethnicity-based program.<sup>93</sup> State and local governments cannot rely on national statistics of discrimination in an industry to draw conclusions about the prevailing market conditions in their own regions.<sup>94</sup> Rather, state and local governments must measure discrimination in their state or local market. However, that is not necessarily confined by the jurisdiction’s boundaries.<sup>95</sup>

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<sup>90</sup> *Crosan*, 448 U.S. at 492-493; *Adarand Constructors, Inc. v. Peña (Adarand I)*, 515 U.S. 200, 227 (1995); See *Fisher v. University of Texas*, 133 S.Ct. 2411 (2013); *AGC, SDC v. Caltrans*, 713 F.3d 1187, 1195-1200 (9th Cir. 2013); *Northern Contracting*, 473 F.3d at 721; *Western States Paving*, 407 F.3d at 991; *Sherbrooke Turf*, 345 F.3d at 969; *Adarand VII*, 228 F.3d at 1176; see, e.g., *H. B. Rowe*, 615.3d 233, 241-242 (4th Cir. 2010); *Associated Gen. Contractors of Ohio, Inc. v. Drabik (“Drabik II”)*, 214 F.3d 730 (6th Cir. 2000); *Eng’g Contractors Ass’n of South Florida, Inc. v. Metro. Dade County*, 122 F.3d 895 (11th Cir. 1997); *Contractors Ass’n of E. Pa. v. City of Philadelphia (“CAEP I”)*, 6 F.3d 990 (3d Cir. 1993).

<sup>91</sup> *Adarand I*, 515 U.S. 200, 227 (1995); *Mountain West Holding*, 2017 WL 2179120; *Midwest Fence*, 840 F.3d 930; *Dunnet Bay*, 799 F.3d 676; *AGC, SDC v. Caltrans*, 713 F.3d 1187, 1195-1200 (9th Cir. 2013); *Northern Contracting*, 473 F.3d at 721; *Western States Paving*, 407 F.3d at 991 (9th Cir. 2005); *Sherbrooke Turf*, 345 F.3d at 969; *Adarand VII*, 228 F.3d at 1176; *M.K. Weeden Construction*, 2013 WL 4774517; *South Florida*, 544 F.Supp. 2d 1336; *Geod Corp.*, 746 F.Supp. 2d 642.

<sup>92</sup> *Adarand I*, 515 U.S. 200, 227 (1995); *Midwest Fence v. Illinois DOT*, 840 F.3d 932, 935, 948-954 (7th Cir. 2016); *AGC, SDC v. Caltrans*, 713 F.3d 1187, 1195-1200 (9th Cir. 2013); *H. B. Rowe Co., Inc. v. NCDOT*, 615 F.3d 233, 241-242 (4th Cir. 2010); *Northern Contracting*, 473 F.3d at 721; *Western States Paving*, 407 F.3d at 991 (9th Cir. 2005); *Sherbrooke Turf*, 345 F.3d at 969; *Adarand VII*, 228 F.3d at 1176 (10th Cir. 2000); *Associated Gen. Contractors of Ohio, Inc. v. Drabik (“Drabik II”)*, 214 F.3d 730 (6th Cir. 2000); *W.H. Scott Constr. Co. v. City of Jackson, Mississippi*, 199 F.3d 206 (5th Cir. 1999); *Eng’g Contractors Ass’n of South Florida, Inc. v. Metro. Dade County*, 122 F.3d 895 (11th Cir. 1997); *Contractors Ass’n of E. Pa. v. City of Philadelphia (“CAEP II”)*, 91 F.3d 586 (3d Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia (“CAEP I”)*, 6 F.3d 990 (3d Cir. 1993).

<sup>93</sup> *Id.*

<sup>94</sup> *Id.*; see e.g., *Concrete Works, Inc. v. City and County of Denver (“Concrete Works I”)*, 36 F.3d 1513, 1520 (10th Cir. 1994).

<sup>95</sup> See, e.g., *Concrete Works I*, 36 F.3d at 1520.

The federal courts have held that, with respect to the Federal DBE Program, recipients of federal funds do not need to independently satisfy this prong because Congress has satisfied the compelling interest test of the strict scrutiny analysis.<sup>96</sup> The federal courts also have held that Congress had ample evidence of discrimination in the transportation contracting industry to justify the Federal DBE Program (TEA-21), and the federal regulations implementing the program (49 CFR Part 26).<sup>97</sup>

It is instructive to the study to review the type of evidence utilized by Congress and considered by the courts to support the Federal DBE Program, and its implementation by local and state governments and agencies, which is similar to evidence considered by cases ruling on the validity of MBE/WBE/DBE programs. The federal courts found Congress “spent decades compiling evidence of race discrimination in government highway contracting, of barriers to the formation of minority-owned construction businesses, and of barriers to entry.”<sup>98</sup> The evidence found to satisfy the compelling interest standard included numerous congressional investigations and hearings, and outside studies of statistical and anecdotal evidence (e.g., disparity studies).<sup>99</sup> The evidentiary basis on which Congress relied to support its finding of discrimination includes:

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<sup>96</sup> *N. Contracting*, 473 F.3d at 721; *Western States Paving*, 407 F.3d at 991; *Sherbrooke Turf*, 345 F.3d at 969; *Adarand VII*, 228 F.3d at 1176; *See Midwest Fence*, 840 F.3d 932, 2016 WL 6543514 (7th Cir. 2016), and *affirming*, 84 F. Supp. 3d 705, 2015 WL 1396376.

<sup>97</sup> *Id.* In the case of *Rothe Dev. Corp. v. U.S. Dept. of Defense*, 545 F.3d 1023 (Fed. Cir. 2008), the Federal Circuit Court of Appeals pointed out it had questioned in its earlier decision whether the evidence of discrimination before Congress was in fact so “outdated” so as to provide an insufficient basis in evidence for the Department of Defense program (*i.e.*, whether a compelling interest was satisfied). 413 F.3d 1327 (Fed. Cir. 2005). The Federal Circuit Court of Appeals after its 2005 decision remanded the case to the district court to rule on this issue. *Rothe* considered the validity of race- and gender-conscious Department of Defense (“DOD”) regulations (2006 Reauthorization of the 1207 Program). The decisions in *N. Contracting*, *Sherbrooke Turf*, *Adarand VII*, and *Western States Paving* held the evidence of discrimination nationwide in transportation contracting was sufficient to find the Federal DBE Program on its face was constitutional. On remand, the district court in *Rothe* on August 10, 2007 issued its order denying plaintiff *Rothe’s* Motion for Summary Judgment and granting Defendant United States Department of Defense’s Cross-Motion for Summary Judgment, holding the 2006 Reauthorization of the 1207 DOD Program constitutional. *Rothe Dev. Corp. v. U.S. Dept. of Defense*, 499 F.Supp.2d 775 (W.D. Tex. 2007). The district court found the data contained in the Appendix (The Compelling Interest, 61 Fed. Reg. 26050 (1996)), the Urban Institute Report, and the Benchmark Study – relied upon in part by the courts in *Sherbrooke Turf*, *Adarand VII*, and *Western States Paving* in upholding the constitutionality of the Federal DBE Program – was “stale” as applied to and for purposes of the 2006 Reauthorization of the 1207 DOD Program. This district court finding was not appealed or considered by the Federal Circuit Court of Appeals. 545 F.3d 1023, 1037. The Federal Circuit Court of Appeals reversed the district court decision in part and held invalid the DOD Section 1207 program as enacted in 2006. 545 F.3d 1023, 1050. See the discussion of the 2008 Federal Circuit Court of Appeals decision below in Section G. *see, also*, the discussion below in Section G of the 2012 district court decision in *DynaLantic Corp. v. U.S. Department of Defense, et al.*, 885 F.Supp.2d 237, (D.D.C.). Recently, in *Rothe Development, Inc. v. U.S. Dept of Defense and U.S. S.B.A.*, 836 F.3d 57, 2016 WL 4719049 (D.C. Cir. Sept. 9, 2016), the United States Court of Appeals, District of Columbia Circuit, upheld the constitutionality of the Section 8(a) Program on its face, finding the Section 8(a) statute was race-neutral. The Court of Appeals affirmed on other grounds the district court decision that had upheld the constitutionality of the Section 8(a) Program. The district court had found the federal government’s evidence of discrimination provided a sufficient basis for the Section 8(a) Program. 107 F.Supp. 3d 183, 2015 WL 3536271 (D. D.C. June 5, 2015). See the discussion of the 2016 and 2015 decisions in *Rothe* in Section G below.

<sup>98</sup> *Sherbrooke Turf*, 345 F.3d at 970, (*citing Adarand VII*, 228 F.3d at 1167 – 76); *Western States Paving*, 407 F.3d at 992-93; *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>99</sup> *See, e.g., Adarand VII*, 228 F.3d at 1167– 76; *see also Western States Paving*, 407 F.3d at 992 (Congress “explicitly relied upon” the Department of Justice study that “documented the discriminatory hurdles that minorities must overcome to secure federally funded contracts”); *Geyer Signal, Inc.*, 2014 WL 1309092.

- **Barriers to minority business formation.** Congress found that discrimination by prime contractors, unions, and lenders has woefully impeded the formation of qualified minority business enterprises in the subcontracting market nationwide, noting the existence of “good ol’ boy” networks, from which minority firms have traditionally been excluded, and the race-based denial of access to capital, which affects the formation of minority subcontracting enterprise.<sup>100</sup>
- **Barriers to competition for existing minority enterprises.** Congress found evidence showing systematic exclusion and discrimination by prime contractors, private sector customers, business networks, suppliers, and bonding companies precluding minority enterprises from opportunities to bid. When minority firms are permitted to bid on subcontracts, prime contractors often resist working with them. Congress found evidence of the same prime contractor using a minority business enterprise on a government contract not using that minority business enterprise on a private contract, despite being satisfied with that subcontractor’s work. Congress found that informal, racially exclusionary business networks dominate the subcontracting construction industry.<sup>101</sup>
- **Local disparity studies.** Congress found that local studies throughout the country tend to show a disparity between utilization and availability of minority-owned firms, raising an inference of discrimination.<sup>102</sup>
- **Results of removing affirmative action programs.** Congress found evidence that when race-conscious public contracting programs are struck down or discontinued, minority business participation in the relevant market drops sharply or even disappears, which courts have found strongly supports the government’s claim that there are significant barriers to minority competition, raising the specter of discrimination.<sup>103</sup>
- **FAST Act and MAP-21.** In December 2015 and in July 2012, Congress passed the FAST Act and MAP-21, respectively (see above), which made “Findings” that “discrimination and related barriers continue to pose significant obstacles for minority- and women-owned businesses seeking to do business in federally-assisted surface transportation markets,” and that the continuing barriers “merit the continuation” of the Federal DBE Program.<sup>104</sup> Congress also found in both the FAST Act and MAP-21 that it received and reviewed testimony and documentation of race and gender discrimination which “provide a strong basis that there is a compelling need for the continuation of the” Federal DBE Program.<sup>105</sup>

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<sup>100</sup> *Adarand VII*, 228 F.3d. at 1168-70; *Western States Paving*, 407 F.3d at 992; see *Geyer Signal, Inc.*, 2014 WL 1309092; *DynaLantic*, 885 F.Supp.2d 237.

<sup>101</sup> *Adarand VII*. at 1170-72; see *DynaLantic*, 885 F.Supp.2d 237.

<sup>102</sup> *Id.* at 1172-74; see *DynaLantic*, 885 F.Supp.2d 237; *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>103</sup> *Adarand VII*, 228 F.3d at 1174-75; see *H. B. Rowe*, 615 F.3d 233, 247-258 (4th Cir. 2010); *Sherbrooke Turf*, 345 F.3d at 973-4.

<sup>104</sup> Pub L. 114-94, H.R. 22, §1101(b), December 4, 2015, 129 Stat 1312; Pub L. 112-141, H.R. 4348, § 1101(b), July 6, 2012, 126 Stat 405.

<sup>105</sup> *Id.* at § 1101(b)(1).

**Burden of proof.** Under the strict scrutiny analysis, and to the extent a state or local governmental entity has implemented a race-ethnic- and gender-conscious program, the governmental entity has the initial burden of showing a strong basis in evidence (including statistical and anecdotal evidence) to support its remedial action.<sup>106</sup> If the government makes its initial showing, the burden shifts to the challenger to rebut that showing.<sup>107</sup> The challenger bears the ultimate burden of showing that the governmental entity's evidence "did not support an inference of prior discrimination."<sup>108</sup>

In applying the strict scrutiny analysis, the courts hold that the burden is on the government to show both a compelling interest and narrow tailoring.<sup>109</sup> It is well established that "remediating the effects of past or present racial discrimination" is a compelling interest.<sup>110</sup> In addition, the government must also demonstrate "a strong basis in evidence for its conclusion that remedial action [is] necessary."<sup>111</sup>

Since the decision by the Supreme Court in *Croson*, "numerous courts have recognized that disparity studies provide probative evidence of discrimination."<sup>112</sup> "An inference of discrimination may be made with empirical evidence that demonstrates 'a significant statistical disparity between a number of qualified minority contractors ... and the number of such contractors actually engaged by the

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<sup>106</sup> See *AGC, SDC v. Caltrans*, 713 F.3d at 1195; *H. B. Rowe v. NCDOT*, 615 F.3d 233, 241-242 (4th Cir. 2010); *Rothe Development Corp. v. Department of Defense*, 545 F.3d 1023, 1036 (Fed. Cir. 2008); *N. Contracting, Inc. Illinois*, 473 F.3d at 715, 721 (7th Cir. 2007) (Federal DBE Program); *Western States Paving Co. v. Washington State DOT*, 407 F.3d 983, 990-991 (9th Cir. 2005) (Federal DBE Program); *Sherbrooke Turf, Inc. v. Minnesota DOT*, 345 F.3d 964, 969 (8th Cir. 2003) (Federal DBE Program); *Adarand Constructors Inc. v. Slater* ("Adarand VIP"), 228 F.3d 1147, 1166 (10th Cir. 2000) (Federal DBE Program); *Eng'g Contractors Ass'n*, 122 F.3d at 916; *Monterey Mechanical Co. v. Wilson*, 125 F.3d 702, 713 (9th Cir. 1997); *Contractors Ass'n of E. Pennsylvania v. City of Philadelphia*, 91 F.3d 586, 596-598 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 996, 1005-1007 (3d Cir. 1993); *Geyer Signal, Inc.*, 2014 WL 1309092; *DynaLantic*, 885 F.Supp.2d 237, 2012 WL 3356813; *Hersbell Gill Consulting Engineers, Inc. v. Miami Dade County*, 333 F. Supp.2d 1305, 1316 (S.D. Fla. 2004).

<sup>107</sup> *Adarand VII*, 228 F.3d at 1166; *Eng'g Contractors Ass'n*, 122 F.3d at 916; *Contractors Ass'n of E. Pennsylvania v. City of Philadelphia*, 91 F.3d 586, 596-598 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 996, 1005-1007 (3d Cir. 1993); *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>108</sup> See, e.g., *Adarand VII*, 228 F.3d at 1166; *Eng'g Contractors Ass'n*, 122 F.3d at 916; *Contractors Ass'n of E. Pennsylvania v. City of Philadelphia*, 91 F.3d 586, 596-598 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 996, 1005-1007 (3d Cir. 1993); see also *Sherbrooke Turf*, 345 F.3d at 971; *N. Contracting*, 473 F.3d at 721; *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>109</sup> *Id.*; *Midwest Fence*, 840 F.3d 932, 935, 948-954 (7th Cir. 2016); *H. B. Rowe v. NCDOT*, 615 F.3d 233, 241-242 (4th Cir. 2010); *Western States Paving*, 407 F.3d at 990; see also *Majeske v. City of Chicago*, 218 F.3d 816, 820 (7th Cir. 2000); *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>110</sup> *Shaw v. V. Hunt*, 517 U.S. 899, 909 (1996); *City of Richmond v. J. A. Croson Co.*, 488 U.S. 469, 492 (1989); see *Midwest Fence*, 840 F.3d 932, 935, 948-954 (7th Cir. 2016); *Contractors Ass'n of E. Pennsylvania v. City of Philadelphia*, 91 F.3d 586, 596-598 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 996, 1005-1007 (3d Cir. 1993).

<sup>111</sup> *Croson*, 488 U.S. at 500; see e.g., *Midwest Fence*, 840 F.3d 932, 935, 948-954 (7th Cir. 2016); *H. B. Rowe v. NCDOT*, 615 F.3d 233, 241-242 (4th Cir. 2010); *Sherbrooke Turf*, 345 F.3d at 971-972; *Contractors Ass'n of E. Pennsylvania v. City of Philadelphia*, 91 F.3d 586, 596-598 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 996, 1005-1007 (3d Cir. 1993); *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>112</sup> *Midwest Fence*, 2015 W.L. 1396376 at \*7 (N.D. Ill. 2015), *affirmed*, 840 F.3d 932 (7th Cir. 2016); see, e.g., *Midwest Fence*, 840 F.3d 932, 935, 948-954 (7th Cir. 2016); *AGC, SDC v. Caltrans*, 713 F.3d at 1195-1200; *H. B. Rowe v. NCDOT*, 615 F.3d 233 (4th Cir. 2010); *Concrete Works of Colo. Inc. v. City and County of Denver*, 36 F.3d 1513, 1522 (10th Cir. 1994); *Geyer Signal, Inc.*, 2014 WL 1309092 (D. Minn. 2014); see also, *Contractors Ass'n of E. Pennsylvania v. City of Philadelphia*, 91 F.3d 586, 596-598 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 996, 1005-1007 (3d Cir. 1993).

locality or the locality's prime contractors.”<sup>113</sup> Anecdotal evidence may be used in combination with statistical evidence to establish a compelling governmental interest.<sup>114</sup>

In addition to providing “hard proof” to support its compelling interest, the government must also show that the challenged program is narrowly tailored.<sup>115</sup> Once the governmental entity has shown acceptable proof of a compelling interest and remedying past discrimination and illustrated that its plan is narrowly tailored to achieve this goal, the party challenging the affirmative action plan bears the ultimate burden of proving that the plan is unconstitutional.<sup>116</sup> Therefore, notwithstanding the burden of initial production rests with the government, the ultimate burden remains with the party challenging the application of a DBE, ACDBE or MBE/WBE Program to demonstrate the unconstitutionality of an affirmative-action type program.<sup>117</sup>

To successfully rebut the government's evidence, a challenger must introduce “credible, particularized evidence” of its own that rebuts the government's showing of a strong basis in evidence.<sup>118</sup> This rebuttal can be accomplished by providing a neutral explanation for the disparity between MBE/WBE/DBE utilization and availability, showing that the government's data is flawed, demonstrating that the observed disparities are statistically insignificant, or presenting contrasting statistical data.<sup>119</sup> Conjecture and unsupported criticisms of the government's methodology are

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<sup>113</sup> See, e.g., *Midwest Fence*, 840 F.3d 932 (7th Cir. 2016); *AGC, SDC v. Caltrans*, 713 F.3d 1187 (9th Cir. 2013); *H. B. Rowe v. NCDOT*, 615 F.3d 233, 241-242 (4th Cir. 2010); *Midwest Fence*, 2015 WL 1396376 at \*7, quoting *Concrete Works*, 36 F.3d 1513, 1522 (quoting *Croson*, 488 U.S. at 509), affirmed 840 F.3d 932 (7th Cir. 2016); see also, *Sherbrooke Turf*, 345 F.3d at 973 (8th Cir. 2003); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 596-598, 603 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 996, 1002-1007 (3d Cir. 1993).

<sup>114</sup> *Croson*, 488 U.S. at 509; see, e.g., *AGC, SDC v. Caltrans*, 713 R.3d at 1196; *Midwest Fence*, 2015 WL 1396376 at \*7, affirmed, 840 F.3d 932 (7th Cir. 2016); *H. B. Rowe v. NCDOT*, 615 F.3d 233, 241-242 (4th Cir. 2010); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 596-598, 603 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 996, 1002-1007 (3d Cir. 1993).

<sup>115</sup> *Adarand Constructors, Inc. v. Peña*, (“*Adarand III*”), 515 U.S. 200 at 235 (1995); See, e.g., *Midwest Fence*, 840 F.3d 932, 935, 948-954 (7th Cir. 2016); *Majeske v. City of Chicago*, 218 F.3d at 820; *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 596-598, 603 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 996, 1002-1007 (3d Cir. 1993).

<sup>116</sup> *Majeske*, 218 F.3d at 820; see, e.g., *Wygant v. Jackson Bd. Of Educ.*, 476 U.S. 267, 277-78; *Midwest Fence*, 840 F.3d 932, 952-954 (7th Cir. 2016); *Midwest Fence*, 2015 WL 1396376 \*7, affirmed, 840 F.3d 932; *Geyer Signal, Inc.*, 2014 WL 1309092; *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 596-598, 603 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 996, 1002-1007 (3d Cir. 1993)

<sup>117</sup> *Id.*; *Adarand VII*, 228 F.3d at 1166.

<sup>118</sup> See e.g., *H.B. Rowe v. North Carolina DOT* (4th Cir. 2010), 615 F.3d 233, at 241-242; *Concrete Works*, 321 F.3d 950, 959 (quoting *Adarand Constructors, Inc. vs. Slater*, 228 F.3d 1147, 1175 (10th Cir. 2000)); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 596-598, 603 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 996, 1002-1007 (3d Cir. 1993); *Midwest Fence*, 2015 WL 1396376 at \*7, affirmed, 840 F.3d 932 (7th Cir. 2016); see also, *Sherbrooke Turf*, 345 F.3d at 971-974; *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>119</sup> See e.g., *H.B. Rowe v. North Carolina DOT* (4th Cir. 2010), 615 F.3d 233, at 241-242; *Concrete Works*, 321 F.3d 950, 959 (quoting *Adarand Constructors, Inc. vs. Slater*, 228 F.3d 1147, 1175 (10th Cir. 2000)); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 596-598, 603 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 996, 1002-1007 (3d Cir. 1993); *Midwest Fence*, 2015 WL 1396376 at \*7, affirmed, 840 F.3d 932 (7th Cir. 2016); see also, *Sherbrooke Turf*, 345 F.3d at 971-974; *Geyer Signal, Inc.*, 2014 WL 1309092; see generally, *Engineering Contractors*, 122 F.3d at 916; *Coral Construction, Co. v. King County*, 941 F.2d 910, 921 (9th Cir. 1991).

insufficient.<sup>120</sup> The courts have held that mere speculation the government’s evidence is insufficient or methodologically flawed does not suffice to rebut a government’s showing.<sup>121</sup>

The courts have stated that “it is insufficient to show that ‘data was susceptible to multiple interpretations,’ instead, plaintiffs must ‘present affirmative evidence that no remedial action was necessary because minority-owned small businesses enjoy non-discriminatory access to and participation in highway contracts.’”<sup>122</sup> The courts hold that in assessing the evidence offered in support of a finding of discrimination, it considers “both direct and circumstantial evidence, including post-enactment evidence introduced by defendants as well as the evidence in the legislative history itself.”<sup>123</sup>

The courts have noted that “there is no ‘precise mathematical formula to assess the quantum of evidence that rises to the *Croson* ‘strong basis in evidence’ benchmark.”<sup>124</sup> It has been held that a state need not conclusively prove the existence of past or present racial discrimination to establish a strong basis in evidence for concluding that remedial action is necessary.<sup>125</sup> Instead, the Supreme Court stated that a government may meet its burden by relying on “a significant statistical disparity” between the availability of qualified, willing and able minority subcontractors and the utilization of such subcontractors by the governmental entity or its prime contractors.<sup>126</sup> It has been further held that the statistical evidence be “corroborated by significant anecdotal evidence of racial discrimination” or bolstered by anecdotal evidence supporting an inference of discrimination.<sup>127</sup>

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<sup>120</sup> See e.g., *H.B. Rowe v. North Carolina DOT*, 615 F.3d 233, at 241-242 (4th Cir. 2010); *Concrete Works*, 321 F.3d 950, 959 (quoting *Adarand Constructors, Inc. vs. Slater*, 228 F.3d 1147, 1175 (10th Cir. 2000)); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 596-598, 603 (3d Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d 996, 1002-1007 (3d Cir. 1993); *Midwest Fence*, 2015 WL 1396376 at \*7, affirmed, 840 F.3d 932 (7th Cir. 2016); see also, *Midwest Fence*, 840 F.3d 932, 952-954 (7th Cir. 2016); *Sherbrooke Turf*, 345 F.3d at 971-974; *Kossmann Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016); *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>121</sup> *Midwest Fence*, 840 F.3d 932, 952-954 (7th Cir. 2016); *H.B. Rowe*, 615 F.3d 233, at 242; see *Concrete Works*, 321 F.3d at 991; see also, *Sherbrooke Turf*, 345 F.3d at 971-974; *Kossmann Contracting Co., Inc. v. City of Houston*, 2016 W.L. 1104363 (S.D. Tex. 2016); *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>122</sup> *Geyer Signal, Inc.*, 2014 WL 1309092, quoting *Sherbrooke Turf*, 345 F.3d at 970.

<sup>123</sup> *Id.*, quoting *Adarand Constructors, Inc.*, 228 F.3d at 1166; see, e.g., *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 597 (3d Cir. 1996).

<sup>124</sup> *H.B. Rowe*, 615 F.3d at 241, quoting *Rothe Dev. Corp. v. Dep’t of Def.*, 545 F.3d 1023, 1049 (Fed. Cir. 2008) (quoting *W.H. Scott Constr. Co. v. City of Jackson*, 199 F.3d 206, 218 n. 11 (5th Cir. 1999)); *W.H. Scott Constr. Co. v. City of Jackson, Mississippi*, 199 F.3d 206, 217-218 (5th Cir. 1999); see, *Contractors Ass’n of E. Pa. v. City of Philadelphia* (“CAEP II”), 91 F.3d 586, 596-598; 603; (3d Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia* (“CAEP I”), 6 F.3d 996, 1002-1007 (3d Cir. 1993);

<sup>125</sup> *H.B. Rowe Co.*, 615 F.3d at 241; see, e.g., *Midwest Fence*, 840 F.3d 932, 952-954 (7th Cir. 2016); *Concrete Works*, 321 F.3d at 958; see, *Contractors Ass’n of E. Pa. v. City of Philadelphia* (“CAEP II”), 91 F.3d 586, 596-598; 603; (3d Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia* (“CAEP I”), 6 F.3d 996, 1002-1007 (3d Cir. 1993).

<sup>126</sup> *Croson*, 488 U.S. 509, see, e.g., *Midwest Fence*, 840 F.3d 932, 952-954 (7th Cir. 2016); *H.B. Rowe*, 615 F.3d at 241; *Contractors Ass’n of E. Pa. v. City of Philadelphia* (“CAEP II”), 91 F.3d 586, 596-598; 603; (3d Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia* (“CAEP I”), 6 F.3d 996, 1002-1007 (3d Cir. 1993).

<sup>127</sup> *H.B. Rowe*, 615 F.3d at 241, quoting *Maryland Troopers Association, Inc. v. Evans*, 993 F.2d 1072, 1077 (4th Cir. 1993); see, e.g., *Midwest Fence*, 840 F.3d 932, 952-954 (7th Cir. 2016); *AGC, San Diego v. Caltrans*, 713 F.3d at 1196; see also, *Contractors Ass’n of E. Pa. v. City of Philadelphia* (“CAEP II”), 91 F.3d 586, 596-598; 603; (3d Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia* (“CAEP I”), 6 F.3d 996, 1002-1007 (3d Cir. 1993); *Kossmann Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016).

The courts have stated the strict scrutiny standard is applicable to justify a race-conscious measure, and that it is a substantial burden but not automatically “fatal in fact.”<sup>128</sup> In so acting, a governmental entity must demonstrate it had a compelling interest in “remediating the effects of past or present racial discrimination.”<sup>129</sup>

Thus, courts have held that to justify a race-conscious measure, a government must identify that discrimination, public or private, with some specificity, and must have a strong basis in evidence for its conclusion that remedial action is necessary.<sup>130</sup>

**Statistical evidence.** Statistical evidence of discrimination is a primary method used to determine whether or not a strong basis in evidence exists to develop, adopt and support a remedial program (i.e., to prove a compelling governmental interest), or in the case of a state DOT or recipient of USDOT funds complying with the Federal DBE Program or ACDBE Program, to prove narrow tailoring by the state DOT or recipient implementing the Federal DBE Program or ACDBE Program at the state DOT or recipient level.<sup>131</sup> “Where gross statistical disparities can be shown, they alone in a proper case may constitute prima facie proof of a pattern or practice of discrimination.”<sup>132</sup>

One form of statistical evidence is the comparison of a government’s utilization of MBE/WBEs compared to the relative availability of qualified, willing and able MBE/WBEs.<sup>133</sup> The federal courts have held that a significant statistical disparity between the utilization and availability of minority- and

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<sup>128</sup> See, e.g., *Concrete Works of Colorado v. City and County of Denver*, 321 F.3d at 957-959 (10th Cir. 2003); *Adarand VII*, 228 F.3d 1147 (10th Cir. 2000); see, e.g., *H. B. Rowe*, 615 F.3d at 241; 615 F.3d 233 at 241.

<sup>129</sup> See, e.g., *Concrete Works of Colorado v. City and County of Denver*, 321 F.3d at 957-959 (10th Cir. 2003); *Adarand VII*, 228 F.3d 1147 (10th Cir. 2000); see, also *H. B. Rowe*; quoting *Shaw v. Hunt*, 517 U.S. 899, 909 (1996).

<sup>130</sup> See, e.g., *Concrete Works of Colorado v. City and County of Denver*, 321 F.3d at 957-959 (10th Cir. 2003); *Adarand VII*, 228 F.3d 1147 (10th Cir. 2000); *H. B. Rowe*; 615 F.3d 233 at 241 quoting *Croson*, 488 U.S. at 504 and *Wygant v. Jackson Board of Education*, 476 U.S. 267, 277 (1986) (plurality opinion); see, *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 596-605 (3d Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d 990, 999, 1002, 1005-1008 (3d Cir. 1993).

<sup>131</sup> See, e.g., *Croson*, 488 U.S. at 509; *Midwest Fence*, 840 F.3d 932, 935, 948-954 (7th Cir. 2016); *AGC, SDC v. Caltrans*, 713 F.3d at 1195-1196; *N. Contracting*, 473 F.3d at 718-19, 723-24; *Western States Paving*, 407 F.3d at 991; *Sherbrooke Turf*, 345 F.3d at 973-974; *Adarand VII*, 228 F.3d at 1166; *W.H. Scott Constr. Co. v. City of Jackson, Mississippi*, 199 F.3d 206, 217-218 (5th Cir. 1999); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 596-605; *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d 990, 999, 1002, 1005-1008 (3d Cir. 1993); see also, *Concrete Works*, 321 F.3d 950, 959 (10th Cir. 2003); *Kossmann Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016); *Geyer Signal*, 2014 WL 1309092.

<sup>132</sup> *Croson*, 488 U.S. at 501, quoting *Hazelwood School Dist. v. United States*, 433 U.S. 299, 307-08 (1977); see *Midwest Fence*, 840 F.3d 932, 948-954; *AGC, SDC v. Caltrans*, 713 F.3d at 1196-1197; *N. Contracting*, 473 F.3d at 718-19, 723-24; *Western States Paving*, 407 F.3d at 991; *Sherbrooke Turf*, 345 F.3d at 973-974; *Adarand VII*, 228 F.3d at 1166; *W.H. Scott Constr. Co. v. City of Jackson, Mississippi*, 199 F.3d 206, 217-218 (5th Cir. 1999).

<sup>133</sup> *Croson*, 488 U.S. at 509; see *Midwest Fence*, 840 F.3d 932, 935, 948-954 (7th Cir. 2016); *AGC, SDC v. Caltrans*, 713 F.3d at 1191-1197; *H. B. Rowe v. NCDOT*, 615 F.3d 233, 241-244 (4th Cir. 2010); *Rotbe*, 545 F.3d at 1041-1042; *Concrete Works of Colo., Inc. v. City and County of Denver* (“*Concrete Works IP*”), 321 F.3d 950, 959 (10th Cir. 2003); *Drabik II*, 214 F.3d 730, 734-736; *W.H. Scott Constr. Co. v. City of Jackson, Mississippi*, 199 F.3d 206, 217-218 (5th Cir. 1999); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 596-605; *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d 990, 999, 1002, 1005-1008 (3d Cir. 1993); see also, *Kossmann Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016).



women-owned firms may raise an inference of discriminatory exclusion.<sup>134</sup> However, a small statistical disparity, standing alone, may be insufficient to establish discrimination.<sup>135</sup>

Other considerations regarding statistical evidence include:

- **Availability analysis.** A disparity index requires an availability analysis. MBE/WBE and DBE (and ACDBE) availability measures the relative number of MBE/WBEs and DBEs (and ACDBEs) among all firms ready, willing and able to perform a certain type of work within a particular geographic market area.<sup>136</sup> There is authority that measures of availability may be approached with different levels of specificity and the practicality of various approaches must be considered,<sup>137</sup> “An analysis is not devoid of probative value simply because it may theoretically be possible to adopt a more refined approach.”<sup>138</sup>
- **Utilization analysis.** Courts have accepted measuring utilization based on the proportion of an agency’s contract dollars going to MBE/WBEs and DBEs.<sup>139</sup>
- **Disparity index.** An important component of statistical evidence is the “disparity index.”<sup>140</sup> A disparity index is defined as the ratio of the percent utilization to the percent availability times 100. A disparity index below 80 has been accepted as evidence of adverse impact. This has been referred to as “The Rule of Thumb” or “The 80 percent Rule.”<sup>141</sup>

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<sup>134</sup> See, e.g., *Crosan*, 488 U.S. at 509; *Midwest Fence*, 840 F.3d 932, 935, 948-954 (7th Cir. 2016); *AGC, SDC v. Caltrans*, 713 F.3d at 1191-1197; *H. B. Rowe v. NCDOT*, 615 F.3d 233, 241-244 (4th Cir. 2010); *Rotbe*, 545 F.3d at 1041; *Concrete Works II*, 321 F.3d at 970; *W.H. Scott Constr. Co. v. City of Jackson, Mississippi*, 199 F.3d 206, 217-218 (5th Cir. 1999); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 596-605; *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d 990, 999, 1002, 1005-1008 (3d Cir. 1993); see also *Western States Paving*, 407 F.3d at 1001; *Kossmann Contracting*, 2016 WL 1104363 (S.D. Tex. 2016).

<sup>135</sup> *Western States Paving*, 407 F.3d at 1001.

<sup>136</sup> See, e.g., *Crosan*, 488 U.S. at 509; 49 CFR § 26.35; *AGC, SDC v. Caltrans*, 713 F.3d at 1191-1197; *Rotbe*, 545 F.3d at 1041-1042; *N. Contracting*, 473 F.3d at 718, 722-23; *Western States Paving*, 407 F.3d at 995; *W.H. Scott Constr. Co. v. City of Jackson, Mississippi*, 199 F.3d 206, 217-218 (5th Cir. 1999); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 602-603 (3d Cir. 1996); see also, *Kossmann Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016).

<sup>137</sup> *Contractors Ass’n of Eastern Pennsylvania, Inc. v. City of Philadelphia (“CAEP II”)*, 91 F.3d 586, 603 (3d Cir. 1996); see, e.g., *AGC, SDC v. Caltrans*, 713 F.3d at 1197, quoting *Crosan*, 488 U.S. at 706 (“degree of specificity required in the findings of discrimination ... may vary.”); *H.B. Rowe v. NCDOT*, 615 F.3d 233, 241-244 (4th Cir. 2010); *W.H. Scott Constr. Co. v. City of Jackson, Mississippi*, 199 F.3d 206, 217-218 (5th Cir. 1999); see also, *Kossmann Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016).

<sup>138</sup> *Id.*

<sup>139</sup> See, e.g., *Midwest Fence*, 840 F.3d 932, 949-953 (7th Cir. 2016); *AGC, SDC v. Caltrans*, 713 F.3d at 1191-1197; *H.B. Rowe v. NCDOT*, 615 F.3d 233, 241-244 (4th Cir. 2010); *Eng’g Contractors Ass’n*, 122 F.3d at 912; *N. Contracting*, 473 F.3d at 717-720; *Sherbrooke Turf*, 345 F.3d at 973.

<sup>140</sup> See, e.g., *Midwest Fence*, 840 F.3d 932, 949-953 (7th Cir. 2016); *H.B. Rowe v. NCDOT*, 615 F.3d 233, 241-244 (4th Cir. 2010); *Eng’g Contractors Ass’n*, 122 F.3d at 914; *W.H. Scott Constr. Co. v. City of Jackson*, 199 F.3d 206, 218 (5th Cir. 1999); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 602-603 (3d Cir. 1996); *Contractors Ass’n of Eastern Pennsylvania, Inc. v. City of Philadelphia*, 6 F.3d 990 at 1005 (3rd Cir. 1993).

<sup>141</sup> See, e.g., *Ricci v. DeStefano*, 557 U.S. 557, 129 S.Ct. 2658, 2678 (2009); *Midwest Fence*, 840 F.3d 932, 950 (7th Cir. 2016); *AGC, SDC v. Caltrans*, 713 F.3d at 1191; *H.B. Rowe Co.*, 615 F.3d 233, 243-245; *Rotbe*, 545 F.3d at 1041; *Eng’g Contractors Ass’n*, 122 F.3d at 914, 923; *Concrete Works I*, 36 F.3d at 1524.

- **Two standard deviation test.** The standard deviation figure describes the probability that the measured disparity is the result of mere chance. Some courts have held that a statistical disparity corresponding to a standard deviation of less than two is not considered statistically significant.<sup>142</sup>

In terms of statistical evidence, Courts have held that a state “need not conclusively prove the existence of past or present racial discrimination to establish a strong basis in evidence,” but rather it may rely on “a significant statistical disparity” between the availability of qualified, willing and able minority subcontractors and the utilization of such subcontractors by the governmental entity or its prime contractors.<sup>143</sup>

**Marketplace discrimination and data.** The Tenth Circuit in *Concrete Works* held the district court erroneously rejected the evidence the local government presented on marketplace discrimination.<sup>144</sup> The court rejected the district court’s “erroneous” legal conclusion that a municipality may only remedy its own discrimination. The court stated this conclusion is contrary to the holdings in its 1994 decision in *Concrete Works II* and the plurality opinion in *Croson*.<sup>145</sup> The court held it previously recognized in this case that “a municipality has a compelling interest in taking affirmative steps to remedy both public and private discrimination specifically identified in its area.”<sup>146</sup> In *Concrete Works II*, the court stated that “we do not read *Croson* as requiring the municipality to identify an exact linkage between its award of public contracts and private discrimination.”<sup>147</sup>

The court stated that the local government could meet its burden of demonstrating its compelling interest with evidence of private discrimination in the local construction industry coupled with evidence that it has become a passive participant in that discrimination.<sup>148</sup> Thus, the local government was not required to demonstrate that it is “guilty of prohibited discrimination” to meet its initial burden.<sup>149</sup>

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<sup>142</sup> See, e.g., *H.B. Rowe Co. v. NCDOT*, 615 F.3d 233, 243-245; *Eng’g Contractors Ass’n*, 122 F.3d at 914, 917, 923. The Eleventh Circuit found that a disparity greater than two or three standard deviations has been held to be statistically significant and may create a presumption of discriminatory conduct.; *Peightal v. Metropolitan Eng’g Contractors Ass’n*, 26 F.3d 1545, 1556 (11th Cir. 1994). The Seventh Circuit Court of Appeals in *Kadas v. MCI Systemhouse Corp.*, 255 F.3d 359 (7th Cir. 2001), raised questions as to the use of the standard deviation test alone as a controlling factor in determining the admissibility of statistical evidence to show discrimination. Rather, the Court concluded it is for the judge to say, on the basis of the statistical evidence, whether a particular significance level, in the context of a particular study in a particular case, is too low to make the study worth the consideration of judge or jury. 255 F.3d at 363.

<sup>143</sup> *H. B. Rowe*, 615 F.3d 233 at 241, citing *Croson*, 488 U.S. at 509 (plurality opinion), and citing *Concrete Works*, 321 F.3d at 958; see, e.g.; *Croson*, 488 U.S. at 509; *Midwest Fence*, 840 F.3d 932, 935, 948-954 (7th Cir. 2016); *AGC, SDC v. Caltrans*, 713 F.3d at 1191-1197; *H. B. Rowe v. NCDOT*, 615 F.3d 233, 241-244 (4th Cir. 2010); *Rothe*, 545 F.3d at 1041; *Concrete Works II*, 321 F.3d at 970; *W.H. Scott Constr. Co. v. City of Jackson, Mississippi*, 199 F.3d 206, 217-218 (5th Cir. 1999); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 596-605; *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d 990, 999, 1002, 1005-1008 (3d Cir. 1993); see also *Western States Paving*, 407 F.3d at 1001; *Kossmann Contracting*, 2016 WL 1104363 (S.D. Tex. 2016).

<sup>144</sup> 321 F.3d at 973.

<sup>145</sup> *Id.*

<sup>146</sup> *Id.*, quoting *Concrete Works II*, 36 F.3d at 1529 (emphasis added).

<sup>147</sup> *Concrete Works*, 321 F.3d 950, 973 (10th Cir. 2003), quoting *Concrete Works II*, 36 F.3d at 1529 (10th Cir. 1994).

<sup>148</sup> *Id.* at 973.

<sup>149</sup> *Id.*

Additionally, the court had previously concluded that the local government’s statistical studies, which compared utilization of MBE/WBEs to availability, supported the inference that “local prime contractors” are engaged in racial and gender discrimination.<sup>150</sup> Thus, the court held the local government’s disparity studies should not have been discounted because they failed to specifically identify those individuals or firms responsible for the discrimination.<sup>151</sup>

The court held the district court, *inter alia*, erroneously concluded that the disparity studies upon which the local government relied were significantly flawed because they measured discrimination in the overall local government MSA construction industry, not discrimination by the municipality itself.<sup>152</sup> The court found that the district court’s conclusion was directly contrary to the holding in *Adarand VII* that evidence of both public and private discrimination in the construction industry is relevant.<sup>153</sup>

Consistent with the court’s mandate in *Concrete Works II*, the local government attempted to show at trial that it “indirectly contributed to private discrimination by awarding public contracts to firms that in turn discriminated against MBE and/or WBE subcontractors in other private portions of their business.”<sup>154</sup> The Tenth Circuit ruled that the local government can demonstrate that it is a “passive participant” in a system of racial exclusion practiced by elements of the local construction industry” by compiling evidence of marketplace discrimination and then linking its spending practices to the private discrimination.<sup>155</sup>

The court in *Concrete Works* rejected the argument that the lending discrimination studies and business formation studies presented by the local government were irrelevant. In *Adarand VII*, the Tenth Circuit concluded that evidence of discriminatory barriers to the formation of businesses by minorities and women and fair competition between MBE/WBEs and majority-owned construction firms shows a “strong link” between a government’s “disbursements of public funds for construction contracts and the channeling of those funds due to private discrimination.”<sup>156</sup>

The court found that evidence that private discrimination resulted in barriers to business formation is relevant because it demonstrates that MBE/WBEs are precluded *at the outset* from competing for public construction contracts. The court also found that evidence of barriers to fair competition is relevant because it again demonstrates that *existing* MBE/WBEs are precluded from competing for public contracts. Thus, like the studies measuring disparities in the utilization of MBE/WBEs in the local government MSA construction industry, studies showing that discriminatory barriers to business formation exist in the local government construction industry are relevant to the municipality’s showing that it indirectly participates in industry discrimination.<sup>157</sup>

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<sup>150</sup> *Id.* at 974, quoting *Concrete Works II*, 36 F.3d at 1529.

<sup>151</sup> *Id.*

<sup>152</sup> *Id.* at 974.

<sup>153</sup> *Id.*, citing *Adarand VII*, 228 F.3d at 1166-67.

<sup>154</sup> *Id.*

<sup>155</sup> *Concrete Works*, 321 F.3d at 976, quoting *Croson*, 488 U.S. at 492.

<sup>156</sup> *Id.* at 977, quoting *Adarand VII*, 228 F.3d at 1167-68.

<sup>157</sup> *Id.* at 977.

The local government also introduced evidence of discriminatory barriers to competition faced by MBE/WBEs in the form of business formation studies. The court held that the district court's conclusion that the business formation studies could not be used to justify the ordinances conflicts with its holding in *Adarand VII*. “[T]he existence of evidence indicating that the number of [MBEs] would be significantly (but unquantifiably) higher but for such barriers is nevertheless relevant to the assessment of whether a disparity is sufficiently significant to give rise to an inference of discriminatory exclusion.”<sup>158</sup>

**Anecdotal evidence.** Anecdotal evidence includes personal accounts of incidents, including of discrimination, told from the witness' perspective. Anecdotal evidence of discrimination, standing alone, generally is insufficient to show a systematic pattern of discrimination.<sup>159</sup> But, the courts point out, including the Ninth Circuit, that personal accounts of actual discrimination may complement empirical evidence and play an important role in bolstering statistical evidence.<sup>160</sup> It has been held that anecdotal evidence of a local or state government's institutional practices that exacerbate discriminatory market conditions are often particularly probative, and that the combination of anecdotal and statistical evidence is “potent.”<sup>161</sup>

Examples of anecdotal evidence may include:

- Testimony of MBE/WBE or DBE (and ACDBE) owners regarding whether they face difficulties or barriers;
- Descriptions of instances in which MBE/WBE or DBE (and ACDBE) owners believe they were treated unfairly or were discriminated against based on their race, ethnicity or gender or believe they were treated fairly without regard to race, ethnicity or gender;
- Statements regarding whether firms solicit, or fail to solicit, bids or price quotes from MBE/WBEs or DBEs (and ACDBEs) on non-goal projects; and
- Statements regarding whether there are instances of discrimination in bidding on specific contracts and in the financing and insurance markets.<sup>162</sup>

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<sup>158</sup> *Id.* at 979, quoting *Adarand VII*, 228 F.3d at 1174.

<sup>159</sup> See, e.g., *AGC, SDC v. Caltrans*, 713 F.3d at 1192, 1196-1198; *Eng'g Contractors Ass'n*, 122 F.3d at 924-25; *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 990, 1002-1003 (3d Cir. 1993); *Coral Constr. Co. v. King County*, 941 F.2d 910, 919 (9th Cir. 1991); *O'Donnel Constr. Co. v. District of Columbia*, 963 F.2d 420, 427 (D.C. Cir. 1992).

<sup>160</sup> See, e.g., *Midwest Fence*, 840 F.3d 932, 953 (7th Cir. 2016); *AGC, SDC v. Caltrans*, 713 F.3d at 1192, 1196-1198; *H. B. Rowe*, 615 F.3d 233, 248-249; *Eng'g Contractors Ass'n*, 122 F.3d at 925-26; *Concrete Works*, 36 F.3d at 1520; *Contractors Ass'n*, 6 F.3d at 1003; *Coral Constr. Co. v. King County*, 941 F.2d 910, 919 (9th Cir. 1991); see also, *Kossman Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016).

<sup>161</sup> *Concrete Works I*, 36 F.3d at 1520; *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 990, 1002-1003 (3d Cir. 1993); *Coral Construction Co. v. King County*, 941 F.2d 910, 919 (9th Cir. 1991).

<sup>162</sup> See, e.g., *AGC, SDC v. Caltrans*, 713 F.3d at 1197-1198; *H. B. Rowe*, 615 F.3d 233, 241-242, 248-249; *Northern Contracting*, 2005 WL 2230195, at 13-15 (N.D. Ill. 2005), *affirmed*, 473 F.3d 715 (7th Cir. 2007); *Concrete Works*, 321 F.3d at 989; *Adarand VII*, 228 F.3d at 1166-76; see also, *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 990, 1002-1003 (3d Cir. 1993). For additional examples of anecdotal evidence, see *Eng'g Contractors Ass'n*, 122 F.3d at 924; *Concrete Works*, 36 F.3d at 1520; *Cone Corp. v. Hillsborough County*, 908 F.2d 908, 915 (11th Cir. 1990); *DynaLantic*, 885 F.Supp.2d 237; *Florida A.G.C. Council, Inc. v. State of Florida*, 303 F. Supp.2d 1307, 1325 (N.D. Fla. 2004).

Courts have accepted and recognize that anecdotal evidence is the witness' narrative of incidents told from his or her perspective, including the witness' thoughts, feelings, and perceptions, and thus anecdotal evidence need not be verified.<sup>163</sup>

#### b. The Narrow Tailoring Requirement.

The second prong of the strict scrutiny analysis requires that a race- or ethnicity-based program or legislation implemented to remedy past identified discrimination in the relevant market be “narrowly tailored” to reach that objective.

The narrow tailoring requirement has several components and the courts, including the Ninth Circuit Court of Appeals, analyze several criteria or factors in determining whether a program or legislation satisfies this requirement including:

- The necessity for the relief and the efficacy of alternative race-, ethnicity- and gender-neutral remedies;
- The flexibility and duration of the relief, including the availability of waiver provisions;
- The relationship of numerical goals to the relevant labor market; and
- The impact of a race-, ethnicity- or gender-conscious remedy on the rights of third parties.<sup>164</sup>

To satisfy the narrowly tailored prong of the strict scrutiny analysis in the context of the Federal DBE Program, which is instructive to the study, the federal courts that have evaluated state and local DBE Programs and their implementation of the Federal DBE Program, held the following factors are pertinent:

- Evidence of discrimination or its effects in the state transportation contracting industry;
- Flexibility and duration of a race- or ethnicity-conscious remedy;
- Relationship of any numerical DBE goals to the relevant market;
- Effectiveness of alternative race- and ethnicity-neutral remedies;
- Impact of a race- or ethnicity-conscious remedy on third parties; and
- Application of any race- or ethnicity-conscious program to only those minority groups who have actually suffered discrimination.<sup>165</sup>

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<sup>163</sup> See, e.g., *AGC, SDC v. Caltrans*, 713 F.3d at 1197; *H. B. Rowe*, 615 F.3d 233, 241-242, 248-249; *Concrete Works II*, 321 F.3d at 989; *Eng'g Contractors Ass'n*, 122 F.3d at 924-26; *Cone Corp.*, 908 F.2d at 915; *Northern Contracting, Inc. v. Illinois*, 2005 WL 2230195 at \*21, N. 32 (N.D. Ill. Sept. 8, 2005), *aff'd* 473 F.3d 715 (7th Cir. 2007).

<sup>164</sup> See, e.g., *Midwest Fence*, 840 F.3d 932, 942, 953-954 (7th Cir. 2016); *AGC, SDC v. Caltrans*, 713 F.3d at 1198-1199; *H. B. Rowe*, 615 F.3d 233, 252-255; *Rotbe*, 545 F.3d at 1036; *Western States Paving*, 407 F.3d at 993-995; *Sherbrooke Turf*, 345 F.3d at 971; *Adarand VII*, 228 F.3d at 1181; *W.H. Scott Constr. Co. v. City of Jackson, Mississippi*, 199 F.3d 206 (5th Cir. 1999); *Eng'g Contractors Ass'n*, 122 F.3d at 927 (internal quotations and citations omitted); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 91 F.3d 586, 605-610 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia*, 6 F.3d 990, 1008-1009 (3d Cir. 1993); see also, *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>165</sup> See, e.g., *Midwest Fence*, 840 F.3d 932, 942, 953-954 (7th Cir. 2016); *AGC, SDC v. Caltrans*, 713 F.3d at 1198-1199; *H. B. Rowe*, 615 F.3d 233, 243-245, 252-255; *Western States Paving*, 407 F.3d at 998; *Sherbrooke Turf*, 345 F.3d at 971; *Adarand VII*, 228 F.3d at 1181; *Kornbass Construction, Inc. v. State of Oklahoma, Department of Central Services*, 140 F.Supp.2d at 1247-1248; see also *Geyer Signal, Inc.*, 2014 WL 1309092.

## Implementation of the Federal DBE Program (and ACDBE Program): Narrow tailoring.

The second prong of the strict scrutiny analysis, as discussed above, requires the implementation of the Federal DBE Program (and ACDBE Program) by state DOTs and recipients of federal funds be “narrowly tailored” to remedy identified discrimination in the particular state DOT’s or recipient’s transportation contracting and procurement market.<sup>166</sup>

In *Western States Paving*, the Ninth Circuit held the state DOT or recipient of federal funds must have independent evidence of discrimination within the recipient’s own transportation contracting and procurement marketplace in order to determine whether or not there is the need for race-, ethnicity- or gender-conscious remedial action.<sup>167</sup> Thus, the Ninth Circuit held in *Western States Paving* that mere compliance with the Federal DBE Program does not satisfy strict scrutiny.<sup>168</sup>

In *Western States Paving*, and in *AGC, SDC v. Caltrans*, the Court found that even where evidence of discrimination is present in a recipient’s market, a narrowly tailored program must apply only to those minority groups who have actually suffered discrimination. Thus, under a race- or ethnicity-conscious program, for each of the minority groups to be included in any race- or ethnicity-conscious elements in a recipient’s implementation of the Federal DBE Program, there must be evidence that the minority group suffered discrimination within the recipient’s marketplace.<sup>169</sup>

In *Northern Contracting* decision (2007) the Seventh Circuit Court of Appeals cited its earlier precedent in *Milwaukee County Pavers v. Fielder* to hold “that a state is insulated from [a narrow tailoring] constitutional attack, absent a showing that the state exceeded its federal authority. IDOT [Illinois DOT] here is acting as an instrument of federal policy and Northern Contracting (NCI) cannot collaterally attack the federal regulations through a challenge to IDOT’s program.”<sup>170</sup> The Seventh Circuit Court of Appeals distinguished both the Ninth Circuit Court of Appeals decision in *Western States Paving* and the Eighth Circuit Court of Appeals decision in *Sherbrooke Turf*, relating to an as-applied narrow tailoring analysis.

The Seventh Circuit Court of Appeals held that the state DOT’s [Illinois DOT] application of a federally mandated program is limited to the question of whether the state exceeded its grant of federal authority under the Federal DBE Program.<sup>171</sup> The Seventh Circuit Court of Appeals analyzed IDOT’s compliance with the federal regulations regarding calculation of the availability of DBEs, adjustment of its goal based on local market conditions and its use of race-neutral methods set forth in the federal regulations.<sup>172</sup> The court held NCI failed to demonstrate that IDOT did not satisfy

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<sup>166</sup> *AGC, SDC v. Caltrans*, 713 F.3d at 1197-1199 (9th Cir. 2013); *Western States Paving*, 407 F.3d at 995-998; *Sherbrooke Turf*, 345 F.3d at 970-71; see, e.g., *Midwest Fence*, 840 F.3d 932, 949-953.

<sup>167</sup> *Western States Paving*, 407 F.3d at 997-98, 1002-03; see *AGC, SDC v. Caltrans*, 713 F.3d at 1197-1199.

<sup>168</sup> *Id.* at 995-1003. The Seventh Circuit Court of Appeals in *Northern Contracting* stated in a footnote that the court in *Western States Paving* “misread” the decision in *Milwaukee County Pavers*. 473 F.3d at 722, n. 5.

<sup>169</sup> 407 F.3d at 996-1000; See *AGC, SDC v. Caltrans*, 713 F.3d at 1197-1199.

<sup>170</sup> 473 F.3d at 722.

<sup>171</sup> *Id.* at 722.

<sup>172</sup> *Id.* at 723-24.

compliance with the federal regulations (49 CFR Part 26).<sup>173</sup> Accordingly, the Seventh Circuit Court of Appeals affirmed the district court’s decision upholding the validity of IDOT’s DBE program.<sup>174</sup>

The 2015 and 2016 Seventh Circuit Court of Appeals decisions in *Dunnet Bay Construction Company v. Borggren, Illinois DOT, et. al.* and *Midwest Fence Corp. v. U. S. DOT, Federal Highway Administration, Illinois DOT* followed the ruling in *Northern Contracting* that a state DOT implementing the Federal DBE Program is insulated from a constitutional challenge absent a showing that the state exceeded its federal authority.<sup>175</sup> The court held the Illinois DOT DBE Program implementing the Federal DBE Program was valid, finding there was not sufficient evidence to show the Illinois DOT exceeded its authority under the federal regulations.<sup>176</sup> The court found *Dunnet Bay* had not established sufficient evidence that IDOT’s implementation of the Federal DBE Program constituted unlawful discrimination.<sup>177</sup> In addition, the court in *Midwest Fence* upheld the constitutionality of the Federal DBE Program, and upheld the Illinois DOT DBE Program and Illinois State Tollway Highway Authority DBE Program that did not involve federal funds under the Federal DBE Program.<sup>178</sup>

**Race-, ethnicity- and gender-neutral measures.** To the extent a “strong basis in evidence” exists concerning discrimination in a local or state government’s relevant contracting and procurement market, the courts analyze several criteria or factors to determine whether a state’s implementation of a race- or ethnicity-conscious program is necessary and thus narrowly tailored to achieve remedying identified discrimination. One of the key factors discussed above is consideration of race-, ethnicity- and gender-neutral measures.

The courts, including the Ninth Circuit, require that a local or state government seriously consider race-, ethnicity- and gender-neutral efforts to remedy identified discrimination.<sup>179</sup> And the courts have held unconstitutional those race- and ethnicity-conscious programs implemented without consideration of race- and ethnicity-neutral alternatives to increase minority business participation in state and local contracting.<sup>180</sup>

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<sup>173</sup> *Id.*

<sup>174</sup> *Id.*; *See, e.g., Midwest Fence*, 840 F.3d 932 (7th Cir. 2016); *Midwest Fence*, 84 F. Supp. 3d 705, 2015 WL 1396376 (N.D. Ill. 2015), *affirmed*, 840 F.3d 932 (7th Cir. 2016); *Geod Corp. v. New Jersey Transit Corp., et al.*, 746 F.Supp.2d 642 (D.N.J. 2010); *South Florida Chapter of the A.G.C. v. Broward County, Florida*, 544 F.Supp.2d 1336 (S.D. Fla. 2008).

<sup>175</sup> *Midwest Fence*, 840 F.3d 932 (7th Cir. 2016); *Dunnet Bay Construction Company v. Borggren, Illinois DOT, et al.*, 799 F. 3d 676, 2015 WL 4934560 at \*\*18-22 (7th Cir. 2015).

<sup>176</sup> *Dunnet Bay*, 799 F.3d 676, 2015 WL 4934560 at \*\*18-22.

<sup>177</sup> *Id.*

<sup>178</sup> 840 F.3d 932 (7th Cir. 2016).

<sup>179</sup> *See, e.g., Midwest Fence*, 840 F.3d 932, 937-938, 953-954 (7th Cir. 2016); *AGC, SDC v. Caltrans*, 713 F.3d at 1199; *H. B. Rowe*, 615 F.3d 233, 252-255; *Western States Paving*, 407 F.3d at 993; *Sherbrooke Turf*, 345 F.3d at 972; *Adarand VII*, 228 F.3d at 1179; *Eng’g Contractors Ass’n*, 122 F.3d at 927; *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d at 608-609 (3d. Cir. 1996); *Contractors Ass’n*, 6 F.3d at 1008-1009 (3d. Cir. 1993); *Coral Constr.*, 941 F.2d at 923.

<sup>180</sup> *See, Croson*, 488 U.S. at 507; *Drabik I*, 214 F.3d at 738 (citations and internal quotations omitted); *Eng’g Contractors Ass’n*, 122 F.3d at 927; *Virdi*, 2005 WL 13892 (11th Cir. 2005); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d at 608-609 (3d. Cir. 1996); *Contractors Ass’n*, 6 F.3d at 1008-1009 (3d. Cir. 1993).

In holding the Federal DBE regulations were narrowly tailored, the Eighth Circuit stated those regulations “place strong emphasis on ‘the use of race-neutral means to increase minority business participation in government contracting.’”<sup>181</sup>

The Eleventh Circuit described the “the essence of the ‘narrowly tailored’ inquiry [as] the notion that explicitly racial preferences ... must only be a ‘last resort’ option.”<sup>182</sup> Courts, including the Ninth Circuit, have found that “[w]hile narrow tailoring does not require exhaustion of every conceivable race-neutral alternative, it does require serious, good faith consideration of whether such alternatives could serve the governmental interest at stake.”<sup>183</sup>

Similarly, the Sixth Circuit Court of Appeals in *Associated Gen. Contractors v. Drabik* (“*Drabik II*”), stated: “*Adarand* teaches that a court called upon to address the question of narrow tailoring must ask, ‘for example, whether there was ‘any consideration of the use of race-neutral means to increase minority business participation’ in government contracting ... or whether the program was appropriately limited such that it ‘will not last longer than the discriminatory effects it is designed to eliminate.’”<sup>184</sup>

The Supreme Court in *Parents Involved in Community Schools v. Seattle School District*<sup>185</sup> also found that race- and ethnicity-based measures should be employed as a last resort. The majority opinion stated: “Narrow tailoring requires ‘serious, good faith consideration of workable race-neutral alternatives,’ and yet in Seattle several alternative assignment plans — many of which would not have used express racial classifications — were rejected with little or no consideration.”<sup>186</sup> The Court found that the District failed to show it seriously considered race-neutral measures.

The “narrowly tailored” analysis is instructive in terms of implementing the Federal DBE and ACDBE Programs, developing any potential legislation or programs that involve MBE/WBE/DBEs, or in connection with determining appropriate remedial measures to achieve legislative objectives.

The Court in *Croson* followed by decisions from federal courts of appeal found that local and state governments have at their disposal a “whole array of race-neutral devices to increase the accessibility of city contracting opportunities to small entrepreneurs of all races.”<sup>187</sup>

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<sup>181</sup> *Sherbrooke Turf, Inc.*, 345 F.3d at 972, quoting *Adarand Constrs., Inc.*, 515 U.S. at 237-38.

<sup>182</sup> *Eng’g Contractors Ass’n*, 122 F.3d at 926 (internal citations omitted); see also *Virdi v. DeKalb County School District*, 135 Fed. Appx. 262, 264, 2005 WL 138942 (11th Cir. 2005) (unpublished opinion); *Webster v. Fulton County*, 51 F. Supp.2d 1354, 1380 (N.D. Ga. 1999), *aff’d per curiam* 218 F.3d 1267 (11th Cir. 2000).

<sup>183</sup> See *Grutter v. Bollinger*, 539 U.S. 306, 339 (2003); *Richmond v. J.A. Croson Co.*, 488 U.S. 469, 509-10 (1989); *Western States Paving*, 407 F.3d at 993; *Sherbrooke Turf*, 345 F.3d at 972; see also *Adarand I*, 515 U.S. at 237-38.

<sup>184</sup> *Associated Gen. Contractors of Ohio, Inc. v. Drabik* (“*Drabik II*”), 214 F.3d 730, 738 (6th Cir. 2000).

<sup>185</sup> 551 U.S. 701, 734-37, 127 S.Ct. 2738, 2760-61 (2007)

<sup>186</sup> 551 U.S. 701, 734-37, 127 S.Ct. at 2760-61; see also *Fisher v. University of Texas*, 133 S.Ct. 2411 (2013); *Grutter v. Bollinger*, 539 U.S. 305 (2003).

<sup>187</sup> *Croson*, 488 U.S. at 509-510.



The federal regulations and the courts require that state DOTs and recipients of federal financial assistance governed by 49 CFR Part 26 and 49 CFR Part 23 implement or seriously consider race-, ethnicity- and gender-neutral remedies prior to the implementation of race-, ethnicity-, and gender-conscious remedies.<sup>188</sup> The courts also have found the regulations require a state to meet the maximum feasible portion of its overall goal by using race neutral means.<sup>189</sup>

Examples of race-, ethnicity- and gender-neutral alternatives include, but are not limited to, the following:

- Providing assistance in overcoming bonding and financing obstacles;
- Relaxation of bonding requirements;
- Providing technical, managerial and financial assistance;
- Establishing programs to assist start-up firms;
- Simplification of bidding procedures;
- Training and financial aid for all disadvantaged entrepreneurs;
- Non-discrimination provisions in contracts and in state law;
- Mentor-protégé programs and mentoring;
- Efforts to address prompt payments to smaller businesses;
- Small contract solicitations to make contracts more accessible to smaller businesses;
- Expansion of advertisement of business opportunities;
- Outreach programs and efforts;
- “How to do business” seminars;
- Sponsoring networking sessions throughout the state acquaint small firms with large firms;
- Creation and distribution of MBE/WBE and DBE directories; and
- Streamlining and improving the accessibility of contracts to increase small business participation.<sup>190</sup>

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<sup>188</sup> 49 CFR § 26.51(a) requires recipients of federal funds to “meet the maximum feasible portion of your overall goal by using race-neutral means of facilitating DBE participation.” See, 49 CFR § 23.25; see, e.g., *Adarand VII*, 228 F.3d at 1179; *Western States Paving*, 407 F.3d at 993; *Sherbrooke Turf*, 345 F.3d at 972. Additionally, in September of 2005, the United States Commission on Civil Rights (the “Commission”) issued its report entitled “Federal Procurement After *Adarand*” setting forth its findings pertaining to federal agencies’ compliance with the constitutional standard enunciated in *Adarand*. United States Commission on Civil Rights: Federal Procurement After *Adarand* (Sept. 2005), available at <http://www.usccr.gov>. The Commission found that 10 years after the Court’s *Adarand* decision, federal agencies have largely failed to narrowly tailor their reliance on race-conscious programs and have failed to seriously consider race-neutral measures that would effectively redress discrimination.

<sup>189</sup> See, e.g., *Northern Contracting*, 473 F.3d at 723 – 724; *Western States Paving*, 407 F.3d at 993 (citing 49 CFR § 26.51(a)); see, 49 CFR § 26.51; 49 CFR § 23.25.

<sup>190</sup> See, e.g., *Crosen*, 488 U.S. at 509-510; *H. B. Rowe*, 615 F.3d 233, 252-255; *N. Contracting*, 473 F.3d at 724; *Adarand VII*, 228 F.3d 1179; 49 CFR § 26.51(b); see also, *Eng’g Contractors Ass’n*, 122 F.3d at 927-29; *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d at 608-609 (3d. Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d at 1008-1009 (3d. Cir. 1993).

The courts have held that while the narrow tailoring analysis does not require a governmental entity to exhaust every possible race-, ethnicity- and gender-neutral alternative, it does “require serious, good faith consideration of workable race-neutral alternatives.”<sup>191</sup>

**Additional factors considered under narrow tailoring.** In addition to the required consideration of the necessity for the relief and the efficacy of alternative remedies (race- and ethnicity-neutral efforts), the courts require evaluation of additional factors as listed above.<sup>192</sup> For example, to be considered narrowly tailored, courts have held that an MBE/WBE- or DBE-type program should include: (1) built-in flexibility;<sup>193</sup> (2) good faith efforts provisions;<sup>194</sup> (3) waiver provisions;<sup>195</sup> (4) a rational basis for goals;<sup>196</sup> (5) graduation provisions;<sup>197</sup> (6) remedies only for groups for which there were findings of discrimination;<sup>198</sup> (7) sunset provisions;<sup>199</sup> and (8) limitation in its geographical scope to the boundaries of the enacting jurisdiction.<sup>200</sup>

Several federal court decisions have upheld the Federal DBE Program and its implementation by state DOTs and recipients of federal funds, including satisfying the narrow tailoring factors.<sup>201</sup>

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<sup>191</sup> *Parents Involved in Community Schools v. Seattle School District*, 551 U.S. 701, 732-47, 127 S.Ct 2738, 2760-61 (2007); *AGC, SDC v. Caltrans*, 713 F.3d at 1199, citing *Grutter v. Bollinger*, 539 U.S. 306, 339 (2003); *H. B. Rowe*, 615 F.3d 233, 252-255 (4th Cir. 2010); *Western States Paving*, 407 F.3d at 993; *Sherbrooke Turf*, 345 F.3d at 972; *Eng’g Contractors Ass’n*, 122 F.3d at 927.

<sup>192</sup> See *Midwest Fence*, 840 F.3d 932, 937-939, 947-954 (7th Cir. 2016); *H. B. Rowe*, 615 F.3d 233, 252-255; *Sherbrooke Turf*, 345 F.3d at 971-972; *Eng’g Contractors Ass’n*, 122 F.3d at 927; *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d at 608-609 (3d Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d at 1008-1009 (3d Cir. 1993).

<sup>193</sup> See, e.g., *Midwest Fence*, 840 F.3d 932, 937-939, 947-954 (7th Cir. 2016); *H. B. Rowe*, 615 F.3d 233, 252-255 (4th Cir. 2010); *Sherbrooke Turf*, 345 F.3d at 971-972; *CAEP I*, 6 F.3d at 1009; *Associated Gen. Contractors of Ca., Inc. v. Coalition for Economic Equality* (“AGC of Ca.”), 950 F.2d 1401, 1417 (9th Cir. 1991); *Coral Constr. Co. v. King County*, 941 F.2d 910, 923 (9th Cir. 1991); *Cone Corp. v. Hillsborough County*, 908 F.2d 908, 917 (11th Cir. 1990).

<sup>194</sup> See, e.g., *Midwest Fence*, 840 F.3d 932, 937-939, 947-954 (7th Cir. 2016); *H. B. Rowe*, 615 F.3d 233, 252-255 (4th Cir. 2010); *Sherbrooke Turf*, 345 F.3d at 971-972; *CAEP I*, 6 F.3d at 1019; *Cone Corp.*, 908 F.2d at 917.

<sup>195</sup> *Midwest Fence*, 840 F.3d 932, 937-939, 947-954 (7th Cir. 2016); *H. B. Rowe*, 615 F.3d 233, 253; *AGC of Ca.*, 950 F.2d at 1417; *Cone Corp.*, 908 F.2d at 917; see, e.g., *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d at 606-608 (3d Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d at 1008-1009 (3d Cir. 1993).

<sup>196</sup> *Id.*; *Sherbrooke Turf*, 345 F.3d at 971-973; *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d at 606-608 (3d Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d at 1008-1009 (3d Cir. 1993).

<sup>197</sup> *Id.*

<sup>198</sup> See, e.g., *AGC, SDC v. Caltrans*, 713 F.3d at 1198-1199; *H. B. Rowe*, 615 F.3d 233, 253-255; *Western States Paving*, 407 F.3d at 998; *AGC of Ca.*, 950 F.2d at 1417; *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 91 F.3d at 593-594, 605-609 (3d Cir. 1996); *Contractors Ass’n (CAEP I)*, 6 F.3d at 1009, 1012 (3d Cir. 1993); *Kossman Contracting Co., Inc., v. City of Houston*, 2016 WL 1104363 (W.D. Tex. 2016); *Sherbrooke Turf*, 2001 WL 150284 (unpublished opinion), aff’d 345 F.3d 964.

<sup>199</sup> See, e.g., *H. B. Rowe*, 615 F.3d 233, 254; *Sherbrooke Turf*, 345 F.3d at 971-972; *Peightal*, 26 F.3d at 1559; see also, *Kossman Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (W.D. Tex. 2016).

<sup>200</sup> *Coral Constr.*, 941 F.2d at 925.

<sup>201</sup> See, e.g., *Midwest Fence Corp. v. U.S. DOT, Illinois DOT, et al.*, 840 F.3d 932, 2016 WL 6543514 (7th Cir. 2016), cert. denied, 2017 WL 497345 (2017); *Dunnet Bay Construction Co. v. Borggren, Illinois DOT, et al.*, 799 F.3d 676, 2015 WL 4934560 (7th Cir. 2015), cert. denied, 2016 WL 193809 (2016); *Associated General Contractors of America, San Diego Chapter, Inc. v. California Department of Transportation, et al.*, 713 F.3d 1187, (9th Cir. 2013); *Western States Paving Co. v. Washington State DOT*, 407 F.3d 983 (9th Cir. 2005), cert. denied, 546 U.S. 1170 (2006); *Mountain West Holding Co., Inc. v. The State of Montana, Montana DOT, et al.*, 2017 WL 2179120 Memorandum Opinion (Not for Publication) (9th Cir. May 16, 2017); *Northern Contracting, Inc. v. Illinois DOT*, 473 F.3d 715 (7th Cir. 2007); *Sherbrooke Turf, Inc. v. Minnesota DOT and Gross Seed v. Nebraska Department of Roads*, 345 F.3d 964 8th Cir. 2003), cert. denied, 541 U.S. 1041 (2004); *Adarand Constructors, Inc. v. Slater, Colorado DOT*, 228 F.3d 1147 (10th Cir. 2000) (“*Adarand VIP*”); *Dunnet Bay Construction Co. v. Illinois DOT, et al.* 2014 WL 552213 (C. D. Ill. 2014), affirmed by *Dunnet Bay*, 2015 WL 4934560 (7th Cir. 2015); *Geyer Signal, Inc. v. Minnesota DOT*, 2014 W.L. 1309092 (D. Minn. 2014); *M. K. Weeden Construction v State of Montana, Montana DOT*, 2013 WL 4774517 (D. Mont. 2013); *Geod Corp. v. New Jersey Transit Corp.*, 766 F. Supp.2d. 642 (D. N.J. 2010); *South Florida Chapter of the A.G.C. v. Broward County, Florida*, 544 F. Supp.2d 1336 (S.D. Fla. 2008).

### 3. Intermediate Scrutiny Analysis

Certain Federal Courts of Appeal, including the Ninth Circuit Court of Appeals, apply intermediate scrutiny to gender-conscious programs.<sup>202</sup>

The courts have interpreted this intermediate scrutiny standard to require that gender-based classifications be:

1. Supported by both “sufficient probative” evidence or “exceedingly persuasive justification” in support of the stated rationale for the program; and
2. Substantially related to the achievement of that underlying objective.<sup>203</sup>

Under the traditional intermediate scrutiny standard, the court reviews a gender-conscious program by analyzing whether the state actor has established a sufficient factual predicate for the claim that female-owned businesses have suffered discrimination, and whether the gender-conscious remedy is an appropriate response to such discrimination. This standard requires the state actor to present “sufficient probative” evidence in support of its stated rationale for the program.<sup>204</sup>

Intermediate scrutiny, as interpreted by the Ninth Circuit and other federal circuit courts of appeal, requires a direct, substantial relationship between the objective of the gender preference and the means chosen to accomplish the objective.<sup>205</sup> The measure of evidence required to satisfy intermediate scrutiny is less than that necessary to satisfy strict scrutiny. Unlike strict scrutiny, it has been held that the intermediate scrutiny standard does not require a showing of government involvement, active or passive, in the discrimination it seeks to remedy.<sup>206</sup>

Certain courts have held that “[w]hen a gender-conscious affirmative action program rests on sufficient evidentiary foundation, the government is not required to implement the program only as a last resort . . . . Additionally, under intermediate scrutiny, a gender-conscious program need not closely tie its numerical goals to the proportion of qualified women in the market.”<sup>207</sup>

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<sup>202</sup> See e.g., *AGC, SDC v. Caltrans*, 713 F.3d at 1195 (9th Cir. 2013); *H. B. Rowe*, 615 F.3d 233, 242 (4th Cir. 2010); *Western States Paving*, 407 F.3d at 990 n. 6; *Coral Constr. Co.*, 941 F.2d at 931-932 (9th Cir. 1991); *Equal. Found. v. City of Cincinnati*, 128 F.3d 289 (6th Cir. 1997); *Eng’g Contractors Ass’n*, 122 F.3d at 905, 908, 910; *Ensley Branch N.A.A.C.P. v. Seibels*, 31 F.3d 1548 (11th Cir. 1994); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d at 1009-1011 (3d Cir. 1993); see also *U.S. v. Virginia*, 518 U.S. 515, 532 and n. 6 (1996) (“exceedingly persuasive justification.”); *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>203</sup> See e.g., *AGC, SDC v. Caltrans*, 713 F.3d at 1195; *H. B. Rowe, Inc. v. NCDOT*, 615 F.3d 233, 242 (4th Cir. 2010); *Western States Paving*, 407 F.3d at 990 n. 6; *Coral Constr. Co.*, 941 F.2d at 931-932 (9th Cir. 1991); *Equal. Found. v. City of Cincinnati*, 128 F.3d 289 (6th Cir. 1997); *Eng’g Contractors Ass’n*, 122 F.3d at 905, 908, 910; *Ensley Branch N.A.A.C.P. v. Seibels*, 31 F.3d 1548 (11th Cir. 1994); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d at 1009-1011 (3d Cir. 1993); see, also, *U.S. v. Virginia*, 518 U.S. 515, 532 and n. 6 (1996) (“exceedingly persuasive justification.”)

<sup>204</sup> *Id.* The Seventh Circuit Court of Appeals, however, in *Builders Ass’n of Greater Chicago v. County of Cook, Chicago*, did not hold there is a different level of scrutiny for gender discrimination or gender-based programs. 256 F.3d 642, 644-45 (7th Cir. 2001). The Court in *Builders Ass’n* rejected the distinction applied by the Eleventh Circuit in *Engineering Contractors*.

<sup>205</sup> See e.g., *AGC, SDC v. Caltrans*, 713 F.3d at 1195; *H. B. Rowe, Inc. v. NCDOT*, 615 F.3d 233, 242 (4th Cir. 2010); *Western States Paving*, 407 F.3d at 990 n. 6; *Coral Constr. Co.*, 941 F.2d at 931-932 (9th Cir. 1991); *Equal. Found. v. City of Cincinnati*, 128 F.3d 289 (6th Cir. 1997); *Eng’g Contractors Ass’n*, 122 F.3d at 905, 908, 910; *Ensley Branch N.A.A.C.P. v. Seibels*, 31 F.3d 1548 (11th Cir. 1994); see, also, *U.S. v. Virginia*, 518 U.S. 515, 532 and n. 6 (1996) (“exceedingly persuasive justification.”)

<sup>206</sup> *Coral Constr. Co.*, 941 F.2d at 931-932; see *Eng’g Contractors Ass’n*, 122 F.3d at 910.

<sup>207</sup> 122 F.3d at 929 (internal citations omitted.)

The Tenth Circuit in *Concrete Works*, stated with regard evidence as to woman-owned business enterprises as follows:

“We do not have the benefit of relevant authority with which to compare Denver’s disparity indices for WBEs. See *Contractors Ass’n*, 6 F.3d at 1009–11 (reviewing case law and noting that “it is unclear whether statistical evidence as well as anecdotal evidence is required to establish the discrimination necessary to satisfy intermediate scrutiny, and if so, how much statistical evidence is necessary”). Nevertheless, Denver’s data indicates significant WBE underutilization such that the Ordinance’s gender classification arises from “reasoned analysis rather than through the mechanical application of traditional, often inaccurate, assumptions.” *Mississippi Univ. of Women*, 458 U.S. at 726, 102 S.Ct. at 3337 (striking down, under the intermediate scrutiny standard, a state statute that excluded males from enrolling in a state-supported professional nursing school).”

The Fourth Circuit cites with approval the guidance from the Eleventh Circuit that has held “[w]hen a gender-conscious affirmative action program rests on sufficient evidentiary foundation, the government is not required to implement the program only as a last resort . . . . Additionally, under intermediate scrutiny, a gender-conscious program need not closely tie its numerical goals to the proportion of qualified women in the market.”<sup>208</sup>

The Supreme Court has stated that an affirmative action program survives intermediate scrutiny if the proponent can show it was “a product of analysis rather than a stereotyped reaction based on habit.”<sup>209</sup> The Third Circuit found this standard required the City of Philadelphia to present probative evidence in support of its stated rationale for the gender preference, discrimination against women-owned contractors.<sup>210</sup> The Court in *Contractors Ass’n of E. Pa. (CAEP I)* held the City had not produced enough evidence of discrimination, noting that in its brief, the City relied on statistics in the City Council Finance Committee Report and one affidavit from a woman engaged in the catering business, but the Court found this evidence only reflected the participation of women in City contracting generally, rather than in the construction industry, which was the only cognizable issue in that case.<sup>211</sup>

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<sup>208</sup> 615 F.3d 233, 242; 122 F.3d at 929 (internal citations omitted).

<sup>209</sup> *Contractors Ass’n of E. Pa. (CAEP I)*, 6 F.3d at 1010 (3d. Cir. 1993).

<sup>210</sup> *Contractors Ass’n of E. Pa. (CAEP I)*, 6 F.3d at 1010 (3d. Cir. 1993).

<sup>211</sup> *Contractors Ass’n of E. Pa. (CAEP I)*, 6 F.3d at 1011 (3d. Cir. 1993).

The Third Circuit in *CAEP I* held the evidence offered by the City of Philadelphia regarding women-owned construction businesses was insufficient to create an issue of fact. The study in *CAEP I* contained no disparity index for women-owned construction businesses in City contracting, such as that presented for minority-owned businesses.<sup>212</sup> Given the absence of probative statistical evidence, the City, according to the Court, must rely solely on anecdotal evidence to establish gender discrimination necessary to support the Ordinance.<sup>213</sup> But the record contained only one three-page affidavit alleging gender discrimination in the construction industry.<sup>214</sup> The only other testimony on this subject, the Court found in *CAEP I*, consisted of a single, conclusory sentence of one witness who appeared at a City Council hearing.<sup>215</sup> This evidence the Court held was not enough to create a triable issue of fact regarding gender discrimination under the intermediate scrutiny standard.

#### 4. Rational Basis Analysis

Where a challenge to the constitutionality of a statute or a regulation does not involve a fundamental right or a suspect class, the appropriate level of scrutiny to apply is the rational basis standard.<sup>216</sup> When applying rational basis review under the Equal Protection Clause of the Fourteenth Amendment of the United States Constitution, a court is required to inquire whether the challenged classification has a legitimate purpose and whether it was reasonable for the legislature to believe that use of the challenged classification would promote that purpose.<sup>217</sup>

Courts in applying the rational basis test generally find that a challenged law is upheld “as long as there could be some rational basis for enacting [it],” that is, that “the law in question is rationally

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<sup>212</sup> *Contractors Ass’n of E. Pa. (CAEP I)*, 6 F.3d at 1011 (3d Cir. 1993).

<sup>213</sup> *Id.*

<sup>214</sup> *Id.*

<sup>215</sup> *Id.*

<sup>216</sup> See, e.g., *Heller v. Doe*, 509 U.S. 312, 320 (1993); *Crawford v. Antonio B. Won Pat International Airport Authority*, 917 F.3d 1081, 1096 (9th Cir. 2019); *Hettinga v. United States*, 677 F.3d 471, 478 (D.C. Cir. 2012); *Price-Cornelison v. Brooks*, 524 F.3d 1103, 1110 (10th Cir. 1996); *White v. Colorado*, 157 F.3d 1226, (10th Cir. 1998); *Cunningham v. Beavers* 858 F.2d 269, 273 (5th Cir. 1988); see also *Lundeen v. Canadian Pac. R. Co.*, 532 F.3d 682, 689 (8th Cir. 2008) (stating that federal courts review legislation regulating economic and business affairs under a ‘highly deferential rational basis’ standard of review.”); *H. B. Rowe, Inc. v. NCDOT*, 615 F.3d 233 at 254; see, e.g., *Sherman v. Department of Revenue*, 335 Or. 468, 71 P.3d 67 (Or. S. Ct. 2003); *Knapp v. City of Jacksonville*, 342 Or. 268, 151 P.3d 143 (Or. S. Ct. 2007); *Qwest Corp. v. Public Utility Comm’n*, 205 Or. App. 370, 135 P.3d 321 (Or. App. 2006); *Kane v. Beaverton*, 202 Or. App. 431, 122 P.3d 137 (Or. App. 2005).

<sup>217</sup> See, *Heller v. Doe*, 509 U.S. 312, 320 (1993); *Crawford v. Antonio B. Won Pat International Airport Authority*, 917 F.3d 1081, 1095-1096 (9th Cir. 2019); *Gallinger v. Becerra*, 898 F.3d 1012, 1016-1018 (9th Cir. 2018); *Hettinga v. United States*, 677 F.3d 471, 478 (D.C. Cir. 2012); *Cunningham v. Beavers*, 858 F.2d 269, 273 (5th Cir. 1988); see also *Lundeen v. Canadian Pac. R. Co.*, 532 F.3d 682, 689 (8th Cir. 2008) (stating that federal courts review legislation regulating economic and business affairs under a ‘highly deferential rational basis’ standard of review.”); *H. B. Rowe, Inc. v. NCDOT*, 615 F.3d 233 at 254; *Contractors Ass’n of E. Pa.*, 6 F.3d at 1011 (3d Cir. 1993); see, e.g., *Sherman v. Department of Revenue*, 335 Or. 468, 71 P.3d 67 (Or. S. Ct. 2003); *Knapp v. City of Jacksonville*, 342 Or. 268, 151 P.3d 143 (Or. S. Ct. 2007); *Qwest Corp. v. Public Utility Comm’n*, 205 Or. App. 370, 135 P.3d 321 (Or. App. 2006); *Kane v. Beaverton*, 202 Or. App. 431, 122 P.3d 137 (Or. App. 2005).

related to a legitimate government purpose.”<sup>218</sup> So long as a government legislature had a reasonable basis for adopting the classification the law will pass constitutional muster.<sup>219</sup>

“[T]he burden is on the one attacking the legislative arrangement to negative every conceivable basis which might support it, whether or not the basis has a foundation in the record.”<sup>220</sup> Moreover, “courts are compelled under rational-basis review to accept a legislature’s generalizations even when there is an imperfect fit between means and ends. A classification does not fail rational-basis review because it is not made with mathematical nicety or because in practice it results in some inequality.”<sup>221</sup>

Under a rational basis review standard, a legislative classification will be upheld “if there is a rational relationship between the disparity of treatment and some legitimate governmental purpose.”<sup>222</sup> Because all legislation classifies its objects, differential treatment is justified by “any reasonably conceivable state of facts.”<sup>223</sup>

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<sup>218</sup> See, e.g., *Kadmas v. Dickinson Public Schools*, 487 U.S. 450, 457-58 (1998); *Crawford v. Antonio B. Won Pat International Airport Authority*, 917 F.3d 1081, 1095-1096 (9th Cir. 2019); *Gallinger v. Becerra*, 898 F.3d 1012, 1016-1018 (9th Cir. 2018); *Price-Cornelison v. Brooks*, 524 F.3d 1103, 1110 (10th Cir. 1996); *White v. Colorado*, 157 F.3d 1226, (10th Cir. 1998) see also *City of Cleburne v. Cleburne Living Ctr., Inc.*, 473 U.S. 432, 440, (1985) (citations omitted); *Heller v. Doe*, 509 U.S. 312, 318-321 (1993) (Under rational basis standard, a legislative classification is accorded a strong presumption of validity); see, e.g., *Sherman v. Department of Revenue*, 335 Or. 468, 71 P.3d 67 (Or. S. Ct. 2003); *Knapp v. City of Jacksonville*, 342 Or. 268, 151 P.3d 143 (Or. S. Ct. 2007); *Qwest Corp. v. Public Utility Comm’n*, 205 Or. App. 370, 135 P.3d 321 (Or. App. 2006); *Kane v. Beaverton*, 202 Or. App. 431, 122 P.3d 137 (Or. App. 2005).

<sup>219</sup> *Id.*; *Crawford v. Antonio B. Won Pat International Airport Authority*, 917 F.3d 1081, 1095-1096 (9th Cir. 2019); *Gallinger v. Becerra*, 898 F.3d 1012, 1016-1018 (9th Cir. 2018); *Wilkins v. Gaddy*, 734 F.3d 344, 347 (4th Cir. 2013), (citing *FCC v. Beach Comm’n’s, Inc.*, 508 U.S. 307, 315 (1993)); see, e.g., *Sherman v. Department of Revenue*, 335 Or. 468, 71 P.3d 67 (Or. S. Ct. 2003); *Knapp v. City of Jacksonville*, 342 Or. 268, 151 P.3d 143 (Or. S. Ct. 2007); *Qwest Corp. v. Public Utility Comm’n*, 205 Or. App. 370, 135 P.3d 321 (Or. App. 2006); *Kane v. Beaverton*, 202 Or. App. 431, 122 P.3d 137 (Or. App. 2005).

<sup>220</sup> *Crawford v. Antonio B. Won Pat International Airport Authority*, 917 F.3d 1081, 1095-1096 (9th Cir. 2019); *Gallinger v. Becerra*, 898 F.3d 1012, 1016-1018 (9th Cir. 2018); *United States v. Timms*, 664 F.3d 436, 448-49 (4th Cir. 2012), *cert. denied*, 133 S. Ct. 189 (2012) (citing *Heller v. Doe*, 509 U.S. 312, 320-21 (1993)) (quotation marks and citation omitted) see, e.g., *Sherman v. Department of Revenue*, 335 Or. 468, 71 P.3d 67 (Or. S. Ct. 2003); *Knapp v. City of Jacksonville*, 342 Or. 268, 151 P.3d 143 (Or. S. Ct. 2007); *Qwest Corp. v. Public Utility Comm’n*, 205 Or. App. 370, 135 P.3d 321 (Or. App. 2006); *Kane v. Beaverton*, 202 Or. App. 431, 122 P.3d 137 (Or. App. 2005).

<sup>221</sup> *Heller v. Doe*, 509 U.S. 312, 321 (1993) *Crawford v. Antonio B. Won Pat International Airport Authority*, 917 F.3d 1081, 1095-1096 (9th Cir. 2019); *Gallinger v. Becerra*, 898 F.3d 1012, 1016-1018 (9th Cir. 2018); see, e.g., *Sherman v. Department of Revenue*, 335 Or. 468, 71 P.3d 67 (Or. S. Ct. 2003); *Knapp v. City of Jacksonville*, 342 Or. 268, 151 P.3d 143 (Or. S. Ct. 2007); *Qwest Corp. v. Public Utility Comm’n*, 205 Or. App. 370, 135 P.3d 321 (Or. App. 2006); *Kane v. Beaverton*, 202 Or. App. 431, 122 P.3d 137 (Or. App. 2005).

<sup>222</sup> *Heller v. Doe*, 509 U.S. 312, 320 (1993); see, e.g., *Crawford v. Antonio B. Won Pat International Airport Authority*, 917 F.3d 1081, 1095-1096 (9th Cir. 2019); *Gallinger v. Becerra*, 898 F.3d 1012, 1016-1018 (9th Cir. 2018); *Hettinga v. United States*, 677 F.3d 471, 478 (D.C. Cir. 2012) see, e.g., *Sherman v. Department of Revenue*, 335 Or. 468, 71 P.3d 67 (Or. S. Ct. 2003); *Knapp v. City of Jacksonville*, 342 Or. 268, 151 P.3d 143 (Or. S. Ct. 2007); *Qwest Corp. v. Public Utility Comm’n*, 205 Or. App. 370, 135 P.3d 321 (Or. App. 2006); *Kane v. Beaverton*, 202 Or. App. 431, 122 P.3d 137 (Or. App. 2005).

<sup>223</sup> *Id.*

Under the federal standard of review a court will presume the “legislation is valid and will sustain it if the classification drawn by the statute is rationally related to a legitimate [government] interest.”<sup>224</sup>

A fairly recent federal court decision, which is instructive to the study, involved a challenge to and the application of a small business goal in a pre-bid process for a federal procurement. *Firstline Transportation Security, Inc. v. United States*, is instructive and analogous to some of the issues in a small business program. The case is informative as to the use, estimation and determination of goals (small business goals) in a procurement under the Federal Acquisition Regulations (“FAR”).<sup>225</sup>

*Firstline* involved a solicitation that established a small business subcontracting goal requirement. In *Firstline*, the Transportation Security Administration (“TSA”) issued a solicitation for security screening services at the Kansas City Airport. The solicitation stated that the: “Government anticipates an overall Small Business goal of 40 percent,” and that “[w]ithin that goal, the government anticipates further small business goals of: Small, Disadvantaged business[:] 14.5 percent; Woman Owned[:] 5 percent; HUBZone[:] 3 percent; Service Disabled, Veteran Owned[:] 3 percent.”<sup>226</sup>

The court applied the rational basis test in construing the challenge to the establishment by the TSA of a 40 percent small business participation goal as unlawful and irrational.<sup>227</sup> The court stated it “cannot say that the agency’s approach is clearly unlawful, or that the approach lacks a rational basis.”<sup>228</sup>

The court found that “an agency may rationally establish aspirational small business subcontracting goals for prospective offerors ....” Consequently, the Court held one rational method by which the Government may attempt to maximize small business participation is to establish a rough subcontracting goal for a given contract, and then allow potential contractors to compete in designing innovative ways to structure and maximize small business subcontracting within their proposals.<sup>229</sup> The court, in an exercise of judicial restraint, found the “40 percent goal is a rational expression of the Government’s policy of affording small business concerns ... the maximum practicable opportunity to participate as subcontractors ....”<sup>230</sup>

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<sup>224</sup> *Heller v. Doe*, 509 U.S. 312, 320 (1993); *Chance Mgmt., Inc. v. S. Dakota*, 97 F.3d 1107, 1114 (8th Cir. 1996); *Cranford v. Antonio B. Won Pat International Airport Authority*, 917 F.3d 1081, 1095-1096 (9th Cir. 2019); *Gallinger v. Becerra*, 898 F.3d 1012, 1016-1018 (9th Cir. 2018); see also *Lawrence v. Texas*, 539 U.S. 558, 580, 123 S. Ct. 2472, 156 L. Ed. 2d 508 (2003) (“Under our rational basis standard of review, legislation is presumed to be valid and will be sustained if the classification drawn by the statute is rationally related to a legitimate state interest .... Laws such as economic or tax legislation that are scrutinized under rational basis review normally pass constitutional muster.” (internal citations and quotations omitted)) (O’Connor, J., concurring); *Gallagher v. City of Clayton*, 699 F.3d 1013, 1019 (8th Cir. 2012) (“Under rational basis review, the classification must only be rationally related to a legitimate government interest.”).

<sup>225</sup> 2012 WL 5939228 (Fed. Cl. 2012).

<sup>226</sup> *Id.*

<sup>227</sup> *Id.*

<sup>228</sup> *Id.*

<sup>229</sup> *Id.*

<sup>230</sup> *Id.*

## 5. Pending Cases (at the time of this report)

There are pending cases in the federal courts at the time of this report involving challenges to MBE/WBE/DBE Programs and that may potentially impact and be instructive to the study, including the following:

- **Mechanical Contractors Association of Memphis, Inc., White Plumbing & Mechanical Contractors, Inc. and Morgan & Thornburg, Inc. v. Shelby County, Tennessee, et al.**, U.S. District Court for Western District of Tennessee, Western Division, Case 2:19-cv-02407-SHL-tmp, filed on January 17, 2019. This is a challenge to the Shelby County, Tennessee “MWBE” Program. In *Mechanical Contractors Association of Memphis, Inc., White Plumbing & Mechanical Contractors, Inc. and Morgan & Thornburg, Inc. v. Shelby County, Tennessee, et al.*, the Plaintiffs are suing Shelby County for damages and to enjoin the County from the alleged unconstitutional and unlawful use of race-based preferences in awarding government construction contracts. The Plaintiffs assert violations of the Fourteenth Amendment to the United States Constitution, 42 U.S.C. Sections 1981, 1983 and 2000(d), and Tenn. Code Ann. § 5-14-108 that requires competitive bidding.

The Plaintiffs claim the County’s MWBE Program is unconstitutional and unlawful for both prime and subcontractors. Plaintiffs ask the Court to declare it as such, and to enjoin the County from further implementing or operating under it with respect to awarding government construction contracts.

The court has ruled on certain motions to dismiss filed by the Defendants, including granting dismissal as to individual Defendants sued in their official capacity and denied the motions to dismiss as to the individual Defendants sued in their individual capacity.

In addition, Plaintiffs on February 17, 2020 filed with the District Court in Tennessee a Motion to Exclude Proof from Mason Tillman Associates (MTA), the disparity study consultant to the County. A federal District Court in California (Northern District) issued an Order granting a Motion to Compel against Mason Tillman Associates on February 17, 2020, compelling production of documents pursuant to a subpoena served on it by the Plaintiffs. MTA appealed the Order to the Ninth Circuit Court of Appeals.

The Ninth Circuit Court of Appeals has recently dismissed the appeal by MTA, and sent the case back to the federal district court in California. The federal district court in Tennessee issued an Order on April 9, 2020 in which it denied without prejudice the Motion to Exclude Proof based on the lack of authority to limit the County’s ability to present proof at trial due to the non-party MTA’s failure to meet its discovery obligations, that nothing in the record attributes MTA’s failure to meet its discovery obligations to the County, and that MTA’s efforts to avoid disclosure is coming to an end based on the recent dismissal of MTA’s appeal to the Ninth Circuit. The district court in Tennessee stated in a footnote: “Now that the Ninth Circuit has dismissed MTA’s appeal, Plaintiff is free to again ask the California district court to compel MTA (or sanction it for failing) to produce any documents which it is obligated to disclose.”



On August 17, 2020, the district court in California entered an Order of Conditional Dismissal of that case in California dealing only with the subpoena served on MTA for documents, which is pending the approval of a settlement by the parties in September.

The parties filed on September 25, 2020 with the federal court in Tennessee a Notice of Pending Settlement, subject to the final approval of the Shelby County Commission. The County Commission voted on the settlement on November 4, 2020. The County approved the settlement, including paying \$332,000 to Plaintiffs and agreeing to not enforce the MWBE program. The parties will then submit a proposed Order of Settlement to the court to conclude the matter.

Thus, at the time of this report the case in federal court in Tennessee remains pending until and if the settlement is approved. Trial had been scheduled for December 14, 2020, which is subject to change given the status of the litigation.

- **Palm Beach County Board of County Commissioners v. Mason Tillman Associates, Ltd.; Florida East Coast Chapter of the AGC of America, Inc.**, Case No. 502018CA010511; In the 15th Judicial Circuit in and for Palm Beach County, Florida. In this case, the County sued Mason Tillman Associates (MTA) to turn over background documents from disparity studies it conducted for the Solid Waste Authority and for the county as a whole. Those documents include the names of women and minority business owners who, after MTA promised them anonymity, described discrimination they say they faced trying to get county contracts. Those documents were sought initially as part of a records request by the Associated General Contractors of America (AGC).

The County filed suit after its alleged unsuccessful efforts to get MTA to provide documents needed to satisfy a public records request from AGC. The Florida East Coast Chapter (ECC) of AGC also requested information related to the disparity study that MTA prepared for the County.

The AGC requests documents from the County and MTA related to its study and its findings and conclusions. AGC requests documents including the availability database, underlying data, anecdotal interview identities, transcripts and findings, and documents supporting the findings of discrimination.

MTA filed a Motion to Dismiss. The Court issued an order to defer the Motion to Dismiss and directed MTA to deliver the records to the court for in-camera inspection. The Court also has denied a motion by AGC to be elevated to party status and to conduct discovery. The court held a Case Management Conference on August 17, 2020, and ordered that MTA's Motion to Dismiss shall be scheduled for a hearing at a date mutually agreeable to the parties.

At the time of this report, MTA had filed a Motion to Dismiss the Second Amended Complaint. The court on September 10, 2020, issued an Order denying the Motion to Dismiss, ordering MTA to file its answer and defenses to Palm Beach County within 10 days, and that the court will hold a hearing and make preliminary findings as to whether

the documents at issue that have been provided by MTA to the court for in-camera inspection are exempted from the Public Records Act.

The court also ordered that MTA and the County file a discovery briefing schedule, and Intervenor the AGC may file a discovery brief. The court also stated that if there is limited discovery, the AGC may participate in depositions and file a motion for discovery. If the parties agree to limited discovery, then that discovery deadline is October 30, 2020.

- **CCI Environmental, Inc., D.W. Mertzke Excavating & Trucking, Inc., Global Environmental, Inc., Premier Demolition, Inc., v. City of St. Louis, St. Louis Airport Authority, et al.**; U.S. District Court for the Eastern District of Missouri, Eastern Division; Case No: 4:19-cv-03099 (Complaint filed on November 14, 2019).

Plaintiffs allege this case arises from Defendant's MWBE Program Certification and Compliance Rules that require Native Americans to show at least one-quarter descent from a tribe recognized by the Federal Bureau of Indian Affairs. Plaintiffs claim that African Americans, Hispanic Americans, and Asian Americans are only required to "have origins" in any groups or peoples from certain parts of the world. This action alleges violations of Title VI of the Civil Rights Act of 1964, and the denial of equal protection of the laws under the Fourteenth Amendment to the U.S. Constitution based on these definitions constituting per se discrimination. Plaintiffs seek injunctive relief and damages.

Plaintiffs are businesses that are certified as MBEs through the City of St. Louis. Plaintiffs allege they are Minority Group Members because their owners are members of the American Indian tribe known as Northern Cherokee Nation. Plaintiffs allege the City defines Minority Group Members differently depending on one's racial classification. The City's rules allow African Americans, Hispanic Americans and Asian Americans to meet the definition of a Minority Group Member by simply having "origins" within a group of peoples, whereas Native Americans are restricted to those persons who have cultural identification and can demonstrate membership in a tribe recognized by the Federal Bureau of Indian Affairs.

In 2019 Plaintiffs sought to renew their MBE certification with the City, which was denied. Plaintiffs allege the City decided to decertify the MBE status for each Plaintiff because their membership in the Northern Cherokee Nation disqualifies each company from Minority Group Membership because the Northern Cherokee Nation is not a federally recognized tribe by the Bureau of Indian Affairs. The Plaintiffs filed an administrative appeal, and the Administrative Review Officer upheld the decision to decertify Plaintiffs firms.

Plaintiffs allege the City's policy, on its face, treats Native Americans differently than African Americans, Hispanic Americans and Asian Americans on the basis of race because it allows those groups to simply claim an origin from one of those groups of people to qualify as a Minority Group Member, but does not allow Native Americans to qualify in the same way. Plaintiffs claim this is per se intentional discrimination by the City in violation of Title VI and the Fourteenth Amendment.

Plaintiffs also allege that Defendants subjected Plaintiffs to violations of their rights as other minority contractors in the determination of their minority status by using a different standard to determine whether they should qualify as a Minority Group Member under the City's MBE Certification Rules. Plaintiffs claim the City's policy and practice constitute disparate treatment of Native Americans.

Plaintiffs request judgment against the City and other Defendants for compensatory damages for business losses, loss of standing in their community, and damage to their reputation. Plaintiffs also seek punitive damages and injunctive relief requiring the City to strike its definition of a Minority Group Member and rewrite it in a non-discriminatory manner, reinstate the MBE certification of each Plaintiff, and for attorney fees under Title VI and 42 U.S.C. Section 1988.

The Complaint was filed on November 14, 2019, followed by a First Amended Complaint. Plaintiffs filed on February 11, 2020, a Motion for Preliminary Injunction seeking to have a hearing on their Complaint, and to order the City to reinstate the application or MBE certification of the Plaintiffs.

At the time of this report, the court has issued a Memorandum and Order, dated July 27, 2020, which provides the Motion for Preliminary Injunction, is denied as withdrawn by the Plaintiff and the Joint Motion to Amend a Case Management Order is Granted.

The parties filed cross-motions for summary judgment in August 2020 and reply briefs are due in September 2020. Plaintiffs and Defendants filed their Motions for Summary Judgment on August 5, 2020. The court on September 14, 2020 issued an order over the opposition of the parties referring the case to mediation "immediately," with mediation to be concluded by January 11, 2021. The court also held that the pending cross-motions for summary judgment will be denied without prejudice to being refiled only upon conclusion of mediation if the case has not settled.

■ **Ultima Services Corp. v. U.S. Department of Agriculture, U.S. Small Business Administration, et. al.**, U.S. District Court, E.D. Tennessee, 2:20-cv-00041-DCLC-CRW.

Plaintiff, a small business contractor, recently filed this Complaint in federal district court in Tennessee against the U.S. Dep't of Agriculture (USDA), U.S. SBA, et. al. challenging the federal Section 8(a) program, and it appears as applied to a particular industry that provide administrative and/or technical support to USDA offices that implement the Natural Resources Conservation Service (NRCS), an agency of the USDA.

Plaintiff, a non-qualified Section 8(a) Program contractor, alleges the contracts it used to bid on have been set aside for a Section 8(a) contractor. Plaintiff thus claims it is not able to compete for contracts that it could in the past.

Plaintiff alleges that neither the SBA or the USDA has evidence that any racial or ethnic group is underrepresented in the administrative and/or technical support service industry in which it competes, and there is no evidence that any underrepresentation was a consequence of discrimination by the federal government or that the government was a passive participant in discrimination.

Plaintiff claims that the Section 8(a) Program discriminates on the basis of race, and that the SBA and USDA do not have a compelling governmental interest to support the discrimination in the operation of the Section 8(a) Program. In addition, Plaintiff asserts that even if defendants had a compelling governmental interest, the Section 8(a) Program as operated by defendants is not narrowly tailored to meet any such interest.

Thus, Plaintiffs allege defendants' race discrimination in the Section 8(a) Program violates the Fifth Amendment to the U.S. Constitution. Plaintiff seeks a declaratory judgment that defendants are violating the Fifth Amendment, 42 U.S.C. Section 1981, injunctive relief precluding defendants from reserving certain NRCS contracts for the Section 8(a) Program, monetary damages, and other relief.

The defendants have filed a Motion to Dismiss asserting inter alia that the court does not have jurisdiction, which is pending. The parties are to complete filing briefs by September 2020. Plaintiff has filed written discovery, which is pending, as defendants have filed a motion to stay discovery pending the outcome of the Motion to Dismiss.

- **Pharmacann Ohio, LLC v. Ohio Dept. Commerce Director Jacqueline T. Williams**, In the Court of Common Pleas, Franklin County, Ohio, Case No. 17-CV-10962, November 15, 2018, appeal pending, in the Court of Appeals of Ohio, Tenth Appellate District, Case No. 18-AP-000954.

This is a state court case that is instructive to the study as it discusses and analyzes the evidence presented by the state government to justify its legislation providing a preference to MBEs, and applies the strict scrutiny test to determine if the state had sufficient evidence to establish a race conscious preference program to MBEs.

In 2016, the Ohio legislature codified R.C. Chapter 3796, legalizing medical marijuana. The legislature instructed Defendant Ohio Department of Commerce to issue certain licenses to medical marijuana cultivators, processors, and testing laboratories. The Department was instructed to award 15 percent of said licenses to economically disadvantaged groups, defined as African Americans, American Indians, Hispanics and Asians.

Plaintiff Greenleaf Gardens, LLC received a final score that would have otherwise qualified it to receive one of the twelve provisional licenses. Plaintiff was denied a provisional license, while Defendants Harvest Grows, LLC, and Parma Wellness Center, LLC were awarded provisional licenses due to the control of the defendant companies by one or more members of an economically disadvantaged group.

In 2018, Plaintiff filed its intervening complaint, seeking equal protection under the law pursuant to 42 U.S.C. §1983 and Article I, Section 2 of the Ohio Constitution. Plaintiff moved for summary judgment on counts one, two and four of its complaint. On counts one and four of the complaint. Plaintiff seeks declaratory judgment that R.C. §3796.09(C) is unconditional on its face pursuant to 42 U.S.C. §1983 and Article I, Section 2 of the Ohio Constitution. Count two asserts a similar claim under the Fourteenth Amendment and the Ohio Constitution, but on an as applied basis.

R.C. §3796.09(C) is subject to strict scrutiny. The court held that strict scrutiny presumes the unconstitutionality of the classification absent a compelling governmental justification. Therefore, §3796.09(C) is presumed unconstitutional, absent sufficient evidence of a compelling governmental interest.

Defendants assert the State had a compelling government interest in redressing past and present effects of racial discrimination within its jurisdiction where the State itself was involved. In support, Defendants put forth evidence of prior discrimination in bidding for Ohio government contracts, other states' marijuana licensing related programs, marijuana related arrests, and evidence of the legislature's desire to include a provision in R.C. §3796.09 similar to Ohio's MBE program.

Some of the evidence Defendants provide, the court found may not have been considered by the legislature during their discussion of R.C. §3796.09. In support of its inclusion, Defendants cite law upholding the use of "post-enactment" evidence. Courts have reached differing conclusions as to whether post-enactment evidence may be used in a court's analysis; but the court found persuasive courts that have held "post-enactment evidence may not be used to demonstrate that the government's interest in remedying prior discrimination was compelling."

The only evidence clearly considered by the legislature *prior* to the passage of R.C. §3796.09(C), the court stated, is marijuana related arrests. There is evidence that legislators may have considered MBE history and specifically requested the inclusion of a provision similar to the MBE program. However, the only evidence provided are a few emails seeking a provision like the MBE program. There was no testimony showing any statistical or other evidence was considered from the previous studies conducted for the MBE program.

Defendants included evidence of statistical studies in 2013, showing the legislature considered evidence of racial disparities for African Americans and Latinos regarding arrest rates related to marijuana. The court did not find this to be evidence supporting a set aside for economically disadvantaged groups who are not referenced in either the statistical evidence or the anecdotal evidence on arrest rates. Evidence of increased arrest rates for African Americans and Latinos for marijuana generally, the court found, is not evidence supporting a finding of discrimination within the medical marijuana industry for African Americans, Hispanics, American Indians and Asians.

The Defendants assert the legislators considered the history of R.C. §125.081, Ohio's MBE program. The last studies Defendants reference to support the legislature's conclusion that remedial action is necessary in the industry of government procurement contracts were conducted in 2001, leading to the creation of the Encouraging Diversity Growth and Equity Program in 2003. Since then, various cities have conducted independent studies of their governments and the utilization of MBEs in procurement practices. Although Defendants reference these materials, these studies were not reviewed by the legislature for R.C. §3796.09(C).

The only evidence referenced in the materials provided by the Defendants to show the General Assembly considered Ohio's MBE and EDGE history are three emails between a congressional staff member and an employee of the Legislative Service Commission requesting a set aside like the one included in R.C. §125.081 and R.C. §123.125. There is no reference to the legislative history and evidence from the original review in between 1978 and 1980. The legislators who reviewed the evidence in 1980 clearly were not members of the legislature in 2016 when R.C. §2796.09(C) passed. Even if a few legislators might have seen the MBE evidence, the court stated it cannot find it was considered by the General Assembly as evidence supporting remedial action.

Additionally, even if the court could have found this evidence was considered by the legislature in support of R.C. §3796.09(C), the materials from R.C. §125.081 pertain to *government procurement contracts* only. The court held the law requires that evidence considered by the legislature must be directly related to discrimination in that particular industry. Defendants argued the fact that the medical marijuana industry is new, but the court said such newness necessarily demonstrates there is no history of discrimination in this particular industry, i.e., legal cultivation of medical marijuana.

Finally, Defendants' remaining evidence, the court said, is post-enactment. The court stated it would be given a lesser weight than that of pre-enactment evidence. Considering all the evidence put forth, the court found there is not a strong basis in evidence supporting the legislature's conclusion that remedial action is necessary to correct discrimination within the medical marijuana industry. Accordingly, it held a compelling government interest does not exist.

The court also found R.C. §3796.09(C) is not narrowly tailored to the legislature's alleged compelling interest. Under Ohio law, the legislature must engage in an analysis of alternative remedies and prior efforts *before* enacting race-conscious remedies. Neither party directed the court to sufficient evidence of alternative remedies proposed or analyzed by the legislature during their review of R.C. §3796.09(C). The evidence of prior alternative remedies pertains to the government contracting market. Neither of the studies Defendant cites relate to the medical marijuana industry. The Defendants did not show evidence of any alternative remedies considered by the legislature before enacting R.C. §3796.09(C).

The court believed alternative remedies could have been available to the legislature to alleviate the discrimination the legislature stated it sought to correct. If the legislature sought to rectify the elevated arrest rates for African Americans and Latinos/Hispanics possessing marijuana, the correction should have been giving preference to those companies owned by former arrestees and convicts, not a range of economically disadvantaged individuals, including preferences for unrelated races like Native Americans and Asians.

R.C. §3796.09(C) appears to be somewhat flexible, the court stated, in that it includes a waiver provision. The court found the entire statute itself is not flexible, being that it is a strict percentage, unrelated to the particular industry it is intended for, medical marijuana. R.C. §3796.09(C) requires 15 percent of cultivator licenses are issued to economically disadvantaged group members. This is not an estimated goal, but a specific requirement. Additionally, R.C. §3796.09(C) does not include a proposed duration. Accordingly, the court found R.C. §3796.09(C) is not flexible.

Defendants admitted that the 15 percent stated within R.C. §3796.09(C) was lifted from R.C. §125.081 without any additional research or review by the legislature regarding the relevant labor market described in R.C. §3796.09(C), the medical marijuana industry. Defendants argued that the numbers as associated with the contracting market are directly applicable to the newly created medical marijuana industry because of a disparity study conducted by Maryland. The Maryland study was not reviewed by the legislature before enacting R.C. §3796.09(C), and is a review of markets and disparity in Maryland, not Ohio. Accordingly, the court found this one study the Defendants use to try to connect two very different industries (government contracting market and a newly created medical marijuana industry) has little weight, if any.

Regarding the statistics the legislature did not review prior to enacting R.C. §3796.09(C), the cited statistics pertaining to the arrest rates of minorities, the court found, are not directly related to the values listed within the statute. Much of the statistics referenced are based on general rates throughout the United States, or findings on discrimination pertaining to all drug related arrests. But these other statistics do not demonstrate the racial disparities pertaining to specifically marijuana throughout the state of Ohio. The statistics cited in the materials, the court said, is not reflected in the amount chosen to remediate the discrimination R.C. §3796.09(C), 15 percent. This percentage is not based on the evidence demonstrating racial discrimination in marijuana related arrest in Ohio. Therefore, the court concluded the numerical value was selected at random by the legislature, and not based on the evidence provided.

Defendants argued third parties are minimally impacted. R.C. §3796:2-1-01 allots twelve licenses to be issued to the most qualified applicants. By allowing a 15 percent set aside, the court concluded licenses are given to lower qualified applicants solely on the basis of race. The court found the 15 percent set aside is not insignificant and the burden is excessive for a newly created industry with limited participants.

Finally, the Defendants assert R.C. §3796.09(C) is a continual focus of the legislature which leads to reassessment and reevaluation of the program. As the statute does not include instructions for the legislature to assess and evaluate the program on a reoccurring basis, the court concluded that this factor is not fulfilled.

Upon review of all factors together, the court found failure of the legislature to evaluate or employ race-neutral alternative remedies; plus, the inflexible and unlimited nature of the statute; combined with the lack of relationship between the numerical goals and the relevant labor market; and the large impact of the relief on the rights of third parties, shows the legislature failed to narrowly-tailor R.C. §3796.09(C).

As the ultimate burden remains with Plaintiff to demonstrate the unconstitutionality of R.C. §3796.09(C), the court found Plaintiff met its burden by showing the legislature failed to compile and review enough evidence related to the medical marijuana industry to support the finding of a strong basis in evidence for a compelling government interest to exist. Additionally, the legislature did not narrowly tailor R.C. §3796.09(C). Therefore, the Court finds R.C. §3796.09(C) is unconstitutional on its face pursuant to 42 U.S.C. §1983 and Article I, Section 2 of the Ohio Constitution.

The case at the time of this report is on appeal in the Court of Appeals of the Ohio Tenth Appellate District, Case No. 18-AP-000954.

- **Circle City Broadcasting I, LLC (“Circle City”) and National Association of Black Owned Broadcasters (“NABOB”) (Plaintiffs) v. DISH Network, LLC (“DISH” or “Defendant”)**, U.S. District Court, Southern District of Indiana, Indianapolis Division, Case NO. 1:20-cv-00750-TWP-TAB.

This case involves allegations of racial discrimination in contracting by DISH against Plaintiff Circle City. Plaintiffs allege DISH refuses to contract in a nondiscriminatory manner with Circle City in violation of 42 U.S.C. § 1981. Circle City is a small, minority-owned and historically disadvantaged business providing local television broadcasting with television stations located in and serving Indianapolis, Indiana and the surrounding areas.

NABOB is a nonprofit corporation. The Amended Complaint alleges that NABOB represents 167 radio stations owned by 59 different radio broadcasting companies and 21 television stations owned by 10 different television broadcasting companies. The Amended Complaint alleges NABOB is a trade association representing the interests of the African American owned commercial radio and television stations across the country. Plaintiffs allege that as the voice of the African American broadcast industry for the past 42 years, NABOB has been instrumental in shaping national government and industry policies to improve the opportunities for success in broadcasting for African Americans and other minorities.



Plaintiffs claim that DISH insists on maintaining the industry’s policies and practices of discriminating against minority-owned broadcasters and disadvantaged businesses by paying the non-minority broadcasters significant fees to rebroadcast their stations and channels while offering practically no fees to the historically disadvantaged broadcaster or programmer for the same or superior programming.

Plaintiffs assert that DISH’s policies discount the contribution minorities can make in a market by refusing to contract with them on a fair and equal basis, and this policy highlights discrimination against minority businesses.

Plaintiffs allege that DISH refuses to negotiate a television retransmission contract in good faith with minority owned business, Circle City.

Circle City sues for retransmission fees at a fair market rate, actual and punitive damages, interest, attorneys’ fees and costs resulting from allegations of intentional misconduct by DISH in its alleged disingenuous “negotiations” with Circle City. NABOB also seeks injunctive relief to enjoin the alleged unlawful acts.

This list of pending cases is not exhaustive, but in addition to the cases cited previously may potentially have an impact on the study and implementation of MBE/WBE/DBE Programs, related legislation, state and local government implementation of the Federal DBE Program, and other types of programs impacting participation of MBE/WBE/DBEs.

**Ongoing review.** The above represents a summary of the legal framework pertinent to the study and implementation of DBE/MBE/WBE, or race-, ethnicity- or gender-neutral programs, the Federal DBE and ACDBE Programs, and the implementation of the Federal DBE and ACDBE Programs by state and local government recipients of federal funds. Because this is a dynamic area of the law, the framework is subject to ongoing review as the law continues to evolve. The following provides more detailed summaries of key recent decisions.

## **D. Recent Decisions Involving the Federal DBE Program and State or Local Government MBE/WBE/DBE Programs in the Ninth Circuit Court of Appeals**

### **1. Orion Insurance Group, a Washington Corporation; Ralph G. Taylor, an individual, Plaintiffs, v. Washington State Office of Minority & Women’s Business Enterprises, United States DOT, et. al., 2018 WL 6695345 (9th Cir. December 19, 2018), Memorandum opinion (not for publication), Petition for Rehearing denied, February 2019. Petition for Writ of Certiorari filed with the U.S. Supreme Court denied (June 24, 2019)**

Plaintiffs, Orion Insurance Group (“Orion”) and its owner Ralph Taylor, filed this case alleging violations of federal and state law due to the denial of their application for Orion to be considered a DBE under federal law. The USDOT and Washington State Office of Minority & Women’s Business Enterprises (“OMWBE”), moved for a summary dismissal of all the claims.

Plaintiff Taylor received results from a genetic ancestry test that estimated he was 90 percent European, 6 percent Indigenous American, and 4 percent Sub-Saharan African. Taylor submitted an application to OMWBE seeking to have Orion certified as an MBE under Washington State law. Taylor identified himself as Black. His application was initially rejected, but after Taylor appealed, OMWBE voluntarily reversed their decision and certified Orion as an MBE.

Plaintiffs submitted to OMWBE Orion’s application for DBE certification under federal law. Taylor identified himself as Black American and Native American in the Affidavit of Certification. Orion’s DBE application was denied because there was insufficient evidence that he was a member of a racial group recognized under the regulations, was regarded by the relevant community as either Black or Native American, or that he held himself out as being a member of either group.

OMWBE found the presumption of disadvantage was rebutted and the evidence was insufficient to show Taylor was socially and economically disadvantaged.

**District Court decision.** The district court held OMWBE did not act arbitrarily or capriciously when it found the presumption that Taylor was socially and economically disadvantaged was rebutted because of insufficient evidence he was either Black or Native American. By requiring individualized determinations of social and economic disadvantage, the court held the Federal DBE Program requires states to extend benefits only to those who are actually disadvantaged.

Therefore, the district court dismissed the claim that, on its face, the Federal DBE Program violates the Equal Protection Clause. The district court also dismissed the claim that the Defendants, in applying the Federal DBE Program to him, violated the Equal Protection Clause.

The district court found there was no evidence that the application of the federal regulations was done with an intent to discriminate against mixed-race individuals or with racial animus, or creates a disparate impact on mixed-race individuals. The district court held the Plaintiffs failed to show that either the State or Federal Defendants had no rational basis for the difference in treatment.

**Void for vagueness claim.** Plaintiffs asserted that the regulatory definitions of “Black American” and “Native American” are void for vagueness. The district court dismissed the claims that the definitions of “Black American” and “Native American” in the DBE regulations are impermissibly vague.

**Claims for violations of 42 U.S.C. § 2000d (Title VI) against the State.** Plaintiffs’ claims were dismissed against the State Defendants for violation of Title VI. The district court found plaintiffs failed to show the state engaged in intentional racial discrimination. The DBE regulations’ requirement that the state make decisions based on race, the district court held were constitutional.

**The Ninth Circuit on appeal affirmed the District Court.** The Ninth Circuit held the district court correctly dismissed Taylor’s claims against Acting Director of the USDOT’s Office of Civil Rights, in her individual capacity. The Ninth Circuit also held the district court correctly dismissed Taylor’s discrimination claims under 42 U.S.C. § 1983 because the federal defendants did not act “under color or state law” as required by the statute.

In addition, the Ninth Circuit concluded the district court correctly dismissed Taylor’s claims for damages because the United States has not waived its sovereign immunity on those claims. The Ninth Circuit found the district court correctly dismissed Taylor’s claims for equitable relief refund under 42 U.S.C. § 2000d because the Federal DBE Program does not qualify as a “program or activity” within the meaning of the statute.

**Claims under the Administrative Procedure Act.** The Ninth Circuit stated the OMWBE did not act in an arbitrary and capricious manner when it determined it had a “well-founded reason” to question Taylor’s membership claims, and that Taylor did not qualify as a “socially and economically disadvantaged individual.” Also, the court found OMWBE did not act in an arbitrary and capricious manner when it did not provide an in-person hearing under 49 C.F.R. §§ 26.67(b)(2) and 26.87(d) because Taylor was not entitled to a hearing under the regulations.

The Ninth Circuit held the USDOT did not act in an arbitrary and capricious manner when it affirmed the state’s decision because the decision was supported by substantial evidence and consistent with federal regulations. The USDOT “articulated a rational connection” between the evidence and the decision to deny Taylor’s application for certification.

**Claims under the Equal Protection Clause and 42 U.S.C. §§ 1983 and 2000d.** The Ninth Circuit held the district court correctly granted summary judgment to the federal and state Defendants on Taylor’s equal protection claims because Defendants did not discriminate against Taylor, and did not treat Taylor differently from others similarly situated. In addition, the court found the district court properly granted summary judgment to the state defendants on Taylor’s discrimination claims under 42 U.S.C. §§ 1983 and 2000d because neither statute applies to Taylor’s claims.

Having granted summary judgment on Taylor’s claims under federal law, the Ninth Circuit concluded the district court properly declined to exercise jurisdiction over Taylor’s state law claims.

**Petition for Writ of Certiorari.** Plaintiffs/Appellants filed a Petition for Writ of Certiorari with the U.S. Supreme Court on April 22, 2019, which was denied on June 24, 2019.

**2. *Mountain West Holding Co., Inc. v. The State of Montana, Montana DOT, et al.*, 2017 WL 2179120 (9th Cir. May 16, 2017), Memorandum opinion, (not for publication) United States Court of Appeals for the Ninth Circuit, May 16, 2017, Docket Nos. 14-26097 and 15-35003, dismissing in part, reversing in part and remanding the U. S. District Court decision at 2014 WL 6686734 (D. Mont. Nov. 26, 2014)**

**Note:** The Ninth Circuit Court of Appeals Memorandum provides: “This disposition is not appropriate for publication and is not precedent except as provided by Ninth Circuit Rule 36-3.”

**Introduction.** Mountain West Holding Company installs signs, guardrails, and concrete barriers on highways in Montana. It competes to win subcontracts from prime contractors who have contracted with the State. It is not owned and controlled by women or minorities. Some of its competitors are disadvantaged business enterprises (DBEs) owned by women or minorities. In this case it claims that Montana’s DBE goal-setting program unconstitutionally required prime contractors to give preference to these minority or female-owned competitors, which Mountain West Holdings Company argues is a violation of the Equal Protection Clause, 42 U.S.C. § 1983 and Title VI of the Civil Rights Act of 1964, 42 U.S.C. § 2000d, *et seq.*

**Factual and procedural background.** *In Mountain West Holding Co., Inc. v. The State of Montana, Montana DOT, et al.*, 2014 WL 6686734 (D. Mont. Nov. 26, 2014); Case No. 1:13-CV-00049-DLC, United States District Court for the District of Montana, Billings Division, plaintiff Mountain West Holding Co., Inc. (“Mountain West”), alleged it is a contractor that provides construction-specific traffic planning and staffing for construction projects as well as the installation of signs, guardrails, and concrete barriers. Mountain West sued the Montana Department of Transportation (“MDT”) and the State of Montana, challenging their implementation of the Federal DBE Program. Mountain West brought this action alleging violation of the Equal Protection Clause of the Fourteenth Amendment of the United States Constitution, Title VI of the Civil Rights Act, 42 USC § 2000(d)(7), and 42 USC § 1983.

Following the Ninth Circuit’s 2005 decision in *Western States Paving v. Washington DOT, et al.*, MDT commissioned a disparity study which was completed in 2009. MDT utilized the results of the disparity study to establish its overall DBE goal. MDT determined that to meet its overall goal, it would need to implement race-conscious contract specific goals. Based upon the disparity study, Mountain West alleges the State of Montana utilized race, national origin, and gender-conscious goals in highway construction contracts. Mountain West claims the State did not have a strong basis in evidence to show there was past discrimination in the highway construction industry in Montana and that the implementation of race, gender, and national origin preferences were necessary or appropriate. Mountain West also alleges that Montana has instituted policies and practices which exceed the United States Department of Transportation DBE requirements.

Mountain West asserts that the 2009 study concluded all “relevant” minority groups were underutilized in “professional services” and Asian-Pacific Americans and Hispanic Americans were underutilized in “business categories combined,” but it also concluded that all “relevant” minority groups were significantly overutilized in construction. Mountain West thus alleges that although the disparity study demonstrates that DBE groups are “significantly overrepresented” in the highway construction field, MDT has established preferences for DBE construction subcontractor firms over non-DBE construction subcontractor firms in the award of contracts.

Mountain West also asserts that the Montana DBE Program does not have a valid statistical basis for the establishment or inclusion of race, national origin, and gender conscious goals, that MDT inappropriately relies upon the 2009 study as the basis for its DBE Program, and that the study is flawed. Mountain West claims the Montana DBE Program is not narrowly tailored because it disregards large differences in DBE firm utilization in MDT contracts as among three different categories of subcontractors: business categories combined, construction, and professional services; the MDT DBE certification process does not require the applicant to specify any specific racial or ethnic prejudice or cultural bias that had a negative impact upon his or her business success; and the certification process does not require the applicant to certify that he or she was discriminated against in the State of Montana in highway construction.

Mountain West and the State of Montana and the MDT filed cross Motions for Summary Judgment. Mountain West asserts that there was no evidence that all relevant minority groups had suffered discrimination in Montana's transportation contracting industry because, while the study had determined there were substantial disparities in the utilization of all minority groups in professional services contracts, there was no disparity in the utilization of minority groups in construction contracts.

*AGC, San Diego v. California DOT and Western States Paving Co. v. Washington DOT.* The Ninth Circuit and the district court in *Mountain West* applied the decision in *Western States*, 407 F.3d 983 (9th Cir. 2005), and the decision in *AGC, San Diego v. California DOT*, 713 F.3d 1187 (9th Cir. 2013) as establishing the law to be followed in this case. The district court noted that in *Western States*, the Ninth Circuit held that a state's implementation of the Federal DBE Program can be subject to an as-applied constitutional challenge, despite the facial validity of the Federal DBE Program. 2014 WL 6686734 at \*2 (D. Mont. November 26, 2014). The Ninth Circuit and the district court stated the Ninth Circuit has held that whether a state's implementation of the DBE Program "is narrowly tailored to further Congress's remedial objective depends upon the presence or absence of discrimination in the State's transportation contracting industry." *Mountain West*, 2014 WL 6686734 at \*2, quoting *Western States*, at 997-998, and *Mountain West*, 2017 WL 2179120 at \*2 (9th Cir. May 16, 2017) Memorandum, May 16, 2017, at 5-6, quoting *AGC, San Diego v. California DOT*, 713 F.3d 1187, 1196. The Ninth Circuit in *Mountain West* also pointed out it had held that "even when discrimination is present within a State, a remedial program is only narrowly tailored if its application is limited to those minority groups that have actually suffered discrimination." *Mountain West*, 2017 WL 2179120 at \*2, Memorandum, May 16, 2017, at 6, and 2014 WL 6686734 at \*2, quoting *Western States*, 407 F.3d at 997-999.

**MDT study.** MDT obtained a firm to conduct a disparity study that was completed in 2009. The district court in *Mountain West* stated that the results of the study indicated significant underutilization of DBEs in all minority groups in "professional services" contracts, significant underutilization of Asian-Pacific Americans and Hispanic Americans in "business categories combined," slight underutilization of nonminority women in "business categories combined," and overutilization of all groups in subcontractor "construction" contracts. *Mountain West*, 2014 WL 6686734 at \*2.

In addition to the statistical evidence, the 2009 disparity study gathered anecdotal evidence through surveys and other means. The district court stated the anecdotal evidence suggested various forms of discrimination existed within Montana’s transportation contracting industry, including evidence of an exclusive “good ole boy network” that made it difficult for DBEs to break into the market. *Id.* at \*3. The district court said that despite these findings, the consulting firm recommended that MDT continue to monitor DBE utilization while employing only race-neutral means to meet its overall goal. *Id.* The consulting firm recommended that MDT consider the use of race-conscious measures if DBE utilization decreased or did not improve.

Montana followed the recommendations provided in the study, and continued using only race-neutral means in its effort to accomplish its overall goal for DBE utilization. *Id.* Based on the statistical analysis provided in the study, Montana established an overall DBE utilization goal of 5.83 percent. *Id.*

**Montana’s DBE utilization after ceasing the use of contract goals.** The district court found that in 2006, Montana achieved a DBE utilization rate of 13.1 percent, however, after Montana ceased using contract goals to achieve its overall goal, the rate of DBE utilization declined sharply. 2014 WL 6686734 at \*3. The utilization rate dropped, according to the district court, to 5 percent in 2007, 3 percent in 2008, 2.5 percent in 2009, 0.8 percent in 2010, and in 2011, it was 2.8 percent. *Id.* In response to this decline, for fiscal years 2011-2014, the district court said MDT employed contract goals on certain USDOT contracts in order to achieve 3.27 percentage points of Montana’s overall goal of 5.83 percent DBE utilization.

MDT then conducted and prepared a new Goal Methodology for DBE utilization for federal fiscal years 2014-2016. *Id.* USDOT approved the new and current goal methodology for MDT, which does not provide for the use of contract goals to meet the overall goal. *Id.* Thus, the new overall goal is to be made entirely through the use of race-neutral means. *Id.*

**Mountain West’s claims for relief.** Mountain West sought declaratory and injunctive relief, including prospective relief, against the individual defendants, and sought monetary damages against the State of Montana and the MDT for alleged violation of Title VI. 2014 WL 6686734 at \*3. Mountain West’s claim for monetary damages is based on its claim that on three occasions it was a low-quoting subcontractor to a prime contractor submitting a bid to the MDT on a project that utilized contract goals, and that despite being a low-quoting bidder, Mountain West was not awarded the contract. *Id.* Mountain West brings an as-applied challenge to Montana’s DBE program. *Id.*

**The two-prong test to demonstrate that a DBE program is narrowly tailored.** The Court, *citing* AGC, *San Diego v. California DOT*, 713 F.3d 1187, 1196, stated that under the two-prong test established in *Western States*, in order to demonstrate that its DBE program is narrowly tailored, (1) the state must establish the presence of discrimination within its transportation contracting industry, and (2) the remedial program must be limited to those minority groups that have actually suffered discrimination. *Mountain West*, 2017 WL 2179120 at \*2, Memorandum, May 16, 2017, at 6-7.

**District Court Holding in 2014 and the Appeal.** The district court granted summary judgment to the State, and Mountain West appealed. *See Mountain West Holding Co., Inc. v. The State of Montana, Montana DOT, et al.* 2014 WL 6686734 (D. Mont. Nov. 26, 2014), *dismissed in part, reversed in part, and remanded*, U.S. Court of Appeals, Ninth Circuit, Docket Nos. 14-36097 and 15-35003, Memorandum 2017 WL 2179120 at \*\*1-4 (9th Cir. May 16, 2017). Montana also appealed the district court’s threshold determination that Mountain West had a private right of action under Title VI, and it appealed the district court’s denial of the State’s motion to strike an expert report submitted in support of Mountain West’s motion.

**Ninth Circuit Holding.** The Ninth Circuit Court of Appeals in its Memorandum opinion dismissed Mountain West’s appeal as moot to the extent Mountain West pursues equitable remedies, affirmed the district court’s determination that Mountain West has a private right to enforce Title VI, affirmed the district court’s decision to consider the disputed expert report by Mountain West’s expert witness, and reversed the order granting summary judgment to the State. 2017 WL 2179120 at \*\*1-4 (9th Cir. May 16, 2017), U.S. Court of Appeals, Ninth Circuit, Docket Nos. 14-36097 and 15-35003, Memorandum, at 3, 5, 11.

**Mootness.** The Ninth Circuit found that Montana does not currently employ gender- or race-conscious goals, and the data it relied upon as justification for its previous goals are now several years old. The Court thus held that Mountain West’s claims for injunctive and declaratory relief are therefore moot. *Mountain West*, 2017 WL 2179120 at \*2 (9th Cir.), Memorandum, May 16, 2017, at 4.

The Court also held, however, that Mountain West’s Title VI claim for damages is not moot. 2017 WL 2179120 at \*\*1-2. The Court stated that a plaintiff may seek damages to remedy violations of Title VI, *see* 42 U.S.C. § 2000d-7(a)(1)-(2); and Mountain West has sought damages. Claims for damages, according to the Court, do not become moot even if changes to a challenged program make claims for prospective relief moot. *Id.*

The appeal, the Ninth Circuit held, is therefore dismissed with respect to Mountain West’s claims for injunctive and declaratory relief; and only the claim for damages under Title VI remains in the case. *Mountain West*, 2017 WL 2179120 at \*\*1 (9th Cir.), Memorandum, May 16, 2017, at 4.

**Private Right of Action and Discrimination under Title VI.** The Court concluded for the reasons found in the district court’s order that Mountain West may state a private claim for damages against Montana under Title VI. *Id.* at \*2. The district court had granted summary judgment to Montana on Mountain West’s claims for discrimination under Title VI.

Montana does not dispute that its program took race into account. The Ninth Circuit held that classifications based on race are permissible “only if they are narrowly tailored measures that further compelling governmental interests.” *Mountain West*, 2017 WL 2179120 (9th Cir.) at \*2, Memorandum, May 16, 2017, at 6-7. *W. States Paving*, 407 F.3d at 990 (*quoting Adarand Constructors, Inc. v. Peña*, 515 U.S. 200, 227 (1995)). As in *Western States Paving*, the Court applied the same test to claims of unconstitutional discrimination and discrimination in violation of Title VI. *Mountain West*, 2017 WL 2179120 at \*2, n.2, Memorandum, May 16, 2017, at 6, n. 2; *see*, 407 F.3d at 987.

Montana, the Court found bears the burden to justify any racial classifications. *Id.* In an as-applied challenge to a state’s DBE contracting program, “(1) the state must establish the presence of discrimination within its transportation contracting industry, and (2) the remedial program must be ‘limited to those minority groups that have actually suffered discrimination.’” *Mountain West*, 2017 WL 2179120 at \*2 (9th Cir.), Memorandum, May 16, 2017, at 6-7, quoting, *Assoc. Gen. Contractors of Am. v. Cal. Dep’t of Transp.*, 713 F.3d 1187, 1196 (9th Cir. 2013) (quoting *W. States Paving*, 407 F.3d at 997-99). Discrimination may be inferred from “a significant statistical disparity between the number of qualified minority contractors willing and able to perform a particular service and the number of such contractors actually engaged by the locality or the locality’s prime contractors.” *Mountain West*, 2017 WL 2179120 at \*2 (9th Cir.), Memorandum, May 16, 2017, at 6-7, quoting, *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469, 509 (1989).

Here, the district court held that Montana had satisfied its burden. In reaching this conclusion, the district court relied on three types of evidence offered by Montana. First, it cited a study, which reported disparities in professional services contract awards in Montana. Second, the district court noted that participation by DBEs declined after Montana abandoned race-conscious goals in the years following the decision in *Western States Paving*, 407 F.3d 983. Third, the district court cited anecdotes of a “good ol’ boys” network within the State’s contracting industry. *Mountain West*, 2017 WL 2179120 at \*3 (9th Cir.), Memorandum, May 16, 2017, at 7.

The Ninth Circuit reversed the district court and held that summary judgment was improper in light of genuine disputes of material fact as to the study’s analysis, and because the second two categories of evidence were insufficient to prove a history of discrimination. *Mountain West*, 2017 WL 2179120 at \*3 (9th Cir.), Memorandum, May 16, 2017, at 7.

**Disputes of fact as to study.** *Mountain West*’s expert testified that the study relied on several questionable assumptions and an opaque methodology to conclude that professional services contracts were awarded on a discriminatory basis. *Id.* at \*3. The Ninth Circuit pointed out a few examples that it found illustrated the areas in which there are disputes of fact as to whether the study sufficiently supported Montana’s actions:

1. Ninth Circuit stated that its cases require states to ascertain whether lower-than-expected DBE participation is attributable to factors other than race or gender. *W. States Paving*, 407 F.3d at 1000-01. *Mountain West* argues that the study did not explain whether or how it accounted for a given firm’s size, age, geography, or other similar factors. The report’s authors were unable to explain their analysis in depositions for this case. Indeed, the Court noted, even Montana appears to have questioned the validity of the study’s statistical results *Mountain West*, 2017 WL 2179120 at \*3 (9th Cir.), Memorandum, May 16, 2017, at 8.
2. The study relied on a telephone survey of a sample of Montana contractors. *Mountain West* argued that (a) it is unclear how the study selected that sample, (b) only a small percentage of surveyed contractors responded to questions, and (c) it is unclear whether responsive contractors were representative of nonresponsive contractors. 2017 WL 2179120 at \*3 (9th Cir. May 16, 2017), Memorandum at 8–9.



3. The study relied on very small sample sizes but did no tests for statistical significance, and the study consultant admitted that “some of the population samples were very small and the result may not be significant statistically.” 2017 WL 2179120 at \*3 (9th Cir. May 16, 2017), Memorandum at 8–9.
4. Mountain West argued that the study gave equal weight to professional services contracts and construction contracts, but professional services contracts composed less than 10 percent of total contract volume in the State’s transportation contracting industry. 2017 WL 2179120 at \*3 (9th Cir. May 16, 2017), Memorandum at 9.
5. Mountain West argued that Montana incorrectly compared the proportion of available subcontractors to the proportion of prime contract dollars awarded. The district court did not address this criticism or explain why the study’s comparison was appropriate. 2017 WL 2179120 at \*3 (9th Cir. May 16, 2017), Memorandum at 9.

**The post-2005 decline in participation by DBEs.** The Ninth Circuit was unable to affirm the district court’s order in reliance on the decrease in DBE participation after 2005. In *Western States Paving*, it was held that a decline in DBE participation after race- and gender- based preferences are halted is not necessarily evidence of discrimination against DBEs. *Mountain West*, 2017 WL 2179120 at \*3 (9th Cir.), Memorandum, May 16, 2017, at 9, quoting *Western States*, 407 F.3d at 999 (“If [minority groups have not suffered from discrimination], then the DBE program provides minorities who have not encountered discriminatory barriers with an unconstitutional competitive advantage at the expense of both non-minorities and any minority groups that have actually been targeted for discrimination.”); *id.* at 1001 (“The disparity between the proportion of DBE performance on contracts that include affirmative action components and on those without such provisions does not provide any evidence of discrimination against DBEs.”). *Id.*

The Ninth Circuit also cited to the USDOT statement made to the Court in *Western States. Mountain West*, 2017 WL 2179120 at \*3 (9th Cir.), Memorandum, May 16, 2017, at 10, quoting U.S. Dep’t of Transp., *Western States Paving Co. Case Q&A* (Dec. 16, 2014) (“In calculating availability of DBEs, [a state’s] study should not rely on numbers that may have been inflated by race-conscious programs that may not have been narrowly tailored.”).

**Anecdotal evidence of discrimination.** The Ninth Circuit said that without a statistical basis, the State cannot rely on anecdotal evidence alone. *Mountain West*, 2017 WL 2179120 at \*3 (9th Cir.), Memorandum, May 16, 2017, at 10, quoting *Coral Const. Co. v. King Cty.*, 941 F.2d 910, 919 (9th Cir. 1991) (“While anecdotal evidence may suffice to prove individual claims of discrimination, rarely, if ever, can such evidence show a systemic pattern of discrimination necessary for the adoption of an affirmative action plan.”); and quoting *Croson*, 488 U.S. at 509 (“[E]vidence of a pattern of individual discriminatory acts can, if supported by appropriate statistical proof, lend support to a local government’s determination that broader remedial relief is justified.”). *Id.*

In sum, the Ninth Circuit found that because it must view the record in the light most favorable to Mountain West’s case, it concluded that the record provides an inadequate basis for summary judgment in Montana’s favor. 2017 WL 2179120 at \*3.

**Conclusion.** The Ninth Circuit thus reversed and remanded for the district court to conduct whatever further proceedings it considers most appropriate, including trial or the resumption of pretrial litigation. Thus, the case was dismissed in part, reversed in part, and remanded to the district court. *Mountain West*, 2017 WL 2179120 at \*4 (9th Cir.), Memorandum, May 16, 2017, at 11.

**3. *Associated General Contractors of America, San Diego Chapter, Inc. v. California Department of Transportation, et al.*, 713 F.3d 1187 (9th Cir. 2013)**

The Associated General Contractors of America, Inc., San Diego Chapter, Inc., (“AGC”) sought declaratory and injunctive relief against the California Department of Transportation (“Caltrans”) and its officers on the grounds that Caltrans’ Disadvantaged Business initial Enterprise (“DBE”) program unconstitutionally provided race -and sex-based preferences to African American, Native American-, Asian-Pacific American- and women-owned firms on certain transportation contracts. The federal district court upheld the constitutionality of Caltrans’ DBE program implementing the Federal DBE Program and granted summary judgment to Caltrans. The district court held that Caltrans’ DBE program implementing the Federal DBE Program satisfied strict scrutiny because Caltrans had a strong basis in evidence of discrimination in the California transportation contracting industry, and the program was narrowly tailored to those groups that actually suffered discrimination. The district court held that Caltrans’ substantial statistical and anecdotal evidence from a disparity study conducted by BBC Research and Consulting, provided a strong basis in evidence of discrimination against the four named groups, and that the program was narrowly tailored to benefit only those groups. 713 F.3d at 1190.

The AGC appealed the decision to the Ninth Circuit Court of Appeals. The Ninth Circuit initially held that because the AGC did not identify any of the members who have suffered or will suffer harm as a result of Caltrans’ program, the AGC did not establish that it had associational standing to bring the lawsuit. *Id.* Most significantly, the Ninth Circuit held that even if the AGC could establish standing, its appeal failed because the Court found Caltrans’ DBE program implementing the Federal DBE Program is constitutional and satisfied the applicable level of strict scrutiny required by the Equal Protection Clause of the United States Constitution. *Id.* at 1194-1200.

**Court Applies *Western States Paving Co. v. Washington State DOT* decision.** In 2005 the Ninth Circuit Court of Appeal decided *Western States Paving Co. v. Washington State Department of Transportation*, 407 F.3d. 983 (9th Cir. 2005), which involved a facial challenge to the constitutional validity of the federal law authorizing the United States Department of Transportation to distribute funds to States for transportation-related projects. *Id.* at 1191. The challenge in the *Western States Paving* case also included an as-applied challenge to the Washington DOT program implementing the federal mandate. *Id.* Applying strict scrutiny, the Ninth Circuit upheld the constitutionality of the federal statute and the federal regulations (the Federal DBE Program), but struck down Washington DOT’s program because it was not narrowly tailored. *Id.*, citing *Western States Paving Co.*, 407 F.3d at 990-995, 999-1002.

In *Western States Paving*, the Ninth Circuit announced a two-pronged test for “narrow tailoring:”

*“(1) the state must establish the presence of discrimination within its transportation contracting industry, and (2) the remedial program must be limited to those minority groups that have actually suffered discrimination.”* *Id.* 1191, citing *Western States Paving Co.*, 407 F.3d at 997-998.

**Evidence gathering and the 2007 Disparity Study.** On May 1, 2006, Caltrans ceased to use race- and gender-conscious measures in implementing their DBE program on federally assisted contracts while it gathered evidence in an effort to comply with the *Western States Paving* decision. *Id.* at 1191. Caltrans commissioned a disparity study by BBC Research and Consulting to determine whether there was evidence of discrimination in California’s transportation contracting industry. *Id.* The Court noted that disparity analysis involves making a comparison between the availability of minority- and women-owned businesses and their actual utilization, producing a number called a “disparity index.” *Id.* An index of 100 represents statistical parity between availability and utilization, and a number below 100 indicates underutilization. *Id.* An index below 80 is considered a substantial disparity that supports an inference of discrimination. *Id.*

The Court found the research firm and the disparity study gathered extensive data to calculate disadvantaged business availability in the California transportation contracting industry. *Id.* at 1191. The Court stated: “Based on review of public records, interviews, assessments as to whether a firm could be considered available, for Caltrans contracts, as well as numerous other adjustments, the firm concluded that minority- and women-owned businesses should be expected to receive 13.5 percent of contact dollars from Caltrans administered federally assisted contracts.” *Id.* at 1191-1192.

The Court said the research firm “examined over 10,000 transportation-related contracts administered by Caltrans between 2002 and 2006 to determine actual DBE utilization. The firm assessed disparities across a variety of contracts, separately assessing contracts based on funding source (state or federal), type of contract (prime or subcontract), and type of project (engineering or construction).” *Id.* at 1192.

The Court pointed out a key difference between federally funded and state funded contracts is that race-conscious goals were in place for the federally funded contracts during the 2002–2006 period, but not for the state funded contracts. *Id.* at 1192. Thus, the Court stated: “state funded contracts functioned as a control group to help determine whether previous affirmative action programs skewed the data.” *Id.*

Moreover, the Court found the research firm measured disparities in all twelve of Caltrans’ administrative districts, and computed aggregate disparities based on statewide data. *Id.* at 1192. The firm evaluated statistical disparities by race and gender. The Court stated that within and across many categories of contracts, the research firm found substantial statistical disparities for African American, Asian-Pacific, and Native American firms. *Id.* However, the research firm found that there were not substantial disparities for these minorities in *every* subcategory of contract. *Id.* The Court noted that the disparity study also found substantial disparities in utilization of women-owned firms for some categories of contracts. *Id.* After publication of the disparity study, the Court pointed out the research firm calculated disparity indices for all women-owned firms, including female minorities, showing substantial disparities in the utilization of all women-owned firms similar to those measured for white women. *Id.*

The Court found that the disparity study and Caltrans also developed extensive anecdotal evidence, by (1) conducting twelve public hearings to receive comments on the firm's findings; (2) receiving letters from business owners and trade associations; and (3) interviewing representatives from twelve trade associations and 79 owners/managers of transportation firms. *Id.* at 1192. The Court stated that some of the anecdotal evidence indicated discrimination based on race or gender. *Id.*

**Caltrans' DBE Program.** Caltrans concluded that the evidence from the disparity study supported an inference of discrimination in the California transportation contracting industry. *Id.* at 1192-1193. Caltrans concluded that it had sufficient evidence to make race- and gender-conscious goals for African American-, Asian-Pacific American-, Native American- and women-owned firms. *Id.* The Court stated that Caltrans adopted the recommendations of the disparity report and set an overall goal of 13.5 percent for disadvantaged business participation. Caltrans expected to meet one-half of the 13.5 percent goal using race-neutral measures. *Id.*

Caltrans submitted its proposed DBE program to the USDOT for approval, including a request for a waiver to implement the program only for the four identified groups. *Id.* at 1193. The Caltrans' DBE program included 66 race-neutral measures that Caltrans already operated or planned to implement, and subsequent proposals increased the number of race-neutral measures to 150. *Id.* The USDOT granted the waiver, but initially did not approve Caltrans' DBE program until in 2009, the DOT approved Caltrans' DBE program for fiscal year 2009.

**District Court proceedings.** AGC then filed a complaint alleging that Caltrans' implementation of the Federal DBE Program violated the Fourteenth Amendment of the U.S. Constitution, Title VI of the Civil Rights Act, and other laws. Ultimately, the AGC only argued an as-applied challenge to Caltrans' DBE program. The district court on motions of summary judgment held that Caltrans' program was "clearly constitutional," as it "was supported by a strong basis in evidence of discrimination in the California contracting industry and was narrowly tailored to those groups which had actually suffered discrimination. *Id.* at 1193.

**Subsequent Caltrans study and program.** While the appeal by the AGC was pending, Caltrans commissioned a new disparity study from BBC to update its DBE program as required by the federal regulations. *Id.* at 1193. In August 2012, BBC published its second disparity report, and Caltrans concluded that the updated study provided evidence of continuing discrimination in the California transportation contracting industry against the same four groups and Hispanic Americans. *Id.* Caltrans submitted a modified DBE program that is nearly identical to the program approved in 2009, except that it now includes Hispanic Americans and sets an overall goal of 12.5 percent, of which 9.5 percent will be achieved through race- and gender-conscious measures. *Id.* The USDOT approved Caltrans' updated program in November 2012. *Id.*

**Jurisdiction issue.** Initially, the Ninth Circuit Court of Appeals considered whether it had jurisdiction over the AGC's appeal based on the doctrines of mootness and standing. The Court held that the appeal is not moot because Caltrans' new DBE program is substantially similar to the prior program and is alleged to disadvantage AGC's members "in the same fundamental way" as the previous program. *Id.* at 1194.

The Court, however, held that the AGC did not establish associational standing. *Id.* at 1194-1195: The Court found that the AGC did not identify any affected members by name nor has it submitted declarations by any of its members attesting to harm they have suffered or will suffer under Caltrans' program. *Id.* at 1194-1195. Because AGC failed to establish standing, the Court held it must dismiss the appeal due to lack of jurisdiction. *Id.* at 1195.

**Caltrans' DBE Program held constitutional on the merits.** The Court then held that even if AGC could establish standing, its appeal would fail. *Id.* at 1194-1195. The Court held that Caltrans' DBE program is constitutional because it survives the applicable level of scrutiny required by the Equal Protection Clause and jurisprudence. *Id.* at 1195-1200.

The Court stated that race-conscious remedial programs must satisfy strict scrutiny and that although strict scrutiny is stringent, it is not "fatal in fact." *Id.* at 1194-1195 (quoting *Adarand Constructors, Inc. v. Peña*, 515 U.S. 200, 237 (1995) (*Adarand III*)). The Court quoted *Adarand III*: "The unhappy persistence of both the practice and the lingering effects of racial discrimination against minority groups in this country is an unfortunate reality, and government is not disqualified from acting in response to it." *Id.* (quoting *Adarand III*, 515 U.S. at 237.)

The Court pointed out that gender-conscious programs must satisfy intermediate scrutiny which requires that gender-conscious programs be supported by an 'exceedingly persuasive justification' and be substantially related to the achievement of that underlying objective. *Id.* at 1195 (citing *Western States Paving*, 407 F.3d at 990 n. 6.).

The Court held that Caltrans' DBE program contains both race- and gender-conscious measures, and that the "entire program passes strict scrutiny." *Id.* at 1195.

**Application of strict scrutiny standard articulated in *Western States Paving*.** The Court held that the framework for AGC's as-applied challenge to Caltrans' DBE program is governed by *Western States Paving*. The Ninth Circuit in *Western States Paving* devised a two-pronged test for narrow tailoring: (1) the state must establish the presence of discrimination within its transportation contracting industry, and (2) the remedial program must be "limited to those minority groups that have actually suffered discrimination." *Id.* at 1195-1196 (quoting *Western States Paving*, 407 F.3d at 997-99).

**Evidence of discrimination in California contracting industry.** The Court held that in Equal Protection cases, courts consider statistical and anecdotal evidence to identify the existence of discrimination. *Id.* at 1196. The U.S. Supreme Court has suggested that a "significant statistical disparity" could be sufficient to justify race-conscious remedial programs. *Id.* at \*7 (citing *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469, 509 (1989)). The Court stated that although generally not sufficient, anecdotal evidence complements statistical evidence because of its ability to bring "the cold numbers convincingly to life." *Id.* (quoting *Int'l Bhd. of Teamsters v. United States*, 431 U.S. 324, 339 (1977)).

The Court pointed out that Washington DOT's DBE program in the *Western States Paving* case was held invalid because Washington DOT had performed no statistical studies and it offered no anecdotal evidence. *Id.* at 1196. The Court also stated that the Washington DOT used an oversimplified methodology resulting in little weight being given by the Court to the purported disparity because Washington's data "did not account for the relative capacity of disadvantaged businesses to perform work, nor did it control for the fact that existing affirmative action programs skewed the prior utilization of minority businesses in the state." *Id.* (quoting *Western States Paving*, 407 F.3d at 999-1001). The Court said that it struck down Washington's program after determining that the record was devoid of any evidence suggesting that minorities currently suffer — or have ever suffered — discrimination in the Washington transportation contracting industry." *Id.*

Significantly, the Court held in this case as follows: "In contrast, Caltrans' affirmative action program is supported by substantial statistical and anecdotal evidence of discrimination in the California transportation contracting industry." *Id.* at 1196. The Court noted that the disparity study documented disparities in many categories of transportation firms and the utilization of certain minority- and women-owned firms. *Id.* The Court found the disparity study "accounted for the factors mentioned in *Western States Paving* as well as others, adjusting availability data based on capacity to perform work and controlling for previously administered affirmative action programs." *Id.* (citing *Western States*, 407 F.3d at 1000).

The Court also held: "Moreover, the statistical evidence from the disparity study is bolstered by anecdotal evidence supporting an inference of discrimination. The substantial statistical disparities alone would give rise to an inference of discrimination, *see Croson*, 488 U.S. at 509, and certainly Caltrans' statistical evidence combined with anecdotal evidence passes constitutional muster." *Id.* at 1196.

The Court specifically rejected the argument by AGC that strict scrutiny requires Caltrans to provide evidence of "specific acts" of "deliberate" discrimination by Caltrans employees or prime contractors. *Id.* at 1196-1197. The Court found that the Supreme Court in *Croson* explicitly states that "[t]he degree of specificity required in the findings of discrimination ... may vary." *Id.* at 1197 (quoting *Croson*, 488 U.S. at 489). The Court concluded that a rule requiring a state to show specific acts of deliberate discrimination by identified individuals would run contrary to the statement in *Croson* that statistical disparities alone could be sufficient to support race-conscious remedial programs. *Id.* (citing *Croson*, 488 U.S. at 509). The Court rejected AGC's argument that Caltrans' program does not survive strict scrutiny because the disparity study does not identify individual acts of deliberate discrimination. *Id.*

The Court rejected a second argument by AGC that this study showed inconsistent results for utilization of minority businesses depending on the type and nature of the contract, and thus cannot support an inference of discrimination in the entire transportation contracting industry. *Id.* at 1197. AGC argued that each of these subcategories of contracts must be viewed in isolation when considering whether an inference of discrimination arises, which the Court rejected. *Id.* The Court found that AGC's argument overlooks the rationale underpinning the constitutional justification for remedial race-conscious programs: they are designed to root out "patterns of discrimination." *Id.* quoting *Croson*, 488 U.S. at 504.

The Court stated that the issue is not whether Caltrans can show underutilization of disadvantaged businesses in *every* measured category of contract. But rather, the issue is whether Caltrans can meet the evidentiary standard required by *Western States Paving* if, looking at the evidence in its entirety, the data show substantial disparities in utilization of minority firms suggesting that public dollars are being poured into “a system of racial exclusion practiced by elements of the local construction industry.” *Id.* at 1197 quoting *Croson* 488 U.S. at 492.

The Court concluded that the disparity study and anecdotal evidence document a pattern of disparities for the four groups, and that the study found substantial underutilization of these groups in numerous categories of California transportation contracts, which the anecdotal evidence confirms. *Id.* at 1197. The Court held this is sufficient to enable Caltrans to infer that these groups are systematically discriminated against in publicly-funded contracts. *Id.*

Third, the Court considered and rejected AGC’s argument that the anecdotal evidence has little or no probative value in identifying discrimination because it is not verified. *Id.* at \*9. The Court noted that the Fourth and Tenth Circuits have rejected the need to verify anecdotal evidence, and the Court stated the AGC made no persuasive argument that the Ninth Circuit should hold otherwise. *Id.*

The Court pointed out that AGC attempted to discount the anecdotal evidence because some accounts ascribe minority underutilization to factors other than overt discrimination, such as difficulties with obtaining bonding and breaking into the “good ol boy” network of contractors. *Id.* at 1197-1198. The Court held, however, that the federal courts and regulations have identified precisely these factors as barriers that disadvantage minority firms because of the lingering effects of discrimination. *Id.* at 1198, citing *Western States Paving*, 407 and *AGCC II*, 950 F.2d at 1414.

The Court found that AGC ignores the many incidents of racial and gender discrimination presented in the anecdotal evidence. *Id.* at 1198. The Court said that Caltrans does not claim, and the anecdotal evidence does not need to prove, that *every* minority-owned business is discriminated against. *Id.* The Court concluded: “It is enough that the anecdotal evidence supports Caltrans’ statistical data showing a pervasive pattern of discrimination.” *Id.* The individual accounts of discrimination offered by Caltrans, according to the Court, met this burden. *Id.*

Fourth, the Court rejected AGC’s contention that Caltrans’ evidence does not support an inference of discrimination against all women because gender-based disparities in the study are limited to white women. *Id.* at 1198. AGC, the Court said, misunderstands the statistical techniques used in the disparity study, and that the study correctly isolates the effect of gender by limiting its data pool to white women, ensuring that statistical results for gender-based discrimination are not skewed by discrimination against minority women on account of their race. *Id.*

In addition, after AGC’s early incorrect objections to the methodology, the research firm conducted a follow-up analysis of all women-owned firms that produced a disparity index of 59. *Id.* at 1198. The Court held that this index is evidence of a substantial disparity that raises an inference of discrimination and is sufficient to support Caltrans’ decision to include all women in its DBE program. *Id.* at 1195.

**Program tailored to groups who actually suffered discrimination.** The Court pointed out that the second prong of the test articulated in *Western States Paving* requires that a DBE program be limited to those groups that actually suffered discrimination in the state’s contracting industry. *Id.* at 1198. The Court found Caltrans’ DBE program is limited to those minority groups that have actually suffered discrimination. *Id.* The Court held that the 2007 disparity study showed systematic and substantial underutilization of African American-, Native American-, Asian-Pacific American- and women-owned firms across a range of contract categories. *Id.* at 1198-1199. *Id.* These disparities, according to the Court, support an inference of discrimination against those groups. *Id.*

Caltrans concluded that the statistical evidence did not support an inference of a pattern of discrimination against Hispanic or Subcontinent Asian Americans. *Id.* at 1199. California applied for and received a waiver from the USDOT in order to limit its 2009 program to African American, Native American, Asian-Pacific American and women-owned firms. *Id.* The Court held that Caltrans’ program “adheres precisely to the narrow tailoring requirements of *Western States.*” *Id.*

The Court rejected the AGC contention that the DBE program is not narrowly tailored because it creates race-based preferences for all transportation-related contracts, rather than distinguishing between construction and engineering contracts. *Id.* at 1199. The Court stated that AGC cited no case that requires a state preference program to provide separate goals for disadvantaged business participation on construction and engineering contracts. *Id.* The Court noted that to the contrary, the federal guidelines for implementing the federal program instruct states *not* to separate different types of contracts. *Id.* The Court found there are “sound policy reasons to not require such parsing, including the fact that there is substantial overlap in firms competing for construction and engineering contracts, as prime *and* subcontractors.” *Id.*

**Consideration of race-neutral alternatives.** The Court rejected the AGC assertion that Caltrans’ program is not narrowly tailored because it failed to evaluate race-neutral measures before implementing the system of racial preferences, and stated the law imposes no such requirement. *Id.* at 1199. The Court held that *Western States Paving* does not require states to independently meet this aspect of narrow tailoring, and instead focuses on whether the federal statute sufficiently considered race-neutral alternatives. *Id.*

Second, the Court found that even if this requirement does apply to Caltrans’ program, narrow tailoring only requires “serious, good faith consideration of workable race-neutral alternatives.” *Id.* at 1199, citing *Grutter v. Bollinger*, 539 U.S. 306, 339 (2003). The Court found that the Caltrans program has considered an increasing number of race-neutral alternatives, and it rejected AGC’s claim that Caltrans’ program does not sufficiently consider race-neutral alternatives. *Id.* at 1199.

**Certification affidavits for Disadvantaged Business Enterprises.** The Court rejected the AGC argument that Caltrans’ program is not narrowly tailored because affidavits that applicants must submit to obtain certification as DBEs do not require applicants to assert they have suffered discrimination *in California.* *Id.* at 1199-1200. The Court held the certification process employed by Caltrans follows the process detailed in the federal regulations, and that this is an impermissible collateral attack on the facial validity of the Congressional Act authorizing the Federal DBE Program and the federal regulations promulgated by the USDOT (The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, Pub.L.No. 109-59, § 1101(b), 119 Sect. 1144 (2005)). *Id.* at 1200.



**Application of program to mixed state- and federally-funded contracts.** The Court also rejected AGC’s challenge that Caltrans applies its program to transportation contracts funded by both federal and state money. *Id.* at 1200. The Court held that this is another impermissible collateral attack on the federal program, which explicitly requires goals to be set for mix-funded contracts. *Id.*

**Conclusion.** The Court concluded that the AGC did not have standing, and that further, Caltrans’ DBE program survives strict scrutiny by 1) having a strong basis in evidence of discrimination within the California transportation contracting industry, and 2) being narrowly tailored to benefit only those groups that have actually suffered discrimination. *Id.* at 1200. The Court then dismissed the appeal. *Id.*

**4. Orion Insurance Group, a Washington Corporation; Ralph G. Taylor, an individual, Plaintiffs, v. Washington State Office of Minority & Women’s Business Enterprises, United States DOT, et. al., 2017 WL 3387344 (W.D. Wash. 2017)**

Plaintiffs, Orion Insurance Group (“Orion”), a Washington corporation, and its owner, Ralph Taylor, filed this case alleging violations of federal and state law due to the denial of their application for Orion to be considered a disadvantaged business enterprise (“DBE”) under federal law. 2017 WL 3387344. Plaintiffs moved the Court for an order that summarily declared that the Defendants violated the Administrative Procedure Act (APA), declared that the denial of the DBE certification for Orion was unlawful, and reversed the decision that Orion is not a DBE. *Id.* at \*1. The United States Department of Transportation (“USDOT”) and the Acting Director of USDOT, (collectively the “Federal Defendants”) move for a summary dismissal of all the claims asserted against them. *Id.* The Washington State Office of Minority & Women’s Business Enterprises (“OMWBE”), (collectively the “State Defendants”) moved for summary dismissal of all claims asserted against them. *Id.*

The court held Plaintiffs’ motion for partial summary judgment was denied, in part, and stricken, in part, the Federal Defendants’ motion for summary judgment was granted, and the State Defendants’ motion for summary judgment was granted, in part, and stricken, in part. *Id.*

**Factual and procedural history.** In 2010, Plaintiff Ralph Taylor received results from a genetic ancestry test that estimated that he was 90 percent European, 6 percent Indigenous American, and 4 percent Sub-Saharan African. Mr. Taylor acknowledged that he grew up thinking of himself as Caucasian, but asserted that in his late 40s, when he realized he had Black ancestry, he “embraced his Black culture.” *Id.* at \*2.

In 2013, Mr. Taylor submitted an application to OMWBE, seeking to have Orion, his insurance business, certified as an MBE under Washington State law. *Id.* at \*2. In the application, Mr. Taylor identified himself as Black, but not Native American. *Id.* His application was initially rejected, but after Mr. Taylor appealed the decision, OMWBE voluntarily reversed their decision and certified Orion as an MBE under the Washington Administrative Code and other Washington law. *Id.* at \*2.

In 2014, Plaintiffs submitted, to OMWBE, Orion's application for DBE certification under federal law. *Id.* at \*2. His application indicated that Mr. Taylor identified himself as Black American and Native American in the Affidavit of Certification submitted with the federal application. *Id.* Considered with his initial submittal were the results from the 2010 genetic ancestry test that estimated that he was 90 percent European, 6 percent Indigenous American, and 4 percent Sub-Saharan African. *Id.* Mr. Taylor submitted the results of his father's genetic results, which estimated that he was 44 percent European, 44 percent Sub-Saharan African, and 12 percent East Asian. *Id.* Mr. Taylor included a 1916 death certificate for a woman from Virginia, Eliza Ray, identified as a "Negro," who was around 86 years old, with no other supporting documentation to indicate she was an ancestor of Mr. Taylor. *Id.* at \*2.

In 2014, Orion's DBE application was denied because there was insufficient evidence that he was a member of a racial group recognized under the regulations, was regarded by the relevant community as either Black or Native American, or that he held himself out as being a member of either group over a long period of time prior to his application. *Id.* at \*3. OMWBE also found that even if there was sufficient evidence to find that Mr. Taylor was a member of either of these racial groups, "the presumption of disadvantage has been rebutted," and the evidence Mr. Taylor submitted was insufficient to show that he was socially and economically disadvantaged. *Id.*

Mr. Taylor appealed the denial of the DBE certification to the USDOT. Plaintiffs voluntarily dismissed this case after the USDOT issued its decision. *Id.* at \*\*3-4. *Orion Insurance Group v. Washington State Office of Minority & Women's Business Enterprises, et al.*, U.S. District Court for the Western District of Washington case number 15-5267 BHS. In 2015, the USDOT affirmed the denial of Orion's DBE certification, concluding that there was substantial evidence in the administrative record to support OMWBE's decision. *Id.* at \*4.

This case was filed in 2016. *Id.* at \*4. Plaintiffs assert claims for (A) violation of the Administrative Procedures Act, 5 U.S.C. § 706, (B) "Discrimination under 42 U.S.C. § 1983" (reference is made to Equal Protection), (C) "Discrimination under 42 U.S.C. § 2000d," (D) violation of Equal Protection under the United States Constitution, (E) violation of the Washington Law Against Discrimination and Article 1, Sec. 12 of the Washington State Constitution, and (F) assert that the definitions in 49 C.F.R. § 26.5 are void for vagueness. *Id.* Plaintiffs seek damages, injunctive relief: ("[r]eversing the decisions of the USDOT, Ms. Jones and OMWBE, and OMWBE's representatives ... and issuing an injunction and/or declaratory relief requiring Orion to be certified as a DBE," and a declaration the "definitions of 'Black American' and 'Native American' in 49 C.F.R. § 26.5 to be void as impermissibly vague,") and attorneys' fees, and costs. *Id.*

**OMWBE did not act arbitrarily or capriciously in denying certification.** The court examined the evidence submitted by Mr. Taylor and by the State Defendants. *Id.* at \*\*7-12. The court held that OMWBE did not act arbitrarily or capriciously when it found that the presumption that Mr. Taylor was socially and economically disadvantaged was rebutted because there was insufficient evidence that he was a member of either the Black or Native American groups. *Id.* at \*8. Nor did it act arbitrarily and capriciously when it found that Mr. Taylor failed to demonstrate, by a preponderance of the evidence, that Mr. Taylor was socially and economically disadvantaged. *Id.* at \*9. Under 49 C.F.R. § 26.63(b)(1), after OMWBE determined that Mr. Taylor was not a "member of a designated disadvantaged group," the court stated Mr. Taylor "must demonstrate social and economic

disadvantage on an individual basis.” *Id.* Accordingly, pursuant to 49 C.F.R. § 26.61(d), Plaintiffs had the burden to prove, by a preponderance of the evidence, that Mr. Taylor was socially and economically disadvantaged. *Id.*

In making these decisions, the court found OMWBE considered the relevant evidence and “articulated a rational connection between the facts found and the choices made.” *Id.* at \*10. By requiring individualized determinations of social and economic disadvantage, the Federal DBE “program requires states to extend benefits only to those who are actually disadvantaged.” *Id.*, citing, *Midwest Fence Corp. v. United States Dep’t of Transp.*, 840 F.3d 932, 946 (7th Cir. 2016). OMWBE did not act arbitrary or capriciously when it found that Mr. Taylor failed to show he was “actually disadvantaged” or when it denied Plaintiff’s application. *Id.*

The USDOT affirmed the decision of the state OMWBE to deny DBE status to Orion. *Id.* at \*\*10-11.

**Claims for violation of equal protection.** To the extent that Plaintiffs assert a claim that, on its face, the Federal DBE Program violates the Equal Protection Clause of the U.S. Constitution, the court held the claim should be dismissed. *Id.* at \*\*12-13. The Ninth Circuit has held that the Federal DBE Program, including its implementing regulations, does not, on its face, violate the Equal Protection Clause of the U.S. Constitution. *Western States Paving Co. v. Washington State Department of Transportation*, 407 F.3d 983 (9th Cir. 2005). *Id.* The Western States Court held that Congress had evidence of discrimination against women and minorities in the national transportation contracting industry and the Federal DBE Program was a narrowly tailored means of remedying that sex and raced based discrimination. *Id.* Accordingly, the court found race-based determinations under the program have been determined to be constitutional. *Id.* The court noted that several other circuits, including the Seventh, Eighth, and Tenth have held the same. *Id.* at \*12, citing, *Midwest Fence Corp. v. United States Dep’t of Transp.*, 840 F.3d 932, 936 (7th Cir. 2016); *Sherbrooke Turf, Inc. v. Minnesota Dep’t of Transportation*, 345 F.3d 964, 973 (8th Cir. 2003); *Adarand Constructors, Inc. v. Slater*, 228 F.3d 1147, 1155 (10th Cir. 2000).

To the extent that Plaintiffs assert that the Defendants, in applying the Federal DBE Program to him, violated the Equal Protection Clause of the U.S. Constitution, the court held the claim should be dismissed. *Id.* at \*12. Plaintiffs argue that, as applied to them, the regulations “weigh adversely and disproportionately upon” mixed-race individuals, like Mr. Taylor. *Id.* This claim should be dismissed, according to the court, as the Equal Protection Clause prohibits only intentional discrimination. *Id.* Even considering materials filed outside the administrative record, the court found Plaintiffs point to no evidence that the application of the regulations here was done with an intent to discriminate against mixed-race individuals, or that it was done with racial animus. *Id.* Further, the court said Plaintiffs offer no evidence that application of the regulations creates a disparate impact on mixed-race individuals. *Id.* Plaintiffs’ remaining arguments relate to the facial validity of the DBE program, and the court held they also should be dismissed. *Id.*

The court concluded that to the extent that Plaintiffs base their equal protection claim on an assertion that they were treated differently than others similarly situated, their “class of one” equal protection claim should be dismissed. *Id.* at \*13. For a class of one equal protection claim, the court stated Plaintiffs must show they have been intentionally treated differently from others similarly situated and that there is no rational basis for the difference in treatment. *Id.*

Plaintiffs, the court found, have failed to show that Mr. Taylor was intentionally treated differently than others similarly situated. *Id.* at \*13. Plaintiffs pointed to no evidence of intentional differential treatment by the Defendants. *Id.* Plaintiffs failed to show that others that were similarly situated were treated differently. *Id.*

Further, the court held Plaintiffs failed to show that either the State or Federal Defendants had no rational basis for the difference in treatment. *Id.* at \*13. Both the State and Federal Defendants according to the court, offered rational explanations for the denial of the application. *Id.* Plaintiffs' Equal Protection claims, asserted against all Defendants, the court held, should be denied. *Id.*

**Void for vagueness claim.** Plaintiffs assert that the regulatory definitions of “Black American” and both the definition of “Native American” that was applied to Plaintiffs and a new definition of “Native American” are void for vagueness, presumably contrary to the Fifth and Fourteenth Amendments' due process clauses. *Id.* at \*13.

The court pointed out that although it can be applied in the civil context, the Seventh Circuit Court of Appeals has noted that in relation to the DBE regulations, the void for vagueness “doctrine is a poor fit.” *Id.* at \*14, *citing*, *Midwest Fence Corp. v. United States Dep't of Transp.*, 840 F.3d 932, 947–48 (7th Cir. 2016). Unlike criminal or civil statutes that prohibit certain conduct, the Seventh Circuit noted that the DBE regulations do not threaten parties with punishment, but, at worst, cause lost opportunities for contracts. *Id.* In any event, the court held Plaintiffs' claims that the definitions of “Black American” and of “Native American” in the DBE regulations are impermissibly vague should be dismissed. *Id.*

The court found the regulations require that to show membership, an applicant must submit a statement, and then if the reviewer has a “well founded” question regarding group membership, the reviewer must ask for additional evidence. 49 C.F.R. § 26.63 (a)(1). *Id.* at \*14. Considering the purpose of the law, the court stated the regulations clearly explain to a person of ordinary intelligence what is required to qualify for this governmental benefit. *Id.*

The definition of “socially and economically disadvantaged individual” as a “citizen ... who has been subjected to racial or ethnic prejudice or cultural bias within American society because of his or her identity as a member of groups and without regard to their individual qualities,” the court determined, gives further meaning to the definitions of “Black American” and “Native American” here. *Id.* at \*14. “Otherwise imprecise terms may avoid vagueness problems when used in combination with terms that provide sufficient clarity.” *Id.* at \*14, *quoting*, *Gammoh v. City of La Habra*, 395 F.3d 1114, 1120 (9th Cir. 2005).

The court held plaintiffs also fail to show that these terms, when considered within the statutory framework, are so vague that they lend themselves to “arbitrary” decisions. *Id.* at \*14. Moreover, even if the court did have jurisdiction to consider whether the revised definition of “Native American” was void for vagueness, the court found a simple review of the statutory language leads to the conclusion that it is not. *Id.* The revised definition of “Native Americans” now “includes persons who are enrolled members of a federally or State recognized Indian tribe, Alaska Natives, or Native Hawaiian.” *Id.*, *citing*, 49 C.F.R. § 26.5. This definition, the court said, provides an objective criterion based on the decisions of the tribes, and does not leave the reviewer with any discretion. *Id.* The court thus held that Plaintiffs' void for vagueness challenges were dismissed. *Id.*

Claims for violations of 42 U.S.C. §2000d against the State Defendants. Plaintiffs' claims against the State Defendants for violation of Title VI (42 U.S.C. § 2000d), the court also held, should be dismissed. *Id.* at \*16. Plaintiffs failed to show that the State Defendants engaged in intentional impermissible racial discrimination. *Id.* The court stated that "Title VI must be held to proscribe only those racial classifications that would violate the Equal Protection Clause or the Fifth Amendment." *Id.* The court pointed out the DBE regulations' requirement that the State make decisions based on race has already been held to pass constitutional muster in the Ninth Circuit. *Id.* at \*16, citing, *Western States Paving Co. v. Washington State Department of Transportation*, 407 F.3d 983 (9th Cir. 2005). Plaintiffs made no showing that the State Defendants violated their Equal Protection or other constitutional rights. *Id.* Moreover, Plaintiffs, the court found, failed to show that the State Defendants intentionally acted with discriminatory animus. *Id.*

The court held to the extent the Plaintiffs assert claims that are based on disparate impact, those claims are unavailable because "Title VI itself prohibits only intentional discrimination." *Id.* at \*17, quoting, *Jackson v. Birmingham Bd. of Educ.*, 544 U.S. 167, 178 (2005). The court therefore held this claim should be dismissed. *Id.* at \*17.

**Holding.** Therefore, the court ordered that Plaintiffs' Motion for Partial Summary Judgment was: Denied as to the federal claims; and Stricken as to the state law claims asserted against the State Defendants for violations of the Washington Constitution and WLAD.

In addition, the Federal Defendants' Motion for Summary Judgment on the Administrative Procedure Act, Equal Protection, and Void for Vagueness Claims was Granted; and the claims asserted against the Federal Defendants were Dismissed.

The State Defendants' Cross Motion for Summary Judgment was Granted as to Plaintiffs claims against the State Defendants for violations of the APA, Equal Protection, Void for Vagueness, 42 U.S.C. § 1983, and 42 U.S.C. § 2000d, and those claims were Dismissed. *Id.* Also, the court held the State Defendants' Cross Motion for Summary Judgment was Stricken as to the state law claims asserted against the State Defendants for violations of the Washington Constitution and WLAD. *Id.*

#### **5. M.K. Weeden Construction v. State of Montana, Montana Department of Transportation, et al., 2013 WL 4774517 (D. Mont.) (2013)**

This case involved a challenge by a prime contractor, M.K. Weeden Construction, Inc. ("Weeden") against the State of Montana, Montana Department of Transportation and others, to the DBE Program adopted by MDT implementing the Federal DBE Program at 49 CFR Part 26. Weeden sought an application for Temporary Restraining Order and Preliminary Injunction against the State of Montana and the MDT.

**Factual background and claims.** Weeden was the low dollar bidder with a bid of \$14,770,163.01 on the Arrow Creek Slide Project. The project received federal funding, and as such, was required to comply with the USDOT's DBE Program. 2013 WL 4774517 at \*1. MDT had established an overall goal of 5.83 percent DBE participation in Montana's highway construction projects. On the Arrow Creek Slide Project, MDT established a DBE goal of 2 percent. *Id.*

Plaintiff Weeden, although it submitted the low dollar bid, did not meet the 2 percent DBE requirement. 2013 WL 4774517 at \*1. Weeden claimed that its bid relied upon only 1.87 percent DBE subcontractors (although the court points out that Weeden's bid actually identified only 81 percent DBE subcontractors). Weeden was the only bidder out of the six bidders who did not meet the 2 percent DBE goal. The other five bidders exceeded the 2 percent goal, with bids ranging from 2.19 percent DBE participation to 6.98 percent DBE participation. *Id.* at \*2.

Weeden attempted to utilize a good faith exception to the DBE requirement under the Federal DBE Program and Montana's DBE Program. MDT's DBE Participation Review Committee considered Weeden's good faith documentation and found that Weeden's bid was non-compliant as to the DBE requirement, and that Weeden failed to demonstrate good faith efforts to solicit DBE subcontractor participation in the contract. 2013 WL 4774517 at \*2. Weeden appealed that decision to the MDT DBE Review Board and appeared before the Board at a hearing. The DBE Review Board affirmed the Committee decision finding that Weeden's bid was not in compliance with the contract DBE goal and that Weeden had failed to make a good faith effort to comply with the goal. *Id.* at \*2. The DBE Review Board found that Weeden had received a DBE bid for traffic control, but Weeden decided to perform that work itself in order to lower its bid amount. *Id.* at \*2. Additionally, the DBE Review Board found that Weeden's mass email to 158 DBE subcontractors without any follow up was a *pro forma* effort not credited by the Review Board as an active and aggressive effort to obtain DBE participation. *Id.*

Plaintiff Weeden sought an injunction in federal district court against MDT to prevent it from letting the contract to another bidder. Weeden claimed that MDT's DBE Program violated the Equal Protection Clause of the U.S. Constitution and the Montana Constitution, asserting that there was no supporting evidence of discrimination in the Montana highway construction industry, and therefore, there was no government interest that would justify favoring DBE entities. 2013 WL 4774517 at \*2. Weeden also claimed that its right to Due Process under the U.S. Constitution and Montana Constitution had been violated. Specifically, Weeden claimed that MDT did not provide reasonable notice of the good faith effort requirements. *Id.*

**No proof of irreparable harm and balance of equities favor MDT.** First, the Court found that Weeden did not prove for a certainty that it would suffer irreparable harm based on the Court's conclusion that in the past four years, Weeden had obtained six state highway construction contracts valued at approximately \$26 million, and that MDT had \$50 million more in highway construction projects to be let during the remainder of 2013 alone. 2013 WL 4774517 at \*3. Thus, the Court concluded that as demonstrated by its past performance, Weeden has the capacity to obtain other highway construction contracts and thus there is little risk of irreparable injury in the event MDT awards the Project to another bidder. *Id.*

Second, the Court found the balance of the equities did not tip in Weeden's favor. 2013 WL 4774517 at \*3. Weeden had asserted that MDT and USDOT rules regarding good faith efforts to obtain DBE subcontractor participation are confusing, non-specific and contradictory. *Id.* The Court held that it is obvious the other five bidders were able to meet and exceed the 2 percent DBE requirement without any difficulty whatsoever. *Id.* The Court found that Weeden's bid is not responsive to the requirements, therefore is not and cannot be the lowest responsible bid. *Id.* The balance of the equities, according to the Court, do not tilt in favor of Weeden, who did not meet the requirements

of the contract, especially when numerous other bidders ably demonstrated an ability to meet those requirements. *Id.*

**No standing.** The Court also questioned whether Weeden raised any serious issues on the merits of its equal protection claim because Weeden is a prime contractor and not a subcontractor. Since Weeden is a prime contractor, the Court held it is clear that Weeden lacks Article III standing to assert its equal protection claim. *Id.* at \*3. The Court held that a prime contractor, such as Weeden, is not permitted to challenge MDT's DBE Project as if it were a non-DBE subcontractor because Weeden cannot show that *it* was subjected to a racial or gender-based barrier in its competition for the prime contract. *Id.* at \*3. Because Weeden was not deprived of the ability to compete on equal footing with the other bidders, the Court found Weeden suffered no equal protection injury and lacks standing to assert an equal protection claim as if it were a non-DBE subcontractor. *Id.*

**Court applies AGC v. California DOT case; evidence supports narrowly tailored DBE program.**

Significantly, the Court found that even if Weeden had standing to present an equal protection claim, MDT presented significant evidence of underutilization of DBE's generally, evidence that supports a narrowly tailored race and gender preference program. 2013 WL 4774517 at \*4. Moreover, the Court noted that although Weeden points out that some business categories in Montana's highway construction industry do not have a history of discrimination (namely, the category of construction businesses in contrast to the category of professional businesses), the Ninth Circuit "has recently rejected a similar argument requiring the evidence of discrimination in every single segment of the highway construction industry before a preference program can be implemented." *Id.*, citing *Associated General Contractors v. California Dept. of Transportation*, 713 F.3d 1187 (9th Cir. 2013) (holding that Caltrans' DBE program survived strict scrutiny, was narrowly tailored, did not violate equal protection, and was supported by substantial statistical and anecdotal evidence of discrimination).

The Court stated that particularly relevant in this case, "the Ninth Circuit held that California's DBE program need not isolate construction from engineering contracts or prime from subcontracts to determine whether the evidence in each and every category gives rise to an inference of discrimination." *Id.* at 4, citing *Associated General Contractors v. California DOT*, 713 F.3d at 1197. Instead, according to the Court, California — and, by extension, Montana — "is entitled to look at the evidence 'in its entirety' to determine whether there are 'substantial disparities in utilization of minority firms' practiced by some elements of the construction industry." 2013 WL 4774517 at \*4, quoting *AGC v. California DOT*, 713 F.3d at 1197. The Court, also quoting the decision in *AGC v. California DOT*, said: "It is enough that the anecdotal evidence supports Caltrans' statistical data showing a pervasive pattern of discrimination." *Id.* at \*4, quoting *AGC v. California DOT*, 713 F.3d at 1197.

The Court pointed out that there is no allegation that MDT has exceeded any federal requirement or done other than complied with USDOT regulations. 2013 WL 4774517 at \*4. Therefore, the Court concluded that given the similarities between Weeden's claim and AGC's equal protection claim against California DOT in the *AGC v. California DOT* case, it does not appear likely that Weeden will succeed on the merits of its equal protection claim. *Id.* at \*4.

**Due Process claim.** The Court also rejected Weeden's bald assertion that it has a protected property right in the contract that has not been awarded to it where the government agency retains discretion to determine the responsiveness of the bid. The Court found that Montana law requires that an award of a public contract for construction must be made to the lowest *responsible* bidder and that the applicable Montana statute confers upon the government agency broad discretion in the award of a public works contract. Thus, a lower bidder such as Weeden requires no vested property right in a contract until the contract has been awarded, which here obviously had not yet occurred. 2013 WL 4774517 at \*5. In any event, the Court noted that Weeden was granted notice, hearing and appeal for MDT's decision denying the good faith exception to the DBE contract requirement, and therefore it does not appear likely that Weeden would succeed on its due process claim. *Id.* at \*5.

**Holding and Voluntary Dismissal.** The Court denied plaintiff Weeden's application for Temporary Restraining Order and Preliminary Injunction. Subsequently, Weeden filed a Notice of Voluntary Dismissal Without Prejudice on September 10, 2013.

#### **6. *Braunstein v. Arizona DOT*, 683 F.3d 1177 (9th Cir. 2012)**

Braunstein is an engineering contractor that provided subsurface utility location services for ADOT. Braunstein sued the Arizona DOT and others seeking damages under the Civil Rights Act, pursuant to §§ 1981 and 1983, and challenging the use of Arizona's former affirmative action program, or race- and gender- conscious DBE program implementing the Federal DBE Program, alleging violation of the equal protection clause.

**Factual background.** ADOT solicited bids for a new engineering and design contract. Six firms bid on the prime contract, but Braunstein did not bid because he could not satisfy a requirement that prime contractors complete 50 percent of the contract work themselves. Instead, Braunstein contacted the bidding firms to ask about subcontracting for the utility location work. 683 F.3d at 1181. All six firms rejected Braunstein's overtures, and Braunstein did not submit a quote or subcontracting bid to any of them. *Id.*

As part of the bid, the prime contractors were required to comply with federal regulations that provide states receiving federal highway funds maintain a DBE program. 683 F.3d at 1182. Under this contract, the prime contractor would receive a maximum of 5 points for DBE participation. *Id.* at 1182. All six firms that bid on the prime contract received the maximum 5 points for DBE participation. All six firms committed to hiring DBE subcontractors to perform at least 6 percent of the work. Only one of the six bidding firms selected a DBE as its desired utility location subcontractor. Three of the bidding firms selected another company other than Braunstein to perform the utility location work. *Id.* DMJM won the bid for the 2005 contract using Aztec to perform the utility location work. Aztec was not a DBE. *Id.* at 1182.

**District Court rulings.** Braunstein brought this suit in federal court against ADOT and employees of the DOT alleging that ADOT violated his right to equal protection by using race and gender preferences in its solicitation and award of the 2005 contract. The district court dismissed as moot Braunstein's claims for injunctive and declaratory relief because ADOT had suspended its DBE program in 2006 following the Ninth Circuit decision in *Western States Paving Co. v. Washington State DOT*, 407 F.3d 9882 (9th Cir. 2005). This left only Braunstein's damages claims against the State and



ADOT under §2000d, and against the named individual defendants in their individual capacities under §§ 1981 and 1983. *Id. at 1183.*

The district court concluded that Braunstein lacked Article III standing to pursue his remaining claims because he had failed to show that ADOT's DBE program had affected him personally. The court noted that "Braunstein was afforded the opportunity to bid on subcontracting work, and the DBE goal did not serve as a barrier to doing so, nor was it an impediment to his securing a subcontract." *Id. at 1183.* The district court found that Braunstein's inability to secure utility location work stemmed from his past unsatisfactory performance, not his status as a non-DBE. *Id.*

**Lack of standing.** The Ninth Circuit Court of Appeals held that Braunstein lacked Article III standing and affirmed the entry of summary judgment in favor of ADOT and the individual employees of ADOT. The Court found that Braunstein had not provided any evidence showing that ADOT's DBE program affected him personally or that it impeded his ability to compete for utility location work on an equal basis. *Id. at 1185.* The Court noted that Braunstein did not submit a quote or a bid to any of the prime contractors bidding on the government contract. *Id.*

The Court also pointed out that Braunstein did not seek prospective relief against the government "affirmative action" program, noting the district court dismissed as moot his claims for declaratory and injunctive relief since ADOT had suspended its DBE program before he brought the suit. *Id. at 1186.* Thus, Braunstein's surviving claims were for damages based on the contract at issue rather than prospective relief to enjoin the DBE Program. *Id.* Accordingly, the Court held he must show more than that he is "able and ready" to seek subcontracting work. *Id.*

The Court found Braunstein presented no evidence to demonstrate that he was in a position to compete equally with the other subcontractors, no evidence comparing himself with the other subcontractors in terms of price or other criteria, and no evidence explaining why the six prospective prime contractors rejected him as a subcontractor. *Id. at 1186.* The Court stated that there was nothing in the record indicating the ADOT DBE program posed a barrier that impeded Braunstein's ability to compete for work as a subcontractor. *Id. at 1187.* The Court held that the existence of a racial or gender barrier is not enough to establish standing, without a plaintiff's showing that he has been subjected to such a barrier. *Id. at 1186.*

The Court noted Braunstein had explicitly acknowledged previously that the winning bidder on the contract would not hire him as a subcontractor for reasons unrelated to the DBE program. *Id. at 1186.* At the summary judgment stage, the Court stated that Braunstein was required to set forth specific facts demonstrating the DBE program impeded his ability to compete for the subcontracting work on an equal basis. *Id. at 1187.*

**Summary judgment granted to ADOT.** The Court concluded that Braunstein was unable to point to any evidence to demonstrate how the ADOT DBE program adversely affected him personally or impeded his ability to compete for subcontracting work. *Id.* The Court thus held that Braunstein lacked Article III standing and affirmed the entry of summary judgment in favor of ADOT.

**7. Associated General Contractors of America, San Diego Chapter, Inc. v. California Department of Transportation, et al., U.S.D.C., E.D. Cal. Civil Action No. S-09-1622, Slip Opinion (E.D. Cal. April 20, 2011), appeal dismissed based on standing, on other grounds Ninth Circuit held Caltrans' DBE Program constitutional, Associated General Contractors of America, San Diego Chapter, Inc. v. California Department of Transportation, et al., 713 F.3d 1187 (9th Cir. 2013)**

This case involved a challenge by the Associated General Contractors of America, San Diego Chapter, Inc. ("AGC") against the California Department of Transportation ("Caltrans"), to the DBE program adopted by Caltrans implementing the Federal DBE Program at 49 CFR Part 26. The AGC sought an injunction against Caltrans enjoining its use of the DBE program and declaratory relief from the court declaring the Caltrans DBE program to be unconstitutional.

Caltrans' DBE program set a 13.5 percent DBE goal for its federally-funded contracts. The 13.5 percent goal, as implemented by Caltrans, included utilizing half race-neutral means and half race-conscious means to achieve the goal. Slip Opinion Transcript at 42. Caltrans did not include all minorities in the race-conscious component of its goal, excluding Hispanic males and Subcontinent Asian American males. *Id.* at 42. Accordingly, the race-conscious component of the Caltrans DBE program applied only to African Americans, Native Americans, Asian-Pacific Americans and white women. *Id.*

Caltrans established this goal and its DBE program following a disparity study conducted by BBC Research & Consulting, which included gathering statistical and anecdotal evidence of race and gender disparities in the California construction industry. Slip Opinion Transcript at 42.

The parties filed motions for summary judgment. The district court issued its ruling at the hearing on the motions for summary judgment granting Caltrans' motion for summary judgment in support of its DBE program and denying the motion for summary judgment filed by the plaintiffs. Slip Opinion Transcript at 54. The court held Caltrans' DBE program applying and implementing the provisions of the Federal DBE Program is valid and constitutional. *Id.* at 56.

The district court analyzed Caltrans' implementation of the DBE program under the strict scrutiny doctrine and found the burden of justifying different treatment by ethnicity or gender is on the government. The district court applied the Ninth Circuit Court of Appeals ruling in *Western States Paving Company v. Washington State DOT*, 407 F.3d 983 (9th Cir. 2005). The court stated that the federal government has a compelling interest "in ensuring that its funding is not distributed in a manner that perpetuates the effects of either public or private discrimination within the transportation contracting industry." Slip Opinion Transcript at 43, quoting *Western States Paving*, 407 F.3d at 991, citing *City of Richmond v. J.A. Croson Company*, 488 U.S. 469 (1989).

The district court pointed out that the Ninth Circuit in *Western States Paving* and the Tenth Circuit Court of Appeals and the Eighth Circuit Court of Appeals have upheld the facial validity of the Federal DBE Program.

The district court stated that based on *Western States Paving*, the court is required to look at the Caltrans DBE program itself to see if there is a strong basis in evidence to show that Caltrans is acting for a proper purpose and if the program itself has been narrowly tailored. Slip Opinion Transcript at 45. The court concluded that narrow tailoring “does not require exhaustion of every conceivable race-neutral alternative, but it does require serious, good-faith consideration of workable race-neutral alternatives.” Slip Opinion Transcript at 45.

The district court identified the issues as whether Caltrans has established a compelling interest supported by a strong basis in evidence for its program, and does Caltrans’ race-conscious program meet the strict scrutiny required. Slip Opinion Transcript at 51-52. The court also phrased the issue as whether the Caltrans DBE program, “which does give preference based on race and sex, whether that program is narrowly tailored to remedy the effects of identified discrimination ...” and whether Caltrans has complied with the Ninth Circuit’s guidance in *Western States Paving*. Slip Opinion Transcript at 52.

The district court held “that Caltrans has done what the Ninth Circuit has required it to do, what the federal government has required it to do, and that it clearly has implemented a program which is supported by a strong basis in evidence that gives rise to a compelling interest, and that its race-conscious program, the aspect of the program that does implement race-conscious alternatives, it does under a strict-scrutiny standard meet the requirement that it be narrowly tailored as set forth in the case law.” Slip Opinion Transcript at 52.

The court rejected the plaintiff’s arguments that anecdotal evidence failed to identify specific acts of discrimination, finding “there are numerous instances of specific discrimination.” Slip Opinion Transcript at 52. The district court found that after the *Western States Paving* case, Caltrans went to a racially neutral program, and the evidence showed that the program would not meet the goals of the federally-funded program, and the federal government became concerned about what was going on with Caltrans’ program applying only race-neutral alternatives. *Id.* at 52-53. The court then pointed out that Caltrans engaged in an “extensive disparity study, anecdotal evidence, both of which is what was missing” in the *Western States Paving* case. *Id.* at 53.

The court concluded that Caltrans “did exactly what the Ninth Circuit required” and that Caltrans has gone “as far as is required.” Slip Opinion Transcript at 53.

The court held that as a matter of law, the Caltrans DBE program is, under *Western States Paving* and the Supreme Court cases, “clearly constitutional,” and “narrowly tailored.” Slip Opinion Transcript at 56. The court found there are significant differences between Caltrans’ program and the program in the *Western States Paving* case. *Id.* at 54-55. In *Western States Paving*, the court said there were no statistical studies performed to try and establish the discrimination in the highway contracting industry, and that Washington simply compared the proportion of DBE firms in the state with the percentage of contracting funds awarded to DBEs on race-neutral contracts to calculate a disparity. *Id.* at 55.

The district court stated that the Ninth Circuit in *Western States Paving* found this to be oversimplified and entitled to little weight “because it did not take into account factors that may affect the relative capacity of DBEs to undertake contracting work.” Slip Opinion Transcript at 55. Whereas, the district court held the “disparity study used by Caltrans was much more comprehensive and accounted for this and other factors.” *Id.* at 55. The district noted that the State of Washington did not introduce any anecdotal information. The difference in this case, the district court found, “is that the disparity study includes both extensive statistical evidence, as well as anecdotal evidence gathered through surveys and public hearings, which support the statistical findings of the underutilization faced by DBEs without the DBE program. Add to that the anecdotal evidence submitted in support of the summary judgment motion as well. And this evidence before the Court clearly supports a finding that this program is constitutional.” *Id.* at 56.

The court held that because “Caltrans’ DBE program is based on substantial statistical and anecdotal evidence of discrimination in the California contracting industry and because the Court finds that it is narrowly tailored, the Court upholds the program as constitutional.” Slip Opinion Transcript at 56.

The decision of the district court was appealed to the Ninth Circuit Court of Appeals. The Ninth Circuit dismissed the appeal based on lack of standing by the AGC, San Diego Chapter, but ruled on the merits on alternative grounds holding constitutional Caltrans’ DBE Program. *See discussion above of AGC, SDC v. Cal. DOT.*

**8. *Western States Paving Co. v. Washington State DOT*, 407 F.3d 983 (9th Cir. 2005), cert. denied, 546 U.S. 1170 (2006)**

This case out of the Ninth Circuit struck down a state’s implementation of the Federal DBE Program for failure to pass constitutional muster. In *Western States Paving*, the Ninth Circuit held that the State of Washington’s implementation of the Federal DBE Program was unconstitutional because it did not satisfy the narrow tailoring element of the constitutional test. The Ninth Circuit held that the State must present its own evidence of past discrimination within its own boundaries in order to survive constitutional muster and could not merely rely upon data supplied by Congress. The United States Supreme Court denied certiorari. The analysis in the decision also is instructive in particular as to the application of the narrowly tailored prong of the strict scrutiny test.

Plaintiff Western States Paving Co. (“plaintiff”) was a white male-owned asphalt and paving company. 407 F.3d 983, 987 (9th Cir. 2005). In July of 2000, plaintiff submitted a bid for a project for the City of Vancouver; the project was financed with federal funds provided to the Washington State DOT (“WSDOT”) under the Transportation Equity Act for the 21st Century (“TEA-21”). *Id.*

Congress enacted TEA-21 in 1991 and after multiple renewals, it was set to expire on May 31, 2004. *Id.* at 988. TEA-21 established minimum minority-owned business participation requirements (10%) for certain federally-funded projects. *Id.* The regulations require each state accepting federal transportation funds to implement a DBE program that comports with the TEA-21. *Id.* TEA-21 indicates the 10 percent DBE utilization requirement is “aspirational,” and the statutory goal “does not authorize or require recipients to set overall or contract goals at the 10 percent level, or any other particular level, or to take any special administrative steps if their goals are above or below 10 percent.” *Id.*

TEA-21 sets forth a two-step process for a state to determine its own DBE utilization goal: (1) the state must calculate the relative availability of DBEs in its local transportation contracting industry (one way to do this is to divide the number of ready, willing and able DBEs in a state by the total number of ready, willing and able firms); and (2) the state is required to “adjust this base figure upward or downward to reflect the proven capacity of DBEs to perform work (as measured by the volume of work allocated to DBEs in recent years) and evidence of discrimination against DBEs obtained from statistical disparity studies.” *Id.* at 989 (citing regulation). A state is also permitted to consider discrimination in the bonding and financing industries and the present effects of past discrimination. *Id.* (citing regulation). TEA-21 requires a generalized, “undifferentiated” minority goal and a state is prohibited from apportioning their DBE utilization goal among different minority groups (e.g., between Hispanics, blacks and women). *Id.* at 990 (citing regulation).

“A state must meet the maximum feasible portion of this goal through race- [and gender-] neutral means, including informational and instructional programs targeted toward all small businesses.” *Id.* (citing regulation). Race- and gender-conscious contract goals must be used to achieve any portion of the contract goals not achievable through race- and gender-neutral measures. *Id.* (citing regulation). However, TEA-21 does not require that DBE participation goals be used on every contract or at the same level on every contract in which they are used; rather, the overall effect must be to “obtain that portion of the requisite DBE participation that cannot be achieved through race- [and gender-] neutral means.” *Id.* (citing regulation).

A prime contractor must use “good faith efforts” to satisfy a contract’s DBE utilization goal. *Id.* (citing regulation). However, a state is prohibited from enacting rigid quotas that do not contemplate such good faith efforts. *Id.* (citing regulation).

Under the TEA-21 minority utilization requirements, the City set a goal of 14 percent minority participation on the first project plaintiff bid on; the prime contractor thus rejected plaintiff’s bid in favor of a higher bidding minority-owned subcontracting firm. *Id.* at 987. In September of 2000, plaintiff again submitted a bid on a project financed with TEA-21 funds and was again rejected in favor of a higher bidding minority-owned subcontracting firm. *Id.* The prime contractor expressly stated that he rejected plaintiff’s bid due to the minority utilization requirement. *Id.*

Plaintiff filed suit against the WSDOT, Clark County, and the City, challenging the minority preference requirements of TEA-21 as unconstitutional both facially and as applied. *Id.* The district court rejected both of plaintiff’s challenges. The district court held the program was facially constitutional because it found that Congress had identified significant evidence of discrimination in the transportation contracting industry and the TEA-21 was narrowly tailored to remedy such discrimination. *Id.* at 988. The district court rejected the as-applied challenge concluding that Washington’s implementation of the program comported with the federal requirements and the state was not required to demonstrate that its minority preference program independently satisfied strict scrutiny. *Id.* Plaintiff appealed to the Ninth Circuit Court of Appeals. *Id.*

The Ninth Circuit considered whether the TEA-21, which authorizes the use of race- and gender-based preferences in federally-funded transportation contracts, violated equal protection, either on its face or as applied by the State of Washington.

The court applied a strict scrutiny analysis to both the facial and as-applied challenges to TEA-21. *Id.* at 990-91. The court did not apply a separate intermediate scrutiny analysis to the gender-based classifications because it determined that it “would not yield a different result.” *Id.* at 990, n. 6.

**Facial challenge (Federal Government).** The court first noted that the federal government has a compelling interest in “ensuring that its funding is not distributed in a manner that perpetuates the effects of either public or private discrimination within the transportation contracting industry.” *Id.* at 991, citing *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469, 492 (1989) and *Adarand Constructors, Inc. v. Slater* (“Adarand VII”), 228 F.3d 1147, 1176 (10th Cir. 2000). The court found that “[b]oth statistical and anecdotal evidence are relevant in identifying the existence of discrimination.” *Id.* at 991. The court found that although Congress did not have evidence of discrimination against minorities in every state, such evidence was unnecessary for the enactment of nationwide legislation. *Id.* However, citing both the Eighth and Tenth Circuits, the court found that Congress had ample evidence of discrimination in the transportation contracting industry to justify TEA-21. *Id.* The court also found that because TEA-21 set forth flexible race-conscious measures to be used only when race-neutral efforts were unsuccessful, the program was narrowly tailored and thus satisfied strict scrutiny. *Id.* at 992-93. The court accordingly rejected plaintiff’s facial challenge. *Id.*

**As-applied challenge (State of Washington).** Plaintiff alleged TEA-21 was unconstitutional as-applied because there was no evidence of discrimination in Washington’s transportation contracting industry. *Id.* at 995. The State alleged that it was not required to independently demonstrate that its application of TEA-21 satisfied strict scrutiny. *Id.* The United States intervened to defend TEA-21’s facial constitutionality, and “unambiguously conceded that TEA-21’s race conscious measures can be constitutionally applied only in those states where the effects of discrimination are present.” *Id.* at 996; see also Br. for the United States at 28 (April 19, 2004) (“DOT’s regulations . . . are designed to assist States in ensuring that race-conscious remedies are limited to only those jurisdictions where discrimination or its effects are a problem and only as a last resort when race-neutral relief is insufficient.” (emphasis in original)).

The court found that the Eighth Circuit was the only other court to consider an as-applied challenge to TEA-21 in *Sherbrooke Turf, Inc. v. Minnesota DOT*, 345 F.3d 964 (8th Cir. 2003), *cert. denied* 124 S. Ct. 2158 (2004). *Id.* at 996. The Eighth Circuit did not require Minnesota and Nebraska to identify a compelling purpose for their programs independent of Congress’s nationwide remedial objective. *Id.* However, the Eighth Circuit did consider whether the states’ implementation of TEA-21 was narrowly tailored to achieve Congress’s remedial objective. *Id.* The Eighth Circuit thus looked to the states’ independent evidence of discrimination because “to be narrowly tailored, a *national* program must be limited to those parts of the country where its race-based measures are demonstrably needed.” *Id.* (internal citations omitted). The Eighth Circuit relied on the states’ statistical analyses of the availability and capacity of DBEs in their local markets conducted by outside consulting firms to conclude that the states satisfied the narrow tailoring requirement. *Id.* at 997.

The court concurred with the Eighth Circuit and found that Washington did not need to demonstrate a compelling interest for its DBE program, independent from the compelling nationwide interest identified by Congress. *Id.* However, the court determined that the district court erred in holding that mere compliance with the federal program satisfied strict scrutiny. *Id.* Rather, the court held that whether Washington’s DBE program was narrowly tailored was dependent on the

presence or absence of discrimination in Washington’s transportation contracting industry. *Id.* at 997-98. “If no such discrimination is present in Washington, then the State’s DBE program does not serve a remedial purpose; it instead provides an unconstitutional windfall to minority contractors solely on the basis of their race or sex.” *Id.* at 998. The court held that a Sixth Circuit decision to the contrary, *Tennessee Asphalt Co. v. Farris*, 942 F.2d 969, 970 (6th Cir. 1991), misinterpreted earlier case law. *Id.* at 997, n. 9.

The court found that moreover, even where discrimination is present in a state, a program is narrowly tailored only if it applies only to those minority groups who have actually suffered discrimination. *Id.* at 998, citing *Croson*, 488 U.S. at 478. The court also found that in *Monterey Mechanical Co. v. Wilson*, 125 F.3d 702, 713 (9th Cir. 1997), it had “previously expressed similar concerns about the haphazard inclusion of minority groups in affirmative action programs ostensibly designed to remedy the effects of discrimination.” *Id.* In *Monterey Mechanical*, the court held that “the overly inclusive designation of benefited minority groups was a ‘red flag signaling that the statute is not, as the Equal Protection Clause requires, narrowly tailored.’” *Id.*, citing *Monterey Mechanical*, 125 F.3d at 714. The court found that other courts are in accord. *Id.* at 998–99, citing *Builders Ass’n of Greater Chi. v. County of Cook*, 256 F.3d 642, 647 (7th Cir. 2001); *Associated Gen. Contractors of Ohio, Inc. v. Drabik*, 214 F.3d 730, 737 (6th Cir. 2000); *O’Donnell Constr. Co. v. District of Columbia*, 963 F.2d 420, 427 (D.C. Cir. 1992). Accordingly, the court found that each of the principal minority groups benefited by WSDOT’s DBE program must have suffered discrimination within the State. *Id.* at 999.

The court found that WSDOT’s program closely tracked the sample USDOT DBE program. *Id.* WSDOT calculated its DBE participation goal by first calculating the availability of ready, willing and able DBEs in the State (dividing the number of transportation contracting firms in the Washington State Office of Minority, Women and Disadvantaged Business Enterprises Directory by the total number of transportation contracting firms listed in the Census Bureau’s Washington database, which equaled 11.17%). *Id.* WSDOT then upwardly adjusted the 11.17 percent base figure to 14 percent “to account for the proven capacity of DBEs to perform work, as reflected by the volume of work performed by DBEs [during a certain time period].” *Id.* Although DBEs performed 18 percent of work on State projects during the prescribed time period, Washington set the final adjusted figure at 14 percent because TEA-21 reduced the number of eligible DBEs in Washington by imposing more stringent certification requirements. *Id.* at 999, n. 11. WSDOT did not make an adjustment to account for discriminatory barriers in obtaining bonding and financing. *Id.* WSDOT similarly did not make any adjustment to reflect present or past discrimination “because it lacked any statistical studies evidencing such discrimination.” *Id.*

WSDOT then determined that it needed to achieve 5 percent of its 14 percent goal through race-conscious means based on a 9 percent DBE participation rate on state-funded contracts that did not include affirmative action components (i.e., 9% participation could be achieved through race-neutral means). *Id.* at 1000. The USDOT approved WSDOT goal-setting program and the totality of its 2000 DBE program. *Id.*

Washington conceded that it did not have statistical studies to establish the existence of past or present discrimination. *Id.* It argued, however, that it had evidence of discrimination because minority-owned firms had the capacity to perform 14 percent of the State’s transportation contracts in 2000 but received only 9 percent of the subcontracting funds on contracts that did not include an

affirmative action's component. *Id.* The court found that the State's methodology was flawed because the 14 percent figure was based on the earlier 18 percent figure, discussed *supra*, which included contracts with affirmative action components. *Id.* The court concluded that the 14 percent figure did not accurately reflect the performance capacity of DBEs in a race-neutral market. *Id.* The court also found the State conceded as much to the district court. *Id.*

The court held that a disparity between DBE performance on contracts with an affirmative action component and those without "does not provide any evidence of discrimination against DBEs." *Id.* The court found that the only evidence upon which Washington could rely was the disparity between the proportion of DBE firms in the State (11.17%) and the percentage of contracts awarded to DBEs on race-neutral grounds (9%). *Id.* However, the court determined that such evidence was entitled to "little weight" because it did not take into account a multitude of other factors such as firm size. *Id.*

Moreover, the court found that the minimal statistical evidence was insufficient evidence, standing alone, of discrimination in the transportation contracting industry. *Id.* at 1001. The court found that WSDOT did not present any anecdotal evidence. *Id.* The court rejected the State's argument that the DBE applications themselves constituted evidence of past discrimination because the applications were not properly in the record, and because the applicants were not required to certify that they had been victims of discrimination in the contracting industry. *Id.* Accordingly, the court held that because the State failed to proffer evidence of discrimination within its own transportation contracting market, its DBE program was not narrowly tailored to Congress's compelling remedial interest. *Id.* at 1002-03.

The court affirmed the district court's grant on summary judgment to the United States regarding the facial constitutionality of TEA-21, reversed the grant of summary judgment to Washington on the as-applied challenge, and remanded to determine the State's liability for damages.

The dissent argued that where the State complied with TEA-21 in implementing its DBE program, it was not susceptible to an as-applied challenge.

**9. *Western States Paving Co. v. Washington DOT, USDOT & FHWA*, 2006 WL 1734163, (W.D. Wash. June 23, 2006) (unpublished opinion)**

This case was before the district court pursuant to the Ninth Circuit's remand order in *Western States Paving Co. v. Washington DOT, USDOT, and FHWA*, 407 F.3d 983 (9th Cir. 2005), *cert. denied*, 546 U.S. 1170 (2006). In this decision, the district court adjudicated cross Motions for Summary Judgment on plaintiff's claim for injunction and for damages under 42 U.S.C. §§1981, 1983, and §2000d.

Because the WSDOT voluntarily discontinued its DBE program after the Ninth Circuit decision, *supra*, the district court dismissed plaintiff's claim for injunctive relief as moot. The court found "it is absolutely clear in this case that WSDOT will not resume or continue the activity the Ninth Circuit found unlawful in *Western States*," and cited specifically to the informational letters WSDOT sent to contractors informing them of the termination of the program.



Second, the court dismissed Western States Paving’s claims under 42 U.S.C. §§ 1981, 1983, and 2000d against Clark County and the City of Vancouver holding neither the City or the County acted with the requisite discriminatory intent. The court held the County and the City were merely implementing the WSDOT’s unlawful DBE program and their actions in this respect were involuntary and required no independent activity. The court also noted that the County and the City were not parties to the precise discriminatory actions at issue in the case, which occurred due to the conduct of the “State defendants.” Specifically, the WSDOT — and not the County or the City — developed the DBE program without sufficient anecdotal and statistical evidence, and improperly relied on the affidavits of contractors seeking DBE certification “who averred that they had been subject to ‘general societal discrimination.’”

Third, the court dismissed plaintiff’s 42 U.S.C. §§ 1981 and 1983 claims against WSDOT, finding them barred by the Eleventh Amendment sovereign immunity doctrine. However, the court allowed plaintiff’s 42 U.S.C. §2000d claim to proceed against WSDOT because it was not similarly barred. The court held that Congress had conditioned the receipt of federal highway funds on compliance with Title VI (42 U.S.C. § 2000d et seq.) and the waiver of sovereign immunity from claims arising under Title VI. Section 2001 specifically provides that “a State shall not be immune under the Eleventh Amendment of the Constitution of the United States from suit in Federal court for a violation of ... Title VI.” The court held that this language put the WSDOT on notice that it faced private causes of action in the event of noncompliance.

The court held that WSDOT’s DBE program was not narrowly tailored to serve a compelling government interest. The court stressed that discriminatory intent is an essential element of a plaintiff’s claim under Title VI. The WSDOT argued that even if sovereign immunity did not bar plaintiff’s §2000d claim, WSDOT could be held liable for damages because there was no evidence that WSDOT staff knew of or consciously considered plaintiff’s race when calculating the annual utilization goal. The court held that since the policy was not “facially neutral” — and was in fact “specifically race conscious” — any resulting discrimination was therefore intentional, whether the reason for the classification was benign or its purpose remedial. As such, WSDOT’s program was subject to strict scrutiny.

In order for the court to uphold the DBE program as constitutional, WSDOT had to show that the program served a compelling interest and was narrowly tailored to achieve that goal. The court found that the Ninth Circuit had already concluded that the program was not narrowly tailored, and the record was devoid of any evidence suggesting that minorities currently suffer or have suffered discrimination in the Washington transportation contracting industry. The court therefore denied WSDOT’s Motion for Summary Judgment on the §2000d claim. The remedy available to Western States remains for further adjudication and the case is currently pending.

**10. *Associated Gen. Contractors of California, Inc. v. Coalition for Econ. Equity (“AGCC”), 950 F.2d 1401 (9th Cir. 1991)***

In *Associated Gen. Contractors of California, Inc. v. Coalition for Econ. Equity (“AGCC”)*, the Ninth Circuit Court of Appeals denied plaintiffs request for preliminary injunction to enjoin enforcement of the city’s bid preference program. 950 F.2d 1401 (9th Cir. 1991). Although an older case, *AGCC* is instructive as to the analysis conducted by the Ninth Circuit. The court discussed the utilization of statistical evidence and anecdotal evidence in the context of the strict scrutiny analysis. *Id.* at 1413-18.

The City of San Francisco adopted an ordinance in 1989 providing bid preferences to prime contractors who were members of groups found disadvantaged by previous bidding practices, and specifically provided a 5 percent bid preference for LBEs, WBEs and MBEs. 950 F.2d at 1405. Local MBEs and WBEs were eligible for a 10 percent total bid preference, representing the cumulative total of the 5 percent preference given Local Business Enterprises (“LBEs”) and the 5 percent preference given MBEs and WBEs. *Id.* The ordinance defined “MBE” as an economically disadvantaged business that was owned and controlled by one or more minority persons, which were defined to include Asian, blacks and Latinos. “WBE” was defined as an economically disadvantaged business that was owned and controlled by one or more women. Economically disadvantaged was defined as a business with average gross annual receipts that did not exceed \$14 million. *Id.*

The Motion for Preliminary Injunction challenged the constitutionality of the MBE provisions of the 1989 Ordinance insofar as it pertained to Public Works construction contracts. *Id.* at 1405. The district court denied the Motion for Preliminary Injunction on the AGCC’s constitutional claim on the ground that AGCC failed to demonstrate a likelihood of success on the merits. *Id.* at 1412.

The Ninth Circuit Court of Appeals applied the strict scrutiny analysis following the decision of the U.S. Supreme Court in *City of Richmond v. Croson*. The court stated that according to the U.S. Supreme Court in *Croson*, a municipality has a compelling interest in redressing, not only discrimination committed by the municipality itself, but also discrimination committed by private parties within the municipalities’ legislative jurisdiction, so long as the municipality in some way perpetuated the discrimination to be remedied by the program. *Id.* at 1412-13, *citing Croson* at 488 U.S. at 491-92, 537-38. To satisfy this requirement, “the governmental actor need not be an active perpetrator of such discrimination; passive participation will satisfy this sub-part of strict scrutiny review.” *Id.* at 1413, *quoting Coral Construction Company v. King County*, 941 F.2d 910 at 916 (9th Cir. 1991). In addition, the [m]ere infusion of tax dollars into a discriminatory industry may be sufficient governmental involvement to satisfy this prong.” *Id.* at 1413 *quoting Coral Construction*, 941 F.2d at 916.

The court pointed out that the City had made detailed findings of prior discrimination in construction and building within its borders, had testimony taken at more than ten public hearings and received numerous written submissions from the public as part of its anecdotal evidence. *Id.* at 1414. The City Departments continued to discriminate against MBEs and WBEs and continued to operate under the “old boy network” in awarding contracts, thereby disadvantaging MBEs and WBEs. *Id.* And, the City found that large statistical disparities existed between the percentage of contracts awarded to MBEs and the percentage of available MBEs. 950 F.2d at 1414. The court stated the City also found “discrimination in the private sector against MBEs and WBEs that is manifested in and exacerbated by the City’s procurement practices.” *Id.* at 1414.

The Ninth Circuit found the study commissioned by the City indicated the existence of large disparities between the award of city contracts to available non-minority businesses and to MBEs. *Id.* at 1414. Using the City and County of San Francisco as the “relevant market,” the study compared the number of available MBE prime construction contractors in San Francisco with the amount of contract dollars awarded by the City to San Francisco-based MBEs for a particular year. *Id.* at 1414. The study found that available MBEs received far fewer city contracts in proportion to their numbers than their available non-minority counterparts. *Id.* Specifically, the study found that with respect to prime construction contracting, disparities between the number of available local Asian-, black- and Hispanic-owned firms and the number of contracts awarded to such firms were statistically significant and supported an inference of discrimination. *Id.* For example, in prime contracting for construction, although MBE availability was determined to be at 49.5 percent, MBE dollar participation was only 11.1 percent. *Id.* The Ninth Circuit stated that in its decision in *Coral Construction*, it emphasized that such statistical disparities are “an invaluable tool and demonstrating the discrimination necessary to establish a compelling interest. *Id.* at 1414, *citing to Coral Construction*, 941 F.2d at 918 and *Crosson*, 488 U.S. at 509.

The court noted that the record documents a vast number of individual accounts of discrimination, which bring “the cold numbers convincingly to life. *Id.* at 1414, *quoting Coral Construction*, 941 F.2d at 919. These accounts include numerous reports of MBEs being denied contracts despite being the low bidder, MBEs being told they were not qualified although they were later found qualified when evaluated by outside parties, MBEs being refused work even after they were awarded contracts as low bidder, and MBEs being harassed by city personnel to discourage them from bidding on city contracts. *Id.* at 1415. The City pointed to numerous individual accounts of discrimination, that an “old boy network” still exists, and that racial discrimination is still prevalent within the San Francisco construction industry. *Id.* The court found that such a “combination of convincing anecdotal and statistical evidence is potent.” *Id.* at 1415 *quoting Coral Construction*, 941 F.2d at 919.

The court also stated that the 1989 Ordinance applies only to resident MBEs. The City, therefore, according to the court, appropriately confined its study to the city limits in order to focus on those whom the preference scheme targeted. *Id.* at 1415. The court noted that the statistics relied upon by the City to demonstrate discrimination in its contracting processes considered only MBEs located within the City of San Francisco. *Id.*

The court pointed out the City’s findings were based upon dozens of specific instances of discrimination that are laid out with particularity in the record, as well as the significant statistical disparities in the award of contracts. The court noted that the City must simply demonstrate the existence of past discrimination with specificity, but there is no requirement that the legislative findings specifically detail each and every incidence that the legislative body has relied upon in support of this decision that affirmative action is necessary. *Id.* at 1416.

In its analysis of the “narrowly tailored” requirement, the court focused on three characteristics identified by the decision in *Croson* as indicative of narrow tailoring. First, an MBE program should be instituted either after, or in conjunction with, race-neutral means of increasing minority business participation in public contracting. *Id.* at 1416. Second, the plan should avoid the use of “rigid numerical quotas.” *Id.* According to the Supreme Court, systems that permit waiver in appropriate cases and therefore require some individualized consideration of the applicants pose a lesser danger of offending the Constitution. *Id.* Mechanisms that introduce flexibility into the system also prevent the imposition of a disproportionate burden on a few individuals. *Id.* Third, “an MBE program must be limited in its effective scope to the boundaries of the enacting jurisdiction. *Id.* at 1416 *quoting Coral Construction*, 941 F.2d at 922.

The court found that the record showed the City considered, but rejected as not viable, specific race-neutral alternatives including a fund to assist newly established MBEs in meeting bonding requirements. The court stated that “while strict scrutiny requires serious, good faith consideration of race-neutral alternatives, strict scrutiny does not require exhaustion of every possible such alternative ... however irrational, costly, unreasonable, and unlikely to succeed such alternative may be.” *Id.* at 1417 *quoting Coral Construction*, 941 F.2d at 923. The court found the City ten years before had attempted to eradicate discrimination in city contracting through passage of a race-neutral ordinance that prohibited city contractors from discriminating against their employees on the basis of race and required contractors to take steps to integrate their work force; and that the City made and continues to make efforts to enforce the anti-discrimination ordinance. *Id.* at 1417. The court stated inclusion of such race-neutral measures is one factor suggesting that an MBE plan is narrowly tailored. *Id.* at 1417.

The court also found that the Ordinance possessed the requisite flexibility. Rather than a rigid quota system, the City adopted a more modest system according to the court, that of bid preferences. *Id.* at 1417. The court pointed out that there were no goals, quotas, or set-asides and moreover, the plan remedies only specifically identified discrimination: the City provides preferences only to those minority groups found to have previously received a lower percentage of specific types of contracts than their availability to perform such work would suggest. *Id.* at 1417.

The court rejected the argument of AGCC that to pass constitutional muster any remedy must provide redress only to specific individuals who have been identified as victims of discrimination. *Id.* at 1417, n. 12. The Ninth Circuit agreed with the district court that an iron-clad requirement limiting any remedy to individuals personally proven to have suffered prior discrimination would render any race-conscious remedy “superfluous,” and would thwart the Supreme Court’s directive in *Croson* that race-conscious remedies may be permitted in some circumstances. *Id.* at 1417, n. 12. The court also found that the burdens of the bid preferences on those not entitled to them appear “relatively light and well distributed.” *Id.* at 1417. The court stated that the Ordinance was “limited in its geographical scope to the boundaries of the enacting jurisdiction. *Id.* at 1418, *quoting Coral Construction*, 941 F.2d at 925. The court found that San Francisco had carefully limited the ordinance to benefit only those MBEs located within the City’s borders. *Id.* 1418.

## **11. Coral Construction Co. v. King County, 941 F.2d 910 (9th Cir. 1991)**

In *Coral Construction Co. v. King County*, 941 F.2d 910 (9th Cir. 1991), the Ninth Circuit examined the constitutionality of King County, Washington’s minority and women business set-aside program in light of the standard set forth in *City of Richmond v. J.A. Croson Co.* The court held that although the County presented ample anecdotal evidence of disparate treatment of MBE contractors and subcontractors, the total absence of pre-program enactment statistical evidence was problematic to the compelling government interest component of the strict scrutiny analysis. The court remanded to the district court for a determination of whether the post-program enactment studies constituted a sufficient compelling government interest. Per the narrow tailoring prong of the strict scrutiny test, the court found that although the program included race-neutral alternative measures and was flexible (i.e., included a waiver provision), the over breadth of the program to include MBEs outside of King County was fatal to the narrow tailoring analysis.

The court also remanded on the issue of whether the plaintiffs were entitled to damages under 42 U.S.C. §§ 1981 and 1983, and in particular to determine whether evidence of causation existed. With respect to the WBE program, the court held the plaintiff had standing to challenge the program, and applying the intermediate scrutiny analysis, held the WBE program survived the facial challenge.

In finding the absence of any statistical data in support of the County’s MBE Program, the court made it clear that statistical analyses have served and will continue to serve an important role in cases in which the existence of discrimination is a disputed issue. 941 F.2d at 918. The court noted that it has repeatedly approved the use of statistical proof to establish a prima facie case of discrimination. *Id.* The court pointed out that the U.S. Supreme Court in *Croson* held that where “gross statistical disparities can be shown, they alone may in a proper case constitute prima facie proof of a pattern or practice of discrimination.” *Id.* at 918, quoting *Hazelwood School Dist. v. United States*, 433 U.S. 299, 307-08, and *Croson*, 488 U.S. at 501.

The court points out that statistical evidence may not fully account for the complex factors and motivations guiding employment decisions, many of which may be entirely race-neutral. *Id.* at 919. The court noted that the record contained a plethora of anecdotal evidence, but that anecdotal evidence, standing alone, suffers the same flaws as statistical evidence. *Id.* at 919. While anecdotal evidence may suffice to prove individual claims of discrimination, rarely, according to the court, if ever, can such evidence show a systemic pattern of discrimination necessary for the adoption of an affirmative action plan. *Id.*

Nonetheless, the court held that the combination of convincing anecdotal and statistical evidence is potent. *Id.* at 919. The court pointed out that individuals who testified about their personal experiences brought the cold numbers of statistics “convincingly to life.” *Id.* at 919, quoting *International Brotherhood of Teamsters v. United States*, 431 U.S. 324, 339 (1977). The court also pointed out that the Eleventh Circuit Court of Appeals, in passing upon a minority set aside program similar to the one in King County, concluded that the testimony regarding complaints of discrimination combined with the gross statistical disparities uncovered by the County studies provided more than enough evidence on the question of prior discrimination and need for racial classification to justify the denial of a Motion for Summary Judgment. *Id.* at 919, citing *Cone Corp. v. Hillsborough County*, 908 F.2d 908, 916 (11th Cir. 1990).

The court found that the MBE Program of the County could not stand without a proper statistical foundation. *Id.* at 919. The court addressed whether post-enactment studies done by the County of a statistical foundation could be considered by the court in connection with determining the validity of the County MBE Program. The court held that a municipality must have *some* concrete evidence of discrimination in a particular industry before it may adopt a remedial program. *Id.* at 920. However, the court said this requirement of *some* evidence does not mean that a program will be automatically struck down if the evidence before the municipality at the time of enactment does not completely fulfill both prongs of the strict scrutiny test. *Id.* Rather, the court held, the factual predicate for the program should be evaluated based upon all evidence presented to the district court, whether such evidence was adduced before or after enactment of the MBE Program. *Id.* Therefore, the court adopted a rule that a municipality should have before it some evidence of discrimination before adopting a race-conscious program, while allowing post-adoption evidence to be considered in passing on the constitutionality of the program. *Id.*

The court, therefore, remanded the case to the district court for determination of whether the consultant studies that were performed after the enactment of the MBE Program could provide an adequate factual justification to establish a “propelling government interest” for King County’s adopting the MBE Program. *Id.* at 922.

The court also found that *Croson* does not require a showing of active discrimination by the enacting agency, and that passive participation, such as the infusion of tax dollars into a discriminatory industry, suffices. *Id.* at 922, *citing Croson*, 488 U.S. at 492. The court pointed out that the Supreme Court in *Croson* concluded that if the City had evidence before it, that non-minority contractors were systematically excluding minority businesses from subcontracting opportunities, it could take action to end the discriminatory exclusion. *Id.* at 922. The court points out that if the record ultimately supported a finding of systemic discrimination, the County adequately limited its program to those businesses that receive tax dollars, and the program imposed obligations upon only those businesses which voluntarily sought King County tax dollars by contracting with the County. *Id.*

The court addressed several factors in terms of the narrowly tailored analysis, and found that first, an MBE program should be instituted either after, or in conjunction with, race-neutral means of increasing minority business participation and public contracting. *Id.* at 922, *citing Croson*, 488 U.S. at 507. The second characteristic of the narrowly-tailored program, according to the court, is the use of minority utilization goals on a case-by-case basis, rather than upon a system of rigid numerical quotas. *Id.* Finally, the court stated that an MBE program must be limited in its effective scope to the boundaries of the enacting jurisdiction. *Id.*

Among the various narrowly tailored requirements, the court held consideration of race-neutral alternatives is among the most important. *Id.* at 922. Nevertheless, the court stated that while strict scrutiny requires serious, good faith consideration of race-neutral alternatives, strict scrutiny does not require exhaustion of every possible such alternative. *Id.* at 923. The court noted that it does not intend a government entity exhaust *every* alternative, however irrational, costly, unreasonable, and unlikely to succeed such alternative might be. *Id.* Thus, the court required only that a state exhausts race-neutral measures that the state is authorized to enact, and that have a reasonable possibility of being effective. *Id.* The court noted in this case the County considered alternatives, but determined that they were not available as a matter of law. *Id.* The County cannot be required to engage in

conduct that may be illegal, nor can it be compelled to expend precious tax dollars on projects where potential for success is marginal at best. *Id.*

The court noted that King County had adopted some race-neutral measures in conjunction with the MBE Program, for example, hosting one or two training sessions for small businesses, covering such topics as doing business with the government, small business management, and accounting techniques. *Id.* at 923. In addition, the County provided information on assessing Small Business Assistance Programs. *Id.* The court found that King County fulfilled its burden of considering race-neutral alternative programs. *Id.*

A second indicator of a program's narrowly tailoring is program flexibility. *Id.* at 924. The court found that an important means of achieving such flexibility is through use of case-by-case utilization goals, rather than rigid numerical quotas or goals. *Id.* at 924. The court pointed out that King County used a "percentage preference" method, which is not a quota, and while the preference is locked at 5 percent, such a fixed preference is not unduly rigid in light of the waiver provisions. The court found that a valid MBE Program should include a waiver system that accounts for both the availability of qualified MBEs and whether the qualified MBEs have suffered from the effects of past discrimination by the County or prime contractors. *Id.* at 924. The court found that King County's program provided waivers in both instances, including where neither minority nor a woman's business is available to provide needed goods or services and where available minority and/or women's businesses have given price quotes that are unreasonably high. *Id.*

The court also pointed out other attributes of the narrowly tailored and flexible MBE program, including a bidder that does not meet planned goals, may nonetheless be awarded the contract by demonstrating a good faith effort to comply. *Id.* The actual percentages of required MBE participation are determined on a case-by-case basis. Levels of participation may be reduced if the prescribed levels are not feasible, if qualified MBEs are unavailable, or if MBE price quotes are not competitive. *Id.*

The court concluded that an MBE program must also be limited in its geographical scope to the boundaries of the enacting jurisdiction. *Id.* at 925. Here the court held that King County's MBE program fails this third portion of "narrowly tailored" requirement. The court found the definition of "minority business" included in the Program indicated that a minority-owned business may qualify for preferential treatment if the business has been discriminated against in the particular geographical areas in which it operates. The court held this definition as overly broad. *Id.* at 925. The court held that the County should ask the question whether a business has been discriminated against in King County. *Id.* This determination, according to the court, is not an insurmountable burden for the County, as the rule does not require finding specific instances of discriminatory exclusion for each MBE. *Id.* Rather, if the County successfully proves malignant discrimination within the King County business community, an MBE would be presumptively eligible for relief if it had previously sought to do business in the County. *Id.*

In other words, if systemic discrimination in the County is shown, then it is fair to presume that an MBE was victimized by the discrimination. *Id.* at 925. For the presumption to attach to the MBE, however, it must be established that the MBE is, or attempted to become, an active participant in the County's business community. *Id.* Because King County's program permitted MBE participation even by MBEs that have no prior contact with King County, the program was overbroad to that extent. *Id.* Therefore, the court reversed the grant of summary judgment to King County on the MBE program on the basis that it was geographically overbroad.

The court considered the gender-specific aspect of the MBE program. The court determined the degree of judicial scrutiny afforded gender-conscious programs was intermediate scrutiny, rather than strict scrutiny. *Id.* at 930. Under intermediate scrutiny, gender-based classification must serve an important governmental objective, and there must be a direct, substantial relationship between the objective and the means chosen to accomplish the objective. *Id.* at 931.

In this case, the court concluded, that King County's WBE preference survived a facial challenge. *Id.* at 932. The court found that King County had a legitimate and important interest in remedying the many disadvantages that confront women business owners and that the means chosen in the program were substantially related to the objective. *Id.* The court found the record adequately indicated discrimination against women in the King County construction industry, noting the anecdotal evidence including an affidavit of the president of a consulting engineering firm. *Id.* at 933. Therefore, the court upheld the WBE portion of the MBE program and affirmed the district court's grant of summary judgment to King County for the WBE program.

## **E. Recent Decisions Involving the Federal DBE Program and its Implementation in Other Jurisdictions**

There are several recent and pending cases involving challenges to the United States Federal DBE Program and its implementation by the states and their governmental entities for federally-funded projects. These cases could have a significant impact on the nature and provisions of contracting and procurement on federally-funded projects, including and relating to the utilization of DBEs. In addition, these cases provide an instructive analysis of the recent application of the strict scrutiny test to MBE/WBE- and DBE-type programs.

### **Recent Decisions in Federal Circuit Courts of Appeal**

#### **1. *Midwest Fence Corporation v. U.S. Department of Transportation, Illinois Department of Transportation, Illinois State Toll Highway Authority*, 840 F.3d 932, 2016 WL 6543514 (7th Cir. 2016), cert. denied, 2017 WL 497345 (2017)**

Plaintiff Midwest Fence Corporation is a guardrails and fencing specialty contractor that usually bids on projects as a subcontractor. 2016 WL 6543514 at \*1. Midwest Fence is not a DBE. *Id.* Midwest Fence alleges that the defendants' DBE programs violated its Fourteenth Amendment right to equal protection under the law, and challenges the United States DOT Federal DBE Program and the implementation of the Federal DBE Program by the Illinois DOT (IDOT). *Id.* Midwest Fence also challenges the Illinois State Toll Highway Authority (Tollway) and its implementation of its DBE Program. *Id.*



The district court granted all the defendants’ motions for summary judgment. *Id.* at \*1. See *Midwest Fence Corp. v. U.S. Department of Transportation, et al.*, 84 F. Supp. 3d 705 (N.D. Ill. 2015) (see discussion of district court decision below). The Seventh Circuit Court of Appeals affirmed the grant of summary judgment by the district court. *Id.* The court held that it joins the other federal circuit courts of appeal in holding that the Federal DBE Program is facially constitutional, the program serves a compelling government interest in remedying a history of discrimination in highway construction contracting, the program provides states with ample discretion to tailor their DBE programs to the realities of their own markets and requires the use of race- and gender-neutral measures before turning to race- and gender-conscious measures. *Id.*

The court of appeals also held the IDOT and Tollway programs survive strict scrutiny because these state defendants establish a substantial basis in evidence to support the need to remedy the effects of past discrimination in their markets, and the programs are narrowly tailored to serve that remedial purpose. *Id.* at \*1.

**Procedural history.** Midwest Fence asserted the following primary theories in its challenge to the Federal DBE Program, IDOT’s implementation of it, and the Tollway’s own program:

1. The federal regulations prescribe a method for setting individual contract goals that places an undue burden on non-DBE subcontractors, especially certain kinds of subcontractors, including guardrail and fencing contractors like Midwest Fence.
2. The presumption of social and economic disadvantage is not tailored adequately to reflect differences in the circumstances actually faced by women and the various racial and ethnic groups who receive that presumption.
3. The federal regulations are unconstitutionally vague, particularly with respect to good faith efforts to justify a front-end waiver.

*Id.* at \*3-4. Midwest Fence also asserted that IDOT’s implementation of the Federal DBE Program is unconstitutional for essentially the same reasons. And, Midwest Fence challenges the Tollway’s program on its face and as applied. *Id.* at \*4.

The district court found that Midwest Fence had standing to bring most of its claims and on the merits, and the court upheld the facial constitutionality of the Federal DBE Program. 84 F. Supp. 3d at 722-23 729; *id.* at \*4.

The district court also concluded Midwest Fence did not rebut the evidence of discrimination that IDOT offered to justify its program, and Midwest Fence had presented no “affirmative evidence” that IDOT’s implementation unduly burdened non-DBEs, failed to make use of race-neutral alternatives, or lacked flexibility. 84 F. Supp. 3d at 733, 737; *id.* at \*4.

The district court noted that Midwest Fence’s challenge to the Tollway’s program paralleled the challenge to IDOT’s program, and concluded that the Tollway, like IDOT, had established a strong basis in evidence for its program. 84 F. Supp. 3d at 737, 739; *id.* at \*4. In addition, the court concluded that, like IDOT’s program, the Tollway’s program imposed a minimal burden on non-DBEs, employed a number of race-neutral measures, and offered substantial flexibility. 84 F. Supp. 3d at 739-740; *id.* at \*4.

**Standing to challenge the DBE Programs generally.** The defendants argued that Midwest Fence lacked standing. The court of appeals held that the district court correctly found that Midwest Fence has standing. *Id.* at \*5. The court of appeals stated that by alleging and then offering evidence of lost bids, decreased revenue, difficulties keeping its business afloat as a result of the DBE program, and its inability to compete for contracts on an equal footing with DBEs, Midwest Fence showed both causation and redressability. *Id.* at \*5.

The court of appeals distinguished its ruling in the *Dunnet Bay Construction Co. v. Borggren*, 799 F. 3d 676 (7th Cir. 2015), holding that there was no standing for the plaintiff Dunnet Bay based on an unusual and complex set of facts under which it would have been impossible for the plaintiff Dunnet Bay to have won the contract it sought and for which it sought damages. IDOT did not award the contract to anyone under the first bid and had re-let the contract, thus Dunnet Bay suffered no injury because of the DBE program in the first bid. *Id.* at \*5. The court of appeals held this case is distinguishable from *Dunnet Bay* because Midwest Fence seeks prospective relief that would enable it to compete with DBEs on an equal basis more generally than in *Dunnet Bay*. *Id.* at \*5.

**Standing to challenge the IDOT Target Market Program.** The district court had carved out one narrow exception to its finding that Midwest Fence had standing generally, finding that Midwest Fence lacked standing to challenge the IDOT “target market program.” *Id.* at \*6. The court of appeals found that no evidence in the record established Midwest Fence bid on or lost any contracts subject to the IDOT target market program. *Id.* at \*6. The court stated that IDOT had not set aside any guardrail and fencing contracts under the target market program. *Id.* Therefore, Midwest Fence did not show that it had suffered from an inability to compete on an equal footing in the bidding process with respect to contracts within the target market program. *Id.*

**Facial versus as-applied challenge to the USDOT Program.** In this appeal, Midwest Fence did not challenge whether USDOT had established a “compelling interest” to remedy the effects of past or present discrimination. Thus, it did not challenge the national compelling interest in remedying past discrimination in its claims against the Federal DBE Program. *Id.* at \*6. Therefore, the court of appeals focused on whether the federal program is narrowly tailored. *Id.*

First, the court addressed a preliminary issue, namely, whether Midwest Fence could maintain an as-applied challenge against USDOT and the Federal DBE Program or whether, as the district court held, the claim against USDOT is limited to a facial challenge. *Id.* Midwest Fence sought a declaration that the federal regulations are unconstitutional as applied in Illinois. *Id.* The district court rejected the attempt to bring that claim against USDOT, treating it as applying only to IDOT. *Id.* at \*6 *citing Midwest Fence*, 84 F. Supp. 3d at 718. The court of appeals agreed with the district court. *Id.*

The court of appeals pointed out that a principal feature of the federal regulations is their flexibility and adaptability to local conditions, and that flexibility is important to the constitutionality of the Federal DBE Program, including because a race- and gender-conscious program must be narrowly tailored to serve the compelling governmental interest. *Id.* at \*6. The flexibility in regulations, according to the court, makes the state, not USDOT, primarily responsible for implementing their own programs in ways that comply with the Equal Protection Clause. *Id.* at \*6. The court said that a state, not USDOT, is the correct party to defend a challenge to its implementation of its program. *Id.* Thus, the court held the district court did not err by treating the claims against USDOT as only a facial challenge to the federal regulations. *Id.*

**Federal DBE Program: Narrow Tailoring.** The Seventh Circuit noted that the Eighth, Ninth, and Tenth Circuits all found the Federal DBE Program constitutional on its face, and the Seventh Circuit agreed with these other circuits. *Id.* at \*7. The court found that narrow tailoring requires “a close match between the evil against which the remedy is directed and the terms of the remedy.” *Id.* The court stated it looks to four factors in determining narrow tailoring: (a) “the necessity for the relief and the efficacy of alternative [race-neutral] remedies,” (b) “the flexibility and duration of the relief, including the availability of waiver provisions,” (c) “the relationship of the numerical goals to the relevant labor [or here, contracting] market,” and (d) “the impact of the relief on the rights of third parties.” *Id.* at \*7 *quoting United States v. Paradise*, 480 U.S. 149, 171 (1987). The Seventh Circuit also pointed out that the Tenth Circuit added to this analysis the question of over- or under- inclusiveness. *Id.* at \*7.

In applying these factors to determine narrow tailoring, the court said that first, the Federal DBE Program requires states to meet as much as possible of their overall DBE participation goals through race- and gender-neutral means. *Id.* at \*7, *citing* 49 C.F.R. § 26.51(a). Next, on its face, the federal program is both flexible and limited in duration. *Id.* Quotas are flatly prohibited, and states may apply for waivers, including waivers of “any provisions regarding administrative requirements, overall goals, contract goals or good faith efforts,” § 26.15(b). *Id.* at \*7. The regulations also require states to remain flexible as they administer the program over the course of the year, including continually reassessing their DBE participation goals and whether contract goals are necessary. *Id.*

The court pointed out that a state need not set a contract goal on every USDOT-assisted contract, nor must they set those goals at the same percentage as the overall participation goal. *Id.* at \*7. Together, the court found, all of these provisions allow for significant and ongoing flexibility. *Id.* at \*8. States are not locked into their initial DBE participation goals. *Id.* Their use of contract goals is meant to remain fluid, reflecting a state’s progress towards overall DBE goal. *Id.*

As for duration, the court said that Congress has repeatedly reauthorized the program after taking new looks at the need for it. *Id.* at \*8. And, as noted, states must monitor progress toward meeting DBE goals on a regular basis and alter the goals if necessary. *Id.* They must stop using race- and gender-conscious measures if those measures are no longer needed. *Id.*

The court found that the numerical goals are also tied to the relevant markets. *Id.* at \*8. In addition, the regulations prescribe a process for setting a DBE participation goal that focuses on information about the specific market, and that it is intended to reflect the level of DBE participation you would expect absent the effects of discrimination. *Id.* at \*8, *citing* § 26.45(b). The court stated that the regulations thus instruct states to set their DBE participation goals to reflect actual DBE availability in their jurisdictions, as modified by other relevant factors like DBE capacity. *Id.* at \*8.

**Midwest Fence “mismatch” argument: burden on third parties.** Midwest Fence, the court said, focuses its criticism on the burden of third parties and argues the program is over-inclusive. *Id.* at \*8. But, the court found, the regulations include mechanisms to minimize the burdens the program places on non-DBE third parties. *Id.* A primary example, the court points out, is supplied in § 26.33(a), which requires states to take steps to address overconcentration of DBEs in certain types of work if the overconcentration unduly burdens non-DBEs to the point that they can no longer participate in the market. *Id.* at \*8. The court concluded that standards can be relaxed if uncompromising enforcement would yield negative consequences, for example, states can obtain waivers if special circumstances make the state’s compliance with part of the federal program “impractical,” and contractors who fail to meet a DBE contract goal can still be awarded the contract if they have documented good faith efforts to meet the goal. *Id.* at \*8, *citing* § 26.51(a) and § 26.53(a)(2).

Midwest Fence argued that a “mismatch” in the way contract goals are calculated results in a burden that falls disproportionately on specialty subcontractors. *Id.* at \*8. Under the federal regulations, the court noted, states’ overall goals are set as a percentage of all their USDOT-assisted contracts. *Id.* However, states may set contract goals “*only* on those [USDOT]-assisted contracts that have subcontracting possibilities.” *Id.*, *quoting* § 26.51(e)(1)(emphasis added).

Midwest Fence argued that because DBEs must be small, they are generally unable to compete for prime contracts, and this they argue is the “mismatch.” *Id.* at \*8. Where contract goals are necessary to meet an overall DBE participation goal, those contract goals are met almost entirely with *subcontractor* dollars, which, Midwest Fence asserts, places a heavy burden on non-DBE subcontractors while leaving non-DBE prime contractors in the clear. *Id.* at \*8.

The court goes through a hypothetical example to explain the issue Midwest Fence has raised as a mismatch that imposes a disproportionate burden on specialty subcontractors like Midwest Fence. *Id.* at \*8. In the example provided by the court, the overall participation goal for a state calls for DBEs to receive a certain percentage of *total* funds, but in practice in the hypothetical it requires the state to award DBEs for less than all of the available subcontractor funds because it determines that there are no subcontracting possibilities on half the contracts, thus rendering them ineligible for contract goals. *Id.* The mismatch is that the federal program requires the state to set its overall goal on all funds it will spend on contracts, but at the same time the contracts eligible for contract goals must be ones that have subcontracting possibilities. *Id.* Therefore, according to Midwest Fence, in practice the participation goals set would require the state to award DBEs from the available subcontractor funds while taking no business away from the prime contractors. *Id.*

The court stated that it found “[t]his prospect is troubling.” *Id.* at \*9. The court said that the DBE program can impose a disproportionate burden on small, specialized non-DBE subcontractors, especially when compared to larger prime contractors with whom DBEs would compete less frequently. *Id.* This potential, according to the court, for a disproportionate burden, however, does not render the program facially unconstitutional. *Id.* The court said that the constitutionality of the Federal DBE Program depends on how it is implemented. *Id.*

The court pointed out that some of the suggested race- and gender-neutral means that states can use under the federal program are designed to increase DBE participation in prime contracting and other fields where DBE participation has historically been low, such as specifically encouraging states to make contracts more accessible to small businesses. *Id.* at \*9, *citing* § 26.39(b). The court also noted that the federal program contemplates DBEs’ ability to compete equally requiring states to report DBE participation as prime contractors and makes efforts to develop that potential. *Id.* at \*9.

The court stated that states will continue to resort to contract goals that open the door to the type of mismatch that Midwest Fence describes, but the program on its face does not compel an unfair distribution of burdens. *Id.* at \*9. Small specialty contractors may have to bear at least some of the burdens created by remedying past discrimination under the Federal DBE Program, but the Supreme Court has indicated that innocent third parties may constitutionally be required to bear at least some of the burden of the remedy. *Id.* at \*9.

**Over-Inclusive argument.** Midwest Fence also argued that the federal program is over-inclusive because it grants preferences to groups without analyzing the extent to which each group is actually disadvantaged. *Id.* at \*9. In response, the court mentioned two federal-specific arguments, noting that Midwest Fence’s criticisms are best analyzed as part of its as-applied challenge against the state defendants. *Id.* First, Midwest Fence contends nothing proves that the disparities relied upon by the study consultant were caused by discrimination. *Id.* at \*9. The court found that to justify its program, USDOT does not need definitive proof of discrimination, but must have a strong basis in evidence that remedial action is necessary to remedy past discrimination. *Id.*

Second, Midwest Fence attacks what it perceives as the one-size-fits-all nature of the program, suggesting that the regulations ought to provide different remedies for different groups, but instead the federal program offers a single approach to all the disadvantaged groups, regardless of the degree of disparities. *Id.* at \*9. The court pointed out Midwest Fence did not argue that any of the groups were not in fact disadvantaged at all, and that the federal regulations ultimately require individualized determinations. *Id.* at \*10. Each presumptively disadvantaged firm owner must certify that he or she is, in fact, socially and economically disadvantaged, and that presumption can be rebutted. *Id.* In this way, the court said, the federal program requires states to extend benefits only to those who are actually disadvantaged. *Id.*

Therefore, the court agreed with the district court that the Federal DBE Program is narrowly tailored on its face, so it survives strict scrutiny.

**Claims against IDOT and the Tollway: void for vagueness.** Midwest Fence argued that the federal regulations are unconstitutionally vague as applied by IDOT because the regulations fail to specify what good faith efforts a contractor must make to qualify for a waiver, and focuses its attack on the provisions of the regulations, which address possible cost differentials in the use of DBEs. *Id.* at \*11. Midwest Fence argued that Appendix A of 49 C.F.R., Part 26 at IV(D)(2) is too vague in its language on when a difference in price is significant enough to justify falling short of the DBE contract goal. *Id.* The court found if the standard seems vague, that is likely because it was meant to be flexible, and a more rigid standard could easily be too arbitrary and hinder prime contractors' ability to adjust their approaches to the circumstances of particular projects. *Id.* at \*11.

The court said Midwest Fence's real argument seems to be that in practice, prime contractors err too far on the side of caution, granting significant price preferences to DBEs instead of taking the risk of losing a contract for failure to meet the DBE goal. *Id.* at \*12. Midwest Fence contends this creates a *de facto* system of quotas because contractors believe they must meet the DBE goal or lose the contract. *Id.* But Appendix A to the regulations, the court noted, cautions against this very approach. *Id.* The court found flexibility and the availability of waivers affect whether a program is narrowly tailored, and that the regulations caution against quotas, provide examples of good faith efforts prime contractors can make and states can consider, and instruct a bidder to use good business judgment to decide whether a price difference is reasonable or excessive. *Id.* For purposes of contract awards, the court holds this is enough to give fair notice of conduct that is forbidden or required. *Id.* at \*12.

**Equal Protection challenge: compelling interest with strong basis in evidence.** In ruling on the merits of Midwest Fence's equal protection claims based on the actions of IDOT and the Tollway, the first issue the court addresses is whether the state defendants had a compelling interest in enacting their programs. *Id.* at \*12. The court stated that it, along with the other circuit courts of appeal, have held a state agency is entitled to rely on the federal government's compelling interest in remedying the effects of past discrimination to justify its own DBE plan for highway construction contracting. *Id.* But, since not all of IDOT's contracts are federally funded, and the Tollway did not receive federal funding at all, with respect to those contracts, the court said it must consider whether IDOT and the Tollway established a strong basis in evidence to support their programs. *Id.*

**IDOT program.** IDOT relied on an availability and a disparity study to support its program. The disparity study found that DBEs were significantly underutilized as prime contractors comparing firm availability of prime contractors in the construction field to the amount of dollars they received in prime contracts. The disparity study collected utilization records, defined IDOT's market area, identified businesses that were willing and able to provide needed services, weighted firm availability to reflect IDOT's contracting pattern with weights assigned to different areas based on the percentage of dollars expended in those areas, determined whether there was a statistically significant under-utilization of DBEs by calculating the dollars each group would be expected to receive based on availability, calculated the difference between the expected and actual amount of contract dollars received, and ensured that results were not attributable to chance. *Id.* at \*13.

The court said that the disparity study determined disparity ratios that were statistically significant, and the study found that DBEs were significantly underutilized as prime contractors, noting that a figure below 0.80 is generally considered “solid evidence of systematic under-utilization calling for affirmative action to correct it.” *Id.* at \*13. The study found that DBEs made up 25.55 percent of prime contractors in the construction field, received 9.13 percent of prime contracts valued below \$500,000 and 8.25 percent of the available contract dollars in that range, yielding a disparity ratio of 0.32 for prime contracts under \$500,000. *Id.*

In the realm of contraction subcontracting, the study showed that DBEs may have 29.24 percent of available subcontractors, and in the construction industry they receive 44.62 percent of available subcontracts, but those subcontracts amounted to only 10.65 percent of available subcontracting dollars. *Id.* at \*13. This, according to the study, yielded a statistically significant disparity ratio of 0.36, which the court found low enough to signal systemic under-utilization. *Id.*

IDOT relied on additional data to justify its program, including conducting a zero-goal experiment in 2002 and in 2003, when it did not apply DBE goals to contracts. *Id.* at \*13. Without contract goals, the share of the contracts’ value that DBEs received dropped dramatically, to just 1.5 percent of the total value of the contracts. *Id.* at \*13. And in those contracts advertised without a DBE goal, the DBE subcontractor participation rate was 0.84 percent.

**Tollway program.** Tollway also relied on a disparity study limited to the Tollway’s contracting market area. The study used a “custom census” process, creating a database of representative projects, identifying geographic and product markets, counting businesses in those markets, identifying and verifying which businesses are minority- and women-owned, and verifying the ownership status of all the other firms. *Id.* at \*13. The study examined the Tollway’s historical contract data, reported its DBE utilization as a percentage of contract dollars, and compared DBE utilization and DBE availability, coming up with disparity indices divided by race and sex, as well as by industry group. *Id.*

The study found that out of 115 disparity indices, 80 showed statistically significant under-utilization of DBEs. *Id.* at \*14. The study discussed statistical disparities in earnings and the formation of businesses by minorities and women, and concluded that a statistically significant adverse impact on earnings was observed in both the economy at large and in the construction and construction-related professional services sector.” *Id.* at \*14. The study also found women and minorities are not as likely to start their own business, and that minority business formation rates would likely be substantially and significantly higher if markets operated in a race- and sex-neutral manner. *Id.*

The study used regression analysis to assess differences in wages, business-owner earnings, and business-formation rates between white men and minorities and women in the wider construction economy. *Id.* at \*14. The study found statistically significant disparities remained between white men and other groups, controlling for various independent variables such as age, education, location, industry affiliation, and time. *Id.* The disparities, according to the study, were consistent with a market affected by discrimination. *Id.*

The Tollway also presented additional evidence, including that the Tollway set aspirational participation goals on a small number of contracts, and those attempts failed. *Id.* at \*14. In 2004, the court noted the Tollway did not award a single prime contract or subcontract to a DBE, and the DBE participation rate in 2005 was 0.01 percent across all construction contracts. *Id.* In addition, the Tollway also considered, like IDOT, anecdotal evidence that provided testimony of several DBE owners regarding barriers that they themselves faced. *Id.*

**Midwest Fence’s criticisms.** Midwest Fence’s expert consultant argued that the study consultant failed to account for DBEs’ readiness, willingness, and ability to do business with IDOT and the Tollway, and that the method of assessing readiness and willingness was flawed. *Id.* at \*14. In addition, the consultant for Midwest Fence argued that one of the studies failed to account for DBEs’ relative capacity, “meaning a firm’s ability to take on more than one contract at a time.” The court noted that one of the study consultants did not account for firm capacity and the other study consultant found no effective way to account for capacity. *Id.* at \*14, n. 2. The court said one study did perform a regression analysis to measure relative capacity and limited its disparity analysis to contracts under \$500,000, which was, according to the study consultant, to take capacity into account to the extent possible. *Id.*

The court pointed out that one major problem with Midwest Fence’s report is that the consultant did not perform any substantive analysis of his own. *Id.* at \*15. The evidence offered by Midwest Fence and its consultant was, according to the court, “speculative at best.” *Id.* at \*15. The court said the consultant’s relative capacity analysis was similarly speculative, arguing that the assumption that firms have the same ability to provide services up to \$500,000 may not be true in practice, and that if the estimates of capacity are too low the resulting disparity index overstates the degree of disparity that exists. *Id.* at \*15.

The court stated Midwest Fence’s expert similarly argued that the existence of the DBE program “may” cause an upward bias in availability, that any observations of the public sector in general “may” be affected by the DBE program’s existence, and that data become less relevant as time passes. *Id.* at \*15. The court found that given the substantial utilization disparity as shown in the reports by IDOT and the Tollway defendants, Midwest Fence’s speculative critiques did not raise a genuine issue of fact as to whether the defendants had a substantial basis in evidence to believe that action was needed to remedy discrimination. *Id.* at \*15.

The court rejected Midwest Fence’s argument that requiring it to provide an independent statistical analysis places an impossible burden on it due to the time and expense that would be required. *Id.* at \*15. The court noted that the burden is initially on the government to justify its programs, and that since the state defendants offered evidence to do so, the burden then shifted to Midwest Fence to show a genuine issue of material fact as to whether the state defendants had a substantial basis in evidence for adopting their DBE programs. *Id.* Speculative criticism about potential problems, the court found, will not carry that burden. *Id.*



With regard to the capacity question, the court noted it was Midwest Fence’s strongest criticism and that courts had recognized it as a serious problem in other contexts. *Id.* at \*15. The court said the failure to account for relative capacity did not undermine the substantial basis in evidence in this particular case. *Id.* at \*15. Midwest Fence did not explain how to account for relative capacity. *Id.* In addition, it has been recognized, the court stated, that defects in capacity analyses are not fatal in and of themselves. *Id.* at \*15.

The court concluded that the studies show striking utilization disparities in specific industries in the relevant geographic market areas, and they are consistent with the anecdotal and less formal evidence defendants had offered. *Id.* at \*15. The court found Midwest Fence’s expert’s “speculation” that failure to account for relative capacity might have biased DBE availability upward does not undermine the statistical core of the strong basis in evidence required. *Id.*

In addition, the court rejected Midwest Fence’s argument that the disparity studies do not prove discrimination, noting again that a state need not conclusively prove the existence of discrimination to establish a strong basis in evidence for concluding that remedial action is necessary, and that where gross statistical disparities can be shown, they alone may constitute prima facie proof of a pattern or practice of discrimination. *Id.* at \*15. The court also rejected Midwest Fence’s attack on the anecdotal evidence stating that the anecdotal evidence bolsters the state defendants’ statistical analyses. *Id.* at \*15.

In connection with Midwest Fence’s argument relating to the Tollway defendant, Midwest Fence argued that the Tollway’s supporting data was from before it instituted its DBE program. *Id.* at \*16. The Tollway responded by arguing that it used the best data available and that in any event its data sets show disparities. *Id.* at \*16. The court found this point persuasive even assuming some of the Tollway’s data were not exact. *Id.* The court said that while every single number in the Tollway’s “arsenal of evidence” may not be exact, the overall picture still shows beyond reasonable dispute a marketplace with systemic under-utilization of DBEs far below the disparity index lower than 80 as an indication of discrimination, and that Midwest Fence’s “abstract criticisms” do not undermine that core of evidence. *Id.* at \*16.

**Narrow Tailoring.** The court applied the narrow tailoring factors to determine whether IDOT’s and the Tollway’s implementation of their DBE programs yielded a close match between the evil against which the remedy is directed and the terms of the remedy. *Id.* at \*16. First the court addressed the necessity for the relief and the efficacy of alternative race-neutral remedies factor. *Id.* The court reiterated that Midwest Fence has not undermined the defendants’ strong combination of statistical and other evidence to show that their programs are needed to remedy discrimination. *Id.*

Both IDOT and the Tollway, according to the court, use race- and gender-neutral alternatives, and the undisputed facts show that those alternatives have not been sufficient to remedy discrimination. *Id.* The court noted that the record shows IDOT uses nearly all of the methods described in the federal regulations to maximize a portion of the goal that will be achieved through race-neutral means. *Id.*

As for flexibility, both IDOT and the Tollway make front-end waivers available when a contractor has made good faith efforts to comply with a DBE goal. *Id.* at \*17. The court rejected Midwest Fence’s arguments that there were a low number of waivers granted, and that contractors fear of having a waiver denied showed the system was a *de facto* quota system. *Id.* The court found that IDOT and the Tollway have not granted large numbers of waivers, but there was also no evidence that they have *denied* large numbers of waivers. *Id.* The court pointed out that the evidence from Midwest Fence does not show that defendants are responsible for failing to grant front-end waivers that the contractors do not request. *Id.*

The court stated in the absence of evidence that defendants failed to adhere to the general good faith effort guidelines and arbitrarily deny or discourage front-end waiver requests, Midwest Fence’s contention that contractors fear losing contracts if they ask for a waiver does not make the system a quota system. *Id.* at \*17. Midwest Fence’s own evidence, the court stated, shows that IDOT granted in 2007, 57 of 63 front-end waiver requests, and in 2010, it granted 21 of 35 front-end waiver requests. *Id.* at \*17. In addition, the Tollway granted at least some front-end waivers involving 1.02 percent of contract dollars. *Id.* Without evidence that far more waivers were requested, the court was satisfied that even this low total by the Tollway does not raise a genuine dispute of fact. *Id.*

The court also rejected as “underdeveloped” Midwest Fence’s argument that the court should look at the dollar value of waivers granted rather than the raw number of waivers granted. *Id.* at \*17. The court found that this argument does not support a different outcome in this case because the defendants grant more front-end waiver requests than they deny, regardless of the dollar amounts those requests encompass. Midwest Fence presented no evidence that IDOT and the Tollway have an unwritten policy of granting only low-value waivers. *Id.*

The court stated that Midwest’s “best argument” against narrowed tailoring is its “mismatch” argument, which was discussed above. *Id.* at \*17. The court said Midwest’s broad condemnation of the IDOT and Tollway programs as failing to create a “light” and “diffuse” burden for third parties was not persuasive. *Id.* The court noted that the DBE programs, which set DBE goals on only some contracts and allow those goals to be waived if necessary, may end up foreclosing one of several opportunities for a non-DBE specialty subcontractor like Midwest Fence. *Id.* But, there was no evidence that they impose the entire burden on that subcontractor by shutting it out of the market entirely. *Id.* However, the court found that Midwest Fence’s point that subcontractors appear to bear a disproportionate share of the burden as compared to prime contractors “is troubling.” *Id.* at \*17.

Although the evidence showed disparities in both the prime contracting and subcontracting markets, under the federal regulations, individual contract goals are set only for contracts that have subcontracting possibilities. *Id.* The court pointed out that some DBEs are able to bid on prime contracts, but the necessarily small size of DBEs makes that difficult in most cases. *Id.*

But, according to the court, in the end the record shows that the problem Midwest Fence raises is largely “theoretical.” *Id.* at \*18. Not all contracts have DBE goals, so subcontractors are on an even footing for those contracts without such goals. *Id.* IDOT and the Tollway both use neutral measures including some designed to make prime contracts more assessable to DBEs. *Id.* The court noted that DBE trucking and material suppliers count toward fulfillment of a contract’s DBE goal, even though they are not used as line items in calculating the contract goal in the first place, which opens up contracts with DBE goals to non-DBE subcontractors. *Id.*

The court stated that if Midwest Fence “had presented evidence rather than theory on this point, the result might be different.” *Id.* at \*18. “Evidence that subcontractors were being frozen out of the market or bearing the entire burden of the DBE program would likely require a trial to determine at a minimum whether IDOT or the Tollway were adhering to their responsibility to avoid overconcentration in subcontracting.” *Id.* at \*18. The court concluded that Midwest Fence “has shown how the Illinois program *could* yield that result but not that it actually does so.” *Id.*

In light of the IDOT and Tollway programs’ mechanisms to prevent subcontractors from having to bear the entire burden of the DBE programs, including the use of DBE materials and trucking suppliers in satisfying goals, efforts to draw DBEs into prime contracting, and other mechanisms, according to the court, Midwest Fence did not establish a genuine dispute of fact on this point. *Id.* at \*18. The court stated that the “theoretical possibility of a ‘mismatch’ could be a problem, but we have no evidence that it actually is.” *Id.* at \*18.

Therefore, the court concluded that IDOT and the Tollway DBE programs are narrowly tailored to serve the compelling state interest in remedying discrimination in public contracting. *Id.* at \*18. They include race- and gender-neutral alternatives, set goals with reference to actual market conditions, and allow for front-end waivers. *Id.* “So far as the record before us shows, they do not unduly burden third parties in service of remedying discrimination,” according to the court. Therefore, Midwest Fence failed to present a genuine dispute of fact “on this point.” *Id.*

**Petition for a Writ of Certiorari.** Midwest Fence filed a Petition for a Writ of Certiorari to the United States Supreme Court in 2017, and Certiorari was denied. 2017 WL 497345 (2017).

**2. *Dunnet Bay Construction Company v. Borggren, Illinois DOT, et al.*, 799 F.3d 676, 2015 WL 4934560 (7th Cir. 2015), cert. denied, *Dunnet Bay Construction Co. v. Blankenhorn, Randall S., et al.*, 2016 WL 193809 (Oct. 3, 2016).**

Dunnet Bay Construction Company sued the Illinois Department of Transportation (IDOT) asserting that the Illinois DOT’s DBE Program discriminates on the basis of race. The district court granted summary judgement to Illinois DOT, concluding that Dunnet Bay lacked standing to raise an equal protection challenge based on race, and held that the Illinois DOT DBE Program survived the constitutional and other challenges. 2015 WL 4934560 at \*1. (*See* 2014 WL 552213, C.D. Ill. Fed. 12, 2014) (*See* summary of district decision in Section E. below). The Court of Appeals affirmed the grant of summary judgment to IDOT.

Dunnet Bay engages in general highway construction and is owned and controlled by two white males. 2015 WL 4934560 at \*1. It’s average annual gross receipts between 2007 and 2009 were over \$52 million. *Id.* IDOT administers its DBE Program implementing the Federal DBE Program. IDOT established a statewide aspirational goal for DBE participation of 22.77 percent. *Id.* at \*2. Under IDOT’s DBE Program, if a bidder fails to meet the DBE contract goal, it may request a modification of the goal, and provide documentation of its good faith efforts to meet the goal. *Id.* at \*3. These requests for modification are also known as “waivers.” *Id.*

The record showed that IDOT historically granted goal modification request or waivers: in 2007, it granted 57 of 63 pre-award goal modification requests; the six other bidders ultimately met the contract goal with post-bid assistance. *Id.* at \*3. In 2008, IDOT granted 50 of the 55 pre-award goal modification requests; the other five bidders ultimately met the DBE goal. In calendar year 2009, IDOT granted 32 of 58 goal modification requests; the other contractors ultimately met the goals. In calendar year 2010, IDOT received 35 goal modification requests; it granted 21 of them and denied the rest. *Id.*

Dunnet Bay alleged that IDOT had taken the position no waivers would be granted. *Id.* at \*3-1. IDOT responded that it was not its policy to not grant waivers, but instead IDOT would aggressively pursue obtaining the DBE participation in their contract goals, including that waivers were going to be reviewed at a high level to make sure the appropriate documentation was provided in order for a waiver to be issued. *Id.*

The U.S. FHWA approved the methodology IDOT used to establish a statewide overall DBE goal of 22.77 percent. *Id.* at \*5. The FHWA reviewed and approved the individual contract goals set for work on a project known as the Eisenhower project that Dunnet Bay bid on in 2010. *Id.* Dunnet Bay submitted to IDOT a bid that was the lowest bid on the project, but it was substantially over the budget estimate for the project. *Id.* at \*5. Dunnet Bay did not achieve the goal of 22 percent, but three other bidders each met the DBE goal. *Id.* Dunnet Bay requested a waiver based on its good faith efforts to obtain the DBE goal. *Id.* at \*6. Ultimately, IDOT determined that Dunnet Bay did not properly exercise good faith efforts and its bid was rejected. *Id.* at \*6-9.

Because all the bids were over budget, IDOT decided to rebid the Eisenhower project. *Id.* at \*8, \*17. There were four separate Eisenhower projects advertised for bids, and IDOT granted one of the four goal modification requests from that bid letting. Dunnet Bay bid on one of the rebid projects, but it was not the lowest bid; it was the third out of five bidders. *Id.* at \*9, \*17. Dunnet Bay did meet the 22.77 percent contract DBE goal, on the rebid prospect, but was not awarded the contract because it was not the lowest. *Id.*

Dunnet Bay then filed its lawsuit seeking damages as well as a declaratory judgement that the IDOT DBE Program is unconstitutional and injunctive relief against its enforcement.

The district court granted the IDOT Defendants' motion for summary judgement and denied Dunnet Bay's motion. *Id.* at \*9. The district court concluded that Dunnet Bay lacked Article III standing to raise an equal protection challenge because it has not suffered a particularized injury that was called by IDOT, and that Dunnet Bay was not deprived of the ability to compete on an equal basis. *Id.* *Dunnet Bay Construction Company v. Hannig*, 2014 WL 552213, at \*30 (C.D. Ill. Feb. 12, 2014).

Even if Dunnet Bay had standing to bring an equal protection claim, the district court held that IDOT was entitled to summary judgment. The district court concluded that Dunnet Bay was held to the same standards as every other bidder, and thus could not establish that it was the victim of racial discrimination. *Id.* at \*31. In addition, the district court determined that IDOT had not exceeded its federal authority under the federal rules and that Dunnet Bay's challenge to the DBE Program failed under the Seventh Circuit Court of Appeals decision in *Northern Contracting, Inc. v. Illinois*, 473 F.3d 715, 721 (7th Cir. 2007), which insulates a state DBE Program from a constitutional attack absent a

showing that the state exceeded its federal authority. *Id.* at \*10. (See discussion of the district court decision in *Dunnet Bay* below in Section E).

**Dunnet Bay lacks standing to raise an equal protection claim.** The court first addressed the issue whether Dunnet Bay had standing to challenge IDOT's DBE Program on the ground that it discriminated on the basis of race in the award of highway construction contracts.

The court found that Dunnet Bay had not established that it was excluded from competition or otherwise disadvantaged because of race-based measures. *Id.* at \*10. Nothing in IDOT's DBE Program, the court stated, excluded Dunnet Bay from competition for any contract. *Id.* at \*13. IDOT's DBE Program is not a "set aside program," in which non-minority owned businesses could not even bid on certain contracts. *Id.* Under IDOT's DBE Program, all contractors, minority and non-minority contractors, can bid on all contracts. *Id.*

The court said the absence of complete exclusion from competition with minority- or women-owned businesses distinguished the IDOT DBE Program from other cases in which the court ruled there was standing to challenge a program. *Id.* at \*13. Dunnet Bay, the court found, has not alleged and has not produced evidence to show that it was treated less favorably than any other contractor because of the race of its owners. *Id.* This lack of an explicit preference from minority-owned businesses distinguishes the IDOT DBE Program from other cases. *Id.* Under IDOT's DBE Program, all contractors are treated alike and subject to the same rules. *Id.*

In addition, the court distinguished other cases in which the contractors were found to have standing because in those cases standing was based in part on the fact they had lost an award of a contract for failing to meet the DBE goal or failing to show good faith efforts, despite being the low bidders on the contract, and the second lowest bidder was awarded the contract. *Id.* at \*14. In contrast with these cases where the plaintiffs had standing, the court said Dunnet Bay could not establish that it would have been awarded the contract but for its failure to meet the DBE goal or demonstrate good faith efforts. *Id.* at 28.

The evidence established that Dunnet Bay's bid was substantially over the program estimated budget, and IDOT rebid the contract because the low bid was over the project estimate. *Id.* In addition, Dunnet Bay had been left off the For Bidders List that is submitted to DBEs, which was another reason IDOT decided to rebid the contract. *Id.*

The court found that even assuming Dunnet Bay could establish it was excluded from competition with DBEs or that it was disadvantaged as compared to DBEs, it could not show that any difference in treatment was because of race. *Id.* at \*15. For the three years preceding 2010, the year it bid on the project, Dunnet Bay's average gross receipts were over \$52 million. *Id.* Therefore, the court found Dunnet Bay's size makes it ineligible to qualify as a DBE, regardless of the race of its owners. *Id.* Dunnet Bay did not show that any additional costs or burdens that it would incur are because of race, but the additional costs and burdens are equally attributable to Dunnet Bay's size. *Id.* Dunnet Bay had not established, according to the court, that the denial of equal treatment resulted from the imposition of a racial barrier. *Id.*

Dunnet Bay also alleged that it was forced to participate in a discriminatory scheme and was required to consider race in subcontracting, and thus argued that it may assert third-party rights. *Id.* at \*15. The court stated that it has not adopted the broad view of standing regarding asserting third-party rights. *Id.* at \*16. The court concluded that Dunnet Bay’s claimed injury of being forced to participate in a discriminatory scheme amounts to a challenge to the state’s application of a federally mandated program, which the Seventh Circuit Court of Appeals has determined “must be limited to the question of whether the state exceeded its authority.” *Id.* quoting, *Northern Contracting*, 473 F.3d at 720-21. The court found Dunnet Bay was not denied equal treatment because of racial discrimination, but instead any difference in treatment was equally attributable to Dunnet Bay’s *size*. *Id.*

The court stated that Dunnet Bay did not establish causational or redressability. *Id.* at \*17. It failed to demonstrate that the DBE Program caused it any injury during the first bid process. *Id.* IDOT did not award the contract to anyone under the first bid and re-let the contract. *Id.* Therefore, Dunnet Bay suffered no injury because of the DBE Program. *Id.* The court also found that Dunnet Bay could not establish redressability because IDOT’s decision to re-let the contract redressed any injury. *Id.* at \*17.

In addition, the court concluded that prudential limitations preclude Dunnet Bay from bringing its claim. *Id.* at \*17. The court said that a litigant generally must assert his own legal rights and interests, and cannot rest his claim to relief on the legal rights or interests of third parties. *Id.* The court rejected Dunnet Bay’s attempt to assert the equal protection rights of a non-minority-owned small business. *Id.* at \*17-18.

**Dunnet Bay did not produce sufficient evidence that IDOT’s implementation of the Federal DBE Program constitutes race discrimination as it did not establish that IDOT exceeded its federal authority.** The court said that in the alternative to denying Dunnet Bay standing, even if Dunnet Bay had standing, IDOT was still entitled to summary judgment. *Id.* at \*18. The court stated that to establish an equal protection claim under the Fourteenth Amendment, Dunnet Bay must show that IDOT “acted with discriminatory intent.” *Id.*

The court established the standard based on its previous ruling in the *Northern Contracting v. IDOT* case that in implementing its DBE Program, IDOT may properly rely on “the federal government’s compelling interest in remedying the effects of past discrimination in the national construction market.” *Id.* at \*19, quoting *Northern Contracting*, 473 F.3d at 720. Significantly, the court held following its *Northern Contracting* decision as follows: “[A] state is insulated from [a constitutional challenge as to whether its program is narrowly tailored to achieve this compelling interest], absent a showing that the state exceeded its federal authority.” *Id.* quoting *Northern Contracting*, 473 F.3d at 721.

Dunnet Bay contends that IDOT exceeded its federal authority by effectively creating racial quotas by designing the Eisenhower project to meet a pre-determined DBE goal and eliminating waivers. *Id.* at \*19. Dunnet Bay asserts that IDOT exceeds its authority by: (1) setting the contract’s DBE participation goal at 22 percent without the required analysis; (2) implementing a “no-waiver” policy; (3) preliminarily denying its goal modification request without assessing its good faith efforts; (4) denying it a meaningful reconsideration hearing; (5) determining that its good faith efforts were inadequate; and (6) providing no written or other explanation of the basis for its good-faith-efforts determination. *Id.*

In challenging the DBE contract goal, Dunnet Bay asserts that the 22 percent goal was “arbitrary” and that IDOT manipulated the process to justify a preordained goal. *Id.* at \*20. The court stated Dunnet Bay did not identify any regulation or other authority that suggests political motivations matter, provided IDOT did not exceed its federal authority in setting the contract goal. *Id.* Dunnet Bay does not actually challenge how IDOT went about setting its DBE goal on the contract. *Id.* Dunnet Bay did not point to any evidence to show that IDOT failed to comply with the applicable regulation providing only general guidance on contract goal setting. *Id.*

The FHWA approved IDOT’s methodology to establish its statewide DBE goal and approved the individual contract goals for the Eisenhower project. *Id.* at \*20. Dunnet Bay did not identify any part of the regulation that IDOT allegedly violated by reevaluating and then increasing its DBE contract goal, by expanding the geographic area used to determine DBE availability, by adding pavement patching and landscaping work into the contract goal, by including items that had been set aside for small business enterprises, or by any other means by which it increased the DBE contract goal. *Id.*

The court agreed with the district court’s conclusion that because the federal regulations do not specify a procedure for arriving at contract goals, it is not apparent how IDOT could have exceeded its federal authority. *Id.* at 20.

The court found Dunnet Bay did not present sufficient evidence to raise a reasonable inference that IDOT had actually implemented a no-waiver policy. *Id.* at \*20. The court noted IDOT had granted waivers in 2009 and in 2010 that amounted to 60 percent of the waiver requests. *Id.* The court stated that IDOT’s record of granting waivers refutes any suggestion of a no-waiver policy. *Id.*

The court did not agree with Dunnet Bay’s challenge that IDOT rejected its bid without determining whether it had made good faith efforts, pointing out that IDOT in fact determined that Dunnet Bay failed to document adequate good faith efforts, and thus it had complied with the federal regulations. *Id.* at \*21. The court found IDOT’s determination that Dunnet Bay failed to show good faith efforts was supported in the record. *Id.* The court noted the reasons provided by IDOT, included Dunnet Bay did not utilize IDOT’s supportive services, and that the other bidders all met the DBE goal, whereas Dunnet Bay did not come close to the goal in its first bid. *Id.* at 21-22.

The court said the performance of other bidders in meeting the contract goal is listed in the federal regulations as a consideration when deciding whether a bidder has made good faith efforts to obtain DBE participation goals, and was a proper consideration. *Id.* at \*22. The court said Dunnet Bay’s efforts to secure the DBE participation goal may have been hindered by the omission of Dunnet Bay from the For Bid List, but found the rebidding of the contract remedied that oversight. *Id.*

**Conclusion.** The court affirmed the district court’s grant of summary judgement to the Illinois DOT, concluding that Dunnet Bay lacks standing, and that the Illinois DBE Program implementing the Federal DBE Program survived the constitutional and other challenges made by Dunnet Bay.

**Petition for a Writ of Certiorari.** Dunnet Bay filed a Petition for a Writ of Certiorari to the United States Supreme Court in 2016. The Petition was denied by the Supreme Court.

### **3. Northern Contracting, Inc. v. Illinois, 473 F.3d 715 (7th Cir. 2007)**

In *Northern Contracting, Inc. v. Illinois*, the Seventh Circuit affirmed the district court decision upholding the validity and constitutionality of the Illinois Department of Transportation's ("IDOT") DBE Program. Plaintiff Northern Contracting Inc. ("NCI") was a white male-owned construction company specializing in the construction of guardrails and fences for highway construction projects in Illinois. 473 F.3d 715, 717 (7th Cir. 2007). Initially, NCI challenged the constitutionality of both the federal regulations and the Illinois statute implementing these regulations. *Id.* at 719. The district court granted the USDOT's Motion for Summary Judgment, concluding that the federal government had demonstrated a compelling interest and that TEA-21 was sufficiently narrowly tailored. NCI did not challenge this ruling and thereby forfeited the opportunity to challenge the federal regulations. *Id.* at 720. NCI also forfeited the argument that IDOT's DBE program did not serve a compelling government interest. *Id.* The sole issue on appeal to the Seventh Circuit was whether IDOT's program was narrowly tailored. *Id.*

IDOT typically adopted a new DBE plan each year. *Id.* at 718. In preparing for Fiscal Year 2005, IDOT retained a consulting firm to determine DBE availability. *Id.* The consultant first identified the relevant geographic market (Illinois) and the relevant product market (transportation infrastructure construction). *Id.* The consultant then determined availability of minority- and women-owned firms through analysis of Dun & Bradstreet's Marketplace data. *Id.* This initial list was corrected for errors in the data by surveying the D&B list. *Id.* In light of these surveys, the consultant arrived at a DBE availability of 22.77 percent. *Id.* The consultant then ran a regression analysis on earnings and business information and concluded that in the absence of discrimination, relative DBE availability would be 27.5 percent. *Id.* IDOT considered this, along with other data, including DBE utilization on IDOT's "zero goal" experiment conducted in 2002 to 2003, in which IDOT did not use DBE goals on 5 percent of its contracts (1.5% utilization) and data of DBE utilization on projects for the Illinois State Toll Highway Authority which does not receive federal funding and whose goals are completely voluntary (1.6% utilization). *Id.* at 719. On the basis of all of this data, IDOT adopted a 22.77 percent goal for 2005. *Id.*

Despite the fact the NCI forfeited the argument that IDOT's DBE program did not serve a compelling state interest, the Seventh Circuit briefly addressed the compelling interest prong of the strict scrutiny analysis, noting that IDOT had satisfied its burden. *Id.* at 720. The court noted that, post-*Adarand*, two other circuits have held that a state may rely on the federal government's compelling interest in implementing a local DBE plan. *Id.* at 720-21, citing *Western States Paving Co., Inc. v. Washington State DOT*, 407 F.3d 983, 987 (9th Cir. 2005), *cert. denied*, 126 S.Ct. 1332 (Feb. 21, 2006) and *Sherbrooke Turf, Inc. v. Minnesota DOT*, 345 F.3d 964, 970 (8th Cir. 2003), *cert. denied*, 541 U.S. 1041 (2004). The court stated that NCI had not articulated any reason to break ranks from the other circuits and explained that "[i]nsofar as the state is merely complying with federal law it is acting as the agent of the federal government . . . . If the state does exactly what the statute expects it to do, and the statute is conceded for purposes of litigation to be constitutional, we do not see how the state can be thought to have violated the Constitution." *Id.* at 721, quoting *Milwaukee County Pavers Association v. Fielder*, 922 F.2d 419, 423 (7th Cir. 1991). The court did not address whether IDOT had an independent interest that could have survived constitutional scrutiny.



In addressing the narrowly tailored prong with respect to IDOT's DBE program, the court held that IDOT had complied. *Id.* The court concluded its holding in *Milwaukee* that a state is insulated from a constitutional attack absent a showing that the state exceeded its federal authority remained applicable. *Id.* at 721-22. The court noted that the Supreme Court in *Adarand Constructors v. Peña*, 515 U.S. 200 (1995) did not seize the opportunity to overrule that decision, explaining that the Court did not invalidate its conclusion that a challenge to a state's application of a federally mandated program must be limited to the question of whether the state exceeded its authority. *Id.* at 722.

The court further clarified the *Milwaukee* opinion in light of the interpretations of the opinions offered in by the Ninth Circuit in *Western States* and Eighth Circuit in *Sherbrooke*. *Id.* The court stated that the Ninth Circuit in *Western States* misread the *Milwaukee* decision in concluding that *Milwaukee* did not address the situation of an as-applied challenge to a DBE program. *Id.* at 722, n. 5. Relatedly, the court stated that the Eighth Circuit's opinion in *Sherbrooke* (that the *Milwaukee* decision was compromised by the fact that it was decided under the prior law "when the 10 percent federal set-aside was more mandatory") was unconvincing since all recipients of federal transportation funds are still required to have compliant DBE programs. *Id.* at 722. Federal law makes clearer now that the compliance could be achieved even with no DBE utilization if that were the result of a good faith use of the process. *Id.* at 722, n. 5. The court stated that IDOT in this case was acting as an instrument of federal policy and NCI's collateral attack on the federal regulations was impermissible. *Id.* at 722.

The remainder of the court's opinion addressed the question of whether IDOT exceeded its grant of authority under federal law, and held that all of NCI's arguments failed. *Id.* First, NCI challenged the method by which the local base figure was calculated, the first step in the goal-setting process. *Id.* NCI argued that the number of registered and prequalified DBEs in Illinois should have simply been counted. *Id.* The court stated that while the federal regulations list several examples of methods for determining the local base figure, *Id.* at 723, these examples are not intended as an exhaustive list. The court pointed out that the fifth item in the list is entitled "Alternative Methods," and states: "You may use other methods to determine a base figure for your overall goal. Any methodology you choose must be based on demonstrable evidence of local market conditions and be designated to ultimately attain a goal that is rationally related to the relative availability of DBEs in your market." *Id.* (citing 49 CFR § 26.45(c)(5)). According to the court, the regulations make clear that "relative availability" means "the availability of ready, willing and able DBEs relative to all business ready, willing and able to participate" on DOT contracts. *Id.* The court stated NCI pointed to nothing in the federal regulations that indicated that a recipient must so narrowly define the scope of the ready, willing, and available firms to a simple count of the number of registered and prequalified DBEs. *Id.* The court agreed with the district court that the remedial nature of the federal scheme militates in favor of a method of DBE availability calculation that casts a broader net. *Id.*

Second, NCI argued that the IDOT failed to properly adjust its goal based on local market conditions. *Id.* The court noted that the federal regulations do not require any adjustments to the base figure, but simply provide recipients with authority to make such adjustments if necessary. *Id.* According to the court, NCI failed to identify any aspect of the regulations requiring IDOT to separate prime contractor availability from subcontractor availability, and pointed out that the regulations require the local goal to be focused on overall DBE participation. *Id.*

Third, NCI contended that IDOT violated the federal regulations by failing to meet the maximum feasible portion of its overall goal through race-neutral means of facilitating DBE participation. *Id.* at 723-24. NCI argued that IDOT should have considered DBEs who had won subcontracts on goal projects where the prime contractor did not consider DBE status, instead of only considering DBEs who won contracts on no-goal projects. *Id.* at 724. The court held that while the regulations indicate that where DBEs win subcontracts on goal projects strictly through low bid this can be counted as race-neutral participation, the regulations did not require IDOT to search for this data, for the purpose of calculating past levels of race-neutral DBE participation. *Id.* According to the court, the record indicated that IDOT used nearly all the methods described in the regulations to maximize the portion of the goal that will be achieved through race-neutral means. *Id.*

The court affirmed the decision of the district court upholding the validity of the IDOT DBE program and found that it was narrowly tailored to further a compelling governmental interest. *Id.*

#### **4. *Sherbrooke Turf, Inc. v. Minnesota DOT, and Gross Seed Company v. Nebraska Department of Roads*, 345 F.3d 964 (8th Cir. 2003), cert. denied, 541 U.S. 1041 (2004)**

This case is instructive in its analysis of state DOT DBE-type programs and their evidentiary basis and implementation. This case also is instructive in its analysis of the narrowly tailored requirement for state DBE programs. In upholding the challenged Federal DBE Program at issue in this case the Eighth Circuit emphasized the race-, ethnicity- and gender-neutral elements, the ultimate flexibility of the Program, and the fact the Program was tied closely only to labor markets with identified discrimination.

In *Sherbrooke Turf, Inc. v. Minnesota DOT*, and *Gross Seed Company v. Nebraska Department of Roads*, the U.S. Court of Appeals for the Eighth Circuit upheld the constitutionality of the Federal DBE Program (49 CFR Part 26 ). The court held the Federal Program was narrowly tailored to remedy a compelling governmental interest. The court also held the federal regulations governing the states' implementation of the Federal DBE Program were narrowly tailored, and the state DOT's implementation of the Federal DBE Program was narrowly tailored to serve a compelling government interest.

*Sherbrooke* and *Gross Seed* both contended that the Federal DBE Program on its face and as applied in Minnesota and Nebraska violated the Equal Protection component of the Fifth Amendment's Due Process Clause. The Eighth Circuit engaged in a review of the Federal DBE Program and the implementation of the Program by the Minnesota DOT and the Nebraska Department of Roads ("Nebraska DOR") under a strict scrutiny analysis and held that the Federal DBE Program was valid and constitutional and that the Minnesota DOT's and Nebraska DOR's implementation of the Program also was constitutional and valid. Applying the strict scrutiny analysis, the court first considered whether the Federal DBE Program established a compelling governmental interest, and found that it did. It concluded that Congress had a strong basis in evidence to support its conclusion that race-based measures were necessary for the reasons stated by the Tenth Circuit in *Adarand*, 228 F.3d at 1167-76. Although the contractors presented evidence that challenged the data, they failed to present affirmative evidence that no remedial action was necessary because minority-owned small businesses enjoy non-discriminatory access to participation in highway contracts. Thus, the court held they failed to meet their ultimate burden to prove that the DBE Program is unconstitutional on this ground.

Finally, *Sherbrooke* and *Gross Seed* argued that the Minnesota DOT and Nebraska DOR must independently satisfy the compelling governmental interest test aspect of strict scrutiny review. The government argued, and the district courts below agreed, that participating states need not independently meet the strict scrutiny standard because under the DBE Program the state must still comply with the DOT regulations. The Eighth Circuit held that this issue was not addressed by the Tenth Circuit in *Adarand*. The Eighth Circuit concluded that neither side’s position is entirely sound.

The court rejected the contention of the contractors that their facial challenges to the DBE Program must be upheld unless the record before Congress included strong evidence of race discrimination in construction contracting in Minnesota and Nebraska. On the other hand, the court held a valid race-based program must be narrowly tailored, and to be narrowly tailored, a national program must be limited to those parts of the country where its race-based measures are demonstrably needed to the extent that the federal government delegates this tailoring function, as a state’s implementation becomes relevant to a reviewing court’s strict scrutiny. Thus, the court left the question of state implementation to the narrow tailoring analysis.

The court held that a reviewing court applying strict scrutiny must determine if the race-based measure is narrowly tailored. That is, whether the means chosen to accomplish the government’s asserted purpose are specifically and narrowly framed to accomplish that purpose. The contractors have the ultimate burden of establishing that the DBE Program is not narrowly tailored. *Id.* The compelling interest analysis focused on the record before Congress; the narrow-tailoring analysis looks at the roles of the implementing highway construction agencies.

For determining whether a race-conscious remedy is narrowly tailored, the court looked at factors such as the efficacy of alternative remedies, the flexibility and duration of the race-conscious remedy, the relationship of the numerical goals to the relevant labor market, and the impact of the remedy on third parties. *Id.* Under the DBE Program, a state receiving federal highway funds must, on an annual basis, submit to USDOT an overall goal for DBE participation in its federally-funded highway contracts. *See*, 49 CFR § 26.45(f)(1). The overall goal “must be based on demonstrable evidence” as to the number of DBEs who are ready, willing and able to participate as contractors or subcontractors on federally-assisted contracts. 49 CFR § 26.45(b). The number may be adjusted upward to reflect the state’s determination that more DBEs would be participating absent the effects of discrimination, including race-related barriers to entry. *See*, 49 CFR § 26.45(d).

The state must meet the “maximum feasible portion” of its overall goal by race-neutral means and must submit for approval a projection of the portion it expects to meet through race-neutral means. *See*, 49 CFR § 26.45(a), (c). If race-neutral means are projected to fall short of achieving the overall goal, the state must give preference to firms it has certified as DBEs. However, such preferences may not include quotas. 49 CFR § 26.45(b). During the course of the year, if a state determines that it will exceed or fall short of its overall goal, it must adjust its use of race-conscious and race-neutral methods “[t]o ensure that your DBE program continues to be narrowly tailored to overcome the effects of discrimination.” 49 CFR § 26.51(f).

Absent bad faith administration of the program, a state's failure to achieve its overall goal will not be penalized. *See*, 49 CFR § 26.47. If the state meets its overall goal for two consecutive years through race-neutral means, it is not required to set an annual goal until it does not meet its prior overall goal for a year. *See*, 49 CFR § 26.51(f)(3). In addition, DOT may grant an exemption or waiver from any and all requirements of the Program. *See*, 49 CFR § 26.15(b).

Like the district courts below, the Eighth Circuit concluded that the USDOT regulations, on their face, satisfy the Supreme Court's narrowing tailoring requirements. First, the regulations place strong emphasis on the use of race-neutral means to increase minority business participation in government contracting. 345 F.3d at 972. Narrow tailoring does not require exhaustion of every conceivable race-neutral alternative, but it does require serious good faith consideration of workable race-neutral alternatives. 345 F.3d at 971, *citing Grutter v. Bollinger*, 539 U.S. 306.

Second, the revised DBE program has substantial flexibility. A state may obtain waivers or exemptions from any requirements and is not penalized for a good faith effort to meet its overall goal. In addition, the program limits preferences to small businesses falling beneath an earnings threshold, and any individual whose net worth exceeds \$750,000.00 cannot qualify as economically disadvantaged. *See*, 49 CFR § 26.67(b). Likewise, the DBE program contains built-in durational limits. 345 F.3d at 972. A state may terminate its DBE program if it meets or exceeds its annual overall goal through race-neutral means for two consecutive years. *Id.*; 49 CFR § 26.51(f)(3).

Third, the court found, the USDOT has tied the goals for DBE participation to the relevant labor markets. The regulations require states to set overall goals based upon the likely number of minority contractors that would have received federal assisted highway contracts but for the effects of past discrimination. *See*, 49 CFR § 26.45(c)-(d)(Steps 1 and 2). Though the underlying estimates may be inexact, the exercise requires states to focus on establishing realistic goals for DBE participation in the relevant contracting markets. *Id.* at 972.

Finally, Congress and DOT have taken significant steps, the court held, to minimize the race-based nature of the DBE Program. Its benefits are directed at all small businesses owned and controlled by the socially and economically disadvantaged. While TEA-21 creates a presumption that members of certain racial minorities fall within that class, the presumption is rebuttable, wealthy minority owners and wealthy minority-owned firms are excluded, and certification is available to persons who are not presumptively disadvantaged that demonstrate actual social and economic disadvantage. Thus, race is made relevant in the Program, but it is not a determinative factor. 345 F.3d at 973. For these reasons, the court agreed with the district courts that the revised DBE Program is narrowly tailored on its face.

*Sherbrooke* and *Gross Seed* also argued that the DBE Program as applied in Minnesota and Nebraska is not narrowly tailored. Under the Federal Program, states set their own goals, based on local market conditions; their goals are not imposed by the federal government; nor do recipients have to tie them to any uniform national percentage. 345 F.3d at 973, *citing* 64 Fed. Reg. at 5102.

The court analyzed what Minnesota and Nebraska did in connection with their implementation of the Federal DBE Program. Minnesota DOT commissioned a disparity study of the highway contracting market in Minnesota. The study group determined that DBEs made up 11.4 percent of the prime contractors and subcontractors in a highway construction market. Of this number, 0.6 percent were minority-owned and 10.8 percent women-owned. Based upon its analysis of business formation statistics, the consultant estimated that the number of participating minority-owned business would be 34 percent higher in a race-neutral market. Therefore, the consultant adjusted its DBE availability figure from 11.4 percent to 11.6 percent. Based on the study, Minnesota DOT adopted an overall goal of 11.6 percent DBE participation for federally-assisted highway projects. Minnesota DOT predicted that it would need to meet 9 percent of that overall goal through race and gender-conscious means, based on the fact that DBE participation in State highway contracts dropped from 10.25 percent in 1998 to 2.25 percent in 1999 when its previous DBE Program was suspended by the injunction by the district court in an earlier decision in *Sherbrooke*. Minnesota DOT required each prime contract bidder to make a good faith effort to subcontract a prescribed portion of the project to DBEs, and determined that portion based on several individualized factors, including the availability of DBEs in the extent of subcontracting opportunities on the project.

The contractor presented evidence attacking the reliability of the data in the study, but it failed to establish that better data were available or that Minnesota DOT was otherwise unreasonable in undertaking this thorough analysis and relying on its results. *Id.* The precipitous drop in DBE participation when no race-conscious methods were employed, the court concluded, supports Minnesota DOT's conclusion that a substantial portion of its overall goal could not be met with race-neutral measures. *Id.* On that record, the court agreed with the district court that the revised DBE Program serves a compelling government interest and is narrowly tailored on its face and as applied in Minnesota.

In Nebraska, the Nebraska DOR commissioned a disparity study also to review availability and capability of DBE firms in the Nebraska highway construction market. The availability study found that between 1995 and 1999, when Nebraska followed the mandatory 10 percent set-aside requirement, 9.95 percent of all available and capable firms were DBEs, and DBE firms received 12.7 percent of the contract dollars on federally assisted projects. After apportioning part of this DBE contracting to race-neutral contracting decisions, Nebraska DOR set an overall goal of 9.95 percent DBE participation and predicted that 4.82 percent of this overall goal would have to be achieved by race-and-gender conscious means. The Nebraska DOR required that prime contractors make a good faith effort to allocate a set portion of each contract's funds to DBE subcontractors. The Eighth Circuit concluded that *Gross Seed*, like *Sherbrooke*, failed to prove that the DBE Program is not narrowly tailored as applied in Nebraska. Therefore, the court affirmed the district courts' decisions in *Gross Seed* and *Sherbrooke*. (*See* district court opinions discussed *infra*.)

**5. *Adarand Constructors, Inc. v. Slater*, 228 F.3d 1147 (10th Cir. 2000) cert. granted then dismissed as improvidently granted sub nom. *Adarand Constructors, Inc. v. Mineta*, 532 U.S. 941, 534 U.S. 103 (2001)**

This is the *Adarand* decision by the United States Court of Appeals for the Tenth Circuit, which was on remand from the earlier Supreme Court decision applying the strict scrutiny analysis to any constitutional challenge to the Federal DBE Program. See *Adarand Constructors, Inc. v. Pena*, 515 U.S. 200 (1995). The decision of the Tenth Circuit in this case was considered by the United States Supreme Court, after that court granted certiorari to consider certain issues raised on appeal. The Supreme Court subsequently dismissed the writ of certiorari “as improvidently granted” without reaching the merits of the case. The court did not decide the constitutionality of the Federal DBE Program as it applies to state DOTs or local governments.

The Supreme Court held that the Tenth Circuit had not considered the issue before the Supreme Court on certiorari, namely whether a race-based program applicable to direct federal contracting is constitutional. This issue is distinguished from the issue of the constitutionality of the USDOT DBE Program as it pertains to procurement of federal funds for highway projects let by states, and the implementation of the Federal DBE Program by state DOTs. Therefore, the Supreme Court held it would not reach the merits of a challenge to federal laws relating to direct federal procurement.

Turning to the Tenth Circuit decision in *Adarand Constructors, Inc. v. Slater*, 228 F.3d 1147 (10th Cir. 2000), the Tenth Circuit upheld in general the facial constitutionality of the Federal DBE Program. The court found that the federal government had a compelling interest in not perpetuating the effects of racial discrimination in its own distribution of federal funds and in remediating the effects of past discrimination in government contracting, and that the evidence supported the existence of past and present discrimination sufficient to justify the Federal DBE Program. The court also held that the Federal DBE Program is “narrowly tailored,” and therefore upheld the constitutionality of the Federal DBE Program.

It is significant to note that the court in determining the Federal DBE Program is “narrowly tailored” focused on the current regulations, 49 CFR Part 26, and in particular § 26.1(a), (b), and (f). The court pointed out that the federal regulations instruct recipients as follows:

*[y]ou must meet the maximum feasible portion of your overall goal by using race-neutral means of facilitating DBE participation, 49 CFR § 26.51(a)(2000); see also 49 CFR § 26.51(f)(2000) (if a recipient can meet its overall goal through race-neutral means, it must implement its program without the use of race-conscious contracting measures), and enumerate a list of race-neutral measures, see 49 CFR § 26.51(b)(2000). The current regulations also outline several race-neutral means available to program recipients including assistance in overcoming bonding and financing obstacles, providing technical assistance, establishing programs to assist start-up firms, and other methods. See 49 CFR § 26.51(b). We therefore are dealing here with revisions that emphasize the continuing need to employ non-race-conscious methods even as the need for race-conscious remedies is recognized. 228 F.3d at 1178-1179.*

In considering whether the Federal DBE Program is narrowly tailored, the court also addressed the argument made by the contractor that the program is over- and under-inclusive for several reasons, including that Congress did not inquire into discrimination against each particular minority racial or ethnic group. The court held that insofar as the scope of inquiry suggested was a particular state's construction industry alone, this would be at odds with its holding regarding the compelling interest in Congress's power to enact nationwide legislation. *Id.* at 1185-1186. The court held that because of the "unreliability of racial and ethnic categories and the fact that discrimination commonly occurs based on much broader racial classifications," extrapolating findings of discrimination against the various ethnic groups "is more a question of nomenclature than of narrow tailoring." *Id.* The court found that the "Constitution does not erect a barrier to the government's effort to combat discrimination based on broad racial classifications that might prevent it from enumerating particular ethnic origins falling within such classifications." *Id.*

Finally, the Tenth Circuit did not specifically address a challenge to the letting of federally-funded construction contracts by state departments of transportation. The court pointed out that plaintiff Adarand "conceded that its challenge in the instant case is to 'the federal program, implemented by federal officials,' and not to the letting of federally-funded construction contracts by state agencies." 228 F.3d at 1187. The court held that it did not have before it a sufficient record to enable it to evaluate the separate question of Colorado DOT's implementation of race-conscious policies. *Id.* at 1187-1188.

## **Recent District Court Decisions**

### **6. *United States v. Taylor*, 232 F.Supp. 3d 741 (W.D. Penn 2017)**

In a recent criminal case that is noteworthy because it involved a challenge to the Federal DBE Program, a federal district court in the Western District of Pennsylvania upheld the Indictment by the United States against Defendant Taylor who had been indicted on multiple counts arising out of a scheme to defraud the United States Department of Transportation's Disadvantaged Business Enterprise Program ("Federal DBE Program"). *United States v. Taylor*, 232 F.Supp. 3d 741, 743 (W.D. Penn. 2017). Also, the court in denying the motion to dismiss the Indictment upheld the federal regulations in issue against a challenge to the Federal DBE Program.

**Procedural and case history.** This was a white collar criminal case arising from a fraud on the Federal DBE Program by Century Steel Erectors ("CSE") and WMCC, Inc., and their respective principals. In this case, the Government charged one of the owners of CSE, Defendant Donald Taylor, with fourteen separate criminal offenses. The Government asserted that Defendant and CSE used WMCC, Inc., a certified DBE as a "front" to obtain 13 federally funded highway construction contracts requiring DBE status, and that CSE performed the work on the jobs while it was represented to agencies and contractors that WMCC would be performing the work. *Id.* at 743.

The Government contended that WMCC did not perform a "commercially useful function" on the jobs as the DBE regulations require and that CSE personnel did the actual work concealing from general contractors and government entities that CSE and its personnel were doing the work. *Id.* WMCC's principal was paid a relatively nominal "fixed-fee" for permitting use of WMCC's name on each of these subcontracts. *Id.* at 744.

**Defendant's contentions.** This case concerned *inter alia* a motion to dismiss the Indictment. Defendant argued that Count One must be dismissed because he had been mischarged under the “defraud clause” of [18 U.S.C. § 371](#), in that the allegations did not support a charge that he defrauded the United States. *Id.* at 745. He contended that the DBE program is administered through state and county entities, such that he could not have defrauded the United States, which he argued merely provides funding to the states to administer the DBE program. *Id.*

Defendant also argued that the Indictment must be dismissed because the underlying federal regulations, [49 C.F.R. § 26.55\(c\)](#), that support the counts against him were void for vagueness as applied to the facts at issue. *Id.* More specifically, he challenged the definition of “commercially useful function” set forth in the regulations and also contended that Congress improperly delegated its duties to the Executive branch in promulgating the federal regulations at issue. *Id.* at 745.

**Federal government position.** The Government argued that the charge at Count One was supported by the allegations in the Indictment which made clear that the charge was for defrauding the United States’ Federal DBE Program rather than the state and county entities. *Id.* The Government also argued that the challenged federal regulations are neither unconstitutionally vague nor were they promulgated in violation of the principles of separation of powers. *Id.*

**Material facts in Indictment.** The court pointed out that the Pennsylvania Department of Transportation (“PennDOT”) and the Pennsylvania Turnpike Commission (“PTC”) receive federal funds from FHWA for federally funded highway projects and, as a result, are required to establish goals and objectives in administering the DBE Program. *Id.* at 745. State and local authorities, the court stated, are also delegated the responsibility to administer the program by, among other things, certifying entities as DBEs; tracking the usage of DBEs on federally funded highway projects through the award of credits to general contractors on specific projects; and reporting compliance with the participation goals to the federal authorities. *Id.* at 745-746.

WMCC received 13 federally-funded subcontracts totaling approximately \$2.34 million under PennDOT’s and PTC’s DBE program and WMCC was paid a total of \$1.89 million.” *Id.* at 746. These subcontracts were between WMCC and a general contractor, and required WMCC to furnish and erect steel and/or precast concrete on federally funded Pennsylvania highway projects. *Id.* Under PennDOT’s program, the entire amount of WMCC’s subcontract with the general contractor, including the cost of materials and labor, was counted toward the general contractor’s DBE goal because WMCC was certified as a DBE and “ostensibly performed a commercially useful function in connection with the subcontract.” *Id.*

The stated purpose of the conspiracy was for Defendant and his co-conspirators to enrich themselves by using WMCC as a “front” company to fraudulently obtain the profits on DBE subcontracts slotted for legitimate DBE’s and to increase CSE profits by marketing CSE to general contractors as a “one-stop shop,” which could not only provide the concrete or steel beams, but also erect the beams and provide the general contractor with DBE credits. *Id.* at 746.



As a result of these efforts, the court said the “conspirators” caused the general contractors to pay WMCC for DBE subcontracts and were deceived into crediting expenditures toward DBE participation goals, although they were not eligible for such credits because WMCC was not performing a commercially useful function on the jobs. *Id.* at 747. CSE also obtained profits from DBE subcontracts that it was not entitled to receive as it was not a DBE and thereby precluded legitimate DBE’s from obtaining such contracts. *Id.*

**Motion to Dismiss — challenges to Federal DBE Regulations.** Defendant sought dismissal of the Indictment by contesting the propriety of the underlying federal regulations in several different respects, including claiming that [49 C.F.R. § 26.55\(c\)](#) was “void for vagueness” because the phrase “commercially useful function” and other phrases therein were not sufficiently defined. *Id.* at 754. Defendant also presented a non-delegation challenge to the regulatory scheme involving the DBE Program. *Id.* The Government countered that dismissal of the Indictment was not justified under these theories and that the challenges to the regulations should be overruled. The court agreed with the Government’s position and denied the motion to dismiss. *Id.* at 754.

The court disagreed with Defendant’s assessment that the challenged DBE regulations are so vague that people of ordinary intelligence cannot ascertain the meaning of same, including the phrases “commercially useful function,” “industry practices,” and “other relevant factors.” *Id.* at 755, *citing*, [49 C.F.R. § 26.55\(c\)](#). The court noted that other federal courts have rejected vagueness and related challenges to the federal DBE regulations in both civil, *see* [Midwest Fence Corp. v. United States Dep’t of Transp.](#), 840 F.3d 932 (7th Cir. 2016) (rejecting vagueness challenge to [49 C.F.R. § 26.53\(a\)](#)) and “good faith efforts” language), and criminal matters, *United States v. Maxwell*, 579 F.3d 1282, at 1302 (11th Cir. 2009).

With respect to the alleged vagueness of the phrase “commercially useful function,” the court found the regulations both specifically describes the types of activities that: (1) fall within the definition of that phrase in [§ 26.55\(c\)\(1\)](#); and, (2) are beyond the scope of the definition of that phrase in [§ 26.55\(c\)\(2\)](#). *Id.* at 755, *citing*, [49 C.F.R. §§ 26.55\(c\)\(1\)–\(2\)](#). The phrases “industry practices” and “other relevant factors” are undefined, the court said, but “an undefined word or phrase does not render a statute void when a court could ascertain the term’s meaning by reading it in context.” *Id.* at 756.

The context, according to the court, is that these federal DBE regulations are used in a comprehensive regulatory scheme by the DOT and FHWA to ensure participation of DBEs in federally funded highway construction projects. *Id.* at 756. These particular phrases, the court pointed out, are also not the most prominently featured in the regulations as they are utilized in a sentence describing how to determine if the activities of a DBE constitute a “commercially useful function.” *Id.*, *citing*, [49 C.F.R. § 26.55\(c\)](#).

While Defendant suggested that the language of these undefined phrases was overbroad, the court held it is necessarily limited by [§ 26.55\(c\)\(2\)](#), expressly stating that “[a] DBE does not perform a commercially useful function if its role is limited to that of an extra participant in a transaction, contract, or project through which funds are passed in order to obtain the appearance of DBE participation.” *Id.* at 756, *quoting*, [49 C.F.R. § 26.55\(c\)](#).

The district court in this case also found persuasive the reasoning of both the United States District Court for the Southern District of Florida and the United States Court of Appeals for the Eleventh Circuit, construing the federal DBE regulations in *United States v. Maxwell*. *Id.* at 756. The court noted that in *Maxwell*, the defendant argued in a post-trial motion that § 26.55(c) was “ambiguous” and the evidence presented at trial showing that he violated this regulation could not support his convictions for various mail and wire fraud offenses. *Id.* at 756. The trial court disagreed, holding that:

the rules involving which entities must do the DBE/CSBE work are not ambiguous, or susceptible to different but equally plausible interpretations. Rather, the rules clearly state that a DBE [ . . . ] is required to do its own work, which includes managing, supervising and performing the work involved . . . . And, under the federal program, it is clear that the DBE is also required to negotiate, order, pay for, and install its own materials.

*Id.* at 756, quoting, *United States v. Maxwell*, 579 F.3d 1282, 1302 (11th Cir. 2009). The defendant in *Maxwell*, the court said, made this same argument on appeal to the Eleventh Circuit, which soundly rejected it, explaining that:

[b]oth the County and federal regulations explicitly say that a CSBE or DBE is required to perform a commercially useful function. Both regulatory schemes define a commercially useful function as being responsible for the execution of the contract and actually performing, managing, and supervising the work involved. And the DBE regulations make clear that a DBE does not perform a commercially useful function if its role is limited to that of an extra participant in a transaction, contract, or project through which funds are passed in order to obtain the appearance of DBE participation. 49 C.F.R. § 26.55(c)(2). There is no obvious ambiguity about whether a CSBE or DBE subcontractor performs a commercially useful function when the job is managed by the primary contractor, the work is performed by the employees of the primary contractor, the primary contractor does all of the negotiations, evaluations, and payments for the necessary materials, and the subcontractor does nothing more than provide a minimal amount of labor and serve as a signatory on two-party checks. In short, no matter how these regulations are read, the jury could conclude that what FLP did was not the performance of a “commercially useful function.”

*Id.* at 756, quoting, *United States v. Maxwell*, 579 F.3d 1282, 1302 (11th Cir. 2009).

Thus, the Western District of Pennsylvania federal district court in this case concluded the Eleventh Circuit in *Maxwell* found that the federal regulations were sufficient in the context of a scheme similar to that charged against Defendant Taylor in this case: WMCC was “fronted” as the DBE, receiving a fixed fee for passing through funds to CSE, which utilized its personnel to perform virtually all of the work under the subcontracts. *Id.* at 757.

**Federal DBE regulations are authorized by Congress and the Federal DBE Program has been upheld by the courts.** The court stated Defendant’s final argument to dismiss the charges relied upon his unsupported claims that the USDOT lacked the authority to promulgate the DBE regulations and that it exceeded its authority in doing so. *Id.* at 757. The court found that the Government’s exhaustive summary of the legislative history and executive rulemaking that has taken place with respect to the relevant statutory provisions and regulations suffices to demonstrate that the federal DBE regulations were made under the broad grant of rights authorized by Congressional statutes. *Id.*, citing, 49 U.S.C. § 322(a) (“The Secretary of Transportation may prescribe regulations to

carry out the duties and powers of the Secretary. An officer of the Department of Transportation may prescribe regulations to carry out the duties and powers of the officer.”); [23 U.S.C. § 304](#) (The Secretary of Transportation “should assist, insofar as feasible, small business enterprises in obtaining contracts in connection with the prosecution of the highway system.”); [23 U.S.C. § 315](#) (“[Subject to certain exceptions related to tribal lands and national forests], the Secretary is authorized to prescribe and promulgate all needful rules and regulations for the carrying out of the provisions of this Title.”).

Also, significantly, the court pointed out that the Federal DBE Program has been upheld in various contexts, “even surviving strict scrutiny review,” with courts holding that the program is narrowly tailored to further compelling governmental interests. *Id.* at 757, *citing*, [Midwest Fence Corp.](#), 840 F.3d at 942 (citing [Western States Paving Co. v. Washington State Dep’t of Transportation](#), 407 F.3d 983, 993 (9th Cir. 2005); [Sherbrooke Turf, Inc. v. Minnesota Dep’t of Transportation](#), 345 F.3d 964, 973 (8th Cir. 2003); [Adarand Constructors, Inc. v. Slater](#), 228 F.3d 1147, 1155 (10th Cir. 2000)).

In light of this authority as to the validity of the federal regulations and the Federal DBE Program, the Western District of Pennsylvania federal district court in this case held that Defendant failed to meet his burden to demonstrate that dismissal of the Indictment was warranted. *Id.*

**Conclusion.** The court denied the Defendant’s motion to dismiss the Indictment. The Defendant subsequently pleaded guilty. Recently on March 13, 2018, the court issued the final Judgment sentencing the Defendant to Probation for 3 years; ordered Restitution in the amount of \$85,221.21; and a \$30,000 fine. The case also was terminated on March 13, 2018.

**7. *Midwest Fence Corporation v. United States DOT and Federal Highway Administration, the Illinois DOT, the Illinois State Toll Highway Authority, et al.*, 84 F. Supp. 3d 705, 2015 WL 1396376 (N.D. Ill, March 24, 2015), affirmed, 840 F.3d 932 (7th Cir. 2016).**

In *Midwest Fence Corporation v. USDOT, the FHWA, the Illinois DOT and the Illinois State Toll Highway Authority*, Case No. 1:10-3-CV-5627, United States District Court for the Northern District of Illinois, Eastern Division, Plaintiff Midwest Fence Corporation, which is a guardrail, bridge rail and fencing contractor owned and controlled by white males challenged the constitutionality and the application of the USDOT, Disadvantaged Business Enterprise (“DBE”) Program. In addition, Midwest Fence similarly challenged the Illinois Department of Transportation’s (“IDOT”) implementation of the Federal DBE Program for federally-funded projects, IDOT’s implementation of its own DBE Program for state-funded projects and the Illinois State Tollway Highway Authority’s (“Tollway”) separate DBE Program.

The federal district court in 2011 issued an Opinion and Order denying the Defendants’ Motion to Dismiss for lack of standing, denying the Federal Defendants’ Motion to Dismiss certain Counts of the Complaint as a matter of law, granting IDOT Defendants’ Motion to Dismiss certain Counts and granting the Tollway Defendants’ Motion to Dismiss certain Counts, but giving leave to Midwest to replead subsequent to this Order. *Midwest Fence Corp. v. United States DOT, Illinois DOT, et al.*, 2011 WL 2551179 (N.D. Ill. June 27, 2011).

Midwest Fence in its Third Amended Complaint challenged the constitutionality of the Federal DBE Program on its face and as applied, and challenged the IDOT's implementation of the Federal DBE Program. Midwest Fence also sought a declaration that the USDOT regulations have not been properly authorized by Congress and a declaration that SAFETEA-LU is unconstitutional. Midwest Fence sought relief from the IDOT Defendants, including a declaration that state statutes authorizing IDOT's DBE Program for State-funded contracts are unconstitutional; a declaration that IDOT does not follow the USDOT regulations; a declaration that the IDOT DBE Program is unconstitutional and other relief against the IDOT. The remaining Counts sought relief against the Tollway Defendants, including that the Tollway's DBE Program is unconstitutional, and a request for punitive damages against the Tollway Defendants. The court in 2012 granted the Tollway Defendants' Motion to Dismiss Midwest Fence's request for punitive damages.

Equal protection framework, strict scrutiny and burden of proof. The court held that under a strict scrutiny analysis, the burden is on the government to show both a compelling interest and narrowly tailoring. 2015 WL 1396376 at \*7. The government must demonstrate a strong basis in evidence for its conclusion that remedial action is necessary. *Id.* Since the Supreme Court decision in *Crosby*, numerous courts have recognized that disparity studies provide probative evidence of discrimination. *Id.* The court stated that an inference of discrimination may be made with empirical evidence that demonstrates a significant statistical disparity between the number of qualified minority contractors and the number of such contractors actually engaged by the locality or the locality's prime contractors. *Id.* The court said that anecdotal evidence may be used in combination with statistical evidence to establish a compelling governmental interest. *Id.*

In addition to providing "hard proof" to back its compelling interest, the court stated that the government must also show that the challenged program is narrowly tailored. *Id.* at \*7. While narrow tailoring requires "serious, good faith consideration of workable race-neutral alternatives," the court said it does not require "exhaustion of every conceivable race-neutral alternative." *Id.*, citing *Grutter v. Bollinger*, 539 U.S. 306, 339 (2003); *Fischer v. Univ. of Texas at Austin*, 133 S.Ct. 2411, 2420 (2013).

Once the governmental entity has shown acceptable proof of a compelling interest in remedying past discrimination and illustrated that its plan is narrowly tailored to achieve this goal, the party challenging the affirmative action plan bears the ultimate burden of proving that the plan is unconstitutional. 2015 WL 1396376 at \*7. To successfully rebut the government's evidence, a challenger must introduce "credible, particularized evidence" of its own. *Id.*

This can be accomplished, according to the court, by providing a neutral explanation for the disparity between DBE utilization and availability, showing that the government's data is flawed, demonstrating that the observed disparities are statistically insignificant, or presenting contrasting statistical data. *Id.* Conjecture and unsupported criticisms of the government's methodology are insufficient. *Id.*

**Standing.** The court found that Midwest had standing to challenge the Federal DBE Program, IDOT's implementation of it, and the Tollway Program. *Id.* at \*8. The court, however, did not find that Midwest had presented any facts suggesting its inability to compete on an equal footing for the Target Market Program contracts. The Target Market Program identified a variety of remedial actions that IDOT was authorized to take in certain Districts, which included individual contract goals, DBE participation incentives, as well as set-asides. *Id.* at \*9.

The court noted that Midwest did not identify any contracts that were subject to the Target Market Program, nor identify any set-asides that were in place in these districts that would have hindered its ability to compete for fencing and guardrails work. *Id. at \*9*. Midwest did not allege that it would have bid on contracts set aside pursuant to the Target Market Program had it not been prevented from doing so. *Id.* Because nothing in the record Midwest provided suggested that the Target Market Program impeded Midwest's ability to compete for work in these Districts, the court dismissed Midwest's claim relating to the Target Market Program for lack of standing.

**Facial challenge to the Federal DBE Program.** The court found that remedying the effects of race and gender discrimination within the road construction industry is a compelling governmental interest. The court also found that the Federal Defendants have supported their compelling interest with a strong basis in evidence. *Id. at \*11*. The Federal Defendants, the court said, presented an extensive body of testimony, reports, and studies that they claim provided the strong basis in evidence for their conclusion that race and gender-based classifications are necessary. *Id.* The court took judicial notice of the existence of Congressional hearings and reports and the collection of evidence presented to Congress in support of the Federal DBE Program's 2012 reauthorization under MAP-21, including both statistical and anecdotal evidence. *Id.*

The court also considered a report from a consultant who reviewed 95 disparity and availability studies concerning minority- and women-owned businesses, as well as anecdotal evidence, that were completed from 2000 to 2012. *Id. at \*11*. Sixty-four of the studies had previously been presented to Congress. *Id.* The studies examine procurement for over 100 public entities and funding sources across 32 states. *Id.* The consultant's report opined that metrics such as firm revenue, number of employees, and bonding limits should not be considered when determining DBE availability because they are all "likely to be influenced by the presence of discrimination if it exists" and could potentially result in a built-in downward bias in the availability measure. *Id. at \*11*.

To measure disparity, the consultant divided DBE utilization by availability and multiplied by 100 to calculate a "disparity index" for each study. *Id. at \*11*. The report found 66 percent of the studies showed a disparity index of 80 or below, that is, significantly underutilized relative to their availability. *Id.* The report also examined data that showed lower earnings and business formation rates among women and minorities, even when variables such as age and education were held constant. *Id.* The report concluded that the disparities were not attributable to factors other than race and sex and were consistent with the presence of discrimination in construction and related professional services. *Id.*

The court distinguished the Federal Circuit decision in *Rothe Dev. Corp. v. Dep't. of Def.*, 545 F. 3d 1023 (Fed. Cir. 2008) where the Federal Circuit Court held insufficient the reliance on only six disparity studies to support the government's compelling interest in implementing a national program. *Id. at \*12, citing Rothe*, 545 F. 3d at 1046. The court here noted the consultant report supplements the testimony and reports presented to Congress in support of the Federal DBE Program, which courts have found to establish a "strong basis in evidence" to support the conclusion that race- and gender-conscious action is necessary. *Id. at \*12*.

The court found through the evidence presented by the Federal Defendants satisfied their burden in showing that the Federal DBE Program stands on a strong basis in evidence. *Id. at \*12*. The Midwest expert's suggestion that the studies used in consultant's report do not properly account for capacity, the court stated, does not compel the court to find otherwise. The court *quoting Adarand VII*, 228 F.3d at 1173 (10th Cir. 2000) said that general criticism of disparity studies, as opposed to particular evidence undermining the reliability of the particular disparity studies relied upon by the government, is of little persuasive value and does not compel the court to discount the disparity evidence. *Id.* Midwest failed to present "affirmative evidence" that no remedial action was necessary. *Id.*

**Federal DBE Program is narrowly tailored.** Once the government has established a compelling interest for implementing a race-conscious program, it must show that the program is narrowly tailored to achieve this interest. *Id. at \*12*. In determining whether a program is narrowly tailored, courts examine several factors, including (a) the necessity for the relief and efficacy of alternative race-neutral measures, (b) the flexibility and duration of the relief, including the availability of waiver provisions, (c) the relationship of the numerical goals to the relevant labor market, and (d) the impact of the relief on the rights of third parties. *Id.* The court stated that courts may also assess whether a program is "overinclusive." *Id.* The court found that each of the above factors supports the conclusion that the Federal DBE Program is narrowly tailored. *Id.*

First, the court said that under the federal regulations, recipients of federal funds can only turn to race- and gender-conscious measures after they have attempted to meet their DBE participation goal through race-neutral means. *Id. at \*13*. The court noted that race-neutral means include making contracting opportunities more accessible to small businesses, providing assistance in obtaining bonding and financing, and offering technical and other support services. *Id.* The court found that the regulations require serious, good faith consideration of workable race-neutral alternatives. *Id.*

Second, the federal regulations contain provisions that limit the Federal DBE Program's duration and ensure its flexibility. *Id. at \*13*. The court found that the Federal DBE Program lasts only as long as its current authorizing act allows, noting that with each reauthorization, Congress must reevaluate the Federal DBE Program in light of supporting evidence. *Id.* The court also found that the Federal DBE Program affords recipients of federal funds and prime contractors substantial flexibility. *Id. at \*13*. Recipients may apply for exemptions or waivers, releasing them from program requirements. *Id.* Prime contractors can apply to IDOT for a "good faith efforts waiver" on an individual contract goal. *Id.*

The court stated the availability of waivers is particularly important in establishing flexibility. *Id. at \*13*. The court rejected Midwest's argument that the federal regulations impose a quota in light of the Program's explicit waiver provision. *Id.* Based on the availability of waivers, coupled with regular congressional review, the court found that the Federal DBE Program is sufficiently limited and flexible. *Id.*

Third, the court said that the Federal DBE Program employs a two-step goal-setting process that ties DBE participation goals by recipients of federal funds to local market conditions. *Id. at \*13*. The court pointed out that the regulations delegate goal setting to recipients of federal funds who tailor DBE participation to local DBE availability. *Id.* The court found that the Federal DBE Program's goal-setting process requires states to focus on establishing realistic goals for DBE participation that are closely tied to the relevant labor market. *Id.*

Fourth, the federal regulations, according to the court, contain provisions that seek to minimize the Program's burden on non-DBEs. *Id.* at \*13. The court pointed out the following provisions aim to keep the burden on non-DBEs minimal: the Federal DBE Program's presumption of social and economic disadvantage is rebuttable; race is not a determinative factor; in the event DBEs become "overconcentrated" in a particular area of contract work, recipients must take appropriate measures to address the overconcentration; the use of race-neutral measures; and the availability of good faith efforts waivers. *Id.* at \*13.

The court said Midwest's primary argument is that the practice of states to award prime contracts to the lowest bidder, and the fact the federal regulations prescribe that DBE participation goals be applied to the value of the entire contract, unduly burdens non-DBE subcontractors. *Id.* at \*14. Midwest argued that because most DBEs are small subcontractors, setting goals as a percentage of all contract dollars, while requiring a remedy to come only from subcontracting dollars, unduly burdens smaller, specialized non-DBEs. *Id.* The court found that the fact innocent parties may bear some of the burden of a DBE program is itself insufficient to warrant the conclusion that a program is not narrowly tailored. *Id.* The court also found that strong policy reasons support the Federal DBE Program's approach. *Id.*

The court stated that congressional testimony and the expert report from the Federal Defendants provide evidence that the Federal DBE Program is not overly inclusive. *Id.* at \*14. The court noted the report observed statistically significant disparities in business formation and earnings rates in all 50 states for all minority groups and for non-minority women. *Id.*

The court said that Midwest did not attempt to rebut the Federal Defendants' evidence. *Id.* at \*14. Therefore, because the Federal DBE Program stands on a strong basis in evidence and is narrowly tailored to achieve the goal of remedying discrimination, the court found the Program is constitutional on its face. *Id.* at \*14. The court thus granted summary judgment in favor of the Federal Defendants. *Id.*

**As-applied challenge to IDOT's implementation of the Federal DBE Program.** In addition to challenging the Federal DBE Program on its face, Midwest also argued that it is unconstitutional as applied. *Id.* The court stated because the Federal DBE Program is applied to Midwest through IDOT, the court must examine IDOT's implementation of the Federal DBE Program. *Id.* Following the Seventh Circuit's decision in *Northern Contracting v. Illinois DOT*, the court said that whether the Federal DBE Program is unconstitutional as applied is a question of whether IDOT exceeded its authority in implementing it. *Id.* at \*14, citing *Northern Contracting, Inc. v. Illinois*, 473 F.3d 715 at 722 (7th Cir. 2007). The court, quoting *Northern Contracting*, held that a challenge to a state's application of a federally mandated program must be limited to the question of whether the state exceeded its authority. *Id.* at \*14.

IDOT not only applies the Federal DBE Program to USDOT-assisted projects, but it also applies the Federal DBE Program to state-funded projects. *Id.* at \*14. The court, therefore, held it must determine whether the IDOT Defendants have established a compelling reason to apply the IDOT Program to state-funded projects in Illinois. *Id.*

The court pointed out that the Federal DBE Program delegates the narrow tailoring function to the state, and thus, IDOT must demonstrate that there is a demonstrable need for the implementation of the Federal DBE Program within its jurisdiction. *Id.* at \*14. Accordingly, the court assessed whether IDOT has established evidence of discrimination in Illinois sufficient to (1) support its application of the Federal DBE Program to state-funded contracts, and (2) demonstrate that IDOT's implementation of the Federal DBE Program is limited to a place where race-based measures are demonstrably needed. *Id.*

**IDOT's evidence of discrimination and DBE availability in Illinois.** The evidence that IDOT has presented to establish the existence of discrimination in Illinois included two studies, one that was done in 2004 and the other in 2011. *Id.* at \*15. The court said that the 2004 study uncovered disparities in earnings and business formation rates among women and minorities in the construction and engineering fields that the study concluded were consistent with discrimination. IDOT maintained that the 2004 study and the 2011 study must be read in conjunction with one another. *Id.* at \*15. The court found that the 2011 study provided evidence to establish the disparity from which IDOT's inference of discrimination primarily arises. *Id.* at \*15.

The 2011 study compared the proportion of contracting dollars awarded to DBEs (utilization) with the availability of DBEs. *Id.* The study determined availability through multiple sources, including bidders lists, prequalified business lists, and other methods recommended in the federal regulations. *Id.* The study applied NAICS codes to different types of contract work, assigning greater weight to categories of work in which IDOT had expended the most money. *Id.* This resulted in a "weighted" DBE availability calculation. *Id.*

The 2011 study examined prime and subcontracts and anecdotal evidence concerning race and gender discrimination in the Illinois road construction industry, including one-on-one interviews and a survey of more than 5,000 contractors. *Id.* at \*15. The 2011 study, the court said, contained a regression analysis of private sector data and found disparities in earnings and business ownership rates among minorities and women, even when controlling for race- and gender-neutral variables. *Id.*

The study concluded that there was a statistically significant underutilization of DBEs in the award of both prime and subcontracts in Illinois. *Id.* For example, the court noted the difference the study found in the percentage of available prime construction contractors to the percentage of prime construction contracts under \$500,000, and the percentage of available construction subcontractors to the amount of percentage of dollars received of construction subcontracts. *Id.*

IDOT presented certain evidence to measure DBE availability in Illinois. The court pointed out that the 2004 study and two subsequent Goal-Setting Reports were used in establishing IDOT's DBE participation goal. *Id.* at \*15. The 2004 study arrived at IDOT's 22.77 percent DBE participation goal in accordance with the two-step process defined in the federal regulations. *Id.* The court stated the 2004 study employed a seven-step "custom census" approach to calculate baseline DBE availability under step one of the regulations. *Id.*



The process begins by identifying the relevant markets in which IDOT operates and the categories of businesses that account for the bulk of IDOT spending. *Id. at \*15*. The industries and counties in which IDOT expends relatively more contract dollars receive proportionately higher weights in the ultimate calculation of statewide DBE availability. *Id.* The study then counts the number of businesses in the relevant markets, and identifies which are minority- and women-owned. *Id.* To ensure the accuracy of this information, the study provides that it takes additional steps to verify the ownership status of each business. *Id.* Under step two of the regulations, the study adjusted this figure to 27.51 percent based on Census Bureau data. *Id.* According to the study, the adjustment takes into account its conclusion that baseline numbers are artificially lower than what would be expected in a race-neutral marketplace. *Id.*

IDOT used separate Goal-Setting Reports that calculated IDOT's DBE participation goal pursuant to the two-step process in the federal regulations, drawing from bidders lists, DBE directories, and the 2011 study to calculate baseline DBE availability. *Id. at \*16*. The study and the Goal-Setting Reports gave greater weight to the types of contract work in which IDOT had expended relatively more money. *Id.*

**Court rejected Midwest arguments as to the data and evidence.** The court rejected the challenges by Midwest to the accuracy of IDOT's data. For example, Midwest argued that the anecdotal evidence contained in the 2011 study does not prove discrimination. *Id. at \*16*. The court stated, however, where anecdotal evidence has been offered in conjunction with statistical evidence, it may lend support to the government's determination that remedial action is necessary. *Id. at \*16*. The court noted that anecdotal evidence on its own could not be used to show a general policy of discrimination. *Id.*

The court rejected another argument by Midwest that the data collected after IDOT's implementation of the Federal DBE Program may be biased because anything observed about the public sector may be affected by the DBE Program. *Id. at \*16*. The court rejected that argument finding post-enactment evidence of discrimination permissible. *Id.*

Midwest's main objection to the IDOT evidence, according to the court, is that it failed to account for capacity when measuring DBE availability and underutilization. *Id. at \*16*. Midwest argued that IDOT's disparity studies failed to rule out capacity as a possible explanation for the observed disparities. *Id. at \*16*.

IDOT argued that on prime contracts under \$500,000, capacity is a variable that makes little difference. *Id. at \*17*. Prime contracts of varying sizes under \$500,000 were distributed to DBEs and non-DBEs alike at approximately the same rate. *Id. at \*17*. IDOT also argued that through regression analysis, the 2011 study demonstrated factors other than discrimination did not account for the disparity between DBE utilization and availability. *Id.*

The court stated that despite Midwest's argument that the 2011 study took insufficient measures to rule out capacity as a race-neutral explanation for the underutilization of DBEs, the Supreme Court has indicated that a regression analysis need not take into account "all measurable variables" to rule out race-neutral explanations for observed disparities. *Id. at \*17 quoting Bazemore v. Friday*, 478 U.S. 385, 400 (1986).

Midwest criticisms insufficient, speculative and conjecture — no independent statistical analysis; IDOT followed Northern Contracting and did not exceed the federal regulations. The court found Midwest’s criticisms insufficient to rebut IDOT’s evidence of discrimination or discredit IDOT’s methods of calculating DBE availability. *Id.* at \*17. First, the court said, the “evidence” offered by Midwest’s expert reports “is speculative at best.” *Id.* at \*17. The court found that for a reasonable jury to find in favor of Midwest, Midwest would have to come forward with “credible, particularized evidence” of its own, such as a neutral explanation for the disparity, or contrasting statistical data. *Id.* at \*17. The court held that Midwest failed to make the showing in this case. *Id.*

Second, the court stated that IDOT’s method of calculating DBE availability is consistent with the federal regulations and has been endorsed by the Seventh Circuit. *Id.* at \*17. The federal regulations, the court said, approve a variety of methods for accurately measuring ready, willing, and available DBEs, such as the use of DBE directories, Census Bureau data, and bidders lists. *Id.* The court found that these are the methods the 2011 study adopted in calculating DBE availability. *Id.*

The court said that the Seventh Circuit Court of Appeals approved the “custom census” approach as consistent with the federal regulations. *Id.* at \*17, *citing to Northern Contracting v. Illinois DOT*, 473 F.3d at 723. The court noted the Seventh Circuit rejected the argument that availability should be based on a simple count of registered and prequalified DBEs under Illinois law, finding no requirement in the federal regulations that a recipient must so narrowly define the scope of ready, willing, and available firms. *Id.* The court also rejected the notion that an availability measure should distinguish between prime and subcontractors. *Id.* at \*17.

The court held that through the 2004 and 2011 studies, and Goal-Setting Reports, IDOT provided evidence of discrimination in the Illinois road construction industry and a method of DBE availability calculation that is consistent with both the federal regulations and the Seventh Circuit decision in *Northern Contract v. Illinois DOT*. *Id.* at \*18. The court said that in response to the Seventh Circuit decision and IDOT’s evidence, Midwest offered only conjecture about how these studies supposed failure to account for capacity may or may not have impacted the studies’ result. *Id.*

The court pointed out that although Midwest’s expert’s reports “cast doubt on the validity of IDOT’s methodology, they failed to provide any independent statistical analysis or other evidence demonstrating actual bias.” *Id.* at \*18. Without this showing, the court stated, the record fails to demonstrate a lack of evidence of discrimination or actual flaws in IDOT’s availability calculations.

**Burden on non-DBE subcontractors; overconcentration.** The court addressed the narrow tailoring factor concerning whether a program’s burden on third parties is undue or unreasonable. The parties disagreed about whether the IDOT program resulted in an overconcentration of DBEs in the fencing and guardrail industry. *Id.* at \*18. IDOT prepared an overconcentration study comparing the total number of prequalified fencing and guardrail contractors to the number of DBEs that also perform that type of work and determined that no overconcentration problem existed. Midwest presented its evidence relating to overconcentration. *Id.* The court found that Midwest did not show IDOT’s determination that overconcentration does not exist among fencing and guardrail contractors to be unreasonable. *Id.* at \*18.

The court stated the fact IDOT sets contract goals as a percentage of total contract dollars does not demonstrate that IDOT imposes an undue burden on non-DBE subcontractors, but to the contrary, IDOT is acting within the scope of the federal regulations that requires goals to be set in this manner. *Id.* at \*19. The court noted that it recognizes setting goals as a percentage of total contract value addresses the widespread, indirect effects of discrimination that may prevent DBEs from competing as primes in the first place, and that a sharing of the burden by innocent parties, here non-DBE subcontractors, is permissible. *Id.* at \*19. The court held that IDOT carried its burden in providing persuasive evidence of discrimination in Illinois, and found that such sharing of the burden is permissible here. *Id.*

**Use of race-neutral alternatives.** The court found that IDOT identified several race-neutral programs it used to increase DBE participation, including its Supportive Services, Mentor-Protégé, and Model Contractor Programs. *Id.* at \*19. The programs provide workshops and training that help small businesses build bonding capacity, gain access to financial and project management resources, and learn about specific procurement opportunities. *Id.* IDOT conducted several studies including zero-participation goals contracts in which there was no DBE participation goal, and found that DBEs received only 0.84 percent of the total dollar value awarded. *Id.*

The court held IDOT was compliant with the federal regulations, noting that in the *Northern Contracting v. Illinois DOT* case, the Seventh Circuit found IDOT employed almost all of the methods suggested in the regulations to maximize DBE participation without resorting to race, including providing assistance in obtaining bonding and financing, implementing a supportive services program, and providing technical assistance. *Id.* at \*19. The court agreed with the Seventh Circuit, and found that IDOT has made serious, good faith consideration of workable race-neutral alternatives. *Id.*

**Duration and flexibility.** The court pointed out that the state statute through which the Federal DBE Program is implemented is limited in duration and must be reauthorized every two to five years. *Id.* at \*19. The court reviewed evidence that IDOT granted 270 of the 362 good faith waiver requests that it received from 2006 to 2014, and that IDOT granted 1,002 post-award waivers on over \$36 million in contracting dollars. *Id.* at \*19. The court noted that IDOT granted the only good faith efforts waiver that Midwest requested. *Id.*

The court held the undisputed facts established that IDOT did not have a “no-waiver policy.” *Id.* at \*20. The court found that it could not conclude that the waiver provisions were impermissibly vague, and that IDOT took into consideration the substantial guidance provided in the federal regulations. *Id.* Because Midwest’s own experience demonstrated the flexibility of the Federal DBE Program in practice, the court said it could not conclude that the IDOT program amounts to an impermissible quota system that is unconstitutional on its face. *Id.* at \*20.

The court again stated that Midwest had not presented any affirmative evidence showing that IDOT’s implementation of the Federal DBE Program imposes an undue burden on non-DBEs, fails to employ race-neutral measures, or lacks flexibility. *Id.* at \*20. Accordingly, the court granted IDOT’s motion for summary judgment.

**Facial and as-applied challenges to the Tollway program.** The Illinois Tollway Program exists independently of the Federal DBE Program. Midwest challenged the Tollway Program as unconstitutional on its face and as applied. *Id.* at \*20. Like the Federal and IDOT Defendants, the Tollway was required to show that its compelling interest in remedying discrimination in the Illinois road construction industry rests on a strong basis in evidence. *Id.* The Tollway relied on a 2006 disparity study, which examined the disparity between the Tollway’s utilization of DBEs and their availability. *Id.*

The study employed a “custom census” approach to calculate DBE availability, and examined the Tollway’s contract data to determine utilization. *Id.* at \*20. The 2006 study reported statistically significant disparities for all race and sex categories examined. *Id.* The study also conducted an “economy-wide analysis” examining other race and sex disparities in the wider construction economy from 1979 to 2002. *Id.* at \*21. Controlling for race- and gender-neutral variables, the study showed a significant negative correlation between a person’s race or sex and their earning power and ability to form a business. *Id.*

**Midwest’s challenges to the Tollway evidence insufficient and speculative.** In 2013, the Tollway commissioned a new study, which the court noted was not complete, but there was an “economy-wide analysis” similar to the analysis done in 2006 that updated census data gathered from 2007 to 2011. *Id.* at \*21. The updated census analysis, according to the court, controlled for variables such as education, age and occupation and found lower earnings and rates of business formation among women and minorities as compared to white men. *Id.*

Midwest attacked the Tollway’s 2006 study similar to how it attacked the other studies with regard to IDOT’s DBE Program. *Id.* at \*21. For example, Midwest attacked the 2006 study as being biased because it failed to take into account capacity in determining the disparities. *Id.* at \*21. The Tollway defended the 2006 study arguing that capacity metrics should not be taken into account because the Tollway asserted they are themselves a product of indirect discrimination, the construction industry is elastic in nature, and that firms can easily ramp up or ratchet down to accommodate the size of a project. *Id.* The Tollway also argued that the “economy-wide analysis” revealed a negative correlation between an individual’s race and sex and their earning power and ability to own or form a business, showing that the underutilization of DBEs is consistent with discrimination. *Id.* at \*21.

To successfully rebut the Tollway’s evidence of discrimination, the court stated that Midwest must come forward with a neutral explanation for the disparity, show that the Tollway’s statistics are flawed, demonstrate that the observed disparities are insignificant, or present contrasting data of its own. *Id.* at \*22. Again, the court found that Midwest failed to make this showing, and that the evidence offered through the expert reports for Midwest was far too speculative to create a disputed issue of fact suitable for trial. *Id.* at \*22. Accordingly, the court found the Tollway Defendants established a strong basis in evidence for the Tollway Program. *Id.*

**Tollway Program is narrowly tailored.** As to determining whether the Tollway Program is narrowly tailored, Midwest also argued that the Tollway Program imposed an undue burden on non-DBE subcontractors. Like IDOT, the Tollway sets individual contract goals as a percentage of the value of the entire contract based on the availability of DBEs to perform particular line items. *Id.* at \*22.

The court reiterated that setting goals as a percentage of total contract dollars does not demonstrate an undue burden on non-DBE subcontractors, and that the Tollway's method of goal setting is identical to that prescribed by the federal regulations, which the court already found to be supported by strong policy reasons. *Id.* at \*22. The court stated that the sharing of a remedial program's burden is itself insufficient to warrant the conclusion that the program is not narrowly tailored. *Id.* at \*22. The court held the Tollway Program's burden on non-DBE subcontractors to be permissible. *Id.*

In addressing the efficacy of race-neutral measures, the court found the Tollway implemented race-neutral programs to increase DBE participation, including a program that allows smaller contracts to be unbundled from larger ones, a Small Business Initiative that sets aside contracts for small businesses on a race-neutral basis, partnerships with agencies that provide support services to small businesses, and other programs designed to make it easier for smaller contractors to do business with the Tollway in general. *Id.* at \*22. The court held the Tollway's race-neutral measures are consistent with those suggested under the federal regulations and found that the availability of these programs, which mirror IDOT's, demonstrates serious, good faith consideration of workable race-neutral alternatives. *Id.* at \*22.

In considering the issue of flexibility, the court found the Tollway Program, like the Federal DBE Program, provides for waivers where prime contractors are unable to meet DBE participation goals, but have made good faith efforts to do so. *Id.* at \*23. Like IDOT, the court said the Tollway adheres to the federal regulations in determining whether a bidder has made good faith efforts. *Id.* As under the Federal DBE Program, the Tollway Program also allows bidders who have been denied waivers to appeal. *Id.*

From 2006 to 2011, the court stated, the Tollway granted waivers on approximately 20 percent of the 200 prime construction contracts it awarded. *Id.* Because the Tollway demonstrated that waivers are available, routinely granted, and awarded or denied based on guidance found in the federal regulations, the court found the Tollway Program sufficiently flexible. *Id.* at \*23.

Midwest presented no affirmative evidence. The court held the Tollway Defendants provided a strong basis in evidence for their DBE Program, whereas Midwest, did not come forward with any concrete, affirmative evidence to shake this foundation. *Id.* at \*23. The court thus held the Tollway Program was narrowly tailored and granted the Tollway Defendants' motion for summary judgment.

**8. Dunnet Bay Construction Company v. Gary Hannig, in its official capacity as Secretary of Transportation for the Illinois DOT and the Illinois DOT, 2014 WL 552213 (C.D. Ill. 2014), affirmed Dunnet Bay Construction Co. v. Borggren, Illinois DOT, et al., 799 F.3d 676, 2015 WL 4934560 (7th Cir. 2015).**

In *Dunnet Bay Construction Company v. Gary Hannig, in its official capacity as Secretary of the Illinois DOT and the Illinois DOT*, 2014 WL 552213 (C.D. Ill. Feb. 12, 2014), plaintiff Dunnet Bay Construction Company brought a lawsuit against the Illinois Department of Transportation (IDOT) and the Secretary of IDOT in his official capacity challenging the IDOT DBE Program and its implementation of the Federal DBE Program, including an alleged unwritten “no waiver” policy, and claiming that the IDOT’s program is not narrowly tailored.

**Motion to Dismiss certain claims granted.** IDOT initially filed a Motion to Dismiss certain Counts of the Complaint. The United States District Court granted the Motion to Dismiss Counts I, II and III against IDOT primarily based on the defense of immunity under the Eleventh Amendment to the United States Constitution. The Opinion held that claims in Counts I and II against Secretary Hannig of IDOT in his official capacity remained in the case.

In addition, the other Counts of the Complaint that remained in the case not subject to the Motion to Dismiss, sought declaratory and injunctive relief and damages based on the challenge to the IDOT DBE Program and its application by IDOT. Plaintiff Dunnet Bay alleged the IDOT DBE Program is unconstitutional based on the unwritten no-waiver policy, requiring Dunnet Bay to meet DBE goals and denying Dunnet Bay a waiver of the goals despite its good faith efforts, and based on other allegations. Dunnet Bay sought a declaratory judgment that IDOT’s DBE program discriminates on the basis of race in the award of federal-aid highway construction contracts in Illinois.

**Motions for Summary Judgment.** Subsequent to the Court’s Order granting the partial Motion to Dismiss, Dunnet Bay filed a Motion for Summary Judgment, asserting that IDOT had departed from the federal regulations implementing the Federal DBE Program, that IDOT’s implementation of the Federal DBE Program was not narrowly tailored to further a compelling governmental interest, and that therefore, the actions of IDOT could not withstand strict scrutiny. 2014 WL 552213 at \* 1. IDOT also filed a Motion for Summary Judgment, alleging that all applicable guidelines from the federal regulations were followed with respect to the IDOT DBE Program, and because IDOT is federally mandated and did not abuse its federal authority, IDOT’s DBE Program is not subject to attack. *Id.*

IDOT further asserted in its Motion for Summary Judgment that there is no Equal Protection violation, claiming that neither the rejection of the bid by Dunnet Bay, nor the decision to re-bid the project, was based upon Dunnet Bay’s race. IDOT also asserted that, because Dunnet Bay was relying on the rights of others and was not denied equal opportunity to compete for government contracts, Dunnet Bay lacked standing to bring a claim for racial discrimination.

**Factual background.** Plaintiff Dunnet Bay Construction Company is owned by two white males and is engaged in the business of general highway construction. It has been qualified to work on IDOT highway construction projects. In accordance with the federal regulations, IDOT prepared and submitted to the USDOT for approval a DBE Program governing federally funded highway construction contracts. For fiscal year 2010, IDOT established an overall aspirational DBE goal of

22.77 percent for DBE participation, and it projected that 4.12 percent of the overall goal could be met through race neutral measures and the remaining 18.65 percent would require the use of race-conscious goals. 2014 WL 552213 at \*3. IDOT normally achieved somewhere between 10 and 14 percent participation by DBEs. *Id.* The overall aspirational goal was based upon a statewide disparity study conducted on behalf of IDOT in 2004.

Utilization goals under the IDOT DBE Program Document are determined based upon an assessment for the type of work, location of the work, and the availability of DBE companies to do a part of the work. *Id.* at \*4. Each pay item for a proposed contract is analyzed to determine if there are at least two ready, willing and able DBEs to perform the pay item. *Id.* The capacity of the DBEs, their willingness to perform the work in the particular district, and their possession of the necessary workforce and equipment are also factors in the overall determination. *Id.*

Initially, IDOT calculated the DBE goal for the Eisenhower Project to be 8 percent. When goals were first set on the Eisenhower Project, taking into account every item listed for work, the maximum potential goal for DBE participation for the Eisenhower Project was 20.3 percent. Eventually, an overall goal of approximately 22 percent was set. *Id.* at \*4.

At the bid opening, Dunnet Bay's bid was the lowest received by IDOT. Its low bid was over IDOT's estimate for the project. Dunnet Bay, in its bid, identified 8.2 percent of its bid for DBEs. The second low bidder projected DBE participation of 22 percent. Dunnet Bay's DBE participation bid did not meet the percentage participation in the bid documents, and thus IDOT considered Dunnet Bay's good faith efforts to meet the DBE goal. IDOT rejected Dunnet Bay's bid determining that Dunnet Bay had not demonstrated a good faith effort to meet the DBE goal. *Id.* at \*9.

The Court found that although it was the low bidder for the construction project, Dunnet Bay did not meet the goal for participation of DBEs despite its alleged good faith efforts. IDOT contended it followed all applicable guidelines in handling the DBE Program, and that because it did not abuse its federal authority in administering the Program, the IDOT DBE Program is not subject to attack. *Id.* at \*23. IDOT further asserted that neither rejection of Dunnet Bay's bid nor the decision to re-bid the Project was based on its race or that of its owners, and that Dunnet Bay lacked standing to bring a claim for racial discrimination on behalf of others (i.e., small businesses operated by white males). *Id.* at \*23.

The Court found that the federal regulations recommend a number of non-mandatory, non-exclusive and non-exhaustive actions when considering a bidder's good faith efforts to obtain DBE participation. *Id.* at \*25. The federal regulations also provide the state DOT may consider the ability of other bidders to meet the goal. *Id.*

**IDOT implementing the Federal DBE Program is acting as an agent of the federal government insulated from constitutional attack absent showing the state exceeded federal authority.** The Court held that a state entity such as IDOT implementing a congressionally mandated program may rely "on the federal government's compelling interest in remedying the effects of past discrimination in the national construction market." *Id.* at \*26, quoting *Northern Contracting Co., Inc. v. Illinois*, 473 F.3d 715 at 720-21 (7th Cir. 2007). In these instances, the Court stated, the state is acting as an agent of the federal government and is "insulated from this sort of constitutional attack, absent a showing that the state exceeded its federal authority." *Id.* at \*26, quoting *Northern Contracting, Inc.*, 473 F.3d at 721.

The Court held that accordingly, any “challenge to a state’s application of a federally mandated program must be limited to the question of whether the state exceeded its authority.” *Id.* at \*26, quoting *Northern Contracting, Inc.*, 473 F.3d at 722. Therefore, the Court identified the key issue as determining if IDOT exceeded its authority granted under the federal rules or if Dunnet Bay’s challenges are foreclosed by *Northern Contracting*. *Id.* at \*26.

The Court found that IDOT did in fact employ a thorough process before arriving at the 22 percent DBE participation goal for the Eisenhower Project. *Id.* at \*26. The Court also concluded “because the federal regulations do not specify a procedure for arriving at contract goals, it is not apparent how IDOT could have exceeded its federal authority. Any challenge on this factor fails under *Northern Contracting*.” *Id.* at \*26. Therefore, the Court concluded there is no basis for finding that the DBE goal was arbitrarily set or that IDOT exceeded its federal authority with respect to this factor. *Id.* at \*27.

**The “no-waiver” policy.** The Court held that there was not a no-waiver policy considering all the testimony and factual evidence. In particular, the Court pointed out that a waiver was in fact granted in connection with the same bid letting at issue in this case. *Id.* at \*27. The Court found that IDOT granted a waiver of the DBE participation goal for another construction contractor on a different contract, but under the same bid letting involved in this matter. *Id.*

Thus, the Court held that Dunnet Bay’s assertion that IDOT adopted a “no-waiver” policy was unsupported and contrary to the record evidence. *Id.* at \*27. The Court found the undisputed facts established that IDOT did not have a “no-waiver” policy, and that IDOT did not exceed its federal authority because it did not adopt a “no-waiver” policy. *Id.* Therefore, the Court again concluded that any challenge by Dunnet Bay on this factor failed pursuant to the *Northern Contracting* decision.

**IDOT’s decision to reject Dunnet Bay’s bid based on lack of good faith efforts did not exceed IDOT’s authority under federal law.** The Court found that IDOT has significant discretion under federal regulations and is often called upon to make a “judgment call” regarding the efforts of the bidder in terms of establishing good faith attempt to meet the DBE goals. *Id.* at \*28. The Court stated it was unable to conclude that IDOT erred in determining Dunnet Bay did not make adequate good faith efforts. *Id.* The Court surmised that the strongest evidence that Dunnet Bay did not take all necessary and reasonable steps to achieve the DBE goal is that its DBE participation was under 9 percent while other bidders were able to reach the 22 percent goal. *Id.* Accordingly, the Court concluded that IDOT’s decision rejecting Dunnet Bay’s bid was consistent with the regulations and did not exceed IDOT’s authority under the federal regulations. *Id.*

The Court also rejected Dunnet Bay’s argument that IDOT failed to provide Dunnet Bay with a written explanation as to why its good faith efforts were not sufficient, and thus there were deficiencies with the reconsideration of Dunnet Bay’s bid and efforts as required by the federal regulations. *Id.* at \*29. The Court found it was unable to conclude that a technical violation such as to provide Dunnet Bay with a written explanation will provide any relief to Dunnet Bay. *Id.* Additionally, the Court found that because IDOT rebid the project, Dunnet Bay was not prejudiced by any deficiencies with the reconsideration. *Id.*



The Court emphasized that because of the decision to rebid the project, IDOT was not even required to hold a reconsideration hearing. *Id.* at \*24. Because the decision on reconsideration as to good faith efforts did not exceed IDOT's authority under federal law, the Court held Dunnet Bay's claim failed under the *Northern Contracting* decision. *Id.*

**Dunnet Bay lacked standing to raise an equal protection claim.** The Court found that Dunnet Bay was not disadvantaged in its ability to compete against a racially favored business, and neither IDOT's rejection of Dunnet Bay's bid nor the decision to rebid was based on the race of Dunnet Bay's owners or any class-based animus. *Id.* at \*29. The Court stated that Dunnet Bay did not point to any other business that was given a competitive advantage because of the DBE goals. *Id.* Dunnet Bay did not cite any cases which involve plaintiffs that are similarly situated to it — businesses that are not at a competitive disadvantage against minority-owned companies or DBEs — and have been determined to have standing. *Id.* at \*30.

The Court concluded that any company similarly situated to Dunnet Bay had to meet the same DBE goal under the contract. *Id.* Dunnet Bay, the Court held, was not at a competitive disadvantage and/or unable to compete equally with those given preferential treatment. *Id.*

Dunnet Bay did not point to another contractor that did not have to meet the same requirements it did. The Court thus concluded that Dunnet Bay lacked standing to raise an equal protection challenge because it had not suffered a particularized injury that was caused by IDOT. *Id.* at \*30. Dunnet Bay was not deprived of the ability to compete on an equal basis. *Id.* Also, based on the amount of its profits, Dunnet Bay did not qualify as a small business, and therefore, it lacked standing to vindicate the rights of a hypothetical white-owned small business. *Id.* at \*30. Because the Court found that Dunnet Bay was not denied the ability to compete on an equal footing in bidding on the contract, Dunnet Bay lacked standing to challenge the DBE Program based on the Equal Protection Clause. *Id.* at \*30.

**Dunnet Bay did not establish equal protection violation even if it had standing.** The Court held that even if Dunnet Bay had standing to bring an equal protection claim, IDOT still is entitled to summary judgment. The Court stated the Supreme Court has held that the "injury in fact" in an equal protection case challenging a DBE Program is the denial of equal treatment resulting from the imposition of the barrier, not the ultimate inability to obtain the benefit. *Id.* at \*31. Dunnet Bay, the Court said, implied that but for the alleged "no-waiver" policy and DBE goals which were not narrowly tailored to address discrimination, it would have been awarded the contract. The Court again noted the record established that IDOT did not have a "no-waiver" policy. *Id.* at \*31.

The Court also found that because the gravamen of equal protection lies not in the fact of deprivation of a right but in the invidious classification of persons, it does not appear Dunnet Bay can assert a viable claim. *Id.* at \*31. The Court stated it is unaware of any authority which suggests that Dunnet Bay can establish an equal protection violation even if it could show that IDOT failed to comply with the regulations relating to the DBE Program. *Id.* The Court said that even if IDOT did employ a "no-waiver policy," such a policy would not constitute an equal protection violation because the federal regulations do not confer specific entitlements upon any individuals. *Id.* at \*31.

In order to support an equal protection claim, the plaintiff would have to establish it was treated less favorably than another entity with which it was similarly situated in all material respects. *Id.* at \*51. Based on the record, the Court stated it could only speculate whether Dunnet Bay or another entity would have been awarded a contract without IDOT's DBE Program. But the Court found it need not speculate as to whether Dunnet Bay or another company would have been awarded the contract, because what is important for equal protection analysis is that Dunnet Bay was treated the same as other bidders. *Id.* at \*31. Every bidder had to meet the same percentage goal for subcontracting to DBEs or make good faith efforts. *Id.* Because Dunnet Bay was held to the same standards as every other bidder, it cannot establish it was the victim of discrimination pursuant to the Equal Protection Clause. *Id.* Therefore, IDOT, the Court held, is entitled to summary judgment on Dunnet Bay's claims under the Equal Protection Clause and under Title VI.

**Conclusion.** The Court concluded IDOT is entitled to summary judgment, holding Dunnet Bay lacked standing to raise an equal protection challenge based on race, and that even if Dunnet Bay had standing, Dunnet Bay was unable to show that it would have been awarded the contract in the absence of any violation. *Id.* at \*32. Any other federal claims, the Court held, were foreclosed by the *Northern Contracting* decision because there is no evidence IDOT exceeded its authority under federal law. *Id.* Finally, the Court found Dunnet Bay had not established the likelihood of future harm, and thus was not entitled to injunctive relief.

#### **9. Geyer Signal, Inc. v. Minnesota, DOT, 2014 WL 1309092 (D. Minn. March 31, 2014)**

In *Geyer Signal, Inc., et al. v. Minnesota DOT, USDOT, Federal Highway Administration, et al.*, Case No. 11-CV-321, United States District Court for the District Court of Minnesota, the plaintiffs Geyer Signal, Inc. and its owner filed this lawsuit against the Minnesota DOT (MnDOT) seeking a permanent injunction against enforcement and a declaration of unconstitutionality of the Federal DBE Program and Minnesota DOT's implementation of the DBE Program on its face and as applied. Geyer Signal sought an injunction against the Minnesota DOT prohibiting it from enforcing the DBE Program or, alternatively, from implementing the Program improperly; a declaratory judgment declaring that the DBE Program violates the Equal protection element of the Fifth Amendment of the United States Constitution and/or the Equal Protection clause of the Fourteenth Amendment to the United States Constitution and is unconstitutional, or, in the alternative that Minnesota DOT's implementation of the Program is an unconstitutional violation of the Equal Protection Clause, and/or that the Program is void for vagueness; and other relief.

**Procedural background.** Plaintiff Geyer Signal is a small, family-owned business that performs traffic control work generally on road construction projects. Geyer Signal is a firm owned by a Caucasian male, who also is a named plaintiff.

Subsequent to the lawsuit filed by Geyer Signal, the USDOT and the Federal Highway Administration filed their Motion to permit them to intervene as defendants in this case. The Federal Defendant-Intervenors requested intervention on the case in order to defend the constitutionality of the Federal DBE Program and the federal regulations at issue. The Federal Defendant-Intervenors and the plaintiffs filed a Stipulation that the Federal Defendant-Intervenors have the right to intervene and should be permitted to intervene in the matter, and consequently the plaintiffs did not contest the Federal Defendant-Intervenor's Motion for Intervention. The Court issued an Order that the Stipulation of Intervention, agreeing that the Federal Defendant-Intervenors may intervene in

this lawsuit, be approved and that the Federal Defendant-Intervenors are permitted to intervene in this case.

The Federal Defendants moved for summary judgment and the State defendants moved to dismiss, or in the alternative for summary judgment, arguing that the DBE Program on its face and as implemented by MnDOT is constitutional. The Court concluded that the plaintiffs, Geyer Signal and its white male owner, Kevin Kissner, raised no genuine issue of material fact with respect to the constitutionality of the DBE Program facially or as applied. Therefore, the Court granted the Federal Defendants and the State defendants' motions for summary judgment in their entirety.

Plaintiffs alleged that there is insufficient evidence of a compelling governmental interest to support a race-based program for DBE use in the fields of traffic control or landscaping. (2014 WL 1309092 at \*10) Additionally, plaintiffs alleged that the DBE Program is not narrowly tailored because it (1) treats the construction industry as monolithic, leading to an overconcentration of DBE participation in the areas of traffic signal and landscaping work; (2) allows recipients to set contract goals; and (3) sets goals based on the number of DBEs there are, not the amount of work those DBEs can actually perform. *Id.* \*10. Plaintiffs also alleged that the DBE Program is unconstitutionally vague because it allows prime contractors to use bids from DBEs that are higher than the bids of non-DBEs, provided the increase in price is not unreasonable, without defining what increased costs are "reasonable." *Id.*

**Constitutional claims.** The Court states that the "heart of plaintiffs' claims is that the DBE Program and MnDOT's implementation of it are unconstitutional because the impact of curing discrimination in the construction industry is overconcentrated in particular sub-categories of work." *Id.* at \*11. The Court noted that because DBEs are, by definition, small businesses, plaintiffs contend they "simply cannot perform the vast majority of the types of work required for federally-funded MnDOT projects because they lack the financial resources and equipment necessary to conduct such work. *Id.*

As a result, plaintiffs claimed that DBEs only compete in certain small areas of MnDOT work, such as traffic control, trucking, and supply, but the DBE goals that prime contractors must meet are spread out over the entire contract. *Id.* Plaintiffs asserted that prime contractors are forced to disproportionately use DBEs in those small areas of work, and that non-DBEs in those areas of work are forced to bear the entire burden of "correcting discrimination," while the vast majority of non-DBEs in MnDOT contracting have essentially no DBE competition. *Id.*

Plaintiffs therefore argued that the DBE Program is not narrowly tailored because it means that any DBE goals are only being met through a few areas of work on construction projects, which burden non-DBEs in those sectors and do not alleviate any problems in other sectors. *Id.* at #11.

Plaintiffs brought two facial challenges to the Federal DBE Program. *Id.* Plaintiffs allege that the DBE Program is facially unconstitutional because it is "fatally prone to overconcentration" where DBE goals are met disproportionately in areas of work that require little overhead and capital. *Id.* at 11. Second, plaintiffs alleged that the DBE Program is unconstitutionally vague because it requires prime contractors to accept DBE bids even if the DBE bids are higher than those from non-DBEs, provided the increased cost is "reasonable" without defining a reasonable increase in cost. *Id.*

Plaintiffs also brought three as-applied challenges based on MnDOT's implementation of the DBE Program. *Id.* at 12. First, plaintiffs contended that MnDOT has unconstitutionally applied the DBE Program to its contracting because there is no evidence of discrimination against DBEs in government contracting in Minnesota. *Id.* Second, they contended that MnDOT has set impermissibly high goals for DBE participation. Finally, plaintiffs argued that to the extent the DBE Federal Program allows MnDOT to correct for overconcentration, it has failed to do so, rendering its implementation of the Program unconstitutional. *Id.*

**Strict scrutiny.** It is undisputed that strict scrutiny applied to the Court's evaluation of the Federal DBE Program, whether the challenge is facial or as - applied. *Id.* at \*12. Under strict scrutiny, a "statute's race-based measures 'are constitutional only if they are narrowly tailored to further compelling governmental interests.'" *Id.* at \*12, quoting *Grutter v. Bollinger*, 539 U.S. 306, 326 (2003).

The Court notes that the DBE Program also contains a gender conscious provision, a classification the Court says that would be subject to intermediate scrutiny. *Id.* at \*12, at n.4. Because race is also used by the Federal DBE Program, however, the Program must ultimately meet strict scrutiny, and the Court therefore analyzes the entire Program for its compliance with strict scrutiny. *Id.*

**Facial challenge based on overconcentration.** The Court says that in order to prevail on a facial challenge, the plaintiff must establish that no set of circumstances exist under which the Federal DBE Program would be valid. *Id.* at \*12. The Court states that plaintiffs bear the ultimate burden to prove that the DBE Program is unconstitutional. *Id.* at \*.

**Compelling governmental interest.** The Court points out that the Eighth Circuit Court of Appeals has already held the federal government has a compelling interest in not perpetuating the effects of racial discrimination in its own distribution of federal funds and in remediating the effects of past discrimination in the government contracting markets created by its disbursements. *Id.* \*13, quoting *Adarand Constructors, Inc. v. Slater*, 228 F.3d 1147, 1165 (10th Cir. 2000). The plaintiffs did not dispute that remedying discrimination in federal transportation contracting is a compelling governmental interest. *Id.* at \*13. In accessing the evidence offered in support of a finding of discrimination, the Court concluded that defendants have articulated a compelling interest underlying enactment of the DBE Program. *Id.*

Second, the Court states that the government must demonstrate a strong basis in the evidence supporting its conclusion that race-based remedial action was necessary to further the compelling interest. *Id.* at \*13. In assessing the evidence offered in support of a finding of discrimination, the Court considers both direct and circumstantial evidence, including post-enactment evidence introduced by defendants as well as the evidence in the legislative history itself. *Id.* The party challenging the constitutionality of the DBE Program bears the burden of demonstrating that the government's evidence did not support an inference of prior discrimination. *Id.*

**Congressional evidence of discrimination: disparity studies and barriers.** Plaintiffs argued that the evidence relied upon by Congress in reauthorizing the DBE Program is insufficient and generally critique the reports, studies, and evidence from the Congressional record produced by the Federal Defendants. *Id.* at \*13. But the Court found that plaintiffs did not raise any specific issues with respect to the Federal Defendants' proffered evidence of discrimination. *Id.* \*14. Plaintiffs had argued that no party could ever afford to retain an expert to analyze the numerous studies submitted as

evidence by the Federal Defendants and find all of the flaws. *Id.* \*14. Federal Defendants had proffered disparity studies from throughout the United States over a period of years in support of the Federal DBE Program. *Id.* at \*14. Based on these studies, the Federal Defendants' consultant concluded that minorities and women formed businesses at disproportionately lower rates and their businesses earn statistically less than businesses owned by men or non-minorities. *Id.* at \*6.

The Federal Defendants' consultant also described studies supporting the conclusion that there is credit discrimination against minority- and women-owned businesses, concluded that there is a consistent and statistically significant underutilization of minority- and women-owned businesses in public contracting, and specifically found that discrimination existed in MnDOT contracting when no race-conscious efforts were utilized. *Id.* \*6. The Court notes that Congress had considered a plethora of evidence documenting the continued presence of discrimination in transportation projects utilizing Federal dollars. *Id.* at \*5.

The Court concluded that neither of the plaintiffs' contentions established that Congress lacked a substantial basis in the evidence to support its conclusion that race-based remedial action was necessary to address discrimination in public construction contracting. *Id.* at \*14. The Court rejected plaintiffs' argument that because Congress found multiple forms of discrimination against minority- and women-owned business, that evidence showed Congress failed to also find that such businesses specifically face discrimination in public contracting, or that such discrimination is not relevant to the effect that discrimination has on public contracting. *Id.*

The Court referenced the decision in *Adarand Constructors, Inc.* 228 F.3d at 1175-1176. In *Adarand*, the Court found evidence relevant to Congressional enactment of the DBE Program to include that both race-based barriers to entry and the ongoing race-based impediments to success faced by minority subcontracting enterprises are caused either by continuing discrimination or the lingering effects of past discrimination on the relevant market. *Id.* at \*14.

The Court, citing again with approval the decision in *Adarand Constructors, Inc.*, found the evidence presented by the federal government demonstrates the existence of two kinds of discriminatory barriers to minority subcontracting enterprises, both of which show a strong link between racial disparities in the federal government's disbursements of public funds for construction contracts and the channeling of those funds due to private discrimination. *Id.* at \*14, quoting, *Adarand Constructors, Inc.* 228 F.3d at 1167-68. The first discriminatory barriers are to the formation of qualified minority subcontracting enterprises due to private discrimination. *Id.* The second discriminatory barriers are to fair competition between minority and non-minority subcontracting enterprises, again due to private discrimination. *Id.* Both kinds of discriminatory barriers preclude existing minority firms from effectively competing for public construction contracts. *Id.*

Accordingly, the Court found that Congress' consideration of discriminatory barriers to entry for DBEs as well as discrimination in existing public contracting establish a strong basis in the evidence for reauthorization of the Federal DBE Program. *Id.* at \*14.

**Court rejects Plaintiffs' general critique of evidence as failing to meet their burden of proof.** The Court held that plaintiffs' general critique of the methodology of the studies relied upon by the Federal Defendants is similarly insufficient to demonstrate that Congress lacked a substantial basis in the evidence. *Id.* at \*14. The Court stated that the Eighth Circuit Court of Appeals has already

rejected plaintiffs' argument that Congress was required to find specific evidence of discrimination in Minnesota in order to enact the national Program. *Id.* at \*14.

Finally, the Court pointed out that plaintiffs have failed to present affirmative evidence that no remedial action was necessary because minority-owned small businesses enjoy non-discriminatory access to and participation in highway contracts. *Id.* at \*15. Thus, the Court concluded that plaintiffs failed to meet their ultimate burden to prove that the Federal DBE Program is unconstitutional on this ground. *Id.* at \*15, quoting *Sherbrooke Turf, Inc.*, 345 F.3d at 971–73.

Therefore, the Court held that plaintiffs did not meet their burden of raising a genuine issue of material fact as to whether the government met its evidentiary burden in reauthorizing the DBE Federal Program, and granted summary judgment in favor of the Federal Defendants with respect to the government's compelling interest. *Id.* at \*15.

**Narrowly tailored.** The Court states that several factors are examined in determining whether race-conscious remedies are narrowly tailored, and that numerous Federal Courts have already concluded that the DBE Federal Program is narrowly tailored. *Id.* at \*15. Plaintiffs in this case did not dispute the various aspects of the Federal DBE Program that courts have previously found to demonstrate narrowly tailoring. *Id.* Instead, plaintiffs argue only that the Federal DBE Program is not narrowly tailored on its face because of overconcentration.

**Overconcentration.** Plaintiffs argued that if the recipients of federal funds use overall industry participation of minorities to set goals, yet limit actual DBE participation to only defined small businesses that are limited in the work they can perform, there is no way to avoid overconcentration of DBE participation in a few, limited areas of MnDOT work. *Id.* at \*15. Plaintiffs asserted that small businesses cannot perform most of the types of work needed or necessary for large highway projects, and if they had the capital to do it, they would not be small businesses. *Id.* at \*16. Therefore, plaintiffs argued the DBE Program will always be overconcentrated. *Id.*

The Court states that in order for plaintiffs to prevail on this facial challenge, plaintiffs must establish that the overconcentration it identifies is unconstitutional, and that there are no circumstances under which the Federal DBE Program could be operated without overconcentration. *Id.* The Court concludes that plaintiffs' claim fails on the basis that there are circumstances under which the Federal DBE Program could be operated without overconcentration. *Id.*

First, the Court found that plaintiffs fail to establish that the DBE Program goals will always be fulfilled in a manner that creates overconcentration, because they misapprehend the nature of the goal setting mandated by the DBE Program. *Id.* at \*16. The Court states that recipients set goals for DBE participation based on evidence of the availability of ready, willing and able DBEs to participate on DOT-assisted contracts. *Id.* The DBE Program, according to the Court, necessarily takes into account, when determining goals, that there are certain types of work that DBEs may never be able to perform because of the capital requirements. *Id.* In other words, if there is a type of work that no DBE can perform, there will be no demonstrable evidence of the availability of ready, willing and able DBEs in that type of work, and those non-existent DBEs will not be factored into the level of DBE participation that a locality would expect absent the effects of discrimination. *Id.*

Second, the Court found that even if the DBE Program could have the incidental effect of overconcentration in particular areas, the DBE Program facially provides ample mechanisms for a recipient of federal funds to address such a problem. *Id.* at \*16. The Court notes that a recipient retains substantial flexibility in setting individual contract goals and specifically may consider the type of work involved, the location of the work, and the availability of DBEs for the work of the particular contract. *Id.* If overconcentration presents itself as a problem, the Court points out that a recipient can alter contract goals to focus less on contracts that require work in an already overconcentrated area and instead involve other types of work where overconcentration of DBEs is not present. *Id.*

The federal regulations also require contractors to engage in good faith efforts that require breaking out the contract work items into economically feasible units to facilitate DBE participation. *Id.* Therefore, the Court found, the regulations anticipate the possible issue identified by plaintiffs and require prime contractors to subdivide projects that would otherwise typically require more capital or equipment than a single DBE can acquire. *Id.* Also, the Court, states that recipients may obtain waivers of the DBE Program’s provisions pertaining to overall goals, contract goals, or good faith efforts, if, for example, local conditions of overconcentration threaten operation of the DBE Program. *Id.*

The Court also rejects plaintiffs claim that 49 CFR § 26.45(h), which provides that recipients are not allowed to subdivide their annual goals into “group-specific goals,” but rather must provide for participation by all certified DBEs, as evidence that the DBE Program leads to overconcentration. *Id.* at \*16. The Court notes that other courts have interpreted this provision to mean that recipients cannot apportion its DBE goal among different minority groups, and therefore the provision does not appear to prohibit recipients from identifying particular overconcentrated areas and remedying overconcentration in those areas. *Id.* at \*16. And, even if the provision operated as plaintiffs suggested, that provision is subject to waiver and does not affect a recipient’s ability to tailor specific contract goals to combat overconcentration. *Id.* at \*16, n. 5.

The Court states with respect to overconcentration specifically, the federal regulations provide that recipients may use incentives, technical assistance, business development programs, mentor-protégé programs, and other appropriate measures designed to assist DBEs in performing work outside of the specific field in which the recipient has determined that non-DBEs are unduly burdened. *Id.* at \*17. All of these measures could be used by recipients to shift DBEs from areas in which they are overconcentrated to other areas of work. *Id.* at \*17.

Therefore, the Court held that because the DBE Program provides numerous avenues for recipients of federal funds to combat overconcentration, the Court concluded that plaintiffs’ facial challenge to the Program fails, and granted the Federal Defendants’ motion for summary judgment. *Id.*

**C. Facial challenged based on vagueness.** The Court held that plaintiffs could not maintain a facial challenge against the Federal DBE Program for vagueness, as their constitutional challenges to the Program are not based in the First Amendment. *Id.* at \*17. The Court states that the Eighth Circuit Court of Appeals has held that courts need not consider facial vagueness challenges based upon constitutional grounds other than the First Amendment. *Id.*

The Court thus granted Federal Defendants’ motion for summary judgment with respect to plaintiffs’ facial claim for vagueness based on the allegation that the Federal DBE Program does not define “reasonable” for purposes of when a prime contractor is entitled to reject a DBEs’ bid on the basis of price alone. *Id.*

**As-Applied Challenges to MnDOT’s DBE Program: MnDOT’s program held narrowly tailored.**

Plaintiffs brought three as-applied challenges against MnDOT’s implementation of the Federal DBE Program, alleging that MnDOT has failed to support its implementation of the Program with evidence of discrimination in its contracting, sets inappropriate goals for DBE participation, and has failed to respond to overconcentration in the traffic control industry. *Id.* at \*17.

**Alleged failure to find evidence of discrimination.** The Court held that a state’s implementation of the Federal DBE Program must be narrowly tailored. *Id.* at \*18. To show that a state has violated the narrow tailoring requirement of the Federal DBE Program, the Court says a challenger must demonstrate that “better data was available” and the recipient of federal funds “was otherwise unreasonable in undertaking [its] thorough analysis and in relying on its results.” *Id.*, quoting *Sherbrooke Turf, Inc.* at 973.

Plaintiffs’ expert critiqued the statistical methods used and conclusions drawn by the consultant for MnDOT in finding that discrimination against DBEs exists in MnDOT contracting sufficient to support operation of the DBE Program. *Id.* at \*18. Plaintiffs’ expert also critiqued the measures of DBE availability employed by the MnDOT consultant and the fact he measured discrimination in both prime and subcontracting markets, instead of solely in subcontracting markets. *Id.*

**Plaintiffs present no affirmative evidence that discrimination does not exist.** The Court held that plaintiffs’ disputes with MnDOT’s conclusion that discrimination exists in public contracting are insufficient to establish that MnDOT’s implementation of the Federal DBE Program is not narrowly tailored. *Id.* at \*18. First, the Court found that it is insufficient to show that “data was susceptible to multiple interpretations,” instead, plaintiffs must “present affirmative evidence that no remedial action was necessary because minority-owned small businesses enjoy non-discriminatory access to and participation in highway contracts.” *Id.* at \*18, quoting *Sherbrooke Turf, Inc.*, 345 F.3d at 970. Here, the Court found, plaintiffs’ expert has not presented affirmative evidence upon which the Court could conclude that no discrimination exists in Minnesota’s public contracting. *Id.* at \*18.

As for the measures of availability and measurement of discrimination in both prime and subcontracting markets, both of these practices are included in the federal regulations as part of the mechanisms for goal setting. *Id.* at \*18. The Court found that it would make little sense to separate prime contractor and subcontractor availability when DBEs will also compete for prime contracts and any success will be reflected in the recipient’s calculation of success in meeting the overall goal. *Id.* at \*18, quoting *Northern Contracting, Inc. v. Illinois*, 473 F.3d 715, 723 (7th Cir. 2007). Because these factors are part of the federal regulations defining state goal setting that the Eighth Circuit Court of Appeals has already approved in assessing MnDOT’s compliance with narrow tailoring in *Sherbrooke Turf*, the Court concluded these criticisms do not establish that MnDOT has violated the narrow tailoring requirement. *Id.* at \*18.



In addition, the Court held these criticisms fail to establish that MnDOT was unreasonable in undertaking its thorough analysis and relying on its results, and consequently do not show lack of narrow tailoring. *Id.* at \*18. Accordingly, the Court granted the State defendants' motion for summary judgment with respect to this claim.

**Alleged inappropriate goal setting.** Plaintiffs second challenge was to the aspirational goals MnDOT has set for DBE performance between 2009 and 2015. *Id.* at \*19. The Court found that the goal setting violations the plaintiffs alleged are not the types of violations that could reasonably be expected to recur. *Id.* Plaintiffs raised numerous arguments regarding the data and methodology used by MnDOT in setting its earlier goals. *Id.* But, plaintiffs did not dispute that every three years MnDOT conducts an entirely new analysis of discrimination in the relevant market and establishes new goals. *Id.* Therefore, disputes over the data collection and calculations used to support goals that are no longer in effect are moot. *Id.* Thus, the Court only considered plaintiffs' challenges to the 2013–2015 goals. *Id.*

Plaintiffs raised the same challenges to the 2013–2015 goals as it did to MnDOT's finding of discrimination, namely that the goals rely on multiple approaches to ascertain the availability of DBEs and rely on a measurement of discrimination that accounts for both prime and subcontracting markets. *Id.* at \*19. Because these challenges identify only a different interpretation of the data and do not establish that MnDOT was unreasonable in relying on the outcome of the consultants' studies, plaintiffs have failed to demonstrate a material issue of fact related to MnDOT's narrow tailoring as it relates to goal setting. *Id.*

**Alleged overconcentration in the traffic control market.** Plaintiffs' final argument was that MnDOT's implementation of the DBE Program violates the Equal Protection Clause because MnDOT has failed to find overconcentration in the traffic control market and correct for such overconcentration. *Id.* at \*20. MnDOT presented an expert report that reviewed four different industries into which plaintiffs' work falls based on NAICs codes that firms conducting traffic control-type work identify themselves by. *Id.* After conducting a disproportionality comparison, the consultant concluded that there was not statistically significant overconcentration of DBEs in plaintiffs' type of work.

Plaintiffs' expert found that there is overconcentration, but relied upon six other contractors that have previously bid on MnDOT contracts, which plaintiffs believe perform the same type of work as plaintiff. *Id.* at \*20. But the Court found plaintiffs have provided no authority for the proposition that the government must conform its implementation of the DBE Program to every individual business' self-assessment of what industry group they fall into and what other businesses are similar. *Id.*

The Court held that to require the State to respond to and adjust its calculations on account of such a challenge by a single business would place an impossible burden on the government because an individual business could always make an argument that some of the other entities in the work area the government has grouped it into are not alike. *Id.* at \*20. This, the Court states, would require the government to run endless iterations of overconcentration analyses to satisfy each business that non-DBEs are not being unduly burdened in its self-defined group, which would be quite burdensome. *Id.*

Because plaintiffs did not show that MnDOT's reliance on its overconcentration analysis using NAICs codes was unreasonable or that overconcentration exists in its type of work as defined by MnDOT, it has not established that MnDOT has violated narrow tailoring by failing to identify overconcentration or failing to address it. *Id.* at \*20. Therefore, the Court granted the State defendants' motion for summary judgment with respect to this claim.

**III. Claims Under 42 U.S.C. § 1981 and 42 U.S.C. § 2000.** Because the Court concluded that MnDOT's actions are in compliance with the Federal DBE Program, its adherence to that Program cannot constitute a basis for a violation of § 1981. *Id.* at \*21. In addition, because the Court concluded that plaintiffs failed to establish a violation of the Equal Protection Clause, it granted the defendants' motions for summary judgment on the 42 U.S.C. § 2000d claim.

**Holding.** Therefore, the Court granted the Federal Defendants' motion for summary judgment and the States' defendants' motion to dismiss/motion for summary judgment, and dismissed all the claims asserted by the plaintiffs.

**10. *Geod Corporation v. New Jersey Transit Corporation, et al.*, 746 F. Supp.2d 642, 2010 WL 4193051 (D. N. J. October 19, 2010)**

Plaintiffs, white male owners of Geod Corporation ("Geod"), brought this action against the New Jersey Transit Corporation ("NJT") alleging discriminatory practices by NJT in designing and implementing the Federal DBE Program. 746 F. Supp 2d at 644. The plaintiffs alleged that the NJT's DBE program violated the United States Constitution, 42 U.S.C. § 1981, Title VI of the Civil Rights Act of 1964, 42 U.S.C. § 2000(d) and state law. The district court previously dismissed the complaint against all Defendants except for NJT and concluded that a genuine issue material fact existed only as to whether the method used by NJT to determine its DBE goals during 2010 were sufficiently narrowly tailored, and thus constitutional. *Id.*

**New Jersey Transit Program and Disparity Study.** NJT relied on the analysis of consultants for the establishment of their goals for the DBE program. The study established the effects of past discrimination, the district court found, by looking at the disparity and utilization of DBEs compared to their availability in the market. *Id.* at 648. The study used several data sets and averaged the findings in order to calculate this ratio, including: (1) the New Jersey DBE vendor List; (2) a Survey of Minority-Owned Business Enterprises (SMOBE) and a Survey of Women-Owned Enterprises (SWOBE) as determined by the U.S. Census Bureau; and (3) detailed contract files for each racial group. *Id.*

The court found the study determined an average annual utilization of 23 percent for DBEs, and to examine past discrimination, several analyses were run to measure the disparity among DBEs by race. *Id.* at 648. The Study found that all but one category was underutilized among the racial and ethnic groups. *Id.* All groups other than Asian DBEs were found to be underutilized. *Id.*

The court held that the test utilized by the study, "conducted to establish a pattern of discrimination against DBEs, proved that discrimination occurred against DBEs during the pre-qualification process and in the number of contracts that are awarded to DBEs. *Id.* at 649. The court found that DBEs are more likely than non-DBEs to be pre-qualified for small construction contracts, but are less likely to pre-qualify for larger construction projects. *Id.*

For fiscal year 2010, the study consultant followed the “three-step process pursuant to USDOT regulations to establish the NJT DBE goal.” *Id.* at 649. First, the consultant determined “the base figure for the relative availability of DBEs in the specific industries and geographical market from which DBE and non-DBE contractors are drawn.” *Id.* In determining the base figure, the consultant (1) defined the geographic marketplace, (2) identified “the relevant industries in which NJ Transit contracts,” and (3) calculated “the weighted availability measure.” *Id.* at 649.

The court found that the study consultant used political jurisdictional methods and virtual methods to pinpoint the location of contracts and/or contractors for NJT, and determined that the geographical marketplace for NJT contracts included New Jersey, New York and Pennsylvania. *Id.* at 649. The consultant used contract files obtained from NJT and data obtained from Dun & Bradstreet to identify the industries with which NJT contracts in these geographical areas. *Id.* The consultant then used existing and estimated expenditures in these particular industries to determine weights corresponding to NJT contracting patterns in the different industries for use in the availability analysis. *Id.*

The availability of DBEs was calculated by using the following data: Unified Certification Program Business Directories for the states of New Jersey, New York and Pennsylvania; NJT Vendor List; Dun & Bradstreet database; 2002 Survey of Small Business Owners; and NJT Pre-Qualification List. *Id.* at 649-650. The availability rates were then “calculated by comparing the number of ready, willing and able minority and women-owned firms in the defined geographic marketplace to the total number of ready, willing and able firms in the same geographic marketplace. *Id.* The availability rates in each industry were weighed in accordance with NJT expenditures to determine a base figure. *Id.*

Second, the consultant adjusted the base figure due to evidence of discrimination against DBE prime contractors and disparities in small purchases and construction pre-qualification. *Id.* at 650. The discrimination analysis examined discrimination in small purchases, discrimination in pre-qualification, two regression analyses, an Essex County disparity study, market discrimination, and previous utilization. *Id.* at 650.

The Final Recommendations Report noted that there were sizeable differences in the small purchase awards to DBEs and non-DBEs with the awards to DBEs being significantly smaller. *Id.* at 650. DBEs were also found to be less likely to be pre-qualified for contracts over \$1 million in comparison to similarly situated non-DBEs. *Id.* The regression analysis using the dummy variable method yielded an average estimate of a discriminatory effect of -28.80 percent. *Id.* The discrimination regression analysis using the residual difference method showed that on average 12.2 percent of the contract amount disparity awarded to DBEs and non-DBEs was unexplained. *Id.*

The consultant also considered evidence of discrimination in the local market in accordance with 49 CFR § 26.45(d). The Final Recommendations Report cited in the 2005 Essex County Disparity Study suggested that discrimination in the labor market contributed to the unexplained portion of the self-employment, employment, unemployment, and wage gaps in Essex County, New Jersey. *Id.* at 650.

The consultant recommended that NJT focus on increasing the number of DBE prime contractors. Because qualitative evidence is difficult to quantify, according to the consultant, only the results from the regression analyses were used to adjust the base goal. *Id.* The base goal was then adjusted from 19.74 percent to 23.79 percent. *Id.*

Third, in order to partition the DBE goal by race-neutral and race-conscious methods, the consultant analyzed the share of all DBE contract dollars won with no goals. *Id.* at 650. He also performed two different regression analyses: one involving predicted DBE contract dollars and DBE receipts if the goal was set at zero. *Id.* at 651. The second method utilized predicted DBE contract dollars with goals and predicted DBE contract dollars without goals to forecast how much firms with goals would receive had they not included the goals. *Id.* The consultant averaged his results from all three methods to conclude that the fiscal year 2010 NJT a portion of the race-neutral DBE goal should be 11.94 percent and a portion of the race-conscious DBE goal should be 11.84 percent. *Id.* at 651.

The district court applied the strict scrutiny standard of review. The district court already decided, in the course of the motions for summary judgment, that compelling interest was satisfied as New Jersey was entitled to adopt the federal government's compelling interest in enacting TEA-21 and its implementing regulations. *Id.* at 652, citing *Geod v. N.J. Transit Corp.*, 678 F.Supp.2d 276, 282 (D.N.J. 2009). Therefore, the court limited its analysis to whether NJT's DBE program was narrowly tailored to further that compelling interest in accordance with "its grant of authority under federal law." *Id.* at 652 citing *Northern Contracting, Inc. v. Illinois Department of Transportation*, 473 F.3d 715, 722 (7th Cir. 2007).

**Applying Northern Contracting v. Illinois.** The district court clarified its prior ruling in 2009 (see 678 F.Supp.2d 276) regarding summary judgment, that the court agreed with the holding in *Northern Contracting, Inc. v. Illinois*, that "a challenge to a state's application of a federally mandated program must be limited to the question of whether the state exceeded its authority." *Id.* at 652 quoting *Northern Contracting*, 473 F.3d at 721. The district court in *Geod* followed the Seventh Circuit explanation that when a state department of transportation is acting as an instrument of federal policy, a plaintiff cannot collaterally attack the federal regulations through a challenge to a state's program. *Id.* at 652, citing *Northern Contracting*, 473 F.3d at 722. Therefore, the district court held that the inquiry is limited to the question of whether the state department of transportation "exceeded its grant of authority under federal law." *Id.* at 652-653, quoting *Northern Contracting*, 473 F.3d at 722 and citing also *Tennessee Asphalt Co. v. Farris*, 942 F.2d 969, 975 (6th Cir. 1991).

The district court found that the holding and analysis in *Northern Contracting* does not contradict the Eighth Circuit's analysis in *Sherbrooke Turf, Inc. v. Minnesota Department of Transportation*, 345 F.3d 964, 970-71 (8th Cir. 2003). *Id.* at 653. The court held that the Eighth Circuit's discussion of whether the DBE programs as implemented by the State of Minnesota and the State of Nebraska were narrowly tailored focused on whether the states were following the USDOT regulations. *Id.* at 653 citing *Sherbrooke Turf*, 345 F.3d 973-74. Therefore, "only when the state exceeds its federal authority is it susceptible to an as-applied constitutional challenge." *Id.* at 653 quoting *Western States Paving Co., Inc. v. Washington State Department of Transportation*, 407 F.3d 983 (9th Cir. 2005) (McKay, C.J.) (concurring in part and dissenting in part) and citing *South Florida Chapter of the Associated General Contractors v. Broward County*, 544 F.Supp.2d 1336, 1341 (S.D.Fla.2008).

The court held the initial burden of proof falls on the government, but once the government has presented proof that its affirmative action plan is narrowly tailored, the party challenging the affirmative action plan bears the ultimate burden of proving that the plan is unconstitutional. *Id.* at 653.

In analyzing whether NJT's DBE program was constitutionally defective, the district court focused on the basis of plaintiffs' argument that it was not narrowly tailored because it includes in the category of DBEs racial or ethnic groups as to which the plaintiffs alleged NJT had no evidence of past discrimination. *Id.* at 653. The court found that most of plaintiffs' arguments could be summarized as questioning whether NJT presented demonstrable evidence of the availability of ready, willing and able DBEs as required by 49 CFR § 26.45. *Id.* The court held that NJT followed the goal setting process required by the federal regulations. *Id.* The court stated that NJT began this process with the 2002 disparity study that examined past discrimination and found that all of the groups listed in the regulations were underutilized with the exception of Asians. *Id.* at 654. In calculating the fiscal year 2010 goals, the consultant used contract files and data from Dun & Bradstreet to determine the geographical location corresponding to NJT contracts and then further focused that information by weighting the industries according to NJT's use. *Id.*

The consultant used various methods to calculate the availability of DBEs, including: the UCP Business Directories for the states of New Jersey, New York and Pennsylvania; NJT Vendor List; Dun & Bradstreet database; 2002 Survey of Small Business Owners; and NJT Pre-Qualification List. *Id.* at 654. The court stated that NJT only utilized one of the examples listed in 49 CFR § 26.45(c), the DBE directories method, in formulating the fiscal year 2010 goals. *Id.*

The district court pointed out, however, the regulations state that the "examples are provided as a starting point for your goal setting process and that the examples are not intended as an exhaustive list. *Id.* at 654, *citing* 46 CFR § 26.45(c). The court concluded the regulations clarify that other methods or combinations of methods to determine a base figure may be used. *Id.* at 654.

The court stated that NJT had used these methods in setting goals for prior years as demonstrated by the reports for 2006 and 2009. *Id.* at 654. In addition, the court noted that the Seventh Circuit held that a custom census, the Dun & Bradstreet database, and the IDOT's list of DBEs were an acceptable combination of methods with which to determine the base figure for TEA-21 purposes. *Id.* at 654, *citing Northern Contracting*, 473 F.3d at 718.

The district court found that the expert witness for plaintiffs had not convinced the court that the data were faulty, and the testimony at trial did not persuade the court that the data or regression analyses relied upon by NJT were unreliable or that another method would provide more accurate results. *Id.* at 654-655.

The court in discussing step two of the goals setting process pointed out that the data examined by the consultant is listed in the regulations as proper evidence to be used to adjust the base figure. *Id.* at 655, *citing* 49 CFR § 26.45(d). These data included evidence from disparity studies and statistical disparities in the ability of DBEs to get pre-qualification. *Id.* at 655. The consultant stated that evidence of societal discrimination was not used to adjust the base goal and that the adjustment to the goal was based on the discrimination analysis, which controls for size of firm and effect of having a DBE goal. *Id.* at 655.

The district court then analyzed NJT's division of the adjusted goal into race-conscious and race-neutral portions. *Id.* at 655. The court noted that narrowly tailoring does not require exhaustion of every conceivable race-neutral alternative, but instead requires serious, good faith consideration of workable race-neutral alternatives. *Id.* at 655. The court agreed with *Western States Paving* that only "when race-neutral efforts prove inadequate do these regulations authorize a State to resort to race-conscious measures to achieve the remainder of its DBE utilization goal." *Id.* at 655, quoting *Western States Paving*, 407 F.3d at 993-94.

The court found that the methods utilized by NJT had been used by it on previous occasions, which were approved by the USDOT. *Id.* at 655. The methods used by NJT, the court found, also complied with the examples listed in 49 CFR § 26.51, including arranging solicitations, times for the presentation of bids, quantities, specifications, and delivery schedules in ways that facilitate DBE participation; providing pre-qualification assistance; implementing supportive services programs; and ensuring distribution of DBE directories. *Id.* at 655. The court held that based on these reasons and following the *Northern Contracting, Inc. v. Illinois* line of cases, NJT's DBE program did not violate the Constitution as it did not exceed its federal authority. *Id.* at 655.

However, the district court also found that even under the *Western States Paving Co., Inc. v. Washington State DOT* standard, the NJT program still was constitutional. *Id.* at 655. Although the court found that the appropriate inquiry is whether NJT exceeded its federal authority as detailed in *Northern Contracting, Inc. v. Illinois*, the court also examined the NJT DBE program under *Western States Paving Co. v. Washington State DOT*. *Id.* at 655-656. The court stated that under *Western States Paving*, a Court must "undertake an as-applied inquiry into whether [the state's] DBE program is narrowly tailored." *Id.* at 656, quoting *Western States Paving*, 407 F.3d at 997.

**Applying *Western States Paving*.** The district court then analyzed whether the NJT program was narrowly tailored applying *Western States Paving*. Under the first prong of the narrowly tailoring analysis, a remedial program is only narrowly tailored if its application is limited to those minority groups that have actually suffered discrimination. *Id.* at 656, citing *Western States Paving*, 407 F.3d at 998. The court acknowledged that according to the 2002 Final Report, the ratios of DBE utilization to DBE availability was 1.31. *Id.* at 656. However, the court found that the plaintiffs' argument failed as the facts in *Western States Paving* were distinguishable from those of NJT, because NJT did receive complaints, i.e., anecdotal evidence, of the lack of opportunities for Asian firms. *Id.* at 656. NJT employees testified that Asian firms informally and formally complained of a lack of opportunity to grow and indicated that the DBE Program was assisting with this issue. *Id.* In addition, plaintiff's expert conceded that Asian firms have smaller average contract amounts in comparison to non-DBE firms. *Id.*

The plaintiff relied solely on the utilization rate as evidence that Asians are not discriminated against in NJT contracting. *Id.* at 656. The court held this was insufficient to overcome the consultant's determination that discrimination did exist against Asians, and thus this group was properly included in the DBE program. *Id.* at 656.

The district court rejected Plaintiffs' argument that the first step of the narrow tailoring analysis was not met because NJT focuses its program on sub-contractors when NJT's expert identified "prime contracting" as the area in which NJT procurements evidence discrimination. *Id.* at 656. The court held that narrow tailoring does not require exhaustion of every conceivable race-neutral alternative,

but it does require serious, good faith consideration of workable race-neutral alternatives. *Id.* at 656, *citing Sherbrook Turf*, 345 F.3d at 972 (*quoting Grutter v. Bollinger*, 539 U.S. 306, 339, (2003)). In its efforts to implement race-neutral alternatives, the court found NJT attempted to break larger contracts up in order to make them available to smaller contractors and continues to do so when logistically possible and feasible to the procurement department. *Id.* at 656-657.

The district court found NJT satisfied the third prong of the narrowly tailored analysis, the “relationship of the numerical goals to the relevant labor market.” *Id.* at 657. Finally, under the fourth prong, the court addressed the impact on third-parties. *Id.* at 657. The court noted that placing a burden on third parties is not impermissible as long as that burden is minimized. *Id.* at 657, *citing Western States Paving*, 407 F.3d at 995. The court stated that instances will inevitably occur where non-DBEs will be bypassed for contracts that require DBE goals. However, TEA-21 and its implementing regulations contain provisions intended to minimize the burden on non-DBEs. *Id.* at 657, *citing Western States Paving*, 407 F.3d at 994-995.

The court pointed out the Ninth Circuit in *Western States Paving* found that inclusion of regulations allowing firms that were not presumed to be DBEs to demonstrate that they were socially and economically disadvantaged, and thus qualified for DBE programs, as well as the net worth limitations, were sufficient to minimize the burden on DBEs. *Id.* at 657, *citing Western States Paving*, 407 F.3d at 955. The court held that the plaintiffs did not provide evidence that NJT was not complying with implementing regulations designed to minimize harm to third parties. *Id.*

Therefore, even if the district court utilized the as-applied narrow tailoring inquiry set forth in *Western States Paving*, NJT’s DBE program would not be found to violate the Constitution, as the court held it was narrowly tailored to further a compelling governmental interest. *Id.* at 657.

**11. *Geod Corporation v. New Jersey Transit Corporation, et. seq.* 678 F.Supp.2d 276, 2009 WL 2595607 (D.N.J. August 20, 2009)**

Plaintiffs Geod and its officers, who are white males, sued the NJT and state officials seeking a declaration that NJT’s DBE program was unconstitutional and in violation of the United States 5th and 14th Amendment to the United States Constitution and the Constitution of the State of New Jersey, and seeking a permanent injunction against NJT for enforcing or utilizing its DBE program. The NJT’s DBE program was implemented in accordance with the Federal DBE Program and TEA-21 and 49 CFR Part 26.

The parties filed cross Motions for Summary Judgment. The plaintiff Geod challenged the constitutionality of NJT’s DBE program for multiple reasons, including alleging NJT could not justify establishing a program using race- and sex-based preferences; the NJT’s disparity study did not provide a sufficient factual predicate to justify the DBE Program; NJT’s statistical evidence did not establish discrimination; NJT did not have anecdotal data evidencing a “strong basis in evidence” of discrimination which justified a race- and sex-based program; NJT’s program was not narrowly tailored and over-inclusive; NJT could not show an exceedingly persuasive justification for gender preferences; and that NJT’s program was not narrowly tailored because race-neutral alternatives existed. In opposition, NJT filed a Motion for Summary Judgment asserting that its DBE program was narrowly tailored because it fully complied with the requirements of the Federal DBE Program and TEA-21.

The district court held that states and their agencies are entitled to adopt the federal governments' compelling interest in enacting TEA-21 and its implementing regulations. 2009 WL 2595607 at \*4. The court stated that plaintiff's argument that NJT cannot establish the need for its DBE program was a "red herring, which is unsupported." The plaintiff did not question the constitutionality of the compelling interest of the Federal DBE Program. The court held that all states "inherit the federal governments' compelling interest in establishing a DBE program." *Id.*

The court found that establishing a DBE program "is not contingent upon a state agency demonstrating a need for same, as the federal government has already done so." *Id.* The court concluded that this reasoning rendered plaintiff's assertions that NJT's disparity study did not have sufficient factual predicate for establishing its DBE program, and that no exceedingly persuasive justification was found to support gender-based preferences, as without merit. *Id.* The court held that NJT does not need to justify establishing its DBE program, as it has already been justified by the legislature. *Id.*

The court noted that both plaintiff's and defendant's arguments were based on an alleged split in the Federal Circuit Courts of Appeal. Plaintiff Geod relies on *Western States Paving Company v. Washington State DOT*, 407 F.3d 983(9th Cir. 2005) for the proposition that an as-applied challenge to the constitutionality of a particular DBE program requires a demonstration by the recipient of federal funds that the program is narrowly tailored. *Id.* at \*5. In contrast, the NJT relied primarily on *Northern Contracting, Inc. v. State of Illinois*, 473 F.3d 715 (7th Cir. 2007) for the proposition that if a DBE program complies with TEA-21, it is narrowly tailored. *Id.*

The court viewed the various Federal Circuit Court of Appeals decisions as fact specific determinations which have led to the parties distinguishing cases without any substantive difference in the application of law. *Id.*

The court reviewed the decisions by the Ninth Circuit in *Western States Paving* and the Seventh Circuit of *Northern Contracting*. In *Western States Paving*, the district court stated that the Ninth Circuit held for a DBE program to pass constitutional muster, it must be narrowly tailored; specifically, the recipient of federal funds must evidence past discrimination in the relevant market in order to utilize race conscious DBE goals. *Id.* at \*5. The Ninth Circuit, according to district court, made a fact specific determination as to whether the DBE program complied with TEA-21 in order to decide if the program was narrowly tailored to meet the federal regulation's requirements. The district court stated that the requirement that a recipient must evidence past discrimination "is nothing more than a requirement of the regulation." *Id.*

The court stated that the Seventh Circuit in *Northern Contracting* held a recipient must demonstrate that its program is narrowly tailored, and that generally a recipient is insulated from this sort of constitutional attack absent a showing that the state exceeded its federal authority. *Id.*, citing *Northern Contracting*, 473 F.3d at 721. The district court held that implicit in *Northern Contracting* is the fact one may challenge the constitutionality of a DBE program, as it is applied, to the extent that the program exceeds its federal authority. *Id.*



The court, therefore, concluded that it must determine first whether NJT's DBE program complies with TEA-21, then whether NJT exceeded its federal authority in its application of its DBE program. In other words, the district court stated it must determine whether the NJT DBE program complies with TEA-21 in order to determine whether the program, as implemented by NJT, is narrowly tailored. *Id.*

The court pointed out that the Eighth Circuit Court of Appeals in *Sherbrook Turf, Inc. v. Minnesota DOT*, 345 F.3d 964 (8th Cir. 2003) found Minnesota's DBE program was narrowly tailored because it was in compliance with TEA-21's requirements. The Eighth Circuit in *Sherbrook*, according to the district court, analyzed the application of Minnesota's DBE program to ensure compliance with TEA-21's requirements to ensure that the DBE program implemented by Minnesota DOT was narrowly tailored. *Id.* at \*5.

The court held that TEA-21 delegates to each state that accepts federal transportation funds the responsibility of implementing a DBE program that comports with TEA-21. In order to comport with TEA-21, the district court stated a recipient must (1) determine an appropriate DBE participation goal, (2) examine all evidence and evaluate whether an adjustment, if any, is needed to arrive at their goal, and (3) if the adjustment is based on continuing effects of past discrimination, provide demonstrable evidence that is logically and directly related to the effect for which the adjustment is sought. *Id.* at \*6, *citing Western States Paving Company*, 407 F.3d at 983, 988.

First, the district court stated a recipient of federal funds must determine, at the local level, the figure that would constitute an appropriate DBE involvement goal, based on their relative availability of DBEs. *Id.* at \*6, *citing* 49 CFR § 26.45(c). In this case, the court found that NJT did determine a base figure for the relative availability of DBEs, which accounted for demonstrable evidence of local market conditions and was designed to be rationally related to the relative availability of DBEs. *Id.* The court pointed out that NJT conducted a disparity study, and the disparity study utilized NJT's DBE lists from fiscal years 1995-1999 and Census Data to determine its base DBE goal. The court noted that the plaintiffs' argument that the data used in the disparity study were stale was without merit and had no basis in law. The court found that the disparity study took into account the primary industries, primary geographic market, and race neutral alternatives, then adjusted its goal to encompass these characteristics. *Id.* at \*6.

The court stated that the use of DBE directories and Census data are what the legislature intended for state agencies to utilize in making a base DBE goal determination. *Id.* Also, the court stated that "perhaps more importantly, NJT's DBE goal was approved by the USDOT every year from 2002 until 2008." *Id.* at \*6. Thus, the court found NJT appropriately determined their DBE availability, which was approved by the USDOT, pursuant to 49 CFR § 26.45(c). *Id.* at \*6. The court held that NJT demonstrated its overall DBE goal is based on demonstrable evidence of the availability of ready, willing and able DBEs relative to all businesses ready, willing and able to participate in DOT assisted contracts and reflects its determination of the level of DBE participation it would expect absent the effects of discrimination. *Id.*

Also of significance, the court pointed out that plaintiffs did not provide any evidence that NJT did not set a DBE goal based upon 49 C.F. § 26.45(c). The court thus held that genuine issues of material fact remain only as to whether a reasonable jury may find that the method used by NJT to determine its DBE goal was sufficiently narrowly tailored. *Id.* at \*6.

The court pointed out that to determine what adjustment to make, the disparity study examined qualitative data such as focus groups on the pre-qualification status of DBEs, working with prime contractors, securing credit, and its effect on DBE participation, as well as procurement officer interviews to analyze, and compare and contrast their relationships with non-DBE vendors and DBE vendors. *Id.* at \*7. This qualitative information was then compared to DBE bids and DBE goals for each year in question. NJT's adjustment to its DBE goal also included an analysis of the overall disparity ratio, as well as DBE utilization based on race, gender and ethnicity. *Id.* A decomposition analysis was also performed. *Id.*

The court concluded that NJT provided evidence that it, at a minimum, examined the current capacity of DBEs to perform work in its DOT-assisted contracting program, as measured by the volume of work DBEs have performed in recent years, as well as utilizing the disparity study itself. The court pointed out there were two methods specifically approved by 49 CFR § 26.45(d). *Id.*

The court also found that NJT took into account race neutral measures to ensure that the greatest percentage of DBE participation was achieved through race and gender-neutral means. The district court concluded that "critically," plaintiffs failed to provide evidence of another, more perfect, method that could have been utilized to adjust NJT's DBE goal. *Id.* at \*7. The court held that genuine issues of material fact remain only as to whether NJT's adjustment to its DBE goal is sufficiently narrowly tailored and thus constitutional. *Id.*

NJT, the court found, adjusted its DBE goal to account for the effects of past discrimination, noting the disparity study took into account the effects of past discrimination in the pre-qualification process of DBEs. *Id.* at \*7. The court quoted the disparity study as stating that it found non-trivial and statistically significant measures of discrimination in contract amounts awarded during the study period. *Id.* at \*8.

The court found, however, that what was "gravely critical" about the finding of the past effects of discrimination is that it only took into account six groups including American Indian, Hispanic, Asian, blacks, women and "unknown," but did not include an analysis of past discrimination for the ethnic group "Iraqi," which is now a group considered to be a DBE by the NJT. *Id.* Because the disparity report included a category entitled "unknown," the court held a genuine issue of material fact remains as to whether "Iraqi" is legitimately within NJT's defined DBE groups and whether a demonstrable finding of discrimination exists for Iraqis. Therefore, the court denied both plaintiffs' and defendants' Motions for Summary Judgment as to the constitutionality of NJT's DBE program.

The court also held that because the law was not clearly established at the time NJT established its DBE program to comply with TEA-21, the individual state defendants were entitled to qualified immunity and their Motion for Summary Judgment as to the state officials was granted. The court, in addition, held that plaintiff's Title VI claims were dismissed because the individual defendants were not recipients of federal funds, and that the NJT as an instrumentality of the State of New Jersey is entitled to sovereign immunity. Therefore, the court held that the plaintiff's claims based on the violation of 42 U.S.C. § 1983 were dismissed and NJT's Motion for Summary Judgment was granted as to that claim.

**12. South Florida Chapter of the Associated General Contractors v. Broward County, Florida, 544 F. Supp.2d 1336 (S.D. Fla. 2008)**

Plaintiff, the South Florida Chapter of the Associated General Contractors, brought suit against the Defendant, Broward County, Florida challenging Broward County's implementation of the Federal DBE Program and Broward County's issuance of contracts pursuant to the Federal DBE Program. Plaintiff filed a Motion for a Preliminary Injunction. The court considered only the threshold legal issue raised by plaintiff in the Motion, namely whether or not the decision in *Western States Paving Company v. Washington State Department of Transportation*, 407 F.3d 983 (9th Cir. 2005) should govern the Court's consideration of the merits of plaintiffs' claim. 544 F.Supp.2d at 1337. The court identified the threshold legal issue presented as essentially, "whether compliance with the federal regulations is all that is required of Defendant Broward County." *Id.* at 1338.

The Defendant County contended that as a recipient of federal funds implementing the Federal DBE Program, all that is required of the County is to comply with the federal regulations, relying on case law from the Seventh Circuit in support of its position. 544 F.Supp.2d at 1338, *citing Northern Contracting v. Illinois*, 473 F.3d 715 (7th Cir. 2007). The plaintiffs disagreed, and contended that the County must take additional steps beyond those explicitly provided for in the federal regulations to ensure the constitutionality of the County's implementation of the Federal DBE Program, as administered in the County, *citing Western States Paving*, 407 F.3d 983. The court found that there was no case law on point in the Eleventh Circuit Court of Appeals. *Id.* at 1338.

Ninth Circuit Approach: *Western States*. The district court analyzed the Ninth Circuit Court of Appeals approach in *Western States Paving* and the Seventh Circuit approach in *Milwaukee County Pavers Association v. Fiedler*, 922 F.2d 419 (7th Cir. 1991) and *Northern Contracting*, 473 F.3d 715. The district court in Broward County concluded that the Ninth Circuit in *Western States Paving* held that whether Washington's DBE program is narrowly tailored to further Congress's remedial objective depends upon the presence or absence of discrimination in the State's transportation contracting industry, and that it was error for the district court in *Western States Paving* to uphold Washington's DBE program simply because the state had complied with the federal regulations. 544 F.Supp.2d at 1338-1339. The district court in Broward County pointed out that the Ninth Circuit in *Western States Paving* concluded it would be necessary to undertake an as-applied inquiry into whether the state's program is narrowly tailored. 544 F.Supp.2d at 1339, *citing Western States Paving*, 407 F.3d at 997.

In a footnote, the district court in *Broward County* noted that the USDOT "appears not to be of one mind on this issue, however." 544 F.Supp.2d at 1339, n. 3. The district court stated that the "United States DOT has, in analysis posted on its Web site, implicitly instructed states and localities outside of the Ninth Circuit to ignore the *Western States Paving* decision, which would tend to indicate that this agency may not concur with the 'opinion of the United States' as represented in *Western States*." 544 F.Supp.2d at 1339, n. 3. The district court noted that the United States took the position in the *Western States Paving* case that the "state would have to have evidence of past or current effects of discrimination to use race-conscious goals." 544 F.Supp.2d at 1338, *quoting Western States Paving*.

The Court also pointed out that the Eighth Circuit Court of Appeals in *Sherbrooke Turf, Inc. v. Minnesota Department of Transportation*, 345 F.3d 964 (8th Cir. 2003) reached a similar conclusion as in *Western States Paving*, 544 F.Supp.2d at 1339. The Eighth Circuit in *Sherbrooke*, like the court in *Western States Paving*, “concluded that the federal government had delegated the task of ensuring that the state programs are narrowly tailored, and looked to the underlying data to determine whether those programs were, in fact, narrowly tailored, rather than simply relying on the states’ compliance with the federal regulations.” 544 F.Supp.2d at 1339.

Seventh Circuit Approach: Milwaukee County and Northern Contracting. The district court in Broward County next considered the Seventh Circuit approach. The Defendants in Broward County agreed that the County must make a local finding of discrimination for its program to be constitutional. 544 F.Supp.2d at 1339. The County, however, took the position that it must make this finding through the process specified in the federal regulations, and should not be subject to a lawsuit if that process is found to be inadequate. *Id.* In support of this position, the County relied primarily on the Seventh Circuit’s approach, first articulated in *Milwaukee County Pavers Association v. Fiedler*, 922 F.2d 419 (7th Cir. 1991), then reaffirmed in *Northern Contracting*, 473 F.3d 715 (7th Cir. 2007). 544 F.Supp.2d at 1339.

Based on the Seventh Circuit approach, insofar as the state is merely doing what the statute and federal regulations envisage and permit, the attack on the state is an impermissible collateral attack on the federal statute and regulations. 544 F.Supp.2d at 1339-1340. This approach concludes that a state’s role in the federal program is simply as an agent, and insofar “as the state is merely complying with federal law it is acting as the agent of the federal government and is no more subject to being enjoined on equal protection grounds than the federal civil servants who drafted the regulations.” 544 F.Supp.2d at 1340, quoting *Milwaukee County Pavers*, 922 F.2d at 423.

The Ninth Circuit addressed the *Milwaukee County Pavers* case in *Western States Paving*, and attempted to distinguish that case, concluding that the constitutionality of the federal statute and regulations were not at issue in *Milwaukee County Pavers*. 544 F.Supp.2d at 1340. In 2007, the Seventh Circuit followed up the critiques made in *Western States Paving* in the *Northern Contracting* decision. *Id.* The Seventh Circuit in *Northern Contracting* concluded that the majority in *Western States Paving* misread its decision in *Milwaukee County Pavers* as did the Eighth Circuit Court of Appeals in *Sherbrooke*. 544 F.Supp.2d at 1340, citing *Northern Contracting*, 473 F.3d at 722, n.5. The district court in Broward County pointed out that the Seventh Circuit in *Northern Contracting* emphasized again that the state DOT is acting as an instrument of federal policy, and a plaintiff cannot collaterally attack the federal regulations through a challenge to the state DOT’s program. 544 F.Supp.2d at 1340, citing *Northern Contracting*, 473 F.3d at 722.

The district court in *Broward County* stated that other circuits have concurred with this approach, including the Sixth Circuit Court of Appeals decision in *Tennessee Asphalt Company v. Farris*, 942 F.2d 969 (6th Cir. 1991). 544 F.Supp.2d at 1340. The district court in *Broward County* held that the Tenth Circuit Court of Appeals took a similar approach in *Ellis v. Skinner*, 961 F.2d 912 (10th Cir. 1992). 544 F.Supp.2d at 1340. The district court in *Broward County* held that these Circuit Courts of Appeal have concluded that “where a state or county fully complies with the federal regulations, it cannot be enjoined from carrying out its DBE program, because any such attack would simply constitute an improper collateral attack on the constitutionality of the regulations.” 544 F.Supp.2d at 1340-41.

The district court in *Broward County* held that it agreed with the approach taken by the Seventh Circuit Court of Appeals in *Milwaukee County Pavers* and *Northern Contracting* and concluded that “the appropriate factual inquiry in the instant case is whether or not Broward County has fully complied with the federal regulations in implementing its DBE program.” 544 F.Supp.2d at 1341. It is significant to note that the plaintiffs did not challenge the as-applied constitutionality of the federal regulations themselves, but rather focused their challenge on the constitutionality of Broward County’s actions in carrying out the DBE program. 544 F.Supp.2d at 1341. The district court in *Broward County* held that this type of challenge is “simply an impermissible collateral attack on the constitutionality of the statute and implementing regulations.” *Id.*

The district court concluded that it would apply the case law as set out in the Seventh Circuit Court of Appeals and concurring circuits, and that the trial in this case would be conducted solely for the purpose of establishing whether or not the County has complied fully with the federal regulations in implementing its DBE program. 544 F.Supp.2d at 1341.

Subsequently, there was a Stipulation of Dismissal filed by all parties in the district court, and an Order of Dismissal was filed without a trial of the case in November 2008.

**13. *Northern Contracting, Inc. v. Illinois*, 2005 WL 2230195 (N.D. Ill. Sept. 8, 2005), *aff’d* 473 F.3d 715 (7th Cir. 2007)**

This decision is the district court’s order that was affirmed by the Seventh Circuit Court of Appeals. This decision is instructive in that it is one of the recent cases to address the validity of the Federal DBE Program and local and state governments’ implementation of the program as recipients of federal funds. The case also is instructive in that the court set forth a detailed analysis of race-, ethnicity- and gender-neutral measures as well as evidentiary data required to satisfy constitutional scrutiny.

The district court conducted a trial after denying the parties’ Motions for Summary Judgment in *Northern Contracting, Inc. v. State of Illinois, Illinois DOT, and USDOT*, 2004 WL 422704 (N.D. Ill. March 3, 2004), discussed *infra*. The following summarizes the opinion of the district court.

Northern Contracting, Inc. (the “plaintiff”), an Illinois highway contractor, sued the State of Illinois, the Illinois DOT, the United States DOT, and federal and state officials seeking a declaration that federal statutory provisions, the federal implementing regulations (“TEA-21”), the state statute authorizing the DBE program, and the Illinois DBE program itself were unlawful and unconstitutional. 2005 WL 2230195 at \*1 (N.D. Ill. Sept. 8, 2005).

Under TEA-21, a recipient of federal funds is required to meet the “maximum feasible portion” of its DBE goal through race-neutral means. *Id.* at \*4 (citing regulations). If a recipient projects that it cannot meet its overall DBE goal through race-neutral means, it must establish contract goals to the extent necessary to achieve the overall DBE goal. *Id.* (citing regulation). [The court provided an overview of the pertinent regulations including compliance requirements and qualifications for DBE status.]

**Statistical evidence.** To calculate its 2005 DBE participation goals, IDOT followed the two-step process set forth in TEA-21: (1) calculation of a base figure for the relative availability of DBEs, and (2) consideration of a possible adjustment of the base figure to reflect the effects of the DBE program and the level of participation that would be expected but for the effects of past and present discrimination. *Id.* at \*6. IDOT engaged in a study to calculate its base figure and conduct a custom census to determine whether a more reliable method of calculation existed as opposed to its previous method of reviewing a bidder's list. *Id.*

In compliance with TEA-21, IDOT used a study to evaluate the base figure using a six-part analysis: (1) the study identified the appropriate and relevant geographic market for its contracting activity and its prime contractors; (2) the study identified the relevant product markets in which IDOT and its prime contractors contract; (3) the study sought to identify all available contractors and subcontractors in the relevant industries within Illinois using Dun & Bradstreet's *Marketplace*; (4) the study collected lists of DBEs from IDOT and 20 other public and private agencies; (5) the study attempted to correct for the possibility that certain businesses listed as DBEs were no longer qualified or, alternatively, businesses not listed as DBEs but qualified as such under the federal regulations; and (6) the study attempted to correct for the possibility that not all DBE businesses were listed in the various directories. *Id.* at \*6-7. The study utilized a standard statistical sampling procedure to correct for the latter two biases. *Id.* at \*7. The study thus calculated a weighted average base figure of 22.7 percent. *Id.*

IDOT then adjusted the base figure based upon two disparity studies and some reports considering whether the DBE availability figures were artificially low due to the effects of past discrimination. *Id.* at \*8. One study examined disparities in earnings and business formation rates as between DBEs and their white male-owned counterparts. *Id.* Another study included a survey reporting that DBEs are rarely utilized in non-goals projects. *Id.*

IDOT considered three reports prepared by expert witnesses. *Id.* at \*9. The first report concluded that minority- and women-owned businesses were underutilized relative to their capacity and that such underutilization was due to discrimination. *Id.* The second report concluded, after controlling for relevant variables such as credit worthiness, "that minorities and women are less likely to form businesses, and that when they do form businesses, those businesses achieve lower earnings than did businesses owned by white males." *Id.* The third report, again controlling for relevant variables (education, age, marital status, industry and wealth), concluded that minority- and female-owned businesses' formation rates are lower than those of their white male counterparts, and that such businesses engage in a disproportionate amount of government work and contracts as a result of their inability to obtain private sector work. *Id.*

IDOT also conducted a series of public hearings in which a number of DBE owners who testified that they "were rarely, if ever, solicited to bid on projects not subject to disadvantaged-firm hiring goals." *Id.* Additionally, witnesses identified 20 prime contractors in IDOT District 1 alone who rarely or never solicited bids from DBEs on non-goals projects. *Id.* The prime contractors did not respond to IDOT's requests for information concerning their utilization of DBEs. *Id.*

Finally, IDOT reviewed unremediated market data from four different markets (the Illinois State Toll Highway Authority, the Missouri DOT, Cook County’s public construction contracts, and a “non-goals” experiment conducted by IDOT between 2001 and 2002), and considered past utilization of DBEs on IDOT projects. *Id.* at \*11. After analyzing all of the data, the study recommended an upward adjustment to 27.51 percent. However, IDOT decided to maintain its figure at 22.77 percent. *Id.*

IDOT’s representative testified that the DBE program was administered on a “contract-by-contract basis.” *Id.* She testified that DBE goals have no effect on the award of prime contracts but that contracts are awarded exclusively to the “lowest responsible bidder.” IDOT also allowed contractors to petition for a waiver of individual contract goals in certain situations (e.g., where the contractor has been unable to meet the goal despite having made reasonable good faith efforts). *Id.* at \*12. Between 2001 and 2004, IDOT received waiver requests on 8.53 percent of its contracts and granted three out of four; IDOT also provided an appeal procedure for a denial from a waiver request. *Id.*

IDOT implemented a number of race- and gender-neutral measures both in its fiscal year 2005 plan and in response to the district court’s earlier summary judgment order, including:

1. A “prompt payment provision” in its contracts, requiring that subcontractors be paid promptly after they complete their work, and prohibiting prime contractors from delaying such payments;
2. An extensive outreach program seeking to attract and assist DBE and other small firms enter and achieve success in the industry (including retaining a network of consultants to provide management, technical and financial assistance to small businesses, and sponsoring networking sessions throughout the state to acquaint small firms with larger contractors and to encourage the involvement of small firms in major construction projects);
3. Reviewing the criteria for prequalification to reduce any unnecessary burdens;
4. “Unbundling” large contracts; and
5. Allocating some contracts for bidding only by firms meeting the SBA’s definition of small businesses.

*Id.* (internal citations omitted). IDOT was also in the process of implementing bonding and financing initiatives to assist emerging contractors obtain guaranteed bonding and lines of credit, and establishing a mentor-protégé program. *Id.*

The court found that IDOT attempted to achieve the “maximum feasible portion” of its overall DBE goal through race- and gender-neutral measures. *Id.* at \*13. The court found that IDOT determined that race- and gender-neutral measures would account for 6.43 percent of its DBE goal, leaving 16.34 percent to be reached using race- and gender-conscious measures. *Id.*

**Anecdotal evidence.** A number of DBE owners testified to instances of perceived discrimination and to the barriers they face. *Id.* The DBE owners also testified to difficulties in obtaining work in the private sector and “unanimously reported that they were rarely invited to bid on such contracts.” *Id.* The DBE owners testified to a reluctance to submit unsolicited bids due to the expense involved and identified specific firms that solicited bids from DBEs for goals projects but not for non-goals projects. *Id.* A number of the witnesses also testified to specific instances of discrimination in bidding, on specific contracts, and in the financing and insurance markets. *Id.* at \*13-14. One witness acknowledged that all small firms face difficulties in the financing and insurance markets, but testified that it is especially burdensome for DBEs who “frequently are forced to pay higher insurance rates due to racial and gender discrimination.” *Id.* at \*14. The DBE witnesses also testified they have obstacles in obtaining prompt payment. *Id.*

The plaintiff called a number of non-DBE business owners who unanimously testified that they solicit business equally from DBEs and non-DBEs on non-goals projects. *Id.* Some non-DBE firm owners testified that they solicit bids from DBEs on a goals project for work they would otherwise complete themselves absent the goals; others testified that they “occasionally award work to a DBE that was not the low bidder in order to avoid scrutiny from IDOT.” *Id.* A number of non-DBE firm owners accused of failing to solicit bids from DBEs on non-goals projects testified and denied the allegations. *Id.* at \*15.

**Strict scrutiny.** The court applied strict scrutiny to the program as a whole (including gender-based preferences). *Id.* at \*16. The court, however, set forth a different burden of proof, finding that the government must demonstrate identified discrimination with specificity and must have a “‘strong basis in evidence’ to conclude that remedial action was necessary, before it embarks on an affirmative action program ... If the government makes such a showing, the party challenging the affirmative action plan bears the ‘ultimate burden’ of demonstrating the unconstitutionality of the program.” *Id.* The court held that challenging party’s burden “can only be met by presenting credible evidence to rebut the government’s proffered data.” *Id.* at \*17.

To satisfy strict scrutiny, the court found that IDOT did not need to demonstrate an independent compelling interest; however, as part of the narrowly tailored prong, IDOT needed to show “that there is a demonstrable need for the implementation of the Federal DBE Program within its jurisdiction.” *Id.* at \*16.

The court found that IDOT presented “an abundance” of evidence documenting the disparities between DBEs and non-DBEs in the construction industry. *Id.* at \*17. The plaintiff argued that the study was “erroneous because it failed to limit its DBE availability figures to those firms ... registered and pre-qualified with IDOT.” *Id.* The plaintiff also alleged the calculations of the DBE utilization rate were incorrect because the data included IDOT subcontracts and prime contracts, despite the fact that the latter are awarded to the lowest bidder as a matter of law. *Id.* Accordingly, the plaintiff alleged that IDOT’s calculation of DBE availability and utilization rates was incorrect. *Id.*



The court found that other jurisdictions had utilized the custom census approach without successful challenge. *Id.* at \*18. Additionally, the court found “that the remedial nature of the federal statutes counsels for the casting of a broader net when measuring DBE availability.” *Id.* at \*19. The court found that IDOT presented “an array of statistical studies concluding that DBEs face disproportionate hurdles in the credit, insurance, and bonding markets.” *Id.* at \*21. The court also found that the statistical studies were consistent with the anecdotal evidence. *Id.* The court did find, however, that “there was no evidence of even a single instance in which a prime contractor failed to award a job to a DBE that offered the low bid. This ... is [also] supported by the statistical data ... which shows that at least at the level of subcontracting, DBEs are generally utilized at a rate in line with their ability.” *Id.* at \*21, n. 31. Additionally, IDOT did not verify the anecdotal testimony of DBE firm owners who testified to barriers in financing and bonding. However, the court found that such verification was unnecessary. *Id.* at \*21, n. 32.

The court further found:

*That such discrimination indirectly affects the ability of DBEs to compete for prime contracts, despite the fact that they are awarded solely on the basis of low bid, cannot be doubted: ‘[E]xperience and size are not race- and gender-neutral variables ... [DBE] construction firms are generally smaller and less experienced because of industry discrimination.’ *Id.* at \*21, citing Concrete Works of Colorado, Inc. v. City and County of Denver, 321 F.3d 950 (10th Cir. 2003).*

The parties stipulated to the fact that DBE utilization goals exceed DBE availability for 2003 and 2004. *Id.* at \*22. IDOT alleged, and the court so found, that the high utilization on goals projects was due to the success of the DBE program, and not to an absence of discrimination. *Id.* The court found that the statistical disparities coupled with the anecdotal evidence indicated that IDOT’s fiscal year 2005 goal was a “‘plausible lower-bound estimate’ of DBE participation in the absence of discrimination.” *Id.* The court found that the plaintiff did not present persuasive evidence to contradict or explain IDOT’s data. *Id.*

The plaintiff argued that even if accepted at face value, IDOT’s marketplace data did not support the imposition of race- and gender-conscious remedies because there was no evidence of direct discrimination by prime contractors. *Id.* The court found first that IDOT’s indirect evidence of discrimination in the bonding, financing, and insurance markets was sufficient to establish a compelling purpose. *Id.* Second, the court found:

[M]ore importantly, plaintiff fails to acknowledge that, in enacting its DBE program, IDOT acted not to remedy its own prior discriminatory practices, but pursuant to federal law, which both authorized and required IDOT to remediate the effects of *private* discrimination on federally-funded highway contracts. This is a fundamental distinction ... [A] state or local government need not independently identify a compelling interest when its actions come in the course of enforcing a federal statute. *Id.* at \*23. The court distinguished *Builders Ass’n of Greater Chicago v. County of Cook*, 123 F. Supp.2d 1087 (N.D. Ill. 2000), *aff’d* 256 F.3d 642 (7th Cir. 2001), noting that the program in that case was not federally-funded. *Id.* at \*23, n. 34.

The court also found that “IDOT has done its best to maximize the portion of its DBE goal” through race- and gender-neutral measures, including anti-discrimination enforcement and small business initiatives. *Id.* at \*24. The anti-discrimination efforts included: an internet website where a DBE can file an administrative complaint if it believes that a prime contractor is discriminating on the basis of race or gender in the award of sub-contracts; and requiring contractors seeking prequalification to maintain and produce solicitation records on all projects, both public and private, with and without goals, as well as records of the bids received and accepted. *Id.* The small business initiative included: “unbundling” large contracts; allocating some contracts for bidding only by firms meeting the SBA’s definition of small businesses; a “prompt payment provision” in its contracts, requiring that subcontractors be paid promptly after they complete their work, and prohibiting prime contractors from delaying such payments; and an extensive outreach program seeking to attract and assist DBE and other small firms DBE and other small firms enter and achieve success in the industry (including retaining a network of consultants to provide management, technical and financial assistance to small businesses, and sponsoring networking sessions throughout the state to acquaint small firms with larger contractors and to encourage the involvement of small firms in major construction projects). *Id.*

The court found “[s]ignificantly, plaintiff did not question the efficacy or sincerity of these race- and gender-neutral measures.” *Id.* at \*25. Additionally, the court found the DBE program had significant flexibility in that utilized contract-by-contract goal setting (without a fixed DBE participation minimum) and contained waiver provisions. *Id.* The court found that IDOT approved 70 percent of waiver requests although waivers were requested on only 8 percent of all contracts. *Id.*, citing *Adarand Constructors, Inc. v. Slater* “*Adarand VII*,” 228 F.3d 1147, 1177 (10th Cir. 2000) (citing for the proposition that flexibility and waiver are critically important).

The court held that IDOT’s DBE plan was narrowly tailored to the goal of remedying the effects of racial and gender discrimination in the construction industry, and was therefore constitutional.

**14. *Northern Contracting, Inc. v. State of Illinois, Illinois DOT, and USDOT*, 2004 WL 422704 (N.D. Ill. March 3, 2004)**

This is the earlier decision in *Northern Contracting, Inc.*, 2005 WL 2230195 (N.D. Ill. Sept. 8, 2005), *see* above, which resulted in the remand of the case to consider the implementation of the Federal DBE Program by the IDOT. This case involves the challenge to the Federal DBE Program. The plaintiff contractor sued the IDOT and the USDOT challenging the facial constitutionality of the Federal DBE Program (TEA-21 and 49 CFR Part 26) as well as the implementation of the Federal Program by the IDOT (i.e., the IDOT DBE Program). The court held valid the Federal DBE Program, finding there is a compelling governmental interest and the federal program is narrowly tailored. The court also held there are issues of fact regarding whether IDOT’s DBE Program is narrowly tailored to achieve the federal government’s compelling interest. The court denied the Motions for Summary Judgment filed by the plaintiff and by IDOT, finding there were issues of material fact relating to IDOT’s implementation of the Federal DBE Program.

The court in *Northern Contracting*, held that there is an identified compelling governmental interest for implementing the Federal DBE Program and that the Federal DBE Program is narrowly tailored to further that interest. Therefore, the court granted the Federal defendants' Motion for Summary Judgment challenging the validity of the Federal DBE Program. In this connection, the district court followed the decisions and analysis in *Sherbrooke Turf, Inc. v. Minnesota Department of Transportation*, 345 F.3d 964 (8th Cir. 2003) and *Adarand Constructors, Inc. v. Slater*, 228 F.3d 1147 (10th Cir. 2000) (“*Adarand VII*”), *cert. granted then dismissed as improvidently granted*, 532 U.S. 941, 534 U.S. 103 (2001). The court held, like these two Courts of Appeals that have addressed this issue, that Congress had a strong basis in evidence to conclude that the DBE Program was necessary to redress private discrimination in federally-assisted highway subcontracting. The court agreed with the *Adarand VII* and *Sherbrooke Turf* courts that the evidence presented to Congress is sufficient to establish a compelling governmental interest, and that the contractors had not met their burden of introducing credible particularized evidence to rebut the Government's initial showing of the existence of a compelling interest in remedying the nationwide effects of past and present discrimination in the federal construction procurement subcontracting market. 2004 WL422704 at \*34, *citing Adarand VII*, 228 F.3d at 1175.

In addition, the court analyzed the second prong of the strict scrutiny test, whether the government provided sufficient evidence that its program is narrowly tailored. In making this determination, the court looked at several factors, such as the efficacy of alternative remedies; the flexibility and duration of the race-conscious remedies, including the availability of waiver provisions; the relationships between the numerical goals and relevant labor market; the impact of the remedy on third parties; and whether the program is over-or-under-inclusive. The narrow tailoring analysis with regard to the as-applied challenge focused on IDOT's implementation of the Federal DBE Program.

First, the court held that the Federal DBE Program does not mandate the use of race-conscious measures by recipients of federal dollars, but in fact requires only that the goal reflect the recipient's determination of the level of DBE participation it would expect absent the effects of the discrimination. 49 CFR § 26.45(b). The court recognized, as found in the *Sherbrooke Turf* and *Adarand VII* cases, that the Federal Regulations place strong emphasis on the use of race-neutral means to increase minority business participation in government contracting, that although narrow tailoring does not require exhaustion of every conceivable race-neutral alternative, it does require “serious, good faith consideration of workable race-neutral alternatives.” 2004 WL422704 at \*36, *citing and quoting Sherbrooke Turf*, 345 F.3d at 972, *quoting Grutter v. Bollinger*, 539 U.S. 306 (2003). The court held that the Federal regulations, which prohibit the use of quotas and severely limit the use of set-asides, meet this requirement. The court agreed with the *Adarand VII* and *Sherbrooke Turf* courts that the Federal DBE Program does require recipients to make a serious good faith consideration of workable race-neutral alternatives before turning to race-conscious measures.

Second, the court found that because the Federal DBE Program is subject to periodic reauthorization, and requires recipients of Federal dollars to review their programs annually, the Federal DBE scheme is appropriately limited to last no longer than necessary.

Third, the court held that the Federal DBE Program is flexible for many reasons, including that the presumption that women and minority are socially disadvantaged is deemed rebutted if an individual's personal net worth exceeds \$750,000.00, and a firm owned by individual who is not presumptively disadvantaged may nevertheless qualify for such status if the firm can demonstrate that its owners are socially and economically disadvantaged. 49 CFR § 26.67(b)(1)(d). The court found other aspects of the Federal Regulations provide ample flexibility, including recipients may obtain waivers or exemptions from any requirements. Recipients are not required to set a contract goal on every USDOT-assisted contract. If a recipient estimates that it can meet the entirety of its overall goals for a given year through race-neutral means, it must implement the Program without setting contract goals during the year. If during the course of any year in which it is using contract goals a recipient determines that it will exceed its overall goals, it must adjust the use of race-conscious contract goals accordingly. 49 CFR § 26.51(e)(f). Recipients also administering a DBE Program in good faith cannot be penalized for failing to meet their DBE goals, and a recipient may terminate its DBE Program if it meets its annual overall goal through race-neutral means for two consecutive years. 49 CFR § 26.51(f). Further, a recipient may award a contract to a bidder/offeror that does not meet the DBE Participation goals so long as the bidder has made adequate good faith efforts to meet the goals. 49 CFR § 26.53(a)(2). The regulations also prohibit the use of quotas. 49 CFR § 26.43.

Fourth, the court agreed with the *Sherbrooke Turf* court's assessment that the Federal DBE Program requires recipients to base DBE goals on the number of ready, willing and able disadvantaged business in the local market, and that this exercise requires recipients to establish realistic goals for DBE participation in the relevant labor markets.

Fifth, the court found that the DBE Program does not impose an unreasonable burden on third parties, including non-DBE subcontractors and taxpayers. The court found that the Federal DBE Program is a limited and properly tailored remedy to cure the effects of prior discrimination, a sharing of the burden by parties such as non-DBEs is not impermissible.

Finally, the court found that the Federal DBE Program was not over-inclusive because the regulations do not provide that every woman and every member of a minority group is disadvantaged. Preferences are limited to small businesses with a specific average annual gross receipts over three fiscal years of \$16.6 million or less (at the time of this decision), and businesses whose owners' personal net worth exceed \$750,000.00 are excluded. 49 CFR § 26.67(b)(1). In addition, a firm owned by a white male may qualify as socially and economically disadvantaged. 49 CFR § 26.67(d).

The court analyzed the constitutionality of the IDOT DBE Program. The court adopted the reasoning of the Eighth Circuit in *Sherbrooke Turf*, that a recipient's implementation of the Federal DBE Program must be analyzed under the narrow tailoring analysis but not the compelling interest inquiry. Therefore, the court agreed with *Sherbrooke Turf* that a recipient need not establish a distinct compelling interest before implementing the Federal DBE Program, but did conclude that a recipient's implementation of the Federal DBE Program must be narrowly tailored. The court found that issues of fact remain in terms of the validity of the IDOT's DBE Program as implemented in terms of whether it was narrowly tailored to achieve the Federal Government's compelling interest.

The court, therefore, denied the contractor plaintiff's Motion for Summary Judgment and the Illinois DOT's Motion for Summary Judgment.

**15. *Klaver Construction, Inc. v. Kansas DOT*, 211 F. Supp.2d 1296 (D. Kan. 2002)**

This is another case that involved a challenge to the USDOT Regulations that implement TEA-21 (49 CFR Part 26), in which the plaintiff contractor sought to enjoin the Kansas Department of Transportation ("DOT") from enforcing its DBE Program on the grounds that it violates the Equal Protection Clause under the Fourteenth Amendment. This case involves a direct constitutional challenge to racial and gender preferences in federally-funded state highway contracts. This case concerned the constitutionality of the Kansas DOT's implementation of the Federal DBE Program, and the constitutionality of the gender-based policies of the federal government and the race- and gender-based policies of the Kansas DOT. The court granted the federal and state defendants' (USDOT and Kansas DOT) Motions to Dismiss based on lack of standing. The court held the contractor could not show the specific aspects of the DBE Program that it contends are unconstitutional have caused its alleged injuries.

**16. *Sherbrooke Turf, Inc. v. Minnesota DOT*, 2001 WL 1502841, No. 00-CV-1026 (D. Minn. 2001) (unpublished opinion), aff'd 345 F.3d 964 (8th Cir. 2003)**

*Sherbrooke* involved a landscaping service contractor owned and operated by Caucasian males. The contractor sued the Minnesota DOT claiming the Federal DBE provisions of the TEA-21 are unconstitutional. *Sherbrooke* challenged the "federal affirmative action programs," the USDOT implementing regulations, and the Minnesota DOT's participation in the DBE Program. The USDOT and the FHWA intervened as Federal defendants in the case. *Sherbrooke*, 2001 WL 1502841 at \*1.

The United States District Court in *Sherbrooke* relied substantially on the Tenth Circuit Court of Appeals decision in *Adarand Constructors, Inc. v. Slater*, 228 F.3d 1147 (10th Cir. 2000), in holding that the Federal DBE Program is constitutional. The district court addressed the issue of "random inclusion" of various groups as being within the Program in connection with whether the Federal DBE Program is "narrowly tailored." The court held that Congress cannot enact a national program to remedy discrimination without recognizing classes of people whose history has shown them to be subject to discrimination and allowing states to include those people in its DBE Program.

The court held that the Federal DBE Program attempts to avoid the "potentially invidious effects of providing blanket benefits to minorities" in part, by restricting a state's DBE preference to identified groups actually appearing in the target state. In practice, this means Minnesota can only certify members of one or another group as potential DBEs if they are present in the local market. This minimizes the chance that individuals — simply on the basis of their birth — will benefit from Minnesota's DBE program. If a group is not present in the local market, or if they are found in such small numbers that they cannot be expected to be able to participate in the kinds of construction work TEA-21 covers, that group will not be included in the accounting used to set Minnesota's overall DBE contracting goal.

*Sherbrooke*, 2001 WL 1502841 at \*10 (D. Minn.). The court rejected plaintiff's claim that the Minnesota DOT must independently demonstrate how its program comports with *Croson's* strict scrutiny standard. The court held that the "Constitution calls out for different requirements when a state implements a federal affirmative action program, as opposed to those occasions when a state or locality initiates the Program." *Id.* at \*11 (emphasis added). The court in a footnote ruled that TEA-21, being a federal program, "relieves the state of any burden to independently carry the strict scrutiny burden." *Id.* at \*11 n. 3. The court held states that establish DBE programs under TEA-21 and 49 CFR Part 26 are implementing a Congressionally-required program and not establishing a local one. As such, the court concluded that the state need not independently prove its DBE program meets the strict scrutiny standard. *Id.*

**17. *Gross Seed Co. v. Nebraska Department of Roads*, Civil Action File No. 4:00CV3073 (D. Neb. May 6, 2002), *aff'd* 345 F.3d 964 (8th Cir. 2003)**

The United States District Court for the District of Nebraska held in *Gross Seed Co. v. Nebraska* (with the USDOT and FHWA as Interveners), that the Federal DBE Program (codified at 49 CFR Part 26) is constitutional. The court also held that the Nebraska Department of Roads ("Nebraska DOR") DBE Program adopted and implemented solely to comply with the Federal DBE Program is "approved" by the court because the court found that 49 CFR Part 26 and TEA-21 were constitutional.

The court concluded, similar to the court in *Sherbrooke Turf*, that the State of Nebraska did not need to independently establish that its program met the strict scrutiny requirement because the Federal DBE Program satisfied that requirement, and was therefore constitutional. The court did not engage in a thorough analysis or evaluation of the Nebraska DOR Program or its implementation of the Federal DBE Program. The court points out that the Nebraska DOR Program is adopted in compliance with the Federal DBE Program, and that the USDOT approved the use of Nebraska DOR's proposed DBE goals for fiscal year 2001, pending completion of USDOT's review of those goals. Significantly, however, the court in its findings does note that the Nebraska DOR established its overall goals for fiscal year 2001 based upon an independent availability/disparity study.

The court upheld the constitutionality of the Federal DBE Program by finding the evidence presented by the federal government and the history of the federal legislation are sufficient to demonstrate that past discrimination does exist "in the construction industry" and that racial and gender discrimination "within the construction industry" is sufficient to demonstrate a compelling interest in individual areas, such as highway construction. The court held that the Federal DBE Program was sufficiently "narrowly tailored" to satisfy a strict scrutiny analysis based again on the evidence submitted by the federal government as to the Federal DBE Program.

## **F. Recent Decisions Involving State or Local Government MBE/WBE Programs in Other Jurisdictions**

### **Recent Decisions in Federal Circuit Courts of Appeal**

#### **1. *H. B. Rowe Co., Inc. v. W. Lyndo Tippett, NCDOT, et al.*, 615 F.3d 233 (4th Cir. 2010)**

The State of North Carolina enacted statutory legislation that required prime contractors to engage in good faith efforts to satisfy participation goals for minority and women subcontractors on state-funded projects. (See facts as detailed in the decision of the United States District Court for the Eastern District of North Carolina discussed below.) The plaintiff, a prime contractor, brought this action after being denied a contract because of its failure to demonstrate good faith efforts to meet the participation goals set on a particular contract that it was seeking an award to perform work with the North Carolina Department of Transportation (“NCDOT”). Plaintiff asserted that the participation goals violated the Equal Protection Clause and sought injunctive relief and money damages.

After a bench trial, the district court held the challenged statutory scheme constitutional both on its face and as applied, and the plaintiff prime contractor appealed. 615 F.3d 233 at 236. The Court of Appeals held that the State did not meet its burden of proof in all respects to uphold the validity of the state legislation. But the Court agreed with the district court that the State produced a strong basis in evidence justifying the statutory scheme on its face, and as applied to African American and Native American subcontractors, and that the State demonstrated that the legislative scheme is narrowly tailored to serve its compelling interest in remedying discrimination against these racial groups. The Court thus affirmed the decision of the district court in part, reversed it in part and remanded for further proceedings consistent with the opinion. *Id.*

The Court found that the North Carolina statutory scheme “largely mirrored the federal Disadvantaged Business Enterprise (“DBE”) program, with which every state must comply in awarding highway construction contracts that utilize federal funds.” 615 F.3d 233 at 236. The Court also noted that federal courts of appeal “have uniformly upheld the Federal DBE Program against equal-protection challenges.” *Id.*, at footnote 1, *citing, Adarand Constructors, Inc. v. Slater*, 228 F.3d 1147 (10th Cir. 2000).

In 2004, the State retained a consultant to prepare and issue a third study of subcontractors employed in North Carolina’s highway construction industry. The study, according to the Court, marshaled evidence to conclude that disparities in the utilization of minority subcontractors persisted. 615 F.3d 233 at 238. The Court pointed out that in response to the study, the North Carolina General Assembly substantially amended state legislation section 136-28.4 and the new law went into effect in 2006. The new statute modified the previous statutory scheme, according to the Court in five important respects. *Id.*

First, the amended statute expressly conditions implementation of any participation goals on the findings of the 2004 study. Second, the amended statute eliminates the 5 and 10 percent annual goals that were set in the predecessor statute. 615 F.3d 233 at 238-239. Instead, as amended, the statute requires the NCDOT to “establish annual aspirational goals, not mandatory goals, ... for the overall participation in contracts by disadvantaged minority-owned and women-owned businesses ... [that] shall not be applied rigidly on specific contracts or projects.” *Id.* at 239, *quoting*, N.C. Gen.Stat. § 136-28.4(b)(2010). The statute further mandates that the NCDOT set “contract-specific goals or project-specific goals ... for each disadvantaged minority-owned and women-owned business category that has demonstrated significant disparity in contract utilization” based on availability, as determined by the study. *Id.*

Third, the amended statute narrowed the definition of “minority” to encompass only those groups that have suffered discrimination. *Id.* at 239. The amended statute replaced a list of defined minorities to any certain groups by defining “minority” as “only those racial or ethnicity classifications identified by [the study] ... that have been subjected to discrimination in the relevant marketplace and that have been adversely affected in their ability to obtain contracts with the Department.” *Id.* at 239 *quoting* section 136-28.4(c)(2)(2010).

Fourth, the amended statute required the NCDOT to reevaluate the Program over time and respond to changing conditions. 615 F.3d 233 at 239. Accordingly, the NCDOT must conduct a study similar to the 2004 study at least every five years. *Id.* § 136-28.4(b). Finally, the amended statute contained a sunset provision which was set to expire on August 31, 2009, but the General Assembly subsequently extended the sunset provision to August 31, 2010. *Id.* Section 136-28.4(e) (2010).

The Court also noted that the statute required only good faith efforts by the prime contractors to utilize subcontractors, and that the good faith requirement, the Court found, proved permissive in practice: prime contractors satisfied the requirement in 98.5 percent of cases, failing to do so in only 13 of 878 attempts. 615 F.3d 233 at 239.

**Strict scrutiny.** The Court stated the strict scrutiny standard was applicable to justify a race-conscious measure, and that it is a substantial burden but not automatically “fatal in fact.” 615 F.3d 233 at 241. The Court pointed out that “[t]he unhappy persistence of both the practice and the lingering effects of racial discrimination against minority groups in this country is an unfortunate reality, and government is not disqualified from acting in response to it.” *Id.* at 241 *quoting* *Alexander v. Estep*, 95 F.3d 312, 315 (4th Cir. 1996). In so acting, a governmental entity must demonstrate it had a compelling interest in “remedying the effects of past or present racial discrimination.” *Id.*, *quoting* *Shaw v. Hunt*, 517 U.S. 899, 909 (1996).

Thus, the Court found that to justify a race-conscious measure, a state must identify that discrimination, public or private, with some specificity, and must have a strong basis in evidence for its conclusion that remedial action is necessary. 615 F.3d 233 at 241 *quoting*, *Croson*, 488 U.S. at 504 and *Wygant v. Jackson Board of Education*, 476 U.S. 267, 277 (1986)(plurality opinion).



The Court significantly noted that: “There is no ‘precise mathematical formula to assess the quantum of evidence that rises to the *Croson* ‘strong basis in evidence’ benchmark.” 615 F.3d 233 at 241, quoting *Rothe Dev. Corp. v. Department of Defense*, 545 F.3d 1023, 1049 (Fed.Cir. 2008). The Court stated that the sufficiency of the State’s evidence of discrimination “must be evaluated on a case-by-case basis.” *Id.* at 241. (internal quotation marks omitted).

The Court held that a state “need not conclusively prove the existence of past or present racial discrimination to establish a strong basis in evidence for concluding that remedial action is necessary. 615 F.3d 233 at 241, citing *Concrete Works*, 321 F.3d at 958. “Instead, a state may meet its burden by relying on “a significant statistical disparity” between the availability of qualified, willing and able minority subcontractors and the utilization of such subcontractors by the governmental entity or its prime contractors. *Id.* at 241, citing *Croson*, 488 U.S. at 509 (plurality opinion). The Court stated that we “further require that such evidence be ‘corroborated by significant anecdotal evidence of racial discrimination.’” *Id.* at 241, quoting *Maryland Troopers Association, Inc. v. Evans*, 993 F.2d 1072, 1077 (4th Cir. 1993).

The Court pointed out that those challenging race-based remedial measures must “introduce credible, particularized evidence to rebut” the state’s showing of a strong basis in evidence for the necessity for remedial action. *Id.* at 241-242, citing *Concrete Works*, 321 F.3d at 959. Challengers may offer a neutral explanation for the state’s evidence, present contrasting statistical data, or demonstrate that the evidence is flawed, insignificant, or not actionable. *Id.* at 242 (citations omitted). However, the Court stated “that mere speculation that the state’s evidence is insufficient or methodologically flawed does not suffice to rebut a state’s showing. *Id.* at 242, citing *Concrete Works*, 321 F.3d at 991.

The Court held that to satisfy strict scrutiny, the state’s statutory scheme must also be “narrowly tailored” to serve the state’s compelling interest in not financing private discrimination with public funds. 615 F.3d 233 at 242, citing *Alexander*, 95 F.3d at 315 (citing *Adarand*, 515 U.S. at 227).

**Intermediate scrutiny.** The Court held that courts apply “intermediate scrutiny” to statutes that classify on the basis of gender. *Id.* at 242. The Court found that a defender of a statute that classifies on the basis of gender meets this intermediate scrutiny burden “by showing at least that the classification serves important governmental objectives and that the discriminatory means employed are substantially related to the achievement of those objectives.” *Id.*, quoting *Mississippi University for Women v. Hogan*, 458 U.S. 718, 724 (1982). The Court noted that intermediate scrutiny requires less of a showing than does “the most exacting” strict scrutiny standard of review. *Id.* at 242. The Court found that its “sister circuits” provide guidance in formulating a governing evidentiary standard for intermediate scrutiny. These courts agree that such a measure “can rest safely on something less than the ‘strong basis in evidence’ required to bear the weight of a race- or ethnicity-conscious program.” *Id.* at 242, quoting *Engineering Contractors*, 122 F.3d at 909 (other citations omitted).

In defining what constitutes “something less” than a ‘strong basis in evidence,’ the courts ... also agree that the party defending the statute must ‘present [] sufficient probative evidence in support of its stated rationale for enacting a gender preference, i.e., ... the evidence [must be] sufficient to show that the preference rests on evidence-informed analysis rather than on stereotypical generalizations.’” 615 F.3d 233 at 242 quoting *Engineering Contractors*, 122 F.3d at 910 and *Concrete Works*, 321 F.3d at 959. The gender-based measures must be based on “reasoned analysis rather than on the mechanical application of traditional, often inaccurate, assumptions.” *Id.* at 242 quoting *Hogan*, 458 U.S. at 726.

**Plaintiff's burden.** The Court found that when a plaintiff alleges that a statute violates the Equal Protection Clause as applied and on its face, the plaintiff bears a heavy burden. In its facial challenge, the Court held that a plaintiff “has a very heavy burden to carry, and must show that [a statutory scheme] cannot operate constitutionally under any circumstance.” *Id.* at 243, quoting *West Virginia v. U.S. Department of Health & Human Services*, 289 F.3d 281, 292 (4th Cir. 2002).

**Statistical evidence.** The Court examined the State’s statistical evidence of discrimination in public-sector subcontracting, including its disparity evidence and regression analysis. The Court noted that the statistical analysis analyzed the difference or disparity between the amount of subcontracting dollars minority- and women-owned businesses actually won in a market and the amount of subcontracting dollars they would be expected to win given their presence in that market. 615 F.3d 233 at 243. The Court found that the study grounded its analysis in the “disparity index,” which measures the participation of a given racial, ethnic, or gender group engaged in subcontracting. *Id.* In calculating a disparity index, the study divided the percentage of total subcontracting dollars that a particular group won by the percent that group represents in the available labor pool, and multiplied the result by 100. *Id.* The closer the resulting index is to 100, the greater that group’s participation. *Id.*

The Court held that after *Croson*, a number of our sister circuits have recognized the utility of the disparity index in determining statistical disparities in the utilization of minority- and women-owned businesses. *Id.* at 243-244 (Citations to multiple federal circuit court decisions omitted.) The Court also found that generally “courts consider a disparity index lower than 80 as an indication of discrimination.” *Id.* at 244. Accordingly, the study considered only a disparity index lower than 80 as warranting further investigation. *Id.*

The Court pointed out that after calculating the disparity index for each relevant racial or gender group, the consultant tested for the statistical significance of the results by conducting standard deviation analysis through the use of t-tests. The Court noted that standard deviation analysis “describes the probability that the measured disparity is the result of mere chance.” 615 F.3d 233 at 244, quoting *Eng’g Contractors*, 122 F.3d at 914. The consultant considered the finding of two standard deviations to demonstrate “with 95 percent certainty that disparity, as represented by either overutilization or underutilization, is actually present.” *Id.*, citing *Eng’g Contractors*, 122 F.3d at 914.

The study analyzed the participation of minority and women subcontractors in construction contracts awarded and managed from the central NCDOT office in Raleigh, North Carolina. 615 F.3d 233 at 244. To determine utilization of minority and women subcontractors, the consultant developed a master list of contracts mainly from State-maintained electronic databases and hard copy files; then selected from that list a statistically valid sample of contracts, and calculated the percentage of subcontracting dollars awarded to minority- and women-owned businesses during the 5-year period ending in June 2003. (The study was published in 2004). *Id.* at 244.

The Court found that the use of data for centrally-awarded contracts was sufficient for its analysis. It was noted that data from construction contracts awarded and managed from the NCDOT divisions across the state and from preconstruction contracts, which involve work from engineering firms and architectural firms on the design of highways, was incomplete and not accurate. 615 F.3d 233 at 244, n.6. These data were not relied upon in forming the opinions relating to the study. *Id.* at 244, n. 6.

To estimate availability, which the Court defined as the percentage of a particular group in the relevant market area, the consultant created a vendor list comprising: (1) subcontractors approved by the department to perform subcontract work on state-funded projects, (2) subcontractors that performed such work during the study period, and (3) contractors qualified to perform prime construction work on state-funded contracts. 615 F.3d 233 at 244. The Court noted that prime construction work on state-funded contracts was included based on the testimony by the consultant that prime contractors are qualified to perform subcontracting work and often do perform such work. *Id.* at 245. The Court also noted that the consultant submitted its master list to the NCDOT for verification. *Id.* at 245.

Based on the utilization and availability figures, the study prepared the disparity analysis comparing the utilization based on the percentage of subcontracting dollars over the five-year period, determining the availability in numbers of firms and their percentage of the labor pool, a disparity index which is the percentage of utilization in dollars divided by the percentage of availability multiplied by 100, and a T Value. 615 F.3d 233 at 245.

The Court concluded that the figures demonstrated prime contractors underutilized all of the minority subcontractor classifications on state-funded construction contracts during the study period. 615 F.3d 233 245. The disparity index for each group was less than 80 and, thus, the Court found warranted further investigation. *Id.* The t-test results, however, demonstrated marked underutilization only of African American and Native American subcontractors. *Id.* For African Americans the t-value fell outside of two standard deviations from the mean and, therefore, was statistically significant at a 95 percent confidence level. *Id.* The Court found there was at least a 95 percent probability that prime contractors' underutilization of African American subcontractors was *not* the result of mere chance. *Id.*

For Native American subcontractors, the t-value of 1.41 was significant at a confidence level of approximately 85 percent. 615 F.3d 233 at 245. The t-values for Hispanic American and Asian American subcontractors, demonstrated significance at a confidence level of approximately 60 percent. The disparity index for women subcontractors found that they were overutilized during the study period. The overutilization was statistically significant at a 95 percent confidence level. *Id.*

To corroborate the disparity study, the consultant conducted a regression analysis studying the influence of certain company and business characteristics — with a particular focus on owner race and gender — on a firm's gross revenues. 615 F.3d 233 at 246. The consultant obtained the data from a telephone survey of firms that conducted or attempted to conduct business with the NCDOT. The survey pool consisted of a random sample of such firms. *Id.*

The consultant used the firms' gross revenues as the dependent variable in the regression analysis to test the effect of other variables, including company age and number of full-time employees, and the owners' years of experience, level of education, race, ethnicity and gender. 615 F.3d 233 at 246. The analysis revealed that minority and women ownership universally had a negative effect on revenue, and African American ownership of a firm had the largest negative effect on that firm's gross revenue of all the independent variables included in the regression model. *Id.* These findings led to the conclusion that for African Americans the disparity in firm revenue was not due to capacity-related or managerial characteristics alone. *Id.*

The Court rejected the arguments by the plaintiffs attacking the availability estimates. The Court rejected the plaintiff's expert, Dr. George LaNoue, who testified that bidder data — reflecting the number of subcontractors that actually bid on Department subcontracts — estimates availability better than “vendor data.” 615 F.3d 233 at 246. Dr. LaNoue conceded, however, that the State does not compile bidder data and that bidder data actually reflects skewed availability in the context of a goals program that urges prime contractors to solicit bids from minority and women subcontractors. *Id.* The Court found that the plaintiff's expert did not demonstrate that the vendor data used in the study was unreliable, or that the bidder data would have yielded less support for the conclusions reached. In sum, the Court held that the plaintiffs challenge to the availability estimate failed because it could not demonstrate that the 2004 study's availability estimate was inadequate. *Id.* at 246. The Court cited *Concrete Works*, 321 F.3d at 991 for the proposition that a challenger cannot meet its burden of proof through conjecture and unsupported criticisms of the state's evidence,” and that the plaintiff Rowe presented no viable alternative for determining availability. *Id.* at 246-247, citing *Concrete Works*, 321 F.3d 991 and *Sherbrooke Turf, Inc. v. Minn. Department of Transportation*, 345 F.3d 964, 973 (8th Cir. 2003).

The Court also rejected the plaintiff's argument that minority subcontractors participated on state-funded projects at a level consistent with their availability in the relevant labor pool, based on the state's response that evidence as to the *number* of minority subcontractors working with state-funded projects does not effectively rebut the evidence of discrimination in terms of subcontracting *dollars*. 615 F.3d 233 at 247. The State pointed to evidence indicating that prime contractors used minority businesses for low-value work in order to comply with the goals, and that African American ownership had a significant negative impact on firm revenue unrelated to firm capacity or experience. *Id.* The Court concluded plaintiff did not offer any contrary evidence. *Id.*

The Court found that the State bolstered its position by presenting evidence that minority subcontractors have the capacity to perform higher-value work. 615 F.3d 233 at 247. The study concluded, based on a sample of subcontracts and reports of annual firm revenue, that exclusion of minority subcontractors from contracts under \$500,000 was not a function of capacity. *Id.* at 247. Further, the State showed that over 90 percent of the NCDOT's subcontracts were valued at \$500,000 or less, and that capacity constraints do not operate with the same force on subcontracts as they may on prime contracts because subcontracts tend to be relatively small. *Id.* at 247. The Court pointed out that the Court in *Rothe II*, 545 F.3d at 1042-45, faulted disparity analyses of total construction dollars, including prime contracts, for failing to account for the relative capacity of firms in that case. *Id.* at 247.

The Court pointed out that in addition to the statistical evidence, the State also presented evidence demonstrating that from 1991 to 1993, during the Program's suspension, prime contractors awarded substantially fewer subcontracting dollars to minority and women subcontractors on state-funded projects. The Court rejected the plaintiff's argument that evidence of a decline in utilization does not raise an inference of discrimination. 615 F.3d 233 at 247-248. The Court held that the very significant decline in utilization of minority and women-subcontractors — nearly 38 percent — “surely provides a basis for a fact finder to infer that discrimination played some role in prime contractors' reduced utilization of these groups during the suspension.” *Id.* at 248, citing *Adarand v. Slater*, 228 F.3d at 1174 (finding that evidence of declining minority utilization after a program has been discontinued “strongly supports the government's claim that there are significant barriers to minority competition

in the public subcontracting market, raising the specter of racial discrimination.”) The Court found such an inference is particularly compelling for minority-owned businesses because, even during the study period, prime contractors continue to underutilize them on state-funded road projects. *Id.* at 248.

**Anecdotal evidence.** The State additionally relied on three sources of anecdotal evidence contained in the study: a telephone survey, personal interviews, and focus groups. The Court found the anecdotal evidence showed an informal “good old boy” network of white contractors that discriminated against minority subcontractors. 615 F.3d 233 at 248. The Court noted that three-quarters of African American respondents to the telephone survey agreed that an informal network of prime and subcontractors existed in the State, as did the majority of other minorities, that more than half of African American respondents believed the network excluded their companies from bidding or awarding a contract as did many of the other minorities. *Id.* at 248. The Court found that nearly half of nonminority male respondents corroborated the existence of an informal network, however, only 17 percent of them believed that the network excluded their companies from bidding or winning contracts. *Id.*

Anecdotal evidence also showed a large majority of African American respondents reported that double standards in qualifications and performance made it more difficult for them to win bids and contracts, that prime contractors view minority firms as being less competent than nonminority firms, and that nonminority firms change their bids when not required to hire minority firms. 615 F.3d 233 at 248. In addition, the anecdotal evidence showed African American and Native American respondents believed that prime contractors sometimes dropped minority subcontractors after winning contracts. *Id.* at 248. The Court found that interview and focus-group responses echoed and underscored these reports. *Id.*

The anecdotal evidence indicated that prime contractors already know who they will use on the contract before they solicit bids: that the “good old boy network” affects business because prime contractors just pick up the phone and call their buddies, which excludes others from that market completely; that prime contractors prefer to use other less qualified minority-owned firms to avoid subcontracting with African American-owned firms; and that prime contractors use their preferred subcontractor regardless of the bid price. 615 F.3d 233 at 248-249. Several minority subcontractors reported that prime contractors do not treat minority firms fairly, pointing to instances in which prime contractors solicited quotes the day before bids were due, did not respond to bids from minority subcontractors, refused to negotiate prices with them, or gave minority subcontractors insufficient information regarding the project. *Id.* at 249.

The Court rejected the plaintiffs’ contention that the anecdotal data was flawed because the study did not verify the anecdotal data and that the consultant oversampled minority subcontractors in collecting the data. The Court stated that the plaintiffs offered no rationale as to why a fact finder could not rely on the State’s “unverified” anecdotal data, and pointed out that a fact finder could very well conclude that anecdotal evidence need not- and indeed cannot-be verified because it “is nothing more than a witness’ narrative of an incident told from the witness’ perspective and including the witness’ perceptions.” 615 F.3d 233 at 249, quoting *Concrete Works*, 321 F.3d at 989.

The Court held that anecdotal evidence simply supplements statistical evidence of discrimination. *Id.* at 249. The Court rejected plaintiffs’ argument that the study oversampled representatives from minority groups, and found that surveying more non-minority men would not have advanced the inquiry. *Id.* at 249. It was noted that the samples of the minority groups were randomly selected. *Id.* The Court found the state had compelling anecdotal evidence that minority subcontractors face race-based obstacles to successful bidding. *Id.* at 249.

**Strong basis in evidence that the minority participation goals were necessary to remedy discrimination.** The Court held that the State presented a “strong basis in evidence” for its conclusion that minority participation goals were necessary to remedy discrimination against African American and Native American subcontractors.” 615 F.3d 233 at 250. Therefore, the Court held that the State satisfied the strict scrutiny test. The Court found that the State’s data demonstrated that prime contractors grossly underutilized African American and Native American subcontractors in public sector subcontracting during the study. *Id.* at 250. The Court noted that these findings have particular resonance because since 1983, North Carolina has encouraged minority participation in state-funded highway projects, and yet African American and Native American subcontractors continue to be underutilized on such projects. *Id.* at 250.

In addition, the Court found the disparity index in the study demonstrated statistically significant underutilization of African American subcontractors at a 95 percent confidence level, and of Native American subcontractors at a confidence level of approximately 85 percent. 615 F.3d 233 at 250. The Court concluded the State bolstered the disparity evidence with regression analysis demonstrating that African American ownership correlated with a significant, negative impact on firm revenue, and demonstrated there was a dramatic decline in the utilization of minority subcontractors during the suspension of the program in the 1990s. *Id.*

Thus, the Court held the State’s evidence showing a gross statistical disparity between the availability of qualified American and Native American subcontractors and the amount of subcontracting dollars they win on public sector contracts established the necessary statistical foundation for upholding the minority participation goals with respect to these groups. 615 F.3d 233 at 250. The Court then found that the State’s anecdotal evidence of discrimination against these two groups sufficiently supplemented the State’s statistical showing. *Id.* The survey in the study exposed an informal, racially exclusive network that systemically disadvantaged minority subcontractors. *Id.* at 251. The Court held that the State could conclude with good reason that such networks exert a chronic and pernicious influence on the marketplace that calls for remedial action. *Id.* The Court found the anecdotal evidence indicated that racial discrimination is a critical factor underlying the gross statistical disparities presented in the study. *Id.* at 251. Thus, the Court held that the State presented substantial statistical evidence of gross disparity, corroborated by “disturbing” anecdotal evidence.

The Court held in circumstances like these, the Supreme Court has made it abundantly clear a state can remedy a public contracting system that withholds opportunities from minority groups because of their race. 615 F.3d 233 at 251-252.

**Narrowly tailored.** The Court then addressed whether the North Carolina statutory scheme was narrowly tailored to achieve the State’s compelling interest in remedying discrimination against African American and Native American subcontractors in public-sector subcontracting. The following factors were considered in determining whether the statutory scheme was narrowly tailored.

**Neutral measures.** The Court held that narrowly tailoring requires “serious, good faith consideration of workable race-neutral alternatives,” but a state need not “exhaust [ ] . . . every conceivable race-neutral alternative.” 615 F.3d 233 at 252 quoting *Grutter v. Bollinger*, 539 U.S. 306, 339 (2003). The Court found that the study details numerous alternative race-neutral measures aimed at enhancing the development and competitiveness of small or otherwise disadvantaged businesses in North Carolina. *Id.* at 252. The Court pointed out various race-neutral alternatives and measures, including a Small Business Enterprise Program; waiving institutional barriers of bonding and licensing requirements on certain small business contracts of \$500,000 or less; and the Department contracts for support services to assist disadvantaged business enterprises with bookkeeping and accounting, taxes, marketing, bidding, negotiation, and other aspects of entrepreneurial development. *Id.* at 252.

The Court found that plaintiff identified no viable race-neutral alternatives that North Carolina had failed to consider and adopt. The Court also found that the State had undertaken most of the race-neutral alternatives identified by USDOT in its regulations governing the Federal DBE Program. 615 F.3d 233 at 252, *citing* 49 CFR § 26.51(b). The Court concluded that the State gave serious good faith consideration to race-neutral alternatives prior to adopting the statutory scheme. *Id.*

The Court concluded that despite these race-neutral efforts, the study demonstrated disparities continue to exist in the utilization of African American and Native American subcontractors in state-funded highway construction subcontracting, and that these “persistent disparities indicate the necessity of a race-conscious remedy.” 615 F.3d 233 at 252.

**Duration.** The Court agreed with the district court that the program was narrowly tailored in that it set a specific expiration date and required a new disparity study every five years. 615 F.3d 233 at 253. The Court found that the program’s inherent time limit and provisions requiring regular reevaluation ensure it is carefully designed to endure only until the discriminatory impact has been eliminated. *Id.* at 253, *citing* *Adarand Constructors v. Slater*, 228 F.3d at 1179 (quoting *United States v. Paradise*, 480 U.S. 149, 178 (1987)).

**Program’s goals related to percentage of minority subcontractors.** The Court concluded that the State had demonstrated that the Program’s participation goals are related to the percentage of minority subcontractors in the relevant markets in the State. 615 F.3d 233 at 253. The Court found that the NCDOT had taken concrete steps to ensure that these goals accurately reflect the availability of minority-owned businesses on a project-by-project basis. *Id.*

**Flexibility.** The Court held that the Program was flexible and thus satisfied this indicator of narrow tailoring. 615 F.3d 233 at 253. The Program contemplated a waiver of project-specific goals when prime contractors make good faith efforts to meet those goals, and that the good faith efforts essentially require only that the prime contractor solicit and consider bids from minorities. *Id.* The State does not require or expect the prime contractor to accept any bid from an unqualified bidder, or any bid that is not the lowest bid. *Id.* The Court found there was a lenient standard and flexibility of the “good faith” requirement, and noted the evidence showed only 13 of 878 good faith submissions failed to demonstrate good faith efforts. *Id.*

**Burden on non-MWBE/DBEs.** The Court rejected the two arguments presented by plaintiff that the Program created onerous solicitation and follow-up requirements, finding that there was no need for additional employees dedicated to the task of running the solicitation program to obtain MBE/WBEs, and that there was no evidence to support the claim that plaintiff was required to subcontract millions of dollars of work that it could perform itself for less money. 615 F.3d 233 at 254. The State offered evidence from the study that prime contractors need not submit subcontract work that they can self-perform. *Id.*

**Overinclusive.** The Court found by its own terms the statutory scheme is not overinclusive because it limited relief to only those racial or ethnicity classifications that have been subjected to discrimination in the relevant marketplace and that had been adversely affected in their ability to obtain contracts with the Department. 615 F.3d 233 at 254. The Court concluded that in tailoring the remedy this way, the legislature did not randomly include racial groups that may never have suffered from discrimination in the construction industry, but rather, contemplated participation goals only for those groups shown to have suffered discrimination. *Id.*

In sum, the Court held that the statutory scheme is narrowly tailored to achieve the State’s compelling interest in remedying discrimination in public-sector subcontracting against African American and Native American subcontractors. *Id.* at 254.

**Women-owned businesses overutilized.** The study’s public-sector disparity analysis demonstrated that women-owned businesses won far more than their expected share of subcontracting dollars during the study period. 615 F.3d 233 at 254. In other words, the Court concluded that prime contractors substantially overutilized women subcontractors on public road construction projects. *Id.* The Court found the public-sector evidence did not evince the “exceedingly persuasive justification” the Supreme Court requires. *Id.* at 255.

The Court noted that the State relied heavily on private-sector data from the study attempting to demonstrate that prime contractors significantly underutilized women subcontractors in the general construction industry statewide and in the Charlotte, North Carolina area. 615 F.3d 233 at 255. However, because the study did not provide a t-test analysis on the private-sector disparity figures to calculate statistical significance, the Court could not determine whether this private underutilization was “the result of mere chance.” *Id.* at 255. The Court found troubling the “evidentiary gap” that there was no evidence indicating the extent to which women-owned businesses competing on public-sector road projects vied for private-sector subcontracts in the general construction industry. *Id.* at 255. The Court also found that the State did not present any anecdotal evidence indicating that women subcontractors successfully bidding on State contracts faced private-sector discrimination. *Id.*



In addition, the Court found missing any evidence prime contractors that discriminate against women subcontractors in the private sector nevertheless win public-sector contracts. *Id.*

The Court pointed out that it did not suggest that the proponent of a gender-conscious program “must always tie private discrimination to public action.” 615 F.3d 233 at 255, n. 11. But the Court held where, as here, there existed substantial probative evidence of overutilization in the relevant public sector, a state must present something more than generalized private-sector data unsupported by compelling anecdotal evidence to justify a gender-conscious program. *Id.* at 255, n. 11.

Moreover, the Court found the state failed to establish the amount of overlap between general construction and road construction subcontracting. 615 F.3d 233 at 256. The Court said that the dearth of evidence as to the correlation between public road construction subcontracting and private general construction subcontracting severely limits the private data’s probative value in this case. *Id.*

Thus, the Court held that the State could not overcome the strong evidence of overutilization in the public sector in terms of gender participation goals, and that the proffered private-sector data failed to establish discrimination in the particular field in question. 615 F.3d 233 at 256. Further, the anecdotal evidence, the Court concluded, indicated that most women subcontractors do not experience discrimination. *Id.* Thus, the Court held that the State failed to present sufficient evidence to support the Program’s current inclusion of women subcontractors in setting participation goals. *Id.*

**Holding.** The Court held that the state legislature had crafted legislation that withstood the constitutional scrutiny. 615 F.3d 233 at 257. The Court concluded that in light of the statutory scheme’s flexibility and responsiveness to the realities of the marketplace, and given the State’s strong evidence of discrimination against African American and Native American subcontractors in public-sector subcontracting, the State’s application of the statute to these groups is constitutional. *Id.* at 257. However, the Court also held that because the State failed to justify its application of the statutory scheme to women, Asian American, and Hispanic American subcontractors, the Court found those applications were not constitutional.

Therefore, the Court affirmed the judgment of the district court with regard to the facial validity of the statute, and with regard to its application to African American and Native American subcontractors. 615 F.3d 233 at 258. The Court reversed the district court’s judgment insofar as it upheld the constitutionality of the state legislature as applied to women, Asian American and Hispanic American subcontractors. *Id.* The Court thus remanded the case to the district court to fashion an appropriate remedy consistent with the opinion. *Id.*

**Concurring opinions.** It should be pointed out that there were two concurring opinions by the three Judge panel: one judge concurred in the judgment, and the other judge concurred fully in the majority opinion and the judgment.

**2. *Jana-Rock Construction, Inc. v. New York State Dept. of Economic Development*, 438 F.3d 195 (2d Cir. 2006)**

This recent case is instructive in connection with the determination of the groups that may be included in an MBE/WBE-type program, and the standard of analysis utilized to evaluate a local government's non-inclusion of certain groups. In this case, the Second Circuit Court of Appeals held racial classifications that are challenged as "under-inclusive" (i.e., those that exclude persons from a particular racial classification) are subject to a "rational basis" review, not strict scrutiny.

Plaintiff Luiere, a 70 percent shareholder of Jana-Rock Construction, Inc. ("Jana Rock") and the "son of a Spanish mother whose parents were born in Spain," challenged the constitutionality of the State of New York's definition of "Hispanic" under its local minority-owned business program. 438 F.3d 195, 199-200 (2d Cir. 2006). Under the USDOT regulations, 49 CFR § 26.5, "Hispanic Americans" are defined as "persons of Mexican, Puerto Rican, Cuban, Dominican, Central or South American, or other Spanish or Portuguese culture or origin, regardless of race." *Id.* at 201. Upon proper application, Jana-Rock was certified by the New York Department of Transportation as a Disadvantaged Business Enterprise ("DBE") under the federal regulations. *Id.*

However, unlike the federal regulations, the State of New York's local minority-owned business program included in its definition of minorities "Hispanic persons of Mexican, Puerto Rican, Dominican, Cuban, Central or South American of either Indian or Hispanic origin, regardless of race." The definition did not include all persons from, or descendants of persons from, Spain or Portugal. *Id.* Accordingly, Jana-Rock was denied MBE certification under the local program; Jana-Rock filed suit alleging a violation of the Equal Protection Clause. *Id.* at 202-03. The plaintiff conceded that the overall minority-owned business program satisfied the requisite strict scrutiny, but argued that the definition of "Hispanic" was fatally under-inclusive. *Id.* at 205.

The Second Circuit found that the narrow-tailoring prong of the strict scrutiny analysis "allows New York to identify which groups it is prepared to prove are in need of affirmative action without demonstrating that no other groups merit consideration for the program." *Id.* at 206. The court found that evaluating under-inclusiveness as an element of the strict scrutiny analysis was at odds with the United States Supreme Court decision in *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469 (1989) which required that affirmative action programs be no broader than necessary. *Id.* at 207-08. The court similarly rejected the argument that the state should mirror the federal definition of "Hispanic," finding that Congress has more leeway than the states to make broader classifications because Congress is making such classifications on the national level. *Id.* at 209.

The court opined — without deciding — that it may be impermissible for New York to simply adopt the "federal USDOT definition of Hispanic without at least making an independent assessment of discrimination against Hispanics of Spanish Origin in New York." *Id.* Additionally, finding that the plaintiff failed to point to any discriminatory purpose by New York in failing to include persons of Spanish or Portuguese descent, the court determined that the rational basis analysis was appropriate. *Id.* at 213.

The court held that the plaintiff failed the rational basis test for three reasons: (1) because it was not irrational nor did it display animus to exclude persons of Spanish and Portuguese descent from the definition of Hispanic; (2) because the fact the plaintiff could demonstrate evidence of discrimination that he personally had suffered did not render New York's decision to exclude persons of Spanish and Portuguese descent irrational; and (3) because the fact New York may have relied on Census data including a small percentage of Hispanics of Spanish descent did not mean that it was irrational to conclude that Hispanics of Latin American origin were in greater need of remedial legislation. *Id.* at 213-14. Thus, the Second Circuit affirmed the conclusion that New York had a rational basis for its definition to not include persons of Spanish and Portuguese descent, and thus affirmed the district court decision upholding the constitutionality of the challenged definition.

### **3. *Rapid Test Prods., Inc. v. Durham Sch. Servs., Inc.*, 460 F.3d 859 (7th Cir. 2006)**

In *Rapid Test Products, Inc. v. Durham School Services Inc.*, the Seventh Circuit Court of Appeals held that 42 U.S.C. § 1981 (the federal anti-discrimination law) did not provide an “entitlement” in disadvantaged businesses to receive contracts subject to set aside programs; rather, § 1981 provided a remedy for individuals who were subject to discrimination.

Durham School Services, Inc. (“Durham”), a prime contractor, submitted a bid for and won a contract with an Illinois school district. The contract was subject to a set-aside program reserving some of the subcontracts for disadvantaged business enterprises (a race- and gender-conscious program). Prior to bidding, Durham negotiated with Rapid Test Products, Inc. (“Rapid Test”), made one payment to Rapid Test as an advance, and included Rapid Test in its final bid. Rapid Test believed it had received the subcontract. However, after the school district awarded the contract to Durham, Durham gave the subcontract to one of Rapid Test's competitor's, a business owned by an Asian male. The school district agreed to the substitution. Rapid Test brought suit against Durham under 42 U.S.C. § 1981 alleging that Durham discriminated against it because Rapid's owner was a black woman.

The district court granted summary judgment in favor of Durham holding the parties' dealing had been too indefinite to create a contract. On appeal, the Seventh Circuit Court of Appeals stated that “§ 1981 establishes a rule against discrimination in contracting and does not create any entitlement to be the beneficiary of a contract reserved for firms owned by specified racial, sexual, ethnic, or religious groups. Arguments that a particular set-aside program is a lawful remedy for prior discrimination may or may not prevail if a potential subcontractor claims to have been excluded, but it is to victims of discrimination rather than frustrated beneficiaries that § 1981 assigns the right to litigate.”

The court held that if race or sex discrimination is the reason why Durham did not award the subcontract to Rapid Test, then § 1981 provides relief. Having failed to address this issue, the Seventh Circuit Court of Appeals remanded the case to the district court to determine whether Rapid Test had evidence to back up its claim that race and sex discrimination, rather than a nondiscriminatory reason such as inability to perform the services Durham wanted, accounted for Durham's decision to hire Rapid Test's competitor.

**4. *Viridi v. DeKalb County School District*, 135 Fed. Appx. 262, 2005 WL 138942 (11th Cir. 2005) (unpublished opinion)**

Although it is an unpublished opinion, *Viridi v. DeKalb County School District* is a recent Eleventh Circuit decision reviewing a challenge to a local government MBE/WBE-type program, which is instructive to the disparity study. In *Viridi*, the Eleventh Circuit struck down an MBE/WBE goal program that the court held contained racial classifications. The court based its ruling primarily on the failure of the DeKalb County School District (the “District”) to seriously consider and implement a race-neutral program and to the infinite duration of the program.

Plaintiff Viridi, an Asian American architect of Indian descent, filed suit against the District, members of the DeKalb County Board of Education (both individually and in their official capacities) (the “Board”) and the Superintendent (both individually and in his official capacity) (collectively “defendants”) pursuant to 42 U.S.C. §§ 1981 and 1983 and the Fourteenth Amendment alleging that they discriminated against him on the basis of race when awarding architectural contracts. 135 Fed. Appx. 262, 264 (11th Cir. 2005). Viridi also alleged the school district’s Minority Vendor Involvement Program was facially unconstitutional. *Id.*

The district court initially granted the defendants’ Motions for Summary Judgment on all of Viridi’s claims and the Eleventh Circuit Court of Appeals reversed in part, vacated in part, and remanded. *Id.* On remand, the district court granted the defendants’ Motion for Partial Summary Judgment on the facial challenge, and then granted the defendants’ motion for a judgment as a matter of law on the remaining claims at the close of Viridi’s case. *Id.*

In 1989, the Board appointed the Tillman Committee (the “Committee”) to study participation of female- and minority-owned businesses with the District. *Id.* The Committee met with various District departments and a number of minority contractors who claimed they had unsuccessfully attempted to solicit business with the District. *Id.* Based upon a “general feeling” that minorities were under-represented, the Committee issued the Tillman Report (the “Report”) stating “the Committee’s impression that [m]inorities ha[d] not participated in school board purchases and contracting in a ratio reflecting the minority make-up of the community.” *Id.* The Report contained no specific evidence of past discrimination nor any factual findings of discrimination. *Id.*

The Report recommended that the District: (1) Advertise bids and purchasing opportunities in newspapers targeting minorities, (2) conduct periodic seminars to educate minorities on doing business with the District, (3) notify organizations representing minority firms regarding bidding and purchasing opportunities, and (4) publish a “how to” booklet to be made available to any business interested in doing business with the District.

*Id.* The Report also recommended that the District adopt annual, aspirational participation goals for women- and minority-owned businesses. *Id.* The Report contained statements indicating the selection process should remain neutral and recommended that the Board adopt a non-discrimination statement. *Id.*

In 1991, the Board adopted the Report and implemented several of the recommendations, including advertising in the AJC, conducting seminars, and publishing the “how to” booklet. *Id.* The Board also implemented the Minority Vendor Involvement Program (the “MVP”) which adopted the participation goals set forth in the Report. *Id.* at 265.

The Board delegated the responsibility of selecting architects to the Superintendent. *Id.* Virdi sent a letter to the District in October 1991 expressing interest in obtaining architectural contracts. *Id.* Virdi sent the letter to the District Manager and sent follow-up literature; he re-contacted the District Manager in 1992 and 1993. *Id.* In August 1994, Virdi sent a letter and a qualifications package to a project manager employed by Heery International. *Id.* In a follow-up conversation, the project manager allegedly told Virdi that his firm was not selected not based upon his qualifications, but because the “District was only looking for ‘black-owned firms.’” *Id.* Virdi sent a letter to the project manager requesting confirmation of his statement in writing and the project manager forwarded the letter to the District. *Id.*

After a series of meetings with District officials, in 1997, Virdi met with the newly hired Executive Director. *Id.* at 266. Upon request of the Executive Director, Virdi re-submitted his qualifications but was informed that he would be considered only for future projects (Phase III SPLOST projects). *Id.* Virdi then filed suit before any Phase III SPLOST projects were awarded. *Id.*

The Eleventh Circuit considered whether the MVP was facially unconstitutional and whether the defendants intentionally discriminated against Virdi on the basis of his race. The court held that strict scrutiny applies to all racial classifications and is not limited to merely set-asides or mandatory quotas; therefore, the MVP was subject to strict scrutiny because it contained racial classifications. *Id.* at 267. The court first questioned whether the identified government interest was compelling. *Id.* at 268. However, the court declined to reach that issue because it found the race-based participation goals were not narrowly tailored to achieving the identified government interest. *Id.*

The court held the MVP was not narrowly tailored for two reasons. *Id.* First, because no evidence existed that the District considered race-neutral alternatives to “avoid unwitting discrimination.” The court found that “[w]hile narrow tailoring does not require exhaustion of every conceivable race-neutral alternative, it does require serious, good faith consideration of whether such alternatives could serve the governmental interest at stake.” *Id.*, citing *Grutter v. Bollinger*, 539 U.S. 306, 339 (2003), and *Richmond v. J.A. Croson Co.*, 488 U.S. 469, 509-10 (1989). The court found that District could have engaged in any number of equally effective race-neutral alternatives, including using its outreach procedure and tracking the participation and success of minority-owned business as compared to non-minority-owned businesses. *Id.* at 268, n.8. Accordingly, the court held the MVP was not narrowly tailored. *Id.* at 268.

Second, the court held that the unlimited duration of the MVP’s racial goals negated a finding of narrow tailoring. *Id.* “[R]ace conscious ... policies must be limited in time.” *Id.*, citing *Grutter*, 539 U.S. at 342, and *Walker v. City of Mesquite, TX*, 169 F.3d 973, 982 (5th Cir. 1999). The court held that because the government interest could have been achieved utilizing race-neutral measures, and because the racial goals were not temporally limited, the MVP could not withstand strict scrutiny and was unconstitutional on its face. *Id.* at 268.

With respect to Virdi's claims of intentional discrimination, the court held that although the MVP was facially unconstitutional, no evidence existed that the MVP or its unconstitutionality caused Virdi to lose a contract that he would have otherwise received. *Id.* Thus, because Virdi failed to establish a causal connection between the unconstitutional aspect of the MVP and his own injuries, the court affirmed the district court's grant of judgment on that issue. *Id.* at 269. Similarly, the court found that Virdi presented insufficient evidence to sustain his claims against the Superintendent for intentional discrimination. *Id.*

The court reversed the district court's order pertaining to the facial constitutionality of the MVP's racial goals, and affirmed the district court's order granting defendants' motion on the issue of intentional discrimination against Virdi. *Id.* at 270.

**5. *Concrete Works of Colorado, Inc. v. City and County of Denver*, 321 F.3d 950 (10th Cir. 2003), cert. denied, 540 U.S. 1027, 124 S. Ct. 556 (2003) (Scalia, Justice with whom the Chief Justice Rehnquist, joined, dissenting from the denial of certiorari)**

This case is instructive to the disparity study because it is one of the only recent decisions to uphold the validity of a local government MBE/WBE program. It is significant to note that the Tenth Circuit did not apply the narrowly tailored test and thus did not rule on an application of the narrowly tailored test, instead finding that the plaintiff had waived that challenge in one of the earlier decisions in the case. This case also is one of the only cases to have found private sector marketplace discrimination as a basis to uphold an MBE/WBE-type program.

In *Concrete Works*, the United States Court of Appeals for the Tenth Circuit held that the City and County of Denver had a compelling interest in limiting race discrimination in the construction industry, that the City had an important governmental interest in remedying gender discrimination in the construction industry, and found that the City and County of Denver had established a compelling governmental interest to have a race- and gender-based program. In *Concrete Works*, the Court of Appeals did not address the issue of whether the MWBE Ordinance was narrowly tailored because it held the district court was barred under the law of the case doctrine from considering that issue since it was not raised on appeal by the plaintiff construction companies after they had lost that issue on summary judgment in an earlier decision. Therefore, the Court of Appeals did not reach a decision as to narrowly tailoring or consider that issue in the case.

**Case history.** Plaintiff, Concrete Works of Colorado, Inc. ("CWC") challenged the constitutionality of an "affirmative action" ordinance enacted by the City and County of Denver (hereinafter the "City" or "Denver"). 321 F.3d 950, 954 (10th Cir. 2003). The ordinance established participation goals for racial minorities and women on certain City construction and professional design projects. *Id.*

The City enacted an Ordinance No. 513 ("1990 Ordinance") containing annual goals for MBE/WBE utilization on all competitively bid projects. *Id.* at 956. A prime contractor could also satisfy the 1990 Ordinance requirements by using "good faith efforts." *Id.* In 1996, the City replaced the 1990 Ordinance with Ordinance No. 304 (the "1996 Ordinance"). The district court stated that the 1996 Ordinance differed from the 1990 Ordinance by expanding the definition of covered contracts to include some privately financed contracts on City-owned land; added updated information and findings to the statement of factual support for continuing the program; refined the requirements for

MBE/WBE certification and graduation; mandated the use of MBEs and WBEs on change orders; and expanded sanctions for improper behavior by MBEs, WBEs or majority-owned contractors in failing to perform the affirmative action commitments made on City projects. *Id.* at 956-57.

The 1996 Ordinance was amended in 1998 by Ordinance No. 948 (the “1998 Ordinance”). The 1998 Ordinance reduced annual percentage goals and prohibited an MBE or a WBE, acting as a bidder, from counting self-performed work toward project goals. *Id.* at 957.

CWC filed suit challenging the constitutionality of the 1990 Ordinance. *Id.* The district court conducted a bench trial on the constitutionality of the three ordinances. *Id.* The district court ruled in favor of CWC and concluded that the ordinances violated the Fourteenth Amendment. *Id.* The City then appealed to the Tenth Circuit Court of Appeals. *Id.* The Court of Appeals reversed and remanded. *Id.* at 954.

The Court of Appeals applied strict scrutiny to race-based measures and intermediate scrutiny to the gender-based measures. *Id.* at 957-58, 959. The Court of Appeals also cited *Richmond v. J.A. Croson Co.*, for the proposition that a governmental entity “can use its spending powers to remedy private discrimination, if it identifies that discrimination with the particularity required by the Fourteenth Amendment.” 488 U.S. 469, 492 (1989) (plurality opinion). Because “an effort to alleviate the effects of *societal* discrimination is not a compelling interest,” the Court of Appeals held that Denver could demonstrate that its interest is compelling only if it (1) identified the past or present discrimination “with some specificity,” and (2) demonstrated that a “strong basis in evidence” supports its conclusion that remedial action is necessary. *Id.* at 958, *quoting Shaw v. Hunt*, 517 U.S. 899, 909-10 (1996).

The court held that Denver could meet its burden without conclusively proving the existence of past or present racial discrimination. *Id.* Rather, Denver could rely on “empirical evidence that demonstrates ‘a significant statistical disparity between the number of qualified minority contractors ... and the number of such contractors actually engaged by the locality or the locality’s prime contractors.’” *Id.*, *quoting Croson*, 488 U.S. at 509 (plurality opinion). Furthermore, the Court of Appeals held that Denver could rely on statistical evidence gathered from the six-county Denver Metropolitan Statistical Area (MSA) and could supplement the statistical evidence with anecdotal evidence of public and private discrimination. *Id.*

The Court of Appeals held that Denver could establish its compelling interest by presenting evidence of its own direct participation in racial discrimination or its passive participation in private discrimination. *Id.* The Court of Appeals held that once Denver met its burden, CWC had to introduce “credible, particularized evidence to rebut [Denver’s] initial showing of the existence of a compelling interest, which could consist of a neutral explanation for the statistical disparities.” *Id.* (internal citations and quotations omitted). The Court of Appeals held that CWC could also rebut Denver’s statistical evidence “by (1) showing that the statistics are flawed; (2) demonstrating that the disparities shown by the statistics are not significant or actionable; or (3) presenting contrasting statistical data.” *Id.* (internal citations and quotations omitted). The Court of Appeals held that the burden of proof at all times remained with CWC to demonstrate the unconstitutionality of the ordinances. *Id.* at 960.

The Court of Appeals held that to meet its burden of demonstrating an important governmental interest per the intermediate scrutiny analysis, Denver must show that the gender-based measures in the ordinances were based on “reasoned analysis rather than through the mechanical application of traditional, often inaccurate, assumptions.” *Id.*, quoting *Miss. Univ. for Women v. Hogan*, 458 U.S. 718, 726 (1982).

**The studies.** Denver presented historical, statistical and anecdotal evidence in support of its MBE/WBE programs. Denver commissioned a number of studies to assess its MBE/WBE programs. *Id.* at 962. The consulting firm hired by Denver utilized disparity indices in part. *Id.* at 962. The 1990 Study also examined MBE and WBE utilization in the overall Denver MSA construction market, both public and private. *Id.* at 963.

The consulting firm also interviewed representatives of MBEs, WBEs, majority-owned construction firms, and government officials. *Id.* Based on this information, the 1990 Study concluded that, despite Denver’s efforts to increase MBE and WBE participation in Denver Public Works projects, some Denver employees and private contractors engaged in conduct designed to circumvent the goals program. *Id.* After reviewing the statistical and anecdotal evidence contained in the 1990 Study, the City Council enacted the 1990 Ordinance. *Id.*

After the Tenth Circuit decided *Concrete Works II*, Denver commissioned another study (the “1995 Study”). *Id.* at 963. Using 1987 Census Bureau data, the 1995 Study again examined utilization of MBEs and WBEs in the construction and professional design industries within the Denver MSA. *Id.* The 1995 Study concluded that MBEs and WBEs were more likely to be one-person or family-run businesses. The Study concluded that Hispanic-owned firms were less likely to have paid employees than white-owned firms but that Asian/Native American-owned firms were more likely to have paid employees than white- or other minority-owned firms. To determine whether these factors explained overall market disparities, the 1995 Study used the Census data to calculate disparity indices for all firms in the Denver MSA construction industry and separately calculated disparity indices for firms with paid employees and firms with no paid employees. *Id.* at 964.

The Census Bureau information was also used to examine average revenues per employee for Denver MSA construction firms with paid employees. Hispanic-, Asian-, Native American- and women-owned firms with paid employees all reported lower revenues per employee than majority-owned firms. The 1995 Study also used 1990 Census data to calculate rates of self-employment within the Denver MSA construction industry. The Study concluded that the disparities in the rates of self-employment for blacks, Hispanics and women persisted even after controlling for education and length of work experience. The 1995 Study controlled for these variables and reported that blacks and Hispanics working in the Denver MSA construction industry were less than half as likely to own their own businesses as were whites of comparable education and experience. *Id.*

In late 1994 and early 1995, a telephone survey of construction firms doing business in the Denver MSA was conducted. *Id.* at 965. Based on information obtained from the survey, the consultant calculated percentage utilization and percentage availability of MBEs and WBEs. Percentage utilization was calculated from revenue information provided by the responding firms. Percentage availability was calculated based on the number of MBEs and WBEs that responded to the survey question regarding revenues. Using these utilization and availability percentages, the 1995



Study showed disparity indices of 64 for MBEs and 70 for WBEs in the construction industry. In the professional design industry, disparity indices were 67 for MBEs and 69 for WBEs. The 1995 Study concluded that the disparity indices obtained from the telephone survey data were more accurate than those obtained from the 1987 Census data because the data obtained from the telephone survey were more recent, had a narrower focus, and included data on C corporations. Additionally, it was possible to calculate disparity indices for professional design firms from the survey data. *Id.*

In 1997, the City conducted another study to estimate the availability of MBEs and WBEs and to examine, *inter alia*, whether race and gender discrimination limited the participation of MBEs and WBEs in construction projects of the type typically undertaken by the City (the “1997 Study”). *Id.* at 966. The 1997 Study used geographic and specialization information to calculate MBE/WBE availability. Availability was defined as “the ratio of MBE/WBE firms to the total number of firms in the four-digit SIC codes and geographic market area relevant to the City’s contracts.” *Id.*

The 1997 Study compared MBE/WBE availability and utilization in the Colorado construction industry. *Id.* The statewide market was used because necessary information was unavailable for the Denver MSA. *Id.* at 967. Additionally, data collected in 1987 by the Census Bureau was used because more current data was unavailable. The Study calculated disparity indices for the statewide construction market in Colorado as follows: 41 for African American firms, 40 for Hispanic firms, 14 for Asian and other minorities, and 74 for women-owned firms. *Id.*

The 1997 Study also contained an analysis of whether African Americans, Hispanics or Asian Americans working in the construction industry are less likely to be self-employed than similarly situated whites. *Id.* Using data from the Public Use Microdata Samples (“PUMS”) of the 1990 Census of Population and Housing, the Study used a sample of individuals working in the construction industry. The Study concluded that in both Colorado and the Denver MSA, African Americans, Hispanics and Native Americans working in the construction industry had lower self-employment rates than whites. Asian Americans had higher self-employment rates than whites.

Using the availability figures calculated earlier in the Study, the Study then compared the actual availability of MBE/WBEs in the Denver MSA with the potential availability of MBE/WBEs if they formed businesses at the same rate as whites with the same characteristics. *Id.* Finally, the Study examined whether self-employed minorities and women in the construction industry have lower earnings than white males with similar characteristics. *Id.* at 968. Using linear regression analysis, the Study compared business owners with similar years of education, of similar age, doing business in the same geographic area, and having other similar demographic characteristics. Even after controlling for several factors, the results showed that self-employed African Americans, Hispanics, Native Americans and women had lower earnings than white males. *Id.*

The 1997 Study also conducted a mail survey of both MBE/WBEs and non-MBE/WBEs to obtain information on their experiences in the construction industry. Of the MBE/WBEs who responded, 35 percent indicated that they had experienced at least one incident of disparate treatment within the last five years while engaged in business activities. The survey also posed the following question: “How often do prime contractors who use your firm as a subcontractor on public sector projects with [MBE/WBE] goals or requirements ... also use your firm on public sector or private sector projects without [MBE/WBE] goals or requirements?” Fifty-eight percent of minorities and

41 percent of white women who responded to this question indicated they were “seldom or never” used on non-goals projects. *Id.*

MBE/WBEs were also asked whether the following aspects of procurement made it more difficult or impossible to obtain construction contracts: (1) bonding requirements, (2) insurance requirements, (3) large project size, (4) cost of completing proposals, (5) obtaining working capital, (6) length of notification for bid deadlines, (7) prequalification requirements, and (8) previous dealings with an agency. This question was also asked of non-MBE/WBEs in a separate survey. With one exception, MBE/WBEs considered each aspect of procurement more problematic than non-MBE/WBEs. To determine whether a firm’s size or experience explained the different responses, a regression analysis was conducted that controlled for age of the firm, number of employees, and level of revenues. The results again showed that with the same, single exception, MBE/WBEs had more difficulties than non-MBE/WBEs with the same characteristics. *Id.* at 968-69.

After the 1997 Study was completed, the City enacted the 1998 Ordinance. The 1998 Ordinance reduced the annual goals to 10 percent for both MBEs and WBEs and eliminated a provision which previously allowed MBE/WBEs to count their own work toward project goals. *Id.* at 969.

The anecdotal evidence included the testimony of the senior vice-president of a large, majority-owned construction firm who stated that when he worked in Denver, he received credible complaints from minority and women-owned construction firms that they were subject to different work rules than majority-owned firms. *Id.* He also testified that he frequently observed graffiti containing racial or gender epithets written on job sites in the Denver metropolitan area. Further, he stated that he believed, based on his personal experiences, that many majority-owned firms refused to hire minority- or women-owned subcontractors because they believed those firms were not competent. *Id.*

Several MBE/WBE witnesses testified that they experienced difficulty prequalifying for private sector projects and projects with the City and other governmental entities in Colorado. One individual testified that her company was required to prequalify for a private sector project while no similar requirement was imposed on majority-owned firms. Several others testified that they attempted to prequalify for projects, but their applications were denied even though they met the prequalification requirements. *Id.*

Other MBE/WBEs testified that their bids were rejected even when they were the lowest bidder; that they believed they were paid more slowly than majority-owned firms on both City projects and private sector projects; that they were charged more for supplies and materials; that they were required to do additional work not part of the subcontracting arrangement; and that they found it difficult to join unions and trade associations. *Id.* There was testimony detailing the difficulties MBE/WBEs experienced in obtaining lines of credit. One WBE testified that she was given a false explanation of why her loan was declined; another testified that the lending institution required the co-signature of her husband even though her husband, who also owned a construction firm, was not required to obtain her co-signature; a third testified that the bank required her father to be involved in the lending negotiations. *Id.*

The court also pointed out anecdotal testimony involving recitations of racially- and gender-motivated harassment experienced by MBE/WBEs at work sites. There was testimony that minority and female employees working on construction projects were physically assaulted and fondled, spat upon with chewing tobacco, and pelted with two-inch bolts thrown by males from a height of 80 feet. *Id.* at 969-70.

**The legal framework applied by the court.** The Court held that the district court incorrectly believed Denver was required to prove the existence of discrimination. Instead of considering whether Denver had demonstrated strong evidence from which an inference of past or present discrimination could be drawn, the district court analyzed whether Denver's evidence showed that there is pervasive discrimination. *Id.* at 970. The court, quoting *Concrete Works II*, stated that "the Fourteenth Amendment does not require a court to make an ultimate finding of discrimination before a municipality may take affirmative steps to eradicate discrimination." *Id.* at 970, quoting *Concrete Works II*, 36 F.3d 1513, 1522 (10th Cir. 1994). Denver's initial burden was to demonstrate that strong evidence of discrimination supported its conclusion that remedial measures were necessary. Strong evidence is that "approaching a prima facie case of a constitutional or statutory violation," not irrefutable or definitive proof of discrimination. *Id.* at 97, quoting *Croson*, 488 U.S. at 500. The burden of proof at all times remained with the contractor plaintiff to prove by a preponderance of the evidence that Denver's "evidence did not support an inference of prior discrimination and thus a remedial purpose." *Id.*, quoting *Adarand VII*, 228 F.3d at 1176.

Denver, the Court held, did introduce evidence of discrimination against each group included in the ordinances. *Id.* at 971. Thus, Denver's evidence did not suffer from the problem discussed by the court in *Croson*. The Court held the district court erroneously concluded that Denver must demonstrate that the private firms directly engaged in any discrimination in which Denver passively participates do so intentionally, with the purpose of disadvantaging minorities and women. The *Croson* majority concluded that a "city would have a compelling interest in preventing its tax dollars from assisting [local trade] organizations in maintaining a racially segregated construction market." *Id.* at 971, quoting *Croson*, 488 U.S. 503. Thus, the Court held Denver's burden was to introduce evidence which raised the inference of discriminatory exclusion in the local construction industry and linked its spending to that discrimination. *Id.*

The Court noted the Supreme Court has stated that the inference of discriminatory exclusion can arise from statistical disparities. *Id.*, citing *Croson*, 488 U.S. at 503. Accordingly, it concluded that Denver could meet its burden through the introduction of statistical and anecdotal evidence. To the extent the district court required Denver to introduce additional evidence to show discriminatory motive or intent on the part of private construction firms, the district court erred. Denver, according to the Court, was under no burden to identify any specific practice or policy that resulted in discrimination. Neither was Denver required to demonstrate that the purpose of any such practice or policy was to disadvantage women or minorities. *Id.* at 972.

The court found Denver's statistical and anecdotal evidence relevant because it identifies discrimination in the local construction industry, not simply discrimination in society. The court held the genesis of the identified discrimination is irrelevant and the district court erred when it discounted Denver's evidence on that basis. *Id.*

The court held the district court erroneously rejected the evidence Denver presented on marketplace discrimination. *Id.* at 973. The court rejected the district court’s erroneous legal conclusion that a municipality may only remedy its own discrimination. The court stated this conclusion is contrary to the holdings in *Concrete Works II* and the plurality opinion in *Croson*. *Id.* The court held it previously recognized in this case that “a municipality has a compelling interest in taking affirmative steps to remedy both public *and private* discrimination specifically identified in its area.” *Id.*, quoting *Concrete Works II*, 36 F.3d at 1529 (emphasis added). In *Concrete Works II*, the court stated that “we do not read *Croson* as requiring the municipality to identify an exact linkage between its award of public contracts and private discrimination.” *Id.*, quoting *Concrete Works II*, 36 F.3d at 1529.

The court stated that Denver could meet its burden of demonstrating its compelling interest with evidence of private discrimination in the local construction industry coupled with evidence that it has become a passive participant in that discrimination. *Id.* at 973. Thus, Denver was not required to demonstrate that it is “guilty of prohibited discrimination” to meet its initial burden. *Id.*

Additionally, the court had previously concluded that Denver’s statistical studies, which compared utilization of MBE/WBEs to availability, supported the inference that “local prime contractors” are engaged in racial and gender discrimination. *Id.* at 974, quoting *Concrete Works II*, 36 F.3d at 1529. Thus, the court held Denver’s disparity studies should not have been discounted because they failed to specifically identify those individuals or firms responsible for the discrimination. *Id.*

The Court’s rejection of CWC’s arguments and the district court findings.

**Use of marketplace data.** The court held the district court, inter alia, erroneously concluded that the disparity studies upon which Denver relied were significantly flawed because they measured discrimination in the overall Denver MSA construction industry, not discrimination by the City itself. *Id.* at 974. The court found that the district court’s conclusion was directly contrary to the holding in *Adarand VII* that evidence of both public and private discrimination in the construction industry is relevant. *Id.*, citing *Adarand VII*, 228 F.3d at 1166-67).

The court held the conclusion reached by the majority in *Croson* that marketplace data are relevant in equal protection challenges to affirmative action programs was consistent with the approach later taken by the court in *Shaw v. Hunt*. *Id.* at 975. In *Shaw*, a majority of the court relied on the majority opinion in *Croson* for the broad proposition that a governmental entity’s “interest in remedying the effects of past or present racial discrimination may in the proper case justify a government’s use of racial distinctions.” *Id.*, quoting *Shaw*, 517 U.S. at 909. The *Shaw* court did not adopt any requirement that only discrimination by the governmental entity, either directly or by utilizing firms engaged in discrimination on projects funded by the entity, was remediable. The court, however, did set out two conditions that must be met for the governmental entity to show a compelling interest. “First, the discrimination must be identified discrimination.” *Id.* at 976, quoting *Shaw*, 517 U.S. at 910. The City can satisfy this condition by identifying the discrimination, “‘public or private, with some specificity.’” *Id.* at 976, citing *Shaw*, 517 U.S. at 910, quoting *Croson*, 488 U.S. at 504 (emphasis added). The governmental entity must also have a “strong basis in evidence to conclude that remedial action was necessary.” *Id.* Thus, the court concluded *Shaw* specifically stated that evidence of either public or private discrimination could be used to satisfy the municipality’s burden of producing strong evidence. *Id.* at 976.

In *Adarand VII*, the court noted it concluded that evidence of marketplace discrimination can be used to support a compelling interest in remedying past or present discrimination through the use of affirmative action legislation. *Id.*, citing *Adarand VII*, 228 F.3d at 1166-67 (“[W]e may consider public and private discrimination not only in the specific area of government procurement contracts but also in the construction industry generally; thus *any findings Congress has made as to the entire construction industry are relevant.*” (emphasis added)). Further, the court pointed out in this case it earlier rejected the argument CWC reasserted here that marketplace data are irrelevant and remanded the case to the district court to determine whether Denver could link its public spending to “the Denver MSA evidence of industry-wide discrimination.” *Id.*, quoting *Concrete Works II*, 36 F.3d at 1529. The court stated that evidence explaining “the Denver government’s role in contributing to the underutilization of MBEs and WBEs in the *private construction market in the Denver MSA*” was relevant to Denver’s burden of producing strong evidence. *Id.*, quoting *Concrete Works II*, 36 F.3d at 1530 (emphasis added).

Consistent with the court’s mandate in *Concrete Works II*, the City attempted to show at trial that it “indirectly contributed to private discrimination by awarding public contracts to firms that in turn discriminated against MBE and/or WBE subcontractors in other private portions of their business.” *Id.* The City can demonstrate that it is a “passive participant’ in a system of racial exclusion practiced by elements of the local construction industry” by compiling evidence of marketplace discrimination and then linking its spending practices to the private discrimination. *Id.*, quoting *Croson*, 488 U.S. at 492.

The court rejected CWC’s argument that the lending discrimination studies and business formation studies presented by Denver were irrelevant. In *Adarand VII*, the court concluded that evidence of discriminatory barriers to the formation of businesses by minorities and women and fair competition between MBE/WBEs and majority-owned construction firms shows a “strong link” between a government’s “disbursements of public funds for construction contracts and the channeling of those funds due to private discrimination.” *Id.* at 977, quoting *Adarand VII*, 228 F.3d at 1167-68. The court found that evidence that private discrimination resulted in barriers to business formation is relevant because it demonstrates that MBE/WBEs are precluded *at the outset* from competing for public construction contracts. The court also found that evidence of barriers to fair competition is relevant because it again demonstrates that *existing* MBE/WBEs are precluded from competing for public contracts. Thus, like the studies measuring disparities in the utilization of MBE/WBEs in the Denver MSA construction industry, studies showing that discriminatory barriers to business formation exist in the Denver construction industry are relevant to the City’s showing that it indirectly participates in industry discrimination. *Id.* at 977.

The City presented evidence of lending discrimination to support its position that MBE/WBEs in the Denver MSA construction industry face discriminatory barriers to business formation. Denver introduced a disparity study prepared in 1996 and sponsored by the Denver Community Reinvestment Alliance, Colorado Capital Initiatives, and the City. The Study ultimately concluded that “despite the fact that loan applicants of three different racial/ethnic backgrounds in this sample were not appreciably different as businesspeople, they were ultimately treated differently by the lenders on the crucial issue of loan approval or denial.” *Id.* at 977-78. In *Adarand VII*, the court concluded that this study, among other evidence, “strongly support[ed] an initial showing of discrimination in lending.” *Id.* at 978, quoting *Adarand VII*, 228 F.3d at 1170, n. 13 (“Lending discrimination alone of course does not justify action in the construction market. However, the

persistence of such discrimination ... supports the assertion that the formation, as well as utilization, of minority-owned construction enterprises has been impeded.”). The City also introduced anecdotal evidence of lending discrimination in the Denver construction industry.

CWC did not present any evidence that undermined the reliability of the lending discrimination evidence but simply repeated the argument, foreclosed by circuit precedent, that it is irrelevant. The court rejected the district court criticism of the evidence because it failed to determine whether the discrimination resulted from discriminatory attitudes or from the neutral application of banking regulations. The court concluded that discriminatory motive can be inferred from the results shown in disparity studies. The court held the district court’s criticism did not undermine the study’s reliability as an indicator that the City is passively participating in marketplace discrimination. The court noted that in *Adarand VII* it took “judicial notice of the obvious causal connection between access to capital and ability to implement public works construction projects.” *Id.* at 978, quoting *Adarand VII*, 228 F.3d at 1170.

Denver also introduced evidence of discriminatory barriers to competition faced by MBE/WBEs in the form of business formation studies. The 1990 Study and the 1995 Study both showed that all minority groups in the Denver MSA formed their own construction firms at rates lower than the total population but that women formed construction firms at higher rates. The 1997 Study examined self-employment rates and controlled for gender, marital status, education, availability of capital, and personal/family variables. As discussed, *supra*, the Study concluded that African Americans, Hispanics, and Native Americans working in the construction industry have lower rates of self-employment than similarly situated whites. Asian Americans had higher rates. The 1997 Study also concluded that minority and female business owners in the construction industry, with the exception of Asian American owners, have lower earnings than white male owners. This conclusion was reached after controlling for education, age, marital status, and disabilities. *Id.* at 978.

The court held that the district court’s conclusion that the business formation studies could not be used to justify the ordinances conflicts with its holding in *Adarand VII*. “[T]he existence of evidence indicating that the number of [MBEs] would be significantly (but unquantifiably) higher but for such barriers is nevertheless relevant to the assessment of whether a disparity is sufficiently significant to give rise to an inference of discriminatory exclusion.” *Id.* at 979, quoting *Adarand VII*, 228 F.3d at 1174.

In sum, the court held the district court erred when it refused to consider or give sufficient weight to the lending discrimination study, the business formation studies, and the studies measuring marketplace discrimination. That evidence was legally relevant to the City’s burden of demonstrating a strong basis in evidence to support its conclusion that remedial legislation was necessary. *Id.* at 979-80.

**Variables.** CWC challenged Denver’s disparity studies as unreliable because the disparities shown in the studies may be attributable to firm size and experience rather than discrimination. Denver countered, however, that a firm’s size has little effect on its qualifications or its ability to provide construction services and that MBE/WBEs, like all construction firms, can perform most services either by hiring additional employees or by employing subcontractors. CWC responded that elasticity itself is relative to size and experience; MBE/WBEs are less capable of expanding because they are smaller and less experienced. *Id.* at 980.

The court concluded that even if it assumed that MBE/WBEs are less able to expand because of their smaller size and more limited experience, CWC did not respond to Denver's argument and the evidence it presented showing that experience and size are not race- and gender-neutral variables and that MBE/WBE construction firms are generally smaller and less experienced *because* of industry discrimination. *Id.* at 981. The lending discrimination and business formation studies, according to the court, both strongly supported Denver's argument that MBE/WBEs are smaller and less experienced because of marketplace and industry discrimination. In addition, Denver's expert testified that discrimination by banks or bonding companies would reduce a firm's revenue and the number of employees it could hire. *Id.*

Denver also argued its Studies controlled for size and the 1995 Study controlled for experience. It asserted that the 1990 Study measured revenues per employee for construction for MBE/WBEs and concluded that the resulting disparities, "suggest [ ] that even among firms of the same employment size, industry utilization of MBEs and WBEs was lower than that of non-minority male-owned firms." *Id.* at 982. Similarly, the 1995 Study controlled for size, calculating, *inter alia*, disparity indices for firms with no paid employees which presumably are the same size.

Based on the uncontroverted evidence presented at trial, the court concluded that the district court did not give sufficient weight to Denver's disparity studies because of its erroneous conclusion that the studies failed to adequately control for size and experience. The court held that Denver is permitted to make assumptions about capacity and qualification of MBE/WBEs to perform construction services if it can support those assumptions. The court found the assumptions made in this case were consistent with the evidence presented at trial and supported the City's position that a firm's size does not affect its qualifications, willingness, or ability to perform construction services and that the smaller size and lesser experience of MBE/WBEs are, themselves, the result of industry discrimination. Further, the court pointed out CWC did not conduct its own disparity study using marketplace data and thus did not demonstrate that the disparities shown in Denver's studies would decrease or disappear if the studies controlled for size and experience to CWC's satisfaction. Consequently, the court held CWC's rebuttal evidence was insufficient to meet its burden of discrediting Denver's disparity studies on the issue of size and experience. *Id.* at 982.

**Specialization.** The district court also faulted Denver's disparity studies because they did not control for firm specialization. The court noted the district court's criticism would be appropriate only if there was evidence that MBE/WBEs are more likely to specialize in certain construction fields. *Id.* at 982.

The court found there was no identified evidence showing that certain construction specializations require skills less likely to be possessed by MBE/WBEs. The court found relevant the testimony of the City's expert, that the data he reviewed showed that MBEs were represented "widely across the different [construction] specializations." *Id.* at 982-83. There was no contrary testimony that aggregation bias caused the disparities shown in Denver's studies. *Id.* at 983.

The court held that CWC failed to demonstrate that the disparities shown in Denver's studies are eliminated when there is control for firm specialization. In contrast, one of the Denver studies, which controlled for SIC-code subspecialty and still showed disparities, provided support for Denver's argument that firm specialization does not explain the disparities. *Id.* at 983.

The court pointed out that disparity studies may make assumptions about availability as long as the same assumptions can be made for all firms. *Id.* at 983.

**Utilization of MBE/WBEs on City projects.** CWC argued that Denver could not demonstrate a compelling interest because it overutilized MBE/WBEs on City construction projects. This argument, according to the court, was an extension of CWC’s argument that Denver could justify the ordinances only by presenting evidence of discrimination by the City itself or by contractors while working on City projects. Because the court concluded that Denver could satisfy its burden by showing that it is an indirect participant in industry discrimination, CWC’s argument relating to the utilization of MBE/WBEs on City projects goes only to the weight of Denver’s evidence. *Id.* at 984.

Consistent with the court’s mandate in *Concrete Works II*, at trial Denver sought to demonstrate that the utilization data from projects subject to the goals program were tainted by the program and “reflect[ed] the intended remedial effect on MBE and WBE utilization.” *Id.* at 984, quoting *Concrete Works II*, 36 F.3d at 1526. Denver argued that the non-goals data were the better indicator of past discrimination in public contracting than the data on all City construction projects. *Id.* at 984-85. The court concluded that Denver presented ample evidence to support the conclusion that the evidence showing MBE/WBE utilization on City projects not subject to the ordinances or the goals programs is the better indicator of discrimination in City contracting. *Id.* at 985.

The court rejected CWC’s argument that the marketplace data were irrelevant but agreed that the non-goals data were also relevant to Denver’s burden. The court noted that Denver did not rely heavily on the non-goals data at trial but focused primarily on the marketplace studies to support its burden. *Id.* at 985.

In sum, the court held Denver demonstrated that the utilization of MBE/WBEs on City projects had been affected by the affirmative action programs that had been in place in one form or another since 1977. Thus, the non-goals data were the better indicator of discrimination in public contracting. The court concluded that, on balance, the non-goals data provided some support for Denver’s position that racial and gender discrimination existed in public contracting before the enactment of the ordinances. *Id.* at 987-88.

**Anecdotal evidence.** The anecdotal evidence, according to the court, included several incidents involving profoundly disturbing behavior on the part of lenders, majority-owned firms, and individual employees. *Id.* at 989. The court found that the anecdotal testimony revealed behavior that was not merely sophomoric or insensitive, but which resulted in real economic or physical harm. While CWC also argued that all new or small contractors have difficulty obtaining credit and that treatment the witnesses characterized as discriminatory is experienced by all contractors, Denver’s witnesses specifically testified that they believed the incidents they experienced were motivated by race or gender discrimination. The court found they supported those beliefs with testimony that majority-owned firms were not subject to the same requirements imposed on them. *Id.*

The court held there was no merit to CWC’s argument that the witnesses’ accounts must be verified to provide support for Denver’s burden. The court stated that anecdotal evidence is nothing more than a witness’ narrative of an incident told from the witness’ perspective and including the witness’ perceptions. *Id.*



After considering Denver’s anecdotal evidence, the district court found that the evidence “shows that race, ethnicity and gender affect the construction industry and those who work in it” and that the egregious mistreatment of minority and women employees “had direct financial consequences” on construction firms. *Id.* at 989, quoting *Concrete Works III*, 86 F. Supp.2d at 1074, 1073. Based on the district court’s findings regarding Denver’s anecdotal evidence and its review of the record, the court concluded that the anecdotal evidence provided persuasive, un rebutted support for Denver’s initial burden. *Id.* at 989-90, citing *Int’l Bhd. of Teamsters v. United States*, 431 U.S. 324, 339 (1977) (concluding that anecdotal evidence presented in a pattern or practice discrimination case was persuasive because it “brought the cold [statistics] convincingly to life”).

**Summary.** The court held the record contained extensive evidence supporting Denver’s position that it had a strong basis in evidence for concluding that the 1990 Ordinance and the 1998 Ordinance were necessary to remediate discrimination against both MBEs and WBEs. *Id.* at 990. The information available to Denver and upon which the ordinances were predicated, according to the court, indicated that discrimination was persistent in the local construction industry and that Denver was, at least, an indirect participant in that discrimination.

To rebut Denver’s evidence, the court stated CWC was required to “establish that Denver’s evidence did not constitute strong evidence of such discrimination.” *Id.* at 991, quoting *Concrete Works II*, 36 F.3d at 1523. CWC could not meet its burden of proof through conjecture and unsupported criticisms of Denver’s evidence. Rather, it must present “credible, particularized evidence.” *Id.*, quoting *Adarand VII*, 228 F.3d at 1175. The court held that CWC did not meet its burden. CWC hypothesized that the disparities shown in the studies on which Denver relies could be explained by any number of factors other than racial discrimination. However, the court found it did not conduct its own marketplace disparity study controlling for the disputed variables and presented no other evidence from which the court could conclude that such variables explain the disparities. *Id.* at 991-92.

**Narrow tailoring.** Having concluded that Denver demonstrated a compelling interest in the race-based measures and an important governmental interest in the gender-based measures, the court held it must examine whether the ordinances were narrowly tailored to serve the compelling interest and are substantially related to the achievement of the important governmental interest. *Id.* at 992.

The court stated it had previously concluded in its earlier decisions that Denver’s program was narrowly tailored. CWC appealed the grant of summary judgment and that appeal culminated in the decision in *Concrete Works II*. The court reversed the grant of summary judgment on the compelling-interest issue and concluded that CWC had waived any challenge to the narrow tailoring conclusion reached by the district court. Because the court found *Concrete Works* did not challenge the district court’s conclusion with respect to the second prong of *Crosby*’s strict scrutiny standard — i.e., that the Ordinance is narrowly tailored to remedy past and present discrimination — the court held it need not address this issue. *Id.* at 992, citing *Concrete Works II*, 36 F.3d at 1531, n. 24.

The court concluded that the district court lacked authority to address the narrow tailoring issue on remand because none of the exceptions to the law of the case doctrine are applicable. The district court’s earlier determination that Denver’s affirmative-action measures were narrowly tailored is law of the case and binding on the parties.

## **6. *In re City of Memphis*, 293 F.3d 345 (6th Cir. 2002)**

This case is instructive to the disparity study based on its holding that a local or state government may be prohibited from utilizing post-enactment evidence in support of an MBE/WBE-type program. 293 F.3d at 350-351. The United States Court of Appeals for the Sixth Circuit held that pre-enactment evidence was required to justify the City of Memphis' MBE/WBE Program. *Id.* The Sixth Circuit held that a government must have had sufficient evidentiary justification for a racially conscious statute in *advance* of its passage.

The district court had ruled that the City could not introduce a post-enactment study as evidence of a compelling interest to justify its MBE/WBE Program. *Id.* at 350-351. The Sixth Circuit denied the City's application for an interlocutory appeal on the district court's order and refused to grant the City's request to appeal this issue. *Id.* at 350-351.

The City argued that a substantial ground for difference of opinion existed in the federal courts of appeal. 293 F.3d at 350. The court stated some circuits permit post-enactment evidence to supplement pre-enactment evidence. *Id.* This issue, according to the Court, appears to have been resolved in the Sixth Circuit. *Id.* The Court noted the Sixth Circuit decision in *AGC v. Drabik*, 214 F.3d 730 (6th Cir. 2000), which held that under *Croson* a State must have sufficient evidentiary justification for a racially-conscious statute in advance of its enactment, and that governmental entities must identify that discrimination with some specificity *before* they may use race-conscious relief. *Memphis*, 293 F.3d at 350-351, *citing Drabik*, 214 F.3d at 738.

The Court in *Memphis* said that although *Drabik* did not directly address the admissibility of post-enactment evidence, it held a governmental entity must have pre-enactment evidence sufficient to justify a racially-conscious statute. 293 R.3d at 351. The court concluded *Drabik* indicates the Sixth Circuit would not favor using post-enactment evidence to make that showing. *Id.* at 351. Under *Drabik*, the Court in *Memphis* held the City must present pre-enactment evidence to show a compelling state interest. *Id.* at 351.

## **7. *Builders Ass'n of Greater Chicago v. County of Cook, Chicago*, 256 F.3d 642 (7th Cir. 2001)**

This case is instructive to the disparity study because of its analysis of the Cook County MBE/WBE program and the evidence used to support that program. The decision emphasizes the need for any race-conscious program to be based upon credible evidence of discrimination by the local government against MBE/WBEs and to be narrowly tailored to remedy only that identified discrimination.

In *Builders Ass'n of Greater Chicago v. County of Cook, Chicago*, 256 F.3d 642 (7th Cir. 2001) the United States Court of Appeals for the Seventh Circuit held the Cook County, Chicago MBE/WBE Program was unconstitutional. The court concluded there was insufficient evidence of a compelling interest. The court held there was no credible evidence that Cook County in the award of construction contracts discriminated against any of the groups "favored" by the Program. The court also found that the Program was not "narrowly tailored" to remedy the wrong sought to be redressed, in part because it was over-inclusive in the definition of minorities. The court noted the list of minorities included groups that have not been subject to discrimination by Cook County.

The court considered as an unresolved issue whether a different, and specifically a more permissive, standard than strict scrutiny is applicable to preferential treatment on the basis of sex, rather than race or ethnicity. 256 F.3d at 644. The court noted that the United States Supreme Court in *United States v. Virginia* (“VMI”), 518 U.S. 515, 532 and n.6 (1996), held racial discrimination to a stricter standard than sex discrimination, although the court in *Cook County* stated the difference between the applicable standards has become “vanishingly small.” *Id.* The court pointed out that the Supreme Court said in the *VMI* case, that “parties who seek to defend gender-based government action must demonstrate an ‘exceedingly persuasive’ justification for that action ...” and, realistically, the law can ask no more of race-based remedies either.” 256 F.3d at 644, *quoting in part VMI*, 518 U.S. at 533. The court indicated that the Eleventh Circuit Court of Appeals in the *Engineering Contract Association of South Florida, Inc. v. Metropolitan Dade County*, 122 F.3d 895, 910 (11th Cir. 1997) decision created the “paradox that a public agency can provide stronger remedies for sex discrimination than for race discrimination; it is difficult to see what sense that makes.” 256 F.3d at 644. But, since Cook County did not argue for a different standard for the minority and women’s “set aside programs,” the women’s program the court determined must clear the same “hurdles” as the minority program.” 256 F.3d at 644-645.

The court found that since the ordinance requires prime contractors on public projects to reserve a substantial portion of the subcontracts for minority contractors, which is inapplicable to private projects, it is “to be expected that there would be more soliciting of these contractors on public than on private projects.” *Id.* Therefore, the court did not find persuasive that there was discrimination based on this difference alone. 256 F.3d at 645. The court pointed out the County “conceded that [it] had no specific evidence of pre-enactment discrimination to support the ordinance.” 256 F.3d at 645 quoting the district court decision, 123 F.Supp.2d at 1093. The court held that a “public agency must have a strong evidentiary basis for thinking a discriminatory remedy appropriate *before* it adopts the remedy.” 256 F.3d at 645 (emphasis in original).

The court stated that minority enterprises in the construction industry “tend to be subcontractors, moreover, because as the district court found not clearly erroneously, 123 F.Supp.2d at 1115, they tend to be new and therefore small and relatively untested — factors not shown to be attributable to discrimination by the County.” 256 F.3d at 645. The court held that there was no basis for attributing to the County any discrimination that prime contractors may have engaged in. *Id.* The court noted that “[i]f prime contractors on County projects were discriminating against minorities and this was known to the County, whose funding of the contracts thus knowingly perpetuated the discrimination, the County might be deemed sufficiently complicit ... to be entitled to take remedial action.” *Id.* But, the court found “of that there is no evidence either.” *Id.*

The court stated that if the County had been complicit in discrimination by prime contractors, it found “puzzling” to try to remedy that discrimination by requiring discrimination in favor of minority stockholders, as distinct from employees. 256 F.3d at 646. The court held that even if the record made a case for remedial action of the general sort found in the MWBE ordinance by the County, it would “flunk the constitutional test” by not being carefully designed to achieve the ostensible remedial aim and no more. 256 F.3d at 646. The court held that a state and local government that has discriminated just against blacks may not by way of remedy discriminate in favor of blacks and Asian Americans and women. *Id.* Nor, the court stated, may it discriminate more than is necessary to cure the effects of the earlier discrimination. *Id.* “Nor may it continue the remedy

in force indefinitely, with no effort to determine whether, the remedial purpose attained, continued enforcement of the remedy would be a gratuitous discrimination against nonminority persons.” *Id.* The court, therefore, held that the ordinance was not “narrowly tailored” to the wrong that it seeks to correct. *Id.*

The court thus found that the County both failed to establish the premise for a racial remedy, and also that the remedy goes further than is necessary to eliminate the evil against which it is directed. 256 F.3d at 647. The court held that the list of “favored minorities” included groups that have never been subject to significant discrimination by Cook County. *Id.* The court found it unreasonable to “presume” discrimination against certain groups merely on the basis of having an ancestor who had been born in a particular country. *Id.* Therefore, the court held the ordinance was overinclusive.

The court found that the County did not make any effort to show that, were it not for a history of discrimination, minorities would have 30 percent, and women 10 percent, of County construction contracts. 256 F.3d at 647. The court also rejected the proposition advanced by the County in this case — “that a comparison of the fraction of minority subcontractors on public and private projects established discrimination against minorities by prime contractors on the latter type of project.” 256 F.3d at 647-648.

**8. *Associated Gen. Contractors v. Drabik*, 214 F.3d 730 (6th Cir. 2000), affirming Case No. C2-98-943, 998 WL 812241 (S.D. Ohio 1998)**

This case is instructive to the disparity study based on the analysis applied in finding the evidence insufficient to justify an MBE/WBE program, and the application of the narrowly tailored test. The Sixth Circuit Court of Appeals enjoined the enforcement of the state MBE program, and in so doing reversed state court precedent finding the program constitutional. This case affirmed a district court decision enjoining the award of a “set-aside” contract based on the State of Ohio’s MBE program with the award of construction contracts.

The court held, among other things, that the mere existence of societal discrimination was insufficient to support a racial classification. The court found that the economic data were insufficient and too outdated. The court concluded the State could not establish a compelling governmental interest and that the statute was not narrowly tailored. The court said the statute failed the narrow tailoring test, including because there was no evidence that the State had considered race-neutral remedies.

This case involves a suit by the Associated General Contractors of Ohio and Associated General Contractors of Northwest Ohio, representing Ohio building contractors to stop the award of a construction contract for the Toledo Correctional Facility to a minority-owned business (“MBE”), in a bidding process from which non-minority-owned firms were statutorily excluded from participating under Ohio’s state Minority Business Enterprise Act. 214 F.3d at 733.

AGC of Ohio and AGC of Northwest Ohio (Plaintiffs-Appellees) claimed the Ohio Minority Business Enterprise Act (“MBEA”) was unconstitutional in violation of the Equal Protection Clause of the Fourteenth Amendment. The district court agreed, and permanently enjoined the state from awarding any construction contracts under the MBEA. Drabik, Director of the Ohio Department of Administrative Services and others appealed the district court’s Order. *Id.* at 733. The Sixth Circuit

Court of Appeals affirmed the Order of the district court, holding unconstitutional the MBEA and enjoining the state from awarding any construction contracts under that statute. *Id.*

Ohio passed the MBEA in 1980. *Id.* at 733. This legislation “set aside” 5 percent, by value, of all state construction projects for bidding by certified MBEs exclusively. *Id.* Pursuant to the MBEA, the state decided to set aside, for MBEs only, bidding for construction of the Toledo Correctional Facility’s Administration Building. Non-MBEs were excluded on racial grounds from bidding on that aspect of the project and restricted in their participation as subcontractors. *Id.*

The Court noted it ruled in 1983 that the MBEA was constitutional, see *Ohio Contractors Ass’n v. Keip*, 713 F.2d 167 (6th Cir. 1983). *Id.* Subsequently, the United States Supreme Court in two landmark decisions applied the criteria of strict scrutiny under which such “racially preferential set-asides” were to be evaluated. *Id.* (see *City of Richmond v. J.A. Croson Co.* (1989) and *Adarand Constructors, Inc. v. Peña* (1995), citation omitted.) The Court noted that the decision in *Keip* was a more relaxed treatment accorded to equal protection challenges to state contracting disputes prior to *Croson*. *Id.* at 733-734.

**Strict scrutiny.** The Court found it is clear a government has a compelling interest in assuring that public dollars do not serve to finance the evil of private prejudice. *Id.* at 734-735, citing *Croson*, 488 U.S. at 492. But, the Court stated, “statistical disparity in the proportion of contracts awarded to a particular group, standing alone does not demonstrate such an evil.” *Id.* at 735.

The Court said there is no question that remedying the effects of past discrimination constitutes a compelling governmental interest. *Id.* at 735. The Court stated to make this showing, a state cannot rely on mere speculation, or legislative pronouncements, of past discrimination, but rather, the Supreme Court has held the state bears the burden of demonstrating a strong basis in evidence for its conclusion that remedial action was necessary by proving either that the state itself discriminated in the past or was a passive participant in private industry’s discriminatory practices. *Id.* at 735, quoting *Croson*, 488 U.S. at 486-92.

Thus, the Court concluded that the linchpin of the *Croson* analysis is its mandating of strict scrutiny, the requirement that a program be narrowly tailored to achieve a compelling government interest, but above all its holding that governments must identify discrimination with some specificity before they may use race-conscious relief; explicit findings of a constitutional or statutory violation must be made. *Id.* at 735, quoting *Croson*, 488 U.S. at 497.

**Statistical evidence: compelling interest.** The Court pointed out that proponents of “racially discriminatory systems” such as the MBEA have sought to generate the necessary evidence by a variety of means, however, such efforts have generally focused on “mere underrepresentation” by showing a lesser percentage of contracts awarded to a particular group than that group’s percentage in the general population. *Id.* at 735. “Raw statistical disparity” of this sort is part of the evidence offered by Ohio in this case, according to the Court. *Id.* at 736. The Court stated however, “such evidence of mere statistical disparities has been firmly rejected as insufficient by the Supreme Court, particularly in a context such as contracting, where special qualifications are so relevant.” *Id.*

The Court said that although Ohio’s most “compelling” statistical evidence in this case compared the percentage of contracts awarded to minorities to the percentage of minority-owned businesses in Ohio, which the Court noted provided stronger statistics than the statistics in *Croson*, it was still insufficient. *Id.* at 736. The Court found the problem with Ohio’s statistical comparison was that the percentage of minority-owned businesses in Ohio “did not take into account how many of those businesses were construction companies of any sort, let alone how many were qualified, willing and able to perform state construction contracts.” *Id.*

The Court held the statistical evidence that the Ohio legislature had before it when the MBEA was enacted consisted of data that was deficient. *Id.* at 736. The Court said that much of the data was severely limited in scope (ODOT contracts) or was irrelevant to this case (ODOT purchasing contracts). *Id.* The Court again noted the data did not distinguish minority construction contractors from minority businesses generally, and therefore “made no attempt to identify minority construction contracting firms that are ready, willing and able to perform state construction contracts of any particular size.” *Id.* The Court also pointed out the program was not narrowly tailored, because the state conceded the AGC showed that the State had not performed a recent study. *Id.*

The Court also concluded that even statistical comparisons that might be apparently more pertinent, such as with the percentage of all firms qualified, in some minimal sense, to perform the work in question, would also fail to satisfy the Court’s criteria. *Id.* at 736. “If MBEs comprise 10 percent of the total number of contracting firms in the state, but only get 3 percent of the dollar value of certain contracts, that does not alone show discrimination, or even disparity. It does not account for the relative size of the firms, either in terms of their ability to do particular work or in terms of the number of tasks they have the resources to complete.” *Id.* at 736.

The Court stated the only cases found to present the necessary “compelling interest” sufficient to justify a narrowly tailored race-based remedy, are those that expose “pervasive, systematic, and obstinate discriminatory conduct ...” *Id.* at 737, quoting *Adarand*, 515 U.S. at 237. The Court said that Ohio had made no such showing in this case.

**Narrow tailoring.** A second and separate hurdle for the MBEA, the Court held, is its failure of narrow tailoring. The Court noted the Supreme Court in *Adarand* taught that a court called upon to address the question of narrow tailoring must ask, “for example, whether there was ‘any consideration of the use of race-neutral means to increase minority business participation’ in government contracting ...” *Id.* at 737, quoting *Croson*, 488 U.S. at 507. The Court stated a narrowly-tailored set-aside program must be appropriately limited such that it will not last longer than the discriminatory effects it is designed to eliminate and must be linked to identified discrimination. *Id.* at 737. The Court said that the program must also not suffer from “overinclusiveness.” *Id.* at 737, quoting *Croson*, 515 U.S. at 506.

The Court found the MBEA suffered from defects both of over and under-inclusiveness. *Id.* at 737. By lumping together the groups of Blacks, Native Americans, Hispanics and Orientals, the MBEA may well provide preference where there has been no discrimination, and may not provide relief to groups where discrimination might have been proven. *Id.* at 737. Thus, the Court said, the MBEA was satisfied if contractors of Thai origin, who might never have been seen in Ohio until recently, receive 10 percent of state contracts, while African Americans receive none. *Id.*

In addition, the Court found that Ohio's own underutilization statistics suffer from a fatal conceptual flaw: they do not report the actual use of minority firms; they only report the use of minority firms who have gone to the trouble of being certified and listed among the state's 1,180 MBEs. *Id.* at 737. The Court said there was no examination of whether contracts are being awarded to minority firms who have never sought such preference to take advantage of the special minority program, for whatever reason, and who have been awarded contracts in open bidding. *Id.*

The Court pointed out the district court took note of the outdated character of any evidence that might have been marshaled in support of the MBEA, and added that even if such data had been sufficient to justify the statute twenty years ago, it would not suffice to continue to justify it forever. *Id.* at 737-738. The MBEA, the Court noted, has remained in effect for twenty years and has no set expiration. *Id.* at 738. The Court reiterated a race-based preference program must be appropriately limited such that it will not last longer than the discriminatory effects it is designed to eliminate. *Id.* at 737.

Finally, the Court mentioned that one of the factors *Croson* identified as indicative of narrow tailoring is whether non-race-based means were considered as alternatives to the goal. *Id.* at 738. The Court concluded the historical record contained no evidence that the Ohio legislature gave any consideration to the use of race-neutral means to increase minority participation in state contracting before resorting to race-based quotas. *Id.* at 738.

The district court had found that the supplementation of the state's existing data which might be offered given a continuance of the case would not sufficiently enhance the relevance of the evidence to justify delay in the district court's hearing. *Id.* at 738. The Court stated that under *Croson*, the state must have had sufficient evidentiary justification for a racially-conscious statute in *advance* of its passage. *Id.* The Court said that *Croson* required governmental entities must identify that discrimination with some specificity *before* they may use race-conscious relief. *Id.* at 738.

The Court also referenced the district court finding that the state had been lax in maintaining the type of statistics that would be necessary to undergird its affirmative action program, and that the proper maintenance of current statistics is relevant to the requisite narrow tailoring of such a program. *Id.* at 738-739. But the Court noted the state does not know how many minority-owned businesses are not certified as MBEs, and how many of them have been successful in obtaining state contracts. *Id.* at 739.

The court was mindful of the fact it was striking down an entire class of programs by declaring the State of Ohio MBE statute in question unconstitutional, and noted that its decision was "not reconcilable" with the Ohio Supreme Court's decision in *Ritchie Produce*, 707 N.E.2d 871 (Ohio 1999) (upholding the Ohio State MBE Program).

## **9. *W.H. Scott Constr. Co. v. City of Jackson, Mississippi*, 199 F.3d 206 (5th Cir. 1999)**

A non-minority general contractor brought this action against the City of Jackson and City officials asserting that a City policy and its minority business enterprise program for participation and construction contracts violated the Equal Protection Clause of the U.S. Constitution.

**City of Jackson MBE Program.** In 1985 the City of Jackson adopted an MBE Program, which initially had a goal of 5 percent of all city contracts. 199 F.3d at 208. *Id.* The 5 percent goal was not based on any objective data. *Id.* at 209. Instead, it was a “guess” that was adopted by the City. *Id.* The goal was later increased to 15 percent because it was found that 10 percent of businesses in Mississippi were minority-owned. *Id.*

After the MBE Program’s adoption, the City’s Department of Public Works included a Special Notice to bidders as part of its specifications for all City construction projects. *Id.* The Special Notice encouraged prime construction contractors to include in their bid 15 percent participation by subcontractors certified as Disadvantaged Business Enterprises (DBEs) and 5 percent participation by those certified as WBEs. *Id.*

The Special Notice defined a DBE as a small business concern that is owned and controlled by socially and economically disadvantaged individuals, which had the same meaning as under Section 8(d) of the Small Business Act and subcontracting regulations promulgated pursuant to that Act. *Id.* The court found that Section 8(d) of the SBA states that prime contractors are to presume that socially and economically disadvantaged individuals include certain racial and ethnic groups or any other individual found to be disadvantaged by the SBA. *Id.*

In 1991, the Mississippi legislature passed a bill that would allow cities to set aside 20 percent of procurement for minority business. *Id.* at 209-210. The City of Jackson City Council voted to implement the set-aside, contingent on the City’s adoption of a disparity study. *Id.* at 210. The City conducted a disparity study in 1994 and concluded that the total underutilization of African American and Asian American-owned firms was statistically significant. *Id.* The study recommended that the City implement a range of MBE goals from 10–15 percent. *Id.* The City, however, was not satisfied with the study, according to the court, and chose not to adopt its conclusions. *Id.* Instead, the City retained its 15 percent MBE goal and did not adopt the disparity study. *Id.*

**W.H. Scott did not meet DBE goal.** In 1997 the City advertised for the construction of a project and the W.H. Scott Construction Company, Inc. (Scott) was the lowest bidder. *Id.* Scott obtained 11.5 percent WBE participation, but it reported that the bids from DBE subcontractors had not been low bids and, therefore, its DBE-participation percentage would be only 1 percent. *Id.*

Although Scott did not achieve the DBE goal and subsequently would not consider suggestions for increasing its minority participation, the Department of Public Works and the Mayor, as well as the City’s Financial Legal Departments, approved Scott’s bid and it was placed on the agenda to be approved by the City Council. *Id.* The City Council voted against the Scott bid without comment. Scott alleged that it was told the City rejected its bid because it did not achieve the DBE goal, but the City alleged that it was rejected because it exceeded the budget for the project. *Id.*



The City subsequently combined the project with another renovation project and awarded that combined project to a different construction company. *Id.* at 210-211. Scott maintained the rejection of his bid was racially motivated and filed this suit. *Id.* at 211.

**District court decision.** The district court granted Scott’s motion for summary judgment agreeing with Scott that the relevant Policy included not just the Special Notice, but that it also included the MBE Program and Policy document regarding MBE participation. *Id.* at 211. The district court found that the MBE Policy was unconstitutional because it lacked requisite findings to justify the 15 percent minority-participation goal and survive strict scrutiny based on the 1989 decision in the *City of Richmond, v. J.A. Croson Co.* *Id.* The district court struck down minority-participation goals for the City’s construction contracts only. *Id.* at 211. The district court found that Scott’s bid was rejected because Scott lacked sufficient minority participation, not because it exceeded the City’s budget. *Id.* In addition, the district court awarded Scott lost profits. *Id.*

**Standing.** The Fifth Circuit determined that in equal protection cases challenging affirmative action policies, “injury in fact” for purposes of establishing standing is defined as the inability to compete on an equal footing in the bidding process. *Id.* at 213. The court stated that Scott need not prove that it lost contracts because of the Policy, but only prove that the Special Notice forces it to compete on an unequal basis. *Id.* The question, therefore, the court said is whether the Special Notice imposes an obligation that is born unequally by DBE contractors and non-DBE contractors. *Id.* at 213.

The court found that if a non-DBE contractor is unable to procure 15 percent DBE participation, it must still satisfy the City that adequate good faith efforts have been made to meet the contract goal or risk termination of its contracts, and that such efforts include engaging in advertising, direct solicitation and follow-up, assistance in attaining bonding or insurance required by the contractor. *Id.* at 214. The court concluded that although the language does not expressly authorize a DBE contractor to satisfy DBE-participation goals by keeping the requisite percentage of work for itself, it would be nonsensical to interpret it as precluding a DBE contractor from doing so. *Id.* at 215.

If a DBE contractor performed 15 percent of the contract dollar amount, according to the court, it could satisfy the participation goal and avoid both a loss of profits to subcontractors and the time and expense of complying with the good faith requirements. *Id.* at 215. The court said that non-DBE contractors do not have this option, and thus, Scott and other non-DBE contractors are at a competitive disadvantage with DBE contractors. *Id.*

The court, therefore, found Scott had satisfied standing to bring the lawsuit.

**Constitutional strict scrutiny analysis and guidance in determining types of evidence to justify a remedial MBE program.** The court first rejected the City’s contention that the Special Notice should not be subject to strict scrutiny because it establishes goals rather than mandate quotas for DBE participation. *Id.* at 215-217. The court stated the distinction between goals or quotas is immaterial because these techniques induce an employer to hire with an eye toward meeting a numerical target, and as such, they will result in individuals being granted a preference because of their race. *Id.* at 215. The court also rejected the City’s argument that the DBE classification created a preference based on “disadvantage,” not race. *Id.* at 215-216. The court found that the Special Notice relied on Section 8(d) and Section 8(a) of the Small Business Act, which provide explicitly for a race-based presumption of social disadvantage, and thus requires strict scrutiny. *Id.* at 216-217.

The court discussed the *City of Richmond v. Croson* case as providing guidance in determining what types of evidence would justify the enactment of an MBE-type program. *Id.* at 217-218. The court noted the Supreme Court stressed that a governmental entity must establish a factual predicate, tying its set-aside percentage to identified injuries in the particular local industry. *Id.* at 217. The court pointed out given the Supreme Court in *Croson's* emphasis on statistical evidence, other courts considering equal protection challenges to minority-participation programs have looked to disparity indices, or to computations of disparity percentages, in determining whether *Croson's* evidentiary burden is satisfied. *Id.* at 218. The court found that disparity studies are probative evidence for discrimination because they ensure that the “relevant statistical pool,” of qualified minority contractors is being considered. *Id.* at 218.

The court in a footnote stated that it did not attempt to craft a precise mathematical formula to assess the quantum of evidence that rises to the *Croson* “strong basis in evidence” benchmark. *Id.* at 218, n.11. The sufficiency of a municipality’s findings of discrimination in a local industry must be evaluated on a case-by-case basis. *Id.*

The City argued that it was error for the district court to ignore its statistical evidence supporting the use of racial presumptions in its DBE-participation goals, and highlighted the disparity study it commissioned in response to *Croson*. *Id.* at 218. The court stated, however, that whatever probity the study’s findings might have had on the analysis is irrelevant to the case, because the City refused to adopt the study when it was issued in 1995. *Id.* In addition, the court said the study was restricted to the letting of prime contracts by the City under the City’s Program, and did not include an analysis of the availability and utilization of qualified minority subcontractors, the relevant statistical pool, in the City’s construction projects. *Id.* at 218.

The court noted that had the City adopted particularized findings of discrimination within its various agencies, and set participation goals for each accordingly, the outcome of the decision might have been different. *Id.* at 219. Absent such evidence in the City’s construction industry, however, the court concluded the City lacked the factual predicates required under the Equal Protection Clause to support the City’s 15 percent DBE-participation goal. *Id.* Thus, the court held the City failed to establish a compelling interest justifying the MBE program or the Special Notice, and because the City failed a strict scrutiny analysis on this ground, the court declined to address whether the program was narrowly tailored.

**Lost profits and damages.** Scott sought damages from the City under 42 U.S.C. § 1983, including lost profits. *Id.* at 219. The court, affirming the district court, concluded that in light of the entire record the City Council rejected Scott’s low bid because Scott failed to meet the Special Notice’s DBE-participation goal, not because Scott’s bid exceeded the City’s budget. *Id.* at 220. The court, therefore, affirmed the award of lost profits to Scott.

## 10. *Monterey Mechanical v. Wilson*, 125 F.3d 702 (9th Cir. 1997)

This case is instructive in that the Ninth Circuit analyzed and held invalid the enforcement of an MBE/WBE-type program. Although the program at issue utilized the term “goals” as opposed to “quotas,” the Ninth Circuit rejected such a distinction, holding “[t]he relevant question is not whether a statute requires the use of such measures, but whether it authorizes or encourages them.” The case also is instructive because it found the use of “goals” and the application of “good faith efforts” in connection with achieving goals to trigger strict scrutiny.

Monterey Mechanical Co. (the “plaintiff”) submitted the low bid for a construction project for the California Polytechnic State University (the “University”). 125 F.3d 702, 704 (9th Cir. 1994). The University rejected the plaintiff’s bid because the plaintiff failed to comply with a state statute requiring prime contractors on such construction projects to subcontract 23 percent of the work to MBE/WBEs or, alternatively, demonstrate good faith outreach efforts. *Id.* The plaintiff conducted good faith outreach efforts but failed to provide the requisite documentation; the awardee prime contractor did not subcontract any portion of the work to MBE/WBEs but did include documentation of good faith outreach efforts. *Id.*

Importantly, the University did not conduct a disparity study, and instead argued that because “the ‘goal requirements’ of the scheme [did] not involve racial or gender quotas, set-asides or preferences,” the University did not need a disparity study. *Id.* at 705. The plaintiff protested the contract award and sued the University’s trustees, and a number of other individuals (collectively the “defendants”) alleging the state law was violative of the Equal Protection Clause. *Id.* The district court denied the plaintiff’s motion for an interlocutory injunction and the plaintiff appealed to the Ninth Circuit Court of Appeals. *Id.*

The defendants first argued that the statute was constitutional because it treated all general contractors alike, by requiring all to comply with the MBE/WBE participation goals. *Id.* at 708. The court held, however, that a minority or women business enterprise could satisfy the participation goals by allocating the requisite percentage of work to itself. *Id.* at 709. The court held that contrary to the district court’s finding, such a difference was not *de minimis*. *Id.*

The defendants also argued that the statute was not subject to strict scrutiny because the statute did not impose rigid quotas, but rather only required good faith outreach efforts. *Id.* at 710. The court rejected the argument finding that although the statute permitted awards to bidders who did not meet the percentage goals, “they are rigid in requiring precisely described and monitored efforts to attain those goals.” *Id.* The court cited its own earlier precedent to hold that “the provisions are not immunized from scrutiny because they purport to establish goals rather than quotas ... [T]he relevant question is not whether a statute requires the use of such measures, but whether it authorizes or encourages them.” *Id.* at 710-11 (internal citations and quotations omitted). The court found that the statute encouraged set asides and cited *Concrete Works of Colorado v. Denver*, 36 F.3d 1512 (10th Cir. 1994), as analogous support for the proposition. *Id.* at 711.

The court found that the statute treated contractors differently based upon their race, ethnicity and gender, and although “worded in terms of goals and good faith, the statute imposes mandatory requirements with concreteness.” *Id.* The court also noted that the statute may impose additional compliance expenses upon non-MBE/WBE firms who are required to make good faith outreach efforts (e.g., advertising) to MBE/WBE firms. *Id.* at 712.

The court then conducted strict scrutiny (race), and an intermediate scrutiny (gender) analyses. *Id.* at 712-13. The court found the University presented “no evidence” to justify the race- and gender-based classifications and thus did not consider additional issues of proof. *Id.* at 713. The court found that the statute was not narrowly tailored because the definition of “minority” was overbroad (e.g., inclusion of Aleuts). *Id.* at 714, citing *Wygant v. Jackson Board of Education*, 476 U.S. 267, 284, n. 13 (1986) and *City of Richmond v. J.A. Croson, Co.*, 488 U.S. 469, 505-06 (1989). The court found “[a] broad program that sweeps in all minorities with a remedy that is in no way related to past harms cannot survive constitutional scrutiny.” *Id.* at 714, citing *Hopwood v. State of Texas*, 78 F.3d 932, 951 (5th Cir. 1996). The court held that the statute violated the Equal Protection Clause.

### **11. Eng’g Contractors Ass’n of S. Florida v. Metro. Dade County, 122 F.3d 895 (11th Cir. 1997)**

*Engineering Contractors Association of South Florida v. Metropolitan Engineering Contractors Association* is a paramount case in the Eleventh Circuit and is instructive to the disparity study. This decision has been cited and applied by the courts in various circuits that have addressed MBE/WBE-type programs or legislation involving local government contracting and procurement.

In *Engineering Contractors Association*, six trade organizations (the “plaintiffs”) filed suit in the district court for the Southern District of Florida, challenging three affirmative action programs administered by Engineering Contractors Association, Florida, (the “County”) as violative of the Equal Protection Clause. 122 F.3d 895, 900 (11th Cir. 1997). The three affirmative action programs challenged were the Black Business Enterprise program (“BBE”), the Hispanic Business Enterprise program (“HBE”), and the Woman Business Enterprise program, (“WBE”), (collectively “MWBE” programs). *Id.* The plaintiffs challenged the application of the program to County construction contracts. *Id.*

For certain classes of construction contracts valued over \$25,000, the County set participation goals of 15 percent for BBEs, 19 percent for HBEs, and 11 percent for WBEs. *Id.* at 901. The County established five “contract measures” to reach the participation goals: (1) set asides, (2) subcontractor goals, (3) project goals, (4) bid preferences, and (5) selection factors. Once a contract was identified as covered by a participation goal, a review committee would determine whether a contract measure should be utilized. *Id.* The County Commission would make the final determination and its decision was appealable to the County Manager. *Id.* The County reviewed the efficacy of the MWBE programs annually, and reevaluated the continuing viability of the MWBE programs every five years. *Id.*

In a bench trial, the district court applied strict scrutiny to the BBE and HBE programs and held that the County lacked the requisite “strong basis in evidence” to support the race- and ethnicity-conscious measures. *Id.* at 902. The district court applied intermediate scrutiny to the WBE program and found that the “County had presented insufficient probative evidence to support its stated rationale for implementing a gender preference.” *Id.* Therefore, the County had failed to demonstrate a “compelling interest” necessary to support the BBE and HBE programs, and failed to demonstrate an “important interest” necessary to support the WBE program. *Id.* The district court assumed the existence of a sufficient evidentiary basis to support the existence of the MWBE programs but held the BBE and HBE programs were not narrowly tailored to the interests they purported to serve; the district court held the WBE program was not substantially related to an important government interest. *Id.* The district court entered a final judgment enjoining the County from continuing to operate the MWBE programs and the County appealed. The Eleventh Circuit Court of Appeals affirmed. *Id.* at 900, 903.

On appeal, the Eleventh Circuit considered four major issues:

1. Whether the plaintiffs had standing. [The Eleventh Circuit answered this in the affirmative and that portion of the opinion is omitted from this summary];
2. Whether the district court erred in finding the County lacked a “strong basis in evidence” to justify the existence of the BBE and HBE programs;
3. Whether the district court erred in finding the County lacked a “sufficient probative basis in evidence” to justify the existence of the WBE program; and
4. Whether the MWBE programs were narrowly tailored to the interests they were purported to serve. *Id.* at 903.

The Eleventh Circuit held that the BBE and HBE programs were subject to the strict scrutiny standard enunciated by the U.S. Supreme Court in *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469 (1989). *Id.* at 906. Under this standard, “an affirmative action program must be based upon a ‘compelling government interest’ and must be ‘narrowly tailored’ to achieve that interest.” *Id.* The Eleventh Circuit further noted:

*“In practice, the interest that is alleged in support of racial preferences is almost always the same — remedying past or present discrimination. That interest is widely accepted as compelling. As a result, the true test of an affirmative action program is usually not the nature of the government’s interest, but rather the adequacy of the evidence of discrimination offered to show that interest.”* *Id.* (internal citations omitted).

Therefore, strict scrutiny requires a finding of a “‘strong basis in evidence’ to support the conclusion that remedial action is necessary.” *Id.*, citing *Croson*, 488 U.S. at 500). The requisite “‘strong basis in evidence’ cannot rest on ‘an amorphous claim of societal discrimination, on simple legislative assurances of good intention, or on congressional findings of discrimination in the national economy.’” *Id.* at 907, citing *Ensley Branch, NAACP v. Seibels*, 31 F.3d 1548, 1565 (11th Cir. 1994) (citing and applying *Croson*). However, the Eleventh Circuit found that a governmental entity can “‘justify affirmative action by demonstrating ‘gross statistical disparities’ between the proportion of minorities hired ... and the proportion of minorities willing and able to do the work ... Anecdotal evidence may also be used to document discrimination, especially if buttressed by relevant statistical evidence.” *Id.* (internal citations omitted).

Notwithstanding the “‘exceedingly persuasive justification” language utilized by the Supreme Court in *United States v. Virginia*, 116 S. Ct. 2264 (1996) (evaluating gender-based government action), the Eleventh Circuit held that the WBE program was subject to traditional intermediate scrutiny. *Id.* at 908. Under this standard, the government must provide “‘sufficient probative evidence” of discrimination, which is a lesser standard than the “‘strong basis in evidence” under strict scrutiny. *Id.* at 910.

The County provided two types of evidence in support of the MWBE programs: (1) statistical evidence, and (2) non-statistical “‘anecdotal” evidence. *Id.* at 911. As an initial matter, the Eleventh Circuit found that in support of the BBE program, the County permissibly relied on substantially “‘post-enactment” evidence (i.e., evidence based on data related to years following the initial enactment of the BBE program). *Id.* However, “‘such evidence carries with it the hazard that the program at issue may itself be masking discrimination that might otherwise be occurring in the relevant market.” *Id.* at 912. A district court should not “‘speculate about what the data *might* have shown had the BBE program never been enacted.” *Id.*

**The statistical evidence.** The County presented five basic categories of statistical evidence: (1) County contracting statistics; (2) County subcontracting statistics; (3) marketplace data statistics; (4) The Wainwright Study; and (5) The Brimmer Study. *Id.* In summary, the Eleventh Circuit held that the County’s statistical evidence (described more fully below) was subject to more than one interpretation. *Id.* at 924. The district court found that the evidence was “‘insufficient to form the requisite strong basis in evidence for implementing a racial or ethnic preference, and that it was insufficiently probative to support the County’s stated rationale for imposing a gender preference.” *Id.* The district court’s view of the evidence was a permissible one. *Id.*

**County contracting statistics.** The County presented a study comparing three factors for County non-procurement Construction contracts over two time periods (1981-1991 and 1993): (1) the percentage of bidders that were MWBE firms; (2) the percentage of awardees that were MWBE firms; and (3) the proportion of County contract dollars that had been awarded to MWBE firms. *Id.* at 912.

The Eleventh Circuit found that notably, for the BBE and HBE statistics, generally there were no “consistently negative disparities between the bidder and awardee percentages. In fact, by 1993, the BBE and HBE bidders are being awarded *more* than their proportionate ‘share’ ... when the bidder percentages are used as the baseline.” *Id.* at 913. For the WBE statistics, the bidder/awardee statistics were “decidedly mixed” as across the range of County construction contracts. *Id.*

The County then refined those statistics by adding in the total percentage of annual County construction dollars awarded to MBE/WBEs, by calculating “disparity indices” for each program and classification of construction contract. The Eleventh Circuit explained:

*“[A] disparity index compares the amount of contract awards a group actually got to the amount we would have expected it to get based on that group’s bidding activity and awardee success rate. More specifically, a disparity index measures the participation of a group in County contracting dollars by dividing that group’s contract dollar percentage by the related bidder or awardee percentage, and multiplying that number by 100 percent.”* *Id.* at 914. “The utility of disparity indices or similar measures ... has been recognized by a number of federal circuit courts.” *Id.*

The Eleventh Circuit found that “[i]n general ... disparity indices of 80 percent or greater, which are close to full participation, are not considered indications of discrimination.” *Id.* The Eleventh Circuit noted that “the EEOC’s disparate impact guidelines use the 80 percent test as the boundary line for determining a prima facie case of discrimination.” *Id.*, citing 29 CFR § 1607.4D. In addition, no circuit that has “explicitly endorsed the use of disparity indices [has] indicated that an index of 80 percent or greater might be probative of discrimination.” *Id.*, citing *Concrete Works v. City & County of Denver*, 36 F.3d 1513, 1524 (10th Cir. 1994) (crediting disparity indices ranging from 0% to 3.8%); *Contractors Ass’n v. City of Philadelphia*, 6 F.3d 990 (3d Cir. 1993) (crediting disparity index of 4%).

After calculation of the disparity indices, the County applied a standard deviation analysis to test the statistical significance of the results. *Id.* at 914. “The standard deviation figure describes the probability that the measured disparity is the result of mere chance.” *Id.* The Eleventh Circuit had previously recognized “[s]ocial scientists consider a finding of two standard deviations significant, meaning there is about one chance in 20 that the explanation for the deviation could be random and the deviation must be accounted for by some factor other than chance.” *Id.*

The statistics presented by the County indicated “statistically significant underutilization of BBEs in County construction contracting.” *Id.* at 916. The results were “less dramatic” for HBEs and mixed as between favorable and unfavorable for WBEs. *Id.*

The Eleventh Circuit then explained the burden of proof:

*“[O]nce the proponent of affirmative action introduces its statistical proof as evidence of its remedial purpose, thereby supplying the [district] court with the means for determining that [it] had a firm basis for concluding that remedial action was appropriate, it is incumbent upon the [plaintiff] to prove their case; they continue to bear the ultimate burden of persuading the [district] court that the [defendant’s] evidence did not support an inference of prior discrimination and thus a remedial purpose, or that the plan instituted on the basis of this evidence was not sufficiently ‘narrowly tailored.’”* *Id.* (internal citations omitted).

The Eleventh Circuit noted that a plaintiff has at least three methods to rebut the inference of discrimination with a “neutral explanation” by: “(1) showing that the statistics are flawed; (2) demonstrating that the disparities shown by the statistics are not significant or actionable; or (3) presenting contrasting statistical data.” *Id.* (internal quotations and citations omitted). The Eleventh Circuit held that the plaintiffs produced “sufficient evidence to establish a neutral explanation for the disparities.” *Id.*

The plaintiffs alleged that the disparities were “better explained by firm size than by discrimination ... [because] minority and female-owned firms tend to be smaller, and that it stands to reason smaller firms will win smaller contracts.” *Id.* at 916-17. The plaintiffs produced Census data indicating, on average, minority- and female-owned construction firms in Engineering Contractors Association were smaller than non-MBE/WBE firms. *Id.* at 917. The Eleventh Circuit found that the plaintiff’s explanation of the disparities was a “plausible one, in light of the uncontroverted evidence that MBE/WBE construction firms tend to be substantially smaller than non-MBE/WBE firms.” *Id.*

Additionally, the Eleventh Circuit noted that the County’s own expert admitted that “firm size plays a significant role in determining which firms win contracts.” *Id.* The expert stated:

*The size of the firm has got to be a major determinant because of course some firms are going to be larger, are going to be better prepared, are going to be in a greater natural capacity to be able to work on some of the contracts while others simply by virtue of their small size simply would not be able to do it. Id.*

The Eleventh Circuit then summarized:

*Because they are bigger, bigger firms have a bigger chance to win bigger contracts. It follows that, all other factors being equal and in a perfectly nondiscriminatory market, one would expect the bigger (on average) non-MWBE firms to get a disproportionately higher percentage of total construction dollars awarded than the smaller MWBE firms. Id.*

In anticipation of such an argument, the County conducted a regression analysis to control for firm size. *Id.* A regression analysis is “a statistical procedure for determining the relationship between a dependent and independent variable, e.g., the dollar value of a contract award and firm size.” *Id.* (internal citations omitted). The purpose of the regression analysis is “to determine whether the relationship between the two variables is statistically meaningful.” *Id.*

The County’s regression analysis sought to identify disparities that could not be explained by firm size, and theoretically instead based on another factor, such as discrimination. *Id.* The County conducted two regression analyses using two different proxies for firm size: (1) total awarded value of all contracts bid on; and (2) largest single contract awarded. *Id.* The regression analyses accounted for most of the negative disparities regarding MBE/WBE participation in County construction contracts (i.e., most of the unfavorable disparities became statistically insignificant, corresponding to standard deviation values less than two). *Id.*



Based on an evaluation of the regression analysis, the district court held that the demonstrated disparities were attributable to firm size as opposed to discrimination. *Id.* at 918. The district court concluded that the few unexplained disparities that remained after regressing for firm size were insufficient to provide the requisite “strong basis in evidence” of discrimination of BBEs and HBEs. *Id.* The Eleventh Circuit held that this decision was not clearly erroneous. *Id.*

With respect to the BBE statistics, the regression analysis explained all but one negative disparity, for one type of construction contract between 1989-1991. *Id.* The Eleventh Circuit held the district court permissibly found that this did not constitute a “strong basis in evidence” of discrimination. *Id.*

With respect to the HBE statistics, one of the regression methods failed to explain the unfavorable disparity for one type of contract between 1989-1991, and both regression methods failed to explain the unfavorable disparity for another type of contract during that same time period. *Id.* However, by 1993, both regression methods accounted for all of the unfavorable disparities, and one of the disparities for one type of contract was actually favorable for HBEs. *Id.* The Eleventh Circuit held the district court permissibly found that this did not constitute a “strong basis in evidence” of discrimination. *Id.*

Finally, with respect to the WBE statistics, the regression analysis explained all but one negative disparity, for one type of construction contract in the 1993 period. *Id.* The regression analysis explained all of the other negative disparities, and in the 1993 period, a disparity for one type of contract was actually favorable to WBEs. *Id.* The Eleventh Circuit held the district court permissibly found that this evidence was not “sufficiently probative of discrimination.” *Id.*

The County argued that the district court erroneously relied on the disaggregated data (i.e., broken down by contract type) as opposed to the consolidated statistics. *Id.* at 919. The district court declined to assign dispositive weight to the aggregated data for the BBE statistics for 1989-1991 because (1) the aggregated data for 1993 did not show negative disparities when regressed for firm size, (2) the BBE disaggregated data left only one unexplained negative disparity for one type of contract for 1989-1991 when regressed for firm size, and (3) “the County’s own expert testified as to the utility of examining the disaggregated data ‘insofar as they reflect different kinds of work, different bidding practices, perhaps a variety of other factors that could make them heterogeneous with one another.’” *Id.*

Additionally, the district court noted, and the Eleventh Circuit found that “the aggregation of disparity statistics for nonheterogenous data populations can give rise to a statistical phenomenon known as ‘Simpson’s Paradox,’ which leads to illusory disparities in improperly aggregated data that disappear when the data are disaggregated.” *Id.* at 919, n. 4 (internal citations omitted). “Under those circumstances,” the Eleventh Circuit held that the district court did not err in assigning less weight to the aggregated data, in finding the aggregated data for BBEs for 1989-1991 did not provide a “strong basis in evidence” of discrimination, or in finding that the disaggregated data formed an insufficient basis of support for any of the MBE/WBE programs given the applicable constitutional requirements. *Id.* at 919.

**County subcontracting statistics.** The County performed a subcontracting study to measure MBE/WBE participation in the County’s subcontracting businesses. For each MBE/WBE category (BBE, HBE, and WBE), “the study compared the proportion of the designated group that filed a subcontractor’s release of lien on a County construction project between 1991 and 1994 with the proportion of sales and receipt dollars that the same group received during the same time period.” *Id.*

The district court found the statistical evidence insufficient to support the use of race- and ethnicity-conscious measures, noting problems with some of the data measures. *Id.* at 920.

Most notably, the denominator used in the calculation of the MWBE sales and receipts percentages is based upon the total sales and receipts from all sources for the firm filing a subcontractor’s release of lien with the County. That means, for instance, that if a nationwide non-MWBE company performing 99 percent of its business outside of Dade County filed a single subcontractor’s release of lien with the County during the relevant time frame, all of its sales and receipts for that time frame would be counted in the denominator against which MWBE sales and receipts are compared. As the district court pointed out, that is not a reasonable way to measure Dade County subcontracting participation. *Id.* The County’s argument that a strong majority (72%) of the subcontractors were located in Dade County did not render the district court’s decision to fail to credit the study erroneous. *Id.*

**Marketplace data statistics.** The County conducted another statistical study “to see what the differences are in the marketplace and what the relationships are in the marketplace.” *Id.* The study was based on a sample of 568 contractors, from a pool of 10,462 firms, that had filed a “certificate of competency” with Dade County as of January 1995. *Id.* The selected firms participated in a telephone survey inquiring about the race, ethnicity and gender of the firm’s owner, and asked for information on the firm’s total sales and receipts from all sources. *Id.* The County’s expert then studied the data to determine “whether meaningful relationships existed between (1) the race, ethnicity and gender of the surveyed firm owners, and (2) the reported sales and receipts of that firm. *Id.* The expert’s hypothesis was that unfavorable disparities may be attributable to marketplace discrimination. The expert performed a regression analysis using the number of employees as a proxy for size. *Id.*

The Eleventh Circuit first noted that the statistical pool used by the County was substantially larger than the actual number of firms, willing, able, and qualified to do the work as the statistical pool represented all those firms merely licensed as a construction contractor. *Id.* Although this factor did not render the study meaningless, the district court was entitled to consider that in evaluating the weight of the study. *Id.* at 921. The Eleventh Circuit quoted the Supreme Court for the following proposition: “[w]hen special qualifications are required to fill particular jobs, comparisons to the general population (rather than to the smaller group of individuals who possess the necessary qualifications) may have little probative value.” *Id.*, quoting *Croson*, 488 U.S. at 501, quoting *Hazelwood Sch. Dist. v. United States*, 433 U.S. 299, 308 n. 13 (1977).

The Eleventh Circuit found that after regressing for firm size, neither the BBE nor WBE data showed statistically significant unfavorable disparities. *Id.* Although the marketplace data did reveal unfavorable disparities even after a regression analysis, the district court was not required to assign those disparities controlling weight, especially in light of the dissimilar results of the County Contracting Statistics, discussed *supra*. *Id.*

**The Wainwright Study.** The County also introduced a statistical analysis prepared by Jon Wainwright, analyzing “the personal and financial characteristics of self-employed persons working full-time in the Dade County construction industry, based on data from the 1990 Public Use Microdata Sample database” (derived from the decennial census). *Id.* The study “(1) compared construction business ownership rates of MBE/WBEs to those of non-MBE/WBEs, and (2) analyzed disparities in personal income between MBE/WBE and non-MBE/WBE business owners.” *Id.* “The study concluded that blacks, Hispanics and women are less likely to own construction businesses than similarly situated white males, and MBE/WBEs that do enter the construction business earn less money than similarly situated white males.” *Id.*

With respect to the first conclusion, Wainwright controlled for “human capital” variables (education, years of labor market experience, marital status, and English proficiency) and “financial capital” variables (interest and dividend income, and home ownership). *Id.* The analysis indicated that blacks, Hispanics and women enter the construction business at lower rates than would be expected, once numerosity, and identified human and financial capital are controlled for. *Id.* The disparities for blacks and women (but not Hispanics) were substantial and statistically significant. *Id.* at 922. The underlying theory of this business ownership component of the study is that any significant disparities remaining after control of variables are due to the ongoing effects of past and present discrimination. *Id.*

The Eleventh Circuit held, in light of *Croson*, the district court need not have accepted this theory. *Id.* The Eleventh Circuit quoted *Croson*, in which the Supreme Court responded to a similar argument advanced by the plaintiffs in that case: “There are numerous explanations for this dearth of minority participation, including past societal discrimination in education and economic opportunities *as well as both black and white career and entrepreneurial choices. Blacks may be disproportionately attracted to industries other than construction.*” *Id.*, quoting *Croson*, 488 U.S. at 503. Following the Supreme Court in *Croson*, the Eleventh Circuit held “the disproportionate attraction of a minority group to non-construction industries does not mean that discrimination in the construction industry is the reason.” *Id.*, quoting *Croson*, 488 U.S. at 503. Additionally, the district court had evidence that between 1982 and 1987, there was a substantial growth rate of MBE/WBE firms as opposed to non-MBE/WBE firms, which would further negate the proposition that the construction industry was discriminating against minority- and women-owned firms. *Id.* at 922.

With respect to the personal income component of the Wainwright study, after regression analyses were conducted, only the BBE statistics indicated a statistically significant disparity ratio. *Id.* at 923. However, the Eleventh Circuit held the district court was not required to assign the disparity controlling weight because the study did not regress for firm size, and in light of the conflicting statistical evidence in the County Contracting Statistics and Marketplace Data Statistics, discussed *supra*, which did regress for firm size. *Id.*

**The Brimmer Study.** The final study presented by the County was conducted under the supervision of Dr. Andrew F. Brimmer and concerned only black-owned firms. *Id.* The key component of the study was an analysis of the business receipts of black-owned construction firms for the years of 1977, 1982 and 1987, based on the Census Bureau’s Survey of Minority- and Women-Owned Businesses, produced every five years. *Id.* The study sought to determine the existence of disparities

between sales and receipts of black-owned firms in Dade County compared to the sales and receipts of all construction firms in Dade County. *Id.*

The study indicated substantial disparities in 1977 and 1987 but not 1982. *Id.* The County alleged that the absence of disparity in 1982 was due to substantial race-conscious measures for a major construction contract (Metrorail project), and not due to a lack of discrimination in the industry. *Id.* However, the study made no attempt to filter for the Metrorail project and “complete[ly] fail[ed]” to account for firm size. *Id.* Accordingly, the Eleventh Circuit found the district court permissibly discounted the results of the Brimmer study. *Id.* at 924.

**Anecdotal evidence.** In addition, the County presented a substantial amount of anecdotal evidence of perceived discrimination against BBEs, a small amount of similar anecdotal evidence pertaining to WBEs, and no anecdotal evidence pertaining to HBEs. *Id.* The County presented three basic forms of anecdotal evidence: “(1) the testimony of two County employees responsible for administering the MBE/WBE programs; (2) the testimony, primarily by affidavit, of twenty-three MBE/WBE contractors and subcontractors; and (3) a survey of black-owned construction firms.” *Id.*

The County employees testified that the decentralized structure of the County construction contracting system affords great discretion to County employees, which in turn creates the opportunity for discrimination to infect the system. *Id.* They also testified to specific incidents of discrimination, for example, that MBE/WBEs complained of receiving lengthier punch lists than their non-MBE/WBE counterparts. *Id.* They also testified that MBE/WBEs encounter difficulties in obtaining bonding and financing. *Id.*

The MBE/WBE contractors and subcontractors testified to numerous incidents of perceived discrimination in the Dade County construction market, including:

*Situations in which a project foreman would refuse to deal directly with a black or female firm owner, instead preferring to deal with a white employee; instances in which an MWBE owner knew itself to be the low bidder on a subcontracting project, but was not awarded the job; instances in which a low bid by an MWBE was “shopped” to solicit even lower bids from non-MWBE firms; instances in which an MWBE owner received an invitation to bid on a subcontract within a day of the bid due date, together with a “letter of unavailability” for the MWBE owner to sign in order to obtain a waiver from the County; and instances in which an MWBE subcontractor was hired by a prime contractor, but subsequently was replaced with a non-MWBE subcontractor within days of starting work on the project. *Id.* at 924-25.*

Finally, the County submitted a study prepared by Dr. Joe E. Feagin, comprised of interviews of 78 certified black-owned construction firms. *Id.* at 925. The interviewees reported similar instances of perceived discrimination, including: “difficulty in securing bonding and financing; slow payment by general contractors; unfair performance evaluations that were tainted by racial stereotypes; difficulty in obtaining information from the County on contracting processes; and higher prices on equipment and supplies than were being charged to non-MBE/WBE firms.” *Id.*

The Eleventh Circuit found that numerous black- and some female-owned construction firms in Dade County perceived that they were the victims of discrimination and two County employees also believed that discrimination could taint the County’s construction contracting process. *Id.* However,

such anecdotal evidence is helpful “only when it [is] combined with and reinforced by sufficiently probative statistical evidence.” *Id.* In her plurality opinion in *Croson*, Justice O’Connor found that “evidence of a pattern of individual discriminatory acts can, *if supported by appropriate statistical proof*, lend support to a local government’s determination that broader remedial relief is justified.” *Id.*, quoting *Croson*, 488 U.S. at 509 (emphasis added by the Eleventh Circuit). Accordingly, the Eleventh Circuit held that “anecdotal evidence can play an important role in bolstering statistical evidence, but that only in the rare case will anecdotal evidence suffice standing alone.” *Id.* at 925. The Eleventh Circuit also cited to opinions from the Third, Ninth and Tenth Circuits as supporting the same proposition. *Id.* at 926. The Eleventh Circuit affirmed the decision of the district court enjoining the continued operation of the MBE/WBE programs because they did not rest on a “constitutionally sufficient evidentiary foundation.” *Id.*

Although the Eleventh Circuit determined that the MBE/WBE program did not survive constitutional muster due to the absence of a sufficient evidentiary foundation, the Eleventh Circuit proceeded with the second prong of the strict scrutiny analysis of determining whether the MBE/WBE programs were narrowly tailored (BBE and HBE programs) or substantially related (WBE program) to the legitimate government interest they purported to serve, i.e., “remedying the effects of present and past discrimination against blacks, Hispanics and women in the Dade County construction market.” *Id.*

**Narrow tailoring.** “The essence of the ‘narrowly tailored’ inquiry is the notion that explicitly racial preferences ... must only be a ‘last resort’ option.” *Id.*, quoting *Hayes v. North Side Law Enforcement Officers Ass’n*, 10 F.3d 207, 217 (4th Cir. 1993) and citing *Croson*, 488 U.S. at 519 (Kennedy, J., concurring in part and concurring in the judgment) (“[T]he strict scrutiny standard ... forbids the use of even narrowly drawn racial classifications except as a last resort.”).

The Eleventh Circuit has identified four factors to evaluate whether a race- or ethnicity-conscious affirmative action program is narrowly tailored: (1) “the necessity for the relief and the efficacy of alternative remedies; (2) the flexibility and duration of the relief; (3) the relationship of numerical goals to the relevant labor market; and (4) the impact of the relief on the rights of innocent third parties.” *Id.* at 927, citing *Ensley Branch*, 31 F.3d at 1569. The four factors provide “a useful analytical structure.” *Id.* at 927. The Eleventh Circuit focused only on the first factor in the present case “because that is where the County’s MBE/WBE programs are most problematic.” *Id.*

The Eleventh Circuit flatly reject[ed] the County’s assertion that ‘given a strong basis in evidence of a race-based problem, a race-based remedy is necessary.’ That is simply not the law. If a race-neutral remedy is sufficient to cure a race-based problem, then a race-conscious remedy can never be narrowly tailored to that problem.” *Id.*, citing *Croson*, 488 U.S. at 507 (holding that affirmative action program was not narrowly tailored where “there does not appear to have been any consideration of the use of race-neutral means to increase minority business participation in city contracting”) ... Supreme Court decisions teach that a race-conscious remedy is not merely one of many equally acceptable medications the government may use to treat a race-based problem. Instead, it is the strongest of medicines, with many potential side effects, and must be reserved for those severe cases that are highly resistant to conventional treatment. *Id.* at 927.

The Eleventh Circuit held that the County “clearly failed to give serious and good faith consideration to the use of race- and ethnicity-neutral measures.” *Id.* Rather, the determination of the necessity to

establish the MWBE programs was based upon a conclusory legislative statement as to its necessity, which in turn was based upon an “equally conclusory analysis” in the Brimmer study, and a report that the SBA only was able to direct 5 percent of SBA financing to black-owned businesses between 1968-1980. *Id.*

The County admitted, and the Eleventh Circuit concluded, that the County failed to give any consideration to any alternative to the HBE affirmative action program. *Id.* at 928. Moreover, the Eleventh Circuit found that the testimony of the County’s own witnesses indicated the viability of race- and ethnicity-neutral measures to remedy many of the problems facing black- and Hispanic-owned construction firms. *Id.* The County employees identified problems, virtually all of which were related to the County’s own processes and procedures, including: “the decentralized County contracting system, which affords a high level of discretion to County employees; the complexity of County contract specifications; difficulty in obtaining bonding; difficulty in obtaining financing; unnecessary bid restrictions; inefficient payment procedures; and insufficient or inefficient exchange of information.” *Id.* The Eleventh Circuit found that the problems facing MBE/WBE contractors were “institutional barriers” to entry facing every new entrant into the construction market, and were perhaps affecting the MBE/WBE contractors disproportionately due to the “institutional youth” of black- and Hispanic-owned construction firms. *Id.* “It follows that those firms should be helped the most by dismantling those barriers, something the County could do at least in substantial part.” *Id.*

The Eleventh Circuit noted that the race- and ethnicity-neutral options available to the County mirrored those available and cited by Justice O’Connor in *Croson*:

*[T]he city has at its disposal a whole array of race-neutral measures to increase the accessibility of city contracting opportunities to small entrepreneurs of all races. Simplification of bidding procedures, relaxation of bonding requirements, and training and financial aid for disadvantaged entrepreneurs of all races would open the public contracting market to all those who have suffered the effects of past societal discrimination and neglect ... The city may also act to prohibit discrimination in the provision of credit or bonding by local suppliers and banks. Id., quoting Croson, 488 U.S. at 509-10.*

The Eleventh Circuit found that except for some “half-hearted programs” consisting of “limited technical and financial aid that might benefit BBEs and HBEs,” the County had not “seriously considered” or tried most of the race- and ethnicity-neutral alternatives available. *Id.* at 928. “Most notably ... the County has not taken any action whatsoever to ferret out and respond to instances of discrimination if and when they have occurred in the County’s own contracting process.” *Id.*

The Eleventh Circuit found that the County had taken no steps to “inform, educate, discipline, or penalize” discriminatory misconduct by its own employees. *Id.* at 929. Nor had the County passed any local ordinances expressly prohibiting discrimination by local contractors, subcontractors, suppliers, bankers, or insurers. *Id.* “Instead of turning to race- and ethnicity-conscious remedies as a last resort, the County has turned to them as a first resort.” Accordingly, the Eleventh Circuit held that even if the BBE and HBE programs were supported by the requisite evidentiary foundation, they violated the Equal Protection Clause because they were not narrowly tailored. *Id.*

**Substantial relationship.** The Eleventh Circuit held that due to the relaxed “substantial relationship” standard for gender-conscious programs, if the WBE program rested upon a sufficient evidentiary foundation, it could pass the substantial relationship requirement. *Id.* However, because it did not rest upon a sufficient evidentiary foundation, the WBE program could not pass constitutional muster. *Id.*

For all of the foregoing reasons, the Eleventh Circuit affirmed the decision of the district court declaring the MBE/WBE programs unconstitutional and enjoining their continued operation.

**12. *Concrete Works of Colorado, Inc. v. City and County of Denver*, 36 F.3d 1513 (10th Cir. 1994)**

The court considered whether the City and County of Denver’s race- and gender-conscious public contract award program complied with the Fourteenth Amendment’s guarantee of equal protection of the laws. Plaintiff-Appellant Concrete Works of Colorado, Inc. (“Concrete Works”) appealed the district court’s summary judgment order upholding the constitutionality of Denver’s public contract program. The court concluded that genuine issues of material fact exist with regard to the evidentiary support that Denver presents to demonstrate that its program satisfies the requirements of *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469 (1989). Accordingly, the court reversed and remanded. 36 F.3d 1513 (10th Cir. 1994).

**Background.** In, 1990, the Denver City Council enacted Ordinance (“Ordinance”) to enable certified racial minority business enterprises (“MBEs”)1 and women-owned business enterprises (“WBEs”) to participate in public works projects “to an extent approximating the level of [their] availability and capacity.” *Id.* at 1515. This Ordinance was the most recent in a series of provisions that the Denver City Council has adopted since 1983 to remedy perceived race and gender discrimination in the distribution of public and private construction contracts. *Id.* at 1516.

In 1992, Concrete Works, a nonminority and male-owned construction firm, filed this Equal Protection Clause challenge to the Ordinance. *Id.* Concrete Works alleged that the Ordinance caused it to lose three construction contracts for failure to comply with either the stated MBE and WBE participation goals or the good-faith requirements. Rather than pursuing administrative or state court review of the OCC’s findings, Concrete Works initiated this action, seeking a permanent injunction against enforcement of the Ordinance and damages for lost contracts. *Id.*

In 1993, and after extensive discovery, the district court granted Denver’s summary judgment motion. *Concrete Works, Inc. v. City and County of Denver*, 823 F.Supp. 821 (D.Colo.1993). The court concluded that Concrete Works had standing to bring this claim. *Id.* With respect to the merits, the court held that Denver’s program satisfied the strict scrutiny standard embraced by a majority of the Supreme Court in *Croson* because it was narrowly tailored to achieve a compelling government interest. *Id.*

**Standing.** At the outset, the Tenth Circuit on appeal considered Denver’s contention that Concrete Works fails to satisfy its burden of establishing standing to challenge the Ordinance’s constitutionality. *Id.* at 1518. The court concluded that Concrete Works demonstrated “injury in fact” because it submitted bids on three projects and the Ordinance prevented it from competing on an equal basis with minority and women-owned prime contractors. *Id.*

Specifically, the unequal nature of the bidding process lied in the Ordinance’s requirement that a nonminority prime contractor must meet MBE and WBE participation goals by entering into joint ventures with MBEs and WBEs or hiring them as subcontractors (or satisfying the ten-step good faith requirement). *Id.* In contrast, minority and women-owned prime contractors could use their own work to satisfy MBE and WBE participation goals. *Id.* Thus, the extra requirements, the court found imposed costs and burdens on nonminority firms that precluded them from competing with MBEs and WBEs on an equal basis. *Id.* at 1519.

In addition to demonstrating “injury in fact,” Concrete Works, the court held, also satisfied the two remaining elements to establish standing: (1) a causal relationship between the injury and the challenged conduct; and (2) a likelihood that the injury will be redressed by a favorable ruling. Thus, the court concluded that Concrete Works had standing to challenge the constitutionality of Denver’s race- and gender-conscious contract program. *Id.*

**Equal Protection Clause Standards.** The court determined the appropriate standard of equal protection review by examining the nature of the classifications embodied in the statute. The court applied strict scrutiny to the Ordinance’s race-based preference scheme, and thus inquired whether the statute was narrowly tailored to achieve a compelling government interest. *Id.* Gender-based classifications, in contrast, the court concluded are evaluated under the intermediate scrutiny rubric, which provides that the law must be substantially related to an important government objective. *Id.*

**Permissible Evidence and Burdens of Proof.** In *Croson*, a plurality of the Court concluded that state and local governments have a compelling interest in remedying identified past and present discrimination within their borders. *Id. citing Croson*, 488 U.S. at 492, 509, The plurality explained that the Fourteenth Amendment permits race-conscious programs that seek both to eradicate discrimination by the governmental entity itself and to prevent the public entity from acting as a “passive participant’ in a system of racial exclusion practiced by elements of the local construction industry” by allowing tax dollars “to finance the evil of private prejudice.” *Id. citing Croson* at 492.

**A. Geographic Scope of the Data.** Concrete Works contended that *Croson* precluded the court from considering empirical evidence of discrimination in the six-county Denver Metropolitan Statistical Area (MSA). Instead, it argued *Croson* would allow Denver only to use data describing discrimination within the City and County of Denver. *Id.* at 1520.

The court stated that a majority in *Croson* observed that because discrimination varies across market areas, state and local governments cannot rely on national statistics of discrimination in the construction industry to draw conclusions about prevailing market conditions in their own regions. *Id.* at 1520, *citing Croson* at 504. The relevant area in which to measure discrimination, then, is the local construction market, but that is not necessarily confined by jurisdictional boundaries. *Id.*

The court said that *Croson* supported its consideration of data from the Denver MSA because this data was sufficiently geographically targeted to the relevant market area. *Id.* The record revealed that over 80 percent of Denver Department of Public Works (“DPW”) construction and design contracts were awarded to firms located within the Denver MSA. *Id.* at 1520. To confine the permissible data to a governmental body’s strict geographical boundaries, the court found, would ignore the economic reality that contracts are often awarded to firms situated in adjacent areas. *Id.*



The court said that it is important that the pertinent data closely relate to the jurisdictional area of the municipality whose program is scrutinized, but here Denver’s contracting activity, insofar as construction work was concerned, was closely related to the Denver MSA. *Id.* at 1520. Therefore, the court held that data from the Denver MSA was adequately particularized for strict scrutiny purposes. *Id.*

**B. Anecdotal Evidence.** Concrete Works argued that the district court committed reversible error by considering such non-empirical evidence of discrimination as testimony from minority and women-owned firms delivered during public hearings, affidavits from MBEs and WBEs, summaries of telephone interviews that Denver officials conducted with MBEs and WBEs, and reports generated during Office of Affirmative Action compliance investigations. *Id.*

The court stated that selective anecdotal evidence about minority contractors’ experiences, without more, would not provide a strong basis in evidence to demonstrate public or private discrimination in Denver’s construction industry sufficient to pass constitutional muster under *Croson*. *Id.* at 1520.

Personal accounts of actual discrimination or the effects of discriminatory practices may, according to the court, however, vividly complement empirical evidence. *Id.* The court concluded that anecdotal evidence of a municipality’s institutional practices that exacerbate discriminatory market conditions are often particularly probative. *Id.* Therefore, the government may include anecdotal evidence in its evidentiary mosaic of past or present discrimination. *Id.*

The court pointed out that in the context of employment discrimination suits arising under Title VII of the Civil Rights Act of 1964, the Supreme Court has stated that anecdotal evidence may bring “cold numbers convincingly to life.” *Id.* at 1520, quoting, *International Bhd. of Teamsters v. United States*, 431 U.S. 324, 339 (1977). In fact, the court found, the majority in *Croson* impliedly endorsed the inclusion of personal accounts of discrimination. *Id.* at 1521. The court thus deemed anecdotal evidence of public and private race and gender discrimination appropriate supplementary evidence in the strict scrutiny calculus. *Id.*

**C. Post-Enactment Evidence.** Concrete Works argued that the court should consider only evidence of discrimination that existed prior to Denver’s enactment of the Ordinance. *Id.* In *Croson*, the court noted that the Supreme Court underscored that a municipality “must identify [the] discrimination ... with some specificity *before* [it] may use race-conscious relief.” *Id.* at 1521, quoting, *Croson*, 488 U.S. at 504 (emphasis added). Absent any pre-enactment evidence of discrimination, the court said a municipality would be unable to satisfy *Croson*. *Id.*

However, the court did not read *Croson*’s evidentiary requirement as foreclosing the consideration of post-enactment evidence. *Id.* at 1521. Post-enactment evidence, if carefully scrutinized for its accuracy, the court found would often prove quite useful in evaluating the remedial effects or shortcomings of the race-conscious program. *Id.* This, the court noted was especially true in this case, where Denver first implemented a limited affirmative action program in 1983 and has since modified and expanded its scope. *Id.*

The court held the strong weight of authority endorses the admissibility of post-enactment evidence to determine whether an affirmative action contract program complies with *Croson*. *Id.* at 1521. The court agreed that post-enactment evidence may prove useful for a court’s determination of whether an ordinance’s deviation from the norm of equal treatment is necessary. *Id.* Thus, evidence of discrimination existing subsequent to enactment of the 1990 Ordinance, the court concluded was properly before it. *Id.*

**D. Burdens of Production and Proof.** The court stated that the Supreme Court in *Croson* struck down the City of Richmond’s minority set-aside program because the City failed to provide an adequate evidentiary showing of past or present discrimination. *Id.* at 1521, *citing*, *Croson*, 488 U.S. at 498–506. The court pointed out that because the Fourteenth Amendment only tolerates race-conscious programs that narrowly seek to remedy identified discrimination, the Supreme Court in *Croson* explained that state and local governments “must identify that discrimination ... with some specificity before they may use race-conscious relief.” *Id.*, *citing* *Croson*, at 504. The court said that the Supreme Court’s benchmark for judging the adequacy of the government’s factual predicate for affirmative action legislation was whether there exists a “strong basis in evidence for [the government’s] conclusion that remedial action was necessary.” *Id.*, *quoting*, *Croson*, at 500.

Although *Croson* places the burden of production on the municipality to demonstrate a “strong basis in evidence” that its race- and gender-conscious contract program aims to remedy specifically identified past or present discrimination, the court held the Fourteenth Amendment does not require a court to make an ultimate judicial finding of discrimination before a municipality may take affirmative steps to eradicate discrimination. *Id.* at 1521, *citing*, *Wygant*, 476 U.S. at 292 (O’Connor, J., concurring in part and concurring in the judgment). An affirmative action response to discrimination is sustainable against an equal protection challenge so long as it is predicated upon strong evidence of discrimination. *Id.* at 1522, *citing*, *Croson*, 488 U.S. at 504.

An inference of discrimination, the court found, may be made with empirical evidence that demonstrates “a significant statistical disparity between the number of qualified minority contractors ... and the number of such contractors actually engaged by the locality or the locality’s prime contractors.” *Id.* at 1522, *quoting*, *Croson* at 509 (plurality). The court concluded that it did not read *Croson* to require an attempt to craft a precise mathematical formula to assess the quantum of evidence that rises to the *Croson* “strong basis in evidence” benchmark. *Id.* That, the court stated, must be evaluated on a case-by-case basis. *Id.*

The court said that the adequacy of a municipality’s showing of discrimination must be evaluated in the context of the breadth of the remedial program advanced by the municipality. *Id.* at 1522, *citing*, *Croson* at 498. Ultimately, whether a strong basis in evidence of past or present discrimination exists, thereby establishing a compelling interest for the municipality to enact a race-conscious ordinance, the court found is a question of law. *Id.* Underlying that legal conclusion, however, the court noted are factual determinations about the accuracy and validity of a municipality’s evidentiary support for its program. *Id.*

Notwithstanding the burden of initial production that rests with the municipality, “[t]he ultimate burden [of proof] remains with [the challenging party] to demonstrate the unconstitutionality of an affirmative-action program.” *Id.* at 1522, quoting, *Wygant*, 476 U.S. at 277–78(plurality). Thus, the court stated that once Denver presented adequate statistical evidence of precisely defined discrimination in the Denver area construction market, it became incumbent upon Concrete Works either to establish that Denver’s evidence did not constitute strong evidence of such discrimination or that the remedial statute was not narrowly drawn. *Id.* at 1523. Absent such a showing by Concrete Works, the court said, summary judgment upholding Denver’s Ordinance would be appropriate. *Id.*

**E. Evidentiary Predicate Underlying Denver’s Ordinance.** The evidence of discrimination that Denver presents to demonstrate a compelling government interest in enacting the Ordinance consisted of three categories: (1) evidence of discrimination in city contracting from the mid-1970s to 1990; (2) data about MBE and WBE utilization in the overall Denver MSA construction market between 1977 and 1992; and (3) anecdotal evidence that included personal accounts by MBEs and WBEs who have experienced both public and private discrimination and testimony from city officials who describe institutional governmental practices that perpetuate public discrimination. *Id.* at 1523.

**1. Discrimination in the Award of Public Contracts.** The court considered the evidence that Denver presented to demonstrate underutilization of MBEs and WBEs in the award of city contracts from the mid-1970s to 1990. The court found that Denver offered persuasive pieces of evidence that, considered in the abstract, could give rise to an inference of race- and gender-based public discrimination on isolated public works projects. *Id.* at 1523. However, the court also found the record showed that MBE and WBE utilization on public contracts as a whole during this period was strong in comparison to the total number of MBEs and WBEs within the local construction industry. *Id.* at 1524. Denver offered a rebuttal to this more general evidence, but the court stated it was clear that the weight to be given both to the general evidence and to the specific evidence relating to individual contracts presented genuine disputes of material facts.

The court then engaged in an analysis of the factual record and an identification of the genuine material issues of fact arising from the parties’ competing evidence.

**(a) Federal Agency Reports of Discrimination in Denver.** Denver submitted federal agency reports of discrimination in Denver public contract awards. *Id.* at 1524. The record contained a summary of a 1978 study by the United States General Accounting Office (“GAO”), which showed that between 1975 and 1977 minority businesses were significantly underrepresented in the performance of Denver public contracts that were financed in whole or in part by federal grants. *Id.*

Concrete Works argued that a material fact issue arose about the validity of this evidence because “the 1978 GAO Report was nothing more than a listing of the problems faced by all small firms, first starting out in business.” *Id.* at 1524. The court pointed out, however, Concrete Works ignored the GAO Report’s empirical data, which quantified the actual disparity between the utilization of minority contractors and their representation in the local construction industry. *Id.* In addition, the court noted that the GAO Report reflected the findings of an objective third party. *Id.* Because this data remained uncontested, notwithstanding Concrete Works’ conclusory allegations to the contrary, the court found the 1978 GAO Report provided evidence to support Denver’s showing of discrimination. *Id.*

Added to the GAO findings was a 1979 letter from the United States Department of Transportation (“USDOT”) to the Mayor of the City of Denver, describing the USDOT Office of Civil Rights’ study of Denver’s discriminatory contracting practices at Stapleton International Airport. *Id.* at 1524. USDOT threatened to withhold additional federal funding for Stapleton because Denver had “denied minority contractors the benefits of, excluded them from, or otherwise discriminated against them concerning contracting opportunities at Stapleton,” in violation of Title VI of the Civil Rights Act of 1964 and other federal laws. *Id.*

The court discussed the following data as reflected of the low level of MBE and WBE utilization on Stapleton contracts prior to Denver’s adoption of an MBE and WBE goals program at Stapleton in 1981: for the years 1977 to 1980, respectively, MBE utilization was 0 percent, 3.8 percent, 0.7 percent, and 2.1 percent; data on WBE utilization was unknown for the years 1977 to 1979, and it was 0.05 percent for 1980. *Id.* at 1524.

The court stated that like its unconvincing attempt to discredit the GAO Report, Concrete Works presented no evidence to challenge the validity of USDOT’s allegations. *Id.* Concrete Works, the court said, failed to introduce evidence refuting the substance of USDOT’s information, attacking its methodology, or challenging the low utilization figures for MBEs at Stapleton before 1981. *Id.* at 1525. Thus, according to the court, Concrete Works failed to create a genuine issue of fact about the conclusions in the USDOT’s report. *Id.* In sum, the court found the federal agency reports of discrimination in Denver’s contract awards supported Denver’s contention that race and gender discrimination existed prior to the enactment of the challenged Ordinance. *Id.*

**(b) Denver’s Reports of Discrimination.** Denver pointed to evidence of public discrimination prior to 1983, the year that the first Denver ordinance was enacted. *Id.* at 1525. A 1979 DPW “Major Bond Projects Final Report,” which reviewed MBE and WBE utilization on projects funded by the 1972 and 1974 bond referenda and the 1975 and 1976 revenue bonds, the court said, showed strong evidence of underutilization of MBEs and WBEs. *Id.* Based on this Report’s description of the approximately \$85 million in contract awards, there was 0 percent MBE and WBE utilization for professional design and construction management projects, and less than 1 percent utilization for construction. *Id.* The Report concluded that if MBEs and WBEs had been utilized in the same proportion as found in the construction industry, 5 percent of the contract dollars would have been awarded to MBEs and WBEs. *Id.*

To undermine this data, Concrete Works alleged that the DPW Report contained “no information about the number of minority or women owned firms that were used” on these bond projects. *Id.* at 1525. However, the court concluded the Report’s description of MBE and WBE utilization in terms of contract dollars provided a more accurate depiction of total utilization than would the mere number of MBE and WBE firms participating in these projects. *Id.* Thus, the court said this line of attack by Concrete Works was unavailing. *Id.*

Concrete Works also advanced expert testimony that Denver’s data demonstrated strong MBE and WBE utilization on the total DPW contracts awarded between 1978 and 1982. *Id.* Denver responded by pointing out that because federal and city affirmative action programs were in place from the mid-1970s to the present, this overall DPW data reflected the intended remedial effect on MBE and WBE utilization of these programs. *Id.* at 1526. Based on its contention that the overall DPW data was therefore “tainted” and distorted by these pre-existing affirmative action goals programs, Denver

asked the court to focus instead on the data generated from specific public contract programs that were, for one reason or another, insulated from federal and local affirmative action goals programs, i.e., “non-goals public projects.” *Id.*

Given that the same local construction industry performed both goals and non-goals public contracts, Denver argued that data generated on non-goals public projects offered a control group with which the court could compare MBE and WBE utilization on public contracts governed by a goals program and those insulated from such goal requirements. *Id.* Denver argued that the utilization of MBEs and WBEs on non-goals projects was the better test of whether there had been discrimination historically in Denver contracting practices. *Id.* at 1526.

**DGS data.** The first set of data from non-goals public projects that Denver identified were MBE and WBE disparity indices on Denver Department of General Services (“DGS”) contracts, which represented one-third of all city construction funding and which, prior to the enactment of the 1990 Ordinance, were not subject to the goals program instituted in the earlier ordinances for DPW contracts. *Id.* at 1526. The DGS data, the court found, revealed extremely low MBE and WBE utilization. *Id.* For MBEs, the DGS data showed a 0.14 disparity index in 1989 and a 0.19 disparity index in 1990 — evidence the court stated was of significant underutilization. *Id.* For WBEs, the disparity index was 0.47 in 1989 and 1.36 in 1990 — the latter, the court said showed greater than full participation and the former demonstrating underutilization. *Id.*

The court noted that it did not have the benefit of relevant authority with which to compare Denver’s disparity indices for WBEs. Nevertheless, the court concluded Denver’s data indicated significant WBE underutilization such that the Ordinance’s gender classification arose from “reasoned analysis rather than through the mechanical application of traditional, often inaccurate, assumptions.” *Id.* at 1526, n.19, quoting, *Mississippi Univ. of Women*, 458 U.S. at 726.

**DPW data.** The second set of data presented by Denver, the court said, reflected distinct MBE and WBE underutilization on non-goals public projects consisting of separate DPW projects on which no goals program was imposed. *Id.* at 1527. Concrete Works, according to the court, attempted to trivialize the significance of this data by contending that the projects, in dollar terms, reflected a small fraction of the total Denver MSA construction market. *Id.* But, the court noted that Concrete Works missed the point because the data was not intended to reflect conditions in the overall market. *Id.* Instead the data dealt solely with the utilization levels for city-funded projects on which no MBE and WBE goals were imposed. *Id.* The court found that it was particularly telling that the disparity index significantly deteriorated on projects for which the city did not establish minority and gender participation goals. *Id.* Insofar as Concrete Works did not attack the data on any other grounds, the court considered it was persuasive evidence of underlying discrimination in the Denver construction market. *Id.*

**Empirical data.** The third evidentiary item supporting Denver’s contention that public discrimination existed prior to enactment of the challenged Ordinance was empirical data from 1989, generated after Denver modified its race- and gender-conscious program. *Id.* at 1527. In the wake of *Crosson*, Denver amended its program by eliminating the minimum annual goals program for MBE and WBE participation and by requiring MBEs and WBEs to demonstrate that they had suffered from past discrimination. *Id.*

This modification, the court said, resulted in a noticeable decline in the share of DPW construction dollars awarded to MBEs. *Id.* From 1985 to 1988 (prior to the 1989 modification of Denver’s program), DPW construction dollars awarded to MBEs ranged from 17 to nearly 20 percent of total dollars. *Id.* However, the court noted the figure dropped to 10.4 percent in 1989, after the program modifications took effect. *Id.* at 1527. Like the DGS and non-goals DPW projects, this 1989 data, the court concluded, further supported the inference that MBE and WBE utilization significantly declined after deletion of a goals program or relaxation of the minimum MBE and WBE utilization goal requirements. *Id.*

Nonetheless, the court stated it must consider Denver’s empirical support for its contention that public discrimination existed prior to the enactment of the Ordinance in the context of the overall DPW data, which showed consistently strong MBE and WBE utilization from 1978 to the present. *Id.* at 1528. The court noted that although Denver’s argument may prove persuasive at trial that the non-goals projects were the most reliable indicia of discrimination, the record on summary judgment contained two sets of data, one that gave rise to an inference of discrimination and the other that undermined such an inference. *Id.* This discrepancy, the court found, highlighted why summary judgment was inappropriate on this record. *Id.*

**Availability data.** The court concluded that uncertainty about the capacity of MBEs and WBEs in the local market to compete for, and perform, the public projects for which there was underutilization of MBEs and WBEs further highlighted why the record was not ripe for summary judgment. *Id.* at 1528. Although Denver’s data used as its baseline the percentage of firms in the local construction market that were MBEs and WBEs, Concrete Works argued that a more accurate indicator would consider the capacity of local MBEs and WBEs to undertake the work. *Id.* The court said that uncertainty about the capacity of MBEs and WBEs in the local market to compete for, and perform, the public projects for which there was underutilization of MBEs and WBEs further highlighted why the record was not ripe for summary judgment. *Id.*

The court agreed with the other circuits which had at that time interpreted Croson impliedly to permit a municipality to rely, as did Denver, on general data reflecting the number of MBEs and WBEs in the marketplace to defeat the challenger’s summary judgment motion or request for a preliminary injunction. *Id.* at 1527 *citing*, *Contractors Ass’n*, 6 F.3d at 1005 (comparing MBE participation in city contracts with the “percentage of [MBE] availability or composition in the ‘population’ of Philadelphia area construction firms”); *Associated Gen. Contractors*, 950 F.2d at 1414 (relying on availability data to conclude that city presented “detailed findings of prior discrimination”); *Cone Corp.*, 908 F.2d at 916 (statistical disparity between “the total percentage of minorities involved in construction and the work going to minorities” shows that “the racial classification in the County plan [was] necessary”).

But, the court found Concrete Works had identified a legitimate factual dispute about the accuracy of Denver’s data and questioned whether Denver’s reliance on the percentage of MBEs and WBEs available in the marketplace overstated “the ability of MBEs or WBEs to conduct business relative to the industry as a whole because M/WBEs tend to be smaller and less experienced than nonminority-owned firms.” *Id.* at 1528. In other words, the court said, a disparity index calculated on the basis of the absolute number of MBEs in the local market may show greater underutilization than does data that takes into consideration the size of MBEs and WBEs. *Id.*

The court stated that it was not implying that availability was not an appropriate barometer to calculate MBE and WBE utilization, nor did it cast aspersions on data that simply used raw numbers of MBEs and WBEs compared to numbers of total firms in the market. *Id.* The court concluded, however, once credible information about the size or capacity of the firms was introduced in the record, it became a factor that the court should consider. *Id.*

Denver presented several responses. *Id.* at 1528. It argued that a construction firm’s precise “capacity” at a given moment in time belied quantification due to the industry’s highly elastic nature. *Id.* DPW contracts represented less than 4 percent of total MBE revenues and less than 2 percent of WBE revenues in 1989, thereby the court said, strongly implied that MBE and WBE participation in DPW contracts did not render these firms incapable of concurrently undertaking additional work. *Id.* at 1529. Denver presented evidence that most MBEs and WBEs had never participated in city contracts, “although almost all firms contacted indicated that they were interested in City work.” *Id.* Of those MBEs and WBEs who have received work from DPW, available data showed that less than 10 percent of their total revenues were from DPW contracts. *Id.*

The court held all of the back and forth arguments highlighted that there were genuine and material factual disputes in the record, and that such disputes about the accuracy of Denver’s data should not be resolved at summary judgment. *Id.* at 1529.

**(c) Evidence of Private Discrimination in the Denver MSA.** In recognition that a municipality has a compelling interest in taking affirmative steps to remedy both public and private discrimination specifically identified in its area, the court also considered data about conditions in the overall Denver MSA construction industry between 1977 and 1992. *Id.* at 1529. The court stated that given DPW and DGS construction contracts represented approximately 2 percent of all construction in the Denver MSA, Denver MSA industry data sharpened the picture of local market conditions for MBEs and WBEs. *Id.*

According to Denver’s expert affidavits, the MBE disparity index in the Denver MSA was 0.44 in 1977, 0.26 in 1982, and 0.43 in 1990. *Id.* The corresponding WBE disparity indices were 0.46 in 1977, 0.30 in 1982, and 0.42 in 1989. *Id.* This pre-enactment evidence of the overall Denver MSA construction market — i.e., combined public and private sector utilization of MBEs and WBEs — the court found gave rise to an inference that local prime contractors discriminated on the basis of race and gender. *Id.*

The court pointed out that rather than offering any evidence in rebuttal, Concrete Works merely stated that this empirical evidence did not prove that the Denver government itself discriminated against MBEs and WBEs. *Id.* at 1529. Concrete Works asked the court to define the appropriate market as limited to contracts with the City and County of Denver. *Id.* But, the court said that such a request ignored the lesson of *Croson* that a municipality may design programs to prevent tax dollars from “financ[ing] the evil of private prejudice.” *Id.*, quoting *Croson*, 488 U.S. at 492.

The court found that what the Denver MSA data did not indicate, however, was whether there was any linkage between Denver’s award of public contracts and the Denver MSA evidence of industry-wide discrimination. *Id.* at 1529. The court said it could not tell whether Denver indirectly contributed to private discrimination by awarding public contracts to firms that in turn discriminated

against MBE and/or WBE subcontractors in other private portions of their business or whether the private discrimination was practiced by firms who did not receive any public contracts. *Id.*

Neither *Croson* nor its progeny, the court pointed out, clearly stated whether private discrimination that was in no way funded with public tax dollars could, by itself, provide the requisite strong basis in evidence necessary to justify a municipality's affirmative action program. *Id.* The court said a plurality in *Croson* suggested that remedial measures could be justified upon a municipality's showing that "it had essentially become a 'passive participant' in a system of racial exclusion practiced by elements of the local construction industry." *Id.* at 1529, quoting *Croson*, 488 U.S. at 492.

The court concluded that *Croson* did not require the municipality to identify an exact linkage between its award of public contracts and private discrimination, but such evidence would at least enhance the municipality's factual predicate for a race- and gender-conscious program. *Id.* at 1529. The record before the court did not explain the Denver government's role in contributing to the underutilization of MBEs and WBEs in the private construction market in the Denver MSA, and the court stated that this may be a fruitful issue to explore at trial. *Id.* at 1530.

**(d). Anecdotal Evidence.** The record, according to the court, contained numerous personal accounts by MBEs and WBEs, as well as prime contractors and city officials, describing discriminatory practices in the Denver construction industry. *Id.* at 1530. Such anecdotal evidence was collected during public hearings in 1983 and 1988, interviews, the submission of affidavits, and case studies performed by a consulting firm that Denver employed to investigate public and private market conditions in 1990, prior to the enactment of the 1990 Ordinance. *Id.*

The court indicated again that anecdotal evidence about minority- and women-owned contractors' experiences could bolster empirical data that gave rise to an inference of discrimination. *Id.* at 1530. While a factfinder, the court stated, should accord less weight to personal accounts of discrimination that reflect isolated incidents, anecdotal evidence of a municipality's institutional practices carry more weight due to the systemic impact that such institutional practices have on market conditions. *Id.*

The court noted that in addition to the individual accounts of discrimination that MBEs and WBEs had encountered in the Denver MSA, City affirmative action officials explained that change orders offered a convenient means of skirting project goals by permitting what would otherwise be a new construction project (and thus subject to the MBE and WBE participation requirements) to be characterized as an extension of an existing project and thus within DGS's bailiwick. *Id.* at 1530. An assistant city attorney, the court said, also revealed that projects have been labelled "remodeling," as opposed to "reconstruction," because the former fall within DGS, and thus were not subject to MBE and WBE goals prior to the enactment of the 1990 Ordinance. *Id.* at 1530. The court concluded over the object of Concrete Works that this anecdotal evidence could be considered in conjunction with Denver's statistical analysis. *Id.*

**2. Summary.** The court summarized its ruling by indicating Denver had compiled substantial evidence to support its contention that the Ordinance was enacted to remedy past race- and gender-based discrimination. *Id.* at 1530. The court found in contrast to the predicate facts on which Richmond unsuccessfully relied in *Croson*, that Denver's evidence of discrimination both in the award of public contracts and within the overall Denver MSA was particularized and geographically targeted. *Id.* The court emphasized that Denver need not negate all evidence of non-discrimination,



nor was it Denver's burden to prove judicially that discrimination did exist. *Id.* Rather, the court held, Denver need only come forward with a "strong basis in evidence" that its Ordinance was a narrowly-tailored response to specifically identified discrimination. *Id.* Then, the court said it became Concrete Works' burden to show that there was no such strong basis in evidence to support Denver's affirmative action legislation. *Id.*

The court also stated that Concrete Works had specifically identified potential flaws in Denver's data and had put forth evidence that Denver's data failed to support an inference of either public or private discrimination. *Id.* at 1530. With respect to Denver's evidence of public discrimination, for example, the court found overall DPW data demonstrated strong MBE and WBE utilization, yet data for isolated DPW projects and DGS contract awards suggested to the contrary. *Id.* The parties offered conflicting rationales for this disparate data, and the court concluded the record did not provide a clear explanation. *Id.* In addition, the court said that Concrete Works presented a legitimate contention that Denver's disparity indices failed to consider the relatively small size of MBEs and WBEs, which the court noted further impeded its ability to draw conclusions from the existing record. *Id.* at 1531.

Significantly, the court pointed out that because Concrete Works did not challenge the district court's conclusion with respect to the second prong of Croson's strict scrutiny standard — i.e., that the Ordinance was narrowly tailored to remedy past and present discrimination — the court need not and did not address this issue. *Id.* at 1531.

On remand, the court stated the parties should be permitted to develop a factual record to support their competing interpretations of the empirical data. *Id.* at 1531. Accordingly, the court reversed the district court ruling granting summary judgment and remanded the case for further proceedings. See *Concrete Works of Colorado v. City and County of Denver*, 321 F. 3d 950 (10th Cir. 2003).

### **13. Contractor's Association of E. Pennsylvania v. City of Philadelphia, 91 F.3d 586 (3d Cir. 1996)**

The City of Philadelphia (City) and intervening defendant United Minority Enterprise Associates (UMEA) appealed from the district court's judgment declaring that the City's DBE/MBE/WBE program for black construction contractors, violated the Equal Protection rights of the Contractors Association of Eastern Pennsylvania (CAEP) and eight other contracting associations (Contractors). The Third Circuit affirmed the district court that the Ordinance was not narrowly tailored to serve a compelling state interest. 91 F. 3d 586, 591 (3d Cir. 1996), *affirming*, *Contractors Ass'n of Eastern Pa. v. City of Philadelphia*, 893 F.Supp. 419 (E.D.Pa.1995).

**The Ordinance.** The City's Ordinance sought to increase the participation of "disadvantaged business enterprises" (DBEs) in City contracting. *Id.* at 591. DBEs are businesses defined as those at least 51 percent owned by "socially and economically disadvantaged" persons. "Socially and economically disadvantaged" persons are, in turn, defined as "individuals who have ... been subjected to racial, sexual or ethnic prejudice because of their identity as a member of a group or differential treatment because of their handicap without regard to their individual qualities, and whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same business area who are not socially disadvantaged. *Id.* The Third Circuit found in *Contractors Ass'n of Eastern Pa. v. City of Philadelphia*, 6

F.3d 990, 999 (3d Cir.1993) (*Contractors II*), this definition “includes only individuals who are both victims of prejudice based on status and economically deprived.” Businesses majority-owned by racial minorities (minority business enterprises or MBEs) and women are rebuttably presumed to be DBEs, but businesses that would otherwise qualify as DBEs are rebuttably presumed not to be DBEs if they have received more than \$5 million in City contracts. *Id.* at 591-592.

The Ordinance set participation “goals” for different categories of DBEs: racial minorities (15%), women (10%) and handicapped (2%). *Id.* at 592. These percentage goals were percentages of the total dollar amount spent by the City in each of the three contract categories: vending contracts, construction contracts, and personal and professional service contracts. Dollars received by DBE *subcontractors* in connection with City financed prime contracts are counted towards the goals as well as dollars received by DBE *prime* contractors. *Id.*

Two different strategies were authorized. When there were sufficient DBEs qualified to perform a City contract to ensure competitive bidding, a contract could be let on a sheltered market basis — i.e., only DBEs will be permitted to bid. In other instances, the contract would be let on a non-sheltered basis — i.e., any firm may bid — with the goals requirements being met through subcontracting. *Id.* at 592 The sheltered market strategy saw little use. It was attempted on a trial basis, but there were too few DBEs in any given area of expertise to ensure reasonable prices, and the program was abandoned. *Id.* Evidence submitted by the City indicated that no construction contract was let on a sheltered market basis from 1988 to 1990, and there was no evidence that the City had since pursued that approach. *Id.* Consequently, the Ordinance’s participation goals were achieved almost entirely by requiring that prime contractors subcontract work to DBEs in accordance with the goals. *Id.*

The Court stated that the significance of complying with the goals is determined by a series of presumptions. *Id.* at 593. Where at least one bidding contractor submitted a satisfactory Schedule for Participation, it was presumed that all contractors who did not submit a satisfactory Schedule did not exert good faith efforts to meet the program goals, and the “lowest responsible, responsive contractor” received the contract. *Id.* Where none of the bidders submitted a satisfactory Schedule, it was presumed that all but the bidder who proposed “the highest goals” of DBE participation at a “reasonable price” did not exert good faith efforts, and the contract was awarded to the “lowest, responsible, responsive contractor” who was granted a Waiver and proposed the highest level of DBE participation at a reasonable price. *Id.* Non-complying bidders in either situation must rebut the presumption in order to secure a waiver.

**Procedural History.** This appeal is the third appeal to consider this challenge to the Ordinance. On the first appeal, the Third Circuit affirmed the district court’s ruling that the Contractors had standing to challenge the set-aside program, but reversed the grant of summary judgment in their favor because UMEA had not been afforded a fair opportunity to develop the record. *Id.* at 593 citing, *Contractors Ass’n of Eastern Pa. v. City of Philadelphia*, 945 F.2d 1260 (3d Cir.1991) (*Contractors I*).

On the second appeal, the Third Circuit reviewed a second grant of summary judgment for the Contractors. *Id.*, citing, *Contractors II*, 6 F.3d 990. The Court in that appeal concluded that the Contractors had standing to challenge the program only as it applied to the award of construction contracts, and held that the pre-enactment evidence available to the City Council in 1982 did “not provide a sufficient evidentiary basis” for a conclusion that there had been discrimination against

women and minorities in the construction industry. *Id. citing*, 6 F.3d at 1003. The Court further held, however, that evidence of discrimination obtained after 1982 could be considered in determining whether there was a sufficient evidentiary basis for the Ordinance. *Id.*

In the second appeal, 6 F.3d 990 (3d. Cir. 1993), after evaluating both the pre-enactment and post-enactment evidence in the summary judgment record, the Court affirmed the grant of summary judgment insofar as it declared to be unconstitutional those portions of the program requiring set-asides for women and non-black minority contractors. *Id.* at 594. The Court also held that the 2 percent set-aside for the handicapped passed rational basis review and ordered the court to enter summary judgment for the City with respect to that portion of the program. *Id.* In addition, the Court concluded that the portions of the program requiring a set-aside for black contractors could stand only if they met the “strict scrutiny” standard of Equal Protection review and that the record reflected a genuine issue of material fact as to whether they were narrowly tailored to serve a compelling interest of the City as required under that standard. *Id.*

This third appeal followed a nine-day bench trial and a resolution by the district court of the issues thus presented. That trial and this appeal thus concerned only the constitutionality of the Ordinance’s preferences for black contractors. *Id.*

**Trial.** At trial, the City presented a study done in 1992 after the filing of this suit, which was reflected in two pretrial affidavits by the expert study consultant and his trial testimony. *Id.* at 594. The core of his analysis concerning discrimination by the City centered on disparity indices prepared using data from fiscal years 1979–1981. The disparity indices were calculated by dividing the percentage of all City construction dollars received by black construction firms by their percentage representation among all area construction firms, multiplied by 100.

The consultant testified that the disparity index for black construction firms in the Philadelphia metropolitan area for the period studied was about 22.5. According to the consultant, the smaller the resulting figure was, the greater the inference of discrimination, and he believed that 22.5 was a disparity attributable to discrimination. *Id.* at 595. A number of witnesses testified to discrimination in City contracting before the City Council, prior to the enactment of the Ordinance, and the consultant testified that his statistical evidence was corroborated by their testimony. *Id.* at 595.

Based on information provided in an affidavit by a former City employee (John Macklin), the study consultant also concluded that black representation in contractor associations was disproportionately low in 1981 and that between 1979 and 1981 black firms had received no subcontracts on City-financed construction projects. *Id.* at 595. The City also offered evidence concerning two programs instituted by others prior to 1982 which were intended to remedy the effects of discrimination in the construction industry but which, according to the City, had been unsuccessful. *Id.* The first was the Philadelphia Plan, a program initiated in the late 1960s to increase the hiring of minorities on public construction sites.

The second program was a series of programs implemented by the Philadelphia Urban Coalition, a non-profit organization (Urban Coalition programs). These programs were established around 1970, and offered loans, loan guarantees, bonding assistance, training, and various forms of non-financial assistance concerning the management of a construction firm and the procurement of public

contracts. *Id.* According to testimony from a former City Council member and others, neither program succeeded in eradicating the effects of discrimination. *Id.*

The City pointed to the waiver and exemption sections of the Ordinance as proof that there was adequate flexibility in its program. The City contended that its 15 percent goal was appropriate. The City maintained that the goal of 15 percent may be required to account for waivers and exemptions allowed by the City, was a flexible goal rather than a rigid quota in light of the waivers and exemptions allowed by the Ordinance, and was justified in light of the discrimination in the construction industry. *Id.* at 595.

The Contractors presented testimony from an expert witness challenging the validity and reliability of the study and its conclusions, including, *inter alia*, the data used, the assumptions underlying the study, and the failure to include federally-funded contracts let through the City Procurement Department. *Id.* at 595. The Contractors relied heavily on the legislative history of the Ordinance, pointing out that it reflected no identification of any specific discrimination against black contractors and no data from which a Council person could find that specific discrimination against black contractors existed or that it was an appropriate remedy for any such discrimination. *Id.* at 595 They pointed as well to the absence of any consideration of race-neutral alternatives by the City Council prior to enacting the Ordinance. *Id.* at 596.

On cross-examination, the Contractors elicited testimony that indicated that the Urban Coalition programs were relatively successful, which the Court stated undermined the contention that race-based preferences were needed. *Id.* The Contractors argued that the 15 percent figure must have been simply picked from the air and had no relationship to any legitimate remedial goal because the City Council had no evidence of identified discrimination before it. *Id.*

At the conclusion of the trial, the district court made findings of fact and conclusions of law. It determined that the record reflected no “strong basis in evidence” for a conclusion that discrimination against black contractors was practiced by the City, non-minority prime contractors, or contractors associations during any relevant period. *Id.* at 596 *citing*, 893 F.Supp. at 447. The court also determined that the Ordinance was “not ‘narrowly tailored’ to even the perceived objective declared by City Council as the reason for the Ordinance.” *Id.* at 596, *citing*, 893 F. Supp. at 441.

**Burden of Persuasion.** The Court held affirmative action programs, when challenged, must be subjected to “strict scrutiny” review. *Id.* at 596. Accordingly, a program can withstand a challenge only if it is narrowly tailored to serve a compelling state interest. The municipality has a compelling state interest that can justify race-based preferences only when it has acted to remedy identified present or past discrimination in which it engaged or was a “passive participant;” race-based preferences cannot be justified by reference to past “societal” discrimination in which the municipality played no material role. *Id.* Moreover, the Court found the remedy must be tailored to the discrimination identified. *Id.*

The Court said that a municipality must justify its conclusions regarding discrimination in connection with the award of its construction contracts and the necessity for a remedy of the scope chosen. *Id.* at 597. While this does not mean the municipality must convince a court of the accuracy of its conclusions, the Court stated that it does mean the program cannot be sustained unless there is a strong basis in evidence for those conclusions. *Id.* The party challenging the race-based preferences

can succeed by showing either (1) the subjective intent of the legislative body was not to remedy race discrimination in which the municipality played a role, or (2) there is no “strong basis in evidence” for the conclusions that race-based discrimination existed and that the remedy chosen was necessary. *Id.*

The Third Circuit noted it and other courts have concluded that when the race-based classifications of an affirmative action plan are challenged, the proponents of the plan have the burden of coming forward with evidence providing a firm basis for inferring that the legislatively identified discrimination in fact exists or existed and that the race-based classifications are necessary to remedy the effects of the identified discrimination. *Id.* at 597. Once the proponents of the program meet this burden of production, the opponents of the program must be permitted to attack the tendered evidence and offer evidence of their own tending to show that the identified discrimination did or does not exist and/or that the means chosen as a remedy do not “fit” the identified discrimination. *Id.*

Ultimately, however, the Court found that plaintiffs challenging the program retain the burden of persuading the district court that a violation of the Equal Protection Clause has occurred. *Id.* at 597. This means that the plaintiffs bear the burden of persuading the court that the race-based preferences were not intended to serve the identified compelling interest or that there is no strong basis in the evidence as a whole for the conclusions the municipality needed to have reached with respect to the identified discrimination and the necessity of the remedy chosen. *Id.*

The Court explained the significance of the allocation of the burden of persuasion differs depending on the theory of constitutional invalidity that is being considered. If the theory is that the race-based preferences were adopted by the municipality with an intent unrelated to remedying its past discrimination, the plaintiff has the burden of convincing the court that the identified remedial motivation is a pretext and that the real motivation was something else. *Id.* at 597. As noted in *Contractors II*, the Third Circuit held the burden of persuasion here is analogous to the burden of persuasion in Title VII cases. *Id.* at 598, *citing*, 6 F.3d at 1006. The ultimate issue under this theory is one of fact, and the burden of persuasion on that ultimate issue can be very important. *Id.*

The Court said the situation is different when the plaintiff’s theory of constitutional invalidity is that, although the municipality may have been thinking of past discrimination and a remedy therefor, its conclusions with respect to the existence of discrimination and the necessity of the remedy chosen have no strong basis in evidence. In such a situation, when the municipality comes forward with evidence of facts alleged to justify its conclusions, the Court found that the plaintiff has the burden of persuading the court that those facts are not accurate. *Id.* The ultimate issue as to whether a strong basis in evidence exists is an issue of law, however. The burden of persuasion in the traditional sense plays no role in the court’s resolution of that ultimate issue. *Id.*

The Court held the district court’s opinion explicitly demonstrates its recognition that the plaintiffs bore the burden of persuading it that an equal protection violation occurred. *Id.* at 598. The Court found the district court applied the appropriate burdens of production and persuasion, conducted the required evaluation of the evidence, examined the credited record evidence as a whole, and concluded that the “strong basis in evidence” for the City’s position did not exist. *Id.*

**Three forms of discrimination advanced by the City.** The Court pointed out that several distinct forms of racial discrimination were advanced by the City as establishing a pattern of discrimination against minority contractors. The first was discrimination by prime contractors in the awarding of subcontracts. The second was discrimination by contractor associations in admitting members. The third was discrimination by the City in the awarding of prime contracts. The City and UMEA argued that the City may have “passively participated” in the first two forms of discrimination. *Id.* at 599.

**A. The evidence of discrimination by private prime contractors.** One of the City’s theories is that discrimination by prime contractors in the selection of subcontractors existed and may be remedied by the City. The Court noted that as Justice O’Connor observed in *Crosson*: if the city could show that it had essentially become a “passive participant” in a system of racial exclusion practiced by elements of the local construction industry ... the city could take affirmative steps to dismantle such a system. It is beyond dispute that any public entity ... has a compelling government interest in assuring that public dollars ... do not serve to finance the evil of private prejudice. *Id.* at 599, *citing*, 488 U.S. at 492.

The Court found the disparity study focused on just one aspect of the Philadelphia construction industry — the award of prime contracts by the City. *Id.* at 600. The City’s expert consultant acknowledged that the only information he had about subcontracting came from an affidavit of one person, John Macklin, supplied to him in the course of his study. As he stated on cross-examination, “I have made no presentation to the Court as to participation by black minorities or blacks in subcontracting.” *Id.* at 600. The only record evidence with respect to black participation in the subcontracting market comes from Mr. Macklin who was a member of the MBEC staff and a proponent of the Ordinance. *Id.* Based on a review of City records, found by the district court to be “cursory,” Mr. Macklin reported that not a single subcontract was awarded to minority subcontractors in connection with City-financed construction contracts during fiscal years 1979 through 1981. The district court did not credit this assertion. *Id.*

Prior to 1982, for solely City-financed projects, the City did not require subcontractors to prequalify, did not keep consolidated records of the subcontractors working on prime contracts let by the City, and did not record whether a particular contractor was an MBE. *Id.* at 600. To prepare a report concerning the participation of minority businesses in public works, Mr. Macklin examined the records at the City’s Procurement Department. The department kept procurement logs, project engineer logs, and contract folders. The subcontractors involved in a project were only listed in the engineer’s log. The court found Mr. Macklin’s testimony concerning his methodology was hesitant and unclear, but it does appear that he examined only 25 to 30 percent of the project engineer logs, and that his only basis for identifying a name in that segment of the logs as an MBE was his personal memory of the information he had received in the course of approximately a year of work with the OMO that certified minority contractors. *Id.* The Court quoted the district court finding as to Macklin’s testimony:

Macklin] went to the contract files and looked for contracts in excess of \$30,000.00 that in his view appeared to provide opportunities for subcontracting. (*Id.* at 13.) With that information, Macklin examined some of the project engineer logs for those projects to determine whether minority subcontractors were used by the prime contractors. (*Id.*) Macklin did not look at every available project engineer log. (*Id.*) Rather, he looked at a random 25 to 30 percent of all the project engineer

logs. (*Id.*) As with his review of the Procurement Department log, Macklin determined that a minority subcontractor was used on the project only if he personally recognized the firm to be a minority. (*Id.*) Quite plainly, Macklin was unable to determine whether minorities were used on the remaining 65 to 70 percent of the projects that he did not review. When questioned whether it was possible that minority subcontractors did perform work on some City public works projects during fiscal years 1979 to 1981, and that he just did not see them in the project logs that he looked at, Macklin answered “it is a very good possibility.” 893 F.Supp. at 434.

*Id.* at 600.

The district court found two other portions of the record significant on this point. First, during the trial, the City presented Oscar Gaskins (“Gaskins”), former general counsel to the General and Specialty Contractors Association of Philadelphia (“GASCAP”) and the Philadelphia Urban Coalition, to testify about minority participation in the Philadelphia construction industry during the 1970s and early 1980s. Gaskins testified that, in his opinion, black contractors are still being subjected to racial discrimination in the private construction industry, and in subcontracting within the City limits. However, the Court pointed out, when Gaskins was asked by the district court to identify even one instance where a minority contractor was denied a private contract or subcontract after submitting the lowest bid, Gaskins was unable to do so. *Id.* at 600-601.

Second, the district court noted that since 1979 the City’s “standard requirements warn [would-be prime contractors] that discrimination will be deemed a ‘substantial breach’ of the public works contract which could subject the prime contractor to an investigation by the Commission and, if warranted, fines, penalties, termination of the contract and forfeiture of all money due.” Like the Supreme Court in *Crosson*, the Court stated the district court found significant the City’s inability to point to any allegations that this requirement was being violated. *Id.* at 601.

The Court held the district court did not err by declining to accept Mr. Macklin’s conclusion that there were no subcontracts awarded to black contractors in connection with City-financed construction contracts in fiscal years 1979 to 1981. *Id.* at 601. Accepting that refusal, the Court agreed with the district court’s conclusion that the record provides no firm basis for inferring discrimination by prime contractors in the subcontracting market during that period. *Id.*

**B. The evidence of discrimination by contractor associations.** The Court stated that a city may seek to remedy discrimination by local trade associations to prevent its passive participation in a system of private discrimination. Evidence of “extremely low” membership by MBEs, standing by itself, however, is not sufficient to support remedial action; the city must “link [low MBE membership] to the number of local MBEs eligible for membership.” *Id.* at 601.

The City’s expert opined that there was statistically low representation of eligible MBEs in the local trade associations. He testified that, while numerous MBEs were eligible to join these associations, three such associations had only one MBE member, and one had only three MBEs. In concluding that there were many eligible MBEs not in the associations, however, he again relied entirely upon the work of Mr. Macklin. The district court rejected the expert’s conclusions because it found his reliance on Mr. Macklin’s work misplaced. *Id.* at 601. Mr. Macklin formed an opinion that a listed number of MBE and WBE firms were eligible to be members of the plaintiff Associations. *Id.* Because Mr. Macklin did not set forth the criteria for association membership and because the OMO

certification list did not provide any information about the MBEs and WBEs other than their names and the fact that they were such, the Court found the district court was without a basis for evaluating Mr. Macklin's opinions. *Id.*

On the other hand, the district court credited "the uncontroverted testimony of John Smith [a former general manager of the CAEP and member of the MBEC] that no black contractor who has ever applied for membership in the CAEP has been denied." *Id.* at 601 *citing*, 893 F.Supp. at 440. The Court pointed out the district court noted as well that the City had not "identified even a single black contractor who was eligible for membership in any of the plaintiffs' associations, who applied for membership, and was denied." *Id.* at 601, *quoting*, 893 F.Supp at 441.

The Court held that given the City's failure to present more than the essentially unexplained opinion of Mr. Macklin, the opposing, uncontradicted testimony of Mr. Smith, and the failure of anyone to identify a single victim of the alleged discrimination, it was appropriate for the district court to conclude that a constitutionally sufficient basis was not established in the evidence. *Id.* at 601. The Court found that even if it accepted Mr. Macklin's opinions, however, it could not hold that the Ordinance was justified by that discrimination. *Id.* at 602. Racial discrimination can justify a race-based remedy only if the City has somehow participated in or supported that discrimination. *Id.* The Court said that this record would not support a finding that this occurred. *Id.*

Contrary to the City's argument, the Court stated nothing in *Crosson* suggests that awarding contracts pursuant to a competitive bidding scheme and without reference to association membership could alone constitute passive participation by the City in membership discrimination by contractor associations. *Id.* Prior to 1982, the City let construction contracts on a competitive bid basis. It did not require bidders to be association members, and nothing in the record suggests that it otherwise favored the associations or their members. *Id.*

**C. The evidence of discrimination by the City.** The Court found the record provided substantially more support for the proposition that there was discrimination on the basis of race in the award of prime contracts by the City in the fiscal 1979–1981 period. *Id.* The Court also found the Contractors' critique of that evidence less cogent than did the district court. *Id.*

The centerpiece of the City's evidence was its expert's calculation of disparity indices which gauge the disparity in the award of prime contracts by the City. *Id.* at 602. Following *Contractors II*, the expert calculated a disparity index for black construction firms of 11.4, based on a figure of 114 such firms available to perform City contracts. At trial, he recognized that the 114 figure included black engineering and architecture firms, so he recalculated the index, using only black construction firms (i.e., 57 firms). This produced a disparity index of 22.5. Thus, based on this analysis, black construction firms would have to have received approximately 4.5 times more public works dollars than they did receive in order to have achieved an amount proportionate to their representation among all construction firms. The expert found the disparity sufficiently large to be attributable to discrimination against black contractors. *Id.*



The district court found the study did not provide a strong basis in evidence for an inference of discrimination in the prime contract market. It reached this conclusion primarily for three reasons. The study, in the district court's view, (1) did not take into account whether the black construction firms were qualified and willing to perform City contracts; (2) mixed statistical data from different sources; and (3) did not account for the "neutral" explanation that qualified black firms were too preoccupied with large, federally-assisted projects to perform City projects. *Id.* at 602-3.

The Court said the district court was correct in concluding that a statistical analysis should focus on the minority population capable of performing the relevant work. *Id.* at 603. As *Croson* indicates, "[w]hen special qualifications are required to fill particular jobs, comparisons to the general population (rather than to the smaller group of individuals who possess the necessary qualifications) may have little probative value." *Id.*, citing, 488 U.S. at 501. In *Croson* and other cases, the Court pointed out, however, the discussion by the Supreme Court concerning qualifications came in the context of a rejection of an analysis using the percentage of a particular minority in the general population. *Id.*

The issue of qualifications can be approached at different levels of specificity, however, the Court stated, and some consideration of the practicality of various approaches is required. An analysis is not devoid of probative value, the Court concluded, simply because it may theoretically be possible to adopt a more refined approach. *Id.* at 603.

To the extent the district court found fault with the analysis for failing to limit its consideration to those black contractors "willing" to undertake City work, the Court found its criticism more problematic. *Id.* at 603. In the absence of some reason to believe otherwise, the Court said one can normally assume that participants in a market with the ability to undertake gainful work will be "willing" to undertake it. Moreover, past discrimination in a marketplace may provide reason to believe the minorities who would otherwise be willing are discouraged from trying to secure the work. *Id.* at 603.

The Court stated that it seemed a substantial overstatement to assert that the study failed to take into account the qualifications and willingness of black contractors to participate in public works. *Id.* at 603. During the time period in question, fiscal years 1979–1981, those firms seeking to bid on City contracts had to prequalify for *each and every* contract they bid on, and the criteria could be set differently from contract to contract. *Id.* The Court said it would be highly impractical to review the hundreds of contracts awarded each year and compare them to each and every MBE. *Id.* The expert chose instead to use as the relevant minority population the black firms listed in the 1982 OMO Directory. The Court found this would appear to be a reasonable choice that, if anything, may have been on the conservative side. *Id.*

When a firm applied to be certified, the OMO required it to detail its bonding experience, prior experience, the size of prior contracts, number of employees, financial integrity, and equipment owned. *Id.* at 603. The OMO visited each firm to substantiate its claims. Although this additional information did not go into the final directory, the OMO was confident that those firms on the list were capable of doing the work required on large scale construction projects. *Id.*

The Contractors point to the small number of black firms that sought to prequalify for City-funded contracts as evidence that black firms were unwilling to work on projects funded solely by the City. *Id.* at 603. During the time period in question, City records showed that only seven black firms sought to prequalify, and only three succeeded in prequalifying. The Court found it inappropriate, however, to conclude that this evidence undermines the inference of discrimination. As the expert indicated in his testimony, the Court noted, if there has been discrimination in City contracting, it is to be expected that black firms may be discouraged from applying, and the low numbers may tend to corroborate the existence of discrimination rather than belie it. The Court stated that in a sense, to weigh this evidence for or against either party required it to presume the conclusion to be proved. *Id.* at 604.

The Court found that while it was true that the study “mixed data,” the weight given that fact by the district court seemed excessive. *Id.* at 604. The study expert used data from only two sources in calculating the disparity index of 22.5. He used data that originated from the City to determine the total amount of contract dollars awarded by the City, the amount that went to MBEs, and the number of black construction firms. *Id.* He “mixed” this with data from the Bureau of the Census concerning the number of total construction firms in the Philadelphia Standard Metropolitan Statistical Area (PSMSA). The data from the City is not geographically bounded to the same extent that the Census information is. *Id.* Any firm could bid on City work, and any firm could seek certification from the OMO.

Nevertheless, the Court found that due to the burdens of conducting construction at a distant location, the vast majority of the firms were from the Philadelphia region and the Census data offers a reasonable approximation of the total number of firms that might vie for City contracts. *Id.* Although there is a minor mismatch in the geographic scope of the data, given the size of the disparity index calculated by the study, the Court was not persuaded that it was significant. *Id.* at 604.

Considering the use of the OMO Directory and the Census data, the Court found that the index of 22.5 may be a conservative estimate of the actual disparity. *Id.* at 604. While the study used a figure for black firms that took into account qualifications and willingness, it used a figure for total firms that did not. *Id.* If the study under-counted the number of black firms qualified and willing to undertake City construction contracts or over-counted the total number of firms qualified and willing to undertake City construction contracts, the actual disparity would be greater than 22.5. *Id.* Further, while the study limited the index to black firms, the study did not similarly reduce the dollars awarded to minority firms. The study used the figure of \$667,501, which represented the total amount going to all MBEs. If minorities other than blacks received some of that amount, the actual disparity would again be greater. *Id.* at 604.

The Court then considered the district court’s suggestion that the extensive participation of black firms in federally-assisted projects, which were also procured through the City’s Procurement Office, accounted for their low participation in the other construction contracts awarded by the City. *Id.* The Court found the district court was right in suggesting that the availability of substantial amounts of federally funded work and the federal set-aside undoubtedly had an impact on the number of black contractors available to bid on other City contracts. *Id.* at 605.

The extent of that impact, according to the Court, was more difficult to gauge, however. That such an impact existed does not necessarily mean that the study's analysis was without probative force. *Id.* at 605. If, the Court noted for example, one reduced the 57 available black contractors by the 20 to 22 that participated in federally assisted projects in fiscal years 1979–1981 and used 35 as a fair approximation of the black contractors available to bid on the remaining City work, the study's analysis produces a disparity index of 37, which the Court found would be a disparity that still suggests a substantial under-participation of black contractors among the successful bidders on City prime contracts. *Id.*

The court in conclusion stated whether this record provided a strong basis in evidence for an inference of discrimination in the prime contract market “was a close call.” *Id.* at 605. In the final analysis, however, the Court held it was a call that it found unnecessary to make, and thus it chose not to make it. *Id.* Even assuming that the record presents an adequately firm basis for that inference, the Court held the judgment of the district court must be affirmed because the Ordinance was clearly not narrowly tailored to remedy that discrimination. *Id.*

**Narrowly Tailored.** The Court said that strict scrutiny review requires it to examine the “fit” between the identified discrimination and the remedy chosen in an affirmative action plan. *Croson* teaches that there must be a strong basis in evidence not only for a conclusion that there is, or has been, discrimination, but also for a conclusion that the particular remedy chosen is made “necessary” by that discrimination. *Id.* at 605. The Court concluded that issue is shaped by its prior conclusions regarding the absence of a strong basis in evidence reflecting discrimination by prime contractors in selecting subcontractors and by contractor associations in admitting members. *Id.* at 606.

This left as a possible justification for the Ordinance only the assumption that the record provided a strong basis in evidence for believing the City discriminated against black contractors in the award of prime contracts during fiscal years 1979 to 1981. *Id.* at 606. If the remedy reflected in the Ordinance cannot fairly be said to be necessary in light of the assumed discrimination in awarding prime construction projects, the Court said that the Ordinance cannot stand. The Court held, as did the district court, that the Ordinance was not narrowly tailored. *Id.*

**A. Inclusion of preferences in the subcontracting market.** The Court found the primary focus of the City's program was the market for subcontracts to perform work included in prime contracts awarded by the City. *Id.* at 606. While the program included authorization for the award of prime contracts on a “sheltered market” basis, that authorization had been sparsely invoked by the City. Its goal with respect to dollars for black contractors had been pursued primarily through requiring that bidding prime contractors subcontract to black contractors in stipulated percentages. *Id.* The 15 percent participation goal and the system of presumptions, which in practice required non-black contractors to meet the goal on virtually every contract, the Court found resulted in a 15 percent set-aside for black contractors in the subcontracting market. *Id.*

Here, as in *Croson*, the Court stated “[t]o a large extent, the set aside of subcontracting dollars seems to rest on the unsupported assumption that white contractors simply will not hire minority firms.” *Id.* at 606, *citing*, 488 U.S. at 502. Here, as in *Croson*, the Court found there is no firm evidentiary basis for believing that non-minority contractors will not hire black subcontractors. *Id.* Rather, the Court concluded the evidence, to the extent it suggests that racial discrimination had occurred, suggested discrimination by the City's Procurement Department against black contractors who were capable of

bidding on prime City construction contracts. *Id.* To the considerable extent that the program sought to constrain decision making by private contractors and favor black participation in the subcontracting market, the Court held it was ill-suited as a remedy for the discrimination identified. *Id.*

The Court pointed out it did not suggest that an appropriate remedial program for discrimination by a municipality in the award of primary contracts could never include a component that affects the subcontracting market in some way. *Id.* at 606. It held, however, that a program, like Philadelphia's program, which focused almost exclusively on the subcontracting market, was not narrowly tailored to address discrimination by the City in the market for prime contracts. *Id.*

**B. The amount of the set-aside in the prime contract market.** Having decided that the Ordinance is overbroad in its inclusion of subcontracting, the Court considered whether the 15 percent goal was narrowly tailored to address discrimination in prime contracting. *Id.* at 606. The Court found the record supported the district court's findings that the Council's attention at the time of the original enactment and at the time of the subsequent extension was focused solely on the percentage of minorities and women in the general population, and that Council made no effort at either time to determine how the Ordinance might be drafted to remedy particular discrimination — to achieve, for example, the approximate market share for black contractors that would have existed, had the purported discrimination not occurred. *Id.* at 607. While the City Council did not tie the 15 percent participation goal directly to the proportion of minorities in the local population, the Court said the goal was either arbitrarily chosen or, at least, the Council's sole reference point was the minority percentage in the local population. *Id.*

The Court stated that it was clear that the City, in the entire course of this litigation, had been unable to provide an evidentiary basis from which to conclude that a 15 percent set-aside was necessary to remedy discrimination against black contractors in the market for prime contracts. *Id.* at 607. The study data indicated that, at most, only 0.7 percent of the construction firms qualified to perform City-financed prime contracts in the 1979–1981 period were black construction firms. *Id.* at 607. This, the Court found, indicated that the 15 percent figure chosen is an impermissible one. *Id.*

The Court said it was not suggesting that the percentage of the preferred group in the universe of qualified contractors is necessarily the ceiling for all set-asides. It well may be that some premium could be justified under some circumstances. *Id.* at 608. However, the Court noted that the *only* evidentiary basis in the record that appeared at all relevant to fashioning a remedy for discrimination in the prime contracting market was the 0.7 percent figure. That figure did not provide a strong basis in evidence for concluding that a 15 percent set-aside was necessary to remedy discrimination against black contractors in the prime contract market. *Id.*

**C. Program alternatives that are either race-neutral or less burdensome to non-minority contractors.** In holding that the Richmond plan was not narrowly tailored, the Court pointed out, the Supreme Court in *Croson* considered it significant that race-neutral remedial alternatives were available and that the City had not considered the use of these means to increase minority business participation in City contracting. *Id.* at 608. It noted, in particular, that barriers to entry like capital and bonding requirements could be addressed by a race-neutral program of city financing for small firms and could be expected to lead to greater minority participation. Nevertheless, such alternatives

were not pursued or even considered in connection with the Richmond's efforts to remedy past discrimination. *Id.*

The district court found that the City's procurement practices created significant barriers to entering the market for City-awarded construction contracts. *Id.* at 608. Small contractors, in particular, were deterred by the City's prequalification and bonding requirements from competing in that market. *Id.* Relaxation of those requirements, the district court found, was an available race-neutral alternative that would be likely to lead to greater participation by black contractors. No effort was made by the City, however, to identify barriers to entry in its procurement process and that process was not altered before or in conjunction with the adoption of the Ordinance. *Id.*

The district court also found that the City could have implemented training and financial assistance programs to assist disadvantaged contractors of all races. *Id.* at 608. The record established that certain neutral City programs had achieved substantial success in fulfilling its goals. The district court concluded, however, that the City had not supported the programs and had not considered emulating and/or expanding the programs in conjunction with the adoption of the Ordinance. *Id.*

The Court held the record provided ample support for the finding of the district court that alternatives to race-based preferences were available in 1982, which would have been either race neutral or, at least, less burdensome to non-minority contractors. *Id.* at 609. The Court found the City could have lowered administrative barriers to entry, instituted a training and financial assistance program, and carried forward the OMO's certification of minority contractor qualifications. *Id.* The record likewise provided ample support for the district court's conclusion that the "City Council was not interested in considering race-neutral measures, and it did not do so." *Id.* at 609. To the extent the City failed to consider or adopt these alternatives, the Court held it failed to narrowly tailor its remedy to prior or existing discrimination against black contractors. *Id.*

The Court found it particularly noteworthy that the Ordinance, since its extension, in 1987, for an additional 12 years, had been targeted exclusively toward benefiting only minority and women contractors "whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same business area who are not socially disadvantaged." *Id.* at 609. The City's failure to consider a race-neutral program designed to encourage investment in and/or credit extension to small contractors or minority contractors, the Court stated, seemed particularly telling in light of the limited classification of victims of discrimination that the Ordinance sought to favor. *Id.*

**Conclusion.** The Court held the remedy provided by the program substantially exceeds the limited justification that the record provided. *Id.* at 609. The program provided race-based preferences for blacks in the market for subcontracts where the Court found there was no strong basis in the evidence for concluding that discrimination occurred. *Id.* at 610. The program authorized a 15 percent set-aside applicable to all prime City contracts for black contractors when, the Court concluded there was no basis in the record for believing that such a set-aside of that magnitude was necessary to remedy discrimination by the City in that market. *Id.* Finally, the Court stated the City's program failed to include race-neutral or less burdensome remedial steps to encourage and facilitate greater participation of black contractors, measures that the record showed to be available. *Id.*

The Court concluded that a city may adopt race-based preferences only when there is a “strong basis in evidence for its conclusion that [the] remedial action was necessary.” *Id.* at 610. Only when such a basis exists is there sufficient assurance that the racial classification is not “merely the product of unthinking stereotypes or a form of racial politics.” *Id.* at 610. That assurance, the Court held was lacking here, and, accordingly, found that the race-based preferences provided by the Ordinance could not stand. *Id.*

#### **14. *Contractor’s Association of Eastern Pennsylvania v. City of Philadelphia*, 6 F.3d 996 (3d Cir. 1993)**

An association of construction contractors filed suit challenging, on equal protection grounds, a city of Philadelphia ordinance that established a set-aside program for “disadvantaged business enterprises” owned by minorities, women, and handicapped persons. 6 F.3d. at 993. The United States District Court for the Eastern District of Pennsylvania, [735 F.Supp. 1274 \(E.D. Phila. 1990\)](#), granted summary judgment for the [contractors 739 F.Supp. 227](#), and denied the City’s motion to stay the injunctive relief. Appeal was taken. The Third Circuit Court of Appeals, [945 F.2d 1260 \(3d Cir. 1991\)](#), affirmed in part and vacated in part the district court’s decision. *Id.* On remand, the district court again granted summary judgment for the contractors. The City appealed. The Third Circuit Court of Appeals held that: (1) the contractors association had standing, but only to challenge the portions of the ordinance that applied to construction contracts; (2) the City presented sufficient evidence to withstand summary judgment with respect to the race and gender preferences; and (3) the preference for businesses owned by handicapped persons was rationally related to a legitimate government purpose and, thus, did not violate equal protection. *Id.*

**Procedural history.** Nine associations of construction contractors challenged on equal protection grounds a City of Philadelphia ordinance creating preferences in City contracting for businesses owned by racial and ethnic minorities, women, and handicapped persons. *Id.* at 993. The district court granted summary judgment to the Contractors, holding they had standing to bring this lawsuit and invalidating the Ordinance in all respects. [Contractors Association v. City of Philadelphia, 735 F.Supp. 1274 \(E.D.Pa.1990\)](#). In an earlier opinion, the Third Circuit affirmed the district court’s ruling on standing, but vacated summary judgment on the merits because the City had outstanding discovery requests. [Contractors Association v. City of Philadelphia, 945 F.2d 1260 \(3d Cir.1991\)](#). On remand after discovery, the district court again entered summary judgment for the Contractors. The Third Circuit in this case affirmed in part, vacated in part, and reversed in part. 6 F.3d 990, 993.

In 1982, the Philadelphia City Council enacted an ordinance to increase participation in City contracts by minority-owned and women-owned businesses. Phila.Code § 17–500. *Id.* The Ordinance established “goals” for the participation of “disadvantaged business enterprises.” § 17–503. “Disadvantaged business enterprises” (DBEs) were defined as those enterprises at least 51 percent owned by “socially and economically disadvantaged individuals,” defined in turn as: those individuals who have been subjected to racial, sexual or ethnic prejudice because of their identity as a member of a group or differential treatment because of their handicap without regard to their individual qualities, and whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same business area who are not socially disadvantaged. *Id.* at 994. The Ordinance further provided that racial minorities and women are rebuttably presumed to be socially and economically

disadvantaged individuals, § 17–501(11)(a), but that a business which has received more than \$5 million in City contracts, even if owned by such an individual, is rebuttably presumed not to be a DBE, § 17–501(10). *Id.* at 994.

The Ordinance set goals for participation of DBEs in city contracts: 15 percent for minority-owned businesses, 10 percent for women-owned businesses, and 2 percent for businesses owned by handicapped persons. § 17–503(1). *Id.* at 994. The Ordinance applied to all City contracts, which are divided into three types — vending, construction, and personal and professional services. § 17–501(6). The percentage goals related to the total dollar amounts of City contracts and are calculated separately for each category of contracts and each City agency. *Id.* at 994.

In 1989, nine contractors associations brought suit in the Eastern District of Pennsylvania against the City of Philadelphia and two city officials, challenging the Ordinance as a facial violation of the Equal Protection Clause of the Fourteenth Amendment. *Id.* at 994. After the City moved for judgment on the pleadings contending the Contractors lacked standing, the Contractors moved for summary judgment on the merits. The district court granted the Contractors’ motion. It ruled the Contractors had standing, based on affidavits of individual association members alleging they had been denied contracts for failure to meet the DBE goals despite being low bidders. *Id.* at 995 *citing*, [735 F.Supp. at 1283 & n. 3](#).

Turning to the merits of the Contractors’ equal protection claim, the district court held that [City of Richmond v. J.A. Croson Co.](#), 488 U.S. 469 (1989), required it to apply the strict scrutiny standard to review the sections of the Ordinance creating a preference for minority-owned businesses. *Id.* Under that standard, the Third Circuit held a law will be invalidated if it is not “narrowly tailored” to a “compelling government interest.” *Id.* at 995.

Applying *Croson*, the district court struck down the Ordinance because the City had failed to adduce sufficiently specific evidence of past racial discrimination against minority construction contractors in Philadelphia to establish a “compelling government interest.” *Id.* at 995, *quoting*, [735 F.Supp. at 1295–98](#). The court also held the Ordinance was not “narrowly tailored,” emphasizing the City had not considered using race-neutral means to increase minority participation in City contracting and had failed to articulate a rationale for choosing 15 percent as the goal for minority participation. *Id.* at 995; [735 F.Supp. at 1298–99](#). The court held the Ordinance’s preferences for businesses owned by women and handicapped persons were similarly invalid under the less rigorous intermediate scrutiny and rational basis standards of review. *Id.* at 995 *citing*, [735 F.Supp. at 1299–1309](#).

On appeal, the Third Circuit in 1991 affirmed the district court’s ruling on standing, but vacated its judgment on the merits as premature because the Contractors had not responded to certain discovery requests at the time the court ruled. [945 F.2d 1260 \(3d Cir.1991\)](#). The Court remanded so discovery could be completed and explicitly reserved judgment on the merits. *Id.* at 1268. On remand, all parties moved for summary judgment, and the district court reaffirmed its prior decision, holding discovery had not produced sufficient evidence of discrimination in the Philadelphia construction industry against businesses owned by racial minorities, women, and handicapped persons to withstand summary judgment. The City and United Minority Enterprise Associates, Inc. (UMEA), which had intervened filed an appeal. *Id.*

This appeal, the Court said, presented three sets of questions: whether and to what extent the Contractors have standing to challenge the Ordinance, which standards of equal protection review govern the different sections of the Ordinance, and whether these standards justify invalidation of the Ordinance in whole or in part. *Id.* at 995.

**Standing.** The Supreme Court has confirmed that construction contractors have standing to challenge a minority preference ordinance upon a showing they are “able and ready to bid on contracts [subject to the ordinance] and that a discriminatory policy prevents [them] from doing so on an equal basis.” *Id.* at 995. Because the affidavits submitted to the district court established the Contractors were able and ready to bid on construction contracts, but could not do so for failure to meet the DBE percentage requirements, the court held they had standing to challenge the sections of the Ordinance covering construction contracts. *Id.* at 996.

**Standards of equal protection review.** The Contractors challenge the preferences given by the Ordinance to businesses owned and operated by minorities, women, and handicapped persons. In analyzing these classifications separately, the Court first considered which standard of equal protection review applies to each classification. *Id.* at 999.

**Race, ethnicity and gender.** The Court found that choice of the appropriate standard of review turns on the nature of the classification. *Id.* at 999. Because under equal protection analysis classifications based on race, ethnicity or gender are inherently suspect, they merit closer judicial attention. *Id.* Accordingly, the Court determined whether the Ordinance contains race- or gender-based classifications. The Ordinance’s classification scheme is spelled out in its definition of “socially and economically disadvantaged.” *Id.* The district court interpreted this definition to apply only to minorities, women, and handicapped persons and viewed the definition’s economic criteria as in addition to rather than in lieu of race, ethnicity, gender, and handicap. *Id.* Therefore, it applied strict scrutiny to the racial preference under *Crosby* and intermediate scrutiny to the gender preference under [\*Mississippi University for Women v. Hogan\*, 458 U.S. 718, 724 \(1982\)](#). *Id.* at 999.

**A. Strict scrutiny.** Under strict scrutiny, a law may only stand if it is “narrowly tailored” to a “compelling government interest.” *Id.* at 999. Under intermediate scrutiny, a law must be “substantially related” to the achievement of “important government objectives.” *Id.*

The Court agreed with the district court that the definition of “socially and economically disadvantaged individuals” included only individuals who are both victims of prejudice based on status and economically deprived. *Id.* at 999. Additionally, the last clause of the definition described economically disadvantaged individuals as those “whose ability to compete in the free enterprise system has been impaired ... as compared to others ... who are not socially disadvantaged.” *Id.* This clause, the Court found, demonstrated the drafters wished to rectify only economic disadvantage that results from social disadvantage, i.e., prejudice based on race, ethnicity, gender, or handicapped status. *Id.* The Court said the plain language of the Ordinance foreclosed the City’s argument that a white male contractor could qualify for preferential treatment solely on the basis of economic disadvantage. *Id.* at 1000.



**B. Intermediate scrutiny.** The Court considered the proper standard of review for the Ordinance's gender preference. The Court held a gender-based classification favoring women merited intermediate scrutiny. *Id.* at 1000, *citing*, [Hogan](#) 458 U.S. at 728. The Ordinance, the Court stated, is such a program. *Id.* Several federal courts, the Court noted, have applied intermediate scrutiny to similar gender preferences contained in state and municipal affirmative action contracting programs. *Id.* at 1001, *citing*, [Coral Constr. Co. v. King County](#), 941 F.2d 910, 930 (9th Cir.1991), *cert. denied*, 502 U.S. 1033 (1992); [Michigan Road Builders Ass'n, Inc. v. Milliken](#), 834 F.2d 583, 595 (6th Cir.1987), *aff'd mem.*, 489 U.S. 1061(1989); [Associated General Contractors of Cal. v. City and County of San Francisco](#), 813 F.2d 922, 942 (9th Cir.1987); [Main Line Paving Co. v. Board of Educ.](#), 725 F.Supp. 1349, 1362 (E.D.Pa.1989).

Application of intermediate scrutiny to the Ordinance's gender preference, the Court said, also follows logically from *Croson*, which held municipal affirmative action programs benefiting racial minorities merit the same standard of review as that given other race-based classifications. *Id.* For these reasons, the Third Circuit rejected, as did the district court, those cases applying strict scrutiny to gender-based classifications. [Cone Corp. v. Hillsborough County](#), 908 F.2d 908 (11th Cir.), *cert. denied*, 498 U.S. 983, 111 S.Ct. 516, 112 L.Ed.2d 528 (1990). *Id.* at 1000-1001. The Court agreed with the district court's choice of intermediate scrutiny to review the Ordinance's gender preference. *Id.*

**Handicap.** The district court reviewed the preference for handicapped business owners under the rational basis test. *Id.* at 1000, *citing* 735 F.Supp. at 1307. That standard validates the classification if it is "rationally related to a legitimate governmental purpose." *Id.* at 1001, *citing* [Cleburne](#), 473 U.S. at 445. The Court held the district court properly chose the rational basis standard in reviewing the Ordinance's preference for handicapped persons. *Id.*

**Constitutionality of the ordinance: race and ethnicity.** Because strict scrutiny applies to the Ordinance's racial and ethnic preferences, the Court stated it may only uphold them if they are "narrowly tailored" to a "compelling government interest." *Id.* at 1001-2. The Court noted that in *Croson*, the Supreme Court made clear that combatting racial discrimination is a "compelling government interest." *Id.* at 1002, *quoting*, 488 U.S. at 492, 509. It also held a city can enact such a preference to remedy past or present discrimination where it has actively discriminated in its award of contracts or has been a "passive participant" in a system of racial exclusion practiced by elements of the local construction industry." *Id.* at 1002, *quoting*, 488 U.S. at 492.

In the Supreme Court's view, the "relevant statistical pool" was not the minority population, but the number of qualified minority contractors. It stressed the city did not know the number of qualified minority businesses in the area and had offered no evidence of the percentage of contract dollars minorities received as subcontractors. *Id.* at 1002, *citing* 488 U.S. at 502.

Ruling the Philadelphia Ordinance's racial preference failed to overcome strict scrutiny, the district court concluded the Ordinance "possesses four of the five characteristics fatal to the constitutionality of the Richmond Plan," *Id.* at 1002, *quoting*, 735 F.Supp. at 1298. As in *Croson*, the district court reasoned, the City relied on national statistics, a comparison between prime contract awards and the percentage of minorities in Philadelphia's population, the Ordinance's declaration it was remedial, and "conclusory" testimony of witnesses regarding discrimination in the Philadelphia construction industry. *Id.* at 1002, *quoting*, 1295-98.

In a footnote, the Court pointed out the district court also interpreted *Croson* to require “specific evidence of systematic prior discrimination in the industry in question by th[e] governmental unit” enacting the ordinance. [735 F.Supp. at 1295](#). The Court said this reading overlooked the statement in *Croson* that a City can be a “*passive participant*” in private discrimination by awarding contracts to firms that practice racial discrimination, and that a city “has a compelling interest in assuring that public dollars ... do not serve to finance the evil of private prejudice.” *Id.* at 1002, n. 10, *quoting*, [488 U.S. at 492](#).

**Anecdotal evidence of racial discrimination.** The City contended the district court understated the evidence of prior discrimination available to the Philadelphia City Council when it enacted the 1982 ordinance. The City Council Finance Committee received testimony from at least fourteen minority contractors who recounted personal experiences with racial discrimination. *Id.* at 1002. In certain instances, these contractors lost out despite being low bidders. The Court found this anecdotal evidence significantly outweighed that presented in *Croson*, where the Richmond City Council heard “no direct evidence of race discrimination on the part of the city in letting contracts or any evidence that the city’s prime contractors had discriminated against minority-owned subcontractors.” *Id.*, *quoting*, [488 U.S. at 480](#).

Although the district court acknowledged the minority contractors’ testimony was relevant under *Croson*, it discounted this evidence because “other evidence of the type deemed impermissible by the Supreme Court ... unsupported general testimony, impermissible statistics and information on the national set-aside program ... overwhelmingly formed the basis for the enactment of the set-aside ... and therefore taint[ed] the minds of city councilmembers.” *Id.* at 1002, *quoting*, [735 F.Supp. at 1296](#).

The Third Circuit held, however, given *Croson*’s emphasis on statistical evidence, even had the district court credited the City’s anecdotal evidence, the Court did not believe this amount of anecdotal evidence was sufficient to satisfy strict scrutiny. *Id.* at 1003, *quoting*, [Coral Constr., 941 F.2d at 919](#) (“anecdotal evidence ... rarely, if ever, can ... show a systemic pattern of discrimination necessary for the adoption of an affirmative action plan.”). Although anecdotal evidence alone may, the Court said, in an exceptional case, be so dominant or pervasive that it passes muster under *Croson*, it is insufficient here. *Id.* But because the combination of “anecdotal and statistical evidence is potent,” [Coral Constr., 941 F.2d at 919](#), the Court considered the statistical evidence proffered in support of the Ordinance.

**Statistical evidence of racial discrimination.** There are two categories of statistical evidence here, evidence undisputedly considered by City Council before it enacted the Ordinance in 1982 (the “pre-enactment” evidence), and evidence developed by the City on remand (the “post-enactment” evidence). *Id.* at 1003.

**Pre-Enactment statistical evidence.** The principal pre-enactment statistical evidence appeared in the 1982 Report of the City Council Finance Committee and recited that minority contractors were awarded only 0.09 percent of City contract dollars during the preceding three years, 1979 through 1981, although businesses owned by Blacks and Hispanics accounted for 6.4 percent of all businesses licensed to operate in Philadelphia. The Court found these statistics did not satisfy *Croson* because they did not indicate what proportion of the 6.4 percent of minority-owned businesses were available or qualified to perform City construction contracts. *Id.* at 1003. Under *Croson*, available minority-owned businesses comprise the “relevant statistical pool.” *Id.* at 1003. Therefore, the Court

held the data in the Finance Committee Report did not provide a sufficient evidentiary basis for the Ordinance.

**Post-Enactment statistical evidence.** The “post-enactment” evidence consists of a study conducted by an economic consultant to demonstrate the disproportionately low share of public and private construction contracts awarded to minority-owned businesses in Philadelphia. The study provided the “relevant statistical pool” needed to satisfy *Croson* — the percentage of minority businesses engaged in the Philadelphia construction industry. *Id.* at 1003. The study also presented data showing that minority subcontractors were underrepresented in the private sector construction market. This data may be relevant, the Court said, if at trial the City can link it to discrimination occurring in the public sector construction market because the Ordinance covers subcontracting. *Id.* at n. 13.

The Court noted that several courts have held post-enactment evidence is admissible in determining whether an Ordinance satisfies *Croson*. *Id.* at 1004. Consideration of post-enactment evidence, the Court found was appropriate here, where the principal relief sought and the only relief granted by the district court, was an injunction. Because injunctions are prospective only, it makes sense the Court said to consider all available evidence before the district court, including the post-enactment evidence, which the district court did. *Id.*

**Sufficiency of the statistical and anecdotal evidence and burden of proof.** In determining whether the statistical evidence was adequate, the Court looked to what it referred to as its critical component — the “disparity index.” The index consists of the percentage of minority contractor participation in City contracts divided by the percentage of minority contractor availability or composition in the “population” of Philadelphia area construction firms. This equation yields a percentage figure which is then multiplied by 100 to generate a number between 0 and 100, with 100 consisting of full participation by minority contractors given the amount of the total contracting population they comprise. *Id.* at 1005.

The Court noted that other courts considering equal protection challenges to similar ordinances have relied on disparity indices in determining whether *Croson*’s evidentiary burden is satisfied. *Id.* Disparity indices are highly probative evidence of discrimination because they ensure that the “relevant statistical pool” of minority contractors is being considered. *Id.*

**A. Statistical evidence.** The study reported a disparity index for City of Philadelphia construction contracts during the years 1979 through 1981 of 4 out of a possible 100. This index, the Court stated, was significantly worse than that in other cases where ordinances have withstood constitutional attack. *Id.* at 1004, *citing*, [Cone Corp., 908 F.2d at 916 \(10.78 disparity index\)](#); [AGC of California, 950 F.2d at 1414 \(22.4 disparity index\)](#); [Concrete Works, 823 F.Supp. at 834](#) (disparity index “significantly less than” 100); *see also* [Stuart, 951 F.2d at 451](#) (disparity index of 10 in police promotion program); *compare* [O’Donnell, 963 F.2d at 426](#) (striking down ordinance given disparity indices of approximately 100 in two categories). Therefore, the Court found the disparity index probative of discrimination in City contracting in the Philadelphia construction industry prior to enactment of the Ordinance. *Id.*

The Contractors contended the study was methodologically flawed because it considered only prime contractors and because it failed to consider the qualifications of the minority businesses or their interest in performing City contracts. The Contractors maintained the study did not indicate why there was a disparity between available minority contractors and their participation in contracting.

The Contractors contended that these objections, without more, entitled them to summary judgment, arguing that under the strict scrutiny standard they do not bear the burden of proof, and therefore need not offer a neutral explanation for the disparity to prevail. *Id.* at 1005.

The Contractors, the Court found, misconceived the allocation of the burden of proof in affirmative action cases. *Id.* at 1005. The Supreme Court has indicated that “[t]he ultimate burden remains with [plaintiffs] to demonstrate the unconstitutionality of an affirmative action program.” *Id.* 1005. Thus, the Court held the Contractors, not the City, bear the burden of proof. *Id.* Where there is a significant statistical disparity between the number of qualified minority contractors willing and able to perform a particular service and the number of contractors actually engaged by the locality or the locality’s prime contractors, an inference of discriminatory exclusion could arise. *Id.* Moreover, evidence of a pattern of individual discriminatory acts can, if supported by appropriate statistical proof, lend support to a local government’s determination that broader remedial relief is justified. *Id.*

The Court, following *Crosson*, held where a city defends an affirmative action ordinance as a remedy for past discrimination, issues of proof are handled as they are in other cases involving a pattern or practice of discrimination. *Id.* at 1006. *Crosson*’s reference to an “inference of discriminatory exclusion” based on statistics, as well as its citation to Title VII pattern cases, the Court stated, supports this interpretation. *Id.* The plaintiff bears the burden in such a case. *Id.* The Court noted the Third Circuit has indicated statistical proof of discrimination is handled similarly under Title VII and equal protection principles. *Id.*

The Court found the City’s statistical evidence had created an inference of discrimination which the Contractors would have to rebut at trial either by proving a “neutral explanation” for the disparity, “showing the statistics are flawed ... demonstrating that the disparities shown by the statistics are not significant or actionable ... or presenting contrasting statistical data.” *Id.* at 1007. *A fortiori*, this evidence, the Court said is sufficient for the City to withstand summary judgment. The Court stated that the Contractors’ objections to the study were properly presented to the trier of fact. *Id.* Accordingly, the Court found the City’s statistical evidence established a prima facie case of racial discrimination in the award of City of Philadelphia construction contracts. *Id.*

Consistent with strict scrutiny, the Court stated it must examine the data for each minority group contained in the Ordinance. *Id.* The Census data on which the study relied demonstrated that in 1982, the year the Ordinance was enacted, there were construction firms owned in Philadelphia by Blacks, Hispanics, and Asian Americans, but not Native Americans. *Id.* Therefore, the Court held neither the City nor prime contractors could have discriminated against construction companies owned by Native Americans at the time of the Ordinance, and the Court affirmed summary judgment as to them. *Id.*

The Census Report indicated there were 12 construction firms owned by Hispanic persons, six firms owned by Asian American persons, three firms owned by persons of Pacific Islands descent, and one other minority-owned firm. *Id.* at 1008. The study calculated Hispanic firms represented 0.15 percent of the available firms and Asian American, Pacific Islander, and “other” minorities represented 0.12 percent of the available firms, and that these firms received no City contracts during the years 1979 through 1981. The Court did not believe these numbers were large enough to create a triable issue of discrimination. The mere fact that 0.27 percent of City construction firms — the percentage

of all of these groups combined — received no contracts does not rise to the “significant statistical disparity.” *Id.* at 1008.

**B. Anecdotal evidence.** Nor, the Court found, does it appear that there was any anecdotal evidence of discrimination against construction businesses owned by people of Hispanic or Asian American descent. *Id.* at 1008. The district court found “there is no evidence whatsoever in the legislative history of the Philadelphia Ordinance that an American Indian, Eskimo, Aleut or Native Hawaiian has ever been discriminated against in the procurement of city contracts,” *Id.* at 1008, quoting, [735 F.Supp. at 1299](#), and there was no evidence of any witnesses who were members of these groups or who were Hispanic. *Id.*

The Court recognized that the small number of Philadelphia-area construction businesses owned by Hispanic or Asian American persons did not eliminate the possibility of discrimination against these firms. *Id.* at 1008. The small number itself, the Court said, may reflect barriers to entry caused in part by discrimination. *Id.* But, the Court held, plausible hypotheses are not enough to satisfy strict scrutiny, even at the summary judgment stage. *Id.*

**Conclusion on compelling government interest.** The Court found that nothing in its decision prevented the City from re-enacting a preference for construction firms owned by Hispanic, Asian American, or Native American persons based on more concrete evidence of discrimination. *Id.* In sum, the Court held, the City adduced enough evidence of racial discrimination against Blacks in the award of City construction contracts to withstand summary judgment on the compelling government interest prong of the *Croson* test. *Id.*

**Narrowly Tailored.** The Court then decided whether the Ordinance’s racial preference was “narrowly tailored” to the compelling government interest of eradicating racial discrimination in the award of City construction contracts. *Id.* at 1008. *Croson* held this inquiry turns on four factors: (1) whether the city has first considered and found ineffective “race-neutral measures,” such as enhanced access to capital and relaxation of bonding requirements, (2) the basis offered for the percentage selected, (3) whether the program provides for waivers of the preference or other means of affording individualized treatment to contractors, and (4) whether the Ordinance applies only to minority businesses who operate in the geographic jurisdiction covered by the Ordinance. *Id.*

The City contended it enacted the Ordinance only after race-neutral alternatives proved insufficient to improve minority participation in City contracting. *Id.* It relied on the affidavits of City Council President and former Philadelphia Urban Coalition General Counsel who testified regarding the race-neutral precursors of the Ordinance — the Philadelphia Plan, which set goals for employment of minorities on public construction sites, and the Urban Coalition’s programs, which included such race-neutral measures as a revolving loan fund, a technical assistance and training program, and bonding assistance efforts. *Id.* The Court found the information in these affidavits sufficiently established the City’s prior consideration of race-neutral programs to withstand summary judgment. *Id.* at 1009.

Unlike the Richmond Ordinance, the Philadelphia Ordinance provided for several types of waivers of the 15 percent goal. *Id.* at 1009. It exempted individual contracts or classes of contracts from the Ordinance where there were an insufficient number of available minority-owned businesses “to ensure adequate competition and an expectation of reasonable prices on bids or proposals,” and

allowed a prime contractor to request a waiver of the 15 percent requirement where the contractor shows he has been unable after “a good faith effort to comply with the goals for DBE participation.” *Id.*

Furthermore, as the district court noted, the Ordinance eliminated from the program successful minority businesses — those who have won \$5 million in city contracts. *Id.* Also unlike the Richmond program, the City’s program was geographically targeted to Philadelphia businesses, as waivers and exemptions are permitted where there exist an insufficient number of MBEs “within the Philadelphia Standard Metropolitan Statistical Area.” *Id.* The Court noted other courts have found these targeting mechanisms significant in concluding programs are narrowly tailored. *Id.*

The Court said a closer question was presented by the Ordinance’s 15 percent goal. The City’s data demonstrated that, prior to the Ordinance, only 2.4 percent of available construction contractors were minority-owned. The Court found that the goal need not correspond precisely to the percentage of available contractors. *Id.* *Croson* does not impose this requirement, the Third Circuit concluded, as the Supreme Court stated only that Richmond’s 30 percent goal inappropriately assumed “minorities [would] choose a particular trade in lockstep proportion to their representation in the local population.” *Id.*, quoting, [488 U.S. at 507.](#)

The Court pointed out that imposing a 15 percent goal for each contract may reflect the need to account for those contractors who received a waiver because insufficient minority businesses were available, and the contracts exempted from the program. *Id.* Given the strength of the Ordinance’s showing with respect to other *Croson* factors, the Court concluded the City had created a dispute of fact on whether the minority preference in the Ordinance was “narrowly tailored.” *Id.*

**Gender and intermediate scrutiny.** Under the intermediate scrutiny standard, the gender preference is valid if it was “substantially related to an important governmental objective.” *Id.*, at 1009.

The City contended the gender preference was aimed at the “important government objective” of remedying economic discrimination against women, and that the 10 percent goal was substantially related to this objective. In assessing this argument, the Court noted that “[i]n the context of women-business enterprise preferences, the two prongs of this intermediate scrutiny test tend to converge into one.” *Id.* at 1009. The Court held it could uphold the construction provisions of this program if the City had established a sufficient factual predicate for the claim that women-owned construction businesses have suffered economic discrimination and the 10 percent gender preference is an appropriate response. *Id.* at 1010.

Few cases have considered the evidentiary burden needed to satisfy intermediate scrutiny in this context, the Court pointed out, and there is no *Croson* analogue to provide a ready reference point. *Id.* at 1010. In particular, the Court said, it is unclear whether statistical evidence as well as anecdotal evidence is required to establish the discrimination necessary to satisfy intermediate scrutiny, and if so, how much statistical evidence is necessary. *Id.* The Court stated that the Supreme Court gender-preference cases are inconclusive. The Supreme Court, the Court concluded, had not squarely ruled on the necessity of statistical evidence of gender discrimination, and its decisions, according to the Court, were difficult to reconcile on the point. *Id.* The Court noted the Supreme Court has upheld gender preferences where no statistics were offered. *Id.*



The Supreme Court has stated that an affirmative action program survives intermediate scrutiny if the proponent can show it was “a product of analysis rather than a stereotyped reaction based on habit.” *Id.* at 1010. The Third Circuit found this standard requires the City to present probative evidence in support of its stated rationale for the gender preference, discrimination against women-owned contractors. *Id.* The Court held the City had not produced enough evidence of discrimination, noting that in its brief, the City relied on statistics in the City Council Finance Committee Report and one affidavit from a woman engaged in the catering business. *Id.*, But the Court found this evidence only reflected the participation of women in City contracting generally, rather than in the construction industry, which was the only cognizable issue in this case. *Id.* at 1011.

The Court concluded the evidence offered by the City regarding women-owned construction businesses was insufficient to create an issue of fact. *Id.* at 1011. Significantly, the Court said the study contained no disparity index for women-owned construction businesses in City contracting, such as that presented for minority-owned businesses. *Id.* at 1011. Given the absence of probative statistical evidence, the City, according to the Court, must rely solely on anecdotal evidence to establish gender discrimination necessary to support the Ordinance. *Id.* But the record contained only one three-page affidavit alleging gender discrimination in the construction industry. *Id.* The only other testimony on this subject, the Court found, consisted of a single, conclusory sentence of one witness who appeared at a City Council hearing. *Id.*

This evidence the Court held was not enough to create a triable issue of fact regarding gender discrimination under the intermediate scrutiny standard. Therefore, the Court affirmed the grant of summary judgment invalidating the gender preference for construction contracts. *Id.* at 1011. The Court noted that it saw no impediment to the City re-enacting the preference if it can provide probative evidence of discrimination *Id.* at 1011.

**Handicap and rational basis.** The Court then addressed the 2 percent preference for businesses owned by handicapped persons. *Id.* at 1011. The district court struck down this preference under the rational basis test, based on the belief according to the Third Circuit, that *Crosson* required some evidence of discrimination against business enterprises owned by handicapped persons and therefore that the City could not rely on testimony of discrimination against handicapped individuals. *Id.*, citing [735 F.Supp. at 1308](#). The Court stated that a classification will pass the rational basis test if it is “rationally related to a legitimate government purpose,” *Id.*, citing, [Cleburne, 473 U.S. at 440](#).

The Court pointed out that the Supreme Court had affirmed the permissiveness of the rational basis test in [Heller v. Doe, 509 U.S. 312–43 \(1993\)](#), indicating that “a [statutory] classification” subject to rational basis review “is accorded a strong presumption of validity,” and that “a state ... has no obligation to produce evidence to sustain the rationality of [the] classification.” *Id.* at 1011. Moreover, “the burden is on the one attacking the legislative arrangement to negative every conceivable basis which might support it, whether or not the basis has a foundation in the record.” *Id.* at 1011.

The City stated it sought to minimize discrimination against businesses owned by handicapped persons and encouraged them to seek City contracts. The Court agreed with the district court that these are legitimate goals, but unlike the district court, the Court held the 2 percent preference was rationally related to this goal. *Id.* at 1011.

The City offered anecdotal evidence of discrimination against handicapped persons. *Id.* at 1011. Prior to amending the Ordinance in 1988 to include the preference, City Council held a hearing where eight witnesses testified regarding employment discrimination against handicapped persons both nationally and in Philadelphia. *Id.* Four witnesses spoke of discrimination against blind people, and three testified to discrimination against people with other physical handicaps. *Id.* Two of the witnesses, who were physically disabled, spoke of discrimination they and others had faced in the work force. *Id.* One of these disabled witnesses testified he was in the process of forming his own residential construction company. *Id.* at 1011-12. Additionally, two witnesses testified that the preference would encourage handicapped persons to own and operate their own businesses. *Id.* at 1012.

The Court held that under the rational basis standard, the Contractors did not carry their burden of negating every basis which supported the legislative arrangement, and that City Council was entitled to infer discrimination against the handicapped from this evidence and was entitled to conclude the Ordinance would encourage handicapped persons to form businesses to win City contracts. *Id.* at 1012. Therefore, the Court reversed the district court's grant of summary judgment invalidating this aspect of the Ordinance and remanded for entry of an order granting summary judgment to the City on this issue. *Id.*

**Holding.** The Court vacated the district court's grant of summary judgment on the non-construction provisions of the Ordinance, reversed the grant of summary judgment to plaintiff contractors on the construction provisions of the Ordinance as applied to businesses owned by Black persons and handicapped persons, affirmed the grant of summary judgment to the plaintiff contractors on the construction provisions of the Ordinance as applied to businesses owned by Hispanic, Asian-American, or Native American persons or women, and remanded the case for further proceedings and a trial in accordance with the opinion.

### **Recent District Court Decisions**

#### **15. *Kossmann Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. March 22, 2016).**

Plaintiff Kossmann is a company engaged in the business of providing erosion control services and is majority owned by a white male. 2016 WL 1104363 at \*1. Kossmann brought this action as an equal protection challenge to the City of Houston's Minority and Women Owned Business Enterprise ("MWBE") program. *Id.* The MWBE program that is challenged has been in effect since 2013 and sets a 34 percent MWBE goal for construction projects. *Id.* Houston set this goal based on a disparity study issued in 2012. *Id.* The study analyzed the status of minority-owned and women-owned business enterprises in the geographic and product markets of Houston's construction contracts. *Id.*

Kossmann alleges that the MWBE program is unconstitutional on the ground that it denies non-MWBEs equal protection of the law, and asserts that it has lost business as a result of the MWBE program because prime contractors are unwilling to subcontract work to a non-MWBE firm like Kossmann. *Id.* at \*1. Kossmann filed a motion for summary judgment; Houston filed a motion to exclude the testimony of Kossmann's expert; and Houston filed a motion for summary judgment. *Id.*



The district court referred these motions to the Magistrate Judge. The Magistrate Judge, on February 17, 2016, issued its Memorandum & Recommendation to the district court in which it found that Houston's motion to exclude Kossman's expert should be granted because the expert articulated no method and had no training in statistics or economics that would allow him to comment on the validity of the disparity study. *Id.* at \*1 The Magistrate Judge also found that the MWBE program was constitutional under strict scrutiny, except with respect to the inclusion of Native American-owned businesses. *Id.* The Magistrate Judge found there was insufficient evidence to establish a need for remedial action for businesses owned by Native Americans, but found there was sufficient evidence to justify remedial action and inclusion of other racial and ethnic minorities and women-owned businesses. *Id.*

After the Magistrate Judge issued its Memorandum & Recommendation, Kossman filed objections, which the district court subsequently in its order adopting Memorandum & Recommendation, decided on March 22, 2016, affirmed and adopted the Memorandum & Recommendation of the magistrate judge and overruled the objections by Kossman. *Id.* at \*2.

#### **District court order adopting Memorandum & Recommendation of Magistrate Judge.**

**Dun & Bradstreet underlying data properly withheld and Kossman's proposed expert properly excluded.** The district court first rejected Kossman's objection that the City of Houston improperly withheld the Dun & Bradstreet data that was utilized in the disparity study. This ruling was in connection with the district court's affirming the decision of the Magistrate Judge granting the motion of Houston to exclude the testimony of Kossman's proposed expert. Kossman had conceded that the Magistrate Judge correctly determined that Kossman's proposed expert articulated no method and relied on untested hypotheses. *Id.* at \*2. Kossman also acknowledged that the expert was unable to produce data to confront the disparity study. *Id.*

Kossman had alleged that Houston withheld the underlying data from Dun & Bradstreet. The court found that under the contractual agreement between Houston and its consultant, the consultant for Houston had a licensing agreement with Dun & Bradstreet that prohibited it from providing the Dun & Bradstreet data to any third-party. *Id.* at \*2. In addition, the court agreed with Houston that Kossman would not be able to offer admissible analysis of the Dun & Bradstreet data, even if it had access to the data. *Id.* As the Magistrate Judge pointed out, the court found Kossman's expert had no training in statistics or economics, and thus would not be qualified to interpret the Dun & Bradstreet data or challenge the disparity study's methods. *Id.* Therefore, the court affirmed the grant of Houston's motion to exclude Kossman's expert.

**Dun & Bradstreet data is reliable and accepted by courts; bidding data rejected as problematic.** The court rejected Kossman's argument that the disparity study was based on insufficient, unverified information furnished by others, and rejected Kossman's argument that bidding data is a superior measure of determining availability. *Id.* at \*3.

The district court held that because the disparity study consultant did not collect the data, but instead utilized data that Dun & Bradstreet had collected, the consultant could not guarantee the information it relied on in creating the study and recommendations. *Id.* at \*3. The consultant's role was to analyze that data and make recommendations based on that analysis, and it had no reason to doubt the authenticity or accuracy of the Dun & Bradstreet data, nor had Kossman presented any evidence that would call that data into question. *Id.* As Houston pointed out, Dun & Bradstreet data is extremely reliable, is frequently used in disparity studies, and has been consistently accepted by courts throughout the country. *Id.*

Kossman presented no evidence indicating that bidding data is a comparably more accurate indicator of availability than the Dun & Bradstreet data, but rather Kossman relied on pure argument. *Id.* at \*3. The court agreed with the Magistrate Judge that bidding data is inherently problematic because it reflects only those firms actually solicited for bids. *Id.* Therefore, the court found the bidding data would fail to identify those firms that were not solicited for bids due to discrimination. *Id.*

**The anecdotal evidence is valid and reliable.** The district court rejected Kossman's argument that the study improperly relied on anecdotal evidence, in that the evidence was unreliable and unverified. *Id.* at \*3. The district court held that anecdotal evidence is a valid supplement to the statistical study. *Id.* The MWBE program is supported by both statistical and anecdotal evidence, and anecdotal evidence provides a valuable narrative perspective that statistics alone cannot provide. *Id.*

The district court also found that Houston was not required to independently verify the anecdotes. *Id.* at \*3. Kossman, the district court concluded, could have presented contrary evidence, but it did not. *Id.* The district court cited other courts for the proposition that the combination of anecdotal and statistical evidence is potent, and that anecdotal evidence is nothing more than a witness's narrative of an incident told from the witness's perspective and including the witness's perceptions. *Id.* Also, the court held the city was not required to present corroborating evidence, and the plaintiff was free to present its own witness to either refute the incident described by the city's witnesses or to relate their own perceptions on discrimination in the construction industry. *Id.*

**The data relied upon by the study was not stale.** The court rejected Kossman's argument that the study relied on data that is too old and no longer relevant. *Id.* at \*4. The court found that the data was not stale and that the study used the most current available data at the time of the study, including Census Bureau data (2006-2008) and Federal Reserve data (1993, 1998 and 2003), and the study performed regression analyses on the data. *Id.*

Moreover, Kossman presented no evidence to suggest that Houston's consultant could have accessed more recent data or that the consultant would have reached different conclusions with more recent data. *Id.*

**The Houston MWBE program is narrowly tailored.** The district court agreed with the Magistrate Judge that the study provided substantial evidence that Houston engaged in race-neutral alternatives, which were insufficient to eliminate disparities, and that despite race-neutral alternatives in place in Houston, adverse disparities for MWBEs were consistently observed. *Id.* at \*4. Therefore, the court found there was strong evidence that a remedial program was necessary to address discrimination against MWBEs. *Id.* Moreover, Houston was not required to exhaust every possible race-neutral alternative before instituting the MWBE program. *Id.*

The district court also found that the MWBE program did not place an undue burden on Kossman or similarly situated companies. *Id.* at \*4. Under the MWBE program, a prime contractor may substitute a small business enterprise like Kossman for an MWBE on a race and gender-neutral basis for up to 4 percent of the value of a contract. *Id.* Kossman did not present evidence that he ever bid on more than 4 percent of a Houston contract. *Id.* In addition, the court stated the fact the MWBE program placed *some* burden on Kossman is insufficient to support the conclusion that the program is not nearly tailored. *Id.* The court concurred with the Magistrate Judge’s observation that the proportional sharing of opportunities is, at the core, the point of a remedial program. *Id.* The district court agreed with the Magistrate Judge’s conclusion that the MWBE program is nearly tailored.

**Native American-owned businesses.** The study found that Native American-owned businesses were utilized at a higher rate in Houston’s construction contracts than would be anticipated based on their rate of availability in the relevant market area. *Id.* at \*4. The court noted this finding would tend to negate the presence of discrimination against Native Americans in Houston’s construction industry. *Id.*

This Houston disparity study consultant stated that the high utilization rate for Native Americans stems largely from the work of two Native American-owned firms. *Id.* The Houston consultant suggested that without these two firms, the utilization rate for Native Americans would decline significantly, yielding a statistically significant disparity ratio. *Id.*

The Magistrate Judge, according to the district court, correctly held and found that there was insufficient evidence to support including Native Americans in the MWBE program. *Id.* The court approved and adopted the Magistrate Judge explanation that the opinion of the disparity study consultant that a significant statistical disparity would exist if two of the contracting Native American-owned businesses were disregarded, is not evidence of the need for remedial action. *Id.* at \*5. The district court found no equal-protection significance to the fact the majority of contracts let to Native American-owned businesses were to only two firms. *Id.* Therefore, the utilization goal for businesses owned by Native Americans is not supported by a strong evidentiary basis. *Id.* at \*5.

The district court agreed with the Magistrate Judge’s recommendation that the district court grant summary judgment in favor of Kossman with respect to the utilization goal for Native American-owned business. *Id.* The court found there was limited significance to the Houston consultant’s opinion that utilization of Native American-owned businesses would drop to statistically significant levels if two Native American-owned businesses were ignored. *Id.* at \*5.

The court stated the situation presented by the Houston disparity study consultant of a “hypothetical non-existence” of these firms is not evidence and cannot satisfy strict scrutiny. *Id.* at \*5. Therefore, the district court adopted the Magistrate Judge’s recommendation with respect to excluding the utilization goal for Native American-owned businesses. *Id.* The court noted that a preference for Native American-owned businesses could become constitutionally valid in the future if there were sufficient evidence of discrimination against Native American-owned businesses in Houston’s construction contracts. *Id.* at \*5.

**Conclusion.** The district court held that the Memorandum & Recommendation of the Magistrate Judge is adopted in full; Houston’s motion to exclude the Kossman’s proposed expert witness is granted; Kossman’s motion for summary judgment is granted with respect to excluding the utilization goal for Native American-owned businesses and denied in all other respects; Houston’s motion for summary judgment is denied with respect to including the utilization goal for Native American-owned businesses and granted in all other respects as to the MWBE program for other minorities and women-owned firms. *Id.* at \*5.

**Memorandum and Recommendation by Magistrate Judge, dated February 17, 2016, S.D. Texas, Civil Action No. H-14-1203.**

**Kossman’s proposed expert excluded and not admissible.** Kossman in its motion for summary judgment solely relied on the testimony of its proposed expert, and submitted no other evidence in support of its motion. The Magistrate Judge (hereinafter “MJ”) granted Houston’s motion to exclude testimony of Kossman’s proposed expert, which the district court adopted and approved, for multiple reasons. The MJ found that his experience does not include designing or conducting statistical studies, and he has no education or training in statistics or economics. *See*, MJ, Memorandum and Recommendation (“M&R”) by MJ, dated February 17, 2016, at 31, S.D. Texas, Civil Action No. H-14-1203. The MJ found he was not qualified to collect, organize or interpret numerical data, has no experience extrapolating general conclusions about a subset of the population by sampling it, has demonstrated no knowledge of sampling methods or understanding of the mathematical concepts used in the interpretation of raw data, and thus, is not qualified to challenge the methods and calculations of the disparity study. *Id.*

The MJ found that the proposed expert report is only a theoretical attack on the study with no basis and objective evidence, such as data or testimony of construction firms in the relative market area that support his assumptions regarding available MWBEs or comparative studies that control the factors about which he complained. *Id.* at 31. The MJ stated that the proposed expert is not an economist and thus is not qualified to challenge the disparity study explanation of its economic considerations. *Id.* at 31. The proposed expert failed to provide econometric support for the use of bidder data, which he argued was the better source for determining availability, cited no personal experience for the use of bidder data, and provided no proof that would more accurately reflect availability of MWBEs absent discriminatory influence. *Id.* Moreover, he acknowledged that no bidder data had been collected for the years covered by the study. *Id.*

The court found that the proposed expert articulated no method at all to do a disparity study, but merely provided untested hypotheses. *Id.* at 33. The proposed expert’s criticisms of the study, according to the MJ, were not founded in cited professional social science or econometric standards. *Id.* at 33. The MJ concludes that the proposed expert is not qualified to offer the opinions contained in his report, and that his report is not relevant, not reliable, and, therefore, not admissible. *Id.* at 34.

**Relevant geographic market area.** The MJ found the market area of the disparity analysis was geographically confined to area codes in which the majority of the public contracting construction firms were located. *Id.* at 3-4, 51. The relevant market area, the MJ said, was weighted by industry, and therefore the study limited the relevant market area by geography and industry based on Houston’s past years’ records from prior construction contracts. *Id.* at 3-4, 51.

**Availability of MWBEs.** The MJ concluded disparity studies that compared the availability of MWBEs in the relevant market with their utilization in local public contracting have been widely recognized as strong evidence to find a compelling interest by a governmental entity for making sure that its public dollars do not finance racial discrimination. *Id.* at 52-53. Here, the study defined the market area by reviewing past contract information, and defined the relevant market according to two critical factors, geography and industry. *Id.* at 3-4, 53. Those parameters, weighted by dollars attributable to each industry, were used to identify for comparison MWBEs that were available and MWBEs that had been utilized in Houston's construction contracting over the last five and one-half years. *Id.* at 4-6, 53. The study adjusted for owner labor market experience and educational attainment in addition to geographic location and industry affiliation. *Id.* at 6, 53.

Kossman produced no evidence that the availability estimate was inadequate. *Id.* at 53. Plaintiff's criticisms of the availability analysis, including for capacity, the court stated was not supported by any contrary evidence or expert opinion. *Id.* at 53-54. The MJ rejected Plaintiff's proposed expert's suggestion that analysis of bidder data is a better way to identify MWBEs. *Id.* at 54. The MJ noted that Kossman's proposed expert presented no comparative evidence based on bidder data, and the MJ found that bidder data may produce availability statistics that are skewed by active and passive discrimination in the market. *Id.*

In addition to being underinclusive due to discrimination, the MJ said bidder data may be overinclusive due to inaccurate self-evaluation by firms offering bids despite the inability to fulfill the contract. *Id.* at 54. It is possible that unqualified firms would be included in the availability figure simply because they bid on a particular project. *Id.* The MJ concluded that the law does not require an individualized approach that measures whether MWBEs are qualified on a contract-by-contract basis. *Id.* at 55.

**Disparity analysis.** The study indicated significant statistical adverse disparities as to businesses owned by African Americans and Asians, which the MJ found provided a *prima facie* case of a strong basis in evidence that justified the Program's utilization goals for businesses owned by African Americans, Asian-Pacific Americans, and subcontinent Asian Americans. *Id.* at 55.

The disparity analysis did not reflect significant statistical disparities as to businesses owned by Hispanic Americans, Native Americans or non-minority women. *Id.* at 55-56. The MJ found, however, the evidence of significant statistical adverse disparity in the utilization of Hispanic-owned businesses in the unremediated, private sector met Houston's *prima facie* burden of producing a strong evidentiary basis for the continued inclusion of businesses owned by Hispanic Americans. *Id.* at 56. The MJ said the difference between the private sector and Houston's construction contracting was especially notable because the utilization of Hispanic-owned businesses by Houston has benefitted from Houston's remedial program for many years. *Id.* Without a remedial program, the MJ stated the evidence suggests, and no evidence contradicts, a finding that utilization would fall back to private sector levels. *Id.*

With regard to businesses owned by Native Americans, the study indicated they were utilized to a higher percentage than their availability in the relevant market area. *Id.* at 56. Although the consultant for Houston suggested that a significant statistical disparity would exist if two of the contracting Native American-owned businesses were disregarded, the MJ found that opinion is not evidence of the need for remedial action. *Id.* at 56. The MJ concluded there was no-equal protection significance

to the fact the majority of contracts let to Native American-owned businesses were to only two firms, which was indicated by Houston's consultant. *Id.*

The utilization of women-owned businesses (WBEs) declined by 50 percent when they no longer benefitted from remedial goals. *Id.* at 57. Because WBEs were eliminated during the period studied, the significance of statistical disparity, according to the MJ, is not reflected in the numbers for the period as a whole. *Id.* at 57. The MJ said during the time WBEs were not part of the program, the statistical disparity between availability and utilization was significant. *Id.* The precipitous decline in the utilization of WBEs after WBEs were eliminated and the significant statistical disparity when WBEs did not benefit from preferential treatment, the MJ found, provided a strong basis in evidence for the necessity of remedial action. *Id.* at 57. Kossman, the MJ pointed out, offered no evidence of a gender-neutral reason for the decline. *Id.*

The MJ rejected Plaintiff's argument that prime contractor and subcontractor data should not have been combined. *Id.* at 57. The MJ said that prime contractor and subcontractor data is not required to be evaluated separately, but that the evidence should contain reliable subcontractor data to indicate discrimination by prime contractors. *Id.* at 58. Here, the study identified the MWBEs that contracted with Houston by industry and those available in the relevant market by industry. *Id.* at 58. The data, according to the MJ, was specific and complete, and separately considering prime contractors and subcontractors is not only unnecessary but may be misleading. *Id.* The anecdotal evidence indicated that construction firms had served, on different contracts, in both roles. *Id.*

The MJ stated the law requires that the targeted discrimination be identified with particularity, not that every instance of explicit or implicit discrimination be exposed. *Id.* at 58. The study, the MJ found, defined the relevant market at a sufficient level of particularity to produce evidence of past discrimination in Houston's awarding of construction contracts and to reach constitutionally sound results. *Id.*

**Anecdotal evidence.** Kossman criticized the anecdotal evidence with which a study supplemented its statistical analysis as not having been verified and investigated. *Id.* at 58-59. The MJ said that Kossman could have presented its own evidence, but did not. *Id.* at 59. Kossman presented no contrary body of anecdotal evidence and pointed to nothing that called into question the specific results of the market surveys and focus groups done in the study. *Id.* The court rejected any requirement that the anecdotal evidence be verified and investigated. *Id.* at 59.

**Regression analyses.** Kossman challenged the regression analyses done in the study of business formation, earnings and capital markets. *Id.* at 59. Kossman criticized the regression analyses for failing to precisely point to where the identified discrimination was occurring. *Id.* The MJ found that the focus on identifying where discrimination is occurring misses the point, as regression analyses is not intended to point to specific sources of discrimination, but to eliminate factors other than discrimination that might explain disparities. *Id.* at 59-60. Discrimination, the MJ said, is not revealed through evidence of explicit discrimination, but is revealed through unexplainable disparity. *Id.* at 60.

The MJ noted that data used in the regression analyses were the most current available data at the time, and for the most part data dated from within a couple of years or less of the start of the study period. *Id.* at 60. Again, the MJ stated, Kossman produced no evidence that the data on which the regression analyses were based were invalid. *Id.*

**Narrow Tailoring factors.** The MJ found that the Houston MWBE program satisfied the narrow tailoring prong of a strict scrutiny analysis. The MJ said that the 2013 MWBE program contained a variety of race-neutral remedies, including many educational opportunities, but that the evidence of their efficacy or lack thereof is found in the disparity analyses. *Id.* at 60-61. The MJ concluded that while the race-neutral remedies may have a positive effect, they have not eliminated the discrimination. *Id.* at 61. The MJ found Houston’s race-neutral programming sufficient to satisfy the requirements of narrow tailoring. *Id.*

As to the factors of flexibility and duration of the 2013 Program, the MJ also stated these aspects satisfy narrow tailoring. *Id.* at 61. The 2013 Program employs goals as opposed to quotas, sets goals on a contract-by-contract basis, allows substitution of small business enterprises for MWBEs for up to 4 percent of the contract, includes a process for allowing good-faith waivers, and builds in due process for suspensions of contractors who fail to make good-faith efforts to meet contract goals or MWSBEs that fail to make good-faith efforts to meet all participation requirements. *Id.* at 61. Houston committed to review the 2013 Program at least every five years, which the MJ found to be a reasonably brief duration period. *Id.*

The MJ concluded that the 34 percent annual goal is proportional to the availability of MWBEs historically suffering discrimination. *Id.* at 61. Finally, the MJ found that the effect of the 2013 Program on third parties is not so great as to impose an unconstitutional burden on non-minorities. *Id.* at 62. The burden on non-minority SBEs, such as Kossman, is lessened by the 4 percent substitution provision. *Id.* at 62. The MJ noted another district court’s opinion that the mere possibility that innocent parties will share the burden of a remedial program is itself insufficient to warrant the conclusion that the program is not narrowly tailored. *Id.* at 62.

**Holding.** The MJ held that Houston established a *prima facie* case of compelling interest and narrow tailoring for all aspects of the MWBE program, except goals for Native American-owned businesses. *Id.* at 62. The MJ also held that Plaintiff failed to produce any evidence, much less the greater weight of evidence, that would call into question the constitutionality of the 2013 MWBE program. *Id.* at 62.

**16. *H.B. Rowe Corp., Inc. v. W. Lyndo Tippett, North Carolina DOT, et al.*, 589 F. Supp.2d 587 (E.D.N.C. 2008), affirmed in part, reversed in part, and remanded, 615 F.3d 233 (4th Cir. 2010)**

In *H.B. Rowe Company v. Tippett, North Carolina Department of Transportation, et al.* (“*Rowe*”), the United States District Court for the Eastern District of North Carolina, Western Division, heard a challenge to the State of North Carolina MBE and WBE Program, which is a State of North Carolina “affirmative action” program administered by the NCDOT. The NCDOT MWBE Program challenged in *Rowe* involves projects funded solely by the State of North Carolina and not funded by the USDOT. 589 F.Supp.2d 587.

**Background.** In this case plaintiff, a family-owned road construction business, bid on a NCDOT initiated state-funded project. NCDOT rejected plaintiff’s bid in favor of the next low bid that had proposed higher minority participation on the project as part of its bid. According to NCDOT, plaintiff’s bid was rejected because of plaintiff’s failure to demonstrate “good faith efforts” to obtain pre-designated levels of minority participation on the project.

As a prime contractor, plaintiff Rowe was obligated under the MWBE Program to either obtain participation of specified levels of MBE and WBE participation as subcontractors, or to demonstrate good faith efforts to do so. For this particular project, NCDOT had set MBE and WBE subcontractor participation goals of 10 percent and 5 percent, respectively. Plaintiff's bid included 6.6 percent WBE participation, but no MBE participation. The bid was rejected after a review of plaintiff's good faith efforts to obtain MBE participation. The next lowest bidder submitted a bid including 3.3 percent MBE participation and 9.3 percent WBE participation, and although not obtaining a specified level of MBE participation, it was determined to have made good faith efforts to do so. (Order of the District Court, dated March 29, 2007).

NCDOT's MWBE Program "largely mirrors" the Federal DBE Program, which NCDOT is required to comply with in awarding construction contracts that utilize Federal funds. (589 F.Supp.2d 587; Order of the District Court, dated September 28, 2007). Like the Federal DBE Program, under NCDOT's MWBE Program, the goals for minority and female participation are aspirational rather than mandatory. *Id.* An individual target for MBE participation was set for each project. *Id.*

Historically, NCDOT had engaged in several disparity studies. The most recent study was done in 2004. *Id.* The 2004 study, which followed the study in 1998, concluded that disparities in utilization of MBEs persist and that a basis remains for continuation of the MWBE Program. The new statute as revised was approved in 2006, which modified the previous MBE statute by eliminating the 10 percent and 5 percent goals and establishing a fixed expiration date of 2009.

Plaintiff filed its complaint in this case in 2003 against the NCDOT and individuals associated with the NCDOT, including the Secretary of NCDOT, W. Lyndo Tippet. In its complaint, plaintiff alleged that the MWBE statute for NCDOT was unconstitutional on its face and as applied. 589 F.Supp.2d 587.

**March 29, 2007 Order of the District Court.** The matter came before the district court initially on several motions, including the defendants' Motion to Dismiss or for Partial Summary Judgment, defendants' Motion to Dismiss the Claim for Mootness and plaintiff's Motion for Summary Judgment. The court in its October 2007 Order granted in part and denied in part defendants' Motion to Dismiss or for partial summary judgment; denied defendants' Motion to Dismiss the Claim for Mootness; and dismissed without prejudice plaintiff's Motion for Summary Judgment.

The court held the Eleventh Amendment to the United States Constitution bars plaintiff from obtaining any relief against defendant NCDOT, and from obtaining a retrospective damages award against any of the individual defendants in their official capacities. The court ruled that plaintiff's claims for relief against the NCDOT were barred by the Eleventh Amendment, and the NCDOT was dismissed from the case as a defendant. Plaintiff's claims for interest, actual damages, compensatory damages and punitive damages against the individual defendants sued in their official capacities also was held barred by the Eleventh Amendment and were dismissed. But the court held that plaintiff was entitled to sue for an injunction to prevent state officers from violating a federal law, and under the *Ex Parte Young* exception, plaintiff's claim for declaratory and injunctive relief was permitted to go forward as against the individual defendants who were acting in an official capacity with the NCDOT. The court also held that the individual defendants were entitled to qualified immunity, and therefore dismissed plaintiff's claim for money damages against the individual defendants in their individual capacities. Order of the District Court, dated March 29, 2007.



Defendants argued that the recent amendment to the MWBE statute rendered plaintiff's claim for declaratory injunctive relief moot. The new MWBE statute adopted in 2006, according to the court, does away with many of the alleged shortcomings argued by the plaintiff in this lawsuit. The court found the amended statute has a sunset date in 2009; specific aspirational participation goals by women and minorities are eliminated; defines "minority" as including only those racial groups which disparity studies identify as subject to underutilization in state road construction contracts; explicitly references the findings of the 2004 Disparity Study and requires similar studies to be conducted at least once every five years; and directs NCDOT to enact regulations targeting discrimination identified in the 2004 and future studies.

The court held, however, that the 2004 Disparity Study and amended MWBE statute do not remedy the primary problem which the plaintiff complained of: the use of remedial race- and gender- based preferences allegedly without valid evidence of past racial and gender discrimination. In that sense, the court held the amended MWBE statute continued to present a live case or controversy, and accordingly denied the defendants' Motion to Dismiss Claim for Mootness as to plaintiff's suit for prospective injunctive relief. Order of the District Court, dated March 29, 2007.

The court also held that since there had been no analysis of the MWBE statute apart from the briefs regarding mootness, plaintiff's pending Motion for Summary Judgment was dismissed without prejudice. Order of the District Court, dated March 29, 2007.

**September 28, 2007 Order of the District Court.** On September 28, 2007, the district court issued a new order in which it denied both the plaintiff's and the defendants' Motions for Summary Judgment. Plaintiff claimed that the 2004 Disparity Study is the sole basis of the MWBE statute, that the study is flawed, and therefore it does not satisfy the first prong of strict scrutiny review. Plaintiff also argued that the 2004 study tends to prove non-discrimination in the case of women; and finally, the MWBE Program fails the second prong of strict scrutiny review in that it is not narrowly tailored.

The court found summary judgment was inappropriate for either party and that there are genuine issues of material fact for trial. The first and foremost issue of material fact, according to the court, was the adequacy of the 2004 Disparity Study as used to justify the MWBE Program. Therefore, because the court found there was a genuine issue of material fact regarding the 2004 Study, summary judgment was denied on this issue.

The court also held there was confusion as to the basis of the MWBE Program, and whether it was based solely on the 2004 Study or also on the 1993 and 1998 Disparity Studies. Therefore, the court held a genuine issue of material fact existed on this issue and denied summary judgment. Order of the District Court, dated September 28, 2007.

**December 9, 2008 Order of the District Court (589 F.Supp.2d 587).** The district court on December 9, 2008, after a bench trial, issued an Order that found as a fact and concluded as a matter of law that plaintiff failed to satisfy its burden of proof that the North Carolina Minority and Women's Business Enterprise program, enacted by the state legislature to affect the awarding of contracts and subcontracts in state highway construction, violated the United States Constitution.

Plaintiff, in its complaint filed against the NCDOT alleged that N.C. Gen. St. § 136-28.4 is unconstitutional on its face and as applied, and that the NCDOT while administering the MWBE program violated plaintiff's rights under the federal law and the United States Constitution. Plaintiff requested a declaratory judgment that the MWBE program is invalid and sought actual and punitive damages.

As a prime contractor, plaintiff was obligated under the MWBE program to either obtain participation of specified levels of MBE and WBE subcontractors, or to demonstrate that good faith efforts were made to do so. Following a review of plaintiff's good faith efforts to obtain minority participation on the particular contract that was the subject of plaintiff's bid, the bid was rejected. Plaintiff's bid was rejected in favor of the next lowest bid, which had proposed higher minority participation on the project as part of its bid. According to NCDOT, plaintiff's bid was rejected because of plaintiff's failure to demonstrate good faith efforts to obtain pre-designated levels of minority participation on the project. 589 F.Supp.2d 587.

**North Carolina's MWBE program.** The MWBE program was implemented following amendments to N.C. Gen. Stat. §136-28.4. Pursuant to the directives of the statute, the NCDOT promulgated regulations governing administration of the MWBE program. See N.C. Admin. Code tit. 19A, § 2D.1101, et seq. The regulations had been amended several times and provide that NCDOT shall ensure that MBEs and WBEs have the maximum opportunity to participate in the performance of contracts financed with non-federal funds. N.C. Admin. Code Tit. 19A § 2D.1101.

North Carolina's MWBE program, which affected only highway bids and contracts funded solely with state money, according to the district court, largely mirrored the Federal DBE Program which NCDOT is required to comply with in awarding construction contracts that utilize federal funds. 589 F.Supp.2d 587. Like the Federal DBE Program, under North Carolina's MWBE program, the targets for minority and female participation were aspirational rather than mandatory, and individual targets for disadvantaged business participation were set for each individual project. N.C. Admin. Code tit. 19A § 2D.1108. In determining what level of MBE and WBE participation was appropriate for each project, NCDOT would take into account "the approximate dollar value of the contract, the geographical location of the proposed work, a number of the eligible funds in the geographical area, and the anticipated value of the items of work to be included in the contract." *Id.* NCDOT would also consider "the annual goals mandated by Congress and the North Carolina General Assembly." *Id.*

A firm could be certified as an MBE or WBE by showing NCDOT that it is "owner controlled by one or more socially and economically disadvantaged individuals." NC Admin. Code tit. 19A, § 2D.1102.

The district court stated the MWBE program did not directly discriminate in favor of minority and women contractors, but rather "encouraged prime contractors to favor MBEs and WBEs in subcontracting before submitting bids to NCDOT." 589 F.Supp.2d 587. In determining whether the lowest bidder is "responsible," NCDOT would consider whether the bidder obtained the level of certified MBE and WBE participation previously specified in the NCDOT project proposal. If not, NCDOT would consider whether the bidder made good faith efforts to solicit MBE and WBE participation. N.C. Admin. Code tit. 19A § 2D.1108.

There were multiple studies produced and presented to the North Carolina General Assembly in the years 1993, 1998 and 2004. The 1998 and 2004 studies concluded that disparities in the utilization of minority and women contractors persist, and that there remains a basis for continuation of the MWBE program. The MWBE program as amended after the 2004 study includes provisions that eliminated the 10 percent and 5 percent goals and instead replaced them with contract-specific participation goals created by NCDOT; established a sunset provision that has the statute expiring on August 31, 2009; and provides reliance on a disparity study produced in 2004.

The MWBE program, as it stood at the time of this decision, provides that NCDOT “dictates to prime contractors the express goal of MBE and WBE subcontractors to be used on a given project. However, instead of the state hiring the MBE and WBE subcontractors itself, the NCDOT makes the prime contractor solely responsible for vetting and hiring these subcontractors. If a prime contractor fails to hire the goal amount, it must submit efforts of ‘good faith’ attempts to do so.” 589 F.Supp.2d 587.

**Compelling interest.** The district court held that NCDOT established a compelling governmental interest to have the MWBE program. The court noted that the United States Supreme Court in *Croson* made clear that a state legislature has a compelling interest in eradicating and remedying private discrimination in the private subcontracting inherent in the letting of road construction contracts. 589 F.Supp.2d 587, *citing Croson*, 488 U.S. at 492. The district court found that the North Carolina Legislature established it relied upon a strong basis of evidence in concluding that prior race discrimination in North Carolina’s road construction industry existed so as to require remedial action.

The court held that the 2004 Disparity Study demonstrated the existence of previous discrimination in the specific industry and locality at issue. The court stated that disparity ratios provided for in the 2004 Disparity Study highlighted the underutilization of MBEs by prime contractors bidding on state funded highway projects. In addition, the court found that evidence relied upon by the legislature demonstrated a dramatic decline in the utilization of MBEs during the program’s suspension in 1991. The court also found that anecdotal support relied upon by the legislature confirmed and reinforced the general data demonstrating the underutilization of MBEs. The court held that the NCDOT established that, “based upon a clear and strong inference raised by this Study, they concluded minority contractors suffer from the lingering effects of racial discrimination.” 589 F.Supp.2d 587.

With regard to WBEs, the court applied a different standard of review. The court held the legislative scheme as it relates to MWBEs must serve an important governmental interest and must be substantially related to the achievement of those objectives. The court found that NCDOT established an important governmental interest. The 2004 Disparity Study provided that the average contracts awarded WBEs are significantly smaller than those awarded non-WBEs. The court held that NCDOT established based upon a clear and strong inference raised by the Study, women contractors suffer from past gender discrimination in the road construction industry.

**Narrowly tailored.** The district court noted that the Fourth Circuit of Appeals lists a number of factors to consider in analyzing a statute for narrow tailoring: (1) the necessity of the policy and the efficacy of alternative race neutral policies; (2) the planned duration of the policy; (3) the relationship between the numerical goal and the percentage of minority group members in the relevant population; (4) the flexibility of the policy, including the provision of waivers if the goal cannot be met; and (5) the burden of the policy on innocent third parties. 589 F.Supp.2d 587, *quoting Belk v. Charlotte-Mecklenburg Board of Education*, 269 F.3d 305, 344 (4th Cir. 2001).

The district court held that the legislative scheme in N.C. Gen. Stat. § 136-28.4 is narrowly tailored to remedy private discrimination of minorities and women in the private subcontracting inherent in the letting of road construction contracts. The district court's analysis focused on narrowly tailoring factors (2) and (4) above, namely the duration of the policy and the flexibility of the policy. With respect to the former, the court held the legislative scheme provides the program be reviewed at least every five years to revisit the issue of utilization of MWBEs in the road construction industry. N.C. Gen. Stat. §136-28.4(b). Further, the legislative scheme includes a sunset provision so that the program will expire on August 31, 2009, unless renewed by an act of the legislature. *Id.* at § 136-28.4(e). The court held these provisions ensured the legislative scheme last no longer than necessary.

The court also found that the legislative scheme enacted by the North Carolina legislature provides flexibility insofar as the participation goals for a given contract or determined on a project by project basis. § 136-28.4(b)(1). Additionally, the court found the legislative scheme in question is not overbroad because the statute applies only to “those racial or ethnicity classifications identified by a study conducted in accordance with this section that had been subjected to discrimination in a relevant marketplace and that had been adversely affected in their ability to obtain contracts with the Department.” § 136-28.4(c)(2). The court found that plaintiff failed to provide any evidence that indicates minorities from non-relevant racial groups had been awarded contracts as a result of the statute.

The court held that the legislative scheme is narrowly tailored to remedy private discrimination of minorities and women in the private subcontracting inherent in the letting of road construction contracts, and therefore found that § 136-28.4 is constitutional.

The decision of the district court was appealed to the United States Court of Appeals for the Fourth Circuit, which affirmed in part and reversed in part the decision of the district court. *See* 615 F3d 233 (4th Cir. 2010), discussed above.

**17. *Thomas v. City of Saint Paul*, 526 F. Supp.2d 959 (D. Minn 2007), affirmed, 321 Fed. Appx. 541, 2009 WL 777932 (8th Cir. March 26, 2009) (unpublished opinion), cert. denied, 130 S.Ct. 408 (2009)**

In *Thomas v. City of Saint Paul*, the plaintiffs are African American business owners who brought this lawsuit claiming that the City of Saint Paul, Minnesota discriminated against them in awarding publicly-funded contracts. The City moved for summary judgment, which the United States District Court granted and issued an order dismissing the plaintiff's lawsuit in December 2007.

The background of the case involves the adoption by the City of Saint Paul of a Vendor Outreach Program (“VOP”) that was designed to assist minority and other small business owners in competing for City contracts. Plaintiffs were VOP-certified minority business owners. Plaintiffs contended that the City engaged in racially discriminatory illegal conduct in awarding City contracts for publicly-funded projects. Plaintiff Thomas claimed that the City denied him opportunities to work on projects because of his race arguing that the City failed to invite him to bid on certain projects, the City failed to award him contracts and the fact independent developers had not contracted with his company. 526 F. Supp.2d at 962. The City contended that Thomas was provided opportunities to bid for the City's work.

Plaintiff Brian Conover owned a trucking firm, and he claimed that none of his bids as a subcontractor on 22 different projects to various independent developers were accepted. 526 F. Supp.2d at 962. The court found that after years of discovery, plaintiff Conover offered no admissible evidence to support his claim, had not identified the subcontractors whose bids were accepted, and did not offer any comparison showing the accepted bid and the bid he submitted. *Id.* Plaintiff Conover also complained that he received bidding invitations only a few days before a bid was due, which did not allow him adequate time to prepare a competitive bid. *Id.* The court found, however, he failed to identify any particular project for which he had only a single day of bid, and did not identify any similarly situated person of any race who was afforded a longer period of time in which to submit a bid. *Id.* at 963. Plaintiff Newell claimed he submitted numerous bids on the City's projects all of which were rejected. *Id.* The court found, however, that he provided no specifics about why he did not receive the work. *Id.*

**The VOP.** Under the VOP, the City sets annual benchmarks or levels of participation for the targeted minorities groups. *Id.* at 963. The VOP prohibits quotas and imposes various “good faith” requirements on prime contractors who bid for City projects. *Id.* at 964. In particular, the VOP requires that when a prime contractor rejects a bid from a VOP-certified business, the contractor must give the City its basis for the rejection, and evidence that the rejection was justified. *Id.* The VOP further imposes obligations on the City with respect to vendor contracts. *Id.* The court found the City must seek where possible and lawful to award a portion of vendor contracts to VOP-certified businesses. *Id.* The City contract manager must solicit these bids by phone, advertisement in a local newspaper or other means. Where applicable, the contract manager may assist interested VOP participants in obtaining bonds, lines of credit or insurance required to perform under the contract. *Id.* The VOP ordinance provides that when the contract manager engages in one or more possible outreach efforts, he or she is in compliance with the ordinance. *Id.*

**Analysis and Order of the Court.** The district court found that the City is entitled to summary judgment because plaintiffs lack standing to bring these claims and that no genuine issue of material fact remains. *Id.* at 965. The court held that the plaintiffs had no standing to challenge the VOP because they failed to show they were deprived of an opportunity to compete, or that their inability to obtain any contract resulted from an act of discrimination. *Id.* The court found they failed to show any instance in which their race was a determinant in the denial of any contract. *Id.* at 966. As a result, the court held plaintiffs failed to demonstrate the City engaged in discriminatory conduct or policy which prevented plaintiffs from competing. *Id.* at 965-966.

The court held that in the absence of any showing of intentional discrimination based on race, the mere fact the City did not award any contracts to plaintiffs does not furnish that causal nexus necessary to establish standing. *Id.* at 966. The court held the law does not require the City to voluntarily adopt “aggressive race-based affirmative action programs” in order to award specific groups publicly-funded contracts. *Id.* at 966. The court found that plaintiffs had failed to show a violation of the VOP ordinance, or any illegal policy or action on the part of the City. *Id.*

The court stated that the plaintiffs must identify a discriminatory policy in effect. *Id.* at 966. The court noted, for example, even assuming the City failed to give plaintiffs more than one day’s notice to enter a bid, such a failure is not, per se, illegal. *Id.* The court found the plaintiffs offered no evidence that anyone else of any other race received an earlier notice, or that he was given this allegedly tardy notice as a result of his race. *Id.*

The court concluded that even if plaintiffs may not have been hired as a subcontractor to work for prime contractors receiving City contracts, these were independent developers and the City is not required to defend the alleged bad acts of others. *Id.* Therefore, the court held plaintiffs had no standing to challenge the VOP. *Id.* at 966.

**Plaintiff’s claims.** The court found that even assuming plaintiffs possessed standing, they failed to establish facts which demonstrated a need for a trial, primarily because each theory of recovery is viable only if the City “intentionally” treated plaintiffs unfavorably because of their race. *Id.* at 967. The court held to establish a prima facie violation of the equal protection clause, there must be state action. *Id.* Plaintiffs must offer facts and evidence that constitute proof of “racially discriminatory intent or purpose.” *Id.* at 967. Here, the court found that plaintiff failed to allege any single instance showing the City “intentionally” rejected VOP bids based on their race. *Id.*

The court also found that plaintiffs offered no evidence of a specific time when any one of them submitted the lowest bid for a contract or a subcontract, or showed any case where their bids were rejected on the basis of race. *Id.* The court held the alleged failure to place minority contractors in a preferred position, without more, is insufficient to support a finding that the City failed to treat them equally based upon their race. *Id.*

The City rejected the plaintiff’s claims of discrimination because the plaintiffs did not establish by evidence that the City “intentionally” rejected their bid due to race or that the City “intentionally” discriminated against these plaintiffs. *Id.* at 967-968. The court held that the plaintiffs did not establish a single instance showing the City deprived them of their rights, and the plaintiffs did not produce evidence of a “discriminatory motive.” *Id.* at 968. The court concluded that plaintiffs had failed to show that the City’s actions were “racially motivated.” *Id.*

The Eighth Circuit Court of Appeals affirmed the ruling of the district court. *Thomas v. City of Saint Paul*, 2009 WL 777932 (8th Cir. 2009)(unpublished opinion). The Eighth Circuit affirmed based on the decision of the district court and finding no reversible error.

**18. *Thompson Building Wrecking Co. v. Augusta, Georgia*, No. 1:07CV019, 2007 WL 926153 (S.D. Ga. Mar. 14, 2007)(Slip. Op.)**

This case considered the validity of the City of Augusta’s local minority DBE program. The district court enjoined the City from favoring any contract bid on the basis of racial classification and based its decision principally upon the outdated and insufficient data proffered by the City in support of its program. 2007 WL 926153 at \*9-10.

The City of Augusta enacted a local DBE program based upon the results of a disparity study completed in 1994. The disparity study examined the disparity in socioeconomic status among races, compared black-owned businesses in Augusta with those in other regions and those owned by other racial groups, examined “Georgia’s racist history” in contracting and procurement, and examined certain data related to Augusta’s contracting and procurement. *Id.* at \*1-4. The plaintiff contractors and subcontractors challenged the constitutionality of the DBE program and sought to extend a temporary injunction enjoining the City’s implementation of racial preferences in public bidding and procurement.

The City defended the DBE program arguing that it did not utilize racial classifications because it only required vendors to make a “good faith effort” to ensure DBE participation. *Id.* at \*6. The court rejected this argument noting that bidders were required to submit a “Proposed DBE Participation” form and that bids containing DBE participation were treated more favorably than those bids without DBE participation. The court stated: “Because a person’s business can qualify for the favorable treatment based on that person’s race, while a similarly situated person of another race would not qualify, the program contains a racial classification.” *Id.*

The court noted that the DBE program harmed subcontractors in two ways: first, because prime contractors will discriminate between DBE and non-DBE subcontractors and a bid with a DBE subcontractor would be treated more favorably; and second, because the City would favor a bid containing DBE participation over an equal or even superior bid containing no DBE participation. *Id.*

The court applied the strict scrutiny standard set forth in *Croson* and *Engineering Contractors Association* to determine whether the City had a compelling interest for its program and whether the program was narrowly tailored to that end. The court noted that pursuant to *Croson*, the City would have a compelling interest in assuring that tax dollars would not perpetuate private prejudice. But the court found (*citing to Croson*), that a state or local government must identify that discrimination, “public or private, with some specificity before they may use race-conscious relief.” The court cited the Eleventh Circuit’s position that “‘gross statistical disparities’ between the proportion of minorities hired by the public employer and the proportion of minorities willing and able to work” may justify an affirmative action program. *Id.* at \*7. The court also stated that anecdotal evidence is relevant to the analysis.

The court determined that while the City's disparity study showed some statistical disparities buttressed by anecdotal evidence, the study suffered from multiple issues. *Id.* at \*7-8. Specifically, the court found that those portions of the study examining discrimination outside the area of subcontracting (e.g., socioeconomic status of racial groups in the Augusta area) were irrelevant for purposes of showing a compelling interest. The court also cited the failure of the study to differentiate between different minority races as well as the improper aggregation of race- and gender-based discrimination referred to as Simpson's Paradox.

The court assumed for purposes of its analysis that the City could show a compelling interest but concluded that the program was not narrowly tailored and thus could not satisfy strict scrutiny. The court found that it need look no further beyond the fact of the thirteen-year duration of the program absent further investigation, and the absence of a sunset or expiration provision, to conclude that the DBE program was not narrowly tailored. *Id.* at \*8. Noting that affirmative action is permitted only sparingly, the court found: "[i]t would be impossible for Augusta to argue that, 13 years after last studying the issue, racial discrimination is so rampant in the Augusta contracting industry that the City must affirmatively act to avoid being complicit." *Id.* The court held in conclusion, that the plaintiffs were "substantially likely to succeed in proving that, when the City requests bids with minority participation and in fact favors bids with such, the plaintiffs will suffer racial discrimination in violation of the Equal Protection Clause." *Id.* at \*9.

In a subsequent Order dated September 5, 2007, the court denied the City's motion to continue plaintiff's Motion for Summary Judgment, denied the City's Rule 12(b)(6) motion to dismiss, and stayed the action for 30 days pending mediation between the parties. Importantly, in this Order, the court reiterated that the female- and locally-owned business components of the program (challenged in plaintiff's Motion for Summary Judgment) would be subject to intermediate scrutiny and rational basis scrutiny, respectively. The court also reiterated its rejection of the City's challenge to the plaintiffs' standing. The court noted that under *Adarand*, preventing a contractor from competing on an equal footing satisfies the particularized injury prong of standing. And showing that the contractor will sometime in the future bid on a City contract "that offers financial incentives to a prime contractor for hiring disadvantaged subcontractors" satisfies the second requirement that the particularized injury be actual or imminent. Accordingly, the court concluded that the plaintiffs have standing to pursue this action.

**19. *Hershell Gill Consulting Engineers, Inc. v. Miami-Dade County*, 333 F. Supp.2d 1305 (S.D. Fla. 2004)**

The decision in *Hershell Gill Consulting Engineers, Inc. v. Miami-Dade County*, is significant to the disparity study because it applied and followed the *Engineering Contractors Association* decision in the context of contracting and procurement for goods and services (including architect and engineer services). Many of the other cases focused on construction, and thus *Hershell Gill* is instructive as to the analysis relating to architect and engineering services. The decision in *Hershell Gill* also involved a district court in the Eleventh Circuit imposing compensatory and punitive damages upon individual County Commissioners due to the district court's finding of their willful failure to abrogate an unconstitutional MBE/WBE Program. In addition, the case is noteworthy because the district court refused to follow the 2003 Tenth Circuit Court of Appeals decision in *Concrete Works of Colorado, Inc. v. City and County of Denver*, 321 F.3d 950 (10th Cir. 2003). See discussion, *infra*.



Six years after the decision in *Engineering Contractors Association*, two white male-owned engineering firms (the “plaintiffs”) brought suit against Engineering Contractors Association (the “County”), the former County Manager, and various current County Commissioners (the “Commissioners”) in their official and personal capacities (collectively the “defendants”), seeking to enjoin the same “participation goals” in the same MWBE program deemed to violate the Fourteenth Amendment in the earlier case. 333 F. Supp. 1305, 1310 (S.D. Fla. 2004). After the Eleventh Circuit’s decision in *Engineering Contractors Association* striking down the MWBE programs as applied to construction contracts, the County enacted a Community Small Business Enterprise (“CSBE”) program for construction contracts, “but continued to apply racial, ethnic, and gender criteria to its purchases of goods and services in other areas, including its procurement of A&E services.” *Id.* at 1311.

The plaintiffs brought suit challenging the Black Business Enterprise (BBE) program, the Hispanic Business Enterprise (HBE) program, and the Women Business Enterprise (WBE) program (collectively “MBE/WBE”). *Id.* The MBE/WBE programs applied to A&E contracts in excess of \$25,000. *Id.* at 1312. The County established five “contract measures” to reach the participation goals: (1) set asides, (2) subcontractor goals, (3) project goals, (4) bid preferences, and (5) selection factors. *Id.* Once a contract was identified as covered by a participation goal, a review committee would determine whether a contract measure should be utilized. *Id.* The County was required to review the efficacy of the MBE/WBE programs annually, and reevaluated the continuing viability of the MBE/WBE programs every five years. *Id.* at 1313. However, the district court found “the participation goals for the three MBE/WBE programs challenged ... remained unchanged since 1994.” *Id.*

In 1998, counsel for plaintiffs contacted the County Commissioners requesting the discontinuation of contract measures on A&E contracts. *Id.* at 1314. Upon request of the Commissioners, the county manager then made two reports (an original and a follow-up) measuring parity in terms of dollars awarded and dollars paid in the areas of A&E for blacks, Hispanics and women, and concluded both times that the “County has reached parity for black, Hispanic and women-owned firms in the areas of [A&E] services.” The final report further stated, “Based on all the analyses that have been performed, the County does not have a basis for the establishment of participation goals which would allow staff to apply contract measures.” *Id.* at 1315. The district court also found that the Commissioners were informed that “there was even less evidence to support [the MBE/WBE] programs as applied to architects and engineers than there was in contract construction.” *Id.* Nonetheless, the Commissioners voted to continue the MBE/WBE participation goals at their previous levels. *Id.*

In May of 2000 (18 months after the lawsuit was filed), the County commissioned Dr. Manuel J. Carvajal, an econometrician, to study architects and engineers in the county. His final report had four parts: (1) data identification and collection of methodology for displaying the research results; (2) presentation and discussion of tables pertaining to architecture, civil engineering, structural engineering, and awards of contracts in those areas; (3) analysis of the structure and empirical estimates of various sets of regression equations, the calculation of corresponding indices, and an assessment of their importance; and (4) a conclusion that there is discrimination against women and Hispanics — but not against blacks — in the fields of architecture and engineering.

*Id.* The district court issued a preliminary injunction enjoining the use of the MBE/WBE programs for A&E contracts, pending the United States Supreme Court decisions in *Gratz v. Bollinger*, 539 U.S. 244 (2003) and *Grutter v. Bollinger*, 539 U.S. 306 (2003). *Id.* at 1316.

The court considered whether the MBE/WBE programs were violative of Title VII of the Civil Rights Act, and whether the County and the County Commissioners were liable for compensatory and punitive damages.

The district court found that the Supreme Court decisions in *Gratz* and *Grutter* did not alter the constitutional analysis as set forth in *Adarand* and *Croson*. *Id.* at 1317. Accordingly, the race- and ethnicity-based classifications were subject to strict scrutiny, meaning the County must present “a strong basis of evidence” indicating the MBE/WBE program was necessary and that it was narrowly tailored to its purported purpose. *Id.* at 1316. The gender-based classifications were subject to intermediate scrutiny, requiring the County to show the “gender-based classification serves an important governmental objective, and that it is substantially related to the achievement of that objective.” *Id.* at 1317 (internal citations omitted). The court found that the proponent of a gender-based affirmative action program must present “sufficient probative evidence” of discrimination. *Id.* (internal citations omitted). The court found that under the intermediate scrutiny analysis, the County must (1) demonstrate past discrimination against women but not necessarily at the hands of the County, and (2) that the gender-conscious affirmative action program need not be used only as a “last resort.” *Id.*

The County presented both statistical and anecdotal evidence. *Id.* at 1318. The statistical evidence consisted of Dr. Carvajal’s report, most of which consisted of “post-enactment” evidence. *Id.* Dr. Carvajal’s analysis sought to discover the existence of racial, ethnic and gender disparities in the A&E industry, and then to determine whether any such disparities could be attributed to discrimination. *Id.* The study used four data sets: three were designed to establish the marketplace availability of firms (architecture, structural engineering, and civil engineering), and the fourth focused on awards issued by the County. *Id.* Dr. Carvajal used the phone book, a list compiled by info USA, and a list of firms registered for technical certification with the County’s Department of Public Works to compile a list of the “universe” of firms competing in the market. *Id.* For the architectural firms only, he also used a list of firms that had been issued an architecture professional license. *Id.*

Dr. Carvajal then conducted a phone survey of the identified firms. Based on his data, Dr. Carvajal concluded that disparities existed between the percentage of A&E firms owned by blacks, Hispanics and women, and the percentage of annual business they received. *Id.* Dr. Carvajal conducted regression analyses “in order to determine the effect a firm owner’s gender or race had on certain dependent variables.” *Id.* Dr. Carvajal used the firm’s annual volume of business as a dependent variable and determined the disparities were due in each case to the firm’s gender and/or ethnic classification. *Id.* at 1320. He also performed variants to the equations including: (1) using certification rather than survey data for the experience / capacity indicators, (2) with the outliers deleted, (3) with publicly-owned firms deleted, (4) with the dummy variables reversed, and (5) using only currently certified firms.” *Id.* Dr. Carvajal’s results remained substantially unchanged. *Id.*

Based on his analysis of the marketplace data, Dr. Carvajal concluded that the “gross statistical disparities” in the annual business volume for Hispanic- and women-owned firms could be attributed to discrimination; he “did not find sufficient evidence of discrimination against blacks.” *Id.*

The court held that Dr. Carvajal’s study constituted neither a “strong basis in evidence” of discrimination necessary to justify race- and ethnicity-conscious measures, nor did it constitute “sufficient probative evidence” necessary to justify the gender-conscious measures. *Id.* The court made an initial finding that no disparity existed to indicate underutilization of MBE/WBEs in the award of A&E contracts by the County, nor was there underutilization of MBE/WBEs in the contracts they were awarded. *Id.* The court found that an analysis of the award data indicated, “[i]f anything, the data indicates an overutilization of minority-owned firms by the County in relation to their numbers in the marketplace.” *Id.*

With respect to the marketplace data, the County conceded that there was insufficient evidence of discrimination against blacks to support the BBE program. *Id.* at 1321. With respect to the marketplace data for Hispanics and women, the court found it “unreliable and inaccurate” for three reasons: (1) the data failed to properly measure the geographic market, (2) the data failed to properly measure the product market, and (3) the marketplace survey was unreliable. *Id.* at 1321-25.

The court ruled that it would not follow the Tenth Circuit decision of *Concrete Works of Colorado, Inc. v. City and County of Denver*, 321 F.3d 950 (10th Cir. 2003), as the burden of proof enunciated by the Tenth Circuit conflicts with that of the Eleventh Circuit, and the “Tenth Circuit’s decision is flawed for the reasons articulated by Justice Scalia in his dissent from the denial of certiorari.” *Id.* at 1325 (internal citations omitted).

The defendant intervenors presented anecdotal evidence pertaining only to discrimination against women in the County’s A&E industry. *Id.* The anecdotal evidence consisted of the testimony of three A&E professional women, “nearly all” of which was related to discrimination in the award of County contracts. *Id.* at 1326. However, the district court found that the anecdotal evidence contradicted Dr. Carvajal’s study indicating that no disparity existed with respect to the award of County A&E contracts. *Id.*

The court quoted the Eleventh Circuit in *Engineering Contractors Association* for the proposition “that only in the rare case will anecdotal evidence suffice standing alone.” *Id.* (internal citations omitted). The court held that “[t]his is not one of those rare cases.” The district court concluded that the statistical evidence was “unreliable and fail[ed] to establish the existence of discrimination,” and the anecdotal evidence was insufficient as it did not even reach the level of anecdotal evidence in *Engineering Contractors Association* where the County employees themselves testified. *Id.*

The court made an initial finding that a number of minority groups provided preferential treatment were in fact majorities in the County in terms of population, voting capacity, and representation on the County Commission. *Id.* at 1326-1329. For purposes only of conducting the strict scrutiny analysis, the court then assumed that Dr. Carvajal’s report demonstrated discrimination against Hispanics (note the County had conceded it had insufficient evidence of discrimination against blacks) and sought to determine whether the HBE program was narrowly tailored to remedying that discrimination. *Id.* at 1330. However, the court found that because the study failed to “identify who is engaging in the discrimination, what form the discrimination might take, at what stage in the process

it is taking place, or how the discrimination is accomplished ... it is virtually impossible to narrowly tailor any remedy, and the HBE program fails on this fact alone.” *Id.*

The court found that even after the County Managers informed the Commissioners that the County had reached parity in the A&E industry, the Commissioners declined to enact a CSBE ordinance, a race-neutral measure utilized in the construction industry after *Engineering Contractors Association*. *Id.* Instead, the Commissioners voted to continue the HBE program. *Id.* The court held that the County’s failure to even explore a program similar to the CSBE ordinance indicated that the HBE program was not narrowly tailored. *Id.* at 1331.

The court also found that the County enacted a broad anti-discrimination ordinance imposing harsh penalties for a violation thereof. *Id.* However, “not a single witness at trial knew of any instance of a complaint being brought under this ordinance concerning the A&E industry,” leading the court to conclude that the ordinance was either not being enforced, or no discrimination existed. *Id.* Under either scenario, the HBE program could not be narrowly tailored. *Id.*

The court found the waiver provisions in the HBE program inflexible in practice. *Id.* Additionally, the court found the County had failed to comply with the provisions in the HBE program requiring adjustment of participation goals based on annual studies, because the County had not in fact conducted annual studies for several years. *Id.* The court found this even “more problematic” because the HBE program did not have a built-in durational limit, and thus blatantly violated Supreme Court jurisprudence requiring that racial and ethnic preferences “must be limited in time.” *Id.* at 1332, *citing Grutter*, 123 S. Ct. at 2346. For the foregoing reasons, the court concluded the HBE program was not narrowly tailored. *Id.* at 1332.

With respect to the WBE program, the court found that “the failure of the County to identify who is discriminating and where in the process the discrimination is taking place indicates (though not conclusively) that the WBE program is not substantially related to eliminating that discrimination.” *Id.* at 1333. The court found that the existence of the anti-discrimination ordinance, the refusal to enact a small business enterprise ordinance, and the inflexibility in setting the participation goals rendered the WBE program unable to satisfy the substantial relationship test. *Id.*

The court held that the County was liable for any compensatory damages. *Id.* at 1333-34. The court held that the Commissioners had absolute immunity for their legislative actions; however, they were not entitled to qualified immunity for their actions in voting to apply the race-, ethnicity- and gender-conscious measures of the MBE/WBE programs if their actions violated “clearly established statutory or constitutional rights of which a reasonable person would have known ... Accordingly, the question is whether the state of the law at the time the Commissioners voted to apply [race-, ethnicity- and gender-conscious measures] gave them ‘fair warning’ that their actions were unconstitutional.” *Id.* at 1335-36 (internal citations omitted).

The court held that the Commissioners were not entitled to qualified immunity because they “had before them at least three cases that gave them fair warning that their application of the MBE/WBE programs ... were unconstitutional: *Croson*, *Adarand* and [*Engineering Contractors Association*].” *Id.* at 1137. The court found that the Commissioners voted to apply the contract measures after the Supreme Court decided both *Croson* and *Adarand*. *Id.* Moreover, the Eleventh Circuit had already struck down the construction provisions of the same MBE/WBE programs. *Id.* Thus, the case law was “clearly established” and gave the Commissioners fair warning that the MBE/WBE programs were unconstitutional. *Id.*

The court also found the Commissioners had specific information from the County Manager and other internal studies indicating the problems with the MBE/WBE programs and indicating that parity had been achieved. *Id.* at 1338. Additionally, the Commissioners did not conduct the annual studies mandated by the MBE/WBE ordinance itself. *Id.* For all the foregoing reasons, the court held the Commissioners were subject to individual liability for any compensatory and punitive damages.

The district court enjoined the County, the Commissioners, and the County Manager from using, or requiring the use of, gender, racial, or ethnic criteria in deciding (1) whether a response to an RFP submitted for A&E work is responsive, (2) whether such a response will be considered, and (3) whether a contract will be awarded to a consultant submitting such a response. The court awarded the plaintiffs \$100 each in nominal damages and reasonable attorneys’ fees and costs, for which it held the County and the Commissioners jointly and severally liable.

## **20. *Florida A.G.C. Council, Inc. v. State of Florida*, 303 F. Supp.2d 1307 (N.D. Fla. 2004)**

This case is instructive to the disparity study as to the manner in which district courts within the Eleventh Circuit are interpreting and applying *Engineering Contractors Association*. It is also instructive in terms of the type of legislation to be considered by the local and state governments as to what the courts consider to be a “race-conscious” program and/or legislation, as well as to the significance of the implementation of the legislation to the analysis.

The plaintiffs, A.G.C. Council, Inc. and the South Florida Chapter of the Associated General Contractors brought this case challenging the constitutionality of certain provisions of a Florida statute (Section 287.09451, *et seq.*). The plaintiffs contended that the statute violated the Equal Protection Clause of the Fourteenth Amendment by instituting race- and gender-conscious “preferences” in order to increase the numeric representation of “MBEs” in certain industries.

According to the court, the Florida Statute enacted race-conscious and gender-conscious remedial programs to ensure minority participation in state contracts for the purchase of commodities and in construction contracts. The State created the Office of Supplier Diversity (“OSD”) to assist MBEs to become suppliers of commodities, services and construction to the state government. The OSD had certain responsibilities, including adopting rules meant to assess whether state agencies have made good faith efforts to solicit business from MBEs, and to monitor whether contractors have made good faith efforts to comply with the objective of greater overall MBE participation.

The statute enumerated measures that contractors should undertake, such as minority-centered recruitment in advertising as a means of advancing the statute’s purpose. The statute provided that each State agency is “encouraged” to spend 21 percent of the monies actually expended for construction contracts, 25 percent of the monies actually expended for architectural and engineering contracts, 24 percent of the monies actually expended for commodities and 50.5 percent of the monies actually expended for contractual services during the fiscal year for the purpose of entering into contracts with certified MBEs. The statute also provided that state agencies are allowed to allocate certain percentages for black Americans, Hispanic Americans and for American women, and the goals are broken down by construction contracts, architectural and engineering contracts, commodities and contractual services.

The State took the position that the spending goals were “precatory.” The court found that the plaintiffs had standing to maintain the action and to pursue prospective relief. The court held that the statute was unconstitutional based on the finding that the spending goals were not narrowly tailored to achieve a governmental interest. The court did not specifically address whether the articulated reasons for the goals contained in the statute had sufficient evidence, but instead found that the articulated reason would, “if true,” constitute a compelling governmental interest necessitating race-conscious remedies. Rather than explore the evidence, the court focused on the narrowly tailored requirement and held that it was not satisfied by the State.

The court found that there was no evidence in the record that the State contemplated race-neutral means to accomplish the objectives set forth in Section 287.09451 *et seq.*, such as “simplification of bidding procedures, relaxation of bonding requirements, training or financial aid for disadvantaged entrepreneurs of all races [which] would open the public contracting market to all those who have suffered the effects of past discrimination.” *Florida A.G.C. Council*, 303 F.Supp.2d at 1315, *quoting Eng’g Contractors Ass’n*, 122 F.3d at 928, *quoting Croson*, 488 U.S. at 509-10.

The court noted that defendants did not seem to disagree with the report issued by the State of Florida Senate that concluded there was little evidence to support the spending goals outlined in the statute. Rather, the State of Florida argued that the statute is “permissive.” The court, however, held that “there is no distinction between a statute that is precatory versus one that is compulsory when the challenged statute ‘induces an employer to hire with an eye toward meeting ... [a] numerical target.’” *Florida A.G.C. Council*, 303 F.Supp.2d at 1316.

The court found that the State applies pressure to State agencies to meet the legislative objectives of the statute extending beyond simple outreach efforts. The State agencies, according to the court, were required to coordinate their MBE procurement activities with the OSD, which includes adopting an MBE utilization plan. If the State agency deviated from the utilization plan in two consecutive and three out of five total fiscal years, then the OSD could review any and all solicitations and contract awards of the agency as deemed necessary until such time as the agency met its utilization plan. The court held that based on these factors, although alleged to be “permissive,” the statute textually was not.

Therefore, the court found that the statute was not narrowly tailored to serve a compelling governmental interest, and consequently violated the Equal Protection Clause of the Fourteenth Amendment.

**21. *The Builders Ass’n of Greater Chicago v. The City of Chicago*, 298 F. Supp.2d 725 (N.D. Ill. 2003)**

This case is instructive because of the court’s focus and analysis on whether the City of Chicago’s MBE/WBE program was narrowly tailored. The basis of the court’s holding that the program was not narrowly tailored is instructive for any program considered because of the reasons provided as to why the program did not pass muster.

The plaintiff, the Builders Association of Greater Chicago, brought this suit challenging the constitutionality of the City of Chicago’s construction Minority- and Women-Owned Business (“MWBE”) Program. The court held that the City of Chicago’s MWBE program was unconstitutional because it did not satisfy the requirement that it be narrowly tailored to achieve a compelling governmental interest. The court held that it was not narrowly tailored for several reasons, including because there was no “meaningful individualized review” of MBE/WBEs; it had no termination date nor did it have any means for determining a termination; the “graduation” revenue amount for firms to graduate out of the program was very high, \$27,500,000, and in fact very few firms graduated; there was no net worth threshold; and, waivers were rarely or never granted on construction contracts. The court found that the City program was a “rigid numerical quota,” not related to the number of available, willing and able firms. Formulistic percentages, the court held, could not survive the strict scrutiny.

The court held that the goals plan did not address issues raised as to discrimination regarding market access and credit. The court found that a goals program does not directly impact prime contractor’s selection of subcontractors on non-goals private projects. The court found that a set-aside or goals program does not directly impact difficulties in accessing credit, and does not address discriminatory loan denials or higher interest rates. The court found the City has not sought to attack discrimination by primes directly, “but it could.” 298 F.2d 725. “To monitor possible discriminatory conduct it could maintain its certification list and require those contracting with the City to consider unsolicited bids, to maintain bidding records, and to justify rejection of any certified firm submitting the lowest bid. It could also require firms seeking City work to post private jobs above a certain minimum on a website or otherwise provide public notice ...” *Id.*

The court concluded that other race-neutral means were available to impact credit, high interest rates, and other potential marketplace discrimination. The court pointed to race-neutral means including linked deposits, with the City banking at institutions making loans to startup and smaller firms. Other race-neutral programs referenced included quick pay and contract downsizing; restricting self-performance by prime contractors; a direct loan program; waiver of bonds on contracts under \$100,000; a bank participation loan program; a 2 percent local business preference; outreach programs and technical assistance and workshops; and seminars presented to new construction firms.

The court held that race and ethnicity do matter, but that racial and ethnic classifications are highly suspect, can be used only as a last resort, and cannot be made by some mechanical formulation. Therefore, the court concluded the City’s MWBE Program could not stand in its present guise. The court held that the present program was not narrowly tailored to remedy past discrimination and the discrimination demonstrated to now exist.

The court entered an injunction, but delayed the effective date for six months from the date of its Order, December 29, 2003. The court held that the City had a “compelling interest in not having its construction projects slip back to near monopoly domination by white male firms.” The court ruled a brief continuation of the program for six months was appropriate “as the City rethinks the many tools of redress it has available.” Subsequently, the court declared unconstitutional the City’s MWBE Program with respect to construction contracts and permanently enjoined the City from enforcing the Program. 2004 WL 757697 (N.D. Ill 2004).

**22. *Associated Utility Contractors of Maryland, Inc. v. Mayor and City Council of Baltimore*, 218 F. Supp.2d 749 (D. Md. 2002)**

This case is instructive because the court found the Executive Order of the Mayor of the City of Baltimore was precatory in nature (creating no legal obligation or duty) and contained no enforcement mechanism or penalties for noncompliance and imposed no substantial restrictions; the Executive Order announced goals that were found to be aspirational only.

The Associated Utility Contractors of Maryland, Inc. (“AUC”) sued the City of Baltimore challenging its ordinance providing for minority and women-owned business enterprise (“MWBE”) participation in city contracts. Previously, an earlier City of Baltimore MWBE program was declared unconstitutional. *Associated Utility Contractors of Maryland, Inc. v. Mayor and City Council of Baltimore*, 83 F. Supp.2d 613 (D. Md. 2000). The City adopted a new ordinance that provided for the establishment of MWBE participation goals on a contract-by-contract basis, and made several other changes from the previous MWBE program declared unconstitutional in the earlier case.

In addition, the Mayor of the City of Baltimore issued an Executive Order that announced a goal of awarding 35 percent of all City contracting dollars to MBE/WBEs. The court found this goal of 35 percent participation was aspirational only and the Executive Order contained no enforcement mechanism or penalties for noncompliance. The Executive Order also specified many “noncoercive” outreach measures to be taken by the City agencies relating to increasing participation of MBE/WBEs. These measures were found to be merely aspirational and no enforcement mechanism was provided.

The court addressed in this case only a motion to dismiss filed by the City of Baltimore arguing that the Associated Utility Contractors had no standing. The court denied the motion to dismiss holding that the association had standing to challenge the new MBE/WBE ordinance, although the court noted that it had significant issues with the AUC having representational standing because of the nature of the MBE/WBE plan and the fact the AUC did not have any of its individual members named in the suit. The court also held that the AUC was entitled to bring an as applied challenge to the Executive Order of the Mayor, but rejected it having standing to bring a facial challenge based on a finding that it imposes no requirement, creates no sanctions, and does not inflict an injury upon any member of the AUC in any concrete way. Therefore, the Executive Order did not create a “case or controversy” in connection with a facial attack. The court found the wording of the Executive Order to be precatory and imposing no substantive restrictions.

After this decision, the City of Baltimore and the AUC entered into a settlement agreement and a dismissal with prejudice of the case. An order was issued by the court on October 22, 2003 dismissing the case with prejudice.



**23. Kornhass Construction, Inc. v. State of Oklahoma, Department of Central Services, 140 F.Supp.2d 1232 (W.D. OK. 2001)**

Plaintiffs, non-minority contractors, brought this action against the State of Oklahoma challenging minority bid preference provisions in the Oklahoma Minority Business Enterprise Assistance Act (“MBE Act”). The Oklahoma MBE Act established a bid preference program by which certified minority business enterprises are given favorable treatment on competitive bids submitted to the state. 140 F.Supp.2d at 1235–36. Under the MBE Act, the bids of non-minority contractors were raised by 5 percent, placing them at a competitive disadvantage according to the district court. *Id.* at 1235–1236.

The named plaintiffs bid on state contracts in which their bids were increased by 5 percent as they were non-minority business enterprises. Although the plaintiffs actually submitted the lowest dollar bids, once the 5 percent factor was applied, minority bidders became the successful bidders on certain contracts. 140 F.Supp. at 1237.

In determining the constitutionality or validity of the Oklahoma MBE Act, the district court was guided in its analysis by the Tenth Circuit Court of Appeals decision in *Adarand Constructors, Inc. v. Slater*, 288 F.3d 1147 (10th Cir. 2000). The district court pointed out that in *Adarand VII*, the Tenth Circuit found compelling evidence of barriers to both minority business formation and existing minority businesses. *Id.* at 1238. In sum, the district court noted that the Tenth Circuit concluded that the Government had met its burden of presenting a strong basis in evidence sufficient to support its articulated, constitutionally valid, compelling interest. 140 F.Supp.2d at 1239, *citing Adarand VII*, 228 F.3d 1147, 1174.

**Compelling state interest.** The district court, following *Adarand VII*, applied the strict scrutiny analysis, arising out of the Fourteenth Amendment’s Equal Protection Clause, in which a race-based affirmative action program withstands strict scrutiny only if it is narrowly tailored to serve a compelling governmental interest. *Id.* at 1239. The district court pointed out that it is clear from Supreme Court precedent, there may be a compelling interest sufficient to justify race-conscious affirmative action measures. *Id.* The Fourteenth Amendment permits race-conscious programs that seek both to eradicate discrimination by the governmental entity itself and to prevent the governmental entity from becoming a “passive participant” in a system of racial exclusion practiced by private businesses. *Id.* at 1240. Therefore, the district court concluded that both the federal and state governments have a compelling interest assuring that public dollars do not serve to finance the evil of private prejudice. *Id.*

The district court stated that a “mere statistical disparity in the proportion of contracts awarded to a particular group, standing alone, does not demonstrate the evil of private or public racial prejudice.” *Id.* Rather, the court held that the “benchmark for judging the adequacy of a state’s factual predicate for affirmative action legislation is whether there exists a strong basis in the evidence of the state’s conclusion that remedial action was necessary.” *Id.* The district court found that the Supreme Court made it clear that the state bears the burden of demonstrating a strong basis in evidence for its conclusion that remedial action was necessary by proving either that the state itself discriminated in the past or was “a passive participant” in private industry’s discriminatory practices. *Id.* at 1240, *citing to Associated General Contractors of Ohio, Inc. v. Drabik*, 214 F.3d 730, 735 (6th Cir. 2000) and *City of Richmond v. J.A. Croson Company*, 488 U.S. 469 at 486-492 (1989).

With this background, the State of Oklahoma stated that its compelling state interest “is to promote the economy of the State and to ensure that minority business enterprises are given an opportunity to compete for state contracts.” *Id.* at 1240. Thus, the district court found the State admitted that the MBE Act’s bid preference “is not based on past discrimination,” rather, it is based on a desire to “encourag[e] economic development of minority business enterprises which in turn will benefit the State of Oklahoma as a whole.” *Id.* In light of *Adarand VII*, and prevailing Supreme Court case law, the district court found that this articulated interest is not “compelling” in the absence of evidence of past or present racial discrimination. *Id.*

The district court considered testimony presented by Intervenors who participated in the case for the defendants and asserted that the Oklahoma legislature conducted an interim study prior to adoption of the MBE Act, during which testimony and evidence were presented to members of the Oklahoma Legislative Black Caucus and other participating legislators. The study was conducted more than 14 years prior to the case and the Intervenors did not actually offer any of the evidence to the court in this case. The Intervenors submitted an affidavit from the witness who serves as the Title VI Coordinator for the Oklahoma Department of Transportation. The court found that the affidavit from the witness averred in general terms that minority businesses were discriminated against in the awarding of state contracts. The district court found that the Intervenors have not produced — or indeed even described — the evidence of discrimination. *Id.* at 1241. The district court found that it cannot be discerned from the documents which minority businesses were the victims of discrimination, or which racial or ethnic groups were targeted by such alleged discrimination. *Id.*

The court also found that the Intervenors’ evidence did not indicate what discriminatory acts or practices allegedly occurred, or when they occurred. *Id.* The district court stated that the Intervenors did not identify “a single qualified, minority-owned bidder who was excluded from a state contract.” *Id.* The district court, thus, held that broad allegations of “systematic” exclusion of minority businesses were not sufficient to constitute a compelling governmental interest in remedying past or current discrimination. *Id.* at 1242. The district court stated that this was particularly true in light of the “State’s admission here that the State’s governmental interest was not in remedying past discrimination in the state competitive bidding process, but in ‘encouraging economic development of minority business enterprises which in turn will benefit the State of Oklahoma as a whole.’” *Id.* at 1242.

The court found that the State defendants failed to produce any admissible evidence of a single, specific discriminatory act, or any substantial evidence showing a pattern of deliberate exclusion from state contracts of minority-owned businesses. *Id.* at 1241–1242, footnote 11.

The district court also noted that the Sixth Circuit Court of Appeals in *Drabik* rejected Ohio’s statistical evidence of underutilization of minority contractors because the evidence did not report the actual use of minority firms; rather, they reported only the use of those minority firms that had gone to the trouble of being certified and listed by the state. *Id.* at 1242, footnote 12. The district court stated that, as in *Drabik*, the evidence presented in support of the Oklahoma MBE Act failed to account for the possibility that some minority contractors might not register with the state, and the statistics did not account for any contracts awarded to businesses with minority ownership of less than 51 percent, or for contracts performed in large part by minority-owned subcontractors where the prime contractor was not a certified minority-owned business. *Id.*

The district court found that the MBE Act's minority bidding preference was not predicated upon a finding of discrimination in any particular industry or region of the state, or discrimination against any particular racial or ethnic group. The court stated that there was no evidence offered of actual discrimination, past or present, against the specific racial and ethnic groups to whom the preference was extended, other than an attempt to show a history of discrimination against African Americans. *Id.* at 1242.

**Narrow tailoring.** The district court found that even if the State's goals could not be considered "compelling," the State did not show that the MBE Act was narrowly tailored to serve those goals. The court pointed out that the Tenth Circuit in *Adarand VII* identified six factors the court must consider in determining whether the MBE Act's minority preference provisions were sufficiently narrowly tailored to satisfy equal protection: (1) the availability of race-neutral alternative remedies; (2) limits on the duration of the challenged preference provisions; (3) flexibility of the preference provisions; (4) numerical proportionality; (5) the burden on third parties; and (6) over- or under-inclusiveness. *Id.* at 1242-1243.

First, in terms of race-neutral alternative remedies, the court found that the evidence offered showed, at most, that nominal efforts were made to assist minority-owned businesses prior to the adoption of the MBE Act's racial preference program. *Id.* at 1243. The court considered evidence regarding the Minority Assistance Program, but found that to be primarily informational services only, and was not designed to actually assist minorities or other disadvantaged contractors to obtain contracts with the State of Oklahoma. *Id.* at 1243. In contrast to this "informational" program, the court noted the Tenth Circuit in *Adarand VII* favorably considered the federal government's use of racially neutral alternatives aimed at disadvantaged businesses, including assistance with obtaining project bonds, assistance with securing capital financing, technical assistance, and other programs designed to assist start-up businesses. *Id.* at 1243 citing *Adarand VII*, 228 F.3d at 1178-1179.

The district court found that it does not appear from the evidence that Oklahoma's Minority Assistance Program provided the type of race-neutral relief required by the Tenth Circuit in *Adarand VII*, in the Supreme Court in the *Crosby* decision, nor does it appear that the Program was racially neutral. *Id.* at 1243. The court found that the State of Oklahoma did not show any meaningful form of assistance to new or disadvantaged businesses prior to the adoption of the MBE Act, and thus, the court found that the state defendants had not shown that Oklahoma considered race-neutral alternative means to achieve the state's goal prior to adoption of the minority bid preference provisions. *Id.* at 1243.

In a footnote, the district court pointed out that the Tenth Circuit has recognized racially neutral programs designed to assist *all* new or financially disadvantaged businesses in obtaining government contracts tend to benefit minority-owned businesses, and can help alleviate the effects of past and present-day discrimination. *Id.* at 1243, footnote 15 citing *Adarand VII*.

The court considered the evidence offered of post-enactment efforts by the State to increase minority participation in State contracting. The court found that most of these efforts were directed toward encouraging the participation of certified minority business enterprises, “and are thus not racially neutral. This evidence fails to demonstrate that the State employed race-neutral alternative measures prior to or after adopting the Minority Business Enterprise Assistance Act.” *Id.* at 1244. Some of the efforts the court found were directed toward encouraging the participation of certified minority business enterprises and thus not racially neutral, included mailing vendor registration forms to minority vendors, telephoning and mailing letters to minority vendors, providing assistance to vendors in completing registration forms, assuring the vendors received bid information, preparing a minority business directory and distributing it to all state agencies, periodically mailing construction project information to minority vendors, and providing commodity information to minority vendors upon request. *Id.* at 1244, footnote 16.

In terms of durational limits and flexibility, the court found that the “goal” of 10 percent of the state’s contracts being awarded to certified minority business enterprises had never been reached, or even approached, during the thirteen years since the MBE Act was implemented. *Id.* at 1244. The court found the defendants offered no evidence that the bid preference was likely to end at any time in the foreseeable future, or that it is otherwise limited in its duration. *Id.* Unlike the federal programs at issue in *Adarand VII*, the court stated the Oklahoma MBE Act has no inherent time limit, and no provision for disadvantaged minority-owned businesses to “graduate” from preference eligibility. *Id.* The court found the MBE Act was not limited to those minority-owned businesses which are shown to be economically disadvantaged. *Id.*

The court stated that the MBE Act made no attempt to address or remedy any actual, demonstrated past or present racial discrimination, and the MBE Act’s duration was not tied in any way to the eradication of such discrimination. *Id.* Instead, the court found the MBE Act rests on the “questionable assumption that 10 percent of all state contract dollars should be awarded to certified minority-owned and operated businesses, without any showing that this assumption is reasonable.” *Id.* at 1244.

By the terms of the MBE Act, the minority preference provisions would continue in place for five years after the goal of 10 percent minority participation was reached, and thus the district court concluded that the MBE Act’s minority preference provisions lacked reasonable durational limits. *Id.* at 1245.

With regard to the factor of “numerical proportionality” between the MBE Act’s aspirational goal and the number of existing available minority-owned businesses, the court found the MBE Act’s 10 percent goal was not based upon demonstrable evidence of the availability of minority contractors who were either qualified to bid or who were ready, willing and able to become qualified to bid on state contracts. *Id.* at 1246–1247. The court pointed out that the MBE Act made no attempt to distinguish between the four minority racial groups, so that contracts awarded to members of all of the preferred races were aggregated in determining whether the 10 percent aspirational goal had been reached. *Id.* at 1246. In addition, the court found the MBE Act aggregated all state contracts for goods and services, so that minority participation was determined by the total number of dollars spent on state contracts. *Id.*

The court stated that in *Adarand VII*, the Tenth Circuit rejected the contention that the aspirational goals were required to correspond to an actual finding as to the number of existing minority-owned businesses. *Id.* at 1246. The court noted that the government submitted evidence in *Adarand VII*, that the effects of past discrimination had excluded minorities from entering the construction industry, and that the number of available minority subcontractors reflected that discrimination. *Id.* In light of this evidence, the district court said the Tenth Circuit held that the existing percentage of minority-owned businesses is “not necessarily an absolute cap” on the percentage that a remedial program might legitimately seek to achieve. *Id.* at 1246, *citing Adarand VII*, 228 F.3d at 1181.

Unlike *Adarand VII*, the court found that the Oklahoma State defendants did not offer “substantial evidence” that the minorities given preferential treatment under the MBE Act were prevented, through past discrimination, from entering any particular industry, or that the number of available minority subcontractors in that industry reflects that discrimination. 140 F.Supp.2d at 1246. The court concluded that the Oklahoma State defendants did not offer any evidence of the number of minority-owned businesses doing business in any of the many industries covered by the MBE Act. *Id.* at 1246–1247.

With regard to the impact on third parties factor, the court pointed out the Tenth Circuit in *Adarand VII* stated the mere possibility that innocent parties will share the burden of a remedial program is itself insufficient to warrant the conclusion that the program is not narrowly tailored. *Id.* at 1247. The district court found the MBE Act’s bid preference provisions prevented non-minority businesses from competing on an equal basis with certified minority business enterprises, and that in some instances plaintiffs had been required to lower their intended bids because they knew minority firms were bidding. *Id.* The court pointed out that the 5 percent preference is applicable to *all* contracts awarded under the state’s Central Purchasing Act with no time limitation. *Id.*

In terms of the “under- and over-inclusiveness” factor, the court observed that the MBE Act extended its bidding preference to several racial minority groups without regard to whether each of those groups had suffered from the effects of past or present racial discrimination. *Id.* at 1247. The district court reiterated the Oklahoma State defendants did not offer any evidence at all that the minority racial groups identified in the Act had actually suffered from discrimination. *Id.*

Second, the district court found the MBE Act’s bidding preference extends to all contracts for goods and services awarded under the State’s Central Purchasing Act, without regard to whether members of the preferred minority groups had been the victims of past or present discrimination within that particular industry or trade. *Id.*

Third, the district court noted the preference extends to all businesses certified as minority-owned and controlled, without regard to whether a particular business is economically or socially disadvantaged, or has suffered from the effects of past or present discrimination. *Id.* The court thus found that the factor of over-inclusiveness weighs against a finding that the MBE Act was narrowly tailored. *Id.*

The district court in conclusion found that the Oklahoma MBE Act violated the Constitution’s Fifth Amendment guarantee of equal protection and granted the plaintiffs’ Motion for Summary Judgment.

**24. *Associated Utility Contractors of Maryland, Inc. v. The Mayor and City Council of Baltimore*, 83 F. Supp.2d 613 (D. Md. 2000)**

The court held unconstitutional the City of Baltimore’s “affirmative action” program, which had construction subcontracting “set-aside” goals of 20 percent for MBEs and 3 percent for WBEs. The court held there was no data or statistical evidence submitted by the City prior to enactment of the Ordinance. There was no evidence showing a disparity between MBE/WBE availability and utilization in the subcontracting construction market in Baltimore. The court enjoined the City Ordinance.

**25. *Webster v. Fulton County*, 51 F. Supp.2d 1354 (N.D. Ga. 1999), *a’ffd per curiam* 218 F.3d 1267 (11th Cir. 2000)**

This case is instructive as it is another instance in which a court has considered, analyzed, and ruled upon a race-, ethnicity- and gender-conscious program, holding the local government MBE/WBE-type program failed to satisfy the strict scrutiny constitutional standard. The case also is instructive in its application of the *Engineering Contractors Association* case, including to a disparity analysis, the burdens of proof on the local government, and the narrowly tailored prong of the strict scrutiny test.

In this case, plaintiff Webster brought an action challenging the constitutionality of Fulton County’s (the “County”) minority and female business enterprise program (“M/FBE”) program. 51 F. Supp.2d 1354, 1357 (N.D. Ga. 1999). [The district court first set forth the provisions of the M/FBE program and conducted a standing analysis at 51 F. Supp.2d at 1356-62].

The court, *citing Engineering Contractors Association of S. Florida, Inc. v. Metro. Engineering Contractors Association*, 122 F.3d 895 (11th Cir. 1997), held that “[e]xplicit racial preferences may not be used except as a ‘last resort.’” *Id.* at 1362-63. The court then set forth the strict scrutiny standard for evaluating racial and ethnic preferences and the four factors enunciated in *Engineering Contractors Association*, and the intermediate scrutiny standard for evaluating gender preferences. *Id.* at 1363. The court found that under *Engineering Contractors Association*, the government could utilize both post-enactment and pre-enactment evidence to meet its burden of a “strong basis in evidence” for strict scrutiny, and “sufficient probative evidence” for intermediate scrutiny. *Id.*

The court found that the defendant bears the initial burden of satisfying the aforementioned evidentiary standard, and the ultimate burden of proof remains with the challenging party to demonstrate the unconstitutionality of the M/FBE program. *Id.* at 1364. The court found that the plaintiff has at least three methods “to rebut the inference of discrimination with a neutral explanation: (1) demonstrate that the statistics are flawed; (2) demonstrate that the disparities shown by the statistics are not significant; or (3) present conflicting statistical data.” *Id.*, *citing Eng’g Contractors Ass’n*, 122 F.3d at 916.

[The district court then set forth the *Engineering Contractors Association* opinion in detail.]

The court first noted that the Eleventh Circuit has recognized that disparity indices greater than 80 percent are generally not considered indications of discrimination. *Id.* at 1368, *citing Eng'g Contractors Assoc.*, 122 F.3d at 914. The court then considered the County's pre-1994 disparity study (the "Brimmer-Marshall Study") and found that it failed to establish a strong basis in evidence necessary to support the M/FBE program. *Id.* at 1368.

First, the court found that the study rested on the inaccurate assumption that a statistical showing of underutilization of minorities in the marketplace as a whole was sufficient evidence of discrimination. *Id.* at 1369. The court cited *City of Richmond v. J.A. Croson Co.*, 488 U.S. 496 (1989) for the proposition that discrimination must be focused on contracting by the entity that is considering the preference program. *Id.* Because the Brimmer-Marshall Study contained no statistical evidence of discrimination by the County in the award of contracts, the court found the County must show that it was a "passive participant" in discrimination by the private sector. *Id.* The court found that the County could take remedial action if it had evidence that prime contractors were systematically excluding minority-owned businesses from subcontracting opportunities, or if it had evidence that its spending practices are "exacerbating a pattern of prior discrimination that can be identified with specificity." *Id.* However, the court found that the Brimmer-Marshall Study contained no such data. *Id.*

Second, the Brimmer-Marshall study contained no regression analysis to account for relevant variables, such as firm size. *Id.* at 1369-70. At trial, Dr. Marshall submitted a follow-up to the earlier disparity study. However, the court found the study had the same flaw in that it did not contain a regression analysis. *Id.* The court thus concluded that the County failed to present a "strong basis in evidence" of discrimination to justify the County's racial and ethnic preferences. *Id.*

The court next considered the County's post-1994 disparity study. *Id.* at 1371. The study first sought to determine the availability and utilization of minority- and female-owned firms. *Id.* The court explained:

*Two methods may be used to calculate availability: (1) bid analysis; or (2) bidder analysis. In a bid analysis, the analyst counts the number of bids submitted by minority or female firms over a period of time and divides it by the total number of bids submitted in the same period. In a bidder analysis, the analyst counts the number of minority or female firms submitting bids and divides it by the total number of firms which submitted bids during the same period. Id.*

The court found that the information provided in the study was insufficient to establish a firm basis in evidence to support the M/FBE program. *Id.* at 1371-72. The court also found it significant to conduct a regression analysis to show whether the disparities were either due to discrimination or other neutral grounds. *Id.* at 1375-76.

The plaintiff and the County submitted statistical studies of data collected between 1994 and 1997. *Id.* at 1376. The court found that the data were potentially skewed due to the operation of the M/FBE program. *Id.* Additionally, the court found that the County's standard deviation analysis yielded non-statistically significant results (noting the Eleventh Circuit has stated that scientists consider a finding of two standard deviations significant). *Id.* (internal citations omitted).

The court considered the County’s anecdotal evidence, and quoted *Engineering Contractors Association* for the proposition that “[a]necdotal evidence can play an important role in bolstering statistical evidence, but that only in the rare case will anecdotal evidence suffice standing alone.” *Id.*, quoting *Eng’g Contractors Ass’n*, 122 F.3d at 907. The Brimmer-Marshall Study contained anecdotal evidence. *Id.* at 1379. Additionally, the County held hearings but after reviewing the tape recordings of the hearings, the court concluded that only two individuals testified to discrimination by the County; one of them complained that the County used the M/FBE program to only benefit African Americans. *Id.* The court found the most common complaints concerned barriers in bonding, financing, and insurance and slow payment by prime contractors. *Id.* The court concluded that the anecdotal evidence was insufficient in and of itself to establish a firm basis for the M/FBE program. *Id.*

The court also applied a narrow tailoring analysis of the M/FBE program. “The Eleventh Circuit has made it clear that the essence of this inquiry is whether racial preferences were adopted only as a ‘last resort.’” *Id.* at 1380, citing *Eng’g Contractors Assoc.*, 122 F.3d at 926. The court cited the Eleventh Circuit’s four-part test and concluded that the County’s M/FBE program failed on several grounds. First, the court found that a race-based problem does not necessarily require a race-based solution. “If a race-neutral remedy is sufficient to cure a race-based problem, then a race-conscious remedy can never be narrowly tailored to that problem.” *Id.*, quoting *Eng’g Contractors Ass’n*, 122 F.3d at 927. The court found that there was no evidence of discrimination by the County. *Id.* at 1380.

The court found that even though a majority of the Commissioners on the County Board were African American, the County had continued the program for decades. *Id.* The court held that the County had not seriously considered race-neutral measures:

There is no evidence in the record that any Commissioner has offered a resolution during this period substituting a program of race-neutral measures as an alternative to numerical set-asides based upon race and ethnicity. There is no evidence in the record of any proposal by the staff of Fulton County of substituting a program of race-neutral measures as an alternative to numerical set-asides based upon race and ethnicity. There has been no evidence offered of any debate within the Commission about substituting a program of race-neutral measures as an alternative to numerical set-asides based upon race and ethnicity . . . . *Id.*

The court found that the random inclusion of ethnic and racial groups who had not suffered discrimination by the County also mitigated against a finding of narrow tailoring. *Id.* The court found that there was no evidence that the County considered race-neutral alternatives as an alternative to race-conscious measures nor that race-neutral measures were initiated and failed. *Id.* at 1381. The court concluded that because the M/FBE program was not adopted as a last resort, it failed the narrow tailoring test. *Id.*

Additionally, the court found that there was no substantial relationship between the numerical goals and the relevant market. *Id.* The court rejected the County’s argument that its program was permissible because it set “goals” as opposed to “quotas,” because the program in *Engineering Contractors Association* also utilized “goals” and was struck down. *Id.*



Per the M/FBE program's gender-based preferences, the court found that the program was sufficiently flexible to satisfy the substantial relationship prong of the intermediate scrutiny standard. *Id.* at 1383. However, the court held that the County failed to present "sufficient probative evidence" of discrimination necessary to sustain the gender-based preferences portion of the M/FBE program. *Id.*

The court found the County's M/FBE program unconstitutional and entered a permanent injunction in favor of the plaintiff. *Id.* On appeal, the Eleventh Circuit affirmed per curiam, stating only that it affirmed on the basis of the district court's opinion. *Webster v. Fulton County, Georgia*, 218 F.3d 1267 (11th Cir. 2000).

## **26. *Associated Gen. Contractors v. Drabik*, 50 F. Supp.2d 741 (S.D. Ohio 1999)**

The district court in this case pointed out that it had struck down Ohio's MBE statute that provided race-based preferences in the award of state construction contracts in 1998. 50 F.Supp.2d at 744. Two weeks earlier, the district court for the Northern District of Ohio, likewise, found the same Ohio law unconstitutional when it was relied upon to support a state mandated set-aside program adopted by the Cuyahoga Community College. *See F. Buddie Contracting, Ltd. v. Cuyaboga Community College District*, 31 F.Supp.2d 571 (N.D. Ohio 1998). *Id.* at 741.

The state defendants appealed this court's decision to the United States court of Appeals for the Sixth Circuit. *Id.* Thereafter, the Supreme Court of Ohio held in the case of *Ritchey Produce, Co., Inc. v. The State of Ohio, Department of Administrative*, 704 N.E. 2d 874 (1999), that the Ohio statute, which provided race-based preferences in the state's purchase of nonconstruction-related goods and services, was constitutional. *Id.* at 744.

While this court's decision related to construction contracts and the Ohio Supreme Court's decision related to other goods and services, the decisions could not be reconciled, according to the district court. *Id.* at 744. Subsequently, the state defendants moved this court to stay its order of November 2, 1998 in light of the Ohio State Supreme Court's decision in *Ritchey Produce*. The district court took the opportunity in this case to reconsider its decision of November 2, 1998, and to the reasons given by the Supreme Court of Ohio for reaching the opposite result in *Ritchey Produce*, and decide in this case that its original decision was correct, and that a stay of its order would only serve to perpetuate a "blatantly unconstitutional program of race-based benefits. *Id.* at 745.

In this decision, the district court reaffirmed its earlier holding that the State of Ohio's MBE program of construction contract awards is unconstitutional. The court cited to *F. Buddie Contracting v. Cuyaboga Community College*, 31 F. Supp.2d 571 (N.D. Ohio 1998), holding a similar local Ohio program unconstitutional. The court repudiated the Ohio Supreme Court's holding in *Ritchey Produce*, 707 N.E. 2d 871 (Ohio 1999), which held that the State of Ohio's MBE program as applied to the state's purchase of non-construction-related goods and services was constitutional. The court found the evidence to be insufficient to justify the Ohio MBE program. The court held that the program was not narrowly tailored because there was no evidence that the State had considered a race-neutral alternative.

**Strict Scrutiny.** The district court held that the Supreme Court of Ohio decision in *Ritchey Produce* was wrongly decided for the following reasons:

1. Ohio’s MBE program of race-based preferences in the award of state contracts was unconstitutional because it is unlimited in duration. *Id.* at 745.
2. A program of race-based benefits cannot be supported by evidence of discrimination which is over 20 years old. *Id.*
3. The state Supreme Court found that there was a severe numerical imbalance in the amount of business the State did with minority-owned enterprises, based on its uncritical acceptance of essentially “worthless calculations contained in a twenty-one year-old report, which miscalculated the percentage of minority-owned businesses in Ohio and misrepresented data on the percentage of state purchase contracts they had received, all of which was easily detectable by examining the data cited by the authors of the report.” *Id.* at 745.
4. The state Supreme Court failed to recognize that the incorrectly calculated percentage of minority-owned businesses in Ohio (6.7%) bears no relationship to the 15 percent set-aside goal of the Ohio Act. *Id.*
5. The state Supreme Court applied an incorrect rule of law when it announced that Ohio’s program must be upheld unless it is clearly unconstitutional beyond a reasonable doubt, whereas according to the district court in this case, the Supreme Court of the United States has said that all racial class classifications are highly suspect and must be subjected to strict judicial scrutiny. *Id.*
6. The evidence of past discrimination that the Ohio General Assembly had in 1980 did not provide a firm basis in evidence for a race-based remedy. *Id.*

Thus, the district court determined the evidence could not support a compelling state-interest for race-based preferences for the state of Ohio MBE Act, in part based on the fact evidence of past discrimination was stale and twenty years old, and the statistical analysis was insufficient because the state did not know how many MBE’s in the relevant market are qualified to undertake prime or subcontracting work in public construction contracts. *Id.* at 763-771. The statistical evidence was fatally flawed because the relevant universe of minority businesses is not all minority businesses in the state of Ohio, but only those willing and able to enter into contracts with the state of Ohio. *Id.* at 761. In the case of set-aside program in state construction, the relevant universe is minority-owned construction firms willing and able to enter into state construction contracts. *Id.*

**Narrow Tailoring.** The court addressed the second prong of the strict scrutiny analysis, and found that the Ohio MBE program at issue was not narrowly tailored. The court concluded that the state could not satisfy the four factors to be considered in determining whether race-conscious remedies are appropriate. *Id.* at 763. First, the court stated that there was no consideration of race-neutral alternatives to increase minority participation in state contracting before resorting to “race-based quotas.” *Id.* at 763-764. The court held that failure to consider race-neutral means was fatal to the set-aside program in *Croson*, and the failure of the State of Ohio to consider race-neutral means before adopting the MBE Act in 1980 likewise “dooms Ohio’s program of race-based quotas.” *Id.* at 765.

Second, the court found the Ohio MBE Act was not flexible. The court stated that instead of allowing flexibility to ameliorate harmful effects of the program, the imprecision of the statutory goals has been used to justify bureaucratic decisions which increase its impact on non-minority business.” *Id.* at 765. The court said the waiver system for prime contracts focuses solely on the availability of MBEs. *Id.* at 766. The court noted the awarding agency may remove the contract from the set aside program and open it up for bidding by non-minority contractors if no certified MBE submits a bid, or if all bids submitted by MBEs are considered unacceptably high. *Id.* But, in either event, the court pointed out the agency is then required to set aside additional contracts to satisfy the numerical quota required by the statute. *Id.* The court concluded that there is no consideration given to whether the particular MBE seeking a racial preference has suffered from the effects of past discrimination by the state or prime contractors. *Id.*

Third, the court found the Ohio MBE Act was not appropriately limited such that it will not last longer than the discriminatory effects it was designed to eliminate. *Id.* at 766. The court stated the 1980 MBE Act is unlimited in duration, and there is no evidence the state has ever reconsidered whether a compelling state interest exists that would justify the continuation of a race-based remedy at any time during the two decades the Act has been in effect. *Id.*

Fourth, the court found the goals of the Ohio MBE Act were not related to the relevant market and that the Act failed this element of the “narrowly tailored” requirement of strict scrutiny. *Id.* at 767-768. The court said the goal of 15 percent far exceeds the percentage of available minority firms, and thus bears no relationship to the relevant market. *Id.*

Fifth, the court found the conclusion of the Ohio Supreme Court that the burdens imposed on non-MBEs by virtue of the set-aside requirements were relatively light was incorrect. *Id.* at 768. The court concluded non-minority contractors in various trades were effectively excluded from the opportunity to bid on any work from large state agencies, departments, and institutions solely because of their race. *Id.* at 678.

Sixth, the court found the Ohio MBE Act provided race-based benefits based on a random inclusion of minority groups. *Id.* at 770-771. The court stated there was no evidence about the number of each racial or ethnic group or the respective shares of the total capital improvement expenditures they received. *Id.* at 770. None of the statistical information, the court said, broke down the percentage of all firms that were owned by specific minority groups or the dollar amounts of contracts received by firms in specific minority groups. *Id.* The court, thus, concluded that the Ohio MBE Act included minority groups randomly without any specific evidence that any group suffered from discrimination in the construction industry in Ohio. *Id.* at 771.

**Conclusion.** The court thus denied the motion of the state defendants to stay the court’s prior order holding unconstitutional the Ohio MBE Act pending the appeal of the court’s order. *Id.* at 771. This opinion underscored that governments must show several factors to demonstrate narrow tailoring: (1) the necessity for the relief and the efficacy of alternative remedies, (2) flexibility and duration of the relief, (3) relationship of numerical goals to the relevant labor market, and (4) impact of the relief on the rights of third parties. The court held the Ohio MBE program failed to satisfy this test.

**27. *Phillips & Jordan, Inc. v. Watts*, 13 F. Supp.2d 1308 (N.D. Fla. 1998)**

This case is instructive because it addressed a challenge to a state and local government MBE/WBE-type program and considered the requisite evidentiary basis necessary to support the program. In *Phillips & Jordan*, the district court for the Northern District of Florida held that the Florida Department of Transportation’s (“FDOT”) program of “setting aside” certain highway maintenance contracts for African American- and Hispanic-owned businesses violated the Equal Protection Clause of the Fourteenth Amendment to the United States Constitution. The parties stipulated that the plaintiff, a non-minority business, had been excluded in the past and may be excluded in the future from competing for certain highway maintenance contracts “set aside” for business enterprises owned by Hispanic and African American individuals. The court held that the evidence of statistical disparities was insufficient to support the Florida DOT program.

The district court pointed out that Florida DOT did not claim that it had evidence of intentional discrimination in the award of its contracts. The court stated that the essence of FDOT’s claim was that the two-year disparity study provided evidence of a disparity between the proportion of minorities awarded FDOT road maintenance contracts and a portion of the minorities “supposedly willing and able to do road maintenance work,” and that FDOT did not itself engage in any racial or ethnic discrimination, so FDOT must have been a passive participant in “somebody’s” discriminatory practices.

Since it was agreed in the case that FDOT did not discriminate against minority contractors bidding on road maintenance contracts, the court found that the record contained insufficient proof of discrimination. The court found the evidence insufficient to establish acts of discrimination against African American- and Hispanic-owned businesses.

The court raised questions concerning the choice and use of the statistical pool of available firms relied upon by the disparity study. The court expressed concern about whether it was appropriate to use Census data to analyze and determine which firms were available (qualified and/or willing and able) to bid on FDOT road maintenance contracts.

## **G. Recent Decisions and Authorities Involving Federal Procurement That May Impact MBE/WBE/DBE Programs**

**1. *Rothe Development, Inc. v. U.S. Dept. of Defense, U.S. Small Business Administration, et al.*, 836 F.3d 57, 2016 WL 4719049 (D.C. Cir. 2016), cert. denied, 2017 WL 1375832 (Oct. 16, 2017), affirming on other grounds, *Rothe Development, Inc. v. U.S. Dept. of Defense, U.S. Small Business Administration, et al.*, 107 F.Supp. 3d 183 (D.D.C. 2015)**

In a split decision, the majority of a three-judge panel of the United States Court of Appeals for the District of Columbia Circuit upheld the constitutionality of section 8(a) of the Small Business Act, which was challenged by Plaintiff-Appellant Rothe Development Inc. (Rothe). Rothe alleged that the statutory basis of the United States Small Business Administration’s 8(a) business development program (codified at 15 U.S.C. § 637), violated its right to equal protection under the Due Process Clause of the Fifth Amendment. 836 F.3d 57, 2016 WL 4719049, at \*1. Rothe contends the statute contains a racial classification that presumes certain racial minorities are eligible for the program. *Id.* The court held, however, that Congress considered and rejected statutory language that included a racial presumption. *Id.* Congress, according to the court, chose instead to hinge participation in the program on the facially race-neutral criterion of social disadvantage, which it defined as having suffered racial, ethnic, or cultural bias. *Id.*

The challenged statute authorizes the Small Business Administration (SBA) to enter into contracts with other federal agencies, which the SBA then subcontracts to eligible small businesses that compete for the subcontracts in a sheltered market. *Id.*\*1. Businesses owned by “socially and economically disadvantaged” individuals are eligible to participate in the 8(a) program. *Id.* The statute defines socially disadvantaged individuals as persons “who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities.” *Id.*, quoting 15 U.S.C. § 627(a)(5).

The Section 8(a) statute is race-neutral. The court rejected Rothe’s allegations, finding instead that the provisions of the Small Business Act that Rothe challenges do not on their face classify individuals by race. *Id.*\*1. The court stated that Section 8(a) uses facially race-neutral terms of eligibility to identify individual victims of discrimination, prejudice, or bias, without presuming that members of certain racial, ethnic, or cultural groups qualify as such. *Id.* The court said that makes this statute different from other statutes, which expressly limit participation in contracting programs to racial or ethnic minorities or specifically direct third parties to presume that members of certain racial or ethnic groups, or minorities generally, are eligible. *Id.*

In contrast to the *statute*, the court found that the SBA’s *regulation* implementing the 8(a) program does contain a racial classification in the form of a presumption that an individual who is a member of one of five designated racial groups is socially disadvantaged. *Id.*\*2, citing 13 C.F.R. § 124.103(b). This case, the court held, does not permit it to decide whether the race-based regulatory presumption is constitutionally sound, because Rothe has elected to challenge only the statute. *Id.* Rothe’s definition of the racial classification it attacks in this case, according to the court, does not include the SBA’s regulation. *Id.*

Because the court held the statute, unlike the regulation, lacks a racial classification, and because Rothe has not alleged that the statute is otherwise subject to strict scrutiny, the court applied rational-basis review. *Id* at \*2. The court stated the statute “readily survives” the rational basis scrutiny standards. *Id*\*2. The court, therefore, affirmed the judgment of the district court granting summary judgment to the SBA and the Department of Defense, albeit on different grounds. *Id*.

Thus, the court held the central question on appeal is whether Section 8(a) warrants strict judicial scrutiny, which the court noted the parties and the district court believe that it did. *Id*\*2. Rothe, the court said, advanced only the theory that the statute, on its face, Section 8(a) of the Small Business Act, contains a racial classification. *Id*\*2.

The court found that the definition of the term “socially disadvantaged” does not contain a racial classification because it does not distribute burdens or benefits on the basis of individual classifications, it is race-neutral on its face, and it speaks of individual victims of discrimination. *Id*\*3. On its face, the court stated the term envisions an individual-based approach that focuses on experience rather than on a group characteristic, and the statute recognizes that not all members of a minority group have necessarily been subjected to racial or ethnic prejudice or cultural bias. *Id*. The court said that the statute definition of the term “social disadvantaged” does not provide for preferential treatment based on an applicant’s race, but rather on an individual applicant’s experience of discrimination. *Id*\*3.

The court distinguished cases involving situations in which disadvantaged non-minority applicants could not participate, but the court said the plain terms of the statute permit individuals in any race to be considered “socially disadvantaged.” *Id*\*3. The court noted its key point is that the statute is easily read not to require any group-based racial or ethnic classification, stating the statute defines socially disadvantaged *individuals* as those individuals who have been subjected to racial or ethnic prejudice or cultural bias, not those individuals who are *members or groups* that have been subjected to prejudice or bias. *Id*.

The court pointed out that the SBA’s implementation of the statute’s definition may be based on a racial classification if the regulations carry it out in a manner that gives preference based on race instead of individual experience. *Id*\*4. But, the court found, Rothe has expressly disclaimed any challenge to the SBA’s implementation of the statute, and as a result, the only question before them is whether the statute itself classifies based on race, which the court held makes no such classification. *Id*\*4. The court determined the statutory language does not create a presumption that a member of a particular racial or ethnic group is necessarily socially disadvantaged, nor that a white person is not. *Id*\*5.

The definition of social disadvantage, according to the court, does not amount to a racial classification, for it ultimately turns on a business owner’s experience of discrimination. *Id*\*6. The statute does not instruct the agency to limit the field to certain racial groups, or to racial groups in general, nor does it tell the agency to presume that anyone who is a member of any particular group is, by that membership alone, socially disadvantaged. *Id*.

The court noted that the Supreme Court and this court's discussions of the 8(a) program have identified the regulations, not the statute, as the source of its racial presumption. *Id*\*8. The court distinguished Section 8(d) of the Small Business Act as containing a race-based presumption, but found in the 8(a) program the Supreme Court has explained that the agency (not Congress) presumes that certain racial groups are socially disadvantaged. *Id.* at \*7.

**The SBA statute does not trigger strict scrutiny.** The court held that the statute does not trigger strict scrutiny because it is race-neutral. *Id*\*10. The court pointed out that Rothe does not argue that the statute could be subjected to strict scrutiny, even if it is facially neutral, on the basis that Congress enacted it with a discriminatory purpose. *Id*\*9. In the absence of such a claim by Rothe, the court determined it would not subject a facially race-neutral statute to strict scrutiny. *Id.* The foreseeability of racially disparate impact, without invidious purpose, the court stated, does not trigger strict constitutional scrutiny. *Id.*

Because the statute does not trigger strict scrutiny, the court found that it need not and does not decide whether the district court correctly concluded that the statute is narrowly tailored to meet a compelling interest. *Id*\*10. Instead, the court considered whether the statute is supported by a rational basis. *Id.* The court held that it plainly is supported by a rational basis, because it bears a rational relation to some legitimate end. *Id*\*10.

The statute, the court stated, aims to remedy the effects of prejudice and bias that impede business formation and development and suppress fair competition for government contracts. *Id.* Counteracting discrimination, the court found, is a legitimate interest, and in certain circumstances qualifies as compelling. *Id*\*11. The statutory scheme, the court said, is rationally related to that end. *Id.*

The court declined to review the district court's admissibility determinations as to the expert witnesses because it stated that it would affirm the district court's grant of summary judgment even if the district court abused its discretion in making those determinations. *Id*\*11. The court noted the expert witness testimony is not necessary to, nor in conflict with, its conclusion that Section 8(a) is subject to and survives rational-basis review. *Id.*

**Other issues.** The court declined to review the district court's admissibility determinations as to the expert witnesses because it stated that it would affirm the district court's grant of summary judgment even if the district court abused its discretion in making those determinations. *Id*\*11. The court noted the expert witness testimony is not necessary to, nor in conflict with, its conclusion that Section 8(a) is subject to and survives rational-basis review. *Id.*

In addition, the court rejected Rothe's contention that Section 8(a) is an unconstitutional delegation of legislative power. *Id*\*11. Because the argument is premised on the idea that Congress created a racial classification, which the court has held it did not, Rothe's alternative argument on delegation also fails. *Id.*

**Dissenting Opinion.** There was a dissenting opinion by one of the three members of the court. The dissenting judge stated in her view that the provisions of the Small Business Act at issue are not facially race-neutral, but contain a racial classification. *Id*\*12. The dissenting judge said that the act provides members of certain racial groups an advantage in qualifying for Section 8(a)'s contract preference by virtue of their race. *Id*\*13.

The dissenting opinion pointed out that all the parties and the district court found that strict scrutiny should be applied in determining whether the Section 8(a) program violates Rothe's right to equal protection of the laws. *Id*\*16. In the view of the dissenting opinion the statutory language includes a racial classification, and therefore, the statute should be subject to strict scrutiny. *Id*\*22.

## **2. *Rothe Development Corp. v. U.S. Department of Defense, et al.*, 545 F.3d 1023 (Fed. Cir. 2008)**

Although this case does not involve the Federal DBE Program (49 CFR Part 26), it is an analogous case that may impact the legal analysis and law related to the validity of programs implemented by recipients of federal funds, including the Federal DBE Program. Additionally, it underscores the requirement that race-, ethnic- and gender-based programs of any nature must be supported by substantial evidence. In *Rothe*, an unsuccessful bidder on a federal defense contract brought suit alleging that the application of an evaluation preference, pursuant to a federal statute, to a small disadvantaged bidder (SDB) to whom a contract was awarded, violated the Equal Protection clause of the U.S. Constitution. The federal statute challenged is Section 1207 of the National Defense Authorization Act of 1987 and as reauthorized in 2003. The statute provides a goal that 5 percent of the total dollar amount of defense contracts for each fiscal year would be awarded to small businesses owned and controlled by socially and economically disadvantaged individuals. 10 U.S.C. § 2323. Congress authorized the Department of Defense ("DOD") to adjust bids submitted by non-socially and economically disadvantaged firms upwards by 10 percent (the "Price Evaluation Adjustment Program" or "PEA").

The district court held the federal statute, as reauthorized in 2003, was constitutional on its face. The court held the 5 percent goal and the PEA program as reauthorized in 1992 and applied in 1998 was unconstitutional. The basis of the decision was that Congress considered statistical evidence of discrimination that established a compelling governmental interest in the reauthorization of the statute and PEA program in 2003. Congress had not documented or considered substantial statistical evidence that the DOD discriminated against minority small businesses when it enacted the statute in 1992 and reauthorized it in 1998. The plaintiff appealed the decision.

The Federal Circuit found that the "analysis of the facial constitutionality of an act is limited to evidence before Congress prior to the date of reauthorization." 413 F.3d 1327 (Fed. Cir. 2005)(affirming in part, vacating in part, and remanding 324 F. Supp.2d 840 (W.D. Tex. 2004). The court limited its review to whether Congress had sufficient evidence in 1992 to reauthorize the provisions in 1207. The court held that for evidence to be relevant to a strict scrutiny analysis, "the evidence must be proven to have been before Congress prior to enactment of the racial classification." The Federal Circuit held that the district court erred in relying on the statistical studies without first determining whether the studies were before Congress when it reauthorized section 1207. The Federal Circuit remanded the case and directed the district court to consider whether the



data presented was so outdated that it did not provide the requisite strong basis in evidence to support the reauthorization of section 1207.

On August 10, 2007, the Federal District Court for the Western District of Texas in *Rothe Development Corp. v. U.S. Dept. of Defense*, 499 F.Supp.2d 775 (W.D.Tex. Aug 10, 2007) issued its Order on remand from the Federal Circuit Court of Appeals decision in *Rothe*, 413 F.3d 1327 (Fed Cir. 2005). The district court upheld the constitutionality of the 2006 Reauthorization of Section 1207 of the National Defense Authorization Act of 1987 (10 USC § 2323), which permits the U.S. Department of Defense to provide preferences in selecting bids submitted by small businesses owned by socially and economically disadvantaged individuals (“SDBs”). The district court found the 2006 Reauthorization of the 1207 Program satisfied strict scrutiny, holding that Congress had a compelling interest when it reauthorized the 1207 Program in 2006, that there was sufficient statistical and anecdotal evidence before Congress to establish a compelling interest, and that the reauthorization in 2006 was narrowly tailored.

The district court, among its many findings, found certain evidence before Congress was “stale,” that the plaintiff (Rothe) failed to rebut other evidence which was not stale, and that the decisions by the Eighth, Ninth and Tenth Circuits in the decisions in *Concrete Works*, *Adarand Constructors*, *Sherbrooke Turf* and *Western States Paving* (discussed above and below) were relevant to the evaluation of the facial constitutionality of the 2006 Reauthorization.

**2007 Order of the District Court (499 F.Supp.2d 775).** In the Section 1207 Act, Congress set a goal that 5 percent of the total dollar amount of defense contracts for each fiscal year would be awarded to small businesses owned and controlled by socially and economically disadvantaged individuals. In order to achieve that goal, Congress authorized the DOD to adjust bids submitted by non-socially and economically disadvantaged firms up to 10 percent. 10 U.S.C. § 2323(e)(3). *Rothe*, 499 F.Supp.2d. at 782. Plaintiff Rothe did not qualify as an SDB because it was owned by a Caucasian female. Although Rothe was technically the lowest bidder on a DOD contract, its bid was adjusted upward by 10 percent, and a third party, who qualified as an SDB, became the “lowest” bidder and was awarded the contract. *Id.* Rothe claims that the 1207 Program is facially unconstitutional because it takes race into consideration in violation of the Equal Protection component of the Due Process Clause of the Fifth Amendment. *Id.* at 782-83. The district court’s decision only reviewed the facial constitutionality of the 2006 Reauthorization of the 2007 Program.

The district court initially rejected six legal arguments made by *Rothe* regarding strict scrutiny review based on the rejection of the same arguments by the Eighth, Ninth, and Tenth Circuit Courts of Appeal in the *Sherbrooke Turf*, *Western States Paving*, *Concrete Works*, *Adarand VII* cases, and the Federal Circuit Court of Appeal in *Rothe*. *Rothe* at 825-833.

The district court discussed and cited the decisions in *Adarand VII* (2000), *Sherbrooke Turf* (2003), and *Western States Paving* (2005), as holding that Congress had a compelling interest in eradicating the economic roots of racial discrimination in highway transportation programs funded by federal monies, and concluding that the evidence cited by the government, particularly that contained in *The Compelling Interest* (a.k.a. the Appendix), more than satisfied the government’s burden of production regarding the compelling interest for a race-conscious remedy. *Rothe* at 827. Because the Urban Institute Report, which presented its analysis of 39 state and local disparity studies, was

cross-referenced in the Appendix, the district court found the courts in *Adarand VII*, *Sherbrooke Turf*, and *Western States Paving*, also relied on it in support of their compelling interest holding. *Id.* at 827.

The district court also found that the Tenth Circuit decision in *Concrete Works IV*, 321 F.3d 950 (10th Cir. 2003), established legal principles that are relevant to the court's strict scrutiny analysis. First, Rothe's claims for declaratory judgment on the racial constitutionality of the earlier 1999 and 2002 Reauthorizations were moot. Second, the government can meet its burden of production without conclusively proving the existence of past or present racial discrimination. Third, the government may establish its own compelling interest by presenting evidence of its own direct participation in racial discrimination or its passive participation in private discrimination. Fourth, once the government meets its burden of production, Rothe must introduce "credible, particularized" evidence to rebut the government's initial showing of the existence of a compelling interest. Fifth, Rothe may rebut the government's statistical evidence by giving a race-neutral explanation for the statistical disparities, showing that the statistics are flawed, demonstrating that the disparities shown are not significant or actionable, or presenting contrasting statistical data. Sixth, the government may rely on disparity studies to support its compelling interest, and those studies may control for the effect that pre-existing affirmative action programs have on the statistical analysis. *Id.* at 829-32.

Based on *Concrete Works IV*, the district court did not require the government to conclusively prove that there is pervasive discrimination in the relevant market, that each presumptively disadvantaged group suffered equally from discrimination, or that private firms intentionally and purposefully discriminated against minorities. The court found that the inference of discriminatory exclusion can arise from statistical disparities. *Id.* at 830-31.

The district court held that Congress had a compelling interest in the 2006 Reauthorization of the 1207 Program, which was supported by a strong basis in the evidence. The court relied in significant part upon six state and local disparity studies that were before Congress prior to the 2006 Reauthorization of the 1207 Program. The court based this evidence on its finding that Senator Kennedy had referenced these disparity studies, discussed and summarized findings of the disparity studies, and Representative Cynthia McKinney also cited the same six disparity studies that Senator Kennedy referenced. The court stated that based on the content of the floor debate, it found that these studies were put before Congress prior to the date of the Reauthorization of Section 1207. *Id.* at 838.

The district court found that these six state and local disparity studies analyzed evidence of discrimination from a diverse cross-section of jurisdictions across the United States, and "they constitute prima facie evidence of a nation-wide pattern or practice of discrimination in public and private contracting." *Id.* at 838-39. The court found that the data used in these six disparity studies is not "stale" for purposes of strict scrutiny review. *Id.* at 839. The court disagreed with Rothe's argument that all the data were stale (data in the studies from 1997 through 2002), "because this data was the most current data available at the time that these studies were performed." *Id.* The court found that the governmental entities should be able to rely on the most recently available data so long as those data are reasonably up-to-date. *Id.* The court declined to adopt a "bright-line rule for determining staleness." *Id.*

The court referred to the reliance by the Ninth Circuit and the Eighth Circuit on the *Appendix* to affirm the constitutionality of the USDOT MBE [now DBE] Program, and rejected five years as a bright-line rule for considering whether data are “stale.” *Id.* at n.86. The court also stated that it “accepts the reasoning of the *Appendix*, which the court found stated that for the most part “the federal government does business in the same contracting markets as state and local governments. Therefore, the evidence in state and local studies of the impact of discriminatory barriers to minority opportunity in contracting markets throughout the country is relevant to the question of whether the federal government has a compelling interest to take remedial action in its own procurement activities.” *Id.* at 839, quoting 61 *Fed.Reg.* 26042-01, 26061 (1996).

The district court also discussed additional evidence before Congress that it found in Congressional Committee Reports and Hearing Records. *Id.* at 865-71. The court noted SBA Reports that were before Congress prior to the 2006 Reauthorization. *Id.* at 871.

The district court found that the data contained in the *Appendix*, the Benchmark Study, and the Urban Institute Report were “stale,” and the court did not consider those reports as evidence of a compelling interest for the 2006 Reauthorization. *Id.* at 872-75. The court stated that the Eighth, Ninth and Tenth Circuits relied on the *Appendix* to uphold the constitutionality of the Federal DBE Program, citing to the decisions in *Sherbrooke Turf*, *Adarand VII*, and *Western States Paving*. *Id.* at 872. The court pointed out that although it does not rely on the data contained in the *Appendix* to support the 2006 Reauthorization, the fact the Eighth, Ninth, and Tenth Circuits relied on these data to uphold the constitutionality of the Federal DBE Program as recently as 2005, convinced the court that a bright-line staleness rule is inappropriate. *Id.* at 874.

Although the court found that the data contained in the *Appendix*, the Urban Institute Report, and the Benchmark Study were stale for purposes of strict scrutiny review regarding the 2006 Reauthorization, the court found that Rothe introduced no concrete, particularized evidence challenging the reliability of the methodology or the data contained in the six state and local disparity studies, and other evidence before Congress. The court found that Rothe failed to rebut the data, methodology or anecdotal evidence with “concrete, particularized” evidence to the contrary. *Id.* at 875. The district court held that based on the studies, the government had satisfied its burden of producing evidence of discrimination against African Americans, Asian Americans, Hispanic Americans, and Native Americans in the relevant industry sectors. *Id.* at 876.

The district court found that Congress had a compelling interest in reauthorizing the 1207 Program in 2006, which was supported by a strong basis of evidence for remedial action. *Id.* at 877. The court held that the evidence constituted prima facie proof of a nationwide pattern or practice of discrimination in both public and private contracting, that Congress had sufficient evidence of discrimination throughout the United States to justify a nationwide program, and the evidence of discrimination was sufficiently pervasive across racial lines to justify granting a preference to all five purportedly disadvantaged racial groups. *Id.*

The district court also found that the 2006 Reauthorization of the 1207 Program was narrowly tailored and designed to correct present discrimination and to counter the lingering effects of past discrimination. The court held that the government’s involvement in both present discrimination and the lingering effects of past discrimination was so pervasive that the DOD and the Department of Air Force had become passive participants in perpetuating it. *Id.* The court stated it was law of the case and could not be disturbed on remand that the Federal Circuit in *Rothe III* had held that the 1207 Program was flexible in application, limited in duration and it did not unduly impact on the rights of third parties. *Id.*, quoting *Rothe III*, 262 F.3d at 1331.

The district court thus conducted a narrowly tailored analysis that reviewed three factors:

1. The efficacy of race-neutral alternatives;
2. Evidence detailing the relationship between the stated numerical goal of 5 percent and the relevant market; and
3. Over- and under-inclusiveness.

*Id.* The court found that Congress examined the efficacy of race-neutral alternatives prior to the enactment of the 1207 Program in 1986 and that these programs were unsuccessful in remedying the effects of past and present discrimination in federal procurement. *Id.* The court concluded that Congress had attempted to address the issues through race-neutral measures, discussed those measures, and found that Congress’ adoption of race-conscious provisions were justified by the ineffectiveness of such race-neutral measures in helping minority-owned firms overcome barriers. *Id.* The court found that the government seriously considered and enacted race-neutral alternatives, but these race-neutral programs did not remedy the widespread discrimination that affected the federal procurement sector, and that Congress was not required to implement or exhaust every conceivable race-neutral alternative. *Id.* at 880. Rather, the court found that narrow tailoring requires only “serious, good faith consideration of workable race-neutral alternatives.” *Id.*

The district court also found that the 5 percent goal was related to the minority business availability identified in the six state and local disparity studies. *Id.* at 881. The court concluded that the 5 percent goal was aspirational, not mandatory. *Id.* at 882. The court then examined and found that the regulations implementing the 1207 Program were not over-inclusive for several reasons.

**November 4, 2008 decision by the Federal Circuit Court of Appeals.** On November 4, 2008, the Federal Circuit Court of Appeals reversed the judgment of the district court in part, and remanded with instructions to enter a judgment (1) denying Rothe any relief regarding the facial constitutionality of Section 1207 as enacted in 1999 or 2002, (2) declaring that Section 1207 as enacted in 2006 (10 U.S.C. § 2323) is facially unconstitutional, and (3) enjoining application of Section 1207 (10 U.S.C. § 2323).

The Federal Circuit Court of Appeals held that Section 1207, on its face, as reenacted in 2006, violated the Equal Protection component of the Fifth Amendment right to due process. The court found that because the statute authorized the DOD to afford preferential treatment on the basis of race, the court applied strict scrutiny, and because Congress did not have a “strong basis in evidence” upon which to conclude that the DOD was a passive participant in pervasive, nationwide racial discrimination — at least not on the evidence produced by the DOD and relied on by the district court in this case — Section 1207 failed to meet this strict scrutiny test. 545 F.3d at 1050.

**Strict scrutiny framework.** The Federal Circuit Court of Appeals recognized that the Supreme Court has held a government may have a compelling interest in remedying the effects of past or present racial discrimination. 545 F.3d at 1036. The court cited the decision in *Croson*, 488 U.S. at 492, that it is “beyond dispute that any public entity, state or federal, has a compelling interest in assuring that public dollars, drawn from the tax contributions of all citizens, do not serve to finance the evil of private prejudice.” 545 F.3d. at 1036, *quoting Croson*, 488 U.S. at 492.

The court held that before resorting to race-conscious measures, the government must identify the discrimination to be remedied, public or private, with some specificity, and must have a strong basis of evidence upon which to conclude that remedial action is necessary. 545 F.3d at 1036, *quoting Croson*, 488 U.S. at 500, 504. Although the party challenging the statute bears the ultimate burden of persuading the court that it is unconstitutional, the Federal Circuit stated that the government first bears a burden to produce strong evidence supporting the legislature’s decision to employ race-conscious action. 545 F.3d at 1036.

Even where there is a compelling interest supported by strong basis in evidence, the court held the statute must be narrowly tailored to further that interest. *Id.* The court noted that a narrow tailoring analysis commonly involves six factors: (1) the necessity of relief; (2) the efficacy of alternative, race-neutral remedies; (3) the flexibility of relief, including the availability of waiver provisions; (4) the relationship with the stated numerical goal to the relevant labor market; (5) the impact of relief on the rights of third parties; and (6) the overinclusiveness or underinclusiveness of the racial classification. *Id.*

**Compelling interest — strong basis in evidence.** The Federal Circuit pointed out that the statistical and anecdotal evidence relied upon by the district court in its ruling below included six disparity studies of state or local contracting. The Federal Circuit also pointed out that the district court found that the data contained in the Appendix, the Urban Institute Report, and the Benchmark Study were stale for purposes of strict scrutiny review of the 2006 Authorization, and therefore, the district court concluded that it would not rely on those three reports as evidence of a compelling interest for the 2006 reauthorization of the 1207 Program. 545 F.3d 1023, citing to *Rothe VI*, 499 F.Supp.2d at 875. Since the DOD did not challenge this finding on appeal, the Federal Circuit stated that it would not consider the Appendix, the Urban Institute Report, or the Department of Commerce Benchmark Study, and instead determined whether the evidence relied on by the district court was sufficient to demonstrate a compelling interest. *Id.*

**Six state and local disparity studies.** The Federal Circuit found that disparity studies can be relevant to the compelling interest analysis because, as explained by the Supreme Court in *Croson*, “[w]here there is a significant statistical disparity between the number of qualified minority contractors willing and able to perform a particular service and the number of such contractors actually engaged by [a] locality or the locality’s prime contractors, an inference of discriminatory exclusion could arise.” 545 F.3d at 1037-1038, *quoting Croson*, 488 U.S.C. at 509. The Federal Circuit also cited to the decision by the Fifth Circuit Court of Appeals in *W.H. Scott Constr. Co. v. City of Jackson*, 199 F.3d 206 (5th Cir. 1999) that given *Croson*’s emphasis on statistical evidence, other courts considering equal protection challenges to minority-participation programs have looked to disparity indices, or to computations of disparity percentages, in determining whether *Croson*’s evidentiary burden is satisfied. 545 F.3d at 1038, *quoting W.H. Scott*, 199 F.3d at 218.

The Federal Circuit noted that a disparity study is a study attempting to measure the difference- or disparity- between the number of contracts or contract dollars actually awarded minority-owned businesses in a particular contract market, on the one hand, and the number of contracts or contract dollars that one would expect to be awarded to minority-owned businesses given their presence in that particular contract market, on the other hand. 545 F.3d at 1037.

**Staleness.** The Federal Circuit declined to adopt a per se rule that data more than five years old are stale per se, which rejected the argument put forth by *Rotbe*. 545 F.3d at 1038. The court pointed out that the district court noted other circuit courts have relied on studies containing data more than five years old when conducting compelling interest analyses, *citing to Western States Paving v. Washington State Department of Transportation*, 407 F.3d 983, 992 (9th Cir. 2005) and *Sherbrooke Turf, Inc. v. Minnesota Department of Transportation*, 345 F.3d 964, 970 (8th Cir. 2003)(relying on the Appendix, published in 1996).

The Federal Circuit agreed with the district court that Congress “should be able to rely on the most recently available data so long as that data is reasonably up-to-date.” 545 F.3d at 1039. The Federal Circuit affirmed the district court’s conclusion that the data analyzed in the six disparity studies were not stale at the relevant time because the disparity studies analyzed data pertained to contracts awarded as recently as 2000 or even 2003, and because *Rotbe* did not point to more recent, available data. *Id.*

**Before Congress.** The Federal Circuit found that for evidence to be relevant in the strict scrutiny analysis, it “must be proven to have been before Congress prior to enactment of the racial classification.” 545 F.3d at 1039, *quoting Rotbe V*, 413 F.3d at 1338. The Federal Circuit had issues with determining whether the six disparity studies were actually before Congress for several reasons, including that there was no indication that these studies were debated or reviewed by members of Congress or by any witnesses, and because Congress made no findings concerning these studies. 545 F.3d at 1039-1040. However, the court determined it need not decide whether the six studies were put before Congress, because the court held in any event that the studies did not provide a substantially probative and broad-based statistical foundation necessary for the strong basis in evidence that must be the predicate for nation-wide, race-conscious action. *Id.* at 1040.

The court did note that findings regarding disparity studies are to be distinguished from formal findings of discrimination by the DOD “which Congress was emphatically not required to make.” *Id.* at 1040, footnote 11 (emphasis in original). The Federal Circuit cited the *Dean v. City of Shreveport* case that the “government need not incriminate itself with a formal finding of discrimination prior to using a race-conscious remedy.” 545 F.3d at 1040, footnote 11 *quoting Dean v. City of Shreveport*, 438 F.3d 448, 445 (5th Cir. 2006).

**Methodology.** The Federal Circuit found that there were methodological defects in the six disparity studies. The court found that the objections to the parameters used to select the relevant pool of contractors was one of the major defects in the studies. 545 F.3d at 1040-1041.

The court stated that in general, “[a] disparity ratio less than 0.80” — i.e., a finding that a given minority group received less than 80 percent of the expected amount — “indicates a relevant degree of disparity,” and “might support an inference of discrimination.” 545 F.3d at 1041, quoting the district court opinion in *Rothe VI*, 499 F.Supp.2d at 842; and *citing Engineering Contractors Association of South Florida, Inc. v. Metropolitan Dade County*, 122 F.3d 895, 914 (11th Cir. 1997). The court noted that this disparity ratio attempts to calculate a ratio between the expected contract amount of a given race/gender group and the actual contract amount received by that group. 545 F.3d at 1041.

The court considered the availability analysis, or benchmark analysis, which is utilized to ensure that only those minority-owned contractors who are qualified, willing and able to perform the prime contracts at issue are considered when performing the denominator of a disparity ratio. 545 F.3d at 1041. The court cited to an expert used in the case that a “crucial question” in disparity studies is to develop a credible methodology to estimate this benchmark share of contracts minorities would receive in the absence of discrimination and the touchstone for measuring the benchmark is to determine whether the firm is ready, willing and able to do business with the government. 545 F.3d at 1041-1042.

The court concluded the contention by *Rothe*, that the six studies misapplied this “touchstone” of *Croson* and erroneously included minority-owned firms that were deemed willing or potentially willing and able, without regard to whether the firm was qualified, was not a defect that substantially undercut the results of four of the six studies, because “the bulk of the businesses considered in these studies were identified in ways that would tend to establish their qualifications, such as by their presence on city contract records and bidder lists.” 545 F.3d at 1042. The court noted that with regard to these studies available prime contractors were identified via certification lists, willingness survey of chamber membership and trade association membership lists, public agency and certification lists, utilized prime contractor, bidder lists, county and other government records and other type lists. *Id.*

The court stated it was less confident in the determination of qualified minority-owned businesses by the two other studies because the availability methodology employed in those studies, the court found, appeared less likely to have weeded out unqualified businesses. *Id.* However, the court stated it was more troubled by the failure of five of the studies to account officially for potential differences in size, or “relative capacity,” of the business included in those studies. 545 F.3d at 1042-1043.

The court noted that qualified firms may have substantially different capacities and thus might be expected to bring in substantially different amounts of business even in the absence of discrimination. 545 F.3d at 1043. The Federal Circuit referred to the Eleventh Circuit explanation similarly that because firms are bigger, bigger firms have a bigger chance to win bigger contracts, and thus one would expect the bigger (on average) non-MWBE firms to get a disproportionately higher percentage of total construction dollars awarded than the smaller MWBE firms. 545 F.3d at 1043 quoting *Engineering Contractors Association*, 122 F.3d at 917. The court pointed out its issues with the studies accounting for the relative sizes of contracts awarded to minority-owned businesses, but not considering the relative sizes of the businesses themselves. *Id.* at 1043.

The court noted that the studies measured the availability of minority-owned businesses by the percentage of firms in the market owned by minorities, instead of by the percentage of total marketplace capacity those firms could provide. *Id.* The court said that for a disparity ratio to have a significant probative value, the same time period and metric (dollars or numbers) should be used in measuring the utilization and availability shares. 545 F.3d at 1044, n. 12.

The court stated that while these parameters relating to the firm size may have ensured that each minority-owned business in the studies met a capacity threshold, these parameters did not account for the relative capacities of businesses to bid for more than one contract at a time, which failure rendered the disparity ratios calculated by the studies substantially less probative on their own, of the likelihood of discrimination. *Id.* at 1044. The court pointed out that the studies could have accounted for firm size even without changing the disparity ratio methodologies by employing regression analysis to determine whether there was a statistically significant correlation between the size of a firm and the share of contract dollars awarded to it. 545 F.3d at 1044 citing to *Engineering Contractors Association*, 122 F.3d at 917. The court noted that only one of the studies conducted this type of regression analysis, which included the independent variables of a firm-age of a company, owner education level, number of employees, percent of revenue from the private sector and owner experience for industry groupings. *Id.* at 1044-1045.

The court stated, to “be clear,” that it did not hold that the defects in the availability and capacity analyses in these six disparity studies render the studies wholly unreliable for any purpose. *Id.* at 1045. The court said that where the calculated disparity ratios are low enough, the court does not foreclose the possibility that an inference of discrimination might still be permissible for some of the minority groups in some of the studied industries in some of the jurisdictions. *Id.* The court recognized that a minority-owned firm’s capacity and qualifications may themselves be affected by discrimination. *Id.* The court held, however, that the defects it noted detracted dramatically from the probative value of the six studies, and in conjunction with their limited geographic coverage, rendered the studies insufficient to form the statistical core of the strong basis and evidence required to uphold the statute. *Id.*



**Geographic coverage.** The court pointed out that whereas municipalities must necessarily identify discrimination in the immediate locality to justify a race-based program, the court does not think that Congress needs to have had evidence before it of discrimination in all 50 states in order to justify the 1207 program. *Id.* The court stressed, however, that in holding the six studies insufficient in this particular case, “we do not necessarily disapprove of decisions by other circuit courts that have relied, directly or indirectly, on municipal disparity studies to establish a federal compelling interest.” 545 F.3d at 1046. The court stated in particular, the Appendix relied on by the Ninth and Tenth Circuits in the context of certain race-conscious measures pertaining to federal highway construction, references the Urban Institute Report, which itself analyzed over 50 disparity studies and relied for its conclusions on over 30 of those studies, a far broader basis than the six studies provided in this case. *Id.*

**Anecdotal evidence.** The court held that given its holding regarding statistical evidence, it did not review the anecdotal evidence before Congress. The court did point out, however, that there was no evidence presented of a single instance of alleged discrimination by the DOD in the course of awarding a prime contract, or to a single instance of alleged discrimination by a private contractor identified as the recipient of a prime defense contract. 545 F.3d at 1049. The court noted this lack of evidence in the context of the opinion in *Croson* that if a government has become a passive participant in a system of racial exclusion practiced by elements of the local construction industry, then that government may take affirmative steps to dismantle the exclusionary system. 545 F.3d at 1048, citing *Croson*, 488 U.S. at 492.

The Federal Circuit pointed out that the Tenth Circuit in *Concrete Works* noted the City of Denver offered more than dollar amounts to link its spending to private discrimination, but instead provided testimony from minority business owners that general contractors who use them in city construction projects refuse to use them on private projects, with the result that Denver had paid tax dollars to support firms that discriminated against other firms because of their race, ethnicity and gender. 545 F.3d at 1049, quoting *Concrete Works*, 321 F.3d at 976-977.

In concluding, the court stated that it stressed its holding was grounded in the particular items of evidence offered by the DOD, and “should not be construed as stating blanket rules, for example about the reliability of disparity studies. As the Fifth Circuit has explained, there is no ‘precise mathematical formula’ to assess the quantum of evidence that rises to the *Croson* ‘strong basis in evidence’ benchmark.” 545 F.3d at 1049, quoting *W.H. Scott Constr. Co.*, 199 F.3d at 218 n. 11.

**Narrowly tailoring.** The Federal Circuit only made two observations about narrowly tailoring, because it held that Congress lacked the evidentiary predicate for a compelling interest. First, it noted that the 1207 Program was flexible in application, limited in duration, and that it did not unduly impact on the rights of third parties. 545 F.3d at 1049. Second, the court held that the absence of strongly probative statistical evidence makes it impossible to evaluate at least one of the other narrowly tailoring factors. Without solid benchmarks for the minority groups covered by the Section 1207, the court said it could not determine whether the 5 percent goal is reasonably related to the capacity of firms owned by members of those minority groups — i.e., whether that goal is comparable to the share of contracts minorities would receive in the absence of discrimination.” 545 F.3d at 1049-1050.

**3. *Rothe Development, Inc. v. U.S. Department of Defense and Small Business Administration*, 107 F. Supp. 3d 183, 2015 WL 3536271 (D.D.C. June 5, 2015), affirmed on other grounds, 2016 WL 471909 (D.C. Cir. September 9, 2016).**

Plaintiff Rothe Development, Inc. is a small business that filed this action against the U.S. Department of Defense (“DOD”) and the U.S. Small Business Administration (“SBA”) (collectively, “Defendants”) challenging the constitutionality of the Section 8(a) Program on its face.

The constitutional challenge that Rothe brings in this case is nearly identical to the challenge brought in the case of *DynaLantic Corp. v. United States Department of Defense*, 885 F.Supp.2d 237 (D.D.C. 2012). The plaintiff in *DynaLantic* sued the DOD, the SBA, and the Department of Navy alleging that Section 8(a) was unconstitutional both on its face and as applied to the military simulation and training industry. See *DynaLantic*, 885 F.Supp.2d at 242. *DynaLantic’s* court disagreed with the plaintiff’s facial attack and held the Section 8(a) Program as facially constitutional. See *DynaLantic*, 885 F.Supp.2d at 248-280, 283-291. (See also discussion of *DynaLantic* in this Appendix below.)

The court in *Rothe* states that the plaintiff Rothe relies on substantially the same record evidence and nearly identical legal arguments as in the *DynaLantic* case, and urges the court to strike down the race-conscious provisions of Section 8(a) on their face, and thus to depart from *DynaLantic’s* holding in the context of this case. 2015 WL 3536271 at \*1. Both the plaintiff Rothe and the Defendants filed cross-motions for summary judgment as well as motions to limit or exclude testimony of each other’s expert witnesses. The court concludes that Defendants’ experts meet the relevant qualification standards under the Federal Rules, and therefore denies plaintiff Rothe’s motion to exclude Defendants’ expert testimony. *Id.* By contrast, the court found sufficient reason to doubt the qualifications of one of plaintiff’s experts and to question the reliability of the testimony of the other; consequently, the court grants the Defendants’ motions to exclude plaintiff’s expert testimony.

In addition, the court in *Rothe* agrees with the court’s reasoning in *DynaLantic*, and thus the court in *Rothe* also concludes that Section 8(a) is constitutional on its face. Accordingly, the court denies plaintiff’s motion for summary judgment and grants Defendants’ cross-motion for summary judgment.

*DynaLantic Corp. v. Department of Defense.* The court in *Rothe* analyzed the *DynaLantic* case, and agreed with the findings, holding and conclusions of the court in *DynaLantic*. See 2015 WL 3536271 at \*4-5. The court in *Rothe* noted that the court in *DynaLantic* engaged in a detailed examination of Section 8(a) and the extensive record evidence, including disparity studies on racial discrimination in federal contracting across various industries. *Id.* at \*5. The court in *DynaLantic* concluded that Congress had a compelling interest in eliminating the roots of racial discrimination in federal contracting, funded by federal money, and also that the government had established a strong basis in evidence to support its conclusion that remedial action was necessary to remedy that discrimination. *Id.* at \*5. This conclusion was based on the finding the government provided extensive evidence of discriminatory barriers to minority business formation and minority business development, as well as significant evidence that, even when minority businesses are qualified and eligible to perform contracts in both public and private sectors, they are awarded these contracts far less often than their similarly situated non-minority counterparts. *Id.* at \*5, citing *DynaLantic*, 885 F.Supp.2d at 279.

The court in *DynaLantic* also found that DynaLantic had failed to present credible, particularized evidence that undermined the government’s compelling interest or that demonstrated that the government’s evidence did not support an inference of prior discrimination and thus a remedial purpose. 2015 WL 3536271 at \*5, *citing DynaLantic*, at 279.

With respect to narrow tailoring, the court in *DynaLantic* concluded that the Section 8(a) Program is narrowly tailored on its face, and that since Section 8(a) race-conscious provisions were narrowly tailored to further a compelling state interest, strict scrutiny was satisfied in the context of the construction industry and in other industries such as architecture and engineering, and professional services as well. *Id.* The court in *Rothe* also noted that the court in *DynaLantic* found that DynaLantic had thus failed to meet its burden to show that the challenge provisions were unconstitutional in all circumstances and held that Section 8(a) was constitutional on its face. *Id.*

**Defendants’ expert evidence.** One of Defendants’ experts used regression analysis, claiming to have isolated the effect in minority ownership on the likelihood of a small business receiving government contracts, specifically using a “logit model” to examine government contracting data in order to determine whether the data show any difference in the odds of contracts being won by minority-owned small businesses relative to other small businesses. 2015 WL 3536271 at \*9. The expert controlled for other variables that could influence the odds of whether or not a given firm wins a contract, such as business size, age, and level of security clearance, and concluded that the odds of minority-owned small firms and non-8(a) SDB firms winning contracts were lower than small non-minority and non-SDB firms. *Id.* In addition, the Defendants’ expert found that non-8(a) minority-owned SDBs are statistically significantly less likely to win a contract in industries accounting for 94.0 percent of contract actions, 93.0 percent of dollars awarded, and in which 92.2 percent of non-8(a) minority-owned SDBs are registered. *Id.* Also, the expert found that there is no industry where non-8(a) minority-owned SDBs have a statistically significant advantage in terms of winning a contract from the federal government. *Id.*

The court rejected Rothe’s contention that the expert opinion is based on insufficient data, and that its analysis of data related to a subset of the relevant industry codes is too narrow to support its scientific conclusions. *Id.* at \*10. The court found convincing the expert’s response to Rothe’s critique about his dataset, explaining that, from a mathematical perspective, excluding certain NAICS codes and analyzing data at the three-digit level actually increases the reliability of his results. The expert opted to use codes at the three-digit level as a compromise, balancing the need to have sufficient data in each industry grouping and the recognition that many firms can switch production within the broader three-digit category. *Id.* The expert also excluded certain NAICS industry groups from his regression analyses because of incomplete data, irrelevance, or because data issues in a given NAICS group prevented the regression model from producing reliable estimates. *Id.* The court found that the expert’s reasoning with respect to the exclusions and assumptions he makes in the analysis are fully explained and scientifically sound. *Id.*

In addition, the court found that post-enactment evidence was properly considered by the expert and the court. *Id.* The court found that nearly every circuit to consider the question of the relevance of post-enactment evidence has held that reviewing courts need not limit themselves to the particular evidence that Congress relied upon when it enacted the statute at issue. *Id.*, *citing DynaLantic*, 885 F.Supp.2d at 257.

Thus, the court held that post-enactment evidence is relevant to constitutional review, in particular, following the court in *DynaLantic*, when the statute is over 30 years old and the evidence used to justify Section 8(a) is stale for purposes of determining a compelling interest in the present. *Id.*, citing *DynaLantic* at 885 F.Supp.2d at 258. The court also points out that the statute itself contemplates that Congress will review the 8(a) Program on a continuing basis, which renders the use of post-enactment evidence proper. *Id.*

The court also found Defendants' additional expert's testimony as admissible in connection with that expert's review of the results of the 107 disparity studies conducted throughout the United States since the year 2000, all but 32 of which were submitted to Congress. *Id.* at \*11. This expert testified that the disparity studies submitted to Congress, taken as a whole, provide strong evidence of large, adverse, and often statistically significant disparities between minority participation in business enterprise activity and the availability of those businesses; the disparities are not explained solely by differences in factors other than race and sex that are untainted by discrimination; and the disparities are consistent with the presence of discrimination in the business market. *Id.* at \*12.

The court rejects Rothe's contentions to exclude this expert testimony merely based on the argument by Rothe that the factual basis for the expert's opinion is unreliable based on alleged flaws in the disparity studies or that the factual basis for the expert's opinions are weak. *Id.* The court states that even if Rothe's contentions are correct, an attack on the underlying disparity studies does not necessitate the remedy of exclusion. *Id.*

**Plaintiff's expert's testimony rejected.** The court found that one of plaintiff's experts was not qualified based on his own admissions regarding his lack of training, education, knowledge, skill and experience in any statistical or econometric methodology. *Id.* at \*13. Plaintiff's other expert the court determined provided testimony that was unreliable and inadmissible as his preferred methodology for conducting disparity studies "appears to be well outside of the mainstream in this particular field." *Id.* at \*14. The expert's methodology included his assertion that the only proper way to determine the availability of minority-owned businesses is to count those contractors and subcontractors that actually perform or bid on contracts, which the court rejected as not reliable. *Id.*

**The Section 8(a) Program is constitutional on its face.** The court found persuasive the court decision in *DynaLantic*, and held that inasmuch as Rothe seeks to re-litigate the legal issues presented in that case, this court declines Rothe's invitation to depart from the *DynaLantic* court's conclusion that Section 8(a) is constitutional on its face. *Id.* at \*15.

The court reiterated its agreement with the *DynaLantic* court that racial classifications are constitutional only if they are narrowly tailored measures that further compelling governmental interest. *Id.* at \*17. To demonstrate a compelling interest, the government defendants must make two showings: first the government must articulate a legislative goal that is properly considered a compelling governmental interest, and second the government must demonstrate a strong basis in evidence supporting its conclusion that race-based remedial action was necessary to further that interest. *Id.* at \*17. In so doing, the government need not conclusively prove the existence of racial discrimination in the past or present. *Id.* The government may rely on both statistical and anecdotal evidence, although anecdotal evidence alone cannot establish a strong basis in evidence for the purposes of strict scrutiny. *Id.*

If the government makes both showings, the burden shifts to the plaintiff to present credible, particularized evidence to rebut the government's initial showing of a compelling interest. *Id.* Once a compelling interest is established, the government must further show that the means chosen to accomplish the government's asserted purpose are specifically and narrowly framed to accomplish that purpose. *Id.*

The court held that the government articulated and established compelling interest for the Section 8(a) Program, namely, remedying race-based discrimination and its effects. *Id.* The court held the government also established a strong basis in evidence that furthering this interest requires race-based remedial action — specifically, evidence regarding discrimination in government contracting, which consisted of extensive evidence of discriminatory barriers to minority business formation and forceful evidence of discriminatory barriers to minority business development. *Id.* at \*17, citing *DynaLantic*, 885 F.Supp.2d at 279.

The government defendants in this case relied upon the same evidence as in the *DynaLantic* case and the court found that the government provided significant evidence that even when minority businesses are qualified and eligible to perform contracts in both the private and public sectors, they are awarded these contracts far less often than their similarly situated non-minority counterparts. *Id.* at \*17. The court held that Rothe has failed to rebut the evidence of the government with credible and particularized evidence of its own. *Id.* at \*17. Furthermore, the court found that the government defendants established that the Section 8(a) Program is narrowly tailored to achieve the established compelling interest. *Id.* at \*18.

The court found, citing agreement with the *DynaLantic* court, that the Section 8(a) Program satisfies all six factors of narrow tailoring. *Id.* First, alternative race-neutral remedies have proved unsuccessful in addressing the discrimination targeted with the Program. *Id.* Second, the Section 8(a) Program is appropriately flexible. *Id.* Third, Section 8(a) is neither over nor under-inclusive. *Id.* Fourth, the Section 8(a) Program imposes temporal limits on every individual's participation that fulfilled the durational aspect of narrow tailoring. *Id.* Fifth, the relevant aspirational goals for SDB contracting participation are numerically proportionate, in part because the evidence presented established that minority firms are ready, willing and able to perform work equal to 2–5 percent of government contracts in industries including but not limited to construction. *Id.* And six, the fact that the Section 8(a) Program reserves certain contracts for program participants does not, on its face, create an impermissible burden on non-participating firms. *Id.*; citing *DynaLantic*, 885 F.Supp.2d at 283-289.

Accordingly, the court concurred completely with the *DynaLantic* court's conclusion that the strict scrutiny standard has been met, and that the Section 8(a) Program is facially constitutional despite its reliance on race-conscious criteria. *Id.* at \*18. The court found that on balance the disparity studies on which the government defendants rely reveal large, statistically significant barriers to business formation among minority groups that cannot be explained by factors other than race, and demonstrate that discrimination by prime contractors, private sector customers, suppliers and bonding companies continues to limit minority business development. *Id.* at \*18, citing *DynaLantic*, 885 F.Supp.2d at 261, 263.

Moreover, the court found that the evidence clearly shows that qualified, eligible minority-owned firms are excluded from contracting markets, and accordingly provides powerful evidence from which an inference of discriminatory exclusion could arise. *Id.* at \*18. The court concurred with the *DynaLantic* court’s conclusion that based on the evidence before Congress, it had a strong basis in evidence to conclude the use of race-conscious measures was necessary in, at least, some circumstances. *Id.* at \*18, *citing DynaLantic*, 885 F.Supp.2d at 274.

In addition, in connection with the narrow tailoring analysis, the court rejected Rothe’s argument that Section 8(a) race-conscious provisions cannot be narrowly tailored because they apply across the board in equal measures, for all preferred races, in all markets and sectors. *Id.* at \*19. The court stated the presumption that a minority applicant is socially disadvantaged may be rebutted if the SBA is presented with credible evidence to the contrary. *Id.* at \*19. The court pointed out that any person may present credible evidence challenging an individual’s status as socially or economically disadvantaged. *Id.* The court said that Rothe’s argument is incorrect because it is based on the misconception that narrow tailoring necessarily means a remedy that is laser-focused on a single segment of a particular industry or area, rather than the common understanding that the “narrowness” of the narrow-tailoring mandate relates to the relationship between the government’s interest and the remedy it prescribes. *Id.*

**Conclusion.** The court concluded that plaintiff’s facial constitutional challenge to the Section 8(a) Program failed, that the government defendants demonstrated a compelling interest for the government’s racial classification, the purported need for remedial action is supported by strong and un rebutted evidence, and that the Section 8(a) program is narrowly tailored to further its compelling interest. *Id.* at \*20.

Plaintiff Rothe appealed the decision of the district court to the United States Court of Appeals for the District of Columbia Circuit. The Court of Appeals affirmed the decision of the district court on other grounds. See 836 F.3d. 57, 2016 WL 4719049 (D.C. Cir. September 9, 2016).

**4. *DynaLantic Corp. v. United States Dept. of Defense, et al.*, 885 F.Supp.2d 237, 2012 WL 3356813 (D.D.C. Aug. 15, 2012), appeals voluntarily dismissed, United States Court of Appeals, District of Columbia, Docket Numbers 12-5329 and 12-5330 (2014)**

Plaintiff, the DynaLantic Corporation (“DynaLantic”), is a small business that designs and manufactures aircraft, submarine, ship, and other simulators and training equipment. DynaLantic sued the United States Department of Defense (“DoD”), the Department of the Navy, and the Small Business Administration (“SBA”) challenging the constitutionality of Section 8(a) of the Small Business Act (the “Section 8(a) program”), on its face and as applied: namely, the SBA’s determination that it is necessary or appropriate to set aside contracts in the military simulation and training industry. 2012 WL 3356813, at \*1, \*37.

The Section 8(a) program authorizes the federal government to limit the issuance of certain contracts to socially and economically disadvantaged businesses. *Id.* at \*1. DynaLantic claimed that the Section 8(a) is unconstitutional on its face because the DoD’s use of the program, which is reserved for “socially and economically disadvantaged individuals,” constitutes an illegal racial preference in violation of the equal protection in violating its right to equal protection under the Due Process Clause of the Fifth Amendment to the Constitution and other rights. *Id.* at \*1. DynaLantic also

claimed the Section 8(a) program is unconstitutional as applied by the federal defendants in DynaLantic's specific industry, defined as the military simulation and training industry. *Id.*

As described in *DynaLantic Corp. v. United States Department of Defense*, 503 F.Supp. 2d 262 (D.D.C. 2007) (*see below*), the court previously had denied Motions for Summary Judgment by the parties and directed them to propose future proceedings in order to supplement the record with additional evidence subsequent to 2007 before Congress. 503 F.Supp. 2d at 267.

**The Section 8(a) Program.** The Section 8(a) program is a business development program for small businesses owned by individuals who are both socially and economically disadvantaged as defined by the specific criteria set forth in the congressional statute and federal regulations at 15 U.S.C. §§ 632, 636 and 637; *see* 13 CFR § 124. “Socially disadvantaged” individuals are persons who have been “subjected to racial or ethnic prejudice or cultural bias within American society because of their identities as members of groups without regard to their individual qualities.” 13 CFR § 124.103(a); *see also* 15 U.S.C. § 637(a)(5). “Economically disadvantaged” individuals are those socially disadvantaged individuals “whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same or similar line of business who are not socially disadvantaged.” 13 CFR § 124.104(a); *see also* 15 U.S.C. § 637(a)(6)(A). *DynaLantic Corp.*, 2012WL 3356813 at \*2.

Individuals who are members of certain racial and ethnic groups are presumptively socially disadvantaged; such groups include, but are not limited to, Black Americans, Hispanic Americans, Native Americans, Indian tribes, Asian-Pacific Americans, Native Hawaiian Organizations, and other minorities. *Id.* at \*2 *quoting* 15 U.S.C. § 631(f)(1)(B)-(c); *see also* 13 CFR § 124.103(b)(1). All prospective program participants must show that they are economically disadvantaged, which requires an individual to show a net worth of less than \$250,000 upon entering the program, and a showing that the individual's income for three years prior to the application and the fair market value of all assets do not exceed a certain threshold. 2012 WL 3356813 at \*3; *see* 13 CFR § 124.104(c)(2).

Congress has established an “aspirational goal” for procurement from socially and economically disadvantaged individuals, which includes but is not limited to the Section 8(a) program, of 5 percent of procurements dollars government wide. *See* 15 U.S.C. § 644(g)(1). *DynaLantic*, at \*3. Congress has not, however, established a numerical goal for procurement from the Section 8(a) program specifically. *See Id.* Each federal agency establishes its own goal by agreement between the agency head and the SBA. *Id.* DoD has established a goal of awarding approximately 2 percent of prime contract dollars through the Section 8(a) program. *DynaLantic*, at \*3. The Section 8(a) program allows the SBA, “whenever it determines such action is necessary and appropriate,” to enter into contracts with other government agencies and then subcontract with qualified program participants. 15 U.S.C. § 637(a)(1). Section 8(a) contracts can be awarded on a “sole source” basis (i.e., reserved to one firm) or on a “competitive” basis (i.e., between two or more Section 8(a) firms). *DynaLantic*, at \*3-4; 13 CFR 124.501(b).

**Plaintiff's business and the simulation and training industry.** DynaLantic performs contracts and subcontracts in the simulation and training industry. The simulation and training industry is composed of those organizations that develop, manufacture, and acquire equipment used to train personnel in any activity where there is a human-machine interface. *DynaLantic* at \*5.

**Compelling interest.** The Court rules that the government must make two showings to articulate a compelling interest served by the legislative enactment to satisfy the strict scrutiny standard that racial classifications are constitutional only if they are narrowly tailored measures that further compelling governmental interests.” *DynaLantic*, at \*9. First, the government must “articulate a legislative goal that is properly considered a compelling government interest.” *Id.* quoting *Sherbrooke Turf v. Minn. DOT.*, 345 F.3d 964, 969 (8th Cir.2003). Second, in addition to identifying a compelling government interest, “the government must demonstrate ‘a strong basis in evidence’ supporting its conclusion that race-based remedial action was necessary to further that interest.” *DynaLantic*, at \*9, quoting *Sherbrooke*, 345 F.3d 969.

After the government makes an initial showing, the burden shifts to *DynaLantic* to present “credible, particularized evidence” to rebut the government’s “initial showing of a compelling interest.” *DynaLantic*, at \*10 quoting *Concrete Works of Colorado, Inc. v. City and County of Denver*, 321 F.3d 950, 959 (10th Cir. 2003). The court points out that although Congress is entitled to no deference in its ultimate conclusion that race-conscious action is warranted, its fact-finding process is generally entitled to a presumption of regularity and deferential review. *DynaLantic*, at \*10, citing *Rothe Dev. Corp. v. U.S. Dep’t of Def.* (“*Rothe III*”), 262 F.3d 1306, 1321 n. 14 (Fed. Cir. 2001).

The court held that the federal Defendants state a compelling purpose in seeking to remediate either public discrimination or private discrimination in which the government has been a “passive participant.” *DynaLantic*, at \*11. The Court rejected *DynaLantic’s* argument that the federal Defendants could only seek to remedy discrimination by a governmental entity, or discrimination by private individuals directly using government funds to discriminate. *DynaLantic*, at \*11. The Court held that it is well established that the federal government has a compelling interest in ensuring that its funding is not distributed in a manner that perpetuates the effect of either public or private discrimination within an industry in which it provides funding. *DynaLantic*, at \*11, citing *Western States Paving v. Washington State DOT*, 407 F.3d 983, 991 (9th Cir. 2005).

The Court noted that any public entity, state or federal, has a compelling interest in assuring that public dollars, drawn from the tax dollars of all citizens, do not serve to finance the evils of private prejudice, and such private prejudice may take the form of discriminatory barriers to the formation of qualified minority businesses, precluding from the outset competition for public contracts by minority enterprises. *DynaLantic* at \*11 quoting *City of Richmond v. J. A. Croson Co.*, 488 U.S. 469, 492 (1995), and *Adarand Constructors, Inc. v. Slater*, 228 F.3d 1147, 1167-68 (10th Cir. 2000). In addition, private prejudice may also take the form of “discriminatory barriers” to “fair competition between minority and non-minority enterprises ... precluding existing minority firms from effectively competing for public construction contracts.” *DynaLantic*, at \*11, quoting *Adarand VII*, 228 F.3d at 1168.

Thus, the Court concluded that the government may implement race-conscious programs not only for the purpose of correcting its own discrimination, but also to prevent itself from acting as a “passive participant” in private discrimination in the relevant industries or markets. *DynaLantic*, at \*11, citing *Concrete Works IV*, 321 F.3d at 958.



**Evidence before Congress.** The Court analyzed the legislative history of the Section 8(a) program, and then addressed the issue as to whether the Court is limited to the evidence before Congress when it enacted Section 8(a) in 1978 and revised it in 1988, or whether it could consider post-enactment evidence. *DynaLantic*, at \*16-17. The Court found that nearly every circuit court to consider the question has held that reviewing courts may consider post-enactment evidence in addition to evidence that was before Congress when it embarked on the program. *DynaLantic*, at \*17. The Court noted that post-enactment evidence is particularly relevant when the statute is over thirty years old, and evidence used to justify Section 8(a) is stale for purposes of determining a compelling interest in the present. *Id.* The Court then followed the 10th Circuit Court of Appeals' approach in *Adarand VII*, and reviewed the post-enactment evidence in three broad categories: (1) evidence of barriers to the formation of qualified minority contractors due to discrimination, (2) evidence of discriminatory barriers to fair competition between minority and non-minority contractors, and (3) evidence of discrimination in state and local disparity studies. *DynaLantic*, at \*17.

The Court found that the government presented sufficient evidence of barriers to minority business formation, including evidence on race-based denial of access to capital and credit, lending discrimination, routine exclusion of minorities from critical business relationships, particularly through closed or "old boy" business networks that make it especially difficult for minority-owned businesses to obtain work, and that minorities continue to experience barriers to business networks. *DynaLantic*, at \*17-21. The Court considered as part of the evidentiary basis before Congress multiple disparity studies conducted throughout the United States and submitted to Congress, and qualitative and quantitative testimony submitted at Congressional hearings. *Id.*

The Court also found that the government submitted substantial evidence of barriers to minority business development, including evidence of discrimination by prime contractors, private sector customers, suppliers, and bonding companies. *DynaLantic*, at \*21-23. The Court again based this finding on recent evidence submitted before Congress in the form of disparity studies, reports and Congressional hearings. *Id.*

**State and local disparity studies.** Although the Court noted there have been hundreds of disparity studies placed before Congress, the Court considers in particular studies submitted by the federal Defendants of 50 disparity studies, encompassing evidence from 28 states and the District of Columbia, which have been before Congress since 2006. *DynaLantic*, at \*25-29. The Court stated it reviewed the studies with a focus on two indicators that other courts have found relevant in analyzing disparity studies. First, the Court considered the disparity indices calculated, which was a disparity index, calculated by dividing the percentage of MBE, WBE, and/or DBE firms *utilized* in the contracting market by the percentage of M/W/DBE firms *available* in the same market. *DynaLantic*, at \*26. The Court said that normally, a disparity index of 100 demonstrates full M/W/DBE participation; the closer the index is to zero, the greater the M/W/DBE disparity due to underutilization. *DynaLantic*, at \*26.

Second, the Court reviewed the method by which studies calculated the *availability* and *capacity* of minority firms. *DynaLantic*, at \*26. The Court noted that some courts have looked closely at these factors to evaluate the reliability of the disparity indices, reasoning that the indices are not probative unless they are restricted to firms of significant size and with significant government contracting experience. *DynaLantic*, at \*26. The Court pointed out that although discriminatory barriers to formation and development would impact capacity, the Supreme Court decision in *Croson* and the Court of Appeals decision in *O'Donnell Construction Co. v. District of Columbia, et al.*, 963 F.2d 420 (D.C. Cir. 1992) “require the additional showing that eligible minority firms experience disparities, notwithstanding their abilities, in order to give rise to an inference of discrimination.” *DynaLantic*, at \*26, n. 10.

**Analysis: Strong basis in evidence.** Based on an analysis of the disparity studies and other evidence, the Court concluded that the government articulated a compelling interest for the Section 8(a) program and satisfied its initial burden establishing that Congress had a strong basis in evidence permitting race-conscious measures to be used under the Section 8(a) program. *DynaLantic*, at \*29-37. The Court held that DynaLantic did not meet its burden to establish that the Section 8(a) program is unconstitutional on its face, finding that DynaLantic could not show that Congress did not have a strong basis in evidence for permitting race-conscious measures to be used under any circumstances, in any sector or industry in the economy. *DynaLantic*, at \*29.

The Court discussed and analyzed the evidence before Congress, which included extensive statistical analysis, qualitative and quantitative consideration of the unique challenges facing minorities from all businesses, and an examination of their race-neutral measures that have been enacted by previous Congresses, but had failed to reach the minority owned firms. *DynaLantic*, at \*31. The Court said Congress had spent decades compiling evidence of race discrimination in a variety of industries, including but not limited to construction. *DynaLantic*, at \*31. The Court also found that the federal government produced significant evidence related to professional services, architecture and engineering, and other industries. *DynaLantic*, at \*31. The Court stated that the government has therefore “established that there are at least some circumstances where it would be ‘necessary or appropriate’ for the SBA to award contracts to businesses under the Section 8(a) program. *DynaLantic*, at \*31, citing 15 U.S.C. § 637(a)(1).

Therefore, the Court concluded that in response to plaintiff’s facial challenge, the government met its initial burden to present a strong basis in evidence sufficient to support its articulated, constitutionally valid, compelling interest. *DynaLantic*, at \*31. The Court also found that the evidence from around the country is sufficient for Congress to authorize a nationwide remedy. *DynaLantic*, at \*31, n. 13.

**Rejection of DynaLantic’s rebuttal arguments.** The Court held that since the federal Defendants made the initial showing of a compelling interest, the burden shifted to the plaintiff to show why the evidence relied on by Defendants fails to demonstrate a compelling governmental interest. *DynaLantic*, at \*32. The Court rejected each of the challenges by DynaLantic, including holding that: the legislative history is sufficient; the government compiled substantial evidence that identified private racial discrimination which affected minority utilization in specific industries of government contracting, both before and after the enactment of the Section 8(a) program; any flaws in the evidence, including the disparity studies, DynaLantic has identified in the data do not rise to the level

of credible, particularized evidence necessary to rebut the government’s initial showing of a compelling interest; DynaLantic cited no authority in support of its claim that fraud in the administration of race-conscious programs is sufficient to invalidate Section 8(a) program on its face; and Congress had strong evidence that the discrimination is sufficiently pervasive across racial lines to justify granting a preference for all five groups included in Section 8(a). *DynaLantic*, at \*32-36.

In this connection, the Court stated it agreed with *Croson* and its progeny that the government may properly be deemed a “passive participant” when it fails to adjust its procurement practices to account for the effects of identified private discrimination on the availability and utilization of minority-owned businesses in government contracting. *DynaLantic*, at \*34. In terms of flaws in the evidence, the Court pointed out that the proponent of the race-conscious remedial program is not required to unequivocally establish the existence of discrimination, nor is it required to negate all evidence of non-discrimination. *DynaLantic*, at \*35, citing *Concrete Work IV*, 321 F.3d at 991. Rather, a strong basis in evidence exists, the Court stated, when there is evidence approaching a *prima facie* case of a constitutional or statutory violation, not irrefutable or definitive proof of discrimination. *Id.*, citing *Croson*, 488 U.S. 500. Accordingly, the Court stated that DynaLantic’s claim that the government must independently verify the evidence presented to it is unavailing. *Id.* *DynaLantic*, at \*35.

Also, in terms of DynaLantic’s arguments about flaws in the evidence, the Court noted that Defendants placed in the record approximately 50 disparity studies which had been introduced or discussed in Congressional Hearings since 2006, which DynaLantic did not rebut or even discuss any of the studies individually. *DynaLantic*, at \*35. DynaLantic asserted generally that the studies did not control for the capacity of the firms at issue, and were therefore unreliable. *Id.* The Court pointed out that Congress need not have evidence of discrimination in all 50 states to demonstrate a compelling interest, and that in this case, the federal Defendants presented recent evidence of discrimination in a significant number of states and localities which, taken together, represents a broad cross-section of the nation. *DynaLantic*, at \*35, n. 15. The Court stated that while not all of the disparity studies accounted for the capacity of the firms, many of them did control for capacity and still found significant disparities between minority and non-minority owned firms. *DynaLantic*, at \*35. In short, the Court found that DynaLantic’s “general criticism” of the multitude of disparity studies does not constitute particular evidence undermining the reliability of the particular disparity studies and therefore is of little persuasive value. *DynaLantic*, at \*35.

In terms of the argument by DynaLantic as to requiring proof of evidence of discrimination against each minority group, the Court stated that Congress has a strong basis in evidence if it finds evidence of discrimination is sufficiently pervasive across racial lines to justify granting a preference to all five disadvantaged groups included in Section 8(a). The Court found Congress had strong evidence that the discrimination is sufficiently pervasive across racial lines to justify a preference to all five groups. *DynaLantic*, at \*36. The fact that specific evidence varies, to some extent, within and between minority groups, was not a basis to declare this statute facially invalid. *DynaLantic*, at \*36.

**Facial challenge: Conclusion.** The Court concluded Congress had a compelling interest in eliminating the roots of racial discrimination in federal contracting and had established a strong basis of evidence to support its conclusion that remedial action was necessary to remedy that discrimination by providing significant evidence in three different areas. First, it provided extensive evidence of discriminatory barriers to minority business formation. *DynaLantic*, at \*37. Second, it provided “forceful” evidence of discriminatory barriers to minority business development. *Id.* Third, it provided significant evidence that, even when minority businesses are qualified and eligible to perform contracts in both the public and private sectors, they are awarded these contracts far less often than their similarly situated non-minority counterparts. *Id.* The Court found the evidence was particularly strong, nationwide, in the construction industry, and that there was substantial evidence of widespread disparities in other industries such as architecture and engineering, and professional services. *Id.*

**As-applied challenge.** *DynaLantic* also challenged the SBA and DoD’s use of the Section 8(a) program as applied: namely, the agencies’ determination that it is necessary or appropriate to set aside contracts in the military simulation and training industry. *DynaLantic*, at \*37. Significantly, the Court points out that the federal Defendants “concede that they do not have evidence of discrimination in this industry.” *Id.* Moreover, the Court points out that the federal Defendants admitted that there “is no Congressional report, hearing or finding that references, discusses or mentions the simulation and training industry.” *DynaLantic*, at \*38. The federal Defendants also admit that they are “unaware of any discrimination in the simulation and training industry.” *Id.* In addition, the federal Defendants admit that none of the documents they have submitted as justification for the Section 8(a) program mentions or identifies instances of past or present discrimination in the simulation and training industry. *DynaLantic*, at \*38.

The federal Defendants maintain that the government need not tie evidence of discriminatory barriers to minority business formation and development to evidence of discrimination in any particular industry. *DynaLantic*, at \*38. The Court concludes that the federal Defendants’ position is irreconcilable with binding authority upon the Court, specifically, the United States Supreme Court’s decision in *Croson*, as well as the Federal Circuit’s decision in *O’Donnell Construction Company*, which adopted *Croson*’s reasoning. *DynaLantic*, at \*38. The Court holds that *Croson* made clear the government must provide evidence demonstrating there were eligible minorities in the relevant market. *DynaLantic*, at \*38. The Court held that absent an evidentiary showing that, in a highly skilled industry such as the military simulation and training industry, there are eligible minorities who are qualified to undertake particular tasks and are nevertheless denied the opportunity to thrive there, the government cannot comply with *Croson*’s evidentiary requirement to show an inference of discrimination. *DynaLantic*, at \*39, citing *Croson*, 488 U.S. 501. The Court rejects the federal government’s position that it does not have to make an industry-based showing in order to show strong evidence of discrimination. *DynaLantic*, at \*40.

The Court notes that the Department of Justice has recognized that the federal government must take an industry-based approach to demonstrating compelling interest. *DynaLantic*, at \*40, citing *Cortez III Service Corp. v. National Aeronautics & Space Administration*, 950 F.Supp. 357 (D.D.C. 1996). In *Cortez*, the Court found the Section 8(a) program constitutional on its face, but found the program unconstitutional as applied to the NASA contract at issue because the government had provided no evidence of discrimination in the industry in which the NASA contract would be performed. *DynaLantic*, at \*40. The Court pointed out that the Department of Justice had advised federal agencies to make industry-specific determinations before offering set-aside contracts and specifically cautioned them that without such particularized evidence, set-aside programs may not survive *Croson* and *Adarand*. *DynaLantic*, at \*40.

The Court recognized that legislation considered in *Croson*, *Adarand* and *O'Donnell* were all restricted to one industry, whereas this case presents a different factual scenario, because Section 8(a) is not industry-specific. *DynaLantic*, at \*40, n. 17. The Court noted that the government did not propose an alternative framework to *Croson* within which the Court can analyze the evidence, and that in fact, the evidence the government presented in the case is industry specific. *Id.*

The Court concluded that agencies have a responsibility to decide if there has been a history of discrimination in the particular industry at issue. *DynaLantic*, at \*40. According to the Court, it need not take a party's definition of "industry" at face value, and may determine the appropriate industry to consider is broader or narrower than that proposed by the parties. *Id.* However, the Court stated, in this case the government did not argue with plaintiff's industry definition, and more significantly, it provided no evidence whatsoever from which an inference of discrimination in that industry could be made. *DynaLantic*, at \*40.

**Narrowly tailoring.** In addition to showing strong evidence that a race-conscious program serves a compelling interest, the government is required to show that the means chosen to accomplish the government's asserted purpose are specifically and narrowly framed to accomplish that purpose. *DynaLantic*, at \*41. The Court considered several factors in the narrowly tailoring analysis: the efficacy of alternative, race-neutral remedies, flexibility, over- or under-inclusiveness of the program, duration, the relationship between numerical goals and the relevant labor market, and the impact of the remedy on third parties. *Id.*

The Court analyzed each of these factors and found that the federal government satisfied all six factors. *DynaLantic*, at \*41-48. The Court found that the federal government presented sufficient evidence that Congress attempted to use race-neutral measures to foster and assist minority owned businesses relating to the race-conscious component in Section 8(a), and that these race-neutral measures failed to remedy the effects of discrimination on minority small business owners. *DynaLantic*, at \*42. The Court found that the Section 8(a) program is sufficiently flexible in granting race-conscious relief because race is made relevant in the program, but it is not a determinative factor or a rigid racial quota system. *DynaLantic*, at \*43. The Court noted that the Section 8(a) program contains a waiver provision and that the SBA will not accept a procurement for award as an 8(a) contract if it determines that acceptance of the procurement would have an adverse impact on small businesses operating outside the Section 8(a) program. *DynaLantic*, at \*44.

The Court found that the Section 8(a) program was not over- and under-inclusive because the government had strong evidence of discrimination which is sufficiently pervasive across racial lines to all five disadvantaged groups, and Section 8(a) does not provide that every member of a minority group is disadvantaged. *DynaLantic*, at \*44. In addition, the program is narrowly tailored because it is based not only on social disadvantage, but also on an individualized inquiry into economic disadvantage, and that a firm owned by a non-minority may qualify as socially and economically disadvantaged. *DynaLantic*, at \*44.

The Court also found that the Section 8(a) program places a number of strict durational limits on a particular firm's participation in the program, places temporal limits on every individual's participation in the program, and that a participant's eligibility is continually reassessed and must be maintained throughout its program term. *DynaLantic*, at \*45. Section 8(a)'s inherent time limit and graduation provisions ensure that it is carefully designed to endure only until the discriminatory impact has been eliminated, and thus it is narrowly tailored. *DynaLantic*, at \*46.

In light of the government's evidence, the Court concluded that the aspirational goals at issue, all of which were less than 5 percent of contract dollars, are facially constitutional. *DynaLantic*, at \*46-47. The evidence, the Court noted, established that minority firms are ready, willing and able to perform work equal to 2-5 percent of government contracts in industries including but not limited to construction. *Id.* The Court found the effects of past discrimination have excluded minorities from forming and growing businesses, and the number of available minority contractors reflects that discrimination. *DynaLantic*, at \*47.

Finally, the Court found that the Section 8(a) program takes appropriate steps to minimize the burden on third parties, and that the Section 8(a) program is narrowly tailored on its face. *DynaLantic*, at \*48. The Court concluded that the government is not required to eliminate the burden on non-minorities in order to survive strict scrutiny, but a limited and properly tailored remedy to cure the effects of prior discrimination is permissible even when it burdens third parties. *Id.* The Court points to a number of provisions designed to minimize the burden on non-minority firms, including the presumption that a minority applicant is socially disadvantaged may be rebutted, an individual who is not presumptively disadvantaged may qualify for such status, the 8(a) program requires an individualized determination of economic disadvantage, and it is not open to individuals whose net worth exceeds \$250,000 regardless of race. *Id.*

**Conclusion.** The Court concluded that the Section 8(a) program is constitutional on its face. The Court also held that it is unable to conclude that the federal Defendants have produced evidence of discrimination in the military simulation and training industry sufficient to demonstrate a compelling interest. Therefore, *DynaLantic* prevailed on its as-applied challenge. *DynaLantic*, at \*51. Accordingly, the Court granted the federal Defendants' Motion for Summary Judgment in part (holding the Section 8(a) program is valid on its face) and denied it in part, and granted the plaintiff's Motion for Summary Judgment in part (holding the program is invalid as applied to the military simulation and training industry) and denied it in part. The Court held that the SBA and the DoD are enjoined from awarding procurements for military simulators under the Section 8(a) program without first articulating a strong basis in evidence for doing so.

**Appeals voluntarily dismissed, and Stipulation and Agreement of Settlement Approved and Ordered by District Court.** A Notice of Appeal and Notice of Cross Appeal were filed in this case to the United States Court of Appeals for the District of Columbia by the United States and DynaLantic: Docket Numbers 12-5329 and 12-5330. Subsequently, the appeals were voluntarily dismissed, and the parties entered into a Stipulation and Agreement of Settlement, which was approved by the District Court (Jan. 30, 2014). The parties stipulated and agreed *inter alia*, as follows: (1) the Federal Defendants were enjoined from awarding prime contracts under the Section 8(a) program for the purchase of military simulation and military simulation training contracts without first articulating a strong basis in evidence for doing so; (2) the Federal Defendants agreed to pay plaintiff the sum of \$1,000,000.00; and (3) the Federal Defendants agreed they shall refrain from seeking to vacate the injunction entered by the Court for at least two years.

The District Court on January 30, 2014 approved the Stipulation and Agreement of Settlement, and So Ordered the terms of the original 2012 injunction modified as provided in the Stipulation and Agreement of Settlement.

#### **5. *DynaLantic Corp. v. United States Dept. of Defense, et al.*, 503 F. Supp.2d 262 (D.D.C. 2007)**

*DynaLantic Corp.* involved a challenge to the DOD's utilization of the Small Business Administration's ("SBA") 8(a) Business Development Program ("8(a) Program"). In its Order of August 23, 2007, the district court denied both parties' Motions for Summary Judgment because there was no information in the record regarding the evidence before Congress supporting its 2006 reauthorization of the program in question; the court directed the parties to propose future proceedings to supplement the record. 503 F. Supp.2d 262, 263 (D.D.C. 2007).

The court first explained that the 8(a) Program sets a goal that no less than 5 percent of total prime federal contract and subcontract awards for each fiscal year be awarded to socially and economically disadvantaged individuals. *Id.* Each federal government agency is required to establish its own goal for contracting but the goals are not mandatory and there is no sanction for failing to meet the goal. Upon application and admission into the 8(a) Program, small businesses owned and controlled by disadvantaged individuals are eligible to receive technological, financial, and practical assistance, and support through preferential award of government contracts. For the past few years, the 8(a) Program was the primary preferential treatment program the DOD used to meet its 5 percent goal. *Id.* at 264.

This case arose from a Navy contract that the DOD decided to award exclusively through the 8(a) Program. The plaintiff owned a small company that would have bid on the contract but for the fact it was not a participant in the 8(a) Program. After multiple judicial proceedings, the D.C. Circuit dismissed the plaintiff's action for lack of standing but granted the plaintiff's motion to enjoin the contract procurement pending the appeal of the dismissal order. The Navy cancelled the proposed procurement, but the D.C. Circuit allowed the plaintiff to circumvent the mootness argument by amending its pleadings to raise a facial challenge to the 8(a) program as administered by the SBA and utilized by the DOD. The D.C. Circuit held the plaintiff had standing because of the plaintiff's inability to compete for DOD contracts reserved to 8(a) firms, the injury was traceable to the race-conscious component of the 8(a) Program, and the plaintiff's injury was imminent due to the likelihood the government would in the future try to procure another contract under the 8(a) Program for which the plaintiff was ready, willing and able to bid. *Id.* at 264-65.

On remand, the plaintiff amended its complaint to challenge the constitutionality of the 8(a) Program and sought an injunction to prevent the military from awarding any contract for military simulators based upon the race of the contractors. *Id.* at 265. The district court first held that the plaintiff's complaint could be read only as a challenge to the DOD's implementation of the 8(a) Program [pursuant to 10 U.S.C. § 2323] as opposed to a challenge to the program as a whole. *Id.* at 266. The parties agreed that the 8(a) Program uses race-conscious criteria so the district court concluded it must be analyzed under the strict scrutiny constitutional standard. The court found that in order to evaluate the government's proffered "compelling government interest," the court must consider the evidence that Congress considered at the point of authorization or reauthorization to ensure that it had a strong basis in evidence of discrimination requiring remedial action. The court cited to *Western States Paving* in support of this proposition. *Id.* The court concluded that because the DOD program was reauthorized in 2006, the court must consider the evidence before Congress in 2006.

The court cited to the recent *Rothe* decision as demonstrating that Congress considered significant evidentiary materials in its reauthorization of the DOD program in 2006, including six recently published disparity studies. The court held that because the record before it in the present case did not contain information regarding this 2006 evidence before Congress, it could not rule on the parties' Motions for Summary Judgment. The court denied both motions and directed the parties to propose future proceedings in order to supplement the record. *Id.* at 267.



## **APPENDIX C.**

### **Collection of ODA and Local Airport Contract Data**

Keen Independent compiled data about FAA-funded contracts awarded by the Oregon Department of Aviation (ODA) and local airports as well as the firms used as prime contractors and subcontractors on those contracts. The data pertain to construction, professional services, goods and other services procurements during the October 1, 2014 through September 30, 2019 study period. Appendix C describes the study team’s utilization data collection processes in four parts:

- A. Procurement data;
- B. Characteristics of utilized firms;
- C. Oregon Department of Aviation review; and
- D. Data limitations.

#### **A. Procurement Data**

Keen Independent collected data on FAA-funded contracts that ODA and local airports awarded during the October 1, 2014 through September 30, 2019 study period. The study team collected FAA-funded contract data from two sources:

- ODA Airport IQ System Manager (ASM); and
- ODA and local airports.

**Airport System Manager.** ODA uses ASM to track all airport Capital Improvement Program (CIP) projects in Oregon. ODA provided the study team access to ASM to obtain FAA-funded CIP project data for each participating airport during the study period. Fields in the ASM database include:

- Year;
- Airport;
- Project name;
- Status;
- FAA participation;
- State participation;
- Local participation;
- Type; and
- Total amount.

**ODA and local airports.** Keen Independent contacted each of the participating airports to identify prime contracts and subcontracts related to each of the FAA-funded CIP projects. Data provided by ODA and local airports included:

- Contract number;
- Contract name;
- Award date;
- Contract description;
- Description of work performed by the vendor;
- DBE goal;
- Vendor ID (if any);
- Prime vendor name;
- Prime contract amount;
- Prime payments to date;
- Subcontractor name;
- Subcontractor amount;
- Subcontractor payments to date;
- Prime vendor address, city, state, zip code, phone number, DBE certification; and
- Subcontractor vendor address, city, state, zip code, phone number, DBE certification.

**Participating airports.** The disparity study included 48 NPIAS airports that received FAA funds during the study period. Please note that the initial NPIAS list included 56 airports, however eight airports were excluded because they were already part of a previous disparity study or did not receive FAA funds during the study period.<sup>1</sup>

**Data request process.** Keen Independent sent email requests to each participating airport and had the opportunity to introduce the disparity study to several of the airport staff and consultants during the 2019 Joint Planning Conference meetings. The study team followed up with each participating airport by phone and/or email to clarify any questions.

ODA Planning & Programs Division also sent a reminder to participating airports to submit the requested data. In cases where airports and consultants were unable to provide full information (for example, missing subcontract amounts), data were also directly requested from vendors via email and phone.

Keen Independent was able to collect prime and subcontract data for each of the 48 participating airports.

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<sup>1</sup> The following NPIAS airports were excluded from analysis: Boardman Airport, Portland – Hillsboro, Portland – Troutdale, Sportsman Airpark, Sunriver Airport, Wasco State Airport, Myrtle Creek Municipal Airport and Portland Downtown Heliport.

**Exclusions.** The study team made certain exclusions to the contract data received, including payments to non-businesses and for certain types of work. The study team excluded payments related to:

- Governments;
- Not-for-profits;
- Utilities; and
- Media advertisement.

The first two types of exclusions were made because those entities are not businesses and do not have “ownership.” Utilities are excluded because they are typically a publicly regulated monopoly, with availability limited to one organization for each type of utility service. Media advertisement at ODA is mostly for compliance with public notice requirements, which are very prescriptive. Media companies are also often publicly regulated, with limited firm availability.

Exclusions totaled 44 procurements for a total of \$1.5 million.

**Identification of location of place-specific procurements.** Keen Independent coded place-specific procurements, such as construction contracts, into one of five regions, as described in Chapter 3. The study team used airport location to geographically code these projects (except for the few that were statewide contracts).

## **B. Characteristics of Utilized Firms**

For each firm identified as working on an ODA or local airport contract, Keen Independent attempted to collect business characteristics including the race, ethnicity and gender of the business owner.

Keen Independent compiled company information from multiple sources. ODA and local airports provided contact and other information on businesses that they utilized as prime contractors and subcontractors. The study team obtained additional information about individual firms from Dun & Bradstreet and other sources.

Collecting data on the race, ethnicity and gender ownership of utilized firms was key to building the database on firm characteristics. Sources of information to determine whether firms were owned by minorities or women (including race/ethnicity) and whether firms were DBE-certified, included:

- Certification Office for Business Inclusions and Diversity (COBID) directory;
- Small Business Administration business directory;
- Study team availability survey with firm owners and managers;
- Other review of firm information (e.g., information about ownership on firms’ websites or previous disparity studies in the geographic market area);
- Information from Dun & Bradstreet;
- US DOT decertified DBEs, denials and DBE appeal decisions online database; and
- ODA staff review.

### **C. Oregon Department of Aviation Review**

ODA reviewed Keen Independent contract data during several stages of the study process. The study team met with ODA staff multiple times to review data collection, information the study team gathered, sample data for specific contracts and preliminary results.

Keen Independent reviewed and incorporated ODA feedback throughout the study process.

### **D. Data Limitations**

Limitations concerning procurement data collection include the following:

- Many Oregon airports do not systematically track information about subcontracts on their projects, but Keen Independent worked closely with them, their consultants and utilized firms to obtain needed subcontract data. There could be some subcontracts that were still not identified through these efforts.
- Keen Independent determined race, ethnicity and gender ownership based on information from many different sources, including study team research on individual companies. It is possible that some of the ownership data were inaccurate.

It does not appear that these data limitations would materially affect overall results of the disparity analyses.

## **APPENDIX D.**

### **General Approach to Availability Analysis**

The study team used an approach similar to a “custom census” to compile data on MBEs, WBEs and majority-owned firms available for airport contracts in Oregon and develop dollar-weighted estimates of MBE/WBE availability based on analysis of individual prime contracts and subcontracts.

Appendix D explains the availability methodology and results in five parts:

- A. General approach to collecting availability information;
- B. Development of the survey instruments;
- C. Execution of availability surveys;
- D. Additional considerations related to measuring availability; and
- E. Availability survey instrument.

#### **A. General Approach to Collecting Availability Information**

Keen Independent collected information from firms about their availability for airports in Oregon through telephone surveys as well as online, fax and fillable PDF surveys.

**Listings.** Keen Independent compiled the list of firms to be contacted in the availability surveys from two different sources:

- Company representatives who had previously identified themselves as interested in learning about public sector work by registering with the State of Oregon’s Oregon Procurement Information Network (ORPIN).
- Businesses that Dun & Bradstreet (D&B) identified in certain airport contracting-related subindustries located in Oregon, Southwest Washington or Payette County, Idaho (D&B’s Hoover’s business establishment database).

The availability analysis focused on firms with locations in Oregon, two counties in Washington (Clark and Skamania) and Payette County, Idaho performing types of work relevant to airport construction and engineering (including subcontracts, trucking and supplies for those contracts).

**ORPIN.** Individuals and businesses interested in bidding on opportunities with public agencies in Oregon can register as a vendor on the Oregon Procurement Information Network (ORPIN). ODA provided a list of about 89,000 subscribers as of December 2019. Keen Independent analyzed the list and removed subscribers that did not pertain to airport contracting.

Keen Independent also attempted to exclude any listings for government agencies or not-for-profit organizations. (Not all were excluded on the list, but representatives indicated that the organization was not a business when surveyed.) ODA contacted the businesses on the ORPIN list by email to encourage them to complete the publicly available online survey.

**Dun & Bradstreet Hoover’s database.** Because there might be other firms available for airport work that do not appear on ODA lists, Keen Independent also acquired Dun & Bradstreet data for firms in Oregon and the three counties in Washington and Idaho that appeared to do business in relevant subindustries. Dun & Bradstreet’s Hoover’s affiliate maintains the largest commercially available database of U.S. businesses.

Keen Independent determined the types of work involved in ODA contract elements by reviewing prime contract and subcontract dollars that went to different types of businesses during the study period. D&B classifies types of work by 8-digit work specialization codes.<sup>1</sup> Figure D-1 identifies the work specialization codes determined were the most related to the study contract dollars.

Keen Independent obtained a list of firms performing relevant work that had locations within Oregon and the three counties in Washington and Idaho from the D&B Hoover’s database within relevant work codes. D&B provided phone numbers for these businesses.

**Total listings.** Keen Independent attempted to consolidate information when a firm had multiple listings within a given data source. After consolidation, the data sources provided more than 37,000 unique email listings and 12,707 unique phone listings for the availability surveys.

Keen Independent did not draw a sample of those firms for the availability analysis; rather, the study team attempted to contact each business identified through telephone surveys and other methods. Some courts have referred to similar approaches to gathering availability data as a “custom census.”

**Figure D-1.**  
Work specializations of company list acquired from D&B Hoover’s

| <b>Professional Services</b>   |  |  |                                      |
|--------------------------------|--|--|--------------------------------------|
| <b>Construction management</b> |  | <b>Environmental consulting</b>  |                                      |
| 87419902                       | Construction management                    | 87310302   | Environmental research               |
| 87420402                       | Construction project management consultant | 87489905   | Environmental consultant             |
| <b>Design engineering</b>      |  | <b>Geotechnical including soils &amp; materials testing and inspection</b> |                                      |
| 87110000                       | Engineering services                       | 7119906  | Soil testing services                |
| 87110100                       | Sanitary engineers                         | 87340000   | Testing laboratories                 |
| 87110101                       | Pollution control engineering              | 87340103   | Welded joint radiographing           |
| 87110400                       | Construction and civil engineering         | 87340104   | X-ray inspection service, industrial |
| 87110401                       | Building construction consultant           | 87349900   | Testing laboratories, nec            |
| 87110402                       | Civil engineering                          | 87349905   | Hydrostatic testing laboratory       |
| 87110403                       | Heating and ventilation engineering        | 87349907   | Metallurgical testing laboratory     |
| 87110404                       | Structural engineering                     | 87349909   | Soil analysis                        |
| 87119900                       | Engineering services, nec                  | 89990700   | Earth science services               |
| 87119901                       | Acoustical engineering                     | 89990701   | Geological consultant                |
| 87119903                       | Consulting engineer                        | 89990702   | Geophysical consultant               |
| 87119905                       | Electrical or electronic engineering       |  |                                      |
| 87119907                       | Fire protection engineering                |  |                                      |
| 87119909                       | Professional engineer                      |  |                                      |
| 87120100                       | Architectural engineering                  |  |                                      |
| 87120101                       | Architectural engineering                  |  |                                      |

<sup>1</sup> D&B has developed 8-digit industry codes to provide more precise definitions of firm specializations than the 4-digit SIC codes or the NAICS codes that the federal government has prepared.

Figure D-1 (continued).

Work specializations of company list acquired from D&B Hoover's

| Construction  |   |
|---|---|
| <b>Airport runway, taxiway or apron paving</b>                    |   |
| 16110201  | Airport runway construction                             |
| <b>Concrete work</b>  |   |
| 17710000  | Concrete work   |
| <b>Electrical work (including airfield lighting)</b>              |   |
| 17310000  | Electrical work   |
| 17319903  | General electrical contractor                           |
| 17319904  | Lighting contractor                                     |
| <b>Elevators, escalators, automatic doors and baggage systems</b> |   |
| 17960000  | Installing building equipment                           |
| 76992501  | Elevators: inspection, service, and repair              |
| <b>Excavation, site prep, grading and drainage</b>                |   |
| 16290105  | Drainage system construction                            |
| 16290108  | Irrigation system construction                          |
| 16290112  | Pond construction                                       |
| 16290400  | Land preparation construction                           |
| 16290401  | Land leveling   |
| 16290402  | Land reclamation  |
| 16290403  | Rock removal  |
| 16290404  | Timber removal  |
| 16299901  | Blasting contractor, except building demolition         |
| 16299902  | Earthmoving contractor                                  |
| 16299903  | Land clearing contractor                                |
| 16299904  | Pile driving contractor                                 |
| 16299906  | Trenching contractor                                    |
| 17940000  | Excavation work   |
| 17949901  | Excavation and grading, building construction           |
| 17990900  | Building site preparation                               |
| <b>Installation of guardrails and fencing</b>                     |   |
| 16110100  | Highway signs and guardrails                            |
| 16110102  | Highway and street sign installation                    |
| 17999912  | Fence construction                                      |
| <b>Office and public building construction</b>                    |   |
| 15410000  | Industrial buildings and warehouses                     |
| 15419900  | Industrial buildings and warehouses, nec                |
| 15419905  | Industrial buildings, new construction, nec             |
| 15419908  | Prefabricated building erection, industrial             |
| 15419909  | Renovation, remodeling and repairs: industrial bui      |
| 15419910  | Steel building construction                             |
| 15420000  | Nonresidential construction, nec                        |
| 15420100  | Commercial and office building contractors              |
| 15420101  | Commercial and office building, new construction        |
| 15420102  | Commercial and office buildings, prefabricated erection |
| 15420103  | Commercial and office buildings, renovation and re      |
| 15420400  | Specialized public building contractors                 |
| 15429900  | Nonresidential construction, nec                        |
| 15429901  | Custom builders, non-residential                        |
| 15429902  | Design and construction bomined, non-residential        |
| 15429903  | Institutional building construction                     |
| <b>Pavement surface treatment (such as sealing)</b>               |   |
| 16110200  | Surfacing and paving                                    |
| 16110200  | Surfacing and paving                                    |
| 16110205  | Resurfacing contractor                                  |
| 16110205  | Resurfacing contractor                                  |
| <b>Plumbing, heating and air conditioning</b>                     |   |
| 17110000  | Plumbing, heating, air-conditioning                     |
| 17110100  | Boiler and furnace contractors                          |
| 17110101  | Boiler maintenance contractor                           |
| 17110102  | Boiler setting contractor                               |
| 17110103  | Heating systems repair and maintenance                  |
| 17110104  | Hydronics heating contractor                            |
| 17110200  | Plumbing contractors                                    |
| 17110201  | Septic system construction                              |
| 17110300  | Sprinkler contractors                                   |
| 17110301  | Fire sprinkler system installation                      |
| 17110302  | Irrigation sprinkler system installation                |
| 17110400  | Heating and air conditioning contractors                |
| 17110401  | Mechanical contractor                                   |
| 17110402  | Mechanical contractor                                   |
| 17110403  | Solar energy contractor                                 |
| 17110404  | Ventilation and duct work contractor                    |
| 17110405  | Warm air heating and air conditioning                   |
| 17119901  | Refrigeration contractor                                |
| <b>Road construction</b>  |   |
| 16110000  | Highway and street construction                         |
| 16110202  | Concrete construction: roads, highways, sidewalks, etc. |
| 16110203  | Grading   |
| 16110204  | Highway and street paving contractor                    |
| 16110206  | Sidewalk construction                                   |
| 16110207  | Gravel or dirt road construction                        |
| 16119901  | General contractor, highway and street construction     |
| 16119902  | Highway and street maintenance                          |
| 16119903  | Highway reflector installation                          |
| <b>Surveying and mapping</b>                                      |   |
| 87130000  | Surveying services                                      |
| 87139901  | Photogrammetric engineering                             |
| 87139901  | Surveying technicians                                   |
| <b>Trucking and hauling</b>                                       |   |
| 42120000  | Local trucking, without storage                         |
| 42120200  | Liquid transfer services                                |
| 42120201  | Liquid haulage, local                                   |
| 42120202  | Petroleum haulage, local                                |
| 42129904  | Draying, local: without storage                         |
| 42129905  | Dump truck haulage                                      |
| 42129908  | Heavy machinery transport, local                        |
| 42129912  | Steel hauling, local                                    |
| 42130000  | Trucking, except local                                  |
| 42139902  | Building materials transport                            |
| 42139904  | Heavy hauling, nec                                      |
| 42139905  | Heavy machinery transport                               |
| 42139908  | Liquid petroleum transport, non-local                   |
| <b>Wrecking and demolition</b>                                    |   |
| 17950000  | Wrecking and demolition work                            |
| 17959901  | Concrete breaking for streets and highways              |
| 17959902  | Demolition, buildings and other structures              |
| 17959903  | Dismantling steel oil tanks                             |
| <b>Pavement marking</b>   |   |
| 17210303  | Pavement marking contractor                             |

**Online and telephone surveys.** For firms on the ORPIN list that had email addresses, ODA distributed an email request through the GovDelivery list service for businesses to complete the online availability survey.

Customer Research International (CRI) performed the telephone surveys under the direction of Keen Independent.

## **B. Development of the Survey Instruments**

Keen Independent developed the survey instruments for ODA review prior to survey execution. The final telephone survey instrument is presented at the end of this appendix.

**Survey structure.** The availability survey included nine sections, including a part that asked about firm ownership. (The study team did not know the race, ethnicity or gender of the business owner when calling a business establishment.)

Areas of survey questions included:

- **Identification of purpose.** The surveys began by identifying ODA as the survey sponsor and describing the purpose of the study (i.e., “performing airport contracting and engineering work or supplying related materials.”).
- **Verification of correct business name.** CRI confirmed that the business reached was in fact the business sought out.
- **Contact information.** CRI collected complete contact information for the establishment and the individual who completed the survey.
- **Verification of work related to airport-related projects.** The interviewer asked whether the organization does work or provides materials related to airport contracting or engineering.
- **Verification of for-profit business status.** The survey then asked whether the organization was a for-profit business as opposed to a government or not-for-profit entity. Interviewers continued the survey with businesses that responded “yes” to that question.
- **Identification of main lines of business.** Businesses then chose from a list of work types that their firm performed in categories of construction-related work, engineering-related work and supply activities. In addition to choosing all areas in which the firms did work, the study team asked businesses to briefly describe their main line of business.
- **Sole location or multiple locations.** The interviewer asked business representatives if their businesses had other locations and whether their establishments were affiliates or subsidiaries of other firms. (Keen Independent combined responses from multiple locations into a single record for multi-establishment firms.)



- **Past bids or work with government agencies and private sector organizations.** The survey then asked about bids and work on past government contracts. The questions were asked in connection with both prime contracts and subcontracts.
- **Qualifications and interest in future airport work.** The interviewer asked about businesses' qualifications and interest in future work with ODA and other government agencies in connection with both prime contracts and subcontracts.
- **Geographic areas.** Interviewees were asked whether they could do work in the following geographic areas in Oregon: Portland/Hood River region, Willamette Valley and Northwest Oregon region, Southwestern Oregon, Central Oregon and Eastern Oregon.
- **Largest contracts.** The study team asked businesses to identify the value of the largest airport-related contract or subcontract which they had bid on or had been awarded in Oregon during the past six years.
- **Ownership.** Businesses were asked if at least 51 percent of the firm was owned and controlled by women and/or minorities. If businesses indicated that they were minority-owned, they were also asked about the race and ethnicity of owners. The study team reviewed reported ownership against other available data sources such as DBE directories.
- **Business background.** The study team asked businesses to identify the approximate year in which they were established. The interviewer asked several questions about the size of businesses in terms of their revenues and number of employees. For businesses with multiple locations, this section also asked about their revenues and number of employees across all locations.
- **Potential barriers in the marketplace.** Establishments were asked a series of questions concerning general insights about airport contracting practices and the marketplace including obtaining loans, bonding and insurance. The survey also included an open-ended question asking for any general thoughts about starting a business and achieving success in Oregon. In addition, the survey included a question asking whether interviewees would be willing to participate in a follow-up interview about marketplace conditions.

### **C. Execution of Availability Surveys**

Keen Independent held planning and training sessions with CRI as part of the launch of the availability surveys. ODA sent emails to its ORPIN list in mid-March of 2020 and a reminder email in late March, and CRI began conducting phone availability surveys in early April. Due to mandated business closures resulting from the COVID-19 pandemic, the study team extended the survey period. through mid-July.

To minimize non-response, CRI made at least six attempts at different times of day and on different days of the week to reach each business establishment. CRI identified and attempted to interview an available company representative such as the owner, manager or other key official who could provide accurate and detailed responses to the questions included in the survey.

**Establishments that the study team successfully contacted.** Figure D-2 presents the disposition of the businesses the study team attempted to contact for availability surveys. Note that the following analysis is based on business counts after Keen Independent removed duplicate firms in the D&B database (beginning list of 12,707 unique businesses).

**Non-working or wrong phone numbers.** Some of the business listings that the study team attempted to contact were:

- Non-working phone numbers (1,853); or
- Wrong numbers for the desired businesses (55).

Some non-working phone and wrong numbers reflected business establishments that had closed, were sold or changed their names and phone numbers between the time that a source listed them and the time that the study team attempted to contact them.

Figure D-2.  
Disposition of attempts to survey business establishments

Note:  
Study team made at least six attempts to complete an interview with each establishment.

Source:  
Keen Independent Research  
2020 availability surveys.

|  | Number of firms | Percent of business listings |
|--|-----------------|------------------------------|
| <b>Beginning list (unique businesses)</b>              | <b>12,707</b>   |                              |
| Less non-working phone numbers                         | 1,853           |                              |
| Less wrong number                                      | 55              |                              |
| <b>Firms with working phone numbers</b>                | <b>10,799</b>   | <b>100 %</b>                 |
| Less no answer   | 4,612           |                              |
| Less could not reach responsible staff member          | 862             |                              |
| Less could not continue in English or Spanish          | 26              |                              |
| Less unreturned fax/email                              | 400             |                              |
| Less said they already completed the survey but didn't | 10              |                              |
| <b>Firms successfully contacted</b>                    | <b>4,889</b>    | <b>46 %</b>                  |

**Working phone numbers.** As shown in Figure D-2, there were 10,799 businesses with working phone numbers that the study team attempted to contact. For various reasons, the study team was unable to contact some of those businesses:

- **No answer.** Some businesses could not be reached after at least six attempts at different times of the day and on different days of the week (4,612 establishments).
- **Could not reach responsible staff member.** For some businesses (862), a responsible staff person could not be reached to complete the after repeated attempts.

- **Could not complete the survey in English or Spanish.** Businesses with language barriers during an initial call were re-contacted by a Spanish-speaking CRI interviewer, as appropriate. The interviewee was asked if there was anyone available to perform the survey in English. If not, the background questions were asked in Spanish. If it appeared that the firm performed work related to airport contracting or engineering, the interviewer asked if the company would like to complete an email or faxed questionnaire (in English), which was then sent. This approach appeared to nearly eliminate any language barriers to participating in the availability surveys. Language barriers presented a difficulty in conducting the survey for only 26 companies (mix of languages identified by interviewers as Russian, Spanish, Chinese, etc.).
- **Unreturned fax or email surveys.** The study team sent email invitations to those who requested a link to the online survey or requested to do the survey via fax. There were 400 businesses that requested such surveys but did not return them.
- **Respondent indicated that they had already completed an online survey.** There were 10 respondents who said that they had already completed an online survey that were not found within the online survey responses.

After taking those unsuccessful attempts into account, the study team was able to successfully contact 4,889 businesses, or 45.3 percent of those with working phone numbers.

**Establishments included in the availability database.** Figure D-3 presents the disposition of the 4,889 businesses the study team successfully contacted and how that number resulted in the 803 businesses the study team included in the availability database.

Figure D-3.  
Disposition of  
successfully contacted  
businesses

Source:  
Keen Independent Research  
2020 availability surveys.

|   | <b>Number<br/>of firms</b> |
|---|----------------------------|
| <b>Firms successfully contacted</b>                                   | <b>4,889</b>               |
| Less business not interested  | 3,908                      |
| Less no longer in business  | 15                         |
| <b>Firms that completed interviews about business characteristics</b> | <b>966</b>                 |
| Less not a for-profit business  | 352                        |
| Less firms with no location in the study area                         | 3                          |
| <b>Firms included in availability database</b>                        | <b>611</b>                 |
| <b>Firms that completed the survey online</b>                         | <b>192</b>                 |
| <b>Total firms included in availability database</b>                  | <b>803</b>                 |

**Establishments not interested in discussing availability for ODA work.** Of the 4,889 businesses that the study team successfully contacted, 3,908 were not interested in discussing their availability for ODA work. In Keen Independent’s experience, those types of responses are often firms that do not

perform relevant types of work. Another 15 respondents indicated that their companies were no longer in business.

**Businesses included in the availability database.** Many firms completing availability surveys were not included in the final availability database because they indicated that they did not have a location in the study area or reported that they were not a for-profit business:

- Keen Independent excluded three businesses that indicated that were found to not have a location in the relevant geographic area.
- Of the completed surveys, 352 indicated that they were not a for-profit business (including non-profits, government agencies and private residences). Surveys ended when respondents reported that their establishments were not for-profit businesses.

After those final screening steps, the survey effort produced a database of 611 businesses potentially available for ODA work. An additional 192 businesses completed an online or PDF survey, resulting in a final availability database of 803 firms.

**Coding responses from multi-location businesses.** As described above, there were multiple responses from some firms. Responses from different locations of the same business were combined into a single, summary data record after reviewing the multiple responses.

#### **D. Additional Considerations Related to Measuring Availability**

There are other considerations related to the approach to measuring availability, particularly as they related to ODA airports and other airports' implementation of the Federal DBE program.

**Not providing a count of all businesses available for ODA work.** The purpose of the availability surveys was to provide precise, unbiased estimates of the percentage of MBE/WBEs potentially available for ODA airports and other airports work. The research appropriately focused on firms in airport contracting-related subindustries and the relevant geographic area for ODA airports and other airports contracting. Subindustries that comprised a very small portion of ODA airports and other airports contracting-related work were not included. Keen Independent did not purchase Dun & Bradstreet data for firms outside Oregon and the three counties in Washington and Idaho. And, not all firms on the list of businesses completed surveys, even after repeated attempts to contact them. Therefore, the availability analysis did not provide a comprehensive listing of every business that could be available for all types of ODA airports and other airports work and should not be used in that way.

There were some firms receiving ODA airport and other airport work that did not complete an availability survey. Further research indicated that some were located outside the study area, were out of business by the time that the survey was conducted or might have been no longer interested in working with ODA airports or other airports. A few simply declined to take the survey.

- Keen Independent reviewed whether the 25 firms receiving the most ODA and other airport work were included in the availability database. Each of these businesses was contacted in the availability survey — by phone, email or both — with the exception of three firms with no location in the study area.

- Keen Independent’s analysis of MBE/WBE and majority-owned firms receiving ODA work found that MBE/WBEs were as likely to have completed an availability survey as majority-owned firms.

Federal courts have approved similar approaches to measuring availability that Keen Independent used in this study. The United States Department of Transportation’s (USDOT’s) “Tips for Goals Setting in the Disadvantaged Business Enterprise (DBE) Program” also recommends a similar approach to measuring availability for agencies implementing the Federal DBE Program.<sup>2</sup>

**Not using a “head count” based solely on ODA lists.** USDOT guidance for determining MBE/WBE availability recommends dividing the number of businesses in an agency’s DBE directory by the total number of businesses in the marketplace, as reported in U.S. Census data. As another option, USDOT suggests using a list of prequalified businesses or a bidders list to estimate the availability of MBE/WBEs for an agency’s prime contracts and subcontracts.

Keen Independent used the ORPIN list that included firms that expressed interest in bidding on public sector work in Oregon, but included other firms from the D&B list that were also potentially available for airports contracts. This helps capture firms that might have been discouraged from pursuing public sector airport work and would not appear on the ORPIN list.

Keen Independent’s approach to measuring availability used in this study also incorporates several layers of refinement to a simple headcount approach. For example, the surveys provide data on businesses’ qualifications, size of contracts they bid on and interest in ODA work, which allowed the study team to take a more refined approach to measuring availability.

**Using D&B lists.** Keen Independent supplemented business lists in ORPIN with Dun & Bradstreet business listings for Oregon, Southwest Washington and Payette County, Idaho. Note that D&B does not require firms to pay a fee to be included in its listings — it is completely free to listed firms. D&B provides the most comprehensive private database of business listings in the United States. Even so, the database does not include all establishments operating in the study area due to the following reasons:

- There can be a lag between formation of a new business and inclusion in D&B listings, meaning that the newest businesses may be underrepresented in the sample frame.
- Although D&B includes home-based businesses, those businesses are more difficult to identify and are thus somewhat less likely than other businesses to be included in D&B listings. Small, home-based businesses are more likely than large businesses to be minority- or women-owned, which again suggests that MBE/WBEs might be underrepresented in the final availability database.
- Some businesses providing airport contracting or engineering-related work might not be classified as such in the D&B data.

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<sup>2</sup> Tips for Goal-Setting in the Disadvantaged Business Enterprise (DBE) Program. Retrieved from <https://www.transportation.gov/osdbu/disadvantaged-business-enterprise/tips-goal-setting-disadvantaged-business-enterprise>

Because Keen Independent used ORPIN business listings for the availability analysis as well as D&B lists, the final survey list captures some firms not included in the D&B data. (The study team estimates that about one-quarter of the completed surveys were firms not on the D&B list.)

**Selection of specific subindustries.** Keen Independent identified specific subindustries when compiling business listings from Dun & Bradstreet. D&B provides highly specialized, 8-digit codes to assist in selecting firms within specific specializations. There are limitations when choosing specific D&B work specialization codes to define sets of establishments to be surveyed, which leave some businesses off the contact list. However, Keen Independent's use of additional data (ORPIN) mitigates this potential concern.

**Large number of companies reporting that they do not perform airport-related work or were not interested in discussing ODA work.** Many firms contacted in the availability surveys indicated that they did not perform related work or were otherwise not interested in airport work. The number of responses fitting these categories reflects the fact that Keen Independent was necessarily broad when developing its initial lists.

For example, Dun & Bradstreet does not have a subindustry code that identifies the subset of electrical firms or trucking firms that perform airport-related work. Therefore, Keen Independent acquired a general list of electrical firms (code 17310000) and local trucking firms (code 42120000), and through surveys identified which firms would perform work related to airport contracting or engineering. Most did not. Most of the firms indicating that they were not interested in discussing work with airports were in the fields of electrical work, trucking, engineering, and plumbing, heating and air conditioning work.

There were some companies that had actually performed ODA contracts that responded in the availability survey that they were not interested in discussing their availability for ODA work or did not perform relevant work. These firms accounted for less than 1 percent of the total of such responses, and there was no indication that MBE/WBEs were underrepresented in the final availability database due to these types of responses.

**Non-response bias.** An analysis of non-response bias considers whether businesses that were not successfully surveyed are systematically different from those that were successfully surveyed and included in the final data set. There are opportunities for non-response bias in any survey effort. The study team considered the potential for non-response bias due to:

- Research sponsorship;
- Differences in success reaching potential interviewees; and
- Language barriers.

**Research sponsorship.** Interviewers introduced themselves by identifying ODA as the survey sponsor because businesses may be less likely to answer somewhat sensitive business questions if the interviewer was unable to identify the sponsor.

**Differences in success reaching potential interviewees.** There might be differences in the success reaching firms in different types of work. However, Keen Independent concludes that any such differences did not lead to lower estimates of MBE/WBE availability than if the study team had been able to successfully reach all firms.

Businesses in highly mobile fields, such as trucking, are more difficult to reach for availability surveys than businesses more likely to work out of fixed offices (e.g., engineering firms). That assertion suggests that response rates may differ by work specialization. Simply counting all surveyed businesses across work specializations to determine overall MBE/WBE availability would lead to estimates that were biased in favor of businesses that could be easily contacted by email or telephone.

However, work specialization as a potential source of non-response bias in the availability analysis is minimized because the availability analysis examines businesses within particular work fields before determining an MBE/WBE availability figure. In other words, the potential for trucking firms to be less likely to complete a survey is less important because the number of MBE/WBE trucking firms is compared with the number of total trucking firms when calculating availability for trucking work.

Keen Independent examined whether minority- and women-owned firms were more difficult to reach in the telephone survey and found no indication that interviewers were less likely to complete telephone surveys with MBE/WBEs than majority-owned firms. The study team examined response rates based on MBE/WBE versus non-MBE/WBE business ownership data that Dun & Bradstreet had for firms in the list purchased from this source. Comparing MBE/WBE representation on the initial list from Dun & Bradstreet with MBE/WBE representation on the list of firms (from the D&B source) that were successfully contacted, MBE/WBE firms were just slightly more likely to be successfully contacted than majority-owned firms (7.4% of initial list and 7.9% of successfully surveyed firms based on D&B MBE/WBE identification). There is no indication that there were differences in response rates that materially affected the estimates of MBE/WBE availability.

**Potential language barriers.** Because of the methods explained previously in this appendix, any language barriers were minimal. Study results do not appear to have been affected by conducting the principal portions of the availability survey in English. Callbacks to firms in Spanish when an initial call identified an individual who only spoke Spanish appeared to be effective.

**Response reliability.** Business owners and managers were asked questions that may be difficult to answer, including questions about revenues and employment. Keen Independent explored the reliability of survey responses in a number of ways. For example:

- Keen Independent reviewed data from the availability surveys in light of information from other sources such as Dun & Bradstreet. This includes data on the number of employees and firm revenue.
- The study team identified firms that reported the ability to perform all or most of the worktypes studied, and researched those firms to minimize any over-reporting of types of work performed.
- Keen Independent compared survey responses about the largest contracts that businesses won during the past six years with actual ODA and local airport contract

data. The study team also reviewed available information about their past work for all firms reporting the ability to perform contracts in excess of \$10 million.

- The team used DBE directories and other sources of information to confirm information about the race/ethnicity and gender of business ownership that it obtained from availability surveys. The study team performed additional research in the event of any inconsistencies in race, ethnicity and gender ownership information for the firm.

**COVID-19.** The study team considered the impact of the COVID-19 pandemic on the availability survey results.

A portion of the availability survey took place during the Oregon “Stay Home, Save Lives” period which began March 23 due to the COVID-19 pandemic.<sup>3</sup> The study team paused its phone survey efforts in late May and resumed the survey after Oregon businesses began to reopen in early June.<sup>4</sup> The study team then continued survey efforts for approximately a month after the reopening process began, which likely allowed some businesses to complete the survey that would not have been reached during the stay-at-home order.

**Online participation.** As mentioned above, ODA sent emails in which it directed vendors to the disparity study website, where firms were able to complete the survey online. Additionally, all firms reached by phone had the opportunity to complete an online, PDF or fax survey, including the opportunity for interviewers to send a survey via email to personnel possibly working from home due to the pandemic. These online efforts continued throughout the full survey period from mid-March through mid-July 2020.

**Lack of interest due to COVID-19.** A small number of businesses (4) reported the COVID-19 pandemic as a reason for not answering the survey, either because they were closed temporarily or permanently due to the pandemic (3 firms) or the appropriate person was not reachable due to the pandemic (1 firm). An additional three businesses did not explicitly mention COVID-19 (or the coronavirus) but refused to take the survey and provided reasons which could have been related to COVID-19. Overall, of the 10,799 businesses with working phone numbers, less than one-tenth of 1 percent directly or indirectly reported COVID-19 as a reason for not completing an availability survey.

A copy of the survey instrument for construction follows.

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<sup>3</sup> Brown, Kate. Executive Order No. 20-12. [https://www.oregon.gov/gov/Documents/executive\\_orders/eo\\_20-12.pdf](https://www.oregon.gov/gov/Documents/executive_orders/eo_20-12.pdf)

<sup>4</sup> Brown, Kate. Executive Order No. 20-25. [https://www.oregon.gov/gov/Documents/executive\\_orders/eo\\_20-25.pdf](https://www.oregon.gov/gov/Documents/executive_orders/eo_20-25.pdf)



**E. Availability Survey Instrument**

**OREGON DEPARTMENT OF AVIATION FAX/EMAIL SURVEY**

The information developed in these surveys will add to the State’s existing data on companies interested in doing business with state and local agencies.

If you have any questions, please contact:

Heather Peck  
Oregon Department of Aviation (ODA)  
Planning and Projects Division Manager  
503-378-3168  
heather.peck@aviation.state.or.us

You may also visit <http://www.keenindependent.com/OregonAirportDBEStudy/> to learn more.

**Z5. What is the name of your business?**

\_\_\_\_\_

**Z8. Address of business (if multiple offices, choose an Oregon location if possible):**

City (Required): \_\_\_\_\_

State (Required): \_\_\_\_\_

ZIP: \_\_\_\_\_

**A1. Does your firm do any work related to airport contracting or engineering?**

01 = Yes

02 = No

98 = Don’t know

**A2. Is your firm a for-profit business (as opposed to a nonprofit organization, a foundation or a government office)?**

01 = Yes

02 = No

98 = Don’t know

**A4. What would you say is the main line of business of your company?**

\_\_\_\_\_

A5. Is this the sole location for your business, or do you have offices in other locations?

01 = Sole location

02 = Have other locations

98 = Don't know

A6. Is your company a subsidiary or affiliate of another firm?

01 = Independent [SKIP TO B1]

02 = Subsidiary or affiliate of another firm

98 = Don't know [SKIP TO B1]

A7. What is the name of your parent company?

---

98 = Don't know

B1. What types of work does your firm perform related to construction?  
Select all that apply.

01 = Office, industrial and public building construction

02 = Electrical work

03 = Plumbing, heating and air conditioning

04 = Excavation, site prep, grading and drainage

05 = Wrecking and demolition

06 = Installation of guardrails and fencing

07 = Airport runway, taxiway or apron paving

08 = Pavement surface treatment (such as sealing)

09 = Pavement marking

10 = Road construction

11 = Concrete work

12 = Trucking and hauling

13 = Elevators, escalators, automatic doors and baggage systems

88 = Other (Please specify): \_\_\_\_\_

98 = Don't know

C1. During the past six years, has your company bid on or been awarded work on a public sector project?

1 = Yes

2 = No [SKIP TO C3]

98 = Don't know [SKIP TO C3]

C2. For those bids or awards, which of the following describes your role?  
Please select all that apply.

1 = Prime contractor

2 = Subcontractor

3 = Trucker or hauler

4 = Supplier or manufacturer

98 = Don't know

C3. Is your company qualified and interested in working with public sector agencies as a prime contractor?

1 = Yes

2 = No

98 = Don't know

C4. Is your company qualified and interested in working with public sector agencies as a subcontractor?

1 = Yes

2 = No

98 = Don't know

The next questions are about the geographic areas in Oregon where your company can deliver goods, perform work or serve customers.

D1. Can your company do work in the Portland/Hood River region?

1 = Yes

2 = No

98 = Don't know

D2. Can your company do work in the Willamette Valley and Northwest Oregon region, such as Salem, Newport and Eugene?

1 = Yes

2 = No

98 = Don't know

D3. Can your company do work in Southwestern Oregon such as Roseburg and Medford?

1 = Yes

2 = No

98 = Don't know

D4. Can your company do work in Central Oregon such as Bend and Klamath Falls?

1 = Yes

2 = No

98 = Don't know

D5. Can your company do work in Eastern Oregon such as Pendleton, La Grande and Burns?

1 = Yes

2 = No

98 = Don't know

E1. In rough dollar terms, in the past six years what was the largest contract or subcontract your company was awarded, bid on, or submitted quotes for anywhere in Oregon?

1 = \$100,000 or less

2 = More than \$100,000 up to \$500,000

3 = More than \$500,000 up to \$1 million

4 = More than \$1 million up to \$2 million

5 = More than \$2 million up to \$5 million

6 = More than \$5 million up to \$10 million

7 = More than \$10 million up to \$20 million

8 = More than \$20 million up to \$100 million

9 = More than \$100 million

97 = Not applicable

98 = Don't know

The next questions are about the ownership of the business.

F1. A business is defined as woman-owned if more than half — that is, more than 50 percent — of the ownership and control is by women. By this definition, is your firm a woman-owned business?

1 = Yes

2 = No

98 = Don't know

F2. A business is defined as minority-owned if more than half — that is, more than 50 percent — of the ownership and control is African American, Asian American, Hispanic American, Native American or another minority group. By this definition, is your firm a minority-owned business?

1 = Yes

2 = No [SKIP TO G1]

98 = Don't know [SKIP TO G1]

F3. Would you say that the minority group ownership is mostly African American, Asian-Pacific American, Hispanic American, Native American or Subcontinent Asian American?

1 = African American

2 = Asian-Pacific American

3 = Hispanic American or Portuguese American

4 = Native American

5 = Subcontinent Asian American

6 = Other group (Please specify): \_\_\_\_\_

98 = Don't know

The next questions are about the background of the business.

G1. About what year was your firm established?

\_\_\_\_\_

98 = Don't know

The next set of questions pertain to annual averages for your company for the past five years (or just years in business if formed after 2015).

G3. About how many employees did you have working out of just your location, on average, over the past five years? (This includes employees who work at your location and those who work from your location.)

\_\_\_\_\_

98 = Don't know

G5. Think about the annual gross revenue of your company, considering just your location. Please estimate the annual average for the past five years.

1 = Up to \$0.5 million

2 = \$0.6 million up to \$1 million

3 = \$1.1 million up to \$3.5 million

4 = \$3.6 million up to \$8 million

5 = \$8.1 million up to \$12 million

6 = \$12.1 million up to \$16.5 million

7 = \$16.6 million up to \$24 million

8 = \$24.1 million up to \$30 million

9 = \$30.1 million up to \$39.5 million

10 = \$39.6 million or more

98 = Don't know

G6. [SKIP IF YOUR FIRM DOES NOT HAVE OTHER LOCATIONS] About how many employees did you have, on average, for all of your locations over the past five years?

(Number of employees at all locations should not be fewer than at just your location.)

\_\_\_\_\_



G7. [SKIP IF YOUR FIRM DOES NOT HAVE OTHER LOCATIONS] Think about the annual gross revenue of your company, for all your locations. Please estimate the annual average for the past five years.

(Revenue at all locations should not be less than at just your location.)

- 1 = Up to \$0.5 million
- 2 = \$0.6 million up to \$1 million
- 3 = \$1.1 million up to \$3.5 million
- 4 = \$3.6 million up to \$8 million
- 5 = \$8.1 million up to \$12 million
- 6 = \$12.1 million up to \$16.5 million
- 7 = \$16.6 million up to \$24 million
- 8 = \$24.1 million up to \$30 million
- 9 = \$30.1 million up to \$39.5 million
- 10 = \$39.6 million or more
- 98 = Don't know

Finally, we're interested in whether the company has experienced barriers or difficulties associated with business start-up or expansion, or with obtaining work. Think about your experiences in the past six years as you answer these questions.

H1a. Has your company experienced any difficulties in obtaining lines of credit or loans?

- 1 = Yes
- 2 = No
- 97 = Does not apply
- 98 = Don't know

H1b. Has your company obtained or tried to obtain a bond for a project or contract?

1 = Yes

2 = No [SKIP TO H1d]

97 = Does not apply [SKIP TO H1d]

98 = Don't know [SKIP TO H1d]

H1c. Has your company had any difficulties obtaining bonds needed for a project or contract?

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

H1d. Have you had any difficulty in being prequalified for work?

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

H1e. Have any insurance requirements on projects presented a barrier to bidding?

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

H1f. Has the large size of projects presented a barrier to bidding?

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

**H1g. Has your company experienced any difficulties learning about bid opportunities from airports owned by the State of Oregon?**

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

**H1h. Has your company experienced any difficulties learning about bid opportunities with cities, counties and other local agencies in Oregon that operate medium and small airports?**

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

**H1i. Has your company experienced any difficulties learning about bid opportunities in the private sector in Oregon?**

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

**H1j. Has your company experienced any difficulties learning about subcontracting opportunities in Oregon?**

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

H1k. Has your company experienced any difficulties obtaining final approval on your work from inspectors or prime contractors?

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

H1l. Has your company experienced any difficulties receiving payment from ODA in a timely manner?

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

H1m. Has your company experienced any difficulties receiving payment from cities, counties and other local agencies in Oregon that operate medium and small airports?

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

H1n. Has your company experienced any difficulties receiving payment from prime contractors in a timely manner?

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

H1o. Has your company experienced any difficulties receiving payment from other customers in a timely manner?

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

H1p. Has your company experienced any competitive disadvantages due to the pricing you get from your suppliers?

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

H1q. Has your company experienced any competitive disadvantages due to the pricing you get from your suppliers?

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

H2. Do any other barriers come to mind about starting and expanding a business or achieving success in your industry in Oregon?

1 = Yes [Please provide your thoughts in the box below.]

---

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2 = No

97 = Does not apply

98 = Don't know

H3. Would you be willing to participate in a follow-up interview about any of these issues?

1 = Yes

2 = No

97 = Does not apply

98 = Don't know

Just a few last questions.

I1. What is your full name?

---

I2. What is your position at the firm?

1 = Receptionist

2 = Owner

3 = Manager

4 = CFO

5 = CEO

6 = Assistant to Owner/CEO

7 = Sales manager

08 = Office manager

09 = President

88 = Other (Please specify) \_\_\_\_\_

14. What mailing address should ODA use to contact you?

Street Address: \_\_\_\_\_

City: \_\_\_\_\_

State: \_\_\_\_\_

ZIP: \_\_\_\_\_

15. What fax number could ODA use to fax any materials to you?

\_\_\_\_\_

15P. What phone number could ODA use to contact you?

\_\_\_\_\_

16. What e-mail address could ODA use to get any materials to you?

\_\_\_\_\_

Thank you for your time. This is very helpful for ODA.

If you have any questions, please contact:

Heather Peck

Oregon Department of Aviation (ODA)

Planning and Projects Division Manager

503-378-3168

heather.peck@aviation.state.or.us

## APPENDIX E.

# Entry and Advancement in the Oregon Construction and Architecture and Engineering Industries

Federal courts have found that Congress “spent decades compiling evidence of race discrimination in government highway contracting, of barriers to the formation of minority-owned construction businesses and of barriers to entry.”<sup>1</sup> Congress found that discrimination had impeded the formation of qualified minority-owned businesses. In the marketplace appendices (Appendix E through Appendix I), Keen Independent examines whether some of the barriers to business formation that Congress found for minority- and women-owned businesses also appear to occur in Oregon.

Potential barriers to business formation include barriers associated with entry and advancement in the study industries. Appendix E examines recent data on education, employment, and workplace advancement that may ultimately influence business formation within the Oregon study industries.<sup>2, 3</sup>

### Introduction

Keen Independent examined whether there were barriers to the formation of minority- and women-owned businesses in Oregon. Business ownership often results from an individual entering an industry as an employee and then advancing within that industry. Within the entry and advancement process, there may be some barriers that limit opportunities for minorities and women. Figure E-1 on the following page presents a model of entry and advancement in the study industries.

Keen Independent determined that the relevant market area for Oregon Department of Aviation includes the entire state of Oregon, as well as Clark and Skamania County in Washington and Payette County in Idaho. These areas represent the Oregon marketplace. Any discussion of the “Oregon marketplace” or “Oregon study industries” in the following analysis includes firms and individuals located in these areas.

Appendix E uses 2014–2018 American Community Survey (ACS) data to analyze education, employment and workplace advancement — all factors that may influence whether individuals start construction or architecture and engineering businesses. Keen Independent studied barriers to entry into the study industries separately because entrance requirements and opportunities for advancement differ for those industries. All results pertain to conditions prior to the COVID-19 pandemic.

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<sup>1</sup> *Sherbrooke Turf, Inc. v. Minnesota DOT*, 345 F.3d 964 (8th Cir. 2003), citing *Adarand Constructors, Inc. v. Slater*, 228 F.3d (10th Cir. 2000); *Western States Paving Co., Inc. v. Washington State DOT*, 345 F.3d 964 (8th Cir. 2003).

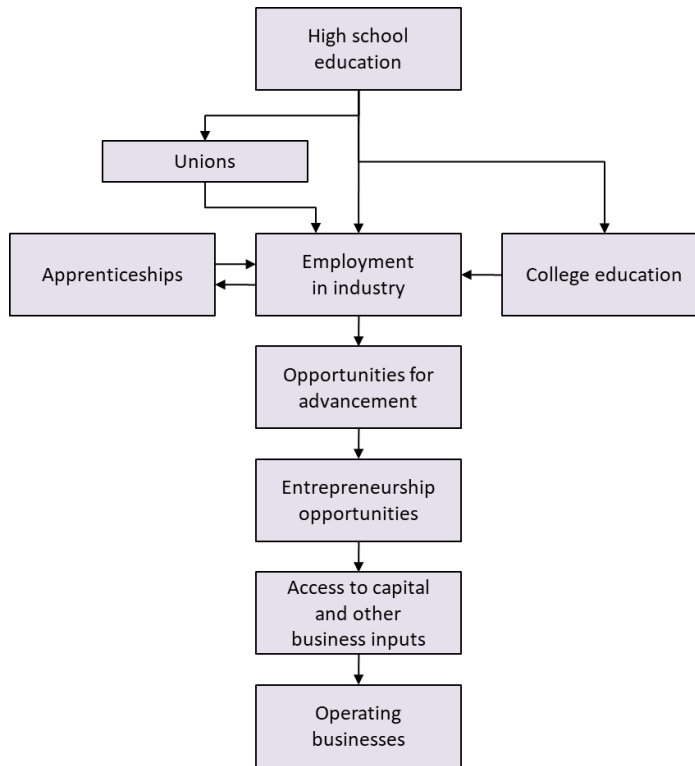
<sup>2</sup> In Appendix E and other appendices that present information about local marketplace conditions, information for “architecture and engineering” or “A&E” refers to architectural, engineering and related services. Each reference to “architecture and engineering” work pertains to those types of services.

<sup>3</sup> Several other report appendices analyze other quantitative aspects of conditions in the Oregon marketplace. Appendix F explores business ownership. Appendix G presents an examination of access to capital. Appendix H considers the success of businesses. Appendix I presents the data sources that Keen Independent used in those appendices.



Figure E-1.  
Model for studying entry  
into the construction and  
A&E industries in Oregon  
marketplace

Source:  
Keen Independent.



**Minority workers and business owners in Oregon.** Keen Independent began the analysis by examining the representation of people of color and women among business owners and workers in the Oregon marketplace. Figure E-2 on the following page shows the demographic distribution of business owners in the study industries, business owners in other industries (excluding the study industries) and the labor force, based on 2014–2018 ACS data. (Demographics of the workforce in each individual study industry are presented separately later in Appendix E.) Analysis for Oregon industries in 2014–2018 indicated the following:

- African Americans accounted for less than 1 percent of business owners in the study industries and 1.8 percent of business owners in all other industries, while accounting for about 2.4 percent of all workers.
- Asian Americans accounted for 6 percent of all workers, 5.4 percent of business owners in non-study industries, and 2.8 percent of business owners in study industries.
- Hispanic Americans accounted for 7.2 percent of business owners in the study industries, 7.3 percent of business owners in other industries and 12.5 percent of the entire workforce.
- Native Americans or other minorities accounted for approximately 2.3 percent of the workforce, compared with 1.7 percent of business owners in both the study and non-study industries.

- Non-Hispanic whites accounted for 87.6 percent of business owners in the study industries and 83.9 percent of business owners in other industries, higher than their representation in the workforce (76.7%).

Figure E-2.

Demographic distribution of business owners and the workforce in Oregon marketplace, 2014–2018

| Oregon                            | Workforce in all industries | Business owners in study industries | Business owners in all other industries |
|-----------------------------------|-----------------------------|-------------------------------------|---|
| <b>Race/ethnicity</b>             |                             |                                     |   |
| African American                  | 2.4 %                       | 0.7 % **                            | 1.8 % **                                |
| Asian American                    | 6.0                         | 2.8 **                              | 5.4 **                                  |
| Hispanic American                 | 12.5                        | 7.2 **                              | 7.3 **                                  |
| Native American or other minority | 2.3                         | 1.7                                 | 1.7 **                                  |
| Non-Hispanic white                | 76.7                        | 87.6 **                             | 83.9 **                                 |
| <b>Total</b>                      | <b>100.0 %</b>              | <b>100.0 %</b>                      | <b>100.0 %</b>                          |
| <b>Gender</b>                     |                             |                                     |   |
| Female                            | 47.0 %                      | 10.0 % **                           | 48.4 % **                               |
| Male                              | 53.0                        | 90.0 **                             | 51.6 **                                 |
| <b>Total</b>                      | <b>100.0 %</b>              | <b>100.0 %</b>                      | <b>100.0 %</b>                          |

Note: \*\* Denotes that the difference in proportions between business owners in the specified industries and the workforce in all industries for the given race/ethnicity/gender group is statistically significant at the 95% confidence level.

Source: Keen Independent Research from 2014–2018 ACS Public Use Microdata Sample (PUMS). The 2014–2018 raw data extracts were obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

Keen Independent analyzed whether differences between business ownership and the representation of people of color and women in the workforce were statistically significant (noted with asterisks in Figure E-2). This analysis showed:

- Relatively fewer African American business owners in study industries and all other industries when compared with their representation in the entire workforce.
- Relatively fewer Asian American and Hispanic American business owners in the study and non-study industries compared to representation in the workforce.
- Relatively fewer Native American or other minority business owners in non-study industries than what would be expected based on representation in the overall workforce. (The difference between business ownership rates of Native Americans or other minorities in the study industries and their representation in the overall workforce was not statistically significant due to small sample size among business owners in the study industries.)

Non-Hispanic white business owners were a larger percentage of business owners in both study and non-study industries than what would be expected based on their portion of the overall workforce.

**Female workers and business owners in Oregon.** Figure E-2 also examines the percentage of Oregon marketplace business owners and workers who are women. In 2014–2018, women

accounted for about 10 percent of business owners in the study industries, significantly less than their representation among business owners in other industries (48%) and in the overall workforce (47%).

## Construction Industry

Keen Independent examined how education, training, employment and advancement may affect the number of businesses that people of color and women owned in the Oregon construction industry in 2014–2018.

**Education.** Formal education beyond high school is not a prerequisite for most construction jobs,<sup>4</sup> and the construction industry often attracts individuals who have relatively less formal education than in other industries.<sup>5</sup> Based on 2014–2018 ACS data, 34 percent of construction workers in Oregon were high school graduates without post-secondary education and 15 percent had not graduated high school. Only 14 percent of construction workers had a four-year college degree or more, less than what is found for other industries (34%).

**Race/ethnicity.** Due to the level of educational requirements for entry-level jobs and the limited education beyond high school for many minority groups in the state, one would expect a relatively high representation of those groups in the Oregon construction industry, especially in entry-level positions.

- Hispanic Americans represent a large population of workers without post-secondary education. In 2014–2018, only 17 percent of all Hispanic American workers age 25 and older who worked in Oregon held at least a four-year college degree, far below the figure for non-Hispanic whites 25 and older (39%).
- The percentage of Native American (22%) and African American (31%) workers in the Oregon marketplace with a four-year college degree was also substantially lower than that of non-minorities in 2014–2018.

However, 51 percent of Asian American workers age 25 and older in Oregon had at least a four-year college degree in 2014–2018. One might expect representation of Asian Americans in the Oregon construction industry to be lower than in other industries given this level of education.

**Gender.** Based on 2014–2018 data, 39 percent of female workers and 35 percent of male workers age 25 and older had at least a four-year college degree. The higher percentage of women with a college degree may be one factor contributing to lower representation of women among construction workers.

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<sup>4</sup> Bureau of Labor Statistics, U.S. Department of Labor. (2018, January 30). Construction and extraction occupations. *Occupational Outlook Handbook*. Retrieved from <https://www.bls.gov/ooh/construction-and-extraction/home.htm>

<sup>5</sup> CPWR - The Center for Construction Research and Training. (2013). Educational attainment and internet usage in construction and other industries. In *The construction chart book: The U.S. construction industry and its workers* (5th ed.). Retrieved from <https://www.cpwr.com/sites/default/files/publications/5th%20Edition%20Chart%20Book%20Final.pdf>;  
CPWR - The Center for Construction Research and Training. (2007). Educational attainment and internet usage in construction and other industries. In *The construction chart book: The U.S. construction industry and its workers* (3rd ed.). Retrieved from [https://www.cpwr.com/sites/default/files/research/CB3\\_FINAL.pdf](https://www.cpwr.com/sites/default/files/research/CB3_FINAL.pdf)

Among people with a college degree, women have been less likely to enroll in construction-related degree programs. Nationally, women have low levels of enrollment in Construction Management programs, and this may be due to (a) the prevailing notion that construction is an industry dominated by males and is unkind to females and families, and (b) secondary school career counselors' lack of discussion of women's career opportunities in the construction fields, and female students' consequent lack of knowledge of these professions.<sup>6</sup>

**Apprenticeship and training.** Training in the construction industry is largely on-the-job and through trade schools and apprenticeship programs. Entry-level jobs for workers out of high school are often for laborers, helpers or apprentices. More skilled positions in the construction industry may require additional training through a technical or trade school, or through an apprenticeship or other training program. Apprenticeship programs can be developed by employers, trade associations, trade unions or other groups.

Workers can enter apprenticeship programs from high school or trade school. Apprenticeships have traditionally been three- to five-year programs that combine on-the-job training with classroom instruction.<sup>7</sup> In response to limited construction employment opportunities during the Great Recession, apprenticeship programs limited the number of new apprenticeships<sup>8</sup> as well as access to knowing when and where apprenticeships occur.<sup>9</sup> Apprenticeship programs often refer to an “out-of-work list” when contacting apprentices; those who have been on the list the longest are given preference.

Furthermore, some research indicates that apprentices are often hired and laid off several times throughout the duration of their apprenticeship program. Apprentices were more successful if they were able to maintain steady employment, either by remaining with one company and moving to various work sites, or by finding work quickly after being laid off. Apprentices identified mentoring from senior coworkers, such as journey workers, foremen or supervisors, and being assigned tasks that furthered their training as important to their success.<sup>10</sup>

**Employment.** With educational attainment for minorities, women and other workers as context, Keen Independent examined employment in the Oregon construction industry. Figure E-3 on page 7 of this appendix presents data from 2014–2018 to compare the demographic composition of the construction industry with the total workforce in Oregon.

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<sup>6</sup> Sewalk, S., & Nietfeld, K. (2013). Barriers preventing women from enrolling in construction management programs. *International Journal of Construction Education and Research*, 9(4), 239-255. doi:10.1080/15578771.2013.764362

<sup>7</sup> Bureau of Labor Statistics, U.S. Department of Labor. (2013). Apprenticeship: Earn while you learn. Retrieved from <https://www.bls.gov/careeroutlook/2013/summer/art01.pdf>

<sup>8</sup> Kelly, M., Pisciotta, M., Wilkinson, L., & Williams, L. S. (2015). When working hard is not enough for female and racial/ethnic minority apprentices in the highway trades. *Sociological Forum*, 30(2), 415-438. doi:10.1111/socf.12169

<sup>9</sup> Graves, F. G., et al. *Women in construction: Still breaking ground* (Rep.). Retrieved from National Women's Law Center website: [https://www.nwlc.org/sites/default/files/pdfs/final\\_nwlc\\_womeninconstruction\\_report.pdf](https://www.nwlc.org/sites/default/files/pdfs/final_nwlc_womeninconstruction_report.pdf)

<sup>10</sup> Ibid.

**Race/ethnicity.** Based on 2014–2018 ACS data, people of color were 23 percent of those working in the Oregon construction industry. Examination of the Oregon construction industry workforce in 2014–2018 shows that:

- About 16 percent of the construction workforce was Hispanic American;
- Less than 3 percent of workers in the local construction industry were Native American;
- About 2 percent of construction workers in the area were African American; and
- Asian Americans made up about 2 percent of construction workers in the Oregon marketplace.

In Oregon, Hispanic Americans were a larger percentage of workers in construction than in other industries (12%). Native Americans were also a relatively larger portion of the construction workforce than the Oregon workforce in other industries. In contrast, African Americans (2%) and Asian Americans (2%) accounted for a smaller percentage of workers in the construction industry than in other industries (3% and 6%, respectively). Figure E-3 on the following page presents these results.

The average educational attainment of African American workers is consistent with requirements for construction jobs, so education does not explain the relatively low number of African Americans employed in the Oregon construction industry. Historically, race discrimination by construction unions has contributed to the low employment of African Americans in construction trades nationally.<sup>11</sup> The role of unions is discussed more thoroughly later in Appendix E (including research that suggests discrimination has been reduced in unions).

Asian Americans made up 2 percent of the construction workforce and 6 percent of all other workers in Oregon in 2014–2018. The fact that Asian Americans were more likely than other groups to have a college education may explain part of that difference.

**Gender.** There are large differences between the representation of women in construction and in all industries. For 2014–2018, women represented 11 percent of all workers in the construction industry and 50 percent of workers in all other industries in the Oregon marketplace.

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<sup>11</sup> Feagin, J. R., & Imani, N. (1994). Racial barriers to African American entrepreneurship: An exploratory study. *Social Problems*, 41(4), 562-584. doi:10.1525/sp.1994.41.4.03x0272l; Waldinger, R., & Bailey, T. (1991). The continuing significance of race: Racial conflict and racial discrimination in construction. *Politics & Society*, 19(3), 291-323. doi:10.1177/003232929101900302; *United Steelworkers v. Weber*, 443 U.S. 193 (5th Cir. 1979).

Figure E-3.  
Demographics of workers in construction and all other industries  
in Oregon marketplace, 2014–2018

| Oregon                            | Construction   | All other industries |
|-----------------------------------|----------------|----------------------|
| <b>Race/ethnicity</b>             |                |                      |
| African American                  | 1.7 % **       | 2.5 %                |
| Asian American                    | 2.4 **         | 6.2                  |
| Hispanic American                 | 16.2 **        | 12.3                 |
| Native American or other minority | 2.6            | 2.3                  |
| <b>Total minority</b>             | <b>22.8 %</b>  | <b>23.3 %</b>        |
| Non-Hispanic white                | 77.2           | 76.7                 |
| <b>Total</b>                      | <b>100.0 %</b> | <b>100.0 %</b>       |
| <b>Gender</b>                     |                |                      |
| Female                            | 11.0 % **      | 49.5 %               |
| Male                              | 89.0 **        | 50.5                 |
| <b>Total</b>                      | <b>100.0 %</b> | <b>100.0 %</b>       |

Note: \*\* Denotes that the difference in proportions between workers in the construction industry and all other industries for the given Census/ACS year is statistically significant at the 95% confidence level.  
"All other industries" includes all industries other than the construction industry.

Source: Keen Independent Research from 2014–2018 ACS Public Use Microdata samples. The 2014–2018 ACS raw data extracts were obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

**Academic research concerning any effect of race- and gender-based discrimination in construction labor markets.** There is substantial academic literature that has examined whether race- or gender-based discrimination affects opportunities for people of color and women to enter construction trades in the United States. Many studies indicate that race- and gender-based discrimination affects opportunities for minorities and women in the construction industry. For example, literature concerning women in construction trades has identified substantial barriers to entry and advancement due to gender discrimination and sexual harassment.<sup>12</sup> Research concerning highway construction projects in three major U.S. cities (Boston, Los Angeles, and Oakland) identified evidence of prevailing attitudes that women do not belong in construction, and that such discrimination was worse for women of color than for white women.<sup>13</sup> Another recent study found that when African American women in construction advance into leadership roles, they often find that others unduly challenge their authority. Study participants also reported incidents of harassment, bullying, and the assumption that they are inferior to their male peers; these instances are believed to hinder African American females' career development and overall success in the construction

<sup>12</sup> Denissen, A. M., & Saguy, A. C. (2013). Gendered homophobia and the contradictions of workplace discrimination for women in the building trades. *Gender & Society*, 28(3), 381-403. doi:10.1177/0891243213510781; Ericksen, J. A., & Schulteiss, D. E. (2009). Women pursuing careers in trades and construction. *Journal of Career Development*, 36(1), 68-89. doi:10.1177/0894845309340797

<sup>13</sup> Note that those interviews took place between 1996 and 1999. Price, V. (2002). Race, Affirmative Action and Women's Participation in U.S. Highway Construction. *Feminist Economics*, 8(2), 87–113.

industry.<sup>14</sup> In another study, white men were found to be the least likely to report challenges related to being assigned low-skill or repetitive tasks that did not enable them to learn new skills. Women and people of color felt that they were disproportionately performing low-skill tasks that negatively impacted the quality of their training experience.<sup>15</sup>

Additionally, women encounter practical issues such as difficulty in accessing personal protective equipment that fits them properly (they frequently find such employer-provided equipment to be too large). This sometimes poses a safety hazard, and even more often hinders female workers' productivity, which can impact their relationships with supervisors as well as their opportunities for growth in the industry.<sup>16</sup>

Research suggests that race and gender inequalities in a workplace are often evidenced through the acceptance of the “good old boys’ club” culture.<sup>17</sup> There may also be an attachment to the idea that “working hard” will bring success. However, the quantitative and qualitative evidence indicates that “hard work” alone does not ensure success for women and people of color.<sup>18</sup> In 2014, the National Women’s Law Center found low representation of women, and especially women of color, in construction jobs and apprenticeships. Women experience many barriers to success in this career path, including explicit gender discrimination and harassment.<sup>19</sup>

Research has also well documented the fact that managers often hire individuals who are similar to themselves which creates a culture of similarity<sup>20</sup> or homologous reproduction.<sup>21</sup> In the construction industry, Kelly et al. found that, in Oregon, women and people of color had a more difficult time establishing personal relationships and building professional networks with their white male journeyman, supervisors and foremen in the highway trades. About 35 percent of women of color, 32 percent of white women and 21 percent of men of color reported problems with journey workers, compared to only 13 percent of white men.<sup>22</sup>

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<sup>14</sup> Hunte, R. (2016). Black women and race and gender tensions in the trades. *Peace Review*, 28(4), 436-443. doi:10.1080/10402659.2016.1237087

<sup>15</sup> Kelly, M., et al. (2015). When working hard is not enough for female and racial/ethnic minority apprentices in the highway trades. *Sociological Forum*, 30(2), 415-438. doi:10.1111/socf.12169

<sup>16</sup> Onyebekwe, L. C., et al. (2016). Access to properly fitting personal protective equipment for female construction workers. *American Journal of Industrial Medicine*, 59(11), 1032-1040. doi:10.1002/ajim.22624

<sup>17</sup> Kelly, M., et al. (2015). When working hard is not enough for female and racial/ethnic minority apprentices in highway trades. *Eastern Sociological Society*, 30(2): 415–438.

<sup>18</sup> Ibid.

<sup>19</sup> Jackson, Sarah. (2019, Nov. 29). *‘Not the boys’ club anymore’: Eight women take a swing at the construction industry*. NBC News. Retrieved from <https://www.nbcnews.com/news/us-news/not-boys-club-anymore-eight-women-take-swing-construction-industry-n1091376>; Graves, F. G., et al. *Women in construction: Still breaking ground* (Rep.). Retrieved from National Women’s Law Center website: [https://www.nwlc.org/sites/default/files/pdfs/final\\_nwlc\\_womeninconstruction\\_report.pdf](https://www.nwlc.org/sites/default/files/pdfs/final_nwlc_womeninconstruction_report.pdf)

<sup>20</sup> Chelladurai, P., & Doherty, A. (1999). Managing cultural diversity in sport organizations: A theoretical perspective. *Journal of Sport Management*; 19(3), 280–297.

<sup>21</sup> Kanter, R. M. (1977). *Men and women of the corporation*. New York: Basic Books.

<sup>22</sup> Kelly, M., et al. (2015). When working hard is not enough for female and racial/ethnic minority apprentices in the highway trades. *Sociological Forum*, 30(2), 415-438. doi:10.1111/socf.12169

Research on the Oregon highway construction industry reports an underrepresentation of minorities and women in apprenticeship programs.<sup>23</sup> Kelly et al. identified informal hiring practices that relied on personal relationships and networking. While 76 percent of white men agreed that jobs were fairly assigned during their most recent apprenticeship, only 57 percent of women of color, 58 percent of white women, and 55 percent of men of color agreed. In addition, both construction company staff and apprentices indicated that they believed that women and men of color were more likely to be laid off even if there were other apprentices who were newer to the project or were less effective.<sup>24</sup> Burd-Sharps et al. found that almost 68 percent of female apprentices in Oregon’s highway trades experienced some kind of workplace discrimination or harassment in comparison to 28 percent of men, and a higher percentage of women of color reported experiencing gender-based discrimination “sometimes” or “often” than white female apprentices (66% and 52%, respectively).<sup>25</sup>

The temporary nature of construction work results in uncertain job prospects, and the relatively high turnover of laborers presents a disincentive for construction firms to invest in training. Some researchers have concluded that constant turnover has lent itself to informal recruitment practices and nepotism, compelling laborers to tap social networks for training and work. They credit the importance of social networks with the high degree of ethnic segmentation in the construction industry.<sup>26</sup> Unable to integrate themselves into traditionally white social networks, African Americans and other minorities faced long-standing historical barriers to entering the industry.<sup>27</sup>

**Importance of unions to entry in the construction industry.** Labor researchers characterize construction as a historically volatile industry that is sensitive to business cycles, making the presence of labor unions important for stability and job security within the industry.<sup>28</sup> According to the Bureau of Labor Statistics, in 2019 union membership among people employed in construction occupations was over 17 percent.<sup>29</sup> National union membership within all occupations during 2019 was about 10 percent.<sup>30</sup> The difference in union membership rates demonstrates the relative importance of unions within the construction industry. Additionally, union membership has historically been somewhat higher in Oregon than in the United States as a whole. In 2019, union

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<sup>23</sup> Hegewisch, A., Henrici, J., Hooper, T., & Shaw, E. (2014). *Untapped resources, untapped labor pool: Using federal highway funds to prepare women for careers in construction*. (Rep.). Washington, D.C: Jobs for the Future.

<sup>24</sup> Kelly, M., et al. (2015). When working hard is not enough for female and racial/ethnic minority apprentices in highway trades. *Eastern Sociological Society*, 30(2): 415–438.

<sup>25</sup> Burd-Sharps, S., Kelly, M., & Lewis, K. (2014). Building a more diverse skilled workforce in the highway trades: Are Oregon’s current efforts working? *PDXScholar*. Portland, OR: Portland State University.

<sup>26</sup> Waldinger, R., & Bailey, T. (1991). The continuing significance of race: Racial conflict and racial discrimination in construction. *Politics & Society*, 19(3), 291-323. doi:10.1177/003232929101900302

<sup>27</sup> Feagin, J. R., & Imani, N. (1994). Racial barriers to African American entrepreneurship: An exploratory study. *Social Problems*, 41(4), 562-584. doi:10.1525/sp.1994.41.4.03x02721

<sup>28</sup> Applebaum, H. A. (1999). *Construction workers, U.S.A.* Westport, CT: Greenwood Press.

<sup>29</sup> Bureau of Labor Statistics, U.S. Department of Labor. (2020, January 22). *Union affiliation of employed wage and salary workers by occupation and industry* [Press release]. Retrieved from <https://www.bls.gov/cps/cpsaat42.htm>

<sup>30</sup> Bureau of Labor Statistics, U.S. Department of Labor. (2020, January 22). *Union members summary* [Press release]. Retrieved from <https://www.bls.gov/news.release/union2.nr0.htm>



membership in Oregon was more than 14 percent when examining all occupations,<sup>31</sup> although it is unclear what percentage of these workers worked in the construction industry.

Construction unions aim to provide a reliable source of labor for employers and preserve job opportunities for workers by formalizing the recruitment process, coordinating training and apprenticeships, enforcing standards of work, and mitigating wage competition.

However, some researchers have identified racial discrimination by trade unions that has historically prevented minorities from obtaining employment in skilled trades in the United States.<sup>32</sup> Some researchers have argued that union discrimination has taken place in a variety of forms, including the following examples:

- Unions have used admissions criteria that adversely affect minorities. In the 1970s, federal courts ruled that standardized testing requirements for unions unfairly disadvantaged minority applicants who had less exposure to testing. In addition, the policies that required new union members to have relatives who were already in the union perpetuated the effects of past discrimination.<sup>33</sup>
- Of those minority individuals who are admitted to unions, a disproportionately low number are admitted into union-coordinated apprenticeship programs. Apprenticeship programs are an important means of producing skilled construction laborers, and the reported exclusion of African Americans from those programs has severely limited their access to skilled occupations in the construction industry.<sup>34</sup>
- Although formal training and apprenticeship programs exist within unions, most training of union members takes place informally through social networking. Nepotism characterizes the unionized sector of construction as it does the non-unionized sector, and that practice favors a white-dominated status quo.<sup>35</sup>
- Traditionally, unions have been successful in resisting policies designed to increase African American participation in training programs. The political strength of unions in resisting affirmative action in construction has hindered the advancement of African Americans in the industry.<sup>36</sup>

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<sup>31</sup> Bureau of Labor Statistics, U.S. Department of Labor. (2020, February 6). *Union Members in Oregon —2019* [Press release]. Retrieved from [https://www.bls.gov/regions/west/news-release/unionmembership\\_oregon.htm](https://www.bls.gov/regions/west/news-release/unionmembership_oregon.htm)

<sup>32</sup> U.S. Department of Justice. (1996). Proposed reforms to affirmative action in federal procurement (61 FR 26042). *Federal register*, 101(61), 26042-63. Office of the Federal Register, National Archives and Records Administration.

<sup>33</sup> Ibid.; *U.S. v. Iron Workers Local 86*, 443 F.2d 544 (9th Cir. 1971); *Sims v. Sheet Metal Workers International Association*, 489 F.2d 1023 (6th Cir. 1973); *U.S. v. International Association of Bridge, Structural and Ornamental Iron Workers*, 438 F.2d 679 (7th Cir. 1971).

<sup>34</sup> Applebaum, H. A. (1999). *Construction workers, U.S.A.* Westport, CT: Greenwood Press.

<sup>35</sup> Ibid. A high percentage of skilled workers reported having a father or relative in the same trade. However, the author suggests this may not be indicative of current trends.

<sup>36</sup> Waldinger, R., & Bailey, T. (1991). The continuing significance of race: Racial conflict and racial discrimination in construction. *Politics & Society*, 19(3), 291-323. doi:10.1177/003232929101900302

- Discriminatory practices in employee referral procedures, including apportioning work based on seniority, have precluded minority union members from having the same access to construction work as their white counterparts.<sup>37</sup>
- According to testimony from African American union members, even when unions implement meritocratic mechanisms of apportioning employment to laborers, white workers are often allowed to circumvent procedures and receive preference for construction jobs.<sup>38</sup>

More recent research suggests that the relationship between people of color and unions has been changing. As a result, historical observations may not be indicative of current dynamics in construction unions. Recent studies focusing on the role of unions in apprenticeship programs have compared minority and female participation and graduation rates for apprenticeships in joint programs (that unions and employers organize together) with rates in employer-only programs.

Many of those studies conclude that the impact of union involvement is generally positive or neutral for minorities and women, compared to non-Hispanic white males, as summarized below.

- Glover and Bilginsoy analyzed apprenticeship programs in the U.S. construction industry during 1996 through 2003. Their dataset covered about 65 percent of apprenticeships during that time. The authors found that joint programs had “much higher enrollments and participation of women and ethnic/racial minorities” and exhibited “markedly better performance for all groups on rates of attrition and completion” compared to employer-run programs.<sup>39</sup>
- In a similar analysis focusing on female apprentices, Bilginsoy and Berik found that women were most likely to work in highly skilled construction professions as a result of enrollment in joint programs as opposed to employer-run programs. Moreover, the effect of union involvement in apprenticeship training was higher for African American women than for white women.<sup>40</sup>
- Additional research on the presence of African Americans and Hispanic Americans in apprenticeship programs found that African Americans were 8 percent more likely to be enrolled in a joint program than in an employer-run program. However, Hispanic Americans were less likely to be in a joint program than in an employer-run program.<sup>41</sup>

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<sup>37</sup> U.S. Department of Justice. (1996). Proposed reforms to affirmative action in federal procurement (61 FR 26042). *Federal register*, 101(61), 26042-63. Office of the Federal Register, National Archives and Records Administration.

<sup>38</sup> Feagin, J. R., & Imani, N. (1994). Racial barriers to African American entrepreneurship: An exploratory study. *Social Problems*, 41(4), 562-584. doi:10.1525/sp.1994.41.4.03x0272l

<sup>39</sup> Glover, R. W., & Bilginsoy, C. (2005). Registered apprenticeship training in the U.S. construction industry. *Education + Training*, 47(4/5), 337-349. doi:10.1108/00400910510601913

<sup>40</sup> Berik, G., & Bilginsoy, C. (2006). Still a wedge in the door: Women training for the construction trades in the USA. *International Journal of Manpower*, 27(4), 321-341. doi:10.1108/01437720610679197

<sup>41</sup> Bilginsoy, C. (2005). How unions affect minority representation in building trades apprenticeship programs. *Journal of Labor Research*, 26(3), 451-463. doi:10.1007/s12122-005-1014-4

Those data suggest that Hispanic Americans may be more likely than African Americans to enter the construction industry without the support of a union.

Other research focusing on specific states also indicates a more productive relationship between unions and minority workers than that which may have prevailed in the past. A study by Berik, Bilginsoy and Williams found minority and white women were overrepresented in union apprenticeship programs in Oregon. Although white women and minorities were less likely to graduate compared to white men, graduation rates for those groups in the union apprenticeship programs were higher than for nonunion programs.<sup>42</sup> Similar research conducted over a ten-year period in Massachusetts found women and minorities were recruited at a higher rate for union apprenticeship programs compared to nonunion programs and that the completion rates for these groups in union programs were consistently higher than those of nonunion programs.<sup>43</sup>

Recent union membership data support those findings as well. For example, 2019 Current Population Survey (CPS) asked participants, “Are you a member of a labor union or of an employee association similar to a union?” CPS data showed that union membership was highest among African Americans (11%), and non-Hispanic whites (10%). Hispanic American workers (9%) and Asian American workers (9%) had relatively lower rates of union membership.<sup>44</sup> Recent research utilizing CPS data puts African American union membership in the construction industry at over 17 percent.<sup>45</sup>

According to some research, union apprenticeships appear to have drawn more African Americans into the construction trades in some markets,<sup>46</sup> and studies have found a high percentage of minority construction apprentices. In 2010 in New York City, for example, approximately 69 percent of first-year local construction apprentices were African American, Hispanic American, Asian American, or members of other minority groups. In addition, 11 percent of local New York City construction apprentices were women. It should be noted that, though the Building and Construction Trades Council of Greater New York set a goal that women represent 10 percent of local apprentices; the City did not establish a goal for minority participation.<sup>47</sup> However, this increase in apprenticeships may not necessarily be indicative of improved future prospects for minority workers. A study in Oregon found that, though minority men’s participation in construction

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<sup>42</sup> Berik, G., Bilginsoy, C., & Williams, L. S. (2011). Gender and racial training gaps in Oregon apprenticeship programs. *Labor Studies Journal*, 36(2), 221–244.

<sup>43</sup> Argyres, A., & Moir, S. (2008). Building trades apprentice training in Massachusetts: An analysis of union and non-union programs, 1997–2007. *Labor Resource Center Publications*. Boston, MA: University of Massachusetts Boston.

<sup>44</sup> Bureau of Labor Statistics, U.S. Department of Labor. (2020, January 22). *Union members summary* [Press release]. Retrieved from <https://www.bls.gov/news.release/union2.nr0.htm>

<sup>45</sup> Bucknor, C. (2016). *Black workers, Unions, and Inequality*. Washington, D.C.: Center for Economic and Policy Research.

<sup>46</sup> Mishel, L. (2017). *Diversity in the New York City union and nonunion construction sectors* (Rep.). Retrieved from Economic Policy Institute website: <http://www.epi.org/publication/diversity-in-the-nyc-construction-union-and-nonunion-sectors/>

<sup>47</sup> Figueroa, M., Grabelsky, J., & Lamare, J. R. (2013). Community workforce agreements: A tool to grow the union market and to expand access to lifetime careers in the unionized building trades. *Labor Studies Journal*, 38(1), 7-31. doi:10.1177/0160449x13490408

apprenticeships was roughly proportional to their representation in the state’s workforce, their representation in skilled trades apprenticeships was lower than might be expected.<sup>48</sup>

Although union membership and union program participation vary based on race and ethnicity, there is no clear picture from the research about the causes of those differences and their effects on construction industry employment. Research is especially limited concerning the impact of unions on African American employment. It is unclear from past studies whether unions presently help or hinder equal opportunity in construction and whether effects in Oregon are different from other parts of the country. In addition, the current research indicates that the effects of unions on entry into the construction industry may differ for each minority group. Some unions are actively trying to provide a more inclusive environment for racial minorities and women through “insourcing” and active recruitment into apprenticeship programs.<sup>49, 50</sup>

Overall, union membership has decreased slightly in Oregon. Keen Independent researched union membership in Oregon and found that about 14 percent of all employed wage and salary workers were members of a labor union or an employee association similar to a union in 2019. In 2009, union membership in Oregon was at about 17 percent of employed persons. Union membership among private sector construction workers in Oregon has increased, however, from less than 12 percent in 2009 to 22 percent in 2019.<sup>51</sup> Oregon construction workers’ membership in unions are also slightly higher than private construction national averages. Nationally, about 13 percent of individuals are either members of unions or working on jobs that are covered by unions.<sup>52</sup>

**Advancement.** To research opportunities for advancement in the Oregon construction industry, Keen Independent examined the representation of people of color and women in construction occupations defined by the U.S. Bureau of Labor Statistics.<sup>53</sup> Appendix I provides full descriptions of construction trades with large enough sample sizes in the 2014–2018 ACS for analysis.

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<sup>48</sup> Berik, G., Bilginsoy, C., & Williams, L. S. (2011). Gender and racial training gaps in Oregon apprenticeship programs. *Labor Studies Journal*, 36(2), 221-244. doi:10.1177/0160449x10396377

<sup>49</sup> Judd, R. (2016, November 30). Seattle’s building boom is good news for a new generation of workers. *The Seattle Times, Pacific NW Magazine*. Retrieved from <https://www.seattletimes.com/pacific-nw-magazine/seattles-building-boom-is-good-news-for-a-new-generation-of-workers/>

<sup>50</sup> For example, Boston’s “Building Pathways” apprenticeship program is designed to recruit workers from low-income underserved communities. <https://buildingpathwaysboston.org/>

<sup>51</sup> Hirsch, B. T., & Macpherson, D. A. (2020). *Union Membership and Coverage Database from the CPS*. Retrieved May 7, 2020, from <http://unionstats.com>

<sup>52</sup> Hirsch, B. T., & Macpherson, D. A. (2003). Union Membership and Coverage Database from the Current Population Survey: Note. *Industrial and Labor Relations Review*. 56(2), 349–354; Hirsch, B. T., & Macpherson, D. A. (2020). *U.S. Historical Tables: Union Membership, Coverage, Density, and Employment: Private Construction, 1973–2019*. Retrieved May 7, 2020, from <http://www.unionstats.com>; Hirsch, B. T., & Macpherson, D. A. (2020). *State: Union Membership, Coverage, Density, and Employment: Private Construction, 1973–2019*. Retrieved May 7, 2020, from <http://www.unionstats.com>

<sup>53</sup> Bureau of Labor Statistics, U.S. Department of Labor. (2020). May 2019 Occupation Profiles. Retrieved from [https://www.bls.gov/oes/current/oes\\_stru.htm](https://www.bls.gov/oes/current/oes_stru.htm)

**Racial/ethnic composition of construction occupations.** Figure E-4 on the following page presents the race/ethnicity of workers in select construction-related occupations in Oregon, including lower-skill occupations (e.g., construction laborers), higher-skill construction trades (e.g., electricians), and supervisory roles. The trades presented correspond to types of construction labor often involved in airport contracting. Figure E-4 presents those data for 2014–2018.

Based on 2014–2018 ACS data, there are large differences in the racial and ethnic makeup of workers in various trades related to construction in the Oregon marketplace. Overall, people of color comprised 23 percent of workers in construction trades in 2014–2018, as shown in Figure E-4. Most minorities working in the statewide construction industry in 2014–2018 were Hispanic Americans.

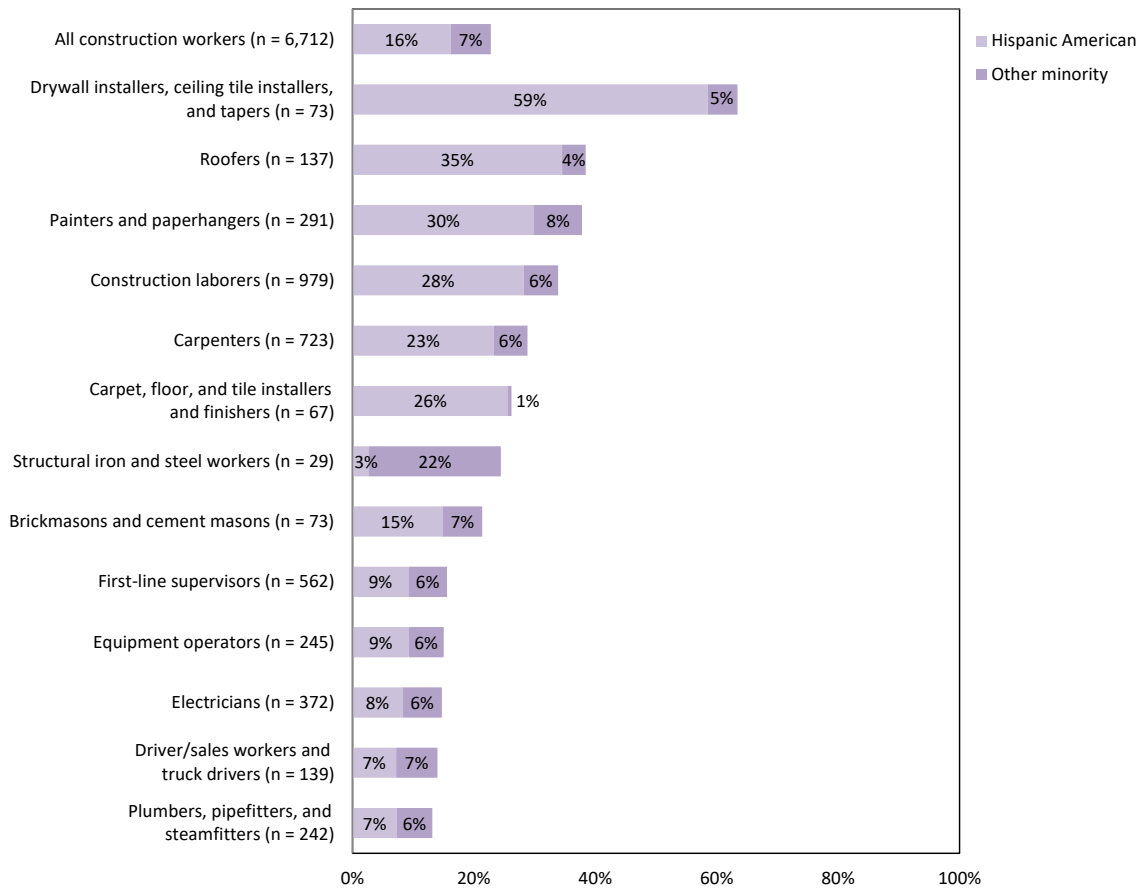
Hispanic Americans were 16 percent of workers for the industry as a whole, but a larger share of workers for occupations such as:

- Drywallers (59%);
- Roofers (35%)
- Painters (30%);
- Construction laborers (28%); and
- Carpet, floor and tile installers and finishers (26%).

Among first-line supervisors in the Oregon construction industry, only 9 percent were Hispanic Americans and 6 percent were other minorities. Figure E-4 provides these results. (Note that some of the sample sizes for construction trades such as for iron workers are very small.)

Figure E-4.

Minorities as a percentage of selected construction occupations in Oregon marketplace, 2014–2018



Note: Other minority includes African Americans, Asian American and Native Americans or other minorities. Brick masons and cement masons were combined into a single category. Equipment operators includes crane and tower operators, conveyor, dredge and hoist and winch operators, other material moving workers, underground mining machine operators, excavating and loading machine and dragline operators and construction equipment operators.

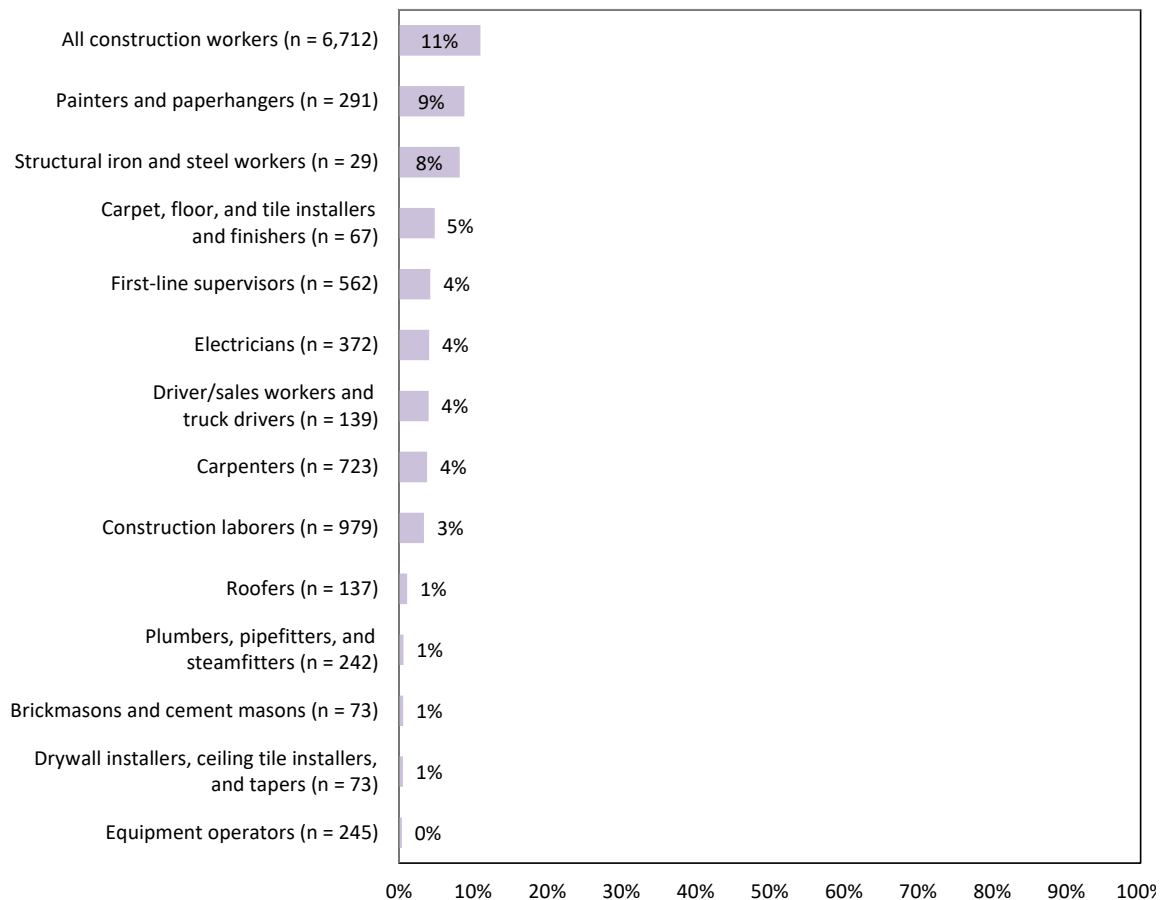
Source: Keen Independent Research from 2014–2018 ACS Public Use Microdata samples. The 2014–2018 ACS raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

**Gender composition of construction occupations.** Figure E-5 on the following page summarizes the representation of women in select construction-related occupations for 2014–2018. (Overall, women made up only 11 percent of workers in the industry in 2014–2018, which includes office workers in the industry.)

In 2014–2018, women accounted for no more than 5 percent of the workers in most of the largest construction trades. There were no women among the 245 workers in the ACS sample data for people working as equipment operators.

As shown in Figures E-5, women comprised just 4 percent of first-line supervisors in 2014–2018. Note that the reason women account for 11 percent of workers in the construction industry (top line of Figure E-5) is high representation in office-based occupations, which are not shown in Figure E-5.

Figure E-5.  
 Women as a percentage of construction workers in selected occupations in Oregon marketplace, 2014–2018



Note: Brick masons and cement masons were combined into a single category. Equipment operators includes crane and tower operators, conveyor, dredge and hoist and winch operators, other material moving workers, underground mining machine operators, excavating and loading machine and dragline operators and construction equipment operators.

Source: Keen Independent Research from 2014–2018 ACS Public Use Microdata samples. The 2014–2018 ACS raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

**Percentage of minorities as managers.** To assess advancement opportunities in the Oregon construction industry, Keen Independent further examined the proportion of construction workers who reported being managers. Figure E-6 on the following page presents the percentage of construction employees who reported working as managers in 2014–2018 for the Oregon marketplace by racial/ethnic and gender group.

In 2014–2018, about 10 percent of non-Hispanic whites in the Oregon construction industry were managers. Relatively fewer African Americans (1%) and Hispanic Americans (3%) in the industry worked as managers, statistically significant differences from the rate for non-Hispanic whites.

**Percentage of women as managers.** In the Oregon construction industry in 2014–2018, there was a statistically significant difference in the percentage of female and male workers who were managers (see Figure E-6). About 5 percent of women construction workers were managers, whereas about 9 percent of male construction workers were managers in 2014–2018.

National research suggests that this is not due to differences in managerial competency between males and females. One study found that women construction managers were rated similarly to their male counterparts in terms of various managerial capabilities and performed better than male managers in terms of sensitivity, customer focus, and authority and presence.<sup>54</sup>

**Figure E-6.**  
**Percentage of construction workers who worked as a manager in 2014–2018 in Oregon marketplace**

| <b>Oregon</b>                     | <b>2014-2018</b> |
|-----------------------------------|------------------|
| <b>Race/ethnicity</b>             |                  |
| African American                  | 1.2 % **         |
| Asian American                    | 11.1             |
| Hispanic American                 | 3.2 **           |
| Native American or other minority | 9.5              |
| Non-Hispanic white                | 9.9              |
| <b>Gender</b>                     |                  |
| Female                            | 4.6 % **         |
| Male                              | 9.2              |
| <b>All individuals</b>            | <b>8.7 %</b>     |

Note: \*\* Denote that the difference in proportions between the minority and non-Hispanic white groups (or between females and males) for the given Census/ACS year is statistically significant at the 95% confidence level. Construction managers also includes first-line supervisors.

Source: Keen Independent Research from 2014-2018 ACS Public Use Microdata samples. The 2014-2018 ACS raw data extracts were obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

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<sup>54</sup> Arditi, D., & Balci, G. (2009). Managerial competencies of female and male construction managers. *Journal of Construction Engineering and Management*, 135(11), 1275-1278. doi:10.1061/(asce)co.1943-7862.0000100



## Architecture and Engineering Industry

Keen Independent also examined how education and employment may influence the number of workers, and therefore potential minority and female entrepreneurs, in the Oregon A&E industry.

**Education.** Unlike the construction industry, lack of relevant education may preclude workers' entry into the A&E industry. Many occupations require at least a four-year college degree, and some require licensure. According to the 2014–2018 ACS, 69 percent of individuals working in the Oregon A&E industry had at least a four-year college degree and another 8 percent had an associate degree. About 89 percent of civil engineers age 25 years and older had at least a four-year college degree.

Therefore, any barriers to college education can restrict employment opportunities, advancement opportunities, and, consequently, business ownership in the A&E industry. Any disparities in business ownership rates in architecture and engineering-related work may in part reflect the lack of higher education for particular racial, ethnic and gender groups.<sup>55</sup> Keen Independent explores this issue below.

**Race/ethnicity.** Figure E-7 on the following page presents the percentage of workers age 25 and older with at least a four-year college degree in Oregon.

In Oregon, about 39 percent of all non-minority workers age 25 and older had at least a four-year degree in 2014–2018. This percentage was 51 percent for Asian Americans. For other groups 25 years and older in Oregon:

- 31 percent of local African Americans had at least a four-year college degree;
- About 22 percent of Native Americans or other minorities had a four-year degree; and
- 17 percent of Hispanic Americans in Oregon had at least a four-year college degree.

These simple comparisons of college education indicate why entry into the A&E industry might be low for some groups.

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<sup>55</sup> Dickson, P. H., Solomon, G. T., & Weaver, K. M. (2008). Entrepreneurial selection and success: Does education matter? *Journal of Small Business and Enterprise Development*, 15(2), 239-258. doi:10.1108/14626000810871655; Feagin, J. R., & Imani, N. (1994). Racial barriers to African American entrepreneurship: An exploratory study. *Social Problems*, 41(4), 562-584. doi:10.1525/sp.1994.41.4.03x0272l; Macionis, J. J. (2018). *Sociology* (16th ed.). Harlow, England: Pearson.

Figure E-7.  
 Percentage of all workers 25 and older with at least a  
 four-year college degree in Oregon, 2014–2018

| Oregon                            | 2014-2018     |
|-----------------------------------|---------------|
| <b>Race/ethnicity</b>             |               |
| African American                  | 31.1 % **     |
| Asian American                    | 51.2 **       |
| Hispanic American                 | 16.7 **       |
| Native American or other minority | 22.3 **       |
| Non-Hispanic white                | 39.0          |
| <b>Gender</b>                     |               |
| Female                            | 38.9 % **     |
| Male                              | 34.6          |
| <b>All individuals</b>            | <b>36.6 %</b> |

Note: \*\* Denotes that the difference in proportions between the minority and non-Hispanic white groups (or females and males) for the given Census/ACS year is statistically significant at the 95% confidence level. Only the civilian workforce is included in workforce calculations.

Source: Keen Independent Research from 2014–2018 ACS Public Use Microdata samples. The 2014–2018 ACS raw data extracts were obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

**Additional indices of educational attainment.** Keen Independent further explored post-secondary education for different racial/ethnic groups:

- **College participation.** The U.S. Department of Labor Bureau of Labor Statistics reported that nearly 3.2 million students ages 16 to 24 graduated high school in 2019 and about two-thirds enrolled in college, a rate slightly lower than 2018 (69%).<sup>56</sup> The enrollment rate was highest for Asian American students (90%), followed by non-Hispanic whites (67%), African Americans (51%) and Hispanic Americans (63%).
- **Engineering-related degrees.** Recent data from the National Science Foundation show approximately 12 percent of all bachelor’s degrees in engineering fields in the United States in 2012 were awarded to Asian American students. Hispanic Americans were also awarded 12 percent of bachelor’s degrees in engineering and African Americans were awarded 4 percent of the engineering degrees. Native Americans were awarded less than 1 percent of engineering degrees in 2016.<sup>57</sup>

<sup>56</sup> College enrollment rates have remained relatively unchanged over the past 10 years, ranging from 66 to 70 percent.

<sup>57</sup> National Center for Science and Engineering Statistics, National Science Foundation (2019). TABLE 5-6 Ethnic and racial distribution of bachelor's degrees awarded to U.S. citizens and permanent residents, by field: 2006–16 [PDF]. Retrieved from: <https://nces.nsf.gov/pubs/nsf19304/data>

**Employment.** Figure E-8 compares the demographic composition of workers in the Oregon A&E industry to that of workers in all other industries who are 25 years or older and have a college degree.

**Race/ethnicity.** In 2014–2018, about 13 percent of workers in the Oregon architecture and engineering industry were people of color.

- About 5 percent were Hispanic Americans;
- About 6 percent were Asian Americans;
- Less than 2 percent were Native Americans or other minorities; and
- About 1 percent were African Americans.

The representation of Asian Americans with a college degree in the Oregon A&E industry is lower than their representation in other industries. This difference is statistically significant, as shown in Figure E-8, below.

**Gender.** Compared to their representation among workers 25 and older with a college degree in other industries, fewer women worked in the statewide architecture and engineering industry. Among people with a four-year college degree in Oregon in 2014–2018, women represented 27 percent of employees in the A&E industry and about 50 percent of workers in other industries.

Figure E-8.

Demographic distribution of architecture and engineering workers and workers age 25 and older with a four-year college degree in all other industries in Oregon marketplace, 2014–2018

| Oregon                            | Architecture and engineering | All other industries |
|-----------------------------------|------------------------------|----------------------|
| <b>Race/ethnicity</b>             |                              |                      |
| African American                  | 1.2 %                        | 1.9 %                |
| Asian American                    | 5.6 **                       | 8.3                  |
| Hispanic American                 | 4.5                          | 5.3                  |
| Native American or other minority | 1.7                          | 1.4                  |
| <b>Total minority</b>             | <b>12.9 % **</b>             | <b>16.8 %</b>        |
| Non-Hispanic white                | 87.1 **                      | 83.2                 |
| <b>Total</b>                      | <b>100.0 %</b>               | <b>100.0 %</b>       |
| <b>Gender</b>                     |                              |                      |
| Female                            | 27.4 % **                    | 50.2 %               |
| Male                              | 72.6 **                      | 49.8                 |
| <b>Total</b>                      | <b>100.0 %</b>               | <b>100.0 %</b>       |

Note: \*\* Denotes that the difference in proportions between workers in the architecture and engineering industry and workers in all other industries for the given Census/ACS year is statistically significant at the 95% confidence level.

"All other industries" includes all industries other than the architecture and engineering industry.

Source: Keen Independent Research from 2014–2018 ACS Public Use Microdata samples. The 2014–2018 ACS raw data extracts were obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

**Civil engineers.** Keen Independent also examined the representation of people of color and women among civil engineers in Oregon in 2014–2018 (see Figure E-9). Overall, the percentage of civil engineers who were people of color (14%) was slightly less than the percentage of all other Oregon workers with college degrees who were minorities (17%). The difference in representation was statistically significant for African Americans. (In the Census sample data for civil engineers in the state, there were no respondents who were African American.)

Only about 22 percent of civil engineers in Oregon were women in 2014–2018, substantially less than the percentage of all other workers age 25 and older with college degrees who were women (50%).

Figure E-9.

Demographic distribution of civil engineers and all other workers age 25 and older with a four-year college degree in Oregon, 2014–2018

| Oregon                            | Civil engineering | All other industries |
|-----------------------------------|-------------------|----------------------|
| <b>Race/ethnicity</b>             |                   |                      |
| African American                  | 0.0 % **          | 1.9 %                |
| Asian American                    | 7.8               | 8.3                  |
| Hispanic American                 | 4.3               | 5.3                  |
| Native American or other minority | 1.9               | 1.3                  |
| <b>Total minority</b>             | <b>14.1 %</b>     | <b>16.8 %</b>        |
| Non-Hispanic white                | 85.9              | 83.2                 |
| <b>Total</b>                      | <b>100.0 %</b>    | <b>100.0 %</b>       |
| <b>Gender</b>                     |                   |                      |
| Female                            | 21.9 % **         | 49.9 %               |
| Male                              | 78.1 **           | 50.1                 |
| <b>Total</b>                      | <b>100.0 %</b>    | <b>100.0 %</b>       |

Note: \*\* Denotes that the difference in proportions between workers in civil engineering and workers in all other industries for the given Census/ACS year is statistically significant at the 95% confidence level.

Source: Keen Independent Research from 2014–2018 ACS Public Use Microdata samples. The 2014–2018 ACS raw data extracts were obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

**Academic research concerning female and minority participation in science, technology, engineering and mathematics (STEM) fields.** Many studies have examined the factors that contribute to low minority and female participation in the STEM fields.<sup>58</sup> Some factors that may play a role include isolation within work environments,<sup>59</sup> negative bias toward females in the engineering fields,<sup>60</sup> the perception that STEM fields are non-communal,<sup>61</sup> low anticipated power in male-dominated domains such as the STEM fields,<sup>62</sup> and inadequate secondary-school preparation for college-level STEM courses.<sup>63</sup>

Researchers have also found that some minority groups, including African Americans, Hispanic Americans and Native Americans, continue to have disproportionately low representation among recipients of science and engineering bachelor's degrees and science and engineering doctorate degrees. The study found that those same groups were disproportionately underrepresented among employees in science and engineering occupations.<sup>64</sup>

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<sup>58</sup> See, e.g., Rice, D. (2017). Diversity in STEM? Challenges influencing the experiences of African American female engineers. In J. Ballenger, B. Polnick, & B. J. Irby (Eds.), *Women of color in STEM: Navigating the workforce* (pp. 157-180). Charlotte, NC: Information Age Publishing; Moss-Racusin, C. A., Dovidio, J. F., Brescoll, V. L., & Graham, M. J. (2012). Science faculty's subtle gender biases favor male students. *Proceedings of the National Academy of Sciences*, *109*(41), 16474-16479. doi:10.1073/pnas.1211286109

<sup>59</sup> Rice, D. (2017). Diversity in STEM? Challenges influencing the experiences of African American female engineers. In J. Ballenger, B. Polnick, & B. J. Irby (Eds.), *Women of color in STEM: Navigating the workforce* (pp. 157-180). Charlotte, NC: Information Age Publishing; Strayhorn, T. L. (2015). Factors influencing black males' preparation for college and success in STEM majors: A mixed methods study. *Western Journal of Black Studies*, *39*(1), 45-63. Retrieved from [http://link.galegroup.com.ezp3.lib.umn.edu/apps/doc/A419267248/EAIM?u=umn\\_wilson&sid=EAIM&xid=dd369039](http://link.galegroup.com.ezp3.lib.umn.edu/apps/doc/A419267248/EAIM?u=umn_wilson&sid=EAIM&xid=dd369039); Wagner, S. H. (2017). Perceptions of support for diversity and turnover intentions of managers with solo-minority status. *Journal of Organizational Psychology*, *17*(5), 28-36. Retrieved from [http://www.na-businesspress.com/JOP/WagnerSH\\_17\\_5\\_.pdf](http://www.na-businesspress.com/JOP/WagnerSH_17_5_.pdf)

<sup>60</sup> Banchevsky, S., Westfall, J., Park, B., & Judd, C. M. (2016). But you don't look like a scientist! Women scientists with feminine appearance are deemed less likely to be scientists. *Sex Roles*, *75*(3/4), 95-109. doi:10.1007/s11199-016-0586-1; Moss-Racusin, C. A., Dovidio, J. F., Brescoll, V. L., & Graham, M. J. (2012). Science faculty's subtle gender biases favor male students. *Proceedings of the National Academy of Sciences*, *109*(41), 16474-16479. doi:10.1073/pnas.1211286109; Reuben, E., Sapienza, P., & Zingales, L. (2014). How stereotypes impair women's careers in science. *Proceedings of the National Academy of Sciences*, *111*(12), 4403-4408. doi:10.1073/pnas.1314788111

<sup>61</sup> Stout, J. G., Grunberg, V. A., & Ito, T. A. (2016). Gender roles and stereotypes about science careers help explain women and men's science pursuits. *Sex Roles*, *75*(9/10), 490-499. doi:10.1007/s11199-016-0647-5

<sup>62</sup> Chen, J. M., & Moons, W. G. (2014). They won't listen to me: Anticipated power and women's disinterest in male-dominated domains. *Group Processes & Intergroup Relations*, *18*(1), 116-128. doi:10.1177/1368430214550340

<sup>63</sup> Strayhorn, T. L. (2015). Factors influencing black males' preparation for college and success in STEM majors: A mixed methods study. *Western Journal of Black Studies*, *39*(1), 45-63. Retrieved from [http://link.galegroup.com.ezp3.lib.umn.edu/apps/doc/A419267248/EAIM?u=umn\\_wilson&sid=EAIM&xid=dd369039](http://link.galegroup.com.ezp3.lib.umn.edu/apps/doc/A419267248/EAIM?u=umn_wilson&sid=EAIM&xid=dd369039)

<sup>64</sup> National Center for Science and Engineering Statistics. (2017, January 31). NCSES publishes latest Women, Minorities, and Persons with Disabilities in Science and Engineering report. *National Science Foundation: Where Discoveries Begin*. Retrieved from [https://www.nsf.gov/news/news\\_summ.jsp?cntn\\_id=190946](https://www.nsf.gov/news/news_summ.jsp?cntn_id=190946)

This is also supported by demographics of the graduates from undergraduate engineering programs in Oregon.

**Oregon State University.** The share of graduates from different ethnic groups for the Oregon State University (OSU) engineering program in 2018 was as follows:

- The majority of 2018 engineering graduates were white students (60%);
- About 11 percent of program graduates were Asian American (11%);
- Hispanic Americans made up 6 percent of OSU engineering graduates; and
- Few program graduates were African American (1%) or Native American (less than 1%).

**Oregon Institute of Technology.** The demographic breakdown of engineering program graduates at the Oregon Institute of Technology (Oregon Tech) showed the following for 2018:

- Approximately 77 percent of engineering graduates were white;
- About 4 percent of program graduates were Asian American;
- Of program graduates, 6 percent were Hispanic American; and
- A small portion of 2018 Oregon Tech engineering graduates were African American (1%).

In 2018, Oregon Tech had no Native American graduates in the engineering program.

**Portland State University.** Graduates from the Portland State University (PSU) engineering programs had similar demographic characteristics to the other colleges and universities. In 2018:

- Approximately 58 percent of engineering graduates were white;
- About 12 percent of program graduates were Asian American;
- Of program graduates, 8 percent were Hispanic American; and
- A small portion of 2018 PSU engineering graduates were African American (1%) or Native American (1%).

**University of Portland.** The University of Portland also offers engineering degrees. In 2018, the share of graduates from different racial and ethnic groups were as follows:

- About one-half of engineering graduates were white students (52%);
- About 16 percent were Asian American;
- Approximately 8 percent were Hispanic American; and
- Only 1 percent of engineering graduates were African American.

In 2018, the University of Portland had no Native American graduates in the engineering program.

## Summary

Keen Independent's analyses suggest that there are barriers to entry for certain minority groups and for women in the construction and A&E industries in Oregon, as summarized below.

- Fewer African Americans, Asian Americans and women worked in the Oregon construction industry than what might be expected based on their representation in other industries.
- Fewer Asian Americans and women worked in the Oregon A&E industry than what might be expected based on analyses of workers 25 and older with a four-year college degree. There were also fewer African American and women civil engineers in Oregon than what might be expected based on their representation among all people 25 and older who have a four-year college degree.

Any barriers to entry into the study industries might affect the relative number of minority and women business owners in these industries in Oregon.

Keen Independent also examined advancement in the Oregon construction industry.

- Minority representation was much lower in certain construction trades than others.
- Most construction trades are nearly all male workers.
- Compared to non-Hispanic whites working in the construction industry, African Americans and Hispanic Americans were less likely to be managers. Relatively fewer women than men working in the construction industry were managers.

Any barriers to advancement in the Oregon construction industry may also affect the number of business owners among those groups. Appendix F, which follows, examines rates of business ownership among individuals working in the Oregon construction and architecture and engineering industries.

## APPENDIX F.

### Business Ownership in the Oregon Construction and Architecture and Engineering Industries

More than one in five construction workers in the Oregon marketplace was a self-employed business owner in 2014–2018. About one in six people working in the Oregon architecture and engineering industry was also a self-employed business owner. Focusing on these study industries, the study team examined business ownership for different racial, ethnic and gender groups in Oregon using Public Use Microdata Samples (PUMS) from the 2014–2018 American Community Survey (ACS). (Appendix F uses “self-employment” and “business ownership” interchangeably.)

As discussed in Appendix E, for this study Keen Independent considers the entire state of Oregon, Clark and Skamania counties in Washington and Payette County in Idaho as the Oregon marketplace. Any discussion of the “Oregon marketplace” or “Oregon study industries” in the following analysis includes firms and individuals located in these areas. All results pertain to conditions prior to the COVID-19 pandemic.

#### Business Ownership Rates

Many studies have explored differences between minority and non-minority business ownership at the national level.<sup>1</sup> Although self-employment rates have increased for minorities and women over time, several studies indicate that race, ethnicity and gender continue to affect opportunities for business ownership. The extent to which such individual characteristics may limit business ownership opportunities differs across industries and regions.<sup>2</sup>

**Construction industry.** Keen Independent classified workers as self-employed if they reported that they worked in their own unincorporated or incorporated business. In 2014–2018, 22 percent of workers in the Oregon construction industry were self-employed, compared with about 11 percent of all workers in the state.

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<sup>1</sup> See, e.g., Bates, T., & Robb, A.M. (2016). Impacts of owner race and geographic context on access to small-business financing. *Economic Development Quarterly*, 30(2), 159-170; Blanchflower, D. (2008). Minority self-employment in the United States and the impact of affirmative action programs. *NBER Working Paper Series*, (13972); Fairlie, R. W. & Robb, A. M. (2007). Why are black-owned businesses less successful than white-owned businesses? The role of families, inheritances and business human capital. *Journal of Labor Economics*, 25(2), 289-323; Fairlie, R. W. & Robb, A. M. (2006). Race, families and success in small business: A comparison of African-American, Asian, and white-owned businesses. *Russell Sage Foundation*; Chatterji, A. K., Chay, K. Y., & Fairlie, R. W. (2013). The impact of city contracting set-asides on black self-employment and employment. *Journal of Labor Economics*, 32(3), 507-561.

<sup>2</sup> Lofstrom, M., Bates, T., & Parker, S. C. (2014). Why are some people more likely to become small-businesses owners than others: Entrepreneurship entry and industry-specific barriers. *Journal of Business Venturing*, (29), 232-251.



Figure F-1 shows that there are racial and gender differences in the percentage of workers who were self-employed in the Oregon construction industry.

- About 8 percent of African American workers in the construction industry in 2014 through 2018 were self-employed, less than the rate for non-Hispanic whites (25%). This difference was statistically significant.
- Hispanic American workers in the construction industry had business ownership rates less than half the rate for non-Hispanic whites in the industry, a statistically significant difference.
- Approximately 16 percent of Native Americans in the construction industry were self-employed, substantially less than the rate for non-Hispanic whites (a statistically significant difference).
- The self-employment rate among women in the construction industry (18%) was lower than the rate among men in the industry (22%). This difference was also statistically significant.

Figure F-1.  
Percentage of workers in the Oregon construction industry who were self-employed, 2014–2018

| Demographic group                 | 2014–2018     |
|-----------------------------------|---------------|
| <b>Race/ethnicity</b>             |               |
| African American                  | 7.7 % **      |
| Asian American                    | 23.1          |
| Hispanic American                 | 10.6 **       |
| Native American or other minority | 16.2 **       |
| Non-Hispanic white                | 24.5          |
| <b>Gender</b>                     |               |
| Female                            | 18.1 % **     |
| Male                              | 22.2          |
| <b>All individuals</b>            | <b>21.7 %</b> |

Note: \*\* Denotes that the difference in proportions between the minority and non-Hispanic white groups (or female and male groups) for the given Census/ACS year is statistically significant at 95% confidence level.

Source: Keen Independent Research from 2014–2018 ACS Public Use Microdata samples. The 2014–2018 ACS raw data extracts were obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

**Architecture and engineering industry.** Figure F-2 presents the percentage of workers in the Oregon architecture and engineering industry who were self-employed. These results are also from ACS data for the state for 2014–2018. African Americans, Native Americans and other minorities were grouped as a single “other minority” in analyses for this industry due to small sample sizes.

There were some racial and gender differences in business ownership rates in the Oregon architecture and engineering industry.

- About 11 percent of people of color working in the architecture and engineering industry were business owners, less than the business ownership rate among non-Hispanic whites (19%). This difference was statistically significant.
- The self-employment rate for women in the architecture and engineering industry (11%) was considerably less than the rate among men (21%), a statistically significant difference.

Figure F-2.  
Percentage of workers in the Oregon architecture and engineering industry who were self-employed, 2014–2018

| Demographic group      | 2014–2018     |
|------------------------|---------------|
| <b>Race/ethnicity</b>  |               |
| Minority               | 11.2 % **     |
| Non-Hispanic white     | 19.1          |
| <b>Gender</b>          |               |
| Female                 | 11.1 % **     |
| Male                   | 20.7          |
| <b>All individuals</b> | <b>18.1 %</b> |

Note: \*\* Denotes that the difference in proportions between the minority and non-Hispanic white groups (or female and male groups) for the given Census/ACS year is statistically significant at the 95% confidence level. Due to small sample size, all minorities were combined into a single category.

Source: Keen Independent Research from 2014–2018 ACS Public Use Microdata samples. The 2014–2018 ACS raw data extracts were obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

**Potential causes of differences in business ownership rates.** Nationally, researchers have examined whether racial and gender differences in business ownership rates persist after considering personal characteristics such as education and age. Several studies have found that disparities in business ownership still exist even after accounting for such factors.

- **Financial capital.** Some studies have concluded that access to financial capital is a strong determinant of business ownership. Researchers have consistently found correlation between startup capital and business formation, expansion and survival.<sup>3</sup> Additionally, studies suggest that housing appreciation has a positive effect on small business formation and employment.<sup>4</sup> However, unexplained racial and ethnic differences in financial capital remain after statistically controlling for those factors.<sup>5</sup> Recent studies have found that minorities (particularly African Americans and Hispanic Americans) experience greater barriers to accessing credit and face further credit constraints at business startup and throughout business ownership than non-Hispanic whites.<sup>6</sup> Access to capital is discussed in more detail in Appendix G.
- **Education.** Education has a positive effect on the probability of business ownership in most industries. Recent research confirms a significant relationship between education and ability to obtain startup capital.<sup>7</sup> However, results of multiple studies indicate that minorities are still less likely to own a business than non-minorities with similar levels of education.<sup>8</sup>

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<sup>3</sup> See Lofstrom, M. & Chunbei, W. (2006). Hispanic self-employment: A dynamic analysis of business ownership. *Forschungsinstitut zur Zukunft der Arbeit (Institute for the Study of Labor)*; Fairlie, R. W., & Robb, A. M. (2006). Race, families and success in small business: A comparison of African-American, Asian, and white-owned businesses. *Russell Sage Foundation*; Chatterji, A. K., Chay, K. Y., & Fairlie, R. W. (2013). The impact of city contracting set-asides on black self-employment and employment. *Journal of Labor Economics*, 32(3), 507-561.

<sup>4</sup> Fairlie, R. W., & Krashinsky, H. A. (2012). Liquidity constraints, household wealth, and entrepreneurship revisited. *Review of Income and Wealth*, 58, 279-306. Retrieved from <https://doi.org/10.1111/j.1475-4991.2011.00491.x>

<sup>5</sup> Lofstrom, M., & Chunbei, W. (2006). Hispanic self-employment: A dynamic analysis of business ownership. *Forschungsinstitut zur Zukunft der Arbeit (Institute for the Study of Labor)*; Fairlie, R. W., & Robb, A. M. (2010). *Disparities in capital access between minority and non-minority-owned businesses: The troubling reality of capital limitations faced by MBEs* (Rep.). Retrieved from Minority Business Development Agency website: <https://www.mbda.gov/sites/default/files/migrated/files-attachments/DisparitiesinCapitalAccessReport.pdf>

<sup>6</sup> Lee, A., Mitchell, B., & Lederer, A. (2019). *Disinvestment, discouragement and inequity in small business lending* (Rep.). Retrieved from National Community Reinvestment Coalition website: <https://ncrc.org/disinvestment/>; Robb, A. M. (2013). *Access to capital among young firms, minority-owned firms, women-owned firms and high-tech firms* (Rep.). Retrieved from Small Business Administration, Office of Advocacy website: <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/05/15130241/rs403tot2.pdf>; Chatterji, A. K., Chay, K. Y., & Fairlie, R. W. (2013). The impact of city contracting set-asides on black self-employment and employment. *Journal of Labor Economics*, 32(3), 507-561.

<sup>7</sup> Robb, A. M., Fairlie, R. W., & Robinson, D. T. (2009). *Financial capital injections among new black and white business ventures: Evidence from the Kauffman firm survey*. Retrieved from [https://researchbank.swinburne.edu.au/file/aada046e-13eb-46e1-9b85-14bde636232/1/PDF%20\(Published%20version\).pdf](https://researchbank.swinburne.edu.au/file/aada046e-13eb-46e1-9b85-14bde636232/1/PDF%20(Published%20version).pdf)

<sup>8</sup> See, e.g., Fairlie, R. W. & Meyer, B. D. (1996). Ethnic and racial self-employment differences and possible explanations. *The Journal of Human Resources*, 31(4), 757-793; Butler, J. S., & Herring, C. (1991). Ethnicity and entrepreneurship in America: Toward an explanation of racial and ethnic group variations in self-employment. *Sociological Perspectives*, 34(1), 79-94. Retrieved from <https://doi.org/10.2307%2F1389144>

- **Experience.** Both prior self-employment and managerial experience are important indicators of re-entering or entering business ownership, respectively.<sup>9</sup> However, unexplained differences in self-employment between minorities and non-minorities still exist after accounting for business experience.<sup>10</sup>
- **Intergenerational links.** Intergenerational links affect one's likelihood of self-employment.<sup>11</sup> In fact, having an entrepreneurial parent can increase the likelihood of their offspring choosing to be self-employed by up to 200 percent.<sup>12</sup> One study found that experience working for a self-employed family member increases the likelihood of business ownership for minorities.<sup>13</sup>

## Business Ownership Regression Analysis

As discussed above, race, ethnicity and gender can affect opportunities for business ownership, even when accounting for personal characteristics such as education, age and familial status. Past research indicates that minorities (including African Americans and Hispanic Americans) face greater credit constraints at business startup and throughout business ownership than non-Hispanic whites, even after controlling for other factors including credit score.<sup>14</sup>

To further examine business ownership for the Oregon construction and architecture and engineering industries, Keen Independent developed multivariate regression models. Those models estimate the effect of race, ethnicity and gender on the probability of business ownership while statistically controlling for certain personal and family characteristics of the worker.

An extensive body of literature examines whether race- and gender-neutral personal factors such as access to financial capital, education, age and family characteristics (e.g., marital status) help explain differences in business ownership. That subject has also been examined in other disparity studies that have been upheld in court.<sup>15</sup> For example, prior studies in Minnesota and Illinois have used

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<sup>9</sup> Kim, P., Aldrich, H., & Keister, H. (2006). Access (not) denied: The impact of financial, human, and cultural capital on entrepreneurial entry in the United States. *Small Business Economics*, 27(1), 5-22; Georgellis, Y., Sessions, J. G., & Tsitsianis, N. (2005). Windfalls, wealth, and the transition to self-employment. *Small Business Economics*, 25(5), 407-428.

<sup>10</sup> Fairlie, R., & Meyer, B. (2000). Trends in self-employment among white and black men during the twentieth century. *The Journal of Human Resources*, 35(4), 643-669. doi:10.2307/146366

<sup>11</sup> Andersson, L., and Hammarstedt, M. (2010). Intergenerational transmissions in immigrant self-employment: Evidence from three generations. *Small Business Economics*, 34(3), 261-276.

<sup>12</sup> Lindquist, M. J., Sol, J., & Van Praag, M. (2015). Why do entrepreneurial parents have entrepreneurial children? *Journal of Labor Economics*, 33(2), 269-296.

<sup>13</sup> Fairlie, R. W., & Robb, A. M. (2006). Race, families and success in small business: A comparison of African-American, Asian, and white-owned businesses. *Russell Sage Foundation*; Fairlie, R. W., & Robb, A. M. (2007). Why are black-owned businesses less successful than white-owned businesses? The role of families, inheritances and business human capital. *Journal of Labor Economics*, 25(2), 289-323.

<sup>14</sup> Robb, A. M. (2013). *Access to capital among young firms, minority-owned firms, women-owned firms and high-tech firms* (Rep.). Retrieved from Small Business Administration, Office of Advocacy website: <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/05/15130241/rs403tot2.pdf>; Chatterji, A. K., Chay, K. Y., & Fairlie, R. W. (2013). The impact of city contracting set-asides on black self-employment and employment. *Journal of Labor Economics*, 32(3), 507-561.

<sup>15</sup> See, e.g., National Economic Research Associates, Inc. (2012). *The state of minority- and women-owned business enterprise in construction: Evidence from Houston* (Rep.). Retrieved from City of Houston website: <http://www.houstontx.gov/obo/disparitystudyfinalreport.pdf>; Mason Tillman Associates. (2011). *Illinois Department of*

econometric analyses to investigate whether disparities in business ownership for minorities and women working in the construction and architecture and engineering industries persist after statistically controlling for race- and gender-neutral personal characteristics.<sup>16, 17</sup> Those studies developed probit econometric models using Census data, and have been among the materials that agencies have submitted to courts in subsequent litigation concerning implementation of the Federal DBE Program.

Keen Independent used similar probit regression models to predict business ownership from multiple independent or “explanatory” variables, such as:

- Personal characteristics that are potentially linked to the likelihood of business ownership — age, age-squared, marital status, disability, number of children in the household, number of elderly people in the household and English-speaking ability;
- Educational attainment;
- Measures and indicators related to personal financial resources and constraints — home ownership, home value, monthly mortgage payment, dividend and interest income, and additional household income from a spouse or unmarried partner; and
- Race, ethnicity and gender.<sup>18</sup>

Keen Independent developed probit regression models using PUMS data from the 2014–2018 ACS. The models were separated by industry and included the following number of observations:

- For the Oregon construction industry 5,982 observations were included; and
- For the Oregon architecture and engineering industry 1,132 observations were included.

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*Transportation/Illinois Tollway disadvantaged business enterprises disparity study (Vol. 2)* (Rep.). Retrieved from Illinois Department of Transportation website: <http://www.idot.illinois.gov/Assets/uploads/files/Doing-Business/Reports/OBWD/DBE/DBEDisparityStudy.pdf>; National Economic Research Associates, Inc. (1997). *Disadvantaged Business Enterprise availability study* (Rep.). Prepared for the City and County of Denver.

<sup>16</sup> National Economic Research Associates, Inc. (2000). *Disadvantaged Business Enterprise availability study* (Rep.). Prepared for the Minnesota Department of Transportation.

<sup>17</sup> National Economic Research Associates, Inc. (2004). *Disadvantaged Business Enterprise availability study* (Rep.). Prepared for the Illinois Department of Transportation.

<sup>18</sup> Probit models estimate the effects of multiple independent or “predictor” variables in terms of a single, dichotomous dependent or “outcome” variable — in this case, business ownership. The dependent variable is binary, coded as “1” for individuals in a particular industry who are self-employed and “0” for individuals who are not self-employed. The model enables estimation of the probability that workers in each sample are self-employed, based on their individual characteristics. Keen Independent excluded observations where the Census Bureau had imputed values for the dependent variable (business ownership).

**Oregon construction industry in 2014–2018.** Figure F-3 on the following page presents the coefficients for the probit model for individuals working in the Oregon construction industry in 2014–2018.

Several race- and gender-neutral factors were statistically significant in predicting the probability of business ownership:

- Being older was associated with a higher probability of business ownership in the construction industry, although this effect reversed for the oldest individuals;
- Being married and owning a home were both associated with a higher probability of business ownership in the industry;
- Higher home values, greater interest and dividend income, higher spouse or partner income, and being able to speak English well were all associated with a higher probability of business ownership; and
- Having an advanced degree was associated with a lower probability of business ownership in the Oregon construction industry.

After statistically controlling for certain factors other than race, ethnicity and gender, there were lower rates of business ownership for the following groups of workers in the construction industry:

- African Americans;
- Hispanic Americans;
- Native Americans; and
- White females.

Each of these differences were statistically significant. Thus, members of these groups working in the local construction industry were less likely to own businesses than similarly situated non-Hispanic whites and men. Figure F-3 provides detailed results of the regression model.

Figure F-3.  
Construction industry business  
ownership model in Oregon  
marketplace, 2014–2018

Note:

\*,\*\* Denote statistical significance at the  
90% and 95% confidence levels, respectively.

Source:

Keen Independent Research from 2014–2018  
ACS Public Use Microdata samples.  
The 2014–2018 ACS raw data extract was  
obtained through the IPUMS program of the  
MN Population Center:  
<http://usa.ipums.org/usa/>.

| Variable                                | Coefficient |
|---|-------------|
| Constant                                | -3.3540 **  |
| Age                                     | 0.0549 **   |
| Age-squared                             | -0.0003 **  |
| Married                                 | 0.1060 *    |
| Disabled                                | -0.0270     |
| Number of children in household         | 0.0263      |
| Number of people over 65 in household   | 0.0553      |
| Owns home                               | 0.1910 **   |
| Home value (\$0,000s)                   | 0.0003 **   |
| Monthly mortgage payment (\$0,000s)     | 0.0417      |
| Interest and dividend income (\$0,000s) | 0.0028 **   |
| Income of spouse or partner (\$0,000s)  | 0.0011 **   |
| Speaks English well                     | 0.5840 **   |
| Less than high school education         | 0.1210      |
| Some college                            | -0.0048     |
| Four-year degree                        | 0.0872      |
| Advanced degree                         | -0.2940 **  |
| African American                        | -0.7320 **  |
| Asian American                          | -0.0591     |
| Hispanic American                       | -0.2730 **  |
| Native American or other minority       | -0.3260 **  |
| White female                            | -0.3390 **  |

Probit regression modeling allows for further analysis of the disparities identified in business ownership rates for African Americans, Hispanic Americans, Native Americans and white women. Keen Independent modeled business ownership rates for these groups as if they had the same probability of business ownership as similarly situated non-Hispanic white males.

1. Keen Independent performed a probit regression analysis predicting business ownership using only non-Hispanic white male construction workers in the dataset.<sup>19</sup>
2. After obtaining the results from the non-Hispanic white male regression model, the study team used coefficients from that model along with the mean personal, financial and educational characteristics of African Americans, Hispanic Americans, Native Americans and non-Hispanic white women working in the Oregon construction industry (i.e., indicators of educational attainment as well as indicators of financial resources and constraints) to estimate the probability of business ownership of each group if they were treated the same as non-Hispanic white men. Similar simulation approaches have been used in other disparity studies that courts have reviewed.

<sup>19</sup> That version of the model excluded the race, ethnicity and gender indicator variables, because the value of all those variables would be the same (i.e., 0).

Figure F-4 presents the simulated business ownership rate (i.e., “benchmark” rate) for African Americans, Hispanic Americans, Native American and non-Hispanic white women, and compares it to the actual, observed mean probabilities of business ownership for that group. The disparity index was calculated by taking the actual business ownership rate for each group, dividing it by that group’s benchmark rate, and then multiplying the result by 100. The disparity index expresses the presence of an ownership disparity, or lack thereof, in terms of what would be expected based on the simulated business ownership rates of similarly situated non-Hispanic white male construction workers. Note that the “actual” self-employment rates are derived from the dataset used for these regression analyses and do not always exactly match results from the entire 2014–2018 data.

Figure F-4.  
Comparison of actual business ownership rates to simulated rates for construction workers in Oregon marketplace, 2014–2018

| Demographic group                 | Self-employment rate |           | Disparity index<br>(100 = parity) |
|-----------------------------------|----------------------|-----------|-----------------------------------|
|                                   | Actual               | Benchmark |                                   |
| African American                  | 5.3 %                | 17.6 %    | 30                                |
| Hispanic American                 | 10.7                 | 19.1      | 56                                |
| Native American or other minority | 15.3                 | 23.3      | 66                                |
| Non-Hispanic white female         | 18.2                 | 27.2      | 67                                |

Note: As the benchmark figure can only be estimated for records with an observed (rather than imputed) dependent variable, comparison is made with only this subset of the sample. For this reason, actual self-employment rates may differ slightly from those in Figure F-1.  
Disparity index calculated as actual/benchmark rate, multiplied by 100.

Source: Keen Independent Research from 2014–2018 ACS Public Use Microdata samples. The 2014–2018 ACS raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

Results from these analyses show lower actual self-employment rates for African Americans, Hispanic Americans, Native Americans and non-Hispanic white women when compared with simulated ownership rates for these groups.

- **African Americans.** The actual business ownership rate for African Americans was 5.3 percent, which is less than the benchmark rate of 17.6 percent. Dividing 5.3 percent by 17.6 percent (and then multiplying by 100) gives a disparity index of 30, indicating that African Americans owned construction businesses at about one-third the rate that would be expected based on simulated ownership rates of non-Hispanic white males. Because the disparity index was less than 80, it indicates a “substantial” disparity. (Appendix B has a discussion of the use of “substantial disparity” in court cases.)
- **Hispanic Americans.** In the Oregon construction industry, Hispanic Americans had an actual business ownership rate of 10.7 percent, less than the benchmark rate of 19.1 percent. With a disparity index of 56, Hispanic Americans in the industry had business ownership rates significantly less than the rate that would be expected based on simulated ownership rates of non-Hispanic white males. Because the disparity index was less than 80, the disparity was substantial.



- **Native Americans.** Among Native Americans in the construction industry, the actual business ownership rate was 15.3 percent. This is less than the benchmark rate of 23.3 percent. With a disparity index of 66, Native Americans working in the construction industry owned businesses well below the rate that would be expected based on simulated ownership rates of non-Hispanic white male construction workers. This disparity was also substantial.
- **Women.** The actual ownership rate for non-Hispanic white women in the construction industry was 18.2 percent, which is less than the benchmark rate of 27.2 percent. Non-Hispanic white women owned businesses at two-thirds of the rate that would be expected based on simulated ownership rates of non-Hispanic white male construction workers. This disparity was substantial (disparity index of 67).

**Oregon architecture and engineering industry in 2014 through 2018.** Using the same data source as for the construction industry (2014–2018 ACS data), Keen Independent developed a business ownership regression model for people working in the Oregon architecture and engineering industry. Due to small sample sizes, all minorities were combined into a single category.

Figure F-5 presents the coefficients for that probit model. After controlling for certain other personal and family characteristics, business ownership rates in the architecture and engineering industry were lower for minorities and non-Hispanic white women. These differences were statistically significant. Figure F-5 shows these results.

Figure F-5.  
Architecture and engineering industry  
business ownership model in Oregon  
marketplace, 2014–2018

Note:

\*, \*\* Denote statistical significance at the 90% and 95% confidence levels, respectively.

Due to small sample size, all minorities were combined into a single category.

Source:

Keen Independent Research from 2014–2018 ACS Public Use Microdata samples. The 2014–2018 ACS raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

| Variable                                | Coefficient |
|---|-------------|
| Constant                                | -6.7120 **  |
| Age                                     | 0.0303      |
| Age-squared                             | 0.0000      |
| Married                                 | -0.0407     |
| Disabled                                | -0.2430     |
| Number of children in household         | 0.0369      |
| Number of people over 65 in household   | 0.0544      |
| Owns home                               | 0.0532      |
| Home value (\$0,000s)                   | 0.0004      |
| Monthly mortgage payment (\$0,000s)     | -0.0192     |
| Interest and dividend income (\$0,000s) | 0.0046      |
| Income of spouse or partner (\$0,000s)  | 0.0012      |
| Speaks English well                     | 4.2170 **   |
| Less than high school education         | -0.2430     |
| Some college                            | 0.2270      |
| Four-year degree                        | -0.1530     |
| Advanced degree                         | -0.1020     |
| Minority                                | -0.2650 *   |
| White female                            | -0.4720 **  |

Using the same approach as for the construction industry, Keen Independent simulated business ownership rates for individuals working in the Oregon architecture and engineering industry (presented in Figure F-6).

Actual business ownership rates for minorities (11.4%) is considerably less than the benchmark business ownership rate (18.2%), indicating a substantial disparity. Non-Hispanic white women had an actual business ownership rate of 11.4 percent compared to a benchmark rate of 21.3 percent (a substantial disparity).

Figure F-6.  
Comparison of actual business ownership rates to simulated rates for architecture and engineering workers in Oregon marketplace, 2014–2018

| Demographic group         | Self-employment rate |           | Disparity index<br>(100 = parity) |
|---------------------------|----------------------|-----------|-----------------------------------|
|                           | Actual               | Benchmark |                                   |
| Minority                  | 11.4 %               | 18.2 %    | 63                                |
| Non-Hispanic white female | 11.4                 | 21.3      | 54                                |

Note: As the benchmark figure can only be estimated for records with an observed (rather than imputed) dependent variable, comparison is made with only this subset of the sample. For this reason, actual self-employment rates may differ slightly from those in Figure F-2.

Disparity index calculated as actual/benchmark rate, multiplied by 100.

Source: Keen Independent Research from 2014–2018 ACS Public Use Microdata samples. The 2014–2018 raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

## Summary of Business Ownership in Oregon

Keen Independent examined whether there were differences in business ownership rates for workers in the Oregon construction and architecture and engineering industries related to race, ethnicity or gender.

- For people working in the construction industry, there were disparities in business ownership rates in 2014–2018 for all minority groups other than Asian Americans as well as for non-Hispanic white women. After statistically controlling for factors including education, age, family status and homeownership, statistically significant disparities in business ownership rates were found for each of these groups. These disparities were substantial.
- People of color and women working in the architecture and engineering industry had lower business ownership rates when compared with non-Hispanic whites and men, respectively. After controlling for education, age and other personal characteristics, people of color and non-Hispanic white women had statistically significant disparities in business ownership rates. These disparities were substantial.

These disparities in business ownership rates result in fewer minority- and women-owned companies in both the Oregon construction industry and the architecture and engineering industry relative to non-minority male-owned firms.

## APPENDIX G.

### Access to Capital for Business Formation and Success

Access to capital is a key factor for initial formation and long-term success of businesses. Race- and gender-based discrimination in capital markets hinders people of color and women from acquiring the capital necessary to start, operate or expand businesses.<sup>1, 2</sup> The amount of start-up capital can affect long-term business success and studies have found that minority- and woman-owned businesses are, on average, awarded less start-up capital than non-Hispanic white-owned businesses and male-owned businesses.<sup>3</sup> According to a national U.S. Census Bureau survey:

- In 2012, about 25 percent of white-owned businesses indicated that they had start-up capital of \$25,000 or more.<sup>4</sup>
- 12 percent of African American-owned businesses indicated a comparable amount of start-up capital. Disparities in start-up capital were identified for every other minority group except Asian Americans.
- 15 percent of woman-owned businesses reported start-up capital of \$25,000 or more compared with 27 percent of male-owned businesses (not including businesses that were equally owned by men and women).

Race- or gender-based discrimination affecting the availability of start-up capital can have long-term consequences, as can discrimination in access to business loans after businesses have been formed.<sup>5</sup> Discrimination in the traditional means of obtaining start-up capital (e.g., access to credit markets, the ability to obtain a business loan, and having equity in a home and the ability to borrow against that equity) also impacts business survival and success. Lack of access to credit, housing market discrimination and discrimination in mortgage lending have lasting effects for current or potential business owners.

Appendix G presents information about start-up capital and business credit markets nationally and in Oregon. It also provides information on the relationship between business success and mortgage

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<sup>1</sup> Fairlie, R. W., & Robb, A. M. (2010). *Disparities in capital access between minority and non-minority-owned businesses: The troubling reality of capital limitations faced by MBEs* (Rep.). Retrieved from Minority Business Development Agency website: <https://www.mbd.gov/sites/default/files/migrated/files-attachments/DisparitiesinCapitalAccessReport.pdf>

<sup>2</sup> Fairlie, R. W., & Robb, A. (2010). *Race and entrepreneurial success: Black-, Asian-, and white-owned businesses in the United States*. Cambridge, MA: The MIT Press.

<sup>3</sup> Ibid.

<sup>4</sup> United States Census Bureau. (2012). *2012 Survey of Business Owners*. [Data file]. Retrieved from [https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SBO\\_2007\\_00CSCB16&prodType=table](https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SBO_2007_00CSCB16&prodType=table).

<sup>5</sup> Fairlie, R. W., & Robb, A. (2010). *Race and entrepreneurial success: Black-, Asian-, and white-owned businesses in the United States*. Cambridge, MA: The MIT Press.

lending, as home equity is often a vital source of capital to start and expand businesses. Note that the results based on secondary data generally pertain to conditions prior to the COVID-19 pandemic.

## **Start-Up Capital**

The study team analyzed financing patterns, with a focus on sources of start-up capital, to explore any differences in access to capital for people of color and women.

**Sources of start-up capital.** The most common sources of capital used to start or acquire a business according to the U.S. Census Bureau are:

- Personal or family savings of owner(s);
- Personal or family assets other than savings of owner(s);
- Personal or family home equity loan;
- Personal credit card(s) carrying balances;
- Business credit card(s) carrying balances;
- Business loan from federal, state or local government;
- Government-guaranteed business loan from a bank or financial institution;
- Business loan from a bank or financial institution;
- Business loan or investment from family or friends;
- Investment by venture capitalist(s); and
- Grants.

According to the U.S. Census Bureau's 2016 Annual Survey of Entrepreneurs (ASE), the primary source of capital used to start or acquire a business is personal and/or family savings.<sup>6</sup> This finding is consistent across all racial and gender groups. National patterns among employer businesses (those with paid employees other than the owner) identified in the 2016 ASE include the following:

- Woman-owned firms were slightly more likely than male-owned businesses to report using personal and/or family savings for start-up capital (67% and 65%, respectively).
- Asian American-owned businesses were most likely to use personal/family savings as a source of start-up capital (73%), followed by Native Hawaiian and other Pacific Islander-owned businesses (72%), Hispanic American-owned businesses (72%), African American-owned businesses (70%) and American Indian- and Alaska Native-owned businesses (68%).
- Non-Hispanic white-owned businesses were the least likely to use personal/family savings for start-up capital (64%).

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<sup>6</sup> The Annual Survey of Entrepreneurs provides economic and demographic data of all businesses with employees with receipts of \$1,000 or more by ethnicity, race and gender. This differs from the U.S. Census Bureau's Survey of Business Owners which collects data on employer businesses and non-employer businesses with receipts of \$1,000 or more. ASE data from 2016 are the most recent data available.

Nationally, businesses owned by non-Hispanic white and Asian American males reported lower reliance on the use of credit cards as a source of start-up capital than women and other minorities. The following 2016 ASE results pertain to employer businesses:

- Female-owned businesses (11%) were more likely to use personal credit cards as a source of start-up capital compared with male-owned businesses (9%).
- About 15 percent of African American-, American Indian- and Alaska Native-owned businesses used personal credit cards as a source of start-up capital, followed by Native Hawaiian- and other Pacific Islander-owned businesses (14%) and Hispanic American-owned firms (12%).
- Asian American- and non-Hispanic white-owned businesses (9%) were the least likely to use personal credit cards as a source of start-up capital.

Credit card financing of debt is more expensive than business loans through financial institutions.<sup>7</sup> Since woman- and minority-owned businesses face additional barriers to traditional means of financing, such as business loans, they report higher reliance on personal credit cards as a source of start-up capital. Reliance on this more expensive method of financing presents additional challenges to business success, which disproportionately affects women and racial minorities.

**Wealth.** Since personal and/or family savings were the most common source of start-up capital used to start or acquire a business, the study team examined data on wealth-holding to further explore effects on people of color and women.

In 2016, white households had, on average, the highest income and net worth levels, far surpassing the income and net worth levels of African American and Hispanic American households.<sup>8</sup> White households were less likely to have zero or negative net worth and had more assets than African American and Hispanic American households.<sup>9</sup> White households also had greater mean net housing wealth than African American and Hispanic American households.<sup>10</sup> Figure G-1 on the following page provides household financial data by race or ethnicity for 2016.

All minority groups except for Asian Americans had relatively lower levels of household wealth compared to non-Hispanic whites. Given the heavy dependence upon personal and/or family savings of the owner as the main source of start-up capital, lower levels of wealth among people of color may result in greater difficulty acquiring the capital necessary to start, operate or expand businesses.

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<sup>7</sup> Robb, A. (2018). *Financing patterns and credit market experiences: A comparison by race and ethnicity for U.S. employer firms* (Rep. No. SBAHQ-16-M-0175). Retrieved from U.S. Small Business Administration, Office of Advocacy website: [https://www.sba.gov/sites/default/files/Financing\\_Patterns\\_and\\_Credit\\_Market\\_Experiences\\_report.pdf](https://www.sba.gov/sites/default/files/Financing_Patterns_and_Credit_Market_Experiences_report.pdf)

<sup>8</sup> Dettling, L. J., Hsu, J. W., Jacobs, L., Moore, K. B., Thompson, J. P., & Llanes, E. (2017). *Recent trends in wealth-holding by race and ethnicity: Evidence from the Survey of Consumer Finances* [FEDS Notes]. Retrieved from Board of Governors of the Federal Reserve System website: <https://doi.org/10.17016/2380-7172.2083>

<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

Figure G-1.  
U.S. household financial data by race/ethnicity, 2016

|   | White      | African American | Hispanic American | Other minority |
|---|------------|------------------|-------------------|----------------|
| <b>Income</b>                                       |            |                  |                   |                |
| Median  | \$ 61,200  | \$ 35,400        | \$ 38,500         | \$ 50,600      |
| Mean  | 123,400    | 54,000           | 57,300            | 86,900         |
| <b>Net worth</b>                                    |            |                  |                   |                |
| Median  | \$ 171,000 | \$ 17,600        | \$ 20,700         | \$ 64,800      |
| Mean  | 933,700    | 138,200          | 191,200           | 457,800        |
| Percent of families with zero or negative net worth | 9 %        | 19 %             | 13 %              | 14 %           |
| <b>Assets (percent of families with...)</b>         |            |                  |                   |                |
| Primary residence                                   | 73 %       | 45 %             | 46 %              | 54 %           |
| Retirement accounts                                 | 60         | 34               | 30                | 48             |
| Business equity                                     | 15         | 7                | 6                 | 13             |
| <b>Wealth from housing (for homeowners)</b>         |            |                  |                   |                |
| Percent of assets in housing                        | 32 %       | 37 %             | 39 %              | 35 %           |
| Mean net housing wealth                             | \$ 215,800 | \$ 94,400        | \$ 129,800        | \$ 220,700     |

Note: "Other minority" includes Asian Americans, Native Americans and individuals of multiple races.

Source: Dettling, L. J., Hsu, J. W., Jacobs, L., Moore, K. B., Thompson, J. P., & Llanes, E. (2017). *Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances*. Retrieved from Board of Governors of the Federal Reserve System website: <https://doi.org/10.17016/2380-7172.2083>.

## Business Credit

In addition to personal and/or family savings, businesses also rely on banks for start-up and expansion capital.<sup>11</sup> The study team analyzed data on business loans to identify any differences in business lending to minority-, female- and white male-owned companies.

**Successful acquisition of business loans.** Data for employer businesses that secured business loans from a bank or financial institution are found in the 2016 ASE.<sup>12</sup> In Oregon, 12.3 percent of businesses reported securing a business loan from a bank or financial institution. Although data by race, ethnicity or gender are not reported for individual states, data stratified by race and gender are available at the national level. These data are informative regarding the larger socio-economic context for firms owned by people of color in Oregon.

Nationally, minority-owned businesses (13%) were less likely than non-Hispanic white-owned firms (17%) to report securing a business loan from a bank or financial institution. Figure G-2 displays the national rate of securing business loans by race and gender, according to 2016 ASE data. The figure indicates that women- and minority-owned businesses were less likely than male- and majority-owned businesses to obtain business loans from a bank or financial institution.

<sup>11</sup> Robb, A. & Robinson, D. T. (2017). Testing for racial bias in business credit scores. *Small Business Economics*, 50(3), 429-443.

<sup>12</sup> United States Census Bureau. (2016). *2016 Annual Survey of Entrepreneurs* [Data file]. Retrieved from <https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk>

Figure G-2.  
 Percentage of U.S. employer businesses that secured business loans  
 from a bank or financial institution, by ownership, 2016

| Demographic group                          | Percent of respondents |
|--|------------------------|
| <b>Race</b>                                |                        |
| African American                           | 12.6 %                 |
| American Indian and Alaska Native          | 15.1                   |
| Asian American                             | 14.5                   |
| Native Hawaiian and other Pacific Islander | 14.0                   |
| White                                      | 17.2                   |
| <b>Ethnicity</b>                           |                        |
| Hispanic American                          | 10.7 %                 |
| Non-Hispanic                               | 17.2                   |
| <b>Gender</b>                              |                        |
| Female                                     | 14.3 %                 |
| Male                                       | 16.6                   |
| <b>All individuals</b>                     | <b>16.5 %</b>          |

Source: U.S. Census Bureau Annual Survey of Entrepreneurs, 2016.

One reason that women and people of color are less likely to secure loans is a greater reluctance to apply for business loans. The 2016 ASE collected data on whether a business needed additional financing and why the owner chose not to apply. One of the most frequently cited reasons for not applying for additional financial assistance even when needed is the firm owner's belief that the business would not be approved by a lender.

In Oregon, 2.1 percent of all firms reported that they did not apply for additional financing because the owner believed they would not be approved by a lender. Among firms that did not apply for additional financing, 17 percent identified fear of denial as the reason for nonapplication. Nationally, 1.7 percent of all firms reported not applying for financing for the same reason.

Figure G-3 on the following page presents the national rate of opting out of a business loan application for fear of denial by race and gender. Nationally, business owners of color were more likely than white business owners to believe that they would not be approved by a lender. African American-owned firms were by far the most likely group to avoid additional financing due to fear that they would not be approved.

Likewise, women business owners (2.2%) were more likely to believe that they would not be approved by a lender when compared with male-owned firms (1.6%).

Figure G-3.

Percentage of U.S. employer businesses that avoided additional financing because they did not think the business would be approved by lender, 2016

| Demographic group                          | Percent of respondents |
|--|------------------------|
| <b>Race</b>                                |                        |
| African American                           | 6.2 %                  |
| American Indian and Alaska Native          | 3.9                    |
| Asian American                             | 2.0                    |
| Native Hawaiian and other Pacific Islander | 1.9                    |
| White                                      | 1.6                    |
| <b>Ethnicity</b>                           |                        |
| Hispanic American                          | 3.2 %                  |
| Non-Hispanic                               | 1.6                    |
| <b>Gender</b>                              |                        |
| Female                                     | 2.2 %                  |
| Male                                       | 1.6                    |
| <b>All individuals</b>                     | <b>1.7 %</b>           |

Source: U.S. Census Bureau Annual Survey of Entrepreneurs, 2016.

Lack of access to capital affects business profitability and long-term success. The 2016 ASE indicates that business owners of color were far more likely than non-Hispanic whites to cite access to capital as an issue negatively affecting the profitability of their company. Figure G-4 below provides national results by race, ethnicity and gender of the business owner (data for employer firms).

Figure G-4.

Percentage of U.S. employer businesses that cited access to financial capital as negatively impacting the profitability of their business, 2016

| Demographic group                          | Percent of respondents |
|--|------------------------|
| <b>Race</b>                                |                        |
| African American                           | 22.3 %                 |
| American Indian and Alaska Native          | 17.0                   |
| Asian American                             | 13.3                   |
| Native Hawaiian and other Pacific Islander | 19.6                   |
| White                                      | 8.9                    |
| <b>Ethnicity</b>                           |                        |
| Hispanic American                          | 15.1 %                 |
| Non-Hispanic                               | 9.3                    |
| <b>Gender</b>                              |                        |
| Female                                     | 10.0 %                 |
| Male                                       | 9.6                    |
| <b>All individuals</b>                     | <b>9.5 %</b>           |

Source: U.S. Census Bureau Annual Survey of Entrepreneurs, 2016.



In sum, minority- and woman-owned employer businesses were less likely to secure business loans from a bank or financial institution, less likely to apply for additional financing due to fear of denial and more likely to cite the issue of access to financial capital as having a negative impact on profitability. These indicators of credit market conditions demonstrate that some barriers to business success disproportionately affect women and people of color.

The ASE data related to business lending are consistent with the findings of recent research. In 2019, the National Community Reinvestment Coalition found that more significant barriers to accessing capital through the traditional banking market exist for African American and Hispanic American small business owners. For example, African American and Hispanic American applicants for small business loans are asked to provide more documentation and are given less information about the loans than their non-Hispanic white counterparts.<sup>13</sup>

Overall trends in small business lending are also important when considering credit-market conditions. Small business lending was slow to recover from the Great Recession.<sup>14</sup> Among large banks, lending disproportionately went to large businesses, with bank lending to small businesses decreasing by nearly \$100 billion from 2008 to 2016.<sup>15</sup> The decrease in small business lending coupled with greater barriers for people of color and women may have perpetuated an environment where minorities and women have more difficulty acquiring the capital necessary to start, operate or expand businesses.

As of the writing of this portion of the ODA report, the COVID-19 pandemic appeared to be substantially limiting small business access to credit. Recent research also suggests that minority-owned businesses are disproportionately affected by the COVID-19 pandemic and face additional barriers in accessing business support programs. For example, one study in spring 2020 found that about 12 percent of minority businesses applying for the Paycheck Protection Program (PPP), a federal loan program intended to help small business endure the immediate effects of the pandemic, had received the funds for which they applied at the time of that analysis.<sup>16</sup> The Center for Responsible Lending evaluated the lending criteria of the PPP, and found that about 95 percent of African American-owned businesses and 91 percent of Hispanic American-owned businesses would not qualify for federal assistance from this program due to a lack of prior relationship with a mainstream lending institution.<sup>17</sup>

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<sup>13</sup> Lee, A., Mitchell, B., & Lederer, A. (2019). *Disinvestment, discouragement and inequity in small business lending* (Rep.). Retrieved from National Community Reinvestment Coalition website: <https://ncrc.org/disinvestment/>

<sup>14</sup> Cole, R. (2018). *How did bank lending to small business in the United States fare after the financial crisis?* (Rep. No. SBAHQ-15-M-0144). Retrieved from U.S. Small Business Administration, Office of Advocacy website: <https://www.sba.gov/sites/default/files/439-How-Did-Bank-Lending-to-Small-Business-Fare.pdf>

<sup>15</sup> Ibid.

<sup>16</sup> Beer, T. (2020, May 18). Minority-owner small business struggle to gain equal access to PPP loan money. Forbes.com Retrieved July 7, 2020, from <https://www.forbes.com/sites/tommybeer/2020/05/18/minority-owned-small-businesses-struggle-to-gain-equal-access-to-ppp-loan-money/>

<sup>17</sup> Center for Responsible Lending. (2020, April 6). The Paycheck Protection Program continues to be disadvantageous to smaller businesses, especially businesses owned by people of color and the self-employed. Retrieved July 7, 2020, from [https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-cares-act2-smallbusiness-apr2020.pdf?mod=article\\_inline](https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-cares-act2-smallbusiness-apr2020.pdf?mod=article_inline)

**2003 Survey of Small Business Finances (SSBF).** Conducted by the U.S. Federal Reserve Board of Governors, the 2003 SSBF remains one of the most comprehensive sources of information to compare lending to minority- and non-minority-owned small businesses. Unlike previous surveys, the 2003 SSBF is unique in that it provides data on firm-level measurement of characteristics such as race, ethnicity, gender and ownership concentration. The 2003 SSBF surveyed 4,240 representative firms that were operating at the end of 2003.<sup>18</sup>

The SSBF collected information on businesses and business owners including:

- Information on firm and owner characteristics;
- An inventory of small businesses' use of financial services and of their financial service suppliers;
- Income and balance sheet information;
- Demographic characteristics for up to three individual owners;
- Information on the use of nonstandard work arrangements; and
- Details on the use of credit and debit card processing.

The SSBF records the geographic location of businesses by Census Division, not by city, county or state. The Pacific Division (or "Pacific region") includes California, Washington, Hawaii, Alaska and Oregon. The Pacific region is the level of geographic detail most specific to Oregon, and 2003 is the most recent information available from the SSBF as the survey was discontinued after that year.

The SSBF collected information about access to capital for businesses including loan denial rates, businesses that did not apply for a loan due to fear of denial, loan values and interest rates. Results from the 2003 SSBF indicate disparities for some minorities and females within these categories. These results are largely consistent with analysis of 2016 ASE data.

**Loan denial rates.** The 2003 SSBF included information about loan denials. Within the Pacific region, the loan denial rate for small businesses owned by people of color and women (16%) was higher than that for non-minority male-owned businesses (8%). Because of small sample size in Pacific region, results are not presented by specific racial or ethnic group.

Nationally, SSBF data indicated that the loan denial rate for African American-owned businesses (51%) was considerably higher than the rate for white male-owned firms (8%). This difference was statistically significant. This disparity persisted after statistically controlling for race- and gender-neutral factors including various firm characteristics, the firm's credit and financial health, and business owner characteristics.

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<sup>18</sup> The Federal Reserve Board. (2003). *2003 Survey of Small Business Finances* [Data file]. Retrieved from <https://www.federalreserve.gov/pubs/oss/oss3/ssbf03/ssbf03home.html#ssbf03dat>

Although businesses owned by Asian Americans (12%), Hispanic Americans (16%) and non-Hispanic white females (11%) also had higher loan denial rates when compared with business owned by non-Hispanic white males nationally, these differences were not statistically significant and did not persist after controlling for various race- and gender-neutral factors.<sup>19</sup>

**Applying for loans.** The 2003 SSBF also included a survey item gauging the motivation of business owners who opted not to apply for financial assistance. Among Pacific region businesses that reported needing loans, minority- and woman-owned businesses (19%) were more likely than non-Hispanic white male-owned firms (14%) to report that they did not apply for those loans because of fear of loan denial, although this difference was not statistically significant. As with loan denial rates, responses for race and gender groups were not available for small geographic areas within the Pacific region due to small sample size.

Nationwide, businesses owned by African Americans (47%), Hispanic Americans (29%), Native Americans (30%) and non-Hispanic white females (22%) were more likely to forgo applying for business loans due to fear of loan denial when compared with non-Hispanic white male business owners (14%). These differences were statistically significant.

After statistically controlling for various race- and gender-neutral factors for the firm and firm owner, African American- and female-owned businesses were more likely to forgo applying for a loan due to fear of denial.<sup>20</sup>

**Loan values.** Data regarding loan values for businesses that received loans were also included in the 2003 SSBF. Among firms that received loans in the Pacific region, minority- and woman-owned firms had lower average loan amounts (\$289,000) when compared with white male-owned firms (\$456,000). This pattern was seen nationally as well. Disparities within the Pacific region and nationwide were statistically significant.<sup>21</sup>

Additionally, previous national studies have found that African American-owned businesses are issued loans that are smaller than loans issued to non-Hispanic white-owned businesses with similar characteristics. Examination of construction companies in the United States have also revealed that African American-owned businesses are issued loans that are worth less than loans issued to businesses with otherwise identical characteristics.<sup>22</sup>

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<sup>19</sup> Keen Independent Research. (2016). *Oregon Department of Transportation 2016 Availability and Disparity Study* (Rep.). Available at State of Oregon website: <https://www.oregon.gov/ODOT/Business/OCR/Documents/keen-independent-2016-odot-disparity-study-final-report-06302016.pdf>

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

<sup>22</sup> Grown, C. & Bates, T. (1992). Commercial bank lending practices and the development of black-owned construction companies. *Journal of Urban Affairs*, 14 (1), 25-41.

**Interest rates.** According to national 2003 SSBF data, minority- and female-owned businesses were issued loans with a higher interest rate, on average, than majority-owned businesses (7.5% and 6.4%, respectively). This difference was statistically significant.

After accounting for various race- and gender-neutral factors, statistically significant disparities persisted for African American- and Hispanic American-owned firms. African American-owned businesses received loans with interest rates approximately 2 percentage points higher than non-Hispanic white male-owned businesses, and businesses owned by Hispanic Americans received loans with interest rates approximately 1 percentage point higher than majority-owned businesses. Data for the Pacific region also suggest higher interest rates for minority and female business owners.<sup>23</sup>

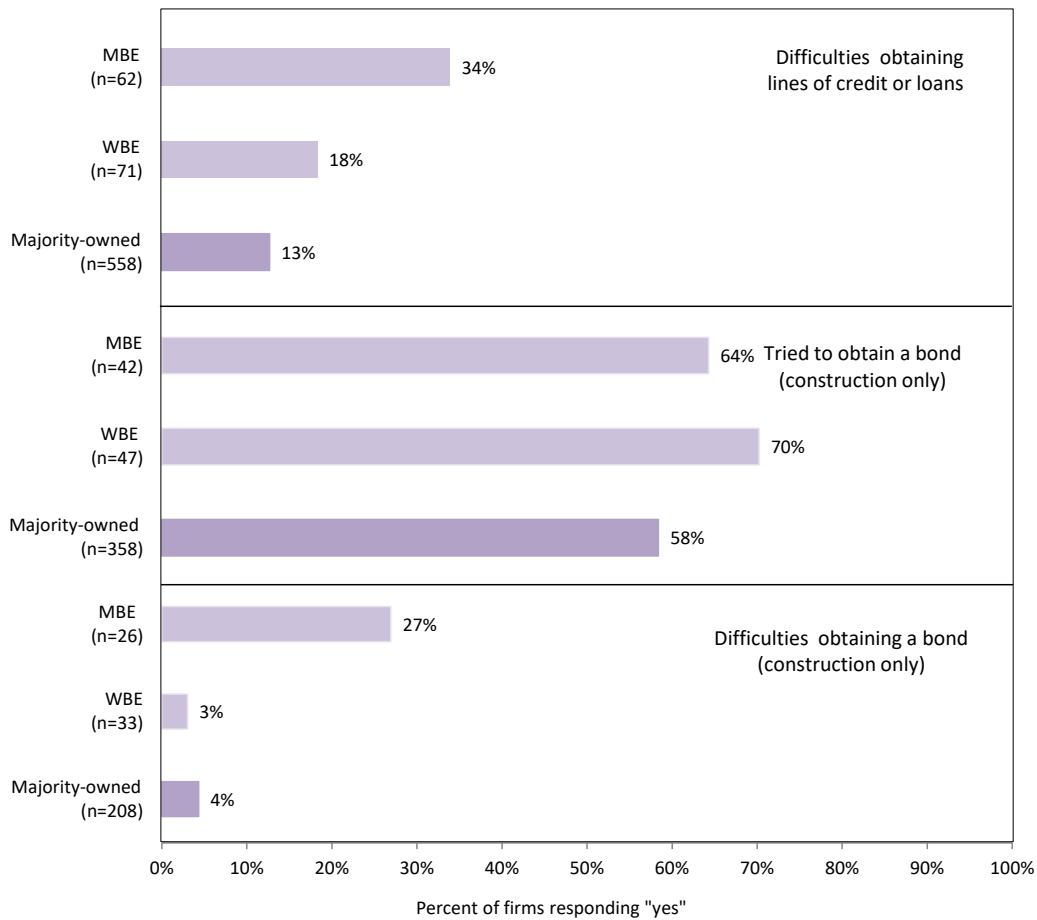
**Results from the Keen Independent 2020 availability interviews with firms in the Oregon study industries.** In the Keen Independent 2020 availability interviews of construction, engineering and related firms interested in airport work, the study team asked respondents a battery of questions regarding potential barriers or difficulties firms might have experienced in the Oregon marketplace. The series of questions was introduced with the following statement: “Finally, we’re interested in whether your company has experienced barriers or difficulties associated with business start-up or expansion, or with obtaining work. Think about your experiences in the past six years as you answer these questions.” Respondents were then asked about specific potential barriers or difficulties. Responses to questions about access to capital were combined for all industries; responses to questions about bonding are only for construction firms.

**Access to capital.** Figure G-5 on the following page presents results for questions related to access to capital and bonding. The first question asks, “Has your company experienced any difficulties in obtaining lines of credit or loans?” As shown in Figure G-5, about 34 percent of minority-owned firms and 18 percent of white woman-owned companies reported difficulties obtaining lines of credit or loans. Only 13 percent of majority-owned businesses reported similar difficulties (“majority-owned business” in Figure G-5 are firms not owned by people of color or women).

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<sup>23</sup> Keen Independent Research. (2016). *Oregon Department of Transportation 2016 Availability and Disparity Study* (Rep.). Retrieved November 12, 2020 from State of Oregon website: <https://www.oregon.gov/ODOT/Business/OCR/Documents/keen-independent-2016-odot-disparity-study-final-report-06302016.pdf>

Figure G-5.  
Responses to availability interview questions concerning loans and bonding,  
Oregon MBE, WBE and majority-owned firms



Source: Keen Independent Research from 2020 availability survey.

**Bonding.** To research whether bonding presented a barrier to businesses, Keen Independent asked firms completing availability interviews:

- “Has your company obtained or tried to obtain a bond for a project or contract?”
- [and if so] “Has your company had any difficulties obtaining bonds needed for a project or contract?”

Among construction firms receiving or attempting to receive a bond, minority-owned firms were about seven times more likely to report difficulties receiving bonds (27%) compared with majority-owned businesses. There was little difference in the percentage of WBEs and majority-owned firms reporting difficulties receiving a bond (about 3% and 4%, respectively).

## Homeownership and Mortgage Lending

The study team also analyzed homeownership and the mortgage lending market to explore differences across race/ethnicity and gender that may lead to disparities in access to capital.

**Homeownership.** There is a strong relationship between the likelihood of starting a new business and the potential entrepreneur's home equity.<sup>24</sup> Wealth created through homeownership can be an important source of capital to start or expand a business.<sup>25</sup> Research has shown:

- Homeownership is a tool for building wealth;<sup>26</sup>
- More personal wealth provides additional options for financing because higher wealth enables both self-financing and wealth leveraging via borrowing from the equity in one's home;<sup>27</sup>
- Business owners tend to use home equity to finance business investments, confirming that home equity is an efficient means of business financing;<sup>28</sup>
- Race and gender wealth inequality contributes to lower rates of homeownership among women and minorities;
- The United States has a history of restrictive real estate covenants and property laws that affect the ownership rights of minorities and women;<sup>29</sup> and
- Homeownership is associated with an estimated 30 percent reduction in the probability of loan denial for small businesses.<sup>30</sup>

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<sup>24</sup> Corradin, S., and Popov, A. (2015). House prices, home equity borrowing, and entrepreneurship. *The Review of Financial Studies*, 28(8), 2399-2428.

<sup>25</sup> The housing and mortgage crisis beginning in late 2006 has substantially impacted the ability of small businesses to secure loans through home equity. Later in Appendix G, Keen Independent discusses the consequences of the housing and mortgage crisis on small businesses and MBE/WBEs.

<sup>26</sup> McCabe, B. J. (2018). Why buy a home? Race, ethnicity, and homeownership preferences in the United States. *Sociology of Race and Ethnicity*, 4(4), 452-472.

<sup>27</sup> Bates, T., Bradford, W., and Jackson, W. E. (2018). Are minority-owned businesses underserved by financial markets? Evidence from the private-equity industry. *Small Business Economics*, (50)3, 445-461.

<sup>28</sup> Corradin, S., and Popov, A. (2015). House prices, home equity borrowing, and entrepreneurship. *The Review of Financial Studies*, 28(8), 2399-2428.

<sup>29</sup> Baradaran, M. (2017). *The color of money: Black banks and the racial wealth gap*. London, England: The Belknap Press of Harvard University Press.

<sup>30</sup> Cavalluzzo, K., & Wolken, J. (2005). Small business loan turndowns, personal wealth and discrimination. *Journal of Business*, 78(6), 2153-2178.

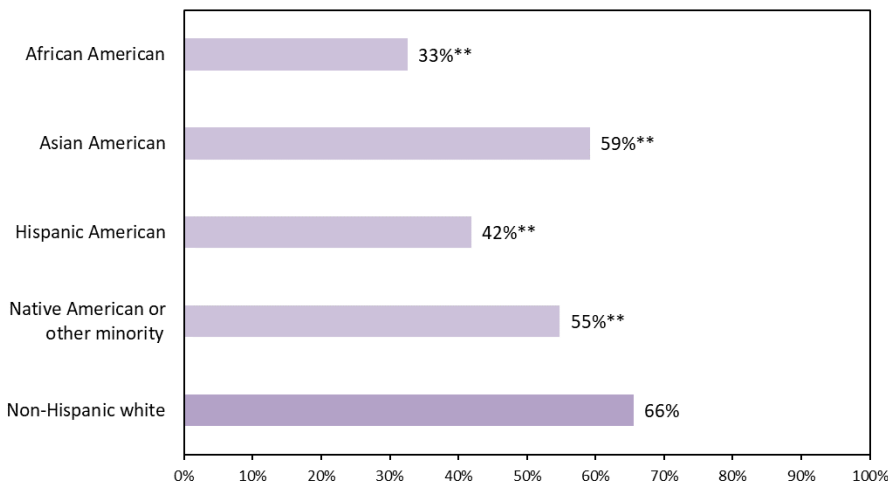
Barriers to homeownership and creation of home equity for people of color and women can impact business opportunities. Similarly, barriers to accessing home equity through home mortgages can also affect available capital for new or expanding businesses. Recent research confirms the importance of homeownership on the likelihood of starting a business, even when examined separately from recent work history (this is done by independently examining workers that recently experienced a job loss and those that did not). A strong relationship exists between increases in home equity and entry into self-employment for both groups.<sup>31</sup>

The study team analyzed homeownership rates, home values and the home mortgage market in Oregon from 2014–2018.

**Homeownership rates.** The study team used 2014–2018 American Community Survey (ACS) data to examine homeownership rates in Oregon. About two-thirds of non-minority heads of households owned homes. As shown in Figure G-6, homeownership rates for people of color are lower.<sup>32</sup>

Figure G-6.

Percentage of Oregon households that are homeowners, 2014–2018



Note: \*\* Denotes that the difference in proportions between the minority group and non-Hispanic whites for the given Census/ACS year is statistically significant at the 95% confidence level.

Source: Keen Independent Research from 2014–2018 ACS Public Use Microdata sample. The 2014–2018 ACS raw data extracts were obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

Lower rates of homeownership may reflect lower incomes and wealth for people of color. That relationship may be self-reinforcing, as low wealth puts individuals at a disadvantage in becoming homeowners, which has historically been a path to building wealth. For example, the probability of homeownership is considerably lower for African Americans than it is for comparable non-Hispanic

<sup>31</sup> Fairlie, R. W., & Krashinsky, H. A. (2012). Liquidity constraints, household wealth and entrepreneurship revisited. *Review of Income and Wealth*, 58(2), 279-306. Retrieved from <https://doi.org/10.1111/j.1475-4991.2011.00491.x>

<sup>32</sup> The Oregon State Legislature’s bipartisan Joint Interim Task Force on Addressing Racial Disparities in Home Ownership made policy recommendations to address these racial disparities near the end of 2019. The Task Force’s policy recommendations can be viewed on the Oregon Legislature’s website: <https://olis.leg.state.or.us/liz/2019I1/Downloads/CommitteeMeetingDocument/206889>

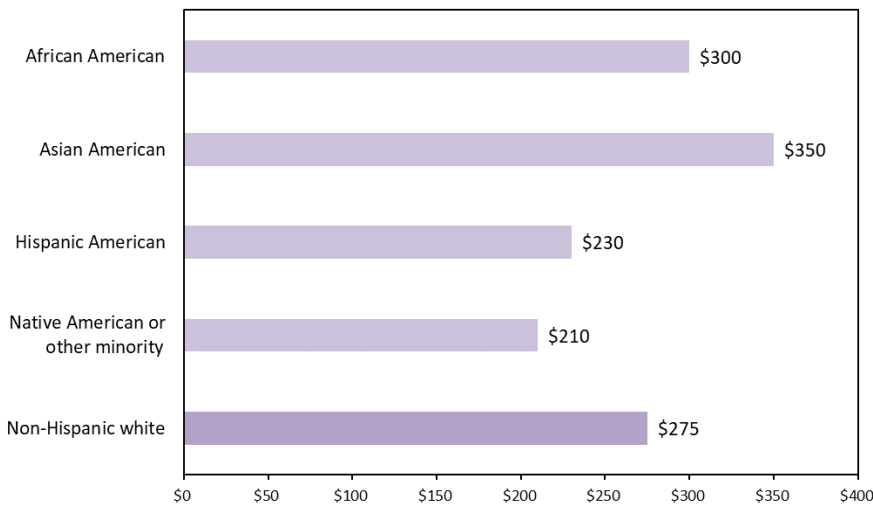
whites throughout the United States.<sup>33</sup> Recent research shows that while African Americans narrowed the homeownership gap in the 1990s, the first half of the following decade brought little change and the second half of the decade brought significant losses (which included the Great Recession), resulting in a widening of the gap between African Americans and non-Hispanic whites.<sup>34</sup>

**Home values.** Research has shown that increases in home equity encourage business ownership.<sup>35</sup> Using 2014 through 2018 ACS data, the study team compared median home values by target group.

Figure G-7 presents median home values by group in Oregon from 2014 to 2018. Among homeowners, Hispanic Americans (\$230,000) and Native Americans (\$210,000) had lower median home values than non-Hispanic whites (\$275,000). The median value of Asian American (\$350,000) and African American (\$300,000) homeowners' homes exceeded that of non-Hispanic whites.

Median homes values for different groups across a state can be influenced by many factors, including whether a group is more likely to live in higher-cost housing markets such as the Portland Metropolitan Area. Also, these results should be considered in the context of the substantially lower rate of homeownership for African Americans (see Figure G-6). If relatively fewer African Americans who would purchase lower-priced homes are able to obtain a mortgage for these homes, it would increase the median value of homes owned by African Americans.

**Figure G-7.**  
**Median home values in Oregon, 2014–2018, thousands**



**Note:** The sample universe is all owner-occupied housing units.

**Source:** Keen Independent Research from 2014–2018 ACS Public Use Microdata sample. The 2014–2018 ACS raw data extracts were obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

<sup>33</sup> Board of Governors of the Federal Reserve System. (2017). Residential mortgage lending in 2016: Evidence from the Home Mortgage Disclosure Act. *Federal Reserve Bulletin*, 103(6).

<sup>34</sup> Rosenbaum, E. (2012). *Home ownership's wild ride, 2001-2011* (Rep.). New York, NY: Russell Sage Foundation.

<sup>35</sup> Harding, J., & Rosenthal, S. S. (2017). Homeownership, housing capital gains and self-employment. *Journal of Urban Economics*, 99, 120-135.



**Mortgage lending.** People of color may be denied opportunities to own homes, to purchase more expensive homes or to access equity in their homes if they are discriminated against when applying for home mortgages. For example, Bank of America paid \$335 million to settle allegations that its Countrywide Financial unit discriminated against African American and Hispanic American borrowers between 2004 and 2008. The case was brought to the Securities and Exchange Commission after finding evidence of “statistically significant disparities by race and ethnicity” among Countrywide Financial customers.<sup>36</sup>

The study team explored market conditions for mortgage lending in Oregon. The best available source of information concerning mortgage lending is Home Mortgage Disclosure Act (HMDA) data, which contain information on mortgage loan applications that financial institutions, savings banks, credit unions and some mortgage companies receive.<sup>37</sup> Those data include information about the location, dollar amount and types of loans made, as well as race/ethnicity, income and credit characteristics of all loan applicants. The data are available for home purchases, loan refinances and home improvement loans. The most recent year of HMDA data available are from 2018.

The study team examined HMDA statistics provided by the Federal Financial Institutions Examination Council (FFIEC) for 2013, 2017 and 2018. There were 7,190 lending institutions<sup>38</sup> included in the 2013 data. The number of institutions decreased to 5,852 in 2017 and to 5,683 by 2018.<sup>39, 40</sup>

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<sup>36</sup> Savage, C. (2011, December 21). \$335 million settlement on countrywide lending bias. *The New York Times*. Retrieved March 1, 2018, from <http://www.nytimes.com/2011/12/22/business/us-settlement-reported-on-countrywide-lending.html>

<sup>37</sup> Depository institutions were required to report 2017 HMDA data if they had assets of more than \$44 million on the preceding December 31 (\$42 million for 2013), had a home or branch office in a metropolitan area, and originated at least one home purchase or refinance loan in the reporting calendar year. Non-depository mortgage companies were required to report HMDA if they are for-profit institutions, had home purchase loan originations (including refinancing) either a.) exceeding 10 percent of all loan obligations originations in the past year or b.) exceeding \$25 million, had a home or branch office located in an MSA (or receive applications for, purchase or originated five or more home purchase loans mortgages in an MSA), and either had more than \$10 million in assets or made at least 100 home purchase or refinance loans in the preceding calendar year.

<sup>38</sup> Bhutta, N., & Ringo, D. R. (2015). The 2013 Home Mortgage Disclosure Act data. *Federal Reserve Bulletin*, 102(6).

<sup>39</sup> Consumer Financial Protection Bureau. (2018). FFIEC announces availability of 2017 data on mortgage lending. Retrieved from <https://www.consumerfinance.gov/about-us/newsroom/ffiec-announces-availability-2017-data-mortgage-lending/>

<sup>40</sup> Consumer Financial Protection Bureau. (2019). FFIEC announces availability of 2018 data on mortgage lending. Retrieved from <https://www.consumerfinance.gov/about-us/newsroom/ffiec-announces-availability-2018-data-mortgage-lending/>

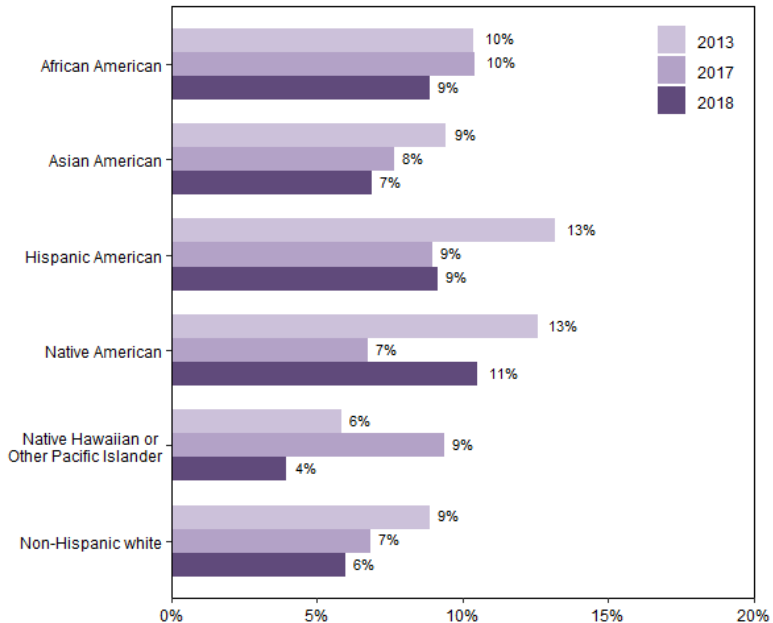
**Mortgage denials.** The study team examined mortgage denial rates on conventional loan applications made by high-income households. Conventional loans are loans that are not insured by a government program. High-income applicants are those households with 120 percent or more of the U.S. Department of Housing and Urban Development (HUD) area median family income.<sup>41</sup> Loan denial rates are calculated as the percentage of mortgage loan applications that were denied, excluding applications that the potential borrowers terminated and applications that were closed due to incompleteness.<sup>42</sup>

Figure G-8 presents loan denial rates for high-income households in Oregon in 2013, 2017 and 2018. In 2013, the loan denial rates for Hispanic Americans and Native Americans were 4 percentage points higher than the rate for non-Hispanic white applicants. For 2017 and 2018, loan denial rates decreased for almost every group, although the denial rate for people of color remained higher than non-Hispanic whites (except for Native American applicants in 2017 and Native Hawaiian and other Pacific Islander applicants in 2018).

**Figure G-8.**  
Denial rates of conventional purchase loans to high-income households in Oregon, 2013, 2017 and 2018

**Note:**  
High-income borrowers are those households with 120% or more than the HUD area median family income (MFI).

**Source:**  
FFIEC HMDA 2013, 2017 and 2018.



**Subprime lending.** Loan denial is one of several ways minorities might be discriminated against in the home mortgage market. Mortgage lending discrimination can also occur through higher fees and interest rates. Subprime lending provides a unique example of such types of discrimination through fees associated with various loan types.

<sup>41</sup> Median family income for the Portland-Vancouver-Hillsboro, OR-WA MSA was about \$68,000 in 2013 and \$75,000 in 2017. Likewise, median family income for the non-metro portion of Oregon was about \$51,000 in 2013 and \$53,000 in 2017. Source: FFIEC Census and FFIEC estimated MSA/MD median family income for the 2013 and 2017 CRA/HMDA reports.

<sup>42</sup> For this analysis, loan applications are considered to be applications for which a specific property was identified, thus excluding preapproval requests.

Until recent years, one of the fastest growing segments of the home mortgage industry was subprime lending. From 1994 through 2003, subprime mortgage activity grew by 25 percent per year and accounted for \$330 billion of U.S. mortgages in 2003, up from \$35 billion a decade earlier. In 2006, subprime loans represented about one-fifth of all mortgages in the United States.<sup>43</sup>

With higher interest rates than prime loans, subprime loans were historically marketed to customers with blemished or limited credit histories who would not typically qualify for prime loans. Over time, subprime loans also became available to homeowners who did not want to make a down payment, did not want to provide proof of income and assets, or wanted to purchase a home with a cost above that for which they would qualify from a prime lender.<sup>44</sup> Because of higher interest rates and additional costs, subprime loans affected homeowners' ability to grow home equity and increased their risks of foreclosure. Fair-lending enforcement mechanisms have historically tended to overlook disparate impact and treatment and shielded some lenders with discriminating practices from investigations.<sup>45</sup>

Although there is no standard definition of a subprime loan, there are several commonly used approaches to examining rates of subprime lending. The study team used a "rate-spread method" — in which subprime loans are identified as those loans with substantially above-average interest rates — to measure rates of subprime lending in 2013, 2017 and 2018.<sup>46</sup> Because lending patterns and borrower motivations differ depending on the type of loan being sought, the study team separately considered home purchase loans and refinance loans.

Figure G-9 on the following page shows the percent of conventional home purchase loans that were subprime in Oregon, based on 2013, 2017 and 2018 HMDA data. A higher percentage of borrowers receiving subprime loans may indicate predatory lending.

- African American, Hispanic American, Native American and Native Hawaiian or other Pacific Islander borrowers were more likely to receive subprime home purchase loans than non-Hispanic whites in each of these years.
- Asian American borrowers were less likely to receive subprime home purchase loans than non-Hispanic white borrowers.

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<sup>43</sup> Avery, B., Brevoort, K. P., and Canner, G. B. (2007). The 2006 HMDA data. *Federal Reserve Bulletin*, A73-A109.

<sup>44</sup> Gerardi, K., Shapiro, A. H., & Willen, P. S. (2007). *Subprime outcomes: Risky mortgages, homeownership experiences, and foreclosures* (Working paper No. 07-15). Boston, MA: Federal Reserve Bank of Boston. Retrieved from Federal Reserve Bank of Boston website: <https://www.bostonfed.org/publications/research-department-working-paper/2007/subprime-outcomes-risky-mortgages-homeownership-experiences-and-foreclosures.aspx>

<sup>45</sup> Ross, S. L., & Yinger, J. (2002). *The color of credit: Mortgage discrimination, research methodology, and fair-lending enforcement*. Cambridge, MA: MIT Press.

<sup>46</sup> Prior to October 2009, first lien loans were identified as subprime if they had an annual percentage rate (APR) that was 3.0 percentage points or greater than the federal treasury security rate of like maturity. As of October 2009, rate spreads in HMDA data were calculated as the difference between APR and Average Prime Offer Rate, with subprime loans defined as 1.5 percentage points of rate spread or more. The study team identified subprime loans according to those measures in the corresponding time periods.

**Figure G-9.**  
**Percent of conventional home purchase loans in Oregon that were subprime, 2013, 2017 and 2018**

**Note:**  
 Subprime rates are calculated as the percentage of originated loans that were subprime.

**Source:**  
 FFIEC HMDA data 2013, 2017 and 2018.

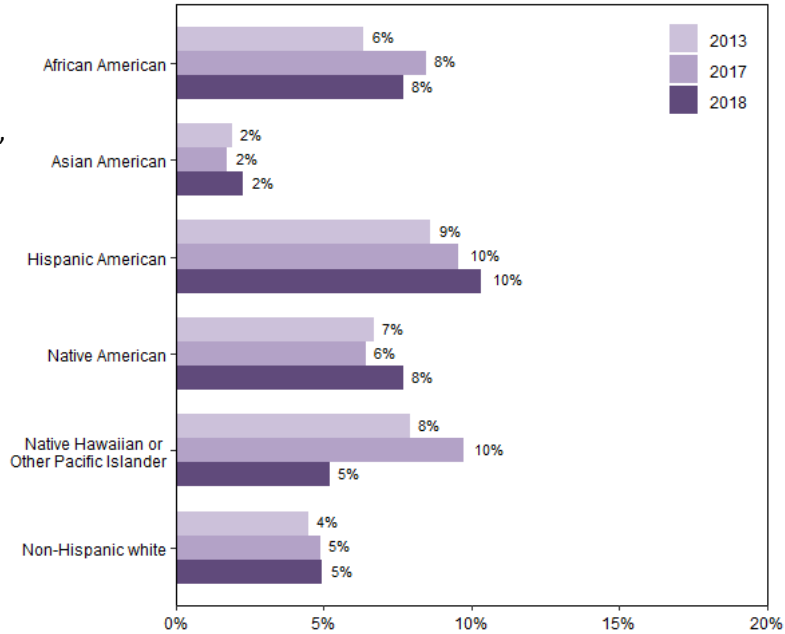
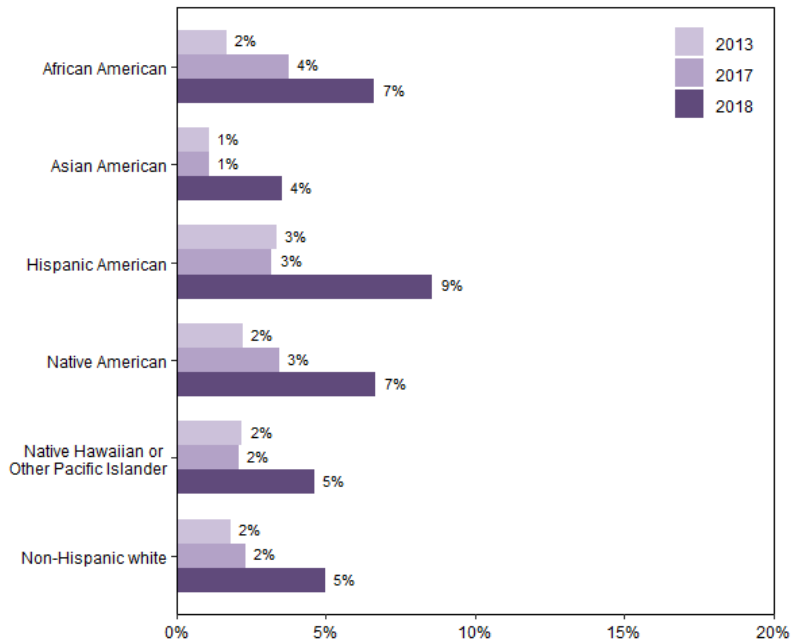


Figure G-10 examines the percentage of conventional home refinance loans that were subprime in Oregon in 2013, 2017 and 2018. There was low usage of subprime refinance loans in 2013 and 2017; the rate of subprime refinance lending increased across the board in 2018, although the increase in this rate was higher for racial minorities (except Asian Americans and Native Hawaiian or other Pacific Islanders) than non-Hispanic whites.

**Figure G-10.**  
**Percent of conventional refinance loans in Oregon that were subprime, 2013, 2017 and 2018**

**Note:**  
 Subprime rates are calculated as the percentage of originated loans that were subprime.

**Source:**  
 FFIEC HMDA data 2013, 2017 and 2018.



**Additional research.** Studies across the country have examined barriers to homeownership for people of color. For example:

- A study that analyzed more than two million home sale transactions over the course of 18 years in four major metropolitan areas — Chicago, Baltimore/Maryland, Los Angeles and San Francisco — showed that African American and Hispanic American buyers pay more for the price of their house than their white counterparts in almost every purchase scenario.<sup>47</sup>
- Researchers found that between 1999 and 2011, socioeconomic and demographic factors could only partially explain the gap in homeownership that existed between white and African Americans homeowners, and that discrimination in the mortgage process was a likely explanation.<sup>48</sup>
- Results of a mystery-shopping field study conducted at several national banks in a major metropolitan U.S. city showed that minority loan applicants were provided less comprehensive information about financing options, required to provide more information to apply for a loan and received less encouragement and assistance compared to white potential loan applicants.<sup>49</sup>
- An analysis of U.S. Survey of Consumer Finance data shows that African American borrowers on average pay about 29 basis points more in interest on mortgage loans than comparable white borrowers.<sup>50</sup>

Some evidence suggests that lenders sought out and offered subprime loans to individuals who often would not be able to pay off the loan, a form of “predatory lending.”<sup>51</sup> Furthermore, some research has found that many recipients of subprime loans could have qualified for prime loans.<sup>52</sup> Previous studies of subprime lending suggest that predatory lenders have disproportionately targeted minorities.<sup>53</sup> A 2018 study, for example, examined subprime mortgage loans in seven metropolitan areas across the country. The study found that African American borrowers were 103 percent more likely and Hispanic American borrowers were 78 percent more likely than white borrowers to receive

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<sup>47</sup> Bayer, C., Casey, M., Ferreira, F., & McMillan F. (2017). Racial and ethnic price differentials in the housing market. *Journal of Urban Economics*, 102, 91-105.

<sup>48</sup> Fuller, C. (2015). *Race and homeownership: How much of the differences are explainable by economics alone?* Retrieved from Zillow Research website: <https://www.zillow.com/research/racial-homeownership-differences-10155/>

<sup>49</sup> Bone, S. A., Christensen, G. L., & Williams, J. D. (2014). Rejected, shackled, and alone: The impact of systemic restricted choice on minority consumers' construction of self. *Journal of Consumer Research*, 41(2), 451-474.

<sup>50</sup> Cheng, P., Lin, Z., & Liu, Y. (2015). Racial discrepancy in mortgage interest rates. *Journal of Real Estate Finance and Economics*, 51(1), 101-120.

<sup>51</sup> See, e.g., Hull, N.R. (2017). Crossing the line: Prime, subprime, and predatory lending. *Maine Law Review*, 61(1), 288-318; Morgan, D. P. (2007). *Defining and detecting predatory lending* (Staff rep. No. 273). New York, NY: Federal Reserve Bank of New York.

<sup>52</sup> Faber, J. W. (2013). Racial dynamics of subprime mortgage lending at the peak. *Housing Policy Debate*, 23(2), 328-349.

<sup>53</sup> Ibid; Been, V., Ellen, I., & Madar, J. (2009). The high cost of segregation: Exploring racial disparities in high-cost lending. *Fordham Urb. LJ*, 36(3), 361.

a high-cost loan for home purchases. Disparities were found for both low- and high-risk borrowers, regardless of age.<sup>54</sup>

A 2007 study released from the Federal Reserve Bank of Boston found that “homeownerships that begin with a subprime purchase mortgage end up in foreclosure almost 20 percent of the time, or more than six times as often as experiences that begin with prime purchase mortgages.”<sup>55</sup>

**Implications of the mortgage lending crisis during the Great Recession.** The ramifications of the mortgage lending crisis in the Great Recession not only continued to substantially impact the ability of homeowners to secure capital through home mortgages to start or expand small businesses but have also created a nationwide retreat in dynamism in nearly every measurable respect.<sup>56</sup> (Dynamism consists of the rate and scale at which the process of reallocating the economy’s resources across firms and industries according to their most productive use occurs.) Note that all of this research was performed prior to the COVID-19 pandemic.

- On July 19, 2017, Karen Kerrigan, President and CEO of the Small Business and Entrepreneurship (SBE) Council, testified before the U.S. House of Representatives Committee on Small Business that there has been a continuing dearth of entrepreneurial activity and substantial decline over the past ten years due to the financial crises, Great Recession and a weak economic recovery that continues to negatively influence the American psyche.<sup>57</sup>
- According to research conducted by economists for the U.S. Federal Reserve System, loan origination activity remains well below pre-crisis levels.<sup>58</sup>
- Startup rates have dropped for years, but the effects of the Great Recession were so detrimental that firm deaths exceeded births for the first time in more than 40 years.<sup>59</sup>
- Despite a progressive decline in new business formation, 117,300 more firms opened than closed on average each year from 1977 to 2007; however, firm deaths outpaced firm births on average from 2008 to 2014.<sup>60</sup>

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<sup>54</sup> Bayer, P., Ferreira, F., & Ross, S. (2018). What drives racial and ethnic differences in high-cost mortgages? The role of high-risk lenders. *Review of Financial Studies*, 31(1), 175-205.

<sup>55</sup> Gerardi, K., Shapiro, A. H., & Willen, P. S. (2007). *Subprime outcomes: Risky mortgages, homeownership experiences, and foreclosures* (Working paper No. 07–15). Boston, MA: Federal Reserve Bank of Boston. Retrieved from Federal Reserve Bank of Boston website: <https://www.bostonfed.org/publications/research-department-working-paper/2007/subprime-outcomes-risky-mortgages-homeownership-experiences-and-foreclosures.aspx>

<sup>56</sup> Economic Innovation Group. (2017). *Dynamism in retreat: Consequences for regions, markets, and workers*. Retrieved from the Economic Innovation Group website: <http://eig.org/wp-content/uploads/2017/07/Dynamism-in-Retreat-A.pdf>

<sup>57</sup> *Reversing the Entrepreneurship Decline: Hearing before the Committee on Small Business*, House of Representatives, 115th Cong. Page 3 (2017) (testimony of Ms. Karen Kerrigan).

<sup>58</sup> Dore, T., & Mach, T. (2018). *Recent trends in small business lending and the Community Reinvestment Act*. Retrieved from the Board of Governors of the Federal Reserve System website: <https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-small-business-lending-and-the-community-reinvestment-act-20180102.htm>

<sup>59</sup> Economic Innovation Group. (2017). *Dynamism in retreat: Consequences for regions, markets, and workers*. Retrieved from the Economic Innovation Group website: <http://eig.org/wp-content/uploads/2017/07/Dynamism-in-Retreat-A.pdf>

<sup>60</sup> Ibid.

- Small firms suffer more during financial crises due to dependence on bank capital to fund growth.<sup>61</sup>
- Major surveys identify access to credit as a problem and top growth concern for small firms during the recovery, including surveys conducted by the National Federation of Independent Businesses (NFIB) and the Federal Reserve.<sup>62</sup>
- Commercial and residential real estate — which represent two-thirds of the assets of small business owners and are frequently used as collateral for loans — were hit hard during the financial crisis, making small business borrowers less creditworthy.<sup>63</sup>

The mortgage-lending crisis and the Great Recession have had lasting effects as they limited opportunities for homeowners with little home equity to obtain business capital through home mortgages. Furthermore, the historically higher rates of default and foreclosure for homeowners with subprime loans impacted the ability of those individuals to access to capital. Those consequences disproportionate impact people of color. It may be that the COVID-19 pandemic will exacerbate these disparities.

**Redlining.** Historically, redlining referred to mortgage lending discrimination against geographic areas based on racial or ethnic characteristics of a neighborhood.<sup>64</sup> Presently, the concept of redlining includes an examination of the availability of and access to credit in predominantly minority neighborhoods, and the credit terms offered within a lender’s assessment area.<sup>65</sup>

The practice of reverse redlining consists of extending high-cost credit. This discriminatory practice involves charging minority borrowers higher mortgage fee costs compared to white borrowers and was the subject of multiple lawsuits brought by the U.S. Department of Justice from the late 1990s through the early 2000s.<sup>66</sup> As a result of reverse redlining, some researchers argue that mortgage discrimination has shifted from being an access to credit issue to being a discretionary pricing issue.<sup>67</sup>

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<sup>61</sup> Mills, K.G., & McCarthy, B. (2016). *The state of small business lending: Innovation and technology and the implications for regulation* (Working paper No. 17-042). Cambridge, MA. Retrieved from Harvard Business School website: [http://www.hbs.edu/faculty/Publication%20Files/17-042\\_30393d52-3c61-41cb-a78a-ebbe3e040e55.pdf](http://www.hbs.edu/faculty/Publication%20Files/17-042_30393d52-3c61-41cb-a78a-ebbe3e040e55.pdf)

<sup>62</sup> Ibid.

<sup>63</sup> Ibid.

<sup>64</sup> Burnison, T. R., & Boccia, B. (2017). Redlining everything old is new again. *ABA Banking Journal*, 109(2).

<sup>65</sup> Ibid.

<sup>66</sup> Brescia, R. H. (2009). Subprime communities: Reverse redlining, the Fair Housing Act and emerging issues in litigation regarding the subprime mortgage crisis. *Albany Government Law Review*, 2(1), 164-216.

<sup>67</sup> Ibid.

As evidenced by settlements in recent court cases, the practice of redlining continues against minority mortgage applicants. For example:

- In 2015, New York Attorney General Eric Schneiderman settled with Evans Bank for \$825,000 after learning that Evans Bank erased African American neighborhoods from maps used to determine mortgage lending.<sup>68</sup>
- In 2015, the U.S. Department of Housing and Urban Development reached a \$200 million settlement with Associated Bank for denying mortgage loans to African American and Hispanic American applicants in Chicago and Milwaukee.<sup>69</sup>
- In November 2016, Hudson City Savings Bank was subject to a record redlining settlement due to disparities suffered by African American and Hispanic American loan applicants.<sup>70</sup> According to the Consumer Financial Protection Bureau (CFPB) and the Department of Justice (DOJ), Hudson City Savings Bank avoided locating branches and loan officers, and using mortgage brokers in majority African American and Hispanic communities.<sup>71</sup> Hudson City Savings Bank also excluded majority-African American and Hispanic communities from its marketing strategy and credit assessment areas.<sup>72</sup>
- In a different 2016 redlining legal action, the CFPB and DOJ ordered BancorpSouth Bank to pay millions to harmed minorities for illegally denying them access to credit in minority neighborhoods and denying African Americans applicants certain mortgage loans and over charging them, among other things.<sup>73</sup>
- In a reverse redlining case tried in federal court in 2016, a federal jury found that Emigrant Savings Bank and Emigrant Mortgage Company violated the Fair Housing Act, Equal Credit Opportunity Act, and New York City Human Rights Law by aggressively promoting toxic mortgages to African American and Hispanic American applicants with poor credit.<sup>74</sup>

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<sup>68</sup> Mock, B. (2015, September 28). Redlining is alive and well—and evolving. *City Lab*. Retrieved from <https://www.citylab.com/equity/2015/09/redlining-is-alive-and-welland-evolving/407497/>

<sup>69</sup> Ibid.

<sup>70</sup> Burnison, T. R., and Boccia, B. (2017). Redlining Everything Old Is New Again. *ABA Banking Journal*, 109(2).

<sup>71</sup> Consumer Financial Protection Bureau. (2015, September 24). *CFPB and DOJ order Hudson City Savings Bank to pay \$27 million to increase mortgage credit access in communities illegally redlined* [Press release]. Retrieved November 3, 2020 from <https://www.consumerfinance.gov/about-us/newsroom/cfpb-and-doj-order-hudson-city-savings-bank-to-pay-27-million-to-increase-mortgage-credit-access-in-communities-illegally-redlined/>

<sup>72</sup> Ibid.

<sup>73</sup> Dodd-Ramirez, D., & Ficklin, P. (2016, June 29). Redlining: CFPB and DOJ action requires BancorpSouth Bank to pay millions to harmed consumers [Web log post]. Retrieved November 3, 2020 from <https://www.consumerfinance.gov/about-us/blog/redlining-cfpb-and-doj-action-requires-bancorpsouth-bank-pay-millions-harmed-consumers/>

<sup>74</sup> Lane, B. (2016, June 30). Groundbreaking ruling? Federal jury finds Emigrant Bank liable for predatory lending. *Housingwire*. Retrieved November 3, 2020 from <https://www.housingwire.com/articles/37419-groundbreaking-ruling-federal-jury-finds-emigrant-bank-liable-for-predatory-lending>



- In 2017, the DOJ filed a lawsuit against KleinBank for redlining minority neighborhoods in Minnesota. According to the DOJ, KleinBank structured its residential mortgage lending business in a manner that excluded the credit needs of minority neighborhoods.<sup>75</sup>

**Steering by real estate agents.** The illegal act of steering can be defined as actions by real estate agents that differentially direct customers to certain neighborhoods and away from others based on race or ethnicity.<sup>76</sup> Mortgage loan originators can also engage in steering. Prior to the mortgage loan crisis, mortgage loan originators engaged in steering to generate higher profits for themselves<sup>77</sup> by directing minority loan applicants to less desirable and toxic loan instruments. Such steering can affect minority borrowers' perception of the availability of mortgage loans. Additionally, explicit steering can affect housing prices for people of color and result in segregation.<sup>78</sup>

A recent study conducted by the Fair Housing Council of Oregon between March 2016 and February 2018 found that housing providers in Portland show differential treatment to prospective renters based on perceived race or national origin.<sup>79</sup> Housing providers supplied prospective renters with adverse information such as differing rental prices, unit availability, fees and deposits, etc. in roughly one quarter of the study's tests. In each of these cases, the information differential was to the detriment of a racial minority.

Some organizations, such as Portland Realty Board, have established policies to combat steering by real estate agents.<sup>80</sup>

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<sup>75</sup> Department of Justice, Office of Public Affairs. (2017, January 13). *Justice Department sues KleinBank for redlining minority neighborhoods in Minnesota* [Press release]. Retrieved November 3, 2020 from <https://www.justice.gov/opa/pr/justice-department-sues-kleinbank-redlining-minority-neighborhoods-minnesota>

<sup>76</sup> Galster, G., & Godfrey, E. (2005) By words and deeds: Racial steering by real estate agents in the U.S. in 2000. *Journal of the American Planning Association*, 71(3), 251-268.

<sup>77</sup> Consumer Financial Protection Bureau. (2013, January 18). *CFPB issuing rules to prevent loan originators from steering consumers into risky mortgages* [Press release]. Retrieved November 3, 2020 from <https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-rules-to-prevent-loan-originators-from-steering-consumers-into-risky-mortgages/>

<sup>78</sup> Besbris, M., & Faber, J.W. (2017). Investigating the relationship between real estate agents, segregation, and house prices: Steering and upselling in New York State. *Sociological Forum*, 32(4), 850-873. Retrieved from <https://doi.org/10.1111/socf.12378>

<sup>79</sup> Fair Housing Council of Oregon. (2018, November 18). *Indicators of Disparate Treatment in Portland Rental Housing*. Retrieved November 3, 2020 from <https://beta.portland.gov/sites/default/files/2019-12/2018-fair-housing-report.pdf>

<sup>80</sup> Goodling, E., Green, J., & McClintock, J. (2015). Uneven development of the sustainable city: Shifting capital in Portland, Oregon. *Urban Geography*, 36(4), 11.

It is difficult to pursue cases involving steering; however, several steering cases have been prosecuted by federal and state agencies over the past decade:

- In 2011, the U.S. Department of Justice (DOJ) reached a \$335 million settlement with Countrywide Financial Corporation for steering thousands of African American and Hispanic American borrowers into subprime mortgages when white borrowers with comparable credit received prime loans.<sup>81</sup>
- In 2012, the DOJ reached a \$184 million settlement with Wells Fargo for steering African American and Hispanic American borrowers into subprime mortgages and charging higher fees and rates than white borrowers with comparable credit profiles.<sup>82</sup>
- In 2015, M&T Bank agreed to pay \$485,000 to plaintiffs in a settlement for a case involving racial discrimination and steering.<sup>83</sup>
- In 2015, the City of Oakland, California sued Wells Fargo & Co for steering minorities into costly mortgage loans that supposedly led to foreclosures, abandoned properties and blight.<sup>84</sup> The City of Philadelphia filed a lawsuit with similar allegations against Wells Fargo & Co. in 2017.<sup>85</sup>
- In 2017, the U.S. Attorney settled a federal civil rights lawsuit against JP Morgan Chase Bank for \$53 million for steering and discrimination based on race and national origin after it was discovered that African Americans and Hispanic Americans paid higher mortgage loan rates compared with whites with comparable credit profiles.<sup>86</sup>

**Gender discrimination in mortgage lending.** Historically, lending practices overtly discriminated against women by requiring information on marital and childbearing status. The Equal Credit Opportunity Act in 1973 suspended such discriminatory lending practices. However, certain barriers affecting women have persisted after 1973 in mortgage lending markets.

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<sup>81</sup> Department of Justice, Office of Public Affairs. (2011, December 21). *Justice Department reaches \$335 Million settlement to resolve allegations of lending discrimination by Countrywide Financial Corporation* [Press release]. Retrieved November 3, 2020 from <https://www.justice.gov/opa/pr/justice-department-reaches-335-million-settlement-resolve-allegations-lending-discrimination>

<sup>82</sup> Department of Justice, Office of Public Affairs. (2012, July 12). *Justice Department reaches settlement with Wells Fargo resulting in more than \$175 Million in relief for homeowners to resolve fair lending claims* [Press release]. Retrieved November 3, 2020 from <https://www.justice.gov/opa/pr/justice-department-reaches-settlement-wells-fargo-resulting-more-175-million-relief>

<sup>83</sup> Stempel, J. (2015, August 31). M&T Bank settles lawsuit claiming New York City lending bias. *Reuters*. Retrieved November 3, 2020 from <https://www.reuters.com/article/us-usa-guns-dicks-sporting/walmart-joins-dicks-sporting-goods-in-raising-age-to-buy-guns-idUSKCN1GC1R1>

<sup>84</sup> Aubin, D. (2015, September 22). Oakland lawsuit accuses Wells Fargo of mortgage discrimination. *Reuters*. Retrieved November 3, 2020 from <https://www.reuters.com/article/us-wellsfargo-discrimination/oakland-lawsuit-accuses-wells-fargo-of-mortgage-discrimination-idUSKCN0RM28L20150922>

<sup>85</sup> City of Philadelphia, Office of the Mayor. (2015, May 15). *City files lawsuit against Wells Fargo* [Press release]. Retrieved from <https://beta.phila.gov/press-releases/mayor/city-files-lawsuit-against-wells-fargo/>

<sup>86</sup> Department of Justice, U.S. Attorney's Office, Southern District of New York. (2017, January 20). *Manhattan U.S. Attorney settles lending discrimination suit against JPMorgan Chase for \$53 Million* [Press release]. Retrieved November 3, 2020 from <https://www.justice.gov/usao-sdny/pr/manhattan-us-attorney-settles-lending-discrimination-suit-against-jpmorgan-chase-53>

Recent studies and lawsuits indicate unequal access to mortgage loans for women. For example, a 2013 study by the Woodstock Institute found that women within the six-county Chicago area were far less likely to be approved for mortgage loans than men, and even male-female joint applications were less likely to be originated if the female applicant was listed first. This disparity persisted for mortgage refinancing.<sup>87</sup>

Research has confirmed that on average, women are better than men at paying their mortgages; however, women on average pay more for mortgages relative to their risk, and women of color pay the most.<sup>88</sup> Although disparities in mortgage interest rates are prevalent between African American and white borrowers, African American women are the most likely to experience this type of mortgage loan discrimination.<sup>89</sup>

Recent lawsuits and studies suggest that gender-based lending discrimination continues:

- In 2017, Bellco Credit Union settled a lawsuit for alleged discrimination against women on maternity leave.<sup>90</sup>
- In 2014 the U.S. Department of Housing & Urban Development (HUD) settled a lawsuit against Mountain America Credit Union over allegations of discrimination against prospective borrowers on maternity leave.<sup>91</sup>
- In 2011, HUD engaged in litigation against a company that revoked a pregnant woman's mortgage insurance once the company learned that the woman was on leave from work.<sup>92</sup>
- In 2010, Dr. Budde, an oncologist from Washington State, was initially granted a mortgage loan and later denied once her lender learned she was on maternity leave.<sup>93</sup>

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<sup>87</sup> Woodstock Institute. (2013). *Unequal opportunity: Disparate mortgage origination patterns for women in the Chicago area* [Fact sheet]. Retrieved from [https://woodstockinst.org/wp-content/uploads/2013/05/unequalopportunity\\_factsheet\\_march2013\\_0.pdf](https://woodstockinst.org/wp-content/uploads/2013/05/unequalopportunity_factsheet_march2013_0.pdf)

<sup>88</sup> Goodman, L., Zhu, J., & Bai, B. (2016). *Women are better than men at paying their mortgages* (Rep.). Retrieved from Urban Institute website: <https://www.urban.org/sites/default/files/publication/84206/2000930-Women-Are-Better-Than-Men-At-Paying-Their-Mortgages.pdf>

<sup>89</sup> Cheng, P., Lin, Z., & Liu, Y. (2015). Racial discrepancy in mortgage interest rates. *Journal of Real Estate Finance and Economics*, 51(1), 101-120.

<sup>90</sup> Strozniak, P. (2017, October 17). Bellco CU settles alleged discriminatory housing lawsuit. *Credit Union Times*. Retrieved November 3, 2020 from <https://www.cutimes.com/2017/10/17/bellco-cu-settles-alleged-discriminatory-housing-1>

<sup>91</sup> National Mortgage Professional Magazine. (2014, June 25). HUD hits Mountain America Credit Union with \$25,000 fine. *National Mortgage Professional Magazine*. Retrieved November 3, 2020 from <https://nationalmortgageprofessional.com/news/41558/hud-hits-mountain-america-credit-union-25000-fine>

<sup>92</sup> Hanson, K. (2016). Disparate impact discrimination in residential lending and mortgage servicing based on sex: Insidious evil. *Florida Coastal Law Review*, 17(3), 421-447.

<sup>93</sup> Siegel Bernard, T. (2010, July 19). Need a mortgage? Don't get pregnant. *New York Times*. Retrieved November 3, 2020 from <http://www.nytimes.com/2010/07/20/your-money/mortgages/20mortgage.html>

## Summary

Underlying long-term business success is access to capital. Discrimination at any link in that chain may produce cascading effects that result in wide racial and gender disparities in business formation and success.

The evidence presented here illustrates that people of color and women continued to face disadvantages in accessing capital that is necessary to start, operate and expand businesses as of early 2020. The COVID-19 pandemic may have the effect of widening these disparities, but data were not available at the time of writing this report.

Capital is required to start companies, so barriers to accessing capital can affect the number of minorities and women who are able to start businesses. In addition, minorities and women start businesses with less capital (based on national data). Several studies have demonstrated that lower start-up capital adversely affects prospects for those businesses.

Key results included the following:

- Nationally, minority- and woman-owned employer businesses (except Asian American-owned businesses) are more likely to use personal credit cards as a source of start-up capital, which is a more expensive form of debt than business loans from financial institutions.
- Personal and/or family savings of the owner was the main source of capital for startups among many U.S. businesses, but African American and Hispanic American households had significantly lower amounts of wealth than whites.
- Among employer firms across the country, female- and minority-owned companies were less likely to secure business loans from a bank or financial institution as a source of start-up capital.
- Nationally, female- and minority-owned firms were more likely to not apply for additional financing because firm owners believed that they would not be approved by a lender. These firms were also more likely to indicate that access to financial capital negatively impacted firm profitability.
- Availability survey results for Oregon businesses indicate that minority- and woman-owned businesses are more likely than majority-owned firms to report difficulties obtaining lines of credit or loans.
- Among construction firms, MBEs were more likely than other businesses to report difficulties obtaining bonding. (These results are specific to firms that responded to the availability survey for this study.)
- Home equity is an important source of funds for business start-up and growth. Fewer people of color in Oregon own homes compared with non-minorities. Hispanic and Native American homeowners tend to have lower home values.

- High-income African American, Asian American, Hispanic American and Native American households applying for conventional home mortgages in Oregon were more likely than high-income non-Hispanic whites to have their applications denied. While loan denial rates have been decreasing for all racial identities, the loan denial rate for people of color remains up to 3 percentage points higher than the loan denial rate for non-Hispanic whites. This may indicate discrimination in mortgage lending and may affect access to capital to start and expand businesses.
- In the 2000s in Oregon, subprime loans accounted for a large share of the conventional home purchase and refinance loans issued to minority groups when compared to loans issued to non-Hispanic whites. Although the rate of subprime loans has decreased since 2007, some minority groups in 2017 were twice as likely as non-Hispanic whites to have subprime loans. This may be evidence of predatory lending practices affecting people of color in the state.

Any discrimination against minority groups in the home purchase and home mortgage markets can negatively affect the formation of firms by minorities in Oregon and the success and growth of those companies.

## APPENDIX H.

### Success of Businesses in Oregon

The study team examined the success of minority- and women-owned business enterprises (MBE and WBEs) in the Oregon marketplace and assessed whether business outcomes for MBE and WBEs differ from those of non-Hispanic white male-owned businesses (i.e., majority-owned businesses). In Appendix H, MBEs and WBEs include certified and non-certified firms.

The study team examined outcomes for MBEs, WBEs and majority-owned businesses in terms of:

- Business closures, expansions and contractions;
- Business receipts and earnings;
- Bid capacity; and
- Potential barriers to starting or expanding businesses.

#### Business Closures, Expansions and Contractions

The study team used Small Business Administration (SBA) data to examine business outcomes — including closures, expansions and contractions — for minority-owned businesses nationally and statewide. The SBA analyses compare business outcomes for minority-owned businesses (by demographic group) to business outcomes for all businesses.

**Business closures.** High rates of business closures may reflect adverse business conditions for minority business owners.

**Overall rates of business closures in Oregon.** A 2010 SBA report investigated business dynamics and whether minority-owned businesses were more likely to close than other businesses. By matching data from business owners who responded to the 2002 U.S. Census Bureau Survey of Business Owners (SBO) to data from the Census Bureau’s 1989–2006 Business Information Tracking Series, the SBA reported on business closure rates between 2002 and 2006 across different sectors of the economy.<sup>1, 2</sup> The SBA report examined patterns in each state but not in individual metropolitan areas. Figure H-1 on the following page presents those data for African American-, Asian American- and Hispanic American-owned businesses as well as for white-owned businesses.

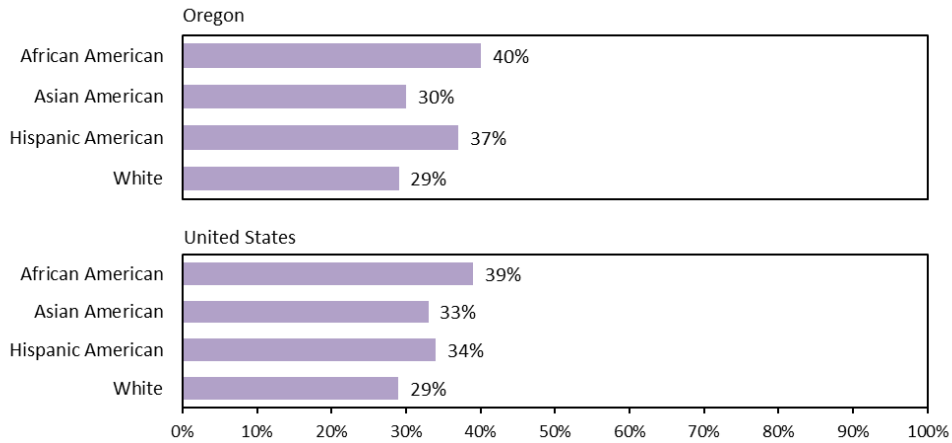
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<sup>1</sup> Lowrey, Y. (2010). *Race/ethnicity and establishment dynamics, 2002–2006* (Rep. No. 369). Retrieved from U.S. Small Business Administration, Office of Advocacy website: <https://www.sba.gov/sites/default/files/rs369tot.pdf>

<sup>2</sup> Businesses classifiable by race/ethnicity exclude publicly traded companies. The study team did not categorize racial groups by ethnicity. As a result, some Hispanic Americans may also be included in statistics for African Americans, Asian Americans and whites.

As shown in Figure H-1, 40 percent of African American-owned businesses operating in Oregon in 2002 had closed by the end of 2006, a higher rate than that of all other groups. The rate of business closure among Hispanic American-owned firms also exceeded that of majority-owned businesses during this time period.

**Figure H-1.**  
Rates of business closure, 2002 through 2006, Oregon and the U.S.



**Note:** Data refer to non-publicly held businesses only.  
As sample sizes are not reported, statistical significance of these results cannot be determined; however, statistics are consistent with SBA data quality guidelines.

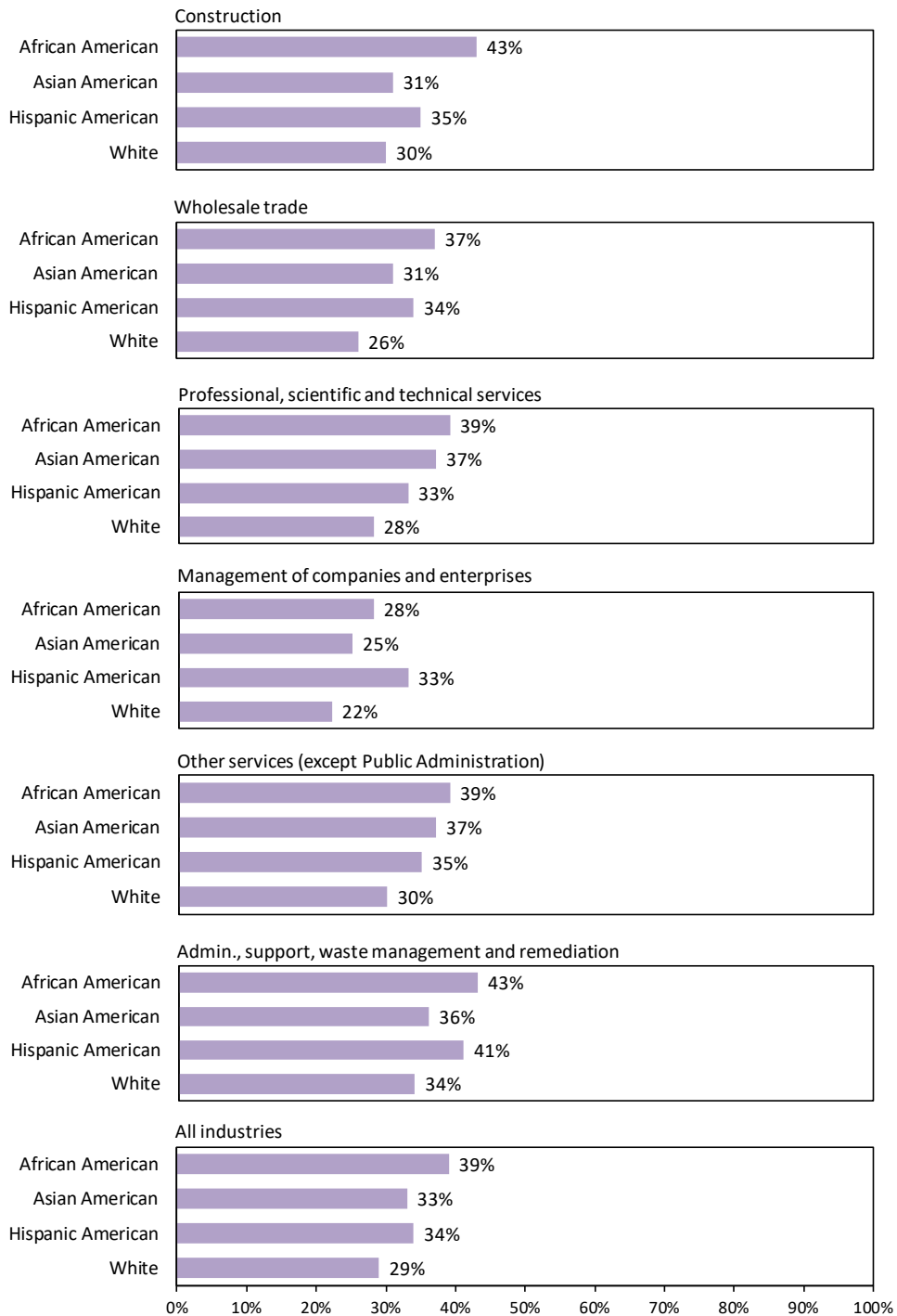
**Source:** Lowrey, Y. (2010). *Race/ethnicity and establishment dynamics, 2002–2006* (Rep.). U.S. Small Business Administration Office of Advocacy.

**Rates of business closures by industry.** The SBA report also examined business closure rates by race/ethnicity for 21 different industry classifications. Figure H-2 on the following page compares national rates of firm closure for administration, support, waste management and remediation; construction; management of companies and enterprises; other services; professional, scientific and technical services;<sup>3</sup> and wholesale trade. Figure H-2 also presents closure rates for all industries by race/ethnicity.

In all industries and all study industries, minority-owned businesses that were operating in the United States in 2002 had higher rates of closure by 2006 relative to white-owned businesses. African American-owned businesses that were operating in the United States in 2002 had the highest rate of closure by 2006 among all racial/ethnic groups — including white-owned businesses — in all industries (39%) and all study industries. The study team could not examine whether those differences also existed in Oregon because the SBA analysis by industry was not available for individual states.

<sup>3</sup> Engineering firms are included in the broader “professional, scientific and technical services” category.

Figure H-2.  
Rates of business closure, 2002 through 2006, study industries and all industries in the U.S.



Note: Data refer to non-publicly held businesses only.

As sample sizes are not reported, statistical significance of these results cannot be determined; however, statistics are consistent with SBA data quality guidelines.

Source: Lowrey, Y. (2010). *Race/ethnicity and establishment dynamics, 2002–2006* (Rep.). U.S. Small Business Administration Office of Advocacy.



**Unsuccessful closures.** Not all business closures can be interpreted as “unsuccessful closures.” Businesses may close when an owner retires or a more profitable business opportunity emerges, both of which represent “successful closures.” Even though data are from years ago, the 1992 Characteristics of Business Owners (CBO) Survey is one of the few Census Bureau sources to classify business closures into successful and unsuccessful subsets.<sup>4</sup> The 1992 CBO combines data from the 1992 Economic Census and a survey of business owners conducted in 1996. The survey portion of the 1992 CBO asked owners of businesses that had closed between 1992 and 1995, “Which item below describes the status of this business at the time the decision was made to cease operations?” Only the responses “successful” and “unsuccessful” were permitted. A firm that reported being unsuccessful at the time of closure was understood to have failed.

Figure H-3 on the following page presents CBO data on the proportion of businesses that closed due to failure between 1992 and 1995 in construction, wholesale trade, services and all industries.<sup>5, 6</sup>

According to CBO data, African American-owned businesses were the most likely to report being “unsuccessful” at the time at which their businesses closed. About 77 percent of African American-owned businesses in all industries reported an unsuccessful business closure between 1992 and 1995, compared with only 61 percent of non-Hispanic white male-owned businesses. Unsuccessful closure rates were also relatively high for Hispanic American-owned businesses (71%) and for businesses owned by other minority groups (73%). The rate of unsuccessful closures for women-owned businesses (61%) was similar to that of non-Hispanic white male-owned businesses.

In the construction industry, minority- and women-owned businesses were more likely to report unsuccessful business closures (82% and 66%, respectively) than non-Hispanic white male-owned businesses (58%). Those trends were similar in the services industry with one exception — women-owned businesses in the services industry (52%) were less likely to report unsuccessful closures than non-Hispanic white male-owned businesses (59%).

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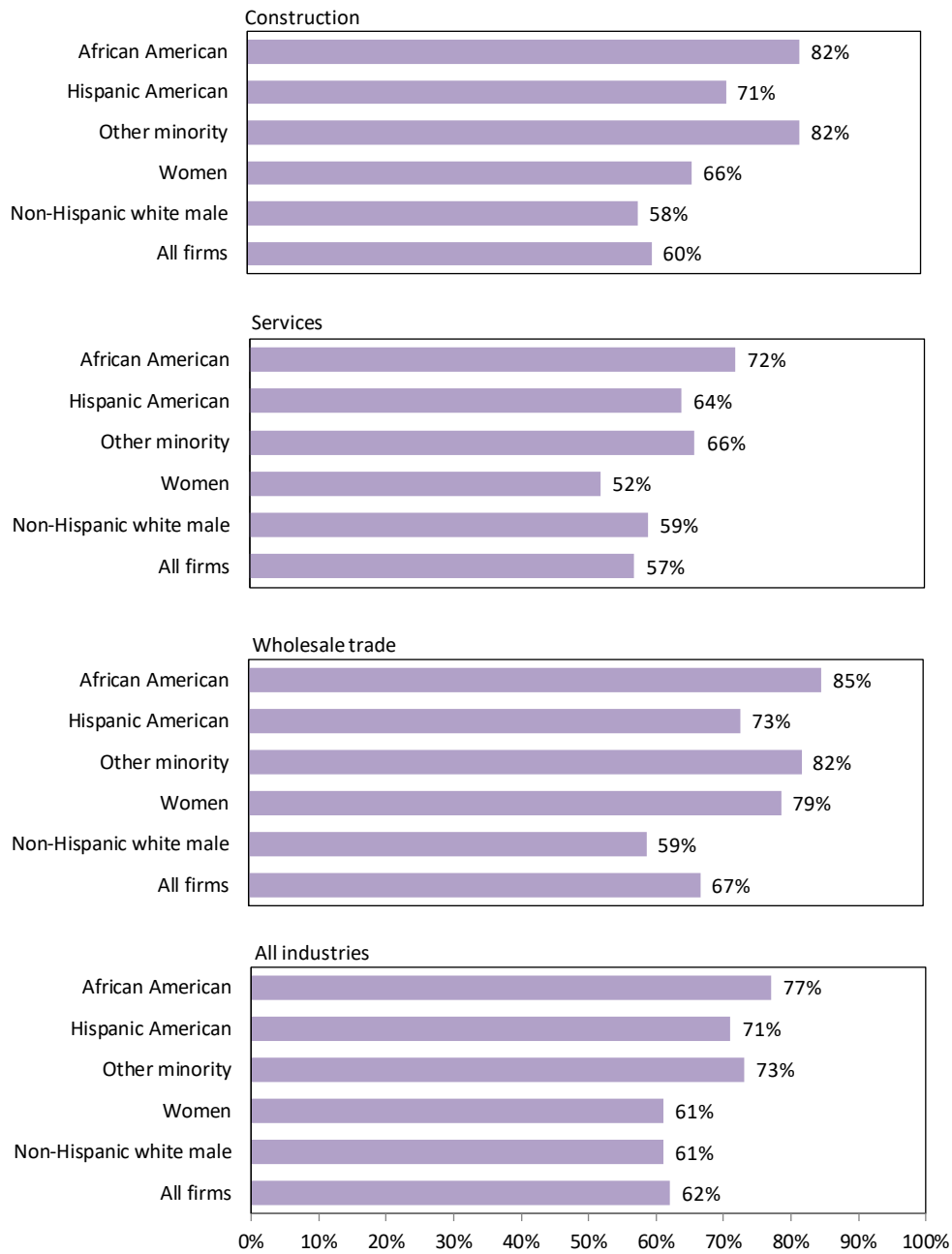
<sup>4</sup> CBO data from the 1997 and 2002 Economic Censuses do not include statistics on successful and unsuccessful business closures. To date, the 1992 CBO is the only U.S. Census dataset that includes such statistics.

<sup>5</sup> All CBO data should be interpreted with caution as businesses that did not respond to the survey cannot be assumed to have the same characteristics of ones that did. For further explanation, see Holmes, T.J., and Schmitz, J. A. (1996). Nonresponse bias and business turnover rates: The case of the Characteristics of Business Owners Survey. *Journal of Business & Economic Statistics*, 14(2), 231-241; Headd, B. (2001). *Business success: Factors leading to surviving and closing successfully* (Working paper No. 01-01). Center for Economic Studies, U.S. Census Bureau. Retrieved from the U.S. Census Bureau website: <https://www.census.gov/library/working-papers/2001/adrm/ces-wp-01-01.html>.

<sup>6</sup> Data for firms operating in the management of companies and enterprises and administrative, support, waste management and remediation industries were not available in the CBO survey.

Figure H-3.

Proportions of closures reported as unsuccessful between 1992 and 1995 in the U.S.



Source: U.S. Census Bureau, 1996 Characteristics of Business Owners Survey (CBO).

**Reasons for differences in unsuccessful closure rates.** Several researchers have offered explanations for higher rates of unsuccessful closures among minority- and women-owned businesses compared with non-Hispanic white-owned businesses:

- Unsuccessful business failures of minority-owned businesses may be due to barriers in access to capital. Regression analyses have identified initial capitalization as a significant factor in determining firm viability.<sup>7</sup> Because minority-owned businesses secure smaller amounts of debt equity in the form of loans, they may be more liable to fail. Difficulty in accessing capital is particularly acute for minority-owned businesses in the construction industry.<sup>8</sup> Access to capital is discussed in more detail in Appendix G.
- Prior work experience in a family member’s business or similar experiences have been found to be strong determinants of business viability.<sup>9</sup> Because minority business owners are much less likely to have such experience, their businesses are less likely to survive.<sup>10</sup> Related research has examined women-owned businesses and found similar gender-based gaps in the likelihood of business survival.<sup>11</sup>
- A business owner’s level of education has been found to be a strong determinant of business survival. Research has found that educational attainment explains a substantial portion of the gap in business closure rates between African American-owned and non-minority-owned businesses.<sup>12</sup>
- Non-minority business owners have broader business opportunities, increasing their likelihood of closing successful businesses to pursue more profitable business alternatives. Minority business owners, especially those who do not speak English, have limited employment options and are less likely to close a successful business.<sup>13</sup>

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<sup>7</sup> See, e.g., Fairlie, R. W., Robb, A. M., & Hinson, D. (2010). *Disparities in capital access between minority and non-minority-owned businesses*. (Rep.). Retrieved from Minority Business Development Agency website:

<https://www.mbda.gov/sites/default/files/migrated/files-attachments/DisparitiesinCapitalAccessReport.pdf>; Robb, A. M., and Fairlie, R. W. (2009). Determinants of business success: An examination of Asian-owned businesses in the USA. *Journal of Population Economics*, 22(4), 827-858.

<sup>8</sup> Blanchflower, D. (2008). Minority Self Employment in the United States and the Impact of Affirmative Action Programs. NBER Working Paper Series, (13972).

<sup>9</sup> Fairlie, R. W., and Robb, A. M. (2008). *Race and entrepreneurial success: Black-, Asian-, and white-owned businesses in the United States*. Cambridge, MA: MIT Press Books.

<sup>10</sup> Fairlie, R. W., and Robb, A.M. (2007). Why are black-owned businesses less successful than white-owned businesses? The role of families, inheritances, and business human capital. *Journal of Labor Economics*, 25(2), 289-323.

<sup>11</sup> Fairlie, R. W., and Robb, A. M. (2009). Gender differences in business performance: Evidence from the Characteristics of Business Owners survey. *Small Business Economics*, 33(4), 375-395.

<sup>12</sup> Ibid.; Fairlie, R., and Woodruff, C. M. (2010). Mexican-American entrepreneurship. *The BE Journal of Economic Analysis & Policy*, 10(1).

<sup>13</sup> Bates, T. (2005). Analysis of young, small firms that have closed: Delineating successful from unsuccessful closures. *Journal of Business Venturing*, 20(3), 343-358.

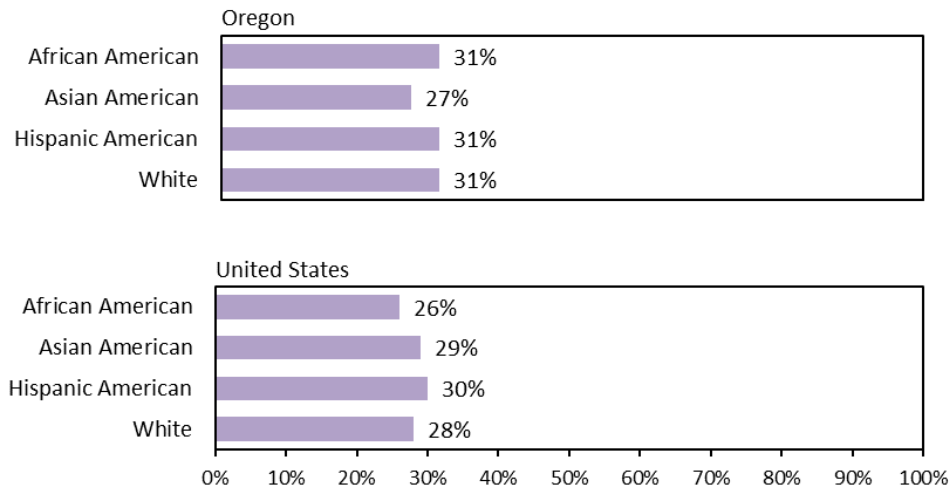
- Possession of greater initial capital and generally higher levels of education among Asian Americans are related to a higher rate of survival of Asian American-owned businesses compared to other minority-owned businesses.<sup>14</sup>

**Expansions and contractions.** Comparing rates of expansion and contraction between firms owned by different groups is also useful in assessing the success of minority-owned businesses. As with closure data, only some data on expansions and contractions available for the nation were available at the state level.

**Expansions.** The 2010 SBA study of minority business dynamics from 2002 through 2006 examined the number of privately held Oregon businesses that expanded and contracted between 2002 and 2006. Figure H-4 presents the percentage of all businesses that increased their total employment between 2002 and 2006. Those data are presented for Oregon and for the nation. About 31 percent of African American-, Hispanic American- and white-owned firms expanded during this period.

Figure H-4.

Percentage of businesses that expanded, 2002 through 2006, Oregon and the U.S.



Note: Data refer to non-publicly held businesses only.

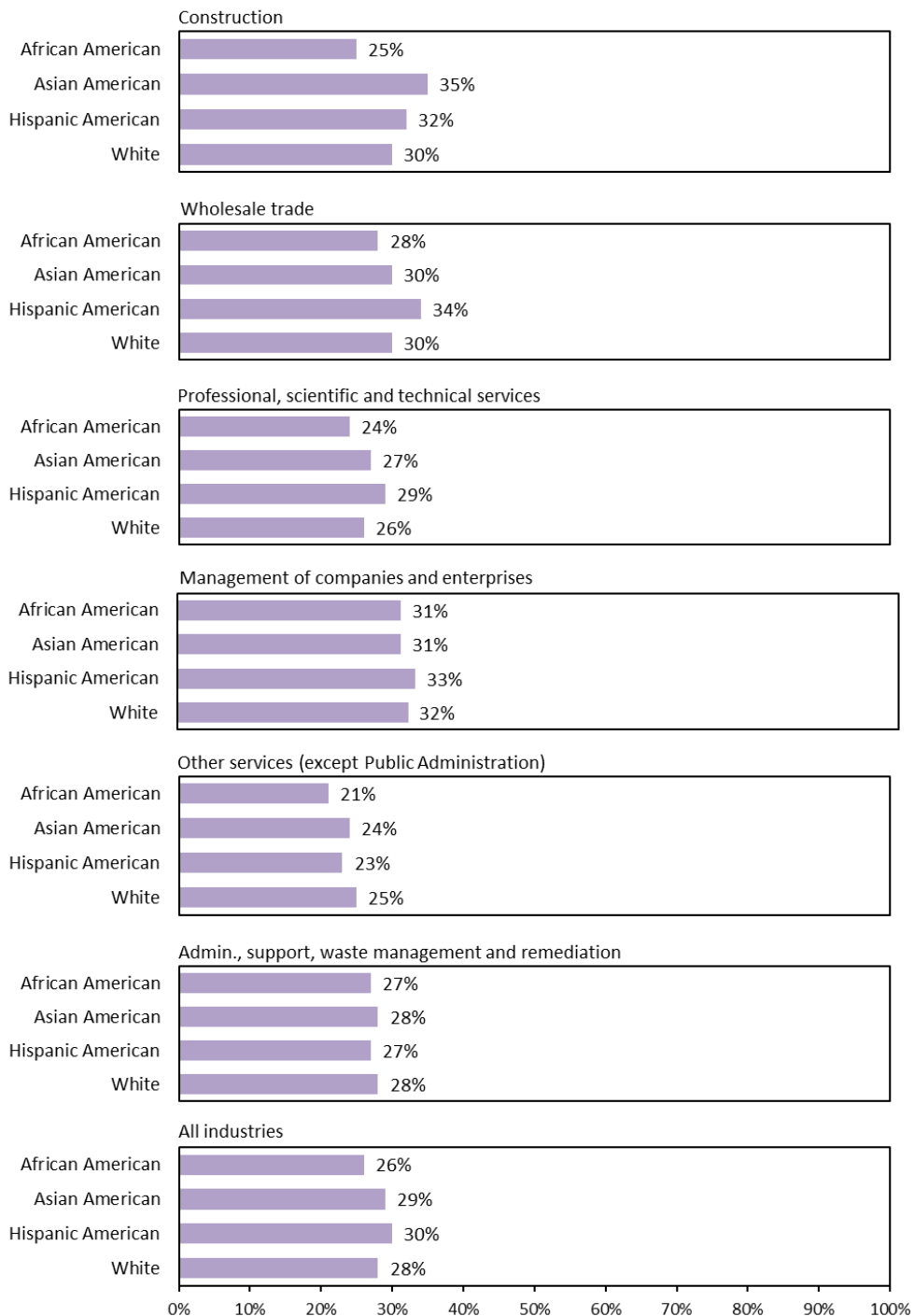
As sample sizes are not reported, statistical significance of these results cannot be determined; however, statistics are consistent with SBA data quality guidelines.

Source: Lowrey, Y. (2010). Race/Ethnicity and Establishment Dynamics, 2002-2006. U.S. Small Business Administration Office of Advocacy.

Figure H-5 on the following page presents the percentage of businesses that expanded in administration, support, waste management and remediation; construction; management of companies and enterprises; other services; professional, scientific and technical services; wholesale trade and in all industries in the United States. The SBA study did not report results for businesses in individual industries at the state level.

<sup>14</sup> Robb, A. M., and Fairlie, R. W. (2009). Determinants of business success: An examination of Asian-owned businesses in the USA. *Journal of Population Economics*, 22(4), 827-858; Fairlie, R. W., Zissimopoulos, J., and Krashinsky, H. (2010). The international Asian business success story? A comparison of Chinese, Indian and other Asian businesses in the United States, Canada and United Kingdom. In J. Lerner and A. Schoar. *International Differences in Entrepreneurship* (pp. 179-208). Chicago, IL: University of Chicago Press; Fairlie, R. W., and Robb, A. M. (2008). *Race and entrepreneurial success: Black-, Asian-, and white-owned businesses in the United States*. Cambridge, MA: MIT Press Books.

Figure H-5.  
 Percentage of businesses that expanded, 2002 through 2006,  
 study industries and all industries in the U.S.



Note: Data refer to non-publicly held businesses only.

As sample sizes are not reported, statistical significance of these results cannot be determined; however, statistics are consistent with SBA data quality guidelines.

Source: Lowrey, Y. (2010). *Race/ethnicity and establishment dynamics, 2002–2006* (Rep.). U.S. Small Business Administration Office of Advocacy.

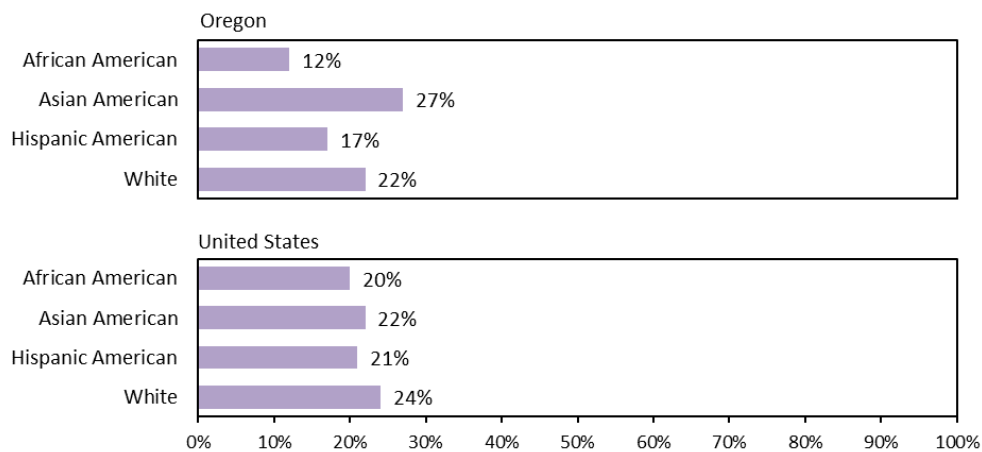
At the national level, the patterns evident for study industries were similar to those observed for all industries:

- African American-owned businesses were less likely than white-owned businesses to have expanded between 2002 and 2006.
- Asian American-owned businesses in the study industries were more likely than white-owned businesses to have expanded between 2002 and 2006.
- Hispanic American-owned companies in the construction; professional, scientific and technical services; wholesale trade, as well as all industries combined, were more likely than white-owned businesses to have expanded between 2002 and 2006.

**Contraction.** Figure H-6 shows the percentage of non-publicly held businesses operating in 2002 that reduced their employment (i.e., contracted) between 2002 and 2006 in Oregon and in the nation. African American- and Hispanic American-owned businesses were less likely than other firms to have contracted in 2002 through 2006 in Oregon, possibly because they were more likely to close outright (see Figure H-1).

Figure H-6.

Percentage of businesses that contracted, 2002 through 2006, Oregon and the U.S.



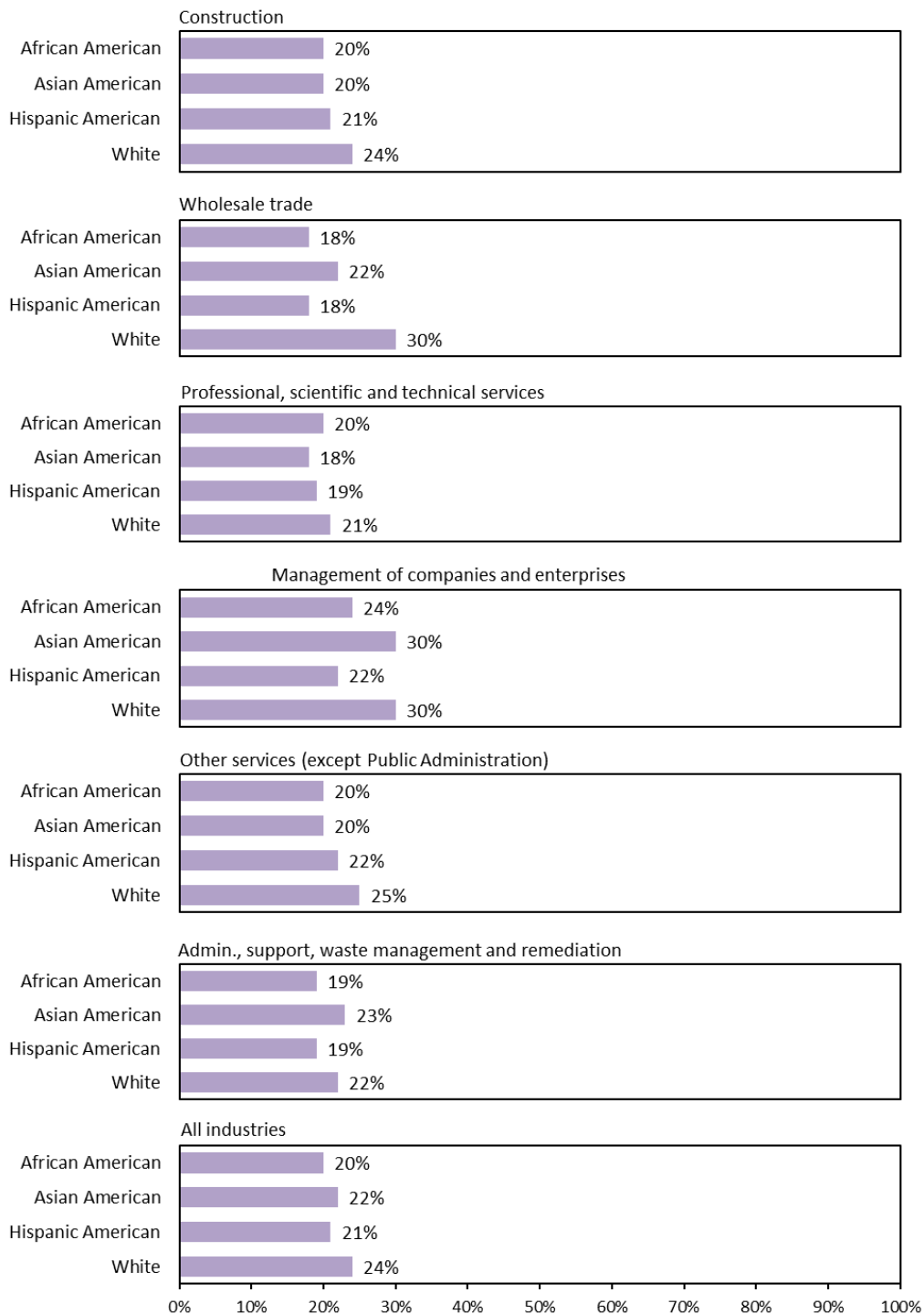
Note: Data refer to non-publicly held businesses only.

As sample sizes are not reported, statistical significance of these results cannot be determined; however, statistics are consistent with SBA data quality guidelines.

Source: Lowrey, Y. (2010). *Race/ethnicity and establishment dynamics, 2002–2006* (Rep.). U.S. Small Business Administration Office of Advocacy.

The SBA study did not report state-specific results relating to contractions in individual industries. Figure H-7 on the following page displays the percentage of businesses that contracted in the study industries and in all industries at the national level. Compared to white-owned businesses in the United States, in general, a smaller percentage of minority-owned businesses in the study industries and in all industries contracted between 2002 and 2006.

Figure H-7.  
 Percentage of businesses that contracted, 2002 through 2006,  
 study industries and all industries in the U.S.



Note: Data refer to non-publicly held businesses only.

As sample sizes are not reported, statistical significance of these results cannot be determined; however, statistics are consistent with SBA data quality guidelines.

Source: Lowrey, Y. (2010). *Race/ethnicity and establishment dynamics, 2002–2006* (Rep.). U.S. Small Business Administration Office of Advocacy.

## Business Receipts and Earnings

Annual business receipts and earnings for business owners are also indicators of the success of businesses. The study team examined:

- Business receipts data from the U.S. Census Bureau 2012 Survey of Business Owners (SBO);
- Business earnings data for business owners from the 2014-2018 American Community Survey (ACS); and
- Annual revenue data for firms in the study industries located in the Oregon market area that the study team collected as part of the 2020 availability surveys.

**Business receipts.** The study team examined receipts for businesses using data from the 2012 SBO, conducted by the U.S. Census Bureau. The study team also analyzed receipts for businesses in individual industries. The SBO reports business receipts separately for employer businesses (with paid employees other than owner and family members) and all businesses.<sup>15</sup>

**Receipts for all businesses.** Figure H-8 on the following page presents 2012 mean annual receipts for employer and non-employer businesses by race, ethnicity and gender.<sup>16</sup> The SBO data for businesses across all industries in Oregon indicated that average receipts for minority- and women-owned businesses were much lower than that for non-Hispanic-owned, white-owned or male-owned businesses, with some groups faring worse than others. Using the SBO groupings of minority-owned businesses:

- Average receipts of African American- and Native American-owned businesses (\$108,000 and \$116,000 respectively) were roughly one quarter that of white-owned businesses (\$442,000).
- Hispanic-owned businesses (\$142,000) exhibited revenues that were less than one-third of the average of non-Hispanic-owned businesses (\$443,000).
- Average receipts for male-owned businesses (\$644,000) were roughly five times greater than the average for female-owned businesses (\$136,000).

Disparities in business receipts for minority- and women-owned businesses compared to non-Hispanic white- and male-owned businesses in Oregon are similar to those seen in the U.S. as a whole. A 2007 SBA study identified differences similar to those presented in Figure H-8 when examining businesses in all industries across the U.S.<sup>17</sup>

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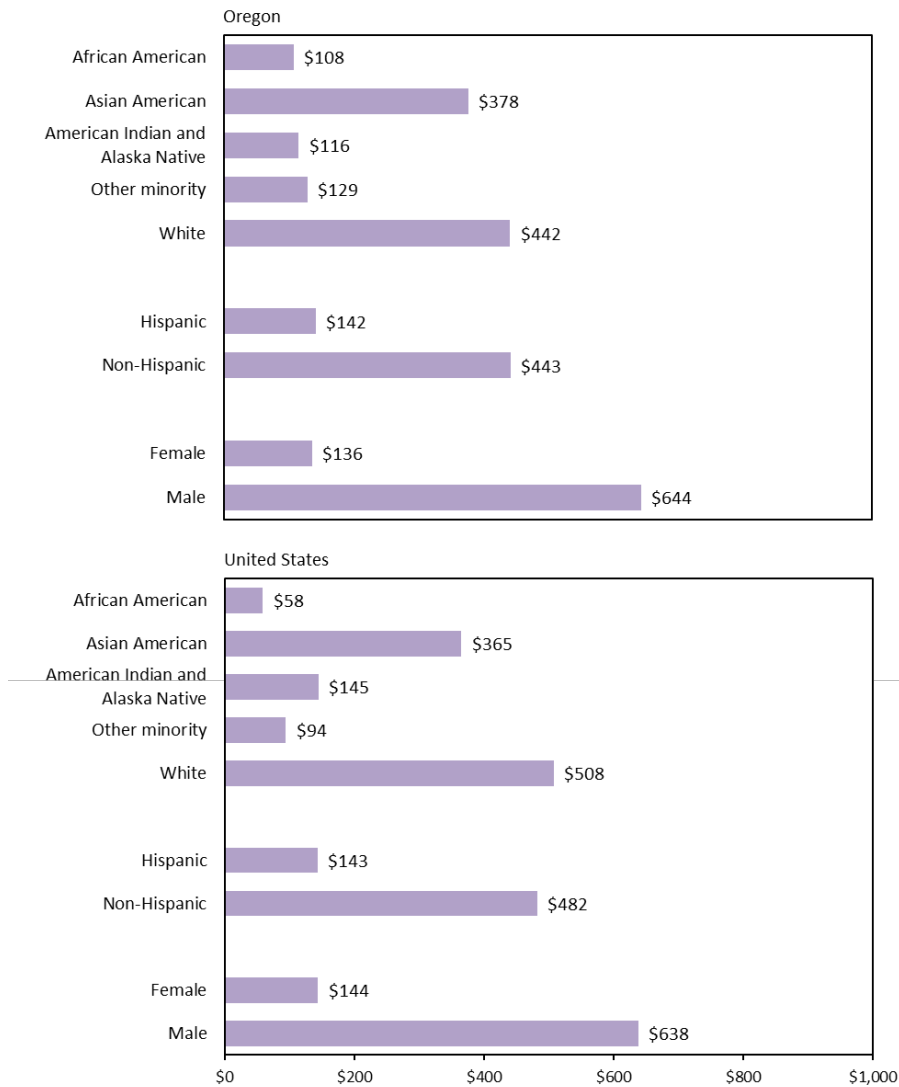
<sup>15</sup> Keen Independent uses “all businesses” to denote SBO data used in this analysis. Data include incorporated and unincorporated businesses, but not publicly traded companies or other businesses not classifiable by race/ethnicity and gender.

<sup>16</sup> Racial categories are not available by both race and ethnicity. As such, the racial categories shown may include Hispanic Americans.

<sup>17</sup> Lowrey, Y. (2007). *Minorities in business: A demographic review of minority business ownership* (Rep.). U.S. Small Business Administration Office of Advocacy.



**Figure H-8.**  
**Mean annual receipts (thousands) for all businesses, by race/ethnicity and gender of owners, 2012**

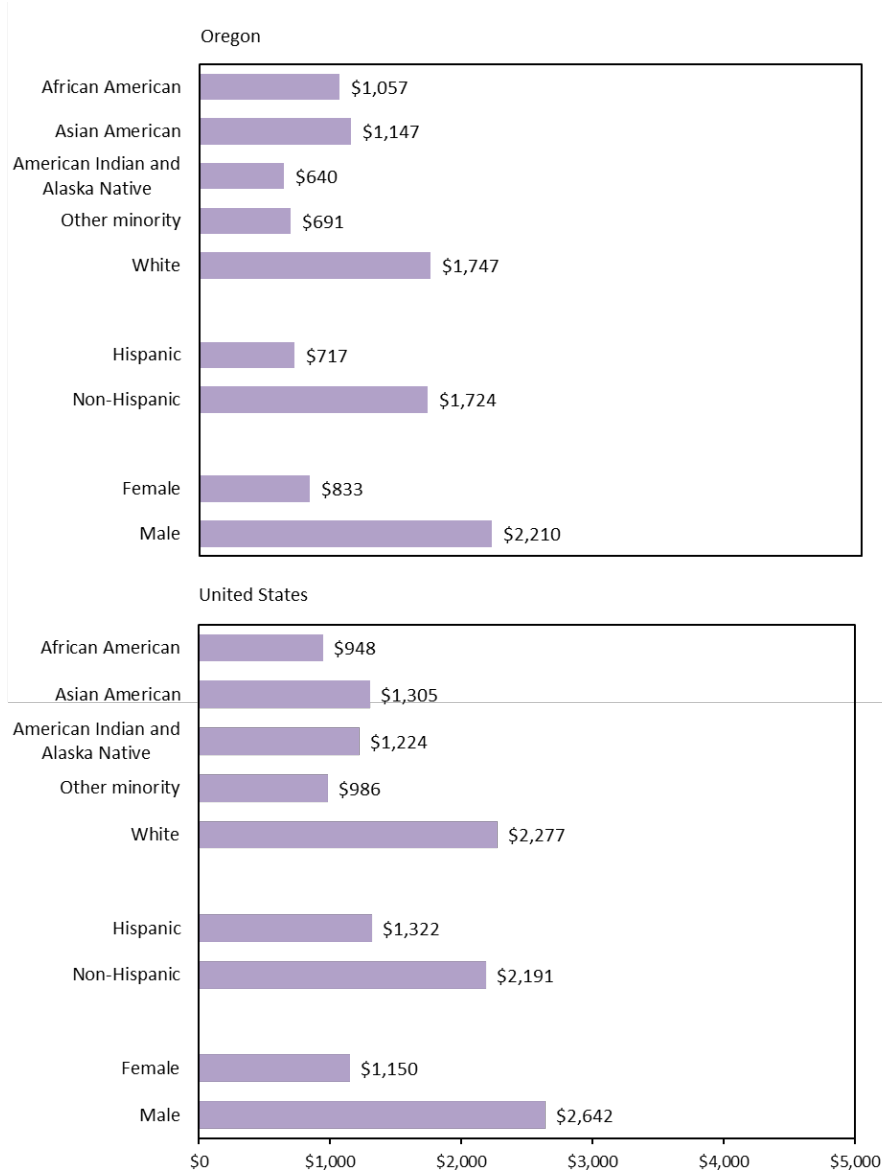


**Note:** Includes employer and non-employer businesses. Does not include publicly traded companies or other businesses not classifiable by race/ethnicity and gender.  
 As sample sizes are not reported, statistical significance of these results cannot be determined.

**Source:** 2012 Survey of Business Owners, part of the U.S. Census Bureau's 2012 Economic Census.

Figure H-9 presents average annual receipts in 2012 for employer businesses in Oregon and in the United States (firms with paid employees.) Minority- and women-owned businesses had lower average business receipts than white- and male-owned employer businesses in Oregon. For example, average receipts for African American-owned employer businesses (\$1.1 million) were about 60 percent of white-owned businesses (\$1.7 million).

**Figure H-9.**  
**Mean annual receipts (thousands) for employer businesses,**  
**by race/ethnicity and gender of owners, 2012**



**Note:** Includes only employer businesses.  
 Does not include publicly traded companies or other businesses not classifiable by race/ethnicity and gender.  
 As sample sizes are not reported, statistical significance of these results cannot be determined.

**Source:** 2012 Survey of Business Owners, part of the U.S. Census Bureau's 2012 Economic Census.

**Receipts by industry.** The study team also analyzed SBO receipts data for businesses in the construction industry and the professional, scientific and technical services industry. Figure H-10 presents mean annual receipts in 2012 by racial, ethnic and gender group for all firms (employer and non-employer businesses combined). Disparities seen in Figure H-8 for all industries combined persist when examining results for the construction industry. Except for Asian American-owned businesses, there were disparities in mean revenues for businesses owned by people of color and women in the professional, scientific and technical services industry. (Note that the sample size for African American construction firms was too small for the Census Bureau to report Oregon results.)

Figure H-10.  
Mean annual receipts (thousands) for all firms in the study industries,  
by race/ethnicity and gender of owners, 2012

| Demographic group                 | Construction | Professional, scientific and technical services |
|-----------------------------------|--------------|---|
| <b>Oregon</b>                     |              |   |
| <b>Race</b>                       |              |   |
| African American                  | \$ N/A       | \$ 76   |
| Asian American                    | 184          | 167   |
| American Indian and Alaska Native | 311          | 80  |
| Other minority                    | 143          | 68  |
| White                             | 444          | 163   |
| <b>Ethnicity</b>                  |              |   |
| Hispanic                          | \$ 229       | \$ 93   |
| Non-Hispanic                      | 448          | 165   |
| <b>Gender</b>                     |              |   |
| Female                            | \$ 301       | \$ 75   |
| Male                              | 460          | 215   |
| <b>United States</b>              |              |   |
| <b>Race</b>                       |              |   |
| African American                  | \$ 81        | \$ 76   |
| Asian American                    | 200          | 245   |
| American Indian and Alaska Native | 216          | 109   |
| Other minority                    | 88           | 105   |
| White                             | 455          | 235   |
| <b>Ethnicity</b>                  |              |   |
| Hispanic                          | \$ 117       | \$ 121  |
| Non-Hispanic                      | 467          | 235   |
| <b>Gender</b>                     |              |   |
| Female                            | \$ 350       | \$ 104  |
| Male                              | 415          | 301   |

Note: Does not include publicly traded companies or other businesses not classifiable by race/ethnicity and gender.  
As sample sizes are not reported, statistical significance of these results cannot be determined.  
"N/A" indicates that estimates were suppressed by the SBO because publication standards were not met.

Source: 2012 Survey of Business Owners, part of the U.S. Census Bureau's 2012 Economic Census.

Figure H-11 provides results for 2012 for just employer businesses for Oregon and the nation. Note that the sample size of African American-owned Oregon construction firms with employees was too small for the Census Bureau to report those data.

Except for American Indian and Alaska Native-owned firms, mean revenue of employer businesses in the construction industry was lower for each group of minority-owned firms compared with white-owned firms. In the professional, scientific and technical services field, African American-owned businesses and Hispanic-owned businesses had lower receipts than white-owned and non-Hispanic-owned businesses, respectively.

Mean revenue of female-owned companies was also less than male-owned employer businesses in both industries.

Figure H-11.

Mean annual receipts (thousands) for employer firms in the study industries, by race/ethnicity and gender of owners, 2012

| Demographic group                 | Construction | Professional, scientific and technical services |
|-----------------------------------|--------------|---|
| <b>Oregon</b>                     |              |   |
| <b>Race</b>                       |              |   |
| African American                  | \$ N/A       | \$ 625  |
| Asian American                    | 566          | 1,007   |
| American Indian and Alaska Native | 1,174        | 648   |
| Other minority                    | 380          | 754   |
| White                             | 1,158        | 643   |
| <b>Ethnicity</b>                  |              |   |
| Hispanic                          | \$ 595       | \$ 600  |
| Non-Hispanic                      | 1,177        | 661   |
| <b>Gender</b>                     |              |   |
| Female                            | \$ 864       | \$ 388  |
| Male                              | 1,339        | 777   |
| <b>United States</b>              |              |   |
| <b>Race</b>                       |              |   |
| African American                  | \$ 1,096     | \$ 816  |
| Asian American                    | 1,223        | 1,154   |
| American Indian and Alaska Native | 1,307        | 670   |
| Other minority                    | 860          | 1,135   |
| White                             | 1,730        | 983   |
| <b>Ethnicity</b>                  |              |   |
| Hispanic                          | \$ 1,005     | \$ 865  |
| Non-Hispanic                      | 1,749        | 999   |
| <b>Gender</b>                     |              |   |
| Female                            | \$ 1,561     | \$ 620  |
| Male                              | 1,842        | 1,167   |

Note: Does not include publicly traded companies or other businesses not classifiable by race/ethnicity and gender.

As sample sizes are not reported, statistical significance of these results cannot be determined.

“N/A” indicates that estimates were suppressed by the SBO because publication standards were not met.

Source: 2012 Survey of Business Owners, part of the U.S. Census Bureau’s 2012 Economic Census.

**Business earnings.** In order to assess the success of self-employed minorities and women in the study industries, the study team examined earnings of business owners using Public Use Microdata Series (PUMS) data from the 2014–2018 ACS. The study team analyzed earnings of incorporated and unincorporated business owners age 16 and older who reported positive business earnings. All results are presented in 2018 dollars.

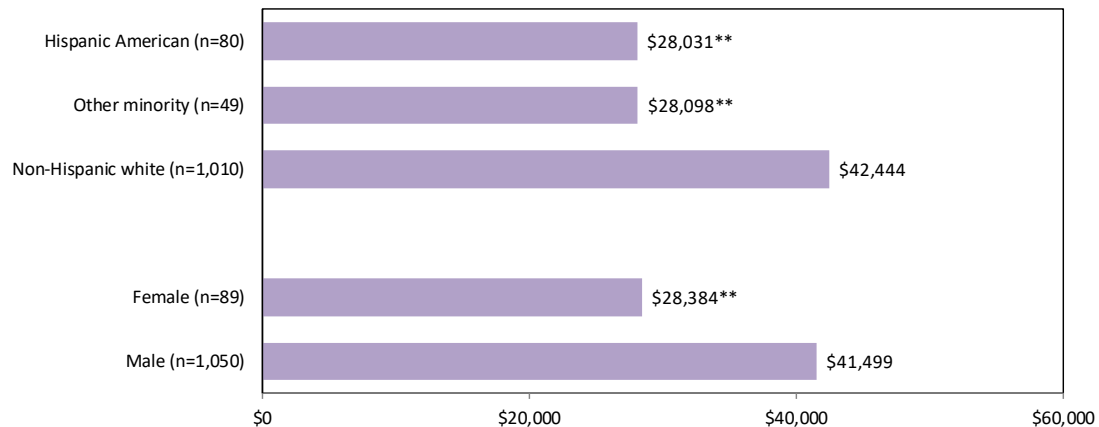
Any reference to “Oregon marketplace” in the following discussion of business owner earnings includes results for Oregon, Clark and Skamania counties in Washington and Payette County in Idaho (the area that represents the relevant market area for this study).

The ACS collects data on business owner earnings through the following steps. Respondents were asked throughout the year to report total pre-tax business earnings accrued during the 12 months immediately preceding the month of the survey. Earnings in to the 2014–2018 ACS timeframe consist of 60 individual reference periods spanning 2013–2018.<sup>18</sup>

Figure H-12 shows mean annual business owner earnings for 2014 through 2018 for construction by race, ethnicity and gender.

On average, Hispanic American business owners (\$28,031) and other minority business owners (\$28,098) earned significantly less than non-Hispanic white business owners (\$42,444). Average earnings for female construction business owners (\$28,384) were less than those of male construction business owners (\$41,499). Each of these differences was statistically significant.

**Figure H-12.**  
Mean annual business owner earnings in the construction industry, 2014 through 2018, Oregon



Note: \*\* Denotes statistically significant differences between groups at the 95% confidence level. The sample universe is business owners age 16 and over who reported positive earnings. All amounts in 2018 dollars.

Source: Keen Independent Research from 2014–2018 ACS. The raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

<sup>18</sup> For example, if a business owner completed the survey in January 2014, the figures for the previous 12 months would reference January 2013 to December 2013. Similarly, a business owner completing the survey in March 2018 would reference amounts between March 2017 and February 2018.

**Regression analysis of business earnings.** Differences in business earnings among different racial, ethnic and gender groups may be at least partially attributable to race- and gender-neutral factors such as age, marital status and educational attainment. The study team created a statistical model through regression analysis to examine whether there were differences in business earnings between people of color and non-Hispanic whites and between women and men after accounting for certain race- and gender-neutral factors. Data came from the ACS for Oregon between 2014 and 2018.

The study team applied an ordinary least squares regression model to the data that was very similar to models reviewed by courts after other disparity studies.<sup>19</sup> The dependent variable in the model was the natural logarithm of business earnings. Business owners that reported zero or negative business earnings were excluded, as were observations for which the U.S. Census Bureau had imputed values of business earnings. Along with variables for the race, ethnicity and gender of business owners, the model also included available measures from the data considered likely to affect earnings potential, including age, age-squared, marital status, ability to speak English well, disability condition and educational attainment.

The study team developed a model for business owner earnings in the construction industry that included 1,139 observations.<sup>20</sup> Figure H-13 on the following page shows the results of this regression model for 2014 through 2018 earnings in the Oregon construction industry.

The model indicates that some race- and gender-neutral factors significantly predicted earnings of business owners. Older business owners had greater business earnings, however this effect reversed for the oldest business owners. Construction business owners who were married also tended to have higher earnings. The model also predicts a negative association between education and earnings in the construction industry: respondents with some college or a four-year degree made less on average.

After accounting for race- and gender-neutral factors, the model indicates lower earnings for female and Hispanic American business owners in the Oregon construction industry. The model showed slightly lower revenue for other minority groups, but the difference was not statistically significant.

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<sup>19</sup> For example, National Economic Research Associates, Inc. (2012). *The state of minority- and women-owned business enterprise in construction: Evidence from Houston* (Rep.). Retrieved from City of Houston website: <http://www.houstontx.gov/obo/disparitystudyfinalreport.pdf>; BBC Research & Consulting. (2012). *Availability and disparity study* (Rep.). Retrieved from the California Department of Transportation website: <https://dot.ca.gov/-/media/dot-media/documents/2012-caltrans-availability-and-disparity-study-a11y.pdf>

<sup>20</sup> Keen Independent could not develop a model for business owner earnings in the Oregon engineering industry due to small sample size.

Figure H-13.  
Oregon construction business owner  
earnings model,  
2014–2018

Note:

\*\* Denotes statistical significance at the 95%  
confidence level.

Source:

Keen Independent Research from 2014–2018 ACS. The  
raw data extract was obtained through the IPUMS  
program of the MN Population Center:  
<http://usa.ipums.org/usa/>.

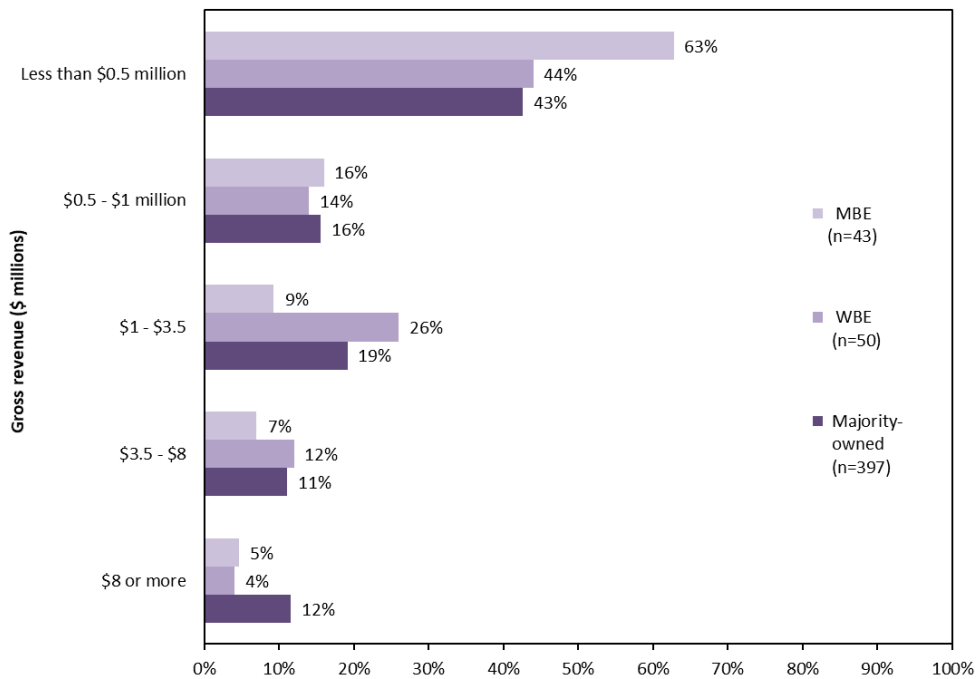
| Variable              | Coefficient |
|-----------------------|-------------|
| Constant              | 6.078 **    |
| Age                   | 0.169 **    |
| Age-squared           | -0.002 **   |
| Married               | 0.482 **    |
| Speaks English well   | 0.171       |
| Disabled              | -0.515 **   |
| Less than high school | -0.078      |
| Some college          | -0.378 **   |
| Four-year degree      | -0.424 **   |
| Advanced degree       | -0.182      |
| Hispanic American     | -1.034 **   |
| Other minority        | -0.133      |
| White female          | -0.673 **   |

**Gross revenue of firms from availability surveys.** As discussed previously, total revenue is a key measure of the economic success of businesses. In the availability telephone surveys the study team conducted in 2020 (discussed in Appendix D), firm owners and managers were asked to identify the size range of their average annual gross revenue in the previous five years: from 2015 through 2019. Availability survey results pertain to firms indicating qualifications and interest in ODA and other local public sector work (all worked in Oregon, but some might have been located in counties bordering Oregon).

**Construction.** Figure H-14 on the following page presents the reported annual revenue for MBE, WBE and majority-owned construction businesses in the Oregon availability surveys. Majority-owned construction firms were more likely to report higher average annual revenues relative to minority- and women-owned construction firms in Oregon.

- MBEs (63%) were far more likely than WBEs (44%) or majority-owned firms (43%) to report average annual revenue of less than \$1 million.
- After combining the highest revenue categories, relatively few MBEs (5%) and WBEs (4%) reported average revenue of \$8 million or more per year compared with 12 percent of majority-owned businesses.

Figure H-14.  
Average annual gross revenue of company over previous five years,  
Oregon construction industry



Note: "WBE" represents white women-owned firms, "MBE" represents minority-owned firms and "Majority-owned" represents non-Hispanic white male-owned firms.

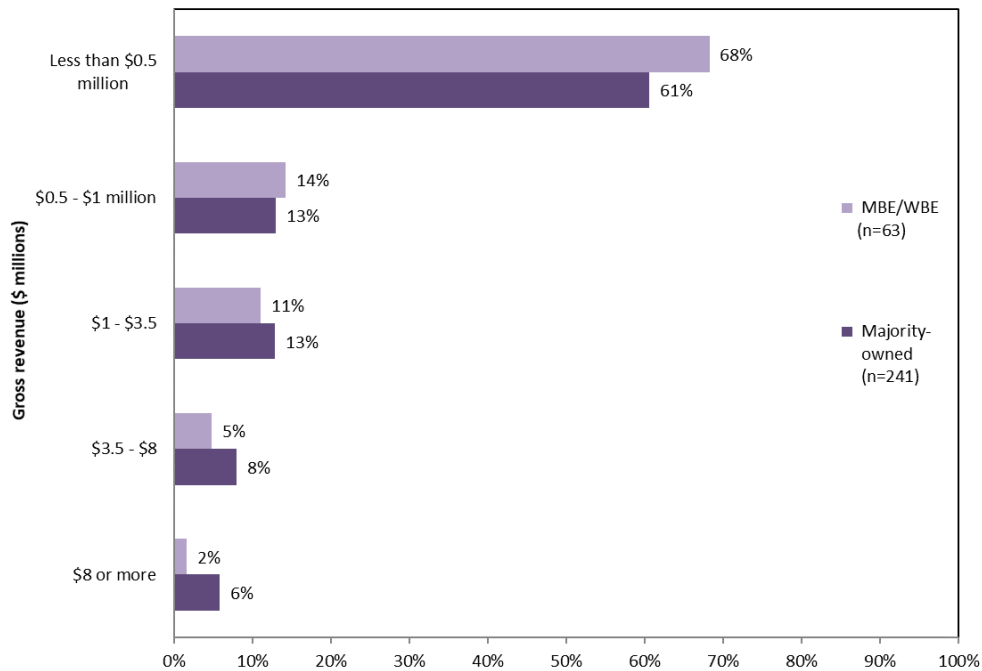
Source: Keen Independent Research from 2020 availability surveys.

**Engineering.** Figure H-15 on the following page presents the reported annual revenue for engineering businesses in Oregon based on availability survey results (the survey focused on engineering-related firms, not the broader A&E industry).

- When compared to majority-owned firms, a higher percentage of MBE/WBE firms in the engineering industry reported average revenue of less than \$0.5 million per year.
- In the engineering industry, majority-owned firms surveyed were twice as likely as MBEs and WBEs to reported having average revenue of more than \$3.5 million (14% versus 7%).



Figure H-15.  
Average annual gross revenue of company over previous five years,  
Oregon engineering industry



Note: “MBE/WBE” represents minority-owned firms and white women-owned firms, “Majority-owned” represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2020 availability surveys.

### Relative Bid Capacity

Some legal cases regarding race- and gender-conscious contracting programs have considered the importance of the “relative capacity” of businesses included in an availability analysis.<sup>21</sup> The study team directly measured bid capacity in its availability analysis.<sup>22</sup>

Through this analysis, Keen Independent was able to distinguish firms based on the largest contracts or subcontracts they had performed or bid on (i.e., “bid capacity” as used in this study). Although additional measures of capacity might be theoretically possible, the bid capacity concept can be articulated and quantified for individual firms for specific time periods.

**Data.** The availability analysis produced a database of construction and A&E businesses for which bid capacity could be examined.

“Relative bid capacity” for a business is measured as the largest contract or subcontract that the business performed or reported that they had bid on within the five years preceding when the study team interviewed it.

<sup>21</sup> For example, see the decision of the United States Court of appeals for the Federal Circuit in *Rothe Development Corp. v. U.S. Department of Defense*, 545 F.3d 1023 (Fed. Cir. 2008).

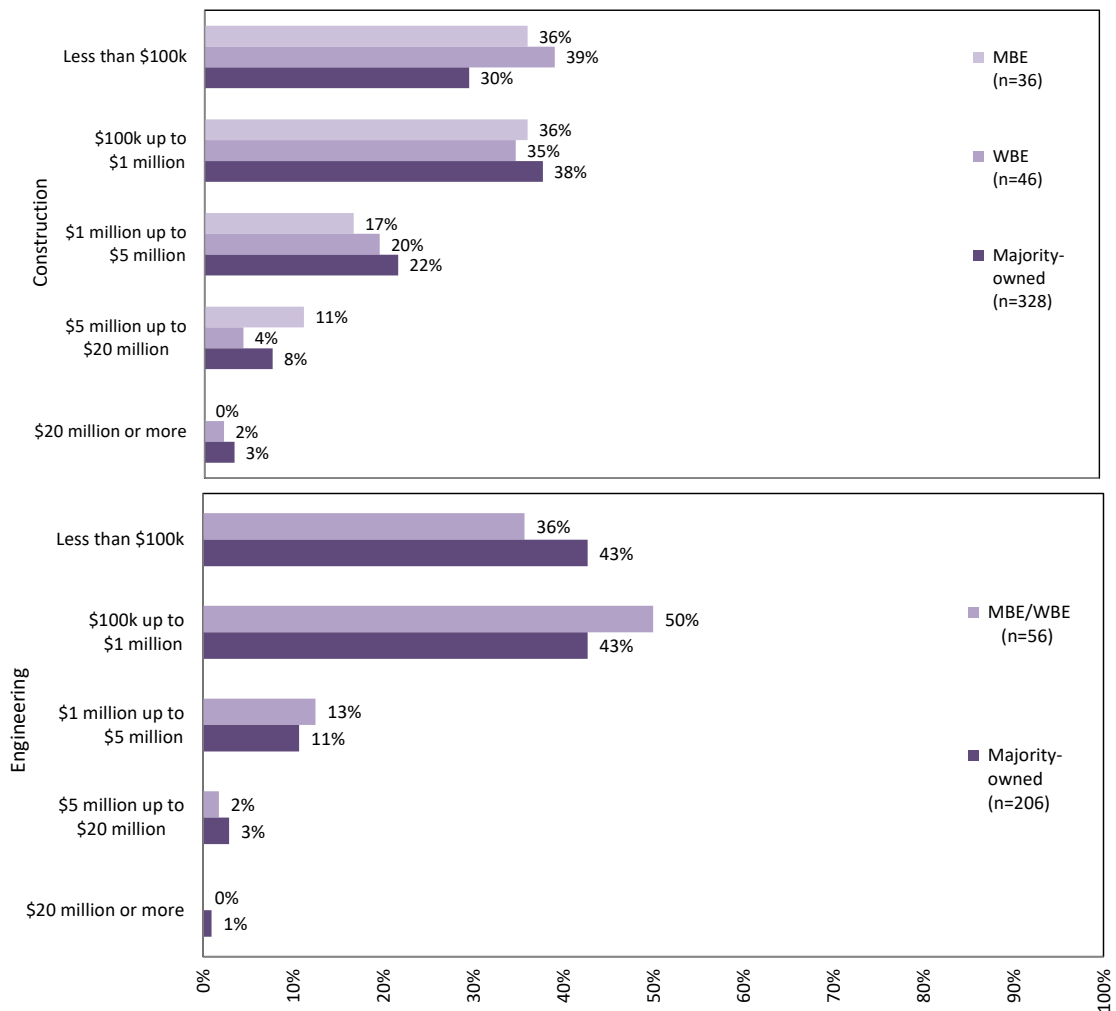
<sup>22</sup> See Appendix D for details about the availability interview process.

**Results.** As shown in Figure H-16, relatively few firms reported performing or bidding on contracts of \$20 million or more. Most companies indicated that their largest contract was less than \$1 million. For example, in construction, 72 percent of MBEs, 74 percent of WBEs and 68 percent of majority-owned firms indicated that the largest contract they had bid on or been awarded was less than \$1 million. However, relatively more majority-owned firms (3%) reported a bid capacity greater than \$20 million compared to MBEs (0%) and WBEs (2%).

Results regarding bid capacity among engineering firms were similar to those found in the construction industry. Most MBE/WBE firms and majority-owned firms reported that the largest contract they had bid on or been awarded was less than \$1 million. No MBE/WBEs and relatively few majority-owned firms (1%) reported bid capacity of \$20 million or more.

Figure H-16.

Largest contract bid on or awarded (bid capacity) by industry for construction and engineering firms in Oregon



Note: "WBE" represents white women-owned firms, "MBE" represents minority-owned firms and "Majority-owned" represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2020 availability surveys.

**Above median bid capacity.** The study team further explored bid capacity on a subindustry level. Subindustries such as office and public building construction tend to involve relatively large projects. Other subindustries, such as surveying and mapping, typically involve smaller contracts. Figure H-17 reports the median relative bid capacity among Oregon businesses in 19 subindustries. Results categorized companies according to their primary line of business.

Figure H-17.  
Median relative capacity of Oregon businesses by subindustry

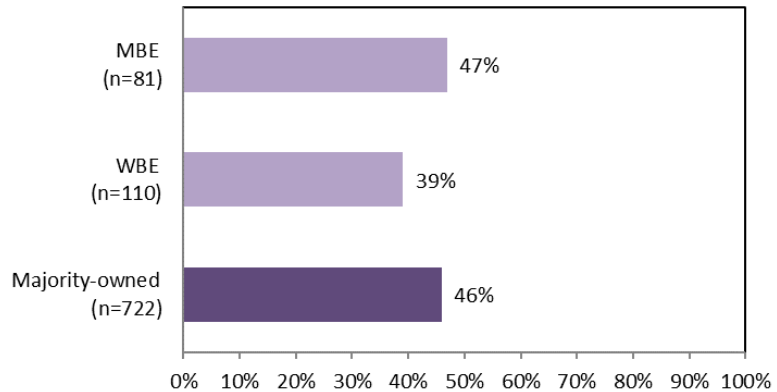
| Subindustry   | Median bid capacity                         |
|---|---|
| <b>Construction industry</b>                                    |   |
| Office and public building construction                         | More than \$2 million up to \$5 million     |
| Road construction   | More than \$1 million up to \$2 million     |
| Pavement marking  | \$1 million                                 |
| Wrecking and demolition   | \$0.5 million                               |
| Electrical work (including airfield lighting)                   | More than \$0.1 million up to \$0.5 million |
| Plumbing, heating and air conditioning                          | More than \$0.1 million up to \$0.5 million |
| Excavation, site prep, grading and drainage                     | More than \$0.1 million up to \$0.5 million |
| Installation of guardrails and fencing                          | More than \$0.1 million up to \$0.5 million |
| Pavement surface treatment (such as sealing)                    | More than \$0.1 million up to \$0.5 million |
| Concrete work   | More than \$0.1 million up to \$0.5 million |
| Trucking and hauling  | More than \$0.1 million up to \$0.5 million |
| Airport runway, taxiway or apron paving                         | Up to \$0.1 million                         |
| Other - construction  | More than \$0.1 million up to \$0.5 million |
| <b>Engineering services</b>                                     |   |
| Construction management   | \$0.5 million                               |
| Design engineering  | More than \$0.1 million up to \$0.5 million |
| Environmental consulting  | More than \$0.1 million up to \$0.5 million |
| Surveying and mapping   | Up to \$0.1 million                         |
| Geotechnical including soils & materials testing and inspection | Up to \$0.1 million                         |
| Other - engineering services                                    | More than \$0.1 million up to \$0.5 million |

Source: Keen Independent Research from 2020 availability surveys.

Comparison of above median bid capacity for MBEs, WBEs and majority-owned firms. Based on the median bid capacity figures identified in Figure H-17, The study team classified firms into “above median bid capacity,” “at median bid capacity” and “below median bid capacity” for their subindustry. As shown in Figure H-18, about 47 percent of MBEs had above median bid capacity for their subindustry, similar to the 46 percent found for majority-owned firms. However, relatively fewer WBEs reported above-median bid capacity.

**Figure H-18.**  
**Percent of firms above median bid capacity for their subindustry, Oregon, 2020**

Source:  
 Keen Independent Research from 2020 availability surveys.



Keen Independent further explored the difference in results for WBEs through a probit regression model of whether a firm had above median bid capacity. After also controlling for age of firm, the regression analysis did not find a difference for WBEs that was statistically significant.

### **Availability Survey Results Concerning Potential Barriers**

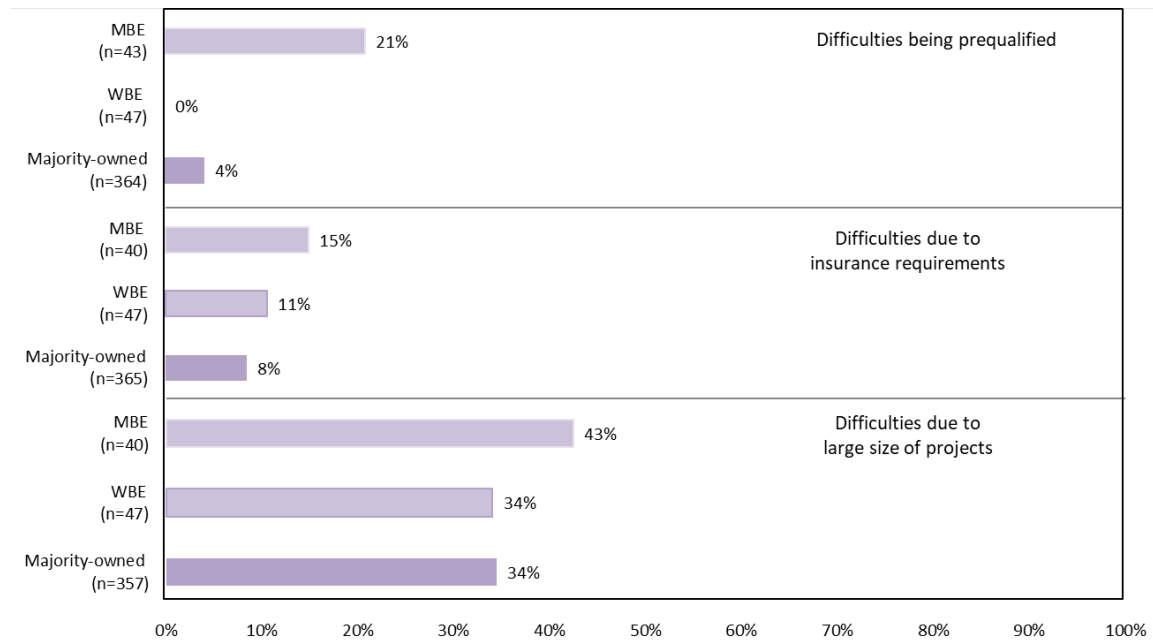
As part of the availability surveys conducted with Oregon businesses, the study team asked firm owners and managers if they had experienced barriers or difficulties associated with starting or expanding a business or with obtaining work. (See Appendix D for additional information.) Survey responses to questions about access to capital and bonding are presented in Appendix G.

Results for survey questions are discussed within the context of the study industry; some questions were industry-specific and not asked of all available businesses. The analysis is grouped into three sets for each study industry: bidding requirements and project size, barriers related to learning about bid opportunities, and barriers related to receiving payment for projects.

**Construction.** In the availability survey, construction firms were asked about being prequalified for work, insurance requirements and whether project size was a barrier to bidding. Figure H-19 shows results.

- Relatively more MBEs (21%) reported difficulties being prequalified for work compared with majority-owned firms (4%). No WBEs reported such difficulties.
- About 8 percent of majority-owned firms indicated that insurance requirements on contracts were a barrier to bidding, less than the rate among MBEs (15%) and WBEs (11%).
- About one-third of WBEs and majority-owned firms reported that large contract size presented a barrier to bidding. MBEs (43%) were more likely than others to indicate similar difficulties.

**Figure H-19.**  
Responses to availability interview questions concerning insurance, prequalification and size of projects, Oregon construction firms



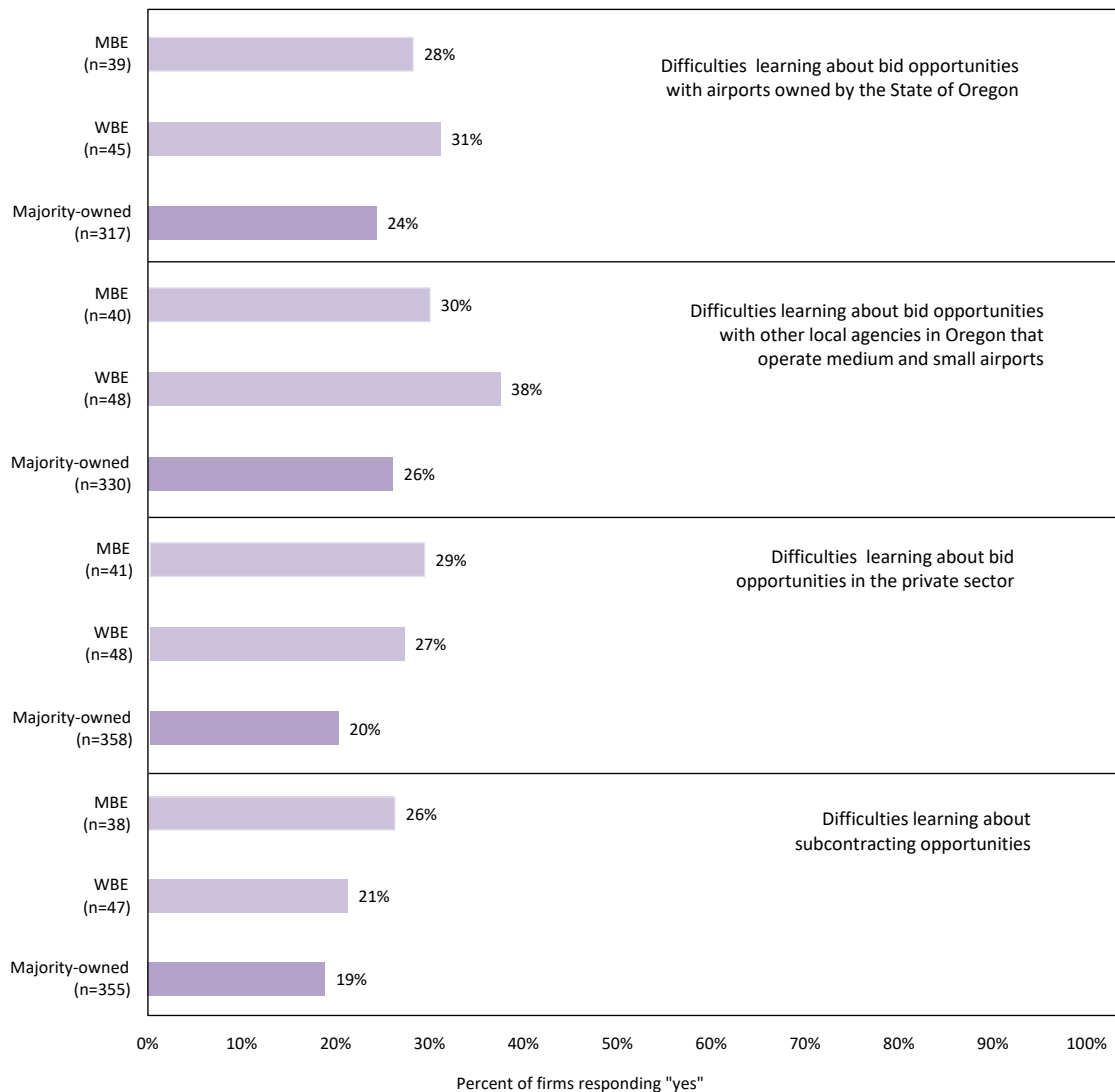
Note: "WBE" represents white women-owned firms, "MBE" represents minority-owned firms and "Majority-owned" represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2020 availability surveys.

The survey also asked construction firms about any difficulties learning about bid opportunities.

As shown in Figure H-20, relatively more MBEs and WBEs than majority-owned firms indicated difficulties learning about bid opportunities with airports owned by the State of Oregon, bid opportunities with other local agencies in Oregon that operate medium and small airports, bid opportunities in the private sector and subcontracting opportunities.

**Figure H-20.**  
**Responses to availability interview questions concerning learning about work,**  
**Oregon construction firms**



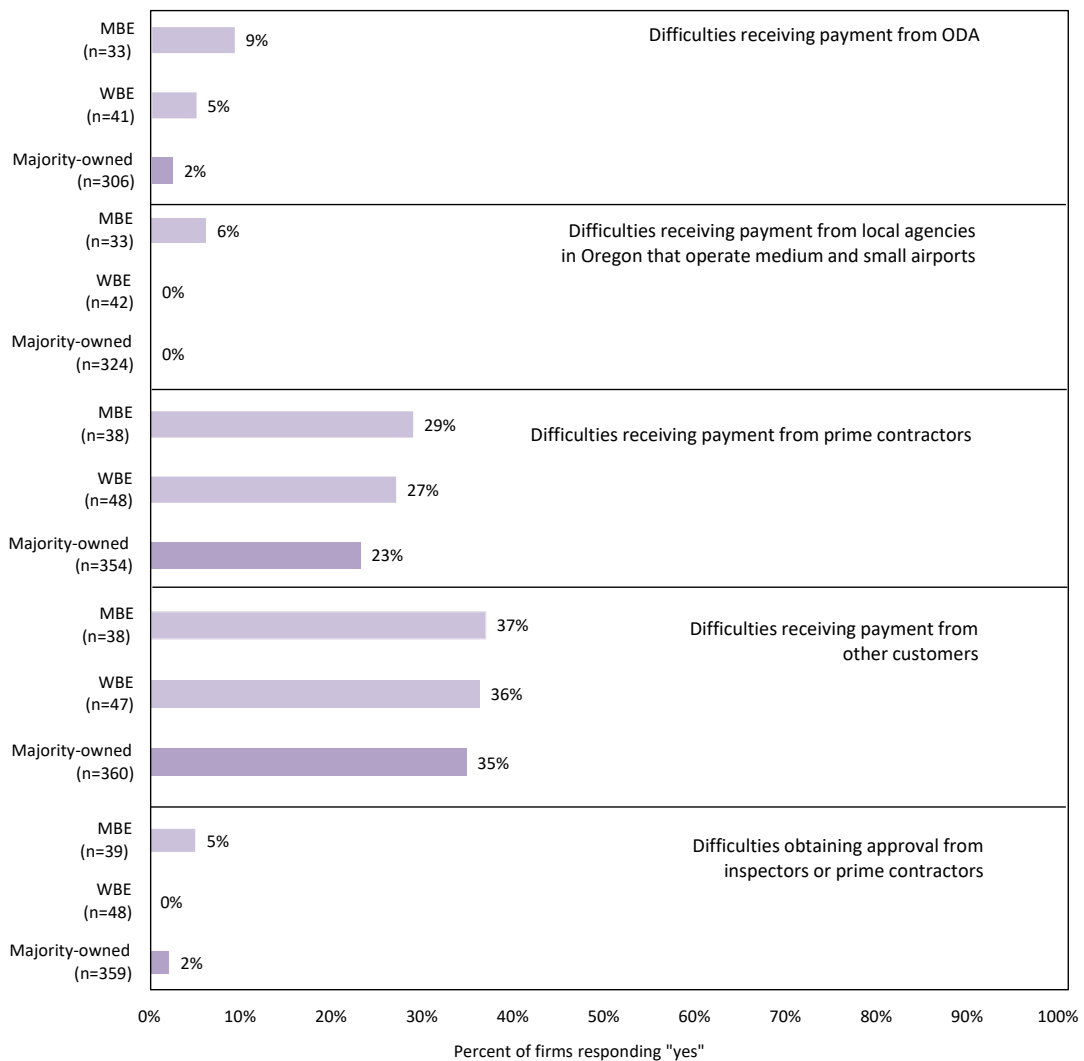
Note: "WBE" represents white women-owned firms, "MBE" represents minority-owned firms and "Majority-owned" represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2020 availability surveys.

The study team also examined the proportion of firms reporting difficulty receiving payments, as shown in Figure H-21.

- A larger proportion of MBEs and WBEs than majority-owned construction firms reported difficulty receiving payments from ODA, from prime contractors and from other customers.
- Relatively more MBEs than majority-owned firms indicated difficulties receiving payment from local agencies in Oregon that operate medium and small airports, and difficulties obtaining approval from inspectors or prime contractors. No WBE firms reported such difficulties.

Figure H-21.  
Responses to availability interview questions concerning receipt of payments and approval of work, Oregon construction firms



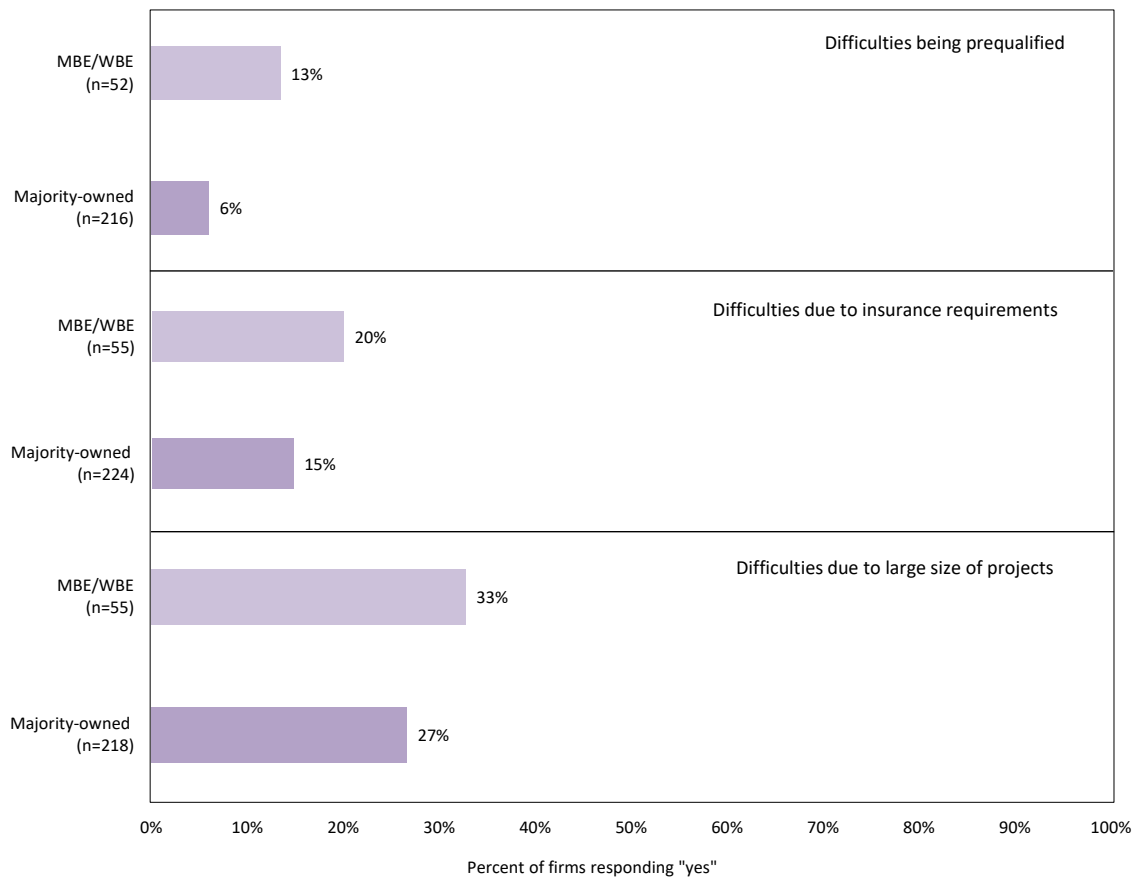
Note: "WBE" represents white women-owned firms, "MBE" represents minority-owned firms and "Majority-owned" represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2020 availability surveys.

**Engineering.** The study team asked similar questions about marketplace barriers in the availability surveys with engineering firms. Results combine MBEs and WBEs due to small sample size. Results are presented in Figure H-22, below.

- MBE/WBEs (13%) were more than twice as likely as majority-owned firms (6%) to report difficulties being prequalified.
- Similarly, MBE/WBEs (20%) were more likely than majority-owned firms (15%) to indicate difficulties due to insurance requirements.
- When compared to majority-owned firms, relatively more MBE/WBEs reported large project size as a barrier for their firm (27% and 33%, respectively).

Figure H-22.  
Responses to availability interview questions concerning prequalification, insurance and size of projects, Oregon engineering firms



Note: "MBE/WBE" represents minority-owned firms and white women-owned firms, "Majority-owned" represents non-Hispanic white male-owned firms.

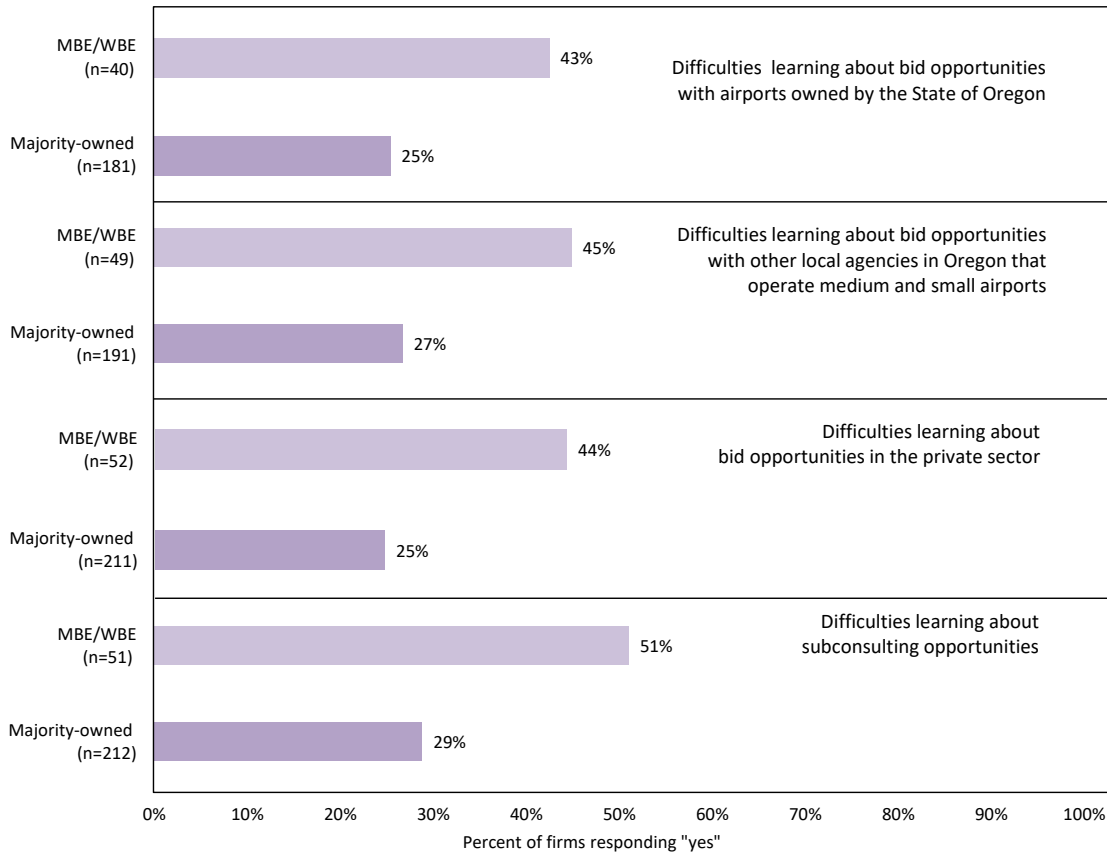
Source: Keen Independent Research from 2020 availability surveys.



A larger proportion of MBE/WBE engineering firms reported difficulties learning about bid opportunities with Oregon public agencies, prime contractors and with the private sector. Results are presented in Figure H-23 on the following page.

- For example, 43 percent of MBE/WBEs indicated difficulties learning about bid opportunities with airports owned by the State of Oregon. About 25 percent of majority-owned firms reported similar difficulties.
- When compared to majority-owned firms, MBE/WBEs were also more likely than majority-owned firms to indicate difficulties learning about bid opportunities with other local agencies in Oregon that operate medium and small airports (27% and 45%, respectively).
- MBE/WBEs (44%) were also more likely than majority-owned firms (25%) to report difficulties learning about bid opportunities in the private sector.
- Compared with majority-owned firms, MBE/WBE engineering firms were much more likely to report difficulties learning about subconsulting opportunities (51% compared to 29%).

Figure H-23.  
Responses to availability interview questions concerning learning about work,  
Oregon engineering firms



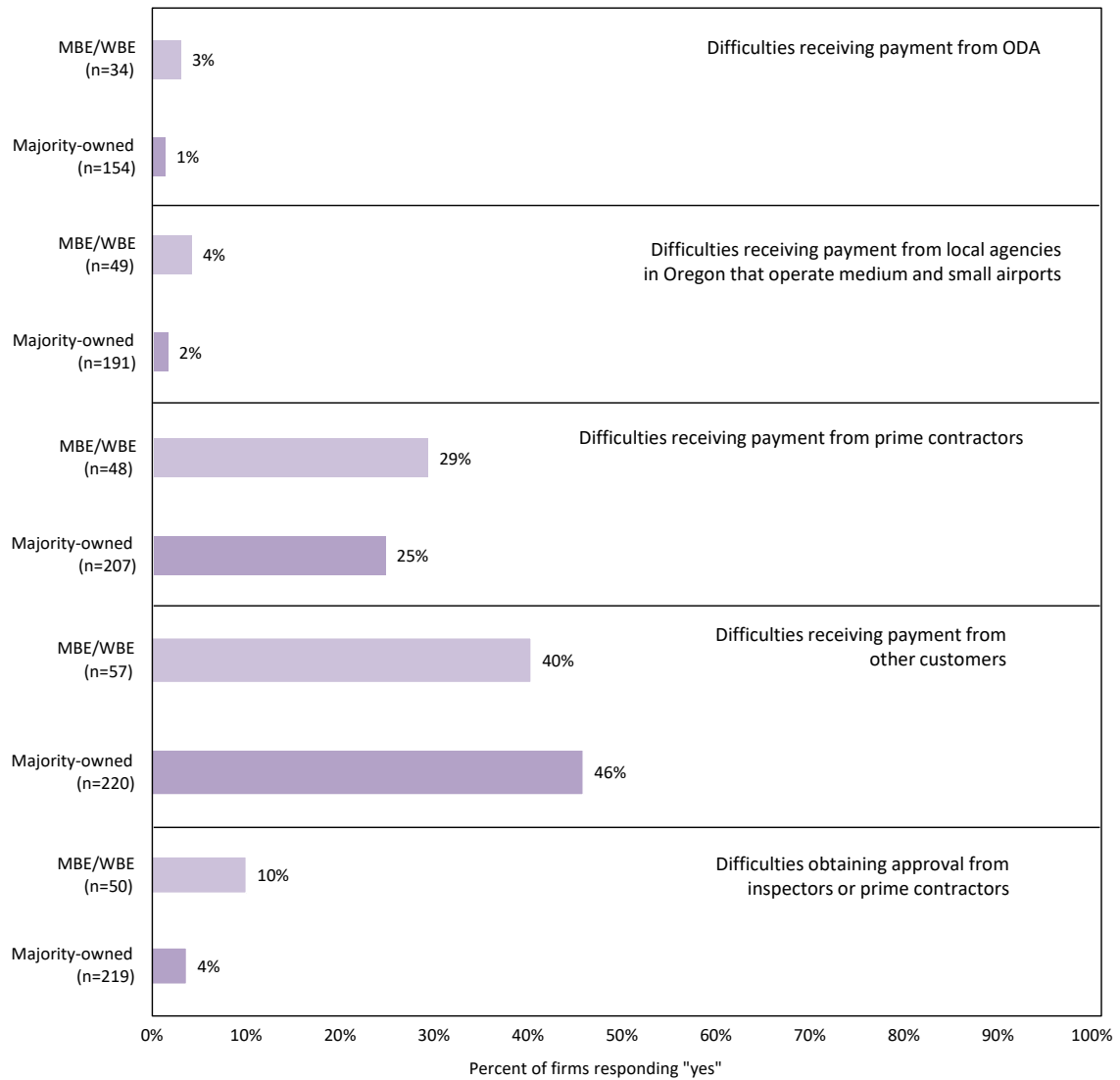
Note: "MBE/WBE" represents minority-owned firms and white women-owned firms, "Majority-owned" represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2020 availability surveys.

Figure H-24 on the following page presents survey results related to difficulties receiving payment and obtaining approval of work. Relatively few engineering firms indicated difficulties receiving payment from ODA or difficulties receiving payment from local agencies in Oregon that operate medium and small airports. However, MBE/WBEs were more than twice as likely as majority-owned firms to report such difficulties.

Relatively more MBEs and WBEs indicated difficulties receiving payment from prime contractors when compared with majority-owned firms (29% and 25%, respectively). About 10 percent of MBE/WBEs reported difficulties obtaining approval from inspectors or prime contractors, more than twice the portion of majority-owned firms that indicated such difficulties.

Figure H-24.  
Responses to availability interview questions concerning receipt of payments  
and approval of work, Oregon engineering firms



Note: "MBE/WBE" represents minority-owned firms and white women-owned firms, "Majority-owned" represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2020 availability surveys.

## Summary

Keen Independent's analysis of marketplace outcomes indicates a pattern of disparities for businesses owned by people of color and by women. For example:

- The study team used the 2010 SBA study of minority business dynamics to examine business closures, expansions and contractions. Data for Oregon indicate that African American- and Asian American-owned firms were more likely to close than white-owned firms and that Hispanic American-owned businesses were more likely to close than non-Hispanic white-owned firms.

The study team used data from several different sources to analyze business receipts and earnings for minority- and female-owned businesses.

- Analysis of U.S. Census Bureau data from the 2012 Survey of Business Owners indicated that, in Oregon, average receipts for minority-, Hispanic- and women-owned businesses were lower than those of white-, non-Hispanic- and male-owned businesses. Asian American professional services firms, however, earned more on average than white-owned firms in the industry.
- Data from 2014–2018 ACS indicated that, in Oregon:
  - Hispanic American and other minority business owners earned considerably less than non-Hispanic white business owners in the construction industry; and
  - Women business owners in the construction industry had much lower earnings than men who owned businesses.
- Regression analyses using U.S. Census Bureau data for business owner earnings indicated that there were statistically significant effects of race and gender on business earnings in the construction industry. After statistically controlling for certain gender- and race- neutral factors, being a woman and being Hispanic American were associated with significantly lower business earnings in the construction industry.
- Data from availability surveys conducted for this study showed that in the Oregon construction industry, MBEs were more likely to be low-revenue firms and both MBEs and WBEs were less likely to have annual revenue of \$8 million or more compared with majority-owned firms.
- The results of the availability survey indicated that in the Oregon engineering industry, MBE/WBEs (combined) were also more likely to be low-revenue firms.
- In both the construction and engineering industries, MBEs and WBEs were less likely than majority-owned firms to have bid on or been awarded very large contracts.

Answers to questions concerning marketplace barriers in the availability survey indicated the relatively more MBEs and WBEs than majority-owned firms face difficulties related to:

- Prequalification (among engineering firms);
- Insurance requirements;
- Large project size (among engineering firms);
- Learning about bid opportunities with airports owned by the State of Oregon;
- Learning about bid opportunities with other local agencies in Oregon that operate medium and small airports;
- Learning about bid opportunities in the private sector;
- Learning about subcontracting or subconsulting opportunities;
- Receiving payment from ODA;
- Receiving payment from local agencies in Oregon that operate medium and small airports (among engineering firms);
- Receiving payment from prime contractors;
- Receiving payment from other customers (among construction firms); and
- Obtaining approval from inspectors or prime contractors (among engineering firms).

Relatively more MBEs than majority-owned firms reported facing difficulties related to the following:

- Obtaining bonds (among construction firms);
- Prequalification (among construction firms);
- Large project size (among construction firms);
- Difficulties receiving payment from local agencies in Oregon that operate medium and small airports (among construction firms); and
- Difficulties obtaining approval from inspectors or prime contractors (among construction firms).

In summary, many different data sources and measures indicate disparities in marketplace outcomes and evidence of barriers for minority- and women-owned businesses in Oregon.

## APPENDIX I.

### Description of Data Sources for Marketplace Analyses

To perform the marketplace analyses presented in Appendices E through H, the study team used data from a range of sources, including:

- The 2014–2018 five-year American Community Survey (ACS), conducted by the U.S. Census Bureau;
- The 2012 Survey of Business Owners (SBO), conducted by the U.S. Census Bureau;
- The 2016 Annual Survey of Entrepreneurs (ASE), conducted by the U.S. Census Bureau; and
- Home Mortgage Disclosure Act (HMDA) data provided by the Federal Financial Institutions Examination Council (FFIEC).

The following sections provide further detail on each data source, including how the study team used it in its marketplace analyses. (See Appendix D for a description of the availability survey.)

#### U.S. Census Bureau American Community Survey PUMS Data

Focusing on the construction and engineering industries, the study team used PUMS data to analyze:

- Demographic characteristics;
- Measures of financial resources; and
- Self-employment (business ownership).

PUMS data offer several features ideal for the analyses reported in this study, including historical cross-sectional data, stratified national and local samples, and large sample sizes that enable many estimates to be made with a high level of statistical confidence, even for subsets of the population (e.g., racial/ethnic and occupational groups).

The study team obtained selected Census and ACS data from the Minnesota Population Center’s Integrated Public Use Microdata Series (IPUMS). The IPUMS program provides online access to customized, accurate datasets.<sup>1</sup> For the analyses contained in this report, the study team used the 2014–2018 five-year ACS sample.

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<sup>1</sup> Ruggles, S., Flood, S., Goeken, R., Grover, J., Meyer, E., Pacas, J., and Sobek, M., IPUMS USA: Version 9.0 [dataset]. Minneapolis, MN: IPUMS, 2019. <https://doi.org/10.18128/D010.V9.0>

**2014–2018 American Community Survey.** The study team examined ACS data obtained through IPUMS. The U.S. Census Bureau conducts the ACS which uses monthly samples to produce annually updated data for the same small areas as the 2000 Census long form.<sup>2</sup> Since 2005, the Census has conducted monthly surveys based on a random sample of housing units in every county in the U.S. Currently, these surveys cover roughly 1 percent of the population per year. The 2014–2018 ACS five-year estimates represent average characteristics over the five-year period and correspond to roughly 5 percent of the population. For Oregon, the 2014–2018 ACS dataset includes 227,214 observations which — according to person-level weights — represent about 4.5 million individuals.

**Categorizing individual race/ethnicity.** To define race/ethnicity, the study team used the IPUMS race/ethnicity variables — RACED and HISPAN — to categorize individuals into seven groups:

- African American;
- Asian-Pacific American;
- Subcontinent Asian American;
- Hispanic American;
- Native American;
- Other minority (unspecified); and
- Non-Hispanic white.

The study team created the race definitions using a rank ordering methodology similar to that used in the 2000 Census data dictionary. An individual was considered “non-Hispanic white” if they did not report Hispanic ethnicity and indicated being white only — not in combination with any other race group. Using the rank ordering methodology, an individual who identified multiple races or ethnicities was placed in the reported category with the highest ranking in the study team’s ordering. African American is first, followed by Native American, Asian-Pacific American, and then Subcontinent Asian American. For example, if an individual identified herself as “Korean,” she was placed in the Asian-Pacific American category. If the individual identified herself as “Korean” in combination with “Black,” the individual was considered African American.

- The Asian Pacific category included the following race groups: Burmese, Cambodian, Chamorro, Chinese, Fijian, Filipino, Guamanian, Hmong, Indonesian, Japanese, Korean, Laotian, Malaysian, Mongolian, Samoan, Taiwanese, Thai, Tongan and Vietnamese. This category also included other Polynesian, Melanesian and Micronesian races, as well as individuals identified as Pacific Islanders.

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<sup>2</sup> U.S. Census Bureau. (2009). *Design and methodology: American Community Survey*. Washington, D.C.: U.S. Government Printing. Available at [https://www.census.gov/content/dam/Census/library/publications/2010/acs/acs\\_design\\_methodology.pdf](https://www.census.gov/content/dam/Census/library/publications/2010/acs/acs_design_methodology.pdf)

- The Subcontinent Asian American category included: Asian Indian (Hindu), Bangladeshi, Bhutanese, Nepalis, Pakistani and Sri Lankan. Individuals who identified themselves as “Asian,” but who were not clearly categorized as Subcontinent Asian, were placed in the Asian-Pacific American group.
- The American Indian and Alaska Native group included those race groups as well as Latin American Indian and Native Hawaiian groups.
- If an individual was identified with any of the above groups and an “other race” group, the individual was categorized into the known category. Individuals identified as “other race,” “Hispanic and other race” or “white and other race” were categorized as “other minority.”

For some analyses — those in which sample sizes were small — the study team combined minority groups.

**Education variables.** The study team used the variable indicating respondents’ highest level of educational attainment (EDUCD) to classify individuals into four categories: less than high school, high school diploma (or equivalent), some college or associate degree, and bachelor’s degree or higher.<sup>3</sup>

**Home ownership and home value.** Rates of home ownership were analyzed using the RELATED variable to identify heads of household and the OWNERSHPD variable to define tenure. Heads of households living in dwellings owned free and clear, and dwellings owned with a mortgage or loan (OWNERSHPD codes 12 or 13) were considered homeowners. Median home values are estimated using the VALUEH variable, which reports the value of housing units in contemporary dollars. In the 2014–2018 ACS, home value is a continuous variable (rounded to the nearest \$1,000) and median estimation is straightforward.

**Definition of workers.** Analyses involving worker class, industry and occupation include workers 16 years of age or older who are employed within the industry or occupation in question. Analyses involving all workers regardless of industry, occupation or class include both employed persons and those who are unemployed but seeking work.

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<sup>3</sup> In the 1940–1980 samples, respondents were classified according to the highest year of school completed (HIGRADE). In the years after 1980, that method was used only for individuals who did not complete high school, and all high school graduates were categorized based on the highest degree earned (EDUC99). The EDUCD variable merges two different schemes for measuring educational attainment by assigning to each degree the typical number of years it takes to earn it.



**Business ownership.** The study team used the Census-detailed “class of worker” variable (CLASSWKD) to determine self-employment. The variable classifies individuals into one of eight categories, shown in Figure I-1. The study team counted individuals who reported being self-employed — either for an incorporated or a non-incorporated business — as business owners.

Figure I-1.  
Class of worker variable code in 2014–2018 ACS

Source:  
Keen Independent Research from the IPUMS program:  
<http://usa.ipums.org/usa/>.

| Description                     | 2014–2018 ACS CLASSWKRD codes |
|---------------------------------|-------------------------------|
| N/A                             | 0                             |
| Self-employed, not incorporated | 13                            |
| Self-employed, incorporated     | 14                            |
| Wage/salary, private            | 22                            |
| Wage/salary at nonprofit        | 23                            |
| Federal government employee     | 25                            |
| State government employee       | 27                            |
| Local government employee       | 28                            |
| Unpaid family worker            | 29                            |

**Business earnings.** The study team used the Census “business earnings” variable (INCBUS00) to analyze business income by race/ethnicity and gender. The study team included business owners age 16 and over with positive earnings in the analyses.

**Study industries.** The marketplace analyses focus on two industries: construction and architecture and engineering. The study team used the IND variable to identify individuals as working in one of these industries. That variable includes several hundred industry and sub-industry categories. Figure I-2 identifies the IND codes used to define each study area.

Figure I-2.  
2014–2018 Census industry codes used for construction and architecture and engineering

| Study industry               | 2014–2018 ACS IND codes | Description                                     |
|------------------------------|-------------------------|---|
| Construction                 | 0770                    | Construction industry                           |
| Architecture and engineering | 7290                    | Architectural, engineering and related services |

Source: Keen Independent Research from the IPUMS program: <http://usa.ipums.org/usa/>.

**Industry occupations.** The study team also examined workers by occupation within the construction industry using the PUMS variable OCC. Figure I-3 on the following page summarizes the 2014–2018 ACS OCC codes used in the study team’s analyses.

Figure I-3.

2014–2018 ACS occupation codes used to examine workers in construction

| 2014–2018 ACS occupational title and code   | Job description  |
|---|--|
| <p><b>Construction managers</b><br/>2014-18 Code: 20, 220</p>   | <p>Plan, direct, or coordinate, usually through subordinate supervisory personnel, activities concerned with the construction and maintenance of structures, facilities, and systems. Participate in the conceptual development of a construction project and oversee its organization, scheduling, budgeting, and implementation. Includes managers in specialized construction fields, such as carpentry or plumbing. Include general superintendents, project managers and constructors who manage, coordinate and supervise the construction process.</p>  |
| <p><b>First-line supervisors of construction trades and extraction workers</b><br/>2014-18 Code: 6200</p> | <p>Directly supervise and coordinate the activities of construction or extraction workers.</p>   |
| <p><b>Brickmasons, blockmasons and stonemasons</b><br/>2014-18 Code: 6220</p>                             | <p>Lay and bind building materials, such as brick, structural tile, concrete block, cinder block, glass block, and terra-cotta block. Construct or repair walls, partitions, arches, sewers, and other structures. Build stone structures, such as piers, walls, and abutments. Lay walks, curbstones, or special types of masonry for vats, tanks, and floors.</p>  |
| <p><b>Carpenters</b><br/>2014-18 Code: 6230</p>   | <p>Construct, erect, install, or repair structures and fixtures made of wood and comparable materials, such as concrete forms. Build frameworks, including partitions, joists, studding, and rafters; and wood stairways, window and door frames, and hardwood floors.</p>   |
| <p><b>Carpet, floor, and tile installers and finishers</b><br/>2014-18 Code: 6240</p>                     | <p>Lay and install carpet from rolls or blocks on floors. Install padding and trim flooring materials. Apply blocks, strips, or sheets of shock-absorbing, sound-deadening, or decorative coverings to floors. Scrape and sand wooden floors to smooth surfaces using floor scraper and floor sanding machine and apply coats of finish. Apply hard tile, stone, and comparable materials to walls, floors, ceilings, countertops, and roof decks.</p>   |
| <p><b>Cement masons, concrete finishers and terrazzo workers</b><br/>2014-18 Code: 6250</p>               | <p><i>Cement Masons and Concrete Finishers.</i> Smooth and finish surfaces of poured concrete, such as floors, walks, sidewalks, roads, or curbs using a variety of hand and power tools. Align forms for sidewalks, curbs, or gutters; patch voids; and use saws to cut expansion joints.</p> <p><i>Terrazzo Workers and Finishers.</i> Apply a mixture of cement, sand, pigment, or marble chips to floors, stairways, and cabinet fixtures to fashion durable and decorative surfaces.</p>  |
| <p><b>Construction laborers</b><br/>2014-18 Code: 6260</p>  | <p>Perform tasks involving physical labor at construction sites. May operate hand and power tools of all types: air hammers, earth tampers, cement mixers, small mechanical hoists, surveying and measuring equipment, and a variety of other equipment and instruments. May clean and prepare sites, dig trenches, set braces to support the sides of excavations, erect scaffolding, and clean up rubble, debris, and other waste materials. May assist other craft workers. Construction laborers who primarily assist a particular craft worker are classified under "Helpers, Construction Trades."</p> |

Figure I-3 (continued).

2014–2018 ACS occupation codes used to examine workers in construction

| 2014–2018 ACS occupational title and code   | Job description   |
|---|---|
| <p><b>Construction equipment operators</b><br/>2014-18 Code: 6305</p>                       | <p><i>Paving, Surfacing, and Tamping Equipment Operators.</i> Operate equipment used for applying concrete, asphalt, or other materials to road beds, parking lots, or airport runways and taxiways or for tamping gravel, dirt, or other materials. Includes concrete and asphalt paving machine operators, form tampers, tamping machine operators, and stone spreader operators.</p> <p><i>Pile Driver Operators.</i> Operate pile drivers mounted on skids, barges, crawler treads, or locomotive cranes to drive pilings for retaining walls, bulkheads, and foundations of structures such as buildings, bridges, and piers.</p> <p><i>Operating Engineers and Other Construction Equipment Operators.</i> Operate one or several types of power construction equipment, such as motor graders, bulldozers, scrapers, compressors, pumps, derricks, shovels, tractors, or front-end loaders to excavate, move, and grade earth, erect structures, or pour concrete or other hard surface pavement. May repair and maintain equipment in addition to other duties.</p> |
| <p><b>Drywall installers, ceiling tile installers and tapers</b><br/>2014-18 Code: 6330</p> | <p>Apply plasterboard or other wallboard to ceilings or interior walls of buildings. Apply or mount acoustical tiles or blocks, strips, or sheets of shock-absorbing materials to ceilings and walls of buildings to reduce or reflect sound. Seal joints between plasterboard or other wallboard to prepare wall surface for painting or papering.</p>   |
| <p><b>Electricians</b><br/>2014-18 Code: 6355</p>   | <p>Install, maintain, and repair electrical wiring, equipment, and fixtures. Ensure that work is in accordance with relevant codes. May install or service street lights, intercom systems or electrical control systems.</p>   |
| <p><b>Glaziers</b><br/>2014-18 Code: 6360</p>   | <p>Install glass in windows, skylights, store fronts, and display cases, or on surfaces, such as building fronts, interior walls, ceilings, and tabletops.</p>  |
| <p><b>Painters and paperhangers</b><br/>2014-18 Code: 6410</p>                              | <p><i>Painters, construction and maintenance.</i> Paint walls, equipment, buildings, bridges, and other structural surfaces, using brushes, rollers, and spray guns.</p> <p><i>Paperhangers.</i> Cover interior walls or ceilings of rooms with decorative wallpaper or fabric or attach advertising posters on surfaces such as walls and billboards. May remove old materials or prepare surfaces to be papered.</p>  |
| <p><b>Pipelayers</b><br/>2014-18 Code: 6441</p>   | <p>Lay pipe for storm or sanitation sewers, drains, and water mains. Perform any combination of the following tasks: grade trenches or culverts, position pipe, or seal joints.</p>   |
| <p><b>Plumbers, pipefitters and steamfitters</b><br/>2014-18 Code: 6442</p>                 | <p>Assemble, install, alter, and repair pipelines or pipe systems that carry water, steam, air, or other liquids or gases. May install heating and cooling equipment and mechanical control systems. Includes sprinkler fitters.</p>  |
| <p><b>Plasterers and stucco masons</b><br/>2014-18 Code: 6460</p>                           | <p>Apply interior or exterior plaster, cement, stucco, or similar materials. May also set ornamental plaster.</p>   |
| <p><b>Roofers</b><br/>2014-18 Code: 6515</p>  | <p>Cover roofs of structures with shingles, slate, asphalt, aluminum, wood, or related materials. May spray roofs, sidings, and walls with material to bind, seal, insulate, or soundproof sections of structures.</p>  |

Figure I-3 (continued).

2014–2018 ACS occupation codes used to examine workers in construction

| 2014–2018 ACS occupational title and code                                    | Job description   |
|--|---|
| <b>Structural iron and steel workers</b><br>2014-18 Code: 6530               | Raise, place, and unite iron or steel girders, columns, and other structural members to form completed structures or structural frameworks. May erect metal storage tanks and assemble prefabricated metal buildings.   |
| <b>Helpers, construction trades</b><br>2014-18 Code: 6600                    | All construction trades helpers not listed separately.  |
| <b>Driver/sales workers and truck drivers</b><br>2014-18 Code: 9130          | <p><i>Driver/sales workers.</i> Drive truck or other vehicle over established routes or within an established territory and sell or deliver goods, such as food products, including restaurant take-out items, or pick up or deliver items such as commercial laundry. May also take orders, collect payment, or stock merchandise at point of delivery.</p> <p><i>Heavy and Tractor-Trailer Truck Drivers.</i> Drive a tractor-trailer combination or a truck with a capacity of at least 26,001 pounds Gross Vehicle Weight (GVW). May be required to unload truck. Requires commercial drivers' license. Includes tow truck drivers. Excludes "Refuse and Recyclable Material Collectors" (53-7081).</p> <p><i>Light Truck Drivers.</i> Drive a light vehicle, such as a truck or van, with a capacity of less than 26,001 pounds Gross Vehicle Weight (GVW), primarily to pick up merchandise or packages from a distribution center and deliver. May load and unload vehicle. Excludes "Couriers and Messengers" (43-5021) and "Driver/Sales Workers" (53-3031).</p> |
| <b>Crane and tower operators</b><br>2014-18 Code: 9510                       | Operate mechanical boom and cable or tower and cable equipment to lift and move materials, machines, or products in many directions.  |
| <b>Conveyor, dredge, and hoist and winch operators</b><br>2014-18 Code: 9570 | <p><i>Conveyor Operators and Tenders.</i> Control or tend conveyors or conveyor systems that move materials or products to and from stockpiles, processing stations, departments, or vehicles. May control speed and routing of materials or products.</p> <p><i>Dredge Operators.</i> Operate dredge to remove sand, gravel, or other materials in order to excavate and maintain navigable channels in waterways.</p> <p><i>Hoist and Winch Operators.</i> Operate or tend hoists or winches to lift and pull loads using power-operated cable equipment.</p>   |
| <b>Other Material Moving Workers</b><br>2014-2018 Code: 9760                 | All material moving workers not listed separately.  |

## **Survey of Business Owners (SBO)**

The study team used data from the 2012 SBO to analyze mean annual firm receipts. The SBO is conducted every five years by the U.S. Census Bureau. Data for the most recent publication of the SBO was collected in 2012. Response to the survey is mandatory, which ensures comprehensive economic and demographic information for business and business owners in the U.S. All tax-filing businesses and nonprofits were eligible to be surveyed, including firms with and without paid employees. In 2012, approximately 1.75 million firms were surveyed. The study team examined SBO data relating to the number of firms, number of firms with paid employees, and total receipts. That information is available by geographic location, industry, gender, race and ethnicity.

The SBO uses the 2002 North American Industry Classification System (NAICS) to classify industries. The study team analyzed data for firms in all industries and for firms in selected industries that corresponded closely to construction, architecture and engineering, and food, beverage and selected retail.

To categorize the business ownership of firms reported in the SBO, the Census Bureau uses standard definitions for women-owned and minority-owned businesses. A business is defined as women-owned if more than half of the ownership and control is by women. Firms with joint male-/female-ownership were tabulated as an independent gender category. A business is defined as minority-owned if more than half of the ownership and control is by African Americans, Asian Pacific Americans or Native Hawaiians, Subcontinent Asian Americans, Hispanic Americans, American Indians or Alaska Natives or by another minority group. Respondents had the option of selecting one or more racial groups when reporting business ownership. Racial categories are not available by both race and ethnicity, so race and ethnicity were analyzed independently. The study team reported business receipts for the following racial, ethnic and gender groups according to Census Bureau definitions:

- Racial groups — African Americans, Asian Americans, Asian Pacific Americans or Native Hawaiians, Subcontinent Asian Americans, American Indians or Alaska Natives, other minority groups and whites.
- Ethnic groups — Hispanic Americans and non-Hispanics.
- Gender groups — men and women.

## **Annual Survey of Entrepreneurs (ASE) Data**

Keen Independent analyzed selected economic and demographic characteristics for business owners collected through the ASE. The ASE includes nonfarm businesses that file tax forms as individual proprietorships, partnerships or any type of corporation, have paid employees, and have receipts of \$1,000 or more. Unlike the SBO, the ASE samples only firms with paid employees (the SBO includes both employer firms and non-employer firms). The 2016 ASE sampled approximately 290,000 businesses that operated at any time during that year. Response to the survey is mandatory, ensuring comprehensive data for surveyed businesses and business owners.

The ASE collects information on businesses as well as business ownership (defined as having 51 percent or more of the stock or equity in the business). Data regarding demographic characteristics of business owners include gender, ethnicity, race and veteran status. Race/ethnicity and gender categories in the ASE are the same as those used in SBO and Census data. Because ethnicity is reported separately and respondents have the option of selecting one or more racial groups when reporting business ownership, all ASE calculations use non-mutually exclusive race/ethnicity definitions.

Topics within the ASE include some business information covered in the SBO, as well as information relating to the businesses' sources of capital and financing. Keen Independent used ASE data to analyze main sources of capital used to start or acquire a firm, firms that secured business loans from a bank or financial institution, firms that avoided additional financing because they did not think the business would be approved by lender, and firms that cited access to financial capital as negatively impacting the profitability of their business. Analyses included comparisons across race/ethnicity and gender groups.

### **Home Mortgage Disclosure Act (HMDA) Data**

The study team analyzed mortgage lending in Oregon using HMDA data that the Federal Financial Institutions Examination Council (FFIEC) provides. HMDA data provide information on mortgage loan applications that financial institutions, savings banks, credit unions and some mortgage companies receive. Those data include information about the location, dollar amount and types of loans made, as well as race/ethnicity, income and credit characteristics of loan applicants. Data are available for home purchase, home improvement and refinance loans.

Depository institutions were required to report 2018 HMDA data if they had assets of more than \$45 million on the preceding December 31 (\$42 million for 2013 and \$44 million for 2017), had a home or branch office in a metropolitan area, and originated at least one home purchase or refinance loan in the reporting calendar year. Non-depository mortgage companies were required to report HMDA if they were for-profit institutions, had home purchase loan originations (including refinancing) either a.) exceeding 10 percent of all loan originations in the past year or b.) exceeding \$25 million, had a home or branch office in an MSA (or received applications for, purchase or originate five or more mortgages in an MSA), and either had more than \$10 million in assets or made at least 100 home purchase or refinance loans in the preceding calendar year.

The study team used those data to examine differences in racial and ethnic groups for loan denial rates and subprime lending rates in 2013, 2017 and 2018. Note that the HMDA data represent the entirety of home mortgage loan applications reported by participating financial institutions in each year examined. Those data are not a sample. Appendix G provides a detailed explanation of the methodology that the study team used for measuring loan denial and subprime lending rates.

## **APPENDIX J.**

### **Qualitative Information from In-depth Interviews, Surveys, Public Meetings and other Public Comments**

Appendix J presents qualitative information that Keen Independent collected as part of the disparity study. Appendix J is based on input from more than 240 businesses, trade association representatives and other interested individuals. Appendix J includes six parts:

- A. Introduction and methodology;
- B. Background on the firm and industry;
- C. Working on projects with ODA airports or other airports;
- D. Whether there is a level playing field for minority- and women-owned businesses and other small businesses in the Oregon marketplace and Oregon airport industry, and any unfair treatment of such firms;
- E. Insights regarding business assistance programs and certifications; and
- F. Any other insights and recommendations for ODA airports and other airports.

#### **A. Introduction and Methodology**

The Keen Independent study team conducted more than 40 in-depth interviews with business owners and representatives from December 2019 through June 2020 and incorporated the results of more than 200 telephone and online availability surveys having responses to open-ended questions into this Appendix. For anonymity, Keen Independent analyzed and coded comments without identifying any of the participants.<sup>1</sup>

Keen Independent also provided opportunity for public comments via mail and the designated telephone hotline (503-308-8275), as well as the study website and email address.<sup>2</sup>

Through these varied means, business owners and representatives had the opportunity to report on experiences working in construction, professional services, goods and other services; experiences working with Oregon Department of Aviation; perceptions of certification programs and other supportive services; and input on a myriad of other relevant topics.

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<sup>1</sup> In-depth interviewees are identified in Appendix J by #I-01, #I-02 and so on; organizations including chambers and trade and industry associations are coded as #TOs; and availability survey respondents are identified as #AS-01, #AS-02 and so on.

<sup>2</sup> [www.keenindependent.com/oregonairportdbestudy](http://www.keenindependent.com/oregonairportdbestudy) and [oregonairportdbestudy@keenindependent.com](mailto:oregonairportdbestudy@keenindependent.com), respectively.

## B. Background on the Firm and Industry

The Keen Independent study team asked business owners and representatives to report on their business history and industry. Topics included:

- Business history;
- Barriers to starting, sustaining and growing a business, and any barriers to industry entry;
- Geographic scope and any changes over time;
- Type of work and any changes over time;
- Business size, and any expansion and contraction over time;
- Size of contracts;
- Public or private sector or both, and preferences/experiences in each;
- Prime or subcontractor/subconsultant;
- Current economic conditions in the Oregon marketplace;
- Residual effects of the Great Recession; and
- Keys to business success.

**Business history.** The Keen Independent study team asked interviewees about their business start-up history, and any barriers they faced at business launch and beyond.

**Most business owners worked in the industry, or a related industry, before starting their firms.**

[e.g., #I-02, #I-03, #I-04, #I-08, #I-09, #I-15, #I-19, #I-20, #I-22, #I-28, #I-29, #I-30, #I-31, #I-32, #I-33, #I-34, #I-35, #I-36, #I-38] For example:

- The white female owner of a WBE/ESB/DBE professional services firm reported that she started her business “from scratch.” She stated that she was working as a consultant for a larger firm but was not able to get the types of projects or flexibility that she wanted, so she started her own firm in that field. [#I-24]
- A Hispanic American female owner of a DBE/MBE/ESB/WBE professional services firm reported that she started the business more than ten years ago and had worked in the industry prior to its launch. [#I-39]

The same business owner went on to say, “I wanted to work 30 to 35 hours and [still] be able to pick up the kids from school, and so I just decided to go solo and had no clue what I was doing. [I] had no idea that there was even help out there, but it all worked out ....” [#I-39]

- Reporting that he was undercapitalized when he started his firm, a white owner of a professional services firm commented that he had worked for a medium-sized firm in the same industry before deciding to start his own firm. [#I-25]



- A representative of a professional services firm reported that the owner began the business during the last big recession after having worked for a different firm in a similar industry and being laid off. [#I-35]
- One white owner of a contracting firm reported having participated in a specialty contracting apprenticeship before buying his construction business. [#I-17]
- The white owner of an ESB-certified construction related firm reported that he had “peripheral experience” before starting the business. [#I-37]
- “A group of three gentleman started the company from scratch, they were consultants in the area, and they decided to start it themselves,” reported a white female representative of an employee-owned professional services firm. [#I-13]
- One white owner of a professional services firm explained, “I had a mentor who was a principal at another firm ... [and told me], ‘I turn away more work than you could ever do.’” Learning from this advice this interviewee concluded, “I think it’s time. I’m going to leave my very secure government job and run out and be a business owner ....” [#I-16]
- The white male owner of a professional services firm who had secured his professional license around ten years ago reported, “I always thought about owning my own business ... I like to be the one in charge .... [going] out on the road ... trying to send money home to make sure that we got to keep everything that we had acquired before the downturn of the economy ....” [#I-14]

**Only a few business owners reported starting their firms with no previous industry experience.** For example, the white female owner of a DBE/WBE construction-related firm reported that her business partner and she left unrelated industries to become licensed in construction. She indicated experience, however, in “working the land.” [#I-07]

**Several businesses interviewed had been in business for many years.** Examples follow:

- Reporting on firm history, a white representative of an employee-owned professional services firm reported that the company had a long history in construction-related work. [#I-05]
- The representative of a majority-owned professional services firm reported that the three original owners grouped together to form the company more than 50 years ago. [#I-27]

**Barriers to starting, sustaining and growing a business, and any barriers to industry entry.**

Business owners and representatives reported on any issues regarding entry and advancement within their industries, as well as any difficulties they faced at start-up and beyond. For instance, one female president of a WBE/ESB professional services firm responded regarding entry and advancement in her industry, “Personally, throughout my career I have been promoted and paid less than males in the same position ....” [#I-22]

**A number of small business owners reported lack of basic business and business development skills as well as limited knowledge of how to best position their firms to secure work.**

For example:

- The Hispanic American female part owner of an MBE/WBE/DBE/ESB professional services firm remarked, “I was ‘making it up’ as I went along, so I didn’t know what I didn’t know, and it took a lot of time to figure out all the administrative processes and procedures to set up and as we have grown ... so for me it has been balancing the multiple hats and trying to stay on top of legal requirements especially during this pandemic.” [#I-34]

Commenting on added challenges going forward, the same business owner stated, “In the long term [it’s] probably consistent funding and finding good people.” [#I-34]

- One white co-owner of an ESB specialty services firm also indicated that it was a challenge to learn “all of the ins and outs” of running a business and going forward developing the knowledge to manage “growth” and “the sales to allow growth.” [#I-28]
- The Native American part owner of an MBE/DBE/ESB construction-related firm reported that adjusting to a changing workload is the biggest challenge for his firm, going forward. [#I-38]
- “Not knowing if I present what I do in a way that convinces anyone to work with me. Not being able to find who to talk to who hires [consultants],” remarked a white female owner of a professional services firm. [#AS-40]
- One trade association representative reported that many businesses’ lack of basic business skills and unwillingness to travel limit their ability to secure work. [#TO-01]

**Some business owners and representatives reported that small firm size is a barrier when operating the business or seeking opportunities for work.** Size may disadvantage minority- and woman-owned firms as they are disproportionately small. [e.g., #AS-52, #AS-158, #AS-194] Comments include:

- Related to opportunities, “There is a big difference in a 45-employee small business and a five-person small business,” reported a Native American female owner of a general services firm. [#AS-59]

- A Native American part owner of a construction-related firm reported, “We are small [and] doing okay, but my partner and I both have to work for the [general contractors] in this area.” [#AS-55]
- The white female part owner of a general services firm reported, “We’re a small, family-owned business in a rural area and the continual increase, high minimum wage is a killer.” [#AS-68]
- As a survey respondent, the representative of a majority-owned construction-related firm reported, “[My] personal opinion is that running a small business is difficult for anyone.” [#AS-184]

**Two business owners reported that at start-up, purchasing the business was a challenge.**

For example, a representative of a woman-owned firm reported that initial challenges included negotiating a deal (along with a myriad of conditions) with the previous owner when the business was purchased. [#I-08]

“It’s a ‘pain in the ass’ to buy a business from other small business owners,” reported a white male owner of an ESB-certified construction-related firm. [#I-37]

**Because of their limited access to capital, many business owners tapped family or relied on personal resources including savings, life insurance and retirement funds to secure the capital they needed at start-up and beyond.** [e.g., #I-09, #I-12, #I-18, #I-22, #I-23, #I-24, #I-28, #I-30, #31, #I-36, #I-37, #I-39] Comments include:

- The white female owner of a DBE/WBE construction-related firm remarked that her business partner and she used personal savings and sold their life insurance policies to build business start-up capital. [#I-07]
- One Native American part owner of an MBE/DBE/ESB construction-related firm reported that his business partner and family members helped provide start-up capital. He added, “The reason for even bringing a partner on was that he contributed financially.” The same owner reported financing issues, as persistent today. [#I-38]
- When interviewed, a Hispanic American female part owner of an MBE/WBE/DBE/ESB professional services firm reported, “We had a little bit of money in savings, so basically the first years I didn’t take any payroll and ... as invoices were paid, we would instead pay back our initial start-up loan.” This owner added that going forward “consistent financing” will be a lasting challenge. [#I-34]
- The white female owner of a WBE professional services firm reported that business start-up was a “classic bootstrap operation” because she lived off of her savings and put earned money back into the business. [#I-02]
- “I had to [manage] the flow of my own capital to build the infrastructure to do the business,” remarked a white male owner of a professional services firm. [#I-15]

- A white owner of a professional services firm stated that he borrowed against his wife’s 403(b) to secure start-up capital for the firm. He also commented that he used an old home computer and an old pickup truck, so he did not have to borrow money. [#I-14]

Another owner of a professional services firm reported that he “held another job” during business start-up to build the capital he needed to start and operate his firm. [#I-16]

- Reporting that the firm was purchased from another owner, the white male business owner of a contracting firm commented that he used “retirement accounts” as start-up capital. [#I-17]
- When interviewed, the white male representative of an employee-owned professional services firm reported that the firm was financed with shareholders’ money as start-up capital. [#I-01]
- A white female owner of a WBE professional services firm reported that she was unable to pay herself a salary for the first year. [#I-02]

**A large number of business owners and representatives reported challenges regarding financing and cash flow.** [e.g., #AS-04, #AS-07, #AS-28, #AS-67, #AS-71, #AS-77, #AS-84, #AS-111, #AS-115, #AS-116, #AS-118, #AS-134, #AS-135, #AS-143, #AS-144, #AS-146, #AS-161, #AS-175, #AS-211, #I-29, #I-30] Comments include:

- An owner of a construction-related firm commented that the “up-front costs” were a challenge for his firm. [#AS-62]

The representative of a trade association reported that one of the primary start-up challenges for the membership is access to “cash.” [#TO-01]

When asked about challenges he faced, the owner of a DBE professional services firm remarked, “It’s cash flow.” [#I-16]

- Responding to the availability survey, a white male owner of a construction-related firm remarked, “One barrier I have experienced as a start-up company was the hardship of retaining capital while obtaining necessary equipment for regular operation.” [#AS-41]
- A white female owner of a WBE/ESB/DBE professional services firm reported that it “took a little while” to get a business credit card, and commented, “[It] is interesting because I have great credit and [am] always able to get credit cards under my personal account.” [#I-24]

An owner of a Hispanic American-owned construction-related firm also reported difficulty building credit stating that he could not secure “enough credit for equipment.” [#AS-179]

- Access to capital and cash flow are the biggest challenges moving forward, reported a white male owner of an ESB-certified construction-related firm. [#I-37]

- One white female representative of a WBE/ESB professional services firm reported that she has experienced issues accessing capital. She reported, “We were excluded from [the Payroll Protection Act], and [regarding] the Small Business Administration loans, we ... have heard nothing, and we’ve applied for both .... Our credit union was not one of the banks that could give those loans ....” [#I-22]
- A white male owner of an ESB professional services firm commented, “Recently with this stimulus stuff that’s come out, we’ve been denied stimulus funding. I think it’s based on the way we’re set up, because we’re an ‘LLC with no employees,’ yet we’ve lost work and I have financial damages ....” [#I-23]
- The white female owner of a DBE/WBE construction-related firm indicated that the recession affected her business for years. She commented, “We did [have problems with access to capital] when the economy was going bad ... so what we did was we went to a smaller bank, and we worked out what we needed to work out.” [#I-07]

Only a few business owners reported to have secured bank loans or lines of credit to fund their businesses. [e.g., #I-19, #I-37]

Several interviewees reported that limited access to equipment and unfavorable pricing on supplies created barriers for their businesses. [e.g., #AS-208] Comments include:

- “Not enough credit for equipment,” commented a representative of a Hispanic American-owned construction-related firm. [#AS-179]
- “The price of supplies and fuel has been too high to keep up,” reported a representative of a majority-owned general services firm. [#AS-207]

Many business owners and representatives reported that taxes, regulations and certain laws create barriers for minority- and woman-owned businesses and other small businesses. [e.g., #AS-42, #AS-43, #AS-48, #AS-87, #AS-88, #AS-107, #AS-126, #AS-149, #AS-185, #AS-198, #AS-199, #AS-200, #AS-201]

For example, some interviewees reported challenges paying specified taxes:

- Responding to a survey, a Native American male owner of a construction-related firm commented, “Every time we turn around, we’re taxed again.” [#AS-154]
- “Carbon tax and mandatory Tier 4 engines will be putting us out of business,” remarked the representative of a Hispanic American woman-owned construction-related firm. [#AS-73]
- When surveyed, a white female part owner of a general services firm reported, “Transit and CAT tax [can be an issue]. We don’t have to pay it but some of our customers and suppliers are passing down those costs onto us.” [#AS-68]

- “Oregon state taxes are ridiculous for trucking,” remarked one white male representative of a construction-related firm. [#AS-181]
- Regarding taxes, the white male owner of a professional services firm commented, “We have almost the highest tax rate for companies in the nation, and income tax as well. It makes it really hard.” [#AS-213]

Others reported “regulations,” “laws” and licensing as barriers:

- “All of the requirements and regulations [are barriers],” reported a representative of a majority-owned construction related firm. [#AS-78]
- Regarding barriers to starting and sustaining business, the white male owner of a construction-related firm reported, “Mining safety and health administration [regulations].” [#AS-74]
- Responding to the availability survey, a representative of an Asian American woman-owned general services firm reported that “industrial requirements” are a barrier to starting and sustaining a business in the industry. [#AS-24]
- “Sometimes the laws of the State are a barrier,” reported the white male part owner of a general services firm. [#AS-105]
- When surveyed, a white male representative of a construction related firm reported, “... climate change-related requirements that affect the industry.” [#AS-185]
- The Hispanic American owner of an ESB construction firm indicated that the commercial general contractor license process has a negative impact on small contractors. He stated, “Because Oregon has gotten what I would call ‘drunk’ on the CGC process ... they are letting these big firms come in and interview, and they can make you or they can break you.” He went on to say that there are not a lot of opportunities [in the Oregon marketplace] .... [#I-29]

Another business owner indicated that relaxed safety and environmental laws and regulations have negatively impacted her firm. This white female representative of a WBE/ESB professional services firm reported, “My ... insecurity is ... many of the safety laws and environmental laws are being waived right now, and our expertise is compliance with those laws, so it’s kind of wiping out a business sector for us.” [#I-22]

**A large number of business owners and representatives reported difficulty recruiting and retaining qualified staff.** [e.g., #AS-08, #AS-10, #AS-11, #AS-12, #AS-13, #AS-14, #AS-17, #AS-18, #AS-29, #AS-30, #AS-45, #AS-46, #AS-54, #AS-58, #AS-60, #AS-61, #AS-70, #AS-79, #AS-85, #AS-86, #AS-90, #AS-94, #AS-95, #AS-96, #AS-103, #AS-104, #AS-108, #AS-112, #AS-117, #AS-123, #AS-124, #AS-132, #AS-133, #AS-136, #AS-137, #AS-138, #AS-139, #AS-142, #AS-145, #AS-148, #AS-151, #AS-152, #AS-159, #AS-164, #AS-165, #AS-166, #AS-167, #AS-169, #AS-172, #AS-174, #AS-188, #AS-189, #AS-193, #AS-215] Comments follow.

- “Lack of skilled workers is the biggest barrier, which makes it very difficult to hire people,” remarked a Hispanic American male part owner of a construction-related firm. [#AS-168]
- Regarding locating qualified staff, a representative of a trade association commented, “The further away from the metro areas that you get, the harder it is to find skilled labor, and that can be a significant problem.” [#TO-01]
- The white male owner of a professional services firm reported that “scaling up quantity of work” can be difficult due to lack of “available and qualified staff.” [#AS-49]
- The white female part owner of a general services firm reported, “Finding people who want to work and actually ‘give a crap’ about their job and job performance [is important but difficult].” [#AS-68]

Some business owners and representatives reported challenges to industry entry as well as difficulty building a customer or client base. [e.g., #AS-03, #AS-37, #AS-64, #AS-195] A number of business owners reported “getting known” in the industry and “getting clients” as major challenges, for example:

- Regarding barriers to entry into an industry, an African American male representative of a professional services firm reported difficulty “getting our first project.” [#AS-16]
 

“Starting a business in general is challenging, I had to find clients from nowhere,” commented a white male owner of a professional services firm. [#I-15]

“Getting [his] name out there and developing a track record” are challenges another owner of a professional services firm reported. [#I-25]
- When asked about challenges to starting the business, the white female representative of a WBE/ESB professional services firm reported that developing a reputation was difficult for a new business adding, “[It’s] the regular challenges of just figuring out ... how to get clients and contracts and ... what kind of services would actually be needed. All of those things were challenges.” [#I-22]
 

A white male owner of an ESB professional services firm commented, “We spent three months just marketing and picking up any project we could ....” [#I-23]
- “Learning how to get known, the time and lost [money] it takes to submit a bid that has, of yet, been accepted. How to get on a list that agencies to reach out to and interview for proposals. The whole system works with mostly people ‘who know how to work it.’ Most work is not for sole proprietors,” remarked a white female owner of a professional services firm. [#AS-32]
- Regarding barriers to starting a business, a Hispanic American female owner of a DBE/MBE/ESB/WBE professional services firm reported that getting clients was difficult initially. She reported that she utilized websites like Craigslist to find clients at start-up. [#I-39]

**Geographic scope and any changes over time.** Business owners and representatives reported where they conducted business and if they had expanded their territories over time. [e.g., #I-04, #I-08, #I-10, #I-14, #I-20, #I-23, #I-27]

Only a small number of business owners reported to limit work primarily to one city or region in the state of Oregon. [e.g., #I-06, #I-12, #I-17, #I-19, #I-37, #I-39] For example, when interviewed, the Hispanic American owner of an ESB construction firm indicated that his firm very rarely performs work outside of the Eugene area. He commented, “I like to be within an hour distance away.” [#I-29]

Many more business owners interviewed performed work in a myriad of locations across Oregon (some also conducted work out of the state or internationally). [e.g., #I-31, #I-32, #I-33, #I-36, #AS-217]

Many of these business owners reported widening their geographic reach based on the availability of work. For example, the representative of a professional services firm remarked that “diversification geographically” contributes to the company’s success. [#I-27] Other examples include:

- One Hispanic American female part owner of an MBE/WBE/DBE/ESB professional services firm commented, “With our ODOT contracting we’ve worked in almost every region [in Oregon].” [#I-34]
- Discussing geographic scope, a white female owner of a WBE/ESB/DBE professional services firm reported, “I’ve worked all over Oregon. I have experiences all the way out to the Idaho borders and down to Lakeview.” [#I-24]
- A white female owner of a WBE professional services firm reported working at airports in Oregon and Washington. [#I-02]
- Reporting on the geographic scope of work for membership, the white male representative of a trade association reported, “Every community that has an airport, our members are there to do [work].” [#IO-01]
- Regarding geographic scope, the white male representative of a professional services firm reported that the firm typically performs work in central Oregon, around Bend, Redmond, Madras and Sisters. [#I-35]
- The Native American part owner of an MBE/DBE/ESB construction-related firm reported that the firm works mostly in the Portland and Bend. The firm also performs contracts in California, Florida and Hawaii. [#I-38]
- “The majority of our work is definitely in the Portland Metro Area ... we do a little bit of work down in southern Oregon like Ashland, Klamath Falls, and then we do projects down in Eugene .... We do dabble in projects in other locations, just depending where they come up,” commented a white female representative of an employee-owned professional services firm. [#I-13]



- A white male owner of an ESB professional services firm commented, “It’s not by choice necessarily, it’s just about networking connections. We have no problems going anywhere in the states of Oregon or Washington.” [#I-23]
- When interviewed, a white female president of a WBE/ESB professional services firm commented, “We’ll go wherever we’re needed.” She added that a lot of her firm’s work is south of Portland and in Vancouver. [#I-22]
- Regarding geographic scope, a white female owner of a DBE/SBE/ESB professional services firm reported that she works nationally and internationally. [#I-18]
- A white partial owner of a WBE/SDVOB construction-related firm reported that he performs work in four states and has worked in Guam and Japan, as well. [#I-21]

**Some business owners reported barriers unique to their geographic location.** [e.g., #AS-157, #AS-192, #AS-210] Rural parts of the Oregon, for example, were reported to have fewer public contracting opportunities, according to several business owners and representatives. Comments include:

- The white female owner of a professional services firm reported, “Professional opportunities are limited, particularly in southern Oregon.” [#AS-44]

Another survey respondent, a white female owner of a general services firm reported, “... the location [is a barrier], we’re kind of remote.” [#AS-162]

- Responding to the availability survey, a representative of a majority-owned general services firm stated, “Being rural makes ... fewer opportunities ... more remote.” [#AS-121]
- A white male representative of a majority professional services firm commented, “Geographical [barriers] ... it’s quite a way from the western side of the state of Oregon to Idaho, so I think a lot of our clients relate more to Boise and western Idaho as their go-to area for services.” [#I-06]

**Type of work and any changes over time.** Many reported expanding services over time or always offering a wide range of services. [e.g., #I-02, #I-08, #I-19, #I-20, #I-22, #I-24, #I-28, #I-29, #I-30, #I-35, #I-36] For example:

- “In the local area to do work around here as a general contractor, that’s the type of work I would do,” remarked the Native American male part owner of an MBE/DBE/ESB construction-related firm. [#I-38]

The same business owner went on to say, “When it comes to the [specified worktype] which I kind of segment out a little bit in my mind, from the rest of the stuff I do ... [I primarily work as a subcontractor].” [#I-38]

- A white representative of an employee-owned professional services firm reported that his firm has typically performed the same type of work, though when market trends change, so does the work they perform. [#I-01]

- When interviewed, a white female representative of an employee-owned professional services firm reported, “When they first started, they were solely [an engineering-related] firm .... The most recent addition was the [specified worktype] .... They always did [it], but they didn’t do it to the level that we now do.” [#I-13]
- The white male representative of a majority professional services firm commented that the firm expanded into a wide range of professional services. [#I-27]
- “It’s really hard to condense it down because there’s so much of it,” remarked a white owner of a professional services firm. [#I-15]
- When interviewed, a white female owner of a DBE/WBE/ESB firm reported, “[When] we started out, we had 12-plus years of doing just the local and Oregon-based [work], and ... we branched out to the federal government about 10 years ago.” [#I-18]
- The white owner of an ESB professional services firm reported that the firm has always tried to maintain different project types. He added that the federal work dropped off when his service-disabled veteran partner left the firm because they lost that certification, though the rest of the work has remained consistent. [#I-23]
- A Hispanic American female part owner of an MBE/WBE/DBE/ESB professional services firm reported that they brought on another owner with expertise in a different area to expand services. [#I-34]
- A white representative of an employee-owned professional services firm reported origins in construction-related work but has branched out to provide a “much broader suite of services” since the company’s founding. [#I-05]

**Business size, and any expansion and contraction over time.** Businesses discussed any changes in company size, staffing or capacity over time.

**Some business owners and representatives said that their firms had expanded over time.** [e.g., #I-28, #I-34, #I-38] Some of these business owners reported controlled growth. Examples follow:

- When interviewed, a white owner of an ESB-certified construction-related firm reported that the firm has grown since he purchased the business, though the number of employees fluctuates. [#I-37]
- “We tend to grow at a rate where we can sustain our staff long term. We do bring on every summer a handful of interns ... and then more recently just because we’ve had the ability to support training kids who are in college wanting to do this work ... as we grow and hire people it’s so that we can keep them long term and we’ve had very little turnover and have needed to let people go because of market conditions,” remarked a white female representative of an employee-owned professional services firm. [#I-13]

- The white representative of a majority professional services firm reported that the firm expanded over time, even acquiring two smaller companies. [#I-27]
- When asked if the firm has expanded overtime, a part owner of a construction-related firm reported that it has, though “slowly.” He went on to describe the firm’s growth as an intentional, “controlled growth.” [#I-32]

**Other business owners and representatives said that their firm has downsized, or contracted, over time.** For example:

- The Hispanic American owner of an ESB construction firm reported that the firm downsized by 50 percent within the past year. He went on to say that the firm currently has 30 employees and that the economy affected downsizing. [#I-29]
- A white representative of a trade association reported that some businesses in the Oregon marketplace downsized or shut down completely due to the Great Recession. [#TO-01]

He explained, “We lost about a third of the construction companies in this region during the downturn, and those that survived became very efficient, they downsized themselves, they learned how to do more with fewer people, and for the most part, they have not really grown their core team very much since then, so they will scale depending on the size of a particular project, but you don’t see them [amp] up a lot of people, now and on the field side ....” [#TO-01]

**A number of business owners and representatives reported expanding and contracting their businesses in response to market conditions or seasonal fluctuations in workload.** For example:

- Regarding expansion or contraction of the firm over time, a white representative of an employee-owned professional services firm indicated that the firm started with 18 employees and peaked with 21. He added that many of the current employees are preparing for retirement soon. This business representative went on to say that over the years, especially during the Great Recession, the market conditions forced the firm to lay off staff. [#I-01]
- A white representative of a majority professional services firm reported that depending on market conditions, the firm can grow or shrink. [#I-10]

This representative added, “For the most part, we try to stay pretty stable and consistent [with employee count]. When I first started, we were in the low to mid-40s, and then the recession happened and that required some cutbacks ... and since then we’ve been slowly re-growing, one or two people a year, maybe.” [#I-10]

- “It’s more based on how the economy is going. I know it’s been kind of tough here the last month or two, but believe it or not, we’ve picked up two or three more people ... even though the economy was bad this last month,” remarked a white male representative of a professional services firm. [#I-35]
- Regarding expansion and contraction, a white male owner of a professional services firm reported, “I try to keep my guys busy, and then I don’t stock up in the summer and then deplete come wintertime.” [#I-14]

**Size of contracts.** Business owners reported on whether their firms’ contract sizes varied, stayed the same or had grown or decreased in size over time. Contract size preferences ranged from small one-day contracts to multi-million-dollar projects. Comments from the in-depth interviews include:

- A white owner of a general contracting firm reported that he prefers smaller projects since he is the firm’s only employee. [#I-20]

This owner commented, “If I have to bring in subcontractors that’s one thing, that tends to be on a larger project, but I like projects that don’t last exceptionally long ...” He continued, “In regard to the airports, it would be like a day-long project that I really enjoy ....” [#I-20]

- The Hispanic American owner of an ESB construction firm indicated that his firm performs a wide range of contract sizes. He commented, “Pride doesn’t pay the bills. Do whatever you can to stay busy.” [#I-29]
- When interviewed, a white representative of an employee-owned professional services firm reported that his firm is involved in projects ranging from \$5,000 to \$1 million. [#I-05]
- The Native American part owner of an MBE/DBE/ESB construction-related firm commented that a lot of construction projects require cash flow “just to keep the project moving forward.” He added, “I’m going for projects in the [\$500,000] range.” [#I-38]
- The white representative of a majority professional services firm reported that the types and sizes of contracts performed vary at his firm. He commented, “It’s all types of work and all sizes of projects, primarily they range from a couple thousand dollars ... to multi-million-dollar industrial or municipal facilities .... We try to keep it broad.” [#I-10]
- Regarding contracting in the airport arena, a white male representative of an employee-owned professional services firm said, “... there’s no project or amount of work that we wouldn’t chase ....” [#I-01]

- The white female president of a WBE/ESB professional services firm reported that her firm has not worked as a subcontractor formally. She added, “A lot of our contracts are state government and local government ....” [#I-22]
- The male part owner of a construction-related firm reported that the size and frequency of the firm’s contracts are seasonal. He explained that contracts are more frequent and larger in the summer than in the winter. [#I-32]

**Public or private sector or both, and preferences/experiences in each.** Business owners reported preferences for public or private sector work, or both. [e.g., #I-08, #I-12, #I-29, #I-30, #I-31, #I-32, #I-33, #I-35, #I-36, #I-37]

**Some business owners and representatives reported conducting work in both sectors.**  
For example:

- A white female owner of a DBE/WBE/ESB professional services firm reported that her firm works in both the public and private sectors and that she typically performs as a prime. [#I-18]
- Though reporting a preference for public sector work, a white male representative of an employee-owned professional services firm commented that they perform in both sectors. [#I-01]
- When interviewed, the white owner of a professional services firm reported that his firm works on both private and public sector projects. He added, “... we have done some work for the City of Medford, we’ve had some government contracts with Bonneville Power ... BLM and the Forest Service ... but primarily we work for private engineering companies, supporting them ....” [#I-14]
- The Hispanic American owner of an ESB construction firm reported that his firm works in both the public and private sector. He indicated that MBE/WMBE thresholds on projects are sometimes difficult to adhere to, making some public sector work more difficult. [#I-29]

**Other business owners and representatives reported performing mostly in the public sector.**  
[e.g., #I-02, #I-03, #I-04, #I-05, #I-06, #I-19, #I-23, #I-27, #I-28, #I-30, #I-34, #I-39, #TO-01]  
Comments include:

- Responding to the availability survey, a representative of a majority-owned professional services firm reported, “[It is] hard to do private sector work.” [#AS-89]
- The white representative of a WBE construction-related firm reported that the firm works with city municipalities, state agencies, ports (including Port of Portland) and federal highway. He added, “Port of Portland is one of our bigger clients.” [#I-08]

- Regarding types of public sector entities, the firm performs for, a white female representative of an employee-owned professional services firm commented, “We work for ODOT, Washington DOT, cities, counties, Port of Portland ....” She added, “Oregon Department of Aviation.” [#I-13]
- A white owner of a professional services firm reported that he has performed work at the city level and that he typically works as a subconsultant to a prime. He added that his firm has not found any opportunity at the state level.” [#I-16]
- Reporting typically performing as a subcontractor in the public sector, the white male owner of a professional services firm reported, “Occasionally we work for the Bonneville Power Administration, we worked on a couple of the dams ... Redmond Airport ....” [#I-17]
- “We’ve done work up in Washington, we’ve done work on Coast Guard stations and military bases,” remarked a white female representative of a WBE/ESB-certified construction-related firm. [#I-36]

Some business representatives reported that they most often perform in the private sector. Some of these business owners reported interest in public sector or the participating airports if an opportunity arose. [e.g., #I-07, #I-30 #I-31, #I-32]

**Prime or subcontractor/subconsultant.** The study team asked business owners and representatives whether they worked as a subcontractor/subconsultant, as a prime, or as both. Some indicated working as a prime/sub equally. [e.g., #I-29]

**Some business owners and representatives reported that they work most often as prime contractors.** [e.g., #I-01, #I-03, #I-15, #I-20, #I-21, #I-27, #I-31, #I-33] For example, a white male representative of a woman-owned professional services firm reported, “We try to focus on prime work.” A white female owner of a DBE/WBE construction-related firm commented that on large, specialized jobs her business performs as a prime. [#I-08, #I-07]

**Other business owners and representatives reported that they most often perform as subcontractors/subconsultants.** [e.g., #I-02, #I-24, #I-32, #I-39] Comments include:

- The white representative of a majority professional services firm reported that his firm works almost exclusively as a subconsultant, and only “on rare occasions ... has a private [sector] project.” [#I-10]
- The male part owner of a construction-related firm reported that they perform, mostly as a subcontractor, on everything from DOT, city, county, state, federal highway and “various other structures.” [#I-32]
- The white owner of an ESB-certified construction-related firm reported that he works as a sub, “often as a third-tier sub.” [#I-37]

Interviewees reported on contractor-subcontractor relationships. For example:

- The male part owner of a construction-related business reported that his firm has not experienced any difficulty when working with prime contractors. [#I-32]
- One representative of a professional services firm reported “communication issues” when working with primes. [#I-10]

Another business owner and ESB contractor reported “absolutely” having difficulty with primes. [#I-37]

- A representative of a trade association reported, “Usually it is their own company’s need for developing a project pipeline ... sometimes it’s experience and history dealing with a particular owner and a lot of it is capacity ... right now a lot of companies are so busy that they have actually been turning work away and so the more difficult an owner is to work with the more likely they are to say, ‘I’m kind of busy right now, I don’t want to do that.’” [#TO-01]

Many interviewees discussed their firm’s efforts to hire subcontractors/subconsultants. One interviewee reported recruiting subs based solely on qualifications and experience. [#I-06]

Only a few business owners and representatives reported seeking out or trying new subcontractors they had not worked with previously, for example:

- The white owner of an ESB consulting firm stated that finding subs was difficult. He reported having to hire independent field workers but did not know where to start, and commented, “Networking is important. You need subconsultants and the like.” [#I-31]
- “We have a number of DBEs that we try to use ... we tend to actually, given our [specialty] ... end up with more state-certified firms, so ESBs and SDBEs .... There’s not a whole lot of DBEs out there ... [but] there’s some women-owned firms out there that we use,” reported a white male representative of a white woman-owned professional services firm. [#I-03]
- When interviewed, a white owner of an ESB-certified construction-related firm reported that he does hire subcontractors and does so based on who is available. He added that he tends to hire subs for jobs that require odd hours [#I-37]

Most others engaged subcontractors/subconsultants that had long-standing relationships with them:

- The white co-owner of an ESB specialty services firm reported that the firm works with subcontractors they know locally. Some, he added, hired his firm as a subcontractor in the past. [#I-28]

The same co-owner indicated that the firm has long-standing relationships with the contractors it partners with regularly. [#I-28]

- The white representative of a majority professional services firm reported that although the company uses qualifications-based hiring for subcontractors, “We [also] look at their ... past experience with [us].” [#I-27]
- One white representative of a professional services firm remarked, “Generally, there isn’t a selection process that’s required, it’s usually people that we’re familiar with and that we team with on previous projects.” [#I-35]
- The white owner of an ESB-certified construction-related firm reported stated, “We did happen to use a woman-owned company, so maybe that just happened ... because we have a good working relationship with that person.” [#I-37]
- A white male owner of a professional services firm reported that his firm has existing sub relationships and was not seeking out any DBE subcontractors. [#I-17]

A number of interviewees reported that having established relationships with primes advantaged their firms over others when seeking work:

- A Hispanic American female owner of a DBE/MBE/ESB/WBE professional services firm reported, “They’re usually the ones asking me, so they already want me on their team.” [#I-39]
- When asked about working with prime contractors, the white male owner of a contracting firm reported, “[There’s] a lot of reputation in this business because it’s been around for quite a while, and the transition went well so I think we have a ‘good standing.’” [#I-17]

Only a few interviewees reported rarely or never having engaged subcontractors or subconsultants on any projects. For instance:

- The white female representative of an employee-owned professional services firm reported that her firm has not engage subcontractors/subconsultants and that location, travel distances, FAA goals and relationships are all reasons that she has not. [#I-13]
- A white female representative of a WBE/ESB-certified construction-related firm commented that she “very rarely” hires subcontractors. [#I-36]

Some business owners and representatives discussed whether their firm makes special efforts to include certified firms and other diverse or small businesses in public contracts. A few discussed whether there are challenges or barriers when hiring and/or working with small, minority- or women-owned businesses. For example:

- “I have [hired a subcontractor] twice. On one project I was asked to,” commented a Hispanic American female part owner of an MBE/WBE/DBE/ESB professional services firm. [#I-34]



- A representative of a woman-owned professional services firm reported, “We do [make efforts to include certified firms and other small businesses in public contracts], but ultimately it comes down to the low bid.” [#I-08]
- The white representative of a majority professional services firm said that hiring DBE-certified firms is “always something [they’re] looking for.” [#I-27]

This same representative added, “If they have the qualifications, we’re always open to it.” He noted that while most of the firm’s public contracts are “neutral,” the firm establishes DBE goals on their own. [#I-27]

- A white male owner of a professional services firm commented, “If [engaging DBE firms] were an option. I haven’t found any in the area, I wouldn’t be opposed to doing so I just haven’t come across any in the area.” [#I-15]
- When interviewed, the Hispanic American owner of an ESB construction firm reported that he hires DBE-certified firms in public contracts “when it’s possible.” When asked if there are any challenges or barriers associated with doing this, he reported, “Most of them don’t know the means and methods of getting qualified.” [#I-29]
- While discussing special efforts to hire diverse or certified firms, the white representative of a professional services firm reported that he has not had the chance to hire certified firms at his current business, but he did at his previous job. [#I-35]
- The Native American part owner of an MBE/DBE/ESB construction-related firm indicated that prime contractors should be better incentivized and encouraged to include DBEs.

He reported, “Making the DBE connection [is difficult] .... I ran the DBE Program and ... the whole small business program for my [previous employer], and I had all the reporting in place .... It’s hard, it’s a lot of work to do so and manage those programs .... The big contractor, their focus is on the profits, and they’ve got to make sure they meet these requirements along the way.” [#I-38]

The same business owner went on to say, “If it was administrated a little more efficiently, and differently, I would find it to be less burdensome for the contractors, and I think they would benefit more from it .... That’s been a challenge ... really selling the whole DBE model of the benefits to the contractor ....” [#I-38]

- Regarding efforts to include certified firms in contracts, a white representative of a majority professional services firm remarked that they attempt to hire DBE/ESBs/SDBEs as subconsultants. [#I-03]

- A white owner of an ESB professional services firm indicated that he makes efforts to include DBE firms when working as a prime. [#I-23]
- The white male representative of a majority professional services firm remarked, “The participation seems to be going down year after year ....” [#I-27]

Some business owners and representatives discussed how subcontractors find out about work opportunities in public and private sector arenas. Interviewees reported to primarily rely on bid notification services (such as ORPIN and local business exchanges), as well as other networking, for example:

- When interviewed, the male part owner of a construction-related firm reported that subcontractors find out about public and private sector opportunities through “[bidding services] advertisements,” email and self-conducted research. [#I-32]
- “They search ... ORPIN ...” commented a white male owner of an ESB professional services firm. [#I-23]
- The Hispanic American male owner of an ESB construction firm said that subcontractors find out about public and private sector work via “[their] local business exchange.” [#I-29]
- When discussing how subcontractors find out about public and private sector work, a white female representative of a WBE/ESB-certified construction-related firm commented, “We do get a Dodge report.” [#I-36]
- A white owner of an ESB-certified construction-related firm remarked that he uses ORPIN and works as a second-tier sub most of the time. [#I-37]
- “Our way of finding the projects is being through the plan centers ... I would say second ... is relationships ...” remarked a white male owner of a contracting firm. [#I-17]
- “I get asked by the prime if I want to be a part of their team,” remarked the Hispanic American female owner of a DBE/MBE/ESB/WBE professional services firm. [#I-39]
- The white male owner of an ESB consulting firm remarked that, with things being “difficult” due to COVID-19, networking is more important now than ever before. [#I-31]

**Current economic conditions in the Oregon marketplace.** Interviewees reported on conditions in the marketplace. For example, when asked about the economic conditions in the Oregon marketplace, a white owner of an ESB professional services firm remarked that the market has been “hit or miss .... We’ll have a really good year followed by another one, or we’ll have a good two, three years in a row, and then it gets really rough financially ... then it picks itself back up.” [#I-23]

When interviewed, the Hispanic American male owner of an ESB construction firm indicated that there is currently not a lot of work to be done for the ODA airports or other airports participating in the disparity study. [#I-29]

**Many business owners offered perspectives on the current marketplace in relation to the COVID-19 pandemic.** Responses were broad. Some were positive while others expressed uncertainty in the economy. [e.g., #AS-06, #AS-51, #AS-81, #AS-82, #AS-109, #AS-129, #AS-130, #AS-153, #AS-163, #AS-182, #AS-203, #AS-206, #AS-219, #I-01, #I-07]

One interviewee indicated an “increase in business” despite the pandemic. Another business owner of a professional services firm commented that the economy “feels fine” to her. [#I-16, #I-24] Some other businesses reported stable or growing work during the pandemic, or a backlog of work to pull them through 2020. [e.g., #I-02, #I-16, #I-30] Similar comments include:

- “Times are good,” according to a white male service-disabled part owner of a WBE construction-related firm. [#I-21]
- The white owner of a construction-related firm reported, “I don’t see anybody struggling .... This is an interesting time as you know with our current global health issues, but if you ask me about the restaurant industry, I’ll tell you one thing, if it’s about the [specialty contracting] industry I’d tell you something completely different ....” He added that the COVID-19 pandemic has not affected his business. [#I-20]
- A white male owner of a professional services firm reported, “We are extremely busy, at least we were before the COVID-19 thing happened, most of our local companies down here were three or four months out from being able to help people, other companies were a year out from being able to help people, so I’d say Oregon is currently doing really well ....” [#I-14]
- The white representative of a majority professional services firm said, “Since the pandemic, the aviation world has actually increased projects ....” He added that the federal stimulus money had additional funding in it for airports, specifically. [#I-27]
- A white female president of a WBE/ESB professional services firm reported, “I think that [the economy has] been pretty good up until [COVID-19] and then for our particular specialty, we’re essential, as assisting employers ... we’re assisting employers getting their [COVID-19] responses together, so our company has been in pretty good shape right now, but predicting for the future, I really don’t know.” [#I-22]

- Expressing optimism in the current economy, a white female owner of a DBE/WBE/ESB professional services firm reported, “For our business ... it’s been wonderful because I have all of our people working ... some of our vendors have retooled to make things specifically for the [COVID-19] crisis here, and so we’re quoting like mad.” [#I-18]
- A white female representative of an employee-owned professional services firm reported, “If you had asked me this question prior to COVID-19, I think I’d answer slightly different, but overall, I think ... pretty good ... we’ve had our best years the past two years, and it’s hard to say if this will be equally as good of a year with the COVID-19 stuff, but it’s looking like it potentially could be another really strong year so we have a good backlog of work more so than we did ten years ago.” [#I-13]
- Commenting that COVID-19 has not affected his business, a white male representative of a DBE construction firm reported, “Right now, in general, there is so much work out there right now, it’s amazing, just about everybody I know is booked. But it was the same as it is every year.” [#I-19]
- The white owner of an ESB-certified construction-related firm reported that the COVID-19 pandemic has positively impacted his firm because he has gotten more business. He reported that there was uncertainty initially, but some of their competitors who are larger and located in Washington shut down, which allowed them to obtain more work in the Portland area. [#I-37]
- The Native American part owner of an MBE/DBE/ESB construction-related firm stated that the economy “is doing well” and that people want to go back to work. [#I-38]

For others, COVID-19 had an immediate negative effect on their businesses including employee layoffs or delayed and canceled contracts. For instance, since the start of the pandemic one business owner reported laying off the firm’s only employee. [#I-15] Other comments follow:

- When asked about current economic conditions in the local marketplace, the white owner of an ESB consulting firm reported that work has slowed. [#I-31]
- The white owner of an ESB professional services firm reported that “landing new clients” is especially difficult. He added, due to the COVID-19 pandemic, that “landing new clients, and getting [his] old clients to ... get through [it]” is difficult. [#I-23]
- Regarding current marketplace conditions in Oregon, a Hispanic American male representative of a minority business development association reported, “[Businesses] directly involved with construction, those are doing well, and some services and consultants they are not ... the ones that are really struggling they are the ones in the food industry.” [#TO-02]

- When asked whether the COVID-19 pandemic affected his business, the Hispanic American owner of an ESB construction firm reported that some of their public sector projects were cancelled, including three airport-related projects. He indicated that the firm’s 50 percent downsizing since last year was due to the pandemic. [#I-29]
- A white female president of a WBE/ESB professional services firm reported that due to the COVID-19 pandemic, her firm has lost a lot of work. She indicated work cancelled and training contracts delayed. [#I-22]

The white service-disabled partial owner of a WBE construction-related firm commented that the pandemic has affected his business due to “RFQs being stopped.” [#I-21]

When interviewed, a white owner of a HUB-zone-registered professional services firm indicated that the firm is ... not as busy as they used to be. He added that the COVID-19 pandemic has indirectly affected some projects as some municipality and public works projects have been put on hold due to lack of funding, as the lottery is the source for many. [#I-33]

“It’s been really busy up until COVID,” commented a white female representative of a WBE/ESB-certified construction-related firm. She added, “We had some early layoffs ... I lost half of my contract for one project ....” [#I-36]

- Pre-COVID-19, a white business owner reported that the health of the economy was good. He added that COVID-19 has affected economic conditions for his firm. He commented, “I’m not going to jump up on a soapbox and complain because I know there’re people in a lot worse situation than I am, but ‘yes, I would say the most dramatic effect is the logistics and supply chain’ ... Washington’s non-essential builds in construction have been affected ....” [#I-17]

The same interviewee reiterated that the supply chain is the largest thing that his firm is dealing with regarding COVID-19. [#I-17]

- The Hispanic American female part owner of an MBE/WBE/DBE/ESB professional services firm reported, “Our company is doing fine at the moment. I know of some other firms that are not necessarily doing fine, so I think it varies widely in the current pandemic marketplace.” [#I-34]

The same business owner also reported, “With the private development side completely shut down ... those are the ones that are frequently hit .... Our firm does a lot more state [and] federal contracts, we are observing that the city and county levels are starting to halt contracts or terminate negotiations because of funding projections, so projects that they had funded are all of a sudden being put on indefinite hold .... I see the future possibly being [bleaker] than the existing.” [#I-34]

- The co-owner of an ESB specialty services firm reported that, “It had been really good, [then] the whole COVID-19 thing kind of took a hit, I’m seeing things start to come back, the phones ringing a little bit more now. There was a month or six weeks in there where it was kind of hit or miss, whether we could get on to job sites or not, but I’m hopeful that everything is going to kind of bounce back and everybody is going to get back to work and hopefully not holding on to money too tightly that people are still going to be wanting to do projects.” [#I-28]

This interviewee reported that during the first six weeks of the pandemic, the firm “couldn’t get onto job sites.” He explained, “Everybody was afraid of what was going on.” He said that the firm relied on mostly private sector service calls during that time and that his employees ended up filing for unemployment. [#I-28]

- The part owner of a construction-related firm reported that the firm “[had] a lot of people working in March,” though since then most private sector work “has been put on hold, or put on the books for next year.” He went on to say, “These businesses may not reopen, or have no idea when they will open.” He commented that the firm “dropped from 50 percent capacity [to] 25 percent capacity,” and reported, “We had to lay people off. Easily 20 field people.” [#I-32]

This owner continued that “waiting to find out what is going to happen with everyone’s jobs” has halted business for the next couple of months. [#I-32]

As an outcome of the pandemic, a number of business owners and representatives reported to be uncertain about the future of their businesses, industries and the Oregon marketplace. These include:

- Although doing well now, the white female president of a WBE/ESB professional services firm said, “Predicting for the future, I really don’t know.” [#I-22]

This business owner added, “Right now we’re all nervous as to who is going to be hiring [consultants] ... when things are going bad ... going forward ... the sheer insecurity of who is going to have money available to be hiring consultants.” [#I-22]

- When interviewed, a white representative of a WBE construction-related firm indicated that the economy has been good this year, but that his firm is “bracing for a fall.” [#I-08]
- Reporting that the economy is doing well, a Hispanic American female owner of a DBE/MBE/ESB/WBE professional services firm commented that the COVID-19 pandemic has affected her business slightly, and that some of her primes are afraid they will not stay funded. [#I-39]
- Regarding the COVID-19 pandemic, a white male representative of a majority professional services firm reported, “Just in the last month, quite a difference. It’s a challenge with our logistics .... People are working on projects that they’re already into, but as far as what’s going to pop up in the future, we’re all concerned.” [#I-12]

- A white representative of a majority professional services firm reported that current market conditions seem to be on “hold” because of COVID-19. He commented, “... in general the markets seemed pretty decent until the virus ... now it’s up in the air.” [#I-10]
- A white owner of an ESB professional services firm reported that the pandemic has affected business with a drop-off of commercial work. He commented that “when things get uncertain, [commercial clients in particular] stop spending money” as evidenced by some of his contracts being canceled. [#I-23]

**Residual effects of the Great Recession.** Some respondents commented that the Great Recession of 2008 through 2009 continues to impact business success. Comments include:

- The white male representative of an employee-owned professional services firm reported, “We started shortly after the slowdown took hold, so that definitely forced us to control spending initially and do some temporary layoffs.” [#I-01]
- Regarding fears about business success, a white male representative of a majority professional services firm commented, “The only time we’ve actually really had any difficulty was during the Great Recession back in ... 2008, ‘09 ... like a lot of consulting firms in the area we struggled during that time.” [#I-06]

When asked how his firm overcame those challenges, the same business representative further commented, “... we all took pay cuts and we did have to lay some folks off who were not in the public sector work and had to reduce work hours ... did some belt tightening, I guess you’d say.” [#I-06]

- The Hispanic American owner of an ESB construction firm indicated that the Great Recession had negative impacts on his small firm, while general contractors could take advantage of large-contract stimulus spending his firm could not. [#I-29]
- A white female owner of a DBE/WBE construction-related firm indicated that the Great Recession affected her business for years. She commented, “It took a good four to five years for everything to feel like we had the machine going, and then the economy went south not long after getting it going, so then that was challenging in that our niche was public contract work .... When the economy went south, a lot of private [sector specialty] companies [tried to get into] public contract work.” [#I-07]

She commented, “We [had problems with access to capital] when the economy was going bad ... so what we did was we went to a smaller bank, and we worked out what we needed to work out.” [#I-07]

- A white representative of a majority professional services firm reported, “There’s definitely been times when things were tight in the Great Recession, it definitely made things difficult, and we were wondering a little bit about how the company might succeed or continue on, just because of outside economic impact.” [#I-10]

- When asked whether the Great Recession continues to impact his firm’s success, a white male representative of a WBE construction-related firm reported, “I think when the economy down-trended, especially this last one we experienced, and all the people that you normally see in different markets, like the subdivision market, when that work all dried up they flooded into the civil market, where we exist, and that went on for a year or two, then people just started getting crazy, bidding work with no equipment [or] revenue in the bids, and that made it hard to get a job.” [#I-08]
- Regarding past recessions, a white male owner of a professional services firm reported, “Struggling through the recessions is the only thing that slowed me down from expanding.” [#AS-106]

**Keys to business success.** The study team asked about factors that advantage some firms over others or influence business success.

**Some interviewees discussed what gives one firm in the industry an advantage over another.** Business owners and representatives indicated that business size and longevity advantaged one firm over another.

For example, some business owners and representatives reported that larger firms have an advantage over smaller firms for varying reasons:

- An African American female owner of a general services firm commented that opportunities are not typically awarded to small emerging firms “like ours.” [#AS-26]
- The white male representative of an employee-owned professional services firm reported that a larger firm may have an advantage over smaller firms due to “network size.” [#I-05]
- A white owner of a HUB-zone-registered professional services firm commented that bigger firms have the advantage when seeking work with public sector agencies. [#I-33]

This owner stated that, to prepare proposal, larger firms have the marketing resources and manpower that smaller firms lack. He added, “It is difficult to compete against them.” [#I-33]

- “I think size because the large firms are able to tailor to whatever the proposal is looking for,” commented a Hispanic American female part owner of an MBE/WBE/DBE/ESB professional services firm. [#I-34]



Some interviewees indicated that newer or lesser-known businesses are at a disadvantage when compared with firms having business longevity, strong name recognition, staffing capacity and years of project experience, for example:

- When asked what gives one firm the in the industry an advantage over others, the white male co-owner of an ESB specialty services firm remarked, “Probably name recognition [and] being around longer. There [are] some that just pop into people’s minds, and they get a lot of the bigger contracts.” [#I-28]
- In reference to business advantages, a white male owner of a general contracting firm indicated that experience and a “following” give one firm in the industry an advantage over another. [#I-20]
- The white male representative of a majority professional services firm reported that name recognition and reputation give one firm in an advantage over another. [#I-10]
- When interviewed, a white male representative of a professional services firm reported that experience on a particular kind of project and having adequate staff are factors to the firm’s success. [#I-35]
- A white male owner of a contracting firm reported that access to the labor pool gives one firm in the industry an advantage over another. [#I-17]

**Interviewees reported a myriad of factors that influenced business success.** Business readiness, skill level and commitment to clients were common themes reported across owners.

Business readiness, financial know-how and careful spending, as well as competitive pricing were reported as keys to business success, for some:

- A white male owner of a professional services firm reported, “I think we’re financially smart and our investment back into the company and making sure we’re not leveraging ourselves too far ....” [#I-09]
- A white female representative of a WBE/ESB-certified construction-related firm reported managing cash flow is a key to success for her firm. [#I-36]

This representative commented, “I think we are pretty careful with what we do, we continue to put money into our business, we’re trying to build our assets ... we’ve got a good line of credit.” [#I-36]

“I hate to say it but usually price ... certainly you want to do a quality job,” remarked a white female representative of a WBE/ESB-certified construction-related firm. [#I-36]

- The Hispanic American male owner of an ESB construction firm said, “Meeting and exceeding a customer’s expectations ... price, and meeting a schedule.” [#I-29]

Some business owners stressed integrity, excellence, customer service, responsiveness and delivering on a contract as priorities. [e.g., #I-02, #I-05, #I-28, #I-29, #I-34] For example:

- A white owner of a professional services firm reported that “honesty” is key to his firm’s success. He added, “I don’t try to hide or sugarcoat anything ....” [#I-14]
- Commenting on keys to success, a white male representative of a majority professional services firm said, “One of the things that we hear a lot from our clients is that we provide a pretty high level of personalized service and responsiveness ... we typically see our clients’ projects through from start to finish ....” [#I-06]
- A white male owner of a professional services firm reported, “I think it is the attitude and outlook we have in working on projects, we’re very team-oriented ... our number one goal with airports is to be in and out as quickly as possible and to minimize inconvenience and to make sure that the airports and the engineer are happy with the outcome ....” [#I-09]
- A white representative of a professional services firm reported that the owner of the firm is very driven, responsive to clients’ needs, and tries not to gouge anybody. He added that the firm keeps fees low and that extra hours are put into projects as well. [#I-35]
- The white male representative of a majority professional services firm reported, “Our general dedication to wanting to provide good services, product ... to our clients whomever they are.” [#I-10]
- A Hispanic American female owner of a DBE/MBE/ESB/WBE professional services firm reported that producing a final project is important for business success. [#I-39]
- “Solid products and consistent service” was one of many factors that was reported as a key to success by a white male owner of a professional services firm. [#I-15]

Others reported expertise and excellence combined with “grit” as keys to business success:

- A white female president of a WBE/ESB professional services firm reported that reputation, personal contacts and technical ability are key factors that contribute to a firm’s success. She added that once a client works with her firm, they tend to be a repeat client. [#I-22]
- Regarding keys to business success, a white male owner of a general contracting firm reported, “Being [good] at what I do keeps customers coming back, gets them to spread the word, and I get additional customers that way ....” [#I-20]
- The white service-disabled partial owner of a WBE construction-related firm reported that prayer and grit have helped his firm. He commented, “We put a lot of value in being excellent, and under budget and on time, and hardly any change orders and no call backs. We strive for excellence, as corny as that sounds ....” [#I-21]

- When discussing expertise, a white male owner of an ESB professional services firm reported that a diverse portfolio of expertise and project types gives one firm in the industry an advantage over another. [#I-23]
- When asked about keys to business success, a Native American part owner of an MBE/DBE/ESB construction-related firm said, “Just dedication and drive and experience .... Never give up mentality, [even when] there’s days when you think, ‘What am I doing?’ I stick to [it].” He added, “I have a very strong support structure in my family ....” [#I-38]

Building and supporting a good team of employees contributes to success. [e.g., #I-01, #I-32, #I-37, #I-38] Other examples follow:

- Qualified staff are key to success for a white female representative of an employee-owned professional services firm. She reported, “Four and a half years ago, when we brought in [new staff], they were able to expand the market sectors ... really helped with just our growth and success.” [#I-13]
- Regarding the importance of quality employees, a white male owner of a construction-related firm reported, “I’ve always seen this glass ceiling in that I’m very reluctant to have employees .... I like to be on every job, and to find help is a challenge. I need to have people that I completely trust.” [#I-20]

When asked if this challenge is typical in his industry, the same business owner reported, “It’s hard to say. I see others [in my industry] who don’t have a problem staffing, [so] maybe it’s my personality. I’m very picky [and] I want a good cohesive relationship, so I want somebody, again, that I completely trust ....” [#I-20]

- The white female owner of a DBE/WBE construction-related firm reported that finding quality employees is key to success. She commented, “Right now, the challenge has been, for a couple years ... just good employees ... we’re all facing that challenge right now.” [#I-07]
- The white male representative of a majority professional services firm reported, “I think what makes us successful is we try to support our staff.” [#I-10]
- When commenting on business success, a white representative of an employee-owned professional services firm reported that his firm’s success can be attributed to putting “people first.” [#I-05]

This interviewee commented, “Our company does a good job of taking care of people, and it sounds really general, but treating people as individuals and knowing they want to be successful in their careers and supporting everyone in doing that.” He added that there are no “barriers or glass ceilings” in the company. [#I-05]

Networking and relationship-building in the marketplace was reported as important for a number of business owners. [e.g., #I-04, #I-23, #I-27, #I-28, #I-30, #I-37] Examples are:

- When surveyed, a representative of an African American male-owned professional services firm reported “access to decision makers” as important to business success. [#AS-02]
- “Being connected with the community” was reported as one key to success by a white male owner of a professional services firm. [#I-15]
- Having purchased this firm from another owner, the white owner of a contracting firm reported that the previous owner’s relationship with the community served him well. He commented, “... we’re trying ... to develop our talents ... so that diversification is going to make us stronger ....” [#I-17]
- A white male representative of a majority professional services firm commented, “Knowing your market, having relationships in your market with your customers, and maintaining those, knowing procedures and understanding the flow of business, how things get done ....” [#I-12]
- Relationships are a key to success for a white owner of a professional services firm. He commented, “I think relationships in this business are probably going to be ... number one ... number two is opportunities ....” [#I-16]
- A white female president of a WBE/ESB professional services firm reported, “We’ve managed to be pretty successful by word-of-mouth [networking].” [#I-22]
- The white female owner of a WBE/ESB/DBE professional services firm reported that business development and maintaining personal connections has been important for business success. She commented, “I think it all just comes down to personal connections and who you know.” She added that she worried that the pandemic has reduced opportunities for in-person networking. [#I-24]
- When interviewed, the white owner of an ESB consulting firm said that securing repeat customers is key. He added, “Because I am willing to meet others’ timelines and my prices are fair, [I’m successful].” He went on to say that networking is to credit for most of the firm’s success. [#I-31]

Some firms reported that seeking outside help, when needed, from accountants, attorneys or other experts contributed to their business success. [e.g., #I-33, #I-35, #I-36] Comments include:

- The Native American part owner of an MBE/DBE/ESB construction-related firm reported that he has used both attorneys and accountants. [#I-38]

- Regarding seeking expert advice, a white representative of a DBE construction firm reported that his firm recently engaged outside experts for tax assistance and other accounting issues. He also reported to know attorneys if he needs them adding that finding experts is not a challenge. [#I-19]

A Hispanic American female owner of a DBE/MBE/ESB/WBE professional services firm indicated that her firm uses the services of a tax professional. [#I-39]

- Several business owners reported that seeking legal assistance when needed can be critical. An owner of a general contracting firm reported that his attorney and accountant have been helpful to his firm. [#I-20]

Reported by the owner of an ESB professional services firm, more specifically, a corporate attorney has been helpful. [#I-23]

Others reported not seeking outside expert advice. [e.g., #I-21, #I-22, #I-27, #I-28] One owner of an ESB-certified construction-related firm, for example, explained that affordability is a barrier to seeking the help of outside experts. [#I-37]

**A number of business owners and representatives discussed if there were times that success was doubtful.** These interviewees reported on particularly challenging times, some pinpointing specific years or a history of roadblocks affecting success.

For example, many business owners reported uncertainty, fear of failure or identified key periods in their business history when success was not a given. One business owner of a professional services firm, for example, reported that “there’s always doubt.” [#I-23] Other examples follow:

- A white female president of a WBE/ESB professional services firm reported, “I always think it’s not going to be successful.” [#I-22]
- The Hispanic American female owner of a DBE/MBE/ESB/WBE professional services firm reported that there have been periods of several weeks when she has been afraid that her business cannot sustain a level of successful. [#I-39]
- A Hispanic American owner of an ESB construction firm reported that he had doubts about the firm’s success in 2012, 2013 and 2014, “when no one was paying [contractors] any money.” [#I-29]

- The Native American part owner of an MBE/DBE/ESB construction-related firm reported that there are occasions where he doubts about the firm’s continued success. [#I-38]

He went on to say that even day-to-day challenges make business success difficult to sustain over time. [#I-38]

- Several professional services firms reported on hard times. One owner of a professional services firm reported that the first few years were difficult for the business. He reported, “I did a lot of work myself, I just put my head down and just kept working, trying to make new contacts with other industries .... I would go door to door with business cards and talk to people.” [#I-14]

Regarding the fear of business failure, another owner of a professional services firm indicated that there have been many times when it was not clear that his business would be successful. He reported, “I was in the ‘red’ for seven months ... and I had built up enough to where I could buffer it, but I clearly was in a time where I had to push harder for growth.” [#I-16]

One other professional services company representative reported that the firm “had a couple dark periods” when it was being overleveraged “for real estate purposes” and was forced to restructure. He added that it was “pretty dark” during the Great Recession, as well. [#I-27]

- A white owner of a HUB-zone-registered professional services firm remarked that business was difficult a few years ago. He added that he had multiple branches across the state in the early 1990s to late 2000s, but currently has downsized to a single location. [#I-33]

The same business owner commented that “keeping enough work in the hopper” is a challenge. He added that there have been ups and downs, but remarked, “I’ve never missed a payroll ... even if I had to borrow money, I never missed a payroll.” [#I-33]

Some reported greater confidence in their firm’s capability to achieve success. [e.g., #I-01, #I-02, #I-24, #I-30, #I-31] For example, a representative of a DBE-certified construction firm reported, “No, I mean it’s always ‘scary starting up’ ... we were confident we were going to make it and we are doing better than most.” [#I-19]

A Hispanic American female part owner of an MBE/WBE/DBE/ESB professional services firm stated, “No, I figured I could make it work at least for me, I’m glad that I’ve been able to grow the business so that it works for more than just me personally.” [#I-34]

### C. Working on Projects with ODA Airports or other Airports

Business owners and representatives were asked about their experiences working with the participating airports. Topics included:

- Expanding into airport-related work;
- Performing work for ODA airports and other airports, and any associated challenges;
- Deciding to pursue opportunities with participating airports;
- Any challenges learning about opportunities with ODA airports and other airports;
- Any difficulties winning prime contracts with the participating airports;
- Any challenges when pursuing or performing work with ODA airports or other airports;
- Any barriers that specifically disadvantage minority- and women-owned businesses, and other small businesses when seeking or participating in contracts with any of the participating airports; and
- Suggestions for ODA airports and other airports to improve procurement practices.

**Expanding into airport-related work.** Business representatives commented on challenges they faced finding opportunities with Oregon airports. For example, when asked if membership faced challenges expanding their services into airport-related work, the representative of a trade association remarked, “The biggest challenge for changing from one type of work to another [is that] there is not a lot on the airport side, so there is a lot of competition.” [#TO-01]

The same business representative added, “We passed a transportation funding package in the Oregon legislature ... and those projects really have not started rolling out yet, and here it is 2020 and we’re still waiting for those projects to get teed up and sent out the door for bid. And so, when a project comes up you usually will see five, six, seven, eight, nine, ten companies going after it.” [#TO-01]

**Performing work for ODA airports of other airports, and any associated challenges.** The study team asked interviewees about their experiences working with ODA or any of the participating airports.

**Many business owners and representatives reported contracts or subcontracts with ODA airports or one or more of the other airports.** [e.g., #I-02, #I-03, #I-05, #I-06, #I-08, #I-09, #I-10, #I-13, #I-17, #I-27, #I-29, #I-35] Some businesses reported on their work with the participating airports. Comments follow:

- Commenting on performing for airports, a white representative of a majority professional services firm indicated that his firm has performed work for Grand County Regional Airport, Baker City Municipal Airport and Ontario Municipal Airport. He commented, “Baker City airport is a city-owned airport and Grant County Regional Airport is a county-owned airport ... not a lot of differences, but they’re both in the FAA’s NPIAS airport system so they receive federal funds .... They’re both high desert airports in small rural communities.” [#I-06]

- A white female owner of a DBE/WBE construction-related firm commented that her firm has worked at Madras, Aurora, Hillsboro and other airports. [#I-07]
- A white representative of a majority professional services firm reported, “We do [specialty contracting] support work ... for mainly the municipal airports in the Oregon area ... we team up with [engineers] for meeting all the FAA requirements ... [to] make sure people are safe ... operators can operate the equipment ... effectively.” [#I-10]
- “We have done work for a few airports in Oregon like Eugene, Klamath Falls and Redmond,” reported a male part owner of a construction related firm. [#I-32]
- Reporting that he has performed for airports, the white owner of a general contracting firm indicated that he has worked for Newport Municipal Airport, and through a contract with the FAA, he has worked for the Redmond Municipal Airport, the North Bend Airport and the Eugene Airport in Monroe. [#I-20]
- A professional services firm reported securing a prime contract with ODA. [#I-13]

Some other firms had tried but had been unsuccessful in securing contracts, or voiced interest in opportunities with ODA airports and other airports. For example:

- Commenting on whether her firm has experience working for ODA airports and other airports, a white female president of a WBE/ESB professional services firm reported that they do not. She added, “I have not heard of a single opportunity.” [#I-22]
- The white male owner of an ESB consulting firm reported that “[no] opportunities [have] come up” with ODA airports or other airports. [#I-31]
- One white owner of a HUB-zone-registered professional services firm reported that he has not worked with ODA but has unsuccessfully attempted to do so. He commented, “Generally the big firms take that ... once in a while, we’re lucky enough to have one of the big firms reach out, you know, to use a local or near local sub ....” [#I-33]
- A Hispanic American female part owner of an MBE/WBE/DBE/ESB professional services firm indicated that her firm has not worked with ODA airports. [#I-34]
- The white representative of a DBE construction firm reported that although he has not conducted work for ODA, his company has attempted unsuccessfully to perform work for them. [#I-19]
- A white female owner of a WBE/ESB/DBE professional services firm reported that she has not conducted work for ODA but has always been interested in doing so. The same business owner went on to say, “I’m on ORPIN [and] I get messages from them under a variety of search umbrellas ... in terms of airports, I won’t go after something directly with one of the airports unless there’s a larger prime involved that has airport experience.” [#I-24]



Restrictive requirements for bidding or inconsistencies in requirements set by each of the airports was reported to be a challenge for some firms, especially when new and trying to break into work with the ODA airports and other airports. A few mentioned logistical challenges regarding specialized equipment and FAA regulations. Examples include:

- A white owner of a professional services firm commented, “State level has been one of the most difficult places to get into and so I jumped over them and went to federal .... I will tell you very candidly, that unless you are a DBE or a very large company, it’s very difficult to get in [to the state level].” [#I-16]
- An owner of a newly launched professional services firm reported, “My biggest barrier to entry [into airport-associated work] is that I just started my own firm and have to rely on experience from previous roles, which some agencies and organizations feel that my company may not meet requirements of three to five years of business experience in my field.” [#AS-36]
- Regarding working for participating airports, a white female owner of a WBE professional services firm reported that safety requirements are not consistent among the airports, which makes work a challenge. [#I-02]
- A representative of a professional services firm reported that pre-qualifications are always going to be a barrier. [#I-35]
- Having recently submitted proposals for multiple airport work, a white owner of a contracting firm reported that he has performed work for Redmond Airport, but that he has not worked for any other airports. He added that there are logistical differences he has to work through. He noted that there is “unique equipment” that is different than other customers’ equipment. [#I-17]
- A white representative of a professional services firm reported that the firm has only worked for Redmond Airport, and that he was not present for the project. The same business representative reported that it is difficult secure work, and that there are businesses that specialize in winning prime contracts with airports. He commented, “As a result, they’re probably always going to be considered first .... the airport consultants are generally more focused on airports, so they generally have more of an advantage than we do.” [#I-35]
- A white representative of an employee-owned professional services firm reported that working with airports is different than working with other clients. He reported, “It’s a very niche industry and [there are] a unique set of funding streams and standards to meet the FAA standards.” [#I-01]
- A white male representative of a professional services firm reported, “I think on the air side of things, there’s a lot more stringent rules and things like that to follow, and so we need to be up to date on all of those requirements and certifications and meeting the security requirements and whatnot. We see that as probably one of the harder parts of doing work for airport agencies.” [#I-35]

A few reported issues regarding limited internal project management in smaller airports or differing management structures and procurement protocols that make working for smaller airports a challenge. Comments include:

- Concerning differences between working with airports, a white representative of a trade association reported that there are differences by jurisdictions and bureaucracy. He said that Bend, Redmond, Medford, Eugene etc. are examples of airports that have an ongoing pipeline of work and have good construction management teams in place. He added that the smaller airport communities tend not to have designated project management teams in place, which can be difficult for a vender or contractor attempting to work with them. [#TO-01]

The same trade association representative commented, “Working with the government from a contractor’s standpoint can be pretty difficult sometimes just in terms of getting paid on time, contract management issues that might come up, obviously public owners are driven heavily by funds that are budgeted or bonded ....” [#TO-01]

- Regarding work with the airports, the white representative of a majority professional services firm reported that Ontario Municipal Airport requires “a very hands-on approach.” He explained, “A lot of these cities or owners don’t have a lot of staff, so you’re really a supplement or arm of their staff, helping them from ‘cradle to grave’ ... to secure the funding, work through the [actual project], and then the close out.” [#I-27]
- The white representative of an employee-owned professional services firm commented that difficulties exist because airports are short-staffed, especially at the smaller airports in Oregon. He indicated that short staffing causes delays in response time from the client causing project delays. [#I-01]
- Performing at many airports, the white male representative of an employee-owned professional services firm reported that the firm conducts work for Hillsboro, Troutdale, Salem, Roseburg, Klamath Falls, Eugene, North Bend, Medford, Redmond and Pendleton airports as a prime or subcontractor within the last five years. [#I-05]

The same business representative reported that there are differences in oversight between airports dependent on size of the airport and number of airport staff. He added, “An airport that is going to have a more robust staff is going to have more people managing your work versus a smaller airport that is usually one point of contact that is sort of expecting the consultant to do everything else.” [#I-05]

He stated that a larger airport, such as Hillsboro, may have an engineer, project manager, technical specifications writer and administrative assistant assigned to work with the company. He later added that a smaller airport, such as Klamath Falls, may only have an airport manager, business manager and operations director assigned to the project as points of contact. He also indicated that there are differences in how organizations issue contracts for airport work based on ownership. [#I-05]

Some business owners and representatives reported that working for an airport puts the contractors or consultants at a higher risk than when working for other customers or clients. Others reported challenges regarding remoteness and varying security provisions. Examples follow:

- The white male representative of a WBE construction-related firm indicated that airport and airfield work have a level of risk that other construction work does not have, “It’s a different kind of risk. Yes, you’re dealing with multimillion-dollar airplanes that you don’t want to damage ... but it’s a different risk than working with lane closures out on the street ....” [#I-08]
- A white owner of a professional services firm reported that there are differences between working with different airports. He commented, “Yes, each one has an airport manager, and they all run their airports differently, so some of them, depending on location are really flexible, and some are excited that their airport is going to get some improvement done ... others are more schedule oriented, and they want to make sure it’s scheduled ... there’s definitely differences.” [#I-09]

When asked to describe experiences working with participating airports, the same business owner reported, “Airports are very structured, and a different set of rules. You can’t just go driving around in airports ... because it’s federal, there’s certain rules, and you have to understand the rules and guidelines of working on an airport, whether it be a roadway or something else. [#I-09]

- Regarding differences between working for different airports, a white female representative of an employee-owned professional services stated, “You don’t have access to all the same services at every airport, that would be another thing I would say that makes it different than other agencies ... if it is in a really remote location, you may have to travel several hours to get there, and you can’t stay closer than that because there’s nothing around it except for the airport ....” [#I-13]
- A white owner of a landscaping and general contracting firm reported that the different security levels at the airports can be a challenge. [#I-20]
- Regarding barriers to working with the participating airports, the Hispanic American male owner of an ESB construction firm said that “logistics and security take a lot longer.” [#I-29]

**Deciding to pursue opportunities with participating airports.** Business owners and representatives were asked how they decide to pursue opportunities with ODA or any of the participating airports.

A number of business owners and representatives reported how they pursue opportunities with ODA airports or other airports, and if they have been successful. For example:

- A white female owner of a DBE/WBE construction-related firm commented, “Anything that comes out to bid, we’ll bid it ....” For example, she added that location and size do not impact their decisions to bid. [#I-07]

- A white male representative of a majority owned professional services firm reported, “Typically we look into all of them, our main decision for attempting to pursue them is whether or not there’s work that would require us, or someone like us, to do, for airports specifically, it’s electrical is all we’ve ever really worked on for them, and maybe a couple instances while we’ve needed one of our mechanicals to help out ... in any case, we try to pay attention to the advertisements for RFPs, and then the civil engineering firms that we team up with regularly, we stay in contact with them and sometimes they notify us, and sometimes we notify them.” [#I-10]
- The white representative of a majority professional services firm indicated that he pursues opportunities with participating airports through a qualifications-based process. He commented, “For existing clients, we’re selected for a maximum five-year term through a qualifications-based selection, and then individual projects are determined by the capital improvement plan for each individual airport, and that plan is developed in conjunction with the State Department of Aeronautics and the FAA, so that’s how the little project list is developed and so within that five-year period we work through that project list.” [#I-06]
- When asked about factors that influence the company’s decision to pursue work with the airports, the white representative of a majority professional services firm said that it’s mostly “based on market research.” He added that it has to make sense geographically, and that they need to have “some relationship built with the powers to be,” in addition to the resources on their end to meet the client’s needs. [#I-27]
- A white male representative of a professional services firm reported, “We rely on finding out the information through services that notify us of public projects, and then having the right kind of personnel employees, so that we can go after that work, so that’s kind of what we rely on.” [#I-35]
- Choosing not to pursue opportunities with participating airports, the white female owner of a DBE/SBE/ESB professional services firm reported that she attempted to pursue an opportunity with the Eugene Airport once, but that the woman in charge of marketing ultimately went with her best friend who did not have the appropriate background. [#I-18]

**Some business owners relied on relationships or joining teams, when pursuing work with ODA airports or other airports. For example:**

- When asked how her firm finds out about opportunities on airport projects when working as a sub, a white female representative of an employee-owned professional services firm reported, “It’s in two different ways ... one is meeting regularly with the civil engineering consultants who work at the airports; that tends to be more effective than when actually talking directly with the airports because they already have a strong relationship with the civil engineering firms .... And we use services that send us emails about upcoming opportunities ....” [#I-13]

- A white owner of a professional services firm reported that he had gone on teams before. He added, “I believe the teams contacted me, and asked me if I was interested in working with them on a project.” [#I-14]

This owner added that he does not know where to go to find jobs with the participating airports. He added that one of his friends works as an engineer on airport work, but only as a part of a team. [#I-14]

- “I’m fine to work on those projects but we don’t normally try to pursue as a prime just because we don’t have marketing departments ... usually we end up invited on to teams and we let the prime consultants go chase the work,” remarked a Hispanic American female part owner of an MBE/WBE/DBE/ESB professional services firm. [#I-34]

**Some interviewees discussed whether their firm pursues subcontracts or supply contracts for local government agencies that do not apply contract goals.** [e.g., #I-19, #I-38, #I-39]

Although many reported not restricting bidding to projects with goals, one white female owner of a DBE/SBE/ESB firm reported that her firm does not pursue contracts for local government agencies that do not apply contract goals. She stated, “We receive RFQs pretty much for the entire state of Oregon, either through ORPIN or also through the Native PTAC .... We rarely quote on them because we used to quote on everything all that sort of stuff, but then we rarely were awarded those ... I’ve just focused people on more productive areas where we’ve really made most of our money.” [#I-18]

#### **Any challenges learning about opportunities with ODA airports and other airports.**

Interviewees discussed whether there are any challenges associated with learning about opportunities with ODA airports or other airports.

**Many interviewees indicated that bidding opportunities are not advertised well enough or are not posted long enough to encourage responses from bidders.** For example:

- Regarding bidding opportunities, an African American female owner of a general services firm commented, “It seems like opportunities are not given to a small emerging business like ours.” [#AS-26]
- Responding to the availability survey, a part owner of a majority-owned professional services firm commented, “Contracting with airports and public agencies is difficult because ... it’s not advertised well.” [#AS-80]
- When surveyed, a representative of a majority-owned general services firm remarked, “[The] bidding process on state of Oregon contracts gets convoluted.” [#AS-122]
- Responding to a survey, a representative of a white female-owned professional service firm commented, “I was [in a managerial role] at [a major airport in Oregon] but have never seen a bid opportunity at any airport.” [#AS-21]

- When surveyed, the white female owner of a professional services firm reported that hearing of opportunities in her sector can be a “fairly big barrier.” She explained, “If I’m not aware of the opportunities and no prime contractors or airports reach out to me, it’s [difficult] to work ... in this sector.” [#AS-22]
  - Responding to a survey, the white male representative of a professional services firm remarked, “We struggle to discover opportunities in Oregon.” [#AS-214]
  - A white owner of a professional services firm reported that he does not know where to go to find the jobs with the participating airports. [#I-14]
  - The white co-owner of an ESB specialty services firm reported not hearing of participating airport work related to his company’s worktype even though he typically uses the local builders exchange and ORPIN. [#I-28]
  - A white owner of an ESB professional services firm reported that his firm has had challenges. He commented, “Yes, if they don’t advertise on ORPIN, I don’t know where else to find it for airports specifically.” [#I-23]
  - A representative of a white woman-owned construction-related firm, stated, “Sometimes they’re not as well advertised as they should be ... hearing about them can be difficult sometimes.” [#AS-196]
  - When asked if the firm faces any challenges learning about opportunities with the participating airports, a part owner of a construction-related firm said, “We don’t always know or see those bids for the job .... [It’s] a little more difficult to find [that] for our scope of work.” [#I-32]
- He commented, “A lot of times we do not see [opportunities posted].” [#I-32]
- A white owner of a HUB-zone-registered professional services firm indicated that he tries to keep up with ORPIN. He added that he does not try often because he hasn’t been successful and doesn’t think it is worth it. [#I-33]
  - A white owner of an ESB-certified construction-related firm remarked that she only considers work that is posted on ORPIN. [#I-37]
  - The white male representative of a majority professional services firm remarked, “I know sometimes the timelines on the RFPs seem short ... by the time you see them posted. I know standard practice says usually about a month from the time it’s posted to the time proposals are received or bids are received, depending on how they’re doing it, but ... I’ve seen it where it’s only one to two weeks, and I think that’s pretty short turnaround ....” [#I-10]
  - The representative of a majority professional services firm reported, “If they could allow for longer response times for RFPs ... usually it’s three to four weeks .... If a firm had six to eight weeks to respond it does help quite a bit.” [#I-04]

A few business owners reported knowledge of where to look for solicitations from the participating airports or reported to have a “pulse” on what is available in the marketplace. For instance:

- A white representative of an employee-owned professional services firm remarked that his firm does not face challenges learning about opportunities with participating airports because the industry has a “pulse” on what is available in the marketplace. [#I-01]
- While discussing if there are any challenges learning about opportunities with any of the participating Oregon airports, a white male representative of a WBE construction-related firm commented, “No, I think it all gets advertised, and you know we are ‘pretty well-connected.’” [#I-08]
- When interviewed, the white representative of a majority professional services firm reported no challenges learning about opportunities with any of the participating airports. He commented that the airports’ advertisement of information on opportunities is “disseminated fairly well.” [#I-27]
- A white male owner of a professional services firm reported, “I think through ODA, we know their system of putting projects out, I think there’re other projects that we don’t see come out through local airports that are funded through ODA ....” [#I-09]

**Any difficulties winning prime contracts with the participating airports.** Interviewees described a competitive marketplace for airport contracts. [e.g., #AS-127] A few noted challenges beyond competition, such as tight bidding response deadlines. Comments include:

- Commenting on challenges winning prime contracts, a white male representative of an employee-owned professional services firm reported that though his firm is successful, they experience difficulties winning prime contracts because of fierce competition in the marketplace. [#I-01]
- The white representative of a majority professional services remarked that competition is challenging. He commented that response deadlines for RFPs are too short. [#I-04]
- Regarding difficulty with winning prime contracts with participating airports, the white male representative of a majority professional services firm commented, “For our clients, we’ve been successful in multiple selections, however a lot of other airports in that area, it can be a little bit difficult to, if somebody’s been working with a consultant for a number of years, they’re often reluctant to change, so we do run into that occasionally .... We do [still submit qualifications].” [#I-06]
- Responding to a survey, a representative of a majority-owned general services firm reported, “We’re competing with a lot of offshore providers whose pricing is lower and that is a barrier for entry on many projects.” [#AS-216]

- A representative of a majority-owned construction-related firm reported, “When they start coming out of Idaho into eastern Oregon [it is] very hard to compete.” [#AS-113]
- The white male representative of a majority professional services firm reported that it is “especially challenging” to win prime contracts in western Oregon without a strong presence in that region. [#I-27]

**Any challenges when pursuing or performing work with ODA airports and other airports.**

One business owner reported that airports often have a preferred list of familiar businesses from which they award contracts. Commenting on barriers in finding or pursuing work, a white female representative of an employee-owned professional services firm reported, “Certain airports, like certain firms that they’re used to working with ... that would be the main barrier, just the time that it takes to build the relationships for them to get comfortable with someone new.” [#I-13]

An African American male owner of a general services firm stated, “We have problems getting opportunities. We do not understand why we can’t seem to secure bids.” [#AS-65]

Other business owners and representatives indicated barriers, such as limited opportunities and restrictive contract and performance specifications such as insurance, bonding and prevailing wage requirements and time-consuming background checks. Some mentioned issues with timely payments, when seeking work with the participating airports. For example:

- The Hispanic American female owner of a general services firm reported, “I have found working with [specified airport] ... basically impossible because I am offering a [unique] service ... that does not fit neatly into the biddable opportunities [that airport] has available ....” [#AS-20]
- “Insurance requirements need to be trimmed down or gotten rid of, loans need to be easier to acquire in order to make it possible for more small businesses to start and operate,” commented a white male owner of a professional services firm. [#AS-25]
- The white female owner of a WBE/ESB/DBE professional services firm reported, “It took ... a while to find [errors and emissions] insurance that was sized for a business like mine.” [#I-24]
- The white owner of a contracting firm reported that he experienced issues with bonding, and said, “We are definitely in a hardening market when it comes to insurance and bonding, and the scrutiny of the insurance and bonding decisions is ... frustrating for me because it seems like they’re expanding what they feel is something that’s hazard work, or whatever ....” [#I-17]
- Regarding barriers or challenges when trying to work with the participating airports, a male part owner of a construction-related firm reported, “[The airports] spend a lot of time in advance to do background checks, [and] traditionally we don’t get a lot of notice. We then have to account for those hours that people spend doing interviews.” [#I-32]



- A representative of a majority-owned professional services firm remarked that prevailing wages are a barrier. [#AS-102]
- Responding to the availability survey, a white male owner of a professional services firm reported, “In general, the procurement and payment processes are lengthy with multiple barriers and it is difficult to ‘get it correct’ the first time through.” [#AS-23]
- A white male owner of a professional services firm reported, “Payment takes a long time, and there have been some situations where projects bid as whole, you’ve got five or seven airports on the job and the scope of work for each one, and the project bids as a whole, then they start picking and pulling things off the project, and that changes the scope of work and how you bid it ... as a package with ODA, payment can take quite a while sometimes.” [#I-09]
- The Hispanic American male owner of an ESB construction firm reported that one of the participating airports employs an architect, and commented, “We never see that architect .... [The architect is] just dealing with project managers who run the airport ... overall communication is pretty much minimal.” [#I-29]

**Any barriers that specifically disadvantage minority- and women-owned businesses, and other small businesses when seeking or participating in contracts with any of the participating airports.** Comments reported ranged from barriers related to bidding that unfairly disadvantage minority- and woman-owned firms to reports of racism and misogyny in the marketplace.

Some reported barriers to pursuing work that unfairly disadvantages minority- or women-owned businesses, or other small businesses. For example:

- A white female owner of a WBE/ESB/DBE professional services firm reported, “Since I’m a small business, I have to be very selective about going after RFPs.” She added that seeking opportunities and RFPs and writing proposals are “incredibly time intensive.” She continued, “I can’t emphasize that enough, I know jurisdictions and other public entities want to hear from small businesses, but if you make us do a huge proposal, with a lot of different pieces, and a full scope of work describing how we’re going to do a project, it’s at least a 40-hour undertaking ....” [#I-24]
- A white male representative of a majority professional services remarked, “I don’t know if there are barriers, there are just always challenges ... marketing costs in a state like Oregon are challenging ... it’s a state that’s 90,000 square miles ... airports are scattered all over, so it’s challenging for small firms to get out and market ....” [#I-04]
- A white representative of a majority professional services firm reported that exposure could be a barrier for minority- or woman- owned businesses in learning about or participating in contracts with participating airports. He commented that a business really needs to be pulled in by a more experienced, connected firm to get opportunities. [#I-10]

Others reported on racism, “good ol’ boy mentality” and other exclusionary practices that prevail in the marketplace and with airport procurements. These comments include:

- Regarding women-owned firms, a representative of a white woman-owned professional services firm reported, “I think there is ... a ‘good ol’ boy mentality’ in some parts of the state, where, you know, some places they’re not quite sure if a woman can pull off that job, we try to prove to them that they can and that it’s not an issue and that we’re all engineers, we all have the same stamp and license and everything else ....” [#I-03]

The same business representative reported issues within the state that affect minority- and women-owned firms. He reported, “This state can be a very racist state. We have a history of racism in this state that stretches back to the constitutional formation and it’s structural and it’s pervasive and we try to say we’re all progressives in the Portland area, but it is monochromatic and there’s segregated areas and it’s really a pervasive problem.” [#I-03]

- The Hispanic American male owner of an ESB construction firm remarked that on jobsites, his firm experiences harassment and discrimination because of the firm’s small company size. [#I-29]
- A white female owner of a DBE/ESB/WBE professional services firm commented, “I certainly think being women-owned sometimes has not necessarily been a benefit ... in some aspects [it] has been difficult, especially in a very ‘male-dominated’ industry.” [#I-18]

This female owner reported, “I think that it needs to be a more even playing field. I think that, certainly getting the information out there is important, but also many times they will request that, the way that they put together their RFQs they are either launching free information like they’re wanting us to put together a complete marketing plan for them, free of charge ... but that’s not really a fair playing field to work with as far as that because they can take your work basically and give it to their friend, and we have experienced that first hand ....” [#I-18]

- A white representative of a majority professional services firm commented on the exclusive nature of airport work, “It really seems to be one of those things that ‘you’re either involved with or not involved with,’ so to get involved and understand it, you really have to be teamed up with somebody that ‘brings you in.’” [#I-10]

Another white male representative of a professional services firm reported, “If you were ... trying to break into aviation ... there’s going to be challenges there because you don’t have a pulse on the market.” [#I-01]

- Regarding barriers for small businesses, a white male owner of an ESB professional services firm reported, “I think so, and I think it is directly related to airport specific expertise, because those are usually very large projects that are complex, so they always end up going to the larger firms, and the larger firms don’t always seek ESBs or M/WBEs or whatever ....” [#I-23]

Some business owners and representatives reported that difficulty building experience combined with limited resources puts many small businesses at a disadvantage when competing against larger firms with extensive airport portfolios. Comments include:

- The white owner of an ESB professional services firm reported, “There [are] disadvantages for small businesses because ... people want to hire architects that have expertise in whatever project types they have, and it’s hard for smaller firms to get that expertise or have a portfolio the size of these larger firms, or have the money to throw at a proposal to make it [stand out] ... It’s just hard to compete.” [#I-23]
- The male part owner of a construction-related firm stated that small firms sometimes cannot take on an entire project without going broke or not having the resources to complete it successfully. [#I-32]
- “Pricing agreements [seem] to be affecting us because we have to wait for the next round of pricing agreements. We may have to wait for five years .... We are [a] small business who cannot afford building a ... solution. Most of the RFPs now asks for [specified] solutions, [and] most of the time these ... solution providers are not willing to subcontract with us,” reported a representative of an Asian American male-owned professional services firm. [#AS-01]
- An owner of an ESB firm that without set asides for small businesses, they struggle getting work with the participating airports. He said, “I think if they could do some smaller set-aside stuff, or if they could do a master service agreement to where they hire smaller firms doing deferred maintenance or something to get their foot in the door to start building relationships, that would be a huge advantage for smaller firms,” [#I-23]

Some business owners and representatives reported no knowledge of barriers specific to minority- or women-owned firms. [e.g., #I-06, #I-08, #I-09, #I-17, #I-24, #I-27, #I-32]

**Suggestions for ODA airports and other airports to improve procurement practices.** Business owners and representatives shared suggestions on how the participating airports could improve procurement practices.

**Streamlining the procurement process and minimizing paperwork as well as allowing for longer response times would be helpful for many small businesses.** For instance, an owner of a general services firm stated that procurement protocols “just [have too much] paperwork, large amount of paperwork for government.” [#AS-92]

The white female owner of a WBE/ESB/DBE professional services firm stated, “Narrow down [the procurement process] ... so that way it’s not like a 40-hour effort, it’s a 10-hour effort or 20-hour effort ....” [#I-24]

A number of business owners and representatives reported the need for greater transparency and upfront information. Examples follow:

- “I guess more information the better,” remarked a representative of a majority-owned general services firm. [#AS-155]
- “Just having access to all the information. There is no consistency in every jurisdiction including airports,” commented a representative of a majority-owned construction-related firm when surveyed. [#AS-160]
- “Getting the work out” is the suggestion of a white owner of a general contracting firm. He commented, “We live in a different world now; it’s like, do you reach out through social media, how do you advertise these opportunities? ... industry associations?” [#I-20]
- When interviewed, the representative of a woman-owned professional services firm reported, “Complete drawings and complete plans, doing their homework on that, making sure that they’re not leaving a bunch of unknowns ...” [#I-08]
- A representative of a professional services firm reported, “I guess getting the word out is probably the best thing that they could do ... people that are consultants and whatnot that specialize ... generally hear about it well before we do ...” [#I-35]
- An owner of a professional services firm remarked, “I guess make it more publicly known. Before this invitation [to interview with the study team] and stuff, I had no idea [ODA airports and other airports] even had a contracting program, so just making it more known, more available to firms to place bids. I don’t even know the process right now, so I would be interested to find out.” [#I-15]

Several indicated a need for more supportive services including training and assistance to help businesses navigate the participating airports’ procurement processes. Examples reported include:

- “Management training, and learning about job opportunities with the city, county and state level agencies. Would like to learn more on how to learn,” remarked a white male owner of a construction-related firm. [#AS-173]
- “[I’m] new to the state and government bidding so I am just trying to figure it all out. It is extremely difficult for me due to living in a small town and not having the help,” commented a female representative of a majority-owned construction-related firm. [#AS-38]

Some described the need to give minority- and woman-owned businesses and other small businesses a leg up to level the playing field. Examples follow:

- If in compliance with state procurement laws, set asides are an example of a good practice according to the white owner of an ESB professional services firm. He reported, “I think it’s a really good idea.” [#I-23]
- The white male owner of a DBE professional services firm stated, “There needs to be a way to hire us or hire companies like us, emerging small businesses or service-disabled veteran-owned [firms], that don’t qualify as a DBE but happen to be state-certified ....” [#I-16]

#### **D. Whether There is a Level Playing Field for Minority- and Women-owned Businesses and other Small Businesses in the Oregon Marketplace or Oregon Airport Industry, and Any Unfair Treatment of Such Firms.**

Business owners and representatives reported on whether a level playing field exists and any experiences with or knowledge of unfair treatment in the Oregon marketplace. Interviewees discussed:

- Challenges for minority- and women-owned firms or other small businesses not faced by other businesses;
- Issues regarding access to capital;
- Issues regarding bonding and insurance;
- Issues with prompt payment;
- Denial of opportunity to bid;
- Unfair rejection of bid;
- Bid shopping and bid manipulation;
- Stereotyping and double standards for minority- or women-owned firms, certified firms and other small businesses when pursuing or performing work;
- Unfair or unfavorable treatment regarding pursuit of work or approval of work for minority- and woman-owned businesses, certified firms and other small businesses; and
- “Good ol’ boy” networks or closed networks.

**Challenges for minority- and women-owned firms or other small businesses not faced by other businesses.** Many business owners and representatives reported that, in the Oregon marketplace, there is not a “level playing field” for minority- and women-owned firms or other small businesses.

Some minority- or woman-owned firms reported to face additional challenges and lose work opportunities because of their small business size. A number of business owners and representatives reported being disadvantaged by size as minority- and woman-owned firms are disproportionately small. [e.g., #ASs-55, #AS-59, #AS-68, #AS-184]

Several minority- and woman-owned firms indicated that firm location is a barrier, especially when located in rural areas. [e.g., #AS-44, #AS-121, #AS-162]

Some primes argue that low availability of certified firms in rural areas is reason enough for them not to try to engage minority- and woman-owned firms and other small businesses.

“There’s a different number of ready and willing available firms ... that are DBE-certified ... we’ve seen challenges with getting DBE firms ... finding them in some of the more remote parts of Oregon,” reported a white male representative of an employee-owned professional services firm regarding firms in more rural areas. [#I-01]

When interviewed, the white female representative of an employee-owned professional services firm remarked, “There’s certain types of work that we can utilize subconsultants on ... the fact that the airports are so spread out, that it can be difficult to get qualified firms who may have the diversity that people are trying to strive for ... there’s just less opportunity on the airfield side of things to bring in a large array of [minority and female] subconsultants.” [#I-13]

Some business owners and representatives indicated that in the absence of contract goals, minority- and woman-owned firms or other small businesses are not typically engaged by primes. For example, a white male representative of a majority professional services firm reported, “Subconsultants that put themselves in front of everybody, certified or not, are going to have a leg up on any certified firm in the absence of a big client push for use of certified firms.” [#I-03]

Many noted that paperwork requirements and all the “red tape” in public sector procurements put minority- and woman-owned businesses and other small firms at a disadvantage.

[e.g., #AS-47, #AS-88, #AS-92, #I-09] For example:

- An owner of an ESB-certified construction-related firm indicated that the level of paperwork required and usually the payment terms can be a disadvantage. [#I-37]
- The representative of a white female owned construction-related firm reported, “being a small business doing the same amount of paperwork, reports, filings, certifications as larger companies” is a barrier. [#AS-120]
- Responding to the availability survey, a white male owner of a general services firm remarked, “Small companies respond to government paperwork when they don’t have the resources for doing so, whereas even though it is a cost for larger corps, it is possible for those entities to do so and much more inconvenient for small companies. Reduce the requirements for small companies to increase participation.” [#AS-52]

**Issues regarding access to capital.** Business owners and representatives reported on any issues regarding access to capital and financing. [e.g., #I-21, #I-37] As reported earlier in this appendix, some business owners gave evidence that access to capital is a persistent challenge. Additional comments follow.

- The Hispanic American owner of an ESB construction firm reported that accessing capital can be risky. He commented, “Having your books reviewed ... you’re too much of a risk to the bank ....” [#I-29]
- The Native American part owner of an MBE/DBE/ESB construction-related firm reported that, “If you’re a small business and you don’t have much assets, or security to be able to back up a business, [it’s challenging]. My business is [based on] cash flow [and] I have to have some sort of cash flow to buy materials and [supplies] ....” [#I-38]
- The white owner of an ESB-certified construction-related firm reported that cash flow has been an issue. He explained that the firm’s work is sometimes seasonal and relies on credit during slow periods. He added that they had tapped out their credit in the past. [#I-37]

**Issues regarding bonding and insurance.** Some minority and female business owners and representatives reported difficulty securing bonding as well as paying high insurance costs. A representative of a trade association reported that many of its members face the challenge of securing of bonding, for example. [#TO-01] Other comments follow:

- “Getting bonding for a start-up is next to impossible,” reported a representative of an African American-owned construction-related firm. [#AS-75]
- Responding to the availability survey, a Native American part owner of a construction-related firm reported that although in the industry for more than 30 years, “I can’t prime over \$1 million due to the cash reserves required by bonding companies.” He added, “We are small ... [doing] work for the [general contractors] in this area.” [#AS-55]
- When asked about bonding, the Hispanic American owner of an ESB construction firm indicated that small firms are at a disadvantage. He commented, “Majority of the gigantic contractors are owned by the insurance companies that do all the bonding .... We’ve gotten a little bit better. We can bond \$12 million ....” [#I-29]
- Responding to the availability survey, a Native American part owner of a construction-related firm reported that “getting licensed and insured is very expensive and time consuming. [#AS-55]
- The white female owner of a WBE/ESB/DBE professional services firm reported on “blanket insurance” requirements stating that the participating airports should not “just have this blanket insurance statement, [instead] have an insurance statement that’s proportional with what kind of work is going to be done ....” [#I-24]

**One business owner noted that while bonding can be difficult, the requirement is “very fair.”** The white owner of a professional services firm reported that he has experienced bonding issues, commenting, “When we first started, you are kind of ... limited ... even now we’re limited on the size of the job we can bid because of bonding.” He noted that the bonding requirement is fair, saying, “I don’t disagree with it ... I think it’s very fair.” [#I-09]

**Issues with prompt payment.** Many business owners and representatives reported experiencing issues with prompt payment. [e.g. #I-33, #I-37] For example, an owner a contracting firm reported that he has seen slower payment in response to the COVID-19 pandemic. [#I-17]

- “Prime contractors not paying their bill and no way of collecting and no way of suing because of no money, they just won’t pay,” reported a representative of a professional services firm. [#AS-186]
- A white female representative of an employee-owned professional services firm reported that she has experienced issues with prompt payment. She explained, “The most recent time I think was when we were a sub, and that’s often where we’ll see it, is when we’re a subconsultant, and sometimes it’s just a delay of the prime getting paid, and then we’ve also had experiences with the prime who was not doing their fiduciary duty and managing their funds, so we were the recipient of that.” [#I-13]
- “People don’t pay on time, which is hard for smaller firms to handle,” remarked a part owner of a professional services firm. [#AS-218]
- The white female president of a WBE/ESB professional services firm commented, “From time to time, we have to chase our clients down.” [#I-22]
- When asked about his knowledge of untimely prompt payments to contractors, a Hispanic American male representative of a minority business development association reported knowledge of a prime professional services firm who delayed payment to a subcontractor for over two months on a public sector project. [#TO-02]
- Reporting on issues related to prompt payment, the co-owner of an ESB specialty services firm reported that payments are sometimes “pushed out” 90 to 120 days. [#I-28]
- When asked about any issues with prompt payment, the owner of an ESB professional services firm said, “We’ve had invoices go 90 to 100 days out.” [#I-23]
- “I have seen issues with prompt payment ... typically it has to do with different businesses, unaffiliated, that are contracted to work together, and the way one business does things can be different from the other, so they cause delays and whatnot,” reported the representative of a majority professional services firm. [#I-10]
- A white male representative of an employee-owned firm reported that smaller airports have a difficult time paying bills until they receive their FAA reimbursement, which leads his firm to receive late payments. [#I-01]
- The owner of an ESB consulting firm reported that although he “usually [has] good experiences,” with at least one of out every 20 projects he faces challenges with outstanding balances. He added, “You can never tell who is not going to pay, [but] it’s usually on private [contracts].” [#I-31]



**Denial of opportunity to bid.** Although a few interviewees had not witnessed any denial of opportunity to bid, several business owners and representatives discussed instances in which they were denied bidding opportunities. [e.g., #I-37] For example:

- “People want information about past contracts, and when you don’t have them, they won’t give you a chance,” reported a representative of an African American male-owned construction-related firm. [#AS-75]
- When interviewed, a Hispanic American owner of an ESB construction firm indicated that he was denied the opportunity to bid on projects by a property management company in the region. [#I-29]
- The part owner of a WBE and Service-Disabled Veteran-Owned construction-related firm noted that getting the opportunity to bid with small airports has been a continual challenge for the firm. [#I-21]
- A white part owner of a professional services firm remarked, “Larger projects don’t usually look for smaller firms (even if they’re capable of being the prime); so the winning contracts are usually the big firms, which discourage the little firms from going for it ....” [#AS-218]

This same owner added, “It’s a lot of work to put the [bids] together, but you feel like they will always go for the larger companies.” [#AS-218]

**Unfair rejection of bid.** Although some interviewees had not witnessed any unfair rejection of bid, a number of other business owners and representatives reported on instances of bids being unfairly rejected. For example:

- The owner of a professional services firm stated, “We’ve seen in different situations agencies that select a bidder ‘outside of the requirements’ that they put into the bid documents based on what’s most convenient for them.” [#I-09]
- When interviewed, the white female president of a WBE/ESB professional services firm reported that she experienced unfair rejection of bid, stating, “I [experienced] ... an unfair rejection of ... bid. [The bid was] accepted it then scored it very low.” [#I-22]

The same business owner gave another example, saying, “It was with a county government .... The risk management was super excited to hire me, [but] an employee in the system got mad because I didn’t have a particular certification that [the] employee felt was important .... They cancelled the contract.” [#I-22]

- Responding to the availability survey, a white female owner of a professional services firm commented, “Seems most of the time when we submit an RFP, they already have someone in mind, so it was a waste of time.” [#AS-50]

**Bid shopping and bid manipulation.** Although a few interviewees had not witnessed any bid shopping or manipulation, some other business owners and representatives reported that bid shopping and bid manipulation exists in the Oregon marketplace. For example:

- The Hispanic American owner of an ESB construction firm reported that he was “bid-rigged” on a project for a public university. He added that his firm experiences bid shopping and bid manipulation daily, and that at least one organization excludes his firm from subcontractor lists so that other firms never know what kind of bid they gave compared to other companies. [#I-29]
- The co-owner of an ESB specialty services firm reported that bid shopping does occur in the local marketplace and that he has experienced it. He added, “We try to protect ourselves with [as few] part numbers [as possible] and stuff like that.” [#I-28]
- Regarding bid shopping, the white owner of a contracting firm reported, “Yes, I have seen that.” He added, “I’ve mainly seen it with other contractors that have the ability to self-supply all the [specialty] work ... and they will request that you provide them numbers .... It’s really just a check or an internal check so that’s some of the more recent things I’ve seen ....” [#I-17]
- An owner of a construction-related firm reported knowledge of bid manipulation on DOT-related projects, but not on airport jobs. [#I-32]
- A representative of a trade association remarked that bid shopping and bid manipulation may not be legal and the membership are well-informed about any related issues. [#TO-01]

**Stereotyping and double standards for minority- and women-owned firms, certified firms and other small businesses when pursuing or performing work.** Some firms discussed whether there are stereotypes or double standards that affect firms’ ability to perform or secure work. For example:

- The white male representative of a majority professional services firm stated, “... if you’ve got a firm that is owned by a person of color ... those folks are going to get less work.” He added that the qualifications of women-owned firms are questioned by the “good ol’ boys.” [#I-03]
- A white female representative of an employee-owned professional services firm commented, “I think t[stereotyping] tends to happen ... on a case-by-case basis.” [#I-13]

For example, this business representative added, “As a female who works in an industry that is male dominated, and I’ve spent my fair share of time on construction projects. Some people do have a gender bias towards women, and I’ve experienced that myself with either people not wanting to trust me because I’m a woman, or think that I can be walked all over because I was a woman.” [#I-13]

- One white female president of a WBE/ESB professional services firm reported issues with double standards when pursuing work. She stated, “I think in one case we didn’t get a bid because the project was large, and the group that was requesting proposals felt like we were too small ....” [#I-22]
- The part owner of a construction-related firm, when reflecting on DBEs, stereotyped “[DBEs] as continuously doing ‘shoddy work’ but still getting contracts with [primes].” [#I-32]
- A Hispanic American female owner of a DBE/MBE/ESB/WBE professional services firm reported that, when goals are in place, some primes assume that you will not perform and do not want “to have you ... that feeling is horrible,” [#I-39]

**Unfair or unfavorable treatment regarding pursuit of work or approval of work for minority- and woman-owned businesses, certified firms and other small businesses.** Interviewees discussed whether there are instances in which these firms are treated unfairly when pursuing opportunities or when performing work in the Oregon marketplace.

Some gave examples of unfair treatment that they witnessed or experienced in the Oregon marketplace. Comments include:

- The Hispanic American owner of an ESB construction firm reported that there is not equity when doing work with the State and the airports. He added, “The issue that’s going on in today’s market is if you’re vetted by a bigger company ... they minimize their risk .... There’s no reason for them to reach down and give a hand to small minority firms ....” [#I-29]
- “Everyone I know that has tried to bid [with one agency] has just been shut down, which nobody understands, especially if you know business owners .... It’s certainly happened to me, too,” commented the white female president of a WBE/ESB professional services firm. [#I-22]

The same business owner explained “shut down,” reporting that they scored her proposal very low and did not offer any constructive feedback. She added, “When I asked for feedback, they told me to go to school and learn about safety. I’m highly certified and educated ....” [#I-22]

This president reported on unfavorable work environments for minorities or women, though “not overtly.” She added, “I personally have experienced it. I’ve sued an employer [because of covert discrimination] ....” [#I-22]

The same business owner continued, “The other [time] where I really felt that kind of ... unfairness and backhandedness ... we ... had a contract just kind of cancelled in the middle of it .... We were hired [for a professional service], and during the course of our contract they put together a taskforce for [it] and excluded us from the taskforce when we were the [ones] hired to assist them.” [#I-22]

- When interviewed, a white part owner of a WBE construction-related firm reported that the State “shut [his firm] down without any due process” and took away multiple certifications, at one point. [#I-21]
- “We are engaging in a multi-year project to try to understand the nature of Oregon’s construction training system ... ‘workforce development’ ... is thrown around ... there’s concern in the industry that the industry is not particularly friendly towards woman and minorities ... other companies in an MBE/WBE program,” remarked a white male representative of a trade association. [#TO-01]

One business owner reported no knowledge of unfavorable work environments for minorities or women. Regarding any unfair treatment, the part owner of a construction-related firm commented, “I would say [there is] the opposite, [reverse discrimination].” [#I-32]

**“Good ol’ boy” networks or closed networks.** Some business representatives reported mixed feelings regarding the existence of closed networks.

Many reported having knowledge of “good ol’ boy” networks or other closed networks in the Oregon marketplace. Many interviewees indicated that such networks do exist in the Oregon marketplace. [e.g., #I-35] For example:

- “Oregon is a small state, so it’s not what you know, it’s ‘who you know’ .... Sometimes you get invited to things [and sometimes you don’t],” commented the Hispanic American male owner of an ESB construction firm. [#I-29]
- Responding to the availability survey, a representative of an Asian-American male-owned professional services firm commented, “The biggest challenges are expectations. Big companies have their ‘favorite subconsultants’ and like to stay with them.” [#AS-212]
- A white female owner of a WBE professional services firm reported that a “good ol’ boy” network exists .... She remarked that many firms in the marketplace are controlled by men ... she has had to work to develop good relationships with those majority firms. [#I-02]
- When interviewed, a white female president of a WBE/ESB professional services firm indicated that closed networks and “good ol’ boy” networks exist in the Oregon marketplace. She added that there are some in her particular profession. [#I-22]

The same business owner commented, “For many years, there’s been a network of male consultants from the ... industry, and somehow they put themselves in a position through the ... organization to review all new job opportunities before they get posted, ... that allows them to jump in and offer to be consultants before posting to the general public, and this is just my own professional organization, but it’s definitely an example ....” [#I-22]

- “You kind of all go down to the same bar at the end of the day, you all come from the same background and you all go fish ... so you look out for each other,” remarked the white male representative of a majority professional services firm. [#I-03]

The same business representative commented that closed networks prevalent in Oregon often prohibit businesses owned by persons of color from getting work and question the qualifications of women-owned firms. [#I-03]

- When interviewed, a white female owner of a DBE/WBE construction-related firm remarked that she is sure that “good ol’ boy” networks exist, “You can come across them.” [#I-07]
- “I think they probably exist ... I know they exist ... you know people like to work with people they’ve worked with before that they know,” reported the white representative of a majority professional services firm. He added that this could have a negative effect on certified firms. [#I-10]
- “I think I would be naïve to say that they don’t exist. I don’t think it’s as bad as it used to be by any means, just because that market has been doing so well, it’s become a lot more competitive ... I’ve tended to see it in smaller towns where it may still exist,” remarked a white female representative of an employee-owned professional services firm. [#I-13]
- A white owner of a landscaping and general contracting firm indicated that “good ol’ boy” networks exist in the marketplace and they affect contract awards. [#I-20]
- Regarding closed networks, the white male owner of an ESB professional services firm reported, “I don’t have any specific evidence, but I do know that it’s very hard to get work down in Eugene or Linn County unless you have an address down there. And the same with southern Oregon around Medford and Ashland. They have firms down there that are capable of doing work ... if you don’t have a certain address, they’re not going to give it to you. The same goes for eastern Oregon.” [#I-23]
- When asked whether “good ol’ boy” or closed networks exist, a white owner of an ESB-certified construction-related firm commented, “Oh, yeah!” He added that because he has worked with several them, he gets work as his firm is already “in their phone.” He added that “good ‘ol boys” are not calling because they are going through a directory using the selection criteria for the job. He remarked, “It’s absolutely a ‘good ol’ boy’ network.” [#I-37]

The same business owner continued, “It’s shocking the level of that ... it is the easiest path.” He added, “If you’re in that phone, you’re not getting a call.” [#I-37]

- When asked if “good ol’ boy” or closed networks exist, a white male owner of a professional services firm commented, “I think there’s probably a lot of ‘helping out local guys,’ and that kind of thing.” [#I-09]

- When asked if there are “good ol’ boy” networks in the local marketplace, the white male representative of a woman-owned professional services firm remarked, “I would hope not in the year 2020 .... I’m sure that they probably do [exist] in some rural areas back in the corner of the state somewhere ....” [#I-08]

This same business owner stated, “... it’s a shame that in the year 2020, we’re still dealing with race issues in Portland, Oregon ... I’m sure it exists in the marketplace ... it’s nothing that we want to be a part of or involved with.” [#I-08]

- “I can’t say that I know for sure ... I’ve been suspicious ... this military base over there is a ‘good ol’ boy’ network,” remarked a white female representative of a WBE/ESB-certified construction-related firm. [#I-36]
- While discussing “good ol’ boy” networks and closed networks, a white representative of a trade association indicated that closed networks do exist, but they are not as overt as in the past. He remarked, “For the minority community ... or women-owned ... if those problems exist it is certainly less obvious ....” [#TO-01]

A few interviewees indicated that competitive pricing has helped control closed networks in Oregon. For instance, the part owner of a construction-related firm reported no knowledge of “good ol’ boy” networks in the Oregon marketplace. He remarked, “I would say that [because] everything is so low price driven, folks don’t really care who [they work with].” [#I-32]

A white representative of a majority professional services firm indicated that he was not aware of any closed networks. He commented, “It comes down to basically service and money, price and service, I don’t think that in this day and age that even applies ....” [#I-12]

## **E. Insights Regarding Business Assistance Programs and Certifications**

Business owners and representatives reported whether they had taken advantage of or had any knowledge of any contract goals programs or any business assistance programs in Oregon. Topics included:

- Business assistance;
- Experience regarding certifications; and
- Contract goals or other preference programs.

**Business assistance.** Some business owners and representatives reported awareness of business assistance programs. For many, such programs were useful and provided value to their firm.

Some interviewees described positive experiences. Comments include:

- A Hispanic American representative of a minority business development association reported that members are aware of COBID and SBA programs. He added, “... the City of Portland has a lot of outreach and now a lot of cities have started doing more outreach ....” [#TO-02]

- When interviewed, the white female president of a WBE/ESB professional services firm reported utilizing the SCORE mentor program. [#I-22]
- The Native American part owner of an MBE/DBE/ESB construction-related firm reported that he has attended classes through the DBE Program. He noted that the class for licensing was particularly helpful. [#I-38]
- Regarding business assistance programs, a white male service-disabled veteran and part owner of a WBE construction-related business reported that the firm took advantage of Port of Portland’s Mentor-Protégé Program and indicated that it was helpful. [#I-21]
- The white male co-owner of an ESB specialty services firm reported that SBDC Oregon’s Small Business Management Program was helpful. [#I-28]
- The white owner of an ESB professional services firm reported that he took a general business administration class offered by the Small Business Administration. He indicated that the class was helpful. [#I-31]
- A white male representative of a woman-owned professional services firm commented, “The owner was involved in the Port of Portland Mentor-Protégé Program, and mentored several women-owned companies, so she’s been involved in that, we’re a member of the training center Northwest College for Construction which trains apprentices and so we donate equipment to that ... the Association of General Contractors ... we’re involved with that, we’re a member of OAME ....” [#I-08]
- One interviewee suggested that ODA airports and other airports “develop a mentor-protégé program.” [#I-03]

**Some business owners and representatives reported on the types of assistance that are not particularly useful to their firms.** Many of these business owners reported available business assistance as too elementary and not suited for more sophisticated needs.

- A white female owner of a WBE/ESB/DBE professional services firm reported that she attended a series of classes from ODOT. She added that the class was not useful at all because the information was too simple and inaccurate. [#I-24]
- When interviewed, the white male owner of a professional services firm indicated that he has taken advantage of Oregon’s Statewide Procurement Technical Assistance Center programming (administered by GCAP). He commented, “I generally find those to be really elementary, like business plans ... and here’s how to run payroll .... I’ve been doing that for years already.” [#I-16]

Another business owner of a WBE and Service-Disabled Veteran-Owned construction-related firm reported that the same program mentioned above becomes redundant over time. [#I-21]

- Regarding assistance not useful to their firm, a white owner of an ESB professional services firm reported that the business assistance programs are geared toward construction trade, not other professional services. He commented, “They’re a waste of time. I’ve been to two of them ....” [#I-23]

The same business owner added, “The ODOT one is geared towards engineers, civil engineers or construction trades. Metro puts on a one-on-one proposal writing workshop for ESBs, and that was fruitless as well, they couldn’t answer my specific questions on how we can sell ourselves, how can we get a foot in the door ....” [#I-23]

- While discussing assistance programs, the white female representative of a WBE/ESB construction-related firm reported that DBE-associated programs are not useful to the firm because the firm does not qualify. [#I-36]

**Experiences regarding certifications.** Many business owners and representatives discussed certifications and if there are advantages or disadvantages to certification.

Some interviewees described the advantages of certification. Comments include:

- When asked what gives one firm in his industry an advantage over another, a part owner of a construction-related firm commented that “having a DBE status” is an advantage. [#I-32]
- “[Certification] gives some of the primes that we work with an easy excuse to pick us as a sub,” reported a Hispanic American female part owner of an MBE/WBE/DBE/ESB professional services firm. [#I-34]
- When interviewed, the Native American male part owner of an MBE/DBE/ESB construction-related firm remarked, “I have seen no disadvantages .... There are certainly advantages to it ....” [#I-38]
- Regarding his firm’s ESB status, the white co-owner of an ESB specialty services firm remarked that their certification has “been a benefit,” and added, “It’s helped with where I haven’t had to have a public works bond for the last few years.” He also reported that the firm’s ESB certification helped them secure work with ODOT. [#I-28]

Others reported that there are disadvantages to being certified. For example:

- Responding to the availability survey, a representative of a white female-owned general services firm commented, “Most purchases from us are under any threshold, therefore are not bid out, and no certified business is even looked at or thought about, it’s easier to order what we sell from any online seller than to consider using a local, certified business. How can we become known to these people?” [#AS-35]



- “[Certification is] definitely an advantage to get onto some contracts. I would say the disadvantages are sometimes primes have had bad experiences with these small businesses and there’s some frustration there that they have to use them ... it almost [gives] DBEs or small businesses a ‘bad rep’ and kind of like you’re not really wanted but they have to have you,” remarked a Hispanic American female owner of a DBE/MBE/ESB/WBE professional services firm. [#I-39]

The same business owner later added, “I want people to hire me because they want to, not because they have to .... The program is supposed to help small businesses, but I think at the same time it can also be creating a wedge between the two industries ....” [#I-39]

- “The only barriers I have seen are minority set asides (that I see as discrimination because I’m not a minority),” reported a representative of a majority-owned construction-related firm. [#AS-205]
- “We find state and city agencies have no need or requirement for Service-Disabled Veteran firms [and] only want DBE or minority firms to do business with,” reported a white female member of a construction-related firm. [#AS-63]

**Some business owners and representatives discussed that, in general, certification processes are onerous for a small business with limited resources.** Most agreed that the process could be streamlined and have less paperwork requirements. [e.g., #I-02, #I-34, #I-36, #I-38, #TO-02]

- “It was tough ... I just remember thinking at the time that it was ‘worse than doing taxes,’ and just all the information you needed to offer ... I felt like it took several months, and it took a lot of time up front,” remarked a Hispanic American female owner of a DBE/MBE/ESB/WBE professional services firm. [#I-39]
- A Native American business owner reported having to provide “a lot of documentation.” Additionally, the white female owner of a DBE/SBE/ESB professional services firm reported that the certification process for businesses has become more “cumbersome” with more information being required. [#I-19, #I-18]
- Regarding becoming WBE certified, a white female representative of a WBE/ESB professional services firm stated, “It was exceptionally challenging to become certified as a WBE, which doesn’t make a lot of sense ... cumbersome process ....” [#I-22]

The same business representative explained, “For a starting business they want your tax returns, which a business does not have if you are brand new, and then their online process is very cumbersome .... Just getting through that process was difficult.” She continued, “Their website doesn’t work very well, so you will submit things, and they will get lost, and we had conflicting information from various people that we called. It just wasn’t very smooth.” [#I-22]

Others spoke of lengthy certification processes that took months or years to successfully complete, for example:

- A white representative of a DBE construction firm reported heavy paperwork and eight months for state-sponsored certification. [#I-19]
- When asked about the certification process, a Native American part owner of an MBE/DBE/ESB construction-related firm stated, “It was a process [and] it took about three months.” [#I-38]
- A white female owner of a DBE/SBE/ESB professional services firm reported that “8(a) took me almost four years to apply for and receive and it was a horrendous process ....” [#I-18]

**Contract goals or other preference programs.** Of the interviewees who commented, most suggested the need for contract goals or other preference programs. For example, a representative of a woman-owned professional services firm commented that he would like to see “some sort of ES/WBE goal.” [#I-08] Other comments follow:

- “We have some awareness of them [preference programs] because we do attend some of the small business conferences ... at a senior management level, I don’t participate in any of those, I just know it happens ... we have participated in the past in the Governor’s Marketplace ... there’s a minority entrepreneurial organization .... OAME,” commented a white male representative of a white woman-owned professional services firm. [#I-03]
- A male representative of a minority-owned DBE construction firm reported, “Being a minority contractor ... I just do strictly competitive bidding work.” This interviewee reported that he encourages [preference programs or contract goals] for small businesses because as a small business he “can’t go out and bid a \$5 million job, but I sure can produce ....” [#I-19]
- Regarding contract goals programs, a male part owner of a construction-related firm reported, “[ODA] may maintain certain quotas, [but] ... I question how we are going about the inclusivity.” [#I-32]
- The white female owner of a DBE/SBE/ESB firm reported, “We have gotten quite a bit of work that is dedicated to 8(a), and a component of that is that we are a DBE organization, so I would say indirectly that has helped us on a federal level to get a few jobs that have more than paid for the expenses that we had to go through to get the 8(a) ....” She went on to say that the 8(a) certification is the only certification where they have “seen any return on [their] investment or labor.” [#I-18]
- “[Unfortunately,] we have not gained any business specifically from set asides,” reported a Native American female owner of a general services firm. [#AS-59]

- When interviewed, the white female owner of a DBE/SBE/ESB firm commented that preference programs are only useful if enforced, “Overall what we have experienced is the set asides, we’ve never won one quote, not one bid ... that has been in our set aside, not [for] DBE ... ESB ... woman-owned [or] not minority-owned, none of that has ever affected [us] ... which is very strange ....” [#I-18]

The same business owner continued, “The truth is that they’re not used, and they’re not enforced. Agencies and various organizations don’t hire or don’t give work out to organizations based on the fact that they’re [certified] ....” [#I-18]

- Regarding preference programs, the white male owner of a professional services firm reported, “I think [ODA] ... they do a good job of trying to open that door. But I think too, in the airport construction community, it’s really easy to not use [certified] firms because of maybe the lack of experience in the aviation industry. And so, it’s really easy to contact them, they’re not interested, and do your good faith effort, when [ODA airports and other airports] could maybe make more of a requirement of it, occasionally.” [#I-09]

## **F. Any other Insights and Recommendations for ODA Airports and other Airports**

Interviewees and availability survey respondents provided a myriad of comments and insights regarding how to improve Oregon airport procurement practices and other topics. Examples include:

- Some interviewees reported awareness of ODA’s current efforts to encourage use of minority- and woman-owned businesses and certified firms (on federally funded projects) and encouraged them to expand those efforts to other procurements. [e.g., #I-01, #I-40, #I-06, #I-10, #I-19, #I-23]
- “Scale the proposal process to who you’re trying to go after and court in terms of businesses,” remarked the white female owner of a WBE/ESB/DBE professional services firm. She added, “... the other is don’t create barriers through insurance or other external mechanisms that don’t have to do with the work that needs to get done. I’m not saying lower your standards ... proportion those standards with the kind of work that they’re looking to have completed.” She concluded, “... if you’re looking to try and get some new blood, and some new types of businesses, and new organizations that you haven’t worked with, then do it, have opportunities for them.” [#I-24]
- When interviewed, the white female representative of an employee-owned professional services firm commented, “... hold events to help facilitate firms meet minority-owned and women-owned businesses ... so people who may not know that there’s these firms out there that ... there’s a place where they can meet them ....” [#I-13]

The same business representative reported, “One way to help bring in diversity is youth outreach, so through STEM education and things like that, letting people know at a young age, what opportunities there are at airports, I think is always a great way to help let people who may not get into this industry, see it as a potential opportunity.” [#I-13]

- While discussing how to improve Oregon airport procurement practices, the white male owner of a professional services firm recommended that participating airports have a broader advertisement range for their job opportunities. [#I-14]
- A white male owner of a contracting firm reported, “I think that the small business entity, there could be additional emphasis on that ... you have women-owned, you have minority, but then there’s a small business category, I think that’s a category that could definitely fortify some of the smaller work groups and if there was some emphasis on selecting from those small businesses ....” [#I-17]
- One service-disabled veteran and partial owner of a construction-related firm reported that the airports should better acknowledge disabled veterans. He commented, “I guess recognizing that we’re out there, and we could service them ....” [#I-21]

## APPENDIX K.

### Business Assistance Programs in Oregon

Local and state agencies, not-for-profit organizations, membership organizations and other groups operate a broad range of assistance programs available to businesses in Oregon. Although the list of programs may not be exhaustive, it describes many programs that businesses in Oregon could access. Appendix K is organized into two parts:

- A. Federal government and other national programs; and
- B. State and local government, statewide membership organization, not-for-profit and private sector initiatives.

#### A. Federal Government and other National Program Examples

A summary of federal program examples follows.

**Federal ACDBE Program.** Commercial airports receiving FAA funds are required to implement the Federal Airport Concessions Disadvantaged Business Enterprise (ACDBE) Program related to certain airport concessions activities. Socially and economically disadvantaged firms can be certified as ACDBEs. Airports sometimes set goals for participation of ACDBEs in individual airport concessions agreements.

The ACDBE Program applies to commercial service airports with 10,000 or more annual enplanements. Non-primary airports, non-commercial service airports, general aviation airports, reliever airports, or any other airport that does not have scheduled commercial service are not required to have an ACDBE program.<sup>1</sup>

**Federal DBE Program.** The Federal Disadvantaged Business Enterprise (DBE) Program applies to contracts funded by the U.S. Department of Transportation. The USDOT requires state and local governments that receive funds from the Federal Highway Administration, Federal Transit Administration and Federal Aviation Administration to implement the Federal DBE Program.<sup>2</sup> The Federal DBE Program applies to FAA-funded contracts awarded by ODA or by agencies operating local airports.

The Oregon Certification Office for Business Inclusion and Diversity (COBID) is the organization in Oregon that certifies firms as DBEs. To be certified as a DBE, a firm must be socially and economically disadvantaged. Revenue limits, personal net worth limits and other restrictions apply.

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<sup>1</sup> 49 CFR Section 23.21.

<sup>2</sup> For FTA- and FAA-funded contracts, only agencies that exceed \$250,000 in those contract awards per year, per 49 CFR Section 26.21(a).

Most DBEs are minority- or women-owned firms, but white male-owned firms that can demonstrate social and economic disadvantage can be certified as DBEs as well.<sup>3</sup>

**Internal Revenue Service (IRS) Small Business and Self-Employed Tax Center.** The IRS provides a one-stop assistance center for small businesses or self-employed entrepreneurs. This program provides resources for taxpayers filing as self-employers or small businesses with assets under \$10 million. It includes information on independent contractors, preparing and filing taxes, online learning workshops, and the stages of owning a business.<sup>4</sup>

**Minority Business Development Agency (MBDA).** Part of the U.S. Department of Commerce, MBDA provides technical assistance and resources related to business financing, access to capital, contract opportunities and new opportunities for minority-owned businesses in the United States.<sup>5</sup>

**National Minority Supplier Development Council (NMSDC).** NMSDC is a corporate member organization focused on increasing business opportunities for certified minority-owned businesses. It operates the Business Consortium Fund, a nonprofit business development program that provides financing programs and business advisory services for its members.<sup>6</sup>

**Operation Hope Small-Business Empowerment Program.** The Operation Hope program assists aspiring entrepreneurs in low-wealth neighborhoods. The program combines business training and financial counseling with access to small business financing options. Participants complete a 12-week training program, plus workshops on business financing, credit and money management.<sup>7</sup>

**Small Business Development Centers (SBDCs).** U.S. Small Business Administration financially supports SBDCs throughout the country to provide small business training and business counseling to small business owners and prospective entrepreneurs. There are 19 full-time centers and more than 42 part-time satellite centers located throughout the state.<sup>8</sup>

**Small Business Innovation Research (SBIR).** SBIR program solicitations are issued by eleven Federal agencies, including the Department of Agriculture, Department of Commerce, Department of Defense, Department of Education, Department of Energy, Department of Health and Human Services, Department of Homeland Security, Department of Transportation, Environmental Protection Agency, National Aeronautics and Space Administration, and the National Science Foundation.<sup>9</sup>

**Small Business Technology Transfer (STTR).** STTR is designed to stimulate technological innovation and provide opportunities for small businesses in the field of research and development

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<sup>3</sup> See <https://www.transportation.gov/civil-rights/disadvantaged-business-enterprise/definition-disadvantaged-business-enterprise>

<sup>4</sup> See <https://www.irs.gov/businesses/small-businesses-self-employed>

<sup>5</sup> See <https://www.mbda.gov/>

<sup>6</sup> See <https://www.nmsdc.org/>

<sup>7</sup> See <https://operationhope.org/small-business-development/>

<sup>8</sup> See <https://bizcenter.org/centers/>

<sup>9</sup> See <https://www.sbir.gov/>

in partnership with federal agencies. Currently small businesses collaborate with agencies such as the Department of Defense, the Department of Energy, the Department of Health and Human Services, the National Aeronautics and Space Administration and the National Science Foundation in joint-venture opportunities throughout the nation.

**U.S. Chamber Small Business Division.** The Small Business Division offers free tools such as the Small Business Office Playbook and helps with selecting offices, cost control and choosing suppliers.<sup>10</sup>

**U.S. Department of Defense (DoD).** The U.S. Department of Defense (DoD) aids small businesses interested in participating in DoD contracts. It also applies incentives for using small businesses, American Indian-owned businesses, women-owned small businesses and firms located in historically underutilized business zones (HUBzones). Certain prime contracts are required to establish small business subcontracting programs.

DoD also operates a mentor-protégé program that matches large firms with small disadvantaged businesses, women-owned small businesses, service-disabled veteran-owned small businesses and. Mentors are reimbursed for mentoring expenses or are provided credit toward their small disadvantaged business subcontracting goals.

**U.S. Department of Housing and Urban Development (HUD).** HUD is the federal department that administers Community Development Block Grants (CDBG funds), certain federal housing programs and related programs. State and local governments that receive money from HUD must comply with HUD requirements regarding minority- and women-owned business participation in HUD-funded contracts, as well as participation of project-area residents in those contracts.

**U.S. Department of Transportation Office of Small and Disadvantaged Business Utilization (OSDBU).** The OSDBU offers a range of programs and resources to assist small and disadvantaged businesses. Initiatives include a mentor-protégé program, a bonding assistance program, the Women and Girls in Transportation Initiative and a short-term lending program. OSDBU partners with the Surety and Fidelity Association of America (SFAA) to help small businesses become bond ready.<sup>11</sup>

**U.S. Economic Development Administration (EDA).** U.S. EDA works directly with local communities and regions to advance economic development initiatives based on local requirements. The U.S. EDA provides grants to businesses for planning, technical assistance and infrastructure construction.<sup>12</sup>

**United States Environmental Protection Agency (EPA) Disadvantaged Business Enterprise (DBE) Program.** The EPA is the federal agency that administers regulations and programs regarding environmental protection. The EPA has certain requirements for the EPA Disadvantaged Business Enterprise (DBE) Program regarding participation of minority- and women-owned businesses, small

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<sup>10</sup> See <https://www.uschamber.com/members/small-business>

<sup>11</sup> See <https://www.transportation.gov/content/office-small-and-disadvantaged-business-utilization>

<sup>12</sup> See <https://www.eda.gov/>

businesses and other targeted businesses in EPA-funded contracts for construction, equipment, services and supplies.<sup>13</sup>

**U.S. Small Business Administration (SBA) Office of Veterans Business Development.** U.S. SBA Office of Veterans Business Development provides programs related to business training, counseling and assistance. It also oversees federal procurement programs for veteran- and service-disabled veteran-owned small businesses.<sup>14</sup>

**U.S. Small Business Administration (SBA) 7(a) Loan Program.** The SBA 7(a) Program provides small businesses access to up to \$5 million in loans to fund startup costs, buy equipment, purchase new land, repair existing capital and expand an existing business. To be considered eligible for the SBA 7(a) Loan Program, businesses must meet SBA's size standards which are dependent on a businesses' annual receipts and number of employees.<sup>15</sup>

**U.S. Small Business Administration (SBA) 8(a) Business Development Program.** The SBA 8(a) Business Development Program is a business assistance program for small disadvantaged businesses. It offers a broad scope of assistance to firms certified under the program (companies that are owned and controlled at least 51 percent by socially and economically disadvantaged individuals).<sup>16</sup> Program participants can compete for set-aside and sole-source federal contracts.

**Woman-Owned Small Business/Economically Disadvantaged Woman-Owned Small Business (WOSB/EDWOSB) Federal Contracting Program.** The WOSB/EDWOSB program administered by the U.S. SBA assists small businesses owned and controlled by one or more economically disadvantaged women to participate in federal procurement process with set-asides in industries where women-owned small businesses are substantially underrepresented. This program applies to direct contracts with federal agencies, not on contracts with agencies such as ODA.

To be a WOSB, a woman-owned small business in selected industries<sup>17</sup> must be at least 51 percent owned and controlled by women who are U.S. citizens and be a small business as defined by the U.S. SBA. To be eligible as an EDWOSB, the business must meet the criteria of the WOSB program and each owner must have less than \$750,000 in personal net worth, \$350,000 or less in adjusted gross income averaged over the previous years, and \$6 million or less in personal assets.<sup>18</sup>

## **B. State and Local Government, Statewide Membership Organization, Not-for-Profit and Private Sector Initiatives**

Examples of programs provided by Oregon-based organizations (or local chapters of national organizations) follow.

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<sup>13</sup> See [https://www.epa.gov/sites/production/files/2015-09/documents/tues\\_atlanta\\_5\\_1015\\_henderson.pdf](https://www.epa.gov/sites/production/files/2015-09/documents/tues_atlanta_5_1015_henderson.pdf)

<sup>14</sup> See <https://www.sba.gov/offices/headquarters/ovbd>

<sup>15</sup> See <https://www.sba.gov/partners/lenders/7a-loan-program/types-7a-loans>

<sup>16</sup> See <https://www.sba.gov/category/business-groups/minority-owned>

<sup>17</sup> See <https://www.sba.gov/document/support--qualifying-naics-women-owned-small-business-federal-contracting-program>

<sup>18</sup> See <https://www.certify.sba.gov/am-i-eligible>



**African American Chamber of Commerce of Oregon and SW Washington (AAC).** The AAC provides education, advocacy and networking opportunities for its members. It serves minority and majority communities in Oregon and southwest Washington.<sup>19</sup>

**American Council of Engineering Companies of Oregon (ACEC Oregon).** ACEC Oregon provides networking opportunities, access to business resources and expertise and advocacy on legislative issues having an impact on their businesses. It serves consulting engineering and surveying firms located in Oregon and Clark County, Washington.<sup>20</sup>

**Asian Pacific American Chamber of Commerce of Oregon and SW Washington (APACC).** APACC provides education, workshops, advocacy and networking opportunities for its members. It serves the Asian Pacific Islander community in Oregon and SW Washington.<sup>21</sup>

**Associated Builders and Contractors Pacific Northwest (ABC PNW).** ABC PNW is an organization for construction businesses located in the Portland Metro area. It provides education, safety training programs and government and legal representation for its members.<sup>22</sup>

**Associated General Contractors – Oregon Columbia Chapter (AGC).** AGC – Oregon Columbia Chapter is a trade association that provides its membership with training and education, safety and human resources consulting, advocacy at the legislative level, access to workers’ compensation insurance, health insurance and a retirement/401(k) program. AGC serves commercial construction companies in Oregon and Southwest Washington.<sup>23</sup>

**Black American Chamber of Commerce (BACC).** BACC provides businesses with networking opportunities, community-building events and scholarships for emerging leaders. It is a community-based organization that serves the greater Portland area.<sup>24</sup>

**Business Retention Services Program.** The Business Retention Services Program provides consulting services to companies experiencing financial or organizational hardship. Applicants are eligible for maximum benefits of \$15,000 for consulting services and \$30,000 for feasibility studies. The program is administered by the Oregon Certification Office for Business Inclusion and Diversity (COBID).<sup>25</sup>

**COBID.** See Oregon Certification Office for Business Inclusion and Diversity.

**Credit Enhancement Fund (CEF).** CEF provides loan guarantees to financial institutions to increase capital availability to small businesses. Loans are available to almost any type of business and can be

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<sup>19</sup> See [blackchamber.info](http://blackchamber.info)

<sup>20</sup> See <https://www.acecoregon.org/>

<sup>21</sup> See <https://weareapacc.wildapricot.org/About-us>

<sup>22</sup> See <http://www.abcpnw.org/>

<sup>23</sup> See <https://www.agc-oregon.org/>

<sup>24</sup> See <https://blackamericanchamber.org/>

<sup>25</sup> See <http://www.oregon4biz.com/How-We-Can-Help/Finance-Programs/BRS/>

used for fixed assets or working capital. CEF is administered through the Oregon Certification Office for Business Inclusion and Diversity (COBID).<sup>26</sup>

**Emerging Small Business Program (ESB).** The ESB program provides opportunities for small businesses to contract with ODOT. To be eligible, a small business must be independent and not a subsidiary of a larger firm. The program is race- and gender-neutral and certification is obtained through the Oregon Certification Office for Business Inclusion and Diversity (COBID).

**Entrepreneurial Development Loan Fund (EDLF).** EDLF provides direct loans to small businesses with revenues of less than \$500,000 in the previous 12 months or owned by a disabled person. EDLF is administered through the Oregon Certification Office for Business Inclusion and Diversity (COBID).<sup>27</sup> Also, see Oregon Certification Office for Business Inclusion and Diversity.

**Hispanic Metropolitan Chamber (HMC).** HMC serves the Hispanic business community in Portland and surrounding areas. It provides technical assistance, networking opportunities, workshops for small businesses, leadership development and educational and scholarship programs for emerging Latino students to attend college.<sup>28</sup>

**Mercy Corps Northwest (MCNW).** MCNW is part of Mercy Corps Global, a global humanitarian organization that has its U.S. headquarters in Portland, Oregon. It provides consulting services, training, personal development, access to capital and other resources for small business owners. MCNW serves low-income residents of Oregon and Washington.<sup>29</sup>

**Micro Enterprise Services of Oregon (MESO).** MESO provides small businesses owned by disenfranchised, low-income, immigrant/refugee, minority and underserved individuals with access to capital, education, business planning, market research, networking opportunities and access to resources.<sup>30</sup>

**MicroMentor.** MicroMentor connects business owners in underserved communities with volunteer mentors located throughout the world. MicroMentor is a program of Mercy Corps.<sup>31</sup>

**Minority, Women and Emerging Small Business (MWESB) program.** The State of Oregon and a number of local governments in Oregon operate a Minority, Women and Emerging Small Business (MWESB) program, which encourages utilization of minority- and women-owned firms and emerging small businesses in public contracting and procurement.

**National Association of Minority Contractors-Oregon (NAMC-Oregon).** NAMC-Oregon is a local chapter of the national trade association, NAMC. It provides advocacy, access to contracting opportunities, and priority bid sharing opportunities with partner prime contractors and agencies. Its

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<sup>26</sup> See <https://www.oregon4biz.com/How-We-Can-Help/Finance-Programs/CEF/>

<sup>27</sup> See <http://www.oregon4biz.com/How-We-Can-Help/Finance-Programs/EDLF/>

<sup>28</sup> See <https://hmccoregon.com/about/>

<sup>29</sup> See <https://www.mercycorpsnw.org/>

<sup>30</sup> See <https://www.mesopdx.org/>

<sup>31</sup> See <https://www.micromentor.org/>

membership is limited to minority-owned (MBE) or minority-owned disadvantages (DBE) business enterprise involved in construction contracting and subcontracting.<sup>32</sup>

**National Association of Women in Construction – Pacific Northwest (NAWIC PNW).**

NAWIC PNW provides education and networking opportunities for women in construction. Chapters in Oregon are located in Portland, Salem and Eugene.<sup>33</sup>

**Oregon Association of Minority Entrepreneurs (OAME).** OAME is a non-profit organization focused on the promotion and development of entrepreneurship and economic development. It provides free technical assistance and business consulting, access to capital (including SBA microloans), a mentorship program, a program that matches small businesses with contracting opportunities, incubator office spaces and networking opportunities. It serves ethnic minorities in Oregon and Southwest Washington.<sup>34</sup>

**Oregon Association of Minority Entrepreneurs Credit Corporation (OAMECC).** OAMECC is a subsidiary company of the Oregon Association of Minority Entrepreneurs (OAME) and provides access to capital for minority small businesses. It provides loans for firms with a minimum of 6 to 12 months in business in Oregon and Clark County, Washington that are ineligible for traditional financing. Loans can be used for working capital, payroll, equipment, and leasehold improvements.<sup>35</sup>

**Oregon Business Development Fund (OBDF).** OBDF is a direct loan program administered by Oregon Certification Office for Business Inclusion and Diversity (COBID). It assists businesses in need of capital for expansion in Oregon. To be eligible, businesses must be in manufacturing, production, processing or distribution. Preference is given to projects located in rural and distressed areas and small businesses with fewer than 100 employees. Loans can be obtained up to \$1 million.<sup>36</sup>

**Oregon Capital Access Program (CAP).** CAP is a loan program that encourages lenders to make more commercial loans available to small businesses and start-ups. Lenders build a loan-loss reserve each time they enroll a loan and contributions are matched by the CAP. The program is administered by Oregon Certification Office for Business Inclusion and Diversity (COBID)<sup>37</sup>

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<sup>32</sup> See <http://namc-oregon.org/>

<sup>33</sup> See <http://www.nawicpnw.org/> and <http://www.nawicportland54.org/>

<sup>34</sup> See <https://oame.org/>

<sup>35</sup> See <https://oame.org/programs-services/access-to-capital/>

<sup>36</sup> See <http://www.oregon4biz.com/How-We-Can-Help/Finance-Programs/OBDF/>

<sup>37</sup> See <https://www.oregon4biz.com/How-We-Can-Help/Finance-Programs/CAP/>

**Oregon Certification Office for Business Inclusion and Diversity (COBID).** COBID is the sole certification agency for the State of Oregon. It provides ACDBE and DBE certification under those federal programs. COBID also certifies MBEs, WBEs, ESBs and service-disabled veteran-owned businesses (SDVBEs), which are certifications used by state and local governments in Oregon. COBID also provides access to capital, information on tax incentives and other programs.<sup>38</sup>

**Oregon Department of Transportation (ODOT) Small Contracting Program (SCP).** The ODOT SCP is a vendor self-registration program for small businesses that can perform work in construction, architecture and engineering, non-A& E professional services and other related services. The registry is maintained by ODOT to increase participation of small businesses in small ODOT contracts.<sup>39</sup>

**Oregon Native American Chamber (ONAC).** ONAC provides information, mentoring, and networking, educational and economic opportunities for Native Americans in Oregon and Southwest Washington.<sup>40</sup>

**Oregon Native American Business Network (ONABEN).** ONABEN is a national organization that provides professional development, access to capital, strategic planning, communications and design, business planning and leadership capacity building to Native American communities throughout the country. ONABEN works with entrepreneurs who are indigenous people and the organizations that serve them.<sup>41</sup>

**Oregon Royalty Fund (ORF).** ORF is a direct loan program to help small businesses obtain short-term working capital. Businesses that do not qualify for traditional financing are eligible to apply and can pay a monthly royalty payment as a percentage of sales. ORF is administered through Oregon Certification Office for Business Inclusion and Diversity (COBID).

**Oregon State Chamber of Commerce (OSCC).** The OSCC represents 80 local chambers of commerce and more than 27,000 local businesses in Oregon. It provides all members with advocacy on issues affecting businesses in Oregon, professional development through programs, training and conference and networking opportunities.<sup>42</sup>

**PCDP.** See Prime Contractor Development Program (PCDP).

**Philippine American Chamber of Commerce of Oregon (PACCO).** PACCO provides the Filipino-American community with advocacy on issues affecting their businesses, business seminars, networking meetings and access to connections throughout Oregon.<sup>43</sup>

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<sup>38</sup> See <http://www.oregon4biz.com/How-We-Can-Help/COBID/>

<sup>39</sup> See <https://www.oregon.gov/odot/Business/OCR/Pages/Small-Business-Resources.aspx>

<sup>40</sup> See <https://onacc.org/>

<sup>41</sup> See <http://onaben.org/>

<sup>42</sup> See <https://www.oregonchamber.org/>

<sup>43</sup> See <https://www.pacco.org/>

**Port of Portland Mentor-Protégé Program.** The Mentor-Protégé program of the Port of Portland helps firms obtain new skills to perform requirements of airport contracts. It matches two industry mentors with a protégé (business owner) who receives assistance with business plans and marketing strategies, understanding financial statements and determining short- and long-term business goals. Firms must be certified through the Oregon Certification Office for Business Inclusion and Diversity (COBID) as a minority-owned business, women-owned business or Emerging Small Business and should have been in business for the last 24 months.<sup>44</sup>

**Port of Portland Small Business Enterprise Program.** The Port of Portland has a goal of awarding at least 20 percent of its contract dollars to certified small business contractors, subcontractors, suppliers and service providers. These firms must be certified as small businesses either by the State of Oregon’s Certification Office for Business Inclusion and Diversity or the Washington State Office of Minority & Women’s Business Enterprises

**Prime Contractor Development Program (PCDP).** The PDCP provides City of Portland construction prime contract opportunities from \$5,000 to \$1 million for State-certified Disadvantaged, Minority, Women and Emerging Small Businesses (D/MWESB). Contractors receive technical assistance in areas such as sewer and water, street and park improvement, building construction and tenant improvements. Educational opportunities in job costing, bidding and estimating and business development are also available.<sup>45</sup>

**Prosper Portland.** Prosper Portland is an economic development agency that provides Portland area businesses with economic development opportunities, connections to business capital, technical assistance and training.<sup>46</sup>

**Service Corps of Retired Executives (SCORE).** The Service Corps of Retired Executives (SCORE) is a non-profit, volunteer-run organization that offers small business supportive services and business mentoring nationwide as a resource partner of the U.S. Small Business Administration (SBA). It provides technical assistance such as help with business plans, marketing, sales and financial forecasting. Oregon has SCORE offices in Bend, Portland, Hood River, Corvallis and Eugene.<sup>47</sup>

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<sup>44</sup> See <https://www.portofportland.com/Business/MentorProtege>

<sup>45</sup> See <https://www.portlandoregon.gov/brfs/59370>

<sup>46</sup> See <https://prosperportland.us/about-us/>

<sup>47</sup> See <https://www.score.org/find-location>

## **APPENDIX L.**

### **Analysis of Airport Procurement and DBE Program Implementation**

Keen Independent analyzed how Oregon airports procure construction, architecture and engineering services, and other goods and services as background for other study tasks. This review was based on examination of procurement practices for each of the largest airports and a cross section of smaller airports in the study.

The study team also collected information about how each airport has operated the Federal DBE Program. Results include past overall annual DBE goals established by each airport and the projections of how much of those goals would be met through race-conscious and race-neutral means.

Appendix L is organized into two parts:

- A. Procurement analysis; and
- B. DBE program implementation analysis.

#### **A. Procurement Analysis**

The State of Oregon's Public Contracting Code requires contracting agencies, like cities and counties, to establish and follow specific guidelines when procuring construction, goods or services from vendors. These rules can be based on the following:

- The State of Oregon's Public Contracting Code (ORS 279A, 279B, 279C);
- The State of Oregon's Attorney General Model Rules (Chapter 137, Division 46-49);
- Rules and guidelines stipulated specifically by and for the contracting agency (subject to the Oregon Revised Statutes); or
- A combination of the above options.

Since most airports in the study are owned by other institutions, the study team based the analysis of these rules based on the corresponding owner. For example, Bend Municipal Airport is owned by the City of Bend, which means that the City's procurement guidelines are followed for any purchases at the airport. Because of this, the appendix also focuses on the procurement guidelines of non-ODA airports.

In the case of ODA airports, procurements services are provided as per contract by the ODOT Procurement Office (OPO) and are subject to legal sufficiency review by the Oregon Department of Justice for amounts exceeding \$150,000, unless they are considered to be for construction contracts

that are not defined as public improvements in the State of Oregon Public Code. In those cases, ODA is able to procure and supervise those contracts.

Note that both federally and locally funded contracts follow these rules with very few differences between a federally funded and a locally funded contract.

**Airports examined.** Keen Independent examined procurement rules for airports operated by ODA. These rules are summarized in Figure L-1 on page 4 of this appendix. In addition to ODA, Keen Independent analyzed the procurement rules generally pertaining to other airports in Oregon. To do so, the study team reviewed procurement procedures for a sample of 16 non-ODA airports:

- Ten large airports (based on total FAA-funded contract dollars awarded during the study period);
- Two small municipal airports (based on contract dollars awarded);
- Two county-owned airports; and
- Two port- or district-owned airports.

**Collecting procurement guidelines information.** The procurement information for each airport was gathered through:

- Information on the airport's or airport owner's website (including municipal codes, county codes, procurement manuals and other documents); and
- Information requested from the airport/contracting agency.

**Summarizing the collected procurement information.** Figures L-1 through L-11 provide information about each of the case study airports. Each table shows:

- Bidding thresholds;
- Bidding requirements;
- Basis for awarding contracts;
- Rules regarding advertisement of contracts; and
- Information about bonding and use of emergency contracts.

Information is provided for contracts in different industries (construction, architecture and engineering services, goods and services).

**Results of the procurement analysis.** Based on these case studies, procurement practices appear to be very similar across Oregon airports.

**Bidding thresholds.** For each airport, different bidding requirements apply based on the size of the contract. Threshold amounts depend on the type of work, as summarized below:

- **Construction contracts.** Small procurements (\$5,000 or below), intermediate procurements (\$5,000-\$100,000) and competitive sealed bids/proposals (\$100,000 or above).
- **Goods and services contracts.** Small procurements (\$10,000 or below), intermediate procurements (\$10,000-\$150,000) and competitive sealed bids/proposals (\$150,000 or above).
- **Architecture and engineering and related services contracts.** Small procurements (\$100,000 or below), intermediate procurements (\$100,001-\$250,000) and competitive sealed bids/proposals (\$250,000 or above).
- **Professional services contracts.** Small procurements (\$10,000 or below), intermediate procurements (\$10,000-\$150,000) and competitive sealed bids/proposals (\$150,000 or above).

**Bidding requirements.** The typical bidding requirements for the different types of procurements are as follows:

- **Small procurements.** The contracting agency has no bidding requirements to award a contract.
- **Intermediate procurements.** The agency must acquire solicitations from at least three firms for quotes/proposals to award a contract.
- **Competitive sealed bids/proposals.** The contracting agency must publicly advertise and open the contract for bids or proposals.

**Basis for award.** The typical bases used to award procurements are as follows:

- **Small procurements.** Directly awarded to a vendor of the contracting agency's choice.
- **Intermediate procurements.** Awarded to the vendor whose offer will best serve the interests of the contracting agency, considering factors like qualifications and/or price.
- **Competitive sealed proposals.** Awarded based on ranking of proposed workscopes, qualifications, price and other non-price factors.
- **Competitive sealed bids.** Awarded to the lowest responsible bidder.

**Means of advertising, bonds and emergency contracts.** Public advertising is typically required for larger procurements. Agencies can place advertisements in newspapers of general circulation as well as electronically. When done electronically, ads are normally placed within the agency's website (i.e., City website) or a procurement information network (i.e., ORPIN). Additionally, if a construction contract is expected to be \$125,000 or more, agencies must advertise the project in a statewide trade publication.



Bid bonds can be required by contracting agencies during the competitive bidding process. Generally, bid bonds are for 5 to 10 percent of the contract value. Performance and payment bonds for construction projects are also required by most contracting agencies and are usually for 100 percent of the contract value if the estimated cost of the contract is \$100,000 or more.

Typically, contracting agencies will also have procurement guideline exemptions that allow for bidding requirements to be waived for emergency purchases.

**Collection of airport guideline matrices.** Figures L-1 through L-11 provide information about each of the case study airports.

Figure L-1.

Procurement guidelines matrix for ODA and additional airports within the state

| <b>Airport with same guidelines:</b><br>Crater Lake — Klamath Regional Airport<br>Florence Municipal Airport<br>McMinnville Municipal Airport<br>Southwest Oregon Regional Airport<br>Eugene Airport (Mahlon Sweet Field)<br>Ken Jernstedt Airfield<br>ORS reference | <b>Construction<br/>(public improvements)</b><br>ORS 279C                           | <b>Goods and services<br/>(including non-A&amp;E-<br/>related professional<br/>services)</b><br>ORS 279B | <b>A&amp;E, photogrammetric<br/>mapping,<br/>transportation<br/>planning, land<br/>surveying</b><br>ORS 279C | <b>Other services<br/>related to A&amp;E</b><br>ORS 279C |
|--|---|--|--|--|
| <b>Bidding thresholds</b>  |   |  |  |  |
| Requiring competitive sealed bids/proposals  | Above \$100,000   | Above \$150,000  | Above \$250,000  | Above \$250,000  |
| Intermediate procurements  | \$5,001–\$100,000   | \$10,001–\$150,000   | \$100,001–\$250,000  | \$100,001–\$250,000                                      |
| Small procurements ("direct appointment" for A&E)  | \$5,000 or below  | \$10,000 or below  | \$100,000 or below   | \$100,000 or below                                       |
| <b>Bidding requirements</b>  |   |  |  |  |
| Competitive sealed bids/proposals  | Public advertising  | Public advertising   | Public advertising   | Public advertising                                       |
| Intermediate procurements  | Solicitation of at least 3 firms for quotes (internal policy)                       | Solicitation of at least 3 firms for quotes or proposals   | Solicitation of at least 3 firms for proposals   | Solicitation of at least 3 firms for proposals           |
| Small procurements   | No bidding required   | No bidding required  | No bidding required  | No bidding required                                      |
| Means of public advertising  | Local newspaper and/or electronic and (if \$125,000+) a statewide trade publication | Local newspaper and/or electronic  | Local newspaper and/or electronic  | Local newspaper and/or electronic                        |
| <b>Basis for award</b>   |   |  |  |  |
| Competitive sealed bids  | Lowest responsible bidder   | Lowest responsible bidder whose bid substantially complies with requirements                             | N/A  | N/A  |
| Competitive sealed proposals   | Responsive proposer with the best responsive proposal                               | Qualifications, price and other factors  | Qualifications, price and other factors  | Qualifications, price and other factors                  |
| Intermediate procurements  | Offer that will best serve the interests of the contracting agency                  | Offer that will best serve the interests of the contracting agency                                       | Qualifications, price and other factors  | Qualifications, price and other factors                  |
| Small procurements   | \$5,000 or below  | N/A (no bidding required)  | N/A  | N/A  |
| <b>Other</b>   |   |  |  |  |
| Provision for emergency purchases where bidding requirements waived  | Yes   | Yes  | Yes  | Yes  |
| Bonding requirements   | Bid bond of 5–10%<br><br>100% performance and payment bonds (if \$100,000+)         | Optional   | Optional   | Optional   |

Note: Figure L-1 summarizes the procurement guidelines for ODA state-owned airports, and other non-state-owned airports that share the same rules for procurement. These additional airports are listed in the figure above.

Source: State of Oregon Public Contracting Code.

Figure L-2.  
Bend Municipal Airport procurement guidelines matrix

|   | <b>Construction<br/>(public improvements)</b>                                       | <b>Goods and services<br/>(including non-A&amp;E-<br/>related professional<br/>services)</b> | <b>A&amp;E, photogrammetric<br/>mapping,<br/>transportation<br/>planning, land<br/>surveying</b> | <b>Other services<br/>related to A&amp;E</b>          |
|---|---|--|--|---|
| ORS reference   | ORS 279C  | ORS 279B   | ORS 279C   | ORS 279C  |
| <b>Bidding thresholds</b>   |   |  |  |   |
| Requiring competitive sealed bids/proposals                         | Above \$100,000   | Above \$100,000  | Above \$250,000  | Above \$250,000                                       |
| Intermediate procurements   | \$5,001–\$100,000   | \$10,001–\$100,000   | \$100,001–\$250,000  | \$100,001–\$250,000                                   |
| Small procurements<br>("direct appointment" for A&E)                | \$5,000 or below  | \$10,000 or below  | \$100,000 or below   | \$100,000 or below                                    |
| <b>Bidding requirements</b>   |   |  |  |   |
| Competitive sealed bids/proposals                                   | Public advertising  | Public advertising   | Public advertising   | Public advertising                                    |
| Intermediate procurements   | Solicitation of at least 3 firms for quotes   | Solicitation of at least 3 firms for quotes or proposals*                                    | <b>Solicitation of at least 5 firms for proposals</b>  | <b>Solicitation of at least 5 firms for proposals</b> |
| Small procurements  | No bidding required   | No bidding required  | No bidding required  | No bidding required                                   |
| Means of public advertising   | Local newspaper and/or electronic and (if \$125,000+) a statewide trade publication | Local newspaper and/or electronic  | Local newspaper and/or electronic  | Local newspaper and/or electronic                     |
| <b>Basis for award</b>  |   |  |  |   |
| Competitive sealed bids   | Lowest responsible bidder   | Lowest responsible bidder whose bid substantially complies with requirements                 | N/A  | N/A   |
| Competitive sealed proposals  | Responsive proposer with the best responsive proposal                               | Qualifications, price and other factors  | Qualifications and other non-price factors (typically)   | Qualifications, price and other factors               |
| Intermediate procurements   | Offer that will best serve the interests of the contracting agency                  | Offer that will best serve the interests of the contracting agency                           | Qualifications and other non-price factors (typically)   | Qualifications and other factors, may include price   |
| Small procurements  | \$5,000 or below  | N/A (no bidding required)  | N/A  | N/A   |
| <b>Other</b>  |   |  |  |   |
| Provision for emergency purchases where bidding requirements waived | Yes   | Yes  | Yes  | Yes   |
| Bonding requirements  | Bid bond of 5–10%<br><br>100% performance and payment bonds (if \$100,000+)         | Optional   | Optional   | Optional  |

Source: Bend Code Chapter 1.55 PUBLIC CONTRACTS.

Figure L-3.  
Redmond Municipal Airport procurement guidelines matrix

|   | <b>Construction<br/>(public improvements)</b>                                       | <b>Goods and services<br/>(not including personal<br/>services)</b>          | <b>A&amp;E, photogrammetric<br/>mapping, land<br/>surveying and related<br/>services</b> | <b>Personal services<br/>(non-A&amp;E professional<br/>services)</b> |
|---|---|--|--|--|
| ORS reference   | ORS 279C  | ORS 279B   | ORS 279C   | ORS 279C   |
| <b>Bidding thresholds</b>   |   |  |  |  |
| Requiring competitive sealed bids/proposals                         | Above \$100,000   | Above \$150,000  | Above \$250,000  | Above \$150,000  |
| Intermediate procurements   | \$5,001–\$100,000   | \$10,001–\$150,000   | \$100,001–\$250,000  | \$10,001–\$150,000   |
| Small procurements<br>("direct appointment" for A&E)                | \$5,000 or below  | \$10,000 or below  | \$100,000 or below   | \$10,000 or below  |
| <b>Bidding requirements</b>   |   |  |  |  |
| Competitive sealed bids/proposals                                   | Public advertising  | Public advertising   | Public advertising   | Public advertising   |
| Intermediate procurements   | Solicitation of at least 3 firms for quotes (internal policy)                       | Solicitation of at least 3 firms for quotes or proposals                     | Solicitation of at least 3 firms for proposals   | Solicitation of at least 3 firms for proposals                       |
| Small procurements  | No bidding required   | No bidding required  | No bidding required  | No bidding required  |
| Means of public advertising   | Local newspaper and/or electronic and (if \$125,000+) a statewide trade publication | Local newspaper and/or electronic  | Local newspaper and/or electronic  | Local newspaper and/or electronic                                    |
| <b>Basis for award</b>  |   |  |  |  |
| Competitive sealed bids   | Lowest responsible bidder   | Lowest responsible bidder whose bid substantially complies with requirements | N/A  | N/A  |
| Competitive sealed proposals  | Responsive proposer with the best responsive proposal                               | Qualifications, price and other factors                                      | Qualifications and other non-price factors (typically)                                   | <b>Qualifications, price and other factors</b>                       |
| Intermediate procurements   | Offer that will best serve the interests of the contracting agency                  | Offer that will best serve the interests of the contracting agency           | Qualifications and other non-price factors (typically)                                   | Qualifications, price and other factors                              |
| Small procurements  | \$5,000 or below  | N/A (no bidding required)  | N/A  | N/A  |
| <b>Other</b>  |   |  |  |  |
| Provision for emergency purchases where bidding requirements waived | Yes   | Yes  | Yes  | Yes  |
| Bonding requirements  | Bid bond of 5–10%<br><br>100% performance and payment bonds (if \$100,000+)         | Optional   | Optional   | Optional   |

Source: Code of the City of Redmond.

Figure L-4.  
Rogue Valley International Airport procurement guidelines matrix

|   | <b>Construction<br/>(public improvements)</b>  | <b>Goods and services</b>  | <b>A&amp;E and A&amp;E related<br/>services</b>  | <b>Personal services<br/>(not including A&amp;E and<br/>A&amp;E-related services)</b> |
|---|--|--|--|---|
| ORS reference   | ORS 279C   | ORS 279B   | ORS 279C   | ORS 279C  |
| <b>Bidding thresholds</b>   |  |  |  |   |
| Requiring competitive sealed bids/proposals                         | <b>Above \$150,000</b>   | Above \$150,000  | <b>Above \$100,000</b>   | <b>Above \$150,000 (optional)</b>   |
| Intermediate procurements   | <b>\$10,001–\$150,000</b>  | \$10,001–\$150,000   | <b>\$10,000–\$100,000 (optional)</b>   | <b>\$10,000–\$150,000 (optional)</b>  |
| Small procurements ("direct appointment" for A&E)                   | <b>\$10,000 or below</b>   | \$10,000 or below  | \$100,000 or below   | \$10,000 or below   |
| <b>Bidding requirements</b>   |  |  |  |   |
| Competitive sealed bids/proposals                                   | Public advertising   | Public advertising   | Public advertising   | <b>Public advertising (optional)</b>  |
| Intermediate procurements   | Solicitation of at least 3 firms for quotes  | Solicitation of at least 3 firms for quotes or proposals                     | <b>Informal solicitation of at least 3 firms for quotes or proposals (optional method)</b> | <b>Informal solicitation of at least 3 firms for quotes or proposals (optional)</b>   |
| Small procurements  | No bidding required  | No bidding required  | No bidding required  | No bidding required   |
| Means of public advertising   | Local newspaper and/or electronic and (if \$125,000+) a statewide trade publication                    | Local newspaper and/or electronic  | Local newspaper and/or electronic  | Local newspaper and/or electronic   |
| <b>Basis for award</b>  |  |  |  |   |
| Competitive sealed bids   | <b>Lowest responsible bidder whose bid substantially complies with requirements</b>                    | Lowest responsible bidder whose bid substantially complies with requirements | N/A  | Lowest responsible bidder whose bid substantially complies with requirements          |
| Competitive sealed proposals  | Responsive proposer with the best responsive proposal  | Qualifications, price and other factors                                      | Qualifications and other non-price factors (typically)                                     | Qualifications, price and other factors   |
| Intermediate procurements   | Offer that will best serve the interests of the contracting agency                                     | Offer that will best serve the interests of the contracting agency           | <b>Offer that will best serve the interests of the contracting agency</b>                  | Offer that will best serve the interests of the contracting agency                    |
| Small procurements  | <b>\$10,000 or below</b>   | N/A (no bidding required)  | N/A  | N/A   |
| <b>Other</b>  |  |  |  |   |
| Provision for emergency purchases where bidding requirements waived | Yes  | Yes  | Yes  | Yes   |
| Bonding requirements  | <b>Bid security of 10% (Optional)</b><br><br><b>100% performance and payment bonds (if \$100,000+)</b> | <b>Bid security of 10% (Optional)</b>  | Optional   | Optional  |

Source: Jackson County, Oregon Local Contract Review Board Rules.

Figure L-5.  
Eastern Oregon Regional Airport procurement guidelines matrix

|   | <b>Construction<br/>(public improvements)</b>                                       | <b>Goods and services</b>  | <b>Personal services</b>   | <b>A&amp;E,<br/>photogrammetric<br/>mapping,<br/>transportation<br/>planning, land<br/>surveying and other<br/>A&amp;E related services</b> |
|---|---|--|--|---|
| ORS reference   | ORS 279C  | ORS 279B   | ORS 279B   | ORS 279C  |
| <b>Bidding thresholds</b>   |   |  |  |   |
| Requiring competitive sealed bids/proposals                         | <b>Above \$150,000</b>  | Above \$150,000  | Above \$150,000  | Above \$250,000   |
| Intermediate procurements   | <b>\$5,001–\$150,000</b>  | <b>\$5,001–\$150,000</b>   | \$10,001–\$150,000   | \$100,001–\$250,000   |
| Small procurements<br>("direct appointment" for A&E)                | \$5,000 or below  | <b>\$5,000 or below</b>  | \$10,000 or below  | \$100,000 or below  |
| <b>Bidding requirements</b>   |   |  |  |   |
| Competitive sealed bids/proposals                                   | Public advertising  | Public advertising   | Public advertising   | Public advertising  |
| Intermediate procurements   | Solicitation of at least 3 firms for quotes (internal policy)                       | Solicitation of at least 3 firms for quotes or proposals                     | Solicitation of at least 3 firms for quotes or proposals                     | <b>Solicitation of at least 5 firms for proposals</b>   |
| Small procurements  | No bidding required   | No bidding required  | No bidding required  | No bidding required   |
| Means of public advertising   | Local newspaper and/or electronic and (if \$125,000+) a statewide trade publication | Local newspaper and/or electronic  | Local newspaper and/or electronic  | Local newspaper and/or electronic   |
| <b>Basis for award</b>  |   |  |  |   |
| Competitive sealed bids   | Lowest responsible bidder   | Lowest responsible bidder whose bid substantially complies with requirements | Lowest responsible bidder whose bid substantially complies with requirements | N/A   |
| Competitive sealed proposals  | Responsive proposer with the best responsive proposal                               | Qualifications, price and other factors                                      | Qualifications, price and other factors                                      | Qualifications and other non-price factors (typically)  |
| Intermediate procurements   | Offer that will best serve the interests of the contracting agency                  | Offer that will best serve the interests of the contracting agency           | <b>Qualifications and other non-price factors (typically)</b>                | Qualifications and other non-price factors (typically)  |
| Small procurements  | \$5,000 or below  | N/A (no bidding required)  | N/A (no bidding required)  | N/A   |
| <b>Other</b>  |   |  |  |   |
| Provision for emergency purchases where bidding requirements waived | Yes   | Yes  | Yes  | Yes   |
| Bonding requirements  | Bid bond of 5–10%<br><br>100% performance and payment bonds (if \$100,000+)         | Optional   | Optional   | Optional  |

Source: City of Pendleton, Oregon Ordinance No. 3715, An Ordinance Providing for Procedures for Public Contracting and Repealing Ordinance 2872 (2019).

Figure L-6.  
Salem Municipal Airport (McNary Field) procurement guidelines matrix

|   | <b>Construction<br/>(public improvements)</b>  | <b>Goods and services</b>   | <b>A&amp;E and A&amp;E-related<br/>services</b>   | <b>Personal services</b>  |
|---|--|---|---|---|
| ORS reference   | ORS 279C   | ORS 279B  | ORS 279C  |   |
| <b>Bidding thresholds</b>   |  |   |   |   |
| Requiring competitive sealed bids/proposals                         | Above \$100,000  | <b>Above \$100,000</b>  | <b>Above \$100,000</b>  | <b>Above \$100,000</b>  |
| Intermediate procurements   | <b>\$100,000 or below</b>  | <b>\$10,001–\$100,000</b>   | <b>\$100,000 or below</b>   | <b>\$25,001–\$100,000</b>   |
| Small procurements ("direct appointment" for A&E)                   | <b>N/A</b>   | \$10,000 or below   | \$100,000 or below  | <b>\$25,000 or below</b>  |
| <b>Bidding requirements</b>   |  |   |   |   |
| Competitive sealed bids/proposals                                   | Public advertising   | Public advertising  | Public advertising  | Public advertising  |
| Intermediate procurements   | Solicitation of at least 3 firms for quotes (internal policy)  | Solicitation of at least 3 firms for quotes or proposals  | Solicitation of at least 3 firms for proposals  | Solicitation of at least 3 firms for proposals  |
| Small procurements  | N/A  | <b>\$5,000 or below (no bidding)<br/>\$5,000–\$10,000 (competitive verbal quotes or informal written solicitations)</b> | No bidding required   | No bidding required   |
| Means of public advertising   | Local newspaper and/or electronic and (if \$125,000+) a statewide trade publication                      | <b>Local newspaper and/or electronic (if \$100,000+)</b>  | <b>Local newspaper and/or electronic (if \$100,000+)</b>  | Local newspaper and/or electronic   |
| <b>Basis for award</b>  |  |   |   |   |
| Competitive sealed bids   | Lowest responsible bidder  | Lowest responsible bidder whose bid substantially complies with requirements  | N/A   | N/A   |
| Competitive sealed proposals  | Responsible bidder with the best responsive offer  | <b>Responsible proposers submitting responsive proposals that are the most advantageous to the City</b>                 | <b>Responsible proposers submitting responsive proposals that are the most advantageous to the City</b> | <b>Responsible proposers submitting responsive proposals that are the most advantageous to the City</b>             |
| Intermediate procurements   | <b>Limited to price, or a combination of price, experience, contractor capacity, and similar factors</b> | Offer that will best serve the interests of the contracting agency  | Qualifications, price and other non-price factors (typically)   | <b>Awarded to the responsible proposer submitting the responsive proposal that is most advantageous to the City</b> |
| Small procurements  | N/A  | <b>Offer that will best serve the interests of the contracting agency</b>   | N/A   | N/A   |
| <b>Other</b>  |  |   |   |   |
| Provision for emergency purchases where bidding requirements waived | Yes  | Yes   | Yes   | Yes   |
| Bonding requirements  | Bid bond of 5–10%<br><br>100% performance and payment bonds (if \$100,000+)                              | Optional  | Optional  | Optional  |

Source: City of Salem Public Contracting Rules (2018).

Figure L-7.  
Madras Municipal Airport procurement guidelines matrix

|   | <b>Construction<br/>(public improvements)</b>                                       | <b>Goods and services</b>  | <b>A&amp;E, photogrammetric<br/>mapping,<br/>transportation<br/>planning, land<br/>surveying</b> | <b>Personal services<br/>(Professional services<br/>not related to A&amp;E)</b> |
|---|---|--|--|---|
| ORS reference   | ORS 279C  | ORS 279B   | ORS 279C   |   |
| <b>Bidding thresholds</b>   |   |  |  |   |
| Requiring competitive sealed bids/proposals                         | Above \$100,000   | Above \$150,000  | Above \$250,000  | Above \$150,000   |
| Intermediate procurements   | \$5,001–\$100,000   | \$10,001–\$150,000   | \$100,001–\$250,000  | \$10,001–\$150,000  |
| Small procurements<br>("direct appointment" for A&E)                | \$5,000 or below  | \$10,000 or below  | \$100,000 or below   | \$10,000 or below   |
| <b>Bidding requirements</b>   |   |  |  |   |
| Competitive sealed bids/proposals                                   | Public advertising  | Public advertising   | Public advertising   | Public advertising  |
| Intermediate procurements   | Solicitation of at least 3 firms for quotes (internal policy)                       | Solicitation of at least 3 firms for quotes or proposals                     | Solicitation of at least 3 firms for proposals   | <b>Solicitation of at least 2 firms for proposals</b>                           |
| Small procurements  | No bidding required   | No bidding required  | No bidding required  | No bidding required   |
| Means of public advertising   | Local newspaper and/or electronic and (if \$125,000+) a statewide trade publication | Local newspaper and/or electronic  | Local newspaper and/or electronic  | Local newspaper and/or electronic   |
| <b>Basis for award</b>  |   |  |  |   |
| Competitive sealed bids   | Lowest responsible bidder   | Lowest responsible bidder whose bid substantially complies with requirements | N/A  | Lowest responsible bidder whose bid substantially complies with requirements    |
| Competitive sealed proposals  | Responsive proposer with the best responsive proposal                               | Qualifications, price and other factors                                      | Qualifications and other non-price factors (typically)   | Qualifications, price and other factors   |
| Intermediate procurements   | Offer that will best serve the interests of the contracting agency                  | Offer that will best serve the interests of the contracting agency           | Qualifications and other non-price factors (typically)   | Qualifications, price other non-price factors (typically)                       |
| Small procurements  | \$5,000 or below  | N/A (no bidding required)  | N/A  | N/A (no bidding required)   |
| <b>Other</b>  |   |  |  |   |
| Provision for emergency purchases where bidding requirements waived | Yes   | Yes  | Yes  | Yes   |
| Bonding requirements  | Bid bond of 5–10%<br><br>100% performance and payment bonds (if \$100,000+)         | Optional   | Optional   | Optional  |

Source: Madras Ordinance No. 886 (2016).



Figure L-8.  
Hermiston Municipal Airport procurement guidelines matrix

|   | <b>Construction<br/>(public improvements)</b>  | <b>Goods and services</b>  | <b>Personal services</b>   | <b>A&amp;E and related<br/>services</b>                |
|---|--|--|--|--|
| ORS reference   | ORS 279C   | ORS 279B   | ORS 279C   | ORS 279C   |
| <b>Bidding thresholds</b>   |  |  |  |  |
| Requiring competitive sealed bids/proposals                         | Above \$100,000  | Above \$150,000  | <b>Above \$150,000</b>   | <b>Above \$150,000</b>                                 |
| Intermediate procurements   | \$5,001–\$100,000  | <b>\$5,001–\$150,000</b>   | <b>\$75,001–\$150,000</b>  | <b>\$100,001–\$150,000</b>                             |
| Small procurements ("direct appointment" for A&E)                   | \$5,000 or below   | <b>\$5,000 or below</b>  | <b>\$75,000 or below</b>   | \$100,000 or below                                     |
| <b>Bidding requirements</b>   |  |  |  |  |
| Competitive sealed bids/proposals                                   | Public advertising   | Public advertising   | Public advertising   | Public advertising                                     |
| Intermediate procurements   | Solicitation of at least 3 firms for quotes (internal policy)                                  | Solicitation of at least 3 firms for quotes or proposals                     | Solicitation of at least 3 firms for proposals   | Solicitation of at least 3 firms for proposals         |
| Small procurements  | No bidding required  | No bidding required  | <b>Direct award from a qualified vendor pool (\$25,001+)</b><br><b>Simple direct award (\$25,000+)</b> | No bidding required                                    |
| Means of public advertising   | Local newspaper and/or electronic and (if \$125,000+) a statewide trade publication            | Local newspaper and/or electronic  | Local newspaper and/or electronic  | Local newspaper and/or electronic                      |
| <b>Basis for award</b>  |  |  |  |  |
| Competitive sealed bids   | Lowest responsible bidder  | Lowest responsible bidder whose bid substantially complies with requirements | N/A  | N/A  |
| Competitive sealed proposals  | Responsive proposer with the best responsive proposal  | Qualifications, price and other factors                                      | Qualifications, price and other non-price factors (typically)  | Qualifications and other non-price factors (typically) |
| Intermediate procurements   | Offer that will best serve the interests of the contracting agency                             | Offer that will best serve the interests of the contracting agency           | Qualifications, price and other non-price factors (typically)  | Qualifications and other non-price factors (typically) |
| Small procurements  | \$5,000 or below   | N/A (no bidding required)  | N/A  | N/A  |
| <b>Other</b>  |  |  |  |  |
| Provision for emergency purchases where bidding requirements waived | Yes  | Yes  | Yes  | Yes  |
| Bonding requirements  | <b>Bid bond of 10% or less</b><br><br><b>100% performance and payment bonds (if \$50,000+)</b> | Optional   | Optional   | Optional   |

Source: Code of Hermiston, CHAPTER 35: Public Contracts (2020).

Figure L-9.  
Ashland Municipal Airport procurement guidelines matrix

| ORS reference   | Construction<br>(public improvements)<br>ORS 279C                                   | Goods and services<br>ORS 279B   | A&E related services<br>and non-A&E-related<br>professional services<br>ORS 279C  |
|---|---|--|---|
| <b>Bidding thresholds</b>   |   |  |   |
| Requiring competitive sealed bids/proposals                         | Above \$100,000   | <b>\$100,000 or above</b>  | <b>Above \$75,000</b>   |
| Intermediate procurements   | \$5,001–\$100,000   | <b>\$5,001–\$99,999</b>  | <b>\$35,001–\$75,000</b>  |
| Small procurements<br>("direct appointment" for A&E)                | \$5,000 or below  | <b>\$5,000 or below</b>  | <b>\$35,000 or below<br/>(\$100,000 or below if<br/>vendor is from a<br/>prequalified pool or is<br/>continuing work)</b> |
| <b>Bidding requirements</b>   |   |  |   |
| Competitive sealed bids/proposals                                   | Public advertising  | Public advertising   | Public advertising  |
| Intermediate procurements   | Solicitation of at least 3 firms for quotes (internal policy)                       | Solicitation of at least 3 firms for quotes or proposals                     | Solicitation of at least 3 firms for proposals  |
| Small procurements  | No bidding required   | No bidding required  | No bidding required   |
| Means of public advertising   | Local newspaper and/or electronic and (if \$125,000+) a statewide trade publication | Local newspaper and/or electronic  | Local newspaper and/or electronic   |
| <b>Basis for award</b>  |   |  |   |
| Competitive sealed bids   | Lowest responsible bidder   | Lowest responsible bidder whose bid substantially complies with requirements | N/A   |
| Competitive sealed proposals  | Responsive proposer with the best responsive proposal                               | Qualifications, price and other factors                                      | Qualifications, price and other factors   |
| Intermediate procurements   | Offer that will best serve the interests of the contracting agency                  | Offer that will best serve the interests of the contracting agency           | Qualifications, price and other factors   |
| Small procurements  | \$5,000 or below  | N/A (no bidding required)  | N/A   |
| <b>Other</b>  |   |  |   |
| Provision for emergency purchases where bidding requirements waived | Yes   | Yes  | Yes   |
| Bonding requirements  | Bid bond of 5–10%<br><br>100% performance and payment bonds (if \$100,000+)         | Optional   | Optional  |

Source: Ashland Municipal Code, Ch. 2.50 Rules of Procedure for Public Contracting (2020).

Figure L-10.  
Illinois Valley Airport procurement guidelines matrix

|   | <b>Construction<br/>(public improvements)</b>  | <b>Personal services<br/>(including A&amp;E related<br/>services)</b>  | <b>Goods and services</b>  |
|---|--|--|--|
| ORS reference   | ORS 279C   | ORS 279C   | ORS 279B   |
| <b>Bidding thresholds</b>   |  |  |  |
| Requiring competitive sealed bids/proposals                         | <b>Above \$50,000</b>  | <b>Above \$150,000</b>   | Above \$150,000  |
| Intermediate procurements   | <b>\$5,001–\$50,000</b>  | <b>\$20,001–\$150,000</b>  | <b>\$5,001–\$150,000</b>   |
| Small procurements<br>("direct appointment" for A&E)                | \$5,000 or below   | <b>\$20,000 or below</b>   | <b>\$5,000 or below</b>  |
| <b>Bidding requirements</b>   |  |  |  |
| Competitive sealed bids/proposals                                   | Public advertising   | Public advertising   | Public advertising   |
| Intermediate procurements   | Solicitation of at least 3 firms for quotes (internal policy)  | Solicitation of at least 3 firms for quotes or proposals   | Solicitation of at least 3 firms for proposals   |
| Small procurements  | No bidding required  | No bidding required  | No bidding required  |
| Means of public advertising   | Local newspaper and/or electronic and (if \$125,000+) a statewide trade publication                            | Local newspaper and/or electronic  | Local newspaper and/or electronic  |
| <b>Basis for award</b>  |  |  |  |
| Competitive sealed bids   | Lowest responsible bidder  | N/A  | Lowest responsive bidder   |
| Competitive sealed proposals  | <b>N/A</b>   | Qualifications, price and other factors  | Qualifications, price and other factors  |
| Intermediate procurements   | Lowest responsible quote or the responsible offer that will best serve the interests of the contracting agency | Lowest responsible quote or the responsible offer that will best serve the interests of the contracting agency | Lowest responsible quote or the responsible offer that will best serve the interests of the contracting agency |
| Small procurements  | \$5,000 or below   | N/A (no bidding required)  | N/A  |
| <b>Other</b>  |  |  |  |
| Provision for emergency purchases where bidding requirements waived | Yes  | Yes  | Yes  |
| Bonding requirements  | <b>Bid bond of 10%</b><br><br><b>100% performance and payment bonds (if \$75,000+)</b>                         | Optional   | Optional   |

Source: Josephine County Board of Commissioners Resolution 2005-17 (2005).

Figure L-11.  
Astoria Regional Airport procurement guidelines

|   | <b>Construction<br/>(public improvements)</b>                                       | <b>Goods and services</b>  | <b>A&amp;E, photogrammetric<br/>mapping,<br/>transportation<br/>planning, land<br/>surveying</b> | <b>Professional services<br/>(excluding A&amp;E and<br/>A&amp;E-related services)</b> |
|---|---|--|--|---|
| ORS reference   | ORS 279C  | ORS 279B   | ORS 279C   | ORS 279C  |
| <b>Bidding thresholds</b>   |   |  |  |   |
| Requiring competitive sealed bids/proposals                         | Above \$100,000   | Above \$150,000  | Above \$250,000  | <b>Optional</b>   |
| Intermediate procurements   | \$5,001–\$100,000   | \$10,001–\$150,000   | \$100,001–\$250,000  | <b>Optional</b>   |
| Small procurements<br>("direct appointment" for A&E)                | \$5,000 or below  | \$10,000 or below  | \$100,000 or below   | <b>All contracts can be<br/>directly awarded</b>                                      |
| <b>Bidding requirements</b>   |   |  |  |   |
| Competitive sealed bids/proposals                                   | Public advertising  | Public advertising   | Public advertising   | Public advertising  |
| Intermediate procurements   | Solicitation of at least 3 firms for quotes (internal policy)                       | Solicitation of at least 3 firms for quotes or proposals                     | Solicitation of at least 3 firms for proposals   | Solicitation of at least 3 firms for proposals  |
| Small procurements  | No bidding required   | No bidding required  | No bidding required  | No bidding required   |
| Means of public advertising   | Local newspaper and/or electronic and (if \$125,000+) a statewide trade publication | Local newspaper and/or electronic  | Local newspaper and/or electronic  | Local newspaper and/or electronic   |
| <b>Basis for award</b>  |   |  |  |   |
| Competitive sealed bids   | Lowest responsible bidder   | Lowest responsible bidder whose bid substantially complies with requirements | N/A  | N/A   |
| Competitive sealed proposals  | Responsive proposer with the best responsive proposal                               | Qualifications, price and other factors                                      | Qualifications and other non-price factors (typically)   | Qualifications, price and other factors   |
| Intermediate procurements   | Offer that will best serve the interests of the contracting agency                  | Offer that will best serve the interests of the contracting agency           | Qualifications and other non-price factors (typically)   | Qualifications, price and other factors   |
| Small procurements  | \$5,000 or below  | N/A (no bidding required)  | N/A  | N/A   |
| <b>Other</b>  |   |  |  |   |
| Provision for emergency purchases where bidding requirements waived | Yes   | Yes  | Yes  | Yes   |
| Bonding requirements  | Bid bond of 5–10%<br><br>100% performance and payment bonds (if \$100,000+)         | Optional   | Optional   | Optional  |

Source: Port of Astoria Commission Resolution 2017-07 (2017).

## B. DBE Program Implementation Analysis

Keen Independent also reviewed ODA's and local airports' current operation of the Federal DBE Program. This analysis includes 48 Oregon airports (not including Port of Portland airports) and reviews:

- Airports' overall implementation of the Federal DBE Program;
- DBE goal setting;
- Types of race- and gender-neutral measures; and
- Race- and gender-conscious program elements.

**Airport implementation of the Federal DBE Program.** Airports are required to implement the Federal DBE Program if they receive FAA funds for airport planning or development and will award prime contracts totaling more than \$250,000 in FAA funds in a single Federal fiscal year.

Federal regulations related to the DBE Program are located at Title 49 Code of Federal Regulations (CFR) Part 26. Operation of the Federal DBE Program is also informed by sources including the Official USDOT Guidance.

**Overall DBE goals.** Every three years, each airport must submit an overall three-year goal for participation of DBEs in its FAA-funded contracts. The overall DBE goal must include detail on how much of the goal is to be accomplished through race- and gender-neutral means, and how much is to be accomplished through race- and gender-conscious means. An airport can adjust an overall DBE goal within the three years it is in effect if significant changes occur, however any revised goal must be approved by the FAA.

Regulations in 49 CFR Section 26.51 require agencies to meet the maximum feasible portion of the overall DBE goal through race-, ethnic- and gender-neutral means. Such neutral measures include removing barriers to the participation of businesses in general or promoting the participation of small businesses. If an agency can meet its overall DBE goal solely through race- and gender-neutral means, it must not use race- and gender-conscious measures as part of its implementation of the Federal DBE Program.

Airports are required to annually submit DBE Uniform Reports regarding their FAA-funded contracts. These forms include details on contracts and subcontracts awarded or committed (Section A), a breakdown of DBE contracts awarded or committed by ethnicity and gender (Section B), payments on ongoing contracts (Section C) and actual payments on completed contracts (Section D). These reports refer to the previous fiscal year and are due on December 1 of each year.

**Program management.** According to 49 CFR Part 26, operation of the Federal DBE Program requires specific program elements. These include establishing a plan for the DBE program, designating a DBE liaison officer (DBELO) and other program requirements.

- Agencies operating the Federal DBE Program must submit a DBE program to the appropriate operating administration, as required by 49 CFR Part 26.21. After the operating administration approves the program, the approval is valid for all the agency's DOT-assisted programs. (Airports submit programs for approval from the

FAA Office of Civil Rights.) Agencies are not required to submit regular updates of their DBE programs as long as they maintain compliance. However, if there are significant changes in their DBE program, agencies must submit a revised DBE program for FAA approval. (DBE program plans often follow a similar format. A DBE program plan template can be found online.<sup>1, 2)</sup>

Airports are not eligible to receive USDOT financial assistance unless their DBE program has been approved and the agency is in compliance with their program and 49 CFR Part 26. Additionally, agencies are required to continue to carry out their program until all USDOT funds have been expended.<sup>3)</sup>

- An agency must also issue a signed and dated policy statement that expresses its commitment to their DBE program, states its objectives and outlines responsibilities for its implementation. Agencies must also circulate the policy statement throughout the organization and to both DBE and non-DBE business communities that perform work on DOT-assisted contracts.<sup>4)</sup>
- Agencies are also required to designate a DBE liaison officer who is responsible for implementing all aspects of their DBE program. According to 49 CFR Part 26.25, the DBELO must have direct and independent access to the Chief Executive Officer concerning DBE program matters. Agencies must also have adequate staff to administer their DBE program.<sup>5)</sup>
- As described in 49 CFR 26.27, agencies are required to investigate the full extent of services offered by financial institutions owned and controlled by socially and economically disadvantaged individuals. Those operating DBE programs are required to make reasonable efforts to use such institutions and must also encourage prime contractors to use these institutions.
- Agencies must also take certain steps to encourage prompt payment of subcontractors. These mechanisms may include a contract clause to require subcontractor payment within 30 days of the prime contractor receiving payment, retainage of payment from prime contractors who do not comply, and other appropriate penalties consistent with state and local law.<sup>6)</sup>

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<sup>1</sup> For a sample DBE program last revised July 2020, see: [https://www.faa.gov/about/office\\_org/headquarters\\_offices/acr/bus\\_ent\\_program/dbe\\_program\\_adm/media/Sample\\_DBEPROGRAM\\_Revised.pdf](https://www.faa.gov/about/office_org/headquarters_offices/acr/bus_ent_program/dbe_program_adm/media/Sample_DBEPROGRAM_Revised.pdf)

<sup>2</sup> DBE program requirements are established by 49 CFR Part 26 and are subject to change.

<sup>3</sup> 49 CFR Part 26.21.

<sup>4</sup> 49 CFR Part 26.23.

<sup>5</sup> 49 CFR Part 26.25.

<sup>6</sup> 49 CFR Part 26.29.

**Evaluation of current processes at Oregon airports.** The majority of Oregon airports closely follow the DBE program template distributed by FAA. The DBE program plans appear to meet all requirements. Few (if any) DBE programs at Oregon airports incorporate measures to support DBEs beyond those required.

Airport DBE program information is found in multiple locations including the document describing DBE goal methodology, documents published for public comment, DBE goal methodology approval letters from the FAA and FAA Connect. Keen Independent reviewed DBE program information for Oregon airports and found examples of discrepancies in reported information across these documents.

- For example, one Oregon airport established an overall three-year DBE goal of 10.62 percent for FFY 2015 through FFY 2017 to be achieved fully through race-neutral measures. This was based on a DBE goal for one project in the period (FFY 2015), which had a 12.6 percent DBE goal to be obtained through only race-neutral measures. The FAA approval letter approved an overall DBE goal of 12.6 percent to be achieved through fully race-conscious measures. For FFY 2015, FAA Connect indicated an overall DBE goal of 0 percent.
- Upon review, Keen Independent also identified inconsistencies within the same document. For example, one Oregon airport accurately calculated a goal of 6.8 percent. The cover page of the same document incorrectly referred to a goal of 10.9 percent, and a goal of 10.9 percent was referred to multiple times in the document.

Although DBE goals may be adjusted as planned projects change, agencies are required to notify and receive approval from the FAA.

It appears that Oregon airport staff could benefit from increased training on the Federal DBE Program.

- DBE Liaison Officers have other responsibilities and may not have sufficient time to successfully operate the program.
- Airport management should carefully review DBE program documents before submission to the FAA. Some DBE program documents appear to have been submitted prematurely and have significant inconsistencies. This may be due to a lack of exposure to the DBE program or insufficient training for staff. Staff may benefit from annual or semi-annual training sessions.
- FAA's DBE Compliance Officer is a valuable source of information and can provide information on no-cost training sessions provided by the FAA or an FAA-sanctioned training portal.

**DBE goal setting.** Agencies operating the Federal DBE Program are required to set overall DBE goals. They are also required to establish the portion of the overall goals to be achieved through race- and gender-neutral means.

**Overall DBE goals.** Overall DBE participation goals for airports in ODA are aspirational, and failure to meet an annual DBE goal does not automatically cause any USDOT penalties unless an agency fails to administer the DBE Program in good faith.

Airports receiving USDOT funds are required to establish and submit to FAA overall three-year goals based on the schedule presented in Figure L-12.

Figure L-12.  
Schedule for three-year goal period

| Airport type                                | Next goal period    |
|---|---------------------|
| Large and medium hub primary                | FFY 2023 - FFY 2025 |
| Small hub primary                           | FFY 2024 - FFY 2026 |
| Non-hub primary                             | FFY 2022 - FFY 2024 |
| Non-primary (GAs, relievers and state DOTs) | FFY 2024 - FFY 2026 |

Note: Airports must annually submit a Uniform Report of DBE Awards or Commitments and Payments on December 1.

The Federal DBE Program also sets forth the steps an agency must follow in establishing its goals, including development of a “base figure” and consideration of possible “step 2” adjustments to goal.<sup>7</sup>

Keen Independent reviewed goal documents for airports participating in this study.

- For all Oregon airports reviewed, the average overall DBE goal for FFY 2015 through FFY 2019 was 4.6 percent, and the median overall DBE goal was 2.9 percent.
- As an agency, ODA established overall DBE goals of 19.4 percent (for FFY 2015 through FFY 2016), 4.4 percent (for FFY 2017) and 5.6 percent (for FFY 2018 through FFY 2020). In each case, overall goals were to be accomplished through race-neutral measures.

In setting overall DBE goals, Oregon airports first estimate the relative availability of DBEs in the market area that may perform work on upcoming projects. Types of work are identified based on FAA-funded projects that are expected to occur during the three-year period.<sup>8</sup> Airports often determine relative availability of DBEs with information from the Oregon DBE Directory (for

<sup>7</sup> 49 CFR 26.45.

<sup>8</sup> DBE goals may be adjusted



DBEs) and the U.S. Census Bureau (for all firms). Airports then use this information to calculate the “base figure” for the overall DBE goal.

Airports must also consider whether to make a “step 2” adjustment to their base figure. Step 2 adjustments may be informed by historical DBE participation, disparity studies, work item analysis and other factors including information about barriers to entry and past competitiveness of DBEs on projects. In FFY 2015 through FFY 2019, most Oregon airports made no step 2 adjustments when calculating their overall DBE goals.

Airports are also required to consult with local agencies and accept public comments before finalizing their goal. Based on the information reviewed by Keen Independent, it is unclear how much feedback and public input Oregon airports received.

Figure L-13 presents a summary of DBE goals and achievement gaps for Oregon airports in FFY 2015 through FFY 2019. Goal and achievement data are primarily from reports submitted to FAA Connect, however data were cross-checked and supplemented with information from goal methodology documents, FAA approval documents, DBE Uniform Reports and other official documents for individual airports.

- Many Oregon airports did not meet their overall DBE goal (52% of ODA airports and 77% of non-ODA airports).
- About one-half of ODA airports and one-quarter of airports not administered by ODA met or exceeded their overall DBE goal. This includes airports with 0 percent goals.

Note that of the Oregon airports reviewed, many ODA airports (68%) and non-ODA airports (28%) established overall DBE goals of 0 percent. Of all Oregon airports reviewed, 38 percent had overall DBE goals of 0 percent.

Figure L-13.  
Oregon airports meeting or not meeting overall DBE goals,  
FFY 2015-FFY 2019

| Goal and achievement gap | ODA airports | Non-ODA airports |
|--------------------------|--------------|------------------|
| Did not meet goal        | 52 %         | 77 %             |
| Met or exceeded goal     | 48           | 23               |
| <b>Total</b>             | <b>100 %</b> | <b>100 %</b>     |

Note: Utilization results exclude airports who reported no contracts in progress during the period, no contracts awarded in the period and no payments administered in the period.  
“Airports not administered by ODA” does not include those evaluated in the 2018 Port of Portland Small Business Program Disparity Study.

Source: FAA Civil Rights Connect. Information supplemented by DBE goal methodology documents, FAA goal approval documents, DBE Uniform Reports and other official documents.

DBE goals reflect what participation would be absent the effects of discrimination and these goals should be reflective of potential achievement. Of all reviewed Oregon airports with achievement data, about 28 percent met or exceeded their annual DBE participation goals. Two-thirds of those that met or exceeded their goals had overall DBE goals of 0 percent. Airports that have not consistently met their goals should consider expanding or adjusting their efforts in order to meet their goals in the future. On average, overall DBE goals for ODA airports (6%) were higher than goals for airports not administered by ODA (4%).

**Projecting how much of the overall DBE goal will be met through race-neutral measures.**

Agencies must also establish the portion of the overall DBE goal to be met through race- and gender-neutral means. In FFY 2015 through FFY 2019, most Oregon airports have used only race-neutral measures to meet their overall DBE goals. Figure L-14 presents a summary of race-neutral and race-conscious goals for Oregon airports, along with DBE utilization for FFY 2015 through FFY 2019.

Most Oregon airports in the study period established goals to be met through race-neutral means only. For at least some years in the study period, two airports indicated in their goal documents or their Uniform Reports that they had projected some portion of their overall DBE goal would be met through race-conscious means (both of these airports were not administered by ODA). There was no indication that those airports actually set DBE contract goals for any FAA-funded contracts.

Figure L-14.

Summary of Oregon airport goals and utilization, FFY 2015–FFY 2019

|                                  | Airports administered by ODA | Airports not administered by ODA |
|----------------------------------|------------------------------|----------------------------------|
| <b>Goals</b>                     |                              |                                  |
| Average race-conscious goal      | 0.00 %                       | 0.26 %                           |
| Median race-conscious goal       | 0.00                         | 0.00                             |
| Average race-neutral goal        | 6.00                         | 3.89                             |
| Median race-neutral goal         | 3.66                         | 2.79                             |
| Average overall goal             | 6.00                         | 4.13                             |
| Median overall goal              | 3.66                         | 2.87                             |
| <b>Utilization</b>               |                              |                                  |
| Average DBE utilization          | 0.68 %                       | 1.82 %                           |
| Median DBE utilization           | 0.00                         | 0.00                             |
| Average goal and achievement gap | -5.60                        | -2.01                            |
| Median goal and achievement gap  | -0.60                        | -2.73                            |

Note: A negative "goal and achievement gap" indicates that an overall goal was larger than utilization and the goal was not met. Utilization results exclude FFYs for airports who reported no contracts in progress during the period, no contracts awarded in the period and no payments administered in the period.

"Airports not administered by ODA" does not include airports evaluated in the 2018 Port of Portland Small Business Program Disparity Study.

Calculations do not include goals established in years with federally funded projects less than \$250,000.

Source: FAA Civil Rights Connect. Information supplemented by DBE goal methodology documents, FAA goal approval documents, DBE Uniform Reports and other official documents.

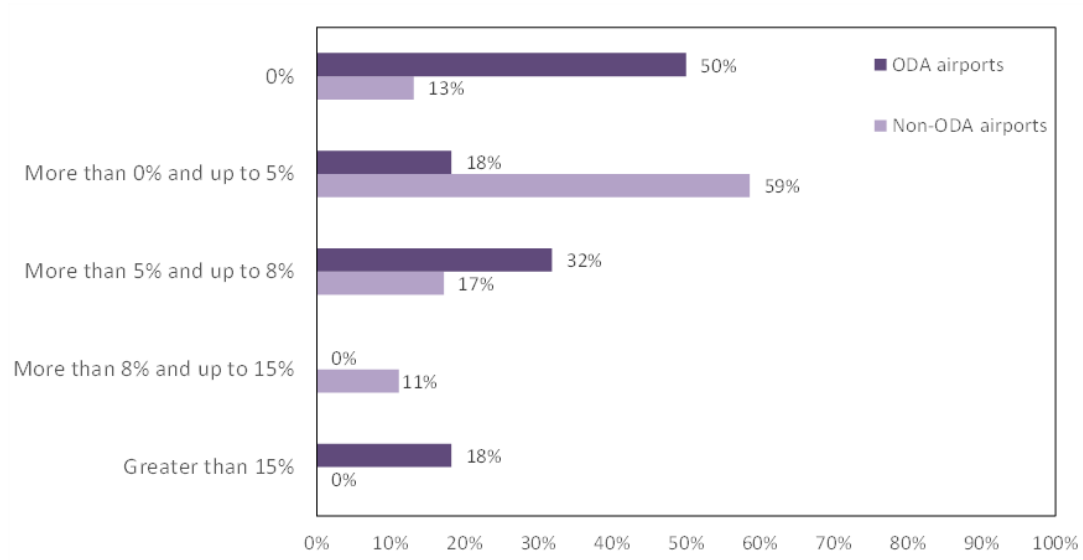
Figure L-14 also shows reported DBE utilization for Oregon airports for FFY 2015 through FFY 2019. Both ODA airports and non-ODA airports averaged DBE utilization of less than 2 percent based on Uniform Reports. In FFY 2015 through FFY 2019, Oregon airports tended to fall short of their overall DBE goal (presented as “Average goal-utilization gap”). On average, ODA airports fell short of their DBE goals by about 6 percentage points, while non-ODA airports fell short of their DBE goals by about 2 percentage points.

Figure L-15 presents the distribution of overall DBE goals for both ODA airports and non-ODA airports. Note that Figure L-15 includes all airports for which Keen Independent had goal data, regardless of if the study was able to collect utilization data. As such, numbers in Figure L-15 may differ from those presented in Figures L-13 and L-14.

In general, ODA airports were relatively more likely than non-ODA airports to have overall goals of 0 percent or overall goals of more than 15 percent.

Figure L-15.

Distribution of overall DBE goals for Oregon airports, FFY 2015-FFY 2019



Note: “Airports not administered by ODA” does not include airports evaluated in the 2018 Port of Portland Small Business Program Disparity Study.

Calculations do not include goals established in years with federally funded projects less than \$250,000.

Source: FAA Civil Rights Connect. Information supplemented by DBE goal methodology documents, FAA goal approval documents, DBE Uniform Reports and other official documents.

Figure L-16 presents the race-neutral and race-conscious goals for Oregon airports, along with their DBE utilization, DBE goal and achievement gap for FFY 2015 through FFY 2019. Keen Independent reviewed multiple sources, including FAA Civil Rights Connect, DBE Uniform Reports and other official documents to compile this information. Note that some airports had conflicting information about their goals or DBE utilization, while others did not provide information (highlighted in orange) despite Keen Independent’s outreach efforts.

Figure L-16.  
Oregon airport goals and utilization, FFY 2015–FFY 2019

| Airport name and<br>FAA identifier | Administered by ODA            |                                |                                   |   |                                       |
|------------------------------------|--------------------------------|--------------------------------|-----------------------------------|---|---------------------------------------|
|                                    | Aurora State<br>Airport<br>UAO | Bandon State<br>Airport<br>S05 | Chiloquin State<br>Airport<br>2S7 | Condon State<br>Pauling Field<br>Airport<br>3S9 | Cottage Grove<br>State Airport<br>61S |
| <b>FY 2015</b>                     |                                |                                |                                   |   |                                       |
| Race-neutral goal                  | 37.46 %                        | 0.00 %                         | 0.00 %                            | 0.00 * %  | 5.21 %                                |
| Race-conscious goal                | 0.00                           | 0.00                           | 0.00                              | 0.00 *  | 0.00                                  |
| <b>Total goal</b>                  | <b>37.46 %</b>                 | <b>0.00 * %</b>                | <b>0.00 * %</b>                   | <b>0.00 %</b>                                   | <b>5.21 %</b>                         |
| DBE utilization                    | 0.29 %                         | N/A %                          | N/A %                             | N/A %   | 0.00 %                                |
| Goal and achievement gap           | -37.17                         | N/A                            | N/A                               | N/A   | -5.21                                 |
| <b>FY 2016</b>                     |                                |                                |                                   |   |                                       |
| Race-neutral goal                  | 0.00 %                         | 0.00 %                         | 0.00 %                            | 17.66 %   | 5.21 %                                |
| Race-conscious goal                | 0.00                           | 0.00                           | 0.00                              | 0.00  | 0.00                                  |
| <b>Total goal</b>                  | <b>0.00 %</b>                  | <b>0.00 * %</b>                | <b>0.00 * %</b>                   | <b>17.66 %</b>                                  | <b>5.21 %</b>                         |
| DBE utilization                    | 7.29 %                         | N/A %                          | N/A %                             | 0.00 %  | 0.00 %                                |
| Goal and achievement gap           | 7.29                           | N/A                            | N/A                               | -17.66  | -5.21                                 |
| <b>FY 2017</b>                     |                                |                                |                                   |   |                                       |
| Race-neutral goal                  | 0.00 %                         | 5.90 %                         | 0.00 %                            | 32.16 %   | 4.80 %                                |
| Race-conscious goal                | 0.00                           | 0.00                           | 0.00                              | 0.00  | 0.00                                  |
| <b>Total goal</b>                  | <b>0.00 * %</b>                | <b>5.90 * %</b>                | <b>0.00 * %</b>                   | <b>32.16 %</b>                                  | <b>4.80 * %</b>                       |
| DBE utilization                    | N/A %                          | N/A %                          | N/A %                             | 1.45 %  | N/A %                                 |
| Goal and achievement gap           | N/A                            | N/A                            | N/A                               | -30.71  | N/A                                   |
| <b>FY 2018</b>                     |                                |                                |                                   |   |                                       |
| Race-neutral goal                  | 6.00 %                         | 0.00 %                         | 0.00 %                            | 0.00 %  | 0.00 %                                |
| Race-conscious goal                | 0.00                           | 0.00                           | 0.00                              | 0.00  | 0.00                                  |
| <b>Total goal</b>                  | <b>6.00 * %</b>                | <b>0.00 %</b>                  | <b>0.00 %</b>                     | <b>0.00 * %</b>                                 | <b>0.00 %</b>                         |
| DBE utilization                    | N/A %                          | 5.62 %                         | 0.00 %                            | 0.00 %  | 0.00 %                                |
| Goal and achievement gap           | N/A                            | 5.62                           | 0.00                              | 0.00  | 0.00                                  |
| <b>FY 2019</b>                     |                                |                                |                                   |   |                                       |
| Race-neutral goal                  | 6.00 %                         | 4.50 %                         | 0.60 %                            | 0.00 %  | 5.50 %                                |
| Race-conscious goal                | 0.00                           | 0.00                           | 0.00                              | 0.00  | 0.00                                  |
| <b>Total goal</b>                  | <b>6.00 %</b>                  | <b>4.50 %</b>                  | <b>0.60 %</b>                     | <b>0.00 %</b>                                   | <b>5.50 %</b>                         |
| DBE utilization                    | 0.00 %                         | 0.00 %                         | 0.00 %                            | 0.00 %  | 0.00 %                                |
| Goal and achievement gap           | -6.00                          | -4.50                          | -0.60                             | 0.00  | -5.50                                 |

Note: \* Indicates that the airport did not receive federal DOT funds of \$250,000 or more and were therefore not required to utilize a DBE goal.

Orange highlight indicates missing information.

Airports not administered by ODA do not include airports evaluated in the 2018 Port of Portland Small Business Program Disparity Study.

Source: FAA Civil Rights Connect. Information supplemented by DBE goal methodology documents, FAA goal approval documents, DBE Uniform Reports and other official documents.

Figure L-16 (continued).  
Oregon airport goals and utilization, FFY 2015–FFY 2019

| Airport name and<br>FAA identifier | Administered by ODA           |                         |                          |                            |                         |                             |
|------------------------------------|-------------------------------|-------------------------|--------------------------|----------------------------|-------------------------|-----------------------------|
|                                    | Independence<br>State Airport | Joseph State<br>Airport | Lebanon State<br>Airport | McDermitt<br>State Airport | Mulino State<br>Airport | Siletz Bay<br>State Airport |
|                                    | 755                           | JSY                     | S30                      | 26U                        | 459                     | S45                         |
| <b>FY 2015</b>                     |                               |                         |                          |                            |                         |                             |
| Race-neutral goal                  | 0.00 %                        | 0.00 %                  | 19.37 %                  | 0.00 %                     | 0.00 %                  | 0.00 %                      |
| Race-conscious goal                | 0.00                          | 0.00                    | 0.00                     | 0.00                       | 0.00                    | 0.00                        |
| <b>Total goal</b>                  | <b>0.00 * %</b>               | <b>0.00 * %</b>         | <b>19.37 %</b>           | <b>0.00 * %</b>            | <b>0.00 * %</b>         | <b>0.00 * %</b>             |
| DBE utilization                    | N/A %                         | N/A %                   | 0.00 %                   | N/A %                      | N/A %                   | N/A %                       |
| Goal and achievement gap           | N/A                           | N/A                     | -19.37                   | N/A                        | N/A                     | N/A                         |
| <b>FY 2016</b>                     |                               |                         |                          |                            |                         |                             |
| Race-neutral goal                  | 15.69 %                       | 0.00 %                  | 16.43 %                  | 0.00 %                     | 27.79 %                 | 0.00 %                      |
| Race-conscious goal                | 0.00                          | 0.00                    | 0.00                     | 0.00                       | 0.00                    | 0.00                        |
| <b>Total goal</b>                  | <b>15.69 * %</b>              | <b>0.00 * %</b>         | <b>16.43 * %</b>         | <b>0.00 * %</b>            | <b>27.79 %</b>          | <b>0.00 * %</b>             |
| DBE utilization                    | N/A %                         | N/A %                   | N/A %                    | N/A %                      | %                       | N/A %                       |
| Goal and achievement gap           | N/A                           | N/A                     | N/A                      | N/A                        |                         | N/A                         |
| <b>FY 2017</b>                     |                               |                         |                          |                            |                         |                             |
| Race-neutral goal                  | 0.00 %                        | 0.00 %                  | 19.37 %                  | 5.73 %                     | 0.00 %                  | 0.00 %                      |
| Race-conscious goal                | 0.00                          | 0.00                    | 0.00                     | 0.00                       | 0.00                    | 0.00                        |
| <b>Total goal</b>                  | <b>0.00 %</b>                 | <b>0.00 * %</b>         | <b>19.37 * %</b>         | <b>5.73 %</b>              | <b>0.00 * %</b>         | <b>0.00 * %</b>             |
| DBE utilization                    | 0.00 %                        | N/A %                   | N/A %                    | 0.00 %                     | N/A %                   | N/A %                       |
| Goal and achievement gap           | 0.00                          | N/A                     | N/A                      | -5.73                      | N/A                     | N/A                         |
| <b>FY 2018</b>                     |                               |                         |                          |                            |                         |                             |
| Race-neutral goal                  | 0.00 %                        | 0.00 %                  | 0.00 %                   | 0.00 %                     | 5.80 %                  | 4.30 %                      |
| Race-conscious goal                | 0.00                          | 0.00                    | 0.00                     | 0.00                       | 0.00                    | 0.00                        |
| <b>Total goal</b>                  | <b>0.00 %</b>                 | <b>0.00 * %</b>         | <b>0.00 * %</b>          | <b>0.00 * %</b>            | <b>5.80 * %</b>         | <b>4.30 * %</b>             |
| DBE utilization                    | 0.00 %                        | N/A %                   | N/A %                    | N/A %                      | N/A %                   | N/A %                       |
| Goal and achievement gap           | 0.00                          | N/A                     | N/A                      | N/A                        | N/A                     | N/A                         |
| <b>FY 2019</b>                     |                               |                         |                          |                            |                         |                             |
| Race-neutral goal                  | 3.66 %                        | 13.00 %                 | 3.90 %                   | 0.00 %                     | 5.80 %                  | 4.30 %                      |
| Race-conscious goal                | 0.00                          | 0.00                    | 0.00                     | 0.00                       | 0.00                    | 0.00                        |
| <b>Total goal</b>                  | <b>3.66 %</b>                 | <b>13.00 * %</b>        | <b>3.90 * %</b>          | <b>0.00 * %</b>            | <b>5.80 * %</b>         | <b>4.30 %</b>               |
| DBE utilization                    | 0.00 %                        | N/A %                   | N/A %                    | N/A %                      | N/A %                   | 6.39 %                      |
| Goal and achievement gap           | -3.66                         | N/A                     | N/A                      | N/A                        | N/A                     | 2.09                        |

Note: \* Indicates that the airport did not receive federal DOT funds of \$250,000 or more and were therefore not required to utilize a DBE goal.

Orange highlight indicates missing information.

Airports not administered by ODA do not include airports evaluated in the 2018 Port of Portland Small Business Program Disparity Study.

Source: FAA Civil Rights Connect. Information supplemented by DBE goal methodology documents, FAA goal approval documents, DBE Uniform Reports and other official documents.

Figure L-16 (continued).  
Oregon airport goals and utilization, FFY 2015–FFY 2019

| Not administered by ODA            |                                    |                                     |                                    |  |                                  |  |
|------------------------------------|------------------------------------|-------------------------------------|------------------------------------|--|----------------------------------|--|
| Airport name and<br>FAA identifier | Albany Municipal<br>Airport<br>S12 | Ashland<br>Municipal Airport<br>S03 | Astoria Regional<br>Airport<br>AST | Baker City<br>Municipal Airport<br>BKE | Bend Municipal<br>Airport<br>BDN |  |
| <b>FY 2015</b>                     |                                    |                                     |                                    |  |                                  |  |
| Race-neutral goal                  | 6.50 %                             | 8.40 %                              | 11.10 %                            | 1.90 %                                 | 2.73 %                           |  |
| Race-conscious goal                | 0.00                               | 0.00                                | 0.00                               | 0.00                                   | 0.00                             |  |
| <b>Total goal</b>                  | <b>6.50 * %</b>                    | <b>8.40 * %</b>                     | <b>11.10 %</b>                     | <b>1.90 * %</b>                        | <b>2.73 %</b>                    |  |
| DBE utilization                    | N/A %                              | N/A %                               |                                    | N/A %                                  | 0.00 %                           |  |
| Goal and achievement gap           | N/A                                | N/A                                 |                                    | N/A                                    | -2.73                            |  |
| <b>FY 2016</b>                     |                                    |                                     |                                    |  |                                  |  |
| Race-neutral goal                  | 6.50 %                             | 8.40 %                              | 11.10 %                            | 1.20 %                                 | 2.73 %                           |  |
| Race-conscious goal                | 0.00                               | 0.00                                | 0.00                               | 0.00                                   | 0.00                             |  |
| <b>Total goal</b>                  | <b>6.50 %</b>                      | <b>8.40 * %</b>                     | <b>11.10 %</b>                     | <b>1.20 %</b>                          | <b>2.73 %</b>                    |  |
| DBE utilization                    | 0.00 %                             | N/A %                               | 0.00 %                             | 0.00 %                                 | 0.05 %                           |  |
| Goal and achievement gap           | -6.50                              | N/A                                 | -11.10                             | -1.20                                  | -2.68                            |  |
| <b>FY 2017</b>                     |                                    |                                     |                                    |  |                                  |  |
| Race-neutral goal                  | 6.50 %                             |                                     | 11.10 %                            | 1.90 %                                 | 2.73 %                           |  |
| Race-conscious goal                | 0.00                               |                                     | 0.00                               | 0.00                                   | 0.00                             |  |
| <b>Total goal</b>                  | <b>6.50 * %</b>                    |                                     | <b>11.10 %</b>                     | <b>1.90 %</b>                          | <b>2.73 %</b>                    |  |
| DBE utilization                    | N/A %                              |                                     | 0.00 %                             | 0.00 %                                 | 0.00 %                           |  |
| Goal and achievement gap           | N/A                                |                                     | -11.10                             | -1.90                                  | -2.73                            |  |
| <b>FY 2018</b>                     |                                    |                                     |                                    |  |                                  |  |
| Race-neutral goal                  | 6.50 %                             |                                     | 4.60 %                             | 0.00 %                                 | 3.10 %                           |  |
| Race-conscious goal                | 0.00                               |                                     | 0.00                               | 0.00                                   | 0.00                             |  |
| <b>Total goal</b>                  | <b>6.50 * %</b>                    |                                     | <b>4.60 %</b>                      | <b>0.00 %</b>                          | <b>3.10 %</b>                    |  |
| DBE utilization                    | N/A %                              |                                     | 0.00 %                             | 0.00 %                                 | 0.00 %                           |  |
| Goal and achievement gap           | N/A                                |                                     | -4.60                              | 0.00                                   | -3.10                            |  |
| <b>FY 2019</b>                     |                                    |                                     |                                    |  |                                  |  |
| Race-neutral goal                  | 6.50 %                             |                                     | 4.60 %                             | 1.61 %                                 | 3.10 %                           |  |
| Race-conscious goal                | 0.00                               |                                     | 0.00                               | 0.00                                   | 0.00                             |  |
| <b>Total goal</b>                  | <b>6.50 * %</b>                    |                                     | <b>4.60 %</b>                      | <b>1.61 %</b>                          | <b>3.10 %</b>                    |  |
| DBE utilization                    | N/A %                              |                                     | 0.00 %                             | 0.00 %                                 | 0.00 %                           |  |
| Goal and achievement gap           | N/A                                |                                     | -4.60                              | -1.61                                  | -3.10                            |  |

Note: \* Indicates that the airport did not receive federal DOT funds of \$250,000 or more and were therefore not required to utilize a DBE goal.

Orange highlight indicates missing information.

Airports not administered by ODA do not include airports evaluated in the 2018 Port of Portland Small Business Program Disparity Study.

Source: FAA Civil Rights Connect. Information supplemented by DBE goal methodology documents, FAA goal approval documents, DBE Uniform Reports and other official documents.

Figure L-16 (continued).  
Oregon airport goals and utilization, FFY 2015–FFY 2019

| Airport name and<br>FAA identifier | Not administered by ODA  |                                   |                                    |   |                                       |
|------------------------------------|--------------------------|-----------------------------------|------------------------------------|---|---------------------------------------|
|                                    | Brookings Airport<br>BOK | Burns Municipal<br>Airport<br>BNO | Christmas Valley<br>Airport<br>62S | Columbia Gorge<br>Regional Airport<br>(Dalles)<br>DLS | Corvallis<br>Municipal Airport<br>CVO |
| <b>FY 2015</b>                     |                          |                                   |                                    |   |                                       |
| Race-neutral goal                  | 11.68 %                  | 0.08 %                            | 0.00 %                             | 0.00 %  | 1.40 %                                |
| Race-conscious goal                | 0.00                     | 0.00                              | 0.00                               | 3.60  | 0.00                                  |
| <b>Total goal</b>                  | <b>11.68 %</b>           | <b>0.08 %</b>                     | <b>0.00 %</b>                      | <b>3.60 * %</b>                                       | <b>1.40 %</b>                         |
| DBE utilization                    | 0.00 %                   | 0.00 %                            | 0.00 %                             | N/A %   | 3.45 %                                |
| Goal and achievement gap           | -11.68                   | -0.08                             | 0.00                               | N/A   | 2.05                                  |
| <b>FY 2016</b>                     |                          |                                   |                                    |   |                                       |
| Race-neutral goal                  | 11.68 %                  | 0.08 %                            | 0.00 %                             | 0.00 %  | 1.40 %                                |
| Race-conscious goal                | 0.00                     | 0.00                              | 0.00                               | 3.60  | 0.00                                  |
| <b>Total goal</b>                  | <b>11.68 * %</b>         | <b>0.08 * %</b>                   | <b>0.00 %</b>                      | <b>3.60 * %</b>                                       | <b>1.40 %</b>                         |
| DBE utilization                    | N/A %                    | N/A %                             | 0.00 %                             | N/A %   | 10.55 %                               |
| Goal and achievement gap           | N/A                      | N/A                               | 0.00                               | N/A   | 9.15                                  |
| <b>FY 2017</b>                     |                          |                                   |                                    |   |                                       |
| Race-neutral goal                  | 11.68 %                  | 0.00 %                            | 0.00 %                             | 0.00 %  | 0.90 %                                |
| Race-conscious goal                | 0.00                     | 0.00                              | 0.00                               | 3.60  | 0.00                                  |
| <b>Total goal</b>                  | <b>11.68 * %</b>         | <b>0.00 %</b>                     | <b>0.00 %</b>                      | <b>3.60 %</b>   | <b>0.90 %</b>                         |
| DBE utilization                    | N/A %                    | 0.00 %                            | 0.00 %                             | 0.00 %  | 0.00 %                                |
| Goal and achievement gap           | N/A                      | 0.00                              | 0.00                               | -3.60   | -0.90                                 |
| <b>FY 2018</b>                     |                          |                                   |                                    |   |                                       |
| Race-neutral goal                  |                          | 1.64 %                            | 0.00 %                             | 0.00 %  | 6.90 %                                |
| Race-conscious goal                |                          | 0.00                              | 0.00                               | 1.50  | 0.00                                  |
| <b>Total goal</b>                  |                          | <b>1.64 %</b>                     | <b>0.00 * %</b>                    | <b>1.50 * %</b>                                       | <b>6.90 %</b>                         |
| DBE utilization                    |                          | 0.00 %                            | N/A %                              | N/A %   | 0.00 %                                |
| Goal and achievement gap           |                          | -1.64                             | N/A                                | N/A   | -6.90                                 |
| <b>FY 2019</b>                     |                          |                                   |                                    |   |                                       |
| Race-neutral goal                  |                          | 1.64 %                            | 0.00 %                             | 0.00 %  | 6.90 %                                |
| Race-conscious goal                |                          | 0.00                              | 0.00                               | 1.50  | 0.00                                  |
| <b>Total goal</b>                  |                          | <b>1.64 %</b>                     | <b>0.00 * %</b>                    | <b>1.50 * %</b>                                       | <b>6.90 %</b>                         |
| DBE utilization                    |                          | 0.00 %                            | N/A %                              | N/A %   | 0.64 %                                |
| Goal and achievement gap           |                          | -1.64                             | N/A                                | N/A   | -6.26                                 |

Note: \* Indicates that the airport did not receive federal DOT funds of \$250,000 or more and were therefore not required to utilize a DBE goal.

Orange highlight indicates missing information.

Airports not administered by ODA do not include airports evaluated in the 2018 Port of Portland Small Business Program Disparity Study.

Source: FAA Civil Rights Connect. Information supplemented by DBE goal methodology documents, FAA goal approval documents, DBE Uniform Reports and other official documents.

Figure L-16 (continued).  
Oregon airport goals and utilization, FFY 2015–FFY 2019

| Airport name and<br>FAA identifier | Crater Lake -<br>Klamath Regional<br>Airport<br>LMT |          | Not administered by ODA                |  |  |   |          |               |          |
|------------------------------------|---|----------|--|--|--|---|----------|---------------|----------|
|                                    |   |          | Creswell Hobby<br>Field Airport<br>77S | Eastern Oregon<br>Regional Airport -<br>Pendleton<br>PDT | Eugene Airport<br>Mahlon Sweet<br>Field<br>EUG | Florence<br>Municipal<br>Airport<br>6S2 |          |               |          |
| <b>FY 2015</b>                     |   |          |  |  |  |   |          |               |          |
| Race-neutral goal                  | 11.95   | %        |  | 6.00   | %  | 3.60                                    | %        | 0.00          | %        |
| Race-conscious goal                | 0.00  |          |  | 0.00   |  | 0.00                                    |          | 0.00          |          |
| <b>Total goal</b>                  | <b>11.95</b>  | <b>%</b> |  | <b>6.00 *</b>  | <b>%</b>                                       | <b>3.60</b>                             | <b>%</b> | <b>0.00 *</b> | <b>%</b> |
| DBE utilization                    | 0.00  | %        |  | N/A  | %  | 0.00                                    | %        | N/A           | %        |
| Goal and achievement gap           | -11.95  |          |  | N/A  |  | -3.60                                   |          | N/A           |          |
| <b>FY 2016</b>                     |   |          |  |  |  |   |          |               |          |
| Race-neutral goal                  | 11.95   | %        |  | 0.00   | %  | 3.60                                    | %        | 0.00          | %        |
| Race-conscious goal                | 0.00  |          |  | 0.00   |  | 0.00                                    |          | 0.00          |          |
| <b>Total goal</b>                  | <b>11.95</b>  | <b>%</b> |  | <b>0.00</b>  | <b>%</b>                                       | <b>3.60</b>                             | <b>%</b> | <b>0.00 *</b> | <b>%</b> |
| DBE utilization                    | 0.00  | %        |  | 0.00   | %  | 5.56                                    | %        | N/A           | %        |
| Goal and achievement gap           | -11.95  |          |  | 0.00   |  | 1.96                                    |          | N/A           |          |
| <b>FY 2017</b>                     |   |          |  |  |  |   |          |               |          |
| Race-neutral goal                  | 11.95   | %        |  | 0.71   | %  | 3.60                                    | %        | 0.00          | %        |
| Race-conscious goal                | 0.00  |          |  | 0.00   |  | 0.00                                    |          | 0.00          |          |
| <b>Total goal</b>                  | <b>11.95</b>  | <b>%</b> |  | <b>0.71</b>  | <b>%</b>                                       | <b>3.60</b>                             | <b>%</b> | <b>0.00 *</b> | <b>%</b> |
| DBE utilization                    | 0.00  | %        |  | 0.00   | %  | 5.96                                    | %        | N/A           | %        |
| Goal and achievement gap           | -11.95  |          |  | -0.71  |  | 2.36                                    |          | N/A           |          |
| <b>FY 2018</b>                     |   |          |  |  |  |   |          |               |          |
| Race-neutral goal                  | 6.74  | %        | 5.50                                   | 0.71   | %  | 7.00                                    | %        | 4.12          | %        |
| Race-conscious goal                | 0.00  |          | 0.00                                   | 0.00   |  | 0.00                                    |          | 0.00          |          |
| <b>Total goal</b>                  | <b>6.74</b>   | <b>%</b> | <b>5.50 *</b>                          | <b>0.71</b>  | <b>%</b>                                       | <b>7.00</b>                             | <b>%</b> | <b>4.12</b>   | <b>%</b> |
| DBE utilization                    | 0.00  | %        | N/A                                    | 0.00   | %  | 3.13                                    | %        | 0.00          | %        |
| Goal and achievement gap           | -6.74   |          | N/A                                    | -0.71  |  | -3.87                                   |          | -4.12         |          |
| <b>FY 2019</b>                     |   |          |  |  |  |   |          |               |          |
| Race-neutral goal                  | 6.74  | %        | 5.50                                   | 0.71   | %  | 7.00                                    | %        | 4.12          | %        |
| Race-conscious goal                | 0.00  |          | 0.00                                   | 0.00   |  | 0.00                                    |          | 0.00          |          |
| <b>Total goal</b>                  | <b>6.74</b>   | <b>%</b> | <b>5.50</b>                            | <b>0.71</b>  | <b>%</b>                                       | <b>7.00</b>                             | <b>%</b> | <b>4.12</b>   | <b>%</b> |
| DBE utilization                    | 0.03  | %        |  | 0.00   | %  | 8.94                                    | %        | 4.80          | %        |
| Goal and achievement gap           | -6.71   |          |  | -0.71  |  | 1.94                                    |          | 0.68          |          |

Note: \* Indicates that the airport did not receive federal DOT funds of \$250,000 or more and were therefore not required to utilize a DBE goal.

Orange highlight indicates missing information.

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Source: FAA Civil Rights Connect. Information supplemented by DBE goal methodology documents, FAA goal approval documents, DBE Uniform Reports and other official documents.



Figure L-16 (continued).  
Oregon airport goals and utilization, FFY 2015–FFY 2019

| Airport name and<br>FAA identifier | Not administered by ODA                |  |                               |                                       |                                   |
|------------------------------------|--|--|-------------------------------|---------------------------------------|-----------------------------------|
|                                    | Gold Beach<br>Municipal Airport<br>451 | Grant County<br>Regional Airport<br>Ogilvie Field<br>GCD | Grants Pass<br>Airport<br>3S8 | Hermiston<br>Municipal Airport<br>HRI | Illinois Valley<br>Airport<br>3S4 |
| <b>FY 2015</b>                     |  |  |                               |                                       |                                   |
| Race-neutral goal                  | 13.79 %                                |  | 8.56 %                        | 4.30 %                                | 0.00 %                            |
| Race-conscious goal                | 0.00                                   |  | 0.00                          | 0.00                                  | 0.00                              |
| <b>Total goal</b>                  | <b>13.79 %</b>                         |  | <b>8.56 %</b>                 | <b>4.30 %</b>                         | <b>0.00 * %</b>                   |
| DBE utilization                    |  |  | 0.00 %                        | 0.00 %                                | N/A %                             |
| Goal and achievement gap           |  |  | -8.56                         | -4.30                                 | N/A                               |
| <b>FY 2016</b>                     |  |  |                               |                                       |                                   |
| Race-neutral goal                  | 13.79 %                                |  | 8.56 %                        | 4.30 %                                | 8.56 %                            |
| Race-conscious goal                | 0.00                                   |  | 0.00                          | 0.00                                  | 0.00                              |
| <b>Total goal</b>                  | <b>13.79 * %</b>                       |  | <b>8.56 %</b>                 | <b>4.30 %</b>                         | <b>8.56 %</b>                     |
| DBE utilization                    | N/A %                                  |  | 0.00 %                        | 0.00 %                                | 0.00 %                            |
| Goal and achievement gap           | N/A                                    |  | -8.56                         | -4.30                                 | -8.56                             |
| <b>FY 2017</b>                     |  |  |                               |                                       |                                   |
| Race-neutral goal                  | 13.79 %                                | 0.00 %   | 4.28 %                        | 4.30 %                                | 1.20 %                            |
| Race-conscious goal                | 0.00                                   | 0.00   | 0.00                          | 0.00                                  | 0.00                              |
| <b>Total goal</b>                  | <b>13.79 * %</b>                       | <b>0.00 * %</b>  | <b>4.28 %</b>                 | <b>4.30 %</b>                         | <b>1.20 %</b>                     |
| DBE utilization                    | N/A %                                  | N/A %  | 0.00 %                        | 0.00 %                                | 0.00 %                            |
| Goal and achievement gap           | N/A                                    | N/A  | -4.28                         | -4.30                                 | -1.20                             |
| <b>FY 2018</b>                     |  |  |                               |                                       |                                   |
| Race-neutral goal                  |  | 1.70 %   | 0.81 %                        | 0.00 %                                | 0.00 %                            |
| Race-conscious goal                |  | 0.00   | 0.00                          | 0.00                                  | 0.00                              |
| <b>Total goal</b>                  |  | <b>1.70 %</b>  | <b>0.81 %</b>                 | <b>0.00 * %</b>                       | <b>0.00 * %</b>                   |
| DBE utilization                    |  | 0.00 %   | 12.50 %                       | N/A %                                 | N/A %                             |
| Goal and achievement gap           |  | -1.70  | 11.69                         | N/A                                   | N/A                               |
| <b>FY 2019</b>                     |  |  |                               |                                       |                                   |
| Race-neutral goal                  |  | 1.70 %   | 0.81 %                        | 0.00 %                                | 1.50 %                            |
| Race-conscious goal                |  | 0.00   | 0.00                          | 0.00                                  | 0.00                              |
| <b>Total goal</b>                  |  | <b>1.70 %</b>  | <b>0.81 %</b>                 | <b>0.00 * %</b>                       | <b>1.50 %</b>                     |
| DBE utilization                    |  | 0.00 %   | 0.00 %                        | N/A %                                 | 0.00 %                            |
| Goal and achievement gap           |  | -1.70  | -0.81                         | N/A                                   | -1.50                             |

Note: \* Indicates that the airport did not receive federal DOT funds of \$250,000 or more and were therefore not required to utilize a DBE goal.

Orange highlight indicates missing information.

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Source: FAA Civil Rights Connect. Information supplemented by DBE goal methodology documents, FAA goal approval documents, DBE Uniform Reports and other official documents.

Figure L-16 (continued).  
Oregon airport goals and utilization, FFY 2015–FFY 2019

| Airport name and<br>FAA identifier | Not administered by ODA                          |  |   |                             |                                    |
|------------------------------------|--|--|---|-----------------------------|------------------------------------|
|                                    | Ken Jernstedt<br>Airfield<br>(Hood River)<br>4S2 | La Grande/Union<br>County Airport<br>LGD | Lake County<br>Airport<br>(Lakeview)<br>LKV | Lexington<br>Airport<br>9S9 | Madras Municipal<br>Airport<br>S33 |
| <b>FY 2015</b>                     |  |  |   |                             |                                    |
| Race-neutral goal                  | Orange highlight %                               | Orange highlight %                       | 0.10 %                                      | 0.00 %                      | 0.00 %                             |
| Race-conscious goal                | Orange highlight %                               | Orange highlight %                       | 0.00  | 0.00                        | 0.00                               |
| <b>Total goal</b>                  | Orange highlight %                               | Orange highlight %                       | <b>0.10 %</b>                               | <b>0.00 * %</b>             | <b>0.00 %</b>                      |
| DBE utilization                    | Orange highlight %                               | Orange highlight %                       | 0.00 %                                      | N/A %                       | 0.00 %                             |
| Goal and achievement gap           | Orange highlight %                               | Orange highlight %                       | -0.10                                       | N/A                         | 0.00                               |
| <b>FY 2016</b>                     |  |  |   |                             |                                    |
| Race-neutral goal                  | Orange highlight %                               | Orange highlight %                       | 0.00 %                                      | 0.00 %                      | 0.00 %                             |
| Race-conscious goal                | Orange highlight %                               | Orange highlight %                       | 0.00  | 0.00                        | 0.00                               |
| <b>Total goal</b>                  | Orange highlight %                               | Orange highlight %                       | <b>0.00 * %</b>                             | <b>0.00 * %</b>             | <b>0.00 * %</b>                    |
| DBE utilization                    | Orange highlight %                               | Orange highlight %                       | N/A %                                       | N/A %                       | N/A %                              |
| Goal and achievement gap           | Orange highlight %                               | Orange highlight %                       | N/A   | N/A                         | N/A                                |
| <b>FY 2017</b>                     |  |  |   |                             |                                    |
| Race-neutral goal                  | 14.60 %  | Orange highlight %                       | 0.10 %                                      | 4.40 %                      | 0.00 %                             |
| Race-conscious goal                | 0.00   | Orange highlight %                       | 0.00  | 0.00                        | 0.00                               |
| <b>Total goal</b>                  | <b>14.60 %</b>                                   | Orange highlight %                       | <b>0.10 %</b>                               | <b>4.40 %</b>               | <b>0.00 * %</b>                    |
| DBE utilization                    | Orange highlight %                               | Orange highlight %                       | 0.00 %                                      | 0.00 %                      | N/A %                              |
| Goal and achievement gap           | Orange highlight %                               | Orange highlight %                       | -0.10                                       | -4.40                       | N/A                                |
| <b>FY 2018</b>                     |  |  |   |                             |                                    |
| Race-neutral goal                  | 10.20 %  | 0.00 %                                   | 0.10 %                                      | 4.20 %                      | 0.75 %                             |
| Race-conscious goal                | 0.00   | 0.00                                     | 0.00  | 0.00                        | 0.00                               |
| <b>Total goal</b>                  | <b>10.20 * %</b>                                 | <b>0.00 * %</b>                          | <b>0.10 %</b>                               | <b>4.20 %</b>               | <b>0.75 %</b>                      |
| DBE utilization                    | N/A %  | N/A %                                    | 0.00 %                                      | 0.00 %                      | 0.00 %                             |
| Goal and achievement gap           | N/A  | N/A                                      | -0.10                                       | -4.20                       | -0.75                              |
| <b>FY 2019</b>                     |  |  |   |                             |                                    |
| Race-neutral goal                  | 10.20 %  | 0.00 %                                   | Orange highlight %                          | 4.20 %                      | 0.75 %                             |
| Race-conscious goal                | 0.00   | 0.00                                     | Orange highlight %                          | 0.00                        | 0.00                               |
| <b>Total goal</b>                  | <b>10.20 %</b>                                   | <b>0.00 %</b>                            | Orange highlight %                          | <b>4.20 %</b>               | <b>0.75 * %</b>                    |
| DBE utilization                    | Orange highlight %                               | 0.00 %                                   | Orange highlight %                          | 0.00 %                      | N/A %                              |
| Goal and achievement gap           | Orange highlight %                               | 0.00                                     | Orange highlight %                          | -4.20                       | N/A                                |

Note: \* Indicates that the airport did not receive federal DOT funds of \$250,000 or more and were therefore not required to utilize a DBE goal.

Orange highlight indicates missing information.

Airports not administered by ODA do not include airports evaluated in the 2018 Port of Portland Small Business Program Disparity Study.

Source: FAA Civil Rights Connect. Information supplemented by DBE goal methodology documents, FAA goal approval documents, DBE Uniform Reports and other official documents.

Figure L-16 (continued).  
Oregon airport goals and utilization, FFY 2015–FFY 2019

| Airport name and<br>FAA identifier | Not administered by ODA                    |                                     |                                     |                              |  |
|------------------------------------|--|-------------------------------------|-------------------------------------|------------------------------|--|
|                                    | McMinnville<br>Municipal<br>Airport<br>MMV | Newport<br>Municipal Airport<br>ONP | Ontario<br>Municipal Airport<br>ONO | Prineville<br>Airport<br>S39 | Redmond<br>Municipal Airport<br>(Roberts Field)<br>RDM |
| <b>FY 2015</b>                     |  |                                     |                                     |                              |  |
| Race-neutral goal                  | 7.90 %                                     | 0.00 %                              | 1.40 %                              |                              | 5.63 %   |
| Race-conscious goal                | 0.00                                       | 0.00                                | 0.00                                |                              | 0.00   |
| <b>Total goal</b>                  | <b>7.90 %</b>                              | <b>0.00 * %</b>                     | <b>1.40 %</b>                       |                              | <b>5.63 %</b>  |
| DBE utilization                    | 0.00 %                                     | N/A %                               | 0.00 %                              |                              | 0.00 %   |
| Goal and achievement gap           | -7.90                                      | N/A                                 | -1.40                               |                              | -5.63  |
| <b>FY 2016</b>                     |  |                                     |                                     |                              |  |
| Race-neutral goal                  | 7.90 %                                     | 0.00 %                              | 1.60 %                              | 1.81 %                       | 2.79 %   |
| Race-conscious goal                | 0.00                                       | 0.00                                | 0.00                                | 0.00                         | 0.00   |
| <b>Total goal</b>                  | <b>7.90 %</b>                              | <b>0.00 * %</b>                     | <b>1.60 * %</b>                     | <b>1.81 %</b>                | <b>2.79 %</b>  |
| DBE utilization                    | 0.00 %                                     | N/A %                               | N/A %                               | 0.54 %                       | 0.00 %   |
| Goal and achievement gap           | -7.90                                      | N/A                                 | N/A                                 | -1.27                        | -2.79  |
| <b>FY 2017</b>                     |  |                                     |                                     |                              |  |
| Race-neutral goal                  | 5.20 %                                     | 0.00 %                              | 1.60 %                              |                              | 2.79 %   |
| Race-conscious goal                | 0.00                                       | 0.00                                | 0.00                                |                              | 0.00   |
| <b>Total goal</b>                  | <b>5.20 * %</b>                            | <b>0.00 * %</b>                     | <b>1.60 %</b>                       |                              | <b>2.79 %</b>  |
| DBE utilization                    | N/A %                                      | 0.00 %                              | 3.08 %                              |                              | 0.00 %   |
| Goal and achievement gap           | N/A  | 0.00                                | 1.48                                |                              | -2.79  |
| <b>FY 2018</b>                     |  |                                     |                                     |                              |  |
| Race-neutral goal                  | 5.20 %                                     |                                     | 1.03 %                              | 2.90 %                       | 2.79 %   |
| Race-conscious goal                | 0.00                                       |                                     | 0.00                                | 0.00                         | 0.00   |
| <b>Total goal</b>                  | <b>5.20 %</b>                              |                                     | <b>1.03 %</b>                       | <b>2.90 %</b>                | <b>2.79 %</b>  |
| DBE utilization                    | 0.00 %                                     |                                     | 78.90 %                             |                              | 0.00 %   |
| Goal and achievement gap           | -5.20                                      |                                     | 77.87                               |                              | -2.79  |
| <b>FY 2019</b>                     |  |                                     |                                     |                              |  |
| Race-neutral goal                  | 5.20 %                                     |                                     | 1.03 %                              | 2.90 %                       | 2.90 %   |
| Race-conscious goal                | 0.00                                       |                                     | 0.00                                | 0.00                         | 0.00   |
| <b>Total goal</b>                  | <b>5.20 %</b>                              |                                     | <b>1.03 %</b>                       | <b>2.90 %</b>                | <b>2.90 %</b>  |
| DBE utilization                    | 0.00 %                                     |                                     | 0.00 %                              |                              | 0.00 %   |
| Goal and achievement gap           | -5.20                                      |                                     | -1.03                               |                              | -2.90  |

Note: \* Indicates that the airport did not receive federal DOT funds of \$250,000 or more and were therefore not required to utilize a DBE goal.

Orange highlight indicates missing information.

Airports not administered by ODA do not include airports evaluated in the 2018 Port of Portland Small Business Program Disparity Study.

Source: FAA Civil Rights Connect. Information supplemented by DBE goal methodology documents, FAA goal approval documents, DBE Uniform Reports and other official documents.

Figure L-16 (continued).  
Oregon airport goals and utilization, FFY 2015–FFY 2019

| Not administered by ODA            |                                      |                                     |                                      |  |                                     |  |
|------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|--|-------------------------------------|--|
| Airport name and<br>FAA identifier | Rogue Valley<br>International<br>MFR | Roseburg Regional<br>Airport<br>RBG | Salem McNary<br>Field Airport<br>SLE | Scappoose<br>Industrial Airpark<br>SPB | Seaside Municipal<br>Airport<br>56S |  |
| <b>FY 2015</b>                     |                                      |                                     |                                      |  |                                     |  |
| Race-neutral goal                  | 3.22 %                               | 6.14 %                              | 9.28 %                               | 18.97 %                                | 0.00 %                              |  |
| Race-conscious goal                | 0.00                                 | 0.00                                | 1.00                                 | 0.00                                   | 12.60                               |  |
| <b>Total goal</b>                  | <b>3.22 %</b>                        | <b>6.14 %</b>                       | <b>10.28 %</b>                       | <b>18.97 * %</b>                       | <b>12.60 %</b>                      |  |
| DBE utilization                    | 0.00 %                               | 0.00 %                              | 0.00 %                               | N/A %                                  | 0.00 %                              |  |
| Goal and achievement gap           | -3.22                                | -6.14                               | -10.28                               | N/A                                    | -12.60                              |  |
| <b>FY 2016</b>                     |                                      |                                     |                                      |  |                                     |  |
| Race-neutral goal                  | 3.22 %                               | 6.14 %                              | 2.87 %                               |  | 0.00 %                              |  |
| Race-conscious goal                | 0.00                                 | 0.00                                | 0.00                                 |  | 12.60                               |  |
| <b>Total goal</b>                  | <b>3.22 %</b>                        | <b>6.14 %</b>                       | <b>2.87 * %</b>                      |  | <b>12.60 * %</b>                    |  |
| DBE utilization                    | 0.00 %                               | 0.00 %                              | N/A %                                |  | N/A %                               |  |
| Goal and achievement gap           | -3.22                                | -6.14                               | N/A                                  |  | N/A                                 |  |
| <b>FY 2017</b>                     |                                      |                                     |                                      |  |                                     |  |
| Race-neutral goal                  | 4.38 %                               | 6.14 %                              | 2.87 %                               | 0.00 %                                 | 0.00 %                              |  |
| Race-conscious goal                | 0.00                                 | 0.00                                | 0.00                                 | 0.00                                   | 12.60                               |  |
| <b>Total goal</b>                  | <b>4.38 %</b>                        | <b>6.14 %</b>                       | <b>2.87 %</b>                        | <b>0.00 %</b>                          | <b>12.60 * %</b>                    |  |
| DBE utilization                    | 0.00 %                               | 0.00 %                              | 7.80 %                               | 0.00 %                                 | N/A %                               |  |
| Goal and achievement gap           | -4.38                                | -6.14                               | 4.93                                 | 0.00                                   | N/A                                 |  |
| <b>FY 2018</b>                     |                                      |                                     |                                      |  |                                     |  |
| Race-neutral goal                  | 2.70 %                               | 1.20 %                              | 2.09 %                               | 10.90 %                                |                                     |  |
| Race-conscious goal                | 0.00                                 | 0.00                                | 0.00                                 | 0.00                                   |                                     |  |
| <b>Total goal</b>                  | <b>2.70 %</b>                        | <b>1.20 %</b>                       | <b>2.09 * %</b>                      | <b>10.90 %</b>                         |                                     |  |
| DBE utilization                    | 0.00 %                               | 33.15 %                             | N/A %                                | 1.96 %                                 |                                     |  |
| Goal and achievement gap           | -2.70                                | 31.95                               | N/A                                  | -8.94                                  |                                     |  |
| <b>FY 2019</b>                     |                                      |                                     |                                      |  |                                     |  |
| Race-neutral goal                  | 2.70 %                               | 1.20 %                              | 2.09 %                               | 10.90 %                                |                                     |  |
| Race-conscious goal                | 0.00                                 | 0.00                                | 0.00                                 | 0.00                                   |                                     |  |
| <b>Total goal</b>                  | <b>2.70 %</b>                        | <b>1.20 %</b>                       | <b>2.09 %</b>                        | <b>10.90 * %</b>                       |                                     |  |
| DBE utilization                    |                                      | 0.00 %                              | 0.00 %                               | N/A %                                  |                                     |  |
| Goal and achievement gap           |                                      | -1.20                               | -2.09                                | N/A                                    |                                     |  |

Note: \* Indicates that the airport did not receive federal DOT funds of \$250,000 or more and were therefore not required to utilize a DBE goal.

Orange highlight indicates missing information.

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Source: FAA Civil Rights Connect. Information supplemented by DBE goal methodology documents, FAA goal approval documents, DBE Uniform Reports and other official documents.

Figure L-16 (continued).  
Oregon airport goals and utilization, FFY 2015–FFY 2019

| Airport name and<br>FAA identifier | Not administered by ODA<br>Southwest |                             |
|------------------------------------|--------------------------------------|-----------------------------|
|                                    | Oregon Regional<br>Airport<br>OTH    | Tillamook<br>Airport<br>TMK |
| <b>FY 2015</b>                     |                                      |                             |
| Race-neutral goal                  | Orange %                             | Orange %                    |
| Race-conscious goal                | Orange %                             | Orange %                    |
| <b>Total goal</b>                  | Orange %                             | Orange %                    |
| DBE utilization                    | Orange %                             | Orange %                    |
| Goal and achievement gap           | Orange %                             | Orange %                    |
| <b>FY 2016</b>                     |                                      |                             |
| Race-neutral goal                  | Orange %                             | Orange %                    |
| Race-conscious goal                | Orange %                             | Orange %                    |
| <b>Total goal</b>                  | Orange %                             | Orange %                    |
| DBE utilization                    | Orange %                             | Orange %                    |
| Goal and achievement gap           | Orange %                             | Orange %                    |
| <b>FY 2017</b>                     |                                      |                             |
| Race-neutral goal                  | Orange %                             | Orange %                    |
| Race-conscious goal                | Orange %                             | Orange %                    |
| <b>Total goal</b>                  | Orange %                             | Orange %                    |
| DBE utilization                    | Orange %                             | Orange %                    |
| Goal and achievement gap           | Orange %                             | Orange %                    |
| <b>FY 2018</b>                     |                                      |                             |
| Race-neutral goal                  | 2.72 %                               | 1.20 %                      |
| Race-conscious goal                | 0.00                                 | 0.00                        |
| <b>Total goal</b>                  | <b>2.72 %</b>                        | <b>1.20 %</b>               |
| DBE utilization                    | Orange %                             | Orange %                    |
| Goal and achievement gap           | Orange %                             | Orange %                    |
| <b>FY 2019</b>                     |                                      |                             |
| Race-neutral goal                  | 2.72 %                               | 1.20 %                      |
| Race-conscious goal                | 0.00                                 | 0.00                        |
| <b>Total goal</b>                  | <b>2.72 %</b>                        | <b>1.20 * %</b>             |
| DBE utilization                    | Orange %                             | N/A %                       |
| Goal and achievement gap           | Orange %                             | N/A                         |

Note: \* Indicates that the airport did not receive federal DOT funds of \$250,000 or more and were therefore not required to utilize a DBE goal.  
Orange highlight indicates missing information.

Airports not administered by ODA do not include airports evaluated in the 2018 Port of Portland Small Business Program Disparity Study.

Source: FAA Civil Rights Connect. Information supplemented by DBE goal methodology documents, FAA goal approval documents, DBE Uniform Reports and other official documents.

**Types of race- and gender-neutral measures.** According to the FAA’s sample DBE program,<sup>9</sup> examples of race- and gender-neutral measures include, but are not limited to:

- Providing technical, financial and other business assistance;
- Simplifying bidding procedures;
- Mentoring opportunities such as mentor-protégé programs;
- Ensuring prompt payments to subcontractors and smaller businesses;
- Soliciting small contracts that are more accessible to smaller businesses;
- Advertising business opportunities;
- Sponsoring network events;
- Creating and distributing MBE/WBE and DBE directories; and
- Other outreach programs and efforts.

In DBE program documents, Oregon airports reported that they had planned to implement a similar set of race-neutral measures, including arranging solicitations and times for the presentation of bids, quantities, specifications and delivery schedules in ways that facilitate DBE and small business participation; carrying out information and communication programs on contracting procedures and specific contracting opportunities; and ensuring the distribution of DBE directories to the widest feasible universe of potential prime contractors. It is unclear how many of these measures have been implemented.

As required by 49 CFR Part 26, Oregon airports have established a small business element aimed at structuring contracting requirements in a way that encourages the participation of small businesses. These efforts include eliminating unnecessary and unjustified bundling of contract requirements.

**Race- and gender-conscious program elements.** Under certain circumstances, regulations in the Federal DBE Program allow airports to use DBE contract goals on FAA-funded contracts to meet their overall goals for DBE participation. No ODA airports employed a race- or gender-conscious DBE contract goals program for FFY 2015 through FFY 2019. A few Oregon airports established a portion of their overall goal to be met through race-conscious measures for a total of five fiscal years but did not appear to have used a race- and gender-conscious DBE contract goals program.

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<sup>9</sup> For a sample DBE program last revised July 2020, see: [https://www.faa.gov/about/office\\_org/headquarters\\_offices/acr/bus\\_ent\\_program/dbe\\_program\\_adm/media/Sample\\_DBEPGRAM\\_Revised.pdf](https://www.faa.gov/about/office_org/headquarters_offices/acr/bus_ent_program/dbe_program_adm/media/Sample_DBEPGRAM_Revised.pdf)