

## **SECTION III.**

# **Marketplace Conditions and Adjustments to the Overall DBE Goal**

Section III presents information on the “base figure” for Caltrans’ overall DBE goal. Caltrans could consider any adjustments in its base figure through the “step 2” process described in 49 CFR Section 26.45. BBC reviewed relevant types of information for a step 2 adjustment that are outlined in the Federal DBE Program, including:

- Current capacity of DBEs to perform work, as measured by the volume of work DBEs have performed in recent years;
- Data on employment, self-employment, education, training and union apprenticeship programs;
- Information on the ability of DBEs to get financing, bonding and insurance; and
- Other relevant data.

Because BBC’s base figure analysis includes minority- and women-owned firms that are not currently DBE certified, BBC considered this factor as well.

### **Factors that Suggest a Downward Adjustment to the Overall Goal**

The 13.5 percent statistic emerging from the base figure analysis in Section II is higher than Caltrans’ current overall goal of 10.5 percent DBE participation in federally-assisted contracts. BBC examined whether or not the 13.5 percent base figure should be adjusted downward.

**Past volume of work performed.** DBEs were awarded 9.0 percent of contract dollars based on BBC’s analysis of Caltrans and Local Assistance federally-funded contracts from 2002 through April 2006. This demonstrated participation is lower than the possible base figure of 13.5 percent DBE participation. Recent DBE participation in these contracts is further discussed in Section IV of this report (see Figure IV-4).<sup>1</sup>

Caltrans could consider this information in assessing whether and how to make any step 2 adjustments in determining an overall annual goal.

**Current DBE certification of minority- and women-owned firms.** The 13.5 percent base figure counts minority- and women-owned firms that could potentially be certified as DBEs. It will be a challenge for Caltrans to encourage these business owners to obtain certification, many of whom have never pursued DBE certification. Caltrans would also need the resources to explain and review certification applications.

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<sup>1</sup> It should be noted that Caltrans attained greater utilization of minority- and women-owned firms in the mid-1990s when it employed higher DBE and MBE/WBE goals.

About one in five minority- and women-owned firms in BBC availability analysis were DBE-certified in 2006. BBC's follow-up interviews with a sample of non-DBE-certified minority and female business owners found that most knew of DBE certification and were interested in certification but had not actively pursued it. In general, the potential that the firm would exceed the size or net worth standards was not a barrier to certification for these firms. Only a few of the firms that had once been DBE certified that did not renew their certification did so because they believed they would not meet size or net worth requirements. This is one of the reasons BBC did not count highest-revenue minority- and women-owned firms in the base figure analysis.

Caltrans should include the fact that many of the firms counted in the base figure analysis are not currently DBE certified when considering any step 2 adjustments.

### **Factors that Suggest an Upward Adjustment to the Overall Goal**

Analysis of other issues identified in 49 CFR Section 26.45 tend to suggest upward adjustments in the overall goal for DBE participation. BBC's analysis suggests that there are barriers to entry and expansion in the transportation construction and engineering industries that may begin with education and training and continue through forming a business and gaining access to capital. Appendix F describes this information in detail.

**Entry into the construction industry.** BBC examined education, employment and advancement for the construction industry in California.

**Education.** Many owners of construction businesses have limited formal education, as discussed in Appendix F. Education does not appear to be a barrier to entry of minorities and women into the construction industry.

**Employment.** Representation of African Americans in the construction industry is relatively low compared to other industries in California, even among entry level jobs. The representation of women in construction as a whole is relatively low and very few women in the construction trades are involved in transportation construction. Representation of Hispanic Americans in the construction industry is considerably higher than for all industries as a whole (37 percent in construction and 29 percent in all industries in California).

**Advancement.** There appear to be disparities in the advancement of Hispanics to certain construction occupations and first-line supervisor positions. Compared to non-Hispanic whites (and men), relatively few African Americans, Hispanic Americans and women working in construction are managers.

**Entry into the engineering industry.** BBC examined education, employment and self-employment in the California engineering industry.

**Education.** Lack of college education appears to be a barrier for African Americans, Hispanic Americans and Native Americans, which ultimately affects representation in the California engineering industry. Disparities in educational attainment for African Americans and Hispanic Americans appear at the high school level, which may affect college opportunities and enrollment into engineering programs. These factors may affect the number of African Americans, Hispanic Americans and Native Americans working as engineers.

**Other disparities in employment.** There is also low representation of women among civil, environmental and geological engineers that cannot be explained by overall levels of college education.

**Business formation and ownership.** BBC examined U.S. Census data on business ownership rates using similar methods to the information reviewed in the court cases involving the Illinois and Minnesota departments of transportation.

**Construction.** African Americans, Hispanic Americans, Subcontinent Asian Americans and women working in the California construction industry are less likely than non-Hispanic whites to own construction businesses. BBC, through regression analysis, identified statistically significant disparities after controlling for neutral factors (see Appendix H).

If members of these groups working in the construction industry owned businesses at the same rate as non-Hispanic whites (and men), there would be about twice as many construction firms owned by African Americans, Hispanic Americans, Subcontinent Asian Americans and women in California.

**Engineering.** African Americans, Asian-Pacific Americans, Hispanic Americans and women working in the engineering industry are less likely to be business owners than others in the industry. BBC found statistically significant disparities for African Americans, Asian-Pacific Americans and women after controlling for factors such as age and education (see discussion of regression analysis in Appendix H).

If African Americans, Asian-Pacific Americans and women working in the engineering industry owned businesses at the same rate as non-Hispanic whites (and men), there would be nearly twice as many engineering firms owned by members of these groups in California than observed today. After controlling for other factors, business ownership rates were higher for Native Americans than non-Hispanic whites working in the engineering industry.

**Rates of business closure.** African American-owned firms in California, in general, are more likely to close than other firms (see Appendix F).

**Access to capital.** There is evidence that minority-owned firms face disadvantages in accessing capital necessary to start and expand businesses.

**Business capital from home equity.** Home equity is an important source of capital for business start-up and growth.

- Relatively fewer African Americans, Hispanic Americans and Native Americans in California own homes than non-Hispanic whites, and those who do own homes tend to have lower home values.
- African Americans, Asian Americans, Hispanic Americans and Native Americans applying for home mortgages are more likely than non-minorities to have their applications denied.
- African American, Hispanic American and Native American mortgage borrowers are more likely to have subprime loans.

**Business loans.** BBC also identified disparities in access to business loans for certain minority groups. African American-, Asian American- and Hispanic American-owned businesses have higher denial rates when applying for business loans, and when they receive loans they have lower loan amounts. After accounting for certain neutral influences, firms owned by African Americans and Hispanic Americans remain significantly more likely to have their loans denied than other firms (see Appendix H).

Relatively more African American- and Hispanic American-owned firms that need credit do not apply for loans because they fear being denied the loan.

**Bonding.** Interviews with business owners and trade associations indicated difficulty obtaining bonding for small and new construction contractors in California. Problems in obtaining bonding were reported in interviews with minority- and women-owned firms and non-minority-owned firms. Section VI and Appendix I provide more information concerning bonding. Minority- and women-owned firms in the transportation contracting industry in California are more likely to be small businesses than majority-owned firms, and therefore may be adversely affected by barriers in obtaining bonding.

**Insurance.** Similarly, some small business owners had problems obtaining insurance required for Caltrans projects. These issues are further explored in Sections V through VIII and in Appendix I.

**Largest bids of minority- and women-owned firms.** In the Availability Survey, BBC asked firms in the transportation construction and engineering industry to identify the largest contract/subcontract a firm had received or bid on in the past five years. There were some minority groups for which “bid capacity” lagged other firms, but these disparities were explained by firm specialization and age.<sup>2</sup>

**Business earnings.** BBC examined U.S. Census data on earnings of business owners in construction and engineering using similar methods to the information reviewed in the court cases involving the Illinois and Minnesota departments of transportation. BBC identified disparities in earnings of firms in California for certain minority groups and for women (detailed results are found in Appendices F and H):

- Earnings of construction firms owned by African Americans and Hispanic Americans are substantially lower than non-Hispanic whites after controlling for age, education and other factors (statistically significant differences). African-American construction business owners earn about 41 percent less than average. Although these results are for the California construction industry as a whole, African American-, and Hispanic American-owned businesses in the transportation construction industry have lower annual revenue than majority-owned firms.
- After controlling for other factors, Subcontinent Asian Americans who own construction firms earn more from their businesses than non-Hispanic whites (statistically significant difference).
- Women who own engineering firms earn less than men do after controlling for factors such as age and education (statistically significant difference). Native American owners of engineering firms earn more than non-Hispanic whites.

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<sup>2</sup> The extent to which minority- and women-owned firms tend to be younger and in different subindustries than majority-owned firms may not be an entirely “neutral” explanation for disparities in bid capacity if past discrimination has influenced whether there are relatively few older MBE/WBE firms or the relative concentration of MBE/WBEs in different subindustries.

## **Summary**

There are reasons for Caltrans to consider downward adjustments to the base figure for overall DBE participation. It will be difficult for Caltrans to encourage the many non-DBE-certified firms to apply for certification. Analysis of local marketplace data reveals reasons for upward adjustments to the base figure. This information indicates barriers to entry into the California construction and engineering industries, low rates of business ownership for certain groups working in the industries, lower business earnings and other barriers such as access to capital.

Caltrans should include all of the above information in its consideration of whether or not to make any step 2 adjustment to a base figure for the overall annual DBE goal.