



## UNIVERSITY OF MINNESOTA 2025 Joint Disparity Study

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## SUMMARY REPORT — Executive Summary

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The University of Minnesota (UMN) seeks to ensure equitable opportunities for historically disadvantaged businesses competing for its construction, professional services, goods and other services contracts. For its contracts and subcontracts, UMN's Targeted Group Business Program (TGBP) attempts to remove barriers to participation of firms owned by people of color, women and people living with a disability.

Keen Independent Research LLC (Keen Independent) conducted this disparity study to analyze whether there are disparities in the utilization of minority- and woman-owned businesses (MBE/WBEs) in UMN contracts and subcontracts. UMN participated in this joint disparity study with 15 other public entities in the state. Keen Independent also performed the 2017 joint disparity study led by the Minnesota Department of Administration. (UMN did not participate in that study.) The 2025 Study examined minority- and woman-owned firms, small businesses and firms owned by veterans, service-disabled veterans and people with a disability.

Information from disparity studies helps government entities such as UMN determine if there are barriers to participation of historically underrepresented firms in their contracts, and if so, what legally defensible actions they can take to address those barriers. The U.S. Supreme Court has set a standard for legal review of race-conscious contract equity programs that allows them only if (a) there is evidence of discrimination affecting those businesses, and if (b) small business enterprise (SBE) programs or other neutral efforts alone are insufficient to address any barriers, and that programs meet other narrow tailoring requirements. These programs cannot be quotas or have unlimited duration. (The full report explains applicable legal standards.)

Keen Independent launched the Joint Disparity Study in early 2024, with a mid-2025 completion. An External Stakeholder Group, which included some UMN faculty members, provided input throughout the study.

### Utilization, Availability and Disparity Analyses

The results detailed in this report indicate substantial disparities for minority- and woman-owned businesses in UMN's non-federally funded contracts. From July 2016 through June 2023, 3.8 percent of UMN contract dollars went to minority-owned businesses. Keen Independent also determined that 4.2 percent of UMN contract dollars went to white woman-owned companies during the study period.

Keen Independent analyzed the availability of MBE/WBEs and other firms to perform UMN contracts and subcontracts based on a survey of companies in Minnesota. MBE/WBEs were about 35 percent of firms indicating qualifications and interest in public sector contracts and subcontracts. Through a contract-by-contract analysis of firms available to perform specific types, sizes and locations of UMN contracts and subcontracts, Keen Independent determined that 9.9 percent of UMN contract dollars might go to MBEs and 11.0 might go to WBEs if there were a level playing field.

UMN's 3.8 percent utilization of MBEs was below the 9.9 percent of contract dollars that might be expected to go to MBEs based on the availability analysis, indicating a substantial disparity. There were substantial disparities for Black American-, Asian -Pacific American-, South Asian American- and Hispanic American-owned companies for UMN contracts even with the positive effects of UMN's Targeted Group Business Program. Perhaps partially due to the TGBP, there was no substantial disparity overall for American Indian-owned firms.

The share of UMN contract dollars going to white woman-owned firms (4.2%) was also substantially below the 11.0 percent availability benchmark for WBEs for UMN contracts. Combined, the 8.0 percent MBE/WBE participation in UMN contracts was well below the 20.9 percent of dollars that might be expected from the availability analysis.

## SUMMARY REPORT — Executive Summary

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Results for UMN were similar to combined results for the 16 entities participating in this joint disparity study. About 9 percent of combined entity contract dollars went to MBE/WBEs, less than the 22 percent that might be expected from the availability analysis for combined entities. There were substantial disparities for each MBE/WBE group even though many entities operate SBE and MBE/WBE-type programs. Combined results for entities without any programs showed only 0.2 percent of contract dollars going to MBEs and 1 percent of dollars going to WBEs. Disparities were substantial for those entities across study industries.

Some of the Minnesota entities with comprehensive SBE and MBE/WBE programs have narrowed or eliminated any disparities in MBE/WBE participation. Hennepin County provides an example of how flexible use of SBE and MBE/WBE program elements can help to level the playing field for minority- and woman-owned businesses in public procurement.

### Other Research

Keen Independent performed in-depth interviews with businesses, trade associations and others and examined other data about the Minnesota marketplace, including access to capital. In total, more than 2,200 business owners and other individuals provided input.

Both the quantitative and qualitative research showed a pattern of disparities or barriers for Black Americans, Asian-Pacific Americans, South Asian Americans, Hispanic Americans, American Indians and women and the businesses they own.

Keen Independent's marketplace research also found evidence of disadvantages for firms owned by members of the LGBTQ+ community, persons with disabilities, veterans and service-disabled veterans.

### Conclusions

The quantitative and qualitative information for UMN contracts and the local marketplace indicates a need for continued UMN remedial actions to level the playing field for minority- and woman-owned firms and promote full opportunities for MBE/WBEs to do business with UMN. The evidence may be consistent with raising an inference of discrimination affecting certain racial and ethnic groups of minority-owned businesses as well as woman-owned businesses in the Minnesota marketplace.

### Actions for UMN Consideration

UMN should consider expanding its efforts focused on small businesses, minority- and woman-owned companies, and other firms that may have been affected by discrimination based on the personal characteristics of the business owner. The final pages of this Summary Report discuss specific actions for UMN consideration. They are summarized below.

1. Establish objectives for small business measures and remedial action to address the effects of discrimination
2. Expand and monitor metrics to gauge success
3. Authorize and develop a full set of tools to address objectives
4. Identify registrations and certifications for participation
5. Flexibly operate programs to target businesses needing assistance
6. Provide adequate resources to effectively operate programs

## SUMMARY REPORT — Introduction

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### Background

As part of efforts to ensure equity in its contracting activities, the University of Minnesota and 15 other public entities commissioned a joint disparity study to determine if there is a level playing field for minority- and woman-owned business enterprises when competing for UMN and other participating entity contracts.

This research examines whether there are any barriers to minority- and woman-owned businesses seeking work with public entities and with prime contractors doing business with the entities. The study identifies how each entity can develop and implement contract equity program elements to address any observed disparities in their contracts and subcontracts.

### Contract Disparity Study

Government programs that provide preferences or requirements regarding use of minority- or woman-owned businesses and certain other diverse businesses can be challenged in court. This joint disparity study provides the types of information needed by public entities to review whether race- and gender-based programs are needed and might be legally supported. The study methodology is based on court decisions that have ruled on the constitutionality of minority- and woman business enterprise (MBE/WBE) programs, especially those within the jurisdiction of the United States Court of Appeals for the Eighth Circuit, which includes Minnesota. The methodology Keen Independent employed in this study has been reviewed and approved by courts.

Figure 1 lists the public entities participating in the 2025 Minnesota Joint Disparity Study. The Minnesota Department of Administration led this effort, as it did for the 2017 Minnesota Joint Disparity Study (2017 Study).

#### 1. Entities participating in 2025 Minnesota Joint Disparity Study

City of Bloomington  
City of Brooklyn Park  
City of Minneapolis  
City of Rochester  
City of Saint Paul  
Hennepin County  
Hennepin Healthcare System  
Metropolitan Airports Commission  
Metropolitan Council  
Metropolitan Mosquito Control District  
Minnesota Department of Administration  
Minnesota Department of Transportation  
Minnesota State Colleges and Universities  
Ramsey County  
Saint Paul Public Schools  
University of Minnesota

#### Research methods. The study included:

- Identification of the ownership of prime contractors, subcontractors and other vendors on past entity contracts;
- A survey of firms in Minnesota available to perform public sector work related to construction, professional services, goods and other services (referred to as “study industries”);
- Disparity analyses that compare participation of minority- and woman-owned firms on participating entity contracts with what would be expected from the availability analysis;
- Interviews with business owners and representatives; and
- Other research about the local marketplace.

Appendix A provides definitions of terms used in this study.

# SUMMARY REPORT — Introduction

**Groups of business owners examined in the study.** The original scope of work for the 2025 Joint Disparity Study identified the groups to be examined in the study, which were largely the same as the 2017 Study. At the outset of the 2025 Study, Keen Independent reexamined the rationale for the racial, gender and other groups included and how each group was defined.

Keen Independent reviewed the literature, analyzed Census data, interviewed local experts and obtained public input. Keen Independent assessed (a) whether there was evidence of discrimination against groups of individuals based on their immutable personal characteristics as it pertains to business creation and success in Minnesota, (b) existing data sources for businesses for each group, and (c) how groups might be defined.

Keen Independent submitted the Task 2.7 Group Definitions Report to the participating entities that included the following recommendations:

- All groups in the 2017 Study be included in the 2025 Study;
- Definitions and names for certain racial groups be refined;
- Analysis of persons with substantial disabilities be expanded to persons with disabilities in general;
- Analysis of veterans be expanded to include a sub-analysis for service-disabled veterans (based on USDOD certification);
- LGBTQ-owned businesses be added to the study; and
- Analysis of people from the Middle East and North Africa be added to a future study once there are sufficient data.

Keen Independent also recommended the study include any additional information for subgroups such as firms owned by Somali Americans, Hmong Americans and limited English-speaking immigrants. These recommendations were accepted and Keen Independent proceeded with study analyses for the groups identified in Figure 2.

## 2. Groups of business owners examined in the 2017 and 2025 Minnesota Joint Disparity Studies

Groups in 2017 Study	Support for continued inclusion	Groups in 2025 Study
<b>Racial groups</b>		
African Americans	Yes	Black Americans
Asian Americans	Yes	Asian-Pacific American* South Asian Americans
Hispanic Americans	Yes	Hispanic Americans
Native Americans	Yes	American Indians
	New	Middle Easterners and North Africans (not 2025 but in future study)
<b>Gender group</b>		
Women	Yes	Women
<b>Other groups (not included in full disparity analyses)</b>		
Persons with a substantial physical disability	Yes	Persons with a disability
Veterans	Some	Veterans
	New	Service-disabled veterans
	New	Members of LGBTQ+ community

\* Includes Central, East and Southeast Asian Americans and Native Hawaiians and Pacific Islanders.

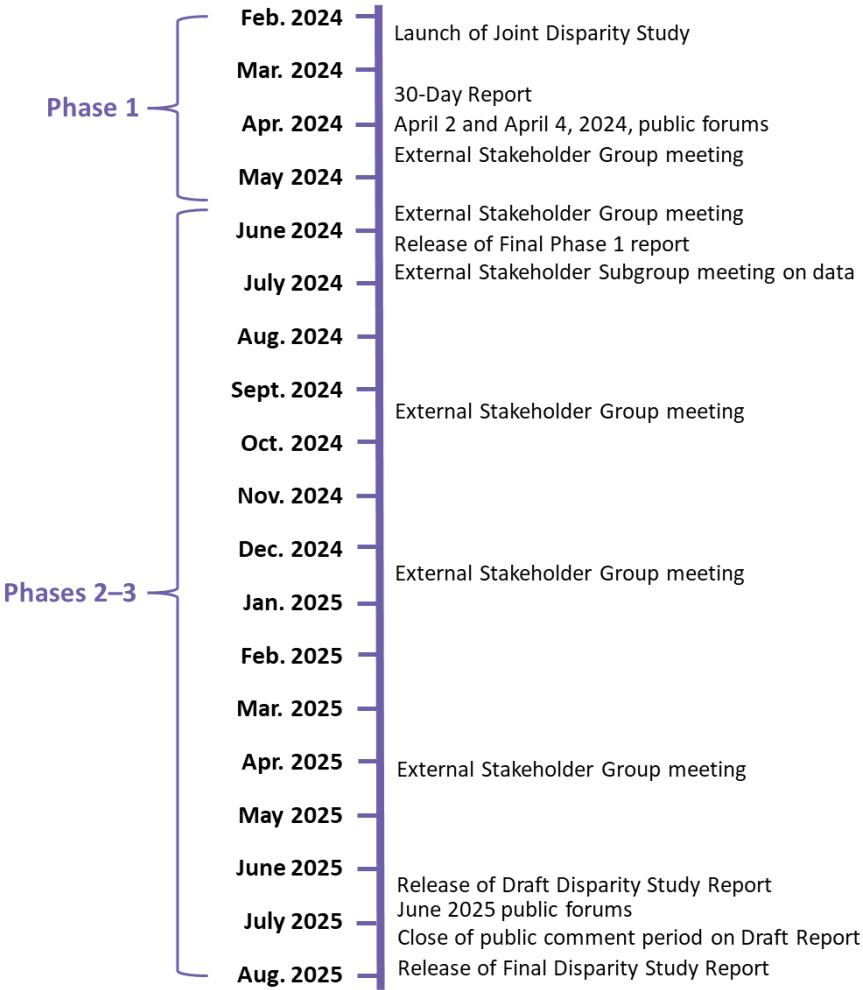
# SUMMARY REPORT — Introduction

**Study team.** Keen Independent is a national economic consulting firm headquartered in Denver. The study team included the national law firm Holland & Knight and survey firm Customer Research International (CRI). Both firms were part of the 2017 Study. Also participating in the 2025 Study were Donaldson Consulting, Market Solutions, etc. and DEBLAR and Associates, qualitative research firms that have worked on past Keen Independent disparity studies. The study team has performed more than 200 similar disparity studies for public entities, including original disparity studies in the 1990s for some of the Minnesota entities participating in the 2025 Study.

**Public input and overall project timeline.** The disparity study started in February 2024 with a June 2025 release of the draft report to the public. The first phase of the study refined the groups to be examined in the study as well as study methodology. Input from the public through two public forums, as well as contributions from External Stakeholder Group members, was considered in the refined study approach.

There were additional opportunities for public input through 2024 and into 2025. Keen Independent reached out to thousands of businesses, trade association representatives and others through surveys, in-depth interviews and other research. More than 2,200 businesses, trade association representatives and other interested individuals provided input through these methods.

## 3. Project timeline





## SUMMARY REPORT — Legal framework

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Across the country, state and local governments have enacted efforts such as MBE/WBE programs to ensure there is equitable treatment of minority- and woman-owned firms and the public entity is not a participant in race or gender discrimination against those firms, including as a passive participant in private marketplace discrimination.

### Overall Legal Framework

Holland & Knight prepared Appendix N of this report, which provides the legal framework for the study and guides study methodology.

Appendix N identifies the standards of legal review that apply when a public entity must defend a program that includes components for MBEs, WBEs and types of businesses such as small businesses, veteran-owned businesses or businesses owned by persons with disabilities. The different standards of legal review are:

- **Strict scrutiny** (for MBE programs).
- **Intermediate scrutiny** (for WBE programs and LGBTQ+ business programs).
- **Rational basis** (for programs for businesses that are small, veteran-owned or owned by persons with a disability, for example). This is the most easily met standard of legal review, as a government entity need only show that it had a rational basis for enacting a law (see Appendix N).

These are the same legal standards that applied when conducting the 2017 Study. They have not changed with recent court cases.

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<sup>1</sup> 488 U.S. 469 (1989).

### Strict Scrutiny

In 1989, the U.S. Supreme Court in *City of Richmond v. J.A. Croson Company* established “strict scrutiny” as the standard of legal review for race-conscious programs adopted by state and local governments.<sup>1</sup> Strict scrutiny requires that:

- A governmental entity has a “compelling governmental interest” in remedying past identified discrimination or its present effects; and
- The program adopted be “narrowly tailored” to achieve the goal of remedying the identified discrimination.

### Intermediate Scrutiny

Certain courts, including in the Eighth Circuit Court of Appeals and the state of Minnesota, apply intermediate scrutiny when reviewing gender-conscious programs.<sup>2</sup> Courts have required they 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.

As discussed in Appendix N, a program providing preferences for firms owned by members of the LGBTQ+ community would likely be subject to intermediate scrutiny.

<sup>2</sup> See, *Geyer Signal, Inc.*, 2014 WL 1309092; see, *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 789 (Minn. 2013); *State ex rel. Forslund v. Bronson*, 305 N.W.2d 748, 750 (Minn.1981).

## SUMMARY REPORT — Procurement policies and equity programs

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### Procurement Policies

UMN can use contracting options identified in Minnesota Statute 16A, 16B or 16C.

**Bidding thresholds and requirements.** In general, UMN must procure goods, professional and technical services and general services valued at more than \$50,000 through formal solicitation of competitive sealed bids or best value proposals (threshold is \$100,000 for architecture and engineering). The same procurement methods apply for construction procurements worth \$250,000 or more. Purchases below these amounts can be made through informal solicitation. Public advertisement includes posting on UMN's procurement website: MBid.

**Contract award.** Contract awards are typically determined based on low bid or best value. Certain types of professional and technical services contracts must be awarded based on qualifications.

**Bonding.** At award, firms on public works construction projects in Minnesota must supply a payment and performance bond.

**Prompt payment.** State law requires state agencies to pay a valid vendor invoice within 30 days of receiving that invoice and its prime contractors pay subcontractors within 10 days of when the prime receives payment.

**Other requirements.** The State of Minnesota has other direct and indirect requirements regarding what firms can bid or work on. See Appendix L for additional information.

### Procurement Equity Programs

UMN operates a Targeted Group Business Program (TGBP).

**TGB evaluation points.** Under the UMN TGBP, certified woman-, minority- and disabled-owned businesses that bid for a contract as a prime contractor receive additional evaluation points and non-certified bidders and proposers may obtain additional evaluation points (5–10% of total points) if:

- The bidder or proposer employs a meaningful number of women, minorities and/or persons with disabilities for work on construction projects.
- Subcontracts with or purchase materials from certified woman-, minority- or disabled-owned businesses. (UMN sets a TGB aspirational goal of 13 percent on construction contracts over \$250,000 and sets goals of 10 percent on architecture and engineering contracts over \$100,000 and goods and non-A&E services contracts over \$50,000.)
- Collaborates with the UMN in programs that provide job skills training or promote business development, where available.

**Certifications.** UMN accepts the following certifications:

- Central Certification (CERT) Program (MBE/WBEs);
- Disability:IN™ Supplier Diversity;
- Minnesota Unified Certification Program (MnUCP);
- National Minority Supplier Development Council, Inc. ;
- State of Minnesota Department of Administration;
- Women's Business Enterprise National Council (WBENC); and
- Veteran Small Business Certification (VetCert) service-disabled veteran-owned small businesses (SDVOSB).

## SUMMARY REPORT — University of Minnesota procurements examined

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### Contracts Examined

Keen Independent began the process of performing utilization, availability and disparity analyses by collecting and analyzing data on University of Minnesota non-federally funded contracts and subcontracts. Keen Independent examined UMN data concerning payments to vendors for construction, professional services, goods and other services contracts.

### Contract and Subcontract Data

UMN provided payment data for contracts awarded during the study period. Keen Independent examined payments for contracts from July 1, 2016, through June 30, 2023.

UMN Office of Supplier Diversity uses SmartComp to track payments to TGB subcontractors in contracts with a TGB goal. Keen Independent also compiled subcontract payment information from IC134 affidavits on University of Minnesota construction procurements.

In total, Keen Independent examined 28,766 UMN contract elements (\$4.3 billion), 1,057 of which were subcontracts (\$161 million).

Keen Independent identified payments to exclude from the study, such as payments to governmental entities, employee benefits and nonprofits as well as types of purchases typically made from national markets (see Appendix B for additional detail regarding exclusions). Utilization, availability and disparity analyses use UMN payment data after removing the identified exclusions.

### Types of Work in UMN Contracts

A disparity study focuses on the types of work procured by the individual governmental entity.

Based on information in the contract and subcontract records, Keen Independent coded the primary type of work involved in each prime contract and subcontract using North American Industry Classification System (NAICS) and Standard Industrial Classification (SIC) codes. NAICS and SIC codes are standardized federal systems for classifying firms into a subindustry according to the type of work they perform. If a company performed more than one type of work on a contract or subcontract, the study team attempted to identify the primary type of work conducted.

Figures 4 through 7 on the following four pages show dollars of prime contracts and subcontracts by subindustry for UMN purchases during the study period (beginning with construction, each page reviews types of spending within a particular industry).

Keen Independent's availability analysis and research on local marketplace conditions focused on the subindustries accounting for the most UMN spending within each industry.

## SUMMARY REPORT — University of Minnesota procurements examined

### Construction

About \$2 billion of UMN contract dollars during the study period went to construction contracts and subcontracts. Figure 4 identifies the major types of construction activity, organized by work performed.

- Public, commercial, and multifamily building construction (\$1.5 billion) accounted for 76 percent of UMN construction contract dollars.
- Plumbing and HVAC (\$170 million) was about 9 percent of total construction contract dollars and 5 percent of construction contract dollars went to electrical work (about \$90 million). As with other results in Figure 4, these values include those for subcontracts on construction contracts.

In total, the 12 major types of construction work listed in Figure 4 accounted for 96 percent of UMN construction dollars. Other types of construction work were also included in the availability survey but not individually listed in Figure 4 (certain landscape installation contracts, for example). Those other surveyed types of work, which are listed in other tables) accounted for another 1 percent of total UMN construction contract dollars (“Other surveyed types of work” in Figure 4).

There were some types of work involved in construction contracts that pertained to other industries. They amounted to just \$3 million

#### 4. Spending by type of work on UMN construction prime contracts and subcontracts, July 2016–June 2023

	Dollars (\$1,000s)	Share of industry
Public, commercial and multifamily building construction	\$ 1,497,703	76.2 %
Plumbing and HVAC	169,893	8.6
Electrical work including lighting and signals	89,843	4.6
Excavation, site prep, grading and drainage	40,205	2.0
Roofing	27,643	1.4
Concrete work	20,018	1.0
Plastering, drywall and installation	19,593	1.0
Road construction and paving	14,787	0.8
Water and sewer lines and related structures	6,491	0.3
Structural steel work	2,906	0.1
Bridge and elevated highway construction	242	0.0
Striping and pavement marking	130	0.0
Other surveyed types of work	20,047	1.0
<b>Subtotal</b>	<b>\$ 1,909,501</b>	<b>97.1 %</b>
Other construction	\$ 53,869	2.7 %
Other types of work	3,270	0.2
<b>Total</b>	<b>\$ 1,966,640</b>	<b>100.0 %</b>

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

SUMMARY REPORT — University of Minnesota procurements examined

Professional Services

About \$532 million of UMN contracts went to professional services contracts during the study period. Figure 5 examines major areas of UMN spending on professional services.

- Architecture and engineering accounted for 40 percent of the professional services contract dollars (\$215 million).
- About 14 percent of professional services contract dollars went to IT and data services (about \$74 million).

The 10 major types of professional services work listed in Figure 5 accounted for about 86 percent of UMN professional service contract dollars. These and other types of professional services work were included in the availability survey.

5. Spending by type of work on UMN professional services prime contracts and subcontracts, July 2016–June 2023

	Dollars (\$1,000s)	Share of industry
Architecture and engineering	\$ 214,719	40.3 %
IT and data services	74,142	13.9
Legal services	62,960	11.8
Marketing, communications and outreach	41,621	7.8
Testing laboratories	25,475	4.8
Management consulting and research	24,492	4.6
Certified public accountant services	7,449	1.4
Environmental consulting	3,151	0.6
Surveying and mapping	1,807	0.3
Landscape architecture and urban design	1,656	0.3
Other surveyed types of work	1,837	0.3
Subtotal	\$ 459,309	86.3 %
Other professional services	\$ 72,846	13.7 %
Other types of work	147	0.0
Total	\$ 532,302	100.0 %

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

## SUMMARY REPORT — University of Minnesota procurements examined

### Goods

UMN goods purchases examined in the study totaled \$1.1 billion over the study period. Figure 6 lists 17 types of goods purchases that together accounted for 83 percent of the UMN goods purchases that were analyzed.

- Medical equipment and supplies (\$391 million), industrial equipment and supplies (\$97 million) and furniture (\$71 million) together accounted for about 49 percent of UMN goods spending.
- About 6 percent (\$65 million) of UMN spending went to construction materials.

The work listed in Figure 6 were among the types of goods included in the availability survey.

Not shown in Figure 6 is the spending for types of goods that UMN primarily purchased from national markets (computer and computer peripheral equipment, for example).<sup>3</sup>

<sup>3</sup> Excluding types of purchases made from a national market is a standard step in a disparity study. Since these purchases are primarily made from a national market and

### 6. Spending by type of UMN goods procurements, July 2016–June 2023

	Dollars (\$1,000s)	Share of industry
Medical equipment and supplies	\$ 391,475	34.5 %
Industrial equipment and supplies	96,702	8.5
Furniture	71,262	6.3
Construction materials	64,969	5.7
Chemicals	54,158	4.8
Pharmaceuticals	43,533	3.8
Electrical equipment and supplies	37,826	3.3
Office supplies	33,155	2.9
Office equipment	30,469	2.7
Food	28,281	2.5
Communications and A/V equipment	21,798	1.9
Vehicle parts and supplies	20,848	1.8
Petroleum and petroleum products	13,843	1.2
Construction and farm machinery and equipment	12,330	1.1
Signs	9,844	0.9
Cars and trucks	8,234	0.7
Law enforcement equipment and supplies	715	0.1
Other surveyed types of work	12	0.0
<b>Subtotal</b>	<b>\$ 939,455</b>	<b>82.8 %</b>
Other goods	\$ 194,968	17.2 %
Other types of work	94	0.0
<b>Total</b>	<b>\$ 1,134,518</b>	<b>100.0 %</b>

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

not the relevant geographic market area, they are typically made ineligible for application of contract equity program elements.



## SUMMARY REPORT — University of Minnesota procurements examined

### Other Services

Other services contracts accounted for \$687 million of UMN spending during the study period. Figure 7 examines major areas of UMN spending on other services (not including types of work typically purchased from outside the local area).

Figure 7 lists 19 types of work that together accounted for more than three-quarters of other services procurement dollars.

- Contracted food services (\$269 million), bus transit services (\$46 million) and landscape installation and maintenance (\$35 million) were the largest areas of spending, together representing one-half of UMN other services contract dollars.
- Staffing services was the fourth largest area of spending on other services.

The types of other services work in Figure 7 were included in the availability survey.

7. Spending by type of work on UMN other services procurements, July 2016–June 2023

	Dollars (\$1,000s)	Share of industry
Contracted food services	\$ 269,192	39.2 %
Bus transit services	45,589	6.6
Landscape installation and maintenance	34,804	5.1
Staffing services	33,957	4.9
Printing and copying	29,033	4.2
Elevators and elevator services	24,689	3.6
Security systems services	24,652	3.6
Waste collection and disposal	14,286	2.1
Remediation services	13,332	1.9
Industrial machinery repair	12,338	1.8
Security guard services	9,112	1.3
Snow removal services	7,442	1.1
Janitorial services	6,690	1.0
Hauling	2,408	0.4
Automotive repair and maintenance	2,141	0.3
Construction equipment rental	2,006	0.3
Sewer cleaning and inspection	995	0.1
Traffic control services and sign rental	361	0.1
Motor vehicle towing	15	0.0
Other surveyed types of work	99	0.0
<b>Subtotal</b>	<b>\$ 533,140</b>	<b>77.6 %</b>
Other services	\$ 153,910	22.4 %
Other types of work	78	0.0
<b>Total</b>	<b>\$ 687,128</b>	<b>100.0 %</b>

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

SUMMARY REPORT — University of Minnesota procurements examined

Geographic Market Area

Firms with a location in Minnesota plus the two Wisconsin counties within the Minneapolis-St. Paul Metropolitan Area (Pierce and St. Croix counties) performed most of the dollars on contracts and subcontracts for UMN, after excluding the types of purchases typically made from national markets. Firms with a location (not necessarily a HQ) in this area received 83 percent of UMN construction, professional services, goods and other services contract dollars. Keen Independent also refers to this area as the Minnesota marketplace in this report.

Figure 8 shows this area as well as the definitions of specific regions of the state used in the availability analysis. (As described later in this Summary Report, availability analyses accounted for location of specific UMN campus, which are in the Twin Cities, Northwest, Northeast, Central and Southeast regions.)

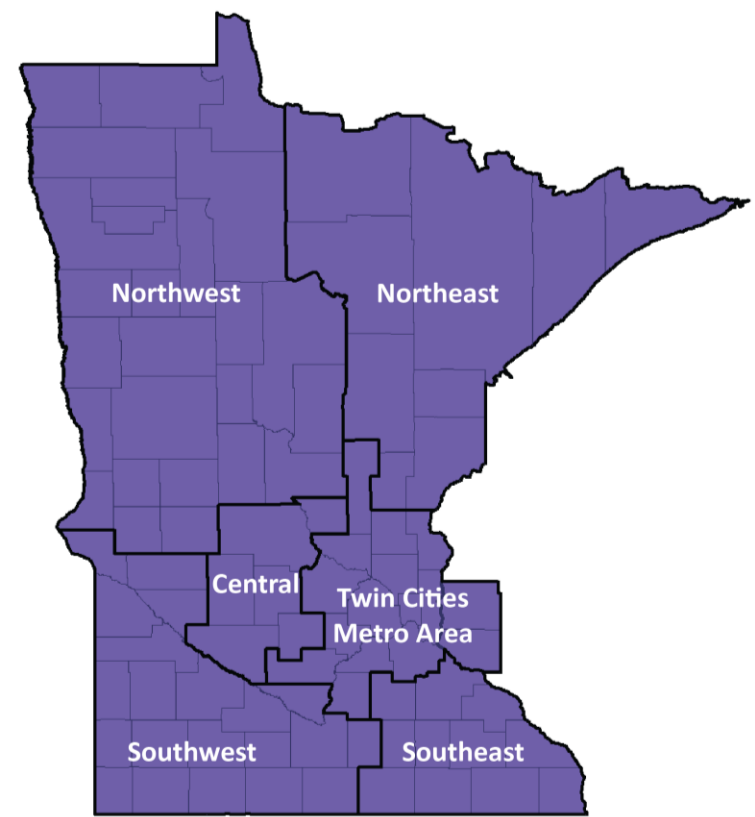
Figure 9 below shows that firms with a location in the Minnesota marketplace obtained a substantial share of UMN contract dollars in each of the study industries. Therefore, examination of marketplace conditions focused on firms in this area for each industry.

9. Dollars of UMN prime contracts and subcontracts by location of firm, July 2016–June 2023

	Dollars (\$1,000s)	Percent in Minnesota
Construction	\$ 1,966,640	96.3 %
Professional services	532,302	70.2
Goods	1,134,518	69.8
Other services	687,128	79.3

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

8. Relevant geographic market area for UMN contracts



Source: Keen Independent analysis of UMN procurement data, July 2016-June 2023.

## SUMMARY REPORT — Information about marketplace conditions

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Keen Independent examined data from the U.S. Census Bureau, the availability survey conducted for this study, and other sources on conditions for minority- and woman-owned firms and other businesses.

Appendices E through H of this report provide results from these analyses. Appendix I explains data sources.

The Keen Independent study team also collected qualitative information from business owners and representatives from trade organizations and business assistance organizations. The study team conducted in-depth interviews, availability surveys, public forums and other activities.

Both the quantitative and qualitative information in the study primarily focus on the time period since the 2017 Study.

For anonymity, Keen Independent analyzed and coded comments from the qualitative research without identifying any of the participants. Keen Independent provided opportunities for public comments via mail and the designated study telephone hotline, website and email address.

Some of the comments from the qualitative research are provided in the following pages. Appendix J provides a much richer analysis of the input received. Appendix J is based on input from more than 2,200 businesses, trade association representatives and others.

Note that the comments in Appendix J and the following pages identify individuals by number, not by name. (Appendix J explains the numbering system in further detail.)

The anecdotal information reflects the point of view of the business owner or other individual making the comments. Comments are the individual perspectives of the respondents. The entirety of the qualitative information (see Appendix J), combined with quantitative results, is important when interpreting results.

The following pages present the analysis of marketplace conditions in the following order:

- Entry and advancement as employees;
- Business ownership;
- Business success; and
- Specific barriers to doing business in the marketplace and with public entities. (This analysis includes topics such as access to capital, information about work opportunities and unfair treatment in the marketplace.)

## SUMMARY REPORT — Information about marketplace conditions

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### Entry and Advancement as Employees

People of color were about 20 percent of the Minnesota workforce from 2018 through 2022. Women accounted for about 47 percent of all workers. Any barriers to entry or advancement as workers in the study industries might affect the relative number of businesses owned by people of these groups in these industries in Minnesota. Analysis of the Minnesota workforce in the study industries indicates disparities in employment consistent with barriers to entry and advancement for some minority groups, women and other groups (see Appendix E). Disparities were particularly evident for the following groups:

- Sub-Saharan African Americans and other Black Americans, Southeast Asian Americans and other Asian-Pacific Americans, South Asian Americans, women, persons with disabilities and people in same-sex couples in the construction industry. (In addition, there appeared to be barriers to advancement for Mexican Americans, other Hispanic Americans and American Indians working in construction.)
- Sub-Saharan African Americans and other Black Americans, American Indians, women and persons with disabilities in the professional services industry (after controlling for education).
- Sub-Saharan African Americans, Southeast Asian Americans, other Asian-Pacific Americans, South Asian Americans, Mexican Americans, other Hispanic Americans and women in the goods industry.
- Southeast Asian Americans, other Asian-Pacific Americans, South Asian Americans, women and people in same-sex couples in the other services industry.

Comments from the qualitative research include those to the right (see Appendix J).

*The whole reason I started this business is mostly because of the negativity that I was experiencing in my workplace.*

*I-53. Black American female owner of an other services firm*

*Because I speak with an accent ... supervisors have expressed doubts about my education. I ... have a very strong background .... Yet I faced constant doubts about whether I could perform the work required.*

*I-34. Hispanic American female owner of a professional services firm*

*I always thought that women that complained about [discrimination] were whiners, but [it exists] ... The mindset ... is [that women work] for their family ... but women are not really [professionals].*

*I-10. American Indian female owner of an other services firm*

*At one time I had someone say to another driver on the radio. ‘She should just go home you know, and she really belongs in the kitchen’ and then the guy made another comment about something.*

*I-38. American Indian female owner of an other services firm*

*I ran into glass ceilings; I’ve been passed over and not recognized for contributions .... That happens in the workplace all the time for the fact that we’re female.*

*I-60. South Asian American female owner of a professional services firm*

*If I’m the only African American in the room, and when I speak my words are dismissed ..., [it creates] the feeling ... as if you don’t have any knowledge.*

*I-71. Black American male service-disabled veteran owner of a construction-related firm*

## SUMMARY REPORT — Information about marketplace conditions

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### Business Ownership

Keen Independent examined whether there were differences in business ownership rates for workers in local construction, professional services, goods and other services industries related to race, ethnicity, gender, veteran status, disability and being in a same-sex couple.

- **Construction.** Women working in the Minnesota construction industry were less likely than non-Hispanic whites and men, respectively, to own a business. The disparity was substantial and persisted after controlling for certain other personal and family characteristics (statistically significant difference).

Veterans working in the industry were also less likely to own a business after statistically controlling for other factors.

- **Professional services.** In the Minnesota professional services industry, other Asian-Pacific Americans (Asian-Pacific Americans other than Southeast Asian Americans), South Asian Americans, Mexican Americans and women were less likely than non-Hispanic whites to own a business.

After statistically controlling for factors such as having a four-year or advanced degree, statistically significant differences in business ownership rates persisted for South Asian Americans and white women. These disparities were substantial.

- **Goods.** In the Minnesota goods industry, workers with a disability, workers who were veterans and workers in same-sex couples had lower rates of business ownership than other workers after controlling for certain other personal characteristics (statistically significant differences).
- **Other services.** In the Minnesota other services industry, Asian-Pacific Americans, women, persons with disabilities and people in a same-sex couple working in the industry were less likely to own a business than non-Hispanic whites, men and other workers respectively.

After controlling for personal characteristics, statistically significant differences were identified for Asian Americans, American Indians, white women, veterans, persons with disabilities and people in a same-sex couple.

Further analysis for these disparities for Asian Americans, American Indians and white women found those for Asian Americans and women to be substantial.

Discussion of marketplace barriers later in the Summary Report begin to explain factors that could be related to these disparities in business ownership rates, including results from the qualitative research in Appendix J of the report and the separate Task 2.7 Report. For example:

- There is substantial evidence that the playing field is not level for people of color and some other groups to start a business, especially around access to capital in Minnesota.
- Qualitative research also shows the importance of networks for new business owners to find opportunities for work. There is evidence that people of color, women and other historically disadvantaged groups face additional barriers.

## SUMMARY REPORT — Information about marketplace conditions

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### Business Success

Keen Independent explored many different types of business outcomes in the Minnesota marketplace for minority- and woman-owned firms compared with majority-owned companies. There is a pattern of disparities in outcomes for MBEs and WBEs (see Appendix H).

**Business closure.** The study team used different data sources to explore whether there were disparities in the rates of business closures for minority- and woman-owned businesses compared with other businesses. Three different data sources specific to Minnesota for three different time periods (2002–2006, 2017–2024 and during the COVID-19 pandemic) found MBEs more likely to close than majority-owned firms.

For example, Keen Independent analyzed the rate of closure of businesses in the 2017 availability survey conducted as part of the 2017 Minnesota Joint Disparity Study. Minority-owned firms were more than twice as likely to close by early 2025 as majority-owned firms. (MBEs certified under a federal program or state or local program in Minnesota were less likely to close than non-certified firms, however.)

The data for 2017–2024 and the COVID-19 pandemic also found WBEs more likely to close than other firms.

**Business revenue and earnings.** The study team used data from several different sources to analyze business receipts and earnings for businesses owned by people of color and women.

- In general, U.S. Census Bureau data from the 2022 Annual Business Survey showed lower average receipts for businesses owned by people of color, women and veterans in Minnesota than businesses owned by non-minorities, men or nonveterans.
- Data from 2018–2022 American Community Survey for the Minnesota marketplace indicated the following statistically significant differences in business earnings:
  - For the study industries combined, Black American, Hispanic American, and American Indian business owners had lower business earnings than non-Hispanic white business owners, women had lower business earnings than men, veterans had lower business earnings than nonveterans, and persons with disabilities had lower business earnings than other business owners (statistically significant differences).
  - After statistically accounting for certain race- and gender-neutral factors, there were statistically significant differences in earnings for Black American, Hispanic American, Asian American and American Indian, and woman business owners as well as business owners with disabilities.
- Data from the 2024 availability survey showed lower revenue for MBEs and WBEs compared with majority-owned firms. For example, only 9 percent of MBEs and 12 percent of WBEs had average annual revenue of \$1 million or more compared with 19 percent of majority-owned firms.

**Bid capacity.** Keen Independent’s availability survey asked firms to identify the largest contracts they had bid or worked on in the past eight years (the study team labels this value measure of “bid capacity”). Minority- and woman-owned firms had lower bid capacity than majority-owned firms in the Minnesota study industries, but those differences did not persist after accounting for the types of work they perform and length of time in business.



## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

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Keen Independent researched why certain disparities in business outcomes might be occurring. Appendices E through J and the Task 2.7 Report provide in-depth analysis of this question. We summarize results here.

### Access to Capital

Business start-up and long-term business success depend on access to capital. Discrimination at any link in that chain may produce cascading effects that result in racial and gender disparities in business formation and success as well as the competitiveness of MBE/WBE businesses for public sector contracts.

**Discrimination in housing.** Appendix G of this study and the Task 2.7 Report present substantial evidence of racial disparities in access to capital and some evidence of unequal access to capital for women in Minnesota. Some of the racial disparities may be due to past public and private sector discrimination affecting housing for people of color in the state. For example, sundown laws, restrictive covenants and the building of I-94 have contributed to housing and wealth inequity for Black Minnesotans today.

Historically, redlining referred to mortgage lending discrimination against geographic areas based on racial or ethnic characteristics of a neighborhood.<sup>4</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>5</sup>

Research from 2022 indicates that the Minneapolis-St. Paul Metropolitan Statistical Area (MSA) had the highest Black and white homeownership gap in the country, surpassing the national average by more than 20 percentage points.<sup>6</sup> Furthermore, the practice of redlining in previous decades within the Minneapolis-St. Paul MSA is believed to have limited the amount of wealth that minorities could accumulate and transfer on to future generations, creating a recurring problem.<sup>7</sup>

As discussed in Appendix G, Keen Independent's analysis of Home Mortgage Disclosure Act data for 2018 through 2022 show home mortgage denial rates among high income households to be substantially higher for each minority group compared to non-Hispanic whites (in the case of South Asian Americans, three times higher rates of mortgage denials).

Discrimination in housing and home mortgages is not limited to race or gender. Nearly one-third of LGBTQI+ adults reported experiencing housing discrimination or harassment, including during the process of buying or renting a home.<sup>8</sup>

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<sup>4</sup> Burnison, T. R., & Boccia, B. (2017). Redlining everything old is new again. *ABA Banking Journal*, 109(2).

<sup>5</sup> Ibid.

<sup>6</sup> Habitat for Humanity (2022). Closing the racial homeownership gap in the Twin Cities. Retrieved from <https://www.habitat.org/stories/closing-racial-homeownership-gap-twin-cities>

<sup>7</sup> Habitat for Humanity (2024). Race and housing series: Racial covenants. Retrieved from <https://www.tchabitat.org/blog/racial-covenants>

<sup>8</sup> Gruberg, S. et. al, (2020). The state of the LGBTQ community in 2020. CAP Survey Data. Retrieved from: <https://www.americanprogress.org/article/state-lgbtq-community-2020/#:~:text=NORC%20conducted%20a%20pretest%20and%20then%20fielded,in%20their%20access%20to%20critical%20health%20care.>

SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

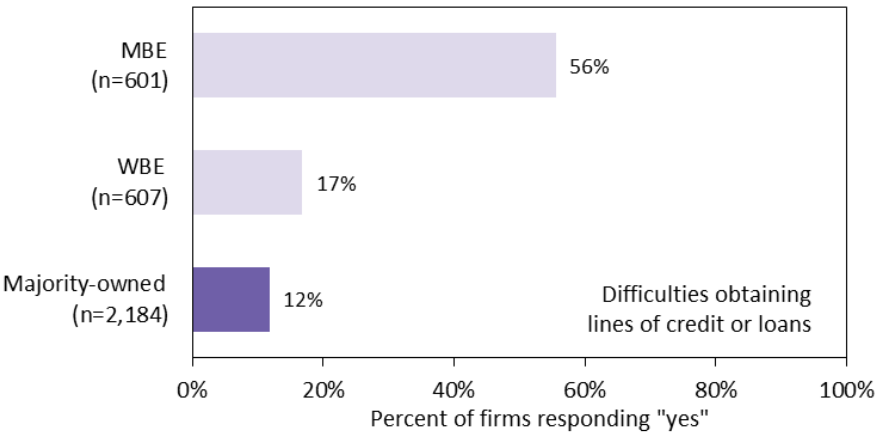
**Disparities in access to business loans.** There is substantial national evidence of disparities in access to business loans for minority-owned companies. Evidence within Minnesota includes disparities in access to Paycheck Protection Program loans for minority-owned businesses during the COVID-19 Pandemic (see Appendix G).

The 2024 availability survey asked respondents “Has your company experienced any difficulties in obtaining lines of credit or loans?”

As shown in Figure 9, more than half (56%) of MBEs experienced difficulties obtaining lines of credit or loans. Additionally, a somewhat greater share of WBEs (17%) reported having difficulties obtaining lines of credit or loans when compared to majority-owned firms (12%). These results are especially notable given that most of the businesses (MBE, WBE and majority-owned) in the availability survey database are small.

Further analysis (not shown) indicated that the difficulties that minority-owned firms often reported regarding access to capital affected each racial group. Among respondents to this question in the availability survey, each group of MBE firms (Black American-, Asian-Pacific American-, South Asian American-, Hispanic American- and American Indian-owned firms) was more likely to report difficulties obtaining lines of credit or loans than were majority owned firms.

10. Responses to availability survey question concerning loans



Source: Keen Independent Research from 2024 availability survey.

## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

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**Qualitative information about access to capital.** Business owners and others participating in the availability survey, in-depth interviews and other qualitative research discussed access to capital, reporting that it was critical to success and difficult for companies to secure.

Many individuals described the importance of personal or family wealth, home ownership and the amount of equity in a home when starting their businesses and accessing resources for growth. The interviews make it clear that any racial discrimination in the housing market, including home mortgages, place potential and current business owners of color at a disadvantage compared with other individuals. Examples from the in-depth interviews are shown below.

*I basically took my life savings and put ... most of it into the business.*

*I-41. Hispanic American female owner of a construction-related firm*

*We didn't really seek any outside funding. We just took money out of our own mortgage and that's how we founded the company.*

*I-20. South Asian American female owner of a professional services firm*

Some commented on barriers specific to people of color and women. Examples of comments are to the right.

*The majority of capital is still controlled by older white guys, and they all have their biases.*

*I-21. White female with a disability and owner of a professional services firm*

*A Black woman, one of my members, went into the bank and asked for a business line of credit. She had put millions of dollars through this bank. That was her bank .... The white old man banker said, 'we don't have that product here. You're going to have to go somewhere else.' Of course they had that. They didn't even take an application, so they didn't have to report on it.*

*TO-16. White female representative of a business assistance organization*

*... it takes longer for our native businesses to really get up [and] running like a regular white-owned business. It doesn't happen as quickly because we don't have the same kinds of assets, and especially if you're a tribal member living on your traditional territories. Your home ownership has no value to a bank, because they can't repossess your home.*

*TO-18. Indian American female representative of a business assistance organization*

*When you're able to sit down in front of your bank .... A lot of times for us minorities, even though we may have our business attire on, and our hands are clean, we get looked at [differently].*

*I-29. Hispanic American male owner of a construction-related firm*

*I've encountered a couple of fellow female [business] owners ... One was [asked] directly, 'Can your husband co-sign for this loan?'*

*I-21. White female owner with a disability of a professional services firm*

*A woman-owned company [that I know] ... does have problems trying to get access to capital ... because she's a woman.*

*I-24. Black American male owner of a construction-related firm*

SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

Bonding

Bonding requirements can present difficulties for construction firms in the state. Barriers to obtaining bonding and increasing bonding capacity are closely related to barriers regarding access to capital.

The 2024 availability survey asked construction firms if they had tried to obtain bonding for a project or contract. About one-half of construction firms indicated that they had tried to obtain bonding.

Firms that had tried to obtain a bond were then asked, “Has your company had any difficulties obtaining bonds needed for a project or contract?” Of those that had tried to obtain a bond, MBEs and WBEs were more likely than other firms to report difficulties obtaining a bond.

Figure 11 presents these results. Examples of comments from the qualitative research are shown below.

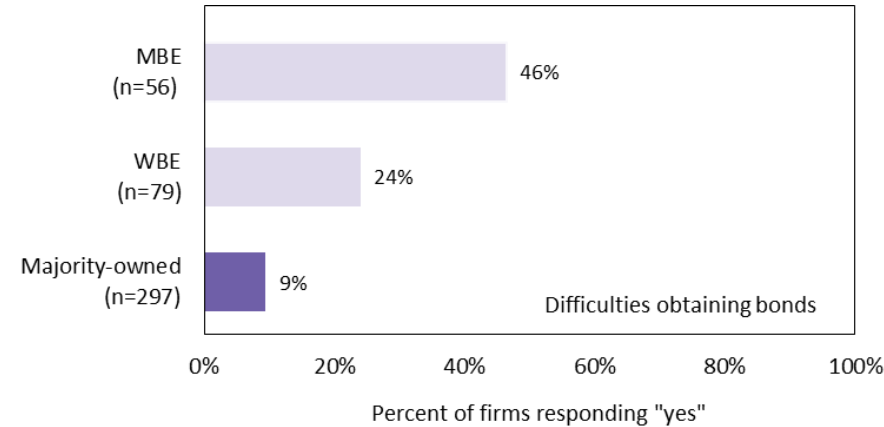
*There's always issues with bonding. Diverse populations don't have the same access ....*  
To-5b. Black American female representative of a trade association

*As a new minority contractor, [the bonding rate] kills you.*  
I-27B. Black American owner of a construction-related firm

*I have friends who ... were trying to go for a construction contract, and they couldn't get bonding .... He is a person of color. His wife is a person of color.*  
I-57. Asian-Pacific male owner of a goods firm

*[The bonding requirements] systematically [deny] us fair access into the broader construction trades opportunities.*  
I-5. Black American male owner of a construction-related firm

11. Responses to availability survey question concerning bonding



Source: Keen Independent Research from 2024 availability survey.

## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

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### Insurance

Public sector construction, professional services and other services contracts typically require different types of insurance, often in excess of what is required for private sector work.

The availability survey asked firms about difficulties due to insurance requirements. About one-third of MBEs and 18 percent of WBEs reported such difficulties compared to 11 percent of majority-owned firms.

Many business owners participating in the qualitative research had comments about insurance requirements, often suggesting that the types of levels of insurance required by public entities, even for small contracts, were excessive. Examples of comments are shown to the right.

The final comment to the right provides one example of where a local government's flexibility in insurance requirements helped a firm get a contract.

*The amount of insurance seems unnecessary.*

*AS-1833. White female owner of a professional services firm*

*... The insurance requirements have been the biggest barrier. This keeps business owners of color out of the game and away from the table.*

*AS-16. Black American female owner of a professional services firm*

*Better insurance [requirements]. Don't make me go out and get a \$25 million insurance policy for your job. I don't need for the \$100,000 job I'm going to do.*

*I-77. White female owner of a construction-related firm*

*... it seems that between state and counties where we've been awarded work, they have different insurance requirements which are, outsized, irrelevant and another barrier to smaller minority-owned companies in engaging with these opportunities.*

*AS-1147. Representative of a woman-owned professional services firm*

*The City of Minneapolis has waived [insurance] requirements for us .... They have their generic insurance requirements that they want for people who are doing City contracts, and oftentimes those are well above what a small business can afford.*

*I-65. White female owner of a professional services firm*

## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

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### Issues with Prompt Payment

Small businesses can be more negatively affected by slow payment than larger businesses with more established cash flow. Because of disparities in access to capital for minority- and woman-owned firms (and certain other groups of businesses) that affect their working capital, slow payment for work can disproportionately affect those businesses.

The availability survey asked firms whether they experienced difficulties receiving payment from public entities, prime contractors and other customers.

- About one-quarter of MBEs indicated that they experienced difficulties receiving payment from public entities, about twice the share of majority-owned firms expressing difficulties.
- A similar percentage of MBEs and WBEs indicated difficulties receiving payment from prime contractors, somewhat higher than found for majority-owned firms.

Some firms gave specific instances of slow payment. Examples are shown to the right (and discussed in more detail in Appendix J). (Note that there were only a few comments that pointed out difficulties with a specific participating entity.)

*Doing work and not being paid for 3 months on jobs ... presents a great challenge to hire and maintain staff.*

*AS-1080. Black American female owner of an other services firm*

*The payment schedule is so slow that we've had to go into our own pockets to cover the costs.*

*AS-1587. Black American male owner of a professional services firm*

*When payment isn't prompt, they're being asked to finance the operations of the [entity].*

*TO-4. White female representative of a trade association*

*No small company should ever finance a bigger company.*

*I-2. White female owner of a construction-related firm*

*Cash flow is always an issue with the smaller companies .... If payments are delayed, that's an issue for smaller businesses.*

*I-30. Service-disabled veteran owner of a goods firm*

*The contractors want to use you to help them get a government job, to show participation. But they ... pay slowly [and] know how to manipulate and use your company. They end up putting a lot of the minority businesses out of business and then they don't have to pay them.*

*I-29. Hispanic American male owner of a construction-related firm*



## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

### Information on Work Opportunities

Study participants provided insights into their experiences learning about bid opportunities.

**Learning about public sector bid opportunities.** The availability survey asked firms if they experienced difficulties learning about bid opportunities with (a) public sector entities in Minnesota, (b) private sector opportunities in Minnesota, and (c) subcontracting opportunities in Minnesota. In each instance, MBEs and WBEs were considerably more likely to report experiencing difficulties than were majority-owned companies. For example, two-thirds of MBEs reported difficulties learning about bid opportunities with public entities in Minnesota compared to about one-third of majority-owned firms.

Availability survey participants and individuals who completed in-depth interviews gave insights into these difficulties. Appendix J discusses this issue. Examples of comments and some of the ideas for improvement mentioned by business owners and others are shown to the right.

Two examples of comments specific to the University of Minnesota are provided below.

*We've done one University of Minnesota project, but ... their procurement system is complicated .... I don't bother with it [anymore].*

*I-2. White female owner of a construction-related firm*

*I would love to do work at the University of Minnesota .... They use the same group of contractors consistently that they've used for generations.*

*I-29. Hispanic American male owner of a construction-related firm*

*Understanding how the State contracts with businesses for the types of services ... [they need is] very difficult ... unless you have some sort of connection with an agency or with the State Office of Procurement.*

*I-64. White male representative of a woman-owned professional services firm*

*Have actual humans that could talk to someone on the phone and help to explain the process and that's their job to do that [would be critical].*

*I-64. White male representative of a woman-owned professional services firm*

*Be more holistic, feels very fractured, hard to manage what opportunities are out there. Everything seems more fragmented.*

*AS-1866. White female owner of a goods firm*

*Bid listings are hard to find, a consolidated listing would be helpful.*

*AS-1642. Representative of a majority-owned other services firm*

*It'd be great if the [bid] information [for the participating entities] could be more centralized so that there's an easy access, somewhat of a one-stop shop to find and register for things ....*

*I-71. Black American service-disabled veteran owner of a construction-related firm*

*Narrowing down the type of opportunities that apply to our company would help a great deal, sometimes we are on alerts that have wildly irrelevant opportunities to sift through.*

*AS-686. Asian-Pacific American female owner of a professional services firm*

*To get registered in [each procurement software] system and then to get trained to use it properly [is cumbersome]. [The software] changes every year and some consistency would be terrific.*

*I-55. White male owner of a construction-related firm*

## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

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### **Learning about subcontract opportunities with prime contractors.**

As mentioned on the previous page, MBEs (70%) and WBEs (50%) were more likely to report difficulties learning about subcontract opportunities than majority-owned firms (33%) when asked about that potential barrier in the availability survey.

Some business owners and representatives reported that certain prime contractors or customers are reluctant to work with newer or smaller businesses. Some business owners indicated that they were at a disadvantage trying to work with prime contractors because of their race or gender.

There were also comments that working with some prime contractors could actually be harmful to a minority-owned business.

Examples of comments are shown to the right (see Appendix J for more information).

*When I started [this] business, I wanted to do some subcontracting work specializing in [my trade] .... Most of the bigger contractors have a preference of the companies that they want to use for such projects, so it was very hard to get something meaningful.*

*I-6. Black American male owner of a construction-related firm*

*Construction is a relationship business .... There's a lot of minority contractors that don't have the relationships .... It hurts their companies.*

*I-27b. Black American male owner of a construction-related firm*

*Since I started doing my job, I have never got[ten] anybody who [is] interested to make me their sub .... I have been struggling with that .... [Prime contractors are] already enclose[d] [in] their groups .... It takes a lot of energy [to break into new networks].*

*I-58. Black American male owner of a construction-related firm*

*There are larger GCs in the state .... If it doesn't serve them politically to work with small businesses and minorities, they don't.*

*I-56. Black American female owner of a construction-related firm*

*[Closed networks are] something that [prime contractors] don't even realize they do ....*

*I-76. Black American female owner of a construction-related firm*

*[I have] a list of contractors in my desk that I don't bid [because] they put so many minority businesses out of business.*

*I-29. Hispanic American male owner of a construction-related firm*

## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

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**Importance of relationships to finding and winning work.** Business relationships and networks are critical to finding opportunities and winning work, according to business owners and others providing input in this study.

The importance of “who you know” extends to the public sector based on these comments. Examples are provided to the right.

*Our work is ... based on relationships .... Otherwise, it's hard to know ... what's out there to bid on ... especially with government work ....*

*I-33. White female representative of a white male-owned construction-related firm*

*[Relationships are] the bone of my business structure .... When I am communicating with the [client] at the first meeting, I try to figure out where [we have common ground].*

*I-58. Black American male owner of a construction-related firm*

*My business has been about my one-to-one personal relationships and networking ....*

*I-71. Black American service-disabled veteran owner of a construction-related firm*

*The most important [marketing tool] is networking and developing relationships ....*

*I-74. White female LGBTQ+ owner of a construction-related firm*

*At the end of the day, I learned all that comes is still through connections, who you know, even in the government side.*

*I-20. South Asian American female owner of a professional services firm*

*... the few projects that I've done with the State have been handled ... basically through personal connections that I have made or somebody just reaching out to me.*

*I-22. American Indian male rep. of an American Indian-owned professional services firm*

## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

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### Meeting Bid Specifications, Costs of Bidding and Other Barriers to Obtaining Public Sector Contracts

Business owners and others discussed whether there were barriers to bidding on participating entities' work. Many discussed financial and time restraints, access to procurement information, unclear bid requirements and restrictive contract specifications as barriers.

**Financial restraints and time investment to bid.** Interviewees commented on the financial and time restraints faced by small and minority-owned firms when bidding on projects.

*The process of bidding for contracts and completing RFPs are quite complex, cumbersome and requires a lot of technicalities that makes it difficult for small business owners that cannot afford the services of professionals like bidders, estimators, accountants and lawyers, etc.*

*AS-1270. Black American owner of a professional services firm*

*The RFP process takes a lot of time, and ... the paperwork required to read through and manage it is dense, confusing, and overwhelming.*

*AS-1272. American Indian male owner of a goods firm*

*The bidding process for state ... and federal government projects is very arduous. There's not [a lot] of support that can help you .... It was very much ... trial and error.*

*I-71. Black American service-disabled veteran owner of a construction-related firm*

### Unclear bid requirements and access to procurement

**information.** Business owners and representatives reported that they have experienced difficulties accessing procurement information. Some reported that bid and proposal requirements can be difficult to understand.

*[Simplify]. The fog factor in government communication in contracts is silly.*

*I-57. Asian-Pacific male owner of a goods firm*

*I've been looking at more state and city contracts lately ... honestly, it's tough as a small business trying to go through those .... I swear they make the verbiage ... so difficult to read that you have to be an engineer to understand it .... [MnDOT's bid required] lots of paperwork to fill out, lots of things to try and decipher....*

*I-62. White male owner of a construction-related firm*

*... there's no support [during the bidding process], and if you do it wrong, then you either obviously don't win the bid or you bid yourself into a situation of where you're [taking] a [financial] loss.*

*I-71. Black American service-disabled veteran owner of a construction-related firm*

*I did register with the state of Minnesota, but it never went anywhere. I never heard back from them or anyone of the entities. None of them.*

*I-83. White male owner of an other services firm*

## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

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**Restrictive contract specifications.** Many business owners and representatives commented on what they viewed as restrictive specifications or other requirements.

*For these ... larger [entities], whether it's MnDOT or [Minnesota State] or Department of Admin, there must be more flexibility for small businesses. They have these lists of what you can include in your accounting ledger of your overhead expenses, and they're very specific .... if you're a small business none of that makes sense, and none of it directly correlates.*

*I-65. White female owner of a professional services firm*

*Over 90 percent of the bids requires 5 or more years in business .... Other bids require a deposit of \$5,000, especially for the Metropolitan Council. As a small business, I don't have \$5,000 for deposit and ... getting a small business loan is not possible because the bank would most [likely] want to see that there's an awarded contract.*

*AS-67. Black American female owner of an other services firm*

*Expand the date range of prior experience to a 10-year time frame.*

*AS-1454. Representative of a majority-owned professional services firm*

**Denial of opportunity.** Some interviewees described situations where they were denied opportunities.

*There were a number of times where we were selected for projects ... when they found out we were woman-owned they deleted the contract.*

*I-16. White female owner of a professional services firm*

*[Minorities experience] denial of opportunity .... If a white contractor can get away from ... using us, they will [not use us].*

*I-5. Black American male owner of a construction-related firm*

*A lot of times that if I'm doing a proposal, I will sign it [with my male business partner's name], because as [a female], they ignore me.*

*I-10. American Indian female owner of an other services firm*

*Sometimes the bids are sent to very specific people, and [if] you're not one of them, you don't have a say in that matter.*

*I-14. White male owner of a goods firm*

*It seems like these RFPs come out, and they are intended for one audience. That's the audience that's already been pre-chosen to win the RFP.*

*I-22. American Indian male rep. of an American Indian-owned professional services firm*

## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

### Other Perceptions of Unfair Treatment

Interviewees shared their perceptions of unfair treatment in the marketplace.

**Bid shopping.** Many interviewees provided examples of predatory bid shopping by prime contractors and others. Sometimes the comments suggested that the intent was to avoid having to work with a minority- or woman-owned company. Appendix J provides more information.

*[Primes] get a quote from a Native business to be a partner .... Once they get the contract, they hire their buddies ....*

*TO-18. American Indian female representative of a business assistance organization*

*We were approached once by a larger firm that needed to have a minority quota ..., and that just seemed wrong ... because they're just using me as a puppet.*

*I-57. Asian-Pacific male owner of a goods firm*

*Many times ... a request is sent to us [last minute]. Hardly enough time to submit a proper response. It leaves me with the impression that whoever is sending it won't consider my response and seems to only want minority-owned business participation in the bidding process.*

*AS-177. American Indian male owner of a professional services firm*

**Evidence of a “good ol’ boy” and other closed networks.** Many business owners and representatives reported that “good ol’ boy” networks or other closed networks persist in the marketplace.

*I still feel like it's an old boys club out there ....*

*I-16. White female owner of a professional services firm*

*In the Minneapolis/St. Paul marketplace, [closed networks are] actually quite prevalent ....*

*I-88. White male owner of a professional services firm*

*[Most of the participating entities] don't make any effort to try to reach a broader market .... That's where the 'good ol' boys' network ... comes from.*

*I-6. Black American male owner of a construction-related firm*

*[There is] definitely a network .... Rural ..., white males.*

*I-43. Hispanic American female owner of a professional services firm*

*The larger contractors ... already have deals in place ... and just use us smaller business as another number for their bids, knowing they won't use us either way. This hurts us because we find yourself working hard on entering these bids only to find out we never even had a chance.*

*AS-170. American Indian male owner of a construction-related firm*

## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

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**Stereotyping and double standards specific to diverse business owners.** Some participants discussed whether there are stereotypes or double standards that impact a firm's ability to perform or secure work and noted clear instances of discriminatory and biased behavior. The comments below and on the right are examples (see Appendix J for more discussion).

*I am a female owner. I show up to a meeting or a site visit and I'm surrounded by males. It's a male dominant industry.... I get looked at like, 'What are you doing here?'*

*I-41. Hispanic American female owner of a construction-related firm*

*[If] it's a woman-owned business, it's a passion project .... That's a stereotype. They don't think I can run it like a business. It's just me having fun.*

*I-45. South Asian American female owner of a goods firm*

*They profile you because you are Latino, and they might think you might not do a good job....*

*I-43. Hispanic American female owner of a professional services firm*

*[Racism is] alive and well here in the state ....*

*I-90. Black American male owner of an other services firm*

*[This industry] is mostly men, because there's a lot of heavy work involved. A lot of times, even now people will come in and they're looking for the guy.*

*I-18. White female owner of a goods firm*

*LGBTQ+ businesses face definite disadvantages in Minnesota ....*

*PF-11. Public forum participant*

*It takes time to build trust. As a veteran business, if I can show them that I can do the work and am qualified to do the work, they won't have to get three bids.*

*I-104. White male owner of an SDVOSB certified*



## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

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### **Competitive disadvantages due to pricing from suppliers.**

When asked in the availability survey if they had any competitive disadvantages due to pricing from suppliers, 57 percent of MBEs and 28 percent of WBEs answering that question said “yes” compared to only 23 percent of majority-owned firms. (This is notable as most MBEs, WBEs and majority-owned companies participating in the availability survey were small businesses.)

The comments to the right related to reports of unfavorable pricing or other relationships with manufacturers and suppliers. These may be related to being a small business or perhaps based on the race of the business owner.

*The larger companies have the pricing ... their largest advantage.*

*I-41. Hispanic American female owner of a construction-related firm*

*One of the disadvantages I deal with is, I don't do a lot of volume ... and I don't get as good of a pricing....*

*I-12. White male owner of a construction-related firm*

*Small companies have a disadvantage because they do not have [the] scale of purchasing power.*

*AS-1005. White woman-owned goods firm*

*A large company ... may have a little bit more buying power with [a] particular supplier ... so they get a better price.*

*I-48. White male representative of an American Indian woman-owned other services firm*

*[Large] manufacturers do a lot of discrimination. I had one company that said, 'You better shut your business down. We're going to drive you out of business in six months.'*

*I-63. South Asian American male owner of a goods firm*

## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

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### Business Assistance and Certifications

Interviewees provided comments about their experiences with business assistance programs and obtaining certification.

**Business assistance programs.** Some of the business owners interviewed as part of this study were knowledgeable of and participated in different types of technical assistance or other training programs. Some said that they would be interested in those resources but did not know about them. Appendix J provides more information about knowledge, perceptions and value received from those programs.

*I ended up meeting a ... mentor who helped me understand how to become a targeted business group within the state and get my SDVOSB certification that would allow me to have an advantage on federal projects.*

*I-71. Black American service-disabled veteran owner of a construction-related firm*

*I got a connection ... at Women Venture and it just happened that there was ... women business classes starting up. I went through [some] courses and that helped so much ... helping with the ... business finances and operations.*

*I-53. Black American female owner of an other services firm*

*I've been a part of continuing education programs through ... MnDOT, ... [the] Association of Women Contractors ... [and the Women Venture] Scale Up program that was instrumental in helping me understand my finances and [operate effectively] ... to grow [my business].*

*I-2. White female owner of a construction-related firm*

*I know the state of Minnesota has a few programs, but when I go and talk to them ... they just do it to say they're doing something to help [small minority-owned businesses] but they don't do anything because they already [have] a contract ... they don't help anyone.*

*I-15. Hispanic American male owner of a construction-related firm*

*It's been difficult to learn about [business assistance programs]. Entities should do more to advertise those opportunities for learning.*

*I-64. White male representative of a woman-owned professional services firm*

*With programs like SURGE (Start Up and Rapid Growth Enterprises) and APEX, it would be nice if they put the two different programs in line with each other.*

*AS-1843. Representative of a white woman-owned construction-related firm*

## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

**Certification.** Keen Independent also discussed programs that required certification. Many participants mentioned that they were unaware of what certifications were or how to become certified.

Keen Independent found that approximately 42 percent of MBEs and 35 percent of WBEs in the availability database had a business certification. Overall, 38 percent of MBE/WBEs in the availability database were certified firms.

Some of the perceived barriers to certification are evident in the comments from the qualitative research (see examples to the right).

Some business owners indicated a negative stigma from being certified. For example:

*These minority designations and certifications, they really are harmful when you really think about it. Because if I never tell anybody that I have a women's business enterprise or a minority business enterprise designation, I get a lot more conversations.*

*I-103. Black American female owner of a professional services firm*

Some white male business owners said they face discrimination based on their race or gender. For example:

*We actually feel like we're in an inferior position compared to a woman-owned or any of the [disadvantaged business enterprises]. We feel we're far inferior in terms of opportunities that we get as a small business.*

*I-14. White male owner of a goods firm*

*... all of these [certifications] exist. But how do small businesses know about them? And can we get a capsule of the benefits – the costs, the applicability.*

*I-57. Asian-Pacific male owner of a goods firm*

*It was a lot of work .... it was a heavy lift .... I have to do some work on an annual basis. It seems like a bit much.*

*I-35. Hispanic American male owner of a professional services firm*

*I've been trying to get my business registered through the state for that CERT program. I've emailed them and I just haven't heard back .... Make the process a little bit easier.*

*AS-1489. Black American male owner of a construction-related firm*

*[Getting certified] was somewhat difficult .... We actually had to get an attorney involved to get it pushed through.*

*I-48. Representative of an American Indian woman-owned other services firm*

*Many of the small businesses don't even try to either get the [CERT] certification or get the project because they are intimidated by the process and the amount of paperwork that is required.*

*I-34. Hispanic American female owner of a professional services firm*

*I've known some [businesses] that had 11 different certifications [to work with various clients], and each of those required a recertification process. It was burdensome to them .... [Entities need to] broaden the certifications that they recognize .... The current certification process is really a challenge for diverse firms.*

*TO-4. White female representative of a trade association*

## SUMMARY REPORT — Utilization analysis

The next section of this Summary Report examines the utilization and availability of minority- and woman-owned firms for locally funded University of Minnesota contracts. The study team analyzed the utilization of other groups of businesses as well.

The utilization analysis is followed by availability and disparity analyses that compare MBE/WBE utilization and availability by industry and group.

### UMN Utilization of Minority- and Woman-owned Firms and Other Businesses

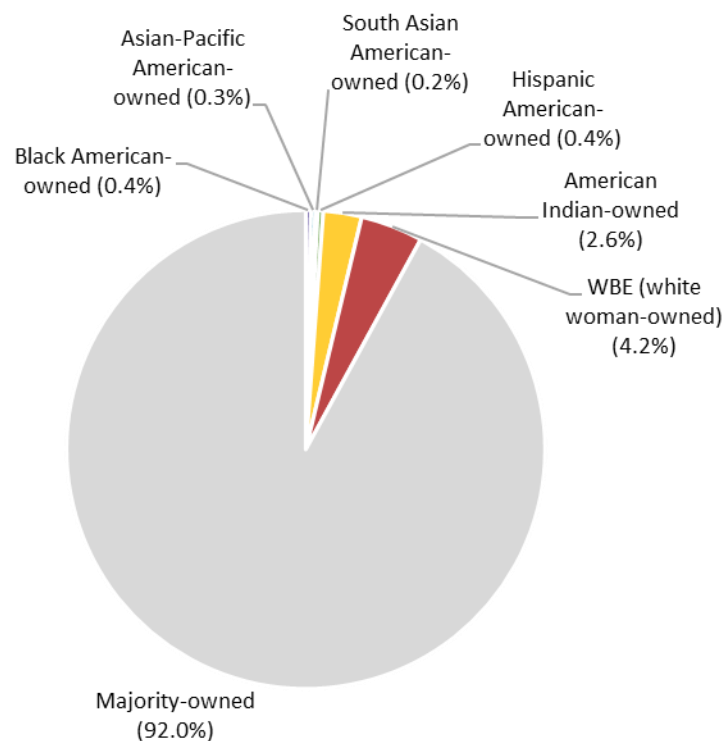
Keen Independent examined the ownership of firms performing UMN contracts and subcontracts awarded during the July 2016 through June 2023 study period.

There were more than 10,400 companies that received at least one contract or subcontract during this time. Of those companies, 1,201 were minority- or woman-owned (334 MBEs and 867 WBEs).

Of the \$4.3 billion in UMN contract dollars going to businesses during this period, \$345 million (8%) went to minority- and woman-owned companies (including non-certified firms). Figure 12 presents these results.

Note that in the following pages Keen Independent uses the term “contracts” synonymously with “procurements” or “purchases” and is not referring to the specific type of legal agreement used to acquire a good or service.

12. Share of UMN contract dollars going to MBEs and WBEs, July 2016–June 2023



Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

## SUMMARY REPORT — Utilization analysis

### Utilization Analysis by Group

Participation of MBE/WBEs on UMN contracts and subcontracts (July 2016–June 2023) included:

- About \$163 million going to minority-owned businesses (945 contracts or subcontracts); and
- About \$182 million going to white woman-owned businesses (2,254 contracts or subcontracts).

The bottom portion of Figure 13 examines utilization for different groups of firms. First, 35 percent of contract dollars went to small businesses (based on U.S. Small Business Administration size standards). Results for certified firms used the following certifications:

- Firms certified as DBEs, MBEs or WBEs (as noted) by the following groups: DBEs by Minnesota Unified Certification Program, State-certified MBEs and WBEs (TGBs), Central Certification Program (CERT) MBEs and WBEs, National Minority Supplier Development Council MBEs, and Women’s Business Enterprise National Council WBEs.
- Small business enterprises certified through CERT.
- Veteran-owned businesses certified through the State or through the federal government (VetBiz).
- Service-disabled businesses certified through the federal government.
- Firms owned by persons with disabilities that are certified as TGBs by the State or certified by DisabilityIN.
- Firms owned by members of the LGBTQ+ community in the Twin Cities Quorum directory (certified by National LGBT Chamber of Commerce).

Results in the row labeled “firms eligible for entity program” include businesses with any of the above certifications accepted by UMN.

13. Share of UMN contract dollars going to MBEs, WBEs and other firms, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	182	\$ 15,033	0.35 %
Asian-Pacific American-owned	280	13,158	0.30
South Asian American-owned	127	6,327	0.15
Hispanic American-owned	186	16,102	0.37
American Indian-owned	170	112,022	2.59
Total MBE	945	\$ 162,641	3.76 %
WBE (white woman-owned)	2,254	182,088	4.21
<b>Total MBE/WBE</b>	<b>3,199</b>	<b>\$ 344,729</b>	<b>7.98 %</b>
Majority-owned	25,567	3,975,859	92.02
<b>Total</b>	<b>28,766</b>	<b>\$ 4,320,588</b>	<b>100.00 %</b>
<b>Business classification or certification</b>			
All small businesses	23,334	\$ 1,522,841	35.25 %
Firms eligible for entity program	1,311	160,908	3.72
General certification			
MBE/WBE/DBE	948	127,797	2.96
SBE (CERT)	690	69,989	1.62
Veteran (VO, VetBiz, SDVOB)	70	2,354	0.05
Service-disabled (SDVOB)	28	1,921	0.04
Disability (TG, DisabilityIN)	8	199	0.00
LGBTQ+ (NGLCC)	7	423	0.01

Note: Number of procurements includes contracts and subcontracts.

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

## SUMMARY REPORT — Utilization analysis

### Construction

Keen Independent examined MBE and WBE participation in 4,480 UMN construction contracts and subcontracts from July 2016 through June 2023. Of the \$2 billion in construction contract dollars, about 9 percent went to minority- or woman-owned companies.

Of the 2,087 businesses receiving at least one UMN construction prime contract or subcontract, 72 were MBEs and 197 were WBEs.

The bottom of Figure 14 shows utilization for small businesses and certified firms. About one-quarter of UMN construction spending went to small businesses. About \$88 million of the \$181 million going to MBEs and WBEs went to certified firms.

14. UMN construction contract dollars going to MBEs, WBEs and other firms, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	37	\$ 1,476	0.08 %
Asian-Pacific American-owned	39	5,782	0.29
South Asian American-owned	12	638	0.03
Hispanic American-owned	36	3,650	0.19
American Indian-owned	104	102,585	5.22
Total MBE	228	\$ 114,131	5.80 %
WBE (white woman-owned)	473	66,470	3.38
<b>Total MBE/WBE</b>	<b>701</b>	<b>\$ 180,601</b>	<b>9.18 %</b>
Majority-owned	3,779	1,786,039	90.82
<b>Total</b>	<b>4,480</b>	<b>\$ 1,966,640</b>	<b>100.00 %</b>
<b>Business classification or certification</b>			
All small businesses	3,255	\$ 470,162	23.91 %
Firms eligible for entity program	539	101,693	5.17
General certification			
MBE/WBE/DBE	406	87,645	4.46
SBE (CERT)	287	37,469	1.91
Veteran (VO, VetBiz, SDVOB)	37	1,853	0.09
Service-disabled (SDVOB)	19	1,734	0.09
Disability (TG, DisabilityIN)	1	40	0.00
LGBTQ+ (NGLCC)	0	0	0.00

Note: Number of procurements includes contracts and subcontracts.

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

## SUMMARY REPORT — Utilization analysis

**Construction prime contracts.** Figure 15 examines utilization for UMN construction prime contracts. The dollar values in Figure 15 reflect the amount of the construction contracts that were not subcontracted.

As shown, MBE/WBEs accounted for 7 percent of total construction prime contract dollars for UMN. A large portion of this utilization was Loeffler Construction and Consulting, an American Indian-owned firm.

15. UMN construction prime contract dollars going to MBEs, WBEs and other firms, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	15	\$ 753	0.04 %
Asian-Pacific American-owned	20	1,047	0.06
South Asian American-owned	11	446	0.02
Hispanic American-owned	23	1,045	0.06
American Indian-owned	78	99,357	5.50
Total MBE	147	\$ 102,648	5.68 %
WBE (white woman-owned)	226	27,405	1.52
<b>Total MBE/WBE</b>	<b>373</b>	<b>\$ 130,053</b>	<b>7.19 %</b>
Majority-owned	3,135	1,677,719	92.81
<b>Total</b>	<b>3,508</b>	<b>\$ 1,807,771</b>	<b>100.00 %</b>

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.



## SUMMARY REPORT — Utilization analysis

**Construction subcontracts.** Figure 16 shows the utilization of MBEs, WBEs and other firms on subcontracts for UMN construction contracts.

Of the 972 subcontracts identified on UMN construction projects, 328 went to MBE/WBEs.

The 32 percent of construction subcontract dollars going to MBE/WBEs was more than four times the share of prime contract dollars going to MBE/WBEs.

16. UMN construction subcontract dollars going to MBEs, WBEs and other firms, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	22	\$ 724	0.46 %
Asian-Pacific American-owned	19	4,735	2.98
South Asian American-owned	1	192	0.12
Hispanic American-owned	13	2,604	1.64
American Indian-owned	26	3,228	2.03
Total MBE	81	\$ 11,483	7.23 %
WBE (white woman-owned)	247	39,065	24.59
<b>Total MBE/WBE</b>	<b>328</b>	<b>\$ 50,548</b>	<b>31.82 %</b>
Majority-owned	644	108,321	68.18
<b>Total</b>	<b>972</b>	<b>\$ 158,869</b>	<b>100.00 %</b>

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

## SUMMARY REPORT — Utilization analysis

### Professional Services

Keen Independent examined MBE and WBE participation in 6,872 UMN professional services contracts in the July 2016–June 2023 study period. Of the \$532 million in professional services contract dollars, about 12 percent went to minority- or woman-owned companies.

As presented in the bottom of Figure 17, more than half of UMN professional services contract dollars went to small businesses.

The bottom of Figure 17 also shows utilization for certified firms. Certified MBE/WBEs obtained about 5 percent of UMN professional services contract dollars during the study period.

17. UMN professional services contract dollars going to MBEs, WBEs and other firms, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	85	\$ 7,618	1.43 %
Asian-Pacific American-owned	107	2,885	0.54
South Asian American-owned	61	3,460	0.65
Hispanic American-owned	50	2,958	0.56
American Indian-owned	34	3,062	0.58
<b>Total MBE</b>	<b>337</b>	<b>\$ 19,984</b>	<b>3.75 %</b>
WBE (white woman-owned)	691	42,289	7.94
<b>Total MBE/WBE</b>	<b>1,028</b>	<b>\$ 62,273</b>	<b>11.70 %</b>
Majority-owned	5,844	470,029	88.30
<b>Total</b>	<b>6,872</b>	<b>\$ 532,302</b>	<b>100.00 %</b>
<b>Business classification or certification</b>			
All small businesses	5,678	\$ 311,319	58.49 %
Firms eligible for entity program	380	30,622	5.75
General certification			
MBE/WBE/DBE	289	24,705	4.64
SBE (CERT)	207	14,148	2.66
Veteran (VO, VetBiz, SDVOB)	5	143	0.03
Service-disabled (SDVOB)	3	66	0.01
Disability (TG, DisabilityIN)	0	0	0.00
LGBTQ+ (NGLCC)	4	207	0.04

Note: Number of procurements includes contracts and subcontracts.

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

## SUMMARY REPORT — Utilization analysis

### Goods

MBEs and WBEs were awarded about 6 percent of UMN’s goods contract dollars.

Somewhat less than half of UMN goods contract dollars went to small businesses. Figure 18 presents these results. (Note that this analysis excludes the types of goods purchases that UMN typically procures from a national marketplace.)

The bottom of Figure 18 shows utilization for certified firms. About \$5 million of the \$69 million going to MBEs and WBEs went to certified firms.

18. UMN goods contract dollars going to MBEs, WBEs and other firms, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	31	\$ 4,805	0.42 %
Asian-Pacific American-owned	102	2,852	0.25
South Asian American-owned	36	1,780	0.16
Hispanic American-owned	64	3,048	0.27
American Indian-owned	14	641	0.06
<b>Total MBE</b>	<b>247</b>	<b>\$ 13,127</b>	<b>1.16 %</b>
WBE (white woman-owned)	731	56,021	4.94
<b>Total MBE/WBE</b>	<b>978</b>	<b>\$ 69,148</b>	<b>6.09 %</b>
Majority-owned	11,379	1,065,369	93.91
<b>Total</b>	<b>12,357</b>	<b>\$ 1,134,518</b>	<b>100.00 %</b>
<b>Business classification or certification</b>			
All small businesses	9,955	\$ 528,040	46.54 %
Firms eligible for entity program	229	14,866	1.31
General certification			
MBE/WBE/DBE	127	4,942	0.44
SBE (CERT)	116	10,987	0.97
Veteran (VO, VetBiz, SDVOB)	20	216	0.02
Service-disabled (SDVOB)	3	47	0.00
Disability (TG, DisabilityIN)	7	160	0.01
LGBTQ+ (NGLCC)	2	167	0.01

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

## SUMMARY REPORT — Utilization analysis

### Other Services

Keen Independent examined MBE and WBE participation in 5,057 UMN other services contracts totaling \$687 million. Of these dollars, 5 percent went to MBE/WBEs.

The bottom of Figure 19 shows utilization for other groups of firms. About 31 percent of other services contract dollars went to small businesses.

19. UMN other services contract dollars going to MBEs, WBEs and other firms, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	29	\$ 1,133	0.16 %
Asian-Pacific American-owned	32	1,638	0.24
South Asian American-owned	18	449	0.07
Hispanic American-owned	36	6,446	0.94
American Indian-owned	18	5,733	0.83
Total MBE	133	\$ 15,399	2.24 %
WBE (white woman-owned)	359	17,308	2.52
<b>Total MBE/WBE</b>	<b>492</b>	<b>\$ 32,707</b>	<b>4.76 %</b>
Majority-owned	4,565	654,421	95.24
<b>Total</b>	<b>5,057</b>	<b>\$ 687,128</b>	<b>100.00 %</b>
<b>Business classification or certification</b>			
All small businesses	4,446	\$ 213,319	31.05 %
Firms eligible for entity program	163	13,727	2.00
General certification			
MBE/WBE/DBE	126	10,505	1.53
SBE (CERT)	80	7,385	1.07
Veteran (VO, VetBiz, SDVOB)	8	142	0.02
Service-disabled (SDVOB)	3	73	0.01
Disability (TG, DisabilityIN)	0	0	0.00
LGBTQ+ (NGLCC)	1	50	0.01

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

# SUMMARY REPORT — Utilization analysis

## MBE/WBE Utilization by Size of Contract

For each entity participating in the disparity study, Keen Independent examined purchases up to \$100,000, between \$100,001 and \$500,000 and more than \$500,000. These analyses exclude subcontracts.

**Contracts up to \$100,000.** As shown in Figure 20, for all UMN contracts up to \$100,000, about 10 percent went to MBEs and WBEs combined.

20. UMN contract dollars going to MBEs and WBEs, contracts up to \$100,000, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
Business ownership			
Black American-owned	139	\$ 4,148	0.75 %
Asian-Pacific American-owned	244	6,029	1.09
South Asian American-owned	110	3,061	0.55
Hispanic American-owned	142	3,425	0.62
American Indian-owned	63	1,611	0.29
Total MBE	698	\$ 18,273	3.29 %
WBE (white woman-owned)	1,735	39,970	7.20
Total MBE/WBE	2,433	\$ 58,243	10.49 %
Majority-owned	20,986	496,756	89.51
Total	23,419	\$ 554,999	100.00 %

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

## SUMMARY REPORT — Utilization analysis

**Contracts ranging from \$100,001 to \$500,000.** As shown in Figure 21, approximately 9 percent of UMN contracts ranging from \$100,001 to \$500,000 went to MBE/WBEs, slightly below utilization for smaller contracts.

21. UMN contract dollars going to MBEs and WBEs, contracts \$100,001 up to \$500,000, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	17	\$ 2,580	0.37 %
Asian-Pacific American-owned	14	1,786	0.26
South Asian American-owned	12	2,322	0.33
Hispanic American-owned	17	3,744	0.54
American Indian-owned	38	10,529	1.52
Total MBE	98	\$ 20,961	3.02 %
WBE (white woman-owned)	202	42,439	6.11
<b>Total MBE/WBE</b>	<b>300</b>	<b>\$ 63,401</b>	<b>9.13 %</b>
Majority-owned	2,998	631,037	90.87
<b>Total</b>	<b>3,298</b>	<b>\$ 694,438</b>	<b>100.00 %</b>

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

## SUMMARY REPORT — Utilization analysis

**Contracts over \$500,000.** Figure 22 shows that about 6 percent of UMN contract dollars went to MBE/WBEs for contracts over \$500,000, a smaller share than for smaller contracts.

22. UMN contract dollars going to MBEs and WBEs, contracts above \$500,000, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	3	\$ 7,579	0.26 %
Asian-Pacific American-owned	1	543	0.02
South Asian American-owned	1	678	0.02
Hispanic American-owned	8	6,201	0.21
American Indian-owned	38	96,631	3.32
Total MBE	51	\$ 111,631	3.84 %
WBE (white woman-owned)	47	60,373	2.07
<b>Total MBE/WBE</b>	<b>98</b>	<b>\$ 172,005</b>	<b>5.91 %</b>
Majority-owned	894	2,737,694	94.09
<b>Total</b>	<b>992</b>	<b>\$ 2,909,699</b>	<b>100.00 %</b>

Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.



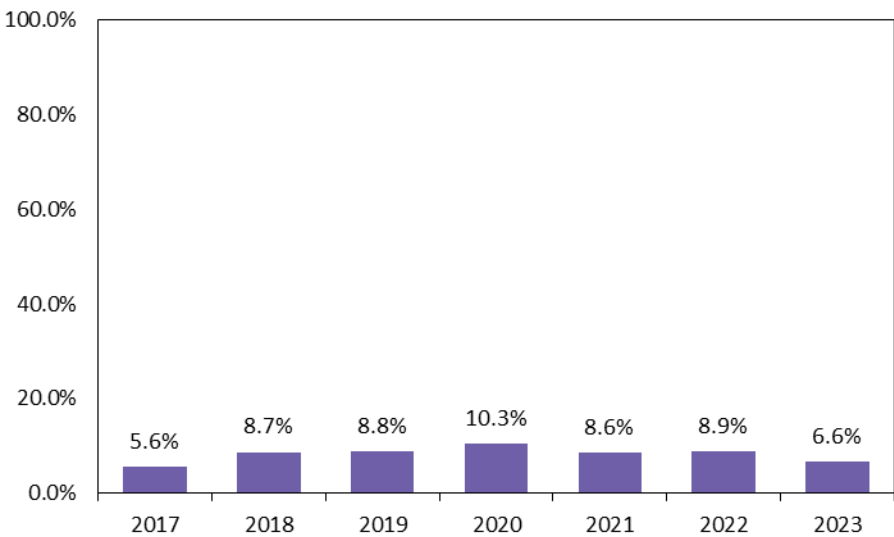
# SUMMARY REPORT — Utilization analysis

## MBE/WBE Utilization by Year

UMN utilization of MBE/WBEs could have been affected by changes in procurements and market conditions during the COVID-19 pandemic. Figure 23 examines MBE/WBE utilization from July 1 through June 30 of each 12-month period starting July 2016.

The share of UMN contracts going to MBE/WBEs was lowest from July 2016 through June 2017 and from July 2022 through June 2023.

23. UMN contract dollars going to MBE/WBEs by 12-month period, July 2016–June 2023



Source: Keen Independent analysis of UMN procurement data, July 2016–June 2023.

## SUMMARY REPORT — Availability analysis

Disparity studies compare the actual utilization of MBE/WBEs to what would be expected based on the availability of firms to perform that work. Keen Independent conducted a survey of businesses in Minnesota (and Pierce and St. Croix counties in western Wisconsin) to identify companies indicating they were qualified and interested (ready, willing and able) to work on public sector contracts and subcontracts.

The survey asked about the types of work performed, sizes of contracts they bid, regions of the state they serve and the ownership of the firm.

Figure 24 outlines the steps to completing the survey.

### Methodology

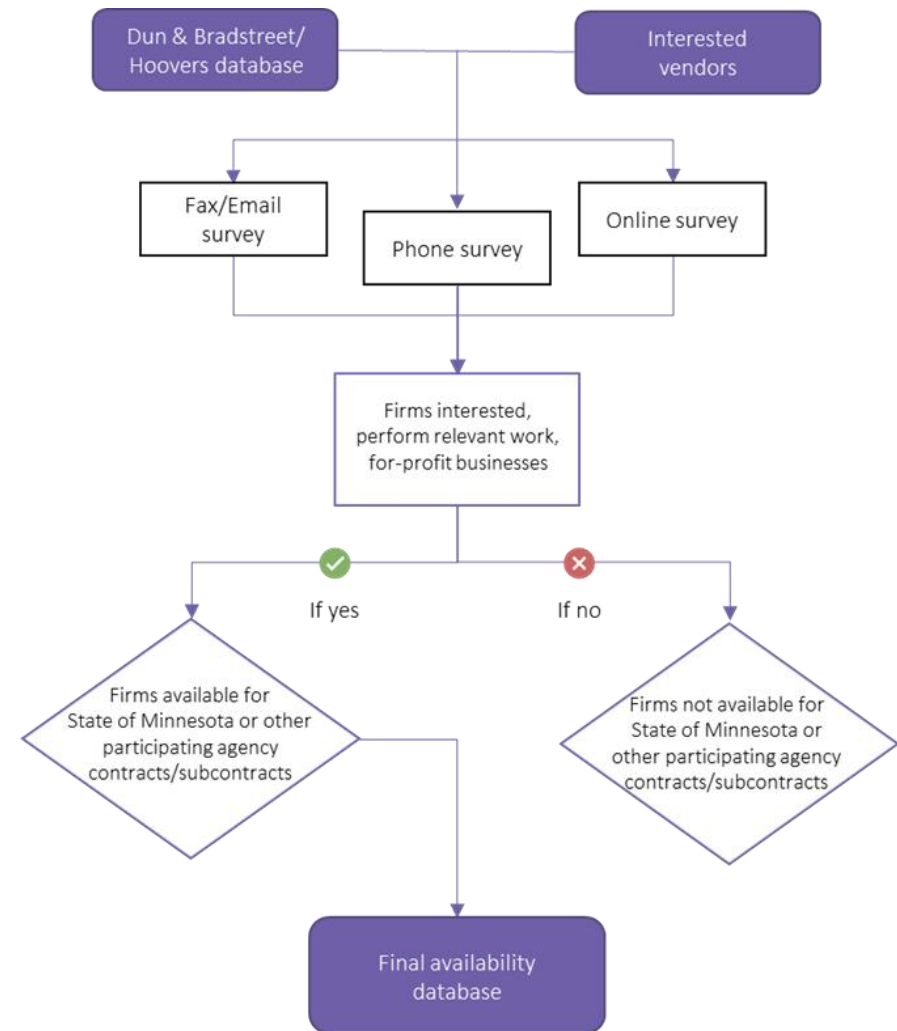
**List of firms to be contacted.** Keen Independent developed the list of firms to be contacted in the availability survey by collecting and combining each participating entity's list of firms that had indicated interest in bid opportunities, supplemented by data from Dun & Bradstreet (D&B) Hoover's business establishment database. This was the same approach Keen Independent employed in the 2017 Study, and it has been accepted and approved by federal courts in connection with disparity study methodology.

More than 75,000 business establishments were on this initial list. Only some of the firms expressed qualifications and interest in State of Minnesota or other participating agency contracts, as described in the following pages.

Keen Independent did not draw a sample of firms for the availability analysis; rather, the study team attempted to contact each relevant business identified in the combined interested firm list and D&B list.

Some courts have referred to similar approaches to gathering availability data as a "custom census."

#### 24. Availability survey process



## SUMMARY REPORT — Availability analysis

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**Online surveys.** Keen Independent developed an online availability survey that could be completed by any firm. Companies could go to the Minnesota Joint Disparity Study website to complete an availability survey or click on a link on an email received from the State of Minnesota Department of Administration. Admin emailed the first request to participate in the survey on September 30, 2024, and made follow-up requests through October.

**Telephone surveys.** Keen Independent also prepared a phone version of the availability survey. Keen Independent submitted a list of firms to Customer Research International (CRI), which then conducted telephone surveys.

- **Firms contacted by telephone.** CRI attempted to contact each firm at different times of day and different days of the week. CRI made at least five attempts to reach a business. CRI introduced the survey in Spanish, as necessary.
- **Survey sponsorship.** CRI began by saying that the call was made on behalf of the State of Minnesota. CRI explained, “The State and 15 cities, counties and other public agencies are updating a list of local companies interested in working on a wide range of public sector contracts, and our firm is helping them do that.”
- **Survey period.** CRI began surveys on October 10, 2024, and completed them on November 25, 2024. Firms not responding to a request to complete an online survey were contacted by phone as long as they had a working number.

**Other avenues to complete a survey.** Business owners could complete the survey online or using a fillable form that could be returned via email or fax.

**Information collected.** Survey questions covered topics including:

- Types of work performed or goods supplied;
- Qualifications and interest in performing work or supplying goods for public entities in Minnesota;
- Qualifications and interest in performing work as a prime contractor and/or as a subcontractor;
- Geographic areas in Minnesota where the firm can work (six different regions of the state);
- Largest prime contract or subcontract bid on or performed in Minnesota in the past eight years;
- Annual revenue;
- Year of establishment;
- Race/ethnicity and gender of firm owners; and
- Potential barriers in the marketplace.

**Screening firms for the availability database.** Keen Independent considered businesses to be potentially available for a public sector contract or subcontracts if they reported possessing all of the following characteristics:

- Were a private, for-profit business with a local in Minnesota or Pierce or St. Croix counties in Wisconsin;
- Expressed qualifications and interest in public sector work; and
- Performed work relevant to public sector contracts.

There were 5,079 unique firms completing the survey that met these criteria, which was comparable to the number of firms in the availability database for the 2017 Study.

## SUMMARY REPORT — Availability analysis

### Availability Survey Results

The study team successfully contacted 23,056 businesses in the phone and online surveys. Most of those businesses did not indicate interest or qualifications in performing work for public entities in Minnesota. Combining both phone and online survey responses, the following results are for those firms that did indicate qualifications and interest in working with public entities.

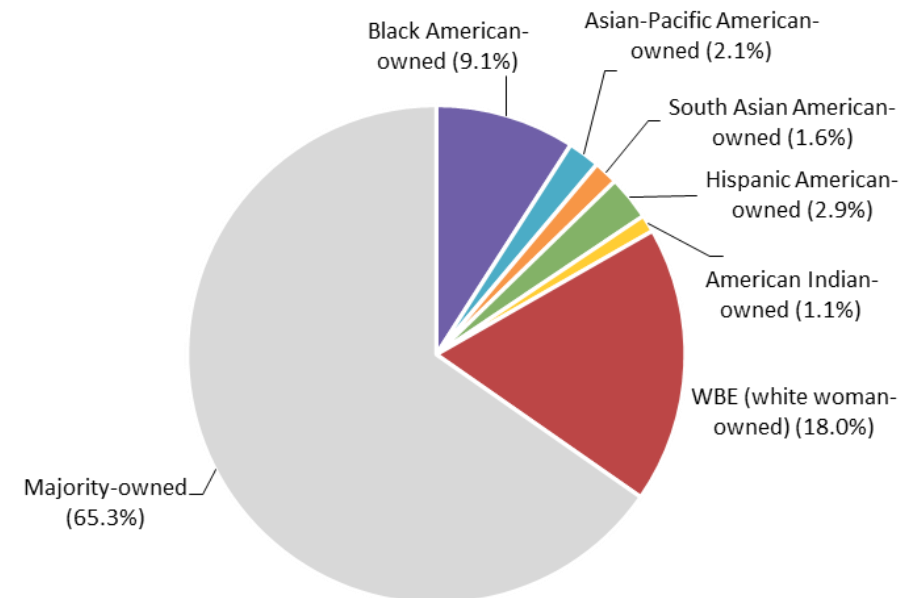
- In total, about 17 percent of firms indicating qualifications and interest in State of Minnesota or other participating agency contracts and subcontracts were owned by people of color;
- About 18 percent of qualified and interested businesses were owned by white women; and
- About 65 percent of businesses were owned by white men or were otherwise non-minority, non-woman-owned firms (majority-owned firms).

Figure 25 shows results by individual MBE/WBE group.

The share of businesses in the availability database owned by people of color was higher in the 2024 survey than in the 2017 Study (9%), and the share of businesses owned by white women was unchanged from the 2017 Study. Appendix C presents analyses showing that the share of total responses from MBE/WBEs was about what might be expected from the underlying D&B list.

Keen Independent also examined the share of businesses that were small businesses. Approximately 96 percent of businesses met U.S. Small Business Administration small business size standards.

25. MBEs and WBEs as a share of total firms in the availability database, 2024



Source: Keen Independent Research 2024 availability surveys.

Appendix C presents more information about survey approach, response rates, confidence intervals and analysis of any differences in response rates between groups. It also provides a copy of the survey instrument.

## SUMMARY REPORT — Availability analysis

### Methodology for Developing Dollar-Weighted Availability Benchmarks

Although MBE/WBEs comprise more than one-third of total firms available for public sector contracts, there are industry specializations in which there are relatively few minority- and woman-owned firms. Also, the study team found that minority-owned firms are less likely than other companies to be available for the largest contracts due to responses to survey items regarding the sizes of contracts or subcontracts competed for or completed during the study period. In addition, many firms work in only some regions of the state.

Keen Independent conducted a contract-by-contract availability analysis based on specific types and sizes of UMN contracts and subcontracts for July 2016–June 2023 and dollar-weighted results.

- The study team used the availability database developed in this study, including information about the types of work a firm performed, the size of contracts or subcontracts it bids, the regions where it is able to work, and the race, ethnicity and gender of its ownership.
- To determine availability for a contract or subcontract, Keen Independent first identified and counted the firms indicating that they performed that type of work of that size in the appropriate region.
- The study team then calculated the MBE and WBE share of firms available for that contract (by race/ethnic group).
- Once availability had been determined for every UMN contract and subcontract, Keen Independent weighted the availability results based on the share of total UMN contract dollars that each contract represented.

Figure 26 provides an example of this dollar-weighted analysis for one UMN subcontract from the 2025 Study.

#### 26. Example of an availability calculation for a UMN contract

One of the subcontracts examined was for electrical work (\$1,737,175) on a 2021 contract. 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 2021;
- b. Indicated that they performed electrical work;
- c. Indicated qualifications and interest in such subcontracts;
- d. Reported bidding on work of similar or greater size in the past eight years in the market area; and
- e. Reported ability to work in the relevant region.

There were 25 businesses in the availability database that met those criteria. Of those businesses, nine were MBE/WBEs. Therefore, MBE/WBE availability for the subcontract was 36 percent ( $9/25 = 36.0\%$ ).

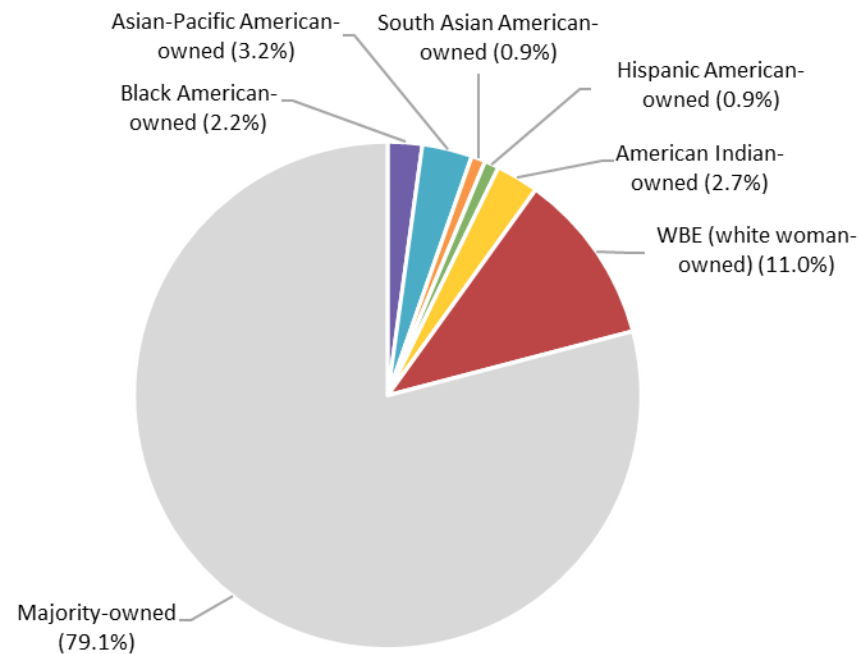
The contract weight was  $\$1,737,175 \div \$4.3 \text{ billion} = 0.04\%$  (equal to its share of total UMN procurement dollars). Keen Independent made this calculation for each prime contract and subcontract and then summed the results.

Dollar-Weighted Availability Results

The contract-by-contract availability analysis described on the previous page determined that about 21 percent of UMN contract dollars might be expected to have gone to MBEs and WBEs during the July 2016–June 2023 study period. (See Figure 27.)

Not all businesses are equally available for all types and sizes of UMN contracts and subcontracts. The contract-by-contract analysis accounts the types and sizes of contracts that each available firm can perform, which explains why the weighted availability benchmark for the share of UMN contract dollars expected to go to different MBE/WBE groups differs slightly from the headcount availability in Figure 25. For example, Black American-owned firms were 9.1 percent of the availability database but the dollar-weighted availability for this group was 2.2 percent.

27. Dollar-weighted availability for UMN contracts



Source: Keen Independent Research 2024 availability survey and analysis of UMN procurement data, July 2016–June 2023.

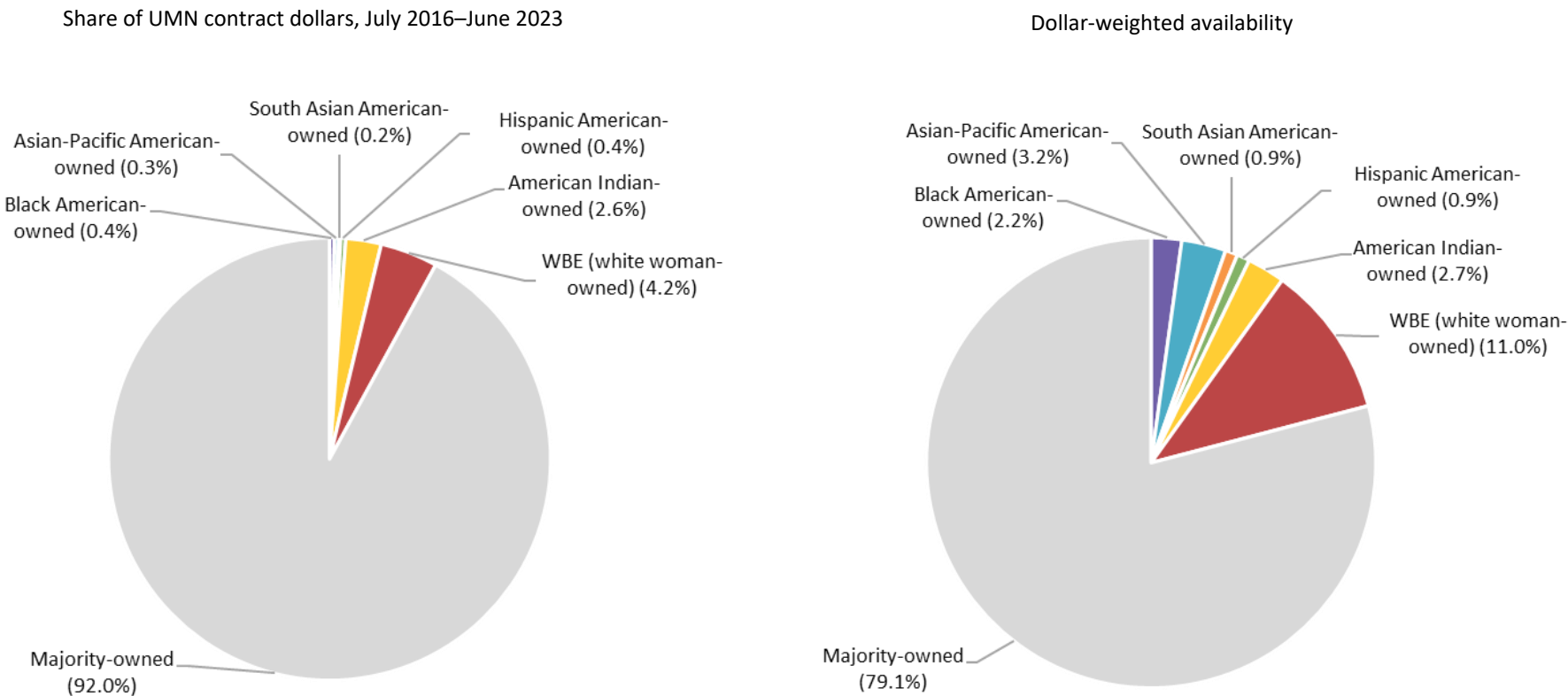
SUMMARY REPORT — Disparity analysis

Comparing Overall MBE/WBE Utilization and Availability

Disparity analyses compare the share of procurement dollars going to MBE/WBEs with the dollar-weighted availability benchmarks described in previous pages.

As shown in Figure 28, the share of UMN procurement dollars going to MBEs and WBEs (8.0%) was less than one-half of what might be expected based on the availability analysis of firms qualified and interested (ready, willing and able) in doing business with UMN (20.9%).

28. Utilization and availability of MBE/WBEs for UMN contracts, July 2016–June 2023



Source: Keen Independent Research 2024 availability survey and analysis of UMN procurement data, July 2016–June 2023.



SUMMARY REPORT — Disparity analysis

Disparity Analysis by Group

Figure 29 compares utilization and availability for each MBE group and for white woman-owned firms. For July 2016–June 2023 UMN procurements, utilization was less than the availability benchmarks for Black American-, Asian-Pacific American-, South Asian American-, Hispanic American- and white woman-owned firms. Utilization was below but close to the availability benchmark for American Indian-owned firms.

Following direction from court decisions, Keen Independent calculated disparity indices to compare utilization and availability.

- A disparity index is calculated by dividing utilization by availability and multiplying by 100, where a value of “100” equals parity.
- An index of less than 80 is described as “substantial.”

The disparity index for MBE/WBEs overall for UMN contracts was “38,” which indicates a substantial disparity. One way of interpreting these results is that MBE/WBEs obtained 38 cents of every \$1.00 of contracts that might be expected if there were a level playing field for those companies.

Disparity indices were below 80 for white woman-owned firms and all but one MBE group (American Indian-owned firms), and therefore substantial, when examining UMN contracts overall.

UMN operates a Targeted Group Business Program (TGBP) that provides evaluation preferences to certified woman-, minority- and disabled-owned businesses that bid for a contract as a prime contractor and firms that include certified businesses as subcontractors on a UMN contract. The disparities identified in UMN contracts occurred even with application of this program.

29. Utilization and availability of MBE/WBEs for UMN prime contracts and subcontracts, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	0.35 %	2.19 %	16
Asian-Pacific American-owned	0.30	3.19	10
South Asian American-owned	0.15	0.89	16
Hispanic American-owned	0.37	0.92	40
American Indian-owned	2.59	2.73	95
Total MBE	3.76 %	9.93 %	38
WBE (white woman-owned)	4.21	11.00	38
Total MBE/WBE	7.98 %	20.93 %	38
Majority-owned	92.02	79.07	116
Total	100.00 %	100.00 %	

Note: Percentages may not add to totals due to rounding.  
Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis UMN procurement data, July 2016–June 2023.

Keen Independent did not perform disparity analyses for small businesses, veteran-owned businesses or firms owned by persons with a disability. Based on the legal framework provided in Appendix N, programs to assist these types of businesses can be designed and legally defended without finding a disparity between utilization and current availability for those groups.

There was too little data for LGBTQ-owned firms to perform disparity analyses.

SUMMARY REPORT — Disparity analysis

Disparity Analysis by Industry

Keen Independent calculated the utilization, weighted availability and disparity indices for UMN procurements by study industry.

**Construction disparity analysis.** Figure 30 compares utilization and availability for each MBE group and for white woman-owned firms for UMN construction procurements (including prime contracts and subcontracts combined):

- Overall utilization of MBE/WBEs was below what might be expected from the availability analysis. The disparity index for MBE/WBEs was 45 (a substantial disparity).
- Utilization was lower than availability for Black American-, Asian-Pacific American-, Hispanic American- and white woman-owned businesses. Disparity indices were each below 80 and therefore substantial.
- Both utilization and availability were very small for South Asian American-owned firms. There did not appear to be a disparity for those companies on UMN construction contracts. Certified firms accounted for about one-half of the utilization of South Asian American-owned construction firms.
- Utilization of American Indian-owned businesses was in line with what might be expected from the availability analysis. Certified American Indian-owned firms comprised about one-third of the participation of this group.

These results occurred with UMN application of the TGBP.

Keen Independent performed separate disparity analyses for construction prime contracts and subcontracts. These results are presented on the following two pages.

30. Disparity analysis for UMN construction prime contracts and subcontracts, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	0.08 %	0.55 %	14
Asian-Pacific American-owned	0.29	5.43	5
South Asian American-owned	0.03	0.02	153
Hispanic American-owned	0.19	0.56	33
American Indian-owned	5.22	5.31	98
Total MBE	5.80 %	11.88 %	49
WBE (white woman-owned)	3.38	8.59	39
Total MBE/WBE	9.18 %	20.47 %	45
Majority-owned	90.82	79.53	114
Total	100.00 %	100.00 %	

Note: Percentages may not add to totals due to rounding.  
Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of UMN procurement data, July 2016–June 2023.

SUMMARY REPORT — Disparity analysis

Construction prime contracts. Figure 31 examines utilization and availability for UMN construction prime contracts.

- Utilization was substantially lower than availability for Black American-, Asian-Pacific American-, Hispanic American- and white woman-owned businesses as prime contractors on UMN construction contracts.
- Both utilization and availability were very small for South Asian American-owned firms. There did not appear to be a disparity for those companies on UMN prime contracts.
- Utilization of American Indian-owned prime contractors was in line with what might be expected from the availability analysis.

The TGBP applied to these contracts.

31. Disparity analysis for UMN construction prime contracts, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	0.04 %	0.46 %	9
Asian-Pacific American-owned	0.06	5.51	1
South Asian American-owned	0.02	0.02	155
Hispanic American-owned	0.06	0.39	15
American Indian-owned	5.50	5.37	102
Total MBE	5.68 %	11.75 %	48
WBE (white woman-owned)	1.52	8.15	19
Total MBE/WBE	7.19 %	19.91 %	36
Majority-owned	92.81	80.09	116
Total	100.00 %	100.00 %	

Note: Percentages may not add to totals due to rounding.  
Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of UMN procurement data, July 2016–June 2023.

# SUMMARY REPORT — Disparity analysis

**Construction subcontracts.** Figure 32 examines utilization and availability for UMN construction subcontracts.

- Utilization was below availability for Black American-, Asian-Pacific American, Hispanic American- and American Indian-owned businesses on UMN construction subcontracts. Each of these disparities was substantial.
- Utilization exceeded availability for South Asian American- and white woman-owned firms.

The TGBP provided preferences to firms including certified subcontractors and appeared to affect utilization of certain groups. For example, most of the dollars going to woman-owned companies on UMN construction projects went to certified firms.

32. Disparity analysis for UMN construction subcontracts, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	0.46 %	1.73 %	26
Asian-Pacific American-owned	2.98	4.48	67
South Asian American-owned	0.12	0.09	133
Hispanic American-owned	1.64	2.77	59
American Indian-owned	2.03	4.49	45
Total MBE	7.23 %	13.56 %	53
WBE (white woman-owned)	24.59	14.30	172
<b>Total MBE/WBE</b>	<b>31.82 %</b>	<b>27.86 %</b>	<b>114</b>
Majority-owned	68.18	72.14	95
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	

Note: Percentages may not add to totals due to rounding.  
Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of UMN procurement data July 2016–June 2023.

## SUMMARY REPORT — Disparity analysis

**Professional services disparity analysis.** Figure 33 provides utilization and availability results for each MBE group and for white woman-owned firms. For July 2016–June 2023 UMN professional services contracts:

- Utilization of MBE/WBEs for UMN professional services contracts was about 12 percent. Availability of MBE/WBEs was higher, at about 29 percent. The disparity index for MBEs and WBEs combined was 41 (a substantial disparity).
- Utilization was below availability for all MBE groups and white woman-owned businesses for UMN professional services contracts. Each disparity was substantial.

33. Disparity analysis for UMN professional services contracts, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	1.43 %	3.45 %	41
Asian-Pacific American-owned	0.54	1.13	48
South Asian American-owned	0.65	2.27	29
Hispanic American-owned	0.56	0.77	72
American Indian-owned	0.58	1.48	39
Total MBE	3.75 %	9.10 %	41
WBE (white woman-owned)	7.94	19.63	40
<b>Total MBE/WBE</b>	<b>11.70 %</b>	<b>28.73 %</b>	<b>41</b>
Majority-owned	88.30	71.27	124
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	

Note: Percentages may not add to totals due to rounding.  
Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of UMN procurement data, July 2016–June 2023.

# SUMMARY REPORT — Disparity analysis

**Goods disparity analysis.** Figure 34 examined disparity results for July 2016–June 2023 UMN goods procurements:

- Utilization of MBE/WBEs for UMN goods contracts was about 6 percent compared to an availability benchmark of 24 percent. The disparity index was 26.
- Utilization was below availability for all MBE groups and white woman-owned firms. There were substantial disparities for each of these groups.

These disparities occurred even with UMN operation of the TGBP.

34. Disparity analysis for UMN goods contracts, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	0.42 %	4.58 %	9
Asian-Pacific American-owned	0.25	1.24	20
South Asian American-owned	0.16	2.06	8
Hispanic American-owned	0.27	1.63	16
American Indian-owned	0.06	0.44	13
Total MBE	1.16 %	9.95 %	12
WBE (white woman-owned)	4.94	13.76	36
<b>Total MBE/WBE</b>	<b>6.09 %</b>	<b>23.70 %</b>	<b>26</b>
Majority-owned	93.91	76.30	123
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	

Note: Percentages may not add to totals due to rounding.  
Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of UMN procurement data, July 2016–June 2023.

SUMMARY REPORT — Disparity analysis

**Other services disparity analysis.** Figure 35 compares utilization and availability for other services procurements for each MBE group and for white woman-owned firms.

For July 2016–June 2023 UMN other services contracts:

- Utilization of MBE/WBEs for UMN other services contracts was about 5 percent compared to an availability benchmark of about 12 percent. The disparity index for MBEs and WBEs together was 41 (a substantial disparity).
- There was a substantial disparity for Black American-, Asian-Pacific American-, South Asian American- and white woman-owned companies.
- Utilization of Hispanic American-owned firms was somewhat higher than expected from the availability analysis. Utilization of American Indian-owned firms exceeded the availability benchmark for UMN other services contracts.

The TGBP applied to these contracts.

35. Disparity analysis for UMN other services contracts, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	0.16 %	1.89 %	9
Asian-Pacific American-owned	0.24	1.71	14
South Asian American-owned	0.07	0.34	19
Hispanic American-owned	0.94	0.86	109
American Indian-owned	0.83	0.25	200+
Total MBE	2.24 %	5.05 %	44
WBE (white woman-owned)	2.52	6.52	39
<b>Total MBE/WBE</b>	<b>4.76 %</b>	<b>11.57 %</b>	<b>41</b>
Majority-owned	95.24	88.43	108
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	

Note: Percentages may not add to totals due to rounding.  
Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of UMN procurement data, July 2016–June 2023.

# SUMMARY REPORT — Disparity analysis

## Disparity Analysis by Contract Size

For each participating entity, Keen Independent calculated the utilization, weighted availability and disparity indices for UMN procurements for three different size ranges of contracts: up to \$100,000, between \$100,000 and \$500,000, and above \$500,000. These analyses do not include subcontracts. Figures 36, 37 and 38 show these results.

**Contracts up to \$100,000.** As presented in Figure 36, for contracts up to \$100,000:

- Utilization was substantially below availability for each racial group of MBEs as well as for white woman-owned firms, and each was substantial.
- Utilization was substantially below availability for MBE/WBEs as a group. The resulting disparity index of 38 indicated a substantial disparity.

36. Disparity analysis for UMN contracts up to \$100,000, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	0.75 %	5.56 %	13
Asian-Pacific American-owned	1.09	1.67	65
South Asian American-owned	0.55	1.56	35
Hispanic American-owned	0.62	1.75	35
American Indian-owned	0.29	1.23	24
Total MBE	3.29 %	11.77 %	28
WBE (white woman-owned)	7.20	15.71	46
<b>Total MBE/WBE</b>	<b>10.49 %</b>	<b>27.48 %</b>	<b>38</b>
Majority-owned	89.51	72.52	123
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	

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

Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of UMN procurement data, July 2016–June 2023.



## SUMMARY REPORT — Disparity analysis

**Contracts ranging from \$100,001 to \$500,000.** Figure 37 shows the disparity indices for MBEs and WBEs for UMN contracts ranging from \$100,001 to \$500,000.

- The disparity index for MBEs and WBEs together was 35 (a substantial disparity).
- There was a substantial disparity for each group except American Indian-owned firms (disparity index of 131).

37. Disparity analysis for UMN contracts from \$100,001 to \$500,000, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	0.37 %	4.94 %	8
Asian-Pacific American-owned	0.26	1.75	15
South Asian American-owned	0.33	1.50	22
Hispanic American-owned	0.54	1.54	35
American Indian-owned	1.52	1.16	131
Total MBE	3.02 %	10.89 %	28
WBE (white woman-owned)	6.11	15.10	40
<b>Total MBE/WBE</b>	<b>9.13 %</b>	<b>25.99 %</b>	<b>35</b>
Majority-owned	90.87	74.01	123
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	

Note: Percentages may not add to totals due to rounding.  
Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of UMN procurement data, July 2016–June 2023.

## SUMMARY REPORT — Disparity analysis

**Contracts over \$500,000.** Figure 38 presents utilization, availability and disparity indices for UMN contracts above \$500,000.

- Utilization was below availability for each MBE/WBE group except American Indian-owned firms. Where disparities were present for UMN’s large contracts, they were substantial.
- Utilization of American Indian-owned prime contractors was in line with what might be expected from the availability analysis.
- The disparity index for MBEs and WBEs together was 33 (a substantial disparity).

38. Disparity analysis for UMN contracts above \$500,000, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	0.26 %	0.91 %	29
Asian-Pacific American-owned	0.02	3.77	0
South Asian American-owned	0.02	0.66	4
Hispanic American-owned	0.21	0.52	41
American Indian-owned	3.32	3.32	100
Total MBE	3.84 %	9.19 %	42
WBE (white woman-owned)	2.07	8.95	23
<b>Total MBE/WBE</b>	<b>5.91 %</b>	<b>18.14 %</b>	<b>33</b>
Majority-owned	94.09	81.86	115
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	

Note: Percentages may not add to totals due to rounding.  
Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of UMN procurement data, July 2016–June 2023.

## SUMMARY REPORT — Disparity analysis

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### Statistical Confidence in Results

Keen Independent conducted additional analyses to assess whether the disparities for minority- and woman-owned firms could have occurred by chance (i.e., whether results are “statistically significant”).

**Examination of whether chance in sampling could explain any disparities.** Keen Independent can reject sampling in the collection of utilization and availability information as a cause for any disparities.

- Keen Independent attempted to compile a complete “population” of UMN contracts for the study. There was no sampling of UMN contracts or subcontracts. Using a set of data approaching a population provides statistical confidence in utilization results.
- Keen Independent’s availability survey attempted to obtain a population of firms within Minnesota that are available for UMN contracts. There was no sampling of firms to be included in the survey since Keen Independent obtained the complete list of firms that Dun & Bradstreet identified as doing business within relevant lines of work. The overall response rate to the survey was very high (33%) and the confidence interval for MBE/WBE availability is within +/- 1 percentage point.

### Monte Carlo simulation to examine chance in contract awards.

One can be more confident in making certain interpretations from the disparity results if they are not easily replicated by chance in contract awards. Keen Independent performed Monte Carlo simulation to determine whether chance could explain the disparities observed for minority- and woman-owned firms on UMN contracts.

None of the 10,000 Monte Carlo simulations produced utilization equal to or less than the observed utilization for firms owned by people of color. For white woman-owned firms, none of the 10,000 simulations produced utilization equal to or less than the observed utilization.

Therefore, one can be very confident that the disparities observed for MBEs and WBEs in UMN procurements are not due to chance in contract awards (at the 99 percent confidence interval).

It is important to note that this test may not be necessary to establish statistical significance of results. It also may not be appropriate for very small populations of firms.<sup>9</sup>

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<sup>9</sup> Even if there were zero utilization of a 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 in the analysis. Results can also be affected by the size distribution of contracts and subcontracts.

# SUMMARY REPORT — Utilization and disparity results for all participating entities

## Utilization and Disparity Results by Entity

Keen Independent performed utilization, availability and disparity analyses for each of the 16 entities participating in the 2025 Study.

Figure 39 on the following page presents the MBE, WBE and combined MBE/WBE utilization results for each entity on the left side of the table and disparity indices for each group on the right side. Utilization results and disparity indices from the 2017 Study are also shown for the nine entities that participated in that study.

Overall, there was a pattern of disparities for minority-owned firms and white woman-owned firms across the participating entities. Disparities were evident even with application of race- and gender-conscious programs, which are in place for each of the entities on the top half of the table as well as the University of Minnesota on the bottom half of the table (and the City of Rochester recently implemented a Targeted Business program). Appendix L reviews each of the participating entities’ programs.

Hennepin County was the entity that showed considerable growth in both MBE and WBE participation. The County increased its MBE/WBE utilization from 11 percent (July 2011 through June 2016) to 23 percent (July 2016 through June 2023). This eliminated the disparity in its utilization of minority-owned firms (including for each MBE group) and narrowed the disparity for white woman-owned firms.

The County used direct select, sheltered market, incentives and evaluation preferences, and other tools to open opportunities to SBEs (especially emerging small businesses or “ESBEs”), and used MBE/WBE-focused efforts when SBE/ESBE efforts alone were insufficient. The County also invested in staff and other resources to successfully execute these programs.

Met Council also did not have a disparity for minority-owned firms as its utilization of MBEs in the 2025 Study (5.2%) was double that found in the 2017 Study (2.6%). Met Council operates a race- and gender-conscious Metropolitan Council Underutilized Business (MCUB) program.

## SUMMARY REPORT — Utilization and disparity results for all participating entities

### 39. Share of participating entity contract dollars going to MBEs and WBEs, July 2016–June 2023

	Utilization						Disparity indices					
	FY2012–FY2016			FY2017–FY2023			FY2012–FY2016			FY2017–FY2023		
	MBE	WBE	Total	MBE	WBE	Total	MBE	WBE	Total	MBE	WBE	Total
Admin	2.6 %	8.8 %	11.4 %	4.8 %	5.6 %	10.5 %	34	61	51	53	44	48
Hennepin County	4.6	6.0	10.6	12.8	10.0	22.8	67	56	60	155	71	102
Minnesota State	1.4	6.1	7.5	1.7	5.3	7.0	21	46	38	17	42	31
MnDOT	1.6	5.4	7.0	1.9	8.1	10.0	19	45	34	37	69	59
Met Council	2.6	3.2	5.8	5.2	3.8	9.0	44	30	35	102	46	68
MAC	2.4	9.2	11.6	1.2	6.4	7.6	32	74	58	11	57	34
MMCD	0.4	2.6	3.0	2.9	2.3	5.1	13	57	41	58	10	18
City of Minneapolis	5.2	6.0	11.2	6.4	7.5	13.9	84	52	63	81	61	69
City of St. Paul	3.8	12.5	16.2	4.7	9.2	13.9	50	93	77	42	75	59
City of Bloomington				1.4 %	5.0 %	6.4 %				26	40	36
City of Brooklyn Park				1.3	4.3	5.7				19	39	31
City of Rochester				0.1	2.7	2.8				2	25	17
Hennepin Healthcare				0.1	0.6	0.7				1	5	2
Ramsey County				4.7	7.9	12.6				69	62	64
SPPS				6.9	8.9	15.8				63	84	73
UMN				3.8	4.2	8.0				38	38	38

Source: Keen Independent Research 2024 availability survey, analysis of combined entity procurement data, July 2016–June 2023, and 2017 Minnesota Joint Disparity Study.

## SUMMARY REPORT — Utilization and disparity results for all participating entities

### Utilization Analysis for All Entities Combined

Keen Independent examined the utilization of different groups of businesses for all entity contracts combined (adding up all contract and subcontract dollars for July 2016–June 2023). Figure 40 presents these results.

- About \$1.1 billion went to more than 1,000 minority-owned businesses (more than 6,100 contracts and subcontracts). MBEs received 3.6 percent of total contract dollars.
- About \$1.7 billion went to more than 2,000 white woman-owned businesses (more than 14,000 contracts and subcontracts). WBEs obtained 5.5 percent of total dollars.
- Combined MBE/WBE participation was 9.1 percent of total contract dollars (more than 3,000 individual companies that obtained nearly 21,000 contracts or subcontracts).

The bottom of Figure 40 examines utilization for other groups. For example, 43 percent of combined entity contract dollars went to firms that appeared to be small businesses according to U.S. Small Business Administration size standards. Most of these firms are not SBE-certified.

Different entities accept different certifications for their SBE or MBE/WBE programs (and some participating entities did not have programs). Counting that participation entity by entity, about 6.1 percent of combined contract dollars went to firms eligible for those programs.

40. Total combined entity contract dollars going to MBEs, WBEs and other firms, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	1,638	\$ 251,787	0.81 %
Asian-Pacific American-owned	1,539	257,170	0.82
South Asian American-owned	795	107,767	0.35
Hispanic American-owned	1,311	161,794	0.52
American Indian-owned	879	337,565	1.08
Total MBE	6,162	\$ 1,116,084	3.58 %
WBE (white woman-owned)	14,769	1,719,794	5.51
<b>Total MBE/WBE</b>	<b>20,931</b>	<b>\$ 2,835,878</b>	<b>9.09 %</b>
Majority-owned	129,785	28,352,378	90.91
<b>Total</b>	<b>150,716</b>	<b>\$ 31,188,256</b>	<b>100.00 %</b>
<b>Business classification or certification</b>			
All small businesses	108,597	\$ 13,540,356	43.41 %
Firms eligible for entity program	12,858	1,905,088	6.11
General certification			
MBE/WBE/DBE	11,910	1,803,325	5.78
SBE (CERT)	8,824	1,353,164	4.34
Veteran (VO, VetBiz, SDVOB)	1,009	183,451	0.59
Service-disabled (SDVOB)	374	77,623	0.25
Disability (TG, DisabilityIN)	125	31,066	0.10
LGBTQ+ (NGLCC)	38	3,118	0.01

Note: Number of procurements includes contracts and subcontracts.

Source: Keen Independent analysis of combined entity procurement data, July 2016–June 2023.

SUMMARY REPORT — Utilization and disparity results for all participating entities

Disparity Analysis by For All Entities Combined

Figure 41 compares utilization and availability for each MBE group and for white woman-owned firms for all 150,716 entity contracts and subcontracts combined. The 9.1 percent of entity contract dollars that went to MBE/WBEs was less than the 22.3 percent that might be expected from the availability analysis. The resulting disparity index was 41. The disparities for MBEs, WBEs and MBE/WBEs combined were substantial and statistically significant (based on Monte Carlo simulations similar to those described in Appendix D).

Utilization was less than the availability benchmarks for Black American-, Asian-Pacific American-, South Asian American, Hispanic American-, American Indian- and white woman-owned businesses. Each disparity was substantial. These disparities occurred even though many entities operate SBE and/or MBE/WBE-type programs.

**Results for entities that only operate SBE programs.** During the study period, SPPS and Ramsey County operated SBE programs with no race- or gender-conscious elements. The disparity index for their contracts combined was 66 for MBEs and 69 for WBEs (both substantial).

**Results for entities without programs or only recently introduced programs.** Keen Independent also examined combined results for the City of Bloomington, City of Brooklyn Park and Hennepin Healthcare, which have not implemented programs, and the City of Rochester, which began implementing its Targeted Business program in the last years of the study period. Combining these entities’ contracts, only 0.2 percent of contract dollars went to minority-owned firms (resulting in a disparity index of 1) and 1 percent of dollars went to white woman-owned firms (disparity index of 10).

41. Utilization and availability of MBE/WBEs for combined entity prime contracts and subcontracts, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	0.81 %	4.25 %	19
Asian Pacific American-owned	0.82	2.49	33
South Asian American-owned	0.35	0.94	37
Hispanic American-owned	0.52	1.20	43
American Indian-owned	1.08	1.81	60
Total MBE	3.58 %	10.69 %	33
WBE (white woman-owned)	5.51	11.66	47
<b>Total MBE/WBE</b>	<b>9.09 %</b>	<b>22.35 %</b>	<b>41</b>
Majority-owned	90.91	77.65	117
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	

Note: Percentages may not add to totals due to rounding.  
Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of combined entity procurement data, July 2016–June 2023.

**Results by industry.** Appendix M presents disparity results by industry for combined entity contracts and for a group of entities that only operated SBE programs during the study period (SPPS and Ramsey County) as well as those that did not operate any programs (City of Bloomington, City of Brooklyn Park, Hennepin Healthcare) or only introduced programs late in the study period (City of Rochester).

There were substantial disparities for WBEs for each industry. There was also a pattern of disparities for each MBE group across industries. When there was no disparity in an industry for a specific racial group for all contracts combined, in each case there was a substantial disparity for that group for SBE program-only or no program entities.

## SUMMARY REPORT — Conclusions and recommendations

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### Conclusions

The quantitative and qualitative information for UMN contracts and the local marketplace indicates a need for continued UMN remedial actions to level the playing field for minority- and woman-owned firms and promote full opportunities for MBE/WBEs to do business with UMN. The evidence may be consistent with raising an inference of discrimination affecting certain racial and ethnic groups of minority-owned businesses, as well as woman-owned businesses in the Minnesota marketplace.

The results detailed in this report indicate substantial disparities for minority- and woman-owned businesses in UMN's non-federally funded contracts. From July 2016 through June 2023, 3.8 percent of UMN contract dollars went to minority-owned businesses, substantially below the 9.9 percent expected from the availability analysis. The resulting disparity index was 38 for MBEs. There were substantial disparities for Black American-, Asian -Pacific American-, South Asian American- and Hispanic American-owned companies for UMN contracts even with the positive effects from UMN's Targeted Group Business Program. Perhaps partially due to the TGBP, there was no substantial disparity for American Indian-owned firms.

Keen Independent also determined that 4.2 percent of UMN contract dollars went to white woman-owned companies during the study period (compared to 11.0 percent availability), also resulting in a disparity index of 38. Combined, the 8.0 percent MBE/WBE participation in UMN contracts was well below the 20.9 percent of dollars expected.

The disparities identified for UMN contracts can be compared to results for entities participating in the 2025 Study that do not have MBE/WBE or related programs, which shows a pattern of disparities for each MBE/WBE group across industries. Most Minnesota entities with established contract equity programs like UMN have reduced the

disparities for MBE/WBEs in their contracts, especially compared with entities with no programs.

One entity appears to be more successful than others in addressing disparities for MBE/WBEs. Through additional neutral and race- and gender-conscious measures, Hennepin County doubled its MBE/WBE participation in July 2016–June 2023 compared to July 2011–June 2016. Its 23 percent MBE/WBE utilization for the most recent time period reached its availability benchmark, although disparities persist for white woman-owned companies.

UMN should review all of the results in the disparity study and other information it may have to determine whether a combination of small business programs and other neutral measures paired with expanded race- and gender-conscious programs may be appropriate to remedy the disparities in its utilization of minority- and woman-owned businesses in its contracts.

### Need for Action

Keen Independent presents recommendations for UMN consideration in the following pages. A summary list of these actions is provided below.

#### 42. Summary of actions for UMN consideration

1. Establish objectives for small business measures and remedial action to address the effects of discrimination
2. Expand and monitor metrics to gauge success
3. Authorize and develop a full set of tools to address objectives
4. Identify registrations and certifications for participation
5. Flexibly operate programs to target businesses needing assistance
6. Provide adequate resources to effectively operate programs



## SUMMARY REPORT — Conclusions and recommendations

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### 1. Establish separate objectives for (a) small business measures and (b) remedial action to address the effects of any discrimination

Keen Independent recommends that UMN adopt objectives for (a) small businesses and (b) minority- and woman-owned businesses as well as other firms that could be affected by discrimination.

**Small businesses.** Participation of Minnesota small businesses in UMN procurement is beneficial for several reasons, including:

- Small business start-up and growth create opportunities for entrepreneurs and generate jobs, worker skill development and income for area residents;
- Some types of UMN contracts may be best delivered by small businesses; and
- Supporting small vendors today increases the supply of bidders on future public contracts.

Any of these reasons might be cause for UMN to celebrate growth in small business participation in its contracts. UMN might set a goal and track overall share of contract dollars going to small businesses, the number of individual small businesses involved in its contracts and subcontracts, and the number of new small businesses participating in UMN procurements each year. Positive trends would be important for those businesses and to the region's economy.

After excluding types of purchases that UMN typically makes from a national market, small businesses obtained 35 percent of UMN contract dollars for July 2016–June 2023. UMN might consider an overall aspirational goal of 50 percent for the share of annual contract dollars going to small businesses (including non-certified firms). The 2024 availability survey and Keen Independent's analysis of past UMN contracts suggest a goal in this range is achievable.

**Businesses affected by discrimination.** Although most MBE/WBEs are small businesses, a public entity must answer a different set of questions before it can consider actions that focus on those firms.

- Start-up and growth of minority- and woman-owned firms also create opportunities for entrepreneurs, generate jobs, enhance the supply of bidders and benefit the local economy (which cannot be working at full capacity if it is leaving up to one-third of its local businesses behind). However, those facts do not establish a legal basis for a public entity to aid certain firms based on the race or gender of the business owner.
- For MBE/WBEs, key issues for a public entity to consider are:
  - Whether its procurement system has direct or indirect discriminatory effects on minority- and woman-owned companies or its public contract dollars perpetuate systemic discrimination in the local marketplace; and
  - If so, whether a remedial program not based on race or gender is sufficient to address such discrimination.
- In sum, “preventing and remedying discrimination” are the fundamental concepts behind an MBE or WBE program such as the TGBP. The TGBP also encompasses businesses owned by persons with disabilities, including service-disabled veterans. Information in this study confirms the need for removing barriers for those businesses and continued inclusion in the TGBP.
- UMN should establish a specific objective of remedying the effects of discrimination against businesses based on the race, gender or other immutable personal attributes of its owner. The evidence indicates that neutral measures are needed but alone would not be sufficient to remedy the effects of discrimination as it affects UMN contracts.

## SUMMARY REPORT — Conclusions and recommendations

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The TGBP also provides evaluation preferences to prime contractors on construction contracts based on the participation of workers of color, women and persons with a disability as workers on the UMN project. This disparity study has information relevant to the construction workforce (see Appendix E), but detailed examination of this program element was outside the scope of this study.

Keen Independent offers additional overall recommendations for consideration:

- There is national and local evidence that business owners can face discrimination based on their personal characteristics unrelated to race or gender. As part of the study effort, Keen Independent identified evidence of discrimination based on disability status and sexual orientation of the business owner, for example.
- There is also evidence that some racial groups not currently included in MBE/WBE programs may be affected by discrimination. As part of the study effort, Keen Independent conducted research on businesses owned by people from the Middle East and North Africa. This part of the study provides evidence of disadvantages for those business owners as well as business owners living with a disability and business owners from the LGBTQ+ community.

Therefore, Keen Independent recommends that the public entities participating in this study jointly consider new efforts to assist any small business owner who has shown they have been negatively affected by discrimination based on their immutable personal characteristics.

Such assistance requires certification of those businesses. This might be accomplished under one or more existing certification systems in Minnesota or could require a new business certification. Certification by either path would require review of individual business owner marketplace experiences and not presume social disadvantage solely from their race or gender. The business owner would also need to show economic disadvantage. For purposes of this report, the designation for socially and economically disadvantaged business enterprises without presumption of disadvantage based on group is called “SEDBE certification.”

## SUMMARY REPORT — Conclusions and recommendations

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### 2. Expand and monitor new metrics for success

UMN should further develop and operate systems that can track its success in achieving its small business and non-discrimination objectives.

**Small businesses.** UMN should develop and track metrics on the success of small businesses in its contracts. Those metrics should consider small businesses that have been certified as such as well as those that have not. Examples of metrics include:

- Number of individual contracts and subcontracts going to small businesses.
- Contract and subcontract dollars going to small businesses.
- Number of small businesses involved in its contracts and subcontracts.
- Number of new small businesses obtaining UMN contracts and subcontracts each year.
- Small contracts going to small businesses.
- On publicly advertised contracts, number of bids and proposals received from small businesses

Each of those metrics can be expressed in total and as a share of UMN contracts or dollars (after excluding national market purchases).

UMN might start with relatively simple metrics and continually expand and develop them as it is able.

**MBE/WBE and other disadvantaged businesses.** The metrics related to small businesses can be adapted to track participation of MBEs, WBEs and other potentially disadvantaged business groups. As with small business metrics, UMN should track certified firms and all businesses, regardless of certification.

For each racial group of MBEs, for WBEs, and for each other set of small disadvantaged businesses, UMN should periodically gauge whether utilization for each group is closer to what would be expected based on the group's availability for UMN contracts. UMN might consider using the availability benchmarks for groups that Keen Independent provided in this study.

As UMN tracking and monitoring become more comprehensive, it might consider analyzing the participation of large, small and emerging small MBE/WBE businesses in its contracts. It could also review whether there was any evidence that participation of certified MBE/WBEs was limited to only a few firms or whether it was broadly distributed.

**Next steps.** Keen Independent understands that UMN currently prepares utilization reports but does not currently have information systems to produce all of these reports, nor does it have ownership information for non-certified firms performing its contracts and subcontracts. It will need to further develop its systems to do so.

Keen Independent is also providing UMN information about size and ownership of the firms that obtained UMN contracts and subcontracts for the July 2016–June 2023 study period, as well as data for firms receiving other entities' contracts.

## SUMMARY REPORT — Conclusions and recommendations

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### 3. Authorize and develop a full set of tools to address objectives

Keen Independent is recommending that each of the 16 participating entities consider the following program tools

- a. Business assistance, including access to capital.
- b. Recruitment, bid notification and procurement education.
- c. Unbundling and addressing potentially restrictive procurement elements.
- d. Direct select and shelter market procurement programs.
- e. Price and evaluation preferences.
- f. Contract goals for contracts with subcontracting.

UMN's TGB Program already includes recruitment, bid notification, procurement education, evaluation preferences and contract goals.

The final three tools — direct select/sheltered market programs, price and evaluation preferences and contract goals — would be restricted to businesses that are certified as small businesses, TGBs or small disadvantaged business enterprises (SEDBEs). As explained later in this report, each tool is flexible and could be applied to SBEs in one contract and certified TGBs or SEDBEs in another. As mentioned under Recommendation 1, these three sets of tools should not be operated indefinitely without formal evaluation of their effectiveness and continued need.

**a. Business assistance, including access to capital.** In the past year, UMN started formal monthly procurement education workshops for TGBs, as well as targeted recruitment of TGBs for RFPs. UMN should continue to partner with other state and local governments, nonprofits and other groups to help disseminate information about small business assistance efforts, especially for local companies. Access to capital and

bonding are two of the greatest needs for small disadvantaged businesses that may currently be inadequately addressed.

**Better coordination and connection of businesses to the right assistance.** There are currently hundreds of business assistance providers serving Minnesota companies, but no one consistent source to identify the assistance that best fits the need for an individual business. In the 2017 Study, Keen Independent recommended improving virtual assistance portals with links to assistance and availability of just-in-time training. This need continues.

**Threats to continued funding.** At the time of this report, there were threats to continued federal funding of certain assistance efforts focusing on minority- or woman-owned firms. There may be a need to fill funding gaps if federal support ends.

**Mentor-protégé programs.** The 16 entities participating in this study should consider developing a coordinated mentor-protégé program to assist small disadvantaged businesses that are established and could obtain maximum benefit from such a program. This regional effort might build on current programs that some participating entities operate as part of the Federal DBE Program.

## SUMMARY REPORT — Conclusions and recommendations

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**Working capital loan programs and bonding programs.** UMN might also consider participating in regional partnerships related to:

- Working capital for disadvantaged construction firms working on public works projects; and
- A bond guarantee program for disadvantaged construction firms seeking public sector work.

UMN might consider collaborating with other regional public entities to create or contribute grants or bonds to regional capital loan and bonding programs. UMN should also ensure that it directs its current and potential vendors to these resources. (Keen Independent made this recommendation to entities participating in the 2017 Study.)

There are several examples of regional or statewide working capital programs in Minnesota and other states that focus on capital needs for business development or construction contractors. For example, MnDOT had a working capital loan fund for DBEs and TGBs that were awarded certain MnDOT construction or professional/technical services contracts. Loans were up to \$25,000. Wisconsin DOT has a similar program, with loans up to \$100,000. Based on feedback from participating entities, there is a need for working capital loans for disadvantaged businesses, but at much higher dollar amounts.

Bonding is often a significant hurdle for small contractors to compete for public agency work, even relatively small projects. There is some assistance available concerning bonding in Minnesota (see Appendix K), but there appears to be additional need. A partnership that includes UMN and other regional agencies might be the best way to approach this barrier for some SEDBE contractors. This was also a recommendation in the 2017 Minnesota Joint Disparity Study.

As an example of a bond guarantee program, the Colorado Department of Transportation (CDOT) partnered with Lockton Companies to launch

the Bond Assistance Program in 2019 for construction contracts of \$3 million or less. CDOT provides a partial guarantee. As another example, Florida Department of Transportation has a similar Bond Guarantee Program.

**Further investigation of any racial discrimination affecting the lending markets in Minnesota.** There was sufficient evidence of disparities and qualitative evidence of racial discrimination that the State should consider further research on whether discrimination is affecting the credit market for people of color in Minnesota and what might be done to address any issues. This evidence in this report includes business lending and other credit (see Appendix G).

**b. Recruitment, bid notification and education.** Many of the entities participating in this study have identified and recruited new small businesses to participate in their contracts. UMN could partner with other entities in this effort.

Some of the interviewees in this study indicated a need for centralized, coordinated notification of bid opportunities for public entities in Minnesota. Several entities participating in the 2025 Study have been working on a solution. As one develops, UMN could participate by posting its bids in this centralized system.

UMN will need to educate potential bidders on its procurement process, a challenge shared with other public entities. Joint efforts to educate potential bidders could be a productive response.

When it has large construction projects, UMN should continue to hold meetings well in advance of bidding to educate potential small business subcontractors and suppliers about opportunities on the project.

## SUMMARY REPORT — Conclusions and recommendations

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**c. Unbundling and addressing potentially restrictive procurement elements.** UMN should review its large contracts that are routinely bid to determine whether any can be divided into smaller segments to reduce this barrier.

UMN should also review whether it can eliminate or change potentially restrictive elements of its procurement processes, from requiring bid bonds when not necessary to reevaluating insurance requirements on small contracts. UMN can work with other public entities to eliminate unnecessarily restrictive or unusual requirements.

Small businesses are vulnerable to late payments from clients, including public agencies and prime contractors. UMN might review prompt payment of its prime contractors and other vendors. UMN might also consider means to ensure that subcontractors are protected from unfair payment practices by its prime contractors.

**d. Direct select, sheltered market and small business cooperative contracts.** Keen Independent recommends that UMN expand its use of small purchasing procedures.

**Direct select.** Some entities participating in this study have authorized direct purchases with certified firms at dollar levels that exceed what would typically require competitive bidding (see Appendix L). These direct purchase programs appear to be effective in including SBEs and MBE/WBEs in an entity's small purchases.

**Sheltered market.** Many entities participating in this study can restrict bidding on small purchases to certified firms. UMN might consider developing such a program. For example, Hennepin County operates a sheltered market program on contracts up to \$500,000 for some types of contracts (including small construction and building maintenance contracts), the County develops rosters of SBEs and ESBes to bid or propose on those contracts in advance of the bids.

**e. Price and evaluation preferences.** UMN provides evaluation points based on the workforce composition, skills training or other activities of the bidder. (This study did not review the basis for such points.) Points for subcontracting are considered below under contract goals.

The State's TGB program provides a price or scoring preference up to 12 percent for certified firms bidding as prime contractors on certain contracts. (A certified firm could be awarded a contract if its price or evaluation score were within 12 percent of the low bidder.) Keen Independent recommends that UMN consider adding this program element to its evaluation points. If an SEDBE certification is developed in the future, UMN might consider reserving the price and scoring preferences for SEDBE firms.

**f. Contract goals for contracts with subcontracting.** UMN operates a contract goals program that provides evaluation preferences to prime contractors and prime consultants that meet the contract goal. UMN should consider continuing this program element with some refinements, as there were large disparities for MBEs in UMN construction contracts (7% utilization) while white woman-owned firms received 25 percent of construction subcontract dollars (well above the availability benchmark for WBEs). Therefore, UMN may need to consider establishing separate MBE and WBE goals (or MBE and SBE goals) on certain large contracts. Other elements of the UMN contract goals program can be improved, for example setting goals on a contract-by-contract basis.

UMN should ensure that its contract goals program continues to encourage prime contractors to consider certified firms for subcontract opportunities without mandating a certain level of participation. Standard elements of a contract goals program are described on the next page.



## SUMMARY REPORT — Conclusions and recommendations

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**Contract goals.** Keen Independent recommends contract goals programs modeled after regulations in the Federal DBE Program:

- Identify contracts eligible for contract goals.
- Set no goal or 0 percent goal when appropriate (either insufficient subcontract opportunities or insufficient availability of certified firms for those subcontracts).
- Customize contract goals based on the types of subcontracting opportunities and availability of certified firms to do the work.
- Require bidders and proposers to meet the specified contract goal or show good faith efforts (GFEs) to do so.
- Evaluate whether the proposer or apparent low bidder met the goals or made sufficient GFEs before awarding a contract.
- Allow for appeals of any negative decisions on GFEs.
- Monitor utilization of certified firms throughout the contract and allow prime contractors to substitute certified firms if needed;
- Enforce remedies for any non-compliance.

**Utilization plan.** The contract goal program would require bidders to submit at the time of bid a utilization plan containing:

- A list of all subcontractors to be utilized in the contract and the dollar amounts of work committed to those companies.
- A description of the efforts made to reach out to eligible, certified firms for subcontract opportunities.
- Documentation of those efforts.

Proof that the bidder has met the contract goal might qualify as satisfying all documentation requirements.

**Program application.** Contract goals program elements would apply to competitively bid construction and professional services projects and certain other contracts with meaningful opportunities for subcontractor participation.

Construction contracts could include design-bid-build and design-build projects. The Transportation Research Board has published guidance on applying and monitoring DBE or MBE/WBE contract goals on alternative delivery projects, such as design-build.<sup>10</sup>

**Good faith efforts evaluation.** For program flexibility, an entity operating a contract goals program should consider establishing good faith efforts criteria that enable prime contractors to comply with the program even if the utilization plan does not meet the entity's specified contract goals. Federal regulations in Appendix A to 49 CFR Part 26 describe how good faith efforts can be used to comply with goals set for USDOT-funded contracts under the Federal DBE Program.

**Program compliance.** As a matter of compliance and evaluation, any entity operating a contract goals program should consider requiring prime contractors to submit reports of payments made to all subcontractors and suppliers involved in eligible contracts. There should be enforcement mechanisms for noncompliance and monitoring of whether certified subcontractors and subconsultants are performing a commercially useful function (as a condition for eligibility to meet contract goals).

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<sup>10</sup> Keen, D. J., Edinger, L., Wiener, K., & Salcedo, E. (2015). Current practices to set and monitor DBE goals on design-build projects and other alternative project delivery

methods (No. Project 20-05 (Topic 45-03)). Retrieved from: <https://www.trb.org/Publications/Blurbs/172886.aspx>

## SUMMARY REPORT — Conclusions and recommendations

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### 4. Authorize and develop a full set of registrations and certifications to address objectives

In addition to expanded tools, UMN might work with other entities to ensure that it has a full set of registrations and certifications available for small business and contract equity programs. These include:

- a. Self-identified small businesses, MBE/WBEs and other targeted businesses.
- b. Certified ESBEs and SBEs.
- c. Certified MBEs and WBEs (or TGBs).
- d. Certified socially and economically disadvantaged business enterprises (SEDBEs).

The Task 2.7 Group Definitions Report and this report identified evidence of disadvantages for persons with disabilities, including service-disabled veterans, which suggests a continued need for inclusion of these groups in entity certifications.

**a. Self-identified small businesses, MBE/WBEs and other targeted businesses.** UMN should request firms bidding on and awarded UMN contracts and subcontracts to identify whether they are small businesses under the U.S. Small Business Administration size standards. The federal government's System for Award management (SAM) registration system is one example of a procurement system that requests such information. UMN can coordinate with other entities participating in this study to identify the best option for its small business self-certification.

As with obtaining data to track self-identified small businesses, UMN should request and maintain information about race and gender ownership of its bidders, vendors and subcontractors. There may be other types of ownership that UMN should track as well (veteran-

owned business ownership, for example). This self-identification would not qualify a firm for any UMN procurement programs.

**b. Certified ESBEs and SBEs.** UMN should consider adding an SBE component to its programs for non-federally funded contracts. CERT, a joint certification system for several local cities and counties, currently certifies firms as small business enterprises (SBEs). Hennepin County uses that information to identify a subset of SBEs that are emerging small business enterprises (ESBEs).

**c. Certified MBEs and WBEs.** UMN currently accepts MBE/WBE certifications from the State, CERT, MUCP and other sources.

**d. Certified socially and economically disadvantaged business enterprises (SEDBEs).** Entities in this study should consider a joint certification for small businesses that demonstrate, on an individual basis, both:

- Social disadvantage after evaluating a personal narrative of the effects of discrimination against the business owner based on that owner's immutable personal characteristics; and
- Economic disadvantage after considering financial information about the firm and the business owner.

There would be no presumption of social disadvantage based on group identification, rather it would be based on a personal narrative of how the individual experienced social disadvantage or other discrimination. This is the method for certifying non-minority- or woman-owned firms in the Federal DBE Program and all firms in the U.S. SBA Section 8(a) Program at the time of this report (also see City of New Orleans SLDBE Program). Keen Independent recommends that this path to certification be part of joint regional or statewide efforts. (Local SBA 8(a) businesses might be automatically eligible for this certification.)



## SUMMARY REPORT — Conclusions and recommendations

### 5. Flexibly operate programs to target businesses needing assistance

Keen Independent suggests that UMN develop and use all the tools and all the firm certifications or registrations outlined in the previous pages. UMN should flexibly apply the tool and firm eligibility for specific contracts, only using race- and gender-conscious approaches when needed.

For example, UMN might set an SBE contract goal for a certain large construction project and TGB or SEDBE contract goal for another project (along with a goal for veteran-owned businesses, as needed). For one sheltered market purchase, UMN might solicit bids from certified SBEs but in another, which might have high availability of certified TGBs or SEDBEs, it might request bids from only those firms. Figure 43 displays which groups of firms might be eligible to participate in specific types of programs.

43. Flexible application of programs and groups of certified firms

	All SBEs and other groups	Certified SBEs/ESBEs	Certified MBE/WBEs, SEDBEs and other groups
<b>Business assistance</b>			
Virtual one-stop	■		
Mentor-protégé			■
Working capital loans			■
Bonding program			■
<b>Procurement recruitment, notification and education</b>			
Joint efforts to recruit bidders	■		
Joint bid notification	■		
Joint procurement training	■		
<b>Unbundling and addressing restrictive procurement</b>			
More small contracts	■		
Easier bidding	■		
<b>Targeted solicitation of bids/quotes</b>			
Direct select/sheltered market		■	■
SBE cooperative contracts		■	
<b>Goals for contracts with subcontracting</b>			
Contract-specific goals		■	■
<b>Price and evaluation preferences</b>			
Apply program as needed			■

## SUMMARY REPORT — Specific barriers in the marketplace and doing business with public entities

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### 6. Provide adequate resources to effectively operate programs

UMN will need resources to fully operate these program elements. It can be aided in this effort by understanding and using tools already developed by other entities participating in this study. For example, Hennepin County already has flexibility in applying programs based on multiple certifications.

UMN resources will be needed for the following:

- a. Program development.
- b. Communications and outreach.
- c. Program administration.
- d. Participation in regional efforts.
- e. Comprehensive monitoring and reporting.
- f. Formal evaluation prior to sunset.

**a. Program development.** Keen Independent has provided a list of recommendations that UMN might take into consideration as it further develops its small business and contract equity programs.

**b. Communications and outreach.** To ensure the success of programs authorized and other efforts to level the playing field for disadvantaged businesses, UMN should continue to devote resources to communications and direct business outreach. Some of the business lists Keen Independent developed in this study can help marketing and communications efforts.

**c. Program administration.** Entities that have successfully implemented these types of programs have created sufficient staff positions for ongoing operation.

**d. Participate in region-wide efforts.** UMN can have the most impact, while efficiently using its resources, if efforts such as vendor outreach, recruitment, education and bid notification are done as part of cooperative efforts with other public entities in Minnesota.

**e. Comprehensive reporting of utilization.** UMN should develop the information systems for ongoing tracking and at least annual reporting of (a) utilization of certified TGB firms and SBEs, by group, and (b) utilization of small businesses and minority- and woman-owned firms regardless of certification.

This should include data on all subcontractors on UMN projects, not just those where goals were set or just for TGBs.

**f. Formal evaluation prior to program sunset/reauthorization.**

About every five to six years, UMN should review the effectiveness of its program and whether it continues to be needed or should be refined. As with the 2025 Joint Disparity Study, this evaluation can be done cooperatively with other state and local entities.

## APPENDIX A. Definition of Terms

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Appendix A provides explanations and definitions useful to understanding the 2025 Minnesota Joint Disparity Study. The following 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 barriers, experiences and incidents, including any incidents of discrimination, told from each individual interviewee’s or participant’s perspective.

**Availability analysis.** The availability analysis examines the number of minority-, woman- and majority-owned businesses ready, willing, and able to perform the specific types of construction, architecture and engineering, professional services, goods or other services purchased in a government agency’s contracts.

“Availability” is often expressed as the percentage of contract dollars that might be expected to go to minority- or woman-owned firms based on analysis of the specific type, size and timing of each prime contract and subcontract and the relative number of minority- and woman-owned firms available for that work.

**Bid capacity.** For purposes of this study, the largest range of contracts or subcontracts for which a firm submits bids, proposals or quotes.

**Bid shopping and manipulation.** The practice of sharing bids with competitors or coercing or changing bids.

**Bond.** A bond is a financial assurance that all aspects of the contract will be satisfied. Firms are commonly required to provide a bond for a certain amount when performing a public sector construction contract.

**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.

**Business owned by persons with disabilities.** For purposes of this study, a business that is at least 51 percent owned and controlled by one or more individuals who are persons with disabilities. See persons with disabilities.

**Certified MBE or WBE.** A firm certified as a minority- or woman-owned business. Without the word “certified” in front of “MBE” or “WBE,” Keen Independent is referring to a minority- or woman-owned firm that might or might not be certified as such.

**Closed network.** Closed networks, such as “good ol’ boy” networks, are formal or informal associations that exclude certain firms from participating in knowledge about opportunities or specific bids or contracts.

**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 [www.gpo.gov/fdsys/browse/collectionCfr.action?collectionCode=CFR](https://www.gpo.gov/fdsys/browse/collectionCfr.action?collectionCode=CFR).

## APPENDIX A. Definition of Terms

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**Contract.** A contract is a legally binding agreement between the purchaser and seller of goods or services.

**Contract element.** As used in this report, a contract element is either a prime contract or subcontract.

**Consultant.** A consultant is a business performing architecture and engineering or professional services contracts.

**Contractor.** A contractor is a business performing construction contracts.

**Control.** Control means exercising management and executive authority for a business.

**Central CERT Certification Program (CERT).** The Central Certification (CERT) Program includes certification for minority-owned businesses (MBEs), women-owned businesses (WBEs), small businesses (SBEs) and emerging small businesses (ESBE). Hennepin County, Ramsey County, the City of Minneapolis and the City of Saint Paul operate programs that rely on CERT certification. The City of Saint Paul is the lead certification agency for CERT.

**Croson decision.** The U.S. Supreme Court decision that established the new standard of strict scrutiny that race-conscious contracting programs must satisfy in order to be constitutional (under the Equal Protection Clause). *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469 (1989). See Appendix B.

**Disadvantaged Business Enterprise (DBE).** A “DBE” is a firm that is certified as such under federal regulations governing the Federal Disadvantaged Business Enterprise (DBE) Program. 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

federal regulations and guidelines in the Federal DBE Program (49 CFR Part 26) can be certified as a DBE. 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 three-year average gross revenues and the business owner’s personal net worth (at the time of this report, a maximum of \$2.047 million excluding equity in the business and primary personal residence) (<https://www.transportation.gov/civil-rights/disadvantaged-business-enterprise/definition-disadvantaged-business-enterprise>). <https://www.transportation.gov/DBEPNW>

Some minority- and woman-owned businesses do not qualify as DBEs under 49 CFR Part 26, including because of gross revenue 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 business 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.

Some local and state governments use the term “DBE” outside of the federal program in connection with their own minority- and woman-owned business programs. (Where necessary, Keen Independent identifies that specific usage of “DBE” in this report.)

**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.

## APPENDIX A. Definition of Terms

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**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 woman-owned businesses is one tool used to examine whether there is evidence consistent with discrimination or inferences of discrimination against such businesses.

**Disparity index.** A disparity index in the context of this study 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. For purposes of this study 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 <https://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.

**Economically Disadvantaged Area.** The Minnesota Department of Administration defines an Economically Disadvantaged Area as labor surplus areas, as designated by the federal government, and low income counties in Minnesota.

**Economically Disadvantaged Small Business (EDSB).** To be certified as an EDSB, the business must be located (or the owner must reside) in an Economically Disadvantaged Area in Minnesota

**Emerging Small Business Enterprise (ESBE).** A firm certified as an emerging small business according to the size criteria of the certifying agency.

**Employer firms.** Employer firms are firms with paid employees other than the business owner and family members.

**Enterprise.** An enterprise is an economic unit that is a for-profit business or business establishment, not-for-profit organization or public sector organization.

**Establishment.** See business establishment.

**Federal Aviation Administration.** The FAA is an agency of the United States Department of Transportation that regulates American civil aviation and provides funds for the construction and operation of airports.

**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, which can be found at [http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title49/49cfr26\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title49/49cfr26_main_02.tpl).

## APPENDIX A. Definition of Terms

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**Federally funded contract.** A federally funded contract is any contract or project funded in whole or in part (a dollar or more) with U.S. Department of Transportation, U.S. Environmental Protection Agency, U.S. Department of Housing and Urban Development or other federal financial assistance, including loans.

**Federal Highway Administration (FHWA).** The FHWA is an agency of the United States Department of Transportation that works with state and local governments to construct, preserve, and improve the National Highway System, other roads eligible for federal aid, and certain roads on federal and tribal lands.

**Federal Transit Administration (FTA).** The FTA is an agency of the United States Department of Transportation that administers federal funding to support local public transportation systems including buses, subways, light rail and passenger ferry boats.

**Firm.** See business.

**Fiscal year.** A fiscal year is the accounting period for a government. The State of Minnesota fiscal year is from July 1 through June 30 of the following year. For example, FY 2023 is the twelve-month period beginning July 1, 2022, ending on June 30, 2023.

**Geographic market area.** The geographic market area is the area in which the businesses receiving most of a government agency's contracting dollars are located. Counties or functional economic areas (such as metropolitan statistical areas) that group multiple counties are the geographic units used to define these areas. The geographic market area is also referred to as the "local marketplace." The court decisions related to race- and gender-conscious programs discuss disparity analyses in connection with the relevant "geographic market area."

The geographic market area is calculated by examining the share of dollars going to firms in different locations, and often separately determined by industry (such as construction, professional services, goods and other services contracts).

**Goals program.** A program in which a public agency sets a percentage goal for participation of DBEs, MBE/WBEs, small businesses or another group on a contract-by-contract basis. These programs typically require that a bidder either meet the participation percentage goal provided for that contract or show good faith efforts to do so as part of its bid or proposal.

**Good faith efforts.** Those efforts undertaken by a bidder or proposer that show reasonable steps to achieve a contract goal or other program requirement provided in solicitation documents even if the bidder was not fully successful. See 49 CFR Part 26, Appendix A, Guidance on Good Faith Efforts.

**"Good ol' boy" network.** See closed networks.

**Industry.** For the purpose of this study, an industry is a broad classification of businesses providing construction, professional services, goods or other services work (the four major "industries" in this study).

**Legal framework.** Legal framework is the review of relevant case law used as the basis for study methodology.

**LGBTQ+.** This includes persons who identify as lesbian, gay, bisexual, transgender, queer, intersex or asexual or other groups historically marginalized based on sexual orientation or gender identity.

**LGBTQ-owned business.** A business that is at least 51 percent owned and controlled by one or more individuals who identify as LGBTQ+. See LGBTQ+.

## APPENDIX A. Definition of Terms

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**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.** See geographic market area.

**MBE.** Minority-owned business enterprise. See minority-owned business.

**Metropolitan Statistical Area (MSA).** Metropolitan statistical areas (MSAs) are geographic areas designated by the U.S. Office of Management and Budget. These areas mark population centers that are economically and socially integrated based on U.S. Census Bureau data. See <https://www.census.gov/programs-surveys/metro-micro/about.html>

**Metropolitan Council Underutilized Business Program (MCUB).** Met Council operates the Metropolitan Council Underutilized Business (MCUB) Program. The purpose of the program is to expand procurement opportunities for minority- and women-owned companies and other small business on its locally funded contracts. MCUB businesses include Targeted Group businesses, DBEs and veteran-owned businesses certified by Department of Veteran Affairs or by the Department of Administration.

**Minnesota Unified Certification Program (MNUCP).** MNUCP is the group of certifying agencies for DBE certification in the state (see definition of DBE in this appendix). This group includes the City of Minneapolis, Metropolitan Airports Commission, Metropolitan Council and Minnesota Department of Transportation.

**Minnesota United Certification Portal.** Consolidated web application portal for small businesses to apply for a DBE, CERT or TGB certification.

**Minorities.** For the purposes of this disparity study (largely based on 2024 federal definitions), minorities are:

- Asian-Pacific Americans, who include individuals whose origins are from Central, East or Southeast Asia, Pacific Islands or Hawaii. For example, Chinese, Filipino, Vietnamese, Hmong, Karen, Korean and Japanese Americans, Pacific Islanders and Native Hawaiians.
- South Asian Americans, who include individuals whose origins are from India, Pakistan, Bangladesh, Bhutan, the Maldives Islands, Nepal or Sri Lanka.
- Black Americans, who include persons having origins in any of the black racial groups of Africa, including, for example, African Americans, Jamaicans, Haitians, Nigerians, Ethiopians and Somalis.
- Hispanic Americans (or Latinos), who include individuals of Mexican, Puerto Rican, Salvadoran, Cuban, Dominican, Guatemalan, and other Central or South American, or other Spanish or Portuguese culture or origin, regardless of race.
- American Indians, who include individuals with origins in any of the original peoples of North, Central and South America.



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**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 who belong to a minority group. Minority groups in this study include those listed under the definition of minorities above. 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 government agency as a minority-owned company.

**Monte Carlo analysis.** A statistical simulation of the probability that the results of a group of events can be explained by random chance in the outcomes of individual events. Keen Independent uses Monte Carlo analysis to examine whether a disparity between the utilization of a particular group in an agency’s contracts and an availability benchmark might have occurred by chance in contract and subcontract awards.

**Neutral remedy.** See race- and gender-neutral measures.

**Non-response bias.** Non-response bias occurs when the observed responses to a survey question differ (in a non-random way) from what would have been obtained if all individuals in a population, including non-respondents, had answered the question or participated in the survey.

**North American Industry Classification System (NAICS) codes.** NAICS codes are the detailed industry sector codes adopted by the U.S. Census Bureau. They provide one way to define industries (such as “construction”) when reporting an agency’s utilization of firms and the availability of firms. Codes are established at various levels of detail. See <https://www.census.gov/naics/>.

**Owned.** Owned indicates at least 51 percent ownership of a company. For example, a “minority-owned” business is at least 51 percent owned by one or more minorities.

**People of color.** See definitions under minorities.

**Persons with disabilities.** For purposes of this study, persons with disabilities include people who:

- Have a physical or mental impairment that substantially limits one or more major life activities;
- Have a record of such impairment; or
- Are perceived by others as having such an impairment.

**Prime consultant.** A prime consultant is an architecture and engineering or professional services firm that performs a prime contract for a client such as one of the participating entities.

**Prime contract.** A prime contract is a contract between a prime contractor or a prime consultant and a client such as one of the participating entities.

**Prime contractor.** A prime contractor is a construction firm that performs a prime contract for a client such as one of the participating entities.

**Private sector.** The economy of private businesses doing work for non- government customers.



## APPENDIX A. Definition of Terms

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**Procurement.** A direct purchase, consulting agreement, prime 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.

**Professional services.** Professional services are fields in the service sector requiring special training. Some professional services require holding professional licenses such as architects and accountants.

**Project.** A project refers to a construction and/or professional services endeavor. A project could include one or multiple prime contracts and corresponding subcontracts.

**Race-and gender-conscious measures.** Race- and gender-conscious measures are remedial efforts directed towards MBEs and/or WBEs. An MBE/WBE contract goal 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. 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.** See geographic market area.

**Remedial Measure.** A remedial measure, sometimes shortened to “remedy,” includes a program to address barriers to full participation of minorities or women, or minority- or woman-owned firms or to remedy identified discrimination or disparities in a marketplace, which may be race-, ethnic- or gender-neutral or race-, ethnic- or gender-based.

**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.

**Service-disabled veteran.** This includes a veteran who has a disability that was incurred or aggravated in line of duty in the active military, naval, air or space service.

## APPENDIX A. Definition of Terms

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**Service-disabled veteran-owned business.** Means a for-profit business:

- That is at least 51 percent owned by one or more service-disabled veterans as defined in Minnesota Statutes, or in the case of a corporation in which 51 percent of the stock is owned by one or more such individuals; and
- Whose management and daily business operations are controlled by one or more of the service-disabled veterans who own the business.

**Small business.** A small business is a business with low revenues or size (based on revenue or number of employees) relative to other businesses in the industry. “Small business” does not necessarily mean that the business is certified as such.

**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.

**Small Underutilized Business Program (SUBP).** The Small Underutilized Business Program (SUBP) ordinance is enforced by the Contract Compliance Division (CCD) of the Minneapolis Department of Civil Rights. The SUBP ordinance is intended to redress discrimination in the City’s marketplace and create opportunities for MBEs and WBEs.

**Stakeholders.** Internal and external individuals and groups who have an interest in a topic.

**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 Minnesota funds (and does not use federal funds). A locally funded contract uses city, county or other local public entity funds but no 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 an architecture and engineering or professional services firm that performs services for a prime consultant as part of the prime consultant’s contract for a client such as one of the participating entities.

**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 one of the participating entities.

**Subcontract goals program.** See goals program.

**Subcontractor.** A subcontractor is a firm that performs services for a prime contractor as part of a larger project.

## APPENDIX A. Definition of Terms

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**Subindustry.** For this study, a specialized component within one a broader economic sector such as construction. Electrical work is a subindustry within the construction industry, for example.

**Subrecipient.** A subrecipient is a local entity receiving financial assistance passed through another agency. For example, if a city in Minnesota uses USDOT funds that flow through the Minnesota Department of Transportation, it is a subrecipient of those monies.

**Substantial disparity.** Several courts have held that a “substantial disparity” is one where the disparity index is less than “80,” which indicates evidence or inferences of discrimination affecting the outcome being examined.

**Supplier.** A supplier is a firm that sells supplies to a prime contractor as part of a larger project (or in some cases sells supplies directly to one of the participating entities).

**Targeted Group/Economically Disadvantaged/Veteran Owned (TG/ED/VO) Small Business Procurement Program.** The Minnesota Department of Administration operates a TG/ED/VO Small Business Procurement Program. Once certified, Targeted Group, Economically Disadvantaged and Veteran-Owned vendors are added to the State’s vendor list, and are listed in the Directory of Certified Targeted Group, Economically Disadvantaged and Veteran-Owned Vendors. They receive certain price and evaluation preferences when bidding on State of Minnesota procurements. Several other state and local entities follow the TGB Program as well.

**Targeted Group Business (TGB).** Certified as a TGB, which means the business must be at least 51 percent owned by a woman, racial minority or person with a substantial physical ability. The business must also be

operated and controlled on a day-to-day as well as long-term basis by the qualifying owner.

**Transit vehicle manufacturers (TVMs).** TVMs are required to develop their own DBE program pursuant to the Federal Disadvantaged Business Enterprise Program regulations set forth in 49 CFR Part 26. TVMs include any manufacturer whose primary business purpose is to build vehicles specifically for public mass transportation.

Before bidding or proposing on FTA-assisted transit vehicle procurements, transit agencies must ensure that TVMs are certified and have received FTA approval of their DBE program.

**United States Environmental Protection Agency (EPA).** In addition to administering federal regulations regarding environmental protection, the EPA provides funds that support state and local infrastructure projects and other contracts. The EPA has certain requirements regarding participation of minority- and female-owned businesses, small businesses and other targeted businesses in EPA-assisted contracts for construction, equipment, services and supplies.

**United States 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 female-owned business participation in HUD-funded contracts, as well as participation of project residents in those contracts.

## APPENDIX A. Definition of Terms

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**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 and the Federal Aviation 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, MBEs).

**Vendor.** A vendor is a business that is providing goods or services to a customer such as one of the participating entities.

**Vendor Outreach Program (VOP).** The City of Saint Paul operates the Vendor Outreach Program (VOP), a business assistance program aimed at increasing procurement opportunities for woman-owned, minority-owned and small business enterprises (WBEs, MBEs, SBEs). Under the VOP Program, the City establishes annual goals and project-specific goals for purchasing from WBEs, MBEs and SBEs in a variety of products and service categories.

**Veteran.** A person who served in an active military, naval, air or space service, and who was discharged or released therefrom under conditions other than dishonorable.

**Veteran-owned business.** “Veteran-owned business” or “VO” means a for-profit business:

- That is at least 51 percent owned by one or more veterans as defined in Minnesota Statutes, or in the case of a corporation in which 51 percent of the stock is owned by one or more such individuals; and
- Whose management and daily business operations are controlled by one or more of the veterans who own it.

**WBE.** Woman-owned business enterprise. See woman-owned business.

**Woman-owned business (WBE).** A WBE is a business that is at least 51 percent owned and controlled by one or more individuals who 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.

## APPENDIX B. University of Minnesota Procurement Data — Procurement data sources

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Keen Independent collected data about University of Minnesota procurements and the firms used as prime contractors and subcontractors on those procurements. The utilization analysis focused on non-federally funded construction, professional services, goods and other services procurements during the July 1, 2016, through June 30, 2023, study period.

From these data, Keen Independent calculated the percentage of procurement dollars that went to minority-, woman- and majority-owned businesses. When calculating MBE/WBE utilization, the study team counted certified as well as non-certified minority- and woman-owned businesses.

Keen Independent obtained data on UMN procurements from the following sources:

- **UMN.** The UMN maintains prime contract and subcontract data, including information detailed on the right and in the following pages.
- **IC134 Affidavits.** Subcontract data were also compiled from IC134 Affidavits that prime contractors and subcontractors filed with the Minnesota Department of Revenue for UMN construction projects.

Keen Independent examined procurements of \$5,000 or more and all available subcontract data, regardless of size.

In total, Keen Independent examined 28,766 contract elements (\$4.3 billion), 1,057 of which were subcontracts (\$161 million), from July 1, 2016, through June 30, 2023, after removing excluded types of work (detailed in the following pages).

### PeopleSoft

The UMN provided payments to purchase orders issued from July 1, 2016, through June 30, 2023. Multiple purchase orders may be related to a contract number. However, not all purchase orders were related to a contract code.

Keen Independent consolidated payments by contract code, when available. For procurements without a contract number, the study team created a unique procurement identifier combining vendor and year. Purchase Order data included:

- Supplier name;
- Invoice line amount;
- Invoice date;
- Fiscal year;
- Invoice number;
- Invoice due date;
- Payment date;
- Voucher number;
- PO description;
- PO number;
- PO line amount,
- Contract type;
- Contract code;
- RRC (location of work);
- Department (location of work);
- Fund classification;
- Supplier certification; and
- Supplier address.

## B. University of Minnesota Procurement Data — Procurement data sources

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### TRIRIGA

In 2021, UMN started using TRIRIGA to track facilities and equipment-related contracts.

**TRIRIGA contracts.** Data for contracts in TRIRIGA include:

- Project number;
- Contract number (a project number may include multiple contracts);
- Vendor ID;
- Vendor name;
- Purchase type (construction, A&E, goods, services);
- Contract date;
- PeopleSoft voucher number;
- Original contract amount;
- Current contract amount; and
- Amount invoiced to date.

UMN also provided construction contract information for contracts issued before 2021.

**TRIRIGA purchase orders.** Data in TRIRIGA also provide information for purchase orders not related to a standard contract.

- Vendor ID;
- Vendor name;
- PO number;
- PO description;
- PO date;
- PO total amount;
- PO order type;
- PeopleSoft voucher number; and
- Voucher amount

**Vendor address.** The study team received additional data from the University of Minnesota to identify vendor location (address, city, state, zip code).

## B. University of Minnesota Procurement Data — Procurement data sources

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### SmartComp

UMN Office of Supplier Diversity uses SmartComp to track payments to subcontractors in contracts with a TGB goal. SmartComp data include:

- Project type;
- Project name;
- Project number (may match with TRIRIGA);
- Prime contractor;
- Start date;
- Contract amount;
- Overall commitment;
- Subcontractors name;
- Subcontractor zip code;
- Subcontractor phone, email;
- Subcontractor paid amount;
- Subcontractor certification; and
- Work performed by subcontractor.

### IC134 Affidavits

UMN does not track payment information for contracts without a TGB goal. Keen Independent compiled additional subcontract payment information from IC134 affidavits on UMN construction contract, which accounted for about \$336 million construction contract dollars.

The following information was retrieved from IC134 affidavits:

- Affidavit identification number;
- Prime contractor name;
- Prime contractor address;
- Contract amount;
- Subcontractor name; and
- Subcontractor payment amount.

## B. University of Minnesota Procurement Data — Types of work performed and firm locations

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### Identification of Types of Work Performed

The study team identified the type of work involved in each procurement through review of payment descriptions. Keen Independent also researched firms' websites and other sources for additional information about the types of services that vendors provide.

Keen Independent used codes from the federal North American Industry Classification System (NAICS) as well as Standard Industrial Classification System (SIC) for specialized types of work to identify the appropriate subindustry for each type of work.

NAICS and SIC codes were assigned to procurements based on the following study team actions:

- Identified the type of work performed using company name and firm information collected through online public resources;
- Examined the primary type of work performed by the firm as reported by Dun & Bradstreet (D&B);
- Further analyzed the description of work performed for each of procurement;
- Individually reviewed large procurements with UMN staff; and
- Performed further review, especially when the NAICS code information for individual firms obtained through D&B did not appear to match the types of purchases that UMN routinely makes (e.g., residential building construction).

### Identification of Most Local Firm Locations

As part of the identification of types of procurements, the study team collected the locations of utilized businesses where local address information was missing in UMN procurement files.

For all firms, the study team also attempted to identify a company location in Minnesota.



## B. University of Minnesota Procurement Data — Types of excluded work

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### Exclusions

The study team excluded procurements from the data. Per discussions with the study team, the UMN excluded from PeopleSoft the following procurement types before:

- Federally funded procurements;
- Students (as suppliers);
- Revenues,
- Insurance,
- Legal settlements,
- Travel,
- Taxes,
- Accounts receivable; and
- Utilities: electricity, water and sewage.

Keen Independent made additional exclusions, including payments from governments or for types of work typically purchased from a national market. (This is a standard step in a disparity study.)

Exclusions totaled about \$1.6 billion for the seven-year period.

**Non-business, utilities and other types of exclusions.** Exclusions for non-businesses, regulated utilities, travel and other highly specialized procurements included:

- Governments;
- Employee benefits;
- Reimbursements;
- Educational institutions;
- Utilities;
- Educational services and training;
- Arts, entertainment and recreation;
- Health care services;
- Computer software;
- Finance and insurance;
- Book publishers;
- Newspapers and other subscriptions; and
- Telecommunications.

**Products related to national markets.** Types of procurements that UMN typically made from outside Minnesota were excluded from analysis. Examples of these non-local purchase exclusions include computers and computer peripheral equipment.

Purchases from national markets totaled about \$25 million over the study period. Computer equipment was the largest category of these national market exclusions.

## B. University of Minnesota Procurement Data — Ownership of utilized firms

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### Characteristics of Utilized Firms

For each firm identified as working on a UMN procurement, the study team attempted to collect characteristics of the business and the business owner, including race/ethnicity and gender. Businesses were categorized into the following categories based on firm ownership:

- Asian-Pacific American-owned;
- South Asian American-owned;
- Black American-owned;
- Hispanic American-owned;
- American Indian-owned;
- White woman-owned; and
- Majority-owned.

Keen Independent also identified firms certified as owned by veterans, service-disabled veterans, members of the LGBTQ+ community or persons with disabilities.

The list to the right shows examples of sources of information on ownership and whether firms were certified.

Ownership data sources included:

- Minnesota Unified Certification (MUCP) DBE directory (including MBE-, WBE-, DBE- and SUBP-certified firms);
- Metropolitan Council business directory;
- State of Minnesota directories for certified businesses (including targeted group (TG), economically disadvantaged (ED) and veteran-owned (VO) vendors);
- City of St. Paul Central Certification Program (CERT) directory (including MBE-, WBE- and SBE-certified firms);
- University of Minnesota targeted business directory;
- VetBiz Veteran Business Directory;
- DisabilityIN business directory (including businesses owned by persons with disabilities);
- National Minority Supplier Development Council (NMSDC) MBE directory;
- Women’s Business Enterprise National Council WBE directory;
- Twin Cities Quorum directory of LGBT-certified businesses;
- Asian American Business Resilience Network directory;
- Minnesota Hmong Chamber of Commerce business directory;
- Latino Chamber of Commerce Minnesota business directory;
- Minnesota Black-Owned Business directory;
- Minnesota Indigenous Business Alliance directory;
- Small Business Administration;
- Study team availability survey with firm owners and managers;
- Other review of firm information (e.g., information about ownership on firms’ websites);
- Information from Dun & Bradstreet; and
- UMN staff review.

## B. University of Minnesota Procurement Data — UMN review and data limitations

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### UMN Staff Review

UMN staff met with Keen Independent to discuss the approach to data collection, information the study team gathered and preliminary ownership information. Keen Independent reviewed and incorporated feedback throughout the study.

### Data Limitations

Limitations concerning procurement data collection include:

- UMN collects certain subcontract data. Keen Independent compiled additional subcontract information for UMN construction contracts from IC134 affidavits (withholding affidavit for contractors) that prime contractors and subcontractors filed with the State.
- UMN information on the principal type of work involved in contracts and subcontracts was sometimes imprecise (for example, brief invoice description), and company-level data about work performed could span multiple subindustries. This could result in some inaccuracy in the NAICS code assigned to describe the primary work performed or goods supplied in a procurement.
- Keen Independent determined race, ethnicity, gender and other ownership information based on many different sources and methods, some of which could be inaccurate.

Based on Keen Independent's experience using these methods in other disparity studies, it does not appear that these limitations would materially affect overall results from the UMN disparity analyses.

## APPENDIX C. Availability Data Collection — Survey methods

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Keen Independent collected information from firms about their availability for contracts with public sector entities through online and telephone surveys and other methods. Appendix C further explains this process, including:

- Survey methods;
- Business listings;
- NAICS and SIC codes included in the survey;
- Development of the survey instrument;
- Establishments successfully contacted;
- Establishments in the availability database;
- Analysis of potential non-response bias;
- Response reliability;
- Analysis of potential limitations; and
- Survey instrument.

### Availability Survey Methods

Keen Independent offered multiple methods for survey participation.

**Online surveys.** Keen Independent developed an online availability survey that could be completed by any firm. Companies could go to the Minnesota Joint Disparity Study website to complete an availability survey or click on a link on an email received from the State of Minnesota Department of Administration (“Admin”). On September 30, October 3 and October 8, 2024, Admin sent an email to firms on the combined interested firms list that had email addresses.

The email from Admin (sent through eGovDelivery) indicated the following:

The State of Minnesota and 15 cities, counties and other public agencies are updating a list of local companies interested in working on a wide range of public sector construction, professional services, goods and other services contracts. This information will also help us understand availability of local firms for the 2025 Minnesota Joint Disparity Study.

**Telephone surveys.** Keen Independent also prepared a phone version of the availability survey. Keen Independent submitted a list of firms to Customer Research International (CRI), which then conducted telephone surveys (see discussion of list on next page).

- **Firms contacted by telephone.** CRI attempted to contact each firm at different times of day and different days of the week. CRI made at least five attempts to reach a business. CRI introduced the survey in Spanish, as necessary.
- **Survey sponsorship.** CRI began by saying that the call was made on behalf of the State of Minnesota. CRI explained, “The State and 15 cities, counties and other public agencies are updating a list of local companies interested in working on a wide range of public sector contracts, and our firm is helping them do that.”
- **Survey period.** CRI began surveys on October 10, 2024, and completed them on November 25, 2024.

**Other avenues to complete a survey.** Business owners could complete the survey online or using a fillable form that could be returned via email or fax.

## C. Availability Data Collection — Business listings

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Firms contacted in the availability surveys came from data maintained by participating entities and from Dun & Bradstreet.

### Data on Interested Firms from Participating Entities

Keen Independent requested that each participating entity provide any lists of firms that had indicated interest in receiving information about bid opportunities. Keen Independent combined these lists before launching the survey. Examples of entities' lists include the following:

- **The SWIFT system.** Admin provided Keen Independent with the database of vendors registered on the StateWide Integrated Financial Tools (SWIFT) system.
- **Lists of firms that have received bid documents.** Admin and other entities provided a list of firms that had registered and/or downloaded bid documentation using a system managed by QUESTCDN.
- **Other interested firms lists from individual entities.** Participating entities provided other lists they maintain concerning firms that had expressed an interest in their contracts.

Keen Independent combined those lists and excluded companies without a local address, duplicate firms, government and nonprofit entities as well as other types of exclusions listed in Appendix B.

Some of the businesses on the combined interested firms list had only a phone number. Those companies were only included on the list of firms included in the phone portion of the survey.

After these steps, Keen Independent provided a list of 57,039 individual email addresses to Admin for the email blast requesting participation in the survey.

### Dun & Bradstreet

The study team purchased a list of firms from Dun & Bradstreet (D&B) Hoovers' database within relevant types of work that had a location in Minnesota (or Pierce or St. Croix counties in western Wisconsin that are part of the Minneapolis-St. Paul metropolitan area). D&B provided phone numbers for these businesses. Firms identified through D&B that had not already completed an online survey were included in the group of businesses to be surveyed by phone.

D&B maintains the largest commercially available database of U.S. businesses. The study team used D&B listings to augment the survey list in the 2017 Study.

Before combining the interested firm list and D&B list, the study team attempted to exclude any listings that were government agencies or not-for-profit organizations.

The subindustries to be included in the survey were determined after reviewing participating entities' prime contract and subcontract dollars for different types of work. D&B classifies types of work by North American Industry Classification System (NAICS) and Standard Industrial Classification (SIC) codes.

Figures C-2 through C-5 on the following pages identify the six-digit NAICS codes and different SIC codes the study team determined were the most related to contracts and subcontracts examined in the study. There is one table for each industry in the study, however some of the subindustries, such as construction materials, span more than one industry (it is listed in goods, but results would be used to analyze availability for aspects of construction projects as well).

## C. Availability Data Collection — Business listings

### Combining Lists Prior to Phone Survey

Keen Independent developed the combined list for the phone survey through the following steps:

1. Created a subset of the list of businesses in the interested firms list that had (a) a phone number and (b) were in the subindustries relevant to the study.
2. Merged the combined interested firms list with the business listing purchased from D&B.
3. Removed firms that had already completed an online survey.

The combined list for the phone portion of the survey had 75,570 business establishments. This was more than the 66,936 establishments for the phone portion of the availability survey in the 2017 Study. The larger list was due to growth in the number of businesses in Minnesota, more subindustries in the 2025 Study and more entities providing interested firm lists in the 2025 Study.

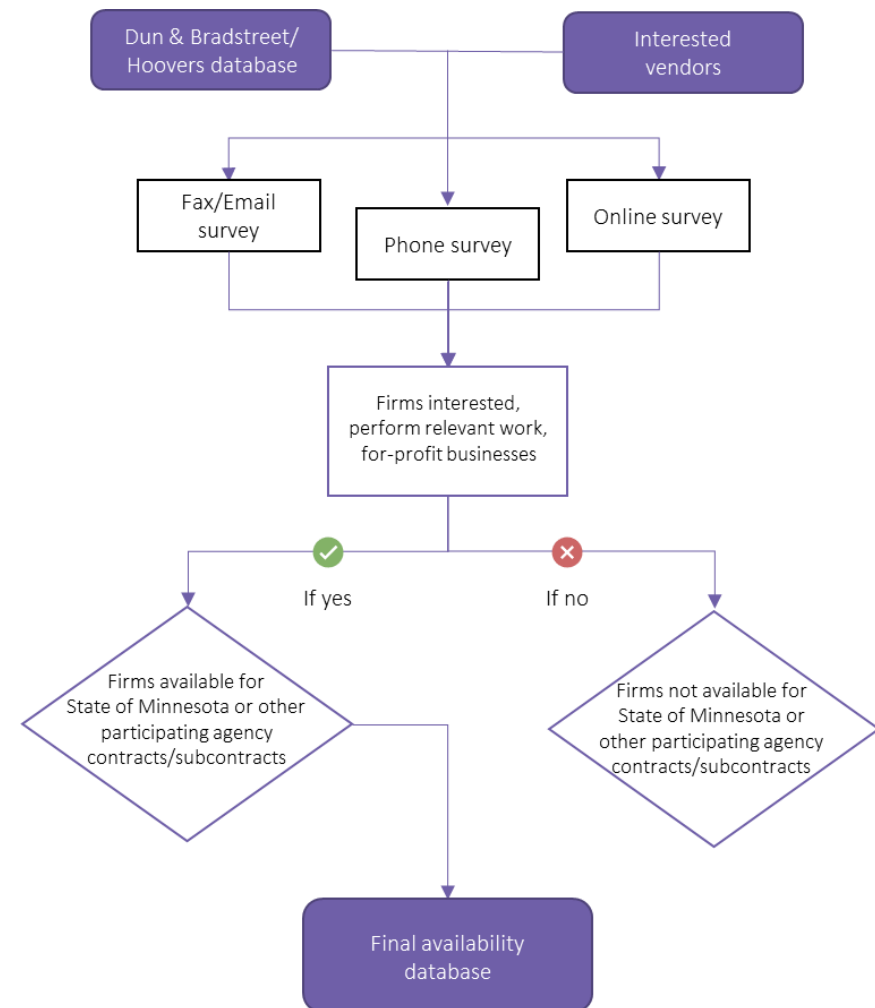
### Execution of the Survey

Figure C-1 summarizes the process described above.

### Population, not a Sample

Keen Independent did not draw a sample of firms for the availability analysis; rather, the study team attempted to contact each relevant business identified in the combined interested firm list and D&B list. Some courts have referred to similar approaches to gathering availability data as a “custom census.”

C-1. Process for preparing survey lists and conducting availability survey



## C. Availability Data Collection — NAICS/SIC codes included in the survey

### C-2. Construction NAICS and SIC codes for D&B survey availability list

NAICS/SIC	NAICS/SIC label	NAICS/SIC	NAICS/SIC label
<b>Bridge and elevated highway construction</b>		<b>Road construction and paving</b>	
16220000	Bridge, tunnel and elevated highway construction	16110206	Sidewalk construction
16229901	Bridge construction	237310	Highway, street, and bridge construction
<b>Excavation, site prep, grading and drainage</b>		<b>Water and sewer lines and related structures</b>	
238910	Site preparation contractors	237110	Water and sewer line and related structures construction
<b>Concrete work</b>		<b>Plastering, drywall and installation</b>	
238110	Poured concrete foundation and structure contractors	238310	Drywall and insulation contractors
<b>Roofing</b>		<b>Striping and pavement marking</b>	
238160	Roofing contractors	17210303	Pavement marking contractor
<b>Electrical work including lighting and signals</b>		<b>Public, commercial and multifamily building construction</b>	
173100	Electrical work	236116	New multifamily housing construction (except for-sale builders)
173101	Electric power systems contractors	236220	Commercial and institutional building construction
173102	Electronic controls installation	87419902	Construction management
173103	Communications specialization	87420402	Construction project management consultant
<b>Plumbing and HVAC</b>		<b>Structural steel work</b>	
171100	Plumbing, heating, air-conditioning	238120	Structural steel and precast concrete contractors
171101	Boiler and furnace contractors		
17110200	Plumbing contractors		
17110400	Heating and air conditioning contractors		
17110401	Mechanical contractors		

## C. Availability Data Collection — NAICS/SIC codes included in the survey

C-3. Professional services NAICS and SIC codes for D&B survey availability list

NAICS/SIC	NAICS/SIC label	NAICS/SIC	NAICS/SIC label
<b>Management consulting and research</b>		<b>Architecture and engineering</b>	
87320000	Commercial nonphysical research	541310	Architectural services
87320100	Market analysis, business and economic research	87110000	Engineering services
87320101	Business analysis	87110100	Sanitary engineers
87320102	Business economic service	87110101	Pollution control engineering
87320103	Business research service	87110400	Construction and civil engineering
87320104	Economic research	87110401	Building construction consultant
87320105	Market analysis or research	87110402	Civil engineering
87320108	Research services, except laboratory	87110403	Heating and ventilation engineering
87320200	Commercial sociological and educational research	87110404	Structural engineering
87320201	Educational research	87119900	Engineering services, nec
87320202	Sociological research	87119901	Acoustical engineering
87410000	Management services	87119903	Consulting engineer
87410100	Business management	<b>Marketing, communications and outreach</b>	
87410101	Administrative management	541613	Marketing consulting services
87410103	Office management	541810	Advertising agencies
87410104	Personnel management	541820	Public relations agencies
87419906	Hospital management	541830	Media buying agencies
87419907	Nursing and personal care facility management	541840	Media representatives
87420000	Management consulting services	541850	Indoor and outdoor display advertising
87420103	Industrial hygiene consultant	541860	Direct mail advertising
87420104	Maintenance management consultant	541870	Advertising material distribution services
87420105	Management engineering	541890	Other services related to advertising
87420200	Human resource consulting services	541910	Marketing research and public opinion polling
87420202	Incentive or award program consultant		
87420203	Labor and union relations consultant		
87420204	Personnel management consultant		
87420205	Programmed instruction service		
87420206	Training and development consultant		
87420301	Distribution channels consultant		
87489902	Educational consultant		



C. Availability Data Collection — NAICS/SIC codes included in the survey

C-3. Professional services NAICS and SIC codes for D&B survey availability list (continued)

NAICS/SIC	NAICS/SIC label	NAICS/SIC	NAICS/SIC label
Goods			
Certified public accountant services		Environmental consulting	
541211	Offices of certified public accountants	541620	Environmental consulting services
IT and data services		Landscape architecture and urban design	
518210	Computing infrastructure providers, data processing, web hosting, and related services	07810201	Landscape architects
541511	Custom computer programming services	87480200	Urban planning and consulting services
541512	Computer systems design services	Testing laboratories	
541519	Other computer related services	541380	Testing laboratories and services
Legal services		621511	Medical laboratories
81110000	Legal services	Surveying and mapping	
81119901	General practice attorney, lawyer	541370	Surveying and mapping (except geophysical) services
81119902	General practice law office		

## C. Availability Data Collection — NAICS/SIC codes included in the survey

C-4. Goods NAICS and SIC codes for the D&B survey availability list

NAICS/SIC	NAICS/SIC label	NAICS/SIC	NAICS/SIC label
<b>Communications and A/V equipment</b>		<b>Construction and farm machinery and equipment</b>	
334220	Radio, television and wireless communications equipment	423810	Construction and mining (except oil well) machinery and equipment
334290	Other communications equipment manufacturing	423820	Farm and garden machinery and equipment merchant wholesalers
<b>Signs</b>		<b>Office supplies</b>	
339950	Sign manufacturing	424120	Stationery and office supplies merchant wholesalers
<b>Law enforcement equipment and supplies</b>		<b>Office equipment</b>	
332994	Small arms, ordnance, and ordnance accessories manufacturing	423420	Office equipment merchant wholesalers
50499903	Law enforcement equipment and supplies	532420	Office machinery and equipment rental and leasing
<b>Electrical equipment and supplies</b>		<b>Food</b>	
335132	Commercial, industrial, and institutional electric lighting fixture	424410	General line grocery merchant wholesalers
335139	Electric lamp bulb and other lighting equipment manufacturing	424420	Packaged frozen food merchant wholesalers
335999	All other miscellaneous electrical equipment and components	424450	Confectionery merchant wholesalers
423610	Electrical apparatus, wiring supplies, and related equipment	424460	Fish and seafood merchant wholesalers
423620	Household appliances, housewares, and consumer electronics	424480	Fresh fruit and vegetable merchant wholesalers
423690	Other electronic parts and equipment merchant wholesalers	424490	Other grocery and related products merchant wholesalers
<b>Cars and trucks</b>		<b>Medical equipment and supplies</b>	
336110	Automobile and light duty motor vehicle manufacturing	325413	In-vitro diagnostic substance manufacturing
336120	Heavy duty truck manufacturing	325414	Biological product (except diagnostic) manufacturing
336212	Truck trailer manufacturing	334510	Electromedical and electrotherapeutic apparatus manufacturing
423110	Automobile and other motor vehicle merchant wholesalers	334516	Analytical laboratory instrument manufacturing
441227	Motorcycle, ATV, and all other motor vehicle dealers	339112	Surgical and medical instrument manufacturing
55110000	New and used car dealers	339113	Surgical appliance and supplies manufacturing
55119901	Automobiles, new and used	339114	Dental equipment and supplies manufacturing
55119902	Pickups, new and used	423450	Medical, dental, and hospital equipment and supplies merchant
55119903	Trucks, tractors, and trailers, new and used	423460	Ophthalmic goods merchant wholesalers
55119904	Vans, new and used	423490	Other professional equipment and supplies merchant wholesalers
<b>Furniture</b>		<b>Vehicle parts and supplies</b>	
337127	Institutional furniture manufacturing	336320	Motor vehicle electrical and electronic equipment manufacturing
337211	Wood office furniture manufacturing	336360	Motor vehicle seating and interior trim manufacturing
337214	Office furniture (except wood) manufacturing	336390	Other motor vehicle parts manufacturing
337910	Mattress manufacturing	423120	Motor vehicle supplies and new parts merchant wholesalers
423210	Furniture merchant wholesalers		

## C. Availability Data Collection — NAICS/SIC codes included in the survey

C-4. Goods NAICS and SIC codes for the D&B survey availability list (continued)

NAICS/SIC	NAICS/SIC label	NAICS/SIC	NAICS/SIC label
<b>Goods</b>			
<b>Chemicals</b>		<b>Petroleum and petroleum products</b>	
212390	Other nonmetallic mineral mining and quarrying	324110	Petroleum refineries
325120	Industrial gas manufacturing	324121	Asphalt paving mixture and block manufacturing
325180	Other basic inorganic chemical manufacturing	324122	Asphalt shingle and coating materials manufacturing
325199	All other basic organic chemical manufacturing	424710	Petroleum bulk stations and terminals
325211	Plastics material and resin manufacturing	424720	Petroleum and petroleum products (except bulk stations/terminals)
325998	All other miscellaneous chemical product and preparation	457210	Fuel dealers
327410	Lime manufacturing		
424610	Plastics materials and basic forms and shapes merchant	<b>Elevators and elevator services</b>	
424690	Other chemical and allied products merchant wholesalers	333921	Elevator and moving stairway manufacturing
<b>Construction materials</b>		<b>Industrial equipment and supplies</b>	
212321	Construction sand and gravel mining	332911	Industrial valve manufacturing
327320	Ready-mix concrete manufacturing	333248	All other industrial machinery manufacturing
327331	Concrete block and brick manufacturing	333310	Commercial and service industry machinery manufacturing
327390	Other concrete product manufacturing	333413	Industrial/commercial fan and blower and air purification equipment
327991	Cut stone and stone product manufacturing	333415	Air-conditioning and warm air heating equipment and
331110	Iron and steel mills and ferroalloy manufacturing		Commercial and industrial refrigeration equipment manufacturing
331313	Alumina refining and primary aluminum production	333611	Turbine and turbine generator set units manufacturing
332311	Prefabricated metal building and component manufacturing	333922	Conveyor and conveying equipment manufacturing
332312	Fabricated structural metal manufacturing	333923	Overhead traveling crane, hoist, and monorail system manufacturing
332321	Metal window and door manufacturing	333998	All other miscellaneous general purpose machinery manufacturing
332322	Sheet metal work manufacturing	334513	Instruments and related products for measuring, displaying, and
332323	Ornamental and architectural metal work manufacturing		controlling industrial process variables
423220	Home furnishing merchant wholesalers	334515	Instrument for measuring and testing electricity and electrical signals
423310	Lumber, plywood, millwork, and wood panel merchant	335314	Relay and industrial control manufacturing
423320	Brick, stone, and related construction material merchant	423720	Plumbing and heating equipment and supplies (hydronics)
423330	Roofing, siding, and insulation material merchant wholesalers	423730	Warm air heating and air-conditioning equipment and supplies
423390	Other construction material merchant wholesalers	423830	Industrial machinery and equipment merchant wholesalers
423510	Metal service centers and other metal merchant wholesalers		
423710	Hardware merchant wholesalers	<b>Pharmaceuticals</b>	
444180	Other building material dealers	325412	Pharmaceutical preparation manufacturing
39499909	Playground equipment	424210	Drugs and druggists' sundries merchant wholesalers

## C. Availability Data Collection — NAICS/SIC codes included in the survey

### C-5. Other services NAICS and SIC codes for D&B survey availability list

NAICS/SIC	NAICS/SIC label	NAICS/SIC	NAICS/SIC label
<b>Construction equipment rental</b>		<b>Printing and copying</b>	
532412	Construction, mining, and forestry machinery and equipment rental and leasing	323111	Commercial printing (except screen and books)
<b>Contracted food services</b>		323113	Commercial screen printing
722310	Food service contractors	<b>Helicopter services</b>	
<b>Janitorial services</b>		45229904	Helicopter carriers, nonscheduled
561720	Janitorial services	<b>Motor vehicle towing</b>	
<b>Parking services</b>		488410	Motor vehicle towing
812930	Parking lots and garages	<b>Remediation services</b>	
<b>School and employee bus transportation</b>		562910	Remediation services
485410	School and employee bus transportation	<b>Security guard services</b>	
<b>Security systems services</b>		561612	Security guards and patrol services
561621	Security systems services (except locksmiths)	<b>Snow removal services</b>	
<b>Staffing services</b>		49590101	Snowplowing
561311	Employment placement agencies	<b>Traffic control services and sign rental</b>	
561312	Executive search services	73599908	Sign rental
561320	Temporary help services	73599912	Work zone traffic equipment (flags, cones, barrels, etc.)
<b>Bus transit services</b>		73899921	Flagging service (traffic control)
485111	Mixed mode transit systems	<b>Landscape installation and maintenance</b>	
485113	Bus and other motor vehicle transit systems	078200	Lawn and garden services
485210	Interurban and rural bus transportation	078300	Ornamental shrub and tree services
485510	Charter bus industry	07820100	Garden services
485999	All other transit and ground passenger transportation	07820200	Lawn services
<b>Sewer cleaning and inspection</b>		07829903	Landscape contractors
73890211	Sewer inspection service	<b>Industrial machinery repair</b>	
76990403	Sewer cleaning and rodding	811210	Electronic and precision equipment repair and maintenance
<b>Sewer cleaning and inspection</b>		811310	Commercial and industrial machinery and equipment (except automotive and electronic) repair and maintenance
76992501	Elevators: inspection, service, and repair		

## C. Availability Data Collection — NAICS/SIC codes included in the survey

C-5. Other services NAICS and SIC codes for D&B survey availability list (continued)

NAICS/SIC	NAICS/SIC label	NAICS/SIC	NAICS/SIC label
<b>Automotive repair and maintenance</b>		<b>Hauling</b>	
75320400	Exterior repair services	42120200	Liquid transfer services
75320401	Body shop, automotive	42120201	Liquid haulage, local
75320402	Body shop, trucks	42120202	Petroleum haulage, local
75320403	Bump shops, trucks	42129905	Dump truck haulage
75320404	Collision shops, automotive	42129908	Heavy machinery transport, local
75320405	Tops (canvas or plastic), installation or repair: automotive	42129912	Steel hauling, local
75330000	Auto exhaust system repair shops	42139902	Building materials transport
75360000	Automotive glass replacement shops	42139904	Heavy hauling, nec
75370000	Automotive transmission replacement shops	42139905	Heavy machinery transport
75380000	General automotive repair	42139908	Liquid petroleum transport, non-local
75390000	Automotive repair shops, nec		
75490102	Inspection and diagnostic service, automotive		
75490103	Lubrication service, automotive		
<b>Waste collection and disposal</b>			
562111	Solid waste collection		
562112	Hazardous waste collection		
562119	Other waste collection		
562211	Hazardous waste treatment and disposal		
562212	Solid waste landfill		
562219	Other nonhazardous waste treatment and disposal		
562920	Materials recovery facilities		

## C. Availability Data Collection — Development of survey instrument

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Keen Independent prepared the availability survey instrument for the 2025 Study, which was largely based on the survey questions in the 2017 Study. After developing the survey instrument, Keen Independent reviewed it with staff from the Minnesota Department of Administration and other participating entities. As in the 2017 Study, CRI did not know the race, ethnicity or gender of the business owner when contacting a business establishment. Obtaining that information was a key part of the survey. Survey sections included the following:

- **Identification of purpose.** CRI acknowledged the State of Minnesota and the 15 other participating agencies as the survey sponsors and described its purpose as identifying companies interested in working on a wide range of public sector contracts.
- **Verification of correct business name.** The phone survey confirmed that the business reached was the business sought out. The online survey asked the respondent to write in the name of the business.
- **Contact information.** The survey compiled contact information for the establishment and the individual who completed the survey.
- **Identification of main lines of business.** Each respondent was asked to describe the main line of business for their company. For construction and professional services firms, respondents were also asked to select multiple types of work that their firm performs from a list.
- **Sole location or multiple locations.** The survey asked respondents if their companies had other locations and whether their establishments are affiliates or subsidiaries of other firms. (Keen Independent merged responses from the same firm from multiple locations.)
- **Qualifications and interest in public sector work.** The survey asked about businesses' qualifications and interest in work with public agencies in Minnesota, and for construction and professional services firms, asked whether they are interested in prime contracts and/or subcontracts.
- **Geographic areas.** Businesses were asked whether they can do work in six different geographic areas in Minnesota:
  - Twin Cities metropolitan area;
  - Central Minnesota (such as St. Cloud or Willmar);
  - Northeast (such as Duluth);
  - Northwest (such as Brainerd or Moorhead);
  - Southeast (such as Rochester); and
  - Southwest (such as Mankato or Worthington).
- **Largest contracts.** The survey asked businesses to identify the dollar range of the largest contract or subcontract on which they had bid or had been awarded during the past eight years.

## C. Availability Data Collection — Development of survey instrument

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- **Ownership.** Businesses were asked if 51 percent or more of the firm is owned and controlled by certain groups (e.g., women and/or minorities, by group). If businesses indicated that they were minority-owned, they were also asked about the race and ethnicity of owners. For companies that identified race/ethnicity as “other,” Keen Independent conducted further research to assign the correct classification.
- **Business background, revenue and employee size.** The survey asked about the year the firm started, average annual revenue since 2021 and number of employees. (This allowed identification of “small businesses.”)
- **Potential barriers in the marketplace.** The survey asked questions about potential barriers to starting and expanding a business or achieving success in their industry in Minnesota (in the last eight years).

Respondents were then asked whether they would be willing to participate in an in-depth interview or business advisory group meeting, to be conducted by Keen Independent.

## C. Availability Data Collection — Responses to the online and phone surveys

### Response to the Online Survey Request

Admin sent emails to 57,039 individuals requesting participation in the survey. There were 3,190 individual responses to the online survey. There were 2,337 completed surveys after screening and combining duplicate responses to the online survey.

### Response to the Phone Survey

Keen Independent provided CRI a database of 75,570 individual firms for availability phone surveys. CRI made up to five attempts to reach each firm (different times and different days of the week). The contact list included firms not responding to the online survey.

CRI attempted to interview a 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. Figure C-6 presents the dispositions of the businesses CRI attempted to contact.

- Some listings were non-working or wrong numbers.
- Among the 62,259 firms with working phone numbers, CRI was unable to contact some of them:
  - Some businesses could not be reached after at least five attempts (see “no answer” in Figure C-6).
  - An appropriate staff person could not be reached for the survey after repeated attempts.
  - The study team sent email or fax invitations to those who requested to do the survey via fillable PDF or online survey. Some businesses did not complete and return them.

After taking those unsuccessful attempts into account, the study team was able to successfully contact 20,719 businesses or 33 percent of those with working phone numbers.

This response rate to the telephone survey was about the same as the 34 percent achieved in the 2017 Study. This percentage is very high compared to typical surveys.

C-6. Disposition of attempts to survey business establishments.

	Number of firms	Percent of business listings
<b>Beginning list</b>	<b>75,570</b>	
Less non-working phone numbers	11,463	
Less wrong number	1,848	
<b>Firms with working phone numbers</b>	<b>62,259</b>	<b>100 %</b>
Less no answer	37,145	
Less could not reach appropriate staff member	3,908	
Less unreturned fax/email	452	
Less could not continue in English or Spanish	35	
<b>Firms successfully contacted</b>	<b>20,719</b>	<b>33 %</b>

Note: Study team made up to five attempts to complete an interview with each establishment.  
Source: Keen Independent Research from 2024 Availability Surveys.



## C. Availability Data Collection — Responses to the online and phone surveys

### Analysis of Categories of Responses

Keen Independent also examined the disposition of the 20,719 businesses CRI successfully contacted and how that number resulted in the 5,079 businesses included in the availability database.

- **Establishments not interested in discussing availability for public sector work.** Of the businesses that the study team successfully contacted, 16,088 indicated that they were not interested in discussing their availability for public sector work or reported that they were not qualified or interested in public sector work. (Keen Independent finds this in other availability surveys as well.)

In Keen Independent’s experience, those types of responses are often firms that do not perform relevant types of work. Some respondents also reported that they had already completed a survey but had not.

- **No longer in business or don’t do related work.** Some respondents indicated that their companies are no longer in business or were found to not perform work related to participating entity contracts. The study team attempted to remove all of these firms from the final database of interested and qualified firms.
- **Non-businesses and firms with no local location.** Some responses were not included in the final availability database because the organizations indicated that they were not a for-profit business. Examples of non-businesses included nonprofits, government agencies and private residences with no associated business. Businesses that did not have a firm location in the study area were excluded from the final availability database.

After the screening steps described to the left, the survey effort produced a database of 5,079 businesses potentially available for work with public entities in Minnesota (this final figure includes responses from both the online survey sent to businesses by the State of Minnesota, the phone survey conducted by CRI and any other responses).

Note that, when there were multiple responses from a single company, Keen Independent combined those responses into a single, summary data record. Each unique business only appears once in the final availability database.

C-7. Disposition of successfully contacted businesses.

	Number of firms
<b>Firms successfully contacted</b>	<b>20,719</b>
Less business not interested	16,088
<b>Firms that completed interviews about business characteristics</b>	
Less no longer in business	1,462
Less don't do related work	246
Less not for-profit businesses	152
Less duplicate responses	22
Less no location in the market area	7
<b>Firms included in the availability database</b>	<b>2,742</b>
<b>Plus available firms from online survey</b>	<b>2,337</b>
<b>Total firms included in availability database</b>	<b>5,079</b>

Note: Study team made up to five attempts to complete an interview with each establishment.  
Source: Keen Independent Research from 2024 Availability Surveys.

## C. Availability Data Collection — Statistical confidence in availability results

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Keen Independent did not draw a sample of companies to research in the availability analysis. The study team attempted to reach each firm on the interested firm list that had email addresses and each firm on the phone list (combined interested firm list and D&B listings) that had a location in the relevant geographic market area and appeared to be performing work relevant to the entities participating in this study.

Keen Independent examined the accuracy of the initial list of potentially available firms and the number of firms successfully reached from that list in the availability survey effort. Figure C-8 explains the high level of statistical confidence in the availability results due to the number of responses and the response rate.

### C-8. Confidence intervals for availability results

Keen Independent successfully reached 23,056 businesses in the availability 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 35 percent representation of MBE/WBEs among available firms is accurate within about  $\pm 1$  percentage point. (This was MBE/WBE availability before dollar-weighting.) By comparison, many survey results for proportions reported in the popular press are accurate within  $\pm 5$  percentage points. (Keen Independent applied a 95 percent confidence level and the finite population correction factor when determining these confidence intervals.)

## C. Availability Data Collection — Analysis of potential non-response bias

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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;
- Calling from a phone number outside Minnesota;
- Language barriers; and
- Industry differences in reaching respondents.

Keen Independent also compared response rates for firms identified in D&B records as MBE/WBEs versus other firms.

### Research Sponsorship

CRI survey staff introduced themselves by identifying the State of Minnesota as the survey sponsor as businesses may be less likely to answer somewhat sensitive business questions if the interviewer was unable to identify the sponsor.

This sponsorship represents a strength of the survey (and CRI could also forward a letter from the sponsor explaining the survey if asked).

### Calling from Outside Minnesota

Telephone calls made by CRI interviewers originated from outside Minnesota. It might have been obvious to people in Minnesota that the phone calls were placed from outside the state and the interviewers were not from Minnesota. This might have reduced the overall response rate. However, there was no indication that minority- and woman-owned firms were less likely to respond to the calls than white male-owned businesses.

### Potential Language Barriers

Keen Independent examined whether language barriers affected survey results and concluded that they did not.

Businesses that only had a Spanish-speaking respondent during an initial call were re-contacted by a Spanish-speaking CRI interviewer. The interviewee was asked if there was anyone available to perform the survey in English. If not, CRI completed a shortened version of the survey with the interviewee. If it appeared that the firm performed work related to the State of Minnesota or other participating entity contracts, Keen Independent asked the company if they would like to complete an email or faxed questionnaire (in English). Two respondents requested a fax or email survey. (These additional efforts focused on Spanish-speaking respondents as this was the most common language barrier.)

This approach appeared to eliminate some of the potential language barriers to participating in the availability surveys. Language barriers presented a difficulty in conducting the survey for 35 companies, or less than 0.1 percent of the 62,256 businesses with working phone numbers. It does not appear that any language barriers materially affected results.

## C. Availability Data Collection — Analysis of potential non-response bias

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### Industry Differences in Reaching Respondents

There might be differences in the success reaching firms by phone in different lines of work. However, Keen Independent concludes that any such differences would not lead to lower or higher availability estimates for MBEs and WBEs than if the study team had been able to successfully reach all firms.

Work specialization as a potential source of non-response bias is minimized because the dollar-weighted availability analysis examines businesses within particular work fields before determining an availability figure. In other words, the potential for landscaping firms to be less likely to complete a survey is encompassed in the availability calculations account because the number of MBE/WBE landscape firms, for example, is compared with the total number of landscape firms when calculating availability for landscaping work. Landscape firms are not compared with engineering firms in Keen Independent's contract-by-contract availability analysis.

Also, many firms also received an email asking them to complete an online survey (which could be completed using a smartphone). Any firm in Minnesota had the opportunity to answer the survey online, including on a smartphone.

### Comparison of Overall Response Rates for MBE/WBEs and Majority-owned Firms

Keen Independent examined whether minority- and woman-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 with majority-owned firms. The study team examined response rates based on MBE/WBE versus non-MBE/WBE business ownership data that D&B had for firms in the list purchased from this source.

- MBE/WBEs were successfully contacted at higher rates than majority-owned firms. D&B-identified MBE/WBE firms were 7.8 percent of the initial list and 13.4 percent of successfully surveyed firms.
- Note that D&B records under-identify MBE/WBEs and are not the basis for the availability analysis. (This is also the reason the MBE/WBE percentages shown above are so much lower than found in the availability survey.)

Therefore, there is no indication that any potential non-response bias materially reduced the estimates of MBE/WBE availability in this study.

## C. Availability Data Collection — Analysis of response reliability

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Business owners and managers were asked questions that were somewhat difficult to answer, including questions about average annual revenue and employment.

Keen Independent explored the reliability of survey responses in several ways. For example:

- Keen Independent reviewed data from the availability surveys in light of information from other sources. This included data on the race/ethnicity and gender of the owners of TGB-, DBE-, WBE-, MBE-certified businesses that were compared with survey responses concerning business ownership.
- Keen Independent compared survey responses about the largest contracts that businesses won during the past eight years with actual contract data.
- For firms indicating a high number of types of work performed, the study team reviewed reliability of responses based on other information about those companies.
- Keen Independent reviewed responses of all firms indicating a relatively large bid capacity (contracts bid or awarded of more than \$10 million).

## C. Availability Data Collection — Analysis of other potential limitations

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There are limitations to this approach to collecting availability data, as discussed below.

### Using D&B Lists

Keen Independent purchased D&B business listings for Minnesota as one source of firms to be reached in the availability surveys. D&B provides the most comprehensive private database of business listings in the United States. D&B does not require firms to pay a fee to be included — it is completely free (and is separate from its credit rating services). Even so, the database did not include all establishments:

- There may be a lag between formation of a new business and inclusion in D&B listings.
- One way for D&B to identify firms is legal filings concerning an entity (such as registering with a Secretary of State or obtaining a business license), therefore any businesses operating without being legally registered might not be in D&B's lists. (Keen Independent does not view this as a limitation, however.)
- Some businesses providing work related to participating entity projects might not be classified in those industries in the D&B data and might not be included in the survey list. Keen Independent investigated, for example, why some firms receiving work from participating entities were not included in the survey list and whether the firms are out of business or are no longer interested in public sector work. For certain firms, this appeared to be the case.

### Selection of Specific Subindustries

Keen Independent identified subindustries primarily using federally defined 6-digit NAICS codes as well as SIC codes to build a business list from D&B. These codes can be imprecise, which potentially leaves some related businesses off the contact list.

Also, Keen Independent focused on the subindustries that represented the largest area of State and participating entities' spending. Firms in NAICS or SIC codes that represent little spending were not included in the D&B list nor in the records from the combined interested firms list developed for the phone portion of the survey.

### Companies Reporting that They Do Not Perform Related Work or Were Not Interested in Discussing Work with the State or other Public Entities

Many firms contacted in the availability survey indicated that they do not perform types of work related to public entity procurements or are otherwise not interested in performing public sector work. This was to be expected as Keen Independent was very broad when preparing the initial list of firms to survey.

There were some firms from both the interested firm list and the D&B list that performed work for a participating entity but responded that they were not interested in discussing work with the State or other public entities.

## C. Availability Data Collection — Analysis of other potential limitations

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### Not a Count of All Businesses Available for Public Entity Contracts

The purpose of the availability survey is to provide precise, unbiased estimates of the percentage of firms available for public contracts that are owned by certain groups. Keen Independent did not attempt to develop a list of *every* firm potentially available for *every* type of procurement. The research focused on firms in the geographic market area in subindustries most relevant to participating entity procurement.

- Firms in subindustries that comprised a small portion of total dollars of participating entity procurement were not included in the phone survey. Because Keen Independent calculates availability benchmarks on a dollar-weighted basis, inclusion of these firms was not important in developing overall availability results.
- The study team limited its purchase of D&B data to firms in the Minnesota market area (Minnesota plus Pierce and St. Croix counties in Wisconsin) as the study focuses on types of purchases primarily made from within the market area. This method is consistent with court decisions that have considered this issue.
- Not all firms on the list of businesses completed surveys, even after repeated attempts to contact them.

Therefore, the availability analysis does not provide a comprehensive listing of every business that could be available for all types of participating entity procurement and should not be used in that way.

NAICS codes sometimes represent broad definitions of the types of work vendors can perform. Therefore, Keen Independent's compiled list of available firms should not be used as a single source of firms available for highly specialized contracts.

Federal courts have approved similar approaches to measuring availability that Keen Independent uses in this study (see Appendix N).

The United States Department of Transportation's (USDOT's) "Tips for Goal-Setting in the Disadvantaged Business Enterprise (DBE) Program" also recommends a similar approach to measuring availability for agencies implementing the Federal DBE Program.<sup>1</sup>

A copy of the survey instrument for construction follows:

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<sup>1</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>

## C. Availability Data Collection — Survey instrument (email construction version)

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### Minnesota Joint Disparity Study Fax/Online Survey

The State and 15 cities, counties and other public agencies are updating a list of local companies interested in working on a wide range of public sector contracts. The information developed in these surveys will add to their existing data on companies interested in working with public entities in Minnesota.

#### Survey Instructions

**When you have finished the survey, please:**

- 1) Scan completed survey and email to [surveys@cri-research.com](mailto:surveys@cri-research.com); or
- 2) Fax completed survey to 512-353-3696.

**If you have any questions, please contact:**

NAME OF ADMIN CONTACT PERSON



## C. Availability Data Collection — Survey instrument (email construction version)

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### Background Questions

Z5. What is the name of your business?

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X5. What would you say is the main line of business of your company?

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### Public Sector Work

A1. During the past five years, has your company bid on work with public entities in Minnesota?

☐ 1=Yes

☐ 2=No

☐ 98=Don't know

A2. During the past five years, has your company been awarded work with public entities in Minnesota, including as a subcontractor?

☐ 1=Yes

☐ 2=No

☐ 98=Don't know

A3. Is your company qualified and interested in working with public agencies in Minnesota?

☐ 1=Yes

☐ 2=No

☐ 98=Don't know

A4. Is your company qualified and interested in working as a prime, as a subcontractor or both?

☐ 1=Prime only

☐ 2=Sub only

☐ 3=Both

☐ 98=Don't know

## C. Availability Data Collection — Survey instrument (email construction version)

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### Types of Work

C1. Which of the following types of work does your firm perform related to construction? Select all that apply.

- |  |   |
|--|---|
| <input type="checkbox"/> 1= Public, commercial and multifamily building construction | <input type="checkbox"/> 65= Elevators and elevator services          |
| <input type="checkbox"/> 2= Excavation, site prep, grading and drainage              | <input type="checkbox"/> 70= Landscape installation and maintenance   |
| <input type="checkbox"/> 3= Water and sewer lines and related structures             | <input type="checkbox"/> 66= Hauling                                  |
| <input type="checkbox"/> 4= Plumbing and HVAC  | <input type="checkbox"/> 81= Traffic control services and sign rental |
| <input type="checkbox"/> 5= Bridge and elevated highway construction                 | <input type="checkbox"/> 45= Construction materials                   |
| <input type="checkbox"/> 6= Road construction and paving                             | <input type="checkbox"/> 25= Testing laboratories                     |
| <input type="checkbox"/> 7= Striping and pavement marking                            | <input type="checkbox"/> 24= Surveying and mapping                    |
| <input type="checkbox"/> 8= Electrical work including lighting and signals           | <input type="checkbox"/> 88=Other [Please specify]                    |
| <input type="checkbox"/> 9= Plastering, drywall and installation                     | <input type="checkbox"/> 98=(Don't know)                              |
| <input type="checkbox"/> 10= Roofing   |   |
| <input type="checkbox"/> 11= Concrete work   |   |
| <input type="checkbox"/> 12= Structural steel work                                   |   |

## C. Availability Data Collection — Survey instrument (email construction version)

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### Geographic Areas

The next questions are about the geographic areas in Minnesota where your company can perform work or serve customers.

D1. Can your company do work in the Twin Cities metropolitan area?

☐ 1=Yes

☐ 2=No

☐ 98=Don't know

D2. Can your company do work in Central Minnesota (such as St. Cloud or Willmar)?

☐ 1=Yes

☐ 2=No

☐ 98=Don't know

D3. Can your company do work in the Northeast region (such as Duluth)?

☐ 1=Yes

☐ 2=No

☐ 98=Don't know

D4. Can your company do work in the Northwest region (such as Brainerd or Moorhead)?

☐ 1=Yes

☐ 2=No

☐ 98=Don't know

D5. Can your company do work in the Southeast region (such as Rochester)?

☐ 1=Yes

☐ 2=No

☐ 98=Don't know

D6. Can your company do work in the Southwest region (such as Mankato or Worthington)?

☐ 1=Yes

☐ 2=No

☐ 98=Don't know

## C. Availability Data Collection — Survey instrument (email construction version)

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### Contract History

E1. In rough dollar terms, in the past eight years, what was the largest contract or subcontract your company was awarded, bid on, or submitted quotes for?

- ☐ 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 \$5 million
- ☐ 5=More than \$5 million up to \$10 million
- ☐ 6=More than \$10 million
- ☐ 97=Not applicable
- ☐ 98=Don't know

## C. Availability Data Collection — Survey instrument (email construction version)

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### Business Ownership

The next questions are about the ownership of the business.

F1. A business is defined as woman-owned if more than half — that is, 51 percent or more — 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, 51 percent or more — of the ownership and control is Asian-Pacific American, South Asian American, Black American, Hispanic American, American Indian 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 Asian-Pacific American, South Asian American, Black American, Hispanic American or American Indian?

☐ 1= Asian-Pacific American

(This includes individuals whose origins are from Central, East or Southeast Asia, including, for example, Chinese, Filipino, Vietnamese, Hmong, Karen, Korean and Japanese Americans, Native Hawaiians and Pacific Islanders.)

☐ 2= South Asian American

(This includes individuals whose origins are from India, Pakistan, Bangladesh, Bhutan, the Maldives Islands, Nepal or Sri Lanka.)

☐ 3= Black American

(This includes persons having origins in any of the black racial groups of Africa, including, for example, African American, Jamaican, Haitian, Nigerian, Ethiopian and Somali.)

☐ 4= Hispanic American

(This includes individuals of Mexican, Puerto Rican, Salvadoran, Cuban, Dominican, Guatemalan, and other Central or South American, or other Spanish or Portuguese culture or origin, regardless of race.)

☐ 5= American Indian

(This includes individuals with origins in any of the original peoples of North, Central, and South America.)

☐ 6=Other group (Please specify): \_\_\_\_\_

☐ 98=Don't know

## C. Availability Data Collection — Survey instrument (email construction version)

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### Business Background

The next questions are about the background of the business.

G1. About what year was your firm established?

---

☐ 98=Don't know

G2. Is this the sole location for your business, or do you have offices in other locations?

☐ 1=Sole location

☐ 2=Have other locations

☐ 98=Don't know

G3. Is your company a subsidiary or affiliate of another firm?

☐ 1=Independent **[SKIP TO G6]**

☐ 2=Subsidiary or affiliate of another firm

☐ 98=Don't know **[SKIP TO G6]**

G4. What is the name of your parent company?

---

☐ 98=Don't know

G6. About how many employees did you have working out of just your location, on average, over the past two years? (This includes employees who work at your location and those who work from your location.)

---

☐ 98=Don't know

G8 Think about the annual gross revenue of your company, considering just your location. Please estimate the annual average for the years starting January 2021.

☐ 1= Less than \$1 million

☐ 2=\$1 million to \$5 million

☐ 3= More than \$5 million to \$7.5 million

☐ 4= More than \$7.5 million to \$11 million

☐ 5= More than \$11 million to \$15 million

☐ 6= More than \$15 million to \$20.5 million

☐ 7= More than \$20.5 million to \$27.5 million

☐ 8= More than \$27.5 million to \$38.5 million

☐ 9= More than \$38.5 million to \$47 million

☐ 10= More than \$47 million

☐ 98=Don't know

## C. Availability Data Collection — Survey instrument (email construction version)

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### G9. [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 two years?

(Number of employees at all locations should not be fewer  
than at just your location.)

---

☐ 98=Don't know

### G10. [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 years starting January 2021.

(Revenue at all locations should not be less than at just your  
location.)

- ☐ 1= Less than \$1 million
- ☐ 2=\$1 million to \$5 million
- ☐ 3= More than \$5 million to \$7.5 million
- ☐ 4= More than \$7.5 million to \$11 million
- ☐ 5= More than \$11 million to \$15 million
- ☐ 6= More than \$15 million to \$20.5 million
- ☐ 7= More than \$20.5 million to \$27.5 million
- ☐ 8= More than \$27.5 million to \$38.5 million
- ☐ 9= More than \$38.5 million to \$47 million
- ☐ 10= More than \$47 million
- ☐ 98=Don't know

## C. Availability Data Collection — Survey instrument (email construction version)

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### Market Barriers or Difficulties

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 eight years in Minnesota or Western Wisconsin 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 contracts presented a barrier to bidding?

- ☐ 1=Yes
- ☐ 2=No
- ☐ 97=Does not apply
- ☐ 98=Don't know



## C. Availability Data Collection — Survey instrument (email construction version)

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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 with public entities in Minnesota?

- ☐ 1=Yes
- ☐ 2=No
- ☐ 97=Does not apply
- ☐ 98=Don't know

H1h. Has your company experienced any difficulties learning about bid opportunities in the private sector?

- ☐ 1=Yes
- ☐ 2=No
- ☐ 97=Does not apply
- ☐ 98=Don't know

H1i. Has your company experienced any difficulties learning about subcontracting opportunities with prime contractors?

- ☐ 1=Yes
- ☐ 2=No
- ☐ 97=Does not apply
- ☐ 98=Don't know

H1j. 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

## C. Availability Data Collection — Survey instrument (email construction version)

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H1k. Has your company experienced any difficulties receiving payment from public entities in a timely manner?

- ☐ 1=Yes
- ☐ 2=No
- ☐ 97=Does not apply
- ☐ 98=Don't know

H1l. 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

H1m. 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

H1n. Has your company experienced any difficulties with brand name specifications or other restrictions on bidding?

- ☐ 1=Yes
- ☐ 2=No
- ☐ 97=Does not apply
- ☐ 98=Don't know

H1o. Has your company experienced any difficulties obtaining supply or distributorship relationships?

- ☐ 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

## C. Availability Data Collection — Survey instrument (email construction version)

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H2. This is an opportunity for the State of Minnesota and other participating state and local governments to hear directly from members of the business community, like you. What other comments would you like them to hear?

☐ 1=Yes [Please provide your thoughts in the box below.]

☐ 97=Nothing/None/No comments

☐ 98=Don't know

H3. We would like to hear more from you about conditions in the local marketplace or doing business with public entities. Can we mark you as interested in a follow-up interview, participating in a virtual Business Advisory Group session with other business people or both?

☐ 1= Follow-up interview

☐ 2= BAG discussion

☐ 3= Both

☐ 97=Does not apply

☐ 98=Don't know

## C. Availability Data Collection — Survey instrument (email construction version)

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### Interviewee and Other Contact Information

Just a few last questions.

I1. What is your full name?

\_\_\_\_\_

I2. What is your position at the firm?

☐ 1=President

☐ 2=Owner

☐ 3=Manager

☐ 4=CFO

☐ 5=CEO

☐ 6=Assistant to Owner/CEO

☐ 7=Sales manager

☐ 8=Office manager

☐ 9=Receptionist

☐ 88=Other (Please specify): \_\_\_\_\_

I4. What mailing address could the State of Minnesota or other public entities use to contact you?

Street address: \_\_\_\_\_

City: \_\_\_\_\_

State: \_\_\_\_\_

ZIP: \_\_\_\_\_

I5P. What phone number could they use to contact you?

\_\_\_\_\_

I6. What e-mail address could the State of Minnesota or other public entities use to contact you?

\_\_\_\_\_

### Survey Instructions

**When you have finished the survey, please:**

- 1) Scan completed survey and email to [surveys@cri-research.com](mailto:surveys@cri-research.com); or
- 2) Fax completed survey to 512-353-3696.

Thank you for your time. This is very helpful.

## APPENDIX D. Disparity Analysis for UMN Contracts — Disparity index

To conduct the disparity analysis, Keen Independent compared the actual utilization of minority-owned businesses (MBEs) and woman-owned businesses (WBEs) on UMN 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 MBEs and for WBEs. The Summary Report explains how the study team developed benchmarks from the availability data.

To make utilization and availability directly comparable, results are expressed as percentages of the total dollars associated with a particular set of contracts. 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>1</sup>

Figure D-1 describes how disparity indices are calculated.

### D-1. 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 WBEs on a set of procurements was 1 percent and the availability of WBEs for those procurements was 2 percent, then the disparity index would be 1 percent divided by 2 percent, which would then be multiplied by 100 to equal 50. In this example, WBEs would have received 50 cents of every dollar that they might be expected to receive based on their availability for the work.

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<sup>1</sup> Some courts deem a disparity index below 80 as being “substantial” and have accepted it as evidence of adverse impacts against MBE/WBEs. *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; *Rothe*,

545 F.3d at 1041; *Eng’g Contractors Ass’n*, 122 F.3d at 914, 923; *Concrete Works I*, 36 F.3d at 1524.

## D. Disparity Analysis for UMN Contracts — Sampling

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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. (The study team attempted to obtain data for every contract above a minimum size, not just a sample of those contracts.)

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

Figure D-2 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.

### D-2. Confidence intervals for availability and utilization measures

As discussed in Appendix C, Keen Independent successfully reached 23,186 businesses 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 35 percent representation of MBE/WBEs among available firms is accurate within about +/- 1 percentage points (overall MBE/WBE availability before dollar-weighting). By comparison, many survey results for proportions reported in the popular press are accurate within +/- 5 percentage points. (Note that 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 UMN procurements of \$5,000 or more during the study period and no confidence interval calculation applies for the utilization results.

## D. Disparity Analysis for UMN Contracts — Monte Carlo analysis

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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.

### Approach

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 UMN prime contracts and subcontracts during the study period, each with a different payoff.

Keen Independent used the Monte Carlo simulation to determine whether chance in contract and subcontract awards could explain the disparities observed for minority- and woman-owned firms when examining UMN procurements.

Figure D-3 describes Keen Independent's use of Monte Carlo analysis.

### D-3. Monte Carlo analysis

The study team conducted the Monte Carlo analysis by examining individual contract elements. For each element, Keen Independent's availability database provided information about businesses available to perform that contract element, based on type of work, contractor role and contract size.

The study team assumed that each available firm had an equal chance of "receiving" that contract element. 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 assigned to Minnesota businesses available for UMN contracts

The output of the Monte Carlo simulations represents the number of runs out of 10,000 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., 5.0% of the total number of runs), then the disparity index is considered statistically significant at the 95 percent confidence level (using a one-tailed test).

## D. Disparity Analysis for UMN Contracts — Monte Carlo analysis

### Results

Keen Independent performed Monte Carlo simulations where substantial disparities were observed on all UMN contracts and subcontracts. Figure D-4 presents the results from the Monte Carlo analysis as they relate to the statistical significance of disparity analysis results for minority- and woman-owned firms on all UMN contracts.

None of the 10,000 Monte Carlo simulations produced utilization equal to or less than the observed utilization for minority-owned firms or for white woman-owned businesses. Therefore, one can be confident that the disparity observed for MBEs and WBEs in UMN procurements is not due to chance in contract awards at the 95 percent confidence level.

It is important to note that this test may not be necessary to establish statistical significance of results (see discussion in Figure D-3), and it may not be appropriate for very small populations of firms.<sup>2</sup>

<sup>2</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

D-4. Monte Carlo simulation results for minority- and woman-owned firms for UMN procurements, July 2016–June 2023

	MBE	WBE
Disparity index	38	38
Utilization	3.76 %	4.21 %
Number of simulations out of 10,000 less than or equal to observed	0	0
Probability of observed disparity due to "chance"	0.00 %	0.00 %
Reject chance as an explanation	Yes	Yes

Source: Keen Independent Research from availability survey data and data on UMN procurements.

small number of firms in that group, a small number of contracts and subcontracts included in the analysis, or an unusual size distribution of contracts and subcontracts.



## APPENDIX E. Entry and Advancement — Introduction

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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 analyses for the 2025 Minnesota Joint Disparity Study (described in Appendix E through Appendix I), Keen Independent examines whether some of the barriers to business formation that Congress found for minority- and woman-owned businesses also appear to occur in Minnesota.

Keen Independent also analyzed barriers to business formation for LGBTQ+ Americans, persons with disabilities and veterans and service-disabled veterans, if information was available.

Based on research about where firms obtaining contracts are located, Keen Independent considers the relevant geographic market area for this study to be Minnesota<sup>2</sup> for construction, professional services, goods and other services contracts. (Appendix B provides additional detail.) The marketplace appendices interchangeably refer to this area as the “local marketplace,” or “the Minnesota marketplace” in Appendices E through H. The “study industries” are the construction industry and certain segments of the professional services, goods, and other services industries.

Potential barriers to business formation include barriers associated with entering and advancing as employees in the study industries.

Appendix E examines recent data on employment and workplace advancement that may ultimately influence business formation within Minnesota study industries.<sup>3, 4</sup> After presenting overall demographic characteristics for the study industries as a whole, Keen Independent separately examines results for each industry as the pathways into these sectors and career ladders for employees differ between industries.

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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> For the purposes of the marketplace analyses in this study (Appendices E, F, G and H), the Minnesota market area corresponds to Minnesota as a whole, plus the two Wisconsin counties within the Minneapolis-St. Paul Metropolitan Area (Pierce and St. Croix counties).

<sup>3</sup> In Appendix E and other appendices that present information about local marketplace conditions, information for “professional services” refers to professional, scientific and technical services. References to “goods and other services” pertains to wholesale and retail trade, as well as other services.

<sup>4</sup> Several other report appendices analyze other quantitative aspects of conditions in the Minnesota 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.

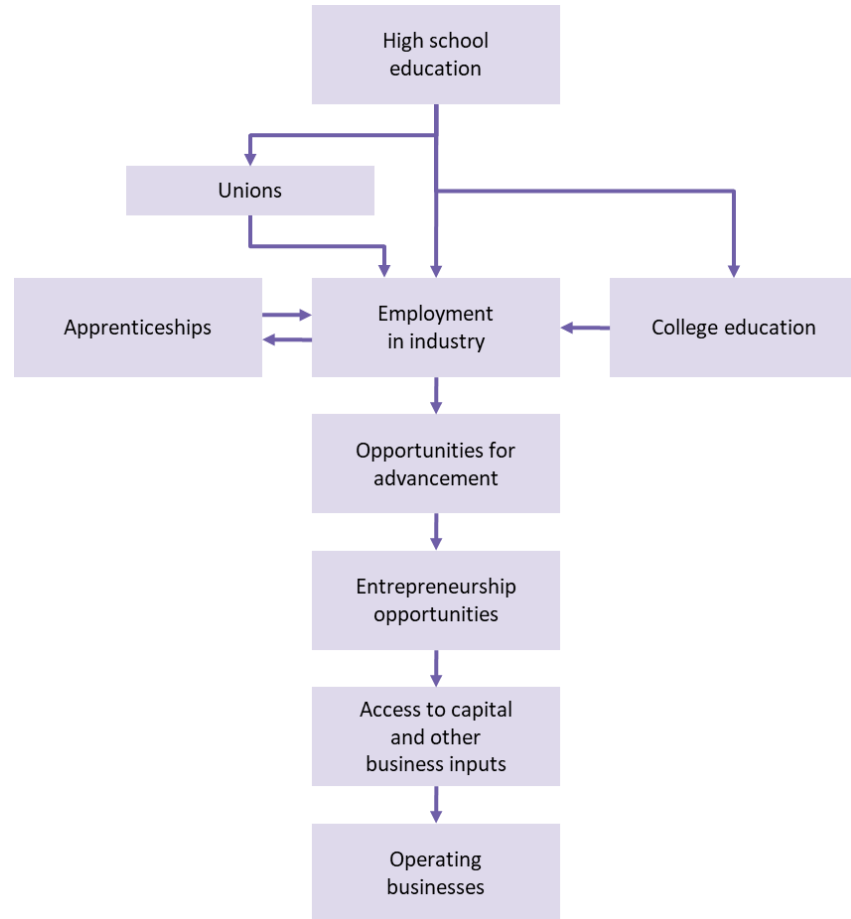
## E. Entry and Advancement — Introduction

Keen Independent examined whether there were barriers to the formation of businesses owned by people of color and women in Minnesota. Business ownership typically results from an individual entering an industry as an employee and then advancing within that industry before starting a business in that sector. Within the entry and advancement process, there may be barriers that limit opportunities for some individuals. Figure E-1 presents a model of entry and advancement in the study industries.

Appendix E uses data for 2018–2022 from the U.S. Census Bureau American Community Survey (ACS) to analyze education, employment and workplace advancement — all factors that may influence whether individuals gain the work experience and qualifications to start businesses in the study industries. Note that results based on ACS data are for Minnesota plus Pierce and St. Croix counties in Wisconsin that are part of the Minneapolis-St. Paul MSA.

Keen Independent began the analysis by examining the representation of people of color and women among business owners and workers in the Minnesota marketplace.

E-1. Model for studying entry into study industries in the Minnesota marketplace



Source: Keen Independent Research.

## E. Entry and Advancement — Introduction

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### People of Color Among Workers and Business Owners

Figures E-2 and E-3 show the demographic distribution of business owners in the study industries, business owners in other industries (excluding the study industries) and workers in the labor force, based on 2018–2022 ACS data for the Minnesota marketplace. (Demographics of the workforce in individual study industries are presented later in Appendix E.)

As shown in Figure E-2, people of color comprised 20 percent of the workforce in the Minnesota marketplace. About 14 percent of businesses in the study industries were owned by people of color.

Analysis of Minnesota in 2018–2022 indicated that certain groups were underrepresented based on the percentage of business owners within the study industries and the representation of groups in the overall workforce. These included:

- Black Americans;
- Asian-Pacific Americans (including Southeast Asian Americans and other Asian-Pacific Americans); and
- South Asian Americans.

Keen Independent analyzed whether differences between the representation of each group among business owners and the representation of that group in the workforce were statistically significant, which means that sampling in the Census data can be rejected as a cause of the observed differences (noted with asterisks in Figure E-2). The differences for Black Americans (including other Black Americans), Asian-Pacific Americans (including Southeast Asian Americans and other Asian-Pacific Americans) and South Asian Americans were statistically significant.

### Women Workers and Business Owners

Figure E-2 also examines the percentage of Minnesota business owners and workers who are women. In 2018–2022, women accounted for about 14 percent of business owners in the study industries, about 33 percentage points below women’s representation in the overall workforce (47%).

## E. Entry and Advancement — Introduction

E-2. Demographic distribution of business owners and the workforce in the Minnesota marketplace, 2018–2022

	Workforce in all industries	Business owners in study industries	Business owners in all other industries
<b>Race/ethnicity</b>			
Black American	7.0 %	4.8 % **	3.3 % **
Sub-Saharan African American	2.8	2.1	1.0 **
Other Black American	4.3	2.7 **	2.4 **
Asian-Pacific American	4.7	1.4 **	4.3
Southeast Asian American	3.1	0.8 **	2.4 **
Other Asian-Pacific American	1.7	0.5 **	1.9
South Asian American	1.0	0.5 **	0.6 **
Hispanic American	5.4	5.3	2.8 **
Mexican American	2.4	2.7	1.4 **
Other Hispanic American	3.0	2.6	1.4 **
American Indian	2.1	2.0	1.7 **
<b>Total minority</b>	<b>20.3 %</b>	<b>14.0 %</b>	<b>12.7 %</b>
Non-Hispanic white	79.7	86.0 **	87.3 **
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
<b>Gender</b>			
Female	47.4 %	13.7 % **	47.7 %
Male	52.6	86.3 **	52.3
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

Note: \*\* Denotes that the difference in proportions between workforce in all industries and business owners in the specified industries for the given race/ethnicity/gender group is statistically significant at the 95% confidence level.

“American Indian” includes American Indians and people who identified as other races or ethnicities not listed in the table.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

The 2018–2022 ACS raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

## E. Entry and Advancement — Introduction

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### **Veteran Workers and Business Owners**

Veterans accounted for about 6 percent of Minnesota business owners in the study industries between 2018 and 2022. This percentage (6.1%) was somewhat higher than veteran representation in the overall workforce (3.9%). These results are displayed in Figure E-3.

### **Workers with Disabilities and Business Owners**

Persons with disabilities accounted for about 6 percent of Minnesota business owners in the study industries between 2018 and 2022. This percentage (5.9%) was lower than the representation of persons with disabilities in the overall workforce (6.5%). This difference was not statistically significant. These results are displayed in Figure E-3.

### **LGBTQ+ American Workers and Business Owners**

People in same-sex couples accounted for less than 1 percent of Minnesota business owners in the study industries between 2018 and 2022. This percentage (0.4%) was lower than representation in the overall workforce (1.4%). This difference was statistically significant. These results are displayed in Figure E-3.

## E. Entry and Advancement — Introduction

E-3. Demographic distribution of business owners and the workforce in the Minnesota marketplace, 2018–2022

	Workforce in all industries	Business owners in study industries	Business owners in all other industries
<b>Veteran status</b>			
Veterans with a disability	1.1 %	1.5 % *	1.3 %
Other veterans	2.9	4.5 **	2.7
<b>Total veterans</b>	<b>3.9 %</b>	<b>6.1 %</b>	<b>3.9 %</b>
Not a veteran	96.1	93.9 **	96.1
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
<b>Disability status</b>			
Persons with a disability	6.5 %	5.9 %	7.3 % **
All others	93.5	94.1	92.7 **
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
<b>Sexual orientation</b>			
In same-sex couple	1.4 %	0.4 % **	1.2 %
Not in same-sex couple	98.6	99.6 **	98.8
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

Note: \*, \*\* Denotes that the difference in proportions between workforce in all industries and business owners in the specified industries for the given veteran status/disability status/sexual orientation group is statistically significant at the 90% or 95% confidence level, respectively.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.  
The 2018–2022 ACS raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

## E. Entry and Advancement — Introduction

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### Conditions During COVID-19 Pandemic

Keen Independent examined recent research focused on the effects of the COVID-19 pandemic on workers in the Minnesota marketplace. Businesses closed and employment rates fell after the first COVID-19 case was confirmed in the United States on January 20, 2020. By late May 2020, the unemployment rate in Minnesota had increased to 11 percent compared to just 3 percent in May 2019.<sup>5</sup> Employment rates have since improved in the state. In September 2024, the U.S. Bureau of Labor Statistics (BLS) recorded Minnesota as having an unemployment rate of 3.4 percent,<sup>6</sup> comparable to March 2020 at the beginning of the pandemic.

Nationally, researchers have found that the economic effects of the COVID-19 pandemic have disproportionately affected women and people of color. For example, the U.S. economy lost 140,000 jobs in the month of December 2020 according to BLS data. The same analysis by gender, however, revealed that women lost 156,000 jobs while men gained 16,000 jobs. The COVID-19 pandemic has caused more women to drop out of the labor force than men, which some researchers largely attribute to gendered caretaking responsibilities.<sup>7</sup> Analysis found that

nationally, nearly 90 percent of the women who dropped out of the labor force were mothers with young children.<sup>8</sup>

A different BLS survey found that in December 2020, African American women and Hispanic American women lost jobs while the number of jobs held by non-Hispanic white women increased.<sup>9</sup> Contributing to this disparity in job losses were differences in whether people could work from home. Prior to the pandemic, less than 20 percent of African Americans and Hispanic Americans in the United States held jobs that allowed a work-from-home option, while 30 percent of white and Asian American workers had that option.<sup>10</sup>

Other research found that Minnesota Latinos were disproportionately affected by the COVID-19 pandemic creating a “divided economy” for many Hispanics in Minnesota.<sup>11</sup>

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<sup>5</sup> U.S. Bureau of Labor Statistics. (2024). Local area unemployment statistics: Minnesota. *U.S. Department of Labor*. Retrieved from <https://data.bls.gov/timeseries/LAUST2700000000000003>

<sup>6</sup> U.S. Bureau of Labor Statistics. (2024). Local area unemployment statistics: Minnesota. *U.S. Department of Labor*. Retrieved from <https://data.bls.gov/timeseries/LASST2700000000000003>

<sup>7</sup> Edwards, K. (2020, November 24). Women are leaving the labor force in record numbers. Retrieved January 15, 2021, from <https://www.rand.org/blog/2020/11/woman-are-leaving-the-labor-force-in-record-numbers.html>

<sup>8</sup> Amuedo-Dorantes, C., et. al. (October 2020). COVID-19 School Closures and Parental Labor Supply in the United States. IZA Institute of Labor Economics. Retrieved from

<https://www.iza.org/publications/dp/13827/covid-19-school-closures-and-parental-labor-supply-in-the-united-states>

<sup>9</sup> Kurtz, A. (2021, January 8). The US economy lost 140,000 jobs in December. All of them were held by women. *CNN Business*. Retrieved from <https://www.cnn.com/2021/01/08/economy/woman-job-losses-pandemic/index.html>

<sup>10</sup> Enemark, D. (2020, March 24). Potential impact of COVID-19 on employment in San Diego County. *San Diego Workforce Partnership*. Retrieved from <https://workforce.org/reports/>

<sup>11</sup> Peters, J., & Kaul, G. (2021). Too much work or not enough: Latinos in Minnesota describe one pandemic but two very different economies. *Sahan Journal*. <https://sahanjournal.com/business-work/minnesota-latino-workers-pandemic-economy-unemployment/>

## E. Entry and Advancement — Introduction

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Research also suggests that the national labor force contracted due to the COVID-19 pandemic. This contraction has been attributed to the enhanced federal and state unemployment benefits (which extended to September 2021), workers' deaths from COVID-19 and the lack of consistent childcare and schooling for working parents and caregiving services for working caretakers until the end of 2021.<sup>12</sup>

Economic recovery has varied across industries. As of September 2024, since the most critical period of the pandemic in May 2020, Minnesota has gained approximately 278,000 jobs, although total jobs remain slightly below pre-pandemic employment.<sup>13</sup> Employment in construction jobs in Minnesota fell by 2 percent at the height of the pandemic in April 2020. However, by May 2020, the Minnesota construction industry more than recovered those losses. Minnesota construction employment was about 13 percent higher by May 2020 than the beginning of 2020 indicating that the local construction industry was as not widely affected by the pandemic as other industries.<sup>14</sup> Nationally, employment in the construction industry fell by 10 percent at the height of the pandemic in April 2020 but has since rebounded and was 4 percentage points higher in 2022 than at the start of 2020.<sup>15</sup>

Research shows that COVID-19 impacted people of color more than their white counterparts and that certain industries and groups of workers have recovered quicker than others. Focusing on the construction industry, construction workers who were under the age of 35 or Hispanic were hit hardest at the start of the pandemic.<sup>16</sup>

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<sup>12</sup> As of February 2024, the Centers for Disease Control and Prevention recorded 1,212,008 deaths in the United States due to COVID-19. CDC. (2024, November23). COVID data tracker weekly review. *Centers for Disease Control and Prevention*. Retrieved from <https://covid.cdc.gov/covid-data-tracker/#datatracker-home>

<sup>13</sup> U.S. Bureau of Labor Statistics. (2024). Local area unemployment statistics: Minnesota. U.S. Department of Labor. Retrieved from <https://data.bls.gov/timeseries/LAUST270000000000005>

<sup>14</sup> U.S. Bureau of Labor Statistics. (2024). State and area employment, hours, and earnings, construction: Minnesota. *U.S. Department of Labor*. Retrieved from <https://data.bls.gov/timeseries/SMU27000002000000001>

<sup>15</sup> Harris, W., et. al. Impact of COVID-19 on the Construction Industry: 2 Years in Review. (Data Bulletin July 2022) CPWR - The Center for Construction Research and Training. Retrieved from <https://www.cpwr.com/wp-content/uploads/DataBulletin-July2022.pdf>

<sup>16</sup> Ibid.



## E. Entry and Advancement — Construction industry employment

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The following pages describe employment conditions in each study industry, beginning with construction. Keen Independent examined how education, training, employment and advancement may affect the number of businesses that people of color and women own in the Minnesota construction industry (referred to as the “local construction industry”).

### Education of People Working in the Industry

Formal education beyond high school is not a prerequisite for most construction jobs,<sup>17</sup> and construction often attracts individuals who have relatively less formal education than in other industries.<sup>18</sup> These workers often receive on-the-job training after they are hired by construction companies to compensate for their initial lack of knowledge.<sup>19</sup> Based on 2018–2022 ACS data, just 15 percent of Minnesota workers in the construction industry had a four-year college degree or more compared to 40 percent in all other industries combined.

**Race/ethnicity.** Due to the educational requirements of entry-level jobs and the limited education beyond high school for many minority groups in the marketplace, one would expect a relatively high representation of people of color in the Minnesota construction industry, especially in entry-level positions. Black Americans, Asian-Pacific Americans, Hispanic Americans and American Indians represented a large population of workers without a post-secondary education.

However, in 2018–2022, South Asian American and other Asian-Pacific American workers age 25 and older in the Minnesota marketplace were more likely to have at least a four-year college degree than non-Hispanic whites. One might expect representation of these groups in the construction industry to be lower than in other industries.

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<sup>17</sup> Bureau of Labor Statistics, U.S. Department of Labor. (2021, October 19). Construction and extraction occupations. *Occupational Outlook Handbook*. Retrieved from <https://www.bls.gov/ooh/construction-and-extraction/home.htm>

<sup>18</sup> CPWR - The Center for Construction Research and Training. (2018). Educational attainment and internet usage in construction and other industries. In *The construction chart book: The U.S. construction industry and its workers* (6th 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)

<sup>19</sup> Bureau of Labor Statistics, U.S. Department of Labor. (2021, October 19). Construction laborers and helpers. *Occupational Outlook Handbook*. Retrieved from <https://www.bls.gov/ooh/construction-and-extraction/construction-laborers-and-helpers.htm#tab-4>

## E. Entry and Advancement — Construction industry employment

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**Gender.** In 2023 women made up only 11 percent of the national construction workforce (roughly 1.3 million women). Women largely operate in administrative roles in this industry, holding a larger portion of the jobs in sales and office (66%), service (25%) and management and professional roles (18%). Only 4 percent of natural resources, construction and maintenance positions and 4 percent of production, transportation and materials moving positions were held by women.<sup>20</sup> Low representation of women, and especially women of color, is also found in apprenticeships.<sup>21</sup>

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>22</sup>

According to a 2021 report by the Institute for Women's Policy Research that surveyed 2,635 tradeswomen in the construction industry, 18 percent identified as Latina, 16 percent identified as African American, 5 percent identified as Asian American and Pacific Islander, 4 percent identified as Native American, and 54 percent identified as white.<sup>23</sup> Of those surveyed, one-half have children younger than 18, and more than one in five have children younger than six. Single mothers make up one in four of those with kids under 18. As already discussed, childcare duties rose dramatically for mothers during the pandemic, often causing women to miss out on promotion opportunities due to caregiving obligations.<sup>24</sup>

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<sup>20</sup> Bureau of Labor Statistics. (2023). 2023 Current Population Survey: Employed persons by industry, sex, race, and occupation. [Data file]. Retrieved from <https://www.bls.gov/cps/cpsaat17.htm>

<sup>21</sup> Hegewisch, A. & Mefferd, E. (2021). A Future Worth Building: What Tradeswomen Say about the Change They Need in the Construction Industry. *Institute for Women's Policy Research*. [https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building\\_What-Tradeswomen-Say\\_FINAL.pdf](https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building_What-Tradeswomen-Say_FINAL.pdf); Jackson, Sarah. (2019, November 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. (2014). *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>22</sup> Regis, M.F., Alberte, E.P.V., Lima, D.S., & Freitas, R. (2019). Women in construction: shortcomings, difficulties, and good practices. *Engineering, Construction and Architectural Management* 26(11) 2535-2549; 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>23</sup> Hegewisch, H. & Mefferd, E. (2021) A Future Worth Building: What Tradeswomen Say about the Change They Need in the Construction Industry. *Institute for Women's Policy Research*. Retrieved from [https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building\\_What-Tradeswomen-Say\\_FINAL.pdf](https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building_What-Tradeswomen-Say_FINAL.pdf)

<sup>24</sup> Golding, C. (April 2022). Understanding the Economic Impact of COVID-19 on Women. *National Bureau of Economic Research*. Retrieved from <https://www.nber.org/papers/w29974>

## E. Entry and Advancement — Construction industry employment

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**Persons with disabilities.** In 2023, persons with disabilities made up about 5 percent of the workforce<sup>25</sup> and 6 percent of construction industry workers.<sup>26</sup> However, previous research has indicated that up to 25 percent of the workforce may actually have a disability.<sup>27</sup> Additionally, persons with disabilities may face particular barriers within the construction industry, such as physical limitations in performing tasks (e.g., manual labor),<sup>28</sup> as well as a lack of accessibility and accommodations in trade programs and in the workplace.<sup>29</sup>

**LGBTQ+ Americans.** Despite making up roughly 6 percent of the national workforce,<sup>30</sup> members of the LGBTQ+ community only make up about 2 percent of construction industry workers.<sup>31</sup>

Within the construction industry, LGBTQ+ workers have been known to face various forms of discrimination. Previous surveys have indicated that only 8 percent of LGBTQ+ workers feel comfortable being open about their sexuality at work<sup>32</sup> and 23 percent have personally experienced offensive or inappropriate language towards their own gender or sexual identity.<sup>33</sup> Previous research also indicates that stigmas in the construction industry could be preventing additional workers from identifying with the group.<sup>34</sup>

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<sup>25</sup> US Bureau of Labor Statistics. (2023). Persons with a disability: Labor force characteristics News Release. Retrieved from <https://www.bls.gov/news.release/disabl.htm>

<sup>26</sup> US Department of Labor. (2023). Employment of people with disabilities in skilled trade professions. Retrieved from <https://blog.dol.gov/2023/02/13/employment-of-people-with-disabilities-in-skilled-trade-professions>

<sup>27</sup> Wool, H., et. al. Your Workforce Includes People with Disabilities. Does your People Strategy?. (2023) Boston Consulting Group. Retrieved from <https://www.bcg.com/publications/2023/devising-people-strategy-for-employees-with-disabilities-in-the-workplace>

<sup>28</sup> Anderson, C. (2024). Workers with disabilities and the skilled trades. *Contractor Magazine*. <https://www.contractormag.com/management/best-practices/article/55139079/workers-with-disabilities-and-the-skilled-trade>

<sup>29</sup> Trade Management. (2024). Breaking barrier, skilled trades, careers for people with disabilities. Retrieved from <https://www.trade-mgmt.com/breaking-barriers-skilled-trades-careers-for-people-with-disabilities/>

<sup>30</sup> Williams Institute. (2021). Public and private sector employees' perceptions of discrimination against LGBTQ people. Retrieved from <https://williamsinstitute.law.ucla.edu/publications/employee-perception-discrim/>

<sup>31</sup> Pearcey, L. (2024). Construction and the LGBTQ Community. *AIA Contract Documents*. <https://learn.aiacontracts.com/articles/construction-and-the-lgbtq-community/>

<sup>32</sup> Webb, O. (2019). LGBTQ+ people in construction. *ICE Virtual Library*. <https://www.icevirtuallibrary.com/page/ice-news/civil-engineering-news/page/43-lgbtq+construction?mobileUi=0>

<sup>33</sup> Hansford, M. (2016). Equality Survey Sustained Prejudice. *New Civil Engineer*. <https://www.newcivilengineer.com/archive/equality-survey-sustained-prejudice-08-11-2016/?search=https%3a%2f>

<sup>34</sup> Pearcey, L. (2024). Construction and the LGBTQ Community. *AIA Contract Documents*. <https://learn.aiacontracts.com/articles/construction-and-the-lgbtq-community/>

## E. Entry and Advancement — Construction industry employment

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**Veterans.** In 2022, veterans made up 5.4 percent of the workforce in the country<sup>35</sup> and 6.5 percent of construction industry workers.<sup>36</sup> Veterans may face unique challenges when working in construction such as having difficulties in aligning previous military skills and experience with civilian jobs. Service-disabled veterans may also face physical limitations that impact their ability to work in the construction industry.<sup>37</sup>

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<sup>35</sup> US Department of Labor. (2022). Annual Report to Congress Fiscal Year 2022. Retrieved from <https://www.dol.gov/sites/dolgov/files/VETS/files/VETS-FY2022-Annual-Report-to-Congress.pdf#:~:text=In%20CY22%2C%20veterans%20made%20up%205.4%20percent,civilian%20labor%20force%20aged%2018%20and%20over.&text=veterans%20served%20results%20in%20a%20weighted%20total%20of%2017%2C938%2C%20or%20a%2064.1%20percent>

<sup>36</sup> National Association of Home Builders. (2023). Veteran employment in construction increases in 2022. Retrieved from <https://www.nahb.org/blog/2023/04/veteran-employment-in-construction-increases-in-2022>

<sup>37</sup> Maurer, R. (2024). SHRM report highlights barriers and solutions for hiring veterans. *SHRM*. <https://www.shrm.org/topics-tools/news/talent-acquisition/shrm-report-highlights-barriers-and-solutions-for-veteran-hiring#:~:text=Lack%20of%20veteran%20self%2Didentification,sets%20with%20civilian%20job%20requirements.>

## E. Entry and Advancement — Construction industry employment

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### Trade Schools and Apprenticeship Programs

Training in the construction industry is largely on-the-job and through trade schools and apprenticeship programs.<sup>38</sup> Entry-level jobs for workers out of high school are often as laborers, helpers or apprentices. More skilled positions 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>39</sup>

However, the availability of these programs fluctuates with demand. For example, due to public health concerns, halted construction projects and the need for social distancing, many apprenticeships throughout the nation were ended or scaled back during the COVID-19 pandemic.<sup>40</sup>

This also occurred during the Great Recession. In response to limited construction employment opportunities during the recession, apprenticeship programs limited the number of new apprenticeships<sup>41</sup> as well as access to knowing when and where apprenticeships occur.<sup>42</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 during 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>43</sup>

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<sup>38</sup> Bureau of Labor Statistics, U.S. Department of Labor. (2021, October 19). Construction laborers and helpers. *Occupational Outlook Handbook*. Retrieved from <https://www.bls.gov/ooh/construction-and-extraction/construction-laborers-and-helpers.htm#tab-4>

<sup>39</sup> Apprenticeship.gov, U.S. Department of Labor. (2021, October 19). Construction. Retrieved from <https://www.apprenticeship.gov/apprenticeship-industries/construction>

<sup>40</sup> Buckley, B., & Rubin, D.K. (2020). Construction apprentice programs face new COVID-19 learning curve. *Engineering News-Record*. Retrieved from

<https://www.enr.com/articles/49417-construction-apprentice-programs-face-new-covid-19-learning-curve>

<sup>41</sup> Kelly, M., Pisciotto, 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>42</sup> Graves, F. G., et al. (2014). *Women in construction: Still breaking ground* (Rep.). Retrieved from [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>43</sup> Ibid.

## E. Entry and Advancement — Construction industry employment

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However, research and testimony have indicated that women apprentices and apprentices of color have less access to on-the-job training and mentorship largely due to “informal practices in which (primarily white male) senior workers favor white male apprentices....”<sup>44</sup> Additionally, tradeswomen have reported that colleague disapproval of women in the construction industry has caused them to struggle to get the training that they need to be successful.<sup>45</sup> African American men also report that they found it difficult to obtain mentoring and that they were likely to be blamed for mistakes on the job site.<sup>46</sup>

This difficulty can impact the future of tradeswomen and tradespeople of color: Apprentices without access to training and mentorship are less likely to complete their apprenticeships,<sup>47</sup> and those who do complete apprenticeships without mentorship may have more difficulty finding work and advancing in their careers.<sup>48</sup>

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<sup>44</sup> Kelly, M. and Wilkinson, L. (2020). *2020 Evaluation of the Highway Construction Workforce Development Program* (Rep.). Retrieved from Policy Group on Tradeswomen website: <https://policygroupontradeswomen.org/wp-content/uploads/2021/12/KellyandWilkinson2020EvaluationoftheHighwayConstructionWorkforceDevelopmentProgramFULLREPORT.pdf>

<sup>45</sup> *Knocking Down Walls: Discrimination and Harassment in Construction, U.S. Equal Employment Opportunity Commission Hearing*. (2022). Written Testimony of Japlan “Jazz” Allen, Chicago Women in Trades. <https://www.eeoc.gov/meetings/meeting-may-17-2022-knocking-down-walls-discrimination-and-harassment-construction/allen>

<sup>46</sup> Camardelle, Alex, Ph.D. (2023). *Five Charts to Understand Black Registered Apprentices in the United States*. (Issue brief). Retrieved from Joint Center for Political and Economic Studies website: <https://jointcenter.org/wp-content/uploads/2023/03/Five-Charts-To-Understand-Black-Registered-Apprentices-in-the-United-States.pdf>

<sup>47</sup> See Kelly, M. (2022). *2022 Evaluation of the Highway Construction Workforce Development Program* (Rep.). Retrieved from Portland State University Transportation

Research and Education Center website:

[https://trec.pdx.edu/research/project/1584/2022\\_Evaluation\\_of\\_the\\_Highway\\_Construction\\_Workforce\\_Development\\_Program](https://trec.pdx.edu/research/project/1584/2022_Evaluation_of_the_Highway_Construction_Workforce_Development_Program); see also Kelly, M. and Wilkinson, L. (2020).

*2020 Evaluation of the Highway Construction Workforce Development Program* (Rep.). Retrieved from Policy Group on Tradeswomen website:

<https://policygroupontradeswomen.org/wp-content/uploads/2021/12/KellyandWilkinson2020EvaluationoftheHighwayConstructionWorkforceDevelopmentProgramFULLREPORT.pdf>

<sup>48</sup> A Future Worth Building: What Tradeswomen Say about the Change They Need in the Construction Industry. *Institute for Women’s Policy Research*. [https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building\\_What-Tradeswomen-Say\\_FINAL.pdf](https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building_What-Tradeswomen-Say_FINAL.pdf); see *Knocking Down Walls: Discrimination and Harassment in Construction, U.S. Equal Employment Opportunity Commission Hearing*. (2022). Written Testimony of Japlan “Jazz” Allen, Chicago Women in Trades. <https://www.eeoc.gov/meetings/meeting-may-17-2022-knocking-down-walls-discrimination-and-harassment-construction/allen>

## E. Entry and Advancement — Construction industry employment

### Employment in the Construction Industry

The study team examined employment in the Minnesota construction industry. Figures E-4 and E-5 compare the demographic composition of construction industry workers with the total workforce.

**Race/ethnicity.** Based on 2018–2022 ACS data, people of color were about 12 percent of those working in the Minnesota construction industry compared with 21 percent of employees in other industries.

Mexican Americans represent a larger share of construction employees (3.0%) than found in other industries. There was a statistically significant underrepresentation of workers in this industry for Black Americans (including Sub-Saharan African Americans and other Black Americans), Asian-Pacific Americans (including Southeast Asian Americans and other Asian-Pacific Americans) and South Asian Americans.

Historically, racial discrimination by construction unions in the United States has contributed to the low employment of Black Americans in construction trades.<sup>49</sup> The role of unions is discussed more thoroughly later in Appendix E (including research that suggests discrimination has been reduced to a degree in unions).

**Gender.** There is a large difference between the representation of women in the construction workforce (10% of employees) and representation in all other industries (50% of employees). This difference was statistically significant.

<sup>49</sup> Watson, T. (2021). Union construction’s racial equity and inclusion charade. *Stanford Social Innovation Review*. Retrieved from

E-4. Demographics of workers in construction and all other industries in the Minnesota marketplace, 2018–2022

	Construction		All other industries	
Race/ethnicity				
Black American	2.7	% **	7.3	%
Sub-Saharan African American	0.5	**	2.9	
Other Black American	2.2	**	4.4	
Asian-Pacific American	1.5	**	5.0	
Southeast Asian American	1.0	**	3.2	
Other Asian-Pacific American	0.5	**	1.8	
South Asian American	0.1	**	1.1	
Hispanic American	5.8		5.4	
Mexican American	3.0	**	2.4	
Other Hispanic American	2.8		3.0	
American Indian	2.2		2.1	
<b>Total minority</b>	<b>12.3</b>	<b>%</b>	<b>20.8</b>	<b>%</b>
Non-Hispanic white	87.7	**	79.2	
<b>Total</b>	<b>100.0</b>	<b>%</b>	<b>100.0</b>	<b>%</b>
Gender				
Female	9.7	% **	50.0	%
Male	90.3	**	50.0	
<b>Total</b>	<b>100.0</b>	<b>%</b>	<b>100.0</b>	<b>%</b>

Note: \*\* Denotes that the difference in proportions between workforce in the construction industry and all other industries for the given race/ethnicity/gender group is statistically significant at the 95% confidence level.

“All other industries” includes all industries other than the construction industry.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

[https://ssir.org/articles/entry/union\\_constructions\\_racial\\_equity\\_and\\_inclusion\\_charade](https://ssir.org/articles/entry/union_constructions_racial_equity_and_inclusion_charade)

## E. Entry and Advancement — Construction industry employment

**Veteran status.** Veterans made up about 6 percent of the state construction workforce, about 2 percentage points higher than the relative representation of veteran workers in all other industries.

**Persons with disabilities.** Persons with disabilities made up about 5 percent of the construction workforce, more than 1 percentage point lower than the relative representation of persons with disabilities in all other industries. This difference was statistically significant.

**LGBTQ+ Americans.** People in same-sex couples made 0.6 percent of the construction workforce, about 1 percentage point lower than the relative representation of people in same-sex couples in all other industries. This difference was statistically significant.

E-5. Demographics of workers in construction and all other industries in the Minnesota marketplace, 2018–2022

	Construction		All other industries
<b>Veteran status</b>			
Veterans with a disability	1.3 %		1.0 %
Other veterans	4.5	**	2.7
<b>Total veterans</b>	<b>5.8 %</b>		<b>3.8 %</b>
Not a veteran	94.2	**	96.2
<b>Total</b>	<b>100.0 %</b>		<b>100.0 %</b>
<b>Disability status</b>			
Persons with a disability	5.0 %	**	6.6 %
All others	95.0	**	93.4
<b>Total</b>	<b>100.0 %</b>		<b>100.0 %</b>
<b>Sexual orientation</b>			
In same-sex couple	0.6 %	**	1.5 %
Not in same-sex couple	99.4	**	98.5
<b>Total</b>	<b>100.0 %</b>		<b>100.0 %</b>

Note: \*\* Denotes that the difference in proportions between the veteran and non-veteran groups (or between persons with disabilities and those without or people in same-sex couples and those not in same-sex couples) 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 2018–2022 ACS Public Use Microdata samples.



## E. Entry and Advancement — Academic research on construction employment

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There is substantial academic literature indicating that race- and gender-based discrimination affects opportunities for people of color 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>50</sup> One study found that when African American women in construction advance into leadership roles, they often find that others unduly challenge their authority. Participants of this study 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 industry.<sup>51</sup> Such treatment has been found to lead to stress, decreased psychological health and early exit from the industry.<sup>52</sup>

One 2021 survey of more than 2,600 tradeswomen found that approximately one in four women experienced sexual harassment nearly constantly, and about one in five women of color indicated that

they “always” or “frequently” experienced racial harassment at work.<sup>53</sup> The same study found that about 44 percent of women construction workers surveyed have seriously considered exiting the construction industry, with 47.2 percent of those respondents indicating lack of respect or discrimination as a key reason that they have considered leaving.<sup>54</sup>

Similarly, in a national 2017 study conducted by Pew Research Center, 42 percent of women reported a discriminatory event, including earning less money than counterparts, experiencing slights and having their competence challenged, compared to 22 percent of men.<sup>55</sup> The same study found that although women and men reported that sexual harassment in the workplace was still an issue (36% and 35%, respectively), women were more than three times as likely to report experiencing it.<sup>56</sup>

In another study, over 40 percent of respondents indicated problems with access to high-quality training and the opportunity to improve their

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<sup>50</sup> Bridges, Donna, Elizabeth Wulff, Larissa Bamberry, Branka Krivokapic-Skoko and Stacey Jenkins (2020). Negotiating gender in the male-dominated skilled trades: a systemic literature review. *Construction Management and Economics*, 38 (10), 38:10, 894-916, DOI: [10.1080/01446193.2020.1762906](https://doi.org/10.1080/01446193.2020.1762906)

<sup>51</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>52</sup> Sunindijo, R.Y., & Kamardeen, I. (2017). Work stress is a threat to gender diversity in the construction industry. *Journal of Construction Engineering and Management*, 143(10).

<sup>53</sup> Hegewisch, A. & Mefferd, E. (2021). A Future Worth Building: What Tradeswomen Say about the Change They Need in the Construction Industry. *Institute for Women's Policy Research*. [https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building\\_What-Tradeswomen-Say\\_FINAL.pdf](https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building_What-Tradeswomen-Say_FINAL.pdf)

<sup>54</sup> Hegewisch, A. & Mefferd, E. (2021). A Future Worth Building: What Tradeswomen Say about the Change They Need in the Construction Industry. *Institute for Women's Policy Research*. [https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building\\_What-Tradeswomen-Say\\_FINAL.pdf](https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building_What-Tradeswomen-Say_FINAL.pdf)

<sup>55</sup> Parker, K. & Funk, C. (2017). Gender discrimination comes in many forms for today's working women. Pew Research Center. <https://www.pewresearch.org/short-reads/2017/12/14/gender-discrimination-comes-in-many-forms-for-todays-working-women/>

<sup>56</sup> Parker, K. & Funk, C. (2017). Gender discrimination comes in many forms for today's working women. Pew Research Center. <https://www.pewresearch.org/short-reads/2017/12/14/gender-discrimination-comes-in-many-forms-for-todays-working-women/>

## E. Entry and Advancement — Academic research on construction employment

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skillset as a reason for considering leaving the trades.<sup>57</sup> In a separate study, white men were 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>58</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>59</sup> Lack of flexible work options, childcare programs, paid pregnancy and maternity leave, and breastfeeding support create additional — often

invisible — challenges that narrow women's professional opportunities in the construction industry.<sup>60</sup> Similarly, research has indicated that lack of access to child care can be a significant challenge for those working in the Minnesota construction industry.<sup>61</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>62</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>63</sup>

In one study, about half (48%) of tradeswomen surveyed reported being held to different standards than their male coworkers.<sup>64</sup>

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<sup>57</sup> Hegewisch, A. & Mefferd, E. (2021). A Future Worth Building: What Tradeswomen Say about the Change They Need in the Construction Industry. *Institute for Women's Policy Research*. [https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building\\_What-Tradeswomen-Say\\_FINAL.pdf](https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building_What-Tradeswomen-Say_FINAL.pdf).

<sup>58</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>59</sup> Onyebeke, 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>60</sup> Pamidimukkala, A, et. al. (2022). Occupational Health and Safety Challenges in Construction Industry: A Gender-Based Analysis. Retrieved from [https://www.researchgate.net/profile/Sharareh-Kermanshachi/publication/354820545\\_Occupational\\_Health\\_and\\_Safety\\_Challenges\\_in\\_Construction\\_Industry\\_A\\_Gender-Based\\_Analysis/links/614e1067f8c9c51a8aeed740/Occupational-Health-and-Safety-Challenges-in-Construction-Industry-A-Gender-Based-Analysis.pdf](https://www.researchgate.net/profile/Sharareh-Kermanshachi/publication/354820545_Occupational_Health_and_Safety_Challenges_in_Construction_Industry_A_Gender-Based_Analysis/links/614e1067f8c9c51a8aeed740/Occupational-Health-and-Safety-Challenges-in-Construction-Industry-A-Gender-Based-Analysis.pdf); Hegewisch, A. & Mefferd, E. (2021). A Future Worth Building: What Tradeswomen Say about the Change

They Need in the Construction Industry. Institute for Women's Policy Research. Retrieved from [https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building\\_What-Tradeswomen-Say\\_FINAL.pdf](https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building_What-Tradeswomen-Say_FINAL.pdf)

<sup>61</sup> Worksite Cooperation Committee, MnDOT. (2022). Worker Survey 2022 Results & Next Steps. Retrieved from <https://www.dot.state.mn.us/civilrights/worksite-cooperation-committee.html>

<sup>62</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>

<sup>63</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>64</sup> Hegewisch, A. & Mefferd, E. (2021). A Future Worth Building: What Tradeswomen Say about the Change They Need in the Construction Industry. *Institute for Women's Policy Research*. [https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building\\_What-Tradeswomen-Say\\_FINAL.pdf](https://iwpr.org/wp-content/uploads/2022/02/A-Future-Worth-Building_What-Tradeswomen-Say_FINAL.pdf)

## E. Entry and Advancement — Academic research on construction employment

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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>65</sup> Unable to integrate themselves into traditionally white social networks, African Americans and other minorities faced long-standing historical barriers to entering the construction industry.<sup>66</sup>

Other groups, such as members of the LGBTQ+ community, veterans and persons with disabilities also face barriers when working or attempting to enter the construction industry:

- Previous research from 2015 to 2020 has indicated that, of LGBTQ+ employees working in the construction industry, 54 percent would not feel comfortable “being open” about their sexuality or gender at work and 48 percent indicated that the enforcement of non-discrimination policies in the workplace depends on supervisors’ views of the LGBTQ+ community.<sup>67</sup>
- Despite being the third largest hiring industry for persons with disabilities<sup>68</sup>, persons with disabilities can still face biases in the hiring process, negative judgement and lack of accessibility in the construction industry.<sup>69</sup>
- After transitioning to civilian life, veterans may also face obstacles in entering the construction industry due to issues with job process inexperience and struggling with physical or emotional trauma.<sup>70</sup>

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<sup>65</sup> Watson, T. (2021). Union construction’s racial equity and inclusion charade. *Stanford Social Innovation Review*. Retrieved from [https://ssir.org/articles/entry/union\\_constructions\\_racial\\_equity\\_and\\_inclusion\\_charade](https://ssir.org/articles/entry/union_constructions_racial_equity_and_inclusion_charade); 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>66</sup> Caplan, A., Aujla, A., Prosser, S., & Jackson, J. (2009). Race discrimination in the construction industry: a thematic review. *Equality and Human Rights Commission*, Research Report 23.

<sup>67</sup> Kilminster, S. (2023). LGBTQ+ history month: Building community – a history of LGBTQ+ inclusion in the construction industry. *Mishcon de Reya*.

<https://www.mishcon.com/news/history-of-lgbtqia-inclusion-in-the-construction-industry>

<sup>68</sup> Rosenblum, D., et al. (2023). Employment of people with disabilities in skilled trade professions. *US Department of Labor*. <https://blog.dol.gov/2023/02/13/employment-of-people-with-disabilities-in-skilled-trade-professions>

<sup>69</sup> Bailey, S., et al. (2022). A critical scoping review of disability employment research in the construction industry: Driving social innovation through more inclusive pathways to employment opportunity. MDPI. <https://www.mdpi.com/2075-5309/12/12/2196>.

<sup>70</sup> Morrison, R. (2022). How veterans are a perfect fit for the construction industry. One Key Resources. <https://onekeyresources.milwaukeeetool.com/en/veterans-in-construction-industry>.

## E. Entry and Advancement — Unions in the construction industry

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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>71</sup> According to the Bureau of Labor Statistics, in 2023 union membership among people employed in construction occupations was about 11 percent.<sup>72</sup> Union members comprise a somewhat greater share of the construction workforce than found in other industries, as national union membership within all occupations during 2023 was about 10 percent.<sup>73</sup> The difference in union membership rates demonstrates the importance of unions within the construction industry. In Minnesota, union representation for all occupations in 2023 was about 14 percent.<sup>74</sup> (There were no BLS data published for 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. The unionized sector of construction would seemingly be a path for African Americans and other underrepresented groups into the industry.

However, some researchers have identified racial discrimination by trade unions that has historically prevented minorities from obtaining employment in skilled trades.<sup>75</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>76</sup>
- Of those workers of color 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 workers, and the reported exclusion of African Americans from those programs has severely limited their access to skilled occupations in the construction industry.<sup>77</sup>

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<sup>71</sup> Applebaum, H. A. (1999). *Construction workers, U.S.A.* Westport, CT: Greenwood Press.

<sup>72</sup> Bureau of Labor Statistics, U.S. Department of Labor. (2024, January 23). *Union Members – 2023* [Press release]. Retrieved from <https://www.bls.gov/news.release/pdf/union2.pdf>

<sup>73</sup> Ibid.

<sup>74</sup> Ibid.

<sup>75</sup> Watson, T. (2021). Union construction's racial equity and inclusion charade. *Stanford Social Innovation Review*. Retrieved from

[https://ssir.org/articles/entry/union\\_constructions\\_racial\\_equity\\_and\\_inclusion\\_charade](https://ssir.org/articles/entry/union_constructions_racial_equity_and_inclusion_charade)

<sup>76</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>77</sup> Goldberg, D.A. & Griffey, T. (2010). *Black power at work: Community control, affirmative action, and the construction industry*. Ithaca, NY: Cornell University Press.

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- 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>78</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>79</sup>
- 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>80</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>81</sup>
- Some minority workers face overt, aggressive violence that is racialized with the goal of pushing them out of the workplace. Tactics include racial slurs, physical intimidation, placement in dangerous work situations and intentional “accidents.”<sup>82</sup> For example, in recent cases brought by the Equal Employment Opportunity Commission, large construction companies have paid large settlements to employees of color due to misconduct including companies’ lack of response to continued complaints of workplace harassment and abuse.<sup>83</sup>

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<sup>78</sup> Amoah, C. & Steyn, D. (2022). “Barriers to unethical and corrupt practices avoidance in the construction industry”. *International Journal of Building Pathology and Adaptation*. 2398-4708. Retrieved from <https://www.emerald.com/insight/content/doi/10.1108/IJBPA-01-2022-0021/full/html>

<sup>79</sup> Watson, T. (2021). Union construction’s racial equity and inclusion charade. *Stanford Social Innovation Review*. Retrieved from [https://ssir.org/articles/entry/union\\_constructions\\_racial\\_equity\\_and\\_inclusion\\_charade](https://ssir.org/articles/entry/union_constructions_racial_equity_and_inclusion_charade); Goldberg, D.A. & Griffey, T. (2010). *Black power at work: community control, affirmative action, and the construction industry*. Ithaca, NY: Cornell University Press.

<sup>80</sup> Watson, T. (2021). Union construction’s racial equity and inclusion charade. *Stanford Social Innovation Review*. Retrieved from [https://ssir.org/articles/entry/union\\_constructions\\_racial\\_equity\\_and\\_inclusion\\_charade](https://ssir.org/articles/entry/union_constructions_racial_equity_and_inclusion_charade)

<sup>81</sup> Goldberg, D.A. & Griffey, T. (2010). *Black power at work: community control, affirmative action, and the construction industry*. Ithaca, NY: Cornell University Press.

<sup>82</sup> Watson, T. (2021). Union construction’s racial equity and inclusion charade. *Stanford Social Innovation Review*. Retrieved from [https://ssir.org/articles/entry/union\\_constructions\\_racial\\_equity\\_and\\_inclusion\\_charade](https://ssir.org/articles/entry/union_constructions_racial_equity_and_inclusion_charade)

<sup>83</sup> See, e.g., *Equal Employment Opportunity Commission v. Whiting-Turner Contracting Company, The*, No. 3:21-cv-00753 (M.D. Tenn. 2022); *EEOC v. Giertsen Company of Wisconsin*, No. 21-cv-1130 (E.D. Wis. 2022); *EEOC v. Lone Wolf Resources*, No. 3:21-cv-00979 (M.D. Fla. 2021); *EEOC v. CCC Group*, No. 1:20-cv-00610 (N.D.N.Y. 2021); *EEOC v. Hathaway Dinwiddie Construction Company*, No. 2:20-cv-06741 (C.D. Cal. 2021); *EEOC v. Air Systems*, No. 5:19-cv-07574 (N.D. Cal. 2020)

## E. Entry and Advancement — Unions in the construction industry

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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.

- In a 2021 study of registered construction apprenticeship programs, joint programs were found to account for about three-fourths of all apprenticeship registrations from 1999 to 2019, and these joint programs had “far more” female workers and workers of color than non-joint programs.<sup>84</sup>
- Researchers analyzing apprenticeship programs in the U.S. construction industry 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>85</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>86</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>87</sup> Those data suggest that Hispanic Americans may be more likely than African Americans to enter the construction industry without the support of a union.
- However, in 2019 Hispanic Americans represented nearly 30 percent of all new registrations in joint apprenticeship

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<sup>84</sup> Bilginsoy, C. (2021.) *Diversity, equity and inclusion initiatives in construction trades*. Chapter 3: Registered Apprenticeship Programs. Retrieved from [https://tradeswomentaskforce.org/system/files/iceres\\_study\\_diversity\\_equity\\_and\\_inclusion\\_initiatives\\_in\\_the\\_construction\\_trades.pdf](https://tradeswomentaskforce.org/system/files/iceres_study_diversity_equity_and_inclusion_initiatives_in_the_construction_trades.pdf)

<sup>85</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>86</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>87</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

## E. Entry and Advancement — Unions in the construction industry

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programs, while only 23 percent of new registrations in non-joint programs were Hispanic Americans.<sup>88</sup>

- The same research found a “strong negative correlation” between the proportion of Hispanic workers in a given construction profession and the median national wage for that occupation. This was true across different types of union registration and suggests that Hispanic workers are “disproportionately enrolled in programs for lower-paying trades.” Research did not indicate this negative correlation for other minority groups or women workers.<sup>89</sup>
- More recent analysis shows that shorter apprenticeship programs that are operated by single employers working jointly with a union are consistent with higher completion rates for all participants.<sup>90</sup>

Union membership data support those findings as well. For example, BLS data for 2023 showed that union membership was highest among African Americans, with African American men participating at about 13 percent and African American women at about 11 percent.<sup>91</sup>

In 2023, 10 percent of white workers participated in unions, while about 9 percent of Hispanic American workers and 8 percent of Asian American workers were in a union.<sup>92</sup> African American participation in unions was higher when focusing on specific industries: Recent research utilizing ACS data puts African American union membership in the construction industry at about 17 percent.<sup>93</sup>

According to recent research, union apprenticeships appear to have drawn more African Americans into the construction trades in some markets,<sup>94</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. About 11 percent of local New York City construction apprentices were women.

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<sup>88</sup> Bilginsoy, C. (2021.) *Diversity, equity and inclusion initiatives in construction trades*. Chapter 3: Registered Apprenticeship Programs. Retrieved from [https://tradeswomentaskforce.org/system/files/iceres\\_study\\_diversity\\_equity\\_and\\_inclusion\\_initiatives\\_in\\_the\\_construction\\_trades.pdf](https://tradeswomentaskforce.org/system/files/iceres_study_diversity_equity_and_inclusion_initiatives_in_the_construction_trades.pdf)

<sup>89</sup> Ibid.

<sup>90</sup> Kuehn, D. Registered Apprenticeship and Career Advancement for Low-Wage Service Workers. (2019) *Economic Development Quarterly*, 33(2), 134–150. <https://doi.org/10.1177/0891242419838605>

<sup>91</sup> Bureau of Labor Statistics, U.S. Department of Labor. (2024, January 23). *Union Members – 2023* [Press release]. Retrieved from <https://www.bls.gov/news.release/pdf/union2.pdf>

<sup>92</sup> Ibid.

<sup>93</sup> Bucknor, C. (2016). *Black workers, unions, and inequality*. Washington D.C.: Center for Economic and Policy Research.

<sup>94</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/>



## E. Entry and Advancement — Unions in the construction industry

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However, this increase in apprenticeships may not necessarily be indicative of improved prospects for workers of color. A study in Oregon found that, though minority men’s participation in construction apprenticeships was roughly proportional to their representation in the state’s workforce, their representation in skilled trades apprenticeships was lower than what might be expected.<sup>95</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 Minnesota are different from other parts of the country. In addition, current research indicates that the effects of unions on entry into the construction industry may differ by 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>96, 97</sup>

To research opportunities for advancement in the Minnesota 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>98</sup>). Appendix E describes trades with large enough sample sizes in the 2018–2022 ACS for analysis.

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<sup>95</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>96</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>97</sup> For example, Boston’s “Building Pathways” apprenticeship program is designed to recruit workers from low-income underserved communities. <https://buildingpathwaysboston.org/>

<sup>98</sup> Bureau of Labor Statistics, U.S. Department of Labor. (2001). Standard occupational classification major groups. Retrieved from [http://www.bls.gov/soc/major\\_groups.htm](http://www.bls.gov/soc/major_groups.htm)



## E. Entry and Advancement — Advancement in the construction industry

### Race/Ethnicity

Figure E-6 shows workers of color as a share of all workers in select construction occupations in Minnesota for 2018–2022, including lower-skill occupations (e.g., construction laborers), higher-skill construction trades (e.g., electricians) and supervisory roles.

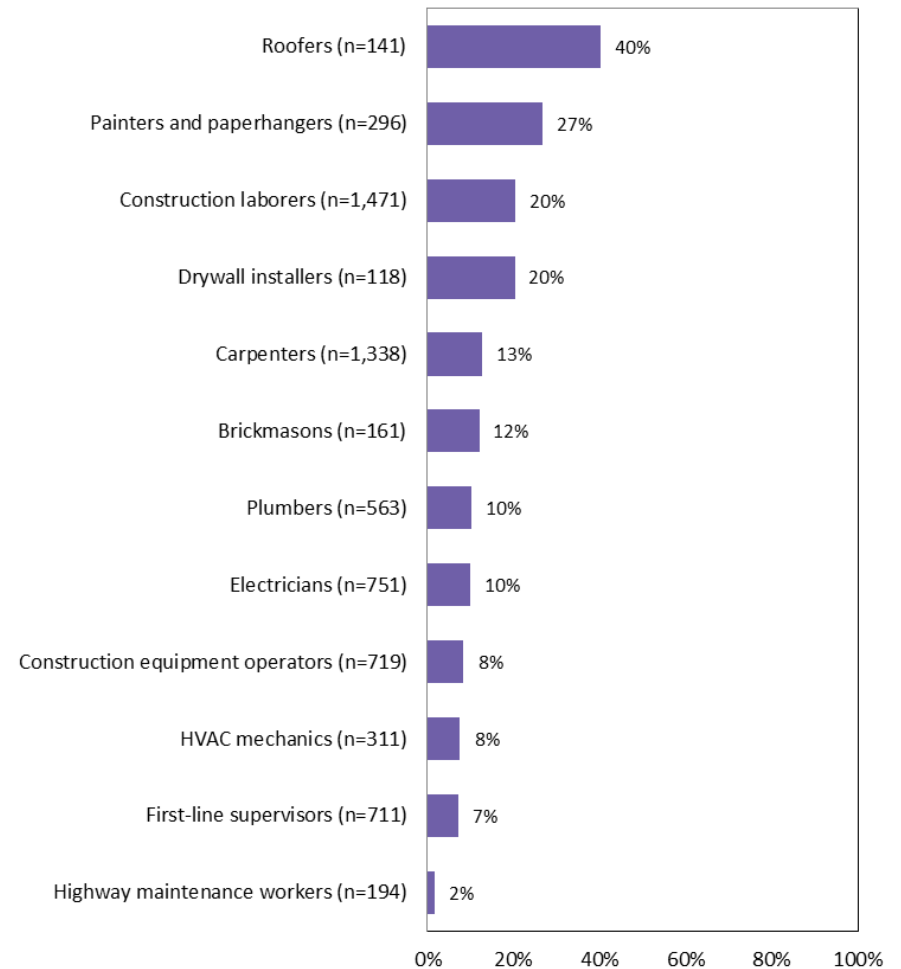
Based on 2018–2022 ACS data, there are large differences in the racial and ethnic makeup of workers in various construction trades in Minnesota. The representation of workers of color was greater among certain trades such as:

- Roofers;
- Painters and paperhangers; and
- Construction laborers.

However, minority representation in the following occupations was relatively low:

- HVAC mechanics;
- First-line supervisors;
- Equipment operators; and
- Highway maintenance workers.

E-6. People of color as a percentage of workers in selected construction occupations in the Minnesota marketplace, 2018–2022



Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

E. Entry and Advancement — Advancement in the construction industry

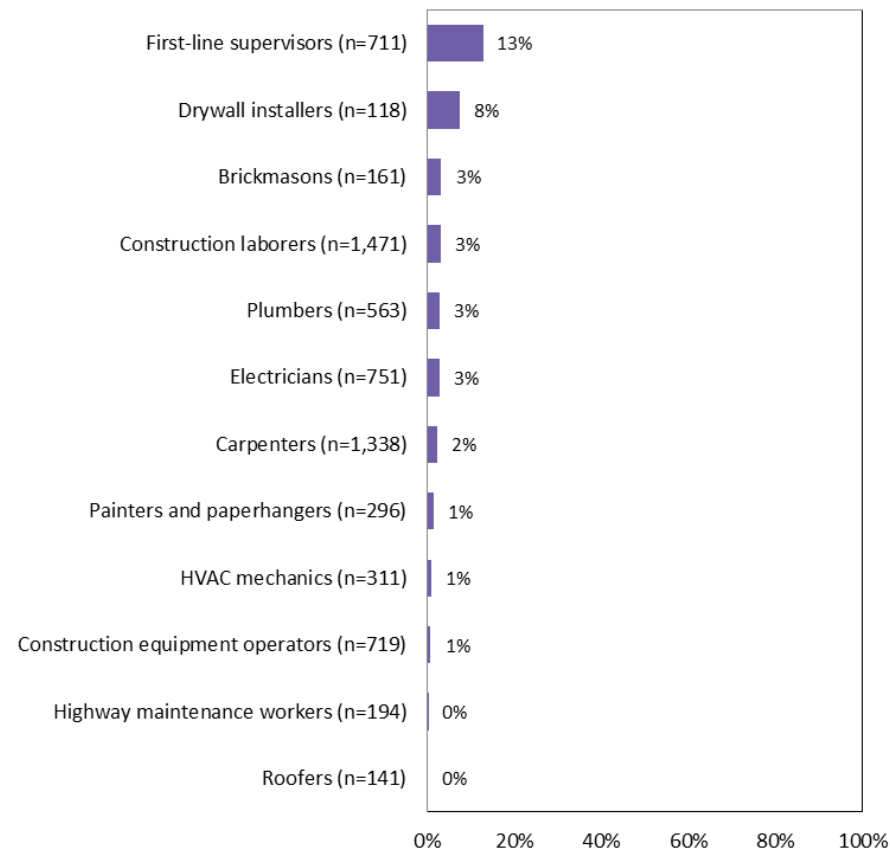
Gender

Keen Independent also analyzed the proportion of workers who are women in construction-related occupations. Figure E-7 summarizes the representation of women in select construction-related occupations in Minnesota for 2018–2022.

In Minnesota from 2018–2022, women accounted for 3 percent or fewer of those working in most of the large construction trades. There were no women in the ACS sample data for:

- Highway maintenance workers; and
- Roofers.

E-7. Women as a percentage of workers in selected construction occupations in the Minnesota marketplace, 2018–2022



Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## E. Entry and Advancement — Advancement in the construction industry

### Percentage of People of Color who are Managers

To further assess advancement opportunities in the Minnesota construction industry, Keen Independent examined the proportion of employees in the construction industry who reported being managers.<sup>99</sup>

Figure E-8 presents the percentage of employees in the construction industry who reported working as managers in 2018–2022 within Minnesota by racial/ethnic and gender group. In 2018–2022, there was underrepresentation of people of color among workers in the construction industry who worked as managers. The likelihood of working as a manager was lower for:

- American Indians; and
- Hispanic Americans (including Mexican Americans and other Hispanic Americans).

These differences were statistically significant (see Figure E-6).

### Percentage of Women who are Managers

In the Minnesota construction industry, about 6 percent of women construction employees were managers, lower than the 9 percent of male workers who were managers in 2018–2022. This difference was statistically significant.

<sup>99</sup> Managers include general and operations managers and construction managers.

E-8. Percentage of construction industry employees who worked as a manager in the Minnesota marketplace, 2018–2022

2018-2022		
Race/ethnicity		
Black American	5.1	%
Asian American	5.3	
Hispanic American	1.4	**
Mexican American	1.2	**
Other Hispanic American	1.6	**
American Indian	5.2	*
Non-Hispanic white	9.2	
Gender		
Female	6.3	% *
Male	8.7	
All individuals		8.5 %

Note: \*, \*\* Denotes 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 90% and 95% confidence level, respectively.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## E. Entry and Advancement — Advancement in the construction industry

### Percentage of Veterans who are Managers

In the Minnesota construction industry, about 8 to 9 percent of veteran and non-veteran construction employees were managers, in 2018–2022. However, only 2 percent of veterans with a disability who worked in the industry were managers, a statistically significant difference (see results in Figure E-9).

### Percentage of Persons with Disabilities who are Managers

In Minnesota, about the same share of persons with disabilities and other construction industry employees were managers.

### Percentage of LGBTQ+ Americans who are Managers

In the Southeast Minnesota construction industry in 2018–2022, about 2 percent of workers in same-sex couples were managers, lower than the 8.5 percent of non-same-sex couple workers who were managers. This difference was statistically significant.

E-9. Percentage of construction industry employees who worked as a manager in the Minnesota marketplace, 2018–2022 (continued)

2018-2022		
Veteran status		
Veteran	7.8 %	
Veterans with a disability	2.2	**
Other veterans	9.7	
Not a veteran	8.5	
Disability status		
Persons with a disability	8.8 %	
All others	8.5	
Sexual orientation		
In same-sex couple	2.1 %	**
Not in same-sex couple	8.5	
All individuals	8.5 %	

Note: \*\* Denotes that the difference in proportions between the veteran and non-veteran groups (or between persons with disabilities and those without or people in same-sex couples and those not in same-sex couples) for the given Census/ACS year is statistically significant at the 95% confidence level.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## E. Entry and Advancement — Professional services industry employment

As in construction, any underrepresentation in employment in the professional services industry can affect the number of businesses owned by people of color and women.

### Education of People Working in the Professional Services Industry

Many professional services occupations require at least a four-year college degree and some require licensure. According to the 2018–2022 ACS, 70 percent of individuals working in the Minnesota professional services industry had at least a four-year college degree and 11 percent had a two-year degree.

Barriers to college education can restrict employment opportunities, advancement opportunities and, consequently, business ownership in the professional services industries. Low numbers of business owners in professional services may in part reflect the lack of higher education for particular racial and ethnic groups.<sup>100</sup> Keen Independent explores this issue below.

**Race/ethnicity.** Figure E-10 presents the percentage of workers age 25 and older with at least a four-year college degree in Minnesota (across all industries). Except for South Asian Americans and other Pacific-Asian Americans, relatively fewer people of color had college degrees than non-Hispanic whites.

**Gender.** As shown in Figure E-10, the share of women with at least a four-year college degree (49%) was higher than men (42%).

E-10. Percentage of all workers 25 and older with at least a four-year college degree in the Minnesota marketplace, 2018–2022

2018–2022	
Race/ethnicity	
Black American	32.6 % **
Sub-Saharan African American	36.7 **
Other Black American	29.2 **
Asian-Pacific American	42.1 **
Southeast Asian American	32.8 **
Other Asian-Pacific American	59.3 **
South Asian American	86.9 **
Hispanic American	27.3 **
Mexican American	18.2 **
Other Hispanic American	35.1 **
American Indian	37.5 **
Non-Hispanic white	46.8
Gender	
Female	48.8 % **
Male	42.3
All individuals	45.3 %

Note: \*\* Denotes 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.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

<sup>100</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; Bates, T., Bradford, W., & Seamans,

R. (2018). Minority entrepreneurship in twenty-first century America. *Small Business Economics* 50 415–427; Macionis, J. J. (2018). *Sociology* (16th ed.). Harlow, England: Pearson.

## E. Entry and Advancement — Professional services industry employment

**Veteran status.** Figure E-11 presents the results by veteran status. According to 2018–2022 data for workers in Minnesota, 34 percent of veterans age 25 and older had at least a four-year college degree, lower than the 46 percent found for nonveterans. These differences were statistically significant for veterans (including veterans with a disability and other veterans).

**Persons with disabilities.** Figure E-11 also presents the results by disability status. According to 2018–2022 data for workers in Minnesota, 30 percent of persons with disabilities age 25 and older had at least a four-year college degree, lower than the 46 percent found for all other workers. This difference was statistically significant

**LGBTQ+ Americans.** According to 2018–2022 data for workers in Minnesota, 57 percent of people in same-sex couples age 25 and older had at least a four-year college degree, higher than the 45 percent found for people not in same-sex couples.

E-11. Percentage of all workers 25 and older with at least a four-year college degree in the Minnesota marketplace, 2018–2022

2018-2022		
Veteran status		
Veteran	33.5 %	**
Veterans with a disability	35.6	**
Other veterans	32.6	**
Not a veteran	45.8	
Disability status		
Persons with a disability	29.9 %	**
All others	46.1	
Sexual orientation		
Not in same-sex couple	45.1	
In same-sex couple	56.8 %	**
All individuals		45.3 %

Note: \*\* Denotes that the difference in proportions between the veteran and non-veteran groups (or between persons with disabilities and those without or people in same-sex couples and those not in same-sex couples) for the given Census/ACS year is statistically significant at the 95% confidence level.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples

E. Entry and Advancement — Professional services industry employment

Employment in the Professional Services Industry

Figure E-12 compares the demographic composition of professional services workers (in subindustries related to the study) to that of workers in all other industries who are 25 years or older and have a college degree.

In 2018–2022, the representation of Black Americans (including Sub-Saharan African Americans and other Black Americans) and American Indians in the Minnesota professional services industry was lower than their representation among workers with a college education across all other industries (statistically significant differences). Figure E-12 provides these results.

Results in Figure E-12 indicate that the representation of South Asian Americans in the professional services industry was higher than might be expected from analysis of the workforce in other industries with at least a four-year college degree.

Women were also underrepresented in the Minnesota professional services industry (among people with a college degree). This difference is statistically significant.

E-12. Demographic distribution of professional service workers and workers age 25 and older with a four-year college degree in all other industries in the Minnesota marketplace, 2018–2022

	Professional services		All other industries	
Race/ethnicity				
Black American	2.4	% **	4.5	%
Sub-Saharan African American	1.0	**	2.1	
Other Black American	1.4	**	2.3	
Asian-Pacific American	4.1		4.6	
Southeast Asian American	2.1		2.3	
Other Asian-Pacific American	2.0		2.3	
South Asian American	5.2	**	1.9	
Hispanic American	2.9		3.0	
Mexican American	0.8		1.0	
Other Hispanic American	2.1		2.0	
American Indian	1.2	**	1.6	
<b>Total minority</b>	<b>15.6</b>	<b>%</b>	<b>15.5</b>	<b>%</b>
Non-Hispanic white	84.4		84.5	
<b>Total</b>	<b>100.0</b>	<b>%</b>	<b>100.0</b>	<b>%</b>
Gender				
Female	33.6	% **	52.2	%
Male	66.4	**	47.8	
<b>Total</b>	<b>100.0</b>	<b>%</b>	<b>100.0</b>	<b>%</b>

Note: \*\* Denotes that the difference in proportions between workers in the specified industry and all other industries for the given race definition and Census/ACS year is statistically significant at the 95% confidence level.

“All other industries” includes all industries other than the professional services industries.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

E. Entry and Advancement — Professional services industry employment

**Veteran status.** Veterans made up a similar share of the professional services industry compared to all other industries in Minnesota.

**Persons with disabilities.** Persons with disabilities made up a lower share of professional services industry workers compared to all other industries in Minnesota. This difference was statistically significant.

**LGBTQ+ Americans.** People in same-sex couples (with a college degree) made about the same share of the professional services industry as other industries in Minnesota when examining workers with at least a four-year college degree.

E-13. Demographic distribution of professional service workers and workers age 25 and older with a four-year college degree in all other industries in the Minnesota marketplace, 2018–2022

	Professional services	All other industries
Veteran status		
Veterans with a disability	0.9 %	1.0 %
Other veterans	2.4	2.2
Total veterans	3.3 %	3.2 %
Not a veteran	96.7	96.8
Total	100.0 %	100.0 %
Disability status		
Persons with a disability	2.8 % **	4.2 %
All others	97.2 **	95.8
Total	100.0 %	100.0 %
Sexual orientation		
In same-sex couple	1.7 %	1.8 %
Not in same-sex couple	98.3	98.2
Total	100.0 %	100.0 %

Note: \*\* Denotes that the difference in proportions between workers in the specified industry and all other industries for the given group definition and Census/ACS year is statistically significant at the 95% confidence level, respectively.

“All other industries” includes all industries other than the professional services industries.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.



## E. Entry and Advancement — Academic research on professional services employment

Although representation of women in STEM jobs has improved, women are still underrepresented in physical science and computing jobs.<sup>101</sup> Many studies have examined the factors that contribute to low minority and female participation in the STEM fields.<sup>102,103</sup> Some factors that may play a role include isolation within work environments,<sup>104</sup> negative bias toward females in the engineering fields,<sup>105</sup> pervasive gender stereotypes regarding STEM subjects that can begin in early childhood,<sup>106</sup> the perception that STEM fields are non-communal,<sup>107</sup> low

anticipated power in male-dominated domains such as the STEM fields<sup>108</sup> and inadequate secondary-school preparation for college-level STEM courses.<sup>109</sup>

Furthermore, facing these factors can leave these groups “without a sense of belonging or purpose” which could cause them to transfer out of STEM fields.<sup>110</sup>

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<sup>101</sup> Fry, R., Kennedy, B., & Funk, C. (2021). STEM jobs see uneven progress in increasing gender, racial and ethnic diversity. Pew Research Center, 1. [https://www.pewresearch.org/science/wp-content/uploads/sites/16/2021/03/PS\\_2021.04.01\\_diversity-in-STEM\\_REPORT.pdf](https://www.pewresearch.org/science/wp-content/uploads/sites/16/2021/03/PS_2021.04.01_diversity-in-STEM_REPORT.pdf)

<sup>102</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>103</sup> Ewig, C., Montalvo, C. A., Marzec, J., & Ritter, J. (2024). 2024 status of women and girls+ in Minnesota. Center on Women, Gender and Public Policy, University of Minnesota Humphrey School of Public Affairs. <https://www.hhh.umn.edu/sites/hhh.umn.edu/files/2024-05/WFM-2024-Status-Report.pdf>

<sup>104</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>105</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; Colwell, R., Bear, A., & Helman, A. (2020). *Promising practices for addressing the underrepresentation of women in science, engineering, and medicine: opening doors*. Washington D.C.: The National Academies Press.

<sup>106</sup> McGuire, L. et al. (2020). STEM gender stereotypes from early childhood through adolescence at informal science centers. *Journal of Applied Development Psychology* 67. doi:10.1016/j.appdev.2020.101109

<sup>107</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>108</sup> Smith, K., & Gayles, J. (2018). “Girl power”: gendered academic and workplace experiences of college women in engineering. *Social Sciences*, 7(1); 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>109</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>110</sup> Clarke, S. (2020). Female disparity in STEM programs. *The Minnesota Daily*. Retrieved from <https://mndaily.com/264171/opinion/clarke-female-disparity-in-stem-programs/>

## E. Entry and Advancement — Academic research on professional services employment

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In Minnesota, women are underrepresented in architecture and engineering and are overrepresented in care and service-related jobs, which tend to pay less.<sup>111</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 and doctorate degrees. The study found that those same groups were also underrepresented among employees in science and engineering occupations.<sup>112</sup> A recent report from the Pew Research Center also highlighted that Black and Hispanic women receive the lowest pay for STEM-related jobs.<sup>113</sup> Similar barriers to employment and within the workplace have been known to affect persons with disabilities, veterans and service-disabled veterans and members of the LGBTQ+ community. (Although the following are not solely focused on the professional services industry, these factors may still carry over and impact these groups within that industry):

- A survey of 3,570 white collar workers found that 34 percent of those with disabilities reported experiences of discrimination or bias at their current employer.<sup>114</sup> Bias experienced by persons with disabilities at work includes having their intelligence and credentials underestimated (42%) or being insulted (31%).<sup>115</sup> For people with mental health conditions, workplace discrimination is even more frequent than for persons with other disabilities.<sup>116</sup>

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<sup>111</sup> Ewig, C., Montalvo, C. A., Marzec, J., & Ritter, J. (2024). 2024 status of women and girls+ in Minnesota. Center on Women, Gender and Public Policy, University of Minnesota Humphrey School of Public Affairs. <https://www.hhh.umn.edu/sites/hhh.umn.edu/files/2024-05/WFM-2024-Status-Report.pdf>

<sup>112</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)

<sup>113</sup> Fry, R., Kennedy, B., & Funk, C. (2021). STEM jobs see uneven progress in increasing gender, racial and ethnic diversity. Pew Research Center, 1. [https://www.pewresearch.org/science/wp-content/uploads/sites/16/2021/03/PS\\_2021.04.01\\_diversity-in-STEM\\_REPORT.pdf](https://www.pewresearch.org/science/wp-content/uploads/sites/16/2021/03/PS_2021.04.01_diversity-in-STEM_REPORT.pdf)

<sup>114</sup> Sherbin, L. Kennedy, J. Jain-Link, P. and Ihezue, K. (2017). *Disabilities and Inclusion*. Coqual (formerly CTI) website chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/[https://coqual.org/wp-content/uploads/2020/09/CoqualDisabilitiesInclusion\\_KeyFindings090720.pdf](https://coqual.org/wp-content/uploads/2020/09/CoqualDisabilitiesInclusion_KeyFindings090720.pdf)

<sup>115</sup> Sherbin, L. Kennedy, J. Jain-Link, P. and Ihezue, K. (2017). *Disabilities and Inclusion*. Coqual (formerly CTI) website chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/[https://coqual.org/wp-content/uploads/2020/09/CoqualDisabilitiesInclusion\\_KeyFindings090720.pdf](https://coqual.org/wp-content/uploads/2020/09/CoqualDisabilitiesInclusion_KeyFindings090720.pdf)

<sup>116</sup> Parker Harris, S., Gould, R., and Mullin, C. (2019). ADA research brief: Experiences of discrimination and the ADA (pp. 1-6). Chicago, IL: ADA National Network Knowledge Translation Center. [https://adata.org/research\\_brief/experience-discrimination-and-ada](https://adata.org/research_brief/experience-discrimination-and-ada)

## E. Entry and Advancement — Academic research on professional services employment

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- Service-disabled veterans may experience discrimination when applying for jobs or from unfair treatment within the workplace. For service-disabled veterans, discrimination in the workforce can appear in the hiring process, opportunities for advancement and promotions or refusal to make reasonable accommodations.<sup>117</sup> In some cases, service-disabled veterans may be passed over in favor of other individuals who are less qualified.<sup>118</sup>
- Evidence shows discrimination against LGBTQ+ people in hiring and in the workplace. A 2020 study that used a controlled experiment to assess for bias against “out” LGBTQ+ job applicants found a significant pattern of hiring discrimination against candidates who were identifiably LGBTQ+ in their application materials.<sup>119</sup> Additionally, research by the Williams Institute at the UCLA School of Law indicates that 46 percent of LGBTQ+ people have experienced workplace discrimination and that rates of workplace discrimination and harassment were higher for LGBTQ+ employees of color.<sup>120</sup>

Additional research indicates that Black and Hispanic adults are not as likely as others to earn a STEM degree and are underrepresented in those fields as well. This is especially true for Hispanic workers, who make up about 17 percent of employment across all occupations but only 8 percent of those in STEM occupations. Also, while women earn a majority of all undergraduate and advanced degrees, they obtain a relatively small share of STEM-related degrees and are underrepresented in those professions.

Research also indicates that about 8 percent of the veteran workers are in STEM occupations, where only about 6 percent of nonveteran workers are employed in STEM.<sup>121</sup> Additionally, military veterans experience lower returns to investments in formal education than the nonveteran population.<sup>122</sup>

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<sup>117</sup> Nicholas Kaster. (n.d.). Military discrimination/USERRA. No company is too big to play fair. Nka.com. <https://www.nka.com/minneapolis/employee-rights/discrimination/military-discrimination-userra/>.

<sup>118</sup> Bruyere, S.M. (2019). Employment and disability: Issues, innovations, and opportunities. *Labor and Employment Relations Association Series*. 3339-Article%20Text-4973-1-10-20200110.pdf

<sup>119</sup> Bryant-Lees, K.B. and Kite, M.E. (2021), "Evaluations of LGBT job applicants: consequences of applying “out”", *Equality, Diversity and Inclusion*, Vol. 40 No. 7, pp. 874-891. <https://doi.org/10.1108/EDI-01-2019-0048>

<sup>120</sup> Avery, D. (September 8, 2021). Half of LGBTQ workers have faced job discrimination, report finds. *NBC News*. <https://www.nbcnews.com/nbc-out/out-news/half-lgbtq-workers-faced-job-discrimination-report-finds-rcna1935>

<sup>121</sup> Maury, R., Stone, B. & Armstrong, N. (2018). *Enhancing veterans’ access to STEM education and careers* (Rep.). Retrieved from Syracuse University, D’Aniello Institute for Veterans & Military Families website: <https://ivmf.syracuse.edu/article/enhancing-veterans-access-to-stem-education-and-careers/>

<sup>122</sup> Makridis, C.A. & Hirsch, B.T. (2021). The labor market earnings of veterans: Is military experience more or less valuable than civilian experience? *Journal of Labor Research* 42, 303–333. <https://doi.org/10.1007/s12122-021-09321-y>

## E. Entry and Advancement — Employment in the goods industry

Keen Independent also examined the demographic composition of the segments of the Minnesota goods industry workforce. Figures E-14 and E-15 present these results.

In 2018–2022, people of color represented about 13 percent of the workforce in the Minnesota goods industry. Several groups were underrepresented as workers in this industry

- Sub-Saharan African Americans;
- Asian-Pacific Americans (including Southeast Asian Americans and other Asian-Pacific Americans);
- South Asian Americans; and
- Hispanic Americans (including Mexican Americans and other Hispanic Americans).

These differences were statistically significant.

About 22 percent of workers in the goods sector were women in 2018–2022, which is less than the representation of women in other industries (48%). This difference was statistically significant.

E-14. Demographic distribution of workers in the goods industry in the Minnesota marketplace, 2018–2022

	Goods		All other industries	
Race/ethnicity				
Black American	4.4	% **	7.1	%
Sub-Saharan African American	0.6	**	2.8	
Other Black American	3.8		4.3	
Asian-Pacific American	2.7	**	4.8	
Southeast Asian American	1.7	**	3.1	
Other Asian-Pacific American	1.0	**	1.7	
South Asian American	0.0	**	1.0	
Hispanic American	3.6	**	5.4	
Mexican American	1.5	**	2.4	
Other Hispanic American	2.1	**	3.0	
American Indian	2.0		2.1	
<b>Total minority</b>	<b>12.7</b>	<b>%</b>	<b>20.5</b>	<b>%</b>
Non-Hispanic white	87.3	**	79.5	
<b>Total</b>	<b>100.0</b>	<b>%</b>	<b>100.0</b>	<b>%</b>
Gender				
Female	21.9	% **	48.0	%
Male	78.1	**	52.0	
<b>Total</b>	<b>100.0</b>	<b>%</b>	<b>100.0</b>	<b>%</b>

Note: \*\* Denotes that the difference in proportions between workers in the goods and all other industries for the given Census/ACS year is statistically significant at the 95% confidence level.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## E. Entry and Advancement — Employment in the goods industry

Veterans made up a higher percentage of the Minnesota goods workforce compared to all other industries.

Persons with disabilities made up a slightly higher percentage of the Minnesota goods workforce compared to all other industries.

People in same-sex couples made up a smaller percentage of the Minnesota goods workforce compared to all other industries. This difference was not statistically significant.

E-15. Demographic distribution of workers in the goods industry in the Minnesota marketplace, 2018–2022

	Goods	All other industries
<b>Veteran status</b>		
Veterans with a disability	1.7 % *	1.0 %
Other veterans	5.2 **	2.8
<b>Total veterans</b>	<b>6.9 %</b>	<b>3.8 %</b>
Not a veteran	93.1 **	96.2
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>
<b>Disability status</b>		
Persons with a disability	7.5 %	6.5 %
All others	92.5	93.5
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>
<b>Sexual orientation</b>		
In same-sex couple	1.1 %	1.4 %
Not in same-sex couple	98.9	98.6
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>

Note: \*\* Denotes that the difference in proportions between workers in the goods and all other industries for the given Census/ACS year is statistically significant at the 95% confidence level.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples

## E. Entry and Advancement — Employment in the other services industry

Keen Independent also examined the demographic composition of workers in the “other services” industry (services other than professional services). Keen Independent defined the other services industry in this study as a wide range of sectors, such as landscaping services and waste collection. Figures E-16 and E-17 present results.

People of color represented about 24 percent of the workforce in the Minnesota other services industry in 2018–2022, about 4 percentage points higher than in all other industries in Minnesota (20%).

Asian-Pacific Americans (including Southeast Asian Americans and other Pacific-Asian Americans) and South Asian Americans were underrepresented as employees in that industry. These differences were statistically significant.

About 25 percent of workers in the industry were women in 2018–2022, which is less than the representation of women in other industries (49%). This difference was statistically significant.

E-16. Demographic distribution of workers in other services industry in the Minnesota marketplace, 2018–2022

	Other services		All other industries	
Race/ethnicity				
Black American	10.6	% **	6.8	%
Sub-Saharan African American	5.1	**	2.6	
Other Black American	5.5	**	4.2	
Asian-Pacific American	3.1	**	4.8	
Southeast Asian American	2.6	*	3.1	
Other Asian-Pacific American	0.6	**	1.7	
South Asian American	0.5	**	1.1	
Hispanic American	8.0	**	5.2	
Mexican American	4.2	**	2.3	
Other Hispanic American	3.7	**	2.9	
American Indian	1.9		2.1	
<b>Total minority</b>	<b>24.1</b>	<b>%</b>	<b>20.1</b>	<b>%</b>
Non-Hispanic white	75.9	**	79.9	
<b>Total</b>	<b>100.0</b>	<b>%</b>	<b>100.0</b>	<b>%</b>
Gender				
Female	24.9	% **	48.7	%
Male	75.1	**	51.3	
<b>Total</b>	<b>100.0</b>	<b>%</b>	<b>100.0</b>	<b>%</b>

Note: \*,\*\* Denotes that the difference in proportions between workers in the other services and all other industries for the given Census/ACS year is statistically significant at the 90% and 95% confidence level, respectively.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## E. Entry and Advancement — Employment in the other services industry

Figure E-17 examines veterans, people with a disability and people in same-sex couples who work in the other services industry. Compared to other industries:

- Veterans comprised a higher representation of workers in the other services industry;
- Persons with disabilities were a higher share of workers in the other services industry; and
- People in same-sex couples had a lower representation in the other services industry.

Each of these differences is statistically significant.

E-17. Demographic distribution of workers in other services industry in the Minnesota marketplace, 2018–2022

	Other services		All other industries	
Veteran status				
Veterans with a disability	1.7	% **	1.0	%
Other veterans	4.6	**	2.8	
<b>Total veterans</b>	<b>6.3</b>	<b>%</b>	<b>3.8</b>	<b>%</b>
Not a veteran	93.7	**	96.2	
<b>Total</b>	<b>100.0</b>	<b>%</b>	<b>100.0</b>	<b>%</b>
Disability status				
Persons with a disability	8.5	% **	6.4	%
All others	91.5	**	93.6	
<b>Total</b>	<b>100.0</b>	<b>%</b>	<b>100.0</b>	<b>%</b>
Sexual orientation				
In same-sex couple	0.6	% **	1.5	%
Not in same-sex couple	99.4	**	98.5	
<b>Total</b>	<b>100.0</b>	<b>%</b>	<b>100.0</b>	<b>%</b>

Note: \*\* Denotes that the difference in proportions between workers in the other services and all other industries for the given Census/ACS year is statistically significant at the 95% confidence level.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples

## E. Entry and Advancement — Summary of results

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People of color were about 20 percent of the Minnesota workforce from 2018 through 2022. Women accounted for about 47 percent of all workers. Analysis of the Minnesota workforce in the study industries indicates that there could be barriers to employment for some minority groups, women and other groups in certain industries, as summarized below.

- Among construction industry employees, Black Americans (including Sub-Saharan African Americans and other Black Americans), Asian-Pacific Americans (including Southeast Asian Americans and other Asian-Pacific Americans), South Asian Americans, women, persons with disabilities and people in same-sex couples were underrepresented compared to representation among workers in all other industries. These differences were statistically significant.

In the marketplace, representation of workers of color was relatively low in construction trades such as equipment operators, HVAC mechanics, highway maintenance workers and first-line supervisors.

There was also low representation of women in construction trades.

- Among people working in the local construction industry, relatively few Hispanic Americans (including Mexican Americans and other Hispanic Americans), American Indians, veterans with a disability and people in a same-sex couple working in the construction industry were managers.

- After controlling for educational attainment, Black Americans (including Sub-Saharan African Americans and other Black Americans), American Indians, women and persons with disabilities constituted a smaller portion of the Minnesota professional services workforce when compared to other industries. These differences were all statistically significant.
- In the goods industry, Black Americans (including Sub-Saharan African Americans), Asian-Pacific Americans (including Southeast Asian Americans and other Asian-Pacific Americans), South Asian Americans, Hispanic Americans (including Mexican Americans and other Hispanic Americans) and women represented a smaller portion of workers than would be expected based on representation among workers in all other industries. These differences were statistically significant.
- In the other services industry, Asian-Pacific Americans (including Southeast Asian Americans and other Asian-Pacific Americans), South Asian Americans, women and people in same-sex couples represented a smaller portion of workers than would be expected based on representation among workers in all other industries. These differences were statistically significant.

Any barriers to entry or advancement in the study industries might affect the relative number of businesses owned by people of color, women or other groups mentioned in these industries in Minnesota. Appendix F, which follows, examines rates of business ownership among individuals working in the study industries.



## APPENDIX F. Business Ownership in the Minnesota Study Industries — Introduction

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Appendix E discussed the composition of the workforce for the study industries related to participating entities contracting in the Minnesota marketplace. People who start businesses in the study industries tend to have experience working in that industry. Especially in construction, many people counted as working in the local study industry are business owners, as described below:

- Approximately one in five people working in the construction industry in Minnesota was a self-employed business owner in 2018–2022.
- Approximately 13 percent of those working in the local professional services industry were self-employed business owners.
- About 5 percent of those working in the local goods industry and about 19 percent of those working in the other services industry were self-employed.

Focusing on these study industries, Keen Independent examined business ownership for different groups of workers in Minnesota using Public Use Microdata Samples (PUMS) from the 2018–2022 American Community Survey (ACS).

Keen Independent assessed whether the rates of business ownership within each industry differed for people of color and women compared with other workers in those industries.<sup>1</sup>

Appendix F also provides information on how the COVID-19 pandemic, the Great Recession and other major events have impacted business ownership at the national and regional level.

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<sup>1</sup> Keen Independent also studied veterans, people with a disability and people in same-sex couples where possible.

## F. Business Ownership — Business ownership rates in construction industry

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Many studies have explored differences between minority and non-minority business ownership at the national level.<sup>2</sup> Although self-employment rates have increased for people of color 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>3,4,5</sup>

Keen Independent classified workers as self-employed if they reported that they worked in their own unincorporated or incorporated business in the ACS data.

In this section, the study team compares business ownership rates, conducts regression analyses and analyzes any disparities in business ownership (when applicable) among the following groups by study industry (construction, professional services, goods and other services).

- People of color;;
- Women;
- Veterans and veterans with a disability;
- People who have a disability; and
- People in same-sex couples.

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<sup>2</sup> See, e.g., Rosanna Garcia, Ezekiel Bonillas and Kristin Burton. (2023), "Re-Conceptualizing Underrepresented Racial Minority Entrepreneurs", *Foundations and Trends in Entrepreneurship*, 19 (5-6), pp 447-589. doi: 10.1561/0300000111; Bennett, V.M. and Robinson, D.T. (2023). Why aren't there more minority entrepreneurs? National Bureau of Economic Research. Retrieved from SSRN website: <http://dx.doi.org/10.2139/ssrn.4360750>; Fairlie, R., Robb, A. & Robinson, D.T. (2021). Black and white: Access to capital among minority-owned startups. *Management Science* 68(4): 2377-2400. Retrieved from <https://doi.org/10.1287/mnsc.2021.3998>; 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; Fairlie, R. (2018). Racial inequality in business ownership and income. *Oxford Review of Economic Policy*, 34(4) 597-614; Fairlie, R. W., Robb, A. M., & Robinson, D.T. (2020). Black and white: Access to capital among minority-owned startups. *National Bureau of Economic*

*Research, Working Paper (28154)*; Vallejo, J.A., & Canizales, S. (2016). Latino/a professionals as entrepreneurs. *Ethnic and Racial Studies*, 39 (9) 1637-1656; 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>3</sup> Lofstrom, M., Bates, T., & Parker, S. C. (2014). Why are some people more likely to become small-business owners than others: Entrepreneurship entry and industry-specific barriers. *Journal of Business Venturing*, 29(2), 232-251.

<sup>4</sup> Bento, A., & Brown, T. (2020). Belief in systemic racism and self-employment among working Blacks. *Ethnic and Racial Studies* 44(1), 21-38.

<sup>5</sup> Struckell, E.M., Patel, P.C., Ojha, D., Oghazi, P. (2022). Financial literacy and self employment—The moderating effect of gender and race. *Journal of Business Research* 139, 639-653.

F. Business Ownership — Business ownership rates in construction industry

In 2018–2022, about 21 percent of workers in the Minnesota construction industry were self-employed. Figures F-1 and F-2 on the following two pages present the percentage of workers in the Minnesota construction industry who were self-employed based on ACS data for 2018–2022.

Figure F-1 shows that the business ownership rates for Asian American construction employees (10.7%) were considerably less than the 21 percent rate for non-Hispanic white workers. This difference was statistically significant. (Note that subgroups of Asian Americans were combined due to the small number of people in each subgroup working in the Minnesota construction industry.)

The business ownership rate for women working in the Minnesota construction industry was about 8 percentage points below the business ownership rate among men. This difference was statistically significant.

F-1. Percentage of employees in the Minnesota construction industry who were self-employed, 2018–2022

Demographic group	2018-2022
Race/ethnicity	
Black American	17.9 %
Asian American	10.7 **
Hispanic American	20.4
Mexican American	25.0
Other Hispanic American	15.3
American Indian	21.4
Non-Hispanic white	21.4
Gender	
Female	14.0 % **
Male	21.9
All individuals	21.1 %

Note: \*\* Denote 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.

“American Indian” includes American Indians and other minorities.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples. The 2018–2022 ACS raw data extracts were obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

## F. Business Ownership — Business ownership rates in construction industry

Figure F-2 shows that veterans and workers who have a disability had about the same rates of business ownership as other workers in the Minnesota construction industry.

Workers who were in same-sex couples were less likely to own a business compared to workers who were not in same-sex couples. This difference was statistically significant.

F-2. Percentage of employees in the Minnesota construction industry who were self-employed, 2018–2022

Demographic group	2018-2022
<b>Veteran status</b>	
Veteran	20.8 %
Veterans with a disability	17.8
Other veterans	21.7
Not a veteran	21.2
<b>Disability status</b>	
Persons with a disability	24.4 %
All others	20.9
<b>Same-sex couples</b>	
In same-sex couple	6.9 % **
Not in same-sex couple	22.6
<b>All individuals</b>	<b>21.1 %</b>

Note: \*\* Denote that the difference in proportions between the veteran and non-veteran groups, persons with a disability and all others, and workers in same-sex couples and all others for the given Census/ACS year is statistically significant at the 95% confidence level.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## F. Business Ownership — Business ownership rates in professional services industry

Figures F-3 and F-4 on the following two pages present the percentage of workers in the Minnesota professional services industry who were self-employed based on ACS data for 2018–2022.

According to ACS data, Black Americans, Asian-Pacific Americans, South Asian Americans and Hispanic Americans had lower business ownership rates than non-Hispanic white workers. These differences were statistically significant for other Asian-Pacific Americans (Asian-Pacific Americans who are not Southeast Asian American), South Asian Americans and Mexican Americans.

About 9 percent of women working in this industry were business owners, compared to about 15 percent of men. This difference was statistically significant.

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F-3. Percentage of workers in the Minnesota professional services industry who were self-employed, 2018–2022

Demographic group	2018-2022		
Race/ethnicity			
Black American	8.1	%	
Sub-Saharan African American	7.5		
Other Black American	8.5		
Asian-Pacific American	8.6		
Southeast Asian American	9.6		
Other Asian-Pacific American	7.1		*
South Asian American	6.4		**
Hispanic American	10.2		
Mexican American	0.0		**
Other Hispanic American	15.6		
American Indian	15.6		
Non-Hispanic white	13.2		
Gender			
Female	8.9	%	**
Male	14.6		
All individuals	12.6	%	

Note:      \*,\*\* Denote 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 90 and 95% confidence levels, respectively.  
             “American Indian” includes American Indians and other minorities.

Source:    Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

F. Business Ownership — Business ownership rates in professional services industry

The business ownership rate in the professional services industry for veterans (22%) was 10 percentage points higher than for non-veterans (12%), a statistically significant difference.

The business ownership rate in the professional services industry for persons with a disability was about the same as for persons without a disability.

The business ownership rate in the professional services industry for people in same-sex couples was about the same as for other workers.

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F-4. Percentage of workers in the Minnesota professional services industry who were self-employed, 2018–2022

Demographic group	2018-2022
Veteran status	
Veteran	21.6 % **
Veterans with a disability	24.9 *
Other veterans	20.6 *
Not a veteran	12.2
Disability status	
Persons with a disability	13.2 %
All others	12.5
Same-sex couples	
In same-sex couple	13.1 %
Not in same-sex couple	13.6
All individuals	12.6 %

Note: \*,\*\* Denote that the difference in proportions between the veteran and non-veteran groups, persons with a disability and all others, and workers in same-sex couples and all others for the given Census/ACS year is statistically significant at the 90 and 95% confidence levels, respectively.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## F. Business Ownership — Business ownership rates in goods industry

Figures F-5 and F-6 on the following pages present the percentage of workers in the local goods industry who were self-employed based on ACS data for 2018–2022.

Asian Americans and Hispanic Americans had somewhat lower business ownership rates in the Minnesota goods industry. However, there were no statistically significant differences in business ownership rates in the Minnesota goods industry across the racial, ethnic or gender groups examined in Figure F-5 (possibly due to small sample size).

F-5. Percentage of workers in the Minnesota goods industry who were self-employed, 2018–2022

Demographic group	2018-2022
<b>Race/ethnicity</b>	
Black American	5.1 %
Asian American	3.4
Hispanic American	2.3
Mexican American	2.4
Other Hispanic American	2.2
American Indian	5.2
Non-Hispanic white	5.3
<b>Gender</b>	
Female	4.3 %
Male	5.3
<b>All individuals</b>	<b>5.1 %</b>

Note: “American Indian” includes American Indians and other minorities.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

F. Business Ownership — Business ownership rates in goods industry

Veterans working in the goods industry were less likely to own a business than non-veterans. This difference was statistically significant.

Persons with disabilities working in the goods industry were about as likely to own a business as other workers in the industry.

People in same-sex couples working in the goods industry were less likely to own a business than other workers. This was a statistically significant difference.

F-6. Percentage of workers in the Minnesota goods industry who were self-employed, 2018–2022

Demographic group	2018-2022
Veteran status	
Veteran	2.2 % **
Veterans with a disability	0.8 **
Other veterans	2.6 **
Not a veteran	5.4
Disability status	
Persons with a disability	5.8 %
All others	5.1
Same-sex couples	
In same-sex couple	0.0 % **
Not in same-sex couple	5.9
All individuals	5.1 %

Note: \*\* Denote that the difference in proportions between the veteran and non-veteran groups, persons with a disability and all others, and workers in same-sex couples and all others for the given Census/ACS year is statistically significant at the 95% confidence level.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.



F. Business Ownership — Business ownership rates in other services industry

Figures F-7 and F-8 presents the percentage of workers in the other services industry who were self-employed based on ACS data for 2018–2022.

Black Americans, Asian-Pacific Americans, South Asian Americans and Hispanic Americans in the local other services industry were less likely to be self-employed than non-Hispanic whites. This difference was statistically significant for Asian-Pacific Americans (and most pronounced for Southeast Asian Americans).

Among workers in this industry, women were about 7 percentage points less likely than men to be self-employed. This difference was statistically significant.

F-7. Percentage of workers in the Minnesota other services industry who were self-employed, 2018–2022

Demographic group	2018-2022
Race/ethnicity	
Black American	17.0 %
Sub-Saharan African American	20.1
Other Black American	14.1
Asian-Pacific American	9.7 **
Southeast Asian American	8.4 **
Other Asian-Pacific American	15.2
South Asian American	10.2
Hispanic American	15.5
Mexican American	13.9
Other Hispanic American	17.4
American Indian	19.3
Non-Hispanic white	19.5
Gender	
Female	12.8 % **
Male	20.4
All individuals	18.5 %

Note: \*\* Denote 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. “American Indian” includes American Indians and people who identified as other races or ethnicities not listed in the table.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

F. Business Ownership — Business ownership rates in other services industry

Among veterans working in the other services industry, those with a disability had higher business ownership rates compared to non-veterans. This difference was not statistically significant.

When examining all workers with a disability (veterans and nonveterans) working in the local other services industry, persons with disabilities were 4 percentage points less likely than other workers to own a business. This difference was statistically significant.

Workers in this industry who were in a same-sex couple were less likely than other workers to own a business (7% versus 21%, respectively). This difference was statistically significant.

F-8. Percentage of workers in the Minnesota other services industry who were self-employed, 2018–2022

Demographic group	2018-2022
Veteran status	
Veteran	18.9 %
Veterans with a disability	22.2
Other veterans	17.7
Not a veteran	18.5
Disability status	
Persons with a disability	14.5 % **
All others	18.9
Same-sex couples	
In same-sex couple	6.9 % **
Not in same-sex couple	21.4
All individuals	18.5 %

Note: \*\* Denote that the difference in proportions between the veteran and non-veteran groups, persons with a disability and all others, and workers in same-sex couples and all others for the given Census/ACS year is statistically significant at the 95% confidence level.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## F. Business Ownership — Research on potential causes of differences in ownership rates

### National Context

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>6</sup> Additionally, studies suggest that housing appreciation has a positive effect on small business formation and employment.<sup>7</sup>

However, unexplained racial and ethnic differences in financial capital remain after statistically controlling for those factors.<sup>8</sup> 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>9</sup> Access to capital is discussed in more detail in Appendix G.

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<sup>6</sup> See, e.g., Fairlie, R., Robb, A. & Robinson, D.T. (2021). Black and white: Access to capital among minority-owned startups. *Management Science* 68(4): 2377-2400. Retrieved from <https://doi.org/10.1287/mnsc.2021.3998>; 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; Vallejo, J.A., & Canizales, S. (2016). Latino/a professionals as entrepreneurs. *Ethnic and Racial Studies*, 39 (9) 1637-1656.

<sup>7</sup> Kerr, S.P., Kerr, W.R., & Nanda, R. (2022). House prices, home equity and entrepreneurship: Evidence from U.S. Census micro data. *Journal of Monetary Economics* 130, 103-119. Retrieved from <https://doi.org/10.1016/j.jmoneco.2022.06.002>; 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>.

<sup>8</sup> Fairlie, R., Robb, A. & Robinson, D.T. (2021). Black and white: Access to capital among minority-owned startups. *Management Science* 68(4): 2377-2400. Retrieved from <https://doi.org/10.1287/mnsc.2021.3998>; 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)*;

<sup>9</sup> Kim, M.J., Lee, K.M., Brown, J.D., & Earle, J.S. (2021). Black Entrepreneurs, Job Creation, and Financial Constraints. *IZA Discussion Paper No. 14403*. Retrieved from <http://dx.doi.org/10.2139/ssrn.3855967>; 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/>; Dua, A., Mahajan, D., Millan, I., & Stewart, S. (2020). COVID-19's effect on minority-owned small businesses in the United States. *McKinsey & Company*.

## F. Business Ownership — Research on potential causes of differences in ownership rates

- **Education.** Education has a positive effect on the probability of business ownership in most industries. Research confirms a significant relationship between education and ability to obtain startup capital.<sup>10</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>11</sup>
- **Experience.** Managerial experience and prior-self-employment are important indicators of re-entering or entering business ownership, respectively.<sup>12</sup> However, people of color and women have been found to be less likely than white men to hold managerial positions.<sup>13</sup> Additionally, unexplained differences in self-employment between

minorities and non-minorities still exist after accounting for business experience.<sup>14</sup>

- **Intergenerational links.** Intergenerational links affect one's likelihood of self-employment.<sup>15</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>16</sup> One study found that experience working for a self-employed family member increases the likelihood of business ownership for minorities.<sup>17</sup> Research suggests that the connection between a family business and future entrepreneurship may

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<sup>10</sup> Everett, C. R. (2024). Does more education lead to better startup funding outcomes? *Cogent Economics & Finance*, 12(1).

<https://doi.org/10.1080/23322039.2024.2354281>; Bates, T., Bradford, W.D., & Seamans, R. (2018). Minority entrepreneurship in the twenty-first century America. *Small Business Economics*, 50, 415-427; 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-46e1-9b85-14bded636232/1/PDF%20\(Published%20version\).pdf](https://researchbank.swinburne.edu.au/file/aada046e-13eb-46e1-9b85-14bded636232/1/PDF%20(Published%20version).pdf)

<sup>11</sup> See, e.g., Bennett, V.M. and Robinson, D.T. (2023). Why aren't there more minority entrepreneurs? National Bureau of Economic Research. Retrieved from SSRN website: <http://dx.doi.org/10.2139/ssrn.4360750>; Bates, T., Bradford, W.D., & Seamans, R. (2018). Minority entrepreneurship in the twenty-first century America. *Small Business Economics*, 50 415-427; 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.

<sup>12</sup> Staniewski, M.W., (2016). The contribution of business experience and knowledge to successful entrepreneurship. *Journal of Business Research*, 69(11) 5147-5152; 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.

<sup>13</sup> U.S. Government Accountability Office. (2023). Women in the workforce: Underrepresentation in management positions persists, and the gender pay gap varies by industry and demographics. (Rep. No. GAO-23-106320). Retrieved from <https://www.gao.gov/assets/gao-23-106320.pdf>; Bloch, K.R., Taylor, T., Church, J., & Buck, A. (2021). An intersectional approach to the glass ceiling: Gender, race and share of middle and senior management in U.S. workplaces. *Sex Roles* 84, 312-325. Retrieved from <https://doi.org/10.1007/s11199-020-01168-4>

<sup>14</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>15</sup> Andersson, L., & Hammarstedt, M. (2010). Intergenerational transmissions in immigrant self-employment: Evidence from three generations. *Small Business Economics*, 34(3), 261-276.

<sup>16</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>17</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.

## F. Business Ownership — Research on potential causes of differences in ownership rates

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be especially strong for African Americans.<sup>18</sup> Another study found that daughters of self-employed fathers are less likely to become entrepreneurs themselves if there are sons in the family.<sup>19</sup>

Additionally, business owners with personal experience and/or family with managerial experience have been found to accumulate resources that result in greater business success, and thus continuation in the chosen industry.<sup>20</sup> However, research has found that on average, minorities have fewer intergenerational links to business ownership, which can impact the ability to start and operate a firm.<sup>21</sup>

Research has also demonstrated that persons with disabilities indicated barriers to entrepreneurship such as discrimination, difficulty financing business startups, networking and receiving relevant and accessible training and business assistance due to their disabilities.<sup>22</sup>

### Impact of COVID-19 on Business Ownership

Major societal events, such as the COVID-19 pandemic and the Great Recession, have impacted business ownership across the country. Research has found that COVID-19 resulted in a loss of 3.3 million active business owners (a 22% decrease from 15 million owners) at the height of the pandemic.<sup>23</sup> This was far greater than what occurred during the Great Recession, where 5 percent of businesses closed.<sup>24</sup> Recovery has been inconsistent across industries, with some business owners rebounding and others continuing to feel the economic effects of the pandemic.

Additional research on the effects of the pandemic on businesses can be found throughout appendices E, G and H.

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<sup>18</sup> Rothwell, J. & Perry, Andre M. (2024). Why don't more Americans work for Black-owned firms? Implications for increasing well-being. Retrieved from Brookings website: <https://www.brookings.edu/articles/why-dont-more-americans-work-for-black-owned-firms-implications-for-increasing-well-being/>

<sup>19</sup> Mishkin, E. (2021). Gender and sibling dynamics in the intergenerational transmission of entrepreneurship. *Management Science* 67(10): 6116–35. Retrieved from <https://doi.org/10.1287/mnsc.2020.3790>

<sup>20</sup> Staniewski, M.W., (2016). The contribution of business experience and knowledge to successful entrepreneurship. *Journal of Business Research*, 69(11) 5147-5152.

<sup>21</sup> Hout, M. & Rosen, H. (2000). Self-employment, family background, and race. *Journal of Human Resources*, 35(4) 670-692.

<sup>22</sup> National Disability Institute (April 2022). Small business ownership by people with disabilities. <https://www.nationaldisabilityinstitute.org/reports/small-business-ownership-pwd-challenges-and-opportunities/>

<sup>23</sup> Fairlie R. (2020). The impact of COVID-19 on small business owners: Evidence from the first three months after widespread social-distancing restrictions. *Journal of Economic Management Strategy* 29(4):727-740. doi: 10.1111/jems.12400

<sup>24</sup> Fairlie, R. (2022). *COVID-19, small business owners, and racial inequality*. The National Academies of Sciences, Engineering and Medicine. Retrieved from [https://www.nber.org/sites/default/files/2022-11/Fairlie\\_COVID-19SmallBusinessOwnersandRacialInequality.pdf](https://www.nber.org/sites/default/files/2022-11/Fairlie_COVID-19SmallBusinessOwnersandRacialInequality.pdf)

## F. Business Ownership — Construction industry regression analyses

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### Regression Analyses

As discussed above, race, ethnicity and gender can affect opportunities for business ownership, even when accounting for personal characteristics such as education, age and family status.

To further examine business ownership, Keen Independent developed multivariate regression models for each study industry. 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 personal factors such as access to financial capital, education, age and family characteristics (e.g., marital status) explain differences in business ownership. That subject has also been examined in other disparity studies that have been favorably reviewed in court.<sup>25</sup> For example, studies in Minnesota and Illinois have used econometric analyses to investigate whether disparities in business ownership for minorities and women working in the construction and A&E industries persist after statistically controlling for race- and gender-neutral personal characteristics.<sup>26,27</sup> Those studies developed probit econometric models (a particular type of regression model) based on Census data, which were included in the materials that

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<sup>25</sup> For example, National Economic Research Associates, Inc. (2012). *The state of minority- and woman-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 Transportation/Illinois Tollway disadvantaged business enterprises disparity study (Vols. 2)* (Rep.). Retrieved from Illinois Department of Transportation website: <http://www.idot.illinois.gov/Assets/uploads/files/Doing-Business/Reports/OBWD/DBE/DBEDisparityStudy.pdf>.

<sup>26</sup> National Economic Research Associates, Inc. (2000). *Disadvantaged Business Enterprise availability study* (Rep.). Prepared for the Minnesota Department of Transportation.

agencies 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 such as age that are potentially linked to the likelihood of business ownership;
- Educational attainment;
- Measures and indicators related to personal financial resources and constraints, such as home ownership; and
- Race, ethnicity and gender, disability, same sex couple and veteran status.<sup>28</sup>

The effect of an explanatory variable such as race or gender on business ownership can be determined based on the “coefficient” for that variable determined through the multivariate regression analysis.

<sup>27</sup> National Economic Research Associates, Inc. (2004). *Disadvantaged Business Enterprise availability study* (Rep.). Prepared for the Illinois Department of Transportation.

<sup>28</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).

## F. Business Ownership — Construction industry regression analyses

Figure F-9 presents the coefficients for the probit model for individuals working in the local construction industry in 2018–2022.

Age, marital status and ability to speak English well were positively associated with the likelihood of owning a construction business, whereas veteran status and having a four-year degree were negatively associated with the likelihood of owning a construction business. These variables were statistically significant.

After statistically controlling for race- and gender-neutral factors, there remained a statistically significant disparity in business ownership rates for white women working in the Minnesota construction industry. Compared with non-Hispanic white men, white women working in the construction industry were less likely to own businesses.

F-9. Business ownership model for the Minnesota construction industry, 2018–2022

Variable	Coefficient
Constant	-0.2001 **
Age	0.0087 **
Age-squared	0.0000
Married	0.0376 **
Disabled	-0.0310
Veteran	-0.0580 **
In same-sex couple	-0.0832
Speaks English well	0.0863 *
Owns home	-0.0164
Income of spouse or partner (\$1,000s)	0.0003
Four-year degree	-0.0472 **
Advanced degree	-0.0431
Black American	0.0466
Asian American	-0.0531
Hispanic American	-0.0049
American Indian	-0.0431
White woman	-0.0972 **

Note: \*, \*\* Denote statistical significance at the 90% and 95% confidence levels, respectively.

“American Indian” includes American Indians and people who identified as other races or ethnicities not listed in the table.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

F. Business Ownership — Construction industry regression analyses

Actual and Projected Business Ownership Rates

Probit regression modeling allows for further analysis of the disparities identified in business ownership rates for people of color 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 and compared those results with what was observed.

We begin by examining business ownership rates in the construction industry.

- 1. Keen Independent performed a probit regression analysis predicting business ownership using only non-Hispanic white male workers in the construction industry in the dataset.<sup>29</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 Black Americans, Asian Americans, Hispanic Americans, American Indians or other minorities, and non-Hispanic white women working in the local 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>29</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-10 presents the simulated business ownership rate (i.e., “benchmark” rate) for white women, and compares them to the actual, observed mean probabilities of business ownership for those groups.

The disparity index was calculated by dividing the actual business ownership rate for each group (the first column of results in Figure F-10) by that group’s benchmark rate (the second column), and then multiplying the result by 100.<sup>30</sup> The third column of results in Figure F-10 provides the disparity index for business ownership for white women working in the local construction industry. An index of “100” indicates parity between actual and simulated rates and an index less than 100 indicates a disparity.

As shown in Figure F-10, there was a substantial disparity in business ownership for white women (disparity index of 59).

F-10. Comparison of actual business ownership rates to simulated rates for workers in the construction industry in Minnesota, 2018–2022

Demographic group	Self-employment rate		Disparity index (100 = parity)
	Actual	Benchmark	
White woman	14.1 %	24.0 %	59

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 2018–2022 ACS Public Use Microdata samples.

<sup>30</sup> 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 2018–2022 data.



## F. Business Ownership — Professional services industry regression analyses

### Regression Analyses

Keen Independent also developed a business ownership regression model for people working in the local professional services industry. Figure F-11 presents the coefficients for that probit model.

For this industry, age-squared and having a four-year or advanced degree were associated with a higher probability of owning a business. These estimates were statistically significant.

After controlling for race- and gender-neutral factors, disparities persisted in ownership rates for South Asian American and white woman business owners compared to non-Hispanic white male business owners.

F-11. Business ownership model for the Minnesota professional services industry, 2018–2022

Variable	Coefficient
Constant	0.2706
Age	-0.0070
Age-squared	0.0002 **
Married	-0.0362
Disabled	-0.0180
Veteran	-0.0261
In same-sex couple	-0.0306
Speaks English well	-0.1794
Owns home	0.0223
Income of spouse or partner (\$1,000s)	0.0002
Four-year degree	0.0510 **
Advanced degree	0.1328 **
Black American	-0.0655
Asian-Pacific American	-0.0155
South Asian American	-0.0726 **
Hispanic American	-0.0260
American Indian	0.0388
White woman	-0.0518 **

Note: \*, \*\* Denote statistical significance at the 90 and 95% confidence levels, respectively.

“American Indian” includes American Indians and people who identified as other races or ethnicities not listed in the table.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## F. Business Ownership — Professional services industry regression analyses

### Actual and Projected Business Ownership Rates

Figure F-12 compares the actual and simulated (“benchmark”) business ownership rates for South Asian Americans and white women working in the Minnesota professional services industry.

The actual business ownership rates for South Asian Americans and white women in the professional services industry were less than the benchmark rate. These disparities (54 and 73, respectively) were substantial.

F-12. Comparison of actual business ownership rates to simulated rates for workers in the professional services industry in Minnesota, 2018–2022

Demographic group	Self-employment rate		Disparity index (100 = parity)
	Actual	Benchmark	
South Asian American	6.8 %	12.6 %	54
White woman	10.8	14.8	73

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-3.

Disparity index calculated as actual/benchmark rate, multiplied by 100.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## F. Business Ownership — Goods industry regression analyses

### Regression Analyses

Figure F-13 presents the coefficients for the business ownership probit model for people working in the local goods industry.

For this industry, speaking English well was one of the personal characteristics positively associated with a higher probability of owning a business. Disability status, veteran status, being in a same-sex couple and having an advanced degree were all associated with a lower probability of owning a business in the local goods industry. These estimates were statistically significant.

After controlling for race- and gender-neutral factors, no disparities persisted in ownership rates for minority and white woman business owners compared to non-Hispanic white male business owners.

F-13. Business ownership model for the Minnesota goods industry, 2018–2022

Variable	Coefficient
Constant	-0.0605
Age	-0.0010
Age-squared	0.0000
Married	0.0080
Disabled	-0.0338 *
Veteran	-0.0642 **
In same-sex couple	-0.0434 **
Speaks English well	0.0654 **
Owns home	0.0119
Income of spouse or partner (\$1,000s)	0.0004
Four-year degree	0.0250
Advanced degree	-0.0553 **
Black American	0.0433
Asian American	0.0344
Hispanic American	-0.0133
American Indian	0.0156
White woman	-0.0132

Note: \*, \*\* Denotes statistical significance at the 90 and 95% confidence levels, respectively.

“American Indian” includes American Indians and people who identified as other races or ethnicities not listed in the table.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## F. Business Ownership — Other services industry regression analyses

### Regression Analyses

Figure F-14 presents the coefficients for the business ownership probit model for people working in the Minnesota other services industry.

Age (up to a point), marital status and home ownership were positively associated with business ownership in the local other services industry. Disability status, veteran status, being in a same-sex couple and having a four-year or advanced degree were negatively associated with business ownership.

After controlling for race- and gender-neutral factors, there remained statistically significant disparities in business ownership rates for workers with a disability, veterans, Asian Americans, American Indians and white women working in the local other services industry. Compared with non-Hispanic white men, Asian Americans, American Indians and white women working in the other services industry were less likely to own businesses than others in the industry with similar personal characteristics.

F-14. Business ownership model for the Minnesota other services industry, 2018–2022

Variable	Coefficient
Constant	-0.1857 *
Age	0.0124 **
Age-squared	-0.0001 **
Married	0.0468 **
Disabled	-0.1076 **
Veteran	-0.0757 **
In same-sex couple	-0.0974 **
Speaks English well	0.0374
Owns home	0.0542 **
Income of spouse or partner (\$1,000s)	-0.0003 *
Four-year degree	-0.0845 **
Advanced degree	-0.0732 *
Black American	0.0346
Asian American	-0.1242 **
Hispanic American	-0.0220
American Indian	-0.0693 *
White woman	-0.0621 **

Note: \*, \*\* Denotes statistical significance at the 90% and 95% confidence levels, respectively.  
“American Indian” includes American Indians and people who identified as other races or ethnicities not listed in the table.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## F. Business Ownership — Other services industry regression analyses

### Actual and Projected Business Ownership Rates

Figure F-15 compares the actual and simulated (“benchmark”) business ownership rates for Asian Americans, American Indians and white women working in the Minnesota other services industry.

The actual business ownership rates for Asian Americans and white women in the other services industry were less than the benchmark rates. These disparities were substantial.

In this case, the actual business ownership rate among American Indians was equal to the benchmark rate that one would expect. These results indicate no negative outcomes regarding business ownership rates for American Indians working in the Minnesota other services industry.

F-15. Comparison of actual business ownership rates to simulated rates for workers in the other services industry in Minnesota, 2018–2022

Demographic group	Self-employment rate		Disparity index (100 = parity)
	Actual	Benchmark	
Asian American	9.8 %	18.7 %	52
American Indian	19.8	19.8	100
White woman	14.7	19.7	75

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-7.

Disparity index calculated as actual/benchmark rate, multiplied by 100.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## F. Business Ownership — Summary of results

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### Summary of Results

Keen Independent examined whether there were differences in business ownership rates for workers in local construction, professional services, goods and other services industries related to race, ethnicity, gender, veteran status, disability and being in a same-sex couple.

- **Construction.** Women working in the Minnesota construction industry were less likely than non-Hispanic whites and men, respectively, to own a business. The disparity was substantial and persisted after controlling for certain other personal and family characteristics (statistically significant difference).

Veterans working in the industry were also less likely to own a business after statistically controlling for other factors.

- **Professional services.** In the Minnesota professional services industry, other Asian-Pacific Americans (Asian-Pacific Americans other than Southeast Asian Americans), South Asian Americans, Mexican Americans and women were less likely than non-Hispanic whites to own a business.

After statistically controlling for factors such as having a four-year or advanced degree, statistically significant differences in business ownership rates persisted for South Asian Americans and white women. These disparities were substantial.

- **Goods.** In the Minnesota goods industry, workers with a disability, workers who were veterans and workers in same-sex couples had lower rates of business ownership than other workers after controlling for certain other personal characteristics (statistically significant differences).
- **Other services.** In the Minnesota other services industry, Asian-Pacific Americans, women, persons with disabilities and people in a same-sex couple working in the industry were less likely to own a business than non-Hispanic whites, men and other workers respectively.

After controlling for personal characteristics, statistically significant differences were identified for Asian Americans, American Indians, white women, veterans, persons with disabilities and people in a same-sex couple.

Further analysis for these disparities for Asian Americans, American Indians and white women found those for Asian Americans and women to be substantial.

## APPENDIX G. Access to Capital — Introduction

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Access to capital is key to formation and long-term success of businesses. Discrimination in capital markets hinders people of color, women and other groups from acquiring the capital necessary to start, operate or expand businesses.<sup>1</sup> Racial or gender 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>2</sup> Courts have applied such evidence when approving programs to assist minority- and woman-owned businesses.<sup>3</sup>

MBE/WBEs have, on average, less start-up capital than other businesses.<sup>4</sup> According to a 2012 national U.S. Census Bureau survey:

- About 25 percent of white-owned firms indicated that they had start-up capital of \$25,000 or more compared with only 12 percent of African American-owned businesses. There were disparities for other minority groups except Asian Americans.

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<sup>1</sup> Fairlie, R., Robb, A. & Robinson, D.T. (2021). Black and white: Access to capital among minority-owned startups. *Management Science* 68(4): 2377-2400. Retrieved from <https://doi.org/10.1287/mnsc.2021.3998>; Fairlie, R. (2018). Racial inequality in business ownership and income. *Oxford Review of Economic Policy*, 34(4) 597-614; Federal Reserve Bank of Atlanta. (2019, December). Report on minority-owned firms: small business credit survey. Retrieved from <https://www.fedsmbusiness.org/survey/2019/report-on-minority-owned-firms>

<sup>2</sup> Fairlie, R., Robb, A. & Robinson, D.T. (2021). Black and white: Access to capital among minority-owned startups. *Management Science* 68(4): 2377-2400. Retrieved from <https://doi.org/10.1287/mnsc.2021.3998>; 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> In *Concrete Works v. City and County of Denver*, Denver 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. 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

- About 15 percent of woman-owned businesses reported start-up capital of \$25,000 or more compared with 27 percent of male-owned businesses.<sup>5</sup>

Discrimination in the traditional means of obtaining start-up capital (e.g., 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 business 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 the region. It also examines the relationship between business success and mortgage lending, as home equity is often a vital source of capital to start and expand businesses.

businesspeople, they were ultimately treated differently by the lenders on the crucial issue of loan approval or denial.” *Concrete Works*, 321 F.3d at 976, 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. The Tenth Circuit in *Concrete Works* concluded that discriminatory motive can be inferred from the results shown in disparity studies. 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.

<sup>4</sup> Augustus, I. (2022). Five reasons minority borrowers can’t access capital (Rep.). Retrieved from Third Way website: <https://www.thirdway.org/report/five-reasons-minority-borrowers-cant-access-capital>; 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>5</sup> United States Census Bureau. (2012). *2012 Survey of Business Owners* [Data file]. Retrieved from: <https://www.census.gov/library/publications/2012/econ/2012-sbo.html>

## G. Access to Capital — Sources of start-up capital

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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. 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.

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<sup>6</sup> Federal Reserve Bank (2023, March). Report on minority-owned firms: small business credit survey. Retrieved from <https://www.fedsmbbusiness.org/survey/2023/report-on-employer-firms>; The Annual Business Survey provides economic and demographic data for nonfarm employer businesses that file the 941, 944 or 1120 tax forms 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. ABS data released in 2018 and referencing 2017 are the most recent data available.

<sup>7</sup> Federal Reserve Bank. Survey of Consumer Finances. Retrieved from: [https://www.federalreserve.gov/econres/scf/dataviz/scf/table/#series:Net\\_Worth;demographic:racecl4;population:all;units:median](https://www.federalreserve.gov/econres/scf/dataviz/scf/table/#series:Net_Worth;demographic:racecl4;population:all;units:median)

<sup>8</sup> Women's Foundation of Minnesota (2024, February). New status of women and girls+ in Minnesota shows barriers and opportunities for equity. Retrieved from <https://www.wfmn.org/press/2024-status-of-women-girls-in-minnesota/>

According to the U.S. Census Bureau's Annual Business Survey (ABS) and the Federal Reserve Bank's 2023 Small Business Credit Survey (SBCS), the primary source of capital used to start or acquire a business in 2017 was personal and/or family savings.<sup>6</sup> Research finds that the amount of personal savings a business owner has accrued is influenced by race, ethnicity and gender. A 2023 Survey of Consumer Finances by the Federal Reserve System found that the median net worth of African American households was 16 percent of that for white households and the median net worth of Hispanic American households was 22 percent of white households.<sup>7</sup> In 2024, Minnesota had the third-largest racial wealth gap in the country.<sup>8</sup>

The gap between the median net worth of male- and female-headed households is also substantial. A 2021 study found that, on average, a woman-headed household's net worth is 71 percent that of her male counterpart.<sup>9</sup> While the gender income gap has narrowed, the gender wealth gap has widened steadily since the mid-1990s.<sup>10</sup> In Minnesota, women are estimated to lose approximately \$483,000 in lifetime earnings due to the gender pay gap.<sup>11</sup>

<sup>9</sup> Kent, A.H., & Ricketts, L. (2021, January 12). Gender wealth gap: families headed by women have lower wealth. *Federal Reserve Bank of St. Louis*. Retrieved from <https://www.stlouisfed.org/en/publications/in-the-balance/2021/gender-wealth-gap-families-women-lower-wealth>

<sup>10</sup> Lee, A. (2022) The gender wealth gap in the United States. *Social Science Research* (107). Retrieved from <https://www.sciencedirect.com/science/article/abs/pii/S0049089X22000515> Women's median wealth as a percentage of men's median wealth dropped from 90% in the mid-1990s to 60% in the mid-2010s. The widening of the gender wealth gap has occurred across the wealth distribution and in almost every subgroup by marital status, race, education, and age.

<sup>11</sup> Women's Foundation of Minnesota (2024, February). New status of women and girls+ in Minnesota shows barriers and opportunities for equity. Retrieved from <https://www.wfmn.org/press/2024-status-of-women-girls-in-minnesota/>



## G. Access to Capital — Sources of start-up capital

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### Use of Personal Savings

ABS has also found that the degree to which personal savings are used differs by race, ethnicity and gender. Employer businesses (those with paid employees other than the owner) included in the 2017 ABS data revealed the following national patterns:

- African American-, Asian American- and Hispanic American-owned businesses were most likely to use personal/family savings as a source of start-up capital (72%). American Indian- and Alaska Native-owned businesses (69%) were also likely to rely on personal or family savings for start-up capital.
- Non-Hispanic white-owned businesses were less likely to use personal/family savings for start-up capital (66%).
- Woman-owned firms were slightly more likely than male-owned businesses to report using personal and family savings for start-up capital (67% and 65%, respectively).

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<sup>12</sup> Federal Reserve Bank of Atlanta. (2019, December). Report on minority-owned firms: small business credit survey. Retrieved from <https://www.fedsmallbusiness.org/survey/2019/report-on-minority-owned-firms>

### Use of Personal Credit Cards

Some business owners also use personal credit scores to obtain capital. Similar to personal funds, SBCS findings show that reliance on this method differs by race and ethnicity. African American- (52%) and Hispanic American-owned (51%) businesses were more likely to utilize personal credit scores compared to majority- (45%) and Asian American-owned (43%) firms. This finding is confounded by the fact that African Americans and Hispanic Americans, on average, have lower credit scores than their white and Asian American counterparts. This may increase the difficulty and limit the actual acquirement of capital for African American and Hispanic American business owners.<sup>12</sup>

The Federal Reserve found that African Americans and Hispanic Americans accessed credit at different rates. In 2022, 87 percent of non-Hispanic whites had credit cards, while 73 percent of Hispanic Americans and 71 percent of African Americans did.

Hispanic Americans and African Americans were also less likely to be approved for credit or an approval for less than credit requested than non-Hispanic whites. Of those that had credit cards, just 42 percent of non-Hispanic whites carried a balance, whereas 62 percent of Hispanic Americans and 78 percent of African Americans carried a balance, indicating fewer resources to pay off credit cards in a timely manner.<sup>13</sup>

<sup>13</sup> The Federal Reserve. (27 May 2023). Economic Well-Being of U.S. Households (SHED). Retrieved from: <https://www.federalreserve.gov/publications/files/2022-report-economic-well-being-us-households-202305.pdf>

## G. Access to Capital — Sources of start-up capital

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Nationally, businesses owned by non-Hispanic whites, Asian Americans and men in general reported lower reliance on the use of credit cards as a source of start-up capital than other people of color and women. The following ABS results pertain to employer businesses in 2017:

- About 15 percent of African American-owned businesses used personal credit cards as a source of start-up capital, followed by Native Hawaiians and other Pacific Islander-owned firms (14%), American Indian and Alaska Native-owned business (13%) and Hispanic American-owned firms (12%).
- Only 9 percent of Asian American- and non-Hispanic white-owned businesses reported using personal credit cards as a source of start-up capital.
- Female-owned businesses (10%) were somewhat more likely to use personal credit cards as a source of start-up capital compared with male-owned businesses (8%).

Credit card financing of debt is more expensive than business loans through financial institutions.<sup>14</sup> Reliance on this more expensive method of financing presents additional challenges to business success, which disproportionately affects women and most minority groups.

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<sup>14</sup> Pokora, B. & Perkins-Southern, T. (2024, May 24). What are the benefits of a business credit card? *Forbes*. Retrieved October 27, 2024 from <https://www.forbes.com/advisor/credit-cards/business-credit-card-benefits/>; 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)

## G. Access to Capital — Start-up capital

### Wealth

Since personal and 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 implications for people of color and women.

As mentioned earlier, in 2022, white households had, on average, greater income and net worth than minority households, more specifically, more than six times as much wealth as African American families and five times as much as Hispanic American households.<sup>15</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>16</sup> White households also had greater mean net housing wealth than African American and Hispanic American households.<sup>17</sup> And, white householders were more likely to participate in retirement accounts and plans, behavior that has been found to build wealth and financial security.<sup>18</sup>

Figure G-1 provides household financial data by race and ethnicity for 2022, gathered by the Survey of Consumer Finances.

Given the heavy dependence upon personal and family savings of the owner as the main source of start-up capital, lower levels of wealth among African Americans, Hispanic Americans and other people of color may result in greater difficulty acquiring the capital necessary to start, operate or expand businesses.

<sup>15</sup> 2022 Survey of Consumer Finances. Retrieved from <https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/>

<sup>16</sup> Ibid.

G-1. U.S. household financial data by race/ethnicity, 2022

	White	African American	Hispanic American	Other minority
<b>Income</b>				
Median	\$ 81,070	\$ 46,480	\$ 46,480	\$ 68,100
Mean	164,550	70,950	71,550	134,680
<b>Net worth</b>				
Median	\$ 284,310	\$ 44,100	\$ 62,120	\$ 132,200
Mean	1,361,810	211,600	227,540	844,130
<b>Assets (percent of families with ...)</b>				
Homeownership	73 %	46 %	51 %	57 %
Retirement accounts	62	35	28	53
Business equity	16	11	10	14

Note: “Other minority” includes Asian Americans, Native Americans and individuals of multiple races.

Source: Survey of Consumer Finances, 2022.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

## G. Access to Capital — Business credit

Many businesses rely on banks for start-up and expansion capital.<sup>19</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

Keen Independent’s analysis began by examining success in receiving business loans.

**Small business credit survey on loan approval.** Data for employer businesses that secured business loans and other financing are found in the Small Business Credit Survey (SBCS).

Although data by race, ethnicity and gender are not reported for individual states, results by race and gender are available at the national level. These data give insight into the larger socio-economic context for firms owned by people of color in the Minnesota marketplace.

Nationally, 40 percent of employer firms applied for a business loan in 2022. Of those that applied, minority-owned businesses were less likely than non-Hispanic white-owned firms to report securing a business loan. For example, 45 percent of African American-owned businesses (that had employees) applied for loans in 2022. Of those applications, 37 percent were approved. A smaller percent of non-Hispanic white-owned businesses applied for loans in that year (33%). More than two-thirds of applications from white-owned businesses were approved (69%).

<sup>19</sup> Kumar, M. & Antonioli, J. (2024). *Small businesses matter: Increasing small business access to capital in the digital age* (Rep.). Retrieved from Bipartisan Policy center website: <https://bipartisanpolicy.org/report/small-businesses-matter-capital-access/>; Robb, A. & Robinson, D. T. (2017). Testing for racial bias in business credit scores. *Small Business Economics*, 50(3), 429-443.

Figure G-2 displays the national approval rate for business loans by race and ethnicity, according to 2022 SBCS data. These results are consistent with recent research indicating that minority-owned businesses were less likely than white-owned businesses to receive the amount of requested credit from lending institutions.<sup>20</sup>

The figure indicates that among applicants, minority-owned businesses were considerably less likely than majority-owned businesses to obtain business loans.

G-2. Business loan application and approval rate, U.S. employer firms, 2022

Race/ethnicity	Applied	Approval rate
African American	45 %	37 %
Asian American	30	53
Hispanic American	42	62
Non-Hispanic white	33	69

Note: The sample size for Native Americans was too small for publication. “Approval rate” includes businesses that received some or all financing.

Source: Federal Reserve Bank. (2023). 2022 Small Business Credit Survey [Data file]. Retrieved from <https://www.fedsmallbusiness.org/survey>.

<sup>20</sup> Schweitzer, Mark E. and Brent Meyer. (2022). Access to Credit for Small and Minority-Owned Businesses. *Federal Reserve Bank of Cleveland*. Retrieved from <https://www.clevelandfed.org/newsroom-and-events/publications/economic-commentary/2022-economic-commentaries/ec-202204-access-to-credit-for-small-and-minority-owned-businesses.aspx>

## G. Access to Capital — Business credit

**Annual Survey of Entrepreneurs data.** Lack of access to capital affects business profitability and long-term success. The 2016 Annual Survey of Entrepreneurs (ASE) indicates that business owners of color were far more likely than non-Hispanic whites and men to cite access to capital as an issue negatively affecting the profitability of their company. Figure G-3 provides national results by race, ethnicity and gender of the owners of employer firms.

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.

**National Community Reinvestment Coalition analyses.** The ASE data related to business lending are consistent with the findings of other research. In 2019, the National Community Reinvestment Coalition studied lending practices in seven U.S. cities and 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>21</sup>

<sup>21</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/>

G-3. 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.

# G. Access to Capital — Business credit

## Trends in Access to Credit

Overall trends in small business lending are also important when considering credit market conditions.

**Pre-COVID-19 trends.** Even before the COVID-19 pandemic, small business lending was slow to recover from the Great Recession.<sup>22</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>23</sup>

**Impact of COVID-19.** Financial conditions of small businesses were negatively impacted by the COVID-19 pandemic. The 2022 SBCS by the Federal Reserve Bank found that in fall 2022, 57 percent of surveyed firms with employees (“employer firms”) reported a “fair” or “poor” financial condition. An even larger share of firms without employees reported “fair” or “poor” status.<sup>24</sup>

As shown in Figure G-4, relatively more firms owned by people of color reported poor or fair financial conditions than companies with white owners. This was evident for all firms and nonemployer firms.

<sup>22</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>

G-4. Financial condition of U.S. firms, fall 2022

Race/ethnicity	Poor/fair	Good/very good	Excellent	Total
<b>All firms</b>				
African American	75 %	25 %	1 %	101 %
Asian American	83	17	1	101
Hispanic American	67	31	2	100
Native American	72	24	4	100
Non-Hispanic white	52	41	7	100
<b>Nonemployer firms</b>				
African American	86 %	13 %	1 %	100 %
Asian American	86	13	1	100
Hispanic American	83	17	1	101
Native American	80	19	1	100
Non-Hispanic white	67	30	3	100

Note: Totals may not sum to 100 due to rounding.

Source: Federal Reserve Bank. (2022). 2022 Small Business Credit Survey [Data file]. Retrieved from <https://www.fedsmallbusiness.org/survey>.

<sup>23</sup> Ibid.

<sup>24</sup> The Federal Reserve Bank. (2023). Small business credit survey: 2022 report on employer firms. *Federal Reserve Bank*. Retrieved from <https://www.fedsmallbusiness.org/survey/2022/report-on-employer-firms>

## G. Access to Capital — Business credit

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**Paycheck Protection Program.** The SBCS also asked firms about financial challenges they experienced in the previous 12 months. Among employer firms, relatively few businesses owned by non-Hispanic whites reported difficulties accessing credit (27%) compared to African American (50%), Hispanic Americans (37%) and Native Americans (54%).<sup>25</sup> Similar patterns were seen among nonemployer firms.<sup>26</sup>

As a result, over 90 percent of SBCS respondents in 2020 and 77 percent of respondents in 2021 sought out emergency funding, primarily from the Paycheck Protection Program (PPP).<sup>27</sup> Influx of federal funding for the PPP led to an increase in the number of lenders providing SBA business loans (from 1,810 in 2018 to 5,460 in 2020). Despite this growing access to loans, however, the pandemic substantially limited small business access to credit.<sup>28</sup>

A 2021 study found that only 29 percent of the 3.6 million federal PPP loans were granted to minority-owned businesses, nationally.<sup>29</sup> Findings from the Small Business Credit Survey indicate that minority business owners were less likely than their white counterparts to receive PPP funding. White business owners received some or all of the funding requested 91 percent of the time, compared to 76 percent of Hispanic American business owners and 66 percent of African American business owners.<sup>30</sup> African American-owned businesses were also found to receive loans that were 50 percent lower than similarly situated nonminority-owned businesses.<sup>31</sup> Additionally, minority-owned firms and especially African American-owned firms tended to have more success obtaining PPP loans from nonbank lenders than from banks.<sup>32</sup> Research also suggests that PPP loans “failed to effectively reach” minority businesses in Minnesota.<sup>33</sup>

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<sup>25</sup> Federal Reserve Bank. (2022). 2022 Small Business Credit Survey [Data file]. Retrieved from <https://www.fedsmallbusiness.org/survey>

<sup>26</sup> The Federal Reserve Bank. (2022). Small business credit survey: 2022 report on employer firms. *Federal Reserve Bank*. Retrieved from <https://www.fedsmallbusiness.org/survey/2022/report-on-employer-firms>

<sup>27</sup> Ibid.

<sup>28</sup> Misera, L. (2020). An uphill battle: COVID-19’s outsized toll on minority-owned firms. *Federal Reserve Bank of Cleveland*. Retrieved from [https://www.clevelandfed.org/en/newsroom-and-events/publications/community-development-briefs/db-20201008-misera-report.aspx?utm\\_source=cfd&utm\\_medium=email&utm\\_campaign=ClevelandFedDigest](https://www.clevelandfed.org/en/newsroom-and-events/publications/community-development-briefs/db-20201008-misera-report.aspx?utm_source=cfd&utm_medium=email&utm_campaign=ClevelandFedDigest)

<sup>29</sup> Cowley, S. (2021, April 4). Minority entrepreneurs struggled to get small-business relief loans. *The New York Times*. Retrieved from <https://www.nytimes.com/2021/04/04/business/ppp-loans-minority-businesses.html>

<sup>30</sup> The Federal Reserve Bank. (2022). Small business credit survey: 2022 report on firms owned by people of color. *Federal Reserve Bank*. Retrieved from <https://www.fedsmallbusiness.org/survey/2022/2022-report-on-firms-owned-by-people-of-color>.

<sup>31</sup> Atkins, R., Cook, L. & Seamans, R. (2021). Discrimination in lending? Evidence from the Paycheck Protection Program. *Small Business Economics* 58, 843–865. Retrieved from <https://doi.org/10.1007/s11187-021-00533-1>

<sup>32</sup> Ibid.; Chernenko, S. & Scharfstein, D. (2024). Racial disparities in the Paycheck Protection Program. *Journal of Financial Economics* 160. Retrieved from <https://doi.org/10.1016/j.jfineco.2024.103911>;

<sup>33</sup> Corrie, B. (2020). Minnesota data suggests poor PPP loan access by minority businesses. *Empowering Strategies*. Retrieved from <https://empoweringstrategies.org/minnesota-data-reveals-poor-ppp-loan-access-by-minority-businesses/>

## G. Access to Capital — Business credit

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Challenges accessing PPP loans included disparities in encouragement to apply, lack of information about the program, lack of information regarding alternatives and differences in access to guidelines and outcomes of the program.<sup>34</sup> One study also found that many African American business owners were distrustful of PPP loans due to “longstanding barriers” between themselves and financial institutions.<sup>35</sup> Additionally, 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 the lack of a prior relationship with a mainstream lending institution.<sup>36</sup> In 2021, majority Black neighborhoods were less likely to have a bank branch than other neighborhoods. This lack of banking relationships in Black communities may explain the disparity in PPP loan coverage.<sup>37</sup>

Additionally, of employer firms that were approved for PPP loans, business owners located in majority African American zip codes received loans an average of seven days later than business owners located in majority white zip codes.<sup>38</sup> Businesses owned by African Americans also

received loans that were approximately 50 percent less than loans to white owned businesses with similar characteristics.<sup>39</sup>

Some research supports the concept that discrimination may have contributed to overall disadvantageous outcomes for African Americans in accessing capital: When human interaction was minimized, African American-owned businesses were more successful at obtaining PPP loans. For example, African American-owned businesses had more success applying for PPP funds through financial technology (“fintech”) lenders, which use technology to automate loan processing, thus reducing the chance for human bias. The same study found that African American-owned firms were more successful in obtaining PPP funds from traditional banks after those banks automated their processing procedures, especially in “areas with high racial animus.”<sup>40</sup>

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<sup>34</sup> Lederer, A., Oros, S., Bone, S., Christensen, G., & Williams, J. (15 July 2020). Lending discrimination within the Paycheck Protection Program. *National Community Reinvestment Coalition*. Retrieved from <https://www.ncrc.org/lending-discrimination-within-the-paycheck-protection-program/>.

<sup>35</sup> Swartz, L. & Dzokoto V.A.A. (2023). COVID relief as “dangerous money” for Black business owners. *Journal of Cultural Economy* 16(4). Retrieved from <https://doi.org/10.1080/17530350.2023.2189147>

<sup>36</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)

<sup>37</sup> Broady, et. al, (2021, November 2). Brookings Institute. An Analysis of financial institutions in Black-majority communities. *Brookings*, Retrieved from: <https://www.brookings.edu/articles/an-analysis-of-financial-institutions-in-black-majority-communities-black-borrowers-and-depositors-face-considerable-challenges-in-accessing-banking-services/>.

<sup>38</sup> Liu, S. & Parilla, J. (17 September 2020). New data shows small businesses in communities of color had unequal access to federal COVID-19 relief. *Brookings*. Retrieved from <https://www.brookings.edu/research/new-data-shows-small-businesses-in-communities-of-color-had-unequal-access-to-federal-covid-19-relief/>.

<sup>39</sup> Atkins, R., Cook, L., & Seamans, R. (2021). Discrimination in lending? Evidence from the Paycheck Protection Program. *Small Business Economics* 58: 843-865.

<sup>40</sup> Howell, S.T. et al. (2023). Lender automation and racial disparities in credit access. *Journal of Finance* 79(2), 1457-1512. Retrieved from <https://doi.org/10.1111/jofi.13303>



## G. Access to Capital — Business credit

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In 2021, LGBTQ-owned businesses were also more likely than non-LGBTQ businesses to report:

- They had received none of the Paycheck Protection Program COVID relief funding they applied for (17% vs. 10%) and were less likely to receive full forgiveness for their 2020 PPP loans (78% vs. 88%).
- They had received none or only some of the business financing for which they applied. Reasons they had been denied financing included that lenders do not approve financing for “businesses like theirs” (33% vs. 24%).<sup>41</sup>

A consequence of limited access to financial help during the COVID-19 pandemic is that pre-COVID-19 economic distress has been exacerbated. A 2020 survey of minority businesses by the JPMorgan Chase Institute found almost 80 percent of African American- and Asian American-owned small businesses reported being in “weak” financial shape, compared to 54 percent of white-owned small businesses.<sup>42</sup> Supply chain issues further weakened the financial state of these firms.<sup>43</sup>

Additionally, research has found that more restricted access to PPP loans affected the ability for firms to hire (or rehire) employees to regain financial footing.<sup>44</sup>

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<sup>41</sup> Watson, S., Casey, L. Goldberg, N. and Broisman, B. LGBTQ-owned small businesses in 2021. <https://www.lgbtmap.org/file/LGBTQ-Small-Businesses-in-2021.pdf>

<sup>42</sup> Cowley, S. (2021, April 4). Minority entrepreneurs struggled to get small-business relief loans. *The New York Times*. Retrieved from <https://www.nytimes.com/2021/04/04/business/ppp-loans-minority-businesses.html>

<sup>43</sup> Sorkin, A.D. (2021, September 26). The supply chain mystery. *New Yorker*. Retrieved from <https://www.newyorker.com/magazine/2021/10/04/the-supply-chain-mystery>

<sup>44</sup> The Federal Reserve Bank. (2021). Small business credit survey: 2021 report on employer firms. *Federal Reserve Bank*. Retrieved from <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/2021-sbcs-employer-firms-report>

## G. Access to Capital — Business credit

### Results from 2024 Availability Survey

In the Keen Independent 2024 availability survey, the study team asked respondents a battery of questions regarding potential barriers or difficulties firms might have experienced in the Minnesota marketplace.

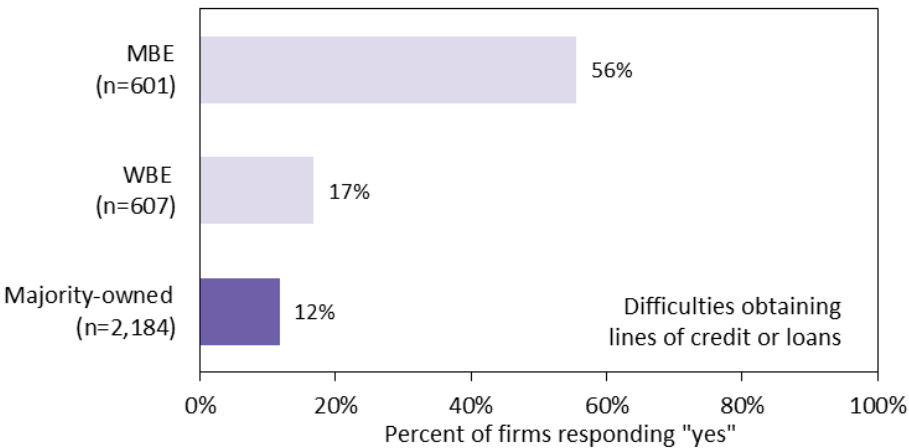
The series of questions was introduced with the following statement: “Finally, we’re interested in whether your company has experienced barriers or difficulties associated with business start-up or expansion, or with obtaining work. Think about your experiences within the past eight years in Minnesota or Western Wisconsin 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.

Figure G-5 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, more than half (56%) of MBEs experienced difficulties obtaining lines of credit or loans. Additionally, a somewhat greater share of WBEs (17%) reported having difficulties obtaining lines of credit or loans when compared to majority-owned firms (12%).

Further analysis (not shown) indicated that the difficulties that minority-owned firms often reported regarding access to capital affected each racial group. Among respondents to this question in the availability survey, each group of MBE firms (Black American-, Asian-Pacific American-, South Asian American-, Hispanic American- and American Indian-owned firms) was more likely to report difficulties obtaining lines of credit or loans than were majority owned firms.

G-5. Responses to availability survey question concerning loans



Source: Keen Independent Research from 2024 availability survey.

G. Access to Capital — Bonding

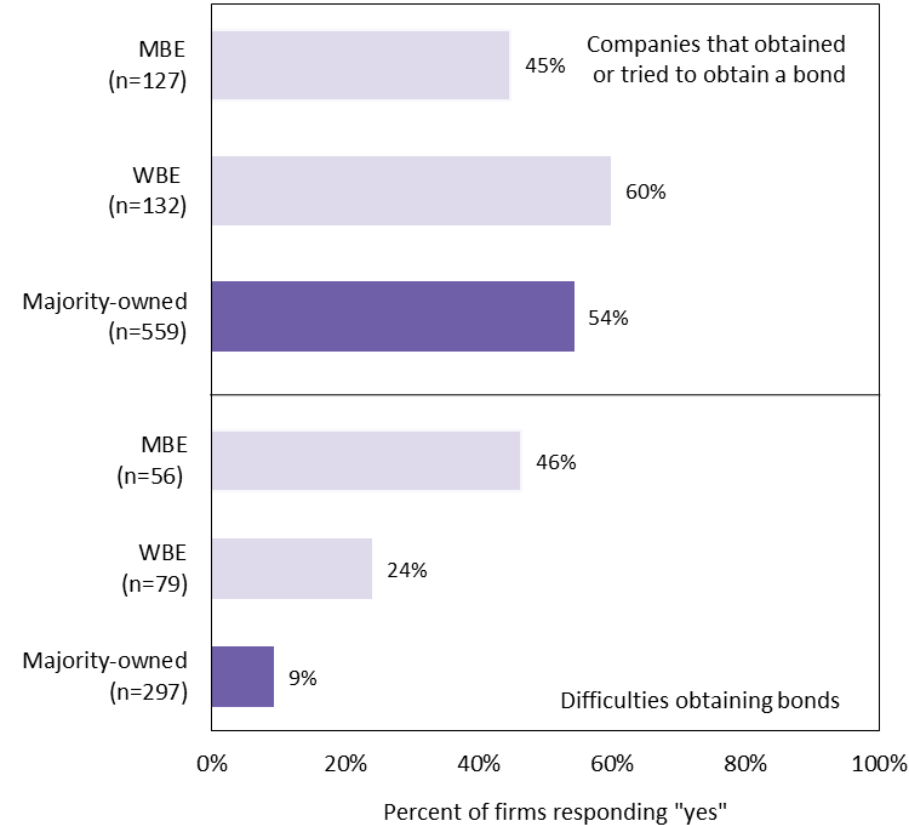
Obtaining bonds needed to bid on public sector construction contracts is related to access to capital.

The 2024 availability survey asked construction firms if they had tried to obtain bonding for a project or contract. About 45 percent of MBEs, 60 percent of WBEs and 54 percent of majority-owned construction firms indicated that they had tried to obtain bonding.

Firms that indicated that they had tried to obtain a bond were then asked, “Has your company had any difficulties obtaining bonds needed for a project or contract?” Of those that had tried to obtain a bond, 46 percent of MBEs and 24 percent of WBEs reported difficulties obtaining a bond, compared to just 9 percent of majority-owned firms.

Figure G-6 presents these results.

G-6. Responses to availability survey questions concerning bonding



Source: Keen Independent Research from 2024 availability survey.

## G. Access to Capital — Homeownership

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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.

### Relationship of Home Equity to Business Ownership

There is a strong relationship between the likelihood of starting a new business and the potential entrepreneur's home equity.<sup>45</sup> Wealth created through homeownership can be an important source of capital to start or expand a business.<sup>46</sup> Research has shown:

- Homeownership is a tool for building wealth;<sup>47</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>48</sup>
- Business owners tend to use home equity to finance business investments, confirming that home equity is an efficient means of business financing;<sup>49,50</sup>
- Homeownership is associated with an estimated 30 percent reduction in the probability of loan denial for small businesses;<sup>51</sup>
- Race and gender wealth inequality contributes to lower rates of homeownership among women and minorities; and
- The United States has a history of restrictive real estate covenants and property laws that affect the ownership rights of minorities and women.<sup>52</sup>

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<sup>45</sup> Corradin, S., & Popov, A. (2015). House prices, home equity borrowing, and entrepreneurship. *The Review of Financial Studies*, 28(8), 2399-2428.

<sup>46</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>47</sup> Acolin, A., Ramiller, A., Walter, R. J., Thompson, S., & Wang, R. (2021). Transitioning to homeownership: Asset building for low- and moderate-income households. *Housing Policy Debate*, 31(6), 1032-1049. <https://doi.org/10.1080/10511482.2021.1949372>; Wainer, A. & Zabel, J. (2020). Homeownership and wealth accumulation for low-income households. *Journal of Housing Economics* 47. <https://doi.org/10.1016/j.jhe.2019.03.002>; 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>48</sup> Bates, T., Bradford, W., & 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>49</sup> Corradin, S., & Popov, A. (2015). House prices, home equity borrowing, and entrepreneurship. *The Review of Financial Studies*, 28(8), 2399-2428.

<sup>50</sup> Goodman, L., (2021). Housing finance at a glance: A monthly chartbook: August 2021 *Urban Institute*.

<sup>51</sup> Brown, G., Kenyon, S., & Robinson, D. (2020, February). Filling the U.S. small business funding gap. *Frank Hawkins Kenan Institute of Private Enterprise Report*.

<sup>52</sup> Baradaran, M. (2017). *The color of money: Black banks and the racial wealth gap*. London, England: The Belknap Press of Harvard University Press.

## G. Access to Capital — Homeownership

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Low interest rates during the COVID-19 pandemic resulted in a near-record increase in homebuying. From 2020 to 2021, Pew Research found the number of homeowners nationally increased by 2.1 million (2.5%), the largest growth since the 2003-2004 housing boom.<sup>53</sup> Relatedly, housing prices jumped 45 percent from the beginning of 2020 to the end of 2022.<sup>54</sup> This can be seen in Minnesota, where the median sales price of a home in the state grew from \$256,600 at the end of 2019<sup>55</sup> to \$314,700 at the end of 2022,<sup>56</sup> an increase of about 23 percent.

Partly due to rising costs, certain socioeconomic groups have not seen increases in homeownership. Nationally, homeownership among white households increased 0.8 percent, while that of minority households remained the same.<sup>57</sup> Additionally, a study found that white families are more likely than African American families to inherit an estate, including a home or other property.<sup>58</sup> Furthermore, the Minneapolis-St. Paul MSA has the largest Black-white homeownership gap of any metro area in the country, a gap which continues to widen.<sup>59</sup>

Barriers to homeownership and creation of home equity for certain groups can impact business opportunities. Similarly, barriers to accessing home equity through home mortgages can also affect available capital for new or expanding businesses. People of color tend to be held back from homeownership by several barriers, including being adequately informed on homeownership and available home stock, as well as other issues, such as redlining and mortgage discrimination, which will be discussed in this section.<sup>60</sup>

Research confirms the influence that homeownership has on the likelihood of starting a business, even when examined separately from recent work history. A study focusing on people of color and women found a strong relationship between increases in home equity and entry into self-employment for both groups.<sup>61</sup>

The study team analyzed homeownership rates, home values and the home mortgage market in Minnesota from 2018–2022.

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<sup>53</sup> Fry, R. (2021). Amid a pandemic and a recession, Americans go on a near-record homebuying spree. *Pew Research Center*. Retrieved from <https://www.pewresearch.org/fact-tank/2021/03/08/amid-a-pandemic-and-a-recession-americans-go-on-a-near-record-homebuying-spreed/>

<sup>54</sup> St. Louis Federal Reserve Bank. (2023). Median sales price of houses sold for the United States. *Federal Reserve Bank*. Retrieved from <https://fred.stlouisfed.org/series/MSPUS>.

<sup>55</sup> Redfin. (2024). Minnesota Housing Market Overview, December 2019. Retrieved from <https://www.redfin.com/state/Minnesota/housing-market/>

<sup>56</sup> Redfin. (2024). Minnesota Housing Market Overview, December 2022. Retrieved from <https://www.redfin.com/state/Minnesota/housing-market/>

<sup>57</sup> Fry, R. (2021). Amid a pandemic and a recession, Americans go on a near-record homebuying spree. *Pew Research Center*. Retrieved from <https://www.pewresearch.org/fact-tank/2021/03/08/amid-a-pandemic-and-a-recession-americans-go-on-a-near-record-homebuying-spreed/>

<sup>58</sup> Neal, M., Zhu, L. & Zinn, A. (2024). Potential implications of the Great Wealth Transfer for the black-white homeownership rate gap (Rep.). Rev

<sup>59</sup> Women's Foundation of Minnesota (2024, February). New status of women and girls+ in Minnesota shows barriers and opportunities for equity. Retrieved from <https://www.wfmn.org/press/2024-status-of-women-girls-in-minnesota/>

<sup>60</sup> Hermann, A. (2023). In nearly every state, people of color are less likely to own homes compared to white households. Harvard Joint Center for Housing Studies. Retrieved November 6, 2024 from <https://www.jchs.harvard.edu/>; Turner, M. A., Santos, R., Levy, D.K., Wissoker, D., Aranda, C., & Pitingolo, R., (2013, June). Housing discrimination against racial and ethnic minorities 2012. *U.S. Department of Housing and Urban Development*. Retrieved from: [https://www.huduser.gov/portal/publications/fairhsg/hsg\\_discrimination\\_2012.html](https://www.huduser.gov/portal/publications/fairhsg/hsg_discrimination_2012.html)

<sup>61</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>

## G. Access to Capital — Homeownership

### Homeownership Rates

The study team used 2018–2022 American Community Survey (ACS) data to examine homeownership rates in Minnesota (including two counties in western Wisconsin).

In this area, 77 percent of nonminority heads of households owned homes. As shown in Figure G-7, homeownership rates for all minority groups are lower than for non-Hispanic whites. For example, just 30 percent of Sub-Saharan African American heads of households in the Minnesota marketplace were homeowners during that time period. Differences were found for each minority group compared with non-Hispanic whites (statistically significant for each group).

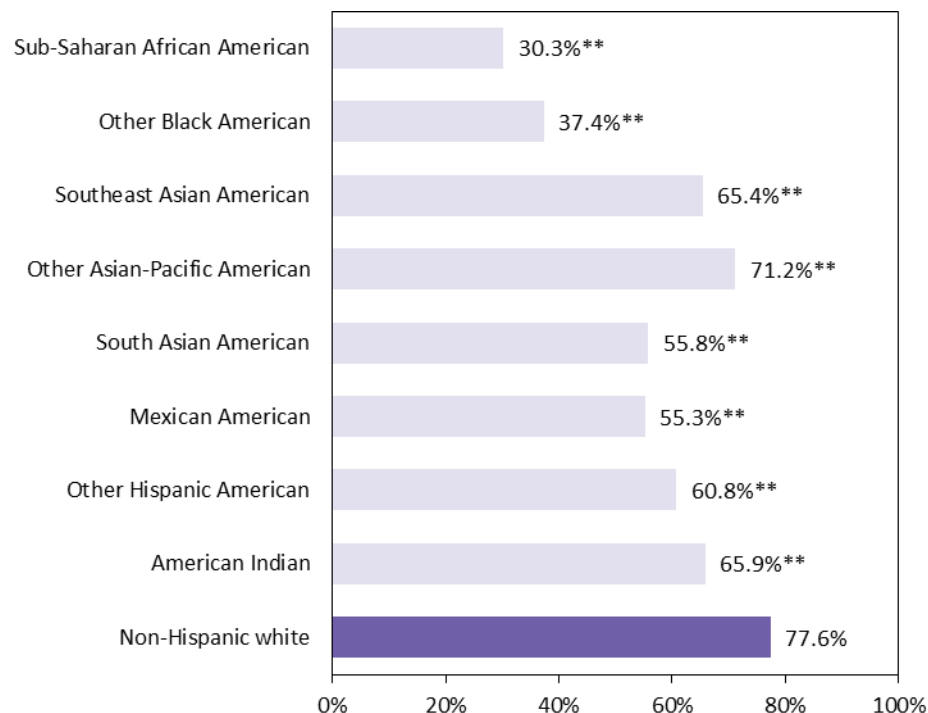
Lower rates of homeownership may reflect lower incomes and wealth for people of color, as well as lower educational attainment.<sup>62</sup> That relationship may be self-reinforcing, as low wealth puts individuals at a disadvantage in becoming homeowners, which has historically been a path to building wealth. For example, the probability of homeownership is considerably lower for African Americans than it is for comparable non-Hispanic whites throughout the United States.<sup>63</sup>

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>64</sup>

<sup>62</sup> Choi, J.H., McCargo, A., Neal, M., Goodman, L., & Young, C. (2019, November). Explaining the Black-White Homeownership Gap. *Housing Finance Policy Center*.

<sup>63</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).

G-7. Percentage of Minnesota households that are homeowners, 2018–2022



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 2018–2022 ACS Public Use Microdata sample. The 2018–2022 ACS raw data extracts were obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

<sup>64</sup> Choi, J.H., McCargo, A., Neal, M., Goodman, L., & Young, C. (2019, November). Explaining the Black-White Homeownership Gap. *Housing Finance Policy Center*; Rosenbaum, E. (2012). *Home ownership's wild ride, 2001-2011* (Rep.). New York, NY: Russell Sage Foundation.

G. Access to Capital — Homeownership

Home Values

Research has shown that increases in home equity encourage business ownership.<sup>65</sup> Using 2018 through 2022 ACS data, the study team compared median home values by race/ethnicity group.

Figure G-8 presents median home values by group in Minneapolis-St. Paul MSA for 2018 to 2022. Compared with non-Hispanic white homeowners, home values were considerably lower for households headed by Mexican Americans and American Indians. The median value of homes owned by other Asian-Pacific Americans and South Asian Americans exceeded that of non-Hispanic whites. When the analysis is limited to the Minneapolis-St. Paul MSA, there were also disparities in home values for Sub-Saharan African Americans, other Black Americans and Southeast Asian Americans. (This comparison may be more instructive as it accounts for location.)

National research has indicated that African Americans in particular could potentially have higher home values than they currently do. A study found that homes in predominantly African American neighborhoods are 1.9 times more likely to be appraised at a lower value than the contract price when compared to homes where the majority of residents are white,<sup>66</sup> indicating that bias may have an impact on the home appraisal process.

It is important to note that these data regarding homeownership are for 2018 through 2022. Home values have grown since then.<sup>67</sup>

G-8. Median home values in the Minnesota marketplace, 2018–2022, thousands



Note: The sample universe is all owner-occupied housing units.  
Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata sample.

<sup>65</sup> Harding, J., & Rosenthal, S. S. (2017). Homeownership, housing capital gains and self-employment. *Journal of Urban Economics*, 99, 120-135.  
<sup>66</sup> National Fair Housing Alliance. (2022). *Identifying bias and barriers, promoting equity: An analysis of the USPAP standards and appraiser qualifications criteria* (Rep.). Retrieved November 6, 2024 from <https://www.brookings.edu/articles/devaluation-of-assets-in-black-neighborhoods/>

<sup>67</sup> Fry, R. (2021). Amid a pandemic and a recession, Americans go on a near-record homebuying spree. *Pew Research Center*. Retrieved from <https://www.pewresearch.org/fact-tank/2021/03/08/amid-a-pandemic-and-a-recession-americans-go-on-a-near-record-homebuying-spreed/>

## G. Access to Capital — Review of additional research on mortgage lending

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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.

Research shows this happens frequently. For example, a study has found persistent racial discrimination in national rates of loan acceptance/denial and mortgage costs from late 1970s to 2016, which have impacted the ability of minority groups to purchase homes.<sup>68</sup> Similarly, other studies indicate that prospective homeowners of Asian descent have higher rates of denial for mortgages despite having higher credit scores on average than white Americans nationally.<sup>69</sup>

The best available source of information concerning mortgage lending by region 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>70</sup> Those data include information about loans and the race/ethnicity,

income and credit characteristics of loan applicants. Data are available for home purchases, loan refinances and home improvement loans. The most recent year of HMDA data available are from 2022.

The study team examined annual HMDA statistics provided by the Federal Financial Institutions Examination Council (FFIEC) for 2018 through 2022. There were 5,683 lending institutions included in the 2018 data and 5,508 in 2019.<sup>71, 72</sup> The number of lending institutions decreased to 4,475 in 2020, then to 4,338 by 2021 and increased to 4,460 by 2022.<sup>73, 74, 75</sup>

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<sup>68</sup> Quillian, L., Lee, J.J., & Honore, B. (2020). Racial discrimination in the U.S. housing and mortgage lending markets: a quantitative review of trends, 1976-2016. *Race and Social Problems* 12 13-18.

<sup>69</sup> Zhu, L., Zhu, J., & Goodman, L. (2021). Asian Americans face systemic higher mortgage denial rates despite having stronger credit profiles. Urban Institute. <https://www.urban.org/urban-wire/asian-americans-face-systemic-higher-mortgage-denial-rates-despite-having-stronger-credit-profiles>

<sup>70</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>71</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/>

<sup>72</sup> Consumer Financial Protection Bureau. (2020). FFIEC announces availability of 2019 data on mortgage lending. Retrieved from <https://www.consumerfinance.gov/about-us/newsroom/ffiec-announces-availability-2019-data-mortgage-lending/>

<sup>73</sup> Consumer Financial Protection Bureau. (2021). FFIEC announces availability of 2020 data on mortgage lending. Retrieved from <https://www.consumerfinance.gov/about-us/newsroom/ffiec-announces-availability-of-2020-data-on-mortgage-lending/>

<sup>74</sup> Consumer Financial Protection Bureau. (2022). FFIEC announces availability of 2021 data on mortgage lending. Retrieved from <https://www.consumerfinance.gov/about-us/newsroom/ffiec-announces-availability-of-2021-data-on-mortgage-lending/>

<sup>75</sup> Consumer Financial Protection Bureau. (2023). FFIEC announces availability of 2022 data on mortgage lending. Retrieved from <https://www.consumerfinance.gov/about-us/newsroom/ffiec-announces-availability-of-2022-data-on-mortgage-lending/>



## G. Access to Capital — Review of additional research on mortgage lending

### Mortgage Denials

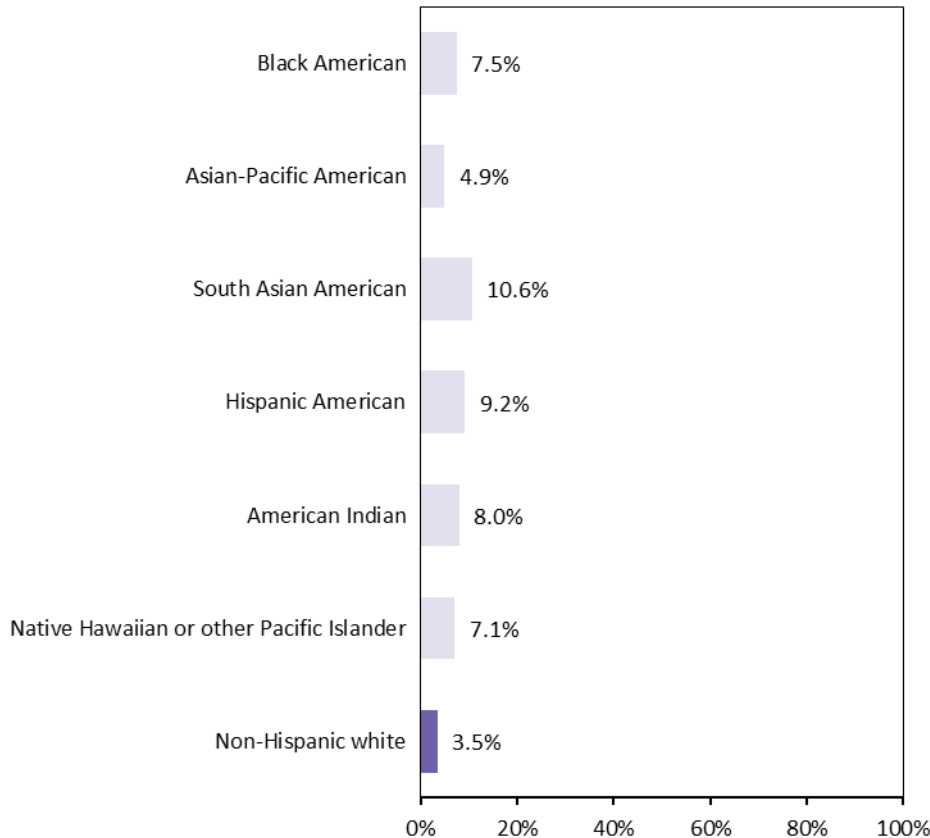
The study team examined mortgage denial rates on conventional loan applications made by high-income households.

- 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>76</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>77</sup>

Figure G-9 presents loan denial rates for high-income households in Minnesota from 2018 through 2022.

For people with high incomes, the loan denial rate was higher for people of color than for non-Hispanic white applicants. For example, about 11 percent of high-income South Asian American applicants had their loans denied compared with 3.5 percent of high-income non-Hispanic white applicants.

G-9. Denial rates of conventional purchase loans to high-income households in the Minnesota marketplace, 2018–2022



Note: High-income borrowers are those households with 120% or more than the HUD area median family income (MFI).

Source: FFIEC HMDA 2018 through 2022.

<sup>76</sup> For example, median family income for Minnesota was about \$82,343 in 2022. Retrieved from <https://fred.stlouisfed.org/series/MHIMN27000A052NCEN>

<sup>77</sup> For this analysis, loan applications are considered to be applications for which a specific property was identified, thus excluding preapproval requests.

## G. Access to Capital — Review of additional research on mortgage lending

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### Subprime Lending

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.

Subprime lending grew rapidly in the late 1990s and early 2000s and accounted for large growth in the home mortgage industry. 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.<sup>78</sup> In 2007, subprime loans represented about 28 percent of all mortgages in the United States.<sup>79</sup> However, due in large part to regulations implemented following the Great Recession, by 2020 subprime mortgages made up only 19 percent of all loans.<sup>80</sup>

With interest rates higher 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 were made available to home buyers without requirements for such as a down payment or proof of income and assets; subprime loans were also made available for home buyers purchasing property at a cost above that for which they would qualify from a prime lender.<sup>81</sup>

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<sup>78</sup> Avery, B., Brevoort, K. P., & Canner, G. B. (2007). The 2006 HMDA data. *Federal Reserve Bulletin*, 93, A73–A109.

<sup>79</sup> Rosen, S. (2020). What is a subprime mortgage and who should get one? *Time.com*. Retrieved from <https://time.com/nextadvisor/mortgages/what-is-a-subprime-mortgage/>

<sup>80</sup> Ibid.

<sup>81</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->

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>82</sup>

The COVID-19 pandemic has further complicated the subprime lending world, as heightened unemployment and financial distress made it difficult for lenders to collect on loans and for lenders to denote who should and should not be deemed "creditworthy."<sup>83</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 2018 through 2022.<sup>84</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.

[working-paper/2007/subprime-outcomes-risky-mortgages-homeownership-experiences-and-foreclosures.aspx](https://www.federalreserve.gov/econres/working-papers/2007/subprime-outcomes-risky-mortgages-homeownership-experiences-and-foreclosures.aspx)

<sup>82</sup> Quillian, L. et. al. (2020). Racial Discrimination in the U.S. Housing and Mortgage Lending Markets: A Quantitative Review of Trends, 1976-2016. *Race and Social Problems*(12). 13-28. Retrieved from <https://doi.org/10.1007/s12552-019-09276-x>

<sup>83</sup> Li, H. (2021). The influence of COVID-19 on subprime in the U.S. *E3S Web Conferences*, 235.

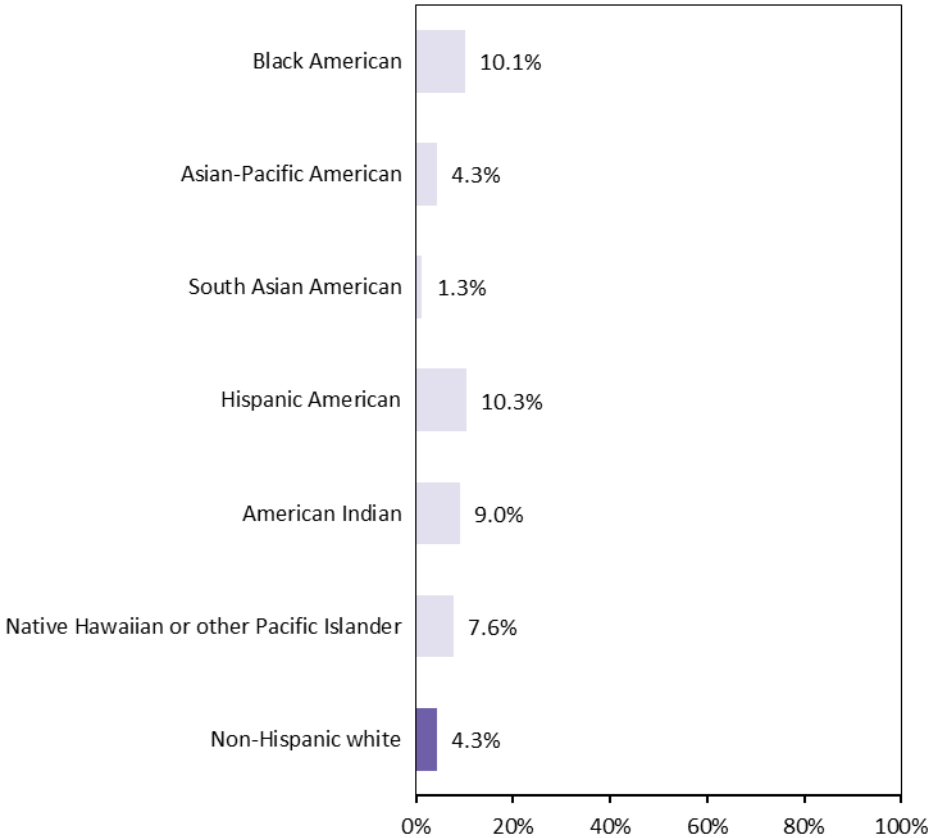
<sup>84</sup> Prior to October 2009, first lien loans were identified as subprime if they had an annual percentage rate (APR) that was 3.0 percentage points or greater than the federal treasury

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**Subprime conventional home purchase loans.** Figure G-10 shows the percentage of conventional home purchase loans that were subprime in the Minnesota marketplace based on HMDA data from 2018 through 2022. A higher percentage of borrowers receiving subprime loans may indicate predatory lending.

- Hispanic American borrowers in this period were more than twice as likely to receive subprime home purchase loans when compared to non-Hispanic white borrowers.
- Black Americans, American Indian and Native Hawaiians or other Pacific Islanders receiving home purchase loans were also more likely to be issued subprime loans than non-Hispanic whites.
- South Asian Americans were less likely than non-Hispanic whites to be issued subprime loans, and Asian-Pacific Americans were just as likely as non-Hispanic whites to be issued subprime loans.

G-10. Percent of conventional home purchase loans in the Minnesota marketplace that were subprime, 2018–2022



Note: Subprime rates are calculated as the percentage of originated loans that were subprime.  
Source: FFIEC HMDA data 2018 through 2022.

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

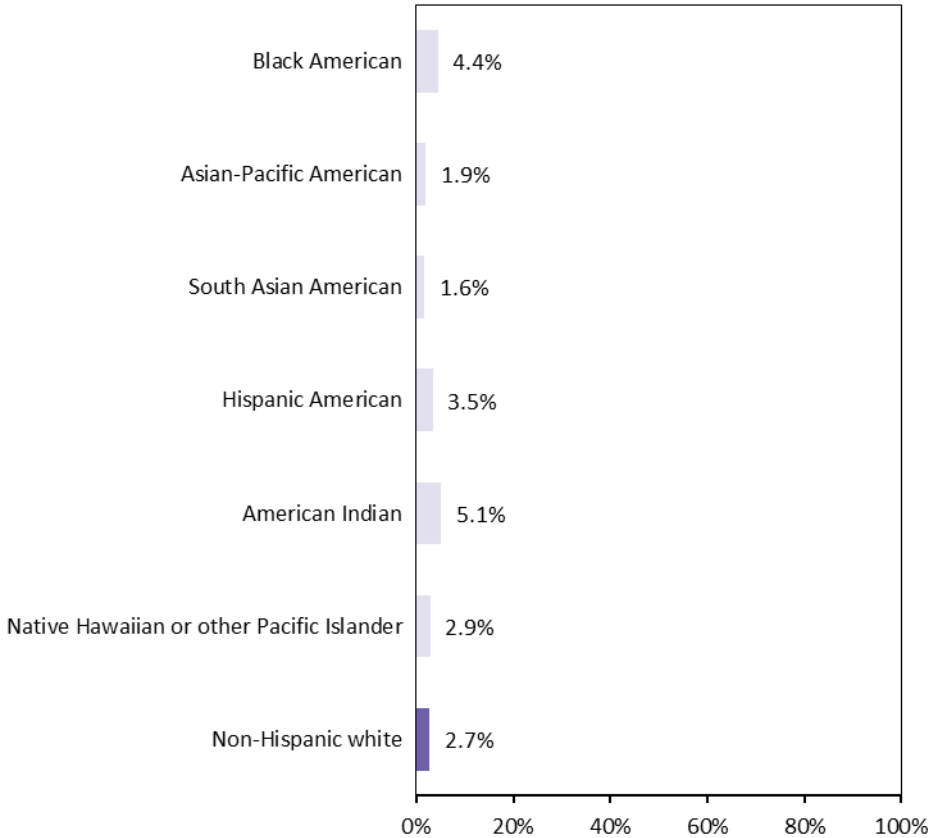
loans defined as 1.5 percentage points of rate spread or more. The study team identified subprime loans according to those measures in the corresponding time periods.

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**Subprime conventional home refinance loans.** Figure G-11 examines the percentage of conventional home refinance loans that were subprime in the Minnesota marketplace between 2018 and 2022.

Very few conventional refinance loans were subprime for any group. Even so, people of color (except for Asian-Pacific American and Subcontinent Asian Americans) were more likely than non-Hispanic whites to receive those loans.

G-11. Percent of conventional refinance loans in the Minnesota marketplace that were subprime, 2018–2022



Note: Subprime rates are calculated as the percentage of originated loans that were subprime.  
Source: FFIEC HMDA data 2018 through 2022.

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**Other research.** Studies across the country have examined barriers to homeownership for people of color. For example:

- A study of 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>85</sup>
- Between 1999 and 2011, socioeconomic and demographic factors could only partially explain the homeownership gap for African Americans homeowners, and that discrimination in the mortgage process was a likely explanation.<sup>86</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>87</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>88</sup>

There is evidence that some lenders seek out and offer subprime loans to individuals who often are not be able to pay off the loan, a form of “predatory lending.”<sup>89</sup> Other research has found that many recipients of subprime loans could have qualified for prime loans.<sup>90</sup>

Studies of subprime lending suggest that predatory lenders have targeted minorities.<sup>91</sup> A 2018 study of seven metropolitan areas across the country and found that African American borrowers were 103 percent more likely and Hispanic American borrowers were 78 percent more likely than white borrowers to receive a high-cost loan for home purchases. Disparities were found for both low- and high-risk borrowers, regardless of age.<sup>92</sup>

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<sup>85</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>86</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>87</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>88</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>89</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>90</sup> Faber, J. W. (2013). Racial dynamics of subprime mortgage lending at the peak. *Housing Policy Debate*, 23(2), 328-349.

<sup>91</sup> Ibid; Steil, J.P., Albright, L., Rugh, J., & Massey, D. (2018). The social structure of mortgage discrimination. *Housing Studies*, 33(5) 759-776.

<sup>92</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.

## G. Access to Capital — Review of additional research on mortgage lending

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### Lasting 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 also created a nationwide retreat in dynamism in nearly every measurable respect.<sup>93</sup> (Dynamism is the rate and scale at which the economy's resources are reallocated across firms and industries according to their most productive use.)

- 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 continued to negatively influence the American psyche.<sup>94</sup>

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<sup>93</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>94</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>95</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>

- According to research conducted by economists for the U.S. Federal Reserve System, loan origination activity remained well below pre-Great Recession levels.<sup>95</sup>
- Because of the Great Recession, firm deaths exceeded births for the first time in more than 40 years.<sup>96</sup>
- Small firms suffer more during financial crises due to dependence on bank capital to fund growth.<sup>97</sup>
- Major surveys identified 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>98</sup>
- Commercial and residential real estate — which represents 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 for many years.<sup>99</sup>

<sup>96</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>97</sup> Mills, K.G., & McCarthy, B. (2016). *The state of small business lending: Innovation and technology and the implications for regulation* (Working Paper 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>98</sup> Ibid.

<sup>99</sup> Ibid.

## **G. Access to Capital — Review of additional research on mortgage lending**

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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 capital. Those consequences have disproportionately impacted people of color.

## G. Access to Capital — Review of additional research on mortgage lending

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### Impact of COVID-19

It is still unclear if the COVID-19 pandemic will widen these disparities. Immediate data show that homeowners facing financial pressures were given relief from making mortgage payments through federal and state suspensions of foreclosures, payment deferral programs and lowered interest rates (which could be accessed through loan refinance).<sup>100</sup>

However at the time of the writing of this report, it remains too soon to understand the scope of which homeowners sought out these options, as well as the race, ethnicity and gender of said owners on a national level.

In March 2023, about 0.9 percent of Minnesota households were between 30–89 days past due on mortgage payments, down from March 2020 (1.2%).<sup>101</sup> About 0.4 percent of Minnesota households were over 90 days past due on mortgage payment, also down from March 2020 (0.5%).<sup>102</sup> Nationally, 1.3 percent of households were 30–89 days past due on their mortgage payments and 0.5 percent of households were over 90 days past due in March 2023, down from March 2020 (1.8% and 0.8%, respectively).<sup>103,104</sup>

There was no information available by race, ethnicity or gender.

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<sup>100</sup> Smith, K.A., & Henricks, M. (2020). Mortgage payments interrupted by COVID-19? The federal and state response. *Forbes.com*. Retrieved from <https://www.forbes.com/sites/advisor/2020/04/20/mortgage-payments-interrupted-by-covid-19-the-federal-and-state-response/?sh=1485259b4a08>

<sup>101</sup> Consumer Financial Protection Bureau. (2024). Mortgages 30-89 days delinquent, State of Minnesota. <https://www.consumerfinance.gov/data-research/mortgage-performance-trends/mortgages-30-89-days-delinquent/>

<sup>102</sup> Consumer Financial Protection Bureau. (2024). Mortgages 90 or more days delinquent, State of Minnesota. Consumer Financial Protection Bureau.

<https://www.consumerfinance.gov/data-research/mortgage-performance-trends/mortgages-90-or-more-days-delinquent/>

<sup>103</sup> Consumer Financial Protection Bureau. (2022). Mortgages 30-89 days delinquent, National. Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/data-research/mortgage-performance-trends/mortgages-30-89-days-delinquent/>

<sup>104</sup> Consumer Financial Protection Bureau. (2022). Mortgages 90 or more days delinquent, National. Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/data-research/mortgage-performance-trends/mortgages-90-or-more-days-delinquent/>



## G. Access to Capital — Review of additional research on mortgage lending

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### Redlining

Historically, redlining referred to mortgage lending discrimination against geographic areas based on racial or ethnic characteristics of a neighborhood.<sup>105</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>106</sup>

Studies have found clear evidence of redlining throughout the history of Minnesota. For example, despite the Fair Housing Act of 1968 and other legislation that banned housing discrimination, “evidence remains of real estate agents steering Black homebuyers to neighborhoods with higher shares of households of color.”<sup>107</sup> Nearly one-third of LGBTQ+ adults also reported experiencing housing discrimination or harassment, including during the process of buying or renting a home.<sup>108</sup> The effects of that redlining are still felt today and have brought about “resource deserts” that have left disproportionately Black, Latino, American Indian and other communities economically vulnerable and facing issues related to poverty, unemployment, lack to access to transportation and crowded housing.<sup>109</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>110</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>111</sup>

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<sup>105</sup> Burnison, T. R., & Boccia, B. (2017). Redlining everything old is new again. *ABA Banking Journal*, 109(2).

<sup>106</sup> Ibid.

<sup>107</sup> Christensen, P. & Timmins, C. (2021). Sorting or steering: The effects of housing discrimination on neighborhood choice. National Bureau of Economic Research. <https://www.nber.org/papers/w24826>

<sup>108</sup> Gruberg, S. et. al, (2020). The state of the LGBTQ community in 2020. CAP Survey Data. Retrieved from: <https://www.americanprogress.org/article/state-lgbtq-community-2020/#:~:text=NORC%20conducted%20a%20pretest%20and%20then%20fielded,in%20their%20access%20to%20critical%20health%20care.>

<sup>109</sup> Shobe, A. (2024, October 31). From redlining to resource deserts. MSR News. Retrieved from: <https://spokesman-recorder.com/2024/10/31/redlining-minnesota-resource-deserts/>

<sup>110</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>111</sup> Ibid.

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As evidenced by settlements in court cases in the past 10 years, redlining continues against minority mortgage applicants.

- In 2015, New York Attorney General Eric Schneiderman settled with Evans Bank for \$0.8 million after learning that Evans Bank erased African American neighborhoods from maps used to determine mortgage lending.<sup>112</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>113</sup>
- In 2015, Eagle Bank and Trust Company settled a lawsuit with the DOJ concerning allegations of redlining in predominantly African American neighborhoods in and around St. Louis.<sup>114</sup>

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<sup>112</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>113</sup> Ibid.

<sup>114</sup> Department of Justice, Office of Public Affairs. (2015, September 29). Justice Department Reaches Settlement with Eagle Bank and Trust Company to Resolve Allegations of Lending Discrimination in St. Louis [Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-reaches-settlement-eagle-bank-and-trust-company-resolve-allegations>

<sup>115</sup> Lane, B. (2016, June 30). Groundbreaking ruling? Federal jury finds Emigrant Bank liable for predatory lending. *Housingwire*. Retrieved from

- 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>115</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>116</sup> According to the Consumer Financial Protection Bureau (CFPB) and the U.S. 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>117</sup> Hudson City Savings Bank also excluded majority-African American and Hispanic communities from its marketing strategy and credit assessment areas.<sup>118</sup>

<https://www.housingwire.com/articles/37419-groundbreaking-ruling-federal-jury-finds-emigrant-bank-liable-for-predatory-lending>

<sup>116</sup> Burnison, T. R., & Boccia, B. (2017). Redlining everything old is new again. *ABA Banking Journal*, 109(2).

<sup>117</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>118</sup> Ibid.

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- 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>119</sup>
- The DOJ and several Ohio banks reached a settlement in a 2016 redlining case that affected lenders in Ohio and Indiana. Union Savings Bank and Guardian Savings Bank, both based in Ohio, avoided providing credit services to majority-Black neighborhoods in and around Cincinnati, Columbus, Dayton and Indianapolis between 2010 and 2014.<sup>120</sup>
- 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>121</sup>
- In 2019, First Merchants Bank settled a lawsuit with the DOJ concerning redlining in Indianapolis, Indiana. The suit alleged that the bank intentionally avoided lending in predominantly African American neighborhoods between 2011 and 2017.<sup>122</sup>
- In 2021, the DOJ, CFBP and the Office of the Comptroller of the Currency (OCC) announced a settlement with Trustmark National Bank. Trustmark avoided marketing in majority-Black and Hispanic neighborhoods in Memphis.<sup>123</sup>
- In 2021, the DOJ and OCC announced a settlement with Cadence Bank. Between 2013 and 2017, Cadence Bank avoided lending, outreach and marketing in predominantly Black and Hispanic neighborhoods in Houston.<sup>124</sup>
- In 2022, Trident Mortgage Company settled a \$20 million lawsuit with the DOJ. The complaint alleged that Trident Mortgage Company focused lending efforts in majority white neighborhoods in Pennsylvania, New Jersey and Delaware.<sup>125</sup>

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<sup>119</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 from <https://www.consumerfinance.gov/about-us/blog/redlining-cfpb-and-doj-action-requires-bancorpsouth-bank-pay-millions-harmed-consumers/>

<sup>120</sup> Department of Justice, Office of Public Affairs. (2016, December 28). *Justice Department Reaches Settlement with Ohio-Based Banks to Resolve Allegations of Lending Discrimination*. [Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-reaches-settlement-ohio-based-banks-resolve-allegations-lending>

<sup>121</sup> Department of Justice, Office of Public Affairs. (2017, January 13). *Justice Department sues KleinBank for redlining minority neighborhoods in Minnesota* [Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-sues-kleinbank-redlining-minority-neighborhoods-minnesota>

<sup>122</sup> Department of Justice, Office of Public Affairs. (2019, June 13). *Justice Department Settles Suit Against Indiana Bank to Resolve Lending Discrimination Claims* [Press release].

Retrieved from <https://www.justice.gov/opa/pr/justice-department-settles-suit-against-indiana-bank-resolve-lending-discrimination-claims>

<sup>123</sup> Department of Justice, Office of Public Affairs. (2021, October 22). *DOJ, CFPB and OCC Announce Resolution of Lending Discrimination Claims Against Trustmark National Bank* [Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-announces-new-initiative-combat-redlining>

<sup>124</sup> Department of Justice, Office of Public Affairs. (2021, August 30). *Justice Department and Office of the Comptroller of the Currency Announce Actions to Resolve Lending Discrimination Claims Against Cadence Bank*. [Press release]. Retrieved from <https://www.justice.gov/usao-ndga/pr/justice-department-and-office-comptroller-currency-announce-actions-resolve-lending>

<sup>125</sup> Rabinowitz, H. (2022, July 27). DOJ reaches redlining settlement with mortgage lender accused of discriminating against communities of color. *CNN Business*. Retrieved from <https://www.cnn.com/2022/07/27/business/doj-reaches-redlining-settlement-with-mortgage-lender-reaj/index.html>

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- Lakeland Bank settled a lawsuit with the DOJ in 2022 regarding redlining practices in the Newark, New Jersey metropolitan area. The suit alleged that from 2015 to 2021, Lakeland Bank did not provide credit services to majority-Black and Hispanic neighborhoods in the Newark area, with branches only operating in majority-white areas.<sup>126</sup>

Since 2023, DOJ announced the following settlement agreements against banks engagement in redlining:

- From 2017 through 2020, City National Bank discouraged residents in majority-Black and Hispanic neighborhoods in Los Angeles from obtaining mortgage loans.<sup>127</sup>
- Park National Bank's branches were concentrated in majority-white neighborhood and failed to provide mortgage services in majority-Black and Hispanic neighborhoods in the Columbus, Ohio metropolitan area.<sup>128</sup>

- ESSA Bank and Trust agreed to pay millions to increase access to credit for home mortgage in majority-Black and Hispanic neighborhoods in Philadelphia.<sup>129</sup>
- American Bank of Oklahoma excluded majority-Black and Hispanic neighborhoods in the Tulsa metropolitan area from mortgage lending services.<sup>130</sup>
- Washington Trust Company failed to provide mortgage lending services to majority-Black and Hispanic neighborhoods. Washington Trust has never opened and branch in majority-Black and Hispanic neighborhoods in Rhode Island.<sup>131</sup>
- Ameris Bank avoided providing mortgage services and discouraged residents from obtaining home loans in Jacksonville, Florida.<sup>132</sup>

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<sup>126</sup> Department of Justice, Office of Public Affairs. (2022, September 28). *Justice Department Secures Agreement with Lakeland Bank to Address Discriminatory Redlining*. [Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-secures-agreement-lakeland-bank-address-discriminatory-redlining>

<sup>127</sup> Department of Justice, Office of Public Affairs. (2023, January 12). *Largest Redlining Settlement Agreement in Department History; Department's Combating Redlining Initiative Secured Over \$75 Million for Neighborhoods of Color to Date* [Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-secures-over-31-million-city-national-bank-address-lending-discrimination>

<sup>128</sup> Department of Justice, Office of Public Affairs. (2023, February 28). *Justice Department Secures \$9 Million from Park National Bank to Address Lending Discrimination Allegations*. [Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-secures-9-million-park-national-bank-address-lending-discrimination>

<sup>129</sup> Department of Justice, Office of Public Affairs. (2023, May 31). *Justice Department Secures over \$3 Million Redlining Settlement Involving ESSA Bank & Trust in Philadelphia*.

[Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-secures-over-3-million-redlining-settlement-involving-essa-bank-trust>

<sup>130</sup> Department of Justice, Office of Public Affairs. (2023, August 28). *Justice Department Secures Agreement with American Bank of Oklahoma to Resolve Lending Discrimination Claims*. [Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-secures-agreement-american-bank-oklahoma-resolve-lending-discrimination>

<sup>131</sup> Department of Justice, Office of Public Affairs. (2023, September 27). *Justice Department Secures \$9 Million Agreement with Washington Trust Company to Resolve Redlining Claims in Rhode Island*. [Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-secures-9-million-agreement-washington-trust-company-resolve-redlining>

<sup>132</sup> Department of Justice, Office of Public Affairs. (2023, October 19). *Justice Department Reaches Significant Milestone in Combating Redlining Initiative After Securing Over \$107 Million in Relief for Communities of Color Nationwide*. [Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-reaches-significant-milestone-combating-redlining-initiative-after>

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- First National Bank (FNB) settled a lawsuit with the DOJ concerning redlining in the Charlotte and Winston-Salem, North Carolina lending markets. According to the DOJ, FNB and the former Yadkin Bank, which FNB bought in 2017, avoided providing home loans and other mortgage services in majority African and Hispanic American neighborhoods between 2017 and 2021.<sup>133</sup>
- From 2015 to 2020, Patriot Bank avoided providing credit services to majority Hispanic and African American neighborhoods in Memphis, Tennessee. Additionally, the few loan applications that came from these areas were disproportionately from white applicants.<sup>134</sup>
- Fairway Bank excluded predominantly African American neighborhoods in Birmingham, Alabama from its marketing and sales initiatives and discouraged neighborhood residents from applying for mortgage loans through the bank.<sup>135</sup>

- Citadel Federal Credit Union (Citadel) disproportionately focused its home mortgage lending in predominantly white areas in Greater Philadelphia. Citadel was found to generate mortgage applications in majority African American and Hispanic neighborhoods at roughly one-third the rate of peer lenders in the area.<sup>136</sup>

As of November 2024, the DOJ had open investigations into redlining in thirteen states, including Minnesota.<sup>137</sup>

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<sup>133</sup> Stempel, J. (2024, February 5). Pennsylvania lender FNB settles US redlining case in North Carolina. *Reuters*. Retrieved from <https://www.reuters.com/business/finance/us-accuses-pennsylvania-lender-fnb-redlining-north-carolina-2024-02-05/>

<sup>134</sup> Department of Justice, Office of Public Affairs. (2024, January 17). Justice Department Secures Agreement with Patriot Bank to Resolve Lending Discrimination Claims. [Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-secures-agreement-patriot-bank-resolve-lending-discrimination-claims>

<sup>135</sup> Department of Justice, Office of Public Affairs. (2024, October 15). Justice Department Secures \$8M from Fairway Independent Mortgage Corporation to Address Redlining in

Black Communities in Birmingham, Alabama [Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-secures-8m-fairway-independent-mortgage-corporation-address-redlining>

<sup>136</sup> Department of Justice, Office of Public Affairs. (2024, October 10). Justice Department Secures Over \$6.5M from Citadel Federal Credit Union to Address Redlining of Black and Hispanic Communities [Press release]. Retrieved from <https://www.justice.gov/opa/pr/justice-department-secures-8m-fairway-independent-mortgage-corporation-address-redlining>

<sup>137</sup> Department of Justice, Civil Rights Division. (n.d.). *Combating Redlining Initiative*. Retrieved from <https://www.justice.gov/crt/page/file/1580441/dl>

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### Steering by Real Estate Agents and Others

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>138</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 by directing minority loan applicants to less desirable and toxic loan instruments.<sup>139</sup> Such steering can affect minority borrowers' perception of the availability of mortgage loans. Additionally, explicit steering can drive racially/ethnically housing prices and result in segregation.<sup>140</sup>

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>141</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>142</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>143</sup>

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<sup>138</sup> Krone, E. (2018) The new housing discrimination: realtor minority steering. *Chicago Policy Review*. Retrieved from <https://chicagopolicyreview.org/2018/10/19/the-new-housing-discrimination-realtor-minority-steering/>

<sup>139</sup> Consumer Financial Protection Bureau. (2013, January 18). *CFPB issuing rules to prevent loan originators from steering consumers into risky mortgages* [Press release]. Retrieved from <https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-rules-to-prevent-loan-originators-from-steering-consumers-into-risky-mortgages/>

<sup>140</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>141</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>142</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>143</sup> Stempel, J. (2015, August 31). M&T Bank settles lawsuit claiming New York City lending bias. *Reuters*. Retrieved from <https://www.reuters.com/article/us-usa-guns-dicks-sporting/walmart-joins-dicks-sporting-goods-in-raising-age-to-buy-guns-idUSKCN1GC1R1>



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- In 2015, the City of Oakland, California sued Wells Fargo for steering minorities into costly mortgage loans that supposedly led to foreclosures, abandoned properties and blight.<sup>144</sup> The City of Philadelphia filed a lawsuit with similar allegations against Wells Fargo in 2017.<sup>145</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>146</sup>
- In a 2022 lawsuit filed by the DOJ, Evolve Bank & Trust, with headquarters in Tennessee, agreed to pay \$1.3 million in a settlement regarding discriminatory lending practices to Black, Hispanic and female borrowers. The suit found that, from 2014 through 2019, Evolve Bank had charged Black, Hispanic and female borrowers higher rates than white or male borrowers for “discretionary pricing” components of home loans regardless of credit status.<sup>147</sup>
- In 2023, the DOJ sued Colony Ridge, a Texas-based developer and lender, for targeting Hispanic borrowers on predatory loans that end in foreclosure.<sup>148</sup>

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<sup>144</sup> Aubin, D. (2015, September 22). Oakland lawsuit accuses Wells Fargo of mortgage discrimination. *Reuters*. Retrieved from <https://www.reuters.com/article/us-wellsfargo-discrimination/oakland-lawsuit-accuses-wells-fargo-of-mortgage-discrimination-idUSKCNORM28L20150922>

<sup>145</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>146</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>

<sup>147</sup> Department of Justice, Office of Public Affairs. (2022, September 29). *Justice Department Announces Actions to Resolve Lending Discrimination Claims Against Evolve Bank and Trust*. [Press release]. Retrieved <https://www.justice.gov/opa/pr/justice-department-announces-actions-resolve-lending-discrimination-claims-against-evolve>

<sup>148</sup> Department of Justice, Office of Public Affairs. (2023, December 20). *Justice Department and Consumer Financial Protection Bureau Sue Texas-Based Developer and Lender Colony Ridge for Bait-and-Switch Land Sales and Predatory Financing*. [Press release]. Retrieved <https://www.justice.gov/opa/pr/justice-department-and-consumer-financial-protection-bureau-sue-texas-based-developer-and>

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### Additional Information about Barriers for Women

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.

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>149</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>150</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>151</sup>

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<sup>149</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>150</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>151</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.



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Lawsuits and studies suggest that gender-based lending discrimination continues:

- In 2022, Philadelphia’s Police and Fire Federal Credit Union (PFFCU) settled a lawsuit for allegedly denying a home renovation loan because a prospective borrower was on maternity leave.<sup>152</sup>
- In 2017, Bellco Credit Union settled a lawsuit for alleged discrimination against women on maternity leave.<sup>153</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>154</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>155</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>156</sup>

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<sup>152</sup> Relman Colfax, Retrieved from

<https://www.relmanlaw.com/assets/html/documents/Settlement%20Agreement%201.pdf>

<sup>153</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-l>

<sup>154</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>155</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>156</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>

## G. Access to Capital — Summary

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Business start-up and long-term business success depend on access to capital. Discrimination at any link in that chain may produce cascading effects that result in racial and gender disparities in business formation and success.

The information presented here indicates that people of color and women continued to face disadvantages in accessing capital that is necessary to start, operate and expand businesses.

Capital is required to start companies, so barriers to accessing capital can affect the number of people of color and women who are able to start businesses. In addition, minority and female entrepreneurs start their 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 include:

- Nationally, minority- and woman-owned employer businesses (except Asian American-owned businesses) were 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 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 considerably lower amounts of wealth than non-Hispanic white households.
- Among firms across the country, female- and minority-owned companies were less likely than non-Hispanic white male-owned companies to secure business loans from a bank or financial institution as a source of start-up capital.
- Nationally, minority- and woman-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.
- Research suggests disparities in obtaining PPP loans for minority-owned businesses in Minnesota that were available during the COVID-19 pandemic, consistent with national trends.
- Availability survey results for Minnesota businesses indicate that MBEs were much more likely than majority-owned firms to report difficulties obtaining lines of credit or loans. WBEs were somewhat more likely to report these difficulties than majority-owned businesses.
- Among Minnesota construction firms indicating in the availability survey that indicated they had tried to obtain a bond, MBEs and WBEs were more likely to report difficulties obtaining bonding compared to majority-owned firms.

## G. Access to Capital — Summary

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Any discrimination against people of color in the home purchase and mortgage markets can negatively affect formation of firms by minorities in Minnesota and the success and growth of those companies.

- Home equity is an important source of funds for business start-up and growth. Fewer people of color in Minnesota own homes compared with non-Hispanic whites. Some minority groups also tended to have lower home values than non-Hispanic white homeowners.
- High-income minority households applying for conventional home mortgages in the Minnesota were more likely to have their applications denied than high-income non-Hispanic whites. This may indicate discrimination in mortgage lending and may affect access to capital for businesses.
- Some minority groups were also more likely to have subprime loans than non-Hispanic whites. This may be evidence of predatory lending practices affecting people of color.

## APPENDIX H. Analysis of Business Success — Introduction

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The study team examined the success of businesses owned by people of color and women in the Minnesota<sup>1</sup> construction, professional services, goods and other services industries (the “study industries”) and assessed whether outcomes for business owned by these individuals differ from business outcomes for other groups. Additional groups such as persons with disabilities, veterans and service-disabled veterans and LGBTQ+ Americans were also analyzed when information was available. The study team examined outcomes in terms of:

- Business closures, expansions and contractions;
- Business receipts and earnings;
- Bid capacity; and
- Potential barriers to starting or expanding businesses.

Because most of these analyses are based on secondary data, Keen Independent was limited to the business owner characteristics reported in those data. Certain data sources do not provide information for Native American-owned firms or consolidate results for all minority-owned businesses. Most data sources do not provide information for businesses owned by persons with disabilities or LGBTQ+ Americans, as further examples.

Most of the research based on secondary data reflects marketplace outcomes before the COVID-19 pandemic.

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<sup>1</sup> Keen Independent considers the relevant geographic market area for Minnesota to be State of Minnesota as a whole, plus the two Wisconsin counties within the Minneapolis-St. Paul Metropolitan Area (Pierce and St. Croix counties).

## H. Business Success — Business closures

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. As these data are from 20 years ago, they provide context for more recent analyses.

### Overall Rates of Business Closures

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>2,3</sup> The SBA report examined patterns in each state. (These are the most recent SBA analyses available at the time of this report.)

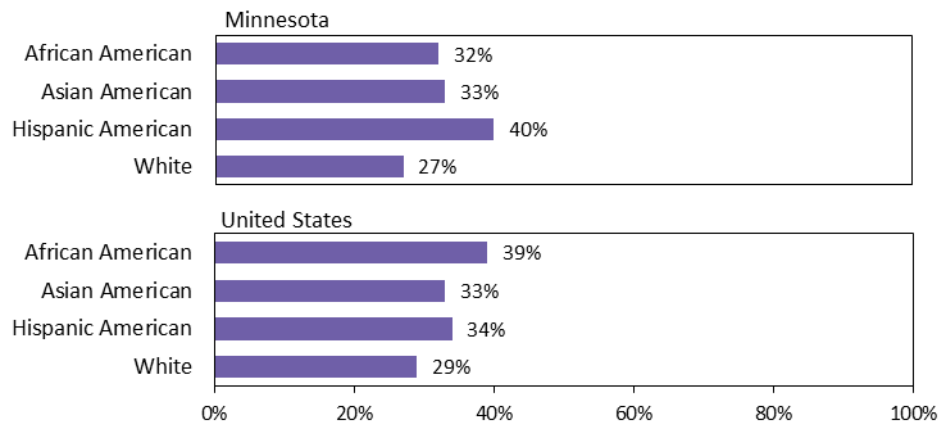
Figure H-1 presents those data for African American-, Asian American- and Hispanic American-owned businesses as well as for white-owned businesses. The rate of business closure among minority-owned businesses in Minnesota in 2002 through 2006 exceeded the closure rate of majority-owned businesses by as much as 13 percentage points. About 40 percent of Hispanic American-owned businesses operating in 2002 had closed by the end of 2006 compared with 27 percent of businesses owned by whites.

<sup>2</sup> Lowrey, Y. (2010) *Race/ethnicity and establishment dynamics, 2002–2006* (Rep. No. 369). U.S. Small Business Administration, Office of Advocacy.

<sup>3</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

The rate of business closure among African American- and Asian American-owned firms also exceeded that of majority-owned businesses in Minnesota.

H-1. Rates of business closure, 2002 through 2006, Minnesota 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. No. 369). U.S. Small Business Administration, Office of Advocacy.

The following pages discuss more results from the 2010 SBA study. Note that the 2010 study has not been replicated at the state level based on more recent data. There have been analyses of the effect of the COVID-19 pandemic, which also show disparities in closure rates. Those results are presented after fully discussing results of the 2010 SBA study.

may also be included in statistics for African Americans, Asian Americans and whites.

## H. Business Success — Business closures

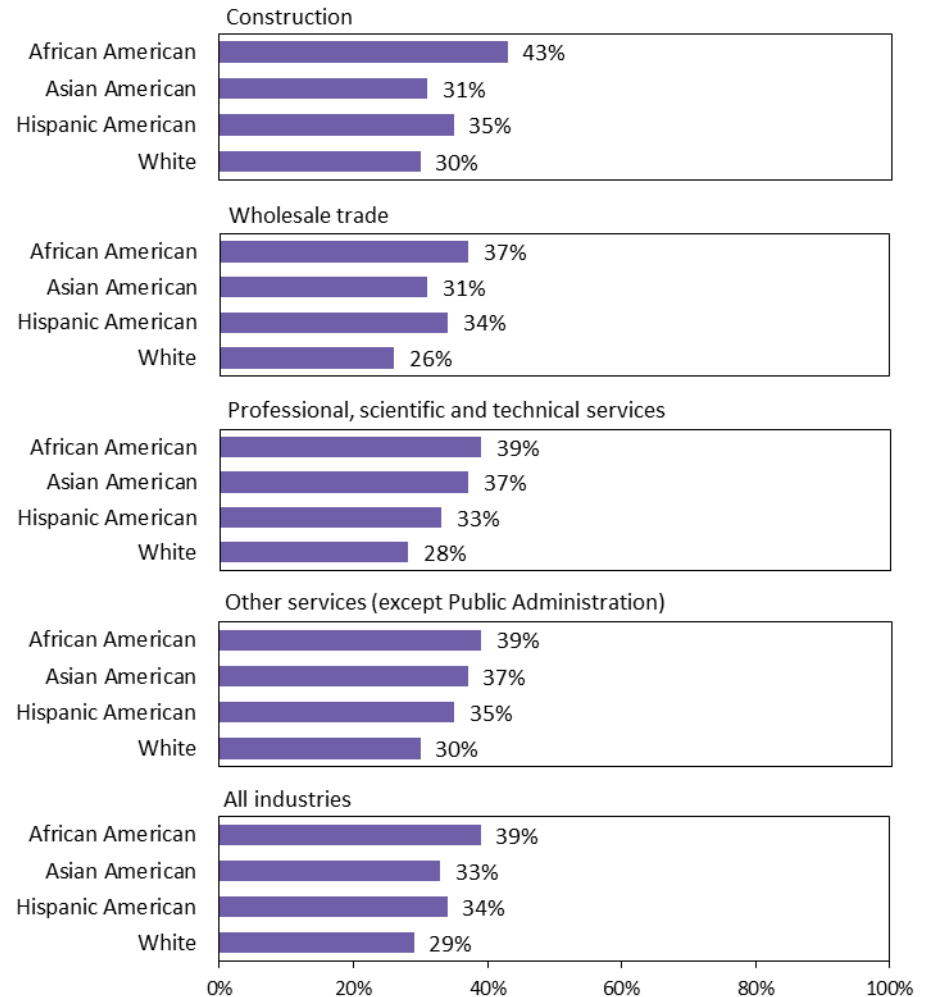
### Rates of Business Closures by Industry

The SBA report also examined national business closure rates by race/ethnicity for 21 different industry classifications (these data are not reported by state). Figure H-2 compares rates of firm closure for construction; wholesale trade; professional, scientific and technical services; and other services. Figure H-2 also presents closure rates for all industries by race/ethnicity.

- Across different industries, minority-owned businesses that were operating in 2002 had higher rates of closure from 2002 to 2006 relative to white-owned businesses.
- African American-owned businesses had the highest rate of closure among all racial/ethnic groups. For all industries, 39 percent of African American-owned firms in business in 2002 had closed by 2006 compared with 29 percent of business owned by whites.

The study team could not examine whether those differences also existed in the state of Minnesota because the SBA analysis by industry was not available for individual states.

H-2. Rates of business closure, 2002 through 2006, relevant 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. No. 369). U.S. Small Business Administration, Office of Advocacy.

## H. Business Success — Business closures

### Unsuccessful Closures

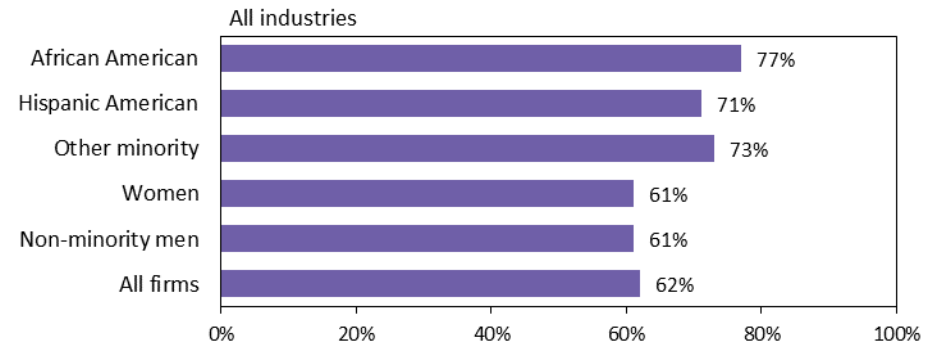
Not all business closures can be interpreted as “unsuccessful closures.” Businesses may close when an owner retires or a more profitable business opportunity emerges, both of which represent “successful closures.” The most recent data on this issue come from the 1992 Characteristics of Business Owners (CBO) Survey.<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 presents CBO data on the proportion of businesses that closed due to failure between 1992 and 1995.<sup>5,6</sup> 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 business closures were reported to be unsuccessful between 1992 and 1995, compared with 61 percent of non-Hispanic white male-owned business closures. Unsuccessful closure rates were also relatively high for other minority groups. These data are valuable as they suggest that high closure rates for MBEs might not be explained by “successful closures.” The rates for woman-owned firms and non-minority male-owned companies were the same.

<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., & Schmitz, J. A. (1996). Nonresponse Bias and Business Turnover Rates: The case of the Characteristics of Business Owners Survey. *Journal of*

H-3. Proportions of closures reported as unsuccessful between 1992 and 1995 in the U.S., all industries



Source: U.S. Census Bureau, 1996 Characteristics of Business Owners Survey (CBO).

*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.

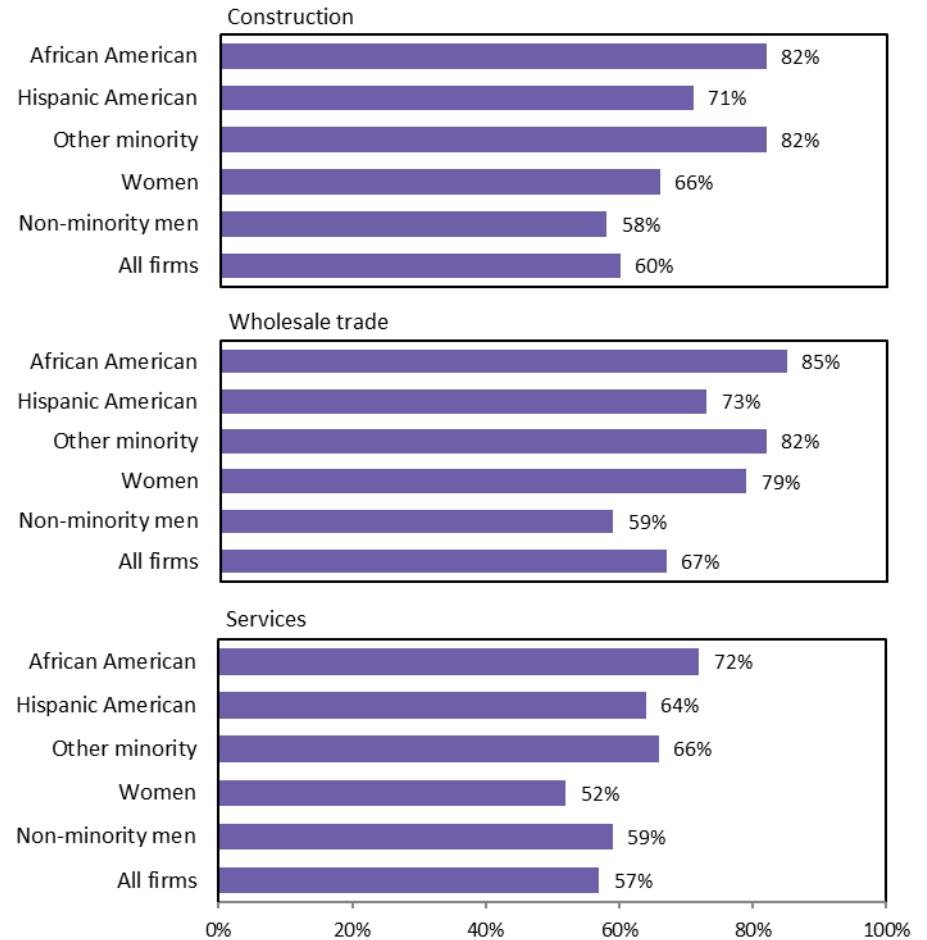
## H. Business Success — Business closures

The CBO data also provide data on unsuccessful business closures by industry.

- In the construction industry, minority- and woman-owned businesses were more likely to report unsuccessful business closures (82% and 66%, respectively) than non-Hispanic white male-owned businesses (58%).
- Those patterns were similar in the wholesale trade and services industries with one exception — woman-owned businesses in the services industry (52%) were less likely to report unsuccessful closures than non-Hispanic white male-owned businesses (59%).

Figure H-4 presents these results.

H-4. Proportions of closures reported as unsuccessful between 1992 and 1995 in the U.S., by industry



Source: U.S. Census Bureau, 1996 Characteristics of Business Owners Survey (CBO).



## H. Business Success — Business expansion

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Researchers have offered explanations for higher rates of unsuccessful closures among minority- and woman-owned businesses:

- Regression analyses have identified initial capitalization as a 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 likely to fail.<sup>8</sup>
- Prior work experience in a family member's business or similar experiences are 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> Similar gaps exist in the likelihood of business survival among woman-owned firms.<sup>11</sup>
- An owner's education level is a strong determinant of business survival. Educational attainment explains a substantial portion

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<sup>7</sup> See, e.g., Fairlie, R., Robb, A. & Robinson, D.T. (2021). Black and white: Access to capital among minority-owned startups. *Management Science* 68(4): 2377-2400. Retrieved from <https://doi.org/10.1287/mnsc.2021.3998>; 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; Fairlie, R. (2018). Racial inequality in business ownership and income. *Oxford Review of Economic Policy*, 34(4) 597-614

<sup>8</sup> Bates, T., & Robb, A. (2013). Greater access to capital is needed to unleash the local economic development potential of minority-owned businesses. *Economic Development Quarterly*, 27(3) 250-259; Blanchflower, D. (2008). *Minority self-employment in the United States and the impact of affirmative action programs* (Working paper No. 12972). NBER Working Paper Series. Cambridge, MA: National Bureau of Economic Research. Retrieved from <https://www.nber.org/papers/w13972>

<sup>9</sup> Staniewski, M.W., (2016). The contribution of business experience and knowledge to successful entrepreneurship. *Journal of Business Research*, 69(11) 5147-5152; 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>10</sup> 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.

of the gap in business closure rates between African American-owned and nonminority-owned businesses.<sup>12</sup>

- White business owners have broader business opportunities, increasing their likelihood of closing successful businesses to pursue more profitable alternatives. Minority owners, especially those who do not speak English, have limited employment options, are less likely to close a successful business and more likely to face low business income.<sup>13</sup>
- 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>

<sup>11</sup> Sriram, V., & Mersha, T. (2017). Entrepreneurial drivers and performance: an exploratory study of urban minority and women entrepreneurs. *International Journal of Entrepreneurship and Small Business*, 31(4); Fairlie, R. W., & 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> Fairlie, R. (2022). The Impacts of COVID-19 on Racial Disparities in Small Business Earnings. U.S. Small Business Office of Advocacy. Retrieved from [https://advocacy.sba.gov/wp-content/uploads/2022/08/Research-Summary\\_COVID-and-Racial-Disparities\\_508c.pdf](https://advocacy.sba.gov/wp-content/uploads/2022/08/Research-Summary_COVID-and-Racial-Disparities_508c.pdf)

<sup>13</sup> Fairlie, R. (2018). Latino business ownership: Contributions and barriers for U.S.-born and immigrant Latino entrepreneurs. Office of Advocacy, U.S. Small Business Administration; Bates, T. (2005). Analysis of young, small firms that have closed: Delineating successful from unsuccessful closures. *Journal of Business Venturing*, 20(3), 343–358.

<sup>14</sup> Robb, A. M., & 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., & Krashinsky, H. (2010). The international Asian business success story? A comparison of Chinese, Indian and other Asian businesses in the United

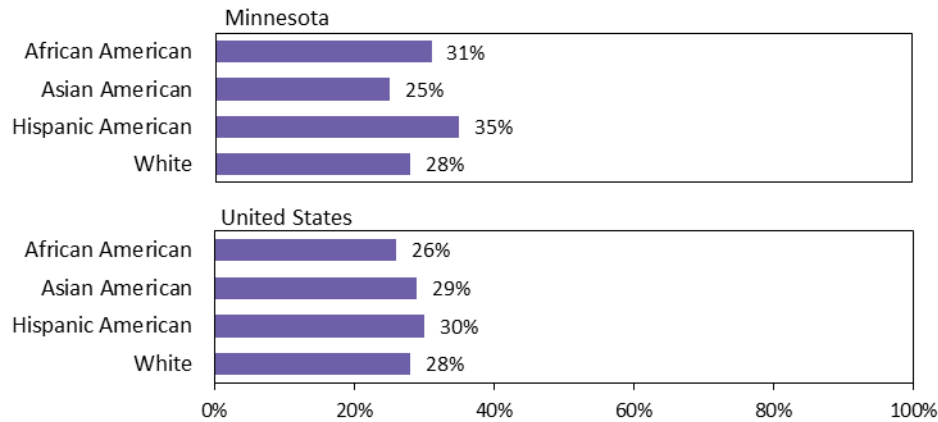
## H. Business Success — Business expansion

Comparing expansion and contraction for 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 for the nation were available at the state level.

The 2010 SBA study of minority business dynamics from 2002 through 2006 examined the number of privately held Minnesota businesses that expanded and contracted between 2002 and 2006.

Figure H-5 presents the percentage of all businesses that increased their total employment between 2002 and 2006. In Minnesota, relatively fewer Asian American-owned businesses expanded compared with white-owned businesses.

H-5. Percentage of businesses that expanded, 2002 through 2006, Minnesota 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. No. 369). U.S. Small Business Administration, Office of Advocacy.

States, Canada and United Kingdom. In *International Differences in Entrepreneurship* (pp. 179–208). University of Chicago Press; Fairlie, R. W., & Robb, A. (2010). *Race and*

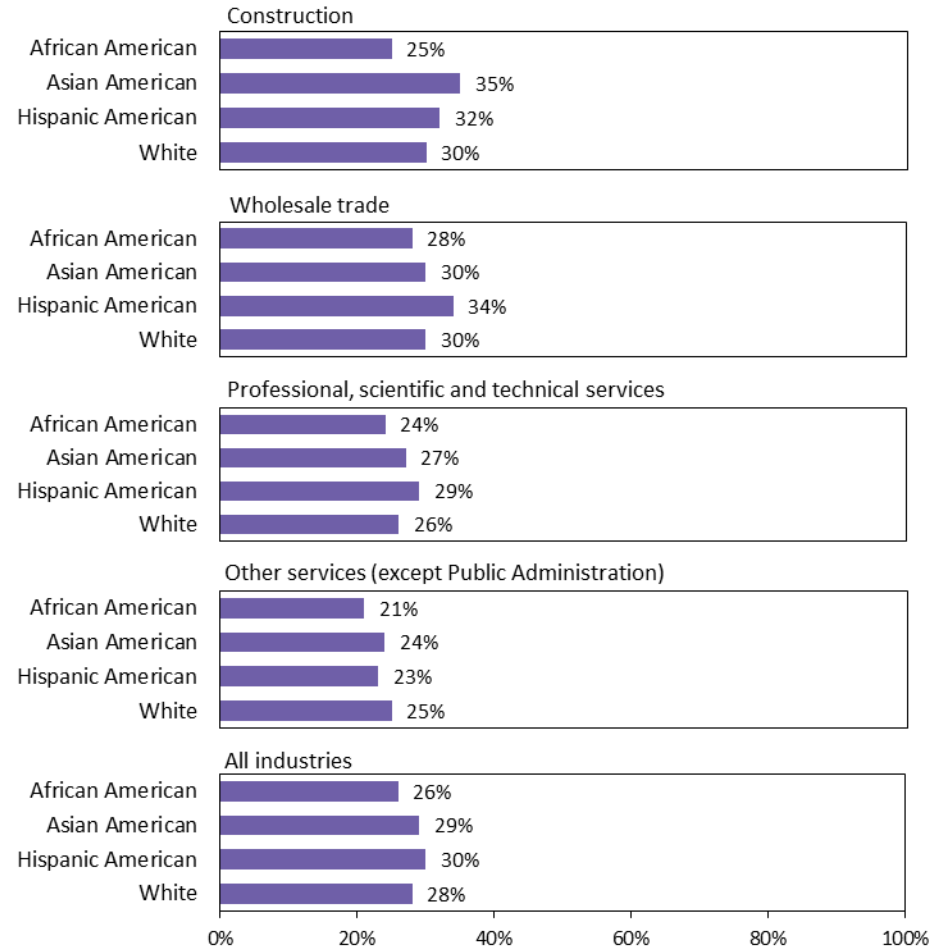
*entrepreneurial success: Black-, Asian-, and white-owned businesses in the United States*. Cambridge, MA: The MIT Press.

## H. Business Success — Business expansion

Figure H-6 presents the percentage of businesses that expanded in construction; wholesale trade; professional, scientific and technical services; management of companies and enterprises; other services and in all industries in the United States. (The SBA study did not report results for businesses in individual industries at the state level.)

In each industry examined, a smaller percentage of African American-owned firms expanded compared to white-owned firms. Asian American- and Hispanic American-owned firms in some industries were more likely to expand than white-owned businesses.

H-6. Percentage of businesses that expanded, 2002 through 2006, relevant 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.

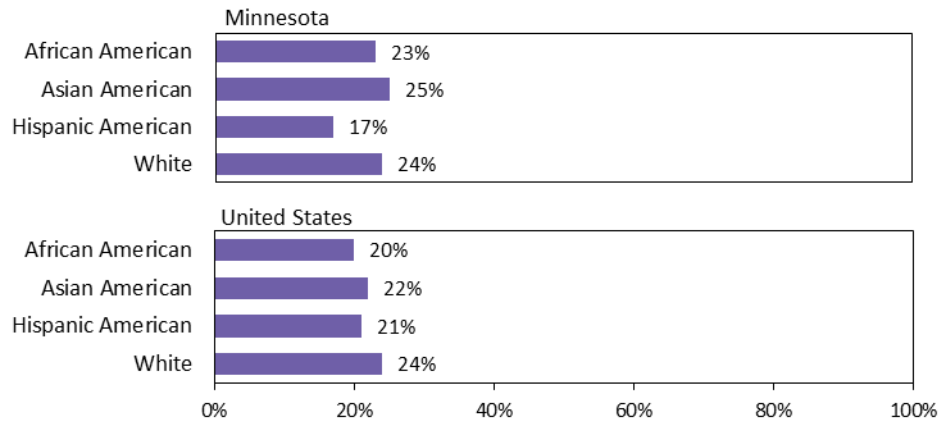
Source: Lowrey, Y. (2010) Race/ethnicity and establishment dynamics, 2002–2006 (Rep. No. 369). U.S. Small Business Administration, Office of Advocacy.

## H. Business Success — Business contraction

Figure H-7 shows the percentage of privately held businesses operating in 2002 that reduced their employment (i.e., contracted) between 2002 and 2006 in Minnesota and in the nation.

- Hispanic American-owned firms in Minnesota were less likely to contract between 2002 and 2006 than nonminority-owned businesses. When coupled with the higher percentage of Hispanic American-owned firms that closed during this time period (shown in Figure H-1), it is possible that Hispanic American-owned firms in economic distress were less likely to contract and more likely to close than majority-owned firms in distress.
- Trends in business contraction for Minnesota are similar to those for the United States as a whole. Nationally, relatively fewer businesses owned by individuals in each minority group contracted compared with white-owned companies.

H-7. Percentage of businesses that contracted, 2002 through 2006, Minnesota and the U.S.



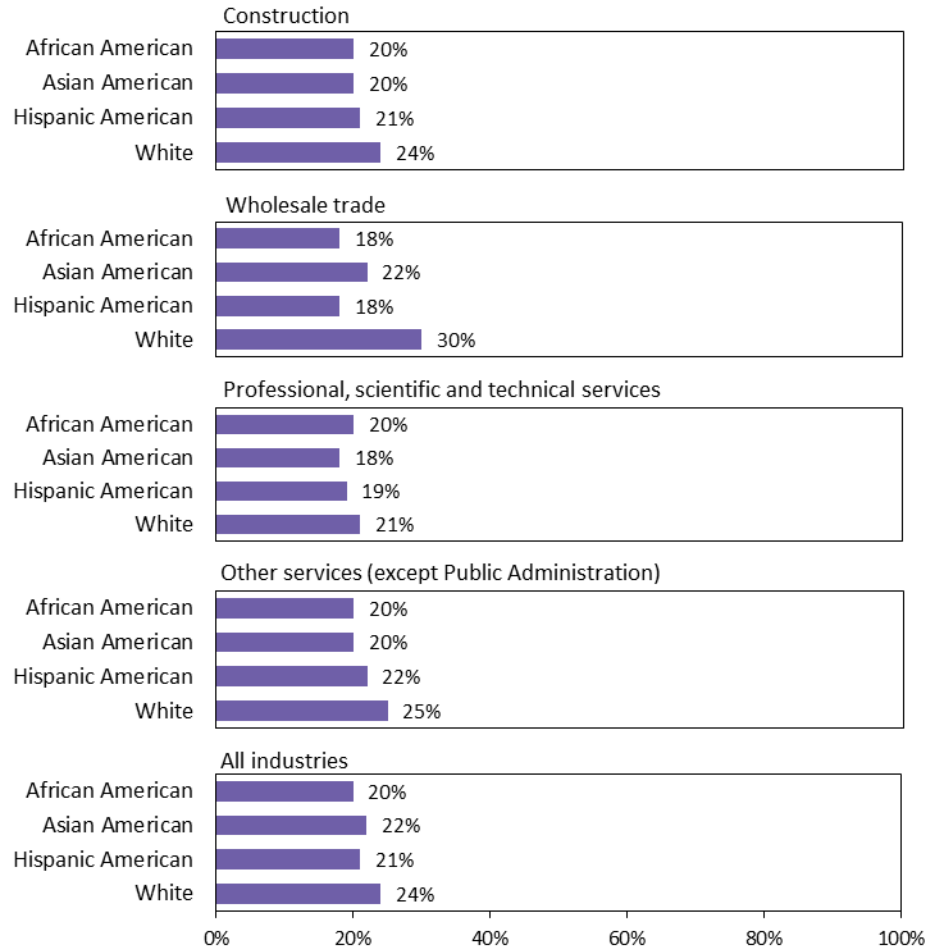
Note: Data refer to non-publicly held businesses only.  
As sample sizes are not reported, statistical significance of these results cannot be determined; however, statistics are consistent with SBA data quality guidelines.

Source: Lowrey, Y. (2010) Race/ethnicity and establishment dynamics, 2002–2006 (Rep. No. 369). U.S. Small Business Administration, Office of Advocacy.

## H. Business Success — Business contraction

The SBA study did not report state-specific results relating to contractions in individual industries. Figure H-8 displays the percentage of businesses that contracted in the relevant 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 relevant study industries and in all industries contracted between 2002 and 2006.

H-8. Percentage of businesses that contracted, 2002 through 2006, relevant 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. No. 369). U.S. Small Business Administration, Office of Advocacy.

## H. Business Success — Impact of COVID-19 Pandemic on closure, expansion and contraction

### Closure

As of the writing of this report, research suggests that the COVID-19 pandemic negatively affected business success and that the magnitude of these effects vary by race, ethnicity, gender and education. Establishment closure and opening was an important feature of the early pandemic. At the height of the pandemic during the spring of 2020, more than 700,000 establishments, or single operating locations of potentially larger businesses, closed at least temporarily.<sup>15</sup> Certain businesses navigated multiple cycles of establishment closures and openings, and many establishments were permanently closed because of the pandemic. Permanent closures, or exits, during 2020 reached 1.1 million and exceeded pre-pandemic (2015-2019) rates by roughly 181,000.<sup>16</sup> Minnesota had a historically large number of business closures in the early months of the pandemic. Approximately 10,500 business establishments closed from March to April 2020, higher than the normal closings for all of 2019.<sup>17</sup> Coming out of the pandemic, new establishments surged in 2021.<sup>18</sup>

One study performed by the Federal Reserve Bank found that minority-owned small businesses had been disproportionately impacted by the pandemic. Firms owned by Asian Americans and Hispanic Americans had higher rates of closure than non-Hispanic whites, and African Americans faced the highest rate of business closure at more than twice the rate of businesses owned by non-Hispanic whites.<sup>19</sup>

The 2020 Small Business Credit Survey (SBCS) included questions related to the COVID-19 pandemic's effect on business operations. As of fall 2020, the number of businesses that temporarily closed at one point during the pandemic was one in four for non-Hispanic white-owned firms and higher for firms owned by people of color (see Figure H-9).

H-9. Effect of the COVID-19 pandemic on U.S. employer firms, 2020

Race/ethnicity	Temporarily closed	Reduced operations	Maintained operations*	Expanded operations	No impact
African American	26 %	67 %	39 %	5 %	2 %
Asian American	33	67	43	3	2
Hispanic American	27	63	44	3	3
Native American	36	56	47	5	9
Non-Hispanic white	25	54	49	5	5

Note: "Maintained operations" includes those that maintained operations with modifications; respondents were instructed to select all that apply, therefore the percent of respondents may add to more than 100%.

Source: Federal Reserve Bank. (2020). 2020 Small Business Credit Survey [Data file]. Retrieved from <https://www.fedsmallbusiness.org/survey>.

<sup>15</sup> Decker, R. et al. (2022, May 06). Business entry and exit in the COVID-19 pandemic: A preliminary look at the official data. Retrieved from <https://www.federalreserve.gov/econres/notes/feds-notes/business-entry-and-exit-in-the-covid-19-pandemic-a-preliminary-look-at-official-data-20220506.html>

<sup>16</sup> Ibid.

<sup>17</sup> Minnesota Department of Economic Development. (December 2020). *Assessing the initial impact of COVID-19 on Minnesota employment and business establishments*.

Retrieved from: <https://mn.gov/deed/newscenter/publications/trends/march-2021/assessing-initial-impact.jsp>

<sup>18</sup> Ibid.

<sup>19</sup> Misera, L. (2020). *An uphill battle: COVID-19's outsized toll on minority-owned firms* (Rep.). Cleveland, OH: Federal Reserve Bank of Cleveland. doi: 10.26509/frbc-cd-20201008

## H. Business Success — Impact of COVID-19 Pandemic on closure, expansion and contraction

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Major reasons behind such a disproportionate impact on minority-owned businesses include the following:

- Minority-owned businesses were facing structural and social issues prior to the pandemic that negatively affected ownership and success, such as discrimination and lack of access to capital. Consequently, these firms were more likely to be at risk during and after the pandemic, particularly African American- and Hispanic American-owned businesses.<sup>20</sup>
- Minority-owned businesses were concentrated in fields hit heavily by COVID-19, such as leisure and hospitality, wholesale and retail trade.<sup>21</sup>
- Minority-owned businesses had limited access to funding during the pandemic, such as the Paycheck Protection Program (PPP), due primarily to a lack of existing relationships with financial intermediaries (e.g., Small Business Administration lenders).

Additional research shows that an estimated 25 percent of woman-owned businesses had closed during the height of the pandemic.<sup>22</sup> A higher percentage of male-owned firms than women-owned firms

stayed open during the early pandemic stages through the end of 2020.<sup>23</sup> Business closure rates were higher for women of color and higher still for women of color who did not have a bachelor's degree.<sup>24</sup>

Another factor that impacted all business ownership, regardless of race, gender or business size, were supply chain disruptions experienced by most industries, which limited access to goods and limited productivity.<sup>25</sup> Intergenerational small businesses were challenged by the COVID-19 pandemic as well. Deaths of older family members (as well as the fear of death) hastened succession, led some to reevaluate business ownership and led others to consider business sale or closure.<sup>26</sup>

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<sup>20</sup> Dua, A., Mahajan, D., Millan, I., & Stewart, S. (2020). COVID-19's effect on minority-owned small businesses in the United States. *McKinsey & Company*.

<sup>21</sup> Fairlie, R. (2022). The Impacts of COVID-19 on Racial Disparities in Small Business Earnings. *U.S. Small Business Administration Office of Advocacy*. Retrieved from [https://advocacy.sba.gov/wp-content/uploads/2022/08/Research-Summary\\_COVID-and-Racial-Disparities\\_508c.pdf](https://advocacy.sba.gov/wp-content/uploads/2022/08/Research-Summary_COVID-and-Racial-Disparities_508c.pdf)

<sup>22</sup> Mills, C., & Battisto, J. (2020). Double jeopardy: COVID-19's concentrated health and wealth effects in black communities. *Federal Reserve Bank of New York*; Fairlie, R. (2020). *COVID-19, small business owners, and racial inequality*. Retrieved from [https://www.nber.org/reporter/2020number4/covid-19-small-business-owners-and-racial-inequality?force\\_isolation=true](https://www.nber.org/reporter/2020number4/covid-19-small-business-owners-and-racial-inequality?force_isolation=true)

<sup>23</sup> Alekseev, G. et al. (2022). The effects of COVID-19 on U.S. small businesses: Evidence from owners, managers, and employees. *Management Science* 69(1): 7–24. Retrieved from <https://doi.org/10.1287/mnsc.2022.4327>

<sup>24</sup> Mills, C., & Battisto, J. (2020). Double jeopardy: COVID-19's concentrated health and wealth effects in black communities. *Federal Reserve Bank of New York*

<sup>25</sup> Van Hoek, R. (2020). Responding to COVID-19 supply chain risks—insights from supply chain change management, total cost of ownership and supplier segmentation theory. *Logistics*, 4(4) 23.

<sup>26</sup> De Massis, A. & Rondi, E. (2020). COVID-19 and the future of family business research. *Journal of Management Studies*. Retrieved from [https://bia.unibz.it/view/delivery/39UBZ\\_INST/12236541630001241/13236541620001241](https://bia.unibz.it/view/delivery/39UBZ_INST/12236541630001241/13236541620001241)

## H. Business Success — Impact of COVID-19 Pandemic on closure, expansion and contraction

### Expansion and Contraction

The 2020 Small Business Credit Survey also asked firms if their revenue and employment had increased, decreased or not changed from previous years. Figure H-10 shows these results.

From fall 2019 to fall 2020, more than three-quarters of U.S. employer firms reported that their revenue decreased. About one-half reported that their employment decreased. These data indicate that the COVID-19 pandemic negatively impacted revenue and employment.

Except for Native American-owned firms, minority-owned companies were more likely than non-Hispanic white-owned firms to report revenue decreases (for both fall 2019 to fall 2020 and fall 2020 to fall 2021).<sup>27</sup> Overall, minority-owned businesses were more likely to report losses in revenue compared to businesses owned by non-Hispanic whites over the 2019 to 2021 period.

Additional research shows that COVID-19-induced losses to business earnings were disproportionately felt by minority-owned businesses.<sup>28</sup> Based on representative Current Population (CPS) microdata, average business earnings decreased as follows:

- 15 percent for Asian business owners;
- 11 percent for African American business owners;
- 7 percent for Hispanic business owners; and
- 2 percent for white business owners.<sup>29</sup>

<sup>27</sup> Small Business Credit Survey 2022 Report on Firms Owned by People of Color. (2022) FED Small Business. Retrieved from <https://www.fedsmallbusiness.org/survey/2022/2022-report-on-firms-owned-by-people-of-color>.

<sup>28</sup> Fairlie, R. (2022). The Impacts of COVID-19 on Racial Disparities in Small Business Earnings. U.S. Small Business Administration Office of Advocacy. Retrieved from

H-10. Percent of firms that reported change in revenue and employment in prior 12 months, U.S. employer firms, 2020 and 2022

Race/ethnicity	2020		2022	
	Revenue	Employment	Revenue	Employment
<b>Increase</b>				
African American	10 %	10 %	40 %	20 %
Asian American	5	7	29	20
Hispanic American	12	9	44	28
Native American	12	14	43	27
Non-Hispanic white	15	12	47	31
<b>No change</b>				
African American	6 %	37 %	20 %	57 %
Asian American	5	39	24	56
Hispanic American	8	41	18	48
Native American	14	43	23	49
Non-Hispanic white	9	43	17	46
<b>Decrease</b>				
African American	85 %	53 %	40 %	23 %
Asian American	90	54	47	25
Hispanic American	80	51	38	24
Native American	75	43	34	24
Non-Hispanic white	76	45	36	23

Source: Federal Reserve Bank. (2023). 2022 Small Business Credit Survey [Data file]. Retrieved from <https://www.fedsmallbusiness.org/survey>.

[https://advocacy.sba.gov/wp-content/uploads/2022/08/Research-Summary\\_COVID-and-Racial-Disparities\\_508c.pdf](https://advocacy.sba.gov/wp-content/uploads/2022/08/Research-Summary_COVID-and-Racial-Disparities_508c.pdf)

<sup>29</sup> Ibid.



## H. Business Success — Impact of COVID-19 Pandemic on closure, expansion and contraction

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Although Anti-Asian violence and discrimination is not a recent phenomenon, there has been an increase in harassment, physical violence, discrimination and prejudice against Asian people since the COVID-19 pandemic. This may have affected business owners. In Minnesota, for example, Asian-led small business revenue fell by 27 percent during the pandemic, more than any other demographic group.<sup>30</sup>

Other groups, such as LGBTQ+ business owners, were similarly impacted by the pandemic. In 2021, LGBTQ-owned businesses were more likely than non-LGBTQ businesses to report:

- They had suffered financial losses in 2020 (61% vs. 48%).
- They had experienced all types of financial challenges (difficulty paying operating expenses, uneven cash flow and weak sales) in the past year.<sup>31</sup>

Other factors including industry, geographic region, education level and gender impacted how business owners experienced the economic effects of COVID-19. The largest losses in business earnings in the pandemic were in leisure and hospitality, wholesale and retail trade.<sup>32</sup> Regions including the West and the South, as well as central cities areas, saw the greatest impact.<sup>33</sup> Business owners with a bachelor's degree were more immune to economic losses.<sup>34</sup>

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<sup>30</sup> Vue, K. (May 11, 2022). Minnesota businesses run by Asian Americans and Pacific Islanders were hit hard by the pandemic and a rise in hate crimes. An expo will try to bring them back. *Sahan Journal*. <https://sahanjournal.com/business-work/minnesota-asian-american-pacific-islander-business-expo/>

<sup>31</sup> Watson, S., Casey, L. Goldberg, N. and Broisman, B. LGBTQ-owned small businesses in 2021. <https://www.lgbtmap.org/file/LGBTQ-Small-Businesses-in-2021.pdf>

<sup>32</sup> Fairlie, R. (2022). The Impacts of COVID-19 on Racial Disparities in Small Business Earnings. U.S. Small Business Administration Office of Advocacy. Retrieved from [https://advocacy.sba.gov/wp-content/uploads/2022/08/Research-Summary\\_COVID-and-Racial-Disparities\\_508c.pdf](https://advocacy.sba.gov/wp-content/uploads/2022/08/Research-Summary_COVID-and-Racial-Disparities_508c.pdf).

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

## H. Business Success — Impact of COVID-19 Pandemic on closure, expansion and contraction

### Impact on Woman-Owned Firms

A U.S. Chamber of Commerce study found evidence that the pandemic disproportionately affected woman-owned firms. The study surveyed small business owners in the quarter before the pandemic and in the third quarter of 2020. Findings are summarized in Figure H-11.

- Between January and July of 2020, the share of woman-owned firms that reported their overall business health as “good” fell from 60 percent to 47 percent. This drop exceeded what was seen for male-owned companies.
- The share of woman-owned firms that indicated increasing staff fell from 18 percent in January 2020 to 15 percent in July 2020, while the portion of male-owned firms rose from 17 percent to 25 percent. The share of woman-owned firms that expected to increase size of staff in the coming year fell, while the share of male-owned firms that expected to increase staffing grew.
- The share of woman-owned firms that planned to increase investments was stable, while the share of male-owned firms that planned on increasing investments grew.
- Fewer woman-owned firms expected their revenue to grow in the following year, compared to little change for male-owned firms.

<sup>35</sup> U.S. Chamber of Commerce. (2020, August 26). *Coronavirus pandemic disproportionately affecting female-owned small businesses, according to new U.S. Chamber poll* [Press release]. Retrieved January 15, 2021, from [https://www.uschamber.com/small-](https://www.uschamber.com/small-business/coronavirus-pandemic-disproportionately-affecting-female-owned-small-businesses)

Some variation may be due to industry makeup; woman-owned businesses were a relatively higher portion of firms in the retail, services and healthcare/professional services industries, which had been more impacted by social distancing guidelines.<sup>35</sup>

H-11. Survey responses about business success, before and during the COVID-19 pandemic

Demographic group	Before COVID-19 pandemic	
	(January 2020)	July 2020
<b>Female</b>		
Ranked overall health of business as "good"	60 %	47 %
Increased staffing in previous year	18	15
Expect to increase size of staff in coming year	31	24
Plan to increase investments in the coming year	32	32
Expect next year's revenue to increase	63	49
<b>Male</b>		
Ranked overall health of business as "good"	67 %	62 %
Increased staffing in previous year	17	25
Expect to increase size of staff in coming year	30	36
Plan to increase investments in the coming year	28	39
Expect next year's revenue to increase	59	57

Source: U.S. Chamber of Commerce. (2020). *MetLife & U.S. Chamber Special Report on women-owned small businesses during COVID-19* (Rep.). Retrieved from <https://www.uschamber.com/workforce/special-report-women-owned-small-businesses-during-covid-19>.

[business/coronavirus-pandemic-disproportionately-affecting-female-owned-small-businesses](https://www.uschamber.com/workforce/special-report-women-owned-small-businesses-during-covid-19)

## H. Business Success — Impact of COVID-19 Pandemic on closure, expansion and contraction

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Research suggests that the added labor of childcare and elderly care will continue to impact women and women-owned businesses.<sup>36</sup> Average childcare duties rose from 9 hours per week to 17 hours early in the pandemic and 22 hours by fall 2020 for college-educated women in two-parent households with elementary school-aged children. Even as women remained employed, the burden of care led many to sacrifice opportunities that may impact their long-term professional success. It is within this context that African American women, who worked in the leisure or service industry and who became primary caretakers of children or elderly relatives, were the most impacted by COVID-19.

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<sup>36</sup> Goldin, C. (2022). *Understanding the economic impact of COVID-19 on women* (Working paper No.29974). National Bureau of Economic Research. Retrieved from <https://www.nber.org/papers/w29974>

## H. Business Success — Closure rates for firms responding to the 2017 availability survey

The Keen Independent study used availability survey data compiled for the 2017 Minnesota Joint Disparity Study to analyze the rates of business closure among those firms between 2017 and 2024. The study team linked 2017 availability survey data to other business records to perform this analysis.

### Business Closure Rates

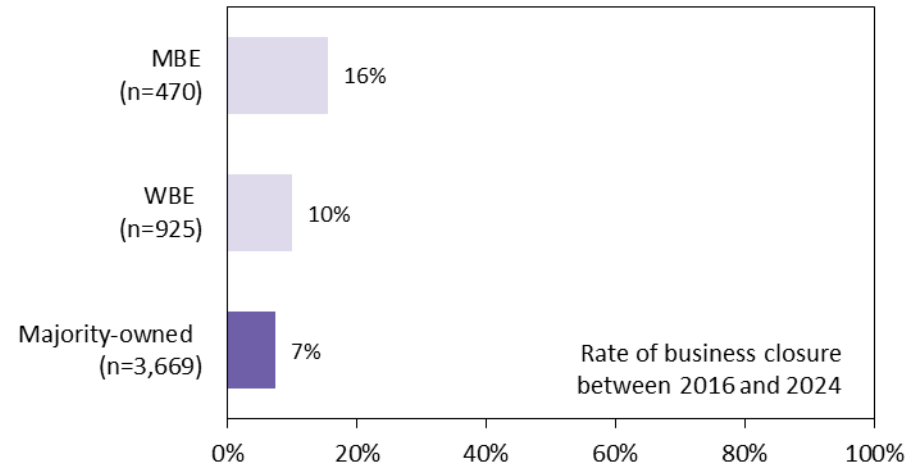
Keen Independent attempted to determine the operating status of about 5,000 firms in the Minnesota marketplace that had expressed interest and qualifications to do business with public agencies in Minnesota in the 2017 availability survey.

The study team collected data on the current operating status of firms available in 2017 from Dun & Bradstreet, the Minnesota Secretary of State, manual research of firm websites and direct calls to businesses. Firms were considered closed if the none of these sources indicated that the firm was still in business. Results indicated:

- About 16 percent of available MBEs closed between 2017 and 2024, more than twice the rate of majority-owned firms.<sup>37</sup>
- About 10 percent of WBEs closed, also higher than the 7 percent rate found for majority-owned firms.

Figure H-12 illustrates these results.

H-12. Rate of closure among interested and qualified businesses from the 2017 Joint Minnesota Disparity Study, 2017–2025



Note: “MBE” represents minority-owned firms, “WBE” represents white woman-owned firms and “Majority-owned” represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2017 availability surveys.

The study team examined whether the differences in closure rates between groups could be easily explained by chance. For MBEs, chance in business closures can be rejected as an explanation at the 95 percent confidence level. Chance could not be rejected as an explanation for the higher WBE closure rate (at this level of confidence).

<sup>37</sup> Note that business closure analyses do not control for successful closures, such as retirement of the owner. Businesses that were sold, acquired or experienced other change in ownership (and were still operational) were treated as open for these analyses.

H. Business Success — Closure rates for firms responding to the 2017 availability survey

Business Closure Rates by Certification Status

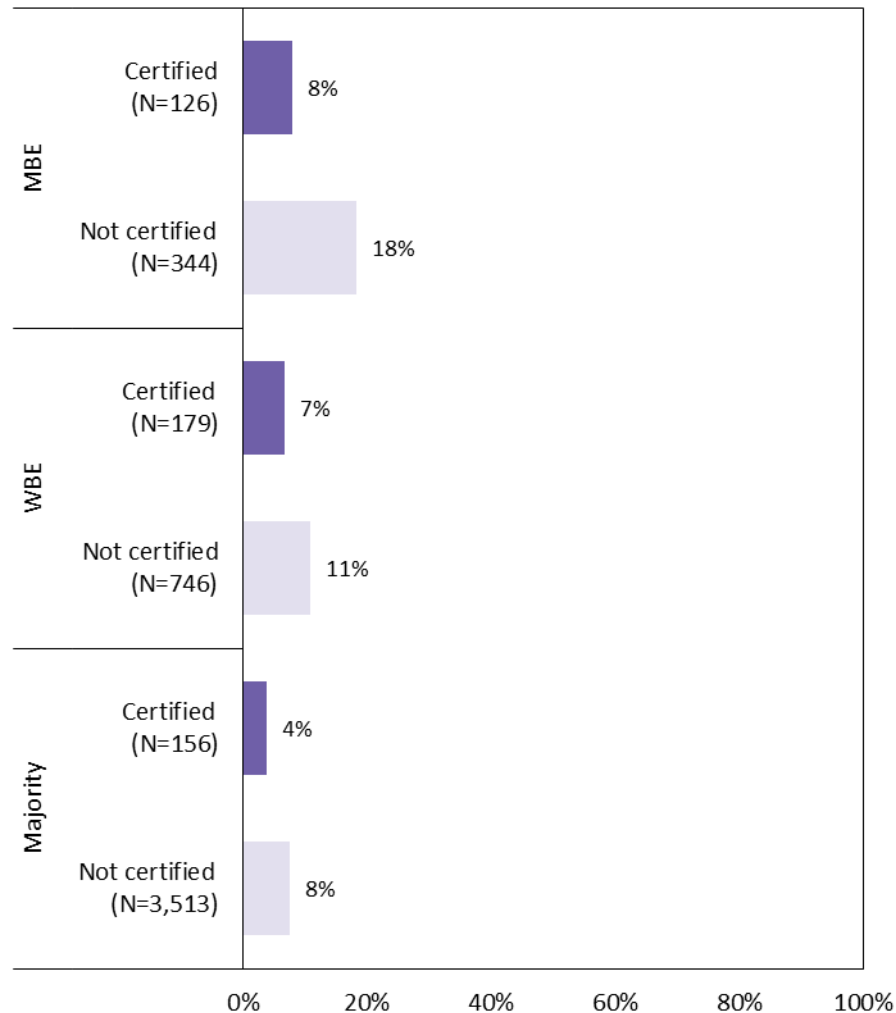
Keen Independent examined whether firms that were certified in 2017 had the same closure rates as firms that were not certified. The study team used data from the 2017 Disparity Study to identify available firms that were certified with the CERT Program or the Minnesota Unified Certification Program. Using the same sources and methods described on the previous page, Keen Independent calculated the business closure rate for each ownership group by certification status.

As shown in Figure H-13, firms that were certified MBEs, WBEs or other Targeted Businesses at the time of the 2017 study were more likely than non-certified firms to be operating at the time of the 2025 study.

- The closure rate for certified MBEs (8%) was less than one-half the closure rate of non-certified MBEs (18%).
- Majority-owned businesses certified with the CERT program (as an SBE, for example) were about half as likely to close between 2017 and 2025 compared to non-certified majority-owned businesses (4 percent and 8 percent, respectively).
- The closure rate for certified WBEs (7%) was also below the closure rate for white woman-owned firms that were not certified as such (11%).

The study team also examined business growth rates using Dun & Bradstreet revenue estimates. While the number of businesses with revenue estimates was too small for statistical analysis, trends indicated that the revenue of certified MBEs was more likely to outpace inflation than non-certified MBEs.

H-13. Rate of closure among interested and qualified businesses from the 2017 Joint Minnesota Disparity Study, 2017–2024



Note: “MBE” represents minority-owned firms, “WBE” represents white woman-owned firms and “Majority-owned” represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2017 availability surveys.

## H. Business Success — Business receipts

The next pages of this appendix focus on business revenue. The study team examined:

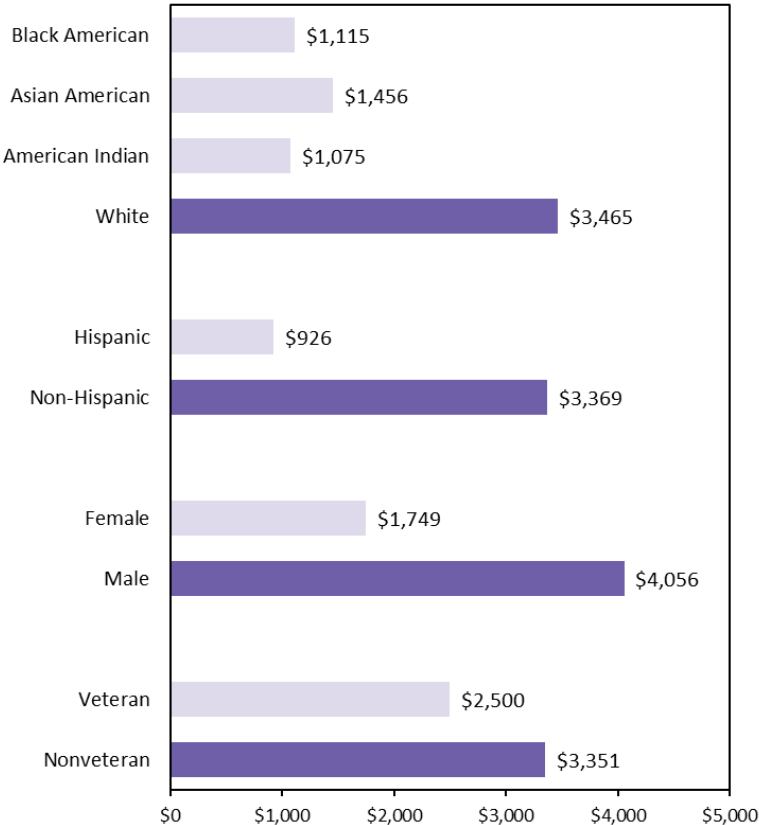
- Business receipts data for Minnesota from the U.S. Census Bureau 2022 Annual Business Survey (ABS);
- Business earnings data for business owners in the Minneapolis-St. Paul MSA marketplace from the 2018–2022 American Community Survey (ACS); and
- Annual revenue data for firms in the study industries located in the Minnesota or Western Wisconsin marketplace that the study team collected as part of the 2024 availability surveys.

### Receipts for All Businesses

The study team examined receipts for businesses using data from the 2022 ABS, conducted by the U.S. Census Bureau.

Figure H-14 presents 2022 mean annual receipts for employer and non-employer businesses by race, ethnicity, gender and veteran status.<sup>38</sup> The ABS data across all industries in Minnesota show lower receipts for minority-, woman- and veteran-owned businesses than for nonminority, male- and nonveteran-owned businesses, respectively. Each of these disparities in revenue was substantial.

H-14. Mean annual receipts (thousands) for all businesses, by race/ethnicity and gender of owners, 2022, Minnesota



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: U.S. Census Bureau's 2022 Annual Business Survey.

<sup>38</sup> Racial categories are not available by both race and ethnicity. As such, the racial categories shown may include Hispanic Americans.

## H. Business Success — Business receipts

### Receipts by Industry

The study team also analyzed ABS receipts data for businesses in construction, professional services, goods and other services.

Figure H-15 presents mean annual receipts in 2022 for firms in the economic sectors that correspond to the study industries. Disparities for minority- and veteran-owned businesses seen in all industries combined persist when examining results for most individual industries.

Results showing lower mean annual revenue for woman-owned firms in the professional, scientific and technical services industry and for the other services industry are consistent with the overall results based on ABS data. However, results from this data source for woman-owned firms in construction and wholesale trade are not consistent with the overall results from ABS data or other data sources.

H-15. Mean annual receipts (thousands) for all firms in the relevant study industries, by race/ethnicity and gender of owners, 2022, Minnesota

Demographic group	Construction	Professional, scientific and technical services	Wholesale trade	Other services
<b>Race</b>				
Black American	\$ 580	\$	\$ 2,819	\$ 203
Asian American	2,461	1,631	7,072	351
American Indian	2,247	717		198
White	2,932	1,292	18,856	800
<b>Ethnicity</b>				
Hispanic	\$ 669	\$ 546	\$ 3,690	\$ 311
Non-Hispanic	3,007	1,313	18,594	758
<b>Gender</b>				
Female	\$ 3,410	\$ 885	\$ 21,039	\$ 446
Male	2,843	1,498	19,343	903
<b>Veteran status</b>				
Veteran	\$ 1,765	\$ 585	\$ 4,870	\$ 558
Nonveteran	2,938	1,343	20,156	753

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: U.S. Census Bureau's 2022 Annual Business Survey.

## H. Business Success — Business earnings

To assess the success of self-employed minorities, women, veterans and persons with disabilities in the relevant study industries, the study team examined earnings of business owners using Public Use Microdata Series (PUMS) data from the 2018–2022 ACS. The study team analyzed earnings of incorporated and unincorporated business owners ages 16 and older who reported positive business earnings. All results are presented in 2022 dollars.

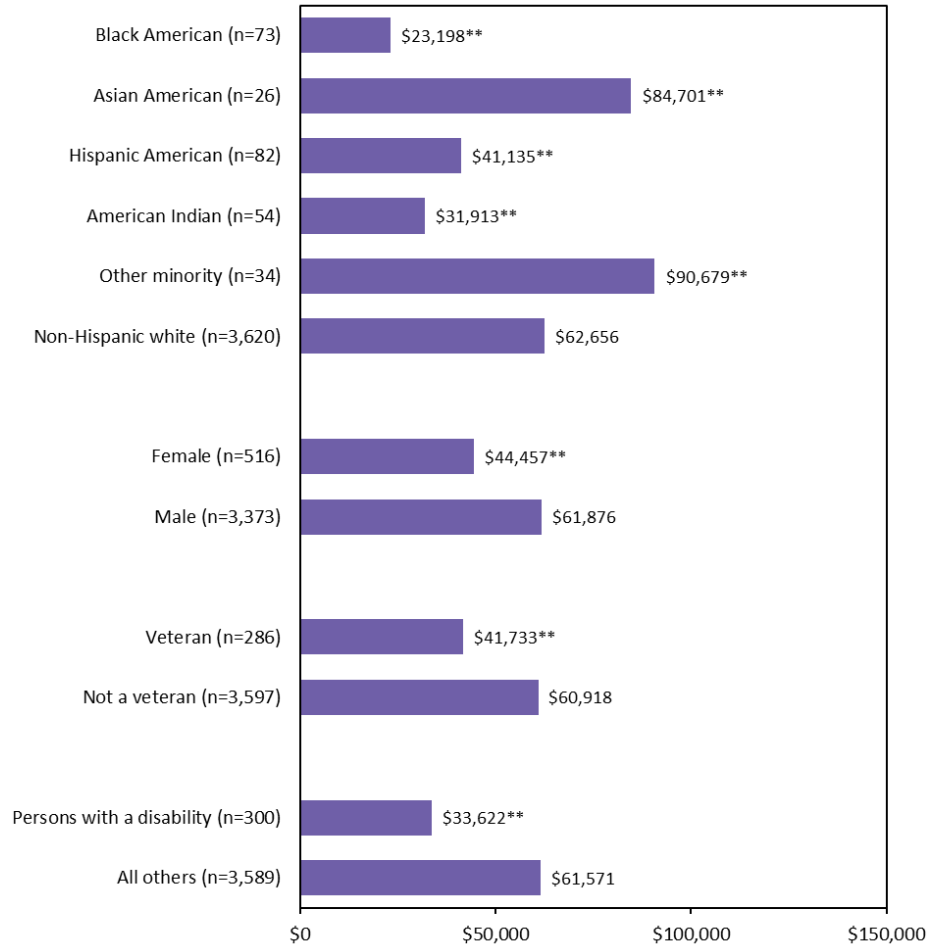
Figure H-16 shows mean annual business owner earnings for 2018 through 2022 for study industries by race/ethnicity, gender, veteran status and disability status. Business earnings for people in same-sex couples could not be examined due to a small sample size.

The PUMS data show that:

- Average earnings for Black American, Hispanic American and American Indian business owners were less than earnings for non-Hispanic white business; and
- Average earnings for female business owners were less than those of male business owners in the study industries;
- Average earnings for veteran business owners were less than earnings for nonveteran business owners; and
- Average earnings for business owners with disabilities were less than those of other business owners.

These differences were statistically significant. Note that mean business owner earnings for firms owned by Asian Americans as well as people in other minority groups (combined) was higher than for firms owned by non-Hispanic whites.

H-16. Mean annual business owner earnings in all study industries, 2018 through 2022, Minnesota marketplace



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 2022 dollars.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples. The 2018–2022 ACS raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.



## H. Business Success — Business earnings regression analysis

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Differences in business earnings across 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 average business earnings between people of color and non-Hispanic whites, women and men, veterans and nonveterans, and persons with disabilities and all others after accounting for certain neutral factors. Data came from the ACS for 2018 through 2022 for the Minnesota marketplace for construction, professional services and other services industries.<sup>39</sup>

The study team applied an ordinary least squares regression model to the data that was very similar to models reviewed by courts from other disparity studies.<sup>40</sup> The dependent variable in the model was the natural logarithm of business earnings. Business owners who 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 measures of factors that are likely to affect earnings, including age, marital status, immigration status, ability to speak English well and educational attainment.

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<sup>39</sup> Goods businesses were not included as those companies generally have higher earnings than construction, professional services and other services firms.

<sup>40</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>

## H. Business Success — Business earnings regression analysis

### All Study Industries Earnings Regression Analysis

Figure H-17 on the right illustrates the results of the regression model for 2018 through 2022 earnings in all study industries (excluding the goods industry) in the Minnesota marketplace. This model included 3,732 observations.

In the Minnesota marketplace study industries:

- Business owners who were married, had a four-year degree or advanced degree and those who were immigrants tended to have higher business earnings.
- Age was also positively related to business earnings, but less so for the oldest individuals.
- Business owners with disabilities tended to have lower business earnings.

After accounting for race- and gender-neutral factors, there were statistically significant differences in earnings for Black American, Hispanic American, Asian American and American Indian (combined) and woman business owners.

H-17. Model results for mean annual business owner earnings, Minnesota marketplace all study industries (excluding goods industry), 2018 through 2022

Variable	Coefficient
Constant	8.0876 **
Age	0.0820 **
Age-squared	-0.0010 **
Married	0.4246 **
Disabled	-0.7336 **
Veteran	-0.2841
In a same-sex couple	0.2261
Speaks English well	0.3782
Immigrant	0.5490 **
Less than high school education	-0.4384 *
Some college	-0.0194
Four-year degree	0.2832 **
Advanced degree	0.9279 **
Black American	-1.5805 **
Hispanic American	-0.5733 **
Asian American and American Indian	-0.4616 **
White woman	-0.6317 **

Note: \*, \*\* Denote statistically significant differences between groups at the 90% and 95% confidence levels, respectively.

The sample universe is business owners age 16 and over who reported positive earnings. All amounts in 2022 dollars.

“Asian American and American Indian” also includes other minorities.

Source: Keen Independent Research from 2018–2022 ACS Public Use Microdata samples.

## H. Business Success — Gross revenue of firms from availability survey

In the availability telephone surveys of the Minnesota marketplace, the study team conducted in 2024 (discussed in Appendix C), firm owners and managers were asked to identify the size range of their average annual gross revenue in the previous eight years (2016 to 2024).

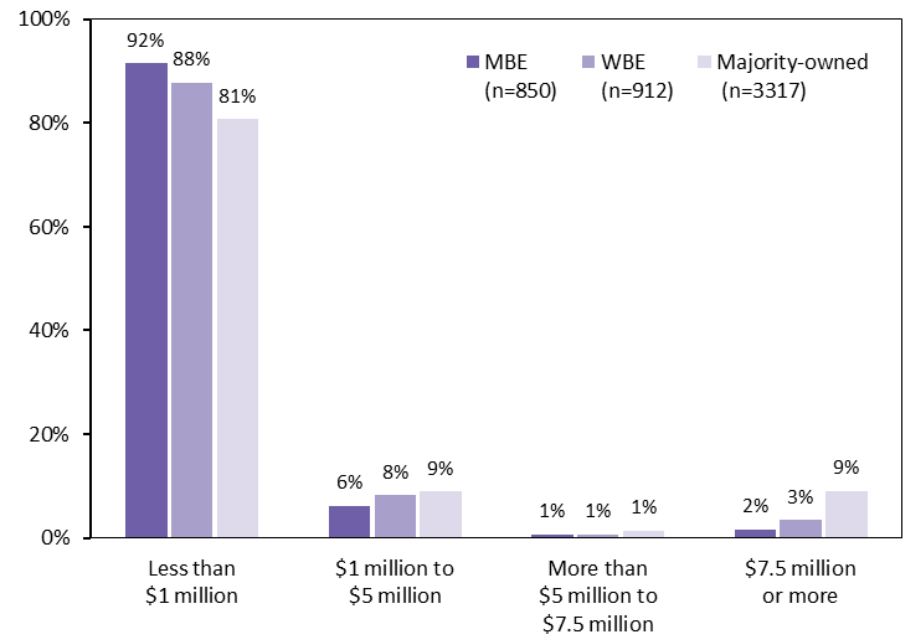
The availability survey encompasses firms working in the construction, professional services, goods and other services industries. Availability survey results pertain to firms indicating qualifications and interest in State of Minnesota and other participating entity work.

### All Study Industries

Figure H-18 presents the reported annual gross revenue for MBEs, WBEs and majority-owned businesses in the availability surveys. MBEs and WBEs were less likely than majority-owned firms to report high average annual revenue.

- Relatively fewer MBE and WBE firms reported average revenues of more than \$7.5 million+ per year (2% and 3%, respectively) compared with majority-owned firms (9%).
- MBEs and WBEs were more likely than majority-owned companies to be in the lowest revenue group. A larger share of MBEs (92%) and WBEs (88%) reported average revenue of no more than \$1 million per year compared to 81 percent of majority-owned companies.

H-18. Average annual gross revenue of company over previous eight years, Minnesota or Western Wisconsin marketplace



Note: “MBE” represents minority-owned firms, “WBE” represents white woman-owned firms and “Majority-owned” represents non-Hispanic white male-owned firms.

Totals may not sum to 100 due to rounding.

Source: Keen Independent Research from 2024 availability surveys.

## H. Business Success — 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>41</sup> The study team directly measured bid capacity in its availability survey.<sup>42</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 survey produced a database of construction, professional services, goods and other services businesses for which bid capacity could be examined.

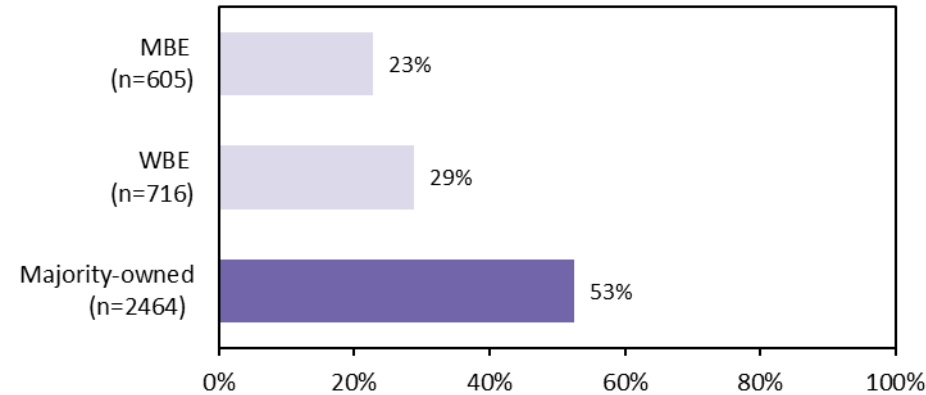
“Relative bid capacity” for a business is measured as the largest contract or subcontract that the business performed or reported that they had bid on within the eight years preceding when the study team interviewed it based on responses to availability survey questions.

### Results

For all industries, Figure H-19 shows the percentage of MBEs, WBEs and majority-owned firms reporting that they had been awarded or had bid on contracts or subcontracts of \$500,000 or more. Overall, MBEs and WBEs were less likely than majority-owned firms to report having been awarded or bid on a contract of \$500,000 or more.

<sup>41</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, et al.*, 545 F.3d 1023 (Fed. Cir. 2008).

H-19. Percentage of MBEs, WBEs and majority-owned firms in the Minnesota or Western Wisconsin marketplace indicating bid capacity of \$500,000+



Note: “MBE” represents minority-owned firms, “WBE” represents white woman-owned firms and “Majority-owned” represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2024 availability surveys.

<sup>42</sup> See Appendix C for details about the availability interview process.

## H. Business Success — Relative bid capacity

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### Above Median Bid Capacity

The study team further explored bid capacity on a subindustry level. Subindustries such as bridge and elevated highway construction tend to involve relatively large contracts (or subcontracts). Other subindustries, such as sewer cleaning and inspection, typically involve smaller contracts.

Figure H-20 reports the median relative bid capacity among Minnesota or Western Wisconsin businesses for each of the 61 subindustries examined in the study. Results categorized companies according to their primary line of business.

## H. Business Success — Relative bid capacity

H-20. Median relative capacity of Minnesota or Western Wisconsin marketplace businesses by subindustry

Subindustry	Median bid capacity	Subindustry	Median bid capacity
<b>Construction industry</b>		<b>Professional services</b>	
Bridge and elevated highway construction	More than \$5 million up to \$10 million	Architecture and engineering	More than \$500,000 up to \$1 million
Public, commercial and multifamily building construction	More than \$1 million up to \$5 million	Landscape architecture and urban design	More than \$100,000 up to \$500,000
Road construction and paving	More than \$1 million up to \$5 million	Environmental consulting	More than \$100,000 up to \$500,000
Water and sewer lines and related structures	\$1 million	Surveying and mapping	More than \$100,000 up to \$500,000
Roofing	More than \$500,000 up to \$1 million	IT and data services	More than \$100,000 up to \$500,000
Structural steel work	More than \$500,000 up to \$1 million	Management consulting and research	More than \$100,000 up to \$500,000
Excavation, site prep, grading and drainage	More than \$100,000 up to \$500,000	Testing laboratories	\$100,000 or less
Plumbing and HVAC	More than \$100,000 up to \$500,000	Marketing, communications and outreach	\$100,000 or less
Electrical work including lighting and signals	More than \$100,000 up to \$500,000	Certified public accountant services	\$100,000 or less
Plastering, drywall and installation	More than \$100,000 up to \$500,000	Legal services	\$100,000 or less
Concrete work	More than \$100,000 up to \$500,000		
Striping and pavement marking	\$100,000 or less		

Source: Keen Independent Research from 2024 availability surveys.

## H. Business Success — Relative bid capacity

H-20. Median relative capacity of Minnesota or Western Wisconsin marketplace businesses by subindustry (continued)

Subindustry	Median bid capacity	Subindustry	Median bid capacity
<b>Goods</b>		<b>Other services</b>	
Pharmaceuticals	More than \$1 million up to \$5 million	Contracted food services	\$1 million
Law enforcement equipment and supplies	\$500,000	Elevators and elevator services	More than \$500,000 up to \$1 million
Chemicals	More than \$100,000 up to \$500,000	Security guard services	More than \$500,000 up to \$1 million
Communications and A/V equipment	More than \$100,000 up to \$500,000	Remediation services	\$500,000
Construction materials	More than \$100,000 up to \$500,000	Bus transit services	More than \$100,000 up to \$500,000
Electrical equipment and supplies	More than \$100,000 up to \$500,000	School and employee bus transportation	More than \$100,000 up to \$500,000
Furniture	More than \$100,000 up to \$500,000	Snow removal services	More than \$100,000 up to \$500,000
Industrial equipment and supplies	More than \$100,000 up to \$500,000	Staffing services	More than \$100,000 up to \$500,000
Medical equipment and supplies	More than \$100,000 up to \$500,000	Construction equipment rental	\$100,000
equipment	\$100,000	Parking services	\$100,000
Cars and trucks	\$100,000 or less	Security systems services	\$100,000
Food	\$100,000 or less	Automotive repair and maintenance	\$100,000 or less
Office equipment	\$100,000 or less	Hauling	\$100,000 or less
Office supplies	\$100,000 or less	Helicopter services	\$100,000 or less
Petroleum and petroleum products	\$100,000 or less	Industrial machinery repair	\$100,000 or less
Signs	\$100,000 or less	Janitorial services	\$100,000 or less
Vehicle parts and supplies	\$100,000 or less	Landscape installation and maintenance	\$100,000 or less
		Motor vehicle towing	\$100,000 or less
		Printing and copying	\$100,000 or less
		Sewer cleaning and inspection	\$100,000 or less
		Waste collection and disposal	\$100,000 or less

Source: Keen Independent Research from 2024 availability surveys.

## H. Business Success — Relative bid capacity

**Comparison of above median bid capacity for firms owned by minorities and women.** Based on the median bid capacity figures identified in Figure H-21, the study team classified firms into “above median bid capacity,” “at median bid capacity” and “below median bid capacity” for the subindustry that described their primarily line of business.

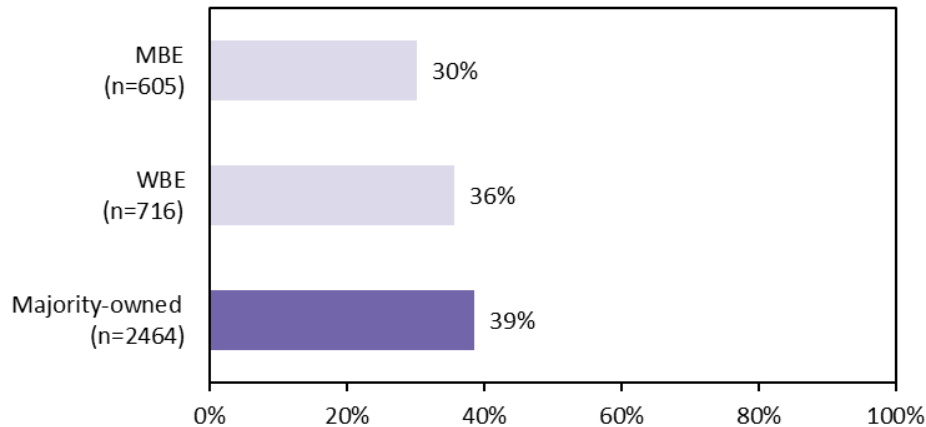
The share of MBEs, WBEs and majority-owned firms with a bid capacity above the median for their subindustry are presented in Figure H-21. MBEs (30%) and WBEs (36%) were less likely than majority-owned firms (39%) to report above-median bid capacity for their subindustry.

**Regression analyses.** Keen Independent also prepared regression analyses to identify whether these differences in bid capacity for MBEs and WBEs persisted after controlling for length of time in business (in addition to subindustry).

Keen Independent developed a probit regression model of whether a firm had above median bid capacity for its subindustry that included three independent variables: MBE status, WBE status and age of firm.

The differences between MBE bid capacity and WBE bid capacity relative to majority-owned firms were not statistically significant after controlling for both subindustry and length of time in business.

H-21. Percent of firms above median bid capacity for their subindustry, Minnesota or Western Wisconsin businesses, 2024



Note: “MBE” represents minority-owned firms, “WBE” represents white woman-owned firms and “Majority-owned” represents non-Hispanic white male-owned firms.  
Source: Keen Independent Research from 2024 availability surveys.



## H. Business Success — Survey responses about potential barriers

In the availability surveys conducted with Minnesota or Western Wisconsin marketplace 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. (Appendix C provides additional information.) Results are presented for each study industry as some questions were industry specific. Groups of questions are:

- Bidding requirements and project size;
- Learning about bid opportunities; and
- Receiving payment for projects.

Appendix G provides results for the survey question about access to capital and bonding.

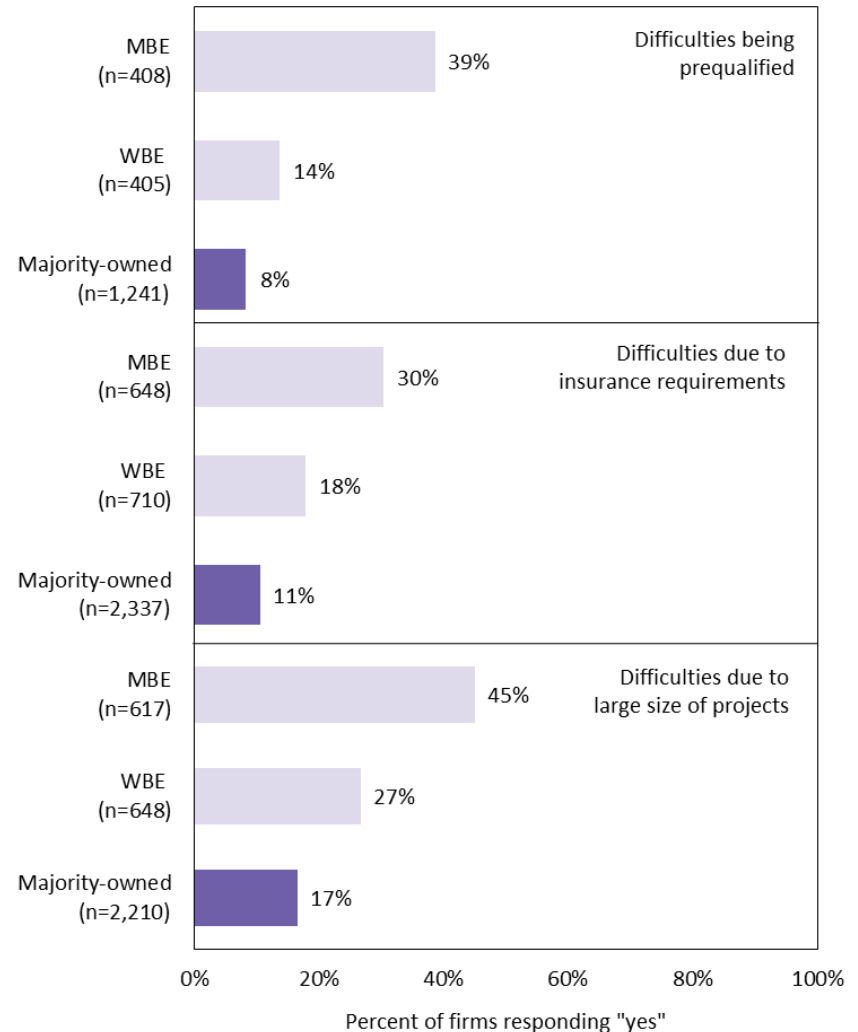
### Prequalification, Insurance and Project Size

In the availability survey, firms were asked about being prequalified for work, insurance requirements and whether project size was a barrier to bidding. Figure H-22 shows results for MBEs, WBEs and majority-owned businesses.

- A much higher percentage of MBEs reported having difficulties being prequalified, difficulties due to insurance requirements and difficulties due to the large size of projects when compared to majority-owned firms.
- WBEs were also more likely than majority-owned firms to indicate these same difficulties.

Compared to responses to the same questions in the 2017 availability survey, the share of MBEs indicating these difficulties is higher in 2024 while responses for majority-owned firms were relatively unchanged.

H-22. Responses to 2024 availability survey questions concerning difficulties with prequalification, insurance and project size, Minnesota or Western Wisconsin businesses



Note: "MBE" represents minority-owned firms, "WBE" represents white woman-owned firms and "Majority-owned" represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2024 availability surveys.

## H. Business Success — Survey responses about potential barriers

### Receiving Payment and Approvals

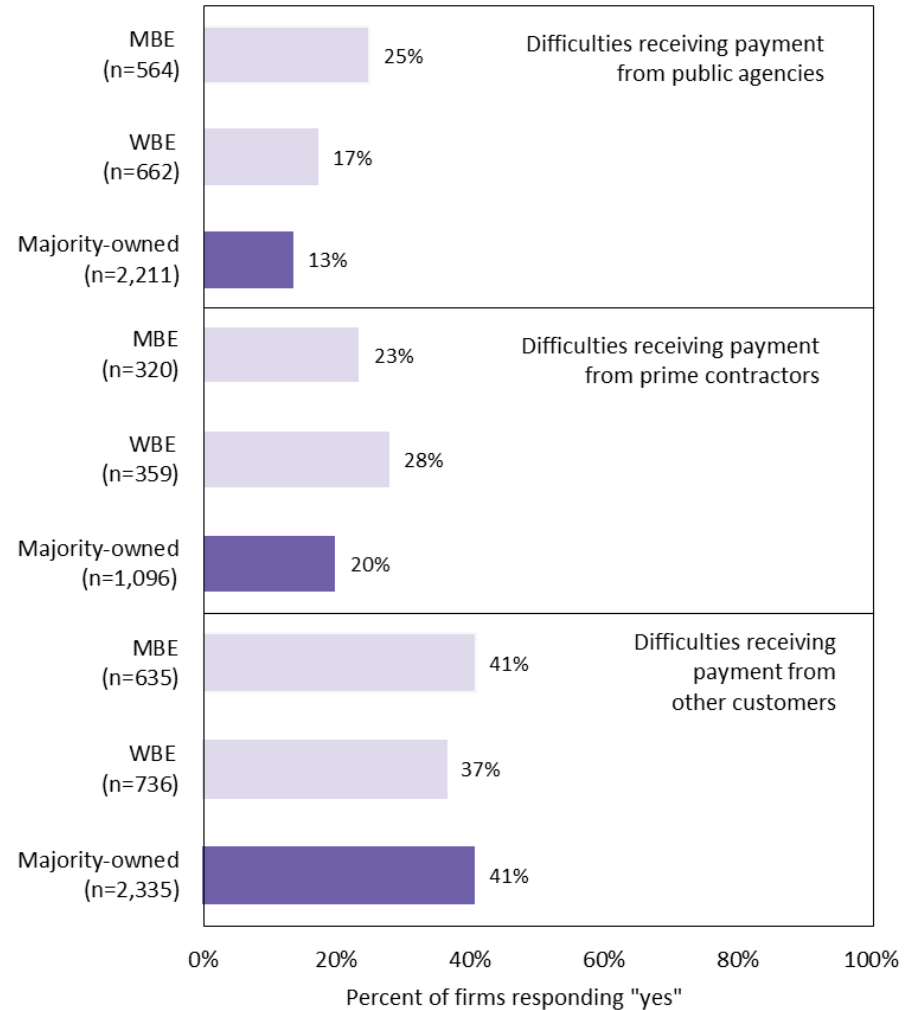
Figure H-23 examines reported difficulty receiving payments based on the 2024 availability survey results.

MBEs and WBEs were more likely than majority-owned firms to report difficulties receiving payment from public agencies and prime contractors.

Compared to responses to the same questions in the 2017 availability survey, the share of MBEs indicating difficulties receiving payment from public agencies was higher in the 2024 survey, while responses for WBEs and majority-owned firms were relatively unchanged.

Information from the qualitative research in Appendix J provides more insights into what business owners and managers mean when they say they experience “difficulties receiving payment,” especially for public sector work. This typically means slow payment rather than non-payment.

H-23. Responses to 2024 availability survey questions concerning receipt of payments, Minnesota or Western Wisconsin businesses



Note: “MBE” represents minority-owned firms, “WBE” represents white woman-owned firms and “Majority-owned” represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2024 availability surveys.

H. Business Success — Survey responses about potential barriers

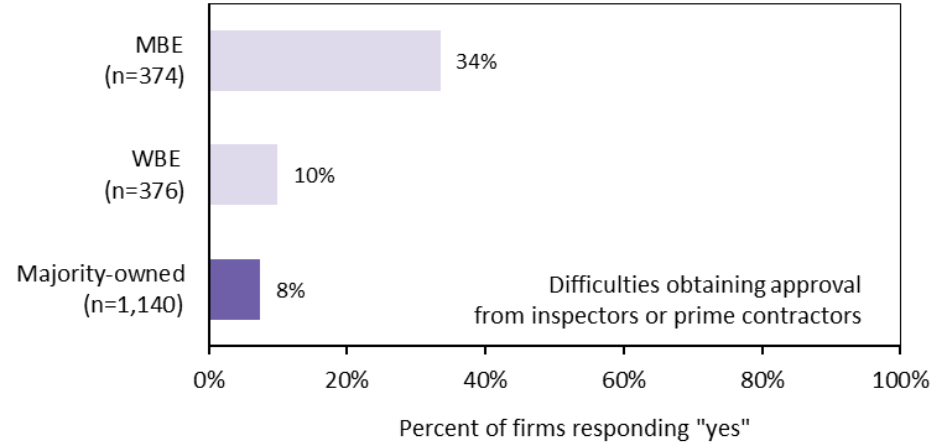
Obtaining Approval of Work from Inspectors or Prime Contractors

Figure H-24 examines difficulty in obtaining approval from inspectors or prime contractors (in general in the marketplace).

Overall, MBEs (34%) and WBEs (10%) were more likely than majority-owned businesses (8%) to report this difficulty.

The shares of MBEs and WBEs indicating difficulties obtaining approvals were higher in the 2024 survey than the 2017 survey.

H-24. Responses to 2024 availability survey questions concerning approval of work, Minnesota or Western Wisconsin businesses



Note: "MBE" represents minority-owned firms, "WBE" represents white woman-owned firms and "Majority-owned" represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2024 availability surveys.

## H. Business Success — Survey responses about potential barriers

### Learning about Bid Opportunities

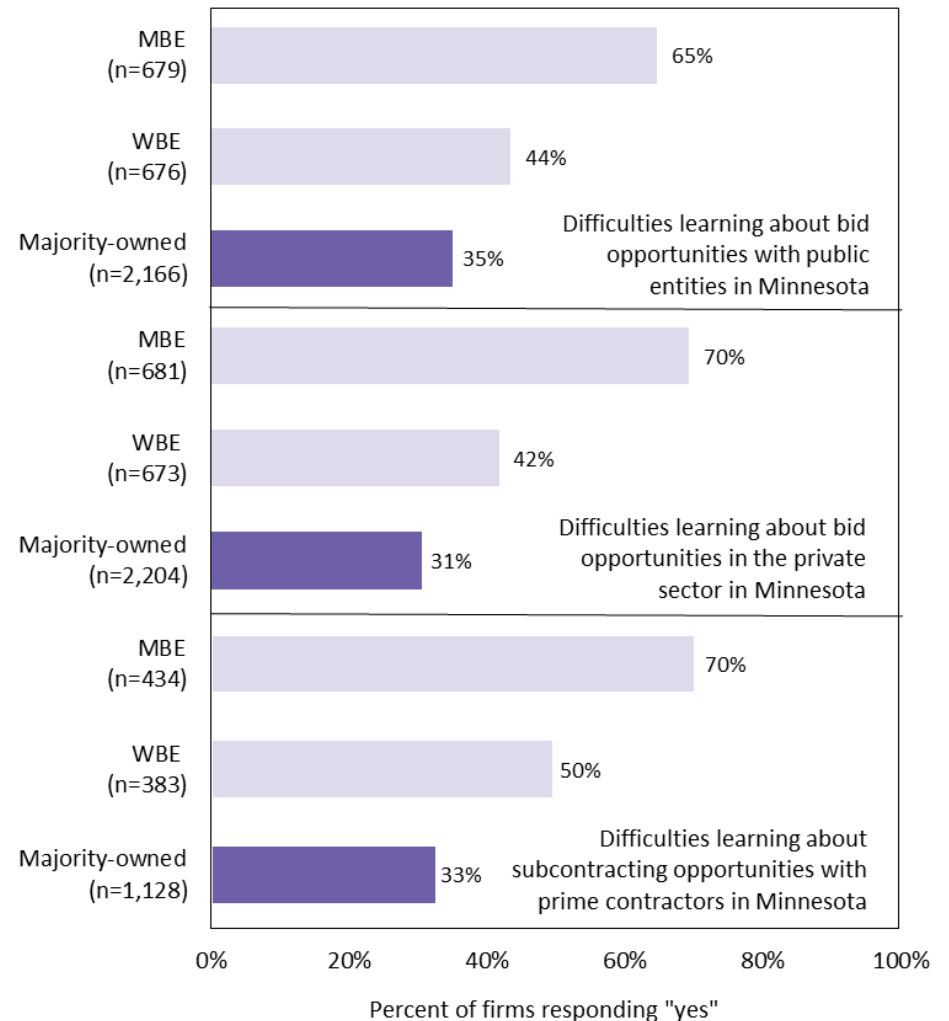
The survey also asked firms about any difficulties learning about bid opportunities.

A higher percentage of MBEs and WBEs than majority-owned firms reported difficulties learning about bid opportunities with public entities in Minnesota, bid opportunities in the private sector in Minnesota and subcontracting opportunities with prime contractors in Minnesota.

These results are presented in Figure H-25.

Keen Independent reviewed how responses to these questions changed from results for these same questions in the 2017 availability survey. For each group, the share of firms indicating difficulties learning about bid opportunities was higher in 2024. (The disparities in responses between MBE/WBEs and majority-owned firms was also present in the 2017 survey results.)

H-25. Responses to 2024 availability survey questions concerning learning about bid opportunities, Minnesota or Wisconsin businesses



Note: "MBE" represents minority-owned firms, "WBE" represents white woman-owned firms and "Majority-owned" represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2024 availability surveys.

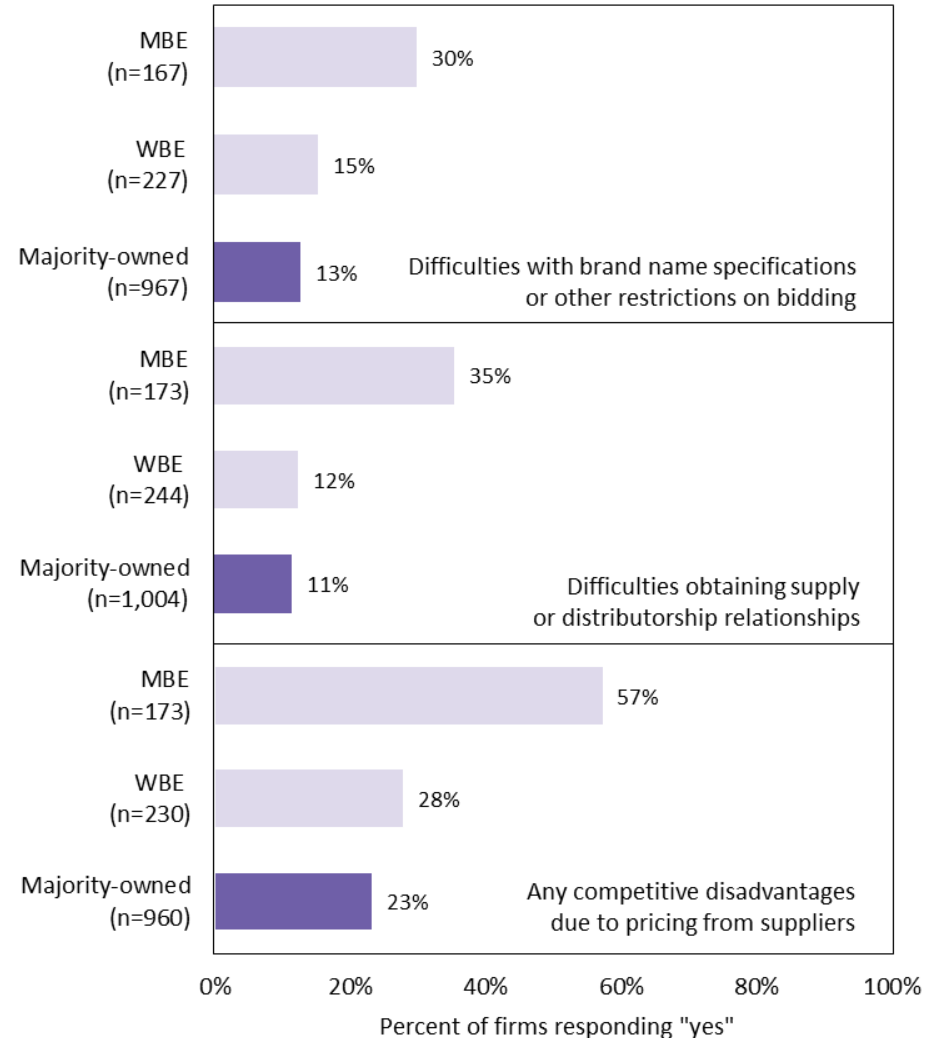
## H. Business Success — Survey responses about potential barriers

### Bid Restrictions

Businesses were also asked if they ever experienced difficulties with brand name specifications, obtaining supply or distributorship relationships or competitive disadvantages due to pricing from suppliers.

- Results in Figure H-26 show that relatively more MBEs reported difficulties with brand name specifications, difficulties obtaining supply or distributorship relationships and difficulties with competitive disadvantages due to pricing from suppliers compared to majority-owned firms.
- WBEs were also more likely than majority-owned firms to report those same difficulties.
- For each group, the share of firms indicating difficulties was higher in 2024 than in the 2017 availability survey. (The disparities in responses between MBE/WBEs and majority-owned firms were also present in the 2017 survey results.)

H-26. Responses to 2024 availability survey questions concerning bid restrictions, Minnesota or Western Wisconsin marketplace firms



Note: "MBE" represents minority-owned firms, "WBE" represents white woman-owned firms and "Majority-owned" represents non-Hispanic white male-owned firms.

Source: Keen Independent Research from 2024 availability surveys.

## H. Business Success — Summary

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Keen Independent explored many different types of business outcomes in the Minnesota marketplace for minority- and woman-owned firms compared with majority-owned companies. Many different data sources and measures indicate disparities in marketplace outcomes for minority- and woman-owned businesses and evidence of greater barriers for people of color and women to start and operate businesses in the Minnesota construction, professional services, other services and goods industries.

### Business Closure, Expansion and Contraction

The study team used the most recent SBA study of minority business dynamics to examine business closures, expansions and contractions for privately held businesses between 2002 and 2006. The SBA study reported results for each state, including Minnesota. Compared with majority-owned firms in Minnesota, that study found that:

- Asian American-owned firms were less likely to expand; and
- African American-, Asian American- and Hispanic American-owned businesses were also more likely to close.

Keen Independent analyzed the rate of closure of businesses in the 2017 availability survey conducted as part of the 2017 Minnesota Joint Disparity Study. Minority-owned firms were more than twice as likely to close as majority-owned firms. WBEs were also more likely to close than majority-owned companies. (Certified MBEs were less likely to close than non-certified firms, however.)

Data for the COVID-19 pandemic also indicate that MBEs and WBEs were more likely to close than other firms.

### Business Revenue and Earnings

The study team used data from several different sources to analyze business receipts and earnings for businesses owned by people of color and women.

- In general, U.S. Census Bureau data from the 2022 Annual Business Survey showed lower average receipts for businesses owned by people of color, women and veterans in Minnesota than businesses owned by non-minorities, men or nonveterans.
- Data from 2018–2022 American Community Survey for the Minnesota marketplace indicated the following statistically significant differences in business earnings:
  - For the study industries combined, Black American, Hispanic American, and American Indian business owners had lower business earnings than non-Hispanic white business owners, women had lower business earnings than men, veterans had lower business earnings than nonveterans, and persons with disabilities had lower business earnings than other business owners (statistically significant differences).
  - After accounting for certain race- and gender-neutral factors, there were statistically significant differences in earnings for Black American, Hispanic American, Asian American and American Indian, and woman business owners as well as business owners with disabilities.
- Data from the 2024 availability survey showed lower revenue for MBEs and WBEs compared with majority-owned firms.

## H. Business Success — Summary

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### Bid Capacity

From Keen Independent's availability survey, minority- and woman-owned firms had lower bid capacity than majority-owned firms in the Minnesota study industries, but those differences did not persist for minority-owned or woman-owned firms after accounting for the types of work they perform and length of time in business.

### Marketplace Barriers

Answers to availability survey questions concerning marketplace barriers indicated that relatively more MBEs than majority-owned firms face difficulties related to:

- Being prequalified;
- Insurance requirements;
- Large project size;
- Receiving payment from public agencies and prime contractors;
- Obtaining approval on work from inspectors or prime contractors;
- Learning about bid opportunities with public entities, bid opportunities in the private sector and subcontracting opportunities with prime contractors; and
- Brand name specifications, obtaining supply or distributorship relationships and competitive disadvantages due to pricing from suppliers.

WBEs were more likely than majority-owned firms to report difficulties concerning:

- Being prequalified;
- Insurance requirements;
- Large project size;
- Receiving payment from public agencies and prime contractors;
- Obtaining approval on work from inspectors or prime contractors;
- Learning about bid opportunities with public entities, bid opportunities in the private sector and subcontracting opportunities with prime contractors; and
- Brand name specifications, obtaining supply or distributorship relationships and competitive disadvantages due to pricing from suppliers.

For additional information about the types of difficulties companies experience in the local marketplace, see the qualitative information in Appendix J.

## APPENDIX I. Description of Data Sources for Marketplace Analyses

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To perform the marketplace analyses presented in Appendices E through H, the study team used data from a range of sources, including:

- The 2018–2022 five-year American Community Survey (ACS), conducted by the U.S. Census Bureau;
- The 2016 Annual Survey of Entrepreneurs (ASE), conducted by the U.S. Census Bureau;
- The 2022 Annual Business Survey (ABS), 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 pages provide further detail on each data source, including how the study team used it in its marketplace analyses. (See Appendix C for a description of the availability survey.)



## I. Description of Data Sources for Marketplace Analyses — American Community Survey (ACS)

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Focusing on the study industries, Keen Independent 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 2018–2022 five-year ACS sample.

### 2018–2022 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 2018–2022 ACS five-year estimates represent average characteristics over the five-year period and correspond to roughly 5 percent of the population.

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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, 2020. <https://doi.org/10.18128/D010.V9.0>

<sup>2</sup> U.S. Census Bureau. *Design and Methodology: American Community Survey*. Washington D.C.: U.S. Government Printing, 2009. 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)

## I. Description of Data Sources for Marketplace Analyses — American Community Survey (ACS)

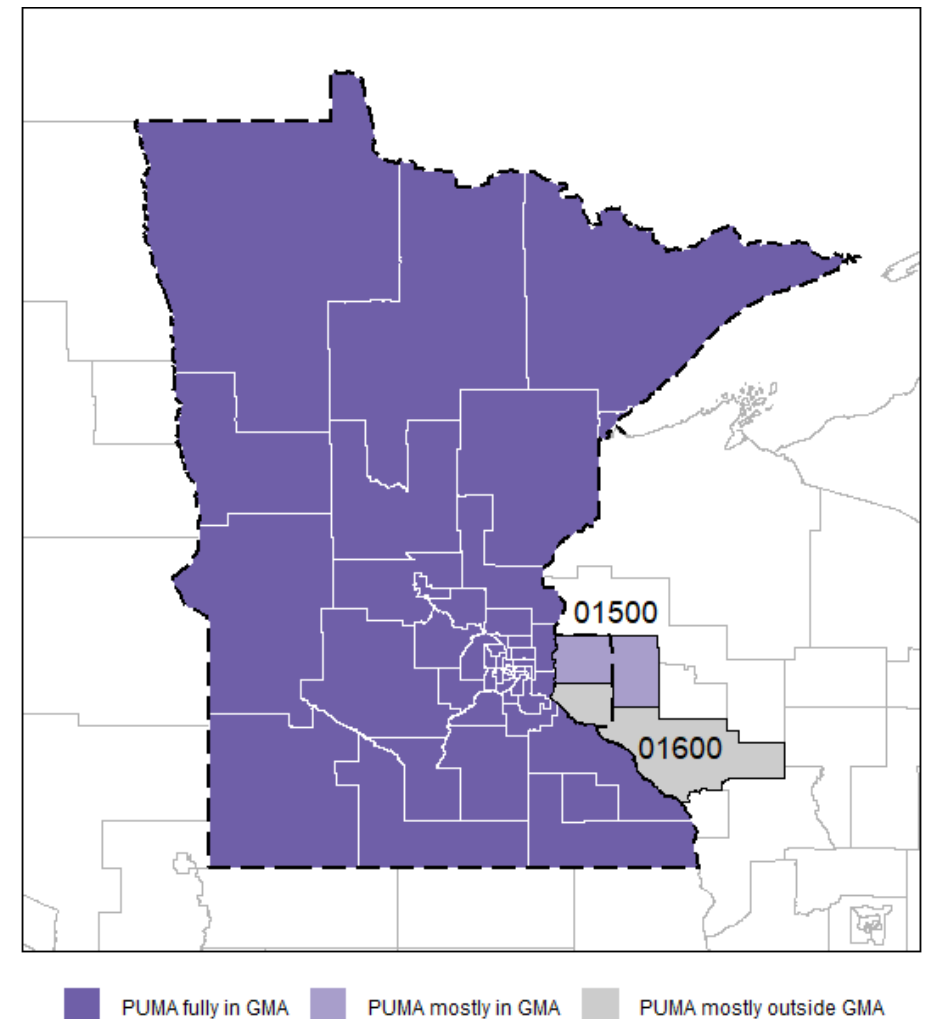
**Geographic selection.** The smallest geographical level reported in individual-level ACS data is the Public Use Microdata Area (PUMA). As some PUMAs overlap county boundaries, the study team selected PUMAs for marketplace analysis where more than 50 percent of the PUMA population was within the relevant geographic market area (GMA). Figure I-1 illustrates the areas analyzed in marketplace research using ACS data, as well as the boundaries of the relevant geographic market area (dashed black line).

The study team used Census Tract population estimates aggregated by PUMA and county to determine the percentage of PUMA population within the GMA.

The population of just one PUMA was mostly outside the GMA and therefore excluded from marketplace analyses. This was PUMA ID 01600, which includes Pierce County in Wisconsin. The population of Pierce County, WI, accounted for just 1 percent of the total GMA population.

One PUMA with a population mostly inside the GMA also contained counties that were outside the GMA. PUMA ID 01500 includes St. Croix County, Wisconsin, which was inside the GMA, as well as Dunn County, Wisconsin, which was outside the GMA. The population of Dunn County was about 1 percent of the total GMA population.

I-1. Public Use Microdata Areas (PUMAs) selected for marketplace analysis in the 2018–2022 ACS



Source: Keen Independent Research from the IPUMS program: <http://usa.ipums.org/usa/>.

## I. Description of Data Sources for Marketplace Analyses — American Community Survey (ACS)

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**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:

- Black American;
- Asian-Pacific American;
- South Asian American;
- Hispanic American;
- American Indian;
- 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. Black American is first, followed by American Indian, and then Asian-Pacific American and South 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 Black American in these analyses.

- The Black American category included persons having origins in any of the black racial groups of Africa, including, for example, African American, Jamaican, Haitian, Nigerian, Ethiopian and Somali.
- The Asian-Pacific American category included individuals whose origins are from Central, East or Southeast Asia, including, for example, Chinese, Filipino, Vietnamese, Hmong, Karen, Korean and Japanese Americans, Native Hawaiians and Pacific Islanders.
- The South Asian American category included individuals whose origins are from India, Pakistan, Bangladesh, Bhutan, the Maldives Islands, Nepal or Sri Lanka.
- American Indian included individuals with originals in any of the original peoples of North, Central and South America.
- 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. The study team also examined groups by more detailed racial/ethnic definitions where there were sufficient data to do so. These detailed classifications are discussed on the following page.

# I. Description of Data Sources for Marketplace Analyses — American Community Survey (ACS)

**Detailed race/ethnic categories.** Keen Independent used ACS IPUMS variables related to race (RACE) ancestry (ANCESTR1) to define detailed race/ethnic categories. These categories included Sub-Saharan African American (a subset of Black American), Southeast Asian American (a subset of Asian-Pacific Americans and Mexican American (a subset of Hispanic American). The codes used to define these groups are detailed to the right in Figure I-2.

**Veteran status.** IPUMS uses the VETSTAT variable to indicate veteran status as well as the VETDISAB variable to indicate veterans who have a service-connected disability.

**Disability status.** Keen Independent used several IPUMS variables indicating disability to construct a single disability status variable. The IPUMS data include variables for cognitive difficulty (DIFFREM), ambulatory difficulty (DIFFPHYS), independent living difficulty (DIFFMOB), self-care difficulty (DIFFCARE), vision or hearing difficulty (DIFFSENS), vision difficulty (DIFFEYE) and hearing difficulty (DIFFHEAR).

**Same-sex couple.** The study team created a same-sex couple variable using the reported gender of the ACS survey respondent and the reported gender of their spouse (if they were married or in a domestic partnership).

## I-2. Detailed race/ethnic category codes in ACS

Race/ethnic group	2018–2022 ACS RACE/ANCESTR1 codes
Sub-Saharan African American	Cameroonian (5080), Cape Verdean (5100), Congolese (5150), Ethiopian (5220), Eritrean (5230), Gambian (5270), Ghanaian (5290), Guinean (5300), Kenyan (5340), Liberian (5410), Nigerian (5530), Senegalese (5640), Sierra Leonean (5660), Somalian (5680), South African (5700), Sudanese (5760), Togo (5860), Ugandan (5880), Zimbabwean (5930), Other Subsaharan Africa (5950), West African (5980), African (5990)
Mexican American	Mexican (2101), Mexicano/Mexicana (2102), Mexican Indian (2103), Mexican American (2110), Mexican American Indian (2111), Chicano/Chicana (2130), Mexican State (2183)
Southeast Asian American*	Filipino (600), Vietnamese (640), Cambodian (660), Hmong (661), Laotian (662), Thai (663), Burmese (665), Indonesian (666), Malaysian (667), White and Filipino (813), White and Vietnamese (816), Filipino and Pacific Islander (865), Filipino and 'other race' (883), White and Filipino and 'other race' (921), White and Filipino and Native Hawaiian (914)

Note: The Southeast Asian American group was defined using IPUMS RACE codes.

Source: Keen Independent Research from the IPUMS program: <http://usa.ipums.org/usa/>.

# I. Description of Data Sources for Marketplace Analyses — American Community Survey (ACS)

**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 2018–2022 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.

**Business ownership.** The study team used the Census-detailed “class of worker” variable (CLASSWKR) to determine self-employment. The variable classifies individuals into one of eight categories, shown in Figure I-3. The study team counted individuals who reported being self-employed — either for an incorporated or a non-incorporated business — as business owners.

I-3. Class of worker variable code in the 2018–2022 ACS

Description	2018–2022 ACS CLASSWKR 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

Source: Keen Independent Research from the IPUMS program: <http://usa.ipums.org/usa/>.

# I. Description of Data Sources for Marketplace Analyses — American Community Survey (ACS)

**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>

**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 four industries: construction, professional services, goods and other services. 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-4 identifies the IND codes used to define each study area.

**Industry occupations.** The study team also examined workers by occupation within the construction industry using the PUMS variable OCC. Figure I-5 on the following pages summarizes the 2018–2022 ACS OCC codes used in the study team’s analyses.

I-4. 2018–2022 Census industry codes used for construction, professional services and goods and other services

Study industry	2018–2022 ACS IND codes	Description
Construction	0770	Construction industry
Professional services	7270, 7290, 7380, 7470	Legal services; architectural, engineering and related services; computer systems design and related services; advertising, public relations and related services
Goods	2570, 2670, 4070, 4090, 4265, 4490, 4670, 4690, 4870, 5680	Wholesale trade; retail trade; manufacturing
Other services	6170, 6180, 6190, 6695, 7580, 7680, 7690, 7770, 7790, 8770, 8870, 9070	Truck transportation; bus service and urban transit; taxi and limousine service; data processing, hosting and related services; employment services; investigation and security services; services to buildings and dwellings; landscaping services; waste management and remediation services; automotive repair and maintenance; commercial and industrial machinery repair and maintenance; drycleaning and laundry services

Source: Keen Independent Research from the IPUMS program: <http://usa.ipums.org/usa/>.

<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.

## I. Description of Data Sources for Marketplace Analyses — American Community Survey (ACS)

### I-5. 2018–2022 ACS occupation codes used to examine workers in construction

2018–2022 ACS occupational title and code	Job description
<b>Landscape architects</b> 2018-22 Code: 1306	Plan and design land areas for projects such as parks and other recreational facilities, airports, highways, hospitals, schools, land subdivisions, and commercial, industrial, and residential sites.
<b>Surveying and mapping technicians</b> 2018-22 Code: 1560	Perform surveying and mapping duties, usually under the direction of an engineer, surveyor, cartographer, or photogrammetrist, to obtain data used for construction, mapmaking, boundary location, mining, or other purposes. May calculate mapmaking information and create maps from source data, such as surveying notes, aerial photography, satellite data, or other maps to show topographical features, political boundaries, and other features. May verify accuracy and completeness of maps.
<b>Landscaping and groundskeeping workers</b> 2018-22 Code: 4251	Landscape or maintain grounds of property using hand or power tools or equipment. Workers typically perform a variety of tasks, which may include any combination of the following: sod laying, mowing, trimming, planting, watering, fertilizing, digging, raking, sprinkler installation, and installation of mortarless segmental concrete masonry wall units.
<b>First-line supervisors of construction workers</b> 2018-22 Code: 6200	Directly supervise and coordinate activities of construction or extraction workers.
<b>Brickmasons, blockmasons and stonemasons</b> 2018-22 Code: 6220	Lay and bind building materials, such as brick, structural tile, concrete block, cinder block, glass block, and terra- cotta block, with mortar and other substances, to construct or repair walls, partitions, arches, sewers, and other structures.
<b>Carpenters</b> 2018-22 Code: 6230	Construct, erect, install, or repair structures and fixtures made of wood and comparable materials, such as concrete forms; building frameworks, including partitions, joists, studding, and rafters; and wood stairways, window and door frames, and hardwood floors. May also install cabinets, siding, drywall, and batt or roll insulation. Includes brattice builders who build doors or brattices (ventilation walls or partitions) in underground passageways.
<b>Carpet, floor and tile installers and finishers</b> 2018-22 Code: 6240	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. Apply hard tile, stone, and comparable materials to walls, floors, ceilings, countertops, and roof decks.
<b>Cement masons, concrete finishers and terrazzo workers</b> 2018-22 Code: 6250	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.

## I. Description of Data Sources for Marketplace Analyses — American Community Survey (ACS)

### I-5. 2018–2022 ACS occupation codes used to examine workers in construction (continued)

2018–2022 ACS occupational title and code	Job description
<b>Construction laborers</b> 2018-22 Code: 6260	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” (47-3010).
<b>Construction equipment operators</b> 2018-22 Code: 6305	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.  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.  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.
<b>Drywall installers, ceiling tile installers and tapers</b> 2018-22 Code: 6330	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. Materials may be of decorative quality. Includes lathers who fasten wooden, metal, or rockboard lath to walls, ceilings, or partitions of buildings to provide support base for plaster, fireproofing, or acoustical material.
<b>Electricians</b> 2018-22 Code: 6355	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.
<b>Insulation workers</b> 2018-22 Code: 6400	Line and cover structures with insulating materials. May work with batt, roll, or blown insulation materials.
<b>Painters and paperhangers</b> 2018-2022 Code: 6410	Paint walls, equipment, buildings, bridges, and other structural surfaces, using brushes, rollers, and spray guns. May remove old paint to prepare surface prior to painting. May mix colors or oils to obtain desired color or consistency. 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.
<b>Pipelayers</b> 2018-22 Code: 6441	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.



## I. Description of Data Sources for Marketplace Analyses — American Community Survey (ACS)

### I-5. 2018–2022 ACS occupation codes used to examine workers in construction (continued)

2018–2022 ACS occupational title and code	Job description
<b>Plumbers, pipefitters and steamfitters</b> 2018-22 Code: 6442	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.
<b>Roofers</b> 2018-22 Code: 6515	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.
<b>Sheet metal workers</b> 2018-22 Code: 6520	Fabricate, assemble, install, and repair sheet metal products and equipment, such as ducts, control boxes, drainpipes, and furnace casings. Work may involve any of the following: setting up and operating fabricating machines to cut, bend, and straighten sheet metal; shaping metal over anvils, blocks, or forms using hammer; operating soldering and welding equipment to join sheet metal parts; or inspecting, assembling, and smoothing seams and joints of burred surfaces. Includes sheet metal duct installers who install prefabricated sheet metal ducts used for heating, air conditioning, or other purposes.
<b>Structural iron and steel workers</b> 2018-22 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>Construction and building inspectors</b> 2018-22 Code: 6660	Inspect structures using engineering skills to determine structural soundness and compliance with specifications, building codes, and other regulations. Inspections may be general in nature or may be limited to a specific area, such as electrical systems or plumbing.
<b>Elevator installers and repairers</b> 2018-22 Code: 6700	Assemble, install, repair, or maintain electric or hydraulic freight or passenger elevators, escalators, or dumbwaiters.
<b>Fence erectors</b> 2018-22 Code: 6710	Erect and repair fences and fence gates, using hand and power tools.
<b>Highway maintenance workers</b> 2018-22 Code 6730	Maintain highways, municipal and rural roads, airport runways, and rights-of-way. Duties include patching broken or eroded pavement and repairing guard rails, highway markers, and snow fences. May also mow or clear brush from along road, or plow snow from roadway. Excludes “Tree Trimmers and Pruners” (37-3013).

# I. Description of Data Sources for Marketplace Analyses — American Community Survey (ACS)

I-5. 2018–2022 ACS occupation codes used to examine workers in construction (continued)

2018–2022 ACS occupational title and code	Job description
<b>Heating, air conditioning and refrigeration mechanics and installers</b> 2018-22 Code: 7315	Install or repair heating, central air conditioning, HVAC, or refrigeration systems, including oil burners, hot-air furnaces, and heating stoves.
<b>Welding, soldering and brazing workers</b> 2018-22 Code: 8140	Set up, operate, or tend welding, soldering, or brazing machines or robots that weld, braze, solder, or heat treat metal products, components, or assemblies. Includes workers who operate laser cutters or laser-beam machines

## I. Description of Data Sources for Marketplace Analyses — Annual Survey of Entrepreneurs (ASE)

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Keen Independent analyzed selected economic and demographic characteristics for business owners collected through the Annual Survey of Entrepreneurs (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 a given 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.

## I. Description of Data Sources for Marketplace Analyses — Annual Business Survey (ABS)

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Keen Independent used 2022 ABS data to examine sources of capital used to start or acquire a business. The 2022 Annual Business Survey (ABS) is a recent collaborative effort between the Census Bureau and the National Science Foundation (NSF). The ABS includes a variety of topics, as it replaces both the ASE and SBO, as well as the Business R&D and Innovation for Microbusiness (BRDI-M) and the innovation section of the Business R&D and Innovation Survey (BRDI-S) surveys. However, the marketplace analyses continue to use data from the ASE because the 2022 ABS data released for public use are limited and do not provide sufficient detail for the analyses.

The 2022 ABS data were collected in 2022 but refer to conditions in 2021. The ABS includes all nonfarm employer businesses filing the 941, 944, or 1120 tax forms. This survey is conducted on a company or firm basis rather than an establishment. The 2022 ABS sampled approximately 300,000 businesses that operated at any time during that year. Response to the survey is mandatory, ensuring comprehensive data for surveyed businesses and business owners.

Like the ASE, the ABS collects business ownership information. Data regarding demographic characteristics of business owners include gender, ethnicity, race and veteran status. Race/ethnicity and gender categories provided in the ABS are the same as those provided in ASE, SBO and Census data.

## I. Description of Data Sources for Marketplace Analyses — Home Mortgage Disclosure Act Data

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The study team analyzed mortgage lending in Washington using Home Mortgage Disclosure Act (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 2022 HMDA data if they had assets of more than \$50 million on the preceding December 31 (\$48 million for 2021, \$47 million for 2020, \$46 million for 2019, or \$45 million prior), 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 from 2018 through 2022. 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 — Introduction

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Appendix J presents qualitative information that Keen Independent collected as part of the 2025 Minnesota Joint Disparity Study. Appendix J is based on input from more than 2,200 businesses, trade association representatives and other interested individuals.

### Organization of the Information

Appendix J discusses experiences of businesses in seven parts:

- Introduction;
- Starting a business;
- Keys to business success;
- Working with the participating entities;
- Whether there is a level playing field;
- Business assistance programs and certifications; and
- Other insights and recommendations for the participating entities.

## APPENDIX J. Qualitative Information — Introduction

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### Study Methodology

From April 2024 through December 2024, the Keen Independent study team collected qualitative information from:

- In-depth interviews;
- Insights solicited as part of availability survey;
- Public forums; and
- Other means.

The Keen Independent study team conducted outreach to business assistance and trade organization representatives, 2017 Minnesota Joint Disparity Study participants, business owners and managers, and members of the public. This included invitations to availability survey respondents to join an in-depth interview or participate by other means.

Keen Independent provided opportunities for public comments via mail and the designated telephone hotline, email address and website.<sup>1</sup> For anonymity, Keen Independent analyzed comments without identifying any of the participants.<sup>2</sup> Race, gender and certain other identifying characteristics of the interviewee are noted with each comment, except where information was so specific that an individual could be easily identified. In those cases, the identifiers may provide less specific information (or sometimes no identifier at all, if not critical.)

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<sup>1</sup> The study phone hotline number was (602) 704-0125; email address was JointMNDisparityStudy2025@keenindependent.com; and the website was <https://mn.gov/admin/disparity-study/>.

<sup>2</sup> In-depth interviewees are identified in Appendix J by I-1, I-2 .... Organizations including chambers and trade and industry associations are coded as TOs. Public comments are coded as PC-1, PC-2, etc. Public forum participants are coded as PF-1, PF-2 .... Availability

Business owners and representatives reported on experiences working in construction, professional services, goods and other services; experiences working with participating entities; perceptions of certification programs and other supportive services and input on other relevant topics. Throughout, Appendix J summarizes examples of comments gathered through these study methods. Only a representative subset of comments are shown.

Business owners and representatives interviewed were often quite specific in their comments. On occasion, certain statements are reported in more general form for purposes of anonymity.

Appendix J is the same in each participating entity's report. Comments that mentioned specific regions or individual participating entities are identified..

survey respondents are identified as AS-1, AS-2 and so on. Interviewees represented construction, professional services, goods and other services industries. Business owners and representatives interviewed represented a cross-section of certified and non-certified minority- and woman-owned firms and firms owned by white males, as well as firms that were by members of the LGBTQ+ community, persons with disabilities, veterans and service-disabled veterans.

## J. Qualitative Information — Starting a business

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### Working in the Industry Before Starting a Business

The Keen Independent study team began by asking interviewees about their work experience before starting their businesses and then about the process of starting their companies.

Most business owners worked in the industry, or a related industry, before starting their firms. [e.g., Interviewees I-3, 8, 11, 13, 18, 50, 53, 103, 106, 107, 110, 112, 115, 118, 121, 123, 127, 135, 139]

*I [worked in] corporate [before starting my business]. I went to school for [my field].*

*I-49. Black American male owner of a professional services firm*

*I quit [my corporate job] and went right into the contracting world .... I never looked back.*

*I-70. White male owner of a construction-related firm*

*I just decided I could [start this business] and not have to ... [work my previous job] day after day. It gets stressful after a few years.*

*I-38. American Indian female owner of an other services firm*

*I started out [providing one service] and then over the years, people would ask me to do more things.... I developed more skills, and I turned it into a ... company.*

*I-47. Black American male owner of a construction-related firm*

*Four years ago, [I had to leave] the company I worked for .... I ultimately decided ... while I'm young, let's fire off and ... let's just do it on my own.*

*I-12. White male owner of a construction-related firm*

*I started the company with a business partner at the time. He and I have been working at the same place and saw some ... disturbing trends at that place. We started putting together plans for business outside of that business.*

*I-22. American Indian male rep. of an American Indian-owned professional services firm*

*... we started as an offshoot out of my father's company.*

*I-14. White male owner of a goods firm*



## J. Qualitative Information — Starting a business

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### Negative Treatment Working in Field Prior to Starting a Business

Business owners and other representatives discussed negative experiences in their careers due to race, ethnicity, gender or other aspects of their identity. Some also reported that they had observed such disadvantages. [e.g., I-16, 21, 50, 51, 59, 68, 78, 103, 125, 126, 135]

For some individuals, discriminatory treatment as an employee factored into the reasons for starting their own business.

*The whole reason I started this business is mostly because of the negativity that I was experiencing in my workplace.*

*I-53. Black American female owner of an other services firm*

*Because I speak with an accent ... supervisors have expressed doubts about my education. I ... have a very strong background .... Yet I faced constant doubts about whether I could perform the work required.*

*I-34. Hispanic American female owner of a professional services firm.*

*I always thought that women that complained about [discrimination] were whiners, but [it exists] ... The mindset ... is [that women work] for their family ... but women are not really [professionals].*

*I-10. American Indian female owner of an other services firm*

*At one time I had someone say to another driver on the radio. ‘She should just go home you know, and she really belongs in the kitchen’ and then the guy made another comment about something.*

*I-38. American Indian female owner of an other services firm*

*I ran into glass ceilings; I’ve been passed over and not recognized for contributions .... That happens in the workplace all the time for the fact that we’re female.*

*I-60. South Asian American female owner of a professional services firm*

*If I’m the only African American in the room, and when I speak my words are dismissed ..., [it creates] the feeling ... as if you don’t have any knowledge.*

*I-71. Black American male service-disabled veteran owner of a construction-related firm*

## J. Qualitative Information — Keys to business success

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Keen Independent asked business owners and other representatives about keys to business success and any barriers they faced.

### Learning the “Business” Side of Running a Business

Some people who start businesses are experts in their technical fields but must learn the administrative aspects of operating a business. [e.g., I-7, 15, 16, 22, 27a, 35, 47, 50, 55, 65, 69, 78, 99, 102, 111, 112, 115, 123, 134]

In each of the following pages, examples of comments pertinent to a topic are shown on the right side of the page.

**Examples of types of challenges.** Interviewees commented on the types of challenges they faced as new business owners.

*The first thing is not knowing anything, and there was no one that I could really ask at the time.*

*I-10. American Indian female owner of an other services firm*

*I have ... professional training as an MBA graduate ..., but running the business, it's very different. I faced many challenges like capital, product development, marketing and human relations.*

*I-46. Asian-Pacific American female owner of a goods firm*

*[Upon starting the business, I faced] the normal challenges, I was older starting a business .... I didn't have a whole lot of computer skills .... I would frequently need people to walk me through things.*

*I-38. American Indian female owner of an other services firm*

*[As an immigrant] once I started to grow is when I started having challenges .... It was hard to know how to navigate [the business].*

*I-60. South Asian American female owner of a professional services firm*

## J. Qualitative Information — Keys to business success

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**Unaware of how to get assistance or the “need to figure it out on your own.”** Some business owners said they did not know where to go for help.

*[I had] difficulties not knowing how to start a business from scratch and having to find the resources to help .... You have to figure it out on your own.*

*I-30. White male service-disabled veteran owner of a goods firm*

*I had never opened a business before, and so I had no understanding or idea.*

*1-43. Hispanic American female owner of a professional services firm*

*I wasn't aware of any resources to help me start a company. I just searched online and then fumbled around the state's website.*

*I-71. Black American male service-disabled veteran owner of a construction-related firm*

*For the longest time, I was blind to where I could go for assistance. I felt like there weren't any available sources that I could just go to. It wasn't obvious to me at the time.*

*I-60. South Asian American female owner of a professional services firm*

*We were first time entrepreneurs [when we started the business], so we didn't know what we didn't know.*

*I-64. White male representative of a woman-owned professional services firm*

*That was the most challenging [about starting a business right out of school] .... I couldn't go down the hall or next door and ask [a colleague] that was at the firm with me ....*

*I-7. Minority LGBTQ+ male owner of a professional services firm*

## J. Qualitative Information — Keys to business success

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**How business owners acquired management and administration skills.** Interviewees provided examples of the methods business owners used to learn administrative skills.

*School of hard knocks, the university of life. I made a lot of mistakes  
... I always figured nobody could outwork me.*

*I-29. Hispanic American male owner of a construction-related firm*

*... the corporate world has really taught me how to run the business  
.... I've had some experiences with MnDOT where ... a couple of  
people in particular have mentored me a little bit on the construction  
side and what to do.*

*I-41. Hispanic American female owner of a construction-related firm*

*Self-research ....*

*I-43. Hispanic American female owner of a professional services firm*

*I drew a little bit [of knowledge] from what I learned when I was  
receiving my ... degree .... and YouTube, the internet, talking to  
people and ... those courses through Women Venture.*

*I-53. Black American female owner of an other services firm*

## J. Qualitative Information — Keys to business success

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**Use of classes and seminars.** Some business owners used business classes or similar offerings to learn the administrative aspects of running a business.

*I took some free classes that the City of Minneapolis was offering....  
Small business classes on how to start a business.*

*1-31. Black American female owner of an other services firm*

*Informational seminars ... were very helpful, but ... you [have] to  
have a certain amount of time to be able to find out what's available.*

*I-94. American Indian male service-disabled veteran owner of an other services firm*

*[We learned by] doing and making mistakes. We got some education  
from the University of Minnesota Continuing School of Education...  
Carlson School of business. That was very helpful.*

*I-64. White male representative of a white woman-owned professional services firm*

## J. Qualitative Information — Keys to business success

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### Securing Expert Assistance

Some firm owners commented on their experiences utilizing outside expert assistance. In some instances, the need for outside experts was a barrier in starting or growing their businesses. Comments on this page pertain to professional legal, financial and marketing assistance and comments on the next page discuss help from public sector and other business assistance providers.

**Legal and financial assistance.** Some business owners reported that they have sought outside expert assistance from lawyers and accountants. [e.g., I-6, 12, 19, 21, 51, 102, 103, 106, 116, 128,132,138]

*I've worked with a lawyer and an accountant and insurance agents.*

*I-47. Black American male owner of a construction-related firm*

*We've always paid an accountant and a lawyer.*

*I-2. White female owner of a construction-related firm*

*I opted for using other professional services to help me register ... which were a bit spendy .... Regarding the accounting ... I had to hire professional help ... in order not to make a mistake.*

*I-43. Hispanic American female owner of a professional services firm*

*... I knew enough to get lawyers to help us set up [the firm I own now].*

*I-66. White male owner of a goods firm*

*We used a lawyer to get the LLC ... established, and we have an accountant.*

*I-18. White female owner of a goods firm*

**Marketing assistance.** Some interviewees indicated that they have utilized outside marketing professionals. [e.g., I-15, 99, 103]

*We have ... marketing professionals that we'll leverage because we know a lot in [that] space and know who to talk to.*

*I-14. White male owner of a goods firm*

*Initially I hired someone to do a lot of social media, and it never got anywhere so we just quit.*

*I-60. South Asian American female owner of a professional services firm*

*... a digital marketing company.*

*I-30. Service-disabled veteran owner of a goods firm*

*... I hired a marketing coach. She helped me put out a marketing strategy.*

*I-31. Black American female owner of an other services firm*

**Expense of professional assistance.** Some interviewees indicated that the expense of professional assistance was a challenge in starting their business. For example:

*It's a [financial burden] for us to hire [expert assistance].*

*I-73. Black American male owner of a construction-related firm*

*I do not hire [outside assistance] because I know what I'm doing ... and I cannot afford that at this point ....*

*I-13. Black American female owner of professional services firm*

## J. Qualitative Information — Keys to business success

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**Business assistance organizations and programs.** Some business owners and representatives reported that they received support from public business assistance organizations, formal or informal mentorships, chambers and trade associations, and similar groups. [e.g., I-58, 103, 127]

*I got a connection ... at Women Venture and it just happened that there was ... women business classes starting up. I went through [some] courses and that helped so much ... helping with the ... business finances and operations.*

*I-53. Black American female owner of an other services firm*

*Sales and use tax ... was a big learning curve. I had no idea. I did go down to the Small Business Administration (SBA).*

*I-10. American Indian female owner of an other services firm*

*There is a local SCORE chapter that helped us out a lot.*

*I-11. South Asian male representative of South Asian American woman-owned professional services firm*

*I was partnered up with another firm that has experience in this space to be able to learn some of the ropes ....*

*I-7. Minority LGBTQ+ male owner of a professional services firm*

*I ended up meeting a ... mentor who helped me understand how to become a targeted business group within the state and get my SDVOSB certification that would allow me to have an advantage on federal projects.*

*I-71. Black American service-disabled veteran owner of a construction-related firm*

*The SBA ... referred me to Metropolitan Economic Development Association (MEDA) [for assistance] .... That really helped me....*

*I-20. South Asian American female owner of a professional services firm*

*I had an attorney help me get incorporated .... I even used the Elevate Hennepin program to ... help me incorporate.*

*I-8. Person of color with a disability and owner of a professional services firm*

## J. Qualitative Information — Keys to business success

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### Marketing a New Business and Learning About Opportunities

Some interviewees discussed the difficulty new business owners have in marketing their companies and finding opportunities for work.

[e.g., AS-38, 100, 127, 137, 180, 620, 623, 1019, 1030, 1093, 1118, 1351, I-7, 9, 15, 16, 18, 20, 21, 61, 107, 116, 123, 130, 132, 134, 139]

Business owners cited cold calling, networking, relationships, websites and social media as ways to find opportunities as a new business owner.

*I've been basically cold calling ....*

*I-53. Black American female owner of an other services firm*

*Networking and being in people's faces.*

*I-7. Minority LGBTQ+ male owner of a professional services firm*

*I'm still struggling ... to find new clients .... I mostly use social media and ... family and friends [and] word of mouth.*

*I-13. Black American female owner of a professional services firm*

*We use ... websites [and] social media ... a lot and also word of mouth and networking as well. When we go to events, we will try and talk to people and have discussions.*

*I-50. Black American male owner of a professional services firm*

*[I use] very passive [forms of marketing] ..., because if I go with the active ones, whether it's social media or advertising on radio, television .... I have just enough money to finance my inventory and that's about it.*

*I-45. South Asian American female owner of a goods firm*

*In the beginning, we did use social media. Right now, not a whole lot. It's just word of mouth .... We haven't seen a huge growth ... in the business because of it, but I don't necessarily market.*

*I-43. Hispanic American female owner of a professional services firm*

*There's this app called [application name]. I put my services out there .... That's where most of the clients get my name.*

*I-49. Black American male owner of a professional services firm*

*It is a challenge to establish credibility with clients and [peers] and it's a fight.*

*I-34. Hispanic American female owner of a professional services firm*

*[I find work by] scouring different bid sites.*

*I-12. White male owner of a construction-related firm*

*We have email marketing [and] cold emails. We do a lot of networking. We host our own networking events.*

*I-20. South Asian American female owner of a professional services firm*

*We're working on our website to really get that up and running, we also use Facebook, referral, word of mouth, networking in the industry [as forms of marketing]. We also are in the process of ... [becoming] a member of a contractors' group, ... [and the] chamber of commerce. We are trying everything to be out there.*

*I-54. Representative of a Black American male-owned construction-related firm*

*I've been able to really lean into the Native American piece of my business and lean into Indian country. I've got a couple of partners out in that arena that have really sustained my business ....*

*I-22. American Indian male rep. of an American Indian-owned professional services firm*



## J. Qualitative Information — Keys to business success

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### Competition with Larger or Established Businesses

Some business owners and representatives reported that competition with large companies or more established businesses is a challenge for new businesses or small businesses. [e.g., AS-7-10, 79, 113, 138, 140, 168, 182, 250, 211, 221, 223, 224, 227, 240, 241, 282, 287, 290, 382, 388, 391, 401, 407, 414, 421, 533, 534, 540, 545, 546, 548, 551, 568, 607, 618, 631, 633, 650, 654, 670, 674, 681, 690, 709, 729, 743, 744, 760, 772, 796, 864, 867, 882, 886, 1037, 1079, 1082, 1089, 1094, 1120, 1121, 1127, 1131, 1135, 1144, 1271, 1348, 1364, 1394, 1408, 1436, 1439, 1442, 1443, 1471, 1480, 1552, 1567, 1586, 1592, 1604, 1605, 1616, 1635, 1640, 1670, 1682, 1766, 1835, 1869, 1887, 1936, 1937, 1967, 1970, I-11, 16, 32, 63, 66, 123, 132]

Examples of general comments are shown to the right.

*[Size has] a big impact .... Our competitors have people chasing business and wining and dining in Washington, D.C. or a different place. We can't afford to do that. They know about opportunities before they come.*

*I-78. Black American male owner of a goods firm*

*Smaller ones are always the ones [left] behind, and the big guys are the ones that get into contracts.*

*I-73. Black American male owner of a construction-related firm*

*We do a lot of larger scale [projects]. But ... major firms in Minneapolis [lowered their fees] .... I don't think we can compete.*

*I-39. Representative of an Asian-Pacific American male-owned professional services firm*

*It's hard competing with large established competitors.*

*AS-1439. Rep. of an Asian-Pacific American male-owned construction-related firm*

## J. Qualitative Information — Keys to business success

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Some of the comments were specific to certain public entities.  
Comments to the right are examples.

*Amongst my small group of cohorts, it was kind of known that [the University of Minnesota's] process is not fair .... If you look at who gets to work, it's very consistent ... generally larger, national firms.*

*I-35. Hispanic American male owner of a professional services firm*

*There are three or four big companies in the state of Minnesota and those companies are doing a lot of work with the state [and] with the school districts ... and they won't let anybody else get in.*

*I-15. Hispanic American male owner of a construction-related firm*

*I bid on ... [a specific county]. The amount of [outsourcing] ... didn't make sense. We ended up losing it to a large company .... We just can't compete.*

*I-2. White female owner of a construction-related firm*

*Some of the [participating agency] programs ... [are] geared towards awarding a project to the bigger contractors .... The University of Minnesota [is an example].*

*I-6. Black American male owner of a construction-related firm*

## J. Qualitative Information — Keys to business success

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### Access to Capital

Having the capital to start a business is a key to success and obtaining start-up capital can be a major barrier for some businesses, as summarized on this page. (More information about access to capital is provided later in this report.)

**Sources of capital.** Some interviewees described different sources of capital used to start businesses. For example, use of personal assets and personally backed loans is common. [e.g., I-2-6, 14-16, 18, 21, 56, 57, 94, 103, 105, 113, 116, 118, 123-125, 127, 130, 132, 133, 135]

*Just my savings.*

*I-13. Black American female owner of a professional services firm*

*I basically took my life savings and put ... most of it into the business.*

*I-41. Hispanic American female owner of a construction-related firm*

*We ended up doing a ... ROBS [Rollover as a Business Start-up]*

*Plan... where you use your IRA to fund the startup of a business.*

*I-9. Representative of a white woman-owned goods firm*

*We used our own money and got an older [specified piece of equipment] and started there.*

*I-38. American Indian female owner of an other services firm*

*My personal capital and I have a business credit line .... I did apply for a grant as well.*

*I-53. Black American female owner of an other services firm*

*I went through the SBA. My personal credit wasn't good enough for the SBA. Then I went through a couple other online entities and all of them were denied.*

*I-72. Black American male veteran owner of a construction-related firm*

*We didn't really seek any outside funding. We just took money out of our own mortgage and that's how we founded the company.*

*I-20. South Asian American female owner of a professional services firm*

## J. Qualitative Information — Keys to business success

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### Importance of Relationships to Business Success

Some interviewees described the importance of relationships with customers and others as a key factor for success. [e.g., I-4, 7, 11, 12, 15, 16, 18, 20, 21, 51, 60, 73, 76, 83, 94, 99, 102, 105, 107-109, 114, 117, 118, 124, 127, 130, 132, 133, 134, 136, 137]

*Our work is ... based on relationships .... Otherwise, it's hard to know ... what's out there to bid on ... especially with government work ....*

*I-33. White female representative of a white male-owned construction-related firm*

*[Relationships are] the bone of my business structure .... When I am communicating with the [client] at the first meeting, I try to figure out where [we have common ground].*

*I-58. Black American male owner of a construction-related firm*

*My business has been about my one-to-one personal relationships and networking ....*

*I-71. Black American service-disabled veteran owner of a construction-related firm*

*A lot of our opportunities have been repeat business.*

*I-20. South Asian American female owner of a professional services firm*

*The most important [marketing tool] is networking and developing relationships, so we're members of different associations.*

*I-74. White female LGBTQ+ owner of a construction-related firm*

*At the end of the day, I learned all that comes is still through connections, who you know, even in the government side.*

*I-20. South Asian American female owner of a professional services firm*

*... the few projects that I've done with the State have been handled ... basically through personal connections that I have made or somebody just reaching out to me.*

*I-22. American Indian male rep. of an American Indian-owned professional services firm*

## J. Qualitative Information — Keys to business success

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Others commented on the importance of their reputation. [e.g., I-2, 8, 9, 37, 108, 114, 131]

*I let my work speak for itself, and I kept my word. When I told somebody that I was going to do something, I did it.... People realize ... my integrity.*

*I-29. Hispanic American male owner of a construction-related firm*

*You may charge more money, but as long as there's a good reputation which shows you can do the right work, at the right time, within the right amount, that's going to give you the advantage.*

*I-58. Black American male owner of a construction-related firm*

*Our best advertising ... is word of mouth. Happy customers lead to happier customers.*

*I-18. White female owner of a goods firm*

*You have to perform better than everybody else to stay [in business with a client]. If you do well, you get one letter, but if you do one thing wrong, [the word gets out] to 10 people. It's basically a double-edged sword.*

*I-63. South Asian American male owner of a goods firm*

## J. Qualitative Information — Keys to business success

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### Contractor-Subcontractor Relationships

Relationships with prime contractors are important for businesses working as subcontractors and subconsultants, and primes also need to have relationships with potential subcontractors. Business owners and representatives were asked to comment on their experiences with prime contractor-subcontractor relationships.

Some interviewees described the need for firms to proactively interact and communicate with potential prime contractors and/or subcontractors. Some reported difficulties establishing these relationships. [e.g., I-46, 64, 133]

*At my scale it's important to find prime consultants and connect for work ....*

*AS-1671. Asian American female owner of a professional services firm*

*[For some of the participating entities,] the projects are not within my scope ... as they're listed and ... I don't know how to find primes to be able to subcontract [to them].*

*I-40. Black American female owner of a professional services firm*

*I know [our subcontractors through] word of mouth or ... seminars.*

*I-11. South Asian male representative of South Asian American woman-owned professional services firm*

*Another way [I hear about potential work opportunities] is just word of mouth and seasonally, year after year, we continue to go back to the same ... contractors once they know your reputation and you have to have a good one.*

*I-38. American Indian female owner of an other services firm*

*I don't know how to find primes to be able to subcontract [to them].*

*I-40. Black American female owner of a professional services firm*

*I [would] like to have a public platform for small businesses to connect with prime companies.*

*AS-1468. Black American male owner of a construction-related firm*

*We wish there were more opportunities for smaller scale businesses to partner or subcontract with larger prime vendors on proposals.*

*AS-979. South Asian female owner of a professional services firm*

## J. Qualitative Information — Keys to business success

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### Importance of Employees to Business Success

Some interviewees said that building and retaining a skilled team of employees was a key factor for success. [e.g., AS-54, 56, 172, 192, 193, 210, 211, 244, 261, 318, 345, 358, 417, 568, 577, 611, 643, 653, 728, 821, 831, 863, 866, 875, 890, 910, 1027, 1358, 1364, 1378, 1379, 1393, 1398, 1399, 1409, 1414, 1422, 1448, 1451, 1472, 485, 1486, 1494, 1582, 1585, 1607, 1625, 1626, 1637, 1645, 1665, 1742, 1759, 1775, 1784, 1790, 1814, 1837, 1853, 1861, 1894, 1899, 1908, 1910, 1912, 1932, 1964, 1987, 2012, I-20, 21, 52, 99, 103, 105, 117, 118, 124, 126, 128, 130, 132-134, 136]

*To be successful, we must ... make sure we have the talent in place.*

*I-27a. Black American male owner of a construction-related firm*

*... a key to my success [is] having a good team.*

*I-2. White female owner of a construction-related firm*

*You are the reflection of your least competent employee, wherever they are in the food chain.*

*I-57. Asian-Pacific male owner of a goods firm*

*Being able to trust [employees] is huge when I'm not ... there.*

*I-67. American Indian female owner of a construction-related firm*

*The best employees ... make you more money.*

*I-76. Black American female owner of a professional services firm*

*The way I go after things [is unique] and ... to hire other people that can develop those same kind of skills is very difficult to find.*

*I-87. White female owner of a professional services firm*

A number of interviewees also described challenges they have faced in finding and retaining a talented team of employees. [e.g., AS-129, 1814, 1837, 1861, 1908, I-33, 47, 61, 70]

*It's impossible to find not only qualified but willing employees. No one wants to work.*

*AS-1486. Representative of a majority-owned construction-related firm*

*Finding the adequate workforce to do the work [is challenging]. The larger companies, especially if they're part of unions, have a larger bench to pull from to provide the labor.*

*I-30. Service-disabled veteran owner of a goods firm*

*It has been difficult finding people to work.*

*AS-1910. Representative of a majority-owned others services firm*

*One of the challenges I was unprepared for [was that] small business hiring is a lot different than finding people to work for a big company. It's not as sexy and there's a perceived risk for employees.*

*I-55. White male owner of a construction-related firm*

*I couldn't find any [employees] that I could afford to hire. People wanted the same income as they had in the Twin Cities, and you couldn't [spend] that kind of money in rural Minnesota and stay in business.*

*I-94. American Indian male service-disabled veteran owner of an other services firm*

*I can't pay enough to retain reliable people.*

*I-10. American Indian female owner of an other services firm*

## J. Qualitative Information — Keys to business success

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### Importance of Access and Pricing for Materials and Equipment

Some business owners and representatives reported that access to materials and equipment, and the pricing a firm gets were important to success. [e.g., AS-35, 196, 208, 211, 299, 365, 549, 580, 611, 651, 716, 883, 1043, 1117, 1288, 1398, 1426, 1462, 1481, 1554, 1616, 1629, 1631, 1755, 1763, 1767, 1771, 1774, 1775, 1782, 1803, 1897, 1930, 1975, I-2, 8, 27b, 51, 52, 54, 81, 85, 99, 103-105, 113, 119, 121, 126, 130, 131, 133, 134, 136, TO-5a]

*It's price and service. That's all that matters here.*

*I-63. South Asian American male owner of a goods firm*

*The larger companies have the pricing ... their largest advantage.*

*I-41. Hispanic American female owner of a construction-related firm*

*One of the disadvantages I deal with is, I don't do a lot of volume ... and I don't get as good of a pricing....*

*I-12. White male owner of a construction-related firm*

*Small companies have a disadvantage because they do not have [the] scale of purchasing power.*

*AS-1005. White woman-owned goods firm*

*A large company ... may have a little bit more buying power with [a] particular supplier ... so they get a better price.*

*I-48. White male representative of an American Indian woman-owned other services firm*

*A lot of projects that you work on with [MnDOT, for example] ... you need ... to store a large amount of products .... You end up having to work things out with other distributors [and] look for additional warehouse space .... Those types of things put a lot of pressure on a smaller firm.*

*I-118. Black American male owner of a professional services firm*



## J. Qualitative Information — Keys to business success

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### Flexibility and Adaptability

Business owners and other representatives described the ways in which their firms have adapted to changing market conditions over time.

**Business size, expansion and contraction.** Some business owners reported that the size of their business can respond to opportunities. [e.g., I-8, 37, 47, 52, 70, 99, 105, 106]. For example:

*We don't do a lot during the winter, so our company goes down to bare bones ... and then in the summer, we have 12 plus employees. That's just because of the seasonal time.*

*I-62. White male owner of a construction-related firm*

*We started with just myself and grew slowly over the years. [Recently], we doubled in size in terms of the number of employees.*

*I-89. White male owner of a professional services firm*

Some business owners reported that they have diversified their type of work over time. For example:

*We started with [one product] and then our customers [asked for another] ... it kept [us growing].*

*I-63. South Asian American male owner of a goods firm*

**Sizes of contracts.** Some interviewees said that their firms bid on a range of contract sizes. [e.g., I-2, 16, 20, 125, 131].

*We will take any size [of contract]. We're just grateful for any work.*

*I-33. White female representative of a white male-owned construction-related firm*

*I bid lots of small and as many of the big projects as we can. We will take everything [and] anything.*

*I-55. White male owner of a construction-related firm*

*We're always trying to find the next best thing, right now it's basically whatever comes to us. We look at [the project] and if there's a job that we feel like we can tackle, then we bid it.*

*I-62. White male owner of a construction-related firm*

Some interviewees said that the size of contracts they bid has grown with experience and some discussed remaining cautious.

*We're very intentional about growing slowly and ... maintain cash flow to keep us working in the business.*

*I-64. White male representative of a woman-owned professional services firm*

*When we first started, we ... [didn't have] that experience. As we've grown, [our contract size has grown as well].*

*I-30. Service-disabled veteran owner of a goods firm*

*I like to be reasonable [about the size of contracts I pursue] .... It's easy to go bankrupt if you bite off more than you can chew.*

*I-47. Black American male owner of a construction-related firm*

## J. Qualitative Information — Keys to business success

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**Geographic markets served over time.** Business owners and representatives reported where they conducted business and if over time, they had expanded the geographic locations where they perform work. [e.g., I-18, 71, 99, 103, 106, 107, 116, 123, 141]

*I've ... expanded [our] online presence ... so our geographic range has expanded [since we bought the company].*

*I-32. White male owner of a goods firm*

*The company did a project a little over an hour away where most of our projects [are] in the Twin Cities ....*

*I-41. Hispanic American female owner of a construction-related firm*

*We're expanding .... We really want to focus ... globally at this point.*

*I-46. Asian-Pacific American female owner of a goods firm*

*We've tried to flex into Wisconsin and North Dakota.*

*I-35. Hispanic American male owner of a professional services firm*

*We have gotten into new markets. We primarily used to sell in Minnesota, and now we have gone more regional ... primarily in the Midwest ....*

*I-2. White female owner of a construction-related firm*

*We [have] partnered with a couple of private entities outside of Minnesota ... and we try to maintain those relationships.*

*I-11. South Asian male rep of a South Asian American woman-owned professional services firm*

*... we cannot focus on just one area; we are expanding. We go everywhere we have a project.*

*I-54. Representative of a Black American male-owned construction-related firm*

*We used to have most of our clients very close geographically, mostly in the State of Minnesota. Now ... a lot of our [clients] are national and international.*

*I-59. White female owner of a professional services firm*

*Our geographic reach has had to get larger. There are more customers and not enough people to do the work.*

*I-19. Asian-Pacific American woman representative of an Asian-Pacific woman-owned goods firm*

*I started the company in Minneapolis. The bulk of our work is in the Twin Cities .... We've stuck to the regional geography of Minnesota, Western Wisconsin, Northern Illinois, and Northern Iowa.*

*I-65. White female owner of a professional services firm*

*We are pretty much [serving] all of Minnesota. We've done some [work] in Wisconsin.*

*I-80. White female veteran representative of a majority-owned construction-related firm*

*We started focusing ... on the local market here in the Minneapolis-St. Paul area. Then, we expanded into Illinois, then ... into Wisconsin, and then we started [doing business] throughout the country ....*

*I-30. Service-disabled veteran owner of a goods firm*

*[My business has expanded] beyond the Twin Cities metro area ... to outlying areas, but it's mostly [in] Minnesota and Wisconsin.*

*I-45. South Asian American female owner of a goods firm*

## J. Qualitative Information — Keys to business success

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### Adapting to Major Events

Interviewees commented on their experiences adapting to changing marketplace conditions caused by major events, such as weather-related natural disasters, the COVID-19 pandemic, economic conditions and major court decisions.

**Impact of the COVID-19 pandemic.** Many interviewees described the effects of the COVID-19 pandemic on their businesses and on the economic conditions in the local marketplace. [e.g., [e.g., AS-595, 682, 795, 831, 874, 1043, 1066, 1284, 1349, 1378, 1452, 1453, 1581, 1603, 1624, 1626, 1629, 1631, 1637, 1651, 1680, 1742, 1744, 1795, 1800, 1943, 1982, I-2, 11, 14, 15, 18, 21, 47, 55, 110, 113, 118, 121, 124, 129, 131, 132]

Some business owners described negative impacts of the pandemic.

*Little businesses just went to hell. [It got] to the point where it's like, I can't afford to stay open if [the pandemic] continues.*

*I-4. White female owner of a professional services firm*

*COVID-19 did affect [us]. Then the other one that affected us in Minneapolis ... [was] during the [George] Floyd riot ...*

*I-24. Black American male owner of a construction-related firm*

*COVID-19 affected us in some ways simply because ... the price on everything went up and other things became hard to get.*

*I-38. American Indian female owner of an other services firm*

*Before COVID, the company was doing very good. When COVID hit, it was a halt on everything, material costs [were] very high .... We're slowly ramping up to ... getting busy again....*

*I-54. Representative of a Black American male-owned construction-related firm*

*We had no work [during COVID-19]. I mean ... nothing. We were shut down. We had to close ... for a period ....*

*I-85. White female owner of an other services firm*

*We had some very awesome employees. In fact, in 2020 when COVID hit, I didn't let anybody go until November, thinking [the pandemic would end quickly] .... [but] we lost 90 percent of our business ....*

*I-63. South Asian American male owner of a goods firm*

*We had another great project lined up for 2020, then COVID hit. That was another tough year for us.*

*I-20. South Asian American female owner of a professional services firm*

*[The pandemic] affected us. We were at a standstill for a few months where we couldn't get into facilities to [complete specified tasks], to come and do work ... we had a few projects just go away.*

*I-68. White female owner of a construction-related firm*

*I've had as many as seven people working for me at one time. COVID hit hard, and so we went [and] stayed smaller.*

*I-83. White male owner of a professional services firm*

## J. Qualitative Information — Keys to business success

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Other businesses were able to sustain their work or grow during COVID.  
For example:

*COVID was probably our best year.*

*I-48. White male representative of an American Indian woman-owned other services firm*

*We thought our business was [going to] dry up [during the pandemic], and instead, we had a record year.*

*I-9 White male representative of a woman-owned goods firm*

## J. Qualitative Information — Keys to business success

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**Natural disasters.** Some business owners and representatives described the negative impact that natural disasters have had on businesses in Minnesota.

*Minnesota, especially Southern Minnesota, had a lot of flooding this year .... It was definitely tough [on business].*

*I-43. Hispanic American female owner of a professional services firm*

*[The wildfires in Canada were] horrific. I had two technicians in the field. [There were] a lot of breathing problems and a lot of sicknesses.*

*I-8. Person of color with a disability and owner of a professional services firm*

**Market fluctuations.** Interviewees commented on the effects of market fluctuations due to interest rates, inflation, seasonal changes and other events on their businesses. [e.g., [e.g., AS-594, 701, 1349, 1367, 1370, 1372, 1418, 1420, 1474, 1589, 1806, 1813, 1867, 1895, 1902, I-2, 18, 132, 137, 138]

*Our larger contractors did put off projects when the interest rates got to be so high .... And of course, when inflation got so high, we could no longer support that bid that we gave because our product cost went up so much. Everything had to be rebid all the time. We were affected by ... the markets for a while.*

*I-117. Representative of a majority veteran-owned construction-related firm*

*It's a little harder to find work [in the winter].*

*I-10. American Indian female owner of an other services firm*

*When the economy is really hurting, we're really hurting .... Oftentimes we have to shift gears ... when the economy is slower.*

*I-83. White male owner of a professional services firm*

## J. Qualitative Information — Keys to business success

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**Government assistance.** Some business owners and representatives indicated that they utilized government assistance during the COVID-19 pandemic. [e.g., I-16, 18-20, 44, 54, 83, 104, 106, 108, 109, 112, 113, 116, 128-130, 132, 134, 136, 138, 139]

*We had the ... PPP [Paycheck Protection Program] loan .... Then, we acquired an emergency disaster loan from the SBA .... [The] government was still spending money during the pandemic. They helped us a lot.*

*I-9 White male representative of a woman-owned goods firm*

*We did have a PPP loan that did help us through ... uncertain time[s].*

*I-2. White female owner of a construction-related firm*

*We got the PPP loan. That was really helpful. That was one of the reasons we survived.*

*I-39. Representative of an Asian-Pacific American male-owned professional services firm*

*I got ... one single grant ... from the state of Minnesota three years ago that helped me during COVID time. Otherwise, I would have folded up.*

*I-45. South Asian American female owner of a goods firm*

*The dollars we got from the government [as a result of the COVID PPP loans] ... strictly covered payroll so that we didn't have to lay people off. But that didn't stop the other bills, and it was tough.*

*I-55. White male owner of a construction-related firm*

*COVID-19 impacted me, I did take out an [Economic Injury Disaster Loan] EIDL loan at that time.*

*I-38. American Indian female owner of an other services firm*

## J. Qualitative Information — Working with participating entities

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Business owners and representatives discussed their experience working with or attempting to get work with the public entities participating in this disparity study. (Note that some entities are mentioned more often than others, which may simply reflect interviewees' familiarity with those entities.)

### Positive Experiences Working with Participating Entities

Some business owners and representatives reported that they have had positive experiences while working with one or more of the participating entities. [e.g., AS-774, 1476, I-6, 9, 11, 16, 24, 32, 34, 39, 55, 57, 63, 64, 73, 102, 104, 127, 128, 131, 134, 137, 139]. For added caution in preserving anonymity, identifiers are not shown here for these specific comments (they are not essential to the point that some experiences with public entities are favorable). Examples of positive comments included the following:

*It was good. I mean, [the Minnesota Department of Administration] is very helpful.*

*[the State of Minnesota and the City of Minneapolis] ... went out of their way to make sure that I could do business with them.*

*We worked with ... the State .... It was a really good experience. We were a subcontractor under the general contractor. Folks at the State were great about ... answering our questions and walking [us] through the process.*

*We do work with Minnesota Department of Administration, University of Minnesota, Met Council ... Hennepin County, and the Police Department with Brooklyn Park .... All those relationships have been good.*

*We got into a few MnDOT projects, and it's just been great .... The experience has been wonderful with them.*

*The Minnesota Department of Transportation is excellent. Any time we call [they are] very professional [and] very helpful ....*

*[MnDOT is] very helpful [and] they even have on board a consulting firm ... if you're going to bid on a project and you need bidding help or ... logistical help ... it's great.*

*[When working with the University of Minnesota] ... we work with a few different departments ... They're good to work with .... We love working with [the public schools].*

*... Hennepin County and City of Minneapolis ... have ... awarded me contracts. They give me technical assistance [and] grant rebates. [They've] pretty much done everything they could do to make sure that I stayed in business.*

*Hennepin County has put programs in place ... that really make a change and impact for women, minorities and small businesses .... The rest of the agencies are giving ... what I consider 'lip service.'*

*Hennepin County, of all entities I've been with, [has] a good chunk of work getting pushed around to different companies .... The Department of Administration ... [procurement] system to me makes a lot of sense. It ensures you're getting people that know how to do the work.*

*Hennepin County, Ramsey County [and] City of St. Paul [have] done a nice job of doing some set asides and doing some best value [contracts], which really does help a business like ours participate.*

## J. Qualitative Information — Working with participating entities

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*Our best partner is Hennepin County.... They're consistent and amazing.*

*Just finished a little job for Hennepin County .... The person I worked with was delightful.*

*I started working with Hennepin County, because there was consistent work, and it was consistent pay .... The contracts are easier to get.*

*Hennepin County has been pretty good in the past couple years.*

*I love Ramsey County. I [will] work with them any day.*

*There are different entities like the Metropolitan Council, that didn't necessarily waive [insurance rate], but they lowered it to the standard that's appropriate for small businesses.... and they try to remove some of those barriers.*

*I was on a project for the City of Minneapolis .... MnDOT has the bulk of my ... prevalent work for the State and for the federal government. Those ... entities ... are amazing. They are great people.*

*We worked with the City of St. Paul, City of Bloomington, City of Minneapolis [and others] .... It has been great. Every city is different.*

*[The City of Saint Paul] has always paid me on time. They've always been good to work with. Their project management team from the city has always been pleasant. If I've ever had questions on how to submit certain paperwork. They've always been [helpful].*



## J. Qualitative Information — Working with participating entities

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### Negative Experiences Working with Participating Entities

Some business owners and representatives shared examples of negative experiences they have had while working with the participating entities. [e.g., AS-1435, I-5, 6, 15, 35, 52, 59, 66, 69, 94, 118, 125] Examples of comments are shown on this page and the following page.

*Some of the entities, especially the State of Minnesota, have gone to paying us with a credit card where I get hit with a 3 percent charge for my credit card company. I don't like that too much.*

I-9. Representative of a white woman-owned goods firm

*We've done one University of Minnesota project, but ... their procurement system is complicated .... I don't bother with it [anymore].*

I-2. White female owner of a construction-related firm

*The University of Minnesota system has a [extensive] licensing process. There's a cost associated with it .... It's a manual labor-intensive process just to do that reporting. If you don't do the reporting, then ... you're not in compliance with the license.*

I-122. White female owner of a goods firm

*I would love to do work at the University of Minnesota .... They use the same group of contractors consistently that they've used for generations.*

I-29. Hispanic American male owner of a construction-related firm

*The University of Minnesota .... came out with a new program that makes it impossible for us to get work. As a result ... we [do not] look at their projects anymore.*

I-6. Black American male owner of a construction-related firm

*Hennepin County ... [working with them] was terrible .... St. Paul ... They are very slow. The City of Minneapolis is a little bit more organized .... Their staff retention is a problem .... By the time you're ready to start your project whoever you are working with left .... it affects us doing business with them.*

I-24. Black American male owner of a construction-related firm

*[We sold] more ... during COVID-19 to Ramsey County and to the State of Minnesota than we ever did before. But as soon as COVID was over ..., none of the people I developed relationships [with] would ... call me anymore .... That was a little bit disappointing.*

I-14. White male owner of a goods firm

*Over the years, I've worked with people when they've attempted to do business with Ramsey County and Hennepin County. There's a lot of [non-inclusive attitude] that isn't geared towards communities of color....*

TO-18. Indian American female representative of a business assistance organization

*[Working with the City of Minneapolis and Saint Paul involves] more paperwork than working for anyone else.*

I-12. White male owner of a construction-related firm

*With the City of Minneapolis ..., you have to pay so much money for materials and then wait for the material and then do the job. Then I still wait three weeks or so to get paid.*

I-111. Black American male owner of a construction-related firm

## J. Qualitative Information — Working with participating entities

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*I hesitate to bid on the City of Minneapolis [contracts] because a lot of effort goes into it. Then a PO is issued, and you never hear back from them, and you don't know why it was canceled or what happened.*

*I-60. South Asian American female owner of a professional services firm*

*We're dealing with the city of Minneapolis not releasing retainage.*

*I-77. White female owner of a construction-related firm*

*I've heard that City of St. Paul used to be very good but has been really challenging to work with in the past couple of years.*

*TO-4. White female representative of a trade association*

*Working with the City of Bloomington, the inspectors are a little bit difficult to work with .... [they] did not provide proper guidance .... They're always changing what they wanted to look at. We struggled, but we were able to complete the project at the end.*

*I-54. Representative of a Black American male-owned construction-related firm*

*There's a huge issue with the entities themselves, causing a lot of these barriers. [For] St. Paul Public schools, [if you] ask people if they know where to find their bids, they don't.*

*TO-7. White female representative of a trade association*

*We never grew .... Despite the fact that there's billions of dollars of construction work here in Hennepin, Ramsey and surrounding counties, it's still extremely difficult for us minorities to get a significant piece of the pie.*

*I-5. Black American male owner of a construction-related firm*

*We have specific cases where we have given the best price and best quality resources [and] still do not get a chance to make it to even the first round of consideration.*

*AS-136. Representative of a South Asian woman-owned professional services firm*

*We've tried to [work] with the Twin Cities, the state and the University of Minnesota.... They keep going back to firms they have worked with before that tend to be larger companies. They don't give smaller women owned businesses a chance.*

*AS-1634. Representative of a woman-owned professional services firm*

## J. Qualitative Information — Working with participating entities

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### Pursuit of Bid Opportunities

Business owners and representatives reported on their pursuit of work with the participating entities.

In general, business owners and representatives reported that they would like to work with participating entities or that they were interested in learning more about opportunities to do so. [e.g., AS-1-3, 5-10, 13, 16, 18, 23, 25-30, 33, 36, 38-44, 51-53, 55, 57, 59, 63, 66-68, 70, 71, 74-77, 79-105, 108-113, 115, 236-243, 245, 246, 250, 255-259, 262, 263, 365, 367, 422, 424-427, 429-497, 525, 592, 597, 607, 614, 615, 618, 619, 670, 672-676, 678-680, 684, 686, 688, 689, 690, 711-714, 717, 718, 720-724, 726, 868-871, 873, 876-882, 884, 888, 889, 891, 893, 909, 912-923, 925-933, 1008, 1011-1018, 1020-1026, 1032, 1033, 1035, 1039-1041, 1043, 1045-1049, 1051, 1053-1065, 1068-1077, 1080, 1081, 1083-1085, 1086, 1088-1093, 1095-1099, 1101-1104, 1107-1112, 1114, 1115, 1118-1120, 1122-1124, 1128, , 1456, 1457, 1459, 468, 1470, 1471, 1476-1478, 1480, 1487, , 1639, 1642, 1644, 1647, 1648, 1652, 1654-1661, 1666, 1669, 1673-1676, 1678, 1684, 1685, 1689, 1691, 1692, 1733, 1734, 1743, 1745, 1854, 1857, 1858, 1866, 1868, 1872, 1878, 1879, 1889, 1890, 1892, 1893, 1903-1906, 1909, 1911, 1914, 1915, 1918, 1948, 1965, 1966, 1968, 1970, 1972, 1974, 1977, 1983-1985, 1987, 1989, 1990, 1993-1996, I-11, 14, 18, 51, 57, 69, 99, 105, 107, 110-112, 114, 126, 129, 130, 132, 133, 135, 137, 138]

Some of the firms expressed frustration of not knowing how to get started doing public sector work. The comments to the right are some examples.

*I would love to work in the public sector but I am unsure how to get started, who to talk to, how to go about this space.*

*AS-695. South Asian American female owner of an other services firm*

*Procurement is going to be the number one thing for my company moving forward .... I am desperate to work with [these entities], and they have not reached out, none of them.*

*I-79. Black American male owner of a construction-related firm*

*I would love to do more business with these state entities. I think that we have something to offer them, but we have to know about the opportunities, and they just don't appear to be publicized very often.*

*I-22. American Indian male rep. of an American Indian-owned professional services firm*

*I prefer to work with cities, states and counties, because it's just easier. But also, I'm not going to [keep] banging my head into a wall trying to get in.*

*I-8. Person of color with a disability and owner of a professional services firm*

*Understanding how the State contracts with businesses for the types of services ... [they need is] very difficult ... unless you have some sort of connection with an agency or with the State Office of Procurement.*

*I-64. White male representative of a woman-owned professional services firm*

## J. Qualitative Information — Working with participating entities

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Some interviewees recommended overall changes to public entity bidding. Examples are shown to the right.

*Would like the State of Minnesota to not just go by low bidder, but most qualified.*

*AS-279. White female owner of a construction-related firm*

*When we talk about the other entities [apart from Hennepin County], I believe all of them are low bid.... We don't go after those projects.*

*I-56. Black American female owner of a construction-related firm*

*[The procurement process could be improved by] simplifying some of ... the paperwork ... [and] RFQ process .... Sometimes it does feel like [the State is] trying to get people not to bid because it's so much work.*

*I-69. Representative of a white woman-owned goods firm*

## J. Qualitative Information — Working with participating entities

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### Barriers to Bidding

Some business owners and representatives said that there were barriers to bidding on work with participating entities.

**Access to procurement information.** Interviewees reported that they have experienced difficulties accessing procurement information. [e.g., AS-1642, 2014, I-2, 23, 16, 33, 35, 51, 68, 98, 102, 120,135, 137]

Examples of comments and suggestions are shown to the right and on the following page.

*I'm not seeing everything. I don't know what I don't know .... I believe there has to be other opportunities ... that I'm just not seeing.*

*I-14. White male owner of a goods firm*

*The challenge [with bidding] is the knowledge of them. I wouldn't even know where to start to look.*

*I-43. Hispanic American female owner of a professional services firm*

*It's hard knowing how to get access to these government contracts. There is info but where do we start? It's hard knowing who to talk to. It's like we need to ask the right type of questions but not knowing what questions puts us in a disadvantage.*

*AS-983. Hispanic American male owner of a construction-related firm*

*There is no channel for minorities to connect to get information .... No one reaches out .... We do not have good access to information from the public entities ....*

*AS-1789. Black American male owner of a goods firm*

*It's just very difficult to navigate through the contract system. All entities have different things to post.*

*AS-1671. Asian American female owner of a professional services firm*

*There isn't one place where you can go see all the opportunities. You get emails from different [entities] that you sign up for and then you have to ... comb through them and figure out which ones you're going to bid for.*

*I-60. South Asian American female owner of a professional services firm*

## J. Qualitative Information — Working with participating entities

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*It had been about 6 years at the time, and I couldn't get a newsletter of RFPs that were coming out. I was talking to some [government] employees and told them ... they need more diverse staff, and maybe more people of color will be able to get more information and feel like they're a part of [the system].*

PF-2. Public forum participant

*The system is complicated and difficult to find work opportunities.*

AS-2097. Black American male owner of a professional services firm

*As far as looking for the contracts, I'm still trying to understand how to get there. I'm looking for resources and I don't know how.*

I-13. Black American female owner of professional services firm

*Because of the way different projects are categorized [in the agency registries, it] makes it kind of challenging to catch everything [that is relevant to my business].*

I-71. Black American service-disabled veteran owner of a construction-related firm

*A lot of the platforms, software forms, the way that you communicate with the State to enroll to become a vendor ... are not accessible .... [For the Metropolitan Airports Commission], the same group of [general] contractors every time do the work. They don't reach out to someone like me ....*

I-29. Hispanic American male owner of a construction-related firm

*... cities and states and counties ... have their crew of folks that they award things to, and everyone else can kick rocks.*

I-8. Person of color with a disability and owner of a professional services firm

*... you got one or two construction companies that are building all the schools, ... one or two construction companies that are doing all the hospital work, and one or two construction companies that are doing all the work at the airport .... The state is not committed to diversifying its vendors.*

I-27a. Black American male owner of a construction-related firm

*We actually have a large number of folks who would be interested in contracting with the State but are not able to.*

TO-12. White male representative of a minority business assistance organization

*I did register with the state of Minnesota, but it never went anywhere. I never heard back from them or anyone of the entities. None of them.*

I-83. White male owner of an other services firm

*If there's a preference for a local vendor, they should mention that.*

AS-1366. Representative of a South Asian male-owned professional services firm

*[The University of Minnesota] should have an outreach program to educate the minority community on what [they are procuring] ... and to encourage minorities to look at their projects.*

I-6. Black American male owner of a construction-related firm

*More communication for people of color.*

AS-1820. Representative of a Black American male-owned professional services firm

## J. Qualitative Information — Working with participating entities

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**Out of pocket cost of bidding.** Several interviewees commented on having to pay to learn about opportunities or cited other costs of putting a bid together [e.g., AS-1517, I-3, 51]. Examples of these comments are shown to the right.

*There are certain [bidding] websites ... that you've got to pay for in order to get your name out there .... I probably pay three grand a year just to see all the projects.*

*I-79. Black American male owner of a construction-related firm*

*Met Council also has a weird way of doing things .... In their RFPs you must pay 15 or 20 bucks to get the RFPs.*

*I-42. Black American male owner of an other services firm*

*... to bid [on MnDOT contracts], you have to sign up and pay for a membership fee .... It was like four or five hundred bucks ... just to sign up for the service in order to bid this job.*

*I-12. White male owner of a construction-related firm*

*You can pay for a service where they notify you of bids when they're published by the different organizations, but you have to pay a pretty sizable fee to have that available. For a small business like me, it's just not worth it for me to pay the fees they're asking to get notified of these bids when they're so hard to win.*

*I-62. White male owner of a construction-related firm*

*Some agencies make it so that [BidSync is] free if you're registered with them .... Periscope and BidSync have a deal .... They want you to have a paid subscription, they make it so hard to find the opportunities that are public....*

*I-60. South Asian American female owner of a professional services firm*

*The process of bidding for contracts and completing RFPs are quite complex, cumbersome and requires a lot of technicalities that makes it difficult for small business owners that cannot afford the services of professionals like bidders, estimators, accountants and lawyers, etc.*

*AS-1270. Black American owner of a professional services firm*

## J. Qualitative Information — Working with participating entities

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**Restrictive contract specifications.** There were a number of interviewees who discussed what they viewed as overly restrictive specifications or other requirements. [e.g., AS-9, 15, 64, 65, 66, 67, 72, 81, 114, 132, 138, 148, 149, 158, 159, 168, 186, 193, 195, 196, 208, 211, 236, 251, 252, 254, 268, 291, 297, 301, 302, 322, 359, 371, 373, 379, 398, 416, 525, 526, 547, 549, 551, 553, 555, 569, 572, 590, 607, 621, 610, 641, 646, 655, 689, 886, 889, 894-908, 946, 1079, 1086, 1088, 1097, 1124, 1270, 1272, 1273, 1285, 1304, 1305, 1322, 1346, 1357, 1394, 1411, 1435, 1436, 1442, 1594, 1623, 1671, 1758, 1769, 1770, 1834, 1838, 1848, 1988, 1995, 2024]

Examples of comments are shown to the right.

*We would like the bidding process to [be] fair and transparent.  
We want Hennepin County to remove barriers such [as] years of  
[experience] as [a] requirement ....*

*AS-671. Representative of a Black American woman-owned other services firm*

*Even though I've ... had contracts with MnDOT doing this type of  
work since 2018 ... they still want to give me only two years'  
experience where the application clearly says three years' experience  
.... I can produce ... three years [of] experience [and] all the  
certifications that go with that work type .... I've been fighting with  
them for four months, trying not to take legal action because once I  
take the legal action, I'm probably done.*

*I-17. Black American female veteran-disabled owner of a professional services firm*

*Over 90 percent of the bids requires 5 or more years in business ....  
Other bids require a deposit of \$5,000, especially for the  
Metropolitan Council. As a small business, I don't have \$5,000 for  
deposit and ... getting a small business loan is not possible because  
the bank would most [likely] want to see that there's an awarded  
contract.*

*AS-67. Black American female owner of an other services firm*

*Expand the date range of prior experience to a 10-year time frame.*

*AS-1454. Representative of a majority-owned professional services firm*

*For these ... larger [entities], whether it's MnDOT or [Minnesota  
State] or Department of Admin, there must be more flexibility for  
small businesses. They have these lists of what you can include in  
your accounting ledger of your overhead expenses, and they're very  
specific .... if you're a small business none of that makes sense, and  
none of it directly correlates.*

*I-65. White female owner of a professional services firm*



## J. Qualitative Information — Working with participating entities

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**Time investment to bid.** Some business owners and representatives indicated that the amount of time it takes to submit a proposal can present challenges. [e.g., AS-547, 1838, 2067, I-7, 27a, 67, 70, 87, 90, 110, 120, 128, 132, 138]

*The RFP process takes a lot of time, and ... the paperwork required to read through and manage it is dense, confusing, and overwhelming.*

*AS-1272. American Indian male owner of a goods firm*

*As a small business, I'm out there trying to keep the lights on. [I do not] have the time to learn how to respond to a bid if I'm not doing it every single day.*

*I-57. Asian-Pacific male owner of a goods firm*

*When you spend a lot of time on a bid, you spend a lot of time just reading through a package on a bid and trying to understand it, trying to figure out what needs to be bid out, how it needs to be bid, go through all their forms you have to fill out ... just to be told, no .... I opened one of [the Metropolitan Airports Commission's] ... bid requests and I just closed it because it was way too much to even try and go through.*

*I-62. White male owner of a construction-related firm*

*The bidding process for state ... and federal government projects is very arduous. There's not [a lot] of support that can help you .... It was very much ... trial and error.*

*I-71. Black American service-disabled veteran owner of a construction-related firm*

*[Entities] already have all of our certifications and ... if you've submitted one bid, ... the reference document is potentially already ... in [that entity's] system. But because they don't store it centrally ... nothing is reusable, so you have to do it all over again .... It's just cumbersome.*

*I-60. South Asian American female owner of a professional services firm*

*... administrative paperwork ... if you're small .... that takes time and money.*

*I-2. White female owner of construction-related firm*

*... A [proposal for] Metropolitan Airports Commission [MAC] [has restrictive requirements] .... I don't have time.*

*I-9. Representative of a white woman-owned goods firm*

*It seems to me that [government entities] are only reaching out to us to say that they've reached out.*

*I-22. American Indian male rep. of an American Indian-owned professional services firm*

## J. Qualitative Information — Working with participating entities

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**Unclear bid requirements.** Some interviewees reported that bid and proposal requirements can be difficult to understand. [e.g., I-26, 55, 64, 103, 105, 110, 112, 126, 138]

*[The bidding process] is not streamlined .... It's designed to obfuscate rather than clarify.*

*I-57. Asian-Pacific male owner of a goods firm*

*Sometimes it's hard to fill out the quote requests and it asks for things that aren't still applicable today. Some of the verbiage includes 1990's technology and not the processes that are used today.*

*AS-1273. Representative of a woman-owned goods firm*

*[Simplify]. The fog factor in government communication in contracts is silly.*

*I-57. Asian-Pacific male owner of a goods firm*

*I've been looking at more state and city contracts lately ... honestly, it's tough as a small business trying to go through those .... I swear they make the verbiage ... so difficult to read that you have to be an engineer to understand it .... [MnDOT's bid required] lots of paperwork to fill out, lots of things to try and decipher....*

*I-62. White male owner of a construction-related firm*

*[Metropolitan Airport Commission] contracts are so complicated we don't even pursue them.*

*I-9. Representative of a white woman-owned goods firm*

*[Hennepin County's] qualifications are too obscure.*

*I-77. White female owner of a construction-related firm*

*Reading through [the procurement procedures] ... was a little intimidating.... I tried to read every aspect of it, but there was no tutorial on how to bid for the things or how to understand the emails when they do come out.*

*I-10. American Indian female owner of an other services firm*

*One of the most prominent challenges has been navigating complex government regulations and industry standards. The time and resources required to comply with these legal frameworks often feels overwhelming, especially when competing against larger firms with more extensive support systems.*

*AS-4. Black American female owner of a professional services firm*

*... there's no support [during the bidding process], and if you do it wrong, then you either obviously don't win the bid or you bid yourself into a situation of where you're [taking] a [financial] loss.*

*I-71. Black American service-disabled veteran owner of a construction-related firm*

## J. Qualitative Information — Working with participating entities

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**Insurance requirements.** Some business representatives commented on public sector insurance requirements. Examples are provided to the right.

*The insurance is a million dollars on some of these municipal contracts .... You must get that insurance before submitting the proposal. You're increasing your costs in hopes you'll get a contract.*

*I-7. Minority LGBTQ+ male owner of a professional services firm*

*... it seems that between state and counties where we've been awarded work, they have different insurance requirements which are, outsized, irrelevant and another barrier to smaller minority-owned companies in engaging with these opportunities.*

*AS-1147. Representative of a woman-owned professional services firm*

*The amount of insurance seems unnecessary.*

*AS-1833. White female owner of a professional services firm*

*Better insurance [requirements]. Don't make me go out and get a \$25 million insurance policy for your job. I don't need for the \$100,000 job I'm going to do.*

*I-77. White female owner of a construction-related firm*

*The professional liability and vehicle insurance ... is expensive.*

*I-60. South Asian American female owner of a professional services firm*

*The City of Minneapolis has waived [insurance] requirements for us .... They have their generic insurance requirements that they want for people who are doing City contracts, and oftentimes those are well above what a small business can afford.*

*I-65. White female owner of a professional services firm*

## J. Qualitative Information — Working with participating entities

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**Lack of feedback on submitted bids.** Some participants noted a lack of feedback on submitted bids. [e.g., AS-1115, I-9, 21, 40, 41, 51, 57, 59, 60, 64, 65, 77, 103, 105, 110, 113, 130, 132, 133]

*[I receive feedback] maybe 20 percent of the time.*

*I-50. Black American male owner of a professional services firm*

*I reached out to [Ramsey County] to [get feedback] .... No response.*

*I-8. Person of color with a disability and owner of a professional services firm*

*There's the black hole .... You send bids, you put together the project and you never hear back.*

*I-25. White male owner of a construction-related firm*

*It would be nice to know why we're not getting these contracts .... 20 submissions into it, I still don't know what's wrong ....*

*I-26. Black American female owner of a professional services firm*

*There needs to be a bit more transparency when being considered for a bid but not chosen....*

*AS-80. Black American male owner of a professional services firm*

*The City of Minneapolis ... won't talk to me. I can submit proposals.... They won't follow up.*

*I-35. Hispanic American male owner of a professional services firm*

*I've applied to several different contracts and RFPs. And never have received a debrief from anyone.*

*AS-685. Asian-Pacific male owner of a professional services firm*

*We were after a project [with the] City of Minneapolis ....*

*We have not heard [back] yet. We're following up without getting the answer back.*

*I-54. Representative of a Black American male-owned construction-related firm*

*[Bid rejection] feels unfair at times .... I called the local office a few times, but never did receive a response....*

*I-43. Hispanic American female owner of a professional services firm*

*Unless I actively follow up on something that I've sent, nobody reaches out to you to tell you that you lost or why you lost. We have to reach out to get that information.*

*I-55. White male owner of a construction-related firm*

*I applied to several proposals .... I followed up and half the time nobody would respond back [to explain] why I didn't qualify, even though they are supposed to give you a response.*

*I-20. South Asian American female owner of a professional services firm*

*We requested [feedback] ... a couple of times from Minneapolis and have not heard back.*

*I-65. White female owner of a professional services firm*

## J. Qualitative Information — Working with participating entities

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### Slow Payment by Participating Entities

Some interviewees who had experience working with certain participating entities said that they faced slow payment.

*The amount of time that it takes to get paid .... I must pay for everything up front, so I'm always financing. I'm essentially financing government work ....*

*I-44. White female owner of a construction-related firm*

*Public entities do not pay on time. If you're not a small business that can sustain being without pay for six months, then don't do business with the state.*

*I-76. Black female owner of a construction-related firm*

*[We're having problems with] the University of Minnesota ... right now with them because ... there's seven steps to getting paid.*

*I-37. White male representative of a white male-owned construction-related firm*

*If the State can pay invoices faster ... it will tremendously help us with cashflow.*

*AS-715. American Indian male owner of a professional services firm*

*[MnDOT is] not going to pay you for three or four months ... [so] you need enough [capital] for three to four months ....*

*I-17. Black American female service-disabled veteran owner of a professional services firm*

*The University of Minnesota ... and the State of Minnesota are a large part of our business.... It was almost months before we were paid ...*

*I-19. Representative of an Asian-Pacific American woman-owned goods firm*

*[The City of Minneapolis pays us] quarterly. What small business company can afford to pay their employees their rent and wait for payment for 3 months?*

*I-42. Black American male owner of an other services firm*

## J. Qualitative Information — Working with participating entities

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### Favorable Comments about Procurement

Some of the interviewees commenting on the participating entities' procurement processes said that they are relatively open and transparent.]

*We are treated fairly .... I have never felt like we've been discriminated against .... If we can get [an] RFP to us and we respond I don't have any doubt that we're being treated equally at that point.*

*I-16. White female owner of a professional services firm*

*[The City of St. Paul has] a really nice online portal .... You can download the blueprints for free .... You go to the job walk-through, you can look at the project and put your price in, and the lowest number wins the job.*

*I-29. Hispanic American male owner of a construction-related firm*

*Minnesota Department of Administration has their procurement department. Those emails come out regularly. Those opportunities are in plain sight .... Since I am a DBE with MnDOT ... you're on their mailing list. Every time there's a project that comes out, you get a chance to look at it, see if you want to bid.*

*I-38. American Indian female owner of an other services firm*

*[Hennepin County contracts are] a very even playing field where everyone participating is in that small category [of businesses like ours].*

*I-68. White female owner of a construction-related firm*

*[To learn about work opportunities,] we go to ... this website to see what the State has up for bid.*

*I-69. Representative of a white woman-owned goods firm*

## J. Qualitative Information — Working with participating entities

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### State and Local Taxes

While not directly related to business opportunities with participating entities, some business owners took the opportunity to comment on business-related taxes in Minnesota. Many of the comments were made in the open-ended comment section of the availability survey.

Some respondents reported what they perceive to be high business taxes in Minnesota that create barriers to doing business in the state. [e.g., AS-16, 47, 73, 119, 128, 197, 208, 232, 244, 248, 249, 275, 277, 299, 301, 302, 311, 331, 1009, 1027, 1038, 1043, 1044, 1050, 1139, 1142, 1290, 1295, 1357, 1368, 1376, 1381-1384, 1388, 1392, 1396, 1402, 1404, 1409, 1410, 1414-1416, 1419, 1421, 1447, 1556, 1748, 1749, 1757, 1762, 1772, 1777, 1778, 1809, 1815, 1816, 1832, 1849, 1850, 1855, 1862, 1863, 1888, 1943, 1969, 1971, 1973, 1976, 1991, 1992, 2007, 2009, 2013, 2024, I-9]

Examples of comments are provided to the right.

*Taxes are too high.*

*AS-1404. White female owner of an other services firm.*

*The taxes. Just the corporate taxes in this state are insane.*

*AS-1416. Black American female owner of a goods firm*

*Income tax rates are too high, and we are considering [the possibility] that we might have to move out of the state.*

*AS-1942. White male owner of a goods firm*

*The taxes in Minnesota are so horrible.... [Minnesota has] the third highest corporate tax.... [Businesses] pay huge taxes to even have a business here.*

*I-91. White female owner of an other services firm*

## J. Qualitative Information — Whether there is a level playing field

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Business owners and representatives responded to questions about whether there was a level playing for small businesses and diverse businesses in the marketplace. They were asked to share any experiences with or knowledge of unfair treatment in the marketplace.

### General Comments

Some participants commented that there was a “level playing field” for minority- and woman-owned firms or other small businesses, sometimes because of the contract equity programs they operate. [e.g., I-36, 69, 104, 108, 112] For example:

*Some of these agencies [that I] work with right now, like Hennepin County [and] the State, ... create ... a level playing field.*

*I-6. Black American male owner of a construction-related firm*

*If you get certified, [the playing field] is ... more than level .... I feel like these programs really give us an advantage.*

*I-9. Representative of a white woman-owned goods firm*

*I haven't seen any type of unlevel situations or discrimination ....*

*I-13. Black American female owner of professional services firm*

*I believe it's a level playing field. MnDOT watches that stuff closely....*

*I-38. American Indian female owner of an other services firm*

Some other businesses discussed what they thought was an unlevel playing field. The next one-third of this appendix covers this topic in detail, including:

- General observations that the playing field is not level;
- Access to capital;
- Insurance and bonding requirements;
- Issues with prompt payment;
- Unfair treatment in bidding;
- Stereotyping and double standards specific to diverse business owners;
- “Good ol’ boy” network and other closed networks; and
- Contractor-subcontractor relationships.

These pages are followed by qualitative input regarding business assistance programs and certification and other recommendations for the participating entities.



## J. Qualitative Information — Whether there is a level playing field

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### Observations that the Playing Field is Not Level

Some interviewees made general comments indicating that the playing field is not level. [e.g., I-15, 21, 98, 99, 103, 111, 113, 118, 123-126, 129-132, 137,139] Some of these comments echoed those made when asked about bidding on public sector work. Examples are provided to the right.

*I think [the playing field is] still tilted towards those larger businesses that have done a lot of work with [government agencies, but] it's getting better.*

*I-30. Service-disabled veteran owner of a goods firm*

*[Whether there is a level playing field for diverse businesses] probably really depends on how you look at the field .... Having someone to help your perspective ... [and] to ... be a guide of what is available and the resources that are out there [would be critical].*

*I-53. Black American female owner of an other services firm*

*[Government agencies often have] an overly stringent proposal process that gives advantage to the larger, more established firms that are already winning.*

*I-44. White female owner of a construction-related firm*

*If the big boys can be partners and not predators, not acquiring us, I think it'll be a more level playing field.*

*I-45. South Asian American female owner of a goods firm*

## J. Qualitative Information — Whether there is a level playing field

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### Access to Capital

Some business owners and representatives described barriers to access to capital that are specific to people of color and women. [e.g., AS-6, 8, 9, 12, 14, 17, 22, 23, 32, 34, 37, 43, 45, 50, 61, 69, 99, 101, 187, 188, 191, 220, 260, 261, 395, 529, 593, 595, 600, 601, 604, 605, 606, 608, 609, 616, 620, 626, 636, 642, 656, 669, 677, 696, 709, 715, 724, 751, 1086, 1087, 1397, 1417, 1495, 1690, 1693, 1752, 1754, 1785, 1796, 1803, 1812, 1819, 1865, 1892, 1900, 1913, 1917, 1929, 1978, 1968, 2017]

**General challenges.** Some comments indicate general challenges accessing capital. The comments to the right provide examples.

*As a startup minority owned small business, I've found it difficult to gain information/secure appropriate financing opportunities.*

*AS-12. Black American male owner of an other services firm*

*I find some troubles in securing financing for expansion.*

*AS-1467. Black American male owner of an other services firm*

*... trying to get funding has been very frustrating to where I must just give up. I have tried so much with getting government organizations especially the ones in St. Paul to access loans and benefits. I have spent so much money trying to get some of those benefits .... I just want to give up on government projects.*

*AS-2017. Black American male owner of a construction-related firm*

*Most of the time [my challenges have] been more about when you want to expand and figure out where to get the financing .... The process has not been the best.*

*I-58. Black American male owner of a construction-related firm*

## J. Qualitative Information — Whether there is a level playing field

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**Particular issues for people of color and women.** Some of the comments indicated that there was not a level playing field for people of color and women regarding access to capital.

*The majority of capital is still controlled by older white guys, and they all have their biases.*

*I-21. White female with a disability and owner of a professional services firm*

*A Black woman, one of my members, went into the bank and asked for a business line of credit. She had put millions of dollars through this bank. That was her bank .... The white old man banker said, ‘we don’t have that product here. You’re going to have to go somewhere else.’ Of course they had that. They didn’t even take an application, so they didn’t have to report on it.*

*TO-16. White female representative of a business assistance organization*

*... it takes longer for our native businesses to really get up [and] running like a regular white-owned business. It doesn’t happen as quickly because we don’t have the same kinds of assets, and especially if you’re a tribal member living on your traditional territories. Your home ownership has no value to a bank, because they can’t repossess your home.*

*TO-18. Indian American female representative of a business assistance organization*

*... the way the market is structured and the way Black businesses struggle ..., there [is] something [going on].*

*I-133. Black American male owner of a professional services firm*

*When you’re able to sit down in front of your bank .... A lot of times for us minorities, even though we may have our business attire on, and our hands are clean, we get looked at [differently].*

*I-29. Hispanic American male owner of a construction-related firm*

Comments specific to discrimination against women when attempting to access capital include those below.

*I’ve encountered a couple of fellow female [business] owners ... One was [asked] directly, ‘Can your husband co-sign for this loan?’*

*I-21. White female owner with a disability of a professional services firm*

*There’s still reports of having to have a spouse co-sign on business documents where the [male] spouse doesn’t have any ownership [for] a woman business owner.*

*I-59. White female owner of a professional services firm*

*A woman-owned company [that I know] ... does have problems trying to get access to capital and getting workers because she’s a woman.*

*I-24. Black American male owner of a construction-related firm*

## J. Qualitative Information — Whether there is a level playing field

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### Insurance and Bonding

Some minority and women business owners and representatives reported difficulty securing bonding and/or meeting insurance requirements. [e.g., I-1, 4, 9, 27a, 73, 79, 103, 106, 110, 111, 113, 123-125, 128, 130, 133, 139]

**Difficulty meeting insurance requirements.** Business owners and representatives commented on the challenges they faced meeting insurance requirements. Some indicated that this was a particular challenge for small businesses and minority-owned firms.

*The insurance requirements have been the biggest barrier. This keeps business owners of color out of the game and away from the table.*

*AS-16. Black American female owner of a professional services firm*

*The biggest challenge was trying to get insurance because companies didn't want to insure me. I don't know what the reason was, but I had a hard time.*

*I-15. Hispanic American male owner of a construction-related firm*

*If you're a small business and you don't have projects that ... you can actively invoice monthly, you will consume all of your operating cash flow just in insurance.*

*I-71. Black American male service-disabled veteran owner of a construction-related firm*

## J. Qualitative Information — Whether there is a level playing field

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**Comments about bonding.** Many interviewees discussed challenges they have faced securing bonding. Some business owners indicated that this was a particular issue for business owners of color.

*It's not a level playing field because none of these small businesses can even get the bond needed ....*

*I-30. Service-disabled veteran owner of a goods firm*

*You're not going to stay in business just doing small jobs. Bonding is crucial.*

*I-29. Hispanic American male owner of a construction-related firm*

*I haven't been able to get bonding. I'm not a very big company myself. That's part of the reason I'm expanding in someplace other than [my current line of work].*

*I-38. American Indian female owner of an other services firm*

*It is hard to compete or bid on any projects when [entities] require us to provide a bid bond and payment bond ... it is difficult to fulfill one of those requirements much less requesting both on the same bid package ....*

*AS-604. Black American female owner of a professional services firm*

*I have friends who ... were trying to go for a construction contract, and they couldn't get bonding .... He is a person of color. His wife is a person of color.*

*I-57. Asian-Pacific male owner of a goods firm*

*We used to get bigger jobs and since we can't get the bonding, we keep trying for smaller projects .... The only thing that's stopping us is really bonding.*

*I-67. American Indian female owner of a construction-related firm*

*As a new minority contractor, [the bonding rate] kills you.*

*I-27B. Black American owner of a construction-related firm*

*Bonding is a problem for minority contractors, because bonding requires you to meet certain thresholds. There's lack of opportunity if denied the ability to meet certain thresholds, to get bonding .... [The bonding requirements] systematically [deny] us fair access into the broader construction trades opportunities.*

*I-5. Black American male owner of a construction-related firm*

*There's always issues with bonding. Diverse populations don't have the same access ....*

*TO-5b. Black American female representative of a trade association*

## J. Qualitative Information — Whether there is a level playing field

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### Issues With Prompt Payment

Slow payment can be especially damaging for groups of firms that do not have the same access to capital as other companies. Business owners and representatives reported experiencing issues with prompt payment. [e.g., AS-1, 11, 50, 64, 106, 186, 188, 292, 362, 385, 389, 390, 411, 549, 633, 687, 715, 738, 759, 770, 797, 837, 893, 924, 1018, 1031, 1124, 1130, 1271-1273, 1311, 1368, 1369, 1371, 1469, 1497, 1577, 1583, 1587, 1627, 1664, 1765, 1768, 1873, 1876, I-7, 10, 36, 65, 73, 106, 113, 123, 125, 128, 131, 2017-5]

**Slow payment by public entities.** Business owners and representatives reported that slow payment from public entities is a major challenge to the success of their firms. Examples of comments are shown on the right.

As noted previously, some interviewees indicated that minority-owned companies do not have the same access to capital to be able to withstand slow payment as do other firms.

*By the time we receive payment for the first 30 days of work ..., we're carrying the cost for maybe 120 days until we get reimbursed.*

*I-73. White female LGBTQ+ owner of a construction-related firm*

*Not everybody can wait 90 days to be able to get paid ... prompt payment could make all the difference.*

*I-7. Minority LGBTQ+ male owner of a professional services firm*

*Doing work and not being paid for 3 months on jobs ... presents a great challenge to hire and maintain staff.*

*AS-1080. Black American female owner of an other services firm*

*The payment schedule is so slow that we've had to go into our own pockets to cover the costs.*

*AS-1587. Black American male owner of a professional services firm*

*When payment isn't prompt. they're being asked to finance the operations of the [entity].*

*TO-4. White female representative of a trade association*

## J. Qualitative Information — Whether there is a level playing field

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**Slow payment by prime contractors.** Slow payment by prime contractors has been a major challenge for some firms that perform work as subcontractors.

*The contractors want to use you to help them get a government job, to show participation. But they ... pay slowly [and] know how to manipulate and use your company. They end up putting a lot of the minority businesses out of business and then they don't have to pay them.*

*I-29. Hispanic American male owner of a construction-related firm*

*Cash flow is always an issue with the smaller companies .... If payments are delayed, that's an issue for smaller businesses.*

*I-30. Service-disabled veteran owner of a goods firm*

*No small company should ever finance a bigger company.*

*I-2. White female owner of a construction-related firm*

*If I were not aggressive about [collecting on our accounts receivable], I would have a cash flow problem.*

*I-65. White female owner of a professional services firm*

*It is difficult to get paid in a timely manner, the hoops are not friendly.*

*AS-1627. White male owner of a professional services firm*

## J. Qualitative Information — Whether there is a level playing field

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### Unfair Treatment in Bidding

Business owners and representatives commented on unfair treatment when bidding on projects with participating entities.

**Denial of opportunity to bid and unfair rejection of a bid.** Some business owners described situations where they were denied the opportunity to bid on a contract.

*I've never received a proposal or grant that I've applied for through Ramsey County. There's [an employee] who basically blocked my proposal.*

*I-8. Minority female owner with a disability of a professional services firm*

*... if they don't let us bid on [a] job, we cannot be rejected.*

*I-15. Hispanic American male owner of a construction-related firm*

*[Minorities experience] denial of opportunity .... If a white contractor can get away from ... using us, they will [not use us].*

*I-5. Black American male owner of a construction-related firm*

*It seems like these RFPs come out, and they are intended for one audience. That's the audience that's already been pre-chosen to win the RFP.*

*I-22. American Indian male rep. of an American Indian-owned professional services firm*

*A lot of times that if I'm doing a proposal, I will sign it [with my male business partner's name], because as [a female], they ignore me.*

*I-10. American Indian female owner of an other services firm*

*... we were approved, with Hennepin County for probably 10 years.... We could never get our foot in the door ....*

*I-16. White female owner of a professional services firm*

*Sometimes the bids are sent to very specific people, and [if] you're not one of them, you don't have a say in that matter.*

*I-14. White male owner of a goods firm*



## J. Qualitative Information — Whether there is a level playing field

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**Bid shopping and bid manipulation.** Some business owners and representatives reported that bid shopping, bid manipulation and similar unfair conduct exist in the marketplace. [e.g., I-1, 2, 9, 12, 43, 44, 52, 56, 77, 79, 113, 128, 131, 134].

Examples of comments are provided to the right and on the following page.

*I would bid work to the ... three main contractors that [perform the] majority of the work at Metropolitan Airport Commission, and they would take my number, and they would just shop it.*

*I-29. Hispanic American male owner of a construction-related firm*

*Many times ... a request is sent to us [last minute]. Hardly enough time to submit a proper response. It leaves me with the impression that whoever is sending it won't consider my response and seems to only want minority-owned business participation in the bidding process.*

*AS-177. American Indian male owner of a professional services firm*

*I know a company that ... calls the prime contractors and asks which is [their] lowest bid ... and will say, 'Take \$10,000 out and I will do it for that price.'*

*I-15. Hispanic American male owner of a construction-related firm*

*We didn't know that there weren't any other competitors at the time, but it seemed like the primes were kind of bid shopping against us....*

*I-19. Representative of an Asian-Pacific American woman-owned goods firm*

*I've had [primes ask] me to bid, and I believe they had no intention of giving me an opportunity to be awarded the work.*

*I-92. White male owner of a professional services firm*

*I think [bid shopping is] a standard operating procedure within the industry.*

*I-30. Service-disabled veteran owner of a goods firm*

## J. Qualitative Information — Whether there is a level playing field

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*Bid shopping is one of the ugliest things going on .... In fact, I even witnessed unscrupulous people hiding bids or not admitting bids that even come in.*

*I-44. White female owner of a construction-related firm*

*[Primes] get a quote from a Native business to be a partner .... Once they get the contract, they hire their buddies ....*

*TO-18. American Indian female representative of a business assistance organization*

*The larger contractors ... already have deals in place ... and just use us smaller business as another number for their bids, knowing they won't use us either way. This hurts us because we find yourself working hard on entering these bids only to find out we never even had a chance.*

*AS-170. American Indian male owner of a construction-related firm*

*We have bad faith efforts with bidding processes sometimes. We will get bids 24 hours before the bid is placed so it is difficult on some days.*

*AS-1934. Representative of a white woman-owned construction-related firm*

*There are certain contractors that have people that they work with on a regular basis. Most of the time they're only taking up my time on bids to just to keep that person in line on pricing ... but they have no real intention to ever give me the business.*

*I-55. White male owner of a construction-related firm*

*We were approached once by a larger firm that needed to have a minority quota ..., and that just seemed wrong ... because they're just using me as a puppet.*

*I-57. Asian-Pacific male owner of a goods firm*

*... everything that I've bid on [with the City of Minneapolis has] never gone anywhere. Even though I was awarded a project....*

*I-60. South Asian American female owner of a professional services firm*

## J. Qualitative Information — Whether there is a level playing field

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### Stereotyping and Double Standards Specific to Diverse Business Owners

Some participants discussed whether there are stereotypes or double standards that impact a firm's ability to perform or secure work and noted clear instances of discriminatory and biased behavior. The comments below are in addition to what was discussed (see Access to Capital, for example).

**Gender-based stereotyping and discrimination.** Some business owners and representatives reported negative stereotyping of women as “less fit” than men, as well as gender-based intimidation or harassment. [e.g., I-4, 10, 21, 44, 51, 65, 68, 70, 74, 87, 107, 126, 130, 135, 139]

*There were a number of times where we were selected for projects ... when they found out we were woman-owned they deleted the contract.*

I-16. White female owner of a professional services firm

*I am a female owner. I show up to a meeting or a site visit and I'm surrounded by males. It's a male dominant industry.... I get looked at like, 'What are you doing here?'*

I-41. Hispanic American female owner of a construction-related firm

*There are a lot of men that are disrespectful to [the business owner] when [she] knows 10 times more than I do about [our business].*

I-9. Representative of a white woman-owned goods firm

*[If] it's a woman-owned business, it's a passion project .... That's a stereotype. They don't think I can run it like a business. It's just me having fun.*

I-45. South Asian American female owner of a goods firm

*There's still a lack of understanding that a woman could own this type of business.*

I-77. White female owner of a construction-related firm

*Women are treated differently in the business world .... [I'm told] ... that's men's work. It's tough work.*

I-43. Hispanic American female owner of a professional services firm

*I have an [employee] that's been with me for 10 years and ... every once in a while, a customer ... will come in and go straight to him and assume he's the owner. He's not.*

I-122. White female owner of a goods firm

*[This industry] is mostly men, because there's a lot of heavy work involved. A lot of times, even now people will come in and they're looking for the guy.*

I-18. White female owner of a goods firm

*[When I get to a] job site, [the attitude is], 'What is she doing here?'*

I-81. Black American female owner of a goods firm

*My friends and colleagues are women business owners mostly. I'm very aware of discrimination and harassment ... in the marketplace.*

I-59. White female owner of a professional services firm

*I've seen women be disrespected on site .... I've seen that I've seen the whistling type of stuff. I think it's disrespectful. I think it's wrong.*

I-79. Black American male owner of a construction-related firm

## J. Qualitative Information — Whether there is a level playing field

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**Racism and race-based stereotyping.** Some business owners of color and others described incidents of stereotyping people of color as less capable as well as other forms of racial discrimination. [e.g., [e.g., AS-4, 5, 7, 28, 74, 77, 109, 118, 127, 129, 133, 140, 146, 152, 154, 169, 281, 308, 352, 403, 412, 413, 419, 420, 428, 538, 543, 591, 602, 613, 622, 628, 637, 679, 707, 727, 750, 1078, 1350, 1353, 1651, 1795, 1836, 1856, 1875, 1889, 2021, I-10, 43, 72, 75, 107, 126, 130, TO-5b]

*There are groups of business owners that face disadvantages. If you're not a man or white, you're going to be disadvantaged. If you're a person of color or you're female, there are inherent systemic barriers.*

PF-1. Public forum participant

*There are some clients that won't take me because I'm Black. ... Because I'm a Black woman, there's speculation or assumptions that I'm not good enough to execute the project.*

I-31. Black American female owner of an other services firm

*Because ... I'm Mexican, ... [people think] I can only do labor work. They don't know that I have a college degree ... [or that] I'm licensed.*

I-15. Hispanic American male owner of a construction-related firm

*[The unfair treatment I face] is not fully racial. It's also age and experience. I'm relatively young for my role.*

I-35. Hispanic American male owner of a professional services firm

*We are women of color, and it is sad that ... you're not able to take off and get hired simply because of [your race and gender].*

I-3. Asian-Pacific American female owner of a professional services firm

*Most of the difficulty comes from mainstream public not willing to accept a Black face [in my industry].*

AS-1072. Representative of a Black American-owned professional services firm

*They profile you because you are Latino, and they might think you might not do a good job....*

I-43. Hispanic American female owner of a professional services firm

*[There is] a general sense that it is not easy to do business with Latino entrepreneurs....*

I-34. Hispanic American female owner of a professional services firm

*Because of racism in this country, people of color ... were intentionally kept out.... Now the industry wants to be inclusive ... because white males don't necessarily want to be in construction and now [the industry has] opened up.*

I-56. Black American female owner of a construction-related firm

*We're finding out that more people in America are racists, bigots and misogynists than I feel proud to say, it is reality and is rampant in our industry because there's a lower ... level of education generally with the population that [are in our line of work].*

I-55. White male owner of a construction-related firm

*[Large] manufacturers do a lot of discrimination. I had one company that said, 'You better shut your business down. We're going to drive you out of business in six months.'*

I-63. South Asian American male owner of a goods firm

*One of my guys was [wrongfully] accused of trying to steal ....*

I-5. Black American male owner of a construction-related firm

## J. Qualitative Information — Whether there is a level playing field

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*[Racism is] alive and well here in the state ....*

*I-90. Black American male owner of an other services firm*

*Nowadays, everybody has grouped [Black people] in with the people of color, but I don't see it like that because all people of color are not affected in the way that Black people are affected.*

*I-72. Black American male veteran owner of a construction-related firm*

*The [businesses] that I do work with are all minority-owned and they experience a lot of prejudice. They are definitely a lot more scrutinized than what I have observed with other [businesses] that are not minority-owned.*

*I-61. American Indian female owner of a professional services firm*

*It's frustrating, after being in business for ten years, that the only way that I can get any idea how to engage in this type of business is by asking a white [man] for help. It reinforces the patriarchal feel for me.*

*PF-6. Public forum participant*

*When ... you're a young, Black man asking old white dudes to trust you ... you must demonstrate to them that you know more than them .... Then you can defeat any implicit bias that they may have.*

*I27A. Black American male owner of a construction-related firm*

*On the job site ... some of the workers ... I've heard them call someone [else] brown girl. They didn't know her name.*

*I-17. Black American female service-disabled veteran owner of a professional services firm*

*The white man continues to hoard all the opportunities, followed by white women, and then the minorities are left to fight over the crumbs.*

*I-5. Black American male owner of a construction-related firm*

*[Diverse businesses] face a unique challenge in that the systems can sometimes not be set up to support us or to make sure that we have everything that we need in place.*

*I-40. Black American female owner of a professional services firm*

*There is a lack of representation for specifically Black or African American people within the Rochester community .... We are not taken seriously .... We face operating problems, because ... people don't want to rent their facility spaces to us .... We don't receive as much support as other larger entities.*

*PF-9. Public forum participant*

*I grew up in a ... predominantly white city. Being one of very few [Black men] in the city made it tough to gain the trust of people in the area.*

*I-47. Black American male owner of a construction-related firm*

*No, there is not [a level playing field]. [If a business owner has] things like a language barrier, ... they wouldn't know how to even begin to do paperwork.*

*1-43. Hispanic American female owner of a professional services firm*

## J. Qualitative Information — Whether there is a level playing field

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**Other diverse groups.** Study participants commented on other groups, such as LGBTQ+ business owners, veterans, and others, that face discrimination. [e.g., I-99, 102, 103, 114, 121, 132]

*I have experience from friends or people that I know [who identify as] LGBTQ. [They] have difficulty in getting most of the jobs they need, or because they are judged badly. I hear some nasty comments from people and partners and colleagues in the business or the industry.*

I-42. Black American male owner of an other services firm

*[I have an] African American man driving for me and he's gay. He gets talked down to all the time. [Other] drivers ... don't want somebody of that particular demeanor on that job.*

I-90. Black American male owner of an other services firm

*LGBTQ+ businesses face definite disadvantages in Minnesota .... We're not recognized specifically as a disadvantaged business [therefore] some of the programs can't be accessed.*

PF-11. Public forum participant

*[Immigrants might not] speak the language, [or] maybe they don't use the tech. Hiring more inclusive staff ..., as in contract officers, will help those businesses get ... the type of contract that they're pursuing.*

I-73. Black American male owner of a construction-related firm

*The lack of advancement for [diverse firms] ... in the field ... requires more research .... [As] a company with potential ... I've had so many issues.*

I-17. Minority service-disabled veteran owner of a professional services firm

*It takes time to build trust. As a veteran business, if I can show them that I can do the work and am qualified to do the work, they won't have to get three bids.*

I-104. White male owner of an SDVOSB certified

*Minnesota targeted groups based upon race are offered free grants while veteran owned businesses are offered loans. This is unfair.*

AS-2074. White male veteran owner of a construction-related firm

## J. Qualitative Information — Whether there is a level playing field

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**Other comments.** Some non-minority business owners and representatives reported that they also face discrimination based on their race and gender.

*As a white male, I feel like a minority [and] discriminated against.*

*AS-2053. Representative of a white woman-owned professional services firm*

*I'm not a person of color, there are opportunities available for that.  
I'm not a woman and there's opportunities for that. Because I'm not  
[a minority], there's no programs or help or anything like that  
available.*

*I-93. White male owner of an other services firm*

*We actually feel like we're in an inferior position compared to a  
woman-owned or any of the [disadvantaged business enterprises].  
We feel we're far inferior in terms of opportunities that we get as a  
small business.*

*I-14. White male owner of a goods firm*

## J. Qualitative Information — Whether there is a level playing field

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### “Good ol’ boy” and Other Closed Networks

There were a number of representatives reporting that the “good ol’ boy” network or other closed networks persist in the marketplace. [e.g., AS-147, 358, 540, 613, 634, 679, 681, 734, 750, 802, 1010, 1852, I-2, 17, 19-21, 27a, 42, 45, 51, 57, 65, 73, 76, 79, 102, 103, 106, 116, 118, 123, 124, 128, 133-136, 138-140]

**Evidence of closed networks in the marketplace.** Examples of comments regarding evidence of closed networks are provided below.

*In the Minneapolis/St. Paul marketplace, [closed networks are] actually quite prevalent ....*

*I-88. White male owner of a professional services firm*

*All white male companies are still dominating the marketplace.*

*I-54. Representative of a Black American male-owned construction-related firm*

*When I look at this industry, I must call out the fact that it is a very white male-dominated industry. It’s hard to get into that and be successful.*

*I-126. Black American female owner of a construction-related firm*

*I think [closed networks are] the number one contributor to lost opportunities for diverse companies.*

*I-76. Black American female owner of a construction-related firm*

*A lot of times, especially [in] the construction field ..., it’s a ‘good ol’ boys’ club. You have certain people who do construction, they’ve been doing it forever and they only work with each other.*

*I-72. Black American male veteran owner of a construction-related firm*

*I still feel like it’s an old boys club out there .... You move on to the clients that are there, and you do a great job, and you constantly thank them because it’s such a miracle [to get work] .... You want to reward them by being a great service.*

*I-16. White female owner of a professional services firm*

*I have been working to break the ‘good ol’ boy’ barrier ..., and I’m starting to get really exhausted .... I have gotten to the table now, but I haven’t been able to win anything.*

*I-44. White female owner of a construction-related firm*

*Some of the biggest counties in the metro [area] seem to be those closed networks.*

*I-35. Hispanic American male owner of a professional services firm*

*[Most of the participating entities] don’t make any effort to try to reach a broader market .... That’s where the ‘good ol’ boys’ network ... comes from.*

*I-6. Black American male owner of a construction-related firm*

*The Metropolitan Council realized that there was no real diversity in firms and practitioners in [my field]. It’s a space that tends to [to have] ... certain firms that do it, and they’re all white run ....*

*I-7. Minority LGBTQ+ male owner of a professional services firm*

*[There is] definitely a network .... Rural ..., white males.*

*I-43. Hispanic American female owner of a professional services firm*

*I’m trying everything I can to ... break through these glass ceilings, but ... there’s still that presence [of the ‘good ol’ boy’ network].*

*I-74. White female LGBTQ+ owner of a construction-related firm*



## J. Qualitative Information — Whether there is a level playing field

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**Comments stating that closed networks have not been harmful.** Some interviewees noted that closed networks did not negatively affect them. [e.g., I-11, 41, 67, 75, 135].

*I'm sure there is some 'good ol' boy' stuff, but it's more that they've already been working with you.*

*I-36. White male representative of a majority-owned goods firm*

*The men ... are getting into a lot of places and I'm not bitter at all .... I know my product is good. Put me next to anyone, and I'm still going to make money.*

*I-10. American Indian female owner of an other services firm*

*I feel like [the 'good ol' boy' network has] actually made it better for us. We have not been negatively impacted by it.*

*I-80. White female veteran representative of a majority-owned construction-related firm*

## J. Qualitative Information — Whether there is a level playing field

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### Difficulties with Contractor-Subcontractor Relationships

Business owners and representatives were asked to comment on their experiences with prime contractor-subcontractor relationships.

**Barriers to subcontracting and building relationships.** Some interviewees reported that certain contractors are reluctant to work with newer or smaller businesses. Several subs indicated challenges when working with prime contractors.

*[Closed networks are] something that [prime contractors] don't even realize they do .... They say that's a relationship they built, and it's reliable work that they can depend on. A lot of times the competition is a monopoly.*

*I-76. Black American female owner of a construction-related firm*

*When I started [this] business, I wanted to do some subcontracting work specializing in [my trade] .... Most of the bigger contractors have a preference of the companies that they want to use for such projects, so it was very hard to get something meaningful.*

*I-6. Black American male owner of a construction-related firm*

*Since I started doing my job, I have never got[ten] anybody who [is] interested to make me their sub .... I have been struggling with that .... [Prime contractors are] already enclose[d] [in] their groups .... It takes a lot of energy [to break into new networks].*

*I-58. Black American male owner of a construction-related firm*

*[I have] a list of contractors in my desk that I don't bid [because] they put so many minority businesses out of business.*

*I-29. Hispanic American male owner of a construction-related firm*

*I did contact the big ... principal primary suppliers and I told them I can work with you as a subcontractor. They do not care ..., because they see me as more work rather than as providing more diversity and better selection. For them, it's easier to go to [a larger company].*

*I-45. South Asian American female owner of a goods firm*

*There are larger GCs in the state that we don't prefer to work with because we know that they're very political in the way that they move. If it doesn't serve them politically to work with small businesses and minorities, they don't.*

*I-56. Black American female owner of a construction-related firm*

*[We have] difficulties getting contracts with prime contractors ....*

*AS-1893. Representative of a Black American male-owned goods firm*

*A lot of [prime] contractors think subcontractors are their employees. And that's not legal, that's not how that works.*

*I-21. White female owner with a disability of a professional services firm*

*Construction is a relationship business .... There's a lot of minority contractors that don't have the relationships .... It hurts their companies.*

*I-27b. Black American male owner of a construction-related firm*

*Minority business owners don't find out about jobs and bids because nobody [follows] through with what they say they're going to do.*

*PC-2. Male participant with public comment sent through email*

## J. Qualitative Information — Business assistance programs and certifications

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### Awareness of Available Assistance

The study team asked firm owners and other representatives about their awareness of business assistance.

**Positive experiences with business assistance programs.** A number of business owners and representatives were aware of business assistance programs. For some, such programs were useful and provided value to their firm. [e.g., AS-547, I-6, 9, 20, 21, 30, 46, 102-104, 125, 128, 136, 138, I2107-1, I2017-5]

*I joined the Builders Exchange in Minnesota. I'm a member of AGC, Association of General Contractors ... I meet a lot of people there. I go to events where the city and state government must meet their buyers and vendors.*

*I-19. Hispanic American male owner of a construction-related firm*

*I just signed up for a lot of newsletters. Also, APEX is helping me move more into government contracting, but it's been hard.*

*I-8. Black American LGBTQ+ female owner with a disability of a professional services firm*

*[Certain business assistance organizations] ... give us money including the city gap funding that we use to do [construction projects]. We get a loan from them and then at the same time we ... use the subsidy from the city.*

*I-24. Black American male owner of a construction-related firm*

*... in September of [2021], that's when I actually found out about the certifications, found out about [the] APEX accelerator and that changed the trajectory of the business.*

*I-30. Service-disabled veteran owner of a goods firm*

*I've been a part of continuing education programs through ... MnDOT, ... [the] Association of Women Contractors ... [and the Women Venture] Scale Up program that was instrumental in helping me understand my finances and [operate effectively] ... to grow [my business].*

*I-2. White female owner of a construction-related firm*

*I came to realize [there were a] couple [of] organizations which help minority business. They helped me .... Back [before I found out about them] it was hard. For almost six years, I didn't know where to go to get some funding so that [I could] buy certain equipment.*

*I-58. Black American male owner of a construction-related firm*

*More programs [for] targeted markets really help MBEs or WBEs succeed.*

*AS-1439. Representative of an Asian-Pacific American male-owned construction-related firm*

*Whenever I have a question, I call [the SCORE office], attend their seminars, or [make] an appointment .... Minnesota Seeking IT Expertise (MNSITE) [is very helpful] ... and MN Transparency.*

*I-11. South Asian male representative of South Asian American woman-owned professional services firm*

*I had a lot of help from the Small Business Development Center [SBDC] .... You just sign up, everything's free. They give you an agent, you work with the agent .... Northeast Entrepreneur Fund ... also has a lot of business and minority women's business, minority business, and emerging business help.*

*I-38. American Indian female owner of an other services firm*

## J. Qualitative Information — Business assistance programs and certifications

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*We participated in a Metropolitan Council training that has to do with bidding .... That was helpful.*

*I-54. Representative of a Black American male-owned construction-related firm*

*I was well into year three or four when I found Metropolitan Economic Development Association (MEDA). They offered free consulting resources. It was great to connect with them.*

*I-60. South Asian American female owner of a professional services firm*

*We learned about being a minority and so we joined [the] Minnesota Supplier Development Council ... and we also participated in MEDA [Metropolitan Economic Development Association].*

*I-63. South Asian American male owner of a goods firm*

*I see a lot of communications with resources and procurement events and education events. I see [the participating entities] offering a lot of really good resources.*

*I-59. White female owner of a professional services firm*

*I know the Small Business [Administration], have different classes .... I've never attended ... any [but that's] definitely something that ... I've wanted to do.*

*I-62. White male owner of a construction-related firm*

*A lot of the entities ... have really been very intentional in creating pathways of success for minority companies .... Hennepin County [and] Ramsey County .... All of them have things that they're willing to do to help minority companies get trained, capital, free legal advice, pre-estimating advice [and] training.*

*I-5. Black American male owner of a construction-related firm*

*We got a grant from MnDOT to help businesses pay for accounting support to audit your financial statements .... It was a \$5,000 grant, and we were able to work with a specialized accountant to give us some advice on how to organize our financial statements to be a better fit with the government programs .... Now we have the right nomenclature.*

*I-65. White female owner of a professional services firm*

*The Department of State entities [have] been very helpful. They have a lot of links ... [and] classes .... I've attended some of their workshops, and they're very helpful. They have speakers that explain certain processes well. They helped us learn how to submit paperwork for the State when we're on prevailing work jobs, end of week reports, end of month reports, payroll [and] certified payroll reports .... I don't think the state is lacking in [education resources].*

*I-90. Black American male owner of an other services firm*

## J. Qualitative Information — Business assistance programs and certifications

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**Unaware of or had negative experiences with business assistance programs.** Some interviewees were not aware of programs, had negative comments about available business assistance programs or had suggestions for improvements. For example:

*It's been difficult to learn about [business assistance programs]. Entities should do more to advertise those opportunities for learning.*

*I-64. White male representative of a woman-owned professional services firm*

*I'm not aware of [any bidding assistance for the participating entities]. I'm not going to say it doesn't exist. I'm just not aware of it if it does.*

*I-71. Black American service-disabled veteran owner of a construction-related firm*

*I know the state of Minnesota has a few programs, but when I go and talk to them ... they just do it to say they're doing something to help [small minority-owned businesses] but they don't do anything because they already [have] a contract ... they don't help anyone.*

*I-15. Hispanic American male owner of a construction-related firm*

*I [have looked for business assistance programs], but I have only seen private instructors or private offerings for training. Those are usually quite expensive, so I haven't done any.*

*I-13. Black American female owner of a professional services firm*

*There are some in-person [business assistance training sessions], which are usually hard [to attend].... It's [a] three-hour drive for training sessions.*

*I-67. American Indian female owner of a construction-related firm*

*Open more lines of credit to small, minority- and female-owned businesses.*

*AS-2103. Black American female owner of an other services firm*

*With programs like SURGE (Start Up and Rapid Growth Enterprises) and APEX, it would be nice if they put the two different programs in line with each other.*

*AS-1843. Representative of a white woman-owned construction-related firm*

## J. Qualitative Information — Business assistance programs and certifications

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### Certification

Business owners and representatives commented on the certification process.

**Positive experiences with certification.** Some interviewees reported on the ease and positive outcomes of initially obtaining certification, re-certifying or benefits from certification. [e.g., AS-2057, I-6, 9, 54, 69, 79, 104, 118, 128] Examples of comments are shown on the right.

*[The certification process] was a very easy thing .... The one that is a real tough one is woman-owned.*

*I-63. South Asian American male owner of a goods firm*

*I had a lot of help with the certification process through the folks over at MET Council.*

*I-22. American Indian male rep. of an American Indian-owned professional services firm*

*[The certification process in Minnesota] was actually very easy ... I did not have to provide years of tax returns ... because I was [already] a DBE.*

*I-41. Hispanic American female owner of a construction-related firm*

*We're registered with the state of Minnesota as a targeted group business .... We are being pushed opportunities based on our NAICS code and our SIC codes.*

*I-30. Service-disabled veteran owner of a goods firm*

*Because we're a targeted group business [TGB], it's opened up a lot of doors .... We wouldn't have a lot of business that we have without being part of the targeted group.*

*I-48. White male representative of an American Indian woman-owned other services firm*

## J. Qualitative Information — Business assistance programs and certifications

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**Negative experiences with certification.** Some participants described negative experiences or outcomes regarding certification. [e.g., AS-129, 265, 1084, 2008, I-2, 14, 15, 19, 39, 49, 64, 67, 87, 90, 98, 106, 111, 115, 121, 132, 136]

Some of the comments related to the effort it takes to be certified. For example:

*... there's a lot ... of things involved. ... It is time consuming ... it would take you hours to get it done.*

*I-24. Black American male owner of a construction-related firm*

*It was a lot of work .... it was a heavy lift .... I have to do some work on an annual basis. It seems like a bit much.*

*I-35. Hispanic American male owner of a professional services firm*

*I've been trying to get my business registered through the state for that CERT program. I've emailed them and I just haven't heard back .... Make the process a little bit easier.*

*AS-1489. Black American male owner of a construction-related firm*

*[Getting certified] was somewhat difficult .... We actually had to get an attorney involved to get it pushed through.*

*I-48. Representative of an American Indian woman-owned other services firm*

*I went to some [of the business certification] seminars up in Brooklyn Park and I just remember thinking this is a lot of paperwork.*

*I-87. White female owner of a professional services firm*

*Many of the small businesses don't even try to either get the [CERT] certification or get the project because they are intimidated by the process and the amount of paperwork that is required.*

*I-34. Hispanic American female owner of a professional services firm*

*You have to fill out reams of paperwork [for the DBE certification], from your taxes to your personal net worth .... When I started all this, I didn't really have computer skills, it was all new to me. I submitted my application to become a DBE three times ....*

*I-38. American Indian female owner of an other services firm*

## J. Qualitative Information — Business assistance programs and certifications

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Some interviewees expressed frustration about certification with specific entities. Examples of comments are provided to the right.

*... I cannot get my [firm] certified as a minority .... These people ... especially the CERT in St. Paul, they used to be good before .... they would answer. Now ... nobody picks up the phone. .... It's the same thing with the DOT ....*

*I-42. Black American male owner of an other services firm*

*It does still bother me that we're [nationally] certified through the Women Business Enterprise Network [WBENC] ... as a women-owned business ... but we can't get certified through the State of Minnesota as a women-owned business.*

*I-69. Representative of a white woman-owned goods firm*

*I actually had a tougher time getting the CERT certification ... than going through the WBE and getting the MBE first.*

*I-60. South Asian American female owner of a professional services firm*

*.... I chose MnDOT as my certifying agency for a DBE business ... and I had all kinds of difficulty .... I felt it was very discriminatory ....*

*I-17. Black American female service-disabled veteran owner of a professional services firm*

*We are no longer in business as a service-disabled veteran-owned. The state has someone working at the PTAC agency. He was working part time, and he was very slow in the process. I don't have that kind of time to waste on a process like that. I am still a veteran-owned because that helps, but I am no longer a SDVOSB. I worked on the certification process for months and still did not get recertified because the process is so slow. I will not be recertifying.*

*I-95. White male veteran owner of an other services firm*



## J. Qualitative Information — Business assistance programs and certifications

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**Frustration with need for multiple certifications.** Some interviewees expressed frustration with the number of different certifications they need to obtain.

Examples of comments are provided on the top right.

**Certification not beneficial.** Some business owners reported that certification did not prove worthwhile to their companies.

Examples are shown on the bottom right.

*[A barrier for] certification is trying to understand who needs all the different certifications. [Another is following] up with them when you've sent it in, and it's been three months and you're wanting to make sure you don't fall through the cracks.*

*I-40. Black American female owner of a professional services firm*

*I've known some [businesses] that had 11 different certifications [to work with various clients], and each of those required a recertification process. It was burdensome to them .... [Entities need to] broaden the certifications that they recognize .... The current certification process is really a challenge for diverse firms.*

*TO-4. White female representative of a trade association*

*I really think they need to get together and come up with one certifying process.*

*I-9. Representative of a white woman-owned goods firm*

*I thought it was supposed to be easier for us to obtain work from State of Minnesota if we are certified, I have found this is not the case for me.*

*AS-118. Asian-Pacific American female owner of an other services firm*

*MnDOT or the State of Minnesota praises itself for accomplishing their DBE goals, which [in actuality], there's only 37 DBEs in a hundred-mile radius from me .... I seriously think it's a sham. The program needs improvement and ... I don't know what I'm getting out of it.*

*I-79. Black American male owner of a construction-related firm*

## J. Qualitative Information — Business assistance programs and certifications

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**Perceived stigma from certification.** Some business owners indicated a negative stigma from being certified.

*These minority designations and certifications, they really are harmful when you really think about it. Because if I never tell anybody that I have a women's business enterprise or a minority business enterprise designation, I get a lot more conversations.*

*I-103. Black American female owner of a professional services firm*

*... the certifications (MBE, DBE) can cause a barrier. I believe a company only seeks a company with certifications to fill a quota and not necessarily based on qualifications.*

*AS-657. Black American female owner of a professional services firm*

*We were certified as a minority-owned business for a little bit, then ... I just did not like the culture itself and felt like I wasn't really getting what I needed from that membership or the certification ... So, we haven't recertified.*

*I-20. South Asian American female owner of a professional services firm*

## J. Qualitative Information — Business assistance programs and certifications

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**Unaware of certifications.** Some participants mentioned that they were unaware of what certifications were or how to become certified. Examples of comments are shown to the right.

*I don't know how you go about [getting certified].*

*I-61. American Indian female owner of a professional services firm*

*I don't even know what [woman-owned business certification] means, or what [would] do [to get it].*

*I-85. White female owner of an other services firm*

*[I] didn't even know [business certification] was a thing.*

*I-10. American Indian female owner of an other services firm*

*I wasn't aware of [business certifications]. I [will] try now [and] see how to get certified ... I'll be looking [into] that.*

*I-13. Black American female owner of professional services firm*

*If you weren't coming from the entrepreneur side, you [would not] know ... [that] you can get certifications.*

*I-60. South Asian American female owner of a professional services firm*

*... all of these [certifications] exist. But how do small businesses know about them? And can we get a capsule of the benefits – the costs, the applicability.*

*I-57. Asian-Pacific male owner of a goods firm*

*Now that I know that there's actual certification for minority owned businesses [I will look into applying]. I wasn't even aware of that.*

*I-75. Hispanic American male owner of a goods firm*

## J. Qualitative Information — Business assistance programs and certifications

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### Contract Goals and Other Preference Programs

Business owners and representatives commented on contract goals and other preference programs. [e.g., AS-338, 339, 576, 612, 617, 628, 710, 760, 911, 1052, 1366, 1533, 1662, I-9, 32]

**Positive comments about contract goals programs and other preference programs.** Some interviewees reported that these programs were helpful and needed. Examples of comments are provided on the right.

*[Contract goals give] larger entities a reason to partner with us. It gives larger entities a reason to [unbundle contracts] ... instead of trying to self-perform everything.*

*I-2. White female owner of a construction-related firm*

*I've typically tried to stay away from [government projects that do not have contracting goals] because the sheer number of bidders and the number of resources that larger companies have will usually beat me out.*

*I-71. Black American service-disabled veteran owner of a construction-related firm*

*We don't exist [when contract goals are not in place].*

*I-77. White female owner of a construction-related firm*

*[There has been] a trend ... to open more opportunities based on businesses being minority- or woman-owned, and I applaud that. .... I welcome the leveling of the playing field....*

*I-92. White male owner of a professional services firm*

*Whatever disadvantage or challenges [small and diverse businesses] have, I think it's more than made up for with the advantages that they get, [such as] 12 percent preference on state jobs ....*

*I-12. White male owner of a construction-related firm*

## J. Qualitative Information — Business assistance programs and certifications

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**Criticisms or recommended improvements to programs.** Some business owners had negative experiences or suggested improvements.

*After primes win [a] contract, they decide to go with someone else or they do the job themselves.*

*I-1. Hispanic American male owner of a professional services firm*

*The City of Rochester ... needed [contract goals] ... but those goals aren't being met [even though] they say that they're being met.*

*I-79. Black American male owner of a construction-related firm*

*The state can do a better job following up to make sure that prime contractors are following those [contracting goals].*

*I-54. Representative of a Black American male-owned construction-related firm*

*A number of the [diverse businesses], particularly in the construction arena, said that ..., [when] they were contacted as a requirement of subcontracting and best efforts for public sector contracting jobs, often those contacts were not meaningful. [It is a] check the box kind of experience.*

*TO-4. White female representative of a trade association*

*[Larger competitors will] bring their Black receptionist into these meetings to make it seem like they're about diversity .... You look at their executive teams, [and] none of them have any people of color or females.*

*I-27a. Black American male owner of a construction-related firm*

*Occasionally, it almost feels like [a government] contract [has] been published to satisfy a public requirement, but that it's fait accompli.*

*I-57. Asian-Pacific male owner of a goods firm*

*[At Met Council] they might have a minority requirement. But it's verbal only .... The cities are kind of the Wild West. They all do whatever they want.*

*I-35. Hispanic American male owner of a professional services firm*

*I don't think [primes] are looking at RFPs and saying, '...We don't want to work with him because he's a dirty Indian.' I think that there's a process in place that allows them to hide the fact that they have pre-identified a vendor, and they're going to work with that vendor even through a supposedly fair and equitable public bidding process.*

*I-22. American Indian male rep. of an American Indian-owned professional services firm*

*Getting your foot in the door is by far the most important step .... We're looking for equal opportunity ... which is very difficult, even with some of these programs .... the way that it gets implemented is not creating a level playing field.*

*I-64. White male representative of a woman-owned professional services firm*

*Set aside larger percentages of jobs, like 20 percent instead of 5 percent [for small and minority-owned businesses].*

*AS-1753. Black American male owner of an other services firm*

*When I go to pre-bid meetings and there's 15 contractors there, there might be one other tribal-owned business and then the rest are all veteran-owned businesses. It seems like maybe combining [the tribal-owned and veteran-owned businesses in goals programs] in my experience hasn't helped give a tribal-owned business more work.*

*I-67. American Indian female owner of a construction-related firm*

*Not just reward points but require large contractors to subcontract.*

*AS-1600. Black American male owner of a professional services firm*

## J. Qualitative Information — Business assistance programs and certifications

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**Criticisms or suggested improvements for other program components.** Some business owners had criticisms of other components of existing contract equity programs. Examples are shown to the right.

*There were a few times where [Hennepin County] said they had earmarked projects for a number of smaller firms ... and when we went to the initial RFP meeting ... there were ... [very large] firms [there] .... It's very discouraging.*

*I-16. White female owner of a professional services firm*

*Make bidding for veteran business easier to win by awarding the bid upfront not just the 8 percent bonus after they get the bid.*

*AS-2074. White male veteran owner of a construction-related firm*

Some interviewees indicated that they do not see the benefit of contract goals and other preference programs.

*It's far more important to teach [diverse business owners] to run and build a business than it is to give them 10 percent.*

*I-36. White male representative of a white male-owned goods firm*

*We have had a difficult time finding qualified DBE subcontractors to fulfill the goals in the past.*

*AS-469. Representative of a white male-owned construction-related firm*

*It's not worth the time or the effort to [meet the contract goals with the participating entities].*

*I-74. White female LGBTQ+ owner of a construction-related firm*

*I think it's unfair that minorities and women owned business owners receive a 15 to 20 percent advantage on government work.*

*AS-1656. Representative of a majority-owned construction-related firm*

## J. Qualitative Information — Other insights and recommendations

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Interviewees and other stakeholders provided many comments and insights regarding how to improve the participating entities' procurement practices and additional efforts to assist businesses.

### Information On How to Do Business With Participating Entities and Better Notification of Bid Opportunities

Business owners and representatives commented on the need for more access to information about opportunities and education about how to do business with participating entities. [e.g., AS-12, 49, 80, 108, 111, 118, 120, 127, 145, 147, 150, 160, 166, 173, 180, 190, 214, 215, 222, 225, 226, 259, 264, 271, 272, 283, 284, 313, 334, 350, 351, 353, 375, 360, 368, 379, 381, 404, 420, 534, 661, 662, 671, 683, 685, 686, 690, 691, 699, 702, 712, 720, 721, 725, 730, 740, 741, 763, 793, 800, 834-836, 850, 874, 885, 892, 945, 1017, 1023, 1041, 1049, 1068, 1073, 1099, 1100, 1126, 1147, 1148, 1273, 1274, 1360, 1362, 1363, 1428, 1473, 1491, 1492, 1507, 1577, 1584, 1588, 1591, 1606, 1614, 1617, 1618, 1647, 1681, 1683, 1685, 1743, 1750, 1761, 1776, 1783, 1788, 1801, 1804, 1820, 1844, 1864, 1914, 1920, 1935, 1948, 1993, 2010, 2014, I-16, 89, 132, 137, 138]

**Simplification.** Some comments related to “making it easier to learn about opportunities” or having the process be “more transparent.”

*The government should make it much easier to interface with them....  
Simplify things ....*

*AS-978. South Asian American female owner of an other services firm*

*More transparency on bid opportunities.*

*AS-1948. Representative of a South Asian American male-owned other services firm*

*The State of Minnesota needs to redesign [its] online [procurement] access ....*

*AS-1587. Black American male owner of a professional services firm*

*Social media is used so much nowadays. It's really a new age for any sort of marketing .... [I suggest the entities] utilize social media*

*I-43. Hispanic American female owner of a professional services firm*

*[Public entities] need to be more intentional in reaching out to our communities. We are always coming to them on bended knees.  
Sometimes they need to come to us.*

*I-5. Black American male owner of a construction-related firm*

*[The government is] a product. Market it so that your desired user has a chance of using it, and not just a selected few.*

*I-57. Asian-Pacific male owner of a goods firm*

*... they should be more inclusive ... reach out to everybody on the [approved firms] list and give them an opportunity.*

*I-16. White female owner of a professional services firm*

## J. Qualitative Information — Other insights and recommendations

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**Personal communication with procurement staff.** A number of interviewees discussed the importance of personal contact with a procurement person at an entity.

*Having ... a contact person [available] for an entity would be great.*

*I-41. Hispanic American female owner of a construction-related firm*

*... it's important for [the participating entities] to have a phone contact. Make sure that that's available.*

*I-38. American Indian female owner of an other services firm*

*They [could] invite some businesses to come in and give them a talk [regarding] what problems [business owners are] ... encountering when they work with them.*

*I-24. Black American male owner of a construction-related firm*

*These entity people ... are not out there anymore. They're not talking to people anymore, like they used to be.*

*TO-7. White female representative of a trade association*

*Have actual humans that could talk to someone on the phone and help to explain the process and that's their job to do that [would be critical]. That would create better outcomes. The more humanity the entities can inject into the [contracting] process, the better.*

*I-64. White male representative of a woman-owned professional services firm*

*Have a portal for small businesses to be able to connect with [the State] [or] customer service lines ....*

*I-90. Black American male owner of an other services firm*

*More one-on-one ... personal meetings.*

*I-77. White female owner of a construction-related firm*

*Answering their emails all the time is good .... It's good for businesses and it's good for their reputation and good for the state.*

*I-78. Black American male owner of a goods firm*

*[Having] a speed dating thing where we can have a little one-on-one time with some of the decision makers and folks putting out the proposals [would be incredibly helpful] .... I would love the chance to [interact with procurement officers].*

*I-59. White female owner of a professional services firm*

*A forum where we could meet relevant representatives from all the various state entities in Minnesota. It is very difficult to engage and request meetings from relevant people in state entities.*

*AS-137. South Asian American male rep. of a South Asian American male owned other services firm*

*If there's a preference for a local vendor, they should mention that.*

*AS-1366. Representative of a South Asian male-owned professional services firm*

*One of the ways that the [entities] could do better with their outreach is to hold more community events.*

*I-61. American Indian female owner of a professional services firm*

*[Make the bid Q and A sessions] a little bit longer. That [way] we really get more time to gather the information we need and talk to [the procurement officers]. Usually, they are very quick. They open it, and they close that same day.*

*I-42. Black American male owner of an other services firm*



## J. Qualitative Information — Other insights and recommendations

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**Centralized information.** Interviewees commented on the desire for a centralized location for multiple entities to list procurement opportunities or business assistance. [e.g., 1-2, 9, 15, 58]

*[It would be helpful if] all entities [put their bids] in one place.*

*I-11. South Asian male representative of South Asian American woman-owned professional services firm*

*It [would] help if there's [a centralized place] to find the information for all these entities that that have projects coming up. That makes it easy for small firms who don't have a marketing division.*

*I-83. White male owner of a professional services firm*

*There ... needs to be a central repository of all the federal, all the state, ... even the private opportunities that exist [which] some of these smaller businesses can go [visit] and it should be free for us.*

*I-60. South Asian American female owner of a professional services firm*

*Bid listings are hard to find, a consolidated listing would be helpful.*

*AS-1642. Representative of a majority-owned other services firm*

*[There should be] one place to find out about all these [public] opportunities.*

*I-23. White male representative of a professional services firm*

*I would love to learn about ... free money grants, interest-free loans, non-recourse, pre-development, pre-construction resources, but I don't know where [to look because] there's no centralized place.*

*I-27a. Black American male owner of a construction-related firm*

*Be more holistic, feels very fractured, hard to manage what opportunities are out there. Everything seems more fragmented.*

*AS-1866. White female owner of a goods firm*

*What if, as a state, there was one central place where all these bids end up? They end up in a ton of different places .... There's only so many resources that go around.*

*I-68. White female owner of construction-related firm*

*It'd be great if the [bid] information [for the participating entities] could be more centralized so that there's an easy access, somewhat of a one-stop shop to find and register for things ....*

*I-71. Black American service-disabled veteran owner of a construction-related firm*

*[I'm only contacted by] big entities ... But [for the small entities], we do not know how they will post [projects]. Minnesota Seeking IT Expertise (MNSITE) says that everything will be coming there, [but] we have not seen it for the past 8 years or so.*

*I-11. South Asian male representative of South Asian American woman-owned professional services firm*

*As a small business if [there was a] free or low-cost portal to go in and check [that would be helpful] .... I know Minneapolis has one, Bloomington has one, but you're having to go to every single different city ... or government organization to try and find these bids*

*I-62. White male owner of a construction-related firm*

*Need to have more visibility to opportunities.*

*AS-1920. Representative of an Asian-Pacific American male-owned professional services firm*

## J. Qualitative Information — Other insights and recommendations

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**Improving ability to find opportunities relating to specialized types of work.** Notices of bid opportunities fine-tuned to specific types of work, or better ability to search for specialized work, would be helpful to some business owners. Examples of comments follow.

*.... Improve the database itself and the number of search parameters you can use ... [and] the database is not cleaned out. There's a lot of people there that no longer actually are in business.*

*I-21. White female owner with a disability of a professional services firm*

*I want to see more [DBE opportunities sent to us] specified for only [our line of work] .... I don't think this would be tough to do ....*

*I-39. Representative of an Asian-Pacific American male-owned professional services firm*

*Narrowing down the type of opportunities that apply to our company would help a great deal, sometimes we are on alerts that have wildly irrelevant opportunities to sift through.*

*AS-686. Asian-Pacific American female owner of a professional services firm*

*[I would suggest an] easy system to view contract opportunities and having a very clear process of identifying what opportunities pertain to you, [and a way to get] put on some sort of bid list ... where you get notified for your specific area.*

*I-2. White female owner of a construction-related firm*

*I don't know where to look to see if public entities have a need for [my firm's] services. There [could be] an easier way to see if opportunities are available.*

*AS-1903. Representative of a majority-owned professional services firm*

*I log into the portal to bid jobs I still have a difficult time navigating it and segmenting it by the type of work that is applicable to my company .... How does a small, specialized business weed through the list of requests for bid on the portal?*

*I-25. White male owner of a construction-related firm*

*[Doing research online is like] you're swimming in this ... giant pool of information and you're trying to pinpoint one [piece of] information which may be helpful for you .... Sometimes it's hard. It's like you're playing Powerball.*

*I-58. Black American male owner of a construction-related firm*

*Regarding their SWIFT portal, it would be great to have some sort of personal intervention when signing up for bids so that things can be more specific to my business. I get a lot of messy bid notifications that have nothing to do with what I'm looking for. 1 in 100 bids are even remotely relative.*

*AS-1557. Representative of a majority-owned goods firm*

*The current SWIFT portal is highly inaccessible and does not notify individuals of announcements.*

*AS-107. Asian-Pacific American male owner of a professional services firm*

## J. Qualitative Information — Other insights and recommendations

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**More uniformity in procurement processes.** Some business owners and representatives commented on the need for a streamlined, consistent procurement process among public entities in Minnesota. Examples of comments are shown below and on the right.

*It'd be nice if [the procurement process between entities] was more uniform.*

*I-12. White male owner of a construction-related firm*

*The State of Minnesota needs to have a uniform practice. It can't be by an agency.*

*BA-11. Indian American female representative of a business assistance organization*

*To get registered in [each procurement software] system and then to get trained to use it properly [is cumbersome]. [The software] changes every year and some consistency would be terrific.*

*I-55. White male owner of a construction-related firm*

*Every prime contractor is different; [they have] their own [bidding] process. Can the state force them to follow a standard [bidding] process?*

*I-54. Representative of a Black American male-owned construction-related firm*

*... there's no standardization to [the pre-qualification process] ... and then there's no appeal process ....*

*I-17. Black American female veteran-disabled owner of a professional services firm*

*Across these agencies we [should be able to] sign up once ... almost like a master services agreement so you have all that out of the way. Then we just bid on these specific projects, which is more of an SOW [Statement of Work] versus having to go through the entire RFP process.*

*I-60. South Asian American female owner of a professional services firm*

## J. Qualitative Information — Other insights and recommendations

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### Unbundling Work

Some business owners and representatives reported that unbundling large contracts into smaller contracts would be beneficial to diverse business owners. [e.g., I-1, 2, 7, 17, 76, 118, 140]

*Instead of just having a contract with one company, they need to let other companies ... bid on the job ... on a smaller scale.*

*I-15. Hispanic American male owner of a construction-related firm*

*The bids are bundled .... unbundle [them].*

*I-45. South Asian American female owner of a goods firm*

*[Unbundle large contracts] to help minority contractors .... [Majority-owned firms have] all the interest, connections and long efforts [from entities .... Minority contractors] continue to get played.*

*I-1. Hispanic American male owner of a professional services firm*

*If there was a way to break the project into smaller pieces for smaller businesses, more sections out for specific, encourage larger sub to work with smaller businesses ....*

*AS-1662. White female owner of a construction-related firm*

*... divide up the projects, either by size or location ... or a project type.*

*I-16. White female owner of a professional services firm*

*I want to bid, but I can't because of the requirements .... I need smaller, more reasonable bids, possibly broken down.*

*I-77. White female owner of a construction-related firm*

*If [the participating entities] could change the bidding system to have exclusivity for million [dollar contracts] and under ... and change [their contracts] from two years to one year, holding the price [that would be beneficial].*

*I-63. South Asian American male owner of a goods firm*

*There's a park in Hennepin County that they're building, and they have a lot of [work] ... under one contract or one bid. I would have to bid all of that just to be able to get [a part].*

*I-62. White male owner of a construction-related firm*

*We would like the State to enforce new rules on primes when they're awarding multi-million-dollar contracts .... [unbundle]... [to] give small businesses a chance.*

*I-90. Black American male owner of an other services firm*

*[Hennepin County has] ... maintenance contracts ... a great way for a small business to understand how to work with the County .... I would suggest [other entities implement] best value, which is what Hennepin County does with a lot of their projects.*

*I-56. Black American female owner of a construction-related firm*

## J. Qualitative Information — Other insights and recommendations

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### Mentor-Protégé Programs

Business owners and representatives commented on the need for mentor-protégé programs.

*I think that [government entities] should focus on mentor-protégé programs that require prime contractors to help smaller businesses in the trades get a foot in....*

*I-30. Service-disabled veteran owner of a goods firm*

*Mentors for smaller contractors.*

*AS-1817. White male owner of a construction-related firm*

*Provide more targeted support and mentorship for minority-owned ... businesses.*

*AS-7. Black American male owner professional services firm*

*They need to be bringing in those larger construction companies [and] the senior estimators from those companies to show smaller scale DBEs and startups how to bid.*

*I-79. Black American male owner of a construction-related firm*

*The way we've been able to get bonding is through mentor-protégé relationships .... Our mentor-protégé relationship allowed us to tap into their bonding history ... and then that [led to] us being able to bond .... Getting bonding as a small business on your own is not easy.*

*I-56. Black American female owner of a construction-related firm*

*... there needs to be some sort of startup program to onboard new companies to give them opportunities to win contracts. Having a coach to help the company who is executing the new contract....*

*AS-1847. Representative of an Asian-Pacific American male-owned other services firm*

## J. Qualitative Information — Other insights and recommendations

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### Training and Supportive Services

Some interviewees commented on the need for additional services for small businesses to learn how to submit bid proposals and acquire other technical skills. [e.g., AS-38, 137, 187, 209, 210, 219, 265, 351, 372, 541, 617, 677, 678, 702, 719, 1113, 1118, 1148, 1347, 1753, 1793, 1807, 1817, 1841, 1847, 1907, 1940, 1944, 2006]

**Training on how to submit bids and proposals.** Some of the interviewees recommended training on how to learn about and submit bids to public sector agencies.

*[It would be] great to have more available training ... and [communication] to help new businesses out on bidding.*

*AS-1360. Black American female owner of a professional services firm*

*We need guidance or training about getting bid opportunities.*

*AS-1793. Representative of a Black American woman-owned other services firm*

*Getting technical support from the State of Minnesota when accessing the vendor platform.*

*AS-White male owner of a professional services firm*

*... More training opportunities to bid on jobs, like workshops.*

*AS-1753. Black American male owner of an other services firm*

*There's not enough training for small businesses like us .... We would welcome how to successfully bid with government entities.*

*I-54. Representative of a Black American male-owned construction-related firm*

*It would be great to know about any trainings happening on how to use the bidding system for public contracts ....*

*AS-982. Hispanic American female owner of an other services firm*

*If they [could] have some kind of procurement workshops, [that would be helpful].*

*I-11. South Asian male representative of South Asian American woman-owned professional services firm*

## J. Qualitative Information — Other insights and recommendations

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**Business startup training.** Some business owners requested more training about starting and growing a business.

*Technical support ... putting together business plans... are critical to a part of our constituents' universe where if we could have those pieces in place we would see a significant difference in how individuals go about starting their businesses. My thinking is that that would have a huge impact on their chances of success.*

*TO-9. Southeast Asian American female rep of a minority business assistance organization*

*[It would] be good to [present] workshops to do the projects in two ways; ... with actual entrepreneurs who have gone through the process teaching the class [in] collaboration with an academic or a person from the firm .... It might be more powerful to have an entrepreneur who has already done it to come and [teach business owners how to do the work].*

*I-34. Hispanic American female owner of a professional services firm*

*... Resources so [new businesses] can make a business plan; there is no support for companies for the first 2 years. We need support.*

*AS-1807. South Asian American woman owner of an other services firm*

*We [would] like to be educated or trained for bigger projects and help us learn more.*

*AS-2058. Representative of a Black American male-owned professional services firm*

*[Being] an educational resource for people that are starting businesses .... There's a lot of valuable information that needs to get to [less established small businesses] ....*

*I-89. White male owner of a professional services firm*

*[Support] how to set up businesses if there is so [much] red tape and the process is so long.*

*AS-1850. Black American male owner of an other services firm*

# APPENDIX K. Business Assistance Programs

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Public agencies, not-for-profit organizations, trade organizations and other groups provide broad assistance to small businesses and minority- and woman-owned firms in Minnesota. Appendix K provides some examples; there are so many initiatives that it would not be possible to prepare an exhaustive list.

Figure K-1 describes the categories of activities discussed in this appendix.

Most of these programs and activities are “race- and gender-neutral.” This provides an important context for assessing current and potential new business assistance efforts as part of the 2025 Minnesota Joint Disparity Study.

## K-1. Examples of national, state and local business assistance programs

- Federal government programs, by type
  - Lending and bonding
  - Tax incentive programs
  - Business training and counseling
  - Procurement programs
  - Advocacy, research and other assistance
- National and state-level nonprofit programs
- National trade organizations
- State and local government programs
- State and local trade organizations



## K. Business Assistance Programs — Federal government program examples

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The federal government provides direct assistance and advocacy for small businesses, minority- and woman-owned businesses and firms owned by other groups.

### Federal Lending and Bonding Programs

Examples of these types of programs include:

**Empowerment Zone Program.** The Empowerment Zone Program is a direct loan program providing funding from \$25,000 to \$50,000 for eligible businesses located in Empowerment Zones. Empowerment Zones were created by HUD to enable residents of the poorest neighborhoods to become self-sufficient and improve the quality of life for that area.<sup>1</sup>

**State Small Business Credit Initiative (SSBCI).** This initiative was reauthorized and expanded under the American Rescue Plan to help entrepreneurs and small business grow by providing capital and technical assistance.<sup>2</sup> The initiative has two programs, the Capital Program, and the Technical Assistance (TA) Grant Program.

**U.S. Small Business Administration (SBA) 504 Loan Program.** The SBA 504 Loan Program provides financial assistance to small businesses that do not qualify for traditional financing so they can purchase or renovate real estate or buy heavy equipment. The program provides competitive fixed-rate financing.<sup>3</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>4</sup>

**U.S. Department of Transportation (USDOT) Office of Small and Disadvantaged Business Utilization (OSDBU) programs.** The OSDBU offers a range of programs and resources to assist small and disadvantaged businesses. Programs include a mentor-protégé program, a bonding assistance program, the Women and Girls in Transportation Initiative and a short-term lending program. USDOT partners with The Surety and Fidelity Association of America (SFAA) to help small businesses become bond ready. Becoming bondable is a challenge for many targeted businesses and this program aims to help businesses grow and build bonding capacity.<sup>5</sup>

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<sup>1</sup> See <https://www.gao.gov/products/gao-23-106113>

<sup>2</sup> See <https://home.treasury.gov/policy-issues/small-business-programs/state-small-business-credit-initiative-ssbci>

<sup>3</sup> See <https://www.sba.gov/funding-programs/loans/504-loans>

<sup>4</sup> See <https://www.sba.gov/partners/lenders/7a-loan-program/types-7a-loans>

<sup>5</sup> See <https://www.transportation.gov/content/office-small-and-disadvantaged-business-utilization>

## K. Business Assistance Programs — Federal government program examples

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The federal government provides direct assistance and advocacy for small businesses, minority- and woman-owned businesses and firms owned by other groups. Federal programs also include tax incentives to assist certain types of businesses or communities.

### Federal Tax Incentive Programs

Examples of these types of programs are provided below.

**Federal Opportunity Zone Program.** The Federal Opportunity Zone Program provides set aside for investment in local businesses, real estate or development projects in exchange for a reduction in tax obligations. Opportunity Zones include the most underserved and disinvested neighborhoods within a community to encourage businesses to consider bringing or keeping their businesses. Unlike the New Market Tax Credit Program (see below), this program is not limited by annual Congressional approval or tax credit allocation.<sup>6</sup> There are 128 Opportunity Zones in Minnesota.<sup>7</sup>

**New Markets Tax Credit Program.** This program operates within the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund and uses federal tax credits to attract private investment in low-income communities.<sup>8</sup>

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<sup>6</sup> See <https://opportunityzones.hud.gov/>

<sup>7</sup> See <https://mn.gov/deed/business/financing-business/tax-credits/opp-zones/>

<sup>8</sup> See <https://www.cdfifund.gov/programs-training/programs/new-markets-tax-credit>

## K. Business Assistance Programs — Federal government program examples

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### Federal Business Training and Counseling

The federal government also supports small businesses and minority- and woman-owned businesses through training and counseling. Examples are provided below.

**Center for Indian Country Development.** As part of the Federal Reserve Bank of Minneapolis, the Center for Indian Country Development supports economic development efforts for Tribal Nations. The Center provides resources on homeownership, loans and access to credit for Native nations and Indigenous communities.<sup>9</sup>

**Internal Revenue Service (IRS) Small Business and Self-Employed Tax Center.** This program provides resources for taxpayers filing as self-employers or small businesses with assets under \$10 million. The Center provides information on independent contractors; preparing and filing taxes; online learning workshops; and the stages of owning a business.<sup>10</sup>

**Minority Business Development Agency (MBDA) programs.** 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 and other socially and economically disadvantaged companies.<sup>11</sup> The Minnesota MBDA Business Center is located in Minneapolis.<sup>12</sup>

**Small Business Development Centers (SBDCs).** The U.S. Small Business Administration financially supports SBDCs across the country that train small business owners and prospective entrepreneurs. There are nine regional centers located in Minnesota, with several satellite centers throughout the state. SBDC offices are operated through the Department of Employment and Economic Development (DEED).<sup>13</sup>

**Procurement Technical Assistance Centers (PTACs).** The U.S. Department of Defense partners with state and local agencies to assist small businesses in competing for federal, state and local government contracts. Services are provided through regional centers operated by local organizations. In 2022, Minnesota PTACs was rebranded as APEX Accelerators, discussed on page 14 of this appendix.<sup>14</sup>

**U.S. Small Business Administration (SBA).** SBA helps small businesses and entrepreneurs with counseling, access to capital, contracting expertise and more services as the nation's "go-to resource and voice for small businesses." The SBA Minnesota District Office serves the state of Minnesota.<sup>15</sup> Minnesota's DEED lists numerous SBA Financing Programs.<sup>16</sup>

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<sup>9</sup> See <https://www.minneapolisfed.org/indiancountry>

<sup>10</sup> See <https://www.irs.gov/businesses/small-businesses-self-employed>

<sup>11</sup> See <https://www.mbda.gov/>

<sup>12</sup> See <https://www.mbda.gov/business-center/minnesota-mbda-business-center>

<sup>13</sup> See <https://www.sbir.gov/node/736373>; <https://mn.gov/deed/business/help/sbdc/find-sbdcs/>

<sup>14</sup> See <https://mn.gov/admin/business/vendor-info/apexaccelerator/>

<sup>15</sup> See <https://www.sba.gov/district/minnesota>

<sup>16</sup> See <https://mn.gov/deed/business/financing-business/guidance/sba-financing.jsp>

## K. Business Assistance Programs — Federal government program examples

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**U.S. Economic Development Administration (EDA).** The U.S. EDA works directly with local communities to advance economic development initiatives. The U.S. EDA provides grants to businesses for planning, technical assistance and infrastructure construction.<sup>17</sup>

**U.S. Small Business Administration (SBA) 7(j) Management and Technical Assistance Program.** The SBA 7(j) Program provides training, executive education and one-on-one consulting for a wide range of topics. Businesses must be located in areas of high unemployment or low income, owned by low-income individuals, and certified as either an SBA 8(a) Business Development Program participant, a HUBZone small business and/or an economically disadvantaged woman-owned small business.<sup>18</sup>

**U.S. Small Business Administration (SBA) Office of Veterans Business Development.** The U.S. SBA Office of Veterans Business Development provides business training, counseling and assistance. It also oversees federal procurement programs for veteran- and service-disabled veteran-owned small businesses.<sup>19</sup>

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<sup>17</sup> See <https://www.eda.gov/>

<sup>18</sup> See <https://www.sba.gov/federal-contracting/contracting-assistance-programs/7j-management-technical-assistance-program>

<sup>19</sup> See <https://www.sba.gov/offices/headquarters/ovbd>

## K. Business Assistance Programs — Federal government program examples

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### Federal Procurement Programs

Several federal agencies operate procurement programs to assist small businesses and/or minority- and woman-owned firms.

**U.S. Department of Defense (DoD) programs.** 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, woman-owned small businesses and firms located in historically underutilized business zones (HUBzones). Certain prime contracts must establish small business subcontracting programs. DoD also operates a mentor-protégé program that matches large firms with small disadvantaged businesses, woman-owned small businesses, and service-disabled veteran-owned small businesses. Mentors are reimbursed for mentoring expenses or provided credit toward their small disadvantaged business subcontracting goals.<sup>20</sup>

**U.S. Department of Housing and Urban Development (HUD) programs.** HUD 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 woman-owned business participation in HUD-funded contracts, as well as participation of project-area residents in those contracts.<sup>21</sup>

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<sup>20</sup> See <https://business.defense.gov/>

<sup>21</sup> See <https://www.hudexchange.info/programs/cdbg/>

<sup>22</sup> See <https://www.transportation.gov/civil-rights/disadvantaged-business-enterprise/definition-disadvantaged-business-enterprise>

**U.S. Department of Transportation Federal DBE Program.** The U.S. Department of Transportation 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.

To be certified as a DBE, a firm must be socially and economically disadvantaged. Revenue limits, personal net worth limits, and other restrictions apply. Most DBEs are minority- or woman-owned firms, but white male-owned firms that can demonstrate social and economic disadvantage can be certified as DBEs.<sup>22</sup> The Minnesota United Certification Program (MNUCP) administers the DBE program according to USDOT regulations. Certifying members include Minnesota Department of Transportation, the Metropolitan Council and the City of Minneapolis. The Metropolitan Airports Commission certifies for Federal Airport Concessions DBEs (ACDBEs).<sup>23</sup>

Under the Federal DBE Program, some public agencies set DBE goals on USDOT-funded contracts. Prime contractors must either include a level of DBE participation in their bid that meets the goal for the contract or show good faith efforts to meet the goal.

<sup>23</sup> See <https://www.dot.state.mn.us/civilrights/become-small-business.html#:~:text=The%20Minnesota%20Unified%20Certification%20Program,and%20the%20City%20of%20Minneapolis>

## K. Business Assistance Programs — Federal government program examples

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**U.S. Department of Veterans Affairs, Office of Small and Disadvantaged Business Utilization (OSDBU).** The U.S. Department of Veterans Affairs OSDBU assists veteran-owned businesses in the procurement process to maximize participation in federal contracting.<sup>24</sup>

**U.S. Environmental Protection Agency (EPA) Disadvantaged Business Enterprise (DBE) Program.** The EPA has certain requirements for the EPA Disadvantaged Business Enterprise (DBE) Program regarding participation of minority- and woman-owned businesses, small businesses and other targeted businesses in EPA-funded contracts for construction, equipment, services and supplies.<sup>25</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>26</sup> Program participants compete for set-aside and sole-source federal contracts.

**U.S. Small Business Administration (SBA) Historically Underutilized Business Zones (HUBZones).** The SBA HUBZone program helps certified small businesses in urban and rural communities gain preferential access to federal procurement opportunities. Firms are eligible for certification if they are a small business according to SBA's size standards, are at least 51 percent owned and controlled by U.S. citizens or a qualified organization, have a principal office located within a historically underutilized business zone and have at least 35 percent of employees residing in a HUBZone. Program participants benefit in a few ways, including receiving a 10 percent price evaluation in certain contract competitions.<sup>27</sup>

**U.S. Small Business Administration (SBA) Mentor-Protege Program (MPP).** The SBA MPP is a program to formalize mentoring relationships between qualified established firms and eligible small businesses. The MPP does not match mentor and protégé firms. Instead, mentor and protégé firms should establish a relationship before applying to the MPP. Protégés are mentored on topics such as financial assistance, internal business management systems like accounting and marketing, administrative assistance and contracting help.<sup>28</sup>

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<sup>24</sup> See <https://www.va.gov/osdbu/>

<sup>25</sup> See <https://www.epa.gov/grants/disadvantaged-business-enterprise-program-under-epa-assistance-agreements-dbe-program>

<sup>26</sup> See <https://www.sba.gov/category/business-groups/minority-owned>

<sup>27</sup> See <https://www.sba.gov/federal-contracting/contracting-assistance-programs/hubzone-program>

<sup>28</sup> See <https://www.sba.gov/federal-contracting/contracting-assistance-programs/sba-mentor-protege-program>

## K. Business Assistance Programs — Federal government program examples

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### **U.S. Small Business Administration (SBA) Office of Veterans**

**Business Development.** U.S. SBA Office of Veterans Business Development oversees federal procurement programs for veteran- and service-disabled veteran-owned small businesses.<sup>29</sup> Additional programs such as the Service-Disabled Veteran-Owned Small Business (SDVOSB) program intends to award at least five percent of all federal contracting dollars to SDBOSB's annually.<sup>30</sup>

### **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. The program allows them to participate in federal procurement process within industries where woman-owned small businesses are underrepresented. To be a WOSB, a woman-owned small business in selected industries<sup>31</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.<sup>32</sup>

To be eligible as an EDWOSB, the business must meet the criteria of the WOSB program and each owner must have less than \$850,000 in personal net worth, \$450,000 or less in adjusted gross income averaged over the previous years, and \$6.5 million or less in personal assets.<sup>33</sup>

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<sup>29</sup> See <https://www.sba.gov/offices/headquarters/ovbd>

<sup>30</sup> See <https://www.sba.gov/federal-contracting/contracting-assistance-programs/veteran-contracting-assistance-programs#id-service-disabled-veteran-owned-small-business-program>

<sup>31</sup> See <https://www.sba.gov/document/support--qualifying-naics-women-owned-small-business-federal-contracting-program>

<sup>32</sup> See <https://www.sba.gov/federal-contracting/contracting-assistance-programs/women-owned-small-business-federal-contract-program>

<sup>33</sup> See <https://www.sba.gov/federal-contracting/contracting-assistance-programs/women-owned-small-business-federal-contract-program>

## K. Business Assistance Programs — Federal government program examples

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### Federal Advocacy, Research and Other Assistance

Examples of other types of federal programs are provided below and to the right.

**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>34</sup>

**Small Business Innovation Research (SBIR).** SBIR program solicitations are issued by 11 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>35</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 in partnership with federal agencies. 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.<sup>36</sup>

**USDOT Small Business Technical Resource Center (SBTRC), Great Lakes Region.** As a U.S. Department of Transportation grantee, the Illinois Hispanic Chamber of Commerce (IHCC) operated the Great Lakes SBTRC. IHCC supports small and disadvantaged businesses with services like business analysis, market research, technical assistance, and access to capital assistance.<sup>37</sup> BTRC administered initiatives like the Women & Girls in Transportation Initiative, an internship for college and university women designed to help small business grow economically, create jobs, and drive community development.<sup>38</sup> Great Lakes SBTRC operates in six states, including Minnesota.

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<sup>34</sup> See <https://www.mbda.gov/>

<sup>35</sup> See <https://www.sbir.gov/>

<sup>36</sup> See <https://www.sbir.gov/about/about-sttr>

<sup>37</sup> See <https://www.transportation.gov/osdbu/greatlakesregion-sbtrc>

<sup>38</sup> See <https://www.transportation.gov/osdbu/women-and-girls>



## K. Business Assistance Programs — National nonprofit and trade association program examples

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There are many national not-for-profit organizations that support entrepreneurship, small business development and minority- and woman-owned business development.

### National Nonprofit Organizations

**Accion.** Accion is a global nonprofit that supports individuals who are “failed by the global financial system,” such as “low-income small business owners, smallholder farmers, and women.” Accion works with local partners to help underserved communities with financial services like building credit, starting a business, finding insurance and other assistance.<sup>39</sup> Although it does not have an office in Minnesota, it serves Minnesota businesses.

**Cleantech Open Midwest.** Cleantech Open is a nonprofit that runs a startup accelerator program. The Midwest division of Cleantech Open “finds, funds, and fosters” potential business owners in a variety of fields, across 13 states. The Midwest program has raised over \$20 million in external capital and worked with more than 90 start-up companies. Cleantech Open Midwest is located in the University of St. Thomas Schulze School of Entrepreneurship in Minneapolis.<sup>40</sup>

**Community Reinvestment Fund (CRF).** CRF is a national nonprofit organization and CDFI, located in Minneapolis, Minnesota. CRF is a financial institution that leverages public, private and philanthropic funds for small businesses. CRF also runs Connect2Capital, a national nonprofit CDFI that helps increase opportunities for underserved communities to access capital. Locally, CRF has provided more than

\$3.6 billion to stimulate jobs and economic development in Minnesota.<sup>41</sup>

**Disability: IN.** Disability: IN is a national nonprofit with a Minnesota chapter. Among services and programs focused on disability inclusion in employment, the national organization offers a supplier diversity program including a certification program for disability-owned business enterprises, including service-disabled and veteran disability-owned businesses.<sup>42</sup> The Minnesota chapter primarily focuses on disability inclusion in employment, for example hosting events for job seekers to meet potential employers, but may also provide referrals and networking for business owners with disabilities seeking contracting opportunities with private companies. State chapter members may advise persons with disabilities about resources related to entrepreneurship when questions arise.<sup>43</sup>

**Ewing Marion Kauffman Foundation.** The Kauffman Foundation conducts research and provides training, support and other opportunities related to career growth, business ownership and strengthening communities. It provides grants and other resources to nonprofit organizations with the goal of increasing equity for community members. It also operates virtual and in-person business support programs such as Kauffman FastTrac.<sup>44</sup>

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<sup>39</sup> See <https://www.accion.org/>

<sup>40</sup> See <https://midwest.cleantechopen.org/en/page/mission-en-2>

<sup>41</sup> See <https://crfusa.com/>

<sup>42</sup> See <https://disabilityin.org/what-we-do/supplier-diversity/>

<sup>43</sup> Personal communications with former board member.

<sup>44</sup> See <https://www.kauffman.org/>

## K. Business Assistance Programs — National nonprofit and trade association program examples

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### **Operation HOPE — Small Business Empowerment Program.**

Operation HOPE is a nonprofit organization that provides small business owners and individuals from low-income communities with business resources. The organization's Small Business Development Program combines business training and financial counseling with small business financing options. Participants complete an 8-12-week training program, plus workshops on business financing, credit and money management. Operation HOPE has a Minnesota office.<sup>45</sup>

**Service Corps of Retired Executives (SCORE).** SCORE is a nonprofit, volunteer-run organization that offers small business support services and business mentoring nationwide, as a partner of the SBA. It provides technical assistance such as help with business plans, marketing and sales, and financial forecasting.<sup>46</sup>

There are many divisions of SCORE in Minnesota, which serve different parts of the state. For instance, the Twin Cities division serves the Twin Cities, Northern and Central Minnesota; Prairie Lakes operates in West Central Minnesota; and South Metro serves Minneapolis and southern St. Paul communities. SCORE Southeast Minnesota serves Rochester and surrounding communities.<sup>47</sup>

**WomensNet.** WomensNet is a national nonprofit that distributes Amber Grants to women entrepreneurs and woman-owned businesses. In Minnesota, women business owners can apply for a \$10,000 Amber Grant. If a woman entrepreneur wins this grant, she is eligible to apply for the annual Amber Grant worth \$25,000.<sup>48</sup>

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<sup>45</sup> See <https://operationhope.org/small-business-development/>

<sup>46</sup> See <https://www.score.org/>

<sup>47</sup> See <https://www.score.org/twincities/resource/tool/score-minnesota-client-resource-guide>

<sup>48</sup> See <https://ambergrantsforwomen.com/business-grants-women-minnesota/>

## K. Business Assistance Programs — National nonprofit and trade association program examples

### National Trade Associations, Often with Regional Chapters

Many national trade organizations include local affiliates that serve many of the subindustries examined in this study. Examples are provided on the following pages.

**American Council of Engineering Companies (ACEC).** ACEC is a member-based organization that provides legislative representation, continuing education, networking opportunities, publications, awards, insurance programs and other support to engineering firms. ACEC/MN is the leading business practice and policy advocate for consulting engineering firms in Minnesota. ACEC/MN has over 125 member companies and represents over 7,500 employees.<sup>49</sup>

**American Institute of Architects (AIA).** AIA is a member-based organization that supports architects through networking opportunities, awards, scholarships, advocacy, education, professional development, information about exams, licensure and continuing education, and more. AIA also includes committees for certain members such as Women in Architecture (WIA).<sup>50</sup> Minnesota chapters of AIA include AIA Minneapolis, AIA Northern Minnesota, AIA St. Paul and AIA Minnesota.<sup>51</sup>

**Associated Builders and Contractors (ABC).** ABC is a member organization comprised of firms that perform work in the industrial, commercial and institutional sectors of construction. It provides a variety of services including education and training, business development, safety programs, member discounts, insurance programs, student outreach and more. ABC's Minnesota-North Dakota Chapter is located in Eden Prairie, Minnesota.<sup>52</sup>

**Associated General Contractors of America (AGC).** AGC is a trade association that provides members with funding opportunities, apprenticeship programs, bidding information for public and private sector opportunities, labor relations assistance, safety training, construction education and employee development, meetings and events, and other assistance. Minnesota was the first recognized chapter of AGC and has been operating for more than 100 years.<sup>53</sup>

**National Association of Minority Contractors (NAMC).** The NAMC is a nonprofit trade association established to aid minority contractors with contract opportunities and procurement. Education and advocacy are also part of NAMC's mission. The NAMC Upper Midwest chapter is headquartered in Minneapolis.<sup>54</sup>

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<sup>49</sup> See <https://www.acecmn.org/>

<sup>50</sup> See <https://www.aiamo.org/home.asp>

<sup>51</sup> See <https://www.aia.org/community/chapters>

<sup>52</sup> See <https://www.mnabc.com/>

<sup>53</sup> See <https://www.agcmn.org/>

<sup>54</sup> See <https://namc-um.org/>

## K. Business Assistance Programs — National nonprofit and trade association program examples

**National Black Chamber of Commerce (NBCC).** The NBCC provides education, training and other resources for African American-owned businesses in the United States and other countries.<sup>55</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, which offers financing programs and business advisory services for its members.<sup>56</sup> The North Central Minority Supplier Development Council is a regional affiliate serving Minnesota, Iowa, North Dakota and South Dakota.<sup>57</sup>

**National Association of Women Business Owners (NAWBO).** NAWBO is a national member-based organization that serves women entrepreneurs in all sectors, sizes and stages of development. Membership benefits include webinars, product discounts, online directories and more. Minnesota is part of NAWBO's U.S. Northwest/North region. Its office is in Eden Prairie, Minnesota.<sup>58</sup>

**National Association of Women in Construction (NAWIC).** NAWIC provides education, community and advocacy for women in the construction industry. NAWIC Chapter 346, in Rochester, serves Southeastern Minnesota.<sup>59</sup> NAWIC Chapter 164 serves the Twin Cities.<sup>60</sup>

**National Subcontractor Alliance (NSA).** NSA is dedicated to protecting the interests of contractors in the construction agency.<sup>61</sup> NSA's Minnesota chapter, the Minnesota Subcontractors Association (MSA), is in Minneapolis.<sup>62</sup>

**U.S. Chamber Small Business Division.** The Small Business Division offers free tools, such as the Small Business Office Playbook, and helps small businesses with office site selection, cost control measures and resources for choosing suppliers.<sup>63</sup>

**Women's Business Enterprise National Council (WBENC).** WBENC is a national nonprofit and largest third-party certifier of woman-owned businesses in the United States.<sup>64</sup> WBENC was founded to provide supportive programs to strengthen women's economic development. Women's Business Development Center (WBDC)-Midwest serves Minnesota, Illinois, Iowa, Kansas, Nebraska, Wisconsin, North Dakota and South Dakota.<sup>65</sup>

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<sup>55</sup> See <https://www.nationalbcc.org/>

<sup>56</sup> See <https://www.nmsdc.org/>

<sup>57</sup> See [https://nmsdc.org/about/regional-affiliates/?jsf=epro-posts:filtered-feed&tax=state\\_:156](https://nmsdc.org/about/regional-affiliates/?jsf=epro-posts:filtered-feed&tax=state_:156)

<sup>58</sup> See <https://nawbo.org/minnesota/>

<sup>59</sup> See <https://www.nawicsemin.org/>

<sup>60</sup> See <https://www.nawicmsp.org/>

<sup>61</sup> See <https://nationalsubcontractors.com/>

<sup>62</sup> See <https://www.msamn.com/>

<sup>63</sup> See <https://www.uschamber.com/members/small-business>

<sup>64</sup> See <https://www.wbenc.org/about-wbenc/>

<sup>65</sup> See <https://www.wbenc.org/regional-partner-organizations/>

## K. Business Assistance Programs — State and local organization program examples

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### State and Local Government Programs

The State of Minnesota, as well as many local government entities, provide business assistance through such as those described in the following pages. (Please note that this is not an exhaustive list of programs.)

Because Appendix L describes contract equity programs (such as TGB) operated by participating entities, they are not included here.

**APEX Accelerator.** The APEX Accelerator mission is to strengthen Minnesota’s economy through job creation and business growth and retention. The program provides technical, marketing and procurement assistance to Minnesota businesses interested in selling their services to the government.<sup>66</sup>

**City of Bloomington Small Business Center.** Bloomington plans to break ground on their Small Business Center in 2024, which will serve entrepreneurs and business owners in the city. The Center will also operate as a co-working space to foster networking opportunities. Its mission is to strengthen the community by increasing economic mobility among underrepresented groups, namely, small business owners, Black, Indigenous, persons of color (BIPOC) individuals, women and aspiring entrepreneurs.<sup>67</sup>

**City of Brooklyn Park Microbusiness Loan program.** Brooklyn Park Development Corporation (BDPC) operates the Microbusiness Loan program in Brooklyn Park to provide resources to growing businesses. Eligible businesses can receive loans up to \$10,000 for employee-related expenses, technological updates, marketing assistance and inventory.<sup>68</sup>

**City of Minneapolis initiatives.** The City of Minneapolis offers many business assistance resources for people who want to start, maintain or grow a business. It provides grants, business guides and technical assistance to businesses in the marketplace.

A complete list of offerings is available through the Small Business Team in the Community Planning and Economic Development division.<sup>69</sup>

**City of Saint Paul initiatives.** In Saint Paul, the Department of Planning and Economic Development (PED) provides financial and technical assistance to businesses of “any size.”

**Saint Paul Sales Tax Revitalization (STAR).** There are two STAR programs in Saint Paul: Neighborhood STAR and Cultural STAR. Neighborhood STAR offers grants and loans for businesses and nonprofits for capital improvement projects in Saint Paul. Awards range from \$5,000 to \$200,000. Cultural STAR provides grants and loans to nonprofits, cultural organizations and businesses working in arts and culture in Saint Paul. Awards range from \$5,000 to \$50,000.<sup>70</sup>

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<sup>66</sup> See <https://mn.gov/admin/business/vendor-info/apexaccelerator/>

<sup>67</sup> See <https://www.bloomingtonmn.gov/port/business-assistance>

<sup>68</sup> See <https://www.brooklynpark.org/businesses/business-financing-and-resources/>

<sup>69</sup> See <https://www2.minneapolismn.gov/business-services/business-assistance/>

<sup>70</sup> See <https://www.stpaul.gov/businesses/open-business/business-resources/city-financial-assistance>

## K. Business Assistance Programs — State and local organization program examples

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**Business Assistance Fund.** Saint Paul’s Business Assistance Fund provides financing to new and existing businesses that have struggled to obtain funding. It is a “resource of last resort” for businesses that need funds for building improvements or acquisition, equipment and inventory, working capital or professional fees to complete a project. Businesses approved for this fund must demonstrate that they create jobs in Saint Paul or contribute to the community through positive tax base impacts and capital investments to real property, investments in low-moderate income areas or underserved communities and/or renovation of a vacant building or space.<sup>71</sup>

**City resources.** Saint Paul has additional resources that provide gap financing such as the Community Development Block Grants (CDBG) and Tax Increment Financing (TIF). The City of Saint Paul also offers state and regional grants for transit development, brownfields cleanup and housing development.<sup>72</sup>

**East Community Fund (ECF).** The East Side Neighborhood Development Company (ESNDC) operates ECF, a capital loan fund for BIPOC business owners, with a focus on African American-owned businesses on the Eastside of St. Paul. Loans can be used for business purposes such as leasing, debt consolidation, supplies and working capital. ECF’s fixed rate loans range from \$1,000 to \$20,000. Applicants are also provided with technical assistance.<sup>73</sup>

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<sup>71</sup> See <https://www.stpaul.gov/departments/planning-and-economic-development/economic-development/business-assistance-fund>

<sup>72</sup> See <https://www.stpaul.gov/businesses/open-business/business-resources/city-financial-assistance>

<sup>73</sup> See <https://esndc.org/economic-development/>

**Economic Development, Hennepin County.** Hennepin County offers many programs to assist business owners.

- **CEO programs.** Hennepin County offers a series of targeted programs for entrepreneurs and business owners.  
CEO Start is a 10-week group program in collaboration with Hennepin County that provides resources to new businesses.<sup>74</sup>  
CEO Now is a seven-month program offering consultation, education, and tailored business plans for established businesses in Ramsey and Hennepin counties.<sup>75</sup>  
CEO Next provides tools for established private businesses with 10 to 99 employees and \$1-50 million dollars in Hennepin, Carver, Dakota, Ramsey and Scott counties.<sup>76</sup>

**Other programs.** Affordable Commercial Incentive Fund (ACIF) offers affordable commercial spaces and ownership opportunities for locally owned small businesses.<sup>77</sup>

<sup>74</sup> See <https://www.hennepin.us/economic-development/programs/CEO-Start>

<sup>75</sup> See <https://www.hennepin.us/economic-development/programs/ceo-now>

<sup>76</sup> See <https://www.hennepin.us/economic-development/programs>

<sup>77</sup> See <https://www.hennepin.us/economic-development/programs/Affordable-Commercial-Incentive-Fund>

## K. Business Assistance Programs — State and local organization program examples

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Certified Access Academy is a cohort-based training program for women of color seeking to get certified for government-related contracts.<sup>78</sup> Hennepin County Library provides online and in-person resources for business owners.<sup>79</sup>

- **Elevate Hennepin.** The Elevate Hennepin resource hub connects new and existing businesses with each other and with expert business advisors. It began as a response to the COVID-19 pandemic and has expanded into a business support ecosystem for Hennepin County. Elevate Hennepin helps entrepreneurs and businesses with certification, access to capital, technology, financial management, marketing and more services. Any Hennepin County business owner or resident seeking to start a business can access 25 hours of no-cost consulting per advisor.<sup>80</sup>

**Empowering Small Minnesota Communities (ESMC) Program.** ESMC is led by the University of Minnesota in collaboration with Minnesota communities. ESMC is designed to help small communities benefit from federal, state and local investments. This multi-year program was launched in January 2024 and includes partnerships between the University of Minnesota’s Hubert H. Humphrey School of Public Affairs, Minnesota Design Center, Center for Transportation Studies and Center for Urban and Regional Affairs.<sup>81</sup>

**Forge North.** Forge North is a coalition of organizations and individuals from startups, service providers, government entities, investment groups, nonprofits and more. Forge North describes itself as the “front door to startup growth in Minneapolis-Saint Paul.” Forge North helps with starting, scaling, investing and supporting businesses.<sup>82</sup>

**Metropolitan Council.** Metropolitan Council is a regional government agency and policy-making body that serves the seven-county Twin Cities metro area. The Council’s Small Business Engagement and Development Program(S) has an Engagement and Development (EDU) unit that offers assistance to socially and economically disadvantaged firms, such as a mentor protégé and business development program, networking opportunities, capacity building, training and one-on-one business consultation and technical assistance.<sup>83</sup> These efforts support the Metropolitan Council Underutilized Business (MCUB) program, discussed elsewhere in this report.

**Minnesota Council on Latino Affairs (MCLA).** MCLA is a state agency that advocates for Latinos in Minnesota to the government, nonprofit and private sectors. It seeks policy and systemic changes that will improve the lives of Minnesotans of Latin American and Caribbean descent.<sup>84</sup>

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<sup>78</sup> See <https://www.hennepin.us/economic-development/programs/certified-access-academy>

<sup>79</sup> See <https://www.hennepin.us/economic-development/programs/library>

<sup>80</sup> See <https://www.hennepin.us/economic-development/programs/elevate-hennepin>

<sup>81</sup> See <https://www.hhh.umn.edu/news/umn-partners-including-humphrey-school-launch-empowering-small-minnesota-communities-program>

<sup>82</sup> See <https://www.forgenorth.com/>

<sup>83</sup> See <https://metro council.org/About-Us/What-We-Do/DoingBusiness/Small-Business-Programs/mcub.aspx>

<sup>84</sup> See <https://mn.gov/mcla/>



## K. Business Assistance Programs — State and local organization program examples

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**Minnesota Cup.** Coordinated by the University of Minnesota Carlson School of Management, the Minnesota Cup is the largest statewide venture competition in the country. This annual competition provides training and professional networking opportunities to support emerging entrepreneurs from across the state.<sup>85</sup>

**Minnesota Department of Employment and Economic Development (DEED).** DEED is the state’s principal economic development agency. DEED programs promote business development, including recruitment, expansion and retention, workforce development, community development and international trade.<sup>86</sup>

**Resources for small businesses.** DEED’s resources for small business startup and support fall under five headings:<sup>87</sup>

1. Small business development centers. As described in the section of this appendix about federal programs, the State of Minnesota houses and coordinates federally funded SBDCs with 130 consultants providing no cost guidance and expertise from nine regional offices.
2. Small business assistance. Services include publications and access to advisors who can field questions by phone and email.
3. Childcare community partnerships. Programs in this focus area intended to expand childcare availability and access for underserved communities. DEED does not address affordability, which is within the purview of other State programs.
4. Launch MN. Launch Minnesota is designed to help Minnesota’s startup ecosystem. The program offers a series of Innovation Grants for research and development, business growth and childcare and housing assistance. Launch Minnesota offers Education Grants that help train community members on how to launch technology startups. The program also provides an Angel Tax Credit that incentivizes investments from venture capitalists in startups.
5. Community partners. The grant-making arm of DEED deploys grant funding via nonprofit and business partnerships. Many of these programs are designed to address equity considerations.

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<sup>85</sup> See <http://www.breakthroughideas.org/>

<sup>86</sup> See <https://mn.gov/>

<sup>87</sup> See [https://mn.gov/deed/assets/resources-startups-small-businesses-acc\\_tcm1045-540535.pdf](https://mn.gov/deed/assets/resources-startups-small-businesses-acc_tcm1045-540535.pdf)



## K. Business Assistance Programs — State and local organization program examples

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**Business financing.** DEED provides a searchable online tool for identifying potential funding options which includes options to search for programs applicable by ownership (e.g., woman-owned, veteran-owned, disability-owned, Native American-owned and BIPOC-owned). The tool also allows the user to select a focus in the Twin Cities or in Greater Minnesota and search by funding types such as grants, loans, tax credits or training subsidies.<sup>88</sup>

Example of DEED-administered funding programs are provided below.

- **Community Wealth Building Program.** The Community Wealth Building Program was created in 2023 by the Minnesota legislature. The program provides low-interest loans to community businesses that are least 51 percent owned by persons who are African American, Indigenous, people of color, immigrants, women, veterans, of low-income or have a disability. DEED provides funding to the Metropolitan Consortium of Community Developers (MCCD), which distributes loans to community businesses. MCCD offers technical and legal assistance to help businesses become loan ready and has the authority to determine the specific interest rate. The state's share of a Community Wealth-Building Loan must be between \$50,000 and \$500,000.<sup>89</sup>
- **Emerging Entrepreneur Loan Program (ELP).** DEED provides ELP funding to nonprofit lenders that make loans of \$5,000 to \$150,000 to startups and expanding businesses throughout Minnesota.<sup>90</sup> Specifically, the ELP provides support for businesses owned and operated by minorities, low-income persons, women, veterans and/or persons with disabilities in the state. The program has additional goals such as providing jobs for minority and/or low-income persons and prioritizing economic development in low-income areas.<sup>91</sup>
- **Minnesota Expanding Opportunity Fund Program.** DEED provides \$10 million to support long-term loans for small businesses through certified nonprofit lenders in Minnesota. Awardees receive a one-time allotment between \$100,000 and \$600,000 (but they can apply for additional loans if funds are still available, and they exhaust their initial allocation).<sup>92</sup>
- **Minnesota Investment Fund.** The Minnesota Investment Fund provides financing to add new workers and retain jobs in the state, with an emphasis on industrial, manufacturing and technology-related industries in Minnesota. Funds are awarded to cities, counties, townships, certain developmental authorities and recognized Tribal governments who provide business assistance loans. At least 50 percent of the total project cost must be privately financed through owner equity or other lending sources.<sup>93</sup>

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<sup>88</sup> See <https://joinusmn.com/doing-business-here/grow-your-business/capital/index.jsp>

<sup>89</sup> See <https://mn.gov/deed/business/financing-business/deed-programs/community-wealth/>

<sup>90</sup> See [https://mn.gov/deed/assets/resources-startups-small-businesses-acc\\_tcm1045-540535.pdf](https://mn.gov/deed/assets/resources-startups-small-businesses-acc_tcm1045-540535.pdf)

<sup>91</sup> See <https://mn.gov/deed/business/financing-business/deed-programs/elp/>

<sup>92</sup> See <https://mn.gov/deed/business/financing-business/deed-programs/expanding-opportunity/>

<sup>93</sup> See <https://mn.gov/deed/business/financing-business/deed-programs/mif/>

## K. Business Assistance Programs — State and local organization program examples

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- **Minnesota Job Creation Fund.** The Minnesota Job Creation Fund provides financial incentives to new and expanding businesses. The program is available to manufacturing, warehousing, distribution and technology-related businesses, among others. Companies must work with the local government to apply for funding.<sup>94</sup>
- **National Center for Economic Gardening, Scott County.** Scott County, along with Hennepin, Ramsey, and Carver counties partnered with the National Center for Economic Gardening. This program sets up regional networks focused on entrepreneurial growth of stage 2 companies through specialized and action-orientated research. Participating companies must have 10 to 99 full-time employees and generate annual revenue of \$1 to \$50 million.<sup>95</sup>
- **Native American Business Loan Program.** This program helps finance the development of Native-owned and operated businesses. Applicants must be enrolled members of a federally recognized Minnesota-based band or tribe. Loans can be used for startup or expansion expenses, including costs related to machinery, equipment, inventory, construction, site acquisition or working capital.<sup>96</sup> Loans can be up to 75 percent of project costs, and the average loan is \$57,000.<sup>97</sup>
- **Promise Grants and Promise Loans.** DEED administers \$30 million in funding providing loans of up to \$1 million and \$86.5 million to provide grants of \$10,000 to \$50,000. Both Promise Grants and Loans are for businesses, nonprofits and developers adversely affected by barriers such as structural racism or civil unrest.
- **Reservist and Veteran Business Loan Program.** Interest-free loans of \$5,000 to \$20,000 are for individual veterans who have recently returned from active duty and wish to start a business. In addition, the program offers loans to companies that have been affected by employees being called to active military service.<sup>98</sup>

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<sup>94</sup> See <https://mn.gov/deed/business/financing-business/deed-programs/mn-jcf/>

<sup>95</sup> See <https://scottcda.org/wp-content/uploads/2019/06/Economic-Gardening-Packet.pdf>

<sup>96</sup> See <https://mn.gov/deed/business/financing-business/deed-programs/nativeamerican/>

<sup>97</sup> See [https://mn.gov/deed/assets/resources-startups-small-businesses-acc\\_tcm1045-540535.pdf](https://mn.gov/deed/assets/resources-startups-small-businesses-acc_tcm1045-540535.pdf)

<sup>98</sup> See <https://mn.gov/deed/business/financing-business/deed-programs/reservists/>

## K. Business Assistance Programs — State and local organization program examples

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- **State Small Business Credit Initiative (SSBCI).** DEED administers \$97 million in six small business financing programs under the American Rescue Plan Act of 2021.<sup>99</sup>
  - **Automation Loan Participation Program** makes companion loans to help businesses finance machinery, equipment or software costs. This program serves manufacturing, distribution, technology, and warehousing businesses with 500 to 750 employees.
  - **Growth Loan Fund** provides direct loans, which range from \$100,000 to \$400,000, to early-stage and seed businesses committed to technological innovation.
  - **Minnesota Loan Guarantee Program** is for Minnesota companies with fewer than 750 employees. The loan program helps with startup costs, equipment and inventory needs and working capital. The maximum loan guarantee amount is \$800,000 with a fee of 0.25 percent of the total amount. Socially and Economically Disadvantaged Individuals (SEDI) are exempt from paying the 0.25 percent fee on awarded loans.<sup>100</sup>

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<sup>99</sup> More information about these programs can be found here: <https://mn.gov/deed/business/financing-business/deed-programs/ssbci/>

<sup>100</sup> All SBBCI loans are discussed here: <https://www.mnchamber.com/blog/how-access-deeds-new-small-business-loan-and-venture-funding-programs>

## K. Business Assistance Programs — State and local organization program examples

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- **Small Business Loan Participation Program.** Assists Minnesota companies with fewer than 500 employees with business expenses like inventory, access to capital and startup costs. DEED purchases 25 to 30 percent participations in loans made by non-depository CDFIs and nonprofit lenders (DEED's share of loans can range from \$10,000 to \$250,000).
- **Direct Investment Venture Capital** directly invests in seed and early-stage startups in Minnesota. The program is administered in partnership with the University of Minnesota Office of Investment and Banking and focuses on bolstering entrepreneurship in manufacturing, technology, life sciences, software, climate technology and agricultural technology.
- **Multi-Fund Venture Capital** invests in venture capital funds that support innovation in Minnesota. At least 90 percent of SSBCI supported venture capital funds must be invested within the state of Minnesota. Like the Direct Investment Venture Capital, the program is run in collaboration with the University of Minnesota. Funding focuses on early-stage startups working in manufacturing, agricultural and food technology, climate technology, life sciences and software.<sup>101</sup>

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<sup>101</sup> For all SSBCI programs: <https://www.mnchamber.com/blog/how-access-deeds-new-small-business-loan-and-venture-funding-programs>

<sup>102</sup> See <https://www.dot.state.mn.us/civilrights/micro-grant.html>

**Minnesota Department of Transportation (MnDOT).** MnDOT offers assistance to firms in addition to DBE and TG contract equity programs.:

- **Micro Grant Program.** MnDOT's Micro Grant Program provides up to \$3,500 per certified small business. Businesses must be certified as economically disadvantaged or as a DBE, TGB or veteran-owned business.<sup>102</sup>
- **MnDOT Office of Civil Rights.** MnDOT Civil Rights office offers numerous business training programs to help certified small businesses. This includes small business development classes, networking opportunities, mentor-protege, one-to-one business assistance and hands-on training.<sup>103</sup>  
MnDOT Civil Rights office also offers a DBE and Workforce Collaborative advisory group of stakeholders from various industry groups. The group aims to increase the diverse participation of people of color and women in the construction-related industry. The advisory group achieved this through expanding existing business and workforce skills and networking..<sup>104</sup>

**Minnesota Department of Veterans Affairs (MDVA).** MDVA assists the over 308,000 veterans and their dependents in obtaining services provided by the United States Department of Veterans Affairs. In order to apply for the Minnesota Small Business Procurement Program as a Veteran-Owned Small Business, it must be certified by MDVA.<sup>105</sup>

<sup>103</sup> See <https://www.dot.state.mn.us/civilrights/small-business-training-programs.html>

<sup>104</sup> See <https://www.dot.state.mn.us/civilrights/dbe-workforce-collaborative.html>

<sup>105</sup> See <https://mn.gov/mdva/resources/employment/veteransasbusinessowners.jsp>

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**Open to Business Program.** In Ramsey County, the Open to Business Program provides technical assistance, loan packaging, marketing planning and other assistance to new and aspiring businesses. Open to Business is a partnership between Ramsey County and the Metropolitan Consortium of Community Developers (MCCD).<sup>106</sup>

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<sup>106</sup> See <https://www.ramseycounty.us/businesses/workforce-business-development/open-business>

## K. Business Assistance Programs — State and local organization program examples

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### State and Local Trade Organizations and Nonprofits

Minnesota is also served by state and local trade organizations and local nonprofits, which include those that prioritize diverse businesses. Examples are provided on the following pages.

**African Career Education and Resources (ACER).** ACER is an issue-based community organization that assists BIPOC businesses in the northwest suburbs of the Twin Cities metro area. ACER offers business consultation, free technical assistance, distribution of micro-grant funding, scholarships and training for startups and new businesses.<sup>107</sup>

**African Development Center (ADC).** ADC primarily serves African immigrants and refugees in Minnesota, helping them buy a home, start a business or improve their credit. ADC provides workshops and consultations on home ownership, business development and financial literacy through culturally competent services for Minnesota's African community.<sup>108</sup>

**African Economic Development Solutions (AEDS).** AEDS works to develop businesses in African immigrant communities in the Twin Cities metropolitan area. AEDS provides business development, microlending, education and community development initiatives to small businesses owners and entrepreneurs.<sup>109</sup>

**Amplio (formerly SPEDCO).** Amplio is a nonprofit certified development company that helps small businesses with financing to expand their business and create jobs. Amplio offers a fixed-rate term loan, where the SBA provides up to 40 percent of the loan principle for land, buildings, machinery and equipment. Amplio serves all of Minnesota and nine counties in western Wisconsin.<sup>110</sup>

**Asian Economic Development Association (AEDA).** AEDA works to expand economic opportunities for low-income Asian Americans in Minnesota. Its Small Business Development Program provides technical assistance, educational information and training for Asian entrepreneurs who want to start or expand a business.<sup>111</sup>

**Association of Women Contractors (AWC).** AWC performs advocacy, collaboration and industry leadership in support of women-owned companies in the construction industry. AWC advocates for increased participation of women business owners and women in construction including as general contractors, specialty subcontractors, material suppliers and trucking businesses. AWC is a Minnesota-only-based association in Saint Paul.<sup>112</sup>

**Black in Technology (BIT) Foundation.** This non-profit entity offers discounts on training and certifications, technical services, education, mentorships and professional networking to black workers and entrepreneurs in technology.<sup>113</sup>

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<sup>107</sup> See <https://www.acerinc.org/economic-development>

<sup>108</sup> See <https://www.adcmnnesota.org/>

<sup>109</sup> See <https://www.aeds-mn.org/>

<sup>110</sup> See <https://amplioedc.com/>

<sup>111</sup> See <https://aedamn.org/>

<sup>112</sup> See <https://awcmn.org/>

<sup>113</sup> See <https://blacksintechology.org/>

## K. Business Assistance Programs — State and local organization program examples

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**BETA.** The Beta Group (BETA) is a nonprofit organization that provides resources to Minnesota’s technology startups to assist with business formation and help businesses develop professional relationships. BETA is piloting a no cost accelerator program with a cohort of new business owners interested in creating or growing their businesses. BETA is headquartered in Minneapolis.<sup>114</sup>

**Black Women’s Wealth Alliance (BWWA).** BWWA is committed to improving the economic standing of African American women in Minnesota, particularly in North Minneapolis. The Alliance provides education, toolkits and networking opportunities for African American women. BWWA also funds grants and lending opportunities to African American women-owned enterprises.<sup>115</sup>

**Coalition of Asian American Leaders (CAAL).** Minnesota’s Asian American Community formed CAAL in 2013 to connect community leaders. CAAL’s target areas are civic leadership, education, immigration and economics. It helps create and advocate for policies that address poverty and wealth building among the Asian American communities in Minnesota. CAAL also an Economics Work Group, which meets monthly to discuss community needs.<sup>116</sup>

**Center for Economic Inclusion.** The Center for Economic Inclusion is the nation’s first organization dedicated exclusively to equipping public and private sector employers and policy makers with tools to close racial gaps in employment, income and wealth. The Center describes themselves as “think and do” tank focusing on improving African American-, Indigenous-, Asian- and Latino-owned businesses.<sup>117</sup>

**Center for Innovation and Entrepreneurship.** Through Minnesota State University, Mankato, the Center for Innovation and Entrepreneurship offers consultations to organizations and businesses in southern Minnesota.<sup>118</sup>

**Council for Minnesotans of African Heritage (CMAH).** The Council, formerly known as the Council on Black Minnesotans, was created to ensure that Minnesotans of African heritage can have full and equitable access to benefits provided by the State of Minnesota. The Council primarily works towards legislative change and acts as a liaison between the state government and the African heritage community.<sup>119</sup>

**F.R. Bigelow Foundation.** The Foundation funds programs in Saint Paul and the East Metro Area, with the goal of achieving “racially and economically equitable outcomes” in arts and culture, community and economic development, education, health and housing. The Foundation created the LinkingLeaders initiative that connects leaders of color in the community by partnering with AALF, CAAL, LatinoLEAD and the Tiwahe Foundation.<sup>120</sup>

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<sup>114</sup> See <https://www.beta.mn/>

<sup>115</sup> See <https://www.bwwa-us.com/>

<sup>116</sup> See <https://caalmn.org/>

<sup>117</sup> See <https://www.centerforeconomicinclusion.org/>

<sup>118</sup> See <https://cob.mnsu.edu/center-for-innovation-and-entrepreneurship/consulting/>

<sup>119</sup> See <https://mn.gov/cmah/>

<sup>120</sup> See <https://frbigelow.org/>

## K. Business Assistance Programs — State and local organization program examples

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**Greater MSP.** Greater MSP is a nonprofit run by the Minneapolis Saint Paul Regional Economic Development Partnership. Its research and business investment representatives help businesses in the Greater MSP region grow and assist businesses that want to relocate to the Greater MSP region. Its Business Investment Team provides information on financial programs, trade opportunities and supply resources. Members can build their business network and have the opportunity to learn strategies for talent recruitment and retention and how to become economically competitive in the region.<sup>121</sup>

**Isuroon.** Isuroon is a small business hub that offers free business assistance to immigrant and refugee female entrepreneurs, especially Somali women. Isuroon provides free legal, financial, and marketing resources, networking opportunities and practical support.<sup>122</sup>

**Latino Economic Development Center (LEDC).** The Latino Economic Development Center was created to help Latino entrepreneurs start and grow small businesses. It provides workshops, classes, one-one-one assistance, loans and more business services.<sup>123</sup>

**LegalCORPS.** LegalCORPS is a Minnesota nonprofit that offers free business assistance to low-income business entrepreneurs and small business owners. LegalCORPS operates an Entrepreneurs of Color Program, designed to make business services more available to immigrants and BIPOC individuals. It is in Minneapolis.<sup>124</sup>

**Mayo Clinic Business Accelerator.** Located in Rochester, the Mayo Clinic Business Accelerator provides support for entrepreneurs and new and existing companies by helping new companies with job creation and expansion connects entrepreneurs, investors and advisors to share expertise and strategies for business development. The program was expanded in 2015 by the Rochester Area Economic Development, Inc. (RAEDI), the City of Rochester, Mayo Clinic Treasury Services and Mayo Clinic Ventures. MCBA companies have raised over \$38 million in funding.<sup>125</sup>

**Metropolitan Economic Development Association (MEDA).** MEDA provides business consulting, commercial lending and contract opportunities for BIPOC entrepreneurs in Minnesota. In the past 50 years, MEDA has served more than 25,000 BIPOC entrepreneurs.<sup>126</sup>

**Metropolitan Consortium of Community Developers (MCCD).** MCCD is an association of nonprofit affordable housing and economic development organizations from across Minnesota. As a certified CDFI, MCCD provides business advice and access to capital for disadvantaged business owners, with a focus on BIPOC, low-income, women and other marginalized groups. It serves businesses in the Twin Cities.<sup>127</sup>

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<sup>121</sup> See <https://www.greatermsp.org/>

<sup>122</sup> See <https://isuroon.org/small-business-support/>

<sup>123</sup> See <https://www.ledcmn.org/about/>

<sup>124</sup> See <https://legalcorps.org/>

<sup>125</sup> See <https://mcba.io/>

<sup>126</sup> See <https://meda.net/>

<sup>127</sup> See <https://mccdmn.org/>



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**Mid-Minnesota Builders Association (MMBA).** MMBA represents more than 200 members, who participate in many facets of the home building industry. Their mission is to provide professional development for its members and boost the public’s confidence in the home building industry. MMBA serves Crow Wing, Wadena and lower Cass counties.<sup>128</sup>

**Minnesota Business Finance Corporation (MBFC).** MBFC is a Certified Development Company that provides SBA 504 loans for small businesses. It works directly with individuals to help launch or expand a business, purchase a storefront or meet a unique business need. MBFC has locations in St. Cloud, Excelsior, Detroit Lakes, and Slayton.<sup>129</sup>

**Minnesota Indigenous Business Alliance (MNIBA).** MNIBA is a nonprofit dedicated to “Putting Native Businesses First.” It centers Indigenous peoples by providing them with resources on how to fund a business, how to find contracting and construction resources and particular associations that can help young people and women in business.<sup>130</sup>

**Minnesota Minority Goods and Services Association (MMGSA).** MMGSA is a professional collective of minority-owned businesses in the Twin Cities. Members benefit from agency contracts, business partnerships, educational opportunities and referrals. MMGSA’s market sectors vary, but their clients are mostly in healthcare and construction/building.<sup>131</sup>

**Minnesota Minority Trades Council (MMTC).** MMTC is a nonprofit organization that advocates for a more diverse workforce in the construction and real estate development industry. It brings together small businesses, MBEs, WBEs, VBEs, and disabled-owned businesses for building trades, financial planning, project bonding and business development. MMTC’s mission is to assist in projects with DBE goals and provide DEI leadership to individuals and corporations that conduct business in Minnesota.<sup>132</sup>

**Minnesota Tribal Contractors Council (TCC).** The Minnesota Tribal Contractors Council promotes the economic development of Native American contractors in the trades industry in Minnesota. It advocates for projects that give opportunities to member businesses.<sup>133</sup>

**New American Development Center (NADC).** NADC provides businesses with technical assistance, financial education and new business resources to reduce the poverty rate among refugees, immigrants and low-income members of the Somali and East African communities in Minnesota.<sup>134</sup>

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<sup>128</sup> See <https://www.midmnba.org/>

<sup>129</sup> See <https://mbfc.org/>

<sup>130</sup> See <https://www.mniba.org/>

<sup>131</sup> See <https://www.mmgsa.org/>

<sup>132</sup> See <https://mnminoritytrades.org/#>

<sup>133</sup> See <https://www.mn-tcc.org/>

<sup>134</sup> See <https://www.nadcmn.org/>

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**New Impact Fund.** New Impact Fund is a nonprofit that connects high-net-worth individuals (HNWIs) with Black-owned businesses in the Twin Cities area. HNWIs invest in the community and small business are provided with financial and social capital, training on job creation and how to grow a business and a network that can help promote their firm. The Fund works with Indigenous, Latino, Asian and immigrant business owners, but is prioritizing financial help for African American entrepreneurs for the next few years.<sup>135</sup>

**Northeast Entrepreneur Fund.** The Northeast Entrepreneur Fund is a community development financial institution (CDFI) serving 29 counties and 12 Native nations in Minnesota and Wisconsin. As a CDFI, the Fund provides financial services such as lending and advising to “underserved people and communities.” The Fund offers many loans including SBA Microloans, SBA 7(a), and small business loans ranging from \$1,000 to \$750,000. Each loan recipient is granted no cost one-on-one business advising.<sup>136</sup>

**Northside Economic Opportunity Network (NEON).** NEON's mission is to build wealth for low-to-moderate income entrepreneurs. It provides services such as training and workshops, commercial lending, business advising and more, to North Minneapolis and surrounding communities.<sup>137</sup>

**Neighborhood Development Center (NDC).** NDC is a community-based nonprofit that offers business loans and services and training

opportunities. NDC invests in low-income neighborhoods in the Twin Cities and other areas of Minnesota.<sup>138</sup>

**PFund Foundation.** PFund Foundation is a community-led foundation for the LGBTQ+ community. PFund offers numerous assistances, including the equity fund, a small business grant of \$5000–\$30,000, and a year of business education and network for LGBTQ+ businesses that have been operating for a year or more.<sup>139</sup>

**Rochester Area Economic Development, Inc. (RAEDI).** RAEDI assists potential and current businesses in the Rochester area in securing resources to help their businesses grow. It offers services related to financial packaging, such as funding and financing, business planning, site/location support and community advocacy.<sup>140</sup>

**Small Business Development Center (SBDC), Minnesota.** Minnesota is home to SBDCs at locations including Minnesota DEED, St. Cloud State and the University of St. Thomas.

**Southern Minnesota Initiative Foundation (SMIF).** The SMIF is a donor-supported foundation that offers loans, equity funds, and business training to central and southeastern Minnesota businesses.<sup>141</sup>

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<sup>135</sup> See <http://newimpactfund.org/>

<sup>136</sup> See <https://www.efund.org/>

<sup>137</sup> See <https://www.neon-mn.org/>

<sup>138</sup> See <https://www.ndc-mn.org/>

<sup>139</sup> See <https://www.pfundfoundation.org/equity-fund>

<sup>140</sup> See <https://www.raedi.com/>

<sup>141</sup> See <https://smifoundation.org/>

## K. Business Assistance Programs — State and local organization program examples

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### **Twin Cities-Metro Certified Development Company (TM CDC).**

TM CDC is a nonprofit corporation that helps small businesses by providing access to the U.S. Small Business Administration's 504 loan program. TM CDC serves the entire state of Minnesota and parts of western Wisconsin.<sup>142</sup>

**Urban League Twin Cities.** The Urban League helps African descendants in Minnesota work towards economic empowerment and self-sufficiency. The League offers programs in wealth development, education, workforce solutions and community and civic engagement. Urban League also has a Center for Social Justice Research, Policy and Advocacy, and a Center for the Advancement of the Black Family.<sup>143</sup>

**WomenVenture.** In 2000, The U.S. Small Business Administration designated WomenVenture as one of the nation's first Women Business Centers. WomenVenture, based in St. Paul, provides women with the tools to start and manage a business. WomenVenture provides training in financial literacy, career planning and small business assistance to women in Minnesota.<sup>144</sup>

### **Wisconsin Women's Business Initiative Corporation (WWBIC).**

WWBIC is an economic development corporation that serves underserved businesses in Wisconsin, Illinois and Minnesota. WWBIC provides resources and training for small businesses.<sup>145</sup> WWBIC also hosts a U.S. Small Business Administration's Veteran Business Outreach Centers (VBOC) offering business development services to veteran, active-duty service members and their families.<sup>146</sup>

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<sup>142</sup> See [504lending.com](https://504lending.com)

<sup>143</sup> See <https://ultcmn.org/>

<sup>144</sup> See <https://www.womenventure.org/>

<sup>145</sup> See <https://www.wwbic.com/>

<sup>146</sup> See <https://www.wwbic.com/veterans/>

## K. Business Assistance Programs — State and local organization program examples

### State and Local Business Chambers of Commerce

There are also many business chambers serving communities in Minnesota that offer networking, education and other assistance. Many Minnesota cities have their own chamber of commerce.<sup>147</sup> Figure K-2 provides a non-exhaustive list. Examples are discussed below.

**Chinese American Chamber of Commerce.** The Chinese American Chamber of Commerce is intended to help Chinese people in Minnesota by providing services to Chinese business owners, while working to safeguard their rights and interests in the United States. The Chamber helps Chinese people establish a business platform and acts as a link between the U.S. government and the Chinese business community. It is headquartered in the Twin Cities of Minnesota.<sup>148</sup>

**Latino Chamber of Commerce of Minnesota.** The Latino Chamber of Commerce states that it empowers Latino businesses in Minnesota by connecting business owners with resources and building partnerships with organizations that share their values.<sup>149</sup>

**Minnesota American Indian Chamber of Commerce (MAICC).** MAICC works on behalf of American Indian businesses, organizations, professionals and tribal enterprises to close opportunity gaps for American Indian entrepreneurs.<sup>150</sup>

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<sup>147</sup> See <https://www.uschamber.com/co/chambers/minnesota>

<sup>148</sup> See <https://caccmn.org/>

#### K-2. Examples of state and local chambers of commerce

- Bloomington Chamber of Commerce
- Cook County Chamber of Commerce
- Chinese American Chamber of Commerce
- Duluth Area Chamber of Commerce
- Eden Prairie Chamber of Commerce
- Fairmont Area Chamber of Commerce
- Grand Rapids Area Chamber of Commerce
- Hastings Chamber of Commerce
- Lakeville Area Chamber of Commerce
- Latino Chamber of Commerce of Minnesota
- MetroNorth Chamber of Commerce
- Midway Chamber of Commerce
- Minneapolis Regional County Chamber of Commerce
- Minnesota American Indian Chamber of Commerce
- Minnesota Area Chamber of Commerce
- Minnesota Black Chamber of Commerce
- Minnesota Chamber of Commerce
- Minnesota Hmong Chamber of Commerce
- North Branch Area Chamber of Commerce
- Quorum Chamber of Commerce
- River Heights Chamber of Commerce
- Rochester Area Chamber of Commerce
- Saint Cloud Area Chamber of Commerce
- Saint Paul Area Chamber of Commerce
- Twin Cities North Chamber of Commerce
- West Hennepin Chamber of Commerce
- Woodbury Area Chamber of Commerce

<sup>149</sup> See <https://latinochambermn.com/>

<sup>150</sup> See <https://maicc.org/>

## K. Business Assistance Programs — State and local organization program examples

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**Minnesota Chamber of Commerce.** The Minnesota Chamber of Commerce represents more than 6,300 companies and over half a million employees throughout Minnesota. The Chamber helps connect entrepreneurs and business owners to build a professional network. It offers events, leadership programs and one-on-one business services for its members.<sup>151</sup>

**Minnesota Hmong Chamber of Commerce.** The Hmong Chamber of Commerce’s mission is to create and sustain thriving Hmong businesses in Minnesota through engagement, collaboration and advocacy.<sup>152</sup>

**Twin Cities Quorum.** Twin Cities Quorum (Quorum) is Minnesota’s LGBTQ+ and Allied Chamber of Commerce. Quorum is an affiliate of the National LGBT Chamber of Commerce (NGLCC). Quorum supports LGBTQ+ and Allied businesses, nonprofits, corporations and professionals in the state. Services for entrepreneurs include networking and education programs. Partnerships with businesses include collaborations to open up supply chains to LGBTQ+ certified businesses. With funding from DEED and in partnership with Pfund, Quorum runs the Equity Fund, which provides business development grants and capacity building support for LGBTQ+, BIPOC or transgender and gender expansive (TGX) individuals in the Twin Cities and Greater Minnesota.<sup>153</sup>

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<sup>151</sup> See <https://www.mnchamber.com/>

<sup>152</sup> See <https://mnhmongchamber.org/>

<sup>153</sup> See <https://www.twincitiesquorum.com/>

## APPENDIX L. Entity Purchasing and Contract Equity Programs — Introduction

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Keen Independent reviewed general concepts concerning public procurement for different types of government agencies in Minnesota. The study team also examined programs that participating entities use to open procurement opportunities for minority- and woman-owned firms and other groups of diverse businesses.

The first part of Appendix L examines procurement, and the second part describes current contract equity programs. The discussion of programs includes those required for federally funded contracts (which are not a focus of the balance of the 2025 Minnesota Joint Disparity Study).

These summaries of procurement methods and contract equity programs may be refined in Phase 2 of the study as Keen Independent further explores both topics for each participating entity.

## L. Entity Purchasing and Contract Equity Programs — Procurement

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### Overview of Entity Procurement Methods

Participating entities procure construction, professional and technical services, goods and miscellaneous services by soliciting bids, proposals, qualifications statements or quotes.

There are also procedures for sole source and emergency purchases, which do not require bids or proposals from more than one business. Entities can also purchase items using other agencies' contracts or can join other agencies in cooperative purchasing.

**Bids for work.** Different requests for bids have different names:

- **An invitation for bid (IFB)** or request for bids (RFB) is typically used when the entity will award the purchase to the lowest responsible bidder. If the low-price bidder is responsive to the requirements specified in the invitation for bid (such as offering the correct item and delivering it when needed), that bidder will typically be awarded that procurement. For some of the participating entities, many construction contracts are awarded through IFBs when the design for those projects is complete prior to the construction contract. These are sometimes known as “design-bid-build” projects.
- **A request for proposal (RFP)** is typically used when an entity will consider factors such as proposed services, experience of the proposer, proposed timeline, price and other factors when selecting the firm for award. An entity can score different evaluation factors, each with a different weight. RFPs can be used for “best value” procurements of construction.

- There are certain types of professional services procurements that do not consider price when determining award. These types of services are often procured through requests for qualifications (RFQs).
- Public entities can make certain small purchases by directly soliciting quotes or informal bids from a small number of firms. For example, some entities attempt to obtain at least three quotes (even though state law requires only two quotes, if possible) if the procurement is estimated to be between \$10,000 and \$175,000.<sup>1</sup> Many, but not all, participating public entities issue purchasing cards (p-cards) to certain staff that allow them to directly purchase small-dollar items without competition. Entities such as the City of Saint Paul can use p-cards for micro-purchases up to \$10,000. (Note that this information was current at the time of the study.)
- There are other procurement tools, such as requests for information (RFIs) and statements of interest (SOIs), that entities can use to obtain information from potential vendors.

Each of the participating entities follow somewhat different procedures for preparing and evaluating bids, proposals, qualification statements and quotes from companies competing for those procurements. The largest differences are dollar levels that trigger public advertisement of the procurement opportunity or require obtaining a certain number of quotes; and how procurements are publicly advertised.

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<sup>1</sup> Minn. Stat. section 471.345 (2023).

## L. Entity Purchasing and Contract Equity Programs — Procurement

**Formal, publicly advertised bids and proposals.** Above a certain dollar limit, each of the participating entities are required to publicly advertise their procurements rather than just directly notifying a small number of firms about the procurement.

Local government agencies in Minnesota must typically follow State requirements set forth in Uniform Municipal Contracting Law.<sup>2</sup> State law sets the dollar thresholds that require use of specific methods for different types of procurement.<sup>3</sup> There are usually requirements about how long a request will be publicly advertised (often at least two weeks). Public entities in Minnesota typically advertise through their own or another agency’s website and/or through an official newspaper.

The dollar values in Figure L-1 identify when formal, publicly advertised bidding is required.<sup>4,5</sup> An entity can also use those methods for a smaller procurement if advantageous. Some entities use these thresholds to consider requiring bid bonds or a bid deposit (often 5%) for bids on those contracts.<sup>6</sup> (Bonds or the deposit forfeited if low bidder withdraws its bid for a disallowed reason.)

There are also exceptions, for example for direct solicitation up to \$250,000 of an SBE certified by a county-designated certification program.<sup>7</sup>

L-1. Thresholds that require a formal solicitation that is publicly advertised

### **\$250,000**

University of Minnesota (construction)  
Minnesota Department of Transportation

### **\$175,000**

Metropolitan Council  
Metropolitan Airports Commission  
Metropolitan Mosquito Control District  
Hennepin County  
Ramsey County  
City of Bloomington  
City of Brooklyn Park  
City of Minneapolis  
City of Rochester  
City of Saint Paul  
Saint Paul Public Schools

### **\$100,000**

Minnesota State Colleges and Universities  
University of Minnesota (A&E)

### **\$50,000**

Minnesota Dept. of Admin (public notice above \$25,000)  
University of Minnesota (goods and services)

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<sup>2</sup> Minn. Stat. section 471.345 (2023).

<sup>3</sup> The University of Minnesota is exempt from this requirement.

<sup>4</sup> The City of Bloomington Housing and Redevelopment Authority and Port Authority may have internal procurement policies that differ from the City’s.

<sup>5</sup> Hennepin Healthcare System solicits bids in accordance with Minn. Stat. section 383B.921 (2024), which does not require public advertising at a specific dollar threshold.

<sup>6</sup> Some other entities do not have this requirement. For example, the University of Minnesota does not require bid bonds; it only requires payment and performance on contracts exceeding \$175,000.

<sup>7</sup> Minn. Stat. section 471.345 (2023).



## L. Entity Purchasing and Contract Equity Programs — Procurement

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**Cooperative purchasing programs.** The Minnesota Department of Administration and other organizations sometimes solicit bids for contracts that allow many other public entities to make purchases at pre-determined prices.

State statute created Minnesota’s Cooperative Purchasing Venture (CPV) for certain goods and services, which is operated by the Minnesota Department of Administration Program.<sup>8</sup> As of spring 2024, more than 3,000 organizations in Minnesota were eligible to make CVP purchases, including most of the entities participating in the Joint Disparity Study. Purchasing through other cooperative agreements are also authorized under state law.

Many participating entities have access to regional or national cooperative purchasing specific to their industry as well as to U.S. General Services Administration (GSA) schedules.

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<sup>8</sup> Minn. Stat. section 16.C.03 (2023).

## L. Entity Purchasing and Contract Equity Programs — Procurement

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### Other Laws Affecting Public Procurement

Beyond rules for public bidding, many other laws affect public procurement in Minnesota. Examples are discussed below.

**Minnesota certificate of compliance from Minnesota Department of Human Rights.** State law (Minnesota Statute Section 363A.36) required firms receiving contracts exceeding \$100,000 that are a certain size (more than 40 full-time employees) to obtain a Certificate of Compliance from the Minnesota Department of Human Rights.

**Responsible Contractor Law.** The State passed the Responsible Contractor Law, effective in 2015, that requires public entities in the state to only enter into construction contracts exceeding \$50,000 with “responsible contractors.” A responsible contractor must be properly registered with the State; be in compliance with workers’ comp, unemployment insurance and other requirements; and in the three years prior to submitting the verification, it has not violated the following laws:

- Minnesota Prevailing Wage laws;
- Minnesota Wage & Hour laws;
- Minnesota Employee Classification law;
- Federal Fair Labor Standards Act; and
- Federal Davis Bacon Act.

One of the additional requirements is that the contractor has not been sanctioned by the Department of Administration or MnDOT for failure to meet a TGB, DBE or VET goal, due to a lack of good faith effort, more than once in the prior three years.

A prime contractor bidding on a public sector contract complies by submitting with its bid a sworn statement by the company owner or officer stating that it meets the criteria along with a list of first-tier subcontracts and their verifications of compliance. (Subcontractors must meet these requirements, no matter the size of the subcontract.)

**Contractor Affidavit (Form IC134).** Minnesota Statute section 363A.36 required contractors and subcontractors working on a public sector construction project (of any size) to complete and submit a Contractor Affidavit to the Minnesota Department of Revenue upon completion of the project.<sup>9</sup>

The government entity must obtain all of the completed Affidavits before it can make final payment to the prime contractor. The State of Minnesota directs prime contractors to not make final payments to subcontractors until they have received the Contractor Affidavit from that subcontractor.

**Bonding requirements for public works construction contracts.** By state law, bidders on public works construction projects in Minnesota must supply payment and performance bonds before execution of the contract.<sup>10</sup>

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<sup>9</sup> The University of Minnesota does not require this.

<sup>10</sup> See Minn. Stat. section 574.26 (2023) (For example, municipalities in the state must require bonding for construction contracts over \$175,000).

## L. Entity Purchasing and Contract Equity Programs — Procurement

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**Insurance requirements.** Each of the participating entities has standards for the insurance that their contractors, consultants and vendors must have (which sometimes vary based on the work performed or goods supplied). For example, the City of Saint Paul published its minimum requirements, which are summarized in Figure L-2. A firm with a City contract must submit Certificates of Insurance that comply with those requirements prior to being authorized to start work.

**Prompt payment.** Each of the participating entities is subject to State requirements for prompt payment, and prime contractors on public entity contracts have similar requirements to promptly pay their subcontractors.

- Minnesota Statute 16A.124 requires the State to pay a valid vendor invoice within 30 days of receiving that invoice “for the completed delivery of the product or service.” The statute requires the State to pay interest penalties for certain late payments.
- Minnesota Statute 471.425 has similar requirements for other public entities in the state. Most public agencies are required to pay within 35 days of receipt of invoice (or delivery of the goods or services, whichever is later).
- Subdivision 4a of Minnesota Statute 471.425 requires prime contractors with a state or local government contract to pay subcontractors on that contract within 10 days of when the prime receives payment from the public entity.

L-2. Minimum insurance requirements for  
City of Saint Paul, April 2024

### General or Business Liability Insurance

\$1.5 million per occurrence  
\$2 million aggregate per project  
\$2 million products/completed operations total limit  
\$1.5 million personal injury and advertising

### Automobile Insurance

Differing limits for Bodily Injury (e.g., up to \$750,000) and Property Damage depending on whether commercial, personal, or rental vehicles are used in connection with a contract

### Worker’s Compensation and Employer’s Liability

Worker’s Compensation per Minnesota Statutes  
(except when firm has 10 or fewer employees)  
\$0.5 million per accident, per employee and per disease policy  
limit for Employer’s Liability

### Professional Liability Insurance

\$1 million per occurrence  
\$2 million aggregate

Source: City of Saint Paul Insurance Requirements  
<https://www.stpaul.gov/sites/default/files/Media%20Root/Human%20Rights%20%26%20Equal%20Economic%20Opportunity/Insurance%207-24-17.docx> accessed April 6, 2024.

## L. Entity Purchasing and Contract Equity Programs — Procurement

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**Requirements for federally funded contracts.** Although the 2025 Joint Disparity Study did not focus on federally funded contracts, it is important to note that different procurement requirements can apply to those contracts.

For example, the Brooks Act is a federal law that generally requires selection of architecture and engineering firms for federally funded contracts based on factors other than price (such as qualifications and experience). This affects how agencies that receive federal funds for architecture and engineering contracts procure those services.<sup>11</sup>

**Examples of other requirements to be able to bid on public contracts.** The State and other public entity laws also have other direct and indirect effects on what firms can bid or work on those entities' contracts and subcontracts or can be legally in business in the state.

For example, Minnesota state law requires certain types of licensing to perform construction work and governs licensing for professional occupations (and businesses) ranging from law, architecture, engineering and accounting firms to various construction industries.

For example, state law requires any person practicing architecture, engineering, land surveying, landscape architecture or other professional services in a public or private project be licensed in the state.<sup>12</sup>

The State requires all general contractors to carry a residential remodeler or building contractor license.<sup>13</sup> General contractors may also have licenses in the electrical and plumbing industries.<sup>14</sup> General contractors seeking licenses in plumbing and electrical work must have a master plumber or electrician or restricted master plumber and master electrician on staff.<sup>15</sup> The master plumber or electrician must perform the majority or all of the work to be in compliance with the statutory requirements.<sup>16</sup>

Examples of other construction fields that require the owner or staff member to have a valid license with the Commissioner for the Minnesota Department of Labor and Industries include elevator constructors, water conditioning installation, pipefitting, boiler inspection and boiler operations.<sup>17</sup>

The Commissioner for the Department of Labor and Industry authorizes licenses. License requirements include either the licensee or an employee of the licensee who performs all the work to have an education in the trade and pass all master-level exams.<sup>18</sup> The Commissioner may also require the licensee to submit a background check and carry liability and worker's compensation insurance.<sup>19</sup>

Minnesota state statute 326B.805, subdivision 6 provides exemptions to these requirements.

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<sup>11</sup><https://www.dot.state.mn.us/stateaid/brooks-act.html>, accessed April 6, 2024.

<sup>12</sup> Minn. Stat. section 362B.02 (2023).

<sup>13</sup> Minn. Stat. section 326B.805 (2023).

<sup>14</sup> Minn. Stat. section 326B. 33 (2023) and Minn. Stat. § 326B.46 (2023).

<sup>15</sup> Minn. Stat. section 326B. 33 (2023) and Minn. Stat. § 326B.46 (2023).

<sup>16</sup> Minn. Stat. section 326B. 33 (2023) and Minn. Stat. § 326B.46 (2023).

<sup>17</sup> Minn. Stat. section 326B.31, 41, 50, 90, 95, 164 (2023).

<sup>18</sup> Minn. Stat. section 326B.805 (2023).

<sup>19</sup> Minn. Stat. section 326B.805 (2023).

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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Each participating entity operates certain programs providing preferences or assistance to minority- and women-owned businesses, businesses owned by persons with disabilities, veteran-owned businesses, businesses in economically disadvantaged areas and/or small businesses.

Each participating entity provided information about its programs, which Keen Independent supplemented from other sources. Keen Independent attempted to provide current information about programs at the time of this report.

Please note that the City of Bloomington, City of Brooklyn Park and Hennepin Healthcare System did not operate contract equity programs as of spring 2025.

The discussion of contract equity programs is organized as follows:

- Program descriptions;
- Program eligibility; and
- Program application.

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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### Programs Descriptions

A summary of participating entities' program follows. Each entity's website provides more detailed information. Figure L-3 on the following pages identifies the major programs by each entity.

**Federal programs.** Participating entities may receive federal funds that request them to apply certain race- and gender-conscious programs.

**Federal DBE Program.** The U.S. Department of Transportation requires state and local governments receiving funds from the Federal Highway Administration, Federal Transit Administration and Federal Aviation Administration to implement the Federal Disadvantaged Business Enterprise (DBE) Program. The Federal DBE Program applies to contracts funded by the U.S. Department of Transportation. As such, the Minnesota Department of Transportation, Metropolitan Council and Metropolitan Airports Commission have many contracts where they apply the Federal DBE Program, typically by setting DBE contract goals.<sup>20</sup>

Note that for entities including the City of Saint Paul, City of Minneapolis and Hennepin County, MnDOT sets the DBE contract goal and monitors compliance on these local governments' USDOT-funded contracts. To be certified as a DBE, a firm must be socially and economically disadvantaged. Revenue limits, personal net worth limits and other restrictions apply. 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>21</sup>

**Federal ACDBE Program.** Certain agencies receiving FAA funds are also required to implement the Federal Airport Concessions Disadvantaged Business Enterprise (ACDBE) Program related to airport concessions activities. The Metropolitan Airports Commission (MAC) implements the Federal ACDBE Program.<sup>22</sup>

**U.S. Housing and Urban Development MBE Program and Section 3 Program.** HUD has its own MBE Program that extends requirements to open contract opportunities for minority- and women-owned firms to state and local agencies receiving HUD financial assistance. This includes local public housing agencies. These agencies must provide regular reports of MBE and WBE participation to HUD.<sup>23</sup> Information related to grantees is also available.<sup>24</sup> HUD also has a Section 3 Program that encourages utilization of residents and businesses in HUD-supported projects.

**U.S. Environmental Protection Agency DBE Program.** As with HUD, the EPA has a DBE Program that encourages participation of minority- and women-owned firms, and other groups, in state and local contracts receiving EPA financial assistance.<sup>25</sup>

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<sup>20</sup> See <https://www.fhwa.dot.gov/civilrights/programs/dbess.cfm>

<sup>21</sup> See <http://www.dot.gov/osdbu/disadvantaged-business-enterprise/definition-disadvantaged-business-enterprise>

<sup>22</sup> See [https://www.faa.gov/about/office\\_org/headquarters\\_offices/acr/bus\\_ent\\_program/](https://www.faa.gov/about/office_org/headquarters_offices/acr/bus_ent_program/)

<sup>23</sup> See [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/sdb/guide/pop](http://portal.hud.gov/hudportal/HUD?src=/program_offices/sdb/guide/pop)

<sup>24</sup> See <https://www.hudexchange.info/resource/248/guidance-on-minority-business-enterprise-and-womens-business-enterprise-outreach/>

<sup>25</sup> See [https://www.epa.gov/sites/production/files/2013-09/documents/final\\_dbe\\_rule.pdf](https://www.epa.gov/sites/production/files/2013-09/documents/final_dbe_rule.pdf)

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

L-3. Program application for participating entities that have equity programs, 2025

Agencies	Federal DBE Program (USDOT)	Federal ACDBE Program (USDOT)	HUD Section 3	EPA DBE Program	TGB	VOB	Econ. Disadv. Business	UMN TGB	MCUB
Minn Dept. of Admin					■	■	■		
MnDOT	■				■	■	■		
Minnesota State					■	■	■		
University of Minnesota								■	
MAC	■	■			■				
Met Council	■			■					■
MMCD					■	■	■		
Hennepin County									
Ramsey County									
City of Minneapolis									
City of Rochester	■				■	■	■		
City of St. Paul					■				
Saint Paul Public Schools									

L. Entity Purchasing and Contract Equity Programs — Contract equity programs

L-3. Program application by participating entity, 2025 (cont. )

Agencies	SBE	SMBE/ SWBE	ESBE	SUBP	TMP	TB & WPP	VOP
Minn Dept. of Admin							
MnDOT							
Minnesota State							
University of Minnesota							
MAC							
Met Council							
MMCD							
Hennepin County	■	■	■				
Ramsey County	■						
City of Minneapolis				■	■		
City of Rochester	■					■	
City of St. Paul							■
Saint Paul Public Schools	■						



## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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**State of Minnesota programs.** The State of Minnesota has established three contract equity programs which were developed to level the playing field for targeted businesses located in the state. The State of Minnesota programs include:

- The Minnesota Targeted Group Business Program;
- The Minnesota Economically Disadvantaged Business Program; and
- The Minnesota Veteran-owned Business Program.

**Minnesota Targeted Group Business Program.** The Minnesota Department of Administration and several other participating entities operate a Targeted Group Business Program (TGB) that sets subcontract goals and provides preferences to Minnesota businesses that are certified as minority- or woman-owned firms or companies owned by people with a substantial physical disability. The program does not apply to certain federally funded contracts.<sup>26</sup>

**Minnesota Economically Disadvantaged Business Program.** Similar to the TGB Program, the Minnesota Department of Administration sets subcontract goals and provides preferences for small businesses certified as economically disadvantaged (ED) small businesses. A company located in an economically disadvantaged county, which includes federally designated labor surplus areas and low-income counties, can be certified as an economically disadvantaged small business. A firm can also be certified as such if the owner resides in an economically disadvantaged area.<sup>27</sup>

**Minnesota Veteran-owned Business Program.** The Minnesota Department of Administration and several other public entities operate a Veteran-owned Business Program (VO or VET Program) in parallel to other program elements, including subcontract goals and application of price preferences. A firm owned and controlled by a veteran and located in Minnesota can be certified under this program.<sup>28</sup>

**Certification.** The Minnesota Department of Administration certifies businesses as TGB/ED and VET firms.

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<sup>26</sup> See <https://mn.gov/admin/business/vendor-info/oep/sbcp/tg/>

<sup>27</sup> See <https://mn.gov/admin/business/vendor-info/oep/sbcp/ed/>

<sup>28</sup> See <https://mn.gov/admin/business/vendor-info/oep/sbcp/vo/>.

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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**State agency application of state programs.** State agencies may apply the TGB/ED/VET programs if they have sufficient probative evidence that remedial action is necessary to address observed disparities (such as through a disparity study).

**Minnesota Department of Administration (Admin).** Admin sets TGB/ED/VET subcontracting goals on construction and professional services contracts over \$500,000 with subcontracting opportunities.<sup>29</sup> Admin provides a price preference up to 12 percent for TGB/ED/VET firms bidding as prime contractors on certain goods and services.<sup>30</sup>

**Minnesota Department of Transportation (MnDOT).** MnDOT sets separate TGB and VET subcontracting goals on construction and professional services contracts with subcontracting opportunities. TGB and VET small businesses can receive a price preference of up to 12 percent when they bid or propose as prime contractors or prime consultants. MnDOT applies this preference to all state-funded construction and professional/technical services contracts.<sup>31</sup>

**Metropolitan Mosquito Control District (MMCD).** MMCD uses TGB/ED/VET directory to identify potential bidders.<sup>32</sup>

**Metropolitan Airports Commission (MAC).** MAC implements the Minnesota TGB program for its non-federally funded contracts, which provides price preferences of up to 6 percent for certified firms. MAC sets subcontract goals on certain construction and professional services contracts over \$175,000 that have subcontracting opportunities.<sup>33</sup>

MAC also implements the Federal DBE and ACDBE Programs for certain federally funded contracts and airport concessions, which were not part of the study.

**Minnesota State Colleges and Universities (Minnesota State).** Minnesota State provides a price preference of up to 6 percentage points for TGB, ED and VET vendors on construction-related contracts over \$100,000.<sup>34</sup> Minnesota State accepts the following certifications:

- State of Minnesota TGB, ED and VET certifications;
- CERT certification;
- Women’s Business Enterprise National Council WBENC certification; and
- National Minority Supplier Development Council NMSDC certification.

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<sup>29</sup> Minnesota Department of Administration. Goal Setting Process document.

<sup>30</sup> <https://mn.gov/admin/business/vendor-info/oep/sbcp/tg/>

<sup>31</sup> Minnesota Department of Transportation. MnDOT TGB Vet Special Provisions and Forms Template.

<sup>32</sup> Metropolitan Mosquito Control District. 2025 Minnesota Joint Disparity Study meeting notes.

<sup>33</sup> Metropolitan Airports Commission. 2025 Minnesota Joint Disparity Study meeting notes.

<sup>34</sup> Minnesota State Colleges and Universities. 2025 Minnesota Joint Disparity Study meeting notes.

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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### **University of Minnesota Targeted Group Business Program (TGBP).**

The University of Minnesota (UMN) operates a Targeted Group Business Program (TGBP).<sup>35</sup>

**TGB evaluation points.** Under the UMN TGBP, certified woman-, minority- and disabled-owned businesses that bid for a contract as a prime contractor receive additional evaluation points and non-certified bidders and proposers may obtain additional evaluation points (5–10% of total points) if:

- The bidder or proposer employs a meaningful number of women, minorities and/or persons with disabilities for work on construction projects.
- Subcontracts with or purchase materials from certified woman-, minority- or disabled-owned businesses. (UMN sets a TGB aspirational goal of 13 percent on construction contracts over \$250,000 and typically sets goals of 10 percent on architecture and engineering contracts over \$100,000 and 10 percent on goods and non-A&E services contracts over \$50,000.)
- Collaborates with the UMN in programs that provide job skills training or promote business development, where available.<sup>36</sup>

**Certifications.** UMN accepts the following certifications:

- Central Certification (CERT) Program (MBE/WBEs);
- Disability:IN™ Supplier Diversity;
- Minnesota Unified Certification Program (MnUCP);
- National Minority Supplier Development Council, Inc. ;
- State of Minnesota Department of Administration;
- Women’s Business Enterprise National Council (WBENC); and
- Veteran Small Business Certification (VetCert) service-disabled veteran-owned small businesses (SDVOSB).

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<sup>35</sup> <https://osd.umn.edu/programs/supplier-diversity>

<sup>36</sup> Key partners include Association of Women Contractors-MN, Disability:IN, Economic Development Assoc. of MN, Minnesota American Indian Chamber of Commerce,

Minnesota Minority Goods and Services Association, Minnesota Tribal Contractors Council, National Association of Minority Contractors-Upper Midwest, National Minority Supplier Diversity Council, Summit Academy, Women’s Business Development Center and Women’s Business Enterprise National Council.

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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**Metropolitan Council MCUB Program.** Metropolitan Council (Met Council) operates the Metropolitan Council Underutilized Business (MCUB) Program for non-federally funded contracts. MCUB businesses include CERT-certified WBEs and MBEs, TGBs, DBEs based in Minnesota, and veteran-owned and service-disabled veteran-owned businesses certified by the Minnesota Department of Administration. For the MCUB Program, the Metropolitan Council mirrors Federal DBE Program regulations.<sup>37</sup>

**Contract goals.** Met Council sets MCUB contract goals for eligible locally funded contracts over \$175,000.

**MCUB Direct.** Met Council applies the “micro-level purchase process” for procurements up to \$25,000 when one targeted group or veteran-owned business is likely to bid.

**MCUB Select.** Met Council applies a “sheltered market solicitation” process for a procurement of goods or services up to \$175,000 when at least three targeted group or veteran-owned businesses are likely to bid.

**MCUB Preference.** Met Council provides a 6 percent evaluation preference for procurement of goods and services between \$25,000 and \$175,000 when one targeted group or veteran-owned business is likely to bid.

**Certifications.** Met Council accepts the following certifications for a firm to be eligible for the MCUB Program:

- Certified Targeted Group Businesses;
- DBE-certified businesses based in Minnesota;
- Veteran and Service Disabled Veteran Owned businesses certified by the MN Department of Administration; and
- CERT MBE and WBE firms.

Met Council certifies firms as DBEs.

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<sup>37</sup> See <http://www.metrocouncil.org/About-Us/Organization/Office-of-Equal-Opportunity/Small-Business-Programs/Metropolitan-Council-Underutilized-Business-Progra.aspx>.

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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**Hennepin County targeted inclusion programs.** Hennepin County has administered the Small Business Enterprise (SBE) Program for over 25 years. In 2018, Hennepin County supplemented and enhanced its race- and gender-neutral SBE program with narrowly tailored contract-specific race- and gender-conscious goals.<sup>38</sup>

**SBE goal.** Hennepin County may set an SBE participation goal on construction and professional services contracts of over \$100,000. Both prime and subcontractor performance can be counted for goal credit.

**Women-owned small business enterprise (SWBE) and small business enterprise owned by a person of color (SMBE).** In 2018, following the 2017 Minnesota Joint Disparity Study results, the County supplemented and enhanced the SBE program with narrowly tailored SMBE and SWBE goals in construction, and SMBE goals in professional service contracts. SMBE and SWBE goals are considered on contracts estimated to be over \$100,000. The County may still set an SBE goal when warranted.

**Incentivizing ESBE and SBE participation.** In 2018, the County began incentivizing the inclusion of CERT-certified ESBEs and SBEs through use of evaluation criterion points where proposers can earn up to 10 percent of total evaluation points. Where applicable, incentive points may be earned by the self-performance of the prime and subcontractors.

**Principal agreement program.** The County provides enhanced bidding opportunities to SBE, ESBE and CERT firms on certain contracts.<sup>39</sup>

Examples of principal agreement programs include:

- **Small construction roster program.** ESBEs with average gross revenue below \$4 million are invited to bid on construction-related projects valued at \$500,000 or less.
- **Building maintenance services roster program.** ESBEs with average gross revenue not exceeding \$9.5 million are invited to bid on certain maintenance contracts.
- **Community engagement roster.** The County gives first consideration to CERT certified small and emerging small businesses when a need for community engagement services arises.
- **IT Consulting Services Program.** The County gives first consideration to CERT certified small businesses when IT related services are needed, such as web design, business analysis or programming.
- **Professional technical services roster.** Hennepin County maintains a roster of qualified and available vendors to provide professional technical services. The roster is generally used to award contracts for projects estimated to cost less than \$500,000. The County gives first consideration to emerging and small business enterprises that are CERT certified.

**Certifications.** Hennepin County jointly sponsors and administers the CERT program with several other local governments in the metro region.

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<sup>38</sup> <https://www.hennepin.us/business/work-with-henn-co/contracting-with-hennepin-county>

<sup>39</sup> <https://www.hennepin.us/business/work-with-henn-co/contracting-with-hennepin-county>

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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### **Ramsey County Small Business Enterprise Quote (SBEQ) program.**

Since 2012, Ramsey County has operated a Certified Small Business Enterprise Quote (SBEQ) program.<sup>40</sup>

This program creates a market for small businesses to compete for relatively small County contracts.

**Program application.** The SBEQ program applies to County construction, professional services, goods and other services purchases valued between \$10,000 and \$250,000 (as of September 2018).

**Program operation.** The County must receive at least two responses from certified SBEs in response to solicitations for bids or proposals.

**Certification.** SBEs certified through CERT are eligible to participate in the SBEQ program.

As of 2019, veteran-owned small businesses certified through the U.S. Department of Veterans Affairs, or the Office of State Procurement are also eligible to participate in the program.

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<sup>40</sup> Certified Small Business Enterprise Quote (SBEQ) Policy.

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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### **City of Minneapolis Small Underutilized Business Program (SUBP).**

The City of Minneapolis operates the Small Underutilized Business Program (SUBP) for minority- and woman-owned firms and the Target Market Program for small businesses.<sup>41</sup>

**SUBP goals.** The City sets separate MBE and WBE participation goals on locally funded construction, professional services and good contracts over \$175,000.<sup>42</sup> The threshold for program application changed from \$200,000 to \$175,000 in 2019.

MBEs and WBEs must be certified as Disadvantaged Business Enterprises (DBEs) and have their primary location of work in the Minnesota counties of Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Le Sueur, Mille Lacs, Ramsey, Scott, Sherburne, Sibley, Washington, or Wright; or the Wisconsin counties of Pierce or St. Croix.

**Target Market Program (TMP).** The TMP is a race- and gender-neutral program that applies to contracts less than \$175,000. As part of this program, the City invites small firms in the relevant marketplace area to participate in certain contracts below \$175,000.<sup>43</sup>

Small firms need to first enroll in the Targeted Market Program to participate in this program. Firms should meet Small Business Administration (SBA) size standards and be located in the 13-county Minneapolis metropolitan area.

**Certification.** The City of Minneapolis certifies and accepts Disadvantaged Business Enterprise certification for the Small Underutilized Business Program.

The City accepts certifications through CERT for its Target Market Program.

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<sup>41</sup> <https://www2.minneapolismn.gov/government/departments/civil-rights/contract-compliance-division/small-underutilized-business/>

<sup>42</sup> [https://library.municode.com/mn/minneapolis/codes/code\\_of\\_ordinances?nodeId=MICOOR\\_TIT16PLDE\\_CH423SMUNBUENPR#TOPTITLE](https://library.municode.com/mn/minneapolis/codes/code_of_ordinances?nodeId=MICOOR_TIT16PLDE_CH423SMUNBUENPR#TOPTITLE)

<sup>43</sup> <https://www.minneapolismn.gov/business-services/doing-business-with-the-city/target-market/>

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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**City of Rochester Targeted Business Program.** In November 2020, the City of Rochester adopted a contract goals program, the Targeted Business (TB) program.

The program includes SBE and VBE price preferences, as well as workforce employment goals for women and people of color. The City began phasing in a TB contract goals element for City infrastructure projects in 2021.<sup>44</sup>

**TB program elements.** The City's TB program contains the following elements relating to workforce participation and TB participation in City procurement related to infrastructure projects.

- **Workforce employment.** The City has workforce employment goals of 15 percent for people of color and 9 percent for women.
- **TB participation.** The City may apply a 4 percent subcontract participation goal for each City contract in heavy civil construction and a 7 percent subcontract participation goal for each City contract in commercial construction. Professional Technical services contract goals are set contract-by-contract.
- **VBE and SBE price preferences.** VBEs and SBEs receive a 6 percent price preference on bids and proposals (up to \$1 million).

**Certification.** The City accepts certification from the following certification agencies:

- Minnesota Unified Certification Program for DBEs (MnUCP);
- CERT certification; and
- Minnesota Office of State Procurement.

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<sup>44</sup> City of Rochester. 2025 Minnesota Joint Disparity Study meeting notes.



## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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**City of Saint Paul Vendor Outreach Program (VOP).** The City of Saint Paul operates the Vendor Outreach Program (VOP) on non-federally funded contracts.<sup>45</sup>

**Business inclusion goals.** The City of Saint Paul sets subcontracting goals on locally funded construction, goods and services contracts with a total project cost of over \$50,000.

For eligible contracts, the City sets goals of 25 percent for the share of the subcontracted amount of the project to go to CERT businesses. The business inclusion goal is broken down as follows:

- 5 percent MBEs;
- 10 percent SBEs; and
- 10 percent WBEs.

**CERT vendor quote requirements.** All new purchases up to \$175,000 require at least one quote from a CERT vendor if available.<sup>46</sup> Exceptions include purchases made with an existing contract.

**Saint Paul Public Schools Small Business Enterprise Program.** Saint Paul Public Schools (“SPPS” or “District”) operates an Equal Opportunity Procurement program that includes overall aspirational SBE or micro-SBE goals and contract-specific SBE or micro-SBE goals.<sup>47</sup>

**Aspirational goals.** Saint Paul Public Schools sets overall annual aspirational SBE and micro-SBE goals for District construction projects. Goals are evaluated and adjusted annually (as appropriate). Aspirational goals include:

- 10 percent for qualified SBEs; and
- 15 percent for qualified micro-SBEs.

**SBE subcontract participation goals.** The District is authorized to set SBE and micro-SBE participation goals on a contract-by-contract basis for its construction projects. This program element was implemented in 2023.

**Certifications.** SPPS accepts CERT certification for its SBE Program.

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<sup>45</sup> <https://www.stpaul.gov/departments/human-rights-equal-economic-opportunity/contract-compliance/vendor-outreach-program>

<sup>46</sup> City of Saint Paul Human Rights and Equal Opportunity, CERT Vendor Quote Requirements.

<sup>47</sup> Saint Paul Public Schools Policy 713.00 Equal Opportunity Procurement.

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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**Hennepin Healthcare System.** Hennepin Healthcare did not operate a contract equity program at the time of this report. However, Hennepin Healthcare had started including assessment of staff diversity in its evaluation criteria for RFP/FRQs.

**City of Bloomington and City of Brooklyn Park.** The City of Bloomington and the City of Brooklyn Park did not operate a contract equity program. at the time of this report.

**CERT certification.** The CERT (Central Certification) Program is a joint powers agreement (JPA) with board members from Saint Paul, Minneapolis, Hennepin County, and Ramsey County.

The program certifies eligible small local businesses. All CERT vendors must meet the Small Business Enterprise criteria and be a part of the Minneapolis=St. Paul metro area marketplace. Emerging Small Business Enterprise (ESBE) is an additional certification with a greatly reduced size standard. Eligible businesses that apply for CERT certification will automatically be certified as an ESBE if they qualify.

Additional information about certification follows.

**CERT-eligible firm.** A business entity whose principal place of business is in the marketplace that:

- Is at least fifty-one (51) percent owned by one or more native or naturalized citizens of the United States, or lawfully admitted permanent residents of the United States, and
- Is not a broker, or a manufacturer's representative, does not operate as a franchisee or under a franchise agreement, and is not a business in which the owner is also owner or part owner of one or more businesses that is dominant in the same field of operation; and

- Performs a commercially useful function; and
- Has been in operation for at least one year or, in operation for less than one year and is able to provide documentation showing that it has an established record of generating revenue while performing the business function represented in its application for certification or, if a professional service, is able to provide documentation showing that it possesses applicable licenses or professional certifications or credentials.

**Small Business Enterprise (SBE).** It is not a business enterprise dominant in its field of operation.

**Minority-owned Business Enterprise (MBE).** An eligible business that is at least fifty-one (51) percent owned by one or more minority persons and has its management and daily business operations controlled by one or more minority persons who own it.

**Women-owned Business Enterprise (WBE).** An eligible business that is at least fifty-one (51) percent owned by one or more women and has its management and daily business operations controlled by one or more women who own it.

CERT firms must be a small business and have a place of business in the marketplace (Minnesota counties of Anoka, Benton, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Stearns, Washington, and Wright; and the Wisconsin counties of Pierce and St. Croix.)

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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### Program Eligibility

Figure L-4 summarizes eligibility and certification requirements for each program and identifies certifying agencies. In general, certification limits eligibility based on:

- Revenue or employment size of business;
- Personal net worth of the business owner (for State TG/ED/VO programs and Federal DBE and ACDBE programs);
- Location of business; and
- Race, ethnicity or gender of business (for race- and gender-conscious programs).

Figure L-5 presents relevant certifications and certifying agencies for the programs operated by each participating entity.

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

L-4. Summary of firm eligibility for equity programs, 2025

	Federal DBE Program (USDOT)	Federal ACDBE Program (USDOT)	HUD Section 3 Program	EPA DBE Program	TGB	VOB	Econ. Disadv. Business	UMN TGB
<b>Firm ownership eligibility criteria</b>								
Minority-owned small business	■	■	■	■	■			■
Woman-owned small business	■	■	■	■	■			■
Other small businesses	*	*						
Small businesses owned by persons with disabilities	*	*			■			■
Veteran-owned small business	■					■		■
Small businesses (or owners) located in labor surplus or low income counties							■	
<b>Firm location eligibility criteria</b>								
13-County Metro Area								
15-County Metro Area								
16-County Metro Area								
Minnesota					■	■	■	■
United States	■	■	■	■				

\* Can apply for social disadvantage under the Federal DBE Program.

\*\* Separate contract goals for MBE, WBE and SBE.

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

L-4. Summary of firm eligibility for equity programs (cont.)

	MCUB	SBE	SMBE/ SWBE	ESBE	SUBP	TMP	TB & WPP	CERT
<b>Firm ownership eligibility criteria</b>								
Minority-owned small business	■		■ **		■ (DBEs)		■	■ **
Woman-owned small business	■		■ **		■ (DBEs)		■	■ **
Other small businesses	*	■	■ **	■	*	■		■ **
Small businesses owned by persons with disabilities	■				*		■	
Veteran-owned small business	■						■	
Small businesses (or owners) located in labor surplus or low income counties							■	
<b>Firm location eligibility criteria</b>								
13-County Metro Area						■		
15-County Metro Area		■	■	■				■
16-County Metro Area					■			
Minnesota	■						■	
United States								

\* Can apply for social disadvantage under the Federal DBE Program.

\*\* Separate contract goals for MBE, WBE and SBE.

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

L-5. Summary of programs operated by participating entities, 2025

Agencies	DBE ACDBE	CERT	Certification			
			Other	(MBE/WBE/ Disability)	Economic disadvantaged	Veteran
Minn Dept. of Admin				■	■	■
MnDOT	■			■		■
Minnesota State		■	■	■	■	■
University of Minnesota		■	■	■		■
MAC	■			■		
Met Council	■	■		■		■
MMCD				■	■	■
Hennepin County		■				
Ramsey County		■				
City of Minneapolis	■	■				
City of Rochester	■	■		■	■	■
City of St. Paul		■				
St. Paul Public Schools		■				

Note: Veteran for UMN means Veteran Small Business Certification (VetCert) service-disabled veteran-owned small businesses (SDVOSB).

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

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### Program Application

Each program uses a set of tools to encourage participation of minority- and women-owned businesses or other groups.

**Price preferences and incentive points.** The TGB Program, Veteran-owned Business Program and Economically Disadvantaged Business Program apply price preferences (or other point preferences) for certified firms when bidding or proposing on certain procurements. The preference can be as much as 12 percent. Sometimes there is a limit on the amount of price preference applied (e.g., maximum of \$60,000).

The Met Council MCUB and the City of Rochester Targeted Business Program offer similar preferences.

Hennepin County and the University of Minnesota prime contractors may receive incentive evaluation points for including a particular group in their bid proposal.

Figure L-6 identifies programs that use price preferences and incentive points.

**Contract goals.** Certain programs include use of contract goals, where prime contractors must either include a level of participation of a particular group in their bid or proposal that meets the goal set for the contract or show good faith efforts to do so. Participating entities can set 0 percent goals or not set a goal at all in certain circumstances, for example when there are very limited subcontracting opportunities on a contract or insufficient availability of certified firms for scopes of work involved.

Figure L-6 identifies programs that provide for use of contract goals.

**Sheltered market programs.** A sheltered market program limits participation in bidding for certain procurements to certified firms.

Met Council, City of Saint Paul and Hennepin County provide bidding opportunities to particular groups on certain contracts.

Figure L-6 on the following page describes the application of sheltered market programs.

## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

L-6. Summary of price preferences and contract goals program tools used by participating entities

Agencies	Price/incentive points for bidder or proposer				Contract goals		
	Construction	Professional services	Goods and other services	Limits or thresholds	Construction	Professional services	Goods and other services
Minn Dept. of Admin	■	■	■	TG/ED/VO may receive up to 12% preference	■	■	
MnDOT	■	■		TG/ED/VO may receive up to 12% preference	■	■	
Minnesota State	■	■	■	TG/ED/VO may receive up to 6% preference			
University of Minnesota	■	■	■	TGBs earn additional points that become part of total bid score	■	■	■
					For contracts over \$250,000	For contracts over \$200,000	For contracts over \$50,000
MAC				TGBs may receive up to 6% preference	■	■	■
Met Council <sup>1</sup>	■	■	■	MCUB may receive 6% preference for contracts \$25,000–\$175,000	■	■	■
						For contracts over \$175,000	



## L. Entity Purchasing and Contract Equity Programs — Contract equity programs

L-6. Summary of price preferences and contract goals program tools used by participating entities (cont.)

Agencies	Price/incentive points for bidder or proposer				Contract goals		
	Construction	Professional services	Goods and other services	Limits or thresholds	Construction	Professional services	Goods and other services
Hennepin County	■	■		Proposers may be incentivized and receive up to 10% of total evaluation points for their inclusion of SBEs and/or ESBEs	■	■	
					Generally for contracts over \$100,000		
Ramsey County				Reaches out to 2 CERT firms for contracts between \$10,000 and \$250,000			
City of Minneapolis <sup>2</sup>				No price preference in SUBP Program	■	■	■
					For contracts over \$175,000		
City of Rochester	■	■		Firms can receive 4%-7% preference depending on type of project	■		
City of St. Paul				No price preference in the VOP Program	■	■	■
					VOP applies for contracts over \$50,000		
St. Paul Public Schools					■		

Note:

1. Met Council's MCUB procurement programs are Direct, Select or Preference. Direct applies a micro level purchase process, Select applies a sheltered market process and Preference provides the 6 percent evaluation preference.
2. In the City of Minneapolis, certain housing construction projects receive HUD financial assistance to promote inclusive subcontracting based on income and worker residency.

## APPENDIX M. Analysis of Combined Entity Contracts — Utilization

Appendix M examines the utilization and availability of minority- and woman-owned firms for the combined contracts of the 16 entities participating in the 2025 Joint Disparity Study. The study team analyzed the combined utilization of other groups of businesses as well.

Analysis of utilization is followed by availability and disparity analyses that compare MBE/WBE utilization and availability.

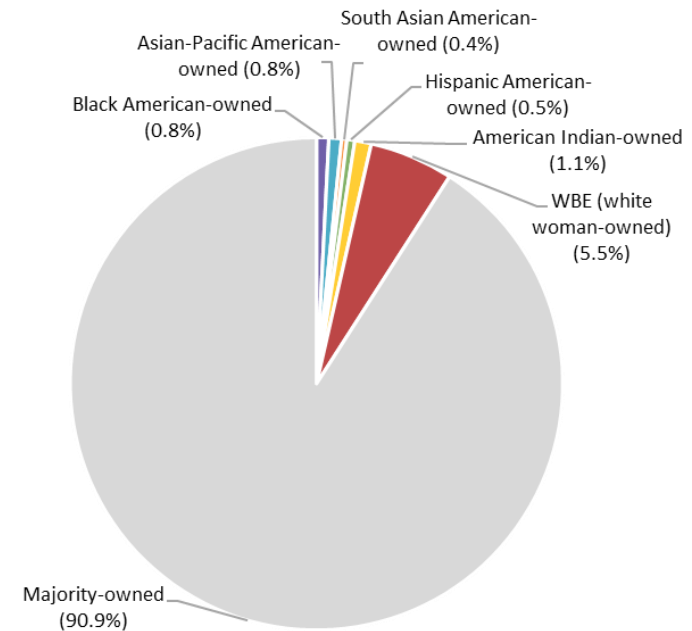
### Combined Entity Utilization of Minority- and Woman-owned Firms and Other Businesses

Keen Independent examined contracts and subcontracts of the 16 public entities awarded during the July 1, 2016, through June 30, 2023, study period. After excluding purchases from other governments or not-for-profit organizations as well as types of procurements that an entity typically makes from national markets, this database included more than 150,000 contracts and subcontracts going to 30,464 different companies that totaled \$31 billion. Over the seven-year study period, the total spending of the public entities examined in this study averaged \$4.5 billion per year.

There were about 21,000 contracts and subcontracts that went to 3,036 different minority- and woman-owned companies totaling \$2.8 billion.<sup>1</sup> This MBE/WBE utilization, which includes certified and non-certified firms, accounted for 9.1 percent of the total dollars examined. Figure M-1 shows the share of total combined entity contract dollars going to each MBE group and to WBEs. General methods for collecting these data and identifying ownership are summarized in Appendix B.

<sup>1</sup> The number of MBE/WBEs receiving at least one contract or subcontract was as follows: 348 Black American-owned, 224 Asian-Pacific American-owned, 157 South

M-1. Share of total combined entity contract dollars going to MBEs and WBEs, July 2016–June 2023



Source: Keen Independent analysis of combined entity procurement data, July 2016–June 2023

Asian American-owned, 204 Hispanic American-owned, 87 American Indian-owned and 2,016 white woman-owned companies.

## M. Analysis of Combined Entity Contracts — Utilization

### Utilization Analysis by Group

Participation of MBEs and WBEs on combined entity contracts and subcontracts (July 2016–June 2023) is shown in Figure M-2.

- About \$1.1 billion went to 1,020 minority-owned businesses (more than 6,100 contracts and subcontracts). MBEs received 3.6 percent of total contract dollars.
- About \$1.7 billion went to 2,016 white women-owned businesses (more than 14,000 contracts and subcontracts). WBEs obtained 5.5 percent of total dollars.

The bottom of Figure M-2 examines utilization for other groups.

- First, 43 percent of contract dollars went to small businesses (based on Small Business Administration size standards). Most were not SBE-certified. Only one out of every ten dollars going to small businesses went to a CERT-certified SBE.
- Different entities accept different certifications for their SBE or MBE/WBE programs. Counting that participation entity by entity, about 6.1 percent of combined contract dollars went to firms eligible for those programs.
- About 5.8 percent of dollars went to certified MBEs, WBEs or DBEs.
- About 0.6 percent of spending went to firms with a veteran certification and 0.2 percent went to SDVOBs.
- One tenth of 1 percent of spending went to firms certified as owned by a person with a disability (certified either by the State or by DisabilityIN).
- Based on National LGBT Chamber of Commerce (NGLCC) certification, \$3.1 million of contracts was awarded to LGBTQ-owned businesses.

M-2. Total combined entity contract dollars going to MBEs, WBEs and other firms, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	1,638	\$ 251,787	0.81 %
Asian-Pacific American-owned	1,539	257,170	0.82
South Asian American-owned	795	107,767	0.35
Hispanic American-owned	1,311	161,794	0.52
American Indian-owned	879	337,565	1.08
Total MBE	6,162	\$ 1,116,084	3.58 %
WBE (white woman-owned)	14,769	1,719,794	5.51
<b>Total MBE/WBE</b>	<b>20,931</b>	<b>\$ 2,835,878</b>	<b>9.09 %</b>
Majority-owned	129,785	28,352,378	90.91
<b>Total</b>	<b>150,716</b>	<b>\$ 31,188,256</b>	<b>100.00 %</b>
<b>Business classification or certification</b>			
All small businesses	108,597	\$ 13,540,356	43.41 %
Firms eligible for entity program	12,858	1,905,088	6.11
General certification			
MBE/WBE/DBE	11,910	1,803,325	5.78
SBE (CERT)	8,824	1,353,164	4.34
Veteran (VO, VetBiz, SDVOB)	1,009	183,451	0.59
Service-disabled (SDVOB)	374	77,623	0.25
Disability (TG, DisabilityIN)	125	31,066	0.10
LGBTQ+ (NGLCC)	38	3,118	0.01

Note: Number of procurements includes contracts and subcontracts.

Source: Keen Independent analysis of combined entity procurement data, July 2016–June 2023.

## M. Analysis of Combined Entity Contracts — Utilization

The following pages present MBE and WBE utilization and other business utilization for each study industry, beginning with construction. As with the analysis of total entity contract dollars, only state- or locally funded contracts are included.

### Construction

Keen Independent examined MBE and WBE participation in more than 42,000 combined entity construction contracts and subcontracts in the July 2016–June 2023 study period. More than 9,200 of these contracts and subcontracts went to MBE/WBEs (986 individual MBE/WBE companies out of about 8,000 companies receiving work). Of the nearly \$13 billion in total entity construction contract dollars, 12.5 percent went to minority- or woman-owned companies.

The bottom of Figure M-3 shows utilization for small businesses and certified firms.

- Nearly one-half of combined entity construction contract dollars went to small businesses (including those not certified).
- A large portion of the 12.5 percent of total construction contract dollars going to minority- and woman-owned companies went to firms certified as MBEs, WBEs or DBEs (9.1% of contract dollars).
- About 1 percent of construction contract dollars went to companies certified as veteran owned.
- There was very little participation of firms certified as owned by a person with a disability (0.03% of construction contract dollars).

M-3. Combined entity construction contract dollars going to MBEs, WBEs and other firms, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	610	\$ 102,239	0.79 %
Asian-Pacific American-owned	632	143,636	1.12
South Asian American-owned	143	16,968	0.13
Hispanic American-owned	528	100,775	0.78
American Indian-owned	648	308,084	2.39
Total MBE	2,561	\$ 671,702	5.21 %
WBE (white woman-owned)	6,657	934,024	7.25
<b>Total MBE/WBE</b>	<b>9,218</b>	<b>\$ 1,605,725</b>	<b>12.46 %</b>
Majority-owned	33,100	11,276,198	87.54
<b>Total</b>	<b>42,318</b>	<b>\$ 12,881,923</b>	<b>100.00 %</b>
<b>Business classification or certification</b>			
All small businesses	27,584	\$ 6,356,927	49.35 %
Firms eligible for entity program	7,169	1,288,613	10.00
General certification			
MBE/WBE/DBE	6,587	1,169,733	9.08
SBE (CERT)	5,089	932,628	7.24
Veteran (VO, VetBiz, SDVOB)	616	133,985	1.04
Service-disabled (SDVOB)	261	57,887	0.45
Disability (TG, DisabilityIN)	24	3,296	0.03
LGBTQ+ (NGLCC)	14	14	0.00

Note: Number of procurements includes contracts and subcontracts.

Source: Keen Independent analysis of combined entity procurement data, July 2016–June 2023.

## M. Analysis of Combined Entity Contracts — Utilization

### Professional Services

Keen Independent examined MBE and WBE participation in more than 33,000 entity professional services contracts and subcontracts in the July 2016–June 2023 study period. MBE/WBEs obtained about 5,600 of the total professional services contracts and subcontracts. Of the \$4.7 billion in total professional services contract dollars, 13.4 percent went to minority- or woman-owned companies. Two-thirds of the total MBE/WBE spending was with white woman-owned firms.

Not shown in Figure M-4 is the number of individual firms participating in combined entity professional services contracts. There were about 8,900 companies in total receiving at least one professional services contract or contract, of which 464 were MBEs and 844 were WBEs (1,308 unique minority- or woman-owned firms in total).

The bottom of Figure M-4 reports utilization for small businesses and certified firms. More than one-half of professional services contract dollars went to small businesses. Of the 13.4 percent of total professional services contract dollars going to minority- and woman-owned firms, 8.2 percentage points went to certified MBEs, WBEs or DBEs.

M-4. Combined entity professional services contract dollars going to MBEs, WBEs and other firms, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	573	\$ 61,340	1.31 %
Asian-Pacific American-owned	463	55,168	1.18
South Asian American-owned	429	70,689	1.51
Hispanic American-owned	410	33,959	0.72
American Indian-owned	74	5,348	0.11
Total MBE	1,949	\$ 226,504	4.83 %
WBE (white woman-owned)	3,611	400,617	8.55
<b>Total MBE/WBE</b>	<b>5,560</b>	<b>\$ 627,120</b>	<b>13.38 %</b>
Majority-owned	27,574	4,059,739	86.62
<b>Total</b>	<b>33,134</b>	<b>\$ 4,686,859</b>	<b>100.00 %</b>
<b>Business classification or certification</b>			
All small businesses	23,835	\$ 2,563,553	54.70 %
Firms eligible for entity program	3,058	366,833	7.83
General certification			
MBE/WBE/DBE	3,116	382,993	8.17
SBE (CERT)	2,021	250,120	5.34
Veteran (VO, VetBiz, SDVOB)	162	29,575	0.63
Service-disabled (SDVOB)	70	18,314	0.39
Disability (TG, DisabilityIN)	58	14,563	0.31
LGBTQ+ (NGLCC)	25	2,095	0.04

Note: Number of procurements includes contracts and subcontracts.

Source: Keen Independent analysis of combined entity procurement data, July 2016–June 2023.

## M. Analysis of Combined Entity Contracts — Utilization

### Goods

MBEs and WBEs were awarded 2.7 percent of the combined entity goods contract dollars. Of the 52,640 goods procurements, 3,482 went to minority- and woman-owned businesses. Figure M-5 presents these results. (As with other results, this table does not include purchases an entity would typically make from a national market.)

Note that there were about 13,100 individual companies receiving goods purchases. Of these, 988 were minority- or woman-owned.

The bottom of Figure M-5 shows utilization for small businesses and for certified firms. Spending with certified MBEs, WBEs and DBEs amounted to about 1 percent of total entity goods contract dollars.

Small businesses received 28 percent of goods spending examined for the combined entities. The goods industry had the lowest share of total industry dollars going to small businesses of any of the four industries examined, even after excluding national market purchases.

M-5. Combined entity goods contract dollars going to MBEs, WBEs and other firms, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	144	\$ 15,301	0.15 %
Asian-Pacific American-owned	222	22,032	0.22
South Asian American-owned	125	14,689	0.15
Hispanic American-owned	232	13,335	0.13
American Indian-owned	76	15,058	0.15
Total MBE	799	\$ 80,414	0.80 %
WBE (white woman-owned)	2,683	192,601	1.91
<b>Total MBE/WBE</b>	<b>3,482</b>	<b>\$ 273,015</b>	<b>2.70 %</b>
Majority-owned	49,158	9,830,801	97.30
<b>Total</b>	<b>52,640</b>	<b>\$ 10,103,816</b>	<b>100.00 %</b>
<b>Business classification or certification</b>			
All small businesses	38,567	\$ 2,848,971	28.20 %
Firms eligible for entity program	1,230	109,851	1.09
General certification			
MBE/WBE/DBE	1,030	91,284	0.90
SBE (CERT)	810	73,737	0.73
Veteran (VO, VetBiz, SDVOB)	145	16,441	0.16
Service-disabled (SDVOB)	26	801	0.01
Disability (TG, DisabilityIN)	40	13,165	0.13
LGBTQ+ (NGLCC)	6	444	0.00

Source: Keen Independent analysis of combined entity procurement data, July 2016–June 2023.

## M. Analysis of Combined Entity Contracts — Utilization

### Other Services

Keen Independent examined MBE and WBE participation in more than 22,000 entity other services contracts that totaled \$3.5 billion. Of these procurements, 2,671 were awarded to minority- and woman-owned companies. About 9.4 percent of total other services contract dollars went to MBE/WBEs.

Of the 7,723 unique firms receiving one or more other services procurements, 810 were MBE/WBEs.

The bottom of Figure M-6 shows utilization for other groups of firms. One-half of other services contract dollars went to small businesses. Firms certified as MBEs, WBEs or DBEs obtained 4.5 percent of total contract dollars.

M-6. Combined entity other services contract dollars going to MBEs, WBEs and other firms, July 2016–June 2023

	Number of procurements	Dollars (1,000s)	Percent of dollars
<b>Business ownership</b>			
Black American-owned	311	\$ 72,907	2.07 %
Asian-Pacific American-owned	222	36,334	1.03
South Asian American-owned	98	5,422	0.15
Hispanic American-owned	141	13,726	0.39
American Indian-owned	81	9,076	0.26
<b>Total MBE</b>	<b>853</b>	<b>\$ 137,466</b>	<b>3.91 %</b>
WBE (white woman-owned)	1,818	192,552	5.48
<b>Total MBE/WBE</b>	<b>2,671</b>	<b>\$ 330,018</b>	<b>9.39 %</b>
Majority-owned	19,953	3,185,640	90.61
<b>Total</b>	<b>22,624</b>	<b>\$ 3,515,658</b>	<b>100.00 %</b>
<b>Business classification or certification</b>			
All small businesses	18,611	\$ 1,770,904	50.37 %
Firms eligible for entity program	1,401	139,792	3.98
General certification			
MBE/WBE/DBE	1,177	159,315	4.53
SBE (CERT)	904	96,679	2.75
Veteran (VO, VetBiz, SDVOB)	86	3,450	0.10
Service-disabled (SDVOB)	17	621	0.02
Disability (TG, DisabilityIN)	3	43	0.00
LGBTQ+ (NGLCC)	7	580	0.02

Source: Keen Independent analysis of combined entity procurement data, July 2016–June 2023.

## M. Analysis of Combined Entity Contracts — Availability analysis

Keen Independent now turns to analyzing the availability of minority- and woman-owned companies for combined entity contracts.

### Calculating Dollar-Weighted Availability

Minority- and woman-owned businesses were 35 percent of the firms successfully contacted in the availability survey that expressed qualifications and interest in public sector work (and met certain other criteria discussed in Appendix D). However, these firms were not equally available for the specific types, sizes and locations of combined entity contracts and subcontracts.

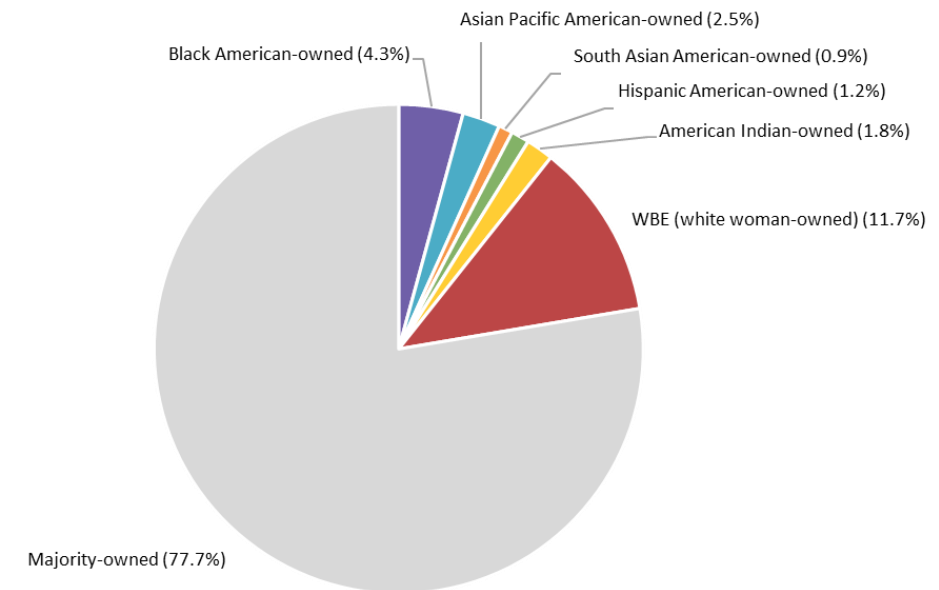
Keen Independent developed dollar-weighted availability benchmarks to use in the disparity analyses for combined entity contracts by:

- Identifying firms available for each of the 150,720 contracts and subcontracts in the combined data based on type, size, location and year of award of the contract or subcontract;
- Calculating the share of the firms available for a contract that were minority-owned (by group) and were woman-owned; and
- Dollar-weighted the above results across all the contracts (weights for each contract determine by the dollars for the specific contract divided by \$31,188,339,000 (total dollars awarded for the study period)).

### Dollar-Weighted Availability Results

Based on these calculations, the dollar-weighted availability benchmark for MBE/WBEs was 22 percent of combined entity dollars. Figure M-7 shows results by group.

M-7. Dollar-weighted availability for combined entity contracts



Source: Keen Independent Research 2024 availability survey and analysis of combined entity procurement data, July 2016–June 2023.



## M. Analysis of Combined Entity Contracts — Disparity analysis

This section of Appendix M provides disparity analyses for combined entity contracts.

### Disparity Analysis by For All Contracts

Figure M-8 compares utilization and availability for each MBE group and for white woman-owned firms for all 150,720 entity contracts and subcontracts combined. The 9.1 percent of entity contract dollars that went to MBE/WBEs was less than the 22.3 percent that might be expected from the availability analysis. The resulting disparity index was 41. The disparities for MBEs, WBEs and MBE/WBEs combined were substantial and statistically significant (based on Monte Carlo simulations similar to those described in Appendix D).

Utilization was less than the availability benchmarks for Black American-, Asian-Pacific American-, South Asian American, Hispanic American-, American Indian- and white woman-owned businesses. Each disparity was substantial.

**Results for entities that only operate SBE programs.** During the study period, SPPS and Ramsey County operated SBE programs with no race- or gender-conscious elements. The disparity index for their contracts combined was 66 for MBEs and 69 for WBEs (both substantial).

**Results for entities without programs or only recently introduced programs.** Keen Independent also examined combined results for the City of Bloomington, City of Brooklyn Park and Hennepin Healthcare, which have no implemented programs, and the City of Rochester, which began implementing its Targeted Business program in the last years of the study period. Combining these entities’ contracts, only 0.2 percent of contract dollars went to minority-owned firms (resulting in a disparity index of 1) and 1 percent of dollars went to white woman-owned firms (disparity index of 10).

M-8. Disparity analysis for combined entity prime contracts and subcontracts, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	0.81 %	4.25 %	19
Asian Pacific American-owned	0.82	2.49	33
South Asian American-owned	0.35	0.94	37
Hispanic American-owned	0.52	1.20	43
American Indian-owned	1.08	1.81	60
Total MBE	3.58 %	10.69 %	33
WBE (white woman-owned)	5.51	11.66	47
<b>Total MBE/WBE</b>	<b>9.09 %</b>	<b>22.35 %</b>	<b>41</b>
Majority-owned	90.91	77.65	117
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	

Note: Percentages may not add to totals due to rounding.  
Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of combined entity procurement data, July 2016–June 2023.

**Other groups.** Keen Independent did not perform disparity analyses for small businesses, veteran-owned businesses, service-disabled veteran-owned firms or firms owned by persons with a disability. Based on the legal framework provided in Appendix N, programs to assist these types of businesses can be designed and legally defended without finding a disparity between utilization and current availability for those groups.

There was too little data for LGBTQ-owned firms to perform disparity analyses.

## M. Analysis of Combined Entity Contracts — Disparity analysis

### Disparity Analysis by Industry

Keen Independent calculated the utilization, weighted availability and disparity indices for combined entity procurements by industry.

**Construction disparity analysis.** Figure M-9 compares utilization and availability for each MBE group and for white woman-owned firms for combined entity construction procurements (including prime contracts and subcontracts). Note that many of the entities operated programs for small businesses and MBE/WBEs for construction contracts, including subcontract goals programs.

- Overall utilization of MBE/WBEs (12.4%) was below what might be expected from the availability analysis (19.2%). The disparity index for MBE/WBEs was 65 (a substantial disparity).
- Utilization was lower than availability for MBEs (5.2% compared to 9.6%) and for WBEs (7.3% compared to 9.6%). Disparities were substantial.
- Disparities were substantial for Asian-Pacific American-, and American Indian-owned firms.
- Utilization of Black American- and Hispanic American-owned firms equaled what might be expected based on availability of those businesses.
- Although very small (0.13%), utilization of South Asian American-owned businesses exceeded what might be expected from the availability analysis due to the very low availability benchmark for those firms for construction (0.03%).

In sum, even with programs, there were substantial disparities for WBEs and some MBE groups for combined entity construction contracts.

M-9. Disparity analysis for combined entity construction prime contracts and subcontracts, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	0.79 %	0.77 %	103
Asian Pacific American-owned	1.12	4.26	26
South Asian American-owned	0.13	0.03	200+
Hispanic American-owned	0.78	0.79	99
American Indian-owned	2.39	3.75	64
Total MBE	5.21 %	9.60 %	54
WBE (white woman-owned)	7.25	9.64	75
<b>Total MBE/WBE</b>	<b>12.46 %</b>	<b>19.24 %</b>	<b>65</b>
Majority-owned	87.54	80.76	108
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	

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

Disparity index =  $100 \times \text{Utilization/Availability}$ .

Source: Keen Independent Research 2024 availability survey and analysis of combined entity procurement data, July 2016–June 2023.

**Results for entities that only operate SBE programs.** The study team reviewed whether disparity results for certain groups differed from those shown in Figure M-9 when examining combined SPPS and Ramsey County construction contracts. There were two major differences from the results for all entity construction contracts: utilization of Black American-owned firms was nearly 0 percent (disparity index of 1) and utilization of Hispanic American-owned firms was only 0.16 percent (disparity index of 19).

**Results for entities without programs.** There were substantial disparities for each MBE/WBE group for entities with no programs. For example, only 0.01 percent of construction contract dollars went to South Asian American-owned firms (disparity index of 31).

## M. Analysis of Combined Entity Contracts — Disparity analysis

**Professional services disparity analysis.** Figure M-10 compares utilization and availability for each MBE group and for white woman-owned firms for combined entity professional services contracts. Results include the subcontracts that could be compiled for some of the entities.

As for results concerning construction contracts, many of the entities operated programs for small businesses and MBE/WBEs for professional services contracts, including preferences for SBEs and/or MBE/WBEs.

- Overall utilization of MBE/WBEs (13.4%) was below what might be expected from the availability analysis (24.4%). The disparity index for MBE/WBEs was 55 (a substantial disparity).
- Utilization was lower than availability for MBEs overall and for WBEs. Disparities were substantial.
- When examining individual MBE groups, disparities were substantial for Black American-, South Asian American- and American Indian-owned firms.
- Utilization of Asian-Pacific American- and Hispanic American-owned firms for combined professional services contracts were at least what might be expected based on availability of those businesses, possibly due to the positive effects from entity programs.

M-10. Disparity analysis for combined entity professional services contracts, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	1.31 %	2.37 %	55
Asian Pacific American-owned	1.18	1.02	116
South Asian American-owned	1.51	2.12	71
Hispanic American-owned	0.72	0.56	130
American Indian-owned	0.11	1.31	9
Total MBE	4.83 %	7.37 %	66
WBE (white woman-owned)	8.55	17.00	50
<b>Total MBE/WBE</b>	<b>13.38 %</b>	<b>24.36 %</b>	<b>55</b>
Majority-owned	86.62	75.64	115
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	

Note: Percentages may not add to totals due to rounding.  
Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of combined entity procurement data, July 2016–June 2023.

**Results for entities that only operate SBE programs.** For entities only operating SBE programs (SPPS and Ramsey County), results were similar as in Figure M-10 except that utilization of Asian Pacific American-owned firms was only 0.22 percent of combined professional services contract dollars, resulting in a disparity index of 32 for that group.

**Results for entities without programs.** For entities with no programs, the key difference from the results discussed above was that only 0.2 percent of combined professional services contract dollars went to Hispanic American-owned firms (disparity index of 37).

## M. Analysis of Combined Entity Contracts — Disparity analysis

**Goods disparity analysis.** Figure M-11 shows utilization and availability for each MBE group and for white woman-owned firms for combined entity goods procurements.

- MBE/WBE utilization for goods was 2.7 percent, which was less than the availability benchmark of 26.1 percent. The disparity index for MBE/WBEs was 10, a substantial disparity
- Utilization was below availability for each MBE group and for WBEs.

**Results for entities that only operate SBE programs.** Disparity results were similar for entities only operating SBE programs were similar to those in Figure M-11. Combined utilization of MBE/WBEs in goods procurements was higher (9.1%) but there was still a substantial disparity for MBE/WBEs (disparity index of 38).

**Results for entities without programs.** Analysis of combined goods contracts for entities with no programs found MBE/WBE utilization even lower: 0.5 percent of goods contract dollars (disparity index of 2).

M-11. Disparity analysis for combined entity goods contracts, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	0.15 %	9.59 %	2
Asian Pacific American-owned	0.22	1.22	18
South Asian American-owned	0.15	1.69	9
Hispanic American-owned	0.13	1.71	8
American Indian-owned	0.15	0.42	36
Total MBE	0.80 %	14.61 %	5
WBE (white woman-owned)	1.91	11.50	17
<b>Total MBE/WBE</b>	<b>2.70 %</b>	<b>26.11 %</b>	<b>10</b>
Majority-owned	97.30	73.89	132
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	

Note: Percentages may not add to totals due to rounding.  
Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of combined entity procurement data, July 2016–June 2023.

## M. Analysis of Combined Entity Contracts — Disparity analysis

**Other services disparity analysis.** Figure M-12 compares utilization and availability for other services procurements for each MBE group and for white woman-owned firms.

- Utilization of MBE/WBEs was 9.4 percent compared to an availability benchmark of about 19.1 percent.
- The disparity index for MBEs and WBEs together was 49 (a substantial disparity).
- Except for American Indian-owned firms, there was a substantial disparity for each MBE group.
- Utilization of WBEs (5.5%) was less than one-half of the availability benchmark for this group (11.9%). This disparity was substantial.

**Results for entities that only operate SBE programs.** For entities only operating SBE programs (SPPS and Ramsey County), combined utilization MBE/WBEs on other services contracts was higher (16%) as a result of SPPS contracts to Black American-owned transportation companies (disparity index of 85 overall). Utilization was relatively low for most other MBE/WBE groups. For example, there was 0 percent utilization of American Indian-owned firms.

**Results for entities without programs.** For entities with no programs, only 0.3 percent of combined other services contract dollars went to MBEs (disparity index of 4). No MBE group had utilization above 0.1 percent of combined other services contract dollars, with disparity indices for each group ranging from 0 to 47. About 5 percent of other services contract dollars went to WBEs, resulting in a disparity index of 37.

M-12. Disparity analysis for combined entity other services contracts, July 2016–June 2023

	Utilization	Availability	Disparity index
Black American-owned	2.07 %	2.61 %	79
Asian Pacific American-owned	1.03	2.29	45
South Asian American-owned	0.15	0.28	55
Hispanic American-owned	0.39	1.84	21
American Indian-owned	0.26	0.17	150
Total MBE	3.91 %	7.19 %	54
WBE (white woman-owned)	5.48	11.91	46
<b>Total MBE/WBE</b>	<b>9.39 %</b>	<b>19.10 %</b>	<b>49</b>
Majority-owned	90.61	80.90	112
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	

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

Disparity index = 100 × Utilization/Availability.

Source: Keen Independent Research 2024 availability survey and analysis of combined entity procurement data, July 2016–June 2023.

## **APPENDIX N. Legal Framework and Analysis**

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**HOLLAND & KNIGHT LLP**

**APPENDIX N**

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**CONFIDENTIAL UPDATED June 1, 2025  
DRAFT REPORT**

**MINNESOTA JOINT STUDY**

**UPDATED REPORT ON LEGAL FRAMEWORK  
AND ANALYSIS**

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## APPENDIX N. Legal Framework and Analysis – Introduction

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### A. Introduction

In this appendix, Holland & Knight LLP analyzes recent cases involving local and state government minority and woman-owned and disadvantaged-owned business enterprise (“MBE/WBE/DBE”) programs.

The appendix also reviews recent cases, which are instructive to the study and MBE/WBE/DBE programs, regarding the Federal Disadvantaged Business Enterprise (“Federal DBE”) Program<sup>1</sup> and the implementation of the Federal DBE Program by local and state governments. The Federal DBE Program was continued and reauthorized by Congress in the Infrastructure Investment and Jobs Act of 2021, which reauthorized the Federal DBE Program based on findings of continuing discrimination and related barriers posing significant obstacles for MBE/WBE/DBEs,<sup>2</sup> and contains certain types of findings and an evidentiary basis referenced in recent court decisions that are instructive to the study. The appendix provides a summary of the legal framework for a disparity study in general for Minnesota and local and state government minority and woman-owned and disadvantaged-owned business enterprise (“MBE/WBE/DBE”) programs.

Appendix N begins with a review of the landmark United States Supreme Court decision in *City of Richmond v. J.A. Croson*.<sup>3</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>4</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 a disparity study and the strict scrutiny analysis. Minnesota and local governments in Minnesota are within the jurisdiction of the U.S. Court of Appeals for the Eighth Circuit. This analysis reviews in Section D below court decisions that are within the Eighth Circuit Court of Appeals.

In particular, this analysis reviews in Section D recent decisions within the Eighth Circuit Court of Appeals that are instructive to the study, including *Mark One Electric Company, Inc. v. City of Kansas City, Missouri*,<sup>5</sup> *Sherbrooke Turf, Inc. v. Minnesota DOT and Gross Seed v. Nebraska Department of Roads*,<sup>6</sup> *Geyer Signal, Inc. v. Minnesota DOT*,<sup>7</sup> *CCI Environmental, Inc., D.W. Mertzke Excavating & Trucking, Inc., et al.*,

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<sup>1</sup> 49 CFR Part 26 (Participation by Disadvantaged Business Enterprises in Department of Transportation Financial Assistance Programs (“Federal DBE Program”). See the Transportation Equity Act for the 21st Century (TEA-21) as amended and reauthorized (“MAP-21,” “SAFETEA” and “SAFETEA-LU”), and the United States Department of Transportation (“USDOT” or “DOT”) regulations promulgated to implement TEA-21 the Federal regulations known as 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> Pub. L. 117-58, H.R. 3684, § 11101(e), November 15, 2021, 135 Stat 443-449.

<sup>3</sup> *City of Richmond v. J.A. Croson*, 488 U.S. 469 (1989).

<sup>4</sup> *Adarand Constructors, Inc. v. Peña*, 515 U.S. 200 (1995).

<sup>5</sup> *Mark One Electric Company, Inc. v. City of Kansas City, Missouri*, 2022 WL 330525 (8th Cir. 2022)

<sup>6</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>7</sup> *Geyer Signal, Inc. v. Minnesota DOT*, 2014 W.L. 1309092 (D. Minn. 2014).

## N. Legal – Introduction

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*v. City of St. Louis, St. Louis Airport Authority, et al.*,<sup>8</sup> and *Thomas v. City of Saint Paul*.<sup>9</sup>

The appendix reviews certain pending cases and very recent decisions that are instructive to the legal framework in Section C. 4. Below.

The analysis also reviews court decisions that involved challenges to MBE/WBE/DBE programs in other local and state government jurisdictions in Section E below, which are informative to the study.

In addition, the analysis reviews other federal cases instructive to the study that have considered the validity of the Federal DBE Program and its implementation by a state or local government, state DOT, other state agency or a recipient of U.S. DOT federal funds, including: *Midwest Fence Corp. v. U.S. DOT, FHWA, Illinois DOT, Illinois State Toll Highway Authority, et al.*,<sup>10</sup> *Dunnet Bay Construction Co. v. Illinois DOT*,<sup>11</sup> *Associated General Contractors of America, San Diego Chapter, Inc. v.*

*California Department of Transportation (“Caltrans”), et al.*,<sup>12</sup> *Western States Paving Co. v. Washington State DOT*,<sup>13</sup> *Mountain West Holding Co. v. Montana, Montana DOT, et al.*,<sup>14</sup> *M.K. Weeden Construction v. Montana, Montana DOT, et al.*,<sup>15</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>16</sup> *Northern Contracting, Inc. v. Illinois DOT*,<sup>17</sup> *Adarand Construction, Inc. v. Slater (“Adarand VII”),*<sup>18</sup> *Geod Corporation v. New Jersey Transit Corporation*,<sup>19</sup> and *South Florida Chapter of the A.G.C. v. Broward County, Florida*.<sup>20</sup>

The analyses of these and other cases summarized below are instructive to the disparity study because they are the most recent and significant decisions by courts setting forth the legal framework applied to MBE/WBE/DBE Programs and disparity studies, and construing the validity of government programs involving MBE/WBE/DBEs.

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<sup>8</sup> *CCI Environmental, Inc., D.W. Mertzke Excavating & Trucking, Inc., et al., 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)

<sup>9</sup> *Thomas v. City of Saint Paul. 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)].

<sup>10</sup> *Midwest Fence Corp. v. U.S. DOT, FHWA, Illinois DOT, Illinois State Toll Highway Authority, et al.*, 840 F.3d 932, 2016 WL 6543514 (7th Cir. 2016). *Midwest Fence* filed a Petition for a Writ of Certiorari with the U.S. Supreme Court, see 2017 WL 511931 (Feb. 2, 2017), which was *denied*, 2017 WL 497345 (June 26, 2017).

<sup>11</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), Docket No. 15-906; *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>12</sup> *Associated General Contractors of America, San Diego Chapter, Inc. v. California Department of Transportation, et al.*, 713 F.3d 1187, (9th Cir. 2013); U.S.D.C., E.D. Cal, Civil Action No. S-09-1622, Slip Opinion Transcript (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.*, F.3d 1187, (9th Cir. 2013).

<sup>13</sup> *Western States Paving Co. v. Washington State DOT*, 407 F.3d 983 (9th Cir. 2005), cert. denied, 546 U.S. 1170 (2006).

<sup>14</sup> *Mountain West Holding Co., Inc. v. The State of Montana, Montana DOT, et al.*, 2017 WL 2179120 (9th Cir. May 16, 2017).

<sup>15</sup> *M. K. Weeden Construction v. State of Montana, Montana DOT*, 2013 WL 4774517 (D. Mont. 2013).

<sup>16</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); cert. denied (June 24, 2019).

<sup>17</sup> *Northern Contracting, Inc. v. Illinois DOT*, 473 F.3d 715 (7th Cir. 2007).

<sup>18</sup> *Adarand Construction, Inc. v. Slater*, 228 F.3d 1147 (10th Cir. 2000)(“*Adarand VII*”).

<sup>19</sup> *Geod Corporation v. New Jersey Transit Corporation*, 766 F.Supp. 2d 642 (D. N. J. 2010).

<sup>20</sup> *South Florida Chapter of the A.G.C. v. Broward County, Florida*, 544 F. Supp.2d 1336 (S.D. Fla. 2008).

## N. Legal – Introduction

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As stated above and shown in detail below in Sections C, D, E and F, these cases establish legal standards for satisfying the strict scrutiny test regarding whether there is a “compelling governmental interest” in a state or local government’s marketplace to have a narrowly tailored race and ethnic conscious MBE/WBE/DBE program, that the MBE/WBE/DBE Program is “narrowly tailored,” race, ethnic and gender neutral measures, disparity studies, and the legal standard relevant to cases involving challenges to MBE/WBE/DBE Programs and their implementation by government authorities and state and local governments. Section G below reviews instructive cases involving challenges to federal government social and economic disadvantaged business and MBE/WBE/DBE type programs.

The appendix also points out recent informative Congressional findings as to discrimination regarding MBE/WBE/DBEs, including relating to the Federal Airport Concessions Disadvantaged Business Enterprise (Federal ACDBE) Program,<sup>21</sup> and the Federal DBE Program that was continued and reauthorized by the Fixing America’s Surface Transportation Act (2015 FAST Act); which set forth Congressional findings as to discrimination against minority-woman-owned business enterprises and disadvantaged business enterprises, including from disparity studies and other evidence.<sup>22</sup> In October 2018, Congress passed the FAA Reauthorization Act, which also provides Congressional findings as to discrimination against MBE/WBE/DBEs, including from disparity studies and other evidence.<sup>23</sup>

Most recently, in November 2021, Congress passed the Infrastructure Investment and Jobs Act (H.R. 3684 – 117th Congress, Section 1101) that reauthorized the Federal DBE Program and its implementation by local and state governments based on findings of continuing discrimination and related barriers posing significant obstacles for MBE/WBE/DBEs.<sup>24</sup>

It is noteworthy to the study that the U.S. Department of Justice in January 2022 issued a report: “The Compelling Interest to Remedy the Effects of Discrimination in Federal Contracting: A Survey of Recent Evidence.” This report “summarizes recent evidence required to justify the use of race- and sex-conscious provisions in federal contracting programs.” The “Notice of Report on Lawful Uses of Race or Sex in Federal Contracting Programs” is published in the Federal Register, Vol. 87 at page 4955, January 31, 2022. This notice provides the availability on the Department of Justice’s website of the “updated report regarding the legal and evidentiary frameworks that justify the continued use of race or sex, in appropriate circumstances, by federal agencies to remedy the current and lingering effects of past discrimination in federal contracting programs.” The report is available on the Department of Justice’s website at: <https://www.justice.gov/crt/page/file/1463921/download>.

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<sup>21</sup> 49 CFR Part 23 (Participation of Disadvantaged Business Enterprises in Airport Concessions).

<sup>22</sup> Pub. L. 114-94, H.R. 22, § 1101(b), December 4, 2015, 129 Stat. 1312.

<sup>23</sup> Pub L. 115-254, H.R. 302 § 157, October 5, 2018, 132 Stat 3186.

<sup>24</sup> Pub L. 117-58, H.R. 3684, § 11101(e), November 15, 2021, 135 Stat 443-449.

## N. Legal – U.S. Supreme Court cases

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### 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>25</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>26</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>27</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>28</sup>

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>29</sup>

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<sup>25</sup> 488 U.S. 469 (1989).

<sup>26</sup> 488 U.S. at 500, 510.

<sup>27</sup> 488 U.S. at 480, 505.

<sup>28</sup> 488 U.S. at 507-510.

<sup>29</sup> 488 U.S. at 501, quoting *Hazelwood School Dist. v. United States*, 433 U.S. 299, 307–308, 97 S.Ct. 2736, 2741.



## N. Legal – U.S. Supreme Court cases

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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>30</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>31</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>32</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>33</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>34</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>35</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>36</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>37</sup>

### **2. *Adarand Constructors, Inc. v. Peña* (“*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.

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<sup>30</sup> 488 U.S. at 501 *quoting Hazelwood*, 433 U.S. at 308, n. 13, 97 S.Ct., at 2742, n. 13.

<sup>31</sup> 488 U.S. at 502.

<sup>32</sup> *Id.*

<sup>33</sup> 488 U.S. at 509.

<sup>34</sup> *Id.*

<sup>35</sup> 488 U.S. at 509.

<sup>36</sup> *Id.*

<sup>37</sup> 488 U.S. at 492.

## N. Legal – U.S. Supreme Court cases

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The cases following and interpreting *Adarand I* and *Croson* 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 local and state government MBE/WBE/DBE programs and the Federal DBE Program by local and state government recipients of federal funds.



## N. Legal – Legal Framework applied to state and local government MBE/WBE/DBE programs

### C. The Legal Framework Applied to State and Local Government MBE/WBE/DBE Programs, the Federal DBE Program and its Implementation by State and Local Governments

The following provides an analysis for the legal framework focusing on recent key cases regarding state and local MBE/WBE/DBE programs, and their implications for a disparity study. The recent decisions involving these programs, the Federal DBE Program, and its implementation by state and local government programs and recipients of federal funds, and social and economic disadvantaged business programs are instructive because they concern the strict scrutiny analysis, the legal framework in this area, challenges to the validity of MBE/WBE/DBE programs, challenges to social and economic disadvantaged business enterprise contracting programs, and an analysis of disparity studies.

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<sup>38</sup> *Croson*, 448 U.S. at 492-493; *Adarand Constructors, Inc. v. Peña (Adarand I)*, 515 U.S. 200, 227 (1995); see, e.g., *Fisher v. University of Texas*, 133 S.Ct. 2411 (2013) ; *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; *Sherbrooke Turf*, 345 F.3d at 969; *Adarand VII*, 228 F.3d at 1176; *W.H. Scott Constr. Co. v. City of Jackson, Mississippi*, 199 F.3d 206 (5th Cir. 1999); *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>39</sup> *Adarand I*, 515 U.S. 200, 227 (1995); *Croson*, 448 U.S. at 492-493; *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*,

#### 1. 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>38</sup> The implementation of the Federal DBE Program by state and local government and transit/transportation authorities and recipients of federal funds also are subject to and must follow the strict scrutiny analysis if they utilize race- and ethnicity-based measures.<sup>39</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>40</sup>

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>40</sup> *Adarand I*, 515 U.S. 200, 227 (1995); *Croson*, 448 U.S. at 492-493; *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; *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).

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**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>41</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>42</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>43</sup>

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<sup>41</sup> *Id.*

<sup>42</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>43</sup> See, e.g., *Concrete Works I*, 36 F.3d at 1520.

<sup>44</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>45</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 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>44</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>45</sup>

It is instructive 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 2006 Reauthorization of the 1207 DOD Program constitutional. *Rothe Devel. 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.

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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>46</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>47</sup> The evidentiary basis on which Congress relied to support its finding of discrimination includes:

- **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>48</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>49</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>50</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>51</sup>
- **Infrastructure Investment and Jobs Act of 2021, F.A.A. Reauthorization Act of 2018, FAST Act and MAP-21.** In November 2021, October 2018, December 2015 and in July 2012, Congress passed the Infrastructure Investment and Jobs Act or 2021, the F.A.A. Reauthorization Act, FAST Act and MAP-21, respectively, which made “Findings” that “discrimination and related barriers continue to pose

<sup>46</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.

<sup>47</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.

<sup>48</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>49</sup> *Adarand VII*. at 1170-72; see *DynaLantic*, 885 F.Supp.2d 237.

<sup>50</sup> *Id.* at 1172-74; see *DynaLantic*, 885 F.Supp.2d 237; *Geyer Signal, Inc.*, 2014 WL 1309092; see *Midwest Fence v. Illinois DOT*, 840 F.3d 932, 935, 948-954 (7th Cir. 2016).

<sup>51</sup> *Adarand VII*, 228 F.3d at 1174-75; see *H. B. Rowe*, 615 F.3d 233, 241-2, 247-258 (4th Cir. 2010); *Sherbrooke Turf*, 345 F.3d at 973-4.

## N. Legal – Legal Framework applied to state and local government MBE/WBE/DBE programs

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significant obstacles for minority- and woman-owned businesses seeking to do business in “federally-assisted surface transportation markets,” in airport-related markets, and that the continuing barriers “merit the continuation” of the Federal DBE Program and the Federal ACDBE Program.<sup>52</sup> Congress also found in the Infrastructure Investment and Jobs Act of 2021, 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>53</sup>

Therefore, Congress in the Infrastructure Investment and Jobs Act passed on November 15, 2021 found based on testimony, evidence and documentation updated since the FAST Act adopted in 2015 and MAP-21 adopted in 2012, as follows: (1) discrimination and related barriers continue to pose significant obstacles for minority- and woman-owned businesses seeking to do business in federally assisted surface transportation markets across the United States; (2) the continuing barriers described in § 11101(e), subparagraph (A) 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>54</sup>

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<sup>52</sup> Pub. L. 117-58, H.R. 3684 § 11101(e), November 15, 2021; 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>53</sup> *Id.* at Pub. L. 117-58, H.R. 3684 § 11101(e), November 15, 2021; 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).

The Federal DBE Program and its implementation by state and local governments is instructive to analyze because the Program on its face and as applied by state and local governments has survived challenges to its constitutionality, concerned application of the strict scrutiny standard, considered findings as to disparities, discrimination and barriers to MBE/WBE/DBEs, examined narrow tailoring by local and state governments of their DBE program implementing the federal program, and involved consideration of disparity studies. The cases involving the Program and its implementation by state DOTs and state and local governments are informative, recent and applicable to the legal framework regarding state DOT DBE programs and MBE/WBE/DBE state and local government programs, and availability and disparity studies.

And, as stated above, the U.S. Department of Justice in January 2022 issued a report entitled: “The Compelling Interest to Remedy the Effects of Discrimination in Federal Contracting: A Survey of Recent Evidence,” which “summarizes recent evidence required to justify the use of race- and sex-conscious provisions in federal contracting programs.”<sup>55</sup> This “updated report” by the U.S. DOJ, is issued “regarding the legal and evidentiary frameworks that justify the continued use of race or sex, in appropriate circumstances, by federal agencies to remedy the current and lingering effects of past discrimination in federal contracting programs.”<sup>56</sup>

<sup>54</sup> Pub. L. 117-58, H.R. 3684 § 11101(e), November 15, 2021, 135 Stat 443-449.

<sup>55</sup> Vol. 87 Fed. Reg. 4955, January 31, 2022; located at <https://www.justice.gov/crt/page/file/1463921/download>.

<sup>56</sup> *Id.*; see <https://www.justice.gov/crt/page/file/1463921/download>.

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It is noteworthy that a federal district court in *Mid-America Milling Company LLC (MAMCO) and Bagshaw Trucking Inc. v. U.S. Department of Transportation, et. al.*,<sup>57</sup> which is noted below in Section C.4. viii, recently has considered a challenge to the Federal DBE Program. Plaintiffs sought a preliminary and permanent injunction, and a declaratory judgment, that the Federal DBE Program, including Sections 11101(e)(2) and (3) of the Infrastructure Act and corresponding federal regulations are unconstitutional because they violate the Equal Protection Clause of the U.S. Constitution. Plaintiffs' Motion for Preliminary Injunction was granted and enjoined enforcement of the Federal DBE Program as applied to the Plaintiffs in each state they bid or operate in. The court enjoined the USDOT from mandating the use of race- and gender-based rebuttable presumptions for certain groups regarding its contracts impacted by DBE goals. See, Section C.4. viii, below.

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<sup>57</sup> 2024 WL 4635430 (E.D. Ky. Oct. 31, 2024); 2024 WL 4267183 (Sept. 23, 2024), U.S. District Court for the Eastern District of Kentucky, Frankfort Division; Case No: 3:23 -cv-00072-GFV

<sup>58</sup> See *AGC, SDC v. Caltrans*, 713 F.3d at 1195; *H. B. Rowe Co., Inc. v. NCDOT*, 615 F.3d 233, 241-242, 247-258 (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 VII")*, 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. Pa. v. City of Philadelphia ("CAEP II")*, 91 F.3d 586, 596-598 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia ("CAEP I")*, 6 F.3d 996, 1005-1007 (3d Cir. 1993); *Geyer Signal, Inc.*, 2014 WL 1309092; *DynaLantic*, 885 F.Supp.2d 237, 2012 WL 3356813; *Hershell Gill Consulting Engineers, Inc. v. Miami Dade County*, 333 F. Supp.2d 1305, 1316 (S.D. Fla. 2004).

<sup>59</sup> *Adarand VII*, 228 F.3d at 1166; *Contractors Ass'n of E. Pa. v. City of Philadelphia ("CAEP II")*, 91 F.3d 586, 596-598 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of*

**Burden of proof to establish the strict scrutiny standard.** Under the strict scrutiny analysis, and to the extent a state or local governmental entity has implemented a race- 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>58</sup> If the government makes its initial showing, the burden shifts to the challenger to rebut that showing.<sup>59</sup> The challenger bears the ultimate burden of showing that the governmental entity's evidence "did not support an inference of prior discrimination."<sup>60</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>61</sup> It is well established that "remedying the effects of past or present racial discrimination" is a compelling interest.<sup>62</sup>

*Philadelphia ("CAEP I")*, 6 F.3d 996, 1005-1007 (3d Cir. 1993); *Eng'g Contractors Ass'n*, 122 F.3d at 916; *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>60</sup> See, e.g., *Adarand VII*, 228 F.3d at 1166; *Contractors Ass'n of E. Pa. v. City of Philadelphia ("CAEP II")*, 91 F.3d 586, 596-598 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia ("CAEP I")*, 6 F.3d 996, 1005-1007 (3d Cir. 1993); *Eng'g Contractors Ass'n*, 122 F.3d at 916; see also *Sherbrooke Turf*, 345 F.3d at 971; *N. Contracting*, 473 F.3d at 721; *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>61</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; *Sherbrooke Turf, Inc. v. Minnesota DOT*, 345 F.3d 964 (8th Cir. 2003); See also *Majeske v. City of Chicago*, 218 F.3d 816, 820 (7th Cir. 2000); *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>62</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, e.g., *Midwest Fence*, 840 F.3d 932, 935, 948-954 (7th Cir. 2016); *Sherbrooke Turf, Inc. v. Minnesota DOT*, 345 F.3d 964 (8th Cir. 2003); *Contractors Ass'n of E. Pa. v. City of Philadelphia ("CAEP II")*, 91 F.3d 586, 596-598 (3d Cir. 1996); *Contractors Ass'n of E. Pa. v. City of Philadelphia ("CAEP I")*, 6 F.3d 996, 1005-1007 (3d Cir. 1993).



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In addition, the government must also demonstrate “a strong basis in evidence for its conclusion that remedial action [is] necessary.”<sup>63</sup>

Since the decision by the Supreme Court in *Croson*, “numerous courts have recognized that disparity studies provide probative evidence of discrimination.”<sup>64</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 locality or the locality’s prime contractors.’”<sup>65</sup> Anecdotal evidence may be used in combination with statistical evidence to establish a compelling governmental interest.<sup>66</sup>

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<sup>63</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 Co., Inc. v. NCDOT*, 615 F.3d 233, 241-242; *Sherbrooke Turf*, 345 F.3d at 971-972; *Contractors Ass’n of E. Pa. v. City of Philadelphia (“CAEP II”)*, 91 F.3d 586, 596-598 (3d. Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia (“CAEP I”)*, 6 F.3d 996, 1005-1007 (3d. Cir. 1993); *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>64</sup> *Midwest Fence*, 2015 W.L. 1396376 at \*7 (N.D. Ill. 2015), *affirmed*, 840 F.3d 932, 2016 WL 6543514 (7th Cir. 2016); see, e.g., *Midwest Fence*, 840 F.3d 932, 935, 948-954 (7th Cir. 2016); *Sherbrooke Turf, Inc. v. Minnesota DOT*, 345 F.3d 964 (8th Cir. 2003); *AGC, SDC v. Caltrans*, 713 F.3d at 1195-1200; *H. B. Rowe Co., Inc. v. NCDOT*, 615 F.3d 233, 241-242 (4th Cir. 2010); *Concrete Works of Colo. Inc. v. City and County of Denver*, 36 F.3d 1513, 1522 (10th Cir. 1994), *Geyer Signal*, 2014 WL 1309092 (D. Minn. 2014); see also, *Contractors Ass’n of E. Pa. v. City of Philadelphia (“CAEP II”)*, 91 F.3d 586, 596-598 (3d. Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia (“CAEP I”)*, 6 F.3d 996, 1005-1007 (3d. Cir. 1993).

<sup>65</sup> See e.g., *H. B. Rowe v. NCDOT*, 615 F.3d 233, 241-242 (4th Cir. 2010); *Midwest Fence*, 2015 W.L. 1396376 at \*7, *quoting Concrete Works*; 36 F.3d 1513, 1522 (*quoting Croson*, 488 U.S. at 509), *affirmed*, 840 F.3d 932, 2016 WL 6543514 (7th Cir. 2016); see also, *Sherbrooke Turf*, 345 F.3d 233, 241-242 (8th Cir. 2003); *Contractors Ass’n of E. Pa. v. City of Philadelphia (“CAEP II”)*, 91 F.3d 586, 596-598 (3d. Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia (“CAEP I”)*, 6 F.3d 996, 1005-1007 (3d. Cir. 1993).

In addition to providing “hard proof” to support its compelling interest, the government must also show that the challenged program is narrowly tailored.<sup>67</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>68</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 or MBE/WBE Program to demonstrate the unconstitutionality of an affirmative-action type program.<sup>69</sup>

<sup>66</sup> *Croson*, 488 U.S. at 509; see, e.g., *AGC, SDC v. Caltrans*, 713 R.3d at 1196; *H. B. Rowe v. NCDOT*, 615 F.3d 233, 241-242 (4th Cir. 2010); *Midwest Fence*, 84 F.Supp. 3d 705, 2015 WL 1396376 at \*7, *affirmed*, 840 F.3d 932, 2016 WL 6543514 (7th Cir. 2016); *Contractors Ass’n of E. Pa. v. City of Philadelphia (“CAEP II”)*, 91 F.3d 586, 596-598 (3d. Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia (“CAEP I”)*, 6 F.3d 996, 1005-1007 (3d. Cir. 1993).

<sup>67</sup> *Adarand Constructors, Inc. v. Peña*, (“*Adarand III*”), 515 U.S. 200 at 235 (1995); see, e.g., *Midwest Fence*, 840 F.3d 932, 952-954 (7th Cir. 2016); *Sherbrooke Turf, Inc. v. Minnesota DOT*, 345 F.3d 964 (8th Cir. 2003); *Majeske v. City of Chicago*, 218 F.3d at 820; *Contractors Ass’n of E. Pa. v. City of Philadelphia (“CAEP II”)*, 91 F.3d 586, 596-598 (3d. Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia (“CAEP I”)*, 6 F.3d 996, 1005-1007 (3d. Cir. 1993).

<sup>68</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); *Sherbrooke Turf, Inc. v. Minnesota DOT*, 345 F.3d 964 (8th Cir. 2003); *Midwest Fence*, 2015 WL 1396376 \*7, *affirmed*, 840 F.3d 932, 2016 WL 6543514 (7th Cir. 2016); *Geyer Signal, Inc.*, 2014 WL 1309092; *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>69</sup> *Id.*; *Adarand VII*, 228 F.3d at 1166.

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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>70</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>71</sup> Conjecture and unsupported criticisms of the government's methodology are insufficient.<sup>72</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>73</sup>

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<sup>70</sup> See, e.g., *H.B. Rowe v. NCDOT*, 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*, 84 F.Supp. 3d 705, 2015 W.L. 1396376 at \*7, affirmed, 840 F.3d 932, 2016 WL 6543514 (7th Cir. 2016); see also, *Sherbrooke Turf*, 345 F.3d at 971-974; *Geyer Signal, Inc.*, 2014 WL 1309092.

<sup>71</sup> See, e.g., *H.B. Rowe v. NCDOT*, 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* ("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); *Midwest Fence*, 84 F.Supp. 3d 705, 2015 W.L. 1396376 at \*7, affirmed, 840 F.3d 932, 2016 WL 6543514 (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).

<sup>72</sup> *Id.*; *H. B. Rowe*, 615 F.3d at 242; see also, *Midwest Fence*, 840 F.3d 932, 952-954 (7th Cir. 2016); *Sherbrooke Turf*, 345 F.3d at 971-974; *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); *Kossman Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016); *Geyer Signal*, 2014 WL 1309092.

The courts have noted that "there is no 'precise mathematical formula to assess the quantum of evidence that rises to Croson 'strong basis in evidence' benchmark.'" <sup>74</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>75</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>76</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>77</sup>

<sup>73</sup> *H.B. Rowe*, 615 F.3d at 242; see *Midwest Fence*, 840 F.3d 932, 952-954 (7th Cir. 2016); *Concrete Works*, 321 F.3d at 991; see also, *Sherbrooke Turf*, 345 F.3d at 971-974; *Geyer Signal, Inc.*, 2014 WL 1309092; *Kossman Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016).

<sup>74</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*, 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>75</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; *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>76</sup> *Croson*, 488 U.S. at 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*, 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>77</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.*

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**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 recipient complying with the Federal DBE Program, to prove narrow tailoring of program implementation at the state recipient level.<sup>78</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>79</sup>

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*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); *Kossman Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016).

<sup>78</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 (3d Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d 990, 999, 1002, 1005-1008 (3d Cir. 1993); see also, *Kossman Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016); *Geyer Signal*, 2014 WL 1309092.

<sup>79</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, 953; *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>80</sup> *Croson*, 448 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,

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>80</sup> The federal courts have held that a significant statistical disparity between the utilization and availability of minority- and woman-owned firms may raise an inference of discriminatory exclusion.<sup>81</sup> However, a small statistical disparity, standing alone, may be insufficient to establish discrimination.<sup>82</sup>

241-244 (4th Cir. 2010); *Rothe*, 545 F.3d at 1041-1042; *Sherbrooke Turf*, 345 F.3d 964, 973-974 (8th Cir. 2003); *Concrete Works of Colo., Inc. v. City and County of Denver* (“*Concrete Works II*”), 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 (3d Cir. 1996); *Contractors Ass’n of E. Pa. v. City of Philadelphia*, 6 F.3d 990, 999, 1002, 1005-1008 (3d Cir. 1993); see also, *Kossman Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016).

<sup>81</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 1191-1197; *H. B. Rowe v. NCDOT*, 615 F.3d 233, 241-244 (4th Cir. 2010); *Rothe*, 545 F.3d at 1041; *Sherbrooke Turf*, 345 F.3d at 973-974; *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 (3d Cir. 1996); *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; *Kossman Contracting*, 2016 WL 1104363 (S.D. Tex. 2016).

<sup>82</sup> *Western States Paving*, 407 F.3d at 1001.



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Other considerations regarding statistical evidence include:

- **Availability analysis.** A disparity index requires an availability analysis. MBE/WBE and DBE availability measures the relative number of MBE/WBEs and DBEs among all firms ready, willing and able to perform a certain type of work within a particular geographic market area.<sup>83</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>84</sup> “An analysis is not devoid of probative value simply because it may theoretically be possible to adopt a more refined approach.”<sup>85</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>86</sup>

- **Disparity index.** An important component of statistical evidence is the “disparity index.”<sup>87</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>88</sup>
- **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>89</sup>

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<sup>83</sup> See, e.g., *Crosen*, 448 U.S. at 509; 49 CFR § 26.35; *AGC, SDC v. Caltrans*, 713 F.3d at 1191-1197; *Rothe*, 545 F.3d at 1041-1042; *N. Contracting*, 473 F.3d at 718, 722-23; *Western States Paving*, 407 F.3d at 995; *Sherbrooke Turf*, 345 F.3d 964, at 973-974; *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, *Kossman Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016).

<sup>84</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 *Crosen*, 448 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, *Kossman Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016).

<sup>85</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 *Crosen*, 448 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, *Kossman Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016).

<sup>86</sup> See *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>87</sup> *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>88</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; *Rothe*, 545 F.3d at 1041; *Eng’g Contractors Ass’n*, 122 F.3d at 914, 923; *Concrete Works I*, 36 F.3d at 1524.

<sup>89</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*

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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>90</sup>

The U.S. Supreme Court has made clear that combating racial discrimination is a compelling government interest.<sup>91</sup> The Supreme Court found a governmental entity can enact a race-conscious program 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.”<sup>92</sup>

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*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>90</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

The Supreme Court in *Croson* regarding statistical evidence noted as follows:

[i]f 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. *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 such contractors actually engaged by the locality or the locality’s prime contractors, an inference of discriminatory exclusion could arise.

... 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.<sup>93</sup>

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>91</sup> See, e.g., *W. H. Scott Constr. Co. v. City of Jackson, Mississippi*, 199 F.3d 206, 218, citing *Croson*, 448 U.S. at 492.

<sup>92</sup> *Id.*

<sup>93</sup> *Croson*, 448 U.S. at 509 (emphasis in original).

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**Marketplace discrimination and data.** In a leading case regarding 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>94</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>95</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>96</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>97</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>98</sup> Thus, the local government was not required to demonstrate that it is “guilty of prohibited discrimination” to meet its initial burden.<sup>99</sup>

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<sup>94</sup> 321 F.3d at 973.

<sup>95</sup> *Id.*

<sup>96</sup> *Id.*, quoting *Concrete Works II*, 36 F.3d at 1529 (emphasis added).

<sup>97</sup> *Concrete Works*, 321 F.3d 950, 973 (10th Cir. 2003), quoting *Concrete Works II*, 36 F.3d at 1529 (10th Cir. 1994).

<sup>98</sup> *Id.* at 973.

<sup>99</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>100</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>101</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>102</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>103</sup>

In *Adarand VII*, the Tenth Circuit 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.<sup>104</sup> (“[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.*”<sup>105</sup>

<sup>100</sup> *Id.* at 974, quoting *Concrete Works II*, 36 F.3d at 1529.

<sup>101</sup> *Id.*

<sup>102</sup> *Id.* at 974.

<sup>103</sup> *Id.*, citing *Adarand VII*, 228 F.3d at 1166-67.

<sup>104</sup> *Concrete Works*, 321 F.3d at 976, citing *Adarand VII*, 228 F.3d at 1166-67.

<sup>105</sup> *Id.* (emphasis added).

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Further, the Court pointed out that it earlier rejected the argument CWC reasserted 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.”<sup>106</sup> 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.<sup>107</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>108</sup> The Court 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>109</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 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.”<sup>110</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>111</sup>

In *Concrete Works*, Denver 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. 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.”<sup>112</sup>

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<sup>106</sup> *Id.*, quoting *Concrete Works II*, 36 F.3d at 1529.

<sup>107</sup> *Id.*, quoting *Concrete Works II*, 36 F.3d at 1530 (emphasis added).

<sup>108</sup> *Id.*

<sup>109</sup> *Concrete Works*, 321 F.3d at 976, quoting *Croson*, 488 U.S. at 492.

<sup>110</sup> *Id.* at 977, quoting *Adarand VII*, 228 F.3d at 1167-68.

<sup>111</sup> *Id.* at 977.

<sup>112</sup> *Id.* at 977-78.

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In *Adarand VII*, the Court concluded that this study, among other evidence, “strongly support[ed] an initial showing of discrimination in lending.”<sup>113</sup>

The Court in *Concrete Works* concluded that discriminatory motive can be inferred from the results shown in disparity studies. 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.”<sup>114</sup>

Denver 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>115</sup>

In sum, in this informative court decision, the Tenth Circuit 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.<sup>116</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>117</sup> But personal accounts of actual discrimination may complement empirical evidence and play an important role in bolstering statistical evidence.<sup>118</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.<sup>119</sup>

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<sup>113</sup> *Id.* at 978, quoting *Adarand VII*, 228 F.3d at 1170, n. 13

<sup>114</sup> *Id.* at 978, quoting *Adarand VII*, 228 F.3d at 1170.

<sup>115</sup> *Id.* at 979, quoting *Adarand VII*, 228 F.3d at 1174.

<sup>116</sup> *Id.* at 979-80.

<sup>117</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>118</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>119</sup> *Concrete Works I*, 36 F.3d at 1520.

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Examples of anecdotal evidence may include:

- Testimony of MBE/WBE or DBE owners regarding whether they face difficulties or barriers;
- Descriptions of instances in which MBE/WBE or DBE 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 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>120</sup>

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>121</sup>

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<sup>120</sup> See, e.g., *AGC, SDC v. Caltrans*, 713 F.3d at 1197; *H. B. Rowe*, 615 F.3d 233, 248-249; *Northern Contracting*, 2005 WL 2230195, at 13-15 (N.D. Ill. 2005), *affirmed*, 473 F.3d 715 (7th Cir. 2007); e.g., *Concrete Works*, 321 F.3d at 989; *Adarand VII*, 228 F.3d at 1166-76. 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).

<sup>121</sup> See, e.g., *AGC, SDC v. Caltrans*, 713 F.3d at 1197; *H. B. Rowe*, 615 F.3d 233, 248-249; *Concrete Works II*, 321 F.3d at 989; *Eng'g Contractors Ass'n*, 122 F.3d at 924-26; *Cone*

**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 Eighth Circuit, 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>122</sup>

*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>122</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; *Rothe*, 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.



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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>123</sup>

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<sup>123</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; *Western States Paving*, 407 F.3d at 998; *Sherbrooke Turf*, 345 F.3d at 971 (8th Cir.); *Adarand VII*, 228 F.3d at 1181; see, also, *Geyer Signal, Inc.*, 2014 WL 1309092; see generally, *H.B. Rowe Co. v. NCDOT*, 615 F.3d 233, 243-245, 252-254; *Kornhass Construction, Inc. v. State of Oklahoma, Department of Central Services*, 140 F.Supp.2d at 1247-1248.

<sup>124</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.

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>124</sup> Courts 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>125</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>126</sup>

The Supreme Court in *Parents Involved in Community Schools v. Seattle School District*<sup>127</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

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>125</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>126</sup> *Associated Gen. Contractors of Ohio, Inc. v. Drabik* (“*Drabik II*”), 214 F.3d 730, 738 (6th Cir. 2000).

<sup>127</sup> 551 U.S. 701, 734-37, 127 S.Ct. 2738, 2760-61 (2007).

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consideration.”<sup>128</sup> The Court found that the District failed to show it seriously considered race-neutral measures.

The second prong of the strict scrutiny analysis, as discussed above, similar to MBE/WBE programs, requires the implementation of the Federal DBE Program by state and local governments and recipients of federal funds be “narrowly tailored” to remedy identified discrimination in the particular state or local government or recipient’s transportation contracting and procurement market.<sup>129</sup>

The “narrowly tailored” analysis is instructive in terms of developing any potential legislation or programs that involve DBEs and implementing the Federal DBE Program, or in connection with determining appropriate remedial measures to achieve legislative objectives.

**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 Eighth Circuit, require that a local or state government seriously consider race-, ethnicity- and gender-neutral efforts to remedy identified discrimination.<sup>130</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>131</sup>

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>132</sup>

Courts, including the Eighth 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>133</sup>

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<sup>128</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>129</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>130</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 (8th Cir. 2003); *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 (CAEP II)*, 91 F.3d at 608-609 (3d. Cir. 1996); *Contractors Ass’n (CAEP I)*, 6 F.3d at 1008-1009 (3d. Cir. 1993); *Coral Constr.*, 941 F.2d at 923.

<sup>131</sup> *See, Croson*, 488 U.S. at 507; *Drabik I*, 214 F.3d at 738 (citations and internal quotations omitted); *see also, Eng’g Contractors Ass’n*, 122 F.3d at 927; *Virdi*, 135 Fed. Appx. At 268; *Contractors Ass’n of E. Pa. v. City of Philadelphia (CAEP II)*, 91 F.3d at 608-609 (3d. Cir. 1996); *Contractors Ass’n (CAEP I)*, 6 F.3d at 1008-1009 (3d. Cir. 1993).

<sup>132</sup> *Sherbrooke Turf, Inc.*, 345 F. 3d at 972, *quoting Adarand Constrs., Inc.*, 515 U.S. at 237-38.

<sup>133</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.



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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>134</sup>

As noted above the majority opinion by the Supreme Court in *Parents Involved in Community Schools v. Seattle School District*<sup>135</sup> 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>136</sup> The Court found that the District failed to show it seriously considered race-neutral measures.

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>137</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>138</sup>

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<sup>134</sup> *Associated Gen. Contractors of Ohio, Inc. v. Drabik* (“*Drabik II*”), 214 F.3d 730, 738 (6th Cir. 2000).

<sup>135</sup> 551 U.S. 701, 734-37, 127 S.Ct. 2738, 2760-61 (2007)

<sup>136</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>137</sup> *Croson*, 488 U.S. at 509-510.

<sup>138</sup> See, e.g., *Croson*, 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).

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Thus, it is established by the courts that although the narrow tailoring requirement 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>139</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>140</sup>

For example, to be considered narrowly tailored, courts have held that a MBE/WBE- or DBE-type program should include: (1) built-in flexibility;<sup>141</sup> (2) good faith efforts provisions;<sup>142</sup> (3) waiver provisions;<sup>143</sup> (4) a rational basis for goals;<sup>144</sup> (5) graduation provisions;<sup>145</sup> (6) remedies only for groups for which there were findings of discrimination;<sup>146</sup> (7) sunset provisions;<sup>147</sup> and (8) limitation in its geographical scope to the boundaries of the enacting jurisdiction.<sup>148</sup>

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<sup>139</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>140</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>141</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>142</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>143</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; *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>144</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>145</sup> *Id.*

<sup>146</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>147</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>148</sup> *Coral Constr.*, 941 F.2d at 925.

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### 2. Intermediate scrutiny analysis

Certain Federal Courts of Appeal, including in the Eighth Circuit, and the state of Minnesota, apply intermediate scrutiny to gender-conscious programs.<sup>149</sup> The district court in *Geyer Signal, Inc. v. Minnesota DOT* recognized the intermediate scrutiny standard, stating that because the Federal DBE Program contains a gender conscious provision, it is a classification that would be subject to intermediate scrutiny.<sup>150</sup>

The courts have applied “intermediate scrutiny” to classifications based on gender.<sup>151</sup> Restrictions subject to intermediate scrutiny are permissible so long as they are narrowly tailored to serve a significant governmental interest.<sup>152</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>153</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>154</sup>

<sup>149</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 (11th Cir. 1997); *Ensley Branch N.A.A.C.P. v. Seibels*, 31 F.3d 1548 (11th Cir. 1994); *Cunningham v. Beavers*, 858 F.2d 269, 273 (5th Cir. 1988), cert. denied, 489 U.S. 1067 (1989)(citing *Craig v. Boren*, 429 U.S. 190 (1976), and *Lalli v. Lalli*, 439 U.S. 259(1978)); see also *U.S. v. Virginia*, 518 U.S. 515, 532 and n. 6 (1996)(“exceedingly persuasive justification.”); *Geyer Signal, Inc.*, 2014 WL 1309092; see, *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 789 (Minn. 2013); *State ex rel. Forslund v. Bronson*, 305 N.W.2d 748, 750 (Minn.1981).

<sup>150</sup> 2014 W.L. 1309092 at footnote 4, citations omitted.

<sup>151</sup> *Cunningham v. Beavers*, 858 F.2d 269, 273 (5th Cir. 1988), cert. denied, 489 U.S. 1067 (1989)(citing *Craig v. Boren*, 429 U.S. 190 (1976), and *Lalli v. Lalli*, 439 U.S. 259(1978)); *Geyer Signal, Inc. v. Minnesota DOT*, 2014 W.L. 1309092 (D. Minn. 2014) see, *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 789 (Minn. 2013); *State ex rel. Forslund v. Bronson*, 305 N.W.2d 748, 750 (Minn.1981).

<sup>152</sup> *Serv. Emp. Int’l Union, Local 5 v. City of Hous.*, 595 F.3d 588, 596 (5th Cir. 2010); see, *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 789 (Minn. 2013); *State ex rel. Forslund v. Bronson*, 305 N.W.2d 748, 750 (Minn.1981).

<sup>153</sup> *Id.*; 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.”); *Geyer Signal, Inc. v. Minnesota DOT*, 2014 W.L. 1309092 (D. Minn. 2014) see, *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 789 (Minn. 2013); *State ex rel. Forslund v. Bronson*, 305 N.W.2d 748, 750 (Minn.1981); *N.H. Anoka – Hennepin Sch. Dist. No. 11*, 950 N.W.2d 553 (Minn. Ct. App. 2020).

<sup>154</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*.

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Intermediate scrutiny, as interpreted by 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>155</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>156</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>157</sup>

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).”<sup>158</sup>

Minnesota courts have held that if a challenge implicates a suspect classification or a fundamental right, courts apply strict scrutiny, under which the classification must be “narrowly tailored and reasonably necessary to further a compelling governmental interest.”<sup>159</sup>

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<sup>155</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.”); *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 789 (Minn. 2013); *State ex rel. Forslund v.*

*Bronson*, 305 N.W.2d 748, 750 (Minn.1981); *N.H. Anoka – Hennepin Sch. Dist. No. 11*, 950 N.W.2d 553 (Minn. Ct. App. 2020).

<sup>156</sup> *Coral Constr. Co.*, 941 F.2d at 931-932; See *Eng’g Contractors Ass’n*, 122 F.3d at 910.

<sup>157</sup> 122 F.3d at 929 (internal citations omitted).

<sup>158</sup> *Concrete Works of Colorado, Inc. v. City and County of Denver*, 36 F.3d 1513, 1526-7, n.19 (1994).

<sup>159</sup> *Durand*, 859 N.W.2d at 784 (quotation omitted).

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If the challenge instead implicates “quasi-suspect classifications such as gender,” the courts apply intermediate scrutiny,<sup>160</sup> under which the classification must be “substantially related to an important governmental objective.”<sup>161</sup>

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>162</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>163</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 woman-owned contractors.<sup>164</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>165</sup>

The Third Circuit in *CAEP I* held the evidence offered by the City of Philadelphia regarding woman-owned construction businesses was insufficient to create an issue of fact. The study in *CAEP I* contained no disparity index for woman-owned construction businesses in City contracting, such as that presented for minority-owned businesses.<sup>166</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>167</sup> But the record contained only one three-page affidavit alleging gender discrimination in the construction industry.<sup>168</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>169</sup> This evidence the Court held was not enough to create a triable issue of fact regarding gender discrimination under the intermediate scrutiny standard.

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<sup>160</sup> *Id.* at 784, 786 n.4; *State ex rel. Forslund v. Bronson*, 305 N.W.2d 748, 750 (Minn.1981).

<sup>161</sup> *State v. Craig*, 807 N.W.2d 453, 462 (Minn. App. 2011) (quotation omitted), *aff’d*, 826 N.W.2d 789 (Minn. 2013). *N.H. v. Anoka-Hennepin Sch. Dist. No. 11*, 950 N.W.2d 553, 569 (Minn. Ct. App. 2020)

<sup>162</sup> 615 F.3d 233, 242; 122 F.3d at 929 (internal citations omitted).

<sup>163</sup> *Contractors Ass’n of E. Pa. (CAEP I)*, 6 F.3d at 1010 (3d. Cir. 1993).

<sup>164</sup> *Contractors Ass’n of E. Pa. (CAEP I)*, 6 F.3d at 1010 (3d. Cir. 1993).

<sup>165</sup> *Contractors Ass’n of E. Pa. (CAEP I)*, 6 F.3d at 1011 (3d. Cir. 1993).

<sup>166</sup> *Contractors Ass’n of E. Pa. (CAEP I)*, 6 F.3d at 1011 (3d. Cir. 1993).

<sup>167</sup> *Id.*

<sup>168</sup> *Id.*

<sup>169</sup> *Id.*

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**Intermediate scrutiny as applied to LGBTQ.** There does not appear to be a landmark U.S. Supreme Court decision regarding application of a scrutiny standard to LGBTQ discrimination. There is authority, including in the Eighth Circuit, that provides the legal standard for gender classifications, gender stereotypes and gender-based affirmative action programs. Generally, these may be intermediate scrutiny.<sup>170</sup>

The Eighth Circuit in *Brandt by and through Brandt v. Rutledge*, addressed an action involving transgender minor patients, their parents and physicians who brought suit against state officials alleging an Arkansas statute that prohibited “gender transition procedures” for minors violated the Equal Protection Clause. The district court issued a preliminary injunction against enforcement of the statute and denied officials’ motion to dismiss. The officials appealed to the Eighth Circuit.

The Eighth Circuit in affirming the district court held that: (1) the statute was subject to heightened scrutiny; (2) the patients, parents and physicians demonstrated a likelihood of success on the merits; (3) the balance of equities favored issuance of the preliminary injunction; and (4) the scope of injunction was not overbroad. The court found statutes that discriminate based on sex must be supported by an “exceedingly persuasive justification,” citing the U.S. Supreme Court decision in *United States v. Virginia*.<sup>171</sup>

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<sup>170</sup> See e.g., *Heckler v. Mathews*, 465 U.S. 728, 744, (1984). *Brandt by and through Brandt v. Rutledge*, 47 F.4th 661 (8th Cir. 2022); Cf. *Whitaker ex rel. Whitaker v. Kenosha Unified Sch. Dist. No. 1 Bd. of Educ.*, 858 F.3d 1034, 1051 (7th Cir. 2017) (holding that where “the School District’s policy cannot be stated without referencing sex, as the School District decides which bathroom a student may use based upon the sex listed on the student’s birth certificate,” the policy “is inherently based upon a sex classification

The court stated that the government meets this burden if it can show that the statute is substantially related to a sufficiently important government interest.

In *Brown v. Department of Health & Human Services*<sup>172</sup> the Plaintiffs alleged that the defendants violated the Equal Protection Clause’s prohibition against sex-based discrimination when the defendants treated her unfavorably because of her gender non-conformity. The district court in Nebraska stated that similar claims have been allowed to proceed under the Equal Protection Clause. The court cited *Whitaker v. Kenosha Unified School Dist. No. 1 Board of Educ.*,<sup>173</sup> which affirmed a grant of preliminary injunction prohibiting a school district from denying transgender male students’ access to the boys’ restroom. The student sufficiently demonstrated likelihood of success on the claim that school district policy is a classification based upon sex and that heightened scrutiny, not rational basis, applies to the student’s equal protection claim. Additionally, the school district failed to demonstrate a genuine and “exceedingly persuasive” justification for its bathroom policy.

The court in *Brown* also cited *Glenn v. Brumby*<sup>174</sup> for its holding that discriminating against someone on the basis of gender non-conformity constituted sex-based discrimination under the Equal Protection Clause. The court noted there is a “congruence between discriminating against transgender and Transsexual individuals and discrimination on the basis of gender-based behavioral norms.”

and heightened review applies”) (abrogation on other grounds recognized by *Ill. Republican Party v. Pritzker*, 973 F.3d 760 (7th Cir. 2020)).

<sup>171</sup> 518 U.S. 515, 531 (1996).

<sup>172</sup> 2017 WL 2414567 (D. Nebraska 2017).

<sup>173</sup> 2017 WL 2331751 (7th Cir. 2017)

<sup>174</sup> 663 F.3d 1312, 1316 (11th Cir. 2011).



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The court also referenced *Smith v. City of Salem*,<sup>175</sup> which held discrimination against a transgender individual because of his or her gender non-conformity is gender stereotyping prohibited by the Equal Protection Clause.

The court in *Brown* stated that the level of scrutiny applicable to classifications based on transgender status has not been determined by the United States Supreme Court, and “[c]ourts in this circuit have reached differing conclusions as to the level of scrutiny to be applied.”<sup>176</sup>

As discussed above, courts generally have held that classifications based on gender are analyzed under intermediate scrutiny, which requires the government to prove that the classification bears a fair and substantial relation to an important government interest. Courts have rejected gender classifications or stereotypes that treat women differently where, when applying the intermediate scrutiny standard, the court found the classifications are not substantially related to an important governmental interest.<sup>177</sup>

It appears the Supreme Court has not determined or ruled specifically on the validity of an LGBTQ- or gender-conscious affirmative action contracting program based on applying intermediate scrutiny. However, as shown above, many circuit courts have applied intermediate, rather than strict scrutiny, to gender-based programs. Thereby, the requirement is that the preference be fairly and substantially related to the achievement of an important government interest.<sup>178</sup>

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<sup>175</sup> 378 F.3d 566 (6th Cir. 2004).

<sup>176</sup> *Adkins v. City of New York*, 143 F. Supp. 3d 134, 140 (S.D.N.Y. 2015) (concluding that “transgender people are a quasi-suspect class” and court “must apply intermediate scrutiny to defendants’ treatment of plaintiff” action brought by transgender arrestee against city officials); *Fields v. Smith*, 712 F. Supp. 2d 830 (E.D. Wis. 2010), *aff’d*, 653 F.3d 550 (7th Cir. 2011) (applying rational basis review to equal protection claim brought by inmates with gender-identity disorder).

<sup>177</sup> *See e.g., Sessions v. Morales-Santana*, 137 S. Ct. 1678, 1690-1693 (2017); *U.S. v. Virginia*, 518 U.S. 515, (1996); *Mississippi University for Women v. Hogan*, 458 U.S. 718 (1982); *D.M. by Bao Xiong v. Minn. State High Sch. League*, 917 F.3d 994, 1001–03 (8th

Cir. 2019); *compare Free the Nipple v. City of Springfield, Mo.*, 923 F.3d 508, 510–12 (8th Cir. 2019). *See also*, 1 State and Local Government Civil Rights Liability § 1:16 Constitutional violations – Equal Protection (May 2024 Update).

<sup>178</sup> *See e.g., Associated General Contractors of America, San Diego Chapter, Inc v. California Dept. of Transp.*, 713 F.3d 1187, 1195 (9th Cir. 2013); *Concrete Works of Colorado, Inc. v. City and County of Denver*, 321 F.3d 950, 971–991 (10th Cir. 2003); *Engineering Contractors Ass’n of South Florida Inc. v. Metropolitan Dade County*, 122 F.3d 895, 907–929 (11th Cir. 1997); *Contractors Ass’n of Eastern Pennsylvania, Inc. v. City of Philadelphia*, 6 F.3d 990, 1001, (3d Cir. 1993). *See also*, 1 State and Local Government Civil Rights Liability § 1:16 Constitutional violations – Equal Protection (May 2024 Update).

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In connection with discrimination specifically based on sexual orientation and gender identity, the authors of State and Local Government Civil Rights Liability at Section 1:16 provide as follows:

“The Supreme Court has never ruled (1) that discrimination based on sexual orientation or gender identity are simply forms of sex discrimination that trigger intermediate scrutiny analysis or (2) that LGBTQ persons should be recognized as a quasi-suspect class on their own. However, the Supreme Court has struck down laws targeting gays that are motivated by “irrational fear and prejudice” (rational basis with bite), and it has invalidated state and federal bans on same-sex marriage relying, in part, on the equal protection guarantee and asserting the immutability of sexual orientation. Further, a few federal appellate courts, invoking the Supreme Court decisions interpreting Title VII’s ban on sex discrimination, have recognized claims of sexual orientation and gender identity bias as impermissible “sex stereotyping” prohibited by the Equal Protection Clause.”<sup>179</sup>

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<sup>179</sup> State and Local Government Civil Rights Liability § 1:16 Constitutional violations – Equal Protection (May 2024 Update), Ivan Bodenstener and Rosalie Berger Levinson. The authors of State and Local Government Civil Rights Liability at Section 1:16, also note that “a few appellate courts have invoked the “gender stereotyping” analysis to support § 1983 equal protection claims alleging discrimination based on gender identity, including claims brought by transgender employees suffering adverse action in the workplace, and transgender students denied access to bathrooms that conform to their gender identity.[citations omitted] Others have used the sex-stereotyping theory to prohibit sexual orientation discrimination under the Equal Protection Clause. [Citations omitted].” And, they point out that “no appellate court has directly ruled that

It is noteworthy that the Supreme Court in *Romer v. Evans*<sup>180</sup> struck down a Colorado law that Colorado voters adopted by statewide referendum “Amendment 2” to the State Constitution. Amendment 2 precluded all legislative, executive or judicial action at any level of state or local government designed to protect the status of persons based on their “ homosexual, lesbian or bisexual orientation, conduct, practices or relationships.” Amendment 2 nullified specific legal protections for this targeted class (homosexuals) in all transactions in housing, sale of real estate, insurance, health and welfare services, private education, public accommodation, and employment.

The Court in *Romer* stated that the “Fourteenth Amendment’s promise that no person shall be denied the equal protection of the laws must coexist with the practical necessity that most legislation classifies for one purpose or another, with resulting disadvantage to various groups or persons.”<sup>181</sup> The Court pointed out that it has attempted to reconcile the principle with the reality by stating that, if a law neither burdens a fundamental right nor targets a suspect class, “we will uphold the legislative classification so long as it bears a rational relation to some legitimate end.”<sup>182</sup> The Court held that Amendment 2 failed even this conventional inquiry. First, the amendment has the peculiar property of imposing a broad and undifferentiated disability on a single named group.

classifications based on sexual orientation or gender identity trigger heightened scrutiny under the equal protection guarantee in the absence of impermissible sex stereotyping ....” But, “a few federal district courts, in adjudicating the ban on transgenders in the military, have held that strict or, at minimum, intermediate scrutiny should apply because transgender individuals are a suspect or quasi-suspect class.” [Citations omitted].

<sup>180</sup> 517 U.S. 620 (1996)

<sup>181</sup> 517 U.S. at 631-632.

<sup>182</sup> *Id.*



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Second, “its sheer breadth is so discontinuous with the reasons offered for it that the amendment seems inexplicable by anything but animus toward the class it affects; it lacks a rational relationship to legitimate state interests.”<sup>183</sup>

The Court concluded that “Amendment 2 classifies homosexuals not to further a proper legislative end but to make them unequal to everyone else. This Colorado cannot do. A State cannot so deem a class of persons a stranger to its laws. Amendment 2 violates the Equal Protection Clause ....”<sup>184</sup> The Court, held Amendment 2 failed even the “conventional inquiry” that would uphold a legislative classification so long as it bears a rational relation to some legitimate end; and thus applied a rational basis test without specifically addressing whether LGBTQ discrimination would require a heightened scrutiny such as intermediate scrutiny since the law even failed rational basis.

### 3. 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>185</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>186</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 related to a legitimate government purpose.”<sup>187</sup>

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<sup>183</sup> *Id.*

<sup>184</sup> *Id.* at 635-636.

<sup>185</sup> See, e.g., *Heller v. Doe*, 509 U.S. 312, 320 (1993); *Doe, I v. Peterson*, 43 F.4th 838 (8th Cir. 2022); *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.”); see *N.H. v. Anoka-Hennepin School District No. 11*, 950 N.W.2d 553 (Minn. Ct. App. 2020); *Fletcher Properties, Inc. v. City of Minneapolis*, 947 N.W.2d 1 (Minn. 2020) *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 780 (Minn. 2015).

<sup>186</sup> See, e.g., *Heller v. Doe*, 509 U.S. 312, 320 (1993); *Doe, I v. Peterson*, 43 F.4th 838 (8th Cir. 2022); *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); *N.H. v. Anoka-Hennepin School District No. 11*, 950 N.W.2d 553 (Minn. Ct. App. 2020); *Fletcher Properties, Inc. v. City of Minneapolis*, 947 N.W.2d 1 (Minn. 2020) *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 780 (Minn. 2015).

<sup>187</sup> See e.g., *Kadmas v. Dickinson Public Schools*, 487 U.S. 450, 457-58 (1998); *Doe, I v. Peterson*, 43 F.4th 838 (8th Cir. 2022); *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, *N.H. v. Anoka-Hennepin School District No. 11*, 950 N.W.2d 553 (Minn. Ct. App. 2020); *Fletcher Properties, Inc. v. City of Minneapolis*, 947 N.W.2d 1 (Minn. 2020) *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 780 (Minn. 2015).

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As long as a government legislature had a reasonable basis for adopting the classification the law will pass constitutional muster.<sup>188</sup>

It should be noted, however, the Minnesota Supreme Court has, at least in some circumstances, applied what it called a “higher standard” when applying rational basis review under the Minnesota Constitution.<sup>189</sup> The Minnesota rational basis test has three requirements:

(1) The distinctions which separate those included within the classification from those excluded must not be manifestly arbitrary or fanciful but must be genuine and substantial, thereby providing a natural and reasonable basis to justify legislation adapted to peculiar conditions and needs; (2) the classification must be genuine or relevant to the purpose of the law; that is there must be an evident connection between the distinctive needs peculiar to the class and the prescribed remedy; and (3) the purpose of the statute must be one that the state can legitimately attempt to achieve.<sup>190</sup>

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<sup>188</sup> *Id.*; *Doe, I v. Peterson*, 43 F.4th 838 (8th Cir. 2022); *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 Commc’ns, Inc.*, 508 U.S. 307, 315 (1993)); see, e.g., *N.H. v. Anoka-Hennepin School District No. 11*, 950 N.W.2d 553 (Minn. Ct. App. 2020); *Fletcher Properties, Inc. v. City of Minneapolis*, 947 N.W.2d 1 (Minn. 2020) *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 780 (Minn. 2015).

<sup>189</sup> *Scott v. Minneapolis Police Relief Ass’n*, 615 N.W.2d 66, 74 (Minn. 2000) (noting that one test is the test articulated by federal courts and the other is “often characterized as the Minnesota rational basis test”); see, *N.H. v. Anoka-Hennepin School District No. 11*, 950 N.W.2d 553 (Minn. Ct. App. 2020); *Fletcher Properties, Inc. v. City of Minneapolis*,

The Minnesota Supreme Court has stated: “The key distinction between the federal and Minnesota tests is that under the Minnesota test ‘we have been unwilling to hypothesize a rational basis to justify a classification, as the more deferential federal standard requires.’”<sup>191</sup> The Minnesota intermediate appellate court has previously held, and the Minnesota Supreme Court affirmed, that Minnesota’s rational-basis test “applies when analyzing any case under the equal protection clause of the Minnesota Constitution.”<sup>192</sup>

More recently in *Gluba*, the Minnesota Supreme Court “declined to infer from the language or structure of the Minnesota rational-basis test that a higher standard than the federal standard applies to matters concerning the regulation of economic activity and the distribution of economic benefits.”<sup>193</sup> In *Gluba*, the Minnesota Supreme Court, in determining whether a challenged provision in the Minnesota Workers’ Compensation Act violated the Equal Protection Clause of the Minnesota Constitution, “concluded that the analysis of the challenged provision under the second step of the Minnesota rational-basis test would focus on whether the legislature could reasonably have believed in any facts that would support the connection between the statutory classification and the purpose of the statute.”<sup>194</sup>

947 N.W.2d 1 (Minn. 2020) *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 780 (Minn. 2015).

<sup>190</sup> *State v. Russell*, 477 N.W.2d 886, 888 (Minn. 1991) (quoting *Wegan v. Vill. Of Lexington*, 309 N.W.2d 273, 280 (Minn. 1981).

<sup>191</sup> *State v. Garcia*, 683 N.W.2d 294, 299 (Minn. 2004) (quoting *Russell*, 477 N.W.2d at 889).

<sup>192</sup> *Mitchell v. Steffen*, 487 N.W.2d 896, 904 n.2 (Minn. App. 1992), *aff’d*, 504 N.W.2d 198 (Minn. 1993).

<sup>193</sup> *Healthstar Home Health, Inc. v. Jesson*, 827 N.W.2d 444, 450 (Minn. App. 2012) (citing *Gluba*, 735 N.W.2d at 723).

<sup>194</sup> *Id.*

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Thus, there is authority that when applying rational basis review to matters concerning the regulation of economic activity, the Minnesota Supreme Court may apply the federal standard of review. 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>195</sup>

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<sup>195</sup> *Chance Mgmt., Inc. v. S. Dakota*, 97 F.3d 1107, 1114 (8th Cir. 1996); 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>196</sup> See, *Heller v. Doe*, 509 U.S. 312, 320 (1993); *Doe, I v. Peterson*, 43 F.4th 838 (8th Cir. 2022); *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. *N.H. v. Anoka-Hennepin School District No. 11*, 950 N.W.2d 553 (Minn. Ct. App. 2020); *Fletcher Properties, Inc. v. City of Minneapolis*, 947 N.W.2d 1 (Minn. 2020) *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 780 (Minn. 2015).

The Eighth Circuit Court of Appeals and Minnesota courts have found that under a rational-basis review, the court presumes state legislation to be constitutionally valid.<sup>196</sup> A classification imposed by statute or law must merely be reasonable in the light of its purpose and must bear a rational relationship to the objectives of the legislation so that all similarly situated people will be treated similarly.<sup>197</sup> If evaluation of challenged legislation reveals any conceivable state purpose that can be considered as served by the legislation, then it must be upheld.<sup>198</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>199</sup> Because all legislation classifies its objects, differential treatment is justified by “any reasonably conceivable state of facts.”<sup>200</sup>

<sup>197</sup> *Id.*; see, *U.S. Railroad Retirement Board v. Fritz*, 449 U.S. 166, *reh’g denied*, 450 U.S. 960 (1981).

<sup>198</sup> *Id.*; see, *McGowan v. Maryland*, 366 U.S. (1961); *Lucas v. United States*, 807 F.2d 414, 422 (5th Cir.1986).

<sup>199</sup> *Heller v. Doe*, 509 U.S. 312, 320 (1993); See, e.g., *Kadrmars v. Dickinson Public Schools*, 487 U.S. 450, 457-58 (1998); *Doe, I v. Peterson*, 43 F.4th 838 (8th Cir. 2022); *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., *N.H. v. Anoka-Hennepin School District No. 11*, 950 N.W.2d 553 (Minn. Ct. App. 2020); *Fletcher Properties, Inc. v. City of Minneapolis*, 947 N.W.2d 1 (Minn. 2020) *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 780 (Minn. 2015).

<sup>200</sup> *Id.* See, e.g., *Kadrmars v. Dickinson Public Schools*, 487 U.S. 450, 457-58 (1998); *Doe, I v. Peterson*, 43 F.4th 838 (8th Cir. 2022); *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*

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The courts hold that legislation need not pursue its permissible goal by using the least restrictive means of classification; consequently, the Equal Protection Clause is not violated “merely because the classifications made...are imperfect.”<sup>201</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>202</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>203</sup>

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*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., *N.H. v. Anoka-Hennepin School District No. 11*, 950 N.W.2d 553 (Minn. Ct. App. 2020); *Fletcher Properties, Inc. v. City of Minneapolis*, 947 N.W.2d 1 (Minn. 2020) *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 780 (Minn. 2015).

<sup>201</sup> *Johnson v. Rodriguez*, 110 F.3d 299, 306 (5th Cir. 1997), cert. denied, 522 U.S. 995 (1997) (quotation omitted). See, e.g., *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., *N.H. v. Anoka-Hennepin School District No. 11*, 950 N.W.2d 553 (Minn. Ct. App. 2020); *Fletcher Properties, Inc. v. City of Minneapolis*, 947 N.W.2d 1 (Minn. 2020) *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 780 (Minn. 2015).

<sup>202</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., *N.H. v. Anoka-Hennepin School District No. 11*, 950 N.W.2d 553 (Minn. Ct. App. 2020); *Fletcher Properties, Inc. v. City of Minneapolis*, 947 N.W.2d 1 (Minn. 2020) *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 780 (Minn. 2015).

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>204</sup>

A 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>205</sup>

<sup>203</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., *N.H. v. Anoka-Hennepin School District No. 11*, 950 N.W.2d 553 (Minn. Ct. App. 2020); *Fletcher Properties, Inc. v. City of Minneapolis*, 947 N.W.2d 1 (Minn. 2020) *In re Guardianship, Conservatorship of Durand*, 859 N.W.2d 780 (Minn. 2015).

<sup>204</sup> *Heller v. Doe*, 509 U.S. 312, 320 (1993); *Doe, I v. Peterson*, 43 F.4th 838 (8th Cir. 2022); *Chance Mgmt., Inc. v. S. Dakota*, 97 F.3d 1107, 1114 (8th Cir. 1996); *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 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>205</sup> 2012 WL 5939228 (Fed. Cl. 2012).

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*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%; Woman Owned[:] 5 percent; HUBZone[:] 3 percent; Service Disabled, Veteran Owned[:] 3 percent.”<sup>206</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>207</sup> The court stated it “cannot say that the agency’s approach is clearly unlawful, or that the approach lacks a rational basis.”<sup>208</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>209</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>210</sup>

**Rational basis as applied to disability.** In connection with discrimination claims based on disability, the decision in *Contractors Association of Eastern Pennsylvania, Inc, et. al. v. City of Philadelphia*,<sup>211</sup> is instructive. In this case 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.<sup>212</sup> The District Court granted summary judgment for the contractors and denied the City’s motion to stay the injunctive relief. The City appealed, and the Third Circuit Court of Appeals<sup>213</sup> affirmed in part and vacated in part the district court’s decision.

On remand, the district court again granted summary judgment for the contractors. The City appealed again. The Third Circuit Court of Appeals held the preference for businesses owned by handicapped persons was rationally related to a legitimate government purpose and, thus, did not violate equal protection.<sup>214</sup>

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<sup>206</sup> *Id.*

<sup>207</sup> *Id.*

<sup>208</sup> *Id.*

<sup>209</sup> *Id.*

<sup>210</sup> *Id.*

<sup>211</sup> *Contractors Association of Eastern Pennsylvania, Inc, et. al. v. City of Philadelphia*, 6 F. 3d 990 (3d Cir. 1993).

<sup>212</sup> 6 F.3d. at 993.

<sup>213</sup> 735 F.Supp. 1274 (E.D. Phila. 1990).

<sup>214</sup> 945 F.2d 1260 (3d. Cir. 1991)



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The district court reviewed the preference for business owners with a disability under the rational basis test, which validates a classification if it is “rationally related to a legitimate governmental purpose.”<sup>215</sup> The Third Circuit held the district court properly chose the rational basis standard in reviewing the Ordinance’s preference for handicapped persons.<sup>216</sup>

The Court then addressed the 2 percent preference for businesses owned by people with a disability. The district court struck down this preference under the rational basis test based on the belief that, according to the Third Circuit, *Croson* required some evidence of discrimination against business enterprises owned by handicapped persons. Therefore, that the City could not rely on testimony of discrimination against handicapped individuals.<sup>217</sup>

The Court stated that a classification will pass the rational basis test if it is “rationally related to a legitimate government purpose.”<sup>218</sup> The Court pointed out that the Supreme Court had affirmed the permissiveness of the rational basis test in *Heller v. Doe*, 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.” 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.”<sup>219</sup>

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<sup>215</sup> *Id.* at 1001, citing 708\_3257

<sup>216</sup> *Id.*

<sup>217</sup> *Id.*, citing 345 F.Supp 1308

<sup>218</sup> *Id.*

<sup>219</sup> *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 Third Circuit held the 2-percent preference was rationally related to this goal.<sup>220</sup> The City offered anecdotal evidence of discrimination against handicapped persons.<sup>221</sup>

Prior to amending the Ordinance to include the preference, the City Council held a hearing where eight witnesses testified regarding employment discrimination against handicapped persons both nationally and in Philadelphia. Four witnesses spoke of discrimination against blind people, and three testified to discrimination against people with other disabilities. Two of the witnesses, who were physically disabled, spoke of discrimination they and others had faced in the workforce. One of these witnesses testified he was in the process of forming his own residential construction company. Additionally, two witnesses testified that the preference would encourage persons with disabilities to own and operate their own businesses.<sup>222</sup>

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 handicapped individuals from this evidence and was entitled to conclude the Ordinance would encourage handicapped individuals to form businesses to win City contracts.<sup>223</sup>

<sup>220</sup> *Id.* at 1011.

<sup>221</sup> *Id.*

<sup>222</sup> *Id.* at 1011-1012.

<sup>223</sup> *Id.* at 1012.

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Therefore, the Court reversed the district court’s grant of summary judgment, invalidating this aspect of the Ordinance and remanding for entry of an order granting summary judgment to the City on this issue.<sup>224</sup>

Recently, the United States District Court for the District of Colorado stated, the court stated that individuals with disabilities are entitled to the full extent of rights bestowed upon all humankind and protected by our Constitution and laws.<sup>225</sup> However, the court noted that “census data, national polls, and other studies have documented that people with disabilities, as a group, occupy an inferior status in our society, and are severely disadvantaged socially, vocationally, economically, and educationally.”<sup>226</sup>

“[T]he continuing existence of unfair and unnecessary discrimination and prejudice denies people with disabilities the opportunity to compete on an equal basis and to pursue those opportunities for which our free society is justifiably famous.”<sup>227</sup>

In addition, the Western District Court of Michigan that involved a claim that the defendant, while acting as a State contractor, engaged in a pattern of denying proper treatment and orthopedic aides to the plaintiff in violation of the Americans with Disabilities Act.<sup>228</sup>

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<sup>224</sup> *Id.*

<sup>225</sup> *Wolf v. Meadow Hills III Condominium Association*, 2022 WL 814275 (D. Col. 2022)

<sup>226</sup> *Id.*; 42 U.S.C. § 1201(a).

<sup>227</sup> *Id.*, citing Americans With Disabilities Act, 42 U.S.C. § 12101 (establishing the statute’s purpose as outlawing and enforcing the prohibition on disability-based discrimination).

<sup>228</sup> *White v. Corizon Inc.*, 2023 WL 2854298 (W.D. Mich. 2023). (ADA) 42 U.S.C. §§ 12101 and 12132 *et seq.*

The court stated that Section 12132 of the ADA provides in pertinent part that “no qualified individual with a disability shall, by reason of such disability, be excluded from participation in or be denied the benefits of the services, programs, or activities of a public entity, or be subjected to discrimination by any such entity.” “To establish a prima facie case of intentional discrimination under Title II of the ADA, a plaintiff must show that: (1) she has a disability; (2) she is otherwise qualified; and (3) she was being excluded from participation in, denied the benefits of, or subjected to discrimination under the program because of her disability.”<sup>229</sup>

The Supreme Court in *City of Cleburne, Texas v. Cleburne Living Center* did not find that a classification based on mental retardation required heightened scrutiny. The Court found that members of the group have distinguishing characteristics that may be relevant to interests the state can implement.<sup>230</sup>

The authors of State and Local Government Civil Rights Liability at Section 1:16 note regarding “rational basis with a bite,” that the Supreme Court “has invalidated laws motivated by irrational prejudice toward a particular group, even if that group does not qualify as a suspect class because this animus cannot be a legitimate government interest.

For example, a city’s requirement of a special use permit for a group home for the mentally disabled, enacted in response to a community’s

<sup>229</sup> *Id.*, citing *Anderson v. City of Blue Ash*, 798 F.3d 338, 357 (6th Cir. 2015).

<sup>230</sup> *City of Cleburne, Tex. v. Cleburne Living Center*, 473 U.S. 432 (1985). State and Local Government Civil Rights Liability § 1:16 Constitutional violations – Equal Protection (May 2024 Update) (In *Heller v. Doe*, the Supreme Court upheld the disparate treatment of the mentally disabled and the mentally ill, based on reasonable distinctions between the two groups. 1 State and Local Government Civil Rights Liability § 1:16 Constitutional violations – Equal Protection (May 2024 Update).

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irrational fears, was found invalid under the rational basis test.”<sup>231</sup> The Court reasoned that laws “born of a bare desire to harm a politically unpopular group” violate the equal protection guarantee. This analysis, sometimes referred to as ‘rational basis with bite,’ has been used by the Court to invalidate laws targeting members of the gay community.<sup>232</sup>

### 4. Pending cases and recent instructive cases (at the time of this report)

There are pending cases and certain recent decisions of interest in the federal and state courts at the time of this report involving challenges to MBE/WBE/DBE type programs that are instructive to and may potentially impact the study, and key recent orders from cases that are informative to the study, including the following:

- (i) *Christian Bruckner et al. v. Joseph R. Biden Jr et al.*, 2023 WL 27744026, U.S. District Court for the Middle District of Florida, Case No. 8:22-cv-01582 (M.D. Fla. March 31, 2023)
- (ii) *Antonio Vitolo, et al. v. Isabella Guzman, Administrator of the Small Business Administration*, 999 F.3d 353 (6th Cir. 2021), 2021 WL 2172181 (6th Cir. May 27, 2021)
- (iii) *Faust v. Vilsack, Secretary of U.S. Dep’t of Agriculture*, 2021 WL 2409729, US District Court, E.D. Wisconsin (June 10, 2021)
- (iv) *Wynn v. Vilsack, Secretary of U.S. Dep’t of Agriculture*, 2021 WL 2580678, (M.D. Fla. June 23, 2021), Case No. 3:21-cv-514-MMH-JRK, U.S. District Court for the Middle District of Fla.
- (v) *Ultima Services Corp. v. U.S. Department of Agriculture, U.S. Small Business Administration, et. al.*, 2023 WL 4633481 (E.D. Tenn. July 19, 2023), U.S. District Court for the Eastern District of Tennessee, 2:20-cv-00041-DCLC-CRW
- (vi) *Nuziard, et al. v. MBDA, et al.*, 2024 WL 965299 (N.D. Tex. March 5, 2024), granting Plaintiffs’ motion for summary judgment and ordering a permanent injunction; Order and Opinion issued on March 5, 2024; and 2023 WL 3869323 (N.D. Tex. June 5, 2023), granting Plaintiffs’ motion for preliminary injunction; Order and Opinion issued on June 5, 2023; U.S. District Court for the N.D. of Texas, Fort Worth Division, Case No. 4:23-cv-00278
- (vii) *Mid-America Milling Company LLC (MAMCO) and Bagshaw Trucking Inc. v. U.S. Department of Transportation, et. al.*, U.S. District Court for the Eastern District of Kentucky, Frankfort Division; Case No: 3:23 -cv-00072-GFVT (Complaint filed on October 26, 2023)
- (viii) *Landscape Consultants of Texas, Inc. et. al. v. City of Houston, Texas, et. al.*, U.S. District Court for the Southern District of Texas, Houston Division; Civil Action No. 4:23-cv-3516. Complaint filed September 19, 2023
- (ix) *Mechanical Contractors Assoc. of Memphis, Inc. v. Shelby County, Tennessee, et al.*, US District Court for the Western District of Tennessee, Case No. 2:24 -cv- 02420 -JTF, Complaint filed November 6, 2024
- (x) *Aerospace Solutions, LLC v. Abott in his official capacity as Governor of the state of Texas, et al.*, US District Court for the

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<sup>231</sup> State and Local Government Civil Rights Liability § 1:16 Constitutional violations – Equal Protection (May 2024 Update).

<sup>232</sup> *Id.*



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**Western District of Texas, Civ. Action No. 1:24-cv-1383, Complaint filed November 13, 2024**

- (xi) ***Landscape-Consultants-of-Texas-Inc.-v.-Harris-County-Texas-et-al*, U.S. District Court for the Southern District of Texas, Houston Division; Civil Action No. 4:25cv479. Complaint filed 2-5-25**

The following summarizes the above listed pending cases and informative recent decisions:

- (i) ***Christian Bruckner et al. v. Joseph R. Biden Jr. et al.*, 2023 WL 2744026 (M.D. Fla. March 31, 2023), U.S. District Court for the Middle District of Florida, Case No. 8:22-cv-01582. filed July 13, 2022. Federal Defendants’ Motion to Dismiss Granted and Plaintiffs’ Motion for Preliminary Injunction Denied on March 31, 2023. Judgment entered on April 3, 2023**

The Complaint filed on July 13, 2022, alleges that on November 15, 2021, President Biden signed into law the “Infrastructure Investment and Jobs Act,” a \$1.2 trillion spending bill to improve America’s infrastructure. As part of this bill, the Complaint alleges Congress authorized \$370 billion in new spending for roads, bridges, and other surface transportation projects. The Complaint asserts that Congress also implemented a set aside, or quota, requiring that at least 10% of these funds be reserved for certain “disadvantaged” small businesses. According to the White House, the Complaint alleges, the law reserves more than \$37 billion in contracts to be awarded to “small, disadvantaged business contractors.”

The Complaint asserts that Plaintiff Bruckner cannot benefit from the program and compete for the projects because of his race and gender, that the \$37 billion fund is reserved for small businesses owned by certain minorities and women, and that Bruckner is a white male.

The Complaint alleges the Infrastructure Act sets an unlawful quota based on race and gender because at least 10% of all contracts for certain infrastructure projects must be awarded based on race and gender, that this quota is unconstitutional, that Defendants have no justification for the Act’s \$37 billion race-and-gender quota, and therefore the court should declare this alleged quota unconstitutional and enjoin its enforcement, “just as other courts have similarly enjoined other race-and-gender-based preferences in the American Rescue against \$28.6 billion Restaurant Revitalization Fund priority period); Faust v. Vilsack, 519 F. Supp. 3d 470 (E.D. Wis. 2021)(injunction against \$4 billion Farmer Loan Forgiveness program Plan Act. E.g., Vitolo v. Guzman, 999 F.3d 353 (6th Cir. 2021)(injunction).”

The Complaint alleges that Congress attempted to justify these race-and-gender classifications through findings of “race and gender discrimination” in the Infrastructure Act, “but none of these findings establish that Congress is attempting to remedy a specific and recent episode of intentional discrimination that it had a hand in.” The Complaint alleges that “because he is a white male, Plaintiff Bruckner and his business, PMC, cannot compete on an equal footing for contracts under the Infrastructure Act with businesses that are owned by women and certain racial minorities preferred by federal law.”

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The Complaint alleges that the racial classifications under Section 11101(e)(2) & (3) of the Infrastructure Act are unconstitutional because they violate the equal protection guarantee in the United States Constitution, and that these racial classifications in the Infrastructure Act are not narrowly tailored to serve a compelling government interest. The Complaint alleges that the gender-based classification under Sections 11101(e)(2) & (3) of the Infrastructure Act is unconstitutional because it violates the equal protection guarantee in the United States Constitution. The Complaint asserts this gender-based classification is not supported by an exceedingly persuasive objective, and the discriminatory means employed are not substantially related to the achievement of that objective.

The Complaint requests the court:

- A. Enter a preliminary injunction removing all unconstitutional race and gender-based classification in Section 11101(e)(3) of the Infrastructure Act.;
- B. Enter a declaratory judgment that the race and gender-based classifications under Section 11101(e)(3) of the Infrastructure Act are unconstitutional; and,
- C. Enter an order permanently enjoining Defendants from applying race and gender-based classifications when awarding contracts under Section 11101(e)(3) of the Infrastructure Act.

The Plaintiffs filed in July 2022 an Amended Motion for Preliminary Injunction, which is pending. The federal Defendants filed a Reply in Opposition to the Motion for Preliminary Injunction on August 29, 2022. On September 27, 2022, the federal Defendants filed a Motion to Dismiss the Complaint.

**November 21, 2022, Order regarding the Federal DBE Program.** The court issued an Order on November 21, 2022, requesting the parties to address certain listed questions describing the administration and implementation process of the Federal DBE Program. In particular, the court requested the parties submit supplemental briefing describing the authorization of funds by Congress and explain how state and local recipients award federally funded contracts.

The court ordered the Plaintiffs may clarify whether the complaint challenges the Federal DBE Program as it applies to direct contracting with the federal government. And, the court ordered the Defendants may file a statement certifying whether there are localities or federal agencies receiving funding from the Infrastructure Act that have set a DBE goal of 0%.

The parties responded on December 2, 2022. Bruckner filed a statement asserting that his complaint “challenges a single sentence in federal law: Section 11101(e)(3) of the Infrastructure Investment and Jobs Act, P.L. 117-58” and that his “requested remedy is therefore narrow and precise: an injunction preventing Defendants from enforcing and implementing this one sentence.” Plaintiffs’ Verified Complaint only challenges Section 11101(e)(3), which contains a \$37 billion race-and-gender preference.

The Defendants submitted a supplemental briefing describing the administration and implementation process of the Federal DBE Program, and filed Declarations of DOT personnel attesting to the goals implemented by recipients.

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The Defendants also addressed: (a) how the DOT calculates and assesses whether recipients are fulfilling their DBE goals; (b) whether a recipient's DBE goal influences the amount of federal funds awarded under the Act; (c) the race neutral means used by recipients that employ only neutral means to award contracts; (d) whether recipients and prime contractors are aware of a bidder's DBE status when determining whether to award a contract where a jurisdiction exclusively uses neutral means; (e) whether a subcontractor knows before bidding if the recipient or prime contractor is employing race and gender conscious or neutral means to award subcontracts; and (f) the certification process.

**March 31, 2023, Order.** The district court on March 31, 2023, issued an Order that granted the Federal Defendants' Motion to Dismiss and denied the Plaintiffs' Motion for Preliminary Injunction without prejudice. Judgment was issued in favor of Defendants by the court on April 3, 2023.

**Lack of standing.** The court held that although the Plaintiffs "raise compelling merits arguments" based on the preliminary-injunction-stage record, they fail to demonstrate an injury-in-fact to satisfy Article III standing. The court found that some recipients of the Infrastructure Act's Funds do not employ race- and gender-conscious means when awarding contracts. Others, the court noted, employ discriminatory means only with respect to some contracts. Because the Plaintiffs do not identify which contracts they intend to bid on, the court held that Plaintiffs' alleged harm is speculative and they fail to allege facts demonstrating a "certainly impending" "direct exposure to unequal treatment."

In this case, because States and localities sometimes award contracts without considering the contractor's race or gender, the court said that Plaintiffs fail to allege an injury in fact. The court stated that a party does not suffer an injury if he is only ready and able to bid on contracts that do not use discriminatory means. And because the Plaintiffs fail to demonstrate that they are ready and able to bid on an identified contract, or set of contracts, that use discriminatory means, the court found they only allege the possibility of future harm, not an actual or imminent one, which will not suffice for purposes of Article III standing.

By refusing to identify which contracts that discriminate based on race and gender that Bruckner and PMC are ready and able to compete for, the court found that Plaintiffs fail to allege facts demonstrating that they will be denied equal treatment.

**Conclusion.** The court concluded that because the Plaintiffs fail to allege facts clearly demonstrating that they are able and ready to compete in a discriminatory scheme, the Plaintiffs fail to demonstrate standing. Accordingly, the court held Defendants' motion to dismiss is granted, and the action is dismissed without prejudice. The court then held that Plaintiffs' motion for a preliminary injunction is denied as moot.

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(ii) **Antonio Vitolo, et al. v. Isabella Guzman, Administrator of the Small Business Administration**, 999 F.3d 353 (6th Cir. 2021), 2021 WL 2172181 (6th Cir. May 27, 2021), on appeal to Sixth Circuit Court of Appeals from decision by United States District Court, E.D. Tennessee, Northern Division, 2021 WL 2003552, which District Court issued an Order denying plaintiffs’ motion for temporary restraining order on 5/19/21, and Order denying plaintiffs’ motion for preliminary injunction on 5/25/21. The appeal was filed in Sixth Circuit Court of Appeals on May 20, 2021. The Plaintiffs applied to the Sixth Circuit for an Emergency Motion for Injunction Pending Appeal and to Expedite Appeal. The Sixth Circuit, two of the three Judges on the three Judge panel, granted the motion to expedite the appeal and then decided and filed its Opinion on May 27, 2021. *Vitolo v. Guzman*, 2021 WL 2172181 (6th Cir. May 27, 2021)

**Background and District Court Memorandum Opinion and Order.** On March 27, 2020, § 1102 of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) created the Paycheck Protection Program (“PPP”), a \$349 billion federally guaranteed loan program for businesses distressed by the pandemic. On April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act appropriated an additional \$310 billion to the fund.

The district court in this case said that PPP loans were not administered equally to all kinds of businesses, however. Congressional investigation revealed that minority-owned and woman-owned businesses had more difficulty accessing PPP funds relative to other kinds of business (analysis noting that Black-owned businesses were more likely to be denied PPP loans than white-owned businesses with similar application profiles due to outright lending discrimination, and that funds were more quickly disbursed to businesses in predominantly white neighborhoods).

The court stated from the testimony to Congress that this was due in significant part to the lack of historical relationships between commercial lenders and minority-owned and woman-owned businesses. The historical lack of access to credit, the court noted from the testimony, also meant that minority-owned and woman-owned businesses tended to be in more financially precarious situations entering the pandemic, rendering them less able to weather an extended economic contraction of the sort COVID-19 unleashed.

Against this backdrop, on March 11, 2021, the President signed the American Rescue Plan Act of 2021 (the “ARPA”). H.R. 1319, 117th Cong. (2021). As part of the ARPA, Congress appropriated \$28,600,000,000 to a “Restaurant Revitalization Fund” and tasked the Administrator of the Small Business Administration with disbursing funds to restaurants and other eligible entities that suffered COVID-19 pandemic-related revenue losses. See *Id.* § 5003. Under the ARPA, the Administrator “shall award grants to eligible entities in the order in which applications are received by the Administrator,” except that during the initial 21-day period in which the grants are awarded, the Administrator shall prioritize awarding grants to eligible entities that are small business concerns owned and controlled by women, veterans, or socially and economically disadvantaged small business concerns.

On April 27, 2021, the Small Business Administration announced that it would open the application period for the Restaurant Revitalization Fund on May 3, 2021. The Small Business Administration announcement also stated, consistent with the ARPA, that “[f]or the first 21 days that the program is open, the SBA will prioritize funding applications from businesses owned and controlled by women, veterans, and socially and economically disadvantaged individuals.”

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Antonio Vitolo is a white male who owns and operates Jake’s Bar and Grill, LLC in Harriman, Tennessee. Vitolo applied for a grant from the Restaurant Revitalization Fund through the Small Business Administration on May 3, 2021, the first day of the application period. The Small Business Administration emailed Vitolo and notified him that “[a]pplicants who have submitted a non-priority application will find their application remain in a Review status while priority applications are processed during the first 21 days.”

On May 12, 2021, Vitolo and Jake’s Bar and Grill, LLC initiated the present action against Defendant Isabella Casillas Guzman, the Administrator of the Small Business Administration. In their complaint, Vitolo and Jake’s Bar and Grill assert that the ARPA’s twenty-one-day priority period violates the United States Constitution’s equal protection clause and due process clause because it impermissibly grants benefits and priority consideration based on race and gender classifications.

Based on allegations in the complaint and averments made in Vitolo’s sworn declaration dated May 11, 2021, Vitolo and Jake’s Bar and Grill request that the Court enter: (1) a temporary restraining order prohibiting the Small Business Administration from paying out grants from the Restaurant Revitalization Fund, unless it processes applications in the order they were received without regard to the race or gender of the applicant; (2) a temporary injunction requiring the Small Business Administration to process applications and pay grants in the order received regardless of race or gender; (3) a declaratory judgment that race-and gender-based classifications under § 5003 of the ARPA are unconstitutional; and (4) an order permanently enjoining the Small Business Administration from applying race- and gender-based classifications in determining eligibility and priority for grants under § 5003 of the ARPA.

**Strict scrutiny.** The parties agreed that this system is subject to strict scrutiny. Accordingly, the district court found that whether Plaintiffs are likely to succeed on the merits of their race-based equal-protection claims turns on whether Defendant has a compelling government interest in using a race-based classification, and whether that classification is narrowly tailored to that interest. Here, the Government asserts that it has a compelling interest in “remedying the effect of past or present racial discrimination” as related to the formation and stability of minority-owned businesses.

**Compelling interest found by District Court.** The court found that over the past year, Congress has gathered myriad evidence suggesting that small businesses owned by minorities (including restaurants, which have a disproportionately high rate of minority ownership) have suffered more severely than other kinds of businesses during the COVID-19 pandemic, and that the Government’s early attempts at general economic stimulus—i.e., the Paycheck Protection Program (“PPP”)—disproportionately failed to help those businesses directly because of historical discrimination patterns. To the extent that Plaintiffs argue that evidence racial disparity or disparate impact alone is not enough to support a compelling government interest, the court noted Congress also heard evidence that racial bias plays a direct role in these disparities.

At this preliminary stage, the court found that the Government has a compelling interest in remediating past racial discrimination against minority-owned restaurants through § 5003 the ARPA and in ensuring public relief funds are not perpetuating the legacy of that discrimination.

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At the very least, the court stated Congress had evidence before it suggesting that its initial COVID-relief program, the PPP, disproportionately failed to reach minority-owned businesses due (at least in part) to historical lack of relationships between banks and minority-owned businesses, itself a symptom of historical lending discrimination.

The court cited the Supreme Court decision in *Croson*, 488 U.S. at 492 (“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.”); and *Adarand Constructors, Inc. v. Slater*, 228 F.3d 1147, 1169 (10th Cir. 2000) (“The government’s evidence is particularly striking in the area of the race-based denial of access to capital, without which the formation of minority subcontracting enterprises is stymied.”); *DynaLantic Corp v. U.S. Dep’t of Def.*, 885 F. Supp. 2d 237, 258–262 (D.D.C. 2012) (rejecting facial challenge to the Small Business Administration’s 8(a) Program in part because “the government [had] presented significant evidence on race-based denial of access to capital and credit”).

The court said that the PPP — a government-sponsored COVID-19 relief program — was stymied in reaching minority-owned businesses because historical patterns of discrimination are reflected in the present lack of relationships between minority-owned businesses and banks. This, according to the court, caused minority-owned businesses to enter the pandemic with more financial precarity, and therefore to falter at disproportionately higher rates as the pandemic has unfolded. The court found that Congress has a compelling interest in remediating the present effects of historical discrimination on these minority-owned businesses, especially to the extent that the PPP disproportionately failed those businesses because of factors clearly related to that history.

Plaintiff, the court held, has not rebutted this initial showing of a compelling interest, and therefore has not shown a likelihood of success on the merits in this respect.

**Narrow tailoring found by District Court.** The court then addressed the “narrow tailoring” requirement under the strict scrutiny analysis, concluding that: “Even in the limited circumstance when drawing racial distinctions is permissible to further a compelling state interest, government is still ‘constrained in how it may pursue that end: [T]he means chosen to accomplish the [government’s] asserted purpose must be specifically and narrowly framed to accomplish that purpose.’”

Section 5003 of the ARPA is a one-time grant program with a finite amount of money that prioritizes small restaurants owned by women and socially and economically disadvantaged individuals because Congress, the court concluded, had evidence before it showing that those businesses were inadequately protected by earlier COVID-19 financial relief programs. While individuals from certain racial minorities are rebuttably presumed to be “socially and economically disadvantaged” for purposes of § 5003, the court found Defendant correctly points out that the presumption does not exclude individuals like Vitolo from being prioritized, and that the prioritization does not mean individuals like Vitolo cannot receive relief under this program. Section 5003 is therefore time-limited, fund-limited, not absolutely constrained by race during the priority period, and not constrained to the priority period.



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And while Plaintiffs asserted during the TRO hearing that the SBA is using race as an absolute basis for identifying “socially and economically disadvantaged” individuals, the court pointed out that assertion relies essentially on speculation rather than competent evidence about the SBA’s processing system. The court therefore held it cannot conclude on the record before it that Plaintiffs are likely to show that Defendant’s implementation of § 5003 is not narrowly tailored to the compelling interest at hand.

In support of Plaintiffs’ motion, they argue that the priority period is not narrowly tailored to achieving a compelling interest because it does not address “any alleged inequities or past discrimination.” However, the court said it has already addressed the inequities that were present in the past relief programs. At the hearing, Plaintiffs argued that a better alternative would have been to prioritize applicants who did not receive PPP funds or applicants who had “a weaker income statement” or “a weaker balance sheet.” But, the court noted, “[n]arrow tailoring does not require exhaustion of every conceivable race-neutral alternative,” only “serious, good faith consideration of workable race-neutral alternatives” to promote the stated interest. The Government received evidence that the race-neutral PPP was tainted by lingering effects of past discrimination and current racial bias.

Accordingly, the court stated the race-neutral approach that the Government found to be tainted did not further its compelling interest in ensuring that public funds were not disbursed in a manner that perpetuated racial discrimination. The court found the Government not only considered but actually used race-neutral alternatives during prior COVID-19 relief attempts. It was precisely the failure of those race-neutral programs to reach all small businesses equitably, that the court said appears to have motivated the priority period at issue here.

Plaintiffs argued that the priority period is simultaneously overinclusive and underinclusive based on the racial, ethnic, and cultural groups that are presumed to be “socially disadvantaged.” However, the court stated the race-based presumption is just that: a presumption. Counsel for the Government explained at the hearing, consistent with other evidence before the court, that any individual who felt they met § 5003’s broader definition of “socially and economically disadvantaged” was free to check that box on the application. (“[E]ssentially all that needs to be done is that you need to self-certify that you fit within that standard on the application, ... you check that box”).) For the sake of prioritization, the court noted there is no distinction between those who were presumptively disadvantaged and those who self-certified as such. Accordingly, the court found the priority period is not underinclusive in a way that defeats narrow tailoring.

Further, according to the court, the priority period is not overinclusive. Prior to enacting the priority period, the Government considered evidence relative to minority-business owners generally as well as data pertaining to specific groups. It is also important to note, the court stated, that the Restaurant Revitalization Fund is a national relief program. As such, the court found it is distinguishable from other regional programs that the Supreme Court found to be overinclusive.

The inclusion in the presumption, the court pointed out for example, of Alaskan and Hawaiian natives is quite logical for a program that offers relief funds to restaurants in Alaska and Hawaii. This is not like the racial classification in *Croson*, the court said, which was premised on the interest of compensating Black contractors for past discrimination in Richmond, Virginia, but would have extended remedial relief to “an Aleut citizen who moves to Richmond tomorrow.” Here, the court found any narrowly tailored racial classification must necessarily account for the national scale of prior and present COVID-19 programs.

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The district court noted that the Supreme Court has historically declined to review sex-or gender-based classifications under strict scrutiny. The district court pointed out the Supreme Court held, “[t]o withstand constitutional challenge, ... classifications by gender must serve important governmental objective and must be substantially related to achievement of those [A] gender-based classification favoring one sex can be justified if it intentionally and directly assists members of the sex that is disproportionately burdened.” However, remedying past discrimination cannot serve as an important governmental interest when there is no empirical evidence of discrimination within the field being legislated.

**Intermediate scrutiny applied to woman-owned businesses found by District Court.** As with the strict-scrutiny analysis, the court found that Congress had before it evidence showing that woman-owned businesses suffered historical discrimination that exposed them to greater risks from an economic shock like COVID-19, and that they received less benefit from earlier federal COVID-19 relief programs. Accordingly, the court held that Defendant has identified an important governmental interest in protecting woman-owned businesses from the disproportionately adverse effects of the pandemic and failure of earlier federal relief programs. The district court therefore stated it cannot conclude that Plaintiffs are likely to succeed on their gender-based equal-protection challenge in this respect.

To be constitutional, the court concluded, a particular measure including a gender distinction must also be substantially related to the important interest it purports to advance. “The purpose of requiring that close relationship is to assure that the validity of a classification is determined through reasoned analysis rather than through the mechanical application of traditional, often inaccurate, assumptions about the proper roles of men and women.”

Here, as above, the court found § 5003 of the ARPA is a one-time grant program with a finite amount of money that prioritizes small restaurants owned by veterans, women, and socially and economically disadvantaged individuals because Congress had evidence before it showing that those businesses were disproportionately exposed to harm from the COVID-19 pandemic and inadequately protected by earlier COVID-19 financial relief programs. The prioritization of woman-owned businesses under § 5003, the court found, is substantially related to the problem Congress sought to remedy because it is directly aimed at ameliorating the funding gap between woman-owned and man-owned businesses that has caused the former to suffer from the COVID-19 pandemic at disproportionately higher rates. Accordingly, on the record before it, the district court held it cannot conclude that Plaintiffs are likely to succeed on the merits of their gender-based equal-protection claim.

The court stated: “[W]hen reviewing a motion for a preliminary injunction, if it is found that a constitutional right is being threatened or impaired, a finding of irreparable injury is mandated.” However, the district court did not conclude that Plaintiffs’ constitutional rights are likely being violated. Therefore, the court held Plaintiffs are likely not suffering any legally impermissible irreparable harm.

The district court said that if it were to enjoin distributions under § 5003 of the ARPA, others would certainly suffer harm, as these COVID-19 relief grants — which are intended to benefit businesses that have suffered disproportionate harm—would be even further delayed. In the constitutional context, the court found that whether an injunction serves the public interest is inextricably intertwined with whether the plaintiff has shown a likelihood of success on the merits. Plaintiff, the court held, has not demonstrated a likelihood of success on the merits.



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The district court found that therefore it cannot conclude the public interest would be served by enjoining disbursement of funds under § 5003 of the ARPA.

### **Denial by District Court of Plaintiffs’ Motion for Preliminary Injunction.**

Subsequently, the court addressed the Plaintiffs’ motion for a preliminary injunction. The court found its denial of Plaintiffs’ motion for a TRO addresses the same factors that control the preliminary-injunction analysis, and the court incorporated that reasoning by reference to this motion.

The court received from the Defendant additional materials from the Congressional record that bear upon whether a compelling interest justifies the race-based priority period at issue and an important interest justifies the gender-based priority period at issue. Defendant’s additional materials from the Congressional record the court found strengthen the prior conclusion that Plaintiffs are unlikely to succeed on the merits.

For example, a Congressional committee received the following testimony, which linked historical race and gender discrimination to the early failures of the Paycheck Protection Program (the “PPP”): “As noted by my fellow witnesses, closed financial networks, longstanding financial institutional biases, and underserved markets work against the efforts of women and minority entrepreneurs who need capital to start up, operate, and grow their businesses. While the bipartisan CARES Act got money out the door quickly [through the PPP] and helped many small businesses, the distribution channels of the first tranche of the funding underscored how the traditional financial system leaves many small businesses behind, particularly women- and minority-owned businesses.”

There was a written statement noting that “[m]inority and woman-owned business owners who lack relationships with banks or other financial institutions participating in PPP lacked early access to the program”; testimony observing that historical lack of access to capital among minority- and woman-owned businesses contributed to significantly higher closure rates among those businesses during the COVID-19 pandemic, and that the PPP disproportionately failed to reach those businesses; and evidence that lending discrimination against people of color continues to the present and contemporary wealth distribution is linked to the intergenerational impact of historical disparities in credit access.

The court stated it could not conclude Plaintiffs are likely to succeed on the merits. The court held that the points raised in the parties’ briefing on Plaintiff’s motion for preliminary injunction have not impacted the court’s analysis with respect to the remaining preliminary injunction factors. Accordingly, for the reasons stated in the court’s memorandum opinion denying Plaintiff’s motion for a temporary restraining order, a preliminary injunction the court held is not warranted and is denied.

**Appeal by Plaintiff to Sixth Circuit Court of Appeals.** The Plaintiffs appealed the court’s decision to the Sixth Circuit Court of Appeals. Vitolo had asked for a temporary restraining order and ultimately a preliminary injunction that would prohibit the government from handing out grants based on the applicants’ race or sex. Vitolo asked the district court to enjoin the race and sex preferences until his appeal was decided. The district court denied that motion too. Finally, the district court denied the motion for a preliminary injunction. Vitolo also appealed that order.

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**Emergency Motion for Injunction pending appeal and to expedite appeal.** The Plaintiffs applied to the Sixth Circuit for an Emergency Motion for Injunction Pending Appeal and to Expedite Appeal. The Sixth Circuit, two of the three Judges on the three Judge panel, granted the motion to expedite the appeal and then decided and filed its Opinion on May 27, 2021. *Vitolo v. Guzman*, 2021 WL 2172181 (6th Cir. May 27, 2021). The Sixth Circuit stated that this case is about whether the government can allocate limited coronavirus relief funds based on the race and sex of the applicants. The Court held that it cannot, and thus enjoined the government from using “these unconstitutional criteria when processing” Vitolo’s application.

**Standing and mootness.** The Sixth Circuit agreed with the district court that Plaintiffs had standing. The Court rejected the Defendant Government’s argument that the Plaintiffs’ claims were moot because the 21-day priority phase of the grant program ended.

**Preliminary injunction: Application of strict scrutiny by Sixth Circuit.** Vitolo challenges the Small Business Administration’s use of race and sex preferences when distributing Restaurant Revitalization Funds. The government concedes that it uses race and sex to prioritize applications, but it contends that its policy is still constitutional. The Court focused its strict scrutiny analysis under these factors in determining whether a preliminary injunction should be issued on the first factor which is typically dispositive: the factor of Plaintiffs’ likelihood of success on the merits.

**Compelling interest rejected by Sixth Circuit.** The Court states that government has a compelling interest in remedying past discrimination only when three criteria are met: First, the policy must target a specific episode of past discrimination. It cannot rest on a “generalized assertion that there has been past discrimination in an entire industry.”

Second, there must be evidence of intentional discrimination in the past. Third, the government must have had a hand in the past discrimination it now seeks to remedy. The Court said that if the government “show[s] that it had essentially become a ‘passive participant’ in a system of racial exclusion practiced by elements of [a] local ... industry,” then the government can act to undo the discrimination. But, the Court notes, if the government cannot show that it actively or passively participated in this past discrimination, race-based remedial measures violate equal-protection principles.

The government’s asserted compelling interest, the Court found, meets none of these requirements. First, the government points generally to societal discrimination against minority business owners. But it does not identify specific incidents of past discrimination. And, the Court said, since “an effort to alleviate the effects of societal discrimination is not a compelling interest,” the government’s policy is not permissible.

Second, the government offers little evidence of past intentional discrimination against the many groups to whom it grants preferences. Indeed, the schedule of racial preferences detailed in the government’s regulation — preferences for Pakistanis but not Afghans; Japanese but not Iraqis; Hispanics but not Middle Easterners — is not supported by any record evidence at all.

When the government promulgates race-based policies, it must operate with a scalpel. And its cuts must be informed by data that suggest intentional discrimination. The broad statistical disparities cited by the government, according to the Court, are not nearly enough. But when it comes to general social disparities, the Court stated, there are too many variables to support inferences of intentional discrimination.

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Third, the Court found the government has not shown that it participated in the discrimination it seeks to remedy. When opposing the plaintiffs' motions at the district court, the government identified statements by members of Congress as evidence that race- and sex-based grant funding would remedy past discrimination. But rather than telling the court what Congress learned and how that supports its remedial policy, the Court stated it said only that Congress identified a "theme" that "minority-and woman-owned businesses" needed targeted relief from the pandemic because Congress's "prior relief programs had failed to reach" them. A vague reference to a "theme" of governmental discrimination, the Court said is not enough.

To satisfy equal protection, the Court said, government must identify "prior discrimination by the governmental unit involved" or "passive participa[tion] in a system of racial exclusion." An observation that prior, race-neutral relief efforts failed to reach minorities, the Court pointed out is no evidence at all that the government enacted or administered those policies in a discriminatory way. For these reasons, the Court concluded that the government lacks a compelling interest in awarding Restaurant Revitalization Funds based on the race of the applicants. And as a result, the policy's use of race violates equal protection.

**Narrow tailoring rejected by Sixth Circuit.** Even if the government had shown a compelling state interest in remedying some specific episode of discrimination, the discriminatory disbursement of Restaurant Revitalization Funds is not narrowly tailored to further that interest. For a policy to survive narrow-tailoring analysis, the government must show "serious, good faith consideration of workable race-neutral alternatives." This requires the government to engage in a genuine effort to determine whether alternative policies could address the alleged harm.

And, in turn, a court must not uphold a race-conscious policy unless it is "satisfied that no workable race-neutral alternative" would achieve the compelling interest. In addition, a policy is not narrowly tailored if it is either overbroad or underinclusive in its use of racial classifications.

Here, the Court found that the government could have used any number of alternative, nondiscriminatory policies, but it failed to do so. For example, the court noted the government contends that minority-owned businesses disproportionately struggled to obtain capital and credit during the pandemic. But, the Court stated an "obvious" race-neutral alternative exists: The government could grant priority consideration to all business owners who were unable to obtain needed capital or credit during the pandemic.

Or, the Court said, consider another of the government's arguments. It contends that earlier coronavirus relief programs "disproportionately failed to reach minority-owned businesses." But, the Court found a simple race-neutral alternative exists again: The government could simply grant priority consideration to all small business owners who have not yet received coronavirus relief funds.

Because these race-neutral alternatives exist, the Court held the government's use of race is unconstitutional. Aside from the existence of race-neutral alternatives, the government's use of racial preferences, according to the Court, is both overbroad and underinclusive. The Court held this is also fatal to the policy.

The government argues its program is not underinclusive because people of all colors can count as suffering "social disadvantage." But, the Court pointed out, there is a critical difference between the designated races and the non-designated races. The designated races get a presumption that others do not. The government argues its program is not underinclusive because people of all colors can count as suffering "social disadvantage."

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But, the Court said, there is a critical difference between the designated races and the non-designated races. The designated races get a presumption that others do not.

The government's policy, the Court found, is "plagued" with other forms of under inclusivity. The Court considered the requirement that a business must be at least 51% owned by women or minorities. How, the Court asked, does that help remedy past discrimination? Black investors may have small shares in lots of restaurants, none greater than 51%. But does that mean those owners did not suffer economic harms from racial discrimination? The Court noted that the restaurant at issue, Jake's Bar, is 50% owned by a Hispanic female. It is far from obvious, the Court stated, why that 1% difference in ownership is relevant, and the government failed to explain why that cutoff relates to its stated remedial purpose.

The dispositive presumption enjoyed by designated minorities, the Court found, bears strikingly little relation to the asserted problem the government is trying to fix. For example, the Court pointed out the government attempts to defend its policy by citing a study showing it was harder for Black business owners to obtain loans from Washington, D.C., banks. Rather than designating those owners as the harmed group, the Court noted, the government relied on the Small Business Administration's 2016 regulation granting racial preferences to vast swaths of the population. For example, individuals who trace their ancestry to Pakistan and India qualify for special treatment. But those from Afghanistan, Iran, and Iraq do not. Those from China, Japan, and Hong Kong all qualify. But those from Tunisia, Libya, and Morocco do not. The Court held this "scattershot approach" does not conform to the narrow tailoring strict scrutiny requires.

**Woman-owned businesses: Intermediate scrutiny applied by Sixth Circuit.** The plaintiffs also challenge the government's prioritization of woman-owned restaurants. Like racial classifications, sex-based discrimination is presumptively invalid. Government policies that discriminate based on sex cannot stand unless the government provides an "exceedingly persuasive justification." Government policies that discriminate based on sex cannot stand unless the government provides an "exceedingly persuasive justification." To meet this burden, the government must prove that (1) a sex-based classification serves "important governmental objectives," and (2) the classification is "substantially and directly related" to the government's objectives. The government, the Court held, fails to satisfy either prong. The Court found it failed to show that prioritizing woman-owned restaurants serves an important governmental interest. The government claims an interest in "assisting with the economic recovery of woman-owned businesses, which were 'disproportionately affected' by the COVID-19 pandemic." But, the Court stated, while remedying specific instances of past sex discrimination can serve as a valid governmental objective, general claims of societal discrimination are not enough.

Instead, the Court said, to have a legitimate interest in remedying sex discrimination, the government first needs proof that discrimination occurred. Thus, the government must show that the sex being favored "actually suffer[ed] a disadvantage" as a result of discrimination in a specific industry or field. Without proof of intentional discrimination against women, the Court held, a policy that discriminates on the basis of sex cannot serve a valid governmental objective.

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Additionally, the Court found, the government’s prioritization system is not “substantially related to” its purported remedial objective. The priority system is designed to fast-track applicants hardest hit by the pandemic. Yet under the Act, the Court said, all woman-owned restaurants are prioritized—even if they are not “economically disadvantaged.” For example, the Court noted, that whether a given restaurant did better or worse than a male-owned restaurant next door is of no matter—as long as the restaurant is at least 51% woman-owned and otherwise meets the statutory criteria, it receives priority status. Because the government made no effort to tailor its priority system, the Court concluded it cannot find that the sex-based distinction is “substantially related” to the objective of helping restaurants disproportionately affected by the pandemic.

**Ruling by Sixth Circuit.** The plaintiffs are entitled to an injunction pending appeal. Since the government failed to justify its discriminatory policy, the plaintiffs will win on the merits of their constitutional claim. And like in most constitutional cases, that is dispositive here.

The Court ordered the government to fund the Plaintiffs’ grant application, if approved, before all later-filed applications, without regard to processing time or the applicants’ race or sex. The government, however, may continue to give veteran-owned restaurants priority in accordance with the law. The Court held the preliminary injunction shall remain in place until this case is resolved on the merits and all appeals are exhausted. Dissenting Opinion. One of the three Judges filed a dissenting opinion.

**Amended complaint and second emergency Motion for a Temporary Restraining Order and Preliminary Injunction.** The Plaintiffs on June 1, 2021, filed an Amended Complaint in the district court adding Additional Plaintiffs. Additional Plaintiffs’ who were not involved in the initial Motion for Temporary Restraining Order, on June 2, 2021, filed a Second Emergency Motion for a Temporary Restraining Order and Preliminary Injunction. The court in its Order issued on June 10, 2021, found based on evidence submitted by Defendants that the allegedly wrongful behavior harming the Additional Plaintiffs cannot reasonably be expected to recur, and therefore the Additional Plaintiffs’ claims are moot.

The court thus denied the Additional Plaintiffs’ motion for temporary restraining order and preliminary injunction. The court also ordered the Defendant Government to file a notice with the court if and/or when Additional Plaintiffs’ applications have been funded, and SBA decides to resume processing of priority applications.

The Sixth Circuit issued a briefing schedule on June 4, 2021 to the parties that requires briefs on the merits of the appeal to be filed in July and August 2021. Subsequently on July 14, 2021, the Plaintiffs-Appellants filed a Motion to Dismiss the appeal voluntarily that was supported and jointly agreed to by the Defendant-Appellee stating that Plaintiffs-Appellants have received their grant from Defendant-Appellee. The Court granted the Motion and dismissed the appeal terminating the case.

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### (iii) *Faust v. Vilsack*, 2021 WL 2409729, US District Court, E.D.

**Wisconsin (June 10, 2021).** This is a federal district court decision that on June 10, 2021 granted Plaintiffs’ motion for a temporary restraining order holding the federal government’s use of racial classifications in awarding funds under the loan-forgiveness program violated the Equal Protection Clause of the US Constitution

**Background.** Twelve white farmers, who resided in nine different states, including Wisconsin, brought this action against Secretary of Agriculture and Administrator of Farm Service Agency (FSA) seeking to enjoin United States Department of Agriculture (USDA) officials from implementing loan-forgiveness program for farmers and ranchers under Section 1005 of the American Rescue Plan Act of 2021 (ARPA) by asserting eligibility to participate in program based solely on racial classifications violated equal protection. Plaintiffs/Farmers filed a motion for temporary restraining order.

The district court granted the motion, and at the time of this report is considering the Plaintiffs’ Motion for a Preliminary Injunction.

The USDA describes how the loan-forgiveness plan will be administered on its website. It explains, “Eligible Direct Loan borrowers will begin receiving debt relief letters from FSA in the mail on a rolling basis, beginning the week of May 24. After reviewing closely, eligible borrowers should sign the letter when they receive it and return to FSA.” It advises that, in June 2021, the FSA will begin to process signed letters for payments, and “about three weeks after a signed letter is received, socially disadvantaged borrowers who qualify will have their eligible loan balances paid and receive a payment of 20% of their total qualified debt by direct deposit, which may be used for tax liabilities and other fees associated with payment of the debt.”

**Application of strict scrutiny standard.** The court noted Defendants assert that the government has a compelling interest in remedying its own past and present discrimination and in assuring that public dollars drawn from the tax contributions of all citizens do not serve to finance the evil of private prejudice. “The government has a compelling interest in remedying past discrimination only when three criteria are met.” (citing *Vitolo*, 999 F.3d 353 (6th Cir. 2021), 2021 WL 2172181, at \*4; see also *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469, (1989)(plurality opinion).

The court stated the Sixth Circuit recently summarized the three requirements as follows:

“First, the policy must target a specific episode of past discrimination. It cannot rest on a “generalized assertion that there has been past discrimination in an entire industry.” *J.A. Croson Co.*, 488 U.S. at 498, 109.”

“Second, there must be evidence of intentional discrimination in the past. *J.A. Croson Co.*, 488 U.S. at 503, 109 S.Ct. 706. Statistical disparities don’t cut it, although they may be used as evidence to establish intentional discrimination ....”

“Third, the government must have had a hand in the past discrimination it now seeks to remedy. So if the government “shows that it had essentially become a ‘passive participant’ in a system of racial exclusion practiced by elements of a local industry,” then the government can act to undo the discrimination. *J.A. Croson Co.*, 488 U.S. at 492, 109 S.Ct. 706. But if the government cannot show that it actively or passively participated in this past discrimination, race-based remedial measures violate equal protection principles.”



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The court found that “Defendants have not established that the loan-forgiveness program targets a specific episode of past or present discrimination. Defendants point to statistical and anecdotal evidence of a history of discrimination within the agricultural industry.... But Defendants cannot rely on a ‘generalized assertion that there has been past discrimination in an entire industry’ to establish a compelling interest.” *Citing J.A. Croson Co.*, 488 U.S. at 498; *see also Parents Involved*, 551 U.S. at 731, (plurality opinion)(“remedying past societal discrimination does not justify race-conscious government action”). The court pointed out “Defendants’ evidence of more recent discrimination includes assertions that the vast majority of funding from more recent agriculture subsidies and pandemic relief efforts did not reach minority farmers and statistical disparities.”

The court concluded that: “Aside from a summary of statistical disparities, Defendants have no evidence of intentional discrimination by the USDA in the implementation of the recent agriculture subsidies and pandemic relief efforts.” “An observation that prior, race-neutral relief efforts failed to reach minorities is no evidence at all that the government enacted or administered those policies in a discriminatory way.” *Citing Vitolo*, 999 F.3d 353 (6th Cir. 2021), 2021 WL 2172181, at \*5. The court held “Defendants have failed to establish that it has a compelling interest in remedying the effects of past and present discrimination through the distribution of benefits on the basis of racial classifications.”

In addition, the court found “Defendants have not established that the remedy is narrowly tailored. To do so, the government must show “serious, good faith consideration of workable race-neutral alternatives.” *Citing Grutter v. Bollinger*, 539 U.S. 306, 339, (2003). Defendants contend that Congress has unsuccessfully implemented race-neutral alternatives for decades, but the court concluded, “they have not shown that Congress engaged “in a genuine effort to

determine whether alternative policies could address the alleged harm” here. *Citing Vitolo*, 999 F.3d 353 (6th Cir. 2021), 2021 WL 2172181, at \*6.

The court stated: “The obvious response to a government agency that claims it continues to discriminate against farmers because of their race or national origin is to direct it to stop: it is not to direct it to intentionally discriminate against others on the basis of their race and national origin.”

The court found “Congress can implement race-neutral programs to help farmers and ranchers in need of financial assistance, such as requiring individual determinations of disadvantaged status or giving priority to loans of farmers and ranchers that were left out of the previous pandemic relief funding. It can also provide better outreach, education, and other resources. But it cannot discriminate on the basis of race.” On this record, the court held, “Defendants have not established that the loan forgiveness program under Section 1005 is narrowly tailored and furthers compelling government interests.”

**Conclusion.** The court found a nationwide injunction is appropriate in this case. “To ensure that Plaintiffs receive complete relief and that similarly-situated nonparties are protected, a universal temporary restraining order in this case is proper.”

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The court on July 6, 2021, issued an Order that stayed the Plaintiffs' motion for a preliminary injunction, holding that the District Court in *Wynn v. Vilsack* (M.D. Fla. June 23, 2021), 2021 WL 2580678, Case No. 3:21-cv-514-MMH-JRK, U.S. District Court, Middle District of Fla. (see below), granted the Plaintiffs a nationwide injunction, which thus rendered the need for an injunction in this case as not necessary; but the court left open the possibility of reconsidering the motion depending on the results of the *Wynn* case. For the same reason, the court dissolved the temporary restraining order and stayed the motion for a preliminary injunction.

Subsequently, the Defendants filed a Motion to Stay Proceedings, and the court granted the motion on August 20, 2021, requiring the Defendants to file a status report every six months on the progress of the *Miller v. Vilsack*, 4:21-cv-595 (N.D. Tex.) case, which is a class action.

As a result of the federal government's recent repeal of ARPA Section 1005 and the subsequent Dismissal of the related Class Action in *Miller v. Vilsack*, the parties filed a Stipulation of Dismissal, and the case in September 2022 was dismissed by the Court.

(iv) ***Wynn v. Vilsack* (M.D. Fla. June 23, 2021), 2021 WL 2580678, Case No. 3:21-cv-514, U.S. District Court, Middle District of Fla.** *Wynn v. Vilsack* (M.D. Fla. June 23, 2021), 2021 WL 2580678, Case No. 3:21-cv-514-MMH-JRK, U.S. District Court, Middle District of Fla., is virtually the same case as the *Faust v. Vilsack*, 2021 WL 2409729 (N.D. Wis. June 10, (2021) case pending in district court in Wisconsin

The court in *Faust* granted the Plaintiffs' Motion for Temporary Restraining Order and the court in *Wynn* granted the Plaintiff's Motion for Preliminary Injunction holding: "Defendants Thomas J. Vilsack, in his official capacity as U.S. Secretary of Agriculture and Zach Ducheneaux, in his official capacity as Administrator, Farm Service Agency, their agents, employees and all others acting in concert with them, who receive actual notice of this Order by personal service or otherwise, are immediately enjoined from issuing any payments, loan assistance, or debt relief pursuant to Section 1005(a)(2) of the American Rescue Plan Act of 2021 until further order from the Court."

**Background.** In this action, Plaintiff challenges Section 1005 of the American Rescue Plan Act of 2021 (ARPA), which provides debt relief to "socially disadvantaged farmers and ranchers" (SDFRs). Specifically, Section 1005(a)(2) authorizes the Secretary of Agriculture to pay up to 120% of the indebtedness, as of January 1, 2021, of an SDFR's direct Farm Service Agency (FSA) loans and any farm loan guaranteed by the Secretary (collectively, farm loans). Section 1005 incorporates 7 U.S.C. § 2279's definition of an SDFR as "a farmer or rancher who is a member of a socially disadvantaged group." 7 U.S.C. § 2279(a)(5). A "socially disadvantaged group" is defined as "a group whose members have been subjected to racial or ethnic prejudice because of their identity as members of a group without regard to their individual qualities." 7 U.S.C. § 2279(a)(6).



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Racial or ethnic groups that categorically qualify as socially disadvantaged are “Black, American Indian/Alaskan Native, Hispanic, Asian, and Pacific Islander.” See also U.S. Dep’t of Agric., American Rescue Plan Debt Payments, <https://www.farmers.gov/americanrescueplan>. White or Caucasian farmers and ranchers do not.

Plaintiff is a white farmer in Jennings, Florida who has qualifying farm loans but is ineligible for debt relief under Section 1005 solely because of his race. He sues Thomas J. Vilsack, the current Secretary of Agriculture, and Zach Ducheneaux, the administrator of the United States Department of Agriculture (USDA) and head of the FSA, in their official capacities. In his two-count Complaint, Plaintiff alleges Section 1005 violates the equal protection component of the Fifth Amendment’s Due Process Clause (Count I) and, by extension, is not in accordance with the law such that its implementation should be prohibited by the Administrative Procedure Act (APA)(Count II). Plaintiff seeks (1) a declaratory judgment that Section 1005’s provision limiting debt relief to SDFRs violates the law, (2) a preliminary and permanent injunction prohibiting the enforcement of Section 1005, either in whole or in part, (3) nominal damages, and (4) attorneys’ fees and costs.

**Application of strict scrutiny test: Compelling interest.** The court, similar to the court in *Faust*, applied the strict scrutiny test and held that on the record presented, the court expresses serious concerns over whether the Government will be able to establish a strong basis in evidence warranting the implementation of Section 1005’s race-based remedial action.

The statistical and anecdotal evidence presented, the court said, appears less substantial than that deemed insufficient in *Eng’g Contractors v. Metro-Dade County* case (11th Cir. 1997), which included detailed statistics regarding the governmental entity’s hiring of minority-owned businesses for government construction projects; marketplace data on the financial performance of minority and nonminority contractors; and two studies by experts.

The Government states that its “compelling interest in relieving debt of [SDFRs] is two-fold: to remedy the well-documented history of discrimination against minority farmers in USDA loan (and other) programs and prevent public funds from being allocated in a way that perpetuates the effects of discrimination.” In cases applying strict scrutiny, the court notes the Eleventh Circuit has instructed: “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.” *Citing Ensley Branch, N.A.A.C.P. v. Seibels*, 31 F.3d 1548, 1564 (11th Cir. 1994).

Thus, to survive strict scrutiny, the Government must show a strong basis in evidence for its conclusion that past racial discrimination warrants a race-based remedy. *Id.* at 1565. The law on how a governmental entity can establish the requisite need for a race-based remedial program has evolved over time. In *Eng’g Contractors Ass’n of S. Fla. v. Metro. Dade County*, the Eleventh Circuit summarized the kinds of evidence that would and would not be indicative of a need for remedial action in the local construction industry. 122 F.3d 895, 906-07 (11th Cir. 1997). The court explained:

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“A 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. However, 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.” Here, to establish the requisite evidence of discrimination, the court said the Government relies on substantial legislative history, testimony given by experts at various congressional committee meetings, reports prepared at Congress’ request regarding discrimination in USDA programs, and floor statements made by supporters of Section 1005 in Congress. This evidence consists of substantial evidence of historical discrimination that predates remedial efforts made by Congress and, to a lesser extent, evidence the Government contends shows continued discrimination that permeates USDA programs.

The court pointed out that to the extent remedial action is warranted based on the current evidentiary showing, it would likely be directed to the need to address the barriers identified in the GAO Reports such as providing incentives or guarantees to commercial lenders to make loans to SDFRs, increasing outreach to SDFRs regarding the availability of USDA programs, ensuring SDFRs have equal access to the same financial tools as nonminority farmers, and efforts to standardize the way USDA services SDFR loans so that it comports with the level of service provided to white farmers.

The court decided that nevertheless, “at this stage of the proceedings, the Court need not determine whether the Government ultimately will be able to establish a compelling need for this broad, race-based remedial legislation. This is because, assuming the Government’s evidence establishes the existence of a compelling governmental interest warranting some form of race-based relief, Plaintiff has convincingly shown that the relief provided by Section 1005 is not narrowly tailored to serve that interest.”

**Narrow tailoring.** Even if the Government establishes a compelling governmental interest to enact Section 1005, the court holds that Plaintiff has shown a substantial likelihood of success on his claim that, as written, the law violates his right to equal protection because it is not narrowly tailored to serve that interest. The narrow tailoring requirement ensures that “the means chosen ‘fit’ th[e] compelling goal so closely that there is little or no possibility that the motive for the classification was illegitimate racial prejudice or stereotype.” *Croson*, 488 U.S. at 493 (plurality opinion). “The essence of the ‘narrowly tailored’ inquiry is the notion that explicitly racial preferences ... must be only a ‘last resort’ option.” *Eng’g Contractors*, 122 F.3d at 926.

In determining whether a race-conscious remedy is appropriate, the Supreme Court instructs courts to examine several factors, including the necessity for the relief and the efficacy of alternative remedies; the flexibility and duration of the relief, including the availability of waiver provisions; the relationship of the numerical goals to the relevant labor market; and the impact of the relief on the rights of third parties.” *U.S. v. Paradise*, 480 U.S. 149, 171 (1987).

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Here, the court found, “little if anything about Section 1005 suggests that it is narrowly tailored.” As an initial matter the court notes that the necessity for the specific relief provided in Section 1005—debt relief for all SDFRs with outstanding qualifying farm loans as of January 1, 2021—is unclear at best.

The court states that as written, “Section 1005 is tailored to benefit only those SDFRs who succeeded in receiving qualifying farm loans from USDA, but the evidence of discrimination provided by the Government says little regarding how this particular group of SDFRs has been the subject of past or ongoing discrimination. ... Thus, the necessity of debt relief to the group targeted by Section 1005, as opposed to a remedial program that more narrowly addresses the discrimination that has been documented by the Government, is anything but evident.”

More importantly, the court found, “Section 1005’s rigid, categorical, race-based qualification for relief is the antithesis of flexibility. The debt relief provision applies strictly on racial grounds irrespective of any other factor. Every person who identifies him or herself as falling within a socially disadvantaged group who has a qualifying farm loan with an outstanding balance as of January 1, 2021, receives up to 120% debt relief—and no one else receives any debt relief.”

Although the Government argues that Section 1005 is narrowly tailored to reach small farmers or farmers on the brink of foreclosure, the court finds it is not. “Regardless of farm size, an SDFR receives up to 120% debt relief. And regardless of whether an SDFR is having the most profitable year ever and not remotely in danger of foreclosure, that SDFR receives up to 120% debt relief. Yet a small White farmer who is on the brink of foreclosure can do nothing to qualify for debt relief. Race or ethnicity is the sole, inflexible factor that determines the availability of relief provided by the Government under Section 1005.”

The Government cited the Eleventh Circuit decision in *Cone Corp. v. Hillsborough County*, 908 F.2d 908, 910 (11th Cir. 1990). The court in *Cone Corp* pointed to several critical factors that distinguished the county’s MBE program in that case from that rejected in *Croson*:

“(1) the county had tried to implement a less restrictive MBE program for six years without success; (2) the MBE participation goals were flexible in part because they took into account project-specific data when setting goals; (3) the program was also flexible because it provided race-neutral means by which a low bidder who failed to meet a program goal could obtain a waiver; and (4) unlike the program rejected in *Croson*, the county’s program did not benefit “groups against whom there may have been no discrimination,” instead its MBE program “target[ed] its benefits to those MBEs most likely to have been discriminated against . . .” *Id.* at 916-17.

The court found that “Section 1005’s inflexible, automatic award of up to 120% debt relief only to SDFRs stands in stark contrast to the flexible, project by project *Cone Corp.* MBE program.” The court noted that in *Cone Corp.*, although the MBE program included a minority participation goal, the county “would grant a waiver if qualified minority businesses were uninterested, unavailable, or significantly more expensive than non-minority businesses.” In this way the Court in *Cone Corp.* observed the county’s MBE program “had been carefully crafted to minimize the burden on innocent third parties.” (*citing Cone Corp.*, 908 F.2d at 911).

The court concluded the “120% debt relief program is untethered to an attempt to remedy any specific instance of past discrimination. And unlike the *Cone Corp.* MBE program, Section 1005 is absolutely rigid in the relief it awards and the recipients of that relief and provides no waiver or exception by which an individual who is not a member of a socially disadvantaged group can qualify.

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In this way, Section 1005 is far more similar to the remedial schemes found not to be narrowly tailored in Croson and other similar cases.”

Additionally, on this record, the court found it appears that Section 1005 simultaneously manages to be both overinclusive and underinclusive. “It appears to be overinclusive in that it will provide debt relief to SDFRs who may never have been discriminated against or faced any pandemic-related hardship.” The court found “Section 1005 also appears to be underinclusive in that, as mentioned above, it fails to provide any relief to those who suffered the brunt of the discrimination identified by the Government. It provides no remedy at all for an SDFR who was unable to obtain a farm loan due to discriminatory practices or who no longer has qualifying farm loans as a result of prior discrimination.”

Finally, the Court concluded there is little evidence that the Government gave serious consideration to, or tried, race-neutral alternatives to Section 1005. “The Government recounts the remedial programs Congress previously implemented that allegedly have failed to remedy USDA’s discrimination against SDFRs.... However, almost all of the programs identified by the Government were not race-neutral programs; they were race-based programs that targeted things like SDFR outreach efforts, improving SDFR representation on local USDA committees, and providing class-wide relief to SDFRs who were victims of discrimination. The main relevant race-neutral program the Government referenced was the first round of pandemic relief, which did go disproportionately to White farmers.” However, the court stated, “the underlying cause of the statistical discrepancy may be disparities in farm size or crops grown, rather than race.”

Thus, on the current record, the court held, in addition to showing that Section 1005 is inflexible and both overinclusive and underinclusive, Plaintiff is likely to show that Congress “failed to give serious good faith consideration to the use of race and ethnicity-neutral measures” to achieve the compelling interest supporting Section 1005. *Ensley Branch*, 122 F.3d at 927.

Congress does not appear to have turned to the race-based remedy in Section 1005 as a “last resort,” but instead appears to have chosen it as an expedient and overly simplistic, but not narrowly tailored, approach to addressing prior and ongoing discrimination at USDA.

Having considered all of the pertinent factors associated with the narrow tailoring analysis and the record presented by the parties, the court is not persuaded that the Government will be able to establish that Section 1005 is narrowly tailored to serve its compelling governmental interest.

The court holds “it appears to create an inflexible, race-based discriminatory program that is not tailored to make the individuals who experienced discrimination whole, increase participation among SDFRs in USDA programs, or eradicate the evils of discrimination that remain following Congress’ prior efforts to remedy the same.” Therefore, the court holds that Plaintiff has established a strong likelihood of showing that Section 1005 violates his right to equal protection under the law because it is not narrowly tailored to remedy a compelling governmental interest.

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**Conclusion.** Defendants Thomas J. Vilsack, in his official capacity as U.S. Secretary of Agriculture and Zach Ducheneaux, in his official capacity as Administrator, Farm Service Agency, their agents, employees and all others acting in concert with them, who receive actual notice of this Order by personal service or otherwise, are immediately enjoined from issuing any payments, loan assistance, or debt relief pursuant to Section 1005(a)(2) of the American Rescue Plan Act of 2021 until further order from the Court.

Subsequently, the Defendants filed a Motion to Stay Proceedings, and the court granted the motion on August 20, 2021, requiring the Defendants to file a status report every six months on the progress of the *Miller v. Vilsack*, 4:21-cv-595 (N.D. Tex.) case, which is a class action.

As a result of the federal government's recent repeal of ARPA Section 1005 and the subsequent Dismissal of the related Class Action in *Miller v. Vilsack*, the parties filed a Stipulation of Dismissal, and the case in September 2022 was dismissed by the Court.

**(v) *Ultima Services Corp. v. U.S. Department of Agriculture, U.S. Small Business Administration, et. al.***, 2023 WL 4633481 (E.D. Tenn. July 19, 2023), 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 US Dep't of Agriculture (USDA), US 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 filed a Motion to Dismiss asserting inter alia that the court does not have jurisdiction. Plaintiff filed written discovery, which was stayed pending the outcome of the Motion to Dismiss.

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The court on March 31, 2021, issued a Memorandum Opinion and Order granting in part and denying in part the Motion to Dismiss. The court held that plaintiffs had standing to challenge the constitutionality of the Section 8(a) Program as violating the Fifth Amendment, and held plaintiff's claim that the Section 8(a) Program is unconstitutional because it discriminates on the basis of race is sufficient to state a claim. The court also granted in part Defendants' Motion to Dismiss holding that plaintiff's 42 U.S.C. Section 1981 claims are dismissed as that section does not apply to federal agencies. Thus, the case proceeds on the merits of the constitutionality of the Section 8 (a) Program.

The court on April 9, 2021, entered a Scheduling Order providing that Defendants shall file an Answer by April 28, 2021, and set a Bench Trial for October 11, 2022, with Dispositive Motions due by June 6, 2022. Defendants filed their Answer to the Complaint on April 28, 2021. Plaintiffs on May 20, 2021, filed a Motion to Amend/Revise Complaint, Defendants filed their Response to Motion to Amend on June 4, 2021, and Plaintiffs filed on June 8, 2021, their Reply to the Response. The court denied the motion to Amend/Revise. The parties conducted discovery, and filed motions to exclude testimony and opinions of Experts. The parties have filed their motions for summary judgment.

**December 8, 2022, Order requesting parties to address whether Supreme Court's decision expected in June 2023 would impact this case.** The Court conducted a status conference in the instant case on August 3, 2022, at the parties' request. During that conference, the parties explained that they did not believe a trial necessary because the Court could resolve all disputed issues based on the parties' pending motions. Therefore, the court ordered that the case is stayed pending the resolution of the parties' motions for summary judgment.

The court on December 8, 2022, issued an Order requesting the parties address whether a potential decision by the Supreme Court overruling the *Grutter v. Bollinger*, 539 U.S. 306 (2003) case in the pending Harvard and University of North Carolina (UNC) admission cases would impact the issues in this case and, if so, whether this matter should remain stayed until the Supreme Court releases its decision in the Harvard and UNC (SFFA) cases challenging the use of race-conscious admissions processes.

The parties filed on December 22, 2022, their responses to the court's Order both agreeing that the court should not stay its decision in this case, but differing on the impact of the SFFA cases: The Federal Defendants stating a decision by the Supreme Court overruling *Grutter* in the SFFA cases would not impact this case because they involve fundamentally different issues and legal bases for the challenged actions. The Plaintiffs responded by saying it may or may not impact this case depending on the nature of the decision by the Supreme Court.

The court on May 2, 2023, issued an Order denying both parties' motions to exclude expert testimony and reports by their experts.

**July 19, 2023, Opinion and Order on Motions for Summary Judgment.** On July 19, 2023, the district court issued its Order that granted in part and denied in part Plaintiffs' Motion for Summary Judgment, and denied Defendants' Motion for Summary Judgment.

The court stated the case concerns whether, under the Fifth Amendment's guarantee of equal protection, Defendants the United States' Department of Agriculture ("USDA") and the Small Business Administration ("SBA") may use a "rebuttable presumption" of social disadvantage for certain minority groups to qualify them for inclusion in a federal program that awards government contracts on a preferred basis to businesses owned by individuals in those minority groups.



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Defendant SBA also applied a rebuttable presumption of social disadvantage to individuals of certain minority groups applying to the 8(a) Program. The rebuttable presumption treated certain minority groups as socially disadvantaged, and it applies to Black Americans, Hispanic Americans, Native Americans, Asian Pacific Americans, Subcontinent Asian Americans, “and members of other groups designated from time to time by [Defendant] SBA.” *Id.* To qualify for the presumption, members of those groups must hold themselves out as members of their group. Individuals who qualify for the rebuttable presumption do not have to submit evidence of social disadvantage through an individual process for those who are not members of these groups.

The court citing Supreme Court precedent stated that certain classifications are subject to strict scrutiny — meaning they are constitutional “only if they are [(1)] narrowly tailored measures that further [(2)] compelling governmental interests.” *Adarand Constructors, Inc. v. Peña*, 515 U.S. 200, 227 (1995).

When examining racial classifications, courts apply strict scrutiny. *Students for Fair Admissions, Inc. v. President and Fellows of Harvard Coll.*, 143 S. Ct. 2141, 2162 (2023); *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469, 493–94 (1989) (applying strict scrutiny to the city of Richmond’s racial classification); *Adarand Constructors, Inc.*, 515 U.S. at 224 (plurality holding that racial classifications are subject to strict scrutiny).

Ultima argued that the rebuttable presumption in the Section 8(a) Program cannot survive strict scrutiny because Defendants cannot show that the rebuttable presumption is narrowly tailored to achieve a compelling governmental interest. The court addressed each prong of the strict scrutiny test, beginning with the compelling-interest prong.

**Lack of a compelling governmental interest.** To satisfy the compelling interest prong, the court held the government “must both identify a compelling interest and provide evidentiary support concerning the need for the proposed remedial action. *See Croson*, 488 U.S. at 498–504; *see also Associated Gen. Contractors of Ohio, Inc. v. Drabik*, 214 F.3d 730, 735 (6th Cir. 2000) (citing *Croson* for the proposition that the government must establish either that it “discriminated in the past” or “was a passive participant in private industry’s discriminatory practices”).

The Supreme Court has held that the government has a compelling interest in “remediating specific, identified instances of past discrimination that violated the Constitution or a statute.” *Students for Fair Admissions, Inc.*, 143 S. Ct. at 2162). Additionally, the government must present goals that are “sufficiently coherent for purposes of strict scrutiny.” *Students for Fair Admissions, Inc.*, 143 S. Ct. at 2166.”

Defendants assert that their use of the rebuttable presumption in the 8(a) Program is to remedy the effects of past racial discrimination in federal contracting. But, the court stated Defendant USDA admits it does not maintain goals for the 8(a) Program. And Defendant SBA admits that it does not require agencies to have goals for the 8(a) Program. Defendants also do not examine whether any racial group is underrepresented in a particular industry relevant to a specific contract in the 8(a) Program.

The court found that without stated goals for the 8(a) Program or an understanding of whether certain minorities are underrepresented in a particular industry, Defendants cannot measure the utility of the rebuttable presumption in remedying the effects of past racial discrimination. In such circumstances, the court said, Defendants’ use of the rebuttable presumption “cannot be subjected to meaningful judicial review.”

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The lack of any stated goals for Defendants' continued use of the rebuttable presumption, the court concluded does not support Defendants' stated interest in "remediating specific, identified instances of past discrimination[.]" (*Citing Students for Fair Admissions, Inc.*, 143 S. Ct. at 2162.). If the rebuttable presumption were a tool to remediate specific instances of past discrimination, the court noted, Defendants should be able to tie the use of that presumption to a goal within the 8(a) Program.

The court stated the Sixth Circuit addressed a challenge similar to the one *Ultima* raises here in *Vitolo*, 999 F.3d at 361 (6th Cir. 2021). The court said: "The Sixth Circuit held that "[t]he government has a compelling interest in remedying past discrimination only when three criteria are met." *Id.* at 361. First, the government's policy must "target a specific episode of past discrimination [and] ... cannot rest on a generalized assertion that there has been past discrimination in an entire industry." *Id.* (quoting *J.A. Croson Co.*, 488 U.S. at 498–99)."

The court found that: "Defendants do not identify a specific instance of discrimination which they seek to address with the use of the rebuttable presumption. Defendants instead rely on the disparities faced by MBEs nationally as sufficient to justify the use of a presumption that certain minorities are socially disadvantaged ..." [A]n effort to alleviate the effects of societal discrimination is not a compelling interest," and the court concluded Defendants' reliance on national statistics shows societal discrimination rather than a specific instance.

Second, the court pointed out that the Sixth Circuit explained that the government must support its asserted compelling interest with "evidence of *intentional* discrimination in the past." *Vitolo*, 999 F.3d at 361 (quoting *J.A. Croson Co.*, 488 U.S. at 503)(emphasis in original).

According to the Sixth Circuit, the court noted, "statistical disparities alone are insufficient but can be used with other evidence to establish intentional discrimination."

The Sixth Circuit, the court said, reasoned that when the government uses a race-based policy, it must operate with precision and support the policy with "data that suggest intentional discrimination." *Id.* The court also stated that the Sixth Circuit further reasoned that evidence of general social disparities are insufficient because "there are too many variables to support inferences of intentional discrimination" when there are multiple decision makers "behind the disparity." *Id.* at 362.

Here, the court concluded, Defendants primarily offer evidence of national disparities across different industries. They do not offer further evidence to show that those disparities are tied to specific actions, decisions, or programs that would support an inference of intentional discrimination that the use of the rebuttable presumption allegedly addresses.

Moreover, the court said that Plaintiffs' expert noted that Defendants' evidence did not eliminate other variables that could explain the disparities on which they rely. Defendants cannot affirmatively link those disparities to intentional discrimination because they also cannot eliminate all variables that could account for the disparities. The court stated that the Sixth Circuit in *Vitolo* did not equivocate, cautioning that "broad statistical disparities ... are not nearly enough" to show intentional discrimination. *Id.*



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Third, the court pointed out, the Sixth Circuit reasoned that the government must show that it participated in the past discrimination it seeks to remedy, such as by demonstrating it acted as a “passive participant in a system of racial exclusion practiced by elements of [a] local ... industry[.]” *Id.* (quoting *J.A. Croson Co.*, 488 U.S. at 492)(internal quotations omitted).” The Sixth Circuit explained that the government must identify “prior discrimination by the governmental unit involved” or “passive participation in a system of racial exclusion.” *Id.* (quoting *J.A. Croson Co.*, 488 U.S. at 492) “(alteration adopted).”

The court noted that additionally, in her opinion in *J.A. Croson Co.*, Justice O’Connor reasoned that the government could show passive participation in discrimination by compiling evidence of marketplace discrimination and then linking its spending practices to private discrimination. *J.A. Croson Co.*, 488 U.S. at 492 (O’Connor, J., joined by Rehnquist, C.J., and White, J).

The court stated that although it does not doubt the persistence of racial barriers to the formation and success of MBEs, Defendants’ evidence does not show that the government was a passive participant in such discrimination in the relevant industries in which Ultima operates. As evidence of passive participation, Defendants note that Congress found MBEs lacked access to “capital, bonding, and business opportunities” because of discrimination. Defendants further note that Congress found that MBEs faced “outright blatant discrimination directed at disadvantaged and minority business people by majority companies, financial institutions, and government at every level.” Those examples, however, the court said, relate broadly to the federal government’s actions in different areas of the national economy. They do not show, the court found, that the federal government allowed discrimination to occur in the industries relevant to Ultima.

The court held that because the court must determine whether the use of racial classifications is supported with precise evidence, “examples of the federal government’s passive participation in areas other than the relevant industries do not support Defendants’ use of the rebuttable presumption here. See *Vitolo*, 999 F.3d at 361.” Accordingly, the court held that Defendants have failed to show a compelling interest for their use of the rebuttable presumption as applied to Ultima. Even if Defendants could establish a compelling interest, the court found the rebuttable presumption is not narrowly tailored to serve the asserted interest.

**Rebuttable presumption is not narrowly tailored.** To determine whether the government’s use of a racial classification is narrowly tailored, the court examines several factors, including the necessity for the race-based relief, the efficacy of alternative remedies, the flexibility and duration of the relief, the relationship of the numerical goals to the relevant labor market, and the impact of the relief on the rights of third parties. The court noted the Supreme Court in *Croson* held that courts also should consider whether the governmental entity considered race-neutral alternatives prior to adopting a program that uses racial classifications, the program does not presume discrimination against certain minority groups and, if the program involves a set-aside plan, the plan is based on the number of qualified minorities in the area capable of performing the scope of work identified.

**a. Whether the 8(a) Program is flexible and limited in duration.** The court states that the Sixth Circuit in *Vitolo* noted, “[because] proving someone else has *never* experienced racial or ethnic discrimination is virtually impossible, this ‘presumption’ is dispositive.” *Vitolo*, 999 F.3d at 363 (emphasis in original). Individuals who do not receive the presumption must show both economic disadvantage *and* discrimination that have negatively impacted their advancement in the business world and caused them to suffer chronic and substantial social

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disadvantage. In effect, the court said, individuals who do not receive the presumption must put forth double the effort to qualify for the 8(a) Program.

The court cites to the decision in *Drabik*, in which the Sixth Circuit held that as an aspect of narrow tailoring, a race-conscious government program “must be appropriately limited such that it will not last longer than the discriminatory effects it is designed to eliminate.” *Drabik*, 214 F.3d at 737–38 (quoting *Adarand*, 515 U.S. at 238. The court then points out that recently, the Supreme Court reaffirmed that racially conscious government programs must have a “logical end point.” *Students for Fair Admissions, Inc.*, 143 S. Ct. at 2170 (quoting *Grutter*, 539 U.S. at 342).

It is noteworthy that the court in footnote 8 states the following: “The facts in *Students for Fair Admissions, Inc.* concerned college admissions programs, but its reasoning is not limited to just those programs. See *Adarand Constructors, Inc.*, 515 U.S. at 215 (applying the reasoning in *Bolling*, 347 U.S. at 497, which discussed school desegregation, to a federal program designed to provide highway contracts to disadvantaged business enterprises).”

Defendants concede, the court stated, that “the 8(a) Program has no termination date,” necessarily meaning there is no temporal limit on the use of the rebuttable presumption. The court found that such a “boundless use of a racial classification exceeds the concept of narrow tailoring as explained by Sixth Circuit and Supreme Court precedents.”

**b. Whether the 8(a) Program is necessary.** Defendants acknowledge that the program lacks a remedial objective. The court found that the lack of a specific objective shows that Defendants are not using the rebuttable presumption in a narrow or precise manner. And the Sixth Circuit has held, according to the court, that Defendants must present “the most exact connection between justification and classification.

Here, the court said, Defendants admit that they do not have any specific objectives linked to their use of the rebuttable presumption, and such unbridled discretion counsels against a racial classification being narrowly tailored.

**c. Whether the 8(a) Program is both over and underinclusive.**

Defendant SBA determines which groups receive the rebuttable presumption of social disadvantage. Some of those groups match the groups listed in the statute enacting the 8(a) Program. But, the court found that Defendant SBA has added more groups since that time that appear underinclusive when compared with groups that do not receive the rebuttable presumption.

The court stated that Defendant’s “arbitrary line drawing for who qualifies for the rebuttable presumption shows that the “categories are themselves imprecise in many ways.” *Students for Fair Admissions, Inc.*, 143 S. Ct. at 2167. Thus, the court held that the determination of which groups of Americans are presumptively disadvantaged compared with others “necessarily leads to such a determination being underinclusive because certain groups that could qualify will be left out of the presumption.”

Conversely, the court found the rebuttable presumption “sweeps broadly by including anyone from the specified minority groups, regardless of the industry in which they operate.” The court said that Defendant SBA is not making specific determinations as to whether certain groups in certain industries have faced discrimination. The court noted that it instead applies Congress’s nationwide findings to all members of the designated minority groups. Thus, the court held that such “an application of the presumption proves overinclusive by failing to consider the individual applicant to the 8(a) Program and the industries in which they operate.”

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**d. Whether Defendants considered race-neutral alternatives to the rebuttable presumption.** For a policy to survive narrow-tailoring analysis, the court stated the government must show “serious, good faith consideration of workable race-neutral alternatives” to promote the stated interest but need not exhaust every conceivable race neutral alternative. *Grutter*, 539 U.S. at 333, 339 (citing *Croson*, 488 U.S. at 507). But, the court said that in *Vitolo*, “the Sixth Circuit reasoned that ‘a court must not uphold a race-conscious policy unless it is ‘satisfied that no workable race-neutral alternative’ would achieve the compelling interest.’” *Vitolo*, 999 F.3d at 362 (quoting *Fisher v. Univ. of Tex. at Austin*, 570 U.S. 297, 312 (2013)).

The court found that Defendant SBA has not revisited the use of the rebuttable presumption since 1986 and insists that the presumption remains workable under the Supreme Court’s precedents. The court held that because of Defendant SBA’s “failure to review race-neutral alternatives in the wake of the Supreme Court’s precedents, the Court cannot conclude that “no workable race-neutral alternative would achieve the compelling interest.” *Vitolo*, 999 F.3d at 362.

**e. Whether the rebuttable presumption impacts third parties.** The court rejected Defendants’ assertion that the rebuttable presumption presents only a slight burden on third parties and Ultima because a minor amount of all national federal contracting dollars is eligible for small businesses. Ultima operates within a specific set of industries and the Mississippi contract, as well as others like it, represent a substantial amount of revenue. The court found that national statistics do not lessen the burden that the rebuttable presumption places on Ultima. Defendants, the court held, have failed to show that the use of the rebuttable presumption in the 8(a) Program is narrowly tailored.

**Conclusion.** The court held as follows: Ultima’s Motion for Summary Judgment is granted in part and denied in part, and Defendants’ Motion for Summary Judgment is denied. The Court declared that Defendants’ use of the rebuttable presumption violates Ultima’s Fifth Amendment right to equal protection of the law. The court ordered that Defendants are enjoined from using the rebuttable presumption of social disadvantage in administering Defendant SBA’s 8(a) Program. The court reserved ruling on any further remedy subject to a hearing on that issue. The court held a hearing on the issue of any potential further remedies on August 31, 2023.

The court issued the following Order on September 1, 2023: “Pursuant to the Court’s July 19, 2023, Memorandum Opinion and Order, the Court held a videoconference to discuss what, if any, further remedies Plaintiff was pursuing based on its prayers for relief in its complaint. Based on those discussions, the only pending issues are: (1) Plaintiff’s request for an injunction precluding Defendants from reserving Natural Resources Conservation Service contracts for administrative and technical support; and (2) Defendants’ compliance with the injunction issued in the Memorandum Opinion and Order. The parties agreed to a final round of briefing to address these issues.”

Subsequently, Plaintiff Ultima filed its Motion for Permanent Injunction and Additional Equitable Relief and the Federal Defendants filed their Response to Ultima’s Motion. Ultima’s Motion is pending at the time of this report.

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(vi) *Nuziard, et al. v. MBDA, et al.*, 2024 WL 965299 (N.D. Tex. March 5, 2024), granting Plaintiffs’ motion for summary judgment and ordering a permanent injunction; Order and Opinion issued on March 5, 2024; and 2023 WL 3869323 (N.D. Tex. June 5, 2023), granting Plaintiffs’ motion for preliminary injunction; Order and Opinion issued on June 5, 2023; U.S. District Court for the N.D. of Texas, Fort Worth Division, Case No. 4:23-cv-00278

On November 15, 2021, President Biden signed the Infrastructure Investment and Jobs Act (“Infrastructure Act”), creating the newest federal agency: the Minority Business Development Agency (“MBDA”). Plaintiffs allege this agency is dedicated to helping only certain businesses based on race or ethnicity.

Plaintiffs assert that because it relies on racial and ethnic classifications to help some individuals, but not others, the MBDA violates the Constitution’s core requirement of equal treatment under the law.

Plaintiffs allege they are small businesses interested in finding new ways to grow their business and would value the advice, grants, consulting services, access to programs and other benefits offered by the MBDA. However, Plaintiffs assert that agency will not help them because of their race.

Plaintiffs state that MBDA’s statutes, regulations, and website all speak a clear message of discrimination: Defendants refuse to help white business owners like Plaintiffs, as well as many other businesses owned by other non-favored ethnicities.

Plaintiffs claim that they seek an order declaring the MBDA to be unconstitutional and an injunction prohibiting Defendants from discriminating against business owners based on race or ethnicity.

Plaintiffs seek the following relief:

A. Enter a judgment declaring that the Minority Business Development Agency is unconstitutional and in violation of 5 U.S.C. § 706(2)(B) to the extent it provides Business Center Program services or other benefits and services based on race or ethnicity; and

B. Enter a preliminary and then permanent injunction prohibiting Defendants from imposing the racial and ethnic classifications defined in 15 U.S.C. §9501 and implemented in 15 U.S.C. §§ 9511, 9512, 9522, 9523, 9524, and 15 C.F.R. §1400.1 and/or as otherwise applied to the MBDA Business Center Program and other MBDA programs and services, and additionally enjoining Defendants from using the term “minority” to advertise or reference their statutorily authorized programs and services.

Plaintiffs filed a Motion for Preliminary Injunction. The court issued an Order and Opinion on June 5, 2023, as follows:

The Constitution demands equal treatment under the law. Any racial classification subjecting a person to unequal treatment is subject to strict scrutiny. To withstand such scrutiny, the government must show that the racial classification is narrowly tailored to a compelling government interest. In this case, the Minority Business Development Agency’s business center program provides services to certain races and ethnicities but not to others. The court held that “because the Government has not shown that doing so is narrowly tailored to a compelling government interest, it is preliminary enjoined from providing unequal treatment to Plaintiffs.”

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Subsequently, the court noted the Agency took steps to comply with the preliminary injunction last October by clarifying the pathway to benefits for applicants not on the Agency's racial listing. See MINORITY BUS. DEV. AGENCY, GUIDANCE TO MBDA BUSINESS CENTER OPERATORS 2 (Oct. 23, 2023) ("An individual does not need to identify as a member of one of [the listed groups] to be a socially or economically disadvantaged individual eligible to receive Business Center services under the MBDA Act. An individual may meet the definition if their membership in a group has resulted in their subjection to racial or ethnic prejudice or cultural bias or impaired their ability to compete in the free enterprise system."). As discussed later, the court indicated this post-suit policy change has no bearing on the present dispute.

The Parties moved for summary judgment in October 2023. Plaintiffs argued the Agency's race-based programming is unlawful under the Constitution and the Administrative Procedure Act ("APA"). For their constitutional claim, Plaintiffs apply the Supreme Court's holding in *Students for Fair Admissions, Inc. v. Pres. & Fellows of Harv. Coll.*, 600 U.S. 181 (2023) ("SFFA"), arguing the Agency's racial presumption violates the equal protection guarantees of the Fifth Amendment's Due Process Clause. Their APA claim does not articulate an independent theory. Rather, it asked the Court to "hold unlawful and set aside" any unconstitutional agency actions under 5 U.S.C. § 706(2)(B). Defendants "leaning on" *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469 (1989), argued the MBDA is constitutional because it remedies past discrimination in which the government "passively participated." Defendants further contend summary judgment is warranted because, merits aside, Plaintiffs lack standing to bring this lawsuit.

As explained below, the court on March 5, 2024, holds in favor of Plaintiffs and denied the Agency's Motion. But only Nuziard and Bruckner conclusively established standing. Because reasonable jurors could doubt Piper's standing, the Court granted summary judgment for Nuziard and Bruckner but denied it for Piper. The Court granted summary judgment on Plaintiffs' equal protection claim. The Court denied summary judgment on Plaintiffs' APA claim, favoring remedies more clearly established than vacatur. Finally, the Court entered a permanent injunction prohibiting further implementation of the MBDA's unconstitutional statutory presumption.

The discussion below begins with the court's June 5, 2023 opinion and order granting a preliminary injunction. The discussion then follows that Order and Opinion with the court's Order and Opinion issued on March 5, 2024, granting plaintiffs' motion for summary judgment and entering a permanent injunction.

### June 5, 2023, Order and Opinion

**a. Defendants lack a compelling interest.** Defendants contend that it has a compelling interest in remedying the effects of past discrimination faced by minority-owned businesses.

The court stated that the government may establish a compelling interest in remedying racial discrimination if three criteria are met: "(1) the policy must target a specific episode of past discrimination, not simply relying on generalized assertions of past discrimination in an industry; (2) there must be evidence of past intentional discrimination, not simply statistical disparities; and (3) the government must have participated in the past discrimination it now seeks to remedy." *Miller v. Vilsack*, No. 4:21-CV-0595-O, 2021 WL 11115194, at \*8 (N.D. Tex. July 1, 2021)(O'Connor, J.) (citing *Vitolo v. Guzman*, 999 F.3d 353, 361 (6th Cir. 2021))(summarizing U.S. Supreme Court precedents).

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The court found the Government's asserted compelling interest meets none of these requirements.

First, the court said that the Government "points generally to societal discrimination against minority business owners." *Vitolo*, 999 F.3d at 361. Defendants, the court stated, point to congressional testimony on the effects of redlining, the G.I. Bill, and Jim Crow laws on Black wealth accumulation as evidence of a specific episode of discrimination. But, the court noted the Program does not target Black wealth accumulation. It targets some minority business owners.

The court found Defendants also identify no specific episode of discrimination for any of the other preferred races or ethnicities. The court concluded instead that they point to the effects of societal discrimination on minority business owners. But "an effort to alleviate the effects of societal discrimination is not a compelling interest." *Shaw v. Hunt*, 517 U.S. 899, 909–10 (1996).

Second, the court held the "Government fails to offer evidence of past intentional discrimination. The Government offers no evidence of discrimination faced by some preferred races and ethnicities. And for those it does, the Government relies on studies showing broad statistical disparities with business loans, supply chain networks and contracting among some minorities. "These studies, according to the court, do not involve all of Defendants' preferred minorities or every type of business. But even if they did, the court said: "statistical disparities don't cut it." (quoting *Vitolo*, 999 F.3d at 361).

Because the court concluded: "when it comes to general social disparities, there are simply too many variables to support inferences of intentional discrimination." (quoting *Vitolo*, 999 F.3d at 362. "While the Court is mindful of these statistical disparities and expert conclusions based on those disparities, '[d]efining these sorts of injuries as 'identified discrimination' would give . . . governments license to create a patchwork of racial preferences based on statistical generalizations about any particular field of endeavor.'" (quoting *Greer's Ranch Café*, 540 F. Supp. 3d at 650 (quoting *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469, 499 (1989)).

Third, the court found the Government "has not shown that it participated in the discrimination it seeks to remedy." (quoting *Vitolo*, 999 F.3d at 361). The court pointed out that the government can show that it participated in the discrimination it seeks to remedy either actively or passively. However, Defendants provide no argument on how they participated in the discrimination it seeks to remedy.

The court noted that "perhaps the argument could be made that the Government passively discriminated by failing to address the economic inequities among minority business owners. But to be a passive participant, it must be a participant." See *Croson*, 488 U.S. at 492 (government awarding contracts to those who engaged in private discrimination). But, the court held there "is no evidence that the Government passively participated advanc[ing] the evil of private prejudice" faced by minority-owned businesses.

In sum, the court found: "the Government has failed to show that the Program targets a specific episode of discrimination, offer evidence of past intentional discrimination, or explain how it participated in discrimination against minority business owners. The Government thus lacks a compelling interest in remedying the effects of past discrimination faced by some minority-owned businesses."



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**b. The Program is not narrowly tailored.** Even if the Government had shown a compelling state interest in remedying some specific episode of discrimination, the court held the Program is not narrowly tailored to further that interest for at least two reasons.

First, the court stated the Government has not shown “that ‘less sweeping alternatives—particularly race neutral-ones—have been considered and tried.’” *Walker*, 169 F.3d at 983. This requires the government to show that “‘no workable race-neutral alternative’ would achieve the compelling interest.” *Fisher v. Univ. of Tex. at Austin*, 570 U.S. 297, 312 (2013).

Defendants contend that “absent race-based remedies, ‘the needle did not move’ in efforts to remedy the effects of discrimination on the success outcomes of minority business owners.” To support this statement, the court said, “defendants rely on a single review of various disparity studies. See U.S. Dep’t of Commerce, Minority Business Development Agency, Contracting Barriers and Factors Affecting Minority Business Enterprise: A Review of Existing Disparity Studies (Dec. 2016).”

The court found this review, “cuts against the Government. It ‘emphasize[s] the need for both race-neutral and race-conscious remedial efforts’ to move the needle and states that the disparity studies ‘fail to detail the extent to which agencies have actually implemented and measured the success or failure of these recommendations.’ ... Thus, the review of contracting disparities Defendants rely on does not show that race-neutral alternatives ‘have been considered and tried.’” See *Walker*, 169 F.3d at 983. “Nor has the Government shown a ‘serious, good faith consideration of workable race-neutral alternatives’ in any other business context.” See *Grutter v. Bollinger*, 539 U.S. 306, 339 (2003).

Second, the court concluded, the Program is not narrowly tailored “because it is underinclusive and overinclusive in its use of racial and ethnic classification.” See *Croson*, 488 U.S. at 507–08; *Gratz*, 539 U.S. at 273–75. It is underinclusive because it arbitrarily excludes many minority-owned business owners — such as those from the Middle East, North Africa, and North Asia. For example, the court noted the Program excludes those who trace their ancestry to Afghanistan, Iran, Iraq, and Libya. But it includes those from China, Japan, Pakistan and India. The court found the Program is also underinclusive because it “excludes every minority business owner who owns less than 51% of their business. ‘This scattershot approach does not conform to the narrow tailoring strict scrutiny requires.’” (quoting *Vitolo*, 999 F.3d at 364).

The Program, the court stated, is also overinclusive. “It helps individuals who may have never been discriminated against. See *Croson*, 488 U.S. at 506–08 (holding that a minority business plan is overinclusive because it includes ethnicities in which there is no evidence of discrimination).” And, the court said that it “also helps all business owners, not just those in which disparities have been shown.”

The Program, the court found, is thus not narrowly tailored to the Government’s asserted interest.

Because the Government has not shown a compelling interest or a narrowly tailored remedy under strict scrutiny, the court held that Plaintiffs are likely to succeed on the merits.

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**Conclusion of June 2023 Order.** The Court granted Plaintiffs’ Motion for Preliminary Injunction and enjoined Defendants, the Wisconsin MBDA Business Center, the Orlando MBDA Business Center, the Dallas-Fort Worth MBDA Business Center and the officers, agents, servants and employees and anyone acting in active concert or participation with them from imposing the racial and ethnic classifications defined in 15 U.S.C. § 9501 and implemented in 15 U.S.C. §§ 9511, 9512, 9522, 9523, 9524, and 15 C.F.R. § 1400.1 against Plaintiffs or otherwise considering or using Plaintiffs’ race or ethnicity in determining whether they can receive access to the Center’s services and benefits.

### March 5, 2024, Order and Opinion

The Parties moved for summary judgment in October 2023. The following discussion summarizes the court’s Opinion and Order issued on March 5, 2024.

**A. Nuziard and Bruckner establish Article III Standing.** The analysis differs for each Plaintiff. Nuziard met all posted criteria for the Agency’s services except for race/ethnicity. Bruckner is more challenging because he did not meet all the criteria. The court said at issue for both is whether any race-neutral criteria came from the MBDA or from third-party operators. Piper’s largest challenge was establishing standing, as he never contacted his local Business Center. For Piper, the issue is whether he sufficiently manifested intent to apply or if a “futility exception” excuses his inaction.

Importantly, the court found the record contained no evidence suggesting race-neutral criteria are enforced with equally demanding rigor for MBEs. As Plaintiffs observed, the court noted: “Defendants have offered no evidence even suggesting that minority applicants for MBDA Programming are subjected to such an inflexible, rigorous, post hoc application of non-statutory requirements.”

The court found that Dr. Nuziard and Mr. Bruckner established standing when they suffered injuries-in-fact when they were denied an equal shot at MBDA benefits because of their race. The Agency caused their injuries. A favorable ruling would redress them.

Accordingly, the court held Nuziard and Bruckner have Article III standing, and the Court denied the Agency’s Motion on this point. The court did not find that Piper had standing.

**B. The MBDA Statute is unconstitutional.** The court stated that this is a case about presumptions. The court found that Plaintiffs all encountered the same obstacle when they sought MBDA programming. Because they are not on the Agency’s list, the court pointed out the Agency presumes they are not disadvantaged. *See* 15 U.S.C. § 9501(15)(B); 15 C.F.R. 1400.1.

The court, citing the recent Supreme Court decision in *SFFA v. Harvard, et al.*, holds that any exceptions to the Equal Protection Clause “must survive a daunting two-step examination known as strict scrutiny.” *SFFA*, 600 U.S. at 206; *see Adarand*, 515 U.S. at 227 (noting “all racial classifications” must pass “strict scrutiny” by being “narrowly tailored measures that further compelling governmental interests”). As noted in *Adarand*, the court stated the rubric has two parts. First, the Court asks if the racial classification “further[s] compelling governmental interests.” *Grutter v. Bollinger*, 539 U.S. 306, 326 (2003). Second, the Court asks if the classification is “narrowly tailored” to achieve those interests. *Fisher v. Univ. of Tex. at Austin*, 570 U.S. 297, 311–12 (2013). The burden to establish both rests with the government. *Id.*



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The court concluded it is hornbook law that strict scrutiny applies to race-based classifications. A compelling governmental interest is essential. An action is narrowly tailored if its “necessary” to achieve the interest. The court cites to the *SFFA* case determining that for racial classifications to be narrowly tailored, they must be “sufficiently focused” on obtaining “measurable objectives warranting the use of race.” (*quoting SFFA*, 600 U.S. at 230).

And the “twin commands of the Equal Protection Clause” dictate that “race may never be used as a ‘negative’ and . . . may not operate as a stereotype.” (*quoting SFFA*, at 218.) Finally, the contested classification must have a “logical endpoint.” (*quoting SFFA* at 212 (*quoting Grutter*, 539 U.S. at 342)).

The court, following the *SFFA* case, pointed out that courts “have identified only two compelling interests that permit [a] resort to race-based government action. One is remediating specific, identified instances of past discrimination that violated the Constitution or a statute [and] [t]he second is avoiding imminent and serious risks to human safety in prisons, such as a race riot.” (*quoting SFFA*, 600 U.S. at 207.)

The Parties in this case agree strict scrutiny applies. The MBDA Statute lists certain races that are presumptively entitled to benefits. *See* 15 U.S.C. § 9501(15)(B). Those not on the list can make an “adequate showing” of disadvantage. 15 C.F.R. § 1400.1(b). Those on the list don’t have to. Thus, in presuming listed groups are “socially or economically disadvantaged,” the MBDA Statute presumes *unlisted* groups are *not* “socially or economically disadvantaged.” While they can take steps to show they are, that is their burden to bear. Yet, the Agency assumes otherwise.

The Agency says this presumption helps “remedy[] ‘[t]he unhappy persistence . . . of racial discrimination against minority groups in this country.’” (*quoting Adarand*, 515 U.S. at 237). Plaintiffs say the presumption is too vague, applying considerations from *SFFA*. Plaintiffs further argue the presumption is “*not tailored at all*.” The Agency disagrees, arguing the presumption is narrowly tailored because it is (1) necessary, (2) flexible, (3) neither over- nor under-inclusive and (4) minimally impactful to third parties.

The court stated that racial presumptions are a disfavored solution. As such, the Agency’s presumption must pass strict scrutiny. (*citing SFFA*, 600 U.S. at 206; *Adarand*, 515 U.S. at 227). A failure on either prong is terminal.

**1. The Agency’s only compelling interest concerns discrimination in government contracting.** The Agency argues its presumption remedies myriad effects of discrimination. But, the court said, “an effort to alleviate the effects of societal discrimination is not a compelling interest.” (*quoting Shaw v. Hunt*, 517 U.S. 899, 909 (1996)). Thus, the Agency’s brief posits two specific examples: 1) discrimination in access to credit and 2) discrimination in private contracting markets. To determine if either is compelling, the court pointed out the Supreme Court asks two questions. First, did specific acts of historic discrimination cause these problems? (*citing SFFA*, 600 U.S. at 207). Second, if the problems arise in private-sector contexts and are not tied to discrete incidents of historic discrimination, did the government “passively participate” in causing them? (*citing Croson*, 488 U.S. at 492).

The court stated that both inquiries call for specifics. The Agency cannot refer to general social ills and rely on these conclusions. Rather, it must identify the “who, what, when, where, why, and how” of relevant discrimination. (*citing Croson and Greer’s Ranch Café v. Guzman*, 540 F. Supp. 3d 638, 650 (N.D. Tex. 2021) (O’Connor, J.) (noting an “industry-

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specific inquiry [is] needed to support a compelling interest for a government-imposed racial classification”). Otherwise, the court noted, any race-based program could be justified considering the country’s history of race-based discrimination. “[S]uch a result would be contrary to both the letter and spirit of a constitutional provision whose central command is equality.” (*quoting Croson*, 488 U.S. at 506).

However, the court states that discrimination is “good at hiding.” Accordingly, “significant statistical disparit[ies]” can support “an inference of discrimination.” (*quoting Croson*, at 509; collecting cases). Yet, without more evidence, “statistical disparities don’t cut it.” (*quoting Vitolo*, 999 F.3d at 361; and *Croson*, 488 U.S. at 499, 500–02). Moreover, not all disparity studies are created equal.

The court addressed the Plaintiffs argument that “[s]tatistical studies that do not control for . . . capacity factors . . . do not prove intentional discrimination.” The court also stated that even the best empirics can only prove so much. Statistical disparities support an *inference* of discrimination. (*citing Croson*, 488 U.S. at 509). Without concrete examples, the court concluded, an inference alone will not pass strict scrutiny.

The court noted the Supreme Court’s discussion of *Wygant* in *Croson* demonstrates when a party must show government participation. (*citing Croson*, 488 U.S. at 485–88, 491–92). The court stated that the Supreme Court rejected two extremes. On one hand, it rejected the Fourth Circuit’s reading of *Wygant* that required “prior discrimination by the government” for a program to pass strict scrutiny. (*quoting Croson* at 485).

Conversely, the court rejected the appellant’s argument that the City of Richmond could “define and attack the effects of prior discrimination” wherever they exist. (*quoting Croson* at 486.) Rather, *Croson* framed the analysis around specificity. If the government actively participated in past discrimination, it can use race to remedy the effects. (*citing Croson* at 486, 491–92). Interpreting *Croson*, the court concluded that to remedy private sector disparities, the government must identify discrimination with pinpoint accuracy. The court holds this is satisfied by showing government participation in the relevant discrimination. (*citing Croson*, 488 F.3d at 492).

Therefore, the court noted, government participation is not always necessary, but it is sufficient. The court found that if the Agency identifies specific historic incidents it seeks to redress, it need not show government participation. But, without evidence of government participation, the Agency cannot use race to remedy broad statistical disparities in private-sector contexts. The court said the common theme is clear: “a generalized assertion of past discrimination” won’t suffice “because it ‘provides no guidance for a legislative body to determine the precise scope of the injury it seeks to remedy.’” (*quoting Hunt*, 517 U.S. at 909 (*quoting Croson*, 488 U.S. at 498)). While the government need not furnish formal findings of discrimination at the start, it must “when a remedial program is challenged.” (*quoting Dean*, 438 F.3d at 455).

The MBDA has been challenged, so the Agency must now establish a “strong basis in evidence” for its presumption. If it also seeks to remedy private sector structural disparities rather than particular historic discrimination, the court holds that it must furnish evidence of government participation. (*citing Croson*, 488 U.S. at 492, 503; *Wygant*, 476 U.S. at 274; *SFFA*, 600 U.S. at 260 (Thomas, J., concurring); *Dean*, 438 F.3d at 455; *Vitolo*, 999 F.3d at 361). Anything less fails strict scrutiny.

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**a. Discrimination in credit access.** The court stated that for its first interest, the Agency observed that “evidence before Congress” shows MBEs “have far less access to capital and credit” than white-owned business “due to racial discrimination in lending markets.” The court noted that the record validates the Agency’s observation, but the question is not whether it is difficult for MBEs to get credit.

Rather, the court pointed out the question is 1) did specific incidents of historic discrimination cause this problem, and 2) if the problem is instead rooted in private sector disparities, did the government participate in causing it? Based on these questions, the court holds the Agency’s first interest is not compelling.

**i. Specific, identified instances of past discrimination.** To show a compelling interest, the Agency must identify “specific, identified instances of past discrimination that violated the Constitution or a statute.” (*quoting SFFA*, 600 U.S. at 207). The court found the Agency failed to do so. The evidence shows “[n]ationwide, ‘minority businesses are two to three times more likely to be denied a loan’” and “‘receive less funding and pay higher interest rates on loans they do receive.’”

The court stated this practice is undeniably problematic, but it cannot be a compelling government interest unless the Agency identifies concrete acts of past discrimination that caused it. (*citing SFFA*, 600 U.S. at 207). The court also found the Agency’s cited studies speak only to the phenomenon itself, not contributing factors. The court stated that none of the studies address causal factors, much less “specific, identified instances of past discrimination that violated the Constitution or a statute.” (*quoting SFFA*, 600 U.S. at 207).

Without more granularity, the court concluded the Agency cannot establish a compelling interest. Further, the Agency extrapolates too much from the data, as nothing shows the studies controlled for other variables that stymie MBEs seeking credit. One of the Agency’s reports noted that “identifiable indicators of capacity are themselves impacted by and reflect discrimination.” However, the court found that does not give the Agency carte blanche to justify its presumption from generalized findings without explaining the causal nexus.

While the Agency identified a few concrete examples of past discrimination, most of the cited studies do not. The court noted the record also failed to trace those few examples to specific disparities *today*. The court stated that past discrimination may cause modern disparities without longitudinal studies to reflect causation. However, according to the court, the Agency must accomplish that task to justify its presumption, and it cannot rely on “various decades-old sources or rationale[s] for supporting a compelling interest *today*” (emphasis added). The court stated the cited evidence is overall insufficient to pass strict scrutiny. Further, the Agency’s first interest is not compelling because it concerns private-sector credit disparities, and the record does not show government participation contributed to such disparities.

**ii. Government participation.** The court holds that the government must identify relevant government participation to use race in remedying private sector disparities. According to the court, the record does not establish this element for the Agency’s first interest. The court noted that in many respects, the Agency conflates quantitative and qualitative merit. The record shows evidence of MBEs’ credit struggles, but it contains no evidence tying this problem to specified government participation. The court found that the Agency’s reports do not identify government participation in the discrimination detailed.

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The court stated that to be a passive participant, the government must be a participant. Precedent requires specifics to prove even passive participation. The court concluded the record contains no concrete evidence of government “induction, encouragement, or promotion” of credit discrimination. Not only does the record fail to reflect government participation for this interest, it affirmatively suggests other causal factors are relevant.

The court stated the issue is not that non-government players were involved. As explained in *Croson*, the government can use race if it was “a ‘passive participant’ in a system of racial exclusion practices” in the private sector. The problem, the court found, is that the record identifies other causes and fails to show government participation. Additionally, the evidence that purports to show passive participation concerns failed federal policy, not actual participation in discrimination.

The court stated there is a big difference between participating in discrimination and simply taking actions that increase difficulty for MBEs. Remedying “what the Federal Government is not doing” is not a compelling interest. Rather to pass strict scrutiny, the Agency must show government participation “with the particularity required by the Fourteenth Amendment.”

The court concluded that if the Agency cannot show participation, it lacks “a strong basis in evidence for its conclusion that [race-based] remedial action was necessary.” While the government may have a role in remedying MBEs’ credit problems, the court found the evidence does not show it had a role in causing them — at least not as a participant. The court holds that any policies aimed at fixing these issues may not use race-based classifications, and the government’s first interest is not compelling.

**b. Discrimination in private contracting markets.** The Agency’s second interest concerns discrimination in private contracting markets. Asking the same two inquiries as discussed above, the court found the Agency’s second interest is not compelling. However, the court concluded evidence specific to government contracting reveals that a “subinterest” is.

**i. Specific, identified instances of past discrimination.** The court initially set aside government contracting to examine the Government’s other evidence and found it failed to support a compelling interest because the cited sources were either: 1) too generalized or 2) too limited in temporal or geographic scope. To the extent the sources contained specifics, those specifics concern government contracting. The court discusses the three expert reports presented by the government and concluded they illustrate this issue.

The court found the Agency takes evidence probative for a specific context and uses it to over-justify certain actions. The reports touch on other contexts, but they do so generally. The court addressed the Plaintiffs note: “The reports simply claim discrimination in an ‘entire industry,’ and that ‘the government’ participates in this ‘industry.’” The court stated the Plaintiffs note here is correct, and rejects the Agency’s “simplistic syllogism” that “discrimination exists in the American economy, and the government participates in the American economy, therefore, the government participates in discrimination.”

The court said that these problems only implicate “ill-defined,” “exclusionary networks.” The court noted many private contracting sectors operate under the “good ol’ boys club.” Good ol’ boys clubs place importance on social connections and closed networks over a business’s merit. The record shows MBEs underperform in these situations due to biases of those in the “ingroup.”

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The court stated this is a prime example of a compelling societal interest that is not, as a matter of law, a compelling *governmental* interest. But, the court found, many such exclusionary networks arise in government contracting. If constrained to that context, the Agency's evidence supports a compelling interest. The court concluded the record contains "evidence of disparities in federal contracting consistent with discrimination."

The Agency said these findings "justify the use of race-conscious remedial measures through the MBDA Act." The court holds the reports identify instances of discrimination in this context, and so does the record as a whole. Thus, the court said, carving away the Agency's broader interest, the record shows remedying historic discrimination in public procurement/prime contracting is a compelling government interest.

**ii. Government participation.** The court noted the Agency pointed to three categories of empirical evidence to support an inference of government-linked discrimination: 1) utilization indices, 2) regression analyses, and 3) aggregations of anecdotal evidence. The court stated "[i]t is well established that disparities between a locality's utilization of ... MBEs and their availability in the relevant marketplace [can] provide evidence for the consideration of race-conscious remedies." Plaintiffs critique the Agency's evidence but do not explain how it is critically deficient.

The court found the cited studies show significant disparity ratios for MBEs in prime contracting, and that such disparities support an "inference of discriminatory exclusion." Because the government itself is the bidder on such contracts, that inference also implicates government participation.

The court noted that through regression analysis, studies show whether race is a statistically significant predictor of the disparate outcome at a 95 percent confidence level, and thus indicate "whether the disparate outcomes between racial/ethnic minorities and white male business owners could have occurred by chance." Pooling data from various sources, the studies of record produced logit models showing MBE exclusion in prime contracting nationwide. The court stated the numbers are unexplainable without considering race. The court found Agency's regression analyses support an "inference of discriminatory exclusion" in government procurement/prime contracting, which necessarily suggests government participation.

In sum, the court stated the record showed several examples of historic discrimination in which the government participated. Alone, historic discrimination is insufficient. The record also showed statistical analyses and disparity studies that raise an inference of government-linked discrimination. Alone, studies and analyses are also insufficient. However, the court concluded that combining the concrete examples with the robust empirics, the court found remedying past discrimination in government contracting is a compelling governmental interest.

**2. The MBDA's racial presumption is not narrowly tailored.** Having established a compelling sub-interest, the Agency must show its race-based presumption is narrowly tailored to further that interest. To do so, the Agency must show a "close fit" between the means (its presumption) and the end (remedying historic discrimination in government contracting). This fit must be so close that there is little or no possibility that the motive for the classification was illegitimate racial prejudice or stereotype. The court examined the several factors that determine the narrow tailoring inquiry, and holds the MBDA statute failed under these considerations.

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**a. Under- and over-inclusivity.** The court found the MBDA’s race-based presumption is both under- and over-inclusive. An under-inclusive presumption excludes necessary groups to further the identified interest; an over-inclusive presumption includes unnecessary groups for that interest.

The court stated the Agency’s presumption is under-inclusive because it “arbitrarily excludes” many MBEs, including those owned by individuals from “the Middle East, North Africa, and North Asia.” Such inconsistencies come with the territory of “racial taxonomies in a multiracial nation.” The court found inconsistencies in which groups from certain countries are included or excluded. Further, nothing in the government’s history provided a rationale for which countries are included or excluded. The court concluded the absence of a clear regulatory framework for including or excluding certain groups means the MBDA Statute is immune from meaningful judicial review.

The court holds the MBDA’s inclusion and exclusion approach does not conform to the narrow tailoring strict scrutiny requires.

The court found the Agency failed to explain why its presumption is necessary to remedy the effects of discrimination in public, and the record contained no evidence of systemic exclusion from public contracting for many groups entitled to presumptive disability under the MBDA Statute. Without clear evidence tracing each of the groups in 15 U.S.C. § 9501(15)(B) to concrete discrimination in this context, the Agency’s presumption is not narrowly tailored.

The court concluded the Agency seeks to justify a ramshackle presumption without concrete evidence establishing why certain groups make the list and others do not.

The court determined the Agency’s over-inclusive presumption is akin to many other federal statutes without any empirical justification and without close scrutiny. According to the court, because the Agency includes many individuals without inquiring into individual applicants belonging to those groups have experienced discrimination, it is facially over-inclusive and thus fails strict scrutiny. The court holds the MBDA’s presumption in 15 U.S.C. § 9501(15)(B) is both under- and over-inclusive, and thus it is not narrowly tailored and does not pass strict scrutiny.

**b. Stereotyping.** The court stated that most of the above issues stem from stereotypes underlying the Agency’s presumption. There is not anything inherently race-conscious about serving “socially or economically disadvantaged individual[s].” 15 U.S.C. § 9501(15). But the MBDA Statute defines “social or economic disadvantage” in racial terms. Nor does a business owner’s race inherently suggest anything about disadvantage. Yet, the MBDA Statute defines “minority owned business enterprise” in terms of “social or economic disadvantage.”

The court stated that the Agency uses race as a reliable proxy for disadvantage, at least with respect to the listed groups. If a business owner belongs to an enumerated group, he or she is entitled to services without regard to their life circumstances, financial performance or any social or economic metrics of “disadvantage.” The inverse is also true. No matter how disadvantaged an entrepreneur may be, the Agency presumes otherwise if they are not on the list. The court states the federal courts have rejected “such illogical stereotypes.”

As far as the Agency is concerned, the court found that race presumptively determines disadvantage — but only for those listed in 15 U.S.C. § 9501(15)(B). The court holds the MBDA’s presumption in 15 U.S.C. § 9501(15)(B) is based on racial stereotypes. As such, it is not narrowly tailored and does not pass strict scrutiny.



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**c. Logical endpoint.** The court found the MBDA’s presumption in 15 U.S.C. § 9501(15)(B) has no logical endpoint. Thus, the court holds, it is not narrowly tailored and does not pass strict scrutiny.

**d. Other relevant factors.** The court addressed the main factors applied in the *SFFA v. Harvard* case, and held the Agency’s presumption does not satisfy the narrow tailoring requirement. It addresses other relevant factors in its decision.

**i. Necessity and available alternatives.** The court found the MBDA’s racial presumption is unnecessary for the stated interest and was not crafted after first considering alternatives. The only surviving interest is remedying past discrimination in government procurement/prime contracting. According to the court, the record does not show the Agency’s presumption is necessary for that interest. But even if the Agency’s broader interests were compelling, the court stated nothing suggests the race-based presumption in 15 U.S.C. § 9501(15)(B) is necessary to fix the credit struggles and exclusionary networks documented in the record.

The court found that nothing in the record indicated the MBDA considered race-neutral alternatives before endorsing the presumption in 15 U.S.C. § 9501(15)(B). The Agency attempted to avoid this inquiry, noting that the federal government has operated race-neutral business-assistance programs for decades, and still racial disparities exist. However, the court stated although there is evidence that other agencies applied other solutions to different issues does not carry the Agency’s burden. Additionally, the court said the Agency alone bears the burden of showing race-neutral alternatives were considered.

The court noted the Agency’s problem is not merely that race-neutral alternatives would suffice. Rather, the court holds MBDA’s fatal flaw is that no evidence suggests it considered such alternatives before resorting to its race-based presumption.

Without such evidence, the Agency failed to show the meticulous “connection between justification and classification” required for its presumption to survive. MBDA’s presumption in 15 U.S.C. § 9501(15)(B), the court concluded, is unnecessary and was created without first considering race-neutral alternatives. Thus, it is not narrowly tailored and does not pass strict scrutiny.

**ii. Flexibility and duration.** Second, a narrowly tailored program is flexible and durationally limited. The court discussed the primary inquiry when analyzing a remedy’s flexibility is whether its requirements may be waived. The court found nothing in the MBDA Statute says its presumption is waivable or otherwise elastic. While applicants not on the Agency’s list can attempt to demonstrate disadvantage, the underlying presumption cannot be waived.

The racial presumption, the court noted, is baked into countless facets of MBDA programming. The Agency cannot relax its preferences in granting a finite good (MBDA benefits) because: 1) the statute itself contains no waiver provision and thus precludes that option, and 2) the “applicant pool” is not geographically constrained and is thus effectively limitless.

The Agency’s presumption is also unlimited in duration. It continues to grow, the court stated, and offers increasingly expansive programming pursuant to its racial presumption. If the current trend continues, the court determined the MBDA’s presumption appears to never expire. The court holds the MBDA’s presumption in 15 U.S.C. § 9501(15)(B) is neither flexible nor durationally limited. Thus, it is not narrowly tailored and does not pass strict scrutiny.

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**iii. Impact on third parties.** Third, a narrowly tailored program minimally impacts third parties. The court pointed out the MBDA presumes certain races are entitled to benefits, giving them an effective monopoly on its services. The court noted that precedent has long recognized that “[t]he badge of inequality and stigmatization conferred by racial discrimination” is itself an impactful harm. Those not covered by 15 U.S.C. § 9501(15)(B) are not invited to participate, unless they make an “adequate showing” that they should be.

The court found that even if those not covered can access business-development services from other programs, that presumption is per se impactful to third parties. The court holds the Agency’s presumption in 15 U.S.C. § 9501(15)(B) failed the other narrow tailoring factors and thus failed strict scrutiny.

**Holding.** The MBDA’s statutory presumption, codified at 15 U.S.C. § 9501, is unconstitutional. The Agency grants or withholds programming based upon a threshold satisfaction of 15 U.S.C. § 9501(15)(B), or alternatively, an “adequate showing” that an unlisted group is “socially or economically disadvantaged” under 15 C.F.R. § 1400.1(b). Any provision of the MBDA Statute that is contingent on the presumption in 15 U.S.C. § 9501(15)(B) is also unconstitutional. Accordingly, the court granted summary judgment on Plaintiffs’ equal protection claim and found the following provisions of the MBDA Statute unconstitutional: 15 U.S.C. §§ 9501, 9511, 9512, 9522, 9523, 9524.

Plaintiffs satisfy the requirements for injunctive relief, though not for the broader injunction sought. Accordingly, the Court ordered that the MBDA, along with its officers, agents, servants and employees and/or anyone acting in active concert therewith, be permanently enjoined from imposing the racial and ethnic classifications defined in 15 U.S.C. § 9501 and implemented in 15 U.S.C. §§ 9511, 9512, 9522, 9523, 9524, and 15 C.F.R. § 1400.1, or otherwise considering or using an applicant’s

race or ethnicity in determining whether they can receive Business Center programming.

**(vii) *Mid-America Milling Company LLC (MAMCO) and Bagshaw Trucking Inc. v. U.S. Department of Transportation, et. al.***, U.S. District Court for the Eastern District of Kentucky, Frankfort Division; Case No: 3:23 -cv-00072-GFVT (Complaint filed on October 26, 2023)

On October 26, 2023, Plaintiffs filed a suit challenging the Federal DBE Program. Plaintiffs seek a preliminary and permanent injunction, and a declaratory judgment, that the Federal DBE Program, including Sections 11101(e)(2) and (3) of the Infrastructure Act and corresponding federal regulations are unconstitutional because they violate the Equal Protection Clause of the U.S. Constitution.

Specifically, the request for relief provides the court:

A. Enter a preliminary injunction enjoining Defendants from applying all unconstitutional and illegal race and gender-based classifications in the federal DBE program, including those set out in Sections 11101(e)(2)–(3) of the Infrastructure Act, the Small Business Act, 49 C.F.R. pt. 26, and 13 C.F.R. pt. 124.

B. Enter a declaratory judgment that the race and gender-based classifications in the federal DBE program, including those set out in Sections 17 11101(e)(2)–(3) of the Infrastructure Act, the Small Business Act, 49 C.F.R. pt. 26, and 13 C.F.R. pt. 124, are unconstitutional and otherwise violate the APA.

C. Enter an order permanently enjoining Defendants from applying race and gender-based classifications in the federal DBE program.



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D. Set aside the race and gender classifications in 49 C.F.R. pt. 26 and 13 C.F.R. pt. 124.

Plaintiffs filed a Motion for Preliminary Injunction, and Defendants have filed a Motion to Dismiss. The Motions are pending at the time of this report.

### **Order and Opinion of District Court filed on September 23, 2024.**

**Background.** Congress enacted the Disadvantaged Business Enterprise (DBE) program, which requires the Department of Transportation (US DOT) to ensure that a certain portion of federal funds authorized for highway and transit projects be expended with disadvantaged business enterprises. To execute this requirement, the US DOT affords certain minority-and woman-owned businesses (MBE/WBEs) a presumption of disadvantage—a rebuttable presumption. The court held that because these race and gender classifications violate the Constitution’s guarantee of equal protection, the request for a preliminary injunction is granted.

The court found that any person may qualify as socially and economically disadvantaged regardless of their race or gender. 49 C.F.R. § 26.67(d) & app. E. But under the law, certain racial groups and women are rebuttably presumed to be disadvantaged. 49 C.F.R. § 26.5. All other applicants for DBE certification who are not presumed disadvantaged on the basis of their racial or female status must prove, by a preponderance of the evidence, that they are socially and economically disadvantaged. 49 C.F.R. § 26.67(a)(3)(i)-(d).

The court stated that Plaintiffs Mid-America Milling, LLC and Bagshaw Trucking Inc. operate within Kentucky and Indiana. Both Plaintiffs regularly bid on US DOT funded contracts impacted by DBE goals. But neither Plaintiff receives the rebuttable presumption of disadvantage.

The Plaintiffs claimed that they have previously lost out on federally funded contracts to DBE firms, even when Plaintiffs’ bids were lower. The court said that believing that they are denied the opportunity to compete on transportation contracts on equal footing, the Plaintiffs filed suit seeking a declaratory judgment and to permanently enjoin the Defendants from applying race-and gender-based classifications in the federal DBE program. The Plaintiffs also sought a preliminary injunction pending the final resolution of this matter.

**Standing.** The Court found that the Plaintiffs have sufficiently alleged an injury in fact. The court pointed out “*Adarand* suggests that, in the context of lost contracts, the question is whether Plaintiffs ‘ha[ve] made an adequate showing that sometime in the relatively near future [they] will bid on another Government contract’” that employs DBE goals. 515 U.S. at 211. The Court concluded that Plaintiffs have satisfied that requirement.

The Plaintiffs, the court noted, aver that that they “regularly bid on and compete for federally funded highway contracts that contain Kentucky’s and Indiana’s DBE participation goals....” They allege that most contracts contain DBE goals. Taken together, the court found Plaintiffs’ allegations indicate that they have bid on contracts containing DBE goals in the past, that Kentucky and Indiana routinely advertise contracts open for bid, that many of the contracts contain DBE goals, and that, despite their disadvantage, that the Plaintiffs still bid on these federally funded contracts at regular intervals.

The court held that Mid-America and Bagshaw have made an adequate showing by identifying past contracts they have lost because of the DBE program and alleging their intention to continue bidding in regular intervals on federal highway contracts.

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Thus, the court stated, because the Plaintiffs have shown that they are “able and ready” to bid on DOT funded contracts, their injury is imminent. The first element of standing is sufficiently met.

As to traceability and redressability, the court noted that there is a clear split of authority on the causation and redressability requirements for standing in a disadvantaged enterprise case like this one. The court followed the less stringent standing approach and held that eliminating the race-and gender-based presumptions would redress the injury harming Plaintiffs. The court concluded that because the Plaintiffs have established an injury resulting from the denial of equal treatment that is traceable to the DBE’s race-and gender-based presumption and redressable by a favorable decision by the court, the Plaintiffs have shown a likelihood of success on standing.

**Preliminary injunction.** The court then addressed whether the Plaintiffs have shown there to be a strong likelihood of success on the merits. The Court first considers the DBE program’s race-based presumption. The court applies the strict scrutiny standard to determine if the government has established the two-step examination: the Government must first show that the racial classification is being employed to further a compelling government interest. If there is a compelling government interest, the Government must then prove that its use of race is narrowly tailored—in other words, “necessary to achieve that interest.”

**Strict scrutiny/compelling interest.** The court pointed out the Supreme Court has identified “only two compelling interests that permit resort to race-based government action.” (*citing Students for Fair Admissions, Inc. v. President & Fellows of Harv. Coll.*, 600 U.S. 181, 206 (2023)). The first and pertinent one in this case is “remediating specific, identified instance of past discrimination that violated the constitution or a statute.” *Id.*

The court stated the Government contends it has a compelling interest because the DBE program “targets and seeks to remedy past, intentional discrimination in the transportation industry—discrimination that the government has had a hand in.” But, the court said, remedial policies do not always justify preferential treatment based on race. (*citing Vitolo*, 999 F.3d at 361 (“The Supreme Court has told us that remedial policies can sometimes justify preferential treatment based on race.” (emphasis in original) (*citing City of Richmond v. J.A. Croson Co.*, 488 U.S. 469, 493-94 (1989) (plurality opinion)).

Three criteria must be met for the Government to have a compelling interest in remedying past discrimination.

“First, the policy must target a specific episode of past discrimination. It cannot rest on a ‘generalized assertion that there has been past discrimination in an entire industry.’” *Id.* (quoting *J.A. Croson Co.*, 488 U.S. at 498); see also *Aiken v. City of Memphis*, 37 F.3d 1155, 1162-63 (6th Cir. 1994) (en banc) (“there must be ‘strong’ or ‘convincing’ evidence of past discrimination by that governmental unit.”) (citations omitted).

“Second, there must be evidence of intentional discrimination in the past.” *Vitolo*, 999 F.3d at 361 (emphasis in original). Statistical disparities by themselves are not enough, although they may be used as evidence to establish intentional discrimination. *Id.* “Third, the government must have had a hand in the past discrimination it now seeks to remedy.” *Id.* In other words, the Government must show that it actively or passively participated in the past discrimination. *Id.*

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In this case, the court stated, the Government argued that “there is a strong basis in evidence that the DOT DBE program targets specific episodes of past, intentional discrimination in which the government participated and now seeks to remedy.” In support, the court pointed out the “Government cites a compelling interest report (which collected over 200 disparity studies, other reports and studies, and congressional testimony) that purports to document the past discrimination and its lingering effects on the ability of DBE’s to equally compete for government contracts. ...” In addition, the court noted the Government “also provides statistical disparity evidence and anecdotal evidence, along with expert reports, which Congress reviewed before renewing the DBE Program, that conducted regression analyses that eliminate potentially non-discriminatory reasons for the disparities.(citations omitted).”

Significantly, the court noted the following:

In previous challenges to DBE programs, other circuits have weighed this type of evidence and concluded that it sufficiently provides persuasive evidence of specific instances of discrimination and its continuing effects. [See R. 32 at 17 (citing *Assoc. Gen. Contractors of Am., San Diego Chapter, Inc. v. Cal. Dep’t of Transp.*, 713 F.3d 1187, 1196 (9th Cir. 2013); *H.B. Rowe Co. v. Tippet*, 615 F.3d 233, 257 (4th Cir. 2010); *Adarand Constructors, Inc. v. Slater*, 228 F.3d at 1174; *Midwest Fence*, 84 F. Supp. 3d 705, 727 (N.D. Ill. 2015); *Rothe Dev. Corp. v. U.S. Dep’t of Def.*, 107 F. Supp. 3d 183, 209-10 (D.D.C. 2015))].

Distinguishing the Sixth Circuit from these other cases, the court found: “The Sixth Circuit, however, appears skeptical of the broad societal discrimination type of evidence that the Government provides. See *Vitolo*, 999 F. 3d at 361-62.”

The court stated:

In *Vitolo*, the Sixth Circuit explained that the Government’s compelling interest did not meet any of the three requirements required to jump the first hurdle of strict scrutiny. The panel found that the Government’s evidence pointed “generally to societal discrimination against minority business owners[ ]” but did not “identify specific incidents of past discrimination.” *Id.* at 361. Nor did the Government provide much evidence of past intentional discrimination against the many groups to whom it grants preferences. *Id.* And lastly, the Government did not show that it participated in the discrimination is sought to remedy. *Id.*

Even more recently, a sister court within the Sixth Circuit considering the Small Business Association’s Section 8(a) Program examined the same exhibits that the Government presents here. See *Ultima Servs. Corp. v. United States Dep’t of Agric.*, 683 F. Supp. 3d 745 (E.D. Tn. 2023). Applying *Vitolo*, the district court concluded that the Government’s evidence failed to show a compelling interest for the use of a race-based rebuttable presumption. *Id.* at 769. Essentially, the *Ultima* court reasoned that the Government’s evidence did not pass muster because the examples of discrimination contained within the exhibit related too broadly to the federal government’s actions in different areas of the national economy. *Id.* at 768.

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“Because the Court must determine whether the use of racial classifications is supported with precise evidence, examples of the federal government’s passive participation in areas other than the relevant industries do not support [the federal government’s] use of the rebuttable presumption here.” *Id.* at 769 (citing *Vitolo*, 999 F.3d at 361)(emphasis added).

The Court then concluded it “is compelled to follow this line of reasoning. While the Court is aware that its decision goes down the road less travelled, its compass is controlled by the Sixth Circuit. *Vitolo* elucidates that “[w]hen the government promulgates race-based policies, it must operate with a scalpel. And its cuts must be informed by data that suggest intentional discrimination.” *Vitolo*, 999 F.3d at 361. The court pointed out that: “Although other courts have found that the Government’s imprecise evidence has supported a compelling interest, this Court finds, like its sister court in *Ultima*, that the Government’s proffered proof is too dull of a scalpel.”

The court found that the Government’s evidence here is too broad. “It points to societal discrimination against minority-owned businesses generally, but does not offer much evidence of past discrimination against the many groups to whom it grants a preference via the DOT’s DBE program.” The court stated:

As *Vitolo* explains, the preferences “for Pakistanis but not Afghans; Japanese but not Iraqis; Hispanics but not Middle Easterners—is not supported by any record evidence at all.” *Id.* The same is true here. Simply compiling an extensive portfolio of studies that show disparities exist for minority-owned businesses generally speaking does not support a government imposed racial preference for only some of those groups.

The Government’s imprecision is its fatal flaw. If it wants to grant preferences to certain groups, it must specifically show how the Department of Transportation has previously discriminated against those groups. It cannot group all minority owned businesses into one gumbo pot but then try to scoop out only the sausage and not the okra.

**Strict scrutiny/narrow tailored.** The court found that even if the Government could establish a compelling interest, the race-based rebuttable presumption is not narrowly tailored. The court stated:

“Narrow tailoring requires courts to examine, among other things, whether a racial classification is ‘necessary’—in other words, whether race-neutral alternatives could adequately achieve the governmental interest.” *Students for Fair Admissions*, 600 U.S. at 311 (citing *Grutter v. Bollinger*, 539 U.S. 306, 327, 339-40 (2003)). The government must “engage in a genuine effort to determine whether alternative policies could address the alleged harm.” *Vitolo*, 999 F.3d at 362. Thus, “in turn, a court must not uphold a race-conscious policy unless it is ‘satisfied that no workable race-neutral alternative’ would achieve the compelling interest.” *Id.* (quoting *Fisher v. Univ. of Tex. at Austin*, 570 U.S. 297, 312 (2013)). Further, “a policy is not narrowly tailored if it is either overbroad or underinclusive in its use of racial classifications.” *Id.*

The court held the DOT’s DBE Program is not as narrowly tailored as the Government proclaims. “First, as explained above, the Government has not shown how each of its favored groups suffered discrimination. Instead, it assesses past discrimination against minority-owned businesses broadly, but then carves out preferences for only *some* minority groups.”(emphasis in original).

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The court found that these preferences for specific minorities, without clear support, “fail[s] to articulate a meaningful connection between the means ... employ[ed] and the goals ... pursue[d].” *Students for Fair Admissions*, 600 U.S. at 186.” The court stated that this “unclear connection” amounts to a “scattershot approach” that “does not conform to the narrow tailoring strict scrutiny requires.” (citing *Id. at 187*; *Vitolo*, 399 F.3d at 364). The fact of the matter, the court said, is that some minority groups receive a presumption while others do not.

The court found the DBE program also fails the narrow tailoring prong because it lacks a “logical end point.” (quoting *Students for Fair Admissions*, 600 U.S. at 221 (citing *Grutter*, 539 U. S. at 342)) The court stated that the *Grutter* court, in its willingness to temporarily suspend the Constitution’s equal protection guarantee, emphasized that “all race-conscious admissions programs have a termination point”; they “must have reasonable durational limits”; they “must be limited in time”; they must have “sunset provisions”; they “must have a logical end point”; their “deviation from the norm of equal treatment” must be “a temporary matter.” *Grutter*, 539 U.S. at 342.

After pointing out that the DOT’s DBE Program has been around since the Cold War, and asking is there actually a “logical end point” for the DBE’s racial presumptions,” the court held: “Because the DBE program’s racial preferences are not tethered to a foreseeable conclusion, the race-based presumption fails to be narrowly tailored.”

**Gender-based presumptions.** The court considered the Plaintiffs’ challenge to the gender-based presumption. Sex-based discrimination, the court stated, like racial classifications, is presumptively invalid.

The Government must provide an “exceedingly persuasive justification” for its discriminatory policy to stand. *Virginia*, 518 U.S. at 531. The Government meets this burden by proving that “(1) a sex-based classification serves ‘important governmental objectives,’ and (2) the classification is ‘substantially and directly related’ to the government’s objectives.” *Vitolo*, 999 F.3d at 364 (quoting *Miss. Univ. for Women v. Hogan*, 458 U.S. 718, 724, 730 (1982)). “[R]emedying specific instances of past sex discrimination can serve as a valid governmental objective, [but] general claims of societal discrimination are not enough.” *Id.*

The court found the Government’s proffered interest for its sex-based presumption is the same as for its race-based presumption: to remedy past discrimination. The court noted the Government also relied on the same disparity studies and statistical surveys as it did for race to show that woman-owned businesses suffered and continue to suffer a disadvantage.

For similar reasons as stated above, the court said it is skeptical of the Government’s evidence. “On the one hand, the Government’s studies point out disparities between male-owned businesses and female-owned businesses.... For example, female owned businesses obtain loans that are smaller and less favorable than loans obtained by their male counterparts....But, like the survey examined in *Vitolo*, evidence of this nature does “nothing to support an inference of *intentional* discrimination.” 399 F.3d at 365 (emphasis added).”

The quantitative evidence, including the regression analyses, the court found does not explain the extent to which woman-owned DOT contractors have lost out on jobs because of blatant discrimination. The anecdotal evidence, the court stated, does not provide a clear record that woman-owned contractors regularly bid for DOT funded contracts but fail to receive them because of blatant discrimination.

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The court concluded that without evidence that it participated in intentional discrimination within the context of DOT funded contracts, the Government fails to meet its burden of proving that the DOT's rebuttable presumption serves an important government interest. And without this specific evidence, the court held the "Government is unlikely to show that the DOT's sex-based classification is appropriately tailored to the Government's objectives. Because the Government is unlikely to provide an exceedingly persuasive justification for its sex-based presumption, the classification cannot stand."

Because the Government failed to justify its discriminatory policies, the court concluded the Plaintiffs will likely win on the merits of their constitutional claims. The court also found that the Plaintiffs will suffer irreparable harm if a preliminary injunction is not issued; and that the violation of a constitutional right does not serve the public interest. "Temporary relief would not cause substantial harm to others and would serve the public's interest."

**Limited Preliminary Injunction.** The Court considered the Plaintiffs request for a nationwide injunction and rejected it finding that "redressability in the present case is properly limited to the parties before the Court. Thus, the scope of the preliminary injunction shall apply to the Plaintiffs in the states within which they operate, Kentucky and Indiana."

The court ordered as follows:

1. The Plaintiffs' Motion for a Preliminary Injunction is GRANTED;
2. The United States Department of Transportation, Peter Buttigieg, Shailen Bhatt, Todd Jeter, and any successors in office, are ENJOINED from mandating the use of race-and gender-based rebuttable presumptions for United States Department of Transportation contracts impacted by DBE goals upon which the Plaintiffs bid.
3. The pending Motion to Dismiss [R. 31] will be DENIED without prejudice pending the resolution of any interlocutory appeal of this Order. The Defendants are granted leave of the Court to refile their motion, if necessary.

The Plaintiffs in October filed a Motion to Clarify the Injunction seeking to have it apply to the 23 states that Plaintiffs claim they submit bids. The federal Defendants filed their Brief in Opposition to Plaintiffs' Motion.

### **Order and Opinion, dated October 31, 2024.**

The District Court in Kentucky in the Mid-America Milling Company V. U.S. Department Of Transportation' case addressed Plaintiffs' Motion to Clarify the Scope of the Preliminary Injunction. The court clarified the injunction it issued in its September 23, 2024, Order against the US DOT regarding implementation of the Federal DBE Program in its October 31, 2024 Order and Opinion.



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The court granted the Plaintiffs’ Motion to Clarify the injunction by ordering the US DOT is enjoined “from mandating the use of race- and gender-based rebuttable presumptions for United States Department of Transportation contracts impacted by DBE goals upon which the Plaintiffs bid, to be *effective in any state in which Plaintiffs operate or bid on such contracts.*” (emphasis added).

Because the Court’s initial preliminary injunction was ambiguous as to its geographical reach, sparking disagreement between the parties as to the injunction’s proper scope, the court stated that it will clarify the reach of the preliminary injunction. As previously stated, “[t]he United States Department of Transportation, Peter Buttigieg, Shailen Bhatt, Todd Jeter, and any successors in office, are ENJOINED from mandating the use of race- and gender-based rebuttable presumptions for United States Department of Transportation contracts impacted by DBE goals upon which the Plaintiffs bid.” The court further clarified that this injunction reaches all states in which the Plaintiffs operate or bid on DOT contracts impacted by DBE goals, not merely Indiana or Kentucky.

In response to Plaintiffs’ Motion the court clarified the scope of that injunction to include all states in which the Plaintiffs operate or bid on DOT contracts impacted by DBE goals. Accordingly, the court ordered as follows:

1. The Plaintiffs’ Motion to Clarify is GRANTED;
2. The United States Department of Transportation, Peter Buttigieg, Shailen Bhatt, Todd Jeter, and any successors in office, are ENJOINED from mandating the use of race- and gender-based rebuttable presumptions for United States Department of Transportation contracts impacted by DBE goals upon which the Plaintiffs bid, to be effective in any state in which Plaintiffs operate or bid on such contracts.

It is noteworthy, in connection with the number of states the Preliminary Injunction may cover, to point out that in Plaintiffs’ Motion it referenced 23 states. Footnote 1 provided as follows:

“Indeed, as explained herein, Plaintiff MAMCO has already lost an equal opportunity to compete for federal DBE contracts in October 8 and 10 lettings offered through the departments of transportation in Pennsylvania and West Virginia. .... Further, beginning on October 18 and carrying through mid-December, MAMCO expects to bid federal DBE contracts offered through state or local transportation departments in the states of Missouri, Mississippi, Iowa, Virginia, Ohio, New Jersey, Tennessee, Arkansas, North Carolina, Illinois, and West Virginia.”

In its Motion, Plaintiff also stated the following: “Although Plaintiffs asked for a nationwide injunction, Plaintiffs also acknowledged that if this Court were to order a more limited remedy, the preliminary injunction should protect Plaintiffs when they are bidding federal DBE contracts in “at least, the 23 states in which Plaintiffs regularly bid DBE contracts.”

And in its Motion, Plaintiff noted: “For example, Plaintiff MAMCO explains that it bids and performs this work not only in Indiana and Kentucky, but also in numerous other states—among them, Tennessee, Arkansas, and Ohio, and also in Mississippi, Delaware, Alabama, Louisiana, Virginia, Oklahoma, South Carolina, West Virginia, Missouri, Illinois, North Carolina, Georgia, Michigan, Iowa, Kansas, Minnesota, Texas, and Florida.”

The parties filed a joint motion to stay the case for 90 days as the USDOJ is considering its position on whether or not to defend the Federal DBE Program in light of the Executive Orders issued by the President on January 21, 2025, prohibiting DEI, affirmative action and preference programs based on race or gender.

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A motion to intervene was filed by certain groups seeking to join the case and support and defend the Federal DBE Program. Plaintiffs opposed the motion. The motion to intervene was granted by the U.S. Magistrate Judge on May 21, 2025.

On May 28, 2025, Plaintiffs and Defendants filed a motion for entry of a proposed consent order as a final order and judgment in the case. The proposed consent order states that the parties are aware of the order filed by the Magistrate Judge granting the Intervenor DBEs' motion to intervene as Defendants in this case, and that Plaintiffs and the DOT make no representation as to the position of the Intervenor-Defendants.

The proposed consent order provides in part that the Defendants have determined the DBE Program's use of race-and sex-based presumptions is unconstitutional. The proposed consent order requests the court hold that Defendants may not approve any federal, state or local DOT-funded projects with DBE contract goals where any DBE in that jurisdiction was determined to be eligible based on a race-or sex-based presumption.

The case is pending at the time of this report.

**(viii) *Landscape Consultants of Texas, Inc. et. al. v. City of Houston, Texas, et. al.***, U.S. District Court for the Southern District of Texas, Houston Division; Civil Action No. 4:23-cv-3516. Complaint filed September 19, 2023

Plaintiffs allege that this is an Equal Protection Clause challenge to the City of Houston and Midtown Management District's (MMD's) "requirements for awarding public contracts based on the race of the bidding company's owner." Plaintiffs allege that the City's MSWBE program and MMD's MWDBE program violate the Equal Protection

Clause of the Fourteenth Amendment, 42 U.S.C. § 1983, and 42 U.S.C. § 1981.

Plaintiffs' Prayer for Relief requests the court:

1. Declare the City of Houston's MWSBE program unconstitutional under the Equal Protection Clause of the Fourteenth Amendment to the United States Constitution and 42 U.S.C. §§ 1981 & 1983;
2. Permanently enjoin the City of Houston from operating its MWSBE program or using similar racial preferences in the award of public contracts;
3. Declare Midtown Management District's MWDBE policy unconstitutional under the Equal Protection Clause of the Fourteenth Amendment to the United States Constitution;
4. Permanently enjoin Midtown Management District from operating its MWDBE policy or using similar racial preferences in the award of public contracts;
5. Issue an award of attorneys' fees and costs in this action pursuant to Federal Rule of Civil Procedure 54(d) and 42 U.S.C. § 1988.

The court issued an Order for the Initial Pretrial and Scheduling Conference and Order to Disclose Interested Persons. The first Scheduling order was issued on December 14, 2023. Defendants filed their Motions to Dismiss pursuant to Rules 12(b)(1) and 12(b)(6).

Defendant the City of Houston filed its Answer on January 12, 2024. The court entered an Order on January 12, 2024, denying both Defendants' Motions to Dismiss. The parties filed on January 24, 2024, a Joint Motion for entry of an Amended Scheduling Order, which the court granted by Order on February 1, 2024. The Defendant Midtown filed its Answer on January 28, 2024. The court entered a scheduling Order



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setting out dates for expert reports, discovery, and dispositive motions due by November 30, 2024.

The City of Houston filed a Motion to Stay, which the court denied in July 2024. The Plaintiffs and Defendants filed Motions for Summary Judgment, which the court denied on February 11, 2025. At the time of this report, the court ordered on March 11, 2025, that a briefing schedule will be entered after the City of Houston's new ordinance is voted on.

**(ix) *Mechanical Contractors Assoc. of Memphis, Inc. v. Shelby County, Tennessee, et al.***, US District Court for the Western District of Tennessee, Case No. 2:24 -cv- 02420 -JTF, Complaint filed November 6, 2024

Plaintiff, Mechanical Contractors Association of Memphis, Inc. ("MCAM") filed this lawsuit against Shelby County, Tennessee, and officials of the County for declaratory relief and to enjoin Defendants' "unconstitutional and unlawful use of race-based preferences in awarding government contracts," compensatory and nominal damages.

Plaintiff challenges the County's current 2023 MWBE ordinance and program as unconstitutional. Plaintiff alleges that the County MWBE program unlawfully benefits MWBE vendors/contractors based upon race and/or gender.

Plaintiff further alleges that "MCAM opposes any unjust and/or illegal rule, regulation, law, plan or program that allows government to unlawfully award contracts to any firm based in whole or in part on the basis of the race or gender of its owner(s)." Plaintiff alleges that one or more of its members have declined to bid on specific contracts because of discriminatory treatment by the County against non- MWBE contractors and the chilling effects of unconstitutional barriers to participation erected by the Shelby County MWBE program.

Plaintiff alleges that the County retained a consultant to conduct a 2020 disparity study, which was tasked to conduct data collection and statistical analysis for the County, and to advise the County Commission on whether there is a legal basis for the Legislative Body to modify current Procurement Procedures Rules and Regulations to create a program that will increase diversity with businesses contracting with the County. Plaintiff alleges that the study has flaws and deficiencies both as to the methodology utilized to conduct the study and the conclusions reached.

Plaintiff claims that in spite of its flaws, the Disparity Study was used as a factual predicate to adopt and thereafter implement the current MWBE Program that unlawfully mandates contracting preferences based on race at the expense of non-MWBE firms including the Plaintiff and its members. Plaintiff alleges: "The Disparity Study does not establish the constitutionally required compelling interest for the MWBE Program's race-based "remedies," in whole or in part as Croson requires before the extreme measure of using race conscious measures can be employed."

Plaintiff alleges: "In addition, none of the race-based "remedies" are narrowly tailored so as to otherwise survive constitutional scrutiny, not in whole or in part. Instead, the gender and race-based "remedies" openly discriminate in both form and substance, as well as in practice and application."

Plaintiff alleges Defendants violate "Title 42, United States Code, Section 1981, which "proscribe[s] discrimination in the making or enforcement of contracts against, or in favor of, any race." Plaintiff also alleges Defendants violate Title 42, United States Code, Section 1983, which provides a private right of action to individuals who are deprived of any rights, privileges, or immunities protected by the Constitution."

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Plaintiff asserts that Defendants have violated and continue to violate the Fourteenth Amendment.

Plaintiffs allege “violations of 42 U.S.C. § 2000(d) (1964) that prohibits discrimination based upon race in contracts funded, in whole or in part by the United States Government.” And plaintiffs allege violations of Tenn. Code Ann. § 5-14-108(a)(1) because the MWBE program “authorizes the award of contracts to bidders other than the most competitive bidder in violation of Tenn. Code Ann. § 5-14-108(a)(1).”

Plaintiff seeks the court issue an order declaring unlawful and unconstitutional the 2023 MWBE program, a preliminary and permanent injunction enjoining Defendants from further implementing or operating under the MWBE Program and/or Shelby County Municipal Code Section 2-225, as amended, with respect to awarding government contracts. Plaintiff also seeks compensatory and nominal damages and attorney fees.

At the time of this report, the County and individual Defendants have filed Motions to Dismiss based on standing, qualified immunity and other defenses. Plaintiff has filed its Responses in Opposition to the Motions.

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(x) ***Aerospace Solutions, LLC v. Abott in his official capacity as Governor of the state of Texas, et al.***, US District Court for the Western District of Texas, Civ. Action No. 1:24-cv-1383, Complaint filed November 13, 2024

Plaintiff Aerospace Solutions, LLC brought this action challenging the Texas HUB (Historically Underutilized Business) Program as unconstitutional.

Aerospace Solutions requests that the Court: 1. Declare the Texas HUB Program unconstitutional under the Equal Protection Clause of the Fourteenth Amendment to the United States Constitution and 42 U.S.C. §§ 1981 and 1983; 2. Permanently enjoin the State of Texas from operating the HUB Program or using similar racial preferences in the award of public contracts; and 3. Issue an award of attorneys' fees and costs in this action pursuant to Federal Rule of Civil Procedure 54(d) and 42 U.S.C. § 1988.

Plaintiff alleges in part as follows:

The HUB Program treats businesses differently based on the race of their owners. Because the HUB Program grants special preferences to businesses based on the race of the business' owners, it must satisfy strict scrutiny. Texas does not have a compelling interest that justifies the HUB Program's racial classifications. Texas lacks a strong basis in evidence that its HUB utilization goals are related to remedying the past or present effects of racial discrimination in any particular industry or in the state. The HUB Program's racial classifications are not narrowly tailored to meet any such compelling interest. Because the HUB Program uses racial classifications to award public contracts, furthers no compelling interest, and is not narrowly tailored, it violates the Equal Protection Clause. The HUB Program discriminates on the basis of race in violation of 42 U.S.C. §§ 1981 and 1983.

Defendant Hegar filed a motion to dismiss. This case is pending at the time of this report.

(xi) ***Landscape-Consultants-of-Texas-Inc.-v.-Harris-County-Texas, et al.***, U.S. District Court for the Southern District of Texas, Houston Division; Civil Action No. 4:25cv479. Complaint filed 2-5-25

This is an Equal Protection Clause challenge to that discriminatory policy—Harris County's Minority- and Woman-Owned Business Enterprise (MWBE) Program. This racially discriminatory MWBE Program treats companies bidding for public contracts differently based on the race of the company's owner, giving preferential treatment to businesses owned by individuals from its preferred races.

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The allegations in the Complaint include:

- When determining how many MWBE firms are available to contract with Harris County, the study did not consider a firm's capacity, willingness to bid on Harris County contracts, or history of bidding on previous Harris County contracts. The disparity study is based in part on anecdotes.
- The study does not indicate what percentage of those interviewed were MWBEs or non- MWBEs.
- The disparity study is based in part on anecdotes. The study does not indicate what percentage of those interviewed were MWBEs or non- MWBEs.
- The disparity study does not identify specific instances of intentional race or sex-based discrimination in Harris County public contracting.
- The disparity study does not identify Harris County officials, staff, or other employees who discriminated against MWBEs in the award of county contracts.
- The disparity study does not provide evidence of Harris County's active participation in race or sex-based discrimination in the award of county contracts.

### Prayer for Relief

Landscape Consultants requests that the Court:

1. Declare Defendants' MWBE policy unconstitutional under the Equal Protection Clause of the Fourteenth Amendment to the United States Constitution and 42 U.S.C. §§ 1981 and 1983;
2. Permanently enjoin Defendants from operating the MWBE program or using similar racial preferences in the award of public contracts.

This case is pending at the time of this report. The County has filed its Answer to the Complaint and Harris County Commissioners Court has filed a motion to dismiss.

This list of pending cases and informative recent decisions is not exhaustive, but in addition to the cases cited previously and discussed *infra* may potentially have an impact on the study and implementation of MBE/WBE/DBE Programs, related legislation, implementation of the Federal DBE Program by state and local governments and public authorities and agencies, and other types of programs impacting participation of MBE/WBE/DBEs.

For example, there are other recent cases similar to *Faust v. Vilsack*, 21-cv-548 (E.D. Wis.) and *Wynn v. Vilsack*, 3:21-cv-514 (M.D. Fla.) cited and discussed above, including a class action filed in *Miller v. Vilsack*, 2021 WL 11115194, 4:21-cv-595 (N.D. Tex. 2021), and separate lawsuits seeking to enjoin United States Department of Agriculture (USDA) officials from implementing loan-forgiveness program for farmers and ranchers under Section 1005 of the American Rescue Plan Act of 2021 (ARPA) by asserting eligibility to participate in program based solely on racial classifications violated equal protection. *Carpenter v. Vilsack*, 21-

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cv-103-F (D. Wyo.); *Holman v. Vilsack*, 1:21-cv-1085 (W.D. Tenn.); *Kent v. Vilsack*, 3:21-cv-540 (S.D. Ill.); *McKinney v. Vilsack*, 2:21-cv-212 (E.D. Tex.); *Joyner v. Vilsack*, 1:21-cv-1089 (W.D. Tenn.); *Dunlap v. Vilsack*, 2:21-cv-942 (D. Or.); *Rogers v. Vilsack*, 1:21-cv-1779 (D. Colo.); *Tiegs v. Vilsack*, 3:21-cv-147 (D.N.D.); *Nuest v. Vilsack*, 21-cv-1572 (D. Minn.).

Many of these cases had granted the federal Defendants Motions to Stay pending resolution of the class action challenge to Section 1005 of the American Rescue Plan Act of 2021 in the *Miller v. Vilsack*, 4:21-cv-595 (N.D. Tex.) class action litigation.

As a result of the federal government’s later repeal of ARPA Section 1005 and the subsequent Dismissal of the related Class Action in *Miller v. Vilsack*, the parties in many of these cases filed Stipulations of Dismissal, and the cases in September 2022 have been dismissed by the Courts.

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### **5. Note: *Students for Fair Admissions, Inc. v. President and Fellows of Harvard College*, 600 U.S. 181, 143 S. Ct. 2141 (June 29, 2023)**

In *Students for Fair Admissions, Inc. v. President and Fellows of Harvard College*, 600 U.S. 181, 143 S. Ct. 2141 (June 29, 2023) (“*SFFA*”), the Supreme Court held unconstitutional under the Equal Protection Clause of the Fourteenth Amendment the admissions systems used by Harvard College and the University of North Carolina. The Court referenced, cited and applied the Supreme Court decisions in *Croson* and *Adarand*, including the strict scrutiny standard, to the university admissions systems in these cases.

This decision focused on university admissions and diversity as the basis for a race conscious type program. It did not involve a federal, local or state government contracting program. Recent cases, including as noted and discussed in Section C. 4. above, have referenced and cited the *SFFA* decision in connection with challenges to federal, local or state government contracting programs.

It is noteworthy that subsequent to the Supreme Court decision in *SFFA v. Harvard et al.*, Attorney Generals from 13 states sent a letter, dated July 13, 2023, to “Fortune 100 CEOs” in which, among other statements, they urged businesses, to “immediately cease any unlawful race-based quotas or preferences your company has adopted for its employment and contracting practices.”

On July 19, 2023, Attorneys General from 20 states sent a letter to “Fortune 100 CEOs” in which they responded to and opposed the statements in the July 13, 2023, letter sent by the Attorneys General from the 13 states. The letter provides support for corporate efforts to recruit diverse workforces and create inclusive work environments, and states that these efforts and corporate diversity programs are legal and reduce corporate risk for claims of discrimination.

Among the state Attorneys General signing the July 19, 2023, letter was the State of Minnesota Attorney General.

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### 6. January 2025 Executive Orders.

At the time of this report, the President has issued multiple Executive Orders (EOs) involving prohibiting and eliminating diversity, equity and inclusion (DEI) programs and preferences and affirmative action programs concerning federal contractors and subcontractors in connection with federally funded projects. These EOs include a January 21, 2025, Executive Order No. 14173, eliminating Executive Order No. 11246. Executive Order 11246 required federal contractors to take affirmative action to ensure applicants and employees are treated without regard to their race, color, religion, sex, sexual orientation, gender identity or national origin.

On January 21, 2025, the President issued Executive Order 14173 entitled “Ending Illegal Discrimination and Restoring Merit-Based Opportunity.” The Order instructs federal agencies to take administrative and legal action against diversity, equity and inclusion (“DEI”) programs, which it defines as systems of race- and sex-based preferences. The Order is directed at both public and private sector conduct. The EO instructs the Office of Federal Contract Compliance Programs to immediately cease: “(A) Promoting ‘diversity’; (B) Holding Federal contractors and subcontractors responsible for taking ‘affirmative action’; and (C) Allowing or encouraging Federal contractors and subcontractors to engage in workforce balancing based on race, color, sex, sexual preference, religion or national origin.” It also instructs the Attorney General to submit a report containing recommendations for “enforcing Federal civil-rights laws and taking other appropriate measures to encourage the private sector to end illegal discrimination and preferences, including [diversity, equity and inclusion].” That report is due on May 21, 2025.

On January 20, 2025, the President issued the EO “Ending Radical and Wasteful Government DEI Programs and Preferencing” that terminates “all discriminatory programs, including illegal DEI” and “diversity, equity, inclusion, and accessibility (DEIA) mandates, policies, programs, preferences and activities in the Federal Government ....” and terminates all “equity action plans,” “equity” actions, initiatives, or programs, equity-related grants or contracts and all DEI or DEIA performance requirements for employees, contractors, or grantees.

A number of these EOs and their application are being challenged in court in cases pending at the time of this report. It is not clear if these EOs specifically may impact local and state government programs that implement contracting goals and that do not involve federal funds or financial assistance.

### 7. February 5, 2025, Attorney General Memorandum.

On February 5, 2025, the U.S. Attorney General issued a Memorandum titled “Ending Illegal DEI And DEIA Discrimination and Preferences.” The Memorandum serves: “To fulfill the Nation’s promise of equality for all Americans, the Department of Justice’s Civil Rights Division will investigate, eliminate, and penalize illegal DEI and DEIA preferences, mandates, policies, programs, and activities in the private sector and in educational institutions that receive federal funds.”

This Attorney General Memorandum “is intended to encompass programs, initiatives, or policies that discriminate, exclude, or divide individuals based on race or sex.”

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The Attorney General Memorandum provides that by March 1, 2025, “consistent with Executive Order 14173, the Civil Rights Division and the Office of Legal Policy shall jointly submit a report to the Associate Attorney General containing recommendations for enforcing federal civil-rights laws and taking other appropriate measures to encourage the private sector to end illegal discrimination and preferences, including policies relating to DEI and DEIA.”

It is not clear at the time of this report whether this Memorandum and any report issued by the Attorney General will impact or potentially apply to certain local and state government programs that use contracting goals for contractors and do not involve federal funds or financial assistance.

### **8. Title-VI-Complaint-against the State of NY MWBE program and Wisconsin Department of Administration (DOA) for Supplier Diversity Program.**

Title VI Complaints have been filed with the United States Department of Justice (DOJ) by Contractors for Equal Opportunity, a nationwide association of companies alleged to have negatively been impacted by race discrimination in government contracting programs. A separate civil rights complaint under Title VI of the Civil Rights Act of 1964 was filed against both the New York Department of Economic Development (DED) and the Wisconsin Department of Administration (DOA) for their alleged respective discriminatory Minority and Woman-owned Business Enterprise Program (MWBE Program) and Supplier Diversity Program.

DED and DOA are recipients of federal funds, and therefore the Complaints allege are subject to the nondiscrimination provisions of Title VI. The complaints state they are being filed with the DOJ because DED and DOA receive federal grants from multiple federal agencies.

The complaints ask the DOJ to open an investigation into a state-based supplier and procurement program they allege discriminates against small businesses based on race. The complaints allege that many states operate similar programs which are similar to the federal DBE Program. If that federal program is unconstitutional, then, the complaints allege, these state-based counterparts are similarly unconstitutional. The complaints request that the DOJ investigate these programs and determine whether they are operating in violation of Title VI. Each state agency operating such a program, the complaints allege, receives federal funds and is therefore bound by Title VI and subject to the DOJ’s jurisdiction.

The complaints allege that DED and DOA cannot offer any justification to defend their MWBE and Supplier Diversity type Programs, which illegally discriminates by enforcing a percentage goal utilization rate for minority- and woman-owned businesses in state procurement and contracting. The complaints allege that under *Students for Fair Admission v. Harvard* (a Title VI case), programs like these must pass several independent tests, which DED and DOA cannot satisfy.

First, the complaints allege that DED’s and DOA’s programs are unconstitutional because they do not remedy “specific, identified instances of past discrimination that violated the Constitution or a statute.” Second, the complaints allege, DED or DOA cannot “articulate a meaningful connection between the means they employ and the goals they pursue.” For example, DED and DOA, the complaints allege, employ the same type of “overbroad” and “imprecise” racial categories employed by Harvard and North Carolina.

Third, the complaints allege, DED’s and DOA’s programs use race as a “negative.” White business owners cannot bid on equal footing with minority-owned firms, which the complaints allege have a preference and exclusive access to resources based on race.



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Fourth, the complaints allege DED's and DOA's programs further "stereotypes that treat individuals as the product of their race, evaluating their thoughts and efforts—their very worth as citizens—according to a criterion barred to the Government by history and the Constitution." Fifth, DED's and DOA's programs allegedly have no "logical end point." The complaints allege under *SFFA* that a race-based government program must meet all five of these requirements to comply with Title VI, and DED and DOA cannot meet any of these requirements.

Based on this evidence, the complaints ask that the DOJ open a formal investigation and find that DED's and DOA's MWBE and Supplier Diversity Programs violate Title VI. The complaints assert that corrective action should include, at a minimum, a requirement that the program be open to all businesses regardless of race, or that the programs should be terminated immediately so that all procurement and contracting decisions at DED and DOA are race-neutral.

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This Legal Appendix report does not address these Executive Orders and the Attorney General Memorandum. There have been challenges in court to these Executive Orders, which cases are pending.

For example, a federal district court in the District of Maryland has entered a nationwide preliminary injunction against the Executed Orders that target DEI type programs. See, *Nat'l Ass'n of Diversity Officers in Higher Education v. Trump*, 2025 WL 573764 (D. Md. Feb. 21, 2025). This order is based on finding EO 14173 is void for vagueness and violates the First Amendment.

In addition, there is a February 13, 2025, letter from 16 state Attorneys General regarding: "Multi-State Guidance Concerning Diversity, Equity, Inclusion, and Accessibility Employment Initiatives." The letter provides guidance supporting "the continued viability and important role of diversity, equity, inclusion, and accessibility efforts (sometimes referred to as "DEI" or "DEIA" initiatives) in creating and maintaining legally compliant and thriving workplaces." The letter appears to be in response to the recent Executive Orders. The Attorney General of the state of Minnesota is one of the signatories to the February 13, 2025 letter.

**Ongoing review.** The above represents a summary of the legal framework pertinent to the study and implementation of DBE/MBE/WBE programs, or race-, ethnicity-, or gender-neutral programs, and the implementation of the Federal DBE and ACDBE Programs by state and local government recipients of federal funds, including public agencies, commissions, and authorities. 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.



## N. Legal – Recent decisions involving MBE/WBE/DBE programs in the Eighth Circuit

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### D. Recent Decisions Involving State or Local Government MBE/WBE/DBE Programs and Implementation of the Federal DBE Program by State and Local Governments in the Eighth Circuit

#### 1. *Mark One Electric Company, Inc. v. City of Kansas City, Missouri*, 2022 WL 3350525 (8th Cir. 2022)

In 2020, The court stated that Kansas City began restricting participation in its Minority Business Enterprises and Women’s Business Enterprises Program to those entities whose owners satisfied a personal net worth limitation. Mark One Electric Co., a woman-owned business whose owner’s personal net worth exceeded the limit, appealed the dismissal of its lawsuit challenging the Kansas City Program as unconstitutional because of the personal net worth limitation. The court held that under its precedent, the Program’s personal net worth limitation is a valid narrow tailoring measure, and therefore the court affirmed the district court’s dismissal. In 2016, the court pointed out that the City conducted a disparity study to determine whether the MBE/WBE Program followed best practices for affirmative action programs and whether the Program would survive constitutional scrutiny. The 2016 Disparity Study analyzed data from 2008 to 2013 and provided quantitative and qualitative evidence of race and gender discrimination. The court said the study concluded that the City had a compelling interest in continuing the program because “minorities and women continue to suffer discriminatory barriers to full and fair access to [Kansas City] and private sector contracts.” The study also provided recommendations to ensure the program would be narrowly tailored, including: adding a personal net worth limitation like the net worth cap in the United States Department of Transportation (USDOT) Disadvantaged Business Enterprise (DBE) program.

The court stated the City enacted a new version of the MBE/WBE Program based on the 2016 Disparity Study on October 25, 2018. The amended Program incorporated a personal net worth limitation, as recommended by the study, which would require an entity to establish that its “owner’s or, for businesses with multiple owners, each individual owner’s personal net worth is equal to or less than the permissible personal net worth amount determined by the U.S. Department of Transportation to be applicable to its DBE program.” See Kan. City, Mo. Code of General Ordinances ch. 3, art. IV, § 3-421(a)(34), (47)(2021).

On the day after the personal net worth limitation took effect, the court said, that Mark One Electric initiated an action against the City under 42 U.S.C. § 1983, challenging the personal net worth limitation. Mark One had been certified as a WBE since 1996, but based on the new personal net worth threshold, it would lose its certification despite otherwise meeting the requirements of the WBE Program.

Mark One, the court noted, acknowledged that, based on the 2016 Disparity Study, there was a strong basis in evidence for the City to take remedial action, but alleged the study’s recommendation that the City consider adding a personal net worth limitation was not supported by either qualitative or quantitative analysis. Mark One, the court stated, claimed that the personal net worth limitation is not narrowly tailored to remedy past discrimination and that the program as a whole is not narrowly tailored because of the personal net worth limitation.

The court pointed out that Mark One asserted, “[T]he City has adopted an arbitrary and capricious re-definition of who qualifies as a women [sic] or minority and seeks to remedy a discrimination of which there is no evidence.” According to Mark One, the personal net worth limitation is “not specifically and narrowly framed to accomplish the city’s purpose,” and therefore the program is unconstitutional.

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The City moved to dismiss the complaint, arguing that the personal net worth limitation is a valid measure to narrowly tailor the MBE/WBE program. The district court granted the City's motion, finding that the personal net worth Limitation was permissible as a matter of law.

The court found that race-based affirmative action programs designed to remediate the effects of discrimination toward minority-owned subcontractors, such as Kansas City's, are subject to strict scrutiny, meaning that the program is constitutional "only if [it is] narrowly tailored to further compelling governmental interests." (*Citing: Sherbrooke Turf, Inc. v. Minn. Dep't of Transp.*, 345 F.3d 964, 968–69 (8th Cir. 2003)(quoting *Grutter v. Bollinger*, 539 U.S. 306, 326,(2003)). The court pointed out that although Mark One is a woman-owned business and not a minority-owned business, neither party contests review of the Program under the strictest scrutiny.

The court stated the legal standard: "To survive strict scrutiny, the government must first articulate a legislative goal that is properly considered a compelling government interest," such as stopping perpetuation of racial discrimination and remediating the effects of past discrimination in government contracting. (*citing Sherbrooke Turf*, 345 F.3d at 969. The City must "demonstrate a 'strong basis in the evidence' supporting its conclusion that race-based remedial action [is] necessary to further that interest." *Id.* (*citing City of Richmond v. J.A. Croson Co.*, 488 U.S. 469, 500, (1989)). The court found that Mark One does not dispute that the City has a compelling interest in remedying the effects of race and gender discrimination on City contract opportunities for minority- and woman-owned businesses. And Mark One, the court said, has conceded the 2016 Disparity Study provides a strong basis in evidence for the MBE/WBE Program to further that interest.

Second, the City's program must be narrowly tailored, which requires that "the means chosen to accomplish the government's asserted purpose are specifically and narrowly framed to accomplish that purpose." *Id. citing Sherbrooke*, at 971. The plaintiff, according to the court, has the burden to establish that an affirmative action program is not narrowly tailored. In determining whether a race-conscious remedy is narrowly tailored, the court held it looks 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." (*citing Sherbrook*, at 971, and *United States v. Paradise*, 480 U.S. 149, 171, 187, (1987)).

The court stated that Mark One attacked the personal net worth limitation from two angles. Mark One first argued that the personal net worth limitation in the City's Program should be independently assessed under strict scrutiny, separately from the Program as a whole, and asks the court to find the provision unenforceable through the Program's severability clause. Under strict scrutiny, Mark One argued, the personal net worth limitation is unconstitutional in its own right because it was implemented by the City without a strong basis in evidence and excludes a subset of women and minorities based on a classification unrelated to the discrimination MBEs and WBEs face.

The court found that Mark One offered no authority for the premise that an individual narrow tailoring measure which differentiates between individuals or businesses based on a nonsuspect classification, such as net worth, is subject to strict scrutiny in isolation. The court pointed out the MBE/WBE Program as a whole must be premised on a strong basis in evidence under strict scrutiny review. But, the court held the City is not required to provide a separate individual strong basis in evidence for the personal net worth limitation because this limitation, on its own, is subject only to rational basis review.

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Mark One also challenged the overall narrow tailoring of the MBE/WBE Program, claiming that the personal net worth limitation makes the Program unconstitutional because it excludes MBEs and WBEs that have experienced discrimination. The court held that under its precedent, this argument is unavailing. The court said that it has previously found the USDOT DBE personal net worth limitation—the limitation the City adopted for the Program—to be a valid narrow tailoring measure that ensures flexibility in an affirmative action program and reduces the impact on third parties by introducing a race- and gender-neutral requirement for eligibility. *See Sherbrooke Turf*, 345 F.3d at 972–73 (finding the federal DBE program narrowly tailored on its face in part because “wealthy minority owners and wealthy minority-owned firms are excluded” through the personal net worth limitation, so “race is made relevant in the program, but it is not a determinative factor”).

The court found that Mark One had not plausibly alleged that the \$1.32 million personal net worth limitation in the City’s MBE/WBE Program is different, or serves a distinguishable purpose, from the personal net worth limitation in the federal program such that it is not likewise a valid narrow tailoring measure here.

Mark One claimed that its exclusion from the Program despite its status as a woman-owned business shows that the Program is unlawful. The court noted that it did not minimize the fact that individuals and businesses may experience race- and gender-based discrimination in the marketplace regardless of wealth, and that a minority- or woman-owned enterprise may be excluded from the Program based solely on the owner’s personal net worth, despite having experienced discrimination in its trade or industry and regardless of the revenue of the enterprise itself or the financial status of any of its minority and women employees.

But, the court found that the City does not have a constitutional obligation to make its Program as broad as may be legally permissible, so long as it directs its resources in a rational manner not motivated by a discriminatory purpose. Though Mark One argued that the personal net worth limitation is “arbitrary and capricious because the city *chose to discriminate against* the very minorities and women its [MBE]/WBE Program was designed to help,” the court stated there was no allegation in the operative complaint that the City was motivated by a discriminatory purpose when it implemented the personal net worth limitation.

The court concluded that under *Sherbrooke Turf*, 345 F.3d at 972-73, the City may choose to add this limitation in its Program as a rational, race and gender-neutral narrow tailoring measure.

### ***2. 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 is also 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.

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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.*

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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.

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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 woman-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.



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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*.).

### 3. *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-Interveners 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-Interveners and the plaintiffs filed a Stipulation that the Federal Defendant-Interveners have the right to intervene and should be permitted to intervene in the matter, and consequently the plaintiffs did not contest the Federal Defendant-Intervener's Motion for Intervention. The Court issued an Order that the Stipulation of Intervention, agreeing that the Federal Defendant-Interveners may intervene in this lawsuit, be approved and that the Federal Defendant-Interveners 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.

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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).



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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.

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The Federal Defendants' consultant also described studies supporting the conclusion that there is credit discrimination against minority- and woman-owned businesses, concluded that there is a consistent and statistically significant underutilization of minority- and woman-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 woman-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.

**The 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.

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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.*

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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.*

**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.*

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**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 *Sherbrook 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.

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**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.

**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.



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**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.

**4. *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.*

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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.*



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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.

### **5. *Sherbrooke Turf, Inc. v. Minnesota DOT*, 2001 WL 1502841, No. 00-CV-1026 (D. Minn. 2001)(unpublished opinion), affirmed 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.

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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.*

### **6. *Gross Seed Co. v. Nebraska Department of Roads*, Civil Action File No. 4:00CV3073 (D. Neb. May 6, 2002), *affirmed* 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.

### **7. *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.**

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 a Minority Group Members because their owners are members of the American Indian tribe known as Northern Cherokee Nation.

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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.

The court 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.

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The court in April 2021 issued an Order dismissing this case based on a settlement and consent judgment. The City adopted new rules pertaining to MBE/WBE certification. The City also agreed for this case only to a rebuttable presumption that the plaintiffs in the case are members of a tribe that are Native Americans and socially and economically disadvantaged subject to the City reserving the right to rebut the presumption.

In addition, the City agreed that it will pay plaintiffs \$15000 in attorney's fees, and related orders. The City agreed that it will use best efforts to process Plaintiffs' certification applications and will provide a decision on each application by August 2, 2021. If the Plaintiffs are not certified as an MBE under the revised October 2020 rules, Plaintiffs reserved their right to pursue all claims relating to the decision.

## N. Legal – Recent decisions involving MBE/WBE/DBE programs in other jurisdictions

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### E. Recent Decisions Involving State or Local Government MBE/WBE/DBE Programs in Other Jurisdictions

#### Recent Decisions in Federal Circuit Courts of Appeal

##### 1. *H. B. Rowe Co., Inc. v. W. Lyndo Tippet, 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.*

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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 woman-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 woman-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).



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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.

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**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 woman-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 woman-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 woman-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. This data was not relied upon in forming the opinions relating to the study. *Id.* at 244, n. 6.



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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 at 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.

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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

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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.*

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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.

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**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.*

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**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.

**Woman-owned businesses overutilized.** The study’s public-sector disparity analysis demonstrated that woman-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 woman-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.



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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.*

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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.



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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. *Virdi v. DeKalb County School District*, 135 Fed. Appx. 262, 2005 WL 138942 (11th Cir. 2005)(unpublished opinion)**

Although it is an unpublished opinion, *Virdi 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 *Virdi*, 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 Virdi, 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). Virdi also alleged the school district’s Minority Vendor Involvement Program was facially unconstitutional. *Id.*

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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.* Viridi sent a letter to the District in October 1991 expressing interest in obtaining architectural contracts. *Id.* Viridi 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, Viridi 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 Viridi that his firm was not selected based upon his qualifications, but because the "District was only looking for 'black-owned firms.'" *Id.* Viridi 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, Viridi met with the newly hired Executive Director. *Id.* at 266. Upon request of the Executive Director, Viridi re-submitted his qualifications but was informed that he would be considered only for future projects (Phase III SPLOST projects). *Id.* Viridi then filed suit before any Phase III SPLOST projects were awarded. *Id.*

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The Eleventh Circuit considered whether the MVP was facially unconstitutional and whether the defendants intentionally discriminated against Viridi 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 Viridi’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 Viridi to lose a contract that he would have otherwise received. *Id.* Thus, because Viridi 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 Viridi 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 Viridi. *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.

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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).

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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.*

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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 woman-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 woman-owned firms. *Id.*



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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.

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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 woman-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 woman-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 race- 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.



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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.

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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).

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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.

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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 unquantifiable) 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.*

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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.

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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.



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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 *Croson’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.

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### 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 race conscious statute. 293 F.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.



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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.*

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“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. *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% of all city contracts. 199 F.3d at 208. *Id.* The 5% 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% because it was found that 10% 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% participation by subcontractors certified as Disadvantaged Business Enterprises (DBEs) and 5% 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% 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%. *Id.*

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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% 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% 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%. *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% 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% 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% 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.

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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 provides 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.

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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% 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.

### **9. *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 was 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.*

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Ohio passed the MBEA in 1980. *Id.* at 733. This legislation “set aside” 5%, 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.



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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% of the total number of contracting firms in the state, but only get 3% of the dollar value of certain contracts, which 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% of state contracts, while African Americans receive none. *Id.*

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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).

### 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.



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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 defendant’s 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).

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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.

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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.

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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.*

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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.*

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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.*



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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.*

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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 woman-owned firms. *Id.* at 922.



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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 Woman-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.

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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.*

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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.

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“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. *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 five 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.

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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 *Croson*, 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.

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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.



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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.

### 13. *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.

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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.*



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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 as 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 five 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.*

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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.

### Recent District Court Decisions

#### **14. *Kossman Contracting Co., Inc. v. City of Houston*, 2016 WL 1104363 (S.D. Tex. 2016)**

Plaintiff Kossman 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. Kossman 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.*

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The study analyzed the status of minority-owned and woman-owned business enterprises in the geographic and product markets of Houston's construction contracts. *Id.*

Kossman 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 Kossman. *Id.* at \*1. Kossman filed a motion for summary judgment; Houston filed a motion to exclude the testimony of Kossman'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 woman-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.*

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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.*

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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 four percent of the value of a contract. *Id.* Kossman did not present evidence that he ever bid on more than four 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.

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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 woman-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.



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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.*

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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 woman-owned businesses (WBEs) declined by fifty 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.



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**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 four 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 thirty-four 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 four-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.

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**15. *H.B. Rowe Corp., Inc. v. W. Lyndo Tippet, 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. Tippet, 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.

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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.

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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 title 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.

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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.

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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.

### **16. *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.



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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.

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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.

### 17. *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).



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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 Woman-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.

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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 infoUSA, 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 woman-owned firms could be attributed to discrimination; he “did not find sufficient evidence of discrimination against blacks.” *Id.*

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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 interveners 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.*

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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.*

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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.

### **18. *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.

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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.

### **19. *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 Woman-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.



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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).

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### **20. *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 woman-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.

### **21. *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.



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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.*

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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 Interveners 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 Interveners did not actually offer any of the evidence to the court in this case. The Interveners 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 Interveners 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 Interveners’ evidence did not indicate what discriminatory acts or practices allegedly occurred, or when they occurred. *Id.* The district court stated that the Interveners 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.*

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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 *Croson* 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."

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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.*

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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.

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### **22. *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.

### **23. *Webster v. Fulton County*, 51 F. Supp.2d 1354 (N.D. Ga. 1999), affirmed 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.



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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.*

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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).



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### 24. *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. Cuyahoga Community College District*, 31 F.Supp.2d 571 (N.D. Ohio 1998). *Id.* at 741.

The state defendant's 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 *F. Buddie Contracting v. Cuyahoga 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.

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**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 percent) 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.

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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.

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### 25. *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.

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### F. Recent Decisions Involving the Federal DBE Program and its Implementation by State and Local Governments 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. *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). On remand case voluntarily dismissed by parties and district court (March 2018)

**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.

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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



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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.* US DOT 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.*

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**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 demonstrates 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.



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**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.

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**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 non-responsive 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 ten 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.*

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The Ninth Circuit also cited to the U.S. DOT 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. *Petition for Panel Rehearing and Rehearing En Banc* filed with the U.S. Court of Appeals for the Ninth

Circuit by Montana DOT, May 30, 2017, *denied* on June 27, 2017. The case on remand was voluntarily dismissed by stipulation of the parties after the parties entered into a Settlement Agreement (February 23, 2018). The case was ordered dismissed by the district court on March 14, 2018 after the parties performed the Settlement Agreement.

### **2. *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.*

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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.

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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.*

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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).



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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.

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**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.



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**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% of prime contractors in the construction field, received 9.13% of prime contracts valued below \$500,000 and 8.25% 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% of available subcontractors, and in the construction industry they receive 44.62% of available subcontracts, but those subcontracts amounted to only 10.65% 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% 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%.

**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 woman-owned, and verifying the ownership status of all the other firms. *Id.* at \*13.

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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% 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.

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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.*

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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% 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.*

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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.*

### **3. *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 judgment 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. 799 F.3d at 679. (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. 799 F. 3d at 679. Its 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%. *Id.* at 680.

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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 681. 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 681. 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 697-698. 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%. *Id.* at 683, 698. 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 683-684. Dunnet Bay did not achieve the goal of 22%, but three other bidders each met the DBE goal. *Id.* at 684. Dunnet Bay requested a waiver based on its good faith efforts to obtain the DBE goal. *Id.* at 684.

Ultimately, IDOT determined that Dunnet Bay did not properly exercise good faith efforts and its bid was rejected. *Id.* at 684-687, 699.

Because all the bids were over budget, IDOT decided to rebid the Eisenhower project. *Id.* at 687. 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 687. Dunnet Bay did meet the 22.77% 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 judgment that the IDOT DBE Program is unconstitutional and injunctive relief against its enforcement.

The district court granted the IDOT Defendants' motion for summary judgment and denied Dunnet Bay's motion. *Id.* at 687. 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 687. 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



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a showing that the state exceeded its federal authority. *Id.* at 688. (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 690. Nothing in IDOT's DBE Program, the court stated, excluded Dunnet Bay from competition for any contract. *Id.* 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.* at 690-691.

The court said the absence of complete exclusion from competition with minority- or woman-owned businesses distinguished the IDOT DBE Program from other cases in which the court ruled there was standing to challenge a program. *Id.* at 691. 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 691. 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 692.

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 692. 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.* at 693.

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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 693. The court stated that it has not adopted the broad view of standing regarding asserting third-party rights. *Id.* 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.* at 694, *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 695. 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.*

In addition, the court concluded that prudential limitations preclude Dunnet Bay from bringing its claim. *Id.* at 695. 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 695-696.

**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 696. 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 697, *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 697. Dunnet Bay asserts that IDOT exceeds its authority by: (1) setting the contract's DBE participation goal at 22% 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.*



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In challenging the DBE contract goal, Dunnet Bay asserts that the 22% goal was “arbitrary” and that IDOT manipulated the process to justify a preordained goal. *Id.* at 698. 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 698. 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 698.

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 698. The court noted IDOT had granted waivers in 2009 and in 2010 that amounted to 60% of the waiver requests. *Id.* The court stated that IDOT’s record of granting waivers refutes any suggestion of a no-waiver policy. *Id.* at 699.

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 699. 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 699-700.

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 700. 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 judgment 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 Denied.** Dunnet Bay filed a Petition for a Writ of Certiorari to the United States Supreme Court in January 2016. The Supreme Court denied the Petition on October 3, 2016.

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### **4. *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 Enterprise (“DBE”) program unconstitutionally provided race- and sex-based preferences to African American, Native American-, Asian-Pacific American-, and woman-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.

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**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 woman-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 woman-owned businesses should be expected to receive 13.5 percent of contract 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 woman-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 woman-owned firms, including female minorities, showing substantial disparities in the utilization of all woman-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.*

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**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 woman-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.

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**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).

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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 woman-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.



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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 precisely identified 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 woman-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 woman-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.*

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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 woman-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 Stat. 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.*



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**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.*

### 5. *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 a maximum of 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.*

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**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.

### 6. *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.*

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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 woman-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 IDOTs “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. Pena*, 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.

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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 more clear 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.*

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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.*

### **7. *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 21<sup>st</sup> 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).

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“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).



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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.

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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.*



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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.

### **8. *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.

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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.

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### Recent District Court Decisions

**9. *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, 2015), affirmed 840 F.3d 932 (7th Cir. 2016)**<sup>233</sup>

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. 84 F. Supp. 3d at 720. The government must demonstrate a strong basis in evidence for its conclusion that remedial action is necessary. *Id.* Since the Supreme Court decision in *Croson*, numerous courts have recognized that disparity studies provide probative evidence of discrimination. *Id.*

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<sup>233</sup> 49 CFR Part 26 (Participation by Disadvantaged Business Enterprises in Department of Transportation Financial Assistance Programs (“Federal DBE Program”). See the Transportation Equity Act for the 21st Century (TEA-21) as amended and reauthorized (“MAP-21,” “SAFETEA” and “SAFETEA-LU”), and the United States Department of

Transportation (“USDOT” or “DOT”) regulations promulgated to implement TEA-21 the Federal regulations known as 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.

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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 720. 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. 84 F. Supp. 3d at 721. 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 722. 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 722-723.

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 723. 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. *Id.*

**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 725. The Federal Defendants, the court said, presented an extensive body of testimony, reports, and studies that they claim provided a strong basis in evidence for their conclusion that race and gender-based classifications are necessary. *Id.*

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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 woman-owned businesses, as well as anecdotal evidence, which were completed from 2000 to 2012. *Id.* at 726. 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.*

To measure disparity, the consultant divided DBE utilization by availability and multiplied by 100 to calculate a "disparity index" for each study. *Id.* at 726. 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 727, 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.*

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 727. 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.*

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**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 727. 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.* at 728. 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 728. 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 728. 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 728.

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 728. 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 728. 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 729. 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.*



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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 729. 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 729. 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 729. 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 729. 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.* at 730. 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 730, 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.*

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 730. 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 730. 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 730. 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.

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IDOT maintained that the 2004 study and the 2011 study must be read in conjunction with one another. *Id.* The court found that the 2011 study provided evidence to establish the disparity from which IDOT's inference of discrimination primarily arises. *Id.*

The 2011 study compared the proportion of contracting dollars awarded to DBEs (utilization) with the availability of DBEs. *Id.* at 730. 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.* at 731. 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 731. 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.* at 731. 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 731. 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 731. 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 woman-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 731. 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.* at 732.

### **The 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 732.



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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.* 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 732. 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 732. Midwest argued that IDOT's disparity studies failed to rule out capacity as a possible explanation for the observed disparities. *Id.*

IDOT argued that on prime contracts under \$500,000, capacity is a variable that makes little difference. *Id.* at 732-733. Prime contracts of varying sizes under \$500,000 were distributed to DBEs and non-DBEs alike at approximately the same rate. *Id.* at 733. 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 733, 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 733. First, the court said, the "evidence" offered by Midwest's expert reports "is speculative at best." *Id.* 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.* 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 733. 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 733, 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 733-734.

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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 734. 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 734. 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. *Id.*

**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 734-735. 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.* at 735. 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 735.

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 735. 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.* 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 735. 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 735. The court agreed with the Seventh Circuit, and found that IDOT has made serious, good faith consideration of workable race-neutral alternatives. *Id.*

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**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 736. 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.* 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 736. 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.* at 736-737. 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 737.

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 737. 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 737. 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 737. 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.* 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 737-738. 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.* at 738.

Midwest attacked the Tollway’s 2006 study similar to how it attacked the other studies with regard to IDOT’s DBE Program. *Id.* at 738. For example, Midwest attacked the 2006 study as being biased because it failed to take into account capacity in determining the disparities. *Id.* 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.*

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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 738.

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 738-739. 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 739. 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 739.

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 739. 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 739. 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 739-740. 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 740.

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 740. 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.* at 740. 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.*

**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 740.

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The court thus held the Tollway Program was narrowly tailored and granted the Tollway Defendants' motion for summary judgment. *Id.*

**10. *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, were 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.

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**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.*



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**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.*

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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.*



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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.

### 11. *M.K. Weeden Construction v. State of Montana, Montana Department of Transportation, et al.*, 2013 WL 4774517 (D. Mont.)(September 4, 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.

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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.

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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 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.

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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.

**12. *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).

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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.

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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.*

### **13. *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 Woman-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.*



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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 woman-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 purchases 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.*

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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.



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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.

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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). This 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.

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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.

### **14. *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

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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.*

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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.

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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.



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### 15. *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*.

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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.



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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.

### **16. *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. 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 nor 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.”

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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.

### **17. *Northern Contracting, Inc. v. Illinois*, 2005 WL 2230195 (N.D. Ill., 2005), affirmed, 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.]

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**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.*

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IDOT considered three reports prepared by expert witnesses. *Id.* at \*9. The first report concluded that minority- and woman-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 un-remediated 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.

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*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 the 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.*

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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 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.



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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.

### **18. *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*



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*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.

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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.

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### **19. *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.

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### G. Recent Decisions and Authorities Involving Federal Procurement That May Impact DBE and MBE/WBE Programs

**1. *Rothe Development, Inc. v. U.S. Dept. of Defense, U.S. Small Business Administration, et al.*, 836 F3d 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.

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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.

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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.



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### 2. *Rothe Development Corp. v. U.S. Dept. 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.



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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.

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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.

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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.

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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.

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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 relief 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.

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**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 *Rothe*. 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 *Rothe* 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 *Rothe 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.



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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



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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.

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In conclusion, 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.

**Narrow 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. Dept. of Defense and Small Business Administration*, 107 F. Supp. 3d 183, 2015 WL 3536271 (D.D.C. 2015), affirmed on other grounds 836 F.3d 57, 2016 WL 4719049 (D.C. Cir. 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.*

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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% of contract actions, 93.0% of dollars awarded, and in which 92.2% of non-8(a) minority-owned SDBs are registered. *Id.*

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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 is 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.*

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**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.

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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 two to five 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.



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### 4. *DynaLantic Corp. v. United States Dept. of Defense, et al.*, 885 F.Supp.2d 237, 2012 WL 3356813 (D.D.C., 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 five percent of procurements dollars government wide. *See* 15 U.S.C. § 644(g)(1).



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*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 two 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).

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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.*

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**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).

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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.

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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.

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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.

**Narrow 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.



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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 five 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 two to five 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).



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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.

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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.

**6. *Miller v. Vilsack*, 2021 WL 11115194, Case No. 4:21-cv-595 (N.D. Tex. 2021), U.S. District Court for the Northern District of Texas, Motion for Class Certification and For Preliminary Injunction Granted, July 1, 2021; Case voluntarily dismissed (2022)**

**Background.** Plaintiffs are Texas farmers and ranchers seeking to enjoin the U.S. Department of Agriculture from administering the loan-forgiveness program under section 1005 of the American Rescue Plan Act of 2021 (ARPA). ARPA appropriated funds to the USDA and required the Secretary to “provide a payment in an amount up to 120 percent of the outstanding indebtedness of each socially disadvantaged farmer or rancher as of January 1, 2021,” to pay off qualifying Farm Service Agency (FSA) loans. To be eligible, an applicant must be a “socially disadvantaged farmer or rancher.” A “socially disadvantaged farmer or rancher” means a farmer or rancher who is a member of a socially disadvantaged group.” It defines “socially disadvantaged group” as “a group whose members have been subjected to racial or ethnic prejudice because of their identity as members of a group without regard to their individual qualities.”

Plaintiffs held qualifying FSA loans on January 1, 2021, but are white, making them ineligible for the funds under the Act. On April 26, 2021, Plaintiffs filed a class action to enjoin the program as a violation of equal protection under the United States Constitution and a violation of Title VI of the Civil Rights Act of 1964.

Plaintiffs filed their Motion for Class Certification and Motion for Preliminary Injunction on June 2, 2021. The court on July 1, 2021 granted both of Plaintiffs’ Motions for Class Certification and for Preliminary Injunction.

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**Application of strict scrutiny.** The Government concedes its prioritization scheme is race based but maintains that it is allowed to use racial classification to remedy the lingering effects of past racial discrimination against minority groups—a “well-established” compelling government interest. The Government also submits that Congress narrowly tailored the law to achieve that compelling interest, considering the history of discrimination against minority farmers and specific gaps in pandemic-related funding for those racial groups. The court disagreed.

As other courts to consider this issue already have, the Court concludes that Plaintiffs are likely to succeed on the merits of their claim that the Government’s use of race- and ethnicity based preferences in the administration of the loan-forgiveness program violates equal protection under the Constitution. See *Faust v. Vilsack*, 2021 WL 2409729 (E.D. Wis. June 10, 2021); *Wynn v. Vilsack*, 2021 WL 2580678 (M.D. Fla. June 23, 2021).

The court finds it is the Government’s burden to establish that its race-based distribution of taxpayer money is narrowly tailored to achieve a compelling interest. The court concludes that all of the Government’s evidence shows disparate impact, but compelling government interest in this case requires an inference of intentional discrimination by the USDA or its agencies. The court holds that the Government puts forward no evidence of intentional discrimination by the USDA in at least the past decade.

In sum, the court found the Government’s evidence falls short of demonstrating a compelling interest, as any past discrimination is too attenuated from any present-day lingering effects to justify race-based remedial action by Congress.

Even if the evidence clearly established historical governmental discrimination to give rise to a compelling interest, the court states that the Government must then show its proposed remedy in the race exclusionary program is narrowly tailored. In the racial classifications context, the court concludes that narrowly tailored means explicit use of even narrowly drawn racial classifications can be used only as a last resort. The court found that this requires “serious, good faith consideration of workable race-neutral alternatives.”

The Government’s claim that new race-based discrimination is needed to remedy past race-based discrimination, according to the court, is unavailing. Namely, the court said, this claim is founded on a faulty premise equating equal protection with equal results. The court held that the Government’s evidence does not support the conclusion that these disparities are the result of systemic discrimination justifying the use of race classifications here.

The court found that the loan-forgiveness program is simultaneously overinclusive and underinclusive: overinclusive in that the program provides debt relief to individuals who may never have experienced discrimination or pandemic-related hardship, and underinclusive in that it fails to provide any relief to those who have suffered such discrimination but do not hold a qualifying FSA loan.

In short, the court finds the “statute’s check-the-box approach to the classification of applicants by race and ethnicity is far different than the “highly individualized, holistic review” of individuals in a classification system permitted as narrowly tailored” as in the Supreme Court’s decisions in the University Admissions cases.

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The court concludes the Government has not demonstrated a compelling interest or a narrowly tailored remedy under strict scrutiny, and grants the Plaintiff's motion for a Preliminary Injunction.

**Holding.** The court on July 1, 2021 enjoined USDA from discriminating of account of race or ethnicity in administering section 1005 of the ARPA, which prohibits considering or using an applicant's race or ethnicity as a criterion in determining loan assistance, forgiveness or payments.

The court also on July 1, 2021 granted the Plaintiff's motion for class certification. The court granted motions to intervene as Intervener Defendants be the Federation of Southern Cooperatives/Land Assistance Fund, National Black Farmers Association and the Association of American Indian Farmers as parties to the case.

Subsequently, as a result of the federal government's repeal of ARPA Section 1005, the court in 2022 issued an order of Dismissal of the Class Action in *Miller v. Vilsack*.

### 7. *Clark Greer's Ranch Café v. Guzman*, 540 F. Supp. 3d 638, 2021 WL 2092995 (N.D. Tex. 5/18/21)

Plaintiff Philip Greer ("Greer") owns and operates Plaintiff Greer's Ranch Café—a restaurant which lost nearly \$100,000 in gross revenue during the COVID-19 pandemic (collectively, "Plaintiffs"). Greer sought monetary relief under the \$28.6-billion Restaurant Revitalization Fund ("RRF") created by the American Rescue Plan Act of 2021 ("ARPA") and administered by the Small Business Administration ("SBA"). See American Rescue Plan Act of 2021, Pub. L. No. 117-2 § 5003.

**Background.** Greer prepared an application on behalf of his restaurant, is eligible for a grant from the RRF, but has not applied because he is barred from consideration altogether during the program's first twenty-one days from May 3 to May 24, 2021.

During that window, ARPA directed SBA to "take such steps as necessary" to prioritize eligible restaurants "owned and controlled" by "women," by "veterans," and by those "socially and economically disadvantaged." ARPA incorporates the definitions for these prioritized small business concerns from prior-issued statutes and SBA regulations.

To effectuate the prioritization scheme, SBA announced that, during the program's first twenty-one days, it "will accept applications from all eligible applicants, but only process and fund priority group applications"—namely, applications from those priority-group applicants listed in ARPA. Priority-group "[a]pplicants must self-certify on the application that they meet [priority-group] eligibility requirements" as "an eligible small business concern owned and controlled by one or more women, veterans, and/or socially and economically disadvantaged individuals.

Plaintiffs sued Defendants SBA and Isabella Casillas Guzman, in her official capacity as administrator of SBA. Shortly thereafter, Plaintiffs moved for a TRO, enjoining the use of race and sex preferences in the distribution of the Fund.

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**Substantial Likelihood of Success on the Merits; standing; Equal Protection Claims.** The court first held that the Plaintiffs had standing to proceed, and then addressed the likelihood of success on the merits of their equal protection claims. As to race-based classifications, Plaintiffs challenged SBA's implementation of the "socially disadvantaged group" and "socially disadvantaged individual" race-based presumption and definition from SBA's Section 8(a) government-contract-procurement scheme into the RRF-distribution-priority scheme as violative of the Equal Protection Clause. Defendants argued the race-conscious rules serve a compelling interest and are narrowly tailored, satisfying strict scrutiny.

**Strict scrutiny applied.** The parties agreed strict scrutiny applies where government imposes racial classifications, like here where the RRF prioritization scheme incorporates explicit racial categories from Section 8(a). Under strict scrutiny, the court stated, government must prove a racial classification is "narrowly tailored" and "furthers compelling governmental interests."

**Compelling governmental interest.** Defendants propose as the government's compelling interest "remedying the effects of past and present discrimination" by "supporting small businesses owned by socially and economically disadvantaged small business owners ... who have borne an outsized burden of economic harms of [the] COVID-19 pandemic." To proceed based on this interest, the court said, Defendants must provide a "strong basis in evidence for its conclusion that remedial action was necessary."

As its strong basis in evidence, Defendants point to the factual findings supporting the implementation of Section 8(a) itself in removing obstacles to government contract procurement for minority-owned businesses, including House Reports in the 1970s and 1980s and a D.C.

District Court case discussing barriers for minority business formation in the 1990s and 2000s. The court recognized the "well-established principle about the industry-specific inquiry required to effectuate Section 8(a)'s standards." Thus, the court looked to Defendants' industry specific evidence to determine whether the government has a "strong basis in evidence to support its conclusion that remedial action was necessary."

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According to Defendants, “Congress has heard a parade of evidence offering support for the priority period prescribed by ARPA.” The Defendants evidence was summarized by the court as follows:

- A House Report specifically recognized that “underlying racial, wealth, social, and gender disparities are exacerbated by the pandemic,” that “[w]omen –especially mothers and women of color – are exiting the workforce at alarming rates,” and that “eight out of ten minority-owned businesses are on the brink of closure.”
- Expert testimony describing how “[b]usinesses headed by people of color are less likely to have employees, have fewer employees when they do, and have less revenue compared to white-owned businesses” because of “structural inequities resulting from less wealth compared to whites who were able to accumulate wealth with the support of public policies,” and that having fewer employees or lower revenue made COVID-related loans to those businesses less lucrative for lenders.
- Expert testimony explaining that “businesses with existing conventional lending relationships were more likely to access PPP funds quickly and efficiently,” and that minorities are less likely to have such relationships with lenders due to “pre-existing disparities in access to capital.”
- House Committee on Small Business Chairwoman Velázquez’s evidence offered into the record showing that “[t]he COVID-19 public health and economic crisis has disproportionately affected Black, Hispanic, and Asian-owned businesses, in addition to woman-owned businesses” and that “minority-owned and woman-owned businesses were particularly vulnerable to COVID-19, given

their concentration in personal services firms, lower cash reserves, and less access to credit.”

- Witness testimony that emphasized the “[u]nder representation by women and minorities in both funds and in small businesses accessing capital” and noted that “[t]he amount of startup capital that a Black entrepreneur has versus a White entrepreneur is about 1/36th.”
- Other expert testimony noting that in many cases, minority-owned businesses struggled to access earlier COVID relief funding, such as PPP loans, “due to the heavy reliance on large banks, with whom they have had historically poor relationships.”
- Evidence presented at other hearing showing that minority and woman-owned business lack access to capital and credit generally, and specifically suffered from inability to access earlier COVID-19 relief funds and also describing “long-standing structural racial disparities in small business ownership and performance.”
- A statement of the Center for Responsible Lending describing present-day “overtly discriminatory practices by lenders” and “facially neutral practices with disparate effects” that deprive minority-owned businesses of access to capital.

This evidence, the court found, “largely falters for the same reasoning outlined above—it lacks the industry-specific inquiry needed to support a compelling interest for a government-imposed racial classification.”

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The court, quoting the *Croson* decision, stated that while it is mindful of these statistical disparities and expert conclusions based on those disparities, “[d]efining these sorts of injuries as ‘identified discrimination’ would give ... governments license to create a patchwork of racial preferences based on statistical generalizations about any particular field of endeavor.”

Having concluded Defendants lack a compelling interest or persuasive justification for their racial and gender preferences, the court stated it need not address whether the RRF is related to those particular interests. Accordingly, the court held that Plaintiffs are likely to succeed on the merits of their claim that Defendants’ use of race-based and sex-based preferences in the administration of the RRF violates the Equal Protection Clause of the Constitution.

**Conclusion.** The court granted Plaintiffs’ motion for temporary restraining order, and enjoined Defendants to process Plaintiffs’ application for an RRF grant.

Subsequently, the Plaintiffs filed a Notice of Dismissal without prejudice on May 19, 2021.

Thus, the court concluded that the government failed to prove that it likely has a compelling interest in “remedying the effects of past and present discrimination” in the restaurant industry during the COVID-19 pandemic. For the same reason, the court found that Defendants have failed to show an “important governmental objective” or exceedingly persuasive justification necessary to support a sex-based classification.