



Executive Summary 2023 Disparity Study

CITY OF HOUSTON, TX

Final Draft

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City of Houston, TX

2023 Disparity Study

MAY 7, 2024

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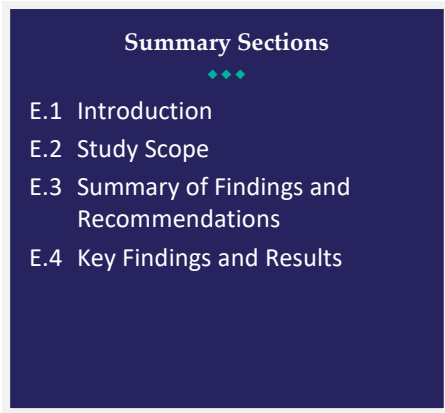
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Executive Summary

E-1. Introduction



The City of Houston, Texas, enlisted the services of MGT of America Consulting Group (MGT) to conduct its 2023 Disparity Study. The purpose was to assess whether there are any disparities in the utilization of minority- and women-owned business enterprises (MWBs) compared to their availability in the marketplace. Additionally, the Study examined disparities in U.S. Department of Transportation Disadvantaged Business Enterprise (DBE) and Federal Aviation Authority (FAA) Airport Concessions Disadvantaged Business Enterprises Programs.

Within the context of studying the City's procurement practices, the study was conducted in a manner consistent with disparity study best practices, controlling local legal precedents, and constitutional law in order to properly advise the City about the legal basis for potential remedies, if necessary. MGT's methodology included a review of disparity studies legal framework, analyses of utilization, availability, and statistical disparity, qualitative research, private sector analyses, and findings, commendations, and recommendations.

The results of this study and the conclusions drawn are presented in detail in **Chapters 4** through **7** of this report.

E-2. Study Scope

The Study assessed and identified gaps between vendor availability and utilization in the City's portfolio of acquired goods and services across the five-year study period between July 1, 2017, through June 30, 2022. The Study analyzed contract expenditures which were competitively procured during the five-year period. The Study excluded contracts that were exempt from competitive procurement requirements (including COVID-19 related purchases), awarded to non-profit or other governmental organizations, or transactions outside of the study period. The Study examined whether disparity exists within the following procurement categories: a) Construction; b) Professional Services; c) Other Services; and d) Goods, and Airport Concessions Disadvantaged Business Enterprises (ACDBE).¹

The Study identified utilization of Physically Disabled Business Enterprises (PDBE), Small Business Enterprises (SBE), and Veteran-owned Business Enterprises (VOBE) as defined in the Office of Business Opportunity Policies and Procedures manual. The data on these business ownership classifications were minimal in utilization and availability. Therefore, disparity was not calculated.

The Study also identified the City's Relevant Geographic Market Area (defined below), summarized existing procurement policies, processes, and programs, and evaluated the degree to which they are practiced; their impact on firms doing business or attempting to do business with the City; identified whether there are disparities in private, un-remediated markets where the City does business; collected

¹ Chapter 4, Market Area and Availability Analyses, Section 4.2.2

and analyzed qualitative data from businesses in the City’s Relevant Geographic Market Area to determine if the firms experienced discrimination while doing business or attempting to do business in the marketplace in which the City does business; and, lastly, provide remedies to address any disparity found in the conduct of the Study.

The methodology and data parameters employed by MGT to conduct the Study are detailed in **Chapter 4, Market Area and Availability Analyses** of the full report.

E-3.Key Findings and Results

Finding A: Relevant Geographic Market Area

(Chapter 4, Appendix B)

The entire universe of expenditure data was utilized to determine the Relevant Geographic Market Area for the study.² This included both expenditures to prime contractors and subcontractors. Based on the market area analysis results for each business category, the recommended relevant market area are the nine counties within the City of Houston Market Area (“Market Area”), as seen in the box below.

FIGURE 8-1. RELEVANT GEOGRAPHIC MARKET AREA

City of Houston Relevant Market Area	
◆◆◆	
Austin County, TX	Galveston County, TX
Brazoria County, TX	Harris County, TX
Chambers County, TX	Liberty County, TX
Fort Bend County, TX	Montgomery County, TX
Waller County, TX	

The spending in the Relevant Geographic Market Area is represented in **Table E-1**. The product market represents the spending by North American Industry Classification System (NAICS). Overall, City procurements occur in **243** NAICS industry groups. In Construction, City procurements occur in **74** NAICS industry groups. In Professional Services, City procurements occur in **82** NAICS industry groups. Within Other Services, City procurements occur in **105** NAICS industry groups. In Goods, City procurements occur in **137** NAICS industry groups. In Airport Concessions, City procurements occur in **59** NAICS industry groups. The City’s product markets are shown in **Appendix A, Detailed Product Market Analysis**.

² Chapter 4, Market Area and Utilization Analyses

TABLE E-1.
MARKET AREA ANALYSIS
DISTRIBUTION OF DOLLARS BY BUSINESS CATEGORY,
CITY OF HOUSTON MARKET AREA

CONSTRUCTION	Amount	Percent
<i>Inside City of Houston RGMA</i>	\$3,867,591,571.43	88.09%
Outside City of Houston RGMA	\$522,845,485.83	11.91%
CONSTRUCTION, TOTAL	\$4,390,437,057.26	100.00%
PROFESSIONAL SERVICES	Amount	Percent
<i>Inside City of Houston RGMA</i>	\$598,499,250.13	65.18%
Outside City of Houston RGMA	\$319,715,232.25	34.82%
PROFESSIONAL SERVICES, TOTAL	\$918,214,482.38	100.00%
OTHER SERVICES	Amount	Percent
<i>Inside City of Houston RGMA</i>	\$710,394,686.75	66.84%
Outside City of Houston RGMA	\$352,361,363.93	33.16%
OTHER SERVICES, TOTAL	\$1,062,756,050.68	100.00%
GOODS	Amount	Percent
<i>Inside City of Houston RGMA</i>	\$754,023,588.15	56.93%
Outside City of Houston RGMA	\$570,382,031.35	43.07%
GOODS, TOTAL	\$1,324,405,619.50	100.00%
ALL BUSINESS CATEGORIES	Amount	Percent
<i>Inside City of Houston RGMA</i>	\$5,930,509,096.46	77.1%
Outside City of Houston RGMA	\$1,765,304,113.36	22.9%
ALL BUSINESS CATEGORIES, TOTAL	\$7,695,813,209.82	100.00%

Source: Chapter 4, Market Area and Availability Analyses

Finding B: Utilization, Availability, and Disparity

(Chapters 4 and 5, Appendix C)

In this Study disparity is defined as the difference between the City's utilization of M/W/D/ACDBEs in contracting activities relative to their availability in the City's geographic market area. MGT's disparity index methodology yields an easily calculable value, understandable in its interpretation, and universally comparable. A disparity in utilization within the minority- and women-owned firms can be assessed concerning the utilization of unclassified firms. A disparity index is calculated by comparing the percentage of the City's contract spend with M/W/D/ACDBEs to the relative percentage of M/W/D/ACDBEs in the City's marketplace. In the table below, a disparity index of 100 means parity, or no disparity. A disparity index of less than 100 indicates underutilization, while a value of 80 or less indicates substantial disparity. Conversely, a disparity index greater than 100 indicates overutilization. In addition to using the disparity index, MGT used the t-test to determine if disparity index scores were statistically significant, meaning that they were less likely to be affected by chance (e.g., sampling error). In **Tables E-2 – E4**, below, MGT determined disparity index scores for each business ownership classification by procurement category. Some categories showed substantial disparity and others showed substantial disparity and had statistically significant scores. The intent of incorporating the t-test into MGT's analyses was to increase the City's confidence and understanding of the findings. Areas with substantial disparity, but do not pass the t-test, should NOT be discounted.

Calculating Disparity Example:

If minority-owned businesses make up 30% of all businesses in the City's relevant geographic market area, but they receive 15% of the City's contract spend, the disparity index would reflect this gap as a numerical value of 50.

Detailed disparity results by business category and 4-digit NAICS code are provided in **Appendix C, Detailed Utilization, Availability, and Disparity Analysis**.

TABLE E- 2 – MWBE DISPARITY INDICES AND DISPARITY IMPACT

Business Ownership Classification	Utilization	Availability	Disparity Index	Disparity Impact	Statistical Significance	Disparity Conclusion
Black Americans	5.55%	7.70%	72.05	Underutilization	**	Disparity
Asian Americans	3.51%	3.77%	93.05	Underutilization		Disparity
Hispanic Americans	12.57%	13.17%	95.49	Underutilization		Disparity
Native Americans	0.61%	1.11%	55.07	Underutilization		Disparity
Total MBE Firms	22.24%	25.75%	86.38	Underutilization	***	Disparity
Nonminority Women	6.11%	8.04%	76.05	Underutilization		Disparity
Total MWBE Firms	28.46%	33.80%	84.23	Underutilization	***	Disparity

Source: Chapter 5: Product Market, Utilization, and Disparity Analyses

TABLE E- 3 – DBE DISPARITY INDICES AND DISPARITY IMPACT

Business Ownership Classification	Utilization	Availability	Disparity Index	Disparity Impact	Statistical Significance	Disparity Conclusion
Black Americans	15.14%	8.96%	169.10	Overutilization		No Disparity
Asian Americans	0.71%	5.74%	12.38	Underutilization		Disparity
Hispanic Americans	5.32%	25.11%	21.17	Underutilization		Disparity
Native Americans	0.00%	1.63%	0.00	Underutilization		Disparity
Nonminority Women	0.45%	9.87%	4.52	Underutilization		Disparity
Total M/W/DBE Firms	21.62%	51.30%	42.14	Underutilization		Disparity

Source: Chapter 5: Product Market, Utilization, and Disparity Analyses

TABLE E- 4 – AIRPORT CONCESSIONS DISPARITY INDICES AND DISPARITY IMPACT

Business Ownership Classification	Utilization	Availability	Disparity Index	Disparity Impact	Statistical Significance	Disparity Conclusion
Black Americans	20.67%	22.44%	92.12	Underutilization		Disparity
Asian Americans	4.53%	10.19%	44.50	Underutilization	***	Disparity
Hispanic Americans	4.11%	11.39%	36.08	Underutilization	***	Disparity
Native Americans	0.00%	0.67%	0.00	Underutilization		Disparity
Nonminority Women	8.11%	10.93%	74.20	Underutilization		Disparity
Total M/W/ACDBE Firms	37.42%	55.62%	67.29	Underutilization	***	Disparity

Source: Chapter 5: Product Market, Utilization, and Disparity Analyses.

Finding E: Private Sector Disparities in Census SBO and ABS Data (Chapter 6)

Based on US Census 2012 SBO and 2017 ABS data, MGT attempted to answer the research question; “Do marketplace disparities exist in the private sector regarding revenue within similar City procurement categories for firms owned by minorities or females?”. Both data sets gather and report firm information for firms with paid employees, including workers on the payroll (employer firms). SBO data is the only data set that provides firms without paid employees, including sole proprietors and partners of unincorporated businesses that do not have any other employees on the payroll (non-employer firms). This is an important distinction because it provides a more encompassing picture of the private sector. SBO is limited in the age of the data, but it can be supplemented with more recent ABS data. It should also be noted that all the disparity indices in the SBO tables are statistically significant within a 95 percent confidence interval.

Finding F: Disparities in Individual Wages, Business Earnings, Self-Employment Rates (Chapter 6)

Findings from the Public Use Microdata Sample (PUMS) from 2015-2019 data indicate that minority and women wages were significantly less in 2016-2020 than those of nonminority males, holding all other variables constant. M/WBE firms were significantly less likely than nonminority males to be self-employed. If they were self-employed, most M/WBE firms earned significantly less in 2016-2020 than self-employed nonminority males, holding all other variables constant.

The analysis of observed versus predicted self-employment rates showed that marketplace discrimination impacted these rates. Further, this analysis indicates that holding all factors consistent, race, ethnicity, and gender play a role in the lower level of self-employment for MWBEs.

Finding G: Qualitative Results (Chapter 7)

The collective qualitative and anecdotal activities gathered input through vendor surveys, in-depth interviews, and business engagement meetings, business owners or representatives in the Relevant Market Area regarding their opinions and perceptions of how discrimination has affected their experiences working with City or with primes as subcontractors on City projects. Together, the City and MGT executed various outreach methods including direct emails, postcards, personal contact, press releases, and more to encourage business participation in the study.

Utilizing various methods, anecdotal data was gathered from a diverse array of businesses and industries. Several MWBEs identified informal networks, limited access to capital, limited communication from the City, delayed payment processes, and similar factors as obstacles hindering their business interactions with the City of Houston. Several MWBEs did feel discriminated against by the City and/or its prime contractors due to comments made and/or lack of contracting opportunities. Furthermore, MWBEs often expressed their sentiments of having to consistently demonstrate their qualifications for City contracting opportunities due to their race, ethnicity, or gender compared to non-minority businesses. The anecdotes derived from this extensive business population offer a blueprint for developing policies and procedures that can cater to the needs of businesses in the market area.

E-4. Remedies

The City of Houston is lauded for its ongoing commitment to investing resources in fostering growth and development. The recent Disparity Study conducted by MGT has played a pivotal role in this endeavor by meticulously identifying existing initiatives aimed at promoting inclusive opportunities for businesses within the community. Through this study, the City has demonstrated its dedication to creating an environment that fosters diversity, equity, and inclusion, thus paving the way for a more vibrant and thriving local economy.

Therefore, the remedies are suggested to encourage the participation of small, minority-owned, woman-owned, physically disabled businesses in government contracting and procurement. The majority of the forthcoming suggestions are derived from a combination of various discoveries and may not exclusively correlate with a single finding. The practices identified below have worked well in certain localities, though some have not been as effective as others. Effectiveness can depend on a variety of factors. As such, it is difficult to determine whether a particular policy or practice is solely responsible for the success of a program.

Enhance Data Collection

Within this report, MGT detailed the level of effort it took to combine multiple data sources for an accurate analysis of the City's MWBE, DBE, PDBE, and SBE utilization. The City has invested in contract compliance software with the intent of having accurate and complete data readily available. It was identified during the study that there are significant gaps and processes that are lacking in order for the latter to be the case. The B2GNow software is designed to collaborate with the City's SAP financial system to ensure that the OBO Office can accurately assess the impact of its programs. Improved data collection will allow the City to understand its true economic impact of the diverse businesses in the market area and produce more detailed reports on the program's utilization.

In addition to updating the payment information in the system, firms contracted by the City must be required to enter all subcontract data to expand the OBO Office's compliance and reporting.

Advertise Future Informal Procurement Opportunities

In addition to its commendable efforts in fostering inclusivity, the City should be acknowledged for its proactive approach in identifying contracting opportunities for small businesses, particularly in forecasting larger, long-lead projects. This proposed remedy is derived from multiple anecdotal comments of firms, particularly small firms that stated they do not know where or how to learn of information regarding opportunities. It's equally important to recognize the significance of smaller, informal purchases as avenues for minority and women-owned businesses to expand their operations. To further support these businesses, the City should collaborate with the procurement department to develop a forecast spanning 6 to 12 months, specifically outlining informal procurement opportunities. This proactive approach would enable businesses to adequately prepare and position themselves to capitalize on these opportunities, ultimately fostering their growth and success within the local economy.

During the goal setting process, different weights may be utilized to establish reasonable and achievable goals. The objective is to factor in availability and utilization. These aspirational goals should not be applied rigidly to every individual procurement. Instead, MWSDBE goals should be tailored to the project.

Establish Contract Compliance Process for Indefinite Delivery/Indefinite Quantity (IDIQ) Purchases

Indefinite Delivery/Indefinite Quantity (IDIQ) contracts are issued to a firm in which the scope of work or material quantities have yet to be determined. The City should establish a comprehensive and transparent contract compliance process to ensure adherence to regulations and promote equity in the awarding and execution of IDIQ contracts. The City should define specific compliance requirements relevant to IDIQ contracts, including but not limited to minority-owned, women-owned, veteran-owned, and small business participation goals, as well as any applicable labor standards and reporting obligations. In addition, the City should develop robust monitoring mechanisms to track compliance throughout the lifecycle of IDIQ contracts, including pre-award, performance, and post-award phases. This may involve the use of tracking systems, periodic audits, and performance evaluations, and goal attainment.

Adopt a Policy Forbidding Exclusivity Agreements between Primes and Subcontractors

Comments from Minority and Women-Owned Business Enterprises (MWBE) in the qualitative data collection expressed concerns of their inability to provide quotes to multiple bidders because primes require subcontractors to agree to exclusivity. MWBE firms shall be provided with equal opportunities to submit multiple bids or proposals that enhance their chances of winning subcontracting opportunities. The City should prohibit the use of exclusivity agreements between prime contractors and MWBE subcontractors. Prime contractors shall not be allowed to enter into agreements that limit subcontracting opportunities for MWBE firms or restrict their ability to work with other prime contractors.

Modify Graduation Program Criteria

The utilization analysis identified areas where larger MWBE firms were successfully winning multiple large prime contracts. The City should consider a graduation program for MWBE firms once they have scaled their businesses to the point where there are no barriers to competing. The City currently uses the Small Business Administration size standards to determine whether a firm graduates out of its program. However, this standard may not accurately reflect the economic landscape and challenges faced by businesses at the local level. Local size standards can be crafted to align with the economic conditions, industry makeup, and business environment of the Houston region. This ensures that the graduation criteria are more relevant and reflective of the challenges and opportunities faced by MWBE firms operating within the community. Furthermore, tailoring the M/WBE graduation criteria to local dynamics can aid in stimulating economic growth and supporting small businesses. This ensures that contracting opportunities are accessible to a broader range of local vendors, thereby maximizing the socio-economic impact of the City's spending. These standards can be reviewed during recertification or a routine audit to confirm continued eligibility in the City's programs.

Expand SBE Program

The City should be commended on the implementation of their SBE Program for construction contracts. They should also be commended on the policy flexibility to meet MWBE goals with SBE firms. Small Business Enterprise programs have more flexibility to increase the economic mobility of businesses in the marketplace where the City does business. As such, the City should expand the SBE Program to all

industries to which it procures goods and services as an economic tool to ensure that all businesses regardless of race or ethnicity or gender have an opportunity to compete in the city's economy.

Expand the Office of Business Opportunity Staff

The City of Houston is a significant entity, and the Office of Business Opportunity (OBO) plays a crucial role in fostering economic mobility for businesses in the marketplace. One key responsibility of the OBO is identifying minority, women, disadvantaged, and other such firms through certification. Feedback collected through qualitative data analysis highlights that firms seeking certification or recertification often face lengthy waiting periods for approval. To address this issue, additional OBO staff should be allocated to expedite the certification process.

Moreover, the presence of more OBO personnel is essential for extending contract compliance, goal setting, and outreach to the business community. Additionally, internal departmental support is required to fulfill these tasks effectively.

M/WBE Program Sunset

The City should continue the review of the M/W/D/ACDBE Programs to determine if an evidentiary basis to continue these programs exists every five years and that it should be continued only if there is strong evidence that discrimination continues to disadvantage MWBEs in the relevant market area. The Program should be reevaluated prior to the sunset date in 2030.