

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1353 (Delegate Oaks, *et al.*)
 Health and Government Operations Education, Health, and Environmental Affairs

Minority Business Enterprises - Participation and Goals and Subgoals

This bill extends the termination date of the State’s Minority Business Enterprise (MBE) program by one year, until July 1, 2017, and defers the completion date of a new disparity study also by one year, to September 30, 2016. It also requires the Special Secretary of Minority Affairs, in consultation with the Secretary of Transportation and the Attorney General, to establish guidelines for each procurement unit to consider when determining the appropriate MBE participation goals for a procurement contract. It requires each procurement unit to implement a program that will enable it to consider the MBE participation and subgoal guidelines when evaluating each procurement contract.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) expenditures by the Maryland Department of Transportation for the mandated disparity study are delayed by one year. As the study is still expected to take two years to complete, TTF expenditures decrease by \$1.05 million in FY 2015 and \$349,100 in FY 2016, with an offsetting increase of \$1.06 million in FY 2016 and \$352,400 in FY 2017 (which reflects inflation in the projected cost of the study due to the deferral). Although the extension of the State’s MBE program could result in higher procurement costs than if the program were allowed to terminate, the program is well-established, having existed in its current form for more than 20 years and been extended six times. Therefore, its extension has no practical fiscal effect. The Governor’s Office of Minority Affairs can carry out the bill’s requirement with existing budgeted resources. No effect on revenues.

(in dollars)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	0	(1,047,400)	708,300	352,400	0
Net Effect	\$0	\$1,047,400	(\$708,300)	(\$352,400)	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law: For a full description of the State's MBE program, including a description of the statutory requirements for establishing MBE goals and subgoals, please see the **Appendix – Minority Business Enterprise program**.

State Fiscal Effect: The last disparity study, completed in February 2012, cost a total of \$1.33 million. Based on an assumed 5% increase in the cost, the next study, due September 2015, was estimated to cost almost \$1.40 million with most costs incurred in fiscal 2015. With the one-year extension to September 2016, the study is now estimated to cost \$1.41 million, with the bulk of the work being done in fiscal 2016 and final editing, printing, and distribution of the report done in fiscal 2017. The net impact on TTF expenditures is an increase in total costs of \$13,300 over the three-year period affected. The deferral results in a decrease in TTF expenditures of \$1,047,400 in fiscal 2015, a net increase of \$708,300 in fiscal 2016, and an increase of \$352,400 in fiscal 2017.

Small Business Effect: The extension of the MBE program for one year benefits small businesses that are MBEs and seek participation in State procurement.

Additional Information

Prior Introductions: None.

Cross File: SB 188 (Senator Pugh, *et al.*) - Education, Health, and Environmental Affairs.

Information Source(s): Board of Public Works, Department of Budget and Management, Governor's Office, Maryland Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - March 25, 2013
ncs/rhh Revised - House Third Reader - April 4, 2013

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix – Minority Business Enterprise Program

The State’s Minority Business Enterprise (MBE) program, which is scheduled to terminate July 1, 2016, requires that a statewide goal for MBE contract participation be established biennially through the regulatory process under the Administrative Procedure Act. The biennial statewide MBE goal is established by the Special Secretary for the Governor’s Office of Minority Affairs (GOMA), in consultation with the Secretary of Transportation and the Attorney General. In a year in which there is a delay in establishing the overall goal, the previous year’s goal applies. The Special Secretary is also required to establish biennial guidelines for State procurement units to consider in deciding whether to establish subgoals for different minority groups recognized in statute. In a year in which there is a delay in issuing the guidelines, the previous year’s guidelines apply.

Prior to the enactment of Chapters 252 and 253 of 2011 (HB 456/SB 120) and Chapter 154 of 2012 (HB 1370), State law established a goal that at least 25% of the total dollar value of each agency’s procurement contracts be awarded to MBEs, including subgoals of 7% for African American-owned businesses and 10% for woman-owned businesses. As of January 2013, a new statewide goal had not been issued by GOMA, so the 25% statewide goal remains in effect. GOMA issued subgoal guidelines in July 2011, summarized in **Exhibit 1**, which are still in effect. The guidelines state that subgoals may be used only when the overall MBE goal for a contract is greater than or equal to the sum of all recommended subgoals for the appropriate industry, plus two percentage points.

Exhibit 1 Subgoal Guidelines Issued July 2011

	<u>Construction</u>	<u>Architectural/ Engineering</u>	<u>Maintenance</u>	<u>Information Technology</u>	<u>Services</u>	<u>Supplies/ Equipment</u>
African American	7%	6%	8%	7%	7%	6%
Hispanic	–	2%	3%	2%	–	–
Asian	4%	–	3%	–	4%	5%
Women	–	9%	–	8%	12%	10%
Total	11%	17%	14%	17%	23%	21%
Total +2	13%	19%	16%	19%	25%	23%

Source: Governor’s Office of Minority Affairs

There are no penalties for agencies that fail to reach the statewide target. Instead, agencies are required to use race-neutral strategies to encourage greater MBE participation in State procurements.

History and Rationale of the MBE Program

In 1989, the U.S. Supreme Court held in the *City of Richmond v. J.A. Croson Co.*, that state or local MBE programs using race-based classifications are subject to strict scrutiny under the equal protection clause of the Fourteenth Amendment to the U.S. Constitution. In addition, the ruling held that an MBE program must demonstrate clear evidence that the program is narrowly tailored to address actual disparities in the marketplace for the jurisdiction that operates the program. As a result, prior to each reauthorization of the State's MBE program, the State conducts a disparity study to determine whether there is continued evidence that MBEs are underutilized in State contracting.

The most recent disparity study was completed in February 2011 and serves as the basis for the most recent reauthorization of the MBE program. It found continued and ongoing disparities in the overall annual wages, business earnings, and rates of business formation between nonminority males and minorities and women in Maryland. For instance, average annual wages for African Americans (both men and women) and nonminority women were 33% lower than for comparable nonminority males. It also found continued disparities in the use of MBEs compared to their availability in the marketplace to perform work in designated categories of work. For instance, African American-owned businesses were paid 4.5% of State construction contract dollars, but they make up 9.7% of the construction sector in the State. Woman-owned businesses were paid 8.5% of maintenance contract dollars, despite making up 18.0% of the maintenance contract sector. Similar disparities were found in other contracting sectors and for other MBE categories.

Another disparity study is due by December 31, 2015, prior to the July 1, 2016 termination date for the MBE program. (The program has been reauthorized six times since 1990, most recently by Chapter 154 of 2012.) **Exhibit 2** provides MBE participation rates for major Executive Branch agencies for fiscal 2011, the most recent year for which data is available.

Requirements for MBE Certification

An MBE is a legal entity, other than a joint venture, that is:

- organized to engage in commercial transactions;
- at least 51% owned and controlled by one or more individuals who are socially and economically disadvantaged; and

- managed by, and the daily business operations of which are controlled by, one or more of the socially and economically disadvantaged individuals who own it.

MBEs include not-for-profit entities organized to promote the interests of physically or mentally disabled individuals. There are no restrictions on the size or management structure of not-for-profit entities that can be considered MBEs.

A socially and economically disadvantaged individual is defined as a citizen or legal U.S. resident who is African American, Native American, Asian, Hispanic, physically or mentally disabled, a woman, or otherwise found by the State's MBE certification agency to be socially and economically disadvantaged. An MBE owned by a woman who is also a member of an ethnic or racial minority group is certified as either owned by a woman or owned by a racial or ethnic minority, but not both. The Maryland Department of Transportation is the State's MBE certification agency.

A socially disadvantaged individual is someone who has been subject to racial or ethnic prejudice or cultural bias within American society because of his or her membership in a group and without regard to individual qualities. An economically disadvantaged individual is someone who is socially disadvantaged whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities compared with those who are not socially disadvantaged. An individual with a personal net worth in excess of \$1.5 million, adjusted annually for inflation, is not considered economically disadvantaged. The inflation-adjusted limit for calendar 2013 is \$1,615,663.

Exhibit 2
MBE Participation Rates, by Agency
Fiscal 2011

<u>Agency</u>	<u>% MBE Participation</u>
Aging	30.7%
Agriculture	6.9%
Budget and Management	10.5%
Business and Economic Development	43.9%
Education	20.3%
Environment	25.2%
Executive Department	14.0%
General Services	33.9%
Health and Mental Hygiene	46.1%
Higher Education Commission	14.0%
Housing and Community Development	21.9%
Human Resources	8.4%
Information Technology	13.7%
Juvenile Services	8.9%
Labor, Licensing, and Regulation	36.1%
Morgan State University	22.3%
Natural Resources	10.9%
Planning	8.3%
State Police	8.8%
Public Safety and Correctional Services	33.0%
Transportation – Aviation Administration	26.2%
Transportation – Motor Vehicle	46.7%
Transportation – Office of the Secretary	29.5%
Transportation – Port Administration	7.8%
Transportation – State Highway	26.1%
Transportation – Transit Administration	16.8%
Transportation – Transportation Authority	25.4%
University System of Maryland	19.7%
Veterans Affairs	18.2%
Statewide Total¹	23.8%

¹Includes additional non-Cabinet agencies.

Source: Governor's Office of Minority Affairs