FEDERAL DISADVANTAGED BUSINESS ENTERPRISE (DBE) PROGRAM PROPOSED OVERALL GOAL & METHODOLOGY FOR FEDERAL FISCAL YEARS 2023 - 2025

In accordance with 49 Code of Federal Regulations (CFR) Part 26 and United States Department of Transportation (USDOT) guidance, the Ohio Department of Transportation (ODOT) must establish a new overall goal for the participation of Disadvantaged Business Enterprises (DBEs) in the Federal Highway Administration- (FHWA-) funded contracts and procurements it anticipates awarding in federal fiscal years (FFYs) 2023, 2024, and 2025. This document presents ODOT's new proposed *overall DBE goal* for its FHWA-funded work and the methodology the agency used to calculate it.

A. Overall DBE Goal

ODOT based its new overall DBE goal on results from an availability study BBC Research & Consulting (BBC) conducted in 2022 (referred to herein as the 2022 Availability Study), upcoming contract opportunities, and information about conditions in the local marketplace for persons of color (POCs), women, and POC- and woman-owned businesses.¹ The 2022 ODOT Availability Study is included with this document as Appendix A. The agency has followed the two step goal-setting methodology USDOT requires to develop its new goal: 1) establish a *base figure*; and 2) consider whether a *step 2 adjustment* to the base figure is warranted.

1. Base figure. ODOT began setting a new overall DBE goal by establishing a base figure, which the agency based on the demonstrable availability of *potential DBEs* for the FHWA-funded work it awarded in FFYs 2019, 2020, and 2021. The agency defined potential DBEs as POC- and woman-owned businesses that are currently DBE-certified or appear they could be DBE-certified according to size requirements specified in 49 CFR Part 26.65.

a. Methodology. As part of the 2022 ODOT Availability Study, BBC conducted a *custom census* availability analysis that focused on the specific areas of work (i.e., subindustries) related to the FHWA-funded construction and professional services prime contracts and subcontracts ODOT awards. The firm began the analysis by identifying the specific subindustries in which ODOT spends the majority of its contracting dollars as well as the geographic area in which the majority of the businesses that perform work for the agency are located (referred to as the *relevant geographic market area*, or *RGMA*). BBC identified the RGMA as the entire state of Ohio, based on the fact that ODOT and subrecipient local agencies award the vast majority of associated contract and procurement dollars to businesses located within Ohio (98 percent of relevant dollars).

Once BBC identified relevant subindustries and the RGMA, the firm conducted surveys to develop a representative, unbiased, and statistically valid database of potentially available businesses located in the RGMA that perform work within subindustries relevant to ODOT's transportation-related work. The objective of the availability survey was not to collect

¹ Woman-owned businesses refer specifically to *white woman-owned businesses*. Businesses owned by women of color were classified along with their corresponding racial/ethnic groups.

information from each and every relevant business operating in the local marketplace. Instead, it was to collect information from an unbiased subset of the business population that appropriately represents the entire relevant business population operating in the region.

i. Availability surveys. As part of the availability analysis, BBC conducted telephone and online surveys to identify businesses potentially available for relevant ODOT prime contracts and subcontracts. The firm began the process by compiling a comprehensive and unbiased phone book of relevant businesses of all ownership types—that is, not only POC- and woman-owned businesses—located in the RGMA and that perform work in relevant subindustries. BBC developed the phone book based primarily on information from Dun & Bradstreet Marketplace listings, which has been accepted by courts as a comprehensive and unbiased source of business listings for various geographical regions and work specializations. The study team collected information from business establishments listed under 8-digit work specialization codes most related to the transportation-related work ODOT awarded during the *study period* (i.e., July 1, 2018 through June 30, 2021).

BBC used availability surveys to collect key information about potentially available businesses, including:

- Status as a private sector business (as opposed to nonprofit organization);
- Status as a subsidiary or branch of another company;
- Primary lines of work;
- Contract role (i.e., prime contractor, subcontractor, or both);
- Interest in performing work for ODOT;
- Largest prime contract or subcontract bid on or performed in the previous five years; and
- Race/ethnicity and gender of the owners.

ii. Availability database. Two thousand, six hundred and thirty-seven businesses completed availability surveys, but ODOT did not consider them all potentially available for the FHWA-funded projects it awarded in FFYs 2019, 2020, and 2021. The agency considered businesses to be potentially available for that work if, as part of availability surveys, they reported possessing all the following characteristics:

- Being a private sector business;
- Working in subindustries relevant to ODOT's transportation-related work;
- Having bid on or performed relevant work in the past five years; and
- Being interested in participating in ODOT contracts or procurements.

ODOT also considered the following information about businesses to determine if they were potentially available for specific prime contracts or subcontracts ODOT awarded in FFYs 2019, 2020, and 2021:

The roles in which they work (i.e., prime contractors, subcontractors, or both); and

• The largest contracts they bid on or performed in the past five years.

Based on the characteristics of businesses that completed availability surveys and the FHWAfunded projects ODOT awarded in FFYs 2019, 2020, and 2021, the agency considered 1,670 businesses as potentially available to perform work on the specific transportation-related construction and professional services contracts and procurements it awards. Of those 1,670 businesses, 25.9 percent were POC- or woman-owned, which reflects a simple count of businesses with no analysis of their availability for specific ODOT contracts or procurements.

iii. Availability calculations. ODOT estimated the availability of *potential DBEs* for its FHWAfunded projects based on the information from the availability database described above and on information on FHWA-funded projects the agency awarded in FFYs, 2019, 2020, and 2021. The agency identified specific prime contract and subcontract opportunities (referred to generally as *contract elements*) associated with each project based on the work involved. ODOT then identified specific characteristics of each contract element—including type of work, contract role, and contract size—and took the following steps to estimate the availability of potential DBEs for each one:

- 1. For each contract element, ODOT identified businesses in the availability database that reported they:
 - Are interested in performing work in that particular role for that specific type of work for the agency; and
 - > Have bid on or performed work of at least that size in the past five years.
- 2. The agency then counted the number of potential DBEs—by race and gender group—in the availability database that met the criteria specified in step 1.
- 3. The agency translated the number of potential DBEs in step 2 into a percentage.

ODOT repeated those steps for each contract element included in the analysis, and then multiplied the percentage of potential DBEs for each contract element by the dollars associated with it, added results across all contract elements, and divided by the total dollars for all contract elements. The result was dollar-weighted estimates of the availability of potential DBEs for the FHWA-funded work ODOT awarded in FFYs 2019, 2020, and 2021. The estimates represent the percentage of dollars one would expect ODOT to award to those businesses on its FHWA-funded projects.

b. Results. Figure 1 presents availability analysis results, organized in the following manner:

- Column (a) presents the groups of potential DBEs ODOT considered in the analysis;
- Column (b) presents the availability of each group for FHWA-funded construction contract elements;
- Column (c) presents the availability of each group for FHWA-funded professional services contract elements; and
- Column (d) presents the availability of each group for all FHWA-funded contract elements considered together.

As presented at the bottom of column (d), the analysis indicated that potential DBEs are available for **20.2** percent of the FHWA-funded prime contracts and subcontracts ODOT awarded in FFYs 2019, 2020, and 2021, which the agency considers as the base figure for its new overall DBE goal.

Figure 1.

Availability of potential DBEs for FHWA-funded projects ODOT awarded in FFYs 2019, 2020, and 2021

	Industry				
a. Potential DBE group	b. Construction	services	d. Total		
Asian Pacific American-owned	0.4 %	2.4 %	0.6 %		
Black American-owned	5.1 %	5.4 %	5.1 %		
Hispanic American-owned	0.3 %	0.8 %	0.3 %		
Native American-owned	3.7 %	0.4 %	3.6 %		
Subcontinent Asian American-owned	0.8 %	1.7 %	0.8 %		
Total minority-owned	10.3 %	10.7 %	10.3 %		
White woman-owned	10.0 %	8.3 %	9.9 %		
Total potential DBEs	20.2 %	19.0 %	20.2 %		

Notes: Numbers rounded to nearest tenth of 1 percent and thus may not sum exactly to totals.

ODOT applied the following weights to availability for each industry to calculate total availability: construction = 0.95, professional services = 0.05. The weights were based on the proportion of total FHWA-funded contract and procurement dollars for which each industry was awarded in FFYs 2019, 2020, and 2021.

Source: ODOT and BBC.

2. Step 2 adjustment considerations. After establishing the base figure, ODOT considered additional information to determine whether any adjustment was needed to the base figure to ensure the agency's new overall DBE goal is precise and reflects current conditions in the local marketplace for POCs, women, and POC- and woman-owned businesses. In considering an adjustment to the base figure, the agency evaluated information about:

- a. Current capacity of DBEs to perform agency work;
- b. Information related to employment, self-employment, education, training, and unions;
- c. Disparities in the ability of DBEs to access financing, bonding, and insurance; and
- d. Other factors.²

a. Current capacity of DBEs to perform agency work. USDOT's "Tips for Goal-Setting" suggests that agencies should examine data on past DBE participation in their USDOT-funded work in recent years to determine whether adjustments to their base figures are necessary. USDOT further suggests that an agency should take the median level of annual DBE participation for those years and average it with its base figure and potentially consider the result as its new

² 49 CFR Section 26.45.

overall DBE goal.³ Figure 2 presents the participation of certified DBEs in ODOT's FHWA-funded contracts and procurements for FFYs 2019 through 2021, based on the agency's Uniform Reports of DBE Awards or Commitments and Payments. As shown in Figure 2, median DBE participation in ODOT's FHWA-funded work for FFYs 2019 through 2021 was 11.3 percent, supporting a **downward adjustment** to the agency's base figure.

FFY	DBE participation
2019	11.3%
2020	11.2%
2021	13.2%

b. Information related to employment, self-employment, education, training, and unions. The 2022 ODOT Availability Study did not include analyses of current conditions in the Ohio marketplace for POCs, women, and POC- and woman-owned businesses but the 2016 ODOT Disparity Study—which BBC also conducted—did include such analyses. As part of the 2016 disparity study, BBC used regression analyses to investigate whether there are independent relationships between the race/ethnicity or gender of individuals working in relevant industries in the RGMA and their likelihood of owning businesses in those industries. The analyses allowed BBC to examine those relationships while statistically controlling for various personal characteristics that are ostensibly race- and gender-neutral, including education, homeownership, marital status, income, and age.

The regression analyses revealed that, even after accounting for various race- and genderneutral personal characteristics, being a woman was associated with a lower likelihood of owning construction and professional services businesses compared to being a man. However, being a POC was not associated with a lower likelihood of owning construction and professional services businesses than being white after statistically controlling for various race- and genderneutral personal characteristics. That result does not necessarily indicate that POCs have the same opportunities to own businesses in the Ohio construction and professional services industries as whites. Instead it means that any disparities POCs have in business ownership might be better explained by differences in education, homeownership, marital status, income, age, or other factors, which could also be associated with or impacted by race.

ODOT analyzed the potential impacts the relationships between gender and business ownership rates have on the base figure by estimating the availability of potential DBEs for the FHWA-funded contracts and procurements the agency awarded in FFYs 2019, 2020, and 2021 if women owned businesses at the same rate as white men who share similar personal characteristics. Figure 3 presents the results of the analysis, which is referred to as a *but-for* analysis, because it estimates the availability of potential DBEs *but for* any potential effects of any race- or gender-based discrimination. The rows and columns of Figure 3 present the following information:

Figure 2.

Source:

ODOT Uniform Reports of

Past participation of DBEs in ODOT's FHWA-funded projects, FFYs 2019-2021

DBE Awards or Commitments and Payments.

³ Section III (A)(5)(a) in USDOT's "Tips for Goal-Setting in the Federal Disadvantaged Enterprise (DBE) Program."

- **a. Current availability.** Column (a) presents the availability of potential DBEs by group and industry for the FHWA-funded projects ODOT awarded in FFYs 2019, 2020, and 2021. Before any adjustment, the availability of potential DBEs for that work is 20.2 percent, as shown in row (19) of column (a) as well as in Figure 1.
- **b. Disparity indices for business ownership.** For each group significantly less likely than whites and men to own businesses, ODOT simulated business ownership rates if they owned businesses at the same rate as a group of white men who, on average, share the same personal characteristics. In this case, only white women were found to be significantly less likely to own construction and professional services businesses, so ODOT only simulated business ownerships rates for that group. To do so, the agency took the following steps:
 - i. The agency performed a probit regression analysis predicting business ownership including only workers in the dataset who were white men; and
 - ii. The agency applied coefficients from the model to the mean personal characteristics of white women to simulate business ownership rates for white women if they owned businesses at the same rate as a group of white men who, on average, shared the same personal characteristics.

ODOT then calculated a business ownership disparity index for white women by dividing the group's actual business ownership rate by the simulated business ownership rate described above and multiplying by 100. Values of less than 100 indicate that, in reality, the group's business ownership rate is less than what would be expected for white men who share similar personal characteristics. Column (b) presents disparity indices related to business ownership rates for white women. As shown in row (6) of column (b), white women own construction businesses at 55 percent of the rate one might expect for white men who share similar personal characteristics.

- c. Availability after initial adjustment. Column (c) presents availability estimates by group and industry after initially adjusting for statistically significant disparities in business ownership rates, which only affected the availability estimate for white woman-owned businesses, because again, that was the only group that exhibited a statistically significant disparity in business ownership. ODOT calculated an adjusted availability estimate for white woman-owned businesses by dividing current availability in column (a) by the disparity index for business ownership in column (b) and multiplying by 100, which resulted in an adjusted availability estimate for white woman-owned businesses of 18.1 percent.
- d. Availability after scaling to 100 percent. Column (d) shows adjusted availability estimates ODOT rescaled so the sum of the estimates equaled 100 percent for each industry. The agency rescaled the estimates by taking each group's adjusted availability estimate in column c (which was unchanged for all groups expect for white woman-owned businesses) and dividing it by the sum of availability estimates shown under "Total"—in row (9) for construction and row (18) for professional services—and multiplying by 100. For example, the rescaled adjusted availability estimate for white woman-owned construction businesses shown in row (6) of column (d) was calculated in the following way: (18.1 % ÷ 108.2%) x 100 = 16.8 percent.

e. Components of goal. Column (e) shows the component of the total base figure attributed to adjusted potential DBE availability for each industry. ODOT calculated each component by taking the total availability estimate shown under "Potential DBEs" in column (d)—in row (7) for construction and row (16) for professional services—and multiplying it by the proportion of total FHWA-funded project dollars for which each industry accounted for in FFYs 2019, 2020, and 2021 (i.e., 0.95 for construction and 0.05 for professional services). For example, the agency used the 26.3 percent shown in row (7) of column (d) for construction and multiplied it by 0.95 for a result of 24.9 percent (see row (7) of column (e)). The values in column (e) were then summed to equal the overall base figure adjusted for barriers in business ownership—26.3 percent—shown in the bottom row of column (e).

Figure 3. Availability for FHWA-funded projects ODOT awarded in FFYs 2019, 2020, and 2021 adjusted for business ownership disparities

Industry and group	a. Current availability	b. Disparity index for business ownership	c. Availability after initial adjustment*	d. Availability after scaling to 100%	e. Components of base figure**
Construction					
(1) Black American	5.1 %	n/a	5.1 %	4.7 %	
(2) Asian Pacific American	0.4	n/a	0.4	0.4	
(3) Subcontinent Asian American	0.8	n/a	0.8	0.7	
(4) Hispanic American	0.3	n/a	0.3	0.3	
(5) Native American	3.7	n/a	3.7	3.4	
(6) White woman	10.0	55	18.1	16.8	
(7) Potential DBEs	20.2 %	n/a	28.4 %	26.3 %	24.9 %
(8) All other businesses ***	79.8	n/a	79.8	73.7	
(9) Total	100.0 %	n/a	108.2 %	100.0 %	
Professional Services					
(10) Black American	5.4 %	n/a	5.4 %	4.9 %	
(11) Asian Pacific American	2.4	n/a	2.4	2.2	
(12) Subcontinent Asian American	1.7	n/a	1.7	1.5	
(13) Hispanic American	0.8	n/a	0.8	0.7	
(14) Native American	0.4	n/a	0.4	0.4	
(15) White woman	8.3	44	18.8	17.0	
(16) Potential DBEs	19.0 %	n/a	29.5 %	26.7 %	1.4 %
(17) All other businesses	81.0	n/a	81.0	73.3	
(18) Total	100.0 %	n/a	110.5 %	100.0 %	
(19) GRAND TOTAL	20.2 %	n/a	n/a		26.3 %

Notes: Numbers rounded to nearest tenth of 1%. Numbers may not add to totals due to rounding.

* Initial adjustment is calculated as current availability divided by the disparity index.

** Components of the base figure were calculated as the value after adjustment and scaling to 100%, multiplied by the percentage of total anticipated dollars in each industry (construction is 95% and professional services is 5%.

*** All other businesses are businesses owned by white men and POC- and woman-owned businesses that are not potential DBEs.

Source: ODOT and BBC Research & Consulting.

c. Disparities in the ability of DBEs to get financing, bonding, and insurance. Analyses on access to financing, bonding, and insurance that were part of the 2016 ODOT Disparity Study also revealed quantitative and qualitative evidence that POCs, women, and POC- and woman-owned businesses in Ohio do not have the same access to those business inputs as white men and businesses owned by white men. Any barriers to obtaining financing, bonding, and insurance might limit opportunities for POCs and women to successfully form and operate businesses in the Ohio transportation contracting marketplace. In addition, any barriers POC- and woman-owned businesses face in obtaining financing, bonding, and insurance would be a disadvantage for them in competing for ODOT's FHWA-funded prime contracts and subcontracts. Thus, information about financing, bonding, and insurance supports an **upward adjustment** to ODOT's base figure.

d. Other factors. USDOT suggests that agencies also examine "other factors" when determining whether to make step 2 adjustments to their base figures. ODOT reviewed information related to marketplace conditions and anticipated contract opportunities when determining whether to make a step 2 adjustment to its base figure.

i. Marketplace conditions. Marketplace analyses that were part of the 2016 ODOT Disparity Study provided evidence that POC- and woman-owned businesses are less successful than other businesses. Such evidence includes:

- Quantitative evidence that certain groups of POC- and woman-owned businesses are less successful than businesses owned by white men and face greater barriers in the marketplace, even after accounting for race- and gender-neutral factors;
- Qualitative evidence that discrimination on the basis of race/ethnicity and gender adversely
 affects POC- and woman-owned businesses in the Ohio transportation contracting industry;
 and
- Evidence that POC- and woman-owned businesses exhibit substantial disparities for key sets of ODOT's construction and professional services contracts and procurements.

All the above results support an **upward adjustment** to the base figure.

ii. Anticipated contract opportunities. One assumption BBC made in the 2022 Availability Study is that the mix of the types, sizes, and locations of the contracts that ODOT awards in the future will be similar to that of the contracts the agency awarded during the study period. ODOT reviewed its upcoming projects to determine whether the contracts the agency anticipates awarding in FFYs 2023, 2024, and 2025 will be similar to those it awarded during the study period. ODOT plans on awarding a large design-build contract for the Brent Spence Bridge (BSB) Project in early FFY 2024, which will be a \$2.2 billion project to reconstruct approximately five miles of major thoroughfare connecting Ohio and Kentucky. ODOT and the Kentucky Transportation Cabinet will jointly oversee the project, but ODOT will serve as the lead contracting agency. The BSB Project will be substantially larger than any project ODOT executed during the study period BBC considered for the 2022 Availability Study. During that time period, the average prime contract ODOT awarded was worth approximately \$2.2 million, and the average subcontract the agency awarded was worth approximately \$108,000. ODOT will take feasible steps to ensure that small businesses, including many minority- and woman-owned businesses, have access to contracting opportunities associated with the BSB Project, but the agency anticipates that BSB contracts will be substantially larger than those it awarded during the study period. Because contract size and the availability of POC- and woman-owned businesses are typically inversely related, ODOT believes availability for its upcoming contracts will be lower than availability for contracts the agency awarded during the study period. Thus, information about anticipated contract opportunities supports a **downward adjustment** to the agency's base figure.

e. Adjustment. ODOT has considered myriad information relevant to a potential step 2 adjustment and has decided to make a **downward adjustment** to its base figure. The agency has decided to make a downward adjustment for the following reasons:

- Information about marketplace conditions supports an upward adjustment, but information about ODOT's DBE participation in recent years supports a downward adjustment.
- The contracts ODOT anticipates awarding in FFYs 2023 through 2025 will likely be substantially larger than those it awarded during the study period BBC considered for the 2022 Availability Study. As a result, ODOT believes availability in FFYs 2023 through 2025 will be lower than the agency's base figure.
- ODOT believes it is important to set a realistic goal that accounts for the different information relevant to making an adjustment. Because some information relevant to a potential step 2 adjustment supports an upward adjustment and some information supports a downward adjustment, a realistic overall DBE goal is likely higher than ODOT's past participation but lower than the agency's base figure.

Therefore, ODOT took the average of its base figure (20.2%) and median DBE participation in its FHWA-funded work for FFYs 2018 through 2021 (11.3%), resulting in 15.7 percent.⁴ ODOT believes an overall DBE goal of 15.7 percent accounts for the effect upcoming contract opportunities will have on the availability of POC- and woman-owned businesses for its work and accounts for information about marketplace conditions. ODOT also believes an overall DBE goal of 15.7 percent, which is substantially higher than its median past DBE participation, reflects the agency's commitment to achieving higher DBE participation than it has in the recent past.

3. New goal. ODOT proposes a **new overall DBE goal of 15.7 percent** for FFYs 2023, 2024, and 2025.

B. Race- and Gender-Neutral and Race- and Gender-Conscious Split

Race- and gender-neutral program measures are designed to encourage the participation of all businesses—or all small businesses—in an agency's work. In contrast, *race- and gender-conscious* measures are designed to encourage the participation of POC- and woman-owned

⁴ Section III (A)(5)(a) in USDOT's "Tips for Goal-Setting in the Federal Disadvantaged Enterprise (DBE) Program." <u>https://www.transportation.gov/osdbu/disadvantaged-business-enterprise/tips-goal-setting-disadvantaged-business-enterprise</u>

businesses specifically in an agency's work (e.g., using DBE participation goals to award individual contracts). If an agency cannot meet its goal solely through using race- and gender-neutral measures, then it must consider also using race- and gender-conscious measures.

In accordance with federal regulations and USDOT guidance, ODOT will attempt to meet the maximum feasible portion of its proposed 15.7 percent overall DBE goal using race- and genderneutral measures. ODOT's Uniform Reports of DBE Awards of Commitments and Payments from 2018 through 2021 indicate that the agency attained 4.2 percent DBE participation using raceand gender-neutral measures alone. ODOT will encourage its departments to use Small Business Enterprise (SBE) contract goals when they award contracts and procurements in FFYs 2023, 2024, and 2025 and will also encourage prime contractors to partner with DBEs to meet SBE goals. The agency projects that those efforts will help maintain the level of DBE participation it attributed to the use of race- and gender-neutral measures in in the recent past—4.2 percent. ODOT will meet the remainder of its overall DBE goal—11.5 percent—using race- and gender-conscious measures, specifically using DBE contract goals to award various FHWA-funded contracts and procurements, as appropriate.

C. Public Participation

Public participation is a key component of ODOT's process for establishing a new overall DBE goal. The agency will make a draft of this document available to its stakeholders on its website. The agency will also present its new goal at a public webinar on June 9, 2022 and answer questions and collect any feedback from attendees. ODOT will present that feedback as part of its final goal submission to FHWA.

D. Summary

ODOT proposes a new overall DBE goal for FFYs 2023, 2024, and 2025 of 15.7 percent. Based on information about FHWA-funded projects the agency awarded in FFYs 2019, 2020, and 2021 and results from the 2016 Disparity Study, the agency determined that the base figure for its new overall DBE goal is 20.2 percent. ODOT decided to adjust the base figure to 15.7 percent to account for the current capacity of DBEs to perform work on its FHWA-funded work, the effect upcoming contract opportunities will have on the availability of POC- and woman-owned businesses for its work, and for information about marketplace conditions. An overall DBE goal of 15.7 percent reflects the agency's commitment to achieving higher DBE participation than it has in the recent past. ODOT will attempt to meet its overall DBE goal through a combination of race- and gender- neutral and race- and gender-conscious program measures. The agency projects it will be able to meet 4.2 percent of its overall DBE goal using race- and gender-neutral measures and the remaining 11.5 percent using race- and gender-conscious measures.