



The Philadelphia Equity Alliance

2021 Analysis of Supplier Diversity in Philadelphia Public Procurement

Executive Summary

Philadelphia lags other major US cities on multiple measures of racial equity, poverty and minority business ownership; creating economic opportunity for minority businesses is one pathway toward the City's ultimate goal of increasing wealth for people of color in Philadelphia

While the responsibility for equity is shared across both the public and private sectors, Philadelphia's public and quasi-public agencies have sufficient scale and influence to impact equity outcomes through their MBE contracting:

- Today, \$0.4-0.8B of Philadelphia's annual \$6.6B public and quasi-public contracting goes to MBEs (6-13% of spend)
- Raising MBE participation to 25% across these agencies would raise MBE contracting to ~\$1.7B, creating minority wealth and quality employment for people of color
- The American Jobs Plan represents a potential tranche of funds that could generate an additional \$0.1-0.9B in MBE spend per year over 8 years, and is likely to be heavily skewed to an industry (construction) that is more accessible to MBEs

To overcome these challenges, the Philadelphia Alliance, City agencies, quasi-public agencies, community organizations and financial institutions will need to work together to create a more inclusive economy across 3 dimensions:

1. MBEs would need to receive the technical and business support necessary to establish a track record of performance and earn a predictable and rising income over time
2. Procuring agencies would need to be resourced and incentivized to develop MBEs continuously and sustainably, and need to reform the procurement processes, contracts, payments and other structural hurdles for MBE competition
3. The City would need to create accountability for agencies to advance their MBE programs and be transparent about progress

Bringing about this reform will require clear and sustained energy from leadership across the Mayor's Office and Commerce Dept.

Case for change

Current barriers and potential solutions

Philadelphia's major civic pain-points disproportionately affect people of color and are among the worst in the nation

23%

Philadelphia's poverty rate is higher than any other big city¹

Poverty rate of U.S. big cities, %, 2019



\$32.1k

The median household income of Black Philadelphians is 43% below the household income of White Philadelphians (Hispanic Philadelphians are 49% below White Philadelphians)²

31% & 38%

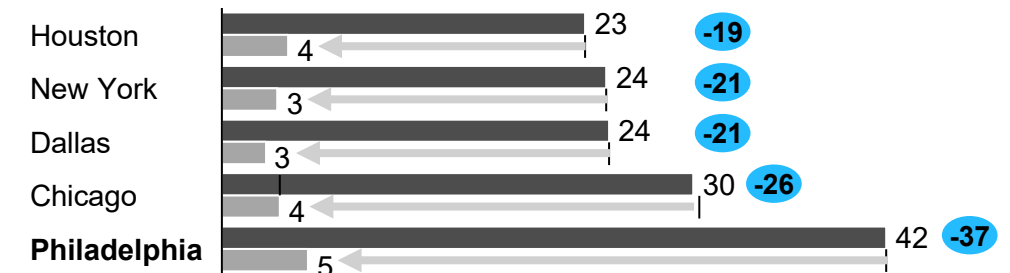
Poverty rates for Black and Hispanic Philadelphians respectively, compared to 15% for Non-Hispanic White Philadelphians³

-37pp.

Philadelphia has the largest disparity between Black businesses and Black population⁴

Big city Black population vs. Black businesses, percentage points 2018

■ Black people as a % of total population ■ Black-owned businesses as a % of total businesses



1. Big cities: Cities with population of 1M+, Economy League: ["The Changing Distribution of Poverty in Philadelphia"](#)

2. Mayor's Office ["Growing with Equity: Philadelphia's Vision for Inclusive Growth"](#) (2019)

3. Pew ["Philadelphia's Poor"](#) (2019)

4. Drexel University, Nowak Metro Finance Lab ["Small Business Equity Toolkit"](#)

Theory of change

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Addressing systemic challenges for minority suppliers can foster the success of minority owned businesses in Philadelphia, generating minority wealth and quality employment for Philadelphia's diverse population and leading to a more equitable, inclusive, and prosperous city overall



Supporting minority businesses creates minority wealth and quality employment for people of color

An increase in minority owned businesses and employment creates wealth among minority communities

- **Grows our overall economy:** Closing the Black–white and Hispanic–white racial wealth gaps would boost consumption and investment within the US economy by an additional \$2 trillion to \$3 trillion¹
- **Improves wealth creation:** The median net worth for Black business owners is 12x that of Black non-business owners²
- **Closes the wealth gap:** Overall, White adults have 13x the wealth that Black adults do... but that gap narrows to 3x among black and white business owners²
- **Additionally supports women:** Building black businesses also helps women as 36% of all Black-owned businesses were headed by women vs. 19% of the general population³

Minority owned businesses are more likely to provide jobs to diverse Philadelphians and help communities

- **More jobs to Black people:** Black employer firms are 34-55% more likely to hire Black people than white employer firms⁴
- **More money to Black communities:** Every \$100M spent with local businesses creates \$50M of additional spend in the city and supports 1,000 additional local jobs⁵

1. McKinsey Quarterly "America 2021: The Opportunity to Advance Racial Equity" (2021)

2. Association for Enterprise Opportunity "The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success" (2016)

3. US Census 2018 Annual Business Survey

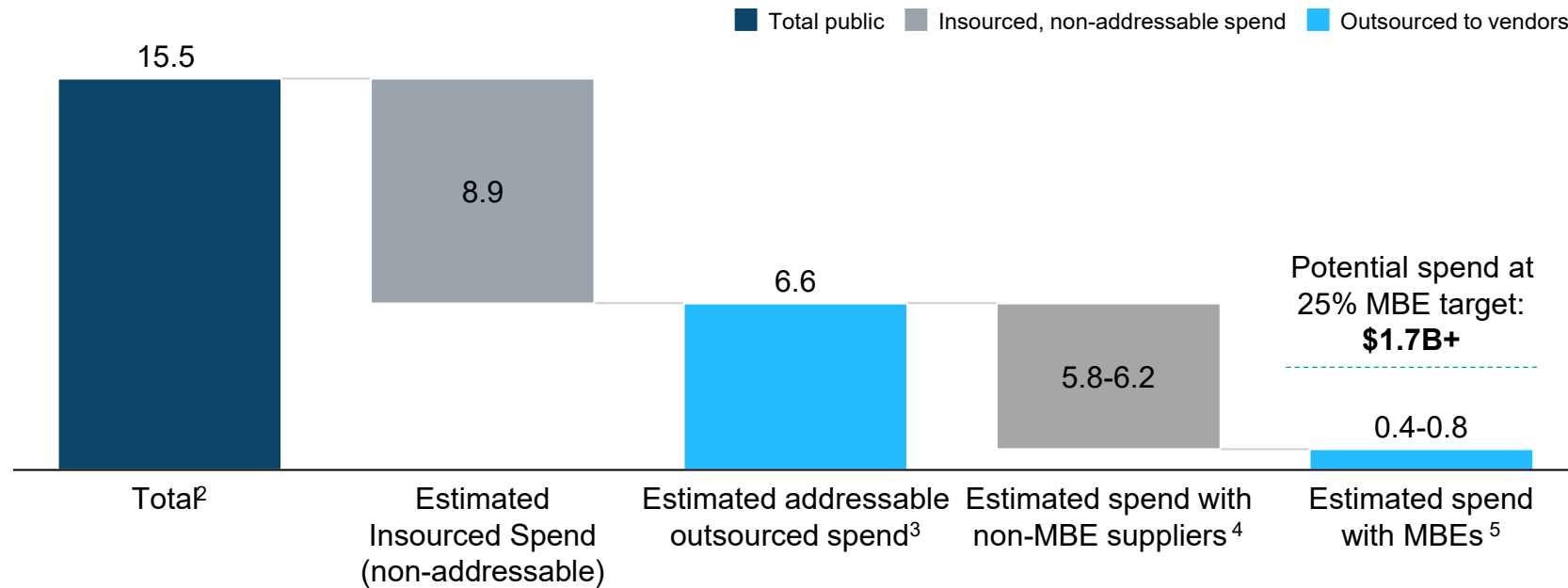
4. Institute for Research on Poverty "Why Are Black Employers More Likely than White Employers to Hire Blacks?" (2001), LA Times "Minority-Owned Firms Tend to Hire Within Own Ethnic Group" (1999)

5. Office of the Philadelphia City Controller "Survey Of The Current And Potential Impact Of Local Procurement By Philadelphia Anchor Institutions" (2014)

The public and quasi-public sectors in Philadelphia outsource \$6.6B per year, less than 15% of that gets to MBEs – below targets set by the city and its agencies

PRELIMINARY

Estimated Annual Philadelphia Public Sector Outsourced Spend Overview¹ \$B, 2020

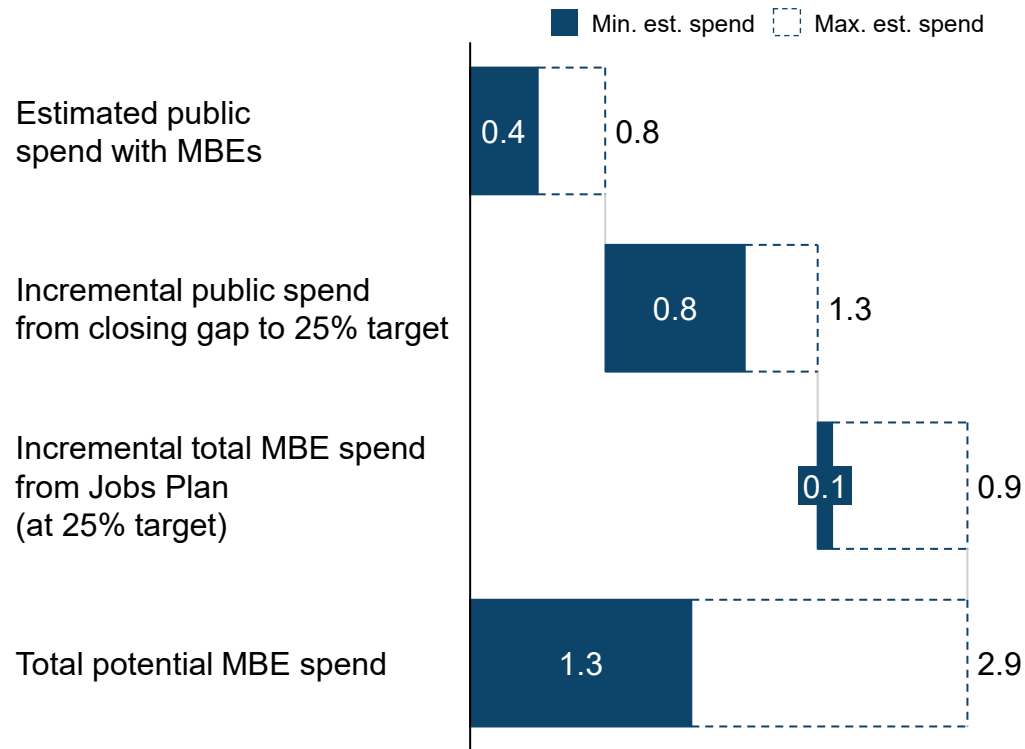


- Philadelphia’s public and quasi-public sector spends ~\$6.6B per year with third parties
- Currently ~**6-13%** of that spend (~\$0.4-0.8B) is with MBEs
- To achieve the City’s target of 25% MBE participation would require an incremental \$0.8-1.3B in spend to minority businesses by public agencies

1. Agencies vary both in their targets and methodologies for calculating MBE participation. Current spend estimate includes women owned and disadvantaged businesses because of reporting granularity variances across agencies (e.g., SEPTA only counts DBEs, School District combines M/WBES). As a result, MBE will be used hereafter to refer to the prevailing classification in the pages that follow.
2. See Appendix for agency-specific breakdown
3. Where possible, analysis used reported outsourcing spend. Where outsourcing data was unavailable, an assumption of 45% of total spend being outsourced was used given Philadelphia and comparable city and agency data.
4. Where possible, analysis used agency reporting. Where unavailable, MBE participation rate estimates of 11% were used
5. Reaching an MBE target spend of 25% would drive \$1.7B+ to MBEs

The existing gap of public spending on MBEs is likely to be exacerbated by upcoming Federal infrastructure funding opportunities

Illustrative potential annual Philadelphia contracted spend, \$B¹



Key takeaways

- The potential \$2.2T American Jobs Plan could generate **\$0.1B-\$0.9B of new contracted spend for MBEs in Philadelphia per year over eight years²**
- If MBE participation increased, across current and future spend, it could increase **annual public sector spend on MBEs by \$0.9B-2.2B and generate up to \$1.1B in additional spend in the City and support up to 22,000 additional local jobs³**
- Construction heavy stimulus categories, such as transportation infrastructure, offer the greatest opportunity within the Biden plan, **accounting for 60-70% of total spend and potentially translating into up to \$0.6B in incremental spend per year to MBEs**
- **Construction offers the right mix of lower educational barriers and higher potential sustained wages that make it potentially well suited for MBE participation⁴**
- Improvements to the public procurement process in construction could enable MBE participation in other industries

Additional analysis of Biden Plan and spend and construction industry characteristics in Appendix

1. Allocates proportional spend to Philadelphia based on share of CARES Act funding distributed to the region. Ranges show value between actual estimated allocation (~6% of total state CARES Act funding) and maximum allocation (~45% of total state CARES Act funding). Refer to appendix for methodology
2. Based on the assumption that 90% of new public spend would be outsourced. Currently, 45% of capital expenditures are outsourced on average across agencies. Given the speed at which funding is deployed, however, up to 90% could be outsourced to third parties
3. Further analysis is needed to determine how much incremental spend the current MBE supply could absorb if all pain points are address. Source: Office of the Philadelphia City Controller "Survey Of The Current And Potential Impact Of Local Procurement By Philadelphia Anchor Institutions" (2014)
4. Other sectors (i.e., professional services) with high livable wages have low minority representation and high educational barriers and therefore longer lead times. Other sectors with high minority representation and low educational barriers (i.e., food services, retail, hospitality) have lower livable wages and fewer pathways to business ownership. Construction still has meaningful barriers that need to be addressed

Case for change

Current barriers and potential solutions

To impact equity through more effective MBE contracting, the Alliance would need to support 3 comprehensive actions

Theme



MBEs would need to receive the technical and business support necessary to establish a track record of performance and earn a predictable and rising income over time



Procuring agencies would need to be resourced and incentivized to develop MBEs continuously and sustainably, and need to reform the procurement processes, contracts, payments and other structural hurdles for MBE competition

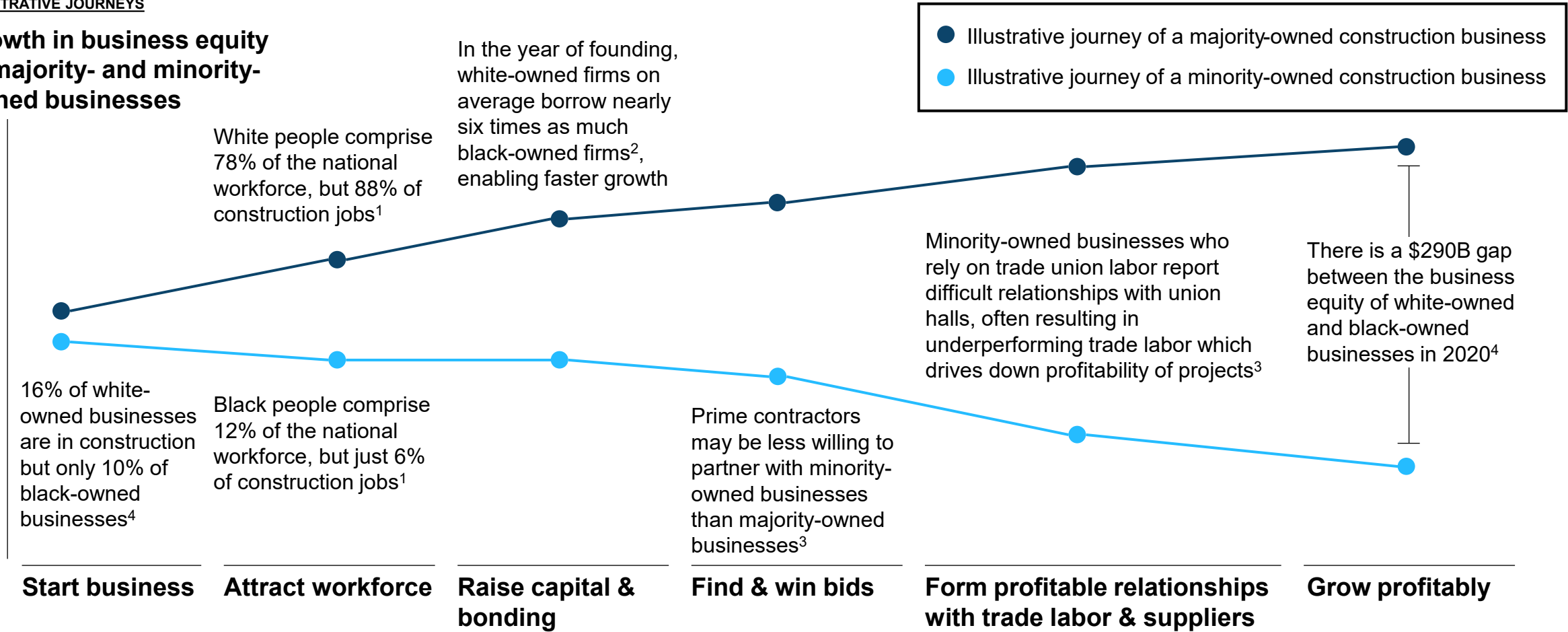


The City would need to create accountability for agencies to advance their MBE programs and be transparent about progress

Majority- and minority-owned businesses have different experiences that shape their ability to compete and thrive over time

ILLUSTRATIVE JOURNEYS

Growth in business equity of majority- and minority-owned businesses



1. Bureau of Labor Statistics, 2019
 2. "Black and White: Access to Capital among Minority-Owned Startups" - National Bureau of Economic Research, 2020
 3. Interviews
 4. "Building supportive ecosystems for Black-owned US businesses" - McKinsey, 2020

18 priority pain-points across both supply and demand have the most significant effects on successful MBE contracting

Supply journey pain point

Demand journey pain point

MBEs would need to receive the technical and business support necessary to establish a track record of performance and earn a predictable and rising income over time

- 1 Sufficient & appropriate financing to support business growth
- 2 On hand capital required for RFP execution
- 3 Risk to businesses of losing money due to lack of project management experience or ability to cover costs of changes
- 4 Sufficient financing to launch business
- 5 Low risk tolerance to write a competitive proposal
- 6 Low pricing competitiveness to write a competitive proposal
- 7 Lack of technical skills education and training
- 8 Inability to consistently staff skilled labor that supports profitable projects

Procuring agencies would need to be resourced and incentivized to develop MBEs continuously and sustainably, and need to reform the procurement processes, contracts, payments and other structural hurdles for MBE competition

- 9 Not enough staff to support a functioning MBE program
- 10 Agency inability to flex on financing requirements due to legal bonding requirements for RFP (i.e., Miller Acts)
- 11 Slow invoicing / AR / payment processes once RFP executed
- 12 Lack of opportunities for small businesses to bid, both as primes and as subcontractors
- 13 RFP legal language, technicality, and inconsistency across agencies
- 14 Ability to 'flex' diversity goal or requirement (i.e., Good Faith Effort)

The City would need to create accountability for agencies to advance their MBE programs and be transparent about progress

- 15 Legal / constitutional restrictions around setting diversity goals for public funding
- 16 No leadership champion, accountability, or transparency to set or meet diversity, MBE-specific goal
- 17 Historic distrust of government by business owners, which may hinder outreach and participation efforts
- 18 MBE certification without substantive minority leadership / shell company MBEs (i.e., eroding trust in minority communities and diverting dollars)

1. 18 priority pain points identified out of 60 total pain points. These priority pain points scored high in at least one area: prevalence or severity of pain point in acting as a barrier to MBE participation. Full set of pain points and prevalence/severity scores in Appendix.



MBEs would need to receive the technical and business support necessary to establish a track record of performance and earn a predictable and rising income over time

Supply journey pain point # Demand journey pain point

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Bonding capacity and ‘manpower’ capacity are limiting factors for MBEs to submit to major proposals. All of the talk over the years has not increased the number of MBEs in Philadelphia.

– Quasi-public procurement leader



We are out of the business of programs. We have been a culprit of the problem we have been trying to solve. We are teaching living construction and selecting small contractors to be the next generation.

– Non-profit leader

Solutions to ensure MBEs would need to receive the technical and business support necessary to establish a track record of performance and earn a predictable and rising income over time



Solution	Supporting actions	Responsible stakeholders
<p>Grow existing technical assistance programs</p> <ul style="list-style-type: none"> Expand technical assistance programs to build capacity around technical skills, including construction accounting, project management, bonding and insurance, and RFP writing and submission Curate and centralize knowledge into online database with financing resources, negotiation tactics, and redacted RFPs Grow targeted mentorship-protégé programs 	<ul style="list-style-type: none"> Existing technical assistance programs (i.e., those offered by the Enterprise Center, PIDC, PAGE, EMSDC, BBLC) have sufficient capacity and resources to meet the needs of both new and growing businesses Successful MBE and non-MBE firms are willing to mentor and support new and growing MBEs 	<ul style="list-style-type: none"> Financial institutions Community organizations
<p>Develop a more diverse workforce</p> <ul style="list-style-type: none"> Create Union outreach and partnership programs to improve diversity of membership, foster an inclusive environment, and support business formation and skill building with the School District and local colleges and universities Maintain open dialogue with Unions to have representative membership and ensure positive job placement Require diverse workforce participation on public funded projects Expand existing apprenticeship programs (i.e., Rebuild) and partnerships with companies for job training and placement 	<ul style="list-style-type: none"> Union leadership willing to increase membership diversity and inclusivity Union leadership and School District willing to develop and support apprenticeship pipeline program with high potential candidates Government agencies willing to create and enforce Union requirements around workforce diversity Rebuild apprenticeship program has sufficient resources and opportunities to grow to scale 	<ul style="list-style-type: none"> Local public and quasi-public agencies Unions
<p>Create new financing models and options</p> <ul style="list-style-type: none"> Build out early stage, growing, and mature financial resources and programs (i.e., flexible bank loans, CDFI programs, PIDC lines of credit, Aunts and Uncles Circle, bonding guarantee, and other tailored financial products) 	<ul style="list-style-type: none"> Financial institutions offer diverse set of financing options that are not predatory and support MBEs in building financial leverage CDFIs / financial institutions partner with public agencies to absorb a portion of financial risk associated with MBE participation 	<ul style="list-style-type: none"> Financial institutions Community organizations



Procuring agencies would need to be resourced and incentivized to develop MBEs continuously and sustainably, and need to reform the procurement processes, contracts, payments and other structural hurdles for MBE competition

Supply journey pain point # Demand journey pain point

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- 13 RFP legal language, technicality, and inconsistency across agencies
- 14 Ability to 'flex' diversity goal or requirements (i.e., Good Faith Effort)



The city has made it really tough for a MBE or WBE to get prime contracts. The current program is geared towards establishing goals for the prime contractor to win with subs. When MBEs work as sub-contractors, they may not get paid on time and go out of business on someone else's terms. Not their own.

– MBE owner



Disadvantaged businesses have gone to other agencies and been told "you don't have what we need, we won't work with you," whereas at our agency, we will take the time to work with them and help them through the process.

– Public agency leader

Solutions to ensure procuring agencies are resourced and incentivized to develop MBEs continuously and sustainably, and need to reform the procurement processes, contracts, payments and other structural hurdles for MBE competition (1/2)



Solution	Supporting actions	Responsible stakeholders
<p>Build out MBE program within and across procurement offices</p> <ul style="list-style-type: none"> • Hire dedicated staff to focus on MBE program full-time, with supporting activities to increase transparency and inclusivity <ul style="list-style-type: none"> – Outreach campaign – Provide RFP feedback – Open door policy to build community trust and engagement – Create procurement rulebook and publish bid outcomes • Set MBE participation as priority at the highest level (e.g., Head of agency) <ul style="list-style-type: none"> – Tie performance reviews to program performance – Require attendance at community events and diversity trainings • Include POC in procurement decision-making process (e.g., review boards) • Recognize procurement's limitations (e.g., staffing, mindset, and mandate) and ensure DEI offices are actively engaged in program 	<ul style="list-style-type: none"> • Procurement and DEI offices have sufficient resources to hire additional staff dedicated to MBE program • Agency leadership is supportive of development and growth of MBE program • Agency leadership willing to incentivize procurement teams for supporting MBE program 	<ul style="list-style-type: none"> • Local public and quasi-public agencies
<p>Improve payment timelines and options</p> <ul style="list-style-type: none"> • Expedite payments to MBEs (e.g., reform AP processes, leverage technology) • Partner with finance institutions to establish lines of credit to alleviate payment lead times required for public sector work 	<ul style="list-style-type: none"> • Procurement agencies have sufficient resources and staffing to implement expedited payment processes • Accounts payable and Finance departments are aware of MBE needs and timelines for payments • Financial institutions are able to support lines of credit 	<ul style="list-style-type: none"> • Local public and quasi-public agencies • Financial institutions

Solutions to ensure procuring agencies are resourced and incentivized to develop MBEs continuously and sustainably, and need to reform the procurement processes, contracts, payments and other structural hurdles for MBE competition (2/2)



Solution	Supporting actions	Responsible stakeholders
<p>Reform procurement processes</p> <ul style="list-style-type: none"> • Change or update procurement processes and/or requirements <ul style="list-style-type: none"> – Set MBE specific targets (within legal boundaries) – Remove or limit ‘Good Faith Efforts’ • Conduct workshop with procurement and legal to update RFP legal language with best MBE practices across the agencies • Offer MBE trainings on how to navigate RFP process for each agency • Improve ‘Good Faith Effort’ reporting requirements and oversight 	<ul style="list-style-type: none"> • Procurement agencies and legal departments willing to review and adjust current RFP language • Procurement agencies willing to invest time and resources in educating MBEs on how to successfully navigate RFPs • Procurement agencies have sufficient resources to oversee and limit Good Faith Effort 	<ul style="list-style-type: none"> • Local public and quasi-public agencies
<p>Reform RFP design and financing requirements</p> <ul style="list-style-type: none"> • Split large RFPs into small subsets of work, which proportionally lower financing requirements and allow small businesses to compete directly against each other • Create bonding guarantee program through agency or NGO • Introduce flexibility into type or amount of financing security required • Create and expand educational programs for MBEs on how project financing works and how to minimize risk 	<ul style="list-style-type: none"> • Procurement agencies willing to design smaller RFP opportunities and accept potential cost inefficiencies • Financial institutions and agencies able to offer financing tools/resources to split risk between owner and MBE (e.g., OCIP¹ programs) • Financial institutions and agencies willing to invest time and resources in educating MBEs on how to navigate financing 	<ul style="list-style-type: none"> • Financial institutions • Local public and quasi-public agencies

1. Owner controlled insurance programs (OCIP) protect the owner and coordinate liability coverage for all eligible parties working on a construction project



The City would need to create accountability for agencies to advance their MBE programs and be transparent about progress

Supply journey pain point # Demand journey pain point

Pain point

- 15 Legal / constitutional restrictions around setting diversity goals for public funding
- 16 No leadership champion, accountability, or transparency to set or meet diversity, MBE-specific goal
- 17 Historic distrust of government by business owners, which may hinder outreach and participation efforts
- 18 MBE certification without substantive minority leadership / shell company MBEs (i.e., eroding trust in minority communities and diverting dollars)



The message needs to come from the top – when it comes from the top, people listen. It requires a cultural change internally with the project management team and externally with contractors. It takes the Board, the CEO, the Small Business team to put the vision in writing and to operationalize it

– Public procurement leader



A successful diverse supplier program should have a clear definition of the opportunity, provide early notice and send opportunity through the networks, and have internal accountability.

– Non-profit leader

Solutions to ensure the City creates accountability for agencies to advance their MBE programs and be transparent about progress



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Solution	Supporting actions	Responsible stakeholders
<p>Generate and maintain data to inform MBE goal setting</p> <ul style="list-style-type: none"> Encourage procurement agencies to work with legal departments to identify potential legal risk and design supplier diversity programs that engage MBEs <ul style="list-style-type: none"> Partner with other agencies for guidance on best practices Collect and leverage data on MBE supply and participation in market place to inform and update agency diversity goals 	<ul style="list-style-type: none"> Procurement and legal departments that are willing to address potential legal challenges through supplier diversity program design Agencies provide sufficient and transparent semi-annual data on historic and current participation to support diversity goals 	<ul style="list-style-type: none"> Local public and quasi-public agencies
<p>Enhance MBE program target reporting</p> <ul style="list-style-type: none"> Demand clear reporting on MBE participation, including which RFPs are eligible for MBE participation and in which cases Good Faith Effort or “sole source” exceptions applied Set a standard for MBE participation target reporting based on external case studies / leading thinking 	<ul style="list-style-type: none"> Agency leader willing to hold procurement offices accountable to data reporting and outcomes Agency’s internal culture is supportive of MBE program and sees it in a more holistic way than ‘checking a box’ 	<ul style="list-style-type: none"> Local public and quasi-public agencies
<p>Improve certification processes and oversight</p> <ul style="list-style-type: none"> Conduct annual external review / audit of certified entities Build MBE registration/certification process into business formation and annual tax return processes Create unified MBE certification standard across entities with penalties for entities that are certifying bad businesses 	<ul style="list-style-type: none"> Certification entities are mandated and resourced to provide comprehensive information on certified entities as part of audit Procurement and certification entities have ability to de-certify MBEs if needed Community organizations willing to influence policies and procedures, and generate transparency through agency data 	<ul style="list-style-type: none"> Community organizations

Chicago and LA public procurement agencies have successfully implemented many of these solutions across multiple dimensions

	Chicago	Los Angeles
Make MBEs a top level priority	<ul style="list-style-type: none"> • Mayor Lightfoot and Chief Procurement Officer regularly discuss and highlight initiatives, and provide updates • Regular highlighting of MBE success stories to city-wide audience 	<ul style="list-style-type: none"> • Responded to public demand and created Racial Equity office • Elevated Racial Equity Office and embedded into multiple agencies
Improve # of registered MBEs	<ul style="list-style-type: none"> • Staffed community outreach campaign • Agency leader developed procurement 'open door' policy • Increased Diversity and Procurement headcount 	<ul style="list-style-type: none"> • Outreach campaign to all MBEs, certified and not, to improve registration • Metro Connect marketing campaign around supplier diversity program • Streamlined DBE and SBE certification processes
Build MBE capabilities	<ul style="list-style-type: none"> • Hosted educational workshops and classes • Built partnerships with community entities to build bonding and technical skills 	<ul style="list-style-type: none"> • Mentor-protégé program codified in bids over \$25M • Joint venture program of small and under-utilized businesses • Education outreach program to help SBEs win set asides
Grow existing MBEs	<ul style="list-style-type: none"> • Agency leader worked with legal to created tiny, small, and medium sized business set asides to create path for growth 	<ul style="list-style-type: none"> • Bonding guarantee and technical assistance programs • Created small and medium business set asides in RFPs, where small businesses serve as primes and tradition primes sub to them
Improve MBE participation	<ul style="list-style-type: none"> • 18 month buying plan so businesses can prepare • Agency leader hired external audit of MBEs and de-certified 100 that did not qualify • Set micro targets based on supplier availability (e.g., fencing: 40%, paving: 45%) 	<ul style="list-style-type: none"> • Increased stretch goals from 18% to 27% and set contract specific goals around that
Improve RFP process	<ul style="list-style-type: none"> • Standardized procurement practices across agencies • Created procurement rulebook and published bid outcomes 	<ul style="list-style-type: none"> • Agency leader rewarded procurement / agency leadership that generated culture change • Leadership tied internal evaluation to performance and required senior staff to attend functions around small and minority businesses
Improve bid/ selection process	<ul style="list-style-type: none"> • Created new bid incentives to award points for utilization of diverse sub-contractors 	<ul style="list-style-type: none"> • Agency leader removed 'Good Faith Efforts' • Set goal as 'requirement' that contractors must meet or fail to be eligible for the award

The Philadelphia Alliance can drive immediate change by engaging the stakeholders needed to create a more inclusive economy

Motivate and share research to create a champion of MBEs in city leadership and re-build trust

Engage a city leader on a recurring basis to make MBE participation a key strategic theme while ensuring their office/team hosts ~monthly listening sessions and provides regular ~biweekly progress updates

Align with city on resources and goals needed to achieve vision and develop oversight

Tighten the relationship with community development/certification orgs while reducing their pain points

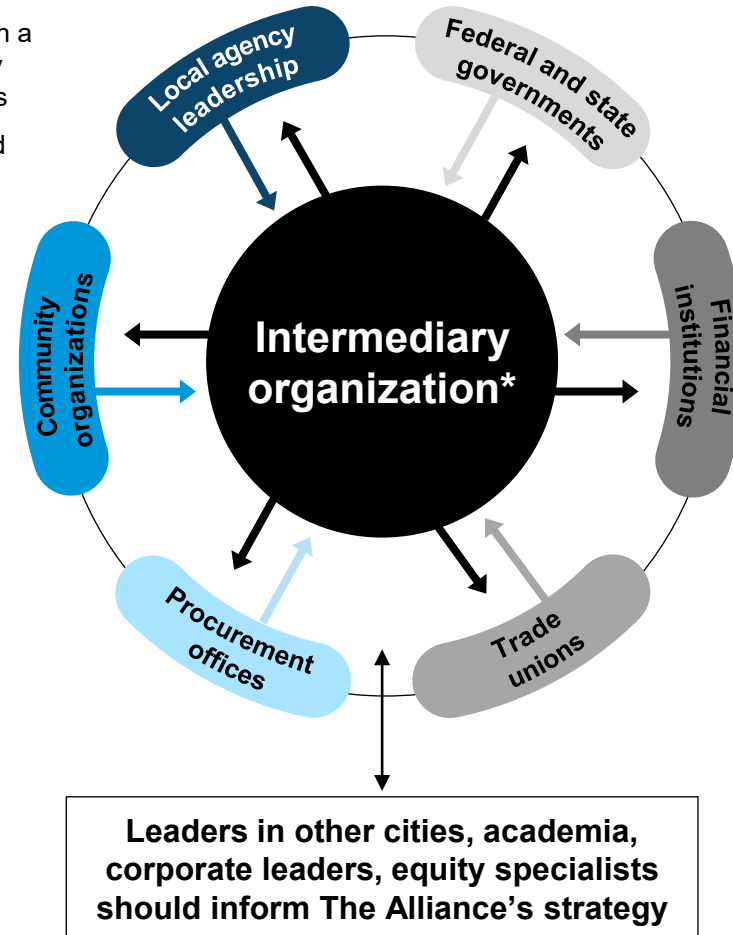
Serve as connector for community orgs, connecting them to city leadership and procurement agencies

Serving as additional voice of support

Investing in Comm. Org ecosystem

Build capabilities and bring agencies together to streamline procurement processes and share learnings

Get procurement leads to share best practices, collaborate on RFP criteria improvement, build creative solutions



Advocate for increased opportunities for Philadelphia

Share reporting and progress to improve pipeline of funds being used to develop minority wealth

Share pain points and co-develop financial solutions with business and equity leadership

Improve financing opportunities to address MBE needs

Develop working capital initiatives to alleviate short-term financing needs

Highlight the value of diversity to union leadership

Work with unions to help union leaders understand pain points, potential new policy, and how union support of MBEs can create a more diverse and larger union membership and grow the overall number of opportunities in the region

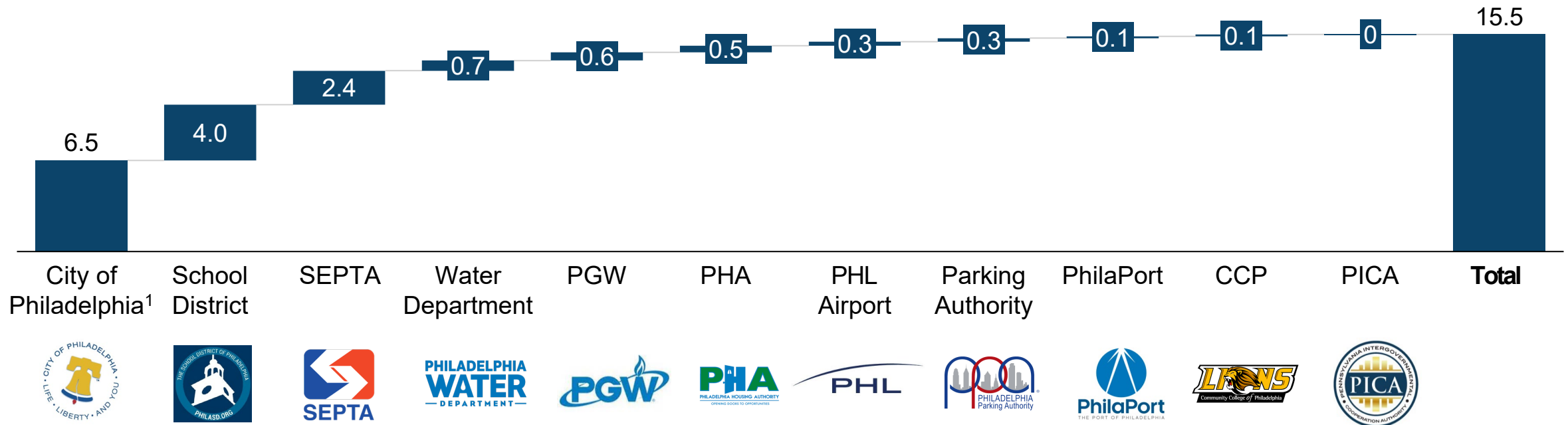
*The Philadelphia Alliance will drive action towards establishing an intermediary organization over the next 90-120 days

Appendix

The full spectrum of public and quasi-public spend in Philadelphia totals to \$15.5B annually

HIGHLY PRELIMINARY

Philadelphia Public Sector Annual Spend Landscape (Operating + Capital Expenses) \$B, 2020



To calculate total outsourced spend potentially available to MBEs in Philadelphia, we have consolidated capital and operations expenditures across public and quasi-public entities in Philadelphia

1. Excludes Aviation (PHL Airport) and Water which are listed separately given individual procurement processes

MBEs would need to receive the technical and business support necessary to establish a track record of performance and earn a predictable and rising income over time

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“ ” **Network and risk are the two primary barriers facing new and existing MBEs.** Without a network, MBEs are less likely to be included in large projects, and prime contractors need to take on the risk of working with a new MBE.
- Quasi-public procurement leader

Bonding capacity and ‘manpower’ capacity are limiting factors for MBEs to submit to major proposals. All of the talk over the years has not increased the number of MBEs in Philadelphia.
- Quasi-public procurement leader

Access to capital is a major barrier, but not the only barrier. Business training is another – **you could get the loan, but not know how to manage that loan .**
- Quasi-public procurement leader

“ ” Many MBE businesses aren’t in great shape and need to be fixed – poorly design capital programs that give them money doesn’t fix that. You need to tie funding into business development. **You have to spend an equal amount of money helping MBEs mature**
- Community leader

At the beginning, you are at the mercy of banks. I work with a bank that I’ve known since I started my business, I also built relationships with insurance vendors. **MBEs do not realize they need a relationship with the bank** before they can ask for a major line of credit.
- MBE owner

Many MBEs come from low wealth and do not have the capital to bid on the large proposals. **They are living on false hopes – even if they get the contract they do not have the capital reserve** to execute and they can’t go to the banks because of their debt/equity ratio.
- Non-profit leader

“ ” We are out of the business of programs. We have been a culprit of the problem we have been trying to solve. **We are teaching living construction and selecting small contractors to be the next generation.**
- Non-profit leader

Our MBEs know their professions -- sometimes they are lacking when it comes to knowing the business side. They often don’t have the resources to build the financial acumen necessary.
- Public agency leader

The biggest struggle MBEs face is making payroll. If you miss a payment, you won’t get the supplies you need and the Unions won’t work with you. MBEs get the worst people on the bench, **they often don’t know how to estimate, and they can’t make money because they can’t estimate.**
- WBE owner

“ ” **Bonding is equity driven.** You need to have a certain balance sheet, relationships, and track record to command bonding. You need to build trust with the bonding surety agents. Like credit – **you have to have some to get some, and it can be subjective.**
- MBE owner

Black and brown businesses are underfunded – particularly those owned by women of color. They need capital, but not predatory capital. If you don’t have a home you can draw equity from or your credit is less than stellar, bonding is almost non-existent for you. **Surety and access to capital have really depressed the capacity of Philadelphia’s marketplace.**
- Non-profit leader

Young companies don’t understand how money works in construction – you have to do big volume and margins are thin. You need to save margins for rainy day and to build equity and grow it.
- WBE owner

Procuring agencies would need to be resourced and incentivized to develop MBEs continuously and sustainably, and need to reform the procurement processes, contracts, payments and other structural hurdles for MBE competition (1/2)

DRAFT



“ ” If a private sector client says diversity is part of the criteria for success, it happens. **The government needs to say these dollars cannot be spent on any company that has not been certified.** But this doesn't haven't happen at the state level or city level.
– MBE owner

Disadvantaged businesses have gone to other agencies and been told “you don't have what we need, we won't work with you,” whereas at our agency, **we will take the time to work with them and help them through the process.**
– Public agency leader

I worked with a MBE that had only ever done public sector work. I set up mock interviews for the owner and her team, and they went on to be successful in the private sector. **The government struggles with that level of involvement and support.**
– Quasi-public procurement leader

“ ” **The city has made it really tough for a MBE and WBE to get prime contracts.** The current program is geared towards establishing goals for the prime contractor to win with sub contractors. When MBEs work as sub-contractors, they may not get paid on time and go out of business on someone else's terms. Not their own.
– MBE owner

Until the city changes and supports MBEs as primes, the program will be a hamster wheel. **In the 30 years of my career, I haven't seen any major change. Some businesses get certified and do well, but they don't build equity and they leave.**
– MBE owner

The goals are a joke. **Let's shift the mindset to growth.** There have been primes that were pulled out of the dust by partnering with outside firms. If the Philadelphia general contractors don't want to support MBEs, then let's allow outside companies to partner with MBEs.
– MBE owner

“ ” Mentor-protégé programs are essential – **we have them codified into our program and contracts so that primes are required to implement these programs.** Primes must outline their plan to mentor a business and will be awarded extra points for their outreach and mentoring.
– Public procurement leader

Public sector procurers tend to favor Guaranteed Maximum Price bids, which place all risk on the contractor. **Most MBEs do not have sufficient bonding capacity to manage this risk, because they are not regularly engaged in large projects.**
– Quasi-public procurement leader

Larger firms can afford to bid on project and lose money, whereas smaller contractors get trapped on whether they should lose money and bid on projects. One opportunity is to **scale projects where smaller contractors can bid without being under-cut by larger companies.**
– Procurement leader

“ ” **There needs to be intentionality around creating guidance on an evaluation for Good Faith Efforts.** Efforts are engagement, creating a mentor-protégé program, and having a diversity and inclusion in your organization that reflects your practices.
– MBE owner

In New York, the Controller put in place a report card for every agency. And then the governor started doing it for every agency in the state. Every agency has a team diversity officer to oversee and participate in procurement. And the goals apply to every aspect of the project. And the Port Authority will charge liquidated damages if the goal is not met.
– MBE owner

A successful diverse supplier program should have a **clear definition of the opportunity, provide early notice and send opportunity through the networks, and have internal accountability.**
– Non-profit leader

Procuring agencies would need to be resourced and incentivized to develop MBEs continuously and sustainably, and need to reform the procurement processes, contracts, payments and other structural hurdles for MBE competition (2/2)

DRAFT



“” When we were first starting out, we were partnered with a former employee on a major project – and that was a major factor in our growth and ability to complete larger projects. **Being diverse and being capable is great, but this is a “who you know” world.**

– MBE owner

There is a structural issue for CDFIs to expand lines of credit in their tool kit. **Those that successfully created lines of credit run into liquidity issues, so it can never be scaled or sustained.** But the demand for credit is ever present.

– CDFI leader

We haven't been at the table – **we need to be at the table and we need white people to take ownership and reverse decisions.** You will not impact the growth of Philadelphia until you address poverty with the Black and brown community.

– Quasi-public procurement leader

“” **Good Faith Effort should be abolished completely – it's a way out.** I receive invites all the time, but no one calls and they hope I am not bidding. Other times they call without advanced notice, but it still 'checks the box.' The agencies and owners should follow up and find out why I am not bidding. But there's no oversight.

– MBE owner

Good Faith Effort is the worst thing in the world. It creates animosity towards diverse firms. As a minority owned prime, we can't count ourselves as a minority and still have to find minority sub-contractors. It's very disingenuous and a waste of everyone's time.

– MBE owner

When you're a subcontractor, you have the terms and conditions of the prime. Your payment terms get pushed back. As a subprime, we were averaging 120 net days for payments. Change orders were never paid. Most MBEs do not have a strong enough legal department to deal with these issues.

– MBE owner

“” **Philadelphia being a Union town has been a big barrier to entry and growth of commercial facing black and brown contractors in the city.** The Unions are not friendly with equity and inclusion, but this is not a one off problem. This is a systemic issue inside of the city that have multiplier tiers that need to be addressed to solve them.

– Non-profit leader

The most recent unfortunate events have brought to life what was being discussed but not addressed. In my 30 year experience, **I never anticipated or witnessed the level of engagement and action to actually engage and create opportunities for folks who have been systemically disadvantaged.**

– MBE owner

Agencies need to provide better support in lieu of slow payments since we do not have full control over that system, and there will always be checks and balances that smaller vendors don't have the capacity to meet. **If we could find a way to pay in net 20, it would do more for our MWBE efforts than 100 meets and greets. If we had the systems to pay on time, it would be huge.**

– Public sector leader

“” Philadelphia is a very racist city. **There are statistics to prove that there are systemic issues that have created a climate that is not welcoming to the growth of minority businesses.** And it's across the board – but you really feel it in the construction industry. Philadelphia is a Union town, and minorities are not in those Unions.

– Quasi-public procurement leader

Racism has been and still is rampant in the trades. Some are more progressive, but it's a rough game and they are rough people. We want this entire industry's mindset to change.

– WBE owner

I can do work in the Florida Panhandle and not have a single racist incident, compared to Philadelphia. Here, there's always a conversation around whether MBEs have the technical capability to complete the work. **They do have the capability and they have to endure these questions on a regular basis.**

– MBE owner

The City would need to create accountability for agencies to advance their MBE programs and be transparent about progress

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“” **When we established the 20% requirement with our Board, all of the contractors were aware of the requirements** and that they would be disqualified and eliminated from the program if they did not comply, even if they are the lowest bidder and even if it costs more

– Quasi-public procurement leader

The message needs to come from the top – when it comes from the top, people listen. It requires a cultural change internally with the project management team and externally with contractors. It takes the Board, the CEO, the Small Business team to **put the vision in writing and to operationalize it**

– Public procurement leader

You have to establish an internal culture and structure the right incentives so that your team is rewarded for increasing MBE participation and looking for opportunities.

– Community leader

“” Based on my experience, it's relatively rare that the companies aren't out there. One airport had a 5% goal for many years, and we increased that goal to 20% after a disparity study. **We didn't think we would make it. It required a lot of outreach and work, but we found them and met our goal.**

– Quasi-public procurement leader

There have been initiatives to bring local agencies within the City together to support MBEs and connect them to opportunities - these initiatives always fizzle out. **It would be beneficial to firms and agencies to have a more formal and interconnected system of referrals.**

– Public agency leader

“” The City of Philly and SEPTA do a pretty good job, but they need to do oversight and follow up. There needs to be better documentation. **These agencies have to practice what they are preaching.** They have a process, but there's no oversight.

– Public agency leader

The first thing I did in my agency is hire a third party to audit every MBE and WBE certification – and we de-certified over 100 companies. **Now the firms know that 'I don't play' and I will hold them accountable.** And the MBEs and WBEs are singing 'hallelujah' because they could not compete against the front companies.

– Public agency leader