

# **Promoting Diverse Work:**

## **The benefits of using minority contractors on two county GOB projects**

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## **Executive Summary**

The Orange Bowl renovation and Jackson South Community Hospital renovation and expansion projects are large, visible, and economically important projects that will make needed improvements to important community assets. But it is imperative that all sections of our community receive the benefits of these projects and have an equal opportunity to participate. That the nature of the construction industry tends towards exclusionary networks and unequal hiring practices is all the more incentive for local governments to make sure that minority businesses are getting their fair share. By using minority contractors on the Orange Bowl renovation and Jackson South expansion projects, Miami-Dade County and the City of Miami show a commitment to a diverse workforce and to helping needy communities to develop and prosper.

There are several good reasons for encouraging the awarding of contracts from the Orange Bowl renovation and Jackson South expansion projects to minority contractors and sub-contractors:

- Minorities have traditionally faced discrimination in the construction industry, and therefore have had difficulty establishing a strong foothold in the industry. But the construction industry is an important source of good jobs in the local economy, and therefore the underrepresentation of African Americans in the industry is an injustice. It is the county's duty to ensure that taxpayer dollars are not used in a way that directly or indirectly causes discrimination.
- Minority firms also face obstacles due to the fact that many are small businesses. Issues with securing bonding and financing, and receiving timely payment for work completed are problems that are a special burden to small firms. The county currently has several programs that address these problems but needs to continue to work to find creative solutions.
- Minority-owned firms tend to hire a higher percentage of minority employees and employees from disadvantaged areas than do non-minority owned firms. Thus using minority contractors provides an important source of employment and workforce training for minority and disadvantaged communities.

Hiring minority contractors shows the local government's commitment to economic development and workforce development by promoting the creation of decent jobs in minority neighborhoods. These jobs circulate tax dollars through local neighborhoods and provide a sense of pride in being a part of public improvements. Encouraging the participation of small minority contractors on county projects will provide needed opportunities for growth of the minority business sector and increase their contribution to their communities.

## **Promoting diverse work: The benefits of using minority contractors on two county GOB projects**

Miami-Dade County has proposed to spend \$102 million of General Obligation Bond money on the renovation of the Orange Bowl and the renovation and expansion of Jackson South Community Hospital. Both of these projects will have a high profile in the community because of the importance of these two assets and the hundreds of jobs these projects will provide. But it is important to ask *who* will get the jobs created by these large public works projects, and whether the benefits of these public works projects will go to the *communities who need them the most*.

How many jobs will be created? The total cost for the Orange Bowl renovation is \$150 million, out of which \$44.7 million is estimated to be labor costs. This works out to 1,208 full-time equivalent jobs. For the Jackson South expansion, the total project cost is \$100 million, of which \$29.8 million is estimated to be labor costs. This means 805 full-time equivalent jobs will be created, which together with the Orange Bowl jobs, equals over 2,000 jobs for these two projects. It is important that these projects employ a diverse workforce, with representatives from all local communities, and in particular it is important that disadvantaged communities benefit from these projects. This serves an important public purpose, and indeed public works projects are often used to provide employment and a boost to the local economy. The creation of good jobs supports the growth of healthy communities, which is vitally in the public interest.

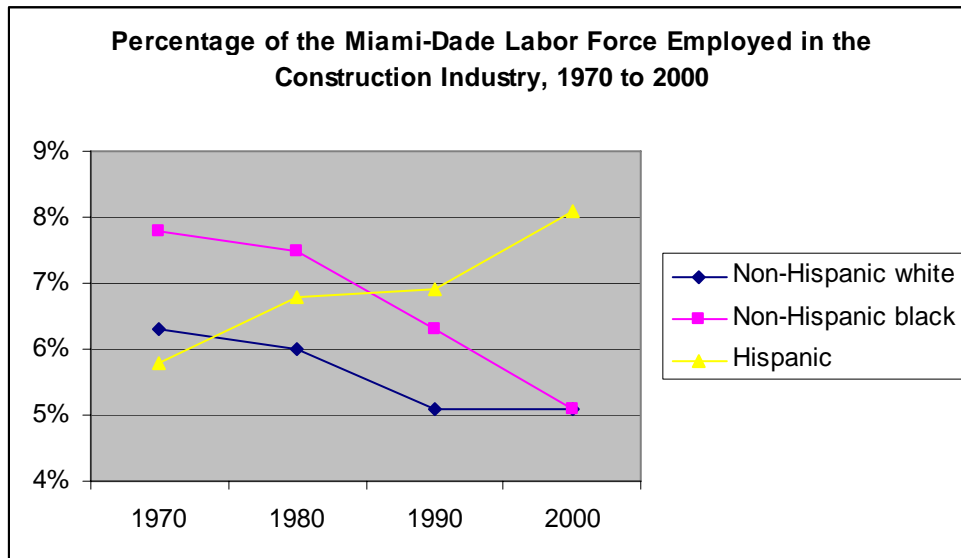
### *Why award construction contracts to minority contractors?*

There are several good reasons for encouraging the awarding of contracts from the Orange Bowl renovation and Jackson South expansion projects to minority contractors and sub-contractors. First of all, minorities have traditionally faced discrimination in the construction industry, and therefore have had difficulty establishing a strong foothold in the industry. But it is the county's duty to ensure that taxpayer dollars are not used in a way that directly or indirectly causes discrimination. Secondly, minority firms often face additional obstacles due to the fact that most are small businesses. Encouraging the participation of small minority contractors on county projects will provide needed opportunities for growth of the minority business sector and increase their contribution to their communities. Thirdly, minority-owned firms tend to hire a higher percentage of minority employees and employees from disadvantaged areas than do non-minority owned firms. Thus using minority contractors provides an important source of employment and workforce training for minority and disadvantaged communities.

## Remedying discrimination in the construction industry

The Orange Bowl renovation and Jackson South expansion projects are large, visible public improvements and it is imperative that all sectors of the community feel they are receiving a share of the benefits. In particular, these projects represent important opportunities for employment for local residents. The unemployment rate in Miami-Dade is higher than statewide or nationally, and for disadvantaged communities is even higher. The overall unemployment rate in Miami-Dade was 9 percent in 2004, and for African Americans, South Florida's most disadvantaged community, the rate was 14.5 percent.<sup>1</sup> Often, high unemployment in minority communities has been blamed on lack of education or skills. However, most construction industry jobs do not require a high degree of education, and skills can be gained through apprenticeship programs. With the shift in the economy towards technology based jobs over the past several decades and the decreasing number of low-skill jobs available, one would expect to see the percentage of disadvantaged community members in the construction industry increase. Construction has not always been an industry where diversity was welcomed, however. Since 1970 the percentage of African Americans employed in the construction industry in Miami-Dade has actually decreased. In 1970 7.8 percent of African Americans in Miami-Dade were employed in construction, but in 2000 only 5.1 percent were.

**Figure 1**



Source: U.S. Decennial Census (IPUMS-USA)

Likewise, the percentage of construction industry employees who are African American has also decreased slightly, especially since 1990, after climbing in the 1970s and 1980s. African Americans, who made up 18.2 percent of the population 16 to 64 years old in Miami-Dade County in 2000, remain underrepresented in the construction industry.

<sup>1</sup> U.S. Bureau of the Census. 2004. American Community Survey.

**Table 1**

<b>Miami-Dade Construction Industry Employment by Race and Ethnicity, 1970 to 2000</b>				
	<b>1970</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>
Non-Hispanic white	55.0%	40.9%	24.4%	15.7%
<b>Non-Hispanic black</b>	<b>13.7%</b>	<b>18.5%</b>	<b>17.6%</b>	<b>13.0%</b>
Hispanic	31.4%	40.2%	57.5%	69.3%
Total	100%	100%	100%	98%*

Source: U.S. Decennial Census (IPUMS-USA)

\* 2000 total does not sum to 100 percent because of the increased presence of other minority groups such as Asian and multi-racial.

In the construction industry, sub-contracts and job opportunities are found through personal contacts and social networks, which tends to exclude outsiders, especially minorities. General contractors prefer to hire sub-contractors that they know or worked with before, and it is difficult to break into this circle. This informal structure, combined with the reality of racism such as the “feeling that blacks do not belong in the industry” (Feagin and Imani 1994) makes advancement by blacks in the construction industry difficult. A 1994 study of black contractors noted that blacks face discrimination in many areas of the business: difficulty in getting work from white general contractors, receiving project notices too late to prepare a bid, racism on the job-site, exclusion from unions and training programs, and denial of bonding, loans, or credit from suppliers (Feagin and Imani 1994).

This problem is certainly not unique to Miami-Dade County. The decreasing employment status of blacks in construction was the subject of a study that found that despite a 1980’s boom in the construction industry in New York City the employment status of blacks in the construction industry in New York City decreased (Bates and Howell 1998). Although many blacks attempted to pursue self-employment by starting their own small construction companies, black owned construction businesses in New York City during the 1980’s had higher failure rates than white-owned businesses, despite the fact that black owners had higher education levels and more financial capital than white owners. In New York City in the 1980’s, education level could not explain the difficulties blacks experienced in the construction industry, and instead the authors attribute the problem to “old-boy networks, where work is parceled out to in-group members--few of whom are minorities” (Bates and Howell 1998).

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Clearly there is a need to explore diversity issues in construction and ways that the county can address them so that the benefits of projects such as the Orange Bowl renovation and Jackson South expansion are both fairly distributed and go to the communities that need them the most. During the 1980’s and 90’s, the county had affirmative action programs which set aside certain contracts for bidding among minority firms or enforced participation goals for minority subcontracting firms. The first program

was enacted by a 1981 resolution that declared that “the favorable economic status and future growth prospects of Dade County are integrally linked to the economic and social conditions of the County’s Black communities, residents and businesses.”<sup>2</sup> However the program was beset with problems of fraud, and it angered local white contractors, who repeatedly challenged the various set aside programs throughout the 1980s and 90s. Eventually in 1996 all set asides were halted by a federal judge who ruled them unconstitutional on the basis that “the evidence does not constitute an adequate showing of discrimination.”<sup>3</sup>

The county continued to look for ways to support minority contractors and in 1997 created the race and gender neutral Community Small Business Enterprise program. CSBE firms are small, local construction firms with not more than \$5 million annually in receipts for general building contractors and \$2.5 million for specialty trade contractors.<sup>4</sup> The county established the objective that “not less than 10 percent of the County's total annual expenditures for construction are expended with CSBEs”<sup>5</sup> and also allowed projects of less than \$3 million to be set aside for CSBE firms. In addition, in 1998 the commission required that all firms with annual gross revenues in excess of \$5,000,000 must have an affirmative action plan on file with the County prior to any contract award, as well as a “written procurement policy which sets forth the procedures utilized to assure it does not discriminate against minority and women-owned businesses in its own procurement of goods, supplies & services.”<sup>6</sup>

Despite the efforts of the CSBE program however, the number of black construction firms has decreased since the end of the set-aside program in 1996. By 1997, just after the program was declared unconstitutional, black owned firms accounted for 3.6 percent of all firms. However 5 years later, in 2002, the number of black-owned construction firms in Miami-Dade County had actually decreased, while the total number of firms continued to increase.

**Table 5**

<b>Miami-Dade Construction Firms with Paid Employees</b>				
	1982	1992	1997	2002
All firms	3544	3911	3,684	3,840
Black owned firms	30	76	<b>131</b>	<b>125</b>
Hispanic owned firms	230	950	2,228	3,468

Source: U.S. Economic Census and Survey of Minority Owned Business Enterprise

<sup>2</sup> Metropolitan Dade County, Florida. 1981. Resolution R-1672-81.

<sup>3</sup> Pugh, Tony, and David Lyons. 1996. Minority contractors suffer blow judge: Breaks offered by Dade illegal. *Miami Herald*, September 20, 1A.

<sup>4</sup> CSBE firms must: 1) Be located and performing a commercially useful function in Miami-Dade County; 2) Not exceed 3 year average gross receipts of \$5 million for general building (NAICS 233/SIC 15), \$3 million for heavy construction contractors (NAICS 234/SIC 16), and \$2.5 million for specialty trade contractors (NAICS 235,SIC 17); 3) Be qualified by an owner with at least 10% of the firm’s issued stock; and 4) Be owned by person(s) whose combined Personal Net Worth does not exceed \$750,000

<sup>5</sup> Miami-Dade County Code of Ordinances. 2006. Community Small Business Enterprise Program, Sec. 10-33.02.

<sup>6</sup> Miami-Dade County, Florida. 1998. Ordinance 98-31.

The decrease in the number of black-owned construction firms in Miami-Dade is a cause for concern, as it indicates there are still obstacles that black firms face in this industry that others do not face. As the owner of a variety of large and small construction projects, the county has a duty to ensure that African American contractors and workers receive their fair share of county business dollars, and to ensure that public dollars are not being used in a way that discriminates.<sup>7</sup>

## Helping minority contractors overcome special obstacles

Though its minority preference programs were struck down by the courts in 1996, Miami-Dade County continues to provide support to businesses that are struggling to establish themselves in the local construction industry through the race and gender neutral Community Small Business Enterprise program. Programs and services include mentoring of small contractors by larger contractors, management training classes, financial and bonding assistance and expedited payment of invoices. These services are designed to encourage small contractors to bid on county projects and to provide opportunities for these businesses to grow and prosper in the local economy. The Orange Bowl renovation and Jackson South expansion projects will provide opportunities for many types and sizes of contractors, and as much as possible small minority contractors should be given the chance to participate on the projects which will help their businesses to grow and diversify the construction industry.

A series of informal interviews was conducted with local small minority contractors to see what obstacles these firms face. The most common responses had to do with financing and bonding. Cash flow is particularly problematic for small contractors who do not have the financial resources to cover payroll and suppliers without being paid promptly for work completed. One contractor noted,

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<sup>7</sup> Data on the participation rates of minorities in county construction contracts are not available since the preference program was struck down in 1996. Such information is available for Broward County however, which conducted a procurement disparity study in 2001 to provide a sound evidentiary basis for their race conscious program in case of a court challenge. The study found that all categories of minority owned businesses, including African American, Hispanic, Asian, Native American and non-minority women were underutilized as both prime contractors and sub-contractors in county construction contracts and that black owned businesses were underutilized in private contracting. The findings also indicated that minority owned firms “earn significantly less revenue than do firms owned by non-minority males” (MGT of America, Inc. 2001. Final report: Broward county small disadvantaged business enterprise (SDBE) disparity study. Ft. Lauderdale. 7-21) even after adjusting for capacity. The authors conclude that “the level of [Minority/Women Business Enterprise] participation that has been achieved would not have been possible without the County’s [Small and Disadvantaged Business Enterprise] program that counters the business practices perceived to be discriminatory by minority and women business owners in the County’s relevant market area” and that “the statistical disparities found in the study and the supporting anecdotal testimony still compel an inference of discrimination sufficient to support the continuation of this program” (7-30). The practice of setting SDBE participation goals on contracts was found to increase utilization of these firms.

“Businesses fail because they don’t get paid in a timely manner. It used to be suppliers gave you 90 days, now you’re lucky to get 30. And taxes have to be paid immediately.”

Another stated,

“Subs [contractors] are the building blocks of the industry. The GC [general contractor] is paid in 30 to 45 days, but doesn’t pay the sub. They should hold the GC responsible for paying the subs.”

Bonding requirements also cause problems for small contractors. The county requires that a contractor be bonded for the amount of the contract they are bidding on in order to ensure completion of the project. Bonding is a complicated process however, and many small minority contractors find difficulties in getting bonding.

“It is often a catch-22 situation. You have to have a proven track record with “big” projects to get a bond & you have to get a bond to get a large project. It’s difficult for small company to get started.”

But even companies who are bonded face problems:

“If my bonding capacity is 1 million and I’m working on an \$800,000 project there’s only \$200,000 left and I have no margin to bid on the next project. I have to let guys go.”

One interviewee mentioned a practice that he found helpful – when the general contractor covers the bond for the whole project, including all the subs:

“Big GC’s doing a sub bond for all subs is a big help. We can show an increase in sales for the next bonding application.”

Some felt that bonding requirements should be waived for certain smaller projects. Several also mentioned that they found the classes offered by the DBD to help contractors learn about bonding useful.

Another activity of the DBD that supports small contractors is to divide large projects into parts that are more manageable for small contractors.

“Now they’re reaching out to smaller companies—it used to be only large companies got jobs. Now they slice them to smaller sizes. For example, instead of doing 5 traffic signals at a time, now it’s 1 at a time. The City of Miami is not doing this.”

In fact, no one interviewed had done any work with the City of Miami, even though the City has established procurement goals for black, Hispanic, and woman owned businesses. One commented that “there are no assistance programs like the county.”



All small contractors face heavy competition, and several interviewed felt there was too much competition from larger contractors, even for CSBE set-aside contracts—that some CSBE certified contractors are in fact fairly large.

With stiff competition, trouble meeting bonding and financing requirements, and dependence on timely payment of invoices, small contractors face significant obstacles to establishing themselves in the industry. Small minority contractors face these issues plus the obstacle of being an outsider, of not sharing the personal connections and social networks through which work is distributed in the industry.

### Ensuring the benefits of public works for disadvantaged communities

Small minority contractors make an important contribution to our community: they provide jobs for many minority residents and often low-income residents as well, and they circulate money through these communities. The training and skills building that construction work provides can be the path to a well paying job and a more stable future for persons who because of a disadvantaged background or the lack of a decent education do not have many other employment options. A healthy community must have a variety of employment options for persons at all levels so that each person can contribute to the community instead of becoming a burden to it. The employment opportunities that the Orange Bowl renovation and Jackson South expansion projects will bring must be available to those who need them the most.

The interviews with local small minority contractors revealed that most are conscious of the role their businesses play in the community. Among the contractors interviewed, 89 percent of regular employees were also minorities. Several even cooperate with social service agencies to employ the hard-to-hire, such as those coming out of the prison system. While white-owned companies typically reject the role of social service provider, arguing that it is the government’s job to take care of people, minority contractors are often more willing to shoulder extra cost to help the community.

**Small minority contractors provide jobs and skills training for minorities in the community. Among the contractors interviewed, 89 percent of regular employees were also minorities.**

One contractor who hires workers from low-income areas pays for his employees to go through apprentice programs, even though sometimes the workers will leave the company after finishing the program to work for companies that pay more.

“We hire low-income. We pay for electrical apprentice programs. Some workers finish school then sell their services to the highest bidder. But I don’t have the volume of large companies to pay more.”

Several interviewed felt that for the extra costs of providing social benefits they are entitled to more help from local government, and said that the former preference program should be reinstated and that the present CSBE program was not working well for minority contractors. One talked of loss of business since the end of the set-aside program in 1996, which had caused him to drastically scale back his work force. He tells of seeing the arrest of a former employee on television, and says “As long as he was working for me, he was no problem.” He argues that spending more on contractors who provide jobs for the less fortunate is better than spending on social services or the prison system.

Employing the disadvantaged can also be a morale booster for the community. Working on public improvement projects was cited by many contractors as a source of pride. They enjoyed seeing how the results of their work improved the community and were proud of the fact that others could see as well.

“We go out into different neighborhoods and find younger people willing to pass the criteria and be drug free. We give workforce experience. People feel they can be involved in their tax dollars at work. There’s a sense of pride that they’re out there and others can see that this is what your taxes do – parks, homes, airports... it’s not for nothing.”

By using minority contractors, the county is ensuring that dollars from public works projects are being distributed to minority communities and to disadvantaged communities that sorely need these dollars. In addition to dollars, public works projects provide critical job training and a path to steady employment in a growing industry to residents who are at a disadvantage in the job market. Finally, the experience of working on projects for the improvement of the community is a source of pride for residents who feel that they are a part of their tax dollars at work.

## **Conclusion**

Hiring minority contractors shows the local government’s commitment to economic development and workforce development by promoting the creation of decent jobs in minority neighborhoods. These jobs circulate tax dollars through local neighborhoods and provide a sense of pride in being a part of public improvements. The Orange Bowl renovation and Jackson South expansion projects are large, visible, and economically important projects that will make needed improvements to important community assets. But it is imperative that all parts of our community receive the benefits of these projects and feel they have an equal opportunity to participate. That the nature of the construction industry tends towards exclusionary networks and unequal hiring practices is all the more incentive for local governments to make sure that minority businesses are getting their fair share.

The county should also continue to work to find creative solutions to the problems faced by small contractors trying to establish themselves in the industry. The words of small

minority contractors suggest there is still need for improvement in payment of invoices and bonding requirements. The more progress that can be made in growing small firms to become important contributors to the local economy, the more we increase the power of minority neighborhoods to enhance their quality of life. Despite struggling with financing, bonding, payment and strong competition, most contractors interviewed said they had had good experiences in working on county contracts, and that they see the value in working on public improvement projects. However the seeming lack of connection of these minority contractors with the City of Miami suggests that much more outreach is needed by the City to ensure that minority contractors are getting the chance to work on City projects as well.

By using minority contractors on the Orange Bowl renovation and Jackson South expansion projects, Miami-Dade County and the City of Miami show a commitment to a diverse workforce and to helping needy communities to develop and prosper.

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