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# **Executive Summary: Proposed FTA DBE Goals, Metropolitan Council FY 2024 - 2026**

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## Summary

The Metropolitan Council is the regional policy-making body, planning agency, and provider of essential services in the seven-county Twin Cities metro area. On April 1, 2023, Metropolitan Council contracted with the Roy Wilkins Center, Hubert H. Humphrey School of Public Affairs, to produce a proposed Disadvantaged Business Enterprise (DBE) program goal for fiscal years 2024-2026 on its Federal Transit Administration- (FTA) funded expenditures.

This report uses information on Metropolitan Council’s FTA prime and subcontract awards Metropolitan Council as well as the government-published secondary data listed in the Technical Report and Appendices. The findings of our analysis point to a proposed agency-wide DBE goal of 13.4 percent for FY 2024-2026 on FTA-funded projects. This goal was derived in the following manner:

A Base Goal of 9.6 percent was computed.

An adjustment to the Base Goal was made to account for disparities in prime and subcontract awards that cannot be attributed to differences in industry, location, firm size, credit risk or other characteristics of DBE versus non-DBE contracts. This calculation resulted in an adjustment of 39.9 percent to the Base Goal, resulting in the Adjusted Goal of 13.4 percent.<sup>1</sup>

The maximum portion of the Adjusted Goal achievable by race-neutral means was found to be equal to 18.2 percent. Therefore, the Race-Neutral Goal was computed to be equal to 2.4 percent and the Race-Conscious Goal is 11 percent.<sup>2</sup>

**Table 1.** Proposed Metropolitan Council FTA DBE Goals FY 2024–2026

<b>Base Goal</b>	9.6%
<b><i>Adjustment to Base Goal</i></b>	39.9%
<b>Adjusted Goal</b>	13.4%
<b><i>Race-Neutral Portion</i></b>	18.2%
<b>Race-Neutral Goal</b>	2.4%
<b><i>Race-Conscious Portion</i></b>	81.8%
<b>Race-Conscious Goal</b>	11.0%

Source: RWC analytical methods and data sources are fully detailed in the Technical Report and Appendices.

## Background

As a recipient of federal transportation dollars awarded through the U.S. Department of Transportation’s Federal Transportation Administration (FTA), Metropolitan Council is required to establish and submit a three-year goal to the FTA for review. This goal is to be established in compliance with the federal regulations governing the *Participation by Disadvantaged Business Enterprises in Department of Transportation Financial Assistance Programs* (hereafter referred to as “USDOT regulations”). The USDOT regulations provide guidance to state and local grant recipients on how establish their annual DBE goal [49 C.F.R. §26.45]. The current report uses this

<sup>1</sup> Adjusted Goal of 13.43 percent (= 9.6 × 1.399)

<sup>2</sup> Race-Neutral Goal of 2.44 percent (= 13.4 × 0.182) and Race-Conscious Goal of 10.96 percent (= 13.4 × 0.818)

guidance and uses the best available data on contract awards, availability of DBEs in the relevant industries and geographic market areas to produce proposed base goals, adjustments to the base goals, and estimation of the maximum portion of the adjusted goals that can be achieved through race-neutral means.

Between July 2015 and June 2022, Metropolitan Council issued 409 prime contracts totaling \$1,974,825,538.49. For these years the DBE share of prime contract awards was 8.8 percent, and its share of prime contract award dollars was 0.6 percent. The DBE share of subcontract awards was 52.6 percent, and the DBE share of subcontract dollars was 40.6 percent.

## Methodology

As a first step, the research team must determine availability rates in well-defined geographic market areas (GMAs). The second step is to produce any adjustments to the base DBE goal. A final step is to propose the maximum portion of the goal that can be achieved through race-neutral means.

### Geographic Market Area

The research team established four different geographic market areas (GMAs) displayed in Table 3. All four are political jurisdictions defined by different aggregations of counties within Minnesota. Almost all Metropolitan Council's contracts have been within Minnesota, including vendors from other states with only a branch office in Minnesota.

### Availability Analysis and Base Goal

Metropolitan Council's expenditure projections for the period FY2024-2026 reveal a significant shift in the distribution of contract dollars with a single NAICS code (485113) accounting for over 60 percent of future projects where there are but a few firms currently represented in the state. In addition, this unique code does not cover all the wide variety of potential bidders, including qualified women and minority owned firms, for proposed bus and transit operation services.

In computing availability to determine a Base Goal, RWC used five different data bases and approaches (Bidders List, Vendors List, DBE Method, Dun & Bradstreet Method, and the Annual Business Survey), while defining an alternative and representative category of bus and transit operations and GMA that maximizes DBE/women and minority shares. For each method, the weights used are based on the share of contract dollars awarded within the defined GMAs. The availability rates were appropriately weighted by Metropolitan Council's expenditure projections to produce a base goal. Each of these methods have advantages and disadvantages summarized in the Technical Report.

### Adjusted Base Goal

Base goal was then adjusted by 39.9 percent to account for disparities in prime contract and subcontract award amounts. The result constitutes a proposed goal, which is further partitioned between a race-conscious and race-neutral portion.<sup>3</sup>

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<sup>3</sup> Race-conscious and race-neutral portions of the goals are computed using a methodology upheld by the 3rd Circuit Federal Court in *GEOD v. New Jersey Transit* and published in the peer-reviewed journal *Applied Economics Letters*.

## **Race Neutral Portion of Adjusted Base Goal**

The methodology for computing the race-neutral portion of the DBE goal estimates the maximum share of the goal that can be achieved through race-neutral means. The logic of the analysis is that some share of previous DBE dollars awarded would have gone to DBEs without goals. The race-neutral analysis uses the best regression model that controls for a list of relevant variables to predict DBE contract amounts with and without goals.<sup>4</sup>

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<sup>4</sup> Myers and Ha have pioneered the use of a detailed econometric procedure that maximizes the race-neutral component of the DBE goals.

## Summary Tables

**Table 2.** DBE Share of FTA Awarded Contract Amounts (2016-2022)

Type	N	Average Contract Amount	Total Contract Amount	Share
<b>Prime Contracts</b>				
DBE	36	\$317,370.82	\$11,425,349.52	0.6%
Non-DBE	373	\$5,263,807.48	\$1,963,400,188.97	99.4%
Total	409	\$4,828,424.30	\$1,974,825,538.49	100.0%
<b>Subcontracts</b>				
DBE	525	\$577,489.06	\$303,181,754.53	40.6%
Non-DBE	473	\$938,288.90	\$443,810,647.83	59.4%
Total	998	\$748,489.38	\$746,992,402.36	100.0%
<b>Both Prime and Subcontracts</b>				
DBE	561	\$560,796.98	\$314,607,104.05	15.9%
2016	20	\$219,215.16	\$4,384,303.20	20.3%
2017	70	\$86,595.61	\$6,061,692.35	13.4%
2018	69	\$263,758.97	\$18,199,368.75	13.0%
2019	175	\$1,022,261.40	\$178,895,744.29	16.3%
2020	87	\$356,767.26	\$31,038,751.27	13.0%
2021	48	\$215,374.40	\$10,337,971.16	14.0%
2022	95	\$691,466.03	\$65,689,273.03	18.2%

Source: RWC analytical methods and data sources are fully detailed in the Technical Report and Appendices.

**Table 3.** Metropolitan Council Geographic Market Areas (GMAs) for FTA DBE Goals (2016-2022)

Geographic Market Area	GMA	Prime Contracts only			Subcontracts only		
		N	Contract Amount	Share	N	Contract Amount	Share
Total		409	\$1,974,825,538.49	-	1032	\$746,992,402.36	-
All MN counties	GMA-1	313	\$1,893,605,652.68	95.9%	889	\$701,418,929.53	93.9%
Twin Cities MSA <sup>a, b</sup>	GMA-2	311	\$1,893,176,685.28	95.9%	864	\$693,223,243.52	92.8%
7-county metro <sup>c</sup>	GMA-3	296	\$1,884,003,255.95	95.4%	781	\$632,568,727.21	84.7%
MN 4 counties <sup>d</sup>	GMA-4	286	\$1,879,121,277.00	95.2%	701	\$602,407,238.15	80.6%

Source: RWC analytical methods and data sources are fully detailed in the Technical Report and Appendices.

<sup>a</sup> Census-defined metropolitan statistical area, comprising 15 counties in both Minnesota (13) and Wisconsin (2).

<sup>b</sup> There were no prime contracts awarded in 3 counties: Isanti and Mille Lacs, MN; and Pierce, WI. There were no subcontracts awarded in 1 county: Isanti, MN.

<sup>c</sup> Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington

<sup>d</sup> Anoka, Dakota, Hennepin, and Ramsey

**Table 4.** FTA Weighted Availability Rate<sup>a</sup> and Base Goal by Method/Proxy

<b>Method</b>	<b>Original NAICS Code 485113</b>	<b>Supplement for NAICS Code 485113<sup>b</sup></b>	<b>National Estimate for NAICS Code 485113</b>	<b>Base Goal</b>
Bidders List Method	8.0%	8.0%	13.5%	
Vendors List Method	6.0%	6.0%	11.5%	
ABS Method	15.2%	15.2%	15.2%	<b>9.6%</b>
DBE List Method	3.8%	15.1%	9.3%	
D & B Method	6.8%	3.2%	7.4%	
<b>Weighted Average</b>	<b>8.0%</b>	<b>9.5%</b>	<b>11.4%</b>	

Source: RWC analytical methods and data sources are fully detailed in the Technical Report and Appendices.

<sup>a</sup> Weighted by GMA's contract amount

<sup>b</sup> Includes 485113, 485111, 485210 and 485991