

March 30, 2017

Expanding Opportunity in City Contracts: St. Paul's Racial Equity Strategy

When Rick Harris, owner of Ideal Commercial Interiors (ICI), moved to the Twin Cities seven years ago, he struggled to get the private sector contracts that had been his bread-and-butter during his three decades of business in California.

"Coming here was totally different. I kept trying to get my foot in the door and instead would have it shut in my face," Harris said. ICI is certified by the North Central Minority Supplier Development Council and the Central Certification Program as a small, minority-owned business, but Harris noted that the greatest obstacle he faced was not discrimination, but inertia.

"Businesses were not open to building relationships with new vendors. They preferred to maintain the same decades-long ties with people they knew and were familiar with — but that impedes access to the market," he said. "It's bad for the economy when you have these small businesses that can't grow because they're consistently locked out of the market."

For a city that struggles with staunch racial inequities in employment and poverty, these barriers to entry pose persistent challenges to the local economy.

"The state says it wants to create more jobs for people of color, but to do that, you have to understand that minority-owned companies hire more employees of color, and so you have to focus on helping these companies grow," Harris said.

That is precisely what the City of St. Paul is working to do. With the help of the city's comprehensive efforts to foster racial equity in its municipal contracting, Harris has been able to fill the void of private sector work with city, county, and state contracts — which now make up 90 percent of his business.

According to David Gorski, a human rights specialist for the City of St. Paul, "The broader goal is to make the local economy more inclusive, to create a launching pad for small businesses," especially those owned by people of color and women.

Supporting entrepreneurs of color boosts local economies

St. Paul is a rapidly [diversifying](#) city; nearly half the city's residents are people of color, and communities of color — especially Black communities — are leading population growth. But these communities continue to face persistent racial inequities in opportunity. Unemployment for people of color is 12.6 percent in the city, compared to 5.3 percent for Whites. For African Americans, unemployment skyrocketed from 9.6 percent in 2000 to 18.8 percent in 2014. Almost two in three people of color in the city are economically insecure — with family incomes below 200 percent of the federal poverty level — and one in five are [working poor](#), struggling to make ends meet despite working full-time.

In an attempt to combat these longstanding disparities, St. Paul launched its Racial Equity Initiative in 2014. This initiative includes numerous policy and practice reforms to make racial equity an explicit goal for the city — not only to foster inclusion and community justice, but as a necessary precondition for a prosperous, thriving local economy.

Connecting businesses owned by entrepreneurs of color to city contracts is a crucial lever in this work, because these firms represent key areas of growth in the local economy. Businesses owned by people of color in Minnesota are growing significantly faster than average, with 118 percent growth from 2002 to 2012, compared to 10.3 percent growth for all firms in the state. The number of small businesses owned by African Americans in the state grew by about 60 percent between 2007 and 2012, while small businesses owned by Whites declined 3.4 percent. Yet, many of these businesses are small and undercapitalized, with few employees.

Though the state government of Minnesota has recently received criticism for its inequitable procurement practices, St. Paul has been meeting and exceeding many of its racial equity goals. For example, the city aims to award at least 25 percent of public contracts to small businesses. Within that small business goal, the city sets further targets to reach 5 percent of firms owned by people of color, and 10 percent of women-owned firms. In 2016, more than 30 percent of the city's total business went to small businesses, with 5 percent awarded to businesses owned by entrepreneurs of color and more than 12 percent awarded to businesses owned by women.

St. Paul's progress in upping contracting equity can be traced to concerted efforts to reform and innovate practices within the city's Purchasing and Contract Compliance Divisions. This work began with the assistance of Bloomberg Philanthropies What Works Cities initiative, through which the Government Performance Lab at the Harvard Kennedy School helped the city better understand why it wasn't adequately reaching small businesses and businesses of color. What they found mirrored the hurdles Harris noted in the private sector.

"Vendors felt that we were closed off," said Jessica Brokaw, deputy director of procurement, contract compliance & business development for the city. "They felt we had preferred vendors and that was that."

This led to a series of structural changes to the procurement process. The city rolled out a new online bidding platform that made the process more transparent and accessible, and ensured that any vendor could download bids free of charge. They also revised the language of bids — from PhD reading level to eighth grade reading level— so that most any vendor could understand them without an attorney.

Wherever possible, officials also streamlined certification processes. For example, a vendor can become registered as a minority-owned business enterprise (MBE), a woman-owned business enterprise (WBE), or a small business enterprise (SBE) through one-day Central Certification Program (CERT) community workshops that are hosted monthly. These certifications are recognized by Hennepin County, Ramsey County, Minneapolis, and St. Paul, making it easier for businesses to pursue public procurement and contracting work regionally. The increased community engagement is reflected in attendance at the annual procurement fair, hosted by the

city's Department of Human Rights and Equal Economic Opportunity. In 2017, 350 vendors showed up within the first three hours alone.

Perhaps most impressively, the city has made significant changes to open up public contracts to new businesses. Starting in 2014, the city has changed five-year agreements to yearly agreements whenever possible, and broken down larger projects into small subcontracts to increase opportunities for new and small businesses to bid.

"We decided to not renew hundreds of master contracts — some of which we had held for 20 years," Brokaw said. "We got lots of pushback, because there were vendors who didn't really have to compete for years upon years, and there were city departments who didn't want to have to orient new vendors to how we operate."

When the city opened up contracts to a more competitive market, however, "the city and the local economy benefited," Brokaw noted. "The bids are lower, so the city is saving several million dollars, and our relationship to the community is so much stronger because vendors can see that we are open to them."

Bridging the public-private contract divide through mentorship

In addition to the structural and procedural changes noted above, one of the key facets of St. Paul's efforts to promote small business growth among minority entrepreneurs is the [Construction Partnering Program \(CPP\)](#).

Founded by the city and administered through the Metropolitan Economic Development Association (MEDA) and the Association of Women Contractors, CPP supports emerging small businesses owned by women and people of color by fostering long-term partnerships between these firms and larger industry experts in the region.

In general, the odds can be stacked against small businesses trying to expand: They don't always have access to the same product lines or discounts because they don't buy in large enough quantities. They often lack access to the kind of financing necessary to purchase the kind of bonds that are required to insure projects or to cover their costs for the months it can take for contracts to pay out.

"It creates a catch-22 because the financials limit the size of contracts a business can take," said Salah Tarraf, participant in the CERT and CPP programs and owner of Tarraf Construction, a general contractor operating in the Twin Cities for 17 years. "We have so many fantastic contractors of color who want to grow, but are held back because they can't take larger projects."

The city has stepped in to remove some of the financial barriers: city projects up to \$100,000 no longer require bonds, so they are now more accessible to small contractors. Through CPP mentorship, however, the city also hopes to start bridging the gap between public and private work.

Tarraf Construction has been partnered with McGough, a large general contractor headquartered in St. Paul, for the past 13 years. This relationship has allowed Tarraf to benefit from the insight and experience of the larger firm, and McGough has helped them break into the private market by inviting them to bid on subcontracts for their work and including them in negotiations as an "equal partner."

Though it remains an "uphill battle" to get the private sector to work with small companies, Tarraf said he gives "a lot of credit to St. Paul. The city has been really supportive of the minority community, and I think it's been a success."