



DMC
Destination
Medical Center



CITY OF
ROCHESTER
MINNESOTA



DISADVANTAGED BUSINESS ENTERPRISE BARRIERS STUDY

EXECUTIVE SUMMARY

Prepared By



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The City of Rochester and Destination Medical Center aims to increase project participation of Small, Minority, Women and Disadvantaged businesses on various projects. In order to achieve this, it is important to understand the current ecosystem, the challenges, and the barriers of all the stakeholders involved.

In December 2022, the City and DMC issued a Request for Proposal to analyze the barriers for Disadvantaged Business Enterprise (DBE) firms. The contract was awarded to Saint Paul based firm, MaKee Company (MKC), led by CEO, R. Lynn Pingol. MaKee Company emerged from six proposal responses based on its knowledge of federal and state procurement and contracting, construction industry experience, and engagement with DBE firms throughout Minnesota.

Project Summary

The City of Rochester has begun prioritizing Targeted Business contracting goals on City Capital Improvement Plan projects over the next few years, which will increase the demand for certified Disadvantaged Business Enterprises (DBEs)/Targeted Group Businesses (TGBs) in Rochester, Minnesota. To meet Destination Medical Center and City of Rochester Targeted Business goals with locally owned DBEs/TBs, the City of Rochester and Destination Medical Center are investing in capacity-building strategies to increase the number of locally owned DBEs/TGBs.

Through engagement with local disadvantaged entrepreneurs, Rochester understands there are significant barriers to entry and participation, such as access to capital for acquiring assets and managing cash flow as well as other costs associated with starting and growing a business. Ability to obtain bonding at early-stage prevents start-ups from bidding on City public infrastructure projects directly and with risk to prime contractors. The learning curve on how to run a business and bid on City infrastructure projects has been steep.

PROJECT GOAL

To understand the current eco-system, challenges, and the barriers of key stakeholders, so that DMC and the City of Rochester can increase participation of Small, Minority/BIPOC, Women and Disadvantaged businesses in its projects.

MKC's SCOPE OF WORK included, but was not limited to:

- Identifying the unique barriers of construction-related (238 – Specialty Trade Contractors) small, disadvantaged businesses from start-up through growth stages to bid on City of Rochester/Destination Medical Center (DMC) public infrastructure projects.
- Investigating the City of Rochester's bidding, bonding and insurance policies along with any other barriers identified by MKC.
- Reviewing best practices from across Minnesota or United States that could be used to address the identified obstacles.
- Provide recommendations to help the City and DMC EDA to plan next steps for reducing existing barriers for locally owned DBEs/TGBs



MKC's scope of work and study proposition will focus on the City of Rochester's service procurement activities. We considered the different types of procurement including Direct, Indirect, Goods and Services Procurement and Contracting

MKC established a core group consisting of Destination Medical Center, City of Rochester, and the MKC team. During the kick off meeting, the group defined strategies and expected outcomes of the study.

Stakeholders were defined as DBE firms, General Contractors, DMC/City department heads and key staff. DMC/City provided a list of stakeholders for MKC to invite and/or interview. Methods of outreach specific to the stakeholders were identified. None of the stakeholders were compensated for their time.



Methodology

1

DBE ASSESSMENT

Conduct in depth interviews and assessment to analyzed a DBE firm's company strategy, accounting practices, marketing, and projects they bid/lost.

2

LISTENING SESSIONS

- Hosting three listening sessions that include two in-person sessions and one virtual/online session.
- MKC developed specific questions and statements for each stakeholder group to answer and react to during the listening sessions.

3

INTERVIEWS

- Conduct interviews with General Contractors and City of Rochester's Executive and Administrative team.
- For best practices interviews, MKC interviewed various city and state agencies in Minnesota, California, Ohio, and Pennsylvania

4

RESEARCH & ANALYZE

- Research federal contracting mechanisms, take an depth look at state disparity studies, DBEs/TGBs contracting goals, capacity building strategies, and programs or policies related to DBEs/TGBs
- Review the City's documents related to procurement and contracting policies

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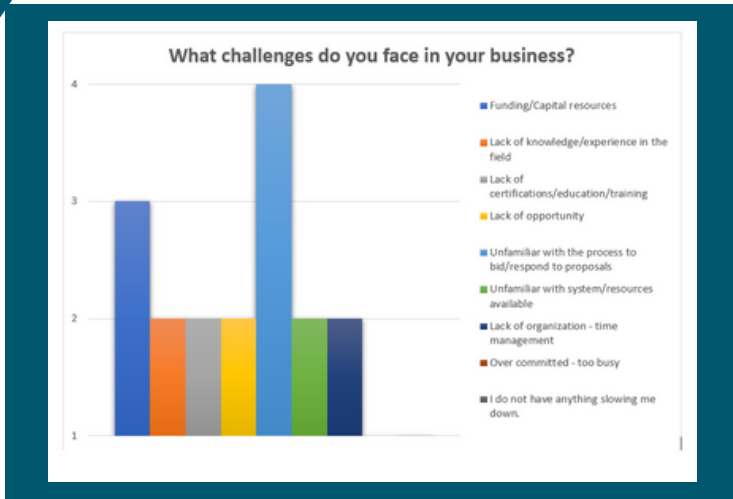
REVIEW & COMPARE

- Review federal contracting mechanisms, best practices of other state, municipalities and other state agencies;
- Compare similarities and differences between what is working and the gaps that are less than favorable to the growth and sustainability of DBE firms;
- Compare similarities and differences in perspectives of all stakeholders
- Identify gaps, areas of beneficial improvement, successes, failures, etc. across contracting mechanisms available



DBE CHALLENGES IDENTIFIED

To gain insights for the *one-on-one interview and assessment*, we used our proprietary assessment tool to analyze the current business conditions of the four selected DBE firms. For the most part, participants for these sessions were predominantly in start-up and early stages of their businesses, producing less than \$1M in revenue per year. These one-on-one interviews and assessments focused on the certain elements and conditions of DBE firms business stages.

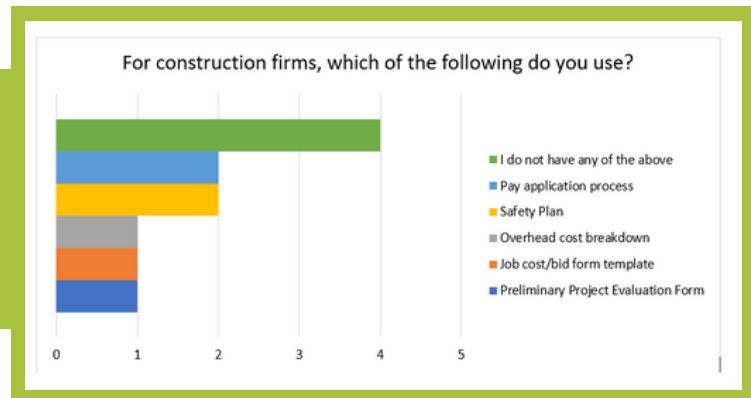


While working capital is always a concern, the unfamiliarity with the process to bid/respond to proposals is right up there as a barrier!

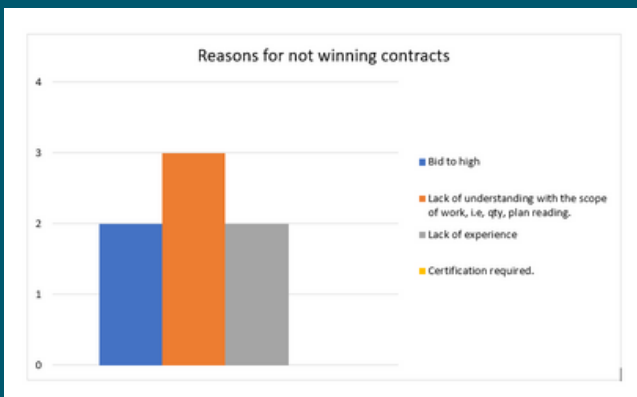


Specifically for construction firms, it is not surprising that DBEs do not have the proper tools or processes in place to develop and submit a competitive bid.

The majority do not have a system or program in place to do bidding and estimating, which directly ties to their request for industry specific training.



DBE firms who are not awarded the contract feel that it is because they lacked understanding the scope of work, which again can be related to DBEs request for industry specific training.



- DBEs unanimously confirmed their biggest barrier is an unfamiliarity with the bidding process to bid/respond to proposals
- The firms interviewed have received over 21 hours of business development training, but none were industry specific
- As it relates to Financials, most firms do not review their financials, lack 90 days in capital reserves, and do not know their overhead costs
- The top three goals of DBE firms were increasing profit margins, increasing company gross revenue, and improving customer relationships. The conversation also prompted a request for assistance in developing additional goals.

DBE KEY BARRIERS IDENTIFIED

DBEs continue to feel that their "bids are being shopped" and public agencies and the private corporations have their "favorite contractors and suppliers, despite encouraging them to be a part of their "preference program". Conversation around working capital continue to drive the success of DBEs. Disclosed by prior studies and more often expressed and heard by capacity builders and those in the DEI, procurement departments, and civil rights units within agencies, these issues continue to exist in the Minnesota ecosystem.

The DBE virtual listening sessions revealed a different set of barriers and priorities. In addition to those mentioned above.

Industry Specific Training



Industry specific training: While participants feel business development is helpful, no one is teaching real-lived experiences in running a construction company and managing projects. The City's Project Managers and General Contractors are equally frustrated that there is little to no resources for construction workshops.

Procurement Training



DBE firms felt there is no clear direction when it comes to procurement. The consensus is to have the process be detailed BEFORE they even become certified, to really determine if they need the certification. Others stated that it would be helpful to have a City of Rochester representative guide Business owners from DBE certification designation to finding opportunities, then bidding projects in construction, professional technical, AND general goods, and services.

DIFFICULTY NAVIGATING THE SYSTEM



Difficulty in navigating through the system: DBE firms felt that the procurement system in general is hierarchical. They believe that finding specific opportunities for their line of work is the biggest barrier. Most called for the City to have an easy-to-use portal specific to small businesses to access and learn about opportunities in Rochester and its neighboring cities/counties.

Centralized Portal for Businesses, Public & Private Sectors



DBE firms want to know how they can work in construction and other areas, but they do not have a platform to share their capacities and capabilities. Not having one central portal that is easy to navigate to find opportunities that fit them, is a huge barrier. The general idea is if DBEs don't have a platform to find information, then how will public agencies and the private sector really know what DBEs have to offer.

Prequalification Requirement & Union Affiliations with Primes



In the private sector, DBE firms found that the prequalification requirements of primes were unreasonable compared to the project size. Bonding, insurance, EMR, financials, and union affiliations are huge barriers and while primes recognize and acknowledge these, little to none were willing to take the risks in working with DBEs and make exceptions, especially because most GCs are union signatories

De-bundling or narrow down scope



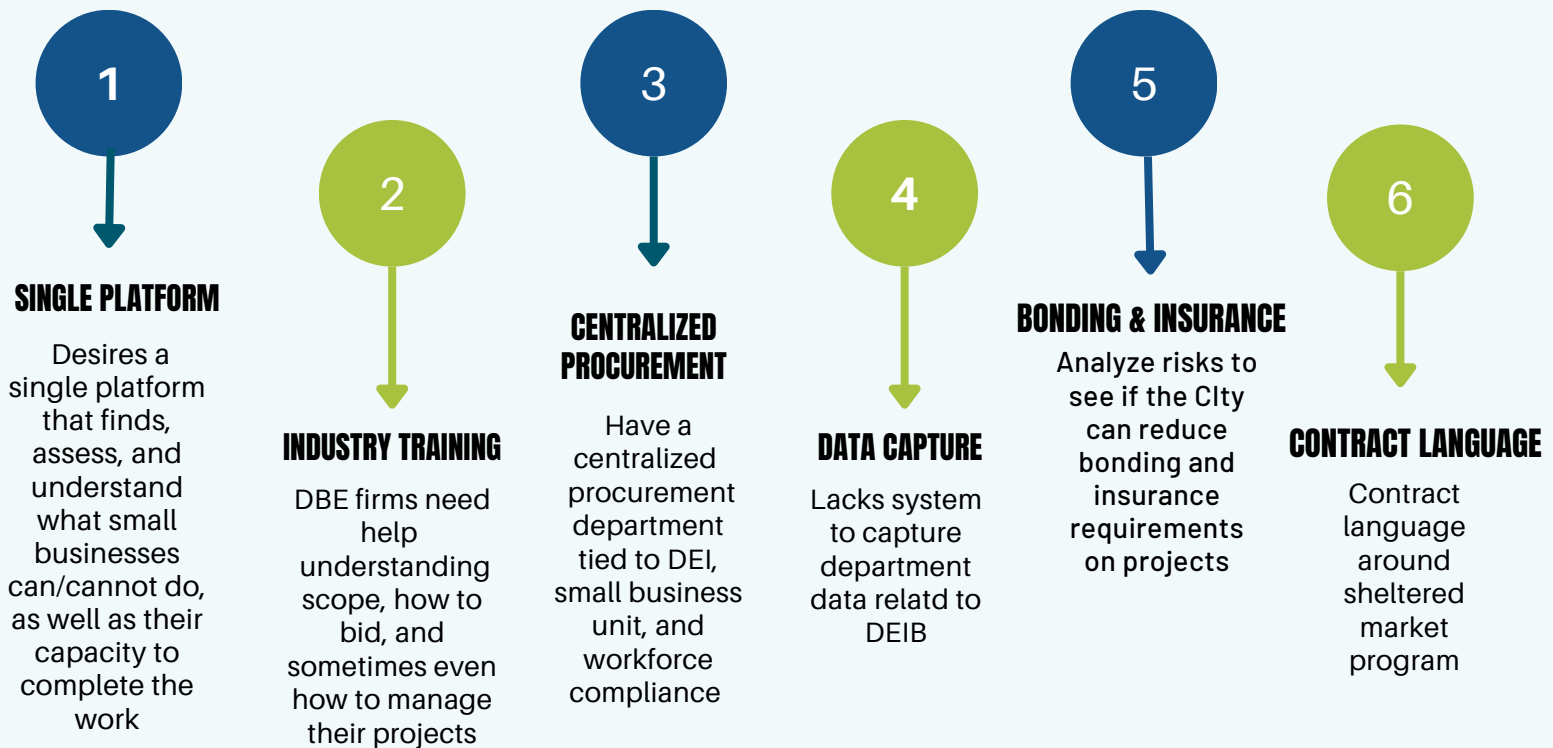
Most projects come in packages of work that are larger than the capacity of DBEs. DBEs struggle to determine what to bid, because of these projects are designed for Tier 1 sub-contractors. If the primes/GCs or agency PMs and buyers knew the capacity and capabilities of DBEs work experience and expertise, both would have a better understanding of how to set up subcontract work that benefits both the DBE and prime.

DBEs continue to find it challenging to build relationships with decision makers...and interestingly, primes and public agencies struggle to find/connect with DBEs to really learn about their capabilities and capacities.

DMC/CITY OF ROCHESTER BARRIERS

The DMC/City of Rochester listening session included a great representation of stakeholders from the City's Public Utilities, Parks & Rec, DEI, and DMC. For the listening sessions, specific questions were posed to understand departmental functions, successes and challenges faced when working with DBE firms, internal processes of contracting, and much more.

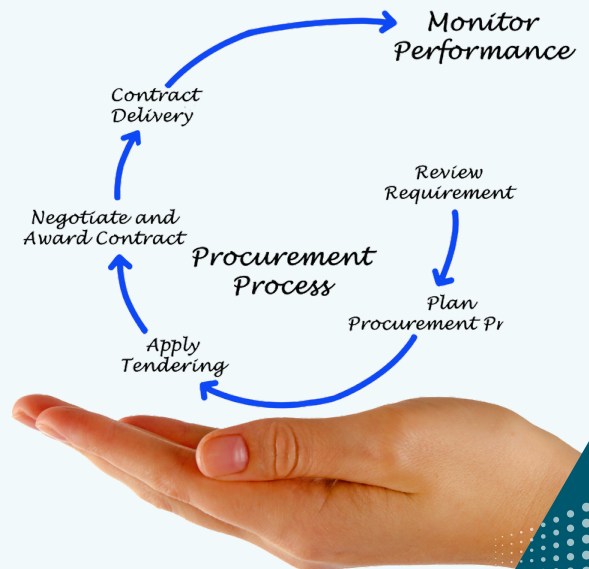
MKC also conducted one-on-one interviews with the Mayor, City Administrator, City Attorney, Finance Director, Bloomberg Grant Project Manager, and Licensing Examiner. We asked general questions of city goal alignments in equity, processes that are effective as well as areas that could be improved within departments, promoting DEI across all departments, overall resistance to change, and how to overcome the perceived barriers and siloes that exist within City Government. In summary, the City faced challenges in the following:



Even though efforts are being made, City departments continue to have challenges on how to be more inclusive.

Most are aware of the City's desire to engage more DBEs in projects, but sentiments like "finding DBE firms to even bid", not having the people, time and resources for their department to effectively work with DBE firms, not having a dedicated source to find small businesses, and the tried and often implied, "why fix when it isn't broken" continue to be interdepartmental reasons why diversity, equity, and inclusion efforts continue to fail historically marginalized small businesses.

Furthermore, some participants do not believe that good faith efforts are effective in engaging DBEs, simply because "there's not enough consequence if primes come up with the best story to their why".



GENERAL CONTRACTOR BARRIERS

Conversations with General Construction Companies that included Diversity Equity Inclusion Directors, Project Managers, and some of the Executive Team (President, Vice President, etc.) For each interview, a list of pre-determined questions were asked in order to understand challenges and successes from the perspective of each contractor. To prepare for these discussions, we evaluated previous challenges that we've learned from both prime and sub-contractors in the Minneapolis market.



PREQUALIFICATIONS

The prequalification process is a barrier for DBE's, because most do not have the qualifications that reduce the risks for GC. This includes:

- Financial statements
- Bonding
- Insurance requirements
- Commercial experience (similar type projects)
- Union affiliations – primes are signatory and there are limited DBE's in the region that are (this phrase is incomplete?)



SHORTAGE OF DBES

GCs are concerned about the lack of DBE's in Rochester. This specifically relates to the lack of resources to identify all DBE's or potential DBE's in the market, figuring out how to convert existing residential DBE's to commercial and the concern of bringing DBE's from other cities and towns and dealing with the cost escalation for traveling firms



CONSTRUCTION SPECIFIC TRAINING

Small business classes specifically relating to construction including project management, estimating, completing "back of house paperwork", bonding, insurance, , LCP tracker, and how to be contract ready to work with the primes

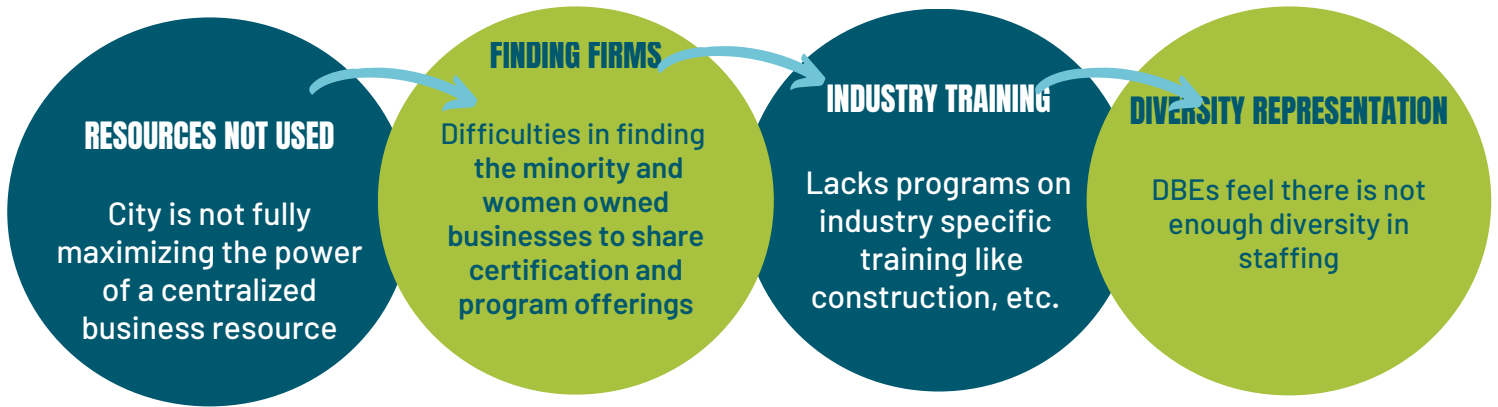


CENTRAL DATABASE

Have an accurate vetted out database that they have access to

CAPACITY BUILDERS BARRIERS

Conversation with public and private business support groups, non profit leaders, and key influencers reveals challenges in how to support DBEs. For this group, specific questions were posed to understand each capacity builders functions, successes and challenges they face when working with DBE firms, and the City/DMC. Overall, the capacity builders are united in supporting small businesses. In general, the barriers of capacity builders include:



BARRIERS COMPARED

MKC consolidated and analyzed the data received from one-on-one interviews and listening sessions. In comparing the responses of DBEs, General Contractors, department heads at the City, and the Capacity Builders, it was evident that the DBE barriers were shared and acknowledged by those in the ecosystem.

Barriers with similarities	DBE Firms	General Contractors	City of Rochester	Capacity Builders
Industry Training & Back office operations	X	X	X	X
Procurement Training & Pathways	X		X	
Bonding Challenges on Projects	X	X	X	
Centralized Portal for Businesses, Public & Private Sectors	X	X	X	X
Prequalification requirements of primes to subs	X	X		
Union Affiliation	X	X		
Startup /Working capital	X	X	X	X
De-bundle/breakdown scope	X			



GOALS MET

Project goals for workforce and DBE participation are met most of the time at the City. This is due in part to the City's efforts to contracting and workforce outreach to DBEs and primes alike,

Overall, efforts of increasing goals and meeting them is also accepted by primes and GCs.



2021 GLOBAL MAYORS CHALLENGE

Global Bloomberg's Mayor's Challenge: Equity in the Built Environment
In 2021, the City was the recipient of the Global Bloomberg's Mayor's Challenge: Equity in the Built Environment.

The City was one of 15 Cities worldwide to receive this competitive grant of \$1M for the course of three years. The grant supports three pathways:

- A pathway to employment through the onboarding process.
- Training opportunities that include apprenticeship, career tech programs, union training, etc.,
- Early exposure in the k-12 system to ensure that girls and women of color are exposed to an array of well-paying careers in the built environment



DEI EFFORTS

DMC and the City most certainly echo the need for equity and inclusion of DBE firms. Nearly two years ago, a DEI Director position was created.

Departments are now actively working on DEI inclusion plans that clearly outline processes and practices that ensure it is not simply an ideation, but an implementable action plan to increase inclusion across the board.

RECOMMENDATIONS

The City of Rochester's strengths are evident in its desire to increase equitable opportunities in the procurement and contracting realm. Pathway creation is underway and simply needs to be built and supported. The investment in a DEI director, who is a woman of color, will resonate with the growing BIPOC community and this should be leveraged when promoting equity efforts that the City is championing

The City can improve in various ways, creating the right environment for change within its walls. The City is in an ideal position to begin the transformation now, as the City looks to increase its immigrant population in the years to come. Below are MKCs list of recommendations:

DATA GATHERING & PARSING

1

The City is currently not tracking information that could be used to develop programs, measure DEIB progress within the department including diversity in the workforce, and inclusivity in procurement and contracting.

The City could develop a program or mechanism to collect data on contracting and participation as a means to measure contract/project values, awarded and rejected recipient demographics, and how such line items connect to overall spend dollars of the City, etc.

EQUITY PROCUREMENT TEAM

2

The City's annual expenditures demonstrate a significant number of opportunities for small businesses. With the projected growth in private and public projects, the City should consider creating a department that focuses entirely on growing its DEIB procurement, contracting, workforce, and compliance.

This team could include a Small Business Unit and a Workforce & Contract Compliance Unit. The Small Business Unit would focus on having a business triage center, industry development curriculum and training, as well as one-on-one technical assistance, etc. The Workforce and Contract Compliance Unit would focus on working with department heads to meet workforce goals, focus on contract compliance, and support any work related to workforce and contract compliance that the City Attorney may need to address.

SMALL BUSINESS PORTAL

3

It is evident that DBEs are struggling to gain access to information related bidding opportunities, resources, and interactions with the stakeholder eco-system. Stakeholders are united in their frustration that the state directories do not provide the means that qualify the capacity of DBEs. The concern is finding one centralized source that provides not just a list of DBEs, but specific work and supplies that DBE firms have the capacity to complete and the capability to perform. Many support a "buy Rochester first" program and the process to find these vetted businesses is non-existent.

The City could develop an online portal exclusively focused on small businesses. The system will be unique because it should have a capacity vetting mechanism for DBEs and small businesses. The portal could promote local Rochester business, designating that business with an emblem or insignia with "Buy Rochester First". Lastly, the portal should not just be a directory, but a way to showcase the DBEs by their capability and capacity

MODIFY CITY WEBSITE

4

Transparency is often defined in a variety of ways when it comes to procurement, contracting, and compliance. One of the hottest topics for DBE firms is navigating through the various portals that are available, including the City's own website. In reviewing the site, it appears that finding procurement opportunities for small businesses is challenging, could be streamlined, and more be more user friendly

The City could enhance its website^[1] by adding a Procurement Services page inclusive of all departments and the Small Business Online Portal. The procurement services page could include high level information such as Standard Practices, Policies by Audience (Administration, Staff, Small Business, Vendors, etc.), Policies by Category (Financial, Governance, Human Resources, Information Technology, Opening A Business, Contracting, Workforce, Documents, etc.)

INTENTIONAL CONTRACTING PATHWAYS

5

The City's annual expenditures demonstrate a significant number of opportunities for small businesses. With the projected growth in private and public projects, the City should consider creating a department that focuses entirely on growing its DEIB procurement, contracting, workforce, and compliance.

The City could design specific contracting mechanisms using the MN Statute guidelines. Creation of these sheltered market programs could help DMC/City in creating a pathway to help build capability and capacities of DBE firms

The City could also look at modifying contract language to be more intentional and purposeful. A great start would be the inclusion of flow down provision surrounding retainage, late payments, bonding, insurance, etc.

The City could revisit its Master Contract program and structure it to be inclusive of small businesses, and that they provide opportunities to compete on a level playing field (not competing with the big firms).

The City could leverage HUD's Section 3 program, creating a great contracting method that help the City enrich disadvantaged communities in its redevelopment efforts.

INCREASE KNOWLEDGE & CITY EXPERTISE

6

In order for any DEIB, procurement or contracting mechanisms to be successful, it will be critical for the City to develop a change management process to assist departments in learning more about specific guidelines and help build the proposed changes in procurement and contracting related to DBEs.

The City could put a training program in place to assists department heads, project managers, and buyers understand procurement and contracting of small businesses. This will include ways to identify market availability and de-bundling of scope of work based on the DBE availability first within the region, then to the Twin Cities.

The DBE Barriers study highlights the similarities and different perspectives from the four key stakeholders in the ecosystem: DBE firms, DMC/City, General Contractors and Capacity Builders. Each group clearly has thoughts on how the existing City system is successful in some ways and failing in others. This study also took into consideration how City policies and processes, as well as capacity builders services, have provided positive and/or negative impact on the success of a DBE firm. It became particularly evident that conflicting definitions, processes, and methodologies from each stakeholders interpretation and understanding, contribute to less than favorable conditions for DBEs.

For DMC and the City, one of the challenges both organizations face is the lack of certified businesses who are deemed ready, willing, and able under federally assisted, transportation-related contracts (regulations for any program where federal funding dollars are included). The lack of knowledge of who these businesses are, how many exists, and what growth stage they are in, also contribute to this challenge. Moreover, within this challenge are the missing processes in identifying and determining the *capacity* and capability of certified small businesses. It cannot be said, nor should it be accepted that any small business firm on a public certified directory has been “vetted” to perform work and have the ability to provide goods and services to the public or private corporations. Vetted does not necessarily mean the business has *capacity* (*capital, employees, business processes, etc.*), and/or the *capability* (they can do the work). *If this was the case, there would be no need for developing business programs, goals would always be met, there would be no questions about capacity or capability, and there would be little to no barriers for small businesses.*

With the City trajectory for growth, in addition to the infrastructure dollars it is about to receive, the City could also create ways to identify “cross-over” residential contractors, professional & technical firms, and adjacent service providers. The City could greatly benefit by building a consolidated portal that *compliments* existing state agency systems, which could serve as the gateway of change in working with DBEs in all department areas of the City. This online portal will be dedicated to working with small businesses and will be unique because it should have a capacity vetting mechanism for DBEs and small businesses. The portal could promote local Rochester business, designating that business with an emblem or insignia with “Buy Rochester First”. The portal should not just be a directory, but a way to showcase the DBEs by their capability and capacity private and public. Finally, this portal could be a unified portal that serves private corporations like Mayo Clinic, Rochester Public Schools, Olmstead County, developers, general contractors and other primes, etc. who can share opportunities, contracts available, events, etc.

It is also clear that DBEs need industry specific training. While capacity builders have done a noteworthy job working with DBEs, the consensus with all stakeholders is that an overlap of services between organizations exists, when it comes to business development. It appears that clear learning tracks for programmatic success that includes bundling workshops, training, and resources of all capacity builders would be beneficial to DBEs. The City could also benefit by providing training for its department staff in these areas. Finally, another consideration for the City is to monitor and track departmental spending and conduct an evaluation of its procurement and contract processes. This act of data gathering is critical in supporting the need for specific programs, using data to track progress toward achieving DBE workforce goals, inform staffing needs, advise sustainability planning, and gauge procurement effectiveness of system change implementation, including the DEI department plans.

In conclusion, DEIB is not a mere scaffold or performative measure. A successful picture would position DEIB at the center of DMC/City and intentionally move the needle of change. It would complement the City’s aspirations to develop a procurement and contracting process that is *driven by human-logic, market research, industry specific experts, inclusivity and more importantly, with equity*, rather than compliance and regulations.

