

Testimony at the GA&E Committee, Monday, March 7, 2011

Legislative Office Building

Hartford, CT

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Supplier Development Council (GNEMSDC)

Good morning Chairpersons Morin and Slossberg.

My name is Fred McKinney. I am President and CEO of the Greater New England Minority Supplier Development Council. The GNEMSDC is a non-profit corporate membership organization dedicated to improve conditions for minority businesses by helping them secure contracts with our corporate membership. The GNEMSDC is the regional affiliate of the National Minority Supplier Development Council (NMSDC) based in New York City. The NMSDC has 37 regional affiliates like the GNEMSDC. The NMSDC is the largest and oldest minority business development

organization in the United States with over 1500 corporate members and over 20,000 certified MBEs who in 2009 had combined sales to our corporate membership of over \$125 billion. I come to you representing this organization and I come to you as professional economist with many years of experience in the area of economic and community development.

This morning I am here to share with you my thoughts on the legislation before this committee. H.B. 5475, H.B. 5877 and H.B. 5974. These bills call for changes in the state of Connecticut's minority business development programs in order to make them more effective and thereby improving economic and business conditions in minority and urban communities throughout the state. These bills are related.

HB 5475 is a bill that authorizes and funds a disparity study. The purpose of the disparity study is two fold: One to determine if and how much minority and women owned enterprises are not participating in state

contract opportunities. And secondly, the disparity study provides the legal grounds for the establishment of a remedy to whatever disparities are found in the study.

HB 5877 is a bill that establishes a Supplier Diversity Council for the State of Connecticut. This bill would create an oversight and advisory board similar to one recently established in Virginia that would look at ways the state could increase its utilization of high quality - cost competitive minority and women owned enterprises.

HB 5974 is a bill that redefines minority businesses for the purposes of the state's set aside program in order to eliminate fraud.

The GNEMSDC supports each of these bills. The disparity study is foundational and must be conducted if the state wants to make the changes necessary to improve its supplier diversity program. The existing

state program is based on a disparity study that is at least 25 years old. Things have changed dramatically since that disparity study. That study led to the establishment of a 6.25 percent goal for state contracts to be awarded to minority OR women owned enterprises. The demographics in the state have changed. Minority population and the percentage of minorities in the state have increased since the mid 1980s. According to the U.S. Census, minority population in the country, as a percentage of the population, has increased from 20.1 percent in 1980 to 38.7 percent in 2010. Connecticut has experienced similar growth in minority population. In 1980 minorities represented 12 percent of the CT population. Today it is estimated that 34.5 percent of the state's population is Black, Latino, Asian, Native American or multiple races.

The disparity study will look at the utilization of MBEs and WBEs given their representativeness in the business community and the size of the opportunity. However, we must also look at the utilization from the

perspective of economic and social equity. I estimate that minority taxpayers in the state of Connecticut contribute over \$1.6 billion to state coffers. It is inequitable for minority businesses to have total sales to the state of less than \$50 million. This pattern of money flowing out of minority households and not coming back to minority communities in the form of business development is a contributing factor in the relative poverty of minority communities across the state.

These facts point to a reality that the economic progress and future of the state is tied - more than ever - to the economic inclusion of businesses from this growing segment of the state's population. The state's minority business development goal of 6.25 percent has become a ceiling and a barrier that is not conducive for minority business development; and not conducive to the development of all communities in the state.

I am certain that a disparity study will show conclusively that Black, Latino, Asian and Native American businesses are significantly under-represented in state contracting.

What needs to be done to bring lasting and positive change for minority businesses and businesses in general?

1) Based on the results of the disparity study, separate goals need to be established for racial and ethnic minority businesses as distinct from women owned businesses. Under current law, the state set-aside program treats minority businesses as interchangeable with women owned businesses. State agencies need to have specific goals for contracting with certified minority owned businesses and specific goals for contracting with women owned businesses.

2) The state needs to add a provision in the law that tracks utilization of certified minority businesses regardless of the size of the business.

Currently the state's program is a small minority business program. It is appropriate for the state to have a focus on small minority businesses.

Most minority businesses in the state qualify for the existing program size standards. However, the state should have a policy of encouraging the utilization of large minority businesses that have sales greater than current guidelines. Minority businesses with over \$10,000,000 in annual sales are large and successful minority businesses, but they are small businesses when compared to the large global companies that they compete against for state contracts. These successful large minority businesses are often the most stable, profitable businesses in their respective communities and are major employers of state residents, particularly minority workers.

These businesses are at competitive disadvantage in many industries compared to large national and international companies. It is not in the interest of the state to have a policy that does not promote the largest and

most vibrant sector of the minority business community. These large minority businesses should be part of much more focused minority business and community development program. I would suggest that the state have separate goals for contracting with these large minority businesses from the goals established to assist small minority businesses.

3) The state needs to change the law so that whenever state dollars are used to pay for municipal activities, like school construction, all of these projects are covered by state set aside goals and policies. Currently, only school construction projects in the major cities are covered by state set aside goals and policies. The so-called municipal exemption sends a very strong negative signal that minority firms need not apply to provide goods and services in some of the wealthiest towns in the state. Why should school construction projects in Greenwich or Glastonbury be exempt from state set-asides if state taxpayer dollars are being used to fund these projects? Including all state funded projects in the state set-aside program

would create hundreds of millions of dollars of opportunities for minority businesses throughout the state, making them more viable competitors and stronger employers.

4) The state needs to privatize the certification process. Currently the state Department of Administrative Services (DAS) certifies women and minority owned small business enterprises as part of the State's supplier diversity program. Minority and women owned businesses are certified by private non-profit certifying organizations like the GNEMSDC and the Center for Women Enterprises, the Regional Affiliate of the Women's Business Enterprise Network Council (WBENC). WBENC is an organization that has a certification process similar to the NMSDC certification process. Both the NMSDC and GNEMSDC certification processes are almost identical to the existing state certification process. There is absolutely nothing that would prevent the state from utilizing the certification services of existing non-profits like WBENC and the NMSDC.

Privatizing certification would allow the state not only to save taxpayers money, but would allow the State's minority supplier diversity effort to focus on compliance and promotion of minority and women business utilization.

The GNEMSDC is prepared to offer our certification database to the state for no-charge if the State agrees to accept GNEMSDC certification.

5) The state's procurement practices need to be brought into the twenty first century. Currently too many bids are based on lowest qualified bid.

This policy of lowest qualified bid does not assure the lowest cost of ownership for the state. In many industries, and I suspect in many state contracts, low bidders are able to increase the cost to state with the use of change orders and other tactics to make the ultimate cost to the state higher than some of the losing bidders. Changing the goal from lowest bid to lowest cost of ownership, we believe would save the taxpayers money and result in greater utilization of minority and women owned businesses.

Other changes like un-bundling large state contracts enabling smaller minority companies to serve as primes to the state would also improve MBE participation and probably lower the total cost of ownership.

Unbundling would require effort on the part of state contracting authorities, but the reward would be greater employment in minority communities.

6) The state needs to engage in continuous training on the value of diversity in the State's supply chain. Corporate America spends a significant amount of time and effort not only developing its supply chain, but also developing the people who make decisions within their companies. Greater training on supplier diversity within the State's procurement operations, greater human resource diversity within state procurement teams, and a stronger connection between achieving diverse spending and bonuses, assuming such things exist under current budgetary conditions, need be implemented.

7) The state needs to enforce the contracts that prime contractors make with MBEs and WBEs. Currently and too often, large prime contractors recruit WBEs and MBEs to be a part of their "team". And unfortunately, when the contracts are awarded the WBEs and MBEs never see the business that they were promised from the prime. In effect, prime contractors use diverse suppliers to get the contract, but never use the MBE suppliers to produce the goods and services. Not being a lawyer, but to me, this sounds and looks like fraud. The State should enforce these contracts and stop the abuse of small diverse supplier by some large primes.

And finally, I must say that the comments above are not meant to take anything away from women owned businesses. Legitimate women owned enterprises need the support of the state. The State should spend more with WBEs. However, I do have a problem with eligibility for certification for WBEs and MBEs. WBEs and MBEs should not be certified if they are

co-located with non-diverse enterprises in the same line of business.

WBEs and MBEs should not be certified if the person that qualifies the business as a WBE or MBE does not have the skills or abilities to run the business on a day to day basis. All WBEs and MBEs need to be visited in order to "kick the tires" and see if these businesses are really who they say they are. That is what we do at the GNEMSDC and state taxpayers deserve no less. But more importantly, having illegitimate WBEs and MBEs in the state database takes away opportunities from legitimate WBEs and MBEs.

In closing, I thank the Chairpersons, State Representatives Gary Holder-Winfield and State Representative Donald Clemons for sponsoring these important pieces of legislation. And I hope that the General Assembly, the State Senate and the Governor see the wisdom of supporting this legislation on behalf of minority businesses, the general business community in the State and the taxpayers of the State. Thank you.