

SECTION VII.

Engineering Subcontracts

Some of the issues identified for firms pursuing construction subcontracts, discussed in Section V, also pertain to engineering firms seeking subconsulting work. However, different processes apply for competing for engineering contracts, especially in the public sector. Small firms and minority- and women-owned firms may face different barriers in obtaining subcontracts on engineering contracts with Caltrans and other agencies.

Qualitative Information on Subcontracting in the Transportation Engineering Industry

The study team collected qualitative information concerning potential barriers to MBE/WBE participation as subcontractors in transportation engineering contracts through interviews with minority-, women- and majority-owned firms, interviews with trade associations, review of oral and written public hearing testimony from individuals in this industry, and other sources.

Minority- and women-owned firms focus on subcontracting when pursuing public sector work. Some MBE/WBE firm owners said that they worked as primes in the private sector and subconsultants on public sector work. Some firms indicated that they have to function as a subcontractor on Caltrans work because they are not large enough to compete as a prime (even they may do prime work for other clients). The barriers that force some firms to compete as subconsultants rather than as primes are discussed in Section VIII.

Opportunities to work as a subconsultant in public sector work. A few business owners reported difficulty receiving subcontractor work for transportation engineering. One minority business owner said he faced difficulty because of his company's size and the fact that there is an "old boy network" in place. He reported that prime contractors tend to want to use people that they are familiar with, which makes it difficult for him. Another minority firm owner said that primes only work with a select group of DBEs, so it is very difficult to convince primes to change their DBE partners.

Methods to identify subcontracting opportunities. Some firms reported difficulty finding engineering subcontracting opportunities. Unlike construction contracts, one interviewee reported that it is not easy to identify the engineering firms interested in a particular project. A trade association representative said that teams are already formed by the time Caltrans puts out an RFP. One female business owner said that Caltrans pre-proposal meetings are helpful because you can meet people and put your name on lists to show that you were interested in the project. She said that getting lists of primes expressing an interest in a project was useful.

Prime contractor solicitation of subcontractors for quotes. Prime contractors are currently under no obligation to solicit quotes from subcontractors for any federally-funded construction contracts. Disabled veteran business enterprise (DVBE) goals apply to state-funded contracts, which require certain actions on the part of prime contracts on any contract with DVBE goals.

Good faith efforts to meet goals. Prior to May 1, 2006, Caltrans formally encouraged DBE participation on engineering contracts. As with construction, many firms reported that some prime consultants abused the process. Some MBE/WBE firms reported that they are asked for information as “window dressing” and won’t actually get any work. One minority female-owned business said that the company gets called two or three times a year to bid as a subcontractor on Caltrans work. “They ask you to submit your qualifications and we do and then that’s the end of that.” More information regarding the good faith process is available in Appendix I.

Frequency of solicitations after DBE goals program discontinued. Some minority- and women-owned firms indicated that primes used to request bids from their firms for subconsultant elements of Caltrans projects, but the number of requests decreased after the DBE goals program ended. One firm reported that the primes they used to work with now do more of the project work in-house.

Lists of potential subcontractors. Caltrans maintains a DBE directory and makes it available to prime contractors and others in both hard copy form and on the Caltrans website. As noted previously in this report, Caltrans has also unsuccessfully attempted to develop a bidders list.

Prime contractor use of DBEs listed on the project. The structure of the on-call contracts made it difficult to get DBEs involved in specific task orders according to one interviewee. He noted that there should be a way to enforce participation because a prime can say whatever they want when competing for the work and then not use subconsultants when they get a specific task order.

Differences after Proposition 209. As with construction subcontracts, some MBE/WBE firms had comments about a decline in solicitations for work after Proposition 209.

Insurance requirements. Although insurance was not mentioned as frequently among engineering subconsultants as it was among construction subcontractors, several businesses mentioned insurance requirements as a barrier for subconsulting work on engineering projects. One business reported that questions about insurance might arise during agreement negotiations at which point a subconsulting firm lacking the correct insurance might be dropped from the agreement.

Effect of DBE Contract Goals on Utilization

As observed for subcontracting opportunities on construction projects, MBE/WBE and DBE utilization for engineering subcontracts is affected by whether contracts specifies a DBE goal. One interviewee reported that, “we are only asked to be on the team if there are DBE requirements.”

Federally-funded and state-funded subcontracts. To determine utilization, the study team collected invoice payment information for a large sample of engineering contracts (and in some Caltrans districts, received information on most or all contracts as discussed in Appendix D). BBC then analyzed utilization for 422 subcontracts from federally-funded contracts before May 1, 2006 and 113 subcontracts from state-funded contracts across the entire study period. Figure VII-1 reports the results of these analyses.

On federal contracts with goals, minority- and women-owned businesses receive nearly one-half of all subcontract dollars. More than four out of five dollars going to an MBE or WBE went to a certified DBE firm. On state-funded contracts (without goals), MBE/WBEs received 27 percent of total subcontracting dollars.

BBC also collected information on federally-funded engineering contracts between May and December 2006; however, there were too few subcontracts to examine any differences before and after May 1, 2006.

Figure VII-1.
MBE/WBE share of subcontract dollars
for transportation engineering
contracts, federal vs. state funding

Note:

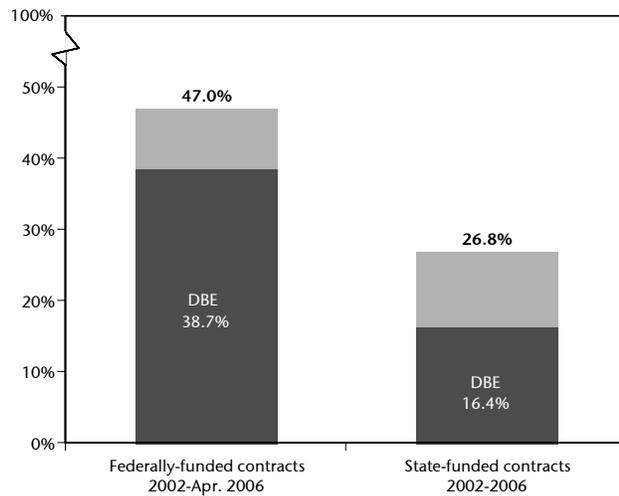
Statistics above each bar is total MBE/WBE utilization. Certified DBE utilization is noted in the bottom portion of each bar. The difference is utilization of MBE/WBEs that were not DBE certified.

For more detail and for results by MBE/WBE group, see Figures E-107 and E-74 in Appendix E.

Number of subcontracts analyzed is 422 for 2002-April 2006 federally-funded contracts and 113 for state-funded contracts.

Source:

BBC Research and Consulting from contract data on Caltrans, Local Assistance and SR 125 contracts.



Utilization of firms by race and gender group. Analysis of utilization by MBE/WBE group for engineering subcontracts (see Figure VII-2) reveals different patterns by group. Women- and Asian-Pacific American-owned firms received similar proportions of subcontracting dollars on engineering projects with and without DBE goals. African American- and Native American-owned firms received consistently small proportions of total subcontracting dollars for engineering services, regardless of whether they had DBE goals.

The difference in utilization with and without DBE contract goals is most stark for Hispanic American-owned and Subcontinent Asian American-owned firms. Subcontinent Asian American-owned firms received 12 percent of subcontract dollars on federally-funded contracts and only 1 percent of subcontract dollars on state-funded contracts.

Hispanic American-owned firms received 15 percent of subcontract dollars for federally-funded contracts and only one-half that share of subcontract dollars for state-funded contracts.

Similar patterns were found when analyzing utilization of DBEs by race, ethnicity and gender (also in Figure VII-2).

**Figure VII-2.
DBE and MBE/WBE
share of subcontract
dollars for transportation
engineering contracts,
by race/ethnicity/gender**

Note:

Numbers rounded to nearest tenth of 1 percent.

For more detail, see Figures E-107 and E-74 in Appendix E.

Number of subcontracts analyzed is 422 for 2002-April 2006 federally-funded contracts and 113 for state-funded contracts.

Source:

BBC Research and Consulting from contract data on Caltrans, Local Assistance and SR 125 contracts.

		State-funded contracts 2002–2006
MBE/WBEs		
African American-owned	2.0%	1.4%
Asian-Pacific American-owned	9.3	7.3
Subcontinent Asian American-owned	11.8	1.1
Hispanic American-owned	14.5	6.9
Native American-owned	<u>0.1</u>	<u>0.6</u>
Total MBE	39.5%	17.4%
WBE (white women-owned)	<u>7.5</u>	<u>9.4</u>
Total MBE/WBE	47.0%	26.8%
DBEs		
African American-owned	1.9%	0.1%
Asian-Pacific American-owned	8.4	8.0
Subcontinent Asian American-owned	11.1	1.2
Hispanic American-owned	11.9	2.1
Native American-owned	<u>0.0</u>	<u>0.2</u>
Total MBE	33.4%	11.7%
WBE (white women-owned)	5.1	4.7
White male-owned DBE	<u>0.0</u>	<u>0.0</u>
Total DBE	38.7%	16.4%

Disparity Analysis

The overall rate at which MBE/WBEs are utilized as subconsultants exceeds the expected level given availability for the sample of federally-funded engineering contracts. For contracts without DBE goals (state-funded contracts), MBE/WBE utilization is only 74 percent of the level expected for these subcontracts.

Federally-funded and state-funded subcontracts. Figure VII-3 presents the results of disparity analysis for subcontracts on both federally- and state-funded engineering contracts. As shown, Native American-owned firms experienced the greatest disparities of any ownership group (for example, only 7 cents of every expected subcontracting dollar on contracts with DBE goals). Hispanic American- and Subcontinent Asian-owned firms received two- and three-times more subcontracting dollars than expected for federally-funded contracts but only obtained two-thirds and one-third of their expected utilization for state-funded contracts, respectively. Utilization of African American- and women-owned firms fell below availability for both federally- and state-funded contracts. Utilization of Asian-Pacific American-owned firms was similar to what would be expected based on availability of these firms for engineering subcontract work.

Figure VII-3.
Disparity indices for
MBE/WBE utilization on
federally- and state- funded
transportation engineering
subcontracts, 2002-April
2006 and 2002-2006

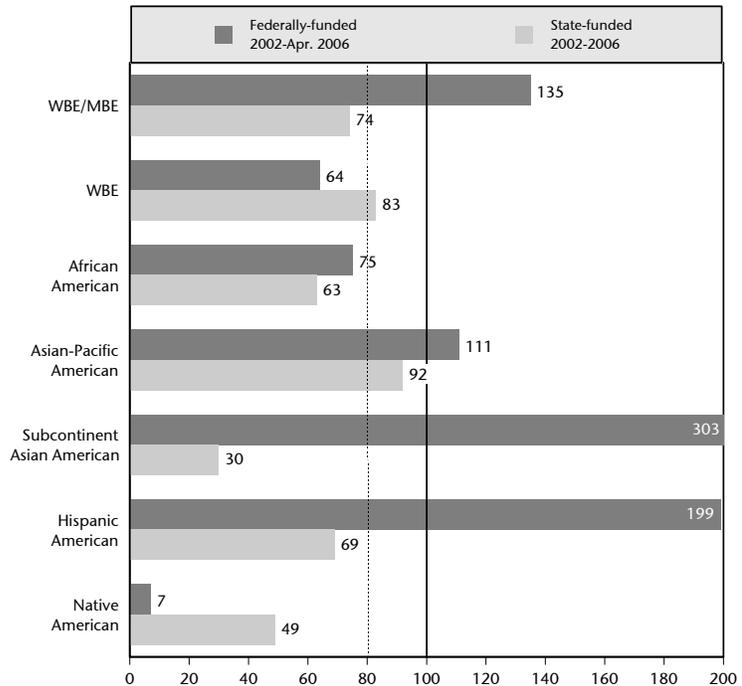
Note:

Includes Caltrans, Local Assistance and SR 125 contracts. For more detailed information, see Figure E-107 and Figure E-74 in Appendix E.

Number of subcontracts analyzed is 422 for 2002-April 2006 federally-funded contracts and 113 for state-funded contracts.

Source:

BBC Research and Consulting.



Participation of MBE/WBEs in the Private Sector

Some women and minority firm owners reported preferences for working in the private sector, most frequently because payment tends to be more timely than on government projects. Work in the private sector requires considerable effort early in a firm's lifecycle, but once a firm establishes relationships through work with more established firms and begins to develop its own reputation, work tends to follow without the effort involved in preparing and submitting a statement of qualifications. A few firms that work primarily as subconsultants suggested that private sector contracts are more likely to be unbundled, allowing them to compete for smaller or more specialized elements of a larger project.

As discussed in Appendix F, one-half of majority-owned transportation engineering firms had proposed as prime or subconsultants on private sector work in the past five years. This was higher than MBEs and WBEs, except for Native American-owned firms. For most groups, MBEs were somewhat less likely than majority-owned firms to have bid as subconsultants on private sector work. WBEs were far less likely to bid as subconsultants on private sector work than majority-owned firms (20 percent versus 30 percent).