

CHAPTER 3.

Marketplace Conditions

Historically, there have been a myriad of legal, economic, and social obstacles that have impeded minorities and women from acquiring the human and financial capital necessary to start and operate successful businesses. Barriers such as slavery, racial oppression, segregation, race-based displacement, and labor market discrimination produced substantial disparities for minorities and women, the effects of which are still apparent today. Those barriers limited opportunities for minorities in terms of both education and workplace experience.^{1,2,3,4} Similarly, many women were restricted to either being homemakers or taking gender-specific jobs with low pay and little chance for advancement.⁵

In the 19th and early 20th centuries, minorities in Los Angeles County faced barriers that were similar to those that minorities faced nationwide. Discriminatory treatment was common for minorities in Los Angeles County. Black Americans, Hispanic Americans, Native Americans, and Asian Pacific Americans routinely experienced housing discrimination in the form of racially-restrictive housing covenants.^{6,7} Employment discrimination was also a barrier for race/ethnic minorities. Black Americans, Hispanic Americans, and Native Americans were excluded from unionized skilled trades and typically worked low skill, temporary jobs that paid low wages.^{8,9,10,11} Black Americans, Native Americans, and Chinese Americans were also the victims of racially-motivated harassment and violence in Los Angeles County, including assaults, lynching, and bombings.^{12,13,14} In addition, the City of Los Angeles passed legislation in the early 20th century to set limits on the number and location of Chinese American-owned businesses within their jurisdiction.¹⁵

In the middle of the 20th century, many legal and workplace reforms opened up new opportunities for minorities and women nationwide. *Brown v. Board of Education*, *The Equal Pay Act*, *The Civil Rights Act*, and *The Women's Educational Equity Act* outlawed many forms of race-based and gender-based discrimination. Workplaces adopted formalized personnel policies and implemented programs to diversify their staffs.¹⁶ Those reforms increased diversity in workplaces and reduced educational and employment disparities for minorities and women^{17,18,19,20} However, despite those improvements, minorities and women continue to face barriers—such as incarceration, residential segregation, and family responsibilities—that have made it more difficult to acquire the human and financial capital necessary to start and operate businesses successfully.^{21,22,23}

Federal Courts and the United States Congress have considered barriers that minorities, women, and minority- and woman-owned businesses face in a local marketplace as evidence for the existence of race-based and gender-based discrimination in that marketplace.^{24,25,26} The United States Supreme Court and other federal courts have held that analyses of conditions in a local marketplace for minorities; women, minority-owned businesses, and woman-owned businesses are instructive in determining whether agencies' implementations of minority-owned business and woman-owned business programs are appropriate and justified. Those analyses help

agencies determine whether they are *passively participating* in any race-based or gender-based discrimination that makes it more difficult for minority-owned businesses and woman-owned businesses to successfully compete for their contracts. Passive participation in discrimination means that agencies unintentionally perpetuate race-based or gender-based discrimination simply by operating within discriminatory marketplaces. Many courts have held that passive participation in any race-based or gender-based discrimination establishes a *compelling governmental interest* for agencies to take remedial action to address such discrimination.^{27, 28, 29}

The study team conducted quantitative and qualitative analyses to assess whether minorities, women, minority-owned businesses, and woman-owned businesses face any barriers in the Los Angeles County construction; professional services; or goods and other services industries. The study team also examined the potential effects that any such barriers have on the formation and success of minority-owned businesses and woman-owned businesses and on their participation in, and availability for, contracts that the Los Angeles County Metropolitan Transportation Authority (Metro) awards. The study team examined local marketplace conditions primarily in four areas:

- **Human capital**, to assess whether minorities and women face any barriers related to education, employment, and gaining managerial experience in relevant industries;
- **Financial capital**, to assess whether minorities and women face any barriers related to wages, homeownership, personal wealth, and access to financing;
- **Business ownership** to assess whether minorities and women own businesses at rates that are comparable to that of non-Hispanic white men; and
- **Success of businesses** to assess whether minority-owned businesses and woman-owned businesses have outcomes that are similar to those of businesses owned by non-Hispanic white men.

The information in Chapter 3 comes from existing research in the area of race-based and gender-based discrimination as well as from primary research that the study team conducted of current marketplace conditions. Additional quantitative and qualitative analyses of marketplace conditions are presented in Appendix C and Appendix D, respectively.

A. Human Capital

Human capital is the collection of personal knowledge, behavior, experience, and characteristics that make up an individual's ability to perform and succeed in particular labor markets. Human capital factors such as education, business experience, and managerial experience have been shown to be related to business success.^{30, 31, 32, 33} Any race-based or gender-based barriers in those areas may make it more difficult for minorities and women to work in relevant industries and prevent some of them from starting and operating businesses successfully.

Education. Barriers associated with educational attainment may preclude entry or advancement in certain industries, because many occupations require at least a high school diploma, and some occupations—such as occupations in professional services—require at least a four-year college degree. In addition, educational attainment is a strong predictor of both income and personal wealth, which are both shown to be related to business formation and

success.^{34, 35} Nationally, minorities lag behind non-Hispanic whites in terms of both educational attainment and the quality of education that they receive.^{36, 37} Minorities are far more likely than non-Hispanic whites to attend schools that do not provide access to core classes in science and math.³⁸ In addition, Black American students are more than three times more likely than non-Hispanic whites to be expelled or suspended from high school.³⁹ For those and other reasons, minorities are far less likely than non-Hispanic whites to attend college; enroll at highly- or moderately selective four-year institutions; or earn college degrees.⁴⁰

Educational outcomes for minorities in Los Angeles County are similar to those for minorities nationwide. The study team’s analyses of the Los Angeles County labor force indicate that certain minority groups are far less likely than non-Hispanic whites to earn a college degree. Figure 3-1 presents the percentage of Los Angeles County workers that have earned a four-year college degree by racial/ethnic and gender group. As shown in Figure 3-1, Black American, Hispanic American, Native American, and other race minority workers in Los Angeles County are substantially less likely than non-Hispanic white workers to have four-year college degrees.

Many of the individuals participating in in-depth interviews and public meetings stated that prior to starting their own business, they worked for other businesses in the field and that allowed them to gain the education and experience to enable them to start their own business. For instance, the Asian American male owner of a structural and civil engineering firm indicated that opening his own engineering firm had always been a childhood dream. He explained how he first began working for small government and private companies inspecting cement bridges and buildings abroad in the 1960s. After migrating to the U.S., he enrolled into a university in Los Angeles where he studied earthquake engineering. After gaining experience working for small engineering firms in the U.S., he decided to open his own business in 1982. He stated: “With all the resources like the savings and the experiences, including the clients of my original employers, I was able to have those former clients of my employers to be the ones I should start looking for project or projects that might help in this newly formed office of mine.”

Figure 3-1.
Percentage of all workers 25 and older with at least a four-year degree, Los Angeles County, 2011-2015

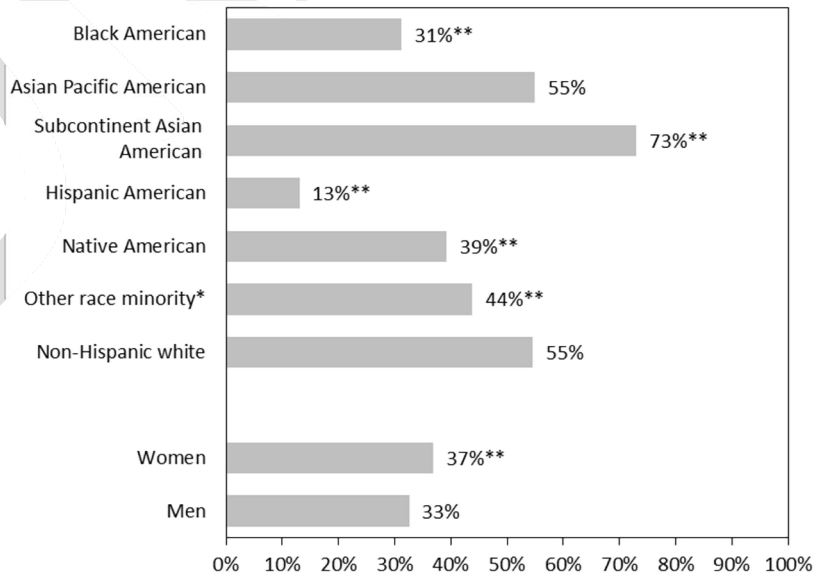
Note:

* Represents other races not represented in any of the other race categories

** Denotes that the difference in proportions between the minority group and non-Hispanic whites (or between women and men) is statistically significant at the 95% confidence level.

Source:

BBC Research & Consulting from 2011-2015 ACS 5% Public Use Microdata sample. The raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.



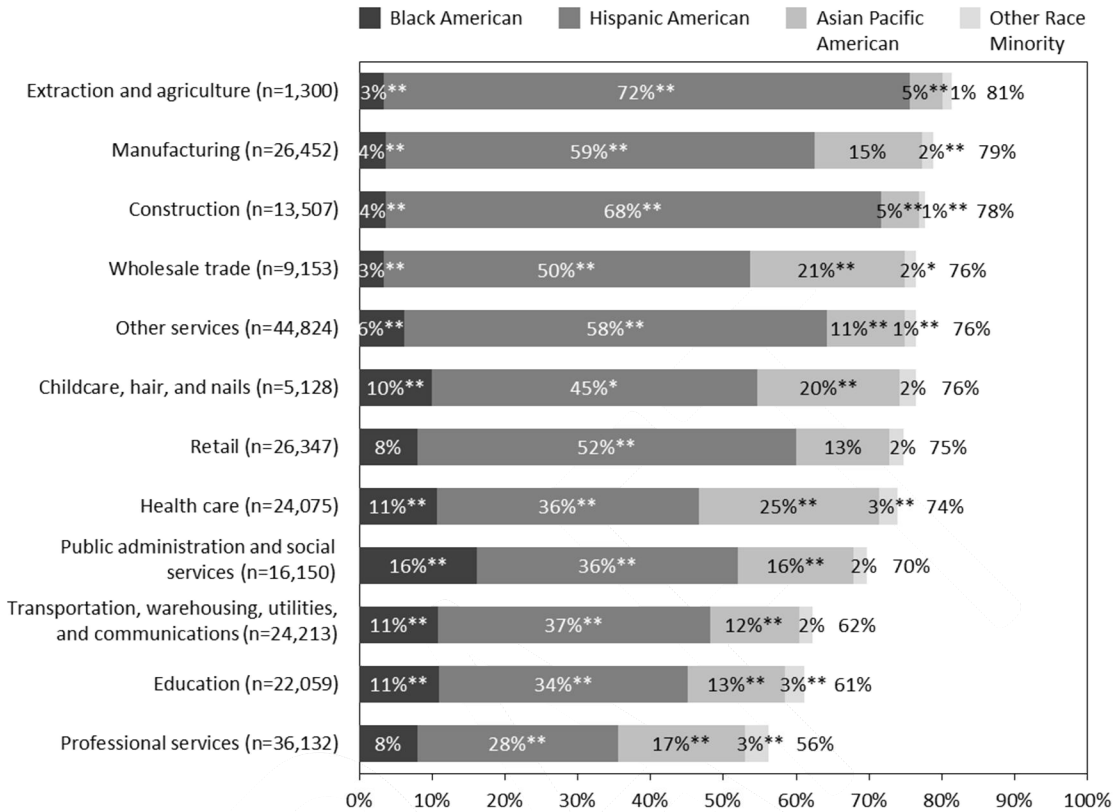
Employment and management experience. An important precursor to business ownership and success is acquiring direct work and management experience in relevant industries. Any barriers that limit minorities and women from acquiring that experience could prevent them from starting and operating related businesses in the future.

Employment. On a national level, prior industry experience has been shown to be an important indicator for business ownership and success. However, minorities and women are often unable to acquire relevant work experience. Minorities and women are sometimes discriminated against in hiring decisions, which impedes their entry into the labor market.^{41, 42, 43} When employed, minorities and women are often relegated to peripheral positions in the labor market and to industries that exhibit already high concentrations of minorities or women.^{44, 45, 46, 47, 48} In addition, minorities are incarcerated at a higher rate than non-Hispanic whites in California and nationwide, which contributes to a number of labor difficulties including difficulties finding jobs and relatively slow wage growth.^{49, 50, 51, 52}

The study team's analyses of the labor force in Los Angeles County are largely consistent with those findings. Figures 3-2 and 3-3 present the representations of minority and women workers in various Los Angeles County industries. As shown in Figure 3-2, the Los Angeles County industries with the highest representations of minority workers are extraction and agriculture; manufacturing; and construction. The Los Angeles County industries with the lowest representations of minority workers are transportation, warehousing, utilities, and communications; education; and professional services.

Some of the individuals participating in the in-depth interviews and public meetings made comments regarding the difficulties around finding experienced employees. For instance, the non-Hispanic white male president and CEO of a pest control firm said "I have a hard time finding people with experience. There are some provisions that I can train people. I want to get Spanish-speaking or bilingual people. People who are culturally-sensitive. Females in this job tend to have a harder time, this tends to be a male [industry.] I have a female that works for me, a technician. I had to fight internally, like 'No I'm going to give this person a chance. They're qualified. This is the United States.' I think learning the trade for females can be a problem."

Figure 3-2.
Percent representation of minorities in various industries in Los Angeles County, 2011-2015



Note: ** Denotes that the difference in proportions between minority workers in the specified industry and minority workers in all industries is statistically significant at the 95% confidence level.

. The representation of minorities among all LA County workers is 8% for Black Americans, 46% for Hispanic Americans, 14% for Asian Pacific Americans, 2% for other race minorities and 71% for all minorities considered together.

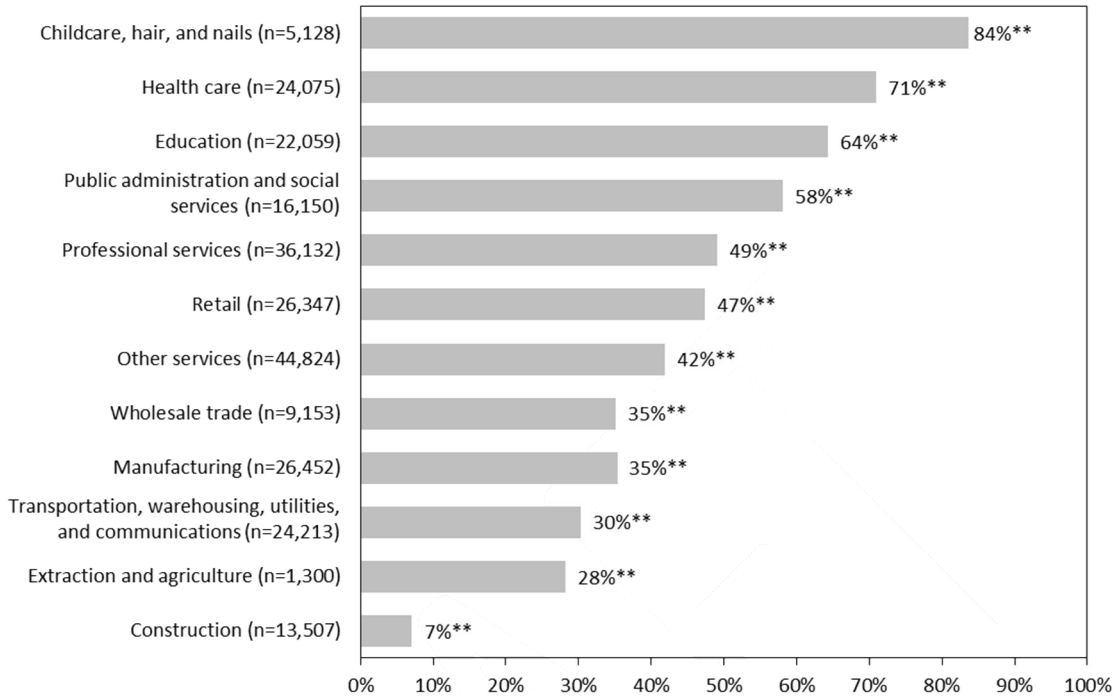
"Other race minority" includes Asian Pacific Americans, Subcontinent Asian Americans, Native Americans, and other races.

Workers in the finance, insurance, real estate, legal services, accounting, advertising, architecture, management, scientific research, and veterinary services industries were combined to one category of professional services. Workers in the rental and leasing; travel; investigation; waste remediation; arts; entertainment; recreation; accommodations; food services; and select other services were combined into one category of other services. Workers in child day care services, barber shops, beauty salons, nail salons, and other personal were combined into one category of childcare, hair, and nails.

Source: BBC Research & Consulting from 2011-2015 ACS 5% Public Use Microdata sample. The raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

Figures 3-3 indicates that the Los Angeles County industries with the highest representations of women workers are childcare, hair, and nails; healthcare; and education. The Los Angeles County industries with the lowest representations of women workers are transportation, warehousing, utilities, and communications; extraction and agriculture; and construction.

Figure 3-3.
Percent representation of women in various industries in Los Angeles County, 2011-2015



Note: *, ** Denotes that the difference in proportions between the minority group and non-Hispanic whites (or between women and men) is statistically significant at the 90% and 95% confidence levels, respectively.

The representation of women among all Los Angeles County workers is 46%.

Workers in the finance, insurance, real estate, legal services, accounting, advertising, architecture, management, scientific research, and veterinary services industries were combined to one category of professional services. Workers in the rental and leasing; travel; investigation; waste remediation; arts; entertainment; recreation; accommodations; food services; and select other services were combined into one category of other services. Workers in child day care services, barber shops, beauty salons, nail salons, and other personal were combined into one category of childcare, hair, and nails.

Source: BBC Research & Consulting from 2011-2015 ACS 5% Public Use Microdata sample. The raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

Management experience. Managerial experience is an essential predictor of business success. However, race-based and gender-based discrimination remains a persistent obstacle to greater diversity in management positions.^{53, 54, 55} Nationally, minorities and women are far less likely than non-Hispanic white men to work in management positions.^{56, 57} Similar outcomes appear to exist for minorities and women in Los Angeles County. The study team examined the concentration of minorities and women in management positions in the Los Angeles County construction; professional services; and goods and other services industries. As shown in Figure 3-4:

- Compared to non-Hispanic whites, smaller percentages of Black Americans, Asian Pacific Americans, Native Americans, and Hispanic Americans work as managers in the Los Angeles County construction industry.
- Compared to non-Hispanic whites, smaller percentages of Asian Pacific Americans work as managers in the Los Angeles County professional services industry. In addition, a smaller percentage of women than men work as managers in the Los Angeles professional services industry.

- Compared to non-Hispanic whites, smaller percentages of Black Americans, Hispanic Americans, and other race minorities work as managers in the Los Angeles County goods and other services industry. In addition, a smaller percentage of women than men work as managers in the Los Angeles County goods and other services industry.

Many individuals that participated in in-depth interviews and public meetings expressed their frustration with the difficulties around gained experience in the industries where they work. For example, the female representative of a minority woman owned DBE-certified supply firm commented, “A lot of these larger corporations have men in power; thus, they want to work with a man that has the same power.” She added, “When they walk into a room, some of these guys don’t speak because they don’t even want to work with women in business because they don’t feel that they’re on the same level. This attitude impedes progress and advancement in the industry.”

Figure 3-4.
Percentage of Los Angeles County workers who worked as a manager in each study-related industry, 2011-2015

	Construction	Professional Services	Goods and Services
Race/ethnicity			
Black American	8.1 % **	5.6 %	0.7 % **
Asian Pacific American	11.6 **	2.1 **	3.1 **
Subcontinent Asian American	19.1	0.0	4.7
Hispanic American	2.5 **	3.7	0.8 **
Native American	4.1 **	0.0 †	6.2
Other Race Minority	12.4	0.0 †	0.0 *
Non-Hispanic white	15.6	4.1	4.9
Gender			
Women	7.1 %	1.7 % **	1.3 % **
Men	6.1	4.2	2.5
All individuals	6.2 %	3.6 %	2.1 %

Note: *, ** Denotes that the difference in proportions between the minority group and non-Hispanic whites (or between women and men) is statistically significant at the 90% and 95% confidence levels, respectively.

† Denotes significant differences in proportions not reported due to small sample size.

Source: BBC Research & Consulting from 2011-2015 ACS 5% Public Use Microdata sample. The raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

Intergenerational business experience. Having a family member who owns a business and is working in that business is an important predictor of business ownership and business success. Such experiences help entrepreneurs gain access to important opportunity networks; obtain knowledge of best practices and business etiquette; and receive hands-on experience in helping to run businesses. However, at least nationally, minorities have substantially fewer family members who own businesses and both minorities and women have fewer opportunities to be involved with those businesses.^{58,59} That lack of experience makes it more difficult for minorities and women to subsequently start their own businesses and operate them successfully.

B. Financial Capital

In addition to human capital, financial capital has been shown to be an important indicator of business formation and success.^{60,61,62} Individuals can acquire financial capital through many sources including employment wages, personal wealth, homeownership, and financing. If race-based or gender-based discrimination exists in those capital markets, minorities and women may have difficulty acquiring the capital necessary to start, operate, or expand businesses.

Wages and income. Wage and income gaps between minorities and non-Hispanic whites and between women and men are well-documented throughout the country, even when researchers have statistically controlled for various factors unrelated to race and gender.^{63, 64, 65} For example, national income data indicate that, on average, Black Americans and Hispanic Americans have household incomes that are less than two-thirds those of non-Hispanic whites.^{66, 67} Women have also faced consistent wage and income gaps relative to men. Nationally, the median hourly wage of women is still only 84 percent the median hourly wage of men.⁶⁸ Such disparities make it difficult for minorities and women to use employment wages as a source of business capital.

BBC observed wage gaps in Los Angeles County consistent with those that researchers have observed nationally. Figure 3-5 presents mean annual wages for Los Angeles County workers by race/ethnicity and gender. As shown in Figure 3-5, Black Americans, Asian Pacific Americans, Hispanic Americans, Native Americans, and other race minorities in Los Angeles County earn substantially less than non-Hispanic whites. In addition, women workers earn substantially less than men. BBC also conducted regression analyses to assess whether wage disparities exist even after accounting for various race-neutral and gender-neutral factors such as age, education, and family status. Those analyses indicated that being Black American, Asian Pacific American, Subcontinent Asian American, Hispanic American, or other race minority was associated with substantially lower earnings than being non-Hispanic white, even after accounting for various race-neutral and gender-neutral factors. Similarly, being a woman was associated with lower earnings than being a man (for details, see Figure C-10 in Appendix C).

Some individuals participating in in-depth interviews and public hearings had comments about income disparity. For instance, the Asian-Pacific American male director of an architectural, planning and engineering services firm stated “...What I would personally like to see is less of a focus on ethnicity, speaking as an Asian male, and more of a focus on perhaps income disparity. Because if you come from a poor family and if you grew up in a poor neighborhood, whether you’re black or white or Asian or Hispanic, it shouldn’t really matter. If we have a program that says, ‘If you can prove that your parents were economically disadvantaged, and we have a program to help you overcome that.’ I think that would be wonderful. Get away from the whole ethnicity thing. Because speaking as a Canadian company, it’s amazing how the Canadians are completely blind to ethnicity. They really don’t see color at all. I think the real disparity is income disparity. And you can be white and poor, and why don’t you deserve help? That’s my own personal feelings. If we have a program, a disadvantaged program, let’s look at income.”

Figure 3-5.
Mean annual wages
among Los Angeles
County workers, 2011-
2015

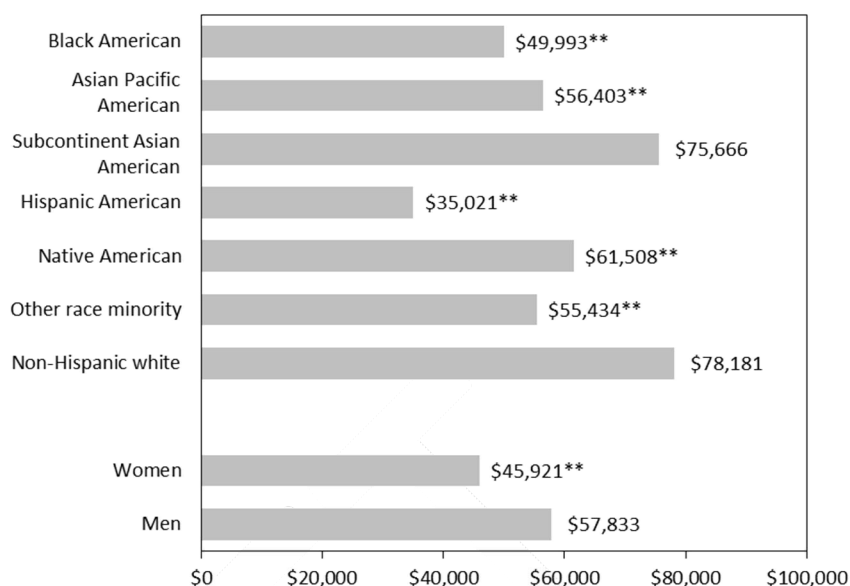
Note:

The sample universe is all non-institutionalized, employed individuals aged 25-64 that are not in school, the military, or self-employed.

** Denotes statistically significant differences from non-Hispanic whites (for minority groups) or from men (for women) at the 95% confidence level.

Source:

BBC Research & Consulting from 2011-2015 ACS 5% Public Use Microdata sample. The raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.



Personal wealth. Another important potential source of business capital is personal wealth. As with wages and income, there are substantial disparities between minorities and non-Hispanic whites and between women and men in terms of personal wealth.^{69, 70} For example, in 2010, Black Americans and Hispanic Americans across the country exhibited average household net worth that was 5 percent and 1 percent that of non-Hispanic whites, respectively. In California and nationwide, approximately one-quarter of Black Americans and Hispanic Americans are living in poverty, about double the comparable rates for non-Hispanic whites.⁷¹ Wealth inequalities also exist for women relative to men. For example, the median wealth of non-married women nationally is approximately one-third that of non-married men.⁷²

Homeownership. Homeownership and home equity have been shown to be key sources of business capital.^{73, 74} However, minorities appear to face substantial barriers nationwide in owning homes. For example, Black Americans and Hispanic Americans own homes at less than two-thirds the rate of non-Hispanic whites.⁷⁵ Discrimination is at least partly to blame for those disparities. Research indicates that minorities continue to be given less information on prospective homes and have their purchase offers rejected because of their race.^{76, 77} Minorities who own homes tend to own homes that are worth substantially less than those of non-Hispanic whites and also tend to accrue substantially less equity.^{78, 79} Differences in home values and equity between minorities and non-Hispanic whites can be attributed—at least, in part—to the depressed property values that tend to exist in racially-segregated neighborhoods.^{80, 81}

Minorities appear to face homeownership barriers in Los Angeles County that are similar to those observed nationally. BBC examined homeownership rates in Los Angeles County for relevant racial/ethnic groups. As shown in Figure 3-6, Black Americans, Asian Pacific Americans, Subcontinent Asian Americans, Hispanic Americans, Native Americans, and other race minorities in Los Angeles County exhibit homeownership rates that are significantly lower than that of non-Hispanic whites.

Figure 3-6.
Home ownership rates in
Los Angeles County, 2011-
2015

Note:
 The sample universe is all households.
 ** Denotes statistically significant differences
 from non-Hispanic whites at the 95%
 confidence level.
 Source:
 BBC Research & Consulting from 2011-2015
 ACS 5% Public Use Microdata sample. The raw
 data extract was obtained through the IPUMS
 program of the MN Population Center:
<http://usa.ipums.org/usa/>.

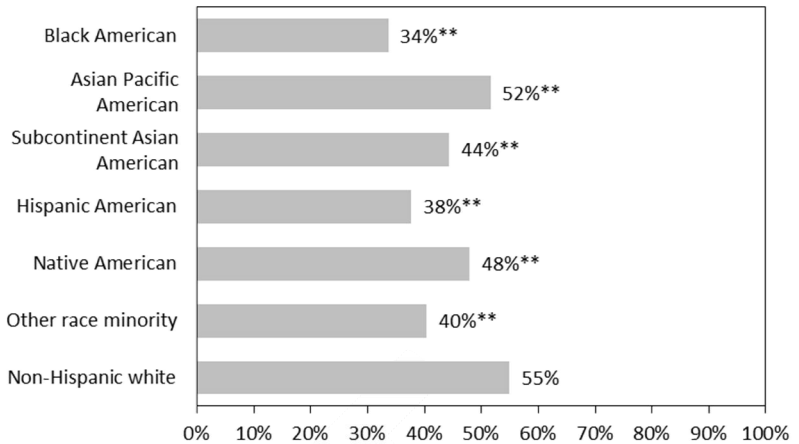
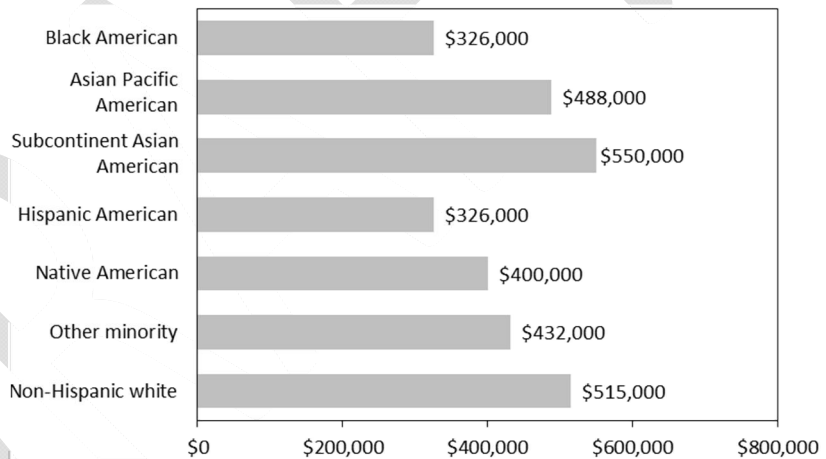


Figure 3-7 presents median home values among homeowners of different racial/ethnic groups in Los Angeles County. Consistent with national trends, homeowners of certain minority groups—Black Americans, Asian Pacific Americans, Hispanic Americans, Native Americans, and other race minorities—own homes that, on average, are worth substantially less than those of non-Hispanic whites.

Figure 3-7.
Median home values in Los
Angeles County, 2011-2015

Note:
 The sample universe is all owner-occupied
 housing units.
 Source:
 BBC Research & Consulting from 2011-2015
 ACS 5% Public Use Microdata sample. The raw
 data extract was obtained through the
 IPUMS program of the MN Population
 Center: <http://usa.ipums.org/usa/>.



Access to financing. Minorities and women face many barriers in trying to access credit and financing, both for home purchases and for business capital. Researchers have often attributed those barriers to various forms of race-based and gender-based discrimination that exist in credit markets.^{82, 83, 84, 85, 86, 87} The study team summarizes results related to difficulties that minorities, women, minority-owned businesses, and woman-owned businesses face in the home credit and business credit markets.

Some individuals participating in in-depth interviews and public meetings spoke to the difficulties of getting financing as a small business. For example, the Black American female owner of a construction-related business stated that the biggest challenge to starting and maintaining her company is obtaining financing. She reported having very little cash or other resources to invest at startup, which affected her ability to pursue opportunities, purchase equipment, and fund the day-to-day operations of her business.

Home credit. Minorities and women continue to face barriers when trying to access credit to purchase homes. Examples of such barriers include discriminatory treatment of minorities and women during the pre-application phase and disproportionate targeting of minority and women borrowers for subprime home loans.^{88, 89, 90, 91, 92} Race-based and gender-based barriers in home credit markets, as well as the recent foreclosure crisis, have led to decreases in homeownership among minorities and women and have eroded their levels of personal wealth.^{93, 94, 95, 96}

To examine how minorities fare in the home credit market relative to non-Hispanic whites, the study team analyzed home loan denial rates for high-income households by race/ethnicity. The study team analyzed data for Los Angeles County and the United States as a whole. As shown in Figure 3-8, all relevant race/ethnic minority groups exhibit higher home loan denial rates than non-Hispanic whites in the United States. In Los Angeles County, Black Americans, Hispanic Americans, Native Americans, and Native Hawaiian or other Pacific Islanders exhibit higher home loan denial rates than non-Hispanic whites. In addition, the study team's analyses indicate that certain minority groups in Los Angeles County are more likely than non-Hispanic whites to receive subprime mortgages (for details, see Figure C-14 in Appendix C).

Business credit. Minority-owned businesses and woman-owned businesses face substantial difficulties accessing business credit. For example, during loan pre-application meetings, minority-owned businesses are given less information about loan products, are subjected to more credit information requests, and are offered less support than their non-Hispanic white counterparts.⁹⁷ Researchers have shown that Black American-owned businesses and Hispanic American-owned businesses are more likely to forego submitting business loan applications and are more likely to be denied business credit when they do seek loans, even after accounting for various race-neutral and gender-neutral factors.^{98, 99, 100} In addition, women are less likely to apply for credit and receive loans of less value when they do.^{101, 102} Without equal access to business capital, minority-owned businesses and woman-owned businesses must operate with less capital than businesses owned by non-Hispanic white men and rely more on personal finances.^{103, 104, 105, 106}

Several individuals participating in in-depth interviews and public meetings commented on the difficulties of obtaining business credit. For example, the Asian-American male owner of a DBE, MBE, and SBE-certified environmental engineering firm responded "When I started my own firm, I had no savings. I cashed out my PTO, and that was my capital. I went to the bank that has my mortgage, and they would not even issue me a company credit card. I attended small business training at resource centers and the Value Development Counsel. They would introduce you to a bank, but I would always get declined. What nobody tells you [at the resource centers] is that the bank wants three years of business activity. There is a definite problem with funding. Not a lot of people who have dreams of starting a small business have more than \$20,000 in their account. Now that my cash flow is positive and the bank is seeing \$60,000 to \$70,000 in a month they send me invitations to apply [for credit]. But, Wells Fargo who has seen my account go from zero to a quarter of a million still will not issue me a company credit card. Finally, Quickbooks invited me to apply for a small business loan. Even though I don't need the money, I applied, because I want to build credit. I was immediately given \$20,000. There should be more banks like this. This is a space that needs a lot of work."

Public finance. Minority-owned banks¹⁰⁷ are a key source of banking services for minorities and for minority-owned businesses.^{108,109} Minority-owned banks are more likely to locate branches in predominately minority and low income communities and offer loans to individuals with weaker credit profiles.¹¹⁰ The 2008 financial crisis caused bank consolidation that reduced the number of FDIC-insured minority-owned banks in some areas. The acquisition of closing or failing minority-owned banks by co-ethnic financial institutions helped to maintain the presence of minority-owned banks in many communities. However, despite the persistence of minority-owned banks, the financial crisis left those institutions in a diminished marketplace role in the disadvantaged communities they typically serve. After the crisis, minority-owned banks had a smaller market share of FDIC-insured deposits in predominately minority and low income communities because of a sharp increase in deposits with majority-owned banks. Those shifts may make it difficult in some parts of the United States for public agencies to find minority-owned banks that are available for public finance projects or have diminished capacity to offer such services.

Asian American-owned banks in Los Angeles County maintained a strong market presence relative to minority-owned banks in the rest of the US. In 2015, for example, there were 34 minority-owned banks headquartered in Los Angeles County, which held \$79 billion in assets. The majority (29) of those banks and assets (\$78B) were held by Asian American-owned banks. Asian American-owned banks in Los Angeles County hold 40 percent of all the assets deposited in Minority-owned banks nationwide.¹¹¹ The concentration of Asian American-owned banks in Los Angeles County offers local public agencies an option to complete a variety of banking and public finance services with minority-owned banks in their community.

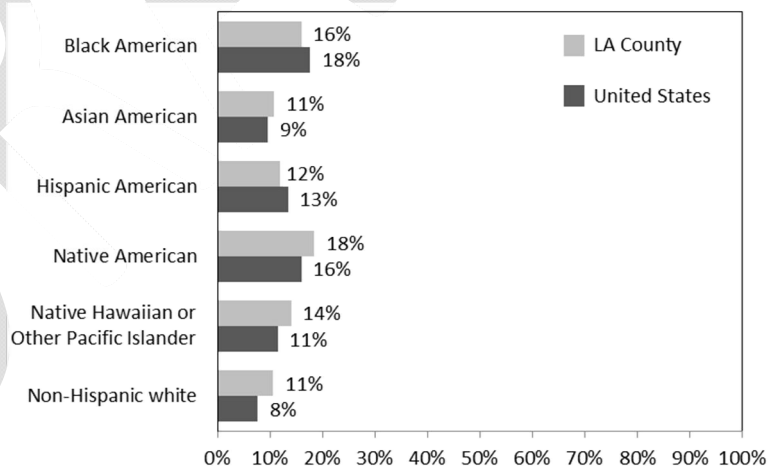
Figure 3-8.
Denial rates of conventional purchase loans for high-income households, Los Angeles County and the United States, 2015

Note:

High-income borrowers are those households with 120% or more of the HUD area median family income (MFI).

Source:

FFIEC HMDA data 2015. The raw data extract was obtained from the Consumer Financial Protection Bureau HMDA data tool: <http://www.consumerfinance.gov/hmda/explore>.



C. Business Ownership

Nationally, there has been substantial growth in the number of minority-owned and woman-owned businesses in recent years. For example, from 2007 to 2012, the number of woman-owned businesses increased by 27 percent, the number of Black American-owned businesses increased by 35 percent, and the number of Hispanic American-owned businesses increased by 46 percent.¹¹² Despite the progress that minorities and women have made with regard to business ownership, important barriers in starting and operating businesses remain. Black

Americans, Hispanic Americans, and women are still less likely to start businesses than non-Hispanic white men.^{113, 114, 115, 116} In addition, although rates of business ownership have increased among minorities and women, they have been unable to penetrate all industries evenly. Minorities and women disproportionately own businesses in industries that require less human and financial capital to be successful and that already include large concentrations of individuals from disadvantaged groups.^{117, 118, 119}

The study team examined rates of business ownership in the Los Angeles County construction; professional services; and goods and other services industries by race/ethnicity and gender. As shown in Figure 3-9:

- Black Americans and Hispanic Americans exhibit lower rates of business ownership than non-Hispanic whites in the Los Angeles County construction industry. In addition, women exhibit lower rates of construction business ownership than men.
- Black Americans, Asian Pacific Americans, and Hispanic Americans exhibit lower rates of business ownership than non-Hispanic whites in the Los Angeles County professional services industry. In addition, women exhibit lower rates of professional services business ownership than men.
- Black Americans, Asian Pacific Americans, Subcontinent Asian Americans, and Hispanic Americans exhibit lower rates of business ownership than non-Hispanic whites in the Los Angeles County goods and other services industry. In addition, women exhibit lower rates of goods and other services business ownership than men.

Figure 3-9.
Business ownership rates in study-related industries in Los Angeles County, 2011-2015

	Construction	Professional Services	Goods and Services
Race/ethnicity			
Black American	20.2 % **	10.1 % **	4.3 % **
Asian Pacific American	33.7	12.4 **	12.8 **
Subcontinent Asian American	25.7	20.3	8.1 **
Hispanic American	25.7 **	10.9 **	10.1 **
Native American	29.1	0.0 †	11.2
Other Race Minority	28.2	0.0 †	21.6
Non-Hispanic white	34.5	17.5	15.4
Gender			
Women	13.9 % **	10.8 % **	10.2 % **
Men	29.0	16.1	11.7
All individuals	27.9 %	14.6 %	11.1 %

Note: *, ** Denote statistical significance at the 90% and 95% confidence levels, respectively.

† Denotes significant differences in proportions not reported due to small sample size.

Source: BBC Research & Consulting from 2011-2015 ACS 5% Public Use Microdata samples. The raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

BBC also conducted regression analyses to determine whether differences in business ownership rates between minorities and non-Hispanic whites and between women and men

exist even after statistically controlling for various race-neutral and gender-neutral factors such as income, education, and familial status. The study team conducted those analyses separately for each relevant industry. Figure 3-10 presents the race/ethnicity and gender factors that were significantly and independently related to business ownership for each relevant industry.

Figure 3-10.
Statistically significant relationships between race/ethnicity and gender and business ownership in study-related industries in Los Angeles County, 2011-2015

Source:

BBC Research & Consulting from 2011-2015 ACS 5% Public Use Microdata samples. The raw data extract was obtained through the IPUMS program of the MN Population Center: <http://usa.ipums.org/usa/>.

Industry and Group	Coefficient
Construction	
Black American	-0.3482
Hispanic American	-0.2485
Women	-0.5989
Professional Services	
Black American	-0.4572
Women	-0.2128
Goods & Services	
Black American	-0.5830
Asian Pacific American	-0.1556
Subcontinent Asian American	-0.3726
Hispanic American	-0.2388

As shown in Figure 3-10, even after accounting for race-neutral and gender-neutral factors:

- Being Black American or Hispanic American was associated with a lower likelihood of business ownership in the construction industry. In addition, being a woman was associated with a lower likelihood of business ownership in the Construction industry.
- Being Black American was associated with a lower likelihood of business ownership in the professional services industry. In addition, being a woman was associated with a lower likelihood of business ownership in the professional services industry.
- Being Black American, Asian Pacific American, Subcontinent Asian American or Hispanic American was associated with a lower likelihood of business ownership in the goods and other services industries.
 - Thus, disparities in business ownership rates between minorities and non-Hispanic whites and between women and men are not completely explained by differences in race-neutral and gender-neutral factors such as income, education, and familial status. Disparities in business ownership rates exist for several groups in all relevant industries even after accounting for such factors.

D. Business Success

There is a great deal of research indicating that, nationally, minority-owned businesses and woman-owned businesses fare worse than businesses owned by non-Hispanic white men. For example, Black Americans, Native Americans, Hispanic Americans, and women exhibit higher rates of moving from business ownership to unemployment than non-Hispanic whites and men. In addition, minority-owned businesses and woman-owned businesses have been shown to be less successful than businesses owned by non-Hispanic whites and men using a number of different indicators such as profits, closure rates, and business size (but also see Robb and Watson 2012).^{120,121, 122} The study team examined data on business closure, business receipts,

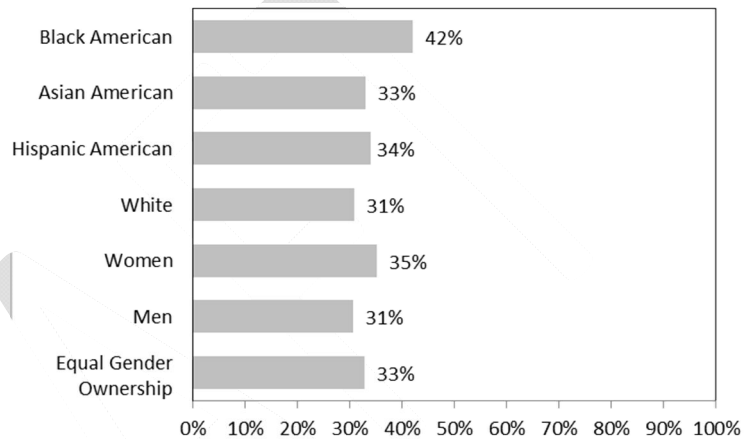
and business owner earnings to further explore the success of minority-owned businesses and woman-owned businesses in Los Angeles County.

Business closure. The study team examined the rates of closure among California businesses by the race/ethnicity and gender of the owners. Figure 3-11 presents those results. As shown in Figure 3-11, Black American-owned businesses, Asian American-owned businesses, and Hispanic American-owned businesses in California appear to close at higher rates than non-Hispanic white-owned businesses. In addition, woman-owned businesses in California appear to close at higher rates than businesses owned by men. Increased rates of business closure among minority-owned businesses and woman-owned businesses may have important effects on their availability for government contracts in California and Los Angeles County.

Figure 3-11.
Rates of business closure in California, 2002-2006

Note:
Data include only to non-publicly held businesses.
Equal Gender Ownership refers to those businesses for which ownership is split evenly between women and men.
Statistical significance of these results cannot be determined, because sample sizes were not reported.

Source:
Lowrey, Ying. 2010. "Race/Ethnicity and Establishment Dynamics, 2002-2006." U.S. Small Business Administration Office of Advocacy. Washington D.C.
Lowrey, Ying. 2014. "Gender and Establishment Dynamics, 2002-2006." U.S. Small Business Administration Office of Advocacy. Washington D.C.

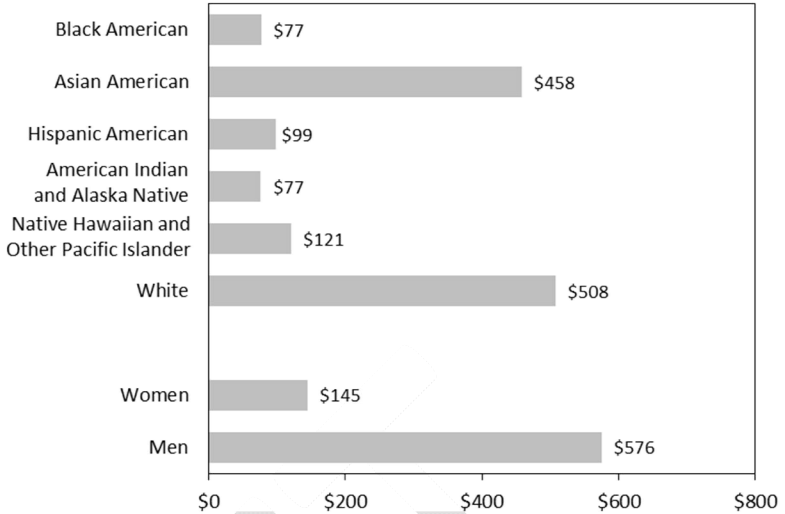


Business receipts. BBC also examined data on business receipts to assess whether minority-owned businesses and woman-owned businesses in Los Angeles County earn as much as businesses owned by whites or business owned by men, respectively. Figure 3-12 shows mean annual receipts for Los Angeles County business by the race/ethnicity and gender of owners. Those results indicate that, in 2012, all relevant minority groups in Los Angeles County showed lower mean annual business receipts than businesses owned by whites. In addition, woman-owned businesses in Los Angeles County showed lower mean annual business receipts than businesses owned by men.

Figure 3-12.
Mean annual business receipts
(in thousands) in Los Angeles
County, 2012

Note:
 Includes employer and non-employer firms.
 Does not include publicly-traded companies or
 other firms not classifiable by race/ethnicity and
 gender.
 All race/ethnicity and gender categories include
 Hispanic Americans. Estimates for Non-Hispanic
 race/ethnic groups are not available combined
 statistical areas. Those estimates are only
 available at the state level.

Source:
 2012 Survey of Business Owners, part of the U.S.
 Census Bureau's 2012 Economic Census.

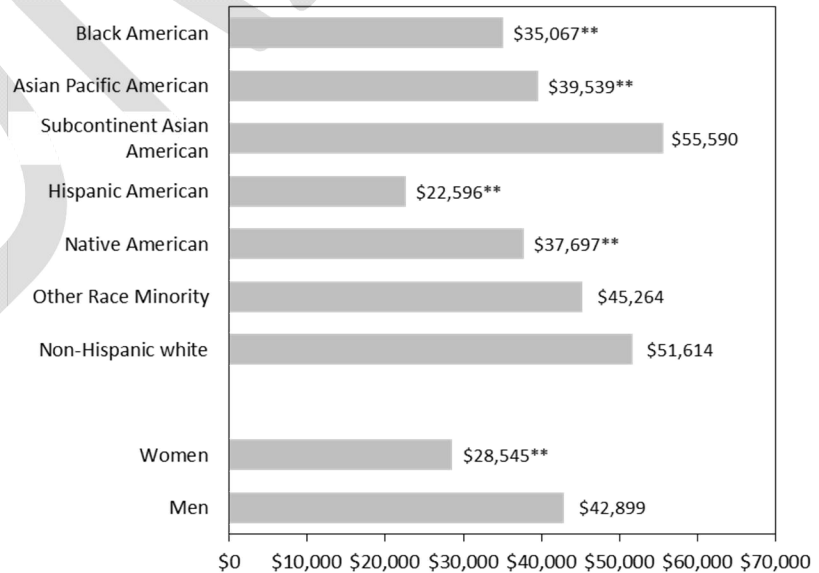


Business owner earnings. The study team analyzed business owner earnings to assess whether minorities and women in Los Angeles County earn as much from the businesses that they own as non-Hispanic whites and men do. As shown in Figure 3-13, Black Americans, Asian Pacific Americans, Hispanic Americans, and Native Americans in Los Angeles County earned less on average from their businesses than non-Hispanic whites earned from their businesses. In addition, women in Los Angeles County earned less from their businesses than men earned from their businesses. BBC also conducted regression analyses to determine whether earnings disparities in Los Angeles County exist even after statistically controlling for various race-neutral and gender-neutral factors such as age, education, and family status. The results of those analyses indicated that Black Americans, Asian Pacific Americans, and Hispanic Americans earned significantly less from their own businesses than non-Hispanic white business owners. Women business owners also earned significantly less than men (for details, see Figure C-30 in Appendix C).

Figure 3-13.
Mean annual business
owner earnings in Los
Angeles County, 2011-2015

Note:
 The sample universe is business owners age
 16 and over who reported positive
 earnings. All amounts in 2015 dollars.
 *, ** Denote statistical significance at the
 90% and 95% confidence levels,
 respectively.
 † Denotes significant differences in
 proportions not reported due to small
 sample size.

Source:
 BBC Research & Consulting from 2011-2015
 ACS 5% Public Use Microdata sample. The
 raw data extract was obtained through the
 IPUMS program of the MN Population
 Center: <http://usa.ipums.org/usa/>.



E. Summary

BBC's analyses of marketplace conditions indicate that minorities, women, minority-owned businesses, and woman-owned businesses face substantial barriers nationwide and in Los Angeles County. Existing research, as well as primary research that the study team conducted, indicate that race-based and gender-based disparities exist in terms of acquiring human capital, accruing financial capital, owning businesses, and operating successful businesses. In many cases, there is evidence that those disparities exist even after accounting for various race-neutral and gender-neutral factors such as age, income, education, and familial status. There is also evidence that many disparities are due—at least, in part—to race-based and gender-based discrimination.

Barriers in the marketplace likely have important effects on the ability of minorities and women to start businesses in relevant Los Angeles County industries—construction; professional services; goods and other services—and operating those businesses successfully. Any difficulties that minorities and women face in starting and operating businesses may reduce their availability for government agency work and may also reduce the degree to which they are able to successfully compete for government contracts. In addition, the existence of barriers in the Los Angeles County marketplace indicates that government agencies in the state are passively participating in race-based and gender-based discrimination that makes it more difficult for minority-owned businesses and woman-owned businesses to successfully compete for their contracts. Many courts have held that passive participation in any race-based or gender-based discrimination establishes a compelling governmental interest for agencies to take remedial action to address such discrimination.¹

¹ In *City of Richmond v. J.A. Croson Company*, the Supreme Court found, “if [the governmental entity] could show that it had essentially become a ‘passive participant’ in a system of racial exclusion practiced by elements of the local construction industry ... [i]t could take affirmative steps to dismantle such a system.”

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