

HUB Program Goals Review: 2017 Bond Lesson Learned Findings and Recommendations



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BACKGROUND AND OVERVIEW

According to the U.S. Small Business Administration (SBA), close to half of the nation's private-sector workforce is employed by a small business, which SBA defines as a business with fewer than 500 employees.¹ In many ways, small businesses are the lifeblood of our local economies, enabling our neighborhoods to thrive and communities to prosper. Investing in and supporting small business ownership is a wealth-building strategy, especially for those with the least access historically to equitable entrepreneurial opportunities.² With the growing diversity in business ownership, there are more opportunities than ever to contract with minority-owned businesses (MBE) and women-owned businesses (WBE) in local government contracting.

Austin ISD implemented a \$1 billion bond program passed in 2017, which focused on school modernizations, targeted construction projects, and other districtwide improvements.³ Bond programs consist of public dollars generated by Austin, and all members of the community should have the opportunity to share in the work generated. The Austin Independent School District (Austin ISD) set ambitious goals to ensure that Historically Underutilized Businesses (HUBs) have equal access to contracting opportunities in the district. These goals are both race- and gender-conscious and seek to support MBEs and WBEs. Austin ISD set a goal of 21.9% for annual overall HUB participation on construction projects generated by the 2017 Bond. Individual targets for WBEs, African American, Hispanic, Asian, and Native American owned businesses are also set for individual projects as part of the 2017 Bond. The combination of overall goals and disaggregated goals set based on the 2015 Disparity Study is meant to encourage community members to take part in bond -funded work and gain access to the wealth and spending that the bond generates.

At the end 2022, Austin ISD prepared a new bond program and sought to understand the challenges and opportunities associated with the 2017 Bond to improve HUB involvement going forward. Equity by design drove the 2022 Bond planning process and Austin ISD engaged community members throughout the formation.⁴ By involving HUBs in building new schools and modernizing existing facilities, Austin ISD injects resources into MBEs, which are often located in communities of color, employ people of color, and are more likely to spend and invest in their own communities.

If administered with these goals in mind, the 2022 Bond can act as an important vehicle for investing in historically underinvested communities throughout Austin. However, the Bond program will confer neither the direct nor the downstream economic benefits if HUB businesses are not sufficiently involved in the projects resulting from the Bond. When Austin ISD HUB goals are not achieved, it further concentrates its construction projects with the same companies and risks deepening race-based income and wealth-disparities across the city.

1 "Small Business Facts and Infographics," U.S. Small Business Administration, accessed October 4, 2017, <https://www.sba.gov/advocacy/small-business-facts-and-infographics>.

2 Urban Institute (2021). Minding the gap: Putting policy in place to increase Black wealth.

3 Austin ISD, "Austin ISD 2017 Bond Program," available at: <https://austinsid2017Bond.org/>.

4 <https://bond.austinschools.org/planningprocess>

METHODOLOGY: HUB GOALS REVIEW PROCESS

Austin ISD contracted with Opportunity Consulting to conduct a review of the HUB Program's contracting goals and processes associated with the 2017 Bond Construction as a means to assess lessons learned. The recent passage of a new \$2.44 billion 2022 Bond Program provides an urgent opportunity for Austin ISD to improve its policies and practices to better support and involve HUBs in its construction projects. Our team approached this study using our Outcome-Led Equity (OLE) approach, which begins with a review of the outcome data to establish the current state and identify gaps. Through discussions with Austin ISD's Chief Financial Officer, construction procurement leadership, and HUB team we identified the following set of guiding questions for this review process.

The three guiding questions for this review were:

1. How did Austin ISD perform against the goals set for the 2017 Bond in construction projects?
2. What, if any, are the barriers or challenges to the solicitation process from the time of bid through contract award through project completion?
3. How can Austin ISD improve its work with HUBs to better reach goals for equity and inclusion?

Quantitative Data Review

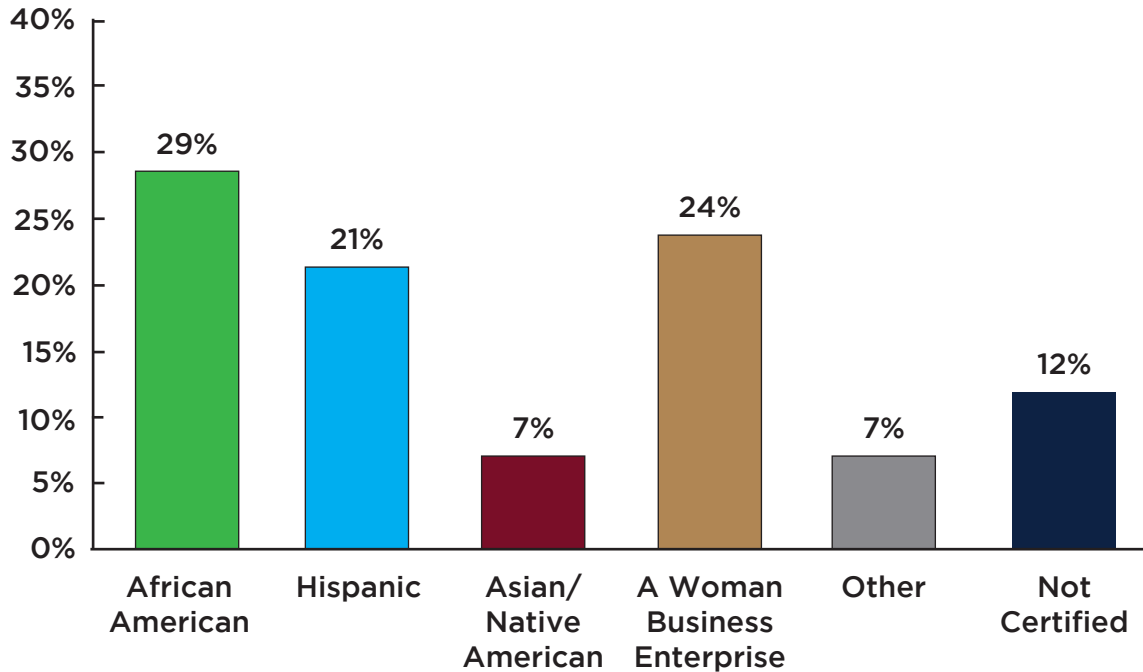
In support of the effort to help Austin ISD meet its HUB goals under the new 2022 Bond, we conducted a robust quantitative and qualitative analysis to better understand the conditions and factors that affect HUB participation on bond construction projects. We analyzed data from 2017 to 2022, across 109 unique projects accounting for more than \$700 million in construction contracts. Our analysis was designed to determine where HUB goals were met overall, as well as at the frequency HUB goals were met by General Contractors and at the project level. We also analyzed the trades HUB firms were most likely to perform as utilization under major trades can factor into the potential contract value awarded.

Qualitative Data Review

We surveyed HUBs and General Contractors to learn more about their experiences with the Austin ISD contracting and procurement process. We opened the survey on October 11 and ran until October 31. We received 50 responses; of the 50 responses, 70% answered at least half of the questions.

As shown below in Exhibit 1, HUBs comprised more than 80% of the survey respondents. Additionally, 49% of respondents reported primarily working as a General Contractor, and 51% reported working principally as a subcontractor (n-size 39).

Exhibit 1: More than 80% of Respondents Represent HUB Firms



We conducted one-on-one interviews based on the disparities we uncovered in the quantitative data review. We spoke with 16 companies and 5 Austin ISD employees as internal subject matter experts. Of the 16 companies we spoke with 13 were HUBs and 6 were General Contractors. In these conversations we asked the interviewee to reflect on the findings, corroborate them or tell us how their experiences differ, and share barriers HUBs face participating in projects. Finally, we used the interviews to learn about their ideas on how Austin ISD can improve its HUB Program resources, project management and procurement processes to increase HUB involvement and success.

Process and Practice Review

In the final step of the analysis, we focused on understanding how certain drivers of inequality in contracting and procurement are related to existing processes and practices. In our recommendations, we address how these processes could be amended and whether new practices could be adopted to improve outcomes and advance the inclusion of HUBs according to the goals set forth by Austin ISD. With \$2.44 billion to be invested into Austin ISD, these steps will help the district to become more effective at involving HUBs across all bond construction projects. A more equitable process will strengthen and diversify the construction field; more importantly, it will help to reduce economic inequalities in Austin through an infusion of resources into historically underinvested communities.

2017 BOND: A REVIEW

Passed with 72% of the vote, Austin approved a \$ 1 billion Bond in 2017. The Bond program included new construction and modernization of existing facilities to address overcrowding and improve technology and transportation.⁵ Prior to the Bond’s authorization, Austin ISD conducted a disparity study of the Austin-Round Rock metropolitan area⁶ to determine if minority-owned and women-owned businesses have equitable opportunities to compete for general and subcontractor contracts.

In brief, the analysis found that minority-owned and women-owned businesses faced “adverse and statistically significant disparities” in wages, earnings, and business formation.⁷ Given these barriers, the utilization of minority-owned businesses underrepresented the availability of minority-owned firms in construction. For example, African American owned construction companies were utilized about half as often as would be expected at a 0.61% rate, despite an availability of 1.18%. Only Caucasian, women-owned businesses were utilized at a higher rate than would be anticipated given their availability.

The widespread underutilization of HUBs – particularly African American, Hispanic, Asian, and Native American owned businesses – led the authors of the disparity study to recommend Austin ISD adopt aspirational goals for HUB participation on district projects. Those goals are outlined below:

Table 1: Historically Underutilized Businesses Aspirational Goals

HUB Designation	Construction Goal	Percentage Met as of Oct 2022
African American	1.7%	1.03%
Asian/Native American	1.9%	0.57%
Hispanic	8.1%	3.4%
Woman (WBE)	10.2%	11.4%
Overall	21.9%	16.44%

5 Austin ISD, “Austin ISD 2017 Bond Program,” <https://austinisd2017Bond.org/>

6 The analysis was based on contract and subcontract spending from 2009-13, and included Travis, Williamson, Hays, Bastrop, and Caldwell counties.

7 NERA Economic Consulting, “Business Disparities in the Austin Independent School District Market Area,” NERA Economic Consulting, October, 2015, https://www.austinisd.org/sites/default/files/dept/hub/docs/NERA_AISD_Disparity_FINAL_151026-508.pdf

KEY FINDINGS AND RECOMMENDATIONS

Finding 1

For HUB participation on construction projects under the 2017 Bond, Austin ISD met only its WBE goal, and did not achieve its sub-goals for African American, Asian/Native American, and Hispanic-business participation.

Austin ISD’s overall goal for HUB participation on 2017 Bond construction projects is 21.9%. However, as shown below in Table 3, HUBs account for only 16.4% of the total contract value as of October 2022. That gap of 5.5 percentage points is equivalent to a loss of \$38.4 million in potential revenue for HUB firms.

Table 3: Over 80% of Construction Contracts under the 2017 Bond went to Non-HUBs.

	Contract Amount	Percent of Total	Percent of Total	Number of Contracts
HUBs	\$115,597,685	16.4%	21.2%	345
Non-HUBs	\$587,677,370	83.6%	78.8%	1,281
Total	\$703,275,056	-	-	1,626

Note: These contracts were distributed across 109 unique projects.

In addition to an overall HUB goal, Austin ISD also set disaggregated goals for African American, Asian/Native American, Hispanic, and women-owned businesses. As shown in Table 4 below, the district did meet and exceed its WBE goal. However, it did not meet any other HUB goals. In fact, the district only met 61% of its goal for African American-owned businesses, 30% of its goal for Asian/Native American-owned businesses, and 42% of its goal for Hispanic-owned businesses.

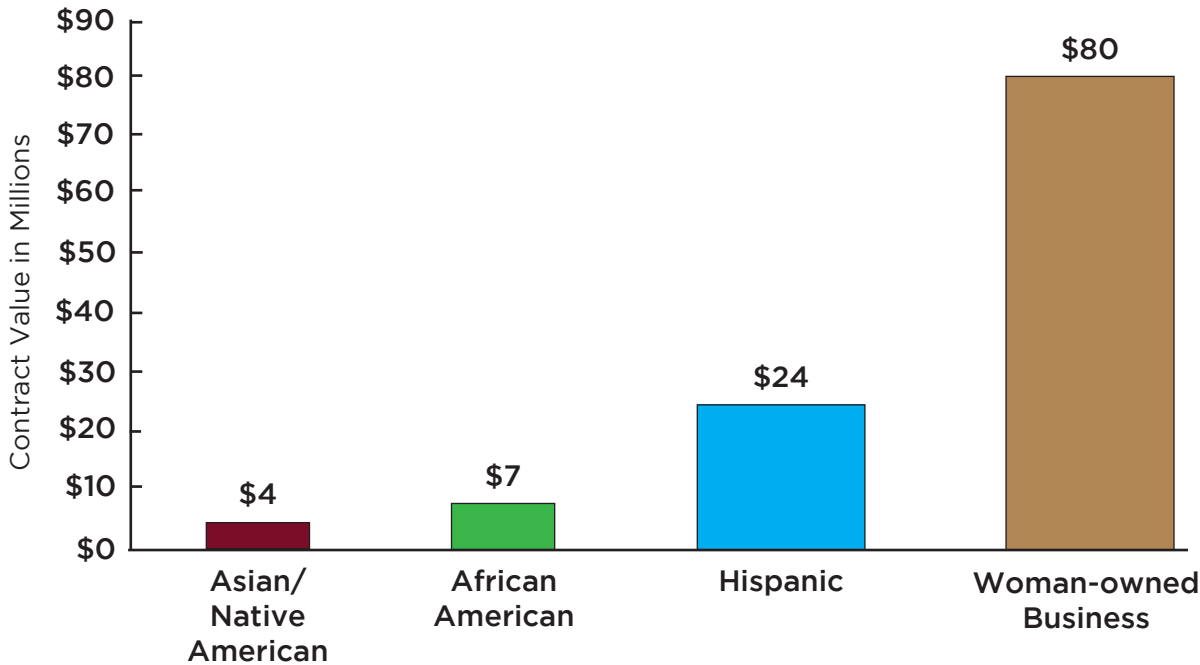
Table 4: Austin ISD did not Meet Its HUB Goals for Construction Projects on the 2017 Bond for all Certifications except WBEs

	Contract Amount	Percent of Total	HUB Goal	HUB Goal Met?	Percentage Points to Goal
African American	\$7,278,186	1.03%	1.7%	No	+0.67
Asian/Native American	\$4,013,271	0.57%	1.9%	No	+1.33
Hispanic	\$24,075,386	3.4%	8.1%	No	+4.68
WBE	\$80,230,842	11.4%	10.2%	Yes	Over 1.21%
Non-HUBs	\$587,677,370	83.6%	-	-	-

Finding 1a: WBEs account for nearly 70% of all funding to HUBs for construction projects.

Of the roughly \$115.6 million in construction contracts generated by the 2017 Bond that went to HUB businesses, WBEs account for most of the funding earned by participating HUB firms. As shown in Exhibit 2 below, women-owned businesses earned \$80 million in contracts. That amounts to 69% of all HUB contracts from the 2017 Bond. The contract value earned by Asian/ Native American and African American businesses combined amounts to only 14% of what WBEs earned. As shown in Exhibit 3, Caucasian-owned WBEs are by far the most common WBE firms, so there is likely little overlap between the WBE and other ethnic categories.

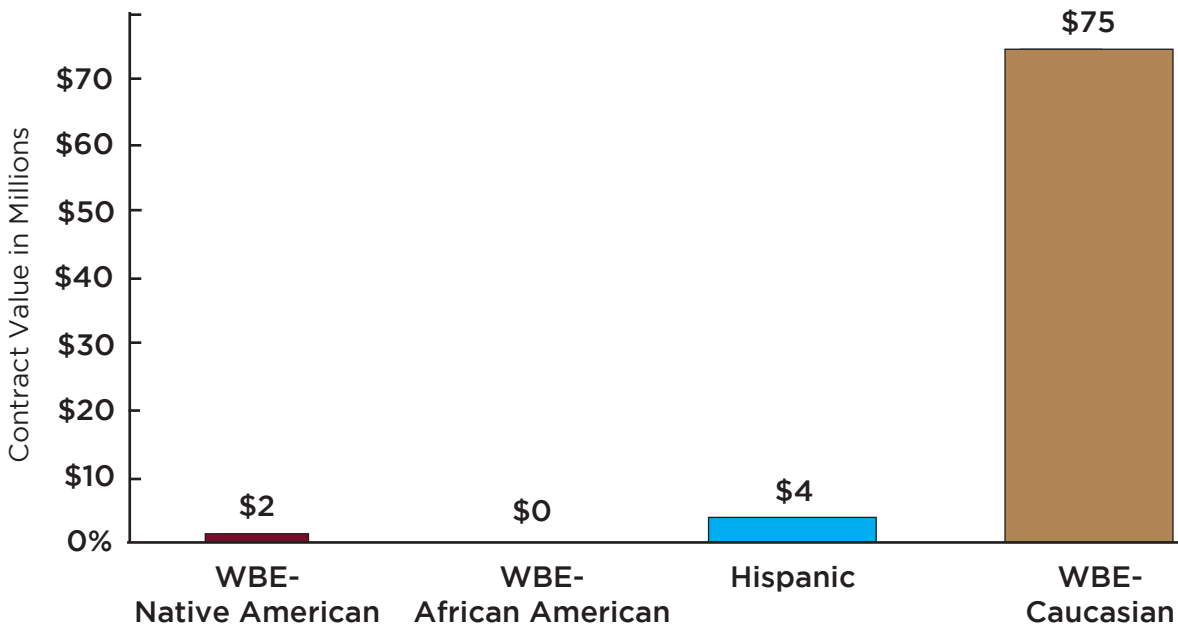
Exhibit 2: WBEs Account for 69% of the HUB Participation on 2017 Bond Construction Projects



Finding 1b: Caucasian WBEs account for 93% of WBE Participation in construction projects.

Women-owned businesses can be further disaggregated by race and ethnicity. As shown below in Exhibit 3, we found that among the approximately \$81 million in contracts attributable to WBEs, more than \$75 million, or 93% of that value, went to Caucasian women-owned businesses. Hispanic WBEs generated the second most in contract values at \$4 million. Asian/Native American WBEs generated 2%, and African American WBEs did not win any contracts across the 109 construction projects that were analyzed. The complete lack of African American WBE participation could have been caused by firms identifying as African American rather than WBE to fill disaggregated HUB goals.

Exhibit 3: Caucasian WBEs Account for 93% of all WBE Participation on 2017 Bond Construction Projects

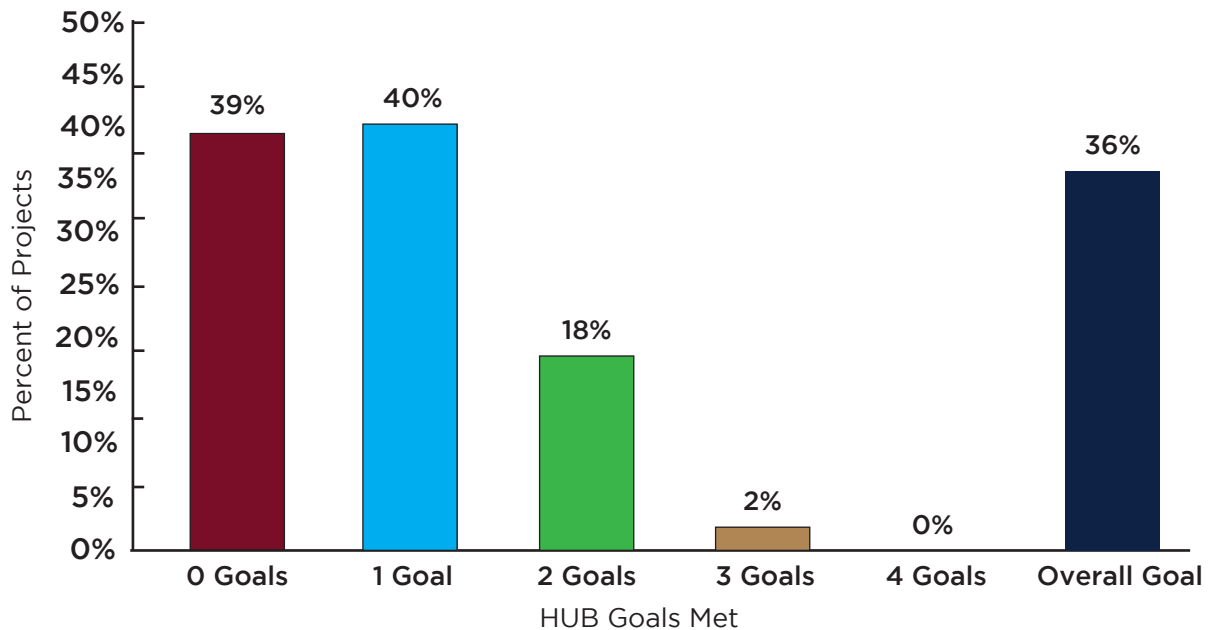


Note: all figures are rounded to the nearest whole dollar or nearest whole percent.

Finding 1c: 79% of 2017 Bond construction projects did not achieve more than one HUB goal.

As shown in Exhibit 4 below, we found that across the 109 projects we analyzed, 39 percent did not achieve either an ethnic or women-owned HUB goal.

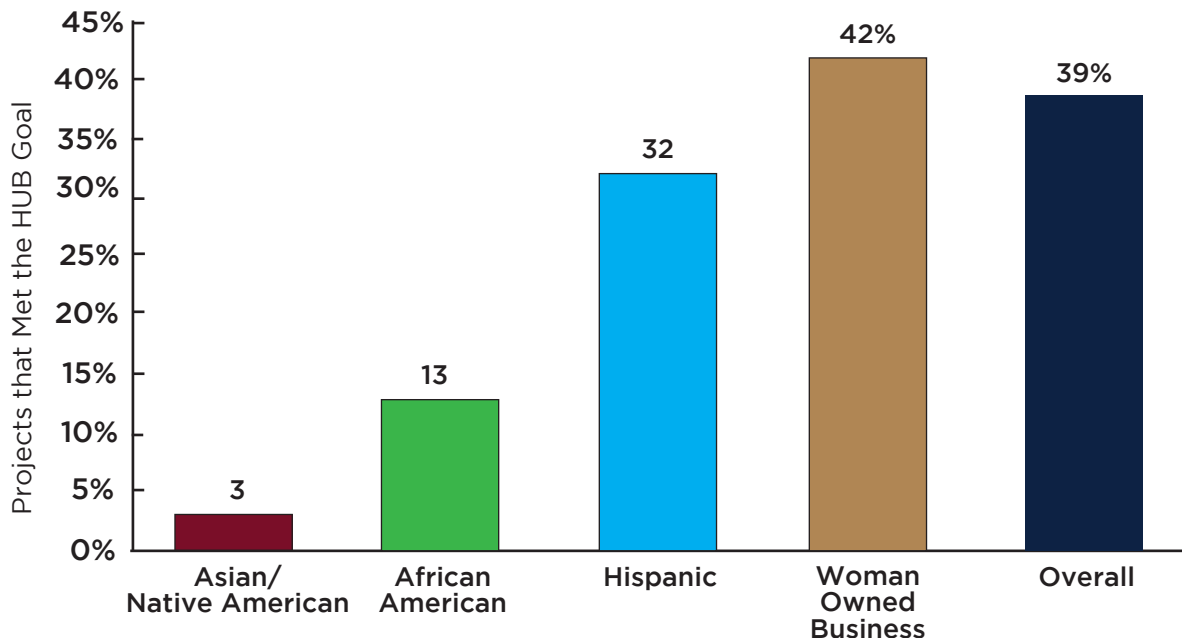
Exhibit 4: Of the 2017 Bond Construction Projects, 20% Achieved More than 1 HUB Goal



Note: all figures are rounded to the nearest whole percent.

As shown in Exhibit 5 below, the Asian/Native American goal was met three times, which corresponds to less than 3% of the 109 projects meeting that objective. For African American-owned firms, the goal was met only 13 times. Even for WBEs, the goal most achieved, the target was only met on 42% of projects.

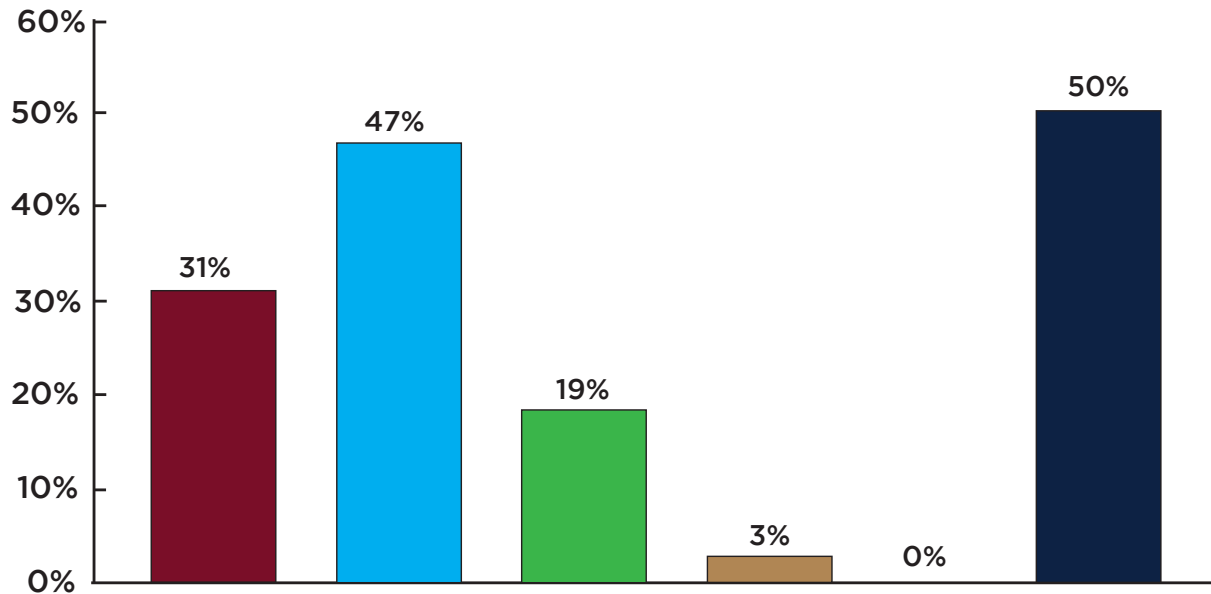
Exhibit 5: Hispanic and WBE Goals Were Most Commonly Met on Construction Projects



Finding 1d: Only 22% of General Contractors Met More than 1 HUB Goal.

As shown in Exhibit 6 below, only 16 of the 32 General Contractors in our dataset met the overall goal of 21.9% HUB participation. No General Contractor met all the individual ethnic and WBE HUB goals. In fact, 10 firms did not achieve a single HUB goal and 15 firms achieved only one HUB goal.

Exhibit 6: On 2017 Bond Construction Projects, only 22% of General Contractors Achieved More Than 1 HUB Goal

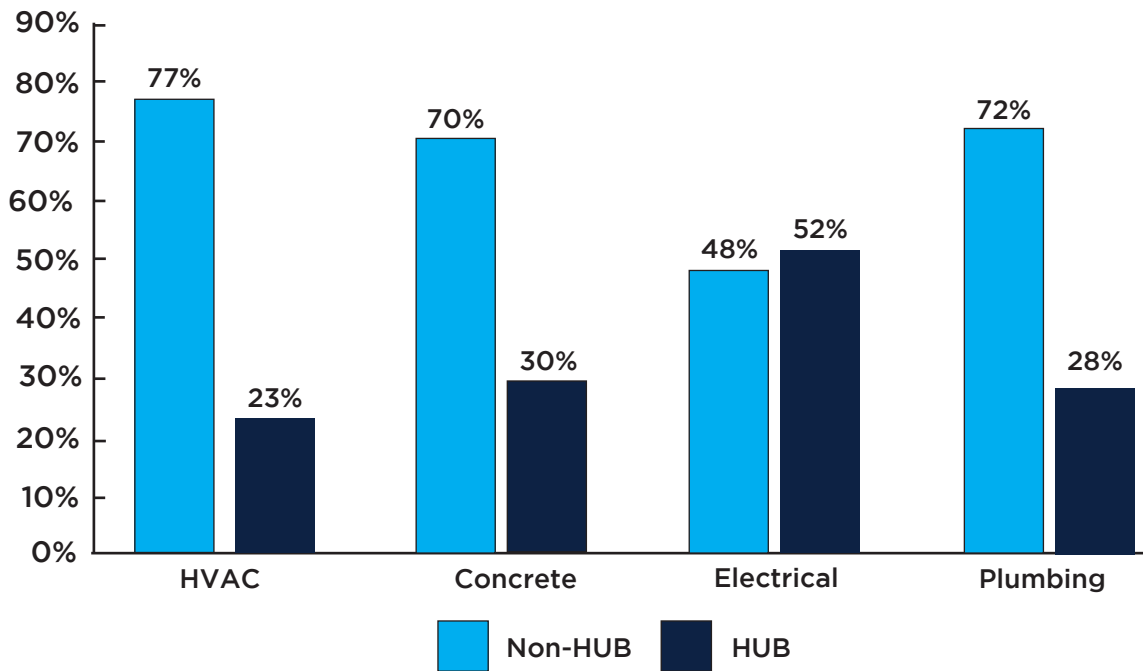


Note: all figures are rounded to the nearest whole percent.

Finding 1e: HUBs are severely underutilized in major trades.

On the projects generated by the 2017 Bond, HUB firms were utilized to perform work on a wide range of trades. As shown in Exhibit 7 below, HUBs were typically far less likely than non-HUBs to be used for work in a major trade: HVAC, concrete, electrical, and plumbing. On HVAC contracts, for example, non-HUB firms were more than 3 times as likely to be used as HUB firms. Electrical work is the exception. In that trade, HUB firms were slightly more likely than non-HUB firms to be utilized.

Exhibit 7: Except for Electrical Work, Non-HUBs were far more likely to be Perform Work in the Major Trades

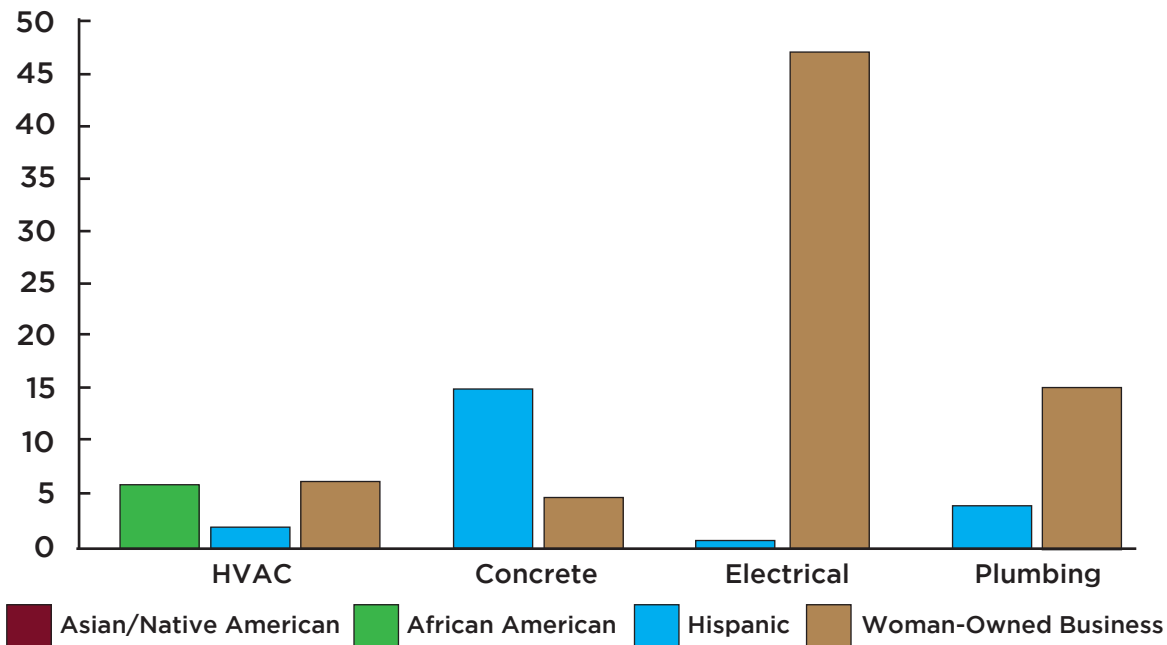


Note: all figures are rounded to the nearest whole percent.

This data only describes how frequently HUBs were used across the four major trades. The data does not distinguish among firms and does not describe the market availability of HUB firms across the major trades. Austin ISD's most recent disparity study does provide information about HUB-firm capacity across a range of trades in the city's market area.

The work in the four major trades performed by HUBs is not distributed evenly among the different HUB classifications. As shown in Exhibit 8 below, WBEs – the most engaged type of HUB for work in the major trades – are concentrated on electrical and plumbing work. The WBE firms were primarily Caucasian-owned WBEs with some Hispanic-owned WBEs participating in electrical work.

Exhibit 8: Among HUBS, WBEs were most Frequently Used for Work in the Major Trades



Note: Asian/Native American-owned businesses were not used on a major trade. All figures are rounded to the nearest whole percent.

HUBs are more than twice as likely to be contracted to perform work in a non-major trade. Table 5 below catalogs more than a dozen of the most common trades on which HUBs worked for projects generated by the 2017 Bond. Utilizing HUBs in major trades is the most effective way to meet project specific HUB goals. Alarms, specifically fire alarm installation, was the most common trade, accounting for over 15% of the work HUBs performed outside of the major trades. Steelwork, including structural, erection, and fabrication, was the next most common and accounted for 10.5% of HUB work in non-major trades.

Table 5: The Non-Major Trades HUBs Most Commonly Perform

Non-Major Trade	HUB Firm Contracts	Percent of All HUB Contracts in Non-Major Trades
Alarm	23	15.1%
Abatement	3	2.0%
Audio	3	2.0%
Demolition	5	3.3%
Drywall	5	3.3%
Erosion	5	3.3%
Fence	6	4.0%
Flooring	5	3.3%
Labor	8	5.3%
Masonry	5	3.3%
Pavement	5	3.3%
Paint	9	5.9%
Cleaning	5	3.3%

Overall, HUB involvement in the work created through the 2017 Bond did not meet the district’s goals. At the project and General Contractor level, HUB goals were routinely not met, often by significant margins. Asian/Native American, African American, and Hispanic firms were underutilized. The district did meet and exceed its WBE goal, but that success was driven almost exclusively by Caucasian-owned, women-owned businesses.

Recommendation 1

Unbundle construction projects to assist HUBs in bidding as General Contractors where possible.

One issue the analysis reveals is that General Contractors are often the “gatekeepers” for HUB access and inclusion in Austin ISD contracting opportunities. Part of the reason for this is the size and complexity of the projects created for solicitation. One best practice is to develop more granular data on projects with long-term horizons, including the timing and range of opportunities over the arc of the development to provide opportunities for HUBs to directly bid on business. This includes assessing and adopting project delivery methods that provide the best access for small contractors in all phases and stages of project planning, design, and implementation. Once the projects are unbundled and right sized for small businesses, HUBs are able to compete with other, similarly sized small businesses. This enables HUBs to have many more opportunities to compete directly for business, rather than the limited access that funnels through General Contractors currently.

Finding 2

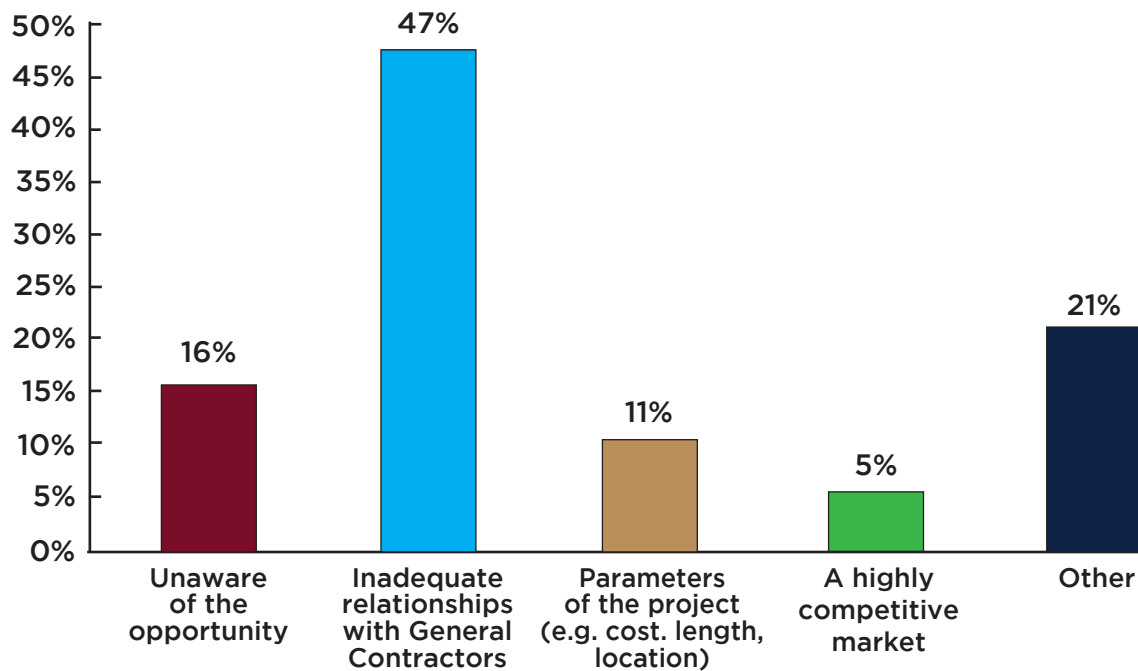
The current procurement and contracting process has few incentives to encourage General Contractors to subcontract with HUBs on construction projects.

Finding 2a: General Contractors express difficulty identifying potential HUB subcontractors.

Despite the disparity study indicating that there are enough firms in the Austin area to meet the district’s HUB goals, General Contractors claim that there simply are not enough high-quality HUBs available to complete the necessary work. As shown in Exhibit 12, HUB subcontractors consider inadequate relationships with General Contractors to be the leading barrier to winning construction contracts with Austin ISD.

Exhibit 9: Significant Barrier for HUBs

What is the most significant barrier to winning construction contracts with Austin ISD?



N-size = 19

There are insufficient business incentives for General Contractors to meet specified goals for working with HUBs. HUB firms, particularly minority-owned businesses, are rarely the subcontractors chosen by General Contractors. General Contractors cite the risks working with new companies as a disincentive to engage with HUB firms. One risk noted was that firms may claim that they have the capacity to bid on specific work, however, that capability is not validated. Once the project starts, the firm proves to be incapable of meeting the needs of the project.

Finding 2b: Disaggregated ethnic goals are critical to HUB participation on construction projects. However, in some cases General Contractors attempt to meet them in ways that limit HUB opportunities.

According to some General Contractors, attempting to meet the HUB sub-goals can require dividing work inefficiently and can create conflict between various HUB firms. For example, General Contractors will slot in the same HUB to perform the same tasks across several projects to meet the goal. The General Contractors we spoke with say this can mean other firms that can also perform this task are less likely to be engaged since the General Contractor can meet their HUB sub-goal by using a subcontractor they partner with frequently. This approach can also mean that HUBs of the same classification may be less likely to be included on the project in other capacities since the goal will already have been met.

Recommendation 2

Create a plan to foster relationships among HUBs, General Contractors, and Austin ISD stakeholders.

A legacy of discrimination in contracting and financial lending contributed to the capacity and wealth gap between HUB and non-HUB businesses today. This has been compounded by the Covid-19 pandemic, which has disproportionality impacted small and minority businesses.⁸ The differences between new HUBs and well-established HUBs in experience and access to successful projects with Austin ISD are significant. Novice HUBs, and HUBs not frequently partnered with Austin ISD, need guided access through proactive networking and engagement opportunities. By developing a HUB Engagement Plan to guide Austin ISD's interaction with HUBs and support their networking with other business-related stakeholders, the district facilitates important relationships to help HUBs become more competitive in the marketplace.

As Austin ISD continues to work to increase HUB involvement on construction projects generated by the newly passed 2022 Bond, the school district should emphasize the participation of Asian/Native American, African American, and Hispanic-owned firms. Additionally, given that nearly all WBE participation was by Caucasian-owned businesses, Austin ISD should disaggregate and monitor WBE utilization by race and ethnicity.

Finding 3

There are accountability loopholes in the current HUB procurement and contracting process.

Across our interviews and within survey responses, HUB subcontractors consistently mentioned issues with General Contractors following through with the work the HUB was included in the bid to Austin ISD to perform. Several HUBS reported that they would sign onto a project and then find out – despite regularly reaching out to the General Contractor – that the project had been completed, excluding them from the work. Three HUB subcontractors informed us they had been added to a project but not contacted to execute work, and one respondent also indicated that they had been removed from an active project without prior notice.

⁸ U.S. Small Business Administration (SBA) “The Impacts Of COVID-19 On Racial Disparities In Small Business Earnings” Aug 2022, as seen on: <https://advocacy.sba.gov/2022/08/16/the-impacts-of-covid-19-on-racial-disparities-in-small-business-earnings/#:~:text=New%20research%20from%20Advocacy%20indicates,on%20average%2C%20suggesting%20widening%20inequality>.

HUBs consistently raised the desire for there to be greater accountability for General Contractors that do not achieve HUB goals. The HUBs with whom we spoke disputed the idea that there are not enough HUBs capable or interested in executing the contracts. Many HUBs with whom we spoke felt that General Contractors manipulated the process to create conditions that made it difficult for them to bid successfully for work. One HUB subcontractor claimed it was common for General Contractors to contact them same-day to attend walk throughs.

A common theme across our interviews – even among non-HUB contractors – was the fact that General Contractors avoid, or simply find workarounds rather than meaningfully solicit bids and partnership with HUB firms. For instance, several people with whom we spoke said that General Contractors will reach out simply so that they can claim that they did their due diligence and not because they were looking for a HUB subcontractor.

Another company with which we spoke said that some firms avoid the issue altogether by forming a partnership to make it appear that a HUB is bidding on the project when, in fact, another firm will perform the work.

Recommendation 3

Develop a more robust compliance system for General Contractors to involve HUBs in construction projects.

The current structure of Austin ISD’s approach to meet HUB goals across all ethnic categories on construction projects other than the district’s recently established HUB Equity in Contracting Plan associated with competitive sealed proposals, is not working as intended. It does not truly require that HUBs are meaningfully engaged since there is not effective accountability when the HUB goals are not met. As a result, HUB businesses are underutilized and when they are included on projects nearly two-thirds are Caucasian-owned businesses.

As we documented in this report, it is a common practice for General Contractors to engage HUB firms and include them on their bid to Austin ISD. However, once awarded the contract, those HUB firms were never contacted to perform the work. While there are situations in which the specifics of a project change and a particular trade is no longer required, or not at the level previously anticipated, sufficient documentation, as well as clear and transparent communication with the HUB firm, would be required.

Barring those exigent circumstances, Austin ISD should require General Contractors that remove a HUB firm from a project to engage with the district’s HUB office to identify another HUB firm that can perform the work. For General Contractors that repeatedly remove HUB firms from projects without cause, and those that continuously do not achieve the district’s HUB goals, Austin ISD could bar the firm from conducting business with the district. The risk of losing work with the district would encourage General Contractors to fulfill the participation commitments they made to HUBs in their bid.

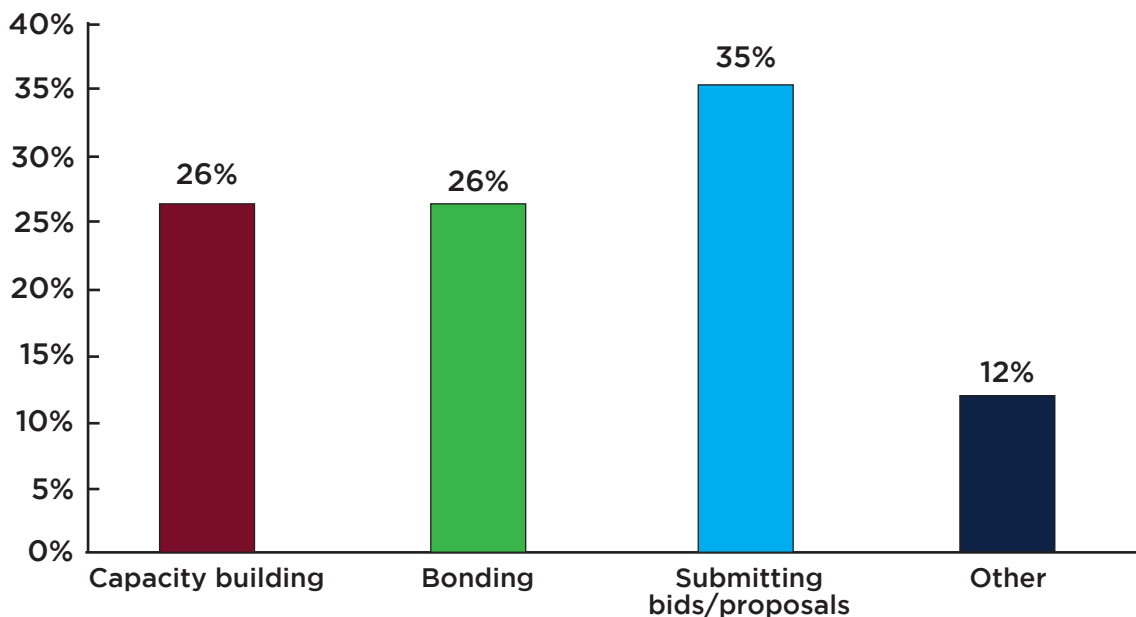
Finding 4

Current networking opportunities are falling short, and HUBs would benefit from upskilling training, and technical assistance.

As previously noted, General Contractors typically solicit and contract with those subcontractors with which they have experience working. That is understandable given their obligation to perform the work cost-effectively and on schedule, however, that can disadvantage HUBs. Austin ISD currently hosts some networking events; however, General Contractors are rarely involved. As such, the events do not actually lead to important introductions or to stronger working relationships. General Contractors have noted their lack of involvement in Austin ISD events is due to a lack of knowledge of their existence. General Contractors claim Austin ISD has difficulty promoting their events and attendance is low.

Several of the HUB firms with which we spoke were relatively new companies. They said that there is a high barrier to entry to participate in Austin ISD projects. For example, the estimation and bidding process and the breadth of paperwork required can be daunting and difficult to parse. One HUB contractor we spoke with said, “As a new firm, you are shooting in the dark. You do not know if your estimation is on point or too much based on other estimations for similar work. There is no training or orientation process. You are set up for failure. It’s not about the skills, but about the knowledge of the process.” Austin ISD staff members acknowledged that learning the district’s requirements and processes for procurement and solicitation can be a barrier for some firms that have not previously worked with the district.

Exhibit 10: HUBs are interested in Receiving Training in Key Aspects of Bidding and Procurement



Note: all figures are rounded to the nearest whole percent.

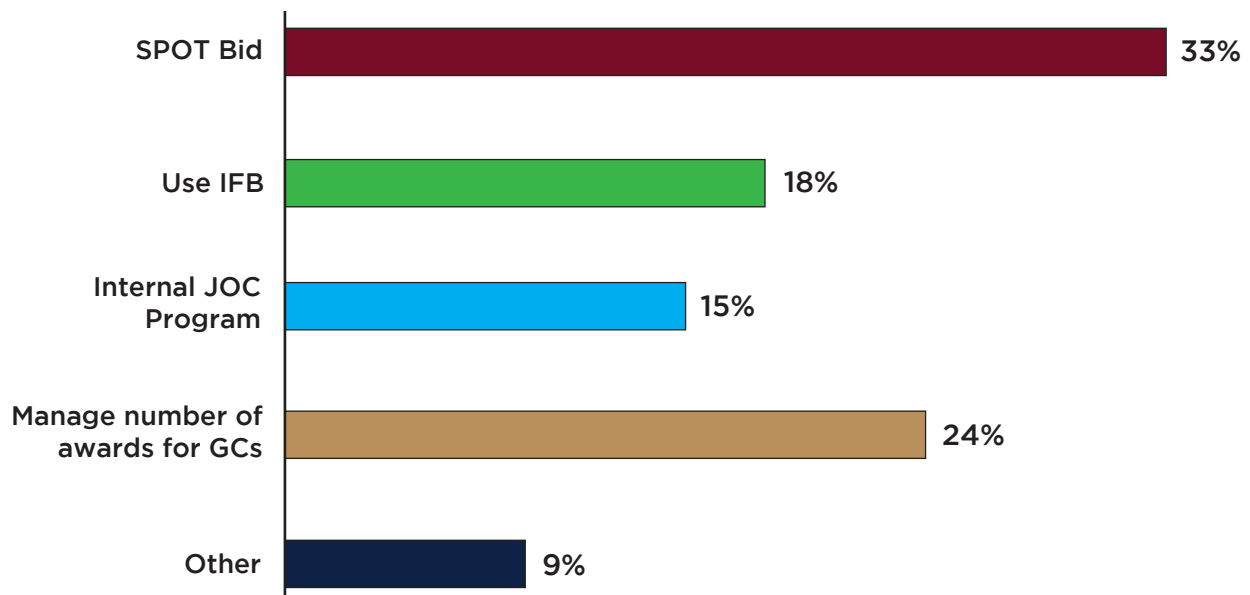
Recommendation 4

Invest in capacity-building aimed at strengthening HUBs' skills to compete for projects.

HUBs could benefit from opportunities for upskilling and better understanding how to navigate the procurement and contracting process. We recommend that Austin ISD provide information and training opportunities on construction policies, practices, and key construction-related technologies to meet new industry standards, especially in new and emerging areas such as green construction. This capacity-building would also provide support for bidding, managing different types of projects, managing program compliance, and reporting requirements. Austin ISD would not need to provide this training alone. One way that other jurisdictions offer technical assistance is by partnering with community colleges or small business intermediaries that have an interest in the success of local and regional small businesses, especially HUBs.

In our survey, we asked HUB respondents to identify the strategies that would support their bidding and being awarded contracts with Austin ISD. As shown in Exhibit 11 below, one-third of HUBs were interested in the district offering SPOT Bids. Nearly a quarter of respondents would like to see the district manage the number of awards for individual General Contractors. Other ideas included creating a goal for local small businesses and ensuring that awards do not go to the same subcontractors over and over.

Exhibit 11: Strategies to Improve Procurement for HUBs⁹



Note: all figures are rounded to the nearest whole percent.

9 Invitation for Bids (IFB): The purpose of competitive bidding is to stimulate competition and obtain the lowest practical price for the work, service and/or items needed. The competitive bidding process requires that bids be evaluated, and awards made based solely upon bid specifications, terms and conditions contained in the request for bids document, and according to the bid prices offered by vendors and pertinent factors that may affect contract performance. The advertisement for bids, description in the invitation for bids of items, work and/or services and specific terms and conditions must be done in a manner that stimulates competition and obtains the lowest practical price.

Job Order Contract (JOC): A contract for a fixed term or maximum dollar value, whichever occurs first, in which a contractor is selected based on a competitive bid to perform various separate job orders in the future, during the life of the contract.

Recommendation 5

Develop a mentor-protégé system that incentivizes General Contractors to support and collaborate with HUB firms on construction projects.

The state of Texas operates a Mentor-Protégé program designed to encourage formal relationships between General Contractors and HUB firms.¹⁰ Through these relationships, the state hopes to grow the capacity of HUB firms to work on state construction programs, increase HUB participation in state construction projects, and to foster long-term collaborative relationships between HUBs and General Contractors.¹¹

Austin ISD could develop and implement a similar program that creates formal mentor-protégé relationships between General Contractors and HUB firms. Partnerships would be formed between emerging HUB firms and General Contractors in good standing with the district that have expertise and experience in areas relevant to the HUB protégé.

To encourage participation in the program, Austin ISD could consider General Contractors that bid projects as a joint venture with their protégé HUB firm as having satisfied the project's HUB goals. This would excuse mentor General Contractors from the Good Faith Effort process, while also increasing HUB participation on the district's construction projects.

Joint venture benefits include:

- Collective representation of past performance
- Shared costs and resources
- Leveraging the other partner's experience and market share

In a joint venture structure, the protégé should perform a minimum percentage of work as identified by HUB and construction management leadership.

These relationships should result in an increase in the ability of historically underutilized businesses to contract with the Austin Independent School District or to receive subcontracts. Participation in the program should be voluntary for both Mentors and Protégés.

The intent of the Mentor-Protégé Program should focus on the following:

- Increase the ability of historically underutilized businesses to contract with Austin ISD.
- Increase the overall participation of HUB's in Austin ISD subcontracting.
- Foster long-term relationships between prime general contractors and historically underutilized businesses.

¹⁰ Texas Department of Licensing and Regulation, "Mentor-Protégé Program," <https://www.tdlr.texas.gov/contracting-mentor.htm>.

¹¹ Ibid.

The Austin ISD Mentor-Protégé Program should involve a cross section of programmatic resources including but not limited to: construction procurement, construction management, finance, and others as identified by the administrator of the program.

The District may also collaborate with external project team leadership of active general contractors, financial and bonding institutions, minority and woman-owned business support service organizations, as well as public local minority and women-owned chambers of commerce.

Working in collaboration with the HUB Program Staff in regularly scheduled meetings, Mentors focus on developing Protégé's:

- Internal business management systems, accounting, marketing, and strategic planning
- Financial assistance in the form of building capacity and bonding
- Business development, including strategy and identifying contracting and partnership opportunities
- General and administrative assistance, like human resource sharing business
- Implementation plans, which identify needs, actions and results required for the Protégé to be a successful businessperson.

Finding 5

Without a defined focus, the Good Faith Effort provision may contribute to Austin ISD not meeting its goals for HUB participation, or it will continue to disadvantage HUBs.

Of the projects funded by the 2017 Bond, 39% did not achieve a single HUB goal. Moreover, 31% of the General Contractors who worked on 2017 Bond projects did not meet a single HUB goal. The Good Faith Effort (GFE) provision may unintentionally contribute to the persistent problem of achieving HUB goals. The GFE provision permits General Contractors to avoid meeting HUB goals provided they can demonstrate they made reasonable effort to solicit HUB subcontractors.

As discussed earlier in this report, the HUB contractors with whom we spoke contend that General Contractors employ a suite of tactics to get around the district's objective of working with HUB vendors. Many feel that the GFE provision offers a kind of permission structure to avoid working with HUBs.

"I am not sure that General Contractors have to work with HUBs, they just have to show that they tried." -- HUB contractor

Several HUB contractors with whom we spoke argued that the GFE provision is largely unnecessary since the 2015 Disparity Study made clear that there are sufficient construction firms for each HUB classification. It would be one thing if Austin ISD achieved its HUB goals across the totality of work generated by the 2017 Bond, but some individual projects nevertheless did not meet their targets. This may suggest that HUB capacity may not have been sufficient to meet project demands at particular points in time, or that there were not enough HUB firms able to perform a particular in-demand trade. However, HUB goals were not achieved for the 2017 Bond overall, and General Contractors and individual projects consistently did not achieve their HUB goals. This outcome, combined with the market availability study included in the 2015 Disparity Study, suggests that the problem is not principally of capacity, but of successfully contracting with HUB firms on district construction projects.

Recommendation 6

Develop and implement a HUB Direct Contact Request process.

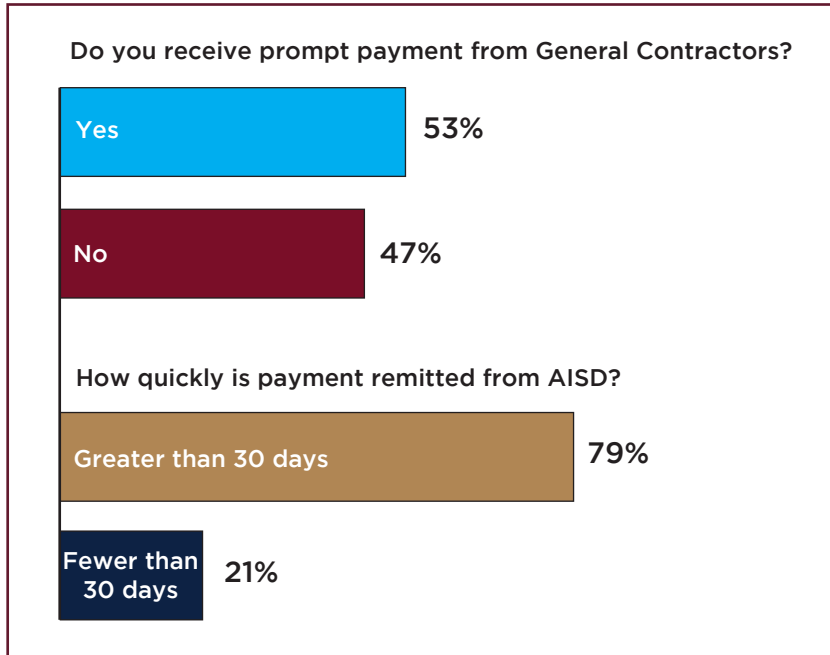
Utilizing the current skeleton of HUB Outreach and HUB Forums, wherein HUBs that connect with Austin ISD at outreach events are able to build deeper connections with Austin ISD staff, we propose building out a verified contact list. This could be used to eliminate the GFE process and ensure HUBs are being engaged on construction projects. General Contractors must engage the HUB Department if they do not identify and recruit sufficient HUB subcontractors to meet the district goals. The HUB Program office will then provide a set of eligible, high-quality HUB firms that could perform the work on the project, and who the General Contractor must contact about collaborating. This strategy would ensure opportunities for HUB participation on all projects thereby increasing equitable contracting practices across Austin. This approach would also help to develop and strengthen relationships between HUBs and General Contractors.

Finding 6

Late or delayed payments create difficulties, particularly for HUBs, and present risks to the successful completion of projects.

We consistently heard that payment is slow and often is not processed within 30 days. This is particularly challenging for HUBs, which are often small businesses that lack the capital or lines of credit to withstand months of delayed payment. As shown in Exhibit 13, only about half of the respondents indicated they receive prompt payment from General Contractors, and 80% indicated payment from Austin ISD takes longer than 30 days to receive.

Exhibit 12: Payment is Often Delayed



One small business HUB informed us that the issues with delayed payment affected their cash flow and caused delays in a project. They reported one instance in which payment took over 6 months. This strain forced the company to take “other jobs to finance the district’s projects” because they were not being paid on time. They had to eventually cut employees, which led to delays in the project for Austin ISD. Another HUB firm mentioned that in addition to the strain delayed payments made on employees they also had to contend with demands for payment from their suppliers.

Some of the General Contractors with whom we spoke described that they sometimes need to pay subcontractors before receiving payment themselves so that those subcontractors could process their payments to their employees.

Finding 7

Subcontractors report overall poor experience working on Austin ISD Bond construction projects.

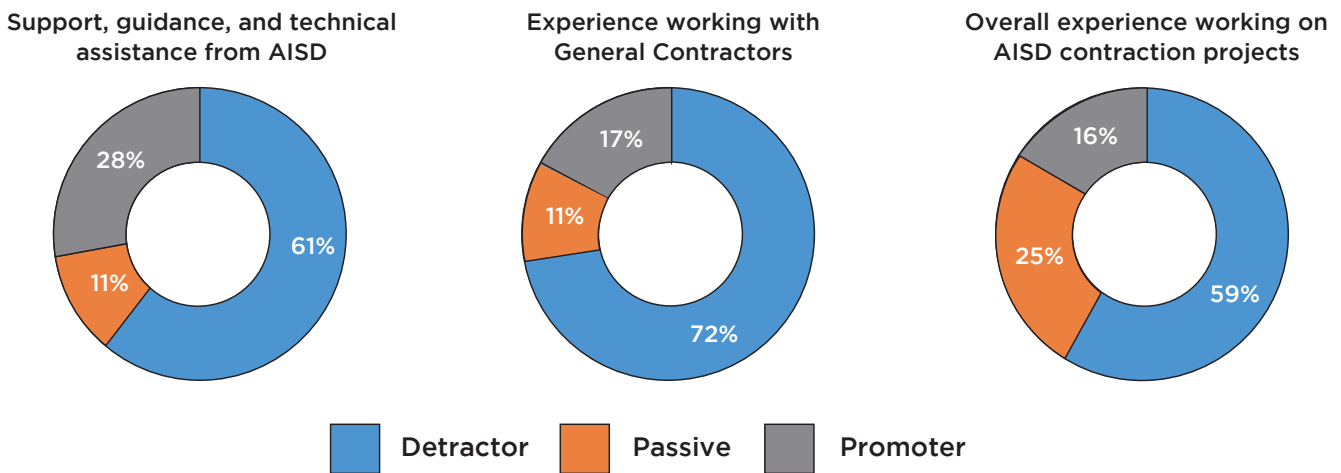
In our survey, we asked respondents to rate their experiences in three questions:

- How would you rate the support, guidance, and technical assistance provided by Austin ISD’s project managers and other staff? (N-size 18).
- How would you rate your experience working with general contractors as a subcontractor on Austin ISD construction projects? (N-size 18).
- How would you rate your experience overall working on Austin ISD construction projects? (N-size 32).

To evaluate their ratings, we used a Net Promoter Score (NPS), which is a commonly used metric to assess people’s experiences and enthusiasm for a company, organization, or brand. Respondents rated their experiences on a scale of 1 to 10, with 1 corresponding with “very poor,” and 10 being “excellent.”

As shown below in Exhibit 10, participating HUBs most often report being a “detractor” or rating their experiences between 1 and 6. A detractor is unhappy with their experience and unlikely to recommend working on Austin ISD projects to their colleagues. A fair percentage of respondents are “passive,” after rating their experience as a 7 or 8. This means they are generally satisfied with their experience but may decide to opt for other opportunities. Finally, some respondents rated their experience as either a 9 or 10. These are “promoters,” and they are enthusiastic about their experience and are likely to encourage others to engage and collaborate.

Exhibit 13: Subcontractors Typically Report Negative Experiences with Austin ISD and General Contractors



These results translate to negative Net Promoter Scores. The NPS is calculated by subtracting the percent Promoters by the percent Detractors. The overall experience working on Austin ISD construction projects received a NPS score of -43. The poorest NPS score of -55 was for the experience with General Contractors. Although still quite poor, the support and technical assistance provided by Austin ISD received the highest NPS score of -33. Altogether, this makes clear that HUB experiences across the board working on Austin ISD construction projects are generally negative.

Finding 8	Insufficiently defined roles and responsibilities among Austin ISD teams involved in construction procurement and administration may disadvantage HUBs and leave the school district open to risk.
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Recommendation 7

Conduct an internal audit of internal policies and practices, and clarify departmental roles for procurement, contract management, and HUB participation on construction projects.

An important best practice in procurement and contracting is separation or segregation of duties between procurement teams and program teams, such as construction management. While Construction Management understands the work to be performed, managing projects against timelines and outcomes, and evaluating and closing out projects, the Procurement Team is responsible for facilitating fair, compliant solicitation and evaluation processes (with input from the HUB Program Department), and administering contract requirements. Current practice is difficult to completely ascertain; however, we did not review any flowcharts or process documents that clearly outlined these expectations and separate duties. In fact, interactions with various internal offices revealed differing opinions and understandings of responsibilities of the various internal departments and their roles. These separations of responsibilities are important to ensure fairness and transparency for all parties involved.

While this project's scope included a scan of internal policies and practices, it did not allow for a deep analysis or audit. Through our research, however, we learned that the roles and responsibilities of the Procurement Department and Construction Department were not always clearly defined and delineated. Not separating procurement clearly from construction management creates confusion and unintentionally introduces risks associated with unfair practices for the district.

We recommend that the district invest in an objective, third-party analysis to provide actionable information to improve practices and reduce risks to ensure fair and transparent processes for bidding and awarding construction projects. We also encourage Austin ISD to task an internal team with routinely conducting reviews of district construction procurement and administration practices to identify opportunities for improvement and address any concerns.

We further recommend Austin ISD clarify departmental roles. One approach is to create a responsibility matrix. Developing such a matrix forces cross-functional team members to discuss the major functions involved in their work and identify where responsibilities lie. It also requires team members to get more granular in work responsibilities among Austin ISD departments by identifying different levels of involvement others may have in a milestone or critical decision.

CONCLUSION

This process began on October 12, 2022, with a public information session where we met members of the construction community to explain the importance of reviewing how HUB goals are set, the impact of this process on the community, and Austin ISD's commitment to equitable policies going forward. Representatives from several businesses in nearby communities expressed a desire to adopt and implement a similar program with their school districts. With the recommendations we have made, Austin ISD has the opportunity to refine their HUB Program and become innovation leaders around equitable contracting in K-12.

By increasing the focus on diversifying HUB engagement, Austin ISD will help grow businesses that will impact the children Austin ISD serves by investing in their parents, their community leaders, and their future employers. In creating environments with greater accountability and greater dedication to diversity the district is helping to form best practices across Austin that their diverse body of students will benefit from. Accountability for meeting HUB goals is at the heart of making meaningful progress and growing future opportunities for our students.

Implementing the reforms around capacity building and procedural guidance will demonstrate to the HUB construction community that the district is serious about supporting them and involving them in meaningful work with Austin ISD. Austin ISD can better prepare HUBs to bid successfully on projects. Reconsidering the structure projects in such a way that will favor HUB participation sizing them to better align with HUB capacity and help all struggling small businesses. Showing this dedication will infuse the local community with funds and grow both HUB and non-HUB small businesses. Austin ISD will be the tide that helps all small businesses to rise.

Austin ISD's mission is to "provide a comprehensive educational experience that is high-quality, challenging and inspires all students to make a positive contribution to society." Through making both large and small investments in equity as detailed in this report, Austin ISD will lead by example in making a positive contribution to the Austin community.