

# Racial Equity and Social Justice (RESJ) Impact Statement

Office of Legislative Oversight

## **BILL 10-24: CONTRACTS AND PROCUREMENT – LOCAL SMALL BUSINESS RESERVE PROGRAM (LSBRP) – VETERAN-OWNED BUSINESS PREFERENCE POINTS**

### **SUMMARY**

The Office of Legislative Oversight (OLO) anticipates Bill 10-24 will have a negative impact on racial equity and social justice (RESJ) in the County. Assuming the demographics of veteran-owned businesses in the DC metro area aligns with the demographics of veteran-owned business in the County, Bill 10-24 would provide an advantage in securing County procurement opportunities to veteran-owned businesses that are disproportionately White. This could worsen existing racial disparities in local business revenues by increasing revenues for White-owned firms. OLO offers one policy option for Council consideration.

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### **PURPOSE OF RESJ IMPACT STATEMENTS**

The purpose of RESJ impact statements (RESJIS) is to evaluate the anticipated impact of legislation on racial equity and social justice in the County. Racial equity and social justice refer to a **process** that focuses on centering the needs, leadership, and power of communities of color and low-income communities with a **goal** of eliminating racial and social inequities.<sup>1</sup> Achieving racial equity and social justice usually requires seeing, thinking, and working differently to address the racial and social inequities that have caused racial and social disparities.<sup>2</sup>

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### **PURPOSE OF BILL 10-24**

The County's Local Small Business Reserve Program (LSBRP) is one of three programs administered by the Montgomery County Office of Procurement that provide opportunities for local and small vendors to compete for contracting dollars with the County.<sup>3</sup> LSBRP "ensures that County departments award 25 percent (with specified exceptions) of their procurements for goods, services and construction to registered and certified local, small businesses."<sup>4,5</sup> In FY23, the County spent \$305 million with local small businesses. Almost \$56 million (31%) of this amount was spent under the LSBRP.<sup>6</sup>

The goal of Bill 10-24 is to help veteran-owned local small businesses access more County procurement opportunities.<sup>7</sup> The Bill attempts to do this by establishing a Veteran-Owned Local Small Business preference points program under LSBRP.

Under this program, veteran-owned local small businesses that submit proposals for County contracts would be awarded preference points of five percent. The Bill defines a "veteran-owned local small business" as:

"a Local Small Business [as defined under County law] that is at least 51 percent owned by one or more individuals who: (a) are verified as having served on active duty in the armed forces of the United States, other than for training, and were discharged or released under conditions other than dishonorable; and (b) control the management and daily operations of the business."<sup>8</sup>

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To be eligible, a business must provide the County with a valid Veteran-Owned Small Business (VOSB) or Service-Disabled Veteran-Owned Small Businesses (SDVOSB) certificate from the U.S. Small Business Administration or the U.S. Department of Veterans Affairs.<sup>9</sup>

The Council introduced Bill 10-24, Contracts and Procurement – Local Small Business Reserve Program (LSBRP) – Veteran-Owned Business Preference Points, on April 16, 2024.

This RESJIS builds on the RESJISs for:

- Expedited Bill 37-23, Contracts and Procurement – Minority Owned Businesses – Sunset Date – Amendments;<sup>10</sup> and
- Bill 6-24, Property Tax Credit – Disabled Veterans.<sup>11</sup>

Please refer to these RESJISs for background on business ownership, military service, and racial equity.

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### ANTICIPATED RESJ IMPACTS

To consider the anticipated impact of Bill 10-24 on RESJ in the County, OLO recommends the consideration of two related questions:

- Who are the primary beneficiaries of this bill?
- What racial and social inequities could passage of this bill weaken or strengthen?

**For the first question,** OLO considered the demographics of veteran-owned small businesses since Bill 10-24 could help them access more procurement opportunities with the County. Table 1 summarizes Census estimates of veteran-owned businesses with employees in the DC metro area by minority business classification. Firms that are any race and ethnicity combination other than White, non-Latinx are classified as minority firms, while White, non-Latinx firms are classified as non-minority firms.<sup>12</sup> This data suggests that White people are overrepresented among veteran-owned businesses compared to their share of business ownership in the DC metro area. Conversely, BIPOC are underrepresented among veteran-owned businesses.

**Table 1: Veteran-Owned Businesses by Minority Business Classification, Washington-Arlington-Alexandria, DC-VA-MD-WV Metro Area**

| Minority Business Classification | % DC Metro Area Veteran-Owned Businesses | % DC Metro Area Business Owners (All Sectors, NAICS 00) |
|----------------------------------|--|---|
| Minority                         | 21.6                                     | 32.6  |
| Non-Minority                     | 77.8                                     | 59.8  |

Source: OLO Analysis of [Table AB2100CSA01](#), 2021 American Business Survey, Census Bureau.

**For the second question,** OLO considered how this Bill could impact racial disparities in local business revenues. Table 2 summarizes Census estimates of local sales, value of shipments, or revenue for businesses with employees in the County by minority business classification. This data suggests that White-owned employer firms had more than four times the revenue of BIPOC-owned employer firms in the County.

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**Table 2: Local Sales, Value of Shipments, and Revenue by Minority Business Classification, Montgomery County**

| Minority Business Classification | Local Sales, Value of Shipments or Revenue (\$) | Local Sales, Value of Shipments or Revenue (%) |
|----------------------------------|---|--|
| Minority                         | \$10,054,352                                    | 9.5  |
| Non-Minority                     | \$44,601,447                                    | 41.9   |
| Equally Minority/Non-Minority    | \$280,343                                       | 0.3  |
| Unclassifiable <sup>13</sup>     | \$ 51,436,197                                   | 48.4   |
| Total                            | \$106,372,339                                   |  |

Source: OLO Analysis of [Table AB1700CSA01](#), 2017 American Business Survey, Census Bureau.

OLO anticipates Bill 10-24 will have a negative impact on RESJ in the County. Assuming the demographics of veteran-owned businesses in the DC metro area aligns with the demographics of veteran-owned businesses in the County, Bill 10-24 would provide an advantage in securing County procurement opportunities to veteran-owned businesses that are disproportionately White. This could worsen existing racial disparities in local business revenues by increasing revenues for White-owned firms.

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## RECOMMENDED AMENDMENTS

The Racial Equity and Social Justice Act requires OLO to consider whether recommended amendments to bills aimed at narrowing racial and social inequities are warranted in developing RESJ impact statements.<sup>14</sup> OLO anticipates Bill 10-24 will have a negative impact on RESJ in the County. Should the Council seek to improve the RESJ impact of this Bill, OLO offers one policy option for consideration:

- **Convene BIPOC and other relevant community stakeholders to conduct a holistic review of preference system for County procurement opportunities.** The County's Office of Procurement administers several programs to advantage local businesses and Minority, Female and Disabled-Owned (MFD) businesses in securing procurement opportunities with the County.<sup>15</sup> To ensure the County's procurement preference system is advancing RESJ with the inclusion of veteran-owned businesses, the Council could convene a group of BIPOC and other community stakeholders to conduct a holistic review of the system and provide recommendations. The Council could require the County Executive to adopt method (2) regulations to implement the group's recommendations in the Office of Procurement.

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## CAVEATS

Two caveats to this racial equity and social justice impact statement should be noted. First, predicting the impact of legislation on racial equity and social justice is a challenging analytical endeavor due to data limitations, uncertainty, and other factors. Second, this RESJ impact statement is intended to inform the legislative process rather than determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

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<sup>1</sup> Definition of racial equity and social justice adopted from “Applying a Racial Equity Lens into Federal Nutrition Programs” by Marlysa Gamblin, et.al. Bread for the World, and from Racial Equity Tools. <https://www.racialequitytools.org/glossary>

<sup>2</sup> Ibid.

<sup>3</sup> [“FY23 Local Business Programs Annual Report,”](#) Montgomery County Office of Procurement.

<sup>4</sup> [“Local Small Business Reserve Program \(LSBRP\),”](#) Local Small Business Reserve Program, Montgomery County Office of Procurement.

<sup>5</sup> In County law, a “local small business” is “a for-profit business or non-profit entity, other than a broker, that: (1) has its principal place of business or non-profit operations in the County; (2) in the case of a for-profit business, is independently owned and operated; (3) is not a subsidiary of another business or entity; and (4) meets criteria, size limits, and gross sales amounts established by method 2 regulations.” Refer to [Montgomery County Code § 11B-65](#)

<sup>6</sup> “FY23 Local Business Programs Annual Report”

<sup>7</sup> [Introduction Staff Report for Bill 10-23,](#) Montgomery County Council, Introduced April 16, 2024.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> [RESJ Impact Statement for Bill 37-24,](#) Office of Legislative Oversight, October 18, 2023.

<sup>11</sup> [RESJ Impact Statement for Bill 6-24,](#) Office of Legislative Oversight, March 25, 2024.

<sup>12</sup> Refer to Notes, [Table AB2100CSA01,](#) 2017 American Business Survey, Census Bureau.

<sup>13</sup> The Census categorizes unclassifiable firms as firms that are not classifiable by sex, ethnicity, race, and veteran status. Refer to Notes, Table AB1700CSA01, 2017 American Business Survey, Census Bureau.

<sup>14</sup> Bill 27-19, Administration – Human Rights – Office of Racial Equity and Social Justice – Racial Equity and Social Justice Advisory Committee – Established, Montgomery County Council

<sup>15</sup> [Local | MFD | Wage,](#) Montgomery County Office of Procurement.