OFFICE OF RACIAL EQUITY AND SOCIAL JUSTICE

Marc Elrich
County Executive

Tiffany Ward
Director

MEMORANDUM

February 17, 2022

To: Jennifer Bryant, Director
Office of Management and Budget

From: Tiffany Ward, Director
Office of Racial Equity and Social Justice

Re: Racial Equity Impact Assessment (REIA) for Supplemental Appropriation #22-59
Business Advancement Team, Life Science & Technology Center (P789057)

I. **FINDING:** The Office of Racial Equity and Social Justice (ORESJ) finds that Supplemental Appropriation #22-59 Business Advancement Team, Life Science & Technology Center (P789057) is unlikely to advance racial equity and social justice in the short-term, as local data suggests that the main beneficiaries of the additional wet labs are unlikely to be businesses owned by Black or Latino entrepreneurs—those who face the greatest barriers in business startup and survival, particularly in the life sciences field. As additional investments are made in the County to expand diversity and opportunity in the life sciences field it is possible for additional wet labs to contribute to closing gaps in entrepreneurship. This is especially true given that these types of investments can reduce or eliminate certain fixed costs that disproportionately burden entrepreneurs starting with fewer assets and less wealth to leverage in the start-up of their business.

I. **BACKGROUND:** The purpose of Supplemental Appropriation #22-59 is to transition ten offices in the Germantown Innovation Center into four additional, small wet labs. This renovation is intended to support the County's ability to provide small labs to a greater number of emerging biotech companies.

To assess the racial equity impacts of this investment, we consider which companies and entrepreneurs in the County are most likely to benefit from additional wet lab space. The Germantown Innovation Center specializes in providing office and laboratory space for life

science companies and has been home to 35 companies who've graduated from the Business Innovation Network[1]. At the time of this analysis, there weren't data available about the demographic characteristics of graduates or current tenants. However, two sets of information help us to understand which firms and owners are likely to benefit from additional wet labs:

1. Demographic breakdown of firm ownership in the County
2. Racial inequities in entrepreneurship, with a particular focus on the biotech industry.

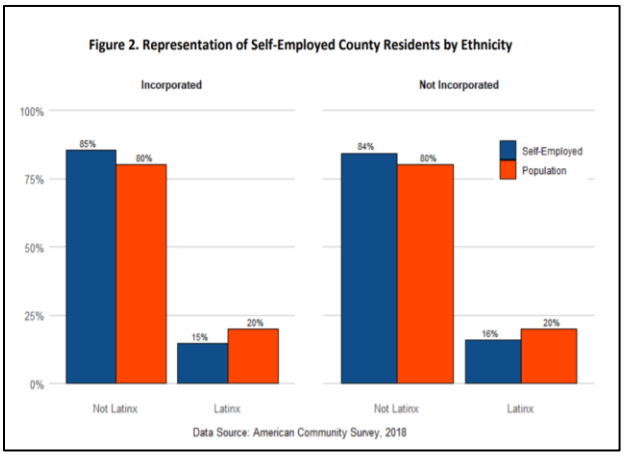
Demographic breakdown of firm ownership in Montgomery County, MD
The below table shows the percentage of total firms that are minority, veteran, and women-owned in Montgomery County based on the definitions used in the 2012 Survey of Business Owners. Minority-owned firms make up less than half (43%) of all firms in Montgomery County; this is disproportionately low compared to the representation of people of color in the overall county population (58%)[2].

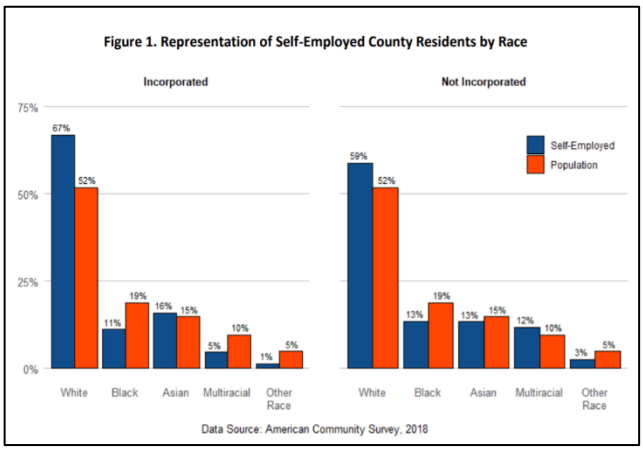
Firms in Montgomery County	Number of firms	% of all firms
All Firms, 2012	118,965.00	100%
Men-owned firms, 2012	62,015.00	52%
Women-owned firms, 2012	46,404.00	39%
Minority-owned firms, 2012	51,051.00	43%
Nonminority-owned firms, 2012	63,992.00	54%
Veteran-owned firms, 2012	9,178.00	8%
Nonveteran-owned firms, 2012	105,555.00	89%

Source: U.S. Census Bureau, 2012 Economic Census: Survey of Business Owners. Survey of Business Owners and Self-Employed Persons (SBO)

A more recent approximation of the racial composition of business owners in Montgomery County is using 2018 US Census data on self-employed residents. Montgomery County Office of Legislative Oversight (OLO) Analyst Stephen Roblin's analysis indicates an underrepresentation of Black and Latinx self-employed residents compared to their share of the population in Montgomery County.

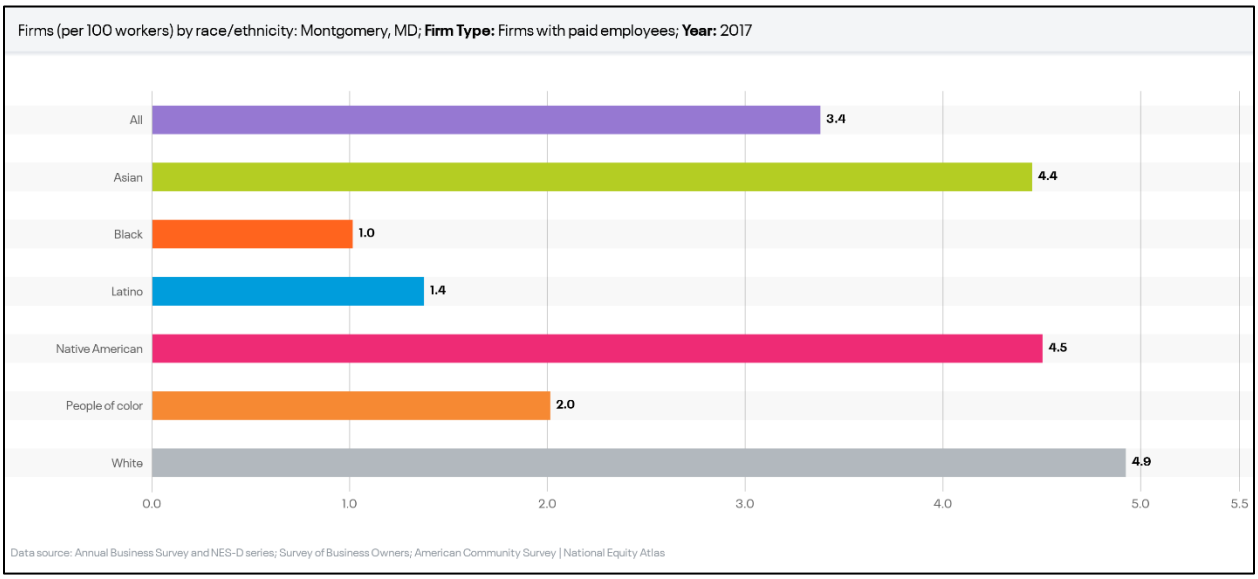
[1] Business Innovation Network. Facilities and Tenants. Graduates. Accessed on February 7, 2022. Available at: https://www.mcinnovationnetwork.com/facilities-tenants/graduates/.
[2] National Equity Atlas. PolicyLink. Race and Ethnicity in Montgomery County, MD 1980-2050. Available at: https://nationalequityatlas.org/indicators/Race-ethnicity#/?breakdown=1&geo=04000000000024031





Source: Stephen Roblin. Montgomery County Office of Legislative Oversight. *Covid-19 Recovery Outlook: Minority-owned businesses*. September 21, 2020. https://www.montgomerycountymd.gov/OLO/Resources/Files/2020%20Reports/COVID-19RecoveryOutlook-MinorityOwnedBusinesses.pdf

A similarly recent set of data analyzed by PolicyLink shows large racial disparities in ownership of employer firms. This data says that in 2017, among employer firms, there was one Black and one Latino business owner for every 100 workers. For White-owned firms, the rate was about 5 firms per 100 workers.



Source: National Equity Atlas. PolicyLink. Business Ownership, Montgomery County, MD. 2017. Available at: https://nationalequityatlas.org/indicators/Business-ownership#/?breakdown=1&geo=04000000000024031&year=2017

Taken together, White entrepreneurs are overrepresented among sole proprietorship firms and employer-firms (compared to all firms in Montgomery County), while Black and Latino entrepreneurs are significantly underrepresented in the same groups. Entrepreneurs who are Black or Latino own far fewer firms in Montgomery County compared to their White counterparts, in some cases at a rate of 5 to 1. Presuming these patterns are also present in the life sciences field, it is likely that the businesses most likely to benefit from additional wet labs are owned by White entrepreneurs.

Racial Inequities in Entrepreneurship, with a particular focus on biotech industries

The root causes of racial inequities in business ownership are complex. A combination of lower levels of wealth, barriers in accessing (fair, affordable) bank financing, student debt, and inequities in labor market and educational opportunities and outcomes present obstacles to business formation for entrepreneurs of color[3]. In a recent research brief, scholars examine disparities between Black and White entrepreneurs' pathways to business ownership and explain the influence of prior levels of wealth on business formation. The authors also explain, more generally, how historical racial injustice has shaped "business opportunities, economic prospects, and corresponding potential support networks at present."[4] The Federal Reserve Board of Governors analysis of the 2019 Survey of Consumer Finances indicates that the typical White family has eight times the wealth of the typical Black family and five times the wealth of the typical Hispanic family[5]. Taken together, racial wealth disparities have an outsized impact on entrepreneurs of color—how they are able to capitalize their business and whether they have access to the information and networks necessary to overcome challenges inherent in starting a business.

These inequities are amplified in life sciences field where the demographics of the workforce and leadership have not kept pace with demographic changes in the country. For the purposes of this analysis, we focused on the biotechnology industry, which is a subfield within the life sciences field.

A 2018 survey of 54 US-based biotechnology conducted by Nature Biotechnology and Biotechnology Innovation Organization (BIO) found that compared to their representation in the US population, Black and Latino individuals are underrepresented in the Biotech workforce, management positions, and in the board of directors[6]. The survey also found that

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[3] Joyce A. Klein. *Bridging the Racial Wealth Divide: How Business Ownership Can Help Close the Racial Wealth Gap*. FIELD at The Aspen Institute. January 2017. https://www.aspeninstitute.org/wp-content/uploads/2017/01/Bridging-the-Divide.pdf.

[4] : M'Balou Camara, Khaing Zaw, Darrick Hamilton, and William Darity Jr. The Samuel DuBois Cook Center on Social Equity, Duke University, The Institute on Assets and Social Policy, Brandeis University The Kirwan Institute for the Study of Race and Ethnicity, The Ohio State University *Entering Entrepreneurship: Racial Disparities in the Pathways into Business Ownership*. October 2019. https://socialequity.duke.edu/wp-content/uploads/2019/10/Entering-Entrepreneurship.pdf.

[5] Neil Bhutta, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu with assistance from Julia Hewitt. Board of Governors of the Federal Reserve System. *Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances*. September 28, 2020. https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm

[6] Brady Huggett. "Biotech's Pale Shadow". Nature Biotechnology. Volume 6. Number 1. January 2018. Available at: https://www.nature.com/articles/nbt.4046.pdf

Asian individuals are overrepresented in the same sets of positions, but that the overrepresentation is most stark in the White population[7]. Almost 80% of biotech board of directors are White, compared to their representation in the US population at 61%[8]. The reasons for this underrepresentation are complex and rooted in many of the racial and ethnic disparities shaping education and economic opportunity:

1. Access to higher education leading to doctorate-level industry knowledge. Education at the highest levels can be costly. Lower levels of wealth accumulation among Black and Latino people in the US, resulting from historical and current policies and practices of exclusion and exploitation[9], along with burdens of student loan debt create economic barriers to accessing education opportunities necessary for entering the biotech industry.

2. Access to start-up capital or seed funding. The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) Grants are often the first source of funding for new ventures or projects that originate in academia[10]. Between 2007 and 2017, 3.6% of SBIR applications were submitted by what the awarding agency calls socially or economically disadvantaged owners, 2.5% of awards went to this group. For comparison, organizations led by white men had about a 20% chance of having their application granted, whereas for women, socially and economically disadvantaged owners the win rate was less[11]. For socially and economically disadvantaged women the rate was 10%[12]. The picture from venture capital is not much different. In general, less than one percent of new businesses access venture capital[13]. Conversely, 64% of businesses use startup capital from family or personal wealth. Given preceding discussions about racial wealth disparities, this presents a significant barrier for entrepreneurs of color, particularly Black and Latino entrepreneurs[14].

3. Unconscious bias towards funding projects in or hiring from schools with large endowments and prestige. This can leave out students attending smaller schools, Historically Black Colleges and Universities, and Latino-serving Institutions[15].

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[7] Brady Huggett.
[8] Brady Huggett.
[9] Angelita P. Howard, Liane S. Slaughter, Kaylin M. Carey, and James W. Lillard Jr. "Bridges to biotechnology and bioentrepreneurship: improving diversity in the biotechnology sector". Nature Biotechnology. Volume 39, pages1468–1474. 2021. Available at: https://www.nature.com/articles/s41587-021-01110-3
[10] Brady Huggett.
[11] Brady Huggett.
[12] Brady Huggett.
[13] Victor Hwang, Sameeksha Desai, and Ross Baird. Ewing Marion Kauffman Foundation. *Access to Capital for Entrepreneurs: Removing Barriers*. April 2019. Available at: https://www.kauffman.org/wp-content/uploads/2019/12/CapitalReport_042519.pdf
[14] Victor Hwang, et al.
[15] Brady Huggett.

These factors, in addition to the inequities that shape education and economic opportunity more generally, deeply affect who has the chance to gain the knowledge and expertise necessary to enter the biotech industry as a worker let alone as a founder.

cc: Ken Hartman, Director, Office of Strategic Partnership, Office of the County Executive