

**MAYOR'S ADVISORY COMMISSION
ON CONSTRUCTION INDUSTRY DIVERSITY**

**REPORT AND RECOMMENDATIONS
Executive Summary**

MARCH, 2009



**MAYOR'S ADVISORY COMMISSION
ON CONSTRUCTION INDUSTRY DIVERSITY**

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EXECUTIVE SUMMARY

Introduction

On March 30, 2008, by executive order, Mayor Michael A. Nutter appointed an 18 member Mayor's Advisory Commission on Construction Industry Diversity to conduct a "comprehensive analysis and review of the construction industry in Philadelphia and the extent to which Philadelphia County minority persons and women were utilized in the workforce" in construction projects in the City. The Commission expanded its mission to also examine the utilization of minority-and women-owned businesses as contractors or subcontractors in the construction industry. The Commission issued a Preliminary Report to the Mayor and Council President Anna C. Verna on October 1, 2008.

Methodology

The Commission organized into three working committees: *Research, Workplace* and *Contracting*; held numerous full meetings and committee meetings; and, conducted two public hearings. The Commission's research included information from numerous sources including structured interviews and surveys with representatives of the various players in the construction industry. It also reviewed: reports and disparity studies from various cities; articles from scholarly journals and trade journals; demographic and geographic data on and membership data from the building trades; U. S. Census and Bureau of Labor Statistics data; construction project workforce statistics; and, various lists and data on majority, minority and women-owned businesses in the construction industry.

Commission Objectives

The Commission established several objectives for its study and report:

- Develop an understanding of the structure and operation of the construction industry and its principal players;
- Devise a methodology for determining the availability and utilization of minority and women workers and contractors in the construction industry;

- Ascertain the extent to which minorities and women are utilized and represented in the workforce and as contractors in the construction industry;
- Develop an understanding of the processes, policies and practices through which persons gain entrance into the various labor unions that perform construction work, and how they are ultimately deployed to construction workplaces;
- Identify the policies and practices of project owners, contractors, subcontractors and labor unions that result in the under-representation of minorities and women in construction project workplaces;
- Identify the factors and barriers that contribute to the underutilization of minority and women workers at construction workplaces;
- Develop an understanding of the policies and practices through which various contractors and subcontractors are hired to perform the multiple tasks in the construction industry value chain;
- Identify the policies and practices of project owners, contractors and subcontractors that result in the under-representation of minority and women owned businesses in the various contracting opportunities in the construction industry;
- Identify the factors and barriers that minority-and women-owned businesses confront in the construction industry;
- Articulate the business case for diversity in the construction industry; and
- Recommend to the Mayor, Philadelphia City Council, project owners, contractors, unions, educators and the community, as a whole, the best practices, strategies, policies and initiatives for increasing the representation of minority and women workers and contractors in the construction industry.

Diversity and greater inclusion of minorities and women in both the workplace and as contractors in the construction industry is the responsibility of City government, project owners, unions, contractors and subcontractors, educators and the community, as a whole. Our recommendations, therefore, speak to what each of these parties should pledge to do to foster greater diversity.

The Commission's findings and 75 recommendations are presented in a written report of over 100 pages. The purpose of this Executive Summary is not to list every recommendation but to describe several major themes of that report.

Interested readers can find lists of all recommendations in two documents titled “44 Recommendations to Increase Inclusion of Minorities and Women in the Construction Workforce” and “31 Recommendations to Increase Inclusion of Minority, Female, and Disabled Construction Contractors ” A complete discussion of all findings and recommendations is presented in the full Commission report titled “Report and Recommendations.”

The Scope and Impact of the Construction Industry

The national construction industry generated \$1.07 trillion in revenues in 2008. The construction industry is an equally important part of the private economy of the Philadelphia region. By comparison, the 2002 Economic Census pointed out that Pennsylvania’s construction industry comprises \$46.6 billion with 27,589 firms (with employees), creating jobs for 277,400 persons, for a total annual payroll of \$1.01 billion. Over the same period, all Philadelphia construction firms generated \$25.6 billion in annual revenues and employed 138,460 persons, with a total annual payroll of \$5.7 billion.

According to the Associated General Contractors of America (AGCA), each \$1 billion of construction activity adds \$3.4 billion to the U.S. Gross Domestic Product (GDP), about \$1.1 billion to personal earnings and creates or sustains 28,500 jobs. In 2005 (the latest year for which all data are available), the industry was responsible for 4.9% of all private sector output and 4.6% of all employment in the Philadelphia area. The corresponding national shares are 5.6% of private sector output and 5.5% of all employment, so the construction industry makes up a somewhat smaller part of the regional economy than of the national economy.

The Case for Diversity in the Construction Industry

The demise of the regional manufacturing sector and the proliferation of low-wage, dead-end jobs in the Philadelphia area have left construction work, particularly union construction work, as one of few promising sources of good wages and benefits that allow workers, without college educations, to support their families. Construction

jobs account for 11.0% of all blue-collar jobs, but 38.5% of blue-collar jobs paying wages above \$20 per hour.

According to recent Census Bureau reports, there are 45,825 construction firms, in the 12-county Philadelphia-Camden-Vineland Combined Statistical Area (PCSA). That number included 1,320 African-American firms, 1,429 Hispanic-owned firms and 3,315 construction owned firms by white females. Comparable data were not made available for Asian, Native American or firms owned by disabled persons. In December 2007, Philadelphia City Council developed inclusion goals for the Pennsylvania Convention Center Expansion Project of 20% African-American, 10% Hispanic, 5% Asian and 15% female contractors. Today, neither City-owned nor privately-owned construction projects are reaching those goals.

Minorities and women are currently under-represented in the building trades and as construction contractors in the Philadelphia area. In a local industry wherein all construction contractors “with employees” generated \$26.3 billion in 2002, African-American firms participated in just \$140.9 million (0.5%) in gross receipts, Hispanic firms generated \$112.4 million (0.4%), and white female-owned firms reported \$1.4 billion (5.3%) in revenues. Data for Asian, Native-American, and Disabled-owned firms were unavailable from the Census Bureau.

In addition to examining the causes of this under-representation and making recommendations to remedy it, the Commission believes it is important to articulate the compelling arguments for increased inclusion.

The first argument is one of equity or fairness. Since construction workers receive good pay and benefits and are likely to be in demand in the long run, any segment of the community that does not fully participate in the industry faces starkly reduced economic opportunity. Simply stated, increasing the inclusion of minorities and women as workers and contractors in the Philadelphia area construction industry is clearly the right thing to do.

The second argument is one of economic efficiency. Full access to the construction industry is probably one of the most effective ways to help minorities and women move up the income distribution. As they move up, they will pay more taxes and

increase their personal expenditures in their communities thereby raising the incomes and qualities of life of others.

The third argument is subtle, but equally important. The Commission believes that at least a part of the reluctance to embrace diversity and inclusion is the misconception that one person's economic progress must come at some cost to another. That is, many believe that in order for minorities in the Philadelphia region to make gains, whites in the region have to lose, but that is not true for three reasons. First, the age distribution of the current construction workforce is such that there will be a large number of retirements in the next 10 years or so. There will be an opportunity to increase the minority shares of the unions without displacing current white members. Second, the large number of future retirements will heighten the interests of area contractors and building trades unions in recruiting new workers of the highest productivity by extending opportunities to all segments of the population. Finally, we know that a substantial amount of construction work is currently performed by workers coming from outside the Philadelphia region. If more of that work were performed by workers from the Philadelphia area, there would be a second opportunity to increase the minority shares of the unions without displacing current white members.

Most Construction Firms are Small Businesses

The statewide construction industry, much like the Philadelphia construction industry, is largely comprised of small firms, with 79.6 percent smaller than 10 employees, and 90.4 percent smaller than 20 employees. About 50.9 percent of all Pennsylvania construction revenues are generated by firms operating in the Greater Philadelphia area. The local construction industry employs about half (49.9%) of all statewide construction workers, and represents 56.4 percent of the statewide construction industry payroll.

According to the most recent Economic Census, the 16,385 Pennsylvania-based construction firms with 1-4 employees generated, on average, \$292,950 annually. Those with 5-9 employees generated, on average, \$787,965. Those with 10-19 employees generated, on average, about \$1.78 million in annual revenue.

The Absence of Data

The Commission's effort to assemble the information necessary to more fully understand and measure the inclusion of minorities and women in the Philadelphia-area construction industry was hampered by the absence of relevant and reliable data. The Commission recommends that the City work with owners, contractors, and the building trades unions to assemble detailed demographic data on the availability and utilization of minorities and women as construction workers and contractors.

Workforce Inclusion Goals

The Commission recommends that the Mayor, City Council, City departments, agencies, authorities, construction project owners, contractors, unions, and others set common, long-run goals for inclusion of minorities and women in the construction workforce. Specifically, the Commission recommends a goal of 32% minority participation and 7% female participation in the building trades workforce in the Philadelphia region. These goals are based on the demographic characteristics of men in the regional population who have high school diplomas, GEDs, or some college.

The Role of Owners, Contractors, Unions, and Others

The Commission recommends a number of strategies by which the inclusion goals could be reached. One key insight offered by the Commission is that past discussions of inclusion have focused too narrowly on what unions should do and not taken into consideration the key roles of other critical players in the industry such as construction project owners, contractors, and others.

Unions

- Collect and share demographic data on membership and employment;
- Set long-run membership targets of 32% minority male and 7% women;
- Empanel apprentice classes with at least 50% minorities until membership goals are reached;
- Seek other pathways for adding minorities and women to union membership;

- Work with community groups and others to reach out to young adults who are prepared to enter apprentice programs; and
- Create mentorship and other initiatives to help minorities and women succeed.

Contractors

- Add minorities and women to their "steady" workforces;
- Work with unions to ensure that work is allocated to minorities and women in proportion to their current shares of union membership; and
- Make it clear to their managers and foremen that employing a diverse workforce is a worksite objective and offer incentives for achievement of increased inclusion of minorities and women.

Project Owners

- Insist on a diverse workforce and require trades unions and contractors to provide availability and utilization data;
- Make best efforts to contract with minority-and women-owned businesses to the greatest extent feasible;
- Include enforceable targets for minority and female participation in their contracts with contractors; and
- Insist that contractors provide demographic information about their staff workers, especially their "steady workforce" and documentation of their efforts to increase inclusion of minorities and women as workers and contractors in all of their projects (City owned and others).

Educators and the Community

- Educators should ensure an adequate number of high-quality training programs for youth and young adults, developed in partnership with the unions;
- Educators should help recruit good candidates for building trades membership. Appropriate candidates should be strongly encouraged to consider entering the building trades apprenticeship programs after graduating from high school;

- The Greater Philadelphia Chamber of Commerce and other business organizations should communicate their support of initiatives to increase the inclusion of minorities and women as construction workers and contractors;
- Neighborhood and community organizations should be disseminators of career information regarding construction industry careers and be advocates for inclusion; and
- Parents and other family members should help children and young adults develop the values, attitude and work ethic that will allow them to be successful in their work.

City Roles: Oversight, Ownership, and Leadership

Much of the Commission's deliberations focused on what the City (the Mayor, City Council, and City departments, agencies and authorities) could do. The Commission sees many opportunities for City action in three critical roles: *oversight*, *ownership*, and *leadership*.

Oversight

- Improve its data and monitoring systems as a foundation for oversight by assembling data on the participation of minorities and women as construction workers and contractors in the regional economy;
- Develop and update goals for inclusion of minorities and women as construction workers and contractors in the regional construction industry; and
- Prepare quarterly reviews of inclusion data for presentation to the Mayor's Economic Opportunity Cabinet and an annual "Inclusion Report Card" for publication.

Project Owner

- Conduct a baseline analysis of the current participation of minorities and women as construction workers and contractors in its recent construction projects;
- Adopt the long-run goal of 32% minority and 7% female participation in the building trades workforce and set achievable goals for participation of male minority, female, and disabled contractors;

- Require bidders on public projects to document their efforts to include minorities and women as workers and contractors in their publicly and privately funded projects;
- Avoid waivers of participation requirements except where genuine good faith is documented;
- Review all post-award changes in roles of minority and women subcontractors and approve only where genuine good faith effort is documented;
- Limit opportunities to use minority and women-owned material suppliers to fulfill minority and female contractor participation requirements; and
- Collect certified payroll data on City projects showing demographic distributions of hours worked and use them to monitor all City construction projects and enforce contractual targets.

Leadership

- Communicate the message that the goals of inclusion and equal opportunity should be standard for both public and private construction projects to owners, contractors, unions, lenders, bonding agencies, and lenders;
- Work with other large construction owners such as universities and hospitals to share information on the participation of minorities as contractors, sub-contractors, and workers;
- Establish a consortium of 10 private sector companies who will institute an economic opportunity plan within their procurement departments to establish and achieve contracting goals; and
- Establish an ongoing Advisory Commission on Construction Industry Diversity which would include union leaders, contractors, contractor associations, public and private project owners and community leaders.

Helping Minority, Female, and Disabled Contractors Succeed

Many of the recommendations discussed above are intended to increase inclusion of minorities and women as both workers and contractors, but the Commission has presented 31 recommendations focused on the specific needs of contractors. The Commission has come to understand that the overwhelming majority of minority, female, and disabled contractors are small, and, often, new businesses, and that many of the barriers to their participation are those faced by virtually all new and small contractors.

Some of these barriers can be lowered. Specifically, the Commission recommends that the City and other project owners:

- Unbundle large projects into multiple smaller projects whenever it is possible to do so without significant increases in cost;
- Reduce small contractors' needs for credit by expediting payments to general contractors, requiring expedited payments to subcontractors, and reducing retainage on small projects; and
- Explore innovative ways to reduce the barriers created by bonding requirements including state legislation to allow selective reduction of bonding requirements.

In addition, the City should help nurture minority and female contractors so they can not only survive but prosper and grow. Specifically, the City should:

- Initiate and support a public/private partnership with larger GCs and CMs to develop a mentorship program to strengthen the capacity and enhance the growth of emerging minority contractors;
- Develop a database of all general contractors and construction managers that subcontractors can use to market their services. The database should track current work being bid and identify all forecasted and upcoming projects; and
- Develop a website, similar to FaceBook[®] or MySpace[®], to describe the project experience, capacity and resumes of each certified contractor.

The full report contains more detailed recommendations to help minority, female, and disabled contractors succeed.

A Shared Commitment to Inclusion

We have addressed this report, not only to Mayor Nutter but also to City Council, the Office of Economic Opportunity, other City departments, unions, contractors, owners, educators, the business community, community-based organizations, and individual citizens in the hope that all of them will consider the steps that we have recommended. We realize that there may be differing views regarding our specific suggestions, but we hope that all who read this report will share our commitment and determination to increase the inclusion of minorities and women in the Philadelphia area construction

industry, as both workers and contractors. That shared commitment should be the foundation of a common plan to open up the construction industry to all.

