LABC Institute
LOS ANGELES BUSINESS COUNCIL

Los Angeles as a Host City

Identifying Investment-Ready Neighborhoods for Equitable and Inclusive Procurement

October 18, 2019

USC Dornsife
Program for Environmental and Regional Equity

Dear Business and Community Leaders:

The Los Angeles Business Council Institute (LABCi) is pleased to share the findings from *Los Angeles as a Host City: Identifying Investment-Ready Neighborhoods for Equitable and Inclusive Procurement*, a report by the USC Dornsife School's Program for Environmental and Regional Equity. This research represents a new benchmark for understanding the diversity and specific geography of the Los Angeles small business community.

Los Angeles is expecting an unprecedented influx of investment over the next decade thanks to several major sports and entertainment events in the pipeline, as well as publicly funded infrastructure projects. The 2022 Super Bowl, 2023 College Football Playoffs, and 2026 World Cup alone will account for over $1.5-billion of local economic activity.

These events will be an opportunity to showcase the region's best: our diversity, creativity, and innovation. It is also an opportunity to pioneer a new way of operating: to link investments and spending to a vision and plan for a more equitable and sustainable region. While Los Angeles' dynamic diversity is an asset, inequities and disparities can be an impediment to our continued vitality. Research shows that more equitable regions experience stronger and more sustained economic growth.

Leaders from Los Angeles' private, public, nonprofit, and philanthropic sectors are already taking steps towards a more equitable future. The LABC Institute would like to thank our Leadership Council, which we established in 2017 as a diverse body of stakeholders from the community, supply chain, and decision-making bodies that oversee, advise and support efforts to establish new market opportunities for small and underserved businesses in the LA region.

We would also like the thank USC PERE's Director Manuel Pastor, Research Director Jennifer Ito, and the entire PERE team for this ground-breaking, comprehensive report, which is critical to gaining a shared understanding of the equity challenges to develop solutions and to track measureable progress towards equity and growth over time. We are proud to be supporting this research and are hopeful that these findings will contribute to a more affordable and livable Los Angeles for all Angelenos.

None of this research would be possible without the support of JPMorgan Chase & Co. We are extremely grateful for their financial support for this exciting initiative.

Sincerely,

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Los Angeles as a Host City:
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USC Dornsife, Program for Environmental and Regional Equity

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The authors would also like to thank interviewees listed on the following page.

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Titles and organizations at time of interview.

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Introduction: Maximizing Upcoming Opportunities in Los Angeles

Los Angeles is nearing major procurement opportunities as it will once again host the Olympics and Paralympic Games in 2028, along with several other major entertainment and sporting events, including: the 2019-2022 Grammys, the 2020 MLB All Star Game, the 2022 NFL Super Bowl, the 2023 NCAA College Football Playoffs, the 2023 US Open Golf Championship, and the 2026 World Cup. The last time Los Angeles hosted the Olympics, it was touted as a success and celebrated as one of the few cities in the history of the Olympics to ever turn a profit. However, this rosy picture of the 1984 Games glosses over its failure to produce equitable benefits for the region (Baade and Matheson 2016; Farmer 2017). This major sporting event benefitted a select number of large corporations, while very few contracts were awarded to small business owners.

With multiple mega-events coming to the region, Los Angeles has been given a second chance to do better. This opportunity coincides with billions of dollars in local and regional government investments, including: Measures W, H, A, and M; Proposition HHH; LADWP's transition to green energy and locally-sourced water; and the LAX Modernization Program. With sound strategic planning and equitable goals in mind, we can ensure that small and underserved businesses have access to contract opportunities and capacity building to prepare for those opportunities. Without intervention, however, small businesses may miss out—and when small businesses miss out, so do communities that are looking for investment.

Small businesses are the backbone of the Los Angeles economy. As they grow and thrive, so do workers, families, communities, and cities. An often-overlooked opportunity for small business growth is procurement opportunities from public and private institutions. However, due to several challenges, including lack of access to lending and purchased protection for the customer, referred to as bonding, small businesses struggle to compete for these contracts. This is particularly true for people of color business owners and their communities. *Los Angeles as a Host City* asks how we can face those challenges and how we should prioritize investing our limited resources in order to build a more equitable region.

The Los Angeles Business Council Institute (LABCi) is in the midst of a multi-pronged strategy to expand economic opportunity for small businesses and businesses owned by women and people of color. In order to seize this unique moment, LABCi is working on two projects concurrently. The first is the creation of an online portal to connect the complex, disparate world of procurement across the Los Angeles region. This massive task proved crucial to successes at the 2012 London Olympic Games, which you will hear more about later, and the research presented here demonstrates the gap that LABCi's investment will fill. The second is this partnership wherein we—the University of Southern California (USC) Program Environmental and Regional Equity (PERE)—author *Los Angeles as a Host City* to understand which communities are facing systemic challenges to participation in procurement and which strategies are needed to meet specific needs in those neighborhoods.

More specifically, LABCi has asked us to answer the following questions: Which neighborhoods and industries should LABCi prioritize for the online portal to both stimulate economic growth and improve income equity? What are some equity strategies that local agencies and institutions with large procurement needs could consider implementing to encourage greater transparency and access?

After offering a basic overview of procurement and small business in the region, we conduct a spatial analysis to locate neighborhoods with small and underserved businesses that are ready for investment and have the potential to participate in contract opportunities for major capital infrastructure projects. We categorize investment-ready neighborhoods into three tiers based on the level of investment and efforts necessary to successfully engage small businesses in public procurement: (1) Information Short; (2) Opportunity Rich; and (3) Equity Ready. In total, we found 50,000 businesses in eight key industries in invest-ready neighborhoods and more than 90 percent of those businesses have fewer than 20 employees.

In addition, we provide recommendations for strategies to better engage small businesses in the procurement process based on interviews with various stakeholders from both public and private sectors. All respondents agree with a need for a more centralized, up-to-date procurement system for the region. Many argue for a strategic outreach process through trusted networks (e.g., different ethnic-specific chambers of commerce), capacity-building programs, and matchmaking events for greater impact. Investing in target neighborhoods identified in the spatial analysis will not only help businesses grow but will also help address poverty in underserved communities and will build a stronger regional economy overall.

Background: Procurement and Small Businesses in Los Angeles

Underserved Businesses and the Barriers

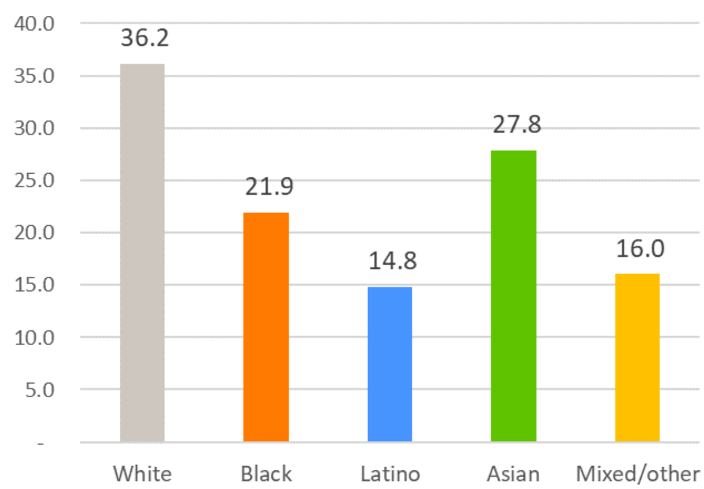
Within Los Angeles, small businesses remain fundamental to developing economically vibrant communities and equitable growth. Small businesses in general, and minority-owned businesses specifically, drive job growth, increase household income, and invest in local communities (Schulman 2018). In 2016, small businesses with less than 100 employees made up 98 percent of all businesses in Los Angeles County. Our analysis of 2008 and 2016 County Business Patterns shows that the number of firms with less than 100 employees in the county of Los Angeles grew by 8 percent between the two periods.

County Business Patterns data on small business size cannot be disaggregated by race/ethnicity and gender, so to better understand these characteristics we analyzed all firms classifiable by race and gender using the Survey of Business Owners for the City of Los Angeles.

> **Definition of a "small business"**
>
> The federal government defines small business in accordance to industry size (U.S. Small Business Administration 2016). No uniform numerical cap exists. Rather, a calculation is made using average annual receipts and the average number of employees in a firm. For example, a small business in the furniture merchant wholesalers industry is defined as less than 100 employees, whereas carpet and rug mills manufacturing firms with less than 1,500 employees are considered small.

As illustrated in the chart below, our analysis of the 2007 and 2012 Survey of Business Owners shows that business owners are not evenly represented amongst different workers of different races and ethnicities.[1] In 2012, for every 100 white workers, there were 36.2 white business owners while for every 100 Latino workers, there were only 14.8 business owners. Additionally, the average gross receipts for people-of-color owned firms remain significantly less than their white-owned firm counterparts in the city. Business owners of color earned $174,245 in sales per firm annually compared to white-owned businesses, which made an average of $543,399 in 2012.

Figure 1. Number of business owners per 100 workers by race/ethnicity, City of Los Angeles, CA



Source: USC PERE analysis of 2007 and 2012 Survey of Business Owners. Data can be found on nationalequityatlas.org, a product of a partnership between PolicyLink and the USC Program for Environmental and Regional Equity (PERE). Note that workers are defined as persons ages 16 or older in the labor force (i.e. either working or actively looking for work).

Women-owned businesses, in particular, grew by 41 percent in the city between 2007 and 2012. Yet they still make up less than half (42 percent) of all businesses classifiable by gender and continue to make less revenue than their male counterparts. Sales for women-owned business account for only 18 percent of the total businesses classifiable by gender in Los Angeles. They made an average of $147,000 in sales in 2012 compared with $498,000 for male-owned businesses.

Beyond overall profitability, people of color-owned businesses face additional obstacles compared to similar small businesses. For instance, they are more likely to face difficulties in securing access to capital and often pay higher interests rates when they do secure loans (Fairlie and Robb 2010). The lack of access to bonding and insurance indicates a significant barrier for businesses of color, particularly those who are trying to expand into public procurement (Fairchild and Rose 2018). In addition to lacking capitalization and insurance, minority-owned businesses often face difficulties navigating agency procedures due to fewer organizational resources (Los Angeles Local Initiatives Support Corporation 2018). Overall, people of color entrepreneurs face compounding barriers resulting in lower survival rates (Sutkowi 2017a).

[1] USC PERE analysis of 2007 and 2012 Survey of Business Owners. Data can be found on nationalequityatlas.org, a product of a partnership between PolicyLink and the USC Program for Environmental and Regional Equity (PERE). Note that workers are defined as persons ages 16 or older in the labor force (i.e. either working or actively looking for work).

In spite of these staggering obstacles, people of color-owned firms outpace the growth of white-owned firms (Fairlie and Robb 2010). As entrepreneurship among people of color exemplifies one major component of the strategy to close the wealth gap (Schulman 2018), now is the time to create the conditions for their success.

The State of Public Procurement in Los Angeles

Entering public procurement as a small business firm in Los Angeles County is no easy task. A 2018 report by Local Initiatives Support Corporation noted that only roughly 20% of city procurement was granted to Los Angeles-based businesses, and less than 10 percent of city professional services contracts went to minority businesses (LISC 2018). The procurement process across Los Angeles County is fragmented and disconnected. Each city and the County manage procurement separately. This translates into businesses having to navigate a non-centralized system, with approximately 30 different procurement portals, in order to identify an opportunity and then apply (BiP Solutions and Los Angeles Business Council Institute 2018). Some of these different systems require the same information to be input multiple times. Other agencies even require physical copies of procurement bids. This leaves many small business owners who are already constrained by time, resources, and staff with difficult choices about which governments they want to work with.

Within the City of Los Angeles, the Los Angeles Business Virtual Network has never been optimized. The process is cumbersome and complex, ultimately requiring vast resources from a firm to even make a bid, let alone secure a contract. Despite the importance of a robust public procurement based on diverse suppliers, neither the City nor the County of Los Angeles have conducted diversity studies to understand the status of public procurement (BiP Solutions and Los Angeles Business Council Institute 2018). A rare exception, a disparity study on the Los Angeles County Metropolitan Transportation Authority, found that not only were there disparities in procurement of contracts, but also that a relatively small number of people of color- and women-owned businesses accounted for a large portion of minority- owned firms which successfully procured bids (BBC Research & Consulting 2017). Hence, making it difficult for new small firms to enter public procurement processes.

Los Angeles County faces several limitations, making it difficult to create an equitable system. Unlike the late 70s and early 80s, when California could enact affirmative action in public procurement processes, California State Proposition 209 (1996) limited how the government can consider race and gender, effectively banning affirmative action (Marion 2009). For Los Angeles, this is a particularly restrictive measure, curbing its ability to foster the well-being of local small businesses and the city as a whole.

Striving for equitable outcomes in Los Angeles is not a new pursuit. For instance, the City of Los Angeles requires that all departments set a goal and report on minority- and women-owned business attainment in procurement. However, several departments have failed to follow through, neither meeting their goals nor reporting outcomes properly (Insight Center for Community Economic Development 2014).

This continuing disinvestment is having a negative impact on communities and contributes to the growing inequities in the region. Data show that earned income for full-time wage and salary workers at the 20th percentile of the earnings distribution (e.g. earning more than 20 percent of workers but less than 80 percent) decreased by 10 percent between 1980 and 2015 in the Los Angeles metropolitan area.[2] While at the same time the number of households spending more than 30 percent of their income on rent has increased from 45 percent in 2000 to 59 percent in 2015.[3] Currently, more than half of renter households in the metro region paid more than 30 percent of their income in rent.[4]

What are potential costs of foregoing equity goals? Research shows that with racial equity in income, Latino residents in the city of Los Angeles would see their income nearly triple and Black residents would see it double. Economic gains from racial equity in the Los Angeles metro area could increase GDP from $963 billion to approximately $1.47 trillion.[5]

Analysis: Identifying Key Neighborhoods and Sectors for Investment

Overview

So how can we invest in business procurement in a way that produces equitable benefits for the region as a whole? We can start by using trusted networks and messengers to educate communities and provide them with support they need. Small and local businesses remain fundamental to developing economically vibrant communities and equitable growth. They are more likely to hire employees from their local neighborhoods, invest in their communities, and help families and communities build wealth (Schulman 2018).

To understand how we can prioritize which communities to support given our limited resources, we conducted a spatial analysis of industries and other factors, along with 14 interviews. This process helped us to identify investment-ready neighborhoods and develop strategies for how to invest given the complexity, fragmentation, and barriers to entry in the procurement system. Ultimately, we hope that the additional outreach and support business owners receive will help them prepare for contract opportunities for major capital infrastructure projects and large-scale events.

Geographic Analysis

Our geographical analysis focuses on identifying neighborhoods where partnering with small businesses to obtain public contracts could both stimulate economic growth and improve economic equity. We identify three tiers of neighborhoods: Tier 1: Information Short, Tier 2: Opportunity Rich, and Tier 3: Equity Read Neighborhoods.

We determine which neighborhoods (based on Census tracts) belong in each tier based on their characteristics, as defined in the second row of Figure 2 below. We identify the indicators to produce these categories through evidence from peer-reviewed research. Indicators were selected based on their relationships to business success and quality of life outcomes, and their availability from a reliable,

[2] 2011-2015 American Community Survey, National Equity Atlas.
[3] 2011-2015 American Community Survey, National Equity Atlas.
[4] 2011-2015 American Community Survey, National Equity Atlas.
[5] 2011-2015 American Community Survey, National Equity Atlas.

publically available source. More information about how we select the indicators is available in *Appendix A*.

These categories can also be described as follows:

High-need neighborhoods: These are tracts where lower-income, communities of color live and where investment could help to reduce neighborhood inequity through economic investment and targeted workforce and economic development strategies. They include tracts where the household median income is less than 80 percent of the county HUD Area Median Family Income, and are tracts in the top half of census tracts for renters and people of color.

High-opportunity neighborhoods: These are communities that have either been targeted for additional investment or programs that build resources that residents can utilize for start or grow businesses or community members have high education levels and potentially greater professional skills for use in business. They are either already designated as Opportunity Zones, Promise Zones, Hub Zones or are in the top half of census tracts in terms of higher education levels.

Small business priority neighborhoods: Communities that historically may not have had access to capital to grow their businesses. They are in the bottom half of census tracts for business loans per employee.

The table below illustrates the combination of neighborhood categories that make up each tier: Tier 1: Information Short Zones are those that have small business priority and high-opportunity neighborhoods; Tier 2: Opportunity Rich Zones are those that have small business priority, are high-opportunity and high-need neighborhoods, and Tier 3: Equity Ready Zones are small business priority and high need neighborhoods.

Figure 2: Investment Zones and Neighborhood Categories

Investment Zones	High-need	Small business priority	High-opportunity
Indicators	Household Income, Renter, People of Color	Small Business Lending	BA or higher, Opportunity Zones, Promise Zones, Central Business District
Tier 1: Information Short		x	x
Tier 2: Opportunity Rich	x	x	x
Tier 3: Equity Ready	x	x	

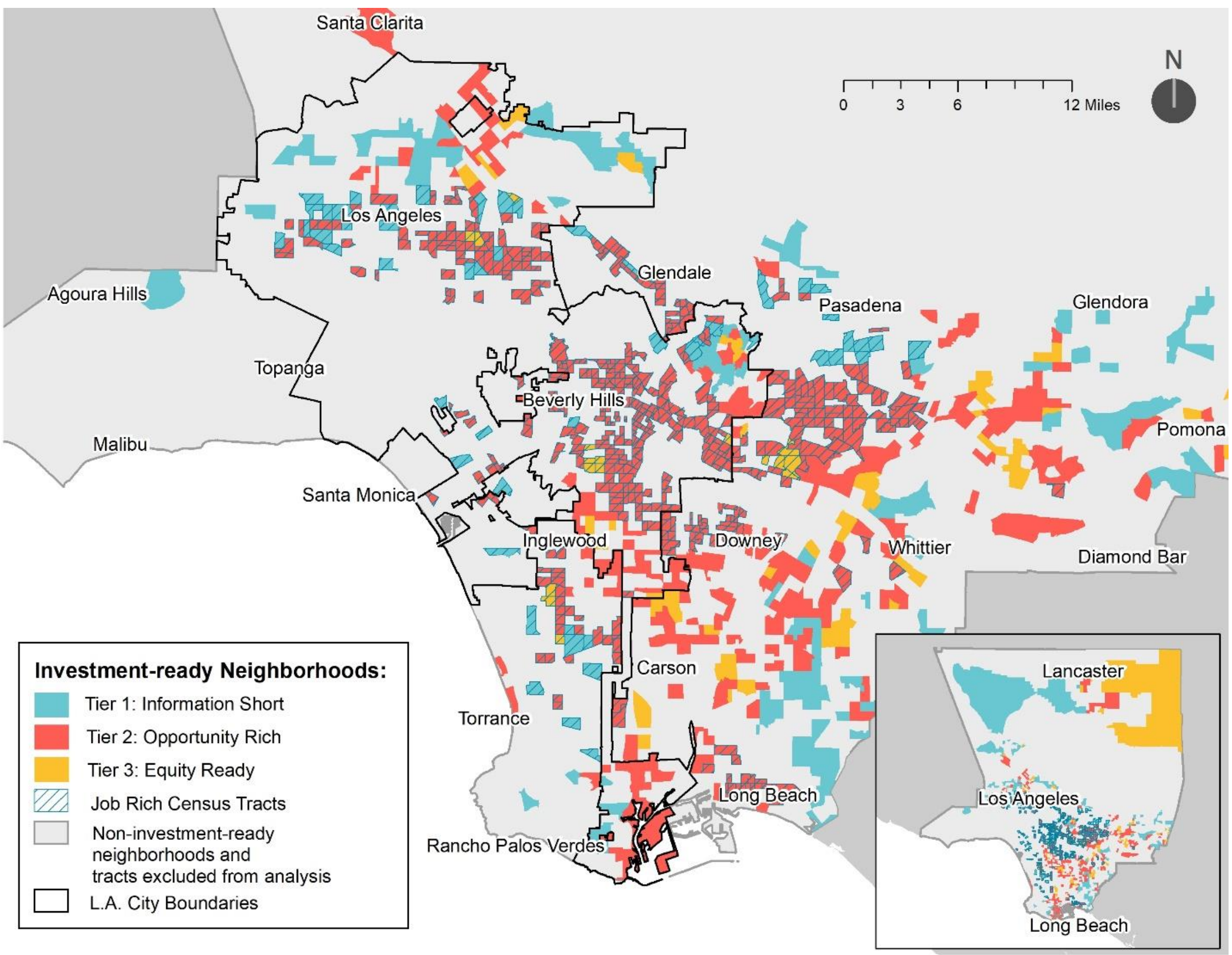
Categorizing Neighborhoods

The tiers mapped below categorize what type of investment agencies and/or institutions need to make in order to stimulate small business participation in procurement programs across Los Angeles County. Census tracts are not part of the three investment zones for two primary reasons, either they do not meet any of the neighborhood criteria noted above or the population size of the tract is too small to utilize for our analysis.

While many census tracts throughout Los Angeles County may benefit from additional resources, we focus on those neighborhoods where partnering with small businesses to obtain public contracts can both spur economic growth and improve economic equity. In total, over half of the census tracts (57 percent) in Los Angeles County are not part of an investment zones. These are tracts where higher-income, white communities live and where residents have historically had access to capital to grow their businesses and resources and opportunities to support that growth.

We also remove tracts with a population of less than 500 people and where the standard of error across all variables of interest is greater than 30 percent. These thresholds remove tracts that have unstable indicator estimates with large variability from year to year. Only 1 percent of tracts within Los Angeles County do not meet this criteria.

Map 1: Investment-ready Neighborhoods, Los Angeles County



Note: See Appendix A for data sources and methodology. See Appendix B for close-up maps of Pacoima, South Los Angeles, East Los Angeles, Pico Union / McArthur Park, and Harbor neighborhoods.

Tier 1: Information Short

Investment Zones	High-need	Small business priority	High-opportunity
Tier 1: Information Short		x	x

Based on our analysis, business owners in "Tier 1: Information Short" neighborhoods may benefit from outreach to participate as vendors or suppliers for major events and regional investment. Information Short neighborhoods include small business priority and high-opportunity neighborhood categories, but are not considered high-need neighborhoods. Across the county, 8 percent of included census tracts fall into Information Short neighborhoods with approximately 743,000 people living in these neighborhoods. These communities are located in northern Los Angeles County in areas such as Santa Clarita, Acton, Leone Valley, as well on the eastern, southern, and western edges of L.A. Outreach and information about how to sign-up for the portal and/or apply to provide services during major events could help engage business owners and get them involved.

Tier 2: Opportunity Rich

Investment Zones	High-need	Small business priority	High-opportunity
Tier 2: Opportunity Rich	x	x	x

Businesses in "Tier 2: Opportunity Rich" neighborhoods may benefit from outreach and additional one-on-one technical assistance to participate as vendors or suppliers for the upcoming events. Similar to Information Short communities, Opportunity Rich neighborhoods include small business priority and high-opportunity neighborhood categories. However, they are additionally considered high-need – since they are tracts with a higher level of needs and vulnerabilities indicated by having a household median income is less than 80 percent of the county HUD Area Median Family Income. About three out of every ten census tracts were in the Opportunity Rich neighborhoods. These neighborhoods cover approximately 2.9 million people and are mostly located in the central, eastern, and southern portions of Los Angeles County. In these neighborhoods, 69 percent of householders are renters with an annual average median household income of approx. $47,000. Businesses in these communities often lack one-on-one relationships and knowledge of opportunities to increase business participation and success. Providing business owners support through technical assistance and trainings that elevate their work and prepare them to successfully bid and complete projects could increase hiring and help build wealth in these communities.

Tier 3: Equity Ready

Investment Zones	High-need	Small business priority	High-opportunity
Tier 3: Equity Ready	x	x	

"Tier 3: Equity Ready" communities need additional investment by government, philanthropic, and finance organizations alongside outreach and one-on-one technical assistance with business owners. These neighborhoods may suffer from historic neglect due to redlining and institutional racism (Rothstein 2017), but are not currently targeted by the federal or state for additional programmatic support. They include small business priority and high-need neighborhood categories. Similar to Information Short neighborhoods, Equity Ready communities are about 4 percent of LA County census tracts with approximately 412,000 people. These tracts are located in the South Los Angeles, as well as being sprinkled throughout central and eastern Los Angeles County, and in North Los Angeles County near Lancaster and Palmdale. These communities require a deeper level of engagement and support compared to Information Short and Opportunity Rich neighborhoods in order to facilitate business engagement. Investment in these neighborhoods requires investors to form new partnerships with businesses, foundations, finance organizations to support and engage small businesses and entrepreneurs. Funding and investing in local community-based organizations also ensure that investment can have an equitable impact.

Job Rich Neighborhoods

In addition to mapping the three tiers of investment-ready neighborhoods, we overlay job rich census tracts to identify census tracts with small business jobs. These census tracts have more small business employees than the county median. This metric includes any private-sector employee working at a firm with up to 19 employees within 2.5 miles of the centroid of the census tract. We found that 31 percent of census tracts in Tier 1, 63 percent in Tier 2, and 18 percent in Tier 3 fall into the job rich category. These are the census tracts where investors can focus attention for outreach and concentrate efforts to partner in order to build small business capacity, and develop mentorship programs. These neighborhoods can become spaces to explore issues like lending, insurance and bonding, the administrative burden, and how to survive the changes in demand for their services which can become stumbling blocks for small businesses.

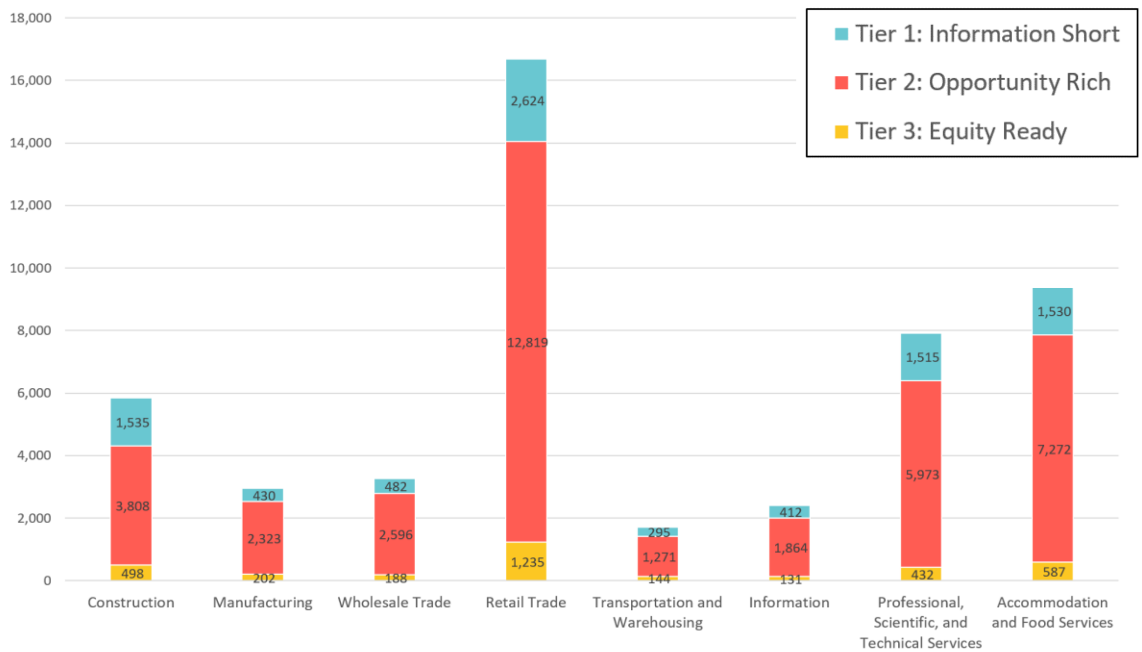
Key Sectors and Businesses in Invest-Ready Neighborhoods

According to 2017 business data from ESRI, there are around 314,000 businesses in Los Angeles County, excluding non-profit businesses and businesses with zero sales volume. 28 percent (85,000) of those businesses are within the invest-ready neighborhoods we identified. Based on the interviews and data provided by BiP Solutions Ltd and LABC Institute, we selected eight key industries that are most relevant to the opportunities coming to the region. These industry sectors are construction; manufacturing; wholesale trade; retail trade; transportation and warehousing; information; professional, scientific, and technical services; and accommodation and food services. There are about 50,000 businesses in investment-ready neighborhoods that are in these key industries. A majority (92 percent) of these businesses have less than 20 employees and less than $1 million annual sales volume.

In investment-ready neighborhoods the number of businesses in each key industry ranges from just below 2,000 to over 16,000 firms (see *Figure 3* below). Retail trade is by far the most common industry, accounting for about a third of businesses, followed by accommodation and food services (19 percent) and professional, scientific, and technical services (16 percent). There are fewer businesses in construction as well as transportation and warehousing -- industries that benefit the most from major sporting events like the Olympics. The City of Los Angeles, however, currently has no plans to build new venues and will be using existing venues in the region during the 2028 Olympic and Paralympic Games (https://la28.org/map). Therefore, it is reasonable to assume that the composition of large scale event contracts will be different for Los Angeles. Policymakers must account for these differences when planning strategic investments and development dollars for local businesses.

Among different tiers of investment-ready neighborhoods, more than 37,000 businesses (75 percent) are located in Opportunity Rich neighborhoods (Tier 2). Tier 2 alone has more than 12,000 businesses in retail trade. Information Short neighborhoods (Tier 1) have a slightly larger number of businesses (more than 8,000 businesses) compared to Equity Ready neighborhoods (Tier 3) (around 3,000 businesses). Tier 1 also has a slightly higher concentration of construction businesses (17 percent) as compared to other industries. Depending on the number and concentration of each industry sector, government agencies and organizations should develop tailored strategies in engaging businesses for each tier of investment-ready neighborhoods.

Figure 3. Number of businesses by key industry and neighborhood type in investment-ready neighborhoods, Los Angeles County, 2017



Source: USC PERE Analysis of ACS 2012-2016 ACS Summary File Data and 2017 ESRI Business Analyst Data.

Note: See Appendix A for detailed data sources and methodology.

The some 50,000 businesses in key industries in investment-ready neighborhoods employ about 424,000 workers. Expanding economic opportunity will help local businesses grow, but what's more, it will benefit workers and their families in the area and help address poverty in underserved communities.

Recommendations: Towards More Equitable Small Business Procurement

Small and local businesses remain fundamental to developing economically vibrant communities and equitable growth. The 2028 Olympics, half a dozen additional major sporting events, and local government spending create the conditions for small businesses to thrive. However, several obstacles could hinder the participation of local businesses, especially businesses owned by people of color and women.

To deepen our understanding of the challenges facing small businesses and disadvantaged communities, we conducted 14 interviews with experts in several fields, including banking, business support organizations and chambers of commerce, advocates, and public agencies. Overall, respondents stress that procurement is an opportunity to invest, rather than a place to cut corners. Without a serious investment in the people, business owners, agency staff, and employees, as well as the systems that connect them, procurement participation rates may remain stagnant. Today, we have the opportunity to ensure small and underserved businesses in Los Angeles benefit from this opportunity rich environment.

In this section, we recommend five equity-based strategies that local agencies and institutions with forthcoming procurement needs could implement to encourage greater transparency, access, and accountability. Our recommendations are based on the findings from interviews and available literature and can be directly applied and tailored to diverse neighborhoods based on the findings from the spatial analysis.

1. Connect Businesses to Opportunities and Each Other Through an Online Portal

Procurement in the Los Angeles region exists across several different levels of public and private systems, creating complexity, fragmentation, and barriers to entry. An online portal or app-based procurement system could allow small businesses to participate in procurement at new levels despite little previous information about these systems. Several interviewees stressed the need for a more centralized system that can reduce the information gap for businesses that do not have the capacity to navigate several portals.

CompeteFor

One example of an online portal established for inclusive procurement is CompeteFor from the London Olympics, which allowed suppliers to express interest in purchaser contracts (Calvo 2014). All contractors were required to advertise opportunities on CompeteFor. To further ensure the utility of the tool, the Olympic delivery authority held several information sessions to inform both clients and suppliers (Armitt 2012). These so-called “Industry Days” built bridges between suppliers and clients, offering opportunities for views to be exchanged. As a result of these efforts, more than 150,000 business firms, ranging from small businesses to large corporations, signed up on CompeteFor (Armitt 2012). Additionally, the CompeteFor platform was used after the Olympics for the relationships built and its useful application to other large-scale projects (https://www.competefor.com/).

Several cities, such as New York and Dallas, launched applications that facilitated contacts between local governments and people of color-owned business enterprises (Abello 2017). Not only are these applications updated daily, but they also assist in matching small businesses to potential contracts. MWBE Connect NYC, for example, alerts business owners about procurement opportunities as they open up (Sutkowi 2017b), minimizing time spent searching for opportunities.

Based on our research, among the top 30 most populous cities in Los Angeles County, only the City of Los Angeles has a DBE/MBE/WBE[6] Directory. Creating a county-wide directory of registered small, women-owned, and people of color-owned businesses within a broader procurement portal could build a foundation for agencies to create recruitment strategies based on investment-ready businesses in high-need areas.

2. Outreach to Small Businesses Through Trusted Networks

While a centralized online portal for inclusive procurement is critical, it is also not sufficient. To realize a vision for procurement that is inclusive, agencies need to prioritize outreach to communities with the highest need and to do so through trusted networks and messengers.

The spatial analysis of this study identified communities with different levels of need and the typology can be used as a guide for where and how organizations and agencies can prioritize their work. Each tier of investment-ready neighborhoods also be most receptive to varying outreach strategies and have different trusted messengers. For example, multiple interviewees mentioned business support organizations, including community-based, LBGT, ethnic chambers of commerce, community development corporations, the LA Small Business Development Council, and women-owned business associations. These organizations can be hubs of information and points of connection for professionals who have had similar experiences throughout their career. Additionally, local and ethnic chambers of commerce enjoy a higher degree of trust within investment-ready communities, which can ensure a deeper connection and better outcomes.

BusinessSource Centers across the city of Los Angeles provide another touch point for businesses. Strategically located within communities with the highest need, BusinessSource Centers provide support and advice for businesses to grow. Recently, BusinessSource Centers created Business Resource Units to extend their services into the communities they work with, as opposed to waiting for entrepreneurs to show up at their door.

Additionally, several other factors laid out in this report can help organizations and agencies tailor their messaging and strategy. For example, several interviewees mentioned the need to project the types of contracts that will be needed in the future. With the sectoral analysis above, an agency can further segment their strategy into the tiers and sectors that will benefit most from upcoming opportunities. Plus, it will help funder identify gaps in business development in investment-ready communities.

[6] Disadvantaged, Minority, and Women-owned Business Enterprises.

3. Create Face-To-Face Matchmaking, Trainings, and Mentorship Opportunities to Maximize Impact

Even in today's digital marketplace, face-to-face interactions are significant opportunities to increase people-of-color business participation and success. Several respondents discussed the need for support, technical assistance, and trainings that elevate the work of a small business and prepare them to successfully bid and complete projects.

Programs, such as the Small Business Academy in the City of Los Angeles, which provides information about marketing, financing, and bidding, can work to reduce some of the hurdles that prevent businesses from branching into public procurement. The seven-week program is hosted in the evenings, with dinner included, maximizing the number of business owners who can participate.

Another option to consider is a matchmaking component within a procurement portal that can minimize the work necessary to find priority targets and facilitate high-quality interactions. These apps are meant to take out the cumbersome work of identifying potential areas of public procurement for companies. Combined with analysis from this report, agencies can target investment-ready businesses that are in key sectors and high-need areas.

Over and over, respondents mentioned capacity building and mentorship as opportunities to support small businesses and prepare them for the challenges of public procurement. Issues such as lending, insurance and bonding, the administrative burden, and how to survive the changes in demand for their services can become stumbling blocks for small businesses. Technical assistance and mentorship can provide the support that businesses need to succeed.

4. Build Mechanisms to Ensure Accountability in Procurement Systems from the Start

Several interviewees mentioned accountability within procurement, which could help to move agencies from goals to action and from good intentions to desired outcomes. Interviewees encouraged explicit goals for supplier diversity and systems of accountability to ensure success. Ideas included minimum participation from DBE's and penalties for non-compliance.

As one interviewee mentioned, agencies are starting to understand that public procurement can be an opportunity to grow disadvantaged businesses. Agency staff are critical to ensuring success and therefore must be supported and trained. Additionally, interviewees mentioned building an intentional connection between procurement staff and enforcement staff to create alignment in priorities and goals. Agencies must invest in systems, staff, and training to support implementation and accountability.

Various governmental agencies have attempted to create change through contractual requirements that include diversity. For instance, Bay Area Rapid Transit's Office of Civil Rights requires that contracts meet a certain percentage of small business participation. When a contractor fails to meet the goal, they must provide an explanation (Fairchild and Rose 2018). The Los Angeles County Metropolitan Transportation Agency has strong language outlining progressive penalties for not complying with contractual language (e.g., diversity goals) such as withholding milestone payments or even cancelling a contract.

5. Invest in Investment-Ready Neighborhoods to Support Small Businesses and a Stronger Regional Economy

Varying levels of investment, former redlining practices, and systemic racism have resulted in areas that would benefit from additional support. Responding to these on-the-ground realities requires a different level of engagement and support from business, finance, foundations, and government—each has a role to play.

Investment at this level will require a new level of partnership with communities across the corporate and philanthropic arenas. Neighborhoods identified by this research have thriving community-based organizations that can support small business, entrepreneurial engagement, and partnerships. Funding local community-based organizations, to provide outreach for example, can also ensure that investment can have an equitable impact.

Many interviewees talked about the need for a pipeline with clear on-ramps, access to mentorship and capital, and an easy-to-navigate process that prioritized people from lower income communities of color. In order to realize this vision, there needs to be a bridge built directly into communities and support every step of the way. This season of procurement is the time to build that pipeline through strategic investments.

Conclusion

In the midst of interviewing experts from several industries, we asked a deceptively simple question: "What does equitable development look like?" Answers ranged from the specific to the profound, but a common theme emerged: equitable development would reflect the region's diversity by race/ethnicity, immigration status, gender, sexual orientation, and more.

Right now, we're not where we want to be. Only 20% of the city's $9 billion in procurement staying in Los Angeles is shocking, and only 10% of $1.5 billion in professional services contracts reaching minority-owned businesses in a city where 55% of businesses are minority-owned is even more troubling (LISC 2018). However, we do have several things going for us. First, there is a consensus on the problem and our vision for the future. As an interviewee mentioned, municipalities are now recognizing the role they can play in growing disadvantaged businesses, which was not the case 20 years ago. Second, we are in a moment rich with opportunity—between the major sporting events and public capital investment, there are plenty of openings for businesses to expand. Third, and potentially most important, advocates and institutions have already started to identify and breakdown barriers to success.

Throughout *Los Angeles as a Host City*, we have laid out both the communities facing systemic challenges and strategies that can be used to support those neighborhoods. Fostering local, small business growth is a part of cultivating stronger communities and addressing some of the biggest challenges facing the L.A. region. Focusing on procurement as an opportunity to invest in communities and businesses sets this moment apart from those that came before. In the end, inclusive procurement is an important component of creating a Los Angeles where individuals and families can live and thrive.

Appendix A: Detailed Methodology

We produced a typology to identify neighborhoods in Los Angeles County with small and underserved businesses that are ready for investment and are prepared to participate in contract opportunities for major capital infrastructure projects.

Our methodology focuses on neighborhoods where strategies to target small, people of color-owned, and women-owned businesses could both stimulate economic growth and address poverty.
We start the neighborhood-level analysis presented in this report with identifying three types of neighborhood: high-need neighborhoods, small business priority neighborhoods, and high-opportunity neighborhoods. We overlay these three neighborhood types to identify the census tracts that are high-need, high-opportunity, and could benefit from investment in small businesses. We then determine three tiers of investment areas, excluding those neighborhoods that are already doing well or have too low a population size. These investment areas include: Tier 1: Information Short, Tier 2: Opportunity Rich, and Tier 3: Equity Ready. Through this analysis we provide a guiding frame for investment in minority owned business owners and their communities.

The table below shows the full list of indicators we used to create each neighborhood category, along with detained definitions of what they measure and the data source.

Neighborhood Category	Criteria	Indicator	Measure	Data Source
High-need neighborhoods	Tracts which meet any of the following criteria:	Household Income	Tracts with a household median income less than 80 percent of the county HUD Area Median Family Income (HAMFI) for LA County	2013-2017 American Community Survey, 2017 HUD Section 235 and 236 Income Limits
		Renter	Tracts with greater than the median percent renters for all tracts for LA County	2013-2017 American Community Survey
		People of Color	Tracts with greater than the median percent people of color for all tracts for LA County	2013-2017 American Community Survey
Small business priority neighborhoods	Tracts with the following:	Small Business Lending	Tracts with less than the median small business lending per employee for all tracts in LA County	2011-2017 Federal Financial Institutions Examinations Council Community Reinvestment Act lender level data files and 2011-2017 Longitudinal Employer-Household Dynamics Origin-Destination Employee Statistics Workplace Area Characteristics

High-opportunity Neighborhoods	Tracts with at least one of the following:	BA or Higher	Greater than the median percent of the population (25 years+) with a Bachelor's degree or higher for all tracts in LA County	2013-2017 American Community Survey
		Opportunity Zones	Tracts have been designated as an Opportunity Zone in LA County	U.S. Department of Treasury Community Development Financial Institutions Fund 2018 Designations
		Hub Zones	Tracts have been designated as HUBZone in LA County	U.S. Small Business Administration Designated HUBZone Census Tracts
		Promise Zone	Tracts have been designated as Promise Zones in LA County	LA Promise Zone Designated Census Tracts
		Business Support	Tracts within 1 mile of a central business district as defined by California Air Resources Board	2013-2017 American Community Survey

High-Need Neighborhoods

High-need neighborhoods are census tracts within Los Angeles County with a vulnerable population that may benefit from economic investment, targeted workforce, and economic development strategies. We define high-need communities in the following way:

1. Tracts which meet one of the following criteria:
    - Median household income less than 80 percent of HAMFI
    - Greater than the median percent renters
    - Greater than the median percent people of color

Household Income

The Department of Housing and Urban Development releases estimated Housing Area Median Family Incomes annually. These HAMFIs are used as the basis for income limits in several HUD programs, including the Public Housing, Section 8 Housing Choice and Project-Based Voucher, Section 202 housing for the elderly, and Section 811 housing for persons with disabilities programs, as well as in programs run by agencies such as the Department of the Treasury, the Department of Agriculture, and the Federal Housing Finance Agency (Anon 2018) . This indicator is similar to the poverty rate by census tract in that it allows us to determine the census tracts in which people are living with less resources, higher risks, and less opportunity. An added advantage of using the HAMFI is that it slightly adjusts for increased cost of living. We compiled the median income for a family of four for Los Angeles County using the 2017 HUD Section 235 and 236 Income Limits and then sorted the census tracts based on whether their median household income for 2013-2017 fell below 80 percent of the HAMFI.

Renters

We looked at the percent of renters by census tract as a proxy for vulnerability because people that rent often do so because they are either transient or do not have the financial resources for home ownership (Heinz Center for Science, Economics, and the Environment 2002). Renters are at a particular disadvantage because they face greater neighborhood instability and experience lower levels of civic involvement in local voluntary and political affairs compared to homeowners (Retsinas and Belsky 2004)e used 2013-2017 American Community Survey census tract level data to calculate the percent renters for all the census tracts in LA County and then sorted the census tracts based on whether they fell above or below the percent renters for the median census tract.

People of Color

We looked at census tract with greater than median percent people of color to capture populations at a greater risk of environmental risks. Previous studies have found that neighborhoods with higher percentages of people of color residents had poorer air quality, closer proximity to hazardous waste sites, or fewer parks nearby (Cushing et al. 2015). We compiled data on racial/ethnic population data from the 2013-2017 five-year American Community Survey and removed Non-Hispanic whites to arrive at a count of people of color and the percent people of color for each census tract. We then categorized the census tracts based on whether they fell above or below the percent people of color for the median census tract in LA County.

Small Business Priority Neighborhoods

We measured lower than median small business lending per employee.

Small business lending per employee

We used small business lending per employee as an indicator, as bank credit is one of the primary sources of external financing for small businesses. Small business lending is key to helping small firms maintain cash flow, hire new employees, purchase new inventory or equipment, and grow their business (Gordon Mills and McCarthy 2016). To analyze this indicator we followed a methodology similar to the Urban Institute's analysis of opportunity zone designations. We started out by compiling a small business measure at the tract level for the years 2013-2017 using lender-level Community Reinvestment Act loan amounts for small businesses from the annual aggregate Community Reinvestment Act data files for 2013-2017, available through the Federal Financial Institutions Examination Council. We arrived at a total sum by adding together five years of data by tract. To get the small business lending per employee, we divided this amount by the total number of small business employees in each tract from 2013-2017. We considered any private-sector employee working at a firm with up to 19 employees as an employee of a small business. We obtained this data from the Longitudinal Employer-Household Dynamics Origin-Destination Employee Statistics Workplace Area Characteristics at the census-block level and then aggregated them to the census tract. Once we assigned a lending ratio to each census tract, we categorized the tracts based on whether they fell below the lending rate for the median census tract in LA County.

High-Opportunity Neighborhoods

High-opportunity neighborhoods are tracts that are investment ready and have a high number of synergistic opportunities and resources that business owners can take advantage of. Investments in these census tracts could help bring long-term changes to the neighborhoods. We define high-opportunity communities in the following ways:

1. A high-opportunity tract must meet at least one of the following criteria:
    - Greater than the median percent of the population (25 years+) with a bachelor's degree or higher
    - Proximity to major business supports within 1 mile of a central business district
    - Opportunity Zone under the U.S. Investing in Opportunities Act
    - HUD Promise Zones
    - HUBZone

Bachelor's Degree or Higher

Obtaining a bachelor's degree or higher is associated with positive economic outcomes, such as higher median earnings and higher employment rates (Perna 2005). This indicator examines the percentage of adults age 25 and older who have attained a bachelor's degree by census tract. We compiled this from the 2013-2017 five-year American Community Survey to arrive at a percent with a bachelor's degree or higher for each census tract and then sorted the census tracts based on whether they were above the percent with a bachelor's degree or higher for the median census tract in LA County.

Proximity to a Central Business District

We defined proximity to a central business district where the centroid of the census tract was within walking distance (1 mile) of the centroid of a census tract with a job density of at least 5,000 jobs per square mile. This definition was informed by the California Air Resources Board as part of their transforming climate communities program. Close proximity to a central business district ensures the presence of foot-traffic, proximity to competitors, as well as access to suppliers that can aid in a business's success (United States Environmental Protection Agency 2013). We arrived at the total employee figure by using the Longitudinal Employer-Household Dynamics Origin-Destination Employee Statistics Workplace Area Characteristics to aggregate census-block level data to the census tract level for 2011-2015. We then matched it into the 2010 Tiger/Line shapefiles, which contain census tract area data and calculated the jobs per square mile. Then, using ArcGIS proximity tools, we calculated the centroids of the tracts and measured distances between tracts and the nearest central business district tract. We then identified which tracts were within one mile of a central business district tract based on the derived centroid-to-centroid distances in LA County.

Opportunity Zone

The Tax Cuts and Jobs Act of 2017 established Opportunity Zones as a mechanism to provide tax incentives for investment in designated census tracts. Investments made by individuals through special funds in these zones would be allowed to defer or eliminate federal taxes on capital gains (CA

Opportunity Zones). We gathered the list of Opportunity Zones designated tracts in LA County from the California Department of Finance website.

HUD Promise Zone

The Promise Zone designation partners the Federal government with local leaders who are addressing multiple community revitalization challenges in a collaborative way. Promise Zone Designees receive an opportunity to engage five AmeriCorps VISTA members in the Promise Zone's work, a federal liaison assigned to help designees navigate federal programs, preferences for certain competitive federal grant programs and technical assistance from participating federal agencies, and Promise Zone tax incentives, if enacted by Congress (Anon 2019). The First Round Promise Zone designations were announced on January 9, 2014 and the Second Round of Promise Zone designations on April 28, 2015. On June 6, 2016, the third and final round of Promise Zones designations were announced, which brings the total number of designated Promise Zones to 22 communities across the country. We gathered the list of designated tracts in LA County through the Los Angeles Promise Zone site.

HUBZone

The Historically Underutilized Business Zones (HUBZone) is a program run by the Small Business Administration. A HUBZone census tract is designated as a HUBZone based on the Department of Housing and Urban Development (HUD) poverty and household income criteria {Citation}. The purpose of the program is to help small businesses in urban and rural communities gain preferential access to federal procurement opportunities. These preferences go to small businesses that obtain HUBZone certification in part by employing staff who live in a HUBZone. We gathered the list of designated tracts in LA County through contact with the Small Business Administration.

Limitations of Methodology

Some of the methodological limitations we faced were in definitions of terminology, the limitations of data availability, and our inclusion/exclusion of criteria.

In many cases, the methodology uses proxies to measure key concepts, such as need, the presence of small businesses, or opportunity. Often, these concepts have varying definitions. For instance, the notion of a small business can vary depending on the sector. Some estimates of small business size use a metric of less than 100 employees, while others use less than 50 employees. The United States Department of Treasury definition of 'small business' varies based on the industry within which the business operates. Los Angeles County Department of Consumer and Business Affairs defines a small business as one with 100 or fewer employees and an average annual gross receipts of $15 million or less over the last three years and manufacturers with 100 or fewer employees. Given our data constraints, the operational definition of small business for this report is firms with less than 20 employees. This definition does not match the Los Angeles County definition nor the federal definition of a small business. We chose this definition because it focused on businesses that provide small scale employment within their communities.

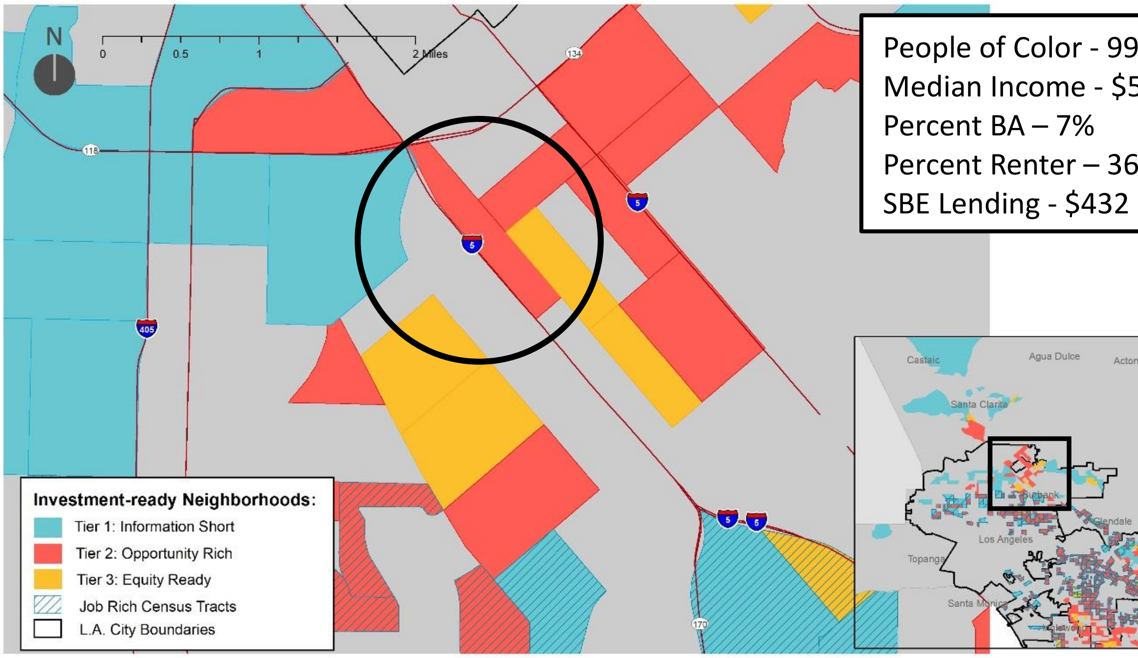
In the case of central business districts, the definition changes depending on spatial, social and economic relations of a particular region. Some cities have only one central business district, while polycentric cities, such as Los Angeles have multiple centers of commerce. Census tracts are used in place of neighborhood boundaries because neighborhoods are often not fixed government configurations—they are often socially constructed.

Similarly, the ability to have up-to-date data confines our ability to measure change as it happens in Los Angeles. Much of the data comes from pooled five-year samples between the years of 2011-2015 and 2013-2017 and may not reflect current community conditions. At best, these indicators are approximations of or are correlated with the desired phenomena that we would like to observe in Los Angeles. Therefore, these indicators are subject to distortion or inaccuracy and should be considered in tandem with community knowledge and feedback.

Appendix B: Close-up Maps

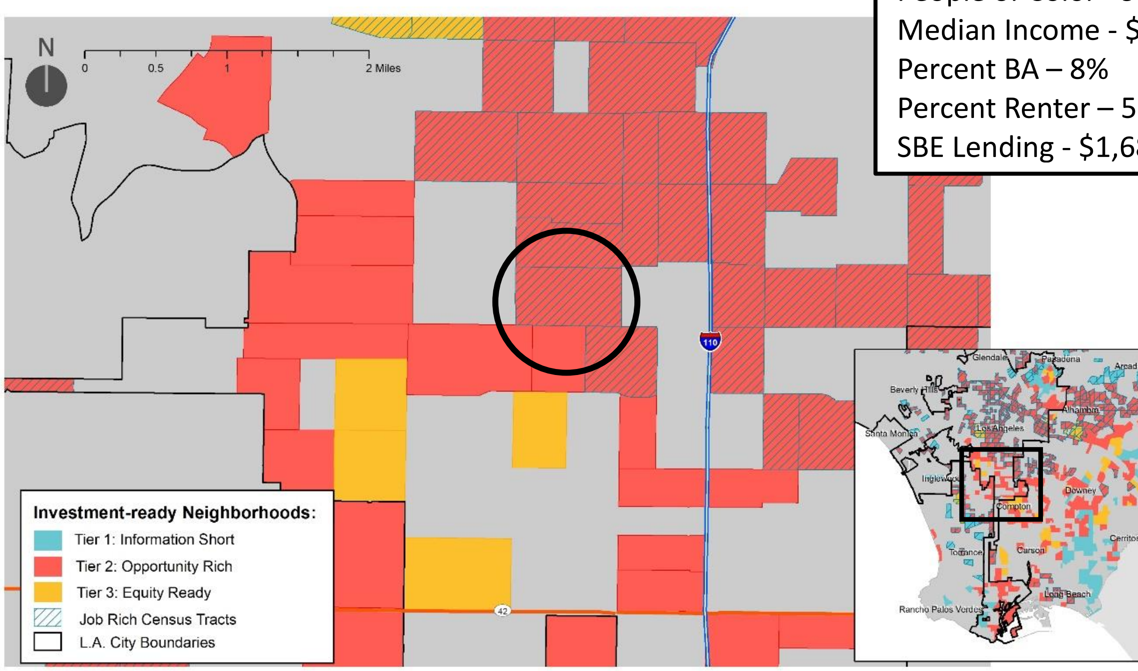
PACOIMA

People of Color - 99%
Median Income - $56,250
Percent BA – 7%
Percent Renter – 36%
SBE Lending - $432



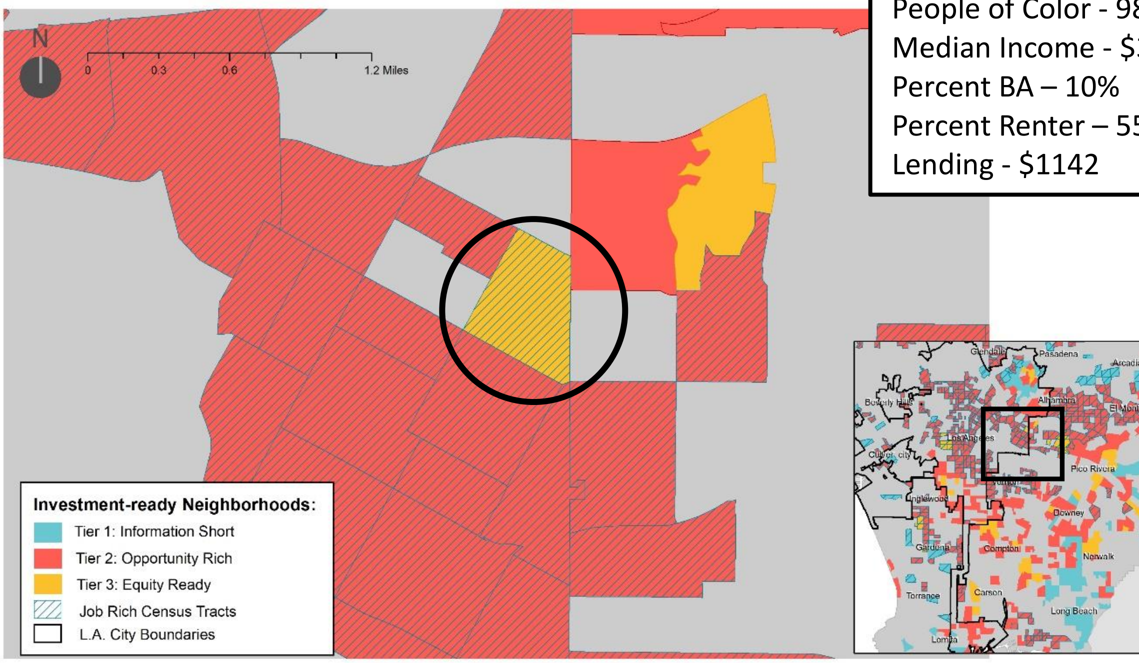
SOUTH LOS ANGELES

People of Color - 99%
Median Income - $27,309
Percent BA – 8%
Percent Renter – 56%
SBE Lending - $1,682



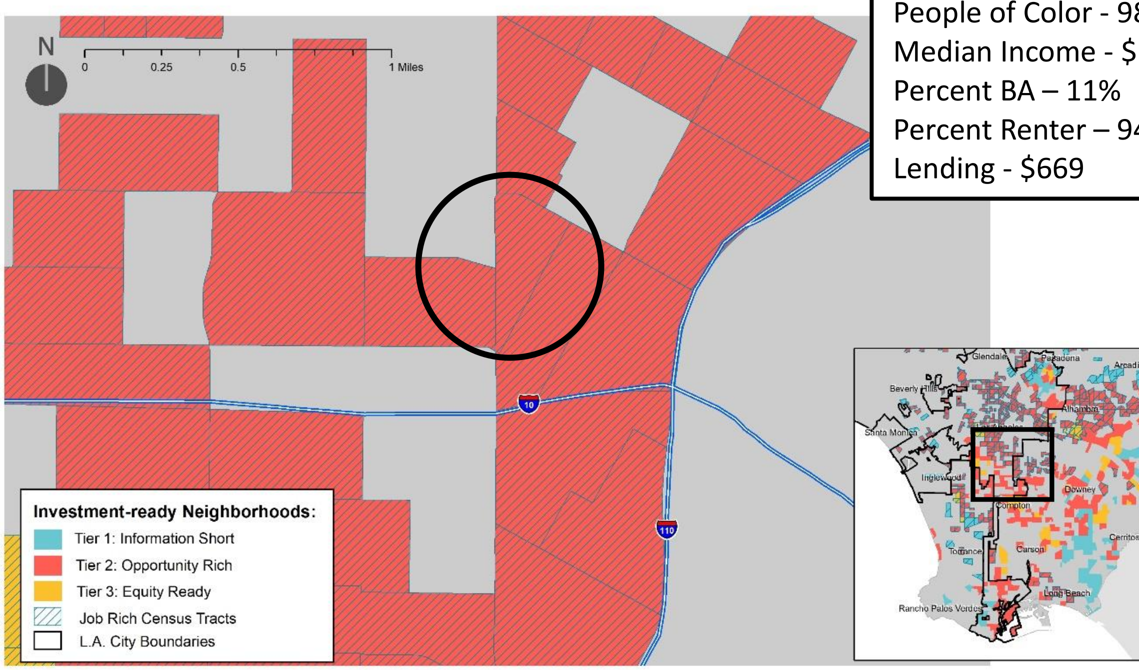
EAST LOS ANGELES

People of Color - 98%
Median Income - $38,955
Percent BA – 10%
Percent Renter – 55%
Lending - $1142



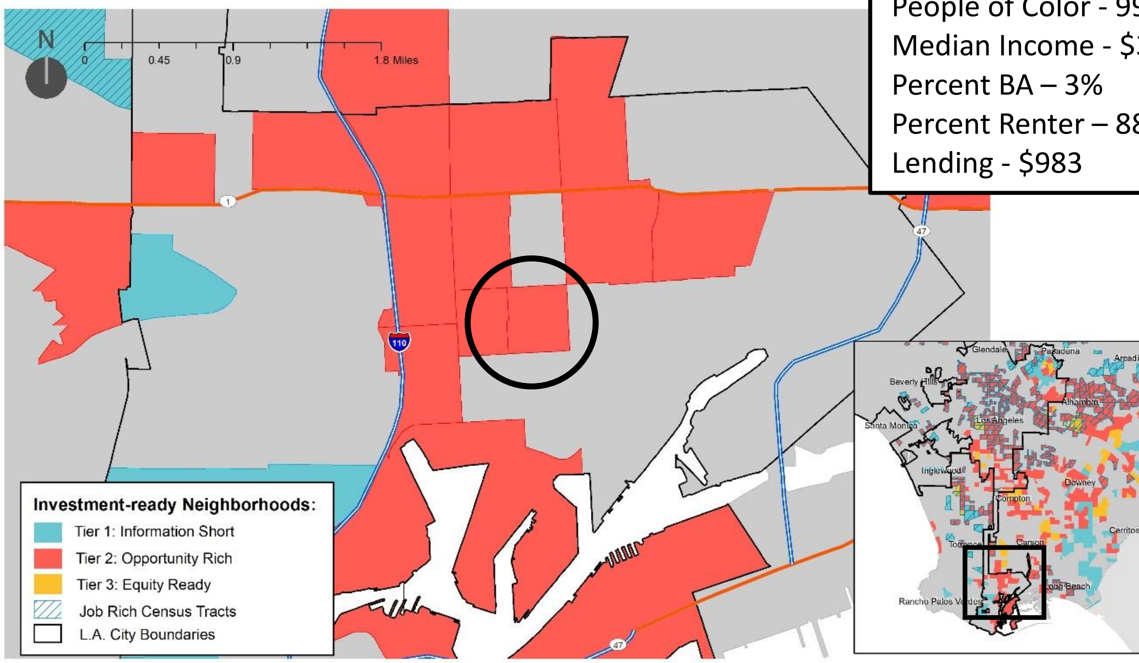
PICO UNION / MCARTHUR PARK

People of Color - 98%
Median Income - $28,710
Percent BA – 11%
Percent Renter – 94%
Lending - $669



HARBOR

People of Color - 99%
Median Income - $36,739
Percent BA – 3%
Percent Renter – 88%
Lending - $983



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