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Government Procurement and Employee Hiring in the Post-Proposition 209 Environment: An Analysis of Key Indicators and Trends Among Latinos

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Executive Summary

This study addresses the effect of Proposition 209, the legislation that ended the use of race and gender goals in state, county, and city government contracts and in the recruitment and hiring of public employees in California as of November 5, 1996. Specifically, it asks the following questions:

- Are fewer Latinos being hired by the state after Proposition 209?
- Have state contract opportunities decreased for Latino-owned businesses in the new post-Proposition 209 environment?
- Has it been easier or more difficult to win state and local government contracts after Proposition 209?
- To what extent have local governments abolished or modified their affirmative action programs?

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Findings

No significant change is evident in the number of Latino new hires by the state since Proposition 209 was adopted. When analyzing the changes in the number of all state employees hired, under-representation seemed to have increased slightly for Latinos, from -8.8 in 1996 to -9.7 in the year 2000. These results may be quite different for specific state agencies or special districts.

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Based on contract data collected from the California Department of General Services, which account for approximately 15% of all state contracts, the share of dollars going to Latino firms as well as their utilization declined in the post-Proposition 209 environment. This drop is somewhat consistent with the perceptions of over one-third of the Latino executives interviewed, who mentioned that it has been more difficult to win state and local government contracts since 1996 because of complex administrative procedures, increased competition from other firms, disappearance of minority status designation from the bidding process, and their underutilization by larger firms.

The effect of Proposition 209 on local government affirmative action or diversity programs is significant to the extent that about one-half of the 22 largest California local governments surveyed no longer use race and gender goals to recruit minority employees. Nonetheless, almost five years after Proposition 209 was adopted, almost half of these public entities continue to rely on race and gender goals in their employment practices.

Although the title of "affirmative action officer" is no longer employed in two-thirds of the 22 local governments, this label is still used in one-third of these municipalities. The title most often used now is "equal employment opportunity officer," and it is employed along with other designations, which reflect senior-level positions in the chain of command.

Recommendations

State government agencies disburse hundreds of millions of dollars among California contractors every year. To understand fully the distributional effects of Proposition 209 requires data collection by race and ethnicity of the business. Unless this information is regularly and consistently gathered by all state agencies, and released periodically, changes in the allocation of state contract dollars between minority and non-minority-owned businesses cannot be accurately tracked or evaluated.

State certification requirements for small businesses should be reviewed and streamlined if necessary. Comments made by some of the Latino busi-

ness executives interviewed suggest that the certification process is filled with "government red tape" and is not worth the effort.

As the California economy turns around and as Latinos continue to increase their presence in the state civilian labor force, it would be important to conduct further research to evaluate whether the changes or absence of change uncovered in this report become a long-term trend.

Because it is based on aggregate state level statistics, the study provides little information of what is happening in specific counties, cities, and large state agencies since the passage of Proposition 209, especially in regards to ethnic and racial representation in the number of new employees hired and the allocation of government contracts. Thus, further research on minority employment and contracting within these units of government is recommended.

A. Introduction and Background

On November 5, 1996, 54.6% of California voters amended the State constitution by passing Proposition 209, the Civil Rights Initiative that ended "affirmative action" or the use of race and gender goals in state, county, and city government contracts and employee hiring. As early as June 1995, California Governor Pete Wilson had signed Executive Order W-124-95, which terminated over 150 advisory boards responsible for directing affirmative action programs in state government agencies. Governor Wilson's justification was to abolish "a vast system of preferential treatment" favoring women and minorities in public employment, contracting, and education (TRPI, 1996). While a federal judge prevented enforcement of Proposition 209 right after it was adopted, the U.S District court in San Francisco reversed that decision and the regulation became effective August 28, 1997.

The origin of civil right laws can be traced back to President Roosevelt's Executive Order 8802, which banned employment discrimination by the federal government because of race, color, or national origin. The term "affirmative action" came into existence when President Kennedy signed Executive Order 10925, which required private contractors

doing business with the federal government to take "affirmative action" to ensure nondiscrimination in employment practices. Affirmative action was broadened in 1965, when President Johnson issued Executive Order 11246, which reiterated the ban on racial and ethnic discrimination and specifically called for actions to ensure racial equality in employee hiring practices and government procurement (for an extensive summary of affirmative action legislation, see Thomas and Garrett's 1999 article).

Since the 1960s, affirmative action has evolved to include a wide variety of programs in the public and private domain and educational institutions in states and cities across the nation. In California, programs to ensure minority participation in public employment date back to 1974, when Governor Ronald Reagan instructed all state agencies and departments to prepare affirmative action programs which required timetables and racial and gender goals intended to increase the number of minorities and women in the state workforce (Thomas and Garrett, 1999). State government assistance for minority-owned businesses originated with the state Office of Minority Business Enterprise (OMBE), modeled after the federal OMBE created in 1972 by President Nixon.

Right since their inception, affirmative action programs have constantly been challenged in state and federal courts. In 1989, the Supreme Court cast a giant shadow on the constitutionality of affirmative action programs when it ruled in the case of the City of Richmond v. J.A. Croson that local governments may use programs to correct racial discrimination as long as the existence of discrimination is statistically documented. The 1989 decision precipitated a large number of disparity studies by municipalities in order to justify affirmative action programs in government procurement. These studies measure the proportion of contract dollars awarded to Minority Business Enterprises (MBEs) in relation to their share of all businesses in a specific geographic area.

After the Croson case, some California municipalities (e.g., the cities of Hayward and Fresno, and Contra Costa county) decided to discontinue their set-aside policies (Chinese for Affirmative Action, 1998). Yet some cities have persisted in challenging

the Croson decision as well as Proposition 209. Armed with a disparity study, the City of San Francisco, for example, has continued to defend and support its affirmative action program for minority-owned businesses. On the other hand, the state, and some local governments such as the city of Los Angeles, has replaced affirmative action programs based on racial and ethnic goals with aggressive outreach efforts aimed at increasing diversity and minority participation in state and local government contracting and employment. The state and some municipalities also require prime contractors to show proof that they have made a good faith effort to use women and minorities as subcontractors.

While Proposition 209 does not apply to federally-funded programs, it has become highly controversial because millions of contract dollars and thousands of employment positions are at stake. Organized labor, business, and political groups have repeatedly voiced their opposition and challenged the measure in court. They claim that Proposition 209 imposes economic losses on minority communities and hinders their economic development by opening the door to discrimination and unfair competition in public employment and contracting. In contrast, conservative political groups favor the regulation because it ends "reverse discrimination" since racial and ethnic goals in hiring and government procurement are no longer legal. In reality, the net social gains of this type of legislation, or its absence, is very difficult to evaluate because many of its benefits and costs are intangibles that cannot be quantified.

Although from an efficiency standpoint, the effect of Proposition 209 on ethnic and racial minorities might well be viewed as a zero-sum game, its impact remains a politically divisive but important empirical question from a social equity standpoint. The Urban Institute's comprehensive examination of 58 studies indicate that minority business enterprises (MBEs) receive a lower proportion of federal government contracts in relation to their share of all businesses. This disparity is more pronounced in areas of the country without affirmative action programs (Enchautegui, Fix, Loprest, et al, 1997). At present, there is little information to indicate the changes that have taken place in govern-

ment procurement and employment practices in California since the adoption of Proposition 209. Thus, an investigation of this topic should prove to be useful.

B. Objectives

The purpose of this study is to track some of the changes that have taken place in state government procurement and employee hiring and in "affirmative action" programs in local governments since Proposition 209 was adopted. The study focuses on the Latino community, i.e., Latino-owned firms and Latino employees. Latinos are the largest minority group in California and are projected to become the majority by 2025. According to the supplemental census conducted in the year 2000, Latinos constitute 32% of the total population in California (U.S. Bureau of the Census, 2001). Latinos are also the largest ethnic group (27.7%) in the state civilian labor force, followed by Asian Americans (11.6%) including Pacific Islanders, and African Americans (5.2%). They are only surpassed by non-Latino whites, which constitute 53.3% of the state labor force (Current Population Survey, 2000). In addition, Latinos owned about 11.1% of all California firms in 1997 (U.S. Bureau of the Census, 2001) and their growth has exceeded that of any other minority group in the state (Joint Center for Political and Economic Studies, 2001).

The following research questions are addressed in the study:

1. What changes have taken place in the Latino share of the California government workforce since Proposition 209 was adopted? Are fewer Latinos being hired by the state after Proposition 209?
2. Have state contract opportunities decreased for Latino-owned businesses in the post-Proposition 209 environment?
3. Has it been easier or more difficult to win state and local government contracts after Proposition 209? Are Latino businesses regularly notified of state and local government contract opportunities?

4. To what extent have local governments abolished or modified their affirmative action programs? How and why? Has the traditional "affirmative action officer" position disappeared or simply changed title?

As triggered by the research questions, this study attempts to document some of the changes that have taken place after Proposition 209 without pretending to answer categorically why the changes occurred or how they happened. To attribute the changes specifically to Proposition 209 would require a more rigorous social impact assessment methodology that would examine causal relationships and rule out alternative explanations. In the case of state procurement, a rigorous evaluation of the impact of Proposition 209 would be hindered by the lack of ethnic information on the business ownership for pertinent years. In 1996, Governor Wilson issued an executive order prohibiting the collection of contract data by ethnicity and race. Governor Gray Davis has vetoed two attempts to overturn Wilson's decision (Moore, 2001). More recently, a California appeals court justified the collection of race and gender data as a necessary tool for public decision-making (Yamamura, 2001), but no change has taken place.

C. Data Sources

Answering the research questions called for data collection from multiple sources and slightly different methodologies. One advantage of using multiple data sources is the opportunity to compare the various results to corroborate the changes that have taken place in state employment and government procurement before and subsequent to the adoption of Proposition 209.

Four major sources of data were used to address the research questions:

1. California State Personnel Board (SPB) Reports for fiscal years 1989–2000;
2. California Department of General Services (DGS) Annual Reports;
3. A mail survey of the largest 50 California counties and cities; and

4. A mail survey of 268 Latino-owned businesses registered in the DGS contract database as of 1996 and "approved" to do business with the state.

Along with the approach followed to analyze the data, each of the above sources is briefly described in the following section. Information from the Current Population Survey obtained from the California Department of Finance (2001a) was also employed to determine California's labor force composition by race and ethnicity for various years. Population data was obtained from the California Department of Finance (2001b). The California Statistical Abstract (2001) provided unemployment information for the state. Data availability often determined the time period utilized for the analysis.

D. Methodology

To the extent that Proposition 209 has affected ethnic and racial minorities adversely, the results should be reflected on the new hiring of minority employees by the state and in the share of government contracts awarded to MBEs.

Since the method calls for a "before" and "after" comparison of data, 1996 was selected as the reference or baseline year. While Proposition 209 officially did not go into effect until August 1997, Governor Wilson began to dismantle affirmative action programs a year before. Moreover, there is also the possibility that the changes taking place after Proposition 209, especially in government procurement, might be due to the lingering effect of the Croson decision and not necessarily to the California law. These two effects would be difficult to unravel empirically. For purpose of this study, it is assumed that the effects of Proposition 209 are additive and began right after 1996.

1. Changes in Latino Share of State Government Workforce

Fiscal year data for new hires by race, ethnicity and industry were obtained from SPB for fiscal years 1989–1990 to 1999–2000. Fiscal year data were converted to calendar year data by using a two-

year moving average. Although it would be more reliable to use a longer time period for the analysis, this time period should be sufficient to detect any sudden or short-term effect of the law on new hires.

Using the data on new hires, a parity index was calculated for Latinos and non-Latino whites for years 1990, 1996, and 2000. This parity index measures the representation of a particular ethnic group in state employment relative to its participation in the state's civilian labor force. As computed here, a negative number indicates under-representation in state employment and a positive number indicates over-representation. The larger the negative number, the greater the under-representation, and the larger the positive number, the greater the overrepresentation. Similar computations were performed for Asian Americans (including Pacific Islanders) and African Americans. A parity index was also estimated for all state employees by race and ethnicity for years 1996 and 2000.

A regression model to capture the effects of Proposition 209 on the number of Latino new hires was also developed. It was presumed that any negative effects of Proposition 209 on Latino employment would be manifested in a decline in the number of new Latinos hired (L) controlling for other factors. Thus, a dummy variable (D) was used to capture the effects of the proposition on the number of new Latinos hired. This variable took the value of 0 before 1997 and the value of 1 in 1997 through 2000. To control for the effect of short-term economic conditions on state employment, the California unemployment rate (U) was included in the equation. The size of the California population (P) was also included as an exogenous variable to account for the long-term demand for public services and the demand for state government employees. The number of non-Latino white new hires was included as an independent variable to control for the largest racial group in state employment. It would also have been helpful to control for age and gender in the equation but the number of data points was too small.

2. Changes in State Contracts Awarded

To supplement descriptive data on the Latino-business share of state government contracts, fiscal year data from the California Department of General

Services (DGS) Annual Reports and the 1992 and 1997 surveys of Minority-Owned

Business Enterprises (SMOBES) were used to estimate disparity ratios. This ratio measures the proportion of contract dollars awarded to minority firms relative to minority-owned share of all state firms. A disparity ratio equal to "1" means that minority contractors are used exactly in proportion to their representation in the state population of firms. A disparity ratio above "1" means that minority firms are over-utilized, and a disparity ratio below "1" means that minority firms are under-utilized. A disparity ratio near "0" indicates a high degree of under-utilization. As defined, the measure of disparity is rather broad since it includes all Latino

firms, regardless of their interest, ability, and qualification to do government work. A more precise measure would have used only firms "pre-qualified" to bid on state government contracts, but this information is not provided in the DGS Annual Reports.

Using the approach outlined above, disparity ratios were calculated for Latino-owned businesses for fiscal years 1993–1994, 1995–1996, and 1996–1997. They were obtained by dividing the proportion of DGS contract dollars awarded to Latino firms by the percent of all state firms that Latino businesses represent. It must be realized that the data used in this analysis constitute only 15% of all state contracts. These contract dollars are allo-

Figure 1
State Employment:
Proportion of New Hires by Ethnicity

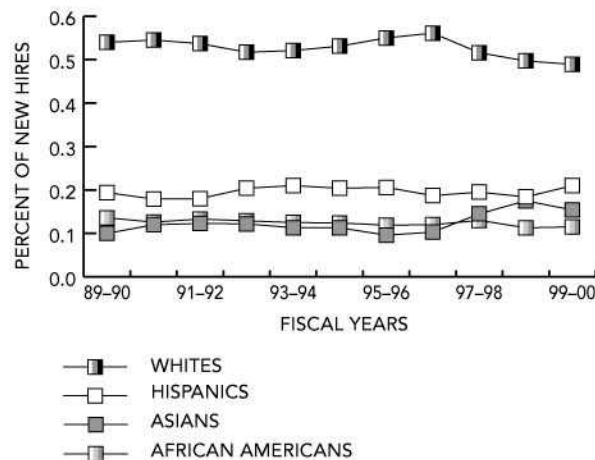


Table 1
Parity Indexes by Race and Ethnicity:
State's New Hires

	1990	1996	2000
<i>Whites</i>	-7.4%	-0.1%	-5.6%
<i>Latinos</i>	-5.3%	-7.4%	-7.3%
<i>Asian Americans</i>	2.6%	-1.3%	3.5%
<i>African Americans</i>	7.1%	6.1%	6.2%

cated to procure commodities (78%–67%), professional services (20%–7%), and construction services (14%–9%).

The number of Latino businesses for years 1993–1996 was estimated by first computing the rate of Latino businesses per 100 Latinos for years 1992 and 1997. The rates for intermediate years 1993–1996 were obtained by interpolation. The 1991 rate was obtained by back casting the series and the 1998 rate was forecast or extrapolated. All the rates were then translated back to business counts and the calendar year data were converted to fiscal year data by using a two-year moving average.

3. Latino Businesses' Experiences with State and Local Government Contracts

Latino businesses were surveyed to obtain information regarding their experiences and perceptions with state and local government contract opportunities. An introductory letter explained the purpose of the survey and gave the respondent the option of filling out the form or waiting for an interviewer to call within the next five days. To avoid response bias, none of the questions specifically alluded to Proposition 209. Questions designed to capture the owner's perception of the effect of Proposition 209 on its business were phrased using 1996 as a reference year.

Table 2
Parity Indexes for Selected Occupations: State's New Hires by Ethnicity

Latinos	1990	1996	2000
Agriculture and Conservation	-3.1	-11.7	-12.2
Mechanical and Construction Trades	-3.4	-5.1	-6.5
Custodian and Domestic Services	0.8	-6.1	5.9
Office and Allied Services	-2.7	-4.6	-4.8
Engineering and Allied Services	-10.7	-10.2	-19.1
Fiscal Management and Staff Services	-10.1	-15.5	-13.5
Whites	1990	1996	2000
Agriculture and Conservation	1.9	18.0	18.0
Mechanical and Construction Trades	-4.1	3.5	-0.5
Custodian and Domestic Services	26.6	-15.0	25.9
Office and Allied Services	-16.6	-13.3	15.5
Engineering and Allied Services	-7.6	-11.4	-8.8
Fiscal Management and Staff Services	-0.8	2.5	-3.6
Asian Americans	1990	1996	2000
Agriculture and Conservation	-3.2	-6.8	-7.0
Mechanical and Construction Trades	-2.6	-5.2	-3.1
Custodian and Domestic Services	6.35	2.75	6.8
Office and Allied Services	4.55	0.35	3.8
Engineering and Allied Services	11.9	9.35	23.2
Fiscal Management and Staff Services	4.45	7.9	9
African Americans	1990	1996	2000
Agriculture and Conservation	-0.4	-2.7	-2.3
Mechanical and Construction Trades	6.4	4.75	7.4
Custodian and Domestic Services	15.5	15.8	11.3
Office and Allied Services	12.55	14.95	13.2
Engineering and Allied Services	0.85	10.8	0
Fiscal Management and Staff Services	1.85	1.85	4.1

Latino businesses were identified from a DGS registry of approved firms. The "approved" status is assigned to vendors who have done business with DGS at least once. The database included the business name, address, telephone number, and the name of a contact person, which in most cases was the business owner, the company's president, or its

CEO. Since the ethnicity and race of the vendor was not collected after 1996, the information was incomplete and somewhat outdated but it provided a viable list to identify Latino vendors approved to do business with DGS as of 1996. As such, the data does not include all Latino firms doing business with the state.

Researchers at the Tomás Rivera Policy Institute (TRPI) validated the list by calling these businesses and verifying their names and telephone numbers. A total of 268 Latino businesses became the sampling frame to be used in the survey. Questionnaires were then mailed to all Latino businesses in the sampling frame. Businesses that did not reply to the mail survey were subsequently contacted by telephone. The number of interviews completed was 73 (32% by mail and 68% by telephone) for a total response rate of 27%. The survey was fielded on December 14, 2001 and completed by January 18, 2002.

Table 3
Parity Indexes by Ethnicity for All State Employees

	1996	2000
Whites	2.3%	0.5%
Latinos	-8.8%	9.7%
Asian Americans	-0.9%	0.3%
African Americans	5.6%	6.3%

Table 4
Multiple Regression Explaining the Number of Latino New Hires

Independent Variables	Coefficient (Beta)	Standard Error	Weighted Beta	t Value
Constant	-8669.64	3577.55		-2.423
Population (P)	0.000228	0	0.524	2.467*
Unemployment Rate (U)	86.71	122.13	0.215	0.71
White New Hires (W)	0.467	0.094	1.211	4.963
Dummy (D)	-127.23	380.41	-0.105	0.334**

* Significant at the 0.05 probability ** Significant at the 0.01 probability

Table 5
Estimated Disparity Ratios for California Latino Firms for Different Fiscal Years

	<i>Fiscal Year</i>		
	1993-94	1995-96	1996-97
Estimated Number of California Latino Firms	274,429	307,907	326,965
Percent of All State Firms (1)	11.5%	12.5%	12.9%
Contracts Awarded to Latinos (in millions)	\$40.1	\$35.5	\$25.3
Percent Change from Prior FY		-11.5%	28.7%
Total Contracts Awarded	\$700.4	\$738.3	\$591.5
Percent Change from Prior FY		5.4%	19.9%
Latino Firms' Percent of All Contracts (2)	5.7%	4.8%	4.3%
Disparity Ratio (2 divided by 1)	0.50	0.38	0.33

4. Changes in Affirmative Action Policies by Local Governments

A mail survey was designed to obtain information on local government changes in affirmative action policies due to Proposition 209. Fifty questionnaires were mailed to directors of human resources departments of the 25 largest cities and 25 largest counties in California. Since over 90 percent of the Latino labor force resides in these areas, post-Proposition 209 changes in affirmative action policies and employee hiring in these jurisdictions would affect the majority of Latinos in California. A cover letter explained the purpose of the survey and gave the respondent the option of filling out the form or waiting for an interviewer to call within the next five days. To prevent response bias, no reference was made to Proposition 209 in the letter or the questionnaire. The survey was fielded on November 15 and completed by December 31, 2001.

E. Analysis and Findings

This section discusses the overall results of the study. While much data were collected, especially in the surveys of local governments and Latino businesses, only the most relevant information is presented in the report.

1. Latino Share of State Employment

Figure 1 shows the ethnic composition of new employees hired by the state for several years. The proportion of Latino, white, and Asian American/Pacific Islander new hires followed a roughly similar pattern during the time examined. Latino new hires peaked (21.0%) in 1993–94, declined slightly to reach a low (18.7%) in 1996–1997, and reached its 1993–94 level again in 1999–2000. White new hires reached a high (56.1%) in 1996–97 and gradually fell to 48.9% in 1999–2000. Asian Americans reached a low (9.6%) in 1995–96, and gradually expanded to a high of 17.5% in 1998–1999. The African American proportion of total new hires remained rather stable throughout this period. These patterns, we should note, do not take into account the growth of the civilian labor force by ethnicity.

(a) Parity Using New Hires by the State

The employment parity indexes presented in Table 1 measure the proportion of new hires relative to each ethnic group's participation in the state's civilian labor force. The data show that representation of Latinos deteriorated from -5.3% in 1990 to -7.4% in 1996 (Table 1). Thereafter, it practically remained at 1996 levels, the year that Proposition 209 was adopted. This trend stands in sharp contrast to the gains posted by California Latinos in their share of the state civilian labor force, which jumped from 24.0% in 1990 to 27.1% in 1996, and again to 28.3% in 2000. Surprisingly, parity for white new hires improved from -7.4% in 1990 to -0.1% in 1996, but fell again to -5.6% by 2000. Asian American new hires were the only group posting a modest gain in parity between 1996 and 2000. Their index was above parity (2.6%) in 1990, sank to -1.3% in 1996, and moved back to 3.5% above parity in 2000. African American new hires were above parity in the three years examined, and experienced little change from 1996 to 2000.

To determine how Latino representation in new hires by the state varies according to occupations, parity indexes were constructed for various occupations for years 1990, 1996 and 2000 (Table 2). The occupations selected vary and reflect different levels of skill and education. With the exception of custodian and domestic services, parity among Latinos deteriorated slightly since 1996, but substantially since 1990. Latinos remained below parity after 1996, and they did worse in engineering and allied services, an occupation requiring high levels of skill and education. In contrast, Asian Americans achieved significant gains in engineering and allied services after 1996. African Americans also lost ground in this particular field, but posted some gains in fiscal management and the mechanical and construction trades after 1996. White new hires were underrepresented in all occupations except agriculture, and lost ground in custodian and domestic jobs, office and allied services, and fiscal management and staff services.

Table 6
In General, Is Your Business Doing Better, Worse, or About the Same as Compared to 1996?

	<i>Number</i>	<i>Percent</i>
Better	43	59.7%
Worse	15	20.8%
About the Same	14	19.4%

Table 7
On Average, Were Your Last Year's Sales to State and Local Governments (Either Directly or Through Prime Contractors) Higher, Lower, or About the Same as Compared to Average Annual Sales for Years 1995–1996?

	<i>Number</i>	<i>Percent</i>
Higher	25	35.2%
Lower	18	25.4%
About the Same	19	26.8%
Don't Know	9	12.7%

(b) Parity Using All State Employees

Data provided by California DGS in all state employees was used to compute a parity index for years 1996 and 2000. As shown in Table 3, disparity in state employment among Latinos increased slightly from -8.8% in 1996 to -9.7% in 2000. Parity for whites declined somewhat, but remained positive in both years. Representation increased for Asian and African Americans after 1996. The latter was the only group to be above parity in both years.

(c) Explaining The Number of New Latino Hires by the State

To explain the variation in Latino new hires by the state, the regression equation discussed in the methodology was estimated (Table 4). The results indicate that the number of new Latino employees hired by the state (N) is explained by increases in population (P), the proxy variable used to account for the state government's long-term demand for labor to provide public services; economic conditions, as measured by the state unemployment rate (U); the number of new white employees (W); and the dummy variable (D) used to measure the shift in Latino new hires after 1996, the year Proposition 209 was passed by the California voters. These variables provide a "good fit," as measured by the value of the adjusted R² (0.85), and explain 85% of the variation in the number of new Latino hires.¹

However, more important than the overall fit of the data is the significance attained by key independent variables, especially D. While the sign of this variable is negative indicating a downward shift on the number of Latino new hires after Proposition 209 was adopted, the shift is not statistically significant, meaning there was little or no effect on Latino hiring, after controlling for all the other independent variables in the equation.^{2,3} Thus, within the constraints of the data, there is no reason to believe that the annual number of Latino new hires has changed significantly in the four years subsequent to Proposition 209. It must be understood, that these results apply only to the aggregate of new employees hired by the state and do not take into account important employee characteristics, such as age, gender, and education. In addition, these results may be quite different for individual cities or counties, or even specific state agencies or special districts.

¹ The F value is statistically significant. A Durbin-Watson test for serial correlation was not statistically significant.

² The positive sign between N and W implies that the two labor groups tend to complement each other in the long run. It is important to note the significant link (0.467) between N and W, given by the regression coefficient of W. On average, and after controlling for economic conditions, the state hires about 0.5 Latinos for every white employee.

³ While colinearity between P and W was detected, removal of P from the equation did not change the statistical significance of W but reduced the goodness of fit or the value of the adjusted R² to 0.74.

2. State Government Contract Opportunities

The calculated disparity ratios and the background data used are displayed in Table 5. The information only includes contracts administered by California DGS. The data indicate that DGS contracts earned by Latino businesses declined in absolute and relative terms.

From 1993–94 to 1995–96 (a two-year time span), contracts going to Latino businesses fell by over 10%, from \$40.1 million to \$35.9 million. From 1995–96 to 1996–97 (a one-year time span), contracts awarded dropped further from \$35.5 to \$25.3, or by 28.7%, a much larger proportion. This large drop in the amount and share of DGS contracts going to Latino businesses occurred over a period of time in which the number of California Latino firms as a percent of all state firms rose from 11.6% to 12.9%. It also happened at a time when the state economy was rather depressed. The state unemployment rate reached a peak of 9.9% in 1993 and gradually decreased to 7.2% in 1996 and to 4.9% in 2000. Slow economic conditions also impacted the amount of state contract funds available. For example, total contracts awarded by DGS reached \$700.4 million in fiscal year 1993–94, rose by 5% in 1995–96 and then declined again by 20% to \$591.5 million in fiscal year 1996–97.

Thus, the situation for Latino firms doing business with DGS has progressively deteriorated during the time period examined. As shown in Table 5, the disparity ratio among Latino firms was consistently below "1" for the three fiscal years analyzed. This indicates that Latino firms were under-utilized or were not awarded contracts in proportion to their share of all state firms. Utilization of Latino firms also shows a downward trend, going from 0.50 in 1993–94 to 0.38 in 1995–96, and 0.33 in 1996–97. It would have been helpful to have data for 1997–2000, to find out what happened during the years following the passage of Proposition 209, especially given the fact that the California economy began to pick up after 1996 and regained the strength it lost during the recession years. For example, contracts by DGS jumped again by 22% to \$718.8 million by fiscal year 1997–98. However, data on contracts awarded by race or ethnicity were no longer available after 1996.

Table 8
In Your Opinion, How Easy or Difficult Has it Been for Your Business to Win State or Local Government Contracts (Either Directly or Through Prime Contractors) after 1996? Would You Say It Has Been Easier, More Difficult, or About the Same?

	<i>Number</i>	<i>Percent</i>
Easier	6	8.2%
More Difficult	26	35.6%
About the Same	25	34.2%
Don't Know	16	21.9%

Table 9
During the Last Year, How Often Did the State or Local Government Notify Your Business About Contract Opportunities?

	<i>Number</i>	<i>Percent</i>
Never	22	30.1%
1–2 Times	10	13.7%
3–4 Times	6	8.2%
5 or More Times	35	47.9%

3. Latino-Owned Firms: Perceptions of Government Contract Opportunities

Of the 269 Latino firms approved to do business with DGS as of 1996, and still operating in December 2001, 72 (29%) responded to the survey. Approximately 70% of these firms were also certified as a "small business" by the state or a municipality. This category is now used to classify businesses with respect to size instead of race or ethnicity. A "small business" is a "service, construction, or non-manufacturing firm with 100 or fewer employees and annual average gross receipts of \$10.0 million or less or a manufacturer with fewer than 100 employees (DGS, no date, p. 2). Small firms have a 5% bidding preference on qualifying state contracts. Firms responding that they were not certified as "small business" indicated that their certification had expired and that the process was too difficult and time consuming.

Table 10
During the Last Year, How Often Did a Large Contactor Notify Your Business About Subcontracting Opportunities to Fulfill a Major Contract with the State or Local Government?

	<i>Number</i>	<i>Percent</i>
Never	42	58.3%
1–2 Times	7	9.7%
3–4 Times	6	8.3%
5 or More Times	17	23.6%

In general, the business executives surveyed are well educated. Almost half of them have completed college or have an advanced degree. Only 4.2% did not finish high school. Over three-fourths were born in the U.S. They also seem to have extensive knowledge in their line of business: years of experience ranged from 3 to 50, with the median being 25.

The performance of these firms is mixed. Average annual sales reported by respondents increased from \$2.3 million in 1995 to \$6.0 million in 1999, but experienced a small drop to \$5.8 million in 2000. The median number of employees also declined from 8 to 6. The reduction in the number of permanent employees is not consistent with the reported rise in sales. While the drop in the number of full-time, permanent employees can be attributed to the introduction of labor-saving technology or an upsurge in labor productivity, the change is too large to be explained by these two factors alone.

The majority (59.7%) responded they are doing better compared with 1996, with only 19.4% saying they are doing worse (Table 6). Many also continue to do business with state and local governments. As shown in Table 7, over one-third of these companies reported that, on average, last year's sales to state and local governments were higher than average annual sales during 1995 and 1996, but about one-fourth reported that sales were lower. In contrast, and as reported by the respondents, the average proportion of sales made to state and local government did not change much between 1995 and 2000.

When asked "how easy or difficult it has been for your business to win state and local government contracts (either directly or through prime contractors) after 1996," only 8.2% of the respondents said that it has been easier (Table 8). In contrast, over one-third said that it has been more difficult, and 34.6% mentioned that it is about the same. Those who mentioned that it has been more difficult were more likely to report lower sales to state and local governments last year and that their businesses are doing worse compared to 1996. The principal reasons given by respondents for the greater difficulty encountered after 1996 are as follows:

- Complex administrative procedures, excessive paperwork, and too many requirements (42%);
- Increased competition from other businesses (21%);
- Elimination of minority status designation from the bidding process (11%);
- Indifference and underutilization of Latino firms by large contractors (11%); and
- Negative experiences (never win bids).

Our analysis indicates that a business executive's perceived difficulty in winning government contracts was not associated with the level of education attained, years spent owning or managing the firm, years of business experience, place of birth (i.e., U.S. or abroad), or the size of the business as measured by annual sales or number of permanent full time employees.

A majority indicated that they were informed by state and local governments about contract opportunities in the preceding year (Table 9). Almost one-half were informed at least five times. However, as many as one-third claimed never to have been informed. A similar question was asked to find out how often these businesses were notified of contract opportunities by large contractors. With affirmative action gone, state and many local governments require large contractors to make good faith efforts to recruit small firms and minority businesses as subcontractors. In this case, almost 60% of the respondents answered that they never received such notification from contractors, while 42% said that they were notified at least once (Table 10).

Not reflected in the data is the discouraging effect that Proposition 209 may be having among minority-owned businesses. Based on informal interviews conducted with the Latin Business Association, the Minority Business Development Agency of the City of Los Angeles, local Hispanic chambers of commerce, and Chinese for Affirmative Action, it seems that some MBEs see their chances of receiving government contracts jeopardized by the lack of racial and gender preferences abolished by Proposition 209. Because the incentive is no longer there, some companies are discouraged from applying for certification in order to bid on state or local government contracts.

4. Local Governments and Affirmative Action Programs

Of the sample of 25 largest cities and 25 largest counties contacted, ten (10) cities and ten (10) counties responded to the survey, for a 40% response rate. About 10 of the questionnaires were completed and returned by mail and the other 10 were completed during a telephone interview. The fieldwork was discontinued after three unsuccessful callback attempts were made to pick up nonrespondents. The overwhelming majority of those completing the survey consisted of senior-level personnel (e.g., human resources directors, managers, and senior officers) as well as affirmative action and equal employment opportunity officers.

Of the 20 local governments responding to the survey, 80% (six cities and 10 counties) reported to have "diversity" or "affirmative action" programs to increase the recruitment of racial and ethnic minorities. Only four cities (20%) mentioned not having any of these programs in place. These four cities mentioned they had affirmative action plans in the late 1990s for the last time, which suggests that affirmative action was dismantled right after Proposition 209. Three of the cities reported to rely on an affirmative action officer to run the program at that time, but when asked "what happened to this position," no one answered that the "position was eliminated and the person transferred" or "laid off." Everyone selected "other" as an answer. Thus, it is not clear whether these affirmative action positions were lost. Anecdotal evidence, however, suggests that funding for many affirmative action officer positions was discontinued.

The survey also shows that about three-fifths of the affirmative action programs started before 1989. As many as 56% (9) reported their programs to be now race and gender neutral as opposed to being racial or gender goal-oriented. However, four years after Proposition 209 was adopted, two cities and five counties (44%) still continue to have race and gender goals as part of their programs.

One city and three counties with current race and gender-neutral programs reported to have moved away from race and gender goals during 1996–1997 because of Proposition 209. While this sample is very small, it clearly shows the local government shift to comply with the Civil Rights Initiative.

Despite Proposition 209, as many as five cities and 10 counties in the sample continue to have a designated staff person to run the affirmative action or diversity program. The title of "affirmative action officer" is no longer used by over two-thirds of the local governments contacted, but it is preserved in one-third (five counties) of the cases. The title most often used currently is "equal employment opportunity officer." While other designations (e.g., recruitment and selection supervisor, human resources officer, and senior personnel analyst) are also used, all these titles describe senior level positions in the chain of command.

Finally, the local jurisdictions contacted were asked to report the composition of their workforce by race and ethnicity for 1995, 1996, and 2000. About 60% (12) provided information for 1996 and 2000. Four cities and eight counties reported a 1996–2000 increase in the Latino share of all employees. The average gain was 3%, and it ranged from 8% to 1%. The share of African American employees went down by 1% in only two cities, with little or no change on average. For Asian Americans there was no average change either, with four cases reporting small gains and two cases reporting a small decrease. Four cities and eight counties posted positive changes in the share of white employees. These changes ranged from 11% to 1%. On average, the share of whites increased by 4% during 1996–2000.

Summary

Research was conducted to evaluate changes in government procurement and employee hiring practices in California since Proposition 209 was adopted by California voters on November 5, 1996. This legislation ended "affirmative action" or the use of race and gender goals in state, county, and city government contracts and employee hiring. This study examined multiple data sources from various years to detect changes in state government contracts awarded to Latino firms and the number of new Latino employees hired by the state. A survey of Latino firms "approved" to do business with the state as of 1996 also was conducted to obtain their perceptions and experiences in obtaining government contracts after Proposition 209 was passed. Survey data from the 25 largest California counties and 25 largest cities also was collected to determine changes in affirmative action programs.

Within the constraint of the data examined and the short period of time used in the analysis, representation of Latino new hires in the state public employment rolls practically remained the same between 1996 and 2000. After controlling for state economic conditions and the long-term demand for labor, the regression analysis conducted also suggests little or no change in the total number of new Latino hires by the state after 1996. However, when using all state employees, parity seemed to have diminished slightly for Latinos, from -8.8 in 1996 to -9.7 in the year 2000.

Based on the state contracts awarded by the California Department of General Services, underutilization of Latino firms increased for the limited time period investigated. Not captured in the data is the possible discouraging effect that the absence of racial and ethnic preferences is having on some Latino firms' disposition to bid on government contracts. Based on the data used in the study, the effect of Proposition 209 on affirmative action or diversity

programs is mixed. About half of the large local governments surveyed no longer use race and gender goals to recruit minority employees, but the other half still does.

Recommendations

- To understand fully the distributional effects of Proposition 209 requires data collection by race and ethnicity of the business. Unless this information is provided on a regular basis and it is regularly and consistently gathered by all state agencies, changes in the allocation of state contract dollars between minority and nonminority-owned businesses cannot be accurately tracked or evaluated.
- State certification requirements for small businesses should be reviewed and streamlined if necessary. Comments made by some of the Latino business executives interviewed suggest that the certification process is filled with "government red tape" and is not worth the effort.
- As the California economy turns around and as Latinos continue to increase their presence in the state civilian labor force, it would be important to conduct further research to evaluate whether the changes or absence of change uncovered in this report become a long-term trend.
- The study's focus on aggregates has provided little information of what is happening in specific counties, cities, and large state agencies after the passage of Proposition 209, especially in regards to ethnic and racial representation in the number of new employees hired and the allocation of government contracts. Thus, further research on these units of government is recommended.

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