

CALCULATING THE PERSONAL NET WORTH OF INDIVIDUALS THAT OWN MULTIPLE BUSINESSES

When considering an owner's personal net worth, how should certifying agencies treat multiple businesses owned by the disadvantaged individual(s)?

- Under the DBE program regulations, the definition of “personal net worth” (PNW) excludes an individual’s ownership interest in the applicant or participating DBE or ACDBE firm. See 49 CFR § 26.5. The DBE and ACDBE regulations on certification standards instruct certifying agencies determining an individual’s PNW to exclude an individual’s ownership interest in the applicant firm, in an ACDBE firm, or a firm that is applying for ACDBE certification.” See 49 CFR §§ 23.3, 23.31(a), 26.67(a)(2)(iii)(A). This, however, does not mean that all certified DBE and ACDBE firms in which the disadvantaged owner has an interest are to be excluded when calculating the PNW.
- Certifying agencies calculating the PNW of a disadvantaged owner of multiple businesses must include the value of the ownership interest that the individual may have in businesses other than the firm that is the subject of a DBE certification application or that is already a certified DBE in their PNW calculation. This rule applies regardless of whether the other businesses are certified DBEs or not.

Example:

- For example, disadvantaged Owner A has a trucking company #1 and a landscape company #2. Both companies are certified DBEs. The ownership interest in company #1 is excluded when Owner A’s PNW is calculated with respect to company #1, but the ownership interest in company #2 is not excluded. Likewise, the ownership interest in company #2 is excluded when Owner A’s PNW is calculated with respect to company #2, but the ownership interest in company #1 is not excluded.
- This method of calculating PNW also applies to socially and economically disadvantaged (SED) owners and controllers of a subsidiary applicant firm who own and control the subsidiary through a holding or parent company, per 49 CFR § 26.73(e). In this situation, the certifying agency should exclude from the PNW calculation the value of each SED owner’s interest in the subsidiary applicant firm, but include the value of each SED owner’s interest in other subsidiaries owned by the holding or parent company. Additionally, if the parent company carries out its own operations separate from those carried out through its subsidiaries, the SED owner’s interest in such operations of the parent company should also be included in the PNW calculation for that SED owner.

Examples:

- A holding/parent company controls two wholly-owned subsidiary firms that are owned and controlled 100% by two SED individuals who each own 50% of the company. If one of the wholly-owned subsidiaries of the company is applying for DBE certification, each SED owner would hold a 50% ownership interest in the applicant firm. In calculating each SED owner’s PNW, the certifying agency

would exclude the value of that 50% ownership interest. The certifying agency would include the value of each owner's interest in the non-applicant subsidiary firm in each owner's respective PNW calculation.

- A holding/parent company is owned 80% by an SED individual and 20% by a non-SED individual. If that company owns 70% of a subsidiary firm that is applying for DBE certification, then the SED owner would have a 56% ownership interest in the subsidiary applicant firm. The certifying agency would exclude the value of the SED owner's 56% interest in the applicant firm from the SED owner's PNW calculation. If the SED owner's company also controls other subsidiary firms apart from the subsidiary seeking DBE certification, then a certifying agency would include the value of the SED owner's interest in the other subsidiary firms in the SED owner's PNW calculation.
- A holding/parent company is owned and controlled 100% by two SED individuals who each own 50% of the parent company. If a wholly-owned subsidiary of the parent company applies for DBE certification, then each SED owner would hold a 50% interest in the subsidiary applicant firm. The certifying agency would exclude the value of each SED owner's 50% interest in the subsidiary from their respective PNW calculation. If, in addition to operating the subsidiary, the parent company carries out its own operations separate and apart from those of the subsidiary, then the certifying agency would include the value of each SED owner's interest in the parent company's other operations in their respective PNW calculation.
- Certifying agencies should not determine PNW based on how an individual owner elects to file taxes for the companies in which the owner has an ownership interest. Any business entity having a separate Employer Identification Number (EIN), also known as a Federal Tax Identification Number, should be treated as a separate company. For example, an SED owner that elects to combine multiple businesses with separate legal entities and EINs in a single consolidated tax form for tax purposes may not combine those businesses into one legal entity for the purposes of the PNW calculation. In this instance, a certifying agency should include the value of all the SED owner's interests in multiple businesses as part of the PNW calculation.

The General Counsel of the Department of Transportation has reviewed this document and approved it as consistent with the language and intent of 49 CFR Parts 23 and 26.

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