United States General Accounting Office

GAO

Fact Sheet for Congressional Committees

June 1995

SMALL BUSINESS

Construction Firms' Access to Surety Bonds

GAO/RCED-95-173FS

GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-261207

June 26, 1995

The Honorable Christopher S. Bond
Chairman
The Honorable Dale Bumpers
Ranking Minority Member
Committee on Small Business
United States Senate

The Honorable Jan Meyers
Chair
The Honorable John J. LaFalce
Ranking Minority Member
Committee on Small Business
House of Representatives

Federal law currently requires contractors to provide certain types of surety bonds on all federal construction contracts worth over $25,000.[1] Surety bonds ensure that should a bonded contractor default, a construction project will be completed and the contractor's employees and material suppliers will be paid. Most state and local governments and some private-sector lenders also require construction firms to be bonded. Surety companies, or the entities that issue surety bonds, decide whether firms have the necessary experience and financial capability to perform a given job and thus to qualify for a bond.

It is not unusual for a small construction company to have some difficulty in obtaining a surety bond. In approving bonds, the surety companies seek to reduce their risk by examining, among other factors, a firm's experience in construction; specialization and record in doing the same type of work; and financial viability, corporate tax returns, and bank lines of credit. Some of the documents the firms must provide are readily available to them; others, such as a review or audit by a certified public accountant, may result in additional costs. Those firms that the surety companies consider more risky may be asked to provide collateral or meet other conditions to obtain a bond. According to the surety companies, decisions on approving bonds are made on a case-by-case basis and may take some time while the contractor assembles the required information and answers the surety company's questions and the surety company verifies the

[1]The Federal Acquisition Streamlining Act of 1994 increased this amount to $100,000, effective Oct. 1, 1995.

information. If the processing time for the bond is long, the firm may lose the opportunity to bid on a job.

Some small construction firms have contended that surety companies' decisions to approve or deny bonds can seem arbitrary. As a result, they have asserted that such decisions can impede the development of small firms, especially those owned by minorities and women. Because limited data existed on this issue, the Small Business Access to Surety Bonding Survey Act of 1992[2] directed us to survey small construction firms for information on their experiences in obtaining bonds from surety companies from 1990 through 1993 and to report to the House and Senate Committees on Small Business. The act directed us to examine in particular the experiences of firms owned by minorities and women.[3]

Our survey—a random sample of 12,000 construction firms, of which about 98 percent were small enough to be eligible for the Small Business Administration's (SBA) programs[4]—focused on (1) the firms' overall rate of obtaining bonds; (2) the characteristics of the small firms that performed bonded work; (3) the recent experiences of these firms in obtaining bonds, including how they obtained bonds, whether they lost opportunities to bid because of the length of time it took to get a bond, what documentation they had to provide to obtain a bond, how often they were denied a bond, how much they paid in fees for bonds, how much bonded work they performed, and whether the amount of bonding they received had increased; and (4) the characteristics of those firms that did not perform bonded work, including their reasons for not doing such work.

The results of our survey generalize to about half of the firms currently in business, primarily in construction, that meet the eligibility criteria for SBA's programs. Our results do not generalize to firms that would not have responded to our survey, which are more likely to be smaller. Details of the limitations on our survey data are presented in appendix I.

[2]This act is contained in the Small Business Credit and Business Opportunity Enhancement Act of 1992.

[3]In our survey, we defined a minority-owned firm as one in which at least 51 percent of the firm was owned by individuals from one or more of the following groups: African American, Hispanic, Asian American, Native American, or Pacific Islander. We defined a women-owned firm as one in which at least 51 percent of the firm was owned by women.

[4]To be eligible for SBA's programs, firms must have average annual revenues, over a 3-year period, not exceeding $17 million if the firms are in general building construction (e.g., commercial and industrial construction) and heavy construction (e.g., roads and bridges) and $7 million if the firms are special trade contractors (e.g., plumbers, painters, electrical contractors, and concrete masons).

Summary

Our survey showed the following.

Overall Rate of Obtaining Bonds

- At least 23 percent of the small construction firms had obtained bonds, and a maximum of 77 percent had never obtained bonds.

Section 1 of this report gives more details on this estimate.

Characteristics of Firms That Had Obtained Bonds

- About 4 out of 10 firms that had obtained bonds had annual revenues less than or equal to $500,000, had an average of 20 years of experience in construction, and had likely first obtained bonds before 1990.
- The minority-owned firms, which made up 7.2 percent of the firms that had obtained bonds, tended to be smaller, had less construction experience, and were more likely than the firms not owned by minorities to have obtained their first bond since 1990.
- The women-owned firms, which made up 11.1 percent of the firms that had obtained bonds, had less construction experience, and had likely obtained their first bond more recently than the firms not owned by women.

Section 2 of this report gives more details about the characteristics of these firms.

Firms' Recent Experience With Bonding

- Of the firms with recent experience with bonding (1990-93), about 1 out of 10 had used federal, state, or local bonding assistance programs to obtain bonds. The firms that used government assistance tended to be smaller, more likely to have been previously denied a bond, and more likely to have obtained their first bond since 1985.
- The firms reported that they were routinely asked to provide financial statements and other documents to obtain a bond. About one out of four firms reported that they were also required to provide collateral, and a similar proportion of firms said they were required to meet other conditions (such as establishing an escrow account controlled by the surety company) to obtain a bond. The minority and women-owned firms were more likely to be asked for certain types of financial documentation. The minority-owned firms were also more likely to be asked to provide collateral and meet other conditions than the firms not owned by minorities.
- Nearly one out of five firms that had obtained bonds in 1990-93 had also been denied a bond in that period. The minority-owned firms were more

likely to have been denied a bond. The minority-owned firms were also more likely to say they had lost an opportunity to bid because of the length of time it took to obtain a bond.

- The fees paid for bonds varied depending on the size of the firm. In addition, the women-owned firms paid a lower fee than other firms for the first $100,000 of their bonds. We did not detect differences in the fees paid by the minority-owned firms compared with those paid by the firms not owned by minorities.
- About a quarter of the firms with recent bonding experience had only obtained bonds valued under $100,000. Because of the new bonding thresholds set out by the Federal Acquisition Streamlining Act of 1994, which increased the minimum federal contract amount for which a bond is required from $25,000 to $100,000, it is likely that fewer firms will require bonds in the future.

Section 3 describes in more detail the experiences of the firms that had obtained bonds from 1990 through 1993.

Firms That Had Not Obtained Bonds

- Four out of five small construction firms had not obtained bonds because they were not asked to get them or did not bid on projects that required bonding. The minority- and women-owned firms that did not obtain bonds said they were not required to have bonds or did not bid on projects that required bonding.

Section 4 describes in more detail the characteristics of these firms and their reasons for not obtaining bonds.

Scope and Methodology

We surveyed 12,000 firms randomly selected from a list of special trade contractors, general building contractors, and heavy construction contractors maintained by Dun & Bradstreet.[5] The survey focused primarily on small firms; that is, those meeting the size standards for SBA's programs.

In describing differences in bonding experience by size or ownership (the ethnicity or gender of the owner), we discuss only those differences that

[5]General contractors for and builders/developers of single-family residences were not included in our survey.

are statistically significant.[6] It should be noted that the absence of a statistically significant difference does not mean that a difference does not exist—the sample size or number of respondents to a question may not have been sufficient to allow us to detect a difference. This report does not identify causes of significant differences. It is also important to note that we are only presenting the information reported to us by the firms. We did not verify this information. Details of our scope and methodology are presented in appendix I. A supplement to this report gives the detailed responses to our survey questions broken down by the size of the firm and the gender and ethnicity of the owner.[7]

We conducted our work between June 1993 and May 1995. We discussed the information in this report with representatives of the surety industry and small business, including SBA's Associate Administrator for Surety Guarantees; the President, Surety Association of America; and the executive directors of the American Subcontractors Association, National Association of Minority Contractors, and Women Construction Owners and Executives. These representatives generally agreed that we had used a reasonable approach for the survey.

We are sending copies of this report to the Administrator, SBA, and the Director, Office of Management and Budget. We will also make copies available to others on request.

Please call me at (202) 512-7631 if you or your staff have any questions. Major contributors to this report are listed in appendix II.

Judy A. England-Joseph
Director, Housing and Community
Development Issues

[6]Statistical significance means that observed differences between the subgroups are larger than would be expected from sampling error. Sampling error is the maximum amount by which results obtained from a statistical sample can be expected to differ from the statistic we are estimating.

[7]Small Business: Responses to Survey on Construction Firms' Access to Surety Bonds (GAO/RCED-95-173S). For a copy of this supplement, return the postcard included in this report. If the postcard is missing, please address your request to: U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20884-9965. The figures in this report are cross-referenced to information in that report.

Contents

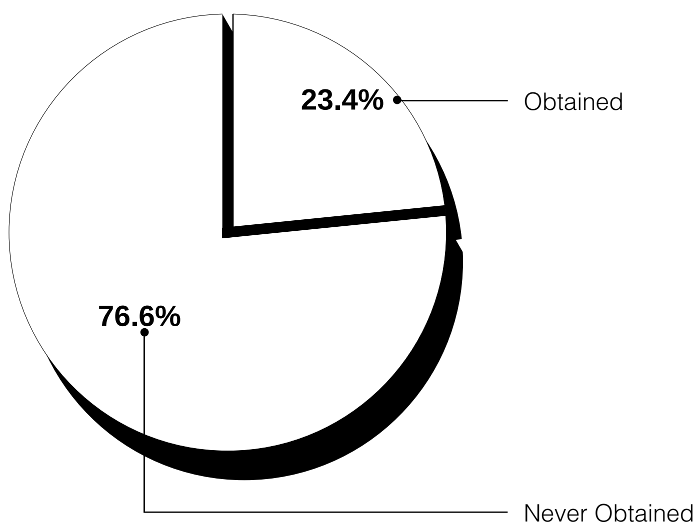
Abbreviations

CPA	certified public accountant
GAO	General Accounting Office
SBA	Small Business Administration

Firms' Overall Rate of Obtaining Surety Bonds

We estimate that at least 23.4 percent (+/- 1.1 percent) of the small construction firms, or an estimated 159,807 firms, had obtained bonds or had approved bonding lines.[1] As figure 1.1 shows, we also estimate that a maximum of 76.6 percent (+/- 1.1 percent) of the firms had never obtained bonds or had bonding lines.

Figure 1.1: Percentage of Small Construction Firms That Had Obtained Bonds



The actual percentage of small construction firms that obtained bonds could be higher than 23.4 percent (+/- 1.1 percent) but is unlikely to be more than 43.2 percent (+/-1.4 percent). These upper and lower limits are based on information from both our mail survey and a follow-up by telephone to the mail survey. In the mail survey, 43.2 percent (+/- 1.4 percent) of the respondents had obtained bonds. However, survey respondents were more likely than nonrespondents to have obtained bonds. When we adjust for this finding and generalize to all small construction firms, including those no longer in business, we can confidently estimate that at least 23.4 percent (+/- 1.1 percent) of the firms had obtained bonds.

[1] A bonding line is the total amount of bonds that a surety company is willing to provide to a construction firm.

While we are able to estimate the overall rate of obtaining surety bonds among small construction firms, we are not able to generalize the survey results presented in sections 2, 3, and 4 to all the firms. In these sections, we generalize results to a portion of the universe, on the basis of the response rate to the mail survey.

Characteristics of Firms That Had Obtained Surety Bonds

Overall, the small construction firms that had obtained bonds[1]

- had annual revenues averaging $1.6 million, although 40 percent had revenues under $500,000;
- averaged 20.4 years of construction experience; and
- were likely to have obtained their first bond before 1990.

The minority-owned firms differed from the firms not owned by minorities in that they

- were more likely to be small—51.4 percent of the firms had annual revenues under $500,000,
- had about 6 years less experience in construction, and
- had likely obtained their first bond later than the firms not owned by minorities.

The women-owned firms differed from the firms not owned by women in that they

- had somewhat less construction experience—18.5 years, compared with 20.7 years for the firms not owned by women—and
- had likely obtained their first bond later than the firms not owned by women.

In this section, we discuss the business characteristics of the firms that had obtained surety bonds. In section 4, we discuss the business characteristics of the firms that had never obtained bonds and the reasons why.

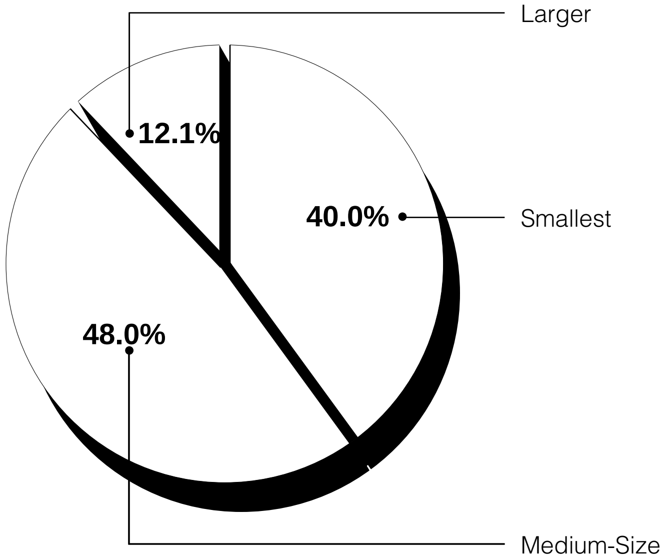
Size and Ownership

For purposes of our survey, we grouped the small firms that met the size standards for SBA's programs into three categories: "smallest"—those firms with average annual revenues less than or equal to $500,000; "medium-size"—those firms with average annual revenues over $500,000 and up to $3.5 million; and "larger"—those firms with average annual revenues over $3.5 million but under SBA's revenue maximum.

The smallest firms accounted for 40.0 percent of the firms that had obtained bonds, as shown in figure 2.1. In contrast, the larger firms accounted for 12.1 percent of the firms that had obtained bonds.

[1]This discussion generalizes to an estimated 119,560 small firms.

Figure 2.1: Breakdown of Firms Obtaining Bonds, by Size



Note: Percentages may not add to 100 because of rounding.

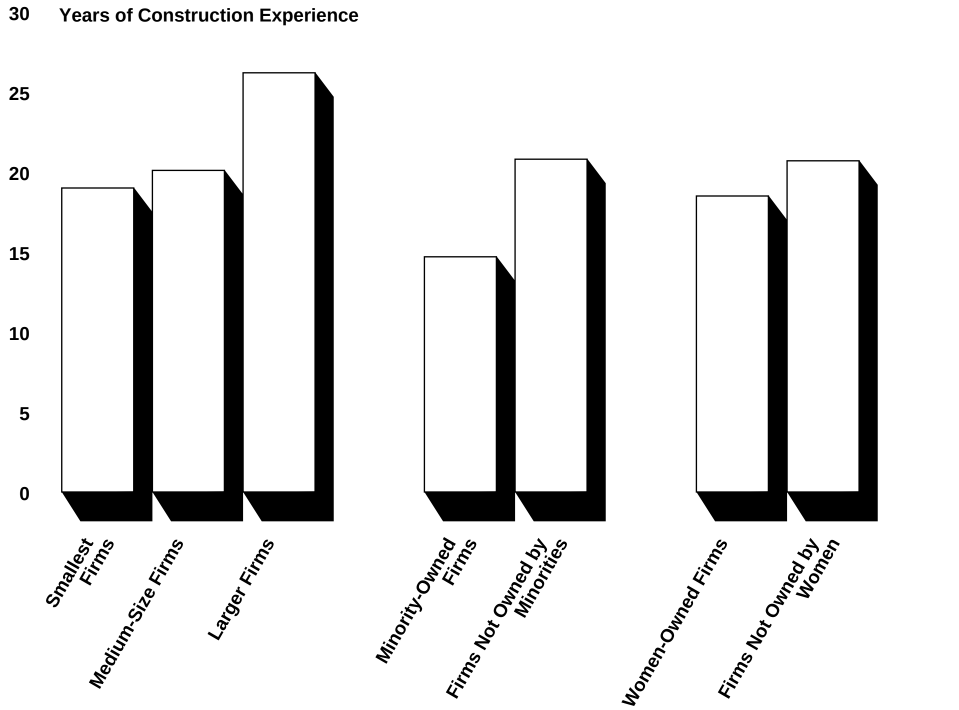
Source: Table 2.1, Small Business: Responses to Survey on Construction Firms' Access to Surety Bonds (GAO/RCED-95-173S, June 26, 1995).

Minority- and women-owned firms made up a small proportion of the total number of the small construction firms that had obtained bonds. Our survey indicated that 7.2 percent of the firms that had obtained bonds were owned by minorities, and 11.1 percent were owned by women.

Construction Experience

The firms that had obtained bonds had an average of 20.4 years of construction experience. As shown in figure 2.2, the larger firms tended to have more experience than the firms of other sizes, and the minority and women-owned firms tended to have less experience than the firms not owned by minorities and women.

Figure 2.2: Construction Experience of Firms Obtaining Bonds, by Size and Ownership



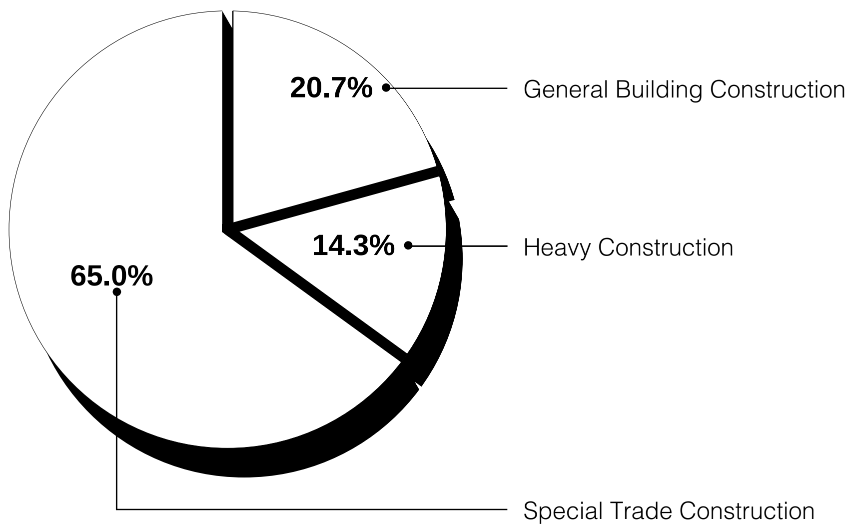
Note: The difference in construction experience between the smallest and medium-size firms was not significant.

Source: Tables 2.3a, 2.3b, and 2.3c, GAO/RCED-95-173S.

Type of Work

As shown in figure 2.3, firms in special trade construction such as plumbers, painters, concrete masons, and electrical contractors, accounted for 65.0 percent of the firms that had obtained bonds.

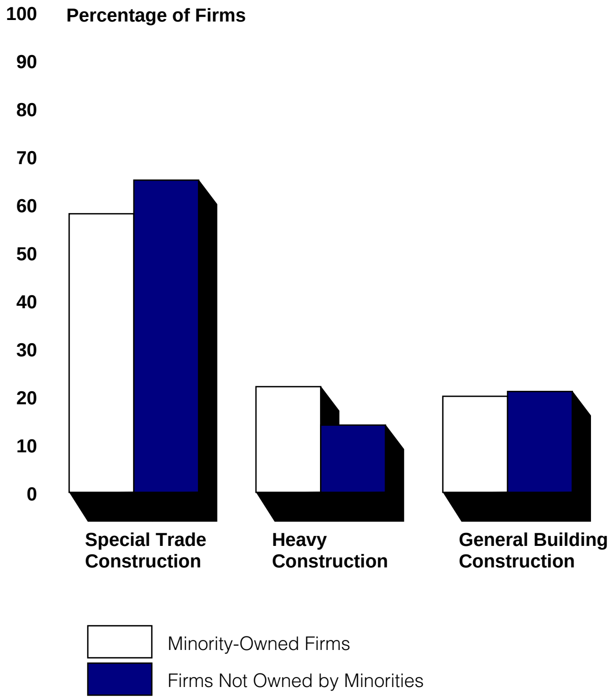
Figure 2.3: Specialization of Firms Obtaining Bonds



Source: Table 2.5a, GAO/RCED-95-173S.

As shown in figure 2.4, more than half—58.0 percent—of the minority-owned firms that had obtained bonds were in special trade construction. However, a higher percentage of the minority-owned firms that had obtained bonds specialized in heavy construction than the firms not owned by minorities.

Figure 2.4: Specialization of Firms Obtaining Bonds, by Ethnicity of Owner



Source: Table 2.5b, GAO/RCED-95-173S.

In addition to performing certain types of construction work, firms can function either as general contractors, working directly for owners, or as subcontractors, working for the general contractors. We observed the following differences regarding the firms' work as general contractors and as subcontractors:

- 51.3 percent of the firms functioned more as subcontractors than as general contractors.
- 42.5 percent of the firms functioned more as general contractors.
- The remaining 6.3 percent did equal amounts of work as general contractors and subcontractors.

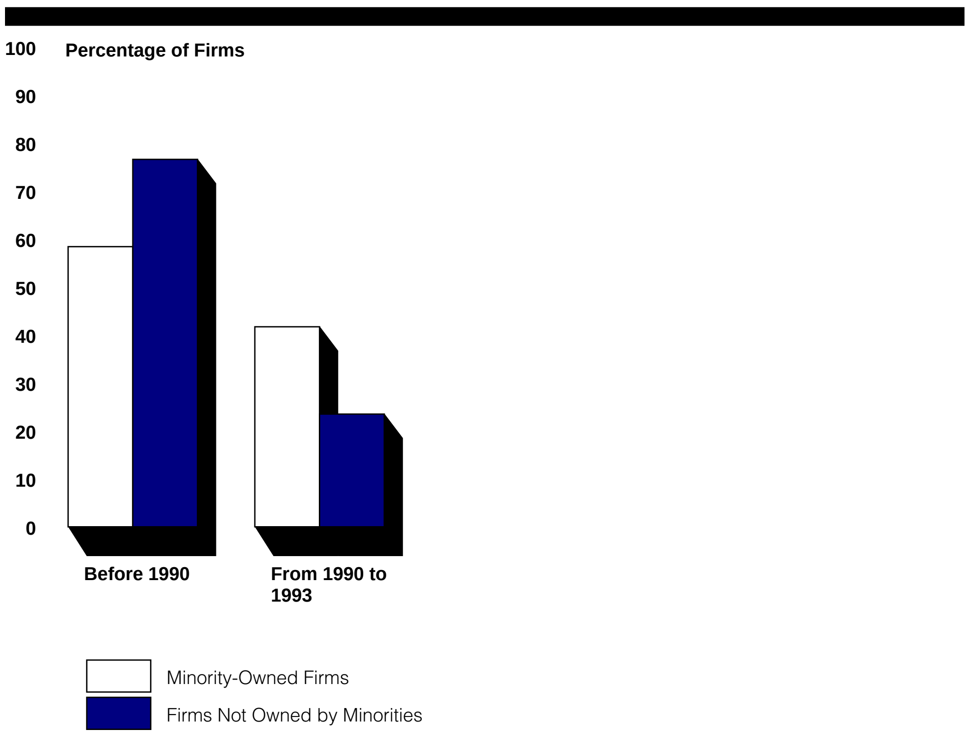
Year of Obtaining First Bond

Most of the firms that had obtained bonds had been performing bonded work for several years.

- 51.1 percent of the firms had obtained their first bond before 1985.
- 23.8 percent had obtained their first bond between 1985 and 1989.
- The remaining 25.2 percent had obtained their first bond in 1990 or later.

The minority- and women-owned firms obtained their first bond later than other firms. As shown in figure 2.5, 41.7 percent of the minority-owned firms had obtained their first bond since 1990, while 76.6 percent of the firms not owned by minorities had obtained their first bond before 1990.

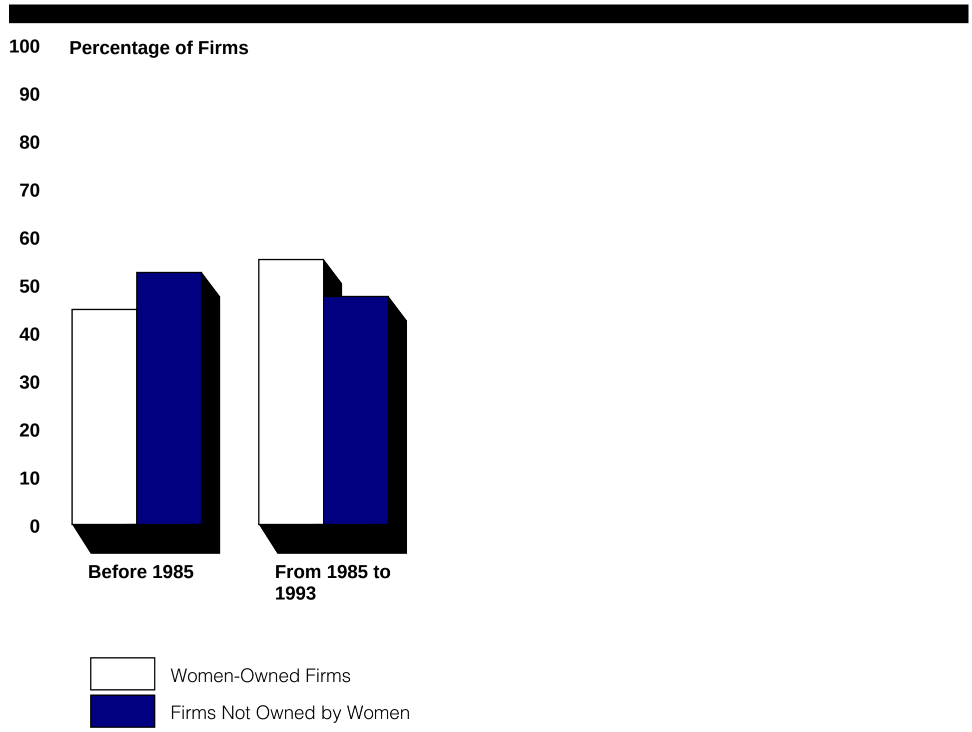
Figure 2.5: Year in Which Minority-Owned Firms and Firms Not Owned by Minorities Obtained First Bond



Source: Table 2.7b, GAO/RCED-95-173S.

As shown in figure 2.6, 55.2 percent of the women-owned firms had obtained their first bond since 1985, compared with 47.5 percent of the firms not owned by women.

Figure 2.6: Year in Which Women-Owned Firms and Firms Not Owned by Women Obtained First Bond



Source: Table 2.7c, GAO/RCED-95-173S.

Firms' Recent Experiences in Obtaining Bonds

Nearly three-quarters—72.0 percent—of the small construction firms had obtained bonds since 1990.[1] Their involvement with bonding is characterized by the following experiences:

- About seven out of ten firms obtained their bonds through an agent who specialized in bonding. Few of the firms used government bonding assistance programs.
- Most of the firms obtained their first bond in 30 days or less.
- The firms reported that they were routinely asked to provide financial statements and other documents to obtain a bond. About one out of four firms reported being asked to provide collateral, and a similar proportion of firms reported being required to meet other conditions (such as establishing an escrow account controlled by the surety company) to obtain a bond.
- About one out of five firms obtaining a bond between 1990 and 1993 had also been denied a bond at least once during those years.
- Most of the firms perceived that the requirements for obtaining a bond had remained the same or tightened over the last 5 years.
- About half of the firms paid nothing for bid bonds[2] in 1993. The larger firms were less likely to pay for bid bonds and paid lower fees for payment and performance bonds than the medium-size and smallest firms.
- About one-third of the firms' 1993 construction revenues were generated from jobs that required bonds.
- Most firms that reported information about their bonding capacity had experienced an increase or no change from 1990 to 1993 in the largest bond or aggregate amount of bonds that the surety companies would approve.
- A quarter of the firms with recent bonding experience had only obtained bonds valued under $100,000 in 1993. Because of new bonding thresholds set out by the Federal Acquisition Streamlining Act of 1994, which increased the minimum federal contract amount for which a bond is required from $25,000 to $100,000, it is likely that fewer firms will require bonds in the future.

The experiences of the minority-owned firms differed from those of the firms not owned by minorities in several areas. For example, these firms

[1]The results described in this section generalize to an estimated 84,491 firms.

[2]There are three types of surety bonds—bid, performance, and payment. A bid bond ensures that a firm is technically qualified to perform the work, will enter into a contract if its bid is accepted, and will obtain whatever additional bonds are required. A performance bond guarantees that the project will be completed in accordance with the contract's terms and conditions, at the agreed-upon price, and within the prescribed time. The payment bond ensures that individuals and firms providing labor and/or materials to the project will be paid.

- were more likely to be asked to provide certain types of financial documentation, as well as to provide collateral or to meet other conditions;
- were more likely to be denied a bond and to report losing an opportunity to bid because of delays in processing their request for a bond; and
- were more likely to depend on jobs requiring bonds for a higher proportion of their revenues.

The women-owned firms differed from the firms not owned by women in a few key respects. For example, they

- reported having paid lower fees on average for the first $100,000 of a bond than the firms not owned by women and
- were more likely to be asked to provide more types of financial or other documentation to obtain a bond.

How Firms Obtained Bonds

Construction firms have several avenues for obtaining surety bonds. Firms can choose a bonding agent who specializes in surety bonds or an insurance agent who provides a range of insurance products—any agent licensed to provide insurance is legally permitted to handle surety bonds as well. Firms may also go directly to a surety company to obtain a bond. The bonding specialist is seen as knowledgeable of the requirements of the surety companies and can advise the firm on preparing its request for a bond.

Federal, state, and local programs also assist firms in obtaining bonds. SBA, for example, provides guarantees to surety companies to cover a portion of the loss on a bond if a construction company defaults. Massachusetts, Ohio, Maryland, and New York, among others, provide guarantees, collateral, or other forms of financial assistance to help small firms obtain bonds.

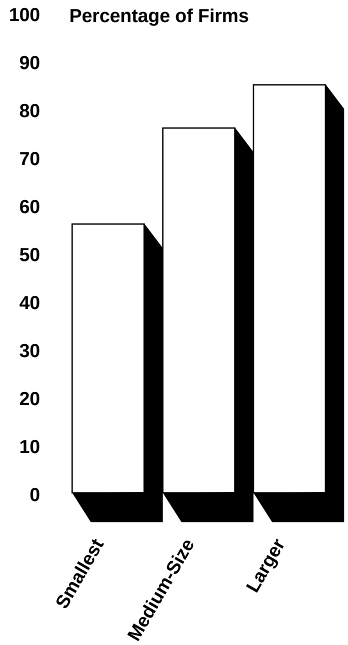
Use of Specialized Agent

Most of the small firms that had obtained bonds between 1990 and 1993 used specialized bonding agents. Specifically,

- 71.4 percent of the firms used agents who specialized in surety bonds,
- 3.2 percent dealt directly with surety companies, and
- the remaining 25.5 percent were almost evenly split in either not being sure whether their agent specialized in surety bonds or saying that their agent was not a bonding specialist.

The larger firms were more likely to use a specialized agent than the smallest firms, as shown in figure 3.1.

Figure 3.1: Use of Specialized Bonding Agent, by Size of Firm



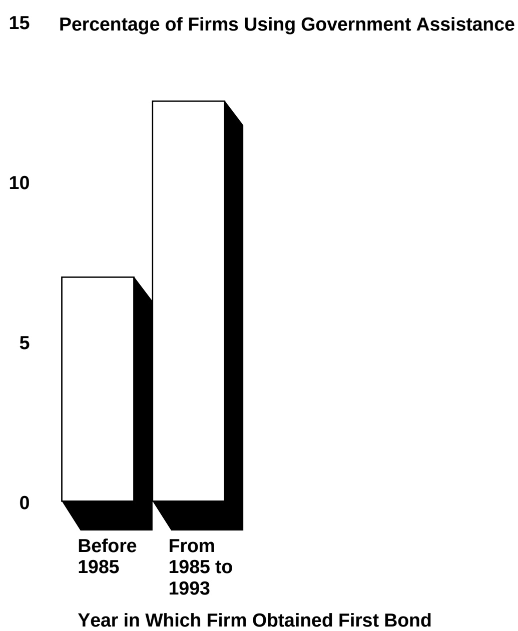
Source: Table 3.3a, GAO/RCED-95-173S.

The smallest firms were also less likely to say that their bonding agent explained bonding requirements to a "great" or "very great" extent the first time they asked for a bond. Our survey indicated that 59.4 percent of the larger firms seeking their first bond said that the bonding agent had explained the requirements to them to a great or very great extent, compared with 38.6 percent of the smallest firms.

Use of Government Assistance

The use of government assistance programs is not widespread. Only 9.8 percent of the firms had used some form of government assistance to obtain their bonds between 1990 and 1993. Those firms that had obtained their first bond since 1985 were more likely to have used bonding assistance than those that had obtained their first bond before 1985, as shown in figure 3.2.

Figure 3.2: Use of Government Assistance, by Year in Which Firm Obtained Its First Bond



Source: Table 3.6, GAO/RCED-95-173S.

The smallest firms were more likely to have used government assistance. Specifically,

- 14.6 percent of the smallest firms used some form of government assistance to obtain a bond,
- 9.0 percent of the medium-size firms used such assistance, and
- 3.7 percent of the larger firms used such assistance.

The firms that used government assistance were also more likely to

- be smaller in size;
- have obtained smaller bonds;
- have paid for bid bonds, which are often provided at no charge;

- have obtained their first bond since 1985;
- have been denied a bond in the past;
- report that they had lost an opportunity to bid on a project in 1993 because their bond request was not processed in time;
- report that they were required to hire a financial management firm, consulting firm, or certified public accountant (CPA) selected by the surety company; and
- report that they were required to enter into an arrangement that gives the surety company the right to manage the job for which the bond was provided even when the firm is not in default.

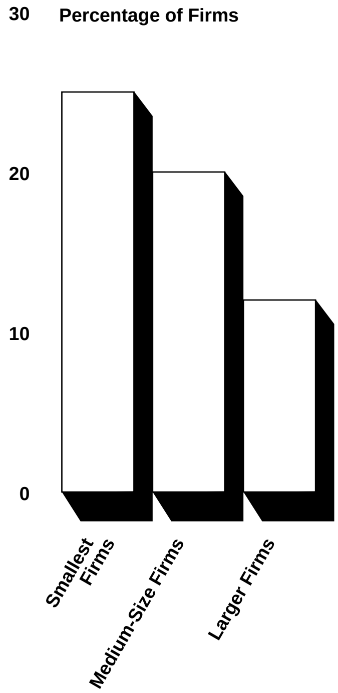
Length of Time Taken to Obtain a Bond

Firms may lose an opportunity to bid because a bond request is not processed in time. However, most firms seeking their first bond between 1990 and 1993 obtained their bond within 30 days. That is

- about half—52.3 percent—of the firms had their first bond request approved in 10 days or less;
- 28.4 percent of the firms had their first bond request approved in 11 to 30 days; and
- only 19.3 percent of the firms waited over 30 days to obtain their first bond.

About one in five firms said they had lost an opportunity to bid in 1993 because their bond request was not processed in time. As shown in figure 3.3, the smallest and medium-size firms were more likely to report having lost an opportunity to bid in 1993 because of the time it took to process a bond request.

Figure 3.3: Firms That Lost an Opportunity to Bid Because of Processing Times, 1993



Source: Table 3.10a, GAO/RCED-95-173S.

Similarly, the minority-owned firms were more likely to report losing an opportunity to bid because their bond request was not processed in time—43.8 percent, compared with 17.8 percent in the case of the firms not owned by minorities. We did not detect any significant differences on this issue between the women-owned firms and the firms not owned by women.

Conditions Firms Met to Obtain Bonds

As a condition for approving a bond, a surety company can require that the contractor periodically provide reports on the status of the job, financial statements, and other documents to keep the surety company apprised of the firm's performance and financial condition, as well as the status of the project. In certain instances, the surety company may require additional assurances that reduce its risk, such as collateral to cover potential losses.

Required Documentation

The vast majority of small firms reported that they were required to provide certain types of documentation to the surety company. In summary,

- 86.5 percent of the firms provided reports of work on hand or job status,
- 86.6 percent of the firms provided personal financial statements,
- 81.2 percent of the firms provided financial statements compiled by the firm, and
- 77.8 percent of the firms provided financial statements reviewed by a CPA.

Many firms reported that they were required to provide these documents more often than once a year. For example,

- 67.6 percent of the firms required to provide periodic reports of work on hand had to provide such reports more often than once a year,
- 46.6 percent of those providing periodic statements compiled by the firm had to do so more than once a year, and
- 23.9 percent of those required to provide periodic financial statements reviewed by a CPA had to provide them two or more times a year.

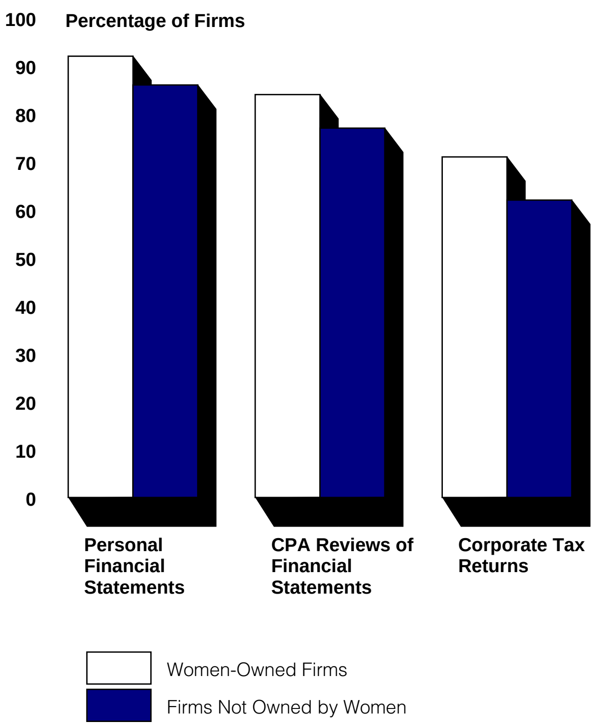
The medium-size and larger firms were more likely to be asked for almost all types of documentation. The exception was personal tax returns: The smallest and medium-size firms were more likely to be required to provide these.

However, among the firms required to provide certain documents periodically, the smallest firms had to provide several types more frequently than the larger firms did. These documents included personal financial statements, letters of credit, personal and corporate tax returns, and audits by CPAs. On the other hand, the larger firms had to provide reports of work on hand and financial statements compiled by the firm more often in a year than the smallest and medium-size firms did.

The minority-owned firms reported that they were more likely to be asked for personal tax returns. In addition, the minority-owned firms had to provide several types of documents more often in a year than the firms not owned by minorities. These included personal financial statements and financial statements compiled by the firm, CPA reviews, CPA audits of financial statements, letters of credit, and personal tax returns.

As shown in Figure 3.4, the women-owned firms reported that they were more likely to be required to provide more types of documents in order to obtain a bond.

Figure 3.4: Documents That Women-Owned Firms and Firms Not Owned by Women Were Required to Provide



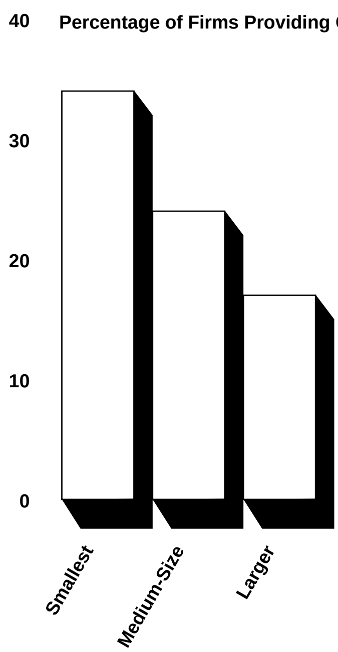
Source: Table 3.12c, GAO/RCED-95-173S.

Collateral Requirements

Surety companies can require firms to provide collateral as a condition for approving a bond. According to surety officials, some surety companies commonly require collateral, while others do not. Officials of some surety companies view collateral as a tool that produces a strong commitment from the firm to successfully complete the project. The collateral is normally a liquid asset that frequently comes from the contractor's personal assets rather than from the firm's assets, so as not to reduce the firm's working capital.

About a quarter of the small construction firms that had obtained bonds between 1990 and 1993 reported that they were required to provide collateral to obtain the bond. The size of the firm affected this requirement, as shown in figure 3.5. About one in three of the smallest firms but only about one in six of the larger firms was required to provide collateral.

Figure 3.5: Firms Required to Provide Collateral, by Size of Firm



Source: Table 3.14a, GAO/RCED-95-173S.

The ethnicity of the firms' owners also affected this requirement. The minority-owned firms reported that they were more likely to be required to provide collateral than the other firms: 36.8 percent of minority-owned firms had to do so, while only 24.7 percent of the firms not owned by minorities did.

Other Conditions

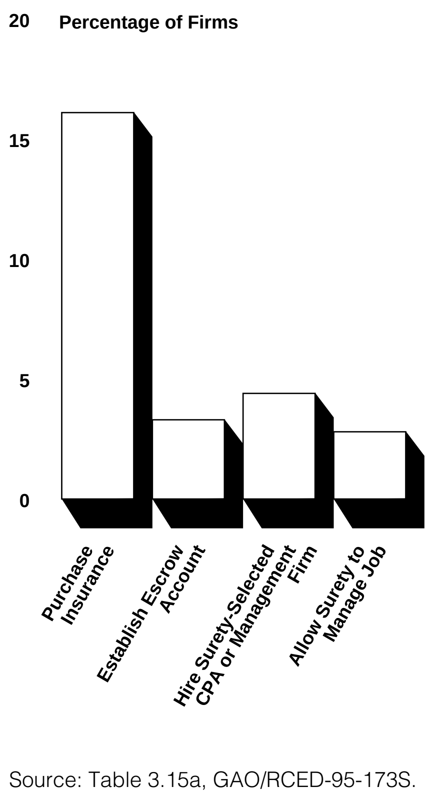
Surety companies may impose other conditions on firms that request bonds. About a quarter of the firms reported that they were required to meet at least one of the following conditions:

- purchase insurance from the bonding agent;
- establish an escrow account controlled by the surety company;
- hire a CPA or a management or consulting firm selected by the surety company to manage the contract; or
- enter into an arrangement that allows the surety company to manage the job even when the firm is not in default.

Except for the purchase of insurance, these conditions take some management and control of the job away from the construction firm.

As shown in figure 3.6, the firms reported that they were more likely to be required to purchase insurance from the bonding agent than to meet other conditions.

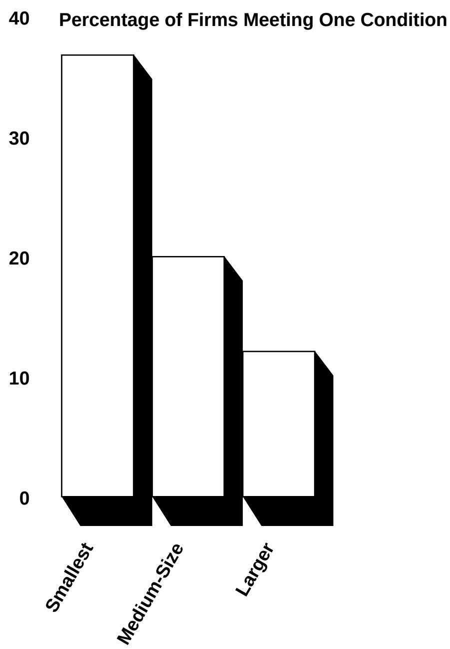
Figure 3.6: Other Conditions That Firms Had to Meet, 1990-93



Source: Table 3.15a, GAO/RCED-95-173S.

The smaller the firm, the more likely that it was subject to at least one of these conditions shown in figure 3.7.

Figure 3.7: Percentage of Firms That Had to Meet at Least One Other Condition, by Size of Firm



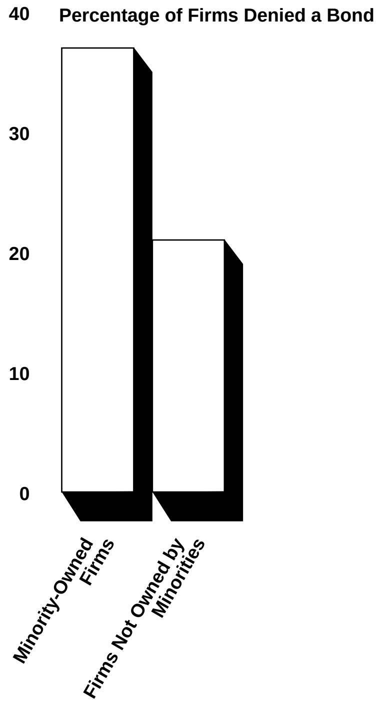
Source: Table 3.15a, GAO/RCED-95-173S.

In addition, the minority-owned firms reported more often than the firms not owned by minorities that they had to (1) establish an escrow account controlled by the surety company, (2) hire a CPA or a management or consulting firm selected by the surety company to manage the contract, and (3) enter into an arrangement that allows the surety company to manage the job even when the firm is not in default.

Denials of Bonds

Twenty-one percent of the firms that had obtained bonds between 1990 and 1993 were also denied a bond at least once during that period. As shown in figure 3.8, the minority-owned firms were more likely to have been denied a bond than the firms not owned by minorities.

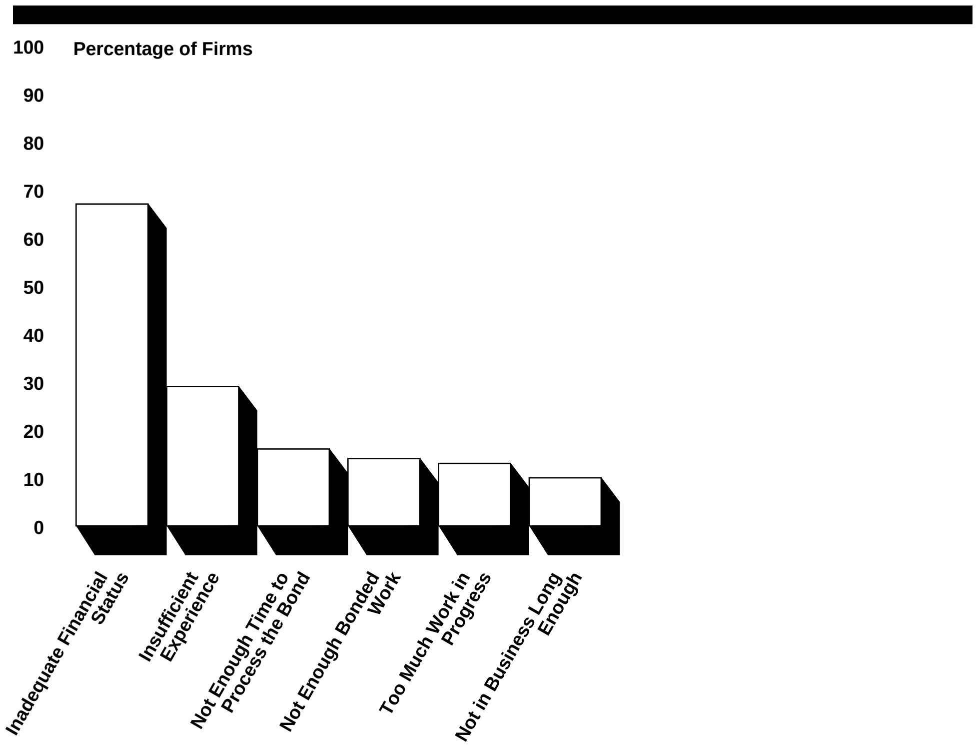
Figure 3.8: Minority-Owned Firms and Firms Not Owned by Minorities Denied a Bond Since 1990



Source: Table 3.16b, GAO/RCED-95-173S.

According to the firms that had been denied bonds, the agent most commonly cited the firms' financial condition or lack of construction experience as the reason for denying a bond, as shown in figure 3.9. The smallest firms were more likely than the other firms to identify "don't do enough bonded work" and "firm not in business long enough" as the reasons for denying the firm a bond.

Figure 3.9: Reasons Firms Cited as Agent's Explanation for Most Recent Bond Denial Since 1990



Note: Respondents could cite more than one reason. Other reasons were each cited by fewer than 10 percent of the firms.

Source: Table 3.17a, GAO/RCED-95-173S.

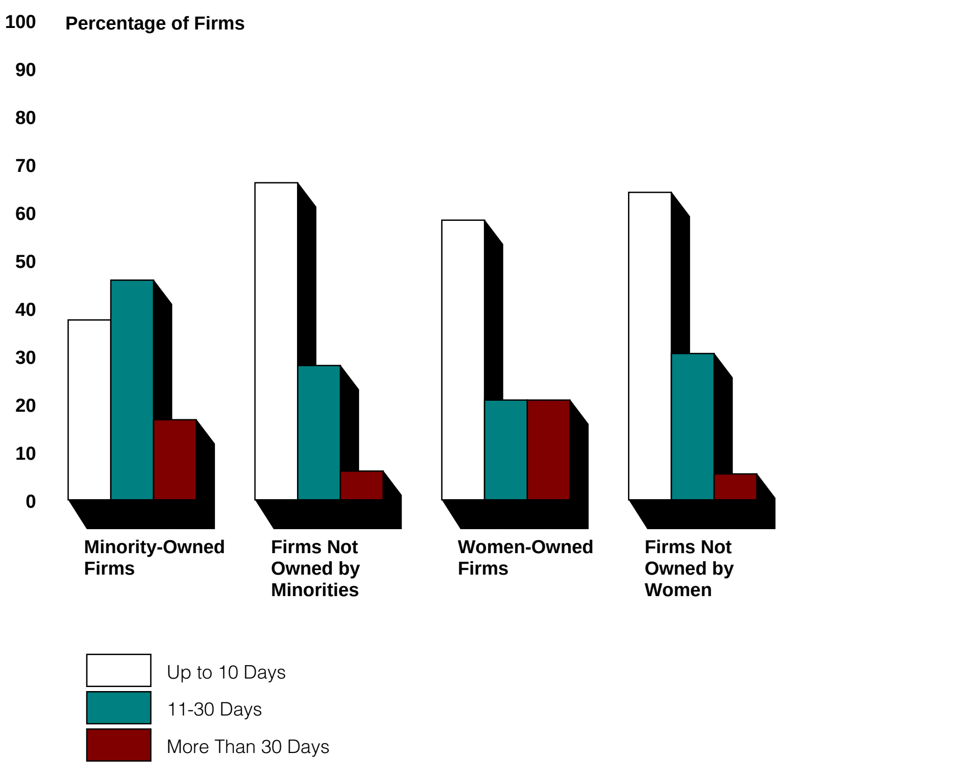
The minority-owned firms, like the firms not owned by minorities, most commonly reported being told that their financial status or lack of specific construction experience was the reason a bond was denied. Other reasons were cited by fewer than 10 percent of the firms not owned by minorities but were more likely to be cited by the minority-owned firms. These firms were more likely to report being told that they needed to complete current work or that a bond was being denied because they could not obtain a government guarantee. The minority-owned firms were also more likely to say that the reasons given to them were not clear or understandable.

The women-owned firms also commonly reported being told that their financial status or lack of specific construction experience was the reason a bond was denied. However, the women-owned firms were more likely to report that they were told the bond had been denied because the firms "chose not to make changes in business practices or meet other conditions required by the surety."

Most of the firms—85.2 percent—reported being told the reasons a bond was denied orally, while the remaining 14.8 percent said they were provided with at least one reason in writing. Both the minority-and women-owned firms more frequently reported being given at least one reason for their most recent denial in writing.

About two thirds—62.7 percent—of the firms were denied bonds within 10 days of applying. However, these denials took longer for the women-owned and minority-owned firms than for other firms, as figure 3.10 illustrates.

Figure 3.10: Length of Time It Took for Most Recent Bond Request to Be Denied, by Ownership of Firm



Source: Tables 3.19b and 3.19c, GAO/RCED-95-173S.

Perceptions of Changes in Bonding Requirements

Surety company officials told us that bonding requirements had tightened significantly in the late 1980s as a consequence of large losses during that period. However, they said that the situation in the 1990s is different, resulting in a relaxation of requirements for obtaining a bond.

Nevertheless, most of the small firms perceived that the surety companies' requirements had tightened or stayed the same over the past 5 years.[3] In summary,

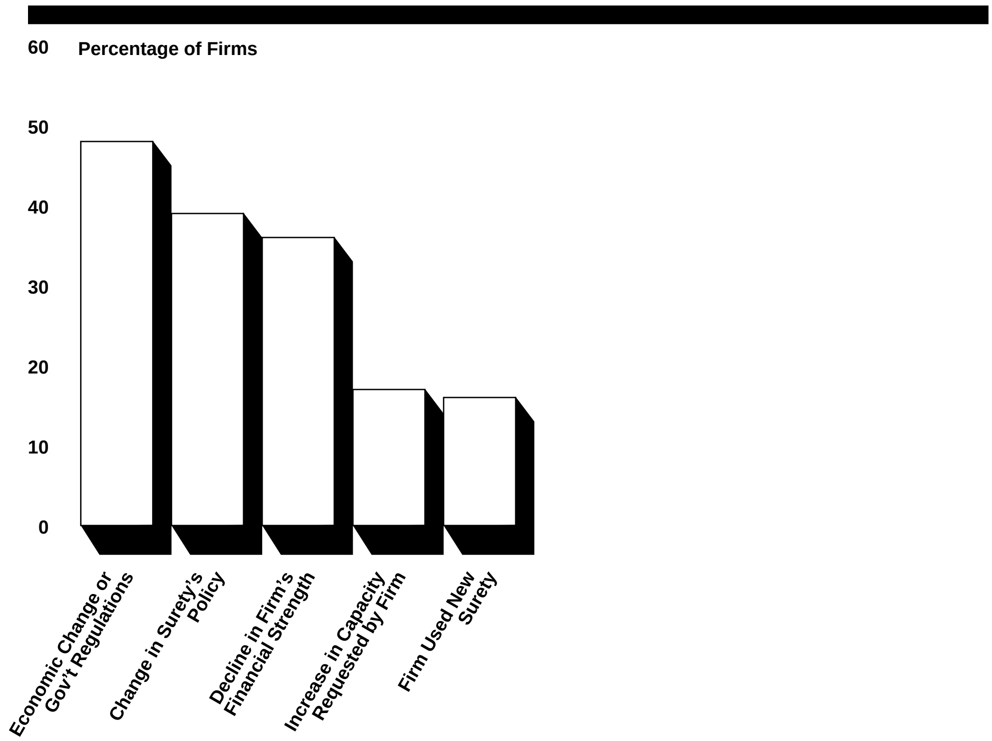
- 43.5 percent of firms perceived that the surety companies had tightened the requirements for obtaining a bond,
- 42.9 percent perceived that the surety companies' requirements had remained the same, and
- 13.6 percent thought that the surety companies had relaxed their requirements.

The firms' perceptions of changes in bonding requirements differed depending on the size of the firm. The larger firms were more likely than the other firms to say the requirements had been relaxed.

As shown in figure 3.11, the firms most frequently said that the surety agent told them that economic conditions, new government regulations, changes in the surety company's policy, or a decline in the firm's financial strength had caused the tighter requirements.

[3]Our survey data were collected from February through July 1994.

Figure 3.11: Reasons Firms Cited as Agent's Explanation for Tightening of Bonding Requirements



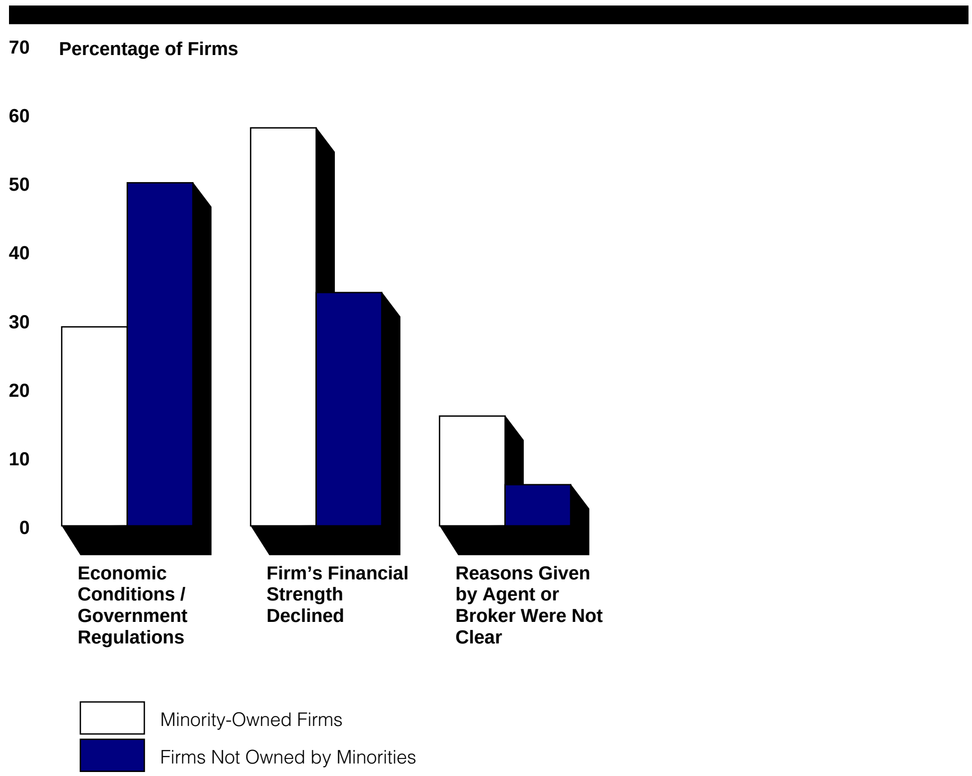
Note: Respondents could cite more than one reason. Other reasons were each cited by fewer than 10 percent of the firms.

Source: Table 3.22a, GAO/RCED-95-173S.

The minority-owned firms more frequently viewed the requirements as having been tightened. As shown in figure 3.12, these firms were more likely than the firms not owned by minorities to cite their declining financial strength as the explanation the agent gave them for this tightening. In contrast, these firms were less likely than the firms not owned by minorities to cite general economic conditions and government regulations as the agent's explanation.

Both the minority- and women-owned firms were more likely than the other firms to say that the reasons the agent gave them that requirements had been tightened were not clear.

Figure 3.12: Reasons Minority-Owned Firms and Firms Not Owned by Minorities Cited as Agent's Explanation for Tightening of Bonding Requirements



Source: Table 3.22b, GAO/RCED-95-173S.

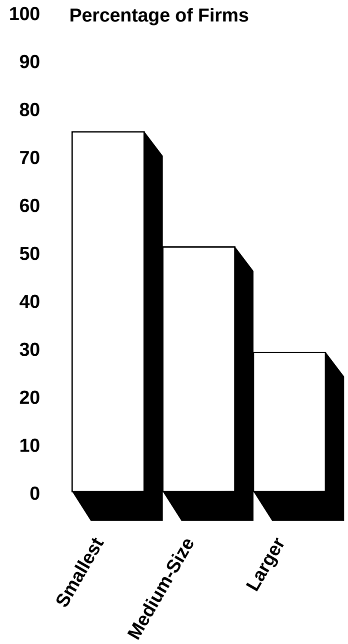
Fees Paid for Surety Bonds

Construction firms sometimes pay two fees, one for a bid bond, which prequalifies the firm to obtain a performance and payment bond, and the other for the payment and performance bond.

Fees Paid for Bid Bonds

About half of construction firms paid a fee just for the opportunity to bid on a job that required a bond in 1993, while the remainder paid nothing for bid bonds. The smallest and middle-size firms were more likely to pay a fee for bid bonds than the larger firms, as shown in figure 3.13.

Figure 3.13: Percentage of Firms That Paid for Bid Bonds in 1993, by Size of Firm



Source: Table 3.23a, GAO/RCED-95-173S.

The firms that paid for bid bonds during 1993 reported one or more of three payment arrangements: (1) a flat fee for each bid bond, (2) an annual service fee that covered all bid bonds for the year, and (3) a percentage of the contract amount. In summary, our survey showed the following:

- The flat fees for each bid bond were commonly $200 or less—85.5 percent of the firms paying flat fees paid $200 or less per bid bond under this arrangement.
- For those who paid an average annual service fee, 69.8 percent of the firms paid $200 or less in 1993.
- Of the firms that paid a percentage of the contract amount, about half (50.9 percent) paid 2.5 percent or less and about half paid more.

The larger firms paid lower percentages of the contract amount for bid bonds. In addition, the firms doing special trade construction were more likely to pay for bid bonds (59.1 percent) than the firms in heavy construction (41.7 percent) or in general building construction (44.4 percent).

Fees Paid for Payment and Performance Bonds

The size of the firm significantly affected the fees it paid for payment and performance bonds in 1993. The larger firms paid lower fees for payment and performance bonds, paying 1.60 percent, or $1,600, for the first $100,000 of the contract amount, while the smallest firms paid an average of 3.47 percent, or $3,470, for the first $100,000. Thus, for a payment and performance bond of $100,000, the smallest firms would pay about $1,870 more for the bond.

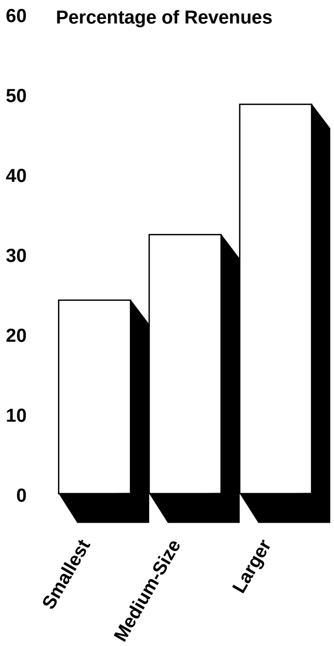
The women-owned firms paid less, on average, than the firms not owned by women for payment and performance bonds. The women-owned firms paid an average rate of 2.07 percent for the first $100,000 of the contract amount, while the firms not owned by women paid an average of 2.45 percent of the contract amount.

The firms doing special trade construction paid higher fees, on average (2.67 percent), than the firms doing heavy construction (2.06 percent) or the firms doing building construction (2.15 percent).

Amount of Bonded Work

About a third of the firms' construction revenues in 1993, on average, came from jobs from which bonds were required. A higher percentage of the larger firms' revenues came from jobs requiring bonds, as shown in figure 3.14.

Figure 3.14: Percentage of Construction Revenues From Jobs Requiring Bonds in 1993, by Size of Firm



Source: Table 3.27a, GAO/RCED-95-173S.

Revenues from jobs for which bonds were required also formed a higher proportion of the total revenues of the minority-owned firms (41.5 percent) than of the firms not owned by minorities (32.2 percent).

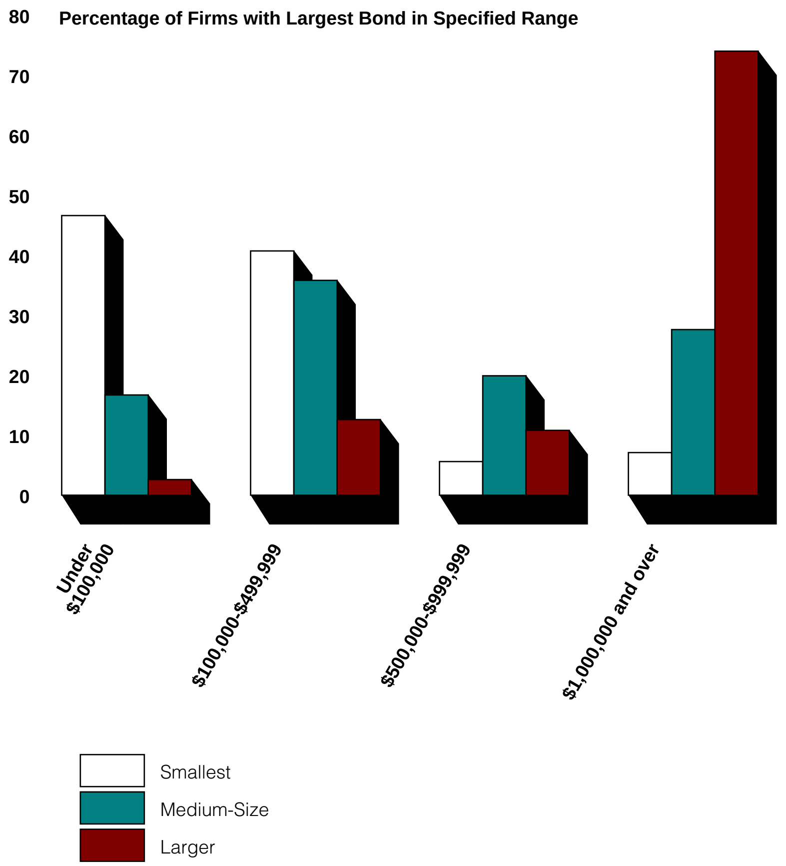
The firms' specialization also affected the amount of revenues they earned from jobs requiring bonds. In summary,

- heavy construction contractors reported that, on average, about half—49.5 percent—of their revenues came from jobs requiring bonds,
- general building construction contractors reported that about two-fifths—39.8 percent—of their revenues came from jobs requiring bonds, and
- special trade contractors reported that only about a quarter—25.5 percent—of their revenues came from jobs requiring bonds.

Changes in Bonding Capacity

Bonding capacity—the largest bond a surety company would provide a firm and the aggregated amount of bonds that a surety company would provide at one time—was related to the firm's size. As shown in figure 3.15, the larger firms had, as would be expected, a larger bonding capacity, as measured by the largest bond obtained.

Figure 3.15: Distribution of Bonding Capacity by Size of Firm, 1993



Source: Table 3.29a, GAO/RCED-95-173S.

Generally, the firms that reported bonding capacity in both 1990 and 1993 doubled their capacity over that 3-year period, on average. However, the firms varied considerably in this regard. In summary,

- 42.1 percent of the firms increased the aggregate amount of their bonds, and 44.6 percent increased the amount of their largest bond;
- for 13.5 percent of the firms, the aggregate amount of their bonds declined, and for 17.9 percent, the amount of their largest bond decreased; and
- the bonding capacity of the remaining firms did not change.

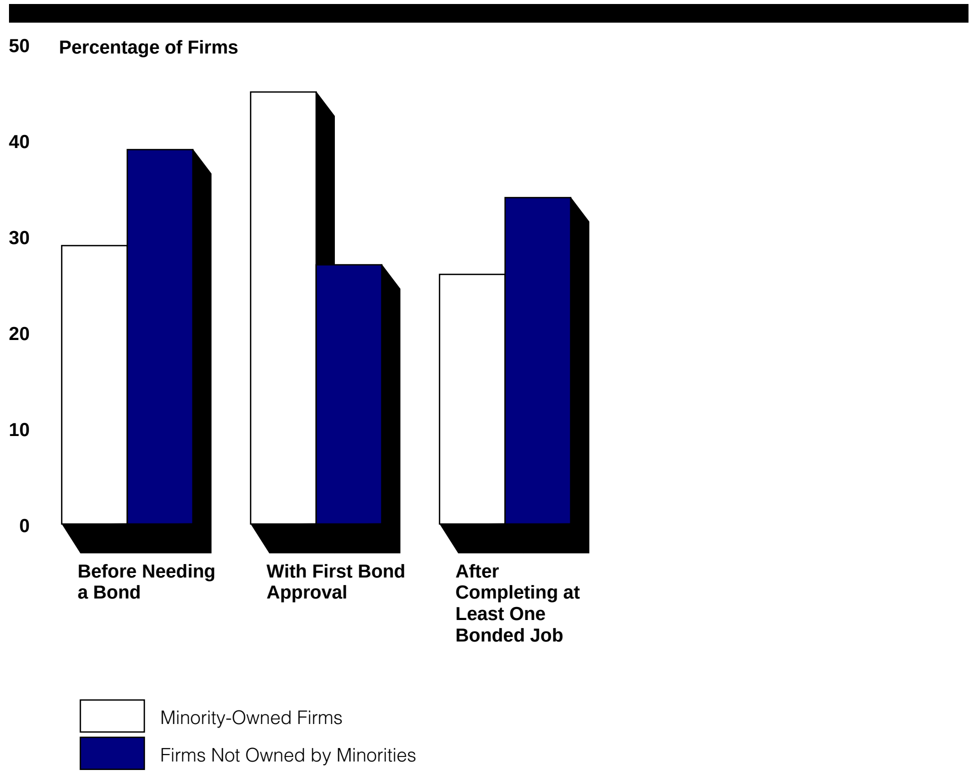
The medium-size and larger firms were more likely than the smallest firms to have increased their bonding capacity both in terms of aggregate amount and their largest bond. However, the proportionate growth in bonding capacity between 1990 and 1993 did not differ significantly for firms of different sizes.

Approved Bonding Lines

The total amount of bonds that a surety company is willing to provide to a firm is often communicated through an approved bonding line. About two-thirds of the firms reported that they had an approved bonding line. While the majority of these firms (62.2 percent) reported that they had received a bonding line at the time of their first bond request or after completing one or more jobs requiring bonds, 37.8 percent had received a bonding line before they needed a bond.

The minority-owned firms were more likely to receive their first bonding line when their first bond was approved, as shown in figure 3.16. The other firms were more likely to receive a bonding line before they needed a bond or after completing at least one job for which a bond was required.

Figure 3.16: Timing of Bonding Line Approval for Minority-Owned Firms and Firms Not Owned by Minorities

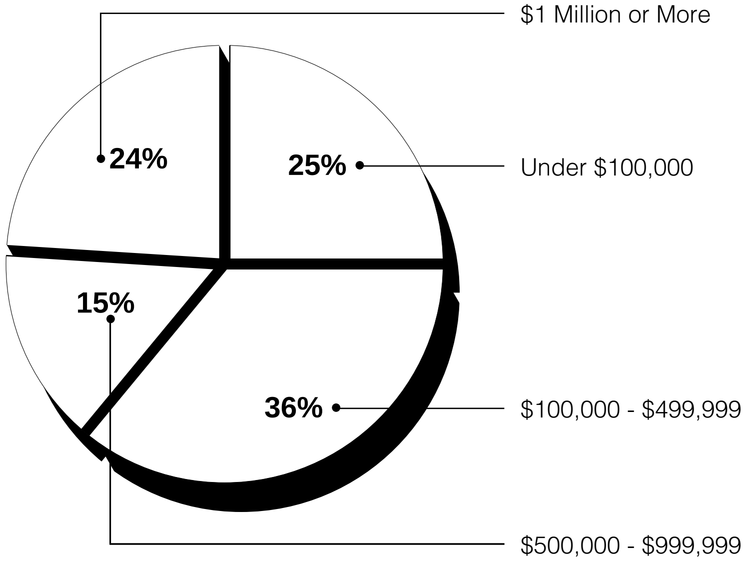


Source: Table 3.35a, GAO/RCED-95-173S.

Largest Bond Obtained in 1993

As shown in figure 3.17, about 25 percent of the small construction firms with recent bonding experience obtained only bonds valued under $100,000 in 1993.

Figure 3.17: Largest Bond Obtained in 1993



Source: Table 3.36a, GAO/RCED-95-173S.

To revise and streamline federal procurement, the Congress passed the Federal Acquisition Streamlining Act of 1994. One of the act's provisions increased the minimum value of federal construction contracts for which surety bonds are required from $25,000 to $100,000, effective in October 1995. This new bonding threshold could eliminate the need for bonding for a number of small construction firms doing business with the federal government.

Characteristics of Firms That Had Not Obtained Bonds

Most of the firms that had not obtained bonds reported that they were not required to have bonds or did not bid on jobs requiring bonding.[1] Overall, the firms that did not obtain bonds

- had annual revenues averaging $391,000—77.8 percent had annual revenues under $500,000;
- had an average of 15.4 years of construction experience;
- were more likely to have their primary line of business in special trade construction; and
- were more likely to perform more work as a subcontractor than working directly for owners.

Of the firms that had never obtained bonds, 6.5 percent were owned by minorities and 7.5 percent were owned by women. In summary, these minority- and women-owned firms

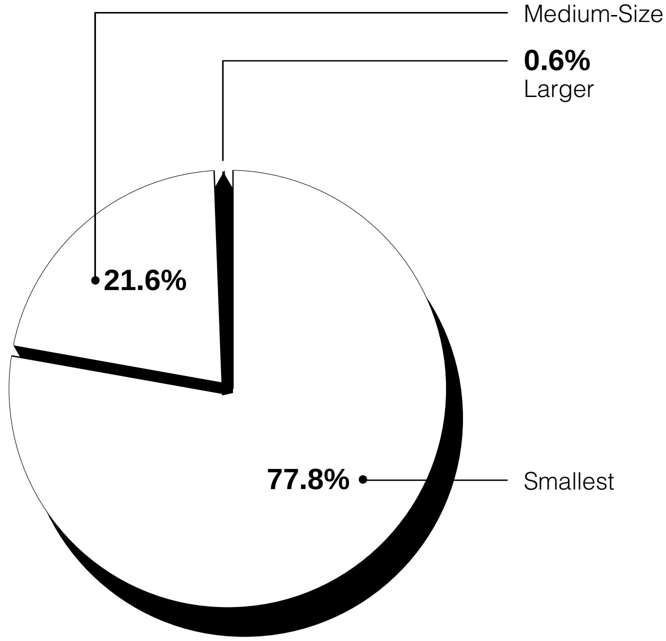
- had an average of 2 years' less construction experience than the firms not owned by minorities or women;
- were less likely to say they did not obtain bonds because they were not required to have bonds or did not bid on jobs requiring bonds; and
- were more likely to say they did not obtain bonds because they did not believe the firm would be able to get bonds, so they did not ask for them.

Size and Ownership

The smallest firms accounted for nearly 77.8 percent of the firms that had never obtained bonds. On the other hand, the larger firms made up only 0.6 percent of the firms that had never obtained bonds, as shown in figure 4.1.

[1]The results described in this section generalize to an estimated 157,306 firms.

Figure 4.1: Breakdown of Firms That Had Never Obtained Bonds, by Size



Source: Table 4.1, GAO/RCED-95-173S.

The minority- and women-owned firms made up a small proportion of the firms that had never obtained bonds. In summary,

- 6.5 percent of the firms that had never obtained bonds were owned by minorities and
- 7.5 percent of the firms that had never obtained bonds were owned by women.

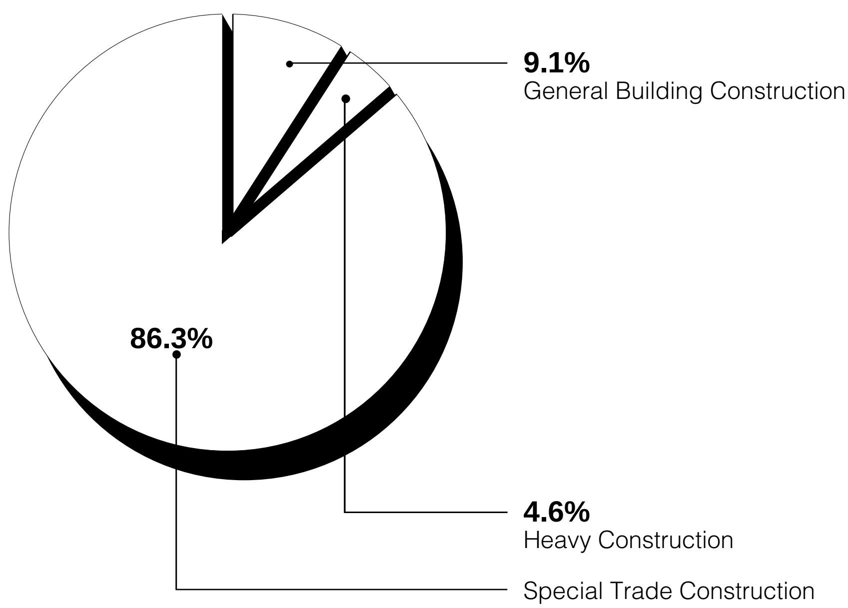
Construction Experience

The firms that had never obtained bonds had an average of 15.4 years of experience. The minority- and women-owned firms had an average of about 13 years of construction experience, while the other firms averaged about 15 years of experience.

Type of Work

The general building and special trade contractors were more likely to never have obtained bonds than the heavy construction contractors. As shown in figure 4.2, the general building contractors made up nearly 9.1 percent of the firms that had never obtained bonds, and the special trade contractors made up 86.3 percent of such firms.

Figure 4.2: Breakdown of Firms That Had Never Obtained Bonds, by Specialty

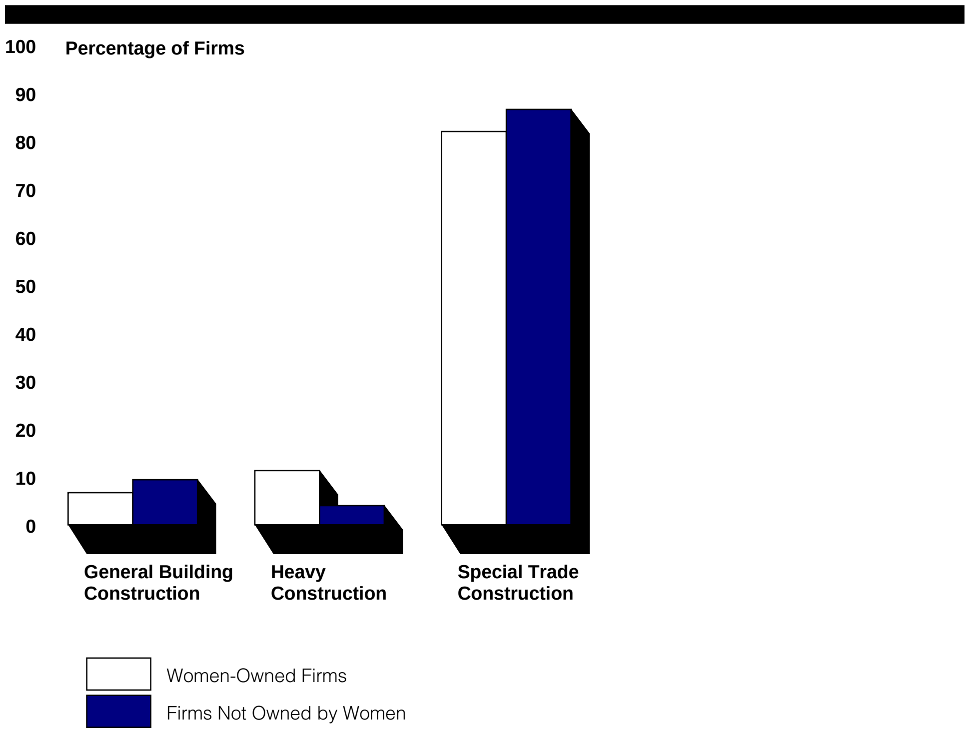


Source: Table 4.3a, GAO/RCED-95-173S.

For the firms that had never obtained bonds, we did not find any significant difference between the minority-owned firms and the firms not owned by minorities with regard to the type of work they performed.

The women-owned firms that had never obtained bonds were most likely to perform special trade construction work. Also, the women-owned firms were more likely than the firms not owned by women to perform heavy construction work. As shown in figure 4.3, 11.3 percent of the women-owned firms worked primarily in this area, compared with 4.0 percent of the firms not owned by women.

Figure 4.3: Specialization of Firms That Had Never Obtained Bonds, by Gender of Owner



Source: Table 4.3c, GAO/RCED-95-173S.

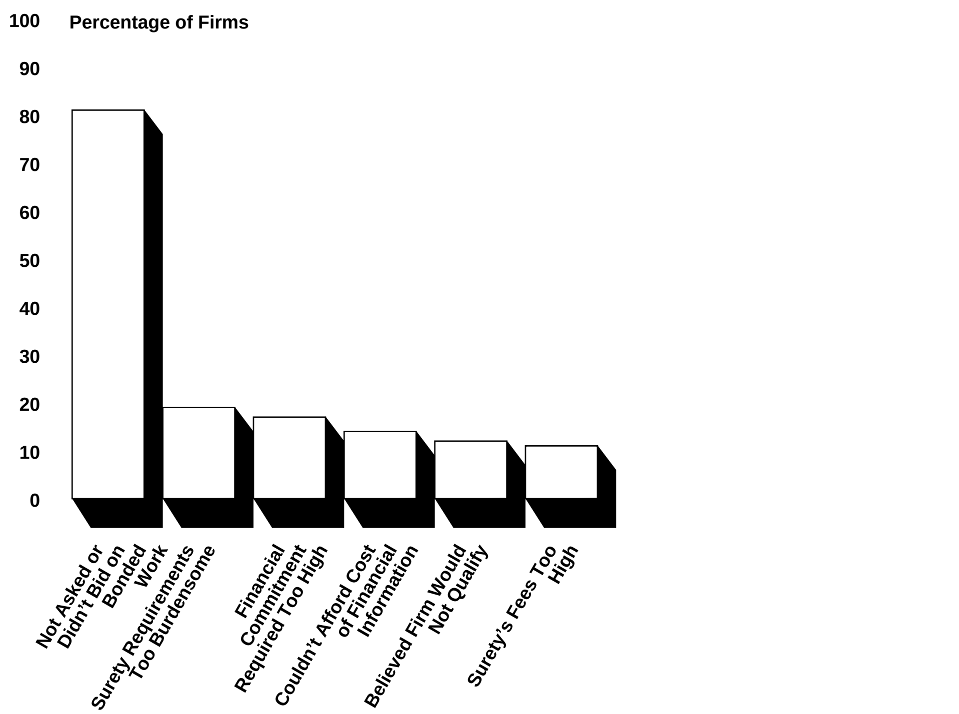
The firms that had never obtained bonds performed more work as subcontractors than as general contractors working directly for owners. That is, in 1993

- 55.1 percent of the firms received a greater portion of their revenues from subcontracting work than from work done directly for owners,
- 38.5 percent received a greater portion of their revenues from work done directly for owners, and
- the remaining 6.4 percent received equal portions of their revenues from work as subcontractors and as general contractors working directly for owners.

Reasons for Not Obtaining Bonds

The principal reason the firms gave for not obtaining bonds was that they were not required to have bonds or did not bid on jobs requiring bonds. As shown in figure 4.4, five other reasons were each cited by at least 10 percent of the firms.

Figure 4.4: Reasons Firms Gave for Not Obtaining Bonds



Note: Respondents could cite more than one reason. Other reasons were each cited by fewer than 10 percent of the firms.

Source: Table 4.5a, GAO/RCED-95-173S.

The firms owned by minorities and women gave some of the same reasons for not obtaining bonds as the firms not owned by minorities and women. However, the ethnicity or gender of the firms' owners affected the frequency with which they cited some of these reasons. In summary, the

- minority- and women-owned firms were less likely to say that they were not required to obtain bonds or did not bid on bonded jobs;

- minority- and women-owned firms were more likely to say that they believed their firm would not be able to get bonds, so did not ask for them;
- minority-owned firms were more likely to use cash instead of bonds to secure construction contracts; and
- women-owned firms were more likely to say that they had performed work in partnership or in a joint venture with a firm that was bonded.

Scope and Methodology

Using the baseline information required by the Small Business Access to Surety Bonding Survey Act of 1992 as a starting point, we developed a questionnaire. In developing this questionnaire, we solicited input from the American Subcontractors Association, Association of General Contractors, National Association of Minority Contractors, Women Construction Owners and Executives, National Association of Surety Bond Producers, Hispanic American Construction Industry Association, and Small Business Administration (SBA). To pretest the questionnaire, we held over 50 meetings with construction firms around the country. Among other things, these firms told us that they would be unwilling to provide financial information other than information on sales and that a request for such information might discourage them from responding to other questions. The financial status of a firm is a key factor in a surety company's decision to approve a bond.

We then selected a simple random sample of 12,000 companies from the Dun & Bradstreet list of 683,198 firms in the construction industry, excluding general contractors primarily involved in residential building construction, as of December 31, 1993. Firms doing primarily residential building construction and development were eliminated from the study because they were not as likely as other firms to be asked to obtain bonds. Excluding this large group (249,178 firms) enabled us to reduce the size of our sample, and therefore the cost of the survey, in order to obtain reliable estimates for firms with bonding experience.

We sent the final questionnaire to each firm in the sample. We alerted recipients by postcard before sending out the questionnaire and mailed up to two follow-up questionnaires to firms that did not respond to our initial request. We conducted the survey from February to July 1994, with follow-up mailings in March and April 1994. Of the firms in our sample, 16.9 percent did not respond to the questionnaire because they were out of business or not doing construction work, or we were unable to obtain a current address for them. Of the remaining 9,964 firms, 50.2 percent responded to the questionnaire.

To determine if the nonrespondents differed from the respondents in their experiences with bonds, we randomly sampled 800 firms that had not responded by May 13, 1994, to contact by telephone. We excluded from the sample those firms that were out of business or not doing construction work. We made up to four attempts to reach each firm by telephone. From this effort, we identified another large percentage of firms—29.5 percent—that were out of business or for whom we were unable to locate a valid telephone number. Of the remaining 564 firms, 52.0 percent responded to the telephone survey. Only 38.2 percent of these respondents had obtained a bond or had an approved bonding line. We used the results from our telephone survey to increase the accuracy of our estimate of the number of small firms that had obtained bonds.

Because our questionnaire did not ask for confidential financial information, we acquired whatever financial data were available on the sampled firms from Dun & Bradstreet's Research and Regulatory File. This information included historical sales data for all of the sampled firms and financial statements for 3,017 of the firms. We matched the firms' financial records to data from the survey. The survey respondents with bonding experience were more likely than the firms in other response categories to have financial statements on file at Dun & Bradstreet. Financial information was available for only 36.6 percent of the firms with bonding experience.

Definitions

We determined the ethnicity and gender of the owners of the firms using their answers to the following two questions on our questionnaire:

- "Is 51% or more of the firm owned by one or more of the following minority groups: Black or African American, Hispanic, Asian, American Indian or Native American, or Pacific Islander?"
- "Is 51% or more of the firm owned by women?"

We determined the size of the firms by calculating their average annual construction revenues for 3 years before the date of the survey. When revenues for 3 years were not available, we used average revenues for 2 years or the firms' revenues for the most recent year. For those firms that did not answer our question about revenues, we used Dun & Bradstreet's historical sales data to calculate similar averages. We determined that these data were reliable indicators of responses to our questions on revenues. We then grouped firms into the following categories:

- the smallest firms—those with average annual revenues less than or equal to $500,000;
- medium-size firms—those with average annual revenues over $500,000 and up to $3.5 million;
- the larger firms—those with average annual revenues over $3.5 million, up to the maximum allowed for eligibility in SBA's programs as a small business; and

- the largest firms—those with average revenues that exceed SBA's size standards for small businesses. We excluded these firms from our analysis since they did not meet the eligibility requirements for SBA's programs. (Less than 2 percent of the firms fell into this category.)

We defined firms with "bonding experience" as those that had one or more of the experiences mentioned in the following question: "Has your firm ever provided a bid bond, a performance or payment bond or had a pre-approved bonding line?"

Industry's Views

We met with representatives of industry and surety associations, surety companies, and public agencies to understand how the construction and surety industries operate. These groups included AMWEST Surety Insurance Company, the American Subcontractors Association, the Fidelity and Deposit Company of Maryland, the Hispanic American Construction Industry Association, the Latin American Management Association, the Maryland Small Business Development Financing Authority, the Minority Business Development Agency, the National Association of Minority Contractors, the National Association of Surety Bond Producers, the New York Surety Company, the Surety Association of America, the American Surety Association, United States Fidelity and Guaranty, Universal Bonding Insurance Company, the Women Construction Owners and Executives, and the Small Business Administration (SBA).

Limitations of the Survey Data

Our results generalize to at most 276,866 (+/- 6,001) small construction firms that would have answered our survey had we mailed our questionnaire to all companies. This number represents about half of the firms currently in business, primarily in construction, and identified as such by Dun & Bradstreet. Our results do not generalize to firms that would not have responded to our survey, which are more likely to be smaller and to work in special trades and which are less likely to have financial statements on record with Dun & Bradstreet than the responding firms. According to our telephone survey, they are also less likely to have had bonding experience. Our results also do not generalize to firms that have gone out of business; the newest/youngest firms, which have not been in business long enough to be identified by Dun & Bradstreet; or general contractors for and builder/developers of single-family residences, which we excluded from our review. Our results also do not generalize to the largest firms; that is, those with annual revenues exceeding SBA's size standards for small businesses.

As with all sample surveys, our statistical estimates contain sampling error—potential error that arises from not collecting data on all firms. Statistically, sampling error is the amount by which the results obtained from a statistical sample can be expected to differ from the statistics we are estimating. We calculated the amount of sampling error for each estimate at the 95-percent confidence level. This means that if we repeatedly sampled 12,000 firms from the same Dun & Bradstreet file and performed our survey again, 95 percent of the samples would yield results within the ranges specified by our estimates, plus or minus the sampling errors. In calculating the sampling errors, we did not make a correction for sampling from a finite population. The sampling errors for statistics other than percentages (e.g., averages) are also reported in the following tables.

Differences between subgroups that we were interested in, such as the minority-owned firms and the firms not owned by minorities, are mentioned in this report only when they are statistically significant. Statistical significance means that the differences we observed between subgroups are larger than would be expected from sampling error. When this occurs, some phenomenon other than chance is likely to have caused the difference. This report does not identify the causes of significant differences. Statistical significance is absent when an observed difference between two subgroups, plus or minus sampling error, yields a range that includes zero. In this instance, sampling error alone could explain the difference. It should be noted, however, that the absence of a statistically significant difference does not mean that a difference does not exist. The sample size or number of respondents to a question may not have been sufficient to allow us to detect a difference.

Sampling Errors

Sampling errors for the estimates of percentages cited in this report are less than 5 percent unless noted in the following tables. In addition, no estimate is cited if the estimate is negative once the sampling error is considered. The sampling errors for statistics other than percentages (e.g., averages) are also reported in the following tables in the order in which they appear in the report.

Table I.1: Estimates and Sampling Errors for Statistics Presented in Section 1

Description	Estimate	Sampling error
Estimated minimum percentage of firms that had obtained bonds or had a bonding line	23.4 percent	1.1 percent
Estimated minimum number of firms that had obtained bonds or had a bonding line	159,807	7,857

Table I.2: Estimates and Sampling Errors for Statistics Presented in Section 2

Description	Estimate	Sampling error
Estimated number of firms that had obtained bonds	119,560	4,645
Average annual revenues	$1,569,840	$98,680
Average construction experience	20.4 years	0.7 years
Average difference in construction experience between firms owned by minorities and firms not owned by minorities	6.1 years	1.9 years
Average construction experience of smallest firms (fig. 2.2)	18.99 years	0.89 years
Average construction experience of medium-size firms (fig. 2.2)	20.07 years	0.94 years
Average construction experience of larger firms (fig. 2.2)	26.16 years	2.49 years
Average construction experience of minority-owned firms (fig. 2.2)	14.69 years	1.73 years
Average construction experience of firms not owned by minorities (fig. 2.2)	20.83 years	0.70 years
Average construction experience of firms owned by women (fig. 2.2)	18.51 years	1.76 years
Average construction experience of firms not owned by women (fig. 2.2)	20.68 years	0.71 years

Table I.3: Estimates and Sampling Errors That Exceed 5 Percent for Percentages Presented in Section 2

Description	Estimate (percent)	Sampling error (percent)
Minority-owned firms with average annual revenues up to $500,000	51.4	8.1
Minority-owned firms specializing in general building construction (fig. 2.4)	20.5	6.5
Minority-owned firms specializing in heavy construction (fig. 2.4)	21.9	6.7
Minority-owned firms specializing in special trade construction (fig. 2.4)	57.5	8.0
Minority-owned firms obtaining their first bond before 1990 (fig. 2.5)	58.3	8.1
Minority-owned firms obtaining their first bond in 1990-93 (fig. 2.5)	41.7	8.1
Women-owned firms obtaining their first bond before 1985 (fig. 2.6)	44.8	6.5
Women-owned firms obtaining their first bond since 1985 (fig. 2.6)	55.2	6.5

Table I.4: Estimates and Sampling Errors That Exceed 5 Percent for Percentages Presented in Section 3

Description	Estimate (percent)	Sampling error (percent)
Larger firms seeking first bond in 1990-93 that said their bonding agent had explained requirements to them to a great or very great extent	59.4	15.8
Smallest firms seeking first bond in 1990-93 that said their bonding agent had explained requirements to them to a great or very great extent	38.6	7.3
Firms reporting up to 10 days for approval of first bond in 1990 or later	52.3	5.4
Minority-owned firms that lost an opportunity to bid in 1993 because bond request was not processed in time	43.9	9.8
Women-owned firms required to provide CPA reviews of financial statements (fig. 3.4)	84.2	5.5
Women-owned firms required to provide corporate tax returns (fig. 3.4)	71.3	6.8
Minority-owned firms required to provide collateral	36.8	9.2
Minority-owned firms required to hire a financial management firm, consulting firm, or CPA selected by surety company	9.5	5.6
Minority-owned firms required to establish an escrow account controlled by the surety company	12.4	6.3

(continued)

Description	Estimate (percent)	Sampling error (percent)
Minority-owned firms required to enter into an arrangement that gives surety company right to manage job being bonded, even when firm is not in default	7.6	5.1
Bonded minority-owned firms that have been denied bonds at least once since 1990 (fig. 3.8)	35.5	9.1
Firms reporting they were last denied a bond, since 1990, because their financial status was not good enough (fig. 3.9)	66.7	5.6
Firms reporting they were last denied a bond, since 1990, because they had never done that large a job, never worked in that location before, or never done that kind of work (fig. 3.9)	29.3	5.4
Small firms reporting up to 10 days for most recent bond denial	62.7	6.8
Minority-owned firms reporting up to 10 days for most recent bond denial (fig. 3.10)	37.5	19.4
Minority-owned firms reporting 11-30 days for most recent bond denial (fig. 3.10)	45.8	19.9
Minority-owned firms reporting more than 30 days for most recent bond denial (fig. 3.10)	16.7	14.9
Firms not owned by minorities reporting up to 10 days for most recent bond denial (fig. 3.10)	66.1	7.2
Firms not owned by minorities reporting 11-30 days for most recent bond denial (fig. 3.10)	28.0	6.8
Women-owned firms reporting up to 10 days for most recent bond denial (fig. 3.10)	58.3	19.7
Women-owned firms reporting 11-30 days for most recent bond denial (fig. 3.10)	20.8	16.2
Women-owned firms reporting more than 30 days for most recent bond denial (fig. 3.10)	20.8	16.2
Firms not owned by women reporting up to 10 days for most recent bond denial (fig. 3.10)	64.1	7.3
Firms not owned by women reporting 11-30 days for most recent bond denial (fig. 3.10)	30.5	7.0
Minority-owned firms reporting economic conditions or government regulations as a reason for surety company's tightening of bonding requirements over last 5 years (fig. 3.12)	29.1	12.0
Minority-owned firms reporting a decline in their firm's financial strength as a reason for surety company's tightening of bonding requirements over last 5 years (fig. 3.12)	58.2	13.0

(continued)

Description	Estimate (percent)	Sampling error (percent)
Minority-owned firms reporting that reasons given by agent or broker for tightening of bonding requirements over last 5 years were not clear (fig. 3.12)	16.4	9.8
Smallest firms paying for bid bonds in 1993 (fig. 3.13)	74.5	5.9
Larger firms paying for bid bonds in 1993 (fig. 3.13)	29.5	6.3
Firms paying annual service fees of $200 or less for bid bonds	69.8	7.4
Firms paying percentage of contract amount to bid that paid 2.5 percent or less for each bid bond	50.9	7.8
Firms doing heavy construction that paid for bid bonds in 1993	41.7	7.2
Firms doing general building construction that paid for bid bonds in 1993	44.4	6.2
Smallest firms with largest bond capacity under $100,000 (fig. 3.15)	46.6	6.0
Smallest firms with largest bond capacity between $100,000 and $499,999 (fig. 3.15)	40.7	5.9
Larger firms with largest bond capacity of $1,000,000 or more (fig. 3.15)	74.0	5.7
Minority-owned firms receiving their first approved bonding line before ever needing a bond (fig. 3.16)	28.6	11.8
Minority-owned firms receiving their first approved bonding line with their first bond approval (fig. 3.16)	44.6	13.0
Minority-owned firms receiving their first approved bonding line after completing at least one bonded job (fig. 3.16)	26.8	11.6

Table I.5: Estimates and Sampling Errors for Statistics Other Than Percentages Presented in Section 3

Description	Estimate	Sampling error
Estimated number of firms that had recent experiences in obtaining bonds	84,491	4,024
Average fee[a] paid by larger firms for first $100,000 of contract amount for performance and payment bonds	1.60 percent	0.14 percent
Average fee paid by smallest firms for first $100,000 of contract amount for performance and payment bonds	3.47 percent	0.39 percent
Average fee paid by women-owned firms for first $100,000 of contract amount for performance and payment bonds	2.07 percent	0.17 percent
Average fee paid by firms not owned by women for first $100,000 of contract amount for performance and payment bonds	2.45 percent	0.14 percent
Average fee paid by firms doing special trade construction for first $100,000 of contract amount for performance and payment bonds	2.67 percent	0.20 percent
Average fee paid by firms doing heavy construction for first $100,000 of contract amount for performance and payment bonds	2.06 percent	0.26 percent
Average fee paid by firms doing general building construction (excluding residential construction) for first $100,000 of contract amount for performance and payment bonds	2.15 percent	0.18 percent
Overall average percentage of firms' 1993 construction revenues that came from jobs requiring bonds	32.8 percent	1.81 percent
Average percentage of larger firms' 1993 construction revenues that came from jobs requiring bonds (fig. 3.14)	48.7 percent	4.47 percent
Average percentage of medium-size firms' 1993 construction revenues that came from jobs requiring bonds (fig. 3.14)	32.4 percent	2.41 percent
Average percentage of smallest firms' 1993 construction revenues that came from jobs requiring bonds (fig. 3.14)	24.2 percent	3.14 percent
Average percentage of minority-owned firms' 1993 construction revenues that came from jobs requiring bonds	41.5 percent	7.38 percent
Average percentage of 1993 construction revenues of firms not owned by minorities that came from jobs requiring bonds	32.2 percent	1.87 percent
Average percentage of 1993 construction revenues of firms doing heavy construction that came from jobs requiring bonds	49.5 percent	5.07 percent

(continued)

Description	Estimate	Sampling error
Average percentage of 1993 construction revenues of firms doing general building construction that came from jobs requiring bonds	39.8 percent	3.95 percent
Average percentage of 1993 construction revenues of firms doing special trade construction that came from jobs requiring bonds	25.5 percent	2.05 percent
Average ratio of largest bond capacity, 1993 to 1990	1.93	0.30
Average ratio of total program capacity, 1993 to 1990	2.05	0.62

[a]These fees are set as a percentage of the contract amount.

Table I.6: Estimates and Sampling Errors That Exceed 5 Percent for Percentages Presented in Section 4

Description	Estimate (percent)	Sampling error (percent)
Women-owned firms doing special trade construction	82.0	5.4
Minority-owned firms that were not asked to provide bonds since 1990 or did not bid on bonded jobs	73.2	6.9
Minority-owned firms that believed they would not be able to get bonds so did not ask for them	17.8	6.0
Women-owned firms that were not asked to provide bonds since 1990 or did not bid on bonded jobs	70.6	6.5
Women-owned firms that believed they would not be able to get bonds so did not ask for them	18.2	5.5

Table I.7: Estimates and Sampling Errors for Statistics Other Than Percentages Presented in Section 4

Description	Estimate	Sampling error
Estimated number of firms that had not obtained bonds	157,306	5,146
Average annual revenues	$391,129	$24,199
Average construction experience	15.3 years	0.4 years
Average difference in construction experience between firms owned by minorities and firms not owned by minorities	2.0 years	1.5 years
Average difference in construction experience between firms owned by women and firms not owned by women	2.3 years	1.7 years
Average construction experience of firms owned by minorities	13.33 years	1.43 years
Average construction experience of firms not owned by minorities	15.34 years	0.48 years
Average construction experience of firms owned by women	13.09 years	1.86 years
Average construction experience of firms not owned by women	15.44 years	0.46 years

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