



BUSINESS

Here's how small California businesses can compete for big government contracts



The L.A. County Metropolitan Transportation Authority, which hires contractors for projects such as the Purple Line extension seen here, is one of the agencies that can help small businesses expand into government contracting. (Al Seib / Los Angeles Times)

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Adam and Bethany White decided three years ago to pivot their Hawthorne-based cabinetry business from residential clients to more ambitious projects, such as large, government-funded affordable housing developments.

They soon discovered, however, that public works contracting wasn't like [private contracting](#). In particular, there were financial hurdles that seemed insurmountable to a small business like theirs, which has only three to eight full-time employees.

“We knew we had the skills,” Bethany White said. “It really came down to having enough money to float the jobs.”

The solution for the Whites and many other small businesses in Los Angeles County is the [L.A. Regional Contractor Development and Bonding Program](#), which provides financial tools and guidance to help small and disadvantaged companies compete for government contracts. The program made it possible for the Whites’ business, Fixed Dimensions, to win the first of these contracts; Bethany White said it has since landed three more.

The city and county of Los Angeles and the L.A. County Metropolitan Transportation Authority fund the program to help companies compete for the construction work they put up for bid. It’s administered by Merriwether & Williams Insurance Services, which has been running similar efforts in the Bay Area since 1997.

Merriwether Chief Executive Ingrid Merriwether said the point isn’t just to create opportunities for a wider range of contractors — it’s also to save taxpayers money.



CALIFORNIA

Gov. Newsom unveils sweeping plan to speed up California infrastructure projects

May 19, 2023

“This is an investment that increases the pool of contractors that are competing for public works,” most of which are awarded to the lowest bidder, she said. Anything that enables more contractors to submit bids will lower contracting costs, she said; she estimates that the lower bids submitted by companies enrolled in the program have saved \$22 million.

And now is a good time for small businesses and those owned by women or minorities to compete for federal contracts — the 2021 [Infrastructure Investment and Jobs Act](#) provided \$1.2 trillion for multiple years’ worth of transportation, clean energy, climate and communications projects. So far, the federal government has directed [more than \\$20 billion](#) of that pot to [nearly 1,000 projects in California](#).

The law requires at least 10% of its funding for surface transportation projects go to “small business concerns owned and controlled by socially and economically disadvantaged individuals.”

Online resources for becoming a government contractor

Regional contractor development program training videos

Enrolling in the regional contractor development program

Getting certified as a small or disadvantaged business

Critics of government preferences for women- and minority-owned businesses assert that set-asides [raise costs and invite fraud](#), as white-owned and well-established businesses [look for ways to win contracts](#) under false pretenses. In one example of the latter, an investigation by The Times in 2019 found that [\\$300 million worth of federal contracts](#) intended for minority-owned businesses went to business owners with unsubstantiated claims of Native American heritage.

Given how much money is being spent on public works, Merriwether said, “you will always find examples of some businesses trying to take advantage” of the system. But Metro and other public agencies have “a very rigorous certification process to make sure the firms that receive any kind of benefits of the [disadvantaged business preferences] meet the requirements,” she said.

The regional contractor development program works with small businesses that aren’t disadvantaged or minority owned as well as those that are; its target is businesses capable of fulfilling construction contracts of up to \$15 million, Merriwether said. That encompasses a broad variety of firms, including architects, engineers, artists, sign makers, electricians, plumbers, landscapers, job-site clean-up companies and heating and air conditioning installers.

Here are some of the barriers that small businesses face to competing for government contracts, as well as the solutions offered by the regional contractor development program.



CALIFORNIA

To do business with L.A., city contractors now must disclose ties with the NRA

Feb. 12, 2019

The performance bond hurdle

Anyone who [hires a contractor](#) risks having that person quit before the job is done, leaving an expensive mess. That’s why California requires every licensed contractor to carry [a \\$25,000 surety bond](#) that can be tapped if the contractor doesn’t complete the work.

Similarly, governments that put infrastructure projects out for bid require contractors to obtain performance bonds to help guarantee that the work will be completed. (They may also require payment bonds to ensure that

the contractor pays the people it hires to do the work.) In the case of the federal government, the performance bond has to be as large as the original contract amount — in other words, if you're hired for a \$30-million bridge repair, you need to obtain a \$30-million performance bond.

Big companies that the federal government hires as prime contractors typically have no trouble obtaining those bonds. But the companies that sell bonds may be reluctant to serve a small business with considerably smaller revenue and no experience with these sorts of contracts.

Merriwether said it's a Catch-22 for companies trying to break into the field. "Bonding companies are looking for a contractor to demonstrate their capacity for performing public construction work," she said, but small and minority-owned contractors can't show their public-construction chops because they can't get bonded.

That's where the regional contractor development program comes in. It has a pool of money that can be used as collateral to help small businesses obtain bonds that they wouldn't qualify for on their own.

William Jackson, president of Global Electric in Anaheim, said his company cut its teeth as a subcontractor to electrical subcontractors, installing communications equipment on city buses. But there's a cap on the size of contracts that companies like his can compete for, he said: "You're limited by the size of your bonding capability."

Working with the contractor development program, Jackson said, his 25-person company lined up bonds that his company wouldn't have been able to obtain based on its revenue alone. Now Global Electric is installing fiber optics, lighting and more on [Metro's Purple Line extension project](#), he said, with contracts totaling about \$20 million.



CALIFORNIA

Bass issues sweeping directive to fast track affordable housing projects

Dec. 16, 2022

The long wait to get paid

If you've ever hired someone for an expensive repair or remodeling job at your home, you know that your contractor will ask for a portion of the fee upfront, then demand more chunks as the work progresses. You're basically paying for the job as you go along, which allows the contractor to buy materials and pay for labor.

The government doesn't do that. Jackson explained that subcontractors usually submit a pay application at the end of the month, which has to be approved by the higher-tier contractors and then submitted to the government. "It may take 60 to 90, sometimes 120, days to really start receiving payment on a project," he said.

That's a cash-flow nightmare, and unless they have a stack of profits from previous jobs to draw on, contractors will need a line of credit from their bank to cover their expenses. But when Fixed Dimensions sought help on a \$600,000 government-funded contract to supply and install cabinets at a new senior housing complex in Los Angeles, White said, her local bank balked.

"They asked to see additional sources of income. And we said, 'Well, our business is our income,'" White said. Still, the bank insisted that the Whites needed to show more streams of revenue to qualify for a line of credit, which they couldn't do. Despite the large contract, "we weren't really bankable at that point," she said.

"There's no way we could have made payroll each week and continued to operate the business," White said. "You've got to be ready to essentially float three months', four months' worth of payroll. It's just impossible without someone to help you."

Enter the regional contractor development program, which arranged the financing they needed to solve the cash-flow problem. Unlike the bank, the program based its support solely on the size of the Whites' cabinetry contract.

To Jackson, that's the most noteworthy feature of the financing available through the regional program: It's based on the strength of the contract, not the strength of the company. He said the line of credit Global Electric obtained through the program charged modest fees, "and it was instrumental to help us finance these projects."

Merriwether said small contractors often have to rely on high-interest credit cards to pay the bills while waiting for government reimbursement, which piles on costs that can consume their profit margin. "That also then limits their capacity," she added. "If you're a smaller firm, you can't take on multiple projects, and you can't take on very large projects if you have to finance the work yourself."

One reason local governments are investing in services such as the contractor development program, Merriwether said, is to generate a larger supply of contractors capable of doing public construction work, given the ever-increasing demand for them.

White said her goal is to reach the point of becoming "bankable," having enough income to satisfy commercial lenders. In the meantime, though, Fixed Dimensions wants to continue to work with the regional program.

"When you're a growing business and you're still kind of small, and you're going after larger [contracts], I feel like they bridge the gap," she said.



CALIFORNIA

In groundbreaking plan, California allows affordable housing on some commercial properties

Sept. 28, 2022

Dealing with the red tape

Jackson said that besides the bonding and cash-flow challenges, a third issue for small businesses entering the government contracting field is “the administrative support you would need to run a project of that size.”

“You are held to very stringent protocols and very stringent performance measurements,” Jackson said, adding, “It’s very different from residential or commercial” contracts.

“I’ve always wanted to work in the public works space,” he said. “It was just a good fit for my vision of the business. But I was taken aback by ... the steps involved, the documentation involved in performing a public works job.”

The contractor development program tries to help small businesses climb that learning curve by providing technical assistance and support in addition to project financing. This includes connecting the companies they advise with bid opportunities that fit them, helping them complete their bids, and holding seminars with public officials.

The extensive hand-holding has helped keep program participants’ loss ratio — the share of contracts not fulfilled — at less than 0.5%, well below the industry loss ratio of about 20%, Merriwether said. This data point shows how the program is bringing contractors to the table whose shortcoming was their size, not their competence.

As Merriwether noted, small businesses have multiple — and typically free — places to go for training on public works contracting.

For example, she said, large companies that work as prime contractors will put on multi-week training programs for subcontractors, and government agencies will fund community-based organizations to help small businesses become bidders. And L.A. County Public Works has a [dedicated online portal](#) to walk businesses through the requirements of public contracts.

The regional contractor development program does more than just help companies break into the field, Merriwether said. “Our objective is to help them grow and increase their capacity. That means we’re going to help them multiple times,” she said. “We have many contractors who have been participants in the program for a decade or more. ... A contractor doesn’t go from \$1-million [contracts] to \$50-million in a year.”

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