VERDEXCHANGE CONFERENCE

Assisting Small And Diverse Firms In Winning Government Contracts With Ingrid Merriwether

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With federal dollars expected to flow into the Los Angeles region under the Bipartisan Infrastructure Law, many new projects will be up for grabs by contractors. In this interview with ***VX News****,* ***Ingrid Merriwether****, the* ***President and CEO*** *of* ***Merriwether & Williams Insurance Services****, discusses her firm's role in implementing the Los Angeles regional Contractor Development and Bonding Program (CDABP) to help small and diverse businesses win government contracts they otherwise might not be able to receive. Merriwether also mentions how working with these firms can help our region meet diversity, equity, and inclusion (DEI) goals, keep money in the local economy, and reduce overall project costs.*

Ingrid, begin by sharing with our readers your firm's role in the Los Angeles regional Contractor Development and Bonding Program (https://www.lacondev.com/)**.**

Ingrid Merriwether: The Los Angeles regional Contractor Development and Bonding Program, which I know is a long name, is a program designed to coincide with the diversity, equity, and inclusion efforts in terms of public contracting with the City of LA, LA Metro and the County of LA. They have joined together as a regional program to provide technical assistance, financial support, including bonding support, and contract financing support for small and diverse contractors in order to increase their utilization on the construction projects of those agencies. Our firm administers the program on behalf of those three public entities. The regional CDABP is an inclusionary program to build a stronger region.

> "Despite the diversity, equity, and inclusion initiatives, we've been able to prove that the business practice of wanting to have more competition lowers costs." -Ingrid Merriwether, President and CEO of Merriwether & Williams Insurance Services

You've had this kind of relationship for decades. Share with our readers your credentials, why you've been selected, and what excites you about this era that we're in, where diversity, equity inclusion are such a significant factor in the agenda of our policies and programs.

Our firm, Merriwether and Williams (https://imwis.com/), is a licensed insurance brokerage firm. As an insurance broker, we are licensed to provide contractors with bonding, which is seen as one of the significant barriers for contractors to be able to compete for and participate in public works projects because bonding is a form of financial credit. Bonding comes under the insurance industry, and we're an insurance and risk management firm.

Beyond that, it’s more about values. Being a minority-owned firm ourselves, we have a unique affinity to the challenges faced by other diverse firms, particularly those trying to participate in the public contracting arena. Our approach to addressing those barriers is using our industry expertise to apply a new approach to risk management because risk management, intentional or not, serves as a screen out process. Agency standards to mitigate risk generally screen out a significant percentage of the folks who might otherwise want to be considered for contracts. We have something called an “aligned risk management” approach, where you can achieve the objectives of mitigating risk and still achieve participation from small and diverse contractors. The two are not mutually exclusive.

We've been able to demonstrate how that can be accomplished by extending resources enabling their participation, and then mitigating their risk of defaulting through certain risk mitigation practices that we bring about in our administration of these programs.

What are your processes utilized to de-risk these construction projects?

First of all, we assess contractors who enroll in our program so that we have a really good, thorough understanding of where they are in the lifecycle of their business, where they may have areas of challenge, and how to help improve those areas and better position them. We take a different perspective at those areas such as bonding and financing that have been systemic and institutional barriers. Otherwise, we'd reach the same conclusion that everybody else does and say they're not qualified. The lens we look through is more: here's an area that may be perceived as a weakness. What can we do to improve that area? What risk mitigation practice will offset perceived or legitimate risks?

Then, when they have identified a project that they want to bid on, we help them assess that project in terms of its fit to their current capacity. Is that an appropriate size project for them to pursue? Are the bid or contract requirements achievable at minimal risk to their business and the agency? We give them guidance in these areas before they seek out work and once they've identified an opportunity and they want to bid.

Let's say they can't qualify on their own for a bond to bid that project. Then, we step in and determine whether it's appropriate to give them collateral support to help them qualify. That’s where our public entity sponsors provide bond guarantee support on their behalf to help them qualify for a bond that they would not otherwise qualify for.

In the event that they bid the work and they're awarded the project, that's when we go into risk mitigation mode to make sure that we're working with that contractor all the way through contract completion to support them and help them address issues that might arise. Because we're hired by the public agency, who is essentially the owner of the project, we're in an ideal position to bring attention to circumstances that might be occurring on the project that might negatively impact the contractor we're assisting. Then, we can bring the public agency or a prime contractor to bear to help us address these circumstances, get things back on track, and ensure successful completion of the contract and further capacity building of the contractor.

Let me ask you a provocative question. As a firm, you don't have any risk? Is that fair to say?

Well, we don't have any risk in terms of the financial resources extended to these contractors. Our risk is that if we had too many failures and defaults, no one would adopt our program. In this way, there's an indirect risk that the performance of our programs is what enables us to put more programs in place and be hired to do this work, but we don't have any direct risk in conjunction with the contractor. As an insurance broker, you don't take direct risks. Risks are borne by insurance carriers, bonding companies and in the case of bond guarantees – our program sponsors.

You've been doing this for decades. What have you learned about doing the job that you do for your public entities?

We've learned a couple of things. One is just a testament to the reality that these contractors who are generally perceived as less qualified, less sophisticated, have less capacity: we've seen and proven otherwise. We have only had two contractors in 25 years fail to complete their contracts. Our loss ratio in our programs is less than 1 percent. The industry loss ratio is around 20 percent. Despite perception, these contractors have the aptitude, attitude, and competency to successfully complete this work.

We’ve also learned and can illustrate the cost savings that can inure from these programs for the public entity sponsors – and by extension the taxpayers who fund public construction. Cost savings are an important factor to understand. Public agencies award construction, for the most part, on a low bid basis. The lowest responsive bidder in terms of cost is who gets awarded a particular construction project. That's just the nature of public contracting.

Anything you do to increase the pool of firms that can compete is an investment in competition. When you remove barriers that preclude firms from competing, like accessing bonding and working capital, anything that keeps those firms from being able to compete means an agency is going to be paying more for their contracts because they have less competition.

We've been able to track and demonstrate that in quantitative dollars. Contractors who we assist in the programs we administer are enabled to bid work – when they are the lowest responsive bidder our sponsors capture savings. At LAX, as an example, we enabled a contractor to bid a project, and they submitted the lowest bid by $1.8 million. If that contractor had not been able to bid, LAX would have paid $1.8 million more for the services that they were procuring. This clearly illustrates that removing barriers enables more competition and more competition generates cost savings.

The established contractors of the world cover themselves by just asking for change orders to cover their failures. Is that the way you've had such few losses?

Warranted change orders because an owner has added something to the scope of work, unforeseen conditions or economic factors such as supply chain issues and inflation impact all contractors including small contractors where they bear, as is often the case, a disproportionate impact of these circumstances. I think one of the factors is that when you're a big firm, it’s easier to absorb losses. You can even navigate around performance issues.

When you're small, especially as a minority contractor, because of the entrenched perceptions, you don't take those risks. Your compelled to complete that project, sometimes even at a loss because your ability to secure future work is largely impacted by your successful completion. That's why I say they have the attitude.

Give me an example of a contractor that you would not be able to assist? What are the circumstances that lead to that conclusion?

What I can say is that we never turn anyone away, but what we might say is “not yet.” With each contractor, we individually assess them and develop a work plan to help them improve their position. It might not mean we're going to be ready to recommend a bond guarantee for them or provide them contract funding, but we keep working with them to get them to that place where they would be eligible for those financial resources.

We've had real disruptions to the economy with COVID, the supply chain, and in the financial sector. How has the smaller, more challenging side of the contractor world weathered those storms?

It has certainly been impactful. Smaller firms have less capacity to regroup when you have these kinds of dynamics. The biggest impact for them was work they anticipated performing that got canceled. They don't have the kind of volume to just offset that from other work. They had to ride out the storm of lower revenue and contracts that they thought were happening that didn’t. They also oftentimes have lower overhead, which can help balance their ability to weather that kind of storm for a short period.

What's great about public work is that even in recession times and even during COVID, it never stops. There's always public construction going on. It's part of the reason why it's so pivotal to have their participation in public construction because it's kind of recession-proof. Not to mention, public dollars are supposed to represent the public community including community based small businesses.

To your other point, this new focus on diversity, equity, and inclusion has been a benefit because despite COVID going on, you actually have an increased interest by public agencies trying to figure out how to do better in engaging small and diverse businesses participating in their projects.

Comment on the multiplicative impacts of contracting dollars staying local and how the region's program helps maximize those benefits.

It can be simplified to say, "when you spend local, the money stays local." If you award a million-dollar contract to a local small contractor in San Pedro, for example, then the likelihood is that the dollars that flow from their contract will stay local. They're going to hire people from LA County. They're going to buy their materials and other services from businesses in their local community. They're recycling those contract dollars back into the county versus a larger contractor outside the county where at least a portion of those contracting dollars are going to flow outside of the county. That's the multiplicative economic impact of public dollars staying local.

It's part of our political campaigns at the moment of public executives and managers being caught up in bid rigging and bribery. How does that factor into the work you're so engaged with and the values that you carry with you?

It's always a shame to hear about public servants using their positions for their own personal gains. Those are ethics that should never be violated.

One thing I do see as a negative consequence that can trickle down to the small business community is that agencies will sometimes respond to such discoveries where they start applying a level of scrutiny that is sometimes misdirected and has a disproportionate impact on smaller businesses. It's a rarer instance that a small firm is party to such allegations, but yet when new protocols and requirements are implemented, those new requirements oftentimes are more burdensome for a small firm to meet than they are for a larger firm. It's no different than the recession and the financial institution failures in 2008. Their way of correcting the fraud and abuse that occurred had an undue and disproportionate burden on small businesses such as in the case of more stringent loan underwriting criteria.

If a large contractor came to you and said you've been doing a fabulous job in this space and they wanted you to come work with them, would you do it?

I think it would depend on what they enabled us to do. By being independent, we can bring these resources, irrespective of who a particular prime is on a project, to the entire local contracting community, not just those affiliated with a particular large prime contractor. If we went to go work for one, these resources would not be available to their competitors, and by extension their small subcontractors. I believe these resources should be broadly available, and the best way of doing that is being independent.

We see that time and time again. Despite the diversity, equity, and inclusion initiatives, we've been able to prove that the business practice of wanting to have more competition lowers costs. It should inform all the requirements and practices that screen folks out to revisit those to see how you can change those requirements to screen more folks in, create more competition, and capture cost savings for taxpayers in the process.

After 25 years in this business, how can we improve policy related to your work?

One of the things we've learned is how important the overall ecosystem is with a particular agency. Their contracting and procurement policies, practices, and programs all have to be looked at as the ecosystem. We can do the work that we do all day long, but if every contract that's awarded is over $50 million, we're not going to have any small contractors to work with. This is what I call unbundling, making sure there are right-sized contract opportunities for smaller firms.

What's really cutting edge now and getting some traction is a practice that LAWA started, where they score their inclusivity goals in evaluation criteria when they put out an RFP. Part of their consideration is how well they're going to demonstrate how they're going to have more inclusion on that project. As the old saying says, "what gets measured, gets done". We have seen these firms become very creative at ways to help more inclusion of small and diverse firms when their ability to secure the contract may hinge on how well they're going to do that.

In one case at LAWA for a large project that they put out to bid, one of the proposers who ended up getting the project, committed to increasing the percentage of spend with small and diverse firms by 2 percent. It doesn't sound like much, but that was an additional $80 million that was being committed to subcontract out with small, local firms. They did that as a competitive differentiator with their peers. That led to them getting a higher score, which led to them getting the work, and that led to $80 million more going to small and diverse firms from that project.

Changes like these can create greater equity in public contracting. By adopting and implementing policies like this on a wider scale, we can create greater benefits for small and diverse businesses, the taxpayers, the region, and the wider world.