

# 2018 Upstate New York Contractors State of the Industry Study



THE BONADIO GROUP  
CPAs, Consultants & More

## SURVEY METHODOLOGY

---

For the fourteenth year in a row, The Bonadio Group has conducted a survey of the Upstate New York construction industry. The information contained in this year's report, ***Upstate New York Contractors State of the Industry Study***, is designed to help construction industry executives evaluate their position and standing on issues ranging from financial management techniques to economic outlook in order to provide an assessment of whether their organization is competitive with other area construction companies.

The 2018 study focused on a series of five critical issues for today's construction company:

1. **Contracts** including success rate on bids and average number of bidders, average dollar size of contracts, and status of backlog.
2. **Surety Bonding Issues** including percentage of work bonded and difficulty of obtaining bonds.
3. **Profitability & More** including company profitability, financing, and strategies to improve profits.
4. **Tax Reform** including how companies will be impacted by the 2017 Tax Cuts and Jobs Act.
5. **Outlook for the Future** including revenue projections, economic outlook, and critical issues within the construction industry.

The study was distributed throughout Upstate New York via targeted emails and associations.

## PERCENTAGES

Throughout the survey, percentages do not always add up to 100% due to rounding and questions for which participants were able to select multiple answers.

## QUESTIONS

Questions regarding the survey can be posed to Marc Valerio at [mvalerio@bonadio.com](mailto:mvalerio@bonadio.com) or by calling any of our ten office locations and asking to speak to a member of the construction team.

## INTRODUCTION AND OVERVIEW

---

### Survey Says: It's Become Incredibly Important to Attract and Retain the Very Best Employees

Since The Bonadio Group's (TBG) last state of the industry survey in 2016, the state of the construction industry in Upstate New York has seen modest improvements. Overall, companies are expecting to increase revenues and headcounts. Additionally, many are looking for growth opportunities through a combination of strategies such as expanding the scope of their services and market area, participating in mergers and acquisitions, and improving productivity.

How the 2018 State of the Industry Report is organized:

The four major sections of this report include:

- Overall aggregated survey results
- Results for Small-Sized Companies (Under \$10M)
- Results for Medium-Sized Companies (\$10 to \$49.9M)
- Results for Larger Companies (\$50M or more)

Each section provides information on: contracts, surety bonding issues, profitability, tax reform, and outlook. Within the latter sections, you are provided with space to record your results for benchmarking purposes. If you do not remember your specific responses, please contact us and we will provide you, your company's data

In our 2016 survey, we advised companies to get leaner and meaner. This still holds true today - contractors must continue to watch costs, to look for opportunities, and to strategically plan for both the short and long-term future of their companies. In short, companies need to look for competitive advantages.

### About the Participating Companies (Overall)

We received a number of responses this year. Respondents came from all over Upstate New York, representing over a half dozen types of businesses and over 15 different types of subcontractors. Of the respondents, 47% reported as small companies, 38% reported as medium-sized companies, and 15% reported as large companies. Highlights of the overall responses relative to participating companies include:

- 82% of respondents reporting that they have been in business 20 years or more.
- The data shows that most companies are moving away from single specialties to having and offering multi-specialty capabilities.
- About 27% of all respondents said that they plan to sell or transition their business in the next five years, while 18% of respondents have changed ownership in the past five years.

## INTRODUCTION AND OVERVIEW

---

### Contracts

The overall breakdown between public and private sector work across all survey respondents reveals a 35% (public), 65% (private) split, which is a significant increase in the split from what was reported in our previous survey (public – 48%, private – 52%) . Highlights of the overall responses relative to contracts include:

- 55% of contractors report bid success rates of less than 25%, which is comparable to the 56% reporting this way in 2016, and 66% reporting this way in 2014.
- Tying in with the constant trend in successful bid rates, 37% of respondents stated that they face, on average, competition of six or more competitive bidders. The remaining said they typically face competition of two to five. This represents a slight decrease in those reporting that they face six or more bidders, on average, since 2016 where it was reported to be 42% of respondents.
- Survey respondents have seen a change in average contract size. In 2018, over 94% reported an average contract size under \$5 million, which is down slightly in comparison to the 2016 survey where contracts in that range were at 83%.
- 50% of all respondents report that their backlog has increased from last year.

### Surety Bonding Issues

Part of the growth and future success of contractors may very well be tied to their ability to secure surety bonding. It may be a smart move in these stronger economic times to take extra care when managing the balance sheet, to have a review of bonding and insurance programs to determine rough spots that need to be patched, or to consider ways your company can enhance marketability to surety bond producers and underwriters. Highlights of the overall responses relative to surety bonding include:

- 85% of respondents said that their surety bonding is the same as it was a year ago, but 10% claimed that surety bonding was either harder or much harder.
- On an overall basis, 75% of respondents said that 50% or less of their work was bonded, which is consistent with the 74% of 2016 survey respondents, who reported 50% or less of their work was bonded.
- About 7 out of 10 respondents report that demands for surety bonds are the same as a year ago, while 17% report that the demand is more frequent.

## INTRODUCTION AND OVERVIEW

---

### Profitability & More

92% of survey respondents reported a profit in 2017, up from 74% in 2015. Highlights of the overall responses relative to profitability include:

- About 80% of respondents found that the difficulty of obtaining bank credit remained the same; but about 10% found it more difficult. In the 2016 survey, 23% of respondents found that obtaining bank credit was more difficult.
- 70% of survey respondents answered that they had no persistent cash flow problems, down slightly from the 77% reporting no problems in 2016.
- Over 43% of survey respondents said that they will seek construction projects in new geographic areas, and nearly 57% said they will seek those projects outside of New York State.
- Anticipated approaches to improving profitability in the next year remain similar to the previous survey, with respondents saying they will focus on “doing what we do better,” in addition to improving safety/risk management, and hiring new employees.

### Tax Reform

Several changes have come about from the 2017 Tax Cuts and Jobs Act, which is why we believe it is imperative to routinely speak with your business advisors to ensure that you are maximizing all potential tax benefits and that you are set up in the proper entity structure to do so. Highlights of the overall responses relative to tax reform include:

- About 60% of respondents have evaluated the impact of the 2017 Tax Cuts and Jobs Act.
- In evaluating the effect of tax reform on their respective company, 51% of respondents believe the 2017 Tax Cuts and Jobs Act will somewhat benefit their companies and 31% believe it will have minimal impact on their companies.

### Outlook for the Future

A positive trend in the outlook for the future has continued as New York State’s local economy remains stable – the number of those reporting being either slightly or very optimistic was 77%; while the numbers of those reporting being either slightly or very pessimistic was only 3%. This 3% is the lowest since the 2008 survey. Highlights of the overall responses, include:

- Contractors show enthusiasm when it comes to projecting revenue for 2018: 82% report that they expect revenues to increase; 5% expect a decrease, and 12% expect no change.
- According to survey respondents, retaining/attracting qualified personnel and general liability (Section 240 of the New York State Labor Law) are the two most important factors facing contractors.

## OVERVIEW - SMALL COMPANIES

---

Small contractors and construction firms – those with sales under \$10 million – represent 47% of all survey respondents. Most have been in business for 20 years or more, are specialty subcontractors, and run an open shop.

Key findings of the survey relative to small companies include:

- 62% of small companies report having less than 25 FTE employees.
- About 3 out of every 10 small companies report that they have a certification of some type that qualified them for specialized business advantages.
- About 30% of all small company respondents said that they have plans within the next five years to sell or transition their business.
- Small companies tend to operate in the private sector more than public sector (70%/30% split), as compared to overall results that show a 65%/35% split.
- According to small company respondents, about 62% of their contracts are based on competitive bids; while 38% are negotiated.
- Approximately 6 out of 10 respondents are reporting bid win rates of less than 25%.
- 31% of small company respondents report that their backlog has decreased, 93% report backlogs of six months or less.
- About 88% of small companies report that their surety bonding program has not changed.
- About 73% of small company survey respondents said that they provide personal guarantees for financing, which is significantly higher than the overall results of approximately 60%.
- About 31% of small companies reported that they have persistent cash flow problems, which is consistent with the overall results of approximately 30%.
- About 38% of small companies will look to expanding into new markets outside of New York State as a means of generating new revenue.
- About 5 out of 10 small companies report having evaluated the 2017 Tax Cuts and Jobs Act, with 53% believing it will somewhat benefit their company, while 41% believe it will have minimal impact.
- Small contractors feel optimistic about the economy as a whole, and show more enthusiasm when it comes to projecting revenue: 76% report that they expect revenues to increase, 0% expect a decrease, and 24% expect no change.
- Attracting/retaining qualified personnel is the number one issue identified by small companies as their greatest concern.

## OVERVIEW - MEDIUM COMPANIES

---

Medium-sized contractors and construction firms – those with sales between \$10 and \$49.9 million – represent 38% of all survey respondents. 82% have been in business for 20 years or more, about 30% report that they are specialty subcontractors, and 75% are an open shop.

Key findings of the survey relative to medium-sized companies include:

- About 41% of medium-sized companies responding to this survey report having 25 to 50 full-time employees, and 35% report having more than 100 employees.
- About 12% of medium-sized companies report that they have a certification of some type that provides special business advantages.
- A little over half of medium-sized company respondents said that they have no plans within the next five years to sell or transition their business.
- Medium-sized companies tend to operate more in the private sector than public sector (58%/42% split), which is consistent with the overall results.
- According to medium-sized company respondents, about half of their contracts are based on competitive bids and the other half are negotiated.
- 94% of medium-sized companies report that their average contract is less than \$5M. About 38% of companies report that their average contract size has increased.
- Almost 13% report that bonding requests have become more frequent.
- There is almost a 20% increase in medium-sized contractors reporting that they are profitable compared to 2 years ago.
- Only 6% of medium-sized companies are reporting that obtaining credit has become more difficult, a decrease of 26% when compared to 2 years ago.
- About 27% of medium-sized companies reported that they have experienced persistent cash flow problems.
- 53% of medium-sized companies are looking for new work outside of their home base, and 70% of those will look to expand outside of New York State.
- About 5 out of 10 medium-sized companies report having evaluated the 2017 Tax Cuts and Jobs Act, and 56% believe it will somewhat benefit their company, while 18% believe it will have minimal impact.

## OVERVIEW - LARGE COMPANIES

---

Large-sized contractors and construction firms – those with sales over \$50 million – represent about 16% of survey respondents. 71% have been in business for 20 years or more and 43% report that they are specialty contractors.

Key findings of the survey relative to large companies include:

- Large-sized companies operate more in the private sector than public sector (57%/43% split), however, this split is not as large as the overall survey results that show a 65%/35% split.
- According to large-sized company respondents about 82% of their contracts are based on competitive bids and the rest are negotiated.
- A significant decrease in large-sized companies utilizing union employees occurred, decreasing from 75% in 2016 to 57% in 2018.
- 80% of large-sized companies report that their average contract is less than \$5M, and no respondents reported that their average contract size has decreased.
- About two-thirds of the large companies report that their surety bonding program has not changed.
- 67% of all large companies report that more than 25% or less of their work requires bonding.
- All large companies report that obtaining credit has not changed.
- 67% of large companies reported that they do not have persistent cash flow problems, and compared to overall survey respondents, large companies express less concern about their cash flow position over the past year.
- Almost two-thirds of large companies report that they will not be looking for new work in new geographic areas as a means of generating new revenue.
- About 8 out of 10 large companies report having evaluated the 2017 Tax Cuts and Jobs Act, and 33% believe it will somewhat benefit their company while 33% believe it will have a minimal impact.
- Compared to the overall average, large companies appear to be slightly less optimistic about the future.
- Attracting/retaining qualified personnel is the number one issue identified by large companies as their greatest concern.