

SENATE BUSINESS & INDUSTRY

EXHIBIT NO. 2

DATE 2/1/05

BILL NO. SB286



Foundation of the American Subcontractors Association

Contractors' Knowledge Quest Research Series

Retainage Practice in the Construction Industry

by
Dennis C. Bausman, PhD
Clemson University

November 2004

Foundation of the American Subcontractors Association, Inc.
1004 Duke Street
Alexandria, VA 22314-3588
Telephone: 703-684-3450 Fax: 703-836-3482
Email: info@contractorsknowledgenetwork.org
Web: www.contractorsknowledgenetwork.org

With over 1,000 respondents and a survey instrument containing 87 questions, approximately 90,000 data points were collected. The statistical analysis of the data included the calculation of descriptive statistics, means testing, and the testing of paired samples. All statistical testing of the data was performed to a level of significance of .05.

Current Retainage Practices

Subsequent to the section of the questionnaire soliciting general information on the organization, respondents were asked to indicate the retained percentages applicable on their projects and the frequency that they encountered alternative approaches. Table 2: Retainage Percentages by Category of Owner, tabulates the project frequency that owners utilized each of the itemized retained percentages.

As shown in Table 2, federal and state agencies imposed 10% retainage terms on only about one-fifth of their projects (20% & 16% respectively) whereas private owners withheld 10% retainage on more than half (56%) of their projects. Conversely, 63% of the federal respondents held no retainage while only 19% of the state and 15% of the private owners did not withhold retainage.

Table 2: Retained Percentages by Category of Owner

Retained Percentage	% @ Comp.	Fed (16)	State (78)	Private (18)
10% for the contract duration	10.0%	20%	16%	56%
10% till 50%, then 5% on the remainder	7.5%	7%	2%	3%
10% till 50%, then 0% on the remainder	5.0%	3%	22%	11%
5% for the contract duration	5.0%	6%	30%	15%
3.5% for the contract duration	3.5%		1%	
6% till 50% then 0% on the remainder.	3.0%		1%	
4% till 50% then 2% on the remainder	3.0%		1%	
5% till 50%, then 0% on the remainder	2.5%	1%	3%	
2.5% for the contract duration	2.5%		2%	
2.0% for the contract duration	2.0%		1%	
1.0% for the contract duration	1.0%		2%	
None	0%	63%	19%	15%
Average retained % during the project		3.26%	5.56%	7.59%

Table 2 also identifies the average percent retained over the life of their projects for each category of owner (assuming an equal distribution of contract billings). The average is 3.26% on Federal work, 5.56% on state projects, and 7.59% on private projects. Note that the average retained percentage increases as you move from federal work to projects at the state level. Also, private owners impose a significantly higher percentage of retainage than evidenced in public work.

These general trends, of increased retainage as you move to 'local' and private projects are quite evident in Figure 1. More than half of the projects for private owners had retainage of 10%. In addition, retainage of 5% or more at completion of the work was present on 85% of the private projects, 70% of the state projects, and only 36% of the Federal projects.