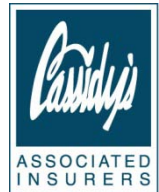


Establishing a Bonding Program



Why is bonding necessary/required?

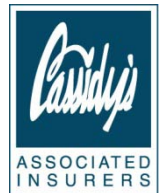
- Miller Act identifies certain contracts requiring bonded contractors



Identifying your business

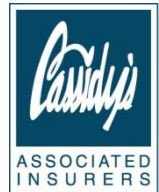
Identify category of business you are engaged in & what type of contract you are entering into.

- Service or supply-
 No bonds necessary
- Construction-
 Bonds are required



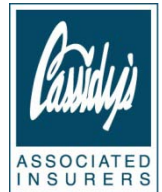
Acceptable Sureties

- Federal Government requires that any bond issued for a federal construction project be issued by a surety company listed on the US Department of Treasury's list of acceptable company's.
- That publication is known as US Treasury Circular 570.



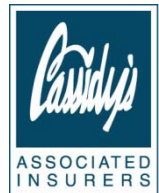
Surety vs. insurance

- Three party agreement
- Credit Guarantee
- Indemnity Agreement



Types of bonds

- Bid
- Performance
 - Protection for Project owner
- Payment
 - Typically protects owner from mechanics liens
 - Guarantees payment to & for sub-contractors, suppliers, laborers, equipment (direct costs)



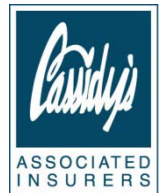
Cost of bonds

- Bid bonds –
 - No (or very little) charge
- Performance and payment bonds –
 - Generally between 1-3%

Qualifications

What does it take to qualify for a bond?

- Accounting + financial statements
 - Accurate + Reliable
 - Detailed financial statements
 - Construction knowledgeable
 - Annual CPA Prepared financial statements
- Track record/reputation
- Appetite & capacity in line with related work experience



Building a bonding file

- Application / Questionnaire
- Resumes of key personnel
- Company documents (articles, by-laws, etc)
- Customer and supplier references
- 3 years financials statements (CPA usually required)
- Work in progress schedules (quarterly)

Building a bonding file

- Bank Letters
- Personal Financial Statements
- Indemnity Agreement signed by owners and spouses

Factors determining bond capacity

- Experience with like type and size jobs
- Adequate working capital
- Adequate net worth
- Trend of sales
- Capabilities of management and staff
- Capabilities of internal systems

Specific bond requests

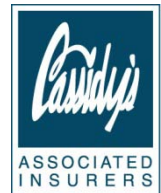
- Bond request form
- Cost breakdown
- Bid results
- Copy of contract, award and general conditions
- Verification of owner's funding/financing

Underwriting time

- For existing accounts – 1 week
- For new accounts – 2 weeks to ???

Tips & Advice

- Develop track record on un-bonded projects
- Retain profits in the business
- Align yourself with professionals (circle of friends)
 - Banker
 - Attorney
 - Surety Professional
 - CPA



Circle of Friends

