

# The Ins and Outs of Bonding & Financing Your Government Contract: *Understanding Surety*

Lauren Leskanic, Surety Executive  
Surety Bonding & Finance Webinar  
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SURETY BOND  
PROFESSIONALS  
INC.  
*YOUR BOND PARTNER*



U.S. Small Business  
Administration



**SURETY BOND**  
**PROFESSIONALS**  

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**INC.**  
*YOUR BOND PARTNER*

**Bid Bonds | Performance & Payment Bonds |  
Maintenance & Supply Bonds**

# Capabilities Statement



## **Surety Bond Professionals, Inc.**

- Independent, family-owned and bond-only agency
- 75 years of combined surety experience
- Offices in MA, CT, FL & CO
- Construction Bond Experts
- Structure the largest, most competitive bond programs



# Capabilities Statement



## Surety Bond Professionals, Inc.

NAICS: 524126  
Bonding, Fidelity  
or Surety  
Insurance

National  
Association of  
Surety Bond  
Producers

Society of  
American Military  
Engineers  
(SAME)

National 8(a)  
Association

Associated  
General  
Contractors

Associated  
Subcontractors

# Core Competencies



- Performance & Payment Bonds
- Bid Bonds
- Contractor License Bonds



- Supply Bonds
- Maintenance Bonds



- Authorized Agent for the SBA's Surety Bond Guarantee Program

# Agenda

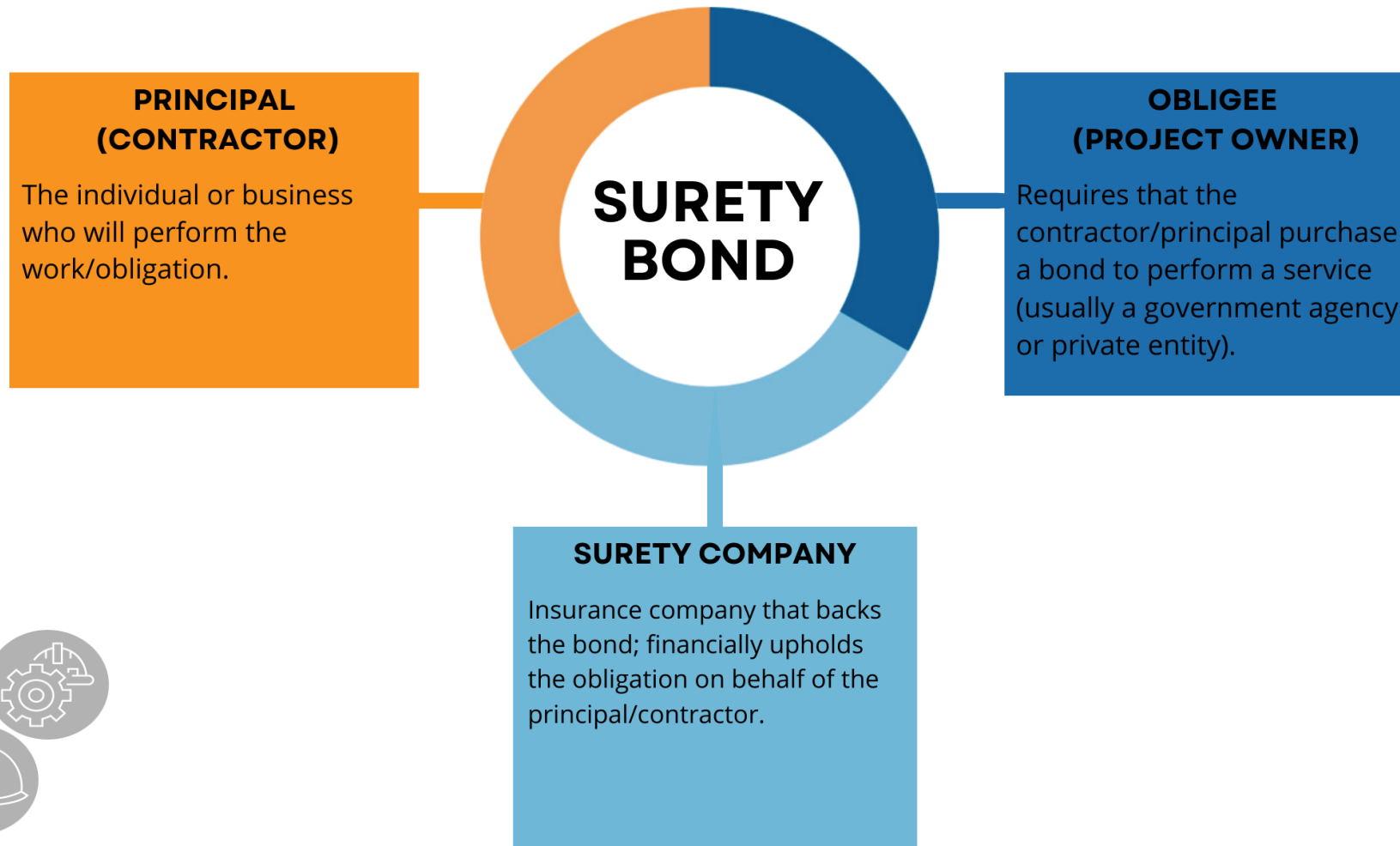
- What are Surety Bonds?
- When & Why Surety Bonds are Required?
- Major Types of Contract Surety Bonds
- Prequalification Process
- SBA Surety Bond Guarantee Program



How many of you are familiar with  
the bonding process?



# What are Surety Bonds?





# When Are Surety Bonds Required?

- Federal, State & Municipal contracts valued at \$150,000+ (Miller Act and Little Miller Acts)
- General Contractors
- Private Owners / Banks & Lenders

*\* \* \* It's important to be prequalified and have a surety relationship for when the need arises! \* \* \**



# Why Surety Bonds Are Required

- Protect government entities and the general public from financial loss and other damages.
- Helps small businesses win contracts by providing the customer with a guarantee that the work will be completed.

*\* \* \* It's important to be prequalified and have a surety relationship for when the need arises! \* \* \**



# Prequalification Process

What do underwriters look for when prequalifying a contractor?

The 3 “C’s” of Surety:

- Character
  - Capacity
    - Capital



# Character

- Do they do what they say they will?
- How do they treat their employees and partners?
- Are they a leader?
- Honesty

*\* Prior issues may affect “bondability” \**



# Capacity

- Single job basis: Dependent on size & scope of past contracts completed
- Aggregate basis: Handled revenues/backlogs of this size before?
- Project Team & Labor Force: Right people and systems in place



## Capacity (cont.)

- Different underwriting requirements depending on size of single and aggregate requested
  - Up to \$1 mm, credit-based
  - Over \$1 mm, internal financials required
  - Over \$2M+/-, CPA financials required



# Capital

- Working capital and equity
- 20x working capital; 10x net worth as a rule of thumb (5% and 10% case)
- Working capital “slightly more” important
- Cash & accounts receivable turnover also a consideration



# Capital (cont.)

- Hire a good construction CPA
  - Above ~ \$2-3 million in aggregate bonding usually requires a CPA Review





# Capital (cont.)

- Need to be on the accrual basis (A/R and A/P)
- Ideally on a %-of-completion basis
  - Also includes over/underbillings
- Bookkeeper, Controller, or CFO



# Capital (cont.)

## Bank Line of Credit (BLOC)

- Surety view: BLOC is a safety net for cash flow issues
  - Not required, but considered
- Sub: Making payroll is a larger factor
  - More cash intensive; payment schedule can be slower
- Rule of thumb: BLOC should be 5% of surety program
  - e.g. \$10mm program, BLOC = \$500K



# Work-in-Progress (WIP)

- Job tracking is important!
  - Realistic gross profit and track job costs to specific projects
- Choose accounting/PM software to track costs to certain jobs
- Surety will follow profit-fade closely for larger clients



# Success Stories

- Federal Contractor – Fast Track Program Graduate  
Result = Increase in revenue from 500K to \$17M  
in less than 4 years
- Subcontractor – Larger Bond Capacity  
Result = Increased aggregate limits from \$2M to  
\$15M over two years



# Tools to Support Bonding

- Bond-Backs
- Funds Control
- Collateral
- SBA Surety Bond Guarantee Program



# SBA Surety Bond Guarantee Program

- Guarantees a percentage of the bond (80%; 90%)
- Affordable: SBA's fee is approximately 0.6% of the contract value
- Intent is a catalyst for growth for small contractors

**GOAL = "graduate" from the SBA Program!**



# SBA Surety Bond Guarantee Program (cont.)

## REQUIREMENTS:

- Meet the definition of a “small business” under federal regulation
- Contract / subcontract cannot exceed \$14M for federal projects
- Contract / subcontract cannot exceed \$9M (public and private prime contracts and all subcontracts)



# Choice of Agent / Surety

- SBA authorized agent
- Agent specializing in construction bonds
- Relationship with many surety markets suitable for all contractors
- Crafting the contractor's story to help maximize surety capacity
- Advocate during good times & bad times





# SUMMARY

1. Public projects over \$150,000: BONDS ARE REQUIRED
2. Character + Capacity + Capital
3. CPA prepared financial statement, WC, & BLOC
4. Choice of Surety Agency



# Q & A's



Lauren Leskanic, Surety Executive  
Lauren@SuretyBondProfessionals.com  
617-429-1995

