Key Action Items to Achieve an Effective Bonding Program

With the new $1.2 Trillion Infrastructure Bill in Manufacturing, Construction, and Energy passed, many contractors are looking for ways to **diversify their backlog with government contracts** so their businesses can remain operational during an economic recession and/or another potential industry slowdown.

A major attraction to public work is that **government construction projects are always available** and the fact that **payment is almost guaranteed.** The Federal Prompt Payment Act protects all tiers of contractors, subcontractors, and suppliers from late payments on federally funded construction projects. Though it would be naïve to suggest that payment is made 100% on time, the **projects are ALWAYS 100% financed.** There is no fear of banks cutting off financing or owners running out of money.

One of the **requirements for bidding and performing public work is surety bonding.** Under the Miller Act, construction bonds are required for contractors performing on federal projects over $100,000. Similarly, every state has its own "Little Miller Act" which specifies the contract amount above which construction bonds are required. The different types of construction bonds that will be required are: **Bid Bonds, Performance Bonds and Payment Bonds.**

To be successful in the public arena, the single most important thing a contractor must have in place is a surety bonding program. Here are a few recommendations to **achieve an effective program or to maximize your current one.**

1. **Meet with your accountant**
   Make sure you let them know your **financials are a priority.** If you don't have one, we can recommend excellent construction CPAs that might be a good fit for you.

2. **Obtain an Accrual Balance Sheet and Profit & Loss for the previous year.**

- For modest bonding programs of $500,000 - $1.5 million on a single job basis (and up to ~ $3 million aggregate) a **QuickBooks/internal accrual balance sheet and profit & loss are usually fine.**
- For larger bonding programs above $2 million single / $3 million aggregate, we'd recommend putting together a **CPA Reviewed Financial Statement**. It is very important that this is formatted correctly to best support bonding.

3. **Secure a Bank Line of Credit**

- **Approach the bank you do business** with or a regional bank that works with contractors. Most banks can **provide a small business bank line of $50,000 - $75,000** with a credit check and by having an account there. This supports the capital base and helps us increase your bonding limits. The larger the bank line for which you can qualify, the better!

3. Choose a Professional Surety Agent

The most important action item a contractor can do to qualify for an effective surety bond program is to **choose a professional surety agent that's the right fit for the growth of their business.** A professional bond agent should be a trusted partner who will learn your story and help take your business to where you want to go.

Knowledge of the construction industry is key, as well as really getting to know you and your business to positively convey it to the surety. In addition, the agent should have access to and a **thorough understanding of several different surety markets.** This allows them to negotiate the largest program and most competitive rate/indemnity structure on your behalf to help you grow your business.