



Q&A Bonding

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Tell me a bit about The Bonder:

Kara is a third-generation surety bonder. She even wrote a book: Free <https://littleblackbondbook.com/> Kara is available to answer questions.

Kara Skinner is a third-generation surety professional and has over 30 years of specialty surety experience. She obtained her Bachelor of Science in Business and continues her education through many industry recognized programs. Kara is past President of the Surety Association of Washington, and current Regional Director of the National Association of Surety Bond Producers and is an active member of several committees of other Insurance organizations.

She is the current chair of the Small and Emerging Business Committee for the NASBP (National Association of Surety Bond Producers).

Many of the firms here today may be new to the need to get a bond beyond the minimum amount required by the state. Can you walk us through what a firm can expect if they need bonding for the first time?

There are several types of bonds: license, bid, performance, and payment.

- A license bond is generally based on your credit.
- Bid, performance and payment bonds are going to be based on the value of the contract.

In general, bonding will review your credit score, business and personal financials, experience and references.

*Tip - when you finish a job ask for a letter of reference to have on hand if needed

What goes into setting the cost of the bonds?

- License bond – The rate is based on credit – couple hundred to \$1000
- Bid bond – doesn't cost anything – premium comes into play when you win the contract
- Need to include the cost of premium in the bid, premium not paid until you are the ASW, cost should be paid by obligee (buyer)
- Performance and payment bond – one rate for both
 - Around 3% (max 3.5%) of the contract if you are just starting out
 - But in bid, payment due on ASW
 - Can't be cancelled, if the job is long may include a surcharge
 - Workmanship warranty 1 year if the owner asks longer – may incur a surcharge
 - Can't charge more due to risk
- Work with surety agency if you are denied the bond level
 - 10-20% of contract in liquid capital
 - Demonstrate working capital in a growth process
 - What should be in financial statements, who should they be prepared
 - Do a good job, references will be collected

*Tip - Change orders will also change the bond and premium, up or down, keep it in mind when submitting change orders

Do financial statements need to be Audited by a CPA?

- Audits are rarely requested.
- Depending on gross income:
 - If less than \$1M, internal financials should work if the numbers are good and profitable
 - Start interviewing CPAs, you will need one to grow your company

- If greater than \$1M, CPA review* is required. (*accounting term)
 - A review provides limited assurance that the financial statements are free from material misstatements. The CPA performs certain procedures, such as making inquiries of management and applying analytical procedures to the financial data. They will issue a cover letter
- Compilations - CPA does not provide any assurance.
 - The CPA does not have to be independent, but the CPA must indicate a lack of independence, if applicable, in the report. The business obtains comfort from the fact that the financial statements appear to be appropriate in form and there is no obvious material modifications needed.
- Bottom line:
 - Reviewed financials are preferred. The CPA must be independent from the client. Also, the CPA is required to perform inquiry and analytical procedures as a basis for obtaining limited assurance that the financial statements are free of material misstatement. The CPA issues a report as to whether the CPA is aware of any material modifications that should be made to the financial statements for them to be in accordance with the financial reporting framework.

How can a firm lower their bonding rate?

- The business must have Independently reviewed financials and build experience

What can a firm do if you deny their bond level request?

- Businesses must work with a surety professional and start with a smaller project and grow their bondable amount.
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- If it is hard to get a surety bond, the business will need more documentation, especially in areas of asbestos, underground storage tank, things that "glow".

How is bonding different than insurance?

- Bonds and surety are the opposite of insurance
 - Insurance protects the business entity and employees
 - LNI rates use experience rating for insurance coverage rates.
 - These rates are based on Washington State Classification codes, and claims made statewide in that category
 - Surety protects the Obligee (Typically the client, government agency, or organization that needs assurance that the principal will meet their obligations).
 - Surety guards against fraud and misrepresentation

You touched base on types of bids, can you explain the differences between bid, performance, and payment bonds?

- Bid Bond = deposit
 - This makes sure the bidders are qualified (5-20%). It is not a good idea to use cash in lieu of a bond.
- Performance/ Payment Bond is attached to the contract. It is guaranteeing performance and sub payment – to protect tax dollars
- Public works projects have no lien enabled.

What should subcontractors know in the public works arena?

- This is a critical path for subcontractors
 - An Obligee can ask for Performance/ Payment bonds of the Prime
 - A Prime can ask for Performance/ Payment bonds of the subcontractor
- If your contract references the prime contract – get a copy!! If you can't find it, get your surety professional to help.

What are some common reasons a bond claim may be filed in our field, and how can we minimize this risk?

- Claims happen
- Bid bond – don't bid jobs you can't get P/P bond for
 - P/P bonds – mistakes on estimations
 - Build Relationships with subs
 - Bring issues to the attention of your Bond professional early
 - Have a strict process for change orders, know the owner's process

Could you explain about bond capacity limit? How it works if we participated in the multiple projects?

- Single – one job
- Aggregate – highest level of multiple jobs
- Based on experience and financial statements

How can I increase my aggregate level?

- Demonstrate to surety company that risk on current jobs are low so they can open up bonding through work in progress report

How should a firm go about finding a bonding agent?

- Businesses should have or have access to professional services: CPA, legal, banker, insurance and surety. Each professional service should understand your business contracting and scope. It is good to meet and interview at least two or more to determine the best fit for your company.

- Interview questions
 - Do you know my industry?
 - Are they Communicable? Are you comfortable working with them?
 - Request and call their referrals or references.
 - Check with your constructions industry associations -i.e. Associated Builders and Contractors ([ABC](#)), Associated General Contractors of America ([AGC](#)) or North Peninsula Building Association ([NPBA](#))
- Bonding resource – National Association of Surety Bond Producers ([NASBP](#))
 - NASBP CPA Advisory Council (<https://www.nasbp.org/cpaadvisorycouncil/home>)

