

Executive Insights

How can a contractor take its bonding capacity to the next level?

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You need to have shown the ability to successfully manage the bonded work in your current program with good profit margins that don't fade. And you

need to have a good financial presentation prepared that reflects the profit stream from those jobs and also displays your continued efforts to retain and grow the company working capital and net worth.

But, it is your professional surety agent that can help guide your firm in reaching larger work program goals. Your surety agent should be communicating regularly with your CPA, who is experienced in generating construction accounting financial statements in a form and format preferred by surety underwriters. Your surety agent should be working hand in hand with you and your staff as you start to focus on future jobs you intend to pursue.

Successful construction executives align with a strong independent advisory team of an experienced construction attorney, accounting firm and professional surety agent. When added to your own staff, this team provides the insight and support to make that path to larger bonded contracts seem easy.

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The main factors that allow larger surety support for contractors are a quality financial presentation, open communication with your agent

and surety, and strong support from your banker/lender. The financial presentation should come from a CPA who is familiar with the nuances of construction accounting. A presentation done on a percentage of completion basis with complete notes, disclosures and work schedules will give both your bank and surety the best insight into the company's health.

We advise our contractors to have the CPA draft a year-end financial statement and then openly discuss their goals with their surety agent on how to properly deploy that net profit at year-end. It's often wise to keep some, if not all, of the net profits on the balance sheet so the surety can offer enhanced support for future projects.

Lastly, sureties are always comforted by a contractor that has with a strong bank line established in case of a cash crunch, but simultaneously can get concerned if a contractor is consistently using most or all of its bank line on a regular basis.

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To take bonding capacity to the next level, a contractor needs to go beyond capital, character and capacity. When

these have been satisfied, a surety can derive a work program.

To increase bonding capacity and work program size:

- Improve the quality of financial reports. Upgrade from in-house accrual to a review, or review to an audit. Keep an up-to-date WIP with cost to complete, percentage of completion, gross profit left in the backlog and over/under-billings.
- Reinvest retained earnings and limit bonuses and dividends. Rather than taking an \$80,000 bonus at year-end, leaving the money in the company could result in an additional \$800,000 in bonding capacity.
- Turn receivables over more efficiently.
- Remember that cash is king. The more invested an owner is in his or her operation, the more comfortable a surety is increasing capacity.

Partnering with your agent, accounting firm and surety helps the surety gauge the stability of a contractor's future and builds confidence at bid time.