

Memorandum



CITY OF DALLAS

DATE September 25, 2017

Honorable Members of the Government Performance & Financial Management
Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson,
TO Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Small Business Administration Surety Bond**

On Monday, October 2, 2017, the U.S. Small Business Administration Dallas/Fort Worth District Office will brief the Government Performance & Financial Management Committee on SBA Programs & Services Surety Bond Guarantee Program. I have attached the briefing for your review.

Please let me know if you need additional information.

M. Elizabeth Reich

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Chief Financial Officer

Attachment

Honorable Mayor and Members of City Council
T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Billerae Johnson, City Secretary (Interim)
Daniel F. Solis, Administrative Judge
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager

Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Jo M. (Jody) Puckett, Assistant City Manager (Interim)
Nadia Chandler Hardy, Chief of Community Services
Raquel Favela, Chief of Economic Development & Neighborhood Services
Theresa O'Donnell, Chief of Resilience
Directors and Assistant Directors



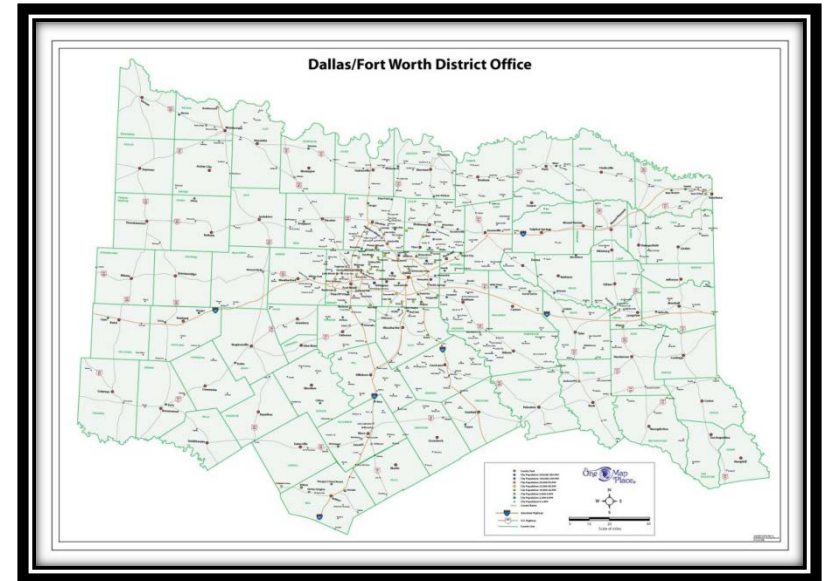
SBA Programs & Services Surety Bond Guarantee Program

U.S. Small Business Administration
Dallas/Fort Worth District Office
Ahmad Goree, Lead Economic Specialist
Derenda Fisher, Lender Relations Specialist

City of Dallas
Government Performance & Financial Management Committee
October 2, 2017

SBA DFW District Office Area

- ❑ 72 Counties
- ❑ 9,026,526 citizens
- ❑ 860,214 Small Businesses
- ❑ 149,476 Employer small businesses



SBA Programs – The “Three C’s” & D

- ▶ Capital
- ▶ Counseling
- ▶ Contracting
- ▶ Disaster



Capital-Lending in the Billions



Dallas/Fort Worth District SBA Guaranteed Loans

FY 2015 \$1.0 Billion

FY 2016 \$1.1 Billion

FY 2017 \$ 1.0 Billion (will exceed)

3rd Consecutive year

FY 2017 YTD Activity

- **Guaranty Loan Program**
 - 3rd Year in a Row – DFW \$1.0 Billion in Lending
 - Approximately 151 lenders
- **8a Business Development Program (91 Firms)**
 - 37% of Firms received Contracts YTD
 - \$192,870,000 in Govt contracts
- **Surety Bond Guarantee Program as of June 30 2017**
 - FY 2017-178 Bond Guarantees, \$188.3 million dollars Contract Values guaranteed- 40 Small business assisted.

Counseling

Resource Partners help with



- Provide mentorship, coaching and training
- Large volunteer corp.
- No charge for counseling
- Local office:214-987-9491



- Provide consulting, technical support and training
- Professional staff
- No charge for counseling
- Local office:214-860-5865
Dallas Metropolitan SBDC

CONTRACTING

- ▶ Federal Government spends approximately \$500 billion each year on goods and services
- ▶ 23% goal for small businesses
- ▶ SBA provides tools training and support staff to help small businesses compete and secure contracts



DISASTER ASSISTANCE

- ▶ Provides low-interest long-term loans to communities affected by disaster
- Military reservists on deployment can qualify
- Loans can be used to repair or replace real estate, personal property, equipment, inventory and business assets



SBA Surety Bond Guarantee Program

Derenda Fisher, Lender Relations Specialist

Surety Bond Presentation Objectives

- ❑ Define Surety Bond & SBA Surety Guarantee Program?
- ❑ Types of Contract Surety Bonds
 - Bid Bond
 - Performance Bond
 - Maintenance Bond
- ❑ Advantages of the SBA Surety Bond Guarantee Program
- ❑ Qualifications
- ❑ Application Process
- ❑ Fees/ Premiums/Amount of Guarantee
- ❑ Resources-SBA's List of Authorized Bonding Agencies

Surety Bond

- ▶ Surety Bond – written agreement by surety company and contractor that protects the project owner, should the contractor default.
- ▶ All Federal construction contracts greater than \$100k require a surety bond. (*State, municipal and many commercial contracts have similar requirement.*)

SBA Surety Bond Guarantee Program

- ▶ The U. S. Small Business Administration's **Surety Bond Guarantee Program** provides surety bond guarantees for small businesses on federal , state, local and commercial construction, service and supply contracts and subcontracts in direct partnership with surety companies and their agents.
- ▶ The SBA Office of Surety Guarantees administers the SBG program as a partnership between the federal government and the surety industry.

What does the Surety Bond Guarantee Program Do? (SBG)

- ▶ The Surety Bond Guarantee Program *helps small emerging contractors* who have the knowledge, skills necessary for success but lack the combination of experience and financial strength to obtain bonds through regular commercial channels.

The SBA Guaranty

- ▶ SBA guarantees *bid, payment and performance* bonds issued by surety companies and reimburses the surety a percentage of the loss if the contractor defaults.
- ▶ The government guarantee allows sureties to write bonds for contractors who do not otherwise meet their minimum standards-thus providing small and underserved contractors with increased contracting opportunities

SBA Surety Bond Program

The Surety Bond Program consists of :

1. The **Prior Approval**
2. The **Preferred Surety Bond** Programs.
 - ▶ SBA guarantees *bid, payment and performance* bonds for contracts that do not exceed \$6.5million, and up to \$10 million with a federal contracting officer's certification.
 - ▶ The SBA's guarantee encourages the surety company to issue a bond that it would not otherwise provide for a small business.

Quick Bond

- ▶ The eligible contract amount for the Quick Bond Application (**Quick Bond**) will increase to \$400,000 from \$250,000.
- ▶ The Quick Bond is a streamlined application process with reduced paperwork requirements, that is used in the Prior Approval Program for smaller contract amounts.
- ▶ SBA's review and approval requires minimal time, allowing small businesses to bid on and compete for contracting opportunities without delay.

Recent Changes to Surety Bond Program (SBG)

- ▶ SBA increased the guarantee percentage in the Preferred Surety Bond Program from no more than 70 percent to no more than 90 percent.
- ▶ The SBA's guarantee will be 90 % if the original contract amount is \$100,000 or less, or if the bond is issued to a small business that is owned and controlled by socially or economically disadvantaged individuals, veterans, or certified HUBZone and 8 (a) businesses.

Bond Underwriting :The Three C's

- **Capital:** Having enough liquidity and cash flow to complete the project, sufficient bank account balances and manageable debt are important factors in your company's profile.
- **Capacity:** Sureties assess the previous projects and past performance, and whether the project's scope of work is fully understood, and whether qualified for the specific work in the contract.
- **Character:** Sureties, their agents or brokers, will also look at the company's management, including information about specific principals, in order to further assess the application.

Contractor Profiles– We can assist

- ▶ Start-ups and firms in business less than 3 years
- ▶ Limited financial resources (*cash, working capital, net worth*)
- ▶ Recent losses
- ▶ Limited track record in size of past jobs completed
- ▶ No prior public works experience
- ▶ Small businesses who want to increase their current bond limits
- ▶ Credit issues

Common Reasons Applications are Declined

- ▶ Inadequate working capital
- ▶ Incomplete submission
- ▶ Poor record of past performance
- ▶ Contractor does not qualify as a small business
- ▶ Contract size exceeds the statutory limit
- ▶ Ineligible type of bond

SBA Bond Guarantee Fees

- Bid bonds: SBA does not charge a fee
- Payment and Performance bonds:

Contractor pays:

- SBA's guarantee fee: .729 % of the contract amount
- Agent's "bond premium fee": 1-3 % of the contract price

Surety pays SBA:

- 26 % of the "bond premium fee" received (see above)

Cost of Bonding (example)

An 8(a) contractor received an SBA guaranteed bid bond and was subsequently awarded a \$ 500,000 federal contract to install new energy efficient windows in 3 buildings, at an airbase.

- Contractor's bond costs:

\$ 9,000	1.8 %	Surety's bond premium fee
<u>3,645</u>	.729 %	SBA guarantee fee
<u>\$ 12,645</u>	Total cost	(normally built into the bid estimate)

- Surety company SBA guaranty fee:

\$ 2,340 (\$ 9,000 X 26 %)

If Contractor defaults under:

- Performance bond – surety must ensure the project is completed
- Payment bond – surety must pay all valid claims from subcontractors, laborers and/or material suppliers.
- Maintenance bond – surety will remedy any defects found during the period of coverage

Prior Approval Program

Prior Approval Program (Plan A)

- 90% guarantee:
 - All Veteran owned & Service Disabled firms
 - Minority owned businesses
 - 8(a) and Certified HubZone contractors
 - All projects not exceeding \$100,000
- 80% guarantee
 - All other businesses not identified above and where the contract exceeds \$ 100,000.
- Area office staff review & approve applications
- Bonds are issued by either the bond agent or surety

Preferred Program (Plan B)

- 70% guarantee
- “Preferred Sureties” authorized to provide SBA guaranteed bonds (without prior SBA approval) and notify SBA after bond issuance.
- Similar to the PLP program where the Preferred Lenders have the delegated authority and the application is streamlined.
- Office of Surety Guarantees - requires periodic surety audits ensuring surety compliance with Statutes & Regulations.

How to Apply

- ▶ Contractors should contact a surety company or surety bond produce who represents a surety company that participates in the SBG program.
- ▶ SBA maintains a list of the surety companies on the SBA website.

Contractor Application Process

1. Contractor goes to <http://www.sba.gov/content/bond-agencies-state>
2. Contractor selects a bond agent and requests assistance.
3. Agent evaluates the contractor's credit, character and capacity.
4. Agent applies for the bond guarantee to SBA electronically (Plan A)
5. Area office reviews & approves the bond guarantee (Plan A) within 4 days
(Under Plan B, surety notifies SBA of the bond issuance)
6. Agent provides the bond to the contractor (Plan A)

Note: the agent may provide the bond with, or without the SBA guarantee,
or decline
the account.

Bond Application Package Example

The bond agent may request these items from the contractor:

- Contractor Questionnaire
- Personal financial statement
- Company financial statement (3 years)
- Bank relationship information
- Work on Hand schedule
- Completed job references
- Resume for start-ups
- General Indemnity Agreement

SBA Forms:

- SBA Form 994 - Application for Surety Bond Guarantee Assistance
- SBA Form 912 - Statement of Personal History
- Agents required to keep original 994 & 912
- <http://www.sba.gov/content/bond-guarantee-application-forms>

How Surety Companies Join SBA

Sureties must appear on the Treasury's "List of Approved Sureties"

Surety Certification Process:

- Surety completes an SBA application
 - ✓ <http://www.sba.gov/content/list-participating-surety-companies-agents>
- Office of Surety Guarantees reviews and approves
- OSG provides on-site training on regulations, policies & on-line procedures

Agent Certification Process:

- Agents apply to the SBA through the approved surety
- Agent is approved by SBA to use the on-line application program

Summary

- ❑ There is an SBA Surety Bond Guarantee Program.
- ❑ SBA provides a surety bond guarantee
- ❑ For more information on the SBA's Surety Bond Guarantee Programs please visit SBA's Web site at www.sba.gov
 - **Local contact: DFW District Office**
 - **Derenda Fisher : (817)684-5513**
 - Derenda.fisher@sba.gov

Willie Rodriguez, 817-684-5514

wilber.rodriquez@sba.gov