

BONDING PREP

Improving Bonding Capability
for Minority Businesses





COMMISSION
on Economic Inclusion

The Commission on Economic Inclusion, a program of the Greater Cleveland Partnership, works to significantly improve the meaningful involvement of minority businesses and individuals in the economic engines that drive Northeast Ohio.

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PARTICIPANT QUALIFICATIONS

In order to participate in the Commission's Bonding Prep program, the applicant must be the company owner, and the company must be based in Northeast Ohio. Applicants are required to answer all of the following:

- Is your company at least 51 percent minority-owned, controlled and managed by one or more minority individual or group members?
- Do you currently own a contracting company or plan to own a contracting company in the near future?
- Do you currently have access to a minimum of \$25,000 in capital? (Can be savings, home equity, etc.)
- To the best of your knowledge, what is your credit score?
 300-400 400-500
 500-600 600-700
 700+
- Have you ever filed for bankruptcy?

OVERVIEW

In 2008, the Commission on Economic Inclusion, in collaboration with the Surety & Fidelity Association of America, launched a Bonding Prep program, a professional development course for minority business owners (MBEs). The program improves the ability of MBEs to obtain a bond or increase their bond capacity. It is a unique local resource for the Northeast Ohio MBE community.

Classes are held during the first quarter of each year, one night per week, over a six-week period. The typical class size is 25 to 30 people. The course consists of three interrelated segments:

Educational Workshop

- Offers information to improve operating efficiencies and "bond-ability."
- Includes comprehensive course work ranging from construction accounting to estimating and project management.

Bond Readiness

- Consists of one-on-one interactions with surety bond professionals, underwriters and other bond producers who work closely with participating MBEs.
- Sessions provide training in the preparation of the materials necessary to complete a successful bond application.
- Surety bond professionals conduct a bond readiness assessment, suggesting solutions to bond-ability issues.

"No matter how good of a company we are, we wouldn't have been awarded the contract without the bond."

*—James Vaughn, President, JDD, Inc.
2008 Bonding Prep graduate, whose company won a \$3.1 million cleaning contract with the Cuyahoga County Public Library after completing the course*

- Participants are referred to technical experts for assistance such as business planning or establishing financial processes to facilitate successful bond underwriting.

Credit Readiness

- Focuses on credit repair, loan packaging and understanding financial statements.
- Participating bond professionals provide participants with individualized, prescriptive plans documenting further steps the MBE should take to achieve "bond-ability."

BONDING 101

The Commission's Bonding Prep program starts with ensuring that participating minority business owners (MBEs) have a clear understanding of the bonding process. In Bonding 101, we offer a definition of important terms and provide the qualifications that MBEs will need to successfully complete the bonding process.

What are surety bonds?

A surety bond is a three-party agreement in which the surety company assures the obligee (typically the project owner) that the principal (most often the contractor) will perform a construction contract. Surety bonds in construction are referred to as contract surety bonds.

What are the types of contract surety bonds?

- A **bid bond** provides financial assurance that the bid has been submitted in good faith, that the contractor intends to enter into the contract at the price bid, and that the contractor will provide the required performance and payment bonds. The bid bond is typically given as a percentage of the contractor's bid.
- A **performance bond** protects the project owner from financial loss should the contractor fail to perform the contract in accordance with the terms and conditions of the contract document.
- A **payment bond** guarantees that the contractor will pay subcontractors, laborers, and material suppliers associated with the project.

What are the prequalification criteria for surety bonds?

- **Character**
 - Reputation in the community
 - Personal credit history
 - Bill-paying habits
 - Dealing fairly with owners, subs, suppliers, employees
 - Amicable resolution of disputes
 - Avoidance of litigation
- **Capacity**
 - Technical skill
 - Depth of management
 - Personnel qualifications
 - Employee retention
 - Experience with type and size projects for which surety credit is sought
- **Capital**
 - Equity (net worth)
 - Working capital
 - Debt structure
 - Liquidity
 - Leverage
 - Available bank credit





VALUE PROPOSITION

A contractor's ability to provide a surety bond to guarantee completion of a construction project, both public and private, is an essential element in the decision to award the contract. His or her credit worthiness and experience are among the most significant conditions insurers consider when underwriting a bond.

However, many small business owners, particularly women and minorities, often have less experience and access to working capital and therefore have difficulty qualifying for surety bonds. When contractors cannot secure a bond, their options are either to:

- Not bid on the contract or
- Work as a subcontractor with a large and more successful company, which will allow the MBE to perform the job under that company's bond. This is a short-term fix that ultimately limits the MBE's options for future independent business opportunities.

While the bond application process can be complicated, the Commission's Bonding Prep program provides MBEs with the training, resources and information needed to eliminate barriers hindering successful surety bond underwriting decisions. If a company has the potential to be bonded, this program will enable it to succeed. When MBEs are able to obtain large construction contracts, everyone benefits. Employment opportunities increase, suppliers sell more materials, and communities experience new growth and activity.

"Surety companies predict outcomes for companies based on three key factors: the capital that's sustaining them, the experience they bring to the table, and, most importantly, the character and ability to work well with others. The Commission's Bonding Prep program helps minority contractors understand what the surety is looking for, which helps them establish a business plan that addresses these issues. It opens doors and puts them in contact with the right people to help them succeed."

*Kevin S. Keller
Independent surety agent and partner
Drengler, Liptak & Keller*

ONE MINORITY BUSINESS OWNER'S EXPERIENCE

Bonding Prep Program supports success

MAC Installations & Consulting LLC founded in 2002 and located in Bedford, Ohio, is a telecommunications and information technology company specializing in design, installation, test and maintenance of structured cable systems.

"We service customers in the health, education, manufacturing, and service industries of Cleveland and the outlying region. Our goal is to provide quality and warranted structured cable and wireless system solutions with unparalleled customer service, reliable and professional technical support, and sound and ethical business practices.

"One of the most profound changes in MAC Installations & Consulting LLC has been its involvement in the Minority Business Accelerator 2.5+ program for the past year. The program is sponsored by the Greater Cleveland Partnership and has been invaluable in providing

resources and hands-on training that have contributed to the growth and success of the business. Knowledge and resources obtained from participating in Bonding Prep and construction accounting training and assistance with infrastructure planning and development has enabled me to acquire a higher level of insurance with a new company and expand my customer base. Training has also enabled me to improve scheduling, planning and management of processes and resources.

"The program was also supportive in assisting MAC Installations with obtaining a subcontract for the Cleveland Metropolitan School



District's STEM (science, technology, engineering and math) High School project. Upon becoming a portfolio company of the MBA 2.5+, I had no idea how much my involvement with the program would change my business outlook and structure. I am grateful to have the assistance and support of an organization committed to supporting and developing small businesses."

Class helps company reap extra benefits

"I attended the Bonding Prep class seeking information that would help my company grow. I had no idea how much it would change the outlook of my company structure. I completed the Bonding Prep program with new Company Liability/Auto insurance and a construction accounting program."

Kenneth McElrath, Jr.
Owner
MAC Installations & Consulting LLC



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