

Surety Bonding for Small Contractors



PASADENA
Unified School District





Topics Covered

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02 Bonding vs Insurance

03 Construction Bond Types and Requirements

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What is a Surety Bond?

A three-party agreement where the Surety provides a guarantee (bond) to the Owner that the Contractor will fulfill their contractual duties.





Bonding vs. Insurance: Key Differences

Surety Bond

Protects: The project owner (*Obligee*)

Three-Party Agreement: Owner, Contractor, and Surety

Loss Responsibility: Contractor is ultimately responsible for losses

Repayment: Surety expects to be repaid for valid claims

Insurance

Protects: The policyholder

Two-Party Agreement: Insurer and Policyholder

Loss Responsibility: Insurance company generally assumes the risk

Repayment: Typically does not require repayment of claims

Why Are Surety Bonds Required?



Public Works Projects

Required for many public works projects when contractor values exceed established limits.



Project Completion

Protects the owner by helping ensure the project is completed per the contract terms.



Payment Guarantee

Guarantees payment to subcontractors, laborers, and suppliers involved in the project.



Accountability & Growth

Promotes business growth, professional accountability, and consistent performance standards.

Type of Construction Bonds



Bid Bond

Guarantees contractor will enter into contract at bid price, if low bidder



Performance Bond*

Guarantees completion of the contract in accordance with contract terms



Payment Bond*

Guarantees payment to subcontractors, laborers, and suppliers



Maintenance or Warranty

Guarantees against defects in workmanship or materials for a slated time after acceptance of the contract

* Performance and Payment Bonds are commonly known as “Final Bonds”

Bonding Process

STEP 1: PREQUALIFICATION - APPLY FOR A BOND

Obtain A Broker

Gather Required
Documentation

Broker Sends Submission to Bond
Markets

Letter of Bondability

STEP 2: BID ON A PUBLIC WORKS PROJECT

Identify Bidding Opportunity

Request a Bid-Bond

Submit Bid-Bond & Estimate

Bid Results Received

STEP 3: SUBMIT FINAL BONDS TO START JOB

Request Final P&P Bonds from
Broker

Finalize Contract with Owner (N.T.P. &
N.O.A.)

BEGIN WORK!

Information for Prequalification

The Three C's

Credit

- Financial Statements
- Cash Flow & Working Capital
- Net Worth
- Banking Relationships
- Cost Control Practices

Capacity

- Similar Project Experience
- Equipment & Resources
- Key Personnel
- Current & Future Workload
- Management & Continuity Plans

Character

- Project Owners
- Subcontractors
- Vendors & Suppliers
- Lenders
- Industry Reputation

Cost of Surety Bonds



Bid Bond

Cost: No charge or one-time annual fee.

Often used as a guarantee that the bidder will enter the contract if awarded.



Performance Bond

Cost: ½ - 3% of contract price.

Guarantees that the project will be completed according to contract terms and specs.



Payment Bond

Cost: Included with performance bond.

Ensures subcontractors and suppliers are paid for their work.

Bonding Resources for Small Businesses



Small Business Administration Bond Guarantee Program

- SBA guarantees up to **90% of the bond** to participating sureties.
- Supports small businesses seeking bonding capacity.
- Available for contracts up to **\$9 million** (or \$11 million for certain federal projects).
- Bank lines of credit may help strengthen working capital.



Escrow / Funds Control

- Helps contractors qualify for bonding by reducing payment bond risk.
- A third party manages project funds and pays project-related expenses.
- Often used by newer or growing contractors.
- Typically costs about **1% of the contract value**.



Other Resources

Bonding Back: Allows subcontractors to work under a prime's program.

Informal Projects: Opportunity to build performance history on smaller jobs.

Credit-Only Apps: Simplified process for smaller bond amounts.



THANK YOU!