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What is a surety bond?

It is a form of insurance or guarantee for a buying entity such as a public school board, city, county, federal government, etc. which is responsible for public funds that are used for procurement purposes.

A contractor must provide a bond for his work and if he fails to meet specifications or finish the job, the bonding company steps in and replaces the contractor with a competent entity and finishes or corrects the job with no increase in costs.

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It doesn't have to be that way. We can overcome this by providing technical assistance to our contractors and improve their readiness in the eyes of bonding companies.

The National Black Chamber of Commerce has come up with a remedy for this long standing

problem.

In conjunction with The Surety & Fidelity Association of America (the bonding companies) we are introducing an eight step program that will greatly improve the prospects for bonding by any contractor who successfully completes the course.

The following are the eight steps.

Step 1: Business Planning and Management for Construction – This module focuses on such areas as assessing or reassessing the legal form of the company. Areas covered include legal and corporate structures, certifications/licenses/permitting, establishing goals and objectives under a business plan, and issues related to company management, policies and procedures, and staffing.

Step 2: Construction Accounting and Financial Management – This module focuses on basic construction accounting concepts and will provide an overview from job costing to financial reporting as well as construction specific practices that introduce the contractors to construction accounting fundamentals.

Step 3: Banking and Financing for Contractors – This module addresses the need for capital equipment financing, how to determine working capital requirements, the use of lines of credit and establishing a banking relationship.

Step 4: Bonding and Insurance for New and Emerging Contractors – This focuses on what surety bonds are and the various types of surety bonds, how to begin the process of obtaining a bond, the role of the agent/producer and underwriter, the prequalification process, the 3 “C’s” i.e. capital, capacity, and character, the costs of bonding, and how to develop a surety bond relationship.

Step 5: Marketing, Estimating and Bidding – The marketing portion of this module focuses on such areas as identifying core company capabilities and determining company capacity, developing a marketing plan, identifying targets of opportunity, and making sales calls and visits.

Step 6: Project Management and Field Operations – This focuses on project specific activities, including hands on advice at the job site. It covers such topics as plan reading, estimating and bidding, types of contracts (lump sum, cost plus fee, etc.), common contract forms, project planning methods, job costing and scheduling, management of subcontractors, the proper expedition of change orders, and measuring project performance.

Step 7: Claims and Dispute Resolution – This focuses on such areas as mechanic's liens, the claims process under Miller Act payment bonds, the various mediation services and approaches available to a contractor in a dispute; the arbitration provision in standard form construction contracts and what it means, and when and under what circumstances does one consider litigation.

Step 8: Success Stories – This studies why some contractors succeed and others fail. It identifies the most common reasons why contractors, especially small contractors, fail.

This module also provides suggestions and approaches as to how to avoid these situations and the various management approaches and techniques that help to ensure contractor success.

The instructor will present “real world” examples of contractors who have succeeded, what pitfalls they were able to avoid and how.

Contractors entering into this program will be given a certain bonding capacity. Upon completion of the course that bond level will be increased.

The bonding company entering into a relationship with the contractor will anticipate a long term and productive relationship.

We will track the progress and monitor the impact on the local community in terms of jobs and production capacity.

This should be a “win, win” for everybody, including the participating contractors, customers, bonding companies and the community as a whole.

There is no cost for participating in this program.

We are introducing it into New Orleans during the first quarter of this calendar year. From there we introduce it to the State of Mississippi and then Lafayette, LA and then Shreveport/Bossier City, LA.

Any chambers or individuals wanting to know how to start a program in their communities should contact the National Black Chamber of Commerce.