National Association of Surety Bond Producers
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May 22, 2015

Mr. Jeffrey Benjamin, Project Director
City of Houston
Department of Public Works and Engineering
611 Walker, 19th Floor
Houston, Texas 77002

Re: NEWPP Design-Build Expansion Project RFP #DB15-01: Long-Duration Surety Bonds

Dear Mr. Benjamin:

I am contacting you on behalf of the National Association of Surety Bond Producers (NASBP), a national trade association of surety bond producers, including agencies employing licensed resident and nonresident producers placing bid, performance, and payment bonds in the State of Texas and all other jurisdictions.

We recently received information from some of our members that the City of Houston, Texas Department of Public Works and Engineering (DPW&E) has issued a Request for Proposal (RFP) for design-build services concerning the Northeast Water Purification Plant Expansion RFP #DB15-01 (Project). NASBP has significant concerns with certain provisions of the RFP because it appears that the DPW&E is requiring surety bonds for a period of up to ten years.

Section 2.3 of the RFP, Project Schedule, indicates that the Contract will run for about ten years, with two distinct phases ("two capacity milestones"). The RFP indicates that DPW&E requires performance and payment bonds (Bonds) that begin at Project inception and that will cover both phases of the Contract.

NASBP is very concerned about the potential duration of these Bonds. Contractors and sureties evaluate the total risk exposure on a project, including the duration of the risk. The longer the duration, the more risk involved, which impacts pricing. Lengthy durations, such as a ten-year exposure, pose considerable problems for sureties. Such durations increase substantially the uncertainty regarding underwriting projections. Simply put, sureties are less able to gauge the soundness and financial wherewithal of a particular construction company for periods extending too far into the future.

Significantly, a ten-year performance and payment bond requirement means that very few contractors will be able to obtain bonds covering such an unreasonably long duration. The Bonds, with their ten-year duration, will almost certainly reduce competition for the Project and increase the Project costs to DPW&E.

NASBP respectfully requests that DPW&E reconsider the ten-year requirement for the Bonds and consider accepting separate Bonds for each of the two phases of the Project. NASPB recommends having one set of Bonds issued to cover the first phase of the Project and another set of Bonds for the second phase of the Project. Such a modification would be in the interest of robust competitive bidding, lower Project cost, and enhanced reputation of DPW&E in the construction community.

Please let me know if you would like to discuss this matter. Thank you for your prompt consideration of and attention to NASBP's concerns.

Yours sincerely,

Martha L. Perkins

Martha L. Perkins
General Counsel

cc: Mark H. McCallum, CEO