



National Association of Surety Bond Producers

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BY ELECTRONIC TRANSMISSION (procurement@placer.ca.gov)

April 16, 2014

County of Placer
Department of Administrative Services
Procurement Services Division
2964 Richardson Drive
Auburn, CA 95603

Re: Long-Term Warranties for Auburn Animal Shelter Facility, Project No. 4639

Dear Madam/Sir:

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

We recently received information from our members regarding the Auburn Animal Shelter Facility, Project No. 4637 (Project), which imposes long-term warranty provisions on the general contractor and its surety. In particular, the provisions require the contractor to assume and share responsibility for various manufacturer warranties for materials used and installed in the work on the Project. Those warranties are as follows:

- 20-year roofing warranty
- 20-year warranty on various plumbing fixtures
- 5-year warranty on AC compressor
- 10-year warranty on heat exchanger, and
- 15-year warranty on stainless steel heat exchanger

Lengthy warranty periods, such as those of five (5) years and over, exceed the standard warranty period of one to two years for contractors in the United States and will restrict the availability for bonds on such projects. Lengthy warranty periods pose considerable problems from a surety underwriting perspective. Sureties are usually comfortable with issuing bonds for contracts with a warranty obligation of one or two years. Durations longer than two years increase substantially the uncertainty regarding underwriting projections about a contractor's future viability. Simply put, sureties cannot gauge the soundness and financial wherewithal of a particular construction company for periods extending too far into the future.

Long-term warranty obligations reduce competition from the standpoint of eliminating from the bidder/proposal pool all but the largest contractors, since only large contractors can shoulder the higher risks inherent in such contracts. Small contractors are effectively precluded, for they are less likely able to qualify for surety credit on such projects. With less competition and a smaller pool of potential bidders, the cost to Placer County for the Project will likely be higher.

NASBP respectfully requests that Placer County reconsider the contractor warranty requirement for the Project and delete the contractor's responsibility for manufacturer warranties.

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

Yours sincerely,

A handwritten signature in cursive script that reads "Martha L. Perkins".

Martha L. Perkins
General Counsel

cc: Mark H. McCallum, CEO
Larry LeClair, Director, Government Relations