



**National Association of Surety Bond Producers**

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**BY ELECTRONIC TRANSMISSION ([colacchiag@stancounty.com](mailto:colacchiag@stancounty.com)) AND U.S. MAIL**

September 30, 2013

Mr. Gino Colacchia  
Senior Construction Manager  
Stanislaus County Capital Projects  
2215 Blue Gum Avenue  
Modesto, CA 95358

**RE: Stanislaus County Juvenile Justice Center Roofing and HVAC  
Replacement: Addendum No. 2 and Bid Alternate No. 7**

Dear Mr. Colacchio:

I am contacting you on behalf of the National Association of Surety Bond Producers (NASBP), a national trade association of companies employing licensed surety bond producers, including those in California, about the proposed requirements for the long-term warranty and co-guarantee provisions in Addendum No. 2 and Bid Alternate No. 7 of the above-referenced project's proposed contract.

Addendum No. 2, dated September 19, 2013, deletes the co-guarantor language in the contract; but Bid Alternate No. 7 provides for co-guaranty of the long-term warranty. A lengthy warranty period, such as one of (20) twenty years, as specified in Section 07 54 20, poses considerable problems from a surety underwriting perspective. Sureties are usually comfortable in 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 the 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. The vagaries of the present economic environment further underscore the difficulty, if not the impossibility of underwriting guarantee obligations of long durations. Likewise, in the present economic environment, sureties are reviewing contract requirements more closely to discern provisions that pose special underwriting difficulties or that shift risk imprudently.

Long-term warranty obligations also reduce competition from the standpoint of eliminating from the bidder/proposal pool all but the largest contractor, since only large contractors can shoulder the higher risks inherent in such contracts. Small contractors effectively are precluded, for they likely will not have the sophistication to adequately price such long-term warranty obligations and likely will not have a sufficient level of financial capital on hand to

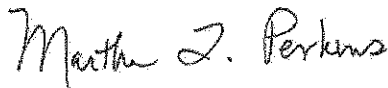
provide the surety with assurance of the small contractor's fiscal strength and ability over an extended period of time.

The Stanislaus County Juvenile Justice Center Roofing and HVAC Replacement is a project undertaken by a public entity, which undoubtedly seeks to maximize the inclusion of small and disadvantaged businesses. The 20-year warranty in Bid Alternate No. 7 runs counter to achieving such a goal. Shortening the duration of the contractor's warranty will better serve the purposes of small business inclusion by maximizing, not reducing, competition.

We respectfully request that Stanislaus County reconsider the 20-year contractor warranty and remove Bid Alternate No. 7 from the contract. A contractor warranty term of one or two years is a pragmatic approach, and the longer warranty obligation should be provided solely by the manufacturer.

We appreciate your prompt consideration of our concern. Please feel free to contact me at 202-464-1214 or [mperkins@nasbp.org](mailto:mperkins@nasbp.org) should you wish to discuss further this matter.

Yours sincerely,

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

Martha L. Perkins  
General Counsel

cc: Mark H. McCallum, CEO