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NATIONAL ASSOCIATION OF SURETY BOND PRODUCERS

New Infrastructure Spending Brings Opportunities, Challenges to Contractors

By Rick Whitslar of Westfield

Signed into law last November, the Infrastructure Investment and Jobs Act provides $1.2 trillion in spending over a five-year period, with funds earmarked for many types of construction projects. Among them are $110 billion for roads and bridges, $55 billion for water projects, $39 billion for public transit, $25 billion for airports, and $66 billion for railroads.

While this influx of funds will be a boon to the U.S. construction industry, it comes at time of immense pressure on contractors to meet their contractual obligations. Shortages in building materials, significant price increases, and a lack of skilled labor are already making it difficult for general contractors to procure needed supplies and line up subcontractors.

So the infrastructure law is a bit of the classic good news-bad news story. For contractors that do this type of work or have the ability to enter this space, it could be a windfall. Yet for contractors who are unable to ramp up or project owners concerned about finding qualified firms to take on more work, it could be a challenge.

For surety companies and bond producers who specialize in this market, it's an opportunity for more business. But those opportunities will be tempered by the current reality of material and labor shortages and price inflation. The last thing a surety wants to see is a contractor take on too much work, become overextended, and fail on a project.

The Basics of Underwriting

In the rush for contractors to line up new jobs, sureties and bond producers must keep in mind the basics of solid underwriting. These aren't anything new. Think of them as timely reminders of the things we should always be looking at:

- Does the contractor have demonstrated experience in the line of work it is bidding on?
- Can the contractor manage the work? Does it have enough people with the right skill sets?
- Does the contractor have the right equipment?
- Does the contractor have the right estimating systems, job-costing, and project-management systems?
- Is the contractor adequately capitalized? Does it have enough credit at lending institutions to tide them over if there is a cash-flow crunch?
- How does the contractor prequalify subcontractors and mitigate the risk of subcontractor default?
- Does the contractor have the capacity to take on potentially larger backlogs if spending ramps up?

At the same time, there are contractors who may be looking to grow their businesses and enter new areas. The new infrastructure law brings tremendous opportunities that won't be coming our way again for quite a while. If confronted with this situation, here are suggestions to assist the contractor that may not have proven experience in the public contracting arena. The contractor should:

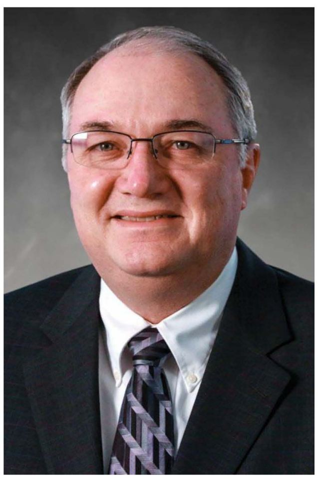
- Prepare a detailed business plan that describes what it wants to do and how it will take on new business. Where will it get the people, equipment, and financing? The contractor should explain the planned pace of growth expectations for job type, job size and total backlog desired over the next one to three years.
- Prepare projected financial statements with balance sheets, cash flows, and profit-and-loss statements for a one- to three-year period.
- Hire a construction-oriented attorney, CPA, and lending institution for assistance. It's crucial that the contractor has professionals who know the construction industry and who will provide advice through the expansion.
- Most importantly, the contractor should find an experienced surety bond producer for guidance through the bonding process.

Helping Contractors Grow

In short, why does this contractor want to expand now? Where does the contractor want the company to go and how does it plan to get the company there? Perhaps the contractor has done utility work or residential site work and now wants to move into road construction. Whatever the reason, the contractor should take the time to discuss these new opportunities and assess whether the company's capabilities will match up with the vision for the future of the company.

By offering expert guidance and insisting on sound financial and management practices, bond producers and surety companies can help contractors responsibly take on new and larger infrastructure projects. At the same time, surety provides a valuable service to obligees by prequalifying contractors. Bonding gives project owners the confidence and security that a job will be completed because a surety company is standing behind the work.

We can all be proud that surety has an important role to play in rebuilding and improving our nation's infrastructure. Surety helps protect U.S. taxpayers' investment in roads, bridges, and other projects. And it also makes it possible for our clients to expand and grow their businesses.



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