

Editorial Contact: Richard Hahn (716-372-2443)
Rich@richardhahn.com

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Insurance With Assurance

Types of Construction Bonds *by Rick Janis*

What types of Bonds do I need to bid on federal, state and municipal contracts?

As many alarm companies have already discovered, there is a very excellent and profitable business venture waiting for them to get involved in. However, that work requires that the job be Bonded.

Typically these types of jobs involve the federal or state governments, municipalities and school districts although it is not unusual to see corporations requiring that jobs be Bonded as well. The reason this can turn out as a lucrative opportunity for many alarm dealers is the fact that once the owner stipulates that the job to be bid requires a Surety Bond, that substantially reduces the number of alarm of alarm companies that qualify to obtain a Bond and bid a Bonded job.

By reducing the number of competitors, you set yourself as being unique and apart from the majority of alarm companies who are not Bonded.

In addition, the work performed for state and federal governments (and sometimes municipalities and school districts), requires that the bonding company be what they call a "T" Listed Bonding or Surety Company. The terms Surety and Bonding are somewhat interchangeable. However, Surety denotes specifically within the realm of Bonds those that are Construction Bonds.

"T" Listed Surety companies are those listed under the U.S. Treasury list of approved bonding companies that are allowed to provide those Surety Bonds for any federal, state or municipal governments contracts. Again, along with that requirement, the field is further narrowed because not every bonding company is on the "T" list.

There are two parts to the Surety Bond and the bidding process. Usually the owner specifies that a job will be bid on a certain date and subject to specific specifications that the owner requires. Accompanying your bid, which details that you are complying with their specifications for installation and equipment components, should be a Bid Bond.

The Bid Bond accompanies your bid for the job and is usually written in the amount of 5-10% of your contract bid. This Bond in effect guarantees to the owner that if you are the lowest bidder then you will subsequently enter into a contract with the owner for the job and will complete it within the contract terms. That means that all installation and equipment specifications will be met and the job will be completed within the time allotted and at the price you have entered in your bid.

Having been awarded the job as the lowest bidder, the owner will then set a date for the Contract to be signed and the alarm company will be required to bring a Performance and Payment Bond equal in amount to the contract cost.

The Performance and Payment Bond is a financial instrument that guarantees to the owner that the job will be completed per the contract specifications and within the completed timeframe and for the exact price of the contract.

All of these bonds come under the umbrella term, "Surety Bond." Usually, obtaining a bond requires submitting several years of business financial statements prepared on a review basis by a CPA. The good news for alarm companies is that there is now one company that will issue Surety Bonds without your financial statements. That willingness opens up a real opportunity for alarm dealers to compete in an arena that they normally would not have access to due to the stringent financial documentation requirements of most Surety Insurance Companies.

Rick Janis is a Certified Insurance Counselor and president of the Alarm Insurance Agency. With over 7 years of experience in the security industry, he has been responsible for developing and managing comprehensive insurance and bonding programs for alarm dealers and monitoring companies. Rick is CEU certified by NBFAA and teaches CEU courses to the alarm industry on General Liability/Errors and Omissions and Worker's Compensation. He can be reached at 800-474-0933 or by fax at 800-240-0631. You may also e-mail him at rjanis@alarmins.com.