



CITY OF HOUSTON
OFFICE
of
BUSINESS OPPORTUNITY

BUSINESS BONDING

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The Office of Business Opportunity is committed to creating a competitive and diverse business environment in the City of Houston by promoting the growth and success of local small businesses, with special emphasis on historically underutilized groups by ensuring their meaningful participation in the government procurement process.



Table of Contents

ABC's of Bonding	Page 2
How SBA's Guarantee Can Help You Get a Surety Bond	Page 2
Am I Eligible? How Can I Apply?	Page 2
Texas Utility Deposit Surety Bonds	Page 3
City of Houston Bonding Requirements	Page 3

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This material is not intended to provide or take the place of legal or professional financial advice. If you need advice, look for a professional financial manager, consultant, accountant, and/or attorney.

ABC's OF BONDING

www.sba.gov/content/surety-bonds

www.tdi.texas.gov/commercial/pcbond.html

A surety bond ensures contract completion in the event of contractor default. A project owner (called an obligee) seeks a contractor (called a principal) to fulfill a contract. The contractor obtains a surety bond from a surety company. If the contractor defaults, the surety company is obligated to find another contractor to complete the contract or compensate the project owner for the financial loss incurred.

There are four types of surety bonds:

1. **Bid Bond:** Ensures the bidder on a contract will enter into the contract and furnish the required payment and performance bonds if awarded the contract.
2. **Payment Bond:** Ensures suppliers and subcontractors are paid for work performed under the contract.
3. **Performance Bond:** Ensures the contract will be completed in accordance with the terms and conditions of the contract.
4. **Ancillary Bond:** Ensures requirements integral to the contract, but not directly performance related, are performed.

Any Federal construction contract valued at \$150,000 or more requires a surety bond as a condition of contract award. Most state and municipal governments as well as private entities have similar requirements. Many service contracts, and occasionally supply contracts, also require surety bonds.

The U.S. Small Business Administration (SBA) guarantees surety bonds for small contractors that might not qualify otherwise – and the process of getting the guarantee is easier and faster than you might think. For example, SBA's Office of Surety Guarantees usually processes applications for bond guarantees within two days, processing claims in just nine days.

How SBA's Guarantee Can Help You Get a Surety Bond

Under the Surety Bond Guarantee Program, SBA guarantees surety bonds for small businesses in federal, state, local and commercial contracts and subcontracts. SBA guarantees include construction, services and supply contracts. The program is intended for small companies that may not otherwise qualify for conventional surety bonds. Small companies, after all, might lack either the contracting experience or the financial strength to get a surety bond directly from a surety company. The SBA can step in by leveraging its federal partnership with the surety industry to guarantee a bond and help mitigate the risk of contract default. Surety companies that work with the SBA are certified by the U.S. Department of the Treasury.

SBA guarantees three types of surety bonds: bid bonds, payment bonds, and performance bonds. Each protects a different aspect of the bidding process and the contract. For more information on their differences, see the SBA's our Surety Bonds: Explained page (URL above).

Am I Eligible? How Can I Apply?

Because SBA does not offer bonds directly, you'll need to first apply with a surety company or agent. The underwriting for surety bonds varies depending on the issuer, but there are a few key factors that most sureties consider when evaluating your company's application. Among these are: the adequacy of working capital and cash flow to complete the project; past performance history, business debt and equity, and the capacity to complete the contract, and the personal history and character assessment. Surety companies often refer to these requirements as the "three C's – capital, character and capacity." More information is available on our SBA Surety Bond Guarantee application page.

You'll also have to meet several SBA requirements. Most importantly, SBA guarantees are to small businesses that cannot secure a bond on their own. The contract in question must also be valued at less than \$2 million; and your business must qualify as "small" according to SBA's size standards / NAICS Code.

Once you've found a surety company or agent, you can get started. For the SBA portion of the application, go to the SBA forms web page to locate and review the required paperwork. There are several fees associated with both the commercial bond and the SBA guarantee.

Texas Utility Deposit Surety Bonds

Utility deposit surety bonds are offered as secure financial guarantees that any bill for utilities will be paid on time by a customer. In today's economy most utility companies require utility deposit surety bonds to be purchased as a deposit before the power can be turned on for a consumer (business).

The utility deposit surety bond is a way for the utility company to protect itself from the possibility of non-payment from the consumer. The utility deposit surety bond also protects the consumer because it prevents the utilities from being turned off due to late payment.

City of Houston Bonding Requirements

The three most common forms of bonding are bid or proposal bonds [deposits], performance bonds and payment bonds. User departments must advise the proposers in a solicitation if a bond is required, e.g., irrevocable letter of credit or cashier's check. When determining to use a bond, remember that the cost of a bond is passed on to the department by the proposer. Some bonds are required by statute for specific types of procurements. Consult with legal counsel for questions about bonding requirements.

The City of Houston has prepared a Procurement Manual for use by companies considering bidding on City contracts. Information on bidding, general requirements, and the procurement process can be addressed by the City of Houston Strategic Purchasing Office, or you can download a copy of the Manual at:

www.houstontx.gov/legal/coh_procurementmanual.pdf