

Local Agency Pavement Warranties – A Surety Perspective

Michigan Concrete Association
2018 Winter Conference
February 22, 2018



Joel Speckman, Surety Practice Leader – Hylant – Chicago, IL
Marcie Waldron, Bond Manager -Liberty Mutual Surety – Troy, MI

Legislative History of Long-Term Warranties in Michigan

- Public Act 79 of 1997
 - Encourages five year warranties on state trunk line projects where possible
- 1997/1998 Transportation Budget Act
 - Added language to include counties, cities, and villages
- 1999
 - Legislature encourages the road construction industry to develop performance & road construction warranties
- 2000
 - Act 51 Committee recommends all road agencies seek warranties from contractors where appropriate

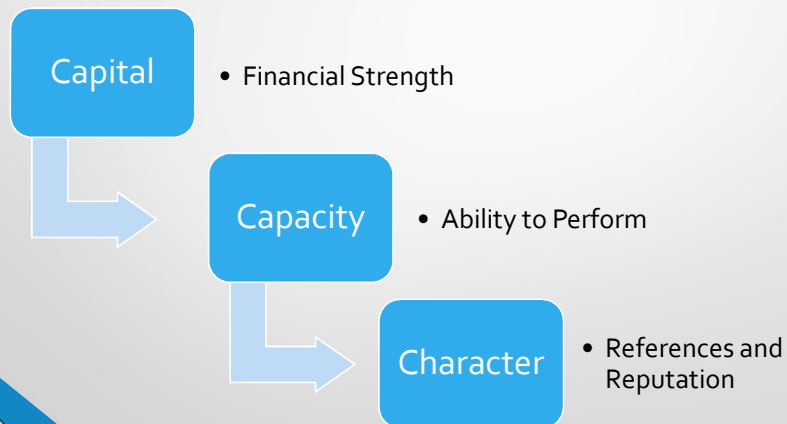
5-Year Warranties Considered only for Best-in-Class Contractors

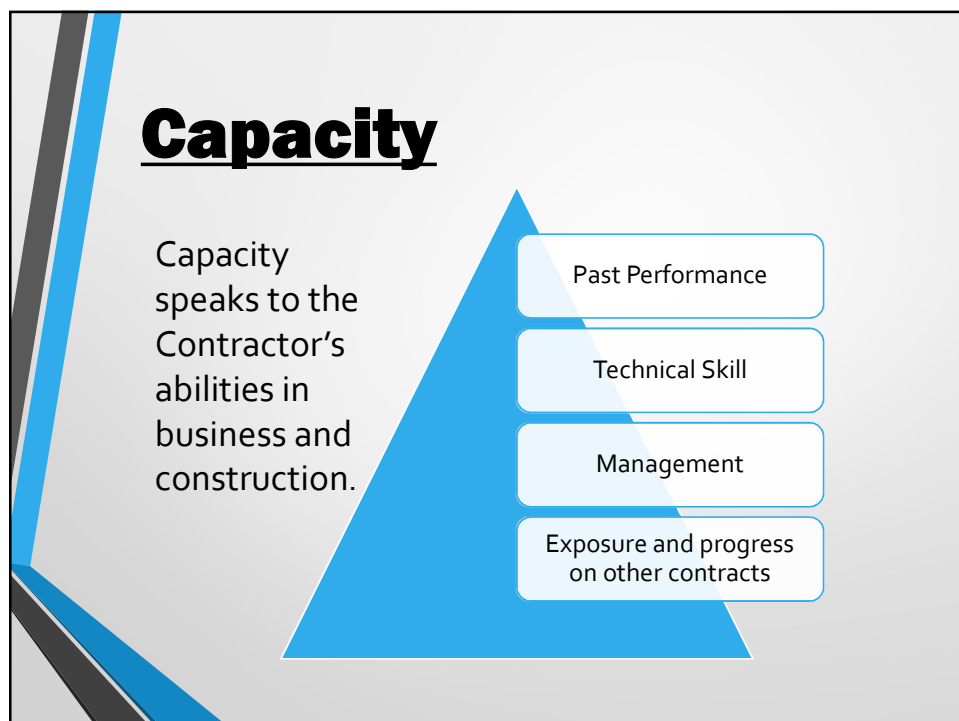
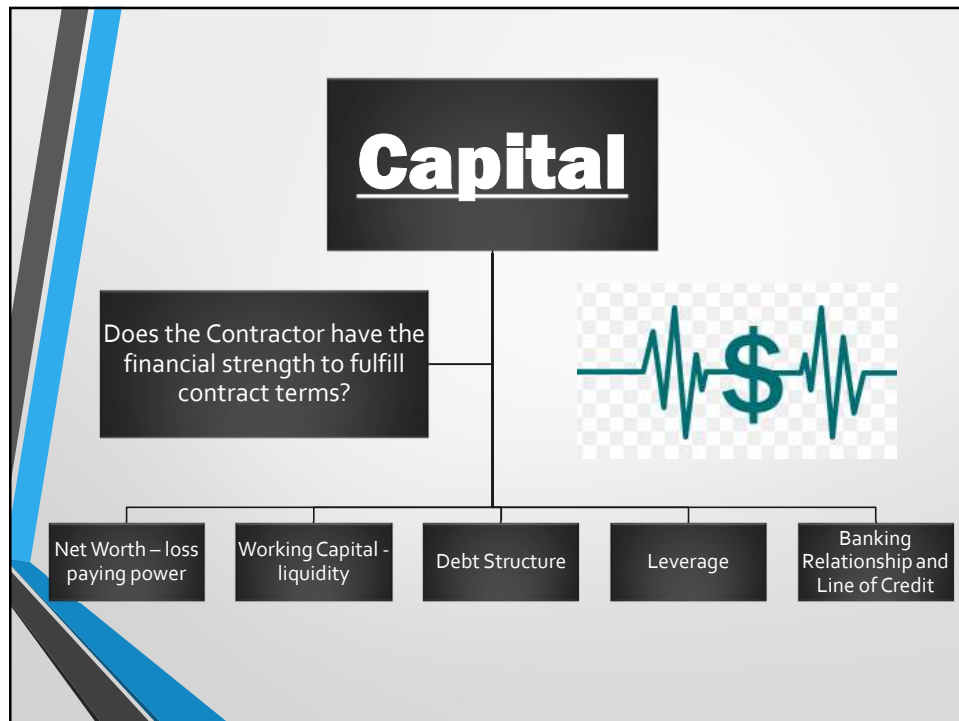
Why?

- No Crystal Ball
- Fault
- Surety Reinsurance



Surety Prequalification: **The Three C's**





Character

Experience and Reputation

Length in Business

Relationships with subcontractors, laborers, material suppliers, architects, engineers, and owners

Historically, how has the contractor performed?

Character and Capacity information needed by a Surety includes:



- Contractor's questionnaire
- Organizational chart of company
- Resumes of key personnel
- Contractor's business plan
- Continuity and contingency plans
- Subcontractor and supplier references
- Letters of recommendation

Capital information needed by a Surety includes:



- Financial statements, CPA-prepared (last 3 years and current)
- Work in Progress (last 3 years and current)
- Current company tax return
- Aging of Accounts receivable schedule
- Personal financial statement
- Bank line of credit

Financial statements are commonly presented in three forms:

Minimum
to consider
long-term
warranty

1. Compilation

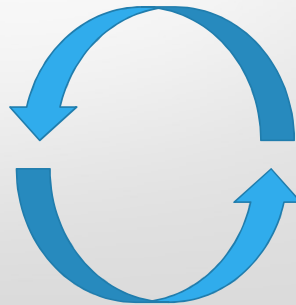
→ 2. Review ←

3. Audit



Routine Financial Adjustments Made by Sureties:

- Accounts Receivable
- Underbillings
- Goodwill/Intangibles
- Deferred Tax Assets
- Shareholder Notes Receivable
- Inventory
- Marketable Securities
- Subordinated Debt
- Corporate Tax Accruals
- Depreciable Fixed Assets
- Cash Value of Life Insurance



IMPACT



- Reduced Competition
- Increased Cost of Work
- Increased Supervision Costs