Surety *protects.*

All data based on analysis by EY

Surety Bonds *protect taxpayers & get the job done right*

Public construction projects like highways and transportation infrastructure, water projects and schools deploy taxpayer dollars to advance the public good – so ensuring project success is a vital responsibility for government agencies.

The benefits of surety bonds extend well beyond protection from default – reducing taxpayer costs, putting well-qualified contractors on the job, supporting local small businesses, and saving project time.

Surety bonds ensure qualified contractors are on the job.

- Surety companies lead an appropriate prequalification process that includes in-depth analysis of a contractor's finances, billing patterns, jobs-in process, timeliness, of completion and more.
- Greater experience delivers greater efficiency: by vetting and prequalifying contractors, sureties save public construction leaders time.
- Unbonded construction projects are more likely to default than bonded projects – perhaps by 10 times.

Surety bonds protect taxpayers.

- Using a surety bond on a typical $35 million construction project protects taxpayers from an $8 million loss in the event of contractor default.
- Should financial difficulties arise, a general contractor is five times more likely to prioritize finishing bonded projects than non-bonded ones.
- If a contractor defaults, surety companies intervene, saving public construction leaders time and headaches – and saving taxpayers additional costs.

Surety bonds protect small businesses and local workers.

- When a contractor defaults on an unbonded construction project, the cost of completion is 85% higher than on projects protected by surety bonds.

Surety bonds pay for themselves, saving taxpayers money.

- Analysis by global consulting firm EY finds portfolios of bonded construction projects outperform unbonded project portfolios.
- Even for projects that don't end up defaulting, the cost savings for a bonded portfolio of projects cover the cost of the bonds themselves.
- Three-in-four developers surveyed by EY reported surety bonding reduces contractor pricing due to greater project certainty provided by surety bonding.
- When bonds are used on a typical $35 million construction project, surety bonds deliver $141,000 in taxpayer savings even if a default never occurs.

Surety bonds get the job done.

- Surety bonds guarantee contractual obligations are met and projects are delivered.
- But when completion of a bonded project is threatened, the surety company intervenes to give a contractor technical expertise, extend financial support, and quickly get the project back on track.
- If a contractor defaults, the surety will hire a qualified replacement contractor or even handle rebidding the contract.

What's a surety bond?

A surety bond for a public construction project is a three-party written agreement under which the surety company guarantees a government agency that the principal (typically a general contractor) will execute work according to contract terms. The surety bond protects the government agency by guaranteeing performance if the contractor does not fulfill its obligation.

All data in this document based on analysis prepared by EY. Survey results based on EY-SFAA Value of Surety Survey (September 2021). The survey contained responses from 100 owners and developers of construction projects in the public and private sectors. Costs are estimated based on the EY-SFAA survey. Dollar amounts are calculated as the anticipated hours of work saved times the average hourly wage paid to construction managers (occupation 11-9021). Public construction leaders are employees that plan, direct, or coordinate activities concerned with the construction and maintenance of structures, facilities, and systems; construction leaders participate in the conceptual development of a construction project and oversee its organization, scheduling, budgeting, and implementation. Data are from U.S. Bureau of Labor Statistics' National Occupational Employment and Wage Estimate. Default costs are based on data from SFAA loss severity study; provided to EY in May 2021 by SFAA. Loss is spread over the cost of the project and in present value.

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