SBS IN THE NEWS

Staten Island Advance

City reforms bonding policy

Requirements eased and opportunities increased for small and minority-owned businesses

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Mayor Michael R. Bloomberg announced yesterday that the city has reformed its bonding policy, easing requirements and increasing opportunities for small and minority-owned businesses. The revisions will make it easier for small contractors in Staten Island, and throughout the other boroughs, to compete for New York City public works contracts.

The U.S. Small Business Administration (SBA) has approved the measures, which will allow the city's small businesses to participate in the federal Surety Bond Guarantee Program, which helps companies secure bonds required to do business with the city. The change will open up contract opportunities for these businesses of up to $500 million a year.

"Smaller contractors often have a tough time securing the bonds necessary to back city contracts, but we're taking aggressive steps to change that. Our companies will now be able to benefit from the federal program that's designed to help them secure the bonds and get the jobs. Not only will it mean hundreds of millions of dollars in new contract opportunities for New York City's small businesses, it will also mean reduced construction costs for the city as the pool of bidders will increase significantly," said Mayor Bloomberg.

Helping small businesses grow and making it easier to operate in New York City is part of the Bloomberg Administration's "Five Borough Economic Opportunity Plan."

"This new bonding policy removes barriers for many of our small businesses," said Department of Small Business Services Commissioner Robert W. Walsh. "Our goal is to encourage more participation in City contracting and create more opportunities for these businesses that are crucial to our city's economic growth."

DIFFICULTY SECURING

PERFORMANCE BONDS

New York City requires companies doing business with the city to obtain performance bonds for all construction projects greater than $500,000, but smaller contractors often have difficulty securing them. The reforms will allow the city's small businesses to participate in the SBA Surety Bond Guarantee Program, which helps companies secure the bonds.

Smaller contractors, especially recent start-up businesses, have often experienced difficulty in securing bonds, which has been made even more difficult with the recent tightening of the credit markets. Historically, the program has been unavailable to bidders on New York City capital projects because of the terms of the City's performance bond form.

Last year, Mayor Bloomberg convened the Capital Cost Containment Task Force, led by Deputy Mayor for Operations Edward Skyler and Deputy Mayor for Economic Development Robert C. Lieber, to identify opportunities to reduce construction costs. A key mandate was to evaluate the city's bonding requirements, which are intended to protect the city against the risk of contractor default, to ensure that the city was appropriately balancing the need for such protections against the potential loss of some qualified competitors and the resulting impacts on construction costs.

As a result, a comprehensive review was conducted by the Mayor's Office of Contract Services, the City's Law Department, and the Departments of Design and Construction and Small Business Services, which resulted in the bonding policy reforms.

PRIME CONTRACTS

The new bond form will be used for all prime contracts that do not exceed $5 million, and the city is encouraging prime contractors on larger projects to permit their subcontractors to use the SBA bond form for qualifying subcontracts. The contracts include projects from the City's departments of Environmental Protection, Parks and Recreation, and Design and Construction. SBA's Surety Bond Guarantee Program gives bonding agents an incentive to provide bonding for eligible contractors, and thereby provides greater access to contracting opportunities.

A surety guarantee -- an agreement between a bonding agent and SBA -- provides that SBA will assume a predetermined percentage of loss in the event the contractor should default on its contract with the City and not satisfy its obligations.

Under the new policy, SBA will assume the risk of 80 percent of the losses in such an event.

The American Recovery and Reinvestment Act (ARRA) recently increased the limit of the SBA's bond guarantee program from $2 million to $5 million, thus increasing the benefits of the program.