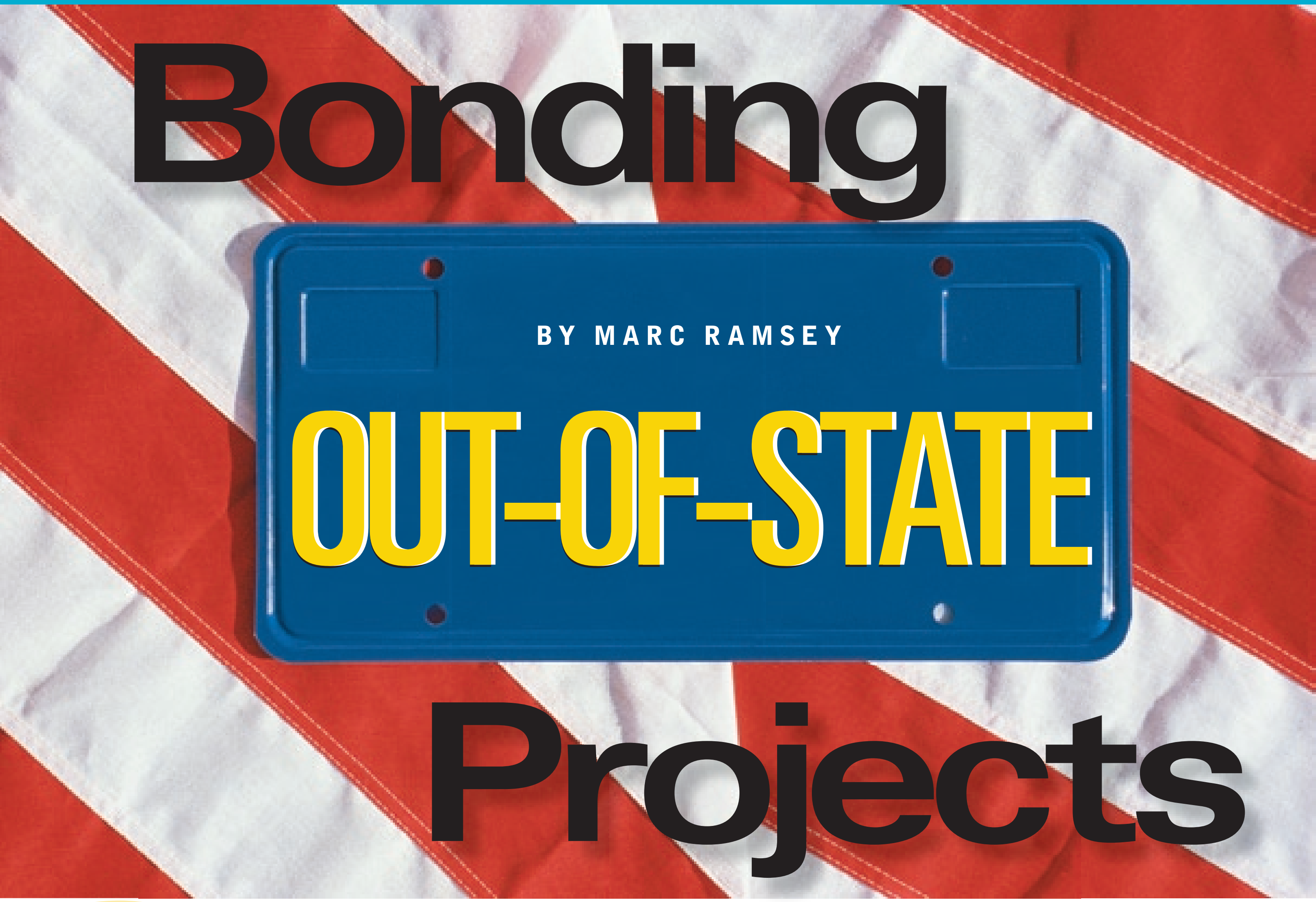

Bonding OUT-OF-STATE Projects

BY MARC RAMSEY

FOLLOW THIS ADVICE BEFORE ENTERING A NEW MARKETPLACE

Contractors considering bidding on out-of-state work should always question their motives.

"Surety capacity is not limited to your own backyard," acknowledges Terry Lukow, executive vice president of Travelers Bond, Construction Services. "But you have to ask, why—if the market is so robust—do you feel like that is the best way to allocate your surety capacity?"

Does the firm have a solid rationale for pursuing work out of state? Is it prepared to enter a new market? Has the firm researched the local subcontractor market? Does it have the proper personnel and processes in place to succeed in that market? Has it strengthened its balance sheet in light of unforeseen risks?

"Contractors demonstrating such foresight and planning are more likely to obtain the requisite bonding for projects in new markets," explains Sarah Finn, president of the National Association of Surety Bond Producers (NASBP), and national surety vice president of IMA of Colorado.

All construction is local. Many contractors that attempt to penetrate a new marketplace underestimate the learning curve involved in playing what amounts to a firm's first "away game."

To minimize the risk and frustration involved in doing a major job outside of a firm's normal operating region, Michael J. Cusack, senior vice president, managing director and operations board member of Aon Construction Services Group, recommends contractors adhere to the following approaches:

- travel with a repeat owner/client;
- involve a local joint venture partner;
- try to use a mixture of existing subcontractor relationships and newer firms;
- look to a major subcontractor to help with local relationships;
- integrate long-standing employees with employees hired in the new location;
- limit expansion to one new region at a time; and
- try to limit the scope of the project engagement to a skill set that is well within the firm's past experience and core competency.

"You must be familiar with the marketplace opportunities, pitfalls and nuances that will impact the success or failure of your

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construction company," advises Terrence Cavanaugh, senior vice president and managing director of Chubb & Son Inc., and chief operating officer of Chubb Surety.

Also remember that construction is really a provincial type of business. "Practices that work with owners and subcontractors in one area of the country may not work in other areas of the country," says Timothy Mikolajewski, senior vice president of Safeco Surety.

Michael F. Greer, vice president, surety and fidelity, of Penn National Insurance Co., says contractors should ask: "How fair and equitable is the new owner? Why can't the local contractors do the work? Do the locals know something that you don't? What can an out-of-state contractor bring to the table that no one else can? Can you get enough of a profit margin and contingency in your price to cover the mistakes you are bound to make on your first couple of jobs?"

When pursuing out-of-state work, Greer recommends making sure it is a small project that can't endanger the entire business.

Adds William Cheatham, president of Zurich North America Surety: "Dive deep into the project to find the risks within your own organization and the skill level of your people, and present the risks and why it is advantageous to go out of state as opposed to staying in state."

Sureties will look for some connection between the new region and the contractor, such as knowledge of the labor markets, subcontractors, suppliers, local politics and the legal environment.

"A surety is going to be looking for a strong underwriting case from a contractor seeking to expand its geographic reach to untested markets," says Rick Kinnaird, chair of the board of The Surety & Fidelity Association of America (SFAA), and senior executive, surety, of Westfield Group. "Sureties will encourage the contractor to ease into new markets, taking on smaller projects to get a working understanding of the new territory."

Experience has demonstrated a number of recurring themes that contribute to contractor failure, and operating outside of a contractor's normal territory is one. Whenever a construction company works outside of the arena that has contributed to its success, it must accurately assess the risks associated with the departure from standard operating procedures.

"Failure to properly identify, quantify and price these exposures can have a catastrophic financial impact," says William A. Marino, chairman and CEO of Allied North America. "When requesting surety support for an out-of-territory project, underwriters will want to gain an understanding of how issues such as labor and subcontractor relationships will be managed. We find that successful contractors are skilled at making difficult decisions, and unsuccessful ones unknowingly make uninformed ones."

Henry W. Nozko, Jr., president of ACSTAR Insurance Co., says pursuing out-of-state work is not a big issue as long as the contractor has some experience in the market sector. "If a contractor has never done a job out of state, most surety companies will not say 'no.' It can't be the largest or most lengthy job they've done. If it's in terms of what is usual for that contractor, the surety will probably be supportive," Nozko says.

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