

# THE BOTTOM LINE



EXCELLENCE IN  
BONDING

December 2009

Vol. 10 Issue 5

## IDENTIFYING TOOLS TO COMPETE IN TODAY'S ECONOMY: STRENGTHENING YOUR BOTTOM LINE

### Contributing Staff

Louis J. Spina  
Anthony J. Panno  
Denese Thompson  
Lydia O. Baker

The current state of our economy has virtually frozen privately financed construction for the foreseeable future. With minimal lending from financing institutions, many contractors, small and large, are concerned about future backlog. Already large multi-million dollar projects have been stopped in their tracks because some private owners have lost the financing on projects or have decided to wait until the economy improves so that the return on their investment is more promising. As a result, many private sector contractors have seen their backlog dry up. These contractors, whose livelihoods rely on privately financed projects, are finding the pickings very slim. The logical step in situations like this is to move to where work is available.

### Location! Location! Location! Position Yourself to Compete!

The immediate issue that faces many knowledgeable and experienced private sector contractors is Surety bonds. Most privately funded projects do not require bonding because many private owners do not want to pay the minimal cost of Surety protection. Contractors who are not required to obtain Surety bond credit, are usually more relaxed in their financial presentations, concentrating on tax planning rather than positioning for financial credit.

While this approach is logical for contractors reliant on the private sector for work, contractors hoping to compete effectively during an economic downturn would do well to adjust their strategic approach. More and more contractors are entering the public sector to fill

the ever-widening gap left by the decreasing private sector. Many are unprepared and unaware that the requirements mandated by owners of public projects are much more stringent than those of the private sector owners.

### Invest in Your Future!

Many owners of public projects require only bonded applicants apply. In a competitive market with diminishing opportunities, a contractor without surety credit may find such restrictions detrimental. But acquiring Surety credit requires an investment on the part of the contractor. Surety companies need to qualify prospective contractors by assessing their financial strength, background, performance, and outlining future goals. It is not simply a matter of getting a bond but creating a

*(Continued on page 2)*

### Famous Quotes

*Jumping at several small opportunities may get us there more quickly than waiting for one big one to come along—  
Hugh Allen*

*When written in Chinese the word "crisis" is composed of two characters—one represents danger and the other represents opportunity—John F. Kennedy, 1959*

## THE IMPORTANCE OF TIMELY PREMIUM PAYMENTS

Paying your bond premiums on time is not only expected, but is taken into consideration when the underwriter does its annual review of your account. It had become common practice to pay the bond premium once the project for which the bond was written starts and the first requisition is paid. Underwriters had come to expect this and accepted this as a matter of course. However, in today's marketplace, this is no longer being accepted as common practice.

The surety's liability starts as soon as the bond is issued and filed with the obligee. If between the times you file the bond and the job actually starts you default on the contract and cannot start or complete the work, the surety is fully liable to the owner to go in and complete the project. This is no different from any other insurance product. Your auto liability coverage begins the day it is bound by the underwriter. If you're in an accident the same day your coverage is bound, you are cov-

ered. Hence, most auto underwriters require a deposit premium up front for a new policy. Unlike other insurance products, however, most surety bonds cannot be cancelled for non-payment of premium. Therefore, the entire premium is due at the time the bond is written.

Most underwriters will allow a 30-day grace period, but this is extended to the surety bond agent. The agent in turn

*(Continued on page 3)*

## IDENTIFYING TOOLS TO COMPETE IN TODAY'S ECONOMY: STRENGTHENING YOUR BOTTOM LINE

*(Continued from page 1)*

partnership.

### The Right Team!

Surety credit is a normal part of business for contractors already involved in public work. State and federally funded projects require, under the Miller Act (Federal) and Little Miller Act (State) laws, that Surety bonds be provided to protect the public funds designated to the project. As a result, Surety companies hold contractors to a higher standard of review.

Project success and failures are also tracked and adjustments in a contractor's Surety program are made depending upon project and financial results. In effect, Public Works contractors have a silent business partner (the Surety Company) that they have embraced either willingly or out of necessity. This partnership can bolster your company's ability to effectively compete.

Contractors who do private work could qualify for Surety credit if they make the commitment to improve their financial presentations. Yes, it might cost a bit more in accounting fees and you might pay some additional taxes, but there are excellent CPA firms specializing in contractors and will work with them to walk that fine line between surety credit and tax planning. Qualified Surety agents are an asset in addressing those areas

where your company might fall short. They provide the know-how to place you with a surety market that would best fit your specific needs.

### Pay Attention to the Economic

#### Barometer!

The economy has become ultra conservative and lending money to finance private enterprise has become an adventure. The lending institutions are nervous and when they do lend money, all precautions are taken. There has been a marked increase in the amount of surety bonds required by owners that have been successful in obtaining financing. The lending institutions are behind this as they see Surety Bonds as an added means of protecting their assets.

All businesses are being faced with difficult decisions today. The questions for Contractors are 'How far are you willing to lower your price to maintain a backlog?'

'How long can your business survive with reduced profit margins?'

'Do you have the resources to invest in your future?'

Private and public contractors who are serious about staying in business need to maintain their backlog to ensure longevity. Diversity and flexibility in today's market will increase your chances

of success. Contractors with a bond program can look for both public and private projects. They have a distinct advantage over those contractors who have not established Surety programs. It is expected that contractors who have worked in the private sector may soon be required to obtain surety credit. Whatever lies ahead for the future of the private sector, can you afford to be unprepared?

### Seize Opportunities!

It is not that hard to establish a solid Surety program. One benefit of this economy is that Surety companies are suffering as well. They are looking for new business opportunities, tentatively expanding their markets to capture those segments overlooked in the past. This might be your chance to emerge as a viable competitor within your market segment.

Yes, there is some expense in establishing your company with Surety credit, but if you are a serious contracting firm, you will view it as an investment in your future growth. At the very least, it is worth investigating how such a move will affect your business now and in the future. There are some businesses that find success in adversity. It is difficult out there today, but, if you find a way to survive the current distress in this marketplace you will be that much stronger in the future. Good Luck!

## LOOKING AHEAD

## FISCAL FORECASTING FOR 2010

It's that time of year again. Amidst the Thanksgiving turkeys and Christmas lights, many business owners are considering their fiscal outlook for 2010 and reviewing their performance over the past year.

For some contractors, reductions in sales, poor backlog, stagnant projects and other unexpected changes in the market are a

cause for concern. Some expect to post lower earnings this year. How will a reduction in your Working Capital affect your surety credit? What will your 2009 FYE balance sheet say about your decisions during this tumultuous year? Is there anything that you can do?

Let this be an opportunity to strengthen your relationship with your surety under-

### We are here to lend a Helping Hand!

writer. It is not too late to contact your surety agent and plan with your CPA the best approach to address your surety and financial credit needs for 2010.

Let us help prepare your company for the future.

## REVIEW YOUR HEALTH INSURANCE OPTIONS & ALTERNATIVES

Todd A. Stottlemeyer, former president of the National Federation of Independent Business, said that health insurance was “the No. 1 concern of small business owners”. In the face of soaring health costs, small businesses have struggled to find affordable insurance for their employees. The Census Bureau estimates 46.3 million Americans have no health insurance; this is an increase from 45.7 million in 2007. More than half of uninsured workers are self-employed or working in business with 50 or fewer employees.

Adequate health care coverage is a con-

cern and priority for most Americans and affording this coverage can be a burden. Although there is promise of change from our leaders in the future, business owners must make tough decisions today.

In an article published by Reuters in June 2009, it is reported that US health-care cost in 2010 are expected to increase by 9 percent. Pricewaterhouse Coopers published their annual medical trend report also stated that many employers plan to increase their employees’ share of the cost to offset this increase.

Planning insurance coverage for your company can be a daunting task. Balancing the cost with the benefits can be an even greater challenge. During these dynamic times, it is more important than ever that you consider all of your options and alternatives.

The assistance of a professional knowledgeable of the dramatic changes occurring on the healthcare industry can save your company both time and money.

**Call our office and ask for Anthony Martillotti, The Amerisc Corp, 777 Zeckendorf Blvd., Garden City, NY 11530. (516) 745-7500 extension 234**

## THE IMPORTANCE OF TIMELY PREMIUM PAYMENTS

*(Continued from page 1)*

will usually pass this on to their clients. Some companies have taken the position that if a bond principal cannot pay their premiums on time, they are not deserving of surety credit and their lines are suspended. Your credit worthiness is now questionable.

As you are with your business, everyone is concerned about cash flow. Because your surety relationship is very important to the success of your business and one you want to preserve, it is important that your underwriter sees you as creditworthy client who pays his bills on time.

Do not be offended if your surety agent requires payment upfront or if their bookkeeper is calling you more often than usual. It is important that every effort is given to paying your premiums in a timely fashion and in accordance to the payment arrangements established by your surety agent and surety company.

## GREEN BUILDING AND ITS UNIQUE RISKS

On 10/20/2009, we attended a Seminar hosted by the National Association of Surety Bond Producers and presented by Martha Perkins of the law firm of Whiteford, Taylor & Preston, LLP, in which the risks unique to “Green” Construction and what the contractor and their surety and bond producers should know was discussed.

The information provided was very informative and worth passing on to you, our reader, because this is not a fad, but a fast and growing trend. You will be seeing more and more mandates in both the private and public sector, as owners demand their projects attain a “green” rating certification.

How prepared are you and your firm to take advantage of these green building opportunities? You cannot ignore the

movement, or worse yet, engage in it without knowing what you’re getting into. A green building project adds another layer of complexity to the already complex building process. Green Building means different things to different people. According to Ms. Perkin’s article <sup>1</sup>, “It is essentially the design, construction, operation and maintenance of buildings to reduce the use of natural resources, encourage reuse of construction materials, and encourage site development to minimize injury to the natural landscape and community.”

Under the American Recovery and Reinvestment Act of 2009 signed into law on 2/17/2009, the federal government is committed to green building and has included billions of dollars for green initiatives in the Act. Significant green

building funding initiatives include Federal Buildings, Green Schools, State Energy Programs and Home Weatherization, to name a few.

If you are considering taking advantage of some of these opportunities, make sure you have the proper certifications and are familiar with the various rating systems that will be used in the project for them to reach their “Green Certification Goals.” Make sure you know exactly what you are responsible for and have fully identified the unique risks associated with Green Construction projects.

For more information on these unique risks, take the time to read Ms. Perkin’s article in full on her website at <http://www.wtplaw.com/publication.cfm?sp=publication&id=268>.

**ATLYNX SURETY  
BROKERS, LLC.**
**Main Office**

Nassau County  
777 Zeckendorf Blvd., Suite 2  
Garden City, New York 11530-2126  
Phone: 516-745-7520

**Satellite Office**

Rockland County  
55 Old Turnpike Road, Suite 310,  
Nanuet, New York 10954-2451  
Phone: (845) 624-3836  
Website: [www.atlynx.com](http://www.atlynx.com)  
[www.esuretybond.com](http://www.esuretybond.com)

**SURETY RESULTS YEAR-TO-DATE THROUGH 6-30-2009**

The following are the results of the Top Ten Surety Companies as published by the Surety & Fidelity Association of America

	Direct Written Premiums	Direct Premiums Earned	Direct Losses Incurred	Loss Ratio
Grand Total	\$2,436,563,762	\$2,552,426,623	\$737,894,248	28.9%
<b>TOP TEN COMPANIES</b>				
TRAVELERS GRP	\$440,282,031	\$461,253,446	\$97,567,865	21.2%
LIBERTY MUTUAL	\$344,578,510	\$384,993,340	\$102,683,304	26.7%
ZURICH INS. GRP	\$219,849,283	\$229,014,471	\$38,756,281	16.9%
CNA INSURANCE GRP	\$211,058,002	\$204,254,611	\$51,776,220	25.3%
CHUBB & SON	\$139,418,257	\$148,960,520	-\$77,916	-0.1%
HARTFORD	\$89,607,403	\$99,468,598	\$45,957,547	46.2%
INT'L FIDELITY INS.	\$60,590,417	\$58,372,741	\$7,233,196	12.4%
ACE LTD GRP	\$53,194,344	\$53,341,375	\$499,356	0.9%
AMERICAN FINANCIAL GRP	\$48,392,893	\$51,467,976	\$16,021,853	31.1%
HANOVER INS. GRP	\$47,462,286	\$48,436,063	\$29,897,192	61.7%


**COMPANY NEWS FLASH**
**REAPING REFERRALS**

The Atlynx Family would like to thank all of its current clients for their recent referrals. We are grateful that our services are appreciated and excited about the new opportunities our clients have offered us. We now do business with 20 new construction surety clients and many, many

more commercial surety clients as a result of your referrals in 2009!

Do you have a contractor, perhaps one of your subs, that is interested in establishing or improving their surety line? If so please refer them to us so we can see what we can do to help them attain their goals.

Thank you all again!

**A WINTER WONDERLAND  
CELEBRATION**

Contractor's for Kids is celebrating their Annual Dinner Dance on January 22,

2010 at Crest Hollow Country Club, Woodbury, New York. For further information, please contact Lou Spina at [lou@esuretybond.com](mailto:lou@esuretybond.com).

**RECENT EVENTS**

On October 22nd, Denese Thompson and Lou Spina presented at the Skanska USA Building's seven week Construction Management Building Block Program. The goal of this program was to further increase their list of qualified MWBE contractors, and, as part of that effort, proper training and education is crucial.

**Letter From the Editorial Staff**

This newsletter is designed with our readers in mind. All inquiries or suggestions regarding this or future newsletters are appreciated. Please send all inquiries to [denese@esuretybond.com](mailto:denese@esuretybond.com).

If you know anyone who you feel would like a copy of our newsletter, please let us know so that we can include them in our mailing list. Please let us know if you would like to receive this newsletter via email.

The Bottom Line is published bi-annually by Atlynx Surety Brokers, LLC. A service for our clients, contacts and friends, it is meant to provide advice and encourage its readers to keep up with all the latest developments. These articles are not intended to provide a complete discussion of the subjects presented.



777 ZECKENDORF BLVD., STE 2  
GARDEN CITY, NY 11530-2127