SURETY BONDS:
A CRITICAL SAFEGUARD FOR P3 PROJECTS

Most P3 projects involve construction, and construction involves risk. Research conducted between 2013 and 2015 found that contractors had a failure rate of approximately 29 percent, meaning more than 1 in 4 of these businesses will fail. Even though bonded contractors are less like to fail, over the last 15 years, surety companies paid nearly $12 billion to complete construction contracts and pay subcontractors and suppliers what they were owed. These numbers do not include the significant money sureties spent to finance troubled contractors so they could complete contracts, protecting governments and private owners from defaults. In 2016 alone sureties paid approximately $1.4 billion to owners, subcontractors, suppliers and contractors on surety bond obligations.

Why are performance and payment bonds, typically for 100% of the contract price, universally required on infrastructure projects in the U.S.? To provide public owners, developers and lenders the benefit of an independent third party, the surety, and to help determin that a contractor has the ability to perform the contract and meet its payment obligations. And, if something goes awry and the contractor defaults, to have the surety to provide funds to complete the contract, and to directly manage and pay claims of subcontractors and suppliers on the job. Those subcontractors and suppliers have a direct right to make a claim on the surety bond for payment rather than having to attempt payment from a bankrupt contractor or from a public entity.

Surety bonds significantly increase the likelihood that a construction contract will be completed and that subcontractors, suppliers and workers will be paid.

P3s provide a new source of financing for the public entity to procure work, not a new revenue source. A P3 is a way for public entities to access the capital market but the construction risks remain the same. High percentage performance and payment bonds remain a best practice for the design build portion of any P3 contract.

Surety bonds also empower contractors. Contractors can obtain more work when they are backed by surety bonds than by only their own balance sheet. This significantly benefits small, emerging, disadvantaged and minority contractors.

Strong businesses are bondable businesses and sureties focus on strengthening businesses, managing growth and building legacy wealth. No matter the project delivery method, bonding helps public agencies assess and minimize their risk while empowering contractors to undertake work they can deliver.

The Surety & Fidelity Association of America
Serving the Industry Since 1908

TO FIND OUT MORE, DOWNLOAD A *GOVERNMENT LEADER'S GUIDE TO BONDS* AT WWW.GOVERNING.COM/GUIDETOBONDS OR VISIT WWW.SURETY.ORG.