



# THE SAN FRANCISCO-OAKLAND BAY BRIDGE SEISMIC SAFETY PROJECTS

CALTRANS BAY AREA TOLL AUTHORITY CALIFORNIA TRANSPORTATION COMMISSION

## Bonding and Insurance Workshop

Presented by  
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President & CEO



# What is to Be Gained?

- **Practical Knowledge of insurance and bonding**
- **How insurance and bonding protects you and others**
- **How loss control / safety and risk avoidance help to keep your insurance cost competitive and increase your business opportunities**
- **How critical your insurance/surety broker is to your business team, and how to select the best suited for you**
- **What does it take to build your bonding capacity**

# In Summary

## ■ Insurance

- Insurance needs specific to contractors and construction
- Caltrans Standard Insurance Requirements
- Latent risk and owners need to protect themselves
- Cost-benefit of safety and loss control
- Carrier Ratings

## ■ Surety

- Definition and Why It is Needed
- Different Types of Construction Bonds
- Bonding Compliance
- How to Qualify for Bonds

# Insurance – A Practical Understanding

- **First Party Coverages**
  - Coverage for your direct losses to physical assets you own/lease and insure. Buildings, Personal Property, Tools and Equipment
- **Third Party Coverages**
  - Coverage to protect you from others who allege your negligence caused them bodily injury or damaged their property
- **Workers Compensation**
  - Compulsory (Mandatory) coverage to cover medical costs and loss wages to your workers injured on the job

# What Are the Different Types of Insurance?

- Commercial General Liability (CGL)
- Workers' Compensation (WC)
- Automobile Liability
- Contractor's Equipment Floater
- Professional Liability (PL), also known as Errors & Omissions (E&O)
- Builder's Risk
- Owner Controlled Insurance Program (OCIP)
- Contractor's Controlled Insurance Program (CCIP)

# Standard Insurance Requirements

- Commercial General Liability
  - Limits as stipulated by Owner or GC, never less than \$1M per occurrence / \$2 M Aggregate
  - Naming Owner / GC as Additional Insured
  - Coverages typically include:
    - Bodily Injury
    - Property Damage
    - Products / Completed Operations
    - Personal / Advertising Injury
    - Medical Payments

# Standard Insurance Requirements

## (Continued)

- Commercial General Liability
  - Umbrella / Excess Liability
    - Higher Liability Limits
  - Underwriting
    - Loss History
    - Scope of Work
    - Payroll or Gross Receipts
  - Exclusions
    - Watch out for limitations
      - Residential
      - Townhouse
      - Condos
      - OCIPs

# Workers Compensation

- Mandated by law
- Statutory Limits by State
- Employers Liability Limits (egregious negligence)
- Underwriting
  - Loss Experience (EMR)
  - Classification of Employees
  - Payroll – Hourly Rates
- Safety Safety Safety
- Most impactful Insurance loading in bids
  - Good Experience – Competitive Advantage
  - Bad Experience – Harder to Compete

# Auto Liability

- Limits as required, no less than \$1M
- Should schedule for Excess Liability – Catastrophic Losses
- Seek no less than “Scheduled Non-Owned and Hired”
- Underwriting
  - Schedule of Vehicles / GVW / Values
  - Number of Employees for Non-Owned
  - Driver MVR’s
  - Consider DMV “Pull” Program

# Contractors Equipment Floater

- First party protection for owned / leased equipment / tools
  - Cover for Replacement Cost Values
  - Inland Marine form covers at any location
  - May include earthquake
  - Must carefully schedule and update all equipment to be covered
  - Underwriting
    - Losses
    - Storage Security
    - Values X Rate

# Professional Liability or Errors & Omissions

- Needed for any form of Construction Management / Consulting
  - Design and/or Engineering
- Limits dictated by Owner or Prime Consultant – No less than \$1M per Occurrence
- Can be project specific or “practice” policy
- Claims made – when coverage expires, it expires retroactively

# Builders Risk


- Coverage for property damage to a structure under the course of construction including loss or damage to materials intended to be part of the building
  - Sometimes covered by Owner/GC under a project blanket limit
  - Can purchase a blanket policy to apply to all work throughout the policy period
  - Project specific coverage
- Underwriting
  - Loss History
  - Construction Values – Hard & Soft Costs

# Builders Risk (Continued)

- Read contract to confirm who is responsible for procuring and who is responsible for deductible
- What specific coverages are required: Earthquake? Flood? Water Damage? Mold?
- Make sure you are part of “Named Insured” if others purchase coverage
- Contract may stipulate waiver of subrogation disallowing the Builders Risk Carrier from pursuing responsible party

# OCIP's & CCIP's or Wrap Ups

- Project specific coverage being provided by Owner – OCIP or GC – CCIP
  - Coverages which may be provided
    - General Liability, Builders Risk, Workers Compensation
- Evidence of Offsite General Liability and Workers Compensation still required
- Coverage only applies to “on-site” work
- Read bid specs and contract closely
  - Do you bid with or without insurance loading
  - Are you responsible for any deductibles
  - Carefully calculate your normal insurance load as it may be deducted from your bid, get help from your broker
- A Separate Training Workshop will be held on Caltrans OCIP's

A photograph of construction workers on a site. One worker in the foreground is wearing a red shirt and a hard hat, looking towards the right. Other workers in safety gear are visible in the background. The scene is outdoors with some structural elements of a building under construction.

Small Business  
Education and  
Training Program

SMALL BUSINESS

**Any Questions?**



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## Break

10 minutes



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## Insurance and Bonding

# Surety vs. Insurance

- Apples and Oranges
  - Cannot Compare
- Insurance expects loss
- Surety expects no loss
- You purchase Insurance
- You must qualify for surety bonds

# Why Do You Need Bonding?

- Required to bid on all public work
- Often required by private owners/GCs
- Increased credibility
- Another relationship to assist your firm's development

# What is a Surety Bond

- A three party agreement that guarantees a contract or agreement

*Example: Contract between you and a third party*

- Protects another party
- You cannot buy it
- You must qualify for it

# Who are the three parties

- Principal: The party that is asked to provide the bond.
- Owner: The party that is protected by the bond.
- Surety: Insurance company that writes the bond.

# Contract Bonds

- Contract bonds guarantee completion of a contract to the owner's satisfaction
  - Components
    - Bid- guarantees contractor will enter into contract at bid price, if low bidder
    - Performance-guarantee completion of the contract
    - Payment – guarantees laborer, suppliers, and subcontractors will be paid
    - Maintenance or Warranty Bond – guarantees against defects in workmanship or materials for a stated time after acceptance of work

# Before You Bid

- Review your specifications and bond forms to understand your contractual requirements
- Make sure you can qualify for the required bond before you begin the estimating process
- Signed and executed bonds by a surety company must be submitted as part of your bid
  - Be prepared to provide data required by the surety company

# Things You Need to Know About Surety Bonds

- Surety bond producer/agent/broker
- Surety bond producer/agent/broker should have adequate markets
- Surety companies (markets) should be listed on the Department of Treasury Circular 570 and A.M. Best A- rated
- Cost of bonds can range from 0.5 percent to 3 percent or more

# Things You Need to Know About Surety Bonds (Continued)

- Cost and bondline is based on the surety underwriter's evaluation ~

## The Four C's:

- Character
  - Capacity
  - Capital
  - Conditions of the Times
- The loss or deterioration of any of these factors will cause surety concerns and result in reduced bonding capacity

# Indemnification

- General Indemnity Agreement
  - Surety will expect the indemnity of both your company and you personally
  - May include your company's assets, home, car, and any other assets

# Surety Underwriting

- Sureties underwrite to have no losses
- Surety's Prequalification Process
  - In-depth look at a Person's Finances – Company and Personal
  - Experience for the required obligation
  - Ability to meet obligations
  - Necessary resources to perform the obligation

# What you need to do

- Find the right broker
  - Call various surety agents
  - Interview
    - Ask Questions:
      - Do you have similar businesses in your portfolio?
      - How many surety markets do you represent?
      - What is the premium rate for my type of business?

# Bond Underwriting Documents

**Merriwether & Williams Insurance Services**  
Bond Submission Checklist for  
CA. License No. 0C01378

Client: \_\_\_\_\_ Telephone #: \_\_\_\_\_

**Date of Submission:**

- \_\_\_\_\_ Copy of Contract (*if applicable*)
- \_\_\_\_\_ Contract Bond Request Sheet
- \_\_\_\_\_ Cost Breakdown Sheet
- \_\_\_\_\_ Surety Questionnaire
- \_\_\_\_\_ Work on hand schedule
- \_\_\_\_\_ Current personal statement(s) of principal owner(s)
- \_\_\_\_\_ Last three (3) year-end statements or for those fairly new in business opening balance sheet or last fiscal year end statement
- \_\_\_\_\_ Most recent interim financial statement
- \_\_\_\_\_ Resumes of key personnel
- \_\_\_\_\_ Reference letters from previous projects

# What Sureties look for

- Professional and Accurate Presentation of Underwriting Documents

# Benefits of Bonding

- **Professional References**: Surety team knows accountants, bankers and lawyers who understand
- **Business advice**: Surety team can share their personal experience on issues
- **Funding Verification**: The surety will insist on knowing the source and adequacy of funds before it will commit to bonding a project.
- **Contract Reviews**: Many sureties perform contract reviews to identify contract terms, anomalies in the specifications or bond forms that may be onerous or add undue risk to the project.
- **Continuity Plans**: Sureties can assist the contractor with a continuity plan to protect the contractor's family, estate, partner, employees and assets.
- Thorough Investigation of Claims
- Legal Defense

# Declination

- If declined for a surety bond:
  - Request letter from Surety Company stating why
  - Work on improving situation

# Maintain Bonding Relationships

- Do not hide problems; confront issues directly
- Share all your job cost information
- Solicit assistance from broker and surety company
- Maintain open communication, particularly on difficult projects, so surety is aware of potential disputes

# Surety Bond Resources

- Bonding Programs
  - City and County of San Francisco
  - Port of Oakland
  - City of Los Angeles
  - Los Angeles Community College District
  - Los Angeles Unified School District (2008)
  - San Diego County Airport Authority (2008)
- Programs that can assist you with Collateral, Funds Control, Financial Statement Subsidy

**Any Questions?**

# Summary

- In this class, you learned:
  - The definition of insurance and bonding
  - Why you need insurance and bonding
  - The different types of insurance programs and when they are required
  - The different types of construction bonds
  - How surety companies qualify contractors for a bonding line
  - How to purchase insurance and qualify for bonding
  - How to maintain good insurance and bonding relationships