



How to Increase Your Bonding Capacity

As a contractor, your bonding capacity is very important as it determines which projects you can bid. Your bonding capacity is based on a number of different factors, such as the amount of cash, liquid assets, experience, etc.

Your bonding capacity is comprised of a single and an aggregate limit. The single limit is the amount a contractor is allowed per contract/bond. The aggregate limit is the maximum a contractor can have at any one time.

The following is included in the aggregate limit:

- For projects that have already been started, but not finished, all the remaining costs will be added.
- The total cost of all awarded contracts that are yet to be started.
- The total contract amount for low bids that have not been awarded yet.

With that being said, what are your responsibilities as the contractor to make sure you are maximizing your bonding capacity?

Here are a couple of strategies to increase your bonding capacity:

- Cash should be maximized. Not only with money in the bank, but a strong line of credit with a bank.
- Reduce accounts receivable that are greater than 90 days. This will reduce the amount that is discounted from current assets and will increase cash.
- Reduce or control underbillings. Billing on time and as much as possible will increase cash and sureties prefer to see underbillings account for less than 25% of working capital.
- Reduce shareholder loans. Loans to shareholders and employees should be cleaned up.
- Generate accurate WIP schedules and cost estimates for your jobs.
- Have a strong working capital.
- Consider a joint venture or teaming partner.
- Do not buy any assets such as equipment 90 days before your year end. If you absolutely need the item, don't buy it until after your year end.

With the help of your surety agent and accountant, you can be led on a successful path. With statements being turned in on time, this will help the surety see where you are at and give your surety agent time to review and advice on changes to make sure your great bonding experience stays the same.