

**Capital Project Performance Bond Assistance Program
Proposed Pilot Program Structure**

Purpose: Increase participation of small businesses and firms in County contracts related to the refurbishment and construction of County facilities and support the growth of such firms in the local economy.

Action: Provide a County guarantee for a standby letter of credit (LOC) that will assist small construction related firms to secure required performance bonds on County refurbishment and construction projects.

- Letter of Credit would secure up to 40% or a maximum value of \$xxxx, whichever is less, of the collateral required by a surety bonding company.
- Contractor would be responsible for balance of collateral required by the surety bonding company.
- County guarantee would be secured by a budgeted reserve equal to 20% of the Letter of Credit. The level of the required reserve would be reviewed and adjusted each year based on the amounts that are actually drawn from the LOC during the prior fiscal year.

Administration: Payment bond administration to ensure employees, subcontractors, and material suppliers are paid in a timely and appropriate manner and pre-claim resolution procedures that will minimize or negate the need draw on the LOC

Assistance provided to participating contractors in the preparation of annual financial statements, including balance sheets, revenue and expenditure statements, cash flow projections, etc. that will be necessary to procure LOC's in the future, as well as guidance in bonding transactions.

Program and community outreach activities to promote program participation.

Increased project accounting and monitoring requirements

Third party administrator, selected through a Request for Proposal process, may be recommended to provide aforementioned services

Program Costs:	<i>Program Size:</i>	\$5,000,000
	<i>Maximum Guarantee Value:</i>	750,000
	Letter of Credit Commitment Fee (@1.25%):	\$ 62,500
	Third Party Administrator (1.0%):	50,000
	Financial Statement Preparation (20 contracts @ \$3,200):	64,000
	LOC Budgeted Reserve (@ 20.0%):	<u>1,000,000</u>
	Total	\$1,176,500

Program Size: \$ 10,000,000
Maximum Guarantee Value: 1,000,000

Letter of Credit Commitment Fee (@1.25%): \$ 125,000
Third Party Administrator (1.0%): 100,000
Financial Statement Preparation (20 contracts @ \$3,200): 64,000
LOC Budgeted Reserve (@20.0%): 2,000,000
Total \$2,289,000

County Staff Costs: TBD

Budgeted Reserve must exceed maximum value of individual guarantee by 33% and must be replenished if drawn upon.

Other Agencies: City of Los Angeles, Los Angeles USD, Los Angeles Community College District, City and County of San Francisco

Next Steps: Finalize recommendations on Program size and maximum guarantee value

Obtain Board approval of Program concept and direction to return with final Program structure, agreements, and costs

Select third party administrator through a complete RFP process

Negotiate Letter of Credit facility and identify funding source

Determine County staff requirements, roles, and responsibilities

Obtain Board approval of final Program recommendations

Tentative Program
Initiation:

Fall, 2012