

THE CORPORATION OF THE DISTRICT OF BURNABY

BUILDING DEPARTMENT

MUNICIPAL HALL
4949 CANADA WAY,
BURNABY 2, B.C.

TELEPHONE 299-7211

March 25th, 1971.

Mr. H.W. Balfour,
Municipal Manager.

MUNICIPAL MANAGER'S
OFFICE

Dear Sir,

Subject: Bonding on building construction projects

I have made a hasty review of bonding requirements on building construction projects and have spoken to various people, architects, building contractors, and bonding company representatives. The consensus of opinion of those to whom I have spoken is that on building project bonds to the amount of 50% of the contract price for performance or 50% of the costs of labour services, materials and hired equipment for labour and materials is ample. A bonding company official went so far as to say that the 100% bonds are a sheer waste of money.

Provided the Canadian Construction Association standard form of contract agreement, or something equal thereto, is used by an owner, ^{and} provided that owner is careful to pay on progress draws to the contractor only for the work performed and not to allow the contractor to overdraw on the job, then in every case on a building project a 50% performance bond and a 50% labour and materials bond will be ample to protect the owner in the event of failure of a contractor. In the opinion of the bonding company official, the 50% bonds will provide ample funds, together with the 15% hold-back in the contract, plus monies on hand for work not yet claimed, to allow a building to be completed without extra cost to the owner.

On the question of the difference between 50% and 100% bonds and the possible restriction on certain contractors to bid a job where 100% bonds are specified, the reply was there is no restriction brought about by the coverage asked for in the bonds. Bonds are only awarded to a general contractor after the bonding underwriter has made a careful assessment of the capability of the contractor to perform the job for which the bonding is sought. The assessment includes the contractor's experience, his plant, his work on hand and his financial resources, among other things, all in relation to the specific job. If the underwriter is satisfied in his assessment, the contractor will obtain bonds requested regardless of the amount of coverage specified.



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Bonds are not issued with mixed coverage, for instance a 50% performance bond and a 100% labour and materials bond would not be granted to one contractor for a particular job. When a pair of bonds is specified and requested, the two are issued with the same percentage coverage.

The current charges for bonds are as follows:

<u>Coverage</u>	<u>Performance</u>	<u>Labour & Materials</u>	<u>Total</u>
50%	\$3.50/\$1,000	\$2.00/\$1,000	\$5.50/\$1,000
100%	\$5.25/\$1,000	\$2.00/\$1,000	\$7.25/\$1,000

Thus the actual cost of bonding to the cost of a building project is just over one-half percent (0.55%) for 50% bond coverage and just under three-quarter percent (0.72%) for 100% bond coverage.

It is to be noted that consultants fees are apart from the cost of a building project, but are based generally as a percentage of the tendered cost of a project. The bond costs form a part of the tendered building cost and hence consultants fees paid by an owner will rise in proportion to the bond costs and any additional cost a contractor might want to insert in his tender price for his time taken in obtaining bonds. Thus where the difference in the cost of bonds between 50% and 100% coverage cannot be justified in need, the combined added cost of the higher bond coverage and the consultant's fee becomes an extra expense to a project most difficult to justify.

In summary, my own opinion has always been that 50% coverage for performance and labour and materials bonds has always been sufficient for building construction projects, and I have heard no reason from those to whom I have spoken to change that opinion. May I repeat, to avoid any misunderstanding, that all the foregoing has reference only to building construction projects not to public works projects.

If changes are being contemplated in our bonding requirements on building projects there are one or two other aspects of our tendering procedures allied to bonding but not covered in the above report which I believe should be reviewed in the interest of simplifying our procedures.

Yours very truly,



M.J. Jones,
CHIEF BUILDING INSPECTOR.

MJJ/bm.

MANAGER'S REC.

NSA No. 12