

Construction Industry Update

Surety Visits: Looking Beyond the Surface

By James P. Schabarum II, CPCU, CWCA, AFSB

Ever wondered what surety underwriters are thinking when they visit an office or job site? Underwriters take an in-depth look at the contractor's entire business operations. They must be satisfied that the contractor is capable of successfully staying in business over the long haul.



office building, whether the owner has his or her own parking space, and if the building is well kept. They note the location of the property, whether it is in a high-rent district and if the building has security measures in place.

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Although it may seem as if surety underwriters focus on the contractor's finances and financial structure, they are also interested in a myriad of other elements in a contractor's business. The contractor's organization, track record, office appearance, and approach to the execution of projects are also scrutinized.

The following are the results of a survey of surety professionals on what they look for beyond the surface of the written information they analyze. Being proactively aware of what surety partners are looking for will allow contractors to obtain and improve the terms of their bond program.

Contractor's Office

Surety underwriters analyze a contractor's office the moment they drive up to the property. Are there expensive cars in the lot? Are there telltale bumper stickers? They look at the condition of the

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Published by

Cavnac & Associates

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Underwriters look to see if the firm's services are advertised and if there is evidence of other companies in which the owner is involved. Does the contractor display industry organization or service club stickers?

After walking through the office front door, they pay attention to the greeting they are given, if there is a receptionist, phone activity, how the phone is answered, and if they are kept waiting. They look to see if there is an in-and-out board, and study the appearance of the office including the space and size, neatness, and nature of the furnishings. Are they too plush or too sparse? Are there safety hazards? Are awards on the walls and what types of magazines and reading materials are out?

Underwriters pay attention to award and trophy displays as indications of the contractor's business and community associations, even taking note of whose calendar is displayed on the wall. They look for clues of expensive hobbies, such as airplanes or race cars, in the office as an indication of the nature of the owner and the business.



Underwriters pay attention to office morale and general attitude of workers. Observing the staff is another important component to the review process. What is the mix of people and do the employees look busy? Are there empty offices? If so, why?

Underwriters take note of any teamwork promotions or awards for employees and take a look at any bulletins or job boards. They obtain background information from estimators and superintendents, and review employee turnover and tenure. Have key people worked on larger jobs with other companies? What is the contract review process? Is the controller knowledgeable about information required by a surety, and willing to provide it? Does the owner review bids?

The underwriter scrutinizes owner appearance and attitude. Is the contractor stressed or confident?



Does the contractor flaunt expensive jewelry? Is there a computer on his/her desk? Can he/she explain the company's systems, or must someone else come in to explain? Can he/she explain the levels of authority for his/her organization? How many family members are employed? If there are multiple owners, who makes the decisions? Is there any joint venture work? Who does the contractor respect and do business with in the community – and who does the contractor avoid?

Underwriters ask contractors how long the firm has been in the construction business and why the owner got into construction. How prepared is the contractor for the meeting? Is the meeting interrupted by phone calls? Does the owner understand surety?

While meeting with the owner or owners, the underwriter attempts to understand the way the business works, how sub bids are handled, how adaptable the organization is to change, and the typical size of projects. Does the contractor have a Business Plan? If so, how often is it reviewed? Contractors also must explain their reason for looking for a new surety and the relationship with the current agent.

Underwriters are interested in the contractor's projects, so photos and descriptions of the jobs completed should be made available. Do they own

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any other companies or engage in development as an investor or owner/builder? What portion of their jobs do they do with their own people?

Underwriters will ask contractors to discuss any unusual or unique jobs the firm has done, and to explain their successes. How were setbacks overcome? Contractors should also be ready to discuss their largest, most complicated jobs.

Contractors should be able to explain procedures and project financing. How much of their work is bonded? How do they confirm financing on private work? Are there any “hung receivables” or retentions that will not be released on time? Do they work for any project owners who are slow pay, as a rule? In addition, other professional services are studied including the company’s CPA, attorney, and bank in order for the underwriter to get a complete picture of the business side of the contractor.

Yard and Shop

As part of the process, underwriters visit the contractor’s yard and shop looking at the location’s general appearance. Underwriters look for cleanliness, organization, and OSHA conformity. They check on inventory, who controls it, and if there is a Safety Committee or Safety Engineer.

Equipment also is looked over. What is the condition of the equipment? Does the contractor lease or own? Underwriters look for how the equipment is protected and if a company has specialized equipment in its warehouse.

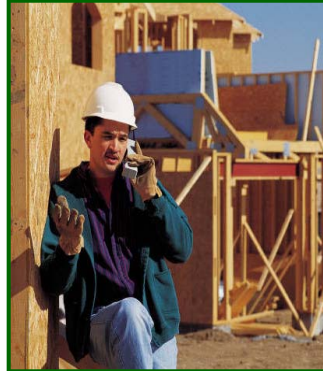


Job Site Visits

Underwriters must visit job sites to gather a full picture of the contractor’s business. When visiting a job site, underwriters check to see if they are handed a hard hat, if a project manager is available, the overall appearance of the site, and if there is an office trailer. What does the contractor expect of supervision at job sites, and how is work monitored? Is the firm union or non-union, or signatory to any

labor agreements? Underwriters pay attention to worker and owner interaction, if they speak frequently and if the owner calls them by name.

At the job site, underwriters will look for the use of technology, ask what records are kept at the field office, if there is a diary of job progress, what the change order procedures are, and if there is an owner



representative at the job site. They will inquire about the communication between the job superintendent and estimator, and how the relations are between owner and subcontractors.

Information about handling environmental hazards, job schedule and specific job safety plans should be shared with underwriters. They will also will check how tools, equipment, materials are secured on the job site, how design changes are handled, and if the job is profitable.

Conclusion

A contractor must keep in mind that obtaining surety bonds is about credibility. Underwriters must use the financial documentation provided to analyze performance, and personal relationships to decide the level of surety credit to extend. Contractors that are well organized with a team of professionals assisting them will create a great deal of confidence in a surety’s underwriters and obtain the maximum credit available. ✂

Jim Schabarum, Executive Vice President and Principal of Cavignac & Associates, heads the Agency’s Construction and Surety Departments.

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Workers Compensation Threshold Wage for Contractors

By Jeffrey W. Cavnac, CPCU, RPLU, CRIS

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Calculate the “Break-Even” Wage for Split or Bifurcated Workers Compensation Classifications

Have you ever wondered how to calculate the “break-even” wage on bifurcated workers compensation classifications?

Some construction classes are split into two different rates, depending on whether or not an employee makes more or less than a “threshold wage.” This was done to appease the labor unions, who felt that their higher-paid members were being penalized for earning a higher wage.

Because of the difference in rates, there is a point at which it is less expensive to raise an employee’s salary to the threshold wage to take advantage of the lower workers compensation rate.

For example, “Concrete” is a split classification. The rate for Code 5102 (for workers that make \$21 per hour or less) is \$15.41. However, the rate for Code 5205 (for workers who make \$21.01 per hour or more) is only \$9.45.



To calculate the break-even wage:

1. First, calculate the rate factor for Code 5205. The rate factor is 1.0 plus the rate of 9.45 divided by 100 ($1.0 + .0945 = 1.0945$).
2. Multiply the rate factor for Code 5205 by the threshold wage of \$21 ($1.0945 \times 21 = \22.98).
3. Next, calculate the rate factor for Code 5102. The rate factor is 1.0 plus the rate of 15.41 divided by 100 ($1.0 + 1.541$ divided by 100 = 1.1541).
4. Divide \$22.98 by 1.1541, the rate factor for Code 5102. ($22.98 \div 1.1541 = \$19.92$). \$19.92 is the break-even wage.

In our example, if workers earn between \$19.92 per hour and \$21 per hour, it would be less expensive to raise their salaries to \$21.01 in order to take advantage of the lower workers compensation rate.

All employers who have split or bifurcated workers compensation classifications should be aware of the break-even wage for classifications that apply to them. ✂

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Risk Control Corner

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“Making Do” – Or Tempting Fate?

If there is one thing a construction worker prides himself on, it is being able to “make do” with something else when the necessary tool or equipment isn’t at hand. However, sometimes he loses a lot more than the time involved when the substituted tool or method is unsafe.

The concrete block is a favorite “make do” item. On most jobs they are close at hand, and workers who are in a hurry use them for all sorts of temporary blocking, even for the support of scaffolds. Unfortunately one can never be sure whether these blocks are free of hidden cracks; therefore, you should never count on blocks to support everything.

On one job, a worker was having trouble setting up a tubular scaffold on a stairway. He found that concrete blocks under two legs of the scaffold would make it fit just fine – until one of the blocks crumbled, causing the man to fall off the scaffold.

A great many foot injuries have resulted from the use of concrete blocks to support heavy machinery. The blocks give way, and a worker goes to the hospital with crushed toes.

People have a knack for finding deadly substitutes for the right thing. Two men working in a shaft were being pelted by small pieces of concrete resulting from chipping being done above. They went up one flight to look for plywood to place over the shaft, but they found only insulated sheeting.

They threw a few planks across the shaft and placed the sheeting on top of the planks. They thought this makeshift “safety” contraption would be thick enough to protect them from the concrete chips. They went back to work, heard a yell, and



saw the legs of a man hanging through the hole he had just made when he stepped onto the insulation sheeting. Fortunately, the man was able to grab one of the planks and pull himself up.

Then, there was the foreman who scrounged up a discarded pail when he had to pour a little concrete on a beam. When the worker on the beam started to pull up the pail full of concrete, the handle broke, and the pail dropped on the man below.

I could name a dozen of these substitutes, and you could too! They can be anything from a makeshift hook or reinforcing rod to a piece of discarded rope. They may save you a trip to the tool room, but they can also give you a ride to the hospital. ✨

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