SURETY BONDS A GREAT OPTION FOR INDEMNIFICATION AND SHORING AGREEMENTS

In March 2019, The City of Calgary announced the acceptance of bonds issued by a surety company as a form of security for Development Agreement obligations. Previously only letters of credit issued by a bank were accepted. As part of our continuous improvement efforts, The City has taken this work one step further, now accepting Bonds as a form of security for Development Engineering (DE) – Indemnification Agreements (IA), Roads - Indemnification Agreements and Shoring Agreements.

This is big news for our industry customers. If they wish to use a bond, developers will have more flexibility with their working capital. This will allow them to reinvest the money that had been tied up in a letter of credit into additional projects, which contributes to keeping Calgary's economy going through these tough times. Calgary is one of the first large municipalities in Canada to provide this option for development obligation security.

Background

- Surety companies were previously unable to provide this type of bond service (liquidity, investigation requirements) because it did not meet the surety's mandate. Through successful negotiation between The City, industry and surety companies, surety bonds have been structured to work with the same flexibility as a letter of credit.

How it works

- Letters of credit are auto-renewed as needed, and returned to banks upon issuance of a final acceptance certificate (FAC). Bonds will also auto-renew, and automatically expire one year after issuance of the final FAC. This benefits the industry by no longer requiring us to close the agreements and return the securities.
- Unlike letters of credit, bonds are generally unsecured credit, meaning the surety companies typically secure them with an indemnity agreement and do not restrict or utilize bank operating lines. They are not included in lender's debt covenant calculations and do not tie up capacity in lending agreements.

Advantages to surety bonds

- A developer's working capital is freed up for greater liquidity, which can be used for reinvestment into other projects. In contrast, when a developer seeks a letter of credit, it comes directly out of their operating line or cash, so the impact on their financial statements and cash position is immediate and affects working capital.
- Surety bond rates can be substantially lower than the letter of credit rates, depending on the structure of each specific deal.

Similarities to Letters of Credit

- A bond binds a developer to the obligations of the agreement.
- Bonds can be easily transferred.
- If a developer is called into default, bonds can be liquidated.
- Security reductions for bonds are handled the same way as reductions for letters of credit.

For more information on using surety bonds for your project with The City, please contact approvals@calgary.ca