A. BONDS/OTHER SECURITY

Bonds protect the institution by compelling the low qualifying bidder to guarantee the execution of a contract and the successful performance of the services outlined in the contract. Bonds are also used to insure that payments to workers, suppliers, and subcontractors will be made.

It is important that the purchasing official have an understanding of different types of bonds and various bonding requirements used in the development of bid and contract specifications. Certain bonds are required by law; other types may be required as a matter of good business practice to assure proper protection. It is important to understand what protection is provided when including bonding requirements into your bid specifications.

A sample Board Policy is available in Appendix B.

Contract bond definitions:

1. Bid Bond
   A Bid Bond is not always required. The Illinois Public Construction Bond Act recommends a request for a Bid Bond, if subsequent bonds such as the Performance Bond and a Material Bond are required.

   Included when a contractor submits a bid, this bond guarantees that the contractor will enter into a contract should their bid be accepted by the Board of Education. Bid Bonds are usually required in the range of 5% to 20% of the total contract price. The amount of the bond is established by the Board of Education. Bid Bonds are not required under Illinois Law.

   Accepting a certified check rather than a Bid Bond is allowed, but not encouraged, if the project requires a Performance and Payment Bond. The contractor will enter into a contract should their bid be accepted by the Board of Education. Certified checks are often provided as security for the purchase of equipment and supplies.

2. Performance Bond
   Any project in excess of $5,000 requires a Performance Bond which will guarantee to the institution that it will not suffer any loss resulting from failure of the contractor to complete the contract. It is written for 100% of the contract price. Performance bonds are mandated by Illinois Law for public construction projects. They may, however, be required for other installed services.
Requiring Bid Bonds assures the institution will receive bids from companies that have proven themselves to a surety company as responsible and qualified contractors. If a contractor has a poor reputation or poor performance history, they may not be able to obtain a bond.

3. **Labor & Material Payment Bond**
   Any project in excess of $5,000 requires a Labor and Material Bond which will guarantee payment for the labor and material used in the job which the contractor is obligated to perform under the contract. This bond may also be called a payment bond and is also required under Illinois Law.

4. **Lein Bond / Waivers**
   Securing waivers of lien on construction projects, assures the institution that additional money will not be required after the job is completed and payments are made in accordance with the contract.

5. **Completed Operations Bond**
   Guarantees the quality of the work against faulty workmanship and materials. It is often used in conjunction with product warranties.

6. **Supply Bond**
   Guarantees that supplies or other items ordered under the contract are delivered.

7. **Bank Letters of Credit**
   A Bank Letter of Credit is a written statement from the applicant’s bank stating the applicant’s current credit limit and past loan repayment history. Letters of credit may be used in place of Performance and Payment Bonds for public contracts under $100,000.

B. **INSURANCE**

Insurance certificates and policy endorsements covering Worker’s Compensation, Accident/Disability, Property Damage and Liability and naming the Board of Education, its members, employees, agents and volunteers should be required on all jobs where the contractors’ employees are performing work on institution property. A Certificate of Insurance without a policy endorsement likely fails to protect the District. No work should be allowed to begin until the proper insurance certificates and policy endorsements are received by the purchasing department. Limits required for the various types of insurance should be clearly spelled out in the bid request. Failure to demand certificates of insurance and policy endorsements before work begins may constitute a waiver of the requirement.
Sound purchasing practice dictates that sellers or contractors who come onto the institution property have adequate insurance coverage for damage and personal injury to themselves and others. Recommended coverage includes commercial general liability, automobile insurance, worker’s compensation, and employer’s liability insurance to appropriate limits, designed to fit potential hazards. Subcontractors should be similarly insured. The purchasing official must ensure that appropriate coverage is in place before issuing a contract.

1. **Common Types of Insurance**
   a) **Liability** provides protection if a lawsuit is filed by an injured person claiming negligence on the part of the contractor and/or subcontractor.

   b) **Accident/Disability** coverage is designed to pay medical expenses and loss of income sustained by the injured person, without regard to whether someone was at fault in causing the injury.

   c) **Property coverage** protects against damage to, or loss of, equipment of facilities due to fire, theft, vandalism, or the elements.

   d) **Worker’s Compensation** is a system of benefits provided by law to most workers who have job-related injuries or diseases. These benefits are paid regardless of fault. The amount of the benefits is limited by law.

2. **Certificates of Insurance**
   a) The amount of insurance required on a Certificate of Insurance should be reviewed by an insurance risk management consultant.

   b) All certificates of insurance should clearly list the institution as an additional insured. All submitted insurance certificates should be reviewed for inconsistency by the institution’s insurance carrier.

3. **Policy Endorsements**
   a) This document is issued by the Insurance Company and verifies that the contractor/subcontractor’s insurance policy has been changed to add the District as additional insured.

   b) Certificates of Insurance alone do not provide any protection for the additional named insured Board of Education, its members, employees, agents and volunteers.

   Following are examples of a **Certificate of Insurance** and a bank **Letter of Credit**.
C. IRREVOCABLE LETTER OF CREDIT

Beneficiaries:

By order of our client, , we hereby establish this irrevocable letter of credit number , in your favor for an amount up to but not exceeding the aggregate sum of One Hundred Thousand Dollars ($100,000), effective on, and expiring at the offices of the bank on, or one year after successful completion of the Project and Acceptance of the project by Owner whichever occurs latter.

Funds under this letter of credit are available to you against your sight draft(s), signed by your authorized corporate officer, drawn on us bearing the clause “Drawn under Credit No.,” and must be accompanied by a written statement that the performance bond has been invoked. Said sight draft must be presented at our offices at: [[insert address]]

This letter of Credit will be automatically renewed for a one year period upon the expiration date set forth above and upon each anniversary of such date, unless at least sixty (60) days prior to such expiration date, or prior to any anniversary of such date, we notify you and our client in writing by certified mail that we elect not to so renew this letter of credit.

Upon your receipt of our notice of election not to renew this letter of credit you may draw hereunder by your sight draft(s) drawn on us and bearing the clause drawn under Credit No: [[insert credit number]]

This letter of credit sets forth in full the terms of our undertaking and such undertaking shall not in any way be modified, amended or amplified by reference to any documents or instruments referred to herein or in which this letter is referred to or to which this letter of credit relates and any such reference shall not be deemed to incorporate herein by reference any document or instrument.

All bank charges and commissions incurred in this transaction are for the applicant’s account. Any funds drawn hereunder and unused at the time you are discharged as Surety on all bond(s) or undertaking(s) on behalf of our client will be repaid to us by you.

We hereby agree with the drawers, endorser, and bona fide holders of drafts drawn under and in compliance with the terms of this credit that such drafts will be duly honored upon presentation to the drawee.

Except as otherwise expressly stated herein, this credit is subject to the Uniform Customs and Practice for Commercial Documentary Credit (1983 Revision) I.C.C. Publication No. 400.

Very Truly Yours,
Bank Officer