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## **APPENDIX G**

### **BONDING POLICY**



## Appendix G - Bonding Policy

The following details the bonding process for public infrastructure development. Based upon approved construction plans, a Planning Commission representative will prepare a detailed cost estimate to cover infrastructure improvements in the event of developer default. This estimate will be used for bonding purposes to ensure the Planning Commission can complete the infrastructure to standards acceptable by local government.

The Planning Commission accepts three (3) forms of sureties for infrastructure development.

1. Cash
2. A Letter of Credit (LOC) from an approved financial institution.
3. A Performance Bond from an approved Institution.

Administrative fees are calculated at two percent (2%) of the bond estimate for cash or LOC bonds and two and a half percent (2.5%) for performance bonds. The bond must be in place and fees paid to the Planning Commission prior to construction starting. LOC sureties shall be effective for one (1) year and may be renewed/reduced with Planning Commission approval prior to the three (3) year completion deadline specified in the construction contract. Performance Bonds shall be effective for the duration of the construction contract or until written authorization to reduce or release is submitted by the Planning Commission to the bonding agent. The Planning Commission shall be informed in writing by the bonding agent thirty (30) days prior to any changes in status of the bond not specifically authorized by the Planning Commission.

The bond shall stipulate that in the event of developer default (as defined by the construction contract) the bond amount is immediately due and payable to the Planning Commission in the form of cash. These funds will be deposited into a separate financial account in order that the Planning Commission can ensure completion of the infrastructure. Upon acceptance of the infrastructure by the City/County government, any unused funds will be returned to the bonding agent.

**Reductions:** As work is **successfully** completed, the Planning Commission representative may recommend reductions in the bond amount. Recommendations for bond reductions are subject to approval by the Planning Commission at regularly scheduled meetings. Reductions shall be requested by the developer and a contingency amount shall be included in the bond estimate in the event of unanticipated failures or work oversights. The contingency amount will typically be fifteen percent (15%) of the original project quantities but may be increased if issues have occurred during construction or the Planning Commission representative has concerns regarding materials or workmanship. In no case will the bond be reduced below twenty (20%) of the original bond estimate, until such time as the developments infrastructure has been accepted for maintenance by the governmental entity.

**Reductions/Renewals:** Approximately thirty (30) days prior to the current bond expiration, the Planning Commission will inform the developer, by mail, if a reduction has been allowed. In no case will the bond be reduced below twenty

percent (20%) of the original bond estimate, until such time as the developments infrastructure has been accepted for maintenance by the governmental entity. The new bond shall be in place on the date directed by the Planning Commission representative and in all cases prior to the expiration date of the current bond.

**Release:** The developer has three (3) years from the date the construction contract is signed to complete construction and have the infrastructure accepted by local ordinance. If construction is not completed after three (3) years or the infrastructure has not been accepted by local ordinance then the bond shall be converted to cash by the Planning Commission. Once the infrastructure is accepted by local ordinance the bond will be released.

### **Bonding Options:**

**Option A** – At the time of the preconstruction conference the developer is required to bond the entire estimated cost for constructing the proposed infrastructure, pay administrative fees based upon the bond estimate and sign a construction contract. The developer will then be allowed to plat and transfer lots while the subdivision infrastructure is being constructed. During the construction process Planning Commission representatives will be onsite monitoring construction and as work is successfully completed the developer may request bond reductions. The developer shall then be allowed to substitute a smaller bond amount that reflects work remaining plus ten percent (10%) contingency. Quality issues during construction may influence the allowable bond reduction. The bond will not be reduced below twenty percent (20%) of the original bond estimate until such time as the developments infrastructure has been accepted for maintenance by local ordinance.

**Option B** – At the time of the preconstruction conference the developer will be required to bond twenty percent (20%) of the estimated cost for constructing the proposed infrastructure, sign a construction contract, pay administrative fees based upon the original bond estimate and may then begin construction of the development infrastructure. The developer may not record the subdivision plat or transfer lots. During the construction process Planning Commission representatives will be onsite monitoring construction. Once the developer is ready to transfer lots, a request may be made to the Planning Commission representative who will estimate the cost of the remaining work items plus a minimum ten percent (10%) for contingencies. This shall be the bond amount that the developer will provide as surety to the Planning Commission until the project is accepted by the appropriate governmental entity. Once the bond is posted the developer will be allowed to plat and transfer lots. The minimum bond will be at least twenty percent (20%) of the original bond estimate until such time as the development's infrastructure has been accepted for maintenance by local ordinance. Quality issues during construction may necessitate more than a twenty percent (20%) bond.

## Bonding Options Example

	Option A (Bond 100%)	Option B (Bond 20%)
	\$500,000 Original Bond Est.	\$500,000 Original Bond Est.
At the Pre- Construction Conference	Post \$500,000 Bond	Post \$100,000 Bond
	Pay Fees, Sign Contract	
	Plat & Build	Build
	\$350,000 1st Bond Reduction	Plat - Post \$100,000 Bond
	\$175,000 2nd Bond Reduction	
	\$100,000 Minimum Bond	
	(Maintain until acceptance)	

The developer has three (3) years from the date the construction contract is signed to complete construction and have the infrastructure accepted by local ordinance. If after three (3) years construction has not been completed or the infrastructure has not been accepted by local ordinance then the bond shall be converted to cash.

Following acceptance by local government ordinance the bond will be released.