

Teleconference Call with Mr. Michael Williams  
Capital Access and *Banking* Sub-Committee  
IL CMS Business Enterprise Council  
November 19, 2012  
4:00pm—5:00 pm

Sub-Committee Members in attendance on 11/19/2012: Fred Coleman III and Larry Ivory. Members that had confirmed and experienced conflicts: Hedy Ratner, Darryl Harris and Rodney Lewis.

**Teleconference Speaker and Background**

Mr. Michael Williams, Co-Owner

North American Construction Services , Inc., (Acquired controlling Interest in 1993) and CCI Surety, Inc. (Founded in 1999).

North American Construction Services Inc. focuses on using escrow and funds control as a method of approving non-standard contractors for surety credit. Escrow is an arrangement made under contractual provisions between transacting parties, whereby an independent trusted third party receives and disburses money for the transacting parties, with the timing of such disbursement by the third party dependent on the fulfillment of contractually-agreed conditions by the transacting parties. North American Construction Services Inc. realizes that small and minority contractor's biggest issue is working capital to gear up and mobilize for a bid they have won. Their service is to provide a small percentage of working capital up through the first couple of payments from the owner, extract their working capital, and then manage the disbursement of funds per the timely completion of the project.

Funds Control is the process whereby the firm controls funds and paperwork to insure that funds go to the line items as bid. In this role they manage the funds, create the construction progress reports, manage budgeting and avoid financial leakage.

CCI surety Inc. is a licensed insurance agency under the laws of the State of Minnesota specializing in the field of Specialty Surety Bond Industry. They are a specialty underwriter for Contract, Commercial and Judicial surety bonds. They are also one of the largest surety bond writers in the SBA Surety Bond Guarantee Program. They primarily focus on writing bonds for small, emerging and minority contractors.

**Preamble to Teleconference Call**

Our call is purely for information purposes to understand how companies such as yours are assisting construction-related minority and female business enterprises receive bonding and surety products. We are not soliciting vendor information or capabilities for an RFP or other solicitation by the State of Illinois.

Teleconference Call with Mr. Michael Williams  
Capital Access and *Banking* Sub-Committee  
IL CMS Business Enterprise Council  
November 19, 2012  
4:00pm—5:00 pm

***The purpose of our call is to receive your perspective and answers to the following questions:***

- ***What*** is the success rate of these programs? These types of programs have been tried in Illinois utilizing a shorter bonding education period with little to no long-term success. The minority and female business enterprise construction community is not interested in another “do nothing” program being offered to them.

**Answer:** NACS and CCI Surety is different than the other two companies you will be speaking with in that we do not offer or teach long-term “classes” to small and minority-owned construction firms. We instead believe that working with each client on an individual basis is best because each client’s needs are unique and we can better provide insight on their business operations on a 1:1 basis. CCI prefers to call this the “Counseling Approach”. CCI Surety Inc. does host 1-day events for clients and prospective clients to provide an overview of surety bonding and then follow-up 1:1. The success rate of our program is generally measured by using a loss ratio on Performance and Payment bonds on challenged accounts. The loss ratio for both NACS and CCI Surety Inc. is below 5%. When a loss does occur it is generally the result of an inadequate bid for which there is nothing escrow can do to cure the situation.

- ***What*** are the tangible results over the long-term? How many firms that have participated in these other states programs have obtained surety bonding over the long term?

**Answer:** CCI Surety Inc. annually writes \$1 billion worth of bonds per year. CCI’s niche is for bonds under \$2 million for small, emerging contractors and minority/female owned contractors. NACS has managed over \$3 billion using Funds Control for over 3,000 companies. For severely challenged small, emerging and minority-owned companies we utilize the SBA loan program where from anywhere from 80% to 95% of the loan is guaranteed and applied to escrow for the working capital that constitutes labor and materials only. The SBA maximum loan size is \$2 million.

- ***Why*** do the bonding education programs extend over 8—18 months? Is this really necessary? Will participants stay in the program for such a long time? This is a tremendous time investment for a small; business owner.

**Answer:** As mentioned earlier we utilize a 1:1 approach to educate our clients. Also mentioned were the 1-day events that provide a basic overview of surety bonding concepts and how we utilize escrow and funds control to the benefit of our clients. For individuals wishing to learn more through in-depth education, we recommend accessing and using the National Association of Surety Bonds Producers website. This organization utilizes an online learning approach that permits contractors to schedule their learning time as they see fit and learn at their own speed. We recognize that small

Teleconference Call with Mr. Michael Williams  
Capital Access and *Banking* Sub-Committee  
IL CMS Business Enterprise Council  
November 19, 2012  
4:00pm—5:00 pm

contractors wear many hats and that their time is constrained and therefore we feel it is too much of a burden to ask them to participate in programs that run weeknights or occur on weekends. We prefer the National Association of Surety Bonds Producers because we know they are oriented toward supporting small and emerging contractors and understand this market.

- Small businesses in the same field will have concerns about **confidentiality** of their personal and company's financial history and performance with other potential competitors participating. **How** is this addressed?

**Answer:** Because our program is a "Counseling Approach" with a 1:1 relationship between a client and an agent confidentiality of business information is maintained.

- If the participants in the program do complete the program what **guarantee** do they have they will receive surety bonding upon their successful completion? This will surely be the ultimate metric participants will use, as well as the funding agency.

**Answer:** First, I understand that the orientation of the questions were for surety providers that provide some form of an extended educational program, and our approach does not fit that model. We will do everything we can to write a surety bond using all the resources we have and especially our relationship with the SBA. Our revenue stream is somewhere between 65%—75% SBA loan products now. Therefore we are very experienced and effective at utilizing SBA resources and our established track record with a variety of underwriters to obtain surety products for our clients— which I emphasize is small, emerging and minority-female owned contractors. Further I would encourage you to consider approaching Community Development Financial Institutions to pool their funds and develop a working capital fund. I would also encourage you to consider working with legislators and large agencies such as IDOT, etc. to have the state or these agencies put money into a pool and utilize a funds control approach for working capital to assist small, emerging and minority-female owned contractors