Financing Government Contracts



Creating cash flow for businesses

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Goal of Presentation

1. Discuss different types of financing available to companies that provide services to the US government and other political subdivisions.

2. Discuss a number of "real world examples" of how companies grew profitably because of financing alternatives.



Presentation Structure

- Ask questions as they arise and feel free to stop me at any point if you would like additional explanation.
- A copy of this presentation will be available on our website. (http://bfs-usa.com/?p=1028)



Common Myths

• MYTH:

Governmental contracts are not financeable because governmental contracts are not assignable.

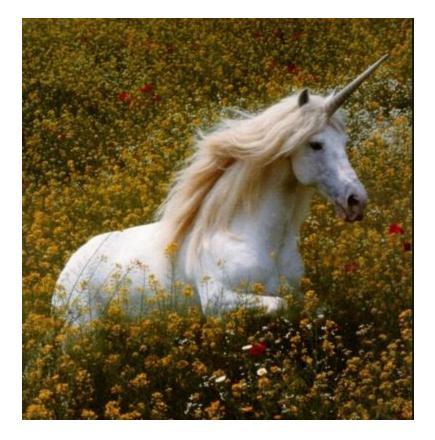
• FACT:

Governmental Contracts are normally not assignable, but the proceeds of the contract like A/R, and cash are assignable.





Myths (continued)



MYTH:

Governmental agencies are very slow payers.

• FACT:

Some single service projects may be slow pay, but recurring service or supply contracts pay relatively quickly after initially being set up.



Some Facts

- FACT: Though most lenders to not understand governmental contract financing, they are about the safest kind of receivables to finance.
- FACT: Financing governmental receivables does have a number of rules and procedures associated with it which is why many lenders won't finance them.
- **FACT**: Though there are a few lenders who will lend against Medicare and Medicaid receivables, they are rare.



What Kind of Financing is Needed

- Accounts Receivable finance to carry large A/R associated with contract.
- Possibly mobilization financing to start a new long-term contract.
- Possibly purchase order finance if selling goods that require manufacturing or purchase.



Federal A/R Financing

- The US government has a very special law that makes it easy to finance US Governmental Contracts.
 - This is known as the "Assignment of Claims Act of 1940" It protects the financing source while providing for ways for financing sources to help small businesses serve the US government.



State A/R Financing

- State contracts are financeable, but a little harder due to:
 - State governments don't have a law that protects the lender such as the US Gov does.
 - State governments can have a number of "offsets that financing sources don't always feel comfortable with.
- There is plenty of financing available.



City or Other Government

- A/R finance not as difficult as state government. Each political subdivision's contract is different.
- Cities and other political subdivisions are not permitted by most state's law to encumber themselves for more than the current budget year.



Real World Example # 1



Company – Janitorial services, 8 (a) status.

- Awarded 5 year \$30 million contract under 8 (a) competitive bid;
- Needed \$500,000 in mobilization capital;
- □ Needed a \$750,000 A/R finance line.



Real World Example # 2

- Small Co. manufactures semiinflatable water craft.
 - Was awarded contract for 30 semi-inflatable small boats to Coast Guard on very short deadline.
 - Used A/R and PO finance to meet the clients needs.





Real World Example # 3

- Company manufactures and installs "wet walls" for dorm showers
- Construction Services
- Provided accounts receivable financing with progress billing



Nuts and Bolts of A/R Finance

- Company arranges a line of credit with a factoring company EXPERIENCED in governmental A/R finance.
- Factoring company after approval prepares necessary assignment of claims forms.
- Company signs assignment forms and gets them signed by government contracting officer.
- Government payment is deposited in factor's "clearing account."



Strategies

- During pre-solicitation period of bid, calculate mobilization costs and average outstanding A/R – if awarded.
- Secure a strong commitment letter from a reputable financing source. Figure that the commitment needs to cover the first 90 to 120 days of the contract.



Picking a Finance Solution

- **MUST** Be sure you are doing business with a company that has extensive experience financing governmental contracts.
- Get, read and understand a copy of the financing contract.
- Understand all the costs involved in A/R financing.
- If you can add the cost of financing to your contract, do so.



Mobilization \$\$\$

- Make sure you coordinate between your lender and mobilization financing source. They have to be comfortable with each other as they have to have an inter-creditor agreement between them.
- Certified Development Loan Funds (CDLFs) can be a good source.



If Purchase Order Financing is needed

- Make sure you coordinate between your lender and PO financing source. They have to be comfortable with each other as they have to have an inter-creditor agreement between them.
- Understand that PO financing is much more expensive than A/R financing. Calculate it in when bidding.



Progress Billings

- If construction progress billings, will require a specialty factoring company. Very rare.
- If progress billings are not construction related, may require a specialty factor.
- Time and Expense and Time and Materials are not progress billings.



Conclusion



- Government contracts can be financed.
- Need specialty financing source that understands government contracts

