

HOUSE BILL REPORT

SSB 6110

As Reported by House Committee On: Capital Budget

Title: An act relating to retainage bonds on public contracts.

Brief Description: Regulating retainage bonds on public contracts.

Sponsors: Senate Committee on Financial Institutions, Housing & Insurance (originally sponsored by Senators Ericksen and Hobbs).

Brief History:

Committee Activity:

Capital Budget: 2/25/14 [DPA].

<p>Brief Summary of Substitute Bill (As Amended by Committee)</p>
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- Requires an A-minus or better rating for a surety insurer.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass as amended. Signed by 12 members: Representatives Dunshee, Chair; Stanford, Vice Chair; DeBolt, Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Appleton, Christian, Riccelli, Robinson, Scott, Senn, Smith and Warnick.

Staff: Steve Masse (786-7115).

Background:

A surety bond is a promise to pay one party a certain amount if a second party fails to meet some obligation, such as fulfilling the terms of a contract. A surety bond consists of an agreement between at least three parties: the obligee, the party who is the recipient of the obligation, e.g., a project owner; the principal, the primary party who will perform the contractual obligation, e.g., a general contractor; and the surety, the bonding company that assures the obligee that the principal can perform the task, e.g., an insurance company. The principal will pay a premium in exchange for the bonding company's financial strength to

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extend surety credit. In the event of a claim, the surety will investigate it. If it turns out to be a valid claim, the surety will pay the obligee and then turn to the principal for reimbursement including any legal fees incurred.

There are various subtypes of surety bonds issued in Washington, including fiduciary bonds, judiciary bonds, and retainage bonds. Retainage bonds are a type of bond that protect the obligee after a job or project is complete. It guarantees that the principal will carry out all necessary work to correct structural and/or other defects discovered immediately after completion of the contract, even if full payment has been made to the principal.

The Office of the Insurance Commissioner is responsible for overseeing the regulation of surety insurance. Under current law, a surety bond must be approved and accepted by a court, public official, or public body if it is otherwise proper and guaranteed by an authorized surety insurer, or an unauthorized surety insurer as a surplus line as set forth in statute.

Summary of Amended Bill:

The amended bill clarifies that all surety bonds that are executed, posted, or given as security are covered under any applicable statute, and requires an A-minus or better rating for a surety insurer.

Amended Bill Compared to Substitute Bill:

Repetitive language is removed.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) Surety insurance companies provide large amounts of bonding in Washington. Some larger insurance company's bonds are not always accepted by public entities performing public works projects. An A-plus rating has been required by some public entities. A broad marketplace for bond providers is good for the construction industry. This also helps subcontractors that would have to wait for retainage.

(Opposed) None.

Persons Testifying: Gary Strannigan and Gerald Ormiston, Liberty Mutual; Van Collins, Associated General Contractors; Cliff Webster, American Insurance Association; and Larry Stevens, National Electrical Contractors Association.

Persons Signed In To Testify But Not Testifying: None.