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**Labor & Workplace Standards  
Committee**

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**SB 5795**

**Brief Description:** Increasing contractor bonding requirements.

**Sponsors:** Senators Zeiger and Saldaña; by request of Department of Labor & Industries.

**Brief Summary of Bill**

- Allows the Director of the Department of Labor and Industries (Department) to increase a contractor's bond amount by up to three times the normal amount if the applicant has had in the past five years one, rather than three, judgments involving a single-family dwelling.
- Requires the Department to convene a work group to consider additional consumer safeguards including bond amounts, additional criteria for contractors, changes to options for consumer recovery, and other matters.

**Hearing Date:** 3/18/19

**Staff:** Joan Elgee (786-7106).

**Background:**

General and specialty contractors must register with the Department of Labor and Industries (Department). A general contractor works in more than one building trade or craft upon a single job or project or under a single building permit. A specialty contractor works in one trade or craft. To register as a general or specialty contractor, an applicant must file a bond and proof of insurance and pay a fee with the submission of the application.

The bond amount is \$12,000 for a general contractor and \$6,000 for a specialty contractor. The bond is conditioned upon the contractor paying: persons performing labor for the contractor, persons furnishing material or renting or supplying equipment to the contractor, amounts

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adjudged against the contractor for breach of contract, and taxes due to the state. A contractor may file an assigned savings account in lieu of a bond.

A person with a claim against a contractor may bring a lawsuit against the contractor and the bond in superior court. The surety must be named as a party and service of process is by serving the Department. If claims exceed the amount of the bond, the claims are satisfied in the following order:

1. employee labor;
2. breach of contract;
3. subcontractors, material, and equipment;
4. taxes; and
5. any court costs, interest, and attorneys' fees.

One-half of the bond amount is protected for residential homeowners. For a claim against a specialty contractor, the protected amount is one-half the bond amount or \$4,000, whichever is greater.

The Director of the Department may require an applicant applying to renew, reinstate, or apply for a new registration to file a bond of up to three times the normal amount if the Director determines that the applicant, or a previous registration of a corporate officer, owner, or partner of a current applicant, has had in the past five years three final judgments involving a residential single-family dwelling on two or more different structures.

#### **Summary of Bill:**

The Director's authority to require a higher bond amount is modified to allow the Director to require up to three times the normal bond amount if there has been one judgment against the contractor involving a residential single-family dwelling.

The Department must convene a work group by August 1, 2019, to consider additional safeguards for consumers who engage contractors. Work group participants must include:

- Department staff;
- large and small contractors that primarily contract with residential homeowners, contractors that build new and rehabilitate residences, and other interested contractors;
- surety bond companies;
- realtors or their representatives;
- workers and/or their representatives;
- representatives from the consumer protection division of the Office of the Attorney General;
- consumers and/or consumer advocates; and
- local building officials.

The work group must submit a report with recommendations to the Department and, if applicable, to the appropriate committees of the Legislature by June 30, 2020. The report must address whether:

- bond amounts are sufficient and appropriate to protect consumers, workers, and suppliers, and meet tax obligations;
- additional criteria for contractors would provide a greater level of protection;

- strategies to discourage the transfer of a business to a different entity to evade penalties or judgements should be implemented;
- any other registration requirements or options for consumer recovery should be changed to increase protections for consumers; and
- incentives to adopt industry best practices would increase consumer protection.

**Appropriation:** None.

**Fiscal Note:** Available.

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