

HOUSE BILL REPORT

HB 1957

As Reported by House Committee On:
Transportation

Title: An act relating to bond amounts for department of transportation highway contracts.

Brief Description: Regarding bond amounts for certain department of transportation highway construction contracts.

Sponsors: Representative Eddy; by request of Department of Transportation.

Brief History:

Committee Activity:

Transportation: 2/14/07, 3/2/07 [DPS].

Brief Summary of Substitute Bill

- Authorizes the Washington State Department of Transportation to establish surety bond requirements for highway construction projects costing \$80 million or more at an amount to protect 100 percent of the state's exposure to loss.

HOUSE COMMITTEE ON TRANSPORTATION

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 21 members: Representatives Clibborn, Chair; Flannigan, Vice Chair; Jarrett, Ranking Minority Member; Appleton, Armstrong, Campbell, Dickerson, Eddy, Ericksen, Hailey, Hankins, Lovick, Rodne, Rolfes, Sells, Simpson, Springer, B. Sullivan, Upthegrove, Wallace and Wood.

Minority Report: Do not pass. Signed by 2 members: Representatives Hudgins and Kristiansen.

Staff: Jeff Olsen (786-7157).

Background:

With few exceptions, when a public body contracts with a person or corporation to do work for the state, that person is required to obtain a surety bond. The surety bond guarantees the person will perform all of the provisions of the contract. If a contractor does not complete a

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project as specified in his or her contract, the issuer of the bond becomes liable for completing the project or for financial compensation. The Washington State Department of Transportation (WSDOT) currently requires all contractors to secure a performance bond for an amount equal to 100 percent of the contract value on a project.

Summary of Substitute Bill:

The WSDOT must establish surety bond requirements for highway construction projects costing \$80 million or more at an amount to protect 100 percent of the state's exposure to loss. The amount of the bond must not be less than \$80 million.

The WSDOT must develop risk assessment guidelines before authorizing surety bonds for less than the full contract price. The Office of Financial Management (OFM) must approve the guidelines, and the Secretary of the WSDOT must approve each bond issued for less than the full contract price.

The WSDOT must report to the House and Senate Transportation Committees by December 1, 2008, regarding the effectiveness of the program.

The authority to issue bonds for less than the full contract amount for large projects expires June 30, 2011.

Substitute Bill Compared to Original Bill:

The substitute bill requires the WSDOT to develop risk assessment guidelines before authorizing surety bonds for less than the full contract price. The substitute directs the OFM to approve the guidelines, and the Secretary of the WSDOT must approve each bond issued for less than the full contract price. The substitute requires the WSDOT to report to the House and Senate Transportation Committees by December 1, 2008, regarding the effectiveness of the program. The substitute expires the authority to issue bonds for less than the full contract amount on June 30, 2011.

Appropriation: None.

Fiscal Note: Not requested.

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

Staff Summary of Public Testimony:

(In support) The WSDOT interviewed contractors regarding strategies to achieve efficiencies, and changing surety bond requirements were recommended. The surety bond market has changed in the last five years, and we can no longer expect contractors to cover 100 percent of

the contract cost on large projects. If these changes are not made, the state may get less bidders on large projects. Other states are using the approach proposed in this bill.

(Opposed) Capping bond requirements will not save the state money on the costs of surety bonds. This will decrease protection to the state without any cost savings. The WSDOT did not discuss these changes with the surety industry. The cap is not consistent with what other states have done. Normal, standard industry practice is to measure risk by the contract amount and base the premium on the contract amount.

Persons Testifying: (In support) Representative Eddy, prime sponsor; Steve Reinmuth, Washington State Department of Transportation; and Duke Schaub, Associated General Contractors of Washington.

(Opposed) Mel Sorensen, Property Casualty Insurer's Association.

Persons Signed In To Testify But Not Testifying: Cliff Webster, American Insurance Association.