

HOUSE BILL REPORT

HB 2501

As Reported by House Committee On:
Labor & Workforce Development
Appropriations

Title: An act relating to registration requirements for contractors.

Brief Description: Concerning registration requirements for contractors.

Sponsors: Representatives Ormsby and Sells.

Brief History:

Committee Activity:

Labor & Workforce Development: 1/30/14, 1/31/14 [DPS];
Appropriations: 2/10/14 [DPS(LWD)].

Brief Summary of Substitute Bill

- Requires first-time contractor registration applicants to complete a contractor pre-registration training program or pay an additional \$200.

HOUSE COMMITTEE ON LABOR & WORKFORCE DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 5 members: Representatives Sells, Chair; Reykdal, Vice Chair; Green, Moeller and Ormsby.

Minority Report: Do not pass. Signed by 4 members: Representatives Manweller, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Christian and G. Hunt.

Staff: Joan Elgee (786-7106).

Background:

General and specialty contractors must register with the Department of Labor and Industries (Department). To register as a contractor, an applicant submits an application under oath that includes the applicant's unified business identifier (UBI) and the name and address of each

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business owner. If the applicant will have employees in Washington, the applicant must also show evidence of workers' compensation coverage and an Employment Security Department (ESD) number. Registration also requires filing of a bond and proof of insurance and payment of a fee. The fee is \$113.40 and is set by rule.

The Department offers voluntary contractor training.

Summary of Substitute Bill:

First-time applicants must complete a contractor pre-registration training program or pay an additional \$200 registration fee. Programs may be provided by the Department or by entities approved by the Department who meet criteria established in rule. An applicant must be an owner, officer, or partner of the entity applying for registration. Other program requirements are that:

- A program may not exceed six hours.
- A program must be available at least once a month in each of the Department's service delivery regions.
- No fee may be charged for a program provided by the Department.
- The Department may offer Internet programs if it has proof that the applicant participated in the entire program.
- All applicants must pass a test showing he or she reasonably retained the information.

To register as a contractor, an applicant must submit evidence of a workers' compensation account and an ESD account, regardless of whether the applicant has employees at the time of registration.

The Department of Revenue and the ESD must assist the Department in presenting the program.

Substitute Bill Compared to Original Bill:

The substitute bill provides that the training program requirement applies to first-time applicants only. In addition, it authorizes Internet programs by private entities as well as the Department and requires all applicants, not just applicants taking Internet training, to pass a test. Clarifying language is added that first-time applicants must complete a training program or pay \$200. Current law regarding submittal of UBI numbers instead of workers' compensation and unemployment insurance account numbers is repealed. Language is simplified and reorganized, including by moving the training program provision to a different statute.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute 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) There is mythology that it's not a big deal to be a contractor. It takes little effort to get a license and many contractors don't know what their responsibilities are. People need to be educated and understand their taxes. This bill is part of the discussion of what people can expect when they hire a contractor. The idea came out of the Underground Economy Advisory Committee, but was not a recommendation, and from discussions with the Department.

The biggest competition in construction comes not from legitimate competitors but from the underground economy, which is a huge challenge. Businesses, employees, and customers suffer from the underground economy. Under this bill, contractors can take a free class and learn about legitimate independent contractors and if they do hire employees, what needs to be done. The Department offers classes but they are not well attended. This bill creates a \$200 incentive to attend. It is a common sense step.

When a contractor attends a class, it's easier to prove fraud and step up penalties. The bill is aimed at the bad actors.

Currently, a contractor only needs a workers' compensation account, if the contractor has employees at the time of registration. This bill would make all contractors open an account at registration so contractors will then receive quarterly reports to fill out when they do hire employees. The penalty for falsifying reports is much higher than not reporting. Lots of roofers on the Department's website show no employees but this makes no sense.

(Opposed) The underground economy is a problem but this bill is a flawed approach. The bill did not come from the Advisory Committee. Sole proprietors with no employees would have to file quarterly reports and pay a \$200 fine. The information is already available in voluntary classes. This bill would force every contractor to take a class even if they had no employees. Some people who already know the rules will have to take the class. They would have to miss a day of work. The examples given were of people who knew exactly what they were doing, "I didn't know" doesn't work as an excuse.

Persons Testifying: (In support) Representative Ormsby, prime sponsor; Gary Smith, Independent Business Association; Matt Swanson, Guardian Roofing; Don Vose, Legends Roofing Company Incorporated; and Jim King, Washington State Heating, Ventilation, Air Conditioning, and Refrigeration Association.

(Opposed) Tom Kwieciak, Building Industry Association of Washington.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill by Committee on Labor & Workforce Development be substituted therefor and the substitute bill do pass. Signed by 18 members: Representatives Hunter, Chair; Ormsby, Vice Chair; Carlyle, Cody, Dunshee, Green, Haigh, Hudgins, S. Hunt, Jinkins, Kagi, Lytton, Morrell, Pettigrew, Seaquist, Springer, Sullivan and Tharinger.

Minority Report: Do not pass. Signed by 12 members: Representatives Chandler, Ranking Minority Member; Ross, Assistant Ranking Minority Member; Wilcox, Assistant Ranking Minority Member; Buys, Christian, Fagan, Haler, Harris, G. Hunt, Parker, Schmick and Taylor.

Staff: Mary Mulholland (786-7391).

Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Labor & Workforce Development:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available.

Effective Date of Substitute 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) The bill is a creative idea that came from some members of the Construction Underground Economy Advisory Committee at the Department of Labor and Industries (Department). It is an idea to try to get at the issue of registered contractors not paying industrial insurance or unemployment insurance taxes that are due. It is frustrating that all agree that the underground economy is a problem but not a lot is being done. This bill is an opportunity to move forward. In 2013 the Department collected \$17 million from persons that were not paying industrial insurance premiums. There is precedent for training classes. When the basis for premiums for drywall was changed, drywallers had to attend a class to receive a discount. Drywallers taking the class had positive feedback on the classes. An amendment is being worked on.

(Opposed) None.

Persons Testifying: Gary Smith, Independent Business Association; and Jim King, Washington State Heating, Ventilation, Air Conditioning and Refrigeration Association.

Persons Signed In To Testify But Not Testifying: None.