Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Capital Budget Committee

SSB 6110

Brief Description: Regulating retainage bonds on public contracts.

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

Brief Summary of Substitute Bill

- Clarifies that all surety bonds are included in statute, and requires an A-minus or better rating for a surety insurer.

Hearing Date: 2/25/14

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 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 State, 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.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The Office of 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 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.

Appropriation: None.

Fiscal Note: Not requested.

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