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FISCAL IMPACT REPORT

ORIGINAL DATE 1/29/07

SPONSOR Taylor LAST UPDATED _____ HB _____

SHORT TITLE Alternative Methods of Providing Security for Contractors and Subcontractors SB 436

ANALYST Propst

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	NFI		

(Parenthesis () Indicate Expenditure Decreases)

Relates to SB 13

SOURCES OF INFORMATION

LFC Files

Responses Received From

General Services Department (GSD)

SUMMARY

Synopsis of Bill

Related to Public Works; Providing for Alternative Methods of Providing Security for Contractors and Subcontractors

Senate Bill 436 would allow contractors and subcontractors to provide a personal surety or another form of surety that is satisfactory to the obligee instead of a performance and payment bond for public works projects under the Procurement Code.

FISCAL IMPLICATIONS

GSD notes that the value of assets used in a personal surety may fluctuate and therefore fall below the required bond limit for the project. In that case, the agency might be responsible for the difference.

SIGNIFICANT ISSUES

The General Services Department notes the following:

- Performance and payment bonds assure that the project will be completed in a timely manner and guarantees against defects. With bonds, a bonding company is responsible to verify the claim and make reimbursements as well as complete any unfinished work.
- A personal surety is a surety from a third party that pledges assets such as cash, certificates of deposit, irrevocable trust receipt, US securities, stocks, bonds, real property and irrevocable letters of credit. With a personal surety, an agency may have to wait to complete the project until the pledged assets are liquidated. An agency might have to:
 1. verify the claims and reimburse laborers or material suppliers if the awarded contractor failed to pay and
 2. find and pay another contractor to finish if the awarded contractor did not complete the project.
- The value of the assets used in a personal surety fluctuates and may fall below the required bond limit for the project.

ADMINISTRATIVE IMPLICATIONS

Rules may need to be promulgated stating the required terms and conditions of a personal surety or other form of surety that is satisfactory to the obligee.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to SB 13

TECHNICAL ISSUES

GSD notes that, “other security” satisfactory to the obligee may require further clarification.

WEP/nt