

# SENATE BILL REPORT

## SB 5528

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As of February 7, 2023

**Title:** An act relating to the retainage percentage withheld by prime contractors from subcontractors.

**Brief Description:** Concerning the retainage percentage withheld by prime contractors.

**Sponsors:** Senator Stanford.

**Brief History:**

**Committee Activity:** Labor & Commerce: 2/09/23.

**Brief Summary of Bill**

- Establishes retainage requirements for contractors and subcontractors in nonpublic works projects.

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### SENATE COMMITTEE ON LABOR & COMMERCE

**Staff:** Jarrett Sacks (786-7448)

**Background:** For public improvement projects, public entities are required to withhold up to 5 percent of the value of the contract, called retainage, for any payment required and not made or for penalties. The retainage is withheld over the course of payments made during the contract period. The contractor or subcontractor may withhold 5 percent of payments owed to subcontractors or material suppliers.

A contractor may submit a bond for all or a portion of the contract retainage. A subcontractor may also request the contractor to submit a retainage bond for the portion of the subcontractor's retainage. Individuals performing labor or furnishing supplies under the public improvement contract have a lien on the the retainage or the retainage bond.

There is currently no state law regarding retainage for private construction projects.

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

**Summary of Bill:** An owner, contractor, or subcontractor may withhold as retainage an amount up to 5 percent of the contract price of the work completed for nonpublic works projects, excluding single-family residential construction.

The owner, contractor, or subcontractor must pay interest at the rate of 1 percent per month on the final payment due to the contractor or subcontractor. The interest commences 30 days after the contractor or subcontractor has completed, and the owner has accepted, the work under the contract. The interest runs until final payment is tendered to the contractor or subcontractor.

A contractor or subcontractor must provide notification upon completing their contracted work to the party for whom they are performing work. The party must, within 15 days after receiving the notice, either accept the work or notify the contractor or subcontractor of work yet to be performed under the contract. If the party does not accept the work or does not notify the contractor or subcontractor of work yet to be performed within the time allowed, the interest required commences 30 days after the end of the 15-day period.

When a contractor pays a subcontractor in full, including the amount the contractor withheld as retainage, the owner must pay the contractor, out of the amount that the owner withheld from the contractor as retainage, a sum equal to the amount of retainage that the contractor paid the subcontractor. The contractor must notify the owner when the contractor pays a subcontractor in full and the owner must, within 15 days after receiving the notice, pay the contractor the amount due the contractor. Interest on the amount due to the contractor, at the rate of 1 percent per month, commences 30 days after the owner receives notice of full payment to the subcontractor.

In lieu of retainage, a subcontractor may tender a retainage bond not to exceed 5 percent of the moneys earned by the contractor, which must meet certain specified requirements. Whenever a contractor accepts a bond in lieu of retained funds from a subcontractor, the contractor must accept like bonds from any subcontractors or suppliers from which the contractor has retained funds. The contractor must then release the funds retained from the subcontractor or supplier to the subcontractor or supplier within 30 days of accepting the bond from the subcontractor or supplier.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.