

FISCAL IMPACT OF PROPOSED LEGISLATION

80th Oregon Legislative Assembly – 2019 Regular Session
Legislative Fiscal Office

Measure: HB 2415 - B

*Only Impacts on Original or Engrossed
Versions are Considered Official*

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Measure Description:

Requires that retainage be placed in interest-bearing account if contract price exceeds \$500,000.

Government Unit(s) Affected:

Department of Administrative Services (DAS), Department of Corrections (DOC), Statewide, Counties, Cities

Summary of Fiscal Impact:

Costs related to the measure may require budgetary action - See analysis.

Analysis:

This measure requires a contracting agency, if a contract price exceeds \$500,000, to place amounts deducted as retainage into an interest-bearing escrow account. Interest on the retainage amount will accrue from the date the payment request is approved until the date that the retainage is paid to the contractor to which it is due.

This measure also requires an owner, contractor, or subcontractor, if a contract price exceeds \$500,000, to place amounts withheld as retainage into an interest-bearing escrow account. Interest on the retainage amount will accrue from the date the payment request is approved until the date that the retainage is paid to the contractor or subcontractor to which it is due. The measure would apply to contracts on or after January 1, 2020.

While a fiscal impact has been assigned to some portions of this measure, agencies could see a larger than anticipated fiscal impact based on the number of projects that occur during the 2019-21 biennium. Each project an agency undertakes will increase administrative workload and increase fees paid to open, close, and maintain escrow accounts. The Department of Administrative Services and the Department of Corrections may need to return to the Emergency Board or Legislative Assembly if actual costs from this measure exceed budgeted expenditures.

Statewide, Counties, and Cities

While the measure will have some additional administrative costs associated with staff depositing funds and managing escrow accounts, it will generally have a minimal fiscal impact on state and local government.

Department of Administrative Services (DAS)

The measure would require the DAS Enterprise Asset Management (EAM) division to establish a new protocol for invoice management and retainage account management. EAM anticipates that a single interest-bearing escrow account will cover all contracts that will be impacted by this measure. The interest-bearing escrow account would be managed in a coordinated manner by EAM and the Chief Financial Office.

EAM anticipates that it will require significant staff time to create an interest-bearing escrow account, invest it to accrue interest, and to track and allocate each investment back to a project at close-out. Between 60 and 80 percent of EAM projects could be impacted by this measure, based on planning, construction, building, and maintenance contracts in the 2017-19 biennium. Assuming projects keep pace with the 2017-19 biennium, EAM may need an additional Accounting Technician 2 to manage the escrow account. It is unknown if this would need to be a part- or full-time position; further analysis is needed to determine funding and staffing levels required.

Department of Corrections (DOC)

The measure would change the process by which DOC retains contractors. Most DOC contracts are above \$500,000, so DOC would need to update these with new retainage rules. DOC will also have to begin using interest-bearing escrow accounts for retainage for these contracts; retainage is currently held within DOC accounts that do not have fees related to opening, closing, or maintaining them. DOC anticipates needing an additional Accountant 1 position (0.75 FTE in 2019-21, 1.00 FTE in 2021-23) to manage the opening, closing, and maintenance of interest-bearing escrow account(s), and to serve as the liaison between accounting and project managers, if projects keep pace with the 2017-19 biennium. This is anticipated to cost \$139,141 General Fund in 2019-21 (\$121,382 Personal Services, \$17,759 Services and Supplies) and \$176,319 General Fund in 2021-23 (\$161,841 Personal Services, \$14,478 Services and Supplies).