SUMMARY

Permits contractors to submit bonds in lieu of retainage for construction projects and public improvement contracts. Specifies requirements for submitting bonds. Specifies relations between contractor and subcontractor when contractor submits bond on behalf of subcontractor.

Declares emergency, effective on passage.

A BILL FOR AN ACT

Relating to submitting bonds in lieu of retainage; creating new provisions; amending ORS 279C.560, 279C.570, 701.420 and 701.435; and declaring an emergency.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OREGON:

SECTION 1. ORS 279C.560 is amended to read:

279C.560. (1) (a) Unless a contracting agency that reserves an amount as retainage under ORS 279C.570 (7) finds in writing that accepting a bond or instrument described in paragraph (a) or (b) of this subsection poses an extraordinary risk that is not typically associated with the bond or instrument, the contractor may submit and a contracting agency in lieu of withholding moneys from payment shall accept as retainage from a contractor for all or a portion of the retainage required under a public contract:

[(a)] (A) Bonds, securities or other instruments of a character described in subsection (6) of this section that are deposited as provided in subsection (4) of this section; or

[(b)] (B) A surety bond deposited as provided in subsection (7) of this section.

(b) A bond that a contractor submits under this section must be executed solely by a surety company that is authorized to transact surety business in this state and may not be a surety obligation of an individual.

(2) A contracting agency that holds moneys as retainage under ORS 279C.570 (7) shall:

(a) Hold the moneys in a fund and pay the moneys to the contractor in accordance with ORS 279C.570; or

(b) At the election of the contractor, pay the moneys to the contractor in accordance with subsection (4) or (5) of this section and in a manner authorized by the Director of the Oregon Department of Administrative Services.

(3) If the contracting agency incurs additional costs as a result of the exercise of an option described in subsection (1) or (5) of this section, the contracting agency may recover the costs from the contractor by reducing the final payment. As work on the contract progresses, the contracting agency shall, upon demand, inform the contractor of all accrued costs.

(4) A contractor may deposit bonds, securities or other instruments with the contracting agency or in a bank or trust company for the contracting agency to hold for the contracting agency’s benefit in lieu of moneys held as retainage. If the contracting agency accepts bonds, secu-
rities or other instruments deposited as provided in this subsection, the contracting agency shall reduce the moneys held as retainage in an amount equal to the value of the bonds, securities and other instruments and pay the amount of the reduction to the contractor in accordance with ORS 279C.570. Interest or earnings on the bonds, securities or other instruments shall accrue to the contractor.

(5) If the contractor elects, the contracting agency shall deposit the retainage as accumulated in an interest-bearing account in a bank, savings bank, trust company or savings association for the benefit of the contracting agency. [When] If the contracting agency is a state contracting agency, the account must be established through the State Treasurer. Earnings on the account accrue to the contractor.

(6) Bonds, securities and other instruments deposited or acquired in lieu of retainage, as permitted by this section, must be of a character approved by the Director of the Oregon Department of Administrative Services, including but not limited to:
   (a) Bills, certificates, notes or bonds of the United States.
   (b) Other obligations of the United States or agencies of the United States.
   (c) Obligations of a corporation wholly owned by the federal government.
   (d) Indebtedness of the Federal National Mortgage Association.
   (e) General obligation bonds of the State of Oregon or a political subdivision of the State of Oregon.
   (f) Irrevocable letters of credit issued by an insured institution, as defined in ORS 706.008.

(7) [The] A contractor, with the approval of [the] a contracting agency, may deposit a surety bond for all or any portion of the amount of funds retained, or to be retained, by the contracting agency in a form acceptable to the contracting agency. The bond and any proceeds of the bond must be made subject to all claims and liens and in the same manner and priority as set forth for retainage under ORS 279C.550 to 279C.570 and 279C.600 to 279C.625. The contracting agency shall reduce the moneys the contracting agency holds as retainage in an amount equal to the value of the bond and pay the amount of the reduction to the contractor in accordance with ORS 279C.570. [Whenever a contracting agency accepts a surety bond from a contractor in lieu of retainage, the contractor shall accept like bonds from a subcontractor or supplier from which the contractor has retainage. The contractor shall then reduce the moneys the contractor holds as retainage in an amount equal to the value of the bond and pay the amount of the reduction to the subcontractor or supplier.]

(8)(a) At any time before final payment on a public improvement contract, a subcontractor may request the contractor on the public improvement contract to submit a bond to the contracting agency for the portion of the contractor's retainage that pertains to the subcontractor. The bond must be from a bonding company that meets standards that the contracting agency sets and in a form the contracting agency deems acceptable. If a contractor at the subcontractor's request obtains a bond under this paragraph, the contractor may withhold from payments to the subcontractor an amount equivalent to the portion of the bond premium for which the subcontractor is responsible.

(b) Within 30 days after a subcontractor's request under paragraph (a) of this subsection, the contractor shall provide and the contracting agency shall accept a bond that meets the requirements set forth in subsection (1) of this section unless:
   (A) The contracting agency finds good cause in writing for not accepting the bond;
   (B) The bond is not commercially available; or
   (C) The subcontractor refuses to pay the contractor the subcontractor's portion of the[
bond premium and refuses to provide the contractor with a bond that meets the require-
ments of subsection (1) of this section.

(c) A bond the contractor submits under this subsection, and any proceeds from the
bond, are subject to claims in the same manner and under the same priority specified for
retainage under ORS 279C.550 to 279C.570.

(d) A contracting agency shall within 30 days after receiving a bond under this subsection
release to the contractor an amount the contracting agency holds as retainage that is
equivalent to the amount the contractor submitted as a bond.

(e) If a contracting agency accepts a bond in lieu of retainage from a contractor under
this section, the contractor shall accept bonds from subcontractors or suppliers from which
the contractor has withheld retainage. The contractor must within 30 days after receiving a
bond from a contractor or supplier release to the subcontractor or supplier an amount the
contractor holds as retainage that is equivalent to the amount the subcontractor or supplier
submitted as a bond.

(9) A bond under this section must be in substantially the form specified in ORS 701.435
(5).

SECTION 2. ORS 279C.570 is amended to read:

ORS 279C.570. (1) [It is] The policy of the State of Oregon is that all payments due on a public im-
provement contract and owed by a contracting agency [shall] must be paid promptly. No contract-
ing agency is exempt from the provisions of this section.

(2) Contracting agencies shall make progress payments on the contract monthly as work
progresses on a public improvement contract. Payments shall be based upon estimates of work
completed that are approved by the contracting agency. A progress payment is not considered ac-
ceptance or approval of any work or waiver of any defects therein. The contracting agency shall
pay to the contractor interest on the progress payment, not including retainage, due the contractor.
The interest shall commence 30 days after receipt of the invoice from the contractor or 15 days after
the payment is approved by the contracting agency, whichever is the earlier date. The rate of in-
terest charged to the contracting agency on the amount due shall equal three times the discount
rate on 90-day commercial paper in effect at the Federal Reserve Bank in the Federal Reserve dis-
trict that includes Oregon on the date that is 30 days after receipt of the invoice from the con-
tractor or 15 days after the payment is approved by the contracting agency, whichever is the earlier
date, but the rate of interest may not exceed 30 percent. [If the contract price exceeds $500,000, the
contracting agency shall place amounts deducted as retainage into an interest-bearing escrow account.
Interest on the retainage amount accrues from the date the payment request is approved until the date
the retainage is paid to the contractor to which it is due.]

(3) Interest shall be paid automatically when payments become overdue. The contracting agency
shall document, calculate and pay any interest due when payment is made on the principal. Interest
payments shall accompany payment of net due on public improvement contracts. The contracting
agency may not require the contractor to petition, invoice, bill or wait additional days to receive
interest due.

(4) [When] If an invoice is filled out incorrectly, [when] if there is any defect or impropriety in
any submitted invoice or [when] if there is a good faith dispute, the contracting agency shall so
notify the contractor within 15 days stating the reason or reasons the invoice is defective or im-
proper or the reasons for the dispute. A defective or improper invoice, if corrected by the contractor
within seven days of being notified by the contracting agency, may not cause a payment to be made
later than specified in this section unless interest is also paid.

(5) If requested in writing by a first-tier subcontractor, the contractor, within 10 days after receiving the request, shall send to the first-tier subcontractor a copy of that portion of any invoice, request for payment submitted to the contracting agency or pay document provided by the contracting agency to the contractor specifically related to any labor or materials supplied by the first-tier subcontractor.

(6) Payment of interest may be postponed when payment on the principal is delayed because of disagreement between the contracting agency and the contractor. Whenever a contractor brings formal administrative or judicial action to collect interest due under this section, the prevailing party is entitled to costs and reasonable attorney fees.

(7) A contracting agency may reserve as retainage from any progress payment on a public improvement contract an amount not to exceed five percent of the payment. As work progresses, a contracting agency may reduce the amount of the retainage and the contracting agency may eliminate retainage on any remaining monthly contract payments after 50 percent of the work under the contract is completed if, in the contracting agency's opinion, such work is progressing satisfactorily. Elimination or reduction of retainage shall be allowed only upon written application by the contractor, and the application shall include written approval of the contractor's surety. However, when the contract work is 97.5 percent completed the contracting agency may, at the contracting agency's discretion and without application by the contractor, reduce the retained amount to 100 percent of the value of the contract work remaining to be done. Upon receipt of a written application by the contractor, the contracting agency shall respond in writing within a reasonable time.

(8) The retainage held by a contracting agency [shall] **must** be included in and paid to the contractor as part of the final payment of the contract price. The contracting agency shall pay to the contractor interest at the rate of 1.5 percent per month on the final payment due the contractor, interest to commence 30 days after the work under the contract has been completed and accepted and to run until the date when the final payment is tendered to the contractor. The contractor shall notify the contracting agency in writing when the contractor considers the work complete and the contracting agency shall, within 15 days after receiving the written notice, either accept the work or notify the contractor of work yet to be performed on the contract. If the contracting agency does not, within the time allowed, notify the contractor of work yet to be performed to fulfill contractual obligations, the interest provided by this subsection shall commence to run 30 days after the end of the 15-day period.

(9)(a) The contracting agency shall pay, upon settlement or judgment in favor of the contractor regarding any dispute as to the compensation due a contractor for work performed under the terms of a public improvement contract, the amount due plus interest at the rate of two times the discount rate, but not to exceed 30 percent, on 90-day commercial paper in effect at the Federal Reserve Bank in the Federal Reserve district that includes Oregon on the date of the settlement or judgment, and accruing from the later of:

(A) The due date of any progress payment received under the contract for the period in which such work was performed; or

(B) Thirty days after the date on which the claim for the payment under dispute was presented to the contracting agency by the contractor in writing or in accordance with applicable provisions of the contract.

(b) Interest shall be added to and not made a part of the settlement or judgment.

**SECTION 3.** ORS 701.420 is amended to read:
701.420. (1) Partial payment is allowed and may be made on contracts for construction and home improvement. An owner, contractor or subcontractor may withhold as retainage an amount equal to not more than five percent of the contract price of the work completed. Partial payment allowed under this subsection is not acceptance or approval of some of the work or a waiver of defects in the work.

[(2)(a)] (2) The owner, contractor or subcontractor shall pay interest at the rate of one percent per month on the final payment due the contractor or subcontractor. The interest shall commence 30 days after the contractor or subcontractor has completed and the owner has accepted the work under the contract for construction for which the final payment is due. The interest shall run until the date when final payment is tendered to the contractor or subcontractor. When the contractor or subcontractor considers the work that the contractor or subcontractor is contracted to perform to be complete, the contractor or subcontractor shall notify the party to whom the contractor or subcontractor is responsible for performing the construction work under the contract. The party shall, 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 under this subsection shall commence 30 days after the end of the 15-day period.

[(b) If the contract price exceeds $500,000, the owner, contractor or subcontractor shall place amounts withheld as retainage into an interest-bearing escrow account. Interest on the retainage amount accrues from the date the payment request is approved until the date the retainage is paid to the contractor or subcontractor to which it is due.]

(3) When a contractor pays a subcontractor in full, including the amount the contractor withheld as retainage, the owner with whom the contractor has the contract shall 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 shall notify the owner when the contractor pays a subcontractor in full under this section and the owner shall, within 15 days after receiving the notice, pay the contractor the amount due the contractor under this subsection. Interest on the amount due the contractor at the rate of one percent per month shall commence 30 days after the owner receives notice of full payment to the subcontractor.

SECTION 4. ORS 701.435 is amended to read:

701.435. [(1) When a contractor on a public contract deposits bonds, securities or other instruments under ORS 279C.560 (4), if the subcontract price exceeds $50,000 and constitutes more than 10 percent of the cost of the public contract, a subcontractor on the public contract may deposit bonds, securities or other instruments with the contractor or in a bank or trust company for the contractor to hold for the contractor's benefit in lieu of moneys held as retainage. If the contractor accepts the bonds, securities or other instruments deposited as provided in this subsection, the contractor shall reduce the moneys held as retainage in an amount equal to the value of the bonds, securities and other instruments and pay the amount of the reduction to the subcontractor in accordance with ORS 701.420 and 701.430. Interest or earnings on the bonds, securities or other instruments shall accrue to the subcontractor.]

(1)(a) A contractor on any private construction project or public improvement contract may submit a bond for all or any portion of the retainage required for the construction project or under the public improvement contract.

(b) At any time before final payment on a construction project or public improvement contract, a subcontractor may request the contractor on the construction project or public
improvement contract to submit a bond to the project owner and lender for the portion of
the contractor’s retainage that pertains to the subcontractor. The bond must be from a
bonding company that meets standards that the owner and lender set and in a form the
owner and lender deem acceptable. If a contractor at the subcontractor’s request obtains a
bond under this paragraph, the contractor may withhold from payments to the subcontractor
an amount equivalent to the portion of the bond premium for which the subcontractor is
responsible.

(c) Within 30 days after a subcontractor’s request under paragraph (a) of this subsection,
the contractor shall provide and the owner and lender shall accept a bond that meets the
requirements set forth in this subsection unless:

(A) The bond is not commercially available; or

(B) The subcontractor refuses to pay the contractor the subcontractor’s portion of the
bond premium and refuses to provide the contractor with a bond that meets the require-
ments of this subsection.

(d) A bond the contractor submits under this subsection, and any proceeds from the
bond, are subject to claims in the same manner and under the same priority specified for
retainage under this section and ORS 279C.550 to 279C.570, 701.410, 701.420, 701.430 and
701.440.

(e) An owner shall within 30 days after receiving a bond under this subsection release to
the contractor an amount the contracting agency holds as retainage that is equivalent to the
amount the contractor submitted as a bond.

(f) If an owner accepts a bond in lieu of retainage from a contractor under this section,
the contractor shall accept bonds from subcontractors or suppliers from which the contrac-
tor has withheld retainage. The contractor must within 30 days after receiving a bond from
a contractor or supplier reduce the amount the contractor holds as retainage in an amount
equivalent to the amount the subcontractor or supplier submitted as a bond and shall pay
the amount of the reduction to the subcontractor in accordance with ORS 701.420 and
701.430.

(g) A bond that a contractor submits under this section must be executed solely by a
surety company that is authorized to transact surety business in this state and may not be
a surety obligation of an individual. Interest or earnings on the bonds, securities or other
instruments shall accrue to the subcontractor.

(2) [When a contractor on a public contract elects to have the public contracting agency deposit the
accumulated retainage in an interest-bearing account under ORS 279C.560 (5),] If a contractor or a
subcontractor on a construction project or public improvement project does not deposit
bonds from a contractor in lieu of retainage, the contractor may elect to have the project
owner deposit accumulated retainage in an interest-bearing account. If the contractor elects
to have the project owner deposit the retainage in an interest-bearing account, the contractor,
within 30 days following payment of the final amount due for construction of the project or public
improvement, shall pay to each subcontractor [who] that performed work on the construction the
subcontractor’s proportional share of the interest earnings that accrued to the contractor as a result
of the election. A subcontractor’s share of the total amount of interest earnings under this sub-
section [shall] must be determined by the proportion that the amount of retainage withheld from
the subcontractor bears to the amount of retainage withheld from the contractor and the length of
time the retainage was withheld from the subcontractor. A share of the interest earnings shall be
paid to a subcontractor under this subsection only when:

(a) Retainage is withheld from the subcontractor for more than 60 days after the day on which the first partial payment was due the subcontractor under the terms of the subcontract; and

(b) The amount of interest earnings due the subcontractor exceeds $100.

(3) If [the] a contractor incurs additional costs as a result of the exercise of an option described in subsection (1) or (2) of this section, the contractor may recover the costs from the subcontractor by reducing the final payment. As work on the subcontract progresses, the contractor shall, upon demand, inform the subcontractor of all accrued additional costs.

(4) Bonds, securities and other instruments deposited or acquired in lieu of retainage, as permitted by this section, must be of a character approved by the Director of the Oregon Department of Administrative Services, including but not limited to:

(a) Bills, certificates, notes or bonds of the United States.

(b) Other obligations of the United States or agencies of the United States.

(c) Obligations of a corporation wholly owned by the federal government.

(d) Indebtedness of the Federal National Mortgage Association.

(e) General obligation bonds of the State of Oregon or a political subdivision of the State of Oregon.

(f) Irrevocable letters of credit issued by an insured institution, as defined in ORS 706.008.

(5) A bond under this section must be in substantially the following form:

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RETAINAGE BOND

KNOW ALL BY THESE PRESENTS: That Principal, a ___________________ authorized
to do business in the State of Oregon, as Principal, and Surety, a corporation organized and
existing under the laws of the State of ___________________ and authorized to transact the
business of surety in the State of Oregon, as Surety, are jointly and severally held and bound
unto ___________________ (“Obligee”) and ___________________ (“Owner”), and their heirs,
executors, administrators, successors and assigns in the penal sum of
$_______________, plus five percent of any increases in the contract amount that have
occurred or may occur because of change orders or increases in the quantities of or that
addition of any new item of work.

WHEREAS the Principal has executed a contract for ________________ with the
Obligee; and

WHEREAS Oregon law allows the Obligee to withhold from the Principal the sum of five
percent from moneys the Principal earns on estimates during the progress of the work
(“Earned Retained Funds”); and

WHEREAS the Principal or Surety has requested that the Obligee accept a bond in lieu
of Earned Retained Funds as allowed under ORS 279C.570 or 701.420;

NOW, THEREFORE, this obligation is such that the Surety and the Surety’s successors
and assigns are held and bound unto Obligee and unto all beneficiaries for the sum set forth
in the first paragraph of this retainage bond. This bond and any proceeds from this bond are subject to all claims and liens by the Obligee against the Principal in the same manner and in the same priority as set forth for retainage under ORS 279C.550 to 279C.570, 701.410, 701.420, 701.430, 701.435 and 701.440, as applicable. The condition of this obligation is such that if the Principal satisfies all payment obligations to any Obligee that may lawfully claim against project sums due to the Principal and indemnify and hold the Obligee harmless from any and all loss, costs and damages that the Obligee may sustain by release of the retainage to the Principal or Surety, this obligation is null and void if the Obligee notifies the Surety that the Obligee released the obligation. The obligation otherwise remains in full force and effect.

IT IS HEREBY DECLARED AND AGREED that the Surety is liable under this obligation as Principal. The Surety will not be discharged or released from liability for any act, omission or defense of any kind or nature that would not also discharge the Principal.

IT IS HEREBY FURTHER DECLARED AND AGREED that this obligation is binding upon and inures to the benefit of the Principal, the Surety, the Obligee, the Owner and the beneficiaries of this obligation and their respective heirs, executors, administrators, successors and assigns.

SIGNED AND SEALED this ______ day of ______, 20____

Principal _________  Surety _________
Name ___________  Name ___________
Title ___________  Title ___________
Address ___________  Address ___________
City/State/Zip _________  City/State/Zip _________
Phone _________  Phone _________

SECTION 5. The amendments to ORS 279C.560, 279C.570, 701.420 and 701.435 by sections 1 to 4 of this 2023 Act apply to contracts into which a contractor or subcontractor enters on and after the operative date specified in section 6 of this 2023 Act.

SECTION 6. (1) The amendments to ORS 279C.560, 279C.570, 701.420 and 701.435 by sections 1 to 4 of this 2023 Act become operative January 1, 2024.

(2) The Attorney General, the Director of the Oregon Department of Administrative Services, the Director of Transportation, the Construction Contractors Board and a contracting agency that adopts rules under ORS 279A.065 or 279A.070 may adopt rules and take any other action before the operative date specified in subsection (1) of this section that is necessary to enable the Attorney General, the directors, the board or the contracting agency, on and after the operative date specified in subsection (1) of this section, to undertake and exercise all of the duties, functions and powers conferred on the Attorney General, the directors, the board or the contracting agency by the amendments to ORS 279C.560, 279C.570, 701.420 and 701.435 by sections 1 to 4 of this 2023 Act.

SECTION 7. This 2023 Act being necessary for the immediate preservation of the public
peace, health and safety, an emergency is declared to exist, and this 2023 Act takes effect on its passage.