

Statement

Insurance Association of Connecticut

Joint Committee on Government Administration and Elections

March 23, 2009

HB 5113, An Act Concerning Surety Bonds In Contracts For Public Projects

The Insurance Association of Connecticut is opposed to HB 5113, An Act Concerning Surety Bonds in Contracts For Public Projects.

HB 5113 would permit the state and municipalities the ability to waive the bond requirement on public construction projects that exceed \$100,000. Maintaining a bond promotes strong public policy ensuring financing for public construction projects, which has been adopted by all 50 states and the federal government. No state permits the state or a municipality to waive the bond requirement.

Surety bonds provide protection for the state, municipalities, subcontractors and suppliers should a contractor default or fail to complete a public construction project. By permitting waiver of the surety bond requirements, the protections the bond provides would vanish. Should a contractor default on a project, there will be limited recourse for the state or town, and the taxpayer will be left footing the bill. Additionally, current law prohibits sub-contractors and suppliers from placing liens on public projects. As such, sub-contractors and suppliers would have no backstop to guarantee payment for services rendered and may be less willing to work on such projects.

Furthermore, requiring a surety bond on larger projects provides additional non-financial protections that would also be lost should the bond requirement be waived.

For example, surety's prescreen contractors prior to issuing a bond. The surety's strong qualification standards provide the state and municipalities assurances to the contractor's ability to complete the project. A surety not only examines the contractor's expertise in relation to the project subject to the bond, but also its capital and financial stability. Waving the bond requirement removes the stringent screening performed by the surety, leaving the state or municipality to assess the qualifications of a contractor. Leaving this task to government increases the risk of claims of cronyism and fraud.

The IAC urges your rejection of HB 5113.