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February 27, 2014

Senator Peter Micciche
State Capitol Room 125
Juneau AK, 99801

Re: SB 193 Contractor's License Bonds

Dear Senator Micciche

My name is Kelly Layman and I've been in the construction/surety business in Alaska for over eleven years. I have been in the construction/surety business for over 21 years.

- The purpose of this type of bond is not only to ensure the contractor has financial resources to pay taxes and contributions due to the state and other political subdivisions, and to pay persons furnishing labor or material or renting or supplying equipment to the principal on the bond, but most importantly this type of bond should provide ADEQUATE protection to the general public in the event there is negligent or improper work or breach of contract, and damages have been adjudged.
- The current bond levels were established over thirty years ago, and an adjustment is long overdue. If the CPI were applied to the 1982 rate, the present bond limits would be just over double (2.18 times) what the 1982 amounts were. This makes the new license bond amounts a reasonable increase.
- The current bond amounts are not sufficient to provide the protections the bond is intended to provide.
- The license bond provides limited financial protection for clients, other contractors, material suppliers, equipment rental companies.
- It gives business some confidence in extending credit to some contractors.
- It also gives those same businesses some recourse should bills go unpaid.
- This would require contractors doing small jobs under the "handyman" exemption to also get a bond.
- The statute is an important component of Alaska's consumer protection laws.
- The amounts established in the bill are supported by the construction industry for the purposes of providing greater protection to the public and maintaining the integrity of the thousands of reputable contractors operating in Alaska

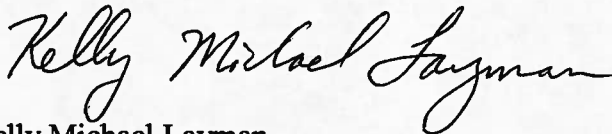
I have discussed this piece of legislation with many surety underwriters from over a half dozen different sureties. I asked them several questions. First, do they have any issues with these potential increased bond amounts? Second, could they provide information on what other states are requiring (Do all of the other states require a contractor's license bond? What are the bond amounts in other states? Have any states recently increased the bond amounts of their contractor's license bond limits? What are the typical rates for these bonds? Will this bond amount increase cause a rate increase?).

Based on my research it appears that in the mid-west, eastern seaboard and southern united states rather than have state-wide licenses it is more common that each county, city or municipality has their own licenses/bonds as opposed to statewide contractor's license bonds. I would be happy to share the information I have on the contractor's license bond amounts in many of the states in the western united states. Oregon is the one state I found that increased their contractor's license bond amount most recently.

In addition, the sureties I contacted all have rates filed for these types of bonds and the underwriters did not voice any concern about needing to change their rates due to the potential increased bond amounts. Currently the typical rates for Contractor's License Bonds vary between sureties and the specific cases of the applicants for the bonds. The most common rates are typically between 3 – 5% of the bond amount (charged on an annual basis). For example, the most common premium for a \$10,000 Alaska General Contractor's License Bond are in the range of \$300 - \$500 per year. However, since the bond amounts would be increased under this legislation, even if the rate remains constant the annual premium will be larger. For example, the most common premium for a \$25,000 Alaska General Contractor's License Bond would typically have a premium in the range of \$750 - \$1,250 per year. There will also be some contractors who would pay significantly more than this range and some contractors who would pay significantly less than this range, but these would be the exceptions to the rule.

Thank you for sponsoring this piece of legislation that I believe is important for consumer protection and to our industry.

Sincerely,

A handwritten signature in cursive script that reads "Kelly Michael Layman". The signature is fluid and written in dark ink.

Kelly Michael Layman