

# ALASKA STATE LEGISLATURE

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## SENATOR PETER A. MICCICHE

### SB 193-CONTRACTORS: BONDS; LICENSING Sponsor Statement

#### DISTRICTS

*Anchor Point*

*Clam Gulch*

*Cohoe*

*Diamond Ridge*

*Fox River*

*Fritz Creek*

*Funny River*

*Halibut Cove*

*Happy Valley*

*Homer*

*Kachemak City*

*Kachemak Selo*

*Kalifornsky*

*Kasilof*

*Kenai*

*Nikolaevsk*

*Ninilchik*

*Razdolna*

*Ridgeway*

*Seldovia*

*Soldotna*

*Voznesenka*

AS 08.18.071 requires contractors operating in Alaska to file a license bond with the Department of Commerce, Community and Economic Development. The purpose of the bond is not only to ensure the contractor has financial resources to pay tax and other obligations, it is established in order to provide the public an avenue to seek recourse in the event there is negligent or improper work or breach of contract. It also helps provide protection to the business community to help contractors and vendors collect upon default for unpaid work or equipment rental. The statute is an important component of Alaska's consumer protection laws. The bond amounts were established in 1982 and have not been updated since. The current level of \$10,000 for general contractors and \$5,000 for specialty contractors is too low and is no longer providing the intended public protection. In many cases, the recoverable amount is not worth the legal and other costs associated with pursuing a claim against a bond.

SB 193 proposes to increase the license bond amounts to the following:

General Contractors	\$25,000
General Contractors who perform only residential	\$20,000
Mechanical or Specialty Contractors	\$10,000
Contractors performing minimal work	\$ 5,000

The construction industry, which will be impacted by this legislation, brought forth the recommendation to make an adjustment in the bond amounts. Given the increase in inflation over the last 30 years, the industry felt an increase was long overdue. Purchasing a bond generally costs a small percentage of the total amount of coverage, thus providing a significant benefit to the public and other businesses in relation to the small cost increase as a result of this legislation.

SB 193 also corrects a loophole in the statute. All professional contractors are required to be licensed and file a bond. A notable exemption is that the law does not intend to impose license and bond requirement upon non-professional contractors such as family members, friends, neighbors, etc., who get paid for a small amount of work. However, current law allows work under \$10,000 to be exempt and this wording has allowed individuals who sell themselves as professionals to avoid the statutory licensure requirements. In these cases, the public has no recourse against unlicensed and unbonded contractors. The bill corrects this by establishing a very modest bond level for those professional contractors performing work on projects less than \$10,000. Non-professional handymen are still exempt from the license and bond requirements under the definition provided in AS 08.18.171(4), which states "'contractor' means a person who, in the pursuit of an independent business..." This language is not intended to include a person undertaking a small project for a friend or relative.