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STAN THOMPSON
MAYOR

May 19, 1981

House of Representatives
State Capitol
House Labor and Commerce Committee
Pouch "V"
Juneau, Alaska 99811

ATTN: House Representative Hurlbert

SUBJECT: House Bill #518

Dear Mr. Hurlbert:

The following comments are submitted for your consideration regarding House Bill #518.

Contracts are normally written to allow 30 to 45 days from submission of a pay request to payment. The same limitations should apply to interest. Interest should not accrue until a minimum of thirty (30) days after submission or until payment is due.

Chapter 90, SEC 36.90.001 b. should be revised to read: Interest accrues thirty (30) days after the date of approval of a pay estimate until the date of payment to the contractor or application toward the obligation of the contract under the contract.

Your consideration is appreciated.

Sincerely,

Stan Thompson
Mayor

ST:pe

cc: Don Gilman
Hugh Malone
Pat O'Connell

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CSHB 518

Title Interest on public construction contract payments.

Requested by H. Labor & Commerce Committee Date 5/1/81

II. FISCAL DETAIL

Agency Affected Dept. of Transportation & Public Facilities

Program Category Affected _____

BRU, Program, or Subprogram(s) Affected _____

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY'81	FY82	FY83	FY84	FY'85	FY'86
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 - COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES		65.0*				
700 GRANTS, CLAIMS, ETC.						
TOTAL		65.0*				

FUNDING (Thousands of Dollars)

GENERAL FUND		65.0*				
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

*Assume increases with inflation.

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See attached.

IV. DATE 5/6/81

PREPARED BY For Lul

AGENCY DOTPS

PHONE 465-3900

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

FISCAL NOTE: CSHB 518 - Interest on public construction contract payments.
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The change made in this bill is supposed to make it so interest is required only on retainage and not on regular payments. It appears that AS 36.90.001(b) should be changed to clarify that interest is required only on retainage by adding the words "on retainage" between "accrues" and "from".

If interest is required on all payments, the cost would have been approximately \$1.9 million, including four positions for calculation of the interest, regionalization of the payment process, and acceleration of the payments. This is based upon a 24 day payment average.

If interest is only required on retainages, the total cost to DOT/PF would be approximately \$65,000 per year. Currently the department has approximately \$600,000 held in retainage. These amounts are mainly related to older agreements for work by utility firms for the movement of utility lines in conjunction with construction projects. Since we do not have inspectors there during the working period by the utility, we do not have a good method to assure that their billings are correct until audit. We expect to continue to hold retainage on these types of agreements even if we are required to pay interest.