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February 2, 2017

To: Hon. Rep. Senator Donna Mercado Kim, Chair  
Hon. Rep. Senator Russell E. Ruderman, Vice Chair  
Members  
Senate Committee on Government Operations

From: Katherine Pettibone, Vice President, Western Region

Subject: SB 1280- Relating to Procurement  
Hearing Date: February 2, 2016

The American Insurance Association (AIA) has concerns with 1280. As currently drafted this measure would appear to import obligations already covered under a payment bond into obligations to be covered under a performance bond.

AIA is the leading property-casualty insurance trade organization, representing approximately 325 insurers that write more than \$127 billion in premiums each year. AIA member companies offer all types of property-casualty insurance, including personal and commercial auto insurance, commercial property and liability coverage for small businesses, workers' compensation, homeowners' insurance, medical malpractice coverage, and product liability insurance. In Hawaii AIA member company property-casualty insurance market share is about 22 percent, with nearly \$500 million in premiums.

Under existing Hawaii law, both performance and payment bonds are required for public contracts over \$25,000 or when a chief purchasing officer approves them for the agency. Performance bonds the promise to perform the contract in accordance with its terms and conditions, at the agreed upon price, and within the time allowed while the Payment bond protects workers, material suppliers and subcontractors against nonpayment. The bill appears to import the coverage provided by a payment bond into a performance bond which is unnecessary, duplicative and would change the nature of the performance bond. We respectfully as that provision be removed.

Thank you for the opportunity to comment.