

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2007

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HOUSE BILL 1181  
Committee Substitute Favorable 5/24/07  
Senate Rules and Operations of the Senate Committee Substitute Adopted 8/1/07

Short Title: Small Business Contractor Act. (Public)

Sponsors:

Referred to:

March 29, 2007

1 A BILL TO BE ENTITLED  
2 AN ACT TO PROVIDE FOR CONTRACT FINANCING AND SURETY BONDS  
3 FOR SMALL BUSINESSES THAT CONTRACT WITH GOVERNMENTAL  
4 AGENCIES.

5 The General Assembly of North Carolina enacts:

6 SECTION 1. Article 10 of Chapter 143B of the General Statutes is amended  
7 by adding a new Part to read:

8 "Part 20. Small Business Contractor Act.

9 "**§ 143B-472.100. Purpose and intent.**

10 The purpose and intent of this Part is to foster economic development and the  
11 creation of jobs by providing financial assistance to financially responsible small  
12 businesses that are unable to obtain adequate financing and bonding assistance in  
13 connection with contracts.

14 "**§ 143B-472.101. Definitions.**

15 The following definitions apply in this Part:

- 16 (1) Authority. – The North Carolina Small Business Contractor Authority  
17 created in this Part.  
18 (2) Internal Revenue Code. – The Code as defined in G.S. 105-228.90.  
19 (3) Contract term. – The term of a contract, including the maintenance or  
20 warranty period required by the contract and the period during which  
21 the surety may be liable for latent defects.  
22 (4) Government agency. – The federal government, the State, an agency,  
23 or a political subdivision of the federal government or the State, or a  
24 utility regulated by the North Carolina Utilities Commission.  
25 (5) Related party. – A party related to the applicant in a manner that would  
26 require an attribution of stock to or from the party under section 318 of  
27 the Internal Revenue Code.  
28 (6) Secretary. – The Secretary of Commerce.

1 **"§ 143B-472.102. Authority creation; powers.**

2 (a) Creation. – The North Carolina Small Business Contractor Authority is  
3 created within the Department of Commerce.

4 (b) Membership. – The Authority consists of 11 members appointed as follows:

5 (1) Four members appointed by the General Assembly upon the  
6 recommendation of the President Pro Tempore of the Senate, one of  
7 whom has experience in underwriting surety bonds.

8 (2) Four members appointed by the General Assembly upon the  
9 recommendation of the Speaker of the House of Representatives, one  
10 of whom is a present or former governmental employee with  
11 experience in administering public contracts.

12 (3) Three members appointed by the Governor, one of whom is a licensed  
13 general contractor and one of whom is experienced in working for  
14 private, nonprofit, small, or underutilized businesses.

15 (c) Terms. – Members serve four-year terms, except initial appointments. There  
16 is no prohibition against reappointment for subsequent terms. Initial appointments shall  
17 begin on January 1, 2008. Each appointing authority shall designate two of its initial  
18 appointments to serve four-year terms and the remainder of its initial appointments to  
19 serve three-year terms.

20 (d) Chair. – The chair shall be elected annually by the members of the Authority  
21 from the membership of the Authority and shall be a voting member.

22 (e) Compensation. – The Authority members shall receive no salary as a result of  
23 servicing on the Authority but are entitled to per diem and allowances in accordance with  
24 G.S. 138-5.

25 (f) Meetings. – The Secretary shall convene the first meeting of the Authority  
26 within 60 days after January 1, 2008. Meetings shall be held as necessary as determined  
27 by the Authority.

28 (g) Quorum. – A majority of the members of the Authority constitutes a quorum  
29 for the transaction of business. A vacancy in the membership of the Authority does not  
30 impair the right of the quorum to exercise all rights and to perform all duties of the  
31 Authority.

32 (h) Vacancies. – A vacancy on the Authority resulting from the resignation of a  
33 member or otherwise is filled in the same manner in which the original appointment was  
34 made, for the balance of the unexpired term. Vacancies in appointments made by the  
35 General Assembly shall be filled in accordance with G.S. 120-122.

36 (i) Removal. – Members may be removed in accordance with G.S. 143B-13. A  
37 member who misses three consecutive meetings of the Authority may be removed for  
38 nonfeasance.

39 (j) Powers and Duties. – The Authority has the following powers and duties:

40 (1) To accept grants, loans, contributions, and services.

41 (2) To employ staff, procure supplies, services, and property, and enter  
42 into contracts, leases, or other legal agreements, including the  
43 procurement of reinsurance, to carry out the purposes of the Authority.

- 1           (3) To acquire, manage, operate, dispose of, or otherwise deal with  
2 property, take assignments of rentals and leases, and enter into  
3 contracts, leases, agreements, and arrangements that are necessary or  
4 incidental to the performance of the duties of the Authority, upon  
5 terms and conditions that it considers appropriate.
- 6           (4) To specify the form and content of applications, guaranty agreements,  
7 or agreements necessary to fulfill the purposes of this Part.
- 8           (5) To acquire or take assignments of documents executed, obtained, or  
9 delivered in connection with assistance provided by the Authority  
10 under this Part.
- 11           (6) To fix, determine, charge, and collect any premiums, fees, charges,  
12 costs, and expenses in connection with any assistance provided by the  
13 Authority under this Part.
- 14           (7) To adopt rules, in accordance with Chapter 150B of the General  
15 Statutes, to implement this Part.
- 16           (8) To take any other action necessary to carry out its purposes.
- 17           (9) To report quarterly to the Joint Legislative Commission on  
18 Governmental Operations on the activities of the Authority, including  
19 the amount of rates, sureties, and bonds.

20           (k) Limitations. – Notwithstanding any other provision of this Part, the Authority  
21 may not provide financial assistance that constitutes raising money on the credit of the  
22 State or pledging the faith and credit or the taxing power of the State directly or  
23 indirectly for the payment of any debt. Before providing financial assistance to an  
24 applicant under this Part, the Authority must obtain the written certification of the  
25 Attorney General that the proposed financial assistance does not constitute raising  
26 money on the credit of the State or pledging the faith of the State directly or indirectly  
27 for the payment of any debt as provided in Section 3(2) of Article V of the North  
28 Carolina Constitution.

29 **"§ 143B-472.103. Eligibility.**

30           To qualify for assistance under this Part, an applicant must meet all of the following  
31 requirements:

- 32           (1) The applicant must be a small business concern that meets the  
33 applicable size standards established by the United States Small  
34 Business Administration for business loans based on the industry in  
35 which the concern, including its affiliates, is primarily engaged and  
36 based on the industry in which the concern, not including its affiliates,  
37 is primarily engaged. In addition, in the case of an application for  
38 bonding assistance, the applicant, including its affiliates, may not have  
39 receipts for construction and service contracts in excess of the  
40 maximum amount established by the United States Small Business  
41 Administration for surety bond guarantee assistance.
- 42           (2) The applicant must be an individual, or be controlled by one or more  
43 individuals, with a reputation for financial responsibility, as  
44 determined from creditors, employers, and other individuals with

1            personal knowledge. If the applicant is other than a sole proprietorship,  
2            at least seventy percent (70%) of the business must be owned by  
3            individuals with a reputation for financial responsibility.

4            (3)    The applicant must be a resident of this State or be incorporated in this  
5            State and must have its principal place of business in this State.

6            (4)    The applicant must demonstrate to the satisfaction of the Authority  
7            that it has been unable to obtain adequate financing or bonding on  
8            reasonable terms through an authorized company. If the applicant is  
9            applying for a guarantee of a loan, the applicant must have applied for  
10           and been denied a loan by a financial institution.

11    **"§ 143B-472.104. Small Business Contract Financing Fund.**

12           (a)    Creation and Use. – The Small Business Contract Financing Fund is created  
13           as a special revenue fund. Revenue in the Fund does not revert at the end of a fiscal  
14           year, and interest and other investment income earned by the Fund accrues to the Fund.  
15           The Authority shall use the Fund to make direct loans and guaranty payments required  
16           by defaults and to pay the portion of the administrative expenses of the Authority  
17           related to making these loans and payments.

18           (b)    Content. – The Small Business Contract Financing Fund consists of all of the  
19           following revenue:

20           (1)    Funds appropriated to the Fund by the State.

21           (2)    Repayments of principal of and interest on direct loans.

22           (3)    Premiums, fees, and any other amounts received by the Authority with  
23           respect to financial assistance provided by the Authority.

24           (4)    Proceeds designated by the Authority from the sale, lease, or other  
25           disposition of property or contracts held or acquired by the Authority.

26           (5)    Investment income of the Fund.

27           (6)    Any other moneys made available to the Fund.

28    **"§ 143B-472.105. Contract performance assistance authorized.**

29           (a)    Type. – The Authority is authorized to provide the following contract  
30           performance assistance:

31           (1)    A guarantee of a loan made to the applicant.

32           (2)    If the applicant demonstrates to the satisfaction of the Authority that it  
33           is unable to obtain money from any other source, a loan to the  
34           applicant.

35           (b)    Qualification. – The Authority shall not lend money to an applicant or  
36           guarantee a loan unless all of the following requirements are met:

37           (1)    The applicant meets the requirements of G.S. 143B-472.78.

38           (2)    The loan is to be used to perform an identified contract, of which the  
39           majority of funding is provided by a government agency or a  
40           combination of government agencies.

41           (3)    The loan is to be used for working capital or equipment needed to  
42           perform the contract, the cost of which can be repaid from contract  
43           proceeds, if the Authority has entered into an agreement with the  
44           applicant necessary to secure the loan or guaranty.

1       (c) Terms and Conditions. – The Authority shall set the terms and conditions for  
2 loans and for the guarantee of loans. When the Authority lends money from the Small  
3 Business Contract Financing Fund, it shall prepare loan documents that include all of  
4 the following:

5           (1) The rate of interest on the loan, which shall not exceed any applicable  
6 statutory limit for a loan of the same type.

7           (2) A payment schedule that provides money to the applicant in the  
8 amounts and at the times that the applicant needs the money to  
9 perform the contract for which the loan is made.

10          (3) A requirement that, before each advance of money is released to the  
11 applicant, the applicant and the Authority must cosign the request for  
12 the money.

13          (4) Provisions for repayment of the loan.

14          (5) Any other provision the Authority considers necessary to secure the  
15 loan, including an assignment of, or a lien on, payment under the  
16 contract, if allowable.

17       (d) Maturity. – A loan made by the Authority shall mature not later than the date  
18 the applicant is to receive full payment under the identified contract, unless the  
19 Authority determines that a later maturity date is required to fulfill the purposes of this  
20 Part.

21       (e) Diversity. – In selecting applicants for assistance, the Authority must consider  
22 the need to serve all geographic and political areas and subdivisions of the State.

23       (f) Limitation. – The total amount of loan guarantees and loans issued to each  
24 recipient during a fiscal year shall not exceed fifteen percent (15%) of the amount of  
25 money in the Fund as of the beginning of that fiscal year.

26 **"§ 143B-472.106. Small Business Surety Bond Fund.**

27       (a) Creation and Use. – The Small Business Surety Bond Fund is created as a  
28 special revenue fund. Revenue in the Fund does not revert at the end of a fiscal year,  
29 and interest and other investment income earned by the Fund accrues to the Fund. The  
30 Authority shall use the Fund for the purposes of and to pay the expenses of the  
31 Authority related to providing bonding assistance.

32       (b) Content. – The Small Business Surety Bond Fund consists of all of the  
33 following revenue:

34           (1) Funds appropriated to the Fund by the State.

35           (2) Premiums, fees, and any other amounts received by the Authority with  
36 respect to bonding assistance provided by the Authority.

37           (3) Proceeds designated by the Authority from the sale, lease, or other  
38 disposition of property or contracts held or acquired by the Authority.

39           (4) Investment income of the Fund.

40           (5) Any other moneys made available to the Fund.

41 **"§ 143B-472.107. Bonding assistance authorized.**

42       (a) Guaranty. – Subject to the restrictions of this Part, the Authority, on  
43 application, may guarantee a surety for losses incurred under a bid bond, payment bond,  
44 or performance bond on an applicant's contract, of which the majority of the funding is

1 provided by a government agency or a combination of government agencies, up to  
2 ninety percent (90%) of the surety's losses, or nine hundred thousand dollars  
3 (\$900,000), whichever is less. The term of a guaranty under this section shall not exceed  
4 the contract term. The Authority may vary the terms and conditions of the guaranty  
5 from surety to surety, based on the Authority's history of experience with the surety and  
6 other factors that the Authority considers relevant.

7 (b) Notice. – When the Authority provides a guaranty under this section with  
8 respect to a contract, it must give the government agencies that are parties to the  
9 contract written notice of the guaranty.

10 (c) Bonds. – The Authority may execute and perform bid bonds, performance  
11 bonds, and payment bonds as a surety for the benefit of an applicant in connection with  
12 a contract, of which the majority of the funding is provided by a government agency or  
13 a combination of government agencies.

14 (d) Obligation of State. – The total amount of guarantees issued and bonds  
15 executed shall not exceed ninety percent (90%) of the amount of money in the Small  
16 Business Surety Bond Fund. The Authority shall not pledge any money other than  
17 money in the Fund for payment of a loss or bond. No action by the Authority constitutes  
18 the creation of a debt secured by a pledge of the taxing power or the faith and credit of  
19 the State or any of its political subdivisions. The face of each guarantee issued or bond  
20 executed shall contain a statement that the Authority is obligated to pay the guarantee or  
21 bond only from the revenue in the Small Business Surety Bond Fund and that neither  
22 the taxing power nor the faith and credit of the State or any of its political subdivisions  
23 is pledged in payment of the guarantee or bond. Nothing in this subsection limits the  
24 ability of the Authority to obtain reinsurance.

25 (e) Limitation. – The total amount of bonding assistance provided to each  
26 recipient during a fiscal year shall not exceed fifteen percent (15%) of the amount of  
27 money in the Fund as of the beginning of that fiscal year.

28 (f) Payment. – If the Authority considers it prudent, it may require that payment  
29 be made either to the contractor and lending institution or to the bonding authority.

30 **"§ 143B-472.108. Bonding assistance conditions.**

31 (a) Requirements. – To obtain bonding assistance under this Part, an applicant  
32 must meet the eligibility requirements of G.S. 143B-472.78 and must demonstrate to the  
33 satisfaction of the Authority that all of the following apply:

- 34 (1) A bond is required in order to bid on a contract or to serve as a prime  
35 contractor or subcontractor.
- 36 (2) A bond is not obtainable on reasonable terms and conditions without  
37 assistance under this Part.
- 38 (3) The applicant will not subcontract more than seventy-five percent  
39 (75%) of the face value of the contract.

40 (b) Default. – If an applicant or a person that is a related party with respect to the  
41 applicant has ever defaulted on a bond or guaranty provided by the Authority, the  
42 Authority may approve a guaranty or bond under this Part only if one of the following  
43 applies:

- 44 (1) Five years have elapsed since the time of the default.

1           (2) Every default by the applicant or related party in any program  
2           administered by the Authority has been cured.

3           (c) Economic Effect. – Before issuing a guaranty or bond, the Authority must  
4 determine that the contract for which a bond is sought to be guaranteed or issued has a  
5 substantial economic effect. To determine the economic effect of a contract, the  
6 Authority must consider all of the following:

7           (1) The amount of the guaranty obligation.

8           (2) The terms of the bond to be guaranteed.

9           (3) The number of new jobs that will be created by the contract to be  
10 bonded.

11           (4) Any other factor that the Authority considers relevant.

12 **"§ 143B-472.109. Surety bonding line.**

13           The Authority may, on application, establish a surety bonding line in order to issue  
14 or guarantee multiple bonds to an applicant within preapproved terms, conditions, and  
15 limitations.

16 **"§ 143B-472.110. Application.**

17           To apply for assistance from the Authority under this Part, an applicant and, where  
18 applicable, a surety must submit to the Authority an application on a form prescribed by  
19 the Authority. The application must include any information and documentation the  
20 Authority considers necessary to enable the Authority to evaluate the application in  
21 accordance with this Part. The Authority may require an applicant to provide an audited  
22 balance sheet unless the Authority determines that such a requirement is not necessary  
23 or appropriate to fulfill the purposes of this Part.

24 **"§ 143B-472.111. Premiums and fees.**

25           (a) Amount. – The Authority shall by rule set the premiums and fees to be paid  
26 for providing assistance under this Part. The premiums and fees set by the Authority  
27 shall be payable in the amounts, at the time, and in the manner that the Authority  
28 requires. The premiums and fees may vary in amount among transactions and at  
29 different stages during the terms of transactions.

30           (b) Rate Standards. – The rate standards in G.S. 58-40-20 apply to premiums set  
31 by the Authority under this section. The Authority may also use the forms and rates of  
32 rating or advisory organizations licensed under G.S. 58-40-50 or G.S. 58-40-55. The  
33 Authority may vary from these rates in order to broaden participation by small  
34 businesses that are unable to obtain adequate financing and bonding assistance in  
35 connection with contracts. The premiums set and forms developed by the Authority  
36 under this section must be approved by the Commissioner of Insurance before they may  
37 be used.

38           (c) Forms. – The Authority shall develop forms to be used for financing and  
39 bonding assistance.

40 **"§ 143B-472.112. False statements; penalty.**

41           (a) Documents. – It is unlawful to knowingly make or cause any false statement  
42 or report to be made in any application or in any document submitted to the Authority.

43           (b) Statements. – It is unlawful to make or cause any false statement or report to  
44 be made to the Authority for the purpose of influencing the action of the Authority on

- 1 an application for assistance or affecting assistance, whether or not assistance has been  
2 previously extended.  
3     (c) Penalty. – A violation of this section is a Class 2 misdemeanor."  
4           **SECTION 2.** This act becomes effective January 1, 2008, and applies to  
5 offenses committed or causes of action arising on or after that date.