

COMMENTS:1) **Purpose.** According to the author:

AB 1885 modernizes California's public contracting laws by eliminating an outdated retention escrow system to ensure that state agencies pay contractors timely for the work already completed. Retention was created decades ago as a performance safeguard, but today it functions primarily as an unnecessary cash flow burden while offering little real protection to the state. Performance and payment bonds requirements on every public work project fully protect taxpayers if a contractor fails to perform or pay subcontractors. This bill reflects a practical, commonsense update to state contracting practices and supports a healthier, more competitive construction industry while maintaining full protections for the state.

This bill is supported by a large coalition of union-signatory contractors.

2) **Retention Proceeds.** Retention proceeds are monies a contractor has already earned, but does not receive, until final completion of a project after all work is accepted. Existing law limits the allowable retention proceeds that certain state agencies may withhold on a public works project to 5% of a progress payment, with the exception of the Department of Transportation, which is prohibited from withholding retention proceeds when making progress payments to a contractor for work performed on a transportation project. Lower or no retention rates benefit contractors, as increased payments improve cash flow and financial flexibility, but diminish the ability of the contracting agency to use retention as leverage to incentivize completion of difficult projects or remedy defective or non-conforming work, potentially affecting the agency's ability to complete the project in a timely manner. This bill reduces the amount of retention proceeds certain state agencies may withhold to 3.5%.

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