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I N   S E N A T E

May 11, 2016

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Introduced by Sen. MARTINS -- read twice and ordered printed, and when printed to be committed to the Committee on Consumer Protection

AN ACT to amend the general business law, in relation to the obligation to subcontractors in construction contracts

THE PEOPLE OF THE STATE OF NEW YORK, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

1     Section 1. Subdivision 1 of section 756 of the general business law,  
2     as amended by chapter 417 of the laws of 2009, is amended to read as  
3     follows:  
4     1. "Construction contract" means a written or oral agreement for the  
5     construction, reconstruction, alteration, maintenance, moving or demoli-  
6     tion of any building, structure or improvement, or relating to the exca-  
7     vation of or other development or improvement to land, and where the  
8     aggregate cost of the construction project including all labor,  
9     services, materials and equipment to be furnished, equals or exceeds one  
10    hundred fifty thousand dollars. For the purposes of this article a  
11    construction contract shall not include any such contract made and  
12    awarded by the state, any public department, any public benefit corpo-  
13    ration, any public corporation or official thereof, or a municipal  
14    corporation or official thereof for construction, reconstruction, alter-  
15    ation, repair, maintenance, moving or demolition of any public works  
16    project nor any contract with a contractor or subcontractor which is  
17    part of such project; or any such contract the purpose of which is the  
18    construction, reconstruction, alteration, repair, maintenance, moving or  
19    demolition of an individual one, two or three family residential dwell-  
20    ing or a residential tract development of one hundred or less one or two  
21    family dwellings, or any residential construction project where the  
22    aggregate size of such project is four thousand five hundred square feet  
23    or less, or any residential project of fewer than seventy-five units  
24    which receives financial assistance from the federal government, the  
25    state or a municipal entity designed for households earning an average  
26    of one hundred twenty-five percent of the housing and urban development  
27    agency area median income, PROVIDED, HOWEVER, THAT THE PROVISIONS OF  
28    THIS SUBDIVISION AS BETWEEN A CONTRACTOR AND A SUBCONTRACTOR SHALL NOT

EXPLANATION--Matter in ITALICS (underscored) is new; matter in brackets  
[ ] is old law to be omitted.

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1 BE SO LIMITED AND THEY SHALL APPLY TO ALL ORAL OR WRITTEN CONTRACTS OR  
2 UNDERSTANDINGS.

3 S 2. The opening paragraph of section 756-a of the general business  
4 law, as amended by chapter 417 of the laws of 2009, is amended to read  
5 as follows:

6 It is the policy and purpose of this article to expedite payment of  
7 all monies owed to those who perform contracting services pursuant to  
8 construction contracts. Except as otherwise provided in this article,  
9 the terms and conditions of a construction contract shall supersede the  
10 provisions of this article and govern the conduct of the parties there-  
11 to. NO CONTRACT BETWEEN A CONTRACTOR AND A SUBCONTRACTOR SHALL EXPRESSLY  
12 OR IMPLIEDLY BE CONSTRUED IN A MANNER WHICH IS DETRIMENTAL TO THE RIGHTS  
13 OF A SUBCONTRACTOR TO BE PAID FOR WORK PERFORMED OR SERVICES PROVIDED IN  
14 OTHER THAN A TIMELY MANNER.

15 S 3. Subdivision 2 of section 756-a of the general business law is  
16 amended by adding two new paragraphs (c) and (d) to read as follows:

17 (C) NOTHING IN THIS SUBDIVISION SHALL AUTHORIZE AN OWNER OR CONTRACTOR  
18 TO WITHHOLD PAYMENT TO A SUBCONTRACTOR UNLESS BY CLEAR AND CONVINCING  
19 EVIDENCE, DOCUMENTED IN WRITING, THAT WORK PERFORMED BY A SUBCONTRACTOR  
20 WAS DEFICIENT OR DONE OTHER THAN AS SPECIFIED IN THE CONTRACT.

21 (D) WHERE THERE IS ANY OBJECTION TO ANY ALLEGATION MADE BY AN OWNER  
22 WITH RESPECT TO A SUBMITTED INVOICE, A CONTRACTOR OR SUBCONTRACTOR, AS  
23 THE CASE MAY BE, SHALL BE ENTITLED TO CURE ANY DEFECT OR SATISFY ANY  
24 OBJECTION FORTHWITH. SHOULD SUCH ATTEMPT TO CURE OR SATISFY BE DISAP-  
25 PROVED BY THE OWNER, THE CONTRACTOR OR SUBCONTRACTOR MAY DEMAND AN IMME-  
26 DIATE EXPEDITED ARBITRATION BY THE AMERICAN ARBITRATION ASSOCIATION OF  
27 SUCH DISAPPROVAL. INCLUDED IN SUCH RIGHT TO ARBITRATION THERE SHALL BE  
28 THE RIGHT TO ARBITRATE ANY OBJECTION ALLEGING THAT THE NOTICE TO CURE IS  
29 NOT SUFFICIENTLY DETAILED SO AS TO ENABLE A TIMELY REPLACEMENT, REPAIR,  
30 OR SOLUTION TO ANY OBJECTION RAISED BY AN OWNER, OR THAT THE INVOICE  
31 SUBMITTED BY THE CONTRACTOR OR SUBCONTRACTOR IS NOT A FINAL INVOICE.

32 S 4. Subparagraph (i) of paragraph (a) of subdivision 3 of section  
33 756-a of the general business law, as amended by chapter 417 of the laws  
34 of 2009, is amended to read as follows:

35 (i) Unless the provisions of this article provide otherwise, the owner  
36 shall pay the contractor strictly in accordance with the terms of the  
37 construction contract AND THE CONTRACTOR SHALL IMMEDIATELY PAY ANY  
38 SUBCONTRACTOR AMOUNTS DUE FROM SUCH PAYMENT.

39 S 5. Section 756-a of the general business law is amended by adding a  
40 new subdivision 5 to read as follows:

41 5. PERFORMANCE OF THE SUBCONTRACTOR. IT SHALL BE PRESUMED THAT ANY  
42 SUBCONTRACTOR PERFORMING WORK FOR A CONTRACTOR HAS ACTED IN GOOD FAITH  
43 IN ACCORDANCE WITH THE CONTRACT, USED PROPER MATERIALS AND OTHERWISE  
44 PERFORMED IN ACCORDANCE WITH GENERALLY APPLICABLE STANDARDS IN THE  
45 INDUSTRY AND A CONTRACTOR MAY REFUSE SUCH PRESUMPTION ONLY BY CLEAR AND  
46 CONVINCING EVIDENCE TO THE CONTRARY.

47 S 6. Clause (A) of subparagraph (iv) of paragraph (b) of subdivision 2  
48 of section 756-b of the general business law, as amended by chapter 417  
49 of the laws of 2009, is amended to read as follows:

50 (A) A contractor or subcontractor that suspends performance as  
51 provided in this section shall not be required to furnish further labor,  
52 materials or services until the contractor or subcontractor is paid the  
53 undisputed invoice amount at the time period for completion as provided  
54 in the construction contract, or a final determination has been made in  
55 compliance with subdivision three of this section and complied with. All  
56 of the time frames established within this section shall be extended for

1 the length of time performance was suspended. Payment of documented  
2 actual costs incurred for re-mobilization resulting from suspension  
3 shall be negotiated between the parties. WHERE A SUBCONTRACTOR CAN  
4 DEMONSTRATE THAT THE UNREASONABLE WITHHOLDING OF AMOUNTS DUE TO HIM OR  
5 HER HAVE RESULTED IN LOST TIME HE OR SHE MAY HAVE SPENT IN PERFORMING  
6 ADDITIONAL WORK FOR ANOTHER CONTRACTOR OR OWNER, THE ARBITRATOR CHARGED  
7 WITH CONDUCTING THE ARBITRATION PROCEEDING MAY AWARD MONIES OCCASIONED  
8 BY SUCH WITHHOLDING.

9 S 7. Paragraphs (c) and (d) of subdivision 3 of section 756-b of the  
10 general business law, as added by chapter 417 of the laws of 2009, are  
11 amended to read as follows:

12 (c) If efforts to resolve such matter to the satisfaction of all  
13 parties are unsuccessful, the aggrieved party may refer the matter, not  
14 less than fifteen days of the receipt of third party verification of  
15 delivery of the complaint, to the American Arbitration Association for  
16 an expedited arbitration pursuant to the Rules of the American Arbitration  
17 Association. WHERE THE DISPUTE IN QUESTION IS BROUGHT BY A  
18 SUBCONTRACTOR, THE ARBITRATOR SHALL FIRST REQUIRE THE CONTRACTOR OR  
19 OWNER TO POST A PERFORMANCE BOND IN THE AMOUNT OF THE DEMAND PAYMENT.  
20 FAILURE TO POST SUCH BOND WITHIN FIVE DAYS AFTER THE REQUIREMENT IS SO  
21 IMPOSED SHALL RESULT IN AN IMMEDIATE AWARD TO THE SUBCONTRACTOR AND SUCH  
22 DECISION SHALL NOT BE APPEALABLE.

23 (d) Upon conclusion of the arbitration proceedings, the arbitrator  
24 shall submit to the parties his or her opinion and award regarding the  
25 alleged violation. WHERE THE ARBITRATOR DETERMINES THAT A SUBCONTRACTOR  
26 IS ENTITLED TO AN AWARD HE OR SHE SHALL ORDER THE CONTRACTOR OR OWNER,  
27 AS THE CASE MAY BE, TO PAY THE REASONABLE ATTORNEY FEES INCURRED BY THE  
28 SUBCONTRACTOR AND ANY MONIES THE SUBCONTRACTOR MAY HAVE EARNED DURING  
29 THE TIME SPENT IN ATTENDING TO SUCH PROCEEDING. WHERE THE ARBITRATOR  
30 CONCLUDES THE WITHHOLDING PAYMENT TO A SUBCONTRACTOR WAS ESPECIALLY  
31 EGREGIOUS AND A DELAY IN PAYMENT WAS UNFAIRLY WITHHELD, HE OR SHE MAY  
32 AWARD PUNITIVE DAMAGES AS HE OR SHE DEEMS WARRANTED.

33 S 8. This act shall take effect on the ninetieth day after it shall  
34 have become a law.