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AN ACT

relating to a vendor's or subcontractor's remedy for nonpayment of certain contracts.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 2251.002(a), Government Code, is amended to read as follows:

(a) Except as provided by Subchapter D, Subchapter B [~~This chapter~~] does not apply to a payment made by a governmental entity, vendor, or subcontractor if:

(1) there is a bona fide dispute between the political subdivision and a vendor, contractor, subcontractor, or supplier about the goods delivered or the service performed that causes the payment to be late;

(2) there is a bona fide dispute between a vendor and a subcontractor or between a subcontractor and its supplier about the goods delivered or the service performed that causes the payment to be late;

(3) the terms of a federal contract, grant, regulation, or statute prevent the governmental entity from making a timely payment with federal funds; or

(4) the invoice is not mailed to the person to whom it is addressed in strict accordance with any instruction on the purchase order relating to the payment.

SECTION 2. Subchapter A, Chapter 2251, Government Code, is

1 amended by adding Section 2251.004 to read as follows:

2 Sec. 2251.004. WAIVER. A person may not waive any right or
3 remedy granted by this chapter. A purported waiver of any right or
4 remedy granted by this chapter is void.

5 SECTION 3. Chapter 2251, Government Code, is amended by
6 adding Subchapter D to read as follows:

7 SUBCHAPTER D. REMEDY FOR NONPAYMENT

8 Sec. 2251.051. VENDOR REMEDY FOR NONPAYMENT OF CONTRACT.

9 (a) A vendor may suspend performance required under a contract with
10 a governmental entity if:

11 (1) the governmental entity does not pay the vendor an
12 undisputed amount within the time limits provided by Subchapter B;
13 and

14 (2) the vendor gives the governmental entity written
15 notice:

16 (A) informing the governmental entity that
17 payment has not been received; and

18 (B) stating the intent of the vendor to suspend
19 performance for nonpayment.

20 (b) The vendor may not suspend performance under this
21 section before the later of:

22 (1) the 10th day after the date the vendor gives notice
23 under Subsection (a); or

24 (2) the day specified by Section 2251.053(b).

25 (c) A vendor who suspends performance under this section is
26 not:

27 (1) required to supply further labor, services, or

1 materials until the vendor is paid the amount provided for under
2 this chapter, plus costs for demobilization and remobilization; or
3 (2) responsible for damages resulting from suspending
4 work if the governmental entity with which the vendor has the
5 contract has not notified the vendor in writing before performance
6 is suspended that payment has been made or that a bona fide dispute
7 for payment exists.

8 (d) A notification under Subsection (c)(2) that a bona fide
9 dispute for payment exists must include a list of the specific
10 reasons for nonpayment. If a reason specified is that labor,
11 services, or materials provided by the vendor or the vendor's
12 subcontractor are not provided in compliance with the contract, the
13 vendor is entitled to a reasonable opportunity to:

- 14 (1) cure the noncompliance of the listed items; or
15 (2) offer a reasonable amount to compensate for listed
16 items for which noncompliance cannot be promptly cured.

17 Sec. 2251.052. SUBCONTRACTOR REMEDY FOR VENDOR'S
18 NONPAYMENT OF CONTRACT. (a) A subcontractor of a vendor under a
19 contract with a governmental entity may suspend performance
20 required under the contract with the vendor if:

21 (1) the governmental entity with whom the
22 subcontractor's vendor has a contract does not pay the vendor an
23 undisputed amount within the time limits provided by Subchapter B;
24 or

25 (2) the governmental entity with whom the
26 subcontractor's vendor has a contract has paid the vendor
27 undisputed amounts and the vendor does not pay the subcontractor an

1 undisputed amount within the time limits provided by Subchapter B.

2 (b) A subcontractor who suspends performance under
3 Subsection (a) must give the vendor written notice, a copy of which
4 the subcontractor may provide the governmental entity with whom the
5 vendor has a contract:

6 (1) informing the vendor that payment has not been
7 received; and

8 (2) stating the intent of the subcontractor to suspend
9 performance for nonpayment.

10 (c) The subcontractor may not suspend performance under
11 this section before the later of:

12 (1) the 10th day after the date the subcontractor
13 gives notice under Subsection (b); or

14 (2) the date specified by Section 2251.053(b), if
15 applicable.

16 (d) A subcontractor who suspends performance under this
17 section is not:

18 (1) required to supply further labor, services, or
19 materials until the subcontractor is paid the amount provided for
20 under the contract, plus costs for demobilization and
21 remobilization; or

22 (2) responsible for damages resulting from suspending
23 work if the vendor has not notified the subcontractor in writing
24 before performance is suspended that payment has been made or the
25 governmental entity has notified the vendor that a bona fide
26 dispute for payment exists.

27 (e) A notification under Subsection (d)(2) that a bona fide

1 dispute for payment exists must include a list of the specific
2 reasons for nonpayment. If a reason specified is that labor,
3 services, or materials provided by the subcontractor are not
4 provided in compliance with the contract, the subcontractor is
5 entitled to a reasonable opportunity to:

- 6 (1) cure the noncompliance of the listed items; or
7 (2) offer a reasonable amount to compensate for listed
8 items for which noncompliance cannot be promptly cured.

9 Sec. 2251.053. HIGHWAY-RELATED CONTRACTS. (a) This section
10 applies only to a contract entered into by the Texas Department of
11 Transportation for the construction or maintenance of a highway or
12 a related facility.

13 (b) A vendor or subcontractor may not suspend performance
14 under Section 2251.051 or 2251.052 before the 20th day after the
15 date:

16 (1) the vendor gives written notice under Section
17 2251.051(a); or

18 (2) the subcontractor gives written notice under
19 Section 2251.052(b).

20 (c) A notice required under this subchapter and relating to
21 a contract described by Subsection (a) must be sent by certified
22 mail to:

23 (1) the executive director of the Texas Department of
24 Transportation;

25 (2) the director of construction of the Texas
26 Department of Transportation; or

27 (3) the person designated in the contract as the

1 person to whom notices must be sent.

2 Sec. 2251.054. NOTICES. (a) This section applies only to a
3 notice or other written communication required by this subchapter.

4 (b) A notice or other written communication to a
5 governmental entity must be delivered to:

6 (1) the person designated in the contract as the
7 person to whom a notice or other written communication must be sent;

8 or

9 (2) if the contract does not designate a person to whom
10 a notice or other written communication must be sent, the executive
11 director or chief administrative officer of the governmental
12 entity.

13 (c) Any notice or other written communication may be
14 personally delivered to a person described by Subsection (b) or the
15 person's agent, regardless of any other manner of delivery
16 prescribed by law.

17 (d) If a notice or other written communication is sent by
18 certified mail, the notice is effective on the date the notice or
19 other written communication is deposited in the United States mail.

20 (e) If a notice or other written communication is sent by
21 electronic means, the notice or other written communication is
22 effective on the date the person designated or entitled to receive
23 the notice or other written communication receives the notice or
24 other written communication.

25 (f) If a notice or other written communication is received
26 by the person designated or entitled to receive the notice or other
27 written communication, the method of delivery of the notice or

1 other written communication is immaterial.

2 Sec. 2251.055. RIGHTS AND REMEDIES NOT EXCLUSIVE. The
3 rights and remedies provided by this subchapter are in addition to
4 rights and remedies provided by this chapter or other law.

5 SECTION 4. (a) This Act takes effect September 1, 2003.

6 (b) This Act applies only to a contract executed on or after
7 September 1, 2003. A contract executed before September 1, 2003, is
8 governed by the law as it existed on the date the contract is
9 executed, and the former law is continued in effect for that
10 purpose.

Raid Swihart

President of the Senate

Jim Caddick

Speaker of the House

I certify that H.B. No. 2397 was passed by the House on May 10, 2003, by a non-record vote.

Robert Haney

Chief Clerk of the House

I certify that H.B. No. 2397 was passed by the Senate on May 28, 2003, by the following vote: Yeas 31, Nays 0.

Letsy Saw

Secretary of the Senate

APPROVED:

18 JUNE '03

Date

Rick Perry

Governor

FILED IN THE OFFICE OF THE
SECRETARY OF STATE
9:30pm O'CLOCK

Ann Shea
JUN 18 2003
Secretary of State