



Fiscal Note

Fiscal Services Division



[SF 2376](#) – Contractor Bond Requirements (LSB2245SZ)
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Fiscal Note Version – As amended and passed by the Senate

Description

[Senate File 2376](#) relates to bonds and letters of credit for general contractors and subcontractors and does the following:

- Requires general contractors and subcontractors that engage in the business of construction in the State to obtain and maintain an annual performance bond or irrevocable letter of credit in the amount of \$50,000 filed with and payable to the State.
- Authorizes the State or a political subdivision to enforce the requirements of the Bill in connection with private construction work within its jurisdiction and to bring an action on the bond or letter of credit in the name of the State for the use and benefit of a private person or political subdivision harmed by the failure to perform contractual obligations or for other violations.
- Authorizes political subdivisions to require a contractor or subcontractor to obtain or file a bond, letter of credit, or other financial security only for private construction work that is performed in a public-right-of-way.

This Bill does not apply to a general contractor or subcontractor performing work for the State or a political subdivision, including work subject to the requirements of Iowa Code chapter [8A](#), subchapter III.

Background

Under current law, in-state general contractors and subcontractors that engage in the business of construction in the State are not required to obtain and maintain an annual performance bond or irrevocable letter of credit with the State. Out-of-state contractors are required to hold a surety bond in the amount of \$25,000.

According to the Department of Inspections, Appeals, and Licensing (DIAL), there are approximately 19,900 in-state contractors and 816 out-of-state contractors, for a total of approximately 20,716 contractors.

Assumptions

- The DIAL will not need to make any changes to its current licensing system.
- According to the DIAL, the Administrative Licensing and Inspection Governance Network (ALIGN) system, which is currently being built, will require additional functionality that is not currently planned for. The DIAL estimates that these changes will cost approximately \$10,000.
- According to the DIAL, entering the annual performance bonds and irrevocable letters of credit into the ALIGN system will require 2.5 Administrative Support Assistant 3 full-time equivalent (FTE) positions at an annual cost of \$55,000 each. The 2.5 Administrative Support Assistant 3 FTE positions will cost approximately \$138,000 annually.
- According to the DIAL, it is estimated that 10.0% of in-state contractors will go through an investigation, hearing, or revocation process.

- According to the DIAL, it is estimated that the investigation, hearing, and revocation process work will require 8.0 Investigator 2 FTE positions.
- Each Investigator 2 FTE position will cost approximately \$73,000 annually. The 8.0 Investigator 2 FTE positions will cost \$586,000 annually.
- No additional revenue will be generated as a result of this Bill.
- The funding source will be the Licensing and Regulation Fund (LRF).

Fiscal Impact

Senate File 2376 is estimated to increase costs in FY 2027 to the Licensing and Regulation Fund by approximately \$734,000 for 10.5 additional FTE positions and a one-time programming cost of \$10,000 to the ALIGN system. The costs for FY 2028 and thereafter will be approximately \$724,000 annually.

Source

Department of Inspections, Appeals, and Licensing

/s/ Jennifer Acton

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The Fiscal Note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this Fiscal Note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
