

AN ACT concerning finance.

**Be it enacted by the People of the State of Illinois,
represented in the General Assembly:**

Section 5. The State Prompt Payment Act is amended by changing Section 7 as follows:

(30 ILCS 540/7) (from Ch. 127, par. 132.407)

Sec. 7. Payments to subcontractors and material suppliers.

(a) When a State official or agency responsible for administering a contract submits a voucher to the Comptroller for payment to a contractor, that State official or agency shall promptly make available electronically the voucher number, the date of the voucher, and the amount of the voucher. The State official or agency responsible for administering the contract shall provide subcontractors and material suppliers, known to the State official or agency, with instructions on how to access the electronic information.

(a-5) When a contractor receives any payment, the contractor shall pay each subcontractor and material supplier in proportion to the work completed by each subcontractor and material supplier its ~~their~~ application or pay estimate, plus interest received under this Act, ~~less any retention~~. When a contractor receives any payment, the contractor shall pay each lower-tiered subcontractor and material supplier and each

subcontractor and material supplier shall make payment to its own respective subcontractors and material suppliers. If the contractor receives less than the full payment due under the public construction contract, the contractor shall be obligated to disburse on a pro rata basis those funds received, plus interest received under this Act, with the contractor, subcontractors and material suppliers each receiving a prorated portion based on the amount of payment each has earned. When, however, the State official or agency ~~public owner~~ does not release the full payment due under the contract because there are specific areas of work or materials the State agency or official has determined ~~contractor is rejecting or because the contractor has otherwise determined~~ such areas are not suitable for payment, then those specific subcontractors or material suppliers involved shall not be paid for that portion of work rejected or deemed not suitable for payment and all other subcontractors and suppliers shall be paid based upon the amount of payment each has earned ~~in full~~, plus interest received under this Act.

(a-10) For construction contracts with the Department of Transportation, the contractor, subcontractor, or material supplier, regardless of tier, shall not offset, decrease, or diminish payment or payments that are due to its subcontractors or material suppliers without reasonable cause.

A contractor, who refuses to make prompt payment, in whole or in part, shall provide to the subcontractor or material

supplier and the public owner or its agent, a written notice of that refusal. The written notice shall be made by a contractor no later than 5 calendar days after payment is received by the contractor. The written notice shall identify the Department of Transportation's contract, any subcontract or material purchase agreement, a detailed reason for refusal, the value of the payment to be withheld, and the specific remedial actions required of the subcontractor or material supplier so that payment may be made. Written notice of refusal may be given in a form and method which is acceptable to the parties and public owner.

(b) If the contractor, without reasonable cause, fails to make full payment of amounts due under subsection (a) to its ~~his~~ subcontractors and material suppliers within 15 calendar days after receipt of payment from the State official or agency ~~under the public construction contract~~, the contractor shall pay to its ~~his~~ subcontractors and material suppliers, in addition to the payment due them, interest in the amount of 2% per month, calculated from the expiration of the 15-day period until fully paid. This subsection shall further ~~also~~ apply to any payments made by subcontractors and material suppliers to their subcontractors and material suppliers and to all payments made to lower tier subcontractors and material suppliers throughout the contracting chain.

(1) If a contractor, without reasonable cause, fails to make payment in full as provided in subsection (a-5) ~~(a)~~

within 15 calendar days after receipt of payment under the public construction contract, any subcontractor or material supplier to whom payments are owed may file a written notice and request for administrative hearing with the State official or agency setting forth the amount owed by the contractor and the contractor's failure to timely pay the amount owed. The written notice and request for administrative hearing shall identify the public construction contract, the contractor, and the amount owed, and shall contain a sworn statement or attestation to verify the accuracy of the notice. The notice and request for administrative hearing shall be filed with the State official for the public construction contract, with a copy of the notice concurrently provided to the contractor. Notice to the State official may be made by certified or registered mail, messenger service, or personal service, and must include proof of delivery to the State official.

(2) The State official or agency, within 15 calendar days after receipt of a subcontractor's or material supplier's written notice and request for administrative hearing ~~of the failure to receive payment from the contractor,~~ shall hold a hearing convened by an administrative law judge to determine whether the contractor withheld payment, without reasonable cause, from the subcontractors or ~~and~~ material suppliers and what amount, if any, is due to the subcontractors or ~~and~~

material suppliers, and the reasonable cause or causes asserted by the contractor. The State official or agency shall provide appropriate notice to the parties of the date, time, and location of the hearing. Each contractor, subcontractor, or ~~and~~ material supplier has the right to be represented by counsel at a ~~the~~ hearing and to cross-examine witnesses and challenge documents. Upon the request of the subcontractor or material supplier and a showing of good cause, reasonable continuances may be granted by the administrative law judge.

(3) Upon ~~If there is~~ a finding by the administrative law judge that the contractor failed to make payment in full, without reasonable cause, as provided in subsection (a-10) ~~(a)~~, then the administrative law judge shall, in writing, order ~~direct~~ the contractor to pay the amount owed to the subcontractors or ~~and~~ material suppliers plus interest within 15 calendar days after the order ~~finding~~.

(4) If a contractor fails to make full payment as ordered under paragraph (3) of this subsection (b) within 15 days after the administrative law judge's order ~~finding~~, then the contractor shall be barred from entering into a State public construction contract for a period of one year beginning on the date of the administrative law judge's order ~~finding~~.

(5) If, on 2 or more occasions within a 3-calendar-year period, there is a finding by an administrative law judge

that the contractor failed to make payment in full, without reasonable cause, and a written order was issued to a contractor under paragraph (3) of this subsection (b), then the contractor shall be barred from entering into a State public construction contract for a period of 6 months beginning on the date of the administrative law judge's second written order, even if the payments required under the orders were made in full.

(6) If a contractor fails to make full payment as ordered under paragraph (4) of this subsection (b), the subcontractor or material supplier may, within 30 days of the date of that order, petition the State agency for an order for reasonable attorney's fees and costs incurred in the prosecution of the action under this subsection (b). Upon that petition and taking of additional evidence, as may be required, the administrative law judge may issue a supplemental order directing the contractor to pay those reasonable attorney's fees and costs.

(7) The written order of the administrative law judge shall be final and appealable under the Administrative Review Law.

(c) This Section shall not be construed to in any manner diminish, negate, or interfere with the contractor-subcontractor or contractor-material supplier relationship or commercially useful function.

(d) This Section shall not preclude, bar, or stay the

rights, remedies, and defenses available to the parties by way of the operation of their contract, purchase agreement, the Mechanics Lien Act, or the Public Construction Bond Act.

(e) State officials and agencies may adopt rules as may be deemed necessary in order to establish the formal procedures required under this Section.

(f) As used in this Section,

"Payment" means the discharge of an obligation in money or other valuable consideration or thing delivered in full or partial satisfaction of an obligation to pay. "Payment" shall include interest paid pursuant to this Act.

"Reasonable cause" may include, but is not limited to, unsatisfactory workmanship or materials; failure to provide documentation required by the contract, subcontract, or material purchase agreement; claims made against the Department of Transportation or the subcontractor pursuant to subsection (c) of Section 23 of the Mechanics Lien Act or the Public Construction Bond Act; judgments, levies, garnishments, or other court-ordered assessments or offsets in favor of the Department of Transportation or other State agency entered against a subcontractor or material supplier. "Reasonable cause" does not include payments issued to the contractor that create a negative or reduced valuation pay application or pay estimate due to a reduction of contract quantities or work not performed or provided by the subcontractor or material supplier; the interception or withholding of funds for reasons

not related to the subcontractor's or material supplier's work on the contract; anticipated claims or assessments of third parties not a party related to the contract or subcontract; asserted claims or assessments of third parties that are not authorized by court order, administrative tribunal, or statute. "Reasonable cause" further does not include the withholding, offset, or reduction of payment, in whole or in part, due to the assessment of liquidated damages or penalties assessed by the Department of Transportation against the contractor, unless the subcontractor's performance or supplied materials were the sole and proximate cause of the liquidated damage or penalty.

(Source: P.A. 94-672, eff. 1-1-06; 94-972, eff. 7-1-07.)