

SENATE BILL 1201

By Johnson

AN ACT to amend Tennessee Code Annotated, Title 16,  
Chapter 15 and Title 66, relative to retainages.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 16-15-501(d), is amended by deleting subdivision (1) and substituting:

(1) The jurisdiction of courts of general sessions, where they have been created, extends to the sum of twenty-five thousand dollars (\$25,000) in all civil cases, both law and equity; provided, that:

(A) This section does not apply to:

(i) Cases of forcible entry and detainer in which the court has unlimited original jurisdiction;

(ii) Cases seeking payment of retained funds under the Prompt Pay Act of 1991, compiled in title 66, chapter 34, in which the court has unlimited original jurisdiction; or

(iii) Actions to recover personal property, in which the court has unlimited original jurisdiction, including jurisdiction to award an alternative money judgment; and

(B) General sessions judges have jurisdiction to issue restraining orders and to enforce the penalty provisions for violation of those restraining orders.

SECTION 2. Tennessee Code Annotated, Section 66-34-104(c), is amended by deleting "three hundred dollars (\$300)" and substituting "five hundred dollars (\$500)".

SECTION 3. Tennessee Code Annotated, Section 66-34-204, is amended by deleting the section and substituting:

(a) A party shall, after an event described in subdivisions (a)(1)-(3) and pursuant to the terms of the written contract, pay to the prime contractor all retained funds the party may have withheld pursuant to the written contract, except any sum that the party may reasonably withhold in accordance with the written contract between the party and the prime contractor; provided, however, the retainage must be paid within ninety (90) days after the date of the occurrence of an event described in subdivisions (a)(1)-(3).

The party shall pay the prime contractor within the timeframes described in this subsection (a) when the party:

(1) Has received a use or occupancy permit for an improvement from a governmental agency lawfully issuing the permit;

(2) Has received a certificate of substantial completion from an architect, engineer, or other party charged with supervision, observation, or management of the construction of an improvement; or

(3) Begins to use or could have begun to use the improvement.

(b) If the party withholding the retained funds fails to pay or otherwise release the retainage as provided in subsection (a), then the party shall pay the owner of the retained funds an additional five hundred dollars (\$500) per day as damages, not as a penalty, for each day that the retained funds are not paid or otherwise released.

Damages accrue from the first day after the ninetieth day of the first occurrence of an event described in subdivisions (a)(1)-(3).

(c) In addition to the damages set forth in subsection (b), a prime contractor or remote contractor that fails to pay or otherwise release retained funds as required by § 66-34-103(b) shall pay the owner of the retained funds an additional five hundred dollars

(\$500) per day as damages, not as a penalty, for each day that the retained funds are not paid or otherwise released. Damages accrue from the first day after the tenth day the prime contractor or remote contractor received the retainage from the owner or higher-tier contractor.

SECTION 4. Tennessee Code Annotated, Title 66, Chapter 34, is amended by adding the following as a new section:

**66-34-206.**

(a) Notwithstanding this chapter to the contrary, a remote contractor is entitled to an early release of the retainage belonging to the remote contractor upon the remote contractor establishing that the improvement or work furnished under the written agreement to which the remote contractor is a party is substantially complete. As used in this section, "substantially complete" means the following circumstances:

(1) The remote contractor obtained a permit from a building codes department or other authority having jurisdiction over the remote contractor's work and received an approval from the department or authority allowing the use of the remote contractor's work for its intended purpose;

(2) The use of, or ability to use, the remote contractor's work; or

(3) Ten (10) days after the date the party withholding retainage receives a certificate of substantial completion substantially similar to the form in subsection (c), signed by the remote contractor certifying that its work is substantially complete and seeking release or payment of the retainage belonging to the remote contractor. However, a party withholding retainage is not required to release or pay retainage under this subdivision (a)(3) if it provides a written response setting forth adequate legal reasons for its refusal to release retainage, including, but not limited to, the failure of the remote contractor to

substantially complete its work within ten (10) days of its receipt of the remote contractor certificate of substantial completion.

(b) Upon substantial completion of the remote contractor's work, a remote contractor may issue a written request to the party withholding retainage to release the retainage belonging to the remote contractor. A party that receives a request pursuant to this subsection (b) and that is withholding retainage shall release the retainage within ten (10) days of the party's receipt of the request.

(c) A remote contractor may certify the substantial completion of the remote contractor's work by sending a certificate of substantial completion to the party withholding retainage. The certificate of substantial completion must be in substantially the following form:

DATE: [date]

TO: [Owner or other party withholding retainage]

[Prime contractor and any other contractor with whom remote contractor may contract]

FROM: [Remote contractor]

[Remote contractor] certifies as of this the [day] of [month], [year], that [remote contractor] entered into a written agreement with [prime or remote contractor] under which [remote contractor] furnished the following labor and materials: \_\_\_\_\_.

[Remote contractor] furnished the labor and materials in furtherance of improvements to [identify improved property]. [Remote contractor] first furnished labor and materials [day] of [month], [year], and last furnished materials on [day] of [month], [year]. As of the date of this certificate, the work required of [remote contractor] under its subcontract is substantially complete to the best of [remote contractor's] knowledge, information, and belief and can be utilized for its

intended use. [Remote contractor] requests its retainage be released within ten (10) days of receipt of this certificate.

[signed, Remote contractor]

(d) A party that fails to release the retainage for which a remote contractor provides certification pursuant to this section is subject to the damages provided in § 66-34-204.

(e) The party withholding retainage may assert as a defense in an action for payment of retainage or the damages provided by this section that the remote contractor's work was not substantially complete.

SECTION 5. This act takes effect upon becoming a law, the public welfare requiring it, and applies to contracts entered into, amended, or renewed on or after such date.