

Minnesota Contractor Recovery Fund Annual Report for fiscal year 2021

Resources

- This report is available from the Department of Labor and Industry (DLI) at www.dli.mn.gov/workers/homeowners/contractor-recovery-fund.
- The report uses data from DLI's Construction Codes and Licensing Division and statistics from DLI's Financial Services unit. It was written by staff members from DLI's Research and Statistics unit.
- Questions about the report? Contact dli.research@state.mn.us.
- Visit www.dli.mn.gov/workers/homeowners/contractor-recovery-fund to apply to the Contractor Recovery Fund.

Executive summary

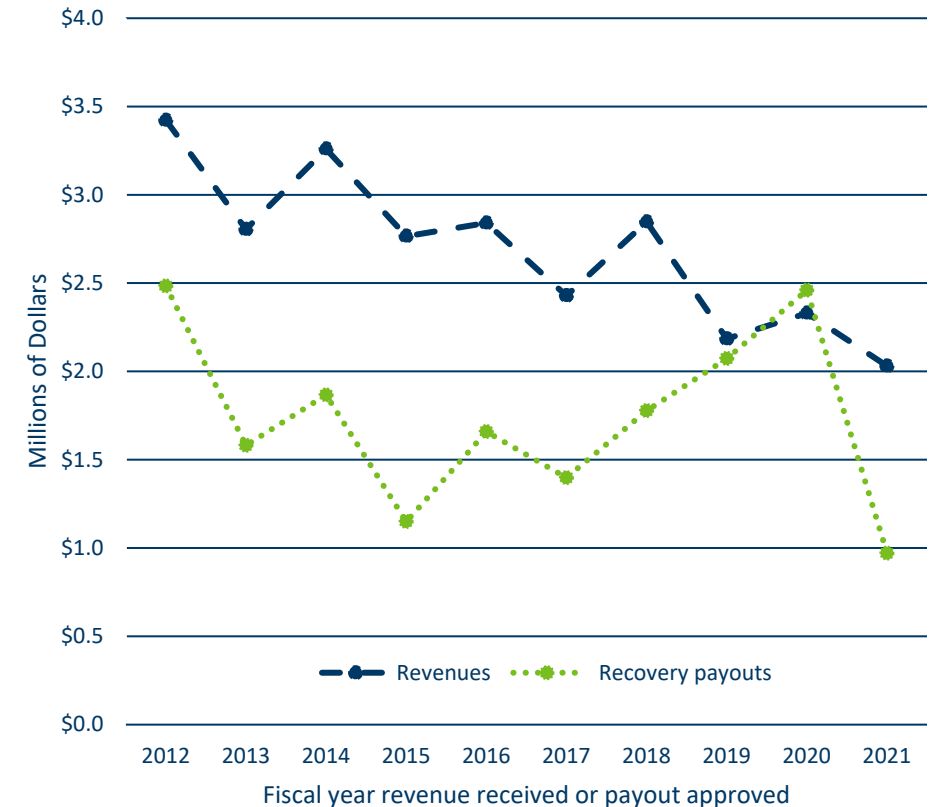
The Contractor Recovery Fund (CRF) was created in 1994. The program is administered by the Construction Codes and Licensing Division of the Minnesota Department of Labor and Industry (DLI) under Minnesota Statutes §326B.89.

The CRF compensates homeowners and lessees of Minnesota residential property who have experienced direct out-of-pocket losses as a result of a Minnesota licensed residential contractor's deceptive actions or nonperformance.

- CRF revenue decreased 13 percent in fiscal year¹ (FY) 2021 to \$2.03 million, from FY 2020.
- Homeowners filed 33 claims for CRF payment in FY 2021. Payment was approved for 29 claims.
- \$970,000 was paid to homeowners whose claims were approved during FY 2021.
- Claims were filed against 29 contractors. Payment was made in cases involving 27 contractors.
- In FY 2021, DLI administrative and indirect costs accounted for 34% of total CRF expenses.
- The CRF operating balance was \$10.7 million at the end of FY 2021, an 11% increase from FY 2020's ending balance.

¹The state fiscal year begins on July 1 and ends on June 30 of the indicated year.

Figure 1: Contractor Recovery Fund revenues and payments, in millions



Introduction

- The CRF compensates homeowners and lessees of Minnesota residential property who have experienced direct out-of-pocket losses as a result of a Minnesota licensed contractor’s fraudulent, deceptive or dishonest practices; conversion of funds; or failure of performance.
- DLI administers the CRF as part of its role in licensing residential building contractors. Licenses are required for residential building contractors and residential remodelers who contract with homeowners to construct or improve dwellings by offering more than one specialty skill.
- Fees from each licensed residential building contractor in Minnesota are deposited into the state treasury to fund the CRF. In FY 2021, the CRF fee for a two-year license ranged from \$320 to \$520, depending on the contractor’s gross business receipts. The fee structure is shown in *Table 1*.

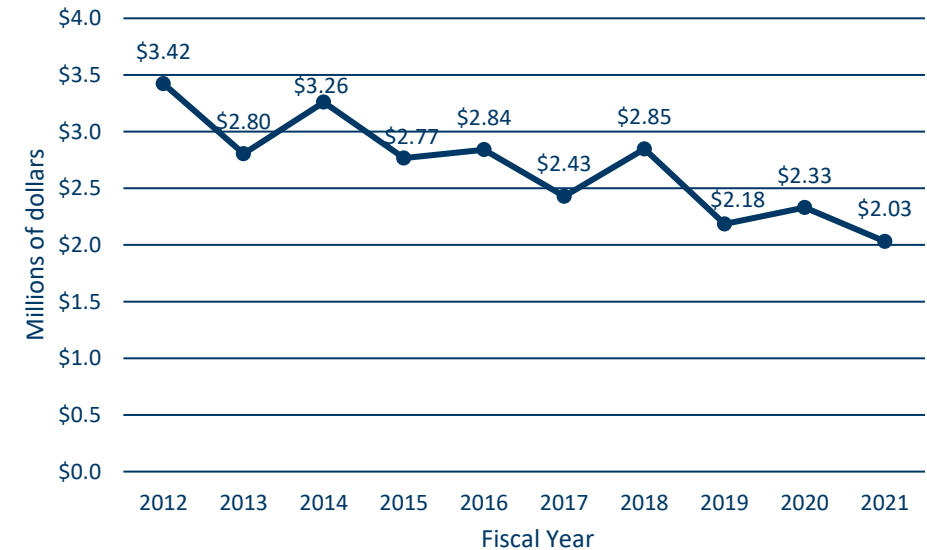
Table 1: Residential contractor license fees, fiscal year 2021

Fee	Gross annual receipts		
	Less than \$1 million	\$1 million to \$5 million	More than \$5 million
License	\$120	\$120	\$120
Recovery Fund	\$320	\$420	\$520
Total	\$440	\$540	\$640

Contractor Recovery Fund revenues

- During fiscal years 2012¹ to 2021, about 99% of CRF revenues came from fees paid by contractors. Other sources of revenue for the fund are interest earned on the fund balance and contractor repayments.
- The revenue collected during FY 2021 was \$2 million, 12.9% lower than the FY 2020 amount (see *Figure 2*).
 - The two-year contractor licensure cycle affects CRF revenues. Annual CRF revenue fluctuates because more contractors renew their licenses in the even-numbered years. The average revenue decrease in odd-numbered years, from 2013–2021, is 17%.
 - In FY 2021, 5,845 residential contractors paid CRF fees when they received a new license or renewed their existing license. This is 8% lower than in FY 2020, when 6,330 contractors paid CRF fees.

Figure 2: Contractor Recovery Fund revenue, in millions



¹ Due to changes in the state's financial system and the CRF program, data before 2012 are not included in this report to avoid calculation inconsistencies.

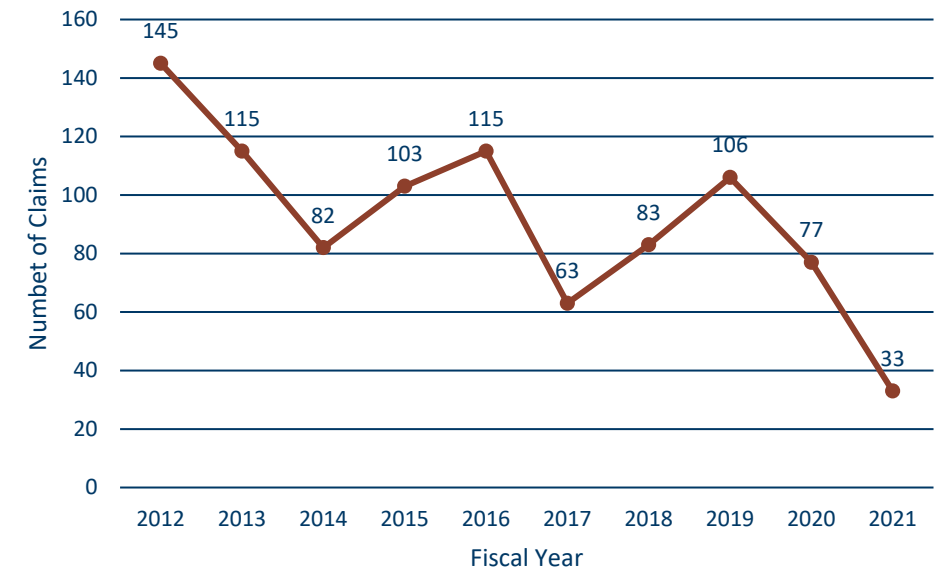
Claims for Contractor Recovery Fund payments

To apply to the CRF for compensation, homeowners and lessees (homeowners for short) must obtain a court-ordered judgment based on a claim of misconduct. After DLI receives a homeowner's application for compensation, it determines eligibility for recovery. If the homeowner qualifies, DLI determines the compensable loss the homeowner suffered. In FY 2021, homeowners requested payment for 33 claims, a 57% decrease from FY 2020 (see *Figure 3*). Since 2012, the CRF has reviewed an average of 92 claims each year.

DLI approved payments for 29 of the FY 2021 claims. Among the four claims not approved for payment:

- Two claims were paid by the contractor;
- One claim was denied; and
- One claim involved an unlicensed contractor.

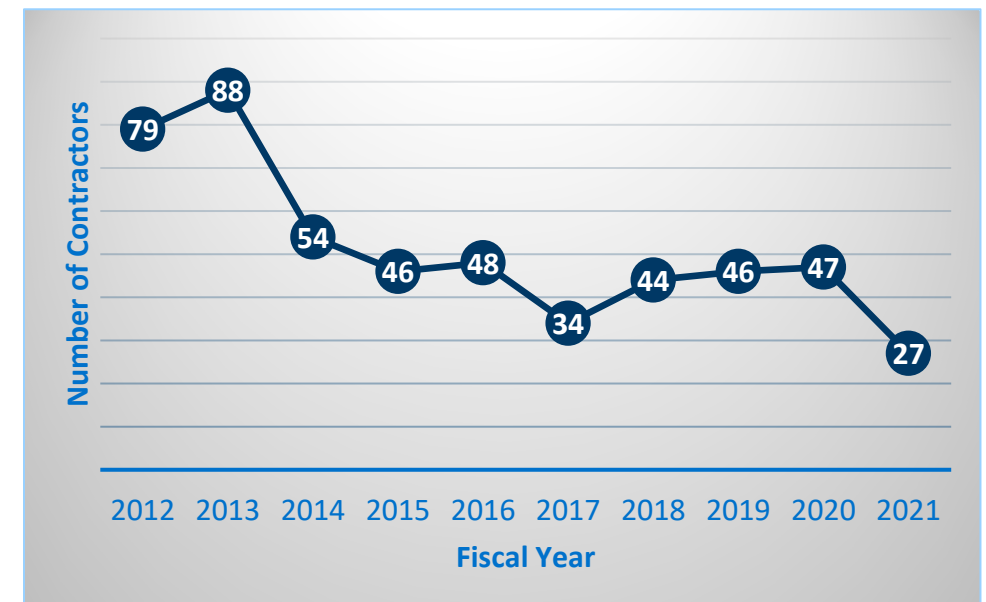
Figure 3: Claims for Contractor Recovery Fund payment, by year received



Contractor and claim limitations

- Homeowners filed claims against 29 contractors in FY 2021 and CRF payments were made in cases involving 27 contractors (see *Figure 4*). Multiple claims were filed against three contractors.
- The CRF statute limits the amount of compensation that can be paid for judgments against each individual contractor; this limit is currently set at \$550,000. When the “contractor license limit” is reached, the CRF must prorate homeowners’ claims.
- Also, when a homeowner’s claim exceeds the limit for the amount they can receive for claims against a single contractor, their payment is reduced to the maximum allowed. The current claim payment limit per contractor for each homeowner is \$75,000.
- In FY 2021, one homeowner filed a claim for an amount higher than the claim limit and was paid a reduced amount.

Figure 4: Contractors involved in paid claims, by fiscal year



Contractor Recovery Fund payments

- CRF payments for approved claims are made once a year. Payments for CRF applications accepted during FY 2021 were sent Nov. 19, 2021*. Payments for claims approved during FY 2021 totaled about \$970,000 – a 61% decrease from the previous year and a 44% decrease over the average of the prior nine years (\$1.7 million). *Figure 5* shows the amount of payments each year since 2012.
*Effective starting in FY 2022, per MS 326B.89 Subd. 9, payments will be issued twice per year: by Dec. 31 for applications submitted by July 1, and by June 30 for applications submitted by Jan. 1 of the fiscal year.
- Homeowners requested an average of \$38,640 for the 29 approved claims filed in FY 2020. The average approved payment was slightly more than \$33,460. The median of the payouts was \$23,500.
- The number of claims — and therefore the payout amount — dropped significantly in FY 2021. During the COVID-19 pandemic, homeowners may have been uncertain of their financial situation or less willing to have contractors in their homes. Additionally, court processes were delayed during this time, making it difficult for some homeowners to obtain judgments.

Figure 5: Contractor Recovery Fund payment to homeowners, in millions, by fiscal year payout approved



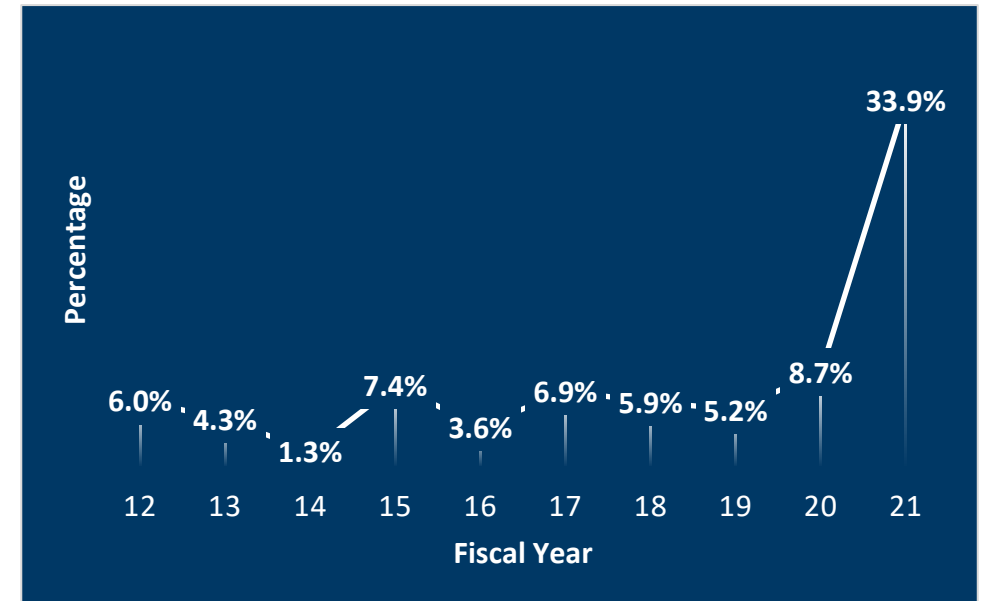
Administrative expenses

- DLI administers the CRF through the Construction Codes and Licensing Division. Direct and indirect administrative expenses were \$329,000 in FY 2021. The average yearly administrative cost from 2012–2021 was \$125,000. The increased administrative costs in FY 2021 were expenses related to a statewide consumer awareness campaign – required by law – informing citizens of the importance of hiring only licensed contractors.
- In FY 2021, administrative expenses accounted for slightly less than 34% of CRF expenses; payouts to homeowners were the remaining 66% of expenses.

Figure 7: Contractor Recovery Fund administrative costs, in thousands of dollars



Figure 8: Contractor Recovery Fund administrative costs, as a percentage of total costs



Contractor Recovery Fund balance

- Revenues collected from contractors generally exceed claim payouts to homeowners (*Figure 9*). In FY 2021, revenues exceeded the approved payout amount by approximately \$1,000,000.
- As shown in *Figure 10*, the CRF balance has increased steadily since 2012, reaching \$10.7 million at the close of FY 2021. A fund surcharge of \$80 was eliminated in 2018. There is an additional \$5 surcharge for licenses for which continuing education is a required condition of renewal.

Figure 9: Contractor Recovery Fund revenues minus homeowner payments, in millions

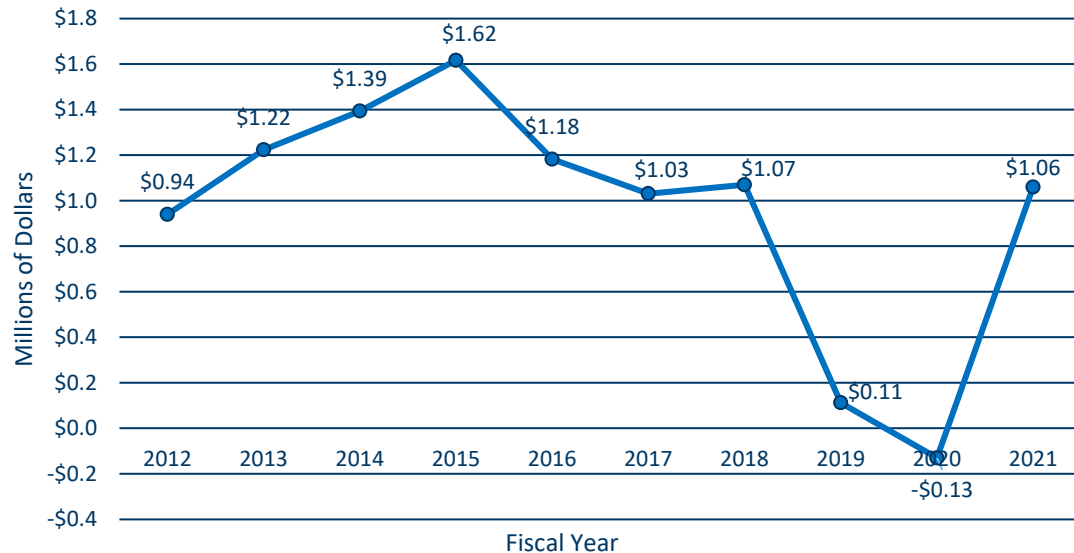


Figure 10: Contractor Recovery Fund balance, in millions

