

Minnesota Contractor Recovery Fund annual report for fiscal year 2023

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 (homeowners for short) 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 increased 6% in fiscal year (FY) 2023 to \$2.4 million, from FY 2022.
- Homeowners filed 108 claims for CRF payment in FY 2023. Payment was approved for 99 claims.
- CRF claims approved during FY 2023 totaled \$2.8 million.
- Claims were filed against 59 contractors. Payment was made in cases involving 52 contractors.
- In FY 2023, DLI administrative costs and indirect costs accounted for 4% of total CRF expenses.
- The CRF operating balance was \$9.4 million at the end of FY 2023, a 2% decrease from FY 2022's ending balance.

Introduction

- The CRF compensates homeowners 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 2023, 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*.

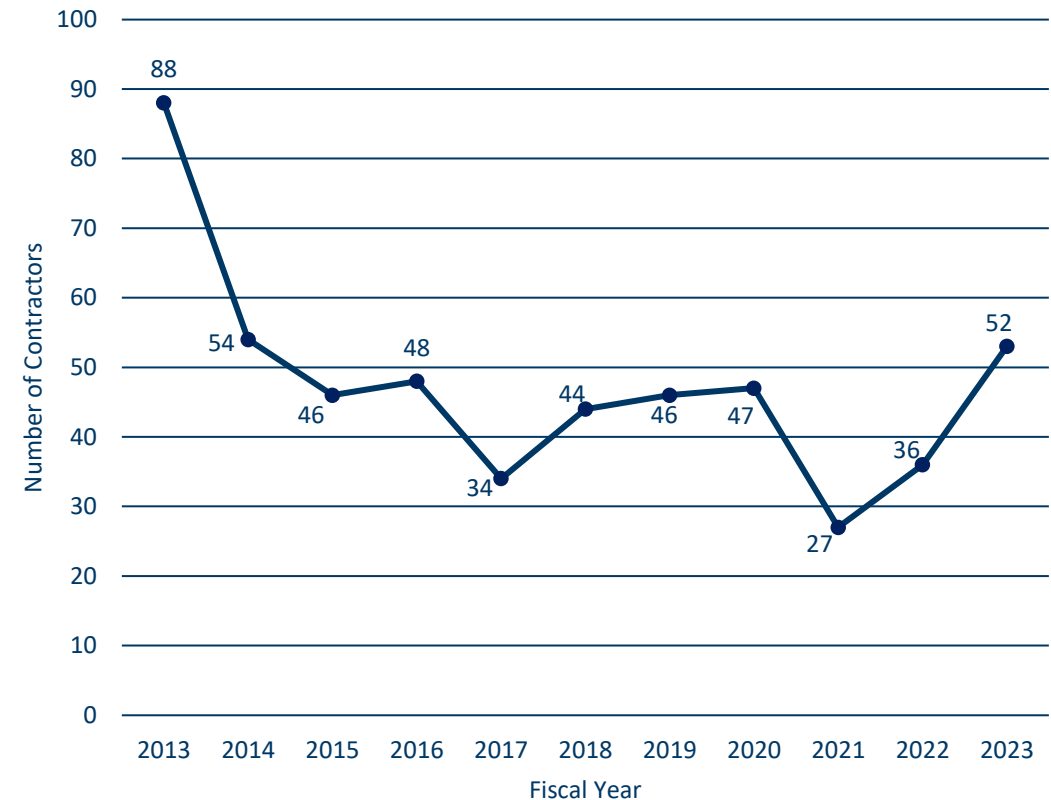
Table 1: Residential contractor license fees, fiscal year 2023

Fee	Gross annual receipts		
	Less than \$1 million	\$1 million to \$5 million	More than \$5 million
License	\$180	\$180	\$180
Recovery Fund	\$320	\$420	\$520
Total	\$500	\$600	\$700

Contractor and claim limitations

- Homeowners filed claims against 59 contractors in FY 2023 and the CRF approved claims in cases involving 52 contractors (see *Figure 1*). Multiple claims were approved against 19 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 pro-rate homeowners’ claims.
 - No claims against contractors exceeded the \$550,000 limit in FY 2023, and therefore, no proration was necessary.
- 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 2023, 13 homeowner filed claims for amounts higher than the claim limit and were approved for reduced amounts.

Figure 1: Contractors involved in approved claims, by fiscal year



Contractor Recovery Fund claims

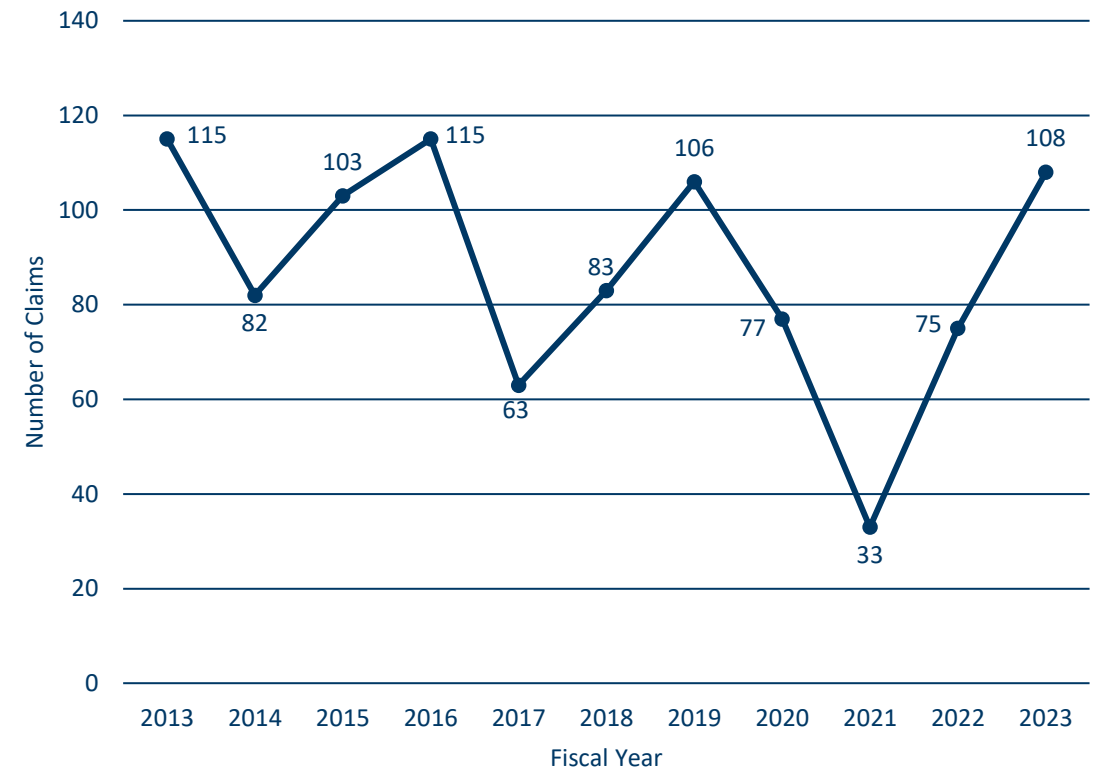
To apply to the CRF for compensation, homeowners must obtain a court-ordered judgment based on a claim of misconduct. After DLI receives a homeowner's application for compensation, it determines eligibility for recovery. If the homeowner qualifies, DLI determines the compensable loss the homeowner suffered.

In FY 2023, homeowners requested payment for 108 claims, a 44% increase from FY 2022 (see *Figure 2*). The CRF has reviewed an average of 85 claims in the prior 10 years.

DLI approved payments for 99 of the FY 2023 claims. Among the claims not approved for payment:

- three claims were paid by the contractor;
- one claim was withdrawn;
- three claims were on hold;
- one claim's judgement was vacated; and
- one claim was against an unlicensed contractor.

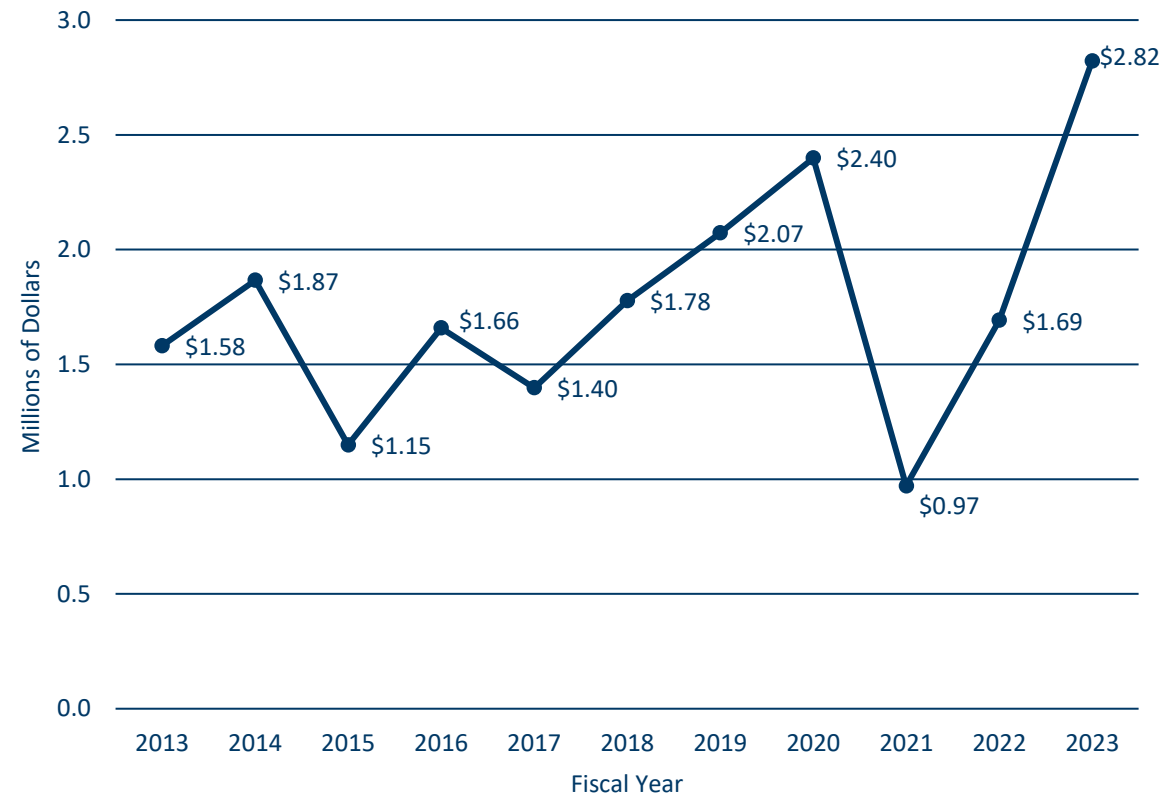
Figure 2: Contractor Recovery Fund claims, by year received



Contractor Recovery Fund claim amount

- CRF payments for approved claims are made twice each year. Payments for CRF applications accepted during FY 2023 were sent Nov. 22, 2022, and June 12, 2023.
- Claims received and approved during FY 2023 totaled about \$2.82 million – a 67% increase from the previous year and a 70% increase from the average of the prior ten years (\$1.65 million). *Figure 3* shows the value of claims approved each year since 2013.
- Homeowners requested an average of \$39,600 for the 99 approved claims filed in FY 2023. The average approved amount was about \$28,500.

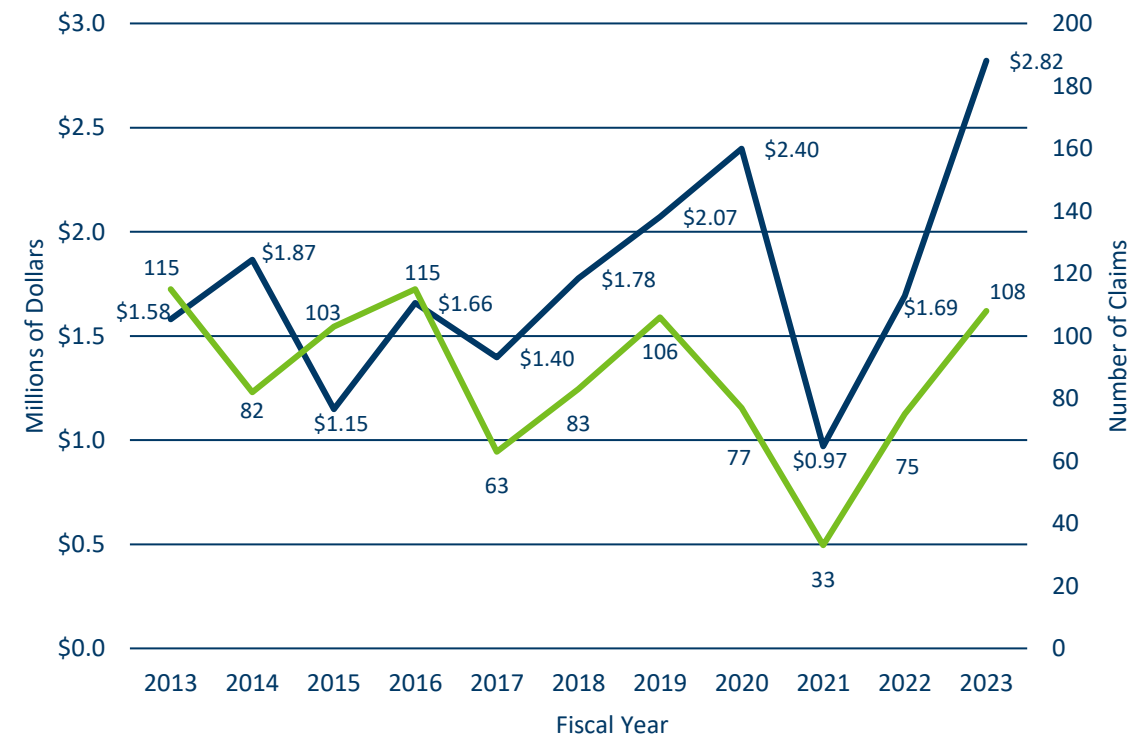
Figure 3: Contractor Recovery Fund claim value, in millions, by fiscal year claim approved



COVID-19 impact on claims and payment

- Recent fluctuations in claims and payments are associated with the COVID-19 pandemic.
- Sharp decreases in total claims and value of approved claims in FY 2021 may have been related to homeowners' financial uncertainty or unwillingness to have contractors in their homes, as well as delayed court processes making it difficult for homeowners to obtain judgments.
- Both the number of claims and value of approved claims continued to increase in FY 2023 as COVID-19 treatments became available and both economic conditions and court processes recovered. FY 2023 approved claim amounts and number of claims remained above the average total for the prior 10 years (\$1.65 million and 85 claims, respectively).

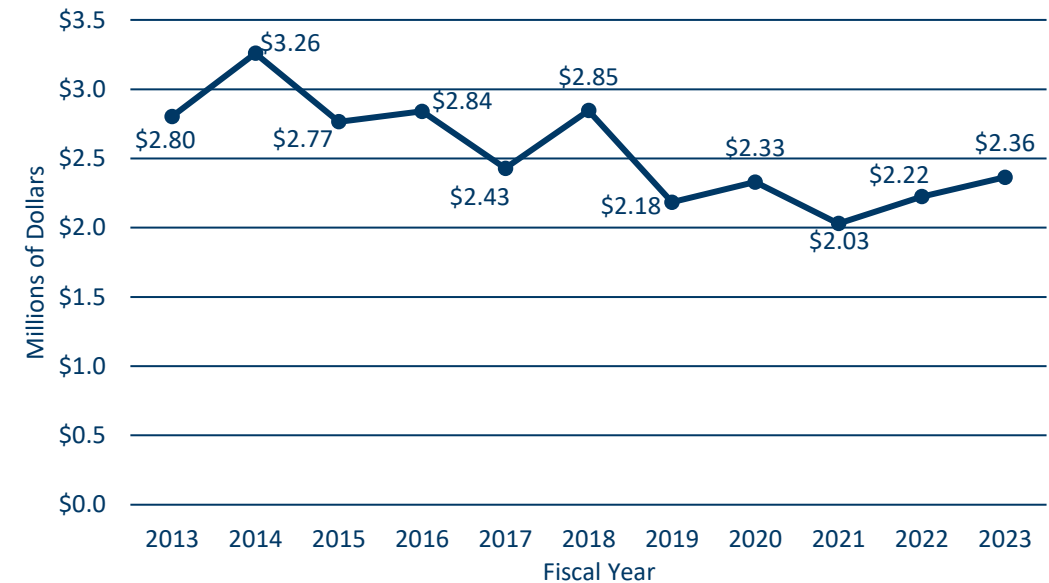
Figure 4: Contractor Recovery Fund total number of claims and approved claim amounts, by fiscal year payout approved



Contractor Recovery Fund revenues

- During fiscal years 2013 to 2023, about 95% of CRF revenue 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 2023 was \$2.36 million, 6% higher than the FY 2022 amount (see *Figure 5*).
- 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 2015 to 2023, is 12%. 2023 did not follow the typical pattern as there were higher than average repayments and interest earnings.
- In FY 2023, 5,822 residential contractors paid CRF fees when they received a new license or renewed their existing license. This is 7% lower than in FY 2022, when 6,286 contractors paid CRF fees.

Figure 5: Contractor Recovery Fund revenue, in millions



Administrative expenses

- DLI administers the CRF through the Construction Codes and Licensing Division. Direct and indirect administrative expenses were \$106,000 in FY 2023. The average yearly administrative cost from 2013 to 2023 was \$148,000.
- The decrease in administrative costs from FY 2022 to FY 2023 was due to a required statewide consumer awareness campaign ending.
- In FY 2023, administrative expenses accounted for 4% of CRF expenses; payouts to homeowners were the remaining 96% of expenses.

Figure 6: Contractor Recovery Fund administrative costs, in thousands of dollars

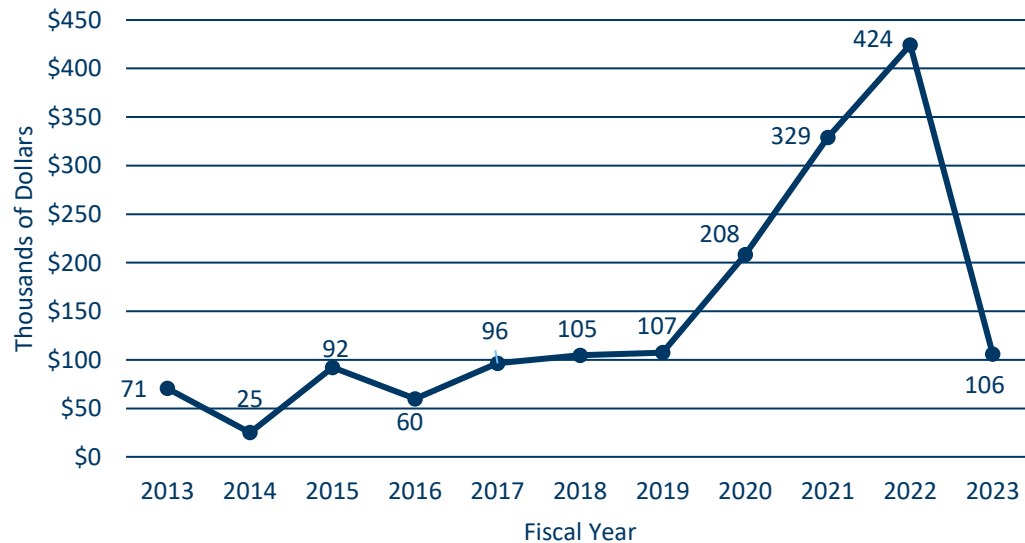
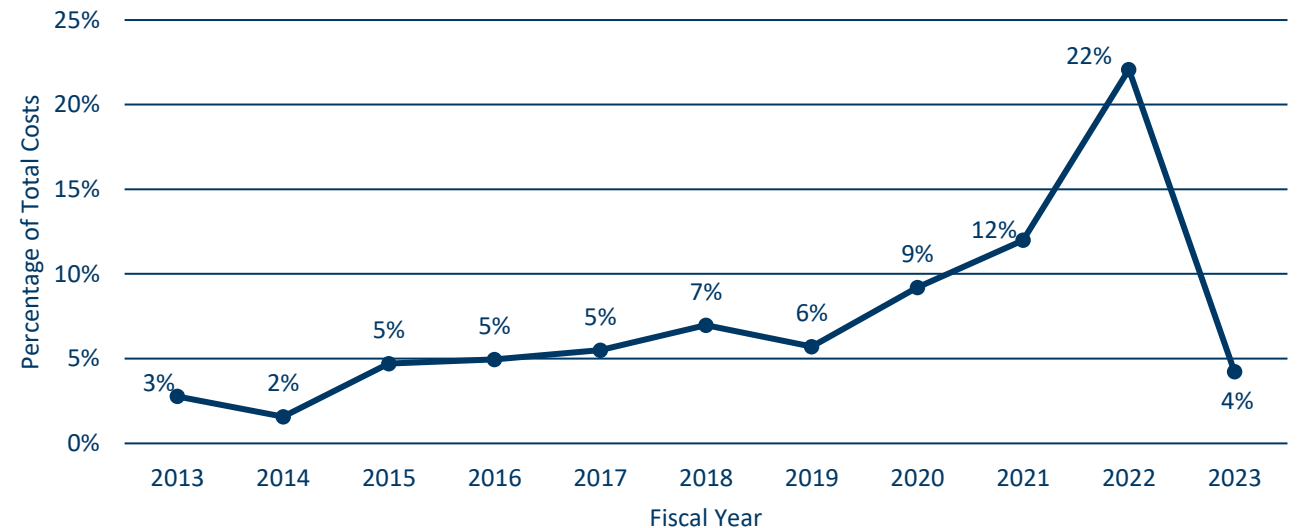


Figure 7: Contractor Recovery Fund administrative costs as a percentage of total costs



Contractor Recovery Fund balance

- Revenue collected from contractors generally exceeds claim payouts to homeowners (*Figure 8*). However, in FY 2023, the approved payout amount exceeded revenues by approximately \$38,000.
- As shown in *Figure 9*, the CRF balance increased steadily from 2013 to 2018 and has since remained relatively stable. The balance at the close of FY 2023 was \$9.41 million. A fund surcharge of \$80 was eliminated in 2018.

Figure 8: Contractor Recovery Fund revenue minus homeowner payments, in millions

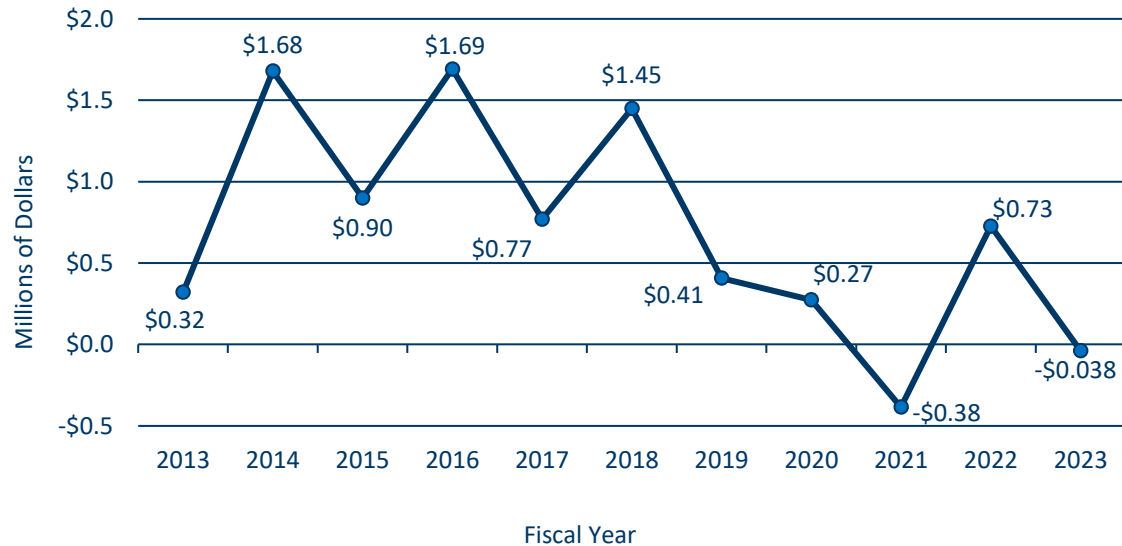
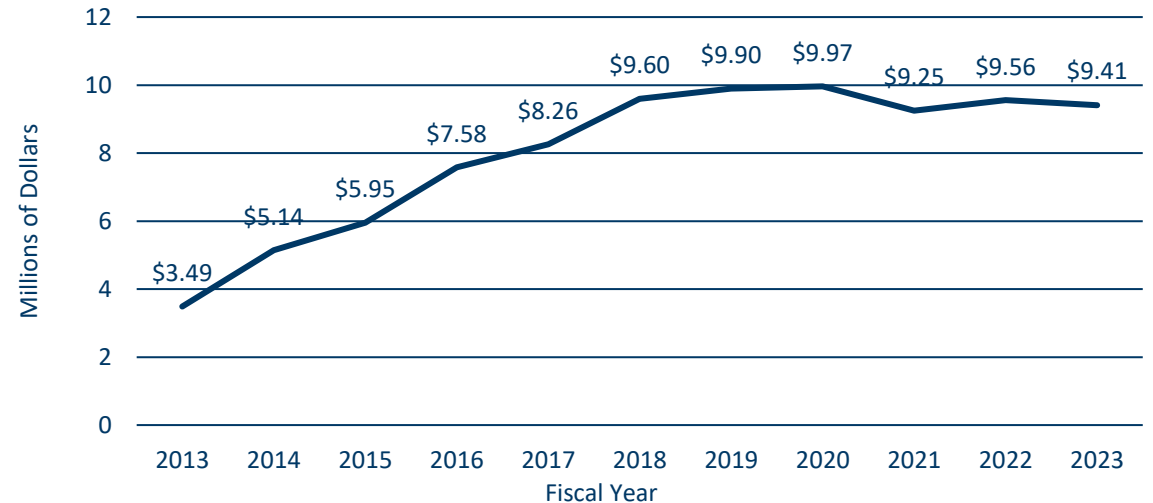


Figure 9: Contractor Recovery Fund balance, in millions



Data notes and resources



- The state fiscal year begins on July 1 and ends on June 30 of the indicated year.
- The report uses data from DLI's Construction Codes and Licensing Division and from DLI's Financial Services unit.
- Starting with the FY 2022 report, the reporting methodology was updated to separate programmatic data and financial transaction data causing minor incongruities from historical data in prior reports.



- This report is available at dli.mn.gov/workers/homeowners/contractor-recovery-fund.
- The report was written by staff members from DLI's Research and Data Analytics unit. Questions about the report? Contact dli.research@state.mn.us.
- To apply to the Contractor Recovery Fund visit dli.mn.gov/workers/homeowners/contractor-recovery-fund.