

Minnesota Contractor Recovery Fund Annual Report for fiscal year 2018

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

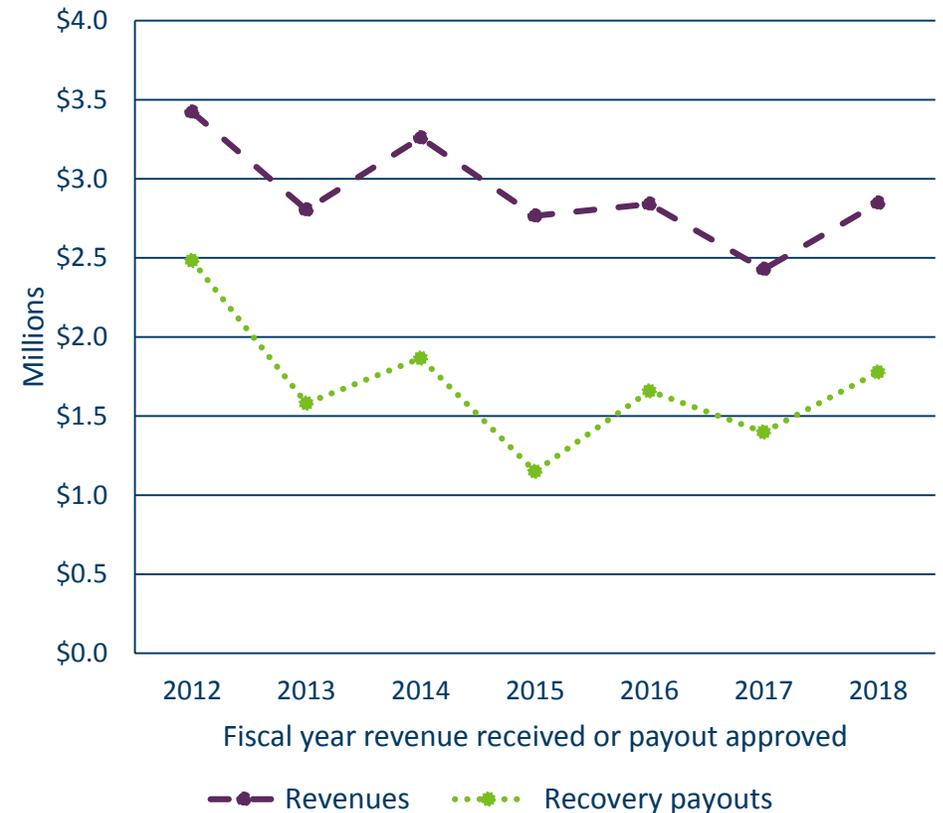
The Contractor Recovery Fund (CRF) was created in 1994. The program is administered by the Construction Codes and Licensing Division of the Minnesota Department of Labor and Industry (DLI) under Minnesota Statutes §326B.89.

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 increased 17 percent in fiscal year¹ (FY) 2018 to \$2.8 million, from FY 2017.
- Homeowners filed 83 claims for CRF payment in FY 2018. Payment was approved for 72 claims.
- \$1.78 million was paid to homeowners whose claims were approved during FY 2018.
- Claims were filed against 52 contractors. Payment was made in cases involving 44 contractors.
- In FY 2018, DLI administrative and indirect costs accounted for six percent of total CRF expenses.
- The CRF operating balance was \$9.2 million at the end of FY 2018, a 9.6 percent increase from FY 2017'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 2018, the CRF fee for a two-year license ranged from \$400 to \$600, depending on the contractor’s gross business receipts. The fee structure is shown in *Table 1*.

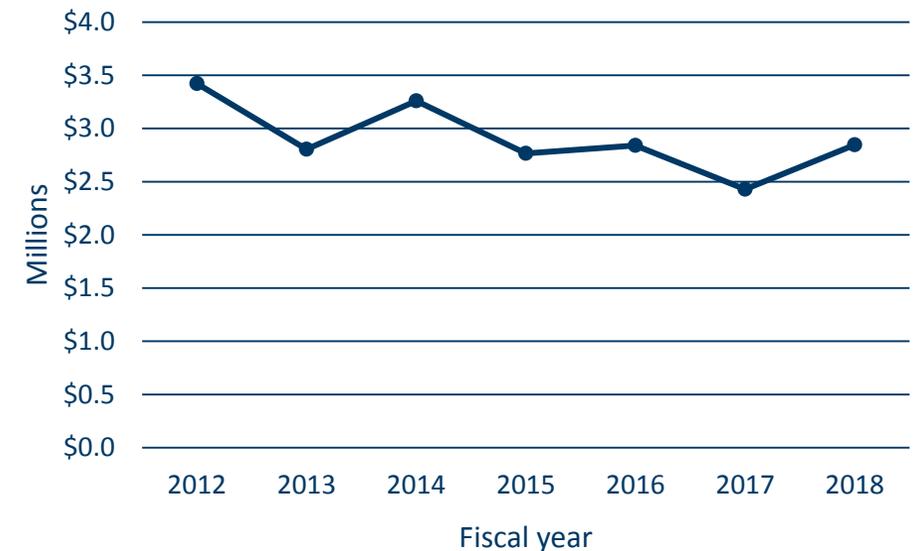
Table 1: Residential contractor license fees, fiscal year 2018

Fee	Gross annual receipts		
	Less than \$1 million	\$1 million to \$5 million	More than \$5 million
License	\$120	\$120	\$120
Recovery Fund *surcharge included	\$400	\$500	\$600
Total	\$520	\$620	\$720

Contractor Recovery Fund revenues

- During fiscal years 2012¹ to 2018, about 99 percent 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 2018 was \$2.8 million, 17 percent higher than the FY 2017 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 increase in even-numbered years, from 2012–2018, is 12 percent.
 - In FY 2018, 6,218 residential contractors paid CRF fees when they received a new license or renewed their existing license. This is 12 percent higher than in FY 2017, when 5,545 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.

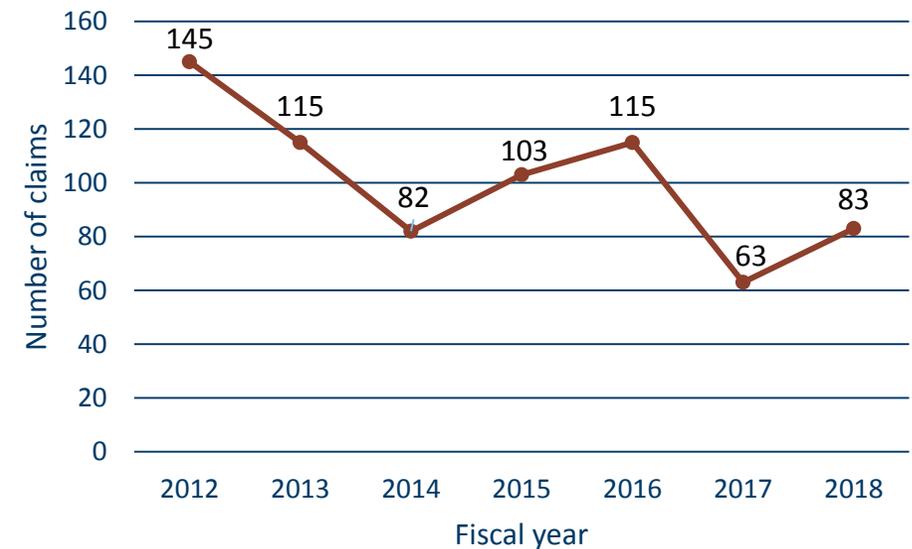
Claims for Contractor Recovery Fund payments

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 2018, homeowners requested payment for 83 claims, a 32 percent increase from FY 2017 (see *Figure 3*). Since 2012, the CRF has reviewed an average of 104 claims each year.

DLI approved payments for 72 of the FY 2018 claims. Among the 11 claims not approved for payment:

- Three claims were paid by contractors;
- Five claims were denied;
- Two claims were returned for insufficient information; and
- One claim was not paid for unspecified reasons.

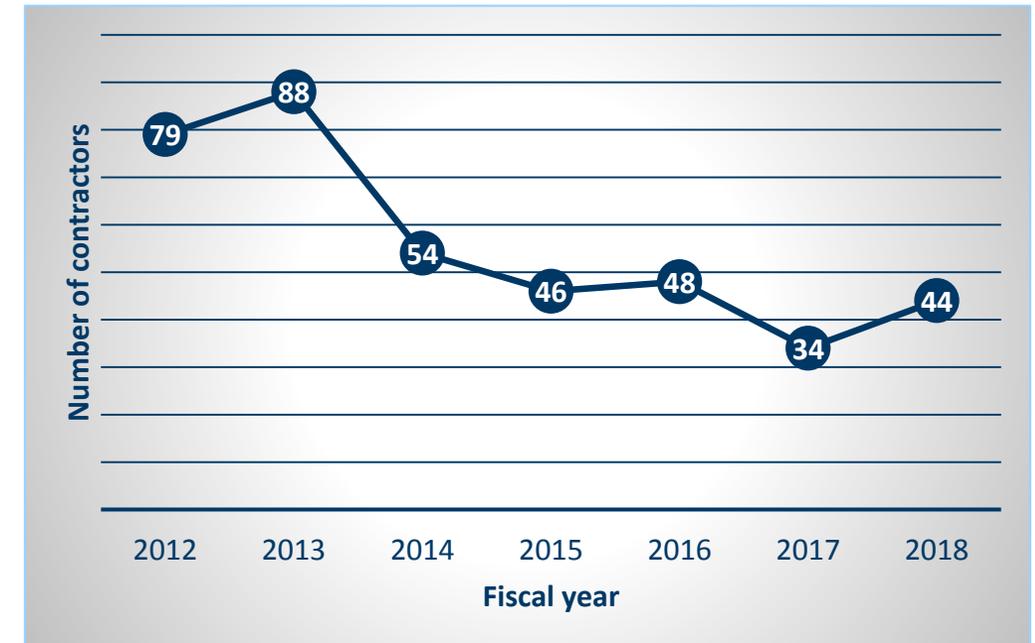
Figure 3: Claims for Contractor Recovery Fund payment, by year received



Contractor and claim limitations

- Homeowners filed claims against 52 contractors in FY 2018 and CRF payments were made in cases involving 44 contractors (see *Figure 4*). Multiple claims were filed against ten contractors and one contractor accounted for 15 claims.
- The CRF statute limits the amount of compensation that can be paid for judgments against each individual contractor; this limit is currently set at \$300,000. When the “contractor license limit” is reached, the CRF must pro-rate 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 2018, there were 15 prorated claims due to the contractor limit being reached. Six homeowners filed claims for amounts higher than the claim limit and were approved and paid reduced amounts.

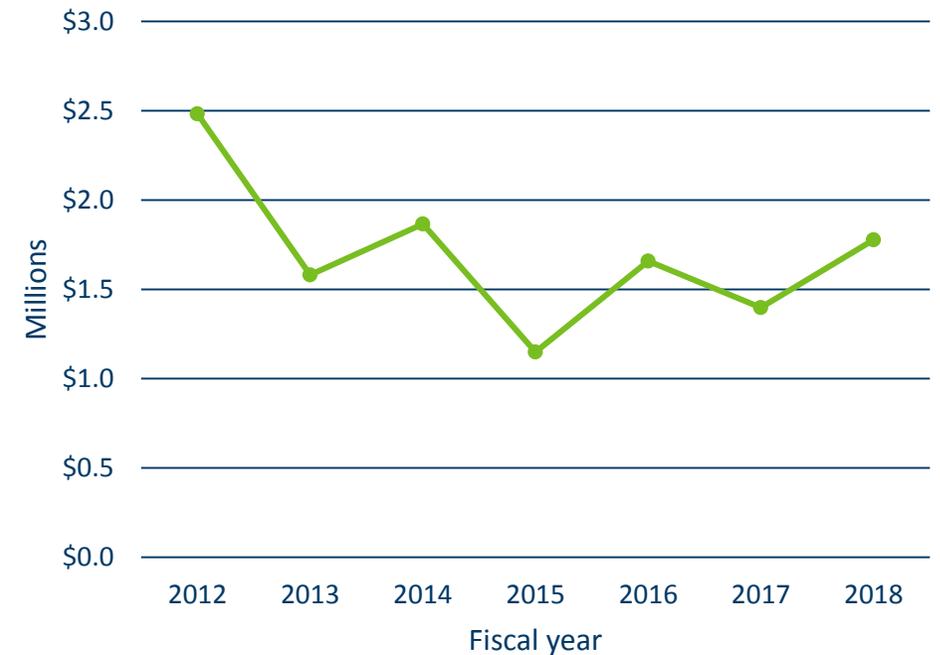
Figure 4: Contractors involved in paid claims, by fiscal year



Contractor Recovery Fund payments

- CRF payments for approved claims are made once a year. Payments for CRF applications accepted during FY 2018 were sent Nov. 20, 2018. Payments for claims approved during FY 2018 totaled about \$1.78 million – a 27 percent increase from the previous year and a five percent increase over the average of the prior six years (\$1.69 million). *Figure 5* shows the amount of payments each year since 2012.
- Homeowners requested an average of \$38,200 for the 72 approved claims filed in FY 2018. The average approved payment was slightly more than \$24,700. However, when proration was applied to 15 claims, the final payouts averaged less than \$24,700. The average of the payouts was \$13,400.

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 \$105,000 in FY 2018. The average yearly administrative cost from 2012–2018 was \$87,000.
- In FY 2018, administrative expenses accounted for six percent of CRF expenses; payouts to homeowners were the remaining 94 percent of expenses.

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

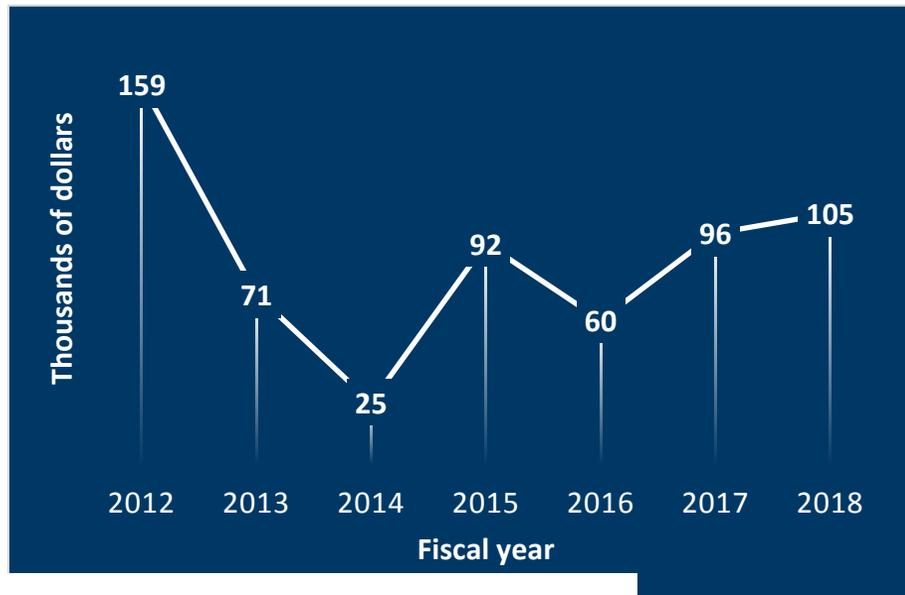
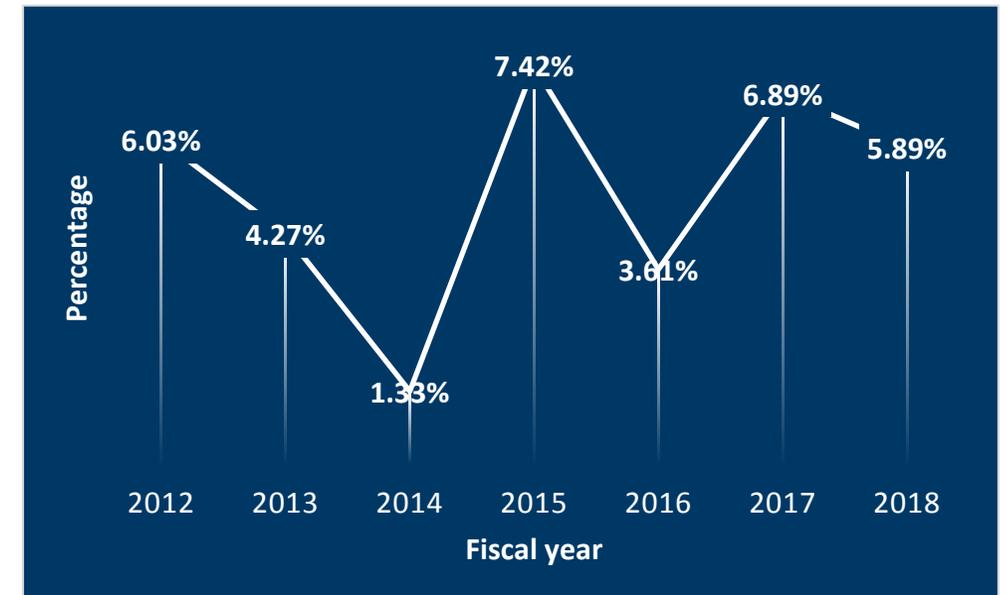


Figure 8: Contractor Recovery Fund administrative costs, as a percentage of total costs



Contractor Recovery Fund balance

- Each year, revenues collected from contractors have exceeded claim payouts to homeowners (*Figure 9*). In FY 2018, revenues exceeded the approved payout amount by approximately \$1 million.
- As shown in *Figure 10*, the CRF balance has increased steadily since 2012, reaching \$9.2 million at the close of FY 2018. A fund surcharge of \$150 was added in 2010 and reduced to \$80 in 2015.

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

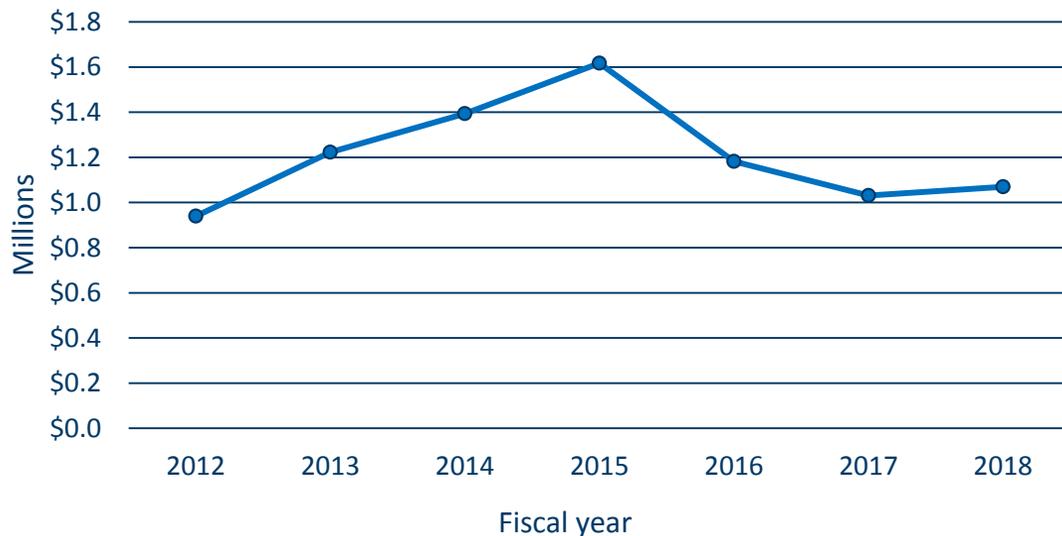


Figure 10: Contractor Recovery Fund balance, in millions

