



Minnesota Contractor Recovery Fund's Annual report for fiscal year 2016

April 2017

Resources



This report is available on the Department of Labor and Industry's (DLI) residential building contractor web page at www.dli.mn.gov/CCLD/RBC.asp.

The report uses data from DLI's Construction Codes and Licensing Division and statistics from the DLI Financial Services unit. It was written by staff members from DLI's Research and Statistics unit.

Visit www.dli.mn.gov/CCLD/RBCRecovery.asp to apply to the Contractor Recovery Fund.

Questions?

Contact Research and Statistics at dli.research@state.mn.us.

Executive Summary

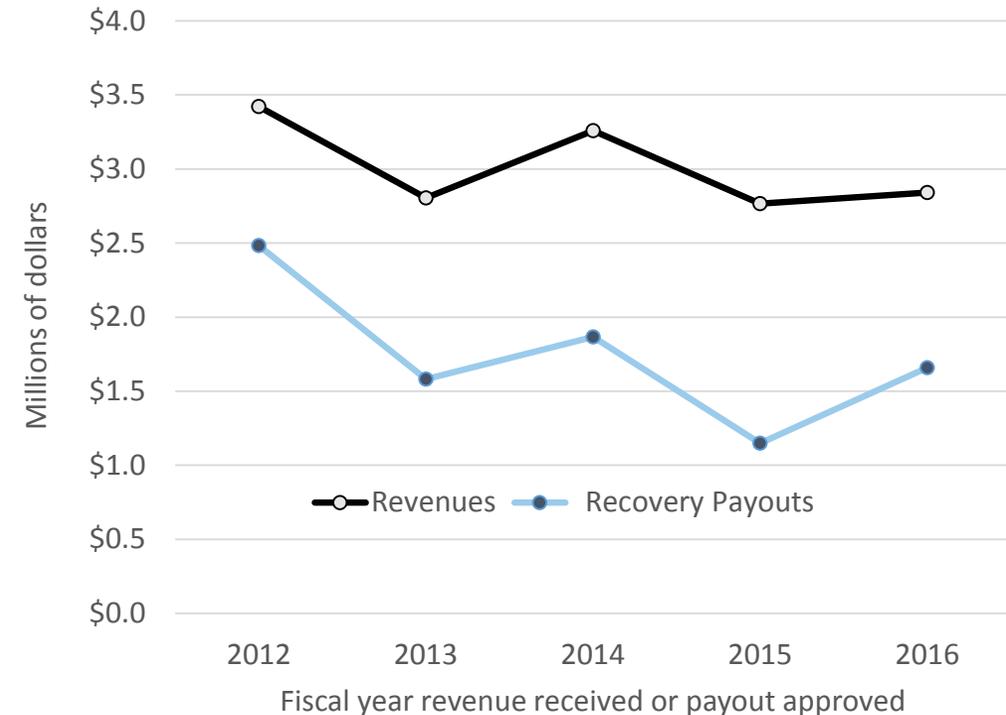


The Contractor Recovery Fund (CRF) was created in 1994. The program is administered by the Construction Codes and Licensing Division of the Minnesota Department of Labor and Industry (DLI) under Minnesota Statutes §326B.89.

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 2.7 percent in fiscal year¹ (FY) 2016 to \$2.84 million.
- Homeowners filed 115 claims for CRF payment in FY 2016. Payment was approved for 96 cases.
- \$1.7 million was paid to homeowners in FY 2016.
- Claims were filed against 54 contractors. Payment was made in cases involving 48 contractors.
- In FY 2016, DLI administrative and indirect costs accounted for 3.5 percent of total CRF expenses.
- The CRF operating balance increased by 18 percent to \$7.6 million at the end of FY 2016.

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



¹State fiscal years start July 1 and end on June 30 of the indicated year.

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 fiscal year (FY) 2016, 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, FY 2016

Fee	Gross annual receipts		
	Less than \$1 million	\$1 million to \$5 million	More than \$5 million
License	\$160	\$160	\$160
Recovery Fund *surcharge included	\$400	\$500	\$600
Total	\$560	\$660	\$760

Contractor Recovery Fund revenues

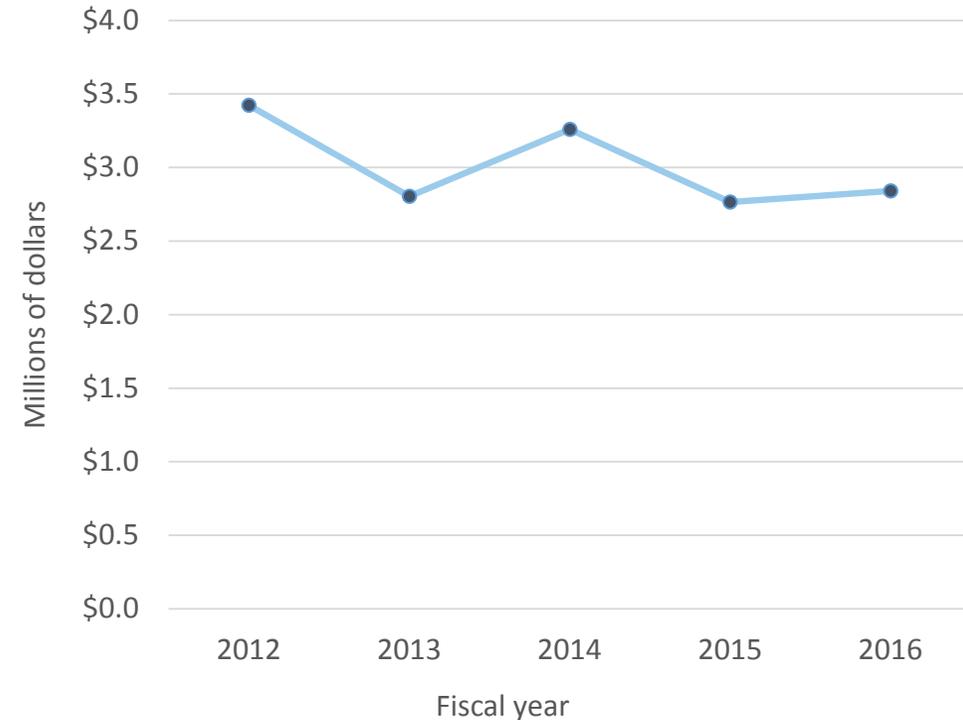
During fiscal years 2012 to 2016,¹ about 99 percent of CRF revenues came from fees paid by contractors. Other sources of revenue for the fund are interest earned on the fund balance and contractor repayments.

The two-year contractor licensure cycle affects CRF revenues, as shown in Figure 2. Annual CRF revenue fluctuates because more contractors are licensed in the even-numbered years. Revenues decreased in odd-numbered years by an average of 17 percent.

In FY 2016, 6,370 of the 11,809 licensed residential contractors paid CRF fees. The number of licensed contractors has been slowly but steadily decreasing; the FY 2016 count is 20 percent below the level in FY 2010.

The revenue collected during FY 2016 was \$2.8 million, 3 percent higher than the FY 2015 amount. The long-term trend shows a slight decrease in revenues, mainly due to the decreasing number of contractors.

Figure 2: Contractor Recovery Fund revenues, 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 number discrepancies.

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.

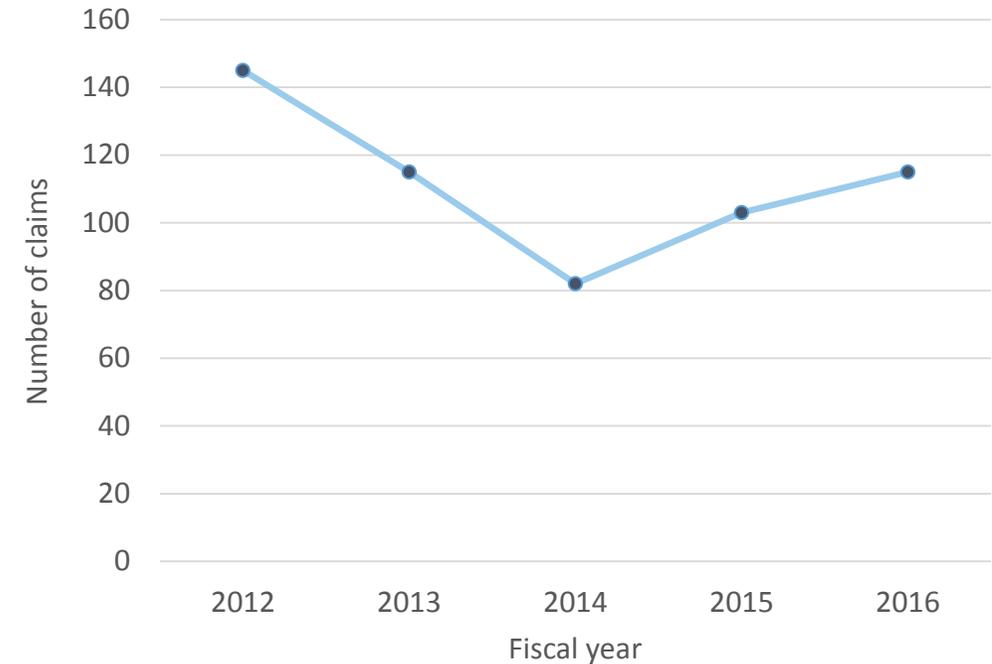
After DLI receives a homeowner’s application for compensation, it determines eligibility for recovery. If the homeowner qualifies, DLI determines the compensable loss the homeowner suffered.

In FY 2016, homeowners requested payment for 115 claims, a 12-percent increase from FY 2015. Since 2012, the CRF reviews an average of 112 claims each year.

DLI approved payments for 96 of the FY 2016 claims. Among claims not approved for payment:

- 13 were denied,
- three claims were paid by contractors,
- one was returned for insufficient information, and
- two were returned to the district court to amend the judgment.

Figure 3: Number of claims for Contractor Recovery Fund payment, by year received



Contractor and claim limitations

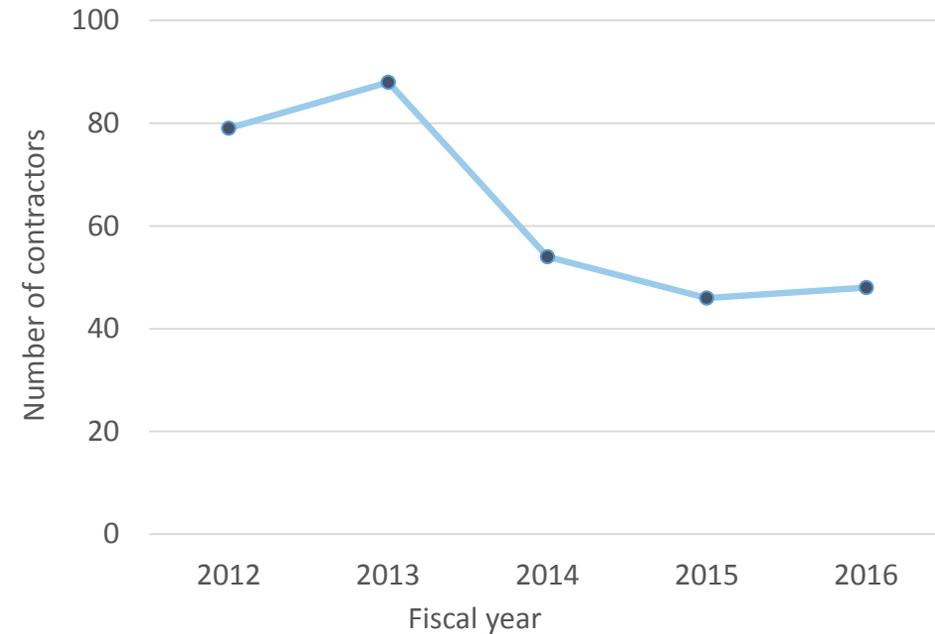
Homeowners filed claims against 54 contractors in FY 2016 and CRF payments were made in cases involving 48 contractors. Multiple claims were filed against 10 contractors and two contractors accounted for 36 claims.

The CRF statute limits the amount of compensation that can be paid for judgments against each individual contractor. Upon reaching the “contractor license limit,” the fund must pro-rate homeowners’ claims.

Also, when a homeowner’s claim exceeds the limit for an individual claim the amount is reduced to the maximum allowed. The current contractor limit is \$150,000 and the claim limit for each homeowner is \$75,000.

In FY 2016, there were 49 prorated claims due to the contractor limit being reached. Seven homeowners filed claims for amounts higher than the claim limit and were approved and paid reduced amounts. Three other claims were filed at the \$75,000 limit.

Figure 4: Number of contractors involved in paid claims



Contractor Recovery Fund payments

DLI makes CRF payments for claims once a year. Payments for CRF applications accepted during FY 2016 were sent out Dec. 1, 2016. Payments for claims approved during FY 2016 increased 44 percent over the previous year, but are 11 percent lower than in FY 2014. Figure 5 shows the amount of payments since 2012, which have been trending downward.

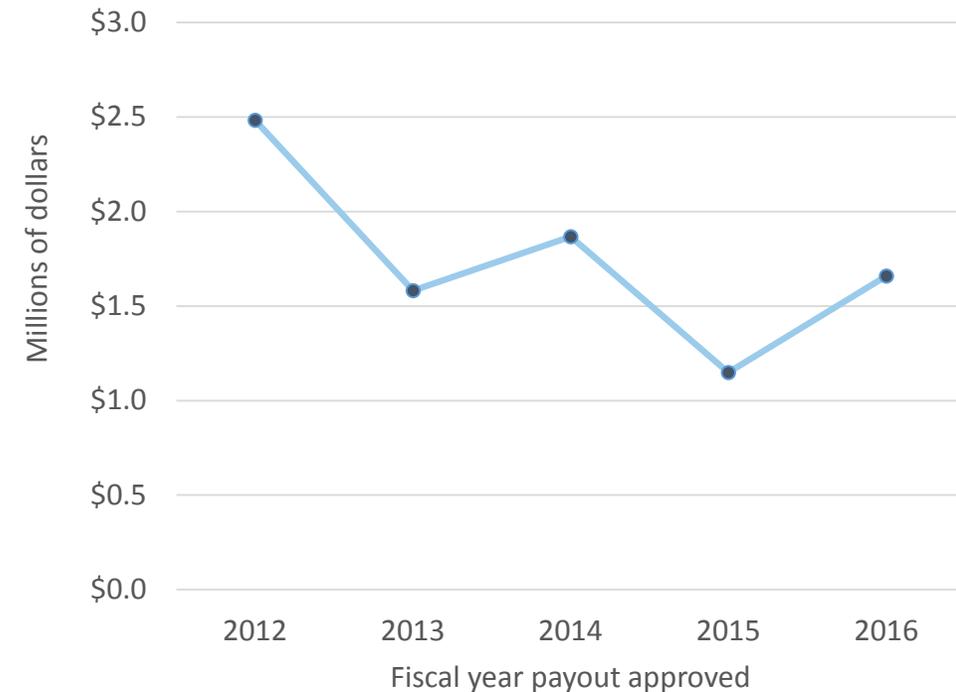
Homeowners requested an average of \$27,400 for their CRF claims filed in FY 2016. Approved payments averaged \$23,700 for 96 claims. However, when proration was applied to 49 claims, the final payouts averaged \$17,300. The median value of the payouts was \$6,900.

Administrative expenses

DLI administers the CRF through the Construction Codes and Licensing Division. Direct and indirect administrative expenses were \$59,800 in FY 2016. The average administrative cost for the past four years was \$61,900.

In FY 2016, administrative expenses accounted for 3.5 percent of CRF expenses.

Figure 5: Contractor Recovery Fund payment to homeowners, in millions



Contractor Recovery Fund balance

Revenues collected from contractors have exceeded claim payouts to homeowners (Figure 6). In FY 2016, revenues exceeded approved payout amount by \$1.2 million.

As shown in Figure 7, the CRF fund balance has increased steadily since 2012, reaching \$7.5 million at the close of FY 2016. A fund surcharge of \$150 was added in 2010 and reduced to \$80 in 2015.

Figure 6: Revenues minus homeowner payments, in millions

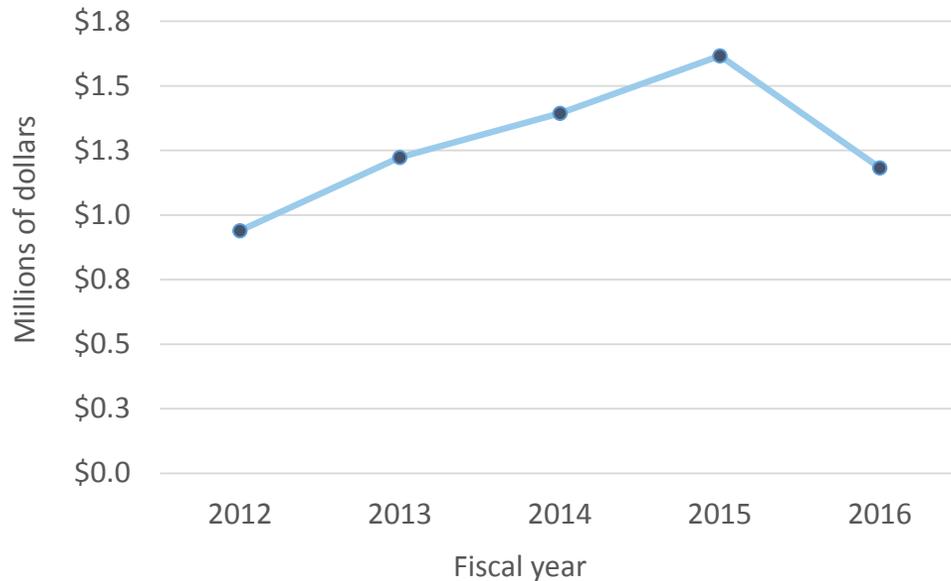


Figure 7: Contractor Recovery Fund balance, in millions

