

Minnesota Contractor Recovery Fund's Annual Report for Fiscal Year 2017

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.

Questions about the report's content should be submitted to dli.research@state.mn.us.

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

Executive Summary

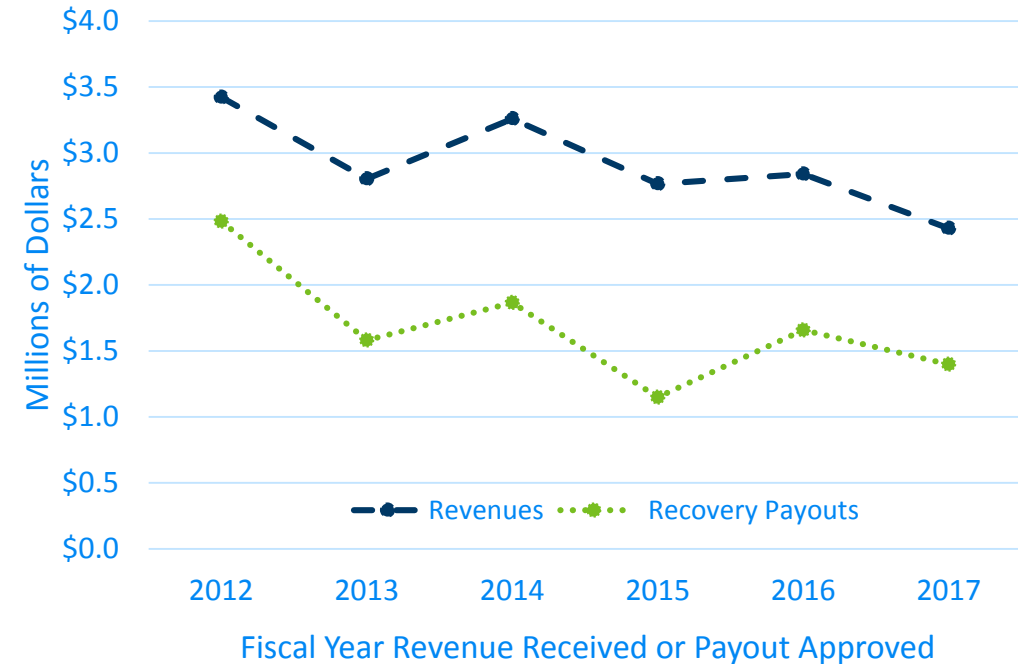
The Contractor Recovery Fund (CRF) was created in 1994. The program is administered by the Construction Codes and Licensing Division of the Minnesota Department of Labor and Industry (DLI) under Minnesota Statutes §326B.89.

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 15 percent in fiscal year¹ (FY) 2017 to \$2.4 million.
- Homeowners filed 63 claims for CRF payment in FY 2017. Payment was approved for 47 claims.
- \$1.4 million was paid to homeowners whose claims were approved during FY 2017.
- Claims were filed against 48 contractors. Payment was made in cases involving 34 contractors.
- In FY 2017, DLI administrative and indirect costs accounted for 6.5 percent of total CRF expenses.
- The CRF operating balance increased by 12.5 percent to \$8.4 million at the end of FY 2017.

¹The state fiscal year begins on July 1st and ends on June 30th 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 fiscal year (FY) 2017, 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*.

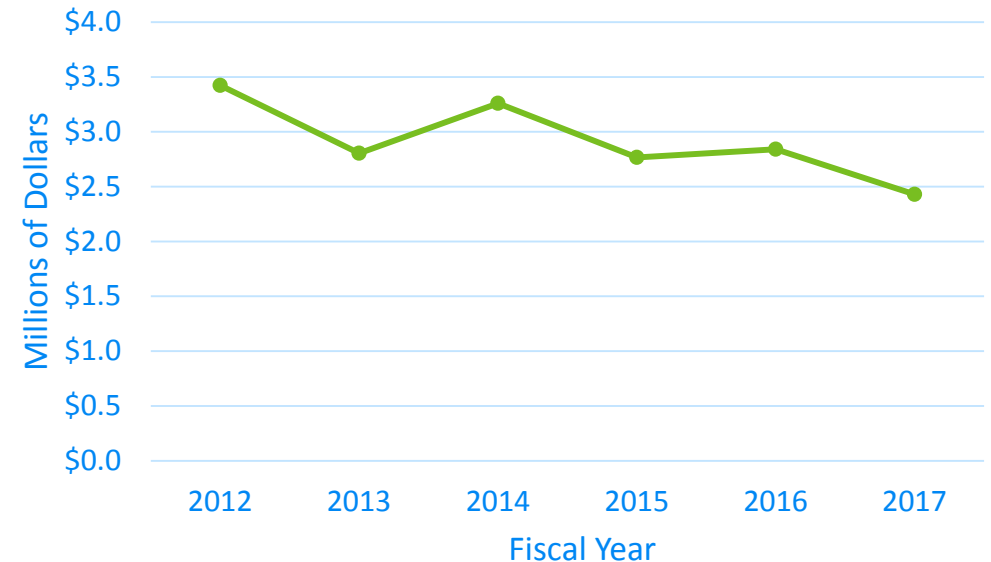
Table 1: Residential Contractor License Fees, Fiscal Year 2017

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 2012¹ to 2017, 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 2017 was \$2.4 million, 15 percent lower than the FY 2016 amount (see *Figure 2*). The long-term trend suggests somewhat of a decline in revenues.
 - 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 2012-2017, is 16 percent.
 - In FY 2017, 5,545 residential contractors paid CRF fees when they received a new license or renewed their existing license. This is 13 percent lower than in FY 2016, when 6,370 contractors paid CRF fees.

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 calculation inconsistencies.

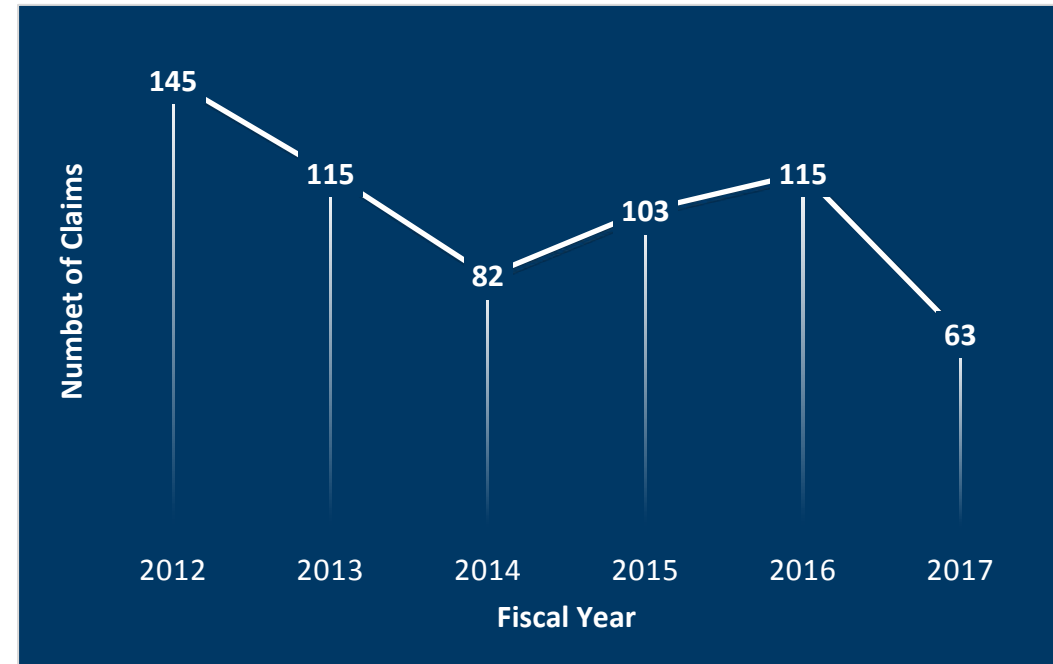
Claims for Contractor Recovery Fund Payments

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 2017, homeowners requested payment for 63 claims, a 55-percent decrease from FY 2016 (see *Figure 3*). Since 2012, the CRF has reviewed an average of 104 claims each year.

DLI approved payments for 47 of the FY 2017 claims. Among the 16 claims not approved for payment:

- Six claims were paid by contractors;
- Three claims were denied due to the contractor limit being reached;
- Two claims were denied due to the contractors not being residential building licensed contractors;
- One claim was returned for insufficient information; and
- Four claims were not paid for miscellaneous reasons or are under further review.

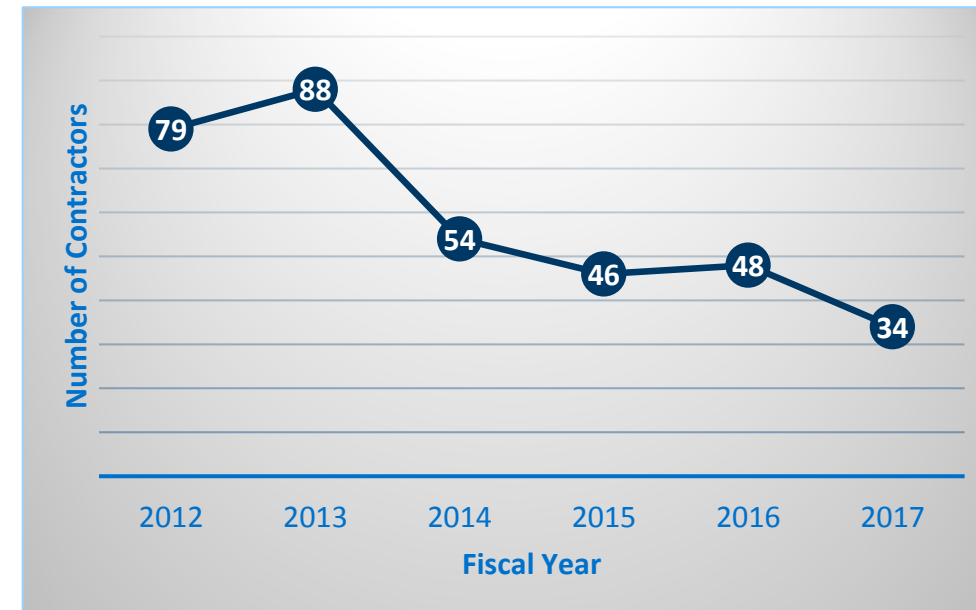
Figure 3: Number of Claims for Contractor Recovery Fund Payment, by Year Received



Contractor and Claim Limitations

- Homeowners filed claims against 48 contractors in FY 2017 and CRF payments were made in cases involving 34 contractors (see *Figure 4*). Multiple claims were filed against four contractors and three contractors 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. Upon reaching the “contractor license limit,” the fund 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 2017, there were four prorated claims due to the contractor limit being reached. Eight homeowners filed claims for amounts higher than the claim limit and were approved and paid reduced amounts.

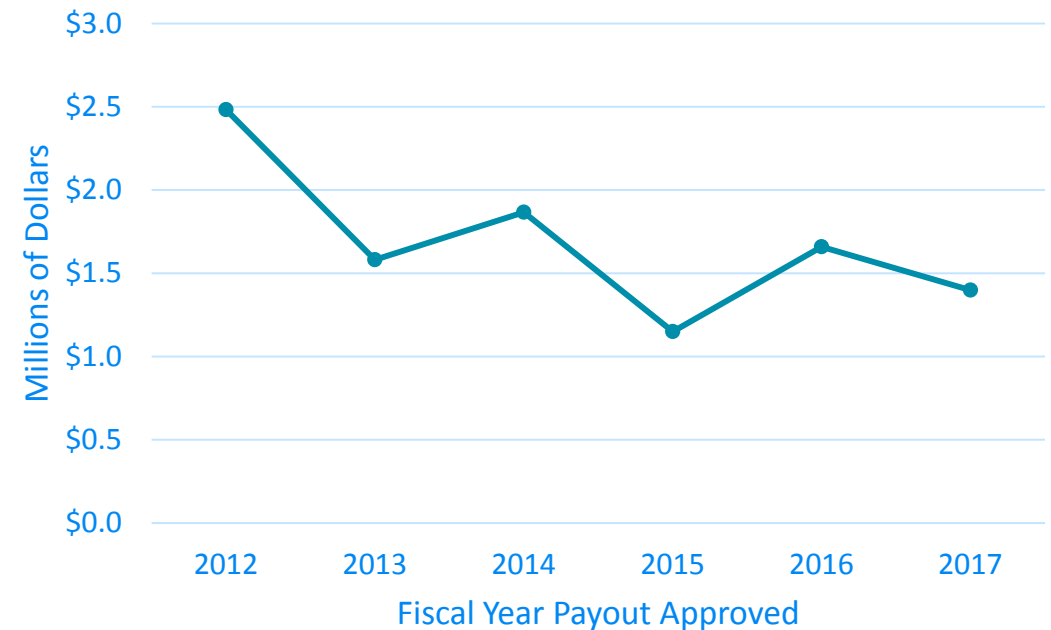
Figure 4: Number of Contractors Involved in Paid Claims, by Fiscal Year



Contractor Recovery Fund Payments

- DLI makes CRF payments for approved claims once a year. Payments for CRF applications accepted during FY 2017 were sent out November 9, 2017. Payments for claims approved during FY 2017 totaled just under \$1.4 million; this is a 16 percent decrease from the previous year, as well as somewhat below the six-year average of \$1.7 million. *Figure 5* shows the amount of payments since 2012, which appear to be weakly trending downward, though with a two-year cycle.
- Homeowners requested an average of \$38,200 for the 47 approved CRF claims filed in FY 2017. The average approved payment was \$30,200. However, when proration was applied to four claims, the final payouts averaged \$29,700. The median value of the payouts was \$15,000.

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 \$96,400 in FY 2017. The average administrative cost each year from 2012 through 2017 was \$82,300.
- In FY 2017, administrative expenses accounted for 6.5 percent of CRF expenses; payouts to homeowners were the remaining 93.5 percent of expenses.

Figure 7: Contractor Recovery Fund Administrative Costs, in Thousands of Dollars

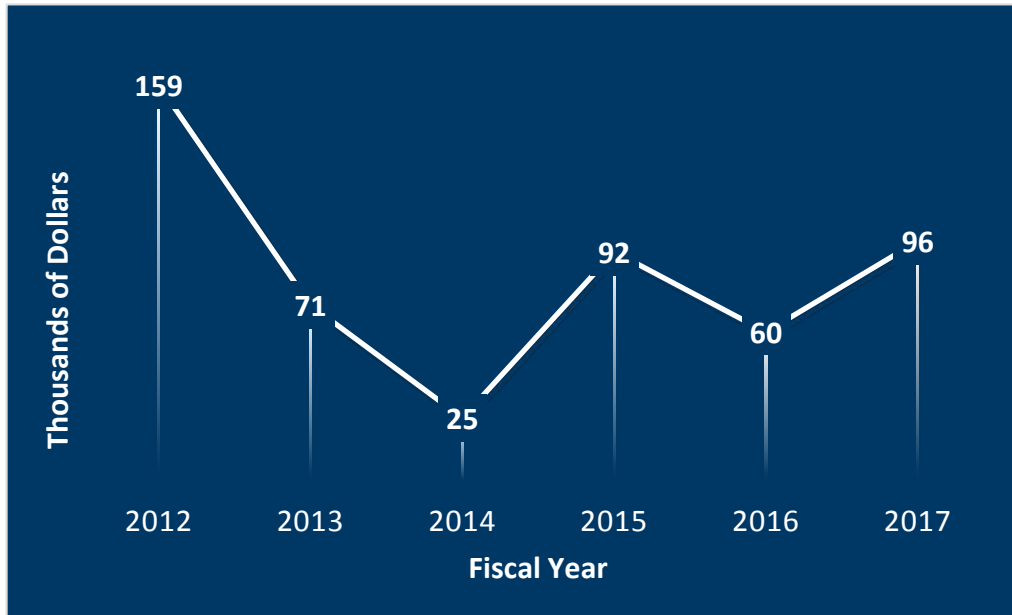
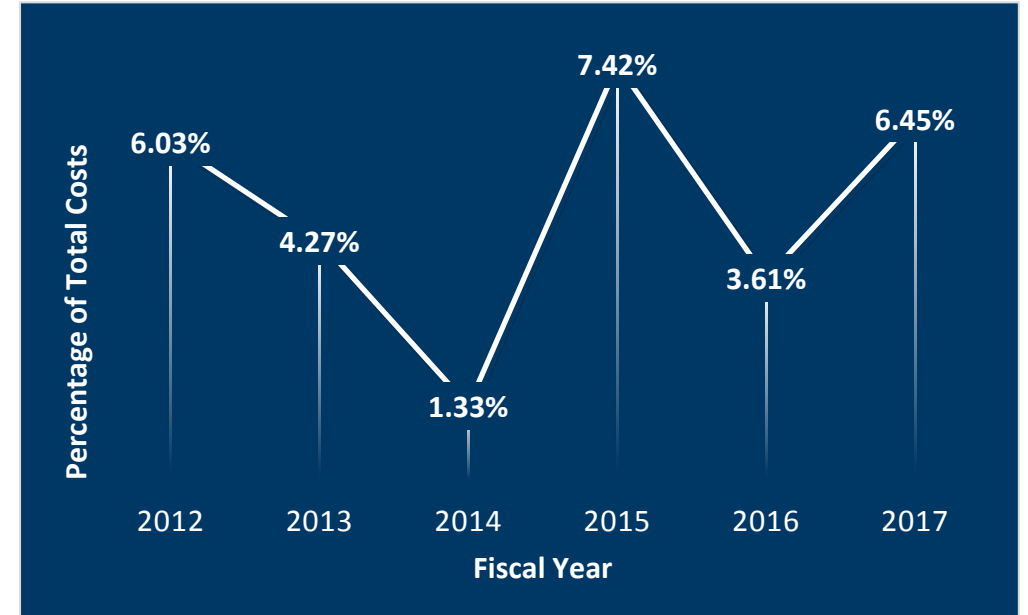


Figure 8: Contractor Recovery Fund Administrative Costs, as a Percentage of Total Costs



Contractor Recovery Fund Balance

- Revenues collected from contractors have exceeded claim payouts to homeowners (*Figure 9*). In FY 2017, revenues exceeded the approved payout amount by approximately one million dollars.
- As shown in *Figure 10*, the CRF fund balance has increased steadily since 2012, reaching \$8.4 million at the close of FY 2017. 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

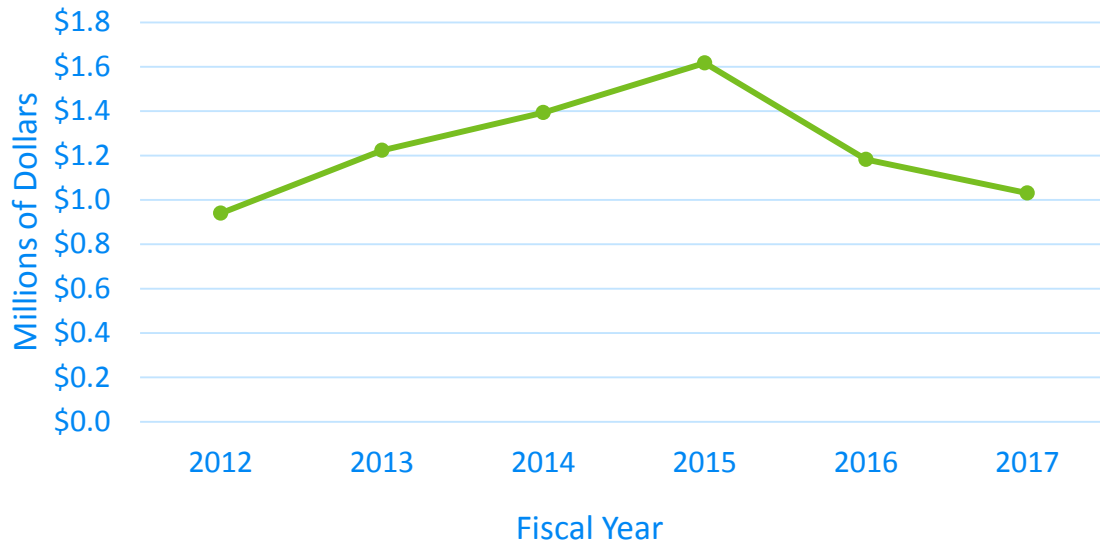


Figure 10: Contractor Recovery Fund Balance, in Millions

