

# Minnesota Contractor Recovery Fund Annual Report for fiscal year 2020

# Resources

- This report is available from the Department of Labor and Industry (DLI) at [www.dli.mn.gov/workers/homeowners/contractor-recovery-fund](http://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](mailto:dli.research@state.mn.us).
- Visit [www.dli.mn.gov/workers/homeowners/contractor-recovery-fund](http://www.dli.mn.gov/workers/homeowners/contractor-recovery-fund) to apply to the Contractor Recovery Fund.

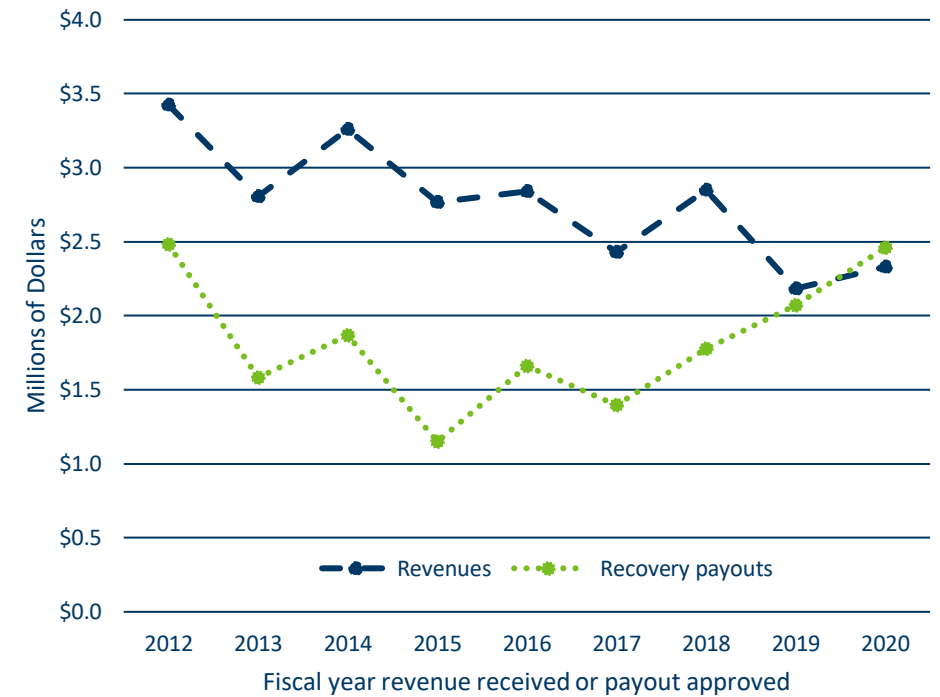
# Executive summary

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 seven percent in fiscal year<sup>1</sup> (FY) 2020 to \$2.3 million, from FY 2019.
- Homeowners filed 77 claims for CRF payment in FY 2020. Payment was approved for 73 claims.
- \$2.4 million was paid to homeowners whose claims were approved during FY 2020.
- Claims were filed against 52 contractors. Payment was made in cases involving 47 contractors.
- In FY 2020, DLI administrative and indirect costs accounted for nine percent of total CRF expenses.
- The CRF operating balance was \$9.6 million at the end of FY 2020, less than one percent increase from FY 2019's ending balance.

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



<sup>1</sup>The state fiscal year begins on July 1 and ends 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 FY 2019, 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*.

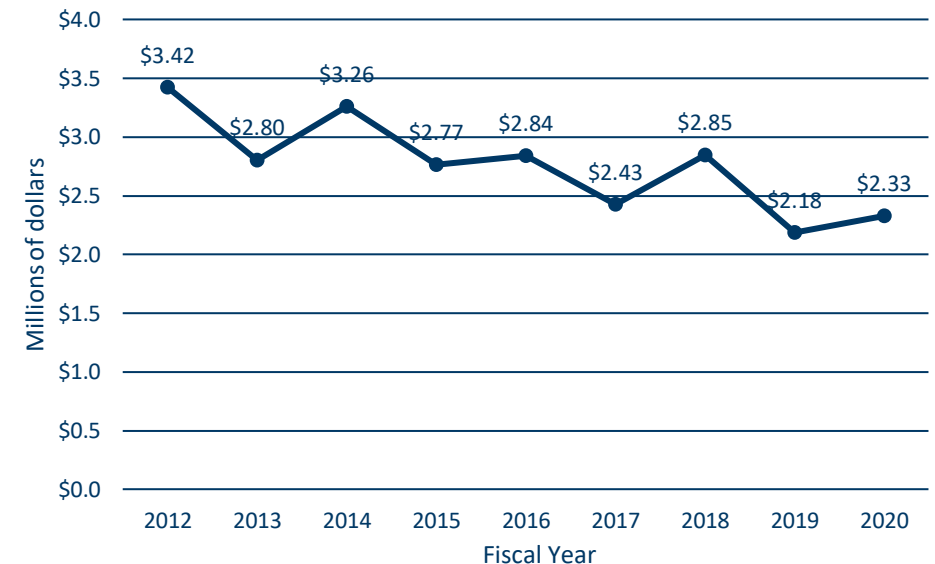
*Table 1: Residential contractor license fees, fiscal year 2020*

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 2012<sup>1</sup> to 2020, 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 2020 was \$2.3 million, 6.6 percent higher than the FY 2019 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 2013–2020, is 11 percent.
  - In FY 2020, 6,330 residential contractors paid CRF fees when they received a new license or renewed their existing license. This is 11 percent higher than in FY 2019, when 5,714 contractors paid CRF fees.

*Figure 2: Contractor Recovery Fund revenue, in millions*



<sup>1</sup> 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.

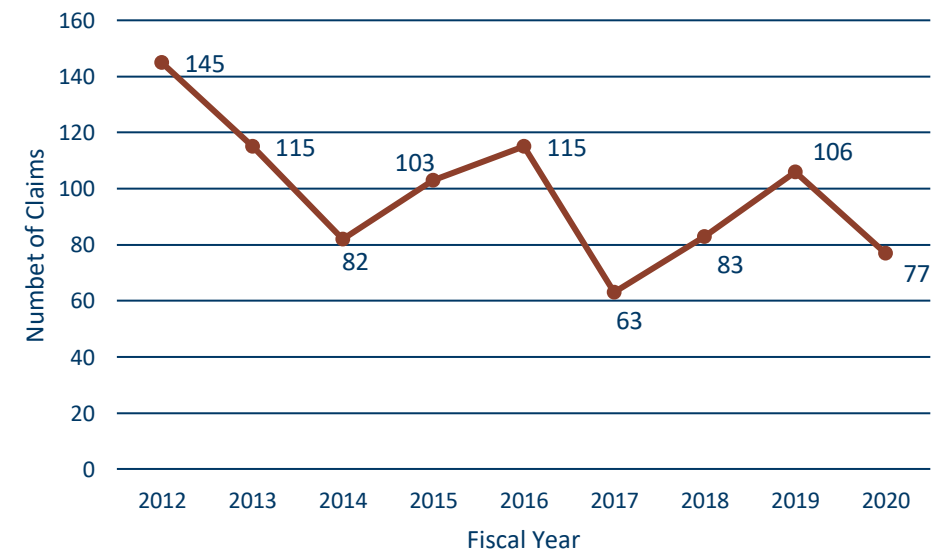
# Claims for Contractor Recovery Fund payments

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 2020, homeowners requested payment for 77 claims, a 27 percent decrease from FY 2019 (see *Figure 3*). Since 2012, the CRF has reviewed an average of 99 claims each year.

DLI approved payments for 73 of the FY 2020 claims. Among the four claims not approved for payment:

- One claim was paid by the contractor;
- One claim was denied;
- One claim involved an unlicensed contractor; and
- One claim was returned due to the judgement being over two years old.

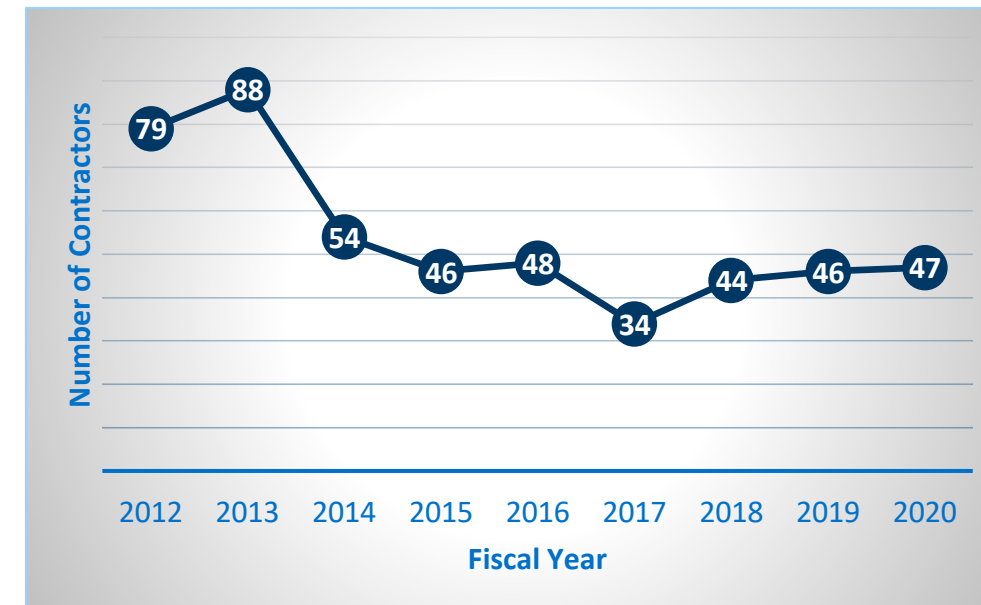
*Figure 3: Claims for Contractor Recovery Fund payment, by year received*



# Contractor and claim limitations

- Homeowners filed claims against 52 contractors in FY 2020 and CRF payments were made in cases involving 47 contractors (see *Figure 4*). Multiple claims were filed against 12 contractors and one contractor accounted for nine 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 2020, thirteen homeowners filed claims for amounts higher than the claim limit and were approved and paid reduced amounts.

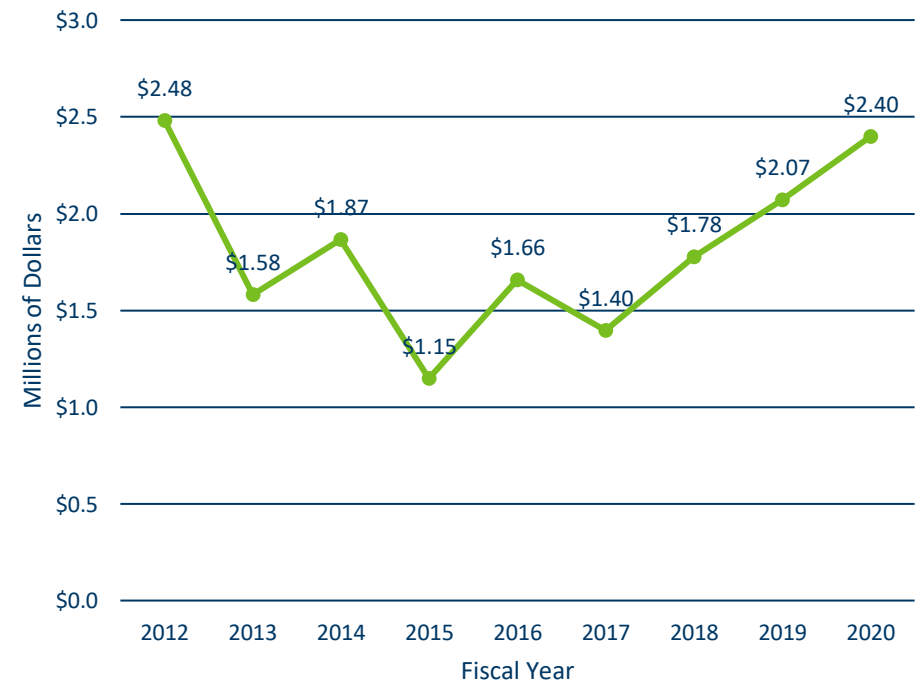
*Figure 4: Contractors involved in paid claims, by fiscal year*



# Contractor Recovery Fund payments

- CRF payments for approved claims are made once a year. Payments for CRF applications accepted during FY 2020 were sent Nov. 20 and 21, 2019. Payments for claims approved during FY 2020 totaled about \$2.5 million – a 19 percent increase from the previous year and a 35 percent increase over the average of the prior eight years (\$1.8 million). *Figure 5* shows the amount of payments each year since 2012.
- Homeowners requested an average of \$41,690 for the 73 approved claims filed in FY 2020. The average approved payment was slightly more than \$31,980. The median 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 \$208,000 in FY 2020. The average yearly administrative cost from 2012–2020 was \$102,000.
- In FY 2020, administrative expenses accounted for slightly less than nine percent of CRF expenses; payouts to homeowners were the remaining 91 percent of expenses.

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

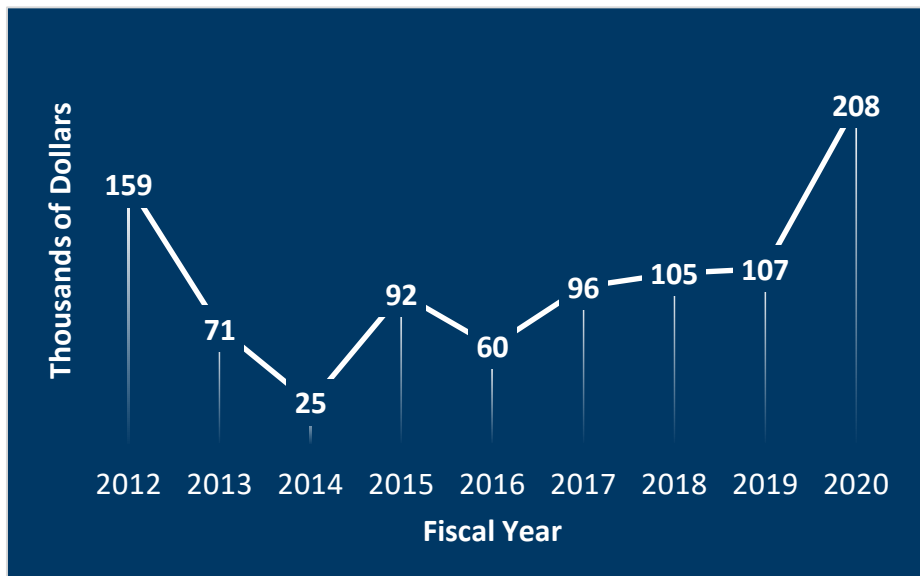
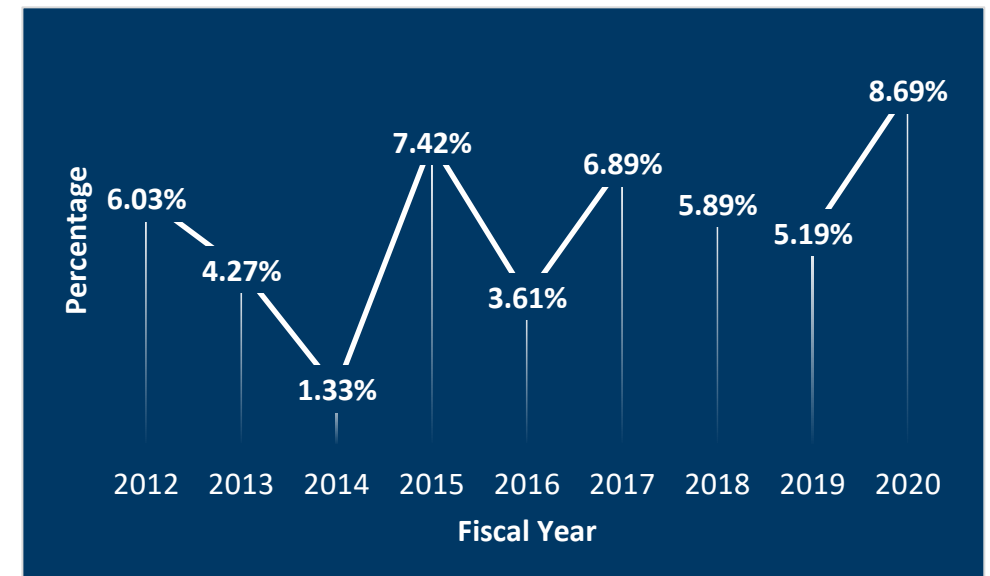


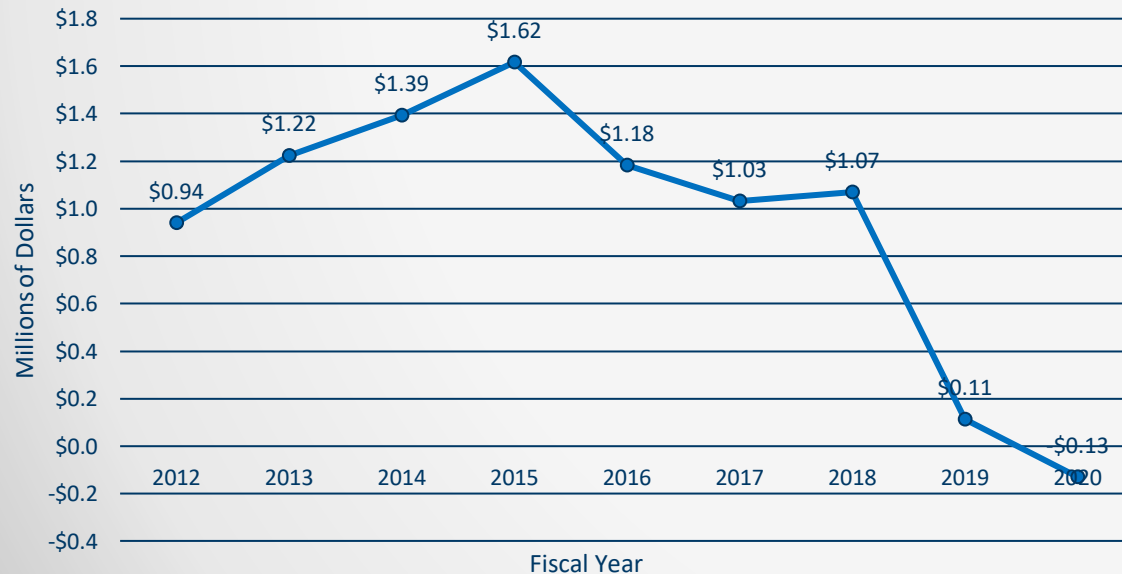
Figure 8: Contractor Recovery Fund administrative costs, as a percentage of total costs



# Contractor Recovery Fund balance

- Revenues collected from contractors generally exceeded claim payouts to homeowners (*Figure 9*). However, in FY 2020, the approved payout amount exceeded revenues by approximately \$130,000.
- As shown in *Figure 10*, the CRF balance has increased steadily since 2012, reaching \$9.6 million at the close of FY 2020. 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*

