

Minnesota Contractor Recovery Fund annual report for fiscal year 2022

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 10% in fiscal year (FY) 2022 to \$2.2 million, from FY 2021.
- Homeowners filed 75 claims for CRF payment in FY 2022. Payment was approved for 65 claims.
- CRF claims approved during FY 2022 totaled \$1.7 million.
- Claims were filed against 42 contractors. Payment was made in cases involving 36 contractors.
- In FY 2022, DLI administrative costs and indirect costs accounted for 22% of total CRF expenses.
- The CRF operating balance was \$9.6 million at the end of FY 2022, a 3% increase from FY 2021'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 2022, 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*.

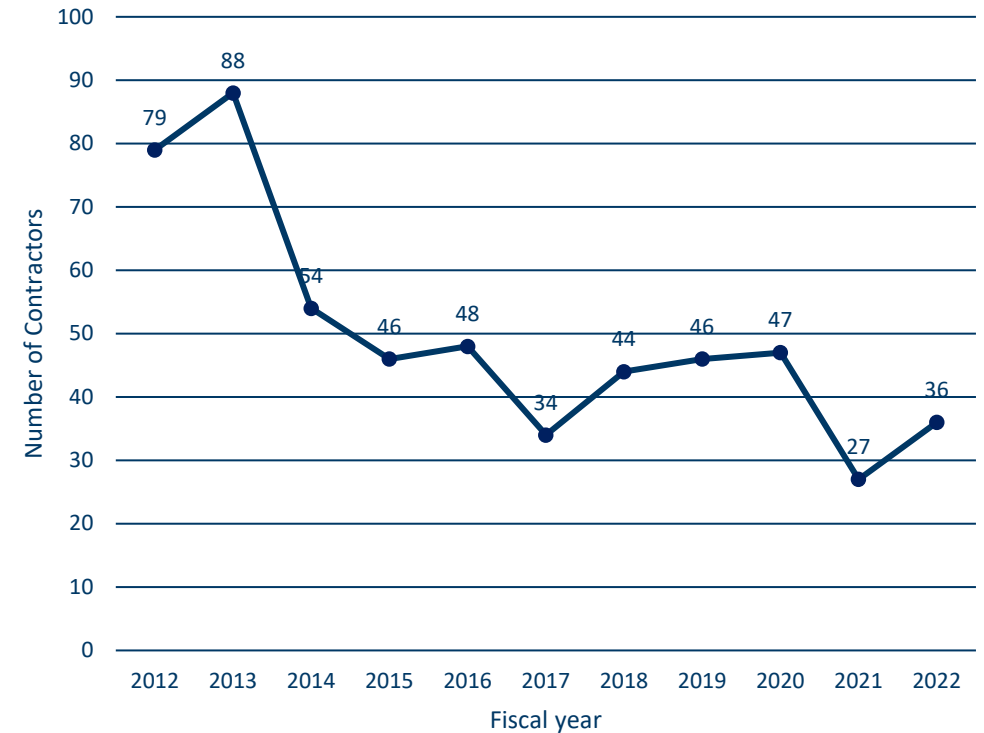
Table 1: Residential contractor license fees, fiscal year 2022

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 and claim limitations

- Homeowners filed claims against 42 contractors in FY 2022 and the CRF approved claims in cases involving 36 contractors (see *Figure 1*). Multiple claims were filed against 12 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 2022, 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 2022, 12 homeowners filed a claim for an amount higher than the claim limit and were approved for a reduced amount.

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



Contractor Recovery Fund claims

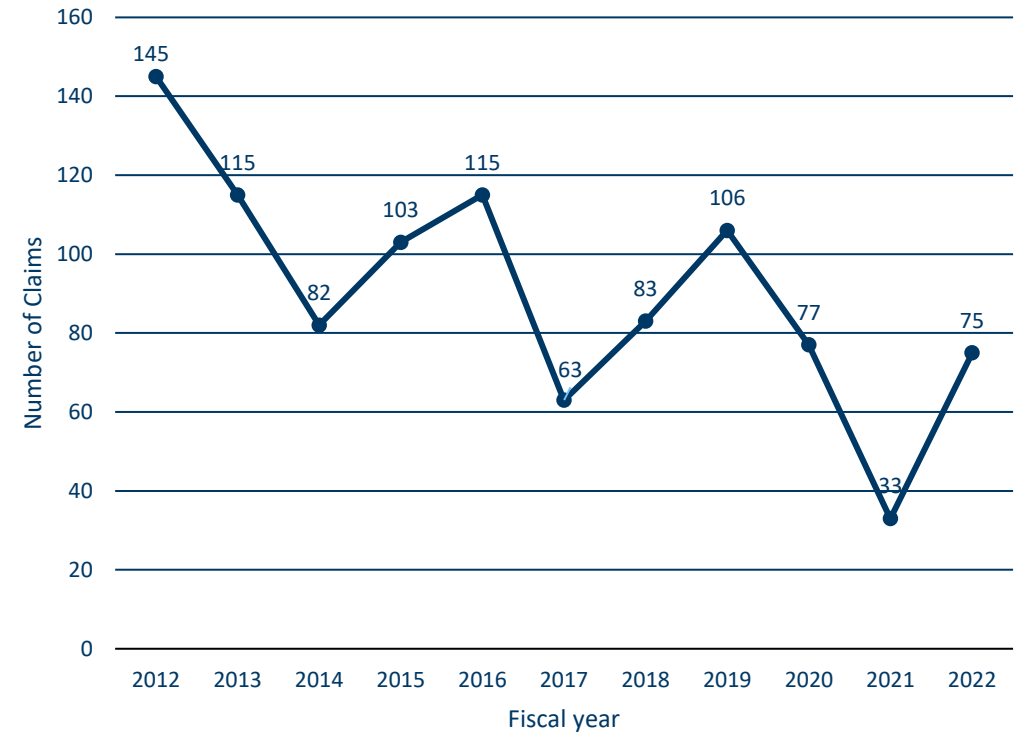
To apply to the CRF for compensation, homeowners must obtain a court-ordered judgment based on a claim of misconduct. After DLI receives a homeowner's application for compensation, it determines eligibility for recovery. If the homeowner qualifies, DLI determines the compensable loss the homeowner suffered.

In FY 2022, homeowners requested payment for 75 claims, a 127% increase from FY 2021 (see *Figure 2*). The CRF has reviewed an average of 92 claims in the prior 10 years.

DLI approved payments for 65 of the FY 2022 claims. Among the claims not approved for payment:

- three claims were paid by the contractor;
- one claim was waiting for an estimate;
- one claim was awaiting more information; and
- five claims were denied.

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 2022 were sent Nov. 10, 2021, and May 12, 2022.
- Claims received and approved during FY 2022 totaled about \$1.69 million – a 74% increase from the previous year and a 2% decrease from the average of the prior ten years (\$1.73 million). *Figure 3* shows the value of claims approved each year since 2012.
- Homeowners requested an average of \$39,000 for the 65 approved claims filed in FY 2022. The average approved amount was slightly more than \$26,000.

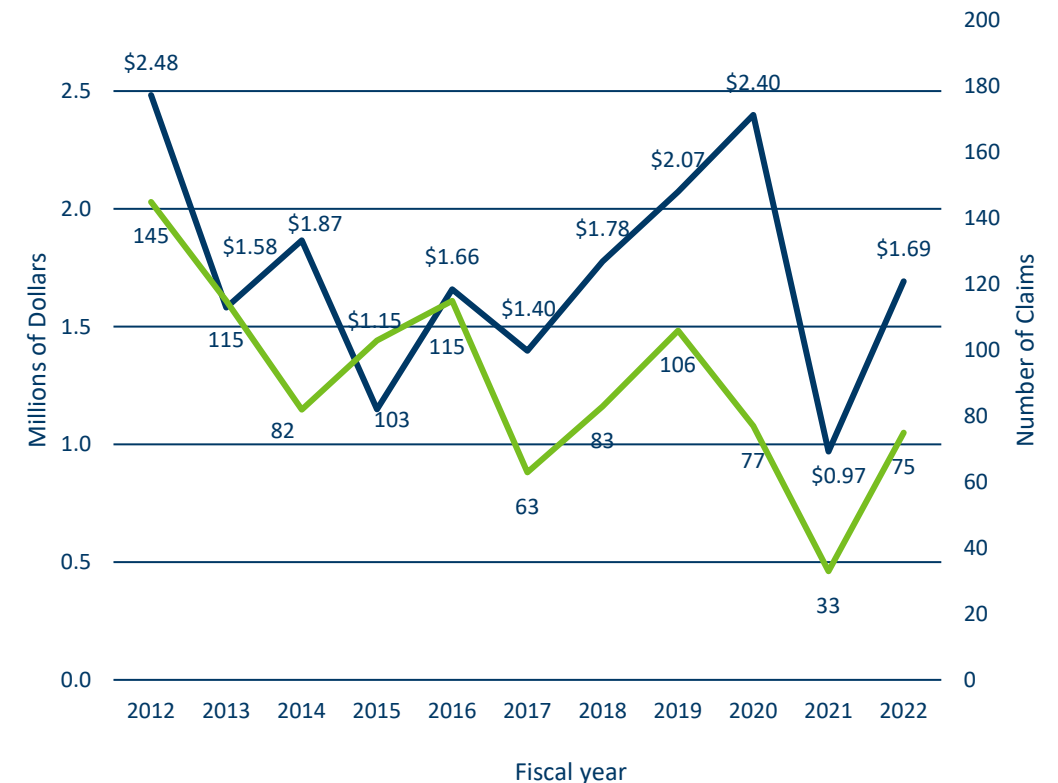
Figure 3: Contractor Recovery Fund claim value, in millions, by fiscal year claim approved



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 increased in FY 2022 as COVID-19 treatments became available and both economic conditions and court processes recovered. FY 2022 approved claim amounts and number of claims remained below the average total for the prior 10 years (\$1.73 million and 92 claims, respectively).

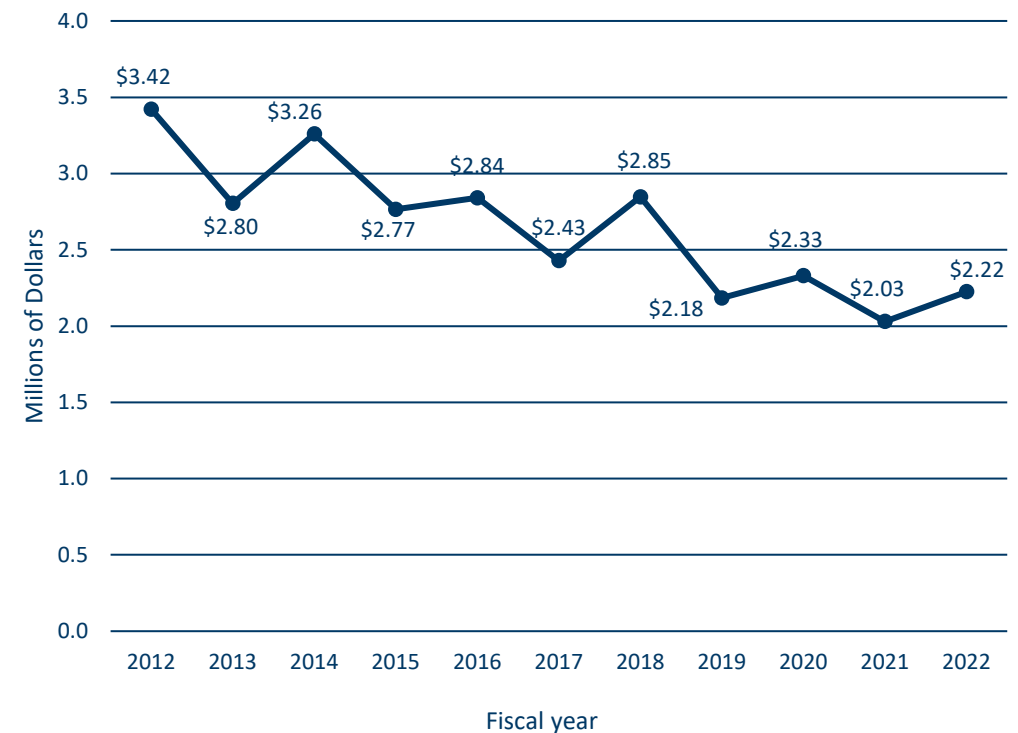
Figure 4: Contractor Recovery Fund approved claim amounts and number of claims, by fiscal year payout approved



Contractor Recovery Fund revenues

- During fiscal years 2012 to 2022, about 96% 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 2022 was \$2.2 million, 10 percent higher than the FY 2021 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 increase in even-numbered years, from 2014 to 2022, is 10%.
- In FY 2022, 6,286 residential contractors paid CRF fees when they received a new license or renewed their existing license. This is 8% higher than in FY 2021, when 5,845 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 \$424,000 in FY 2022. The average yearly administrative cost from 2012 to 2022 was \$152,000.
- The increased administrative costs beginning in FY 2020 were expenses related to a statewide consumer awareness campaign – required by law – informing citizens of the importance of hiring only licensed contractors.
- In FY 2022, administrative expenses accounted for 22% of CRF expenses; payouts to homeowners were the remaining 78% of expenses.

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

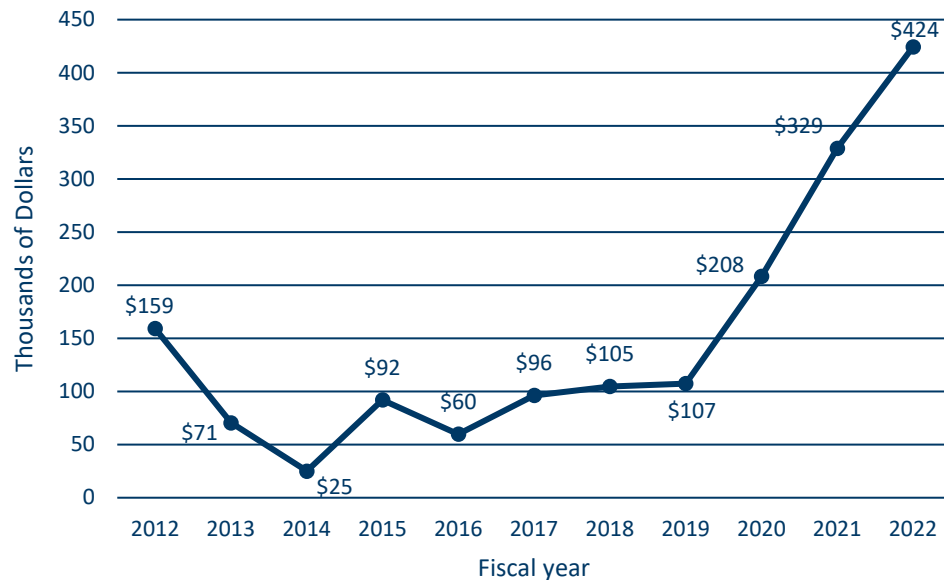
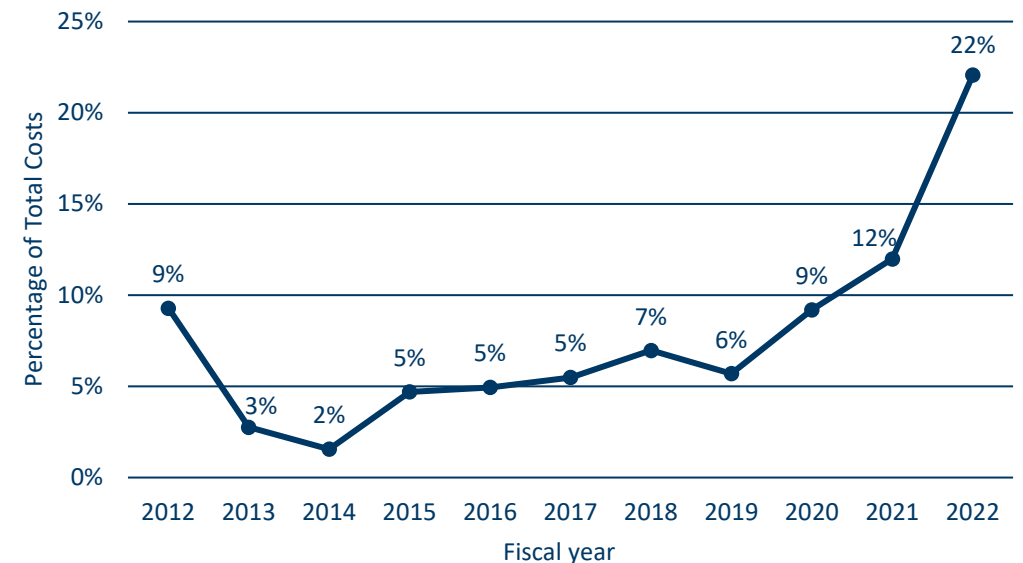


Figure 7: Contractor Recovery Fund administrative costs, as a percentage of total costs



Contractor Recovery Fund balance

- Revenue collected from contractors generally exceeds claim payouts to homeowners (*Figure 8*). In FY 2022, revenue exceeded the approved payout amount by approximately \$730,000.
- As shown in *Figure 9*, the CRF balance increased steadily from 2012 to 2018 and has since remained relatively stable. The balance at the close of FY 2022 was \$9.56 million. A fund surcharge of \$80 was eliminated in 2018.

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

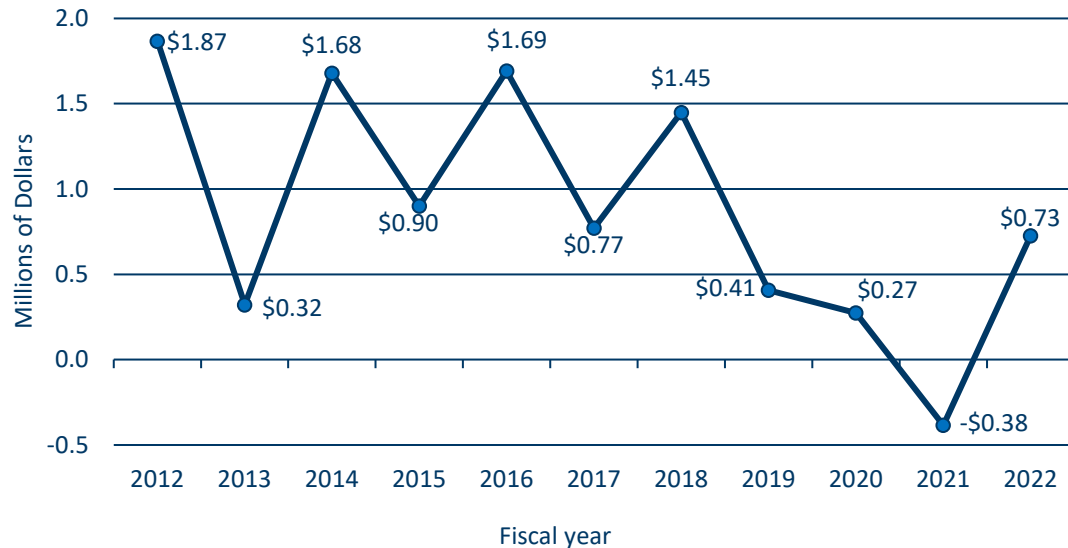
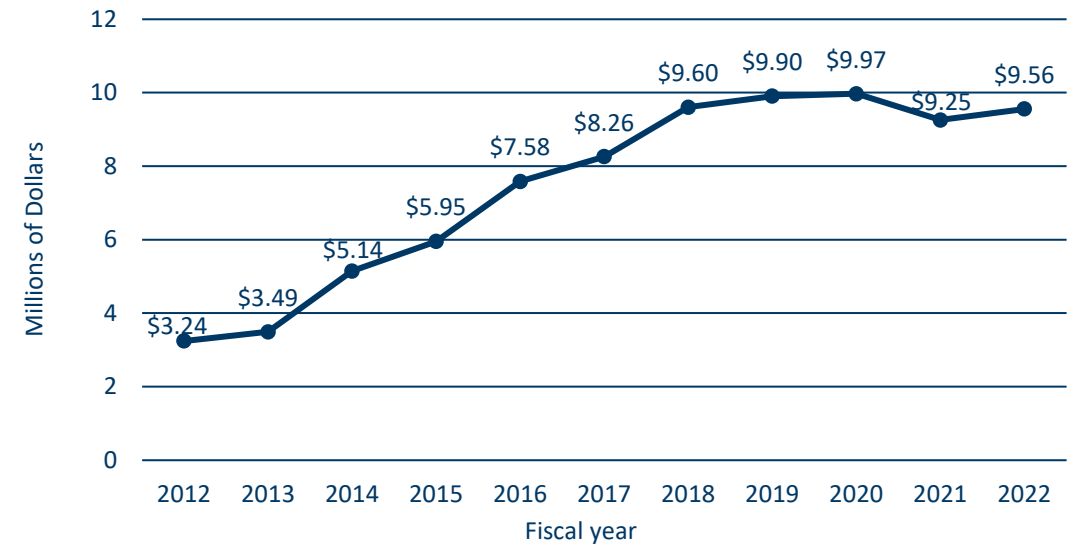


Figure 9: Contractor Recovery Fund balance, in millions



Data notes and resources



- The state fiscal year begins on July 1 and ends on June 30 of the indicated year.
- 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.
- The report uses data from DLI’s Construction Codes and Licensing Division and from DLI’s Financial Services unit.
- The reporting methodology was updated for the FY 2022 report 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 Statistics 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.