



Washington State Department of
Labor & Industries

Homeowner Recovery Program Report (RCW 18.27.430)

2024 Annual Report to the Legislature

November 2024

Table of Contents

Executive Summary.....3

Introduction.....4

Information Requested by the Legislature.....6

Conclusion.....7

Executive Summary

As required by RCW 18.27.430, the Department of Labor & Industries presents this fiscal year (FY) 2024 report on the Homeowner Recovery Program. This report is in response to requirements in Second Substitute House Bill 1534 (2SHB) (Chapter 213, 2023 Laws), passed by the Washington state Legislature in 2023. The legislation helps strengthen protections for consumers in the construction industry, and directs L&I to create and administer a Homeowner Recovery Program by July 1, 2024, for eligible homeowners to receive recovery payments from unsatisfied final judgements brought against construction contractors.

L&I is directed to report to the legislature annually on the program based on the previous fiscal year.

Information Requested by the Legislature

Under 2SHB 1534 (Chapter 213, 2023 Laws), L&I must report on the Homeowner Recovery Program each year through 2034, including the following information for the previous fiscal year:

- applications made under the program, including claim amounts data;
- payments made under the program;
- status of any waitlist for eligible applications unpaid due to an insufficient account balance;
- status and solvency of the Homeowner Recovery Account; and
- recommendations for any changes to the program, if necessary.

The Homeowner Recovery Program represents the first time in Washington state history in which a state agency will reimburse harmed consumers. This is a tremendous effort in providing an extra layer of protection to those who engage with contractors. On July 1, 2024, L&I established the program and account. L&I continues its implementation efforts to ensure that eligible homeowners are able to apply for recovery payments on July 1, 2026.

Introduction

The Contractor Registration Act (Chapter 18.27 RCW) of 2015 requires all general and specialty construction contractors to register with L&I. The law also requires construction contractors to be bonded and insured to protect the public. Once registered, contractors can bid, advertise, and perform construction work. This can include constructing, remodeling, repairing and demolishing buildings, roads and other real property. There are an estimated 67,500 registered contractors in the state of Washington.

In 2023, the legislature passed 2SHB 1534 (Chapter 213, 2023 Laws) to strengthen protections for consumers in the construction industry. The legislation directed L&I to establish and administer a new Homeowner Recovery Program by July 1, 2024. The program provides a safeguard and a path to financial recovery for harmed consumers, allowing eligible homeowners to receive recovery payments of up to \$25,000 to offset the monetary impact of unsatisfied final judgments brought against registered contractors.

An "unsatisfied final judgment" is money owed to a claimant (property owner, subcontractor, supplier, etc.) resulting from a suit on a contractor's bond or money owed to L&I for unpaid workers' compensation premiums, unpaid infraction penalties, tax warrants, etc., for which the applicant has failed to enter into a payment agreement to satisfy the debt of a final judgment.

L&I was also directed to establish a Homeowner Recovery Account in the custody of the Washington State Treasurer. Beginning July 1, 2024, all fines and penalties collected under the Contractor Registration Act (Chapter 18.27 RCW) must be transferred from the general fund to the new account.

Beginning July 1, 2026, people who meet certain conditions will be eligible to recover from the Homeowner Recovery Program.

In addition to the new program, 2SHB 1534 introduced several additional statutory changes related to contractor fraud, financial irresponsibility, and consumer protections in Washington's construction industry. These include:

- Applicants for a contractor registration may provide an individual Taxpayer Identification Number, in lieu of an employer Social Security number.
- Increased the required bond amounts to \$30,000 for general contractors and \$15,000 for specialty contractors for initial registrations and renewal of contractor registrations.
- Denial of registration applications when the applicant is a successor to a business entity with an unsatisfied final judgment against it relating to work governed by the Contractor Registration Act (Chapter 18.27 RCW), or a business entity that owes L&I money for penalties assessed or fees as a result of a final judgment.

- Denial of applications for registration when the applicant is under 18 years old at the time of the application.
- Requiring 3.5% of the revenues from the Construction Registration Inspection Account to be transferred to the State General Fund on an ongoing, quarterly basis, beginning June 30, 2023.

L&I is directed to report to the legislature annually on the Homeowner Recovery Program based on the previous fiscal year.

Information Requested by the Legislature

The legislature has requested L&I to report on the Homeowner Recovery Program each year through 2034, including the following information from the previous fiscal year:

- applications made under the program, including claim amounts data;
- payments made under the program;
- status of any waitlist for eligible applications unpaid due to an insufficient account balance;
- status and solvency of the Homeowner Recovery Account; and
- recommendations for any changes to the program, if necessary.

By Dec. 1, 2035, and each year after, L&I must report to the legislature if there is a significant waitlist of eligible applicants or if there are insufficient funds in the Homeowner Recovery Account to sustain the Homeowner Recovery Program.

REPORTING REQUIREMENTS

In FY 2024, L&I began efforts to implement the requirements of 2SHB 1534. On July 1, 2024, the new Homeowner Recovery Program and Account was created. All revenues from fines and penalties collected under the Contractor Registration Act (Chapter 18.27 RCW) are actively transferring to the new account. To date, the department has deposited \$408,500 in the account. L&I continues its implementation efforts to ensure that eligible homeowners are able to apply for recovery payments on July 1, 2026.

After July 1, 2026, when homeowners may begin to apply for recovery payments, the department will provide information including:

- Number of applications and claim amounts;
- number of payments and payment amounts;
- number of applications unpaid; and
- account balance.

Recommendations

The department has successfully implemented all components of this new law so far. Once applicants begin to be eligible for reimbursement and the department starts collection activities on final judgments, recommendations will be actively developed. At this time, L&I has no recommendations for changes to the program.

Conclusion

The Homeowner Recovery Program represents a dramatic step forward in helping to make whole homeowners who have been harmed. This is a tremendous benefit for those who engage with contractors. On July 1, 2024, L&I established the program and account. L&I continues its implementation efforts to ensure that eligible homeowners are able to apply for recovery payments on July 1, 2026.