



Washington State Department of
Labor & Industries

Contractor Registration Overview

12/2/2024

How to Register as a Contractor

- Register your business with the Department of Revenue
- Obtain a surety bond or an assignment of savings.
- Obtain general liability insurance policy.
- Complete your Application for Contractor Registration.
- Pay the required application fee of \$132.60.

Type of Contractors

- General Contractor, 50,839
- Specialty Contractor, 16,728

- 67,567 Registered Contractors

Monitoring Compliance

- 26 Compliance Inspectors
- Avg 1,050 jobsite visits per month
- Close to 270 referrals a month

Figure 2: Contractor Compliance Program results

Compliance Action	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Underground Economy Violations Issued	2,420	2,092	1,832	1,998	2,497	2,256
Contractors Referred to Collections Program	1,919	1,504	1,395	1,248	1,279	1,279
Contractors Referred to Audit Program	1,775	1,243	1,080	1,021	1,282	1,194

Source: L&I Contractor Registration Program

Underground Construction Economy Task Force

12/2/24 – Fraud Section and (some) 2008 UETF Recommendations

Scott Nielsen – Labor and Industries

Areas to cover in this section of the presentation

Fraud section:

- How do we determine “independent contractors”?
- How do we identify sole proprietor general contractors who use subcontractors who are actually employees?
- How do we investigate?
- Trades with the highest violations?

Results from last Underground Economy Task Force section:

- What recommendations were acted upon

How Does An Auditor Check for Reported Workers in Construction (independent contractor test)

- White Case
 - Provide Substantial Equipment (cranes, backhoes, dump trucks – beyond ordinary hand tools)
 - Provide the Labor of Others
- For an individual providing their own labor, in construction we use the Independent contractor or “worker” test to see if they are covered or exempt. In 2008, the test was clarified and strengthened under RCW 51.08.181.
 - Someone must meet ALL 7 parts of the test to be considered exempt from Industrial Insurance coverage
 - This new law requires that the individual have a contractors license as 1 of the 7 tests
- Auditors check all expenditures for possible covered work and determine if the work is performed by covered workers or exempt independent contractors

Where do Auditors get assignments

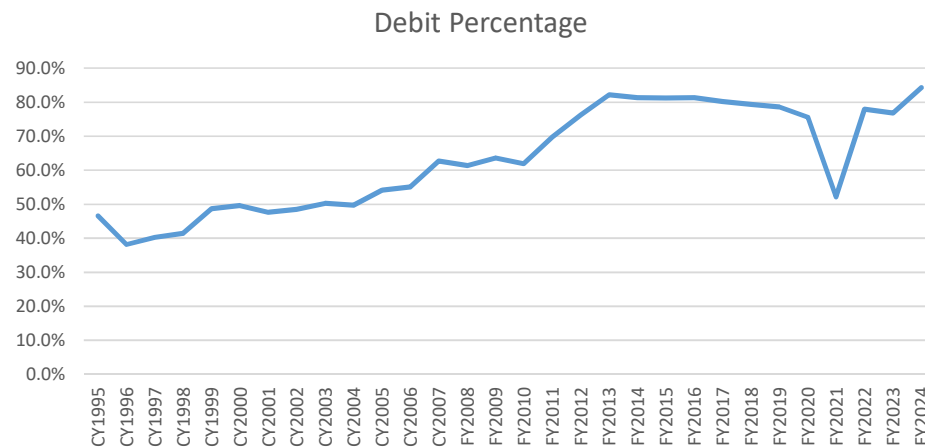
- Audit Referrals come in from a variety of sources
 - Internal Referrals (most common)
 - Claims Managers, Safety Inspectors, Construction Compliance Inspectors, etc.
 - External Referrals
 - General Public (Ex-Spouses, Employees, Competitors, Labor Organizations, etc.)
 - Other Agencies (DOR, ESD, etc.)
 - Data runs
 - Random Audit Program
 - Other cross-matches
- Referrals are screened by the Detection & Tracking Unit and then assigned to Audit to be worked

What Does A Construction Compliance Inspector Check For On Site Visits

- Compliance with Contractor / Electrical / Plumbing registration and supervision requirements and writing Infractions / Citations
- Look for firms that have outstanding debt and make referrals to Revenue Agents to help collect that debt
- Look for Industrial Insurance Premium misreporting and making referrals to Audit
 - Unregistered Employers
 - Unreported Workers (including covered sub-contractors)
 - Underreported hours
 - Risk Class misreporting (misclassification)

Detection & Tracking Unit (DTU)

- In 2004, L&I created a Detection & Tracking Unit. Part of the purpose of this Unit is to screen Audit Referrals for quality
- “Debit Percentage” is a measure of the percentage of time an Audit results in an Assessment (vs a Credit or No-Change Audit)



Fraud – Trades with Highest Violations - CAVEATS

- Data from FY2016 only
 - Not a report we generally run
 - This is a very limited sample and could vary considerably between years
- Referrals are generally not made on an Industry/NAICS basis
 - It is rare that we do Industry focused audits without a specific violation
 - There have been some in the past (Framing / Drywall) but we generally don't do audits without a specific indication of misreporting
- What is “Highest”
 - It might be the number of assignments (one of the better indicators)
 - It could be the rate of non-compliance (Debit Percentage – although pretty high across the board as we have indications of misreporting in order to make the assignments)
 - It might be the average (mean / median) dollars assessed – can vary greatly

Fraud – Trades with Highest Violations - FY2016

Naics Code	Naics Code Description	Total Assgn	Mean AVG DR\$	Median Average DR\$	DR%
236118	RESIDENTIAL REMODELERS	223	\$ 8,699.61	\$ 3,559.67	88.3%
561730	LANDSCAPING SERVICES	148	\$ 7,382.02	\$ 2,680.45	85.1%
236115	NEW SINGLE-FAMILY HOUSING CONSTRUCTION (EXCEPT OPERATIVE	130	\$ 13,942.23	\$ 3,999.32	87.7%
238320	PAINT AND WALL COVERING CONTRACTORS	120	\$ 6,197.98	\$ 2,718.24	86.7%
238130	FRAMING CONTRACTORS	67	\$ 13,849.19	\$ 11,187.86	80.6%
238160	ROOFING CONTRACTORS	53	\$ 16,583.85	\$ 5,930.11	84.9%
238110	POURED CONCRETE FOUNDATION AND STRUCTURE CONTRACTORS	44	\$ 8,029.83	\$ 4,068.23	95.5%
238220	PLUMBING, HEATING, AND AIR-CONDITIONING CONTRACTORS	42	\$ 3,811.91	\$ 2,008.72	81.0%
238330	FLOORING CONTRACTORS	42	\$ 9,047.96	\$ 2,828.64	88.1%
238990	ALL OTHER SPECIALTY TRADE CONTRACTORS	40	\$ 9,317.32	\$ 3,894.95	90.0%
238310	DRYWALL AND INSULATION CONTRACTORS	37	\$ 17,569.89	\$ 3,406.87	73.0%
236220	COMMERCIAL AND INSTITUTIONAL BUILDING CONSTRUCTION	29	\$ 44,134.10	\$ 2,889.76	89.7%
238210	ELECTRICAL CONTRACTORS	28	\$ 6,319.43	\$ 1,388.43	85.7%
238910	SITE PREPARATION CONTRACTORS	26	\$ 18,776.07	\$ 2,317.10	76.9%
238350	FINISH CARPENTRY CONTRACTORS	22	\$ 9,110.50	\$ 2,785.48	90.9%
238170	SIDING CONTRACTORS	21	\$ 23,384.77	\$ 6,891.75	95.2%
238340	TILE AND TERRAZZO CONTRACTORS	21	\$ 11,759.56	\$ 5,567.98	85.7%
238140	MASONRY CONTRACTORS	20	\$ 13,043.23	\$ 10,142.72	95.0%
236117	NEW HOUSING OPERATIVE BUILDERS	11	\$ 4,255.61	\$ 3,495.04	100.0%
237110	WATER AND SEWER LINE AND RELATED STRUCTURES CONSTRUCTION	7	\$ 46,912.39	\$ 8,394.36	71.4%
237130	POWER AND COMMUNICATION LINE AND RELATED STRUCTURES CONS	5	\$ 972.27	\$ 995.75	80.0%
237990	OTHER HEAVY AND CIVIL ENGINEERING CONSTRUCTION	5	\$ 7,883.02	\$ 3,521.17	60.0%
238150	GLASS AND GLAZING CONTRACTORS	5	\$ 2,954.02	\$ 2,826.48	100.0%
238290	OTHER BUILDING EQUIPMENT CONTRACTORS	4	\$ 14,981.76	\$ 7,878.28	100.0%
238390	OTHER BUILDING FINISHING CONTRACTORS	4	\$ 12,939.34	\$ 13,879.62	100.0%
238190	OTHER FOUNDATION, STRUCTURE, AND BUILDING EXTERIOR CONTR	3	\$ 851.38	\$ 418.96	100.0%
236116	NEW MULTIFAMILY HOUSING CONSTRUCTION (EXCEPT OPERATIVE B	2	\$ 44,723.37	\$ 44,723.37	100.0%
237310	HIGHWAY, STREET, AND BRIDGE CONSTRUCTION	2	\$ 2,289.58	\$ 2,289.59	50.0%
238120	STRUCTURAL STEEL AND PRECAST CONCRETE CONTRACTORS	2	\$ 1,800.50	\$ 1,800.50	50.0%
541320	LANDSCAPE ARCHITECTURAL SERVICES	2	\$ 7,369.85	\$ 7,369.85	100.0%

Recommendations from the last Underground Economy Taskforce

**JOINT LEGISLATIVE TASK FORCE ON THE
UNDERGROUND ECONOMY IN THE
CONSTRUCTION INDUSTRY**

FINDINGS AND RECOMMENDATIONS
JANUARY ___ 2008

Co-Chairs

Senator Jeanne Kohl-Welles* and Representative Steve Conway*

Task Force Members

Asterisk (*) denotes Executive Committee Members

Senator Janéa Holmquist*
Representative Cary Condotta*

Bob Abbott, Labor Member
John Bratton, Business Member
Dave Johnson, Labor Member*
John Littel, Labor Member
Randy Loomans, Labor Member
Craig Munson, Business Member
Rick Slunaker, Business Member*
Hilary Stern, Business Member

Agency Liaisons

Carl Hammersburg and Doric Olson, Department of Labor and Industries*
Lisa Marsh, Employment Security Department*
Drew Shirk, Department of Revenue*

UE 2008 Recommendations – Contractor Penalties

- In general it was recommended that penalties be increased
- It was recommended that there be penalties for falsifying a contractor registration form.
 - Penalties for falsification were added to 18.27.100(7)
- Penalties for hiring a registered contractor hiring an unregistered contractor were added to 18.27.200(1)(e)
- Based on very recent law changes, penalty amounts are also being increased

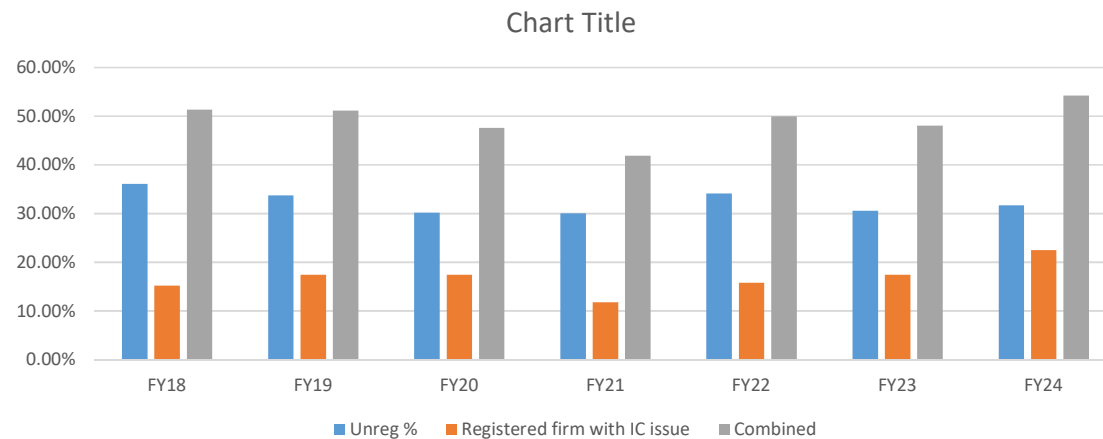
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
subbing 18.27.200(1)e	43	39	61	93	108	101	109	96	94	104	88	50	67	66	66	63
falsifying 18.27.100(7)			1	2	3	1	8	4	7	4	6	4	2	3	11	10

UE 2008 Recommendations – Independent Contractor

- Recommended that UBI be required
- Definitions for independent contractor be blended into one consistent definition
- The Industrial Insurance definition of “Worker” (Independent Contractor test) for was strengthened in 2008 for the construction industry with the addition of RCW 51.08.181
 - This required that for a worker to be exempt from coverage, assuming they did not provide workers or substantial equipment, that they must have an active contractor license (also requires a UBI)

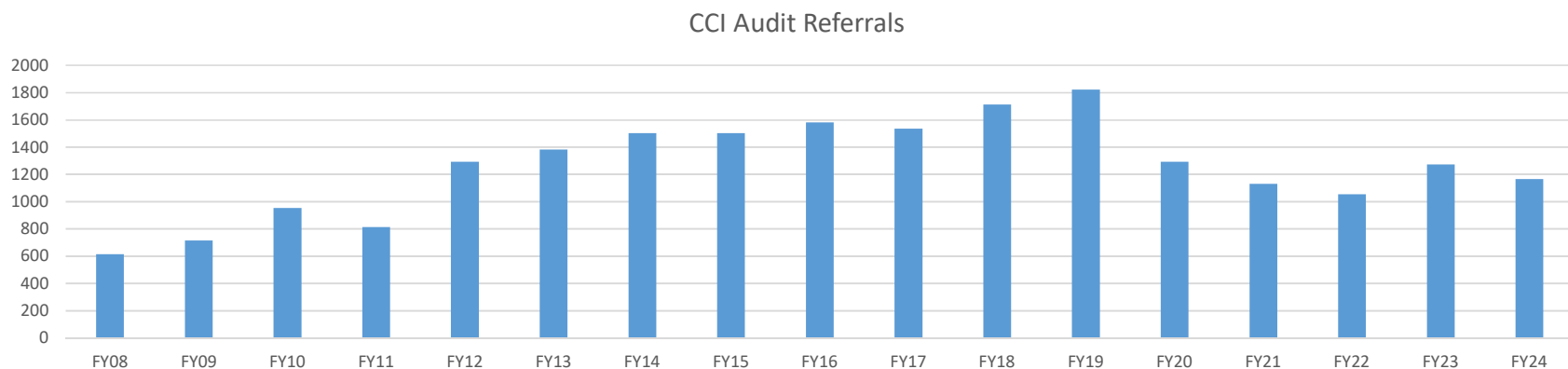
IC / unreported worker misreporting percentage

- This measures the percentage of firms that don't report covered workers as a percentage of total audits:
 - Unregistered firms with no industrial insurance account (who have covered workers)
 - Firms with an active industrial insurance account who don't report covered workers



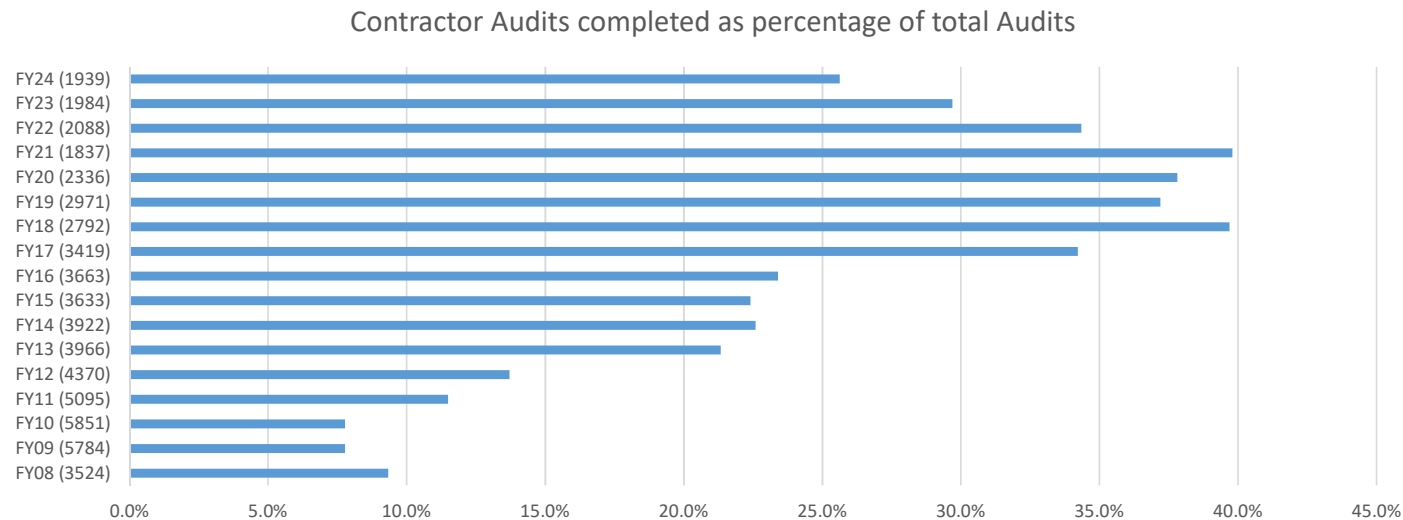
UE 2008 Recommendations – Expand FAIR Team

- It was recommended that the Construction Compliance Fraud / Audit / Infraction / Revenue (FAIR) Team be expanded from 3 to 6 members
 - A working supervisor was hired in late 2008 and the additional members were added in January 2009
- In July 2011 – The FAIR Team model was adopted statewide by all L&I Construction Compliance Inspectors essentially expanding the group even more.



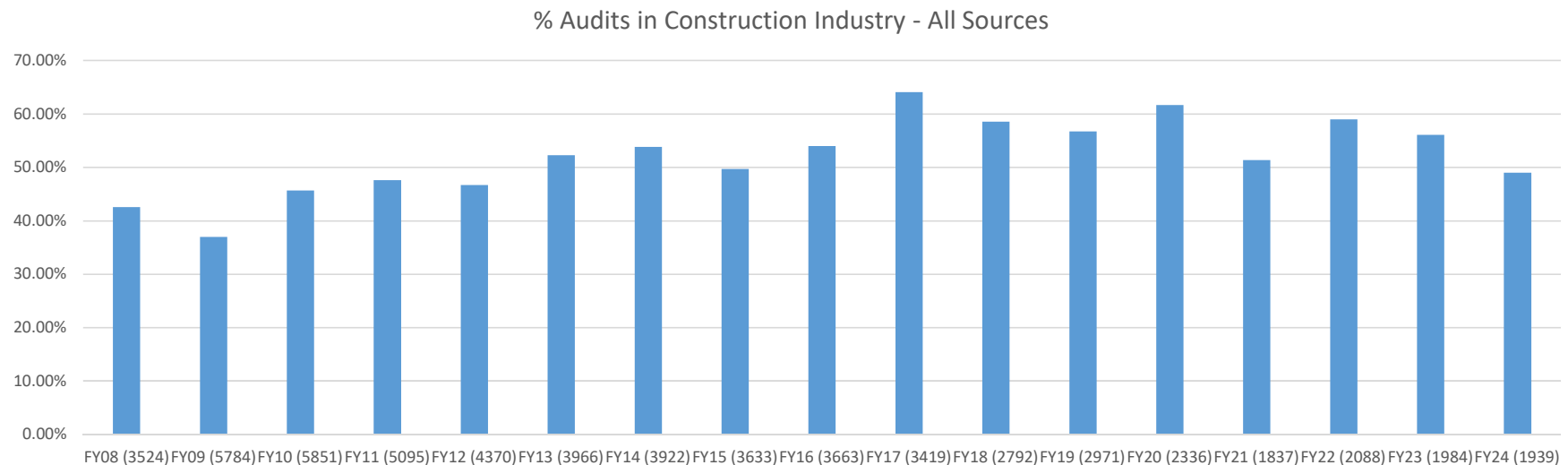
UE 2008 Recommendations – Increase Number of Auditors

- It was recommended that additional Auditors be added
 - 4 Audit positions were added
 - Construction Compliance referrals were also increased in prioritization



Construction Percentage

- The percentage of Audits each year in the Construction Industry (from all referral sources)



Education and Outreach

- Verify System



- DTU

- Expanded social marketing
- Contractor Training Days, etc.

IRS Data Sharing Agreements

- In 2008, it was recommended that L&I continue to look at data sharing agreements with the IRS
- Data sharing with IRS presented significant issues and attempts were discontinued:
 - Significant cost of securing and accessing data
 - Data from IRS was 2 years old:
 - Placed it outside our 1 year standard audit period for most firms with an active industrial insurance account
 - Made it minimally useful for other firms given our absolute 3 year Statute of Limitations restriction

Questions

