

## CHOOSING A CONTRACTOR

### General Information

The State of Minnesota has established standards and safeguards to help its homeowners avoid hiring disreputable or unqualified contractors, and to offer protection against sloppy or subpar construction. Hiring a contractor licensed by the State is strongly recommended. This ensures that the company has met certain requirements, such as having a principal of the company pass an appropriate examination, and having liability and property damage insurance. A licensed contractor must also take continuing education classes each year.

The State also has a Contractor Recovery Fund that can be accessed if your contractor does not fulfill the terms of his contract – but this is only available if the contractor is licensed. (See the *Contractor Recovery Fund* handout for more information about this program.)

A contractor's license can be verified at <https://secure.doli.state.mn.us/licensing/licensing.aspx> or by calling Department of Labor and Industry (DLI) at (651) 284-5034. DLI can also tell you whether there are any enforcements actions or sanctions on record. Your local chapter of the Builders Association of Minnesota can give you names of licensed builders in your area.



### Selecting a Contractor

- ✓ Inquire about the names of builders who specialize in or have experience with the particular type of construction relating to your home or remodeling project.
- ✓ Ask friends or neighbors who have undertaken similar projects.
- ✓ Ask building supply companies or others in the industry about reputable contractors.
- ✓ Contact the Better Business Bureau to see if it has received complaints about a contractor.
- ✓ Ask the contractor for references and contact some of them to see if they were satisfied with the quality of the work, or encountered problems.
- ✓ Ask the contractor how long he or she has been in business and where.
- ✓ Ask for a Minnesota business address other than a post office box.
- ✓ Obtain a local phone number where the contractor can be reached during business hours.
- ✓ State law prohibits contractors from paying a homeowner's insurance deductible or offering any compensation as an incentive to hire them to perform repairs.

### Bids

- ✓ Obtain at least three detailed bids from a list of satisfactory contractors. And remember - the lowest bid is not always the best.
- ✓ Bids should be in writing, detailing the scope of work, type of materials, and total cost.
- ✓ An approximate completion date should be included.

### Contract

A contract should be written, specific, and detailed. It should include the kinds of materials to be used, specifying brand names, colors, grades, styles, and model numbers. Names of any subcontractors and suppliers should also be included in the contract, to protect the homeowner against any action by a contractor or supplier. The following items should be included in your contract:

- ✓ Building permits: The contractor should obtain the necessary permits, so that the contractor is responsible for meeting all building codes; if the homeowner obtains the permits, he or she is responsible for ensuring code compliance for all work performed.
- ✓ Starting and completion dates: An approximate timeline for the project to begin and finish should be presented prior to the commencement of any work. A project schedule should be submitted by the contractor periodically throughout the project.
- ✓ Change order clause: An agreement stating that the contract or any work cannot be modified without the written consent of both parties. Any changes to the scope of work or total contract price should be reduced to a written "change order" and signed and dated by the homeowner and the contractor.

- ✓ Schedule of payment: A down payment is customary but should not be more than a reasonable percentage of the total job. A payment schedule might be set up based on a percentage of work completed to date.
- ✓ Holdback/retainage clause: This allows the homeowner to withhold a percentage of the total contract amount, usually 5%, allowing time for the homeowner to inspect the project and issue a satisfactory acceptance to the contractor. We strongly recommend that all necessary inspections be completed, permits closed by the Building Inspection Department, and a Certificate of Occupancy issued (if applicable) before you make final payment.
- ✓ Lien Waivers: A homeowner can withhold a particular sum of the contract total until lien waivers have been provided by the contractor, giving up his or her right to file a lien against the property.

## Warranties

Minnesota law requires builders and remodelers to warrant that a new home or home improvement project is free from different types of defects for varying lengths of time:

- ✓ **One Year** - Work must meet “building standards” that are defined as the materials and installation standards of the State Building Code in effect at the time the work is performed.
- ✓ **Two Years** - Plumbing, electrical, heating and cooling systems must be free from defects caused by faulty installation due to noncompliance with the materials and installation standards of the State Building Code in effect at the time the work is performed.
- ✓ **Ten Years** - Home must be free from “major construction defects,” defined as damage to the load-bearing portion of the home, vitally affecting or imminently likely to vitally affect the use of the home for residential purposes. It does not include damage caused by flood, earthquake, or other natural disaster.

No government agency has authority to interpret or enforce this warranty law; however, if the contractor fails to meet the warranty, the homeowner has the right to pursue private, civil action to seek damages necessary to remedy the defect or to make up the difference between the value of the home without the defect and the value of the home with the defect. In the case of a home improvement project, damages are limited to the amount necessary to remedy the defect or breach.

The warranty is limited to the previously listed items. It does not extend, for example, to loss or damage caused by defects in design, installation, or materials supplied by the owner, or to damage resulting from negligence or improper maintenance by anyone other than the contractor. Nor does the warranty cover damage from dampness and condensation due to insufficient ventilation after occupancy. A complete list of exclusions is found in Minnesota Statutes Chapter 327A.

## Possible Red Flags

An unreliable contractor might:

- ✓ arrive in an unmarked van or truck.
- ✓ appear to be willing to do the job at an unusually low price.
- ✓ refuse to provide references.
- ✓ require full or substantial payment before work begins.
- ✓ show up unsolicited.
- ✓ use high-pressure sales tactics.
- ✓ refuse to provide a written estimate or contract.
- ✓ ask the homeowner to obtain permits for the project.
- ✓ refuse to provide a Minnesota contractor’s license number.



## Complaints

When filing a complaint:

- ✓ Explain the details of the dispute that led up to the complaint.
- ✓ Include as much information as possible: dates, what was said, policy and claim numbers, etc.
- ✓ Provide copies of the contract and other relevant documents.
- ✓ Provide contact information including phone number, mailing address and an e-mail address if available.

Submit the complaint online at: [dli.contractor@state.mn.us](mailto:dli.contractor@state.mn.us) or mail to:

Minnesota Department of Labor and Industry  
 Residential Building Contractors  
 443 Lafayette Road N.  
 St. Paul, MN 55155

Although DLI does not have authority to compel a contractor to provide the specific remedy sought by a homeowner, it can initiate disciplinary action against the contractor’s license if it is determined that he or she has engaged in a violation of the contractor licensing laws and rules.