

STATE CONSTRUCTION REGISTRY

Category: Government to Business

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EXECUTIVE SUMMARY

The State Construction Registry (SCR) is an online “bulletin board” of construction project information in Utah.

The Utah Legislature created the State Construction Registry for two reasons:

- To reduce the number of Mechanics Liens in the state by providing transparency to property owners, general contractors, banks and title companies on who might lien the property.
- To reduce the drain on the Residential Lien Recovery Fund which is a state run insurance fund to protect the owner and the subcontractors.

The following information is available online from the State Construction Registry:

- Provides general contractors and property owners with access to complete project participant information
- Enables general contractors and property owners to protect themselves from unnecessary risk and ensure that all contracting parties receive payment
- Provides subcontractors and suppliers a standard process for preserving lien rights and thus ensure timely payment for services rendered

The State Construction Registry has realized three key positive outcomes:

- Standardized Process & Increased Transparency
- Centralizes Construction Information
- Cost Savings

The overall goal is to increase visibility into the financial risks associated with specific construction projects; increasing transparency capacity to protect the appropriate parties, while simultaneously preserving the State’s Lien Recovery Fund. The State Construction Registry serves as an important tool to manage construction projects and liens within the State. In its most recent update new features were added to help make the tool more useful for today’s builders and property owners who use the online tool to help manage projects.

Exemplar Visionary

The State Construction Registry (SCR) is an online “bulletin board” of construction project information in Utah. Created by legislation, the State Construction Registry exists to provide a database of all construction projects in the state, protects property owners from unnecessary liens, helps construction project participants (especially subcontractors and suppliers) to be paid in a timely manner, and makes general contractors, property owners, banks, title companies, and other interested parties aware of all the sub-contractors and suppliers on any given commercial or residential construction project in Utah.

Transformational

The Utah Legislature created the State Construction Registry for two reasons: first, to provide more visibility to property (change all instances of homeowner to property) owners, lenders, and general contractors or any party who has lien rights on a particular construction project. Second, to reduce the drain on the Residential Lien Recovery Fund.

Prior to this change, notices were only mailed to owners, usually as a certified letter. In the old model, general contractors, banks and title companies do not have visibility into who is working on each construction job. All other states still use the certified letter method.

Concept

Problem

The mechanics lien laws across the country create an unfair problem in the construction industry where an owner may have to pay twice for the construction project or the sub contractor may not get paid at all when someone else fails to pay.

Please watch SCR Overview Video to explain this complex risk issue: <http://scr.utah.gov>

This inherent, systematic problem caused the state of Utah to create an official Lien Recovery Fund to help lessen the financial impact of this problem on property owners and sub-contractors. The State was acting as an insurance policy for lien holders by requiring all General Contractors to pay into this fund to help the whole construction industry in Utah. This fund didn't solve the problem, it simply spread out the damage to more people.

Solution

The State Construction Registry website operates like a bulletin board, where anyone working on a job files a "preliminary notice". This notice allows owners, general contractors and banks to make sure payments make it to the end of the contracting chain, thereby preventing liens. The State Construction Registry application helps the construction industry first by reducing the need for a lien recovery fund, and secondly it reduces the cost of filing by eliminating the \$11.00 expense of using registered mail and third property owners and their banks and title companies have the ability to manage payments all the way to sub contractors.

Since the programs inception in 2005, the State Construction Registry has filed 27,934 notices of commencement by owner or general contractor, 221,931 notices of commencement by cities, and 617,555 preliminary notices. Totalling 867,420 filings. Since the implementation of the State Construction Registry, the number of claims has dropped per year. On average, there were 171 claims per year made against the fund from 2001-2005. Once implemented, claims have dropped to an average of 112 per year.

The Utah legislature and the construction industry did not want to modify the protection that lien laws offer. However, the State did want to allow owners to have more transparency regarding who is working on a given construction project. With the passage of House Bill 136 and the subsequent creation of the State Construction Registry, property owners now have the

ability to know which subcontractors and suppliers have provided labor and material on their project and work directly with them to make sure they are paid.

The following information is now available online via the State Construction Registry:

- Provides general contractors and property owners complete project knowledge and access to complete project participant information
- Enables general contractors and property owners to protect themselves from unnecessary risk and ensure that all contracting parties receive payment
- Provides subcontractors and suppliers a standard process for preserving lien rights and thus ensure timely payment for services rendered

The State Construction Registry significantly improves the original system while simultaneously providing more transparency for respective parties.

Project Management

A third party absorbed the initial start up costs for the State Construction Registry application in exchange for assessing transaction fees. To set pricing, reports and statistics on the number of construction projects in Utah were reviewed and additional research was conducted with local companies to determine filing volume estimations. Using these estimates, a transaction fee was established and the decision was made to take on the project at no cost to the state. The Utah State Division of Occupational and Professional Licensing (DOPL) oversees the system, but DOPL's investment in terms of time and resources is manageable.

The State Construction Registry centralizes industry filings and has dramatically improved project communication and participant disclosure. The State Construction Registry system has transformed the construction industry and set a standard for other states to follow—all at no cost to Utah and well below the cost of a simple certified mailing.

Recent updates to the application are:

- Parcel Number Input rules: Updated the parcel number input rules to allow spaces after a comma
- Rename Notice of Retention: To comply with the law, SB256, renamed "Notice of Retention" to "Notice of Preconstruction Service"
- Update the Washington county rules: Improved parcel input rules to allow the ampersand, aka '&'.
- Display multiple parcel numbers: Provided an indicator to show that a record in the search results contains more than 1 parcel #.
- Search not returning results: Improved the advanced search results to remove colons as part of the filter.
- Updated text instructions for VIEW A PROJECT: Here is the updated text, "To improve your search, use multiple variations of the same parcel number such as with dashes,

colons, and with only numbers. Example: Search for all of these at the same time 12-1234-1234, 12:1234:1234, 1212341234."

Costs

Initially cost estimates included the following project aspects:

- System Specification & Design
- User Interface Design
- Development
- Project Management
- Industry Training & Education
- Customer Support
- Ongoing Maintenance and Development
- Hardware & Hosting

The costs associated with training and education required special attention. The State Construction Registry system was completely new to the industry and necessitated significant time and resources to educate the various stakeholder groups (general and sub contractors, suppliers, lenders, property owners, etc). Users not only needed instructions on how to use the system; they also had to be informed *that they had to use the system if they wanted to preserve their lien rights*. Furthermore, the critical time before, during, and after implementation would require significant customer support, and House Bill 136 specified that the third party (and not The Utah State Division of Occupational and Professional Licensing) was responsible for fielding industry questions and concerns.

In addition to initial development, the following personnel was needed ongoing:

- Developer
- User Interface Developer
- Project Manager
- Marketing & Training Associates
- Customer Support – 1 full time employee with overflow backup

It is estimated that the program start-up costs (including dedicated personnel for 6 months prior to the launch and for 3-6 months after the launch) fell between \$275,000 - \$300,000.

Because of the nature of the public/private partnership between the third party and the state of Utah, costs were kept well below market value. By assessing a filing fee to system users, the third party vendor covered the entire cost of the State Construction Registry without charging the state.

Accessibility and Security

Accessibility: While accommodating over 667 browser and operating system combinations in addition to enabling digital assistants, semantic search, and structured markup, Utah uses audit tools to inform 508 compliance for disability accessibility.

Security: Security is a top priority while completing 2,955,101 transactions.
<http://www.utah.gov/security.html>.

Privacy: <http://www.utah.gov/privacypolicy.html>.

Marketing

The system was marketed directly to state partners through in-person training and internal communications. In addition a marketing and public relations campaign targeted builders and contractors with direct mail, media placements in the Utah Bankers Association magazine, and the governor’s blog.

Hundreds of training meetings were provided across the state to the Home Builders Association, the Association of General Contractors, the Utah Bar Association, and other groups.

Significance Consequence

The State Construction Registry has realized three key positive outcomes:

- **Standardized Process & Increased Transparency**

The State Construction Registry creates a standardized process for creating a public notice, which provides transparency to all interested parties and preserves lien rights for the filer. Prior to the House Bill 136 and the creation of the State Construction Registry, the lien process was not visible to property owners until after a lien had been filed. Now, Utah’s new lien regulations require project participants to file a preliminary notice within 20 days of commencement of work, or delivery of materials, to preserve their right to lien the property if they aren’t paid. A preliminary notice alerts property owners (and others) of a party’s involvement in the project and their expectation of payment.

Previously, preliminary notice process was optional and required participating parties to send certified letters to property owners and general contractors in order to preserve lien rights. Sending multiple certified letters for every project is time-consuming and costly. Thus, the State Construction Registry system streamlined the process by providing a simple and quick filing solution in a single web-based form. Most significantly, however, this standardized process is creative and innovative because it marks the first time a state has addressed issues with lien laws in this manner: Utah is the first state to solve the issue of transparency on a construction project with an online project “bulletin board.”

- **Centralizes Construction Information**



The State Construction Registry centralizes construction project information directly on the Internet. The State of Utah implemented the State Construction Registry so that industry participants could take advantage of Internet technology and its ability to improve communication, streamline filings, and facilitate access to large volumes of data. Filings and participant information are no longer confined to filing cabinets spread across the State, and project information is now easily accessible 24 hours a day, 7 days a week. Again, this is the first time a state has created such universal access to construction project information.

- **Cost Savings**

Utah completely outsourced the initiative. Prior to the launch of the application, no state agency oversaw construction notices. Now, the State Construction Registry system allows for the oversight of construction notices with minimal agency involvement. A third party handles the management and administration of the entire program, both the online and offline components. Additionally, the State Construction Registry was developed under a self-funded arrangement without the appropriation of tax dollars. In addition, the number of claims against the State's Lien Recovery Fund have decreased thus saving the State in claim and administrative costs.

The cost avoidance for the construction industry is huge. In the last two years, there were 443,768 preliminary notices filed in the State Construction Registry. A certified letter costs \$10.00 more than filing a preliminary notice. Because the construction industry used the online tool instead of certified mail, they avoided paying \$4,437,680. Additionally, the centralized system allowed the entire industry to have better information about their construction projects.

Impact Change

General contactors, sub-contractors, and suppliers do not have to use the State Construction Registry; however, failure to file notices through State Construction Registry automatically denies project participants the right to lien a property. In other words, if contractors and suppliers want to eventually lien the property to receive payment, they must file notices through State Construction Registry. Each month, the number of suppliers, general and sub-contractors choosing to use the State Construction Registry grows. Moreover, in response to feedback from the construction industry, The Utah State Division of Occupational and Professional Licensing (DOPL), in conjunction with the third party developer, has enhanced the features of the State Construction Registry to make locating a project easier.

Measurement

The Preliminary Notices filed by subcontractors and suppliers has grown from 172 in the first month to almost 18,000 notices filed on average each month in 2015. These numbers indicate that more subcontractors and suppliers are increasing their ability to be paid before the job is completed. Simply stated, as more construction projects get added to State Construction Registry and more sub-contractors/suppliers use the system to make their presence known, the number of potential liens filed against unsuspecting property owners drops which ultimately safe-guards the construction industry.