CONCISE EXPLANATORY STATEMENT (CES)

Contractor Registration Rules (2SHB 1534 Implementation – Phase 3)

Chapter 296-200A WAC, Contractor Certificate of Registration Renewals – Security – Insurance

The date of adoption for this rule: April 21, 2026

The effective date for this rule: July 1, 2026

I. Purpose of rulemaking:

L&I is adopting amendments to the contractor registration rules to implement a new Homeowner Recovery Program. The program provides a safeguard and a path to financial recovery for consumers harmed by registered construction contractors.

In 2023, the legislature passed Second Substitute House Bill 1534 (2SHB 1534) (Chapter 213, Laws of 2023), concerning strengthening protections for consumers in the construction industry. The legislation directed L&I to establish a new Homeowner Recovery Fund and begin depositing all fines and penalties received or collected under chapter 18.27 RCW to the fund by July 1, 2024. Beginning July 1, 2026, eligible homeowners can apply for recovery payments from the program for financial losses stemming from work by registered construction contractors. This rulemaking adopts new sections to administer the newly established program and ensure eligible construction consumers have access to the program's recovery payments.

In addition to the Homeowner Recovery Program, 2SHB 1534 introduced several other statutory amendments that strengthen consumer protection in Washington's construction industry. L&I is adopting rules to implement the legislation in three phases. This rulemaking is the final stage. The phase one rulemaking was adopted under WSR 23-17-145, and phase two was adopted under WSR 24-10-086.

The adopted amendments to this chapter establish the following:

- New definitions to define terms that are applicable to the homeowner recovery program.
- Eligibility requirements for claimants applying to the homeowner recovery program.
- Process for filing a claim and documentation required.
- L&I's process for approving and denying claims and when funds are not available.
- The amount of an unpaid judgement that L&I will compensate a claimant.
- Reasons that L&I may deny a claim.
- Criteria for when an applicant is placed on the waitlist and L&I's notification process.
- Payment and reimbursement requirements for claimants and contractors.

2. Differences between the rules as adopted and the proposed rule:

There are no differences between the text of the proposed rule and the rule as adopted.

3. Comments on proposed rules:

The public comment period for this rulemaking began on January 21, 2026, and ended on February 26, 2026. Written comments were accepted through February 26, 2026.

A hybrid public hearing was held on February 26, 2026, at 10:00 a.m. at L&I headquarters and via Zoom meeting. Nine (9) L&I staff and seventeen (17) other persons attended the public hearing.

Below is a summary of the comments that L&I received and L&I's responses.

General Comments	L&I Responses
Comment #1	**Response #1**
I am writing to provide formal comment on the proposed updates to the Contractor Registration and related liability rules. As a stakeholder in the Washington construction industry, I am deeply concerned by the continued existence—and potential expansion—of uninsurable liability for General Contractors regarding the unpaid workers' compensation premiums of subcontractors. Under the current application of RCW 51.12.070, General Contractors are held as the ultimate guarantors of the State Fund. While L&I provides a "six-part test" for a safe harbor, the practical application of this rule creates a significant "Uninsurable Risk" for the following reasons: 1. Liability for Fraudulent Reporting: Even when a General Contractor exercises maximum due diligence—verifying a subcontractor's registration and industrial insurance status on the L&I website—they remain liable if the subcontractor underreports hours or commits fraud. There is currently no mechanism for a General Contractor to verify the accuracy of a subcontractor's quarterly reporting to the department. 2. The Insurance Gap: This liability is, by definition, uninsurable. Private insurance	Thank you for your comment and for raising concerns regarding liability under RCW 51.12.070 and related contractor registration requirements. While your feedback on the broader workers' compensation and subcontractor premium structure is noted, the scope of this rulemaking is limited to updates to the Contractor Registration and related administrative rules, including implementation of statutory requirements under existing law. Changes to statutory liability standards or the workers' compensation requirements fall outside the authority of this rulemaking process. We appreciate your perspective and have included your comments in the rulemaking record for consideration. This comment did not result in a change to the rule language.

carriers do not offer products that cover a contractor for the statutory tax/premium debts of a third-party entity. By holding GCs liable for these premiums, the Department is forcing businesses to carry a risk that cannot be mitigated through standard risk-management tools. 3. Vague "Direction and Control" Standards: The criteria for what constitutes "supervision" or "control" remains subjective during L&I audits. A General Contractor performing necessary site safety management or scheduling (as required by prime contracts) is often at risk of having their subcontractors reclassified as "employees," triggering retroactive premium assessments that can exceed the entire profit margin of a project. Furthermore, the current regulatory framework incorrectly suggests that the $30,000 Contractor Registration Bond serves as a meaningful protection for the State. In reality, the Department's application of RCW 51.12.070 creates a secondary, unlimited liability for the General Contractor that persists long after the bond is exhausted. Once the bond funds are depleted, the Department utilizes its authority to issue 'Notices and Orders of Assessment' directly against the General Contractor's business assets, bank accounts, and property. This effectively treats the General Contractor as a primary insurer for the State Fund without the benefit of any liability cap, statute of limitations on discovery, or the ability to procure private insurance to mitigate this specific government-imposed risk. This policy does not just 'encourage' due diligence—it places the entire financial solvency of a General Construction firm at the mercy of a subcontractor's potential accounting errors or fraud. Proposed Solution: I urge the Department to refine the rules under WAC 296-200A to provide a conclusive	

safe harbor. If a General Contractor can provide a "Certificate of Coverage" printed from the L&I website at the time of the subcontract's execution and maintain proof of the subcontractor's registration, that should constitute a complete defense against liability for that subcontractor's unpaid premiums. The burden of premium collection for a non-compliant subcontractor should remain between the Department and that specific subcontractor, rather than being shifted onto the General Contractor who acted in good faith.	
Comment #2	**Response #2**
This rule is definitely a good thing. We obtain new clients on occasion that have had faulty contractors that just take their deposit and disappear never to be seen again. What you have to remember is that most registered contractors follow the rules and take good care of customers. Like us we go overboard just to make sure we stay in 5-star reviews. And at times not often yet on occasion we get the impossible to deal with client that is just trying to low ball you at the end of the project for a discount. And no matter how hard you try they can't be pleased. Those types of clients we try to screen out before we even take the work. It's tough though they put up a pretty good front in the start. With this new rule those types of consumers will come out of the woodwork like crazy taking advantage of contractors I guarantee it. In which could be a big issue. Now if there is a good solid review on both parties involved to the extent of finding the truth. Then I think the new rule should work well. It cannot be a one-sided ruling and just	Thank you for your comment. The Homeowner Recovery Program was enacted into law under chapter 18.27 RCW, by the legislature in 2023, as part of 2SHB 1534. The adopted rules establish new processes and procedures for L&I to implement the program and ensure eligible consumers have access to the program's recovery payments beginning July 1, 2026. A homeowner that has an unresolved dispute with a registered contractor would still have to file a claim against the bond through a superior court lawsuit. If the matter still cannot be settled, the court may issue a judgment in the homeowner's favor, depending on the circumstances. Any amount awarded above the bond, or any portion not paid by the contractor, is when the Homeowner Recovery Fund could become an option for the homeowner. This comment did not result in a change to the rule language.

hand overcompensation to faulty consumers. That could be a bad thing. I had a client that was totally over pleased with our performance until it came time to pay the final payment. All of a sudden bam total change. He even tried to claim that he already wrote us a final payment check. When that didn't work he started coming up with bogus things wrong with the project. When that didn't work he actually wrote us a large amount bad check that bounced over and over. For a lot of money. We never did get paid all the money. So where is the program for contractors to get paid in cases like that. I even tried to have him arrested for felony bad check that didn't work. And liens do not work either they can wait years to pay if there not trying to sell there house. They don't care. Rule makers need to think fairly about both sides not just one side.	
Comment #3	**Response #3**
My feeling is that this law would harm the contractors and homeowners. L and I would turn into an agency whose goal is to fine contractors instead of being the agency it was designed to be by educating contractors for workplace safety. The contractors that want to follow the rule would have to raise their rates to comply and the homeowners would not be able to afford them so they would use the cheap guy that isn't educated and thereby "be taken advantage of" and eligible for reimbursement under this rule. The ones that want to comply would either have to cut corners and hope they don't get caught or go out of business. This would lead to L and I having to fine more contractors to fund this account and the snowball rolls over.	Thank you for your comment. The Homeowner Recovery Program was enacted into law under chapter 18.27 RCW, by the legislature in 2023, as part of 2SHB 1534. Actions against a contractor's bond are governed by RCW 18.27.040, and these provisions were not modified with the establishment of the Homeowner Recovery Fund. Before seeking recovery from the fund, all required steps related to bond claims must be completed. The homeowner recovery fund is funded from dollars collected for infractions issued again unregistered contractors and underground economy activity. The intent

Please go back to your roots. Promote education that will keep us safe but don't turn into a gestapo agency.	is to ensure there is no financial impact on compliant registered contractors. L&I agrees with the importance of outreach and education. This is a key focus of the Contractor Registration Program. Our current efforts to educate homeowners include: • Distributing brochures and marketing materials tailored to homeowner education. • Participating in home shows and community events to share information. • Maintaining a dedicated website, www.protectmyhome.net, with tips and best practices. • Launching a new homeowner education webinar on July 11, designed to guide and protect individuals starting construction or home improvement projects. You can find details on the L&I Workshops and Training Center. • Running an annual media campaign across multiple local stations. While we recognize that it's difficult to reach everyone, we remain committed to expanding and improving our outreach efforts to better inform and protect consumers. This comment did not result in a change to the rule language.
Comment #4	**Response #4**
Thank god I only have a couple of years left that I have to support L&I with my dollars as a contractor, you guys are off the rails. L&I used to be a group that supported contractors but now is a government over-reach program that only wants to further the evergreen mentality in Olympia.	Thank you for your comment. The Homeowner Recovery Program was enacted into law under chapter 18.27 RCW, by the legislature in 2023, as part of 2SHB 1534. Actions against a contractor's bond are governed by RCW 18.27.040, and these provisions were not modified with the establishment of the Homeowner Recovery Fund. Before seeking recovery

	from the fund, all required steps related to bond claims must be completed. The homeowner recovery fund is funded from dollars collected for infractions issued again unregistered contractors and underground economy activity. The intent is to ensure there is no financial impact on registered contractors. This comment did not result in a change to the rule language.
Comment #5	**Response #5**
Until the state meaningfully goes after unlicensed contractors all of this means very little. Oregon has a functioning contractors board, just copy them.	Thank you for your comment. We agree that addressing unregistered contracting activity is an important part of protecting both consumers and the integrity of the construction industry. We appreciate your perspective and your suggestion to review approaches used in other states, including Oregon, as we continue evaluating opportunities to strengthen our agency. This comment did not result in a change to the rule language.
Comment #6	**Response #6**
I was the general who had two liens put on property by thieves who didn't deliver or took money and didn't finish . Your organization sucks and if you make it difficult for me as a radon mitigation company I will quit your state and never offer services again	Thank you for sharing your experience. I'm sorry to hear about the challenges you faced—it sounds incredibly frustrating. The goal of the Homeowner Recovery Program is to help harmed homeowners, while also ensuring that compliant contractors are not unfairly burdened. We are not looking to create barriers for legitimate businesses, but to promote fairness and accountability across the industry. We appreciate your feedback and your work as a contractor. This comment did not result in a change to the rule language.

Comment #7	Response #7
Thank you for the opportunity to provide comments on Labor and Industries ("L&I") draft rule changes to the contractor registration rules to implement a new Homeowner Recovery Program following the passage of House Bill 1534 in 2023. On behalf of the Building Industry Association of Washington ("BIAW") representing over 8,000 business in the home building industry, we write to comment on the proposed administrative rule changes that permits eligible homeowners to apply for recover payments from the program for financial losses stemming from work by registered construction contractors. BIAW builder members are all required to be registered contractors per our Bylaws and Policies, and we strongly encourage our members to abide by all relevant rules and regulations. BIAW's number one concern, which we believe is currently addressed in the proposed language, but we wish to reiterate here, is that the bad acts by *non-registered* contractors should not be imputed to registered contractors like our members. Only homeowner claimants with judgments against lawfully registered contractors should be eligible to recover under this program. BIAW is a Washington state-based trade association representing over 8,000-member home builders, remodelers, suppliers, and other professionals supporting the home building industry. The Association is made up of fourteen affiliated local associations. BIAW is one of the largest home-building associations in America, championing the rights of its members and fighting for affordable home ownership at all levels of government. BIAW pursues these goals through several means including legal challenges, legislative and policy work, and through our research center, the Washington Center for Housing Studies ("WCHS"). Additionally, BIAW supports its members by providing award-winning education, employee healthcare plans,	Thank you for your comment. We appreciate BIAW's engagement throughout both the legislative process and the subsequent rule development. As you noted, BIAW participated as part of the stakeholder workgroup, and your input has been valuable in shaping both the policy and implementation framework. We would like to clarify and reaffirm a key point raised in your comments. The Homeowner Recovery Program is expressly limited to homeowners who have engaged with registered contractors. Eligibility for recovery requires that the underlying work be performed by a lawfully registered contractor, consistent with the intent of the legislation. Additionally, as discussed during the workgroup process, the program is funded through penalties collected from violations related to unregistered and non-compliant contractor activity. Ensuring that registered contractors are not financially responsible for funding the program—and that the burden instead falls on those operating outside of compliance—was the intent of the legislation and is to ensure there is no financial impact on compliant registered contractors. We agree that it is important to maintain a clear distinction between registered and unregistered contractor activity, and to ensure that the actions of non-registered contractors are not attributed to those who are properly registered and operating in compliance with applicable laws and rules. We appreciate BIAW's continued partnership and shared commitment to both protecting homeowners and

and the state's largest, longest-operating Retro (Retrospective Rating) safety incentive program, ROII. BIAW is committed to ensuring the best experience for contractors registered in Washington. BIAW is also committed to ensuring that homeowners in Washington work with competent, qualified, and registered contractors. It is damaging to our industry when homeowners are taken advantage of by non-registered contractors who provide inadequate quality work or in worst cases no work. With that said, the homeowner recovery program, due to its reliance on funds paid by penalties against *registered* contractors, should work to ensure that only homeowners harmed by *registered* contractors recover under the program. Victims of non-registered contractors have other judicial mechanisms to recover and should not be eligible to participate in the homeowner recovery program. BIAW appreciates the demanding work that comes with changes that provide mechanisms for protecting homeowners from failures by registered contractors. BIAW looks forward to continuing its relationship with L&I and ensuring compliance with relevant RCW and WACs on behalf of our builder members. Please let us know if there are any additional questions or concerns.	supporting a fair and compliant construction industry. Please feel free to reach out if you have any further questions or would like to discuss these provisions in more detail. This comment did not result in a change to the rule language.