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# STATE CONSTRUCTION REGISTRY

Cross Boundary Collaboration and Partnerships

State of Utah

NASCIO AWARDS

2009

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## STATE CONSTRUCTION REGISTRY

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### B. EXECUTIVE SUMMARY

During the 2004 State legislative session, House Bill 136, Sixth Substitute, Electronic Filing of Preliminary Lien Documents was passed and put into law. The new legislation modified the Mechanics' Lien statute and called for the development of a standardized, statewide system for filing and managing preliminary notices, as well as notices of commencement and notices of completion. Additional technical changes were made in 2005 under House Bill 105, Construction Filing Amendments.



The concept behind HB 136 is to establish, in essence, an online project "bulletin board" providing full disclosure to property owners, contractors, and other interested parties, of people providing goods and services to a construction project. By providing a centralized resource for project participant information, the State Construction Registry (SCR) helps property owners minimize unknown project liability and risk. The State Construction Registry was created by the Department of Commerce and [Utah.gov](http://Utah.gov). This website is the first of its kind nationwide and can be viewed at [scr.utah.gov](http://scr.utah.gov). The website is entirely funded through the fees collected by companies filing their notices.

Another function of the SCR program is to implement an efficient and standardized system for protecting lien rights associated with all types of construction projects - residential, public and commercial projects. The SCR will be the exclusive system for filing and managing preliminary notices and will provide a suite of automated and streamlined services.

The full SCR system was implemented for commercial projects on May 1, 2005, and for residential projects on November 1, 2005, and is administered by a designated agent, Utah Interactive, under the oversight of the Utah Division of Occupational and Professional Licensing.

## C. Description of the Business Problem

### **Context: Commercial Construction in Utah**

The Utah commercial construction industry is a \$1 billion industry and encompasses thousands of individual businesses. There are over 8,500 commercial construction projects initiated each year, and the commercial construction industry is more consolidated than the residential industry in that the largest projects make up a significant percentage of the total industry.

### **Pre-SCR Regulatory Requirements for Commercial Construction**

Prior to the passage of HB 136 and the subsequent creation of the SCR, the commercial construction industry did have processes and requirements in place for notices of commencement and preliminary notices, but no process was in place for filing notices of completion.

The requirements for notices of commencement were standardized and official, and notices of commencement were filed for approximately 70% of all commercial construction projects. The processes for filing preliminary notices were less formalized, and businesses employed a variety of formats containing inconsistent information. Subcontractors and suppliers filed preliminary notices with general contractors via certified mail, a costly and time-consuming process.

Despite the presence of regulatory requirements and official processes for project communication for the commercial industry prior to the passage of HB 136, problems nevertheless persisted with project participants being exposed to unnecessary liabilities. Non-standardized filing formats and lax filing requirements allowed for errors and omissions, which resulted in increased project costs ultimately covered by property owners, project bond issuers, or the state of Utah's Mechanics' Lien Fund.

In addition to increased project costs, the non-standardized processes and forms allowed project details to be submitted in a variety of formats, which led to missing and insufficient information. This lack of standardization, in turn, led to inefficiencies and wasted time as project participants were forced to decipher, organize, and re-request significant amounts of project information.

### **Context: Residential Construction in Utah**

The residential construction industry is much larger than the commercial industry, and it generates approximately \$3 billion per year. There are approximately 28,000 residential construction projects initiated each year, and thousands of residential construction businesses, many of which are extremely small. A significant portion of these small companies don't have centralized offices as the general contractors work out of their trucks and/or maintain their businesses from home. This lack of centralization creates a barrier to communication. The

industry also lacks regularly attended activities and events, which further limits communication channels.

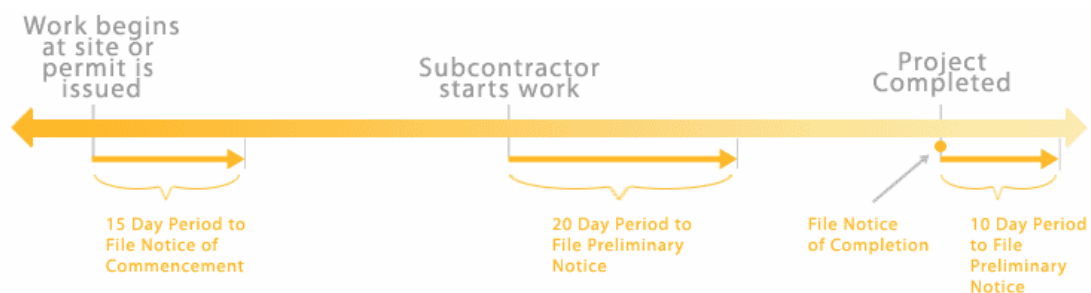
### Pre-SCR Regulatory Requirements for Residential Construction

Even though the residential industry is much larger than the commercial industry, prior to the passage of HB 136 and the subsequent creation of the SCR, no formal or standard processes for filing notices of commencement, preliminary notices, or notices of completion were in place for the residential construction industry. Suppliers would occasionally submit preliminary notices in an effort to let others know that they were involved in a project, but the filing of preliminary notices was not expressly required. Notices of commencement and notices of completion were previously neither filed nor required for residential projects.

The lack of standardized processes and forms limited project communication and knowledge and created undisclosed liabilities for property owners. The lack of regulation also impacted vendors' ability to collect payment for their services or materials.

### Utah's State Construction Registry (SCR)

Utah's State Construction Registry (SCR) launched May 1, 2005 for commercial projects and November 1, 2005 for residential projects. The new online system ensures compliance with the filing requirements outlined in House Bill 136. In fact, using the SCR is the *only* way to guarantee compliance with HB 136. Furthermore, SCR is an innovative system that streamlines communication between general contractors, subcontractors, suppliers, property owners, and municipal and state government.



The State Construction Registry boasts 5 critical functionality components:

#### **Robust yet flexible search functionality.**

Users must locate a project within the SCR system before they can submit a filing / notice to participate in that project. Thus, the search feature needed to be accurate, reliable, and fast. Moreover, project participants, such as material suppliers, frequently receive insufficient project information; nevertheless, they must locate their projects within the SCR system. Thus, the search functionality needed to offer the flexibility to search on numerous data fields. The current search functionality enables users to search on over 9 different data fields

including permit number, project name, subdivision, lot number, owner name, project address, city / county, zip, and contractor name.

### **Filing Efficiency**

Given that some businesses would need to file hundreds of notices a week, the process for online filings needed to be efficient. The SCR team addressed this issue by designing the system to minimize the data entry required for each filing. Valid preliminary notices require the completion of 23 data fields, thus, SCR's design allows for 15 of the fields to be pre-populated. Because users have to find and select the project for which they want to file a notice, all relevant and required project information is pulled from the database to pre-populate the notice. The required filer information (business name, address, and phone number) is pre-populated based registration information. The only fields that must be keyed are the business information for the party with whom they contracted and a description of the service. The new online system streamlined a process that took over 30 minutes and condensed it to 1-3 minutes.

### **“Bulletin Board” aspect**

The Filing Detail page serves as the online bulletin board for each project. Users can quickly access project information such as location, owner, and general contractor information. This page provides easy access to a list of all filings or notices that have been submitted for the project. SCR's Filing Detail pages offer the industry's first centralized repository of project data that is accessible 24/7.

### **Automatic notification**

SCR's automatic notification system sends an email to all parties on a project when a new preliminary notice or notice of completion is filed and/or when any amendments are made to the notice of commencement. This automatic notification system greatly improves project information dissemination. Such rapid information dissemination is critical for notice of completion filings. When a project is completed, and a notice of completion is filed, participants are alerted that the 90-day time period for filing a lien has begun. Prior to the State Construction Registry, participants had to continuously call the county recorder to see when, and if, the project had completed.

### **Length of Time in Operation**

The State Construction Registry launched for commercial projects on May 1, 2005 and residential projects on November 1, 2005. The SCR has been fully operationally for approximately 3 year and 6 months.

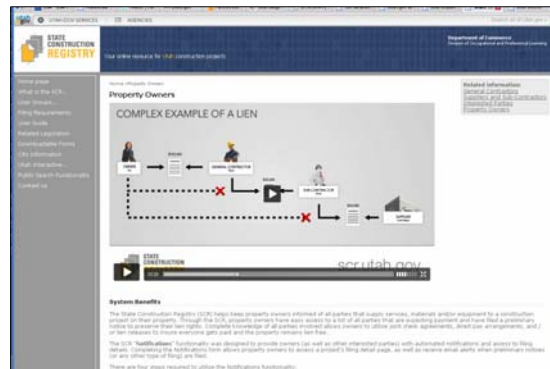
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## **D. SIGNIFICANCE TO THE IMPROVEMENT OF THE OPERATION OF GOVERNMENT**

House Bill 136 actually creates new regulatory requirements for the construction industry, which, ordinarily, would further complicate government operations.

However, the establishment of the State Construction Registry and the subsequent new filing requirements actually work to streamline government.

Because the State Construction Registry works as online project bulletin board, all parties involved in a particular construction project can quickly and easily access construction project information. The accessibility of so much project information provides protection, compliance, and project knowledge to all involved, from suppliers to property owners. The more each party knows, the less miscommunication will occur.



- Protection: Property owners can protect their property from liens by making sure all parties are promptly paid. Likewise, general contractors can limit their liability by knowing exactly who is working on any given project. Subcontractors and suppliers can protect their lien rights by using SCR.
- Compliance: Using SCR guarantees compliance with HB 136.
- Project Knowledge: Despite its best efforts, the construction industry has nevertheless been plagued by inefficiencies, miscommunication, and missing information. The standardization created by the SCR will streamline industry communication and, ultimately, reduce costs to businesses, taxpayers, property owners, and the state.

## E. BENEFIT OF THE PROJECT

### Operational Benefits

The State Construction Registry primarily benefits the state of Utah by reducing the drain on the state's Mechanics' Lien Fund. The accessibility of project information in the SCR reduces the amount of miscommunication between property owners, general contractors, subcontractors, and suppliers, thereby reducing the number of liens. Taxpayers did not pay for the development of the State Construction Registry as the state outsourced the project to Utah Interactive. Furthermore, taxpayers do not pay any ongoing maintenance costs for the SCR as Utah Interactive absorbs those ongoing costs. Taxpayers do, however, contribute to the Mechanics' Lien Fund; thus any reduction in the drain on the Mechanic's Lien Fund saves taxpayers in the long run. Property owners, of course, benefit greatly from the State Construction Registry, for, by viewing all project participants, property owners can know exactly who is working on their property. Such information can reduce the risk of a lien because property owners can work with general contractors to ensure that all parties are promptly paid for materials and/or services.

Business— General contractors, subcontractors, or suppliers all benefit from the State Construction Registry. By knowing exactly who is working on a project, general contractors can mitigate their liability and exposure. Subcontractors and suppliers can ensure both compliance with HB 136 and prompt payment by filing preliminary notices through the SCR.

**Realized return on investment, short-term/long-term payback**

During Utah’s recent construction boom, property liens have increased. Utah legislators recognized the growing problem yet knew it had to be addressed without long-term tax dollar appropriations or the commitment of significant staff time and resources; thus, they passed legislation to outsource the management of construction projects to Utah Interactive.

The bare cost of design, development, and implementation (including dedicated personnel for 6 months prior to the launch and for 3-6 months after the launch) fell between \$275,000 - \$300,000 with ongoing maintenance costs between \$10-\$12,000/month. Because of the nature of the public/private partnership between Utah Interactive and the state of Utah, Utah Interactive was able to keep costs well below market value and absorb the entire cost of the State Construction Registry in exchange for assessing system users a filing/transaction fee.

Based on results for the six months following November’s full implementation, SCR is experiencing remarkable results.

Key metrics:

- By April 30th, 2006 (6-months after full implementation) over 2,600 businesses have registered with the SCR system. Original projection for one year after full implementation: 3,000 businesses. Currently, 5,994 businesses have filed notices using the system.
- Initial projections for preliminary notices filed during the first year were 80,000. In the 6 months following full implementation 40,822 preliminary notices have been filed. After three years, 468, 258 notices have been filed using the system.
- Another impressive aspect of the new application is the percentage of transactions completed online. Original estimates call for 20% of filings to be submitted via fax or standard mail (“offline” processes approved by HB 136; Utah Interactive personnel manually enter data from fax/mail notices into the online system); however, during the last 6 months, over 46,000 total filings were completed online through the SCR system while only 10 filings were submitted via fax or mail. This is over a 99% online adoption rate.
- Lastly, Utah Interactive, in partnership with DOPL, has launched an extensive SCR training program for Utah’s construction industry:
- Number of education and training sessions / presentation to date: 52 with over 2000 attendees