

A BASIC GUIDE TO THE

BUILDERS LIEN ACT



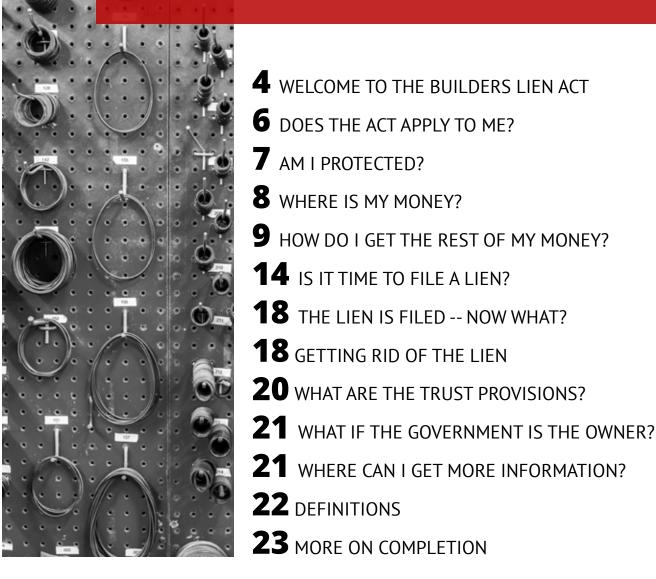


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The information contained in this Guide is intended to introduce and assist members of the construction industry with regard to Builders Lien Legislation in force in British Columbia at the time of printing this Guide. It is in no way intended to replace consultation with legal or other expert professionals nor is it offering legal advice. We recommend that in all cases reference be made to an official copy of the Builders Lien Act [SBC 1997] Chapter 45.

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Printed March 2005

WELCOME

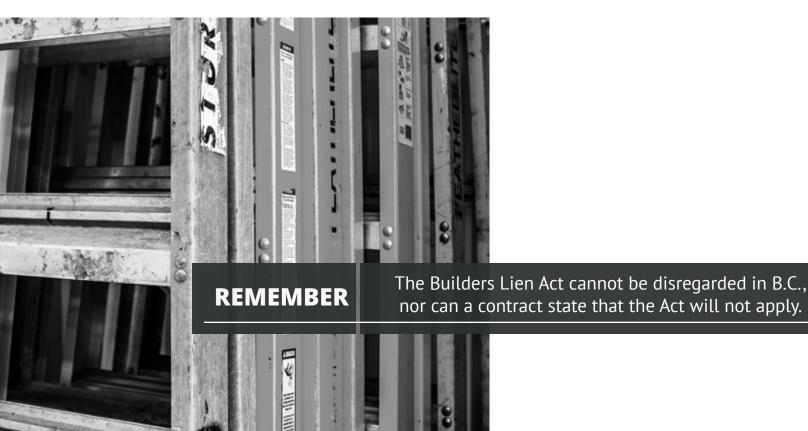
TO THE BUILDERS LIEN ACT

Every construction project is built on a financial pyramid. The owner resides at the top. Each payment for goods and services made by the owner is designed to flow down through the pyramid to:

The Prime Contractor The Subcontractors The Sub-subcontractors The Suppliers The Workers

The construction project generally contains several contracts and subcontracts each providing the parties to those contracts with certain rights and obligations.

The Builders Lien Act provides rights and imposes obligations on most of the parties within the construction project in addition to their respective rights under their contracts. It is the law in B.C. and it must be adhered to. If you are involved with construction in this province, you should be aware of what this Act could mean for you.





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DOES THAT APPLY TO ME?

The Act has application to owners, lenders, head (prime) contractors, contractors, subcontractors, architects, engineers, material suppliers and workers. All of these participants are defined in the Act. (See definitions).

If you fall into any of these categories you should be aware of the provisions of the Builders Lien Act as you may have obligations to comply with, and/or rights to pursue.

The Act provides a lien against the land and building where the work was performed and in funds provided. The Act also focuses on money being paid out on a construction project by creating a trust obligation on the contractors and subcontractors in receipt of funds.

Each party paying out to the company he or she contracted with, retains a holdback of 10% of the amount owing until such time as the work is completed and it is clear that no applicable liens have been filed. The holdback is "notional" for everyone except the owner who must establish an actual holdback account.

The owner is required to open a trust account in a financial institution and keep the holdback amount there until the project or contracted work is substantially complete and the time for filing a lien has expired. If you are not paid for the work you do, you may be entitled to file a lien on the project property to help protect your right to payment.

There are a number of details that you need to know in order to ensure that you are being properly protected.



Your rights can easily be lost if you do not take the proper action at the right time!

AM I PROTECTED?

The Builders Lien Act provides statutory protection for payment of some or all of money due for work and material provided on a construction project. It provides a right to claim a lien, to the extent a claimant is unpaid, against title to the land and buildings in question. It provides a claim against the owner's interest even if you have not contracted with that owner. The amount recoverable depends on the owner's right to limit his or her liability under the holdback provisions and the extent of claims of lien by all claimants.

Briefly, the Act provides certain rights and imposes certain obligations:

The right for some parties to file a lien. [s.2] The right to obtain certain information. [s.41] The obligation on owners and contractors to hold back 10% of amounts due under a construction contract. [s.4]

The trust obligation on contractors and subcontractors to keep construction funds received by them in trust for those beneath them in the construction pyramid. [s.10]

The Act also provides protection for the owner. It limits the amount that the owner will have to pay out in the event that, for whatever reason, a subcontractor, material supplier or worker does not get paid. The owner is obligated to pay up to the 10% statutory holdback plus any amounts in excess of the 10% holdback due and owing under the contract under which the lien or liens arise.

So are you protected? As previously noted, the Builders Lien Act provides some protection, but do not rely on the Act for full compensation of your losses if you are not paid under your contract. You will have to rely on any legal remedies that exist under your contract for the balance, and for that you should talk to your lawyer.

"The Builders Lien Act provides statutory protection for payment of some or all of money due for work and material provided on a construction project."

WHERE IS MY MONEY?

If you are the prime contractor, a subcontractor, or a sub-sub-contractor on a construction project, when you request or are entitled to any payments for the work you have done, be prepared to only receive 90% of the amount due. The other 10% should be held in a trust account by the owner pending substantial completion of the work you are doing.

In most instances there must be an actual trust account opened at a financial institution by the owner. You are entitled to request, in writing, the name and address of that financial institution, as well as the account number and financial particulars regarding credits and payments, from the owner. The trust account should be a joint account administered by the owner and the prime contractor. Interest on this account accrues to the owner unless the contract says otherwise. If the total value of work and materials under a contract is less than \$100,000 an actual trust account does not need to be opened.

If you are a material supplier, or worker, you should be receiving 100% of any money owing to you. The holdback provisions of the Act do not apply to you.

A separate holdback account does not have to be created by municipalities, regional districts, school boards, hospitals and universities, or any government corporation. Those bodies, however, still have an obligation to hold back 10% of the amount due. They are only exempt from establishing an actual holdback account.

"If you are a material supplier, or worker, you should be receiving 100% of any money owing to you."



HOW DO I GET THE REST OF MY MONEY?

Under the Act, the owner is required to hold back money from every payment made, or potentially owing, to the contractor until such time as the lien holdback period has expired for the particular work being done. Remember, if you are a subcontractor, you do not have to wait until the entire project is completed. You are entitled to get your holdback money after the work you contracted for is substantially completed.

The owner holds back the trust account funds for 55 days following the earliest of three possible "trigger" dates:

- a) The issue of a Certificate of Completion with respect to the contract or subcontract,
- b) The completion, abandonment or termination of the head contract, or
- c) The completion or abandonment of the improvement itself.

The most common date used is the issue of a Certificate of Completion. This is a certificate signed by the "payment certifier" stating that work under a contract or subcontract has been substantially completed.

Your first step will be to determine whether the work you were contracted for is substantially complete. The Act provides a clear formula for determining substantial completion. The contract is completed for the purposes of the Act if the work left to be done can be finished at a cost of not more than,

- a) 3% of the first \$500,000 of the contract price,
- b) 2% of the next \$500,000 of the contract price,
- c) 1% of the balance of the contract price.

If the formula is satisfied, the payment certifier under the contract or subcontract must issue a Certificate of Completion.

This should be an objective exercise, looking to purely financial criteria. It is not reflective of occupancy or safety permits. It is important to look to the contract to determine the values outstanding. If your contract includes a large amount of seasonal work, you may be waiting for quite a while to receive your holdback funds. You might want to think about separating out seasonal work into a second contract. Remember, if you are a subcontractor, you do not have to wait until the prime contract is substantially complete. You may request a Certificate of Completion when your own subcontract is substantially complete. [s.7]

Your next step will be to identify the payment certifier under section 7 of the Act. The payment certifier is generally indicated in the prime contract and is often a design professional. If the contract is silent, then the Act stipulates that the payment certifier will be the owner on amounts due to the prime contractor, and the owner and contractor on amounts due the subcontractor. Under the Act you are entitled to request in writing, from the owner, the particulars of the prime contract. [s.41]

Once you know the identity of the payment certifier, you can make a request in writing that he or she make the determination that the work is substantially complete. There is no special form that you need to fill out in order to make this request but you should provide details such as the project location, the applicable contract, and the parties involved. [s.41]

After receipt of the request, the payment certifier has 10 days to issue the certificate (if the work is deemed to be substantially complete.)

If the payment certifier refuses to issue the certificate unreasonably you may have to get a court order. At this point we recommend you speak with a lawyer.

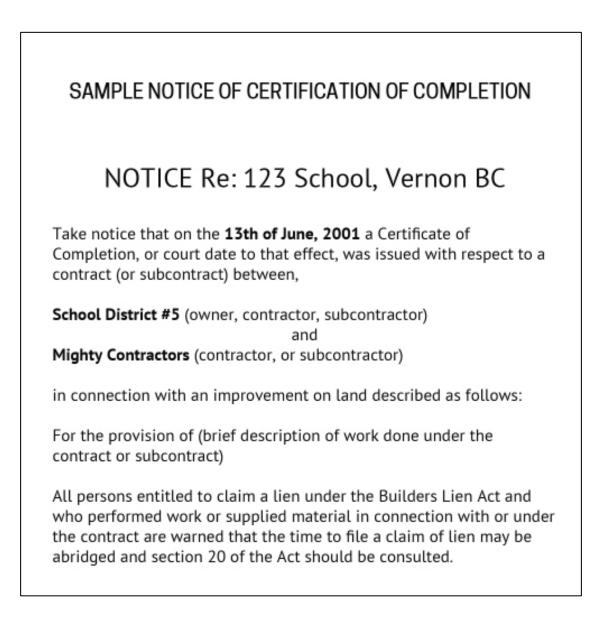
	Payment Certifier
	Prime Contractor
Project.	
In Accordan	e with the contract dated between
	, the Prime Contractor and, the
Subcontract	or for the following work:
that the afo Builders Lie	, of <u>(Subcontracting Company)</u> hereby advise ementioned work is complete in accordance with the <u>Act</u> S.B.C. 1997. We therefore request that a Certifi-
that the afor Builders Lie cate of Com As required ment certific mine wheth issued, a cop	ementioned work is complete in accordance with the

SAMPLE CERTIFICATE OF COMPLETION		
I <u>Design Professional</u> (Name of payment certifier), of <u>555 Designer Street, Vernon British Columbia</u> (Address) certify that, for the purpose of the Builders Lien Act, the following contract or subcontract was completed on June 8, 2001 (date of substantial completion).		
(insert here the street address and other description of the land affected by the improvement)		
(insert here a brief description of the improvement)		
(insert here a brief description of the contract or subcontract, including the date of the contract and the names of the parties to it)		
Signed: <u>Design Professional</u> (signature of payment certifier) Date: <u>June 9, 2001</u> (date signed and therefore the date Certificate "issues")		

If the payment certifier is prepared to issue the Certificate of Completion, he or she must follow the format provided in Form 3 of Appendix B of the Builders Lien Act. It is effective as of the date it is issued.

When a Certificate of Completion is signed, it is very important that all the subcontractors, suppliers and workers that were engaged under that contract become aware of it. Why? As you recall, the signing of the certificate is a "trigger" date for the holdback period to commence running. It is also a "trigger" date for the time for filing liens to commence running. If a subcontractor, supplier or worker engaged as a result of your contract has not been paid, they may have the right to file a lien against the project property. They will only have 45 days from the "trigger" date to register that lien on the property. If the lien is not properly filed within that time frame, they lose that right. In order to ensure fairness, the payment certifier has to post in a prominent place at the project site, a notice that a Certificate of Completion has been issued. The form of notice is provided in Form 2 of Appendix B of the Builders Lien Act. The payment certifier has 7 days from the date the certificate is signed to post this notice. The Act also allows for anyone who would have the right to file a lien to make a written request to the payment certifier to provide them with details of any Certificate of Completion being issued.

So if you are not at the site on a regular basis, you would be wise to make this request in order that, if a certificate is issued, you will be sure to find out about it. The payment certifier has 7 days to send the notice to you after the certificate is issued. If you make this request, be sure to give the payment certifier sufficient details about what contract you are relying on, and where to send the notice. [s.7]



If 55 days have gone by since the date the certificate of completion was signed, and no liens have been filed with regards to the contract work that was certified complete, then you are entitled to receive the 10% holdback monies you are waiting for. The owner is supposed to release the funds to the contractor or subcontractor from whom it was withheld.

If the time has elapsed and there are no applicable liens on the property, the owner should have no reason to refuse to release the funds, unless the contract allows him or her to set-off against amounts due.

If there are still deficiencies outstanding on the contract work, you may not get your money until those are completed. This will depend on the wording of your contract.

If you feel you are entitled to the money that was held back from you under the Builders Lien Act, and yet the owner is not in agreement, then you may have to obtain a court order. At this point we recommend once again that you speak with a lawyer. [s.7]

"If you feel you are entitled to the money that was held back from you under the Builders Lien Act, and yet the owner is not in agreement, then you may have to obtain a court order."



IS IT TIME TO FILE A LIEN?

What if you are not being paid on a construction project? Should you file a lien?

First of all you need to determine if you are entitled to file a lien. Any contractor, subcontractor, material supplier or worker who provides work and/or supplies material to a project and has not been paid can file a lien against the title to that land where the work and material was provided.

An architect and/or engineer who is hired directly by the owner can also file liens but, if you are a worker or material supplier hired by that architect or engineer you do not have the right to file a lien. [s.1, s.2]

If you are a materials supplier, you can file a lien if you have not been paid for materials delivered to the project property that are used in the construction project. Equipment rented without an operator is considered to be material supplied.

You must identify the property upon which the lien is to be filed. You must then obtain a search of the property from the Land Titles office. The owner will be the individual or company that holds an interest in the land upon which the construction is taking place, for whose direct benefit, or with whose knowledge or consent work is done or material is supplied. There could be more than one owner of the property in question. [s.1]

In some instances, you may not be able to file a lien, such as when work is being done on federal government property, or on a highway. [s.1.1]

If the property has a "Notice of Interest" filed on the property at the Land Titles Office you will not be able to file a lien. [s.3] This happens when the owner of the property is not a party to the construction contract, but has notice of the construction activity. An example could be work done on rental property. For tenant improvement work, search the title in advance and carefully check the tenant's finances.

Also, keep in mind that the amount owing to you must be over \$200, or else you will not be allowed to file a lien.

If you are entitled to file a lien, and you are owed more than \$200, you can file a lien only if you are within the time restrictions set out in the Act. [s.20] The Act states that you must file your lien not later than 45 days after the "trigger" date has occurred. Generally that "trigger" date is the date the Certificate of Completion is signed. If no certificate is ever issued the trigger date may be determined by:

Completion, abandonment or termination of the head contract, or Completion or abandonment of the improvement itself (see definitions.)

It is this 45 day time restriction that makes it so important for you to keep on top of whether any Certificate of Completion has been issued for your contract. **Once the deadline for acting on a lien has passed, there is nothing you can do about it. You will have lost your opportunity to file a lien.** However, keep in mind that this does not affect any rights you might have under your contract. The trust provisions of the Act will also still be in effect.

Since you may be pressed for time with regards to getting a lien filed, it is always prudent to go to a lawyer to have the lien drawn up and registered. Unless you are familiar with registering liens, it is better to be safe than sorry. Much care must be taken in preparing and filing the lien to ensure your rights are protected. When time is of the essence you do not want to make any mistakes.

REMEMBER

There is an exception in the case of strata-titled units where under s. 88 of the Strata Property Act [SBC 1998] Chapter 43, a lien must be filed within 45 days of the conveyance of any strata lot to a purchaser from the developer.



Here is an example of how the time frame works:

Metallica Construction, the mechanical contractor, applies on March 1 for a Certificate of Completion. The payment certifier for this subcontract issues the certificate on March 11.

Metallica's lien rights, and those of his sub-subcontractors and suppliers, expire at the end of the 45 day period after the date of issue of the Certificate of Completion. That means day one is March 11 and day 45 is April 25.

If a lien is not filed by the end of business on April 25, Metallica and his sub-subcontractors and suppliers no longer have any right whatsoever to file a lien for any work on the project.

If no Certificate of Completion is issued on the prime or subcontract, the 45 day period runs from completion, abandonment or termination of the prime contract or completion or abandonment of the improvement. [s. 20]

REMEMBER

The timeline for you to file a lien is affected by whether a Certificate of Completion has been issued for a contract under which you have been hired. This may be the Certificate of Completion issued for the head contract after the entire project is complete, or it may be a certificate issued for a subcontract, so be alert to the possibilities.

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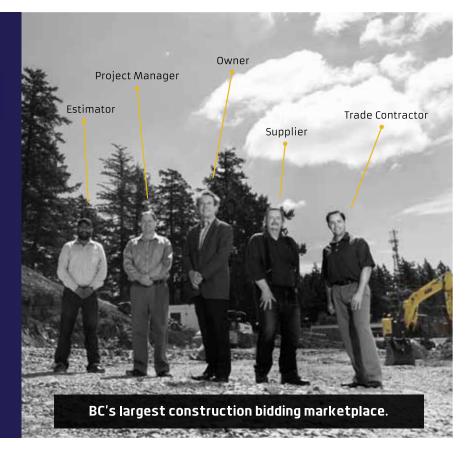
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SAMPLE CERTIFICATE OF COMPLETION

Date:

Payment Certifier Address City, Postal Code

Re: (Address or brief description of the project, brief description of your subcontract)

Dear Sirs,

Our company, Best Subcontractor Ltd., is employed as a sub-subcontractor to Happy Contractor, on the above work.

By this letter we formally request to be notified if the subcontract of Happy Contractor is certified as complete, in accordance with the Builders Lien Act.

The Builders Lien Act states that this information must be provided within seven days of a certificate being issued. Notification should be sent to:

Best Subcontractor Ltd Address City, Postal Code

Yours truly,

THE LIEN IS FILED - NOW WHAT?

It may be that filing the lien is all that it takes to get some action. Generally the owner will want the lien taken off right away as it will interfere with advances under any mortgage financing. The owner may pressure who ever it is that owes you the money to pay up and get the lien discharged. In that case, you will provide a Discharge of Lien in exchange for payment.

The Discharge must be signed in the presence of a lawyer or notary public. However, in the event that this does not happen you may be looking at actually having the lien enforced. A claim of lien will lapse and be completely extinguished unless a lawsuit to enforce the lien is commenced and a certificate is filed on title within a year of the filing of the lien. The one year period can be shortened to a 21 day period if you receive a notice requiring action. [s.33] Legal advice is necessary to commence an action to enforce a claim of lien.

GETTING RID OF THE LIEN

Depending on your place within the construction pyramid, this may not be your problem. If a subcontractor beneath you has not been paid and has filed the lien, you may be responsible for having the lien removed. If it is your problem there are a number of options. If you are not familiar with the requirements of the Act, you would be well advised to speak with a lawyer.

An owner, contractor, subcontractor, lien claimant or an agent for any of them can apply to the Court, the Registrar or to the Gold Commissioner to remove a lien if it can be shown that:

the lien was filed incorrectly;

an action to enforce the lien claim has not commenced within one year of filing, or a notice to commence within 21 days is served on the lien claimant and the 21 days pass without a certificate of pending litigation being registered by the claimant;

an action to enforce the claim has been discontinued;

the claim of lien has been satisfied. [s.25]

An owner or contractor can provide security for payment of the claim, such as a letter of credit or a lien bond. Posting security requires posting the full amount of the claim plus security for estimated legal fees. [s.24] A court order or an agreement between lawyers is required.

There is a procedure, [s.23], which allows for payment into court of the amount due a contractor or subcontractor to discharge all liens. The procedure is complex and requires a court order which is based upon extensive affidavits and it definitely requires legal advice.

Also, the Court alone may order the removal of a lien if it can be shown that the lien did not relate to the land upon which it was registered, or that the claim is frivolous, vexatious, or an abuse of power. [s.25]

"No use can be made of the money by the contractor or subcontractor unless the use is authorized by the trust, such as paying workers, subcontractors and suppliers on that project."



WHAT ARE THE TRUST PROVISIONS?

There are several sections within the Act which create a statutory trust and impose limitations on the use of project funds. The purpose of the trust is to further ensure that money flows from the top of the construction pyramid to the bottom. Under the deemed trust, money received by a contractor or subcontractor and intended for the project cannot be used for other purposes, thereby leaving some trades unpaid. [s.10]

The Act states that any contractor or subcontractor who receives money meant for the project, is automatically deemed to be a "trustee" and only those trades who have directly contracted with that "trustee" become the "beneficiaries". The expiration of a lien period does not affect the existence of the trust, and as a result these sections can provide a remedy to unpaid trades when their lien rights have been extinguished, or if they never had a claim of lien.

Although it is recommended that funds received by the contractor or subcontractor be put in a separate account, it is not required by law. No use can be made of the money by the contractor or subcontractor unless the use is authorized by the trust, such as paying workers, subcontractors and suppliers on that project. The consequences of breaching a trust can be severe. The Act stipulates that the trustee could be liable for both a fine and imprisonment. In addition, the Act places a liability directly upon a director or officer of a corporation, if he or she knowingly agrees or acquiesces to the offence.

Trust funds have priority: A significant advantage of the beneficiary/trustee relationship is that trust funds are not available to creditors in the case of bankruptcy. Any funds received by the bankrupt trustee could only be used for the benefit of the beneficiaries. The beneficiary will get paid prior to other creditors.

Garnishment of trust money is also limited by the Act. Unlike the holdback account, however, trust funds can be garnished, but they remain trust funds and are paid into court. The interests of the beneficiaries remain in priority to the creditors.

The beneficiary has one year, from the date the head project is completed, abandoned or terminated, (or if there is no head contract when the specific improvement is completed, abandoned or terminated) to make a claim against the trustee.

The Owner is not a trustee under these provisions: It should be noted that these trust provisions may not apply to owners directly, only contractors and subcontractors as the Act specifies that the trust is not created until money is received by a contractor. Also, money received by an architect, engineer or material supplier is not subject to the trust.

WHAT IF THE GOVERNMENT IS THE OWNER?

In general the Act applies to provincial government bodies, cities, school boards and other provincially enacted organizations. However, the separate holdback account does not have to be created by municipalities, regional districts, school boards, hospitals and universities, or any government corporation.

The Act will not apply to any land over which the Province does not hold jurisdiction that is federal government land, aboriginal land, or land that belongs to other governments, such as embassy property.

Also, the Ministry of Transportation and the Ministry of Forests are exempt from the Act. [s.1.1]

Finally, it should be noted that there are various statutory provisions afforded to specific government agencies which may take priority over lien claims. You may wish to discuss these issues with your lawyer.

WHERE CAN I GET MORE INFORMATION?

We recommend that you obtain a copy of the Builders Lien Act and keep it on hand for easy reference. An official copy of the Builders Lien Act [SBC 1997] Chapter 45 may be obtained through the Queen's Printer office at 563 Superior St., Victoria, BC (250-387-3309).

If you have access to the internet you can view the Act on the BC government website. Go to http:// www.bclaws.ca/civix/document/id/complete/statreg/97045_01.

For an in-depth discussion of the Act and its ramifications, we recommend "Questions and Answers on the New Builders Lien Act". This publication was prepared at the request of the BC Ministry of Competition, Science and Enterprise by the BC Law Institute.

Further information on the Builders Lien Act can be found on the BC Construction Association website. Go to https://www.bccassn.com/resources/government/builders-lien-act/.

DEFINITIONS TO THE BUILDERS LIEN ACT

Certificate of completion: A certificate that states the work required under a contract or subcontract is completed. An example of what the certificate should look like can be found in Appendix B of the Builders Lien Act.

Completed: When used in reference to the Builders Lien Act, means the work on a project is substantially completed or performed, but not necessarily totally completed.

Contractor: A person hired by an owner to perform work, provide work, or supply material to the project. A worker is not a contractor.

Head contractor: The contractor who is hired to do most of the work on a project, whether or not other subcontractors, material suppliers or workers are hired. The head contractor is similar to a prime contractor. There is not always a head contractor on a project.

Improvement: The Act states that an improvement includes anything made, constructed, erected, built, altered, repaired or added to, in, on, or under land, and attached to it, or intended to become a part of it, and also includes any clearing, excavating, digging, drilling, tunneling, filling, grading or ditching of, in, on, or under land; In this guide we refer to the improvement as "the project".

Material: Includes movable property that is delivered to the land on which the project is located. The material must either be intended to eventually become part of the improvement, or it must be consumed or used in the making of the project. This includes equipment rented without an operator.

Lien: A charge or claim on property for the satisfaction of some debt or duty ordinarily arising by operation of law.

Material supplier: a contractor or a subcontractor who supplies only material to the project.

Operator: An individual who operates equipment at a project site. This does not include an individual who temporarily or periodically is present at the project site to install, inspect, service, empty or remove equipment.

Owner: The Act defines an owner as including a person who has, at the time a claim of lien is filed under this Act, an estate or interest, whether legal or equitable, in the land on which the improvement is located, at whose request and,

a) on whose credit

b) on whose behalf

c) with whose knowledge or consent, or

d) for whose direct benefit work is done or material is supplied, and includes all persons claiming under the owner, but does not include a mortgagee unless the mortgagee is in possession of the land.

Services: Under the Act, includes two things: work done by an architect or engineer, regardless of whether it was done before or after the project construction began; and the rental of equipment for work on the project with an operator.

Subcontractor: A person hired by a contractor or another subcontractor to perform or provide work and/or supply material. This does not include a worker or person hired by the architect, engineer or material supplier.

Worker: An individual hired by an owner, contractor or subcontractor for wages in any kind of work on a project. This does not include a person hired by the architect or engineer.

MORE ON COMPLETION

A head contract, contract or subcontract is substantially performed if the work to be done under that contract can be completed or corrected at a cost of not more than

- a) 3% of the first \$500,000 of the contract price
- b) 2% of the next \$500,000 of the contract price, and
- c) 1% of the balance of the contract price.

The Act also states that an improvement is completed if the improvement or a substantial part of it is ready for use or is being used for the purpose intended.

A strata project is considered completed, or a contract for its construction is substantially performed, not later than the date the strata lot is first occupied.

A contract or improvement is considered to be abandoned under the Act if no work has been done in connection with the contract or the project for more than 30 days. This will not be the case however if the work ceased because of a strike, lockout, sickness, weather conditions, holidays, a court order, shortage of material or other similar reason.

REMEMBER	This pamphlet is intended as a basic introduction to the Builders Lien Act only. It is not, in any manner, intended as legal advice nor should it take the place of obtaining legal advice. We strongly recommend that you consult with a legal professional on any matter dealing with the Act in which you become involved.

Note: The definitions above are for purposes of clarification with regards to this pamphlet only. They are not intended to replace, nor should they be used in place of, the definitions listed in the Builders Lien Act of BC. Please refer to an official copy of the Act for complete information.

