

Legislative Analysis



INCREASE FIRE INSURANCE ESCROW CAP

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House Bill 5862 (reported from committee without amendment)

Sponsor: Rep. Amanda Price

Committee: Local Government

Complete to 12-8-14

A SUMMARY OF HOUSE BILL 5862 AS REPORTED BY COMMITTEE

House Bill 5862 would amend the Insurance Code to increase the maximum amount that can be escrowed by municipalities from fire insurance claims. The bill would increase the amount to \$12,000 beginning January 1, 2015. The cap would be then adjusted annually based on the consumer price index every January 1. The current statute established a cap in 1998 of \$6,000, adjusted for inflation. (The actual current cap appears to be \$8,295.)

These escrow provisions within the Insurance Code are referred to as the Fire Insurance Withholding Act, and they allow participating cities, townships, and villages to have a portion of a fire insurance settlement for losses within their jurisdiction withheld until there is evidence that the property is being or will be repaired, replaced, or removed. Then the funds can be released to the insured. A municipality can use the funds to do the work itself if the insured party does not act. (The act only applies to settlements that exceed 49 percent of the insurance carried on the property and does not apply to personal property or contents damage coverage.)

Specifically, if a claim is filed for a loss to insured real property due to fire and explosion, and in some cases, due to vandalism, malicious mischief, wind, hail, riot, and civil commotion, the insurance company in a participating municipality withholds from payment 25 percent of the actual cash value of the property *or* 25 percent of the final settlement, whichever is the lesser amount. (There is a slightly different calculation for debris removal cases.) That money is paid into an escrow account, to be used by officials in a city, village, or township to "protect the public health and safety." For example, the funds can be used for the demolition costs to raze unsafe burned and blighted structures, or for the removal of debris. Funds not used to protect the health and safety of citizens are returned to the insured.

The bill would amend two separate sections. Section 2227 applies to cities, villages, and townships in counties with a population of 425,000 or more, and cities, villages, and townships with a population of 50,000 or more in smaller counties. It applies to losses due to fire, explosion, vandalism, malicious mischief, wind, hail, riot, or civil commotion. Section 2845 applies to cities, villages, and townships with a population of less than 50,000 in counties with populations under 425,000. That section applies to losses due to fire and explosion only.

The bill also defines "director" to mean the director of the Department of Insurance and Financial Services, unless the context clearly implies a different meaning.

MCL 500.102, 500.2227 & 500.2845

FISCAL IMPACT:

House Bill 5862, as introduced, would not have a significant fiscal impact on the state government.

POSITIONS:

The Michigan Municipal League supports the bill. (10-2-14)

The City of Detroit supports the bill. (10-2-14)

The City of Jackson supports the bill. (10-2-14)

The Michigan Townships Association supports the bill. (10-2-14)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.