



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986

House Bill 5862 (Substitute H-1 as passed by the House)
Sponsor: Representative Amanda Price
House Committee: Local Government
Senate Committee: Insurance

Date Completed: 12-16-14

CONTENT

The bill would amend the Insurance Code to do the following:

- **Increase the maximum amount that may be escrowed for local governments from insurance claims for residential property loss.**
- **Allow a city, village, or township to use the retained insurance proceeds for any purpose, provided certain conditions were met.**
- **Allow a city, village, or township to use the policy proceeds to pay a subsequent purchaser the cost of securing and repairing the property.**
- **Allow the insured to file a civil suit to recover the insurance proceeds within three years after the insurer provided notice of the withholding, or within one year after the bill's effective date.**

Escrow of Insurance Proceeds & Disposition

Under the code, if a claim is filed for a loss to insured real property and a final settlement is reached on the loss, an insurer must withhold from payment 25% of the actual cash value of the real property, or 25% of the final settlement, whichever is less. For residential property, the 25% settlement or judgment withheld may not exceed a certain dollar amount adjusted annually in accordance with the consumer price index (CPI). (The amount stated in the Code, \$6,000, was set in 1998 and the annual adjustments began in 1999.) The bill specifies that, beginning January 1, 2015, the amount withheld for residential property could not exceed \$12,000, adjusted January 1 of each year in accordance with the CPI. The insurer must give notice of the withholding to the insured, mortgagees having an interest in the property, and the treasurer of the city, village, or township in which the property is located.

An authorized representative of the city, village, or township may request the insurer to deposit the withheld money into an escrow account for use in securing, repairing, or demolishing the damaged property, provided certain conditions are satisfied. The unused portion must be returned to the insured. The bill specifies that, before and after its effective date, if the authorized representative of the city, village, or township had not received or been shown reasonable proof within one year after the insurer provided notice to the insured, and the insured property had been demolished, the city, village, or township could use the policy proceeds for any purpose.

Beginning on the bill's effective date, the city, village, or township could use the retained proceeds as provided by the bill, and if the city, village, or township sold the insured property, it could use the policy proceeds to pay a subsequent purchaser the cost of

securing and repairing the property. The insured could file a civil action against the city, village, or town for the return of the policy proceeds. The action would have to be filed within three years after the insurer provided the required notice, or one year after the effective date of the bill, whichever was later.

If the insured and the insurer agreed on the demolition costs or the debris removal costs as part of the final settlement of the real property insured claim, the insurer is required to withhold one of several specified amounts of money and pay that amount as prescribed by the Code. The specified amounts include 25% of the actual cash value of the property at the time of the loss, or 25% of the final settlement of the property claim, as long as the amount for residential property does not exceed a specified dollar amount adjusted annually in accordance with the CPI. (The amount stated in the Code, \$6,000, was set in 1998 and the annual adjustments began in 1999.) Under the bill, these provisions would apply until December 31, 2014.

Beginning January 1, 2015, the amounts that must be withheld would include 25% of the actual cash value of the real property, or 25% of the final settlement, provided either amount did not exceed \$12,000, adjusted January 1 of each year in accordance with the CPI.

Application

The provisions described above apply to claims filed due to fire, explosion, vandalism, malicious mischief, wind, hail, riot, or a civil commotion in cities, villages, and townships in counties with a population of 425,000 or more, or cities, villages, and townships with a population of 50,000 or more in smaller counties. The provisions also apply to cities, villages, or townships with a population of less than 50,000 in counties with a population of less than 425,000, with respect to claims filed for loss as a result of fire or explosion.

MCL 500.102 et al.

Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bill would have no fiscal impact on the State, and a potentially positive fiscal impact on local units of government. The bill would raise the amount a local unit of government may hold in escrow from a residential insurance claim to ensure that a loss on a residential property is cleaned up properly. The bill would have a positive fiscal impact on local units of government in certain cases in which the current amount, which is about \$8,300, is insufficient, and the property owner does not use the remainder of the insurance claim to clear the lot. The increased amount could help a local unit avoid assuming the liability of a lot that was not properly cleared and was subsequently abandoned by its owner.

Fiscal Analyst: Josh Sefton

SAS\S1314\s5862sa

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.