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House Bill 4331 (as passed by the House)
Sponsor: Representative Karen Whitsett
House Committee: Insurance and Financial Services
Senate Committee: Housing and Human Services

Date Completed: 4-8-24

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 to \$20,000 and require that amount to be adjusted annually by the Consumer Price Index (CPI).**
- Allow a local government to use retained insurance proceeds to repair any property if that local unit of government had not been shown reasonable proof that the concerned residential property had been repaired or removed within one year after the insurer provided notice to the insured.**

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 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 CPI. Currently, beginning January 1, 2015, the amount may not exceed \$12,000. Under the bill, that amount would apply until January 1, 2024, and beginning January 1, 2024, for residential property, the 25% settlement or judgment withheld could not exceed \$20,000 adjusted January 1 of each year in accordance with the CPI.

(Specifically, the provisions 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. Additionally, the provisions 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 for a loss due to fire or explosion.

"Consumer Price Index" means the annual average percentage increase in the Detroit CPI for all items for the prior 12-month period as reported by the United States Department of Labor as certified by the Director of the Department of Insurance and Financial Services.)

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 under certain conditions. The portion must be returned to the insured when the authorized representative is shown reasonable proof of repair, demolition, or contract to perform such services. If the reasonable proof is not received within 120 days, the city, village, or township must use the proceeds for those purposes. If the authorized representative of the city had not been shown reasonable proof within one year after the insurer provided notice to the insured and the property had been demolished, the local unit of government may use the policy proceeds for any purpose. Beginning on the bill's effective date, if the notice had not been received within the one-year period, the local unit

of government also could use the funds to repair any property, instead of having to demolish the property.

If the insured and the insurer agreed on the demolition costs or the debris removal cost as part of the final settlement of the real property insured claim, the insurer must 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, provided that neither amount exceeds \$12,000, adjusted January 1 of each year in accordance with the CPI. Under the bill, these provisions would apply until January 1, 2024.

Beginning January 1, 2024, the amounts that must be withheld would include 25% of the actual cash value for the insured real property at the time of the loss or 25% of the final settlement, so long as neither amount exceeded \$20,000, adjusted January 1 of each year in accordance with the CPI.

MCL 500.2227

Legislative Analyst: Eleni Lionas

FISCAL IMPACT

The bill would increase the amount that may be held in escrow for rebuilding and demolishing for cities, villages, and townships from approximately \$15,800 to \$20,000. This would lead to a positive fiscal impact on the city, village, or township if it were unable to recoup the full costs of the rebuilding or demolition. The bill will have no fiscal impact on the State.

Fiscal Analyst: Bobby Canell
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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.