



## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. HOUSE PRINCIPLES ANALYSIS:

##### **Provide Limited Government –**

- The bill creates the Windstorm Mitigation Study Committee to analyze solutions and programs and make recommendations.
- The bill provides authorization for the Department of Financial Services (DFS) to contract with a not-for-profit organization to conduct all or portions of the Florida Comprehensive Hurricane Damage Mitigation Program.
- Insurance agents are required to complete continuing education hours related to premium discounts available on property insurance policies for various hurricane mitigation measures and the means for obtaining the discounts.

##### **Safeguard Individual Liberty –**

- The bill expands the eligible activities covered by grants under the Florida Comprehensive Hurricane Damage Mitigation Program to include repair of existing structures for low-income homeowners when such repairs would lead to mitigation measures.
- The bill revises current continuing education requirements to ensure that insurance agents are knowledgeable of premium discounts for various hurricane mitigation options and the means of obtaining the discounts.
- The bill requires that hurricane mitigation measures must be accounted for by insurance companies when determining rates, and requires insurers to include deductible reductions for mitigation measures.

##### **Promote personal responsibility –**

- The bill offers provisions pertaining to mitigation measures in order to encourage homeowners to strengthen their homes to reduce the risks and damage associated with hurricanes.

##### **Empower families –**

- The bill provides additional funding for residential mitigation, which will serve to better protect homes against hurricane damage with the anticipation that such mitigation will reduce property insurance rates. This will benefit families and increase family stability and self-support.
- The bill adds an exemption for low income households, as defined in statute, from the mitigation grant requirement that the dwelling have an insured value of \$500,000 or less.

##### **Maintain public security –**

- The bill provides for a more detailed background check of applicants, to include fingerprinting, for wind mitigation inspectors participating in the Florida Comprehensive Hurricane Damage Mitigation Program.

#### B. EFFECT OF PROPOSED CHANGES:

Chapter 2006-12, Laws of Florida, contained many provisions relating to insurance rates, deductibles and mitigation measures. This bill expands the 2006 legislation, particularly with regard to the Florida Comprehensive Hurricane Damage Mitigation Program, insurance premiums and deductibles, and a uniform home grading scale.

## Background

Mitigation is a cost effective method of addressing affordable housing recovery challenges, including escalating insurance costs, in Florida. According to a recent study by the National Institute of Building Sciences, there is an approximate four to one return on investment for mitigation.<sup>1</sup> The 2006 Legislature created The Florida Comprehensive Hurricane Damage Mitigation Program and appropriated \$250 million in grants for hurricane shutters, roofing and other improvements to better protect homes against hurricane damage and reduce the state's exposure to claims.

## **The Florida Comprehensive Hurricane Damage Mitigation Program**

### Present Situation

Section 215.5586, Florida Statutes, establishes the Florida Comprehensive Hurricane Damage Mitigation Program, also known as the My Safe Florida Home Program. This program provides for free home inspections to identify structural improvements (or mitigation measures) that would reduce vulnerability to hurricane damage. The program provides 50 percent matching grants of up to \$5,000 to harden single-family homes to reduce vulnerability to hurricane damage, and provides 100 percent grants of up to \$5,000 for low-income homeowners. Eligibility requirements include that the structure must be a primary single-family, site-built residence with an insured value of \$500,000 or less and have a homestead exemption. Additionally, units in a residential multifamily building of up to four units are eligible for the free home inspection if all unit owners in the building agree to participate in the program.

Grants may be used for the following improvements:

- roof deck attachment;
- secondary water barrier;
- roof covering;
- brace gable ends;
- reinforce roof-to-wall connections;
- opening protection; and
- exterior doors, including garage doors.

On August 15, 2006, the My Safe Florida Home Program was opened to the public. In one day, more than 40,000 calls came through the Department of Financial Services' (DFS) phone lines requesting information about the program. As of January 8, 2006, nearly 14,000 free home inspections have been completed and more than 1,600 inspector and contractor candidates have been trained.

The program was designed to (1) provide direct grants to homeowners; (2) contract with local governments to administer the grants; and (3) partner with the Volunteer Florida Foundation to distribute funds to non-profit organizations to retrofit low-income homes.

DFS contracted with the not-for-profit Federal Alliance for Safe Homes (FLASH) to complete the inspection program. FLASH reports that of the 2,678 final reports for homes across 16 counties inspected under the program thus far, insurance savings were identified. Based on the inspections alone, and even prior to undertaking any mitigation action, FLASH determined that homeowners were entitled to an average savings of 19 percent, or \$302, in insurance premiums. FLASH also found that the average total cost of the most aggressive improvement plan was less than \$10,000, and that the average insurance discount for homes in their current condition is about twice the typical cost of an inspection.

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<sup>1</sup> Source: National Institute of Building Sciences, *National Hazard Mitigation Saves: An Independent Study to Assess the Future Savings from Mitigation Activities*, December 2005.

## Effect of the Bill

The bill makes a number of changes to the Florida Comprehensive Hurricane Damage Mitigation Program, as follows:

- Wind mitigation inspectors must have a level 2 background check, which includes fingerprinting.
- For grant eligibility, an exemption is added for low income households, as defined in statute, from the requirement that the dwelling have an insured value of \$500,000 or less.
- Grants may be used on previously inspected existing structures, or a rebuild. A rebuild is defined as a site-built, single-family dwelling under construction to replace a home that was destroyed or significantly damaged by a hurricane and deemed unlivable by a regulatory authority. The homeowner must have had a homestead exemption prior to the hurricane and must have maintained the homestead exemption.
- The bill clarifies the requirements for low-income homeowners and allows up to 20 percent of the grant value to be used for repair to existing structures leading to mitigation improvements.
- The bill authorizes a public-private partnership between DFS and a not-for-profit corporation to conduct all or portions of the program and to increase awareness of mitigation benefits among Florida homeowners. DFS is to consider the not-for-profit's ability to raise funds from the private sector in order to provide for mitigation grants and the corporation's administrative capabilities.
- The bill requires DFS to develop and maintain a statewide list of authorized wind mitigation inspectors and a list of contractors authorized to conduct wind mitigation inspections.

## **Insurance Premiums and Deductibles/Continuing Education for Insurance Agents**

### Present Situation

Chapter 2006-12, Laws of Florida, required the Office of Insurance Regulation (OIR), by July 1, 2007, to "evaluate the discounts, credits, other rate differentials, and appropriate reductions in deductibles for fixtures and construction techniques that meet the minimum requirements of the Florida Building Code, based upon actual experience or any other loss relativity studies." OIR is also required to "determine the discounts, credits, other rate differentials, and appropriate reductions in deductibles that reflect the full actuarial value of such reductions."

### Effect of the Bill

The bill requires insurance agents to complete continuing education hours related to premium discounts available on property insurance policies for various hurricane mitigation measures and related to the means for obtaining the discounts.

Effective October 1, 2007, this bill authorizes the reduction of hurricane deductibles for homeowners who have undertaken mitigation measures to strengthen their homes to reduce the amount of loss in a windstorm. All insurance companies must make a rate filing which includes reductions in deductibles, in addition to the credits, discounts, or other rate differentials, for fixtures and construction techniques which meet the minimum requirements of the Florida Building Code.

The bill requires the Financial Services Commission to develop a uniform mitigation verification inspection form to be used by all insurers when factoring wind insurance discounts, and directs the Commission to seek input from knowledgeable representatives (including insurance, construction, and building code representatives), and to provide guidance regarding the length of time the inspection results are valid.

## **Uniform Home Grading Scale**

### Present Situation

Section 39 of Chapter 2006-12, Laws of Florida, required the OIR to study and develop a program to provide an objective rating system to allow homeowners to evaluate their home's ability to withstand the wind load from a hurricane. OIR has contracted with the University of Florida to do the study and develop the pilot program.

### Effect of the Bill

The bill requires the Financial Services Commission to develop a uniform home grading scale to grade a home's ability to withstand wind damage. The Commission is to work with the OIR, DFS, and the Department of Community Affairs (DCA) in developing the scale, which must be consistent with the rating system required in Chapter 2006-12, Laws of Florida. The Commission is given rulemaking authority to adopt the uniform grading scale no later than June 30, 2007.

\$2,000,000 is appropriated for fiscal year 2006-2007 from the Insurance Regulatory Trust Fund to the Department of Financial Services for the purposes of implementing this provision.

## **Windstorm Mitigation Study Committee**

The bill creates the Windstorm Mitigation Study Committee and establishes its membership and duties. The Committee is made up of eight members: two members to be appointed by the Governor, one to be designated to serve as chair; two members appointed by the Chief Financial Officer; two members appointed by the Speaker of the House of Representatives; and two members appointed by the President of the Senate. All members are to be knowledgeable of mitigation issues, with at least one member representing primarily the interests of homeowners.

The Committee is to analyze solutions and programs that address Florida's need for mitigation, especially for residential property that is located in areas at greatest risk of windstorm damage. Solutions and programs to be analyzed by the Committee include, but are not limited to, those that provide for:

- the availability of home inspections for windstorm resistance;
- grants to assist homeowners, and possibly other groups of property owners, to harden their property against windstorm damage;
- the full actuarial value to be reflected in premium credits for windstorm mitigation;
- the most effective way to inform policyholders of the availability of and means by which to obtain premium credits for windstorm mitigation;
- coordination among federal, local and private initiatives;
- streamlining or strengthening applicable state, regional, and local regulations;
- the stimulation of public and private efforts to mitigate against windstorm injury and damage;
- the discovery and assessment of funding sources for windstorm mitigation;
- tax incentives for windstorm mitigation;
- consumer information concerning the benefits of windstorm mitigation, including personal safety as well as property security; and
- research on windstorm mitigation.

The first meeting of the Committee is to occur no later than February 9, 2007. Reimbursements for travel are to be paid by the appointing entity and DFS is to provide staff assistance as necessary. DFS, OIR, Citizens Property Insurance Corporation, and other state agencies are directed to supply any information, assistance, and facilities that are considered necessary for the Committee to fulfill its duties.

The bill requires the committee to submit recommendations by March 6, 2007, to the Governor, the President of the Senate, the Speaker of the House of Representatives, the Chief Financial Officer, and the Commissioner of Insurance Regulation.

The committee expires on May 15, 2007.

## **Community Development Block Grant Disaster Supplemental Funding**

### Present Situation

Florida has been awarded a federal grant of \$100,066,518 from the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006. The DCA submitted an Action Plan to the United States Department of Housing and Urban Development (HUD) in December 2006 detailing the proposed use of the funds for residential mitigation as a means to maintain Florida's affordable housing stock and to reduce the financial burden of higher insurance premiums on low-income homeowners. Additionally, the Action Plan allows funds to be used for housing rehabilitation or repair and infrastructure development or improvement related to hurricane damage.

The DCA will work in partnership with DFS, local governments and non-profit entities to ensure that funding is used to complement the My Safe Florida Home Program and address other disaster related housing and infrastructure needs of the counties included in federal declaration FEMA-1609-DR, Hurricane Wilma, for the purposes of hurricane housing mitigation, rehabilitation/repair and infrastructure development.

Based on HUD guidelines, at least \$20 million of these funds (19.33 percent of Florida's total allocation) must be used for repair, rehabilitation, and reconstruction of the affordable rental housing stock, including public and other HUD-assisted housing, in the impacted areas. The DCA will work in partnership with DFS, Florida Housing Finance Corporation, and Florida offices of HUD and USDA Rural Development to make these funds available to multi-family properties in declared counties which currently receive project-based rental assistance through either HUD or USDA-Rural Development.

### Effect of the Bill

For Fiscal Year 2006-07, the bill appropriates \$100,066,518 in federal funds from the Small Cities Community Development Block Grant Program Fund to the Department of Community Affairs to be used consistent with the federal supplemental appropriation and approved Action Plan.

#### C. SECTION DIRECTORY:

**Section 1** cites the bill as the "Home Enhancement and Loss Prevention Act."

**Section 2** amends s. 215.5586, F.S., to require that wind certification and hurricane mitigation inspectors must have undergone Level 2 background checks. Further, the Florida Comprehensive Hurricane Damage Mitigation Program is modified with respect to eligibility and use of grant funds. Notably, an exemption is added for low income households, as defined in statute, from the requirement that the dwelling have an insured value of \$500,000 or less. Also, the Department of Financial Services is authorized to contract with a not-for-profit corporation to conduct all or portions of the program and is required to maintain a list of authorized wind mitigation inspectors authorized to conduct wind mitigation inspections.

**Section 3** amends s. 626.2815, F.S., to require continuing education courses for certain general lines agents and customer representatives on the subject of premium discounts available on property insurance policies based on various hurricane mitigation options, and on the means for obtaining the discounts.

**Section 4** amends s. 627.062 (2)(k), F.S., to require that rate filings must account for mitigation measures undertaken by policyholders to reduce hurricane losses.

**Section 5** amends s. 627.0629, F.S., effective October 1, 2007, to provide for reductions in deductibles for mitigation measures.

**Section 6** amends 627.701, F.S., to require that the insurer provide to the policyholder the option of selecting an appropriate reduction in the policy's hurricane deductible or selecting the appropriate discount credit or other rate differential.

**Section 7** amends s. 627.711, F.S., to require that the Financial Services Commission develop, by rule, a uniform mitigation verification inspection form to be used by all insurers when factoring discounts for wind insurance.

**Section 8** creates the Windstorm Mitigation Study Committee and provides for membership, duties, submittal of recommendations, and an expiration date.

**Section 9** directs the Financial Services Commission to adopt a uniform home grading scale, by rule, to grade the ability of a home to withstand the wind load from a sustained severe tropical storm or hurricane.

**Section 10** appropriates \$100,066,518 in fiscal year 2006-2007 to the Department of Community Affairs for housing mitigation. Funds may also be used to support housing rehabilitation or repair and infrastructure development or improvement.

**Section 11** appropriates \$2,000,000 for fiscal year 2006-2007 from the Department of Financial Services Insurance Regulatory Trust Fund to the Department of Financial Services for the purposes of implementing section 8 of this bill.

**Section 12** provides that the bill take effect upon becoming a law, except as otherwise provided.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

### A. FISCAL IMPACT ON STATE GOVERNMENT:

#### 1. Revenues:

None.

2. Expenditures:

- DCA – The bill appropriates \$100,066,518 from the Small Cities Community Development Block Grant Program Fund to the DCA to provide grants to harden single-family and multifamily housing. Funds may also be used to support housing rehabilitation or repair and infrastructure development or improvement.
- DFS – There may be a slight, yet insignificant fiscal impact to DFS for provisions related to developing and maintaining a list of authorized wind mitigation inspectors authorized to conduct wind mitigation inspections, development of the uniform mitigation verification inspection form, and staffing and travel reimbursement for the Windstorm Mitigation Study Committee.
- OIR – The bill appropriates \$2,000,000 for fiscal year 2006-07 from the Insurance Regulatory Trust Fund to DFS for purposes of implementing the Home Structure Rating System (Uniform Home Grading Scale).
- Other –Fiscal impacts to the Governor’s Office, House of Representatives, and the Senate related to reimbursements for travel for appointed members of the Windstorm Mitigation Study Committee are expected to be insignificant.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

Local governments in the counties declared under federal declaration FEMA-1609-DR, Hurricane Wilma, may apply for the Community Development Block Grant (CDBG) funds for the purposes of hurricane housing mitigation, rehabilitation/repair and infrastructure development.

2. Expenditures:

Local governments in the counties declared under federal declaration FEMA-1609-DR, Hurricane Wilma, may apply for the Community Development Block Grant funds for the purposes of hurricane housing mitigation, rehabilitation/repair and infrastructure development.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Studies have shown that mitigation is a cost effective method of addressing long-term affordable housing recovery challenges in Florida and a response to the state’s property insurance crisis. The National Institute of Building Sciences’ study entitled *National Hazard Mitigation Saves: An Independent Study to Assess the Future Savings from Mitigation Activities, December 2005*, reports an approximate 4:1 return on investment for mitigation.

It is anticipated that more Florida homeowners will be afforded residential mitigation through the expanded eligible activities covered by grants under the Florida Comprehensive Hurricane Damage Mitigation Program, to include repair of existing structures. Additionally, the \$100 million federal CDBG funds will assist homeowners and local governments with hurricane-related repairs and recovery.

Wind mitigation inspectors will most likely be required to pay for the level 2 background checks in order to participate in the DFS mitigation program.

Insurance agents and customer service representatives will be required to take continuing education courses.

D. FISCAL COMMENTS:

None.

**III. COMMENTS**

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The mandates provision does not apply because this bill does not: require counties or municipalities to spend funds or to take an action requiring the expenditure of funds; reduce the authority that municipalities or counties have to raise revenues in the aggregate; or reduce the percentage of a state tax shared with counties or municipalities.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

DFS and the Financial Services Commission are provided authority to establish and adopt rules in order to implement provisions contained in the bill.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

**IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES**

On January 16, 2007, the Economic Expansion and Infrastructure Council adopted amendments, which were incorporated into a Council Substitute, which:

- Removed provisions pertaining to the creation of a Wind Mitigation Inspector Certification program.
- Removed wind certification and hurricane mitigation continuing education provisions for licensed contractors, professional engineers, and architects.
- Removed an appropriation to the Department of Business and Professional Regulation.

The staff analysis was updated to reflect adoption of the amendments.

On January 17, 2007, the Policy and Budget Council heard the bill and adopted one (1) amendment, which was incorporated into a Council Substitute. This amendment modified grant eligibility of the Florida Comprehensive Hurricane Damage Mitigation Program as follows:

- Reverted the bill to current law which specifies that the dwelling must have an insured value, rather than an assessed value, of \$500,000 or less; and
- Added an exemption so that low income homeowners, as currently defined in statute, need not meet the insured value requirement.

The staff analysis was updated to reflect adoption of the amendment.