

The Florida Senate
PROFESSIONAL STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: Banking and Insurance Committee

BILL: CS/SB 1864

INTRODUCER: Banking and Insurance Committee and Senator Posey

SUBJECT: Hurricane Damage Mitigation

DATE: April 10, 2007

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Deffenbaugh/ Emrich	Deffenbaugh	BI	Fav/CS
2.	_____	_____	GA	_____
3.	_____	_____	RC	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

I. Summary:

My Safe Florida Home Program

The bill substantially revises the My Safe Florida Home Program administered by the Department of Financial Services that provides free hurricane mitigation inspections and grants for mitigation improvements. The program would continue to provide free inspections throughout the state, but the grants would be limited as follows:

- Grants would be limited to 25 percent of the costs of the improvements, up to \$2,500, rather than 50 percent grants up to \$5,000.
- 100 percent grants would still be available for low-income homeowners, but up to \$2,500, rather than \$5,000.
- Grants would be limited to opening protections (shutters, etc.), exterior doors, and bracing gable ends. Grants would no longer be provided for roofing or reinforcing roof to wall connections.
- Grants would be limited to homestead properties having an ad valorem just valuation of \$300,000 or less, rather than an insured value of \$500,000 or less, and the home must be located in the “wind-borne debris region” (120 mph wind speed or 110 mph within 1 mile of the coast) as defined in the International Building Code, which is the same area where new homes must have opening protections.

The bill exempts licensed contractors, building code administrators and inspectors, architects, and engineers from specified requirements for hurricane mitigation inspectors. The department is authorized to use up to \$10 million of program funds to develop a no-interest loan program for mitigation measures. The department may contract with third parties for specified program

services, which are not subject to administrative costs limits, but contracts of \$500,000 or more must be approved by the Legislative Budget Commission.

Florida Building Code; Eligibility for Coverage in Citizens

The bill requires the Florida Building Commission to adopt standards for mitigation techniques for buildings constructed prior to the implementation of the Florida Building Code including gable-end bracing, secondary water barriers for roofs, roof-to-wall connections, roof-decking attachments, and opening protections. The Code must require that a roof replacement incorporates a secondary water barrier and strengthening the roof decking attachments.

For a building that is located in the wind-borne debris region that is valued at \$300,000 or more:

- A roof replacement must incorporate cost-effective improvements of roof-to-wall connections;
- Any activity that requires a building permit after January 1, 2008, must include opening protection (shutters, etc.) as required for new buildings;
- Such home is not eligible for coverage from Citizens Property Insurance Corporation unless it has opening protections as required for new construction, effective January 1, 2009.

Windstorm Loss Relativity Study

The bill requires the Office of Insurance Regulation, in consultation with the Department of Community Affairs and the Florida Building Commission, to conduct a study of the windstorm loss relativities for mitigation features for residential and commercial property, subject to legislative appropriations, in order to assure the validity of windstorm mitigation premium discounts.

This bill substantially amends the following sections of the Florida Statutes: 215.5586, 415.115, and 627.351. The bill creates the following section of the Florida Statutes: 553.844. The bill amends section 4, 39, and 42 of chapter 2006-12, Laws of Florida.

II. Present Situation:

The Florida Comprehensive Hurricane Damage Mitigation Program (“My Safe Florida Homes Program”)

In 2006, the Legislature created the Florida Comprehensive Hurricane Damage Mitigation Program and appropriated \$250 million to provide financial incentives to encourage residential property owners in Florida to retrofit their properties, making them less vulnerable to hurricane damage and helping decrease the cost of residential property and casualty insurance.¹ The program is now called “My Safe Florida Home (“Program”)”² and is administered by the Department of Financial Services (DFS) which has established goals to:

- Provide free home inspections to 90,000 Floridians
- Offer matching grants (average award amount of \$4,000) to as many as 50,000 Floridians

¹Chapter 2006-12, L.O.F. (CS/CS/SB 1980; s. 215.5586, F.S.) The funds appropriated to the program do not revert back to the state until June 30, 2009.

² The Program began operation on August 15, 2006.

- Help train and develop a mitigation workforce (inspectors and contractors)
- Provide education and consumer awareness programs.

To accomplish these goals, DFS began a pilot phase initially focused on training and conducting background checks of inspectors, providing free wind inspections, and developing a “pilot” home structure rating system (HSRS). The DFS is now in the process of awarding grants to interested homeowners who received an inspection during the pilot phase.

Inspections

The Program provides free home inspections to identify structural improvements (or mitigation measures) that would reduce vulnerability to hurricane damage. These inspections are available for single-family and multi-family homes with up to four units. To apply for an inspection, a homeowner must fill out an application and submit proof that the property to be inspected has a homestead exemption and an insured value of \$500,000 or less.

Once an inspection application is received, the DFS verifies the information on the application and forwards the application to a wind inspection company that contacts the homeowner to schedule an appointment and perform an inspection. Wind mitigation inspectors must undergo training, testing, drug testing, and background checking to participate in the program.³ After a home is inspected, inspectors generate a report providing recommended mitigation plans, estimated costs to make improvements, estimated insurance discounts if improvements are made, and a hurricane-resistance rating scale that offers a rating of the home "as is" and after improvements are made. The inspection report and a grant application are mailed to the homeowner by DFS within 30 to 45 days.

The DFS initially implemented the inspection part of the mitigation program via a pilot program which resulted in over 14,000 completed inspections. Results from 4,523 inspections sampled in the pilot program revealed, on average, homeowners were eligible for 18 percent in property insurance premium discounts without any mitigation measures being done. In addition, the average total cost of the most aggressive improvement plan recommended was less than \$10,000.

As of April 4, 2007, DFS has processed over 67,000 inspection applications; completed over 14,000 free home inspections in 17 counties via the pilot program; and trained, background checked, and drug tested over 550 wind inspectors. The DFS estimates it will complete another 10,000 inspections in Fiscal Year 2006-2007 at a cost of \$1.5 million and it anticipates completing another 66,000 inspections in Fiscal Year 2007-2008 at a cost of \$9.9 million. Over the life of the program, this will result in 90,000 inspections being completed at a cost of \$13.5 million.

Grants

The program provides grant monies to homeowners to harden single-family homes to reduce vulnerability to hurricane damage. To be eligible for a grant, the home must have undergone an inspection, be homesteaded, and have an insured value of \$500,000 or less (with the exception of low-income homeowners, where there is no value limit and insurance is not required). Matching

³ Wind inspectors are employed by wind inspection companies under contract with the DFS to provide inspections. The DFS is required by law to maintain a list of the inspectors authorized to participate in the program.

grants of up to \$5,000⁴ are available to homeowners and low-income homeowners are not required to match. Units in a residential multi-family building of up to four units are eligible for a mitigation grant if all unit owners in the building agree to participate in the program. The DFS currently mails a grant application to each homeowner whose home has been inspected. Once the DFS receives a completed grant application, the application is reviewed and approved within 30 days. Once the DFS approves a grant, a grant award letter and reimbursement forms are sent advising the homeowner they have one year to complete the recommended improvements. Funds are encumbered by DFS at that time and the homeowner subsequently contacts a contractor to perform the mitigation work who must complete mitigation construction training and be certified by the DFS to participate in the mitigation program. The DFS does not allow the mitigation inspector to do the mitigation construction work. Upon completion of the mitigation construction work, the homeowner returns reimbursement forms (which require the contractor to verify work was completed) and the DFS issues a check to the homeowner within 10 days.

According to s. 215.5586, F.S., grants must be used for one of seven types of mitigation improvements (and in the case of the low-income homeowners, up to 20 percent may be used for repairs necessary to effectuate mitigation improvements). 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.

As of April 4, 2007, DFS had mailed over 14,060 grant applications to homeowners, received 4,190 completed applications, and awarded 4,190 grants. In addition, it had signed up 1,108 contractors to perform mitigation⁵ under the program and partnered with 175 financial institutions to offer loans for home improvements.

Over the life of the program, DFS anticipates it will award a total of 50,000 grants (10,000 grants awarded in Fiscal Year 2006-2007, 30,000 in Fiscal Year 2007-2008 and 10,000 in Fiscal Year 2008-2009). The total amount of grants awarded is estimated to be \$200 million.

Non-Profit Organization Participation in Program

The DFS has established a three-prong approach to delivering mitigation to homeowners under the Program: direct service through DFS as described above; partnership with non-profit organizations; and partnership with local governments. To effectuate the second prong of the delivery approach, DFS has partnered with the Volunteer Florida Foundation (Foundation) and its non-profit partners. In this regard, DFS has allocated \$20 million of the \$250 million to the

⁴ The state's contribution may not exceed \$5,000.

⁵ Of the 1,108, 423 contractors are approved by DFS; however, the remaining contractors have not as yet submitted proof of workers' compensation insurance coverage or have not completed the required training.

Foundation which will use this money to partner with other non-profit organizations to provide mitigation measures for primarily low-income Floridians. The Foundation anticipates it can serve up to 4,000 low-income homeowners over the next year in 12 different counties.

Local Government Participation in Program

To effectuate the third prong of the delivery approach, DFS has partnered with local governments for two years. The DFS has allocated \$7.3 million of its \$250 million appropriation for its local government partnerships. Once a partnership with a local government is established, the local government is to use the DFS monies to provide mitigation measures for its local homeowners.

Education and Consumer Awareness Provided by the Program

Under the law, the program is required to provide public education and advertising to educate homeowners about mitigation techniques. The DFS estimates it will spend \$3 million of the \$250 million appropriation for education and consumer awareness.

Manufactured Housing and Mobile Home Mitigation and Enhancement Program

The Legislature also created the Manufactured Housing and Mobile Home Mitigation and Enhancement Program (Housing Program) in the same legislation which created the Florida Comprehensive Hurricane Damage Mitigation Program⁶ and appropriated \$7.5 million for this Housing Program.⁷ The Housing Program is designed to provide grants for mitigation for manufactured home communities and mobile home parks and is to be administered by Tallahassee Community College. The program provides grants of \$3,500 per manufactured home for mitigation and requires a homeowner to match the \$3,500 provided under the program. Grant monies are used to install shutters; carport, shed, screen and sunroom reinforcements; and tie downs.⁸

As of March 13, 2007, the Manufactured Housing Mitigation Program had completed 1,500 inspections of manufactured homes and spent approximately \$3.5 million of the \$7.5 million appropriated.

Windstorm Mitigation Study Committee

During the 2007 Special Legislative Session, the Legislature enacted ch. 2007-1, L.O.F. (CS/HB 1A) which created the Windstorm Mitigation Study Committee (Committee) and established its membership and duties. The Committee's charge was to analyze solutions and programs that addressed 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 included, but were 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;

⁶ Chapter 2006-12, L.O.F.

⁷ The \$7.5 million was part of the \$250 million appropriated to the Hurricane Damage Mitigation Program.

⁸ Information received from a representative of the Federation of Manufactured Home Owners of Florida, Inc. received on March 13, 2007 on file with the Senate Banking and Insurance Committee.

- 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 Committee met during February and March and issued its report on March 6, 2007. The report identified 55 recommendations grouped into eight categories which covered, but were not limited to, the following:

- Improve the My Safe Florida Home Program by having DFS streamline the process for applying for an inspection and grant; prioritize inspections and grants to single-family homes built prior to 2002, located in “wind-borne debris” regions; and authorize specified professionals to perform wind inspections;
- Consider new approaches by providing financial incentives to harden homes;
- Leverage the regulatory process by having affected agencies expedite aspects of the My Safe Florida Home Program;
- Provide for changes to the construction industry by directing the Florida Building Commission to analyze code-plus construction techniques, adopt standard, prescriptive retrofitting mitigation methods and develop methodologies to incorporate cost-effective wind loss reduction techniques;
- Provide incentives to allow DFS to leverage private/public partnerships to maximize mitigation objectives;
- Secure and grow funding to leverage state funds with other public and private funds to advance mitigation;
- Educate and engage the public by authorizing DFS to launch a public education and awareness campaign to advise homeowners of potential insurance premium discounts available based on home hardening efforts;
- Establish a Florida Catastrophic Storm Risk Management Center of Excellence to coordinate research and grant development among higher education institutions and the private sector to maximize Florida's ability to prepare, respond, recover and mitigate.

III. Effect of Proposed Changes:

Section 1. Amends s. 215.5586, F.S. to substantially revise the My Safe Florida Home Program administered by the Department of Financial Services that provides free hurricane mitigation inspections and grants for mitigation improvements. The program would continue to provide free

inspections throughout the state, but the grants would be limited as follows for persons who have obtained a completed inspection after May 1, 2007:

- Grants would be limited to 25 percent of the costs of the improvements, up to \$2,500, rather than 50 percent grants up to \$5,000.
- 100 percent grants would still be available for low-income homeowners, but up to \$2,500, rather than \$5,000.
- Grants would be limited to opening protections (shutters, etc.), exterior doors, and bracing gable ends. Grants would no longer be provided for roofing or reinforcing roof to wall connections.
- Grants would be limited to homestead properties having an ad valorem just valuation of \$300,000 or less, rather than an insured value of \$500,000 or less, and the home must be located in the “wind-borne debris region” as defined in the International Building Code. This is the same area where new homes must have opening protections, which is the area determined by the American Society of Engineers as hurricane-prone regions where sustained wind speeds reach 120 mph or greater plus areas within 1 mile of the coast where the wind speed is 110 mph or greater.
- The department must establish objective, reasonable criteria for prioritizing grant applications.

As currently required, the department must contract with wind certification entities to conduct the free inspections. However, the requirements for the inspectors used by such entities are revised to exempt licensed contractors, building code administrators and inspectors, architects, and engineers from the requirements from the specialized training requirements, drug testing and level 2 criminal background checks. Such licensees would be required to complete a 2-hour course on the program.

The bill eliminates the requirement that the department directly reimburse contractors, to allow for grants to be made to the homeowner. The department must establish objective, reasonable criteria for prioritizing grant applications.

The department is directed to liberally construe the current law that allows program funds to be used for matching fund grants to local governments and nonprofit entities for projects that will reduce hurricane damage to single-family homes, in order to leverage program funds with other sources of funding.

The department is authorized to use up to \$10 million of program funds to develop a no-interest loan program for mitigation measures, for up to 3 year, \$5,000 loans.

The department may contract with third parties for specified program services, which are not subject to administrative costs limits, but contracts of \$500,000 or more must be approved by the Legislative Budget Commission. Currently, the administrative costs of the program are limited to 1 percent of the \$250 million that was appropriated in 2006, or \$2.5 million. However, contracts have already exceeded this amount as noted in an Inspector General’s report.

Section 2. Amends s. 489.115, F.S., relating to continuing education of registered or certified contractors, to include wind mitigation methodologies within the current requirements.

Section 3. Amends sections 4, 39, and 42 of chapter 2006-12, Laws of Florida to make conforming changes to the name of the My Safe Florida Home Program.

Section 4. The bill requires the Office of Insurance Regulation, in consultation with the Department of Community Affairs and the Florida Building Commission, to conduct a study of the windstorm loss relativities for mitigation features for residential and commercial property, subject to legislative appropriations, in order to assure the validity of windstorm mitigation premium discounts.

Section 5. Creates s. 553.844, F.S., related to the windstorm loss mitigation requirements for the Florida Building Code (code). The bill makes legislative findings regarding the need for cost-effective techniques in the code for mitigating property damage for buildings built prior to the implementation of the code.

The bill requires the Florida Building Commission (commission) to adopt standards for mitigation techniques for buildings constructed prior to the implementation of the Florida Building Code including gable-end bracing, secondary water barriers for roofs, roof-to-wall connections, roof-decking attachments, and opening protections.

The commission must adopt these measures by October 1, 2007 as a rule separate from the code, to take immediate effect, to be incorporated into the next edition of the code. The rules and code must require that a roof replacement incorporates a secondary water barrier and strengthening the roof decking attachments. For a building that is located in the wind-borne debris region that is valued at \$300,000 or more:

- A roof replacement must incorporate cost-effective improvements of roof-to-wall connections. The Legislature intends for the commission to limit such costs to approximately 15 percent of the cost of re-roofing.
- Any activity (repair, replacement, improvement) to a home that requires a building permit, which is applied for after January 1, 2008, must include opening protection (shutters, etc.) as required for new buildings.

Section 6. Amends s. 627.351, F.S., related to Citizens Property Insurance Corporation, which is the state-created insurer that currently has the largest number of policies in force of any property insurer. The bill provides that effective January 1, 2009, that a personal lines residential structure that is located in the “wind-borne debris region” as defined in the International Building Code (see definition above) that is valued at \$300,000 or more is not eligible for coverage from Citizens unless it has opening protections as required for new construction, effective January 1, 2009.

Section 7. Effective date of upon becoming law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

Homes in windborne debris regions valued over \$300,000 will be required to add shutters or other opening protections whenever a building permit is pulled for any project, which will add costs, but reduce potential damage and property insurance premiums. Such homeowners will also be subject to this cost (and protection) as a condition of obtaining insurance coverage from Citizens. This will reduce the potential loss to Citizens and the deficit assessments levied against all property and casualty insurance policyholders.

Shutter cost estimates⁹ vary from about \$6 per square foot for steel panels to about \$60 per square foot for impact resistant windows. Aluminum panels have become a popular low-cost metal panel option and are estimated at \$9 to \$16 professionally installed. On average, the window (and doors with windows) area to be shuttered is about 15 percent of the home's total square feet; for example, a 2,000 sq. ft. home would require about 300 sq. ft to be covered by shutters. This size home (2000 sq. ft.) is a reasonable estimate for a home valued at \$300,000 (\$150/sq.ft.). Using an estimate of \$13 per sq. ft for the cost of the shutters (about the midpoint of the aluminum panel option, professionally installed), the cost would be \$3,900 for a 2,000 sq. ft. home (i.e., a \$300,000 home). For a larger, higher value home of 3,300 sq. ft. (a \$500,000 home), the cost would be \$6,435. In addition, based on other estimates obtained by staff, the cost of hardening a non-shuttered door (for ingress/egress, adding second deadbolt and strengthened hinges) would be about \$150 and the cost of bracing a garage door (without windows) would be about \$350.

⁹ Obtained from Dr. Tim Reinhold, a nationally known wind engineer and professor of civil engineering at Clemson University and Director of Engineering & Vice President of the Institute for Business & Home Safety.

Homes that install shutters that comply with the Florida Building Code will be eligible for premium discounts. The minimum required percentage discounts based on the latest rule adopted by the Financial Services Commission are as follows¹⁰:

1) Non-Florida Building Code Equivalent Roof Covering, Basic Opening Protection, Other Type Roof (i.e. Gable) – 29 percent credit in Terrain C and 35 percent in Terrain B.

2) Florida Building Code Equivalent Roof Covering, Basic Opening Protection, Other Type Roof (i.e. Gable) – 39 percent credit in Terrain C and 47 percent in Terrain B.

“Terrain C” is primarily those areas on barrier islands or within 1,500 feet of the coast. “Terrain B” consists of all other areas of the state.

NOTE: This is based on a 2 percent deductible and a frame, masonry or reinforced masonry structure. The discounts are based on the wind premium.

Examples of the dollar amount of the discount for opening protection were provided by Citizens Property Insurance Corporation, using the rate filing that has recently been filed with the Office of Insurance Regulation to reflect the percentage mitigation discounts specified above. The premium examples are for Citizens’ multi-peril policies (Personal Lines Account) in Terrain B (inland) and Terrain C (coastal):

\$300,000 Policy Limits (Citizens Multi-Peril) -- Dade Co. (Terr. 34)			
Roof Covering and Distance from Coast	Premium Without Opening Protections	Premium With Opening Protections	Savings
Non-FBC, Terrain B	\$7,044	\$5,604	\$1,140
Non-FBC, Terrain C	\$7,044	\$5,851	\$1,193
FBC, Terrain B	\$6,591	\$5,110	\$1,481
FBC, Terrain C	\$6,756	\$5,439	\$1,317

\$500,000 Policy Limits (Citizens Multi-Peril) - Dade Co. (Terr. 34)			
Roof Covering and Distance from Coast	Premium Without Opening Protections	Premium With Opening Protections	Savings
Non-FBC, Terrain B	\$12,230	\$9,730	\$2,500
Non-FBC, Terrain C	\$12,230	\$10,158	\$2,072
FBC, Terrain B	\$11,444	\$8,871	\$2,573
FBC, Terrain C	\$11,730	\$9,444	\$2,286

¹⁰ Rule 69O-170.017, F.A.C., and Form OIR-B1-1699 (October 2006).

\$300,000 Policy Limits (Citizens Multi-Peril) - Hillsborough Co. (Terr. 47)			
Roof Covering and Distance from Coast	Premium Without Opening Protections	Premium With Opening Protections	Savings
Non-FBC, Terrain B	\$3,446	\$2,991	\$455
Non-FBC, Terrain C	\$3,446	\$3,069	\$377
FBC, Terrain B	\$3,302	\$2,836	\$466
FBC, Terrain C	\$3,355	\$2,940	\$415

\$500,000 Policy Limits (Citizens Multi-Peril) - Hillsborough Co. (Terr. 47)			
Roof Covering and Distance from Coast	Premium Without Opening Protections	Premium With Opening Protections	Savings
Non-FBC, Terrain B	\$5,982	\$5,194	\$788
Non-FBC, Terrain C	\$5,982	\$5,329	\$653
FBC, Terrain B	\$5,735	\$4,927	\$808
FBC, Terrain C	\$5,825	\$5,104	\$721

“Terrain C” is primarily those areas on barrier islands or within 1,500 feet of the coast. “Terrain B” are all other areas of the state.

“Non-FBC” are roof coverings that do not meet requirements of the Florida Building Code. “FBC” are roof coverings that meet the requirements of the Florida Building Code.

Rates based on 20-year old home, Coverage C (Personal Property) is 50 percent of Coverage A (Structure) with replacement cost on contents, 2 percent hurricane deductible; \$1,000 other perils deductible.

Requiring (or clarifying) that all roof replacements must have secondary water barrier (such as plastic sheathing on the decking) and strengthened roof deck attachment (nailing) is a relatively low additional cost to re-roofing. These improvements will also result in required windstorm premium discounts.

Those homes in the windborne debris region valued over \$300,000 would have additional costs of up to about 15 percent of the cost of re-roofing, for strengthening roof-to-wall attachments, depending on the measures developed by the Florida Building Commission.

As roofs are replaced, the Florida housing stock will be less vulnerable to hurricane damage, which will reduce losses and property insurance premiums.

The changes to the My Safe Florida Home Program will enable more persons to benefit from grants, but at a lower amount and subject to such other limitations described.

C. Government Sector Impact:

The department may contract with third parties for specified program services, which are not subject to administrative cost limits, but contracts of \$500,000 or more must be approved by the Legislative Budget Commission. Currently, the administrative costs of

the program are limited to 1 percent of the \$250 million that was appropriated in 2006, or \$2.5 million.

The Florida Building Commission will be subject to the administrative costs of adopting rules and making changes to the Florida Building Code, as required by the bill.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Summary of Amendments:

None.

This Senate Professional Staff Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.
