

RAZE ORDER LEGISLATION

Municipal Raze Law: If a municipal governing body, building inspector or designated officer determines that the cost of repairs of a building would exceed 50 percent of the assessed value the repairs are presumed unreasonable.

Value Policy Law: Valued policy law requires insurance companies to pay the full value of a policy to the insured in the event of a total loss. Valued policy law does not consider the actual cash value of the insured property at the time of the loss; instead, the law mandates total payment.

The State Supreme Court has rejected a monetary analysis to determine whether a building is wholly destroyed. In *Behrendt*, the court rejected the argument that a house was “wholly destroyed” because the cost of repair is more than the pre-fire value of the damaged property, stating that comparison is “irrelevant when determining” whether a property is wholly destroyed

Background: Fires, storms, floods, and sudden perils can leave homes greatly damaged or destroyed. Sometimes these events result in a total loss. In other instances the dwelling may suffer significant damage, but can be repaired.

When physically possible, repairing a home damaged by a sudden peril may be the most cost effective means of making insureds whole following a loss. Under current law, local municipalities may issue raze orders, ordering a property to be levelled and returned to a dust free state if the cost of repairs exceeds 50% of the equalized assessed value of the home.

A raze order issued for a home that can be repaired results in an inefficient allocation of resources, resulting in increased premiums for homeowners, and undermines the principle of indemnity underlying insurance policies. The negative effects on premiums and insurance coverage this practice creates is most felt in rural or urban parts of the state where there is the greatest discrepancy between equalized assessed value and replacement cost value.

Proposed Legislation: Under this bill, a municipality may not issue a raze order for an insured dwelling that has incurred damage that is covered under the insurance policy (covered damage) unless the municipality does all of the following:

- Provides notice of intent to issue a raze order to the owner of record of the dwelling, the holder of any encumbrance on the dwelling, and the insurer of the dwelling.
- Accepts and considers certain materials submitted to it that assist in establishing the extent of damage or the reasonable cost of repairs to the dwelling.
- Conducts an on-site inspection of the dwelling to assess the extent of covered damage.
- The bill also specifies that, for an insured dwelling, if the municipality determines that the estimated cost of repair of the dwelling does not exceed 70 percent of the insurance policy limits of the dwelling, the repairs are presumed reasonable.