

# HOUSE BILL REPORT

## HB 1516

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**As Reported by House Committee On:**  
Consumer Protection & Business

**Title:** An act relating to conducting a study of insurance coverage options for permanently affordable homeownership units.

**Brief Description:** Conducting a study of insurance coverage options for permanently affordable homeownership units.

**Sponsors:** Representatives Hill, Taylor, Reed, Simmons, Morgan, Ormsby, Farivar, Parshley, Gregerson, Macri, Ramel, Pollet and Salahuddin.

**Brief History:**

**Committee Activity:**

Consumer Protection & Business: 2/7/25, 2/19/25 [DPS].

**Brief Summary of Substitute Bill**

- Requires the Office of the Insurance Commissioner to conduct a study of insurance coverage options and approaches to reduce condominium construction defect liability for permanently affordable homeownership units.

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### HOUSE COMMITTEE ON CONSUMER PROTECTION & BUSINESS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Walen, Chair; Berry, Donaghy, Fosse, Kloba, Morgan, Reeves, Ryu and Santos.

**Minority Report:** Do not pass. Signed by 6 members: Representatives McClintock, Ranking Minority Member; Dufault, Assistant Ranking Minority Member; Abbarno, Corry, Steele and Volz.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.*

**Staff:** Megan Mulvihill (786-7304).

**Background:**

Permanently affordable homeownership is a type of housing development where homes are sold at below-market rates to income-qualified buyers and include restrictions for future resale. Often these developments are in partnership with nonprofit organizations or local governments. In 2021 the Legislature adopted a 20-year property tax exemption for new housing construction projects that sell or rent at least 25 percent of the units to nonprofit organizations or local governments that assure permanently affordable homeownership. These units must be sold or rented to households earning no more than 80 percent of the average median income for the city or local jurisdiction in which the unit is located.

The Office of the Insurance Commissioner (OIC) published a report on November 7, 2024, titled "Market Study of Insurance for Affordable Housing Providers in Washington State." The study reviewed the availability and affordability of property and liability insurance for housing providers receiving Housing Trust Fund resources and serving extremely low-income households. The study found three primary factors affecting the availability and affordability of insurance for affordable housing: (1) the overall challenging market conditions for property and casualty insurance; (2) the property characteristics of affordable housing; and (3) the perceived risk profile of the housing providers' residents. The study included 12 potential policy options for legislative consideration, grouped into four categories:

- reducing the total cost of risk by physically improving the properties;
- increasing the availability of insurance by establishing a new insurance or reinsurance mechanism;
- subsidizing the cost of insurance; or
- combining elements of these options.

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**Summary of Substitute Bill:**

The OIC must conduct a study regarding how projects that develop new permanently affordable homeownership units may use different insurance coverage options and approaches to reduce costs related to condominium construction defect liability while maintaining commensurate access to insurance coverage. The OIC must consult with nonprofit organizations and government entities, authorized insurers, and unauthorized insurers, all of which sponsor or insure permanently affordable homeownership units, along with representatives of the residential building construction industry and relevant state associations. The OIC must collect and use relevant findings from past insurance market studies or other relevant information released on or after December 31, 2017. The OIC must also collect information and data from insurance companies and may contract with actuarial or other consultants. The OIC must submit a report on its findings to the Legislature by December 31, 2026, that includes:

- an actuarial analysis of how the condominium construction defect liability risk pools for nonprofit organizations and government entities may differ from for-profit models of condominium production, sale, and ownership;
- an analysis of the role that the OIC and insurers can play to lower condominium construction defect liability insurance costs for nonprofit organizations and government entities; and
- recommendations for how current or new insurance mechanisms may be used to reduce insurance costs for nonprofit organizations and government entities.

Funding for the study must be provided from the Insurance Commissioner's Regulatory Fund.

Permanently affordable homeownership is defined as housing sponsored by a nonprofit organization or government entity that executes at least a 99-year ground lease or deed restriction with each sale. The ground lease or deed restriction must include a resale restriction to low- and moderate-income homebuyers, a right of first refusal for the sponsor to purchase a home at resale, and a requirement that the sponsor approve any refinancing.

#### **Substitute Bill Compared to Original Bill:**

The substitute bill requires the OIC to also collect information and data from insurance companies for the study, and permits the OIC to contract with actuarial consultants. The OIC must consult with representatives of the residential building construction industry in conducting the study. The report due date and the bill's expiration date are both extended by one year. The study is required to be funded from the Insurance Commissioner's Regulatory Fund, and other small language changes are made.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

#### **Staff Summary of Public Testimony:**

(In support) Everyone should have access to a home. Condominiums cost much less than townhomes and single family homes and are a critical entry point into the market for first-time homebuyers. However, condominium construction has stalled dramatically. The strict statutory warranty causes a high risk of liability for condominium developers. There are two other condominium bills before the Legislature that deal with statutory warranty for condominiums, and this legislation is complementary. The other issue is the ownership model, where there is a community land trust or a nonprofit housing developer. They do

not sell the entirety of the project like a for-profit condominium developer does. The nonprofit organization maintains ownership of the land, ownership of the project, and they have a limited equity that they sell to unit owners. Yet, these kinds of projects still have to pay the same kinds of insurance rates as for-profit condominium projects. Insurance costs present an immense barrier to creating permanently affordable homeownership units. Despite a unique model of deed restrictions, resale limitations, and nonprofit organizational oversight that differs fundamentally from market rate development, insurance costs can approach \$1 million per project with no clear pathway to reduce costs. The bill also has a definition of permanently affordable homeownership units that is the most inclusive definition in statute. The OIC would like to see an amendment that allows for some data collection and permits consultation for an actuarial analysis.

(Opposed) None.

**Persons Testifying:** Representative Natasha Hill, prime sponsor; Rory Paine-Donovan, Office of the Insurance Commissioner; Ethan Robinson, Habitat for Humanity Seattle-King and Kittitas Counties; Brady Nordstrom, Housing Development Consortium; Bill Clarke, Washington REALTORS; Victoria O'Banion, Northwest Cooperative Development Center; and William Cornell, Preg O'Donnell and Gillett.

**Persons Signed In To Testify But Not Testifying:** None.