Analysis of a Proposal To Expand the Regulation of the Alarm Industry

A Report to the Governor and the Legislature of the State of Hawaii

Report No. 01-11
July 2001

THE AUDITOR
STATE OF HAWAII

Office of the Auditor

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OVERVIEW

Analysis of a Proposal To Expand the Regulation of the Alarm Industry

Report No. 01-11, June 2001

Summary

The Legislature, through House Concurrent Resolution No. 65, House Draft 1, of the 2000 Regular Session, requested the State Auditor to study the need to regulate the alarm industry and to consider House Bill No. 2125 of 2000, which proposed to expand regulation of the industry under Chapter 436M, Hawaii Revised Statutes. The resolution suggested that the proliferation of false alarms in Honolulu is detrimental to public health, safety, and welfare; is a costly diversion of county resources; and is partly the result of the absence of a licensing or permitting program.

Alarms are devices that signal a warning or alert. Security (or burglar) alarms are typically designed to detect an unauthorized intrusion into a building. While focusing on property protection, they may also protect life safety. Most security alarm systems sound an audible alert at the site and may notify a central monitoring station. Fire alarms focus on protecting both life safety and property. Fire alarms typically sound an audible alert at the site and may notify a central monitoring station or fire department.

Alarm businesses engage in such activities as selling, installing, and maintaining alarm systems. Alarm businesses may be required to have a contractor license, electrician license, or both, depending on the types of alarm services they provide. The number of alarm businesses in Hawaii is uncertain because of data limitations. However, based on listings in the GTE yellow pages and a survey that we conducted, we estimate that there are at least 80 alarm businesses in the state.

We concluded that expanded statewide regulation of the alarm industry would be difficult to justify. Security false alarms have social costs that warrant regulation. However, the harm is uncertain and solutions are limited. The regulatory options have drawbacks. If action is deemed necessary, certain regulatory options are more feasible and enforceable than others. Fire false alarms are a lesser problem requiring little action.

We also found that House Bill No. 2125 contained many flaws. Finally, we found that a "grandfather" clause in the existing alarm industry law is unfair.

Recommendations and Response

We recommended that before pursuing additional regulation of the alarm industry, legislators may wish to consider whether the benefits of such regulation would outweigh the costs and drawbacks. One option would be to leave the matter to the counties. For example, counties concerned about the dollar cost of security and fire false alarms could impose a tax at the time alarm systems are sold. We also

identified the regulatory options that appear most feasible and enforceable should the Legislature wish to pursue new, statewide regulation. We recommended that any new legislation avoid the flaws we identified in House Bill No. 2125. We suggested the Legislature may wish to repeal Section 436M-2(d), Hawaii Revised Statutes, to eliminate the unfair "grandfathering" provision.

The Honolulu Police Department, Hawaii Police Department, and Honolulu Fire Department responded to a draft of our report. The Honolulu Police Department observed that our report is comprehensive and fairly outlines the issues and probable effects of the proposal to expand regulation of the alarm industry. The department says that it has embarked on an education program for alarm system users. The department is soliciting support for a county ordinance that would effectively regulate the alarm industry and help reduce false alarms. The ordinance would require a permit and registration for all alarm users, create a tiered system of service fees for excessive false alarms, and authorize permit revocation and no police response to premises where assessed service fees are delinquent.

The Hawaii Police Department said that it concurs with our findings. The department also suggests consideration of a requirement that business owners, their representative, or the security alarm company respond to all alarms.

The Honolulu Fire Department said that it concurs with us that fire false alarms are not a major concern requiring further state regulation.

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Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 01-11
June 2001

Foreword

House Concurrent Resolution No. 65, House Draft 1, of the 2000 Regular Session requested the State Auditor to study the need to regulate the alarm industry, and to consider House Bill No. 2125 of 2000, which proposed to expand existing regulation of the industry. The Auditor was asked to analyze the probable effects of the proposed regulatory system; assess whether the proposed regulatory scheme is consistent with state policy as provided in Section 26H-2, HRS, of the Hawaii Regulatory Licensing Reform Act; and assess alternative forms of regulation of the alarm industry. This report presents our findings and recommendations.

We wish to acknowledge the cooperation of the county police departments, the county fire departments, the Department of Commerce and Consumer Affairs, and others whom we contacted during the course of the study.

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Chapter 1

Introduction

The State of Hawaii has regulated alarm businesses since 1986 under Chapter 436M, Hawaii Revised Statutes (HRS). The law's enactment reflected concerns about false alarms triggered by security systems.

House Concurrent Resolution No. 65, House Draft 1, of the 2000 Regular Session requested the State Auditor to study the need to regulate the alarm industry, and to consider House Bill No. 2125 of 2000, which proposed to expand regulation under Chapter 436M. The resolution suggested that the proliferation of false alarms in Honolulu is detrimental to public health, safety, and welfare; is a costly diversion of county resources; and is partly the result of the absence of a licensing or permitting program.

The following report responds to the Legislature's request.

Background on the Alarm Industry

Alarms are devices that signal a warning or alert. Security (or burglar) alarms are typically designed to detect an unauthorized intrusion into a building. While focusing on property protection, they may also protect life safety. Most security alarm systems sound an audible alert at the site and may notify a central monitoring station.

Fire alarms focus on protecting both life safety and property. They can be manual or automatic and they use various devices to sense fire emergencies. Fire alarms typically sound an audible alert at the site and may notify a central monitoring station or fire department.

Alarm businesses engage in such activities as selling, installing, and maintaining alarm systems. A wide range of systems is sold through wholesalers, retailers, catalogs, and the Internet. Some systems allow "do-it-yourselfers" to install alarms without the aid of a licensed electrician.

Numbers in Hawaii

The number of alarm businesses in Hawaii is uncertain because of data limitations. The Department of Commerce and Consumer Affairs maintains no comprehensive list of alarm businesses because they are not specifically licensed with the department *as* alarm businesses.

Alarm businesses may be required to have a contractor license, electrician license, or both, depending on the types of alarm services they provide. However, licensed contractors or electricians may not *necessarily* work with alarms. Furthermore, the department lists contractor licensees

according to the type of license but does not list electrician licensees according to type. For these reasons, the department's contractor and electrician lists cannot be used to identify the number of alarm businesses in Hawaii.

However, based on listings in the GTE yellow pages and a survey that we conducted, we estimate that there are at least 80 alarm businesses in the state.

Professional organizations

Various professional organizations exist for the alarm industry. The National Burglar and Fire Alarm Association was established in 1947 as the National Burglar Alarm Association. In 1990, the association had 2,300 members. Its mission is to promote the effective and responsible use of electronic security and life-safety systems, including reducing false dispatches to a minimum. It supports national, state, and local cooperative efforts to establish and implement cost-effective standards, systems, procedures, and training.

The False Alarm Reduction Association was established in 1997 and serves more than 120 members in the United States and Canada. The association consists of government and law enforcement officials who administer and implement false alarm reduction programs. The association's goal is to assist these individuals in reducing false alarms in their jurisdictions by facilitating the exchange of information, influencing legislation, and establishing relationships with other groups interested in false alarm reduction.

The two associations have prepared a model security burglar alarm ordinance to serve as a base framework for both law enforcement and the alarm industry. The associations believe the model has features proven to reduce false alarms, but they acknowledge the model may or may not work in different locales. The model is a working draft and is subject to change.

The Hawaii Burglar Alarm Association has existed for about 20 years and has between 20 and 25 members. Its primary goals are to discuss regulation of the alarm industry and to meet for emergency reasons.

Current and Proposed Regulation in Hawaii

In 1984, the Honolulu Police Department reportedly responded to over 25,000 false alarm calls. Act 134, Session Laws of Hawaii 1986, created Chapter 436M, HRS (Alarm Businesses), in order to regulate alarm businesses, establish minimum standards for their conduct and responsibility, and address the drain on the Honolulu Police Department's resources due to false alarms. Other state and county laws can also affect the alarm industry.

During the 2000 session, continuing concern about false alarms resulted in the introduction of House Bill No. 2125, which would have expanded statewide regulation of the industry under Chapter 436M.

Chapter 436M, HRS

Chapter 436M, HRS, defines an alarm business as any individual, corporation, or other business entity that alters, installs, leases, maintains, moves, sells, services, repairs, or replaces any alarm system in or on any building, place, or premises, except motor vehicles. The law defines an alarm system as any device that emits a sound or transmits a signal or message when activated and is designed to detect unauthorized entry into a building, place, or premise (except for motor vehicles), or to alert others of an unlawful act, or both. The law does not mention fire alarms.

False alarms are defined as alarm activations that are communicated to police but that are not in response to an actual or threatened criminal act. False alarms include activations caused by negligence, improperly installed or maintained equipment, or efforts to summon the police for a purpose other than that for which the alarm is designed. False alarms do not include activations for causes undetermined, in reasonable doubt, or beyond the control of the alarm user or alarm business.

Chapter 436M requires alarm businesses that maintain, service, or monitor alarm systems to keep records that include all alarm activation dates, times, reasons, and a monthly count of activations at each alarm user site. At a police department's request, these businesses must provide false alarm and alarm system data needed to determine the monthly false alarm rate for each alarm business. In addition, the name, address, and telephone number of the alarm business that maintains, services, or monitors the system, or of the person who may be contacted to service or disconnect the system, must be posted on or next to each alarm system.

The law also requires that audible alarm systems have a device that automatically terminates the signal within 15 minutes of activation. Automatic telephone dialers must not be programmed for a municipal emergency number such as 911 or any police facility telephone number. Alarm systems must not be activated intentionally except to (1) report an unauthorized intrusion or commission of an unlawful act; (2) test an installed system with prior consent by the police; or (3) permit an alarm business to demonstrate a system to a prospective buyer or user.

With certain exceptions, Chapter 436M also requires alarm businesses to maintain a $5,000 surety bond during their first five years of operation. The bond's purpose is to protect persons injured by the alarm business's violation of Chapter 436M or any consumer protection statute, or the business's failure to promptly refund fees illegally or incorrectly obtained from customers. Exempted from the bonding requirement are (1) alarm

businesses that have completed five or more continuous years of operation on November 8, 1986 and (2) alarm businesses that only *sell* alarm systems and do not provide other alarm services (such as repair).

Violations of the law can result in court-ordered restitution to injured consumers and fines from $500 to $2,500 for each violation. The law designates no agency other than the courts to implement Chapter 436M.

Other laws

Chapter 436M is not the only law that can affect alarms. Other laws include:

- *Chapter 444, HRS (Contractors) and Chapter 448E, HRS (Electricians and Plumbers).* Depending on certain licensing criteria, these laws may require persons who maintain, service, repair, alter, replace, move, or install alarms to be licensed as contractors, electricians, or both. Owners of businesses that contract out for the alarm services may be required to have a C13 license (electrical contractor), C15 license (electronic systems contractor), or C15a license (fire and burglar alarm contractor). A C13 contractor can perform the work of C15 and C15a contractors. The contractors statute does not apply to projects or operations for which the aggregate contract price for labor, materials, taxes, and all other items is $1,000 or less.

  A contractor license can be issued to a contracting entity only if it is under the direct management of a principal responsible managing employee with an appropriate and current license. The managing employee is primarily responsible for the direct management of the business of the contracting entity. The persons responsible for actually performing the work are required to have a journey worker specialty, supervising specialty electrician, or journey worker electrician license.

  To obtain a license, contractors and electricians must have adequate experience, pass certain tests, and file an application. They must pay application fees and subsequent fees after the license is approved. Contractor or electrician licenses are not required for alarm businesses that only monitor, sell, or lease alarms.

- *Section 710-1014, HRS (Rendering a False Alarm).* This section of the Hawaii Penal Code makes it a misdemeanor to knowingly cause a fire or other emergency false alarm to be sent to an official or volunteer fire department, any other government agency, or public utility that deals with emergencies endangering life or property.

- *Chapter 132, HRS (Fire Protection).* This statute requires the State Fire Council (comprising the county fire chiefs) to transmit the state model fire code to the respective county councils, which enact the code's provisions, or more stringent provisions, or, with the consent of the State Fire Council, less stringent provisions. The State Fire Council can advise and assist the county fire departments where appropriate. The council may prescribe standard procedures and forms relating to inspections and reporting fires, approve cooperation plans among the county fire departments, and advise the governor and Legislature about fire prevention and protection, life safety, and any other function or activity for which the county fire departments are generally responsible.

- *County Fire Codes, Chapter 20 (Honolulu), Chapter 26 (Hawaii), and Chapter 15A (Kauai and Maui).* The State of Hawaii adopted the State Fire Code, pursuant to Chapter 132, HRS, and incorporated the Uniform Fire Code, 1988 Edition, of the Western Fire Chiefs Association and International Conference of Building Officials, which is still the most current edition. The Uniform Fire Code contains general provisions for fire safety, including sections regarding the installation and maintenance of fire protection, life-safety systems and appliances; fire reporting and false alarms; and fire alarm systems. All fire alarm systems must meet the approval of the fire department as to installation and location and are subject to periodic tests as required by the chief. In addition, fire alarm systems must be maintained and tested in accordance with nationally recognized standards. The chief is responsible for establishing minimum requirements for the periodic testing of fire alarm systems.

  The Uniform Fire Code makes it unlawful for any person to give, signal, or transmit any false alarm. It is also unlawful to tamper with, render inoperative, or maliciously damage any fire alarm equipment maintained for the purpose of sounding or transmitting fire alarms.

- *County Electrical Codes, Chapter 17 and 18 (Honolulu), Chapter 9 (Hawaii), Chapter 13 (Kauai), and Chapter 16 (Maui).* Under these codes, electrical work includes the installation, alteration, reconstruction, or repair of electrical wiring. Electrical wiring includes any conductor, material, device, fitting, apparatus, appliance, fixture, or equipment, constituting a part of or connected to any electrical installation, attached or fastened to any building, structure, or premises, and which installation or portion thereof is designed, intended, or used

to generate, transmit, transform, or utilize electrical energy within the scope and purpose of the National Electrical Code, published by the National Fire Protection Association Inc.

The counties require that a permit be obtained for electrical work, except for the following: electronic equipment for a single-family dwelling (Honolulu County and Maui County), electronic equipment for a two-family dwelling (Honolulu County), any state government agency (Honolulu County), any federal or state agency (Kauai County), and maintenance work performed by a properly licensed person (Hawaii County). In addition, an inspection and approval is required for all electric wiring for which a permit is required before being concealed, energized, or used.

- *Maui County's False Alarm Ordinance, Chapter 8.34.* Maui County implemented this ordinance in 1995 to reduce the danger and annoyance associated with false alarms and to encourage business and residential owners to use and maintain their alarm systems properly. The ordinance requires that an alarm system user pay a service charge for each false alarm response made by the police department in excess of three responses in any six-month period. The police department must maintain records of false alarm responses and notify the director of public works and waste management of false alarms in excess of three in connection with any business or residential premises within a six-month period. Any person violating the chapter must be fined from $50 to $500 for each violation. The county director of public works and waste management is responsible for issuing a written notice of service charge by mail.

Proposed law

House Bill No. 2125, which is no longer before the Legislature, would have expanded Chapter 436M, HRS. The bill's stated intent was to authorize the alarm industry to regulate itself through a board.

The bill broadened the term "alarm business" to "alarm industry" and added monitoring to the definition. It changed the definition of "false alarm" to include activations not in response to an actual or threatened "act" (the existing law says "criminal act") and activations communicated to the "appropriate emergency service" (the existing law says only "police"). The bill excluded activations resulting from a power outage, hurricane, fire, earthquake, or other act of nature.

House Bill No. 2125 also expanded Chapter 436M as follows:

- *Alarm Industry Board.* The board consisted of eight appointed members, including the chief of police or designee of any of the

four counties, a representative of the State Fire Council, four alarm industry representatives, and two alarm users or customers. "Alarm users" were persons who exercised control of the property on which the alarm system is installed. "Customers" were persons who purchased, leased, contracted for, or otherwise obtained an alarm system "or for the servicing or maintenance of an alarm system from a member of the alarm industry." The state director of commerce and consumer affairs or a designee was an ex officio nonvoting ninth member of the board.

The powers, duties, and functions of the board included: (1) monitoring the scope of the profession, (2) creating rules for alarm user permits, (3) recommending suspension or revocation of any alarm permit for cause, (4) enforcing the chapter and rules, and (5) appointing necessary civil service staff or engaging consultants as necessary to assist the board.

- *License.* Persons engaged in the business of maintaining, servicing, repairing, altering, replacing, moving, or installing an alarm system were required to first obtain a license in accordance with the provisions of chapters 444, HRS (Contractors) and 448E, HRS (Electricians and Plumbers).

- *Other Alarm-Business Requirements*. Alarm businesses were prohibited from employing any person convicted of a felony or two or more criminal misdemeanors. Alarm businesses using an answering service were required to properly instruct answering service personnel. Alarm businesses had to install and maintain a trouble-free system; instruct subscribers in using and operating the alarm, especially those factors that can cause a needless alarm; and perform periodic inspections to reeducate subscribers and employees. In addition, alarm businesses were not allowed to install alarms with a sound similar to an emergency vehicle or civil defense siren.

- *Alarm-User Requirements.* In a conspicuous place at or near the front of the premises protected by the alarm, alarm users were required to post the name and telephone number of either an alarm business or another person that the appropriate emergency service could contact to identify the alarm user and service or disconnect the system if it malfunctioned.

  Alarm users were not responsible for an activation when there was visible evidence that it resulted from hurricane, fire, earthquake, or other act of nature.

While retaining penalties, the bill deleted language in Chapter 436M that specifically authorizes fines "for each unlawful act or practice." The bill

did not designate any government agency where the alarm industry board would be located or that would be involved in implementing the law.

Request for Analysis

The Hawaii Regulatory Licensing Reform Act (Chapter 26H, HRS), directs the Auditor to analyze proposed legislation to regulate a previously unregulated occupation, the probable effects of the proposal, and whether such regulation is necessary to protect the public. Although the alarm industry is already regulated, House Concurrent Resolution No. 65, House Draft 1, in effect requested that the Auditor perform a sunrise-type analysis of the regulation proposed in House Bill No. 2125. The Auditor was asked to analyze the probable effects of the proposed regulatory system; assess whether the proposed regulatory scheme is consistent with state policy as provided in Section 26H-2, HRS; and assess alternative forms of regulation of the alarm industry. The analysis was to include recommendations on how providers and users of alarms could be regulated; whether an autonomous board or a state or county agency would be better suited to implement the regulation; and the cost impact on the agency, the regulated group, and alarm users.

Objectives of the Analysis

1. Determine whether regulation of the alarm industry is warranted.
2. Assess the probable effects of regulation.
3. Assess the appropriateness of alternative forms of regulation.
4. Make recommendations as appropriate.

Scope and Methodology

To assess the need to regulate the alarm industry and to expand the existing regulation of the industry under Chapter 436M, HRS, as proposed in House Bill No. 2125, we applied the regulation criteria set forth in Section 26H-2, HRS, of the Hawaii Regulatory Licensing Reform Act.

The Legislature established policies in Section 26H-2 to ensure that regulation of an occupation takes place only for the right reason: to protect consumers. Regulation is an exercise of the State's police power and should not be taken lightly. Consumers rarely initiate regulation; more often, practitioners themselves request regulation for benefits that go beyond consumer protection. Practitioners often equate licensure with professional status in seeking respect for the occupation. Regulation may also provide access to third-party reimbursements for their services and help restrict entry into their field.

The policies set forth in Section 26H-2, amended by Act 45, Session Laws of Hawaii 1996, continue to reinforce the primary purpose of consumer protection:

- The State should regulate professions and vocations only where reasonably necessary to protect consumers;
- Regulation should protect the health, safety, and welfare of consumers and not the profession;
- Evidence of abuses by providers of the service should be given great weight in determining whether a reasonable need for regulation exists;
- Regulation should be avoided if it artificially increases the costs of goods and services to consumers unless the cost is exceeded by the potential danger to consumers;
- Regulation should be eliminated when it has no further benefits to consumers;
- Regulation should not unreasonably restrict qualified persons from entering the profession; and
- Aggregate fees for regulation and licensure must not be less than the full costs of administering the program.

We were also guided by the 1994 edition of *Questions A Legislator Should Ask* by Benjamin Shimberg and Doug Roederer (published by the Council on Licensure, Enforcement and Regulation, a national organization). The primary guiding principle for legislators, according to this publication, is whether the unregulated profession presents a clear and present danger to the public's health, safety, and welfare. If it does, regulation may be necessary; if not, regulation is unnecessary and wastes taxpayers' money.

We used additional criteria for this analysis, including whether:

- The incidence or severity of harm based on documented evidence is sufficiently real or serious to warrant regulation;
- The cause of harm is the practitioner's incompetence or insufficient skill;
- The occupational skill needed to prevent harm can be defined in law and measured;

- No alternatives provide sufficient protection to consumers (such as federal programs, other state laws, marketplace constraints, private action, or supervision); and

- Most other states regulate the occupation for the same reasons.

In assessing the need for regulation and the specific regulatory program, we took the position that the burden of proof is on those in the occupation to justify the need for regulation. We evaluated their arguments and data against the criteria stated above.

It is not enough that regulation *may* have *some* benefits. We recommend regulation only if it is *demonstrably* necessary to protect the public.

We also assessed House Bill No. 2125, the proposal to expand regulation, as to whether:

- The scope of practice regulated is clearly defined and enforceable;

- The licensing requirements are constitutional and legal (for example, no residency or citizenship requirements);

- Licensing requirements, such as experience or continuing education, are directly related to preventing harm;

- Provisions are not unduly restrictive and do not violate federal competition laws;

- Prohibited practices are directly related to protecting the public; and

- Disciplinary provisions are appropriate.

In examining the type of existing and proposed regulation, we determined whether it was one of three approaches to occupational regulation:

- *Licensing*. A licensing law gives persons who meet certain qualifications the legal right to deliver services, that is, to practice the profession.

- *Certification*. A certification law restricts the use of certain titles to persons who meet certain qualifications, but does not bar others who do not use the title from offering such services. This is sometimes called *title protection*. This government certification should not be confused with professional certification, or credentialing, by private organizations.

- *Registration*. A registration law simply involves practitioners signing up with the State so that a roster or registry will exist to inform the public of the nature of practitioners' services and to enable the State to track them. Registration may be mandatory or voluntary.

Our analysis included efforts to determine the causes of false alarms and their cost. We analyzed the probable effects of the proposed regulation. We assessed alternative forms of regulation including (1) how alarm providers and users could be regulated; (2) whether an autonomous board, or a state or county agency, is better suited to implement the regulation; and (3) as feasible, the cost impact on the agency, the regulated group, and alarm users.

We also reviewed literature on the alarm industry and its regulation, including information from other states. We reviewed complaints and other evidence of harm to consumers. We obtained alarm industry information from national and local organizations. We contacted alarm industry representatives and academic programs, the Department of Commerce and Consumer Affairs, and other government agencies including police and fire departments.

We conducted surveys of alarm businesses, police officials, and fire officials to obtain information and views. We sent a total of 760 survey questionnaires to companies licensed with C13 (electrical contractor), C15 (electronic systems contractor), or C15a (fire and burglar alarm contractor) designations. We also sent our surveys to other companies without a C13, C15, or C15a license that were listed in the GTE yellow pages under Burglar Alarms—Monitoring & Systems, Fire Alarm Systems, Security Alarm Systems, and Security Control Equipment, Systems & Monitoring. We received 285 survey responses (37 percent of the total sent). Of the 285 responses, 85 (30 percent) considered themselves "alarm businesses." We also received survey responses from the county fire departments and police departments located on Oahu, Hawaii, Kauai, and Maui.

Our work was performed from August 2000 through April 2001 in accordance with generally accepted government auditing standards.

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Chapter 2

Expanded Statewide Regulation of the Alarm Industry Would Be Difficult To Justify

The alarm industry is regulated statewide by Chapter 436M of the Hawaii Revised Statutes (HRS) and affected by other state and county laws. The following chapter of our report presents our findings and recommendations on whether regulation should continue, and, if so, in what form.

We concluded that some regulation is warranted, but expanded statewide regulation would be difficult to justify. We also found that certain approaches, including one involving county regulation, appear more feasible and enforceable than others. Finally, we identified some confusing or unfair provisions in the proposed and existing laws.

Summary of Findings

1. Security false alarms have social costs that warrant regulation. However, the harm is uncertain and solutions are limited. If action is deemed necessary, certain regulatory options are more feasible and enforceable than others.

2. Fire false alarms are a lesser problem requiring little action.

3. House Bill No. 2125 proposing to expand regulation contained many flaws. The bill was confusing and would have been difficult to implement.

4. A "grandfather" clause in the existing alarm industry law is unfair.

While Security False Alarms Have Social Costs That Warrant Regulation, Expanded Regulation Is Questionable

Security false alarms can be detrimental to public health, safety, and welfare, and can divert county resources. However, the harm is difficult to measure and the dollar impact of false alarms on police budgets is relatively small. Moreover, the regulatory options have drawbacks. One county in the state has an ordinance containing false alarm penalties but has never enforced it.

In this light, some regulation of the alarm industry is warranted, but expanded statewide regulation would be difficult to justify. Certain regulatory options appear more feasible and enforceable than others should policy makers conclude that action is needed.

Police departments report a significant number of false alarms

The Honolulu, Maui, and Kauai county police departments contend that security false alarms are a major problem. Each year, over 95 percent of the alarm calls of the Honolulu, Maui, and Hawaii county police departments are reportedly false alarms.

Exhibit 2.1
Police Department Annual Security Alarms and Security False Alarms

Police Department	Reported Number of Security Alarms (Annual)	Number and Percent of Reported Security False Alarms (Annual)
Honolulu	35,964 (high in 1997)	35,245 (98%)
Kauai	65	no statistics available
Maui	4,961	4,770 (96%)
Hawaii	more than 1,500	more than 1,455 (97%)

Source: Police departments' responses to the Office of the Auditor's survey.

These numbers are open to question because of the difficulty of determining whether an alarm was actually false. For example, police officers might arrive on the scene, inspect the alarm and the premises, find no obvious evidence of a burglary or attempted intrusion, and report a false alarm. Yet the alarm may have actually done its job by frightening off an intruder who left no trail. There may simply be inadequate evidence to determine what caused the alarm in order to determine whether it was false. Reporting such cases as false alarms would inflate the police departments' numbers. Nevertheless, the reported numbers provide some insight into the dimensions of the false alarm problem.

Potential public harm exists but is difficult to measure

False alarms pose potential public harm. They can compromise public safety by diverting police resources from other pressing matters and from legitimate requests for help. Moreover, the safety and security of police officers and the public can be jeopardized if officers become complacent as a result of responding to large numbers of false alarms. Complacency could cause the officers to approach a possible crime scene too slowly or with insufficient caution. False alarms may also make alarm users less likely to use their alarm system, make alarms systems less effective, and pose a nuisance to alarm users and their neighbors.

However, these social impacts are difficult to quantify. Furthermore, the available cost data show limited impact on police budgets.

Significant time is spent responding to false alarms

The Honolulu Police Department reports spending a substantial amount of time responding to false alarms. The department estimated that responding to a false alarm takes a total of 19.84 person-minutes (a telephone operator at .17 minutes, a dispatcher at 1.67 minutes, and two patrol officers at nine minutes each). With the department reportedly responding to approximately 32,430 false alarms in 1999, this would have resulted in approximately 643,411 person-minutes (32,430 false alarms x 19.84 minutes per false alarm), or about 10,724 hours, occupied with responding to false alarm calls in that year.

Somewhat similar to Honolulu, the Maui Department of Police estimates that responding to a false alarm takes approximately 15 person-minutes for two police officers and less than two person-minutes for the telephone operator and dispatcher combined.

At the time of our study, the Hawaii and Kauai county police departments had not determined how much *time* they spent responding to false alarms.

Dollar costs of false alarms to police are relatively small

If false alarm counts and cost per call figures provided by the Honolulu Police Department are correct, the department spent approximately $345,000 (32,430 false alarms x $10.65 per call) to respond to the false alarms received in 1999. The department calculated the $10.65 cost per call based on the cost of two police officers' salaries, fringe benefits, motor allowance, standards-of-conduct allowance, and uniform allowance at 18 person-minutes; dispatcher's salary and fringe benefits at 1.67 person-minutes; and telephone operator's salary and fringe benefits at .17 person-minutes.

This monetary cost of false alarms is relatively small, representing less than one percent of the Honolulu Police Department's FY1999-2000 proposed budget of $140.3 million. As Exhibit 2.1 showed, the neighbor islands have fewer false alarms and therefore should have lower monetary costs of false alarms.

At the time of our study, the Hawaii and Kauai county police departments had not determined their *cost* of responding to false alarms.

While regulation is warranted, the regulatory options have drawbacks

As can be seen, security false alarms have social costs and can cause harm. However, the financial costs to the police departments are limited and the social costs are difficult to quantify. Furthermore, the regulatory options for addressing false alarms have drawbacks. All of these factors would make it difficult to justify expanding statewide regulation.

The regulatory options include:

- requiring alarm user permits or registrations,
- requiring cancellation of false alarms,
- imposing civil fines and penalties for violations of law,
- imposing a county tax on alarm systems,
- requiring criminal background checks,
- requiring education of alarm users,
- imposing false alarm fines,
- requiring licensing of those in the alarm business,
- imposing alarm system standards, and
- requiring verification of alarms.

Exhibit 2.2 describes the options and their costs, pros, and cons. Appendix A summarizes the legal status of the options in Hawaii.

Each regulatory option would incur financial costs, including costs to administer, implement, and enforce the regulation. For example, imposing false alarm fines, civil fines and penalties, and permit fees could deter alarm users from obtaining alarm systems or using the alarms they have installed, possibly compromising their security. Such measures could also cause alarm businesses to lose customers and especially impact smaller businesses.

Imposing false alarm fines could be easier said than done. As noted above, it can be difficult for law enforcement personnel to determine whether a false alarm has really occurred. Even after inspecting the alarm and its surroundings there may be inadequate evidence to determine what caused the alarm. Also, officers may misidentify or fail to identify the exact location of the alarm. These problems could increase opportunities for litigation between alarm users and law enforcement agencies, as well as between alarm users and alarm businesses, resulting in court costs and increased court workload.

Maui County's ordinance is not enforced

The experience of the County of Maui confirms our doubts about expanding alarm regulation. In 1995, Maui implemented a false alarm ordinance, Chapter 8.34, to reduce the danger and annoyance associated with false alarms and to encourage business and residential owners to properly use and maintain their alarm systems. However, the ordinance has not been enforced.

The Maui ordinance requires each alarm system user to pay a service charge for each false alarm of that user that the police department responded to in excess of three false alarm responses in any six-month period. Service charges begin at $50 and can increase depending on the number of false alarms. The ordinance does not state to whom the service charge should be paid. The police department must record false alarm

Exhibit 2.2
Options For Regulating Alarms

Regulatory Option	Costs	Pros	Cons
Alarm User Permit/Registration			
Alarm users must obtain a government permit or registration for their alarm system. An existing state or county agency could administer permitting or registration.	• Alarm user permit fees, which typically range from $10-$50. • Costs to administer, implement, collect, and enforce the payment of fees. • Time spent to enter registered users into a database. • Start-up costs could include personnel, office space and supplies, and an automated tracking and billing system. • Fees charged could offset costs to implement.	• Provides mechanism to track alarm systems. • Licensed persons could be required to obtain permit to help minimize the number of unlicensed contractors or electricians. • Renewable-permits data could be used to accurately determine the false alarm dispatch rate.	• Alarm users might be deterred from obtaining and using an alarm system and possibly compromise their security. Alarm businesses might lose customers. • It might be difficult to require that persons who self-install alarm systems obtain a permit before installing the system.
Cancellation of False Alarms			
Alarm businesses must cancel an alarm dispatch after determining it is false.	• Alarm businesses could incur personnel and equipment costs to cancel alarm call.	• Could reduce the number of false alarms requiring law enforcement response. • Does not require establishing a board or creating new positions or responsibilities within an existing agency.	• There may be concerns that a cancellation is not legitimate. However, dispatchers can provide a code number or name to the alarm business when an alarm call is received which would be required to cancel the alarm.
Civil Fines/Penalties			
Fees/penalties are imposed by regulatory boards or other entities for violations of law.	• Costs to administer, implement, collect, and enforce the payment of penalties. • Costs to monitor and identify violations. • Penalty fines can offset costs to implement.	• Penalties could reduce the number of unlicensed contractors or electricians.	• Alarm users might be deterred from obtaining an alarm system and possibly compromise their security. Alarm businesses could lose customers.

Exhibit 2.2, continued

Regulatory Option	Costs	Pros	Cons
County-Imposed Alarm System Tax			
Counties require that retailers who sell alarm systems collect a tax on systems purchased and remit the taxes received to the county.	• Costs to administer, implement, collect, and enforce the payment of taxes.	• County police departments are reimbursed for costs of responding to false alarms. • Excess receipts can be used to implement other regulatory options.	• It may be difficult to determine whether alarm businesses are charging customers the tax and remitting the proper amount to the county.
Criminal Background Checks			
Alarm businesses are prohibited from employing anyone convicted of certain crimes.	• Alarm businesses incur costs of determining whether a potential employee has any relevant convictions. • Alarm-business survey respondents estimated a criminal background check would cost between $10 and $100.	• Could help ensure greater public safety and security by reducing crimes committed by alarm business employees.	• Would not reduce false alarms. • Under section 444-17, HRS and section 448E-10, HRS, a contractor or electrician license can already be revoked for misrepresentation of a material fact (contractor) or by fraud, misrepresentation, or deceit (electricians) in obtaining a license. The license applications ask about the applicant's criminal background.
Educating Alarm Users			
Alarm businesses are required to clearly instruct subscribers in the use and operation of the alarm system.	• Alarm businesses incur minimal costs, which may include costs to generate and distribute educational material.	• Could help reduce false alarms caused by users.	• The alarm business may need to spend additional time with the alarm user; however, any resulting reduction of false alarms would reflect favorably upon the alarm business.

Exhibit 2.2, continued

Regulatory Option	Costs	Pros	Cons
False Alarm Fines			
Alarm users are fined by a board or other entity for false alarms.	• Costs to administer, implement, collect, and enforce the payment of fines. • Time spent to enter registered users into a database. • Start-up costs could include personnel, office space and supplies, and an automated tracking and billing system. • Fees charged can offset costs to implement this regulation. • Almost all alarm ordinances provide for a certain number of "free" false alarms before imposing a fee.	• Could be an incentive for users to correctly use their alarm systems and to test, repair, upgrade, and maintain them.	• Alarm users might be deterred from obtaining and using an alarm system and possibly compromise their security. Alarm businesses could lose customers. • Police officers might misidentify or fail to identify the exact location of the alarm. Officers may not be able to determine the cause of the alarm, which could increase the number of appeals and court costs. • Litigation could result. • Determining the actual average cost of false alarm responses could be complicated, making it difficult to set appropriate fees.
Licensing			
Persons who maintain, service, repair, alter, replace, move, and/or install alarm systems must be licensed by a board or other entity in an agency such as the Department of Commerce and Consumer Affairs.	• Costs to administer and enforce licensing requirements. • Costs to issue licenses, including testing, processing applications, and maintaining records.	• Provides greater control over alarm companies and the ability to enforce laws when the alarm company violates a law. • Licensing laws generally require that the licensed persons have appropriate knowledge, skills, and experience.	• It can be difficult to enforce licensing requirements. • Self-installers of alarm systems would not be subject to licensing requirements.

Exhibit 2.2, continued

Regulatory Option	Costs	Pros	Cons
Standards			
Certain well-accepted alarm system standards are implemented by a board or existing state or county agency.	• Costs to implement standards and to perform inspections.	• False alarms caused by equipment can be reduced if alarm systems were designed, manufactured, installed, tested, maintained, and used in accordance with national standards and codes, such as the Underwriters Laboratories (UL) burglar-alarm system certificate program. UL enforces the standards by inspecting alarm businesses' central station and a statistical sample of their alarm system installations.	• Another layer of regulation. • There are no established national standards for measuring and comparing false alarm management methods.
Verification of Alarms			
Alarm businesses are required to contact the alarm site or use other means to verify that the alarm is not false before requesting police dispatch.	• Alarm businesses could incur costs to verify alarms and possibly modify equipment to enable verification.	• Could reduce the number of false alarms. • According to the False Alarm Reduction Association, verification will have the single greatest impact in reducing false alarm dispatches. • Does not require establishing an autonomous board or creating new positions or responsibilities within an existing agency.	• Delay of police response could jeopardize alarm users' safety. However, verification can still occur after the police are dispatched.

responses and notify the county director of public works and waste management of alarm users exceeding the false alarm "limit." The director of public works and waste management is responsible for issuing the alarm user a written notice of service charge by mail. The Department of Public Works and Waste Management reports it has not received false alarm data from the police department necessary to enforce payment of false alarm service charges.

As a result of the lack of enforcement, the ordinance is ineffective and the time and money spent to establish it were wasted.

Some options may be more feasible and enforceable

Based on the costs, pros, and cons of the regulatory options summarized in Exhibit 2.2, certain options appear more feasible and enforceable. These include implementing a county tax on alarm systems purchased, and requiring cancelling false alarms, verifying that alarm calls are not false, alarm user permit/registration, and educating alarm users.

County-imposed tax on alarm systems could offset counties' false alarm costs

Counties could impose a tax on alarm systems purchased to offset the monetary costs incurred by their police departments in responding to false alarms. No such tax currently exists. The tax would be collected by businesses selling alarm systems and remitted to the counties. In this approach, alarm users, who benefit from alarm systems, bear the cost of any malfunction—"he/she who benefits should pay."

The alarm tax would be included in the cost of an alarm system. The tax could be set or could be imposed on a sliding scale based on the price of the alarm system. Any moneys received in excess of costs incurred in responding to false alarms could be used to help implement other feasible and enforceable options.

Requiring cancellation of false alarms could help minimize the number of responses to false alarms

The State could require that alarm businesses cancel an alarm dispatch after determining it was false. This procedure is not required by Chapter 436M, HRS, nor was it proposed in House Bill No. 2125.

Some alarm businesses believe that cancellation requirements can reduce false alarms. If an alarm is cancelled before the police officers reach the alarm site, the police department would save time and money. However, alarm businesses may incur some costs to implement this option, such as personnel and equipment costs.

To ensure that cancellation calls are legitimate, police dispatchers can provide a code number or name to the alarm business or alarm user when the initial alarm call is received, to be used if cancelling the alarm call.

If the cancellation option is going to be implemented, it should be determined whether to exclude alarm systems such as hold up, panic, or physical duress alarms from these procedures. These alarms generate a silent signal by manually activating a device intended to signal a life-threatening situation or a crime in progress—such as a bank robbery—requiring law enforcement response.

Requiring verification of alarms could reduce unnecessary police dispatches

The law could require that alarm businesses verify the alarm telephonically or by other electronic means before requesting police dispatch. This procedure is not required by Chapter 436M, HRS, nor was it proposed in House Bill No. 2125.

According to the False Alarm Reduction Association, verification requirements have the single greatest impact of any approach to reducing false alarm dispatches. Alarm businesses might incur some costs to implement this option, such as personnel and equipment costs.

A drawback of this option is the possibility that a delayed police response could jeopardize alarm users' safety. However, this drawback is minor because verification can occur even after police are dispatched.

Similar to the option of requiring cancellation of a false alarm, determining whether to implement the verification option should involve determining whether to exclude alarm systems such as hold up, panic, or physical duress alarms from the verification requirement.

Requiring permitting/registration of alarm use could help to reduce the number of unlicensed alarm-system installations and provide useful data

Alarm users can be persons, partnerships, corporations, or other entities that use or are in control of any alarm system. Alarm users could be required to obtain a permit for their alarm system. Certain permit information can be required and maintained in a database, including owner information, contact persons in the event of an alarm, alarm company information, hazard data, types of alarms at the site, and other information deemed appropriate.

While much time may be needed to initially enter registered alarm users into a database, only simple updates, including adding new permits, should be required once the system is set up. Other start-up costs could

include personnel, office space, supplies, and an automated false alarm tracking and billing system. However, alarm users could be charged a permit fee to cover costs required to implement permitting. Fees throughout the United States typically range between $10 and $50. If permits are required to be renewed, a renewal fee could help offset ongoing costs.

Requiring that permits be renewed would provide an updated number of alarm systems in use and help to more accurately determine the false alarm dispatch rate (total false alarm dispatches divided by total alarm sites). Without this information, the police department cannot accurately calculate the false alarm rate or evaluate whether the false alarm problem has improved. Properly calculated statistics can help jurisdictions identify the scope of their false alarm problem and allow them to focus their efforts where they would be most effective.

The law could also require that only persons with the appropriate contractor or electrician license (or both) obtain the initial alarm user permit; this could help minimize the number of unlicensed contractors or electricians dealing in alarms. Our survey of alarm businesses revealed that about 50 percent of the 61 respondents with licenses had an electrician license, only 15 percent had a contractor license, and 33 percent had both types of licenses. Eighteen respondents indicated they had no license. Moreover, a significant number of alarm business survey respondents contends that unlicensed contractors and electricians are of concern to them.

Some types of alarm systems can be installed by “do-it-yourselfers.” Adopting the permitting approach would first require determining how and whether alarm users who install “do-it-yourself” alarm systems would be required to obtain a permit and how this would be enforced.

Requiring education of alarm users could reduce the false alarms they cause

House Bill No. 2125 proposed that alarm businesses clearly instruct subscribers in the use and operation of the alarm system. This requirement could help reduce the number of false alarms caused by users, with minimal costs to alarm businesses. Education would require alarm business personnel to spend additional time with alarm users. However, any resulting reduction in false alarms would reflect favorably on the business.

Educational brochures available from national organizations, such as the “False Alarm Prevention” brochure published by the False Alarm Reduction Association, can be distributed to alarm users. The National

Burglar and Fire Alarm Association provides "20 False Alarm Reduction Tips for Consumers" and "20 False Alarm Reduction Tips for Dealers" at its Internet web site.

Regulation varies nationally

Regulation of the alarm industry varies across the nation. The False Alarm Reduction Association maintains a list of available alarm ordinances nationwide. False alarm response fees/fines led the list, with permit requirements next. Licensing of alarm businesses, cancellation requirements, and verification requirements were less frequent. Appendix B summarizes false alarm ordinances from over 40 states.

Fire False Alarms Are a Lesser Problem Warranting Little Action

The number of fire false alarms reported by the county fire departments is small compared to the number of security false alarms reported by the county police departments. Regulation that can reduce fire false alarms already exists. The regulatory options have drawbacks similar to those for security alarms.

Potential harm exists but the problem is smaller and existing regulation should be sufficient

Only the Honolulu and Maui county fire departments contend that fire false alarms are a major problem. Furthermore, the Honolulu department estimated that it had 1,546 false alarms during the year—only 7.5 percent of the 20,641 alarm calls received. The Maui department reported only 232 annual false alarms, the Kauai department 30, and the Hawaii department two.

Each of the county fire departments reported that the majority of fire false alarms are caused by equipment. Three of the departments reported that commercial users, other than banks and schools, account for the majority of false alarms.

The Uniform Fire Code adopted by all the county fire departments already requires that the installation and location of all fire alarm systems meet the approval of the fire department. These systems are subject to periodic tests required by the respective fire chiefs. In addition, fire alarm systems must be maintained and tested in accordance with nationally recognized standards. The code makes it unlawful to cause or permit any false alarms to be given, signaled, or transmitted. It is a misdemeanor to knowingly cause a false alarm of a fire or other emergency to be sent to an official or volunteer fire department, any other government agency, or public utility dealing with life or property emergencies. Regulation already exists and should be sufficient to help reduce the number of fire false alarms caused by alarm users and by alarm equipment (as noted above, alarm equipment is the alleged main cause of false alarms according to our survey).

Regulatory options have drawbacks similar to those for security alarms

The drawbacks of the regulatory options for fire false alarms are similar to those for security alarms. Each regulatory option would incur costs to administer, implement, and enforce the regulation. Imposing false alarm fees, civil fines/penalties, and permit fees could deter alarm users from obtaining and using fire alarms and possibly compromise their safety. As with security alarms, fines for false alarms could increase litigation and its associated costs.

Bill Proposing Expanded Regulation Was Flawed

Proposed legislation should be clear and enforceable. House Bill No. 2125 contained unclear and questionable provisions. One provision duplicated existing statutes. If the bill had been implemented as written, it would have created a weak, unenforceable, and ineffective statute subject to misinterpretation.

Some provisions were unclear

House Bill No. 2125 was unclear in defining terms, permit requirements, and inspection activities. The bill proposed that an alarm industry board create rules for issuing alarm user permits and be able to revoke permits. However, the bill did not define: (1) who needs a permit, (2) how a permit can be obtained, (3) who authorizes, distributes, and monitors permits, (4) whether there is a permit fee, (5) who would collect the fee, if required, and how the fee would be deposited and used, (6) whether permits would have to be renewed, and (7) how implementation and enforcement would be funded. While some details can be left to rules, a statute should at least define the fundamental terms.

The bill also required that all devices meet or exceed standards and regulations for alarm system construction and maintenance before permits are issued. It is not clear why this would be a prerequisite to obtaining a permit. One would think that the permit would precede installation of the alarm system.

The bill also authorized the alarm industry board to require the inspection and approval of all alarm systems installed but did not explain how this would occur, who would be responsible for inspections, or how this activity would be funded.

Other provisions duplicated existing law

House Bill No. 2125 did not consider existing statutes and the ramifications of including a separate licensing provision. The bill prohibited conducting the business of maintaining, servicing, repairing, altering, replacing, moving, installing, or causing to be installed alarm systems without having first obtained a license to do so in accordance with the provisions of Chapter 444, HRS (Contractors) and Chapter 448E, HRS (Electricians and Plumbers). This provision

duplicated licensing provisions already required under those chapters. Moreover, the bill subjected unlicensed contractors or electricians who maintain, service, repair, alter, replace, move, and install alarm systems to penalties in addition to those already authorized for licensing violations under the existing chapters.

Other provisions were questionable

House Bill No. 2125 was sometimes inconsistent with existing laws. The bill was not always "ramseyered" properly ("ramseyering" requires that certain proposed statutory material be underlined and repealed information bracketed). The bill contained provisions of unclear intent. Exhibit 2.3 identifies some of the problems.

Exhibit 2.3
Unclear Provisions in House Bill No. 2125

Unclear Provisions Due to Improper Ramseyering

- The bill indicated that Section 436M-6, HRS, requires termination of an audible alarm signal within five minutes, when this law actually says 15 minutes.
- The bill's "audible alarm system" definition attempted to delete from Chapter 436M language not actually appearing in this law.
- The bill unsuccessfully attempted to change Section 436M-7 of the existing law from "Automatic telephone dialers" to "Automatic dialing service."
- The bill unsuccessfully attempted to amend the existing law's "false alarm" definition by replacing "police" with "appropriate emergency service" and "criminal act" with "act."

Other Unclear Provisions

- The bill required that audible alarm systems have a device to automatically terminate the audible alarm within five minutes of activation if it is activated by means other than what it was designed for. It is unclear how an alarm system would "know" it had been activated by a means other than that for which it was designed.
- The bill attempted to amend the existing law's "false alarm" definition to exclude activations resulting from a power outage, hurricane, fire, earthquake, or other act of nature. Since the bill also changed the definition of alarm systems to include fire alarms, excluding fire alarms from the false alarm definition was confusing, making it appear that a fire alarm activation could never be false.

"Grandfather" Clause in Alarm Industry Law Is Unfairly Restrictive

Our analysis included determining whether regulation unreasonably restricts qualified persons from entering the profession. We found an unfair restriction in the form of a "grandfather" provision in Chapter 436M, HRS, the existing alarm industry law. The provision arbitrarily singles out certain practitioners to meet more stringent requirements.

Under Section 436M-2, HRS, alarm businesses—excluding those that *sell* alarm systems but do not provide other alarm services (such as installation and repair) and those "grandfathered" by the law—are required to maintain a surety bond of $5,000 during their first five years of operation. The bond provides for payment to persons injured by a violation of Chapter 436M or any consumer protection law, or by the business's failure to refund fees incorrectly obtained from its customers.

The grandfather provision exempts from the bonding requirement those alarm businesses that had completed five or more continuous years of operation on November 8, 1986, thereby creating a loophole that unfairly favors those "older" businesses. Historically, our office has opposed "grandfather" provisions that, in effect, protect the grandfathered group from competition from others who want to enter the profession. To ensure fair competition, the surety bond requirement should be consistent.

Conclusion

Security false alarms have social costs, but the solutions are limited. A substantial amount of the county police departments' time can be spent responding to false alarms, diverting them from legitimate requests for help and other pressing needs. Also, police officers may become complacent as a result of responding to many false alarms, adversely affecting their response to future alarms.

While a variety of regulatory options to address security false alarms exist, each option has drawbacks and not all are likely to reduce false alarms. A few options are more feasible and enforceable than others.

Fire false alarms are a lesser problem requiring little action. The number of reported fire false alarms is small compared to the number of security false alarms. Sufficient regulation of fire alarms already exists and other regulatory options available have drawbacks.

House Bill No. 2125 proposed to expand the existing alarm business law. However, the bill contained many flaws. The bill was confusing and would have been difficult to implement as written. The bill included unclear provisions, duplicated existing statutes, and had substantial technical problems.

Finally, we concluded that the existing alarm business statute contains an unfair grandfather clause.

Recommendations

1. Before pursuing additional regulation of the alarm industry, legislators may wish to consider whether the benefits of such regulation would outweigh the costs and drawbacks as identified in our report.

2. One option would be for the Legislature to leave the matter to the counties. For example, counties concerned about the dollar cost of security and fire false alarms could impose a tax at the time alarm systems are sold. Retailers would remit the taxes collected to the county to help offset costs incurred by the county police and fire departments in responding to false alarms.

3. If the Legislature wishes to pursue new, statewide legislation on alarms, the following regulatory options appear most feasible and enforceable:

    a. Security alarm and fire alarm businesses could be required to educate alarm users on how to properly use the alarm system purchased, how to avoid user-caused false alarms, and, where possible, how to confirm alarm calls and cancel false alarms;

    b. Security alarm businesses could be required to verify that an alarm call is not false prior to notifying the police department that the alarm was set off, and to cancel an alarm dispatch after determining that it was false; and

    c. Alarm users could be required to obtain a renewable permit at a fee that would cover program costs. This option could be implemented by creating positions in an existing state or county agency. With the exception of alarm systems available for installation by consumers, only licensed electricians or contractors should be allowed to obtain the initial alarm user permit to help minimize the number of unlicensed persons installing alarms. Based on the permit information, it should be routinely determined whether the number of false alarms in proportion to the number of alarm systems in place has decreased or increased and thus, whether the false alarm problem is improving.

4. Any new legislation should avoid the flaws we identified in House Bill No. 2125 of the 2000 Regular Session.

5. The Legislature may wish to repeal Section 436M-2(d), HRS, to eliminate the "grandfathering" provision of the surety bond requirement for alarm businesses.

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Appendix A
Current Legal Status of Regulatory Options

Regulatory Options	Required, Proposed, or Neither
Alarm User Permit/ Registration	Not required by existing law. Mentioned (but not clearly proposed) in House Bill No. 2125.
Cancellation of False Alarms	Not required by existing or proposed law.
Civil Fines/ Penalties	Fines are allowed for licensing violations and other violations under Chapter 444, HRS (Contractors), and Chapter 448E, HRS (Electricians and Plumbers). House Bill No. 2125 proposed additional penalties.
County-Imposed Alarm System Tax	Not required by existing or proposed law.
Criminal Background Checks	Not required by existing law. Proposed in House Bill No. 2125.
Educating Alarm Users	Not required by existing law. Proposed in House Bill No. 2125.
False Alarm Fines	False alarm fines are required by Maui County's False Alarm Ordinance, Chapter 8.34.
Licensing	Licensing is required under Chapter 444, HRS and Chapter 448E, HRS. Licensing was also proposed in House Bill No. 2125.
Standards	Standards are required under the Uniform Fire Code, which was adopted by each of the county fire departments, and were proposed in House Bill No. 2125.
Verification of Alarms	Not required by existing or proposed law.

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Appendix B
False Alarm Ordinances from 42 States, Year 2000

Ordinance	# of Ordinances	Total Ordinances	% of Ordinances
False Alarm Response Fees/Fines	237	250	95%
Permit Requirement	186	250	74%
Non-Response Suspension and/or Revocation of Permit	111	250	44%
Appeal Provisions	103	250	41%
Civil Fines	81	250	32%
Alarm-Business Licensing	67	250	27%
Cancellation Policy	64	250	26%
Criminal Penalties	59	250	24%
Inspection Requirements	55	250	22%
Verification Policy	35	250	14%
Alarm-User School	18	250	7%
Upgrade Requirements	12	250	5%

Source: False Alarm Reduction Association.

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Responses of the Affected Agencies

Comments on Agency Responses

We transmitted drafts of this report to the county police departments, the county fire departments, and the Department of Commerce and Consumer Affairs on June 1, 2001. A copy of the transmittal letter to the Honolulu Police Department is included as Attachment 1. Similar letters were sent to the other county police departments, the county fire departments, and the Department of Commerce and Consumer Affairs. Copies of the responses of the Honolulu Police Department, Hawaii Police Department, and Honolulu Fire Department are included as Attachments 2, 3, and 4 respectively. The Maui and Kauai police departments, the Maui, Kauai, and Hawaii fire departments, and the Department of Commerce and Consumer Affairs did not submit written responses.

The Honolulu Police Department observes that our report is comprehensive and fairly outlines the issues and probable effects of the proposal to expand regulation of the alarm industry. The department says that it has embarked on an education program for alarm system users. The department is soliciting support for a county ordinance that would effectively regulate the alarm industry and help reduce false alarms. The ordinance would require a permit and registration for all alarm systems; define false alarms; create a tiered system of service fees for excessive false alarms; allow alarm users to contest findings of excessive false alarms; and authorize permit revocation and no police response to premises where assessed service fees are delinquent.

The Hawaii Police Department says that it concurs with our findings. The department suggests consideration of a requirement that business owners, their representative, or the security alarm company respond to all alarms.

The Honolulu Fire Department says that it concurs with us that fire false alarms are not a major concern requiring further state regulation. The department also clarifies a date used in our draft report.

We made a few minor changes to our draft report for purposes of accuracy or style.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

June 1, 2001

COPY

Mr. Lee D. Donohue
Police Chief
Honolulu Police Department
City and County of Honolulu
801 S. Beretania Street
Honolulu, Hawaii 96813

Dear Police Chief Donohue:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Analysis of a Proposal To Expand the Regulation of the Alarm Industry*. We ask that you telephone us by Tuesday, June 5, 2001, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Tuesday, June 12, 2001.

The Police Departments of the Counties of Hawaii, Kauai, and Maui; the Fire Departments of the City and County of Honolulu, Counties of Hawaii, Kauai, and Maui; the Department of Commerce and Consumer Affairs; Governor; and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa
State Auditor

Enclosures

POLICE DEPARTMENT

CITY AND COUNTY OF HONOLULU

801 SOUTH BERETANIA STREET
HONOLULU, HAWAII 96813 - AREA CODE (808) 529-3111
http://www.honolulupd.org
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JEREMY HARRIS
MAYOR

LEE D. DONOHUE
CHIEF

MICHAEL CARVALHO
ROBERT AU
DEPUTY CHIEFS

OUR REFERENCE WC-WC

June 12, 2001

RECEIVED
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OFC. OF THE AUDITOR
STATE OF HAWAII

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

Thank you for providing the Honolulu Police Department with your draft report, *Analysis of a Proposal To Expand the Regulation of the Alarm Industry.* The issues surrounding police responses to the high number of false alarms have been an ongoing concern for us. Your report is comprehensive and fairly outlines the issues and the probable effects of the proposal to expand the regulation of the alarm industry.

We offer the following comments to your report.

We agree that the number of alarm businesses in Hawaii is uncertain because there is no specific alarm business licensing requirement. This creates a situation in which unscrupulous alarm dealers can sell shoddy and poorly installed equipment. These unscrupulous alarm dealers then leave town, leaving their customers with unsatisfactory alarm systems.

2. Our records indicate that in 2000, our officers responded to approximately 33,000 false alarm calls. This comprises about 20 percent of all emergency calls for police services. These numbers underscore our concern and highlight the issue of finding the best means to deploy our police resources most efficiently.

3. Our studies of false alarms indicate that about 60 percent of false alarms stem from alarm system user error. Mandatory alarm system user education would significantly reduce the numbers of false alarms. This could be provided either by the providers of the alarm systems at the time of installation or through alarm system education programs for users of alarm systems with multiple false activations.

4. Our studies reflect your conclusion that statewide regulation is probably not necessary and that the appropriate solution to the problem lies at the county level.

To this end, we have already embarked on an education program for alarm system users. In addition, we are soliciting support from the alarm industry for a county ordinance which will more effectively regulate the alarm industry and help to reduce false alarms. If enacted, our proposed ordinance will do the following:

a. It will require a permit and registration for all alarm systems. This will provide the police department with information about the alarmed premises and enable the police to more effectively and efficiently respond to activations.

b. It will define false alarms as all activations of alarm systems which are not caused by criminal acts or acts of God and define excessive false alarms as more than two false alarms within a twelve-month period.

c. It will create a tiered system of service fees for excessive false alarms. The intent is to encourage alarm system users to use their alarm systems properly and to repair their malfunctioning systems.

d. It will create a system for evaluating excessive false alarms, assessing and collecting service fees, **and allowing alarm users an opportunity to contest findings of excessive false alarms and the assessment of service fees**.

e. It will provide the sanctions of permit revocation and no police response to premises where assessed service fees are delinquent.

Thank you for the opportunity to comment on your draft report. If there are any questions, Captain William Chur of the Juvenile Services Division may be contacted at 529-3878.

Sincerely,

LEE D. DONOHUE
Chief of Police

Harry Kim
Mayor

James S. Correa
Police Chief

County of Hawaii
POLICE DEPARTMENT
349 Kapiolani Street • Hilo, Hawaii 96720-3998
(808) 935-3311 • Fax (808) 961-8869

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STATE OF HAWAII

June 13, 2001

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, HI 96813-2917

Dear Ms. Higa:

This responds to your letter of June 1, 2001, dealing with your Analysis of a Proposal to Expand the Regulation of the Alarm Industry.

We concur with the findings of the report. However, we offer that consideration be given to mandating that business owners, their representative, or the security alarm company respond to all alarms.

Thank you for allowing us to comment.

Sincerely,

LAWRENCE K. MAHUNA
ASSISTANT POLICE CHIEF
ACTING POLICE CHIEF

TJH:lk

ATTACHMENT 4

FIRE DEPARTMENT
CITY AND COUNTY OF HONOLULU
3375 KOAPAKA STREET, SUITE H425
HONOLULU, HAWAII 96819-1869

JEREMY HARRIS
MAYOR

ATTILIO K. LEONARDI
FIRE CHIEF

JOHN CLARK
DEPUTY FIRE CHIEF

RECEIVED
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STATE OF HAWAII

June 12, 2001

Ms. Marion M. Higa, State Auditor
State of Hawaii
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

We received your letter dated June 1, 2001, regarding the draft report, "Analysis of a Proposal To Expand the Regulation of the Alarm Industry."

The Honolulu Fire Department (HFD) concurs that fire false alarms are not a major concern at this time where further regulation by the State is necessary. The Fire Code of the City and County of Honolulu includes sections that specify the requirements for the design, installation, and maintenance of required fire alarm systems. The HFD is also given specific remedies for fire false alarms, as well as temporary failure of fire alarm systems.

The only necessary correction is on page five, under the section titled, "County Fire Codes, Chapter 20 (Honolulu), Chapter 26 (Hawaii), and Chapter 15A (Kauai and Maui)." The presently adopted Uniform Fire Code is the 1988 Edition, not the 1998 Edition.

Should you have any questions, please call Battalion Chief Kenneth G. Silva of our Fire Prevention Bureau at 831-7778.

Sincerely,

ATTILIO K. LEONARDI
Fire Chief

AKL/KGS:jo