

EXECUTIVE SUMMARY

Title: Revisions to Policy for School Property Insurance Contract, Including Enhancements to Coverage.

Type of Executive Summary:

- Consent
- Action
- Action on First Reading
- Discussion
- Information

Policy Implications:

- Constitution _____
- General Statute #115C-533 through 115C-543
- SBE Policy #EE0-Q-002
- SBE Policy Amendment
- SBE Policy (New)
- APA # _____
- APA Amendment
- APA (New)
- Other Revised school property contract. New Forms: Employee Theft and Terrorism Coverage

Presenter(s): Mr. Philip Price (Associate Superintendent, Financial and Business Services) and Ms. Eileen Bucko Townsend (Section Chief, School Insurance, School Support Division)

Description:

In compliance with the Public School Laws of North Carolina, Article 38, Chapters 115C-533 through 115-543, requesting approbation of the State Board of Education to implement a revised Property Insurance contract; and to include the additional coverage endorsement for Employee Theft and Terrorism Coverage. The proposed changes to the property contract will provide tailor-made coverage to meet the needs of schools and enhance the opportunity for further growth of Fund membership and monetary stability.

Resources:

Market comparisons, Insurance Advisory Committee, needs of insured members, claims analysis, staff, and brokers.

Input Process:

N/A

Stakeholders:

The 106 local education agencies and 28 community colleges electing to participate in the public school risk and insurance management program.

Timeline For Action:

Action on First Reading is requested at June SBE meeting for changes to be effective July 1, 2003.

Recommendations:

It is the recommendation of the Insurance Advisory Committee and staff that the School Property Insurance contract be revised as submitted to enhance coverage and sublimits provided by the Fund and that these changes be approved by the State Board of Education.

Audiovisual equipment requested for the presentation:

- Data Projector/Video (Videotape/DVD and/or Computer Data, Internet, Presentations-PowerPoint preferred)
Specify: _____
- Audio Requirements (computer or other, except for PA system which is provided)
Specify: _____
- Document Camera (for transparencies or paper documents – white paper preferred)

Motion By: _____ Seconded By: _____
Vote: Yes _____ No _____ Abstain _____
Approved _____ Disapproved _____ Postponed _____ Revised _____

*Person responsible for SBE agenda materials and SBE policy updates: Pamela Smith, 807-3523

**NORTH CAROLINA STATE BOARD OF EDUCATION
Policy Manual**

Policy Identification

Priority: Effective and Efficient Operations

Category: Insurance

Policy ID Number: EEO-Q-002

Policy Title: Policy delineating the rate deductible schedule for public school insurance for July 1, ~~2000-2003~~- June 30, ~~2001-2004~~

Current Policy Date: ~~05/02/2002~~07/01/2003

Other Historical Information: Previous board dates: 06/06/1996, 08/05/1995, 06/06/1990, 06/05/1997, 06/04/1998, 08/05/1999, 06/01/2000, 07/12/2001, 05/02/2002

Statutory Reference: GS 115C-543; NC Constitution, Article 38

Administrative Procedures Act (APA) Reference Number and Category:

***** Begin Policy *** (Do not tamper with this line)**

The State Board of Education has empowered the NC Public School Insurance Fund with the responsibilities of underwriting, insuring, and risk managing public schools and community colleges in North Carolina. The scope of coverage insuring documents are available from the:

NC Department of Public Instruction
School Support Division
School Insurance Section
~~301 North Wilmington Street~~6320 Mail Service Center
Raleigh, NC ~~27601-2825~~ 27699-6320

Questions regarding the **PUBLIC SCHOOL PROPERTY INSURANCE FUND** should be directed to:

(919) 807-3521

Listed below is the Property Insurance Rate/Deductible Schedule for fiscal year July 1, 200~~2~~3, through June 30, 200~~3~~4.

**Property Insurance Rate/Deductible Schedule
for Fiscal Year July 1, 20023 - June 30, 20034**

I. Fire & Lightning Rates (F+L):
A. Education Bldg. and Dwellings

Construct	<i>Protection Class</i>									
	01	02	03	04	05	06	07	08	09	10
F1	.044	.044	.055	.055	.057	.057	.071	.071	.105	.105
F2	.062	.062	.067	.067	.071	.071	.105	.105	.125	.125
FR	.008	.008	.009	.009	.010	.010	.011	.011	.015	.015
HP	.002	.002	.003	.003	.003	.003	.004	.004	.007	.007
JM1	.027	.027	.032	.032	.035	.035	.040	.040	.066	.066
JM2	.035	.035	.037	.037	.042	.042	.057	.057	.090	.090
NC1	.015	.015	.019	.019	.023	.023	.027	.027	.031	.031
NC2	.010	.010	.011	.011	.014	.014	.019	.019	.027	.027

B. Auxiliary Bldgs. (Garages, Storage, etc.)

Construct	<i>Protection Class</i>									
	01	02	03	04	05	06	07	08	09	10
F1	.255	.255	.265	.265	.279	.279	.287	.287	.290	.290
F2	.255	.255	.270	.270	.287	.287	.290	.290	.294	.294
FR	.031	.031	.040	.040	.061	.061	.080	.080	.100	.100
HP	.008	.008	.009	.009	.014	.014	.025	.025	.029	.029
JM1	.080	.080	.100	.100	.161	.161	.200	.200	.226	.226
JM2	.100	.100	.121	.121	.172	.172	.212	.212	.234	.234
NC1	.061	.061	.072	.072	.096	.096	.125	.125	.141	.141
NC2	.040	.040	.055	.055	.072	.072	.100	.100	.125	.125

II. Extended Coverage (EC)

Construct	Territory			Mandatory Deductible	Credit
	1	2	3		
F1	.034	.025	.018	\$1,000 per occurrence on all Covered Causes of Loss, except \$2000 per occurrence on "All Other Perils."	NIL
F2	.034	.025	.018		
FR	.014	.012	.011	Option 1 \$2,500 per occurrence on all covered Causes of Loss, except \$2000 per occurrence on "All Other Perils."	15 %
HP	.011	.003	.002		
JM1	.029	.019	.016		
JM2	.029	.019	.016		
NC1	.018	.014	.012		
NC2	.018	.014	.012		

III. All Other Perils (AOP) Rates

Construct	Occupancy		Option 2 \$5,000 per occurrence on all Covered Causes of Loss, except \$2000 per occurrence on "All Other Perils."	30%
	A	E		
F1	.025	.015		
F2	.025	.015		
FR	.016	.011		
HP	.008	.002		
JM1	.017	.012		
JM2	.017	.012		
NC1	.017	.012		
NC2	.016	.011		

Plans are underway for the School Insurance policy forms to be developed as an Internet application. ~~which will then be provided as a link from this policy.~~ Schools will have access to policy information and claim forms. Additionally, school insurance information accessible via the Internet will assist in the School Report Card project.

The Scope of Coverage contract continues to evolve. Board approved changes to the contract are made in order to meet the needs of insured schools protected by the North Carolina Public School Insurance Fund.

Proposed Scope of Coverage Changes

The Risk & Insurance Advisory Committee met on April 24, 2003, unanimously approving the following motions and requests the North Carolina State Board of Education's authorization to adopt the following changes to the school property insurance contract. Revised policy sublimits and coverage enhancements are proposed in addition to Employee Theft and a "Buy-Back" for Terrorism coverage. Policy changes are recommended for Fiscal Year 04, in compliance with Public School Laws of North Carolina, Article 38, Chapter 115C-543.

1. Deductible Schedule.

No changes are recommended for FY04.

2. Rate Schedule.

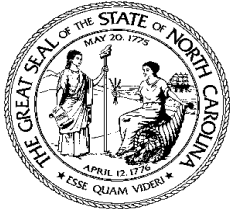
The Risk & Insurance Advisory Committee is recommending no change to overall average rate increase for Fiscal Year 04.

The reinsurance premiums continue to escalate. The committee agreed that projected FY03 Fund balance would sustain the reinsurance costs. Consequently, no other changes were made to the rating schedule.

3. Impact of the proposed coverage changes for Fiscal Year 04.

The Public School Insurance Fund provides risk management and insurance services to 106 local education agencies and 28 community colleges. The Fund maintains tailor-made property insurance coverage, loss control, and claims services. Property values have increased, due to the addition of 7 new members during FY03. The Total Value of insured tangible assets is in excess of \$18 billion and over 200 million insured square feet. Premiums will continue to increase because of the overall growth in property values. New coverages include the addition of Employee Theft and a "Buy-Back" for Terrorism coverage. These coverages will be offered at additional premiums, subject to underwriting guidelines. Enhancements to the contract will be provided at no additional cost to insured members. The Fund remains solvent due to structured reinsurance coverage and over \$29,000,000 held in reserves.

Proposed Revisions to Existing Property Insurance Declarations



PROPERTY INSURANCE DECLARATIONS

NORTH CAROLINA PUBLIC SCHOOL INSURANCE FUND

This Contract includes the following Coverage and Sublimits:

<u>SUBLIMIT</u>	<u>COVERAGE</u>	<u>PREMIUM</u>
\$ 100,000	Personal Property of Others	Included
\$ 250,000	Business Income	Included
\$ 250,000	Extra Expense	Included
\$ 100,000	Valuable Papers & Records	Included
\$ 100,000	Accounts Receivable	Included
\$ 10,000	Fire Department Service Charge	Included
	Newly Acquired/Constructed Property	Included
\$ 500,000	Buildings	
\$ 250,000	Personal Property	
\$ 100,000	Property Off-Premises	Included
\$ 100,000	Property in Transit	Included
\$ 100,000	Outdoor Property	Included
\$ 50,000	Playground Equipment	Included
\$ 100,000	Utility Interruption	Included
\$ 10,000	Trees, Shrubs, Plants	Included
\$ 100,000	Food Spoilage	Included
\$ 10,000	Harvested Crops	Included
\$ 50,000	Debris Removal	Included
\$ 100,000	Preservation of Property	Included
\$ 30,000	Pollution Clean-Up & Removal	Included
\$ 100,000	Fine Arts	Included
\$ 10,000	Mobile Equipment	Included
\$ 100,000	Computer Equip. & Electronic Media	Included
\$ 100,000	Demolition	Included
\$ 100,000	Increased Cost of Construction	Included
\$ 25,000	Sewer Back-Up During Flooding	Included
\$5,000,000	Flood	Included
\$5,000,000	Earthquake	Included

PROPOSED NEW ENDORSEMENT

THIS ENDORSEMENT CHANGES THE SCOPE OF COVERAGE. PLEASE READ IT CAREFULLY.

TERRORISM

It is hereby understood and agreed that loss, damage, cost or expense of any nature caused by, resulting from, or in connection with any other cause or event contributing concurrently or in any other sequence to the loss by any “act of terrorism” is covered under this Scope of Coverage.

The liability of the North Carolina Public School Insurance Fund for this coverage shall not exceed the sum of \$10,000,000 for loss or damage at any one insured location. This limit of liability shall not exceed the sum of \$10,000,000 due to any one “act of terrorism” for all insured locations combined; or for all losses occurring in any one year period or Coverage Period, whichever is less.

An “act of terrorism” means an act, including but not limited to the use of force or violence and/or the threat thereof, of any person or group(s) of person(s), whether acting alone or on behalf of or in connection with any organization(s) or government(s), committed for political, religious, ideological or similar purposes including the intention to influence any government and/or to put the public, or section of the public, in fear.

PSI-32 (07/01/03)

(To Be Added to Scope of Coverage, Page 1)

PROPOSED NEW ENDORSEMENT

THIS ENDORSEMENT CHANGES THE SCOPE OF COVERAGE. PLEASE READ IT CAREFULLY

PUBLIC EMPLOYEE THEFT COVERAGE FORM

COVERAGE

The Fund will pay for loss of Covered Property resulting directly from the Covered Cause of Loss.

- 1. Covered Property:** “Money.”
- 2. Covered Cause of Loss:** “Employee dishonesty.”

LIMIT OF INSURANCE

The most we will pay for loss in any one “occurrence” is \$10,000 Limit of Insurance.

DEDUCTIBLE

- 1.** We will not pay for loss in any one “occurrence” unless the amount of loss exceeds the Deductible Amount of \$1,000. We will then pay the amount of loss in excess of the Deductible Amount, up to the Limit of Insurance.
- 2.** You must:
 - a.** Give us notice as soon as possible of any loss of the type insured under this Coverage Form even though it falls entirely within the Deductible Amount.
 - b.** Upon our request, give us a statement describing the loss.

ADDITIONAL EXCLUSIONS, CONDITIONS AND DEFINITIONS

This Coverage Form is subject to the following:

1. Additional Exclusions

We will not pay for loss or damages as specified below:

(To Be Added to Scope of Coverage, Page 1)

CONTINUATION OF PROPOSED NEW ENDORSEMENT

a. Employee Cancelled Under Prior Insurance

Loss caused by any “employee” of yours, or predecessor in interest of yours, for whom similar prior insurance has been cancelled and not reinstated since the last such cancellation.

b. Inventory Shortages

Loss, or that part of any loss, the proof of which as to its existence or amount is dependent upon:

- (1) an inventory computation; or
- (2) a profit and loss computation.

c. Bonded Employee

Loss caused by any “employee” required by law to be individually bonded.

d. Treasurer or Tax Collector

Loss caused by a treasurer or tax collector by whatever name known.

e. Damages

Damages for which you are legally liable as a result of:

- (1) the deprivation or violation of the civil rights of any person by an “employee”; or
- (2) the tortious conduct of any “employee,” except conversion of property of other parties held by you in any capacity.

2. Additional Conditions

a. Cancellation As to Any Employee

This insurance is cancelled as to any “employee”:

(To Be Added to Scope of Coverage, Page 2)

CONTINUATION OF PROPOSED NEW ENDORSEMENT

- (1) Immediately upon discovery by you or any official or employee authorized to manage, govern or control your employees, of any dishonest act committed by that “employee” whether before or after becoming employed by you.
- (2) On the date specified in a notice mailed to you. That date will be at least 30 days after the date of mailing.

The mailing of notice to you at the last mailing address known to us will be sufficient proof of notice. Delivery of notice is the same as mailing.

3. Additional Definitions

- a. **“Employee Dishonesty” means** only dishonest acts committed by an “employee,” whether identified or not, acting alone or in collusion with other persons, with manifest intent to:
 - (1) cause you to sustain loss; and also
 - (2) obtain financial benefit (other than employee benefits earned in the normal course of employment including: salaries, commissions, fees, bonuses, promotions, awards, profit sharing or pensions) for:
 - (a) the “employee”; or
 - (b) any person or organization intended by the “employee” to receive that benefit.
- b. **“Occurrence” means** all loss caused by, or involving, one or more “employees,” whether the result of a single act or series of acts.
- c. **“Money” means** currency, coins and bank notes in current use, and having a face value.
- d. **“Employee” means** any person:
 - (1) While in your service; and
 - (2) Whom you compensate directly by salary, wages or commissions; and
 - (3) Whom you have the right to direct and control while performing services for you.

**PROPOSED CHANGES TO SCOPE OF COVERAGE CONTRACT
(Excerpts from Scope of Coverage, Page 5)**

- a. Sudden and immediate dampness, dryness or extreme changes in temperature resulting from failure or malfunction of heating or air conditioning equipment on your “premises.”

1. Mobile, Portable or Contractor’s Equipment

We will pay for loss to your Mobile, Portable or Contractor’s Equipment; or the Mobile, Portable or Contractor’s Equipment of others for which you are legally liable. The “loss occurrence” must result from a “Specified Cause of Loss.”

The most we will pay in any one “loss occurrence” for Mobile, Portable or Contractor’s Equipment is \$10,000.

The most we will pay in any one “loss occurrence” for Computer Mobile Equipment is ~~\$1,000~~2,500.

2. Outdoor Property

We will pay for loss to your outdoor radio or television antennas, flagpoles, fences or signs while at a “premises” you own or occupy. Outdoor Property also includes satellite dishes, light poles, scoreboards, bleachers, water tanks, covered walks, playground equipment, ticket booths or dug-outs.

The most we will pay in any one “loss occurrence” for your outdoor property is \$5,000 for any one listed Outdoor Property, but no more than \$100,000 for any one “loss occurrence.” The “loss occurrence” must result from a “Specified Cause of Loss.” The most we will pay in any one “loss occurrence” for your playground equipment is \$50,000 per structure.

3. Fine Arts

We will pay for loss to your Fine Arts, or the Fine Arts of others, for which you are legally liable at your “premises” insured under this Scope of Coverage, or while on exhibition within the United States of America, Canada or the Commonwealth of Puerto Rico, or in transit to and from such exhibition except as restricted below.

Exhibition or transit does not mean:

- a. At fairgrounds;
- b. On the “premises” of any national or international exposition; and

The “loss occurrence” must be due to a Covered Cause of Loss.

The most we will pay for loss or damage to Fine Arts is \$5,000 for any one piece of art but not more than \$100,000 for all art lost or damaged in any one “loss occurrence.”

**CONTINUATION OF PROPOSED CHANGES TO SCOPE OF COVERAGE CONTRACT
(Excerpts from Scope of Coverage, Page 6)**

4. Trees, Shrubs and Landscaping Planting

We will pay up to \$1,000 for any one tree, shrub or landscape planting at a “premises” insured under this Contract, but not more than \$10,000 in any one “loss occurrence.” The “loss occurrence” must result from a “Specified Cause of Loss.”

5. Harvested Crops

We will pay up to \$10,000 in any one “loss occurrence” for loss to crops which have been harvested as part of an agricultural or vocational program at your school. This coverage only applies to crops stored on your “premises” and the loss must result from a “Specified Cause of Loss.”

6. “Business Income”

We will pay for actual loss of “Business Income” you sustain due to partial or complete suspension of your “operations” during the “period of restoration” after a “loss occurrence.” The suspension must be caused by direct physical loss of damage to Covered Property at an insured “premises” resulting from a Covered Cause of Loss. The most we will pay in any one “loss occurrence” for your “Business Income” is \$250,000.

7. Extra Expense

We will pay for the Extra Expenses necessary to continue, normal “operations” following a “loss occurrence.” The Extra Expenses you incur must be due to a direct physical loss of or damage to Covered Property at an insured “premises.” Including personal property in the open, resulting from a Covered Cause of Loss. The most we will pay in any one “loss occurrence” for your “Extra Expense is \$250,000.

11. “Vacant” Buildings

We will pay for loss or damage to your “vacant” buildings subject to the following:

- a. The building must be included in the Schedule of Property Values you provide to us;
- b. The “loss occurrence” must be due to a “Specified Cause of Loss,”
- c. Coverage will be provided on an Actual Cash Value Basis subject to a maximum amount equal to the value reported to us in the Schedule of Property Value for the building; and
- d. The “vacant” building is kept locked or secured at all times.

12. Food Spoilage

We will pay up to \$100,000 in any one “loss occurrence” at your insured premises. The “loss occurrence” must result from a “Specified Cause of Loss.”

**CONTINUATION OF PROPOSED CHANGES TO SCOPE OF COVERAGE CONTRACT
(Excerpts from Scope of Coverage, Page 7)**

PROPERTY NOT COVERED

We will not pay for loss or damage to:

1. Accounts, bills, currency or other money, deeds, food stamps or other evidences of debt, script notes or securities;
2. Vehicles held for sale or “automobiles;”
3. Dams, levees, reservoirs, tunnels, bridges, roadways, walks, patios or other paved surfaces;
4. Contraband, or property in the course of illegal transportation or trade;
5. The cost of excavations, grading, backfilling or filling;
6. Land (including land on which the property is located), water, growing crops, lawns, trees, shrubs, or landscape planting except as provided under **E. SPECIAL PROPERTY COVERAGES;**
7. Bulkheads, pilings, piers, wharves or docks;
8. Retaining walls that are not part of buildings you own;
9. Underground tanks, pipes, flues, conduits, sewers or drains;
10. Property covered under another form or other policy in which it is described. This Contract is excess of the amount due (whether you can collect on it or not) from that other insurance.
11. Buildings that are “vacant” except as provided under **E. SPECIAL PROPERTY COVERAGES;**
12. Watercraft or aircraft;
13. Foundation of buildings, structures, machinery or boilers if their foundation is below:
 - (1) The lowest basement floor, or
 - (2) The surface of the ground, if there is no basement;
- ~~14. Food Spoilage;~~
- ~~15~~**14.** Animals or Livestock.
- ~~16~~**15.** Grain, hay, straw of other crops except as provided under **E. SPECIAL PROPERTY COVERAGES.**

**CONTINUATION OF PROPOSED CHANGES TO SCOPE OF COVERAGE CONTRACT
(Excerpts from Scope of Coverage, Page 10)**

This Extension of Coverage is limited to the costs required to meet the minimum code requirements needed to reoccupy the building for its former use. In no event shall this insurance apply to any cost resulting from increased costs necessitated by the enforcement of any law, ordinance or governmental directive which regulates the use or requires repair, removal of or testing for “pollutants,” contaminants, asbestos or other hazardous substances; nor shall this insurance apply to any portions of the building not damaged or destroyed in the “loss occurrence.”

In applying the terms of this Extension of Coverage, building means the specific building damaged in the “loss occurrence” and does not include adjoining or contiguous buildings connected by common roofs, walls and passageways.

7. “Pollutant” Clean Up and Removal

We will pay up to \$30,000 in any one “loss occurrence” for loss or damage, or to clean your buildings and personal property insured under this Scope of Coverage which have become contaminated by “pollutants” if the discharge, dispersal, seepage, migration, release or escape of the “pollutants” is caused by or results from a “Specified Cause of Loss.”

This includes your expense to extract “pollutants” from land or water on your “premises” if the discharge, dispersal, seepage, migration, release or escape of the “pollutants” is caused by or results from a “Specified Cause of Loss.”

This Extension of Coverage does not apply to costs to test for, monitor or assess the existence, concentration or effects of “pollutants.” However, as part of the limit indicated above, we will pay for testing which is performed in the course of extracting the “pollutants” from the ground or water.

This Extension of Coverage excludes the peril of vandalism as included within the definitions of “Specified Cause of Loss.”

8. Utility Interruption

We will pay up to \$100,000 in any one “loss occurrence” for loss or damage to your Covered Property caused by the interruption of utility service on your “premises.” The interruption must result from direct physical loss or damage to utility property by a Covered Cause of Loss insured against by this Scope of Coverage.

9. Sewer Back-Up During Flooding

We will pay up to \$25,000 in anyone “loss occurrence” for damage to your Covered Property caused by water which has backed up through sewers, drains or sumps during periods of external flooding caused by the overflow of rivers, streams, creeks, lakes, reservoirs or similar bodies of water on the surface of the ground which are not your responsibility to maintain. This coverage will apply only when the water has backed up through sewers, drains or sumps that are within buildings included in the Schedule of Property Values you have provided us.

**CONTINUATION OF PROPOSED CHANGES TO SCOPE OF COVERAGE CONTRACT
(Excerpts from Scope of Coverage, Page 33)**

“Rental Value” means the:

- a. Total anticipated rental income from the tenant occupancy of the described “premises” as furnished and equipped by you;
- b. Amount of all charges which are the legal obligation of the tenant(s) and which would otherwise be your obligations; and
- c. Contractual rent payments on any portion of the described “premises” which is occupied by you.

“Specified Cause of Loss” means: Fire; Lighting; Explosion; Windstorm or Hail; Smoke; Aircraft or Vehicle Collision; Riot or Civil Commotion; Vandalism; Sinkhole Collapse; Volcanic Action or Falling Objects.

Sinkhole collapse means the sudden sinking or collapse of land into underground empty spaces created by the action of water on limestone or dolomite. Sinkhole collapse does not include:

- a. The cost of filling sinkholes; or
- b. Sinking or collapse of land into man-made underground cavities.

“Vacant” means any building that:

- a. Does not contain enough contents to conduct customary “operations,” or
- b. Has no portion occupied or in use.

A building in course of construction or renovation will not be considered “vacant.”

“Valuable Papers” means books of account, manuscripts, abstracts, drawings, card index systems, film, tape, disc, drum, cell or other data processing, or recording or storage media.

Includes copyrighted material of Insurance Services Offices, Inc. and copyrighted materials of excess insurance providers.