1954

0003 Feasibility of a State Fire Insurance Fund

Colorado Legislative Council

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FOREWORD

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Presented herewith is a report of the fire insurance coverage of state owned buildings and a review of the practices followed in other states, with particular emphasis upon programs of self-insurance. Part two of the report applies to school district properties.

Due to the lack of readily available data in sufficient detail, the report is inconclusive with respect to the advisability of Colorado re-establishing a fire insurance fund for state-owned properties. However, a serious effort has been made toward outlining the nature of the problem and to clarify the term self-insurance. A wide area exists between a status of no-insurance and a status of complete commercial coverage, and it is a purpose of this report to assist the reader in analyzing the various methods whereby state-owned property can be "covered" against fire damage.

If the recommendations calling for further detailed information from the State Planning Commission are accepted and complied with, then the General Assembly should be able in 1955 to make a determination of policy with regard to insurance coverage for the state-owned properties.

The issue with respect to insuring school district properties is believed to be one on which district trustees should develop a "case" in the event that a state sponsored self-insurance fund is desired by a representative group of the trustees.

This is not to deny the feasibility of a state fund for insuring school district property, but, inasmuch as such programs cannot be said to have general acceptance throughout the nation, it merely places the "burden of proof" on the trustees. In view of their oft expressed desire for local autonomy, this does not appear to be an unreasonable recommendation.

In the assembling of this report helpful assistance was rendered by several state agencies such as the Planning Commission, Purchasing Agent, Industrial Commission and the Insurance Department. In addition Prof. G. D. Morrison of Colorado State College at Greeley made a significant contribution. Further the Council desires to acknowledge the use of data in reports of several other out-of-state agencies which have recently reviewed the insurance programs of the forty-eight states. These include "Insurance of State-Owned Physical Property in 36 States" prepared by the Council of State Governments; "State Government Insurance Practices in Illinois" prepared by the University of Illinois; "Fire Insurance Coverage for Washington School Districts" prepared by the University of Washington; "Report on Insurance of State Buildings, Indiana" prepared by Commission on organization of State Government; "Fire Insurance for local and State Governments" published by the Municipal Finance officers Assn.; "Summary of State Self-Insurance Programs" prepared by Arkansas Legislative council.

PART ONE

PART ONE

STATE PROPERTY

> "That the Legislative Council created by Senate Bill No. 18 which was adopted by this General Assembly. . . is hereby directed to make, as one of its first assignments, a study of the feasibility of the state setting up its own fire insurance fund, including the coverage of property of local school districts where such coverage is requested by the local school board. The Council shall report its findings and recommendations thereon to the Second Regular Session of the Thirty-Ninth General Assembly."

Thus Senate Joint Resolution No. 21 (Senator Bezoff) directed the Council to research the subject of fire insurance coverage of properties of the state and local school districts.

The initial phase of the assignment is an analysis of the problem with regard to state-owned property: What are the individual properties and what is the nature of them? Where are they located and in what environment (fire-riskwise) do they exist? What would it cost to replace them? What is the value of the contents? What inconvenience would be brought about in the event of the complete destruction of any particular Unit or Units?

These are the necessary basic data upon which a meaningful analysis can be made.

Reports of the fire insurance coverage of state property prepared by the Colorado State Planning Commission list Colorado as having buildings and contents with an estimated replacement value of $147,964,187, as of December 31, 1952. (For detail see Appendix.) These same reports place the insurance coverage on said properties at $80,104,379. (See Appendix) The extent of coverage (expressed as a percent of the replacement value) varies from institution to institution and from agency to agency, as does the nature of the coverage.

The $147,964,187 is only an estimated replacement value of state-owned buildings and contents thereof, and important in this regard are two comments of the Planning Commission reports: 1/

"A total of $122,838,788 represents the replacement value of state-owned buildings in 1952, according to estimates furnished the State Planning Commission by officials of state institutions and agencies. (See Appendix)

There is no uniformity and no established yardstick for measuring the present replacement value of state-owned buildings."

"The replacement value of contents of buildings was $25,125,399 in 1952, according to estimates of officials of state institutions and agencies...It is considered doubtful if the contents of buildings could be replaced for the amounts listed as their replacement value at each state institution."

Therefore, it should be emphasized that for purposes of this analysis by the Legislative Council the above listed amounts are stated only as a general indication of the approximate extent of the exposure with which the state is concerned. Unfortunately, these data are not in sufficient detail to provide information necessary to adequately analyze the problem, and there is no complete inventory of state property to supplement the questionaire information collected by the Commission.

1/ "Fire Insurance coverage of State Institutions and State Property of Colorado," 1951 and 1952. Colorado State Planning Commission.

This situation has perplexed other state agencies, as witness comments in this regard in the State Auditor's annual report and the remarks of a responsible state office, "there is no continuity in any way regarding state property inventory. It is just a jumbled-up mess".

In addition to knowing the extent of the first exposure of state property a fundamental requirement is to know the nature of the current insurance coverage thereon, and where lies the responsibility therefor. Two elements stand out when reviewing this phase:

First: The basic source of current authority for purchasing fire insurance coverage for state property appears to have been Chapter 158, Section 41, C.S.A. 1935, wherein the state purchasing agent was authorized to let all state insurance. However, in Chapter 2 of the Session Laws of 1941, (Administrative Code of 1941) the responsibility for letting insurance is assigned to the Division of Purchasing and the State Purchasing Agent in Section 20, Sub-section (2) in the following manner:

"Purchase or control the purchase of, for the combined requirements of all spending agencies...insurance..."

Over the years the practice has developed of delegating to the superintendents or heads of institutions or departments, with the Purchasing Agent's general approval, or confirmation, the responsibility for purchasing insurance coverage. Although there apparently is no standard practice governing fire insurance coverage of Colorado State-owned properties, the general practice appears to be for the administrative head or business manager of the agency or institution to secure coverage at his own discretion with some supervision by the Purchasing Agent with the local agents of the area in which the institution or agency is located (except for the University of Colorado which departed from this general plan in 1950)

Second, the differences in policy features existing in institutional and departmental insurance programs. In this regard, note the variation in premium rates (see Appendix, Table 1) paid by the several institutions--from a low of 69¢ per $1,000 coverage to a high of $7.53 per $1,000 (excluding the state fair properties which pay $12.06 per $1,000). Further, a review of the insurance file in the State Purchasing Agent's office developed the fact that institutions followed different practices with respect to co-insurance. Several, such as Colorado A & M, the School for the Deaf and Blind, the State Reformatory, Home and Training School at Ridge, etc., carried an 80% co-insurance clause; others, such as Colorado State College of Education at Greeley, Western State and Adams State carried a 90% co-insurance clause; and other such as the State Penitentiary, Fort Lewis, Home and Training School at Grand Junction and the Soldiers' and Sailors' Home made no provision for co-insurance.

Colorado insurance premium payments are widely spread in the areas where buildings exist, except in the case of the University of Colorado which carries its major fire insurance with a single underwriter. Based upon information in the purchasing agent's file, the following is an example of the spread of premiums which existed in 1952 when the information was last accumulated:

Colorado A & M	22 agents
Colorado College of Education	31 agents
Colorado School of Mines	5 agents
Adams State	14 agents
School for Deaf & Blind	20 agents
Penitentiary	22 agents

Industrial School for Boys	1 agent
Pueblo State Hospital	65 agents
Soldiers & Sailors Home	20 agents

Based, in the absence of more comprehensive data, upon Planning Commission reports, and Institutional General Fire Forms on file in the office of the State Purchasing Agent, it is obvious that included in state property holdings are a number of buildings, each with a high replacement value, and probably several substantially high value "clusters" of buildings.

For example:

State Hospital, Pueblo, 2 buildings and contents valued at over $1,250,000 each and 34 buildings and contents valued at over $100 ,000 each.

Colorado A & M, 2 buildings and contents valued at almost $500,000 each and 23 buildings and contents valued at over $100,000 each.

Colorado State College of Education, 3 buildings and contents valued in excess of $500,000 each.

Colorado School for Deaf & Blind, 1 building and contents in excess of $400,000; 2 in excess of $250,000 each; 4 in excess of $100,000 each.

Reformatory, 1 building and contents in excess of $750,000.

The ramifications involved in the state assuming the risk for this exposure are both complex and serious. A substantial initial legislative appropriation would be required to create an actuarily sound insurance fund, properly safe-guarded, to put the state on a scientifically determined self-insurance basis. In addition, the schedule of annual premiums must permit the fund to accumulate sufficient reserve to meet annual fire losses, administrative charges, and also to repay the general fund advance.

Colorado's present insurance program does not fit into any one of the four principal methods for a state to handle its insurance problem:

1. Full commercial coverage
2. Scientifically determined self-insurance
3. A combination of (1) and (2)
4. No insurance at all.

--- a situation, which in the absence of a serious fire loss, is not particularly a matter for concern, but from a practical point of view is not sound business.

CONCLUSION AND RECOMMENDATION:

Therefore, in consideration of the several factors outlined on preceeding pages, it is the conclusion of the Council that the matter of the State of Colorado setting up its own fire insurance fund is feasible, but not practical at the present time. It is the recommendation of the Council, based upon the provisions of Section 6 (3) Chapter 157, Colorado Statutes Annonated, 1935, which direct the Planning Commission to "cause to be made such inspections of state buildings, structures..giving particular attention to weathering, deterioration, and the provisions made for fire protection, sanitation....." and in view of the Commission's effort already exerted on this problem, that the State Planning Commission be requested by Legislative Resolution to undertake a comprehensive detailed survey of the state property exposure, building by building and institution by institution, and to conduct a specific review of the insurance coverage and nature of coverage now provided for each exposure.

The Planning Commission is understood to have already programmed a photographic survey of all state owned buildings -- which would constitute a major step in accomplishing this request.

It is further suggested that the Planning Commission be requested to consult with the Legislative Council in the preparation and conduct of said survey. Generally the information which such an undertaking should provide is set forth in the form outlined below:

INSURANCE RECORD FORM

Building . . . . Address . . . .

Building

1. Type of construction ____________
2. Area in sq. ft. ____ Cu.Ft. ________
3. Date of construction ____________
4. Cost when built$ ____________
5. Reproduction cost $ ____________
6. Depreciation rate ____________
7. Depreciation taken$ ____________
8. Present value $ ____________
9. Value-non-insurable items$ ________
10. Insurable value 100%$ ____________
11. Appraised value $ ____________
12. Appraiser . . . . Date . . . .

Contents

1. Type of Contents — Original cost — Present Insurable Value 100%
   a. furniture$ _____ $ ________
   b. machinery _____ ________
   c. books ___ ________
   d. supplies ____ ________
   e. _______ ______ ________
2. Method or rate used for determining depreciation.
3. Date of appraisal ____________
4. Appraiser ____________

Insurance Policy

Policy No. ________ Type of Insurance ________ Rate:Building ______ Contents
Amount of policy$ ________ Building$ ________ Contents ____________
Total insurance carried:$ ____________ Building$ ________ Contents$ ______
Date policy issued ________ Cancelled ________ Suspended ________ Expires ____
Term of policy ______ Total premium$ ________ Dividends or refunds$ ______
Net premium for policy periods$ ____________ Losses paid for policy periods$ ________ Company insured with ________ Agent ____________

In setting out these general items of information which are felt to be necessary it is not intended that an expensive engineering review be undertaken. However, the data should be assembled by competent persons presently available on the state payroll and in cooperation with any qualified persons outside state government who can be persuaded to assist in the undertaking, at no expense to the state.

The information for all of the State's buildings and their contents would provide the basic data necessary for a sound evaluation of the State's present insurance program and to plan the future insurance program. The General Assembly will then be able to intelligently review the insurance program of the state and determine which of the four principal methods (as outlined above) of insurance coverage Colorado should adopt.

* * * * * * * * * * * * * *

In order to assist the members of the General Assembly to better understand the overall problem of insuring state properties there is included in this report an outline of the principles of a state insurance program and a summary of the experience of other states with the problem.

THE PROBLEM

Basically speaking the problem is to determine the most satisfactory method of handling the RISK which is necessarily attendant in the possession of property. There are four major ways of meeting the problem:

1. Transfer, for a premium, the risk to a commercial insurer.
2. Scientifically provide a "self-insurance" program and assume the risk with proper adherence to the basic insurance principles.
3. Plan a program whereby self-insurance is combined with partial transfer of the risk.
4. Accept the risk without making financial provision for loss. (This would be a program of "no insurance").

Table A in the Appendix lists the forty-eight states and the method which each uses.

MEETING THE PROBLEM:

COMMERCIAL INSURER (item 1, above). Under this method the state determines that it is willing to pay a known charge, in the form of a premium, to a professional risk-bearer and thereby shift the burden of risk to one felt to be more willing and able to bear it. Thus the risk is transferred, and in addition there are ordinarily several supplemental services available from the commercial insurer and his engineers and agents.

For example:

a. Preparation of an analysis of the hazards to be insured against and tailoring forms of coverage to afford proper protection and thus facilitate a complete insurance program.

b. Frequent consultation with rating authorities in checking into fire protection facilities (sprinkler alarm system, etc.) to enable a governmental unit to take advantage of further improvements which would reduce rates.

c. The Agent's services are available to secure a prompt and fair settlement of losses.

It is inherent in item 1. that there be a determination of what the "risk" is and that there be a transfer of the entire amount to the professional risk-bearer. Therefore, inasmuch as the information available indicates that there is not an accurate determination of the replacement value of state property in Colorado and that a substantial portion of the state property is insured at considerably less than full replacement value, it is obvious that Colorado is not fully meeting the problem by transferring its "risk" to a commercial insurer.

SCIENTIFIC SELF INSURANCE (item 2, above) Under this method the state itself assumes the risk in a scientific manner. This method is in contrast to that whereby the state assumes the loss when it occurs as an expense to be paid from current revenues or bond issues. Self-insurance presupposes first, a careful evaluation of the "risk of loss" involved; second, the recognition of the fact that certain unavoidable losses will occur; and, third, provision for meeting such losses by the setting up or accumulation of reserves or special funds to meet the anticipated expense without having to draw upon or deplete other assets.

Self-insurance, generally, is attractive only where there is an appreciable spread of exposure; where operations are diversified and not so concentrated that a catastrophic occurrence could create a disastrous loss; and where arrangements are made to permit the self-insured entity to economically assume the cost of necessary services of inspection, loss prevention and claim adjustment, all of which are essential to the administration of the program.

In contemplating self-insurance, each exposure must be carefully evaluated, existing or available loss prevention facilities studied, and cost factors carefully weighed. This involves esentially the following:

a. Detection and evaluation of the exposures to loss and an estimation of the extent of the probable financial costs which may result therefrom.

In detecting and evaluating the exposures, consideration must be given to both the theoretical possibilities of losses occurring, which depend on the extent and nature of the activities conducted, and the loss and claim experience of the past as a practical guide to future expectations.

b. Determination as to which of the existing exposures are proper subjects for self-insurance. In making this determination, it must be borne in mind that by and large only those risks which involve a wide spread of operations and a diversification of exposures may be considered as proper subjects for self-insurance. Operations with a highly concentrated exposure or where existing conditions or the nature of the operations are such that little effective control can be exercised over the loss potential, are usually not considered as suitable for self-insurance.

c. Careful attention must be given to the possibilities of any catastrophe hazard involved in the exposures. When an appreciable element of this type exists, assumption of risks by self-insurance cannot be safely considered unless protection against excessive loss can be obtained. If this protection can be obtained, however, it is often advantageous to assume a certain portion of the risk even where a catastrophe element is present, provided the other essential elements of self-insurance-i.e., diversification of operations and exposures, and the element of possible control of losses, are present.

After consideration has been given to the above elements to determine the attractiveness of self-insurance, and if the indications are favorable, the decision on adopting a self-insurance program will quite often hinge upon the cost involved as compared with the premium cost which would be charged by a commercial firm for insurance protection.

The Pro And Con Of Self Insurance.

In making this decision the pro and con of the issue will be reviewed. Among the common points often advanced in favor of scientific self-insurance are:

PRO: A self-insurance program would save the state that part of the commercial premium which is going to pay administrative expenses and profits of insurance companies; that there is the possibility of the state's having a lower "loss ratio" than that of the general public, and that the property can be more adequately protected in a state system. Also proponents list as disadvantages of a program of commercial coverage the fact that insurance policies have definite limits of liability and in order to be certain of adequate protection at all times, quite high limits must be carried; and, further, the premiums required by insurance companies, especially where exposures of an unusual nature exist, are often high, and from a pure cost standpoint, more expensive than a self-insurance program covering the same exposures.

With respect to the administrative expense and profits of insurance companies the following information, based upon an interview with a representative of the Colorado State Department of Insurance, is of interest. Colorado applies the following formula for allocation of insurance receipts:

50%	losses
50%	underwriting expense
100%	

The underwriting expense is broken down into the following percentages:

3%	allowed for catastrophe risk
5%	profit
15%	home office operation
27%	local agents expense
50%	

It is reported that losses paid by insurance companies in 1951, due to climatic factors amounted to 108%, while in 1952 the loss ratio was 41%. In the opinion of a representative from the Colorado Insurance Department an adequate state insurance fund would require a reserve of a minimum of $3.5

million to cover state owned properties.

CON. The most common arguments advanced against the idea of a scientific self-insurance program are: State insurance involves an invasion of private enterprise; there is a lack of a proper number of risks; there is insufficient spread of risks; the existence in the state treasury of a large amount of money in a "reserve" fund invites diversion or appropriation to other purposes either during times of economic strain or when a "pressure group" may be able to secure a diversion of the "reserve" to another purpose; and in the event of a large loss the fund would be bankrupt.

In any event, it is definite that a financially sound state program of self-insurance must be scientifically based as well as efficiently and thoroughly administered. In addition, a fundamental feature of this method of risk assumption is the emphasis which must be placed upon a mandatory fire prevention program to be efficiently enforced in regard to all state properties.

With respect to this phase of the problem reference is made to the 1950 report of the Industrial Commission of Colorado, Factory Inspection Department, summarizing its findings after inspecting, at the State Planning Commission's request, fire hazard conditions at State institutions. It is readily apparent that, as of the time of said inspections, Colorado would have to undertake a substantial program of mandatory fire prevention.

Fire Fund States. Eight states operate insurance funds, following in most respects the basic principles of commercial fire insurance. These states are:

Alabama	North Dakota
Florida	Oregon
Kentucky	South Carolina
Michigan	Wisconsin

A brief review of the practices in these fund states is presented below:

ALABAMA. The state insurance fund insures state-owned properties and local school districts. It was created in 1923 with an initial appropriation of $100,000 plus premiums. The annual premiums are levied at 60% of commercial rates, and operating expenses of the fund are limited by law to 4% of the net premium. The fund, administered by a manager-actuary, inspector, accountant, and a secretary, covers approximately 6600 buildings.

Coverage of 75 to 100% is afforded on all state buildings and urban schools, but is limited to 75% on rural schools. School coverage is also limited to only such schools as are built with state funds. Reports from Alabama indicate that nearly 60% of the losses covered by the fund have been from County High and Elementary Schools.

Recent data shows that this state insurance fund, after almost thirty years operation, contained an earned surplus of $1,149,525.90. This is after making allowances for administrative expenses, losses, and for $3,129,810 of reinsurance premiums. It is reported that the 6,600buildings are valued at $114,000,000, and of this total value, fire coverage amounted to $89,000,000 and tornado insurance coverage was $84,000,000. The extent of the clustering of buildings is not available. However, it may be presumed to exist because coverage amounting to $37,000,000 of fire insurance and $16,700,000 of windstorm was reinsured with commercial insurance agents in Alabama.

FLORIDA. The Florida fund was established in 1917 to provide fire coverage for state properties, and was limited, unless otherwise approved, to a maximum of $50,000 for any single risk. The premium rate is "as nearly as practicable that charged upon other property of a similar character by licensed insurance companies in this state." There are about 3,000 state buildings insured in the fund to the extent of approximately $80,000,000, of which some $28,000,000 is reinsured in commercial insurance companies. The practice appears to be to provide coverage to the extent of 75% of the replacement value of the buildings. In over thirty years of operation the fund assets have risen to over $2,000,000, and it is interesting to note that there have been only approximately $400,000 in fire losses paid from the fund during this entire period.

KENTUCKY The Kentucky fund was created in 1936 and covers all state properties against loss from fire or "extended coverage" perils. The fund is sustained by departmental premiums, calculated at commercial rates, on 90% of the insurable valuation (determined by appraisal engineers employed by the fund) of the property, subject to a loss limitation of $500,000 on any single loss. In addition, the fund is authorized to reinsure on any potential loss in excess of $200,000. The fund after fifteen years of operation has approximately $100,000,000 of coverage on over 2,000 state buildings (of which almost one-half is reinsured) and has an accumulated surplus in excess of $1,000,000. Administrative expenses are limited to 10% of the annual premiums collected.

MICHIGAN. The recent experience of this state demonstrates the results in a Fund State when one or two large firesoccur. First is quoted a January, 1951, report covering this fund, then an early 1952 report which applies to a period in which a major loss occurred, and finally from a later 1952 report covering another major loss. To our knowledge only the Michigan fund in recent years has had to finance such extensive losses. It must be remembered in analyzing insurance coverage for numerous buildings with high potential loss, that there is always lurking "around the corner" the one big fire which can upset a lot of otherwise attractive statistics and "fund profit" statements. In the 1951 report2/ the following is presented:

"The State Insurance Fund of Michigan was established on August 14, 1913 for the purpose of insuring state property against loss by fire, lightning, windstorm, explosion, riot, riot attending a strike, civil commotion, falling aircraft, hail (not to apply to growing crops), and smoke.

"The Fund does not insure school properties below the state level nor certain properties on the state level. Neither the University of Michigan nor the Michigan State College are insured in the Fund. . . . the replacement values of the buildings insured in the Fund amount to $258,225,270.81. This is also the amount of insurance carried. From June 30, 1914 through June 30, 1949, (No premiums were collected from 1921 to July 1928) the total amount of premiums have amounted to $3,145,524.86. This premium amount was produced with rates which average approximately 25% of the fire rates charged by commercial companies authorized in the State. From 1914 to 1945, the maximum limit which could be charged for any risk could not exceed sixty cents per hundred dollars of insurance. In 1945, the law was amended to authorize the chief rater, Fire Insurance Rating Division, in the Department of Insurance, to fix the rate of insurance, which could not exceed the rates determined by a fire rating bureau licensed by the Department of Insurance for authorized fire insurance companies issuing coverage in the State upon property of a similar kind.

2/ "Fire Insurance Coverage, Washington," University of Washington, January 1951.

"For the period June 30, 1914 to June 30, 1949, the total losses to the Fund have amounted to $1,670,750.16. The loss ratio for this thirty-five year period was 53.1 per cent.

"The state law provides that whenever 'such state insurance fund shall equal $1,750,000.00, no further sum shall be credited thereto until such fund shall be less than $1,750,000.00, and then only in such amounts as shall amount to, and equal, $1,750,000.00' As of June 30, 1949, the aggregate amount of cash and bonds credited to the Fund was $1,692,088.59.

"From 1913 until 1945, the operating expenses of the Fund were paid from appropriations made to the Department of Insurance. In the year 1945, the Insurance Fund law was amended to provide that such operating expenses are to be paid out of moneys credited to the Fund........."

The early 1952 report3/ states the following information on Michigan:

"The State of Michigan as one of the first states to create a self-insurance fund and now pursuant to enabling legislation it is in addition attempting to procure catastrophe insurance. A major stumbling block...has been the cost and method of appraisal of their properties.

"For those who are advocates of state catastrophe insurance, a concrete example of why it should be procured is the fire that destroyed the state office building at Lansing, Michigan. The fire was started by an arsonist mid-day February 8, 1951, and lasted four days. Lansing news releases estimated the loss at between $5,000,000 and $7,000,000. The estimates of the State Administrative Board, the State Building Division, the State Department of Insurance and the Western Adjustment Company placed the loss at $1,455,691.24. (Fortunately there was $1,500,000 in the self-insurance fund.)

"According to a survey made in 1943, the building was built in 1919-1922; its foundations, foundation walls, and framing was reinforced concrete; its interior for the most part was marble, concrete and brick with wood, marble and metal for trim. The building was declared structurally sound and at that time housed approximately twenty state agencies. The building was eight stories high -- one a mezzanine, where the fire started, between the sixth and seventh floors.

"Agencies that occupied the building are still scattered all over Lansing and quite a few occupy quonset huts in East Lansing. Rental figures were not obtained, but they were kept to a minimum by occupation of old school buildings, the old YMCA building and quonsets which belonged to Michigan State College. The roof and six and seventh floors of the state office building were lost and the remainder of the floors are stripped."

3/Insurance of State Buildings, Indiana, Commission on Organization, June, 1952.

A Subsequent 1952 report states "The state penitentiary (Michigan), largest in the world and housing nearly 5,000 inmates within its walls, was the scene of wild rioting and vandalism during the past fornight in which the property loss is estimated at $2,500,000 by state building department officials. Unofficial estimates place the fire loss alone at around $1 million and it may go higher when a comprehensive survey can be made. Currently, however, the state fire fund's balance stands at $774,000 and it would be completely wiped out if the entire prison loss were met.

NORTH DAKOTA. The fire and tornado fund, created in 1919 insures the properties of the state and its political subdivisions (approximately 5,300 buildings) against fire and the perils generally included in an extended coverage endorsement. The fund started without any initial appropriation and has been built through the years on the basis of premiums and earnings. Premiums fall into two catagories: Property insured less than five years with the fund pay 50% of the commercial rate; those insured more than five years pay 25% of the commercial rate, with the further provision that when the reserve fund is $4,000,000 there will be no premium charge. The fund is authorized to carry a limited amount of reinsurance.

Slightly over one-half of the approximately $100,000,000 insurance carried by the fund represents public school properties of all types, including colleges and universities.

The fund has built up assets in excess of $2,000,000 during the thirty-four year period in which it has been in existence. Administration costs are reported to amount to 8% of all premiums during this period.

OREGON The fund in this state was created in 1925 and protects state owned property valued at approximately $80,000,000 against loss by fire. The fund is sustained by legislative appropriations, and they have ranged from $25,000 per year originally, raised to $ 50,000 in 1937, to $100,000 in 1943 and to $200,000 in 1949. It is reported that the fund has paid for replacement (reimbursement is made only when loss is replaced) of all the actual fire losses since 1925 with the exception of the state capitol which was destroyed in 1936 and was replaced by a $2,400,000 legislative appropriation. The fund is not charged with administrative expenses, but rather they are charged to the State Board of Control. The balance in the fund is less than $1,000,000.

SOUTH CAROLINA. The fund of this state has been in existence since 1900 and provides coverage against the loss by fire (and extended coverage perils) for state, county and public school property. The State Sinking Fund Commission administers the fund. Properties covered by the fund have a replacement value of at least 25% in excess of the $110,000,000 of fire insurance in the fund. The fund is sustained with premiums, which, at the present time, are estimated to be between 65 and 80% of the commercial rates. The assets of the fund are in excess of $4,000,000.

South Carolina uses a Reinsurance Sinking Fund to reimburse for losses on brick and stone buildings above $25,000 and all losses on brick veneer and framebuildings above $10,000. This fund receives money by transfer from the Insurance Sinking Fund.

WISCONSIN. The insurance fund was established in 1903 and insures the property of the state, counties, municipalities and school districts, with provisions being mandatory for only state properties. At the present time, and for a number of years, the fund has charged premiums at a rate which is 50% of the commercial rate. The assets of the fund are approximately $7,000,000.

OTHER EXPERIENCE:

In addition to the experience in the eight Fund States, the experience of the following states is of interest:

PENNSYLVANIA. The insurance "fund" of this state was created in 1915, and until 1919 the revenues to operate the fund came from one-half of the tax paid by foreign insurance companies doing business in Pennsylvania. This source of revenue was diverted to another purpose in 1919 and the "fund" has been supported by legislative appropriations since that time, $1,119,000 in 1929 and $1,000,000 in 1953. The balance in the "fund" in September, 1953, was $1,200,000 and the estimated value of properties covered was $623,000,000.

Claims against the "fund" are subject to the recommendations of the Secretary of Property and Supplies and the approval of the Governor. It is not mandatory that these claims be paid from the fund. In fact, as a general rule, losses up to $3,000 must come out of departmental operating funds. The "fund" is not actually a true insurance, but rather a "stop gap" arrangement to cover any emergencies between legislative sessions. It is important to note two things with reference to the Pennsylvania situation: First, in only one instance since 1923 has the fund, with approximately its present reserve, ever failed to cover a loss. Second, Pennsylvania has unusual ability to obtain money, first, through its own various funds, secondly, through the agency called the General State Authority, and thirdly, through its more or less unlimited tax resources.

ILLINOIS. Illinois agencies generally do not purchase fire insurance coverage for state-owned buildings, but rather they rely on a special type of reserve fund for emergency repairs for these buildings. This reserve fund does not constitute a self-insurance plan in the true meaning of that term, as such a plan would be based upon sound insurance principles which result in the establishing of a fund, liquid in nature, and large enough in amount to cover all losses when they might occur.

An appropriation is made for the aforementioned reserve fund each biennium and the monies not expended at the end of the biennium revert to the state treasury, as do all unexpended state appropriations in accordance with the state constitution. The reserve has been in existence for several years.

Only small amounts generally have been expended from the reserve fund. Over the twenty-eight year period 1928-1953, $2,725,000 has been placed in the fund through biennial appropriations and $857,905 had been expended, with the balance, $1,867,095 reverting to the state treasury. At the present time the biennial appropriation is $300,000. Generally, departments have relied on their regular appropriations (contingency amounts) to finance emergency repairs and replacements.

Under the present Illinois system, it is impossible to replace or repair a building damaged by fire or storm in an amount greater than the fund during the period the legislature is not in session. Illinois has not had a major fire or other damages to state-owned buildings since 1934. This, however, does not mean that there will be none in the future, and it is very unlikely that if such should occur that the Department of Public Safety would have sufficient funds, or that the reserve fund would be adequate.

RHODE ISLAND. An insurance fund was in existence in this state for the period 1931 to 1948 at which time it was abolished by the legislature. Insurance is now purchased from commercial agents. Following are the comments of a Rhode Island State official in this regard:

> "In 1948 by act of the Legislature the Fire Insurance Fund was abolished in Rhode Island. It was abolished for two reasons: (1) Because for a number of years annual payments had not been made into the fund to maintain it completely on the 'self-insuring' principle; and (2) The size and number of buildings owned by the State, which should be covered by such a fund, had increased so tremendously that the cost of bringing the fund up to a reasonable figure would be prohibitive. Consequently, after much thought it was decided to abolish the fund and make an annual payment to a group who wrote a complete fire and comprehensive damage policy on all State buildings. In the years this has been in operation it has worked extremely well and satisfactory to all concerned.
>
> "It was the experience in this State that the Legislature apparently has no difficulty in making an appropriation to pay a direct premium but will hesitate to annually make an appropriation to build up a fund against which there is very little drawing, and on the contrary may even decide to appropriate from that fund for some specific purpose. I think it would be extremely difficult to convince anyone in Rhode Island that we should go back to establishing a State Fire Insurance Fund."

MONTANA. An insurance fund was set up in this state in 1935 but was repealed by referendum about eighteen months later. A comparative analysis of the State Property Insurance Laws of eight of these nine fund states is presented in the appendix.

COLORADO TRIED SELF-INSURANCE. A history of the self-insurance program of fire protection in Colorado was presented in the 1951 report of the Colorado Planning Commission on Fire Insurance Coverage of State Institutions. The Commission's report stated: "In 1925, the Twenty-Fifth General Assembly passed the State Property Fire Insurance Appropriation Act which established the State Fire Loss Fund.

"The Act provided that "No Board, Bureau, Commission, president, superintendent, or other State officer or State Agency shall hereafter place any fire insurance upon any State buildings or contents. All fire insurance in force and paid for upon the passage of this Act shall be allowed to run to the date of its expiration, but shall not be renewed."

"The sum of $40,000 was appropriated annually to the fund with the provision that at no time should the fund exceed $250,000. The state Auditing Board, then in existence, was placed in charge of the fund with authority to draw an amount from the fund for repairs or reconstruction in case of loss by fire of any State property.

"No disbursements were made from the Fire Loss Fund during the period from 1925 to 1927. In 1927 the original Act was amended to permit State officials to insure State property with private insurance companies in the event that the Fire Loss Fund balance fell below $200,000. A further amendment provided that the fund should not exceed $300,000 (an increase in the maximum amount of the fund over the original law of $50,000), and permitted the State Treasurer to invest the fund "in government or state bonds or state warrants of the State of Colorado, so that the same may be readily available to meet the provisions of this Act: and interest accruing therefrom shall be added to this fund."

"Following the session of the General Assembly in 1927, a dairy barn and its contents were destroyed by fire at Colorado A & M College in Fort Collins. The State Auditing Board made two transfers of $40,000 each in 1927 and 1928 from the Fire Loss Fund to the Cash Fund of the College for the reconstruction of the dairy barn and the replacement of the equipment and contents.

"In August, 1929, the State Penitentiary experienced a prison outbreak and fire, and the State Auditing Board transferred $80,000 from the Fire Loss Fund to the State Penitentiary Cash Fund for reconstruction work required at the institution.

"No additional expenditures were made from the fund during the period from 1929 to 1935. During the session of the Thirtieth General Assembly which convened in 1935, the Acts of 1925 and 1927 were amended somewhat and the Executive Council replaced the State Auditing Board as administrator of the Fire Loss Fund. A number of State Institutions carried insurance with private companies during this period feeling that the provisions of the Act limiting certificates and coverage to 10% of the fund in any one case did not provide adequate insurance coverage.

"The 1935 appropriation was for $40,000 for a two-year period, as contrasted to the earlier appropriations which were on an annual basis. From passage of the Act in 1935 until 1939, State Institutions paid $9,616.32 into the fund as premiums. In 1937, no appropriation was made to the fund.

"When the Thirty-Second General Assembly met in 1939, it was hard pressed to find funds to operate the State government and to meet the public relief problem. Therefore, the Fire Loss Fund was abolished, and the balance was distributed as follows:

1. To the State Purchasing Agent to purchase fire insurance for each of the State Institutions in accordance with the unearned premium claim of each such institution.	$3,149.00
2. To the Public Welfare Fund to aid indigent and unemployed persons of the State	200,000.00
3. To the State's General Fund, the balance of	67,624.87
Total of Fire Loss Fund Dispersed. . . .	270,773.87

"Prior to the passage of the 1939 Act providing for dispersal of the Fund, an expenditure of $38,631.85 was authorized from the Fire Loss Fund for use in the construction of the Capitol Annex Building. It may be that this transfer from the Fund was made in order that the Fund would not exceed $300,000, the maximum limit provided by law.

COMMERCIAL AND SELF INSURANCE (Item 3) Under this combination the state insures through a commercial carrier the most hazardous and largest risks, and assumes the remainder of the risk within itself. Another method is to assume a portion of the total risk, with reinsurance or excess insurance covering the remainder. (Note that in the so-called "Fund States" listed under item 2, Alabama, Florida, Kentucky and North Dakota make specific provision for reinsurance.) Insurance of this type is obtainable on the basis of the assumed amount applying on a "per building" basis or on a "per loss" basis, and is often referred to as catastrophe insurance. For example:

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a. "per building" basis. As respects the application of this insurance on a "per building" basis, the feasibility depends upon the number of buildings of high value which would be clustered and thus subject to destruction by a single fire. In this form the state assumes the initial loss, say the first $50,000, in a fire in each building. Accordingly, in a fire involving several buildings the total loss to the state could be considerable.

b. "Per loss" basis. Excess insurance of this type is available in about three-quarters of the States. It permits the state to assume the initial portion, say the first $50,000, of any fire loss, even though several buildings would be involved.

c. Aggregate retained amount basis. This plan differs from the "per loss" excess plan above described, in that instead of the insured assuming a predetermined amount for <u>each</u> loss, a <u>total</u> assumed loss retention is chosen and full insurance applies to any losses after the retained amount has been reached. A great advantage of this plan is the fact that the total exposure assumed by the insured is known in advance. This plan overcomes the uncertainty of a possible series of small losses reaching a large total, which possibility exists in the above described plans of excess insurance on a per "building" or per "loss" basis.

d. Self-insurance on properties of less values with purchased insurance on properties of higher values. This method contemplates a program of dividing the properties between those of lesser value and those of higher value, with the breaking point at some predetermined value, for example, $100,000. The State would thus self-insure all of the lesser value properties and purchase insurance on those of higher value. An example of this type of coverage is <u>Vermont</u> which insures its buildings valued over $10,000 with commercial insurance companies. Buildings valued at less than $10,000 that are lost or damaged by fire, if replaced, are paid for from an insurance fund which was set up years ago and which amounts to $150,000 or more. As to the other buildings that are insured, all proceeds from fire losses are placed in the fund pending determination as to whether to rebuild. The fund can also be used to assist in rebuilding insured buildings if needed and approved by the Emergency Board.

This system reportedly has proved satisfactory in Vermont because the savings in insurance cost which was high for small buildings, many of which were unprotected, particularly those of the Forest Service and the Fish and Game Service.

It is reported that the City and County of Denver insurance program is of this type. Denver reportedly does not carry insurance on properties under $100,000 valuation (with minor exceptions) and properties over $100,000 are insured for full value on an 80% and 90% co-insurance basis. As of December, 1953, Denver has approximately $18 million of fire insurance written on a five year term basis (on a pooled basis with Denver underwriters) at an annual premium of $24,000.

Generally speaking there is an inconsistency in this method in that the first $100,000 (or other chosen limit) of high valued properties would be insured, whereas in the case of the lesser valued properties this first $100,000 would be self-insured. A shortcoming of this method would exist in a circumstance where a number of lesser valued properties were subject to a common fire loss and an extensive total loss could be incurred. This difficulty was pointed out before and was the basis for indicating that the proposal for excess insurance on a per "building" basis was not practical at the present time.

NO INSURANCE (Item 4) Under this method there is a complete absence of any scientific funded plan to meet losses to public property. Such losses must be met through budget appropriations, special appropriations, or indebtedness. This is, of course, a program of NO INSURANCE and should be distinquished from a scientifically based self-insurance program. In either method the governmental unit assumes to itself the responsibility of retaining and assuming the risk. However, in a sound self-insurance program this assumption is determined scientifically and provision made therefor; whereas, in a program where no-insurance is provided, about the only scientific feature could be the fire prevention program which naturally should accompany such a program.

This method is reportedly used by such states as California, Massachusetts, New York and Ohio.

PART TWO

PART TWO

SCHOOL DISTRICT PROPERTY

> "Every school board, unless otherwise especially provided by law, shall have the power, and it shall be their duty:. . . To rent, repair and insure school houses. . ."

Thus the Colorado Statutes 1/ direct the trustees of local school districts to provide insurance protection for school properties. A recent study 2/ concludes that with respect to these properties there exists the same basic problem, i.e., the lack of readily available comprehensive information, which has been found to be the case with respect to state properties. This study states:

> "The returns were generally incomplete and inaccurate, particularly with respect to the current value of the buildings involved. . . A postcard survey was made in 1952 covering 1951 fire losses and explosions. The descriptions of loss were poor and the amount of loss was shown only for two small fires in Denver.
> "It was noted in checking over the figures given in the School Building Survey that many school districts had no idea as to the actual value of their buildings. Many estimates of building value were the original cost of the buildings--including non-insurable items like the land and basement excavation cost. Some of these buildings were built in 1885 and still insured on the basis of original cost." "Present public school building fire insurance practices in Colorado are aimless and uncoordinated except in a few districts."

3/ Such remarks confirm the findings of an earlier Colorado study of the subject which summarized as follows:

> "The placing of sound values on school buildings, fixed improvements and contents has been very inaccurate in the past. There has been no allowance made for depreciation or for change in cost of replacement. Buildings have been carried at the original cost of construction. "Due to changes in building costs and depreciation from usage buildings should be revalued at fixed intervals making allowance for the two above

(See Page 2 for Footnotes)

mentioned items."

In addition, purchasing practices of school districts were summarized as follows:

> "The question of the administering of insurance in school districts of the state points to only one thing. It is handled in a very careless manner in most school districts with very little regard for good business principles being used. The main purpose seems to be the satisfying of various pressure groups in the districts.
> "There seems to be no uniformity as to the term or amount of policy. Many districts use policies of several terms. The amounts are determined in many ways."

The Scoville study provides a partial indication of the extent of exposure of school district properties in Colorado: The insured value of Colorado public school property was $67,134,600 in 1950. The actual cost of this protection, ...was $352,462.28." This report lists further the expenditures by school districts on fire insurance:

AMOUNTS SPENT BY SCHOOL DISTRICTS
OF COLORADO ON FIRE, WINDSTORM,
AND EXTENDED COVERAGE

SCHOOL YEAR	AMOUNT SPENT FOR INSURANCE
1941-1942	$ 161,524.33
1942-43	145,228.10
1943-44	172,888.48
1944-45	166,775.30
1945-46	172,284.63
1946-47	190,926.67
1947-48	232,020.57
1948-49	281,382.20
1949-50	305,911.16
1950-51	352,462.28 a/
Total 1941-195'	$ 2,181,403.72

1/ Colorado Statutes Annotated, 1935, Section 89
2/ "A Program of Fire Insurance for Colorado Schools", W.E. Scoville, 1952
3/ "An Investigation of Fire Insurance of Public School Buildings of Colorado". H. C. Shute, 1935.
a/ Includes 1949-50 data for eleven counties.

The State Department of Education in a survey attempted to determine the explosions and fires which had occured in the public schools of Colorado in 1951. A report of the study follows:

> "Replies were received from sixty-two of the sixty-three counties of the State in regard to the questionnaire which was sent asking "the number of fires and/or explosions that had occured in any school building in the county during the 1951 school year.
>
> "Of the sixty-two counties reporting, fourteen reported fires or explosions in the school buildings within their county. Some counties reported more than one fire, making a total of seventeen fires in the various thirteen counties throughout the State for the year 1951 (school year). Of the seventeen fires and/or explosions, three were of major disaster, one at Telluride which destroyed the gymnasium, the second which completely destroyed Lakeview School District No 3 in Montezuma County, and the third which completely destroyed the Flagler High School in Flagler The other fourteen fires and/or explosions caused minor damage."

STATE PROPERTY INSURANCE FUNDS IN OTHER STATES.

North Carolina, through the State Board of Education, operates a Public School Insurance Fund. The Fund, established in 1949, insures public school properties against loss by fire, lightning, windstorm, hail and explosion losses. It is available on an optional basis, for school property only. The property is insured at no less than 75 per cent of the value, and the premiums currently are approximately 68 per cent of the commercial rate.

In the eight insurance-fund states only two, North Dakota and South Carolina, have mandatory provisions with respect to school property (in the case of North Dakota it is optional for schools outside the limits of an incorporated city or village). Two states, Alabama and Wisconsin, provide permissive coverage for school properties. The remaining four states, Florida, Kentucky, Michigan and Oregon limit coverage to state property.

CONCLUSIONS AND RECOMMENDATIONS.

On the basis of the foregoing there obviously is not readily available sufficient data with respect to Colorado School District properties and the insurance coverage thereon to permit a comprehensive analysis of the feasibility of the state providing an insurance fund for school district properties. Further, in view of the following facts:

(1) There is only one state, and it with limited experience (1949), which currently provides a state insurance fund exclusively for school district property.

(2) Of the eight other states having insurance funds,[4/] (two mandatory and two optional) only four provide coverage for school district property.

It is obvious that such plans are not generally accepted throughout the United States. This is not to say that such a plan does not have considerable merit, but only to caution that the practice has not been so generally accepted that it can be considered acceptable on the face of it.

Therefore, in consideration of the often expressed desire by school district board members for local autonomy in the adminstration of their districts' finanacial affairs, and in view of the fact that additional study is required before recommendations are to be made with respect to the advisability of a state insurance fund for <u>state</u> properties, it is recommended that if the trustees of school districts of Colorado are interested in having their properties insured by a state fund, that they, through their own organization or the state Department of Education, undertake a comprehensive study of the problem. In the event that the data thus obtained demonstrates that a substantial number of school districts, representing a considerable volume of property values, (in order to permit sufficient "spread of risk") can obtain improved insurance coverage at a reduced cost and <u>desire</u> a state insurance fund, it is suggested that the proposal be submitted by school district representatives for consideration by the General Assembly.

APPENDIX

APPENDIX A

TABLE I
FIRE INSURANCE CARRIED, PREMIUMS PAID AND PREMIUM RATE PER $1,000

Institutions	Ins. Coverage Buildings & Contents	Total of Annual Premiums	Premium Rate per $1,000
EDUCATIONAL			
University of Colorado	$ 15,428,800	$ 12,165	$ .79
Colorado A and M College	5,295,805	9,056	1.71
State College of Education	5,509,650	8,285	1.50
Colorado School of Mines	5,386,922	11,636	2.16
Western State College	2,277,500	6,238	2.74
Adams State College	1,650,515	4,846	2.94
Fort Lewis A and M College	838,105	1,796	2.14
School for Deaf and Blind	1,588,300	1,929	1.21
PENAL AND REFORM			
State Penitentiary	758,250	5,023	6.62
State Reformatory	938,800	3,321	3.54
Industrial School for Boys	448,000	1,300	2.90
Industrial School for Girls	516,400	2,429	4.70
CHARITABLE AND ELEEMOSYNARY			
Colorado Medical Center	4,750,000	3,368	.71
Colorado State Hospital, Pueblo	10,079,550	10,628	1.05
Home & Training School, Grand Jct.	331,505	911	2.75
Home & Training School, Ridge	826,400	1,459	1.77
Colorado Children's Home	827,500	1,655	2.00
Industries for the Blind	158,000	566	3.58
Soldiers' and Sailors' Home	729,400	2,865	3.93
MISCELLANEOUS			
Capitol Buildings	3,860,000	2,667	.69
Military Department	619,500	2,377	3.84
State Fair Commission	245,825	2,964	12.06
Department of Highways	739,500	5,566	7.53
Department of Game and Fish	1,183,840	8,786	7.42
State Land Board	42,050	244	5.80
GRAND TOTAL	$ 65,030,117	$112,080	$ 1.72

SOURCE: State Planning Commission - Fire Insurance Coverage, 1952

APPENDIX A

TABLE II
FIRE INSURANCE COVERAGE OF BUILDINGS OF STATE INSTITUTIONS AND AGENCIES AS OF DECEMBER 31, 1952

Institutions	Estimated Replacement Value of Buildings	Fire Insurance Coverage Buildings	% of Fire Insurance Coverage on Buildings
EDUCATIONAL			
University of Colorado	$ 24,000,000	$ 10,178,800	42
Colorado A and M College	8,916,700	4,116,325	46
State College of Education	8,692,438	4,615,150	53
Colorado School of Mines	6,101,099	3,690,980	61
Western State College	2,685,000	2,017,000	75
Adams State College	1,638,784	1,471,380	90
Fort Lewis A and M College ...	774,056	630,125	81
School for Deaf and Blind	1,678,630	1,503,200	90
PENAL AND REFORM			
State Penitentiary	3,370,000	380,600	11
State Reformatory	952,400	787,250	83
Industrial School for Boys	775,000	400,400	52
Industrial School for Girls	1,040,826	477,400	46
CHARITABLE AND ELEEMOSYNARY			
Colorado Medical Center	9,250,000	3,000,000	32
Colorado State Hospital	22,500,000	8,237,550	37
Home and Training School, Gr. Jct.	1,245,000	248,900	20
Home and Training School, Ridge	940,720	732,400	78
Colorado Children's Home	1,040,000	775,000	75
Industries for the Blind	100,000	50,000	50
Soldiers' and Sailors' Home	1,200,000	663,600	55
MISCELLANEOUS			
Capitol Buildings	15,000,000	3,700,000	25
Military Department	4,276,640	619,500	14
State Fair Commission	1,750,000	226,325	13
Department of Highways	3,000,000	434,500	14
Department of Game and Fish ..	1,861,495	957,420	51
State Land Board	50,000	42,050	84
GRAND TOTAL	$122,838,788	$ 49,955,855	41

SOURCE: State Planning Commission, Fire Insurance Coverage, 1952

APPENDIX A

TABLE III
FIRE INSURANCE COVERAGE OF CONTENTS OF BUILDINGS, STATE INSTITUTIONS AND AGENCIES AS OF DECEMBER 31, 1952

Institutions	Estimated Replacement Value of Contents	Fire Insurance Coverage of Contents	% of Fire Insurance Coverage on Contents
EDUCATIONAL			
University of Colorado	$ 5,250,000	$ 5,250,000	100
Colorado A and M College	2,135,395	1,179,480	55
State College of Education	1,079,383	894,500	83
Colorado School of Mines	1,884,380	1,695,942	90
Western State College	300,000	260,500	87
Adams State College	197,689	179,135	91
Fort Lewis A & M College	300,000	207,980	69
School for Deaf and Blind	200,000	85,100	43
PENAL AND REFORM			
State Penitentiary	745,000	377,650	51
State Reformatory	151,550	151,550	100
Industrial School for Boys	47,600	47,600	100
Industrial School for Girls	110,329	39,000	35
CHARITABLE AND ELEEMOSYNARY			
Colorado Medical Center	1,750,000	1,750,000	100
Colorado State Hospital	3,475,590	1,842,000	53
Home & Training School, Gr. Jct.	102,550	82,605	81
Home & Training School, Ridge	94,000	94,000	100
Colorado Children's Home	95,484	52,500	55
Industries for the Blind	108,000	108,000	100
Soldiers' and Sailors' Home	90,000	65,800	73
MISCELLANEOUS			
Capitol Buildings	5,000,000	160,000	3
Military Department	46,500	-------	---
State Fair Commission	50,000	19,500	39
Department of Highways	1,400,000	305,000	22
Department of Game & Fish	511,949	226,420	44
State Land Board	--------	-------	---
GRAND TOTAL	$25,125,399	$15,074,262	60

SOURCE: State Planning Commission, Fire Insurance Coverage, 1952

APPENDIX B

A Comparative Analysis of State Property Insurance Fund Laws

ALABAMA	FLORIDA	KENTUCKY	MICHIGAN		NORTH DAKOTA	OREGON	SOUTH CAROLINA	WISCONSIN
1923	1917	1936	1913	Date Established....	1919	1925	1900	1903
State Insurance Fund	State Fire Insurance Fund	State Fire and Tornado Insurance Fund	State Insurance Fund	Title of Fund.......	State Fire and Tornado Fund	State Restoration Fund	Insurance Sinking Fund	State Insurance Fund
To insure against loss by fire, lightning, windstorm, and hail, all buildings in which title in whole or in part is vested in the state or any of its agencies or institutions, or in which funds provided by the state have been used for the purchase of the land, construction of the building, purchase or maintenance of any equipment, furniture, fixtures, or supplies in such building; and all public school buildings, together with the contents of all such buildings.	To insure against loss by fire all state-owned property (schools on state level only).	To insure state property against loss by fire or the perils included in an extended coverage indorsement. (In practice, the Fund does not insure public school property as such; however, it does cover the University of Kentucky, 5 State Colleges, Schools for the Deaf and Blind, 2 Vocational Schools, and one colored school.)	To insure all state property subject to loss by fire, lightning, windstorm, explosion, riot, riot attending a strike, civil commotion, falling aircraft, hail (not to apply to growing crops) and smoke caused from faulty operation of a heating plant using oil or gas fuel. School properties owned and operated below the state level are not insured in the fund.	Purpose of Fund....	To insure the public buildings and fixtures and permanent contents therein belonging to the state, the various state industries, the political subdivisions of the state against loss by fire, lightning, inherent explosion, windstorm, cyclone, tornado and hail, explosion, riot attending a strike, aircraft, smoke, and vehicles.	To insure against loss by fire all state-owned property, including state-owned schools.	To insure all public buildings of the state and all institutions supported in whole or in part by the state, including all public school and county buildings against loss by fire, lightning, and extended coverage. Municipal properties are not covered by Fund.	To insure all state property and property for which the state is liable, subject to damage or destruction by fire, windstorm, or any other loss or damage from any cause to property.
State Department of Finance	State Treasurer	Division of Insurance, Department of Business Regulation	Commissioner of Insurance	By Whom Administered........	Commissioner of Insurance	Oregon State Board of Control	State Sinking Fund Commission	Commissioner of Insurance
Mandatory for all state-owned property; permissive for municipally - owned school buildings in cities and towns of less than 60,000 population as well as school buildings owned by the county or county boards of education and used exclusively for school purposes.	Mandatory for all state - owned property.	Mandatory for all property belonging to or controlled or used by the state or any agency of the state; not applicable to property financed under a statutory amortization plan which has not been completed nor to property reinsured.	Mandatory for all state - owned property except the University of Michigan and the Michigan Agricultural College.	Types of Property Required by Law To Be Insured in the Fund.........	Mandatory for state, county, and municipal buildings and permanent contents. Mandatory for school buildings and permanent contents located within the corporate limits of a city or village. Optional for school buildings and township buildings located outside the limits of an incorporated city or village.	All state-owned property only.	Mandatory for all state - owned property and all county and public school property.	Mandatory for all state property. Optional for county, municipal, and school property.
Annually if practicable by fire hazard inspectors of the Fund. (In practice every year).	State treasurer or his representative; no time interval prescribed in law; in practice, every year.	Annually by the Division of Insurance.	No provision; in practice, inspections are conducted by Fire Bureau of the Michigan State Police.	Inspections.........	No provision in law; in practice approximately every two years by risk inspector and deputy fire marshal.	No specific provision, although members of the Board of Control are required to visit the various state institutions, other than schools, at least once every three months.	No provision; in practice as often as possible.	No provision in law; in practice as often as conditions demand by employees of the Fund.
Actuary of Fund.	Boards and persons in charge of state property.	Division of Insurance.	Commissioner of Insurance.	Appraisals—Official or Agency Responsible for..........	By board, officer, or agent in charge of state property.	Oregon State Board of Control.	Officials and trustees having the care and custody of state property.	Commissioner of Insurance.
None specified after initial.	At time of all newly-erected or acquired property and whenever there is a decrease in the value of any property carried in the Fund.	Annually, before July 1st of each year.	Annually.	Frequency of Appraisals........	Biennially.	annually.	No specific time prescribed; information furnished on request of State Sinking Fund Commission.	None specified after initial.

A Comparative Analysis of State Property Insurance Fund Laws (Cont'd.)

	ALABAMA	FLORIDA	KENTUCKY	MICHIGAN	NORTH DAKOTA	OREGON	SOUTH CAROLINA	WISCONSIN
Date Established	1923	1917	1936	1913	1919	1925	1900	1903
Title of Fund	State Insurance Fund	State Fire Insurance Fund	State Fire and Tornado Insurance Fund	State Insurance Fund	State Fire and Tornado Fund	State Restoration Fund	Insurance Sinking Fund	State Insurance Fund
Insurable Value	All state property must be insured for 75 per cent of its actual value, and any property, except rural school houses and equipment, may, at the option of the director, be insured up to 100 per cent of its value.	Not to exceed 75 per cent of the replacement value of the property.	The premium and insurance is calculated upon 90 per cent of the valuation.	Replacement value except that a smaller amount may be used in the case of buildings which the state would not replace in the event of loss.	Not to exceed 90 per cent of the full insurable value of the property.	No provision. Each person having custody of state-owned property pays a proportionate contribution to a sum of $200,000 set aside annually, based upon the ratio which the appraised value of the property bears to the total value of all state-owned property.	The value of all public buildings is based on the actual cost of such buildings. If the Sinking Fund Commission and the officials or trustees having custody of state property cannot agree on a value, the value is fixed by a board of three appraisers. The amount of insurance to be carried on all buildings and their contents is fixed by the Sinking Fund Commission after consultation with the officer, officials, or trustees having custody of public property. The amount of insurance to be carried may not, however, exceed the value of the buildings or contents to be insured after a reasonable deduction for depreciation.	Not to exceed 90 per cent of the actual cash value for state property. For other than state property, may be less than 90 per cent.
Method of Collecting Premium	To be paid to the State Department of Finance by the treasurer or executive officer of the agency affected not later than 60 days from the effective date of such insurance or renewal thereof.	Premiums paid by Board of Commissioners of State Institutions upon the presentation of a bill for such premiums by the State Treasurer from any moneys in the general revenue fund not otherwise appropriated.	State Treasurer deducts premiums from funds due each department or agency responsible for the care and maintenance of state property.	The State Auditor General annually debits 50 per cent of the premium determined by the Commissioner of Insurance to the current expense fund appropriated by the Legislature for each state institution or department.	Premiums paid by board or officer in charge of state property to Insurance Commissioner within 60 days after certification they are due by the Commissioner. The Commissioner then deposits such premiums with the State Treasurer to the credit of the State Fund.	Apportioned by Board of Control to each state institution, department, board, commission, or activity and to be paid to the State Treasurer.	Paid to the Sinking Fund Commission by the officer, official or trustee having the property insured under their care and custody upon demand of the Sinking Fund Commission.	For state property, State Treasurer debits funds available for care and maintenance of such property. For property of political subdivisions, paid to State Treasurer by clerk of the town, village, city, county, school district or library board.
Penalty for Non-payment of Premium When Due	The State Comptroller, when requested by the Director of the Department of Finance, deducts from any funds due or which become due the delinquent, the amount of unpaid premiums and pays the same to the State Insurance Fund.	No provision.	No provision.	No provision.	Delinquent premiums bear interest at the rate of 6 per cent per annum and collection thereof may be enforced by appropriate action by the State Attorney General and the State's attorneys of the several counties.	No provision.	Sinking Fund Commission may charge interest at the rate of 5 per cent on delinquent payments. For counties and other political subdivisions which are delinquent in payments more than one year, the State Treasurer is to deduct such amount from their portion of the gasoline tax.	For property of political subdivisions, delinquent premiums bear interest at the rate of 5 per cent per annum and such premiums are included in the next apportionment or certification of state taxes.

A Comparative Analysis of State Property Insurance Fund Laws (Cont'd.)

ALABAMA	FLORIDA	KENTUCKY	MICHIGAN		NORTH DAKOTA	OREGON	SOUTH CAROLINA	WISCONSIN
1923	1917	1936	1913	Date Established.....	1919	1925	1900	1903
State Insurance Fund	State Fire Insurance Fund	State Fire and Tornado Insurance Fund	State Insurance Fund	Title of Fund........	State Fire and Tornado Fund	State Restoration Fund	Insurance Sinking Fund	State Insurance Fund
With the approval of the Governor, any surplus in the Fund over a necessary working capital which shall be determined by the Director of Finance, at not less than 400 thousand dollars, may be invested in the bonds or other obligations of the United States, of the State of Alabama, or of any agency, institution, or instrumentality of the State of Alabama.	Whenever the cash balance in the Fund, after paying all accrued expenses and losses, exceeds 50 thousand dollars, the State Treasurer may invest such surpluses in bonds of the United States, or in county or municipal bonds issued under authority of the Laws of the State of Florida.	State Treasurer with the approval of the State Department of Finance may invest money in the Fund in obligations of the United States and its agencies; Kentucky cities of the first, second, third, and fourth classes; warrants issued on the State Treasury; State Bonds; school bonds; and bonds or other evidences ot indebtedness of any domestic corporation that is an agent or instrumentality of the state or of any city, county or school district of the state.	Not less than 90 per cent of the moneys in the Fund may be invested in securities which are legal for private insurance companies in the State upon approval in writing of the Board of State Auditors.	Investment of Premiums.........	The Commissioner of Insurance, when authorized to do so by a resolution adopted by the State Industrial Commission, may invest excess moneys in the Fund in bonds of the United States, the State of North Dakota and any sister state, or in certificates of indebtedness of the State of North Dakota or its political subdivisions.	The State Bonding Commission may invest moneys of the Fund in obligations of the United States, the State of Oregon and its political subdivisions; in bonds of federal land banks; and in bonds and mortgages insured by the federal housing administrator, and obligations of the national mortgage association.	No provision.	The State Annuity and Investment Board may invest moneys in the Fund in the same type of securities authorized for domestic life insurance companies in the state including bonds of the United States, the State of Wisconsin and its political subdivisions, approved farm mortgages, and certain stocks of private corporations in the United States and the Dominion of Canada.
$100,000 appropriated from State Treasury to be paid back from first surplus thereafter accruing to the Fund.	Any loss in excess of the amount in the Fund is paid out of funds in the general revenue fund, not otherwise appropriated, and to be returned to the general fund out of first premium earnings after paying necessary expenses.	Subject to prior claims, the Fund is debited by the amount of each ensuing credit to the fund until the total damage is covered.	Paid out of the general fund; no provision for returning such sums to the general fund.	State Liability for Losses in the Event Exceeding Amount in the Fund......	If at any time the reserve fund is depleted below the sum of $2,000,000, the Insurance Commissioner, with the approval of the State Industrial Commission, may issue premium anticipation certificates sufficient to restore the fund to $2,000,000. To retire such certificates, the Insurance Commissioner is authorized to levy a special assessment against all property insured in the Fund. The total assessments and premiums may not exceed the full Bureau rate.	No provision.	No provision.	Excess amounts certified by the Commissioner of Insurance to the Director of Budget and Accounts who may draw necessary amount from the general fund to be repaid later by the State Fund.
No provision.	No provision.	No provision.	$1,750,000.	Maximum Limit for State Fund........	$4,000,000.	$1,000,000.	5 per cent of the total insurance in force.	No provision.
The State Director of Finance, may, with the approval of the Governor, purchase such reinsurance as deemed necessary.	Board of Commissioners of State Institutions may authorize the State Treasurer to place additional insurance with private companies in the State as the Board may determine on any risk.	The Division of Insurance with the approval of the State Department of Finance may reinsure any risk of which the total valuation has been fixed at over $500,000, and, if the Fund falls below $2,000,000 in any fiscal year, any risk may be reinsured of which the total valuation has been fixed at over $200,000.	The State Insurance Commissioner with the approval of the State Treasurer and Auditor General may insure highly combustible or damageable property with private insurance companies authorized to operate in the State.	Provision for Reinsurance.........	The State Commissioner of Insurance is required to reinsure all extraordinary risks exceeding $100,000.	The Board of Control may require additional contributions to the Fund for extraordinary hazards in such amounts as it deems necessary.	Separate Reinsurance Sinking Fund administered by the State Sinking Fund Commission for the purpose of carrying all risks carried by the Fund which are reinsured.	The Commissioner of Insurance may with the approval of the Governor purchase such reinsurance as needed, provided no such reinsurance may be purchased when the net risk carried by the Fund may not equal or exceed $100,000, nor where the rate for assuming a proportional amount of the risk shall exceed that received by the Fund.

A Comparative Analysis of State Property Insurance Fund Laws (Cont'd.)

ALABAMA	FLORIDA	KENTUCKY	MICHIGAN		NORTH DAKOTA	OREGON	SOUTH CAROLINA	WISCONSIN
1923	1917	1936	1913	Date Established.....	1919	1925	1900	1903
State Insurance Fund	State Fire Insurance Fund	State Fire and Tornado Insurance Fund	State Insurance Fund	Title of Fund........	State Fire and Tornado Fund	State Restoration Fund	Insurance Sinking Fund	State Insurance Fund
4 per cent of the amount of premiums written in each year.	No express provision. State Treasurer may employ a person experienced in the matter of fire insurance rates and risks at a salary not to exceed $4,200 per annum and two persons to perform clerical services whose combined salaries may not exceed $4,800 per annum.	Not to exceed 10 per cent of the total receipts during any fiscal year. If there is not a sufficient amount in the fund to pay them, they constitute a prior claim to be paid out of the first receipts of the Fund thereafter before any damages on account of insured losses are paid.	No provision.	Amount Available for Administrative Purposes..........	No provision.	No provision. Expense of operating the Fund is handled out of appropriations to the Board of Control.	No provision.	No provision.
No provision.	No provision.	No provision for free insurance. If at the end of any fiscal year, the moneys and securities to the credit of the Fund equal or exceed $2,000,000, a proportionate reduction in premiums is allowed each agency or department.	No premiums are to be collected when Fund exceeds the sum of $1,750,000.	Provision for "Free" Insurance.........	After Fund reaches $4,000,000 and property has been insured in the Fund for a period of 5 years.	No contributions are required of State agencies having custody of state property as long as Fund remains at $1,000,000.	When the Fund reaches the sum of 5 per cent of the total insurance in force, the Sinking Fund Commission proportionately decreases the premiums so as to maintain it at that level. However, no property may cease to pay premiums until it has been insured with the Fund for five years.	No provision.
Losses paid by the Department of Finance. In the event of disagreement as to the amount payable under the claim for loss, the Director of Finance is to appoint a third person agreeable to disagreeing party. In case of inability to agree on such third person, the Governor is to appoint a third person to determine the question and his decision thereon is to be binding on all parties.	No provision relating specifically to fire losses. In the event of disagreement between the State Treasurer and the Board of Commissioners of State Institutions or the person in charge of any state property as to its true value, the amount of insurance to be carried thereon, proper premium rates, and the necessity of repairs or remedies ordered by the State Treasurer, the matter in disagreement is to be determined by the Board of Commissioners of State Institutions.	The Division of Insurance fixes the amount of damages. If the agency having control or custody of the state property disagrees with the estimate of damage, the agency and the Division of Insurance each appoint one member of a board of appraisers, which two members select a third member. An award in writing, submitted by the board of appraisers to the State Treasurer determines the amount of damage.	The Commissioner of Insurance is to fix the amount of damage, and within 30 days after such damage, file a statement of the same with the State Treasurer and the State Auditor General. No express provision for procedure when amount of loss is in disagreement.	Fire Loss Adjustment	All losses adjusted by the Insurance Commissioner or an authorized adjuster or adjusting company. In the event of disagreement between the Insurance Commission or his representative and the person or board representing the state or political subdivision owning such building or property as to the amount of loss or damage, the matter may be submitted to a board of arbitrators from whose decision an appeal may be taken to the courts.	State Board of Control restores losses to state property out of moneys in fund. The Secretary of State audits all claims against the Fund by the State Board of Control and draws the necessary warrants on the State Treasurer in payment thereof out of the Fund.	Fire loss adjustments are made by the State Sinking Fund Commission. In the event of disagreement between the Commission and the person having custody of the property as to the amount of loss or damage to be paid by the Commission, the amount in disagreement is determined by a board of three appraisers, one named by the Sinking Fund Commission, one by the official having custody of the property, and, the two so appointed select a third person. The decision of the board of appraisers is final.	Losses are adjusted by the Commissioner of Insurance. If the person or board in charge of state property disagree, the Commissioner and such person or board are required each to select an appraiser. The two appraisers then select an umpire who is to resolve any differences between the appraisers' findings. An award in writing of any two when filed with the Commissioner of Insurance determines the amount of actual cash value and loss or damage.
No provision.	Continue in force until expiration date.	No provision.	When Act providing for State Fund became effective, no public moneys could thereafter be used to provide insurance coverage with private companies for types of insurance provided by the Fund.	Policies with Private Insurance Companies at Time of Establishment of Fund	Continue in force until expiration date.	No provision.	No provision.	Continue in force until expiration date.
Director of Finance or his authorized representative.	No specific provision.	Division of Insurance.	No specific provision.	Classification of Buildings..........	No specific provision.	No specific provision.	State Sinking Fund Commission.	Commissioner of Insurance.

A Comparative Analysis of State Property Insurance Fund Laws (Cont'd.)

ALABAMA	FLORIDA	KENTUCKY	MICHIGAN		NORTH DAKOTA	OREGON	SOUTH CAROLINA	WISCONSIN
1923	1917	1936	1913	Date Established....	1919	1925	1900	1903
State Insurance Fund	State Fire Insurance Fund	State Fire and Tornado Insurance Fund	State Insurance Fund	Title of Fund........	State Fire and Tornado Fund	State Restoration Fund	Insurance Sinking Fund	State Insurance Fund
No provision.	No provision.	No provision.	No provision.	Provision for Canceling Insurance......	Commissioner of Insurance, when, in his opinion, any risk is unreasonably hazardous may require the board or officer having control of such risk to make such improvements or changes as may be necesstry to remove such hazards. If improvements are not made within six months, Commissioner may cancel insurance. If dispute arises between those having custody of property and Commissioner as to its insurability, the matter is submitted to a Board of Arbitration whose findings are conclusive.	No provision.	State Sinking Fund Commission may cancel any policy of insurance on any public building when, in their judgment, because of dilapidation and depreciation, such public building is no longer an insurable risk.	Any county, city, village, town, school district or library board may terminate its insurance in the fund by a majority vote of its board or council.
Commercial rate less 40 per cent discount. No discount on amounts re-insured.	Commercial rate as nearly as practicable (In practice commercial rate).	The premium rate is that which the Division of Insurance deems to be the average rate charged by responsible insurance companies doing business in the state for insurance against damage by fire and tornado, upon property of like kind and degree of risk.	Up to, but not to exceed, the rates determined by a fire rating bureau licensed by the Department of Insurance for authorized fire insurance companies issuing coverage in the state. In practice, approximately 25 per cent of commercial rates.	Rate of Premium.....	Any property insured in the Fund for less than 5 years—50 per cent of the commercial rate. 25 per cent of commercial rate for property insured in Fund over 5 years. Free insurance is allowable when the reserve funds reach 4 million dollars.	No provision. Based on flat contributions to a fixed sum as indicated above under Insurable Value.	Determined by the State Sinking Fund Commission, but may not exceed that which would be charged by private insurance companies for comparable risks. At present time, 65 to 80 per cent of commercial rate.	No amount specified in law; in practice, 50 per cent of commercial rate.
State Treasurer.	State Treasurer.	State Treasurer.	State Treasurer.	Custodian of Fund...	State Treasurer.	State Treasurer.	State Treasurer.	State Treasurer.

APPENDIX C

INSURANCE PRACTICES IN THE 48 STATES

STATE	INSURANCE PROCEDURES IN EFFECT	FUND ESTAB. IN YEAR	REMARKS
ALABAMA	Insurance fund & commercial re-insurance on large risks	1923	75-100% coverage on state buildings and urban schools. 75% on rural schools. Premiums 60% of current commercial rates.
ARIZONA	Private companies-90% co-insurance		Blanket Policy.
ARKANSAS	Private companies		Similar to Colorado.
CALIFORNIA	No-insurance		Pays losses from current appropriations.
COLORADO	Private companies		
CONNECTICUT	Private companies		Real property insured on comprehensive policy based upon biennial survey.
DELAWARE	Private companies		Governor, Auditor and Insurance Commissioner determine amount of coverage.
FLORIDA	Insurance Fund & commercial excess insurance	1917	100% coverage in fund up to $50,000. Regular premiums to sustain fund.
GEORGIA	Private companies		To be insured for at least 50% of value.
IDAHO	Private companies		All state property at 100% of value.
ILLINOIS	No. insurance		Small emergency reserve fund.
INDIANA	Private companies		Similar to Colorado.
IOWA	Private companies		
KANSAS	No insurance		Losses paid from current appropriations.
KENTUCKY	Insurance fund, commercial re-insurance	1936	Fund limits single loss to $500,000. Regular premiums sustain fund.
LOUISIANA	Private companies		Blanket policy for full coverage on all buildings.

STATE	INSURANCE PROCEDURES IN EFFECT	FUND ESTAB. IN YEAR	REMARKS
MAINE	Private companies		Blanket policy on all buildings.
MARYLAND	Private companies		Blanket policy for 90% coverage.
MASSACHUSETTS	No insurance		Losses paid from current appropriations.
MICHIGAN	Insurance Fund plus commercial catastrophe insurance	1913	Fund limited to $1,750,000, plus, since 1951 $100,000. deductible commercial catastrophe insurance. Fund sustained by premiums.
MINNESOTA	No insurance		Losses paid from current appropriations.
MISSISSIPPI	No insurance		
MONTANA	Private companies		All state property on a 90% co-insurance policy.
NEBRASKA	No insurance		Losses paid from current appropriations.
NEVADA	Private companies		Blanket policy, 100% coverage on all state property.
NEW HAMPSHIRE	No insurance		Losses paid from current appropriations.
NEW JERSEY	Private companies		All state property.
NEW MEXICO	Private companies		Comptroller requires adequate coverage.
NEW YORK	No insurance		Losses paid from current appropriations.
NORTH CAROLINA	Insurance Fund plus commercial insurance.	1945	Commercial excess insurance carried on risks exceeding $50,000. Legislative appropriations sustain the fund. Schools may insure with this fund.
NORTH DAKOTA	Insurance Fund	1919	Covers all political sub-divisions.
OHIO	No insurance		Losses paid from current appropriations.
OKLAHOMA	No insurance		Losses paid from current appropriations.
OREGON	Insurance fund	1925	$1,000,000 limited fund sustained by assessments.
PENNSYLVANIA	Insurance fund	1915	Small losses not paid from this fund, must be assumed by the department.

STATE	INSURANCE PROCEDURE IN EFFECT	FUND ESTAB. IN YEAR	REMARKS
RHODE ISLAND	Private companies		Discontinued self-insurance program.
SOUTH CAROLINA	Insurance fund	1900	75% coverage for state buildings. Covers political subdivision properties also. Fund sustained by premiums.
SOUTH DAKOTA	No insurance		$200,000 limited emergency fund appropriated biennially.
TENNESSEE	Private companies		
TEXAS	No insurance		Losses paid from sinking fund.
UTAH	Private companies		All state property subject to 100% co-insurance.
VERMONT	Private companies and some self-insurance		Losses on buildings under $10,000 valuation are paid from $175,000 sinking fund.
VIRGINIA	Private companies		Similar to Colorado.
WASHINGTON	No insurance		Losses paid from current appropriations.
WEST VIRGINIA	Private companies		Practically all of major property insured up to 80% of insurable value.
WISCONSIN	Insurance fund	1903	State buildings and contents at 90% of value and the properties of local political subdivisions may also be covered.
WYOMING	Private insurance		All state property subject to 90% co-insurance.