



July 30, 2024

Jilian E. Thayer
Chief Legal Counsel
Arkansas Bureau of Legislative Research
State Capitol, Room 315
Little Rock, Arkansas 72201

**Re: Arkansas Public School Systems & Public Buildings
Property Insurance Programs
Strategic Consulting Services – DRAFT VERSION**

Dear Ms. Thayer:

We completed our draft strategic consulting report on the current state of operations for property insurance structures of school systems and other publicly owned buildings in Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas. The attached report presents the results of our analysis.

We appreciate the opportunity to be of service to Arkansas Bureau of Legislative Research, and we are available to answer any questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "KH", is positioned above the typed name and title.

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Enclosures

Summary of Neighboring States' Self-Insurance Structures

Strategic Consulting Services – Status Report

Created for: Arkansas Bureau of Legislative Research
Prepared by: Perr&Knight

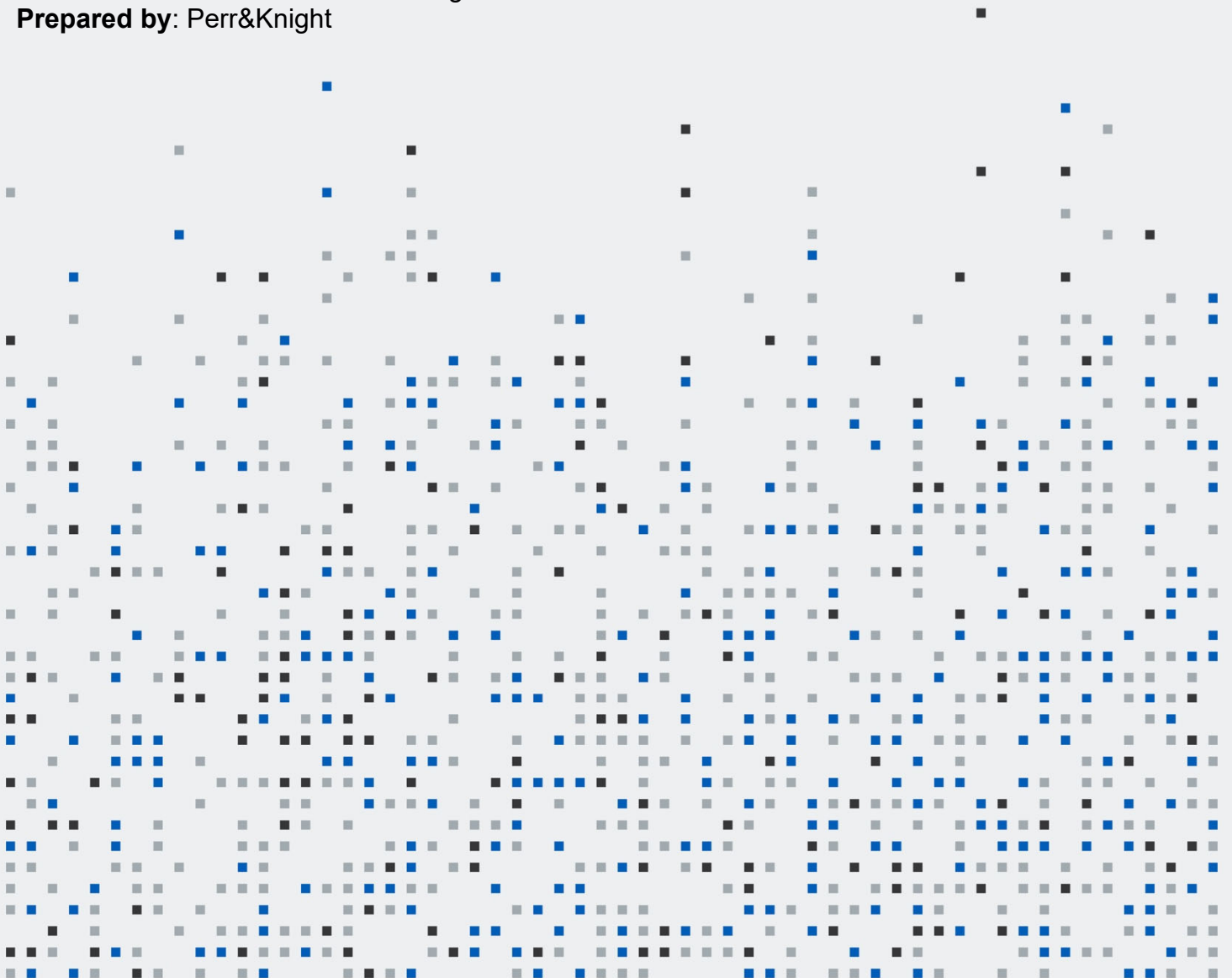


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I. EXECUTIVE SUMMARY

Background

The Executive Subcommittee of the Arkansas Legislative Council (“the Subcommittee”) is engaged in a study with the clear intent to develop and implement a strategic plan and legitimate framework for provision of reasonably priced property insurance coverage options for K-12 school districts and institutions of higher education facilities in the State of Arkansas on an actuarially sound basis while providing for management of the plans through a governing structure and legislative oversight (“the Study”).

Currently, school districts purchase property insurance coverage through one of two separate entities: the Arkansas Public School Insurance Trust (“APSIT”) administered by the Arkansas Insurance Department (“AID”) or the Arkansas School Boards Association (“ASBA”). In addition, the institutions of higher education participate in a property insurance program administered by the Arkansas Insurance Department that also includes property owned and operated by state agencies, known as the Arkansas Multi-Agency Insurance Trust (“AMAIT”). For the 2023-2024 plan year, school districts faced significant increased property insurance premiums under both plans, while the AMAIT agencies faced significant premium increases for both the 2022-2023 and 2023-2024 plan years.

The Study has been ongoing since August 2023, and a determination has been made that it is in the best interests of the state for the K-12 school property insurance plans to be consolidated under one plan administered by the Arkansas Insurance Department. In addition, the Subcommittee is seeking recommendations related to best practices for administration of the plans for property owned by institutions of higher education and state government entities. Collectively, the Arkansas K-12 school districts, institutions of higher education, and state government entities will be referred to as (“the AR Public School Systems & Public Buildings”).

It is the objective of the Subcommittee, by entering into a contract for consulting services with Perr&Knight, to provide to the members of the Arkansas Legislative Council detailed and accurate information concerning a multi-year strategic path forward for provision of property insurance to the AR Public School Systems & Public Buildings in a manner that will provide for reasonable and predictable premium rates, as well as consistent governance of the plans and legislative oversight, funding mechanisms, and options for revisions to the current plans, including without limitation the possibility of implementing a self-insured structure or utilizing re-insurance, or some combination of self-insurance with reinsurance above recommended specific aggregate limits, and recommendations related to possible inclusion of state properties in any plan that is developed.

Scope

For the AR Public School Systems & Public Buildings property exposure we performed the following strategic consulting services.

- (1) Led the Subcommittee through a series of questions designed to assess the current state of the AR Public School Systems & Public Buildings' property insurance, including but not limited to items such as:
 - (a) The approximate total replacement cost of all public schools in the state of Arkansas;
 - (b) The total insured value of all public schools in the state of Arkansas;
 - (c) The most recent year's total insurance premium;
 - (d) The current valuation cycle for each school system, if any;
 - (e) The current maintenance schedule for each school system, if any; and
 - (f) Details on the existing insurance policies, including items such as limits, deductibles, exclusions, etc.
- (2) Reviewed any documents provided by the Subcommittee in support of responses to the questions in scope item (1).
- (3) Researched and prepared a summary of the current state of operations for property insurance for school systems in Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas, to the extent this information is publicly available.
- (4) Presented the results of the assessment in a report that summarizes the Subcommittee's responses to key questions, identifies gaps and/or limitations in the current operations, and compares the AR Public School Systems & Public Buildings' current operations to public buildings and school districts in other states.

This report includes an overview of documents and websites utilized to summarize each state's initiatives and regulations regarding commercial property insurance. Specifically, it outlines the legislative frameworks, regulatory bodies, and key programs that support self-insurance in these states. The included documents provide detailed insights into state-specific policies, compliance requirements, and procedural guidelines that the states must follow to establish and maintain self-insurance for commercial properties. Additionally, the report highlights online resources and official state websites that offer further guidance and updates on regulatory changes and best practices in the realm of self-insurance for commercial properties.

Findings

Perr&Knight (“we”, “us”, or “our”) is pleased to provide this draft summary report to the Executive Subcommittee of the Arkansas Legislative Council (“the Subcommittee”). The purpose of this document is to provide a report on the current state of operations for property insurance structure on school systems and other publicly owned buildings in Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas.

Of the six reviewed states, all except Mississippi utilize some form of a structured self-insurance plan to cover at least a portion of their property insurance for publicly owned buildings and structures, with Tennessee specifically managing this risk via a captive model. The states’ retained risk ranges from a low level of self-insurance for states such as Missouri, which only retains \$500,000 for each claim, to a high of Louisiana, which self-insureds up to \$50,000,000 for perils such as named storm and flood. Additionally, most states include other coverages in their self-insured structures, such as liability and workers' compensation. However, for the purposes of our research and reporting, we only focused on information related to non-automobile physical damage property insurance coverage.

Additionally, most states have separate governing agencies overseeing the risk transfer processes for state owned buildings, municipal or locally owned buildings, and school systems, including separate agencies for primary vs. secondary educational institutions. Table 1 provides a summary of the property insurance structures of the reviewed neighboring states for publicly owned buildings. For the most part, we were only able to locate publicly available information for one or two of the governing agencies. Table 1 lists the details of the largest self-insured program. The highlights include each individual governing agency’s total insured value (“TIV”), self-insured retention (“SIR”), commercial insured limits, and typical deductible. More detailed information can be found in the Summary Exhibit, as well as the state specific sections of this report.

Table 1 – Summary of Property Insurance Structures in Neighboring States

State	Est. TIV	SIR	Insured Limits	Typical Ded.
Louisiana (ORM)¹	\$21.5 Billion (2022)	\$50M Per occ. named storm and flood; \$10M per occ. all other perils	\$300M named storm; \$260M flood and earthquake; \$800M all other perils	\$1K non-flood; \$5K flood
Mississippi (OSPI)²	\$7.9 Billion (2023)	No SIR in place	Windstorm: \$300M; Flood: \$200M, \$100M tier 1 and tier 2 coastal areas; Earthquake: \$200M; \$500M all other perils	\$500K for most occurrences
Missouri (MOPERM)³		\$500K Per Occurrence for all perils	Purchase Insurance above SIR limit	
Oklahoma (OSIG)⁴	\$25 Billion (2023)	\$30M annual agg.; \$25,000 ded,		ded increases to \$100K after annual SIR agg is exhausted
Tennessee (TCIC)⁵	\$31.4 Billion (2022)	\$7.5 million	between \$7.5 million and \$750 million	
Texas (SORM)⁶	\$80.9 Billion (2016)	\$5M per occ. and \$5M annual agg. from all perils except named windstorm; limits are only eroded after maintenance deds. are exhausted	Windstorm: \$100M; Flood: \$100M; Earthquake: \$100M; \$500M all other perils ⁷	Windstorm & Flood: 3% of value per unit, min. \$500K per occ.; \$250K all other

Notes:

1. Provides coverage for state owned buildings only. The RMI services municipal owned buildings. Parishes separately provide coverage for schools.
2. The MSPI only covers state agency boards and commissions, excluding institutions and property owned by municipalities. The Department of Education manages K-12 schools, without inter-departmental coordination from entities like the Institutions of Higher Learning or the Mississippi Community College Board.
3. MOPERM was formed in the 1980s to cover liability insurance to over 1,000 governments. It was expanded in 2003 to include property coverage. Schools are not included in this program.
4. OSIG protects the physical assets of schools, including buildings, equipment, inventory, and more, against perils such as fire, theft, vandalism, and natural disasters.
5. The TCIC provides self-insurance for property and general liability, covering state-owned buildings and contents.
6. SORM operates under a self-insured structure. Under the Statewide Property Insurance Program, SORM allows state agencies to transfer the financial burden of property damage and asset loss.
7. Different sub-limits apply to the University of Houston school system.

II. LOUISIANA

Program Name: Louisiana Division of Administration – Office of Risk Management

<https://www.doa.la.gov/doa/orm/>

Program Details:

The Office of Risk Management (“ORM”) in Louisiana administers the state’s risk management program and self-insurance fund. The ORM is exclusively responsible for managing all state insurance coverage, both purchased and self-insured, across workers’ compensation, property, and casualty exposures. Additionally, ORM handles all tort claims against the state or its agencies, regardless of their coverage by the self-insurance fund.

The ORM acts as the State of Louisiana's public facilities sub-recipient representative for Federal Emergency Management Agency (“FEMA”) Public Assistance Grants under Subpart G, Title 44 Code of Federal Regulations, as designated by the Commissioner of Administration. While the ORM contracts with a third-party administrator for claims adjusting and loss prevention services, it retains full authority to authorize and approve all claims negotiations and settlements. This ensures that the ORM maintains control over the state's risk management processes and decisions.

The ORM also provides a range of consultative services to its insured agencies, focusing on safety and loss control. These services include elevator inspections, jurisdictional boiler inspections, and electrical equipment testing at state facilities. The ORM reviews agency contracts for insurance and indemnity clauses, issues certificates of insurance, and maintains valuations of state-owned property to ensure comprehensive risk management and proper asset protection.

The ORM is not responsible for any parish school systems, parish court houses, or anything belonging to municipalities.

The State, through its Broker, successfully renewed its property insurance program effective July 1, 2022, covering total property values of \$21.5 billion. Despite disruptions from the COVID-19 pandemic, the State maintained strong communication with the global underwriting community, holding several domestic in-person meetings. The property program's lead is Lloyds of London, Beazley Syndicate, with AIG added as a new participant. The market rate increased by 13.47%, while the total premium rose by 23.57%, which is favorable compared to peers experiencing over 100% increases.

The program also includes diverse market participants, such as Domestic, Lloyds of London, Bermuda, Treaty Reinsurers, Parametric, and Insurance Linked Securities (ILS). The Fine Arts

policy, insuring the State's substantial fine arts assets, renewed with a \$400M coverage limit, and minimal premium increase. The Equipment Breakdown policy, covering loss or damage to machinery and related items, renewed with a \$250M coverage limit, and a premium increase due to higher values and a small rate hike.

Additionally, the property terrorism policy, written by Lloyds of London, renewed with a \$150M coverage limit, and a slight premium increase. The broker's annual fee is \$1,050,000, including both property and casualty lines. Financial analysis indicates significant savings from the elimination of surplus lines taxes and surcharges, totaling \$1,744,976 for 2022-2023.

Commercial Insurance Placement Report and Financial Results for the fiscal ending year 2023 (See Appendix A for Full Document)

Coverage Details:

From Website Summary Fiscal Year 2023-2024 (See Appendix B for Full Document)

Primary layers self-insured through the Louisiana Self-Insurance Fund

Property (Structures)

- **Self-Insured Limits:**
 - \$50,000,000 per occurrence for named storm and flood
 - \$10,000,000 per occurrence for all other perils
 - Business Interruption limited to one year
 - Replacement cost on buildings
 - Actual cash value on business personal property and movable/mobile buildings
 - Deductibles:
 - \$1,000 non-flood
 - \$5,000 flood
- **Commercial Excess Limits:**
 - Various international and domestic companies
 - Limits:
 - \$300,000,000 named storm
 - \$260,000,000 flood and earthquake
 - \$800,000,000 all other perils
 - Deductibles: None

Program Name: Risk Management, Inc.

<https://www.rmila.biz/about-us/>

Program Details:

Risk Management, Inc. ("RMI") is a subsidiary of the Louisiana Municipal Association, fully operational since January 1, 1987. It serves as the service agent for the Louisiana Municipal Association's inter-local risk pools, marketing and administering self-funded indemnity programs for Louisiana municipalities, and to assist in the development of new programs to meet the needs of municipal government. The operational management functions under the direction of a Board of Directors, which is made up of Mayors of participating Louisiana Municipalities. The RMI performs the following functions:

- **Operational Management:** RMI's day-to-day operations are handled by an external staff, overseen by a Board of Directors consisting of mayors from participating municipalities.
- **Program Administration:** RMI is part of the Louisiana Municipal Association, focusing on efficiently servicing municipal benefit programs.
- **Loss Control Management:** RMI enacts loss control measures to reduce claims, stabilize premiums, and manage costs through safety and health programs.

III. MISSISSIPPI

Program Overview: *The program overview was provided via a conversation with George Roberson – Director of Risk, State Floodplain Manager on July 1, 2024*

Conversation Details:

Until 2005, state owned property was almost entirely uninsured. The state of Mississippi would pay property insurance claims on a cashflow basis and only used rough budgets to estimate these costs. In August 2005, Hurricane Katrina caused approximately \$1 billion in damages, which was mostly covered by FEMA. As a result, FEMA mandated commercial insurance coverage for Mississippi's state-owned structures and property. We also discovered that the state only covers state agency boards and commissions, excluding institutions and property owned by municipalities. The Department of Education manages K-12 schools, without inter-departmental coordination from entities like the Institutions of Higher Learning or the Mississippi Community College Board.

Premiums increased significantly last year, similar to the situation in Arkansas, and the budget is allocated through the general fund. Evidence of these market difficulties was presented to the legislature.

Program Name: Senate Bill 2740

<https://legiscan.com/MS/text/SB2740/id/2936648>

Program Details:

During the 2024 session, the Mississippi legislature passed Senate Bill 2740, which allows municipalities and political subdivisions to pool their risks for the sake of realizing more favorable premiums. While buildings such as schools have always been able to do that, this new law allows political subdivisions the option of pooling other properties together such as a school and airport, for instance. It basically expands the risk pool for purchasing power.

The bill authorizes school districts and other educational entities in Mississippi to pool their risks for property insurance. School boards can insure buildings, equipment, and other property against various hazards and are required to maintain insurance to comply with FEMA regulations for disaster assistance. They can also join with other districts and entities to create self-insurance funds or reserves. The administration of these self-insurance programs must be contracted to a third-party and approved by the Commissioner of Insurance. This aims to provide a cost-effective way to manage insurance needs and risks.

Commercial Insurance: Mississippi Department of Finance and Administration (Office of State Property Insurance) – Property Coverage Document

April 29, 2023-2024 (See Appendix C for Full Document)

Coverage Details:

Mississippi purchases commercial insurance property for its buildings, whereby the assets are worth \$6.6 billion; the personal property has a value of \$1.3 billion; and the total TIV is \$7.9 billion. Other details include:

- **Valuation Basis:** Property is valued at replacement cost new on the same premises, as of the date of replacement, for various categories including buildings, equipment, valuable papers and records, property of others, fine arts, and other property.
- **Permission for Replacement:** The insured is allowed to replace damaged property on the same site or at another site within the policy's territorial limits, with recovery limited to replacement cost on the same site. If property is not replaced within a reasonable period, the insurer is liable for actual cash value at the time of loss.
- **Historic Landmark Properties:** For properties qualifying as Historic Landmarks, the insured has sole discretion over repair, replacement, or rebuilding, with costs not to exceed those necessary to comply with Historical Landmark status requirements.
- **LEED Properties:** For buildings certified as Leadership in Energy and Environmental Design ("LEED") properties, the insurer is liable for costs to recertify the building to its previous LEED level following a loss. This includes hiring LEED Accredited professional engineers for commissioning or retro-commissioning services to ensure proper installation and performance of systems.

Coverage Limits:

Property (Structures)

- **Commercial Limits:**
 - Limits:
 - \$300,000,000 named storm
 - \$200,000,000 earthquake
 - \$100,000,000 to \$200,000,000 for flood (depending on Zone)
 - \$25,000,000 for miscellaneous unnamed locations

- \$50,000,000 for newly acquired property (limits reduced for Named Windstorm)
- \$500,000,000 all other perils
- Deductibles (per occurrence unless otherwise listed):
 - \$500,000 all other perils
 - \$500,000 per building for flood in certain Zones
 - \$500,000 contents for flood in certain Zones
 - \$250,000 for business interruption for flood in certain Zones
 - 2% of TIV, subject to a minimum of \$1,000,000 for Named Windstorm in coastal counties
 - \$1,000,000 all other Wind/Hail

Property (Non-Structures):

Mississippi's commercial insurance program includes coverage for various non-structures ranging from \$1,000,000 for plants, trees, and outdoor lighting to \$75,000,000 for auto physical damage to vehicles not on the road, as well as coverage for several other programs. No specific dollar amounts for deductibles are listed for these other programs, however, some of the programs such as service interruption, ingress / egress, and military authority include waiting periods.

Program Name: Mississippi Institutions of Higher Learning

<http://www.mississippi.edu/newsarchive/newsstory.asp?ID=1165>

Program Details:

The Institutions of Higher Learning (“IHL”) in Mississippi consist of eight public universities: Alcorn State University, Delta State University, Jackson State University, Mississippi State University, Mississippi University for Women, Mississippi Valley State University, The University of Mississippi, and The University of Southern Mississippi. This also includes the University of Mississippi Medical Center, Mississippi Cooperative Extension Service, Mississippi Agricultural, Forestry and Veterinary Medicine, 23 satellite centers, and various other locations throughout the state. All public universities in Mississippi are accredited by the Southern Association of Colleges and Schools.

Pooling insurance policies have significantly saved Mississippi's public universities money. Previously, each university secured its own property insurance, resulting in varied coverage, deductibles, and costs. By forming a collective insurance pool in 2009, they achieved lower premium rates, reduced deductible costs, and increased coverage. Before this group program, universities paid 60% higher premium rates on a TIV of \$2.5 billion. Today (2015), they pay much lower rates on a TIV of \$9.8 billion, saving over \$45 million in premiums alone.

This system-wide approach not only lowered costs but also provided consistent coverage across all universities, including property, business income, and environmental events. Deductibles for specific campuses were significantly reduced, enhancing financial protection. The collaboration, facilitated by insurance broker Willis, leveraged the purchasing power of the entire IHL system, resulting in broader coverage and substantial financial benefits. Additionally, cooperation with insurers has improved campus safety through risk mitigation strategies.

Overall, the system-wide approach to property insurance has provided better protection at a lower cost, benefiting the state, universities, and students.

IV. MISSOURI

Program Name: MOPERM – Missouri Public Entity Risk Management Fund

<https://www.moperm.com/our-story>

Program Details:

During the early 1980s, Missouri public entities faced significant liability insurance challenges, with soaring premiums and limited coverage availability. Lobbying groups, including the Missouri Municipal League and Missouri Association of Counties, supported creating the Missouri Public Entity Risk Management Fund (“MOPERM”) to address this crisis.

MOPERM expanded its coverage in 2003 to include property and crime insurance. It operates as a "shared-risk pool," offering affordable and stable insurance to over 1,000 local governments in Missouri. A Board of Trustees, composed of public entity representatives, oversees MOPERM, ensuring tailored coverage for local needs.

In a conversation with Kristen Paulsmeyer, Executive Director, we were informed that they currently cover all perils at a self-insured retention rate of 500K per occurrence.

Program Name: Missouri Department of Insurance School Building Revolving Fund

<https://www.revisor.mo.gov/main/OneSection.aspx?section=166.300>

Program Details:

The link above includes details on a revolving fund known as the “School Building Revolving Fund” in Missouri. Excerpts include:

- “When building replacement is caused by fire or natural disaster, the requirement for a school district to have a long-range capital improvements plan may be waived by the state board of education.”
- "...the school district shall agree to assume all costs, obligations and liabilities for or arising out of establishment, operation and maintenance of the lease purchase property."
- "...neither the state nor any state agency shall have any obligation for such costs, obligations or liabilities unless and until the state board of education takes possession of the property pursuant to this subsection upon a school district's failure to make annual payments as required in the lease purchase agreement."

These provisions suggest that school districts assume full responsibility for the costs, obligations, and liabilities associated with the property purchased through lease agreements from the school building revolving fund. While it doesn't explicitly state that school systems self-insure their property, it implies that they bear the financial burden and risks associated with maintaining and operating the leased properties. This could potentially lead to school districts seeking insurance coverage independently or relying on their financial reserves to cover any losses or liability.

V. OKLAHOMA

Program name: Oklahoma Schools Insurance Group

<https://osig.org/who-we-are/>

Program Details:

Oklahoma Schools Insurance Group (“OSIG”) is distinguished by its member-owned risk pool program, which is overseen by school representatives. This governance structure ensures that decisions are made with direct input from those who have firsthand knowledge of the needs and challenges faced by schools. As a nonprofit and tax-exempt organization, OSIG focuses solely on delivering cost-effective solutions to its members.

OSIG provides a variety of risk management platforms at no extra cost to its members. These include HSB water and temperature devices, the Helixintel asset management system, onsite safety inspections, and onsite appraisal services.

In terms of commercial property coverage, OSIG protects the physical assets of schools, including buildings, equipment, inventory, and more, against perils such as fire, theft, vandalism, and natural disasters. The total insured value of assets covered by OSIG is over \$25 billion, with 538 member schools participating in the program. This comprehensive coverage and suite of risk management tools ensure that schools are well-protected and can focus on their primary mission of education.

Self-insured coverages include a per occurrence \$25,000 deductible, that increases to \$100,000 per occurrence once the losses above the deductible exceed an annual \$30,000,000 self-insured aggregate retention. Commercial insurance is purchased above this amount, but the limits are not clear. The property insurance coverage includes auto physical damage for vehicles at premises (i.e. not on the road).

Program Name: Oklahoma Office of Management & Enterprise Services

<https://oklahoma.gov/omes/about-omes/about-omes-landing-page.html>

Program Details:

The Risk Management division in Oklahoma administers the state's self-insurance programs alongside commercial insurance programs, excluding the state employees' group insurance. The division's primary goal is to reduce costs associated with insurance and losses. This comprehensive approach aims to protect the assets of the State of Oklahoma and its political subdivisions through effective risk management strategies.

Oklahoma's self-insurance framework includes both property and liability coverages. The Office of Facilities Management plays a critical role within this framework by overseeing the management, operations, and maintenance of approximately 2.5 million square feet of space in 23 major state buildings, which have a combined value of \$690 million. Key properties under its management include the State Capitol, the Governor's Mansion, and the office buildings in the Capitol Complex.

Through these programs, Oklahoma seeks to balance the benefits of self-insurance — such as greater control over claims and potential cost savings — with the strategic use of commercial insurance to cover certain risks. This dual approach helps ensure that the state can effectively manage and mitigate the financial impact of losses, maintaining the integrity and value of its substantial assets.

2023 Assets Report: (See Appendix D for Full Document)

This document includes several key details such as the inventory list of the state of Oklahoma's assets, their square footage, estimated value, appraised value, and replacement value.

VI. TENNESSEE

Program Name: Tennessee Captive Insurance Company

<https://www.tn.gov/commerce/news/2022/8/8/new-tn-captive-insurance-co-to-create-savings-on-insuring-state-property.html#:~:text=Implementing%20the%20Tennessee%20Captive%20Insurance%20Company%20allows%20the,pricing%2C%20and%20underwrite%20the%20state%E2%80%99s%20own%20unique%20risks.>

Program Details:

The State of Tennessee established the Tennessee Captive Insurance Company to achieve cost savings in insuring state property. Managed by the Tennessee Department of Treasury, this captive entity provides self-insurance for property and general liability, covering state-owned buildings and contents valued at \$31.4 billion as of July 2022. The primary objective of this approach is to reduce costs by accessing wholesale reinsurance markets and efficiently managing unique risks.

Regulated by the Tennessee Department of Commerce and Insurance, the captive operates under strict oversight to ensure compliance and effectiveness. Its establishment is expected to result in a reduction in overall insurance costs, benefiting taxpayers through lower premiums or future claim payouts. Legislative support underscores the commitment to fiscal responsibility, with the captive governed by the Tennessee Captive Insurance Board, comprised of state officials with expertise in risk management and finance.

The Risk Management Fund, overseen by the Tennessee Department of Treasury, covers building and content losses for all state entities ranging from \$25,000 to \$7.5 million. Additional coverage for losses between \$7.5 million and \$750 million is secured through contracts with excess insurance policies, which are also funded by the Risk Management Fund. This structured approach ensures comprehensive coverage for state assets while effectively managing risk exposure and maintaining financial stability.

VII. TEXAS

Program name: State Office of Risk Management

<https://www.sorm.state.tx.us/insurance-services/property-program/>

Program Details:

The State Office of Risk Management ("SORM") in Texas operates under a self-insured structure. Under the Statewide Property Insurance Program, SORM allows state agencies to transfer the financial burden of property damage and asset loss. This is achieved through customized insurance policies tailored to each agency's specific needs and exposures. By self-insuring, SORM retains greater control over its risk management strategies and can potentially save on insurance premiums by avoiding the overhead costs of traditional insurance policies. However, this approach necessitates careful financial planning and risk assessment to ensure adequate funds are available to cover potential losses.

The Property Program provides coverage on an "all-risk" basis, encompassing a wide range of potential claims, including:

- Severe weather damage (tornado, hail, hurricane, flooding, wildfire)
- Vandalism and arson
- Breakdown or explosion of critical equipment (boilers, heating/cooling systems)
- Building fire, smoke, and lightning damage
- Theft of agency property
- Losses from building collapse, sinkhole damage, and earth movement
- Optional terrorism coverage

Additional services provided by SORM include:

- Loss control inspections
- Appraisals
- Thermographic heat testing
- Oil sample testing
- Architectural reviews of new structures
- 24-hour, 365-day claims contact
- Boiler inspections coordinated with Hartford Steam Boiler (HSB) & Machinery
- These services are designed to support the inspection process and enhance risk management practices across state agencies.

SORM State Insurable Assets Study December 2016: See Appendix E for Full Document

Background

The State of Texas oversees approximately 15,246 state-owned properties, including buildings, land, and contents, with a total estimated replacement cost of \$80.86 billion. Historically, the state has struggled with inconsistent data on these properties, leading to challenges in managing and insuring these assets effectively. House Bill 3750 (84th R.S.) was enacted to address these issues by mandating the collection of detailed information from state agencies and institutions of higher education to provide a comprehensive overview of state-owned properties.

Key Findings

The study identified potential uninsured and underinsured exposures totaling approximately \$59.7 billion. After additional data from higher education institutions, this figure was reduced to about \$7.4 billion. Significant inconsistencies and inaccuracies were found in the reported data, including outdated appraisals, incomplete data on contents, and discrepancies in valuation methods across different state entities. A hybridized insurance strategy is recommended, incorporating centralized property insurance, pooling, self-insured retention limits, and reinsurance for catastrophic losses. Accurate data is essential for effective risk management and insurance planning.

Detailed Findings

The consolidated database includes 13,633 buildings, 1,376 parcels of land, and 237 contents records. The highest concentration of buildings is in Austin, while Houston holds the highest estimated replacement cost. Institutions of higher education own 44% of the reported buildings and 40% of the reported land. Major state entities like the Texas Parks and Wildlife Department and the Texas Department of Transportation own significant portions of the remaining assets.

The state faces significant risk exposure from uninsured or underinsured assets. Comprehensive data could improve risk modeling for hurricanes, hail, and tornadoes, enhancing the state's ability to mitigate potential losses. However, the study highlighted the need for accurate and consistent data on property values, construction, occupancy, protection, and exposure ("COPE") characteristics. Inconsistent reporting and outdated appraisals undermine effective risk assessment and insurance planning.

Data Collection and Consolidation

The data audit revealed discrepancies and omissions that hinder accurate analysis. Consistency and validation issues were noted, with many properties lacking unique physical addresses and

current appraisals. Collecting comprehensive data within the prescribed timeframe posed significant challenges. Procedural impediments and compatibility issues with data formats affected the quality of the consolidated data.

Statewide Strategy for Adequate Insurance

The study recommends a combination of risk retention and risk transfer strategies. Self-insured retention plans and pooling resources can help manage predictable losses, while reinsurance can cover catastrophic events. Traditional insurance can be costly for insuring all state assets, so a combination of reserve funds and reinsurance is recommended for managing large-scale losses.

Recommendations

To address these challenges, the study recommends establishing a centralized database with standardized data elements to ensure uniformity across state entities. Implementing protocols for annual data updates will help maintain accuracy and relevancy. Utilizing the consolidated data for predictive risk modeling, trend tracking, and market rate negotiation can further enhance the state's risk management capabilities. Protecting sensitive information from public disclosure is crucial to prevent security threats and market exploitation.

Conclusion

The 2016 Insurable State Assets Interim Study underscores the importance of comprehensive and accurate data in managing Texas' state-owned properties. By implementing a centralized database, standardized reporting, and a hybridized insurance strategy, Texas can better protect its assets, reduce insurance costs, and enhance overall risk management. These strategies will not only help Texas manage its insurance costs more effectively but also ensure that state-owned properties are well-protected against potential risks and losses.

Summary of Property Insurance Program: See Appendix F for Additional Details

The state of Texas self-insures by establishing limits of liability for various types of perils and specific circumstances. For each occurrence, Texas sets a maximum liability limit, such as \$500,000,000 for all coverage, with specific sub-limits for different risks like windstorms, floods, and earthquakes. These sub-limits indicate the maximum amount the insurer will cover in each case.

For example:

- Windstorms and Floods: \$100,000,000 per occurrence in specified zones, and \$50,000,000 for the University of Houston System.
- Earthquakes: \$100,000,000 per occurrence.
- Miscellaneous: Sub-limits for various other risks like accounts receivable, decontamination, and transit range from \$1,000,000 to \$100,000,000.

Additionally, Texas implements retention and deductible policies to manage smaller claims and reduce the financial burden on the insurance policy. This includes a \$5,000,000 retention per occurrence for all perils except named windstorms and specific deductibles for different risks:

- General Deductible: \$250,000 per occurrence for all perils.
- Named Windstorm: 3% of the value per unit, with a minimum of \$500,000 in designated wind zones.
- Flood and Earthquake: \$250,000 per occurrence in non-special hazard areas.

Texas also utilizes underlying insurance, such as the National Flood Insurance Program ("NFIP"), to cover some risks, excluding them from this policy's coverage if they are already insured by the NFIP.

In summary, Texas self-insures by setting comprehensive liability limits and specific sub-limits for various risks while managing smaller claims through retention and deductibles.

XIII. CONDITIONS AND LIMITATIONS

This strategic consulting analysis report is intended to provide insights and recommendations based on data provided by the representatives of the AR Public School Systems & Public Buildings, as well as information on the self-insurance structures of publicly owned buildings and structures in select states obtained through public channels and available at the time of its preparation. However, the following conditions and limitations should be considered when interpreting the findings and conclusions presented in this report:

1. Data Accuracy and Completeness:

- The analysis relies on data provided by the Subcommittee and publicly available sources. While efforts have been made to ensure the accuracy and reliability of this data, we cannot guarantee its completeness or absolute accuracy.
- Any discrepancies or errors in the data sources may impact the findings and recommendations of this report.
- This is a draft version of this report. Efforts were made to contact individuals at various government agencies in selected states. Additional information may surface, which will prove to be useful to the Subcommittee in their efforts to plot a course of action.

2. Scope of Analysis:

- The scope of the analysis was defined by the Subcommittee and may not cover all aspects or areas of potential interest. Some factors relevant to the Subcommittee's strategic decisions may not have been included in the analysis due to the predefined scope.
- The analysis is based on the information and assumptions provided as of the report date. Significant changes in market conditions, regulatory environments, or other external factors occurring after this date may affect the relevance and applicability of the recommendations.

3. Assumptions:

- Various assumptions have been made to conduct the analysis, including but not limited to market trends, competitive behavior, economic conditions, and regulatory changes. These assumptions are based on current knowledge and best estimates but are inherently uncertain.
- The validity of the conclusions and recommendations depends on the accuracy of these assumptions. If any assumptions prove to be incorrect, the results of the analysis may be compromised.

4. Future Projections:

- Any forward-looking statements, projections, or forecasts included in this report are based on current information and assumptions about future events. Actual results may vary significantly from those projected due to unforeseen factors and risks.

By acknowledging these conditions and limitations, the Subcommittee can better understand the context within which this strategic consulting analysis report has been prepared and can use its findings and recommendations more effectively.

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IX. DISTRIBUTION AND USE

This report was prepared for the Subcommittee's internal use only for the purpose of researching and reporting on the self-insurance structures of publicly owned buildings and structures in select states, and to provide advice regarding possible changes to the structure of its current property insurance programs. This report should only be disclosed in its entirety, including all exhibits and appendices. This report is not to be used or relied on for any other purpose not listed above. Our consent to any distribution of this report to parties other than the Subcommittee shall be solely for informational purposes and does not constitute advice to such third parties. We assume no liability related to third party use of, or reliance on, this report.

X. EXHIBITS

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Arkansas - Bureau of Legislative Research

Overview of Select States' Self-Insurance Structures

State	Self-Insured Retention	Commercial Insurance	Deductibles
Arkansas APSIT	\$2M per occurrence \$6M annual aggregate \$10K to \$25K district ded.	\$840M per occurrence	Zone 2 - \$100K per occurrence; Zone 3 - \$25K per occurrence; Zone 4/5 - \$5K per occurrence
Arkansas AMAIT	\$8.5M annual aggregate \$2.5K to \$250K agency ded.	\$650M per occurrence	5% of the combined value of property at the location where damage or loss occurs or \$25K per location, whichever is greater
Arkansas ASBA	\$750K program specific retention XS \$500K ded \$3M annual aggregate	\$300M per occurrence	\$100K per occurrence deductible applies after erosion of \$3M SIR
Louisiana (ORM)¹	\$50M Per occ. named storm and flood; \$10M per occ. all other perils	\$800M all other perils	\$1K non-flood; \$5K flood
Mississippi (OSPI)²	None	\$500M per occurrence	\$500k per occurrence
Missouri (MOPERM)³	\$500K Per Occurrence for All Perils	Purchase Insurance above the SIR limit; details not provided	Details not provided
Oklahoma (OSIG)⁴	\$30M annual agg; \$25K per occ. ded.	Purchase Insurance above the SIR limit; details not provided	\$100,000 per occ after SIR is exhausted
Tennessee (TCIC)⁵	building and content losses ranging from \$25,000 to \$7.5 million	\$7.5M to \$750M per occurrence	
Texas (SORM)⁶	\$5M per occurrence and \$5M in aggregate annual loss from all perils except named windstorm; limits are only eroded after maintenance deductibles are exhausted	\$500M per occurrence	Named Windstorm & Flood: 3% of value per unit, minimum \$500K per occurrence; Earthquake: \$250K per participant, per occurrence; \$250K all other perils ⁷

Notes:

1. Provides coverage for state owned buildings only. The RMI services municipal owned buildings. Parishes separately provide coverage for schools.
2. The MSPI only covers state agency boards and commissions, excluding institutions and property owned by municipalities. The Department of Education manages K-12 schools, without inter-departmental coordination from entities like the Institutions of Higher Learning or the Mississippi Community College Board.
3. MOPERM was formed in the 1980s to cover liability insurance to over 1,000 governments. It was expanded in 2003 to include property coverage. Schools are not included in this program.
4. OSIG protects the physical assets of schools, including buildings, equipment, inventory, and more, against perils such as fire, theft, vandalism, and natural disasters.
5. The TCIC provides self-insurance for property and general liability, covering state-owned buildings and contents.
6. SORM operates under a self-insured structure. Under the Statewide Property Insurance Program, SORM allows state agencies to transfer the financial burden of property damage and asset loss.
7. Different sub-limits apply to the University of Houston school system.

Arkansas - Bureau of Legislative Research
Overview of Select States' Self-Insurance Structures

State	Wind/Hail	Flood Coverage	Earth Movement
Arkansas APSIT	\$250K per occurrence if annual aggregate is exceeded	\$100K annual agg; no coverage in Flood Zone A; \$10K deductible per school district	\$50M annual aggregate in New Madrid counties; \$100M elsewhere
Arkansas AMAIT	District per occurrence deductibles apply to losses within SIR	Annual Aggregate Limit: \$100M; Exceptions; \$40M annual aggregate in Zones B and X-Shaded, \$10M annual Aggregate in special flood hazard areas (Zone A)	Annual Aggregate Limit: \$200M; \$100M Annual Aggregate limit in zones 2&3
Arkansas ASBA	2% deductible with \$1M min & \$5M max	\$100M per occurrence and annual aggregate; \$250K deductible for non-Zones A & Z; Coverage for Zones A & Z applies XS NFIP	\$100M per occurrence and annual aggregate; 2% deductible
Louisiana (ORM)¹	\$300M named storm	\$260M	\$260M
Mississippi (OSPI)²	\$300M Named Windstorm; \$1M deductible	\$200M, \$100M tier 1 and tier 2 costal areas	\$200M
Missouri (MOPERM)³	Details not provided	Details not provided	Details not provided
Oklahoma (OSIG)⁴			
Tennessee (TCIC)⁵			
Texas (SORM)⁶	Limit: \$100M any one occurrence named windstorm tier 1, 2, and/or 3 wind zones	Limit: \$100M any one occurrence aggregate	Limit: \$100M any one occurrence and in aggregate

Notes:

1. Provides coverage for state owned buildings only. The RMI services municipal owned buildings. Parishes separately provide coverage for schools.
2. The MSPI only covers state agency boards and commissions, excluding institutions and property owned by municipalities. The Department of Education manages K-12 schools, without inter-departmental coordination from entities like the Institutions of Higher Learning or the Mississippi Community College Board.
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7. Different sub-limits apply to the University of Houston school system.

XI. APPENDICES

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Appendix A:

(Louisiana Commercial Insurance Placement Report and Financial Analysis)

DIVISION OF ADMINISTRATION
OFFICE OF RISK
MANAGEMENT

COMMERCIAL INSURANCE PLACEMENT REPORT AND FINANCIAL ANALYSIS



Fiscal Year 2023

Effective July 1, 2022 pursuant LRS 39:1540

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Executive Summary

Pursuant to R.S. 39:1540, in accordance with industry best practices, and approved by the State Legislature, the Office of Risk Management (ORM) entered into a contract awarded to Arthur J. Gallagher Risk Management Services, Inc. (Gallagher) for a five-year period from February 1, 2018 to January 31, 2023, to provide insurance brokerage and related services to ORM. This insurance placement model continues to serve the State risk program well. ORM has maintained increased coverage limits since the contract's inception and has vastly increased the number of markets willing to consider participating in the State's program. Estimated annual cost savings specific to the broker legislation change is an estimated \$9M annually. The year 2021 was the third largest property loss year in recorded history. Multiple storm losses in 2020 and 2021 drove the continued hardening of the property insurance marketplace specific to Louisiana. On January 1, 2022, Business Insurance reported, "Reinsurance rates up sharply at January renewals. Catastrophe prone accounts with losses increased 10% to 25%." However, Louisiana experienced reinsurance rate action ranging from 30% - 50%, accompanied by a restricted appetite for Louisiana business. Some Industry experts now consider Louisiana the state most vulnerable to weather events in the U.S.

The Legislature's leadership in approving Act 715 of 2014 continues to save significant dollars and reap benefits critical to the State and its ability to maintain coverage necessary to recover from a catastrophic event.

Pursuant to the original legislation addressed in Act 715 Louisiana Legislation 2014, ORM identified key targets/goals:

- To assure and obtain competitive pricing for insurance, including full transparency related to revenue;
- To validate and certify a global marketing effort;
- To create strong market relationships between the State and potential insurers, necessary for on-going program support;
- To continue to negotiate optimal coverage terms;
- To seek multi-year contract terms and rates;
- To reduce dependence on wholesale brokers, thereby saving public dollars;
- To create long-term program stability;
- To improve the quality of data provided to the marketplace;
- To enhance coverage and resources for the State's fine arts assets and unique culture;
- To further expand a focus on Higher Education and their specific needs.

ORM is pleased to again report that each key target goal identified was addressed in the July 1, 2022 renewals. Detailed information on the lines of insurance secured and a fiscal analysis follow in this report.

Statewide Property Program Overview

The State, through its Broker, continued to build upon its market relationships to place insurance effective July 1, 2022 on total property values of \$21,502,536,139.

Part of the continued success of the State's property program is due to consistent communication with the global underwriting community. The COVID-19 pandemic once again interfered with the usual in-person meeting process; however, several domestic in-person meetings occurred. The majority of the underwriters participating have been on the State's property program for a number of years now, but potential new market partners were included in the conversations as well.

The significant outcome of the meetings concerning the July 1, 2022 placement are as follows:

- The lead for the property program is Lloyds of London, Beazley. Syndicate. AIG was added as a new participant. The overall property program market rate increase was 13.47%. The total premium increase however was 23.57% based in part on increased values. This is a very good result considering the losses, the marketplace and as compared against our peers. (Numerous Louisiana public sector risks with losses received pricing increases above 100% accompanied by reduced limits.)
- Property program options were received addressing: limits, retentions, second event and parametric options, etc. This renewal a combination of parametric options were bound, expanding the coverage scope.
- The ancillary lines remained competitive with rates near expiring.

Statewide Property Program – Market Participants

The program is diverse by design and reflects an expanded cross section of the insurance marketplace: Domestic, Lloyds of London, Bermuda, Treaty Reinsurers, Parametric and Insurance Linked Securities (ILS) program participants.

Berkley Re	RPS Eagle	Starr Surplus Lines Ins. Co.	Allied World Assurance Co.	Berkshire (Parametric)	Westport Insurance Co.	MS Amlin	North American Capacity Ins./Swiss Re
Markel/Evanston Insurance Company	Arch Specialty Insurance Co.	Everest Indemnity Insurance Co.	XL Insurance America, Inc.	Axis Surplus Lines Insurance Co.	Hallmark Specialty Insurance Co.	Swiss Re (Parametric)	National Fire and Marine
Ironshore Specialty Ins. Co.	Westchester Surplus Lines	General Security Indemnity Co. of Arizona (SCOR)	Lloyds of London	SOMPO/Endurance	Canopus U.S.	Nephila	Tokio Marine America Ins Co
Everest Re	RSUI Insurance/Landmark American Insurance	Indian Harbor Insurance Co.	Endurance American Specialty	Starstone Specialty Ins. Co.	AIG Specialty Insurance Co.	Munich Re	Gallagher Re

Statewide Property Program: Coverages, Limits and Pricing

The following chart shows the renewal coverage bound on July 1, 2022. The limits shown are specific to Named Storm, Flood, Fire and AOP, and are in excess of the State's \$50M retention.

Coverage	Limits	Price
Named Storm	\$400M	\$40,433,324
Flood	\$325M	Incl.
Fire and AOP (All Other Perils)	\$800M	Incl.
Fine Arts	\$400M	\$193,875
Boiler and Machinery	\$250M	\$471,197
Terrorism (incl. Nuclear, Chemical, Biological, & Radiation (NCBR)	\$150M	\$190,000
Brokerage Fee ¹		\$1,050,000
Total		\$42,338,396

Fine Arts Policy

The stand-alone policy insuring the State's substantial fine arts assets renewed July 1, 2022, as per the expiring limit. The coverage limit of \$400M is written separately and is in addition to the master property policy described above. The definition of fine arts is broad by design. Coverage enhancements are specific to the fine arts exposure, which include a specialized adjusting team. The Fine Arts policy is written with XL Specialty Insurance Company with a \$100M Limit primary layer with an excess layer written with Lloyds of London with a \$300M xs \$100M limit. The permanent collection deductible is \$2,500 for all other perils besides wind/flood and hail. Fine Art on loan or consignment has a zero dollar deductible for all other perils besides wind/flood and hail. Total premium for 2022-2023 is \$193,875 which represents a minimal increase in premium of \$3,000 over the prior year.

Terms, conditions and deductibles remained the same as expiring, with the exception of the windstorm, flood, and hail aggregate deductible increasing to \$300,000 per storm. The change is market-driven, and not specific to the State's loss experience.

Equipment Breakdown (Boiler & Machinery)

The Equipment Breakdown policy is written by XL Insurance America, Inc. This policy covers loss or damage resulting from accidents to boilers, pressure vessels, turbines, machinery, and air conditioning motors and compressors located in buildings owned by the State or buildings for which the State has contractually assumed legal liability. This coverage insures the object for repair or replacement. Coverage also includes business interruption, extra expense and consequential damage. The policy has a coverage limit of \$250 Million. Total premium for 2022-2023 is \$471,197 which represents an increase in premium of \$47,621 over the prior year. This is due to an increase in values and a small rate increase.

¹ The fee shown above is the entire brokerage fee, including both property and casualty lines.

Terrorism

Lloyds of London writes the property terrorism policy. This coverage provides sabotage and terrorism coverage for Property and Business Interruption, terrorism liability, and Chemical, Biological, Radiological and Nuclear (CBRN) coverage with respect to the Insured's operations. The policy has a coverage limit of \$150 Million. This policy renewed for \$190,000 for a slight increase in premium of \$10,000 over the prior year. The increase is due to an increase in property values.

Property Brokerage Fees

The broker's contract was awarded in 2018 for a five-year term. The fee is \$1,050,000 annually for property and casualty placements combined.

Financial Analysis (Statewide Property Program)

Act 374, which was signed into law by Governor Edwards on June 7, 2016, eliminated the requirement for ORM to pay surplus lines taxes and surcharges. The combined savings for these taxes/surcharges equaled \$1,744,976 for 2022-2023.

Combined Limit and Pricing Comparison – Statewide Property

Coverage	FY22 Limits	FY23 Limits	FY22 Price	FY23 Price	Price Difference
Named Storm Flood Fire and AOP	\$400M \$325M \$800M	\$400M \$325M \$800M	\$32,719,725 Incl. Incl.	\$40,433,324 Incl. Incl.	\$7,713,599
Fine Arts	\$400M	\$400M	\$190,875	\$193,875	\$3,000
Boiler and Machinery	\$250M	\$250M	\$423,576	\$471,197	\$47,621
Terrorism	\$150M	\$150M	\$180,000	\$190,000	\$10,000
Total			\$33,514,176	\$41,288,396	\$7,774,220

Casualty Insurance Program Overview

The marketing process was similar to the property renewal. The worldwide marketplace was again approached. Terms and conditions were renewed as per expiring.

Based on the most recent appraisal, Hull & Machinery values are up from \$89,085,507 to \$114,177,000. We were able to achieve a 1.1% Hull rate decrease which brought premium from \$233,276 to \$270,602, net of the upfront continuity credit. The increase of the liability – P&I, Vessel Pollution, and both excess layers is 12.3%, which is currently a standard market rise on the liability side. The same continuity credit on expiring has been applied to the renewal. The expiring Marine pricing was \$772,584 after the policy year 2021-2022 continuity credit was applied. The total renewal pricing is \$833,202, resulting in an additional cost of \$60,618 to the State effective July 1, 2022.

Aviation Hull & Liability

Aviation Hull & Liability limits were reduced from \$25 million to \$10 million due to market conditions. Aviation Hull & Liability are written with National Union Insurance Company. The \$10M limit includes passengers and hull per scheduled aircraft for a premium of \$630,895, which is \$56,122 less than what was paid last fiscal year but with a \$15 million limit reduction. Business Insurance reported in July 2022, “Aviation insurance buyers face some of the most challenging renewals in more than a decade, as rising exposures and the war in Ukraine drive up costs, with some experts predicting the toughest conditions since 9/11”.

Aviation General Liability (Airport)

This coverage was also renewed effective July 1, 2022 for an annual premium of \$21,350, an increase in premium of \$1675, from the prior term. Aviation General Liability is written with National Union Insurance Company with a \$25M Each Occurrence Limit.

ASM and the Louisiana Stadium and Exposition District (LSED)

Coverage is obtained by ORM on behalf of the above named insureds as per written contract for operations at the Louisiana Superdome, New Orleans Arena, & Champions Square. The coverage was marketed globally with the following results:

Crime

Coverage remained with Hiscox with a flat renewal premium of \$10,958.

Workers Compensation

Coverage remained with LWCC with a renewal premium of \$695,975. This is additional cost of \$30,738 from the expiring term. The premium is based on a 3.55% payroll increase and an experience mod increase of 2%.

Excess Commercial General Liability

Coverage was not renewed per ORM's request. The terms of the contract changed and ASM is now responsible for procuring CGL directly.

Cyber Liability

Coverage was written for the State's Office of Technology Services (OTS) and the agencies/departments that fall under OTS for IT services. It also includes coverage for those State Higher Education institutions that choose to participate. As the insurance program continues and the State's IT work becomes more aligned within all agencies, data collection will be undertaken and coverage expanded as it makes sense to do so. Coverage includes the following:

- Technology/Professional Errors & Omissions
- Network Security Privacy Liability
- Data Recovery and Business interruption
- Multimedia Liability
- Privacy Regulatory Defense and Penalties
- Notification
- Cyber Extortion
- Business Income and Digital Asset Restoration

This coverage was renewed July 1, 2022 with Lloyds of London. Limits were renewed with \$11.5M each and every claim with an \$11.5M policy aggregate. Named Higher Education institutions are included with a sub-limit of \$2M each and every claim subject to the \$11.5M aggregate limit. The renewal premium for 2022-2023 is \$776,250 representing a premium decrease for this term of \$38,750.

Public entities have been targeted for cyber-attacks in a significant way throughout the US. As such, carriers have paid out a large number of high dollar claims specifically for public entities, most often as a result of ransomware attacks. Public sector insureds are leading the claim activity in terms of both frequency and severity. The cyber marketplace is shrinking, with available capacity a growing concern. In many cases, re-insurers are refusing to provide reinsurance to their insured market clients. Carriers are required by their reinsurers to institute premium increases, higher retentions, and in some cases are sub-limiting coverages. Other than the Florida and Louisiana property marketplace, cyber coverage is currently the most challenging line of business in the insurance industry. Renewal terms were negotiated and the State's retention remained at \$1,500,000. The 25% Sublimit and 50% Coinsurance clauses found in the prior year's policy were removed for the Higher Education institutions for ransomware. A 50% sublimit now applies to all coverages for the OTS managed agencies where the proximate cause is ransomware. This is due to OTS's lack of Multi-Factor Authentication. A biometric exclusion applies to LA Tech, LSUHSC New Orleans, and Southeastern.

Crisis Response

This coverage renewed July 1, 2022 with Lloyds of London with limits of \$1M per occurrence/\$5M policy aggregate. The renewal pricing is flat at \$63,138 annually. This coverage provides on-site response

services to man-made and natural disasters that result in three or more fatalities and/or critical injuries. It includes the establishment of family assistance centers near the location of the incident, media support, assistance to victims' families, assistance to first responders and other types of necessary resources consistent with managing the aftermath of a crisis.

Licensed Professional Liability (Higher Education Student Experiential Learning)

Many of the State's Higher Education Institutions offer internship programs through outside businesses and non-profit agencies as part of the curriculum, for example, a teaching internship through a local school system. Many third party providers/businesses require evidence of professional liability and general liability coverage from the student and institution before they will allow students to intern at their facility. The State provides casualty coverage for the institutions, but per state law is unable to include the students as insureds. The exception to this is malpractice liability coverage provided through Louisiana Revised Statute 40:1237.1 et. seq. In the past, this has created a challenge for those institutions and their students who are dependent on the cooperation of third parties to assist with their internship curriculums. Coverage was renewed effective July 1, 2022 with United Educators Insurance Company to provide coverage to those students participating in qualifying programs at specifically named institutions. Limits remain unchanged from the prior term -- \$1M per claim/\$5M policy aggregate. Certificates of insurance are provided by Gallagher to the institutions to evidence coverage for the students.

This policy was renewed for an annual premium of \$179,130. The premium increase of \$6,674 is attributed to the hardening liability market trend and the addition of the Louisiana Fire and Emergency Training Academy. The cost is not borne by the State, but is left to each participating institution to manage and pass through to the participating students.

Foreign Travel Package Policy

The Office of Risk Management, recognizing the exposure for foreign travel, purchased a master policy through Zurich American Insurance Company for employees travelling on business for the State of Louisiana. Coverages provided are General Liability - \$1M per Occurrence/\$2M Aggregate limit; Automobile Liability \$1M each Accident; \$1M each Employee per accident/\$1M each employee per disease/\$1M per disease policy aggregate for Voluntary International Employee Compensation and Employers Liability. Additional coverages include Business Travel Accident, Property. The annual premium for this policy is \$2,750.

Casualty Brokerage Fees

As stated above, the fee for the Statewide Casualty Program is included within the annual Property Placement Fee for a combined total of \$1,050,000 for 2022-2023, which is the same as the previous year.

Combined Limit and Pricing Comparison – Statewide Casualty

Coverage	FY22 Expiring Limits	FY23 Renewal Limits	FY22 Expiring Price	FY23 Renewal Price	FY22 to FY23 Price Change
Wet Marine ² Hull Protection and Indemnity (P&I) Pollution	Replacement \$100M <i>Incl.</i>	Replacement \$100M <i>Incl.</i>	\$772,584 <i>Incl.</i> <i>Incl.</i> <i>Incl.</i>	\$833,202 <i>Incl.</i> <i>Incl.</i> <i>Incl.</i>	\$60,618
Crime (incl. employee theft) – ASM and LSED	\$500,000	\$500,000	\$10,958	\$10,958	-
Workers Compensation – ASM and LSED	Statutory	Statutory	\$665,237	\$695,975	\$30,738
Employer's Liability	\$1M	\$1M	-	-	-
Excess General Liability - ASM and LSED	\$50M	Not Renewed	\$1,083,000	\$0	(\$1,083,000)
Cyber Liability	\$20M/\$20M & \$15M/\$15M Higher Ed	\$11.5M/\$11.5M & \$2M/\$11.5M Higher Ed	\$815,000	\$776,250	(\$38,750)
Crisis Response	\$1M/\$5M	\$1M/\$5M	\$63,138	\$63,138	-
Aviation Hull & Liability	\$25M Hull Sched. Val.	\$10M Hull Sched. Val.	\$687,017	\$630,895	(\$56,122)
Aviation General Liability (Airport)	\$25M Liab.	\$25M Liab.	\$19,675	\$21,350	\$1,675
Agent Fee			<i>Fee Incl. in Property Placement</i>	<i>Fee Incl. in Property Placement</i>	-
Total			4,116,609	\$3,031,768	(\$1,084,841)

Additional Information

Reduced Dependence on Wholesale Brokers

A significant factor in the reduction of brokerage fees in 2015 through 2022, was the reduced dependence on wholesale brokers. The State saved \$3.1 million dollars in brokerage fees/wholesaler revenue in 2015 as Gallagher placed much of the coverage directly rather than through the utilization of a wholesale broker. If you extrapolate this across the last eight years, the savings in wholesale brokerage commission alone is near \$24.8 million dollars. Both domestic and international wholesale brokers are used only when needed. Additionally, when Gallagher used wholesale brokers, both Gallagher and ORM were present during the presentations to ensure control of the placement. The revenue for the domestic wholesalers are included in the contract brokerage fee of \$1,050,000. The international wholesale

² The expiring and renewal premiums are net of the premium continuity credits of \$78,676 and \$82,970 respectively.

brokers (London and Bermuda) received 3% - 5% wholesale commission (included in the premium), compared to double digit wholesaler compensation in the past procurement model.

The following markets were directly placed by the broker, without wholesale broker assistance:

AWAC	Berkshire	Canopus US	CV Starr	National Union Insurance Co.	Ironshore	Swiss Re
	United Educators	AIG	Hiscox	Munich Re	SCOR	

Focused Higher Education Program

The participation in the Student Internship Liability coverage program has significantly increased since inception in 2016. We expect this trend to continue. Round table discussions on risk management specific to higher education have been ongoing since the fall of 2015 and continue quarterly and regionally. The response to this has been positive. Gallagher worked closely with ORM to facilitate a system-wide membership to URMIA, a national risk management organization specific to higher education institution membership. In doing so, the State's higher education institutions have access to their peers and resources across the U.S. Gallagher continues to bring a higher education practice and reputation to the table to assist with the State's exposures concerning higher education risks.

In Summary

ORM's intent is not only to save money and significantly improve coverage limits - both of which have been accomplished -- but also to take steps necessary to create a long lasting property program that will stand against another severe storm season through multi-year rates and participation guarantees to gain rate protection and program stability. Gallagher and ORM do expect to see the overall market continue to harden, and ORM is prepared to adjust the program in upcoming fiscal years to minimize premium increases while still providing adequate coverage to protect the State's assets. Protecting the State's budget and being able to cost effectively insure the State's assets remains paramount through the process with each and every renewal.

The success of the placements from 2015 through 2022 are evidenced by the pricing, coverage terms and number of markets competing for participation in the State's program.

The substantial dollar savings for all lines of coverage placed in the commercial market for ORM including increased limits, coverage improvements, program stability, and market relationships would not have been possible under the old insurance procurement model. The enactment of Act 715 in the 2014 Regular Session, which allowed ORM to select a broker rather than bidding a predetermined insurance program, facilitated the tremendous impact made on the insurance marketplace. This impact is evidenced in the program presented in this report.

For clarification, the savings shown in this report are based on actual commercial premiums paid for coverage placed for FY 21-22 versus FY 22-23.

Appendix B:

(Louisiana Website Summary FY 2023-2024)

**STATE OF LOUISIANA
OFFICE OF RISK MANAGEMENT
SUMMARY OF INSURANCE COVERAGES**

EFFECTIVE JULY 1, 2023

Airport Liability

Primary: Commercial Insurance
Broker: Arthur J. Gallagher
Insurance Company: National Union Fire Ins. Co.
Limit: \$25,000,000 per occurrence, includes hangar keepers' liability
Named Agencies Only
Agency Deductible: \$1,000 hangar keepers' liability only

Aviation Hull and Liability

Primary: Commercial Insurance
Broker: Arthur J. Gallagher
Insurance Company: National Union Fire Ins. Co.
Limit: Liability - \$10,000,000 per occurrence
Hull – Agreed value per aircraft on file at ORM
Named Agencies Only
Agency Deductible: Liability – None
Hull - None

Automobile Liability & Physical Damage

Primary: Louisiana Self-Insurance Fund
Limit: Liability: \$5,000,000 per occurrence
Physical Damage: Actual Cash Value per auto
Agency Deductible: \$1,000 Collision
\$1,000 Other than collision

Employee Dishonesty Bond (See Crime policy)

Bridge Property Damage

Primary: Louisiana Self-Insurance Fund
Limit: DOTD LA 1 Toll Road - \$4,434,560 per occurrence property damage;
\$4,750,000 per occurrence business interruption.
LA Tech University Pedestrian Bridge - \$500,000 per occurrence property damage.
Agency Deductible: None

Commercial General Liability (Excludes Superdome, Arena, Champions Square)

Primary: Louisiana Self-Insurance Fund
Limit: \$5,000,000 per occurrence
Agency Deductible: None

Crime (Excludes Superdome, Arena, Champions Square)

Primary: Louisiana Self-Insurance Fund
Limit: Crime - \$2,000,000 per occurrence for all locations handling money and securities
Bond: - \$500,000 employee theft (employee dishonesty) per occurrence
\$100,000 employee faithful performance of duty per occurrence
Agency Deductible: \$1,000

Crime (Superdome, Arena, Champions Square Only)

Primary: Commercial Insurance
Broker: Arthur J. Gallagher
Insurance Company: Hiscox Insurance Co.
Limit: \$500,000 per occurrence, includes employee theft
Agency Deductible: \$250

Cyber Liability

Primary: Louisiana Self-Insurance Fund
Limit: \$1,500,000 per claim
Named Agencies Only
Agency Deductible: None

Excess: Commercial Insurance
Broker: Arthur J. Gallagher
Insurance Company: Lloyds of London
Named Agencies Only
Limit: \$11,500,000 per claim for Non-Higher Ed
with a \$11,500,000 aggregate
\$2,000,000 per claim per entity for Higher Ed
with a \$11,500,000 aggregate
Agency Deductible: None

Crisis Response Services through Disaster Management International

Primary: Commercial Insurance
Broker: Arthur J. Gallagher
Insurance Company: Lloyds of London
Limit: \$1,000,000 per occurrence/\$5,000,000 annual aggregate
Agency Deductible: None

Equipment Breakdown Protection (Boiler & Machinery)

Primary: Louisiana Self-Insurance Fund
Limit: \$500,000 per breakdown
Agency Deductible: \$1,000

Excess: Commercial Insurance
Broker: Arthur J. Gallagher
Insurance Company: XL America Insurance Company
Limit: \$250,000,000 excess of \$500,000 Primary Insurance per breakdown

Agency Deductible: None

Fine Art

Primary: Commercial Insurance
Broker: Arthur J. Gallagher
Insurance Company: Lloyds of London
Limit: \$400,000,000 per occurrence
Agency Deductible: Permanent collection - \$2,500
Loans – None

Licensed Professional Liability (Higher Education Student Experiential Learning)

Primary: Commercial Insurance
Broker: Arthur J. Gallagher
Insurance Company: United Educators
Limit: \$1,000,000 per claim/\$5,000,000 annual aggregate
Named Agencies Only
Agency Deductible: None

Medical Malpractice Liability

Primary: Louisiana Self-Insurance Fund
Limit: \$5,000,000 per occurrence
Agency Deductible: None

Property

Primary: Louisiana Self-Insurance Fund
Limit: \$50,000,000 per occurrence for named storm and flood
\$10,000,000 per occurrence for all other perils
Business Interruption limited to one (1) year
Replacement cost on buildings; actual cash value on business personal property and movable/mobile buildings
Agency Deductible: \$1,000 non-flood
\$5,000 flood

Excess: Commercial Insurance
Broker: Arthur J. Gallagher
Insurance Company: Various international and domestic companies
Limit: \$300,000,000 named storm
\$260,000,000 flood and earthquake
\$800,000,000 all other perils
Agency Deductible: None

Property (Designated Small Boards and Commissions Only)

Primary: Louisiana Self-Insurance Fund
Limit: \$15,000,000 per occurrence for all perils, including named hurricane and flood
Business Interruption limited to one (1) year
Replacement cost on buildings; actual cash value on business personal property and movable/mobile buildings
\$15,000,000 per breakdown equipment breakdown/boiler & machinery

Agency Deductible: \$1,000 non-flood
\$5,000 flood

Publishers Media Liability

Primary: Louisiana Self-Insurance Fund
Limit: \$5,000,000 per occurrence
Agency Deductible: None

Terrorism

Primary: Louisiana Self-Insurance Fund
Limit: \$10,000 per occurrence liability
\$100,000 per occurrence biological & chemical
Agency Deductible: None

Excess: Commercial Insurance
Broker: Arthur J. Gallagher
Insurance Company: Lloyds of London
Limit: \$150,000,000 per occurrence/aggregate property damage/time element
\$25,000,000 per occurrence/aggregate liability
\$10,000,000 per occurrence biological & chemical
Agency Deductible: None

Wet Marine

Primary: Louisiana Self-Insurance Fund
Limit: Protection & Indemnity - \$750,000 per occurrence
Masters & crew members - \$1,000,000
Hull – Various per vessel
Agency Deductible: P&I – None
Hull - \$1,000
Pollution - None

Excess: Commercial Insurance
Broker: Arthur J. Gallagher
Insurance Company: Various international companies
Named Agencies Only
Limit: Protection & Indemnity - \$100,000,000 per occurrence
Masters & crew members - \$100,000,000 per occurrence
Hull – Various per vessel – Agreed value per vessel
Pollution - \$100,000,000
Agency Deductible: None

Workers' Compensation and Employers' Liability

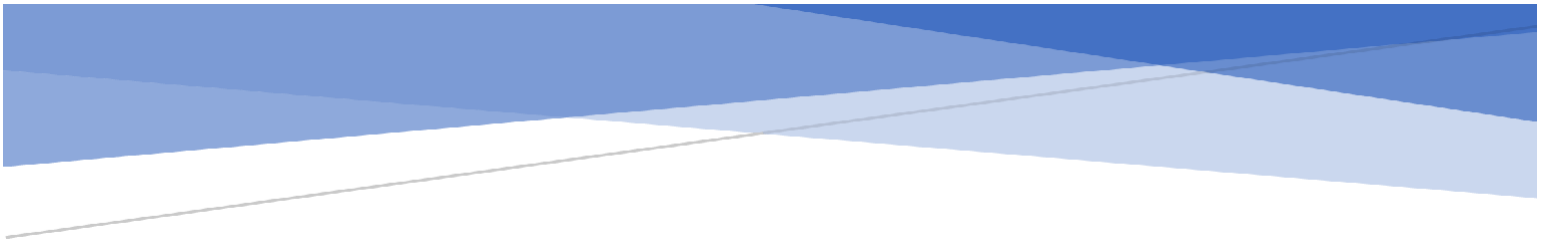
Primary: Louisiana Self-Insurance Fund
Limit: Employee benefits - Statutory
Employers liability - \$5,000,000 each accident/disease
Agency Deductible: None

Workers' Compensation (Superdome, Arena, Champions Square Only)

Primary: Commercial Insurance
Broker: Arthur J. Gallagher
Insurance Company: Louisiana Workers Compensation Corporation (LWCC)
Limit: Employee benefits - Statutory
Employers liability - \$1,000,000 each accident/disease
Agency Deductible: None

Appendix C:

(Mississippi Statement of Values)



STATE OF MISSISSIPPI

Property Coverage Document

April 29, 2023 – 2024

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NAMED INSURED AND MAILING ADDRESS

1. State of Mississippi

including all of its agencies, departments, boards, commissions and any other entity or interest that now exists or may hereafter be constituted or acquired and any part an interest which the Insured is legally responsible to insure. Hereafter referred to as the "Insured."

Mailing Address: Department of Finance and Administration
Office of State Property Insurance
501 N West Street,
Suite 901-B
Jackson, MS, 39201

2. TERM OF INSURANCE

In consideration of the annual premium, this policy attaches and covers for a period of twelve months, from April 29th, 2023 to April 29th, 2024, beginning and ending at 12:01 A.M., standard time, at the location of the property involved.

The actual effective time of attachment of this insurance on the above date shall be the same time as the actual effective time of cancellation or expiration of policy(ies) replaced or renewed by this policy.

3. PROGRAM LIMITS OF LIABILITY

The Company's maximum program limit of liability in an occurrence, including any insured Time Element loss, will not exceed \$500,000,000 for any one occurrence, subject to the following provisions:

A. Program limits of liability and time limits stated below or elsewhere in this Policy are part of, and not in addition to, the Policy program limit of liability.

B. Program limits of liability in an occurrence apply to the total direct physical loss or physical damage at all locations and for all coverages involved, including any insured Time Element loss, subject to the following provisions:

i. When a program limit of liability applies in the aggregate during any policy year, the Company's maximum amount payable will not exceed such program limit of liability during any policy year.

ii. When a program limit of liability applies to a location or other specified property, such program limit of liability will be the maximum amount payable for all direct physical loss or physical damage arising from direct physical loss or physical damage at such location or to such other specified property.

C. With respect to the peril of Earthquake (as referred to in Section 13), this Company shall not be liable, per occurrence and in any one policy year, for more than its proportion of \$200,000,000. Where the peril of Earthquake is the predominant cause of direct physical loss or physical damage any ensuing physical loss or damage arising from a peril not otherwise excluded herein, other than Fire, shall be subject to the sublimits and aggregates specified in this policy.

D. With respect to the peril of Flood (as referred to in Section 13), this Company shall not be liable, per occurrence and in any one policy year, for more than its proportion of \$200,000,000. Where the peril of Flood is the predominant cause of direct physical loss or physical damage any ensuing physical loss or damage arising from a peril not otherwise excluded here, other than Fire, shall be subject to the sublimits and aggregates specified in this Policy.

E. With respect to the peril of Flood (as referred to in Section 13) for locations wholly located within Flood Zones A or V as defined by the Federal Emergency Management Agency, this Company shall not be liable, per occurrence and in any one policy year, for more than its proportion of \$100,000,000. Where the peril of Flood is the predominant cause of direct physical loss or physical damage any ensuing physical loss or damage arising from a peril not otherwise excluded herein, other than Fire, shall be subject to the sublimits or aggregates specified in this Policy.

F. With respect to the peril of Named Windstorm (as referred to in Section 13) this Company shall be liable, per occurrence for its proportion of \$300,000,000. Where the peril of Named Windstorm is the predominant cause of direct physical loss or physical damage any ensuing physical loss or damage arising from a peril not otherwise excluded herein, other than Fire, shall be subject to the sublimits and aggregates specified in this Policy.

G..	Accounts Receivable	\$25,000,000 per occurrence
H.	Auto Physical Damage (excludes over the road)	\$75,000,000 per occurrence
I.	Business Interruption	\$10,000,000 per occurrence
J.	Civil or Military Authority (90 days)	\$ 5,000,000 per occurrence
K.	Contingent Time Element	\$ 5,000,000 per occurrence
L.	Decontamination Costs	\$ 2,500,000 per occurrence
M.	Debris Removal	Greater of 25% or \$50,000,000 per occurrence

N.	Demolition and Increased Cost of Construction	\$500,000,000 per occurrence
O.	Expediting Expense	\$50,000,000 per occurrence
P.	Extra Expense	\$50,000,000 per occurrence
Q.	Fine Arts, excluding outdoor monuments	\$20,000,000 per occurrence
R.	Ingress/Egress (90 days)	\$ 5,000,000 per occurrence
S.	Plants, Trees, Outdoor Lighting	\$ 1,000,000 per occurrence
T.	Leasehold Interest	\$10,000,000 per occurrence
U.	LEED Coverage	\$10,000,000 per occurrence
V.	Loss Adjustment Expenses	\$ 2,500,000 per occurrence
W.	Miscellaneous Unnamed Locations	\$25,000,000 per occurrence; \$10,000,000 Tiers I and II
X.	Mold Fungus & Mildew – resulting from a covered cause of loss	\$10,000,000 per occurrence
Y.	Newly Acquired Property	\$50,000,000 per occurrence
	• Tier 1 & 2 Named Windstorm	\$25,000,000 per occurrence
Z.	Property in Course of Construction	\$20,000,000 per occurrence
AA.	Rental Value	\$10,000,000 per occurrence
BB.	Royalties	\$ 1,000,000 per occurrence
CC.	Service Interruption (including off-premises)	\$25,000,000 per occurrence
DD.	Transit	\$10,000,000 per occurrence
EE.	Valuable Papers	\$50,000,000 per occurrence

- FF. The Company shall have no liability for any Time Element Loss when the Period of Recovery applicable to all Time Element loss is equal to or less than 24 hours. If the 24 hour time period is exceeded the company's liability for the Time Element loss shall apply and the Period of Recovery shall be measured from the inception of the occurrence for which loss is being claimed. The applicable deductible shall then apply. If more than one location is involved in any occurrence for which the 24 hours is applicable, only those locations where the Period of Recovery exceeds the Time Period shall be considered in the loss payment.
- GG. This Policy shall apply to the Insured's interest in the Dry Dock located 1000 Jerry St., PE Hwy, Pascagoula, MS 39567 but responds only for the difference in conditions and/or excess of the underlying coverage, provided by a third party . This policy excludes any liability which is covered and payable by the third party coverage, whose insurance is considered primary and non-contributory.

4. DEDUCTIBLES

All losses, damages or expenses arising out of any one occurrence shall be adjusted as one loss, and from the amount of such adjusted loss shall be deducted **\$500,000** except:

- A. With respect to Flood:
- (1) With respect to locations wholly located within Flood Zones A or V, the deductible shall be \$500,000 per building, \$500,000 contents per building and \$250,000 business interruption/time element, subject to a minimum of \$500,000 per occurrence. However, this deductible shall not apply to ensuing direct physical loss or physical damage arising from a peril not otherwise excluded herein.
 - (2) With respect to any other Flood loss, the deductible shall be \$500,000 per occurrence. However, this deductible shall not apply to ensuing direct physical loss or physical damage arising from a peril not otherwise excluded herein.
 - (3) In the event that the Insured maintains underlying insurance through the National Flood Insurance Program, it is agreed that this policy excludes the peril of flood to the extent of recovery under such National Flood Insurance Policy(s). Should the amount of loss payable under such National Flood Insurance Policy(s) exceed the applicable flood deductible under this policy, then no deductible shall apply hereunder. However, if the amount to be paid under such National Flood Insurance Policy(s) is less than the applicable flood deductible under this policy, then the amount to be deducted hereunder shall not exceed the difference between the amount to be paid under the Insured's National Flood Insurance Policy(s) and the applicable flood deductible under

this policy. Insurance maintained through the National Flood Insurance Program shall be considered Underlying Insurance.

- B. With respect to **Named** Windstorm at locations wholly located within Hancock, Harrison, Jackson, Pearl River, Stone, and George counties, the deductible shall be 2% of the Total Insured value at the time when such loss occurs, per separate unit of insurance, subject to a minimum of \$1,000,000 per occurrence. This deductible shall apply only to those units of insurance suffering a loss in the occurrence and for which a claim is being made. However, this deductible shall not apply to ensuing direct physical loss or physical damage not otherwise excluded herein.
- C. With respect to all other Wind/Hail, the deductible shall be \$1,000,000 per occurrence.
- D. With respect to any Service Interruption, "the duration of such interruption" referred to in the policy must be in excess of 24 hours.
- E. With respect to Ingress / Egress or Civil or Military Authority, "the duration of such interruption" referred to in the policy must be in excess of 24 hours.

The following shall be considered a separate unit of insurance: (a) each separate building or structure; (b) the contents of each separate building or structure; (c) property in each yard; (d) business interruption as defined in Clause 7.B. for the twelve month period immediately following the loss.

If two or more deductible amounts in this policy apply to a single occurrence, the total to be deducted shall not exceed the largest deductible.

As respects theft, the term Occurrence as referred to elsewhere within the policy means the sum total of all losses of covered property resulting from one or more concealed acts committed by one person or more than one person acting in unison to the extent such loss is not otherwise excluded under this policy.

The deductible amounts specified above shall not apply to general average contributions and salvage charges.

5. LOSS PAYABLE

Loss, if any, shall be adjusted with and payable to the Insured or order, whose receipt shall constitute a release in full of all liability under this policy with respect to such loss.

6. TERRITORY

This policy covers loss occurring anywhere in the world excluding those countries, individuals, or entities as to which coverage would be in violation of any U.S. economic or trade sanctions such as, but not limited to, those sanctions administered and enforced by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"), unless the Insured has been granted a U.S. Treasury Department Office of Foreign Assets Control License or other expressed or constructive authorization by the U.S. Government to do business with that country, individual or entity, and then coverage is provided only to the extent legally permitted as a result of the issuance of the license or other expressed or constructive authorization, subject to all of the terms, conditions and limitations found in this policy.

7. COVERAGE

Except as hereinafter excluded, this policy covers:

A. Real and Personal Property

- (1) The interest of the Insured in all real and personal property owned, used, leased by the Insured, or intended for use by the Insured, or hereafter constructed, erected, installed, or acquired, including while in course of construction, erection, installation, and assembly. In the event of direct physical loss or physical damage, this Company agrees to accept and consider the Insured as sole and unconditional owner of improvements and betterments, notwithstanding any contract or leases to the contrary.
- (2) The interest of the Insured in real and personal property of others in the Insured's care, custody, or control.
- (3) Real and Personal Property which the Insured is legally responsible to insure prior to direct physical loss or physical damage.
- (4) At the option of the Insured, personal property of the Insured's officials, employees and representatives while on the premises of the Insured. This insurance shall then act as primary insurance.
- (5) Contractors' and vendors' interest in property covered to the extent of the Insured's liability imposed by law or assumed by contract entered into prior to direct physical loss or physical damage, whether written or oral.

- (6) Mobile Equipment.
- (7) Vehicles licensed for highway use.

B. Time Element

Definition: Wherever used in this policy, the term "Time Element" means any one or all of the following coverages: Business Interruption, Extra Expense, Rental Value, Leasehold interest, Royalties and Time Element Extensions described herein.

a. Business Interruption — Gross Earnings

(1.) Loss resulting from necessary interruption of business conducted by the Insured, whether total or partial, and caused by direct physical loss, damage, or destruction insured herein.

(2.) If such loss occurs during the term of this policy, it shall be adjusted on the basis of ACTUAL LOSS SUSTAINED by the Insured, consisting of the net profit which is thereby prevented from being earned and of all charges and expenses only to the extent that these must necessarily continue during the interruption of business including Ordinary Payroll and only to the extent such charges and expenses would have been earned had no loss occurred.

"Ordinary Payroll" is defined to be the entire payroll expense for all employees of the Insured except officers, executives, department managers, employees under contract, and other important employees as determined by the Insured.

- (3) In the event of loss, damage, or destruction covered herein to property as described in Clause 7.A, which results in an interruption of research and development activities which in themselves would not have produced income during the Period of Recovery, this policy shall cover the actual loss sustained of the continuing fixed charges and expenses, including Ordinary Payroll directly attributable to such research and development activities.
- (4) However, this Company shall not be liable under this Clause B. for any loss resulting from direct physical loss damage, damage to or destruction of finished stock nor for the time required to reproduce said finished stock. Finished stock shall mean stock manufactured by the Insured which in the ordinary course of the Insured's business is ready for packing, shipment, or sale.
- (5) Resumption of Operations: If the Insured, by reasonable means within its control, could reduce the loss resulting from the interruption of business:

- (a) by a complete or partial resumption of operation of the property insured, whether damaged or not; or
- (b) by making use of available stock, merchandise, or other property;

such reduction shall be taken into account in arriving at the amount of loss hereunder.

(6) Experience of the Business:

- (a) In determining the amount of net profit, charges and expenses covered hereunder for the purpose of ascertaining the amount of loss sustained, due consideration shall be given to the experience of the business before the date of direct physical loss or physical damage or destruction and to the probable experience thereafter had no loss occurred to real or personal property as described in Clause 7.A.
- (b) With respect to alterations, additions, and property while in the incidental course of construction, erection, installation, or assembly, due consideration shall be given to the available experience of the business after completion of the construction, erection, installation, or assembly.

C. Extra Expense

- (1) Extra Expense incurred resulting from direct physical loss, damage, or destruction covered herein during the term of this policy to real or personal property as described in Clause 7.A.
- (2) **"Extra Expense"** means the excess of the total cost reasonably and necessarily chargeable to the operation of the Insured's business/operations over and above the total cost that would normally have been incurred to conduct the business had no direct physical loss or physical damage occurred.

D. Rental Value

- (1) Rental Value loss sustained by the Insured resulting from direct physical loss, damage, or destruction covered insured herein during the term of this

policy to real and personal property as described in Clause 7.A. but not exceeding the reduction in rental value less charges and expenses which do not necessarily continue.

- (2) "Rental Value" is defined as the sum of:
 - (a) the total anticipated gross rental income from tenant occupancy of the described property as furnished and equipped by the Insured; and
 - (b) the amount of all charges which are the legal obligation of the tenant(s) in force at the time of loss and which would otherwise be obligations of the Insured; and
 - (c) the fair rental value of any portion of said property which is occupied by the Insured.
- (3) Experience of the Business:
 - (a) In determining the amount of rental value insured hereunder for the purposes of ascertaining the actual loss sustained, due consideration shall be given to the rental experience before the date of direct physical loss, damage or destruction and to the probable experience thereafter had no loss occurred to real and personal property as described in Clause 7.A.
 - (b) With respect to alterations, additions, and property while in the course of construction, erection, installation, or assembly, due consideration shall be given to the available rental experience of the business after completion of the construction, erection, installation, or assembly.
- (4) Rental Income Insurance for the Benefit of the Landlord:
 - (a) This policy will serve as rental income insurance in those situations where the insured is required under a lease or rental agreement to maintain such insurance on behalf of any landlord.

E. Royalties

- (1) Loss of income to the Insured under royalty, licensing fees, or commission agreements between the Insured and another party which is not realizable due to direct physical loss, damage, or destruction by any of the perils covered herein during the term of this policy to property of the other party of the type insured under this policy.

- (2) If such loss occurs during the term of this policy, it shall be adjusted on the basis of actual loss sustained of such income referred to in paragraph 1 above, which would have been earned had no loss occurred.
- (3) Resumption of Operations: The Insured shall influence, to the extent reasonably possible, the party with whom the agreement described in paragraph 1 above has been made to use any other machinery, supplies or locations in order to resume business so as to reduce the amount of loss hereunder, and the Insured shall cooperate with that party in every reasonable way to effect this, but not financially unless such expenditures shall be authorized and paid by this Company.
- (4) Experience of the Business: In determining the amount of income derived from the agreement(s) described in paragraph 1 above for the purpose of ascertaining the amount of loss sustained, due consideration shall be given to the amount of income derived from such agreement(s) before the date of damage or destruction and to the probable amount of income thereafter had no loss occurred to real and personal property of the type insured under this policy of such other party.

F. Soft Costs

- (1) Those costs over and above the costs which normally would have been incurred with respect to property while in the incidental course of construction, erection, installation and assembly caused by direct physical loss, damage or destruction covered herein during the term of this policy to property covered hereunder, including such property while in transit.
- (2) Recovery in the event of loss hereunder shall be the actual loss sustained by the Insured consisting of:
 - (a) the amount of actual interim or construction financing interest including loan fees and other one-time charges, which exceeds the interest that would have been incurred had no delay resulted;
 - (b) realty taxes and ground rent if any;
 - (c) advertising and promotional expenses;
 - (d) cost of additional commissions incurred upon renegotiating leases;

- (e) architects', surveyors', legal', accounting', and consulting engineers' fees not otherwise covered elsewhere in this policy;
- (f) project administration expense;
- (g) insurance premiums.

G. Time Element Extensions

- (1) This policy, subject to all provisions and without increasing the limits of this policy, also insures against direct physical loss, damage, or destruction resulting from:
 - (a) Contingent Time Element: property that wholly or partially prevents any direct or indirect supplier of goods and/or services to the Insured from rendering their goods and/or services, or property that wholly or partially prevents any direct or indirect receiver of goods and/or services from the Insured from accepting the Insured's goods and/or services, such supplier or receiver to be located within the territorial limits;
 - (b) Impounded Water: dams, reservoirs, or equipment connected therewith when water, used as a raw material or used for power or for other purposes, stored behind such dams or reservoirs is released from storage and causes an interruption of business as a result of lack of water supply from such sources;
 - (c) Leader Property: property not owned or operated by the Insured, located within five miles of the Insured, which attracts business to the Insured.
- (1) Interruption by Civil or Military Authority: This policy is extended to cover the actual loss sustained during the period of time when access to real or personal property is prevented by order or action of civil or military authority issued in connection with direct physical loss or physical damage from a peril insured against.
- (2) Ingress/Egress: This policy is extended to cover the actual loss sustained during the period of time when, in connection with or following direct physical loss or physical damage from a peril

insured against, access to or egress from real or personal property of the Insured is prevented.

H. Provisions Applicable to Business Interruption, Extra Expense, Rental Value, Royalties and Soft Costs Coverages

(1) Period of Recovery: shall commence with the date of such direct physical loss or physical damage and shall not be limited by the date of expiration or cancellation of this policy. The length of time for which loss may be claimed:

- (a) shall not exceed such length of time as would be required with the exercise of due diligence and dispatch to rebuild, repair, or replace the property that has been destroyed or damaged;
 - (i) with the exercise of due diligence and dispatch to rebuild, repair, or replace such part of the property as has been destroyed or damaged;
 - (ii) to restore the interrupted services to the premises and the premises made ready for normal operations when such interruption is caused by an accidental occurrence;
- (b) and, such additional length of time to restore the Insured's business to the condition that would have existed had no loss occurred, commencing with the later of the following dates:
 - (i) the date on which the liability of the Company for direct physical loss or physical damage would otherwise terminate; or
 - (ii) the date on which repair, replacement, or rebuilding of the property that has been damaged is actually completed;

but in no event for more than one year from said later commencement date unless written approval is received from the Company;

- (c) with respect to alterations, additions and property while in the course of construction, erection, installation, or assembly shall be determined as provided in subparagraph (a) above, but such determined length of time shall be applied to the experience of the business after the business has reached its planned level of production or level of business operations;

- (a) shall commence with the date of such direct physical loss or physical damage and shall not be limited by the date of expiration of this policy or cancellation date.

For buildings that have been certified as Leadership in Energy and Environmental Design (LEED) properties, the period of liability as provided for in subparagraphs a, b, c and d above shall include the (additional) time necessary to recertify the building following an insured loss to the LEED certification level that existed prior to said loss. Such (additional) time period shall include the time necessary to flush out the reconstructed space with 100% outside air and to add new filtration media to conform to the said existing LEED level.

- (2) Special Exclusions: This section of the policy does not insure against any increase of loss which may be occasioned by the suspension, lapse, or cancellation of any lease, license, contract, or order; nor for any increase of loss due to interference at the Insured's premises by strikers or other persons with rebuilding, repairing, or replacing the property damaged or destroyed, or with the resumption or continuation of business, or with the re-occupancy of the premises.
- (3) Expense to Reduce Loss: This policy also covers such expenses incurred for the purpose of reducing any loss under this policy, but such expenses may not exceed the amount by which the loss under this policy is thereby reduced.
- (4) Downzoning: In the event of physical direct physical loss or physical damage insured under this policy that causes the enforcement of any law, ordinance, governmental directive or standard regulating the construction, repair, use, or occupancy of property, this Company shall be liable for (additional) business interruption and/or rental value loss resulting from the inability to rebuild existing property to like kind and quality, height, area, and/or occupancy, and with such loss measured for the length of time as would have been required with the exercise of due diligence and dispatch to rebuild or replace such existing property and not otherwise recoverable elsewhere under the policy.

I. Transit

- (1) Property in transit within and between the territorial limits of this policy, including the coastal waters thereof, by any means of conveyance, from the time the property is moved for purpose of loading and continuously thereafter while awaiting and during loading and unloading and in temporary storage, including temporary storage on any conveyance intended for use for any outbound or used for

inbound shipment, including during deviation and delay, until safely delivered and accepted into place of final destination.

- (2) This insurance is extended to cover direct physical loss or physical damage to property:
 - (a) sold and shipped by the Insured under terms of Free On Board point of origin or other terms usually regarded as terminating the shipper's responsibility short of points of delivery;
 - (b) arising out of any unauthorized person(s) representing themselves to be the proper party(ies) to receive goods for shipment or to accept goods for delivery;
 - (c) occasioned by the acceptance by the Insured, by its agents, or by its customers of fraudulent bills of lading, shipping and delivery orders, or similar documents;
 - (d) at the Insured's option, which is incoming to the Insured.
- (3)
 - (a) The Insured may waive right(s) of recovery against private, contract, and common carriers and accept bills of lading or receipts from carriers, bailees, warehousemen, or processors limiting their liability, but this transit insurance shall not inure to the benefit of any carrier, bailee, warehouseman, or processor.
 - (b) With respect to shipments made under subparagraphs 2(a) and 2(d) above, this Company agrees to waive its rights of subrogation against consignees at the option of the Insured.
- (4) The Insured is not to be prejudiced by any agreements exempting lightermen from liability.
- (5) Seaworthiness of any vessel or watercraft and airworthiness of any aircraft are admitted between this Company and the Insured.

J. Accounts Receivable

In the event of physical direct physical loss or physical damage to records of accounts receivable caused by direct physical loss or physical damage insured herein, this Company shall be liable for:

- (1) All sums due the Insured from customers, provided the Insured is unable to effect collection thereof as the direct result of loss of or damage to records of accounts receivable;

- (2) Interest charges on any loan to offset impaired collections pending repayment of such sums made uncollectible by such direct physical loss or physical damage;
- (3) Collection expense in excess of normal collection cost and made necessary by such direct physical loss or physical damage;
- (4) Other expenses, when reasonably incurred by the Insured in reestablishing records of accounts receivable following such direct physical loss or physical damage.

For the purpose of this insurance, credit card company charge media shall be deemed to represent sums due the Insured from customers, until such charge media is delivered to the credit card company.

When there is proof that a loss of records of accounts receivable has occurred but the Insured cannot more accurately establish the total amount of accounts receivable outstanding as of the date of such loss, such amount shall be computed as follows:

- (1) The monthly average of accounts receivable during the last available twelve months shall be adjusted in accordance with the percentage increase or decrease in the twelve months **average** of monthly gross revenues which may have occurred in the interim.
- (2) The monthly amount of accounts receivable thus established shall be further adjusted in accordance with any demonstrable variance from the average for the particular month in which the loss occurred, due consideration being given to the normal fluctuations in the amount of accounts receivable within the fiscal month involved.

There shall be deducted from the total amount of accounts receivable, however established, the amount of such accounts evidenced by records not lost or damaged, or otherwise established or collected by the Insured, and an amount to allow for probable bad debts which would normally have been uncollectible by the Insured.

K. Leasehold Interest

- (1) Pro rata proportion from the date of loss to expiration date of the lease (to be paid without discount) on the Insured's interest in:
 - (a) the amount of bonus paid by the Insured for the acquisition of the lease not recoverable under the terms of the lease;

- (b) improvements and betterments to real property which are not covered under any other section of this policy;
- (c) the amount of advance rental paid by the Insured and not recoverable under the terms of the lease;

when property of the type insured is rendered wholly or partially untenable by any insured loss during the term of this policy and the lease is canceled by the party not the Named Insured under this policy in accordance with the conditions of the lease or by statutory requirements of the appropriate jurisdiction in which the damaged or destroyed property is located; and

(2) The Interest of the Insured as Lessee or Lessor

- (a) "The Interest of the Insured as Lessee or Lessor" when property is rendered wholly or partially un-tenantable by any insured loss during the term of this policy and the lease is canceled by the party not the Named Insured by this policy in accordance with the conditions of the lease or by statutory requirements of the appropriate jurisdiction in which the damaged or destroyed property is located.
- (b) "The Interest of the Insured as Lessee or Lessor" as referred to herein shall be paid for the first three months succeeding the date of the loss and the "Net Lease Interest" shall be paid for the remaining months of the unexpired lease.

(3) Definitions

The following terms, wherever used in this section shall mean:

(a) "The Interest of the Insured as Lessee" is defined as:

- (i) the excess of the rental value of similar premises over the actual rental payable by the lessee (including any maintenance or operating charges paid by the lessee) during the unexpired term of the lease; and
- (ii) the rental income earned by the Insured from sublease agreements, to the extent not covered under any other section of this policy, over and above the rental expenses specified in the lease between the Insured and the lessor.

- (b) "The Interest of the Insured as Lessor" is defined as the difference between the rents payable to the lessor under the terms of the lease in effect at the time of loss and the actual rent collectible by the lessor during the unexpired term of the lease provided the lease is canceled by the lessee, to the extent not covered under any other section of this policy.
- (c) "Net Lease Interest" is defined as that sum, which placed at 6% interest compounded annually will be equivalent to the "The Interest of the Insured as Lessee or Lessor."
- (4) This Company shall not be liable for any increase of loss which may be occasioned by the suspension, lapse or cancellation of any license or by the Named Insured exercising any option to cancel the lease. Furthermore, the Named Insured shall use due diligence including all things reasonably practicable to diminish loss under this clause.

L. Service Interruption

(1) Property Damage

Physical loss or damage at an insured location resulting from the interruption of electricity, steam, gas, water, sewer, telecommunications, or any other utility or service to that location which results from physical loss or damage of the type insured by this policy at a facility (including transmission and distribution lines) of the utility or service supplier which immediately prevents in whole or in part the delivery of such utility or service.

(2) Time Element

Time Element loss at an insured location resulting from the interruption of electricity, steam, gas, water, sewer, or telecommunications or any other utility or service to that location which results from physical loss or damage of the type insured by this policy not otherwise excluded herein at a facility (including transmission and distribution lines) of the utility or service supplier that immediately prevents in whole or in part the delivery of such utility or service.

The length of time for which such loss may be claimed shall not exceed the length of time, beginning when the interruption occurs and ending when with due diligence and dispatch the service could be wholly restored and the location receiving the utility or service made ready for normal operations, which is in excess of any time indicated as the waiting period qualifier in Section 4, Deductible.

The Company(ies) will not be liable if the interruption of such utility or service is caused directly or indirectly by the failure of the Insured to comply with the terms and conditions of any contracts the Insured has for the supply of such specified utilities or services.

The Insured will immediately notify the suppliers of utilities or services of any interruption of such services.

There is no liability for any loss resulting from the interruption of the business that is insured under subparagraph identified as Contingent Time Element.

8. COVERAGE EXTENSIONS

A. Demolition and Increased Cost of Construction

In the event of direct physical loss or physical damage under this policy that causes the enforcement of any law, ordinance, governmental directive or standard in place at the time and place of loss regulating the construction, repair, use, or occupancy of property, this Company shall be liable for:

- 1) the cost of demolishing the undamaged property including the cost of clearing the site;
- 2) the proportion that the value of the undamaged part of the property bore to the value of the entire property prior to loss;
- 3) increased cost of repair or reconstruction of the damaged and undamaged property on the same or another site, limited to the cost that would have been incurred in order to comply with the minimum requirements of such law or ordinance regulating the repair or reconstruction of the damaged property on the same site. However, this Company shall not be liable for any increased cost of construction loss unless the damaged property is actually rebuilt or replaced;
- 4) any increase in the business interruption, extra expense, rental value or royalties loss arising out of the additional time required to comply with said law or ordinance.

B. Debris Removal

In the event of direct physical loss or physical damage to property, this policy insures reasonable expenses incurred to remove debris from an insurance location.

- 1) the cost of removal of debris of property covered hereunder;
- 2) the cost of removal of debris of property not covered hereunder from the premises of the Insured;

C. [LEED Properties](#)

With respects to a building or property contained within such building that has been certified as Leadership in Energy and Environmental Design (LEED) properties, coverage provided hereunder is extended to cover the reasonable and necessary costs of recycling such debris including separating materials and diverting such debris to recycling centers.

D. [Expediting Expense](#)

This policy covers the extra cost of temporary repair and/or replacement and of expediting the repair and/or replacement of damaged property insured hereunder, including, but not limited to, overtime and express freight or other rapid means of transportation.

E. [Loss Adjustment Expenses](#)

This policy **is** extended to include reasonable expenses incurred by the Insured, or by the Insured's representatives for preparing and certifying details of a claim resulting from a loss which would be payable under this policy. However, this Company shall not be liable under this clause for expenses incurred by the insured in utilizing the services of a public adjuster.

F. [Fire Brigade Charges and Extinguishing Expenses](#)

This policy covers the following expenses resulting from an insured loss:

- 1) fire brigade charges and any extinguishing expenses which the insured incurs;
- 2) loss and disposal of fire extinguishing materials expended.

G. [Defense Costs](#)

This policy, subject to all of its provisions, also insures the costs and fees to defend any claim or suit against the Insured and/or its directors, officers and/or employees alleging physical direct physical loss or physical damage as insured

against to property of others in the care, custody or control of the Insured to the extent of the Insured's liability therefore, even if such claim or suit is groundless, false or fraudulent; but the Company may without prejudice make such investigation, negotiation or settlement of any such claim or suit as it deems expedient.

H. Consequential Loss

- (1) In the event of direct physical loss or physical damage not otherwise excluded to property, and such damage, without the intervention of any other independent excluded cause, results in a sequence of events which causes physical damage to insured property, then there shall be liability under the policy for the resulting loss.
- (2) This policy also insures against consequential loss to the property insured caused by but not limited to change of temperature or humidity or by interruption of power, heat, air conditioning, or refrigeration resulting from direct physical loss or physical damage not otherwise excluded. It is agreed that exclusions C, D, and E contained in Section 10, "Perils Excluded" shall not apply to this extension when such direct physical loss or physical damage occurs at a location which is not owned or operated by the Insured.
- (3) This policy also insures the reduction in value to the remaining part or parts of any lot of merchandise usually sold by lots or sizes, color ranges, or other classifications due to damage to or destruction of a part of such lots or other classifications due to a cause of loss not otherwise excluded.

I. Control of Damaged Merchandise

The Insured, exercising a reasonable discretion, shall be the sole judge as to whether the goods involved in any loss under this policy are fit for normal intended use or consumption. No goods so deemed by the Insured to be unfit for consumption shall be sold or otherwise disposed of except by the Insured or with the Insured's consent, but the Insured shall allow this Company any salvage obtained by the Insured on any sale or other disposition of such goods. The Insured shall have full right to the possession of and retain control of all goods involved in any loss under this policy.

J. Brands or Trademarks

In case of damage insured against to property bearing a brand or trademark or which in any way carries or implies the guarantee or the responsibility of the

manufacturer or Insured, the salvage value of such damaged property shall be determined after removal at the Company's expense in the customary manner of all such brands or trademarks or other identifying characteristics.

9. PERILS INSURED AGAINST

This policy insures against:

- A. All risks of direct physical loss of or damage to property described herein occurring during the term of insurance including general average, salvage, and all other charges on shipments covered hereunder, except as hereinafter excluded.

Physical direct physical loss or physical damage shall include any damage to computer hardware by a covered peril.

10. PERILS EXCLUDED

This policy does not insure:

- A. against any fraudulent or dishonest act or acts committed by the Insured or any of the Insured's employees meaning only dishonest or fraudulent acts committed by the Insured or the Insured's employees with the manifest intent to:
 - (1) cause the Insured **to** sustain such loss, and
 - (2) obtain financial benefit for the Insured, Insured's employee, or for any other person or organization intended by the Insured or the employee to receive such benefit. This exclusion does not apply to acts of damage or destruction by employees, but theft by employees is not covered.
- B. against the cost of making good, defective design or specifications, faulty material, or faulty workmanship; however, this exclusion shall not apply to direct physical loss or physical damage resulting from such defective design or specifications, faulty material, or faulty workmanship;
- C. against electrical injury or disturbance to electrical appliances, devices, or wiring caused by electrical currents artificially generated unless loss or damage not otherwise excluded ensues and then this policy shall cover for such ensuing direct physical loss or physical damage;
- D. against mechanical breakdown unless direct physical loss or physical damage not otherwise excluded ensues and then this policy shall cover for such ensuing direct physical loss or physical damage;

- E. against explosion, rupture, or bursting of steam boilers, steam pipes, steam turbines, or steam engines owned or operated by the Insured unless direct physical loss or physical damage not otherwise excluded ensues and then this policy shall cover for such ensuing direct physical loss or physical damage; it is agreed that direct loss resulting from the explosion of accumulated gases or unconsumed fuel within the firebox (or combustion chamber) of any fired vessel or within the flues or passages which conduct the gases or combustion therefrom shall be covered hereunder;
- F. against errors in processing or manufacture of the Insured's product unless direct physical loss or physical damage not otherwise excluded ensues and then this policy shall cover for such ensuing direct physical loss or physical damage;
- G. against wear and tear, inherent vice, rust, corrosion, or gradual deterioration unless direct physical loss or physical damage not otherwise excluded ensues and then this policy shall cover for such ensuing physical loss or physical damage;
- H. against latent defect, normal settling or normal shrinkage of walls, floors, or ceilings unless direct physical loss or physical damage not otherwise excluded ensues and then this policy shall cover for such ensuing direct physical loss or physical damage;
- I. against nuclear reaction, or nuclear radiation, or radioactive contamination, all whether controlled or uncontrolled, and whether such loss be direct or indirect, proximate or remote; except:
 - (1) if fire ensues, liability is specifically assumed for direct loss by such ensuing fire but not including any loss due to nuclear reaction, nuclear radiation, or radioactive contamination;
- J. 1) against warlike action in time of peace or war, including action in hindering, combating, or defending against an actual, impending, or expected attack:
 - a) by any government or sovereign power (de jure or de facto) or by any authority maintaining or using military, naval, or air forces;
 - b) or by military, naval, or air forces;
 - c) or by an agent of any such government, power, authority, or forces;

- (2) against any weapon employing atomic fission or fusion;
- (3) against insurrection, rebellion, revolution, civil war, usurped power, or action taken by governmental authority in hindering, combating, or defending against such occurrence;
- (4) against seizure or destruction by order of public authority, except destruction by order of public authority to prevent the spread of, or to otherwise contain, control or minimize loss, damage or destruction not otherwise excluded under this policy;
- (5) against risks of contraband or illegal trade.

Notwithstanding the above provisions, J. (1), (3), (4), and (5), this insurance shall cover direct physical loss or physical damage directly caused by acts committed by an agent of any government, party, or faction engaged in war, hostilities, or warlike operations, provided such agent is acting secretly and not in connection with any operation of armed forces (whether military, naval, or air forces) in the country where the property is situated. Nothing in the foregoing shall be construed to include any loss, damage or expense caused by or resulting from any of the risks or perils excluded above, excepting only the acts of certain agents expressly covered herein, but in no event shall this insurance include any loss, damage, or expense caused by or resulting from any weapon of war employing atomic fission or fusion whether in time of peace or war;

- K. against mysterious disappearance or loss or shortage disclosed on taking inventory or any unexplained loss.
- L. against vermin and insects unless direct physical loss or damage not otherwise excluded ensues and then this policy shall cover for such ensuing physical loss or physical damage.

Exclusions B, C, D, E, F, and H do not apply to property in transit.

Exclusions C, D, E and F do not apply to alterations, additions, and property while in the course of construction, erection, installation, or assembly.

Exclusions C, D, and E do not apply to electronic data processing systems and valuable papers and records.

Exclusion E does not apply to locomotives, rolling stock or other conveyance insured herein.

11. PROPERTY EXCLUDED

This policy does not cover direct physical loss or physical damage to:

- A. Land; however, this exclusion shall not apply to the cost of reclaiming, restoring or repairing land improvements. Land improvements are defined as any alteration to the natural condition of the land by grading, landscaping, earthen dikes or dams, and additions to land such as pavements, roadways, or similar works;
- B. Water, except water which is normally contained within any type of tank, piping system or other process equipment;
- C. Growing crops, standing timber and animals except for research;
- D. Watercraft in excess of 26 feet and more than 50 horsepower, aircraft, motor vehicles licensed for highway use when not on the Insured's premises, but this exclusion shall not apply to contractor's equipment;
- E. Waterborne shipments via the Panama Canal, and to and from Puerto Rico, the Virgin Islands, Hawaii, and Alaska;
- F. Export shipments after loading on board an overseas vessel or watercraft or after ocean marine insurance attaches, whichever occurs first; and import shipments prior to discharge from the overseas vessel or watercraft or until the ocean marine insurance terminates, whichever occurs last.
- G. Satellite, spacecraft and launch vehicle
- H. Off premises transmission and distribution lines more than 1000ft from an insured premises
- I. Offshore drilling rigs and platforms, drilling barges and power barges and all other off shore risk.
- J. Property situated in the State of California for the peril of Earthquake.
- K. Accounts, bills, currency, money, notes securities, evidence of debt, jewelry, watches, furs, jewels, precious stones, bullion, gold, silver and other precious metals that are not the property of the Insured, except as insured as Fine Arts.
- L. Underground Mines

12. VALUATION

In case of loss, the basis of adjustment shall be as follows:

A. Stock

- (1) Raw Stock (materials and supplies in the state in which the Insured received them for conversion by the Insured into finished stock, including supplies consumed in such conversion or in the service rendered by the Insured) shall be valued at replacement cost at the time and place of loss.
- (2) Stock in process (raw stock which has undergone any aging, seasoning, or other processing by the Insured but which has not become finished stock) shall be valued at the Insured's selling price of finished stock at the time of loss, less any manufacturing expense not incurred by the Insured and less any discounts, rebates, and un-incurred expenses to which the sales price would have been subject.
- (3) Finished stock (stock which in the ordinary course of the Insured's business is ready for packing, shipment or sale) and merchandise shall be valued at the Insured's selling price at the time of loss, less all discounts, rebates, and un-incurred expenses to which such sales price would have been subject.

B. Real and Personal Property

- (1) Buildings, structures, furniture and fixtures, machinery, equipment, improvements and betterments, shall be valued at the replacement cost new on the same premises, as of the date of replacement.
- (2) Electronic Data Processing or control equipment and production machinery and equipment or any part thereof shall be valued at the cost to repair or replace new on the same premises as of the time of replacement except, that with respect to items for which replacement with identical property is impossible, the replacement cost shall be the cost of items similar to the destroyed property and intended to perform the same function but which may include technological advances.
- (3) Valuable papers and records shall be valued at the cost to reproduce the property as of the date of reproduction including the cost of gathering and/or assembling information;

"Valuable papers and records" are defined as written, printed, or otherwise inscribed documents and records, including but not limited to books,

maps, films, drawings, abstracts, deeds, mortgages, micro-inscribed documents, manuscripts, and media and the data recorded thereon, but not including money and/or securities.

"Media" is defined as materials upon which data is recorded including, but not limited to, paper tapes, cards, electronic memory circuits, and magnetic or optical storage devices. "Data" is defined as facts, concepts, or instructions in a form usable for communications, interpretation, or processing by automatic means. It includes computer programs.

The term "securities" shall mean all negotiable and non-negotiable instruments or contracts representing either money or other property, and includes revenue and other stamps in current use, tokens and tickets but does not include money.

- (4) Property of others which the Insured is required to insure to a stipulated value shall be valued at the replacement cost new as of the date of replacement, if replaced at the Insured's option; otherwise at the stipulated value.
- (5) Fine Arts shall be valued at the appraised value; or, if there is no appraisal, at the greater of the original acquisition cost or the market value at the time of the loss.
- (6) Other property not otherwise provided for, the amount you actually spend to repair or if replaced, at replacement cost new on the same premises as of the date of replacement of like kind and quality.
- (7) Permission is granted for the Insured to replace the damaged property with any property at the same site or at another site within the territorial limits of this policy, but recovery is limited to what it would cost to replace on the same site. If property damaged or destroyed is not repaired, rebuilt or replaced within a reasonable period after the direct physical loss or physical damage, this Company shall not be liable for more than the actual cash value at the time of loss (ascertained with proper deduction for depreciation) of the property damaged or destroyed. However, limitations imposed by federal, state, municipal or other governmental laws, ordinances, governmental directives or standards shall not result in actual cash valuation but in a replacement cost new valuation. Nevertheless, the Insured may elect initially to make a claim on an actual cash value basis subject to the terms and conditions of this policy, and subsequently submit a claim for the difference between the actual cash value settlement and replacement cost new as stipulated within this Valuation clause, provided the Company is notified of this intent within a reasonable period after the direct physical loss or physical damage and provided the property which is damaged or destroyed is repaired, rebuilt or replaced.

- (8) For property that qualifies as Historic Landmark status, the Insured shall have sole discretion as to the means by which said property shall be repaired, rebuilt, or replaced and shall include the cost to repair or replace with material of like kind and quality compatible to those originally used including the cost of skilled labor and/or authentic materials necessary to restore the property as nearly as possible to its original condition, but not to exceed the actual costs that would have been incurred in order to comply with Historical Landmark status requirements.
- (9) For buildings insured under this policy that have been certified as Leadership in Energy and Environmental Design (LEED) properties, this Company shall also be liable for:
 - a. the costs to recertify the building following an insured loss to the LEED certification level that existed prior to said loss; such costs shall include the cost to flush out the reconstructed space with 100% outside air and to add new filtration media to conform with the said existing LEED level.
 - b. the necessary and reasonable costs to hire LEED Accredited professional engineers to provide building commissioning or retro-commissioning services and to oversee post loss repair or reconstruction in order to verify and document that the repaired or replaced property, as well as other property including but not limited to life safety systems, health safety systems, HVAC, plumbing and electrical systems and their related controls whether damaged or not in the loss occurrence have been installed and calibrated properly and perform to documented design criteria and manufacturers' specifications;

13. EARTHQUAKE, FLOOD AND NAMED WINDSTORM

- A. Each loss by earthquake, flood or named windstorm shall constitute a single occurrence hereunder if:
 - (1) more than one earthquake shock occurs within any period of 168 hours during the term of this policy, the beginning of which 168 hour period may be determined by the Insured; or
 - (2) any flood occurs within a period of 168 hours of the continued rising or overflow of any river(s) or stream(s) and the subsidence of same within the banks of such river(s) or stream(s); or

- (3) any flood results from any tsunami, tidal wave, seismic sea wave, or series thereof caused by any one disturbance; or
- (4) any direct physical loss, damage or destruction is caused by or results from a Named Windstorm within a 72 hour period. Other ensuing physical loss, damage or destruction not contained in the Named Windstorm definition and not otherwise excluded herein shall not be considered Named Windstorm for the purposes of this description.

Earthquake is defined as a shaking or trembling of the earth that is tectonic in origin. Further, ensuing physical loss, damage or destruction arising from a peril not otherwise excluded herein caused by such earthquake shall not be considered earthquake within the terms and conditions of this policy.

Flood is defined as a rising and overflowing of a body of water onto normally dry land. Such definition does not include Storm Surge. Further, ensuing physical loss, damage or destruction arising from a peril not otherwise excluded herein caused by such flood shall not be considered flood within the terms and conditions of this policy.

Named Windstorm means a hurricane or typhoon which is named by Natural Oceanic and Atmospheric Administration's (NOAA) National Hurricane Center or similar meteorological authority. For purposes of this definition Named Windstorm shall include direct physical loss, damage or destruction caused by:

- (1) direct action of wind including ensuing Storm Surge;
- (2) any material, object or debris that is carried, propelled or in any manner moved by such windstorm;
- (3) any tornado(es) that is the result of actions or effects of such windstorm;
- (4) hail that is the result of actions or effects of such windstorm;
- (5) lightning that is the result of actions or effects of such windstorm;
- (6) rain or water (not constituting a Flood), whether the rain or water is driven by wind or not, that enters a building or structure insured under this policy through an opening(s) created by the direct action of such windstorm.

If the wind speed drops below the parameter for naming storms as described above then any direct physical loss, damage or destruction resulting from such reduced wind speed shall not be considered direct physical loss, damage or destruction from a Named Windstorm. However, any direct physical loss, damage or destruction resulting from wind speeds that do meet the criteria of a hurricane or typhoon shall be considered direct physical loss, damage or destruction from a Named Windstorm.

Storm Surge means water driven inland from coastal waters by high winds and low atmospheric pressure associated with a Named Windstorm. Such definition shall not be considered Flood.

- B. Should any time period referred to in Clause A. above commence prior to expiration or cancellation date of this policy, this Company shall pay all such earthquake, flood, or named windstorm losses occurring during such period if such period fell entirely within the term of this policy.
- C. This Company shall not be liable, however, for any loss caused by any earthquake, flood, or named windstorm commencing before the effective date and time or commencing after the expiration date and time of this policy.

14. CONTRIBUTING INSURANCE

Contributing insurance is insurance written upon the same plan, terms, conditions, and provisions as those contained in this policy. This insurance shall contribute in accordance with the conditions of this policy only with other contributing insurance as defined.

15. EXCESS INSURANCE / DROP DOWN / PRIORITY OF PAYMENTS

- A. Coverage hereunder shall not apply until the amount of loss, damage or expense arising out of any one occurrence exceeds

See Participation Page (Endorsement 6)

plus the applicable portion of the primary policy deductible and any waiting period attributable to the perils and/or property and/or coverages insured hereunder.

The amount of the applicable portion of the primary policy deductible referred to above shall be determined by the proportion that the amount of loss attributable to the perils and/or property and/or coverages insured against under this policy (without application of the excess provision) bears to the total amount of loss multiplied by the amount of the applicable primary deductibles.

In the event that the total amount of loss, damage, or expense attributable to the perils and/or property and/or coverage insured under the underlying insurance exceeds that amount at which this policy would normally attach, but due to the application of sublimits in the underlying policy(ies), the total loss, damage and expense payable by the underlying policy(ies) does not

fully exhaust the underlying policy(ies) limit, then this policy shall drop down and be liable for the loss as covered under this policy in excess of the amount paid by the underlying policy(ies).

As respects theft, the term Occurrence as referred to elsewhere within the policy means the sum total of all losses of covered property resulting from one or more concealed acts committed by one person or more than one person acting in unison to the extent such loss is not otherwise excluded under this policy.

In determining the amount of any loss, damage, or expense for which this policy is excess, the total loss for all coverages caused by any combination of perils, one or more of which is insured against under the primary policy, shall be used even though all such perils or coverages are not insured against under this excess policy.

- (1) Any recoveries made under the primary policy shall be considered as first applying to those perils and/or property and/or coverages not insured against by this policy. Upon exhaustion of the primary policy limits, this policy shall drop down and be liable for the loss in excess of the amount attributable to the primary policy as respects those perils and/or coverages and/or property insured hereunder subject to the limit of this policy.
- (2) If there is any other excess insurance covering the perils and/or property and/or coverages insured against in the primary policy, but not covered by this policy, this insurance shall then allocate any loss recoveries made under the primary policy in the same proportion as the amount of loss involving the property and/or coverages insured against by this policy bears to the combined total loss. Upon exhaustion of the primary policy limits, this policy shall drop down and be liable for the loss in excess of the amount attributed to the primary policy as respects those perils and/or property and/or coverages covered hereunder subject to the limit of this policy.
- (3) Paragraph two shall not apply, however, when the amount of loss attributed to the perils insured under the primary policy, but not covered under this policy, exceed the total amount of insurance provided by the primary and excess coverages with respect to said perils. In this situation any recoveries made under the primary policy shall first apply to those perils not insured against by this policy. Upon exhaustion of the primary policy limits, this policy shall drop down and be liable for the loss in excess of the amount attributed to the primary policy as respects those perils covered hereunder subject to the limit of this policy.

- (4) In the event the Insured is a contributing or self-insurer with respect to the perils and/or property and/or coverages otherwise insured in any underlying insurance and no policy is issued to define the extent of this contributing or self-insurance, for the purposes of this Excess Clause, the Insured's contributing or self-insurance shall be deemed to be the same as either: (a) all other contributing insurance participating in the Insured's layer(s); or (b) all other contributing insurance participating in the layer below the Insured's layer where the Insured is entirely self-insuring the layer. If the coverage provided by the policy(s) of the other contributing insurance company(s) is non-concurrent, then the contributing or self-insurance provided by the Insured within the layer in question shall be deemed to be the same as the coverage provided by that contributing insurance company whose policy provides the least indemnity for the loss.

- C. In the event the annual aggregate limits provided for flood and/or earthquake in any underlying insurance are diminished or exhausted in any one policy year, the coverage provided under this policy shall respond as excess of the remaining limits.

In such event, the applicable amount of the deductible provision of the primary policy shall apply to the combination of all policies.

Where applicable relative to contributing insurance policy(ies) described in either subparagraphs B(4)(a) or B(4)(b) above, in the event the Insured is providing contributing or self-insurance in any of the layer(s) of insurance, and such other contributing insurance policies contain aggregate program limits of liability, the Insured's contributing or self-insurance for those coverages shall be deemed to be aggregated also.

16. UNDERLYING INSURANCE

- A. Underlying insurance is insurance on all or any part of the deductible and against all or any of the causes of loss covered by this policy including declarations of value to the carrier for hire. The existence of such underlying insurance shall not prejudice or affect any recovery otherwise payable under this policy.

If the limits of such underlying insurance exceed the deductible amount which would apply in the event of loss under this policy, then that portion which exceeds such a deductible amount shall be considered other insurance, as defined in the Other Insurance clause.

17. OTHER INSURANCE

Except for insurance described by the contributing insurance clause, the excess insurance clause, or the underlying insurance clause, this policy shall not cover to the extent of any other collectible insurance, whether directly or indirectly covering the same property against the same causes of loss. This Company shall be liable for direct physical loss or physical damage only to the extent of that amount in excess of the amount recoverable from such other collectible insurance. As used herein, "other collectible insurance" does not include self-insurance, deductibles, self-insured retentions or fronting policies.

18. SUBROGATION

- A. Any release from liability entered into by the Insured prior to loss hereunder shall not affect this policy or the right of the Insured to recover hereunder. The right of subrogation against the Insured, affiliated, subsidiary, and associated companies or corporations, the Insured's officers, directors, and employees, or any other corporations or companies associated with the Insured through ownership or management, and at the option of the Insured against a tenant, vendor, supplier or customer of the Insured, is waived.
- B. In the event of any payment under this policy, this Company shall be subrogated to the extent of such payment to all the Insured's rights of recovery therefore. The Insured shall execute all papers required and shall do anything that may be reasonably necessary at the expense of the Company to secure such right. The Company will act in concert with all other interests concerned, i.e., the Insured and any other Company(ies) participating in the payment of any loss as primary or excess insurers, in the exercise of such rights of recovery.

If any amount is recovered as a result of such proceedings, the net amount recovered after deducting the cost of recovery shall be divided between the interests concerned in the proportion of their respective interests. If there should be no recovery, the expense of proceedings shall be borne by the insurers instituting the proceedings.

19. SALVAGE AND RECOVERIES

All salvages, recoveries and payments, excluding proceeds from subrogation and underlying insurance, recovered or received prior to a loss settlement under this policy, shall reduce the loss accordingly. If recovered or received subsequent to a loss settlement under this policy, such net amounts recovered shall be divided between the interests concerned, i.e. the Insured and any

other Company(ies) participating in the payment of any loss, in the proportion of their respective interests.

20. MACHINERY

In case of direct physical loss or physical damage insured against to any part of a machine or unit consisting of two or more parts when complete for use, the liability of the Company shall be limited to the value of the part or parts lost or damaged or, at the Insured's option, to the cost and expense of replacing or duplicating the lost or damaged part or parts or of repairing the machine or unit.

21. ERRORS OR OMISSIONS

Any unintentional error or omission made by the Insured shall not void or impair the insurance hereunder provided the Insured reports such error or omission as soon as reasonably possible after discovery by the Insured's home office insurance department.

22. NOTICE OF LOSS

As soon as practicable after any direct physical loss or physical damage occurring under this policy is known to the State of Mississippi, Department of Finance and Administration. The Insured shall report such direct physical loss or physical damage to Sedgwick attention Chris Mokry, with a copy to Debbie Crosby, claims advocate at Debbie_Crosby@ajg.com and Jeff Estes, Arthur J. Gallagher Risk Management Services 1076 Highland Colony Parkway Suite 300, Ridgeland, MS 39157, Jeff_Estes@ajg.com, for transmission to this Company.

Any delay by the Insured in providing notice shall not affect the Insured's right to coverage under this policy, except if and to the extent that the Company proves that it actually and substantially was prejudiced by any unreasonable delay in notice.

23. PROOF OF LOSS

The Insured, at the request of the Company, will render a signed and sworn proof of loss to the Company or its appointed representative stating: the place, time, cause of the loss, damage, or expense; the interest of the Insured and of all others; the value of the property involved in the loss; and the amount of loss, damage, or expense.

24. PARTIAL PAYMENT OF LOSS

In the event of a loss covered by this policy, it is understood and agreed that the Company will issue partial payment(s) of claim subject to the policy provisions. Such partial payment(s) shall not be less than the undisputed estimate of physical loss or physical damage between the Insured and the Company.

25. ASSIGNED ADJUSTER AND DISASTER MITIGATION

It is agreed that at the Insured's option, the Company will use:

Sedgwick

Attention: Chris Mokry

438 Katherine Drive, Suite A

Flowood, MS 39232

And, if a consulting engineer is needed:

Consulting Engineer:

Young & Associates

for the adjustment of all claims made against this policy. This assignment may be changed by mutual consent of the Insured and the Company.

26. APPRAISAL

If the Insured and this Company fail to agree on the amount of the loss, each, upon written demand of either the Insured or this Company made within 60 days after receipt of proof of loss by the Company, shall select a competent and disinterested appraiser. The appraisers shall then select a competent and disinterested umpire. If they should fail for 15 days to agree upon such umpire, then upon the request of the Insured or of this Company, such umpire shall be selected by a judge of a court of record in the county and state in which such appraisal is pending. Then, at a reasonable time and place, the appraisers shall appraise the loss, stating separately the value at the time of loss and the amount of loss. If the appraisers fail to agree, they shall submit their differences to the umpire. An award in writing by any two shall determine the amount of loss and shall be paid by the Company within 30 days thereafter. The Insured and this Company shall each pay his or its chosen appraiser and shall bear equally the other expenses of the appraisal and of the umpire. However, if the award is greater than the amount offered by the Company in payment of the loss at any time before the award is rendered, then the Company shall pay 100% of the fees and expenses for each appraiser and the umpire and for the appraisal.

27. PAIR AND SET

Except as provided under the Machinery clause and paragraph (3) of the Consequential Loss clause, in the event of direct physical loss or physical damage insured against to any article or articles which are a part of a pair or set, the measure of direct physical loss or physical damage to such article or articles shall be, at the Insured's option:

- A. the reasonable and fair proportion of the total value of the pair or set, giving consideration to the importance of said article or articles, but in no event shall such direct physical loss or physical damage be construed to mean total loss of the pair or set; or
- B. the full value of the pair or set provided that the Insured surrenders the remaining article or articles of the pair or set to the Company.

28. ASSISTANCE AND COOPERATION OF THE INSURED

The Insured shall reasonably cooperate with this Company, and, at this Company's reasonable request and expense, shall attend hearings and trials and shall assist in effecting settlements, in securing and giving evidence, in obtaining the attendance of witnesses and in conducting suits.

29. SUE AND LABOR

Subject to no overall increase in the limits of liability as set forth herein, in case of actual or imminent physical loss or physical damage, it shall, without prejudice to this insurance, be lawful and necessary for the Insured, their factors, servants, or assigns to sue, labor and travel for, in and about the defense, the safeguard, and the recovery of property or any part of the property insured hereunder; nor, in the event of physical loss or physical damage, shall the acts of the Insured in recovering, saving, and preserving the insured property be considered a waiver or an acceptance of abandonment. This Company shall pay the reasonable and necessary expenses so incurred subject to the applicable deductibles as outlined in Section 4 Deductibles.

30. PAYMENT OF LOSS

All adjusted claims shall be due and payable no later than 45 days after presentation and acceptance of proofs of loss by this Company or its appointed representative.

31. REINSTATEMENT

With the exception of loss caused by perils which are subject to annual aggregate limits as noted in Section 3, no loss hereunder shall reduce the amount of this policy.

32. SUIT AGAINST THE COMPANY

No suit or action on this policy for the recovery of any claim shall be sustainable in any court of law or equity unless the Insured shall have fully complied with all the requirements of this policy; however, if there is any dispute between the Insured and the Company as to whether the Insured has fully complied with all the requirements of this policy, such a dispute may be resolved in a suit or action on the policy for recovery of any claim. The Company agrees that any action or proceedings against it for recovery of any loss under this policy shall not be barred if commenced within two years and one day after the Insured provides notice to the Company in accordance with clause 24 above, which period shall be tolled from the date of notice until the date that the Insured receives the Company's final coverage decision (this two year and one day period is referred to as the "limitations period"). However, the limitations period shall not apply if by the laws of the State of the address of the Insured such a limitation is invalid or if the laws of the state in which any such action is brought permit a longer period of time within which to commence such a suit. Furthermore, any tolling of the limitations period shall not preclude the Insured from bringing a suit or any other proceeding regarding recovery for any loss or of any claim hereunder during the period of tolling or at any other time. Prosecution of a suit by the Insured shall not be barred due to the failure of the Company to timely advise and notify the Insured of the expiration of any applicable dates to file and commence said suit.

It is agreed that in the event of the failure of the Company to pay any amount claimed to be due hereunder or in the event of any other dispute relating to this policy, the Company, at the request of the Insured, will submit to the jurisdiction of any court of competent jurisdiction within the United States and will comply with all of the requirements necessary to give such court jurisdiction and all matters hereunder shall be determined in accordance with the law and practice of such court, not including the court's law regarding choice of law.

33. CERTIFICATES OF INSURANCE

Should there be any discrepancy between this policy and the Certificate then this policy shall prevail. Any certificate of insurance issued in connection with this policy shall be issued solely as a matter of convenience or information for the addressee(s) or holder(s) of said certificate of insurance, except where any Additional Insured(s) or Loss Payee(s) are named pursuant to the Special Provisions of said certificate of insurance. In the event any Additional Insured(s) or Loss

Payee(s) are so named, this policy shall be deemed to have been endorsed accordingly, subject to all other terms, conditions and exclusions stated herein.

The Company hereby authorizes Arthur J. Gallagher Risk Management Services, Inc. to issue certificates of insurance including any Mortgagee, Loss Payee and Additional Insured clauses.

34. MORTGAGE CLAUSE

Direct physical loss or physical damage, if any, under this policy, shall be payable to any mortgagee, (or trustee) as designated herein by endorsement or certificate of insurance, as interest may appear, under all present or future mortgages upon the property herein described in which the aforesaid may have an interest as mortgagee (or trustee), in order of precedence of said mortgages, and this insurance, as to the interest of the mortgagee (or trustee) only therein, shall not be invalidated by any act or neglect of the mortgagor or owner of the within described property, by any foreclosure or other proceedings or notice of sale relating to the property, nor by any change in the title of ownership of the property, nor by the occupation of the premises for purposes more hazardous than are permitted by this policy; provided, that in case the mortgagor or owner shall neglect to pay any premium due under this policy, the mortgagee (or trustee) shall, on demand, pay the same.

Provided, also, that the mortgagee (or trustee) shall notify this Company of any change of ownership or occupancy or increase of hazard which shall come to the knowledge of said mortgagee (or trustee) and, unless permitted by this policy, it shall be noted thereon and the mortgagee (or trustee) shall, on demand, pay the premium for such increased hazard for the term of the use thereof; otherwise this policy shall be null and void.

This Company reserves the right to cancel this policy at any time as provided by its terms, but in such case this policy shall continue in force for the benefit only of the mortgagee (or trustee) for 10 days after notice to the mortgagee (or trustee) of such cancellation and shall then cease, and this Company shall have the right, on like notice, to cancel this agreement.

Whenever this Company shall pay the mortgagee (or trustee) any sum for direct physical loss or physical damage under this policy and shall claim that, as to the mortgagor or owner, no liability therefore existed, this Company shall, to the extent of such payment, be thereupon legally subrogated to all the rights of the party to whom such payment shall be made, under all securities held as collateral to the mortgage debt, or may, at its option, pay to the mortgagee (or trustee) the whole principal due or to grow due on the mortgage, with interest accrued thereon to the date of such payments, and shall receive a full assignment and transfer of the mortgage and of all such other securities; but not subrogation shall impair the right of the mortgagee (or trustee) to recover the full amount of said mortgagee's (or trustee's) claim.

35. CANCELLATION

- A. This policy may be canceled at any time at the request of the Insured or it may be canceled by the Company by mailing via registered or certified mail to the Insured at:

Department of Finance and Administration
C/o George Roberson
Office of State Property Insurance
PO Box 267
Jackson, MS, 39205-0267

and to the additional named insureds / loss payees/ mortgagees indicated on the certificates of insurance issued during the term of this policy, written notice stating when, not less than 90 days thereafter, such cancellation shall be effective. The earned premium shall be computed on a pro-rata basis.

- B. This policy may be non-renewed by the Company for any reason permitted by law to cancel it by mailing to the Insured at the Mailing Address shown in the policy and to the additional insureds / loss payees / mortgagees indicated on certificates of insurance or endorsements hereunder issued during the term of this policy, written notice of non-renewal provided at least 90 days but not more than 120 days before the expiration date of this policy.

The mailing of notice as aforesaid shall be sufficient proof of notice and the effective date and hour of cancellation stated in the notice shall become the end of the policy period. Delivery of such written notice either by the Insured or by the Company shall be equivalent to mailing.

- D. Cancellation shall not affect coverage on any shipment in transit on the date of cancellation. Coverage will continue in full force until such property is safely delivered and accepted at place of final destination.
- E. In the event of non-payment of premium this policy may be canceled by the Company by mailing to the Insured at the address shown in A. above stating when, not less than 15 days thereafter, such cancellation shall be effective. Reinstatement of coverage shall be effective immediately upon receipt of premium by the Company.

36. VACANCY

The Insured has permission to cease operations or remain vacant or unoccupied without consent of the Company(ies) and will not limit and/or hinder any coverage and/or loss indemnification as provided within.

37. JOINT LOSS AGREEMENT (AS APPLICABLE) With respect to insurance provided by this policy, it is agreed that:

- A. If at the time of loss, there is in existence a policy(ies) issued by a boiler and machinery insurance Company(ies) and/or excess Difference in Conditions (DIC) insurance Company(ies) which may cover the same property or cover the location at which the property subject to loss is situated; and
- B. if there is a disagreement between the companies under this policy and such other contract either as to:
 - (1) whether such damage or destruction is insured against by this policy or by an accident insured against by such boiler and machinery insurance policy and/or excess Difference In Condition (DIC) insurance Company(ies); or
 - (2) the extent of participation of this policy and of such boiler and machinery insurance policy and/or excess DIC insurance Company(ies) in a loss which is insured against, partially or wholly, by any one or all of said policies;

the Company(ies) shall, upon written request of the Insured, pay to the Insured one-half of the amount of the loss which is in disagreement, but in no event more than the Company(ies) would have paid if there had been no boiler and machinery insurance policy and/or excess DIC insurance policy in effect, subject to the following conditions:

- (1) the amount of the loss which is in disagreement, after making provisions for any undisputed claims payable under the said policies and after the amount of the loss is agreed upon by the Insured and the companies is limited to the minimum amount remaining payable under either the boiler and machinery and/or excess DIC or this policy(ies);
- (2) the boiler and machinery insurance Company(ies) and/or excess DIC insurance Company(ies) shall simultaneously pay to the Insured at least one half of said amount which is in disagreement;
- (3) the payments by the companies hereunder and acceptance of the same by the Insured signify the agreement of the companies to submit to and proceed with arbitration within ninety days of such payments;

The arbitrators shall be three in number, one of whom shall be appointed by the boiler and machinery insurance Company(ies) and/or excess DIC insurance Company(ies), one of whom shall be appointed by the Company(ies), and the third of whom shall be appointed by consent of the other two; the decision by the arbitrators shall be binding on the companies and that judgment upon such award may be entered in any court of competent jurisdiction;

- (4) the Insured agrees to cooperate in connection with such arbitration but not to intervene therein;
- (5) the provisions shall not apply unless such other policy issued by the boiler and machinery insurance Company(ies) and/or excess DIC insurance Company(ies) is similarly endorsed;
- 6) acceptance by the Insured of sums paid pursuant to the provisions, including an arbitration award, shall not operate to alter, waive, surrender or in any way affect the rights of the Insured against any of the companies.

37. VALUES

The values and schedule of property declared to the Company at the inception of the policy are for premium purposes only and shall not limit the coverages provided by this policy.

38. TITLES OF PARAGRAPHS

The titles of paragraphs of this form and of endorsements and supplemental contracts, if any, now or hereafter attached hereto are inserted solely for convenience of reference and shall not be deemed in any way to limit or affect the provisions to which they relate.

39. CONFORMANCE

The terms of this policy which are in conflict with the applicable statutes of the state wherein this policy is issued are hereby amended to conform to such statutes, unless the statutes narrow or limit the coverage afforded by this policy and do not bar a policy from providing broader coverage.

40. NEWLY ACQUIRED LOCATIONS

This policy insures direct physical loss or physical damage to property of the type insured when such property is purchased, leased, acquired or comes under the control of the Insured after the inception date of this policy. This coverage for Newly Acquired Locations applies from the date the Insured first acquires an insurable interest in such property and continues until the property is reported to the Company and the Company has agreed to insure the location, or

the time limit shown in the Limits of Liability clause, whichever is earlier. The time limit begins on the date of purchase, lease or other acquisition. If the property is not reported to the Company with the designated timeframe coverage for this location shall fall under the Miscellaneous Unnamed Locations coverage.

41. MISCELLANEOUS UNNAMED LOCATIONS

Miscellaneous Unnamed Locations means any unreported property of the type insured situated within the policy Territory which does not fit the definition of a Newly Acquired Location under the terms of this policy. This definition does not include property in transit.

ENDORSEMENTS #1 - #6



ENDORSEMENTS 1 – 6:

- 1) SEEPAGE AND/OR POLLUTION AND/OR CONTAMINATION EXCLUSION
- 2) OCCURRENCE PROGRAM LIMIT OF LIABILITY ENDORSEMENT
- 3) CONTINGENT COVERAGE FOR SCHEDULED REAL PROPERTY
- 4) EXCESS COVERAGE FOR CAPITOL COMPLEX ENDORSEMENT
- 5) MOLD ENDORSEMENT
- 6) AMENDATORY ENDORSEMENT FOR MID TERM CHANGES

ENDORSEMENT NO. 1

The following provisions are hereby attached to and made part of this Policy:

(1) SEEPAGE AND/OR POLLUTION AND/OR CONTAMINATION EXCLUSION

Notwithstanding any provisions in the policy to which this Endorsement is attached, this policy does not insure against loss, damage, costs or expenses in connection with any kind or description of seepage and/or pollution and/or contamination, direct or indirect, arising from any cause whatsoever. Nevertheless if a peril not excluded from this policy arises directly or indirectly from seepage and/or pollution and/or contamination any physical loss or physical damage insured under this policy arising directly from that peril shall (subject to the terms, conditions and limitations of the policy) be covered.

However if the insured property is the subject of direct physical loss or physical damage for which this Company has paid or agreed to pay then this policy (subject to its terms and conditions and limits) insures against direct physical loss or physical damage to the property insured hereunder caused by resulting seepage and/or pollution and/or contamination.

The Insured shall give notice to the Company of intent to claim no later than 18 months after the date of original physical physical loss or physical damage.

(2) DEBRIS REMOVAL AND COST OF CLEAN UP EXTENSION

(a) Notwithstanding the provision of the preceding exclusion in this Endorsement or any provision respecting seepage and/or pollution and/or contamination, and/or debris removal and/or cost of cleanup in the policy to which this Endorsement is attached, in the event of direct physical loss or physical damage to the property insured hereunder, this policy (subject otherwise to its terms, conditions and limitations, including but not limited to any applicable deductible) also insures, within the limit of liability stated in Section 3:

- (i) expenses reasonably incurred in removal of debris of the property insured hereunder destroyed or damaged from the location of the loss, and/or
- (ii) cost of clean-up, at the location of the loss, made necessary as a result of such direct physical direct physical loss or physical damage;

Provided that this policy does not insure against the costs of decontamination or removal of water, soil or any other substance not covered by this policy on or under such premises.

- (b) It is a condition precedent to recovery under this extension that the Company shall have paid or agreed to pay for direct physical direct

physical loss or physical damage to the property insured hereunder unless such payment is precluded solely by the operation of any deductible and that the Insured shall give notice to the Company of intent to claim for cost of removal of debris or cost of clean-up no later than 12 months after the date of the original physical direct physical loss or physical damage

(3) AUTHORITIES EXCLUSION

Notwithstanding any of the preceding provisions of this Endorsement, except in respect of certain specific coverage(s) provided elsewhere in the policy to which this Endorsement is attached, this policy does not insure against fines, penalties and expenses directly attributable to such fines and penalties incurred or sustained by or imposed on the Insured at the order of any government agency, court or other authority arising from any cause whatsoever.

(4) Nothing in this Endorsement shall override any radioactive contamination exclusion clause in the policy to which this Endorsement is attached.

ALL OTHER TERMS AND CONDITION REMAIN UNCHANGED.

ENDORSEMENT NO. 2

The following provisions are hereby attached to and made part of this Policy:

Occurrence Program limit of liability Endorsement

It is understood and agreed that the following special terms and conditions apply to this policy:

1. The program limit of liability or Amount of Insurance shown on the face of this policy, or endorsed onto this policy, is the total limit of the Company's liability applicable to each occurrence, as hereafter defined. Notwithstanding any other terms and conditions of this policy to the contrary, in no event shall the liability of the Company exceed this limit or amount irrespective of the number of locations involved. The term "occurrence" shall mean any one loss, disaster, casualty or series of losses, disasters, or casualties, arising out of one event.

When the term applies to loss or losses from the perils of tornado, cyclone, hurricane, windstorm, Named storm, hail, ice storm, snow storm, volcanic eruption, riot, riot attending a strike, civil commotion, and vandalism and malicious mischief one event shall be construed to be all losses arising during a continuous period of 72 hours. When filing proof of loss, the Insured may elect the moment at which the 72 hour period shall be deemed to have commenced, which shall not be earlier than the first loss to the covered property occurs.

2. The premium for this policy is based upon the Statement of Values on file with the Company, or attached to this policy. In the event of loss hereunder, liability of the Company, subject to the terms of paragraph 1. above, shall be limited to the actual adjusted amount of loss, less applicable deductible(s).

ENDORSEMENT NO. 3

The following provisions are hereby attached to and made part of this Policy:

Contingent Coverage for Scheduled Real Property

1. Coverage for real property at scheduled locations on file with the company (2023 State of MS SOV: Contingent — State Military) is provided where;
 - a) Physical direct physical loss or physical damage by a peril insured under the policy to which this endorsement attaches occurs; and,
 - b) The State of Mississippi is required by the Army to provide for recovery up to 25% of the physical direct physical loss or physical damage sustained.
2. The recovery under this extension of coverage shall be the lesser of.
 - a) 25% of the full replacement cost of the damaged real property
 - b) 25% of the individual location program limit of liability shown on the schedule on file with the company
 - c) The actual cost to repair or replace the damaged real property

No coverage is provided for damaged property that is repurposed for another use that is substantially different from that use existing at the time of loss.

ENDORSEMENT NO. 4

The following provisions are hereby attached to and made part of this Policy:

It is understood and agreed that this policy provides coverage excess of the underlying policy for the State owned facilities known as the Capitol Complex as detailed below:

Company: AFM - Effective: 4/29/2023-2024-Policy #1114769

ENDORSEMENT NO. 5

The following provisions are hereby attached to and made part of this Policy:

Mold Endorsement

The Company shall not be liable for any direct physical loss or physical damage in the form of, caused by, arising out of, contributed to, or resulting from fungus, mold(s), mildew or yeast; or any spores or toxins created or produced by or emanating from such fungus, mold(s), mildew or yeast;

- A. fungus includes, but is not limited to, any of the plants or organisms belonging to the major group fungi, lacking chlorophyll, and including mold(s), rusts, mildews, smuts and mushrooms;
- B. mold(s) includes, but is not limited to, any superficial growth produced on damp or decaying organic matter or on living organisms, and fungus that produce mold(s);
- C. spores means any dormant or reproductive body produced by or arising or emanating out of any fungus, mold(s), mildew, plants, organisms or microorganisms,

regardless of any other cause or event that contributes concurrently or in any sequence to such loss.

This exclusion shall not apply to any direct physical loss or physical damage in the form of, caused by, contributed to or resulting from fungus, mold(s), mildew or yeast, or any spores or toxins created or produced by or emanating from such fungus, mold(s), mildew or yeast which is directly caused by a covered peril, provided that such fungus, mold(s), mildew or yeast direct physical loss or physical damage is reported to the Company within twelve months from the date of the loss.

A \$10,000,000 per occurrence program limit of liability applies to coverage provided by this endorsement. All other terms and conditions remain unchanged.

ENDORSEMENT #6

This endorsement, effective 12:01 AM, 04/29/2023

Forms a part of Policy No.:

Issued to: State of Mississippi

BY: Manuscript form

AMENDATORY ENDORSEMENT

This endorsement modifies insurance provided by the Policy.

Total Insured Values change throughout the policy term. It is the intent of this policy that any additions exceeding \$25,000,000 value per building will be formally added to the Statement of Values at the time of acquisition. All other changes will be considered in effect at the time of change, but will be reported to the markets no later than November 15 of each year. Changes in the last six months of the policy period will be managed at renewal.

In consideration of a premium change of _____, it is agreed that the Property Values as of the first six months of the policy term is attached and on file with the company.

Total Insured Values	Value Change
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_____	_____
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All other terms and conditions of the Policy remain the same.

Date of change: _____

Insured: State of Mississippi

Policy Period: April 29, 2023 to April 29, 2024

1. ATTACHMENT CLAUSE

This policy is made and accepted subject to the foregoing provisions and stipulations which are hereby made a part of this policy, together with such other provisions, stipulations and agreements as are enclosed hereon or added hereto, as provided in this policy.

The insurance company(ies) signatory hereto (hereinbefore called the Company) each for itself severally but not jointly do(es) insure for the amount underwritten for each and every loss covered hereunder as set forth under their respective names. The collective liability of each Company shall not exceed the Program limit of liability or any appropriate Subprogram limit of liability or any Annual Aggregate limit.

The program limit of liability or amount of insurance shown on the face of this policy, or endorsed on this policy, is the total limit of the Company's liability applicable to each occurrence, as defined in this policy. Notwithstanding any other terms and conditions of this policy to the contrary, in no event shall the liability of the Company exceed this limit or amount irrespective of the number of locations involved.

In witness whereof, the following Company(ies) execute and attest these presents, and subscribe for the amount of participation of the insurance provided hereunder as shown:

COMPANY	POLICY NO.	PARTICIPATION	LAYER	AUTHORIZED
RSUI Group - Landmark American Insurance Company Primary 100	LHD932582	\$5,000,000 part of the Primary \$100,000,000	5%	
Starr Specialty Lines Insurance Agency Inc. (Starr Specialty Lines Insurance Agency Inc.) Primary 100	SLSTPTY11791423	\$12,500,000 part of the Primary \$100,000,000	12.50%	
Ironshore Insurance Ltd (Fosun International Holdings Ltd) Primary 100	1000391897-04	\$2,500,000 part of the Primary \$100,000,000	2.50%	

Beazley Insurance Company, Inc. (Beazley Insurance Company, Inc.) Primary 100	W1E873230701	\$5,000,000 part of the Primary \$100,000,000	5%	
Westchester Fire Insurance Company (Chubb Group of Insurance Companies) Primary 100	D37354107016	\$2,500,000 part of the Primary \$100,000,000	2.50%	
Allie World Assurance Co. (AWAC) Primary 100	031231991A	\$5,000,000 part of the Primary \$100,000,000	5%	
Lexington Insurance Company Primary 100	011144797	\$10,000,000 part of the Primary \$100,000,000	10%	
Underwriters at Lloyd's London Primary 100 HCC	PW0523623	\$4,000,000 part of the Primary \$100,000,000	4%	
Underwriters at Lloyd's London Primary 100 ARK	PW0523723	\$2,000,000 part of the Primary \$100,000,000	2%	
Underwriters at Lloyd's London Primary 100 Hiscox	PW0223023	\$3,000,000 part of the Primary \$100,000,000	3%	

Underwriters at Lloyd's London Primary 100 Alchemy	PW0523823	\$2,000,000 part of the Primary \$100,000,000	2%	
Underwriters at Lloyd's London Primary 100 QBE	PW0523523	\$2,000,000 part of the Primary \$100,000,000	2%	
Underwriters at Lloyd's London Primary 50 Kiln	PW0525623	\$3,250,000 part of Primary \$50,000,000	6.50%	
Underwriters at Lloyd's London Primary 50 Blenheim	PW0523923	\$1,000,000 part of Primary \$50,000,000	2%	
Underwriters at Lloyd's London Primary 50 Apollo	PW0523423	\$1,500,000 part of Primary \$50,000,000	3%	
Underwriters at Lloyd's London Primary 50 Brit	PW0210123	\$9,000,000 part of Primary \$50,000,000	18%	
Underwriters at Lloyd's London Primary 25 Kiln	PW053023	\$1,625,000 part of Primary \$25,000,000	6.50%	

Underwriters at Lloyd's London Primary 25- CIN	PW0223123	\$1,375,000 part of Primary \$25,000,000	5.50%	
Underwriters at Lloyd's London Primary 25- Lincs	PW0527423	\$750,000 part of Primary \$25,000,000	3%	
Underwriters at Lloyd's London - SCOR 25x25	PW0230523	\$1,250,000 part of the \$25,000,000 excess of \$25,000,000	5%	
Westfield 25x25	XAR-321410G-00	\$2,500,000 part of the \$25,000,000 excess of \$25,000,000	10%	
London- Munich Re 50x50	PW0528623	\$3,625,000 part of the \$50,000,000 excess of \$50,000,000	7.25%	
London- Parner RE 50x50	PW0524023	\$2,500,000 part of the \$50,000,000 excess of \$50,000,000	5%	
London-Convex 50x50	PW0528523	\$2,500,000 part of the \$50,000,000 excess of \$50,000,000	5%	

London-AXA 50x50	PW0524123	\$1,250,000 part of the \$50,000,000 excess of \$50,000,000	2.50%	
London-Alchemy 50x50	PW0524223	\$2,000,000 part of the \$50,000,000 excess of \$50,000,000	4%	
London- Fidelis 50x50	PW0448323	\$3,750,000 part of the \$50,000,000 excess of \$50,000,000	7.50%	
London- ARK 50x50	PW0222823	\$2,000,000 part of the \$50,000,000 excess of \$50,000,000	4%	
London-Atrium 50x50	PW0222823	\$875,000 part of the \$50,000,000 excess of \$50,000,000	1.75%	
London- RSA 50x50	PW0527923	\$1,250,000 part of the \$50,000,000 excess of \$50,000,000	2.50%	
Endurance American Specialty Insurance Company (somp) 50x50	ESP30036810900	\$2,500,000 part of the \$50,000,000 excess of \$50,000,000	5%	

Starstone Specialty Insurance Company (Core Specialty) 50x100	L83906231CSP	\$7,500,000 part of the \$50,000,000 excess of \$100,000,000	15%	
Canopus 50x100	CUS30000075	\$5,000,000 part of the \$50,000,000 excess of \$100,000,000	10%	
Westfield 50x100	XAR-00009JC-01	\$1,750,000 part of the \$50,000,000 excess of \$100,000,000	3.50%	
AmWINS RE (Starr) 50x100	23SLCFM11637001	\$3,500,000 part of the \$50,000,000 excess of \$100,000,000	7%	
London NOA 50x100	PW0382123	\$3,750,000 part of the \$50,000,000 excess of \$100,000,000	7.50%	
Kinsale 50x100	0100237440-0	\$3,500,000 part of the \$50,000,000 excess of \$100,000,000	7%	
Arch Specialty Insurance Co. 50x100	ESP1002597-03	\$2,500,000 part of the \$150,000,000 excess of \$150,000,000	5%	

Evanston Ins. Co. (Markel Corporation Group) 150x150	MKLV2XPR001568	\$5,000,000 part of the \$150,000,000 excess of \$150,000,000	3.33%	
RSUI Group - Landmark American Insurance Company 150x150	LHD932583	\$10,750,000 part of the \$150,000,000 excess of \$150,000,000	7.17%	
Lexington Insurance Company 150x150	061384254	\$7,500,000 part of the \$150,000,000 excess of \$150,000,000	5%	
Axis Surplus Insurance Company 150x150	EAF666715-23	\$5,000,000 part of the \$150,000,000 excess of \$150,000,000	3.33%	
Western World Insurance Compnay (SRU) 150x150	SSC0001347	\$2,500,000 part of the \$150,000,000 excess of \$150,000,000	1.67%	
AxaXL 150x150	US00117612PR23A	\$3,000,000 part of the \$150,000,000 excess of \$150,000,000	2%	
London Fidelis 150x150	PW0530423	\$18,750,000 part of the \$150,000,000 excess of \$150,000,000	12.50%	

Fireman's Fund Indemnity Corporation (Allianz) 150x150	USP00155623	\$30,000,000 part of the \$150,000,000 excess of \$150,000,000	20%	
London Fidelis 200 x 100	PW0373623	\$20,000,000 part of the \$200,000,000 excess of \$100,000,000	10.00%	
Swiss Re Corporate Solutions Elite 200x100	NAP 2001671 06	\$70,000,000 part of the \$200,000,000 excess of \$100,000,000	35%	
Chubb Bermuda Insurance Ltd (ACE Group) 200x300	PW0222923	\$200,000,000 part of the \$200,000,000 excess of \$300,000,000	100%	

Appendix D:

(Oklahoma Assets Report)

REAL PROPERTY

ASSET REPORT

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2
3



OKLAHOMA
Office of Management
& Enterprise Services

STATE OF OKLAHOMA

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INTRODUCTION



The Guardian overlooking the Oklahoma State Flag

Since the enactment of the Oklahoma State Government Asset Reduction and Cost Savings Program in 2011, the Office of Management and Enterprise Services has published an annual report of all property owned or leased by the State of Oklahoma. The 2023 Oklahoma Real Property Asset Report is the twelfth publication of this statutorily required report. All agencies, boards, commissions, and public trusts with the state as a beneficiary (ABCs) are surveyed annually to capture changes, corrections and additional data on all property owned or leased by the State of Oklahoma. The data in the surveys is compiled and published online in an interactive format. Links to the data are found in this report. Additionally, OMES analyzes the data to provide an informative, at-a-glance summary of the data submitted by the agencies. Real property is divided into the categories of owned and leased and then further subdivided by agency and location to calculate the sum of the square footages and acreages of the properties. Properties are also divided by predominant use to present a clearer view of the function of the properties owned and leased by the State of Oklahoma.

OMES analyzed the submitted data on property utilization and value to identify the 5% most underutilized and included that information in this report. As required by the Oklahoma State Government Asset Reduction and Cost Savings Program, the Report of the 5% Most Underutilized Properties also contains information on the value of the property and the potential ad valorem tax revenue that might be generated by private ownership of the property.

Many agencies continue to refine and correct the data submitted, resulting in changes in the data and more complete information. These revisions and corrections may result in changes in square footage for the agency that are not the result of changes in the actual footprint. OMES requests utility information as part of the survey, and some ABCs include the utility information in their survey responses. OMES would like to thank the ABCs for the time and diligence they have expended to update and improve the information reported.



METHOD OF COLLECTING AND COMPILING DATA

To capture the data for the 2023 report, OMES surveyed all state agencies, boards, commissions and public trusts having the State of Oklahoma as a beneficiary. This report captures the information provided, including all noted changes in the property owned or leased by the State of Oklahoma, all recorded changes in the number of full-time employees at a location and the level of utilization of a property. Due to the deadlines required for compiling data, analyzing information and publishing the report, some recent ABC space changes will not be reflected on this year's report.



State Capitol Building

All data contained in this report was self-reported by each state agency, board or commission. The accuracy, authenticity and integrity of the data reported to OMES are the responsibility of the reporting ABC. OMES' objective is limited to compiling the data into a comprehensive listing, providing public access to the reported data and updating the comprehensive listing in a timely manner when changes are received from state agencies. Except for minor corrections by OMES with information available and supplemental information provided by ABCs during follow-up by OMES, the information provided by the ABCs is listed as reported. All properties have not been verified by OMES.

This report contains information on owned and leased properties. When a state agency owns a property and the property is leased to another state agency, the property will appear twice in the report. When an agency reported no property, either owned or leased, a blank will appear in the report. Properties with title held by the Oklahoma Capitol Improvement Authority pursuant to bond resolution will not appear in the Oklahoma Capitol Improvement Authority listing but will be shown in the Real Property Inventory List for the agency with an asterisk before the physical address. OMES implemented a new real property management database that has enabled OMES to better identify

leases in state-owned space and subleases from other state agencies, and this has resulted in a substantial shift in the totals on data on the square footage leased from the private sector square footage leased in state-owned space. Square footages and building or structure types are listed as reported. ABCs methods for classifying structures and calculating square footage vary. Discrepancies in the totals on the agency profiles and county profiles were created due to the empty fields in the raw data submitted by the ABCs. For example, if an agency listed a property without including the full location information, the property will appear in the agency profile but may not appear in the county profile.

The electronic version of the Real Property Inventory List can be found at:

<https://oklahoma.gov/omes/divisions/capital-assets-management/real-estate-leasing-services/resources/reports.html>



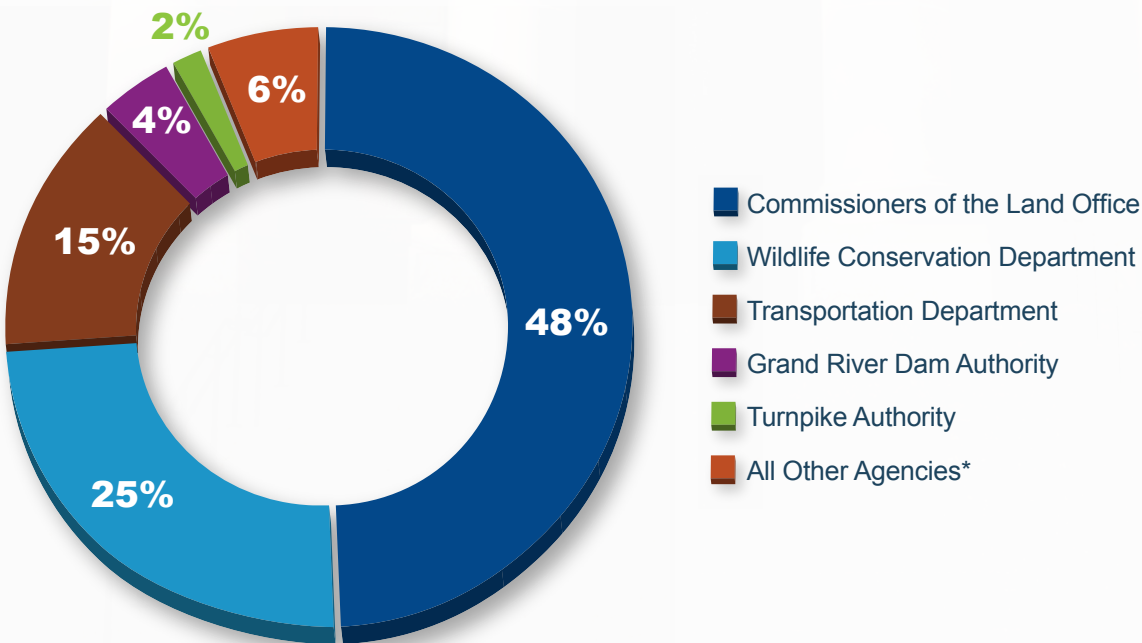
NUMBERS AT-A-GLANCE

OWNED AND LEASED SPACE IN BUILDINGS AND STRUCTURES

Property Classification	Square Feet
State-owned space	87,988,626
Leased space from private sector	4,630,372*
Leased space in state-owned buildings	4,083,019*

*When reported as subleased by the agency, space subleased by ABCs from other ABCs has been removed from this data to avoid duplication. Increases in owned square footage from previous reports may be the result of property acquisition, construction or correction in data reported. Leases from the federal government, counties, cities and other political subdivisions are included with *Leased space from private sector*.

OWNED LAND (Acres)

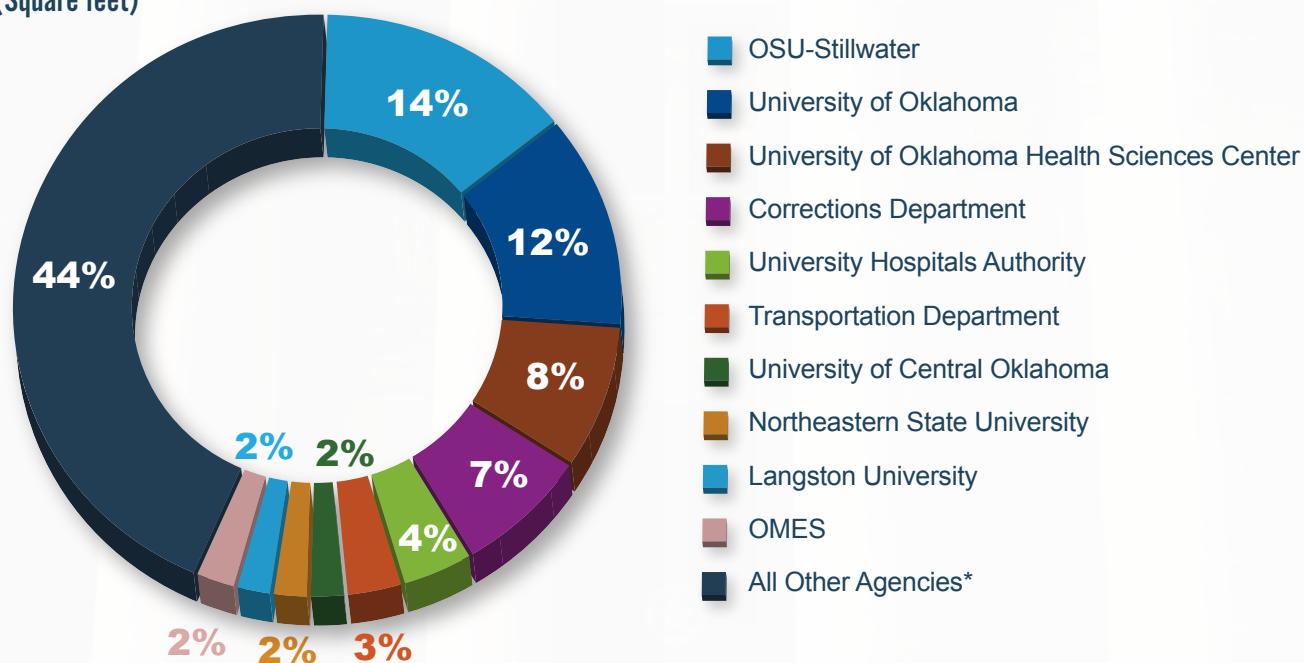


*All Other Agency landowners are listed in the Inventory List section contained within this report.

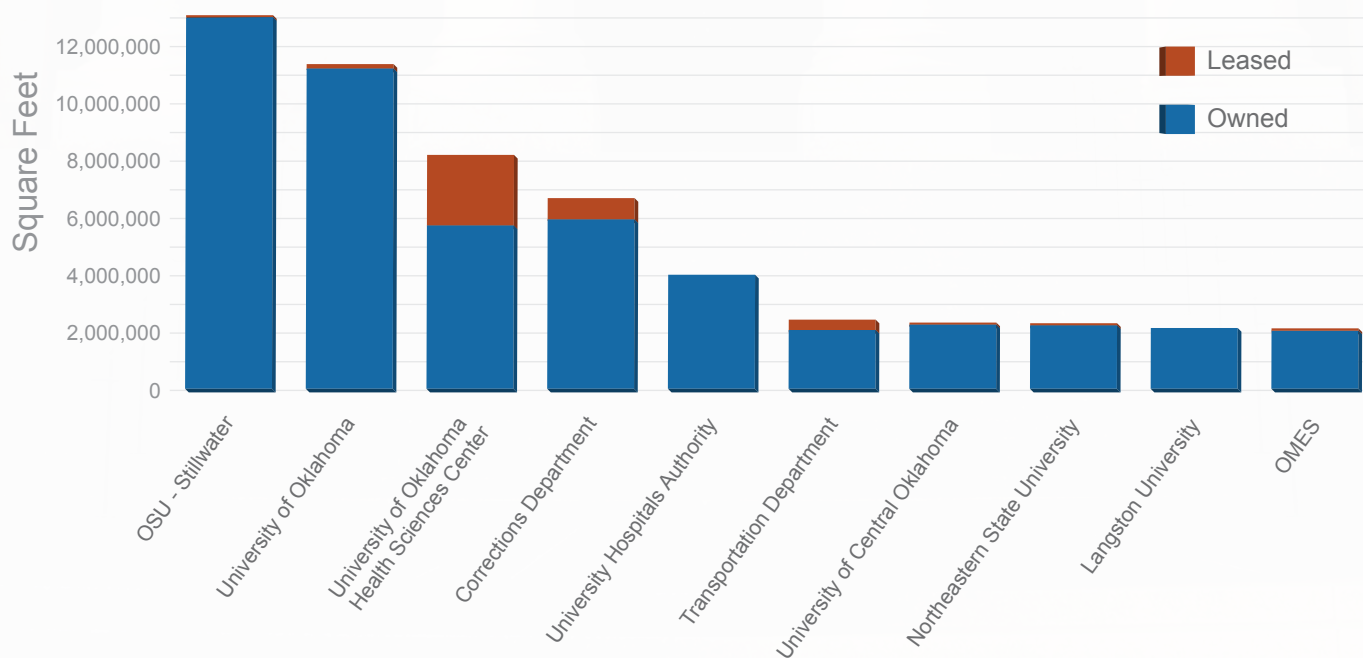


TOP 10 AGENCIES WITH THE MOST OWNED AND LEASED PROPERTIES IN BUILDINGS AND STRUCTURES

(Square feet)

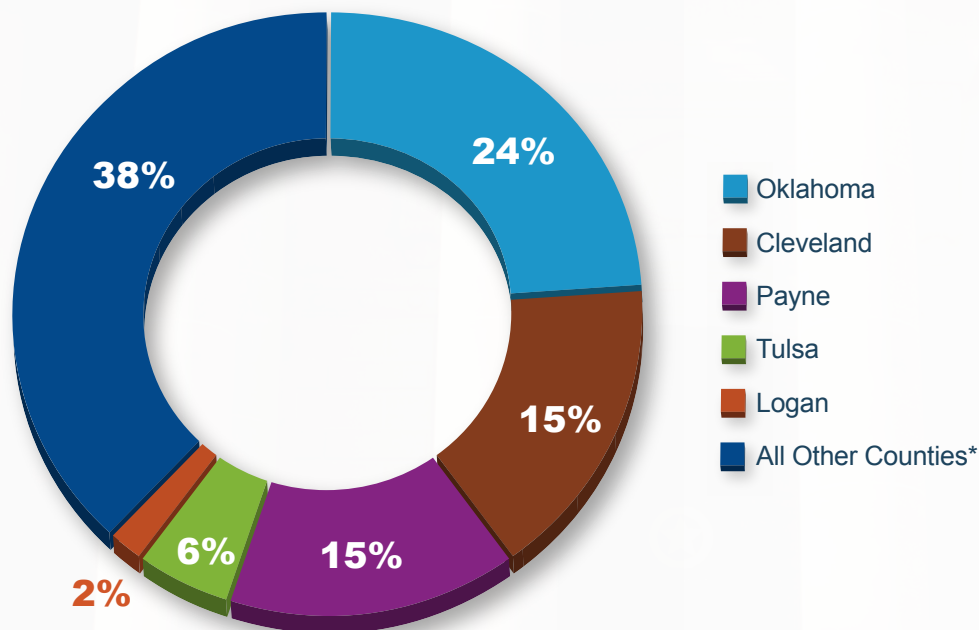


*All Other Agencies are listed in the Inventory List section contained within this report.



TOP FIVE COUNTIES WITH THE MOST OWNED PROPERTIES IN BUILDINGS AND STRUCTURES

(Square feet)



*All Other Counties are listed in the County Profile section contained within this report.

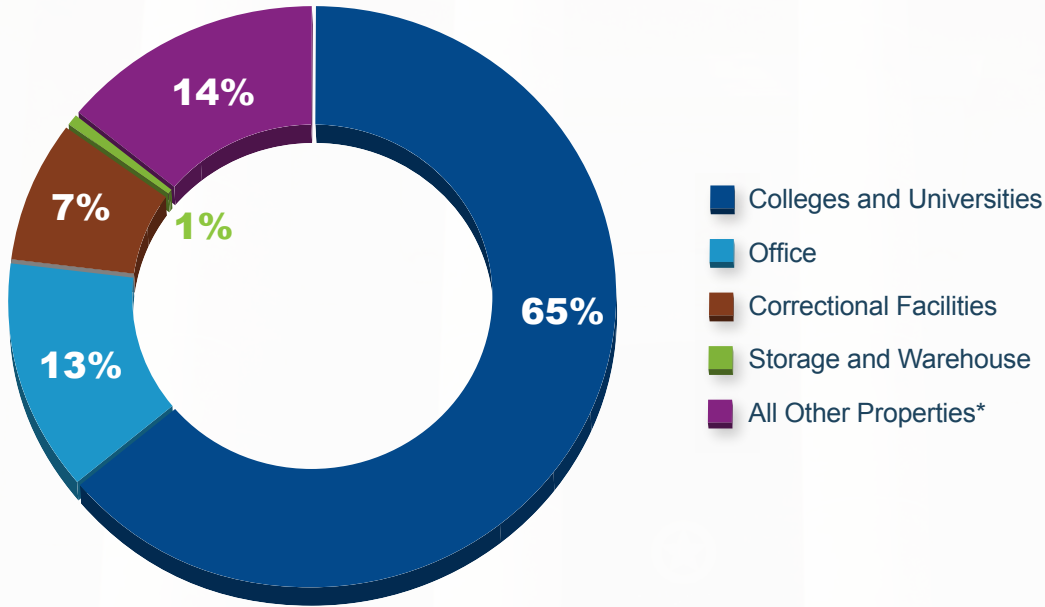
Counties	Building and Structures Owned Square Footage	Building and Structures Leased from Private Sector Square Footage	Building and Structures Leased in State-Owned Buildings Square Footage
Oklahoma	20,683,416	1,495,382	3,772,442*
Cleveland	13,551,261	211,867	28,037
Payne	13,439,658	70,206	
Tulsa	5,138,161	376,600*	172,868*
Logan	2,101,761	2,481	110

*When reported as subleased by the agency, space ABCs sublease from other ABCs has been removed from this data to avoid duplication. Leases from the federal government, counties, cities and other political subdivisions are included with *Leased space from private sector*.



PREDOMINANT USE OF BUILDINGS AND STRUCTURES OWNED PROPERTIES

(Square feet)



*All Other Properties includes, but is not limited to, building types defined in Appendix A.

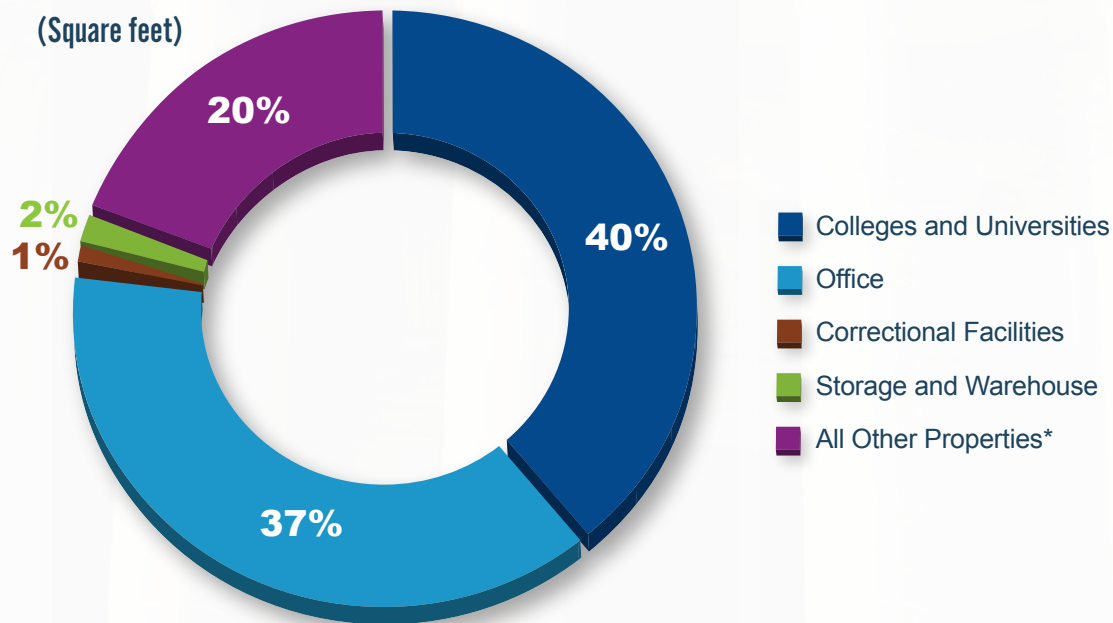
Predominant Use	Building and Structures Owned Square Footage	Building and Structures Leased from Private Sector Square Footage	Building and Structures Leased in State-owned Buildings Square Footage
Colleges and Universities	57,133,147	241,741	180,760
Office	11,078,117	2,582,006*	2,351,771*
Correctional Facilities	5,945,379	655,157	
Storage and Warehouse	1,079,425	545,277	63,234

*When reported as subleased by the agency, space ABCs sublease from other ABCs has been removed from this data to avoid duplication.

Leases from the federal government, counties, cities and other political subdivisions are included with *Leased space from private sector*.

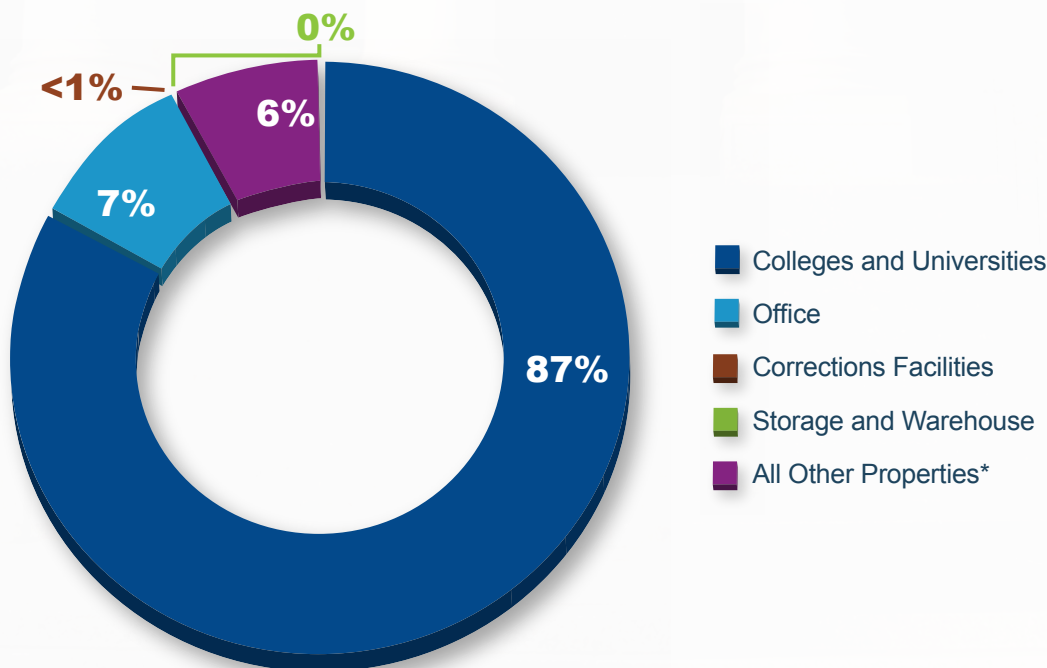


PREDOMINANT USE OF BUILDINGS AND STRUCTURES OWNED PROPERTIES – CITY OF OKLAHOMA CITY



*All Other Properties includes, but is not limited to, building types defined in Appendix A.

PREDOMINANT USE OF BUILDINGS AND STRUCTURES OWNED PROPERTIES – CITY OF TULSA

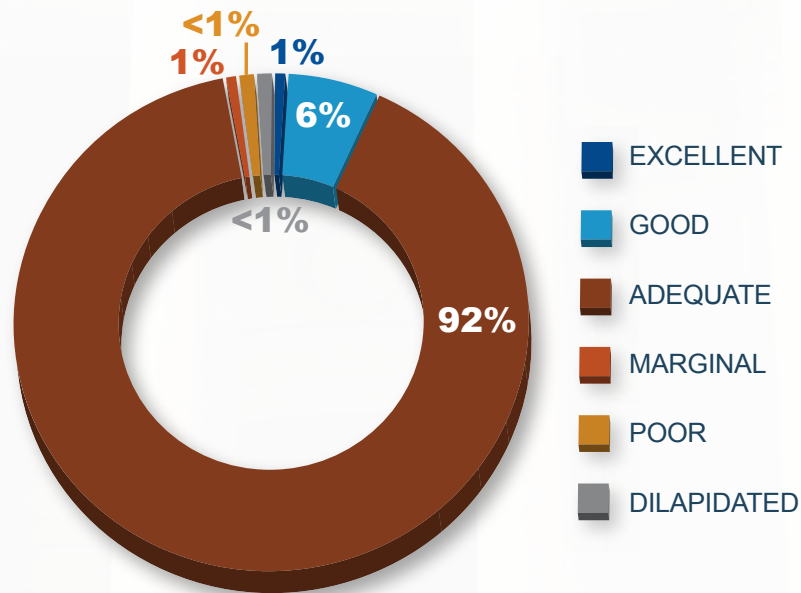


*All Other Properties includes, but is not limited to, building types defined in Appendix A.



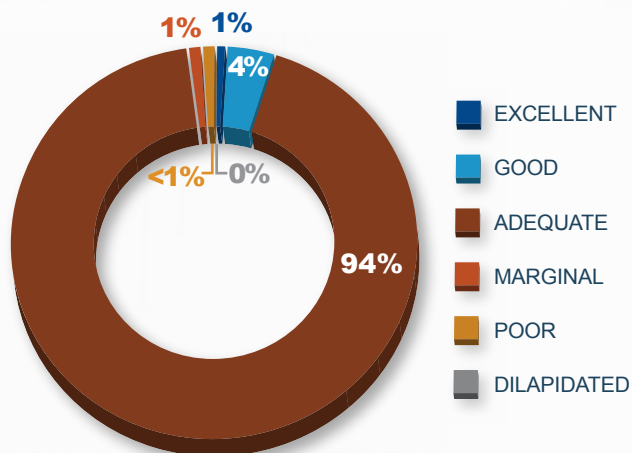
PROPERTY CONDITION FOR ALL OWNED BUILDINGS AND STRUCTURES

(Square feet)



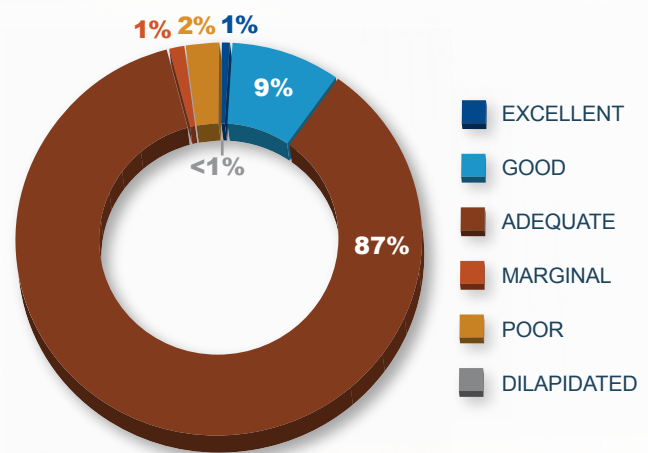
PROPERTY CONDITION FOR OWNED COLLEGE AND UNIVERSITY BUILDINGS AND STRUCTURES

(Square feet)



PROPERTY CONDITION FOR OWNED NON-COLLEGE AND UNIVERSITY BUILDINGS AND STRUCTURES

(Square feet)



HIGHLIGHTED PROPERTIES



Above:
Oklahoma
History Center

To provide a glimpse of the unique and diverse properties owned by the State of Oklahoma, OMES selected five properties from the 2023 Real Property Inventory List to highlight in this report. The selected properties are not representative of the entire property inventory owned by the state. Instead, they were selected as examples of buildings used by the state, demonstrating diversity and historical value.

These properties illustrate the challenges facing the state in making asset management determinations. Historical value must be balanced with economic concerns. ABCs have faced many challenges in maintaining properties they own. Budgetary constraints have at times forced ABCs to decide between investing money in maintenance of owned structures and allocating the funds to support their missions. The properties highlighted in this year's report demonstrate the excellence some agencies have achieved in meeting these challenges through diligence and a strategic and integrated approach to capital asset management.



Right:
Café
in the
Capitol
Building





Oklahoma
Judicial
Center

OKLAHOMA JUDICIAL CENTER, OKLAHOMA CITY

The Oklahoma Judicial Center, named the Wiley Post Historical Building after the famed aviator, was originally constructed as the home of the Oklahoma Historical Society. Located at 2100 N. Lincoln Blvd. in Oklahoma City, the building was designed by the architectural firm, Layton, Hicks, & Forsyth, and construction began in 1929. The design is Neo-Classical with a façade of limestone from Indiana with granite from Georgia as the material for the front steps. The front of the building sports two story columns with Ionic capitals.

Above the entrance are the words, Oklahoma Historical Society, reflecting the building's original purpose. The building was listed on the National Register of Historic Places in 1990. The building is closely associated with two former chief justices. Chief Justice Robert L. Williams, who later became governor, secured the funding for the building and was president of the Historical Society when it moved into the building in 1929. Renovation of the building was authorized by the Oklahoma State Legislature in 2005, and in 2011 the building officially became a building for the judiciary and is now called the Oklahoma Judicial Center. The Judicial Center houses a museum quality collection which is detailed in a corresponding book, *Art of the Judicial Center*.



Oklahoma Veterans Memorial outside the Judicial Center

Next to the building is the Oklahoma Veteran's Memorial, which was built in 1986 and restored during the renovation of the Judicial Center. The focal point of the memorial is a statue that, per the American Legion website, is called "The Big Guy" and is an eight-and-a-half-foot tall bronze statue of a man wearing the uniform and equipment of a Vietnam war soldier. It sits on a three-and-a-half-foot tall pedestal in front of bronze plaques depicting World War I, World War II, the Korean War, and the Vietnam War. Black granite walls were added in 2012 to include additional names of those Oklahomans who've made the ultimate sacrifice for their country.





Exterior of The Endeavor Building

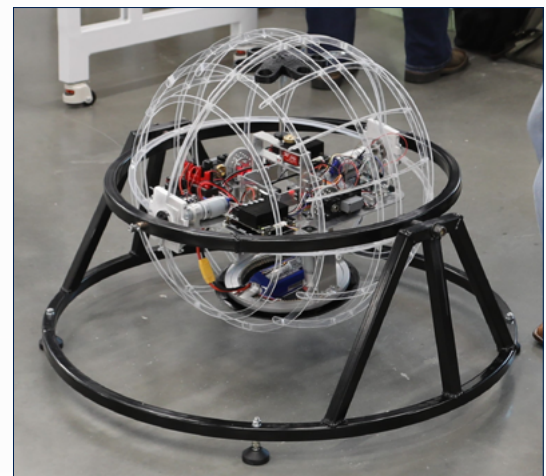
ENDEAVOR-OKLAHOMA STATE UNIVERSITY, STILLWATER

COLLEGE OF ENGINEERING, ARCHITECTURE AND TECHNOLOGY

ENDEAVOR was the idea of former Oklahoma State University Dean Paul Tilkasky to address educational needs observed in the engineering industry. ENDEAVOR is designed to provide and maximize students' hands-on experiences while exploring fundamental engineering principles with industry aligned instruction. Students also learn in interdisciplinary teams with other students from various engineering disciplines. In addition to interdisciplinary hands-on learning for fundamental courses, ENDEAVOR also supports interdisciplinary engineering design courses and projects that build cutting edge prototypes and provide answers to industrial needs.

ENDEAVOR itself is a 72,000-square-foot engineering playground that has three design spaces, 14 laboratories, 21st-century electronic board manufacturing and 3D printing makerspaces and a machine shop. Since 2018, over 1,500 students use ENDEAVOR each week as well as all nine schools of Oklahoma State's College of Engineering, Architecture and Technology. All spaces are highly reconfigurable and can accommodate multiple disciplines using the same laboratory. The facility also has over \$10 million dollars of equipment including a wind tunnel, water flume, scrubber, pipeline flow, industrial distillation suite, isolated electrical grid with renewable power production, modern radio and fiber optic equipment, modern electronic test equipment, advanced materials laboratory, advanced geotech lab and much more.

This remarkable one-of-a-kind facility was made possible by OSU's generous donors, students and their families. ENDEAVOR is also the college center for outreach and recruitment. Tours are available every weekday starting at 2 p.m., and Design Expos are available to the public at the end of every fall and spring semester. Finally, class tours can be arranged to meet school schedules.



Design created by students at the Endeavor



HONEY SPRINGS BATTLEFIELD, CHECOTAH

The Honey Springs Battlefield, located at 423159 E. 1030 Rd. in Checotah, Oklahoma, is a historical site that preserves the location of the Engagement at Honey Springs, the largest battle that took place in Indian Territory. Per the Oklahoma Historical Society website, the battle was fought on July 17, 1863, between the First Division Army of the Frontier and the Confederate Indian Brigade. Cherokee and Muscogee (Creek) regiments fought on both sides of the conflict. There were 9,000 troops involved and they included the aforementioned Native American soldiers, as well as regiments from Texas and the First Kansas Colored Volunteers, the first African American regiment in the Union army.

The area had a Confederate depot along the Texas Road, a vital route through the area, and troops had gathered there after a battle earlier in the month at Cabin Creek and were awaiting reinforcements from Fort Smith. The Union general had received reinforcements from Fort Gibson, forded the Arkansas River, and marched on Honey Springs the night of July 16. The fight began the next day with an artillery duel between the two forces and lasted most of the day. The First Kansas Colored Volunteers were a standout in the fight, drawing praise from superior officers for their performance on the field. The day ended with the Confederates retreat and their loss of control of Indian Territory north of the Arkansas River.

The current site occupies about 990 acres in Muskogee and McIntosh Counties. It has multiple interpretation sites and trails across the site that tells a step-by-step story of the battle. The property is accessible Tues. through Sat. from 9 a.m. to 4:30 p.m. A museum is available on site, for a small fee, that has artifacts, displays, and a short film that talks about the battle. Every November the museum puts on a reenactment of the battle that is open to the public.



Battle at Honey Springs



Exterior of the Honey Springs Battlefield Museum





J.M. Davis Arms & Historical Museum

J.M. DAVIS ARMS & HISTORICAL MUSEUM, CLAREMORE

The J.M. Davis Arms & Historical Museum, located two blocks north of where Davis's Mason Hotel stood in downtown Claremore, Oklahoma exhibits and preserves the collection of John Monroe Davis. Davis filled his hotel with thousands of firearms and other unique artifacts and was an important attraction on historic Route 66. Davis had no heirs so he leased his collection to the State of Oklahoma for 99 years for the sum of \$1 provided the State would build a museum to exhibit his collection.

The museum exhibits over 11,000 firearms ranging from a 1370s Chinese hand cannon to modern sporting rifles. The museum also displays thousands of non-firearm artifacts, including saddles, spurs, cattle brands, beer steins and Toby mugs, animal heads and horns, political buttons and convention ribbons, musical instruments, knives, bows and arrows, Claremore history, and history of the Cherokee Nation in northeastern Oklahoma.



*Portrait of
J.M. Davis*





WPA Bronze Shield

STANLEY VESTAL, WEATHERFORD

The Stanley Vestal Building, also known as The Y Chapel, honors one of Southwestern Oklahoma State University's (SWOSU) early scholars, Stanley Vestal. Constructed in the spring of 1941 and completed in June of the same year, the building received funding from both WPA funds and private donations from local citizens and students.



Stanley Vestal Building

Throughout its over 80 year history, the Stanley Vestal Building has served various purposes, including the university health center, the campus museum, the honors college, a chapel, and most recently is the home of Bulldog Central—a new initiative connecting students with resources that aid in their success while at SWOSU. The native stone structure still proudly displays its original brass WPA bronze shield, mounted on the left side of the main entrance.

Positioned on Campus Drive, south of the old science building, this single-story native sandstone structure boasts a steeply pitched gabled roof. The centered entrance, set back beneath a cross gable, is flanked by a pair of double-hung windows with a 6-over-6 pane configuration. The same window arrangement is replicated at the rear, and an additional entrance is located on the southern side of the chapel. An expansive exterior stone chimney enhances the northern side of the edifice.

The building is named after Stanley Vestal, the pen name of Walter S. Campbell, who was the stepson of SWOSU's first president, President Leonard Campbell. Walter completed his education at Southwestern Normal School in 1908 and pursued advanced studies at the University of Oxford in England, earning a graduate degree. As the first Rhodes Scholar from Oklahoma, Walter, under the pen name Stanley Vestal, gained recognition as an esteemed historian of the American West. Serving as a Research Professor of English at the University of Oklahoma, he played a pivotal role in imparting professional writing expertise. In this dual capacity, he distinguished himself as a scholar and writer, marking a significant achievement for a graduate of Southwestern Normal.



Stanley Vestal



AGENCY PROFILES

The Agency Profiles table contains information on all of the buildings and structures owned or leased by the State of Oklahoma. The agencies are listed in alphabetical order; the buildings and structures are sorted to indicate if they are owned or leased. Square footage given is as provided by the reporting ABC. Additionally, totals are provided for each agency. More detailed information can be found in the 2023 Real Property Inventory List.

Agency Name	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Abstractors Board			928	1	928	1
Accountancy Board			4184	1	4184	1
Aeronautics Commission			3,287	2	3,287	2
Agriculture, Food and Forestry	63,084	7	176,744	36	239,828	43
Agriculture Mediation Board			1,500	1	1,500	1
Alcoholic Beverage Licensing and Law Enforcement Commission (ABLE)			14,706	3	14,706	3
Architects Board			1,230	1	1,230	1
Arts Council			8,299	3	8,299	3
Attorney General			106,743	4	106,743	4
Auditor and Inspector			24,046	8	24,046	8
Banking Department			16,264	3	16,264	3



Agency Name	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Behavioral Health Licensure Board			550	1	550	1
Boll Weevil Eradication			10,300	1	10,300	1
Bureau of Investigation	163,421	7	33,244	39	196,665	46
Cameron University	1,279,536	56			1,279,536	56
Career and Technology Education Department			392	2	392	2
Carl Albert State College	411,097	31			411,097	31
Center for Advancement of Science and Technology			5,230	1	5,230	1
Children and Youth Commission			6,046	1	6,046	1
Chiropractic Examiners Board			875	1	875	1
Commerce Department	39,750	2	2,214	2	41,964	4
Commissioners of the Land Office	1,338,058	25			1,338,058	25
Connors State College	364,001	41	10,400	1	374,401	42
Conservation Commission			12,374	2	12,374	2
Construction Industries Board			9,272	1	9,272	1



Agency Name	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Consumer Credit			3,878	1	3,878	1
Corporation Commission			56,160	7	56,160	7
Corrections Department	5,945,379	1,030	748,426	71	6,693,805	1,101
Cosmetology and Barbering Board			3,448	1	3,448	1
Court of Appeals (Oklahoma Judicial Branch)					0	0
Dentistry Board			1,590	2	1,590	2
Disability Concerns			679	1	679	1
District Attorneys Council			9,101	1	9,101	1
East Central University	1,083,937	40			1,083,937	40
Eastern Oklahoma State College	434,924	35			434,924	35
Education Department			119,583	1	119,583	1
Educational Quality and Accountability			2,355	1	2,355	1
Election Board			11,863	2	11,863	2
Emergency Management			31,030	3	31,030	3
Employment Security Commission			153,899	30	153,899	30



Agency Name	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Environmental Quality Department	473,405	2	15,157	22	488,562	24
Ethics Commission			2,879	1	2,879	1
Fire Marshal			5,855	3	5,855	3
Firefighters Pension and Retirement			2,829	1	2,829	1
Funeral Board			950	1	950	1
*Governor's Office			28,368	3	28,368	3
Grand River Dam Authority	1,619,825	103	31,200	2	1,651,025	105
Health Care Authority			154,085	1	154,085	1
Health Care Workforce Training Commission			1,656	1	1,656	1
Health Department	241,913	7	822,490	86	1,064,403	93
Historical Society	566,110	109	5,000	1	571,110	110
Horse Racing Commission			3,552	6	3,552	6
House of Representatives			113,324	1	113,324	1
Housing Finance Agency	33,783	1			33,783	1
Human Services Department	1,067,650	66	882,927	68	1,950,577	134



Agency Name	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Indigent Defense			44,260	12	44,260	12
Industrial Finance Authority			2,000	1	2,000	1
Insurance Department	32,500	1	3,557	1	36,057	2
Interstate Oil Compact Commission			2,209	1	2,209	1
J.D. McCarty Center	115,217	13	0	1	115,217	14
J.M. Davis Memorial Commission	40,000	1			40,000	1
Judicial Complaints Council			1,120	2	1,120	2
Juvenile Affairs	183,817	21	98,313	62	282,130	83
Labor Department			16,316	1	16,316	1
Langston University	2,133,373	53			2,133,373	53
Law Enforcement Education and Training Council	179,670	10			179,670	10
Law Enforcement Retirement System	76,704	1	3,915	1	80,619	2
Legislative Service Bureau			1,307	1	1,307	1
Libraries Department	22,000	1	110,750	2	132,750	3



Agency Name	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Licensed Social Workers Board			725	1	725	1
Lieutenant Governor's Office			3,019	1	3,019	1
Liquefied Petroleum Gas Board			2,212	1	2,212	1
Long Term Care Administrators Board of Examiners			0	0	0	0
Lottery Commission			16,677	2	16,677	2
Medical Licensure and Supervision Board			13,676	2	13,676	2
Medical Marijuana Authority			66,079	2	66,079	2
Medicolegal Investigations Board			168,470	2	168,470	2
Mental Health and Substance Abuse Services Department	1,555,756	81	215,616	23	1,771,372	104
Midwestern Oklahoma Development Authority	236,077	209			236,077	209
Military Department	1,843,965	45	3,296	6	1,847,261	51
Mines Department			6,587	1	6,587	1



Agency Name	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Motor Vehicle Commission			1,203	1	1,203	1
Multiple Injury Trust Fund			2,448	1	2,448	1
Murray State College	576,044	53			576,044	53
Narcotics and Dangerous Drugs Control Bureau	31,134	2	69,105	7	100,239	9
Native American Cultural and Educational Authority	147,996	5			147,996	5
Northeastern Oklahoma A&M College	706,389	59			706,389	59
Northeastern State University	2,221,759	82	2,400	1	2,224,159	83
Northern Oklahoma College	981,026	86			981,026	86
Northwestern Oklahoma State University	811,721	41			811,721	41
Nursing Board			7,992	1	7,992	1
Oklahoma City Community College	1,055,001	20			1,055,001	20
Oklahoma Development Finance Authority	7,977	1			7,977	1



Agency Name	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Oklahoma Educational Television Authority	37,437	8	221	1	37,658	9
Oklahoma Municipal Power Authority	94,358	20		1	94,358	21
Oklahoma Panhandle State University	1,003,407	56			1,003,407	56
Oklahoma State Broadband Office			7,221	1	7,221	1
Oklahoma Statewide Virtual Charter School Board			2,114	1	2,114	1
OMES	2,039,188	56	37,300	3	2,076,488	59
Optometry Board			1,056	1	1,056	1
Osteopathic Examiners Board			1,498	2	1,498	2
OSU-Agriculture Research Station	320,285	167			320,285	167
OSU-Center for Health Sciences	1,179,565	17	118,391	5	1,297,956	22
OSU-County Extension			0	79	0	79
OSU-Institute of Technology Okmulgee	1,059,213	71	1,045	2	1,060,258	73
OSU Medical Authority			11,688	2	11,688	2



Agency Name	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
OSU-OKC	595,108	24			595,108	24
OSU-Stillwater	13,049,244	694	10,271	10	13,059,515	704
OSU-Tulsa	557,221	7	8,115	1	565,336	8
OSU-Veterinary Medicine	498,783	51			498,783	51
Pardon and Parole Board			2,642	1	2,642	1
Pharmacy Board			8,440	1	8,440	1
Police Pension and Retirement System	36,559	1			36,559	1
Private Vocational Schools Board			1,325	4	1,325	4
Professional Engineers and Land Surveyors	9,060	1			9,060	1
Psychologists Examiners			501	1	501	1
Public Employees Retirement System	101,217	1	14,633	1	115,850	2
Public Safety Department	293,024	39	43,149	88	336,173	127
Real Estate Commission			8,239	1	8,239	1
Redlands Community College	734,347	78			734,347	78



Agency Name	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Regents for Higher Education	3,500	38	55,230	2	58,730	40
Regional University System			872	1	872	1
Rehabilitation Services	501,864	22	213,886	39	715,750	61
Rogers State University	1,020,999	40			1,020,999	40
Rose State College	759,583	26	9,133	1	768,716	27
School of Science and Mathematics	215,658	5			215,658	5
Secretary of State			12,149	2	12,149	2
Securities Commission			12,098	2	12,098	2
Seminole State College	369,640	18	14,024	2	383,664	20
Senate			92,861	1	92,861	1
Service Oklahoma			81,376	23	81,376	23
Southeastern Oklahoma State University	998,848	59			998,848	59
Southwestern Oklahoma State University	1,316,897	69			1,316,897	69
Space Industry Development Authority	446,925	46			446,925	46



Agency Name	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Speech-Language Pathology and Audiology			460	1	460	1
Student Loan Authority			28,616	1	28,616	1
Supreme Court (Oklahoma Judicial Branch)	145,950	1	46,338	8	192,288	9
Tax Commission	148,000	1	58,922	4	206,922	5
Teachers Retirement System	98,000	1	13,934	1	111,934	2
Tobacco Settlement Trust			7,208	1	7,208	1
Tourism and Recreation Department	1,630,883	1,731	43,541	11	1,674,424	1,742
Transportation Department	2,062,386	756	363,972	46	2,426,358	802
Treasurer's Office			16,825	2	16,825	2
Tulsa Community College	1,709,289	31			1,709,289	31
Turnpike Authority	702,609	313	1,794	3	704,403	316
Uniform Building Code Commission			3,959	1	3,959	1
University Center at Ponca City			16,123	1	16,123	1



Agency Name	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
University Hospitals Authority	4,003,461	19			4,003,461	19
University of Central Oklahoma	2,248,041	74	49,940	12	2,297,981	86
University of Oklahoma	11,241,677	312	157,978	28	11,399,655	340
University of Oklahoma Health Sciences Center	5,731,065	71	2,480,561	26	8,211,626	97
University of Oklahoma- Law Center	12,735	1			12,735	1
University of Science and Arts of Oklahoma	595,459	28			595,459	28
Used Motor Vehicle and Parts Commission			2,789	1	2,789	1
Veterans Affairs	1,521,381	49	22,704	3	1,544,085	52
Veterinary Medical Examiners Board			1,194	1	1,194	1
Water Resources Board			40,993	2	40,993	2
Western Oklahoma State College	363,889	27	5,721	2	369,610	29
Wildlife Conservation Department	447,872	254	19,022	5	466,894	259



Agency Name	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Workers' Compensation Commission			58,292	2	58,292	2
Workers' Compensation Court of Existing Claims			3,114	1	3,114	1
Total	87,988,626	7,630	8,737,841	1,013	96,726,467	8,643

*Governor's Office includes offices in Oklahoma City and the governor's residence.

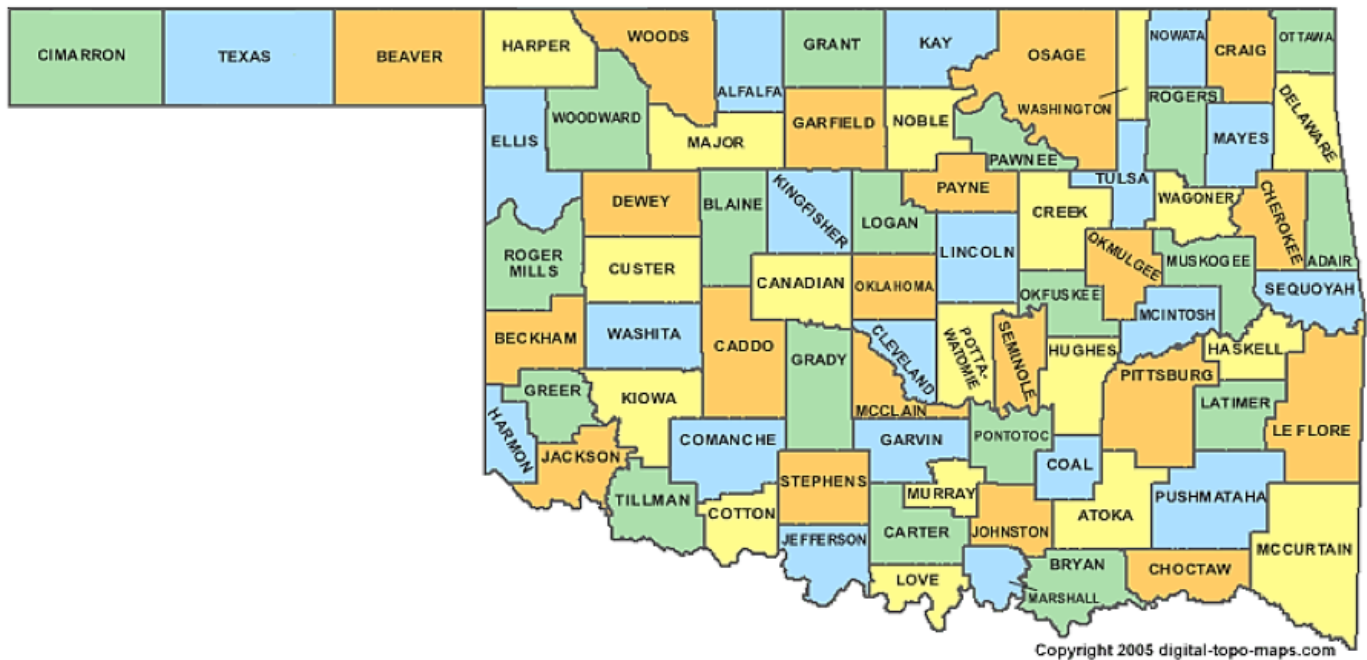
YEARLY TOTALS

Building and Structures	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
Totals (Square footage)	94,145,138	94,905,582	95,813,664	95,906,338	96,166,594	96,726,467
Owned (Square footage)	87,587,176	87,757,655	85,988,075	87,161,859	87,378,198	87,988,626
Leased (Square footage)	6,587,962	6,147,927	9,807,083	8,744,479	8,788,396	8,737,841

Increases in owned square footage from previous reports may be the result of property acquisition, construction or correction in data reported.



OKLAHOMA COUNTIES



The link below opens the OMES website and allows the user to view an interactive map and/or details for each property.

<https://oklahoma.gov/omes/divisions/capital-assets-management/real-estate-licensing-services/maps/property-assets.html>



COUNTY PROFILES

The County Profiles table provides a view of all the buildings and structures owned or leased by the State of Oklahoma sorted alphabetically by county. Because insufficient location data was provided on some property locations, buildings or structures may appear in the Agency Profiles that do not appear in the County Profiles.

County	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Adair	15,975	10	7,724	4	23,699	14
Alfalfa**	358,746	116	80	2	358,826	118
Atoka**	655,719	179	18,405	8	674,124	187
Beaver	31,051	12	2,244	6	33,295	18
Beckham*,**	92,486	28	29,294	10	121,780	38
Blaine***	76,757	72	5,315	7	82,072	79
Bryan*	1,011,753	81	43,290	14	1,055,043	95
Caddo***	143,762	112	397,530	9	541,292	121
Canadian*,**	1,069,194	120	25,028	10	1,094,222	130
Carter***	566,932	248	47,559	16	614,491	264
Cherokee*,***	2,007,858	206	116,251	18	2,124,109	224
Choctaw	38,168	29	10,662	6	48,830	35
Cimarron	34,945	31	0	2	34,945	33
Cleveland*,**,***	13,551,261	629	239,904	32	13,791,165	661
Coal	5,660	4	0	3	5,660	7
Comanche*,**	1,601,537	105	105,300	25	1,706,837	130
Cotton	52,373	17	174	4	52,547	21
Craig**	911,462	118	2,224	8	913,686	126
Creek	79,542	33	15,305	13	94,847	46
Custer*	1,590,768	139	33,244	13	1,624,012	152
Delaware	89,539	80	15,301	10	104,840	90
Dewey	12,176	11	0	1	12,176	12
Ellis	30,330	12	0	3	30,330	15
Garfield*	1,007,618	93	150,953	19	1,158,571	112



County	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Garvin	389,347	40	9,738	5	399,085	45
Grady*	685,632	74	28,961	12	714,593	86
Grant	8,292	8	0	2	8,292	10
Greer**	503,208	168	9,164	5	512,372	173
Harmon	14,160	7	5,400	2	19,560	9
Harper	96,400	15	1,895	3	98,295	18
Haskell	13,476	8	9,551	7	23,027	15
Hughes	43,988	16	300,435	5	344,423	21
Jackson*	491,399	58	37,065	11	528,464	69
Jefferson	8,600	6	0	2	8,600	8
Johnston*	524,015	70	16,958	6	540,973	76
Kay*	616,915	90	70,333	19	687,248	109
Kingfisher	43,476	23	8,817	6	52,293	29
Kiowa	31,999	38	8,332	5	40,331	43
Latimer*,***	911,877	173	19,879	7	931,756	180
Le Flore*,**,***	730,424	200	12,932	14	743,356	214
Lincoln	107,496	33	10,987	8	118,483	41
Logan*	2,101,761	71	2,591	7	2,104,352	78
Love	73,349	65	5,489	4	78,838	69
Major	70,003	12	5,150	3	75,153	15
Marshall***	126,055	58	6,222	6	132,277	64
Mayes	1,719,671	67	18,026	8	1,737,697	75
McClain	34,325	32	27,725	14	62,050	46
McCurtain*,***	331,919	173	104,228	27	436,147	200
McIntosh***	182,451	77	18,613	9	201,064	86
Murray	409,604	39	4,812	5	414,416	44
Muskogee*,**,***	1,395,485	270	60,701	17	1,456,186	287
Noble	138,127	39	345	3	138,472	42
Nowata	11,602	11		2	11,602	13
Okfuskee**	442,931	57	8,710	4	451,641	61



County	Owned Buildings and Structures		Leased Buildings and Structures		Total Buildings and Structures	
	Total Square Footage	Number of Structures	Total Square Footage	Number of Structures	Square Footage	Number of Structures
Oklahoma*, **	20,683,416	495	5,267,824	238	25,951,240	733
Okmulgee	1,110,659	92	33,028	11	1,143,687	103
Osage**, ***	456,491	125	15,412	6	471,903	131
Ottawa*	789,357	123	19,778	8	809,135	131
Pawnee	57,939	30	18,197	6	76,136	36
Payne*	13,439,658	772	70,206	20	13,509,864	792
Pittsburg*, **, ***	1,207,657	183	107,849	17	1,315,506	200
Pontotoc*	1,390,724	67	46,870	17	1,437,594	84
Pottawatomie**	448,788	60	67,599	16	516,387	76
Pushmataha	153,597	55	26,181	11	179,778	66
Roger Mills	27,330	13	0	1	27,330	14
Rogers*	1,153,762	67	121,005	15	1,274,767	82
Seminole*	389,973	32	29,397	9	419,370	41
Sequoyah*, ***	153,533	93	38,027	13	191,560	106
Stephens	140,041	20	48,198	16	188,239	36
Texas*	1,039,025	75	27,289	14	1,066,314	89
Tillman	22,692	12	10,735	4	33,427	16
Tulsa*	5,138,161	209	549,468	52	5,687,629	261
Wagoner*	776,689	92	12,146	8	788,835	100
Washington*	236,042	18	24,518	9	260,560	27
Washita	712,180	276	18,498	4	730,678	280
Woods*, **	896,870	98	23,314	11	920,184	109
Woodward**, ***	225,504	112	52,638	16	278,142	128
Totals	87,943,687	7,602	8,707,022	993	96,650,709	8,595

Counties that contain college campuses, correctional facilities and state parks with 40,000 square feet or more are designated as shown below.

* College or university campus.

** Correctional facility.

*** State park.



REPORT OF UNDERUTILIZED PROPERTIES

The underutilized reports were created using the methodology established by OMES Real Estate and Leasing Services. The methodology is detailed in Appendix B. The Underutilized Property Report includes all underutilized properties owned by the State of Oklahoma as reported to OMES. Underutilized properties are defined as buildings, facilities and land that were reported as being utilized at 50% or less of capacity.

The underutilized properties were given an estimated monetary value based upon the appraised or assessed value of the property. Formal appraisals were not obtained but were considered if the reporting agency had one on file. Obtaining appraisals on all underutilized properties was determined to be cost prohibitive. Appraisals will be obtained, as appropriate, should it be determined to be in the best interest of the State of Oklahoma to divest itself of the underutilized property.

The 5% most underutilized properties were then determined based upon estimated value. The 5% of the properties with the lowest level of utilization and the highest estimated value appear on the Report of 5% Most Underutilized Properties.

[Report of Underutilized Properties](#)

[Print version \(8 pp.\)](#)



REPORT OF 5% MOST UNDERUTILIZED PROPERTIES

The Report of 5% Most Underutilized Properties contains the properties that were determined to be the most underutilized of all reported underutilized state properties. Determinations on level of utilization were based solely on data provided by the ABCs. An estimated value was assigned to each property, and the 5% of the properties with the lowest level of utilization and the highest value were designated as the 5% most underutilized properties. These properties are listed on the Report of 5% Most Underutilized Properties. A report of the 5% most underutilized properties was part of the legislative mandate that enabled creation of the comprehensive property listing.

[Report of 5% Most Underutilized Properties](#)

[Print version \(1 p.\)](#)



INVENTORY LISTS

REAL PROPERTY

The Real Property Inventory lists consist of all properties owned and leased by the State of Oklahoma as reported to OMES. A definition of real property is provided in Appendix A. The properties listed are sorted by agency, whether the property is owned or leased, and location. The report is separated into the following three lists: owned, leased and ABCs with no real property.

[State of Oklahoma Real Property Inventory List – Owned](#)

[Print version \(566 pp.\)](#)

[State of Oklahoma Real Property Inventory List – Leased](#)

[Print version \(49 pp.\)](#)

[State of Oklahoma Real Property Inventory List – ABCs with No Real Property](#)

[Print version \(2 pp.\)](#)

RIGHTS-OF-WAY

The Rights-of-Way Lists contain information on rights-of-way from the Department of Transportation and the Turnpike Authority. Right-of-way is defined in Appendix A.

Department of Transportation

The Oklahoma Department of Transportation maintains approximately 12,260 miles of state and interstate highways. The widths of highway rights-of-way vary depending on the highway's functional classification and other factors. Variation of right-of-way widths is dependent upon several characteristics such as drainage, topography, geometrics and utilities. Correspondingly, right-of-way widths vary anywhere from approximately 80- to 300-plus feet based on the necessity at any given location.

[Department of Transportation Rights-of-Way Inventory List](#)

[Print version \(144 pp.\)](#)

Turnpike Authority

The Turnpike Authority is authorized to construct, maintain, repair and operate turnpike projects at locations authorized by the Legislature of the State of Oklahoma and approved by the Department of Transportation. The Turnpike Authority has provided the following Rights-of-Way and Easement data for all Oklahoma turnpikes.

[Turnpike Authority Rights-of-Way Inventory List](#)

[Print version \(61 pp.\)](#)



MINERAL INTEREST

The Mineral Interest List is a historical listing of oil and gas leases under the authority of the Office of Management and Enterprise Services. Mineral interest is defined in Appendix A.

[OMES Mineral Interest Inventory List](#)

[Print version \(26 pp.\)](#)

PERSONAL PROPERTY

The Personal Property List contains information on all personal property owned by the State of Oklahoma as reported to OMES. Personal property is defined in Appendix A.

[State of Oklahoma Personal Property Inventory List](#)

[Print version Part 1 \(1,222 pp.\)](#)

[Print version Part 2 \(1,335 pp.\)](#)

[Print version Part 3 \(1,427 pp.\)](#)



APPENDIX A

DEFINITIONS

ABC: Any state agency, board, commission, or public trust having the State of Oklahoma as a beneficiary (ABC).

Appraisal: The practice of developing and reporting an opinion of the value of real property in conformance with the Uniform Standards of Professional Appraisal Practice as promulgated by the Appraisal Standards Board of Appraisal Foundation.

Data.ok.gov website: The part of Oklahoma's official website that allows users to download state files for analysis.

Highest and best use: The reasonably probable and legal use of property that is physically possible, appropriately supported and financially feasible and that results in the highest value.

Historic property: Property with sufficient age and significance to be considered historic. Significance can be achieved by direct association with individuals, events, or activities, by embodying distinctive architectural styles or characteristics, or by having the potential to yield information.

Lot: A small tract or parcel of land or real estate that has an owner or is divided by a public entity for the purpose of sale; historically used for smaller portions of land.

Leased property: Real property the reporting agency leases from another entity. The property may be owned by another state agency, another government entity, or the private sector.

Mineral interest: The ownership of any minerals, mines, quarries, mineral springs, or overriding royalty interest, and productions payments with respect to oil and gas leases.

National Register of Historic Places: Official list of the nation's historic places worthy of preservation. The list is a catalogue of the buildings, sites, structures, districts, and objects with historic significance.

National Trust for Historic Preservation: A privately funded nonprofit organization that works to save America's historic places.

Owned Property: A property that is owned by the reporting agency or owned by the State of Oklahoma and operated and managed by the reporting agency.

Parcel: A defined piece of real estate, usually resulting from the division of a large area of land; any area of land contained within a single description.

Personal property: The current inventory of tangible assets owned by state boards, commissions, institutions, agencies, and the institutions comprising the Oklahoma state system of higher education and the University Hospitals Authority, including machinery, implements, tools, furniture and livestock, that may be used repeatedly without material impairment of its physical condition and have a calculable period of service and value exceeding the reporting thresholds for the entity.

Predominant use: The general primary function of a property, such as office, colleges or universities, or storage and warehouse.



Real property: Land, and generally whatever is erected, growing upon or affixed to land; also, rights issuing out of, annexed to, and exercising in or about land.

Real Property Inventory List: A comprehensive list of property submitted by the state agencies, boards, commissions, and public trusts listing all real property owned, the value of the property, and any underutilized property.

Rights-of-way: Lands for use for railway or highway; rights-of-way can be comprised of fee ownership, perpetual easements, utility easements, channel easements, drainage easements, dedication deeds and, in some cases, limited term easements.

Tract: A defined area of land; a specific area of land.

Underutilized property: An entire property or portion thereof, with or without improvements, which is used only at irregular periods or intermittently by the accountable landholding agency for current program purposes of that agency, or which is used for current program purposes that can be satisfied with only a portion of the property. Underutilized property may include undeveloped land, office buildings, warehouses, commercial and industrial facilities, and military holdings and residences.

DEFINITIONS OF PROPERTY CONDITION CLASSIFICATIONS

Excellent: Property has no visible defects, is in new or near new condition, and may still be under warranty if applicable.

Good: Property is in good condition, but no longer new, and may have some slightly defective or deteriorated component(s) but is overall functional.

Adequate: Property has moderately deteriorated or defective components; but has not exceeded its useful life.

Marginal: Property has defective or deteriorated component(s) in need of replacement; and it has exceeded its useful life.

Poor: Property has critically damaged component(s) or needs immediate repair; well past useful life.

Dilapidated: Property is substantially deteriorated or defective; and it is unfit for use.



DEFINITIONS OF PROPERTY TYPES

Academic building: Any building with a primary purpose that is academic in nature.

Boat slip: Boat storage or dock.

Cafeteria/food service: A dining facility or food preparation area.

Cemetery/burial site: A location that includes graveyards, cemeteries, or other places of final internment.

Chapel: A facility for religious services.

Clinical space/building: A facility or area for medical services, such as a doctor's or psychologist's office.

Correctional facility: Prisons, jails, reformatories and other places of correction or detention.

Court: A facility or area used as chambers or courts of law.

Fleet: A facility for the storage and maintenance of fleet vehicles.

Hangar/airport: Any facility for the storage or maintenance of aircraft, with or without a complex of runways for takeoff and landing.

Historic structure: A building or structure of historic significance and preserved by the state as such.

Hospital: An inpatient facility for medical treatment or other clinical purposes.

Housing/residence: A residential structure or facility.

Laboratory: A facility equipped to conduct scientific experiments, tests, investigations, and analysis.

Land – agricultural: Land used for grazing, farming or other agriculture uses.

Land – historic site: An archeological site or land in an area or location of historic significance and preserved by the state as such.

Land – livestock: Agricultural land used specifically for livestock.

Land – other usage: Land with a specific usage other than the defined categories, or improved land supporting a campus or program outside the defined categories.

Land – park: An area of land, either landscaped or in its natural state, used for recreation or as a public area. Structures and other improvements may be located on the land.

Land – sports: Land used as an outdoor sports field, such as a baseball, track, or soccer field, where the improvements are minimal.

Land – unimproved: Land with no improvements and no defined usage.

Land – wildlife refuge: An area of land that is being maintained and managed for hunting, fishing or other outdoor activities.

Laundry: A facility for cleaning garments, linens and other fabrics.

Library: A facility where archival documents, reference materials, and other literary, musical, and artistic materials are kept.



Lodging: A facility for temporary stays, such as hotels, motels, guest cabins and lodges.

Maintenance/repair shop: A facility generally used for the support of maintenance and repair of equipment, buildings, and grounds.

Mineral interest: The interest that confers the right to extract, modify and sell the minerals that underlie a defined parcel of property.

Museum: A building in which objects of historical, scientific, artistic, or cultural interest are stored and exhibited.

Office: Any place for the regular transaction of business or performance of a particular service.

Other: Any building or structure that does not fit into the defined categories.

Parking lot: An area used for the parking of vehicles.

Radio/communications: A building or structure that houses radio and other communications equipment, excluding towers.

Radio/communications tower: A structure designed to support antennas for radio communications, telecommunications, and broadcasting, including television.

Salt/sand storage: A storage facility used specifically for salt or sand.

Sports facility: A structure or facility used for sports and athletics, such as stadiums or gymnasiums.

Storage: A structure in which things are stored.

Theater/auditorium: A facility with seating space for audiences and used for performances, movies, conferences, or other large gatherings.

Toll facility: A structure or facility used for collecting tolls, including booths, gates and other structures.

Training: A facility used for training, typically professional or vocational seminars or classes.

Utility building/structure: An ancillary building serving a function, such as a communications hut, machine shed, barn or other support function.

Vehicle storage: A facility for the storage of vehicles, such as cars or machinery.

Visitor's center: A property or structure that provides information or education exhibits and rest areas for visitors to the State of Oklahoma, state properties and points of interest.

Warehouse: A large building where materials or goods may be stored prior to their distribution.



APPENDIX B

UNDERUTILIZED METHODOLOGY

To consider all underutilized properties, regardless of the ability of the State of Oklahoma to quickly divest itself of the property, OMES has altered the method of identifying the 5% most underutilized properties.

Report of Underutilized Property

The Underutilized Property Report contains all properties and land self-reported by agencies as being utilized at 50% or less of capacity.

Report of 5% Most Underutilized Properties

To calculate the 5% most underutilized properties, OMES sorts all the underutilized properties by level of utilization, with the lowest level of utilization first. OMES estimates the fair market value and the local tax revenue for each property. The properties with the lowest level of utilization are sorted by the estimated value, with the highest value first. OMES determines the 5% most underutilized properties by identifying the 5% of the underutilized properties with the lowest utilization and the greatest value.



Oklahoma State Capitol in 1963



Appendix E:

(Texas SORM State Insurable Assets Study December 2016)



INSURABLE STATE ASSETS INTERIM STUDY

FINAL REPORT

House Bill No. 3750, 84th R.S.

Draft(s) Issued: August-October, 2016

Final Report: Issued December, 2016

Subject to Further Revision



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INSURABLE STATE ASSETS INTERIM STUDY

BACKGROUND

As noted by the Legislative Budget Board (LBB) in its 2013 *State Real Property Inventory* issue brief to the Texas Legislature:

*The State of Texas owns significant amounts of real property of varying types and purposes. While several state agencies have information about state-owned property, the information varies and is inconclusive. There is currently no single state entity that maintains a complete database of property sites with consistent specifics including location, size, improvements and value. The lack of information and oversight negatively affects the state's ability to adequately manage and protect its real property assets, and to assess applicable values.*¹

Pursuant to HB 3750 84th Regular Session, the LBB was asked to collect detailed information from each state agency and institution of higher education that possesses real property, and to provide that information to the State Office of Risk Management (Office) for consolidation, findings, analysis, and any recommendations regarding a statewide strategy to ensure that all real property owned by the state is adequately insured. The following Insurable Assets Interim Study is the result of that process.

To decrease the burden and potential fiscal impact on individual state agencies, the LBB coordinated with the Office, the Texas Higher Education Coordinating Board (THECB, for higher education information), the General Land Office (GLO, for certain other state entities), and six other selected entities,² to assist in compiling the statewide data.

Other State-Owned Real Property Reports

- **2013 Issue Brief**
Legislative Budget Board
- **2013 Interim Study**
State Office of Risk Management
- **2011 Interim Study**
State Office of Risk Management
- **2014 Facilities Master Plan Report**
Texas Facilities Commission
- **State Real Property Evaluation Reports**
General Land Office

¹ LBB Issue Brief #304, *State Real Property Inventory*, April 2013.

http://www.lbb.state.tx.us/Documents/Publications/Issue_Briefs/304_State%20Property.pdf

² Additional entities include the Texas Department of Housing and Community Affairs, Texas Workforce Commission, Texas Health and Human Services System, Teacher Retirement System, Employee Retirement System, and Texas State Preservation Board.

EXECUTIVE SUMMARY

HB 3750 Implementation

The fundamental premise of HB 3750 is that consolidating and analyzing comprehensive asset data will allow the Legislature and the State of Texas to better understand what assets the State owns, and other relevant information, for the purposes of making important public policy and strategic and operational determinations at an enterprise level. By collecting this data, the Office has sought to identify and verify assets detail at a previously unconsidered level, identify any issues in the mechanisms by which data is reported or the accuracy of that data, and to specify any uninsured and underinsured exposures associated with those assets. The ultimate purpose of HB 3750 is to support consideration of possible approaches to improving reporting, the criteria associated with that reporting, and to support any recommendations for protecting State-owned assets in the most efficient and cost-effective manner.

Key Findings and Recommendations

There is a Significant Potential of Financial Loss to the State from Possibly Uninsured and Underinsured Real Property. Current reported assets information indicates total values of building, land, and contents in excess of \$80 Billion. Based on data collected, this study identified potential uninsured and underinsured exposures in excess of \$59.7 Billion. However, a significant portion of this potential exposure may in fact be fully or partially insured. While detailed data was not reported to the Office pursuant to HB3750, major institutions of higher education submitted additional information reducing this sum to approximately \$7.4 Billion. While not all of this exposure requires risk transfer through insurance, appropriate determinations require assessment of accurate and complete data, and mechanisms for funding attritional uninsured or underinsured losses.

Inaccuracy, Incompleteness, and Decentralization of Data Reduces Full Analysis Capability and Reduces Valuation Confidence. Issues with current data accuracy and integrity have been identified. Knowing the full extent of the State's exposure is the first step in determining the appropriate risk prevention and control measures the State should implement to prevent or reduce claims and losses, and make other strategic and operations determinations. Comprehensive data on state-owned assets can give the State a better understanding of risks the State faces. With this knowledge, the State can begin to make informed decisions regarding the mechanisms the State will use to prevent, reduce, and mitigate potential loss.

The Statewide Strategy to Ensure the State Is Adequately Insured Requires Legislative Action. This report recommends a hybridized system that incorporates multiple approaches to managing the State's risk as being the most advantageous to the State. This model incorporates a centralized, mandatory state property insurance program that incorporates a pooling and reserve approach, in concert with a self-insured retention limit and reinsurance for larger, catastrophic losses. The actual mechanism(s) chosen for a statewide strategy to ensure that State assets are adequately insured should be determined after the State has a thorough understanding of its risks. From an insurance perspective, accurate and current data is necessary to calculate the maximum probable and maximum possible losses per state-owned building and across the entire State enterprise. Additional relevant considerations are the impact of the selected options on overall state operations, the costs associated with retaining the risk versus transferring the risk through reinsurance, and should provide clear procedures for identifying when and how funding will be made available in emergencies.

The Potential Benefits of Maintaining a Comprehensive Database of State-Owned Property Will Require Multi-Agency Partnership. This report concludes that maintaining a centralized, consistent, and comprehensive database of state-owned property would provide detailed and up-to-date information on state-owned property supporting informed decision-making and long-term planning. Complete and accurate data is foundational to the design of any comprehensive asset protection strategy and enterprise maintenance. Once data is collected, the data must be continually maintained and updated to ensure accuracy and completeness, and in a consistent format to ensure the State's ability to identify, track, and report on state-owned property. Any centralization would ideally support simultaneous availability of information to multiple agencies, with the ability to create analytics and reports based on the entirety or any subset of the collected data.

The Potential Risk of Maintaining a Comprehensive Database of State-Owned Property May Require Protections From the Public Information Act (PIA). The database will necessarily contain information about state-owned assets such as security systems, land and building values, information technology infrastructures, and other confidential information. Most of the information contained in the database is a categorical exception from the PIA. Safeguarding the database would reduce the potential for market exploitation or inadvertently creating a security threat against a state-owned asset.

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A. DETAILED FINDINGS

1. State-Owned Property

As a result of HB 3750, the Office implemented a risk managing information system, or RMIS, a single database system capable of accommodating the comprehensive data on state-owned land, buildings, and contents. This system includes capabilities for significant analytics, and is extensible and includes the first iteration of consistent reporting requirements by including elements of HB 3750 and relevant existing data fields of existing data repositories.

a. General Overview

The consolidated database currently contains 15,246 individual reported records. These records include buildings (13,633), state-owned land (1,376), and contents (237).

Based on the reported record dataset, the total estimated replacement cost of the reported state-owned assets is currently \$80,860,698,320.

The number of state-owned buildings account for 89.42% of the total estimated replacement cost value. The number of state-owned land accounts for 9.03% of total estimated market value.

The highest concentration of reported state-owned buildings is in Austin with 812, facilities while the highest concentration of estimated replacement cost is in Houston, with \$12,962,784,035 of values.

Figure 1 Number of Buildings by City³

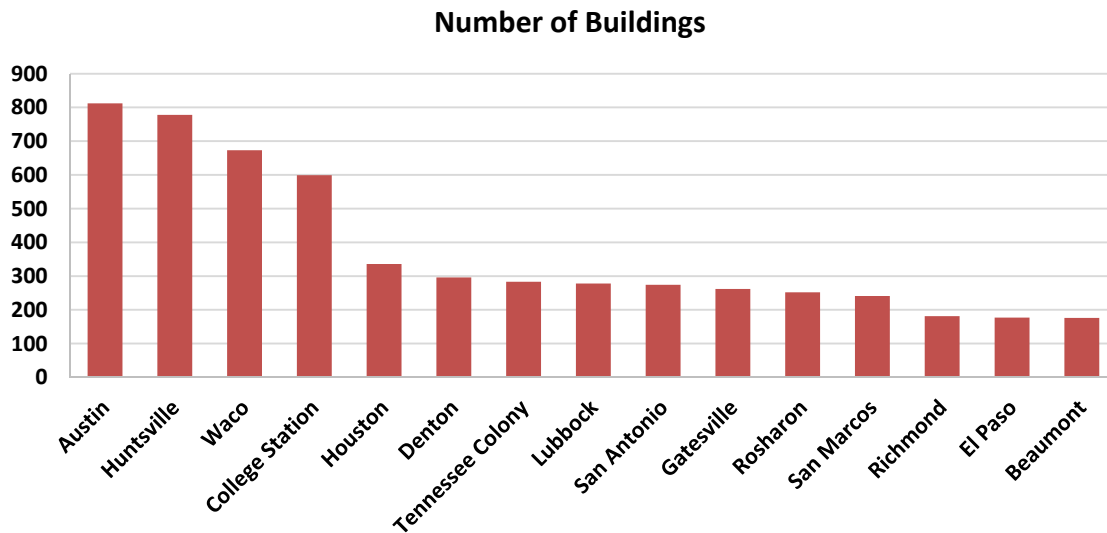
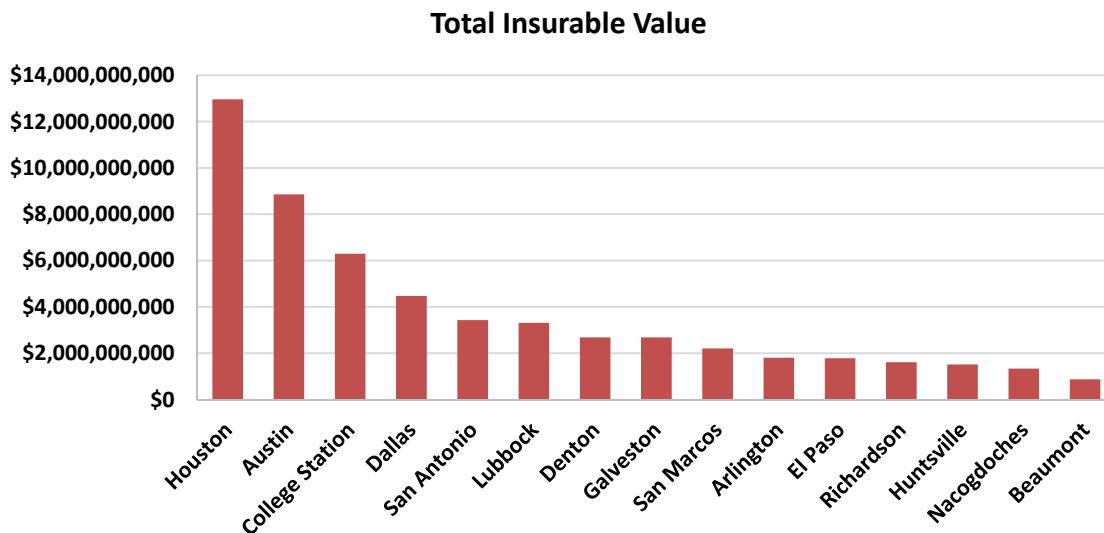


Figure 2 Total Estimated Total Insurable Value by City⁴



The total acreage of state-owned land is approximately 10,124,425 acres. According to the United States Department of Agriculture's Natural

At a Glance:
Buildings & Facilities
 ➤ Texas Park and Wildlife Department owns 1,552 buildings/facilities.

³ Figure 1 charts the top 15 cities with highest concentrations of reported state-owned buildings. A grand total of 392 cities were reported to contain, at least, 1 state-owned building.

⁴ Figure 2 charts the top 15 cities with the highest reported total insurable value of state-owned buildings. A grand total of 273 cities were reported to have a state-owned building with a reported total insurable value.

Resources Conservation Service, the total surface area of Texas is 171,051,900 acres.⁵ Reported acreage constitutes the state of Texas owns approximately 6% of the state's total area.

The state owns an array of buildings and facilities that range from historically significant and irreplaceable sites to barns, prisons, parks, and football stadiums. The construction dates of the state-owned buildings range from the 1830s to 2010s.

- Texas State Technical College- Waco owns 641 buildings/facilities.

Land

- Texas Department of Transportation owns 275 parcels of land.
- University of Texas System owns 88 parcels of land.

State-entities and institutions of higher education were not required by HB 3750 to report the same data regarding contents. Contents data that was reported was not consistent or verifiable within the timeframe allotted by HB 3750 for conclusion of reporting and analysis. The Office utilized data from the FY15 Comprehensive Annual Financial Report to determine the value of furniture and equipment, other capitol, and computer software for the entire state at \$9,974,439,000.

As noted above, the best estimated total replacement cost for buildings, and contents for currently reported state-owned assets is \$80,860,698,320 the market value for land is 2,687,660,810. The Office previously estimated approximately 60 – 80 billion dollars in state-owned assets through extrapolation of incomplete data (non-consolidated, non-reported data). Reported data verifies the general accuracy of those estimates, but the incompleteness of reported data indicates current values may be higher.

b. Notable Specifics

Institutions of higher education own 6,064 of 13,633 buildings reported (44%). Other state entities owned the remaining 7,569 of 13,633 buildings (56%). Reported land parcels of institutions of higher education and other state entities was similar to building ownership ratio, with higher education owning 555 of 1,376 parcels (40%) of the total parcels of land reported, while state-entities owned 821 of 1,376 parcels (60%).

The Texas Parks and Wildlife Department, Texas Department of Transportation, and Health and Human Services Commission own the most buildings, respectively, when comparing state entities, with a total of 3,391 of 7,569 buildings (44%). The Texas Department of Transportation, The Texas Parks and Wildlife Department and the Department of Public Safety own the highest number of land parcels, with 560 of 821 parcels (68%).

⁵ http://www.nrcs.usda.gov/Internet/FSE_DOCUMENTS/nrcseprd396218.pdf

With regard to the institutions of higher education, Texas State Technical College at Waco, Texas A&M University, and The University of Texas at Austin own 1,714 of 6,064 buildings (28%).

The University of Texas System, Texas Woman's University, Texas A&M University Forestry Services rank the three highest owners of land. These institutions of higher education own 164 of 555 parcels (29%).

2. State Exposure

The consolidation of data on state-owned assets has increased the overall understanding of the state's risk exposure, indicating that further statistical and data analysis of consolidated information can be used to identify potential exposures leading to implementation of a statewide risk strategy and insurance plan. Through a comprehensive statewide risk strategy and insurance plan, the state of Texas can mitigate exposure and reduce the potential for catastrophic damages and loss.

With complete data, the state could produce more definitive hurricane models with information from a consolidated database.⁶ Based upon extrapolated information from the state Sponsored Property Insurance Program but including excepted programs, Texas has a .04% chance that a single hurricane (250 year storm) could cause losses exceeding \$2 Billion.

Complete data would also produce more definitive hail and tornado models. Texas leads the nation in hail loss claims.⁷ Texas is also one of the top five states in tornado occurrences.⁸ The knowledge which could be extracted from a comprehensive consolidated database could be used in developing mitigation strategies relative to exposures and potential losses due to weather related risks.

a. Potentially Uninsured/Underinsured Assets

For potentially uninsured/underinsured properties, the state as a whole does not have a specific funded reserve for losses. When a loss is sustained, the affected individual entity must absorb the loss within current budgets and/or request a supplemental appropriation from the Legislature.

The consolidated database contains 13,633 records on reported state-owned buildings, with the total estimated value of \$70,886,259,320.50. However, the final version of

⁶ Appendix A: RPS Analytics 2016 Hurricane Catastrophe Analysis Executive Summary. This summary is based upon the 40 state entities and institutions of high education participating in the State Sponsored Property Insurance Program as a sample.

⁷ 19% of all hail related claims are located in Texas from the National Insurance Crime Bureau ForeCAST Report May 2, 2016.

⁸ U.S. Department of Commerce, National Oceanic and Atmospheric Administration, National Weather Service *Quick Facts: Tornadoes*, July 20, 2009.

HB3750 did not retain a provision requiring entities to report insurance coverage. Of 13,633 buildings reported, 1,452 properties are specifically known to be insured due to participation in the Statewide Insurance Purchasing Program administered by the Office.

Insured Building	Number of Buildings	TIV
Not reported	12,181	\$ 59,728,642,293.19
Yes	1,452	\$ 11,157,617,027.31
Grand Totals	13,633	\$ 70,886,259,320.50

At the time of data compilation and analysis, a maximum of 12,181 appeared to be potentially uninsured or underinsured (89%) and the total potential exposure of uninsured/underinsured properties, as expressed in total insurable value, was \$59,728,642,293.⁹ This figure represents collected data only, and should not be solely relied upon. **Importantly, institutions of higher education subsequently communicated with the Office and provided important additional detail on a significant portion of this exposure, as described below.**

b. Higher Education Post-Collection Detail

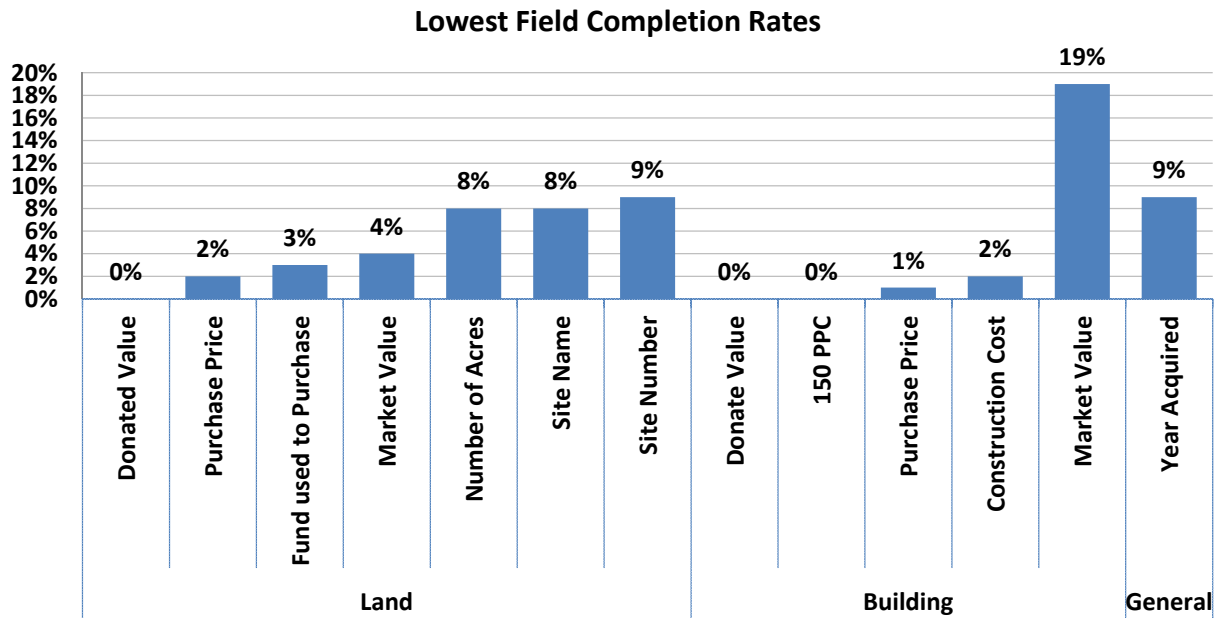
The Texas A&M University System, the University of Texas System, the Texas Tech University System, and the Texas State University System each manage their own insurance programs. Consistent with the testimony at a March 2016 hearing of the House Committee on Business and Industry, and again subsequent to the HB3750 joint committee hearings and data collection process, each of the four university systems has represented that they have confirmed property insurance programs in place, including reserving capacity. The insurable assets subject to the four institutions insurance programs, as reported to the Office, represent approximately \$52.3 billion of the \$70.9 billion in state assets as compiled in this study. With the Office's program covering approximately \$11.2 billion (non-reserved), the remaining unverified uninsured/underinsured property is more estimated to be approximately **\$7.4 billion**.

3. Incomplete Data

Complete and accurate data is foundational to the design of any comprehensive asset protection strategy. Once data is collected, the data must be continually maintained and updated to ensure accuracy and integrity.

⁹ Appendix B: Insured and Uninsured Buildings.

The HB 3750 analysis does raise concerns regarding the accuracy, consistency, and integrity of data on state-owned property. Consistent with legislative concern, analysis of data integrity reveals instrumental information is incomplete. This is due to a number of factors, including but not limited to statewide inconsistencies on how data was recorded, different methodologies in determining values, and lack of relevant data.



a. Value

Value can be expressed in various ways by state entities - purchase price, market value, replacement cost, etc. - and a variety of methods and formulas can be used to determine value. HB 3750 required state entities to report the value of the building base upon replacement value, market value, donated value, or purchase price. Aside from inconsistent market valuation techniques, market value was not reported for 11,043 buildings (18.4%). Therefore, of those 11,043 buildings, 2,019 building records in the database have a reported replacement cost of zero, as a result of the replacement cost not being captured at the time of an appraisal or not being reported to the Office.

Some valuation data submitted was based on appraisals, and may be generally relied upon to determine replacement value. Of reported records, 6,950 buildings of 13,633 (51%) had appraisals on record. However, the Office notes that some appraisals were not current or verifiable, dating as far as back as 1996, and some others did not include relevant data. For tax purposes, the Texas Comptroller of Public Accounts recommends that appraisals should be conducted every three to four years to ensure up-to-date

replacement cost information is available.¹⁰ The standard in the risk management and insurance industry is similar, with a three to five year cycle.

The state's ability to accurately calculate replacement cost of the entire pool of state-owned property is negatively affected by these issues. While a single standard for valuation to accurately calculate replacement cost in the event of loss would enable the Office to better assess risk maintenance, risk avoidance (insurance), and risk assumption, valuation is used for different purposes by various agencies. Nonetheless, providing consistency in determining market value and replacement cost statewide would provide more accurate comparisons suitable for enterprise-level analysis and determinations.

b. COPE Data

Construction, occupancy, protection, and exposure (COPE) data is essential for evaluation of risk. State-owned buildings may require improved construction techniques to mitigate damage from hail storms, tornados, and flood. Occupancy can assist with risk planning affecting state employees when catastrophic events occurs. In addition, fire and security protections and exposure management mitigate against potential loss of property and lives.

All reported protection information was consolidated into the database. Audible and visual fire alarm systems, active sprinkler systems, presence of smoke detectors and secure entry locations were recorded but are incomplete for all state entities.

Consistent data on fire protection systems is key to the State Fire Marshall's Office (SFMO) assessments of state-owned buildings' protections against fire hazards, and is vital information to efficiently plan safety strategies for the highest risk state-owned buildings. This data is also necessary for accurate insurance quoting representing exposures. Complete and consistent COPE data is necessary for risk planning, and developing policies and procedures to effectively plan and mitigate against potential loss.

c. Contents

Property insurance claims will include the damaged contents inside the building. An analysis of the data collected indicates that 165 state entities did not report contents. To provide actionable estimated information in this report, the Office has utilized the Comprehensive Accounting Financial Report (CAFR) from the 2015 fiscal year for alternative data. The CAFR reports \$9,974,439,000 in furniture and equipment, other capitol, and computer software. The Office notes that this total is not inclusive of all

¹⁰ <http://comptroller.texas.gov/propertytax/local-protest/remedies/valuing-property.html>. Though the Comptroller's recommendation for property appraisal is for tax purposes, the recommendation would be kept consistent.

state-owned contents as the minimum threshold reporting requirement excludes furniture and equipment valued under \$5,000 and software valued under \$100,000. The minimal threshold reporting requirements could exclude contents that could cumulatively increase the value of the reported contents.

B. DATA COLLECTION AND CONSOLIDATION

Significant caution must be taken for any conclusions drawn from, or reliance upon, the consolidated data on state-owned assets. It is important to note that the consolidated data is known to be incomplete, because all data on all state-owned land, buildings, and contents was not reported or was only partially reported. The data in this study is based upon information that was previously reported to, or maintained by, other collecting entities for specific purpose and use. To that end, this consolidation is a snapshot of HB 3750-related information as it exists today in various other locations, subject to limited verification and correction as required for valid inclusion in analysis. Therefore, the overall valuation, exposure, and insurance strategy is likely to be revised in the event of an increased completion rate and confidence level.

1. Data Integrity

The Office imported and then audited the data it received from the LBB. During the audit, the Office identified data discrepancies and other items that affected the integrity of the data in the consolidated database. While typographical errors may have a minor impact on data analysis, incomplete reporting of fields did hinder accurate data analysis. Other data integrity issues include:

a. Consistency

As expected, the information reported for state entities regarding assets was not uniform because the information was not centralized and was collected for specific use. In addition, HB 3750 listed five different standards that could be used to express the value of a reported asset. Asset value could be based on replacement cost, market value, donated value, purchase price, or appraised value.

Valuation does depends upon focus. From an insurance perspective, total insurable value and replacement costs are essential. From a market standpoint, appraised values are important. Some reported property values in the consolidated database were based upon outdated values, which does not account for inflation or other variances.

State entities that compile data from other state entities collect different data elements and maintain the data in different formats, including paper files. Tracking and reporting on state-owned assets is not based on the same source of information. The data reported may not be defined by the same terms or concepts between entities. For example, some entities use a numeric system (e.g. “3”) and others assign a term (e.g. “fair”) to indicate the condition of a building. These differing criteria affect the ability to analyze and compare important data elements for the purpose of statewide focus.

b. Accuracy and Validation

The collection, compilation, and verification of state-owned assets data reveals inaccuracy and inconsistencies between the consolidated database, state-entities' data on state-owned assets, and data maintained by individual state entities.

As an audit sampling and confidence determination, several entities were asked to validate the property data collected on behalf of the entity and supplied to the Office. Where validated, corrections and updates were addressed and the deviance was noted as an area of concern. However, agency representatives were often hesitant to make changes to or add omitted data because the source and/or accuracy of the data was unknown. When omitted data is not added or reported, or data is not amended to become accurate or complete, the data is diluted, which hinders thorough validation.

In many instances, the same address was provided for every building on a parcel of land instead of a unique physical address for each structure. By providing one address for multiple buildings, the ability to validate locations of state-owned building is difficult.

c. Outdated Data

State entities that were asked to validate the data reported on their behalf identified at least 21 properties that are no longer owned by the State.

As stated above, the consolidated data revealed appraisals on 6,950 state-owned buildings were reported. However, 6,376 (96%) of the reported appraisals are five years or older and the most recent appraisals were completed in 2012. Outdated appraisals cannot be relied upon because there is no price appreciation from the original date of the appraisal to the current year. Relying upon outdated appraisals to calculate replacement value does not account for any increase in value due to current market conditions or inflation.

Table 1 The Number of Appraisals per Year.¹¹

Last Appraisal Year Building	Location Count
1996	8
1999	81
2002	11
2003	13
2004	10
2005	15
2006	269
2007	88

¹¹ The years in white indicate outdated appraisals. Those appraisals in blue indicated appraisals that could possibly be used to indicate replacement value.

2008	221
2009	172
2010	2835
2011	735
2012	1918
2013	529
2014	23
2015	14
2016	8
<i>Grand Total</i>	6950

2. Data Challenges

Given the constrained timeframe under HB 3750, the LLB, GLO, TFC, THECB, and the Office coordinated efforts to collect a massive amount of data on behalf of the state. The coordinated effort for collection, verification, and consolidation presented a significant challenge to the entities involved, as no such data collection has been previously performed in the state. Therefore, the entities involved had to mine and collect data without existing procedures, criteria, and terminology to define the data collected. Although the consolidation of information raises the concerns outlined herein, it is important to note that inconsistencies and other issues were anticipated.

a. Procedural Impediments

To meet the prescribed time constraints in HB 3750, the consolidated database was populated through a data import using a specially formatted Excel template. The template was designed with drop down menus for many data fields to attempt to increase consistency and decrease human error. Criteria used within the template drop down menus were expanded to accommodate differences between how data was tracked or labeled at the state-entity level.

This method was implemented to accommodate export of data from existing collection databases, rather than direct input by individual agencies. However, use of the template was complicated by the use of the criteria captured by the expanded selections made data analysis difficult. Different state-entities used different versions of the Excel software and compatibility issues between different Excel versions introduced consistency variances. For example, drop down menus designed to standardize data elements were able to be bypassed and non-standard data introduced, requiring manual correction or notation.

b. Time Constraint Consideration

Also due to the time constraints in the bill, the LBB and the Office could not ask each individual state entity to provide missing data, update asset records, or validate data. Some data, such as the fund type used to purchase a building, contents, and TIV, was not readily available and could not be compiled in the timeframe provided for the data

collection. Therefore, some data not subject to sampling and audit remains either incomplete or based on extrapolation.

C. STATEWIDE STRATEGY TO ENSURE STATE IS ADEQUATELY INSURED

A large number of state assets are not currently protected from loss through insurance. The Office has previously recommended the creation of a centralized, mandatory state property insurance program to normalize the cost of ordinary losses to individual state entity budgets. This recommendation is restated and incorporated by reference herein. That statewide strategy incorporates use of a combination of traditional insurance options and risk retention and risk transfer mechanisms to minimize the budgetary impact of ensuring state-owned assets are adequately insured.¹²

1. Risk Retention

Self-insured retention plans would allow a state entity, or the state as a whole, to pay for losses up to a certain level out of existing budgets, without the costs associated with traditional insurance. With this method, the state entity, or the State as a whole, would need to create and maintain dedicated funds in a minimum amount that are allocated for and dedicated to payment of claims up to a predetermined dollar amount. These costs are anticipated losses, known as attritional losses (or simply as the cost of doing business).

Pooling is a risk retention strategy that combines resources to finance experienced losses. State pools could be created based upon common exposures, geography, or any mutually supporting combination. Each participant would contribute resources to the pool that would be used to the equal benefit of the participants. Pooling programs would allow the state to include or exclude entities based on their ability to meet underwriting guidelines. Pooling would stabilize the premium (contribution) for individual participants and create more consistency in annual budgeting.

Thereafter, reinsurance or excess insurance can be used to assist with losses that exceed a self-insured retention limit or a pool's resources.

2. Risk Transfer

The state can insure its assets against damage or loss through insurance options. However, insuring all state-owned assets through traditional insurance routes would likely represent the most expensive option for the state. Traditional insurance is primarily advantageous for small geographical spreads. To finance large losses, the state could establish a reserve sufficient to deal with moderate spikes in losses from year to year and consider purchasing reinsurance for large, catastrophic losses. Determining the dollar limits for reinsurance is dependent upon accurate and comprehensive data on state-owned assets.

¹² See, Appendix D: State Office Risk Management 2011 Insurable Assets Study; Appendix E: State Office Risk Management 2013 Insurable Assets Subsequent Study

In order to implement a complete and thorough statewide asset protection plan, the following recommendations are made.

D. RECOMMENDATIONS

As a result of HB 3750, the Office was able to base observations on state-owned assets and generalized risk assessments. Specifically, the consolidated database provided an opportunity to better manage, understand, and analyze state-owned assets. With standardized, accurate, and comprehensive data, regardless of where the consolidated data is housed, the Office could prepare thorough risk analyses and a statewide asset insurability plan to better protect the state from all types of loss.

The unique challenges in collecting, auditing, and validating data for HB 3750 warrant consideration of the continuation and potential expansion of a centralized, consolidated database for state-owned assets.

1. Continue Collection to Address Accuracy and Completeness of Data, and Validate and Maintain Data through a Centralized, Consolidated Database

State entities should participate in identifying essential statutory data and any additional data that would be beneficial to risk and insurability analysis. A comprehensive set of data elements should be created and applied uniformly across all state entities that possess state-owned assets. A consolidated database can be used to centralize this data and provide easy accessibility.

2. Establish Consistent Data Elements

Future extension of the purposes underlying HB 3750 should include expectations, guidelines, and clearly defined data criteria to increase efficiency in reporting and ensure accurate, complete data is reported in a timely manner. Formal procedures on data reporting would streamline how data is reported, audited, and validated in the consolidated database. Defining the data would create more consistent information and provide an opportunity for more thorough, complete, and extensive analysis of statewide risk exposures. With consistent and unified data criteria, the scope of the data could be refined to provide more accuracy and simplify reporting.

3. Require Regular Data Updates

State entities should be allowed/required to update their reported data annually or more frequently as needed. Through data revision, verification, and updating, the data in the consolidated database can become more refined, insightful, and contemporary to address statewide issues as they arise.

Having an up-to-date appraisal for a building is essential for a comprehensive asset protection plan. Current appraisals are a more accurate assessment of the actual cost to replace a building because the value is based on current market conditions, cost of construction index, and contemporary labor costs.

Clear guidelines on the content and structure of state-owned property appraisals would ensure consistent and comprehensive data is collected with every appraisal and eliminate gaps in the data. Guidelines that set forth procedures, define data, and establish the scope of the data would enhance the accuracy and consistency of appraisals. State entities should provide and/or update appraisal data to ensure accurate replacement values for the buildings are reported. Direct reporting as changes occur will improve the accuracy of the data and remove potentially outdated data sooner.

4. Utilization of Consolidated Data

The consolidated database would be a conduit for state entities to coordinate their respective operational goals and increase efficiency. Data from one entity could be utilized by another state entity for validation and to fulfill statutory obligations.

The consolidated data could also be used for predictive catastrophic event and risk modeling. Statewide predictive risk modeling would allow the Office and other entities to perform more detailed risk and insurance analyses and enhance statewide risk and insurance strategies. This data could also support trend tracking and benchmarking of state-owned assets subject to significant risk exposures. The consolidated data could further be used to obtain better competitive market rates for uninsured state-owned buildings and contents. Readily available and accurate underwriting data can expedite risk transfer through insurance. Each entity's costs for retained and transferred risks could be tracked and analyzed. TFC, GLO, and other state entities could identify underutilized or unoccupied space in state-owned buildings leading to better utilization or sale of state-owned assets that have not been utilized.

The LBB, SAO, and the Comptroller could use the database to document the sale and acquisition of property and the source of the funds used to purchase the property. The data could assist in audits and for budgeting purposes. Information pertaining to income generation through the sale of property and the use of general revenue funds for maintenance, renovation projects, and new construction can be audited and analyzed for comprehensive budget purposes.

The State Fire Marshal's Office (SFMO) has an expanded role for fire protection of state-owned buildings and the safety of state employees in state-owned and leased buildings. The consolidated database could be used to track and benchmark fire inspections. The SFMO could use other data within the consolidated database, such as fire safety protections, alarm protections, building occupancy, and severity of loss of life indicators to schedule inspections. Similarly, the Office could select locations for loss control inspections using the consolidated data.

The Texas Public Finance Authority (TPFA) issues debt on behalf of multiple agencies and certain institutions of higher education. State law allows general obligation bonds to be

backed by the full faith credit of Texas. Self-Supporting debts are expected to be repaid through loan repayments. Not self-supporting debts are expected to be repaid with general revenue (e.g. repair and construction projects).¹³ TPFA could use the database to ascertain budgeting levels, debt ratios, and other structured finance analyses. The data could demonstrate the state's management of its fiscal affairs and debt management. With improved information and greater ability to examine the state's financials, Texas' credit rating/bond solid credit rating can be sustained or increased.

5. Require Security and Confidentiality of State-Owned Property Data

Property and content information in the database should be exempted from the Public Information Act (PIA), Texas Government Code Chapter 552. Knowledge that any data reported to the consolidated database would be secure and not subject to PIA would encourage state entities to report more thorough data and decrease enterprise risk concerns. For example, information pertaining to protection systems could compromise the integrity of a state building. Likewise, the disclosure of the state's information technology infrastructure could make it susceptible to cyber-attack. The Capitol Complex, Governor's Mansion, Texas Department of Criminal Justice, and Texas Military Department are only a few of the state entities with highly sensitive security information about their respective buildings and contents.

Exempting information in the consolidated database from the PIA would safeguard the state's ability to obtain appropriate levels of insurance at reasonable and appropriate rates. By pooling statewide risks, individual agencies with average or poor risk ratings are able to benefit from the group buying power of the Statewide Sponsored Property Insurance Program. Diluting participation in that program would drive up insurance costs for the state.

Texas Government Code §552.105 exempts information relating to the location of real and personal property for a public purpose prior to a public announcement of a project. Appraisal and purchase price are also excepted prior to the formal award of contracts for the property.

¹³ http://www.lbb.state.tx.us/Documents/Publications/Presentation/2214_Debt_Summary.pdf

APPENDICES

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APPENDIX A

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HB3750

2016 HURRICANE

CATASTROPHE ANALYSIS EXECUTIVE SUMMARY

Requested by Risk Placement Services

August, 2016



Risk Placement Services, Inc.

ANALYTICS



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RPS Analytics does not endorse one model over another, nor is it the intent of this summary to compare the results or methodologies of the models to each other. RPS Analytics strongly recommends the use of multiple models, which provides clients a range of results from different scientific approaches.



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Executive Summary

This document reports the results of RPS Analytics catastrophe analyses of HB3750 2016 hurricane portfolio commissioned by Risk Placement Services (RPS). This report includes HB3750's property exposure summary detailing its locations exposed to the peril of hurricane events.

RPS Analytics reviewed and reformatted the exposure data as necessary and used them as input to AIR Worldwide Touchstone v3.1 model and Risk Management Solutions (RMS) RiskBrowser v15.0tm model. These models are systems of computer programs that incorporate the fundamental physical characteristics of hurricanes and earthquakes, expressed mathematically.

Through our hazard analysis we will identify exposure values and geocoding resolution. Secondary characteristics, where provided will also be applied in the modeling.

With a series of deterministic and probabilistic analyses performed, we will be able to identify the 20 to 1,000 year expected losses. The portfolio was run on an Occurrence Exceeding Probability (OEP). The loss estimates produced will help HB3750 to:

- Develop risk management guidelines that account for hurricane risk.
- Manage and control exposure to hurricane losses.

Portfolio Assumptions & Insured Value Summary

For each line of business, the following assumptions will be made:

- All locations are insured to value (i.e. total limit = total value).
- Number of stories, year built and square footage where provided were applied in the models.
- Secondary characteristics where provided were applied in the models.
- All values listed in this portfolio are in whole dollars unless otherwise noted.
- All hurricane analyses include demand surge.

➤ Values Summary

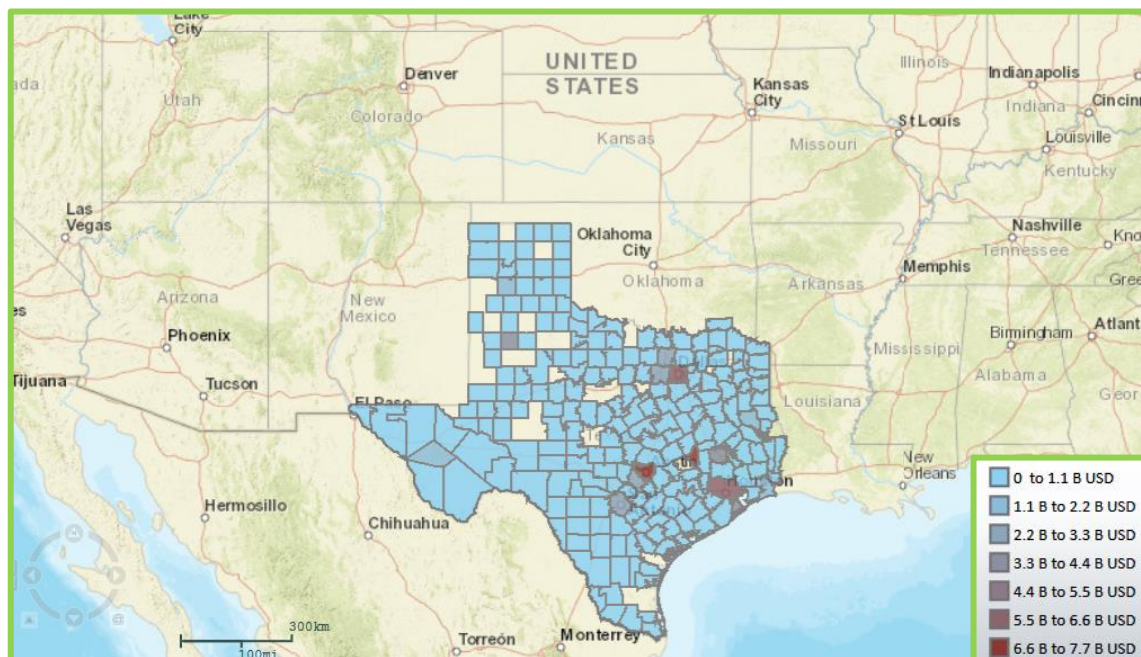
Building	Content	Business Interruption	Total
\$69,506,460,019	\$0	\$0	\$69,506,460,019
100.00%	0.00%	0.00%	100.00%

➤ The order of geo-coding scheme is coordinate, building, parcel, street, block, postal code, and city. The more exact address HB3750 provided us, the more accurate loss we can provide through each analysis. The chart below shows that 100.00% of locations geocoded to coordinate.

Geocode Resolution	No of Risks	Total Values	% Total
Coordinate	14,001	\$69,506,460,019	100.00%
Total	14,001	\$69,506,460,019	100.00%

➤ 99.87% of exposed values modeled are in the State of Texas.

State	No of Risks	Total Values	% Total
TX	13,978	\$69,415,897,678	99.87%
OK	23	\$90,562,341	0.13%
Total	14,001	\$69,506,460,019	100.00%



Analysis Summary

Hurricane (Incl Storm Surge)

HB3750 has approximately \$69 Billion in values exposed to hurricane related events in the United States. **Figure 1-1** illustrates the probability of ground up losses exceeding various amounts due to one event in a given year, as described by the Occurrence Exceedance Probability (OEP). The 250yr event loss probability is commonly used by the insurance marketplace as a gauge for insurance pricing.

Critical Prob.	Return Period	AIR	RMS
		Ground Up	Ground Up
0.10%	1,000	\$3,827,515,575	\$4,279,821,943
0.20%	500	\$3,047,842,763	\$3,286,235,142
0.40%	250	\$2,128,904,675	\$2,420,519,525
1.00%	100	\$1,230,281,164	\$1,439,285,923
2.00%	50	\$703,016,947	\$846,797,873
5.00%	20	\$256,623,107	\$311,299,284
AAL		\$57,908,355	\$68,231,947

Figure 1-1

AIR:

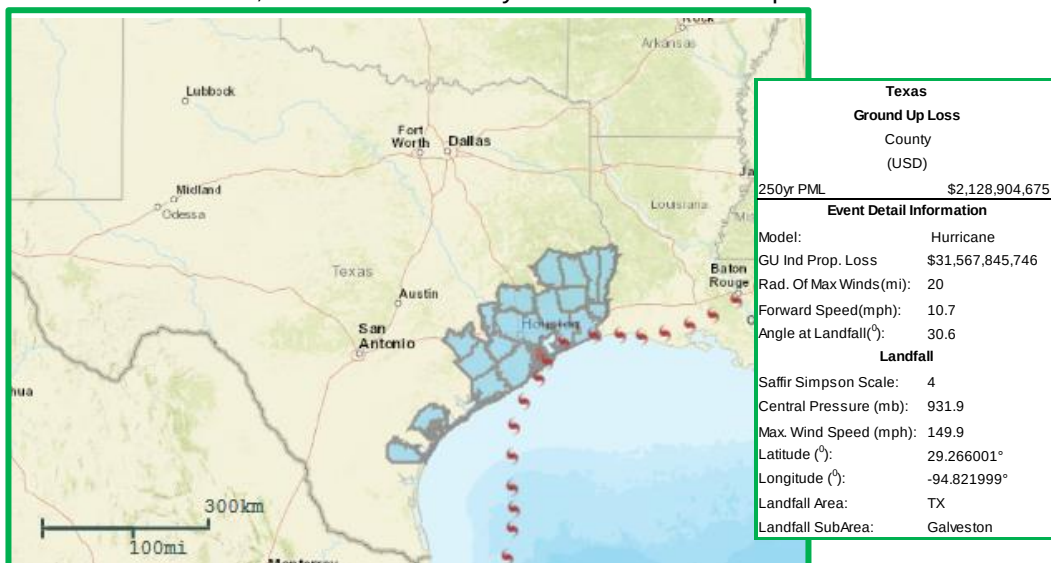
➤ According to AIR Touchstone, there is a 0.4% annual probability (a.k.a. the 250 year event) that a single hurricane (OEP) event will cause losses that will exceed \$2.1 billion.

RMS:

➤ According to RMS RiskBrowser, there is a 0.4% annual probability (a.k.a. the 250 year event) that a single hurricane (OEP) event will cause losses that will exceed \$2.4 billion.

250Yr Event Loss

The AIR 250yr ground-up stochastic event producing the loss of \$2.1 billion is a hurricane making landfall in Galveston, Texas at an intensity of 4 on the Saffir Simpson Scale.



Hurricane (Excl Storm Surge)

HB3750 has approximately \$69 Billion in values exposed to hurricane related events in the United States. **Figure 1-2** illustrates the probability of ground up losses exceeding various amounts due to one event in a given year, as described by the Occurrence Exceedance Probability (OEP). The 250yr event loss probability is commonly used by the insurance marketplace as a gauge for insurance pricing.

Critical Prob.	Return Period	AIR	RMS
		Ground Up	Ground Up
0.10%	1,000	\$3,248,411,583	\$4,053,059,517
0.20%	500	\$2,617,704,620	\$3,092,647,154
0.40%	250	\$1,693,451,210	\$2,260,622,886
1.00%	100	\$1,001,898,715	\$1,331,629,391
2.00%	50	\$547,581,309	\$783,393,388
5.00%	20	\$214,540,262	\$291,265,094
AAL		\$48,262,554	\$63,908,752

Figure 1-2

AIR:

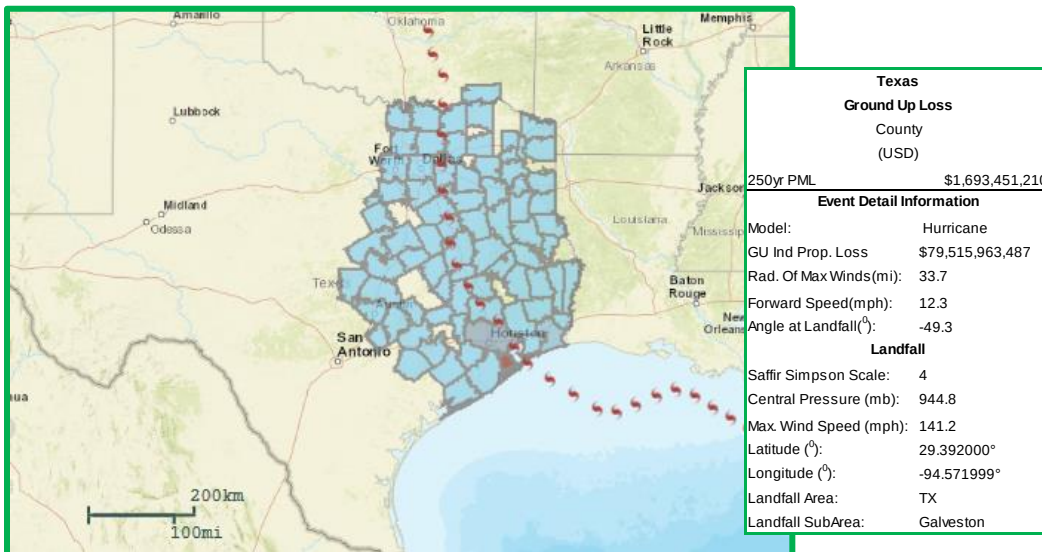
➤ According to AIR Touchstone, there is a 0.4% annual probability (a.k.a. the 250 year event) that a single hurricane (OEP) event will cause losses that will exceed \$1.7 billion.

RMS:

➤ According to RMS RiskBrowser, there is a 0.4% annual probability (a.k.a. the 250 year event) that a single hurricane (OEP) event will cause losses that will exceed \$2.3 billion.

250Yr Event Loss

The AIR 250yr ground-up stochastic event producing the loss of \$1.7 billion is a hurricane making landfall in Galveston, Texas at an intensity of 4 on the Saffir Simpson Scale.





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Glossary of Terms

Average Annual Loss (AAL): the annualized estimate of loss to a representative unit of exposure from a broad range of modeled catastrophe events;

Centroid: A point latitude and longitude which is meant to represent the center of a defined geographical area.

Demand Surge: 'Post loss inflation' of building materials/labor, typically applied only to the building damage, and not to the business interruption/contents loss components;

Geocoding: the process of associating an address, such as a street or postal address, with an estimate of the latitude and longitude coordinates that represent the location on the ground

Ground Up Loss: the amount of loss sustained before deductions, underlying coverages and reinsurance are applied.

Gross Loss: the insurer's or cedant's loss after deductibles, attachment point(s), and limits are applied, but before any reinsurance.

Modified Mercalli Intensity (MMI Scale): subjective scale used to describe the observed local shaking intensity and related effects of an earthquake. The scale ranges from 1 (barely felt) to 12 (total destruction), with slight damage beginning at 6. In general, the MMI will decrease with distance from the fault, except in regions with poor soils. Intensity is different from magnitude, which is a measure of earthquake dimension, rather than effects. The MMI scale differs from the Richter scale in that it is used to measure the intensity of an earthquake in a particular area.

Occurrence Exceedance Probability (OEP): the probability that the most costly event in any one year will exceed a certain threshold. These are the figures relevant for Catastrophe excess of loss reinsurance;

Probable Maximum Loss (PML): estimate of the maximum loss on a particular risk as a result of a single event, assessed with due care and taking into account all risk elements;

Return Period: the expected length of time between recurrences of two events with similar characteristics. The return period can also refer to specific level of loss;

Richter scale: the original magnitude scale developed by Charles Richter in 1935. Usually referred to as local magnitude, this scale is still often used by scientists for measuring earthquake intensity. The Richter magnitudes are based on a logarithmic scale (base 10).

Saffir-Simpson Scale: Scale commonly used to measure windstorm intensity. Uses a range of 1 to 5, with 5 being the most intense storms. Named after Herbert Saffir and Robert Simpson.

Storm Surge: the effect of flood caused by storm. Modeling a portfolio with storm surge will generate larger losses for a given return period than modeling that same portfolio without storm surge.



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APPENDIX 1

Occurrence Exceeding Probability (OEP™) Analysis Descriptions For Information Purposes Only

RPS Analytics conducted a series of deterministic and probabilistic analyses, utilizing catastrophe models, to assess the catastrophe risk to which a portfolio is exposed. These analyses included an Occurrence Exceeding Probability (OEP™) analysis and an Average Annual Loss analysis. Each of these analyses is briefly described below.

Occurrence Exceeding Probability (OEP™) Analysis

The OEP™ analysis represents a comprehensive analysis of possible catastrophic events. A series of events encompassing the complete range of probable United States events is simulated. The resulting event losses and standard deviations are used to create a severity distribution for the size of loss given that an event has occurred. Uncertainty in the loss amount caused by an event, known as secondary uncertainty, is reflected in these calculations. Similarly, the event rates are used to create a frequency distribution for the number of occurrences in a given year. A simulation approach is then used, sampling from the frequency and severity distributions, to arrive at 10,000 simulated years of losses with at least one occurrence per year.

In order to create an OEP™, the maximum loss for each simulated year is selected and the probability of each simulated year is calculated as one divided by the total number of simulated years. For example, during the sampling process, if 20,000 iterations were needed in order to get 10,000 iterations with at least one occurrence, then the probability for each simulated year would be 1/20,000 or 0.005%. These simulated years are then sorted by maximum loss, from largest to smallest loss, for each financial perspective separately. A cumulative probability, which represents the probability of incurring a loss of the specified amount or greater (i.e., an occurrence exceeding probability), is then calculated for each loss level by aggregating the individual simulated year probabilities, beginning with the probability associated with the largest loss.

A sample of the results of an OEP™ analysis is provided in the table below. The Estimated Maximum Loss and Cumulative Annual Probability column represent the two elements used to create an OEP™ curve.

Simulated Year	Probability of Occurrence	Estimated Maximum Loss	Cumulative Annual Probability of Exceedance	Loss Return Period
2	0.005%	\$200M	0.005%	20,000 years
3	0.005%	\$150M	0.010%	10,000 years
1	0.005%	\$90M	0.015%	6,667 years

The table above indicates that there is a 0.015% annual probability of losing \$90 million or more as a result of a single event. In other words, a loss of \$90 million or greater would be expected to occur on average every 6,667 years (the loss return period for a \$90 million loss is 6,667 years). Since the OEP™ analysis considers all storms and their probabilities; it is the cornerstone analysis for understanding the probability of various levels of overall portfolio loss. Using this analysis, the probability of a specific dollar level of loss or the level of loss associated with a specific probability can be established.

Annual Estimated Loss Analysis

The Average Annual Loss analysis calculates a single loss number for the portfolio that reflects the average amount of loss that can be expected on an annual basis based on all possible events that could impact the portfolio. Average Annual Loss is calculated by weighting all potential losses by their associated annual probabilities. This analysis presents the reader with insight into the expected annual losses to the portfolio. It is also useful for determining the relative risk of various components of the portfolio. Within this report, the relative risk of individual postal codes and counties is examined.

Secondary Uncertainty

Note that the inclusion of secondary uncertainty (i.e., the uncertainty around the mean loss at a particular loss perspective) in RMS's model, analysis can sometimes result in gross loss exceeding ground-up losses and net losses exceeding pre-cat net losses.

RPS Analytics Primary and Secondary Model

Currently, RPS Analytics will produce OEP Curves using two catastrophe models. RPS Analytics performed careful research before licensing two catastrophe models that, in our opinion, represent the best technology available. The varying results between models should further illustrate that these tools should be understood to only create benchmarks for your considerations.



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Disclaimer

AIR Worldwide Touchstone (AIR) v3.1 and Risk Management Solutions (RMS) RiskBrowser v15.0 are licensed technologies used in combination in providing this information are based on the scientific data, mathematical and empirical models, and encoded experience of earthquake engineers, wind engineers, structural engineers, geologists, seismologists, meteorologists, and geotechnical specialists. As with any models of complex physical systems, particularly those with low frequencies of occurrence and potentially high severity outcomes, the actual losses from catastrophic events may differ from the results of simulation analyses. Furthermore, the accuracy of predictions depends largely on the accuracy and quality of the data input by the user.

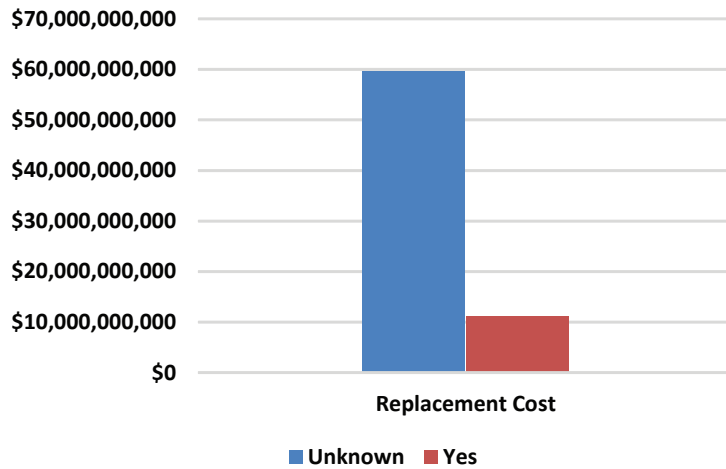
The loss estimates and their associated probabilities are estimates of the magnitude of losses that may occur in the event of such natural hazards; they are not factual and do not predict future events. Actual loss experience can differ materially. They depend on data and inputs supplied by the client over which RPS Analytics exercises no control. The assumptions that RPS Analytics used in creating them may not constitute the exclusive set of reasonable assumptions and methodologies. The use of alternative assumptions and methodologies could yield materially different results.

RPS Analytics does not recommend making catastrophic risk management decisions based solely on the information contained in this report. Rather, this report should be viewed as a supplement to other information, including your company's specific business practice and financial situation.

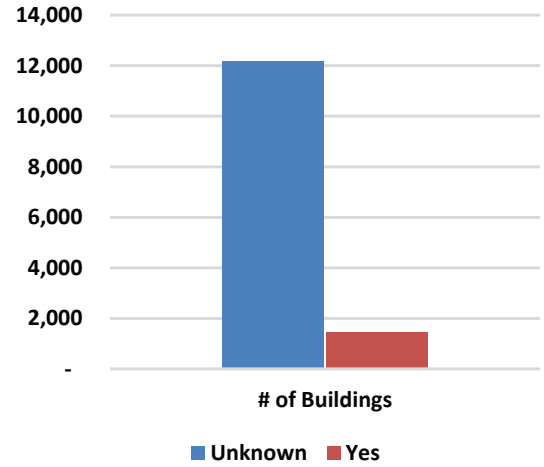
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APPENDIX B

SORM Insured Building by Replacement Cost



SORM insured Building Count



APPENDIX C



STATE OFFICE OF RISK MANAGEMENT
Senate Bill No. 1, 81st R.S.

STATE INSURABLE ASSETS STUDY



JANUARY 2011

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I. Background

The State Office of Risk Management (Office) is responsible for administering insurance services obtained by State agencies, including the government employees' workers' compensation insurance program and the State risk management programs.¹ Pursuant to Senate Bill No. 1, 81st R.S., as codified in the General Appropriations Act, the Office was directed to prepare a report and offer recommendations for a potential statewide strategy to insure State assets against damage or loss and comment on the advisability of various insurance options, including self-insurance, privately placed insurance, and stop-loss insurance.²

The Office currently administers the voluntary State of Texas Property Insurance Program, which currently insures approximately \$11B in Total Insurable Values (TIV). State agencies are not generally required to insure their assets, but 27 agencies have elected to participate to insure their real property and contents, either for a business purpose or to comply with external requirements, such as property financed with public bonds or as a prerequisite to Federal Emergency Management Agency assistance. Only a minority of State property is currently covered by insurance. The Office estimates the State in total has approximately 40,000-45,000 properties with a combined TIV of \$50B-\$80B.

It is often assumed the State of Texas self-insures its real and personal property.³ This long-held belief partially stems from the 1921 Senate Concurrent Resolution No. 3, 37th R.S., and partially from the existence of unappropriated general revenue and mechanisms for requesting supplemental appropriations for sustained losses.⁴ The latter is not technically self-insurance, as the State has no specific funded reserve for losses to real or personal property nor has it established a process for adjusting claims and distributing payments. Most agencies are functionally uninsured, unless they have obtained specific insurance policies or established agency funding reserves.

Under the current statutory insurance program administered by the Office, each agency makes an individual decision to either insure its property, or a portion thereof, or retain any potential loss. When uninsured losses occur, the agency must either absorb those losses within current budgets or request additional appropriations from the Legislature.

¹ Texas Labor Code §412.011, et seq.

² GAA, pg. I-80, Rider 4

³ For the purposes of this report, real property is defined as "land and immovable structures attached to the land," and personal property is defined as "tangible property, which is often called 'contents'." Richard V. Rupp, CPCU, Rupp's Insurance & Risk Management Glossary, 2nd Edition, 1996

⁴ The 1921 resolution sets forth that it is "the policy of the state to self-insure its buildings" and recommended establishment of a fund for paying losses. No fund has been established.

For agencies that do not purchase insurance, the Legislature has historically assisted those agencies in financing uninsured catastrophic losses. Past sessions have seen multiple agencies requesting financial assistance from the Legislature for damage sustained; most recently from natural disasters such as Tropical Storm Allison and Hurricanes Rita, Katrina, Dolly, Gustav, and Ike. Similar situations may occur from manmade events, such as the arson attack on the Governor's Mansion in June 2008.⁵

Requests for financial assistance over the last few legislative sessions have exceeded a quarter of a billion dollars. Known appropriations for general costs caused by natural disasters from Sept. 1, 2007, through June 29, 2009, as reported in HB 4586, are provided in the Appendix. These figures reflect only known payments that were to be distributed to the respective agencies at the time of the report.

⁵ The building had a Builder's Risk insurance policy in place during a roof repair at the time of the fire. The Builder's Risk insurance policy provided some recovery but was well below the approximately \$22M requested of the Legislature to rebuild the historically classified building to its previous state.

II. Methodology

While the State tracks some properties in a centralized manner, there is currently no single existing source that identifies or tracks the condition, replacement value, and geographical location of all State assets. The lack of complete current or verifiable information regarding full exposures prohibits accurate cost evaluations as part of this report. According to industry experts consulted during the preparation of this report, this is a common issue in state insurance plans and is a fundamental prerequisite to performing a cost analysis for all methods of protection.

The Office's study was conducted by identifying categorical strategies, utilizing reasonable extrapolations based on data collected in the current voluntary program, and consulting with practicing industry experts on various strategies, including strategies utilized by other states. The experts provided information and responded to specific inquiries on concepts and approaches. The strategies identified include both financial and non-financial options, including traditional insurance, individual self-insured retention, pooling, captives, CAT (catastrophic) bonding, and set asides. Non-financial options include strengthening of procedural mechanisms and potential legislative policy.

To compare various approaches, experts addressed the following inquiries from the Office:

What should be the goal of a State Property Program?

What are the recommended approaches for the State to handle the risk of its insurable assets?

What are other states' approaches to property programs, specifically those with similar exposures and size of Texas?

What important aspects must be, and should be, addressed prior to, during, and after instituting a statewide program?

What additional services would the State require to implement various strategies?

How should agencies be motivated to participate?

What are available and/or recommended approaches to funding a statewide program?

III. Options

All of the industry experts consulted stressed the importance of developing and maintaining a comprehensive database of all of the real property and contents currently owned by the State, the geographical location of the properties, the replacement cost, and the COPE (Construction, Occupancy, Protection, and Exposure) characteristics on each piece of property before any program can or should be recommended or implemented. Complete and accurate identification of the property to be insured is a necessary prerequisite of all the approaches discussed.

The experts offered diverse options, recommended best practices, and proposed methodologies for structuring a large insurance program for State use. The following sections address the potential distinct approaches and strategies identified by the Office and by consultants responding to the Office's request for consultations. The options presented are not listed in order of benefit, preference, or advisability for adoption.

A. Financing Options

1. Traditional/Commercial Insurance

Traditional insurance is a component of most basic risk financing plans. In general, traditional insurance transfers the risk of loss from damage to property from the owner to an insurance company, which collects a premium from the owner in return for payment of covered losses.

Advantages. Traditional insurance reduces the financial uncertainty of accidental losses, as a known premium can be incorporated with attendant deductibles to limit State exposure in the event of a large loss. Transferring this risk, particularly in the event of a large (or catastrophic) loss, provides additional financial resources for the State to address other needs. Claims handling and risk control services are typically incorporated in traditional insurance options, providing for value-added services and potential loss control.

Disadvantages. In commercial insurance, terms and conditions of an off-the-shelf policy may be unstable, as may be premium charges in response to loss experience both at the individual agency and within the industry-covered population. Traditional insurance routes would likely represent a more expensive option for the State, based on the potential number of buildings and total insurable value of the buildings. Traditional insurance is primarily advantageous for small geographical spreads and may be inappropriate for a statewide approach. In a time of catastrophic

losses, some insurance companies may opt to discontinue insurance coverage in certain counties within the State, leaving portions of the State or subsets of agencies uninsured. Commercial insurance will include the insurer's expense, profits, and risk charges in the premium paid. The insurance premium to cover an estimated 40,000-45,000 buildings could be a considerable increase over current premium costs, decreasing the cash flow for the State. Traditional insurance may not be a complete transfer of hazard risk, as some agencies may have exposures that an insurance company may not be willing to cover (e.g., agencies located in flood zones may be required to purchase additional flood insurance from the National Flood Insurance Program).

2. Individual Self-Insured Retention

Individual self-insured plans would require each state entity to pay for its losses out of its own budget, but without the costs associated with procuring insurance. This type of strategy requires a specific, formal system for recording losses and processing payments from a dedicated revenue source.

Self-insurance works best for high frequency and low severity claims. Unpredictable, high severity claims, such as property losses, are not ideal for this type of program as the claims fund may be inadequate to pay a large loss. Self-insurance is best suited to organizations committed to risk control, able to tolerate risk retention, and willing to provide funding and administrative resources necessary to make the program work. Self-insured programs are usually coupled with excess liability insurance to assist in covering catastrophic losses.

Advantages. A self-insured program would allow the State to have control over its own claims: claims adjusters could be independently selected; claims handling guidelines can be written to State specifications; and timelines for settling claims could be handled internally. There is a potentially significant cost savings if the frequency and severity of losses is minimal, avoiding recurrent premium and administrative costs associated with traditional insurance. This approach is not reliant on insurance market trends.

Disadvantages. Frequency and severity of losses can be unpredictable, leading to loss of cost savings compared to premium-based, risk-transfer mechanisms. Catastrophic property losses, even if infrequent, must be allocated for and dedicated funds protected in the form of minimum reserves in the event of a large loss. The financial costs of property losses, particularly from

natural disasters or external intentional acts, can be extremely large and subject to events outside effective loss control mechanisms, unlike other forms of self-insurance where losses may be limited or controlled (e.g., tort liability limitations, workers' compensation losses, etc.). Internal administrative handling of a self-insured program (recording, adjusting, scheduling, payment, and possible litigation) can require significant resources when dealing with losses. Assets and reserves must be rebuilt after payment processing, further reducing potential savings over other strategies.

3. Statewide Self-Insured Retention

This strategy is identical to the preceding section, excepting its State-level approach (i.e., the funds for paying losses are retained centrally by the Legislature or a designated agency that receives a direct appropriation). This option is most closely associated with Senate Concurrent Resolution No. 3, 37th R.S., which is attached as Appendix 2.

4. Pooling

The concept of pooling refers to the strategy of entities combining resources to finance experienced losses. Pools may be grouped by common exposure(s), business focus, geography, genesis, or any other mutuality supporting combination. Each entity contributes resources to the group as a whole, used for the equal benefit of the members.

Generally, protection against exceeding pool resources must be factored in, including consideration of reinsurance treaties purchased to ensure the pool does not become insolvent in a particularly catastrophic year, or obtaining excess insurance based on the catastrophic exposures in different demographic areas (in this configuration, the pool would fund the primary layer of coverage and excess would cover losses exceeding the primary layer).

The State of Arkansas uses an "all in or all out" pooling approach, with universities permitted exemption. The Arkansas pool uses a state's master insurance policy form, although the form may be altered to suit Arkansas' universities' specific needs. Buildings are appraised every three years to ensure they are insured to value (however, Arkansas insures approximately 3,600 structures compared to Texas' potential estimated 40,000-45,000 structures).

Pooling programs would allow the State to include or exclude agencies based on ability to meet underwriting guidelines and create layers for certain properties based on exposure to catastrophic losses.

Potentially, each entity would be treated as a separate insured and have separate limits of liability for each insured building. As noted, a reinsurance treaty would be recommended to follow form to the master policy and stand behind it to ensure pool solvency. Claims handling may be outsourced or internally administered (either centrally and/or on a loss-value basis by individual entities), with authority of the pool administrator to set retention rates, designate surcharges, exclude non-maintained or non-compliant buildings, or assess penalties or modifiers for loss control failures.

Advantages. Pooling increases the predictability of each participant's losses by reducing the variability of their average loss.⁶ Premium (contribution) stability in risk pooling allows for more consistency in the annual budgeting for agencies. Similar to individual self-insurance retention, pooling allows the State the option of handling claims either in-house or through a third-party administrator and adds additional consistency in the regulation of loss-control programs for participants. Pooling is a common approach to real and personal property protection in the United States, and there is an availability of third parties to assist in the administration of this strategy.

Disadvantages. Pooling requires large participation and diversification of the State's property to be successful and to avoid adverse selection limiting the successful spreading of risks (i.e., high and low risks, covered properties both in and out of Tier 1). Statewide participation may be required to be mandated by the Legislature to ensure pool viability. Losses may exceed pooled assets, or assets may be substantially reduced by losses or other events, leading to pool insolvency.

5. Captives

Captives are another form of risk financing that operates to pool the State's risks and refers to a dedicated subsidiary insurer or insurers to address the State's risk financing needs. In such a strategy, the State retains a significant share of its own losses in exchange for the benefit of having its own dedicated insurer, who collects premiums, issues policies, and handles claims. A Captive insurer usually purchases reinsurance to transfer some of the loss exposure to another insurance company.

A Captive approach may also operate to centralize the loss retentions between agencies, allowing for potentially higher loss retentions at a statewide level, and the dedicated nature of the subsidiary relationship

⁶ Risk Financing, 4th Edition, Berthelsen, Elliott & Harrison, 2006, at 24.

allows the parent to design and control the claims-handling process to suit its needs.

Advantages. Generally, the administrative costs associated with procuring traditional insurance are not included in Captives. Captives typically adjust the claims, reducing internal resources and/or funds that would have been spent on a third-party administrator, and overhead or profit costs are eliminated from premiums. Direct access to the international market of reinsurers is immediately available through the Captive (where a self-administered pool would have to be certified by the Texas Department of Insurance or otherwise specifically authorized through legislation to access these markets). Captives may have increased negotiating power with commercial insurers during market downturns, particularly in a statewide program with a large TIV.

Disadvantages. Captive insurance requires a considerable capital outlay and start-up cost. Start-up and annual operating costs for a Captive are estimated to range from \$35,000-\$150,000 depending on the size of the insured base. Unless directly funded by the Legislature, each State agency would need to have a designated fund available for costs associated with utilizing the Captive, including adequate retention limits, administrative costs, premiums, and other charges. If the Captive is designed with inadequate resources and losses exceed the Captive's ability to pay, the loss could financially cripple the Captive and the State. Reinsurers may choose not to follow the form of a Captive, leaving gaps in coverage.

6. CAT Bonding

A CAT Bond is an insurance-linked security. The purpose of a CAT Bond is to transfer otherwise insurable large risks to potential investors. CAT Bonds were developed because of the limited availability and affordability of catastrophe reinsurance. These bonds are issued by securitization and special purpose vehicles (SPV) of large reinsurers, insurers, or large corporations. They are designed to imitate the traditional excess catastrophic insurance and reinsurance. They can be issued for any type of catastrophic insurable risk such as hurricanes, tornados, and other naturally occurring risks.

CAT Bonds are highly specialized and are not a commonly used form of protection of assets. The strategy is identified herein as an option that may warrant additional consideration should the Legislature specifically identify further study respecting non-traditional or highly specialized risk transfer mechanisms.

B. Non-Financial Options

1. Procedural Mandates

One aspect of catastrophic losses experienced by the State is the lack of standardized and recurring procedural methodologies for the reporting, oversight, financing/appropriation, and payment of losses.

Given the estimated 40,000-45,000 structures owned by the State, it should be possible, with adequate data, to project the average annual loss with a fair degree of accuracy. While the State of Texas has some concentrations of property (notably in Austin, Tier 1 coastal areas, and college campuses) the size and diversity of the State makes it unlikely that any single catastrophic event could threaten all of its assets. Put in simpler terms, while we cannot establish the probability that an individual State building will experience a loss with any degree of accuracy, given historical and current data, we should be able to project the average annual loss across all state properties.

To finance large losses that currently fall to the legislative budget process, the State could establish a reserve sufficient to deal with moderate spikes in losses from year to year and establish a formalized process for requesting necessary financing. The details of application could be established by legislation, and oversight and administration could be delegated if, and as, required.

2. Asset Restructuring

Ownership of the asset involves ownership of the risk of loss and responsibility for replacement and/or repair. Some states have utilized nominal sales of state assets and period lease-backs from investors as a method of balancing the budget.⁷ While outside the scope of this study, these budget approaches raise the possibility of transferring risk from the state to the owners of leased properties, at least in situations where there would be no ownership interest retained (i.e., outright sale to a new owner with leasing rights versus a nominal sale as collateral with buy back rights). This approach represents a significant shift in the State's current risk management policy. Although this method of risk transfer has been utilized by other states, none were the size of or had the estimated TIV of the State of Texas. Asset restructuring is mentioned here in an effort to present the Legislature with as many risk management options as possible.

⁷ See, <http://tucsoncitizen.com/hot-off-the-press-release/2010/01/14/state-sells-buildings-for-735-million-money-to-help-balance-budget/> for a description of such an approach by the State of Arizona.

C. Hybridized System

Given that each option has both identified strengths and weaknesses, an ideal program would be specifically designed to ensure an approach customized to meet the unique needs and exposures of Texas. The development of a hybridized system is heavily dependent on accurate and current information for the selection of procedure, programs, services, and products.

One problem with the State's current decentralized and non-mandatory approach to insuring State properties is that incurred losses do not fall to agencies proportionally. While small losses may be absorbed within agencies' operational budgets, large losses can threaten an agency's continuity of service and fall disproportionately on the legislative budget process. By creating a centralized, mandatory state property insurance program, whether funded by assessments to covered agencies, legislative appropriation, or some combination thereof, it would be possible to normalize the cost of ordinary losses to individual State agency budgets at minimized additional expense. Such a program offers the additional benefit of providing timely disbursements of funds to covered entities that experience a loss to minimize disruption of agency operations. Importantly, the losses described here are not new expenditures. Because a majority of State property is currently not protected by insurance and the State currently pays the entire loss from some part of its budget, this approach is intended to improve the current process for paying losses.

A mandatory property insurance program as described would pool losses to the extent that individual agencies would minimize the budget impact of a casualty loss, but in such a system the legislative budget process retains the liability of large losses. This approach can be combined with other financing approaches as described above.

To finance large losses that currently fall to the legislative budget process, the State could establish a reserve sufficient to deal with moderate spikes in losses from year to year and even consider purchasing reinsurance for large, catastrophic losses. Determining the dollar limits that should be applied to the portion of the loss that would be retained by the State, including deductibles paid by the affected property owner, and the portion that would be commercially insured is a matter for legislative discretion and will be heavily influenced by market conditions and the availability of reinsurance.

IV. Considerations

As the State agency administering the specialized government employees' workers' compensation program and the State's risk management program, including the insurance purchasing program, the Office strongly emphasizes the following considerations as part of any evaluation of identified strategies herein.

A. Adjusting Services

Claims handling involves a team of specially trained individuals able to adjust the many varieties of property loss the State could experience. Claims handlers require specialized skills in adjusting, settling and administering claim payments, so decentralization of this function should be carefully scrutinized. Should the State undertake internal claim management as part of any insurance strategy, it is strongly recommended that any program emphasize professional training and standardization, including potential centralization, and have the resources required to adequately oversee timely and accurate claim processing.

Alternatively, as discussed above, a third-party administrator (TPA) may be used for handling the State's claims. Depending on claim frequency, a TPA may bring additional flexibility to handle spikes of activity related to catastrophic claims. Another potential advantage to this approach is additional transfer of liability for handling the claims to the external administrator. On the negative consideration, there is a financial trade-off respecting the cost of contracting with a TPA for such a program. Contract maintenance and oversight and specific fiscal controls must be put in place for such an arrangement, including consideration of long-tail claims that could potentially cross vendor and/or insurer contracts.

B. Loss Prevention/Risk Control Services

To ensure a program results in long-term savings to the State, any program must be proactive in reducing claims. Risk control services specifically related to property and historical buildings, as well as best practices for property maintenance, prevention, and control of losses will be highly important to a successful strategy. As with adjusting, the State may utilize in-house staff to provide the loss prevention and loss control services or opt for a contracted service.

V. Recommendations

The actual mechanism(s) chosen for a statewide strategy for adequately insuring State assets should be determined by the Legislature after considering the impact on overall State operations, the costs associated with retaining the risk versus transferring the risk through reinsurance, and should provide clear procedures for identifying when and how funding will be made available in emergencies. Based on the study identifications, a **hybridized system** that incorporates multiple approaches would be the most advantageous to the State.

To determine which, if any, of the identified options is most financially advantageous to the State within such a system, an appraisal must be commissioned identifying all property and contents currently owned by the State, the geographical location of the properties, the replacement cost, and the COPE characteristics on each piece of property. The maximum probable and maximum possible losses should also be calculated per building and across the entire program from reported information, allowing for accurate provisioning and selection of an appropriate strategy.

It is recommended the Legislature allocate responsibility and resources to undertake a data collection and modeling process, including legislative mandates for agency compliance and a time frame for the completion of the data collection. Completion of reporting, analysis, and modeling should result in a formal recommendation of prioritized strategies for Legislative consideration on the best-suited model and strategies for protecting State of Texas assets.

After selection and authorization of strategy, procurement, and marketing, implementation should be undertaken under designated agency authority and require ongoing analysis and data collection to ensure the State is insuring its assets in the most cost-effective way for the taxpayers.

The Board of Directors and staff of the State Office of Risk Management are available to respond to any inquiries and to undertake all efforts respecting the matters herein. Any inquiries may be directed to Jonathan D. Bow, Executive Director, State Office of Risk Management, P.O. Box 13777, Austin, TX 78711-3777, by telephone to (512) 936-1502, or facsimile at (512) 370-9025.

Appendices

Appendix 1

Table 1
**Appropriations for General Costs Caused by Natural Disasters
 Reported in the Sept. 1, 2007, Biennial Presentation
 to the Legislature on June 29, 2009**

State Agencies that Received Money from Legislature	Funds provided from the General Revenue Fund	Notation Location
UT Medical Branch at Galveston	\$150,000,000	H.B. No.4586 Section 55
Brazosport College	\$120,111	H.B. No.4586 Section 55
Parks and Wildlife Department	\$12,000,000	H.B. No.4586 Section 55
UT M.D. Anderson Cancer Center	\$1,725,995	H.B. No.4586 Section 55
Alvin College	\$2,358,771	H.B. No.4586 Section 55
Texas A&M Galveston	\$6,200,000	H.B. No.4586 Section 55
Texas Forest Service	\$385,091	H.B. No.4586 Section 55
Houston Community College	\$1,507,670	H.B. No.4586 Section 55
Commission on Environmental Quality	\$4,600,000	H.B. No.4586 Section 55
San Jacinto College	\$3,045,820	H.B. No.4586 Section 55
Galveston College	\$407,406	H.B. No.4586 Section 55
Texas Engineering Extension Service	\$1,200,000	H.B. No.4586 Section 55
Adjutant General's Department	\$1,244,007	H.B. No.4586 Section 55
The University of Texas at Brownsville	\$1,200,000	H.B. No.4586 Section 55
Lamar University	\$2,803,561	H.B. No.4586 Section 55
Lamar Institute of Technology	\$2,007,758	H.B. No.4586 Section 55
Lamar State College - Port Arthur	\$829,530	H.B. No.4586 Section 55
Texas Southern University	\$9,720,192	H.B. No.4586 Section 55
College of the Mainland	\$176,236	H.B. No.4586 Section 55
The University of Texas Pan American	\$102,258	H.B. No.4586 Section 55
The University of Texas Health Center at Tyler	\$1,461,557	H.B. No.4586 Section 55
The University of Texas Health Science Center at Houston	\$1,000,000	H.B. No.4586 Section 55
University of Houston System Administration	\$7,339,000	H.B. No.4586 Section 55
Texas State Technical College - Harlingen	\$904,558	H.B. No.4586 Section 55
Lamar State College - Orange	\$600,000	H.B. No.4586 Section 55

Prairie View A&M University	\$488,864	H.B. No.4586 Section 55
Lee College	\$137,554	H.B. No.4586 Section 55
Department of Agriculture	\$20,000,000	H.B. No.4586 Section 55
Total	\$233,565,939	

Table 2
Certain Appropriations for Disaster Relief
Reported in the Sept. 1, 2007, Biennial Presentation
to the Legislature on June 29, 2009

State Agencies that Received Money from Legislature out of this fund	Appropriated Funds from the General Revenue Fund to the Trusted Program of the Office of the Governor	Notation Location
Texas Education Agency	\$10,000,000	H.B. No.4586 Section 58
Texas Engineering Extension Service	For TX Task force 1 Flooding - No \$ amount provided.	H.B. No.4586 Section 58
General Land Office	For repairs made to the Protective Dune System for County Road 257. No \$ amount provided.	H.B. No.4586 Section 58
Total Available for Disbursement	\$62,000,000	HB4586 Appropriations for state agencies.doc

Appendix 2

GENERAL LAWS.

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CONCURRENT RESOLUTIONS

PROVIDING THAT THE STATE SHALL CARRY ITS OWN INSURANCE ON STATE BUILDINGS AND CONTENTS

S. C. R. No. 3.]

Whereas, It is of great financial importance to the State that a fixed policy be established with reference to carrying fire insurance upon buildings and contents belonging to the State and its various institutions, and

Whereas, The insurance data and information tabulated and set out on page 261 of the First Annual Report of the State Board of Control indicate that a substantial saving can be made to the State in carrying its own insurance; therefore be it

Resolved, by the Senate of the State of Texas, the House of Representatives concurring herein, That hereafter it shall be and is the Fixed policy of this State that the State shall carry its own insurance upon State buildings and contents, and that no insurance policies shall be taken out upon any of the public buildings of this State, nor upon the contents thereof, and the State Board of Control and all other Boards having charge of buildings of the State, and the contents of such buildings, are hereby instructed not to have such buildings nor property insured, notwithstanding there may be items in the appropriation bills authorizing the expenditure of money for the payment of insurance premiums.

Provided that it is declared to be the policy of the State hereafter at the end of each two years period to set aside approximately one per cent of the value of all public buildings owned by the State, as a sinking fund until ten per cent of the total value of all such buildings has been accumulated, and that this sinking fund shall be invested in school bonds in the school districts of this State.

Provided, however, that this resolution, or any part of its provisions shall not apply to or affect the University of Texas, and its branches, and that it is the fixed policy of the State that all buildings and the contents thereof belonging to the University of Texas, and its branches, shall be kept insured at all times against any loss by fire or tornadoes.

[NOTE.—The foregoing resolution was adopted by the Senate, August 24, 1921; and was adopted by the House August 24, 1921.]

24—Laws.

Acknowledgements

The State Office of Risk Management would like to thank the following entities for their assistance and expertise in gathering information about state insurance programs around the nation. The experts shared examples of various insurance options, and their experiences regarding property programs administered in other states.

American Appraisal

Arthur J. Gallagher Risk Management Services

Cedar Consulting LLC

Munich RE

North American Solutions

Texas Department of Insurance

Wells Fargo Insurance Services USA

Willis Group Holdings

York Insurance Service Group, Inc.

APPENDIX D



State Office of Risk Management

STATE OFFICE OF RISK MANAGEMENT
House Bill No. 1, 82nd R.S.

STATE INSURABLE ASSETS STUDY
2013 Subsequent Report



January 2013

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I. Background

In 2009 the State Office of Risk Management (Office) was directed, pursuant to Senate Bill No. 1, 81st R.S., to prepare a report and offer recommendations for a potential statewide strategy to insure State assets against damage or loss and comment on the advisability of various insurance options, including self-insurance, privately placed insurance, and stop-loss insurance. That report, attached as Appendix B, was filed in January of 2011, and identified categorical strategies, utilizing reasonable extrapolations based on data collected in the current voluntary program and through consultation with practicing industry experts on various strategies, including strategies utilized by other states. The strategies identified include both financial and non-financial options, including traditional insurance, individual self-insured retention (SIR), pooling, captives, catastrophic (CAT) bonding, and set asides. Non-financial options include strengthening of procedural mechanisms and potential legislative policy.

The 2011 report identified a primary lack of centralized identification or tracking of the condition, replacement value, and geographical location of State assets, and recommended the Legislature allocate responsibility and resources to undertake a formal data collection and modeling process, including legislative mandates for agency compliance and a time frame for the completion of the data collection. Subsequent to this data collection effort, the Office proposed implementation of a hybridized model of a centralized, mandatory state property insurance program, incorporating a pooling and reserve approach, in concert with reinsurance for larger, catastrophic losses.

This 2013 report is submitted pursuant to House Bill No. 1, 82nd R.S., which retained the rider requiring submission of the instant study to the Legislature. This 2013 report adopts the 2011 findings and recommendations, provides additional detail respecting statewide programs operating in other select states, and explores additional considerations.

II. Considerations

To further explore efficacy of centralized approaches, the Office conducted direct surveys of five US states with established State Property Programs. The states of Alabama, Florida, Louisiana, North Carolina, and South Carolina were selected based on similar catastrophic (CAT) exposures or geographical similarities to Texas. Summaries of the questions and research conducted are provided in Appendix A, and have been verified and approved by the participating states.

Following these comparable state interviews and ongoing discussions with insurance industry experts handling other U.S. state property programs, the foremost task the State of Texas currently faces remains the collection of data for insurance purposes and identifying the real and historical replacement costs of state owned buildings and contents for approximately 152 state agencies. In order to collect the necessary information required to design a comprehensive program, the following major considerations have been identified, including applicable experience and approaches utilized by the survey states:

A. Data Compilation

Complete and accurate data is foundational to the design of any comprehensive asset protection strategy. The collection of state assets, especially for a state the size of Texas, is time consuming and will require specially trained engineers to accurately collect the construction, occupancy, protection and exposure (COPE) information, and to appraise historical and non-historical buildings for their accurate replacement cost value. COPE is an industry term describing the unique characteristics of a building, used by underwriters to evaluate the risk and by risk managers to assess and control loss.

To expedite data compilation, a business agreement between the state and a third party with trained engineers to collect COPE data and complete historical and non-historical appraisals may be considered. Alternatively, this responsibility may be assigned to an agency or collection of agencies, with corollary expectations for professional training and standardization, including potential centralization, and have resources required to adequately oversee the timely and accurate data collection and continued maintenance of this data.

- **Alabama:** State agencies are required to send annual updated property schedules, which include COPE information. All buildings and contents are inspected every three to four years by the State's eight loss control employees. They provide survey information and photographs of the buildings to the six underwriters who complete a Marshall & Swift building cost appraisal to calculate the replacement cost for each

building. Third party vendors are utilized when historical or unusual buildings need appraising.

- **Florida:** Each state agency is required to report their COPE information and property valuation to the Division of Risk Management on an annual basis. There are concerns about the accuracy of the valuations, as some agencies hire appraisers, while others estimate their values based on prevailing property values in the area.
- **Louisiana:** The Louisiana Office of Risk Management maintains a complete inventory of state owned buildings, but they have limited COPE data. Appraisals are conducted every four years by third-party loss prevention personnel. A third-party appraisal company has been hired in the past to conduct multiple appraisals in a short period of time.
- **North Carolina:** State agencies are required to report updated COPE and total insurable values (TIV) for all state appropriated buildings annually to the North Carolina Office of Risk Management. Appraisals are not currently completed on state assets because it is not cost effective for the state.
- **South Carolina:** Property appraisals are completed by a third party firm through a five year contract agreement. The firm completes appraisals for 20% of the scheduled property locations each year so that by the end of the contract, 100% of the properties have been appraised.

B. Database Management

Once collected, the data must be continually maintained and updated to ensure accuracy and completeness. Software selected or designed for this purpose should include the capabilities to upload risk management loss control reports, provide appraisal documentation, generate invoices and coverage documents, process claims, generate boiler and machinery reports, input and pull loss data, generate frequency and severity reports, contain photographs of insured buildings and contents, and include contact information for the building manager or contents coordinator at each state agency.

The state agencies and regulating state agency should have the capability to upload responses to loss control recommendations, print certificates of coverage, file claims, obtain information about their insured locations or run relevant reports pertinent to insured building(s) and contents. It is recommended the program have the capability to plot the State assets within counties on a map of Texas so an overall picture of where state owned assets are and their total replacement dollar value can be ascertained. It would be

beneficial to utilize a software program that not only plots the owned assets, but tracks CAT exposures that could potentially cause damage to state owned assets now and in future years. Early identification of potential exposures for state agencies and the implementation of policies, practices, and procedures to mitigate the size of these losses for potential CAT exposures in affected areas will decrease the bottom line costs to the state at the time of a CAT loss. Such a platform would be a long-term investment and would require the capability of being updated and enhanced as needed.

- **Alabama:** In 1990, Alabama built the State Risk Management and Insurance Software Program. The program stores property and contents data, as well as loss control reports, recommendations, underwriting information, and data for all other lines of insurance and related administrative information.
- **Florida:** The state maintains a comprehensive database of all state owned property, including unimproved land. The Division of Risk Management currently utilizes this database to store COPE information, premium calculations, and to track premium payments. In the next year, Florida will upgrade to the SOLARIS database system, which will also track property valuations and other information.
- **Louisiana:** The Office of Risk Management maintains a dedicated system that tracks TIV, replacement cost, and other information concerning each property. This program is purely a property-tracking database, and does not have other functions to process claims, issue certificates, etc.
- **North Carolina:** In 1990, North Carolina utilized a one man proprietary to build their customized, comprehensive risk management operational software system. This individual still maintains the program today. The software program holds the State's inventory, tracks losses, and handles the accounting.
- **South Carolina:** The Insurance Reserve Fund maintains a comprehensive and adaptable IT database management system that has been in existence for over twenty-five years. The system is a hybrid of internal and external design consisting of web based features for over 900 different programs. The IT database system is the utmost integral component of the IRF allowing data management and workflow capabilities for the entire state's insurance program to be administered by a relatively small division. All policies, documents, invoices, and correspondence are automatically generated by the IT management system, and information is issued to the participants via electronic transfer or paper mail.

C. **Legislative Direction and Program Administration**

Centralizing responsibility for the collection of data and/or the operation and maintenance of a comprehensive program will be essential to any statewide strategy. Legislation will be required to assign responsibility and authority to a designated entity or entities for the collection, administration and maintenance of any comprehensive state property and asset program. The suggested legislation should include a requirement for all state agencies to provide required data to the third party vendor or state representative/agency handling the data collection within a set time frame, as well as set forth responsibilities for the management of property and coordination of contents on an ongoing basis. Any established program should also include necessary risk management services and loss control strategies, with rulemaking and potential compliance authority.

- **Alabama:** The State Insurance Fund was established by the legislature in 1923 to insure all state owned property, K-12 systems, post-secondary education systems and state university properties against direct physical loss. Participation by state agencies is mandatory. City boards of education may elect to insure school buildings and property either in the Fund or with a commercial insurance company, whichever provides the best coverage.
- **Florida:** All state agencies are required to insure their property through the Division of Risk Management. The Division issues certificates of coverage and publishes rules to set standards for coverage.
- **Louisiana:** All state agencies currently participate in the Louisiana Office of Risk Management property insurance program as required by statute. The Office publishes rules to set standards for coverage.
- **North Carolina:** All state agencies are required to insure their property and contents for fire losses only. The division of risk management manages the collection of data, premiums and provides certificates of coverage.
- **South Carolina:** Every state agency is statutorily required to participate in the property insurance program and insure all state owned buildings and contents. The office of risk management has the authority to purchase insurance and to collect premiums to pay for insured losses. The Insurance Reserve Fund operates like an insurance company by issuing policies, collecting premiums (based on actuarially calculated rates), and paying claims from the accumulated premiums in accordance with the terms and conditions of the insurance policies it has issued.

D. Funding Structure

The hybridized model recommended in the 2011 study assumed an approach designed to ensure customization to meet the State's unique needs and exposures (see Page 10 of the 2011 study at Appendix 1). That model assumed establishment of a pooled reserve sufficient to deal with known and moderate spikes in losses from year to year, with the centralized purchase of reinsurance for large, catastrophic losses. In order to establish such a reserve, a dedicated account may be created for the payment of losses and funded through assessments or appropriation. Another option may be to evaluate the use of the existing Economic Stabilization Fund, with deposits made to the account through the same assessments or appropriations. Authority may be granted by the Legislature for the appropriation and disbursement of funds in accordance with provisions of the Texas Constitution and the relevant enacting legislation. This latter approach would have the benefit of significantly protecting the State's reserve while normalizing expenditures substantially at the statewide level.

- **Alabama:** The State Insurance Fund maintains a self-insured retention of \$3.5 Million per occurrence for non-CAT losses and a self-insured retention of \$20 Million per occurrence for named windstorm losses. Excess coverage is obtained to provide \$1 Billion of coverage for all other perils (AOP) and \$200 Million for named storms. The Self Insured Fund also maintains a 3 year term CAT Bond for Alabama's coastal exposure that renews annually at a cost of approximately \$860,000. The state appropriates money to cover state agencies against fire losses only. State agencies must pay for additional property coverage out of their budget. The division of risk management collects premiums and provides certificates of coverage.
- **Florida:** The State Risk Management Trust Fund maintains a self-insured retention of \$2 Million for non-CAT losses and purchases excess insurance to pay for losses in excess of the SIR, with up to \$200 Million for AOP coverage and \$50 Million for terrorism coverage. For windstorm and flood losses, Florida maintains a \$2 Million deductible per occurrence, and has a \$40 Million aggregate retention. The Division purchases excess insurance to pay for additional CAT loss costs up to the \$92 Million limit. The Trust Fund is funded on a cash flow basis, where each state agency is charged an assessment based on the size of their exposure and loss history.
- **Louisiana:** The Office of Risk Management maintains a SIR, and purchases excess insurance to cover losses in excess of the SIR. The amount of money available to the SIR may vary annually based on budgetary and market conditions. Louisiana's current SIR is approximately \$50 Million

for catastrophic claims, and \$10 Million AOP. The SIR is funded on a cash flow basis, where each state agency is charged an assessment based on the size of their exposure and loss history.

- **North Carolina:** North Carolina maintains a \$2.5 Million self-insured retention and purchases \$750 Million reinsurance for all other perils and \$150,000 Million for named storm coverage for all state agencies. North Carolina follows the principle that the retention for their property program should not exceed 10% of the self-insured fund reserves. North Carolina's self-insured fund is currently approximately \$25 Million.
- **South Carolina:** The current property program (excluding terrorism) consists of four multi-stratified layers of \$100 Million each. The terrorism portion is written as a single layer of \$150 Million. The Insurance Reserve Fund assumes a \$10 Million self-insured retention for the first event during a policy period, with a \$1 Million self-insured retention for subsequent events. The Insurance Reserve Fund utilizes third party actuaries to determine rates, incurred but not reported (IBNR) reserves, adequacy of loss reserves, and adequacy of policy holder's equity in making management recommendations to the Budget and Control Board regarding the financial management of The Fund. The Insurance Reserve Fund is a revenue agency and does not receive any appropriation from general funds. The IRF is not subject to the state procurement codes and is able to obtain contracts for brokers and other insurance related services as necessary for the benefit of the program.

III. Recommendations

The primary recommendations for this report are identical to the 2011 study set forth in Appendix B. The actual mechanism(s) chosen for a statewide strategy for ensuring that State assets are adequately insured should be determined by the Legislature after considering the impact on overall state operations, the costs associated with retaining the risk versus transferring the risk through reinsurance, and should provide clear procedures for identifying when and how funding will be made available in emergencies. Based on the study identifications, a hybridized system which incorporates multiple approaches would be the most advantageous to the State.

To determine which, if any, of the identified options is most financially advantageous to the State within such a system, a comprehensive series of appraisals should be commissioned identifying all property and contents currently owned by the State, the geographic locations of the property, the replacement cost, and the COPE characteristics on each piece of property. The maximum probable and maximum possible losses should also be calculated per building and across the entire program

from reported information, allowing for accurate provisioning and selection of appropriate strategy.

It is recommended the Legislature allocate responsibility and resources to undertake a data collection and modeling process, including legislative mandates for agency compliance and a time frame for the completion of the data collection. Completion of reporting, analysis and modeling should result in a formal recommendation of prioritized strategies for Legislative consideration on the best-suited model and strategies for protecting State of Texas assets. Ideally, this recommendation would involve additional review and in-depth analysis of operating programs at other state levels.

After selection and authorization of strategy, procurement, marketing and implementation should be undertaken under a designated agency authority, and require ongoing analysis and data collection to ensure the State of Texas is insuring its assets in the most cost effective way for the taxpayers.

IV. Contact

The Board of Directors and staff of the Texas State Office of Risk Management are available to respond to any inquiries and to undertake all efforts respecting the matters herein. Any inquiries may be directed to Jonathan D. Bow, Executive Director, State Office of Risk Management, P.O. Box 13777, Austin, TX 78711-3777, by telephone to (512) 936-1502, or facsimile at (512) 472-0234.

V. Acknowledgements

The Texas State Office of Risk Management is grateful to the states of Alabama, Florida, Louisiana, North Carolina, and South Carolina for their valuable time and input regarding the structure, staffing, and maintenance of their state run property insurance programs. The Office also extends its sincere thanks to Arthur J. Gallagher Risk Management Services for its continued assistance and expertise.

APPENDIX A
RESEARCH SUMMARIES

Methodology

To further explore efficacy of centralized approaches, the Office conducted direct surveys of five US states with currently-established State Property Programs. The states of Alabama, Florida, Louisiana, North Carolina, and South Carolina were selected based on similar catastrophic (CAT) exposures or geographical similarities to Texas.

Each state was surveyed on the following:

1. Whether the state maintains a complete inventory of all buildings including location; Construction, Occupancy, Protection, and Exposures (COPE); and the Total Insurable Values (TIV) for insurance purposes;
2. Whether insuring of state owned property is voluntary or mandatory;
3. How building inventory is maintained;
4. How appraisals are completed;
5. The total insurable value of state owned assets;
6. The number of buildings in the program;
7. What type of tools are used to track state assets;
8. Whether any comprehensive risk management operational software programs are in place to manage your state's risk exposure (i.e. claims, IT, insurance documents, accounting, underwriting, loss and trend analysis, and capabilities to generate reports for each department's needs);
9. If a specified software program is in place, whether the program would be recommended to other states;
10. The overall structure of the state program (i.e. traditional insurance, self-insured retention, captives, pools, etc.);
11. Any legislative rules or statutes which govern the property program;
12. Length of time the current program has been in effect;
13. Funding structure for the program;
14. How a state's initial self-insured retention and fund was established;
15. How a state's initial self-insured retention and fund is protected;
16. Whether any needed improvements have been identified;
17. How many employees are involved in daily operations of the property program;
18. The titles and number of employees which manage the property program;
19. The approximate annual cost to administer the property program;
20. The CAT exposures faced in the state;
21. The number and percentage of buildings exposed to these CATs;
22. The total insurable value and percent of TIV exposed to these CATs;
23. Whether losses have been adequately funded since the program's existence;
24. How the state funds uncovered losses.

State Programs Review

1. Alabama Property Program

Alabama's state agencies insure approximately 31,000 buildings and personal property through the State Finance Department, Division of Risk Management. Their risk management team consists of twenty-three in-house staff members who administer an approximate \$50 Billion property program. The team consists of one risk manager, five claims handlers (who adjust all lines of insurance), eight loss control employees (who complete building inspections at a minimum of three year intervals), six underwriters (who underwrite all lines of insurance), one attorney (who conducts regular operations but works with the claims department during claims disputes), one accountant, and one administrative staff member. Alabama contracts actuarial services to a third party vendor, and also have independent adjusters. The Department of Finance, Division of Risk Management, 2010 Annual Report, indicated that the annual operating expenses for The State Insurance Fund, year ending September 30, 2010, were \$29,921,253.

History and Legislative Rules Associated with the Program

Alabama's property program is titled "The State Insurance Fund" (The Fund). This program was established by the Alabama Legislature in 1923 under the Code of Alabama 1975, Section 41-15-1, for the purposes of insuring direct physical loss on building and contents in the State of Alabama. The fund requires that all state owned property be insured for no more than its replacement cost and no less than 80% of its actual cash value. The Fund insures all state owned properties, K-12 systems, post-secondary education systems and state university properties. City boards of education may elect to insure school buildings and property either in The Fund or with a commercial insurance company, whichever provides the best coverage. Of the 67 county and many additional municipal school systems, only ten municipal school systems opt not to participate in the State Insurance Fund.

Program Structure

The Alabama State Insurance Fund functions like an insurance company wherein premiums are charged based on loss exposure. Coverage documents are supplied as proof of coverage and the state entity receives a payment if a loss occurs. Private insurance industry markets are utilized to establish rates, premium discounts, and experience credit to result in equitable premiums charged to policy holders. Excess insurance and reinsurance is acquired to assure the solvency of The Fund. The schedules of buildings and contents are updated annually by the state agencies. All state owned buildings are inspected every three to four years by the loss control employees, providing survey information and photographs of the buildings to the underwriting department, who then complete a Marshall & Swift building cost appraisal value for replacement cost. If an unusual or historical building is inspected, Alabama utilizes the skills of a third party vendor to complete an appraisal. Building cost appraisals were introduced due to state owned assets being previously underinsured.

Once accurately appraised, the values for the state assets went from \$8-12 Billion to approximately \$50 Billion.

Alabama's State Insurance Fund has differing self-insured retentions depending on exposure, and excess coverage is obtained from both domestic and foreign insurance companies. Alabama has an all other perils self-insured retention of \$3.5 Million per occurrence and a wind self-insured retention of \$20 Million per occurrence. The excess insurance coverage provides \$1 Billion for all perils and \$200 Million of wind damage coverage for named storms. It costs approximately \$22 Million annually to purchase these limits of coverage for Alabama. Each covered or participating organization has a deductible per event, with the deductible chosen by the entity and varying from \$500 to \$10,000. Due to the higher wind retentions set at Alabama's last renewal (\$20 Million all wind), the state purchased a second event buy-down product so that in the event of a second wind event loss, the state would only be subjected to a \$1 Million deductible. This second event buy down product costs approximately \$2.4 Million. The Fund also maintains a three year term CAT Bond for coastal exposure that renews annually at a cost of approximately \$860,000. The total costs of the insurance products purchased for property program of the Self Insured Fund for the FY2012 was approximately \$24.75 Million (up from approximately \$14 Million for FY2011).

The property program renews annually on April 1st. The State Insurance Fund currently has approximately \$190 Million in its surplus fund, dedicated to insuring physical loss on buildings and contents for covered causes of loss predetermined by the Finance Director.

Agencies with state owned properties, K-12 systems, and state university properties receive a policy each year. The program began as a New York Fire Policy, which now has between 24-26 endorsements attached. Each time loss control personnel visit a state owned location, they bring complete data including building photographs, square footage, itemized property coverage purchased on each building, and previous loss control recommendations. On inspection, corrected loss control issues and low loss history for the year result in better experience rating toward annual premium, incentivizing agencies to better maintain state owned assets.

K-12 schools have a residual need on the property policy. The state commits to make the school whole if there is a loss. There is an optional gap policy which allows them to be insured for damages not normally included in traditional insurance. A rate is calculated based on types of existing construction to be upgraded or to meet newer code and the premium is added to their current schedule.

Exposures and Loss Information

Hurricanes and tornadoes are the greatest exposures Alabama's property program faces. Approximately 10-12% (approximately \$5-6 Billion) of the state's assets are

located in Tier 1 and 2 (approximately 2,500 buildings). Historically, the state has always had enough money in the fund to pay for property and content losses.

Property Related Risk Management Services

In 2004, the Boiler and Pressure Law was enacted, mandating the inspection of all boilers on a biennial basis. The State previously charged a \$60 fee per boiler inspection and an additional fee for the certificate of compliance. Alabama contracted with Travelers Insurance Company to provide the service for free, thus reducing state expenditure and resource commitments. The state also offers a Boiler Operator Training Course for boiler operators and maintenance personnel at no cost to agencies participating in the State Insurance Fund. Over 5,000 boilers and pressurized machinery within state owned buildings were inspected in 2010, reducing the effects of breakdowns, property damage, and personal injury.

Risk Management Operational Software System

In 1990, Alabama designed and developed a State Risk Management and Insurance Software Program, utilizing a single programmer. The state's owned property and contents data are stored on this system along with loss control reports, recommendations, underwriting information, and data for all other lines of insurance and related administrative information. Alabama reports that continuity of such a software program must be considered when selecting a vendor or consultant to create a computer software program for a state.

2. Florida Property Program

Total Insurable Value: \$21,749,103,926

Number of Buildings: 17,003

Annual Property Losses: \$250,000 - \$600,000 (in non-CAT years)

Reinsurance Premium: Approximately \$9.5 Million annually

Staff Salaries: \$110,000 per year

History & Legislative Rules Associated with the Program

Florida's property insurance program began in 1917 and was merged with the Division of Risk Management in 1972. Approximately ten years ago, Florida's independent casualty and property trust funds were merged into a single State Risk Management Trust Fund. At the time of Hurricane Andrew in 1992, the state had \$2 Million in retention. In 2003, the retention had been increased to \$8 Million, and retention is currently approximately \$40 Million. Florida utilizes a broker to purchase excess insurance.

Program Structure

All state agencies are required to insure their property through the Division of Risk Management. Florida's Division of Risk Management issues certificates of coverage and publishes rules to set standards for coverage. The State Risk Management Trust Fund pays for all types of losses (i.e. property, auto, and general liability), operational costs,

and the purchase of surplus insurance. The Trust Fund is funded on a cash-flow basis, wherein each state agency is charged an assessment based on the size of their exposure and loss history.

Florida maintains a self-insured retention (SIR) of \$2 Million per occurrence for non-CAT losses in the State Risk Management Trust Fund. The state purchases excess insurance to pay losses in excess of the SIR, with up to \$200 Million in AOP coverage and \$50 Million for terrorism coverage. For flood and windstorm losses, Florida pays a \$2 Million deductible per occurrence and has a \$40 Million aggregate retention. Once the \$2 Million deductible is paid and the \$40 Million annual aggregate retention is exhausted, excess insurance pays additional loss costs up to a \$92 Million limit. Because the Division of Risk Management does not have the full \$42 Million in the Trust Fund to pay its share of a single catastrophic loss, it would be required to borrow money from the Budget Stabilization Fund to pay the remainder of the retention in such an event.

Per legislative requirements, Florida's Division of Risk Management provides coverage on an actual cash value basis and not on a replacement cost basis. The Legislature designed the program this way as a loss prevention incentive wherein each agency shares in a loss (enterprise level pooling). The state agency must pay a \$2,500 deductible per loss, plus the difference between their ACV and the replacement cost, with a 60% maximum depreciation value. Each state agency is required to report their property information and actual cash value valuation to the Division. Florida reports concerns about the accuracy of these valuations, however; some agencies utilize professional appraisers, while others estimate their values based on prevailing property values in the area.

The Florida Division of Risk Management employs three staff and a director to oversee their property program. One staff member is an operations review specialist, another is an insurance analyst (database manager), and the third is an adjuster who is utilized when needed. Staff spends the remainder of time adjusting tort claims. Florida pays approximately \$3,000 per year in retainer fees for third party adjusters that provide assistance in the event of a CAT loss.

Exposures and Loss Information

While all of Florida is considered a Tier 1 exposure for property insurance purposes, most of the state-owned property is located in the interior of the state. Florida's main catastrophic exposures are hurricanes and flooding.

3. Louisiana Property Program

TIV: \$17 Billion (approximate)

Number of Buildings: 10,000 (approximate)

CAT Exposure: At least 40% in tier 1 (approximate)

History & Legislative Rules Associated with the Program

All state entities currently participate in the Louisiana Office of Risk Management property insurance program. The State of Louisiana established its property insurance program in the late 1970s to early 1980s. At that time, not every state agency participated, and the SIR was set up on a reserve basis. In the 1990s, it became mandatory for every state agency to participate and the SIR became funded on a cash basis, rather than an actuarial basis. Each state agency is charged an annual premium based on exposure and loss history.

Louisiana law establishes the insurance program and the authority of the Office of Risk Management, but did not specify the conditions of the property insurance program. Additional enactments established the Self Insurance Fund, and authorized the Office of Risk Management a broad base of authority to change the size of the retention from year to year based on budgetary and market conditions. The Legislature has the ability to take money from the Self Insurance Fund.

Program Structure

The Louisiana Office of Risk Management maintains a SIR, and purchases excess insurance to cover losses in excess of the SIR. The amount of money available to the SIR may vary annually based on budgetary and market conditions. The Office of Risk Management negotiates with excess insurance carriers, and will raise its retention limit if it is cost-prohibitive to maintain a low SIR. Louisiana's current SIR is approximately \$50 Million for catastrophic claims (windstorm, flood, and earthquake), and \$10 Million AOP.

Each state agency pays a \$1,000 deductible per occurrence, regardless of cause of loss. However, on occasion, the Office of Risk Management will waive the deductible for CAT losses.

The Office of Risk Management employs four FTEs to run the property insurance program. Three of the FTEs are professional level employees who procure excess insurance, process insurance policies, maintain the statewide property inventory, and other functions. There is one administrative staff member, and approximately four third party adjusters (with more contracted when needed to process CAT losses).

Exposures and Loss Information

The Office of Risk Management has a complete inventory of state owned buildings, but has limited COPE data. Appraisals are conducted every four years by third party loss prevention personnel through a third party administrator. These loss prevention personnel use a computer program to calculate the value of buildings. A third party appraisal company has been hired in the past to conduct multiple appraisals in a short period of time. Louisiana reports it has been difficult to obtain accurate appraisals on historical buildings.

In years when there are no CAT losses, Louisiana can generally pay losses within the parameters of its program. With some CAT losses, the Office of Risk Management has had to access other funding sources to pay for losses.

The Office of Risk Management has a dedicated system that tracks TIV, replacement cost, and other information concerning each property. This program is purely a property-tracking database, and does not have other functions such as claim processing, certificate issuance, or other functionality.

4. North Carolina Property Program

North Carolina has a team of 11 people employed by the Department of Insurance who administer its \$33.6 Billion property program. The team consists of a Director of Risk Management, a risk manager, one loss control and claims specialist, two administrative/accounting staff, and six certified building inspectors. Some of these employees have overlapping responsibilities, but all play a vital role in administering the property program. It costs an estimated \$620,000 annually (excluding benefits, office expenses, and travel costs) to employ the property management team.

History and Legislative Rules Associated with the Program

The North Carolina property program was established in 1945. North Carolina has mandated that all real and personal property will be specifically insured for fire coverage. From 1945 until 1981, the state appropriated funds for the purpose of providing a reserve against losses from fire for state agencies and institutions; the State Treasury is the custodian of this fund and invests its assets. After 1981, North Carolina stopped appropriating funds to the State Property Fire Insurance Fund. Under the current arrangement, the Risk Management Division collects premiums for all insured real and personal property from each state agency to fund property losses. State agencies that receive the majority of their funding from state appropriations are not charged for fire coverage, while agencies that receive funding outside of state appropriations must pay for fire coverage.

Program Structure

North Carolina maintains \$2.5 Million in retention with approximately 18 reinsurers providing up to \$750 Million for all perils and \$150,000 Million named storm wind coverage for all state agencies. North Carolina targets property program retention at not more than 10% of the self-insured fund reserves (that reserve is currently \$25 Million). This ensures that North Carolina has enough money in the fund to pay for multiple losses.

The program provides property insurance to approximately 14,000 state owned assets. The risk management department collects COPE and total insurable values for all state appropriated buildings on a database. Each state agency provides current values, add new or delete demolished buildings, and notifying the risk management department of any elections to broaden property coverage on any specific building(s) on

an annual basis. State agencies and institutions of higher education are required to maintain fire coverage for state-owned buildings and contents, but may elect to purchase additional property coverage for a premium (including but not limited to riot, earthquake, volcanic eruption, civil commotion, hail, hurricane, sinkhole, wind, and others). Entities may also elect to purchase flood insurance for an additional premium, and the self-insurance fund stands in the place of the National Flood Insurance Program for those agencies that choose to purchase flood insurance. Appraisals are not currently completed on state assets because it is not currently cost effective for the state.

A self-insured fund is collected from premiums paid for by fire coverage obtained by those agencies that are not primarily funded by state appropriations and from additional property coverage purchased by all agencies and universities. The rates are calculated by the risk management department using a loss cost analysis. This self-insured fund pays for the \$2.5 Million retention for losses before the reinsurance starts paying, and pays the \$11-12 Million annual premium for reinsurance. The North Carolina organization handling the property program is a subsidiary of the Independent Insurance Agents of North Carolina, with the state of North Carolina as its only client. North Carolina hires an Agent of Record to access the wholesale market. The wholesale broker approaches approximately 35 to 40 reinsurers. There is currently no protection in place to stop the fund from being appropriated by the Legislature for other governmental needs.

Rather than issue insurance policies to insured agencies, North Carolina issues a certificate of coverage which lists every asset insured against fire losses, and any additional elected property insurance coverage for each structure. North Carolina notes a desire to make it compulsory for every state asset to be covered for all risk, and for all agencies to pay for all coverage, including fire.

Exposures and Loss Information

Hurricanes and tornadoes are the greatest exposures that North Carolina's property programs faces. Approximately \$2.25 Million, or 7%, TIV, of the state's assets are located in Tier 1. The program requires each state agency to pay a \$5,000 standard deductible for every loss, which is automatically deducted from the final claim payout by the risk management department. Higher deductibles may be chosen for a reduced premium. Historically, North Carolina has been able to fully fund the state's property losses.

Risk Management Operational Software System

North Carolina utilized a single individual to build and maintain their customized, comprehensive risk management operational software system constructed in the 1990s. This software program holds the state's inventory, tracks losses, and handles accounting. It is not solely an insurance database and does not include any underwriting information. Their consultant completed the software customization at a reasonable price and has since updated the system. North Carolina would recommend

this individual to help set up any other state agency specific program, but recognizes business continuity concerns since it is just one individual. The risk management department administers the property program, excess liability, automobile, directors' and officers', student health insurance, and many more lines of insurance for the State, excepting workers' compensation.

FEMA

Per FEMA requirements, any state building damaged by a catastrophic event must purchase insurance on that building up to the value of the loss if it receives FEMA funding. FEMA has historically recognized the \$2.5 Million self-insured retention as a form of insurance. Following Hurricane Irene in 2011, FEMA did not recognize the state's self-insured retention as a form of insurance and did not provide funding to restore damaged buildings. North Carolina is currently working with FEMA to resolve this issue.

5. South Carolina Property Program

The State of South Carolina has approximately a \$35 Billion property program administered by the Insurance Reserve Fund (IRF), an office of the South Carolina Budget and Control Board. Every state agency is statutorily required to participate in the property insurance program and insure all of their buildings and contents. Counties, municipalities, and school districts have the option of purchasing through the IRF, or purchasing independently with the private sector. In addition to providing property insurance, the IRF also administers general tort liability insurance, automobile insurance, inland marine, medical professional liability and others lines of approved insurance. The FY11 Budget expenditures for the IRF total \$6,661,102. The estimated employee count managing the day to day administration of the property program consists of 12 identified positions:

IRF Director (1)
Assistant Director of Underwriting (1)
Assistant Director of Claims (1)
Underwriters (3)
CPA (1, part of the Administrative team of 5)
Claims Managers, Adjusters and support staff (26)
Field Agents (2)
IT employees (11, shared)

History and Legislative Rules Associated with the Program

South Carolina established the General Sinking Fund after the Civil War to manage state owned property and to finance the reconstruction and repair of damaged state buildings. This fund was first established as a "self-funded insurance program" for South Carolina's state government. The Budget and Control Board was created by law in 1950 and consisted of different divisions with an essential role to improve efficiency and general management of state government. The Sinking Fund was merged with the

Board of Claims and State Budget Commission to create a new State Finance Committee. The Board later created additional divisions to address the rapid growth of South Carolina's state government, later shifting budget power to the state auditor. In 1978, the position of the state's Executive Director was created to serve as a point of coordination and leadership for the Board and all of state government. The Sinking Fund exists today as the Insurance Reserve Fund. The IRF functions as a governmental insurance operation, and is authorized to provide insurance to governmental entities by statute. Comprehensive statutory provisions detail the authority to purchase insurance, requirements for all state owned property and contents to be insured, and authority to hold premiums to pay for insured losses. All premiums received by the Insurance Reserve Fund are deposited with the Office of the State Treasurer where the funds are maintained as the Insurance Reserve Fund Trust Account.

Program Structure

The current limit of the property reinsurance program is \$400 Million, consisting of four multi-stratified layers of \$100 Million each. A separate terrorism portion is written as a single layer of \$150 Million. The Insurance Reserve Fund assumes a \$10 Million self-insured retention for the first event during a policy period, with a \$1 Million self-insured retention for subsequent events. The policy is filed on "South Carolina Paper" using a modified version of the ISO all risks commercial property insurance policy edition 1985.

The Fund pays for direct physical loss of, or damage to, covered property on a replacement cost basis with an 80% coinsurance clause and deductible options of \$1,000 to \$50,000 per occurrence. Additional sublimits and coverage is available by endorsement. Each state agency maintains renewal dates based on when they entered the program.

The Insurance Reserve Fund operates like an insurance company by issuing policies, collecting premiums (based on actuarially calculated rates), and paying claims from the accumulated premiums in accordance with the terms and conditions of the insurance policies it has issued. The IRF utilizes third party actuaries to determine rates, IBNR reserves, adequacy of loss reserves, and adequacy of policy holder's equity in making management recommendations to the Budget and Control Board regarding the financial management of The Fund. The Insurance Reserve Fund is a revenue agency and does not receive any appropriation from general funds.

Property appraisals are completed by a third party firm through a five year contract agreement. The firm completes appraisals for 20% of the scheduled property locations each year so that by the end of the contract, 100% of the properties have been appraised.

The IRF offers limited risk management services. Each state agency is responsible for the development of its own risk management programs. Claims history does impact the annual premiums that each agency is responsible for; thus encouraging state agencies

to develop effective risk management programs. The IRF is not subject to the state procurement codes and is able to obtain contracts for brokers and other insurance related services as necessary for the benefit of the program. Property and Terrorism Re-Insurance coverage is purchased through Broker services.

The IRF maintains a comprehensive and adaptable IT database management system that has been in existence for over twenty-five years. The system is a hybrid of internal and external design consisting of web based features for over 900 different programs. All policies documents invoices and correspondence are automatically generated by the IT management system, and issued to the participants via electronic transfer or paper mail. The IT database system is the utmost integral component of the IRF, allowing data management and workflow capabilities for the entire state's insurance program to be administered by a relatively small division.

Exposures and Loss Information

Hurricane, flood, windstorm, hail, earthquake, fire, and tornado are the primary catastrophic exposures that South Carolina faces (the entire state of South Carolina is identified as a Tier 1 catastrophe zone according to RMS 11, the most widely used wind storm modeling currently available). The property insurance program applies appropriate rates for insurance on properties located in three defined exposure code territories: beach, seacoast, and inland. The IRF has generated equity on more than one occasion, and South Carolina has never been in a position where it was unable to pay for state property losses. A five year rate comparison to ISO, IFR was able to maintain a low cost of \$91 per \$100,000 of value vs. ISO's \$423 per \$100,000 of value.

Because the Fund has successfully generated policy holder equity, it has periodically been subject to mandated provisions that have reduced net assets. In 2003-2004, the IRF was directed to waive renewal premiums for all lines of insurance. The IRF was also directed to transfer \$22,937,800 of assets to the General Fund. These provisos reduced net assets by approximately \$51 Million. Additionally, legislative loans have been taken out against the IRF with outlined and approved repayment terms in one session, followed by subsequent legislation dispensing with repayment to the IRF. The IRF has adjusted by granting premium holidays and continuing insurance coverage for all participants with no collection of annual premium(s) for fiscal years in which substantial equity is earned. The Insurance Reserve Fund indicates it would like to have constitutional protections for the Trust Fund to secure policy holder equity.

APPENDIX B

STATE INSURABLE ASSETS STUDY 2011 REPORT

**Content as originally filed; general formatting changes incorporated
for inclusion within the 2013 report structure.*



STATE OFFICE OF RISK MANAGEMENT
Senate Bill No. 1, 81st R.S.

STATE INSURABLE ASSETS STUDY



JANUARY 2011

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I. Background

The State Office of Risk Management (Office) is responsible for administering insurance services obtained by State agencies, including the government employees' workers' compensation insurance program and the State risk management programs.¹ Pursuant to Senate Bill No. 1, 81st R.S., as codified in the General Appropriations Act, the Office was directed to prepare a report and offer recommendations for a potential statewide strategy to insure State assets against damage or loss and comment on the advisability of various insurance options, including self-insurance, privately placed insurance, and stop-loss insurance.²

The Office currently administers the voluntary State of Texas Property Insurance Program, which currently insures approximately \$11B in Total Insurable Values (TIV). State agencies are not generally required to insure their assets, but 27 agencies have elected to participate to insure their real property and contents, either for a business purpose or to comply with external requirements, such as property financed with public bonds or as a prerequisite to Federal Emergency Management Agency assistance. Only a minority of State property is currently covered by insurance. The Office estimates the State in total has approximately 40,000-45,000 properties with a combined TIV of \$50B-\$80B.

It is often assumed the State of Texas self-insures its real and personal property.³ This long-held belief partially stems from the 1921 Senate Concurrent Resolution No. 3, 37th R.S., and partially from the existence of unappropriated general revenue and mechanisms for requesting supplemental appropriations for sustained losses.⁴ The latter is not technically self-insurance, as the State has no specific funded reserve for losses to real or personal property nor has it established a process for adjusting claims and distributing payments. Most agencies are functionally uninsured, unless they have obtained specific insurance policies or established agency funding reserves.

Under the current statutory insurance program administered by the Office, each agency makes an individual decision to either insure its property, or a portion thereof, or retain any potential loss. When uninsured losses occur, the agency

¹ Texas Labor Code §412.011, et seq.

² GAA, pg. I-80, Rider 4

³ For the purposes of this report, real property is defined as "land and immovable structures attached to the land," and personal property is defined as "tangible property, which is often called 'contents'." Richard V. Rupp, CPCU, Rupp's Insurance & Risk Management Glossary, 2nd Edition, 1996

⁴ The 1921 resolution sets forth that it is "the policy of the state to self-insure its buildings" and recommended establishment of a fund for paying losses. No fund has been established.

must either absorb those losses within current budgets or request additional appropriations from the Legislature.

For agencies that do not purchase insurance, the Legislature has historically assisted those agencies in financing uninsured catastrophic losses. Past sessions have seen multiple agencies requesting financial assistance from the Legislature for damage sustained; most recently from natural disasters such as Tropical Storm Allison and Hurricanes Rita, Katrina, Dolly, Gustav, and Ike. Similar situations may occur from manmade events, such as the arson attack on the Governor's Mansion in June 2008.⁵

Requests for financial assistance over the last few legislative sessions have exceeded a quarter of a billion dollars. Known appropriations for general costs caused by natural disasters from Sept. 1, 2007, through June 29, 2009, as reported in HB 4586, are provided in the Appendix. These figures reflect only known payments that were to be distributed to the respective agencies at the time of the report.

⁵ The building had a Builder's Risk insurance policy in place during a roof repair at the time of the fire. The Builder's Risk insurance policy provided some recovery but was well below the approximately \$22M requested of the Legislature to rebuild the historically classified building to its previous state.

II. Methodology

While the State tracks some properties in a centralized manner, there is currently no single existing source that identifies or tracks the condition, replacement value, and geographical location of all State assets. The lack of complete current or verifiable information regarding full exposures prohibits accurate cost evaluations as part of this report. According to industry experts consulted during the preparation of this report, this is a common issue in state insurance plans and is a fundamental prerequisite to performing a cost analysis for all methods of protection.

The Office's study was conducted by identifying categorical strategies, utilizing reasonable extrapolations based on data collected in the current voluntary program, and consulting with practicing industry experts on various strategies, including strategies utilized by other states. The experts provided information and responded to specific inquiries on concepts and approaches. The strategies identified include both financial and non-financial options, including traditional insurance, individual self-insured retention, pooling, captives, CAT (catastrophic) bonding, and set asides. Non-financial options include strengthening of procedural mechanisms and potential legislative policy.

To compare various approaches, experts addressed the following inquiries from the Office:

- What should be the goal of a State Property Program?
- What are the recommended approaches for the State to handle the risk of its insurable assets?
- What are other states' approaches to property programs, specifically those with similar exposures and size of Texas?
- What important aspects must be, and should be, addressed prior to, during, and after instituting a statewide program?
- What additional services would the State require to implement various strategies?
- How should agencies be motivated to participate?
- What are available and/or recommended approaches to funding a statewide program?

III. Options

All of the industry experts consulted stressed the importance of developing and maintaining a comprehensive database of all of the real property and contents currently owned by the State, the geographical location of the properties, the replacement cost, and the COPE (Construction, Occupancy, Protection, and Exposure) characteristics on each piece of property before any program can or should be recommended or implemented. Complete and accurate identification of the property to be insured is a necessary prerequisite of all the approaches discussed.

The experts offered diverse options, recommended best practices, and proposed methodologies for structuring a large insurance program for State use. The following sections address the potential distinct approaches and strategies identified by the Office and by consultants responding to the Office's request for consultations. The options presented are not listed in order of benefit, preference, or advisability for adoption.

A. Financing Options

1. Traditional/Commercial Insurance

Traditional insurance is a component of most basic risk financing plans. In general, traditional insurance transfers the risk of loss from damage to property from the owner to an insurance company, which collects a premium from the owner in return for payment of covered losses.

Advantages. Traditional insurance reduces the financial uncertainty of accidental losses, as a known premium can be incorporated with attendant deductibles to limit State exposure in the event of a large loss. Transferring this risk, particularly in the event of a large (or catastrophic) loss, provides additional financial resources for the State to address other needs. Claims handling and risk control services are typically incorporated in traditional insurance options, providing for value-added services and potential loss control.

Disadvantages. In commercial insurance, terms and conditions of an off-the-shelf policy may be unstable, as may be premium charges in response to loss experience both at the individual agency and within the industry-covered population. Traditional insurance routes would likely represent a more expensive option for the State, based on the potential number of buildings and total insurable value of the buildings. Traditional insurance is primarily advantageous for small geographical spreads and may be inappropriate for a statewide approach. In a time of catastrophic losses, some insurance companies may opt to discontinue insurance coverage in certain counties within the State, leaving portions of the State or subsets

of agencies uninsured. Commercial insurance will include the insurer's expense, profits, and risk charges in the premium paid. The insurance premium to cover an estimated 40,000 to 45,000 buildings could be a considerable increase over current premium costs, decreasing the cash flow for the State. Traditional insurance may not be a complete transfer of hazard risk, as some agencies may have exposures that an insurance company may not be willing to cover (e.g., agencies located in flood zones may be required to purchase additional flood insurance from the National Flood Insurance Program).

2. Individual Self-Insured Retention

Individual self-insured plans would require each state entity to pay for its losses out of its own budget, but without the costs associated with procuring insurance. This type of strategy requires a specific, formal system for recording losses and processing payments from a dedicated revenue source.

Self-insurance works best for high frequency and low severity claims. Unpredictable, high severity claims, such as property losses, are not ideal for this type of program as the claims fund may be inadequate to pay a large loss. Self-insurance is best suited to organizations committed to risk control, able to tolerate risk retention, and willing to provide funding and administrative resources necessary to make the program work. Self-insured programs are usually coupled with excess liability insurance to assist in covering catastrophic losses.

Advantages. A self-insured program would allow the State to have control over its own claims: claims adjusters could be independently selected; claims handling guidelines can be written to State specifications; and timelines for settling claims could be handled internally. There is a potentially significant cost savings if the frequency and severity of losses is minimal, avoiding recurrent premium and administrative costs associated with traditional insurance. This approach is not reliant on insurance market trends.

Disadvantages. Frequency and severity of losses can be unpredictable, leading to loss of cost savings compared to premium-based, risk-transfer mechanisms. Catastrophic property losses, even if infrequent, must be allocated for and dedicated funds protected in the form of minimum reserves in the event of a large loss. The financial costs of property losses, particularly from natural disasters or external intentional acts, can be extremely large and subject to events outside effective loss control mechanisms, unlike other forms of self-insurance where losses may be limited or controlled (e.g., tort liability limitations, workers'

compensation losses, etc.). Internal administrative handling of a self-insured program (recording, adjusting, scheduling, payment, and possible litigation) can require significant resources when dealing with losses. Assets and reserves must be rebuilt after payment processing, further reducing potential savings over other strategies.

3. Statewide Self-Insured Retention

This strategy is identical to the preceding section, excepting its State-level approach (i.e., the funds for paying losses are retained centrally by the Legislature or a designated agency that receives a direct appropriation). This option is most closely associated with Senate Concurrent Resolution No. 3, 37th R.S., which is attached as Appendix 2.

4. Pooling

The concept of pooling refers to the strategy of entities combining resources to finance experienced losses. Pools may be grouped by common exposure(s), business focus, geography, genesis, or any other mutuality supporting combination. Each entity contributes resources to the group as a whole, used for the equal benefit of the members.

Generally, protection against exceeding pool resources must be factored in, including consideration of reinsurance treaties purchased to ensure the pool does not become insolvent in a particularly catastrophic year, or obtaining excess insurance based on the catastrophic exposures in different demographic areas (in this configuration, the pool would fund the primary layer of coverage and excess would cover losses exceeding the primary layer).

The State of Arkansas uses an “all in or all out” pooling approach, with universities permitted exemption. The Arkansas pool uses a state’s master insurance policy form, although the form may be altered to suit Arkansas’ universities’ specific needs. Buildings are appraised every three years to ensure they are insured to value (however, Arkansas insures approximately 3,600 structures compared to Texas’ potential estimated 40,000-45,000 structures).

Pooling programs would allow the State to include or exclude agencies based on ability to meet underwriting guidelines and create layers for certain properties based on exposure to catastrophic losses. Potentially, each entity would be treated as a separate insured and have separate limits of liability for each insured building. As noted, a reinsurance treaty would be recommended to follow form to the master policy and stand behind it to ensure pool solvency. Claims handling may be outsourced or internally administered (either centrally and/or on a loss-value basis by

individual entities), with authority of the pool administrator to set retention rates, designate surcharges, exclude non-maintained or non-compliant buildings, or assess penalties or modifiers for loss control failures.

Advantages. Pooling increases the predictability of each participant's losses by reducing the variability of their average loss.⁶ Premium (contribution) stability in risk pooling allows for more consistency in the annual budgeting for agencies. Similar to individual self-insurance retention, pooling allows the State the option of handling claims either in-house or through a third-party administrator and adds additional consistency in the regulation of loss-control programs for participants. Pooling is a common approach to real and personal property protection in the United States, and there is an availability of third parties to assist in the administration of this strategy.

Disadvantages. Pooling requires large participation and diversification of the State's property to be successful and to avoid adverse selection limiting the successful spreading of risks (i.e., high and low risks, covered properties both in and out of Tier 1). Statewide participation may be required to be mandated by the Legislature to ensure pool viability. Losses may exceed pooled assets, or assets may be substantially reduced by losses or other events, leading to pool insolvency.

5. Captives

Captives are another form of risk financing that operates to pool the State's risks and refers to a dedicated subsidiary insurer or insurers to address the State's risk financing needs. In such a strategy, the State retains a significant share of its own losses in exchange for the benefit of having its own dedicated insurer, who collects premiums, issues policies, and handles claims. A Captive insurer usually purchases reinsurance to transfer some of the loss exposure to another insurance company.

A Captive approach may also operate to centralize the loss retentions between agencies, allowing for potentially higher loss retentions at a statewide level, and the dedicated nature of the subsidiary relationship allows the parent to design and control the claims-handling process to suit its needs.

Advantages. Generally, the administrative costs associated with procuring traditional insurance are not included in Captives. Captives typically adjust the claims, reducing internal resources and/or funds that

⁶ Risk Financing, 4th Edition, Berthelsen, Elliott & Harrison, 2006, at 24.

would have been spent on a third-party administrator, and overhead or profit costs are eliminated from premiums. Direct access to the international market of reinsurers is immediately available through the Captive (where a self-administered pool would have to be certified by the Texas Department of Insurance or otherwise specifically authorized through legislation to access these markets). Captives may have increased negotiating power with commercial insurers during market downturns, particularly in a statewide program with a large TIV.

Disadvantages. Captive insurance requires a considerable capital outlay and start-up cost. Start-up and annual operating costs for a Captive are estimated to range from \$35,000-\$150,000 depending on the size of the insured base. Unless directly funded by the Legislature, each State agency would need to have a designated fund available for costs associated with utilizing the Captive, including adequate retention limits, administrative costs, premiums, and other charges. If the Captive is designed with inadequate resources and losses exceed the Captive's ability to pay, the loss could financially cripple the Captive and the State. Reinsurers may choose not to follow the form of a Captive, leaving gaps in coverage.

6. CAT Bonding

A CAT Bond is an insurance-linked security. The purpose of a CAT Bond is to transfer otherwise insurable large risks to potential investors. CAT Bonds were developed because of the limited availability and affordability of catastrophe reinsurance. These bonds are issued by securitization and special purpose vehicles (SPV) of large reinsurers, insurers, or large corporations. They are designed to imitate the traditional excess catastrophic insurance and reinsurance. They can be issued for any type of catastrophic insurable risk such as hurricanes, tornados, and other naturally occurring risks.

CAT Bonds are highly specialized and are not a commonly used form of protection of assets. The strategy is identified herein as an option that may warrant additional consideration should the Legislature specifically identify further study respecting non-traditional or highly specialized risk transfer mechanisms.

B. Non-Financial Options

1. Procedural Mandates

One aspect of catastrophic losses experienced by the State is the lack of standardized and recurring procedural methodologies for the reporting, oversight, financing/appropriation, and payment of losses.

Given the estimated 40,000-45,000 structures owned by the State, it should be possible, with adequate data, to project the average annual loss with a fair degree of accuracy. While the State of Texas has some concentrations of property (notably in Austin, Tier 1 coastal areas, and college campuses) the size and diversity of the State makes it unlikely that any single catastrophic event could threaten all of its assets. Put in simpler terms, while we cannot establish the probability that an individual State building will experience a loss with any degree of accuracy, given historical and current data, we should be able to project the average annual loss across all state properties.

To finance large losses that currently fall to the legislative budget process, the State could establish a reserve sufficient to deal with moderate spikes in losses from year to year and establish a formalized process for requesting necessary financing. The details of application could be established by legislation, and oversight and administration could be delegated if, and as, required.

2. Asset Restructuring

Ownership of the asset involves ownership of the risk of loss and responsibility for replacement and/or repair. Some states have utilized nominal sales of state assets and period lease-backs from investors as a method of balancing the budget.⁷ While outside the scope of this study, these budget approaches raise the possibility of transferring risk from the state to the owners of leased properties, at least in situations where there would be no ownership interest retained (i.e., outright sale to a new owner with leasing rights versus a nominal sale as collateral with buy back rights). This approach represents a significant shift in the State's current risk management policy. Although this method of risk transfer has been utilized by other states, none were the size of or had the estimated TIV of the State of Texas. Asset restructuring is mentioned here in an effort to present the Legislature with as many risk management options as possible.

⁷ See, <http://tucsoncitizen.com/hot-off-the-press-release/2010/01/14/state-sells-buildings-for-735-million-money-to-help-balance-budget/> for a description of such an approach by the State of Arizona.

C. Hybridized System

Given that each option has both identified strengths and weaknesses, an ideal program would be specifically designed to ensure an approach customized to meet the unique needs and exposures of Texas. The development of a hybridized system is heavily dependent on accurate and current information for the selection of procedure, programs, services, and products.

One problem with the State's current decentralized and non-mandatory approach to insuring State properties is that incurred losses do not fall to agencies proportionally. While small losses may be absorbed within agencies' operational budgets, large losses can threaten an agency's continuity of service and fall disproportionately on the legislative budget process. By creating a centralized, mandatory state property insurance program, whether funded by assessments to covered agencies, legislative appropriation, or some combination thereof, it would be possible to normalize the cost of ordinary losses to individual State agency budgets at minimized additional expense. Such a program offers the additional benefit of providing timely disbursements of funds to covered entities that experience a loss to minimize disruption of agency operations. Importantly, the losses described here are not new expenditures. Because a majority of State property is currently not protected by insurance and the State currently pays the entire loss from some part of its budget, this approach is intended to improve the current process for paying losses.

A mandatory property insurance program as described would pool losses to the extent that individual agencies would minimize the budget impact of a casualty loss, but in such a system the legislative budget process retains the liability of large losses. This approach can be combined with other financing approaches as described above.

To finance large losses that currently fall to the legislative budget process, the State could establish a reserve sufficient to deal with moderate spikes in losses from year to year and even consider purchasing reinsurance for large, catastrophic losses. Determining the dollar limits that should be applied to the portion of the loss that would be retained by the State, including deductibles paid by the affected property owner, and the portion that would be commercially insured is a matter for legislative discretion and will be heavily influenced by market conditions and the availability of reinsurance.

IV. Considerations

As the State agency administering the specialized government employees' workers' compensation program and the State's risk management program, including the insurance purchasing program, the Office strongly emphasizes the following considerations as part of any evaluation of identified strategies herein.

A. Adjusting Services

Claims handling involves a team of specially trained individuals able to adjust the many varieties of property loss the State could experience. Claims handlers require specialized skills in adjusting, settling and administering claim payments, so decentralization of this function should be carefully scrutinized. Should the State undertake internal claim management as part of any insurance strategy, it is strongly recommended that any program emphasize professional training and standardization, including potential centralization, and have the resources required to adequately oversee timely and accurate claim processing.

Alternatively, as discussed above, a third-party administrator (TPA) may be used for handling the State's claims. Depending on claim frequency, a TPA may bring additional flexibility to handle spikes of activity related to catastrophic claims. Another potential advantage to this approach is additional transfer of liability for handling the claims to the external administrator. On the negative consideration, there is a financial trade-off respecting the cost of contracting with a TPA for such a program. Contract maintenance and oversight and specific fiscal controls must be put in place for such an arrangement, including consideration of long-tail claims that could potentially cross vendor and/or insurer contracts.

B. Loss Prevention/Risk Control Services

To ensure a program results in long-term savings to the State, any program must be proactive in reducing claims. Risk control services specifically related to property and historical buildings, as well as best practices for property maintenance, prevention, and control of losses will be highly important to a successful strategy. As with adjusting, the State may utilize in-house staff to provide the loss prevention and loss control services or opt for a contracted service.

V. Recommendations

The actual mechanism(s) chosen for a statewide strategy for adequately insuring State assets should be determined by the Legislature after considering the impact on overall State operations, the costs associated with retaining the risk versus transferring the risk through reinsurance, and should provide clear procedures for identifying when and how funding will be made available in emergencies. Based on the study identifications, a **hybridized system** that incorporates multiple approaches would be the most advantageous to the State.

To determine which, if any, of the identified options is most financially advantageous to the State within such a system, an appraisal must be commissioned identifying all property and contents currently owned by the State, the geographical location of the properties, the replacement cost, and the COPE characteristics on each piece of property. The maximum probable and maximum possible losses should also be calculated per building and across the entire program from reported information, allowing for accurate provisioning and selection of an appropriate strategy.

It is recommended the Legislature allocate responsibility and resources to undertake a data collection and modeling process, including legislative mandates for agency compliance and a time frame for the completion of the data collection. Completion of reporting, analysis, and modeling should result in a formal recommendation of prioritized strategies for Legislative consideration on the best-suited model and strategies for protecting State of Texas assets.

After selection and authorization of strategy, procurement, and marketing, implementation should be undertaken under designated agency authority and require ongoing analysis and data collection to ensure the State is insuring its assets in the most cost-effective way for the taxpayers.

The Board of Directors and staff of the State Office of Risk Management are available to respond to any inquiries and to undertake all efforts respecting the matters herein. Any inquiries may be directed to Jonathan D. Bow, Executive Director, State Office of Risk Management, P.O. Box 13777, Austin, TX 78711-3777, by telephone to (512) 936-1502, or facsimile at (512) 370-9025.

Appendices

APPENDICES

Appendix 1

Table 1

Appropriations for General Costs Caused by Natural Disasters
Reported in the Sept. 1, 2007, Biennial Presentation to the Legislature on June 29, 2009

State Agencies that Received Money from Legislature	General Revenue Funds	Notation Location
UT Medical Branch at Galveston	\$150,000,000	H.B. No.4586 Section 55
Brazosport College	\$120,111	H.B. No.4586 Section 55
Parks and Wildlife Department	\$12,000,000	H.B. No.4586 Section 55
UT M.D. Anderson Cancer Center	\$1,725,995	H.B. No.4586 Section 55
Alvin College	\$2,358,771	H.B. No.4586 Section 55
Texas A&M Galveston	\$6,200,000	H.B. No.4586 Section 55
Texas Forest Service	\$385,091	H.B. No.4586 Section 55
Houston Community College	\$1,507,670	H.B. No.4586 Section 55
Commission on Environmental Quality	\$4,600,000	H.B. No.4586 Section 55
San Jacinto College	\$3,045,820	H.B. No.4586 Section 55
Galveston College	\$407,406	H.B. No.4586 Section 55
Texas Engineering Extension Service	\$1,200,000	H.B. No.4586 Section 55
Adjutant General's Department	\$1,244,007	H.B. No.4586 Section 55
University of Texas at Brownsville	\$1,200,000	H.B. No.4586 Section 55
Lamar University	\$2,803,561	H.B. No.4586 Section 55
Lamar Institute of Technology	\$2,007,758	H.B. No.4586 Section 55
Lamar State College - Port Arthur	\$829,530	H.B. No.4586 Section 55
Texas Southern University	\$9,720,192	H.B. No.4586 Section 55
College of the Mainland	\$176,236	H.B. No.4586 Section 55
University of Texas Pan American	\$102,258	H.B. No.4586 Section 55
University of Texas Health Center at Tyler	\$1,461,557	H.B. No.4586 Section 55
University of Texas Health Science Center at Houston	\$1,000,000	H.B. No.4586 Section 55
University of Houston System Administration	\$7,339,000	H.B. No.4586 Section 55
Texas State Technical College - Harlingen	\$904,558	H.B. No.4586 Section 55
Lamar State College - Orange	\$600,000	H.B. No.4586 Section 55
Prairie View A&M University	\$488,864	H.B. No.4586 Section 55
Lee College	\$137,554	H.B. No.4586 Section 55
Department of Agriculture	\$20,000,000	H.B. No.4586 Section 55
Total	\$233,565,939	

Table 2
Certain Appropriations for Disaster Relief

Reported in the Sept. 1, 2007, Biennial Presentation to the Legislature on June 29, 2009

State Agencies that Received Money from Legislature out of this fund	Appropriated Funds from the General Revenue Fund to the Trusted Program of the Office of the Governor	Notation Location
Texas Education Agency	\$10,000,000	H.B. No.4586 Section 58
Texas Engineering Extension Service	For TX Task force 1 Flooding - No \$ amount provided.	H.B. No.4586 Section 58
General Land Office	For repairs made to the Protective Dune System for County Road 257. No \$ amount provided.	H.B. No.4586 Section 58
Total Available for Disbursement	\$62,000,000	HB4586 Appropriations for state agencies.doc

CONCURRENT RESOLUTIONS

PROVIDING THAT THE STATE SHALL CARRY ITS OWN INSURANCE ON STATE BUILDINGS AND CONTENTS

S. C. R. No. 3.]

Whereas, It is of great financial importance to the State that a fixed policy be established with reference to carrying fire insurance upon buildings and contents belonging to the State and its various institutions, and

Whereas, The insurance data and information tabulated and set out on page 261 of the First Annual Report of the State Board of Control indicate that a substantial saving can be made to the State in carrying its own insurance; therefore be it

Resolved, by the Senate of the State of Texas, the House of Representatives concurring herein, That hereafter it shall be and is the Fixed policy of this State that the State shall carry its own insurance upon State buildings and contents, and that no insurance policies shall be taken out upon any of the public buildings of this State, nor upon the contents thereof, and the State Board of Control and all other Boards having charge of buildings of the State, and the contents of such buildings, are hereby instructed not to have such buildings nor property insured, notwithstanding there may be items in the appropriation bills authorizing the expenditure of money for the payment of insurance premiums.

Provided that it is declared to be the policy of the State hereafter at the end of each two years period to set aside approximately one per cent of the value of all public buildings owned by the State, as a sinking fund until ten per cent of the total value of all such buildings has been accumulated, and that this sinking fund shall be invested in school bonds in the school districts of this State.

Provided, however, that this resolution, or any part of its provisions shall not apply to or affect the University of Texas, and its branches, and that it is the fixed policy of the State that all buildings and the contents thereof belonging to the University of Texas, and its branches, shall be kept insured at all times against any loss by fire or tornadoes.

[NOTE.—The foregoing resolution was adopted by the Senate, August 24, 1921; and was adopted by the House August 24, 1921.]

VI. Acknowledgements

The State Office of Risk Management would like to thank the following entities for their assistance and expertise in gathering information about state insurance programs around the nation. The experts shared examples of various insurance options, and their experiences regarding property programs administered in other states.

American Appraisal

Arthur J. Gallagher Risk Management Services

Cedar Consulting LLC

Munich RE

North American Solutions

Texas Department of Insurance

Wells Fargo Insurance Services USA

Willis Group Holdings

York Insurance Service Group, Inc.

Appendix F:

(Texas Summary of Property Insurance Program)

STATE OF TEXAS

SUMMARY OF INSURANCE

STATE-WIDE PROPERTY INSURANCE PROGRAM
May 1, 2024 – May 1, 2025



THIS DOCUMENT IS A SUMMARY OF THE INSURANCE POLICY. IT DOES NOT INCLUDE ALL TERMS, COVERAGES, EXCLUSIONS, LIMITATIONS, AND CONDITIONS OF THE ACTUAL POLICY CONTRACT.

IN CASE OF CONFLICT BETWEEN THIS DOCUMENT AND THE POLICY, THE POLICY WILL PREVAIL.

“This insurance contract is with an insurer not licensed to transact insurance in this State and is issued and delivered as a Surplus Lines coverage pursuant to the Texas insurance statutes. The State Board of Insurance does not audit the finances or review the solvency of the surplus lines insurer providing this coverage, and this insurer is not a member of the property and casualty insurance guaranty association created under Article 21.28-C, Insurance Code. Article 1.14-2, Insurance Code, requires payment of 4.85 percent tax on gross premium.” (Article 1.14-2, 7 (a))

Figure: 28 TAC §1.601(a)(2)(B)

Have a complaint or need help?

If you have a problem with a claim or your premium, call your insurance company or HMO first. If you can't work out the issue, the Texas Department of Insurance may be able to help.

Even if you file a complaint with the Texas Department of Insurance, you should also file a complaint or appeal through your insurance company or HMO. If you don't, you may lose your right to appeal.

Arthur J. Gallagher (UK) Limited

To get information or file a complaint with your insurance company or HMO:

Call: Compliance Department

Toll-free: 0141-285-3539

Online: www.ajginternational.com

Email: commercialcomplaintsuk@ajg.com

Mail: Compliance Department, Arthur J. Gallagher (UK) Limited, The Walbrook Building, 25 Walbrook, London EC4N 8AW

The Texas Department of Insurance

To get help with an insurance question or file a complaint with the state:

Call with a question: 1-800-252-3439

File a complaint: www.tdi.texas.gov

Email: ConsumerProtection@tdi.texas.gov

Mail: MC 111-1A, P.O. Box 149091, Austin, TX 78714-9091

¿Tiene una queja o necesita ayuda?

Si tiene un problema con una reclamación o con su prima de seguro, llame primero a su compañía de seguros o HMO. Si no puede resolver el problema, es posible que el Departamento de Seguros de Texas (Texas Department of Insurance, por su nombre en inglés) pueda ayudar.

Aun si usted presenta una queja ante el Departamento de Seguros de Texas, también debe presentar una queja a través del proceso de quejas o de apelaciones de su compañía de seguros o HMO. Si no lo hace, podría perder su derecho para apelar.

Arthur J. Gallagher (UK) Limited

Para obtener información o para presentar una queja ante su compañía de seguros o Para o HMO:

Llame a: Compliance Department

Teléfono gratuito: 0141-285-3539

En línea: www.ajginternational.com

Correo electrónico: commercialcomplaintsuk@ajg.com

Dirección postal: Compliance Department, Arthur J. Gallagher (UK) Limited, The Walbrook Building, 25 Walbrook, London EC4N 8AW

El Departamento de Seguros de Texas

Para obtener ayuda con una pregunta relacionada con los seguros o para presentar una queja ante el estado:

Llame con sus preguntas al: 1-800-252-3439

Presente una queja en: www.tdi.texas.gov

Correo electrónico: ConsumerProtection@tdi.texas.gov

Dirección postal: MC 111-1A, P.O. Box 149091, Austin, TX 78714-9091

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TEXAS SORM: STATEWIDE PROPERTY PROGRAM

SECTION I – COVERAGES AND LIMITS OF LIABILITY

1. NAMED INSURED & NOTIFICATION ADDRESS

This policy insures **TEXAS STATE OFFICE OF RISK MANAGEMENT & AFFILIATED PARTICIPANTS IN THE STATEWIDE PROPERTY INSURANCE PROGRAM**

and any affiliated, subsidiary, or associated agency(ies), entity(ies), organization(s), enterprise(s), board(s), commission(s), authority(ies), company(ies) and/or corporation(s), or committee(s) as now exist or may hereafter be constituted or acquired including their interests as may appear in partnerships or joint ventures and any party which the Insured is responsible to insure.

It is agreed that all notices or communications concerning this policy shall be addressed to the First Named Insured at:

**TEXAS STATE OFFICE OF RISK MANAGEMENT
300 W. 15th Street
6th Floor
Austin, Texas 78701**

2. ADDITIONAL INTERESTS

The rights and obligations of the Named Insured are extended to:

- A. Mortgagees and lien-holders to the extent of their interest in property owned by the Insured;
- B. Other owners of property to the extent of their interest in property leased or rented by the Insured;
- C. Entities to the extent the Insured has contracted prior to loss to include such entities as Additional Insureds.

3. POLICY PERIOD

This policy shall be effective and shall terminate at 12:01 a.m. at the location(s) of property involved on the inception and expiration dates specified below:

INCEPTION

MAY 1, 2024

EXPIRATION

MAY 1, 2025

Time of Attachment: It is agreed that, anything in this policy to the contrary notwithstanding, the actual effective time of attachment of this insurance on the above date shall be the same time on the above date as the actual effective time of cancellation or expiration of policy(ies) replaced or renewed by this policy.

4. LOSS PAYABLE

Loss, if any, shall be adjusted with and payable to the Named Insured or their order. If this policy insures more than one entity, the first one named in this policy will act as sole agent on behalf of the others for all the Insured's obligations and duties under this policy.

5. TERRITORIAL LIMITS

This policy insures loss occurring within the United States of America, its territories, possessions and Canada. As respects personal property and equipment, coverage applies worldwide excluding Afghanistan, Albania, Angola, Bosnia-Herzegovina, Burma (Myanmar), Congo (The Democratic Republic Of Congo or formally known as Zaire), Croatia, Cuba, El Salvador, Haiti, Iran, Iraq, Ivory Coast, Kosovo, Laos, Lebanon, Liberia, Libya, Macedonia, Montenegro, Nicaragua, North Korea, Pakistan, Republic of South Sudan, Serbia, Sierra Leone, Somalia, Sudan, Syria, Venezuela, Zimbabwe and any other country where coverage is prohibited per the USA State Department. Payment of loss under this policy shall only be made in full compliance with all United States of America economic or trade sanction laws or regulations, including, but not limited to, sanctions, laws and regulations administered and enforced by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC").

6. PROGRAM LIMITS OF LIABILITY

This Company shall not be liable for more than its proportional share of the following limits of liability for loss arising out of any one occurrence. The limits of liability stated below or elsewhere in this policy are part of and not in addition to the policy limit of liability.

A. **\$500,000,000** any one occurrence for all coverage insured against under this policy except that this Company's liability shall not exceed its proportional share of any of the following specific Sublimits of Liability for any one occurrence or annual aggregate as may be noted below;

(1) **Named Windstorm and Flood**

(a) **\$100,000,000** any one occurrence as respects the peril of **Named Windstorm** occurring in Tier 1, Tier 2 and/or Tier 3 Wind Zones, as defined in this policy. However, even if the peril of Named Windstorm is the predominant cause of loss or damage, this sublimit shall not apply to loss involving property located outside of Tier 1, Tier 2, or Tier 3 Wind Zones. This sublimit shall not apply to loss or damage by fire, explosion or leakage from fire protective equipment, even if the peril of Named Windstorm is the predominant cause of loss or damage. In such case the Limit of Liability in A. above shall apply.

(b) **\$100,000,000** any one occurrence and in the AGGREGATE annually as respects the peril of **Flood**. However, even if the peril of Flood is the predominant cause of loss or damage, this sublimit shall not apply to loss or damage by fire, explosion or leakage from fire protective equipment. In such case the Limit of Liability in A. above shall apply.

(c) **\$ 50,000,000** However, as respects the perils of Named Windstorm and Flood, the Company shall not be liable in any one occurrence for more than its proportional share of loss or damage caused to the **UNIVERSITY OF HOUSTON SYSTEM**. This sublimit shall apply in the AGGREGATE annually solely as respects the peril of Flood.

(2) **\$100,000,000** **Earthquake** - any one occurrence and in the AGGREGATE annually. However, even if the peril of Earthquake is the predominant cause of loss or damage, this sublimit shall not apply to loss or damage by fire, explosion or leakage from fire protective equipment. In such case the Limit of Liability in A. above shall apply.

(3) **\$100,000,000** any one occurrence as respects the peril of **Windstorm or Hail**

(4) **\$ 50,000,000** Accounts Receivable - Per occurrence

(5) **\$ 10,000,000** Animals Held for Research except as excluded herein- Per occurrence but not more than **\$15,000 any one animal**

(6) **\$ 10,000,000** Brand or Trademark - Per occurrence

(7) **90 days** Interruption by Civil or Military Authority - Per occurrence not to exceed **\$25,000,000 / extended to 5 miles of the insured premises**

(8) **\$ 25,000,000** Consequential Loss - Per occurrence

(9) **\$ 10,000,000** Contingent Time Element - Per occurrence

(10)	\$ 50,000,000	Course of Construction - Per occurrence
(11)	\$ 10,000,000	Decontamination and Cleanup Expense - Per occurrence and in the AGGREGATE annually as a direct result of physical loss or damage insured
(12)	Greater of \$ 25,000,000 or 25% of physical damage	Debris Removal - Per occurrence
(13)	\$ 1,000,000	Defense Costs – Per occurrence
(14)	\$ 5,000,000	Emergency Vacating Expense - Per occurrence and in the aggregate annually
(15)	\$ 25,000,000	Errors or Omissions - Per occurrence
(16)	\$ 25,000,000	Expediting Expense - Per occurrence
(17)	\$100,000,000	Extra Expense - Per occurrence
(18)	\$ 10,000,000	Fine Arts - Per occurrence
(19)	\$ 1,000,000	Fire Brigade Charges and Extinguishing Expenses - Per occurrence
(20)	\$ 1,000,000	Fungus, Mold, Wet or Dry Rot as a result of direct physical loss or damage insured - Per occurrence
(21)	30 days	Impounded Water - Per occurrence
(22)	90 days	Ingress / Egress - Per occurrence not to exceed \$25,000,000 / extended to 5 miles of the insured premises
(23)	\$ 10,000,000	Land Improvements
(24)	\$ 1,000,000	Leader Property - Per occurrence
(25)	\$ 25,000,000	Lessor's / Lessee's Leasehold Interest - Per occurrence
(26)	\$ 5,000,000	Loss Adjustment Expenses - Per occurrence
(27)	\$ 25,000,000	Miscellaneous Unnamed Locations - Per occurrence
(28)	\$100,000,000	Automatic Coverage for Newly Acquired Property - Per occurrence
(29)	\$ 5,000,000	Personal Property of Officers, Professors, Faculty and Students – Per occurrence but not more than \$10,000 per item
(30)	\$ 1,000,000	Personal Property outside the U.S.A. - Per occurrence
(31)	\$ 25,000,000	Rental Value - Per occurrence
(32)	\$ 5,000,000	Royalties - Per occurrence
(33)	\$ 25,000,000	Service Interruption Property Damage & Time Element - Per occurrence
(34)	\$ 10,000,000	Soft Costs - Per occurrence
(35)	\$ 25,000,000	Transit - Per occurrence
(36)	\$ 1,000,000	Unscheduled trees, shrubs or bush - Per occurrence, not to exceed \$10,000 any one tree, shrub, or bush
(37)	\$ 50,000,000	Valuable Papers and Records - Per occurrence

7. RETENTION

All losses, damages, or expenses arising out of any one occurrence shall be adjusted as one loss and from the amount of such adjusted loss shall be deducted:

USD **\$5,000,000** per occurrence and **\$5,000,000** in the aggregate annually for loss from All Perils except **Named Windstorm**

Application of Underlying Maintenance Deductibles

Only the amounts excess of the Underlying Maintenance Deductibles, as described below, shall contribute towards the erosion of the Retention. Upon exhaustion of the annual aggregate retention, the Underlying Maintenance Deductibles shall apply for remainder of the Policy Period.

8. UNDERLYING MAINTENANCE DEDUCTIBLES

In the event that a single occurrence should produce a claim under this policy, this Company will adjust such losses, damages or expenses arising out of such occurrence as a single event.

The Company will deduct the following from such loss:

A. **\$250,000** for loss from All Perils per participant, per occurrence **EXCEPT**;

B. Named Windstorm

- (1) As respects locations within Tier I Wind Zones the deductible for Named Windstorm shall be **3%** of the value per Unit of Insurance as reported on the latest statement of values, subject to a minimum of **\$500,000** any one occurrence.

The deductible(s) shall only apply to those Units of Insurance involved in loss, damage or destruction and for which a claim is being made. However, the deductible(s) shall not apply to loss or damage by fire, explosion or leakage from fire protective equipment. In such case the deductible in A. above shall apply.

- (2) With respect to all other locations, all loss, damage, and/or expense arising out of any one occurrence shall be adjusted as one loss, and from the amount of each such adjusted loss shall be deducted the sum of **\$250,000** per participant, per occurrence.

C. Flood

- (1) With respect to buildings wholly within Special Flood Hazard Areas (SFHA), as defined by the Federal Emergency Management Agency, the deductible shall be **3%** of the value per Unit of Insurance as reported on the latest statement of values, subject to a minimum of **\$500,000** any one occurrence. This deductible shall only apply to those Units of Insurance involved in loss, damage or destruction and for which a claim is being made. However, this deductible shall not apply to loss or damage by fire, explosion or leakage from fire protective equipment. In such case the deductible in A. above shall apply.
- (2) With respect to any other Flood loss or damage and/or expense arising out of any one occurrence shall be adjusted as one loss, and from the amount of each such adjusted loss shall be deducted the sum of **\$250,000** per participant, per occurrence.

In the event that the Insured maintains underlying insurance through the National Flood Insurance Program, it is agreed that this policy excludes 1) the peril of Flood and 2) Flood and Storm Surge resulting from the peril of Named Windstorm to the extent of recovery under such National Flood Insurance policy(s). Should the amount of loss payable under such National Flood Insurance policy(s) exceed the applicable deductible under this policy, then no deductible shall apply hereunder. However, if the amount to be paid under such National Flood Insurance policy(s) is less than the applicable deductible under this policy, then the amount to be deducted hereunder shall not exceed the difference between the amount to be paid under the Insured's National Flood Insurance policy and the applicable deductible under this policy. Insurance maintained through the National Flood Insurance Program shall be considered Underlying Insurance.

D. Earthquake

With respect to the peril of Earthquake, all loss, damage, and/or expense arising out of any one occurrence shall be adjusted as one loss, and from the amount of each such adjusted loss shall be deducted the sum of **\$250,000 per participant**, per occurrence.

E. Designated Participants

With respect to the Insureds scheduled in Addendum No. 3, all loss/damage/expense arising out of any one occurrence (EXCEPT the perils of Earthquake, Flood and Named Windstorm shown above) shall be adjusted as one loss and from the amount of each such adjusted loss shall be deducted the sum of **[REFERENCE ADDENDUM No. 3]** per participant, per occurrence.

The deductible amounts specified above shall not apply to general average, contributions, and salvage charges.

For the purposes of these deductibles, the following shall be considered a separate Unit of Insurance:

- a. each separate building or structure including the contents of each building or structure
- b. time element arising from each affected building or structure

The minimum dollar deductible will be eroded by the total of all losses/expenses at all covered locations affected by the loss irrespective of whether the loss at any single location exceeds the percentage deductible.

SECTION II – COVERED CAUSES OF LOSS

1. PERILS INSURED

This policy insures against all risk of direct physical loss of or damage to property described herein including general average, salvage and all other charges on shipments covered hereunder, except as hereinafter excluded.

2. PERILS EXCLUDED

This policy does not insure:

- A. against any fraudulent or dishonest act or acts committed by the Insured or any of the Insured's employees meaning only dishonest or fraudulent acts committed by the Insured or the Insured's employees with the manifest intent to:

- (1) cause the Insured to sustain such loss; and
- (2) obtain financial benefit for the Insured, Insured's employee, or for any other person or organization intended by the Insured or the employee to receive such benefit.

This exclusion does not apply to acts of damage or destruction by employees, but theft by employees is not covered.

- B. against the cost of making good defective design or specifications, faulty material, faulty workmanship or inherent or latent defect unless loss or damage not otherwise excluded ensues and then this policy shall cover for such ensuing loss or damage;
- C. against electrical injury or disturbance to electrical appliances, devices, or wiring caused by electrical currents artificially generated unless physical loss or damage not otherwise excluded ensues and then this policy shall cover for such ensuing loss or damage;
- D. against mechanical breakdown unless physical loss or damage not otherwise excluded ensues and then this policy shall cover for such ensuing loss or damage;
- E. against explosion, rupture, or bursting of steam boilers, steam pipes, steam turbines, or steam engines owned or operated by the Insured unless physical loss or damage not otherwise excluded ensues and then this policy shall cover for such ensuing loss or damage; it is agreed that loss resulting from the explosion of accumulated gases or unconsumed fuel within the firebox (or combustion chamber) of any fired vessel or within the flues or passages which conduct the gases or combustion therefrom shall be covered hereunder;
- F. against errors in processing or manufacture of the Insured's product unless loss or damage not otherwise excluded ensues and then this policy shall cover for such ensuing loss or damage;
- G. against wear, tear, or gradual deterioration unless loss or damage not otherwise excluded ensues and then this policy shall cover for such ensuing loss or damage;
- H. against normal settling, cracking, shrinkage, bulging or expansion of pavements, foundations, walls, floors, roofs or ceilings unless loss or damage not otherwise excluded ensues and then this policy shall cover for such ensuing loss or damage;
- I. against animal, insect or vermin damage unless loss or damage not otherwise excluded ensues and then this policy shall cover for such ensuing loss or damage;
- J. solely as respects Animals Held for Research, against sickness, disease, injury, or any medical condition, all from natural causes; theft;
- K. against delay or loss of market;
- L. against loss or damage due to the discharge, dispersal, seepage, migration, release or escape of pollutants (except as provided under Decontamination and Cleanup Expense in Section IV – Additional Coverages) unless the discharge, dispersal, seepage, migration, release or escape is directly caused by physical loss or damage not otherwise excluded.

- M. against accumulated effects of smog, smoke, vapor, liquid and dust;
- N. against unexplained or mysterious disappearance of any property, or shortage disclosed by audit or upon taking inventory;
- O. against loss or damage to personal property of others while in the custody of the Insured if such property is being transported by the Insured in or on vehicles owned, operated, leased or otherwise contracted by the Insured when the Insured is acting as a common or contract carrier;
- P. against asbestos material removal unless the asbestos itself incurs direct physical loss, damage, or destruction from perils covered herein;
- Q. against nuclear reaction, or nuclear radiation, or radioactive contamination, all whether controlled or uncontrolled, and whether such loss be direct or indirect, proximate or remote; except:
 - (1) if fire ensues, liability is specifically assumed for direct loss by such ensuing fire but not including any loss due to nuclear reaction, nuclear radiation, or radioactive contamination;
 - (2) this Company shall be liable for loss or damage caused by sudden and accidental radioactive contamination including resultant radiation damage for each occurrence from material used or stored or from processes conducted on an insured premises provided at the time of loss there is neither nuclear reactor capable of sustaining a nuclear fission in a self-supporting chain reaction nor any new or used nuclear fuel on the insured premises;
- R.
 - (1) against warlike action in time of peace or war, including action in hindering, combating, or defending against an actual, impending, or expected attack:
 - (a) by any government or sovereign power (de jure or de facto) or by any authority maintaining or using military, naval, or air forces;
 - (b) or by military, naval, or air forces;
 - (c) or by an agent of any such government, power, authority, or forces;
 - (2) against any weapon employing atomic fission or fusion;
 - (3) against insurrection, rebellion, revolution, civil war, usurped power, or action taken by governmental authority in hindering, combating, or defending against such occurrence;
 - (4) against seizure or destruction by order of public authority, except destruction by order of public authority to prevent the spread of, or to otherwise contain, control or minimize loss, damage or destruction not otherwise excluded under this policy;
 - (5) against risks of contraband or illegal trade.

Exclusions B, C, D, E, F, and H do not apply to property in transit.

Exclusion C, D, E, F does not apply to alterations, additions, and property while in the course of construction, erection, installation, or assembly.

Exclusions C, D, and E do not apply to electronic data processing systems and valuable papers and records.

SECTION III – INSURED PROPERTY

1. PROPERTY INSURED

Except as hereinafter excluded, this policy covers all Real and Personal Property of every kind and description including:

- A. The interest of the Insured in all Real and Personal Property, (including improvements and betterments) owned, used, leased or intended for use by the Insured, or hereafter constructed, erected, installed, or acquired including while in course of construction, erection, installation, and assembly including locations acquired or erected after the effective date of this policy. In the event of loss or damage, this Company agrees to accept and consider the Insured as sole and unconditional owner of improvements and betterments, notwithstanding any contract or leases to the contrary.
- B. The interest of the Insured in the Real and Personal Property of others in the Insured's care, custody, or control.
- C. Real and Personal property which the Insured is responsible for or has agreed to insure.
- D. At the option of the Insured, Personal Property of the Insured's officials, employees and representatives of the Insured.
- E. Contractors' and vendors' interest in property covered to the extent of the Insured's liability imposed by law or assumed by contract and entered into prior to loss. However, such interests will not extend to any time element coverage provided by this policy.
- F. Mobile Equipment.

2. PROPERTY EXCLUDED

This policy does not cover loss or damage to:

- A. Land; however, this exclusion shall not apply to the cost of reclaiming, restoring or repairing Land Improvements. Land Improvements are defined as any alteration to the natural condition of land by grading, landscaping, earthen dikes or dams, and additions to land such as pavements, roadways, or similar works;
- B. Water, except water which is normally contained within any type of tank, piping system or other process equipment;
- C. Money, securities, currency, notes, furs, jewelry, precious metals, or precious stones;
- D. Growing crops, standing timber, and animals except for research;
- E. Watercraft, aircraft, motor vehicles licensed for highway use when not on the Insureds' premises, but this exclusion shall not apply to contractor's equipment;
- F. Underground mines or any property contained therein;
- G. Transmission and distribution lines; except when located on the insured premise or within one-thousand (1000) feet thereof;
- H. Offshore oil rigs, platforms and property contained therein or thereon;
- I. Property sold by the Insured under conditional sale, trust agreement, installment or other deferred payment plan, or in which the Insured has retained a security interest, after delivery to customers;

SECTION IV – VALUATION

In case of loss the basis of adjustment shall be as follows:

1. REAL AND PERSONAL PROPERTY

- A. Buildings, structures, furniture and fixtures, equipment, improvements and betterments, shall be valued at the replacement cost new on the same premises, as of the date of replacement. Permission is granted for the Insured to replace the damaged property with any property at the same or at another site within the Territorial Limits of this policy, but recovery is limited to what it would cost to replace on the same site.

If property damaged or destroyed is not repaired, rebuilt or replaced within a reasonable period after the loss or damage, this Company shall not be liable for more than the actual cash value at the time of loss (ascertained with proper deduction for depreciation) of the property damaged or destroyed. However, limitations imposed by federal, state or municipal building codes shall not result in actual cash valuation but in a replacement cost new valuation.

The Insured may elect not to repair or replace the insured real and/or personal property lost, damaged, or destroyed. Loss Settlement may be elected on a replacement cost basis if the proceeds of such loss settlement are expended on other, not previously budgeted, capital expenditures.

Antique, restored or historical buildings shall be valued at the lesser of the cost to repair, replace, construct, or reconstruct the property on the same site using materials of like kind and quality necessary to preserve or maintain a building's historical significance without deduction for depreciation.

- B. Electronic Data Processing or control equipment and production machinery and equipment or any part thereof shall be valued at the cost to repair or replace new on the same premises as of the time of replacement except, that with respect to items for which replacement with identical property is impossible, the replacement cost shall be the cost of items similar to the destroyed property and intended to perform the same function but which may include technological advances.
- C. Valuable papers and records and Data Processing Media shall be valued at the cost to reproduce the property as of the date of reproduction including the cost of gathering and/or assembling information;
- "Valuable papers and records" are defined as written, printed, or otherwise inscribed documents and records, including but not limited to books, maps, films, drawings, abstracts, deeds, mortgages, micro-inscribed documents, manuscripts and media and the data recorded thereon, but not including money and/or securities.
- "Media" is defined as materials upon which data is recorded including, but not limited to, papertapes, cards, electronic memory circuits, and magnetic or optical storage devices. "Data" is defined as facts, concepts, or instructions in a form usable for communications, interpretation, or processing by automatic means. It includes computer programs.
- D. Fine Arts shall be valued at appraised value; or, if there is no appraisal, at the greater of the original acquisition cost or the market value at the time of loss.
- E. Property of others which the Insured is required to insure to a stipulated value shall be valued at the replacement cost new as of the date of replacement, if replaced at the Insured's option; otherwise at the stipulated value.
- F. Other property not otherwise provided for, at replacement cost new as of the date of replacement.
- G. If the insured elects to repair or replace damaged or destroyed property, the costs and expenses of architects, surveyors, engineers and other relevant experts incurred by or on behalf of the insured in effecting such repair or replacement shall be included as part of the loss.

- H. To the extent the insured provides its own general contracting, engineering, design or construction services for repair or replacement of the lost, damaged or destroyed property, the costs incurred by or on behalf of the Insured shall include:
- (1) overhead charges as defined by the Insured's regular accounting practice in place at the time of loss; and
 - (2) payroll charges, appropriate fringe benefit costs and expenses of those employees expending time on the project, the cost of which is not included in paragraph (1); and
 - (3) the share of home office costs including payroll and expenses of the departments to which such employees are assigned; and
 - (4) the share of general and administrative costs allocated to the departments involved as prescribed in the Insured's regular accounting practice in place at the time of loss for determining its costs for providing engineering, procurement and construction management services.

2. STOCK

- A. Raw Stock (materials and supplies in the state in which the Insured received them for conversion by the Insured into finished stock, including supplies consumed in such conversion or in the service rendered by the Insured) shall be valued at replacement cost at the time and place of loss.
- B. Stock in process (raw stock which has undergone any aging, seasoning, or other processing by the Insured but which has not become finished stock) shall be valued at the Insured's selling price at the time and place of loss, less any manufacturing expense not incurred by the Insured and less any discounts, rebates, and unincurred expenses to which the sales price would have been subject.
- C. Finished stock (stock which in the ordinary course of the Insured's business is ready for packing, shipment or sale) and merchandise shall be valued at the Insured's selling price at the time and place of loss, less all discounts, rebates, and unincurred expenses to which such sales price would have been subject.

SECTION V – TIME ELEMENT COVERAGE

This policy is extended to cover:

1. BUSINESS INTERRUPTION

- A. Loss resulting from necessary interruption of business operations or services by the Insured, whether total or partial, and caused by direct loss, damage, or destruction covered herein during the term of this policy to Real and Personal Property as described in Section III.
- B. If such loss occurs during the term of this policy, it shall be adjusted on the basis of ACTUAL LOSS SUSTAINED by the Insured, consisting of the net profit which is thereby prevented from being earned and of all charges and expenses only to the extent that these must necessarily continue during the interruption of business including Ordinary Payroll and only to the extent such charges and expenses would have been earned had no loss occurred.

“Ordinary payroll” is defined to be the entire payroll expense for all employees of the Insured except officers, executives, department managers, employees under contract, and other important employees as determined by the Insured.
- C. In the event of loss, damage or destruction covered herein to property as described in Section III which results in an interruption of research and development activities this policy shall cover the actual loss sustained of the continuing fixed charges and expenses, including Ordinary Payroll directly attributable to such research and development activities. Such loss shall include project restoration costs to restore research and development activities to the same degree of completion as existed prior to such physical loss, damage or destruction, but for not more than 24 months from the date of such physical loss or damage.
- D. However, the Company shall not be liable under this Clause 1. for any loss resulting from damage to or destruction of finished stock nor for the time required to reproduce said finished stock.

Finished stock shall mean stock manufactured by the Insured, which in the ordinary course of the Insured’s business is ready for packing, shipment, or sale.
- E. Resumption of Operations: If the Insured, by reasonable means within its control, could reduce the loss resulting from the interruption of business:
 - (1) by a complete or partial resumption of operation of the property insured, whether damaged or not; or
 - (2) by making use of available stock, merchandise, or other property;such reduction shall be taken into account in arriving at the amount of loss hereunder.
- F. Experience of the Business
 - (1) In determining the amount of net profit, charges and expenses covered hereunder for the purpose of ascertaining the amount of loss sustained, due consideration shall be given to the experience of the business before the date of damage or destruction and to the probable experience thereafter had no loss occurred to Real or Personal Property as described in Section III.
 - (2) With respect to alterations, additions, and property while in the course of construction, erection, installation, or assembly, due consideration shall be given to the available experience of the business after completion of the construction, erection, installation or assembly.

G. Tuition and Fees

- (1) Measurement of Loss: The recoverable TUITION AND FEES loss is the Actual Loss Sustained by the Insured of the following:
- a) Tuition fees which are prevented from being earned or received;
 - b) other operating and non-operating revenues, including but not limited to:
 - i. research grants, research and development;
 - ii. income under research contracts all dependent on continued operations.
 - c) Less cost of goods, supplies or services sold or purchased which do not continue under contract.
 - d) Donations and Fund Raising Proceeds:
 - i. If a regularly scheduled fund raising drive for the sole benefit of the Insured occurs during the period of interruption of operations, the revenue produced by such drive shall be considered as follows in determining the amount of loss:
 - 1. If the drive fails to produce an amount at least equal to the same drive in the most recent prior solicitation, the shortage, to the extent that it can be attributed to the interruption of the Insured's operations, shall be considered as loss or income.
 - 2. If the drive produces an amount equal to the same drive in the most recent prior solicitation, then there shall be considered no loss of income from this source of revenue.
 - 3. If the drive produces an amount larger than the same drive in the most recent prior solicitation, the excess shall not be applied to reduce the loss from the other sources of revenue.
 - 4. If the drive is cancelled or postponed, such loss of revenue shall not be considered as loss of income.
 - ii. The following shall be disregarded in determining the amount of loss:
 - 1. Donations and contributions which are a direct result of the interruption of the Insured's operations and are received by the insured during the period of interruption.
 - 2. Proceeds from fund raising drives or solicitations which are for the sole benefit of the Insured and occur as a result of interruption of the Insured's operations.
- (2) As respects TUITION AND FEES only when the period of repairing or replacing damaged building and equipment ends within 30 days immediately preceding the beginning of the first School Period specified, the Period of Recovery is extended to end on the day before the beginning of the second School Period.
- "School Period" means the segment (semester, trimester, quarter, etc.) of the academic year during which an academic credit may be earned.

2. EXTRA EXPENSE

- A. Extra Expense incurred resulting from loss, damage or destruction to property covered herein during the term of this policy to Real or Personal Property as described in Section III.
- B. "Extra Expense" means the excess of the total cost reasonably and necessarily chargeable to the operation of the Insured's business or services over and above the total cost that would normally have been incurred to conduct the business or services had no loss, damage or destruction occurred.

3. RENTAL VALUE

- A. Rental Value loss sustained by the Insured resulting directly from the necessary untenability caused by loss, damage, or destruction by any of the perils covered herein during the term of this policy to Real and Personal Property insured herein, but not exceeding the reduction in rental value less charges and expenses which do not necessarily continue.
- B. "Rental Value" is defined as the sum of:
 - (1) the total anticipated gross rental income from tenant occupancy of the described property as furnished and equipped by the Insured, and
 - (2) the amount of all charges which are the legal obligation of the tenant(s) and which would otherwise be obligations of the Insured, and
 - (3) the fair rental value of any portion of said property which is occupied by the Insured.
- C. Experience of the Business:
 - (1) In determining the amount of rental value covered hereunder for the purposes of ascertaining the amount of loss sustained, due consideration shall be given to the rental experience before the date of damage or destruction and to the probable experience thereafter had no loss occurred to Real and Personal Property as described in Section III.
 - (2) With respect to alterations, additions, and property while in course of construction, erection, installation, or assembly, due consideration shall be given to the available rental experience of the business after completion of the construction, erection, installation, or assembly.

4. ROYALTIES

- A. Loss of income to the Insured under royalty, licensing fees, or commission agreements between the Insured and another party which is not realizable due to loss, damage, or destruction by any of the perils covered herein during the term of this policy to property of the other party.
- B. If such loss occurs during the term of this policy, it shall be adjusted on the basis of ACTUAL LOSS SUSTAINED of such income referred to in paragraph 1 above, which would have been earned had no loss occurred.
- C. Resumption of Operations: The Insured shall influence, to the extent reasonably possible, the party with whom the agreement described in paragraph A above has been made to use any other machinery, supplies or locations in order to resume business so as to reduce the amount of loss hereunder, and the Insured shall cooperate with that party in every reasonable way to effect this, but not financially unless such expenditures shall be authorized and paid by this Company.
- D. Experience of the Business: In determining the amount of income derived from the agreement(s) described in paragraph A above for the purpose of ascertaining the amount of loss sustained, due consideration shall be given to the amount of income derived from such agreement(s) before the date of damage or destruction and to the probable amount of income thereafter had no loss occurred to Real and Personal Property of the type insured under this policy of such other party.

5. TIME ELEMENT EXTENSIONS

This policy, subject to all provisions and without increasing the amount of said policy, also insures against loss resulting from damage to or destruction by the perils insured against, to:

- A. Impounded Water: dams, reservoirs, or equipment connected therewith when water, used as a raw material or used for power or for other manufacturing purposes, stored behind such dams or reservoirs is released from storage and causes an interruption of business as a result of lack of water supply from such sources;
- B. Contingent Time Element: property that wholly or partially prevents any direct supplier of goods and/or services to the Insured from rendering their goods and/or services, or property that wholly or partially prevents any direct receiver of goods and/or services from the Insured from accepting the Insured's goods and/or services, such supplier or receiver to be located anywhere in the world;
- C. Leader Property: property not owned or operated by the Insured, located in the same vicinity as the Insured, which attracts business to the Insured. Such Leader Property must be located within one (1) mile of the insured premises.
- D. Interruption by Civil or Military Authority: This policy is extended to cover the loss sustained during the period of time when access to Real or Personal Property is prohibited by order or action of civil or military authority issued as a direct result of a peril insured against at the insured premises or within five (5) miles of the insured premises.
- E. Ingress/Egress: This policy is extended to cover the loss sustained during the period of time when, as a direct result of a peril insured against at the insured premises or within five (5) miles of the insured premises, access to or egress from Real or Personal Property is prohibited irrespective of whether the premises or property of the Insured shall have been damaged.
- F. Emergency Vacating Expense: This policy is extended to cover the reasonable and necessary expenses incurred by the Insured when an authorized governmental agency or other similar authority orders the emergency evacuation of:

- (1) Residents, tenants, patients; or

- (2) Lawful occupants;

From a covered location as a direct result of immediately impending physical loss or damage insured by this policy. Reasonable and necessary expenses shall include the cost to remove, transport, board, feed and return the occupants as a result of said evacuation.

No coverage is provided if the evacuation results from:

- (1) A planned evacuation drill;

- (2) Evacuation of any resident, tenant, patient, or lawful occupant because of an actual or suspected medical condition(s); or

- (3) A false alarm.

6. PROVISIONS APPLICABLE TO BUSINESS INTERRUPTION, TUITION AND FEES, ROYALTIES, EXTRA EXPENSE, AND RENTAL VALUE COVERAGES

- A. Period of Recovery: The length of time for which loss may be claimed:
- (1) shall not exceed such length of time as would be required with the exercise of due diligence and dispatch to rebuild, repair, or replace such part of the property as has been destroyed or damaged; and
 - (2) such additional length of time to restore the Insured's business to the condition that would have existed had no loss occurred, commencing with the later of the following dates:
 - (a) the date on which the liability of the Company for loss or damage would otherwise terminate; or
 - (b) the date on which repair, replacement, or rebuilding of such part of the property as has been damaged is actually completed,but in no event for more than one year from said later commencement date;
 - (3) with respect to alterations, additions and property while in the course of construction, erection, installation, or assembly shall be determined as provided in (1) above, but such determined length of time shall be applied to the experience of the business after the business has reached its planned level of production or level of business operations;
 - (4) shall commence with the date of such loss or damage and shall not be limited by the date of expiration of this policy or cancellation date.
- B. Special Exclusions: This section of the policy does not insure against any increase of loss which may be occasioned by the suspension, lapse, or cancellation of any lease, license, contract, or order; nor for any increase of loss due to interference at the Insured's premises by strikers or other persons with rebuilding, repairing, or replacing the property damaged or destroyed, or with the resumption or continuation of business, or with the reoccupancy of the premises.
- C. Expense to Reduce Loss: This policy also covers such expenses as are necessarily incurred for the purpose of reducing any loss under this policy; however, such expenses may not exceed the amount by which the loss under this policy is thereby reduced.
- D. In the event of a loss resulting from necessary interruption of business at a facility caused by a physical damage of the type insured against at said facility, Business Interruption, Tuition and Fees, Extra Expense, Rental Value and Royalties shall be determined solely by the operation and experience of the facility where the loss occurred.

SECTION VI – ADDITIONAL COVERAGES

1. ACCOUNTS RECEIVABLE

- A. All sums due the Insured from customers, provided the Insured is unable to effect collection thereof as the direct result of loss of or damage to records of accounts receivable;
- B. Interest charges on any loan to offset impaired collections pending repayment of such sums made uncollectible by such loss or damage;
- C. Collection expense in excess of normal collection cost and made necessary because of such loss or damage;
- D. Other expenses, when reasonably incurred by the Insured in reestablishing records of accounts receivable following such loss or damage.

For the purpose of this insurance, credit card company charge media shall be deemed to represent sums due the Insured from customers, until such charge media is delivered to the credit card company.

When there is proof that a loss of records of accounts receivable has occurred but the Insured cannot more accurately establish the total amount of accounts receivable outstanding as of the date of such loss, such amount shall be computed as follows:

- (1) The monthly average of accounts receivable during the last available twelve months shall be adjusted in accordance with the percentage increase or decrease in the twelve months average of monthly gross revenues which may have occurred in the interim.
- (2) The monthly amount of accounts receivable thus established shall be further adjusted in accordance with any demonstrable variance from the average for the particular month in which the loss occurred, due consideration also being given to the normal fluctuations in the amount of accounts receivable within the fiscal month involved.

There shall be deducted from the total amount of accounts receivable, however established, the amount of such accounts evidenced by records not lost or damaged, or otherwise established or collected by the Insured, and an amount to allow for probable bad debts which would normally have been uncollectible by the Insured.

2. AUTOMATIC COVERAGE FOR NEWLY ACQUIRED PROPERTY

This policy is extended, subject to all its coverages and conditions, to cover newly acquired or occupied property. Coverage shall automatically commence when the Insured first acquires, leases, constructs or otherwise acquires an insurable interest in such property.

After the period of 30 days from date of acquisition for locations with values of \$100,000,000 and over, 180 days from date of acquisition for locations with values of \$10,000,000 and over, and 365 days from date of acquisition for locations with values under \$10,000,000, if the location has not been reported to the Insurer, the maximum recoverable in the event of a covered loss will not exceed the Miscellaneous Unnamed Location sublimit described herein.

3. BRAND OR TRADEMARKS

In case of damage by a peril insured against to property bearing a brand or trademark or which in any way carries or implies the guarantee or the responsibility of the manufacturer or Insured, the salvage value of such damaged property shall be determined after removal at the Company's expense in the customary manner of all such brands or trademarks or other identifying characteristics.

4. BUILDING ORDINANCE OR LAW

In the event of loss or damage under this policy to building(s) or structure(s) that causes the enforcement of any law, ordinance, governmental directive or standard in effect at the time of loss or damage regulating the construction, repair, use or occupancy of property, this Company shall be liable for:

- A. Undamaged Portion: The proportion that the value of the undamaged part of the property bore to the value of the entire facility prior to loss;
- B. Demolition: The cost of demolishing the undamaged facility including the cost of clearing the site;
- C. Increased Cost of Construction: Increased cost of repair or reconstruction of the damaged and undamaged property on the same or another site, limited to the cost that would have been incurred in order to comply with the minimum requirements of such law or ordinance regulating the repair or reconstruction of the damaged property on the same site. However, this Company shall not be liable for any increased cost of construction loss unless the damaged facility is actually rebuilt or replaced;
- D. Increased Time Element Loss: Any increase in the Business Interruption, Tuition and Fees, Extra Expense, Rental Value or Royalties loss arising out of the additional time required to comply with said law or ordinance.

The Company shall not be liable for any cost of any demolition or increased cost of replacement, repair, debris removal, or loss of use necessitated by the enforcement of any law or ordinance regulating any form of contamination or pollution.

5. CONSEQUENTIAL LOSS

- A. In the event of loss or damage not otherwise excluded to property, and such damage, without the intervention of any other independent excluded cause, results in a sequence of events which causes physical damage to insured property, then there shall be liability under the policy for the resulting loss.
- B. This policy also insures against consequential loss to the property insured caused by but not limited to change of temperature or humidity or by interruption of power, heat, air conditioning, or refrigeration resulting from loss or damage not otherwise excluded.

6. DEBRIS REMOVAL

This policy covers the following expenses resulting from a covered loss:

- A. the cost of removal of debris of property covered hereunder;
- B. the cost of removal of debris of property not covered hereunder from the premises of the Insured;
- C. cost of recycling debris of property insured hereunder including the reasonable cost of cleaning, sorting, separating, segregating and transporting such debris to recycling centers

7. DECONTAMINATION AND CLEAN UP EXPENSE

This policy insures any cost or expense of decontamination or removal or dispersal of water, soil or any similar substance on or under the premises of the Insured caused by direct physical loss, damage, or destruction covered herein in order to mitigate any circumstances pertaining to seepage, pollution and/or contamination, whether or not at the instruction of any government agency or other authority.

It is the condition precedent to recovery under this clause that the Insurer shall have paid, or agreed to pay for, loss or damage to the property insured hereunder unless such payment is precluded solely by the operation of any deductible.

It is also a condition precedent to recovery under this clause that the Insured shall give written notice to the Insurer of intent to claim for decontamination and clean up expense not later than 180 days after the date of such loss or damage.

8. DEFENSE COSTS

This policy, subject to all its provisions, also insures the costs and fees to defend any claim or suit against the Insured and/or its directors, officers and/or employees alleging physical loss or damage as insured against to property of others in the care, custody or control of the Insured to the extent of the Insured's liability therefore, even if such claim or suit is groundless, false or fraudulent; but the Company may without prejudice make such investigation, negotiation or settlement of any such claim or suit as it deems expedient. Coverage hereunder shall apply solely in respect of costs and fees incurred in connection with the defense of any suit(s) or part of suit(s) which make claim for the value of physical damage to property and shall in no circumstances extend to cover costs and fees incurred in connection with additional liabilities.

9. EXPEDITING EXPENSE

This policy covers the extra cost of temporary repair and/or replacement and of expediting the repair and/or replacement of damaged property insured hereunder, including, but not limited to, overtime and express freight or other rapid means of transportation.

10. FINE ARTS

Coverage is extended to insure Fine Arts being paintings, etchings, pictures, tapestries, and other bona fide works of art (such as statuary, marbles, bronzes, antique furniture, rare books, antique silver, manuscripts, porcelains, rare glass and bric-a-brac) of rarity, historical value or artistic merit.

11. FIRE BRIGADE CHARGES AND EXTINGUISHING EXPENSES

This policy covers the following expenses resulting from a covered loss:

- A. fire brigade charges and other extinguishing expenses which the Insured incurs;
- B. loss and disposal of fire extinguishing materials expended.

12. FUNGUS, MOLD, WET OR DRY ROT

Notwithstanding any exclusion within this policy or by endorsement to the contrary, this policy also insures physical loss, damage or destruction to insured property resulting from Fungus, Mold, wet or dry rot which is a direct result of physical loss, damage or destruction insured against under this policy that occurs during the policy period. This coverage includes the cost or expense to test for, remove and remediate:

- A. any Fungus, Mold, wet or dry rot from insured property caused by covered direct physical loss, damage or destruction. The cost to tear out and replace any part of the building or other property as needed to gain access to the Fungus, Mold, wet or dry rot is also insured.
- B. any and all other damage of the type not otherwise excluded by this policy resulting from Fungus, Mold, wet or dry rot.

The cost of testing performed after removal and remediation of such Fungus, Mold, wet or dry rot from insured property is also insured provided there is reason to believe that such Fungus, Mold, wet or dry rot is still present. It is agreed that the Insured shall give notice to the Company of intent to claim for the costs or expenses described above no later than 12 months after the date of direct physical loss, damage or destruction giving rise to the Fungus, Mold, wet or dry rot.

13. LESSOR'S/LESSEE'S LEASEHOLD INTEREST

- A. Pro rata proportion from the date of loss to expiration date of the lease (to be paid without discount) on the Insured's interest in:
 - (1) the amount of bonus paid by the Insured for the acquisition of the lease not recoverable under the terms of the lease;
 - (2) improvements and betterments to real property which are not covered under any other section of this policy;
 - (3) the amount of advance rental paid by the Insured and not recoverable under the terms of the lease;when property is rendered wholly or partially untenantable by any covered loss during the term of this policy and the lease is canceled by the party not the Named Insured by this policy in accordance with the conditions of the lease or by statutory requirements of the appropriate jurisdiction in which the damaged or destroyed property is located; and

- B. "The Interest of the Insured as Lessee or Lessor" when property is rendered wholly or partially untenable by any covered loss during the term of this policy and the lease is canceled by the party not the Named Insured under this policy in accordance with the conditions of the lease or by statutory requirements of the appropriate jurisdiction in which the damaged or destroyed property is located.

"The Interest of the Insured as Lessee or Lessor" as referred to herein shall be paid for the first three months succeeding the date of the loss and the "Net Lease Interest" shall be paid for the remaining months of the unexpired lease.

C. Definitions:

The following terms, wherever used in this section shall mean:

- (1) "The Interest of the Insured as Lessee" is defined as:
 - (a) the excess of the rental value of similar premises over the actual rental payable by the lessee (including any maintenance or operating charges paid by the lessee) during the unexpired term of the lease; and;
 - (b) the rental income earned by the Insured from sublease agreements, to the extent not covered under any other section of this policy, over and above the rental expenses specified in the lease between the Insured and the lessor.
- (2) "The Interest of the Insured as Lessor" is defined as the difference between the rents payable to the lessor under the terms of the lease in effect at the time of loss and the actual rent collectible by the lessor during the unexpired term of the lease provided the lease is canceled by the lessee, to the extent not covered under any other section of this policy.
- (3) "Net Lease Interest" is defined as that sum, which placed at 6% interest compounded annually will be equivalent to the "The Interest of the Insured as Lessee or Lessor".

- D. This Company shall not be liable for any increase of loss which may be occasioned by the suspension, lapse or cancellation of any license or by the Named Insured exercising any option to cancel the lease. Furthermore, the Named Insured shall use due diligence including all things reasonably practicable to diminish loss under this clause.

14. MACHINERY

In case of loss or damage by a peril insured against to any part of a machine or unit consisting of two or more parts when complete for use, the liability of the Company shall be limited to the value of the part or parts lost or damaged or, at the Insured's option, to the cost and expense of replacing or duplicating the lost or damaged part or parts or of repairing the machine or unit.

15. PAIR AND SET

Except as provided under the Machinery clause, in the event of loss or damage insured against to any article or articles which are a part of a pair or set, the measure of loss or damage to such article or articles shall be, at the Insured's option:

- A. the reasonable and fair proportion of the total value of the pair or set, giving consideration to the importance of said article or articles, but in no event shall such loss or damage be construed to mean total loss of the pair or set; or
- B. the full value of the pair or set provided that the Insured surrenders the remaining article or articles of the pair or set to the Company.

16. PERMISSION FOR VACANCY

The insured has permission to cease operations or remain vacant or unoccupied without consent of the Company(ies). This will not limit and/or hinder any coverage and/or loss indemnification as provided in this policy.

17. PROTECTION AND PRESERVATION OF PROPERTY

In case of actual or imminent physical loss or damage from a covered cause of loss insured against by this policy, the expenses incurred by the Insured in taking reasonable and necessary actions for the temporary protection and preservation of property insured hereunder shall be added to the total physical loss or damage otherwise recoverable under this policy.

18. TRANSIT

- A. Property in transit within and between the Territorial Limits of this policy, including the coastal waters thereof, by any means of conveyance, from the time the property is moved for purpose of loading and continuously thereafter while awaiting and during loading and unloading and in temporary storage, including temporary storage on any conveyance intended for use for any outbound or used for inbound shipment, including during deviation and delay, until safely delivered into place of final destination.
- B. This insurance is extended to cover loss or damage to property:
 - (1) sold and shipped by the Insured under terms of F.O.B. point of origin or other terms usually regarded as terminating the shipper's responsibility short of points of delivery;
 - (2) arising out of any unauthorized person(s) representing themselves to be the proper party(ies) to receive goods for shipment or to accept goods for delivery;
 - (3) occasioned by the acceptance by the Insured, by its agents, or by its customers of fraudulent bills of lading, shipping and delivery orders, or similar documents;
 - (4) at the Insured's option, which is incoming to the Insured.
- C. The Insured may waive right(s) of recovery against private, contract and common carriers and accept bills of lading or receipts from carriers, bailees, warehousemen, or processors limiting their liability, but this transit insurance shall not inure to the benefit of any carrier, bailee, warehouseman, or processor.
- D. With respect to shipments made under F.O.B. or similar terms, this Company agrees to waive its rights of subrogation against consignees at the option of the Insured.
- E. The Insured is not to be prejudiced by any agreements exempting lightermen from liability.
- F. Seaworthiness of any vessel or watercraft is admitted between this Company and the Insured.
- G. Solely as respects property in transit, this policy does not insure against:
 - (1) property insured under any marine import or export policy;
 - (2) property while waterborne, except while on the navigable inland waters within the Territorial Limits of this policy;
 - (3) Time Element Coverage.

19. SERVICE INTERRUPTION

This policy also insures against loss, damage or destruction at an insured location resulting from the interruption of electricity, steam, gas, water, sewer, telecommunications or any other utility or service to the insured location caused by direct physical loss, damage, or destruction covered herein at a facility (including transmission and distribution lines) of the utility or service provider which immediately prevents in whole or in part the delivery of such utility or service. A waiting period of 24 hours at each location shall apply to Service Interruption.

20. SOFT COSTS

This policy insures reasonable and necessary expenses related to the delay in completion of a construction or installation project over and above those costs which would have been incurred, including but not limited to, interest payments on financing under loan agreements and real estate taxes accruing during the period of delay.

21. VALUABLE PAPERS AND RECORDS

Coverage is extended to provide for the cost of restoring, researching, replacing or reproducing the Insured's valuable papers and records that are lost or damaged as a result of a covered cause of loss.

SECTION VII – CONDITIONS

1. APPRAISAL

If the Insured and this Company fail to agree on the amount of the loss, each, upon written demand of either of the Insured or of this Company made within sixty (60) days after receipt of proof of loss by the Company, shall select a competent and disinterested appraiser. The appraisers shall then select a competent and disinterested umpire. If they should fail for fifteen (15) days to agree upon such umpire, then upon the request of the Insured or of this Company, such umpire shall be selected by a judge of a court of record in the county and state in which such appraisal is pending. Then, at a reasonable time and place, the appraisers shall appraise the loss, stating separately the value at the time of loss and the amount of loss. If the appraisers fail to agree, they shall submit their differences to the umpire. An award in writing by any two shall determine the amount of loss and shall be paid by the Company within 30 days thereafter. The Insured and this Company shall each pay his or its chosen appraiser and shall bear equally the other expenses of the appraisal and of the umpire.

2. ASSIGNED ADJUSTER CLAUSE

ASSIGNED ADJUSTER: It is hereby agreed that the following shall be designated as the ACCOUNT CLAIMS ADJUSTER and INSURER CLAIMS LEAD for all claims reported under this policy. The Company shall agree to follow the Claims Handling Guidelines of the INSURER CLAIMS LEAD to facilitate a prompt, coordinated claims settlement response from all participating Companies.

The Company reserves the right to associate a staff adjuster with the ACCOUNT CLAIMS ADJUSTER as respects any claim or claims. Westport Insurance Corporation retains the right to terminate the below named ACCOUNT CLAIMS ADJUSTER for lack of compliance with the aforementioned Guidelines Protocol or for lack of performance at the discretion of the company. In such event, or in the event that the below named ACCOUNT CLAIMS ADJUSTER becomes unwilling or unable to perform, a replacement ACCOUNT CLAIMS ADJUSTER will be selected by the mutual agreement of the Company and Named Insured.

ACCOUNT CLAIMS ADJUSTER:

TREY JOHNSON OR IN HIS ABSENCE, ANOTHER MEMBER OF HIS TEAM AT SEDGWICK CLAIMS MANAGEMENT SERVICES, INC., ADDISON, TX

ADJUSTING FIRM:

Sedgwick Claims Management Services, Inc., 400 Belt Line Road, #250, Addison, TX 75001

INSURER CLAIMS LEAD:

SARA SPRINGMAN OR IN HER ABSENCE, ANOTHER MEMBER OF HER TEAM AT WESTPORT CLAIMS CORPORATE SOLUTIONS

3. ASSISTANCE AND COOPERATION OF THE INSURED

The Insured shall cooperate with this Company, and, at this Company's reasonable request and expense, shall attend hearings and trials and shall assist in effecting settlements, in securing and giving evidence, in obtaining the attendance of witnesses and in conducting suits.

4. CANCELLATION

- A. This policy may be cancelled at any time at the request of the Insured or it may be canceled by the Company by mailing to the Insured at the Notification Address shown in this policy, written notice stating when, not less than 90 days thereafter, such cancellation shall be effective. The earned premium shall be computed on a short rate basis when cancelled by the insured, otherwise a pro-rata basis shall apply.
- B. The mailing of notice as aforesaid shall be sufficient proof of notice and the effective date and hour of cancellation stated in the notice shall become the end of the policy period. Delivery of such written notice either by the Insured or by the Company shall be equivalent to mailing.
- C. In the event of non-payment of premium this policy may be canceled by the Company by mailing to the Insured at the Notification Address shown in this policy stating when, not less than 10 days thereafter, such cancellation shall be effective. Reinstatement of coverage shall be effective immediately upon receipt of premium by the Company.

However, non-payment of premium by one participating agency shall not cancel the entire policy.

5. CERTIFICATES OF INSURANCE

Permission is granted to Arthur J. Gallagher Risk Management Services, LLC. to issue certificates or evidences of insurance under this policy. Any certificate of insurance issued in connection with this policy shall be issued solely as a matter of convenience or information for the addressee(s) or holder(s) of said certificate of insurance.

6. CONFORMANCE

The terms of this policy which are in conflict with the applicable statutes of the state wherein this policy is issued are hereby amended to conform to such statutes, unless the statutes narrow or limit the coverage afforded by this policy and do not bar a policy from providing broader coverage.

7. CONTRIBUTING INSURANCE

Contributing insurance is insurance written upon the same plan, terms, conditions and provisions as those contained in this policy. This insurance shall contribute in accordance with the conditions of this policy only with other contributing insurance as defined.

8. CONTROL OF DAMAGED MERCHANDISE

The Insured shall have full right to the possession of all goods involved in any loss under this policy and shall retain control of all damaged goods. The Insured, exercising a reasonable discretion, shall be the sole judge as to whether the goods involved in any loss under this policy are fit for normal intended use or consumption. No goods so deemed by the Insured to be unfit for consumption shall be sold or otherwise disposed of except by the Insured or with the Insured's consent, but the Insured shall allow this Company any salvage obtained by the Insured on any sale or other disposition of such goods.

9. ERRORS OR OMISSIONS

Any unintentional error or omission made by the Insured shall not void or impair the insurance hereunder provided the Insured reports such error or omission as soon as reasonably possible after discovery by the Insured's Risk Management Department.

10. EXCESS INSURANCE

Excess insurance is insurance over the limit of liability set forth in this policy. The existence of such excess insurance shall not prejudice the coverage provided under this policy nor will it reduce any liability hereunder.

11. IDENTITY OF INTERESTS

If the Named Insured is comprised of more than one legal entity, liability shall not exceed the amount of loss had all interests comprised a single legal entity.

12. JOINT LOSS AGREEMENT

With respect to the coverage provided by this policy, it is agreed that:

- A. If at the time of loss, there is in existence a policy(ies) issued by another property and/or boiler and machinery insurance company(ies) which may cover the same property or cover the location at which the property subject to loss is situated; and
- B. if there is a disagreement between the companies under this policy and such other contract either as to:
 - (1) whether such damage or destruction is insured against under this policy or insured against by such other property and/or boiler and machinery insurance policy(ies); or
 - (2) the extent of participation of this policy and of such other property and/or boiler and machinery insurance policy(ies) in a loss which is insured against, partially or wholly, by any one or all of said policies;

this Company shall, upon written request of the Insured, pay to the Insured one-half of the amount of the loss which is in disagreement, but in no event more than this Company would have paid if there had been no such other property and/or boiler and machinery insurance policy(ies) in effect, subject to the following conditions:

- (a) the amount of the loss which is in disagreement, after making provisions for any undisputed claims payable under the said policies and after the amount of the loss is agreed upon by the Insured and the companies, is limited to the minimum amount remaining payable under this policy or the other property policy;
- (b) the other property and/or machinery breakdown insurance company(ies) shall simultaneously pay to the Insured at least one half of said amount which is in disagreement;

- (c) the payments by the companies hereunder and acceptance of the same by the Insured signify the agreement of the companies to submit to and proceed with arbitration within ninety days of such payments;

the arbitrators shall be three in number, one of whom shall be appointed by the other property and/or boiler and machinery insurance company(ies), one of whom shall be appointed by this Company, and the third of whom shall be appointed by consent of the other two; the decision by the arbitrators shall be binding on the companies and that judgment upon such award may be entered in any court of competent jurisdiction;
- (d) the Insured agrees to cooperate in connection with such arbitration but not to intervene therein;
- (e) the provisions shall not apply unless such other property and/or boiler and machinery policy(ies) is similarly endorsed;
- (f) acceptance by the Insured of sums paid pursuant to the provisions, including an arbitration award, shall not operate to alter, waive, surrender or in any way affect the rights of the Insured against any of the Companies.

13. LOSS ADJUSTMENT EXPENSES

This policy is extended to include expenses incurred by the Insured, or by the Insured's representatives for assessing, preparing and/or certifying details of a claim resulting from a loss which would be payable under this policy. However, this Company shall not be liable under this clause for expenses incurred by the Insured in utilizing the services of a public adjuster or attorney.

14. NOTICE OF LOSS

As soon as practicable after any loss or damage occurring under this policy is known to the [TEXAS STATE OFFICE OF RISK MANAGEMENT](#), the Insured shall report such loss or damage to [SEE ASSIGNED ADJUSTER CLAUSE](#) for transmission to the Company. Any inadvertent delay by the Insured in providing notice shall not affect the Insured's right to coverage under this policy, except if and to the extent that the Company proves that it actually and substantially was prejudiced by any unreasonable delay in notice. Notwithstanding anything to the contrary herein this Policy, all notices detailed in this provision and elsewhere in this policy are required to be given to the Company. Such notice shall only be effected upon receipt by the Company and not upon receipt by the assigned adjuster.

15. OTHER INSURANCE

Except for insurance described by the Contributing Insurance Clause, the Excess Insurance Clause, or the Underlying Insurance Clause, this policy shall not cover to the extent of any other collectible insurance, whether directly or indirectly covering the same property against the same causes of loss. This Company shall be liable for loss or damage only to the extent of that amount in excess of the amount recoverable from such other collectible insurance.

16. PARTIAL PAYMENT OF LOSS

In the event of a loss covered by this policy, it is understood and agreed that the Company will issue partial payment(s) of claim subject to the policy provisions, and shall not be less than the undisputed estimate of loss or damage between the Insured and the Company.

17. PAYMENT OF LOSS

All adjusted claims shall be due and payable no later than thirty (30) days after presentation and acceptance of proofs of loss by this Company or its appointed representative.

18. PROOF OF LOSS

The Insured, at the request of the Company, will render a signed and sworn proof of loss to the Company or its appointed representative stating: the place, time, cause of the loss, damage, or expense; the interest of the Insured and of all others; the value of the property involved in the loss; and the amount of loss, damage, or expense.

19. REINSTATEMENT

With the exception of loss caused by perils which are subject to annual aggregate limits as noted elsewhere in this policy, no loss hereunder shall reduce the amount of this policy.

20. REPORTING OF VALUES / PREMIUM SWING CLAUSE

It is agreed that all changes in Total Insured Values will be reported to the Company(ies) on a semi-annual basis.

It is also agreed that the premium will be subject to one adjustment annually. This adjustment will be calculated within 30 days of expiration of this contract. Premium adjustments will be made only for acquisitions/divestures that exceed **five percent (5%)** of the Total Insured Values as presented at the inception of this contract. This clause does not apply to new agencies.

21. SALVAGE AND RECOVERIES

All salvages, recoveries and payments, excluding proceeds from subrogation and underlying insurance, recovered or received prior to a loss settlement under this policy, shall reduce the loss accordingly.

If recovered or received subsequent to a loss settlement under this policy, such net amounts recovered shall be divided between the interests concerned, i.e. the Insured and any other Company(ies) participating in the payment of any loss, in the proportion of their respective interests.

22. SUBROGATION

A. Any release from liability entered into by the Insured prior to loss hereunder shall not affect this policy or the right of the Insured to recover hereunder. The right of subrogation against the Insured's subsidiary, affiliated and associated corporations or companies, the Insured's officers, directors, and employees, or any other corporations or any other corporations or companies associated with the Insured through ownership or management, and at the option of the Insured against a tenant, vendor, supplier or customer of the Insured, is waived.

B. In the event of any payment under this policy, this Company shall be subrogated to the extent of such payment to all the Insured's rights of recovery therefore. The Insured shall execute all papers required and shall do anything that may be reasonably necessary at the expense of the Company to secure such right. The Company will act in concert with all other interests concerned, i.e., the Insured and any other Company(ies) participating in the payment of any loss as primary or excess insurers, in the exercise of such rights of recovery.

If any amount is recovered as a result of such proceedings, the net amount recovered after deducting the cost of recovery shall be divided between the interests concerned in the proportion of their respective interests. If there should be no recovery, the expense of proceedings shall be borne by the insurers instituting the proceedings.

23. SUE AND LABOR

In case of actual or imminent loss or damage covered by this policy, it shall, without prejudice to this insurance, be lawful and necessary for the Insured, their factors, servants, or assigns to sue, labor and travel for, in and about the defense, the safeguard, and the recovery of property or any part of the property insured hereunder; nor, in the event of loss or damage, shall the acts of the Insured or of this Company in recovering, saving, and preserving the insured property be considered a waiver or an acceptance of abandonment. This Company shall contribute to the expenses so incurred.

24. SUIT AGAINST THE COMPANY

No suit or action on this policy for the recovery of any claim shall be sustainable in any court of law or equity unless the Insured shall have fully complied with all the requirements of this policy; however, if there is any dispute between the Insured and the Company as to whether the Insured has fully complied with all the requirements of this policy, such a dispute may be resolved in a suit or action on the policy for recovery of any claim. The Company agrees that any action or proceedings against it for recovery of any loss under this policy shall not be barred if commenced within two years and one day after the Insured provides notice to the Company in accordance with Clause 14, "Notice of Loss" above, which period shall be tolled from the date of notice until the date that the Insured receives the Company's final coverage decision (this two year and one day period is referred to as the "limitations period"). However, the limitations period shall not apply if by the laws of the State of the address of the Insured such a limitation is invalid or if the laws of the state in which any such action is brought permit a longer period of time within which to commence such a suit. Furthermore, any tolling of the limitations period shall not preclude the Insured from bringing a suit or any other proceeding regarding recovery for any loss or of any claim hereunder during the period of tolling or at any other time.

Prosecution of a suit by the Insured shall not be barred due to the failure of the Company to timely advise and notify the Insured of the expiration of any applicable dates to file and commence said suit.

It is agreed that in the event of the failure of the Company to pay any amount claimed to be due hereunder or in the event of any other dispute relating to this policy, the Company, at the request of the Insured, will submit to the jurisdiction of any court of competent jurisdiction within the United States and will comply with all of the requirements necessary to give such court jurisdiction and all matters hereunder shall be determined in accordance with the law and practice of such court, not including the court's law regarding choice of law. The Company shall not transfer, change venue, or remove, or seek to transfer, change venue, or remove any lawsuit filed by the Insured in any such court.

25. TITLES OF PARAGRAPHS

The titles of paragraphs of this form and of endorsements and supplemental contracts, if any, now or hereafter attached hereto are inserted solely for convenience of reference and shall not be deemed in any way to limit or affect the provisions to which they relate.

26. UNDERLYING INSURANCE

- A. Underlying insurance is insurance on all or any part of the deductible and against all or any of the causes of loss covered by this policy including declarations of value to the carrier for hire. The existence of such underlying insurance shall not prejudice or affect any recovery otherwise payable under this policy.
- B. If the limits of such underlying insurance exceed the deductible amount which would apply in the event of loss under this policy, then that portion which exceeds such a deductible amount shall be considered other insurance, as defined in the Other Insurance clause.

27. VALUES

The values and schedule of property declared to the Company at the inception of the policy are for premium purposes only and shall not limit the coverage provided by this policy.

SECTION VIII – ADDITIONAL DEFINITIONS

1. **EARTHQUAKE** is defined as a shaking or trembling of the earth that is tectonic in origin. Such definition shall include tsunami, landslide, subsidence and volcanic eruption.
2. **FLOOD** is defined as flood waters, surface water, waves, tide or tidal water, the release of water, the rising, overflowing or breaking of boundaries of natural or man-made bodies of water, or the spray from any of the foregoing, other than water driven by a Named Windstorm (Storm Surge).
3. **LOCATION(S)** wherever used herein or endorsed hereto shall mean all property within the outer property lines of land owned or occupied by the Insured as one continuous property site, or on land so occupied which would be one continuous property site except for the presence of roadways, streams or rights of way intersecting such area
4. **MISCELLANEOUS UNNAMED LOCATION(S)** means a location or structure, including property in the open, that has not been included in the Statement of Values on file with the Company(ies) and has not been reported to the Company(ies) pursuant to the reporting provisions in Section VI. 2. Automatic Coverage for Newly Acquired Property.
5. **NAMED WINDSTORM** is defined as a hurricane, typhoon, tropical cyclone, tropical storm or tropical depression which is named by National Oceanic and Atmospheric Administration's (NOAA) National Hurricane Center. For purposes of this definition Named Windstorm shall include, but is not limited to, direct physical loss, damage or destruction caused by the following, regardless of the number of coverages, locations, or perils involved:

- A. direct action of wind including ensuing Storm Surge;
- B. all resulting Flood;
- C. rain or water, whether the rain or water is driven by wind or not, that enters a building or structure insured under this policy through an opening(s) created by the direct action of such windstorm.
- D. any material, object or debris that is carried, propelled or in any manner moved by such windstorm;
- E. one or more tornadoes and/or cyclones that are a result of actions or effects of such windstorm;

6. **OCCURRENCE** is defined as any one loss, disaster, casualty, or series of losses, disasters, or casualties, arising out of one event. When the term applies to loss or losses from the perils of Named Windstorm, tornado, cyclone, windstorm, hail, earthquake, volcanic eruption, riot, riot attending a strike, civil commotion, vandalism and malicious mischief or terrorism and/or Flood, one event shall be construed to be all losses arising during a continuous period of 72 hours. When filing proof of loss, the Insured may elect the moment at which the 72 hour period shall be deemed to have commenced, which may not be earlier than the time when the first loss to covered property occurs.

Should any aforementioned time period commence prior to expiration or cancellation date of this policy, this Company shall pay all such losses occurring during such period as if such period fell entirely within the term of this policy.

As respects theft, the term Occurrence as referred to elsewhere within the policy means the sum total of all losses of covered property resulting from one or more concealed acts committed by one person or more than one person acting in unison to the extent such loss is not otherwise excluded under this policy.

7. **TIER 1 WIND ZONES** is defined as all locations situated within Tier 1 Counties as specified below:

<u>State</u>	<u>County</u>
Texas:	Aransas, Brazoria, Calhoun, Cameron, Chambers, Fort Bend, Galveston, Hardin, Harris (including entire City of Houston), Hidalgo, Jackson, Jefferson, Kenedy, Kleberg, Liberty, Matagorda, Newton, Nueces, Orange, Refugio, San Patricio, Victoria, Willacy.

8. **TIER 2 WIND ZONES** is defined as all locations situated within Tier 2 Counties as specified below:

<u>State</u>	<u>County</u>
Texas:	Bee, Brooks, Goliad, Jasper, Jim Wells, Live Oak, Montgomery, Polk, San Jacinto, Tyler, Wharton, Waller.

9. **TIER 3 WIND ZONES** is defined as all locations situated within Tier 3 Counties as specified below:

<u>State</u>	<u>County</u>
Texas:	Atascosa, Austin, Colorado, DeWitt, Duval, Grimes, Jim Hogg, Karnes, Lavaca, McMullen, Starr, Trinity, Walker.

- 10. SECURITIES** is defined as all negotiable and non-negotiable instruments or contracts representing either money or other property, and includes revenue and other stamps in current use, tokens and tickets but does not include money.
- 11. STORM SURGE** is defined as water driven inland from coastal waters by high winds and low atmospheric pressure. Such definition shall not be considered Flood if such term constitutes a part of the Named Windstorm definition where a separate sublimit or deductible applicable to such applies under the policy.
- 12. WINDSTORM OR HAIL** means the direct action of wind including, tornado and wind driven objects or debris or the direct action of Hail, whether accompanied by wind or not. However, Windstorm or Hail does not mean:
- A. Loss or damage caused by or resulting from frost or cold weather, ice (other than Hail), snow or sleet, whether driven by wind or not;
 - B. Loss or damage to the interior of any building or structure, or the property inside the building or structure, caused by rain, snow, sand or dust, whether driven by wind or not, unless the building or structure first sustains wind or Hail damage to its roof or walls through which the rain, snow, sand or dust enters; or
 - C. Loss or damage caused when weight of snow, rainwater, ice or sleet is a contributing factor to the fall or Collapse of a building or structure or any part thereof, whether driven by wind or not.