

1 HB362
2 155128-2
3 By Representative Scott
4 RFD: Ways and Means Education
5 First Read: 30-JAN-14

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8 SYNOPSIS: This bill would require the risk manager,
9 with the approval of the Finance Director, to
10 develop a program of coverage under the State
11 Insurance Fund to provide, within reasonable
12 limitations and using gap coverage and gap plus
13 coverage, proceeds sufficient to allow a K-12
14 public school building that has been rendered a
15 total loss as a result of covered peril to be
16 reconstructed with materials superior to its
17 original construction and in an increased size if
18 appropriate based upon current construction
19 standards and occupancy.

20 This bill would define gap coverage and gap
21 plus coverage.

22 This bill would also require the risk
23 manager to draft rules, guidelines, limitations,
24 and coverage endorsements under which the program
25 will operate, and to assess an actuarially sound
26 premium.

1 A BILL
2 TO BE ENTITLED
3 AN ACT
4

5 To amend Section 41-15-4, Code of Alabama 1975,
6 relating to the State Insurance Fund, to require the risk
7 manager, with the approval of the Finance Director, to develop
8 a program of gap coverage and gap plus coverage to provide,
9 within reasonable limitations, proceeds sufficient to allow a
10 K-12 public school building that has been rendered a total
11 loss as a result of a covered peril to be reconstructed with
12 materials superior to its original construction and in an
13 increased size if appropriate based upon current construction
14 standards and occupancy; to define gap coverage and gap plus
15 coverage; to require the risk manager to draft rules,
16 guidelines, limitations, and coverage endorsements for the
17 program; and to require the risk manager to assess an
18 actuarially sound premium.

19 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

20 Section 1. Section 41-15-4 of the Code of Alabama
21 1975, is amended to read as follows:

22 "§41-15-4.

23 "(a) All covered property, unless otherwise provided
24 in this section, shall be insured for no more than its
25 replacement cost ~~and shall be insured for no less than 80~~
26 ~~percent of its actual cash value.~~ Replacement cost coverage
27 may be provided with an amount of insurance as agreed upon by

1 the proper insuring authority and the risk manager based upon
2 a written statement of values. Replacement cost shall be the
3 cost to repair or replace property with comparable materials
4 of like kind and quality by generally accepted construction
5 methods or technology to serve the same function as the lost
6 or damaged property. ~~Actual cash value shall be replacement~~
7 ~~cost less depreciation.~~ No payment for a loss shall exceed the
8 limit of the policy.

9 "(b) The officer or person having charge by law of
10 insuring any public building, contents, machinery, and
11 equipment shall annually certify to the Department of Finance
12 the description and the value of all buildings, contents,
13 machinery and equipment under his supervision or control on
14 forms prescribed by the department for the purpose of showing
15 the character of the risk and determining the rate of premium.
16 No coverage shall be issued unless such certificate is on file
17 in the office of the Department of Finance or the director has
18 waived, in writing, the filing of the same.

19 "(c) Buildings, contents, machinery, and equipment
20 owned by any county, city, or school district and used for
21 school purposes or under control of a board of education may
22 be insured under ~~the provisions of~~ this chapter. The risk
23 manager, upon review and approval by the Finance Director,
24 shall develop a program of coverage under the State Insurance
25 Fund which provides, within reasonable limitations, for the
26 use of gap coverage and gap plus coverage, to provide proceeds
27 sufficient to allow a school building that has suffered an 80

1 percent or greater loss as a result of a covered peril to be
2 reconstructed with materials superior to its original
3 construction and in an increased size, if appropriate, based
4 upon current construction standards and occupancy. The risk
5 manager shall draft rules, guidelines, limitations, and
6 coverage endorsements under which this program shall operate,
7 and shall determine actuarially sound premiums to assess
8 covered entities.

9 "(1) For the purposes of this subsection, gap
10 coverage is coverage that allows for improved construction
11 type from an ISO of 1, 2, or 3 to an ISO of 4; allows for
12 additional square footage in preapproved incremental amounts;
13 and requires that building damages must exceed 80 percent or
14 greater of the insured school building value as determined by
15 State Insurance Fund adjusters, engineers, and other experts.
16 For purposes of this subsection, the following construction
17 ISO designations apply:

18 "a. An ISO of 1 is a frame.

19 "b. An ISO of 2 is masonry and wood roof supports or
20 trusses, or both.

21 "c. An ISO of 3 is pre-engineered metal.

22 "d. An ISO of 4 is a steel frame and roof supports
23 with a masonry exterior.

24 "e. An ISO of 5 is a protected steel frame with a
25 masonry exterior.

26 "f. An ISO of 6 is a reinforced concrete.

1 "(2) For the purposes of this subsection, gap plus
2 coverage is coverage that allows the insured to select amounts
3 of insurance for normally uncovered expenses including, but
4 not limited to, a new preparation site if the building is not
5 rebuilt on the same foundation, underground wiring, plumbing,
6 paving, and other expenses. Gap plus coverage requires that
7 building damages must exceed 80 percent of the insured school
8 building value as determined by State Insurance Fund
9 adjusters, engineers, and other experts. Gap plus coverage
10 also requires that the maximum amount of coverage allowed for
11 gap plus is 10 percent of the insured value of the destroyed
12 building.

13 "(d) The Department of Finance may cause to be
14 surveyed, annually, if practicable, all public property coming
15 within the provisions of this chapter, and the officer or
16 person in charge of the public property shall receive a copy
17 of such report. A survey shall be an examination of property
18 for physical discrepancies, construction characteristics,
19 usage, or occupancy.

20 "(e) Notwithstanding any law to the contrary, the
21 Department of Finance in adjusting a loss ~~may~~, at its option,
22 may assume title, ownership, and possession of any insured
23 item, including building materials, fixtures, furniture,
24 machinery, and equipment, for which insured value has been
25 paid, and may arrange for the salvage and sale thereof in
26 whatever manner is deemed most advantageous to the State
27 Insurance Fund, to which all sale proceeds shall be deposited.

1 Alternatively, the Department of Finance may deduct the
2 salvage value of the insured item from the payment to the
3 owner of insurance proceeds arising from the loss of the
4 insured item."

5 Section 2. This act shall become effective on the
6 first day of the third month following its passage and
7 approval by the Governor, or its otherwise becoming law.