

Values Matter: Why Accurate Property Values are Critical to Public Entity Pools

Friday, May 13th | 2:15 PM

NLC-RISC Trustees Conference



Values Matter:

Why Accurate Property Values are Critical to Public Entity Pools

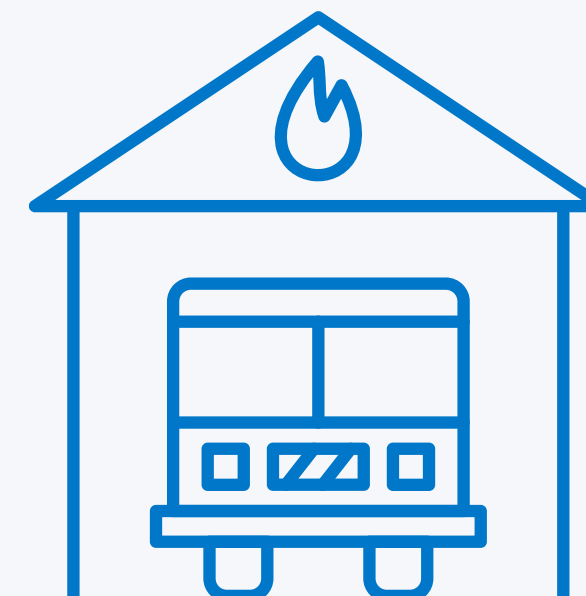
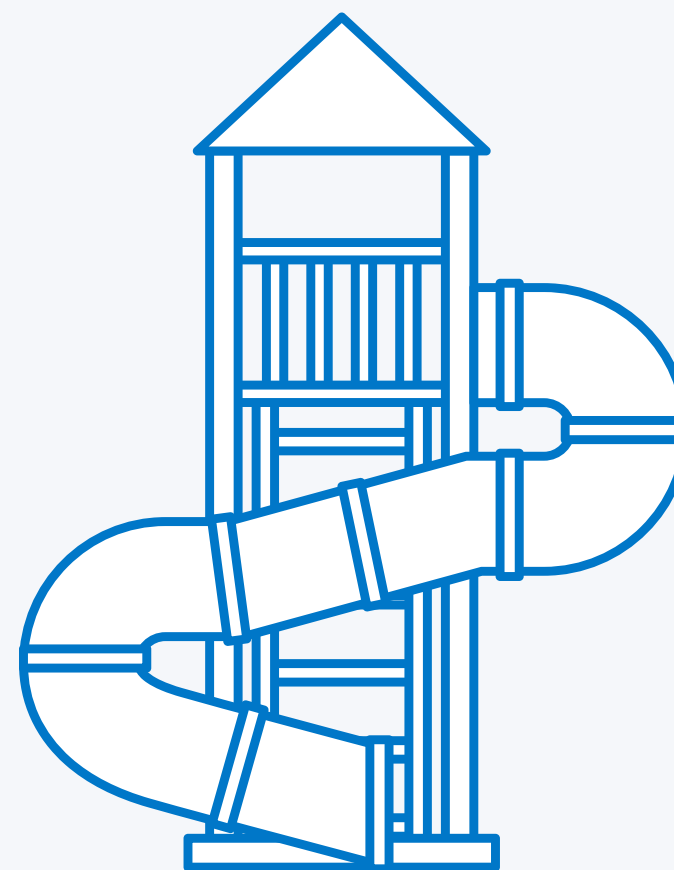
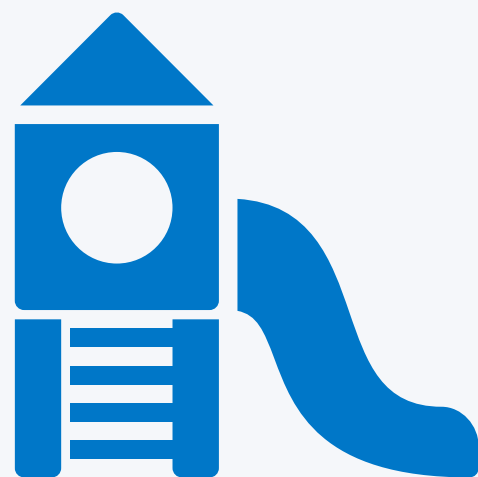
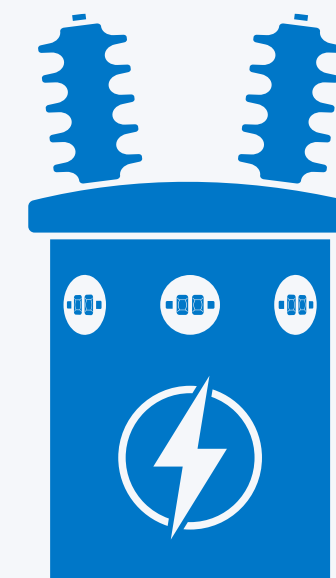
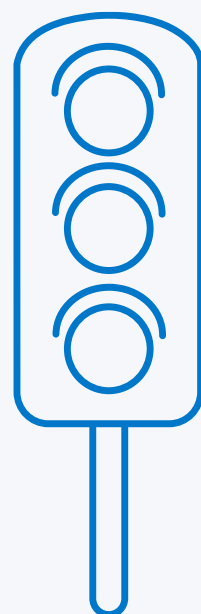
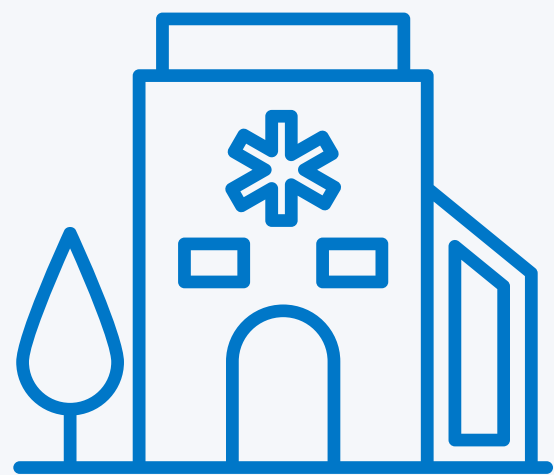
EMBRY NICHOLS, CPCU, ARM

Vice President of Underwriting &
Internal Services

HALIE GALLIK, MPA

Director of Communications &
Research

What We Insure



Construction Costs



Materials Prices Soar

The producer price index for inputs to new nonresidential construction (prices charged by goods and service providers) increased by 20.3% from January 2021 to January 2022

Source: Associated General Contractors of America

Materials Contributing to Cost Index Jump

-  Steel: **112.7%**
-  Diesel fuel: **56.6%**
-  Plastic: **35%**
-  Lumber/plywood: **21.1%**
-  Roofing asphalt: **19.8%**
-  Insulation: **19.2%**
-  Trucking: **18.3%**
-  Construction machinery/equipment: **11.4%**

Source: Associated General Contractors of America

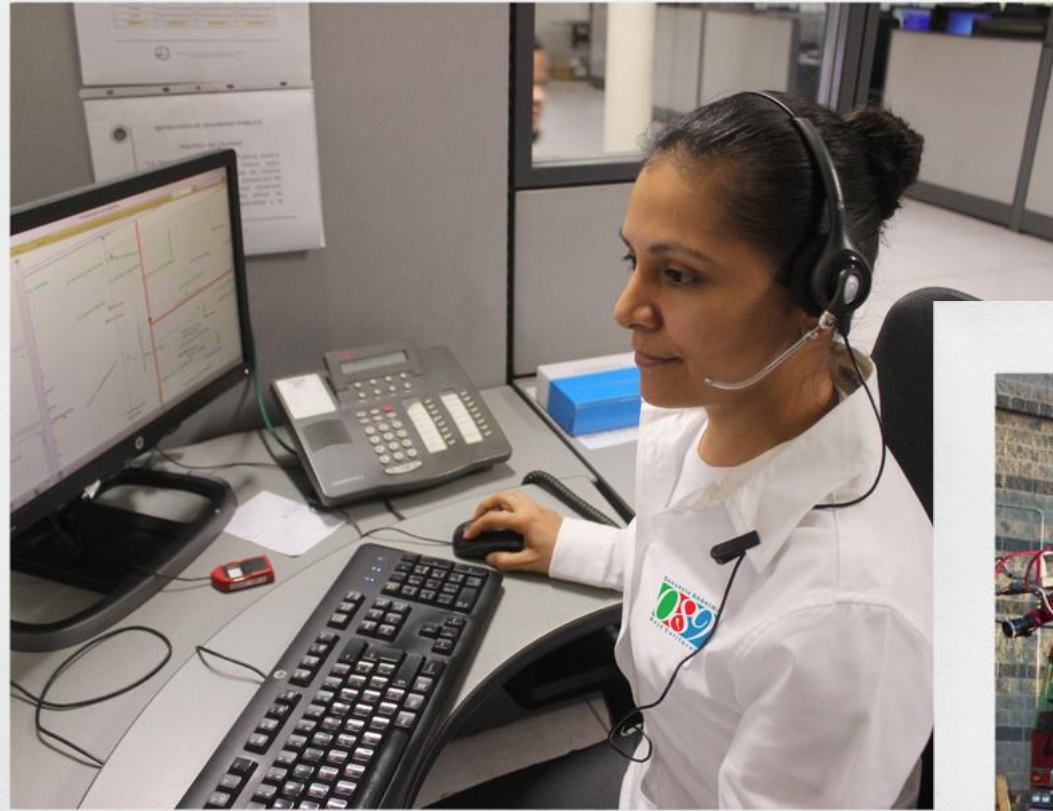
Why Values Matter

Members



- Inaccurate values after a loss may result in their being underinsured and not being made whole
- Margin clauses and other limitations on recoveries

Uninsured losses can impact service delivery



Reinsurance

- Consecutive years of above-average losses from natural catastrophes have been costly. Some \$120 billion of the \$280 billion in losses caused by natural disasters in 2021 were insured, according to Munich Re, and the U.S. recorded the largest share of insured losses at \$85 billion
- The commercial market is seeing an overall return to underwriting discipline accompanying the hard market with resections of capacity and investment losses. Focus on appropriate premium relative to market forces.
- Pools must always have a focus on underwriting discipline.



Why Values May Not Be Reported Accurately



- Unintentional errors - members may not fully understand their risks and exposures
- Inflation at 7.5%
- Supply chain issues are causing shortages and delays, which are driving construction costs higher
- “Soft market” mentality takes time to resolve



Importance for Pools and Members

- Members who value appropriate pay the price and effectively subsidize those who to not
- Members in a pool have an obligation to the whole that is greater than the parts – transparency and sound risk management practices
- Appraisal process is paramount – cycles, thresholds, special appraisals
- Loss Control – complements the appraisal process
- Underwriting – annual inflation guards, type of valuation, condition and use of location
- Education through one-on-one communication, training and newsletters is key



PROPERTY VALUATION

Public Entity Partners' Property Valuation Program provides each member with a professional valuation on locations assessed at \$75,000 or more.

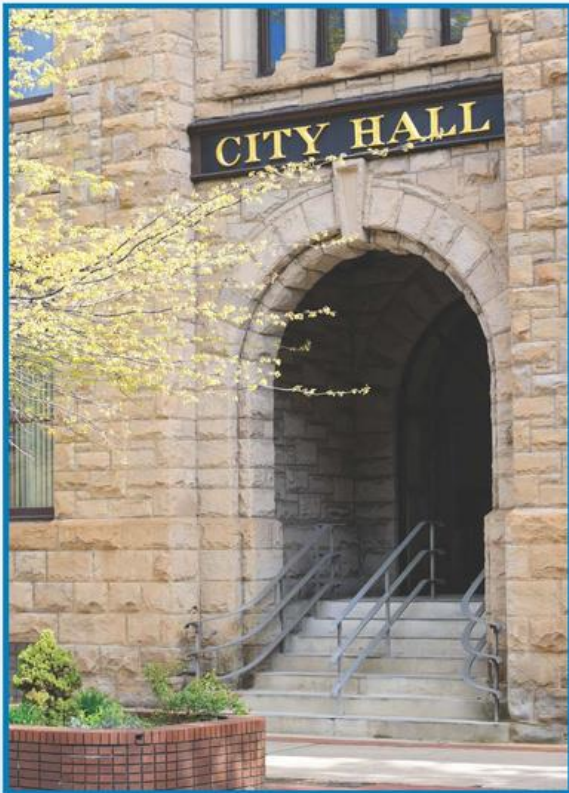
Why this program is important

This program helps ensure that our members' properties are properly valued and adequately insured, and allows Public Entity Partners to provide **true replacement cost** and **actual cash value coverages** – without a coinsurance clause or penalty.

Each Public Entity Partners member receives an **in-person property valuation** on a rotating, four-year schedule at no additional cost. Report copies are automatically provided to members.

Each report includes:

- Color photos
- A description of any improvements
- Property details:
 - o Physical address
 - o GIS location
 - o Flood map information
- Actual cash value
- Replacement cost value



At Public Entity Partners, we pride ourselves on providing a robust and comprehensive property valuation program for local governments in Tennessee.

If you have any questions about your property, please contact our Underwriting Department or our Member Services Department at 800.624.9698.



SPIKING CONSTRUCTION COSTS CAN IMPACT YOUR ENTITY'S PROPERTY VALUATION



Industry experts indicate that property values are increasing significantly due to unprecedented global demand, along with supply chain disruptions and labor shortages. These factors affect your renewal premium.

The benefit of replacement cost coverage

All these factors affect your renewal premium, which is partially determined by taking the actual cash value or replacement cost of your property schedule and applying the base rate.



Many property policies include a co-insurance clause that limits the amount you can receive in the event of a loss based on the value of the building listed in your property schedule. Members who choose actual cash value or replacement cost coverage under the PE Partners property policy have a blanket limit up to the total insured value of their property schedule. As an example, if City Hall is destroyed in a tornado and is a total loss, PE Partners will pay the value to replace it, even if the value on the schedule is less than what is needed to replace the building, subject to the total insured value of the property schedule for all locations..

If City Hall is currently valued at \$1 million, but the cost to rebuild after a tornado destroyed it is 50% higher, PE Partners will pay the cost required to replace it, up to the total insured value of the property schedule.



Replacement value



Actual cash value

If you have any questions about your property, please contact our Underwriting Department or Member Services Department at 800.624.9698.

PE Partners' property schedule inflation guard

In order to provide replacement cost and actual cash value coverage without a coinsurance clause, PE Partners works to ensure we have a responsible insurance-to-value ratio. Each year, we apply an inflation guard to your property schedule. This inflation guard fluctuates each year, depending on construction cost factors. For the 2022/2023 policy period, a 4% inflation guard will be applied to any location value, unless a property valuation has been conducted. Please review all policy terms, conditions and exclusions.





Questions to ask as a Trustee or Board of Director Member

- How are we ensuring our insured values are adequate?
- Do we use an inflation guard? How do we determine what that number is?
- Do our members understand how their facility / covered location will be valued after a loss?
- Does the pool have an exposure for uninsured losses?

Questions?

Embry Nichols

Vice President of Underwriting &
Internal Services
ENichols@PEPartners.org



Halie Gallik

Director of Communications &
Research
HGallik@PEPartners.org

