LEGISLATIVE COUNCIL

REPORT TO THE

COLORADO GENERAL ASSEMBLY

FIRE INSURANCE
ON
STATE OWNED PROPERTY

RESEARCH PUBLICATION NO. 12

1954

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OF THE

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The Legislative Council, which is composed of five Senators, six Representatives, and the presiding officers of the two houses, serves as a continuing research agency for the legislature through the maintenance of a trained staff. Between sessions research activities are concentrated on the study of relatively broad problems formally proposed by legislators and the publication and distribution of factual reports to aid in their solution. During the session the emphasis is on supplying legislators on individual request with personal memoranda providing them with information needed to handle their own legislative problems. Reports and memoranda both give pertinent data in form of facts, figures, arguments and alternatives without these involving definite recommendations for action. Fixing upon definite policies is, however, facilitated by the facts provided and the form in which they are presented.

*Resigned

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FIRE INSURANCE

ON

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Colorado Legislative Council
Research Report
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FOREWORD

This report was prepared jointly by the Colorado State Planning Commission and the Legislative Council as a result of the passage of House Joint Resolution No. 4 (39th General Assembly, 1954 session). The text of the resolution is reprinted below.

> "Whereas, The State of Colorado owns property with a replacement value of at least $150,000,000 and is expending in excess of $100,000 per year for fire insurance premiums; and
>
> "Whereas, The Legislative Council has submitted to the General Assembly a report on 'The Feasibility of a State Fire Insurance Fund' in which it states that the insurance practices of various state agencies are inconsistent with respect to the amount of fire insurance carried on state-owned buildings and in the nature of the coverage provided, and
>
> "Whereas, In its report the Council concludes that a State Fire Insurance Fund is feasible but is not practical at this time; and
>
> "Whereas, The Planning Commission has through the preparation of two reports demonstrated considerable interest in the State's fire insurance program, and is also understood to be conducting a photographic survey of state-owned buildings; now, therefore,
>
> "Be It Resolved by the House of Representatives of the Thirty-ninth General Assembly of the State of Colorado, the Senate Concurring herein:
>
> "That the Planning Commission is hereby requested to undertake a comprehensive detailed survey of the state-owned property exposure, building by building, institution by institution, and to conduct a specific review of the insurance coverage and nature of coverage now provided for each exposure, and to make a complete report of its findings to the Fortieth General Assembly upon the convening of the First Regular Session thereof; and that the data be compiled as nearly as practicable in accordance with the form contained on page 7 of Research Publication No. 3 submitted by the Legislative Council to the Second

Regular Session of the Thirty-ninth General Assembly; further, that the Planning Commission consult with the Legislative Council in setting up the survey hereby requested."

As indicated by the text of the resolution this study was felt necessary as a result of the findings in Legislative Council Report No. 3, The Feasibility of a State Fire Fund. In this report, the Council stated that there was little accurate statistical data on which to base an accurate evaluation of the State's fire insurance program. This is amply illustrated by the results of the Planning Commission's evaluation of state properties, undertaken after the resolution was passed. Whereas the report of the State Planning Commission issued in 1952 stated that the estimated replacement value of state buildings was $122,838,788, a reappraisal based on a system recommended by the Colorado Insurors Association indicates that the minimum replacement value of state properites is $127,505,342, excluding the State Highway Department. The figures for this department were not available at the time this report was prepared. In the original survey the estimated value of contents was placed at more than $25,000,000. In this survey the value of contents is placed just over $9,000,000. In all probability the value of the contents is understated since most institutions do not have accurate inventories of building contents.

The need for this second study may be further indicated by a comparison of the two figures on insurance coverage. In the initial study insurance coverage on buildings was listed at $49,955,855. The present survey indicates a total of $63,161,237 of insurance coverage on buildings.

Recognizing that insurance is a technical field, the Legislative Council, in the very early stages of planning for the study, called upon the Colorado Insurors Association for advice in proceeding with the best method of evaluating the state properties. The Association indicated that the use of a commercial appraisal system known as the Markel Chart offered the best method of establishing reliable estimates of the replacement value of each building. The Markel Chart computes estimated value on two bases -- the first is using a given cost per cubic foot for each type of building. The second is to apply a cost index factor for each type of construction to the original construction cost. Since accurate original construction costs were not available in many cases, the Insurors Association recommended that buildings be uniformly evaluated on the basis of cubic foot contents.

Accordingly Planning Commission personnel measured each building owned by the State to determine cubic foot contents. The only exceptions were those buildings for which up-to-date blue prints were available. A test check on those buildings where the accurate construction cost was known was made using the index method. This spot check indicates that the evaluations in this study are on the conservative side.

After the appraisal program of the Planning Commission had progressed, the Legislative Council again called upon the Insurors Association for their advice in evaluating the data. At this point the Association felt that it was in a position to give only general evaluations. These are included as appendices B and C to this report.

The study was prepared by Ray Andrews, Assistant Director of the Planning Commission, and Harry S. Allen, Senior Research Analyst of the Legislative Council. Sidney G. Frazier, consulting architect of the Planning Commission, assisted in evaluating state structures.

HIGHLIGHTS

	Page
The State of Colorado owns 2,056 buildings, which together with their contents have a replacement value of approximately $136,505,342, (excluding the Highway Department), and the total insurance protection which the State now owns amounts to $71,961,016 or 53% of a conservative estimate of the replacement value of the property.	1
Insurance coverage has been purchased in 881 individual policies ranging in amounts from $800 for the smallest to $21,500,000 for the largest single policy. For this vast array of policies Colorado spends $126,943 in annual premiums.	1
Since each institution buys insurance from its own funds, the role of the Purchasing Agent is merely one of review. There is, however, no technical review made in the State Purchasing Agent's office of the proposed state insurance programs.	6
... the percentage of the building value to be covered by fire insurance varies considerably even within a single institution.	6
There is no uniform practice among Colorado institutions as regards co-insurance.	9
The State Fair purchases the least amount of fire protection of any of the state agencies in terms of the replacement value of its structures. Buildings at the State Fair grounds have an estimated replacement value of $3,634,936. Insurance coverage amounts to $233,250, or just slightly more than 9 percent of the replacement value. At the other end of the scale is Western State College which carries fire insurance in the amount of $2,027,000, or 95% of the replacement value of its buildings appraised at $2,139,519.	10
If such a program (100,000 deductible) were followed in the State of Colorado, insurance coverage in the amount of $10,957,887 could be dropped. The estimated premium on this amount of insurance is $34,184.	20
... the fire losses in the last ten years do indicate that had Colorado followed the practice in the past ten years of paying for all losses through appropriation instead of having a partially complete insurance program, a net saving of $679,325 would have been realized.	22
It is recommended that a full time supervisor of State Insurance be placed in the office of the State Purchasing Agent, with a view to completely modernizing present commercial coverage on state properties and presenting to the 41st General Assembly a detailed report on his progress in bringing about an improved program for handling fire insurance on state properties, and his recommendations for changes in statutes relating thereto.	

PART I

THE PRESENT COLORADO FIRE INSURANCE PROGRAM

Introduction

The State of Colorado owns 2,056 buildings, which together with their contents have a replacement value of approximately $136,505,342, (excluding the Highway Department). This farflung network of structures ranges from the virtually irreplaceable ornateness of the State Capitol building to lowly pig stys at the farms of some of our institutions. Some of these buildings are modern fireproof structures, others are tinder boxes having no fire prevention equipment in them. But virtually every one of these buildings is insured to a greater or lesser degree, and the total insurance protection which the State now owns amounts to $71,961,016 or 53% of a conservative estimate of the replacement value of the property.

Insurance coverage has been purchased in 881 individual policies ranging in amounts from $800 for the smallest to $21,500,000 for the largest single policy. For this vast array of policies Colorado spends $126,943 in annual premiums. Protection is purchased in almost as many ways as there are policies. At the University of Colorado, which has a program that might well serve as a model for the State, insurance was purchased by negotiation after a careful evaluation of the institution's needs. At most other institutions the insurance is divided among the local agents, with very little apparent planning. Some state agencies have all their insurance protection in a single policy, while others have dozens of separate policies. The maximum number of individual policies at any one institution is 165.

One state institution may be insured "to the hilt," while another may not have purchased enough insurance in relation to the replacement cost of its structures to cover more than 5% to 10% of its fire exposure. At some state institutions there are excellent records of buildings and their contents, while at others no such inventory exists. Table 1 which follows tabulates the insurance coverage and replacement value of property at all of the state institutions and property owning agencies.

In order to properly evaluate possible changes in the State's insurance program it is first necessary that the general procedures used be set forth.

PRESENT PROGRAM

Under the statutes which created the state purchasing agent office, the authority to purchase fire insurance for all state institutions was centered in that department. The office of the State Purchasing Agent does, in a technical sense, purchase the fire insurance for the state agencies. But this is a perfunctory act, with no real centralization of the process within the office. Each of the institutions and agencies which purchase fire insurance decide at their level how much and what kind of insurance to buy. The function of the Purchasing Agent's office is limited to "placing the insurance equitably among the agents of the state." By and large insurance placement has not been political.

Insurance protection is within the administrative jurisdiction of the business manager at each of the state institutions. At each institution it is

TABLE 1

Summary of Buildings and Insurance Data for Nineteen State Institutions and Seven Agen

No. of Bldgs.	Institutions	Estimated Replacement Cost	Estimated Present Value	Fire Insurance Coverage			Total Annual Premium
				Buildings	Contents	Total	
60	Adams State College	$ 1,839,615.	1,344,760	1,453,140.	163,500.	1,616,640.	4,132.00
428	Colorado A & M College	11,809,665.	9,211,514	4,908,570.	1,657,432.	6,566,002.	15,631.28
131	Colorado College of Education	7,996,982.	6,357,709	5,803,455.	947,500.	6,750,955.	9,632.51
75	Colorado School of Mines	6,279,434.	4,922,939	4,969,190.	1,746,628.	6,715,818.	11,165.17
82	Fort Lewis	1,143,152.	730,194	640,125.	219,980.	860,105.	3,611.93
233	University of Colorado	24,198,509.	15,621,645	21,500,000.		21,500,000.	25,872.00
21	Western State College	2,139,519.	1,610,017	2,027,000.	280,500.	2,307,500.	5,461.40
1030	Total	55,406,876.	39,798,778	41,301,480.	5,015,540.	46,317,020.	75,506.29
161	State Penitentiary	5,534,741.	4,703,169	375,100.	376,500.	751,600.	3,847.14
30	State Reformatory	1,490,477.	1,161,693	826,750.	165,050.	991,800.	3,090.27
31	Industrial School for Boys	1,142,317.	691,368	400,000.	49,600.	450,000.	1,012.50
30	Industrial School for Girls	802,731.	527,288	712,400.	43,550.	755,950.	2,798.65
252	Total	8,970,266.	7,083,518	2,314,650.	634,700.	2,949,350.	10,748.56
32	Colorado Children's Home	1,136,661.	612,154	931,182.	89,618.	1,020,800.	1,562.67
29	School for Deaf and Blind	2,184,132.	1,586,303	2,060,200.	94,600.	2,154,800.	1,779.81
40	State Home, Grand Junction	1,669,013.	1,257,397	248,900.	84,705.	333,605.	2,562.20
37	State Home, Ridge	1,368,720.	1,081,333	819,600.	138,800.	958,400.	1,825.31
144	State Hospital	15,167,934.	11,942,728	8,368,250.	2,005,541.	10,373,791.	11,541.15
14	Uni. of Colo. Medical Center	4,677,998.	3,992,788				
2	Industries for the Blind	172,967.	154,652	137,000.	127,000.	264,000.	620.51
43	Soldiers and Sailors Home	1,003,999.	611,081	663,600.	65,800.	729,400.	3,017.45
341	Total	27,381,424.	21,239,436	13,228,732.	2,606,064.	15,834,796.	22,909.10
5	Capitol Buildings Group	24,999,688.	16,449,807	4,165,000.	160,000.	4,325,000.	2,661.27
31	Colorado State Fair	3,634,936.	3,123,757	233,250.	19,500.	252,750.	2,626.47
126	State Military Department	4,714,382.	3,441,851	643,000.	-	643,000.	2,091.10
262	Game and Fish Department	2,062,244.	1,533,713	1,121,625.	348,190.	1,469,815.	9,659.52
2	Revenue Department	335,536.	200,722	142,500.	9,000.	151,500.	525.31
7	Historical Society			11,000.	6,785.	17,785.	216.11
~~447~~ 443	Total	$35,746,786.	24,749,850	6,316,375.	543,475.	6,859,850.	17,779.78
2056	GRAND TOTAL	127,505,342.	92,871,582	63,161,237.	8,799,779.	71,961,016.	126,943.73

SOURCE: Colorado State Planning Commission es or Departments

Total No. of Policies	Known Fire Loss Payments 1944 thru 1953	Aver. Cost Per $1000 of Coverage
6	100	2.56
165	82,274	2.38
142	241,466	1.42
29	23,514	1.66
13	5,000	4.19
1	250	1.20
54	600	2.36
410	353,204	1.63
42	4,015.	5.12
35	74,148.	3.11
1	400.	2.25
5	None	3.70
83	78,563.	3.64
18	212.	1.53
21	134,700.	.82
6	None	7.69
19	6,156.	1.90
136	11,282.	1.11
	400.	-
18	None	2.35
24	None	4.13
242	152,750.	1.44
21	None	.61
21	None	10,38
26	661.	3.25
64	4,927.	6.57
11	None	3.47
3	None	12.00
146	5,588.	2.49
881	590,105	1.79

a relatively minor item in comparison to the other tasks which confront the business managers, who frequently operate with limited staffs. Insurance being a technical field, it is rare to have an average business manager fully conversant with the problems and possibilities in the field of insurance. Thus insurance becomes something that is generally relegated to secondary importance. There are of course exceptions to this, and it is not the intent of this survey to criticize the business managers of the respective institutions. When the insurance coverage of all state institutions is taken together, it becomes a matter of considerable fiscal importance to the state.

Working with Local Agents

Some of the state institutions follow the practice of working with the local insurance agents in planning their fire protection. Such cooperative arrangements have occasionally worked to the benefit of the state, particularly in those places where the agents association is equipped to offer technical services. A case in point is the Colorado State Hospital at Pueblo. Here the local agents association secured a qualified insurance estimator to make a thorough study of the insurance needs of the institution. The buildings were carefully evaluated in terms of fire hazard. Recommendations were made as to possible changes which could effect rate reductions, such as the installation of sprinkler systems in certain buildings. After this study was presented to the responsible officials of the State Hospital, insurance coverage was purchased, and the State Purchasing Agent divided the total purchase principally among the agents of the Pueblo area.

Generally speaking, however, an examination of the insurance programs at most state institutions reveals no such specialized services were available. And even at the Colorado State Hospital there is some question as to whether or not the insurance program might not be simplified by purchasing blanket coverage in a single policy on a bid basis as is done at the University of Colorado.

Once the local institution decides on the amount of insurance it feels is necessary, the type of insurance, including such things as co-insurance, extended coverage, etc., the whole program is forwarded to the State Purchasing Agent.

The Role of the State Purchasing Agent

The State Purchasing Agent is appropriated no funds with which to purchase insurance, despite the statute which places within the office authority to purchase insurance. Since each institution buys insurance from its own funds, the role of the Purchasing Agent is merely one of review. There is, however, no technical review made in the State Purchasing Agent's office of the proposed state insurance programs. Since there is no one person on the staff of the Purchasing Agent who is thoroughly familiar with the basic technical aspects of fire insurance, review at the state level is perfunctory. The state purchasing agent does discuss the programs with some of the business managers, and has on infrequent occasions reduced the amount of insurance to be purchased. But the general rule is for the State Purchasing Agent's office to approve the program as sent in, and allocate the policies to various agents. The Purchasing Agent has interpreted the law to mean that commodities shall be purchased within the area of each institution, if available, and the policies are therefore generally assigned to individual agents in the geographic location.

One of the advantages of centralizing purchases of commodities within a central purchasing office is the possibility of securing lower prices through mass purchase, and standardizing the types of commodities used throughout the state as far as possible. This advantage has not been realized insofar as the purchase of insurance is concerned. There are no published guides issued by the purchasing office to serve as aids to local business managers in purchasing insurance. With the exception of the University of Colorado, insurance has never been purchased on a negotiation basis, and the state has not generally taken advantage of the many consultative services in the field of fire insurance which are available without cost from the industry itself.

The insurance industry has available trained insurance engineers and consultants who could assist the office of the Purchasing Agent in appraising the insurance needs of various state agencies. No record that these have been consistently used exists.

The absence of a planned and coordinated program of purchasing state fire insurance has led to a number of defects in coverage, which might well be summarized under the following headings:

Lack of Consistent Insurance Coverage at Institutions

Table 2 illustrates, through the use of six institutions selected at random, the fact that the percentage of the building value to be covered by fire insurance varies considerably even within a single institution.

TABLE 2

Examples of Insurance Variations at Selected Institutions

Institution & Building	Replacement Cost	100% Insurable Value	Present Insurance Coverage	Year of Constr.	Construction Classification
Soldiers & Sailors Home					
3 Cottages	$	$	$ 15,000	1919	Stucco
Old Boiler House	3,755	1,855	20,000	1905	Brick
Men's Barracks	139,787	66,398	40,000	1891	Brick
New Boiler House	11,853	10,274	50,000	1944	Stone
Machine Sheds	2,445	1,161	1,000	1905	Frame
School for Deaf & Blind					
School Buildings	233,895	220,534	375,000	1952	Semi-Fire Proof
Asa F. Jones Hall	116,301	65,187	100,000	1912	Brick
Ritter Hall	193,191	150,496	205,000	1929	Semi-Fire Proof
Industrial Buildings	173,753	85,834	45,000	1905	Brick
Feed Barn	6,385	3,032	14,000	1950	Frame
Boys Industrial School					
Heating Plant	21,973	15,864	None	1929	Brick
Vocational Building	83,878	62,951	16,000	1932	Brick
Library	10,008	8,153	32,000	1934	Semi-Fire Proof
Blacksmith Shop	15,500	10,859	None	1918	Semi-Fire Proof
Western State College					
New Faculty Apt.	86,138	78,557	120,000	1949	Brick
Gymnasium	279,007	259,756	275,000	1951	Brick
Highland Village	11,425	5,426	30,000	1922	Frame
Library Building	65,081	53,171	140,000	1939	Brick
State Fair Grounds					
Amphitheater	376,973	282,919	10,000	1926	Semi-Fire Proof
4-H Dining Hall	67,552	39,788	10,000	1934	Frame
Admin. & Agri. Bldg.	1,883,918	1,736,030	80,000	1949	Fire Proof
Rabbit Building	97,740	86,353	5,000	1946	Brick
State Home-Grand Jct.					
Administration Bldg.	100,513	79,255	15,000	1936	Brick
Merta Jefferson Hall	184,095	145,159	22,000	1936	Brick
Plumb Hall	173,256	128,383	18,000	1931	Brick

At the Soldiers and Sailors Home, for example, a barracks, constructed of brick in 1891 and having an estimated replacement cost of $139,787 is insured for $40,000. The 100 percent insurable value of this building is $66,398 because of its age. However, a boiler house, built in 1944 of stone and having a replacement cost of $11,853 is insured for $50,000. At the same institution a shed, built in 1905 and having a replacement value of $2,445 is insured for $1,000. The practice of insuring buildings of such small value is open to question by many persons expert in the insurance field.

At the State Home and Training School at Grand Junction, Jefferson Hall, the newest dormitory for patients, built in 1936, is insured for $22,000. The estimated replacement cost of this building is $184,095. The administration building at the same institution, also constructed in 1936, and having an estimated replacement cost of $100,513, is insured for $15,000. Both of these buildings are brick. In the case of the administration building insurance coverage amounts to approximately 15% of the estimated replacement cost. In the case of the dormitory about 12% of the replacement value is covered by insurance. In the event of fire loss at either of these two buildings the State would be required to defray 85% and 88% of each loss respectively.

At the State Fair Grounds the fireproof administration building was constructed in 1949. It has a replacement value estimated at $1,883,918. Insurance coverage is $80,000. The Rabbit Building at the State Fair is brick and was constructed in 1946. Its replacement value is estimated at

$97,740. Insurance coverage on the building is $5,000. In these two cases the insurance coverage is about 4 percent and 5 percent respectively. It seems doubtful if the low percentage of value which is currently protected justifies continued insurance. It may be that the State could just as well assume all of the risk instead of 95% of the risk and thus save the annual premiums. In the overall state financial picture the additional 5% required to replace the buildings in question would make very little difference.

The institutions cited in the text and on the table are merely used to illustrate one of the basic problems in the state fire insurance program, and should not be construed as specific criticisms of the institution itself. These illustrations serve to demonstrate that lack of careful planning does exist within single institutions as regards proper fire protection in the form of insurance.

<u>Variations in Insurance Practices Between Institutions</u>

Co-insurance is a method whereby the state agrees to maintain its insurance coverage at a specified percentage of the replacement value of the structure at something less than complete coverage. This reduces the rates of the fire insurance, but also means that the State knowingly assumes a portion of the risk. For example, an 80% co-insurance clause means that the insurance company would be required to compensate for 80% of a total insurable value. Theoretically, under co-insurance features, the State is required to maintain its insurance at whatever is specified in the policy as the percentage of co-insurance. There is no uniform practice among Colorado institutions as regards co-insurance. In some institutions many groups of buildings are covered by a co-insurance clause. Indeed, the fact that generally the institutions are insured for not more than 50% of the replacement value makes the validity of co-insurance clauses questionable.

Several institutions such as the State Home and Training School at Ridge, the State Reformatory, Colorado A. and M., and the School for the Deaf and the Blind carry an 80% co-insurance clause on some structures. Others such as Western State College and Adams State College carry a 90% co-insurance clause. Other institutions such as the State Fair Commission, Soldiers and Sailors Home, and Ft. Lewis A. & M. apparently have no co-insurance.

Variations in Amount of Coverage

The State Fair purchases the least amount of fire protection of any of the state agencies in terms of the replacement value of its structures. Buildings at the State Fair grounds have an estimated replacement value of $3,634,936. Insurance coverage amounts to $233,250, or just slightly more than 9 percent of the replacement value. At the other end of the scale is Western State College which carries fire insurance in the amount of $2,027,000, or 95% of the replacement value of its buildings appraised at $2,139,519. This is a higher amount of total insurance than is required under their 90% co-insurance clause.

Variations in Type of Insurance

A committee of the Colorado Insurors Association examined the insurance records of the State of Colorado as compiled by the State Planning Commission. This committee, while it did not feel that it had sufficient data to spell out a detailed program of commercial insurance, nonetheless did offer some general suggestions and comments as to methods of purchasing commercial insurance which might advantageously be used by the State. One of these comments was that there was a variation in the types of coverage purchased by the various institutions particularly in regard to purchasing extended coverage endorsements to fire insurance policies.

The Insurors Association commented that in their experience most losses are of the type which normally are paid under extended coverage policies, and that for a very negligible extra premium the state agencies not now purchasing this type of insurance could secure payment for a number of losses which are now paid out of regular state funds.

Multiplicity of Policies

Many states with modern commercial insurance programs purchase single policies providing blanket coverage for state buildings. Others which do not use the blanket coverage method nonetheless have consolidated their insurance coverage into a single policy, which in turn has been reinsured by an Insurance Agents Association. In this fashion the states have not been faced with the necessity of managing a vast number of individual policies.

Colorado, however, purchases some 881 individual policies in its varied insurance programs. The number of policies complicates the administration of insurance since the policies are not on individual buildings.

When an institution decides on the insurance coverage it feels adequate, each building is added to what is known as the general form and this form becomes part of the policy. The general form lists the amount for which each of the buildings is insured. Each of these amounts adds to the total insurance coverage at the institution. This total is then allocated among the respective agents. Thus an agent may write a policy covering $50,000 of a $1,500,000 insurance program. In the event of a loss at any of the buildings listed on the general form, each individual policy pays its proportional share of the loss. If there was a $100 fire loss in a building covered under the general form, this $100 would be paid to some degree by each policy in proportion to the total insurance coverage. If there were 100 policies involved then the $100.00 would be paid in part by each of them. This means that the institution must file a claim against each policy, and account for the receipts from each separate policy.

Insurance of Depreciation

At the present time the insurance policies of the State provide that the institutions shall be reimbursed for the insurable loss sustained. This has been defined in the past as the cost of replacement less depreciation. Recent changes in the insurance laws of Colorado, however, permit depreciation to be insured. Thus it is possible to insure the actual replacement value of a structure. This has not been taken into account, apparently, in the writing of state insurance policies. Insurance of depreciation would provide a greater return to the institutions in the event of fire loss. Of course the premiums on such policies would undoubtedly be higher than they are now.

During the course of the survey of state buildings by the Planning Commission, a number of items were discovered which give further indication that proper insurance management is not always attained at the institutional level. One case was found in which insurance was still being carried and premiums paid for a building which had been torn down. In another instance the institution had never received the renewal endorsement to a policy for which it had paid, and was unaware of this fact. In still another instance insurance on a building had expired without the knowledge of the institution. These examples, though isolated, do illustrate that with the vast number of policies which most institutions have, the management problem is a tremendous task.

SUMMARY

1. The State of Colorado owns 2056 individual buildings which together with their contents are valued at $136,505,342. Insurance coverage now amounts to $71,961,016, or slightly more than 53% of the replacement value. In other words, the State of Colorado is self-insured to the extent of almost 50 percent.

2. There are 881 separate fire insurance policies in force in the State of Colorado, ranging in size from $800 to $21,500,000 for individual policies. The number of such policies at each institution range from 1 policy at the University of Colorado and the State Industrial School for Boys respectively to 165 policies at Colorado A. and M.

3. Despite the passage of the purchasing agents act and the requirements that insurance be controlled in that office, primary responsibility for

insurance still resides in each individual institution. There are no guides or standards issued at the state level to assist local business managers in planning an insurance program. The function of the State Purchasing Agent's office is largely confined to placing the insurance with the "proper" agents.

4. Within the institutions themselves there is a lack of consistent policy in regard to insurance coverage. One building may be insured for more than its estimated replacement value, while another building of the same age and construction features may be insured for a fractional percentage of its replacement value. There is also a considerable amount of insurance being written on buildings of little value.

5. There is considerable amount of variation between institutions in the way insurance is handled. The amounts of co-insurance, types of coverage, and method of determining the insurance needs vary to a considerable extent among the agencies and institutions of the State.

6. The large numbers of policies at each institution mean that each time there is a fire loss, claims must be filed against each separate policy and the receipts against each policy accounted for by the institution. Since most fire losses are relatively small this means accounting for innumerable small transactions.

7. The State is not fully taking advantage of the fact that it is now possible under the state insurance laws to insure depreciation, nor is the State taking full advantage of the many consulting services available from the insurance industry in the field of inspection.

PART II

ALTERNATE APPROACHES TO THE STATE'S INSURANCE PROGRAMS

The first report of the Legislative Council on the subject of state fire insurance (Research Publication No. 3) listed, in general, three possible approaches to the problems. These were (a) continued commercial insurance, (b) a state fund, and (c) no insurance at all. Each of these three alternatives will be evaluated in terms of the data obtained in the State Planning Commission's survey of building values and insurance coverage.

COMMERCIAL INSURANCE

There are two basic methods by which the State can modernize its insurance program and continue coverage under commercial insurance. The first of these is to use the blanket policy approach, used by the University of Colorado, the second is to use the approach which the City and County of Denver prefers -- that of working with a central insurance group, which in turn allocates a total dollar value of insurance to its members on a pro-rata basis.

Blanket Policy Method

The University of Colorado has a single policy covering all buildings and contents at the University of Colorado and the Medical Center. This policy was written for $21,500,000; the total annual premium is $25,872. The University maintains a deposit of $70,000 with the company against which the premiums are credited. Under the terms of the policy the University is reimbursed completely for losses on all buildings with the exception of a few older units which have an upper limit of $800,000 as the amount which will be reimbursed. In these cases all losses are reimbursed completely up to the stated limit. The University purchased its insurance by negotiating with three separate groups. Both the dollar value of insurance and the annual premium is a negotiated figure. In other words the University purchased its insurance as just "one more commodity" from the company which gave the institution the most satisfactory arrangement.

The amount of insurance was originally agreed upon in 1950 after a detailed engineering survey of all buildings was made by the firm which sold the University the insurance. The University also receives, without cost, the benefit of inspection services three times a year, and suggestions on measures to effect rate reductions. In placing the insurance for bid initially, the University discovered that it is possible to get differing rates when insurance is purchased in this manner. Previous to this plan, the University had placed its insurance through the Boulder insurance agencies.

Applying the same type of insurance coverage to all of the state properties would require no change in the present statutes, but merely a change in administrative policy. It would probably require a full time person, within the State Purchasing Office, to be responsible for insurance administration.

It should be pointed out that since for the most part insurance coverage at state institutions is not adequate, a revised insurance program would probably not result in premium reductions. It would result, however, in more complete coverage for the same dollar expenditure and could eliminate the likely possibility of the State paying a substantial portion of all incurred fire losses, as is now the case (see page 23 of this report for a tabulation of fire losses in reference to the alternative of no insurance).

Advantages of Blanket Coverage

1. The State has only one insurance policy to manage.

2. The lowest possible rate is secured as a result of competitive bidding.

3. Services in the field of inspection may easily be obtained.

4. Maximum fire protection against extensive losses are secured without insuring each building for 100% of its replacement value.

Disadvantages of Blanket Coverage

1. It may eliminate local business men in the insurance industry from participation in the program. In the case of the University of Colorado the lowest bid was submitted by an Illinois company.

Pooling of Insurance Agents

The City and County of Denver is a good example of this method of placing insurance coverage. The system used there is as follows:

The City does not insure any buildings with a fire loss potential of less than $100,000. Insurance is placed by the City Purchasing Director through the Denver Insurors Association. This Association reviews the city insurance program at periodic intervals in the light of improvements to the buildings, the addition of fire prevention devices such as sprinkling systems, fire prevention programs undertaken by the city, and general insurance practices. On the basis of this review the Insurors Association recommends to the city changes in its insurance coverage. These changes are theoretically evaluated by the City prior to making any adjustments in coverage.

The City places its total insurance coverage with the association which in turn allocates insurance to each of its constituent members on a pro-rata basis proportional to the amount of fire insurance each person wrote in the city compared to the total amount of insurance written. When a policy is allocated to an agent, for each policy handled he receives a standard fee of 5% of the commission with a maximum of $50.00 from the Agents' Association. The balance is placed in a trust fund and divided at the end of the year among all agents on a pro-rata basis. The trust fund also bears the cost of administering the program.

Denver itself has only a single policy to concern itself with, and has contact only with the Insurors Assocation committee. The administration has no direct contact with individual agents and is not responsible for allocation of insurance to individual agents.

At the present time the City has approximately $20,000,000 of insurance in force for which it pays an annual premium of $26,000. Policies are generally for five years. Prior to the inauguration of this system the City and County of Denver handled its insurance program in much the same way as the State now handles insurance. Each department placed its own insurance with the agent of its choice, and there was little central direction. According to the Purchasing Director for Denver, the present system has been workable and advantageous to the city in the following respects:

1. Politics has been eliminated in placing insurance, since the city officials have no direct contact with any local agent.

2. The city has received the benefit of increased inspections and rating services available from the industry.

3. More uniform insurance coverage on properties has been achieved.

4. The city's insurance protection has been substantially increased at only a small increase in the overall cost. In addition the program has tended to eliminate high-premium insurance on buildings of low value.

The biggest single criticism of this method of placing insurance by the city is that it allows a private group to actually be responsible for spending public funds. While the City Purchasing Office does review the recommendations, they are almost universally accepted. Thus the criticism has been made that this allows the Denver Insurors Association to actually spend some public money. The city on the other hand takes the position that they have received a substantial amount of service, better protection, and a lower cost per $1,000 of insurance.

Pooling of insurance through agents associations is somewhat more difficult at the state level than in a city since state properties are not within a single geographic area. The State Capitol buildings are now insured through a pool arrangement as are the buildings at the Colorado

State Hospital, Colorado A. and M., and other institutions. Pooling insurance through a state association rather than a local group would present problems of distribution to the State Insurors Association, which in the opinion of the Association could be solved.

Any system which centralizes insurance within the Purchasing Agent's Office, or any other department, will require that there be a full-time person to handle the problems and administration of the coverage.

Effect of $100,000 Deductible Program

It was pointed out that the City of Denver follows the policy of not insuring buildings having a replacement value of less than $100,000. If such a program were followed in the State of Colorado, insurance coverage in the amount of $10,957,887 could be dropped. The estimated premium on this amount of insurance is $34,184. These figures were derived by calculating, for each institution, the amount of insurance coverage on each building having an estimated replacement cost of less than $100,000. These figures were then multiplied by the average rate per $1,000 of insurance at each institution. The result is an estimate since the average rates will not apply to each building. An institution by institution summary may be found on Table 3.

A program of having $100,000 deductible insurance would probably not reduce total insurance premiums in the State, since the money spent on insurance in this category could be applied to the cost of securing better coverage on the higher value properties.

TABLE 3

Effect of $100,000 Deductible Insurance Program

at State Institutions

Institution	Insurance Coverage Dropped (a)	Estimated Annual Premium (b)
Adams State College	$ 532,507.	$ 1,363.
Colorado A & M College	445,548.	1,060.
Colorado College of Education	858,150.	1,218.
Colorado School of Mines	571,704.	949.
Fort Lewis	640,125.	2,703.
University of Colorado	-	-
Western State College	907,000.	2,800.
State Penitentiary	182,100.	932.
State Reformatory	184,750.	574.
Industrial School for Boys	400,400.	900.
Industrial School for Girls	692,150.	2,560.
State Children's Home	515,288.	788.
School for Deaf and Blind	731,200.	599.
State Home, Grand Junction	113,900.	875.
State Home, Ridge	110,600.	210.
State Hospital	1,665,900.	1,849.
Industries for the Blind	3,000.	7.
Soldiers and Sailors Homes	663,600.	2,745.
Capitol Buildings Group	-	-
Colorado State Fair	79,400.	824.
State Military Department	216,750.	1,420.
Game and Fish Department	1,403,815.	9,659.
Revenue Department	40,000.	149.
Historical Society	-	-
Total	$ 10,957,887.	$ 34,184.

(a) All policies on buildings having an estimated replacement value of less than $100,000.

(b) Estimated annual premium is derived by multiplying total insurance coverage on all buildings having a replacement value of less than $100,000. by the average rate per $1,000 at the Institution.

NO INSURANCE ON STATE PROPERTIES

As indicated in Legislative Council Report No. 3, Feasibility of a State Fire Fund, 14 states do not insure their properties in any fashion. In most of these states fire losses are paid from current appropriations. In two of the 14 states a small reserve fund is maintained with which to pay relatively small losses, but these are not "self-insurance" funds.

"No insurance" represents a calculated risk on the part of the State. Adoption of "no insurance" as a State policy by the General Assembly should be undertaken only when there is a willingness on the part of the General Assembly to similarly undertake the obligation of rebuilding structures destroyed in fire. Another approach to the policy of no insurance would be for the General Assembly to establish a small reserve fund from which to pay small losses. This fund might be administered by the Purchasing Agent, the Governor, and the Controller, and payments approved by them. A mill levy of one-tenth of a mill would provide an initial fund of approximately $256,000, based on the 1953 assessed valuation in the state.

10 Year Fire Loss

Fires are not subject to prediction, and therefore the average fire loss over the last ten years may not be an accurate indicator of the extent of fire losses which the State may experience in the future. Nonetheless, the fire losses in the last ten years do indicate that had Colorado followed the practice in the past ten years of paying for all losses through appropriation instead of having a partially complete insurance program, a net saving of $679,325 would have been realized. This figure represents the difference between the sum of state appropriations to cover fire losses plus insurance premiums, less the value of fire losses. The figure is derived in the following calculation:

State appropriations to cover fire losses	$ 434,994
Average insurance premiums for ten years	1,269,430
Total 10 year cost of fire protection	$ 1,704,424
Less replacement cost of property destroyed	1,025,099
Excess of fire protection cost over value of property destroyed	$ 679,325

Insurance premiums have necessarily been supplemented by state appropriations to cover fire losses for two principal reasons. In the first place the building which is destroyed is never replaced with another building of equal caliber. Generally when an older building is destroyed, its replacement will have better facilities. The second reason is that, by and large, state properties have not been fully protected by commercial coverage.

A complete summary of fire loss and payments at each state institution in the last ten years may be found on Table 4. This table indicates that since 1943 fire losses in the state have totalled $1,025,099, or a little better than an average of $102,509 per year. Against these losses the institutions received payments from insurance policies of $663,434. The balance of the funds required to make good the fire losses came from either legislative appropriation or from part of the dedicated mill levy for building purposes. In either event, the amount represents a cost to the State. Insurance premiums average approximately $126,943 a year. Therefore, the annual cost to the State of fire losses over the past decade has been the average annual insurance premium plus the average annual cost of supplementing the difference between

TABLE 4

Fire Loss Collections and Replacement Costs

Institutions	FIRE LOSS COLLECTIONS							Replacement Cost	Net Cost to State
	1944-1948	1949	1950	1951	1952	1953	Total		
Adams State College	$ 100	$ -	$ -	$ -	$ -	$ -	$ 100	$ 100	$ -
Colorado A & M College	21,076	-	5,789	356	54,763	290	82,274	78,274	- 4,000
Colo. State College of Educa. .	76,390	94,343	-	70,056	677	-	241,466	269,550*	28,084
Colorado School of Mines	18,000	-	-	1,914	-	3,600	23,514	23,514	-
Ft. Lewis A & M College	5,000	-	-	-	-	-	5,000	5,000	-
University of Colorado	250	-	-	-	-	-	250	250	-
Western State College	600	-	-	-	-	-	600	600	-
Colorado State Penitentiary ..	3,483	111	357	-	-	64	4,015	4,015	-
State Reformatory	19,212	54,758	-	-	178	-	74,148	99,148	25,000
Industrial School for Boys ...	-	-	-	-	400	-	400	400	-
Industrial School for Girls ..	-	-	-	-	-	-	-	-	-
Colorado Children's Home ..	-	-	10	183	19	-	212	45	- 167
School for the Deaf and Blind	-	-	134,700	-	-	-	134,700	512,922	378,222
State Home & Training School Grand Junction	-	-	-	-	-	-	-	-	-
State Home & Training School Ridge	-	4,013	-	88	-	2,055	6,156	7,601	1,445
Colorado State Hospital	2,349	6,593	-	2,166	174	-	11,282	9,282	-2,000
Univ. of Colo. Medical Center .	200	-	-	-	200	-	400	400	-
Industries for the Blind	-	-	-	-	-	-	-	-	-
Soldiers and Sailors Home ...	-	-	-	-	-	-	-	-	-
Capitol Buildings Group	-	-	-	-	-	-	-	-	-
Colorado State Fair	-	-	-	-	-	-	-	-	-
State Military Department ...	661	-	-	-	-	-	661	661	-
Game & Fish Department ...	1,000	-	-	-	3,927	-	4,927	13,337	8,410
Revenue Department	-	-	-	-	-	-	-	-	-
Historical Society	-	-	-	-	-	-	-	-	-
Total	$148,321	$159,818	$140,856	$74,763	$60,338	$6,009	$590,105	$1,025,099	$434,994

* Includes improvements to replacement

fire losses and receipts under the insurance policies. In other words, since 1943 the State of Colorado has appropriated, either directly or indirectly, $434,994 to cover fire losses. It paid an additional $1,269,430, approximately, in fire insurance premiums. This makes the total cost of fire losses equal to $1,704,424.

These figures are presented for consideration of the General Assembly in evaluating the risks involved in eliminating insurance coverage on all state property.

STATE FUND

As indicated in Legislative Council Report No. 3, ten states follow the practice of maintaining their own fire insurance fund. Most of these states reinsure the large risks with commercial companies. In order to determine the cost of setting up a self-insurance program in Colorado, discussions were held with the State Insurance Commissioner, on the basis of the data developed by the State Planning Commission. In the opinion of the Commissioner a state fund could be set up with a minimum reserve fund of $250,000 with the larger risks reinsured by the Fund with commercial companies.

Were a state fund established it might operate in the following manner. The General Assembly would have to create the fund by statute and provide that all state agencies purchase their fire insurance from the fund. Normally the state self-insurance program would come into operation on a gradual basis as the present insurance policies at each state institution came due.

Annual Cost of State Insurance

Those states which operate a self-insurance fund usually charge the institutions the standard premium as indicated by the rate at the particular location, less a discount of from 30% to 40%. The discount represents the amount of normal premiums which go into agents commissions, home-office overhead, and state premium taxes, less the actual cost of administering the state program. Based on annual Colorado insurance premiums of $126,943, the State Insurance Commissioner makes the following estimates of these items:

Agents commissions	$ 31,735
General Agent or Branch Office cost	19,042
2% State premium tax	2,538
Total override	$ 53,315

This figure amounts to 42% of the annual premiums. In other words if a state fund charged the agencies the commercial premium less 30%, there would be 12% left for administrative costs. As the Insurance Commissioner notes, these amounts represent funds which remain in Colorado and do not go out of the state to the home offices of the companies.

If the state creates a self-insurance fund, the amount of risk to be reinsured would then become a matter of administrative discretion with the fund management. In normal commercial insurance it is also a practice for companies with relatively small reserves to reinsure larger risks in order to avoid a major loss wiping out the company. Commercial companies who reinsure, obtain a lower rate for reinsurance than the standard rate for the risk. This is true because a single risk is generally spread among several companies, thus reducing the potential loss to any single reinsurer; and because in reinsurance, it is sometimes a matter of direct negotiation with a general agent thus eliminating the producing agents commission. A state fund which reinsured its major risks would also expect to purchase such commercial coverage on a reinsurance basis at a lower premium than is paid initially through a producing agent.

It is likely, therefore, that aside from the appropriation of the original reserve fund, a state fund might be expected to cost somewhat less than standard commercial insurance.

There is included a Appendix C to this Report, the latest financial statement on the Alabama fund which is one of the earliest and apparently one of the most successful. There is also included as Appendix E the communication from the State Insurance Commissioner in which the State fire fund is discussed.

It should be noted that Colorado has once before had a self-insurance fund which was created in 1925, and abolished in 1939. The fund was abolished principally to provide additional funds for public welfare. A complete description of Colorado's experience with a state fund may be found in Legislative Council Report #3, pages 20-22.

While lower cost is an apparent advantage of the state fire fund, it has some problems connected with it. Among these are the absence of comprehensive inspection services available from commercial concerns, and the policy question of whether or not the problem is of sufficient magnitude to justify the state establishing itself in a field of private enterprise. The wisdom of such a move is a matter of concern to the General Assembly, and this report therefore would make no recommendation on this point.

RECOMMENDATIONS

Insurance Management is an executive function, and the role of the General Assembly is necessarily limited to outlining broad general policies under which an effective program can be carried forward. At the present time there is no over-all state fire insurance program, even though the statutory authority for creating such a program does exist. The Purchasing Agent's Office seems to have sufficient statutory authority to provide direction and planning of the state's fire protection. What is lacking in the Purchasing Agent's Office is a full time insurance executive who can continually examine the insurance needs of the state's institutions, manage the placing of insurance, and compile the working data necessary to proper planning. This study therefore recommends that as a first step in modernizing the state's fire insurance program, that a full time insurance supervisor be placed in the office of the State Purchasing Agent with a view to improve present coverage on state properties and presenting to the 41st and subsequent sessions of the Colorado General Assembly his recommendations for changes in the statutes relating to state purchase of fire insurance.

A full time insurance executive seems a necessity regardless of the type of coverage which the state ultimately decides is best. Once a modern commercial program is put into effect and becomes operative, better comparisons with a state fund may then be made.

APPENDIX A

LEGISLATIVE COUNCIL

COPY

State Capitol - Denver 2, Colorado

August 9, 1954

Colorado Insurors Association
E and C Building
Denver 2, Colorado

ATTENTION: Mr. Don Nabity

Dear Mr. Nabity:

The last session of the Colorado General Assembly passed a resolution, a copy of which is attached, requesting the Legislative Council to study the feasibility of setting up a state fire insurance fund.

As you know, the Legislative Council as a fact-finding agency presents to the Legislature as many possible alternatives to a problem as can be developed. One of the alternatives to the present program of state fire insurance would be a revised commercial insurance program centralized through the insurors as a group. It would be very helpful to us if your Association were able to make some recommendation as to the type of commercial insurance program you would recommend for the State of Colorado. If your Association feels that it can undertake the development of such a tentative program, we would be pleased to have your recommendations by September 15, 1954, so that they may be incorporated in an overall report for discussion with our Council.

We would like to emphasize that neither yourselves nor the Legislative Council is bound by any recommendations which you may be able and willing to develop for us at this time. Any assistance which your Association will be able to afford us will, however, be deeply appreciated.

Very truly yours,

(Signed) SHELBY F. HARPER

SFH:HSA
cks
Enclosure

APPENDIX B

COLORADO INSURORS ASSOCIATION, INC.
E. & C. Building, Denver, Colorado

COPY

September 13, 1954

Mr. Shelby F. Harper
Legislative Council
State of Colorado
State Capitol
Denver, Colorado

Dear Mr. Harper:

A subcommittee of our Colorado Association made a preliminary study of information which is being developed by the Planning Commission relative to existing insurance carried at the several institutional properties.

At this stage we are not in position to make specific recommendations because a development of information at all institutions has not been completed by the Planning Commission.

We do have certain observations to make at this time.

1. That the representatives of the Planning Commission are making a very comprehensive analysis and check-up of the properties and the insurance thereon. In the absence of personal inspection they have used a valuation basis usually acceptable to insurance adjusters. We do find by comparison where actual inspection was made by qualified insurance company representatives that there are some substantial differences. This is understandable because the valuation chart which was to be a guide does not reflect all of the conditions which would be found in a building.

2. It must be borne in mind that the state of Colorado is now self-insuring certain features, which fact partially explains the difference between fire damages reported in Senate Resolution No. 21 and the amount collected. The type of self-insurance to which we refer may be listed as follows:

   (a) Depreciation. At the present time the policies carried by the state provide that the insured shall be reimbursed for the loss sustained, which has been defined by law as the cost of replacement less depreciation. Therefore, depreciation is now self-insured, and by recent change in the insurance laws it is now permissible to insure depreciation.

(b) In the case of the institutions whose insurance we have studied, most of the policies call for insurance equal to 80% of the insurable value, that is, the cost of replacement less depreciation, and therefore when the value exceeds the amount of insurance the upper portion, usually about 20% of the value, is self-insured. To illustrate, if a building is determined to have an insurable value of $100,000, the amount of coverage carried is in most instances $80,000.00. In the event of a total loss the top $20,000 is self-insured, the state being fully insured under those circumstances up to an $80,000 loss.

(c) Certain perils against which insurance could be carried, are not insured. We refer to the commonly known Extended Coverage Endorsement which provides protection against loss by reason of windstorm, tornado, hail, riot, civil commotion, explosion, aircraft damage, and motor vehicle damage. This endorsement is not carried on all of the properties.

(d) Certain properties do produce an income, and in the event of their destruction part of the operating costs which would normally be earned, are lost. There is no insurance under any of the policies against the loss of income or revenue. As an illustration, the colleges would be obliged to refund or lose tuition fees if certain important units were destroyed.

When the program of analysis is complete, we would propose to enlist the aid of qualified insurance representatives in the areas where the various institutions are located, the assistance of insurance company representatives in reviewing the rates to make certain that the lowest possible rates are being obtained, and recommendations as to coverages. The aerial photographs which we understand are in process, would be very helpful in our conclusions.

Yours very truly,

COLORADO INSURORS ASSOCIATION

(Signed) Don L. Nabity
Executive Secretary

APPENDIX C

COLORADO INSURORS ASSOCIATION, INC.
E. & C. Building, Denver, Colorado

COPY

October 22nd, 1954

Mr. Shelby F. Harper, Director,
Colorado Legislative Council,
State Capitol Building,
Denver, Colorado.

Dear Mr. Harper:

Complying with your recent request, to outline for the Legislative Council, our thoughts for the establishment and development of a statewide insurance program, we submit the following recommendations:

I The State should designate as a single authority, one individual or one department to organize and operate a complete State Insurance Program. Such insurance authority should not be bound in any way by past practices but should have sufficient authority as will enable it to coordinate a program with State institutions. Such a person should be a qualified insurance man capable of administering a State insurance program not subject to political influences but be able to carry out the program on a sound business-like basis.

II It shall be the duty of the State Insurance Authority to make a complete study of the State's exposure to financial loss which could result from perils which are insurable.

III Such State Insurance Officer should have a complete inventory, building by building, and institution by institution, of all State owned property including replacement cost and insurable value estimates thereof. If assistance is needed in obtaining estimates of the State's real property, competent insurance estimators are available to the State, without cost.

IV Such Authority should work with proper insurance authorities to determine if State properties have the irreducible minimum insurance rates in effect.

V After the above steps have been taken the Insurance Authority should then, in collaboration with representatives of the insurance industry, develop a sound insurance program for the State, and put it into operation.

We feel that if the foregoing recommendations are adopted, the State will have a proper insurance program detached from political influence which will assure maximum insurance benefits to the State.

We appreciate very much the opportunity of working with you and if we have not interpreted your wishes correctly in this instance, please let us know.

Very truly yours,

(Signed) Charles Schoelzel,
Colorado Insurors Association, Inc.
Research Committee

APPENDIX D

ALABAMA STATE INSURANCE FUND
as of August 1, 1954

Ledger Balance 10-1-53				$ 2,611,132.20
INCOME:				
Premiums, Fire		$ 1,158,106.80		
Premiums, Windstorm		267,077.92		
Total Premiums			$1,425,184.72	
Interest on Bonds			49,782.64	
Reinsurance Recoveries, Fire			140,139.38	
Reinsurance Recoveries, Windstorm			6,739.52	
Unearned Premium Recoveries, Fire			441.73	
Total Income				1,622,287.99
Total-				4,233,420.19
DISBURSEMENTS:				
Discounts, Fire Retained	40%	242,607.94		
Discounts, Windstorm Retained	"	85,662.50		
Total discounts, Retained			328,270.44	
Discounts, Fire Reinsured	22%	97,591.92		
Discounts, Windstorm Reinsured	"	9,093.24		
Total discounts, Reinsured			106,685.16	
Losses Paid, Fire			268,565.83	
Losses Paid, Windstorm			23,066.67	
Reinsurance, Fire			451,154.08	
Reinsurance, Windstorm			40,192.72	
Windstorm Catastrophe Insurance			4,000.00	
Salaries			30,416.20	
Printing and Office Supplies			781.33	
Postage, Telephone & Telegraph			455.14	
Inspections & Adjustments			7,827.73	
Equipment Purchases			5,254.64	
Miscellaneous Expense			336.47	
Employees' Retirement			1,587.28	
Premium on Bonds Purchased			708.69	
Total Disbursements				1,269,302.38
Ledger Balance 8-1-54				2,964,117.81
ASSETS:				
Bonds, State of Alabama		746,030.00		
Bonds, United States Government		1,137,000.00		
Bonds, Municipalities		186,520.93		
Cash, State Treasurer		909,236.52		
Accounts Receivable (Minus)		(14,669.64)	2,964,117.81	(Ledger)
Market Value over Book Value of Bonds		19,245.00		
Accrued Interest		13,873.67		
(Accrued Interest Paid)			33,118.67	(Non-Ledger)
Total Assets			2,997,236.48	2,997,236.48
LIABILITIES				
Unearned Premium Reserve		80,784.16		
Losses in Process of Adjustment		36,257.47		
Total Liabilities			117,041.63	
Surplus -			2,880,194.85	
			$2,997,236.48	$ 2,997,236.48

NOTE: The two discounts provide an average discount of 34% off published rates, which we use

APPENDIX E

STATE OF COLORADO

Office of the
COMMISSIONER OF INSURANCE
State Office Building
Denver 2

COPY

November 23, 1954

Mr. Harry S. Allen
Senior Research Analyst
Legislative Council
State Capitol
Denver 2, Colorado

Dear Mr. Allen:

Having in mind our conversation of November 16, 1954, and your subsequent letter relative to our discussion concerning a proposed state fund embracing fire and extended coverage insurance on the various state buildings, the following information should be taken as an opinion.

In my opinion, and having in mind that I have only had some seven days with which to formulate one, it should be my thought that a state fund is a proposed measure which should merit consideration on the part of the legislature, but embraces many problems -- apparent -- but not resolved.

However, I believe that the premiums paid by the State of Colorado should be broken down as to distribution before the legislature arrives at a decision in a matter of so much importance to the insurance fraternity of the State of Colorado. For an example, while you make the statement that the annual premiums paid by the State of Colorado to provide insurance is $126,943.00 per year, it should also be borne in mind that forty percent, or $50,777.00, or more of this total remains in the State of Colorado under the premium breakdown of either commissions and/or branch office expenses. This forty percent is broken down as follows: twenty-five percent, or $31,735.00, will go to the producing agent, and an additional fifteen percent, $19,042.00, will go to either a managerial general agency or is allocated by the Home Office for expenses in branch office operations.

It should laso be remembered that an additional two percent of this money, $2,538.00, is paid directly to the State of Colorado in the form of taxes, making the total amount of money left in the State of Colorado, as a minimum, of $53,315.00.

Having in mind that the above figures represent minimums and do not in any way reflect the maximum amounts that may or might be left in the State of Colorado, the figure for the state fund becomes somewhat less attractive to this Department's way of thinking.

In my opinion, a state fund should not be started with less than $250,000.00.

It must also be remembered that at the onset of a state fund operation, the catastrophe element should also be considered and insured against.

As I recall the distribution figures as to the number of agents participating in the State of Colorado insurance, it should also be borne in mind that while one agent may appear as a producer or the gentleman who countersigned the policy, by previous agreement with an association such as the Colorado Insurors Group, the Denver Insurors, the Boulder Insurors, the Pueblo Insurors, etc., the distribution of the commission under this business may very well be wide spread even though your figures would show one agent on a particular policy of insurnace. I believe that this is a healthy condition as far as our industry is concerned in the State. In the future, it is entirely possible that even a more wide spread distribution might be had.

It is further felt that certain relief might be had from some of the insurance rates as promulgated by the Mountain States Inspection Bureau. However, this is a conjecture rather than a conclusion. More information along these lines could possibly come from the Colorado Insurors Group or the Mountain States Association of Mutual Insurance Agents and would resolve itself around a detailed analysis as to rate structure in some of our institutions.

We shall be very happy to work with you and your group at any time when you feel that we might be of service to you and the legislative council.

Thank you very much for consulting with this Department. It is very much appreciated.

Sincerely yours,

(Signed) Sam N. Beery
SAM N. BEERY
Commissioner of Insurance

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