

IMPORTANT INFORMATION

TO: Property/Casualty Program Council Representatives

FROM: Martha H. Rademacher, Director of Finance & Programs

DATE: August 26, 2004

RE: Fixed Asset Appraisal Program – Landscaping Alert

STATEMENT OF ISSUE

Since late 2002, Maximus, Inc. has completed fixed asset appraisals for 39 member agencies and is in some stage of completion for another 54 agencies. They have not yet been contacted by 46 members.

It has come to PDRMA's attention that the appraisal reports have not consistently included landscaping which is covered under the PDRMA property policy.

DISCUSSION

As you know, PDRMA's Board of Directors agreed to fund the cost of the fixed asset appraisals and the on-going cost of the ASSETMAX system software because PDRMA needs accurate and complete insurance values for its members' property. Insurance and reinsurance underwriters have become increasingly demanding in this regard. At the same time, PDRMA recognized that it could provide a valuable service by assisting members in complying with GASB 34.

Even though the total property values insured is almost \$2 billion, the underwriters ask for more and more information on individual locations. When a loss occurs, the excess insurers and reinsurers become insatiable in their need for details.

One of the unique and valuable features of PDRMA's property coverage is the inclusion of coverage for trees and greens and landscaping. These are things that are critical to PDRMA members' operations but are difficult for property insurers and reinsurers to understand.

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Last year one of the members incurred a very large loss due to windstorms. Over \$1 million in landscaping on golf courses was lost. Sadly, it has been a difficult experience convincing the reinsurer that these were not just random trees but rather were specifically planted at great expense to enhance the golf course and to facilitate optimum play.

This member's experience highlights the importance of proper reporting of covered property and values.

Similar to the commercial insurance industry, Maximus, Inc. is also not very familiar with insuring landscaping. Where they have massive databases of information about the values of various building construction types and structures, they do not have information about landscaping. They did research on tees and greens and have incorporated that information in their reports, but were not able to report values on landscaping unless the member provided cost information.

The current property coverage document state the basis for payment in the event of a covered loss as follows:

Landscape, sand traps, tees, greens and athletic fields; the actual replacement cost of sod, shrubs, sand (pertaining to sand traps within 15 yards of greens), plants and trees; however the Insurer's liability for replacement of trees, plants and shrubs will be limited to the actual size of the destroyed plant, tree or shrub at the time of the loss up to a maximum size of 15 gallons per item.

Cost information is most likely available for new or relatively new landscaping and plantings. For those more than 3-4 years old, average cost information for typical plantings has been compiled by PDRMA staff and is attached. The cost information is provided at "planted cost". Even if it is anticipated that agency staff would be completing the planting, the planted cost should be used to accommodate for the value of the staff time.

Three important reminders:

→Greenhouse stock and tree nursery stock should also be included.

→ Golf course fairway trees should also be included.

→Improved paths should be included in values. These may not be obvious to the appraiser and should be pointed out.

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ACTION

The following actions are required:

If your fixed asset report is already complete

Carefully review the values of your locations and determine if landscaping was included.

If additions need to be made, complete the attached worksheet and fax to PDRMA at (630) 769-0449, attention Martha Rademacher.

If your fixed asset report is in process

If not already provided, provide Maximus Inc. with cost information for your landscaping referring to the attached worksheet for what needs to be included.

If you have not initiated the appraisal process

Please contact Bob Dengel at Maximus, Inc. at (847)513-5570 or robertdengel@maximus.com

SUMMARY

This project was initiated in order to obtain accurate property values for insurance purposes at the same time that PDRMA members' needs could be met for compliance with Governmental Accounting Standards Board Statement No. 34. Appraising the variety of properties that PDRMA members own and operate is a huge undertaking but the benefits will be great. Any questions or problems should be directed to Martha Rademacher at mrademacher@pdrma.org or (630)769-0332.