

**TO:** Board of Directors

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

**DATE:** September 23, 2002

**RE:** Fixed Asset Appraisal and Exposure Program

### **STATEMENT OF ISSUE**

PDRMA needs accurate data for placing its insurance coverage. That data includes property values for property coverage and exposures (number of pools, golf courses, day camps, etc.) for liability coverage. The data has historically been gathered from members through the annual renewal questionnaire. However, it has been determined that the data may be incorrect which can lead to overpayment of premium or understating of values, both of which could have serious financial implications for members.

A great opportunity has been presented to obtain accurate data while also being able to assist members to comply with Governmental Accounting Standards Board Statement No. 34. Per direction of the Board at the June 5<sup>th</sup> Board meeting, staff have been investigating the possibility of establishing a Fixed Asset Appraisal and Exposure Program.

### **HISTORICAL BACKGROUND**

The insurance industry *does* go through cycles. In the mid to late 1980s, property appraisals were needed so that properties were not *undervalued*. Property insurance policies were written on a scheduled value basis and not a replacement value basis. For example in the event of a building loss, the policy would only pay the amount at which that building was valued on the property schedule. If the building was listed on the schedule at \$100,000, but it cost \$125,000 to replace it, the policy only paid \$100,000. Therefore, PDRMA contracted for a property appraisal for all its members in 1985 which was maintained until 1989. The cost at that time was \$250,000 for just 37 members.

As the insurance market softened, these policies were replaced by “blanket limit” property policies with losses valued at replacement cost. This type of policy was written for the total amount of values being insured, or \$1.7 billion in PDRMA’s current case. The insurers were not necessarily concerned with the value of individual buildings and in the event of a loss, full replacement cost would be paid, as long as it did not exceed the \$1.7 billion. Therefore, members were asked to update values on the annual renewal questionnaire by adding new construction or purchases and deleting any property that was no longer owned or in their possession.

Staff annually reviewed that information and thought that that if anything, members’ estimates may have been inflated. Marshall and Stevens was hired in 1994 to do an appraisal of new and substantially renovated properties since 1989. Those property appraisals revealed that the values were overstated and adjustments were made accordingly.

Well, what a difference a year makes! Property underwriters are no longer satisfied with estimates and are requiring a huge amount of data on each property. Entities not having complete data will experience difficulty in obtaining coverage. The following must now be obtained for each property:

- Complete physical address (street address, city, state and zip code)
- Occupancy/Site Description

- Construction Code
- Square footage
- Year Built
- Year of last appraisal
- Whether or not the building has Automatic Sprinklers
- Flood Zone information

Also, liability and workers compensation underwriters are requiring extensive data. We must submit everything from the number of restrooms members have to how many golf courses they operate.

Meanwhile, the Governmental Accounting Standards Board (GASB) has issued Statement No. 34 that establishes a new financial reporting model for state and local governments. This statement includes, among many other things, provisions relating to how governments maintain and report their capital expenditures and determines values for fixed assets – both historical and insurance.

Accurate property valuation, the correct number of buildings/facilities, and the fixed asset requirements of GASB 34 can all be addressed by completing a fixed asset appraisal for each member and keeping it updated on a regular basis.

## **INVESTIGATION**

A large number of members currently use two appraisal companies, American Appraisal and Maximus (the former Valuation Resources Management). Both were interviewed and proposals received from each. Upon analysis of the proposals, the quality, program and systems capability of Maximus far outweigh that of American Appraisal. Maximus has a huge advantage in that it maintains a web-based asset management system. ASSETTMAX is an on-line, real-time system that allows users to securely maintain, collect and retrieve data over the web.

References were checked and Maximus has been used for years by many PDRMA members. Those members stated they have been very pleased with the services. The references for American Appraisal were not all positive and some were downright negative. A large member just had American Appraisal do an updated appraisal and stated “If we’d had the money I would have hired Maximus.” They were quite unhappy with the quality of American Appraisal’s work and in fact, American Appraisal was going to have to come back to do more work – increasing the overall cost and eliminating the difference in the original estimates.

Maximus has proposed a fee of from \$875,000 to \$925,000 for the initial capital asset appraisal for 132 members and the first year of ASSETMAXX. The actual cost will vary depending on how much information members have from previous appraisals, their fixed asset records and how prepared they are (thus decreasing the amount of time the appraisers spend at each agency). It is interesting to note that approximately 85% of the cost is strictly attributable to establishing values for current replacement cost for insurance values and 15% to establishing historic cost and depreciation values to assist with the capital asset portion of GASB 34 compliance.

Ongoing costs will include the annual ASSETTMAX license cost and members’ on-site annual valuation updates. The ASSETTMAX cost was estimated at \$94,000. However, this was based upon 132 members having direct access to the software. We are determining if PDRMA can pay a significantly lower fee and provide members access through the PDRMA website. The annual valuation updates will be the responsibility of members and are estimated at about one-third of the initial cost or \$290,000 to \$310,000 which is \$2,196 to \$2,348 per member. Of course, the cost would be allocated based upon the amount of activity and the level of detail that a member selects.

Generally larger members that have a lot of activity will pay more than the average cost and smaller members less.

## **CONCLUSION**

This program provides a valuable service to members and a huge benefit to PDRMA by:

- Assisting members with their GASB 34 compliance  
Those members in non-compliance may receive an adverse audit opinion which could have a disastrous affect on the member's ability to issue bonds. Municipal bond underwriters, purchasers and bond counsel will look for compliance.
- Accurately determining values for property insurance purposes
- Accurately determining the number of buildings, playgrounds, tennis courts, vehicles, etc. for liability insurance purposes
- Helping PDRMA target its risk management and education and training services
- Avoiding potential errors and omissions claims, fiduciary liability claims, allegations that public officials have failed to faithfully perform their duties, and other potential torts due to non-compliance
- Gathering all data electronically with the goal of significantly reducing or eliminating the annual renewal questionnaire which is time consuming for members and staff
- Making all the data available electronically which can then be synchronized with our member management system
- Having web access to information for members, underwriters, actuaries and PDRMA staff
- Fostering the cooperative spirit on which park and recreation agencies thrive. As part of the Program, two highly respected park district business managers have volunteered to develop standard compliance information on the other aspects of GASB 34 for all members.

## **RECOMMENDATION**

It is recommended the Board of Directors:

1. Approve the establishment of a Fixed Asset Appraisal and Exposure Program for all members of the Property/Casualty Program; and
2. Approve PDRMA paying for the initial fixed asset appraisal service at a cost not to exceed \$925,000 as well as the annual cost of the ASSETMAXX system.