

2011 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1326

2011 HOUSE STANDING COMMITTEE MINUTES

House Industry, Business and Labor Committee
Peace Garden Room, State Capitol

HB 1326
January 31, 2011
13669

Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

Relating to the maintenance of insurance by school districts.

Minutes:

Chairman Keiser: Opens the hearing on HB 1326.

Bob Marthaller~Assistant Superintendent of the Department of Public Instruction:
(see attached testimony).

Representative M Nelson: When they go through and look at look these building are they looking at its book value or replacement cost?

Bob Marthaller: We are asking that they look at replacement cost.

Representative Ruby: How do you know if you accurately valued it if you are not doing the appraisal?

Bob Marthaller: The software that the NDSFTF is using is an industry wide tool that should accurately value the property?

Chairman Keiser: Every year they do some kind of report and every 6 years they have to check with their insurance carrier. What do they do in the report versus what they do with the insurance carrier?

Bob Marthaller: The annual review that would be required as part of the report is to insure the district that have had a new construction project or an addition so that in fact get added to their insurance coverage. The 6 year annual review would be a more in-depth review with their insurance carrier.

Chairman Keiser: So, the review for material changes and effect?

Bob Marthaller: Yes, in fact the department of public instruction is required to approve all construction projects. In the last couple of years we have made it our practice to notify NDSFTF as well as the state plumbing and electrical board of all the construction that we approve so it gets on the record and that they are aware of it.

Chairman Keiser: As I worked through this bill do you are actually penalizing the good schools. If they are currently doing it and qualify, the clock starts, if they are not doing it, the clock doesn't start until a year from now. So they get a year's pass if there are misbehaving. Are you aware of that?

Bob Marthaller: I'm aware of that right now.

Chairman Keiser: Is that right?

Bob Marthaller: It may not be exactly right; I do believe most school districts are current with this legislation.

Chairman Keiser: Anyone else here to testify in support, in opposition, in neutral position HB 1326. Closes the hearing. What are the wishes of the committee?

Representative Gruchalla: Motions for a Do Pass.

Representative M Nelson: Second.

Chairman Keiser: Further questions?

Roll call was taken for a Do Pass on HB 1326 with 12 yeas, 0 nays, 2 absent and Representative Boe will be the carrier.

Date: Jan 31, 2011

Roll Call Vote # _____

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 1326

House House Industry, Business and Labor Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment

Motion Made By Rep Gruchalla Seconded By Rep M Nelson

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	✓		Representative Amerman	✓	
Vice Chairman Kasper	✓		Representative Boe	✓	
Representative Clark	✓		Representative Gruchalla	✓	
Representative Frantsvog	✓		Representative M Nelson	✓	
Representative N Johnson	✓				
Representative Kreun	.				
Representative Nathe	.				
Representative Ruby	✓				
Representative Sukut	✓				
Representative Vigesaa	✓				

Total Yes 12 No 0

Absent 2

Floor Assignment Rep Boe

If the vote is on an amendment, briefly indicate intent:

19-007

REPORT OF STANDING COMMITTEE

HB 1326: Industry, Business and Labor Committee (Rep. Keiser, Chairman)
recommends **DO PASS** (12 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING).
HB 1326 was placed on the Eleventh order on the calendar.

2011 SENATE INDUSTRY, BUSINESS AND LABOR

HB 1326


2011 SENATE STANDING COMMITTEE MINUTES

Senate Industry, Business and Labor Committee
Roosevelt Park Room, State Capitol

HB 1326
February 9, 2011
Job Number

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Relating to the maintenance of insurance by school districts

Minutes:

Testimony Attached

Chairman Klein: Opened the hearing on House Bill 1326.

Representative Rust: Introduced the bill and stated that the bill was designed to clarify provisions of House Bill 1400 that was passed during the 2009 legislative session. The bill states that a least once every six years each school district will work with an insurance carrier to properly identify inventory and value its buildings, facility and contents. The current law calls for an appraisal which can be expensive. Working with the school districts carrier will be considerably cheaper and will accomplish nearly the same results. There are approximately 214 school districts that are insured by the State Fire and Tornado Fund. Upon request they will go to the school district and complete an audit and identify concerns. On a six year rotation they could do a comprehensive review of approximately thirty six school districts. The fund updates building property values each year by using comprehensive building software. They maintain current replacement cost values and update outdoor property and personal property values using the consumer price index. They also maintain inventory throughout the life of the property and consistently update and report changes to the policy holders.

Senator Nodland: Asked if they were changing because of the cost of the appraisal and also dropping it from eight years to six.

Representative Rust: He said it had to do with some consistencies in the law.

Senator Nodland: Asked if he was talking about the cost for the smaller school districts.

Representative Rust: He said that there are 214 school districts that are insured by them by the fund. Some of the school districts do not use the State Fire and Tornado Fund they go through a local carrier. The feeling is that you can work with your carrier and can come up with a good value of your facilities and its contents at a lower price than if you were to hire an appraiser.

Chairman Klein: What they did was add the appraiser language in the last session?

Representative Rust: Yes it was added in during the conference committee. It was added in as a result of Northwood going through a tornado and possibly not being insured like they should have been.

Bob Marthaller, Assistant Superintendent for the Department of Public Instruction: Testimony Attached.

Senator Nodland: Asked if they found school districts that were underinsured.

Bob: They didn't make that determination but they think with the information they do have that most school districts are in compliance with the current section. Also to clarify the Northwood School, it wasn't so much that they were under insured but more of the fact that they expanded the square footage of the building and had additional site costs. This increased beyond the value of their existing property. That was more of the reason for the extra cost rather than it being under insured.

Senator Nodland: Asked how do they come up with a number like the once every six years.

Bob: He felt that the eight year number was last minute language and that six years is a reasonable amount of time to have school districts sit down with their carrier and do a more formal appraisal.

Senator Laffen: Stated that he had pointed out a potential issue, so are evaluations strictly based on what they have now or on replacement costs.

Bob: The evaluation would be a replacement cost. They try to be sure that the new projects are known by someone. He always notifies NDFTF so that they have the information and also to the plumbing and electrical boards, as well as the State Fire Marshall.

Chairman Klein: Asked if the schools determine on their own whether they can absorb some of the risk and replacement values. Are we making sure we are holding them to the replacement value and that they are in compliance?

Bob: That is their attempt, to simply be sure they have enough coverage. That they are not hedging on another fund that maybe available.

Jeff Bitz, Administrator of the State Fire and Tornado Fund, North Dakota Insurance: In support of the bill and to answer technical questions they may have. About how the six years came about, in statue it already had that we were required to do a comprehensive review of all of their properties. So to be consistent rather than having the eight years, to bring this code in line with was under the SFTF and have them reviewed every six years. He explains how it would work.

Senator Laffen: Only issue is the potential gap of square footage if the building needs to be replaced. He wanted him to make sure that they are not just replacing square foot for square foot.

Jeff: Said that the replacement will be what it will cost to build that building back up plus it will have additional coverage for code upgrades. Continued explaining what happened with Northwood.

Senator Andrist: Said that it was his understanding that you can't insure for more than the replacement costs of what you have.

Jeff: No you can't.

Senator Nodland: He had a question about the six years and asked if an independent insurance carrier would go by with only a six year update on valuation.

Jeff: They are not going to go with the six years. What was meant is they will update the building values annually. If there have been any upgrades that would impact the replacement cost, reported by the school district or DPI that will be built into the model in terms of what they have now. A comprehensive review is different. They go out to the site and sit down with the business manager, superintendent and they would make sure everything they own would be insured. He continued to explain what they do.

Chairman Klein: Asked if it was done internally or if they have agents out there.

Jeff: They are a direct writer they do not use independent agents. They go directly to the policy holder to keep the premiums low.

Warren Larsen, ND Council of Educational Leaders: In support of the bill. They were a part of helping to write the bill.

Chairman Klein: Closed the hearing.

Senator Nodland: Moved a do pass.

Senator Murphy: Seconded the motion.

Roll Call Vote: Yes-7 No-0

Senator Murphy to carry the bill

Date: 2-9-11
Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1326

Senate Industry, Business and Labor Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Senator Nodland Seconded By Senator Murphy

Senators	Yes	No	Senators	Yes	No
Chairman Jerry Klein	✓		Senator Mac Schneider	✓	
VC George L. Nodland	✓		Senator Philip Murphy	✓	
Senator John Andrist	✓				
Senator Lonnie J. Laffen	✓				
Senator Oley Larsen	✓				

Total (Yes) 1 No 0

Absent _____

Floor Assignment Senator Murphy

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1326: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends DO PASS (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1326 was placed on the Fourteenth order on the calendar.

2011 TESTIMONY

HB 1326

TESTIMONY ON HB 1326
HOUSE INDUSTRY, BUSINESS, LABOR COMMITTEE
January 31, 2011
Robert V. Marthaller, Assistant Superintendent
701-328-2267
Department of Public Instruction

Mr. Chairman and Members of the Committee:

My name is Bob Marthaller and I am an Assistant Superintendent for the Department of Public Instruction. I am here to speak in favor of and provide information regarding HB 1326, relating to maintenance of insurance by school districts.

During the last legislative session Section 10 of HB 1400 included a new section to chapter 15.1-09 (Addendum One - 15.1-09-59) entitled Maintenance of Insurance. This new law requires school districts to obtain an appraisal of buildings and facilities during the 2009-10 school year and further requires an appraisal once every eight years thereafter. In addition the law requires districts to provide for an inventory of building contents. Districts are also required to review on an annual basis the terms of their insurance policies to ensure that district buildings, facilities and their contents are fully covered at replacement cost or full repair. Last, the existing law requires the superintendent of public instruction to verify that school districts are in compliance with this section.

In order to implement the provisions of 15.1-09-59, conversation was had with representatives from the Department, Legislative Council, North Dakota State Fire and Tornado Fund and North Dakota Council of Educational Leaders. It became clear from our discussions that conducting a “formal” appraisal could be very costly to school districts, with estimates as high as \$5,000 per building. It also became clear that it was not the legislative intent of the amendment to conduct a “formal” appraisal and it became evident that the term “appraisal” needed to be more distinctly defined. Ultimately, we concluded that the intent of the legislation from the last session is to simply ensure that school district buildings, facilities and property are adequately covered should a loss occur.

HB 1326 is intended to clarify the intent of 15.1-09-59.

The new language would require

- Districts to, at least once every six years, work with their commercial insurance carrier to ensure that buildings and facilities are properly identified and accurately valued and that the contents of buildings and facilities are properly inventoried, accurately valued and insured
- Districts to demonstrate to the superintendent of public instruction that the requirements of this section have been met and the six year review period begins on the date the requirement was met

- Districts that cannot demonstrate that the requirements have previously been met must complete the requirement during the 2011-12 school year
- Districts must do an annual review of policies
- The superintendent of public instruction must verify that each district is in compliance with the requirements

Mr. Chairman and Members of the Committee that concludes my remarks and I will try to answer any questions you may have.

Addendum One

15.1-09-59. Maintenance of insurance - Report to superintendent of public instruction.

1. During the 2009-10 school year and at least once every eight years thereafter, each school district shall obtain an appraisal of its buildings and its facilities, and an inventory of their contents.

2. Annually, each school district shall review the terms of any insurance policies providing coverage for its buildings, its facilities, and their contents and ensure that there are in place policies sufficient to provide in full for the repair or replacement of the buildings, its facilities, and their contents, in the event of a loss.

3. Annually, the superintendent of public instruction shall verify that each school district is in compliance with the requirements of this section.

TESTIMONY ON HB 1326
SENATE INDUSTRY, BUSINESS, LABOR COMMITTEE
February 9, 2011
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