

ENSURING YOUR CHAPTER HOUSE IS PROPERLY INSURED

Rich Jungman, Manager of Client Services & Claims, HRH/Kirklín & Co., and Initiate of Phi Sigma Kappa

In the past, we have emphasized the need for House Corporations to make certain their chapter houses are insured to a level which provides adequate funds to rebuild a facility after a significant loss. Insurance companies primarily offer replacement cost coverage under three options:

1. A policy with a coinsurance clause. Co-insurance is a pre-determined requirement or penalty ranging from 80% to 100% of the full reconstruction value of the facility. With co-insurance no penalty will be assessed if the stated replacement cost limit of coverage is greater than the co-insurance percentage in comparison to the actual replacement cost at the time of the loss.

For example, a \$1,000,000 replacement cost property written on a policy carrying a 90% co-insurance clause must be insured to \$900,000 or more to meet the co-insurance requirement. If the limit of coverage carried is \$700,000 the policy will only pay 77.7% (\$700,000 / \$900,000) of the loss leaving the insured responsible for 22.3% of the loss amount. The penalty for undervaluing a structure when a co-insurance clause is utilized can be significant!

2. Agreed Amount Coverage. Under this arrangement, the insurance company and the insured agree upon the stated value of the building. The co-insurance clause is removed and the policy will pay up to the agreed amount declared on the policy. The maximum recovery under the policy is the stated building value.

3. Blanket Coverage or Guaranteed Replacement Cost Coverage. This option is rarely offered by insurance companies. This option pays the actual cost to rebuild a facility regardless of the building limit declared on the policy.

The Fraternal Property Management Association's (FPMA) property insurance program, however, does offer Guaranteed Replacement Cost Coverage (GRC). A building location is provided Guaranteed Replacement Cost coverage if the building's limit is the greater of:

1. \$110.00 per square foot, including basement square footage, or
2. The current Boeckh Valuation System Reconstruction Cost on file at renewal.

"Boeckh Valuation System is a software program designed to calculate estimated reconstruction costs based upon the location of a risk, the method of construction and quality of construction."

Why is insuring with a program that offers blanket or Guaranteed Replacement Cost coverage critical? Two significant losses to fraternal

properties in the past two years are good examples and each provides valuable insight into how important appropriately insuring a property can be.

On, April 13, 2006, Iowa City was hit by tornadoes which caused extensive damage to the city and some areas of the University of Iowa campus. Unfortunately, the Sigma chapter of Alpha Chi Omega Fraternity house was hit by a tornado. Fortunately, despite significant damage to the structure, none of the 43 occupants were injured. The damage included the roof torn off and the collapse of an exterior wall requiring the entire building be demolished.



Photo: The Alpha Chi Omega sorority house



Photo: The Sigma Alpha Epsilon/KY Beta chapter house damaged by fire

The chapter house was insured in a program that offered blanket insurance protection, similar to FPMA's GRC protection. In the past year, the property had a replacement cost appraisal completed and the estimated cost to rebuild the facility was \$1,305,400 for a 14,512 square foot facility. This was used as the stated building value on the policy. While the reconstruction has yet to begin, the estimated cost to rebuild the facility is approaching \$2,700,000, or exceeding \$186 per square foot. Luckily for the chapter, they participated in a program that offered them the peace of mind only a blanket policy or Guaranteed Replacement Cost protection can provide. The result is the insurance carrier is responsible for a majority of the reconstruction cost despite the insufficient limit for the building on the policy.

In the early morning hours of April 10, 2005, the young men residing at the KY Beta Chapter of Sigma Alpha Epsilon awoke to their chapter house engulfed in flames. An arsonist entered the property and started a fire in the basement of the chapter house. Fortunately, all the young men in

the property at the time escaped unharmed. The chapter house, however, was gutted by fire and was required to be demolished. It was insured to a level meeting the agreed amount condition of the program, \$85.00 per square foot per the Boeckh Valuation, but was not at the level that would provide Guaranteed Replacement Cost protection.

While the facility being rebuilt is much larger than the one it is replacing, the cost of the new building will be approximately \$140.00 per square foot, including the basement square footage. In situations such as this, the difference between the building limit and the actual reconstruction costs require a chapter go into significant debt or quickly raise a substantial sum of money in a capital campaign. In some instances, it requires both.

So what can we learn from these losses? First, insuring to value is a critical part of the decision making process for any house corporation board. Second, not insuring to value can put a financial burden on an organization few groups may be able to overcome. Lastly, software systems such as Boeckh Valuation System, Marshall Swift or others are simplified and inexpensive ways to determine the appropriate in-

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sured value. While in most cases, this is a practical solution to determining the appropriate insured building limit, each one has shortcomings which should be considered.

FPMA offers a solution to this problem by offering Guaranteed Replacement Cost coverage. If you are a current participant in FPMA and do not insure to a value that provides Guaranteed Replacement Cost protection, we recommend you request the change to GRC. Should your chapter property be insured through another carrier, we recommend you inquire about the availability of Guaranteed Replacement Cost coverage. If GRC

coverage is not available, it is time to pursue an alternative carrier.

The photo of the Sigma chapter house of Alpha Chi Omega provided by the University of Iowa's University Relations Staff members Kirk Murray, Tom Jorgensen, Chris Wilkins, Gary Galluzzo and Larry Mendenhall.

The information regarding the discussed University of Iowa tornado incident came from Story Source: University of Iowa News Service.

The photo of the KY Beta Chapter house fire came from kybeta.com.

House Corporation Heroes

By Robert E. Manley

The unsung heroes of the Greek world are officers and trustees of house corporations. The typical house corporation owns land and a building occupied by a fraternity chapter. The officers and trustees have special duties and conflicting demands upon them.

Their special duties include the trust they have for the current members of the chapter

They have a duty to make the house available and see that it is properly maintained for the use of the current members of the chapter. They also have a duty to the future members of the chapter to make sure that the house is useful in the long run. They also have a duty to donors of the past and present who have provided financial resources to make the house possible.

Sometimes these duties present conflicting demands. The current actives obviously want instant gratification of their current needs. Sometimes this is inconsistent with the duties to the future members of the chapter and the past and present donors.

Sensible trustees and officers of a house corporation do a few things to minimize friction:

- There is an effective and regular way to keep the chapter informed about the financial affairs of house corporations. Sometimes this is done by scheduling regular meetings between the representative of the house corporation and the officers of the chapter. Sometimes an officer of the chapter serves as an ex-officio, nonvoting member of the house corporation board. In some

house corporations, the members of the chapter are automatically elected nonvoting members of the house corporation and there are meetings once or twice a year at which the house corporation board meets with the members.

- A well-run house corporation will have a lease with the chapter that spells out the financial obligations of the chapter or of its members to provide rental payments to the house corporation. The lease also covers the duties of the house corporation to maintain the house and to provide for replacement of parts of the house system that may need to be replaced, such as a furnace or a hot water heater. Among the provisions that should be in the lease is an agreement on the part of the chapter that it will not permit the house to be used for any purpose that is a violation of state or local law, a violation of university policies, or a violation of policies of the fraternity. This, of course, means that the lease is representing that the chapter will not provide alcohol to minors or allow drug activity in the house.

The trustees and officers of the house corporation should not micro-manage the internal affairs of the chapter. They are landlords. Hopefully, the chapter has some other mature advisors who are chapter advisors. It is not wise for the house corporation trustees or officers to also be chapter advisors. The chapter advisor is helping the chapter deal with its current operations. The house corporation trustees and officers are interested in protecting not only the current operations, but the future operations as well.

house corporations are membership corporations, which means that they are a larger group of members who vote for the trustees and the officers. The voting members usually are alumni of the fraternity who live in the community where the chapter exists. In some communities, there are not enough alumni to run a membership corporation, but in other communities it is possible. The advantage of having a membership house corporation is that it provides a necessity to get the alumni together periodically for a report on the status of the house and the house corporation and to conduct elections.

A common pathology for house corporations is that one alumnus becomes super proprietary of the house and the corporation. Other alumni are happy to have the one person take charge and run with it as long as things are going well. The problem is that often, things are not going well and no one realizes it until a real disaster happens. For example, the one person who was running things suddenly dies and no one knows the status of anything. This can be a messy thing to untangle. The one person who was taking charge of things needs money for some private purpose and "borrows" it from the house corporation. This is embezzlement under the laws of most states. The one person who is in charge hires a brother-in-law to put a new roof on the house. It may be a fair price, but if anybody finds out about the relationship between the leader of the house corporation and the roofer, it can raise all kinds of suspicions and accusations of improper behavior

Whenever other people's money is involved, it is of the utmost importance that the volunteer leaders of the house corporation have full and fair disclosure of all financial affairs throughout the year. Whenever the leader of a house corporation becomes too proprietary, trouble often ensues.

Article used with permission by the Manley-Burke, A Legal Professional Association. This article was originally found in the Fraternal Law periodical published by ManleyBurke, number 83.

Some house corporations have self-perpetuating boards. This means that the members of the board reelect themselves or elect replacements for themselves at regular intervals. Other

What is FPMA

- *An association developed to support fraternity volunteers adequately manage chapter properties through education on risk awareness and facility care*
- *Providing a comprehensive and competitive Property and Boiler & Machinery insurance program to protect the physical plant of the association participants*

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Professional Management – A Case Study

Martin Smith, Smith and Taylor Professional Property Management

In prior issues we have discussed the advantages of using Professional Management, highlighting key areas of:

- 1) Developing a Business Plan for the Property and the Chapter
- 2) Maintaining the property at a consistent level from year to year which is representative of the Fraternity values as well as being compliant with codes and safety
- 3) Income control for budgeting, rates, and collection
- 4) Expense control to maintain the budget, bill paying, damage deposits etc.

In this issue, we wanted to share with you a typical Chapter turnaround that may inspire more of you to look to the advantages of Professional Management.

Case Study

When the new Board took over, the Chapter was facing the following issues:

- ⇒ No clear cut 5 year or 10 year plan for where the Board wanted the House to be both physically and financially
- ⇒ No goal for the requirements to sustain the Chapter another 100 years
- ⇒ Inadequate membership to support the Chapter expenses, debt and capital requirements
- ⇒ Tenants were required in order to generate adequate income
- ⇒ A Chapter House that had been in a constant state of decline
- ⇒ Property Taxes were past due
- ⇒ Out of date Corporate records and filings
- ⇒ Pending IRS penalties for late filing dates
- ⇒ Declining Graduate Board involvement
- ⇒ Little to no controls of the undergraduate budget – spending – planning or transition planning

Many Chapters we see on Campuses across the country face very similar issues. In our case study, the property management firm of Smith & Taylor contracted with the Alumni Corporation Board to manage the property in February of 2005. The Board knew that they wanted their 106 year old Chapter back in shape as a strong vibrant entity. The Board members as well as the rest of the Alumni cherished their memories of their time at the house, and were focused on righting the ship in order to secure the Chapter's future.

Planning Steps

- ◆ Put a vision in place for the standard on how the Chapter house was to be renovated and maintained. In this case the plan was to set the standard back to original for this 92 year old historical landmark property
- ◆ Next the Board set an objective to be debt free with a \$200,000 capital base within 8 years
- ◆ With the feedback from the Board and the standard in place, Smith & Taylor was able to establish a financial plan to develop the necessary funds for the renovation and a budget with a reasonable breakeven point for membership that would sustain the property at its renovated level

Smith & Taylor put their expertise into action.

Steps Taken

- 1st. Increase income
- 2nd. Get all the financial and corporate issues squared away
- 3rd. Develop and put into place a renovation timetable that would cause the least disruption to the Chapter Put a graduate relations program in place to get the Alumni excited and involved again.

Beginning with the Fall 06 Semester, Smith & Taylor accomplished the

following:

- Managed the complete award winning historical renovation of the property
- Arranged the re-financing for the renovation
- Arrange grants from the IHQ
- Increased membership 40%
- Tenants are no longer required
- Increased revenue 67%
- Resolved all property tax issues as well as get all corporate records up to date
- Generated over \$40,000 for the Chapter in either tax penalty relief or recovered funds
- increasing chapter income by 50% and live-in membership by 30%
- Renewed Graduate interests – membership at the annual graduate dinner was up 100%, Graduate sponsorship to date for the five events at the Chapter house this Fall. Achieved a high level of participation for fund raising and completion of the House Corporation's financial goal.

The overall result is that this Chapter has a plan in place that will take it into the next millennium. It has the management and systems in place to sustain the Chapter at a consistent level, and has the financial stability to operate.

Since August of 2004, Smith & Taylor has been able to generate similar results for nearly twenty other chapters.

The case study provides good insight on the possible benefits of hiring an outside property management company to deal with the day to day housing issues. This choice helps to lessen the burden of dealing with day to day issues and frees up the time of alumni to focus on membership development and mentoring.



Dining Room Before



Dining Room After

Spot Light On

PENNINGTON & COMPANY

Pennington & Company - Pennington & Company's comprehensive, well-planned, and well-executed alumni relations and campaign programs provide superior service and value for their clients while continually achieving aggressive campaign goals. Their strict attention to detail and ever-increasing knowledge of fund raising strategies allows their clients to cultivate and develop deep relationships with alumni, garner support from higher numbers of donors, reach greater campaign goals and ensure those values, memories and experiences traditional to their organization will be instilled within future generations.

Since 1993, Pennington & Company has helped

raise more than \$89 million in support of Greek life, while consulting more than 200 local chapters from 37 international fraternities and sororities on 75 college campuses.

Pennington & Company provides a full range of services to maximize an organization's fund raising potential, including, but not limited to:

- Case development
- Feasibility studies
- Campaign management
- Major gift solicitation and prospect cultivation
- Campaign leadership and volunteer recruitment and training

- Prospect research
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To view results of some projects go to: www.penningtonco.com/experience.html

For more information on Pennington & Company, please contact Rod Barleen, Vice President, 785-843-1661, www.penningtonco.com

It is important to note that your Alumni Corporation may qualify for a **5% discount for the completion of a Strategic Assessment conducted by Pennington & Company.**

It is a three prong educational process developed for volunteer housing corporations by Pennington & Company. The process utilizes extensive organizational research, a written survey of the housing corporation board members, discussions with local volunteers and campus officials and a review of the most current insurance inspections on file. Its intent is to assist the housing corporation become a more effective landlord by teaching them how to operate as a business. The assessment will help them:

- Know what they are suppose to do;*
- How to do it;*
- Why they should do it;*
- Fully understand there are obstacles beyond their control; and*
- Develop long term plans for the future of their facility*

For more information concerning interest of participation or questions on existing facilities regarding the Fraternity Property Management Association, please contact HRH/Kirklin & Co., LLC at 1-800-4327 or visit our website online at www.kirklin.com

LEAVE THE HEAT ON!

Protect your facility over Winter Break. Each year, beginning in November, the number of fraternity property claims spike. The most troubling part of it is a vast majority of all of the claims reported over the winter are avoidable. Many chapter's in the Northeast portion of the United States endured one of the coldest winters in recent history. A number of claims were reported in the region but ultimately were substantially less than the deductible. What was the difference? They were regularly checking on the property and discovered the problem very early. They were left with a small plumber's bill and minor drywall work. If we all do our part and avoid the mistakes of the past, it will go a long way in our efforts to control the cost of property insurance for fraternities.

What is the damage?

- ❑ Freeze, water damage, and vandalism claims are the most frequently occurring claims from November through March.

Why did this happen?

- ❑ Chapter members turned off the heat thinking they would save some money.
- ❑ The pilot light on the furnace blew out.
- ❑ No one was in charge of checking on the house over the holiday break.
- ❑ The chapter house was not securely locked making it an attractive target to vandals and thieves.

No one got hurt, what is the problem?

- ❑ Chapter members return from break to a mess, or worse yet, no place to live because of the significant extent of damage.
- ❑ A significant deductible is incurred, causing further strain to an already stretched budget.

- ❑ Property premiums increase, because of these claims, which every member helps to pay!

How do we avoid a repeat this year?

- ❑ **Turn the heat down to no less than 60 degrees, don't turn the heat off!**
- ❑ Have a house corporation officer or undergraduate member stop by the house daily to make certain the house is secure, there has not been a loss and the heat is working!
- ❑ Spend a little money to save a lot of money not to mention avoid a hassle!
 - Have the furnace or boiler serviced this fall.
 - Fix all broken windows.
 - If a local undergraduate or alumnus can't be counted on to check on the house, hire someone to do it for you over the break.
- ❑ Call your heating contractor immediately if there is a problem with the furnace and take immediate action to prevent further damage.



It is important to also be aware of your outside property. To help reduce the risk of injuries of members, guests, or other people just passing by your house, make sure that snow is removed and ice is treated in a timely fashion.