

# FPMA News

The Fraternal Property Management Association Newsletter from HRH/Kirklin & Co., LLC. Volume 16 Fall 2004

## Help Pass the Collegiate Housing and Infrastructure Act

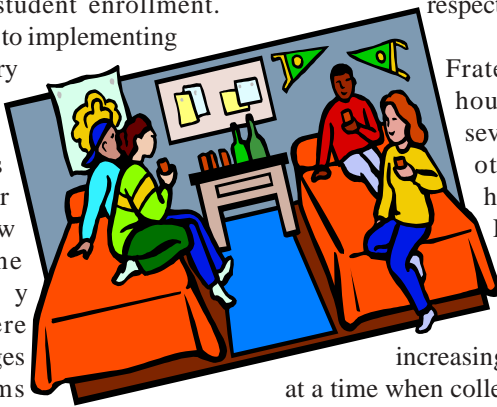
by Kevin O'Neill, Associate of Patton Boggs, LLP, and initiate of Lambda Chi Alpha Fraternity

Colleges and universities nationwide are experiencing severe housing shortages due to ever-increasing student enrollment. Schools are resorting to implementing unfavorable temporary policies in an effort to meet the demand for on-campus accommodations. For example, in New Orleans, Tulane University undergraduates were forced to live in lounges and study rooms because the dormitory rooms were filled to capacity.

Faced with the same problem, administrators at the University of Connecticut converted many two-student rooms into three-student rooms. And at St. Louis University, the move-in date for a group of students was delayed until after the first week of classes because the university had not yet finished outfitting the nearby hotel to which they were assigned. With predictions that post-secondary enrollment will increase 15% between 1999 and 2011, quality collegiate housing options will become a more challenging issue confronting all of higher education.

Fraternities and sororities operate \$3 billion in not-for-profit student housing. We help alleviate the housing burden on colleges and universities by housing 250,000 students each year, making us the largest not-for-profit student landlords in the nation. We are an important safety valve in the collegiate housing market. Frankly, if we closed our chapter houses tomorrow, colleges and universities would not have

the financial ability to build residential spaces needed to accommodate the influx of students and it is doubtful that most college towns want to see more students renting residences further out into their respective communities.



Fraternity and sorority houses currently face several challenges that other collegiate housing does not. First, we generally lack the total capacity to accommodate the

increasing student population at a time when colleges and universities need us to handle our share of students. Second, our housing is significantly older than most other campus housing, which creates a number of hazards that challenges our future ability to operate effectively. We need funds to build new chapter housing and we need funding to retrofit our housing to accommodate the modern conveniences today's students expect as part of their living and learning spaces. Most importantly, we need funding to install safety upgrades such as fire sprinklers, as safety issues are the top challenge facing fraternal housing.

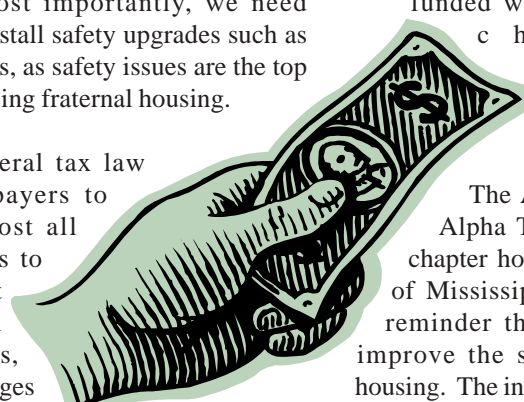
Current federal tax law allows taxpayers to deduct almost all contributions to non-profit educational organizations, such as colleges and universities.

These tax-deductible contributions may be used by these organizations to improve student facilities such as dormitories, dining facilities, meeting rooms, laboratories and study areas. Unfortunately, the same tax

laws largely prohibit our fraternal educational foundations from using tax-deductible charitable contributions to make the same student infrastructure improvements colleges and universities can make with tax-deductible funds.

For the past several years, Greek leaders have been converging on Washington to educate them about the need to change the law and level the playing field for improving non-profit student housing.

The Collegiate Housing and Infrastructure Act (S. 1246/H.R. 1523) was introduced in April of 2003 and the legislation would, if passed, ultimately allow tax deductible charitable contributions to fraternity and sorority foundations to be used for the same purposes that a college or university could use such contributions. That means a contribution to your national fraternity's educational foundation could eventually be used by a local chapter's house corporation to make needed infrastructure improvements of all types. Fire sprinklers, a new roof, security equipment, new fixtures and other housing improvements could be funded with your tax-deductible charitable contributions to your national fraternity's educational foundation.



The August 27 death of three Alpha Tau Omega brothers in a chapter house fire at the University of Mississippi is a stark and tragic reminder that we can do better to improve the safety of our fraternity housing. The installation of fire sprinklers in fraternal housing is especially important given the age and size of most fraternal living facilities. For instance, the injury rate in fraternity and sorority housing is

("Help Pass..." continued on page 3.)

# COVERAGE CORNER

## Is your chapter property adequately insured?

*Rich Jungman - Manager – Client Services & Claims, Initiate of Phi Sigma Kappa*

Reviewing the chapter's property insurance limits is a fundamental responsibility of the person entrusted with procuring and renewing insurance on your chapter's behalf. It isn't something only done when first purchasing an insurance policy. It is a function which must be done yearly to make sure your chapter isn't over insured or, even worse, under insured. In most instances, a claim will reveal the latter to be the case. Outlined below is a step by step guide to what the designated renewal contact should review.

A unique aspect of the FPMA Property Insurance Program is the removal of the co-insurance penalty. A co-insurance penalty basically is a penalty applied to a covered loss when an insured does not adequately insure the property. In an effort to ensure chapter properties are adequately insured and avoid difficulties when a loss occurs, the insurance carrier requires participants in the FPMA insurance program to insure their properties at, a minimum, of 100% of the most current Marshall Swift value on file with our office. As part of the inspection process, a Marshall Swift value is completed every two years and, when needed, the building limits are adjusted accordingly.

The person in charge of handling the insurance matters for the housing corporation should not consider this sufficient. He should still review the valuation in detail and ask the following questions.

- Is the valuation an accurate reflection of what it would cost to rebuild our chapter house in the event of a total loss?
- Did the inspector use the correct method of construction when developing the estimated replacement cost? There is a significant difference in construction cost between framed construction and joisted masonry.
- Is the square footage correct?

Marshall Swift is a rudimentary valuation software used by the insurance industry to efficiently and cost effectively determine a building's replacement cost. The factors it considers are geographical location based upon zip code, method of construction and other amenities of the property to determine the per square foot replacement cost. It does not include land value nor construction cost not covered under the policy. The most accurate method to determine actual replacement cost is obtaining a replacement cost appraisal by a qualified and licensed appraiser in your area. Often times, this will cost an insured several thousands of dollars making it an unfeasible option. In response to this, HRH/Kirklin & Co. negotiated a compromise with the FPMA insurer, RSUI, to provide Guaranteed Replacement Cost Coverage (GRC) for our clients. It was agreed that GRC would be provided contingent the property was insured at the greater of \$90.00 per square foot, including basement square footage, or the most current Marshall Swift valuation on file. If GRC is purchased, regardless of the amount of coverage stated on the building, the insurer has agreed to pay the cost to rebuild the facility in the event of a total loss.

For example, a fire totally destroys a chapter house insured for \$1,000,000.00. During the claim process, it is determine the facility will actually cost \$1,500,000 to fully rebuild it to its pre-loss specifications. If the insured had elected to purchase the GRC protection, the insurer will pay \$1,500,000. Otherwise, the limit of \$1,000,000 would be the most the insurer will pay. In today's insurance market very few insurance carriers even offer GRC, which makes the FPMA Insurance Program the best choice for any fraternal organization.

## Protecting Against Embezzlement

*Rich Jungman - Manager – Client Services & Claims, Initiate of Phi Sigma Kappa*

If you are part of an alumni housing corporation, don't buy into the naïve notation brothers don't steal from the fraternity. Over the past year, our office has received reports of three cases of embezzlement from an alumni housing corporation by the treasurer. The three losses totaled over \$300,000 in embezzled funds. Unfortunately, the Crime coverage limits purchased were exceeded in all three cases leaving a majority of the loss to be absorbed personally by the alumni corporation.

What were the common denominators in all of these cases?

- ✓ The treasurer had free reign over the corporation's funds.
- ✓ The embezzlement was not discovered until after the treasurer was replaced, which was years after it started.
- ✓ Even after discovery of the embezzlement, members didn't want to involve the authorities and did not do so until forced to do so by the crime insurance carrier.
- ✓ Checks were written out to the treasurer by the treasurer and

an ATM card was secured by him to allow for cash withdrawals.

Simply put, even in organizations founded upon brotherhood and values, if checks and balances are not in place, dishonest acts will occur.



Highlighted below are simple safeguards you can put in place to ensure your limited financial resources aren't depleted by an untrustworthy officer.

- ✓ Require dual signatures on checks over a predetermined amount such as \$500.00.

*("Protecting ..." continued on page 3.)*

(“Help Pass...” continued from page 1.)

twice that of other campus fires and the rate of property loss is significantly higher. Installation of safety systems is just one of the many necessary improvements that will make student living across the country safer and better suited to an environment of academic and personal enrichment. Passing the Collegiate Housing and Infrastructure Act will give our organizations a real chance to raise the money needed to install new safety equipment in our houses.



This bill is crucial to the welfare of the higher education community in general and the college fraternity community in particular, and its benefits will be widespread and significant. It will not only benefit the quarter of a million students comprising the nation's largest network of young volunteers, but also the colleges and universities that educate them.

If you would like to communicate your support of the Collegiate Housing and Infrastructure Act by writing a letter to your local Congressman, you may obtain a sample letter at: [www.fraternalcaucus.com](http://www.fraternalcaucus.com) (click on “Issues” and then click on the “Collegiate Housing and Infrastructure Act”).

(“Protecting ...” continued from page 2.)

- ✓ Appoint another officer to be responsible for reconciling the corporation's account on a monthly basis.
- ✓ Have an account that prohibits debit card and ATM withdraws.
- ✓ Have an independent third party conduct a yearly audit of the corporation's financials.

While none of the measures outlined above will completely eliminate a corporation's exposure to embezzlement by an officer, they do provide a deterrent. They also help mitigate the magnitude of a loss by detecting suspicious transactions early on. Crime coverage has been relatively inexpensive for National Fraternities to purchase for all of its affiliates. In order for it to remain affordable, it is imperative risk reduction efforts are initiated.

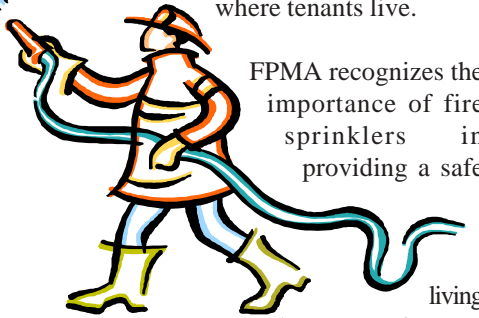
## Qualifying for the FPMA Fire Sprinkler Discount

Rich Jungman -Manager-Client Services & Claims, Initiate Phi Sigma Kappa

FPMA offers a generous discount for properties protected by a fire sprinkler system which meets the NFPA 13 R sprinkler design standard. The standard discount offered by FPMA for a property sprinkled to NFPA 13R standard is 30%. In an effort to promote the installation of fire sprinkler systems in Greek housing, FPMA enhanced the discount last year for properties with newly installed systems. FPMA's underwriter agreed to provide an additional 20% discount for systems installed after April 1, 2003 which meet NFPA 13R requirements. The additional discount is provided for up to two years after the system is put into use.



footage, including unfinished attic space, to be sprinkled. It is often referred to as the Property Insurance Standard as it provides the greatest protection against loss to the property against the peril of fire. NFPA 13R is often referred to as a life savings design because it primarily protects finished space where tenants live.



FPMA recognizes the importance of fire sprinklers in providing a safe

living environment for our

Many times, a participant in FPMA will submit a request for the sprinkler discount when the system installed does not meet the NFPA 13R design standard. Typically, the fire protection is limited to the kitchen, basement or common areas. NFPA 13R requires all occupied spaces to be protected with the exception of: small closets, bathrooms and unoccupied, unfinished attic space.

All other areas, including individual tenant suites, are required to be protected by sprinklers. The cost saving between a NFPA 13 design and NFPA 13R design is substantial. NFPA 13 requires all square

undergraduate members and that a majority of fires in fraternity houses occur because of human error and occur where undergraduates live. By offering our sprinkled discount to properties meeting the NFPA 13R design standard, more chapters are finding the installation affordable and subsidized substantially through property insurance premium savings. If you believe your chapter may qualify for the fire sprinkler discount offered through FPMA, please go to [www.kirklin.com](http://www.kirklin.com) and complete the on-line discount form under the Fraternal Property Management Association Section of our website.

## WHAT IS FPMA?

\* An association developed to make fraternal house or alumni corporation officers better property managers through education and other assistance.

\* Providing a comprehensive and competitive Property and Boiler & Machinery insurance program to protect the physical plant of the association participants.

Would you like a premium quote?

Please provide the requested information to:

Suzanne Haas  
HRH/Kirklin & Co., LLC.

PO Box 540673, Omaha NE 68154

Phone (800) 736-4327, Ext. (1)203

Fax (800) 328-0522

E-Mail: [shaas@kirklin.com](mailto:shaas@kirklin.com)

or visit our website at  
[www.kirklin.com](http://www.kirklin.com)



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## LEAVE THE HEAT ON! - Protect your facility over Thanksgiving Break

### *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 Thanksgiving 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.



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.