

1 HB331  
2 164294-1  
3 By Representative Scott  
4 RFD: Ways and Means Education  
5 First Read: 19-MAR-15

2  
3  
4  
5  
6  
7  
8 SYNOPSIS: Under existing law, a program of gap  
9 coverage and gap plus coverage offered through the  
10 State Insurance Fund allows a K-12 public school  
11 building that has been rendered a total loss as a  
12 result of a covered peril to be reconstructed with  
13 materials superior to its original construction and  
14 in an increased size if appropriate based upon  
15 current construction standards and occupancy.

16 This bill would provide, within reasonable  
17 limitations and using gap coverage and gap plus  
18 coverage, proceeds sufficient to allow public  
19 school buildings under the jurisdiction of the  
20 Department of Postsecondary Education to have the  
21 same coverage as K-12 public school buildings.

22  
23 A BILL  
24 TO BE ENTITLED  
25 AN ACT  
26

1                   To amend Section 41-15-4, as amended by Act  
2                   2014-261, Code of Alabama 1975, relating to the State  
3                   Insurance Fund, to require the risk manager, with the approval  
4                   of the Finance Director, to develop a program of gap coverage  
5                   and gap plus coverage to provide, within reasonable  
6                   limitations, proceeds sufficient to allow a public school  
7                   building under the jurisdiction of the Department of  
8                   Postsecondary Education that has been rendered a total loss as  
9                   a result of a covered peril to be reconstructed with materials  
10                  superior to its original construction and in an increased size  
11                  if appropriate based upon current construction standards and  
12                  occupancy.

13               BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

14                   Section 1. Section 41-15-4, as amended by Act  
15                   2014-261, Code of Alabama 1975, is amended to read as follows:

16                   "§41-15-4.

17                   "(a) All covered property, unless otherwise provided  
18                   in this section, shall be insured for no more than its  
19                   replacement cost and shall be insured for no less than 80  
20                   percent of its actual cash value. Replacement cost coverage  
21                   may be provided with an amount of insurance as agreed upon by  
22                   the proper insuring authority and the risk manager based upon  
23                   a written statement of values. Replacement cost shall be the  
24                   cost to repair or replace property with comparable materials  
25                   of like kind and quality by generally accepted construction  
26                   methods or technology to serve the same function as the lost

1 or damaged property. No payment for a loss shall exceed the  
2 limit of the policy.

3 "(b) The officer or person having charge by law of  
4 insuring any public building, contents, machinery, and  
5 equipment shall annually certify to the Department of Finance  
6 the description and the value of all buildings, contents,  
7 machinery, and equipment under the supervision or control of  
8 the officer or person on forms prescribed by the department  
9 for the purpose of showing the character of the risk and  
10 determining the rate of premium. No coverage shall be issued  
11 unless such certificate is on file in the office of the  
12 Department of Finance or the director has waived, in writing,  
13 the filing of the same.

14 "(c) Buildings, contents, machinery, and equipment  
15 owned by any county, city, or school district and used for  
16 school purposes, or under control of a board of education, or  
17 owned or under the control of the Department of Postsecondary  
18 Education may be insured under this chapter. The risk manager,  
19 upon review and approval by the Finance Director, shall  
20 develop a program of coverage under the State Insurance Fund  
21 which provides, within reasonable limitations, for the use of  
22 gap coverage and gap plus coverage, to provide proceeds  
23 sufficient to allow a school building that has suffered an 80  
24 percent or greater loss as a result of a covered peril to be  
25 reconstructed with materials superior to its original  
26 construction and in an increased size, if appropriate, based  
27 upon current construction standards and occupancy. The risk

1 manager shall draft rules, guidelines, limitations, and  
2 coverage endorsements under which this program shall operate,  
3 and shall determine actuarially sound premiums to assess  
4 covered entities.

5 "Additional premiums required for gap and gap plus  
6 coverage for participating systems shall be paid annually from  
7 the Public School Fund to the Department of Finance, Division  
8 of Risk Management. Distribution of the remaining Public  
9 School funds shall be pursuant to Section 16-13-234.

10 "Gap coverage and gap plus coverage shall be  
11 mandatory for K-12 systems and public two-year institutions of  
12 postsecondary education with buildings that qualify under the  
13 terms of this program.

14 "(1) For the purposes of this subsection, gap  
15 coverage is coverage that allows for improved construction  
16 type from an ISO of 1, 2, or 3 to an ISO of 4; allows for  
17 additional square footage in preapproved incremental amounts;  
18 and requires that building damages must exceed 80 percent or  
19 greater of the insured school building value as determined by  
20 State Insurance Fund adjusters, engineers, and other experts.  
21 For purposes of this subsection, the following construction  
22 ISO designations apply:

23 "a. An ISO of 1 is a frame.

24 "b. An ISO of 2 is masonry and wood roof supports or  
25 trusses, or both.

26 "c. An ISO of 3 is pre-engineered metal.

1           "d. An ISO of 4 is a steel frame and roof supports  
2 with a masonry exterior.

3           "e. An ISO of 5 is a protected steel frame with a  
4 masonry exterior.

5           "f. An ISO of 6 is a reinforced concrete.

6           "(2) For the purposes of this subsection, gap plus  
7 coverage is coverage that allows the insured to select amounts  
8 of insurance for normally uncovered expenses including, but  
9 not limited to, a new preparation site if the building is not  
10 rebuilt on the same foundation, underground wiring, plumbing,  
11 paving, and other expenses. Gap plus coverage requires that  
12 building damages must exceed 80 percent of the insured school  
13 building value as determined by State Insurance Fund  
14 adjusters, engineers, and other experts. Gap plus coverage  
15 also requires that the maximum amount of coverage allowed for  
16 gap plus is 10 percent of the insured value of the destroyed  
17 building.

18           "(d) The Department of Finance may cause to be  
19 surveyed, annually, if practicable, all public property coming  
20 within the provisions of this chapter, and the officer or  
21 person in charge of the public property shall receive a copy  
22 of such report. A survey shall be an examination of property  
23 for physical discrepancies, construction characteristics,  
24 usage, or occupancy.

25           "(e) Notwithstanding any law to the contrary, the  
26 Department of Finance in adjusting a loss, at its option, may  
27 assume title, ownership, and possession of any insured item,

1 including building materials, fixtures, furniture, machinery,  
2 and equipment, for which insured value has been paid, and may  
3 arrange for the salvage and sale thereof in whatever manner is  
4 deemed most advantageous to the State Insurance Fund, to which  
5 all sale proceeds shall be deposited. Alternatively, the  
6 Department of Finance may deduct the salvage value of the  
7 insured item from the payment to the owner of insurance  
8 proceeds arising from the loss of the insured item."

9           Section 2. This act shall become effective on the  
10 first day of the third month following its passage and  
11 approval by the Governor, or its otherwise becoming law.