REQUIRED/RECOMMENDED INSURANCE

What types of insurance are required or recommended?

PHAs are required or recommended to purchase these types of insurance if the PHA determines that exposure to the risk exists.

<u>Mandatory</u>

- Commercial Property. Each policy must be written with a blanket limit, on a replacement cost basis, and with an agreed value clause that eliminates any coinsurance provision.
- Commercial General Liability.
- Workers Compensation and Employers Liability.
- Owned and Non-Owned Automobile Liability.
- Employee Dishonesty. Mandatory.

<u>Mandatory under certain circumstances</u>

- Theft, Disappearance, and Destruction. (only if the amount of cash and checks on hand at any one time exceeds the amount prescribed by HUD, which is currently $5,000.00)
- Boiler and Machinery. (only if steam boilers have been installed. However, coverage is recommended if there is extensive central air conditioning, electrical transformers, or similar equipment)
- Flood. (only for property located in a flood plain, as determined in the Federal Government's National Flood Insurance Program.
- Lead-Based Paint Liability. (for PHAs undergoing lead-based paint testing and abatement)
- Fidelity Bond Coverage. The HA must carry adequate fidelity bond coverage, as required by HUD, of its officers, agents, or employees handling cash or authorized to sign checks.

<u>Optional, but recommended</u>

- Directors and Officers or Public Officials Liability
- Law Enforcement Liability. Optional, but highly recommend where the exposure exists, and the Commercial General Liability insurer has excluded coverage.

PHA Purchase of Insurance

<u>Must PHAs purchase insurance on a competitive basis ?</u>

Yes, per **<u>24 CFR part 85</u>**. However, there is one exception.

PHAs are authorized to obtain any line of insurance from a nonprofit insurance entity that is owned by PHAs without regard to competitive selection. Although a PHA may wish to obtain quotations from non-PHA owned insurance companies, Part **<u>965</u>** grant an exception to 24 CFR part 85, which requires full and open competition in procurement, as long as the entity has been approved by HUD.

TML Intergovernmental Risk Pool has obtained approval from HUD to provide insurance to PHAs on a three-year commitment basis; i.e., PHAs using TML's program do not have to go out for bids every year. They do, however, have to obtain bids at the end of the three year commitment period.

<u>Do PHAs need to purchase any kind of insurance for Housing Choice Voucher (Section 8) locations?</u>

A PHA which administers a Housing Choice Voucher Program (Section 8) or Rental Certificate Program must carry adequate fidelity bond coverage (employee dishonesty) for employees handling cash or authorized to sign checks or certify vouchers. The minimum bond limit is determined in accordance with Chapter 8 of the Property Casualty Insurance Handbook.

Except for fidelity bond coverage, the Housing Choice Voucher Program (Section 8) Annual Contributions Contract (ACC) does not require any other insurance coverage for a PHA that administers a Certificate Program or Voucher Program. However, there have been past instances where legal action has been taken against PHAs by tenants of Housing Choice Voucher Program (Section 8) units who incur bodily injury on the premises.

Their action is based primarily on the basis that the PHA has inspected the premises and determined that they are decent, safe, and sanitary. HUD does not require that a PHA purchase liability insurance to protect against such claims. Neither is there a prohibition against purchase. It is up to the discretion of the PHA to buy this coverage if it is felt that the exposure warrants the expense.

<u>Do PHAs need to purchase flood insurance?</u>

The ACC does not specifically state that flood insurance is a required coverage, unless the property is located in a flood plain, as determined by the Federal Governments National Flood Insurance Program. Competition in procurement is not required if coverage can only be purchased from a single source. Some insurance companies will include flood coverage along with their property policy, but it is usually subject to a very large deductible ($25,000 or more), and this would not be reasonable for most PHAs. Competition in procurement is not required as long as coverage is purchased through the National Flood Insurance Program (NFIP).

Property Insurance

The ACC requires that property insurance be written on a replacement cost basis. This means that the insurance will pay the cost to replace the destroyed or damaged property on the same premises with other property of comparable material and quality, or the actual amount spent to repair or replace, whichever is less. As opposed to insuring on an "actual cash value" basis, depreciation based on the age and type of construction of the property may not be taken into consideration when adjusting a loss.

If depreciation is taken into consideration, it will produce inadequate values and the PHA will become a co-insurer on each loss. In some cases, this method has produced per dwelling unit values of under $10,000 thereby abrogating the intent of the ACC insurance provisions, which is to protect the interest of the Federal government in the PHA properties.

Limits for Employee Dishonesty Insurance

The minimum limit is based upon the cash flow of the PHA. The Bond Limit Worksheet should be completed to calculate the recommended limit.