

Schools Protection Program (SPP)

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British Columbia Optional Property Program Update

Please be advised that the Ministry of Education's interpretation of the Optional Property Program has been modified to allow subscribing boards of education greater discretion in regards to addressing losses of board-owned property. In essence, boards are now considered to be solely responsible for any decision regarding the use of claim payments, as received under the terms and conditions of the Optional Property coverage purchased by the board for a facility.

A school district may now deal directly with the SPP Claims Department or the SPP appointed loss adjuster, without seeking prior Ministry of Education approval. This extends even to the matter of replacing a facility in case of a total loss under the British Columbia Optional Property Program.

The following short article provides a brief outline of all Property coverage and some frequently asked questions.

School Property Coverage

These self-insured programs offered by the Province under the Risk Management Branch (RMB) have been in existence since 1987 as a response to a hard insurance market. Over the years SPP and similar programs for post-secondary institutions and hospitals have saved government over a billion dollars in insurance premiums that would have otherwise been paid for commercial insurance coverage.

SPP provides boards of education with three distinct and separate types of property coverage under different programs, each having a separate self-insured coverage agreement:

1. Owned property coverage (e.g., buildings and equipment) required for a school district's standard operations;
2. Property in the Course of Construction for an approved capital project; and

3. British Columbia Optional Property Program, which makes coverage available for property not being used for educational purposes (e.g., a school used for a community use; bus garage used for a commercial use; donated artwork).

The above noted property coverages are in addition to liability and crime coverage that is provided to school districts by SPP.

Full details for all insurance wordings have previously been provided to all school districts in hard-copy binders. If these cannot be located, please contact your SPP consultant.

The following sections provide a brief introduction to the three aforementioned SPP property programs available to school districts, along with some frequently asked questions.

1. Schools Protection Program – Standard Property Program

School district's buildings, fixtures, equipment, and boiler and machinery are exposed to the risk of damage from every day perils, such as fire, vandalism, theft, water escape, and wind, under standard operational use. SPP covers property losses caused by these and other covered perils.

SPP property coverage is designed to protect boards of education assets used for educational purposes, including schools, transportation equipment, administrative offices, maintenance facilities, and bus garages for school use. Coverage is also provided for facilities jointly owned and/or operated with local government for community use.

SPP property coverage also extends to cover property not owned by a board of education, but which is under the care and control of the school district (e.g., leased photocopiers). Some items, typically on-loan to the school districts are excluded from SPP property coverage (e.g., works of art; concert pianos).

The SPP property coverage is quite broad, protecting school district property against "all risks", subject to standard exclusions. There is a mandatory \$10,000 deductible, which must be paid by school districts on each and every covered loss. This deductible is standard across all sectors and managed by the districts under their own operating budgets.

Notably, vacant buildings no longer being used for an educational purpose, such as a closed school, are not covered under SPP. The Ministry would not likely approve the cost to fully or partially rebuild or renovate a vacant building that has been damaged if that building was not being used for an educational purpose at the time of the loss. The Ministry may approve minor costs related to the loss under the SPP (e.g., site clean-up and temporary measures to prevent

further damage). If a district is using a vacant building for necessary storage purposes, the Ministry may fund the construction of a structure sufficient to meet these storage needs if space is unavailable elsewhere in the district. In some circumstances, the Ministry may consider including an emergent project in its capital plan for the demolition of a damaged vacant building and any required site remediation.

SPP Claims Department will work with the district and Ministry once a loss is reported. The Planning Officer, Capital Management Branch, responsible for the school district will be the contact to discuss the loss and the potential requirement of an emergent project.

2. Course of Construction Program

SPP provides specific property coverage for construction projects being undertaken by boards of education for their school districts. Most Course of Construction coverage is self-insured through SPP at no charge to the district. Course of Construction insurance covers individual capital projects approved by the Ministry of Education with a value \$250,000 or greater.

To ensure coverage is in place, each new capital project must be reported to SPP at least two weeks prior to the actual commencement of construction work. For both property and liability coverage, school districts must use the Construction Insurance Application Form available under the Forms tab on the SPP Website located at:

<http://www.bcspp.org/>.

For projects with a value of less than \$250,000, the school district should make the contractor responsible for obtaining property and liability insurance during construction.

For construction contract indemnity, insurance and contract security supplementary conditions please refer to the Construction tab on the SPP website at:

<http://www.bcspp.org/>

For projects over \$75,000,000; projects with specific funding (e.g., Public Private Partnership (P3) projects); or projects outside of the Ministry's funding, school districts must contact their Risk Management Consultant at SPP. The consultants will assist districts in purchasing Course of Construction insurance in the private insurance market. The costs for any Course of Construction insurance placed in the private insurance market must be paid by the district and budgeted as a project cost.

3. British Columbia Optional Property Program (BCOPP)

BCOPP allows boards of education the opportunity to obtain insurance coverage for assets not covered under any self-insured SPP program. The coverage afforded under the BCOPP is “all risks”, subject to standard exclusions. The boards must, however, pay the premiums under the BCOPP insurance. It is the responsibility of the school district to ensure any asset covered under the BCOPP is covered for a limit sufficient to cover the full replacement value of the asset. This is critical as any shortfall with respect to the limit insured will be the district’s responsibility to fund.

BCOPP coverage would be an important consideration for boards leasing out buildings currently not being used for educational purposes. These buildings may be occupied by community groups, local government, public agencies, or private parties. The board would have an interest in replacing a building after a total loss, to safeguard the interests of its tenants, ensure continuation of community services, and maintain a source of income.

The premium rate charged to school districts for the 2018 – 2019 policy term is \$0.25 per \$100 sum insured. As an example of a premium calculation, BCOPP annual insurance premium for a building with a replacement value of \$15 million not being used for educational purposes and leased out would be \$37,500 (i.e., $\$15,000,000 / 100 \times 0.25$).

Other valuable assets not covered under SPP, such as works of art, may be covered by the BCOPP insurance, purchased by the board through the RMB.

School districts may add properties or assets by submitting an Optional Property or Building request form, available under forms on the SPP website at:

<http://www.bcspp.org/>

Frequently Asked Questions

Q: How are the Claims under SPP standard property program and Course of Construction Programs funded?

A: SPP maintains a Property risk pool that is funded by an annual premium paid by school districts through an operating fund grant. The total amount required for the risk pool is based on previous loss history across the public education K-12 sector, with each school district paying an amount proportional to its exposure.

Under the standard property program, a risk pool pays for claims of up to \$250,000. For losses \$250,000 and over, such claims will be considered by the Ministry of Education for inclusion as an emergent capital project in its current capital plan.

SPP maintains a Course of Construction risk pool that is funded by recoveries made via subrogation against responsible parties in certain claims covered by SPP. Under the Course of Construction Program, the risk pool pays for claims of up to \$50,000. For losses over \$50,000, such claims will be included as an emergent capital project in the Ministry of Education's current capital plan. If the risk pool is depleted, then all losses will be included as emergent capital projects by the Ministry.

Q: May a school, some of which is used for educational purposes but with a portion leased out to a community group, be insured under the BCOPP?

A: No. If a facility is being used, in whole or in part, for educational purposes, then it is eligible for coverage under the Schools Protection Program (SPP).

Where a school is absolutely required to accommodate students from the surrounding neighbourhood or community, then a replacement school with a smaller student capacity is more likely to be supported in the Ministry's capital plan. As such, BCOPP insurance is not warranted. Notably, this replacement facility may be given an increased building area to provide for a neighbourhood learning centre space, which may serve the needs of the affected community group.

Q: In practice what is considered to be a vacant school?

A: For the purposes of SPP, a school that has not been used for 90 days is considered as vacant.

Q: Is there any form of coverage available for a vacant school?

A: No, a vacant school is ineligible for coverage under SPP or BCOPP. Should the school district rent out the vacant school, then BCOPP would be available when the school again is occupied.

Q: What is a school district's liability coverage in regards to a vacant school not covered under the standard property program?

A: The school district will continue to be covered under SPP's Liability Coverage Agreement. SPP would therefore provide the school district with any required legal defence against covered allegations of negligence concerning a vacant property.

A board of education remains responsible for the custody, maintenance and safekeeping of all property owned or leased by the board. As such, the board has a duty to remove any hazards from the premises. From a risk management perspective, a school district can minimize its exposure to risk. Please refer to the closed school checklist available under the publications tab on the SPP website at:

<http://www.bcspp.org/>

Q: What are the insurance considerations for a joint capital project involving the construction of, for example, a new theatre complex potentially with a number of interested parties contributing both private and public sources of project funding?

A: Some contributory funding arrangements may require specialized insurance coverage for the individual parties participating in a complicated joint-development project. To ensure all risks and insurance coverage costs are properly identified for any proposed joint capital project, it is recommended that a school district contact its SPP consultant for guidance on the matter early in business case development.

Q: If a closed school is being leased, for example, to a municipality for use as a community centre and insured under the BCOPP, would the school district be able to rebuild the facility without seeking prior consent from the Ministry of Education if the building is lost to a fire?

A: Yes. BCOPP provides “all risks” replacement cost property coverage for board-owned assets, subject to standard exclusions. This insurance is purchased solely at the discretion of the board, with no Ministry involvement. Therefore, a decision may be made by the board of education to completely rebuild a facility without seeking Ministry consent.

Notably, the terms and conditions of a lease agreement between a school district and their tenant should be carefully negotiated. Some general advice with respect to indemnity and insurance language may be found under the Risk Management tab on the SPP website at:

<http://www.bcspp.org/>

It is standard to transfer operating costs such as insurance, maintenance and taxes to a tenant if properly addressed in the lease agreement. It is highly recommended that districts seek external legal advice to ensure their agreements include terms such as rent abatement, termination and other important clauses.