

Communication is essential to ensure proper insurance coverage is in place

Insurance coverage for a rural water district is often looked at the same way as a home or farm owner's coverage. Yes, there is a policy in place because a premium was paid when the billing statement was received. If there has been no loss, the owner generally just assumes everything is going to be covered in case he/she does have to turn in a claim.

An insurance agent will be the first person to suggest that "it is better to discuss your exposures before a claim occurs than afterwards." We have all heard the three words for a successful business: location, location, location. The three words for an agent to have with his/her client is: communicate, communicate, and communicate. The goal of every good insurance agent is

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to be able to tell his/her client after a claim occurs, "You're covered!"

Rural water districts in Kansas vary considerably in size, from several thousand patrons down to less than fifty. Because there is such a variance, each district will have its own needs for insurance coverage; those needs should be addressed accordingly.

Most insurance companies will be able to offer the various coverage necessary to protect the district in what is called a "Package Policy." This coverage will include Property, General Liability, Auto, Bond, Inland Marine, Workers Compensation, and Directors and Officers Liability.

The following is an overview of each line and will be discussed in generalities.

Property

This line should be written to cover a broad range of perils. The form is called "Special" (previously it was known as "all risk"). It is the broadest coverage available. Note: it does not cover flood or earthquake. We encourage our insureds to carry limits on the property being insured to represent the replacement cost. If this method is used, loss settlement will not be depreciated. Property will be covered up to the limit written for that particular item. If the amount of coverage is not representative of the replacement cost, loss settlement will be on an Actual Cash Value basis (depreciation taken). Setting values correctly is a challenge. On larger districts, some insurance companies have engineers who will help establish replacement costs. Another way is to have the district's own engineer provide the cost to replace the property being insured. It is extremely important to review the property schedules annually as the cost to replace has risen dramatically in the past few years.

General Liability

This coverage will provide protection for the district from lawsuits from the general public claiming bodily injury or property damage.

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Defense coverage is part of the coverage; if the district is negligent, payment will be made. The keyword for payment is "negligence." The liability coverage extends to the premises of the district's operation. Another area of coverage picks up Products, i.e., the processing of water, sale and distribution. The Kansas tort claims limit of \$500,000 is what most districts carry. Note: this limit is for claims in Kansas.

Automobile

Coverages available under this line include liability, uninsured/underinsured motorist, comprehensive and collision. Hired and Auto Liability and Employee non-owned auto liability should be considered for those districts that own their own vehicles and those districts who do not own vehicles. This coverage protects the district if an employee uses his/her personal vehicle on district business and is involved in an accident. Note: this coverage protects the district, not the employee.

Bond

A fidelity bond provides protection to the district from loss of money or property from dishonest acts by employees. Most insurance companies' bonds also cover the board of directors, including the treasurer. The limit of coverage needs to be determined by the directors as they know how much money they have on hand and or handle in any one year. Note: countersignatures may be required by the bonding company.

Inland Marine

This is another form of property coverage and is commonly used to cover any business personal property that may be taken off premises (if covered with building business personal property, the coverage is for only a limited distance from the premises where the property is regularly stored). Business personal property such as contractor's equipment, handheld meter readers, pipe, valves and related equipment are examples to be covered under Inland Marine.

An Insurance Checklist – important for coverage, and filing any claim

- ✓ If your city or rural water district had to make a claim on its insurance, does the office or someone have the information needed at his/her fingertips, or would you be asking yourself "how much did we pay for that well house, pump or computer system?"
- ✓ Putting together a detailed record of property may seem at first glance like a time-consuming and even dull prospect. While it will take a commitment on your part, doing so often turns up critical information; that information will be invaluable if you should ever need to file a claim.
- ✓ A basic and relatively easy way to create a property inventory is to start with a computer spreadsheet. If there is no computer available, then a hand-written document will do. The important thing is that all the property be listed. The inventory should include broad headings such as a description (including serial numbers, make and model), the date acquired, location of the property, original cost and estimated replacement cost. With today's digital cameras being available to nearly everyone, one of the easiest ways to further document the inventory is by taking photos of the equipment and facilities. An additional consideration is to make copies of receipts for bigger ticket items.
- ✓ Another important point to consider is to store copies of the inventory listing in a second location to ensure safekeeping.
- ✓ "If a city or RWD ever has a claim, whether that is a natural disaster or a break-in, having a thorough inventory checklist makes the claim process much easier," says Edgar Peck with the Anderson-Peck Agency, Topeka, KS. He adds, "Property loss is a very stressful experience; not having a complete record of what was lost makes it much more stressful and delays resolving a claim."

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Workers' Compensation benefits are determined by the state, not the insurance company.

Workers' Compensation

This coverage provides state-set benefits for employees who may be injured or become sick from job-related activities. Note: benefits are determined by the state, not the insurance company.

Directors and Officers Liability

This is another form of liability protection. It is important to note that general liability protects the district from bodily injury and property damage claims. The definition under this coverage of a claim is "wrongful act", not bodily injury or property damage. It should be pointed out that individual directors, the district and employees are covered. A wrongful act can be a decision made by the board in good faith that causes someone who opposes or disagrees to challenge and

bring suit. The State of Kansas has granted limited immunity to individual directors from the suit but the entity of the district cannot be given the same favorable treatment from the suit. Therefore, because the D/O coverage is so broad in scope it is our suggestion that the limit be a least \$1 million since claims may be brought in federal court, and the Kansas Tort claims limit of \$500,000 would not be applicable.

A final point of interest, especially for smaller rural water districts that do not have employees, is the issue of contract labor. Whether the contract labor is for meter reading, plant oversight or maintenance, the district should require a certificate of insurance showing liability and workers' comp from the contractor. If one is not provided, your insurance company will make a charge on the district's policy. Note: an employee of the district is covered for liability and workers' comp from the district's insurance (district must have this coverage in place). I encourage districts to hire employees rather than use contract labor to eliminate gray areas of coverage, and certainly to be in

compliance with regulations regarding employees as dictated by the Internal Revenue Service.

It is up to each rural water district or city to help its agent to do a good job in protecting the entity. It's critical to keep the agent informed and up to date on what is happening. Communicate! If a water district or city is constructing a new facility of any kind, where is the builder's risk? Communicate! After the new facility is completed, inform the agent to add the property to the district's policy. Any change in operation needs to be sent to the agent for him/her to provide the quality of coverage needed by the district. Remember, COMMUNICATE!

Edgar Peck began his insurance career in 1963 with Insurance Services Office (ISO) of Kansas. Later he joined a Topeka, KS firm as commercial lines manager. In 1989, he became a partner in the Anderson Peck Agency. In



1994 he developed a special safety group dividend program for rural water districts underwritten by Employers Mutual Insurance. Contact: ed@andersonpeck.com

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