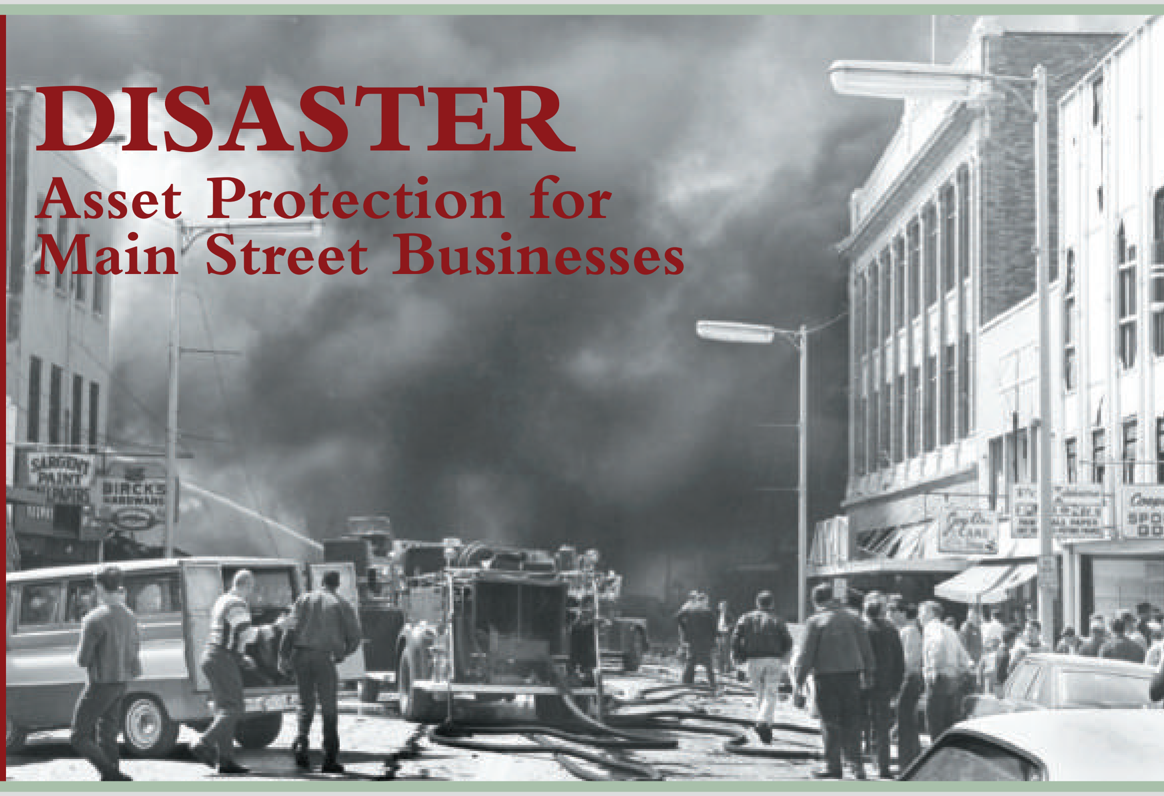
What draws people to your Main Street? Is it the streetscape or the carefully restored historic buildings? Is it the shops frequented by residents and visitors alike, contributing to the local economy? Whether it's all of the above or something completely different, there is no doubt that your Main Street is an important part of life in your community.

By Genny Dill

AVERTING DISASTER

Asset Protection for Main Street Businesses



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All the businesses along Main Street, or even in a strip mall, depend on each other for stability. Knowing that the viability of your commercial district depends on all businesses in the area, imagine what would happen if a fire breaks out in your commercial district. Maybe disaster strikes that cool, new restaurant that everyone raves about, or the hardware store that has been a neighborhood staple for more than 50 years. Or perhaps a fire rips through a row of buildings all at once, such as what happened on Main Street in Annapolis, Maryland, when an electrical fire burned three shops and caused smoke and water damage to others, just as the 2005 holiday shopping season was beginning. Now, a year later, two of the three heavily damaged shops remain burnt-out shells, while the third was bulldozed and an empty lot has taken its place. The intention of the owners at the time of the fire was to rebuild quickly and get back to business. But recovery has been difficult, with insurance and financial issues plaguing recovery.

How likely is your Main Street to recover quickly? Will the businesses located in the burned buildings be able to recover and come back? Will the undamaged businesses suffer because of the "holes" along the street? Will consumers be deterred by the vacancies in the district?

ASSET PROTECTION FOR MAIN STREET

Main Street programs, merchant associations, and downtown organizations should be speaking with their local business owners and partners about asset protection. This is important insurance coverage that protects the physical structure, its contents, and the income and operating expenses of the business. It is very easy to arm your Main Street businesses and property owners with the right information to protect them, and in turn, your entire business district in the event of a catastrophe.

One of the most common holdups to recovery after a catastrophe is inadequate insurance to cover rebuilding costs. This is where a little insurance education for Main Street business and property owners could go a long way to protecting the district as a whole. Owners should look carefully at the two most important coverages that help ensure longevity in the face of a catastrophe:

- **General liability** covers third-party claims alleging bodily injury and property damage. General liability coverage is fairly simple for most Main Street businesses. If a client slips and falls on the premises, this coverage would pay for the medical expense, loss of wage, etc., of the injured party. A business without this coverage faces financial hardship if a judgment is made against it.

- **Property coverage** is for actual physical damages to the building, contents, stock, and income.

Property coverage is the most valuable asset of Main Street. While liability claims happen, property claims are not only more frequent and more difficult to predict; they can also affect the entire commercial district. To ensure a speedier recovery after a fire or other catastrophe, property coverage must include coverage for the building, contents, stock, income, and increased construction costs necessary to comply with modern building ordinances or law.

PROPERTY VALUES AND CO-INSURANCE

Perhaps the most important item to discuss when evaluating coverage for a historic building is the proper insurance value of the property. A fairly large number of historic building owners whom I have encountered have had insurance-to-value issues. Many of the owners were unaware of the potential consequences associated with this. If property is not insured to its replacement value, in the event of a claim, the owner will not only lack adequate coverage but could be subject to huge co-insurance penalties as well. All of this combined will drastically reduce the individual's ability to recover after a loss. It is highly recommended that historic property owners obtain a property appraisal to determine the replacement/rebuild value of the structure, or consult with an insurance agent who is familiar with insuring historic buildings.

HOW CO-INSURANCE WORKS

Let's say you have a building that *you think* would cost $100,000 to replace and your policy has a co-insurance of 80 percent. You insure the building for $80,000 thinking you have fulfilled the co-insurance clause. A fire loss causes $60,000 worth of damage, so you submit a claim. Your insurance company subsequently determines that the replacement cost of the building is actually $150,000.

To determine how much to pay on the claim, the insurer divides the amount of insurance you purchased ($80,000) by the amount you should have purchased (80 percent of $150,000, or $120,000). The result (two-thirds, or $40,000) is the amount of your claim that the insurer will pay, minus your deductible. You, as the property owner, would pay the difference ($20,000), and your deductible. If the building had been insured for at least $120,000, the insurer would have reimbursed you for the full amount of the loss.

Bottom line: Co-insurance can be tricky and cost you a lot of money if you under-insure your property.

COVERAGE VALUATION

Coverage valuation should go hand-in-hand with correct property values. There are many valuation options available in the insurance industry, although many insurance carriers will offer only one or two, and some options are rarely available for historic properties. Never insure a building for *market value*. If the building is damaged by fire, the insurance carrier cannot go to market and buy a used one to plop down in place of the old one, it must *replace or repair the damaged portion* of the property.

Insuring a property for how much you can buy or sell it is never a smart idea, and will greatly reduce your ability to recover in the event of an underinsured loss.

Here are some simple explanations of the common options found in today's insurance market:

- **Replacement Cost Valuation (RCV):** Pays the actual cost to replace/rebuild the property with the same quality and construction, without a deduction for depreciation. This is a preferred method for historic properties, as it will not utilize depreciation based upon age.

  Bottom line: A damaged wood floor in a historic building is replaced with a wood floor that matches the undamaged floor throughout the rest of the structure.

- **Actual Cash Value (ACV):** *Replacement cost* of property damaged or destroyed at the time of loss, with *deduction for depreciation.* Actual cash value cannot exceed the applicable limit of liability shown in the declarations of the policy, nor the amount it would cost to repair or replace such property with material of like kind and quality within a reasonable amount of time after a loss. There is always a co-insur-

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All the businesses along Main Street depend on each other for stability. Understanding how to adequately insure business and property owners can help protect the district as a whole.

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ance clause that will accompany ACV. This method is typically not preferred for historic properties.

Bottom line: Stretched canvas was painted to look like leather on the walls of your historic property in the late 1980s. Water damage destroys one of the walls completely. You will receive a reimbursement for the wall covering at its current value, not for the cost to replace it. This will take into account that the covering has depreciated in value since the 1980s.

- **Agreed Value:** Optional clause for property coverage that waives the co-insurance clause on a year-by-year basis based on the filing and acceptance by the insurer of a statement of actual values on which the amount of insurance for the coming year is based. Failing to file a new statement within the required timeframe results in reapplication of the co-insurance clause until a new statement is filed and approved.

This method is preferred by some, as it allows the client to insure the building at a limit that might be lower or higher than the insurance company's Insurance-To-Value (ITV) charts would allow, though some insurance carriers would require the client to document why they feel the property should be insured at an amount higher or lower than the ITV charts.

ITV charts are an industry standard used to determine a building's value; they are often very good determinants of the value of modern structures but less so for historic properties because appropriate replacement materials are harder to find and the availability of skilled craftsmen varies by region.

Bottom line: In the event of a total property loss, you will collect the "agreed value" of the policy, regardless of the actual cost to replace the property at the time of a loss. In the event of a partial property loss, you will collect based upon replacement cost guidelines, up to the total agreed amount of coverage.

- **Functional Replacement Cost:** Minimum cost to replace the damaged property with property that performs the same functions as the original, though it may be less expensive and of lower quality than the original.

Bottom line: A damaged plaster ceiling could be replaced with sheetrock. An intricately carved mahogany banister may be replaced with a less intricate pine version.

- **Guaranteed Replacement Cost:** Ensures that property will be replaced even if the cost exceeds the limit on the policy (for many companies, how much the cost may exceed the policy level is limited). Virtually all companies require that clients be insured to 100 percent of replacement cost in order to obtain guaranteed replacement cost coverage.

Although this is the most preferred coverage valuation, it is not available in all areas and is often unavailable for historic properties.

Bottom line: Your property is replaced, regardless of the amount of coverage stated in the declarations page.

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BUSINESS INCOME AND ORDINANCE OR LAW COVERAGE

What else do business owners need to have covered? After providing for the building and contents or stock, the next items to look at are business income and ordinance or law coverage.

Business income coverage is exactly what it sounds like. After a loss, during the time it takes to get back into business (the "Period of Restoration"), a business owner will realize a loss of income that would have been generated had the loss not occurred. As with building and contents coverage, it is important for a business owner to insure his or her income to its adequate value.

Because this coverage may also be subject to a co-insurance clause, the owner must make the insurance agent aware of the correct amount of income that the organization generates in a 12-month period. Business owners must consider if they would need to continue paying their employees in order to retain them. Would they need to continue paying their vendors? What additional business operations expenses might they incur after a loss? These are important issues for business owners to discuss openly with their insurance agent so that he or she can properly advise them of their options.

Ordinance or law coverage is a three-part coverage. The first part of this coverage pays for the loss of value of an undamaged portion of an existing building that must be demolished and/or removed to conform to local building ordinance, code, or other law.

The second part of this coverage pays for the cost of demolition of the undamaged portions of the building necessitated by the enforcement of building, zoning, or land-use ordinance or law.

The third, and perhaps most important, part of this coverage pays for any increased cost of construction incurred to replace the building with one conforming to building laws or ordinances, or to repair the damaged building so that it meets the specifications of current building laws or ordinances.

A good example of the necessity for ordinance or law coverage (also called "Building Ordinance Coverage") would be compliance requirements for the Americans with Disabilities Act (ADA). If after a covered loss, a property owner may need to provide larger restrooms, wider doors, and other amenities to accommodate disabled people (which may have been "grandfathered" in before); this additional expense can be devastating to a small business. It is well worth the additional premium to have this protection written into a property policy.

Understanding how a property policy will react after a claim is essential to protecting small businesses and the Main Street district. Disaster for one affects us all. When you hear the term "Main Street community," it's because that is right. We are all a *community*, made up of numerous businesses, residents, and others who watch over one another and rely on each other for stability.

Genny Dill has worked in the property and casualty insurance market for nearly 13 years, the first half in her native state of California. She joined National Trust Insurance Services in 2003 and provides technical assistance, education, and other insurance services to historic property owners, Main Streets, preservation organizations, and historic theatres countrywide.

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Reducing Risk of Catastrophe Through Building Upgrades

Many tragedies can be avoided by taking simple steps to upgrade the historic buildings on your Main Street. In addition, most insurance companies require these updates; some will even discount your premium if the updates are very recent or exceed the local building code. The five items that insurance companies look for first are:

Wiring. The most common source of fire in commercial buildings is antiquated, inadequate, or faulty wiring. There is an easy, though somewhat costly, remedy. Update that wiring, get rid of those fuses, and yank out that knob and tube or aluminum wiring.

Plumbing. Old plumbing pipes and fixtures will leak! It's not a matter of if, it's a matter of when they will leak. Remove old iron and galvanized piping and replace it with PVC or another modern material.

Roof. Certain roofs may last longer than others. Metal and slate roofs, for example, can last for more than a hundred years if properly maintained. They should be inspected regularly to ensure that there are no leaks, cracks, or rusting. Flat, shingle, and tile roofs should also be inspected regularly, and flat roofs should be resealed every two to three years and replaced every 10 or according to the manufacturer's instructions. Shingle roofs should be replaced every 20 years, or according to the manufacturer's instructions.

HVAC. Old heating systems can be as dangerous as old wiring. While steam boilers can last for 50 years, it is important (and in many cases the law) to have them inspected annually. Electric and gas furnaces should be inspected annually as well, and should not be expected to last longer than 30 years. Old AC units can also cause serious water infiltration to buildings. It's important that they be inspected annually and replaced according to the manufacturer.

Fire safety. Do you want an automatic discount on your insurance premium and kudos from your local fire department? Install sprinkler systems and/or centrally monitored fire alarms. While smoke detectors are a great start, they do not provide the protection that a monitored fire alarm system provides when the building is empty or when a fire starts in the back of the premises. Sprinkler systems are a no-brainer; however they can be expensive to install in historic buildings if the owner wishes to maintain the same interior character.

Building A Sustainable Future

Representatives from the National Trust Insurance Services, LLC, will be available in the Expo Hall at the National Main Streets Conference to answer your Main Street-related insurance questions. For more information, please visit www.nationaltrust-insurance.org or call 866-269-0944.