

MHEC MASTER PROPERTY PROGRAM BUSINESS INTERRUPTION VALUE REPORTING

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BUSINESS INTERRUPTION VALUE REPORTING

- Introduction to business interruption coverage.
- Calculating the business interruption value.
- Review of business interruption worksheets.
- Other considerations.
- Deductions



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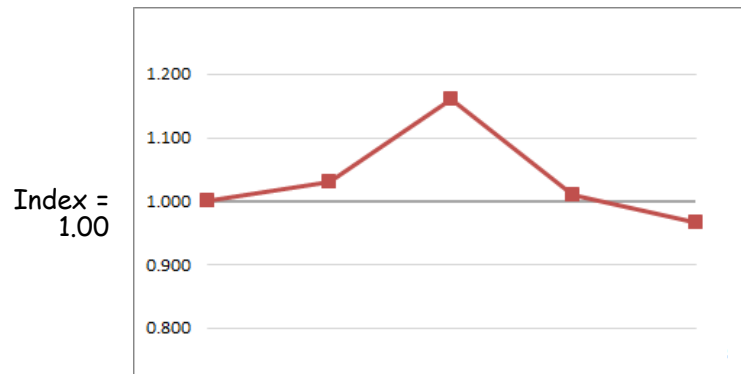
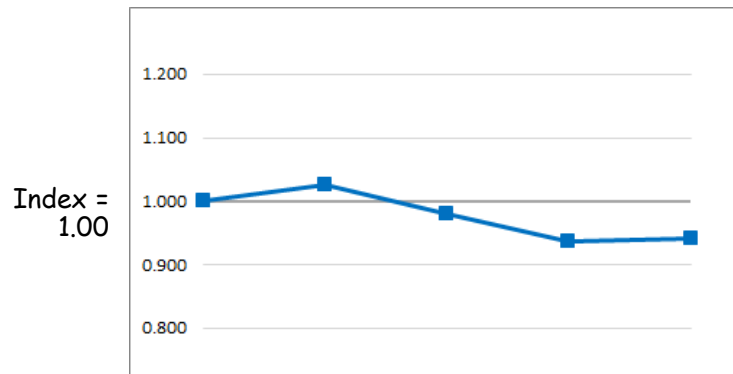
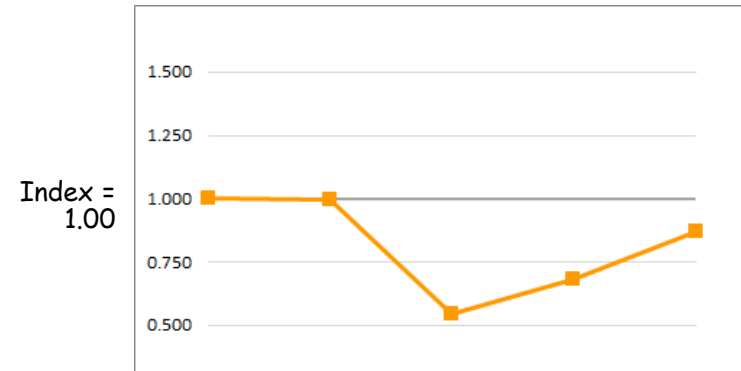
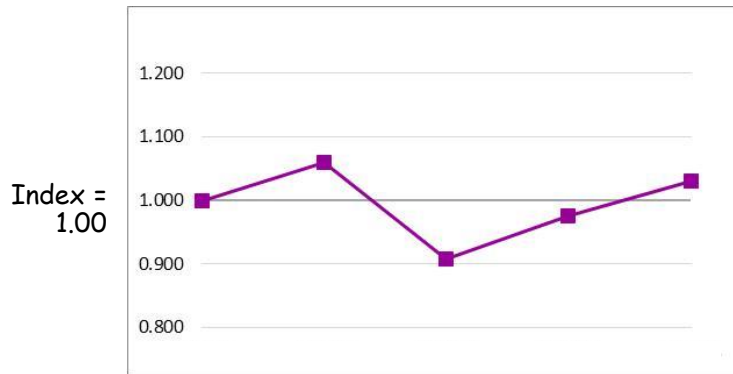
Introduction to Business Interruption Coverage



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Can anyone guess what this chart shows?





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Terminology

- Time element vs business interruption
- Business interruption vs business income
- B.I.
- C.B.I.
- "Actual loss sustained"
- "Experience of the business"
- "Necessary"



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What is Business Interruption Coverage?

- Coverage to protect the institution against the financial consequences of a loss from a necessary disruption in operations.
- Financial impacts can be in the form of:
 - Continuing expenses;
 - Increased costs;
 - Additional expenses to mitigate loss; or
 - Loss of net surplus (revenue minus expenses).
- In many large claims the B.I. loss exceeds the property damage amount.



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Why Report BI Values Each Year?

- Need to understand of the financial impact to the university from a disruption:
 - Setting appropriate limits.
 - Understanding maximum foreseeable loss (MFL) amounts.
 - Allocating premium.
 - Understanding impact of percentage deductibles.
- Request annually due to changes that occur.
- A properly completed B.I. worksheet will help with the claim adjustment process.



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Time element coverage arising from damage to your property:

- Business interruption.
- Extra expenses.
- Expediting expenses.
- Rental income.
- On premises services.
- Ordinary payroll.
- R&D.
- Extended period of indemnity.



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Time element coverage arising from damage to property of others:

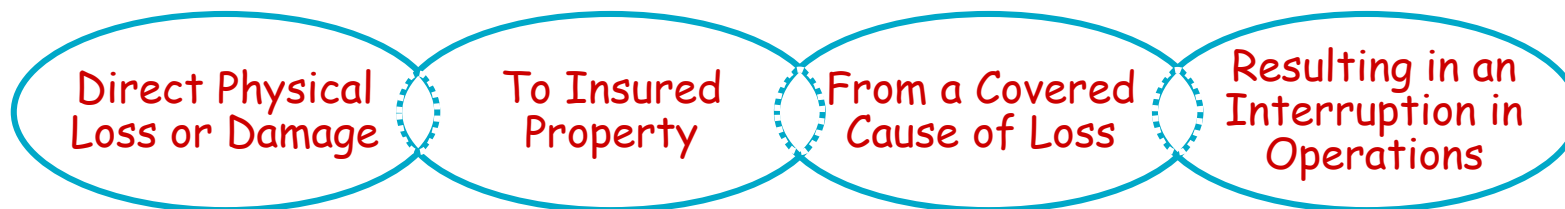
- Contingent time element:
 - Contingent B.I.
 - Contingent extra expenses.
- Royalties.
- Leader (dependent) property.
- Civil or military authority.
- Ingress/egress.
- Service interruption.
- Leasehold interest.

B.1

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The Golden Rule - Chain of Coverage



- If any "link" in the chain is broken, coverage does not apply.
- Insured property includes "contingent" or "dependent" locations.
- Covered cause of loss is "All Risks" except as otherwise excluded.

B.1

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The Policy Covers

- The actual loss sustained.
- For the period of indemnity.



Moment Loss Occurs



Rebuilding Period



Building Completion



Students Return





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Calculating the Business Interruption Value



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What is Contemplated in the Calculation?

- Gross earnings (“top-down”) approach:
 - Operating revenue less non-continuing expenses.
 - Generally-speaking, revenue less variable expenses.
- Gross profits (“bottom-up”) approach:
 - Net surplus plus normal continuing expenses.
- One-year period.
- Forward-looking.
- Without regard for loss mitigation.



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Operating Revenue Types

- Tuition (less discounts).
- Fees (less discounts).
- Research grants.
- Contracted research.
- Athletic ticket sales.
- Food & beverage sales.
- TV & radio broadcast rights.
- Merchandise sales.
- Health insurance proceeds.
- Parking receipts.
- Room & board.
- Other ticket sales (e.g., museums, theaters).
- Regularly-scheduled fund raising drives.



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Continuing Expenses

- BI covers necessary continuing expenses as part of the “Actual loss sustained”.
- Following are some continuing expenses:
 - Faculty and administrative staff.
 - Equipment leases.
 - Mortgage and business loan payments.
 - Real estate taxes.
 - Insurance.
 - Advertising expenses.
 - Heat/light/power under contract.
 - Other contractual obligations.



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Non-Operating Revenue

- Federal, state and local appropriations:
 - *Caveat: Unless they would be jeopardized by a shutdown.*
- Non-operating grants.
- Capital grants and gifts.
- Endowment income.
- Interest or dividend income.
- Outside royalty payments or other external income streams.*



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Non-continuing and Variable Expenses

- Cost of Merchandise Sold (books, clothing and other retail).
- Cost of Materials and Supplies Used (office supplies, classroom supplies, lab materials, food).
- Discounts (other than scholarship aid).
- Expenses (contractual adjustments, bad debts, collections).
- Utilities (excess of any minimum demand charges).
- Discontinued auxiliary services (residence halls, food services, health services, student unions, athletics, etc.).
- Other discontinued expenses (postage, travel, etc.).
- Services purchased from outsiders not under contract.



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Traditional BI Worksheet - Revenues

Standard Tuition and Fees Template

Name of Institution

(\$ x 100,000)

Data entry cells

Calculated cells

	Actual Past Year	Planned Coming Year
	2017	2018
A. TUITION and FEES (Less School Funded Scholarships & Non-Repayable Financial A	\$ 45,269	\$ 48,159
B. OTHER INCOME (Where Applicable)		
1 Laboratory Fees & Other Fees	\$ -	\$ -
2 Bookstore Sales (excluding Sales Tax)	1,304	1,387
3 Rental Income	-	-
4 Non-Athletic Ticket Sales & Concessions (Theaters, Museums, Galleries, etc.)	83	88
5 Athletic Ticket Sales, Concessions, TV & Radio	152	162
6 Room & Board (Dormitory Fees and Meal Contracts)	23,656	25,166
7 Parking	664	706
8 Royalties -- Commissions	6	6
9 Consulting Services / Education Department Sales	3,479	3,701
10 Research Grants and/or Contracts (see explanation above)	-	-
11 Telecommunications Satellite Educational Classes	-	-
12 User Fees (Library / Conferences)	-	-
13 Medicine / Hospitals / Health Care (1)	-	-
14 Vending	87	93
15 Golf Course	-	-
16 3rd Party Utilization of University Property and/or Services	-	-
17 Other (Specific to Your Institution & Not Included Above)	-	-
Other auxiliary sales and income	6,482	6,896
-	-	-
C. TOTAL OTHER INCOME	\$ 35,913	\$ 38,205
D. TOTAL REVENUE (Line A. + Line C.)	\$ 81,182	\$ 86,364



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Traditional BI Worksheet -

Deductions

E. DEDUCTIONS (All Expenses that would Discontinue if the Institution Shutdown Operations - Variable Expenses)

Cost of Merchandise Sold		
1 (Bookstores & Other Retail Operations)	\$ 3,151	\$ 3,352
Cost of Materials and Supplies		
2 (Office Supplies, Laboratory Supplies, Food, etc.)	2,906	3,092
3 Discounts (other than Scholarship aid)	-	-
4 Contractual Adjustments, Bad Debts and Collection Expenses	2,150	2,287
5 Cost of Energy / Utilities (Excess Minimum Demand Charges)	3,889	4,137
6 Cost of Services Discontinued - Auxiliaries	-	-
Other Discontinued Expenses		
7 (Travel, Postage, Other, & Dept. Equipment Expenses)	-	-
8 Cost of outside services (<i>not your employees</i>) to resell. (<i>not continuing under contract</i>)	-	-
9 Wages, salaries and benefits - other than those of staff that would be retained.	75,543	80,365
10 Other	-	-
F. TOTAL DEDUCTIONS	\$ 87,639	\$ 93,233
G. Insurable Business Income (Line D. - Line F.)	\$ (6,457)	\$ (6,869)
H. "Ordinary Payroll" (variable wages, salaries and benefits) (Line E. 9 above)	\$ 75,543	\$ 80,365
Number of days "Ordinary Payroll" insurance coverage is desired	90	90
I. Amount of Insured "Ordinary Payroll"	\$ 18,886	\$ 19,816
J. Combined Insurable Business Income & Insured "Ordinary Payroll"	\$ 12,429	\$ 12,947



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IPEDS Worksheet

Name of Institution
 (\$ x 1,000)

Year

2016

Part Line # / (col)

Fixed and continuing expenses / items

C	19/6	Interest - debt service relating to academic and administrative buildings	7,289
C		Other fixed nonoperating expenses and deductions (formerly 17/1)	-
C	19/5	Depreciation	15,742
		This line for additional costs at the institution's discretion	-
		Total fixed and continuing expenses/items above	\$ 23,031

Data entry cells

Data entry cells

Calculated cells

Operating Expenses - allocations to continuing and non-continuing categories:

Part Line # / (col)	Education and general: Separate line items into Materials, supplies etc. and Salaries and Wages prior to allocations to continuing expenses	Total Amount	% Continuing	Continuing Amount
C 01/7	Instruction - Materials, supplies etc.	6,682	10%	668
C 01/2	Salaries and wages	51,072	10%	5,107
C 02/7	Research - Materials, supplies etc.	408	0%	-
C 02/2	Salaries and wages	603	0%	-
C 03/7	Public Service - Materials, supplies etc.	2,342	0%	-
C 03/2	Salaries and wages	2,071	0%	-
C 05/7	Academic support - Materials, supplies etc.	1,747	10%	175
C 05/2	Salaries and wages	7,753	10%	775
C 06/7	Student services - Materials, supplies etc.	7,355	0%	-
C 06/2	Salaries and wages	11,016	0%	-
C 07/7	Institutional support - Materials, supplies etc.	-	70%	-
C 07/2	Salaries and wages	8,354	70%	5,848
C 10/1	Scholarships and Fellowships Expenses	11,369	0%	-
C 10/2	Salaries and wages	-	-	-
C 11/7	Auxiliary enterprises - Materials, supplies etc.	9,616	50%	4,808
C 11/2	Salaries and wages	16,422	50%	8,211
C 08/7	O&M of physical plant (Facilities) - Materials, supplies etc.	6,031	100%	6,031
C 08/2	Salaries and wages	5,772	100%	5,772
C 12/7	Hospital services - Materials, supplies etc.	-	-	-
C 12/2	Salaries and wages	-	-	-
C 13/7	Independent operations - Materials, supplies etc.	-	-	-
C 13/2	Salaries and wages	-	-	-

45,965

603

2,071

6,978

11,016

2,506

-

8,211

-

-

-



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BUSINESS INTERRUPTION VALUE REPORTING

IPEDS Worksheet

Name of Institution
 (\$ x 1,000)

Year

2016

Operating Expenses - allocations to continuing and non-continuing categories:				Total Amount	% Continuing	Continuing Amount
Part Line # / (col)	Education and general:	Separate line items into Materials, supplies etc. and Salaries and Wages prior to allocations to continuing expenses				
C 13 / 2		Salaries and wages		-		-
C 19 / 2		Total Salaries and Wages*	10			
C 19 / 3		Total fringe benefits*	1	10%		
Note 3		Utilities expense		0		-
		Total continuing expense portion of operating expenses				\$ 37,395
Total Business Income Value						\$ 60,426
Insured Ordinary Payroll Value (see note below)						\$ 7,735
Total Time Element Value						\$ 68,161

77,350

Data entry cells

Data entry cells

Calculated cells

- Notes: 1 - Salaries and Wages are moved to Insured Ordinary Payroll Value to the extent automatically calculated as Non-continuing (Total less continuing) and may be overwritten if less than annual payroll coverage is desired.
 2 - Use projected values if material changes are anticipated (opening new school/residence/operation)
 3 - Utilities expenses from financial statements unless included in O&M of plant

* Default entries for Total Salaries & Wages and benefits are only samples - enter the actual data from your institution's IPEDS report



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Other Considerations



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"Ordinary Payroll"

- This is a subjective calculation.
- All payroll except officers, executives, managers, employees under contract and *employees as determined by the Insured*.
- Considerations:
 - "Good corporate citizen".
 - Substitute job opportunities.
 - Difficulty to re-train new hires.
 - Union contract requirements.
- Deductions would include insurance premiums, employment taxes, Social Security and unemployment insurance.



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“Ordinary Payroll”

- Careful consideration - think in terms of a year-long shutdown.
- Laying off employees may delay resumption of normal operations.
- Cost of employee labor used for repairs, debris cleanup and other post-loss costs can be included in the insurance claim.
 - May be at reduced rates.



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Other items

- Depreciation expense:
 - Do not deduct.
 - This is an accounting expense, but a continuing one.
 - Think in terms of a building depreciating over time.
- Research & Development:
 - Generates more expense than revenue during the research phase.
- Special care should be taken to review contingent exposures:
 - Non-owned sports facility.
 - Income from joint ventures.
 - Dependence on foreign students from a particular country.



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Tripping Hazards

- Business interruption does not cover revenues per se.
 - Coverage is net surplus (revenues minus expenses).
- Exposure versus risk.
- Payroll/ordinary payroll.



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