6-8-1945

State Fire Insurance

Fred Berry
Office of the Maine State Auditor

STATE FIRE INSURANCE

(A report to Maine Legislative Research
Committee from
Fred Berry, State Auditor)

Augusta, Maine. June 8, 1945.

(A Copy)

STATE DEPARTMENT OF AUDIT
STATE HOUSE, AUGUSTA

MEMORANDUM

June 8, 1945

TO: Legislative Research Committee
FROM: Mr. Fred Berry, State Auditor
SUBJECT: State Fire Insurance

In compliance with a request of your Secretary, Representative Haskell, I have reviewed the Hayes' Fire Insurance Report of 1944 which concerns self-insurance and other matters and have made comments concerning it. I have, also, included exhibits which support the various statements discussed herein. It is my hope that you will find the material helpful in your research study.

Your attention is called to an outline on Page 5 (prepared by Mr. Hayes) showing a summary loss ratio for a period of thirteen years. It reflects a loss ratio of the University of Maine of 226 per cent; other coverage, 27 per cent, and an over-all loss ratio of 57 per cent. This indicates a net cost to the State and its agencies of 43 per cent of the total premiums paid. I am unable to bring this schedule up to date for actual figures for the past year's operations are not yet available. However, it is estimated that there is approximately $150,000.00 due the State, etc., for fire losses occurring during this past year. Therefore, when considering an additional year's premium, the result shows an approximate 75 per cent loss ratio compared to 57 per cent last year. This reflects a net cost of an approximate 25 per cent of premiums paid. Compared with 43 per cent, it reflects a net reduction for a one year period of time of 18 per cent.

This analysis shows how readily changes can occur and how vital they may be in the presentation of a fire insurance problem. At the end of one period of time, with few fire losses, it may appear advantageous to self-insure. A year later, with heavy losses, the situation can easily reverse itself. The answer to the question is a difficult one and only by a thorough study of the matter will the best answer be found. There are many differences of opinions concerning self-insurance problems and further information in this report will point out this fact.

There is, incorporated in this report a summation of premium allocations. This subject is purely administrative in nature, but due to the fact the Hayes' Report was used as a basis to distribute insurance premiums this year, it seems proper to review the matter for your consideration. I particularly stress the dubject because it may result in claims for refunds from the State to the extent of some $100,000.00. If his policy is followed(see Hays' Report, Page 8) such refunds would apply to the University of Maine, Maine Maritime Academy, Port of Portland Authority, etc. I must express strong disapprovale to the acceptance of this procedure for I cannot concur that the Hayes' method of allocation is the proper one to apply. Further details are embodied in this report.

I suggest that the insurance problems in their present stages be referred to the State Department of Insurance for more extensive study. The advice of insurance experts should prove of material value to the Committee.

All of which is respectfully submitted,

FMB:HR (signed) Fred M. Berry, State Auditor

INDEX

LEGISLATIVE RESEARCH COMMITTEE

State Fire Insurance

I am in receipt of a letter dated May 19, from R. N. Haskell, Secretary, Legislative Research Committee, which advises me that a vote of this Committee was taken May 16 instructing the State Auditor to review the so-called Hayes' Report on State fire insurance coverage, and to submit a new report with recommendations relating to this problem. Before making one comment, however, I wish to emphasize the fact that my knowledge of insurance matters is exceedingly limited. I do not consider myself an authority on so highly a specialized subject, although I am very happy to have the opportunity of assembling information for this Committee which may ultimately prove of value to the entire Legislature, and the people as a whole. I believe such a report as this must be largely in narrative form, and therefore, I shall summarize as much of the Hayes' data as deemed advisable so that a general idea may be had of his very comprehensive study in regard to State insurance matters. I shall make my comments as brief as possible. There are also included in this report several exhibits which substantiate data mentioned.

Mr. Hayes' Report, in my opinion, deals principally with two major points.

1. Advisability of Corporate Versus Self-insurance.
2. Allocation of Premiums Chargeable to State Departments, Institutions and Agencies.

They will be discussed in that order.

CORPORATE VERSUS SELF-INSURANCE

The problem of deciding the best course to follow in corporate versus self-insurance is a moot question. There have been many arguments advanced both pro and con; all seemingly quite logical and consequently making a decision very difficult. They should be given every consideration before a final decision is reached. A

review of the procedure followed by other States is of interest and tends to strenghten my conviction that the question is a difficult one to solve.

In April, 1942, the Council of State Governments of Chicago, Illinois, published a pamphlet entitled "Insurance on State owned Physical Property in Thirty-seven States." Page 1 of this report states that of thirty-seven States replying to their questionaire, only fifteen rely on insurance companies for the protection of a major amount of their physical property; eighteen have some form of self-insurance, four have some other method of replacing losses due to fire. Of the eighteen States having some form of self-insurance, eight finance the same by special appropriation, four by paying into the fund regular insurance premiums, four by periodical contributions, and two by general appropriation.

Other information available on the subject is a Research Report No. 16 of the Research Division of the Maryland Legislative Council published in October, 1942, entitled "Self-insurance on State Property." This delves into the relative good and bad points in connection with any form of self-insurance and various methods of handling. Of the forty-five States of the Union reporting to them, thirteen insure their property in separate policies, three have schedule coverage, two insure part of their property with commercial companies, thirteen have neither insurance nor insurance funds, three have limited self-insurance, while eleven have complete self-insurance.

Mr. Hayes has stated in his report, (Page 10) "In general, there is a strong tendency these days for any owner to not carry fire insurance in outside companies when their property is scattered so widely that no conflagration loss is really possible, and when they have either cash or credit sufficient at any time to meet any loss that might come up; both of which facts are met in the State of Maine property." He further states, (Page 7, Stenographic Report, Research Committee) "The economic foundation of insurance is absolutely sound, being based on the deposit by property owners of a relatively small sum with insurance

companies year by year, from which accumulating funds the insurance company reimburses the policy holders for any losses sustained by them. The rates set are based on the law of averages, measuring these losses over a wide variety of situations and a long number of years. On the other hand, of every dollar premium paid in for insurance, some twenty or twenty-five per cent is paid directly to the agent as commission, while another twenty or twenty-five per cent, at least, is necessarily needed by the insurance company to cover its salaries, overhead costs, taxes, dividends to stockholders, etc. Thus, of each dollar paid in, in premiums, there remains only from forty to sixty cents available from which losses can be paid. Since our insurance companies are soundly handled, it will be seen that the average loss ratio over the country, as a whole, and over the years can only be some forty to sixty per cent of the premiums, and that if any property holder could be assured that his losses would not exceed the average, he could carry his own insurance and save approximately fifty per cent of the cost of premiums. The weakness in this, however, is that no property holder can tell what minute his entire property, or at least a material portion of it, will be wiped out by fire, probably entailing a loss on him greater than his premiums paid over many years, and requiring cash available instantly in a large sum. This weakness, however, virtually vanishes when the property is scattered over a wide territory and when cash or credit removed the catastrophical danger of a sudden destruction by fire."

At the Legislative Research Committee meeting, held last October 24, 1944, for the purpose of discussing this problem, there appeared no proponents for the self-insurance plan, but many opponents voiced their opinions as to the advisability of changing the present procedure of handling State fire insurance. Austin McKowen, representing the National Board of Fire Insurance Underwriters (Page 16, Stenographic Report, Research Committee) said, "A very large majority of the citizens of this State and of this Country carry fire insurance on the property that they own or have an insurable interest in. They carry fire insurance on their

homes and on personal property and on their places of business. Their reason for so doing is obvious. The citizen is anxious to safeguard himself against a sudden financial loss. A loss perhaps that would wipe out the work and effort of many years. In view of the fact that a very large majority of the citizens insure their property against loss or damage by fire, they as taxpayers are entitled to the same protection for property that they own jointly with all of the other citizens of the State or Municipality."

Another point raised in opposition to this plan was, broadly speaking, government versus private enterprise. It was indicated that such a change in policy would be a socialistic move.

It was further stated before this Committee (Page 17, Stenographic Report, Research Committee) that, "The history of State funds (for fire insurance) has been miserable. In 1923 Alabama adopted self-insurance. In 1934 the three candidates for Governor pledged themselves to the abolition of the fund. Colorado adopted it in 1925. In this case the record was bad. The 1933 legislature abolished the continuing of appropriations to the fund and in 1935 Governor Johnson signed a bill permitting the purchase of fire insurance. Georgia adopted it in 1935 and discontinued it in December, 1936. Montana started in 1935 and discontinued in 1937. Their law permitted them to purchase insurance and during the two years the fund operated premiums were paid in by various departments of the State amounting to $114,000.00 and reinsurance cost $110,000.00. New Jersey started a fund in 1913 and discontinued it in 1935. By act of the legislature it was used for relief purposes, and that ended the fund in New Jersey. Probably one of the outstanding cases was in Oregon. In 1925 they started a fund and a statute provided they would appropriate $125,000.00 for 1925 and 1926 and $50,000.00 for each year thereafter until the fund reached $300,000.00. In 1931 there was $90,000.00 in the fund. In 1935 the State Capitol burned with a loss of $1,500,000.00 with $168,000.00 in the fund. Vermont started a fund in 1919. In 1938 the fund was used

for the purchase and installation of fire protection equipment. ......Oregon was one of the worst examples. If it was worst, Minnesota is second. The State of New Hampshire has a law by which State owned property may not be insured. However, in New Hampshire there are State owned properties which are under the supervision of trustees."

On Page 13, Hayes' Report there appears a historical summary in which total fire insurance coverage, net premiums paid, fire losses recovered, etc., are shown. This information is for the years 1931 to 1944 inclusive. There is also an analysis reflecting the loss ratio of the University of Maine to be 226 per cent; other coverage, 27 per cent; an over-all loss rat'o of 57 per cent. This is set forth as follows:

	Losses	Approximate Earned Premium	Approximate Loss Ratio
University of Maine	$204,883	$ 90,638	226 %
Other Coverage	139,190	513,621	27 %
	$344,073	$604,258	57 %

It is on this presentation that Mr. Hayes appears to base his thinking as to the possible wisdom of the self-insurance plan. In his testimony before the Research Committee, he theorizes on the basis of a loss ratio of twenty-seven per cent for "other coverage" which excludes coverage for the University of Maine. The reason for this being, a question whether or not the University of Maine was a State agency. This point is now clarified. The 92nd Legislature passed a law making the University of Maine a State agency. I cannot agree that separation of the University of Maine from the self-insurance study should be made because by so doing it certainly presents a more favorable picture for the self-insurance plan, and it appears to me, the more broadly this problem is covered, the nearer to a solution we will be. There are other properties of the State having as much or more exposure than the University. The rates so indicate. Furthermore, you will

note in the exhibit on Page 5 that the earned premium figured for the University of Maine, totaled $90,638.00. However, on Page 39 in the Hayes' Report, a schedule prepared from copies of bills and correspondence furnished by the University of Maine, indicates that the premium charges amounted to $161,611.18, plus additional charges of $8,112.88, making a total net charge of $169,724.06 for the period June 1, 1931 to May 31, 1944 inclusive. This amount was actually paid by the University of Maine. The reason for the difference is due to a formula promulgated by Mr. Hayes, and which was quite different from that used during the past thirteen years; the latter of which, in my opinion, is the proper method of allocating fire insurance premiums. If this reasoning is sound, then the facts are; fifty-seven per cent loss ratio applies to the over-all State schedule, and a forty-three per cent cost to the State actually exists. This forty-three per cent covers commissions, administration, investigations, dividends, premium tax on insurance companies, etc. If any savings are to result to the State of Maine by adopting the self-insurance plan, it must come from this so-called forty-three per cent of premiums paid, and it remains for someone to determine how much these costs will be if administered by the State, rather than the insurance companies.

There is one more factor quite pertinent to the question, and deserving of considerable thought. That is "risk." This is the gamble and the crux of the whole situation. It seems to me that in the final analysis, a decision can only be reached when it is determined who should assume the responsibility of taking the risk. (Research Committee Report 1943-4): "The theory of fire insurance is simply a spreading of the risk whereby many owners of property submit to a small annual loss, by way of premium payments, in order to avoid a severe individual loss when a fire occurs.

"Experienced insurance men simply state categorically that risks in one state alone are not sufficient spreading of the risk to be dependable. The experience might be favorable or it might be calamitously bad but they unanimously agree that there is no guarantee that it would be average."

ALLOCATION OF PREMIUMS TO THE STATE DEPARTMENTS, INSTITUTIONS AND AGENCIES

Refunds were made in January 1945, to the University of Maine, and the Maine Maritime Academy in the amounts of $7,560.82, and $1,049.27 respectively. They are, in my opinion, questionable. These refunds, as I understand it, were predicated upon the Hayes' Fire Insurance Report. It has raised a question in the minds of the trustees of the University of Maine that if such a rebate was proper for the last fiscal year's fire insurance coverage, then further adjustments should be made on previous years' payments which the Hayes' Report indicates might involve some $58,000.00. (Hayes' Report, Page 9).

I must take exceptions to these refunds as well as to any other adjustments that may be contemplated on the basis of this report because; first, I do not believe that the State Controller has the authority to make such an adjustment until approved by the Governor and Council (Constitution of Maine, Article V, Section 4; Revised Statutes of 1944, Page 31), and the State Insurance Commissioner and; secondly, because the analysis of the Hayes' Report (Page 33, 34, 35) indicates to me that its preparation was formulated on an entirely different plan of distribution of premium than had been followed for the past thirteen years. The plan that has been followed is based on rates promulgated by the New England Fire Insurance Rating Association.

It is my opinion that the "Hayes'" plan is not the correct basis for computing premiums chargeable to outside State agencies. There are several reasons for this:

1. Application of rates are not in accord with those used by the New England Fire Insurance Rating Association, and it is their rates which are used when computing the State fire premium. This is a contributory factor in the variations between our findings and the result of his analysis.

2. The prorating of content coverage proportionate to building values reflect substantial errors in premium allocation.

3. The average content rate promulgated by Mr. Hayes, on full book value coverage of each individual building at the University of Maine, was figured on the total content value at June 19, 1943, in the amount of $1,466,714.81, and was used in his computations as compared to $1,230,000.00 actually covered in the State insurance policy. There was a reduction of $92,600.00 in content value and an approximate ten per cent reduction of total contents from 1943 that was not considered in the establishment of the average content rate which he computed at .3978. Had these factors been considered, a much higher average rate would have resulted, and consequently, a much higher premium allocation would have been reflected and chargeable to the University of Maine.

4. The fact that the refund to the University of Maine produced an adjusted payment of $11,121.56 (Hayes' Report, Page 17) led us to make further study of the matter, for this amount is some $700.00 less than would have been paid if the over-all State average rate of 80¢ (three years) had been applied, yet Page 6 of the Hayes' Report states in part, "It is questionable whether the State should run the risk of paying higher rate for its entire coverage for the sake of including the University's properties."

Therefore, with these facts before us, a conference was arranged with Mr. Hermes, Executive Manager of the New England Fire Insurance Rating Association, to determine the formulas used by them when computing the average State rate and what effect this application would have on premium allocations to outside State agencies; such as, University of Maine, Port of Portland Authority, Maine Maritime Academy, etc.

. . . .

The meeting was held on Friday, March 23, and Mr. Whitten, Deputy Insurance Commissioner, and Mr. Lovejoy, former State Insurance Commissioner, were both present. It was determined that the over-all average State rate of 80¢ was promulgated by computing the premiums of each individual piece of property and contents, which were included in the State schedule at their respective tariff rates, and then allowing a discount of fifteen per cent. This was granted due to the volume of business written (approximately $22,000,000.00 for the past fiscal year), thus, producing the average rate of 80¢. This same method was applied to the individual outside State agencies, using their tariff rates, less the discount, and rates of 95¢ for the University of Maine, $1.02½ for the Port of Portland Authority were therefore established.

These rates have been used in the preparation of our statements, the same as followed in previous years, and we believe that they truly reflect the proper basis for charging the outside agencies their proportionate share of State fire insurance premiums.

It is, therefore, recommended:

1. Steps be taken to adjust these errors on the basis of the correct formula promulgated by the New England Fire Insurance Rating Association.

2. Refunds should be obtained from the University of Maine and the Maine Maritime Academy in the amounts of $4,191.72, and $183.37, respectively. (Berry's Report, Exhibit A).

3. Journal Entry No. 1686, dated December 19, 1944, which apportioned fire insurance charges to State institutions and departments, should be adjusted to the extent deemed advisable.

4. That the revolutionized method of allocating fire insurance charges to various State departments and institutions used during the past year be discontinued. The necessity of requiring

measurements of floor space throughout the State Capitol (this was actually done) so that proportionate charges of premiums could be made to individual State departments, is in my opinion, an absolute absurdity.

5. A lump sum appropriation be made by the Legislature, as in past years, to pay fire insurance premiums of the State. This would cover charges of these departments and institutions operating from the general fund.

6. That following a survey which is to be made by the Superintendent of Buildings of all State properties, a revision in fire insurance rate be requested of the New England Fire Insurance Rating Association by the State Department of Insurance. (Revision of rates, now in process).

7. That the Governor and Council issue a Council Order authorizing rates to be used by the Insurance Department when computing premiums applicable to outside agencies. These rates should be obtained from the Rating Association.

8. That all matters relating to insurance of any kind be referred to the Department of Insurance for approval before action is taken. This will utilize the facilities of our State departments for the purposes which they are intended to operate.

9. That claims for fire losses be filed for collection of losses more promptly than in the past. This will facilitate early collection and tend to eliminate controversial matters which may arise in settlement.

In closing I wish it fully understood that I realize Mr. Hayes spent considerable time and effort in preparing his report. It is not my intention to discredit it in any way. The voluminous calculations which were made, and the necessity of relying on sources of information other than he was able to assemble

himself, were determining factors for the basis of his conclusions. In my opinion, his report was not intended to be an instrument for use in the settlement of fire insurance premiums applicable to outside State agencies. It simply was a study made to show statistics and information that might prove of value to the State. The mere fact that his report was used to settle insurance premium allocations should not in any way detract from the historical and other value of the data assembled.

SUMMARY

The foregoing remarks should not be construed to mean that this Department is taking issue, either pro or con, with the self-insurance plan discussed in this report. It is my humble opinion that a question of such magnitude can best be solved by experts in this line, and only after the most diligent study has been made. I, therefore, recommend to the Committee that this matter be referred, in its present stages, to the State Department of Insurance for further study. This will permit the question to be approached strictly from an insurance angle. The result should provide more valuable information for the Committee and assist them materially in making a final decision as to which method will be for the best interest of the State.

I also wish to make clear that the recommendations and remarks which I have made concerning allocations of fire insurance premiums simply express my own personal opinions. These differ somewhat with those of my predecessor, which may be unfortunate, but by honest differences of opinions, it seems certain to me that the ultimate settlement of such a moot question will result in the best solution for all concerned.

Respectfully submitted,

State Auditor

Historical Summary

June 1, 1931 to May 31, 1944

(cents omitted)

Policy Year Beginning	Total Coverage	Net Premiums Paid	Fire Losses U. of M.	Fire Losses Other	Fire Losses Total	No.
June 1, 1931	$14,059,992	$ 88,182 (a)	$ -	$ 2,667	$ 2,667	3
1932	14,130,240	39,088	1,507	24	1,531	2
1933	12,287,664	37,886	13,232	52	13,284	3
1934	12,320,500	41,208	-	-	-	-
1935	13,018,200	44,446	46,284	86,060	132,344	5
1936	15,601,560	46,802	512	503	1,015	5
1937	16,728,960	47,106	2,520	16,219	18,739	6
1938	17,579,040	48,534	-	-	-	-
1939	17,733,576	49,807	28	15,309	15,337	6
1940	18,636,312	51,352	57	17,686	17,743	5
1941	18,653,376	52,544	30	273	303	5
1942	19,628,633	53,583	89,926	83	90,009	4
1943	20,155,733	53,721	50,787	315	51,102	3
		$654,259 (b)	$204,883	$139,191	$344,073 (d)	47
1944	22,822,313	73,963 (c)			?	

All of the above arranged from data furnished by
Murray Bradish, Chairman of Key Agents.

(a) Covers premiums 1/3 for 3 years; 1/3 for 2 years; 1/3 for 1 year.

(b) Accumulated totals include prepayments, 1/3 coverage for 2 years and 1/3 for 1 year, totaling approximately $50,000.

(c) Increase due to a 20% increase on coverage on buildings for 3, 2 and 1 yr. periods, and in new extended insurance, also for 3, 2 and 1 yr. periods.

(d) After allowance of $50,000 for approximate prepaid insurance on May 31, 1944, and allocating to University of Maine 15% of the earned premiums (based on distribution shown elsewhere herein of the premium payable June 1, 1944), we obtain the following:

	Losses	Approximate Earned Premium	Approximate Loss Ratio
University of Maine	$204,883	$ 90,638	226%
Other Coverage	139,190	513,621	27%
	$344,073	$604,258	57%

For details of: 1944 Coverage, refer to Exhibit F.
Distribution of 1944 charges, refer to Ex. D & C and Schedules 2 & 2A.
Analysis of Fire Loss, refer to Exhibits G and H.

UNIVERSITY OF MAINE

Yearly Coverage, Rates and Charges

From Copies of Bills and Correspondence Furnished by University of Maine

Policy Year Beginning	Coverage Buildings	Coverage Contents	Coverage Combined	Rate (e)	Premium	Additional Charges(c)	Total - net
June 1, 1931	$1,732,400	$ 786,852	$2,519,252	.665 (a)	$16,753.03 (a)	$ -	$ 16,753.03
1932	1,732,400	786,852	2,519,252	.95/3 (b)	7,977.63	436.21	8,413.84
1933	1,732,864	742,556	2,475,420	"	7,838.83	404.07	8,242.90
1934	1,751,059	742,556	2,493,615	.975/3	8,104.25	91.79	8,196.04
1935	1,970,744	758,956	2,729,700	.975/3	8,871.52	-	8,871.52
1936	2,218,650	1,000,000	3,218,650	.975/3	10,460.61	1,589.09	12,049.70
1937	2,326,650	1,238,000	3,564,650	.975/3	11,585.11	985.02	12,570.13
1938	2,389,350	1,250,000	3,639,350	.975/3	11,827.89	302.33	12,130.22
1939	2,394,086	1,257,600	3,651,686	.95/3	11,563.67	-	11,563.67
1940	2,743,364	1,297,600	4,040,964	.95/3	12,796.37	-	12,796.37
1941	2,852,896	1,322,600	4,175,496	.95/3	13,222.40	-	13,222.40
1942	2,819,273	1,322,600	4,141,873	.95/3	13,115.93	-	13,115.93
1943	2,819,273	1,322,600	4,141,873	.95/3	13,115.93	-	13,115.93
1944	3,217,825	1,322,600(d)	4,540,425	.95/3	14,378.01	4,304.37(d)	18,682.38
					$161,611.18	$8,112.88	$169,724.06

(a) First year covered 1/3 each for 1 yr., 2 yrs. and 3 yrs. Rate used of .665 stated as "average rate". "1 3/4 annual rate of .38" (Erroneous?). From the $16,753.03 current premium, $15,006.91 was subtracted for return premiums and dividends on cancelled previous policies, and settled by check for $1,746.12.

(b) "Annual rate .38" $2\frac{1}{2} \times 38 = .95 = 3$ yr. rate. $.95/3 = 1$ yr. on a three-year basis.

(c) Additional charges apparently include charges for increased coverage during year, or for 2 & 1 yr. coverage for amounts added at year ends. The rates used: 1932 $1.50 and 1.375 for 3 yrs; 1933, no data; 1934, .95/3; 1936, no data; 1937, Bldg. .50, Contents, .625 and .975/3; 1938, no data.

(d) 1944 proper coverage on contents $1,230,000; computation for additional coverage at least 3 times too high. All data from invoices on file at State House.

(e) In a letter dated Sept. 2, 1944, Murray S. Bradish states: "The average rate applying to the U. of M. was established at .38 annual, producing a 3-yr. term rate of .95", without stating when it was established or whether by the Rating Association, or was simply established by mutual agreement between Mr. Leadbetter and the University. No data is at hand re. the .665 rate used in 1931, or the .975 rate, 1934 to 1938, inclusive.

Detail, 1944 Coverage and Tariff Rates will be found in Schedule 4A.

STATE FIRE INSURANCE

June 1, 1944

To facilitate the reading of schedule 2, we are showing, as a sample of all computations, the complete computation for items 90-92, Reformatory for Men.

The schedule, showing individual buildings covered, which comprises a part of the policy, reads in part as follows:

Item No.	Description	Insured Amount	
90	Reformatory Building	$78,000.	
91	New Industrial Building	66,000.	
92	New Barn and Dairy Building	20,700.	$164,700.

From Mr. Bradish, Chairman of the Key Agents, we were furnished with the separate annual tariff rates for such items of buildings and contents as promulgated by the Rating Association of the New England Insurance Exchange; and at his suggestion, in regard to extended coverage, used the average annual cost rate of .03 for all items other than the Port of Portland Authority, for which .06 was used. It will be understood that all rates listed, unless specifically stated, are the annual rates applying to each item and are subject to the term privilege for the three-year rate, which is 2 1/2 times the annual rate. Those applying to the Reformatory for Men are as follows:

	Annual Tariff Rates per Hundred Dollars of Coverage	
	Buildings	Contents
Reformatory Building	.25	.55
New Industrial Building	.35	.70
New Barn and Dairy Building	.88	.88

Computation of the weighted average tariff rate in Column 2:

Reformatory Building	.25 x 780	=	$195.00
New Industrial Building	.35 x 660	=	231.00
New Barn and Dairy Building	.88 x 207	=	182.16
Total -	1,647		$608.16

$608.16 x 2½ = $1,520.40 premium for 3 years
$1,520.40 ÷ 1,647 = .92313 rate for 3 years

.92313 ÷ 3 = .3077 Weighted average tariff rate (1 yr-3 yr basis)

Computation of premium @ tariff, column 3:

$1,520.40 ÷ 3 = $506.78

1647 x .3077 = $506.78

The figures used for Contents in Column 4 were furnished by the Insurance Department and it is understood that, with the exception of the Armories, Liquor

Stores, Port of Portland Authority, and the University of Maine, for which contents figures were furnished them, the balance of the coverage on contents was prorated on the basis of building coverage.

Computation of the weighted average tariff rate in Column 5:

Reformatory Building	.55	x	780	=	$429.00
New Industrial Building	.70	x	660	=	462.00
New Barn and Dairy Bldg.	.88	x	207	=	182.16
Total -			1647		$1073.16

$1073.16 x $2\frac{1}{2}$ = $ 2,682.90	3 year total
$2682.90 ÷ 1647 = 1.6290	3 year rate
1.6290 ÷ 3 = .5430	weighted average tariff rate (1 yr-3 yr basis)

Computation of premium @ tariff, Column 6:

$36,330.83 x .5430 = $197.28

At June 1, 1944, the coverage on all buildings was increased by 20% with the exception of the Port of Portland Authority and the University of Maine, which were increased by $72,000. and $387,952., respectively. To obtain the amount of additional coverage shown in Column 7 for all items but the two exceptions noted above, divide column 1 by 6 as the 20% increase is included under Column 1. As 1/3 of the total insurance is renewed each year for a three-year term, we will find 1/3 of the additional coverage running for two years and 1/3 running for one year, which would be comparable to 1/3 running for three years, under which condition the rate shown in Column 2 will be used to obtain the premium.

Computation of amount shown in Column 7:
$164,700 ÷ 6 = $27,450.

Computation of premium @ tariff shown in Column 8:

$27,450 x .3077 = $84.46

With the exception of the University of Maine which carries no extended coverage and the Port of Portland Authority for which the rate is .06, the rate in all cases is .03. The amount of coverage is the same as in Column 1.

Computation of premium @ tariff, shown in Column 9:
$167,400 x .03 = $98.82

The total of all the premiums shown in Column 10 computed by using the weighted average tariff rates is $111,649.66 whereas the total premium actually paid was $73,963.04 or 66.245647 % of Column 10.

Computation of adjusted premium shown in Column 11:
.66245647 x $887.34 = $587.82

To determine the premium based on weighted average tariff rate for Liquor Stores, the percentage of inventory in each store was obtained by dividing the amount of inventory on hand in each store as of June 30, 1943, and 1944 by the total inventory on hand on those dates. These individual percentages were applied to the $1,250,000. total coverage, after deducting $2,500., an arbitrary figure used for the contents of

the administration office, to allocate the total coverage over the various store units. These individual amounts of coverage were then multiplied by the individual rates at each location as furnished by Mr. Bradish and totaled, thus giving the total annual premium at individual tariff rates. The annual premium is multiplied by $2\frac{1}{2}$ to give the three-year premium and divided by 3 to obtain the one year premium on a three-year basis. The division of this last-mentioned figure by $1,250,000. furnished the weighted average annual tariff rate on a three-year basis of .5452.

The premiums developed for items 1, 2, 3 and 4 were apportioned to the several departments on the basis of floor space, which information was furnished by Mr. Russell, Superintendent of Public Buildings.

Unless and until there is a material change in tariff rates, or in relative amount of coverage on high and low rated items in any group, the weighted average tariff rates given in columns 2 and 5 can be used in computing charges for State insurance, provided such is reduced proportionately to total the exact total premium, as in Column 11.

COVERAGE AND PREMIUM DISTRIBUTION

Summary

Policy Year Beginning June 1, 1944

	Coverage		Distribution of Premium: Actually Billed		Distribution of Premium: Dept. of Audit	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Outside Incorporated Units:						
University of Maine	$4,447,825	19	$18,682.38 (b)	25	$11,121.56	15
Port of Portland Authority	863,000	4	4,194.78	6	3,254.34	4
Maine Maritime Academy	236,400	1	2,685.52 (b)	3	1,636.25	2
Total - Outside Units	5,547,225	24	25,562.68	34	16,012.15	21
State of Maine:						
Normal Schools	1,741,918	8	12,625.41 (b)	17	8,004.61	11
Liquor Stores	1,250,000	5	2,714.87	4	4,514.64	6
Institutions	10,525,173	46	24,615.27	33	27,995.67	38
Departments	3,757,998	17	8,600.89	12	17,435.97	24
Total - State	17,275,089	76	48,556.44	66	57,950.89	79
Grand Total	$22,822,314	100	$73,963.04 (a)	100	$73,963.04	100

(a) After subtraction of cancellation credits,

Normal Schools.

(b) The following comparison of the amounts billed for 1944 with figures in Column 10 of Schedule 2 of the cost of the same coverage at full individual tariff rates indicates forcibly the amount of the 1944 overcharge:

	Actually Charged	Cost at Tariff Rates
University of Maine	$18,682	$16,788
Maine Maritime Academy	2,685	2,470
Normal Schools	12,625	12,083

Refer to Exhibit E for detail analysis of charges for 1944 on both bases.

INDIVIDUAL FIRE LOSSES

June 1, 1931 to May 31, 1944

Prepared by Murray S. Bradish

Date			
August 31, 1931	Augusta State Hospital	$ 2,515.37	
October 22, 1931	Fort Kent, Dickey Hall	114.88	
March 9, 1932	Fort Kent, Dickey Hall	36.33	$ 2,666.58
November 27, 1932	Presque Isle, Edith Knight Bldg.	23.61	
December 17, 1932	Orono, Poultry Plant	274.16	
December 17, 1932	" " "	1,233.07	1,530.84
June 14, 1933	Orono, Mt. Vernon House	13,134.78	
November 9, 1933	Orono, Aubert Hall	97.19	
February 17, 1934	So. Portland, Farrington Cottage	51.78	13,283.75
July 31, 1935	Portland, State Pier	690.00	
January 15, 1936	Orono, Oak Hall	43,347.82	
January 20, 1936	Orono, Poultry Plant	2,936.28	
February 10, 1936	Machias, Normal School	85,293.95	
February 21, 1936	Bath, Children's Home	76.45	132,344.50
July - 1936	Augusta, State Capitol	91.60	
August 10, 1936	Presque Isle, Normal Hall	24.10	
October 20, 1936	Orono, Fernald Hall	511.64	
December 28, 1936	Fairfield, Nurses' Home	112.60	
June 3, 1937	Pownal, Bailer House	275.00	1,014.94
June 29, 1937	Auburn, Auto Registration	58.50	
July 24, 1937	So. Portland, State School, Main Bldg.	32.00	
October 31, 1937	Madawaska, Boys' Dormitory	64.50	
December 14, 1937	Orono, Poultry Plant	2,520.00	
February 9, 1938	Augusta, Airport Hangar	13,500.00	
May 6, 1938	Portland, State Pier	2,564.31	18,739.31
August 10, 1939	Portland, State Pier	10.92	
September 29, 1939	Bangor, Dept. Health & Welfare	6,470.68	
January 17, 1940	Dover-Foxcroft, Dept. Health & Welfare	214.72	
February 2, 1940	Millinocket, Armory	40.65	
May 8, 1940	Orono, Delta Tau Delta House	28.00	
May 10, 1940	Sanford, Liquor Store	8,571.64	15,336.61
June 27, 1940	Augusta, Criminal Insane Bldg.	46.00	
July 19, 1940	So. Windham, Industrial Bldg.	74.69	
January 7, 1941	Augusta, Supt's. Dwelling	119.35	
January 20, 1941	Orono, North Hall	57.03	
March 14, 1941	South Portland, Farrington Cottage	17,446.01	17,743.08
September 15, 1941	Orono, U. of M. Div. # 2	30.00	
December 24, 1941	So. Portland, Power House, Item 77	30.00	
January 1, 1942	Fairfield, Dormitory, Item 229	16.72	
March 15, 1942	Augusta, Blaine Mansion, Div. # 2	33.50	
February 28, 1942	Portland, Registration Bureau, Div. # 2	192.82	303.04

INDIVIDUAL FIRE LOSSES

June 1, 1931 to May 31, 1944

Prepared by Murray S. Bradish

June 27, 1942	Fairfield, Nurses' Home, Item 228	$ 40.00	
November 28, 1942	Orono, U. of M. Fernald Hall	216.68	
January 28, 1943	So. Portland, Lincoln Cottage, Item 74	42.78	
February 16, 1943	Orono, Wingate Hall, Item 132	89,709.30	$ 90,008.76
October 31, 1943	Thomaston, State Prison, Item 58	265.00	
February 13, 1944	Orono, U. of M. Hannibal Hamlin Hall, #229	50,787.35	
February 19, 1944	Presque Isle, Powers Bldg. Item 231	49.39	51,101.74
			$344,073.15

Losses summarized by agencies and departments and by sizes, in Exhibit G.

(Berry's Report-Exh. A)

STATE OF MAINE

Allocation of Premiums for State Fire Insurance

At June 1, 1944

OUTSIDE AGENCIES	Original Amount Paid or Due	Amount of Refund or Adjustment	Adjusted Amounts	Revised Computation	Amount Due State
University of Maine	$18,682.38	$7,560.82	$11,121.56	$15,313.28	$4,191.72
Port of Portland Authority	4,194.78	940.44	3,254.34	3,702.78	448.44*
Maine Maritime Academy	2,685.52	1,049.27	1,636.25	1,819.62	183.37
	$25,562.68	$9,550.53	$16,012.15	$20,835.68	$4,823.53

*Records show that the adjusted amount of $3,254.34 has not been paid by the Port of Portland Authority; in consequence, the entire amount of $3,702.78 is due from that agency.

NORMAL SCHOOLS	Original Amount Charged	Amount of Adjustment	Adjusted Amount	Revised Computation	Under-charge
Presque Isle Normal School	$2,138.58	$ 660.35	$1,478.23	$1,817.95	$ 339.72
Farmington State " "	2,020.85	778.42	1,242.43	1,663.06	420.63
Gorham Normal School	5,086.75	1,773.98	3,312.77	3,920.16	607.39
Machias " "	1,110.24	509.78	600.46	785.17	184.71
Madawaska Training School	2,111.71	740.99	1,370.72	1,483.96	113.24
	$12,468.13	$4,463.52	$8,004.61	$9,670.30	$1,665.69

SUMMARY

OUTSIDE AGENCIES	Original Amt. Paid or Due	Adjusted Amts. Basis of Hayes' Report	Revised Computation	Amount Due State
University of Maine	$18,682.38	$11,121.56	$15,313.28	$4,191.72
Port of Portland Authority	4,194.78	3,254.34	3,702.78	448.44
Maine Maritime Academy	2,685.52	1,636.25	1,819.62	183.37
	25,562.68	16,012.15	20,835.68	4,823.53
Normal Schools	12,468.13	8,004.61	9,670.30	
Other State Departments	35,932.22	49,946.27	43,457.05	
Total Premium	$73,963.03	$73,963.03	$73,963.03	