

Bulletin

The Official Publication of the Washington Building Congress | Oct./Nov. 2007

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Wild Weather and the Washington Region:

Re-Thinking Insurance Coverage Since Katrina

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It's been over two years since hurricane Katrina wreaked havoc on the Louisiana and Mississippi coastlines. We've heard countless stories about extensive property damage that not only destroyed businesses of all sizes, but also overwhelmed an insurance industry trying to cope with an unprecedented disaster. Katrina changed many of the rules the insurance industry plays by, but don't think new guidelines and policy exclusions impact only hurricane belt-based companies. Certainly, enterprises in the Gulf region, Florida and the Carolinas are at greater risk to hurricanes, but chances are the rules have changed for your Washington, DC-based real estate or construction business as well.

The metropolitan Washington region does not see many direct hits from hurricanes. We do, however, experience wild weather on occasion in the form of tropical storms, floods and tornadoes. In 2003, we got a lashing from the remnants of Hurricane Isabel when 70+ mile per hour winds and ten-foot storm surges hit the region. In 2001, an F5 class tornado devastated nearby La Plata, MD, and a year earlier an F3 tornado destroyed buildings on the University of Maryland campus in College Park, MD. Flooding, especially along the Potomac, is a common problem. We are reminded of the catastrophic effects of flooding periodically by television news crews reporting on Alexandria businesses as they sandbag in front of their stores when heavy rains are predicted.

According to the Federal Emergency Management Agency (FEMA), Washington businesses do need to take heed of the power of Mother Nature. A major change for Washingtonians since the arrival of Katrina is a new designation: several pockets along the Potomac are officially considered "coastal areas." FEMA classifies our region as Zone II, where winds can reach up to 160 miles per hour. Additionally, FEMA identifies Washington, DC, Maryland and Virginia as "a hurricane susceptible region."

But scientists predict the weather in our region can get much worse. The concept of global warming has been debated back and forth for years. While the topic still creates political riffs, there are enough qualified meteorologists warning that wild weather will continue to become a significant problem for Washington and its environs, making the examples listed above seem almost insignificant.

Perhaps you can choose to disregard research presented by scientists or the pleas from politicians regarding global warming, but you certainly can't avoid rate hikes or changing rules from your insurance carrier. Since Katrina hit in 2005, the nation's leading carriers have commissioned expensive catastrophic projection studies analyzing risks in our region and across the country. Most major carriers have proprietary, first-rate models detailing worst-case weather scenarios. While these independent studies are not released to the public, the message from insurance executives is clear: climactic changes are likely to happen and incidents of wild weather will increase. Concern over these issues in boardrooms throughout the industry will impact who will get insurance coverage and how much they will pay.


The real estate and construction industries face unique challenges in protecting their interests against the forces of nature. Contractors encounter a multitude of wind and flood-related

problems, ranging from securing heavy equipment to tying down loose materials. Since construction sites are works in progress, specialized insurance is needed when more permanent programs are not appropriate or available.

If your company has not re-evaluated its insurance program recently with an eye toward weather-related issues, do so immediately. The real estate and construction industries frequently ask us what kind of coverage they truly need to safeguard their interests and meet appropriate levels of compliance. While we don't advocate one-size-fits-all policies for our clients, we believe that most real estate and construction businesses in the mid-Atlantic region should consider the following types of coverage:

1. **Windstorm Damage.** Be aware of new rules impacting the mid-Atlantic region, especially along the Potomac and the Chesapeake. New policy exclusions could leave your properties more vulnerable than you realize. Lending institutions require participation in the National Flood Program, or that you buy a windstorm policy.
2. **Builders' Risk Coverage.** Properties under construction are appropriately covered under a policy extending coverage to Construction/Renovation activities as permanent insurance may not cover properties under construction. However materials used during construction are typically excluded.
3. **Installation Floaters.** Synonymous to builders' risk insurance, installation floaters specifically protect materials on site for builders. Be certain to check the extent of coverage afforded by your builders' risk policy. It may not be adequate for materials.
4. **Flood Insurance.** Check with your carrier about the extent of your flood coverage. Many businesses are under the assumption they have adequate coverage, but in a post-Katrina environment many are not fully aware of loopholes.

When re-evaluating the impact of weather on your insurance program, consider your properties and work sites outside the Washington region as well as those close to home. Many construction and real estate companies based in our region have interests in nationally... and many of them with properties in prime storm prone areas. Research will help you uncover any insurance industry nuances that may impact your coverage in highly susceptible regions.

Armed with the right information, you can help your company prevent significant losses in the long run. Make sure you understand changes that may have been made to your policies recently and how they will impact your coverage. 

Storm Preparedness and Contingency Planning: Steps You Can Take to Protect Your Properties and Sites

When Isabel flooded Annapolis and ripped power lines across the Washington region, in some cases crippling businesses for days, many of our clients were prepared to make the most out of a messy situation. Since hurricane and tropical storm warnings come days before they strike we can advise clients on how to take precautions. In the case of the F3 tornado that hit College Park we had no warning of the storm, but disaster readiness did help a client get back on its feet quicker than expected.

Your emergency preparedness and business contingency plan should include steps you have identified to prepare for a storm prior to its arrival and during the actual event, along with plans to get your business back up and running if you have been negatively impacted by the weather event.

Below are several important considerations when developing or reviewing your current plan:

- Utilize an emergency response plan and train employees in how to carry it out. This should include a notification system (the first priority should be to preserve life and prevent property damage), emergency phone numbers, alternative plans in the event cell phones and land lines are not operable.
- Establish procedures for each property/job-site. Employees should know when and how to shut down and how to carry out the specific action steps outlined for their particular operation.
- Conduct a dry run or drill once you have a set of procedures or action steps.
- Make sure you have back-up power. Check to be sure that it has been properly maintained and tested under load. If you do not have a back up power source, consider whether that could be added to your property or site.
- Back-up your computer system. Maintain a copy of important files and take them to a safe location; or, have a data storage firm regularly update your system via the Internet and maintain a copy for you.
- Notify vendors, customers, clients, suppliers and insurance companies of your plan, along with employees. Make sure you have a phone list of all those who may be impacted directly.
- Maintain a list of critical business machinery, materials, or other resources that you use and plan accordingly. A proactive step will include locating alternative facilities, equipment and supplies. You could also consider a reciprocity agreement with another business.
- Secure job-site materials and protect materials from the elements.



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Founded in 1885 and ranked among the top insurance brokers, RCM&D provides insurance brokerage services, risk management consulting, and employee benefit solutions to companies and organizations as well as personal insurance to both individuals and families. Offices in Baltimore, MD; Bethesda, MD; Richmond, VA; Virginia Beach, VA; and Harrisburg, PA. As director of the Real Estate/Construction Group at RCM&D, Geoff Haver is an expert on storm preparedness and business contingency planning. Email Geoff Haver at: ghaver@rcmd.com