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## technical bulletin

Municipal Technical Advisory Service  
Institute for Public Service, The University of Tennessee  
In cooperation with the Tennessee Municipal League

March 6, 1981

### FIRE INSURANCE RATINGS OUTSIDE CITIES -- POTENTIAL MISINTERPRETATION OF FIRE CLASSIFICATION GUIDELINES BY LOCAL INSURANCE AGENTS

By C. L. Overman, Municipal Consultant

City officials should be aware of amendments to fire insurance rating criteria used by some insurance companies in determining the fire protection classification of residential structures outside city limits. Several insurance companies (including U.S. Fire Insurance Company, Safeco, Fireman's Fund, Hartford, and Federal Kemper) recently sought and received authorization from the Tennessee Department of Insurance to upgrade the fire protection class of dwellings located immediately outside city limits if certain criteria were met. If these criteria are satisfied, these dwellings can be classified under the same fire protection rating as the area within the city served by the responding city fire department. For example, a qualifying dwelling outside a Class 6 city also would be rated on a Class 6 basis if the city fire department responds to that dwelling outside the city as it does to dwellings inside the city.

Generally speaking, a dwelling must meet these conditions to receive the fire protection rating of the responding city department:

1. Be located within five (5) miles of the responding department and within 1,000 feet of a fire hydrant (or the responding department carries water);
2. Be less than 10 years old and in a development having 25 or more dwellings;
3. Be in an area currently rated Class 9 or 10; and
4. The first response to the fire be made by the adjacent city fire department.

Examples of other conditions required by individual insurance companies are: (1) that the dwelling be outside a city currently rated 2 through 6; (2) that the dwelling be the primary residence of the owner (no second homes); (3) that the dwelling not be located in a brush or forest area; and, (4) that the dwelling be insured for \$50,000 or more.

The ability of outside-city homeowners to receive lower fire classification ratings on their homes and consequently lower fire insurance

premium lessens, to some degree, arguments for annexation. An even more unfair argument against annexation is created by a practical problem that has arisen in Morristown, where local insurance agents were giving outside-city homeowners a reduced fire insurance premium based on the "responding fire department" concept, when, in fact, the Morristown Fire Department responds to outside-city fires only as a back-up to the county volunteer fire department, not in a first response role. The State Department of Insurance has directed the companies following this practice in the Morristown area not to rate dwellings in accordance with the Morristown classification because that city is not the primary responding fire department. It is suspected that this practice may be occurring in other cities. If so, the Department of Insurance should be notified.

A factor to consider when determining the feasibility of outside-city fire protection is the effect the providing of this service may have on future annexation since it may enable suburban homeowners to receive inside-city fire insurance rates. The impact may be sufficient to discourage extension of this service.

It should be further recognized that while some cities have the power to provide outside-city fire service through a private act or a mutual aid agreement, the only general law authorization (Tennessee Code Annotated 7-34-104(9)) requires that this service be provided only on an individual contractual basis where a fee is charged to cover all operational and administrative costs to the city. This contractual requirement by state statute mitigates, to some degree, the reduction in fire insurance rates discussed above, because the homeowner generally must pay for the outside-city service, at least when cities providing protection are acting under the authority of Tennessee Code Annotated 7-34-104(9).

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