Office of Superintendent of Schools
Board Meeting of February 14, 2007

February 1, 2007 REVISED

Business Operations
Ofelia San Pedro, Deputy Superintendent

SUBJECT: **RENEWAL OF DISTRICT'S PROPERTY INSURANCE PROGRAM**

COMMITTEE: **INNOVATION, EFFICIENCY & GOVERNMENTAL RELATIONS**

LINK TO DISTRICT STRATEGIC PLAN: **IMPROVE FINANCIAL SERVICES**

The School Board is required to carry property insurance on all school buildings, and all school plants, including contents, boilers and machinery, except buildings of three classrooms or less, pursuant to the provisions of Section 1001.42(9)(b)(8)(d), Florida Statutes. The structure of the district's property insurance program is also of vital interest to FEMA and the financial markets which hold the Master Lease for the district's Certificates of Participation (COP's). Section 5.3 of the master lease states that any policy of all risk property insurance must be obtained from a commercial insurance company or companies rated A+ by A.M. Best Company, or in one of the two highest rating categories of Moody's and S&P, or otherwise approved by the Credit Facility Issuer.

Pursuant to past practice, staff is seeking authority to secure and bind all risk, replacement cost property insurance coverage, effective May 1, 2007, with total property insurance expenditures not to exceed $30 million. This advanced authority is sought due to the fact that much of the final placement will occur after the April 18, 2007 Board meeting. An agenda item will be brought to the Board meeting of May 16, 2007 confirming the placement, inclusive of all terms, conditions, premiums, etc.

Meetings have begun with current and prospective underwriters to discuss renewal terms which will become effective on May 1, 2007. While the insurance marketplace has not improved significantly as a result of a very tame 2006 hurricane season, staff and the Board's property insurance broker believe that some improvements can and should be made to the program at renewal. The key elements of the renewal strategy include:

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- Obtaining needed coverage limits to complete the primary and second layers to relieve the district of the liability of acting as a quota share coinsurer, in conjunction with attempting to obtain some additional limits of coverage through re-structuring of current coverage

- Remaining at the current windstorm deductible levels unless it can be demonstrated that the assumption of additional deductible risk can result in significant premium savings that can be used to obtain coverage beyond the current $200 million limits

- Capping the 2007-2008 maximum annual expenditures for all property insurance programs at the previously authorized 2006-2007 level of $30 million

BACKGROUND AND RENEWAL STRATEGY

The last renewal approved by the Board at its meeting of February 15, 2006, provided authority to secure and bind maximum available limits of all risk, replacement cost property insurance coverage with annual expenditures not to exceed $30 million, effective May 1, 2006. Subsequently, at the Board meeting of May 10, 2006, approval was received to confirm the final placement of the district's catastrophic, all risk, replacement cost property insurance program, including the purchase of a program consisting of $200 million in coverage limits. Pursuant to the authorization to not exceed $30 million, which was received in February, 2006, total expenditures for the 2006-2007 property insurance program including state-mandated fees is $29,863,257.90.

Through a memorandum from the Superintendent dated October 20, 2006, the Board received a copy of a letter from Mr. Kevin M. McCarty, Insurance Commissioner, Office of Insurance Regulation, stating that the district' property insurance program appears to be reasonable and competitive given the state of the Florida insurance market in 2006. This letter is sought annually in order to assure district access to Public Assistance Grants, through the Federal Emergency Management Agency (FEMA), pursuant to Section 406 of the Federal Stafford Act which states that the individual state's insurance commissioner must certify that the property insurance carried by an insured is "reasonable" based upon the marketplace conditions, in order to for a property owner to seek funding from FEMA in the event of an emergency. Total expected Public Assistance Grants from FEMA for Hurricane Wilma alone will exceed $30 million. The district's excess insurance claim for Hurricane Wilma was $1,999,205.83.

The Board is well aware of the state of the property insurance market in catastrophic-prone regions such as South Florida. The Special Legislative Session which occurred in January, 2006 dealt primarily with residential windstorm coverage provided by insurers which typically do not underwrite large commercial risks, and Citizens, the state operated insurer of last resort. A provision within HB 1A does provide for the ability of public entities to enter into property insurance pools, and provide the ability for these pools to issue to bonds to finance windstorm losses. While this provision may provide some options in future year's renewals as staff explores the ability to issue bonds with other public entities, it will provide little or no impact on the upcoming May 1, 2007 renewal. Additionally, strategies to hold down the cost of coverage were passed as part of the insurance reform bill which emanated from the Legislature's special session. A key component of these strategies is the use of mitigation funds to strengthen properties against windstorm damage. Obtaining Federal Mitigation grants for the installation of shutters and other loss prevention devices as well as innovative construction methods and more stringent building codes have been a longstanding strategy of Miami-Dade County Public School's Risk Management Office.

For the May 1, 2007 renewal, Miami-Dade Public School's total insured values on a replacement cost basis for insurance purposes (excluding land values) are $7.5 billion, representing a 10% increase over the previous year's values. This increase includes an increase in the valuation of existing facilities as well as the addition of new district facilities where new square footage has been added. With this concentration of values all in Miami-Dade County, the district faces significant challenges in the excess insurance marketplace along with other large South Florida property owners including Miami-Dade County and Broward County Schools.

As part of a strategy to mitigate the impact of insurance marketplace changes, the Risk and Benefits Management staff continually meet with property underwriters representing both domestic and international carriers who participate in the district's program. This strategy is crucial to the success of the district's program because underwriters make decisions on who they elect to insure and on what terms in many instances based upon a through review of the risk, their relationships with the insured, and their impression of the depth of the insured's risk management programs.

As previously indicated, The Board's current property insurance program consists of four layers of coverage of $50 million per layer with total program limits per loss of $200 million. Due to the significant restrictions in available capacity last year when the program was developed, the district has liability in the primary and second layer where it is participating as a quota share coinsurer in the amounts of $8,750,000 and $5,412,500, respectively.

While it is anticipated that FEMA would provide reimbursement in the event of a loss where the district was forced to self-insure these amounts, staff feels strongly that this exposure, in addition to the heightened per loss windstorm deductible of 4% of values per campus, subject to a per loss minimum deductible of $25 million, becomes critical when a storm occurs and the district needs to identify funding to repair/replace damaged facilities. Staff feels that it can re-structure components of the existing coverage, which will result in the ability to obtain needed capacity to complete these layers.

Due to a very restrictive marketplace, in order to obtain the $200 million in capacity for the 2006 program, staff recommended, and the Board approved a program inclusive of a windstorm deductible increase from 3% of values per location, subject to a minimum per loss deductible of $1 million to 4% of values per location at the time of the loss subject to a minimum per loss deductible of $25 million.

An important tool used to determine the district's potential building damage in the event of a massive storm is the use of computer modeling. Two major modeling companies are used by most insurers including RMS's RiskLink 6.0.2 model and ABS Consulting's DQECAT v3.8 model. As part of the service provided by the Arthur J. Gallagher & Co., as the district's broker, updated property values are run through each model to determine the district's probable maximum loss (PML).

As a result of shortcomings in the models which were uncovered following Hurricane Katrina's destruction of the gulf coast, these models were updated over the past 12 months, resulting in significantly higher loss values being reported. Early results of the modeling and preliminary meetings with insurers appear to demonstrate that the Board would not obtain any benefits by increasing its existing windstorm deductible.

CITIZENS' PROPERTY INSURANCE CORPORATION (CITIZENS)

At last year's renewal, the district was required to pay a 6.84% assessment intended to cover Citizens' $500 million for its shortfall from the 2004 hurricane season. The district's 2006 Citizen's assessment amounted to $1,846,013.90. During the 2006 Florida Legislative Session, significant state funds were used to fund the Citizens shortfall from the 2005 hurricane season, which when combined with the 2004 shortfall amounted to $1.7 billion.

As of now, it appears that Citizens will only be assessing insurance companies which are licensed as admitted carriers in the State of Florida. Most of the insurers which underwrite catastrophe-prone coverage for large entities such as Miami-Dade County Public Schools are state-approved excess and surplus lines insurers, and are not subject to the Citizens' assessment. It is recommended that any savings be used to complete the uninsured layers as well as purchase additional coverage, if available.

TERRORISM INSURANCE ACT AND COVERAGE

On November 19, 2002, Congress originally passed the Terrorism Insurance Act of 2002 (TRIA) which was extended last year by Congress to be in effect through 2007. Insurance coverage provided by companies, pursuant to the provisions of TRIA, is solely for foreign terrorism acts. Many large public entities including Miami-Dade County and Miami-Dade County Public Schools believe that coverage for acts of domestic terrorism is also vital.

Staff is recommending that the district continue to purchase terrorism coverage for its 2007 property renewal because of the risk of having an event such as a truck driving through a school, bomb threats, etc., would not be covered by the district's master property insurance coverage, but would be covered by purchased stand alone terrorism coverage. Last year's renewal premium for $50 million in coverage was $450,004, and was included as part of the total costs which did not exceed the $30 million expenditure cap. Staff believes that this coverage can be renewed with no premium increase, and will attempt to negotiate premium reductions if possible.

NATIONAL FLOOD INSURANCE PROGRAM (NFIP)
The district has a number of buildings which are required to be covered by NFIP) as a requirement of the Federal Stafford Act, which provides access to FEMA public assistance grants. Many properties have a May 1, 2007 renewal, with subsequent renewals throughout the year. Therefore, staff is also recommending that authorization be sought to establish the 2007-2008 flood budget of $3,500,000, same as expiring, based upon expected premium payments.

ADJUSTING FIRM
The Board's property insurance program has included Joe Eudy & Associates, Inc. as the district's senior adjuster in the policy to handle insured losses since 1993, following Hurricane Andrew. Mr. Eudy has handled losses periodically through the years, including the district's most recent insured loss from Hurricane Wilma in 2005. Adjusting expenses are paid by the district's insurers as a function of the coverage.

As a result of the increase in the district's windstorm deductible which was increased as of May 1, 2006 to $25 million per loss, the increased deductible has eliminated the district's ability to have the insurers pay for loss adjusting expenses until the loss exceeds the minimum threshold of $25 million.

Having access to a quality adjusting firm immediately after a loss occurs is vital to the district's recovery efforts, in order to create a proper scope of loss for the insurers and FEMA. Therefore, staff is recommending that the district enter into a contract with an adjusting firm which is acceptable to Risk Management staff, and the district's insurers to provide adjusting services following a covered loss, with final recommendations for terms of the adjusting contract to be brought back to the Board at the Board meeting of May 16, 2007 along with confirmation of the property insurance program's placement.

MEETINGS WITH INSURANCE MARKETS
With the insurance market in such disarray and procurement of the district's coverage so vital, it is very important to have the district represented for renewal meetings with both domestic and international carriers. The district's Risk and Benefits Officer has traveled to London annually to meet with underwriters from multiple syndicates from Lloyd's of London and other London-based and European carriers. Therefore, the Risk and Benefits Officer will be traveling to London to meet with London-based markets, and other European markets from Thursday, March 22, 2007 through Wednesday, March 28, 2007.

School Board Rule 6Gx13- 4C-1.07, Travel Expenses – School Board Members, Superintendent of Schools, Employees, and Other Authorized Persons, requires that out of county travel estimated to exceed $2,500 must be approved by the Superintendent and the Board before travel commences if reimbursement if expected for the full amount. The Board has authorized travel for the past several years, as between air travel expenses, hotel accommodations and the disparity of the value of the dollar to the British Pound Sterling, it is anticipated that travel expenses for this trip will exceed the Board rule threshold of $2,500.
Therefore, the Board is being asked to provide authorization for out of county travel which will exceed $2,500; however, the final cost of the travel will be subject to the Travel Expenses Board Rule, and the funds are currently budgeted in the Office of Risk and Benefits Management's travel budget.

RECOMMENDED: That The School Board of Miami-Dade County, Florida:

1. authorize staff, through Arthur J. Gallagher & Co., to secure and bind maximum available limits of all risk, replacement cost property insurance coverage in anticipation of obtaining at least the existing $200 million, with annual premiums for all property insurance premiums and fees not to exceed $30 million, effective May 1, 2007, with payment to be funded from the district's property insurance budget, with a full report including confirmation of coverages, carriers, deductibles, costs, and terms to be submitted to the Board at its meeting of May 16, 2007;

2. authorize renewal of flood insurance coverage with the National Flood Insurance Program (NFIP), through Arthur J. Gallagher & Co., for all properties required by the Federal government to be covered with estimated premiums not to exceed $3.5 million for coverages effective throughout the 12 month period of May 1, 2007 to May 1, 2008;

3. authorize staff to interview insurance adjusting firms acceptable to staff and the district's insurers to provide adjusting services to the district following a loss, with final recommendations for entering into a contract for such services to be brought back to the Board meeting of May 16, 2007; and

4. authorize the district's Risk and Benefits Officer to be reimbursed for out of county travel expenses, pursuant to School Board Rule 6Gx13- 4C-1.07, Travel Expenses – School Board Members, Superintendent of Schools, Employees, and Other Authorized Persons, for expenses anticipated to exceed $2,500 to attend renewal and marketing meetings with underwriters from Lloyd's of London and other London companies, as well as underwriters from Swiss Re and Munich Re, with such expenditures to be funded from the Office of Risk and Benefits Management's travel budget.

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