Office of Superintendent of Schools
Board Meeting of February 13, 2008

January 31, 2008

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 the Federal Emergency Management Agency (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.

PROPERTY INSURANCE STRUCTURE FOR 2008-2009

At the Board meeting of May 16, 2007, the Board confirmed placement of the coverage which had been previously authorized at the Board meeting of February 14, 2007 for a total property insurance program, with limits of $250 million. The annual cost of this program, including the recommended $50 million terrorism coverage is $30,565,801. The Board also had authorized a budget for flood insurance coverage for existing and new facilities in flood zones (determined by the Federal Stafford Act) in the amount of $3,500,000.

Pursuant to past practice, staff is seeking authority to secure and bind all-risk, replacement cost property insurance coverage, effective May 1, 2008. This advanced authority is sought due to the fact that much of the final placement will occur after the April 16, 2008 Board meeting. An agenda item will be brought to the Board meeting of May 21, 2008 confirming the placement, inclusive of all terms, conditions, premiums, etc.

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Staff is requesting this authority to achieve a renewal with existing limits, but with a premium reduction of $5,000,000 to $25,000,000 for total property insurance expenditures for the policy period of May 1, 2008 to May 1, 2009. Staff believes that this reduction in cost is achievable due to the "softening" of the property insurance market in spite of an active 2007 Atlantic Hurricane Season. Background information on the hurricane season and the state of the property insurance market has been sent to the Board as back-up information to this agenda item.

For the May 1, 2008 renewal, Miami-Dade Public School's total insured values on a replacement cost basis for insurance purposes (excluding land values) are $8.6 billion, representing a 13% 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 being 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.

A ten year history of the district's property insurance program including Total Insured Values (TIV's), coverage limits, premium rates per $100 of total insured values, annual premiums not including state required fees, and applicable deductibles has been included in the back-up information sent to the Board.

REQUIREMENTS FROM FEMA TO ACCESS FUNDING

The Board must prove that its property insurance program meets the reasonableness test under Title 44 of the Code of Federal Regulations, Paragraph 206.253 to be able to access Public Assistance Grants through the Federal Emergency Management Agency (FEMA). Through a memorandum to the Board dated October 2, 2007, the Board was provided an update on the district's property insurance program including copies of a letter sent to Mr. Craig W. Fugate, Director, State of Florida, Division of Emergency Management, requesting the annual letter of reasonableness. Also included was a copy of a letter which was written to the Honorable Alex Sink, Chief Financial Officer thanking her for meeting with staff in the Capitol on September, 11, 2007. The meeting with Ms. Sink was held to outline the difficulty in Florida public entities determining what would be considered as "reasonable" insurance coverage by FEMA standards when procuring property insurance.

A letter was subsequently received from Mr. Fugate, following a review by the State Insurance Commissioner, affirming the reasonableness determination of M-DCPS property insurance program. A copy of this letter is included in the back-up information sent to the Board.

SELF INSURANCE AND DEDUCTIBLES
Stability in the Board's property coverage is crucial as the market conditions cause fluctuations that affect terms and conditions of coverage.

Not unlike other financial areas such as liability and workers' compensation, use of self insurance and assumption of risks play a key role in the structure of the program and maximizing financial opportunities. However, unlike the predictability of liability and workers' compensation losses, which can be actuarially determined and therefore properly funded, windstorm risk is not predictable. Therefore, self insurance is used to offset the cost of procuring coverage at lower limits, but exposes the district to financial liability in the event of a major storm.

To adequately control that risk, and not limit the district's access to FEMA-funding following a natural disaster, use of deductibles and funding for such losses must be very strategic. This past November, the Board approved the issuance of an RFP to secure a line of credit to pay for repairs to damaged facilities within the district's windstorm deductible until FEMA reimbursement is received. This sort of cost-benefit analysis is very valuable to determine at what point the assumption of additional risk saves enough premium to make the risk reasonable.

INSURER NEGOTIATIONS, LOSS PREVENTION, FEMA MITIGATION
The district continues to develop and implement strategies to make its properties attractive to insurers by obtaining FEMA 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.

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 thorough review of the risk, their relationships with the insured, and their impression of the depth of the insured's risk management programs.

Included in the back-up information is a discussion of how hurricane modeling is performed to determine the district's potential building damage in the event of a massive storm. This modeling is used to predict financial loss and can determine risk of loss as the category of the storm increases and windstorm deductible scenarios change.

TERRORISM INSURANCE ACT AND COVERAGE
On December 26, 2007 President George W. Bush signed into law, H.R. 2761, the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) of 2007, just days before the program was set to expire on December 31, 2007. TRIPRA will play a key roll in ensuring that businesses will have the available and affordable insurance options necessary to protect themselves against the financial consequences of a terrorist event.

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 2008 property renewal because 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 $252,504, including state fees, which was reduced from the prior year's premium of $450,000. Staff believes that this coverage can be renewed with no premium increase, and will negotiate for premium reductions if possible.

NATIONAL FLOOD INSURANCE PROGRAM (NFIP)
As mentioned previously, 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 2008-2009 flood budget of $3,500,000, same as expiring, based upon expected premium payments.

MEETINGS WITH INSURANCE MARKETS
Conducting face to face meetings with property underwriters is vital to maximize the impact of the property renewal process 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. This year, the Risk and Benefits Officer will be traveling to London to meet with London-based markets, and other European markets from Thursday, March 24, 2008 through Wednesday, March 30, 2008.

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 is expected for the full amount. The Board has authorized travel for the past several years, since the cost of currency conversion, air travel, and hotel accommodations is anticipated to exceed the Board rule threshold of $2,500.

Therefore, the Board is being asked to provide authorization for out of county travel in excess of $2,500; with the provision that the final cost of the travel will be subject to the Travel Expenses Board Rule, and the funds are available in the travel budget of the Office of Risk and Benefits Management.

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 the existing $250 million limits, with annual premiums for all property insurance premiums and fees not to exceed $25 million, effective May 1, 2008. Payment for this coverage is 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 21, 2008;

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. Estimated premiums are not to exceed $3.5 million for coverages effective for the 12 month period of May 1, 2008 to May 1, 2009; and

3. 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. These expenses are anticipated to exceed $2,500 to attend renewal and marketing meetings with underwriters in London-based and other European markets, provided such expenditures are funded from the available travel budget of the Office of Risk and Benefits Management.

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