Office of Superintendent of Schools
Board Meeting of February 10, 2010

January 27, 2010

Financial Services
Richard H. Hinds, Chief Financial Officer

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

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

LINK TO STRATEGIC FRAMEWORK: **FINANCIAL EFFICIENCY/STABILITY**

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. Additionally, pursuant to the provisions of the Robert T. Stafford Disaster Relief and Assistance Act (Stafford Act), FEMA funding becomes available after a disaster declaration from the President of the United States of America. FEMA has recently taken a very strict position on the required purchase of coverage following the receipt of FEMA funds, which Miami-Dade County Public Schools has received, resulting in increased scrutiny of property owner's coverages by FEMA.

The structure of the District's property insurance program is also of vital interest to the financial markets which hold the Master Lease for the District's Certificate 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 Officer.

The current property insurance program's term is May 1, 2009 to May 1, 2010. Staff is seeking authority to secure and bind all-risk, replacement cost property insurance coverage for the term of May 1, 2010 to May 1, 2011. This advanced authority is sought due to the fact that much of the final placement will occur after the Board meeting of April 14, 2010. An agenda item will be brought to the Board meeting of May 12, 2010 confirming the placement, inclusive of all terms, conditions, premiums, etc.

Over the past year, both Broward County School Board and Miami-Dade County's Risk Management Divisions asked Miami-Dade County's Risk and Benefits Officer to sit as a voting member to review received proposals for property insurance brokerage services. In both instances, Miami-Dade County Schools' incumbent broker, Arthur J. Gallagher & Co. (Gallagher) was selected as the most experienced broker to provide crucial capacity for property insurance coverages. The State of Florida and Broward County have also selected Gallagher over the past year to provide these services.

E-66

State Board Rule 6A2-1.012 (15) provides authorization for the School Board to enter into direct negotiations and contract for insurance and risk management related services. Utilizing the proper broker with proven success in accessing critical windstorm capacity is crucial for a successful renewal. With the property insurance market continuing to be vulnerable for large property owners in catastrophe-prone areas, staff believes that the fact that these other large property owners has chosen Arthur J. Gallagher to provide these services, satisfies the due diligence needed to continue to use Gallagher for its brokerage services for 2010. Moving forward, staff is recommending that a Request For Information (RFI) be created and brought to the Board at a subsequent Board meeting for property and casualty brokerage services. This RFI will be constructed to ask for proposals from licensed insurance brokers to demonstrate their proven ability to manage an account as large as Miami-Dade County Public Schools on all lines of coverage, inclusive of all currently provided services and on-site staff.

UPDATE FROM 2009 RENEWAL

At the Board meeting of February 11, 2009, the Board authorized staff, through Arthur J. Gallagher & Co. to secure and bind maximum limits of available all-risk, replacement cost property insurance coverage in anticipation of obtaining the existing (2008-2009) limits of coverage which was $250 million at that time, subject to a not to exceed premium expenditure of $25 million. The Board also 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 $3.5 million.

At the Board meeting of May 20, 2009, the Board confirmed placement of the renewal coverage which became effective for the present term of May 1, 2009 to May 1, 2010, reflecting all risk, replacement cost property insurance coverage of $220 million (School Board self insuring $4,550,000 in 3 layers). Pursuant to Board authority, the $4,550,000 placement was completed, resulting in a fully-subscribed $220 million property insurance program, and $50 million in terrorism coverage, with total premium expenditures, including all required state fees, of $24,757,472.

The Superintendent provided the Board a memorandum dated February 4, 2009, as back-up to Agenda Item E-66, Board meeting of February 11, 2009, outlining that staff has negotiated a reduction in commissions paid to the District's broker for property coverage. Staff was successful in reducing commission rates for all brokers, including retail and wholesale resulting in total dollar compensation for retail and wholesale brokers by 10.3% or $385,527.50.

In addition to the cap on commissions, Gallagher agreed to provide specific additional services as part of their compensation structure, including using approximately $23,000 of commissions which were budgeted by the carriers for broker compensation, but due to the cap were not paid as commission and were used for additional services including:

- 50 Loss Control Days
- Targeted property appraisals for School and Non-School locations to benchmark property valuation
- Loss Prevention initiatives including services of *TargetSafety* who are under contract to Arthur J. Gallagher to provide loss prevention initiatives for School and support worksites.

PROPERTY VALUATION

Risk Management works closely with Facilities staff to determine appropriate valuation of all District property on a per-square foot basis. Proper valuation is critical in all property insurance transactions so that the insured is not subject to a penalty at the time of loss.

District property valuation is based on replacement cost values (replacing old with new at the time of loss), excluding land values, as the per-square foot basis. Total District square footage, as determined by the Florida Inventory of School Houses (FISH) reports is used in conjunction with the per-square foot replacement cost figure to determine total insured values (TIV) for insurance purposes. The values utilized for the past few years, using a blended rate for non-instructional facilities, elementary, middle and senior high schools, are as follows:

Year	Valuation	Total Insured Value (TIV)
2004 -	$110/sq. ft.	$4.93 Billion
2005 -	$123/sq. ft.	$5.44 Billion
2006 -	$129/sq. ft.	$6.84 Billion
2007 -	$150/sq. ft.	$7.59 Billion
2008 -	$170/sq. ft.	$8.68 Billion
2009 -	$188/sq. ft.	$9.08 Billion
2010 -	TBD	TBD

Review of the completed appraisals is continuing, but it appears that the per-square foot valuation of buildings will be lower for 2010 TIV calculation, due to the reduction in the cost of construction due to the recession. Additionally, staff has been using an average 18% of building values for business personal property (furniture, fixtures and equipment FF&E). Initial review of received appraisals indicates that this percentage should drop to approximately 14%, partly due to the decreased cost of key drivers of contents including technology. Once completed, the statement of values will be somewhat less than the $9 Billion reported for 2009. This decrease in valuation is positive for staff's ability to secure appropriate coverage limits as carriers have difficulty in providing coverage in the Southeast Florida region due to significant aggregation of values, and their limits on catastrophe capacity limits.

2009 ATLANTIC HURRICANE SEASON AND INDUSTRY OUTLOOK

The 2009 Atlantic hurricane season was below average in activity with a total of 9 named storms and 3 hurricanes. For the first time since 2006, no storm brought hurricane force winds to the United States, and only four storms made landfall with tropical storm force. The lack of activity was due to the appearance of El Niño during the summer, causing strong wind shear which inhibited the development of storms.

This was great news following the 2008 season which produced Hurricane Ike whose $12.5 billion in insured losses put it third on the list of costliest U.S. storms for the property insurance industry. Only Katrina, which caused $43 billion in insured losses when in struck New Orleans in 2005, and Hurricane Andrew's $23 billion rampage through South Florida in 1992 cost more.

The 2010 Atlantic hurricane season will be "above-average" in activity and produce 11 to 16 tropical storms including 6 to 8 hurricanes according to The Colorado State University team, formed by forecasting pioneer William Gray. He predicts that 3 to 5 of next year's storms would become "major" hurricanes of Category 3 or higher on the Saffir-Simpson intensity scale. The rationale for this forecast is that El Niño activity is expected to dissipate by the 2010 Atlantic hurricane season which begins on June 1, 2010, and warm sea-surface temperatures are likely to continue being present in the tropical and North Atlantic during 2010, which are conditions which contribute to above-average seasons.

While the news was good for property insurers who underwrite windstorm coverage in catastrophic-prone areas such as South Florida, the economy continued to plague the insurance industry. Primary and reinsurance carriers are very concerned with retaining their key ratings from rating agencies such as A.M. Best, S&P, and Moody's, which have required that the carriers increase reserves to strengthen their financial infrastructure. Lexington Insurance Company, part of American International Group (AIG), which has provided significant limits on the Board's program for over 15 years, has informed staff and the Board's broker that their available windstorm and earthquake (CAT limits) are being reduced. It appears that other carriers which have provided limits on the District's program for many years, are withdrawing from the Florida market in an effort to reduce CAT exposure as well. However, there are some new markets providing catastrophe-prone windstorm capacity in the State of Florida which staff and the Board's broker will be pursuing.

As part of a strategy to mitigate the impact of insurance marketplace changes, the Risk and Benefits Management staff, and the Board's broker, continually meet with property underwriters representing both domestic and international carriers who participate in the District's program, as well as markets new to the CAT market. 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 based upon decisions they make 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.

SELF INSURANCE, DEDUCTIBLES, FEMA AND THE DISTRICT'S PROGRAM

As part of the property program's renewal last May, 2009, the Board authorized a significant change in the windstorm deductible. Prior to May 1, 2009 the windstorm deductible was 4% of affected values at the time of loss, subject to a minimum per occurrence deductible of $25 million. The current windstorm deductible is $100 million per loss. This change was necessary to take advantage of market conditions and reduce premium expenditures. It also has an interesting affect on the District's exposures depending upon the size of the loss. Under the prior deductible scenario, once the $25 million minimum was reached, the 4% of values continued with no deductible cap. While the current $100 million windstorm deductible provides for a higher threshold before coverage would respond in a very bad Category 5 storm, the flat $100 million deductible could be lower than the percentage deductible, thus transferring the risk to the insurers sooner. Staff is recommending the continuation of the current windstorm deductible of $100 million per occurrence.

In 2008, the Federal Emergency Management Agency (FEMA) announced that it was going to strictly enforce its policy of only reimbursing deductibles on affected properties once. This strategy to reduce FEMA's exposure to properties which may have suffered multiple losses has become a huge issue in risk management circles. Large property owners, such as Miami-Dade County Public Schools cannot purchase first dollar coverage on previously-affected properties due to the fact that the coverage is not readily available in the marketplace, and even if it were, it would be unaffordable.

Currently, property owners must sign insurance commitments with FEMA following a loss to assure that insurance coverage will be purchased for the affected facility. FEMA is taking a very hard stand on this requirement. Presently, FEMA is attempting to collect over $1 million from Memorial Hospital Group in Broward County, after they did not renew their windstorm coverage after accepting FEMA disaster grant money following Hurricane Wilma in 2005. Because of Miami-Dade County Public School's reliance on the ability to collect disaster grant money from FEMA following a catastrophe, assuring the proper coverage for the District is paramount.

On September 17, 2009, the District received a letter from the State of Florida, Division of Emergency Management informing the District that the State of Florida Insurance Commissioner had determined that the District's property insurance program was deemed acceptable. This request has been made of the State of Florida every year since the early 1990's when damages from Hurricane Andrew resulted in a $96 million claim. Staff believes that this approval is needed to meet the requirements of the Federal Stafford Act. Upon completion of the 2010 renewal, staff is recommending that it request another reasonableness letter from the Insurance Commissioner's Office.

Staff is recommending renewal of current all risk, replacement cost property insurance coverage. The primary goal will be to renew the current $220 million; although staff is recommending that previously purchased limits of $250 million be pursued, if available. Staff believes that there may be some premium savings available due to the calm 2009 Atlantic Hurricane Season; therefore, premium expenditure authority not to exceed $25 million is requested to meet these goals. In the event the additional $30 million in limits to achieve the previous $250 million is not available, staff will bind what is available and take advantage of premium reductions.

TERRORISM INSURANCE ACT AND COVERAGE

The Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) plays a key roll in ensuring that businesses have available and affordable insurance options necessary to protect their assets against the financial consequences of a terrorist event. Insurance coverage provided by companies, pursuant to the provisions of TRIPRA is solely for foreign terrorism acts. Many large public entities included Miami-Dade County Public Schools have purchased terrorism coverage for domestic terrorism as well as foreign.

This coverage is crucial to adequately protecting District assets. Staff is recommending that the District continue to purchase terrorism coverage for its 2010 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 program, but would be covered by purchased stand-alone terrorism coverage. The cost of this coverage has continued to decrease significantly.

Last year's premium for $50 million in coverage was $147,460, including state fees. Staff believes that this coverage can be renewed with no increase in premium, and will negotiate for additional premium reductions, if possible.

NATIONAL FLOOD INSURANCE PROGRAM

As it has done for many years, staff is recommending that the District authorize a budget in the amount of $3.5 million for flood coverage written through NFIP for those properties in an exposed flood zone. Purchase of this coverage is a requirement of the Federal Stafford Act, which along with property insurance coverage provides access to FEMA public assistance grants. Premiums for this coverage are written on a building-by-building basis. The Federal government is presently re-mapping Miami-Dade County's flood maps. The result of this re-mapping may be some properties needing coverage, while other property's coverage may be non-renewed.

STAFF AND BROKER MEETINGS WITH PROPERTY UNDERWRITERS

The value of meeting with key markets in person cannot be overstated. A limited number of insurers possess needed catastrophic coverage capacity in the worldwide market. Miami-Dade County Public Schools as one of the nation's largest property owners must have access to a significant portion of that capacity.

To accomplish this, meetings will be held with current and prospective markets to secure needed capacity for renewal at the most competitive rates. Company underwriters are very interested in the District's financial stability; therefore, staff will be reviewing the extreme nature of the District's financial challenges and what steps the administration continues to take to preserve the District's long term financial solvency. Much of the conversation with these markets is the same conversation that occurs with the rating agencies.

It is important to re-state that the viability of this coverage must be acceptable to the holder of the District-issued Certificates of Participation (COPs) and FEMA. To accomplish these goals, staff will be meeting with various underwriters representing domestic and international markets. Pursuant to School Board Rule 6Gx13- 4C-1.07, Travel Expenses – School Board Members, Superintendent of Schools, Employees, And Other Authorized Persons, Administrators reporting directly to the Superintendent may approve travel expenses for personnel under their jurisdiction up to $2,500; however, the Superintendent of Schools retains the sole authority of approving the reimbursement of actual expenses exceeding the $2,500 limit to the maximum of $3,500, excluding registration fees and tuition. Expenditures for travel for meetings with underwriters are budgeted within The Office of Risk and Benefit Management's Out of County Travel Budget for fiscal year 2009-2010.

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 $250 million in coverage limits, with annual premiums for all property insurance premiums and fees not to exceed $25 million, effective May 1, 2010, with payment of such coverage 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 12, 2010;

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 for the 12-month period of May 1, 2010 to May 1, 2011; and

3. authorize the Superintendent to begin work on a Request for Information (RFI) for Brokerage Services related to the District's comprehensive property/casualty insurance programs, to be brought back to the Board at a subsequent Board meeting prior to issuance.

RHH:sbc