

Financial Affairs
Richard H. Hinds, Chief Financial Officer

SUBJECT: PROPERTY INSURANCE

COMMITTEE: INNOVATION, EFFICIENCY & GOVERNMENTAL RELATIONS

LINK TO STRATEGIC FRAMEWORK: FINANCIAL EFFICIENCY

The School Board is required to carry property insurance on all school buildings (except buildings of three classrooms or less) and all school plants, including contents, boiler and machinery, pursuant to the provisions of Section 1001.42(9)(b)(8)(d), Florida Statutes.

At the Board meeting of February 10, 2010, the Board authorized staff, through Arthur J. Gallagher Risk Management Services, Inc. to secure and bind maximum available limits of all-risk, replacement cost property insurance coverage in anticipation of obtaining \$250 million, representing an increase of \$30 million in currently held limits, with annual premiums for such coverage not to exceed \$25 million, effective May 1, 2010.

Staff and the Board's broker have been meeting with underwriters representing all insurance markets which provide catastrophic property coverage in order to achieve the best possible renewal terms and conditions. Even having experienced a calm 2009 Atlantic Hurricane season, the property insurance market remains difficult for hard to place catastrophic risks such as Florida hurricane coverage and California earthquake coverage. All markets which underwrite Florida catastrophic (hurricane) coverages have a finite amount of coverage they will provide.

The total insured values of property owners in the tri-county area of Miami-Dade, Broward and Palm Beach represent a significant percentage of the finite aggregate limits which are available to insureds. As such, it is crucial that Miami-Dade County Public Schools differentiate itself from other insureds as a better risk in order to obtain the maximum available limits with the most competitive terms. Face to face meetings with global property underwriters are crucial towards this goal, similar to the meetings which are held with rating agencies.

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Having utilized all these strategies, staff has successfully bound \$250 million of all risk, replacement cost property insurance coverage and \$50 million of terrorism coverage as of May 1, 2010. As part of this program, the Board is quota sharing \$14.5 million part of the \$50 million xs of \$200 million layer, representing a premium credit of \$631,044 (includes taxes and fees). Total premiums of the currently bound program, not including the premium credit for the co-insured layer, is \$23,095,346 based upon the authority provided at the February 10, 2010 Board meeting of \$25,000,000. In addition to increasing purchased limits by \$30 million from \$220 million to \$250 million, representing a 14% increase in coverage, this program reflects a savings of \$1,662,126, as compared to the previous year's program which had an annual premium of \$24,757,472, representing a 7% overall premium decrease.

PROPERTY COVERAGE IN EFFECT AS OF MAY 1, 2010

<u>Property Limits</u>	<u>Deductibles</u>	<u>Total Annual Premium*</u>
\$250 million Windstorm	\$100 million/loss	\$22,425,000*
\$250 million other perils	\$500,000/loss	included
<u>Sub Limits:</u>		
\$25 million Flood	see above	included
\$10 million Landscaping	see above	included
\$25 million Extra Expense	see above	included
\$50 million Increased Cost Of Construction	see above	included
\$50 million Demolition	see above	included
\$25 million Off Premises Power Deprivation	see above	included
\$75 million New Property	see above	included
\$5 million Ingress/Egress	see above	included
\$15.4 million Antennae/Aerials	see above	included
<u>Fees:</u>		\$ 539,046*
Florida Emergency Management Trust Fund (FEMTF)		
Citizens Property Insurance Emergency Assessment (CPIEA)		
Florida Hurricane Catastrophe Fund Emergency (FHCFEA)		
Admitted Surcharges:		
Florida Insurance Guaranty Association – Assessments (FIGA)		
Florida Fire College Trust Fund (FFCTF)		
TOTAL PROPERTY ANNUAL PREMIUM		\$22,964,046*

TERRORISM		
<u>Limits of Coverage</u>	<u>Deductible</u>	<u>Total Annual Premium</u>
\$50 million	\$100,000/loss	\$130,000
<u>Fee:</u>		
FHCFEA		\$ 1,300
GRAND TOTAL PROPERTY PROGRAM		\$23,095,346*

**figures include total budget including premium attributable to the \$14.5 million of coverage the School Board is quota sharing of \$631,044.*

Confirmations of coverage have been provided to The Bank of New York Mellon Trust Company, NA, which requires that they are named as Loss Payee on the property insurance policies to protect their interests for properties financed with Certificates of Participation (COPs).

Section 5.3 of the Master Lease Purchase 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 or S&P, or otherwise approved by the Credit Facility Issuer. An annual report from the District's Insurance Consultant outlining the coverage is also required.

The following requests are sought pursuant to the authority provided within State Board Rule 6A-1.012(15), wherein the District, when entering into risk management programs, may make such acquisitions by direct negotiations and contract:

1. The Board previously authorized consulting fees for property insurance related issues including the required annual report, policy review and oversight, be charged to the Board's self insured property fund in an amount not to exceed \$75,000 per year, with an hourly fee of \$150/hour. Staff is recommending that this authority be renewed for the new policy year.
2. Three years ago when the Board assumed a much larger hurricane deductible (from \$1 million per loss minimum to \$25 million per loss minimum), the Board approved a contract with GAB Robins, for property adjusting services on an as-needed basis following a loss to real property, with funding to come from the District's self insured property fund. The firm is currently named in the District's property policies as the authorized adjusting firm, which is crucial when numerous insurers participate in a layered property program.

Continuation of this contract is more important than ever as the Board moves into its second year having assumed a hurricane deductible of \$100 million flat per occurrence. The focus of this contract would be to coordinate efforts for determination of a scope of loss to access FEMA funds for losses within the Board's retention, and then to represent the carriers in a loss which exceeds the deductible.

Staff is recommending renewal of this contact in which the approved fee structure ranges from \$76 to \$110/hour for adjuster and from \$133 to \$195/hour for Executive/National and General Adjusters. As of this date, no fees have been paid to GAB Robins, although the Executive Adjuster did respond following the fire at Kensington Park Elementary on January 25, 2008 and fees were paid by the carriers.
3. For the past several years, the Board has approved the use of contracted surveying/engineering firms to provide sealed elevation certificates in order to procure necessary flood coverage through the National Flood Insurance Program (NFIP). Staff is requesting this authority be continued for the upcoming policy year with expenses not to exceed \$50,000, with funding to come from the Board's self insured property fund.

A letter of "reasonableness" from the Florida Office of Insurance Regulation is sought annually to comply with the provisions of Section 406 of the Federal Stafford Act, which requires that the individual state's Insurance Commissioner certify that the property insurance carried by an insured is "reasonable" based upon market conditions. Staff is requesting authority once again to seek such a letter from the commissioner's office.

NATIONAL FLOOD INSURANCE PROGRAM (NFIP)

At the Board meeting of February 10, 2010 the Board authorized renewal of flood insurance coverage with the National Flood Insurance Program (NFIP), through Arthur J. Gallagher Risk Management Services, Inc., for all properties required by the Federal Government to be covered with estimated premiums not to exceed \$3.5 million for coverage effective for the 12-month period of May 1, 2010 to May 1 2011.

On September 11, 2009, FEMA re-mapped flood zones that affect the District's property/flood budget as follows:

1. Schools previously NOT in high risk flood zones (various A zones) are now located in high risk flood zones. A total of 212 locations were affected consisting of 113 Pre-firm and 95 Post-firm which require elevation certificates to provide premium rating.
2. A total of 273 School locations that were previously in high risk zones and re-zoned to low risk that no longer require flood coverage. Existing policies cannot be canceled, but no renewal will take place at the end of the policy term.
3. School locations remaining in high risk zones (AE to AH or AH to AE) but changed zone types or Base Flood Elevations consist of 127 locations. There will be some credit received on these amended policies.
4. NFIP has been re-authorized by Congress with a rate increase to become effective October 1, 2010. This rate increase is an average of 4%; however, zones with Post Firm (V) have increases up to 9% and Post Firm (A) is 6%.

These changes to the District's flood risk will require an increase of \$300,000 to the adopted 2010-2011 NFIP budget of \$3,500,000, which was approved at the Board meeting of February 10, 2010. It is being recommended that required \$300,000 budget enhancement be funded from the 2010-2011 property insurance savings of \$1,662,126, resulting in a 2010-2011 flood budget of \$3,800,000, effective May 1, 2010. This will result in a net premium savings for this renewal overall of \$1,362,126.

RECOMMENDED:

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

1. confirm placement of its excess, all risk, replacement cost property insurance program, through Arthur J. Gallagher & Co., effective May 1, 2010 to May 1, 2011 consisting of total insurance limits of \$250,000,000, with the School Board quota sharing \$14,500,000 part of \$50,000,000 excess of \$200,000,000 per occurrence with the following insurers and annual premiums, inclusive of all state-required fees and assessments:

Allied World Assurance Co (Amwins)	\$	399,364.00
Arch Specialty Ins. Company (Amwins)	\$	430,084.00
Axis Surplus Insurance Company (RPS)	\$	665,604.00
Axis Surplus Insurance Company (AJGUK)	\$	485,128.00
Companion Specialty Ins. Co. (RPS)	\$	360,964.00
Endurance American Ins. Company (RPS)	\$	387,588.00
Essex Insurance Company (Amwins)	\$	43,520.00
Fireman's Fund Insurance Company / Allianz (RPS)	\$	748,258.00
Great Lakes Reinsurance (UK) PLC (AJGUK)	\$	523,268.00
Ironshore Specialty Insurance Co. (RPS)	\$	962,568.00
Lancashire Insurance Company (UK) Ltd (AJGUK)	\$	174,084.00
Landmark American Ins. Company / RSUI (RPS)	\$	1,807,368.00
Lexington Insurance Company (RPS) - Domestic	\$	2,662,404.00
Lexington Insurance Company (AJGUK) - London	\$	435,204.00
Lloyds of London (AJGUK)	\$	7,241,104.00
Lloyds of London - Hiscox (Amwins)	\$	172,036.00
MDCPS Quota Shared Participation	\$	631,044.00
Max Specialty Ins. Group (RPS)	\$	215,044.00
Scottsdale Surplus Lines Ins. Co. (RPS)	\$	430,084.00
StarrTech (Lloyds of London / SYN1919) (Steadfast Ins. Co.) Direct	\$	387,080.00
Swiss Re International SE (AJGUK)	\$	2,870,404.00
Westchester Surplus Lines Ins. Co (RPS)	\$	931,844.00
TOTAL	\$	22,964,046.00

2. authorize the Superintendent to continue to meet with property markets in order to place the coverage currently being quota shared by the School Board with the premiums for any additional capacity to be paid using the unspent \$631,044 as outlined in the placement;
3. confirm purchase of terrorism coverage, including domestic and foreign (T-3 form), subject to an aggregate limit of \$50,000,000 from Lloyd's of London, through Arthur J. Gallagher & Co., effective May 1, 2010 to May 1, 2011, with an annual premium of \$131,300; inclusive of all state-required fees and assessments;

4. authorize consulting expenses to be paid to the Board's consulting firm to assist in policy review and issuance, preparation of the annual consultant's report to The Bank of New York Mellon Trust Company, NA, and other required technical services with such fees to be paid at \$150/hour, in an amount not to exceed \$75,000 for the policy year with funding for such expenses to be paid from the Board's self insured property fund;
5. authorize renewal of the contract with GAB Robins for property adjusting services to be used on an as-needed basis when a loss would result in a liability to the District's self-insured property program, with adjusting expenses to range from \$76/hour to \$110/hour for adjusters, and between \$133/hour and \$195/hour for Executive/National and General Adjusters with expenses to be paid from the Board's self-insured property fund;
6. authorize the use of J. Bonfill & Associates, Inc.; F.R. Aleman & Associates, Inc.; Biscayne Engineering Company, Inc.; Consul-Tech Surveying and Mapping, Inc.; and Miller Legg & Associates, Inc. to produce sealed elevation certificates, pursuant to NFIP guidelines, subject to these firms' current contracts with the Board as approved at the Board meeting of February 10, 2010, with expenditures for these services to be paid from the Board's self-insured property fund;
7. authorize the Superintendent of Schools to seek a letter of reasonableness of its current property insurance program from the State of Florida, Department of Insurance Regulation, or designee, pursuant to the requirements of Section 406 of the Federal Stafford Act; and
8. approve an increase of \$300,000 to the Board's flood insurance budget as approved by the Board at its meeting of February 10, 2010 for coverage underwritten by the National Flood Insurance Program (NFIP) with funds to be taken from the property insurance premium savings of \$1,662,126 for the 2010 – 2011 program, resulting in a total NFIP flood budget of \$3,800,000 for the 12-month period of May 1, 2010 to May 1, 2011.