Office of Superintendent of Schools
Board Meeting of February 9, 2011

January 25, 2011

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, 2010 to May 1, 2011. Staff is seeking authority to secure and bind all-risk, replacement cost property insurance coverage for the term of May 1, 2011 to May 1, 2012. This advanced authority is sought due to the fact that much of the final placement will occur after the Board meeting of April 13, 2011. An agenda item will be brought to the Board meeting of May 11, 2011 confirming the placement, inclusive of all terms, conditions, premiums, etc.

At the Board meeting of December 15, 2010 the Board awarded its Property and Casualty Insurance Broker Services contract to Arthur J. Gallagher Risk Management Services, pursuant to Request For Qualifications (RFQ) #004-LL10, Request For Qualifications for Property and Casualty Insurance Broker Services, effective January 1, 2011. As such, staff will be working with the District's broker, Arthur J. Gallagher (AJG) to construct the excess property program's renewal.

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UPDATE FROM 2010 RENEWAL

At the Board meeting of February 9, 2010, 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 $250 million in coverage limits, 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 for those properties required by the Federal Government to be covered.

At the Board meeting of May 12, 2010, the Board confirmed placement of the renewal coverage which became effective for the present term of May 1, 2010 to May 1, 2011, reflecting all risk, replacement cost property insurance coverage of $250 million (School Board self insuring $14.5 million in the top coverage layer). Pursuant to Board authority, the $14.5 million placement was completed, resulting in a fully-subscribed $250 million property insurance program, and $50 million in terrorism coverage, with total premium expenditures, including all required state fees, of $23,095,346, representing a savings of $1,662,126, or 7% from the previous year's premium expenditures in conjunction with a 14% increase in coverage.

As part of the commission caps which were in place for the placement, AJG 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	-	$170/sq. ft.	$8.10 Billion

The overall reduction in reported replacement cost values from $9.08 Billion to $8.10 Billion reflects the reduction in the cost of construction due to the recession. Additionally, staff uses a percentage of building values for purposes of determining values for business personal property (furniture, fixtures and equipment FF&E). Initial review of received appraisals indicates that this percentage is 18%.

Staff has determined that the current valuation metrics will be used for determining the 2011-2012 total replacement cost values. The reduction in total values which occurred in 2010 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.

2010 ATLANTIC HURRICANE SEASON AND INDUSTRY OUTLOOK

While South Florida was virtually spared from the threat of hurricanes during the 2010 Atlantic Hurricane season which ran from June 1, 2010 through November 30, 2010, according to the National Oceanic and Atmospheric Administration (NOAA) the 2010 Atlantic hurricane season was one of the busiest on record. In the Atlantic basin, a total of 19 named storms formed, which ties with years 1887 and 1995 for the third highest number of storms on record. Of the 19 named storms, 12 became hurricanes which ties with 1969 for the second highest number of hurricanes on record. Five of these storms reached major hurricane status of Category 3 or higher.

Luckily, short-term weather patterns which dictate where storms actually travel, resulted in these storms veering away from the United States. The jet stream's position contributed to warm and dry conditions in the eastern United States and acted as a barrier that kept many of the named storms over open water. Also, because many storms formed in the extreme eastern Atlantic, they re-curved back out to sea without threatening land.

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.

The catastrophic-prone excess property insurance market continues to be volatile with some major carriers threatening to reduce coverage capacity in the Tri-County area which consists of Miami-Dade, Broward, and Palm Beach Counties. Hurricane-prone hurricane risks in these three counties account for the largest percentage of catastrophic property capacity written in North America.

As part of a strategy to mitigate the impact of insurance marketplace changes, the Risk and Benefits Management staff, and the District'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 in 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 effect 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 30, 2010, 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 2011 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 $250 million. Property insurance premiums are paid from the District's Capital budget. Based upon budget projections, the Capital budget is under severe duress as is the General Fund, necessitating premium reductions for the 2011-2012 policy year. While staff believes that there may be some premium savings available due to the calm 2010 Atlantic Hurricane Season, achieving savings of 10%+ from the 2010-2011 property insurance premium expenditure of $23,095,346, these savings must not result in a reduction in coverage terms or limits which could threaten access to FEMA funding in the event of a declared disaster. Therefore, staff's recommendation is to obtain authority to secure and bind all-risk, replacement cost property insurance coverage, including windstorm/hurricane coverage on the estimated $8.1 Billion of insured property with limits of $250 million with annual expenditures not to exceed $21.5 million.

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 2011 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 $131,300, 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

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 has recently finished re-mapping Miami-Dade County's flood maps. The result of this re-mapping affected 212 locations (flood policies are written on a per-building basis), inclusive of rate increases which average 4%, with zones with Post Firm (V) buildings increasing 9% and Post Firm (A) buildings increasing 6%. Staff is recommending that the District authorize a budget in the amount of $3.8 million for flood coverage written through NFIP for those properties in an exposed flood zone with renewal from May 1, 2011 through April 30, 2012.

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 2010-2011.

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

1. authorize staff, through Arthur J. Gallagher Risk Management Services 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 $21.5 million, effective May 1, 2011, 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 11, 2011;

2. authorize staff, through Arthur J. Gallagher Risk Management Services to secure and bind $50 million in terrorism coverage effective May 1, 2011, with an annual premium not to exceed $131,300, including state fees; and

3. authorize renewal of flood insurance coverage with the National Flood Insurance Program (NFIP), through Arthur J. Gallagher Risk Management Services, for all properties required by the Federal Government to be covered with estimated premiums not to exceed $3.8 million for coverages effective for the 12-month period of May 1, 2011 to May 1, 2012.

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