Office of Superintendent of Schools
Board Meeting of May 11, 2011

May 11, 2011

Financial Affairs
Richard H. Hinds, Chief Financial Officer

SUBJECT: **PROPERTY INSURANCE**

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 (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 9, 2011, 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 retaining the existing $250 million in currently held limits, with annual premiums for such coverage not to exceed $21.5 million, effective May 1, 2011. This recommendation reflected a **reduction** in overall premium expense of approximately 7% from the 2010-2011 premium base of $23,095,346 and was recommended based upon the state of the global catastrophic property market as it existed on February 9, 2011.

As the Board is aware, the most significant earthquake in the history of Japan (and top 5 in recorded history) struck in the afternoon of March 10, 2011, followed by the most destructive tsunami ever recorded. While specific estimates of damages caused directly by the earthquake and tsunami vary, the fact is that in addition to the previous damages caused by the Christchurch, New Zealand and Chilean earthquakes as well as the Australian floods, the global property market changed significantly after March 10, 2011. Many losses from Japan are still being unveiled as contingent business interruption claims are being made due to the inability to get computer chips and automobile engines from Japan resulting in domestic manufacturing slowdowns and closures. Very recent tornado losses across the continental United States have also further deteriorated the property marketplace.

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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 renewal terms and conditions possible given the significant "hardening" of the marketplace over the past month. In spite of South Florida being virtually spared, the 2010 Atlantic Hurricane Season was one of the busiest on record. As a result, the property insurance market remains difficult for hard to place catastrophic risks such as Florida hurricane coverage and California earthquake coverage, and has appreciably worsened with recent losses. All markets which underwrite Florida catastrophic (hurricane) coverage have a finite amount of coverage they will provide. This is the case as there is a finite amount of global catastrophic coverage (CAT) capacity available on a worldwide basis. Property owners with large total insured values such as Miami-Dade County Public Schools absorbed a significant percentage of available worldwide CAT capacity.

Under normal circumstances, but especially this year, it is crucial that Miami-Dade County Public Schools differentiate itself from other insured's 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. All insurance markets utilize computerized modeling to determine what hurricane losses would be in the event of different sized storms based upon the $8.1 billion in exposed property for Miami-Dade County Public Schools.

This year, Risk Management Solutions (RMS), one of the three major CAT modeling companies, has introduced their updated model (RMS v.11), which according to the company was going to result in higher Probably Maximum Loss (PML) estimates for property owners in Texas and inland Florida. Unfortunately, the model has also targeted schools as a risk type which has led to an increase in PML calculations for Miami-Dade County Public Schools. **For example, the PML estimate for a 250 year storm (0.40%) in RMS v.10 reflects a gross loss (after $100 million deductible) of $1.026 billion. After updating the model, RMS v.11 reflects a gross loss for the same storm elements of $1.71 billion, representing a 70% increase in total exposures to the District and its insurance carriers.** This unprecedented increase materially affects the worldwide insurance market's ability to provide the same levels of coverage as under the previous model. This increase also affects the reinsurance market, (which in turn affects the global capital markets), directly impacting the District's program both directly for those reinsurers which underwrite a portion of the program as well as the primary insurance carriers which seek reinsurance for part of the coverage they provide the District and other worldwide portfolios.

On April 6, 2011, Colorado State University lead by Dr. Philip J. Klotzbach and Dr. William M. Gray, provided their first of three Atlantic Hurricane season projections for 2011. Storm projections include the following as compared to storm averages from 1950 – 2000:

<u>2011 Projections</u>	<u>1950 – 2000 Averages</u>
Named Storms – 16	Named Storms – 9.6
Hurricanes – 9	Hurricanes – 5.9
Major Hurricanes – 5	Major Hurricanes – 2.3

Dr. Klotzbach points to several factors contributing to their calculations including the expectation of unusually warm tropical Atlantic sea surface temperatures combined with neutral tropical Pacific sea surface temperatures which contribute to an active season. While predicting where storms will make landfall is impossible, statistically the coastal United States lack of activity of the past 5 to 6 years should not be expected to continue according to the experts.

Based upon the current marketplace and the significant changes which have occurred since the Board meeting in February, 2011 where advanced authority was provided, staff has been successful in negotiating a flat renewal with premiums equal to the expiring annual expenditures totaling $23,021,260. While insurance premiums are flat, required State of Florida fees have increased from last year by $57,214, and are reflected in this figure. This placement continues to provide coverage consisting of $250 million of all risk, replacement cost property insurance coverage. Due to the fact that the Board's advanced authority was $21.5 million, because reductions were being supported by the global property insurance marketplace at that time, staff has bound only $200 million of the $250 million placement and additional authority is required to bind the additional $50 million coverage.

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For the $200 million of all risk, replacement cost property insurance coverage which was bound effective May 1, 2011, total premiums; including required state fees and assessments is $20,838,734, which is within the Board's advance authority of $21,500,000. In order to complete the renewal for the entire $250 million placement, additional authority for premium expenditures is necessary in the amount of $1,521,260, representing a total premium cost for the renewal program, including all state required fees of $23,021,260, a difference (increase) from the expiring renewal of $57,214 comprised solely of increased fees required by the State of Florida.

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Staff is requesting additional authority to bind the additional $50 million in coverage retroactively to May 1, 2011, which the carriers in that layer in excess of the bound $200 million have agreed to. In the event that there is not enough capacity to complete the full $50 million layer, the District will act as a co-insurer for those limits and the premium will not be paid until such time as additional capacity becomes available, if at all.

<u>TERRORISM COVERAGE</u>

At the Board meeting of February 9, 2011, the Board authorized renewal of the District's $50 million in Terrorism coverage, subject to a per loss deductible of $100,000, with the annual premium not to exceed the expiring premium of $131,300, including state required fees. Staff has been successful in negotiating renewal coverage with annual premiums including state fees of $116,495, reflecting an approximate 13% reduction from last year's premium.

PROPOSED PROPERTY COVERAGE TO BE IN EFFECT AS OF MAY 1, 2011

Property Limits	Deductibles	Total Annual Premium
$250 million Windstorm	$100 million/loss*	$22,425,000
$250 million other perils	$500,000/loss	included
Sub Limits:		
$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
$15.413 million Antennae/Aerials	see above	included

*Hurricane Deductible

Fees:	$ 596,260 REVISED
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	$23,021,260 REVISED

TERRORISM

Limits of Coverage	Deductible	Total Annual Premium
$50 million	$100,000/loss	$115,000
Fee:		
FHCFEA		$ 1,495
		$116,495
GRAND TOTAL PROPERTY PROGRAM		**$23,137,755** REVISED

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). They have also been informed that additional authority is being requested to procure the same level of coverage as was in place for the 2010-2011 policy year and upon approval by the Board, revised confirmations of coverage will be provided.

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. Four years ago when the Board assumed the current windstorm deductible of $100 million per named hurricane 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. GAB was purchased by Cunningham Lindsey as of January 1, 2011. At some point in the near future, the GAB name will change to Cunningham Lindsey.

   Continuation of this contract is more important than ever as the District moves into its fourth 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 District's retention, and then to represent the carriers in a loss which exceeds the deductible.

   Staff is recommending renewal of this contract in which the 2011 fee structure includes the Adjuster at $92.00/hour; Branch General Adjuster at $114/hour; the Regional General Adjuster (RGA) at $133.00/hour; the Protégé Adjuster at $165/hour; the National General Adjuster at $180/hour; the Executive General Adjuster at $215/hour and the Senior Executive General Adjuster at $245/hour. 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. Staff is recommending that the Board's Property Broker market the adjusting services for the next renewal to assure the most competitive pricing structure for these services.

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 District'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.

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 Risk Management Services, Inc., effective May 1, 2011 to May 1, 2012 consisting of total insurance limits of $200,000,000, per occurrence with the following insurers and annual premiums, inclusive of all state-required fees and assessments:

Carrier	**Premium with Taxes**	
AGCS Marine Ins. Company / (RPS)	$ 740,228.00	REVISED
Allied World Assurance Co / (Amwins)	$ 400,534.00	
Alterra Excess & Surplus Ins. Co / (Amwins)	$ 215,674.00	
Arch Specialty Ins. Company / (Amwins)	$ 431,344.00	
Axis Surplus Insurance Company / (RPS)	$ 667,554.00	
Axis Surplus Insurance Company/(AJGUK)	$ 159,189.00	
Colony Insurance Company / (Amwins)	$ 129,406.00	
Companion Specialty Insurance / (RPS)	$ 488,346.50	
Great Lakes Reinsurance / (AJGUK)	$ 524,801.00	
Ironshore Specialty Insurance Co. / (RPS)	$ 1,008,522.00	
Landmark American Ins. Company / (RPS)	$ 1,812,663.00	
Lexington Insurance Company / (AJGUK)	$ 2,670,204.00	
Liberty Excess & Surplus / (RPS)	$ 682,963.00	
Lloyds of London / (AJGUK)	$ 6,998,010.00	
Scottsdale Surplus Lines Ins. / (RPS)	$ 431,344.00	
StarrTech (Lloyds of London) / (Direct)	$ 254,700.00	
Swiss Re International / (AJGUK)	$ 2,606,016.50	
United National Insurance Co. / (RPS)	$ 149,946.00	
Westchester Surplus Lines Ins. / (RPS)	$ 467,289.00	
TOTAL	**$20,838,734.00**	REVISED

2. authorize additional authority of $1,521,260, to the previously provided authority of $21,500,000, totaling $23,021,260 in premium expenditures to complete the renewal consisting of $250,000,000 of coverage, subject to the District acting as a co-insurer for any levels of coverage in this layer which are not placed with an insurer due to lack of available capacity, and premiums for those amounts being retained; REVISED

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 Risk Management Services, Inc., effective May 1, 2011 to May 1, 2012, with an annual premium of $116,495; inclusive of all state-required fees and assessments;

4. authorize consulting expenses to be paid to Siver Insurance Consultants 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 District's self insured property fund;

5. authorize renewal of the adjusting services performed by GAB Robins (Cunningham Lindsey) 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 be as follows with expenses to be paid from the District's self-insured property fund:
   Adjuster - $92/hour
   Branch General Adjuster - $114/hour
   Regional General Adjuster (RGA) - $133/hour
   Protégé Adjuster - $165/hour
   National General Adjuster - $180/hour
   Executive General Adjuster - $215/hour
   Senior Executive General Adjuster - $245/hour

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 District as approved at the Board meeting of February 9, 2011, with expenditures for these services not to exceed $50,000 to be paid from the District's self-insured property fund; and

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.

RHH:sbc