

February 7, 2018

Financial Services
Mr. Ron Y Steiger, Chief Financial Officer

SUBJECT: RENEWAL OF DISTRICT'S PROPERTY INSURANCE PROGRAM

COMMITTEE: FISCAL ACCOUNTABILITY & GOVERNMENT RELATIONS

LINK TO STRATEGIC BLUEPRINT: EFFECTIVE AND SUSTAINABLE BUSINESS PRACTICES

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 taken a very strict position based on recent Office of Inspector General audits of Florida grant recipients 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 invest in Certificates of Participation (COPs) under the District's Master Lease Program. Section 5.3 of the Master Lease Agreement 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.

The current property insurance program's term is May 1, 2017 through April 30, 2018. In order to ensure a timely renewal of the District's all risk, replacement cost property insurance program this item is brought to the Board seeking authorization which includes coverage and premium goals with a target amount not to exceed at its February Board meeting, in order for staff to meet with worldwide markets to obtain the best renewal terms for purposes of capacity and pricing.

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PRIOR RENEWAL HISTORY

	PREVIOUS PROPERTY INSURANCE RENEWALS					
	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR
	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>
Coverage Limit	\$250,000,000	\$300,000,000	\$300,000,000	\$300,000,000	\$300,000,000*	\$250,000,000
Premium	\$24,417,939	\$24,328,213	\$22,738,399	\$19,236,886	\$19,142,886	\$17,063,174

* The District was a 50% participant as co-insurer in the \$50M excess of \$250M limit of coverage in order to achieve \$300M coverage limits.

PROPERTY VALUATION

The Office of Risk and Benefits Management works closely with Facilities Management staff to determine appropriate valuation of all District property on a per-square foot basis, which is vital when renewing this coverage. District property valuation is based on replacement cost values, excluding land values, on a per-square foot basis. Total District square footage, as determined by the Florida Inventory of School Houses (FISH) report is used in conjunction with the per-square foot replacement cost figure to determine total insured values (TIV) for insurance purposes.

The current total insured value is reached using a blended rate for non-instructional facilities, elementary, middle and senior high schools; in conjunction with actual appraisals reaching in excess of \$10 billion.

RECOMMENDATIONS FOR RENEWAL

The 2017 hurricane season was extremely active with 17 named storms of which 10 became hurricanes. According to the *Insurance Journal*, 2017 Hurricane Irma is projected to be the most expensive hurricane season in U.S. history with anticipated catastrophic losses exceeding \$200 billion. As a result of Hurricane Irma, the District sustained relatively minor property damage to its facilities. These damages did not exceed the District's \$100M named windstorm deductible. However, the District is seeking reimbursement through the State of Florida and Federal Emergency Management Agency (FEMA) for all eligible expenditures.

In order to insulate the District from significant market changes that would result after a major windstorm event(s), 60% of the primary \$100M of coverage is on a rolling Multi-Year Structured Insurance Program (MYSIP) with guaranteed capacity and premium led by Swiss RE. This year Berkshire Hathaway Specialty is coming off of the three year rate guarantee and have verbally indicated a flat renewal of the current premium pending formalization. However, staff anticipates that renewal negotiations with domestic and international carriers not on the MYSIP will include premium increases in the amount of 8% to 10%.

Therefore, staff is seeking authorization to negotiate, a property renewal which includes \$250M of procured coverage, with annual expenditures, including all required fees not to exceed \$20M inclusive of the third year renewal of the STORM Parametric Property

Insurance Policy and excluding 2017-2018 MYSIP No Claim Bonus (NCB) reimbursements/premium credits and state required surcharges and assessments.

TERRORISM INSURANCE ACT AND COVERAGE

Staff is recommending that the District continue to purchase terrorism coverage for its 2018-2019 renewal. The cost of this coverage has continued to plateau with the current Federal backstop in place, and it is anticipated that the coverage availability and cost is relatively stable, subject to some minor premium increases due to the continued high threat of global terrorist events.

The current annual premium is \$87,420 for coverage which consists of \$50M in limits of property damage and \$10M of bodily injury coverage, subject to a per loss deductible, inclusive of State required fees. Staff is recommending that this coverage be renewed effective May 1, 2018 with annual premiums not to exceed \$100,000.

FLOOD INSURANCE PROGRAM

The District has always purchased Flood Insurance through the National Flood Insurance Program (NFIP). Purchase of this coverage was a requirement of the Federal Stafford Act, which along with property insurance coverage provides access to FEMA public assistance grants in the event of a federally declared disaster. There is current legislation in place to provide private sector flood insurance options to public entities which may result in more competitive premiums and coverages.

Staff is recommending that district explore the private marketplace for flood insurance at the same terms, limits and conditions as the current NFIP, while keeping the Flood Insurance budget for 2018-2019 the same as the current budget of \$2.1M and bring back to the Board at the May 16, 2018 meeting the recommendation to either stay with the NFIP or move the District's Flood Insurance program to the private marketplace. The current NFIP covers buildings and contents with square footage in excess of 1,500 in Special Flood Hazard Area (SFHA) or with prior payouts that FEMA requires the district to obtain and maintain. Coverage is provided up to the maximum allowable of \$500,000 per building and \$500,000 for contents or at the scheduled value amount if lower than the maximum allowable.

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

1. authorize staff to enter into negotiations through its broker and secure and bind \$250M in coverage limits, with annual premiums for all property insurance premiums and associated fees not to exceed \$20M, inclusive of the third year renewal of the STORM Parametric Property Insurance Policy and excluding 2017-2018 MYSIP NCB reimbursements/premium credits and state required surcharges and assessments, effective May 1, 2018, 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 its meeting of May 16, 2018;
2. authorize staff to secure and bind terrorism coverage, through its broker in the amount of \$50M property damage \$10M bodily injury, effective May 16, 2018 with an annual premium not to exceed \$100,000, including state fees, with payment of such coverage to be funded from the District's property insurance budget; and
3. authorize the exploration of the private marketplace for flood insurance at the same terms, limits and conditions as the current NFIP, with a budget not to exceed \$2.1M and bring back to the Board at the May 16, 2018 meeting the recommendation to either stay with the NFIP or move the District's flood insurance program to the private marketplace effective for the 12-month period of May 1, 2018 to April 30, 2019.

RYS:mgf