Office of Superintendent of Schools
Board Meeting of May 20, 2009

May 8, 2009

Financial Affairs
Richard H. Hinds, Chief Financial Officer

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

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

LINK TO DISTRICT STRATEGIC PLAN: **IMPROVE FINANCIAL SERVICES**

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 11, 2009, the Board authorized 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 the existing $250 million coverage limits, with annual premiums and required fees not to exceed $25 million, effective May 1, 2009.

Staff and the Board's broker have been meeting with all available underwriters which provide catastrophic property coverage in order to achieve the best possible renewal terms and conditions. This has proven to be a significant challenge due to a deteriorating property insurance market for those property owners with large schedules in catastrophic-prone areas. Miami-Dade County Public Schools is one of the most difficult property placements with $9 billion in assets all situated in a coastal region.

Staff has successfully bound $220 million of all risk, replacement cost property insurance coverage and $50 million of terrorism coverage, with a small portion of district participation (District quota share of self insurance) on the coverage levels of $50 million xs of $100 million ($850,000 p/o $50 million); $50 million xs of $150 million ($1.2 million p/o $50 million; and $20 million xs of $200 million ($2.5 million p/o $20 million). Staff and the Board's broker continue to approach all available insurance markets in an attempt to obtain a fully subscribed program without District participation. Total premiums of the currently bound program, taking into consideration that no premium and fees are attributable to stated limits with District participation, including all state fees and terrorism coverage is $24,467,132, based upon authority provided of at the February, 2009 Board meeting of $25,000,000.

The decrease in available coverage is due to global market conditions stemming from the 2008 Atlantic Hurricane Season which was the third most costly on record, behind only the 2004 and 2005 seasons with up to $45 billion in damages. The 2008 hurricane season, while not affecting Florida, was devastating to Haiti and where 800 people were killed by four consecutive hurricanes including Fay, Gustav, Hanna and Ike; and over 2 million people were evacuated in Cuba from three CAT 3 storms. Two major storms caused significant damage in the US, including Hurricane Gustav which hit the Louisiana coast on August 31, 2008 nearly repeating the catastrophic damage caused by Hurricane Katrina in 2005 when Lake Pontchartrain almost breached the levies, and Hurricane Ike which decimated Galveston Island on September 13, 2008.

The current worldwide financial crisis has had a significant detrimental effect upon the global catastrophic property insurance marketplace. Some of the largest global insurers were involved in the sub-prime mortgage debacle, which has impacted their ability to underwrite cat-prone coverages. Reinsurers, which insure primary insurers, have seen a significant rise in their exposures as demand for traditional reinsurance protection has surged in 2009 due to many of the alternative financing vehicles, such as bonds, previously used in lieu of reinsurance have been dramatically reduced. Overall, the cost of capital which supports the core of the insurance industry has become very expensive and difficult to secure.

A discussion of deductible options was included in Agenda Item E-66, Board meeting of February 11, 2009 at which time authority for negotiating the property renewal was received. Among the options discussed included moving from a percentage deductible base to a flat deductible option. These options were then modeled using sophisticated computer modeling of varying storm levels affecting paths which lead to estimates of damage. While moving to a flat deductible creates additional risk retention to the Board for small, more frequent storms, the Board's liability is actually capped at a specific threshold for less frequent, more powerful storms. Negotiations with both domestic and international markets has resulted in the ability to obtain needed insurance capacity, while keeping premium expenditures within the Board-approved cap of $25 million by moving to a flat $100 million per loss Hurricane deductible. The program which was bound effective May 1, 2009 includes a hurricane deductible of $100 million per loss.

The assumption of a $100 million per loss hurricane deductible presents a financial challenge to the Board in terms of cash flow following a storm. From a perspective level, the Board's entire insured loss following Hurricane Andrew in 1992 was $96 million. While the Board will be very reliant upon the Federal Emergency Management Association (FEMA) for funding of this deductible, as well as reimbursement for non-insurance expenses such as debris removal and overtime expenditures, there is a time lag from the time a scope of loss is determined and agreed upon with FEMA to actual funding begins. Staff has included approximately $15 million in the Revenue Anticipation Note (RAN) as an emergency reserve, specifically for repair of hurricane-damaged properties in order to begin repairs and re-open schools. The District's Disaster Recovery Plan includes provisions to expedite the process of claiming damages with FEMA.

PROPERTY COVERAGE IN EFFECT AS OF MAY 1, 2009

PROPERTY

Limits of Coverage	Deductibles	Total Annual Premiums (all attributable limits)
$220 million Windstorm	$100,000,000/loss	$24,000,000
$220 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
$16.2 million Antennae/Aerials	see above	Included

Fees:	$605,172
Florida Emergency Trust Fund (FEMTF)	
Florida Fire College	
Florida Hurricane Catastrophic Fund Emergency Assessment	
Florida Insurance Guaranty Association (FIGA)/ Admitted Surcharges	
Citizens Property Insurance Emergency Assessment	
TOTAL PROPERTY ANNUAL PREMIUM (Includes premium attributable to MDCPS Quota-shared Coverage Amounts)	$24,605,172

TERRORISM

Limits of Coverage	Limits of Coverage	Total Annual Premium
$50 million	$100,000/loss	$144,000
Fees:		
Florida Emergency Trust Fund (FEMTF)		$ 3,460
Florida Hurricane Catastrophic Fund Emergency Assessment		
Citizens Property Insurance Emergency Assessment		
TOTAL TERRORISM		$147,460
GRAND TOTAL PROPERTY PROGRAM (including premiums attributable to layers Where the District is participating as a quota Shared Participant)		**$24,752,632**

Confirmation of coverage has been provided to The Bank of New York, Jacksonville, which requires that they are named as Loss Payee on the property insurance policies to protect their interest for properties financed with Certificates of Participation (COP's).

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.

Staff will continue to work with the Board's broker and markets in an attempt to complete the placement thus eliminating the need for the Board to participate as a quota share participant. Confirmations of additional capacity to complete the placement will be provided to the Board in writing with all premiums subject to the $25,000,000 threshold.

The following requests are sought pursuant to the authority provided within State Board Rule 6A-1.012(11), 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. Two years ago when the Board assumed a large 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 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 property program.

   Continuation of this contract is more important than ever with the Board assuming a much larger $100 million per loss hurricane deductible, specifically to coordinate efforts for determination of a scope of loss to access FEMA funds. Adjusting fees for losses in excess of the District's deductible are paid by the insurers. Staff is recommending renewal of this contract in which the approved fee structure ranges from $76 to $110/hour for adjusters 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.

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 annual to comply with the provisions of Section 406 of the Federal Stafford Act which requires that the individual state's Insurance Commission certify that the property insurance carried by an insured is "reasonable" based upon market conditions. This letter provides access to FEMA funding following a loss. Staff is requesting authority to once again seek such a letter from the commissioner's office.

BUILDER'S RISK COVERAGE

At the Board meeting of October 11, 2006 the Board authorized purchase of a Portfolio Builder's Risk Insurance Program consisting of all risk, replacement cost property insurance coverage for facilities under construction as part of the District's Five-Year Capital Plan. This coverage is provided by Lexington Insurance Company (A.M. Best A+ XV), through Arthur J. Gallagher & Co., and became effective October 12, 2006 for a three-year term, of which the contract is currently in the third year. Limits of coverage are $50,000,000 per occurrence, subject to Named Windstorm sublimits of $25,000,000 per occurrence/$50,000,000 policy annual aggregate. The program includes a Named Windstorm deductible of 5% of affected values per location/$25,000,000 minimum per loss, and a per loss deductible of $50,000 for perils other than those subject to the Named Windstorm deductible.

The benefit of this coverage is provide a verifiable consistent coverage program for District property under construction, including maintenance programs, in the event of a loss, rather than relying upon the individual contractor procuring such coverage. Additionally, staff and the Board's broker have been able to verify that based upon average rates available to contractors for property coverage in South Florida, including windstorm coverage, the District can obtain coverage which costs less and is not subject to the contractor including overhead and profit margins on insurance premium amounts. As of March 31, 2009 total savings to the District's Capital Budget is $22,011,558 through this program which is determined by taking Board-paid premiums versus benchmarks of what would have been reimbursed to contractors.

Lexington Insurance Company has provided the Board a renewal proposal for an additional three-year program which will renew October 13, 2009. The quotation is valid through May 31, 2009 as the carrier is unwilling to extend the renewal terms past June 1, 2009, the beginning of the 2009 Atlantic Hurricane season. Staff has been successful in obtaining some concessions as part of the renewal terms which include:

►Cancellation provision with renewals subject to re-rate, including a 25% minimum earned premium as based upon annual premiums.

►Renewal is based upon rate structure in place since 2006

►Renewal rates are subject to re-rate only in the event of a loss ratio of 75% for prior periods.

►Premiums have been adjusted to reflect the decrease in District Capital expenditures.

Staff believes that this program has been very successful and should continue. In addition to the savings which has been generated, the other significant benefit of this program is that because the Board is insuring these facilities and not the contractors, the Board would be able to access FEMA funding for losses, not unlike how FEMA funding is sought following a declared disaster for other owned facilities. Continuation of the program also provides consistency of coverage for facilities under construction at the time of renewal. Otherwise, contractors would be responsible to secure coverage for construction projects which are underway.

The recommended Builder's Risk Program is structured as follows:

Carrier:	Lexington Insurance Company (A.M. Best A+ XV)
Coverage Limit:	$50 million any one occurrence
Sublimits:	
Flood:	$5 million for special hazard zones (A,V), $50 million annual aggregate for zones AV and all other zones
Earthquake:	$50 million annual aggregate
Named Storm:	$25 million any one occurrence
All other windstorm:	$25 million any one occurrence
Deductibles:	
Named Storm Deductible:	5% of total values at risk/affected properties with a per loss minimum deductible of $25 million
Other Wind Deductible:	$250,000 per occurrence
Water Damage (other than flood)	$100,000
Flood	5% of values for zones A, V, subject to a minimum per loss deductible of $1,000,000, with all other zones at $50,000 per occurrence
Interior Water Damage:	$100,000 per occurrence

Rates:

New Capacity	$1.0479/$100 Annual Expenditures (includes limits for interior water damage of $5 million, subject to a per occurrence deductible of $100,000)
Non-New Capacity	$0.5849/$100 Annual Expenditures (includes limits for interior water damage of $5 million, subject to a per occurrence deductible of $100,000)

Estimated Annual Expenditures are based upon the 2009-2010 fiscal year of 5-Year Capital Plan:

New Capacity:	$29,065,949
Other Than New Capacity:	$60,446,677
Total Annual Expenditures:	$89,512,626

The deposit premium for 2009-2010 will be based on 75% of total annual expenditures, or $67,134,470 (75% of $89,512,626), or $521,679.78, including applicable terrorism coverage and state fees. Actual premiums are based upon actual construction expenditures, subject to the 75% minimum and deposit provision.

Although the recommendation is for a three-year program, staff has negotiated a cancellation provision which can become effective at the end of years one, or two, without penalty with appropriate notification to the carrier prior to renewal, in the event that the Capital Budget is so severely restricted, that the amount of work to be completed in the fiscal year would not support this program. Termination during a policy year is subject to 25% minimum and earned premium.

As has been the case for the current program, staff is also recommending that consulting fees to the Board's consulting firm of Siver Insurance Consultants, Inc. be approved to assist in reviewing issued policies, premium billings, and other required professionals services and advise on this program with consulting fees to be paid at $150/hour, with annual expenditures not to exceed $50,000 per policy year to be paid from the District's Capital Budget.

Copies of the Builder's Risk savings report and letter of recommendation from the Board's Insurance Consulting firm of Siver Insurance Consultant, Inc. will be provided to the Board as supplemental information to this item.

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, 2009 to May 1, 2010 consisting of total insurance limits of $220,000,000 per occurrence with the following insurers and annual premiums, inclusive of all state-required fees and assessments:

Allied World Assurance Co. (AmWins)	$ 473,604.00
Arch Specialty Ins. Co. (AmWins)	$ 460,804.00
Axis Surplus Ins. (RPS)	$ 768,004.00
Axis Surplus Ins. (UK)	$ 563,208.00
Commonwealth Ins. Co. (RPS)	$ 875,024.00
Endurance American Ins. (RPS)	$ 276,484.00
Firemans Fund Ins. Co. (RPS)	$ 841,604.00
Great Lakes Reinsurance (UK)	$ 573,444.00
Ironshore Specialty (RPS)	$ 971,528.00
Lancashire Ins. Co. (UK)	$ 256,004.00
Landmark American Ins. Co. (RPS)	$1,920,008.00
Lexington Ins. Co.	$ 256,004.00
Lexington Ins. Co. (UK)	$3,072,004.00
Liberty Mutual Fire Ins. Co.	$ 781,504.00
Lloyds of London (UK)	$7,719,696.00
Max Specialty Ins. Group (RPS)	$ 230,404.00
Scottsdale Surplus Lines Ins. (RPS)	$ 460,804.00
StarrTech Lloyds 1919	$ 161,284.00
Starr Tech (Steadfast Ins. Co.)	$ 125,444.00
SR Int'l Business Ins. Co. (UK)	$1,996,808.00
Westchester Surplus Lines Ins. (RPS)	$1,536,004.00
TOTAL	$24,319,672.00

2. 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, 2009 to May 1, 2010, with an annual premium of $147,460;

3. authorize consulting expenses to be paid to the Board's consulting firm of Siver Insurance Consultants, Inc. to assist in policy review and issuance, preparation of the annual consultant's report to The Bank of New York, Jacksonville, 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 (0100,5320,9112,9999,7900);

4. 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 to $110/hour for adjusters and between $133 and $195/hour for Executive/National and General Adjusters with expenses to be paid from the Board's self insured property fund (0100,5320,9112,9999,7900);

5. authorize the use of J. Bonfill & Associates, Inc.; F.R. Aleman & Associates, Inc.; Biscayne Engineering Company, Inc.; Consul-Tech Surveying & 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 January 14, 2009, with expenditures for these services to be paid from the Board's self insured property fund (0100,5320,9112,9999,7900);

6. 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;

7. authorize renewal of the current Portfolio Builder's Risk Insurance Program consisting of all risk, replacement cost property insurance coverage for facilities under construction and other capital expenditures including maintenance projects from Lexington Insurance Company (A.M. Best A+ XV), through Arthur J. Gallagher & Co., effective October 12, 2009, for a three-year term, with limits of coverage of $50,000,000 per occurrence, subject to stated sub-limits and annual aggregates, subject to a Named Windstorm deductible of 5% of affected values per location/$25,000,000 minimum per loss deductible, and a per loss deductible of $250,000 for perils other than those subject to the Named Windstorm Deductible, and limits for interior water damage of $2,500,000, subject to a per occurrence deductible of $100,000, with premium rates an expiring of $1.0479/$100 of annual expenditures for new capacity construction and $0.5849/$100 of annual expenditures for other than new capacity construction, subject to annual audit of actual expenditures for policy years 2009-2010; 2010-2011; and 2011-2012, inclusive of cancellation provisions as negotiated, with payments including deposit, audit premiums, and consulting expenses for Siver Insurance Consultants, Inc. for professional services with fees of $150/hour, subject to maximum expenditures of $50,000 per policy year to be paid from the Board's Capital Budget for fiscal years 2009-2010, 2010-2011, and 2011-2012.

RHH:sc