January 31, 2012

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, 2011 to May 1, 2012. Staff is seeking authority to secure and bind all-risk, replacement cost property insurance coverage for the term of May 1, 2012 to May 1, 2013. This advanced authority is sought due to the fact that much of the final placement will occur after the Board meeting of April 18, 2011. An agenda item will be brought to the Board meeting of May 16, 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 2011 RENEWAL

At the Board meeting of February 9, 2011, 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 $21.5 million, reflecting a reduction from the 2010-2011 program of over $1.5 million, based upon what the global catastrophic property marketplace looked like at the time. 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.

On March 10, 2011, the most significant earthquake in the history of Japan (and top 5 in recorded history) struck, followed by the most destructive tsunami ever recorded. This catastrophic loss which occurred after other earthquakes in Christchurch, New Zealand and Chile, along with Australian floods, changed the worldwide availability and pricing of catastrophic property coverage.

As such, at the Board meeting of May 12, 2011, the Board confirmed placement of the renewal coverage which became effective for the present term of May 1, 2011 to May 1, 2012, reflecting all risk, replacement cost property insurance coverage of $200 million, as well as providing authorization for an additional $1,521,260, in addition to the previously authorized $21,500,000, to attempt to finalize the placement of the $250,000,000 coverage. Effectively, the anticipated savings identified in February, 2011 was lost when the property market hardened essentially overnight. The finalized program resulted in the District not being able to complete the top layer of coverage due to continued pricing increases, resulting in the District participating as a co-insurer for a $16.5 million part of the $50 million layer, reflecting 33% participation in that layer. Total premiums for the 2011-2012 program is as follows:

Total Property Insurance Premiums Authorized:	$23,021,260
Total Property Premiums Paid:	$22,301,068
Unspent Premiums for Co-Insuring $16.5 p/o $50 layer:	$ 720,192
Terrorism Premiums:	$ 116,495

As part of the commission caps which were in effect for the placement which are 8% Retail Brokerage; 4.25% Domestic Wholesale and 6% International Wholesale, AJG has agreed to provide specific additional services as part of their compensation structure when carrier commissions exceed contractual caps. As in the 2011-2012 program, 100% of commissions received in excess of caps is re-directed in value-added projects which reduce Districtwide risk exposure. For the 2011-2012 policy year, available funds equaled $102,469. Projects undertaken and funded with these funds over the past year include:

- Loss Prevention;
- Targeted property appraisals for School and Non-School locations to benchmark property valuation; and
- Comprehensive report conducted by Global Risk Miyamoto of Hurricane Loss Modeling.

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
2011	-	$170/sq. ft.	$8.23 Billion
2012	-	$160/sq. ft.	$7.88 Billion

The overall reduction in reported replacement cost values from $9.08 Billion to $8.10 Billion from 2009 to 2010 reflects the reduction in the cost of construction due to the recession. The small increase for 2011 reflects the addition of the aircraft which was donated to Baker Aviation. Staff from the Office of Risk and Benefits Management has worked closely with staff from the Office of Facilities Management to determine that the actual cost of construction has continued to decline and the appropriate valuation to be used for the 2012-2013 renewal should be based on $160/sq. ft. This reduction in the base value will reflect an approximate 4.25% reduction to overall total insured values (TIV) totaling $7.8 Billion. 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 17%.

2011 ATLANTIC HURRICANE SEASON AND INDUSTRY OUTLOOK

While South Florida was virtually spared from the threat of hurricanes during the 2011 Atlantic Hurricane season which ran from June 1, 2011 through November 30, 2011, according to the National Oceanic and Atmospheric Administration (NOAA) the season consisted of the following storms:

2011 Season	Average Season
19 Tropical Storms	11 Tropical Storms
7 Hurricanes	6 Hurricanes
3 Major Hurricanes	2 Major Hurricanes

As such, the Atlantic Hurricane season was the third most active season on record since 1851. These storms resulted in 120 fatalities, $11 billion in property and infrastructure damage. Of the seven hurricanes, just Hurricane Irene made landfall on August 28, 2011, the first hurricane to strike the U.S. coast since Hurricane Ike in 2008. Hurricane Irene alone accounted for 55 deaths and $10+ billion in damage. The concern of this storm was that in addition to the models of a direct hurricane hit to South Florida, a significant hurricane which moves up the east coast to the New York metropolitan area would produce catastrophic damage with insured losses in excess of $100+ billion.

2011 WORLDWIDE LOSSES

Worldwide disaster losses hit all time highs in calendar year 2011 consisting of 820 with 90% of those losses being weather related. Total economic damages for these losses were estimated to be a record of $350 billion. Of those losses, actual insured losses of approximately $108 billion consisted partially by the following worldwide catastrophes:

- ✓ Japanese Earthquake and Tsunami - $ 40 billion
- ✓ Christchurch, New Zealand Earthquake - $13 billion
- ✓ U.S. Tornadoes - $14 billion
- ✓ Thailand Floods - $11 billion

While insurers absorbed less than 1/3 of the year's disasters, 2011 provided to be the second-most costly year for the insurance industry, behind only 2005 when Hurricanes Katrina, Rita, and Wilma helped push the global liability for insurers to $123 billion.

IMPACT ON GLOBAL PROPERTY CAPACITY AND MDCPS RENEWAL

In response to the near record claims this year, insurers are increasing how much they charge for catastrophe coverage around the globe, re-evaluating their exposure to disaster-prone areas and tightening policy terms. Disaster modelers are studying the science behind each catastrophic loss to improve their predictions of losses for future events and underwriters are examining their client's ability to properly prepare and recover from such devastating losses.

South Florida as a major catastrophic-prone area is already suffering from the insurance industry's decision to restrict available coverage and charging more for the coverage which is available. Actual renewals at Palm Beach County School Board and the Florida Community College system have seen rate increases in the double digits in conjunction with reductions in available coverage from some insurers of 80%. Property owners which have taken necessary steps to reduce premium increases by taking very large hurricane deductibles of $100 - $200 million per loss, including Miami-Dade County Public Schools and Miami-Dade County, will be in a better position to negotiate better renewals than others, but there will be increases in cost and reductions in capacity. This significant change in the market comes at a very difficult time for Miami-Dade County Public Schools as revenue forecasts for the District's Capital Budget continue to deteriorate for the 2012-2013 fiscal year. The capital fund is the source for funding the District's property insurance premiums.

As part of a strategy to mitigate the impact of insurance marketplace changes, key District staff and the District's broker, continually meet with property underwriters representing both domestic and international carriers who participate in the District's program. 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 previously mentioned, 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. They are also putting all FEMA reimbursements from the 2004 and 2005 hurricane losses under a microscope to collect back any dollars which cannot be substantiated by the recipients. Because of Miami-Dade County Public School's reliance on the ability to collect disaster grant money from FEMA following a catastrophe, and keep it, assuring the proper coverage for the District is paramount.

On November 11, 2011, almost at the end of the Atlantic Hurricane Season, 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 2012 renewal, staff is recommending that it request another reasonableness letter from the Insurance Commissioner's Office.

To control increasing premiums and reduced availability of coverage, staff is recommending renewal of $200 million, representing a reduction of procured coverage by $50 million as compared to the current $250 million of all-risk, replacement cost property insurance coverage. In order to limit premium expenditures, the goal will be to renew only the $200 million of the current $250 million, taking into consideration that the District is currently acting as a co-insurer on 33% of that layer. Additionally, meetings with major market underwriters will review hurricane models which are believed to be inflated, based upon loss figures from the Florida storms of 2004 and 2005. In order to reduce the 2011-2012 premium spend of $22.3 million, additional steps may need to be taken, including having the District act as a co-insurer on layers of the recommended $200 million as it currently does in the top $50 million. Additional opportunities to reduce state-required fees for Citizens assessments, etc. are being considered for future years. For the current policy period of 2011-2012, the District paid approximately $600,000 in required fees or taxes as required by the State of Florida.

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 $7.8 Billion of insured property with limits of $200 million with annual expenditures not to exceed 2011-2012 premium expenditures of $22.3 million, with a goal to reduce this amount, subject to market conditions.

TERRORISM INSURANCE ACT AND COVERAGE

The Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) plays a key role 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 has been expanded to include domestic terrorism within the definition of an "act of terrorism", which previously only covered foreign terrorism.

This coverage is crucial to adequately protect 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.

Premium for 2011-2012 coverage consisting of $50 million is $116,495, reduced from $131,300 in 2010-2011, 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 recommended 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. Due to NFIP's implementation of the Preferred Risk Policy, which was designed to help ease the financial burden of affected property, provided for a two-year extension of properties which were re-rated into higher risk AE zones from X zones to retain the premium structure of the X zones. This reduction allowed staff to reduce the previously authorized flood budget for 2011-2012 by $1 million (from 3.8 million to $2.8 million). This reduction will be in effect for one additional year, staff is recommending a flood budget for FY 2012-2013 of $2.8 million.

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 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 and will bind and secure all available coverage effective May 1, 2012, with a completed item brought back to the Board at the meeting of May 16, 2012 including confirmation of all terms, premiums and coverages.

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 $200 million in coverage limits, with annual premiums for all property insurance premiums and fees not to exceed $22.3 million, effective May 1, 2012, 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 16, 2012;

2. authorize staff, through Arthur J. Gallagher Risk Management Services to secure and bind $50 million in terrorism coverage effective May 1, 2012, with an annual premium not to exceed $116,495, 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 $2.8 million for coverages effective for the 12-month period of May 1, 2012 to May 1, 2013.

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