Office of Superintendent of Schools
Board Meeting of May 16, 2012

May 1, 2012

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 15, 2012, 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 obtaining $200 million in coverage limits, resulting in a decrease of $50 million from the expiring program, with annual premiums for such coverage not to exceed $22.3 million, effective May 1, 2012. This recommendation reflected a significant hardening of the global property market following worldwide catastrophes which include the 2011 Japanese Earthquake and Tsunami; Christchurch, New Zealand Earthquake; U.S. Tornados; and floods in Thailand. With premium costs rising, the goal for this renewal was to bind at least $200 million in coverage with premium expenditures capped at last year's pricing of $22.3 million.

Staff is pleased to report to the Board that the recommended $200 million in all risk, replacement cost property insurance has been secured and bound as of May 1, 2012 with all premiums of $21,969,025.60, including applicable state fees, representing premium savings from the authorized budgeted amount of $330,974.40.

Although the District will be carrying $50 million less in coverage than the previous year's coverage (the District was co-insuring 33% of that layer), considerable work was put forth to secure the $200 million in limits below last year's premiums in this market. Global property carriers have all increased the cost of their coverage as their cost of reinsurance rose, resulting in a reduction in the amount of worldwide catastrophic coverage available and the cost to access that coverage rising significantly.

Under normal circumstances, but especially this year, it has been crucial that Miami-Dade County Public Schools differentiate itself from other insured's as a superior structured risk in order to obtain the maximum available limits with the most competitive terms. Face to face meetings with global property underwriters proved crucial towards this goal, similar to the meetings which are held with rating agencies.

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All insurance markets utilize computerized modeling to predict hurricane losses that would result in the event of different sized storms based upon the $7.88 billion in exposed property for Miami-Dade County Public Schools. Last year, Risk Management Solutions (RMS), one of the three major CAT modeling companies, introduced their updated model (RMS v.11), which according to the company was going to result in higher Probable Maximum Loss (PML) estimates for property owners in Texas and inland Florida. Unfortunately, the model harshly targeted schools as a risk type which has led to a considerable 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 at reasonable prices. This increase also affects the reinsurance market, (which in turn affects the global capital markets), 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. Knowing that the District's risk of loss has not increased overnight by 70%, all avenues were explored to fully understand the components of the new RMS v.11 and why it was so adversely affecting the District's PML.

As was outlined in Agenda Item E-66, Renewal of District's Property Insurance Program, School Board Meeting of February 15, 2012, commissions received by the District's broker in excess of contracted commission caps of 8% Retail Brokerage; 4.25% Domestic Wholesale; and 6% International Wholesale, which ordinarily would have gone back to the insurance companies, was spent to engage Global Risk Miyamoto for engineering services and hurricane loss modeling. The result of this engineering study, and resultant modeling, refuted the increase in RMS v.11 and gauged the District's PML for a 250 year storm at a much lower level.

When this information was shared with RMS, they provided appropriate coding, which until then had not been made available in order to re-evaluate the District's exposure. This revised PML calculation reflected that the 250 year PML was $800 million, $1 billion less than the original PML determination, and less than RMS v. 10 projections. This analysis was key in staff's ability to secure limits for the renewal at pricing which is aggressive in this marketplace.

On April 4, 2012, Colorado State University, led by Dr. Philip J. Klotzbach and Dr. William M. Gray, provided their first of three Atlantic Hurricane season projections for 2012. Storm projections include the following as compared to storm averages from 1950 – 2000:

2012 Projections	1981 - 2010 Averages
Named Storms – 10	Named Storms – 12
Hurricanes – 4	Hurricanes – 6.5
Major Hurricanes – 2	Major Hurricanes – 2

While both Colorado State University and AccuWeather agree with what could be a less hectic hurricane season than over the past few years, however, it is important to remember that 1992 was predicted to be a less active season when on August 24, 1992, Hurricane Andrew produced a property loss of $95 million to the District. It only takes one storm.

TERRORISM COVERAGE

At the Board meeting of February 15, 2012, 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 $116,495, including state-required fees. Staff has been successful in negotiating renewal coverage with annual premiums including state fees of $116,495, with the addition of coverage for $10 million annual aggregate third party liability bodily injury coverage, subject to a per loss deductible of $100,000, at no additional cost.

PROPERTY COVERAGE IN EFFECT AS OF MAY 1, 2012

Property Limits	Deductibles	Total Annual Premium
$200 million Windstorm	$100 million/loss*	$21,475,000.00
$200 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
$16,077,502 million Antennae/Aerials	see above	included

*Hurricane Deductible

Fees:	$ 494,025.60
Florida Emergency Management Trust Fund (FEMTF)	
Citizens Property Insurance Emergency Assessment (CPIEA)	
Florida Hurricane Catastrophe Fund Emergency (FHCFEA)	
TOTAL PROPERTY ANNUAL PREMIUM	$21,969,025.60

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		**$22,085,520.60**

Confirmations of coverage have been provided to The Bank of New York Mellon Trust Company, NA, which requires that they be named as Loss Payee on the property insurance policies to protect their interests for properties financed with Certificates of Participation (COPs).

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 expects that there should be no problem with the reduction in secured coverage based upon current market conditions and the District's approach to worldwide markets to secure available coverage at the best terms available.

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.

   Continuation of this contract is more important than ever as the District moves into its fifth 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 2012 fee structure has been re-negotiated with an overall 15% reduction reflecting the following rates:

	2011-2012	2012-2013
Adjuster	$92/hour	$92/hour
Branch General Adjuster	$114/hour	$114/hour
Regional General Adjuster	$133/hour	$133/hour
Protégé Adjuster	$165/hour	$150/hour
National General Adjuster	$180/hour	$165/hour
Executive General Adjuster	$215/hour	$215/hour
Senior Executive General Adjuster	$245/hour	$225/hour

As of this date, no fees have been paid to GAB Robins/Cunningham Lindsey.

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 to access such certificates through Special Project Consultants (SPC) 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, 2012 to May 1, 2013 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 incl. Fees/Taxes**
Allied World Assurance Co / (Amwins)	$ 420,457.00
Alterra Excess & Surplus Ins. Co / (Amwins)	$ 227,621.50
Arch Specialty Ins. Company / (Amwins)	$ 455,239.00
Aspen Specialty Insurance Company (RPS)	$ 170,077.80
Axis Surplus Insurance Company / (RPS)	$ 700,759.00
Axis Surplus Insurance Company/(AJGUK)	$ 408,181.00
Chubb Custom Insurance Company/ (Starr)	$ 224,512.60
Colony Insurance Company / (Amwins)	$ 227,621.50
Essex Insurance Company/(Amwins)	$ 68,033.50
General Security Indemnity AZ /(Starr)	$ 112,237.50
Great Lakes Reinsurance / (AJGUK)	$ 556,771.80
Ironshore Specialty Insurance Co. / (RPS)	$ 1,190,140.70
Landmark American Ins. Company / (RPS)	$ 1,911,739.30
Lexington Insurance Company / (AJGUK)	$ 2,803,024.00
Liberty Surplus Ins. Co. / (RPS)	$ 718,154.00
Lloyds of London various syndicates/ (AJGUK)	$ 7,749,829.40
Lloyd's of London Hiscox syndicate/ (Amwins)	$ 227,621.50
Scottsdale Surplus Lines Ins. / (RPS)	$ 455,239.00
Swiss Re International SE / (AJGUK)	$ 2,746,119.70
Westchester Surplus Lines Ins. / (RPS)	$ 595,645.80
TOTAL	**$21,969,025.60**

2. confirm purchase of terrorism coverage, including domestic and foreign (T-3 form), subject to an aggregate limit of $50,000,000 property damage, $10,000,000 bodily injury from Lloyd's of London, through Arthur J. Gallagher Risk Management Services, Inc., effective May 1, 2012 to May 1, 2013, with an annual premium of $116,495; inclusive of all state-required fees and assessments;

3. 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 - $150/hour
   National General Adjuster - $165 /hour
   Executive General Adjuster - $215/hour
   Senior Executive General Adjuster - $225/hour

6. authorize the use of any of the Special Projects Consultants (SPC) firms under contract to the District, with associated fees, to access firms to produce sealed elevation certificates, pursuant to NFIP guidelines, subject to these firms' current contracts with the District 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