

Financial Services
Richard H. Hinds, Chief Financial Officer

SUBJECT **REQUEST FOR AUTHORIZATION TO RENEW THE EXISTING PORTFOLIO BUILDER'S RISK INSURANCE PROGRAM FOR NEW AND EXISTING FACILITIES AS PART OF THE DISTRICT'S CAPITAL CONSTRUCTION PLAN**

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

LINK TO STRATEGIC FRAMEWORK: **FINANCIAL EFFICIENCY/STABILITY**

At the School Board meeting of October 11, 2006, authorization was received to purchase a Portfolio Builder's Risk Insurance Program (Builder's Risk) consisting of all risk, replacement cost property insurance for facilities under construction as part of the District's Five Year Capital Plan. This authorization was provided for an initial three-year term, effective October 12, 2006, and was renewed for an additional three-year term effective October 12, 2009 at the School Board meeting of May 20, 2009. The current program is due to expire on October 12, 2012 and staff is recommending renewal of the program for an additional two-year term, including coverage enhancements.

The current program consists of the following coverage/terms underwritten by Lexington Insurance Company (A.M. Best, A+ XV):

Limit of Liability:	\$50 million any one occurrence
Flood:	\$5 million for special hazard zone (A,V), \$50 million annual aggregate for all other zones
Interior Water Damage:	\$5 million any one occurrence
Earthquake:	\$50 million annual aggregate
Named Windstorm:	\$25 million any one occurrence
All other Windstorm:	\$25 million any one occurrence

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Deductibles:

Named Storm Deductible: 5% of the total insured values at risk at the time and location of loss with a per loss minimum of \$25 million

Other Wind Deductible: \$250,000 per occurrence

Water Damage: \$100,000
(Other than Flood)

Flood: 5% of the values for zones A,V, subject to a minimum per loss deductible of \$1 million, with all other zones at \$50,000 per occurrence

Interior Water Damage: \$100,000 per occurrence

Rates for this coverage have been consistent since the program's inception in 2006 and are as follows:

New Capacity: \$1.0479/\$100 Annual Expenditures
Other than
New Capacity: \$0.5840/\$100 Annual Expenditures

Terrorism: \$0.032106 (percentage of premium)

Premiums paid over the past 6 years are as follows and have been based on a deposit premium consisting of 50% of estimated costs/%100% minimum premium from 2006 to 2008 and 75% of total anticipated expenditures/25% minimum premium from 2009 through the present, then subject to audit for actual expenditures, subject to stated minimum premiums:

2006-2007: \$5,139,261
2007-2008: \$4,908,491
2008-2009: \$3,377,984
2009-2010: \$ 887,052
2010-2011: \$ 850,502
2011-2012: \$ 750,350 (deposit premium)

Total premiums paid over the past six years totals \$15,913,640, based on \$1.26 billion in construction costs. There has only been one loss which occurred January 25, 2008, which was a fire at Kensington Park Elementary. This loss was paid entirely by the contractor.

As of September 17, 2012, **savings to the District's Capital Budget as a result of this program over the past 6 years is \$25.9 million.** These savings are determined by comparing the premium paid by the District to current property premiums in the marketplace paid by contractors. In addition to these savings, the program further protects the District by having access to Federal FEMA funding in the event of a loss due to the fact that the property insurance policy is in the name of the School Board, not the contractor.

Staff has been successful in negotiating a two-year renewal of the existing program, with some enhancements to the terms of the program. Staff believes that it makes sense to renew the program for a two-year period in order to re-evaluate the program's terms and pricing in the event that passage of the General Obligation Bond issue is successful.

The premium per \$100/construction will continue at the same rate which has been in place for 6 years; however, the following coverage enhancements will become effective October 12, 2012:

- ✓ Risk Attached Platform – This change puts the insurance company at risk for the remainder of the covered construction project, even if the Builder's Risk Insurance Program is canceled or non-renewed;
- ✓ Deposit premium for the renewal has been reduced from 75% of anticipated construction/minimum deposit to 60%, thus reducing the upfront premium costs of the program
- ✓ Sub-limits have been modified including those covering frame construction with that sub-limit changed from \$10 million to \$5 million, which is not an issue due to the fact that little, if no frame construction occurs

Staff is recommending the following financial terms for the first year of the renewal, effective October 13, 2012:

<u>Premium Projection</u>	<u>60% Expenditure Base</u>
New Capacity	\$566,611.33
Renovation	\$ 60,374.18
Terrorism	\$ 20,130.00
Citizens Assessment (State)	\$ 6,471.16
FHCF/EMPA Assessments	<u>\$ 8,416.50</u>
TOTAL	\$662,003.17

Had the deposit premiums continue to be based on the expiring 75% threshold, the deposit renewal premium would have been \$808,895, resulting in a deposit premium savings of \$161,779.49, which does not include fees/taxes.

As has been the case for the existing program, staff is recommending that consulting fees be authorized to assist in reviewing issued policies, premiums, billings, and other required professional services and advice on the program, with such fees to be paid to the District's risk management consultants at \$150/hour, with annual expenditures not to exceed \$50,000 per policy year to be paid by from the District's Capital Budget.

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

1. authorize renewal of its Portfolio Builder's Risk Insurance Program consisting of all risk, replacement cost coverage for facilities under construction, and other capital expenditures including maintenance projects from Lexington Insurance Company (AM Best XV 15), through Arthur J. Gallagher Risk Management Services, Inc., effective October 12, 2012 for a two-year period, 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 total insured values at risk at the time and the location of loss/\$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 \$5,000,000, subject to a per occurrence deductible of \$100,000, with premium rates of \$1.0479/\$100 of annual expenditures for new capacity construction; \$0.5849/\$100 of annual expenditures for other than new capacity construction; and \$0.032106 (percentage of premium) for terrorism, subject to annual audit of actual expenditures for policy years 2012-2013 and 2013-2014, inclusive of cancellation provisions as negotiated, with payments including deposit and audit premiums to be paid from the Board's Capital Budget for policy periods of October 12, 2012 to October 12, 2013 and October 12, 2013 to October 12, 2014; and
2. authorize consulting expenses for assistance in reviewing issued policies, premiums, billings, and other required professional services and advice on the Portfolio Builder's Risk Program, with such fees to be paid to the District's risk management consultants at \$150/hour, subject to annual maximum expenditures of \$50,000 to be paid from the Board's Capital Budget for policy periods of October 12, 2012 to October 12, 2013 and October 12, 2013 to October 12, 2014.

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