Office of Superintendent of Schools
Board Meeting of February 12, 2014

February 5, 2014

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, 2013 to May 1, 2014. The strategic approach to renewal of the District's all risk, replacement cost property insurance program has been that the Board authorize a structure for renewal which includes coverage and premium goals 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. The final structure of the bound program is then brought back to the Board at its May Board meeting for confirmation and tweaking, if necessary.

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Staff has already begun meeting with underwriters from worldwide carriers specializing in catastrophic coverage, which has been the focus since the District suffered a $95 million loss from Hurricane Andrew in 1992. Subsequent storms in 2004 and 2005 including Katrina, Rita, and Wilma were appreciably under the District's windstorm deductible, but FEMA claims have been filed and are still open.

2013 ATLANTIC HURRICANE SEASON

The 2013 Atlantic Hurricane season which ended on November 30, 2013 produced 13 named storms. The average number of storms during the Atlantic Hurricane season becoming named hurricanes is six. This year, only two, Ingrid and Humberto became named hurricanes; however, neither of the two became a major hurricane. The total number of storms for the 2013 season is slightly above average during a hurricane season of 12 storms. Only one storm made landfall in the United States and that was Andrea, the first Atlantic storm of the season which brought severe weather, including tornadoes, heavy rain and flooding to parts of the South. Mexico was buffeted by three storms, all of which originated in the Atlantic basin.

Though the tropics looked prime for an active season back in June, 2013, several factors developed which inhibited the strengthening of the storms. Among these factors were above normal shear across the Gulf into the northwestern Caribbean which inhibited storms when the shear became combined with significant amounts of dry air. Additionally, cold water nosing southwestward in the eastern Atlantic and a significant amount of African dust stifled the set up for stronger, long lasting storms. According to the National Oceanic and Atmospheric Administration (NOAA), the 2013 Atlantic Hurricane season is expected to rank as the six least active season since 1950.

Hurricane forecasters remind us that a well-established climate pattern puts us in an ongoing era of high activity for Atlantic hurricanes that began in 1995. Since that time, more than 70 percent of seasons have been above normal, including storms from the 2012 Atlantic Hurricane season. Historically, Atlantic high-activity eras have lasted 25-40 years, with the previous one occurring from the mid-1930's until 1970. Several inter-related atmospheric factors contribute to these high activity years, including warmer Atlantic Ocean temperatures, an enhanced West African monsoon season and reduced vertical wind shear.

TROPICAL STORM (SUPER STORM) SANDY AND GLOBAL PROPERTY CAPACITY

Superstorm Sandy continues on track to be the third most expensive storm in United States history behind only Hurricanes Katrina and Andrew. Insured losses for Sandy are running at $35 billion in claims paid so far, compared with $48.7 billion for Katrina and $25.6 billion (2012 dollars) for Hurricane Andrew. Estimates of total economic damages from Sandy are estimated to exceed $70 billion. While it is clear that the effects on the southeast coast from a storm like Sandy would have appreciably less impact because of construction and preparedness, however, the worldwide catastrophic insurance marketplace continues to be affected from the Sandy loss.

Since the losses stemming from Hurricane Andrew in 1992 of $95 million (1992 dollars) resulted in the two domestic carriers providing property insurance to the District canceling their coverage, the District has been forced to seek coverage in the worldwide property insurance marketplace. This worldwide marketplace, which creates capacity specifically for high risk or catastrophic-prone (CAT) areas, is where large property owners in the Southeast United States procure hurricane and windstorm coverage to protect assets. As such, worldwide losses, and not just losses to the continental United States impact the availability of CAT coverage, along with the pricing of such coverage.

In 2013 natural and man-made catastrophes caused worldwide insured losses of approximately $44 billion according to a Swiss RE Ltd. report. Swiss Re is one of the international carriers which are vital to the District's current property insurance placement. The study showed that insured losses from disasters in 2013 were down significantly from about $81 billion in 2012. Economic losses from catastrophes in 2013 totaled about $130 billion. About 25,000 lives were lost as a result of natural and man-made disasters in 2013 with the highest loss of life occurring as a result of Typhoon Haiyan in the Philippines, which killed approximately 7,000 people. Additionally, major insured losses in 2013 included floods in Central and Eastern Europe in June that resulted in insured losses of about $4 billion, and caused economic losses of about $18 billion. These losses were the second-most expensive freshwater floods behind Thai flooding in 2001. There were also floods in Alberta, Canada; hailstorms in France and Germany, and Windstorm Christian in northern Europe which caused insured losses of about $1 billion.

For many years, staff has met with key underwriters from markets including Lloyd's of London, Swiss Re and Munich Re to highlight the District's significant hurricane resistant construction standards and hurricane preparedness plans. This reputation in the worldwide marketplace will continue to have a significant positive influence on a carrier's decision as to where to put their CAT capacity and how much they will charge for such capacity. The fact is however that there is a finite amount of CAT capacity available in the worldwide insurance/reinsurance marketplace and as more entities access these markets, the more strain there is on capacity and pricing.

Early indications for the United States CAT property marketplace indicate some small increased capacity and minor premium decreases around 5%-10%. South Florida as a major catastrophic-prone area has for many years suffered from the insurance industry's decision to restrict available coverage and charging more for the coverage which is available. Entities with large property values such as Miami-Dade County, Broward County School Board and Miami-Dade County Public Schools have taken the necessary steps to reduce double digit premium increases by assuming very large hurricane deductibles of $100 - $200 million per loss. With a calm 2013 Atlantic Hurricane Season behind us, there is a potential opportunity to regain some of the lost capacity which has evaporated over the past several years, while at the same time, taking advantage of some small premium reductions.

UPDATE FROM 2013 RENEWAL

At the Board meeting of February 15, 2013, the Board authorized staff through its insurance broker, 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 $250 million ($250MM) in coverage limits, with annual premiums for all property insurance premiums and fees not to exceed $25 million ($25MM), effective May 1, 2013. This authorization contemplated replacing the $50 million ($50MM) in coverage which the District dropped at its renewal of May 1, 2012. This recommendation was made in part due to raised concerns from the Office of Insurance Regulation (OIR) when it reviewed the District's 2012-2013 coverage in anticipation of providing the requested "reasonableness" letter in order to comply with requirements of the Federal Stafford Act and as part of seeking assistance through FEMA.

At the Board meeting of May 16, 2013, staff reported that the authorized ($250MM) in coverage had been secured and bound, effective May 1, 2013 with all premiums of $24,417,939.40, including applicable state fees, representing savings from the authorized budget of $25MM of $582,060.60. In addition to being able to fully complete the program capacity goal of $250MM, consisting of four layers including the primary $100MM layer, and three excess $50MM layers, staff was successful in partnering with Swiss RE on an innovative approach of windstorm versus all other peril coverage. This innovative coverage provision was bound as one of the first three-year programs available in the CAT marketplace since 1992.

The Swiss RE layer which consists of 30% of that layer (30% part of $100MM) or $30MM is named windstorm/flood coverage only. The remainder of that layer (70% part of $100MM) or $70MM is traditional all risk, replacement cost coverage which covers named windstorm/flood and other perils coverage. The Swiss RE $30MM named windstorm/flood only portion is matched with a separate all other peril (AOP) coverage also totaling $30MM ($30MM part of $100MM) provided by Lexington Insurance Company in order to provide concurrent coverage for that layer. This AOP coverage is now subject to a per loss deductible of $1,000,000, up from the previous AOP per loss deductible of $500,000. The Swiss RE named windstorm/flood coverage portion is subject to a corridor/aggregate deductible consisting of 30% of $25MM or $7.5MM. As has been the case since 2008, all named hurricane/windstorm coverage is subject to a flat per occurrence named storm deductible of $100MM.

The Swiss RE named windstorm flood coverage portion is also subject to a No Claim Bonus provision equal to 10% of annual premium installment, net of any broker compensation, payable annually. Due to the lack of storm activity in the 2013 Atlantic Hurricane Season, it is anticipated that the District will be positioned to receive a No Claim Bonus premium repayment of approximately $358,800 for the 2013-2014 policy year.

For the present policy year, all property premiums were paid from the District's Capital Budget. During the previous policy year, premium payments were split with 56% of premiums for property and flood coverage being paid from the Capital Budget and the remaining 44% from the General Fund.

As part of commission caps in place pursuant to the District's contract with Arthur J. Gallagher Risk Management Services, Inc. (AJG), which became effective January 1, 2011 for a five-year term, consisting of 8% Retail Brokerage; 4.25% Domestic Wholesale Brokerage; and 6% International Wholesale, AJG and staff have negotiated specific additional services when carrier commissions exceed District contractual caps. All commissions payable in excess of contractual caps are re-directed to identified value-added projects which reduce District wide risk exposure.

In 2011-2012 part of the $102,469 in excess commissions was spent to have appraisals completed for School and Non-School locations to benchmark proper replacement cost valuation as well as a comprehensive modeling report which was completed by Global Risk Miyamoto. This hurricane modeling report provided information which resulted in a 50% reduction in projected Probable Maximum Loss (PML) calculations under RMS v.11 which had been projecting $1.8 billion PML loss. This analysis was a key factor in staff's ability to secure limits for the current renewal at aggressive pricing in the marketplace.

Available funding from the 2012-2013 renewal with previous year's balance amounting to $197,798.97 was allocated for additional appraisal services, as well as a four-year contract with Exigis Risk Management Information Systems (RMIS) to provide the Office of Risk and Benefits Management with a state of the art risk management information system which will track exposures, policies, and trends while providing state of the art reports and on demand process analytics. This platform will also be adding a FEMA Project Worksheet tracking system over the next year.

Available funding from the 2013-2014 renewal was $245,416 and all funds have been allocated for purpose of providing Thermal Mapping of District facilities' roofs to identify potential water intrusion. The opportunity to utilize this valuable tool and pay for it with commissions, which otherwise would have been returned to the insurance carriers, is a great opportunity for the District to strategically identify those roofing systems which require repair/replacement thus making the facilities a safer place for our students and a better insured risk.

Authorization was also received at the Board meeting of May 18, 2013 to authorize the Superintendent 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. The provisions of this act require that the individual state's Insurance Commissioner certify that the property insurance carried by an insured is "reasonable" based upon market conditions.

Staff was again successful, as it has been for over 10 years, in obtaining a letter of reasonableness. This determination, dated September 30, 2013, was received after staff was asked to provide proof of restoration of the previously dropped $50 million of coverage limits as well as proof of the District's purchase of terrorism coverage.

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. Proper valuation is critical in all property transactions so that the insured is not subject to a penalty at the time of loss. Undervaluing or overvaluing can have a detrimental effect on the ability to negotiate renewal terms and conditions of large property valuations.

District property valuation is based on replacement cost values (replacing old with new at the time of loss), 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 values utilized for the past few years, using a blended rate for non-instructional facilities, elementary, middle and senior high schools, in conjunction with actual appraisals are as follows:

YEAR	VALUATION	TOTAL INSURED VALUE (TIV)
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
2013	$160/sq. ft.	$7.89 Billion
2014	$165/sq. ft.	$8.19 Billion

The overall reduction in reported replacement cost values from $9.08 Billion to $7.88 Billion from 2009 to 2012 reflects the reduction in cost of construction due to the economic downturn. In addition to physical buildings, these figures include valuations for all owned vehicles, mobile broadcasting equipment, WLRN aerials and antennas, as well as all furniture, fixtures and equipment (FF&E) in all facilities. To better value the District's investment in technology at schools and offices, the percentage of building values used for determining FF&E is being increased from 17% to 20%. For purposes of negotiating the renewal, the very small increase (3.29%) represents a small overall increase in exposure for property markets.

RECOMMENDATIONS FOR RENEWAL

As mentioned previously, the Office of Insurance Regulation (OIR) was skeptical of the District's decision to drop from $250 million of coverage for the 2011-2012 policy year to $200 million for the 2012-2013 policy year. That $50 million layer was re-established for the current 2013-2014 policy year. With the 2013 Atlantic Hurricane season being very calm, staff believes the worldwide property marketplace will support small premium decreases for the better insured risks, thus allowing for purchase of an additional windstorm layer.

Taking into consideration the amount of risk the District is assuming with a $100 million per loss named windstorm deductible, the ability to prove to OIR that the District is willing to re-invest some additional money into the property program is vital. Therefore, staff is recommending renewal of its current $250 million program limits, along with a goal to add an additional purchased layer of $50 million excess of the $250 million for a total program of $300 million in coverage limits. Staff believes that the recommended $300 million in coverage can be purchased for the same level of premiums authorized last year. Therefore, staff is again seeking authority for premium expenditures not to exceed $25 million for coverage effective May 1, 2014 to May 1, 2015. This strategy will represent a coverage increase of 20% (from $250 million to $300 million), with the same premium authorization as requested last year.

Contained in the 2012-2013 Millennial Access Platform (MAP) initiatives was MAP Property Insurance Program Re-Structuring. Outlined in the MAP is that the amount of property coverage secured by the District has ranged from a high of $750 million to a low of $150 million, with costs and terms subject to annual changes. As previously mentioned, staff was successful in negotiating a landmark multi-year property capacity and premium structure with Swiss RE for the current policy year. This landmark agreement has caught the interest of other key worldwide carriers, and staff is hopeful that it can expand the opportunities for multi-year commitments for coverage capacity as well as continuing the concept of No Claims Bonuses as it did with Swiss RE for the current policy year. This property infrastructure will insulate the District from loss of capacity and premium increases which will undoubtedly occur when South Florida suffers additional hurricane losses in future years.

TERRORISM INSURANCE ACT AND COVERAGE

The Terrorism Risk Insurance Program Reauthorization Act/Terrorism Risk Insurance Act (TRIPRA)/(TRIA) plays a key role in ensuring that property owners have available and affordable insurance options necessary to protect their assets against the financial consequences of foreign and domestic terrorist events. This Federal backstop will expire without further Congressional action before the end of 2014. Congressional reauthorization of TRIA is a major focus of the Risk and Insurance Management Society (RIMS) Governmental Affairs platform. Mr. Scott B. Clark, Risk and Benefits Officer served as International President of RIMS in 2011, and remains very active in the Governmental Affairs area of the Society, having testified on the importance of Congressional TRIA reauthorization in late 2013 before representatives from the Federal Insurance Office (FIO).

This coverage is crucial to adequately protect District assets. Financial markets which currently underwrite the outstanding $2.84 billion in Certificates of Participation (COP's), as well as markets which have begun to underwrite portions of the General Obligation Bond (GOB), will be very interested in the specifics of the District's property insurance program, including coverage for Terrorism. Additionally, staff was told that other governmental entities in Florida which were seeking the OIR "reasonableness" letters on insurance adequacy for FEMA were told that they would not be successful in obtaining these letters without proof of terrorism coverage.

Therefore, Staff is recommending that the District continue to purchase terrorism coverage for its 2014-2015 renewal. The cost of this coverage has continued to plateau with the current Federal backstop in place, which could be of concern without Congressional reauthorization of TRIA coverage. The current annual premium for coverage which consists of $50 million in limits of property damage and $10 million of bodily injury coverage is $116,495. Staff is recommending that this coverage be renewed effective May 1, 2014 with annual premiums not to exceed $125,000. This coverage could be subject to Congressional reauthorization of TRIA for coverage to extend past December 31, 2014.

NATIONAL FLOOD INSURANCE PROGRAM (NFIP)

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. Over the past three years, the Federal Government re-mapped Miami-Dade County's flood maps, with the result affecting 212 locations where rate increases for non Post Firm buildings averaged 4%. Other increases ranged from 9% for buildings rated as Post Firm (V) to 6% for Post Firm (A).

The annual budget for NFIP coverage has ranged from a high of $3.8 million in 2011-2012 to the current budget of $2.8 million for 2013-2014. The reduction was as a result of NFIP's implementation of the Preferred Risk Policy (PRP) which was designed to help ease the financial burden of affected properties. NFIP has gone on record indicating that premium reductions were put in place as a result of PRP; however, the program has continued to sink further into debt following the significant flood losses being reported in the aftermath of Sandy. At this time, staff is recommending that the NFIP budget for 2014-2015 increase slightly from the expiring budget of $2.8 million to $3.0 million to cover all buildings in affected flood zones, with the understanding that if Congress raises rates mid-year, additional authority may be required. Congress is seriously considering major changes to NFIP premiums, based on the significant flood losses which occurred as a result of Tropical Storm Sandy. When that storm hit the northeast US, Congress had just reauthorized the NFIP program until September, 2017. In addition to considering much higher premium levels, Congress is also considering complete privatization of the entire NFIP program.

STAFF AND BROKER MEETING WITH PROPERTY UNDERWRITERS

The value of meeting with representatives from key property markets cannot be overstated. A limited number of insurers possess needed catastrophic coverage capacity in the worldwide market. Although the 2013 Atlantic Hurricane season was benign, previous storms including Irene in 2011 and Sandy in 2012 significantly impacted the Northeast United States. Regardless, the eastern seaboard continues to be viewed as a prime hurricane risk. Miami-Dade County Public Schools as one of the nations' largest property owners must have access to a significant portion of that sought after capacity.

To accomplish that, meetings will be held with current and prospective markets to secure needed capacity for renewal at the most competitive rates. The focus of these meetings will be to reiterate the building codes used to build educational facilities in South Florida and how these construction methods dramatically differ from buildings in the northeast affected by Tropical Storm Sandy. Discussions will also take place on the additional investment in the District's infrastructure which will be made over the next number of years as a result of the successful passage of the General Obligation Bond Issue.

It is important to re-state that the viability of the District's property coverage programs, including terrorism and flood must be acceptable to the holders of the District-issued Certificates of Participation (COP's), FEMA, and the financial markets which will invest in the District's General Obligation Bond (GOB) program. 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, 2014, subject to a maximum property insurance premium of $25 million. An item confirming all coverage terms, premiums and conditions will be brought back to the Board meeting of May 14, 2014.

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

1. Authorize 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 $300 million in coverage limits, with annual premiums for all property insurance premiums and associated fees not to exceed $25 million, effective May 1, 2014, 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 14, 2014;

2. Authorize staff, through Arthur J. Gallagher Risk Management Services, Inc., to secure and bind terrorism coverage in the amount of $50 million property damage/$10 million bodily injury, effective May 1, 2014 with an annual premium not to exceed $125,000, including state fees, with payment of such coverage to be funded from the District's property insurance budget; and

3. Authorize renewal of flood insurance coverage with the National Flood Insurance Program (NFIP), through Arthur J. Gallagher Risk Management Services, Inc., for all properties required by the Federal Government to be covered with estimated premiums not to exceed $3.0 million for coverages effective for the 12-month period of May 1, 2014 to May 1, 2015.

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