Office of Superintendent of Schools
Board Meeting of February 11, 2015

January 29, 2015

Financial Services
Mrs. Judith M. Marte, Chief Financial Officer

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

COMMITTEE: **FISCAL ACCOUNTABILITY**

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 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 Issuer, MBIA Insurance Corporation.

The current property insurance program's term is May 1, 2014 to May 1, 2015. 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 next available School Board meeting for confirmation and potential modifications, if necessary.

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2014 ATLANTIC HURRICANE SEASON

The 2014 Atlantic Hurricane season which ended on November 30, 2014 produced eight named storms, six of which became hurricanes and two of those hurricanes became major hurricanes of Category 3 or higher . The average number of storms during the Atlantic Hurricane season becoming named hurricanes is six.

Hurricane Arthur in late June and early July made landfall over eastern North Carolina during the July 4th holiday weekend. After tracking over eastern North Carolina, Arthur went to bring heavy rainfall, flash flooding and strong winds with power outages to eastern New England and much of Atlantic Canada. Once Arthur was gone, the United States and the Caribbean were not threatened again for the rest of the season, and notably the State of Florida has not had a hurricane landfall since Wilma in October, 2005. This statistic is not only amazing for the long amount of time in-between hurricane landfalls, but more importantly, it is troubling that complacency may be setting in over the nine years since a Florida hurricane landfall. This is Florida's longest hurricane-free stretch since records began in 1851.

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. 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.

In 2014 natural catastrophes caused total insured losses of $39 billion, 38% lower than the 10-year average loss of $63 billion, according to the catastrophic modeling team of Aon Benfield Group, Inc. There were 258 natural disasters worldwide. The biggest insured losses of the year both were the result of severe thunderstorms, including Europe's Storm Ela in June, which hit areas of Belgium, France and Germany. Storms in the United States in May resulted in insured losses of about $2.9 billion, which was in addition to losses resulting from last year's severe winter weather which resulted in insured losses of $1.6 billion.

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. Early indications for the United States CAT property marketplace indicate some increased capacity and premium decreases around 5%-10%, depending on the risk. 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 2014 Atlantic Hurricane Season behind us, there is a potential opportunity to take advantage of potential premium savings due to strong capacity availability in the insurance and reinsurance markets.

UPDATE FROM 2014 RENEWAL

At the Board meeting of February 12, 2014, 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 $300 million ($300MM), with annual premiums for all property insurance premiums and fees not to exceed $25 million ($25MM), effective May 1, 2014.

At the Board meeting of May 16, 2014, staff reported that the authorized ($300MM) in coverage had been secured and bound, effective May 1, 2014 with all premiums and applicable state fees totaling $24,328,213. Additionally, authorized terrorism coverage with limits of $50MM for property damage/$10MM bodily injury was secured with an annual premium cost of $111,430, representing total annual premiums for the property insurance program, effective May 1, 2014 of $24,439,643, representing premium savings from the authorized budget of $25,000,000 of $560,357.

In addition to being able to fully complete the program's capacity goal of $300MM in all risk, replacement cost coverage which consists of a primary $100 million ($100MM) layer and four excess $50 million ($50MM) layers, staff was successful in partnering with Swiss RE, Lexington Insurance Company and Ascot Syndicate (Lloyd's of London) on an innovative approach to windstorm coverage contained in the primary $100MM layer. Specifically, the primary $100MM layer is broken down into two sub-layers for purposes of named windstorm versus all other peril coverage. The Swiss RE layer, which consists of 30% of that layer (30% part of 100% or $30MM) is named windstorm/named windstorm flood coverage only.

Lexington Insurance Company's layer consists of $10MM and Ascot Syndicate's layer consists of $3.5MM, representing total capacity for named windstorm coverage subject to a multi-year policy provision totaling $43.5MM part of $100MM. The remainder of that layer ($56.5% part of 100%) or $56.5MM is traditional all risk, replacement cost coverage which covers named windstorm/flood and all other perils coverage that renews on an annual basis. The named windstorm/flood only portion is matched with a separate all other peril (AOP) coverage also totaling $43.5MM (43.5MM part of $100MM) provided by Lexington Insurance Company ($40MM) and AGM Syndicate (Lloyd's of London) ($3.5MM) in order to provide concurrent coverage for that layer. This AOP coverage is subject to a per loss deductible $1,000,000.

The Swiss RE, Lexington, and Ascot Syndicate named windstorm/flood coverage portion is subject to a corridor/aggregate deductible consisting of $43.5% of $25MM or $10.875MM. As has been the case since 2008, all named windstorm is subject to a flat per occurrence named storm deductible of $100MM.

The Swiss RE, Lexington, and Ascot Syndicate named windstorm/flood coverage portion is also subject to No Claim Bonus provisions equal to 10% of annual premium installment, net of any broker compensation, payable annually, due to the fact that the premium levels are determined for the three-year term. Due to the lack of storm activity in the 2014 Atlantic Hurricane Season, it is anticipated that the District will be positioned to receive a No Claim Bonus premium repayments/premium credits of approximately $556,759 for the 2014-2015 policy year. For the present policy year, all property premiums were paid from the District's Capital Budget.

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 broker compensation available in excess of contractual caps are re-directed to identified value-added risk related services which reduce District wide risk exposure.

In 2011-2012, part of the $102,469 in excess compensation 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. Available funding from the 2012-2013 renewal with previous year's balance amounting to $197,799 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 funds 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. Currently, arrangements are being made to use excess compensation funds to pay for roofing core sampling at schools where the thermal imaging indicated potential water intrusion. Once these core samples are analyzed, the Office of Capital Construction can determine if changes to upcoming roof replacements need to be made.

Authorization for 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 is sought annually. The School Board received confirmation on September 30, 2014 that staff was again successful in obtaining this letter of reasonableness from Mr. Kevin McCarty, Insurance Commissioner, dated August 22, 2014, stating that the property insurance in force from May 1, 2014 to May 1, 2015 is determined to be "reasonable".

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, which is vital when renewing this coverage. 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)
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
2015	$175/sq. ft.	$8.73 Billion

In 2009, total insured values totaled $9.08 Billion and then dropped to $7.88 in 2012 as a result of the cost of construction and the economic downturn. Subsequent increases reflect expected value increases relative to the cost of construction and enhancement to District owned properties. 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 20%.

With the second year of construction underway as a result of passage of the District's General Obligation Bond issue, it is anticipated that insured values will continue to increase as buildings are updated with state of the art technology and building improvements.

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.

Last year, an additional $50 million layer was added bringing the total amount of coverage up to $300 million. While this is a very small amount of coverage, when compared to the total insured values of $8.73 billion, and a potential ground up loss of $954 million as determined by the modeling company AIR in the event of a Category 5 hurricane hitting Miami-Dade County, staff believes that remaining at the $300 million level of coverage is sufficient. It is very important to retain limits when premium levels are decreasing based upon soft market conditions so that when the market hardens, the District can utilize its top layer as an opportunity to offset premium increases without risking the District's ability to obtain letters of reasonableness from FEMA.

Total insured values of the District have increased from the 2014-2015 renewal by 6.05%, which does have a market impact on premiums. With the 2014 Atlantic Hurricane season being very calm, staff believes the worldwide property marketplace will support reasonable premium decreases for the better insured risks, even taking into consideration the total insured value increases.

Additionally staff believes that it is in the District's best interest to slightly increase the amount of windstorm/flood coverage, if available, which is part of the primary $100MM layer on a multi-year capacity and pricing arrangement. This strategy is in keeping with the initiatives which were contained in the 2012-2013 Millennial Access Platform (MAP) of Property Insurance Program Re-Structuring.

When taking into consideration the 6.05% increase in insured values, with an offsetting decrease which is believed to be available in the worldwide property marketplace of approximately 8%, staff believes that an overall estimated decrease of 14% is achievable, which would conservatively reflect premium savings from last year of approximately $2,000,000 ($2MM). Therefore, staff is seeking authority for premium expenditures for the 2015-2016 property insurance program not to exceed $23,000,000. This anticipated annual expenditure includes premium credits received for the 2014-2015 policy year as a result of received no claims bonuses, as premiums for the multi-year capacity is already established for the three-year term.

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. As the School Board was informed, this Federal backstop was allowed to expire as of December 31, 2014 as a result of Congress' inaction on extending program. However, on January 12, 2015, President Obama officially signed legislation to reauthorize the Terrorism Risk Insurance Act.

Terrorism 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 2015-2016 renewal. The cost of this coverage has continued to plateau with the current Federal backstop in place, and now that Congress and the President have acted to re-establish the Federal backstop, it is anticipated that concerns about coverage shortfalls or significant premium increases can be avoided. The current annual premium for coverage which consists of $50 million in limits of property damage and $10 million of bodily injury coverage, subject to a per loss deductible is $111,430, inclusive of State required fees. Staff is recommending that this coverage be renewed effective May 1, 2015 with annual premiums not to exceed $110,000.

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.

The annual budget for NFIP coverage has ranged from a high of $3.8 million in 2011-2012 to the current budget of $3.0 million for 2014-2015. 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. At this time, staff is recommending that the NFIP budget for 2015-2016 decrease slightly from the expiring budget of $3.0 million to $2.8 million to cover all buildings in affected flood zones, with the understanding that if Congress raises rates mid-year, additional authority may be required.

STAFF AND BROKER MEETING WITH PROPERTY UNDERWRITERS

The value of meeting with representatives from key property markets cannot be overstated. Although the 2014 Atlantic Hurricane season was benign, 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. Therefore, staff will be meeting with various underwriters representing domestic and international markets, and will bind and secure all available coverage effective May 1, 2015, subject to a maximum property insurance premium of $23.0 ($23M) million. An item confirming all coverage terms, premiums and conditions will be brought back to the Board meeting of May 13, 2015.

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 renewing the existing $300 million in coverage limits, with annual premiums for all property insurance premiums and associated fees not to exceed $23.0 million, effective May 1, 2015, 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 13, 2015;

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, 2015 with an annual premium not to exceed $110,000, 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 $2.8 million for coverages effective for the 12-month period of May 1, 2015 to May 1, 2016.

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