

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

SUBJECT: PROPERTY INSURANCE

COMMITTEE: FISCAL ACCOUNTABILITY

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.

BACKGROUND AND UPDATES

At the Board meeting of February 11, 2015, 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 renewing the existing \$300 million (\$300MM) per occurrence with annual premiums for such coverage not to exceed \$23 million. Authorization was also received to secure and bind terrorism coverage in the amount of \$50 million property damage/\$10 million bodily injury, with annual premiums not to exceed \$110,000 as well as authorizing renewal of flood insurance coverage with the National Flood Insurance Program (NFIP), for all properties required by the Federal Government to be covered with estimated premiums not to exceed \$2.8 million. All three coverages were authorized to be secured and bound for the 12-month period of May 1, 2015 to May 1, 2016.

PROGRAM RENEWAL AS OF MAY 1, 2014

Staff is pleased to report to the Board that the recommended \$300MM in all risk, replacement cost property insurance has been secured and bound effective May 1, 2015, with all premiums, not including applicable state fees totaling \$22,360,427. Additionally, authorized terrorism coverage with limits of \$50MM for property damage/\$10MM bodily injury has been bound with an annual premium of \$97,500, representing a \$12,500 savings from what was previously authorized, resulting in an updated premium for property and terrorism coverage, including state required fees of \$280,471.90, resulting in a gross premium of \$22,738,398.90

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When the No Claim Bonus (NCB) totaling \$514,872, due to the School Board from the three carriers whose program is now on a rolling three-year confirmed capacity/premium platform is deducted from premiums, the net renewal property premium becomes \$22,223,529.90, representing a savings on two of three components of property coverage from last year's renewal of \$1,848,706.69. This premium reduction of 7.68% is in addition to the fact that the District's total insured values increased by 6.5%, thus resulting in an overall decrease of 14.18%.

Furthermore, staff has been able to further reduce anticipated expenditures for NFIP coverage from the \$2.8 million outlined in the February 11, 2015 Board meeting to \$2.5 million, which is \$500,000 less than was budgeted for the 2014-2015 policy period. **Therefore, total property budgeted expenditures for the renewal of May 1, 2015 to May 1, 2016 as compared to last year's budgeted expenditures, including NCB payments, are being reduced by \$2,348,706.69.**

THREE-YEAR NAMED WINDSTORM COVERAGE (SWISS RE, LEXINGTON, ASCOT AND BERKSHIRE HATHAWAY SPECIALTY INSURANCE)

In addition to being able to fully complete, the program's capacity goal of \$300MM, consisting of five layers including a primary \$100 million (\$100MM) layer and four excess \$50 million (\$50MM) layers, staff was successful in partnering with Westport Insurance Corporation (Swiss RE), Lexington Insurance Company, Ascot Syndicate (Lloyd's of London), and National Fire & Marine Insurance Company (Berkshire Hathaway Specialty Insurance) on an innovative approach of windstorm coverage contained within the primary \$100MM layer. Specifically, effective May 1, 2015, 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; Ascot Syndicate's layer consists of \$3.5MM, and Berkshire Hathaway's layer consists of \$3MM, representing total capacity for named windstorm coverage subject to a multi-year policy provision totaling \$46.5MM part of \$100MM.

Staff believes that this spread is an appropriate balance of committed capacity and regular coverage, which would insulate the District from significant swings in both the availability of coverage and the cost of such coverage following a windstorm event. All committed capacity from the now four carriers includes the same No Claims Bonus (NCB) provision, whereby the District is eligible to receive reimbursement of 10% of premiums paid, including applicable fees and costs, but net of commissions paid in years without any reported or paid losses. The remainder of that layer (53.5% part of 100%) or \$53.5MM is traditional all risk, replacement cost coverage which covers named windstorm/flood and all other perils coverage.

The named windstorm/flood only portion is matched with a separate all other peril (AOP) coverage also totaling \$46.5MM (\$46.5MM part of \$100MM) provided by Lexington Insurance Company (\$40MM), AGM Syndicate (Lloyd's of London)(\$3.5MM); and Berkshire Hathaway Specialty (\$3.0MM), in order to provide concurrent coverage for that layer. This AOP coverage is subject to a per loss deductible of \$1,000,000.

The Swiss RE, Lexington, Ascot, and Berkshire Hathaway Specialty named windstorm/flood coverage portion is subject to a corridor/aggregate deductible consisting of 46.5% of \$25MM or \$11.625MM. As has been the case since 2008, all named windstorm coverage is subject to a flat per occurrence named storm deductible of \$100MM.

NAMED WINDSTORM MULTI-YEAR PROGRAM TERMS AND COVERAGE DATES

Carrier: Westport Insurance Corp. (Swiss RE) (A.M. Best A+ XV)

Policy Term: **Year Three, three-year policies effective May 1, 2013 – May 1, 2014; May 1, 2014 – May 1, 2015; and May 1, 2015 – May 1, 2016 (premium fully earned, payable annually)**

Coverage Provided: Named Windstorm/Named Windstorm Flood Only
Corridor/Aggregate Deductible: \$25MM (30% applicable or \$7.5MM) after \$100MM per occurrence Named Windstorm/Named Windstorm Flood (subject to 20% change in Total Insured Values)

Named Windstorm Limits
Per Occurrence: 30% of Primary \$100MM layer or \$30MM, subject to Corridor/Aggregate deductible of 30% of \$25MM (\$7.5MM) and per occurrence Named Windstorm/Named Windstorm Flood of \$100MM

Primary \$100MM Pricing
(including state fees): \$4,390,124.00

Carrier: Lexington Insurance Company (A.M. Best AXV)
Policy Term: **Year Two, Three-year policies effective May 1, 2014 – May 1, 2015; May 1, 2015 – May 1, 2016; and May 1, 2016—May 1, 2017 (premium fully earned, payable annually)**

Coverage Provided: Named Windstorm/Named Windstorm Flood Only
Corridor/Aggregate Deductible: \$25MM (10% applicable or \$2.5MM) after \$100MM per occurrence Named Windstorm/Named Windstorm Flood (subject to 20% change in Total Insured Values)

Named Windstorm Limits Per Occurrence:	10% of Primary \$100MM layer or \$10MM, subject to Corridor/Aggregate deductible of 10% of \$25MM (\$2.5MM) and per occurrence Named Windstorm/Named Windstorm Flood of \$100MM
Primary \$100MM Pricing (including state fees):	\$1,218,548.80
Carrier: Policy Term:	Ascot Syndicate (Lloyd's of London)(A.M. Best AXV) Year Two, Three-year policies effective May 1, 2014 – May 1, 2015; May 1, 2015 – May 1, 2016; and May 1, 2016—May 1, 2017 (premium fully earned, payable annually)
Coverage Provided: Corridor/Aggregate Deductible:	Named Windstorm/Named Windstorm Flood Only \$25MM (3.5% applicable or \$875,000) after \$100MM per occurrence Named Windstorm/Named Windstorm Flood (subject to 20% change in Total Insured Values)
Named Windstorm Limits Per Occurrence:	3.5% of Primary \$100MM layer or \$3.5MM, subject to Corridor/Aggregate deductible of 3.5% of \$25MM (\$875,000) and per occurrence Named Windstorm/Named Windstorm Flood of \$100MM
Primary \$100MM Pricing (including state fees):	\$436,603.80
Carrier: Policy Term:	National Fire and Marine Insurance Company (Berkshire Hathaway Specialty Insurance)(A.M. Best A++XV) Year One, Three-year policies effective May 1, 2015 – May 1, 2016; May 1, 2016 – May 1, 2017; and May 1, 2017 – May 1, 2018 (premium fully earned, payable annually)
Coverage Provided: Corridor/Aggregate Deductible:	Named Windstorm/Named Windstorm Flood Only \$25MM (\$3.0% applicable or \$750,000) after \$100 MM per occurrence Named Windstorm/Named Windstorm Flood (subject to 20% change in Total Insured Values)

Named Windstorm Limits
Per Occurrence: 3.0% of Primary 100MM layer or \$3.0MM, subject to Corridor/Aggregate deductible of 3.0% of \$25MM (\$750,000) and per occurrence Named Windstorm/Named Windstorm Flood of \$100MM

Primary \$100MM Pricing
(including state fees): \$305,943.10

No Claim Bonus (reported/paid) on all Multi-Year Named Windstorm/Named Windstorm Flood Only: 10% of annual premium installment net of any broker compensation – payable annually

ALL OTHER PERIL COMPONENT

Carrier: Lexington Insurance Company (AXV)
Policy Term: One-year policy effective May 1, 2015 – May 1, 2016
Coverage Provided: All Other Perils (other than Named Windstorm/Named Windstorm Flood Only)
Limits: \$40MM part of \$100MM
Pricing (including state fees): \$404,004.00

Carrier: Syndicate AGM (Lloyd's of London)(AXV)
Policy Term: One-year policy effective May 1, 2015 – May 1, 2016
Coverage Provided: All Other Perils (other than Named Windstorm/Named Windstorm Flood Only)
Limits: \$3.5MM part of \$100MM
Pricing (including state fees) \$25,809.50

Carrier: National Fire & Marine Insurance Company (Berkshire Hathaway Specialty Insurance (A++XV))
Policy Term: One-year policy effective May 1, 2015 – May 1, 2016
Coverage Provided: All Other Perils (other than Named Windstorm/Named Windstorm Flood Only)
Limits: \$3.0MM part of \$100MM
Pricing (including state fees) \$30,304.00

TRADITIONAL PROGRAM:

The remainder of the 53.5% of the primary \$100MM layer of the coverage will be provided on a quota shared basis consisting of both named windstorm coverage and all other peril (AOP) coverage by the following companies:

Landmark American Insurance Company (A+ XIII)
Liberty Surplus Insurance Corporation (A XV)
Ironshore Specialty Insurance Company (A XIV)
Axis Surplus Insurance Company (A+ XV)
Allied World Assurance Company (A XV)
Westchester Surplus Lines Insurance Company (A++XV)
Lloyds of London (various syndicates) (AXV)

Premiums attributable to the \$53.5MM part of \$100MM primary layer are \$5,996,292.90, including applicable state fees.

Total premiums for carriers on a three-year named hurricane policy, traditional one-year all risk placement and all other peril coverage, including applicable state fees for the primary \$100MM layer, for a combined total of \$12,807,630.10.

Premiums attributable to excess coverage layers are as follows:

\$50MM excess of primary \$100MM layer, including applicable state fees is \$3,640,597.00
\$50MM excess of \$150MM coverage layer, including applicable state fees is \$2,720,215.50
\$50MM excess of \$200MM coverage layer, including applicable state fees is \$1,881,666.20
\$50MM excess of \$250MM coverage layer, including applicable state fees is \$1,590,790.10

Total premiums attributable to the property insurance program effective May 1, 2015 to May 1, 2016, including state fees is \$22,640,898.90.

PROPERTY COVERAGE IN EFFECT AS OF MAY 1, 2015

<u>Property Limits</u>	<u>Deductibles</u>	<u>Total Annual Premium</u>
\$300 million Named Windstorm	\$100 million/loss* \$25 million/corridor/aggregate**	\$22,360,427.00
\$300 million other perils (AOP)	\$1,000,000/per occurrence	included
Sub Limits		
\$25 million Flood Annual Agg.***	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 (not to exceed 30 days)	see above	included

\$18,655,000 million Antennae/Aerials	see above	included
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*Named Windstorm Deductible

**Multiple Year Named Windstorm Program which includes \$25MM corridor/aggregate deductible subject to percentage of coverage provided (46.5% for 2015-2016)

***Swiss RE Flood sub-limit is not subject to an annual aggregate.

Fees:

Florida Emergency Management Trust Fund (FEMTF)	\$280,471.90.
Citizens Property Insurance Emergency Assessment (CPIEA)	

TOTAL PROPERTY ANNUAL PREMIUM	\$22,640,898.90
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TERRORISM

<u>Limits of Coverage</u>	<u>Deductibles</u>	<u>Total Annual Premium</u>
\$50 million	\$100,000/loss	\$ 97,500.00

TOTAL PROPERTY/TERRORISM ANNUAL PREMIUM	\$22,738,398.90
2014 NO CLAIMS BONUS (NCB) (2014 Savings applied)	\$ (514,872.00)
TOTAL PROPERTY/TERRORISM PREMIUM LESS NCB	\$22,223,529.90.
TOTAL NATIONAL FLOOD INSURANCE (NFIP) PREMIUM	\$ 2,500,000.00
GRAND TOTAL PROGRAM OF PROPERTY, TERRORISM AND FLOOD (NFIP)	<u>\$24,723,529.90*</u>

***Represents a total savings of budgeted expenditures from 2014-2015 of \$2,348,706.69**

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.

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, to 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. Six years ago when the Board assumed the current windstorm deductible of \$100 million per named hurricane from \$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 sixth 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.

Effective May 1, 2012 the fee structure was re-negotiated reflecting an overall 15% reduction in previously quoted rates. Negotiations for the upcoming year have produced rates which are predominately unchanged; however, some rates are going up slightly. Overall, this rate structure is significantly less than their 2015 published rates for new clients. Staff is recommending renewal of this contract at the following rates:

	<u>2014-2015 Hourly Rates</u>	<u>2015-2016 Hourly Rates</u>	<u>\$/% Change</u>
Adjuster	\$92.00	\$92.00	No Change
Branch General Adjuster	\$114.00	\$114.00	No Change
Regional General Adjuster	\$133.00	\$133.00	No Change
Protégé Adjuster	\$160.00	\$160.00	No Change
National General Adjuster	\$175.00	\$185.00	\$10/5.71%
Executive General Adjuster	\$215.00	\$221.00	\$6/2.79%
Senior Executive General Adjuster	\$245.00	\$245.00	No Change

As of this date, no fees have been paid to 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:

- confirm placement of its excess, all risk, replacement cost property insurance program, through Arthur J. Gallagher Risk Management Services, Inc., effective May 1, 2015 to May 1, 2016 consisting of total insurance limits of \$300,000,000, 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)	\$ 252,183.80
Alterra Excess & Surplus Ins. Co / (RPS)	\$ 273,045.40
Arch Specialty Ins. Company / (Amwins)	\$ 345,856.30
Ascot Syndicate (Lloyd's)(AJGUK)	\$ 436,603.80
Aspen Specialty Insurance Company (RPS)	\$ 113,429.00
Axis Surplus Insurance Company / (AJGUK)	\$ 619,260.30
Axis Surplus Insurance Company/(RPS)	\$ 336,243.10
Brit Syndicate (Lloyd's)/(RPS)	\$ 173,623.00
Chubb Custom Insurance Company	\$ 183,167.50
Colony Insurance Company / (Amwins)	\$ 391,598.00
General Security Indemnity Company of AZ	\$ 183,167.50
Great Lakes Reinsurance / (AJGUK)	\$ 477,063.30
Ironshore Specialty Insurance Co. / (RPS)	\$1,172,301.80
Landmark American Ins. Company / (RPS)	\$1,453,211.20
Lexington Insurance Company / (AJGUK)	\$2,494,519.10
Liberty Surplus Ins. Co. / (RPS)	\$ 540,912.50
Hiscox Syndicate (Lloyds)/(Amwins)	\$ 172,930.10
Lloyds of London various syndicates/ (AJGUK)	\$6,792,760.60
National Fire & Marine (Berkshire)	\$ 631,244.90
Scottsdale Surplus Lines Ins. / (RPS)	\$ 441,782.00
Starr Surplus Lines Insurance Co.	\$ 183,167.50
Westport Insurance Co. (Swiss Re)	\$4,390,124.00
Westchester Surplus Lines Ins. / (RPS)	\$ 503,162.70
Zurich Steadfast Ins. Co./(RPS)	\$ 79,541.50
TOTAL	\$22,640,898.90

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, 2015 to May 1, 2016, with an annual premium of \$97,500;
3. authorize renewal of flood insurance coverage with 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 \$2.5 million for coverages effective for the 12-month period of May 1, 2015 to May 1, 2016
4. 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 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:

	Hourly Rate
Adjuster	\$92.00
Branch General Adjuster	\$114.00
Regional General Adjuster	\$133.00
Protégé Adjuster	\$160.00
National General Adjuster	\$185.00
Executive General Adjuster	\$221.00
Senior Executive General Adjuster	\$245.00

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.

JMM:sbc