Office of Superintendent of Schools
Board Meeting of February 3, 2016

January 20, 2016

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

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

COMMITTEE: **FISCAL ACCOUNTABILITY**

LINK TO STRATEGIC BLUEPRINT: **EFFECTIVE AND SUSTAINABLE BUSINESS PRACTICES**

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 invest in Certificates of Participation (COPs) under the District's Master Lease Program. 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, 2015 to May 1, 2016. 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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2015 ATLANTIC HURRICANE SEASON

The 2015 Atlantic Hurricane season which ended on November 30, 2015 was a slightly below average season featuring eleven named storms, in which four reached hurricane status. The first named storm, Ana, developed nearly one month before the official start of the season, the first since 2012's Beryl and the earliest since a previous named storm Ana in 2003. The season ended with a dissipation of Kate 18 days before the official end of the hurricane season.

A rather calm Atlantic Hurricane season had been predicted by both hurricane experts Phillip J. Klotzbach, William M. Gray, and their associates at Colorado State University (CSU); and separately by National Oceanic and Atmospheric Administration (NOAA) forecasters. The major contributing factor in the calm season was the strong El Niño event where most agencies predicted that only 6-10 tropical cyclones would develop; however, the number of tropical cyclones that developed this season exceeded this prediction.

Most storms remained weak, in which they affected few land masses. Tropical Storm Bill affected Texas during mid-June and remained over land for a few days which resulted in extreme flooding. In August, despite the strong El Niño becoming evident, eight systems continuously developed, most of which formed near and affected the Cape Verde Islands. Erika affected the Lesser Antilles and was known for the worst natural disaster in Dominica since Hurricane David in 1979 with 36 total fatalities and damages of more than $500 million, while Fred became the first hurricane to strike the Cape Verde Islands in over a century. A month later, in late September, Joaquin developed and strengthened into a Category 4 major hurricane and affected the Bahamas and Bermuda with damages of approximately $60 million and a similar number of attributable deaths as Erika. Henri and Kate's remnants affected Europe in September and November, respectively.

Alternatively, the 2015 Pacific Hurricane Season is recognized as the second most active Pacific hurricane season on record with 31 tropical depressions developed, of which 26 became named storms. A record-tying 16 became hurricanes and a record 11 storms became major hurricanes throughout the season.

Hurricane Patricia became the strongest hurricane every recorded in the Western Hemisphere on October 23, 2015, with a central pressure of 879 mbar and 1-minute sustained winds of 200 mph. It also became only the second Pacific hurricane to make landfall at Category 5 intensity.

While the effects of El Niño have curtailed hurricane development in the Atlantic and specifically storms affecting the Continental United States, it is troubling to many that complacency may be setting in over the ten years since a Florida hurricane landfall when Wilma hit South Florida in 2005. This is Florida's longest hurricane-free stretch since records began in 1851.

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 2015 Atlantic Hurricane Season behind us, there is a potential opportunity to take advantage of further softening of the worldwide property insurance marketplace due to strong capacity availability in the insurance and reinsurance markets.

CURRENT PROGRAM 2015-2016

At the Board meeting of February 1, 2015, 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 renewing the existing 300 million (300MM) in coverage limits, with annual premiums for all property insurance premiums and associated fees not to exceed $23 million ($23M), effective May 1, 2015.

At the Board meeting of May 13, 2015, staff reported that the authorized (300MM) in coverage had been secured and bound, effective May 1, 2015 with all premiums totaling $22,360,427, not including applicable state fees. Additionally, authorized terrorism coverage with limits of 50MM for property damage/10MM bodily injury was secured with an annual premium cost of $97,500. When applicable state fees are added to the property and terrorism premiums, the resultant gross premium is $22,738,398.90. When the No Claims 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 premium paid is $22,223,529.90 representing a savings on two of the three components of property coverage from the previous year's renewal of $1,848,706.69. The 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 was successful in reducing anticipated expenditures for National Flood Insurance Program (NFIP) coverage by $500,000, resulting in a savings from the previous year's total premiums for all property/terrorism/flood related coverages, including NCB payments of $2,348,706.69.

In addition to being able to fully complete the program capacity goal of 300MM, consisting of five layers, including a primary 100MM layer and four excess 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 consist of 3MM, representing total capacity of named windstorm/named windstorm flood coverage, subject to a multi-year policy provision totaling 46.5MM part of 100MM. This unique program which has been only offered to insureds who can demonstrate a high level of strategic risk management as part of their overall programs is referred to as the Multi-Year Structured Insurance Program or MYSIP.

Staff believes that this MYSIP approach for securing capacity and reducing pricing fluctuation in the marketplace insulates 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 four carriers includes the same No Claim Bonus (NCB) provision whereby the District is eligible to receive reimbursement or a premium credit equal to 10% of premiums paid, including applicable costs and fees, net of commissions paid, in years without any reported losses. The remainder of the primary 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 four carriers which participate in the MYSIP are on staggered three-year terms. For the upcoming renewal of May 1, 2016, Swiss RE's participation in MYSIP will need to be re-negotiated for a new three-year commitment of capacity and pricing. Lexington Insurance Company and Ascot Syndicate's participation in MYSIP will enter its last year for the 2016-2017 renewal; and Berkshire Hathaway's participation which was entered into effective May 1, 2015 has two remaining years left on the program's structure. Staff is recommending that negotiations begin with Swiss RE to match the commitment of coverage which has existed for the past three years at the current market rate. Additionally, staff believes that further insulating the District from changes in the worldwide marketplace after a wind event is in the District's best interest. Therefore, staff is recommending that negotiations begin through the District's broker, Arthur J. Gallagher Risk Management Services, Inc. (AJG) to increase the MYSIP percentage from the existing level of 46.5M, not to exceed 60M, part of 100M primary layer or 60%.

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, 2016 for an initial three-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 is re-directed to 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 were 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. Most recently, excess compensation funds have been used to pay for a state of the art insurance certificate tracking system which will update a dated system to ensure proper tracking of all insurance contracts for all District vendors and third party entities where contractual insurance requirements exist.

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".

Pursuant to the authority received at the Board meeting of May 13, 2015, staff again sought a "reasonableness" letter from the Office of Insurance Regulation (OIR) on June 24, 2015, outlining the specifics of the District's property program which had become effective on May 1, 2015.

On November 10, 2015, a response was received from an Assistant General Counsel from OIR which stated that the Federal Emergency Management Agency (FEMA) revised and issued Public Assistance Policy on Insurance (FEMA Policy) on June 29, 2015 to clarify when a Certification was necessary from OIR. The notification letter, which will be sent to under separate cover, essentially puts the District on notice alerts that no further letters of reasonableness or Certification of coverage will be issued. Most public entities that followed the lead of M-DCPS in requesting a letter of "reasonableness" over the past 20 years received a similar letter from OIR.

As a result of this significant change in position from OIR, staff has been seeking guidance from the District's insurance broker, AJG, as well as the District's property/casualty insurance consultant, Siver Insurance Consultants, Inc. Additionally, several telephone conversations have been held with representatives from Florida Division of Emergency Management (Emergency Management) which previously received requests for letters of reasonableness and forwarded them to OIR for response. Based upon feedback from Emergency Management, the newly issued FEMA guidelines for insurance contains insurance requirements of sub-grantees, such as M-DCPS, requiring entities to obtain and maintain specific insurance coverages on buildings where FEMA Public Assistance Grant funds have been received in previously declared disasters. As such Emergency Management is asserting that the only time the State's Insurance Commissioner will determine the reasonableness of an entity's property insurance coverage for purposes of Certifying the Obtain and Maintain requirement will be on a post disaster basis. Furthermore, Emergency Management personnel have gone on record stating that FEMA's interpretation of types and levels of coverage which must be obtained and maintained do not take into consideration the volatility of the global property marketplace, especially for entities such as Miami-Dade County Public Schools with large insured values which are subject to significant losses as a result of a major hurricane.

This entire situation is very disconcerting for many reasons. The specific rationale for the District to move to a flat $100MM per named Hurricane deductible, with the renewal of the program for the 2009-2010 renewal was that coverage in the worldwide property marketplace became inaccessible at lower deductible levels from a standpoint of capacity and pricing following the unprecedented Atlantic Hurricane seasons of 2004 and 2005. As a result of the District purchasing catastrophic windstorm coverage in excess of the current $100MM named Hurricane deductible for the past seven years, a significant stabilization of the District's ability to manage its all risk, replacement cost property insurance program has occurred, which has been confirmed up until this year by the State of Florida Insurance Commissioner through the issuance of the letters of reasonableness. Without some confirmation that the District's program would be considered satisfactory or reasonable, staff believes that FEMA could determine after a declared emergency not to provide needed grant funds to repair and replace affected facilities.

Staff is exploring several avenues to seek clarification on the new FEMA guidelines, including the potential opportunity to have representatives from several public entities meet with the State of Florida Office of Insurance Regulation (OIR) to reinforce how important it is for public entities to have some assurance that the property programs that they are negotiating would be recognized as compliant with FEMA guidelines. This strategy has recently been challenged with the announcement that the current State of Florida Insurance Commissioner, Mr. Kevin McCarty has announced his resignation from the position of State Insurance Commissioner, effective May 2, 2016.

Additionally, the Office of Risk and Benefits Management has been working with the District's consultants to ascertain what the District's insurance commitment requirements might be under the new FEMA guidelines of obtain and maintain. Upon review of all submitted FEMA Public Assistance Grant application since 2004, early indications are that the District has pending claims/received funds of approximately $35MM, of which approximately $17MM would constitute monies received for actual reimbursement of property damage, which creates the FEMA Insurance Commitment under the newly issued FEMA guidelines.

Staff will continue to keep the School Board informed of further developments regarding these significant changes in FEMA and OIR Policy. Furthermore, it is expected that as a result of the inability to secure OIR's determination of reasonableness, the District's current reliance on FEMA reimbursement for losses within the property insurance deductible and reimbursement for non-covered items will need to be taken into consideration as a key part of this year's property insurance renewal negotiations.

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
2016	$205/sq. ft.	9.91 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, including the newly purchased white fleet vehicles; mobile broadcasting equipment; WLRN aerials and antennas; and all Districtwide furniture, fixtures and equipment (FF&E). To better value the District's investment in technology at schools and offices, the percentage of building values used for determining FF&E was increased to 20% for the current policy year.

With the third 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. As you can see from the chart, TIV's are increasing overall by 13.61% from 2015-2016.

RECOMMENDATIONS FOR RENEWAL

As indicated earlier, the current program's renewal resulted in the same level of property insurance coverage being procured at $300MM; however, due to favorable market conditions, the District was able to purchase the same amount of coverage with a 7.68% premium reduction representing a savings of $1.85M, not including the additional savings for NFIP coverage. As a result of a calm 2015 Atlantic Hurricane season, the worldwide property marketplace is experiencing another renewal period which consists of downward pressure on rates. Therefore, staff believes that it is incumbent that renewal negotiations with all domestic and international carriers include premium concessions, as well as potential changes to terms and conditions in order to insulate the District from financial liability due to the newly issued FEMA guidelines which creates the "Obtain and Maintain" requirements.

Based upon the current market conditions, staff has been informed by the District's broker, AJG, that additional premium reductions in the area of $2.5M or 10%-12% are available in the marketplace based upon the District retaining the current $300MM coverage level, with no program changes. Being that the District's Total Insured Value (TIV's) are increasing by 13.55% to 9.9 Billion, staff is of the opinion that FEMA would determine that the District is not properly insured if the current 300MM coverage level is not maintained. Emergency Management personnel have questioned the District's current named Hurricane Deductible level of $100M flat per named Hurricane. While staff believes it is prudent to evaluate any potential changes to the hurricane deductible level as part of its negotiations, staff believes that spending a significant portion of the available premium savings to "buy down" the current named hurricane deductible may not be prudent or sustainable. However, It must be pointed out however that failure to meet FEMA's requirements for proper coverage could result in FEMA's refusal to entertain any reimbursement of damages within the coverage deductible, as well as reducing the amounts claimed in the future for any properties where FEMA grant funding has previously been received. This is precisely why the letter from OIR on reasonableness is so crucial.

As previously outlined, because a significant portion of the primary layer of coverage is on a multi-year commitment, including premiums and capacity to insulate it from significant market changes that would result after a major windstorm event, staff believes it is in the District's best interest to increase the percentage of coverage on that program at renewal. Therefore, staff is recommending that staff negotiate with key property markets to increase the percentage of primary coverage under a rolling capacity and premium platform from the current 46.5% not to exceed 60%.

Staff is also seeking authority to negotiate potential changes in current terms which would provide some level of assurance that FEMA would continue to provide needed grant funding for losses stemming from declared emergencies. This could include consideration of a potential "buy down" of the current flat named hurricane deductible and/or the inclusion of an insurance program which would provide reimbursement to the District for facilities deemed by FEMA not to be eligible for reimbursement because of previous FEMA reimbursements.

Therefore, staff is seeking authority for the ability to negotiate a property renewal which includes the current 300MM of procured coverage, with annual expenditures, including all required fees not to exceed $20.5M, inclusive of any potential changes in current terms or additional coverage for FEMA-identified properties that are deemed ineligible for further reimbursements. Additionally, the District will be receiving its annual No Claims Bonus (NCB) reimbursement/premium credit for the 2015-2016 policy year as a result of the existing MYSIP provisions. Additionally, the District is responsible for paying all required state surcharges and assessments for the property placement renewal.

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 2016-2017 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 the coverage availability and cost is relatively stable, subject to some minor premium increases due to the continued high threat of global terrorist events.

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 $97,500, inclusive of State required fees. Staff is recommending that this coverage be renewed effective May 1, 2015 with annual premiums not to exceed $100,000.

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 $2.5 million for 2015-2016. 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 2016-2017 remain the same as the current budget of $2.5M to cover all buildings in affected flood zones, with the understanding that if Congress increases rates mid-year, additional authority may be required. Staff will also look at NFIP deductible levels to determine the best value that will be accepted by FEMA.

STAFF AND BROKER MEETING WITH PROPERTY UNDERWRITERS

The value of meeting with representatives from key property markets cannot be overstated. Although the 2015 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, 2016, subject to a maximum property insurance premium of $20.5 Million ($20.5M), excluding NCB reimbursements/credits and state required surcharges and fees. An item confirming all coverage terms, premiums and conditions will be brought back to the Board meeting of May 11, 2016.

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

1. Authorize staff, through Arthur J. Gallagher Risk Management Services, Inc., to enter into negotiations and secure and bind existing 300 million in coverage limits, inclusive of increasing the percentage of the primary 100M layer with multi-year capacity/premium commitments not to exceed 60M; potential changes in coverage terms to include a deductible buy down, and/or additional coverage for properties deemed ineligible by FEMA for further loss reimbursement, with annual premiums for all property insurance premiums and associated fees not to exceed $20.5 million, excluding 2015-2016 MYSIP NCB reimbursements/premium credits and state required surcharges and assessments, effective May 1, 2016, 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 11, 2016;

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, 2016 with an annual premium not to exceed $100,000, 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 $2.5 million for coverages effective for the 12-month period of May 1, 2016 to May 1, 2017.

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