

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

SUBJECT: PROPERTY INSURANCE

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 (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 3, 2016, the Board authorized staff, through Arthur J. Gallagher Risk Management Services, Inc. (AJGRMS), to enter into negotiations and secure and bind renewal effective May 1, 2016 of the existing \$300 million in coverage limits, inclusive of increasing the percentage of the primary \$100 million layer with multi-year capacity/premium commitments not to exceed \$60 million. Authorization was also received to explore potential changes to the program to include a deductible buy down and/or additional coverage for properties deemed ineligible by FEMA for future loss reimbursement, with annual premiums for all property insurance and associated fees not to exceed \$20.5 million (excluding 2015-2016 Multi-Year Structured Insurance Program (MYSIP) No Claims Bonus (NCB) reimbursements/premium credits and state required surcharges and assessments).

Additionally, the Board authorized staff through AJGRMS, to secure and bind terrorism coverage in the amount of \$50 million property damage/\$10 million bodily injury, with an annual premium not to exceed \$100,000, including state fees, effective May 1, 2016, as well as authorized renewal of flood insurance coverage with the National Flood Insurance Program (NFIP), through AJGRMS, 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 July 1, 2016 through June 30, 2017.

As a result of improved market conditions for property insurance coverage and the District's ability to leverage these improved market conditions, over the past ten years the District's property program has significantly improved. The District's total insured values for the renewal of May, 2007 to May, 2008 was \$7.6 billion with purchased limits of \$250M at an annual premium of \$29,965,935.

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As of the current renewal, the District's total insured values have increased by 31% to \$9.9 billion, while limits of coverage have increased by \$50M to \$300M. Additionally, annual premiums decreased to \$19,115,610 representing a premium savings from the 2007-2008 renewal as compared to the current renewal for 2016-2017 of \$10,850,325.

PROGRAM RENEWAL

Staff is pleased to report to the Board that the recommended \$300 million in all risk, replacement cost property insurance has been secured and bound effective May 1, 2016, with all premiums, not including applicable state fees totaling \$19,115,610.60.

Additionally, authorized terrorism coverage with limits of \$50 million for property damage/\$10 million bodily injury has been bound with an annual premium of \$94,000, resulting in an updated premium for property and terrorism coverage, including state required fees of \$27,275.10, resulting in an annual premium of \$19,236,885.70 excluding the application of the NCB.

Staff is also pleased to report that M-DCPS is the first public entity in the nation to procure a "STORM" Parametric Index Wind Speed Property Insurance Policy. This policy provides first dollar coverage without a deductible for covered windstorm losses with limits of \$10M per occurrence, \$20M policy aggregate. This is a three (3) year non-cancellable policy with policy premiums paid annually. The policy differs from a traditional windstorm policy in that the coverage is automatically triggered when an "eligible event", a named windstorm with a date of occurrence during the policy period, reaches frictional sustained winds exceeding the identified Hurricane Index Value of 87.5 mph for a period of over a minute.

The policy weighs the District's assets by zip code. The zip code weight is identified as the sum insured in a particular zip code divided by the total insured sum of the District's total insured property values. To determine coverage following an event, winds speeds are obtained at each zip code by an agreed upon outside third party vendor and multiplied by the zip code weight. A total wind index is determined and based on these calculations; all of the weighted wind speeds in each zip code are aggregated and assigned a Hurricane Index Value. If the Hurricane Index Value is greater than the Trigger Index Value of 87.5 mph, the District receives a claims payment after putting the carrier on written notice of an event.

Based on previous windstorms, both Hurricane Wilma (2005) and Hurricane Andrew (1992) would have triggered coverage under the new STORM policy and the District would have received a \$10M claim payment for each. Under the current structure of the District's Master Property program, a storm like Hurricane Wilma would not trigger coverage, as projected damage would not exceed the District's \$100M per occurrence Named Windstorm deductible.

Staff is recommending confirmation of the purchase of the "STORM" Parametric Index Wind Speed Property Insurance Policy, for a three year period effective May 1, 2016 through May 1, 2019, through Arthur J. Gallagher Risk Management Services, Inc. with

North American Capacity Insurance Company (Swiss Re), with a total insured premium of \$2,400,000 inclusive of state fees and surcharges to be paid in three annual installments of \$800,000. Taking this step guarantees commitment from the insurance carrier for three years at a locked-in premium and the District having insurance funds available to pay for losses without delay. In order to purchase the STORM policy and maintain significant program savings over budget, the overall program was amended so that the District is a 50% participant in the \$50 million excess of \$250 million layer of coverage.

Multi-Year Structured Insurance Program (MYSIP)

Staff, through AJGRMS has been successful in increasing the percentage of multi-year capacity premium in the primary \$100M layer with increased commitments of 60% of \$100M or \$60M from the expiring \$46.5M part of \$100M for named windstorm coverage. Swiss Re has agreed upon renewal to increase their participation from 30% or 30M of 100M to 33.5% of 100M and Lloyd's of London has agreed to provide capacity in the amount of 10% of 100M or 10M. Swiss Re and Lloyd's of London have also agreed to eliminate the additional corridor deductible on their share of the MYSIP. As the remainder of the program renews in the next two years, this favorable coverage enhancement will be included. The increase in MYSIP committed capacity/premium is an effective way to insulate the district from significant swings in both the availability and cost of coverage following a windstorm event.

All committed capacity from the 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 (40% part of 100%) or \$40M is traditional all risk, replacement cost coverage which covers named windstorm/flood and all other perils coverage.

The MYSIP will be providing a NCB in the estimated amount of \$566,568 for the 2015 year which will bring the annual premium for property and terrorism coverage to \$18,576,317.70. When totaled with the \$800,000 annual premium for the STORM Policy and the budgeted premium for the National Flood Insurance Program the District's total annual insurance premium for Property (including parametric policy), terrorism and flood is \$21,970,317.70 including surcharges and assessments. This represents a total savings of \$2,753,209.20 as compared to the budgeted expenditures from the 2015-2016 policy period.

PROGRAM COVERAGE IN EFFECT AS OF MAY 1, 2016

<u>Property Limits</u>	<u>Deductibles</u>	<u>Total Annual Premium</u>
\$300 million Named Windstorm	\$100 million/loss*	\$19,115,610.60, as outlined below
	\$25 million/corridor/aggregate**	included
\$10 million Named Windstorm/ \$20 million aggregate	\$0 per event	included
\$300 million other perils (AOP)	\$1 million/per occurrence	included

Sub Limits		included
\$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
\$ 5million Ingress/Egress		included
(not to exceed 30 days)	see above	included
\$18,655,000 Antennae / Aerials	see above	included

* Named Windstorm Deductible

** Multiple Year Named Windstorm Program which includes \$25M corridor/aggregate deductible subject to percentage of coverage provided (\$4,125,000 for 2016-2017)

*** SwissRe Flood sublimit is not subject to an annual aggregate

2016-2017 Master Property Program		Premium	AM Best Rating
Primary \$100M Layer	participation		
Traditional Insurance Coverage	40.00%	\$4,000,000.00	
Landmark American Ins. Co. - RSUI	7.00%		A+ XIII
Liberty Surplus Ins. Corporation (stretch)	3.00%		A XV
Ironshore Specialty Insurance Co	4.20%		A XIV
Axis Surplus Insurance Company	3.00%		A+ XV
Allied World Assurance Company	2.25%		A XV
Westchester Surplus Lines Ins. Co.	3.25%		A++ XV
Lloyds of London (Various Syndicates)	19.30%		A XV
3YR Multi-year Agreement (GUARANTEED)	60.00%	\$6,455,810.60	
SwissRe (Westport Ins. Corp) (RENEW 2016)	33.50%		A+ XV
Lexington Ins. Co. - London	10.00%		A XV
Ascot Syndicate (Lloyds of London)	3.50%		A XV
National Fire & Marine (Berkshire)	3.00%		A++ XV
Lloyds of London - NEW	10.00%		A XV
Supporting AOP Layers - various carriers		\$592,300.00	
subtotal		\$11,048,110.60	
First Excess Layer - \$50M excess Primary \$100M			
subtotal		\$3,250,000.00	
Second Excess Layer - \$50M excess \$150M			
subtotal		\$2,425,000.00	
Third Excess Layer - \$50M excess \$200M			
subtotal		\$1,667,500.00	
Fourth Excess Layer - \$50M excess \$250M			
subtotal		\$1,450,000.00	

M-DCPS quota share (50%)		\$ (725,000.00)
subtotal		\$725,000.00
Total Annual Premium		\$19,115,610.60
Surcharges & Fees		\$27,275.10
Total Annual Premium including Surcharges & Fees		\$19,142,885.70
Estimated No Claim Bonus - from 3YR Multi-Agreement (2015)		\$ (566,568.00)
Terrorism		
Limits of Coverage	Deductibles	Total Annual Premium
\$50 million	\$100,000 / Loss	\$94,000.00
Total Property /Terrorism Premium Less NCB		\$18,670,317.70
Total National Flood Insurance (NFIP) Premium		\$2,500,000.00
" TOTAL PROGRAM of PROPERTY, TERRORISM and FLOOD (NFIP)"		\$21,170,317.70
"STORM" Parametric Index Wind Speed Property Insurance Policy - NEW		\$800,000.00
GRAND TOTAL PROGRAM OF PROPERTY, TERRORISM and FLOOD (NFIP)		\$21,970,317.70
2015 TOTAL PROGRAM		\$24,723,526.90
SAVINGS FROM PREVIOUS PROGRAM PERIOD		\$2,753,209.20

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:

The Board previously authorized consulting fees to Siver Insurance Consultants, the Board's Insurance consultant, 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.

Seven years ago when the Board assumed the current windstorm deductible of \$100 million per named hurricane, 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. 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.

Staff is recommending renewal of this contract at the following rates which are the same as the expiring rates:

	2016-2017 Hourly Rates
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

As of this date, no fees have been paid to Cunningham Lindsey.

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.

In past years, a letter of "reasonableness" has been sought from the Florida Office of Insurance Regulation 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. However, the District has been notified by the Office of Insurance Regulation that they will no longer be issuing certifications of reasonableness prior to a disaster. Therefore staff is requesting authority to seek a letter from the commissioner's office to provide written clarification, including cites to relevant FEMA documentation, which forms the basis of their position with respect to M-DCPS's compliance with the FEMA insurance requirements.

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, 2016 to May 1, 2017 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:

Allied World Assurance Company / (Amwins)	\$209,254.00
Arch Specialty Ins. Company/ (Amwins)	\$308,754.00
ASCOT Syndicate (Lloyds) / (AJGUK)	\$496,154.45
Axis Surplus Ins. Co./ (AJGUK)	\$554,254.00
Axis Surplus Insurance Company/ (RPS)	\$300,004.00
BRIT Synd 2987 (Lloyds of London)/ (RPS)	\$155,879.00
Chubb Custom Insurance Co./ (CVStarr)	\$163,170.00
Colony Insurance Company/ (Amwins)	\$278,220.00
Evanston Insurance Company/ (RPS)	\$243,754.00
General Security Indemnity Co. of AZ/ (CVStarr)	\$163,171.00
Great Lakes Reinsurance (UK) SE / (AJGUK)	\$425,629.00
Hiscox Syndicate (Lloyds) / (Amwins)	\$154,379.00
Interstate Fire & Casualty / (Amwins)	\$29,004.00

Ironshore Specialty Insurance Co/ (RPS)	\$847,325.00
Landmark American Ins. Co. / (RPS)	\$1,112,258.00
Lexington Insurance Company/ (AJGUK)	\$2,557,023.85
Liberty Surplus Ins. Corporation / (RPS)	\$446,012.00
Lloyds of London various syndicates / (AJGUK)	\$5,586,840.00
National Fire & Marine Ins. Co / (Berkshire)	\$641,373.40
Scottsdale Surplus Lines Ins. Co/ (RPS)	\$451,270.00
Starr Surplus Lines Ins Co./ (CVStarr)	\$163,170.00
United Specialty Insurance Company/ (Amwins)	\$29,000.00
Westchester Surplus Lines Ins Co/ (RPS)	\$471,958.00
Westport Insurance Corp/ (Swiss RE)	\$3,355,029.00
Miami-Dade County Public Schools	\$0.00
TOTAL	\$19,142,885.70

2. authorize the District's 50% participation as co-insurer in the \$50M excess of \$250M limit of coverage;
3. 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, 2016 to May 1, 2017, with an annual premium of \$94,000;
4. 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 July 1, 2016 to June 30, 2017;
5. authorize the purchase of the "STORM" Parametric Property Insurance Policy, for a three year period effective May 1, 2016 through May 1, 2019, through Arthur J. Gallagher Risk Management Services, Inc. with North American Capacity Insurance Company (Swiss Re), with a total insured premium of \$2,400,000 inclusive of state fees and surcharges to be paid in three annual installments of \$800,000;
6. 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;

7. 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

8. 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
9. authorize the Superintendent of Schools to seek a letter from the State of Florida, Office of Insurance Regulation to provide written clarification, including cites to relevant FEMA documentation, which forms the basis of their position with respect to M-DCPS's compliance with the FEMA Insurance Requirements pursuant to Section 406 of the Federal Stafford Act.

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