

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 based on recent Office of Inspector General audits of Florida grant recipients 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 Agreement 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.

The current property insurance program's term is May 1, 2016 through April 30, 2017. In order to ensure a timely renewal of the District's all risk, replacement cost property insurance program this item is brought to the Board seeking authorization which includes coverage and premium goals with a target amount not to exceed 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.

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PRIOR RENEWAL HISTORY

PREVIOUS PROPERTY INSURANCE RENEWALS					
	YEAR	YEAR	YEAR	YEAR	YEAR
	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Coverage Limit	\$250,000,000.00	\$300,000,000.00	\$300,000,000.00	\$300,000,000.00	\$300,000,000.00 *
Premium	\$24,417,939.40	\$24,328,212.69	\$22,738,398.90	\$19,236,885.70	\$19,142,885.70

* The District was 50% participant as co-insurer in the \$50M excess of \$250M limit of coverage in order to achieve \$300M coverage limits.

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, 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 current total insured value, using a blended rate for non-instructional facilities, elementary, middle and senior high schools, in conjunction with actual appraisals is \$10.06 Billion. TIV's have increased overall by 1.5% from 2016-2017.

RECOMMENDATIONS FOR RENEWAL

This year we were fortunate to have no insured losses but had a close call with Hurricane Matthew and while the School Board did not have any direct physical loss, North Florida did sustain damage. Last year global insured catastrophic losses rose to \$54 billion made up of primarily weather related claims. Therefore, staff anticipates that renewal negotiations with all domestic and international carriers include premium concessions, as well as potential changes to terms and conditions in the amount of 5 to 7%. Based upon the current market conditions, staff expects additional premium reductions are still available to the District in the area of \$2M and can be achieved as result of:

- removing the Board's 50% participation as co-insurer in the \$50M excess of \$250M Limit. The Board would reduce the coverage level from \$300M to \$250M or the level it was at in 2013 and,
- market conditions that are favorable and should yield an additional 5-7% reduction in overall premium including the application of this year's No Claim Bonus estimated at \$580,084 not including State assessments and surcharges.

Based on other large public entities coverage limits staff is of the opinion that FEMA would determine that the District is properly insured if we move from the current \$300M coverage level to the \$250 Million coverage level.

A significant portion of the primary layer of coverage is on a multi-year commitment, including premiums and capacity to insulate the District from significant market changes that would result after a major windstorm event. We have structured 60% of the primary \$100M of coverage on a rolling three-year capacity and premium guarantee which is led by Swiss RE. Swiss Re was renewed for a three year commitment during the last renewal and staff believes it would be in the District's best interest to renegotiate the Lexington and Ascot portion of the three-year guarantee during this renewal cycle.

Therefore, staff is seeking authorization to negotiate, a property renewal which includes \$250M of procured coverage, with annual expenditures, including all required fees not to exceed \$19M inclusive of the second year renewal of the STORM Parametric Property Insurance Policy and excluding 2016-2017 MYSIP NCB reimbursements/premium credits and state required surcharges and assessments.

TERRORISM INSURANCE ACT AND COVERAGE

Staff is recommending that the District continue to purchase terrorism coverage for its 2017-2018 renewal. The cost of this coverage has continued to plateau with the current Federal backstop in place, and 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 is \$94,000 for coverage which consists of \$50M in limits of property damage and \$10M of bodily injury coverage, subject to a per loss deductible, inclusive of State required fees. Staff is recommending that this coverage be renewed effective May 1, 2017 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 in the event of a federally declared disaster.

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 premiums for this coverage are written on a building-by-building basis.

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

1. authorize staff to enter into negotiations through its broker and secure and bind \$250M in coverage limits, with annual premiums for all property insurance premiums and associated fees not to exceed \$19 million, inclusive of the second year renewal of the STORM Parametric Property Insurance Policy and excluding 2016-2017 MYSIP NCB reimbursements/premium credits and state required surcharges and assessments, effective May 1, 2017, 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 24, 2017;
2. authorize staff to secure and bind terrorism coverage, through its broker in the amount of \$50M property damage \$10M bodily injury, effective May 1, 2017 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, through its broker with the National Flood Insurance Program (NFIP), for all properties required by the Federal Government to be covered with estimated premiums not to exceed \$2.5 million for coverages effective for the 12-month period of May 1, 2017 to April 30, 2018.

JMM:mgf