

Financial Services
Mr. Ron Y. Steiger, Chief Financial Officer

**SUBJECT: REQUEST FOR AUTHORIZATION TO RENEW THE
PORTFOLIO BUILDERS' RISK INSURANCE PROGRAM
FOR NEW AND EXISTING FACILITIES AS PART OF THE
DISTRICT'S CAPITAL CONSTRUCTION PLAN**

COMMITTEE: FISCAL ACCOUNTABILITY & GOVERNMENT RELATIONS

**LINK TO STRATEGIC
PLAN: EFFECTIVE AND SUSTAINABLE OPERATIONAL PRACTICES**

At the Board meeting of June 17, 2020, the Board approved the extension of the Portfolio Builders' Risk Insurance program as part of the District's Capital Construction Plan through Arthur J. Gallagher Risk Management Services, Inc. for a two-year period effective October 12, 2020 through October 11, 2022, with Starr Indemnity and Liability Company (AM. Best A, XV) with windstorm limits of \$100,000,000 for any one loss or occurrence.

The Portfolio Builders' Risk Program (Builders' Risk) has been in place since October 11, 2006, protecting the District for new construction and renovations and providing consistent coverage across all projects at a known cost and coverage limit that will also allow access to FEMA public assistance grants for deductibles, etc., which would not exist if the coverage was in the contractor's name.

BACKGROUND AND UPDATES

The Builders' Risk Program originated in 2006 as a result of extremely limited insurance capacity in the builders' risk market that stemmed from challenging hurricane seasons in 2004 and 2005. This allowed construction to continue while maintaining budget stability providing coverage to the District and its contractors at a substantially lower premium, along with better terms and conditions than what was historically provided through the contractor's policy. In addition, this program provides guaranteed capacity and reduced administrative costs to the District.

As the market fluctuated, the District took advantage of improved conditions and increased their primary limit for named windstorm and non-named windstorm coverage based on increased construction activity combined with the passing of the GOB program.

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The current market has hardened because of the catastrophic losses that have occurred across the country, which has affected the capacity carriers are willing to provide.

RECOMMENDATIONS FOR RENEWAL

Staff worked closely with Arthur J. Gallagher Risk Management Services, Inc. (AJG), the District's approved Insurance Broker, to approach various markets to secure the best terms and conditions that best fit the District's specific needs taking into consideration both new construction and renovation exposures.

After approaching various markets, Starr Indemnity and Liability Company (A.M. Best A XV) remains committed to the District offering a \$50M limit for a five-year term with a guaranteed rate commitment subject to rerate if the paid claims exceed a 40% loss ratio. Rates increased 10% over expiring, the premium rate for new construction is .935% of actual expenditures and .5445% of actual expenditures for renovation projects. An estimated 50% deposit premium is due at the start of each policy year with the remaining premium to be reconciled and paid at the end of each policy year, based upon actual construction values. This year's deposit premium of \$1,194,646 is based on the current Capital Construction Five Year plan. There is no minimum earned premium requirements and each annual audit is based on actual expenditures. The named windstorm deductible is now flat and not reliant on a percentage of values at risk so if there is a loss, the District is in a better position because of the known deductible along with having to pay out less on a large loss affecting multiple locations. All other deductibles remain unchanged.

Review of Main Program Terms:

- Coverage Limit \$50M per occurrence
- Guaranteed Rates for Five Years with 36-month wording
- Named-Windstorm Deductible: \$250,000 per location subject to an aggregate cap of \$2,500,000 per occurrence
- Agreed Loss Adjuster – Sedgwick Claims Management Services, Inc. (same as the property program)
- Transit Coverage \$5M
- Loss Minimization \$1M
- Pollution clean-up \$1M
- Existing Property \$250,000

Staff is recommending the purchase of its Builders' Risk Insurance Program consisting of all risk, replacement cost coverage for facilities under construction and other capital expenditures including maintenance projects from Starr Indemnity and Liability Company (A.M. Best A XV) through Arthur J. Gallagher Risk Management Services, Inc., for the five-year term with limits of \$50M per occurrence.

Terrorism

Additionally, Staff is recommending the purchase of stand-alone terrorism coverage for the Builders’ Risk Program for the five-year period 2022-2027 with Lloyds of London (A.M. Best A XV) through Arthur J. Gallagher Risk Management Services, Inc., with limits of coverage of \$35M per occurrence and a \$100M aggregate, subject to a \$10,000 deductible with a total five year premium of \$112,500.

Below is a comparison of the expiring program versus the proposed program:

Rates:	Expiring Program	Proposed Program:
New Capacity:	.85% of Actual Expenditures	.935% of Actual Expenditures
Renovation:	.495% of Actual Expenditures	.5445% of Actual Expenditures
Terrorism:	Stand-alone coverage \$99,000, \$35M Per Occurrence/ \$100M Aggregate	Stand-alone coverage \$112,500, \$35M Per Occurrence/ \$100M Aggregate

RECOMMENDED:

That the School Board of Miami-Dade County, Florida:

1. authorize the purchase of its Portfolio Builders’ Risk Insurance Program at the new program rates of .935% new construction / .5445% renovations based on actual expenditures for new and existing facilities (audited annually) as part of the District’s Capital Construction Plan through Arthur J. Gallagher Risk Management Services, Inc., for a five-year period effective October 12, 2022 through October 11, 2027, with Starr Indemnity and Liability Company (A.M. Best A XV) with Windstorm limits of \$50,000,000 for any one loss or occurrence. Deposit premium of \$1,194,646 will be due in October based on annual expenditures identified in the current year Five Year Work Plan and a final audit at expiration based on actual expenditures;
2. authorize the purchase of a stand-alone terrorism coverage for \$112,500 for the five-year period 2022 through 2027 with Lloyds of London (A.M. Best A XV) through Arthur J. Gallagher Risk Management Services, Inc., with limits of \$35,000,000 per occurrence and a \$100,000,000 aggregate.