

Financial Services
Mr. Ron Y Steiger, Chief Financial Officer

SUBJECT: RENEWAL OF DISTRICT'S PROPERTY INSURANCE PROGRAM

COMMITTEE: FISCAL ACCOUNTABILITY & GOVERNMENT RELATIONS

LINK TO STRATEGIC PLAN: EFFECTIVE & SUSTAINABLE OPERATIONAL 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(11)(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, 2022, through April 30, 2023. In order to ensure 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	YEAR
	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>	<u>2021-2022</u>	<u>2022-2023</u>
Coverage Limit	\$250,000,000*	\$250,000,000*	\$250,000,000**	\$200,000,000	\$200,000,000	\$200,000,000
Premium	\$17,063,174	\$17,063,214	\$17,696,080	\$17,811,972	\$18,462,239	\$18,867,558

*The District participated 39% on the \$50M excess of \$200M limit of coverage in order to achieve \$250M coverage limits.

**The District Participates 50% as co-insurer in the \$50M excess of \$200M.

PROPERTY VALUATION

The Office of Risk and Benefits Management collaborates with Facilities Management staff to reach an 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 of over \$12 Billion is reached using a blended rate for non-instructional facilities, elementary, middle, and senior high schools, in conjunction with actual appraisals. This valuation represents an increase of 4.8% of total insured values.

RECOMMENDATIONS FOR RENEWAL

According to insurer Swiss Re, the United States' property market incurred approximately \$115 billion in losses this past year, with \$65 billion of those losses attributed to hurricane Ian alone. As a result, the current catastrophic property insurance market is expected to be the most difficult market in over twenty years. Catastrophic property insurance prices are expected to increase significantly. It is expected that carriers will reduce their overall capacity with limited markets able to replace this capacity. It is unlikely that they will be able to offer the same broad terms and competitive pricing. In addition, markets are taking a much closer look at insured valuations due to recent large losses in the public entity space where values were underreported. The District is in a better place to mitigate market changes that typically result after a major windstorm event such as Hurricane Ian based on our yearly property valuation process. Additionally, the Board has continued its strategy of expanding its multi-year commitments at a guaranteed rate and was able to lock in 69% of capacity in the primary layer of the current program at 2021's rate.

This was achieved through a 32% participation of Multi-Year Structured Insurance Program (MYSIP) which includes a No Claims Bonus (NCB) provision, whereby the

District is eligible to receive reimbursement of 10% of premiums paid, in years without any reported or paid losses above the named windstorm/flood Deductible of \$100,000,000 and Long-Term Agreements (LTA) that again lock a carrier's rate in on 2021 rates with certain conditions. Those conditions include set loss ratio requirements and capping any annual Total Insured Value (TIV) not to exceed 15%.

Currently, 69% of the primary layer agreed to continue multi-year agreements that lock in 2021 rates. Berkshire Hathaway has continued their 32% participation in the MYSIP program in the Primary \$100M layer through 2025. The remainder of that layer (31% part of 100%) or \$31M of that layer is traditional annually renewed participation. Combined they provide all risk, replacement cost coverage which covers named windstorm/flood and all other perils coverage. Additionally, we continue to have carrier participation in LTA's for 28% of the first excess layer \$50M of \$100M and 31% of the second excess lay \$50 excess of \$150M.

Berkshire Hathaway's MYSIP capacity includes the same No Claims Bonus (NCB) provision, whereby the District is eligible to receive reimbursement of 10% of premiums paid, net of commissions paid in years without any reported or paid losses above the named windstorm/flood Deductible of \$100M.

Therefore, staff is seeking authorization to negotiate, a property renewal which includes up to \$200M of procured coverage, with annual expenditures, including all required fees not to exceed \$22M, excluding 2022-2023 MYSIP No Claim Bonus (NCB) reimbursements/premium credits and state required surcharges and assessments. It is staff's intent to attempt to secure the property renewal below the requested authority.

TERRORISM INSURANCE ACT AND COVERAGE

Staff is recommending that the District continue to purchase terrorism coverage for its 2023-2024 renewal. The cost of this coverage has seen some hardening due to the war in Ukraine, and it is anticipated that while the coverage availability remains relatively stable the cost is subject to some minor premium increases due to the continued high threat of global terrorist events.

The current annual premium is \$87,500 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, 2023 with annual premiums not to exceed \$115,000.

FLOOD INSURANCE PROGRAM

The District has always purchased Flood Insurance through the National Flood Insurance Program (NFIP). Purchase of this coverage was 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. NFIP is changed how they rate flood coverage and will now use specific features of each individual

building such as the distance to a flooding source, ground elevation, construction type, occupancy, and number of floors along with a new pricing methodology using catastrophe modeling and urban flooding.

Staff is recommending renewing the District's flood insurance at the same terms, limits and conditions as the current NFIP, while keeping the Flood Insurance budget for 2023-2024 the same as the \$2.5M. The current NFIP covers buildings and contents in excess of 2,500 square feet in a Special Flood Hazard Area (SFHA) or with prior payouts that FEMA requires the district to obtain and maintain. Coverage is provided up to the maximum allowable of \$500,000 per building and \$500,000 for contents or at the scheduled value amount if lower than the maximum allowable.

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

1. authorize staff to enter into negotiations through its broker and secure and bind up to \$200M in coverage limits, with annual premiums for all property insurance premiums and associated fees not to exceed \$22M, excluding 2022-2023 MYSIP NCB reimbursements/premium credits and state required surcharges and assessments, effective May 1, 2023 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 at its meeting of May, 2023;
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, 2023 with an annual premium not to exceed \$115,000, including state fees, with payment of such coverage to be funded from the District's property insurance budget; and

3. authorize the renewal of flood insurance at the same terms, limits and conditions as the current NFIP, with a budget not to exceed \$2.5M effective for the 12-month period of May 1, 2023 to April 30, 2024.

RYS:mgf