

Property & Casualty Insurance Proposal Executive Summary

Clay County School District

June 30, 2016 to June 30, 2017

Presented June 9, 2016



Arthur J. Gallagher & Co.

Jori L. Van der Voort, ARM
Area Senior Vice President
Jori_Van_der_Voort@ajg.com
305-639-3166

Craig S. Fainstein, CPCU, ARM, ASLI, ARE
Area Vice President
Craig_Fainstein@ajg.com
786-331-1260

Mayte Gandulfo, ARM
Client Service Executive
Mayte_Gandulfo@ajg.com
305-639-3150

Arthur J. Gallagher Risk Management Services, Inc.
8333 NW 53rd Street Suite 600
Miami, FL 33166
www.ajg.com

Clay County School District

Executive Summary

About your Broker: Arthur J. Gallagher Risk Management Services, Inc.

Arthur J. Gallagher Risk Management Services and Clay County School Board have worked together for many years to provide the District with a comprehensive and cost effective solution to its insurance program.

1. AJG is the 4th largest Insurance Broker in the World.
2. We are a public company traded on the New York Stock Exchange.
3. More than 500 offices located throughout the world.
4. More than \$20 billion of premium placed Worldwide.
5. Over 20,000 employees worldwide linked together by Gallagher Online
6. Known nationally as the Public Entity and Scholastic experts, with unsurpassed FEMA public assistance expertise
7. Recent awards include:



Ranked "Highest in Customer Satisfaction among Brokers for Large Commercial Insurance"¹
¹For J.D. Power award information, visit jdpower.com.
²Arthur J. Gallagher & Co. named one of the World's Most Ethical Companies for 2015. Ethisphere Institute, March 2015.
³Used with permission, © 2015 Forbes Media LLC.

Representative Area and Scholastic Clients

- Clay County School District
- Baker County School District
- Putnam County School District
- Bradford County School District
- Union County School District
- Columbia County School District
- Flagler County School District
- Hamilton County School District
- Levy County School District
- Calhoun County School District
- Franklin County School District
- Jackson County School District
- Liberty County School District
- Wakulla County School District
- Escambia County School District
- Miami-Dade County School District
- Monroe County School District
- Duval County School District
- Nassau County School District
- Putnam County BOCC
- Florida State College at Jacksonville
- St. Johns County BOCC
- NE Florida Healthcare System
- Dixie County School District
- Gilchrist County School District
- Gulf County School District
- Holmes County School District
- Jefferson County School District
- Madison County School District
- Walton County School District
- Washington County School District
- Okaloosa County School District
- Broward County School District
- State of Florida

Clay County School District

Introduction and Service Highlights:

We appreciate the opportunity to present this proposal to the Clay County School District. For this year's renewal we are proud to report that our aggressive marketing effort has resulted more than \$150,000 in savings to the District (more than 13%), and will include important new and enhanced coverages on your insurance program.

Arthur J. Gallagher Risk Management Services works closely with the School District to provide services and support that add value to your insurance purchasing decisions. We have ongoing communication with the District's Business Affairs office, as well as other departments. This ensures that we continue to have a strong familiarity with the District's risks, and the most accurate data to provide to the markets. This helps us craft a program to best meet the District's needs, at the most competitive cost.

Examples of services that Gallagher provides to the District in order to lower your cost of risk include:

1. Obtaining flood zone information for the District's locations
2. Assisting the District with obtaining a reasonableness determination from the State of Florida to enable potential eligibility for Federal disaster assistance.
3. Reviewing and advising on contracts and third party insurance.
4. Loss Control and Claims Advocacy Services
5. Finding creative ways to minimize costs while maximizing the protection that the District receives.

Marketplace Status as of May 2016

Property Insurance

Overall, the Florida property insurance market continues to remain soft, with significant competition among insurance carriers who wish to provide coverage in the catastrophic property marketplace. Pricing depends on how aggressively an account has been priced over the years, and how the terms and conditions have been structured.

Casualty Insurance

The soft market is also affecting the casualty insurance marketplace. Fortunately, we now see a new entrant in the specialty market for public sector excess liability insurance. This is resulting in increased competition, and lower pricing for our clients.

Excess Workers Compensation Insurance

The last several years were very challenging for the excess workers compensation insurance market. We now see that this volatility has subsided. While most accounts are seeing nominal rate increases, for clients with positive loss experience, we have been able to negotiate very favorable renewals.

Risk Characteristics of Clay County School District

1. **Concentration and Geographic Location of Property:** Clay County School District has almost \$1 billion of insured values concentrated in Northeast Florida.
2. **Values Exposed and Probable Maximum Loss (PML):** Each year we analyze the School District's property schedule, in terms of windstorm exposure using the AIR and RMS models. This year the models project a 250-year PML (the value observed by insurance companies) in the \$25 to \$32 million range. Thanks to the efforts of District staff, we have been able to improve the data used by the computer models over the years, and this has had a positive impact on your modeling results, and your insurance premiums.
3. While the models are not predictive of the future, their results tell us that insurers expect the entire \$13.5 million of Named Windstorm coverage being providing to be exhausted in the event of a moderate to severe hurricane. Therefore, we recommend, and the District has decided to obtain an additional \$2.5 million of named windstorm coverage this year, which is very competitively priced.

Clay County School District

2016 Hurricane Modeling Results

Critical Prob.	Return Period	AIR 3.1		RMS 15.0	
		Ground Up	Gross Loss	Ground Up	Gross Loss
0.10%	1,000	\$53,829,117	\$20,096,438	\$73,445,031	\$57,249,535
0.20%	500	\$38,486,279	\$13,765,594	\$50,291,407	\$38,010,464
0.40%	250	\$25,758,156	\$9,733,376	\$32,129,829	\$22,792,526
1.00%	100	\$11,299,660	\$5,767,368	\$14,703,917	\$8,293,824
2.00%	50	\$5,988,748	\$3,718,680	\$6,389,024	\$1,552,619
5.00%	20	\$1,509,920	\$1,088,628	\$1,211,332	\$0
AAL		\$527,560	\$275,168	\$605,296	\$333,933

Please note that these are only estimates; an actual event could cause a loss that deviates significantly from these values.

Glossary of Terms/Acronyms:

AIR Worldwide (AIR) / Risk Management Solutions (RMS) – Catastrophe Modeling Software

Average Annual Loss (AAL): the annualized estimate of loss to a representative unit of exposure from a broad range of modeled catastrophe events;

Return Period: the expected length of time between recurrences of two events with similar characteristics. The return period can also refer to specific level of loss;

Probable Maximum Loss (PML): estimate of the maximum loss on a particular risk as a result of a single event, assessed with due care and taking into account all risk elements;

Ground Up Loss: the amount of loss sustained before deductions, underlying coverage and reinsurance are applied.

Gross Loss: the insurer's or cedant's loss after deductibles, attachment point(s), and limits are applied, but before any reinsurance.

Exposure Changes Since Last Year

Exposure	Expiring	Projected	% Δ
	2015 – 2016	2016 - 2017	
Total Insured Values (TIV)	\$1,109,446,339	\$908,967,381	-18.07%
Total Vehicles	508	478	-5.91%
Total Payroll	\$ 190,766,958	\$188,725,497	-1.07%
GOE	\$ 247,648,310	\$255,508,030	3.17%
Student Count	34,947	38,780	10.97%
Employee Count	4,685	4,624	-1.30%

Clay County School District

Loss Experience

From the standpoint of your insurance program, the District has had favorable loss experience in that few losses have exceeded the District's self-insured retentions. While this helps to maintain insurance pricing stability, the dollars shown under "Aggregate Losses" represent additional opportunities to reduce cost.

Policy Year	No. Claims			Total Incurred	Less: Excess Insurance	Aggregate Losses
	Open	Closed	Total			
6/30/10 - 11	0	215	215	\$1,100,424	\$0	\$1,100,424
6/30/11 - 12	2	185	187	\$710,091	\$0	\$710,091
6/30/12 - 13	4	175	179	\$1,190,413	\$30,800	\$1,159,613
6/30/13 - 14	5	159	164	\$531,583	\$0	\$531,583
6/30/14 - 15	12	184	196	\$785,063	\$0	\$785,063
6/30/15 - 4/1/16*	53	93	146	\$693,583	\$0	\$693,583

* Partial year – not complete

Above losses have not been actuarially developed

Renewal Goals and Highlights

For this year's renewal, our mutual goal was to obtain cost reductions on the program, and use the savings to enhance the District's coverage. We are happy to report that we have negotiated a renewal that is more than 13% lower than the expiring program (i.e. more than \$150,000 lower), and which includes important additional coverages: additional named windstorm, Cyber Risk insurance, and social engineering.

Market Review

We have approached the following carriers in order to obtain the most comprehensive and cost effective insurance program for the School District.

CARRIER	LINE OF COVERAGE	CARRIER POSITION
Munich Re	Package	Quoted
Lloyds of London	Package	Quoted
AIX	Package	Quoted
Travelers	Boiler & Machinery	Quoted
Hartford Steam Boiler	Boiler & Machinery	Quoted
Liberty Mutual	Boiler & Machinery	Quoted
Beazley	Cyber	Quoted
Ascent (Lloyd's)	Cyber	Quoted
AIG	Cyber	Pending

Clay County School District

CARRIER	LINE OF COVERAGE	CARRIER POSITION
State National Insurance Company	Excess Workers Compensation	Quoted
Lloyds of London	Malicious Violent Acts	Quoted
ACE - Westchester Surplus Lines Insurance Company	Property	Quoted
Allied World Assurance Company	Property	Quoted
Markel – Evanston Insurance Company	Property	Quoted
RSUI - Landmark American Insurance Company or	Property	Quoted
Axis Surplus Insurance Company	Property	Quoted
Liberty Surplus Insurance Corporation	Property	Primary/Excess Market, Capacity not needed.
AmRisc (multiple carriers)	Property	Will not quote as they consider this they consider this excess.
Arch Specialty Insurance Company	Property	Primary/Excess Market, Capacity not needed.
Berkshire – National Fire & Marine Insurance Company	Property	Unable to meet target terms or pricing
Colony Insurance Company	Property	Quoted Excess CAT Perils
CV Starr - Chubb Custom Ins. Co. or General Security Indemnity of AZ	Property	Quoted
Diamond State - United National Insurance Company	Property	Quoted Excess AOP
Great American Insurance Company of NY	Property	Excess market excluding wind peril, Capacity not needed.
Hiscox – Lloyds of London	Property	Primary/Excess Market, Capacity not needed.
Ironshore Specialty Insurance Company	Property	Primary/Excess Market, Capacity not needed.
James River Insurance Company	Property	Excess market, capacity not needed.
Lexington Insurance Company	Property	Offered pricing slightly higher than incumbent renewal program
Lloyds of London – various syndicates	Property	Cannot compete with pricing
Scottsdale Insurance Company	Property	Excess Market, Capacity not needed
Swiss - First Specialty Insurance Corp.	Property	Current Pricing is too cheap
Travelers Excess and Surplus Lines Insurance Company or Travelers Indemnity Company	Property	Could offer capacity in x-wind layer, Capacity not needed

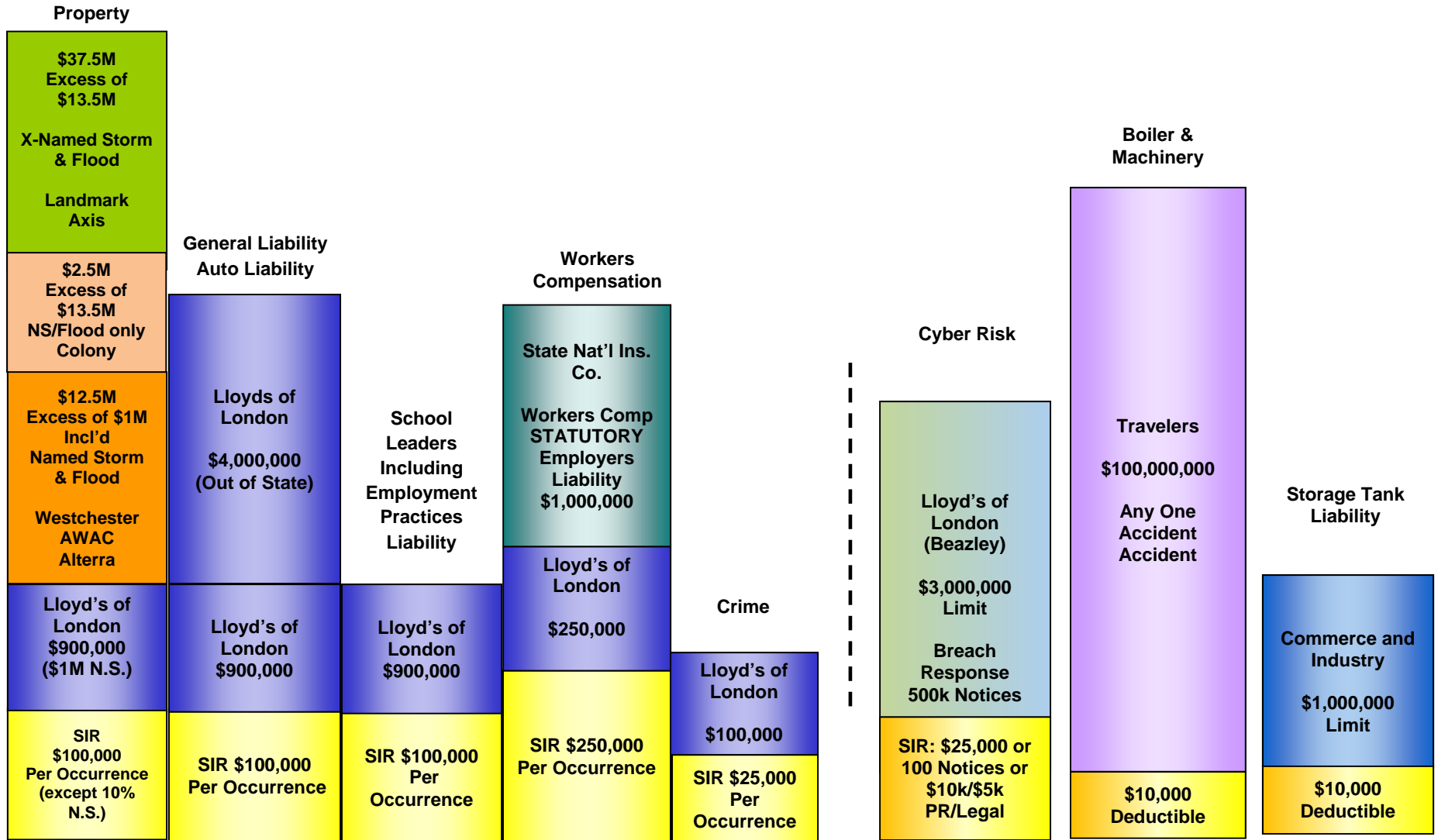
Clay County School District

CARRIER	LINE OF COVERAGE	CARRIER POSITION
XL - Indian Harbor Insurance Company	Property	Primary Market, Capacity not needed.
Zurich - Steadfast Insurance Company	Property	Primary Market, Capacity not needed.
Arrowhead (multiple carriers)	Property	Current Pricing is too cheap
Beazley – Lloyds of London	Property	TIV is too large
BRIT Global Specialty -Certain Underwriters at Lloyds, London - BRIT Syndicate 2987	Property	Primary Market, Capacity not needed.
Endurance American Specialty Ins. Co.	Property	Primary Market, Capacity not needed.
Hallmark – Hallmark Specialty Insurance Company	Property	Primary Market, Capacity not needed.
IFG Burlington Ins. Co.	Property	Can only attached x/s of \$25M for Cat perils
Validus – Western World Insurance Company	Property	TIV is too large

Clay County School District

2016-2017 Program Illustration

(summary only, does not include all terms and conditions)



Package Self-Insured Retention is a Combined Lines Retention

Clay County School District

Renewal Report

As mentioned above, this year the District will be obtaining important additional coverages and will enjoy a lower overall cost.

School Board Package

The foundation for the District's Self-Insurance program is the School Board Package. The package provides the primary layers of coverage for the Property, Liability, Educators Legal Liability, Workers Compensation, and Crime coverages. This year we have obtained a significant reduction in premium and broader coverage.

- Social Engineering coverage newly added
- Renewal Premium: \$350,000

A benefit of the School Board Package is that it may make funds available to the School District for loss control projects. This policy has also helped to maintain stability in the program, particularly with the difficulties in Crime and Educators Legal Liability coverage in the past few years.

Excess Property Insurance Program

The Excess Property Insurance program will provide \$50 million of coverage (\$15 million of Named Windstorm coverage) in excess of \$1 million of coverage provided by the package. For this coverage, we are happy to report that we were able to obtain a 17% premium reduction while obtaining higher limits. There is a reduction in values from last year, but the market response is also a result of our negotiations on your behalf, and the District's assistance in providing detailed construction data.

Program Comparison

	2015	2016
Loss Limit	\$50,000,000	\$50,000,000
Named Storm Sublimit	\$12,500,000	\$15,000,000
Named Storm Deductible	10% / \$1,000,000 minimum	10% / \$1,000,000 minimum
Premium	\$560,000	\$464,254
% Premium Reduction		-17%

Notes:

- a) Above is for illustrative purposes. Does not include all terms and conditions or mandatory surcharges.
- b) Above does not include TRIA terrorism, which is available for an additional premium.

Boiler and Machinery (B&M)

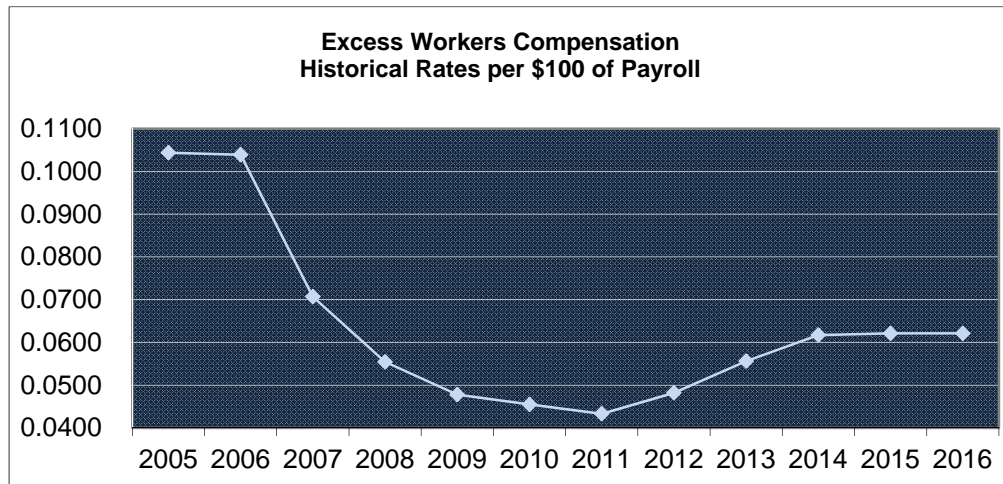
Coverage will now be provided by Travelers. The District's previous insurer, Zurich, has exited this line of business. However, Travelers is offering the District a broader policy, at a lower cost.

1. Limit: \$100 million, with various sublimits
2. Deductible: \$10,000
3. Renewal Premium: \$12,952

Clay County School District

Excess Workers Compensation

As mentioned above, the last several years were very challenging for the excess workers compensation insurance market. However, we now see that the volatility has subsided. As illustrated below, the overall rate applicable to the District for this line of coverage has leveled-off, and you continue to enjoy a historically low rate for this line of coverage.



4. \$500,000 Self-Insured Retention (to be eroded by the \$250,000 package buffer layer)
5. Statutory Workers Compensation and \$1,000,000 Employers Liability Coverage
6. Renewal Premium: \$117,199

Storage Tank Liability

1. Coverage is provided by Commerce & Industry Insurance Co.
2. Limits provided are \$1,000,000 per Occurrence / \$2,000,000 Aggregate
3. Dedicated limits for aboveground and underground tanks, as required by state law
4. Subject to a \$10,000 deductible
5. Coverage is for scheduled tanks at scheduled locations only, to meet statutory requirements.
6. Renewal Premium: \$3,787

Cyber Risk

Due to the growing number of data breaches, many of our clients now purchase Cyber Risk coverage. This coverage protects you from liability that arises out of network security and privacy issues. The policy also provides 24/7 breach response services, in order to mitigate a situation as quickly, and efficiently, as possible.

1. Coverage to be provided by Beazley Syndicate, Lloyd's of London
2. Annual Premium: \$37,000 (coverage is still being negotiated, and final pricing is expected to be lower)
3. Coverage Summary (see next page)

Clay County School District

Cyber Risk Coverage Summary

Coverage/Limits	
Policy Aggregate	\$3,000,000
Regulatory Defense & Penalties	\$3,000,000
Payment Card Industry Fines	\$3,000,000
Notified Individuals	500,000 (incl'd 10,000 outside of USA)
Legal Services, Computer Expert Services, Public Relations & Crisis Management Expense Aggregate Sublimit	\$1,000,000
Retentions	
Each Claim Retention	\$25,000
Privacy Breach Response Services Retention (each incident) – Notification Services, Call Center Services, Breach Resolution, and Mitigation Services	100 Notified Individuals
Legal Services/Computer Expert Services, Public Relations and Crisis Management Expenses	\$10,000 combined (\$5,000 for Legal Services only)

Cost Summary

Description	2015-2016	2016-2017	%Δ
	Expiring Program \$13.5M N.S.	Renewal Program \$16M N.S. + \$3M Cyber Risk	
School Board Package	\$ 434,900.00	\$ 350,000.00	-20%
Excess Property	\$ 560,000.00	\$ 464,254.00	-17%
Excess WC	\$ 115,982.00	\$ 117,199.00	1%
B&M	\$ 16,395.00	\$ 12,952.00	-21%
Storage Tank	\$ 3,443.00	\$ 3,787.00	10%
Cyber Risk*	N/A	\$ 37,000.00	N/A
Total Cost before fees	\$ 1,130,720.00	\$ 985,192.00	-16%
Florida Surcharges/ FEMA Fees	\$ 28.00	\$ 28.00	0%
Citizens Assessment	\$ 9,949.00	\$ -	-100%
AJG Risk Management Fee	\$ 60,000.00	\$ 60,000.00	0%
Total Cost after Fees	\$ 1,200,697.00	\$ 1,045,220.00	13%

Notes:

- *Cyber Risk is a new coverage, not previously purchased by the School District. Based on the above premium, Gallagher will earn approximately \$4,625 in commission for placing this coverage. This is included, and not in addition to the amounts shown above. As this coverage is still being negotiated, it is expected to be lower, and the commission will be commensurately lower as well.
- Above premiums do not include Optional Terrorism coverage
- Additional coverage options are available for the District to consider

Clay County School District

Conclusion and Recommendation

As a result of an extensive marketing effort, as well as with the help of District staff, we are proud to bring you these very favorable renewal results. For the 2016 renewal, the School District will be obtaining an additional \$2.5 million of named windstorm coverage, Cyber Risk coverage, and Social Engineering coverage, and will still be saving more than \$150,000. We recommend that the District bind the coverage as presented in this executive summary,

Thank you for allowing us the opportunity to present this renewal. We appreciate the trust you have placed in Arthur J. Gallagher Risk Management Services, and pledge our personal and corporate commitment to serving the Clay County School District.