



# Arthur J. Gallagher Risk Management Services, Inc.

## CLAY COUNTY SCHOOL DISTRICT

### Property & Casualty Insurance Renewal Executive Summary

for  
June 30, 2012 to June 30, 2013

**Presented by:**

Jori L. Van der Voort, ARM  
Area Vice President  
Jori\_Van\_der\_Voort@ajg.com  
305-639-3116

Craig S. Fainstein, CPCU, ARM, ASLI, AR  
Area Assistant Vice President  
Craig\_Fainstein@ajg.com  
786-331-1260

Mayte Gandulfo, ARM  
Executive Account Manager  
Mayte\_Gandulfo@ajg.com  
305-639-3150

Jessica Azucena  
Technical Assistant  
Jessica\_Azucena@ajg.com  
786-331-1253

Arthur J. Gallagher Risk Management Services, Inc.  
8200 N.W. 41<sup>st</sup> Street  
Suite 200  
Miami, Florida 33166  
Telephone: (305) 592-6080  
Fax: (305) 592-4049  
[www.ajg.com](http://www.ajg.com)

Date Presented: June 19, 2012



## 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.
- AJG is the 4<sup>th</sup> largest Insurance Broker in the World.
- A public company traded on the New York Stock Exchange.
- Over 200 offices throughout the United States and in all major insurance market centers.
- Over \$5 billion worth of premiums placed Worldwide.
- Over 12,500 employees worldwide linked together by Gallagher Online for immediate access to market information and client solutions.
- Known nationally as the Public Entity and Scholastic experts.
- Unsurpassed FEMA public assistance expertise

### Representative Area and Scholastic Clients

- |                                     |   |
|-------------------------------------|---|
| • Clay County School District       | • Duval County School District          |
| • Baker County School District      | • Nassau County School District         |
| • Putnam County School District     | • Putnam County BOCC                    |
| • Bradford County School District   | • Florida State College at Jacksonville |
| • Union County School District      | • St. Johns County BOCC                 |
| • Columbia County School District   | • NE Florida Healthcare System          |
| • Flagler County School District    | • Dixie County School District          |
| • Hamilton County School District   | • Gilchrist County School District      |
| • Levy County School District       | • Lafayette County School District      |
| • Miami-Dade County School District | • Suwannee County School District       |
| • State of Florida                  | • Broward County School District        |



## EXECUTIVE SUMMARY (continued)

### Service Highlights:

Arthur J. Gallagher Risk Management Services works closely with the District to provide resources and services that add value to the insurance purchasing decisions made throughout the year.

This year, the challenge that we identified early on was the hardening property insurance market, and insurers' increased reliance on RMS version 11 modeling software. RMS, which has become the industry standard for hurricane loss computer modeling, has implemented much more conservative assumptions in version 11 than in preceding versions. As a result, many insureds across the state have been impacted with higher hurricane loss projections, well in excess of any perceivable changes in risk. This is **directly impacting the cost and availability of property insurance in Florida.**

In order to position Clay County School District for the most favorable renewal this year, the Gallagher team began working early with the District's Business Affairs, Code Enforcement, and Facility Planning & Construction departments to ensure that the District's report of locations was accurately coded to current industry standards. Thanks to the hard work of District staff, we are proud to report that this preliminary work **resulted in a reduction of more than 35% in the District's modeled loss projection.** This praiseworthy effort and result were instrumental in helping us obtain a very favorable property insurance renewal in what has proven to be a very difficult market.

Among the additional services that we provide are:

- Obtaining flood zone information for the District's locations
- Assisting the District with obtaining a reasonableness determination from the State of Florida to assist with potential eligibility for Federal disaster assistance.
- Reviewing contracts and third party insurance, and providing guidance.
- Loss Control and Claims Advocacy Services, which are available

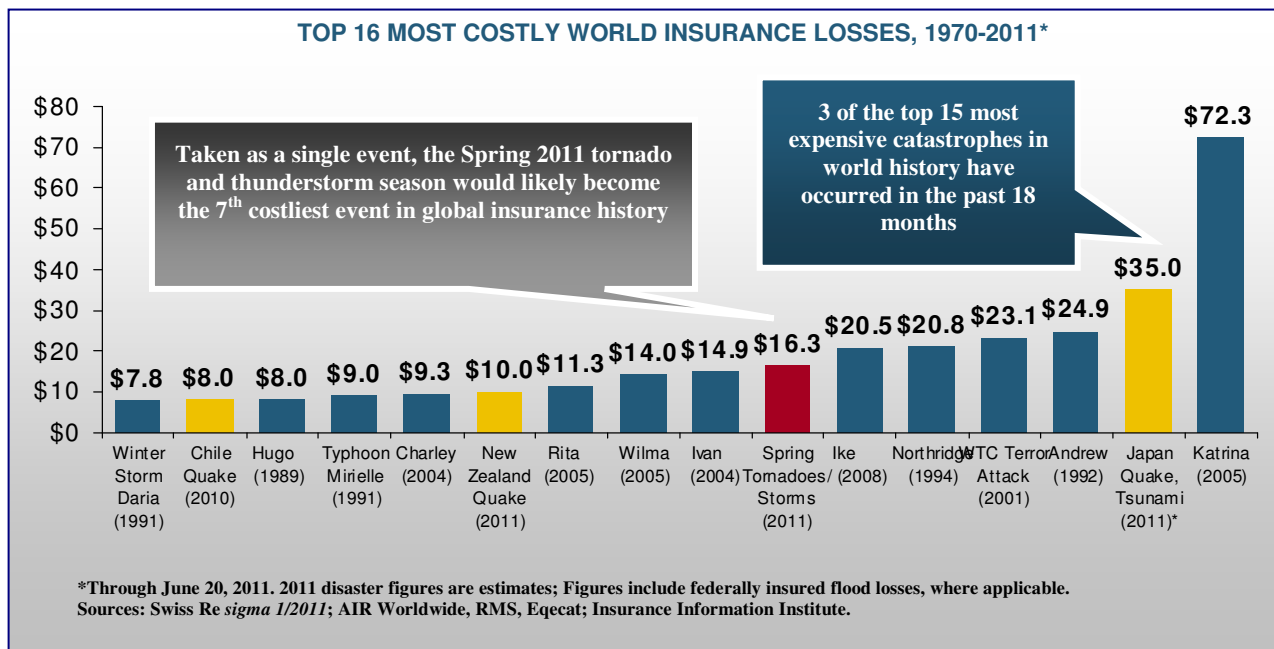
# Clay County School District

## EXECUTIVE SUMMARY (continued)

### Marketplace Status as of June 2012

The current property insurance marketplace has proven challenging for our Florida clients, and is being driven by a number of local and global factors, including:

1. Heightened perception of windstorm risk driven by new catastrophe modeling, RMS v. 11 (as discussed above)
2. 2<sup>nd</sup> worst year for catastrophe losses, second only to Hurricane Katrina/Wilma in 2005. Almost \$70 Billion of insured losses, including:
  - Japanese Earthquake & Tsunami - \$35 Billion
  - U.S. Spring Tornadoes - \$16 Billion
  - New Zealand Earthquakes - \$10 Billion
  - Chile Earthquake (2010) - \$8 Billion
3. Upward pressure on global reinsurance pricing (10-15% increases for Florida cat)
4. Reduced earnings for all major property insurers and reinsurers from 2011 property losses



### **Excess Workers Compensation Insurance**

We are also seeing significant changes in the excess workers compensation insurance market. This market has continued to tighten, as industry losses have been catching up to the soft market premiums of the last several years. This is reflected in industry combined ratios which now exceed 100% (and which have little to no investment income to make up the difference). In 2010, Chartis announced that it would exit the excess workers compensation market entirely. Last year, Midwest Employers, another major carrier, became very uncompetitive on many of their public entity clients, who subsequently chose to renew with other carriers. Overall, we are seeing carriers increase rates by 15% and more on this line of coverage.

# Clay County School District



## EXECUTIVE SUMMARY (continued)

### Risk Characteristics of Clay County School District

- **Concentration and Geographic Location of Property:** Clay County School District has over \$1 billion of insured values concentrated in Northeast Florida.
- **Values Exposed and Probable Maximum Loss (PML):** This year, we analyzed the School District's property schedule, in terms of wind exposure, using AIR Worldwide CATStation 13, and RMS's RiskBrowser v 11.0. As mentioned above, RMS v.11 has become the insurance industry standard for measuring catastrophic hurricane risk. Thanks to the efforts of District Staff, this year we are seeing a significant reduction in the RMS loss projection, and this has translated into a very favorable property renewal.
- In addition, while the models cannot predict the future, their results tell us that insurers expect the entire \$11 million of Named Windstorm coverage being providing to be exhausted in the event of a moderate to severe hurricane. Therefore, we recommend the School District consider an increased named windstorm limit, which can be made available upon request.

### 2012 Hurricane Modeling Results

Critical Probability	Return Period	AIR v.13		RMS v.11	
		Ground Up	Gross Loss	Ground Up	Gross Loss
0.10%	1,000	\$57,834,633	\$31,512,064	\$115,049,225	\$95,916,720
0.20%	500	\$41,251,745	\$22,816,087	\$85,393,285	\$69,660,606
0.40%	250	\$28,326,688	\$16,938,493	\$58,432,617	\$46,262,734
1.00%	100	\$12,465,208	\$8,700,071	\$29,540,767	\$21,558,582
2.00%	50	\$6,733,142	\$5,153,723	\$14,237,368	\$8,635,234
5.00%	20	\$1,885,211	\$1,627,511	\$3,397,872	\$0
<b>Average Annual Loss</b>		\$598,183	\$413,066	\$1,175,988	\$751,397

### 2011 Hurricane Modeling Results

Critical Probability	Return Period	AIR v.12.5		RMS V.11	
		Ground Up	Gross Loss	Ground Up	Gross Loss
0.10%	1,000	\$139,622,186	\$96,959,617	\$183,463,550	\$163,045,622
0.20%	500	\$98,509,575	\$64,310,802	\$134,329,134	\$117,552,012
0.40%	250	\$69,807,134	\$41,949,783	\$90,690,892	\$78,097,877
1.00%	100	\$31,351,964	\$19,446,001	\$78,378,434	\$67,093,036
2.00%	50	\$17,241,861	\$12,050,617	\$46,117,285	\$38,174,954
5.00%	20	\$4,872,095	\$4,093,523	\$22,895,243	\$17,506,563
<b>Average Annual Loss</b>		\$1,481,235	\$1,044,402	\$5,736,685	\$2,330,111

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

# Clay County School District



## EXECUTIVE SUMMARY (continued)

### Risk Characteristics of Clay County School District (continued)

**Large Individual Locations:** The District is scheduling three locations whose values exceed the \$51 million (non-named windstorm) loss limit. Therefore, we recommend the District consider increasing the non-named windstorm limit from \$51 million to \$63 million. This would help the District obtain a more complete recovery in the event that a single high value location was destroyed in a covered loss (e.g. a fire or tornado). A quote for this option can be made available upon request.

Location	Value
Oakleaf High School	\$62,938,138
Orange Park Sr. High	\$62,497,064
Middleburg Sr. High	\$55,656,492

### Exposure Changes Since Last Year

Exposure	Expiring	Projected	% Change
	2011 - 2012	2012 - 2013	
Total Insured Values (TIV)	\$1,240,546,824	\$1,071,388,873	-13.6%
Total Vehicles	497	510	2.6%
Total Payroll	\$185,499,666	\$187,667,129	1.2%
GOE	\$248,805,539	\$240,784,958	-3.2%
Student Count	35,709	35,777	0.2%
Employee Count	4,701	4,842	3.0%

### Renewal Goals and Highlights

In view of continued pressure on the District's budget, and in light of market pressure on pricing, our overriding goal for the 2012 renewal was to maintain stability in the program within existing premium levels, as well as to obtain premium reducing options.

Results obtained for Clay County School District include:

- Options to maintain coverage at roughly flat pricing
- Option to reduce premiums

# Clay County School District



## Market Review

Obtaining a comprehensive and competitively priced program of insurance in the marketplace requires more than access to the market. Past experience and credibility with markets are the foundation of a successful campaign for your entity. Complete and accurate submissions, with detailed specifications, are essential. Arthur J. Gallagher Risk Management Services, Inc. made a complete and personal presentation to each company contacted.

Market	Coverages	Response
AWAC	Excess Property	Quoted expiring capacity at flat pricing
RSUI	Excess Property	Quoted expiring capacity at flat pricing
ACE	Excess Property	Quoted expiring capacity at flat pricing
Arch	Excess Property	Unable to offer flat pricing, quoted increase.
Alterra	Excess Property	Quoted expiring capacity at flat pricing
Maiden	Excess Property	Quoted - replacing Arch capacity
Diamond State	Excess Property	Unable to entertain due to size of TIV
Hiscox	Excess Property	Unable to compete with pricing
Ironshore	Excess Property	Cannot improve on quoted terms
Torus	Excess Property	Unable to quote, requires spread of risk
Colony	Excess Property	Cannot improve on quoted terms
LIU E&S	Excess Property	Unable to offer competitive price or limits
Travelers	Excess Property	Unable to offer competitive price or limits
C N A	Excess Property	Unable to offer competitive price or limits
Munich	Excess Property	Not entertaining new Florida business at this time
Lexington	Excess Property	Unable to compete with pricing
Zurich	Excess Property	Unable to compete with pricing
Aspen	Excess Property	Requires higher attachment point
Essex	Excess Property	Requires higher attachment point
One Beacon	Excess Property	Consider ex-wind only
Great American	Excess Property	Will only consider excluding ALL wind. Unable to offer competitive price or limits
Navigators	Excess Property	Cannot improve on current terms
London	Excess Property	Cannot improve on current terms
James River	Excess Property	Unable to offer competitive price or limits

# Clay County School District



## Market Review (continued)

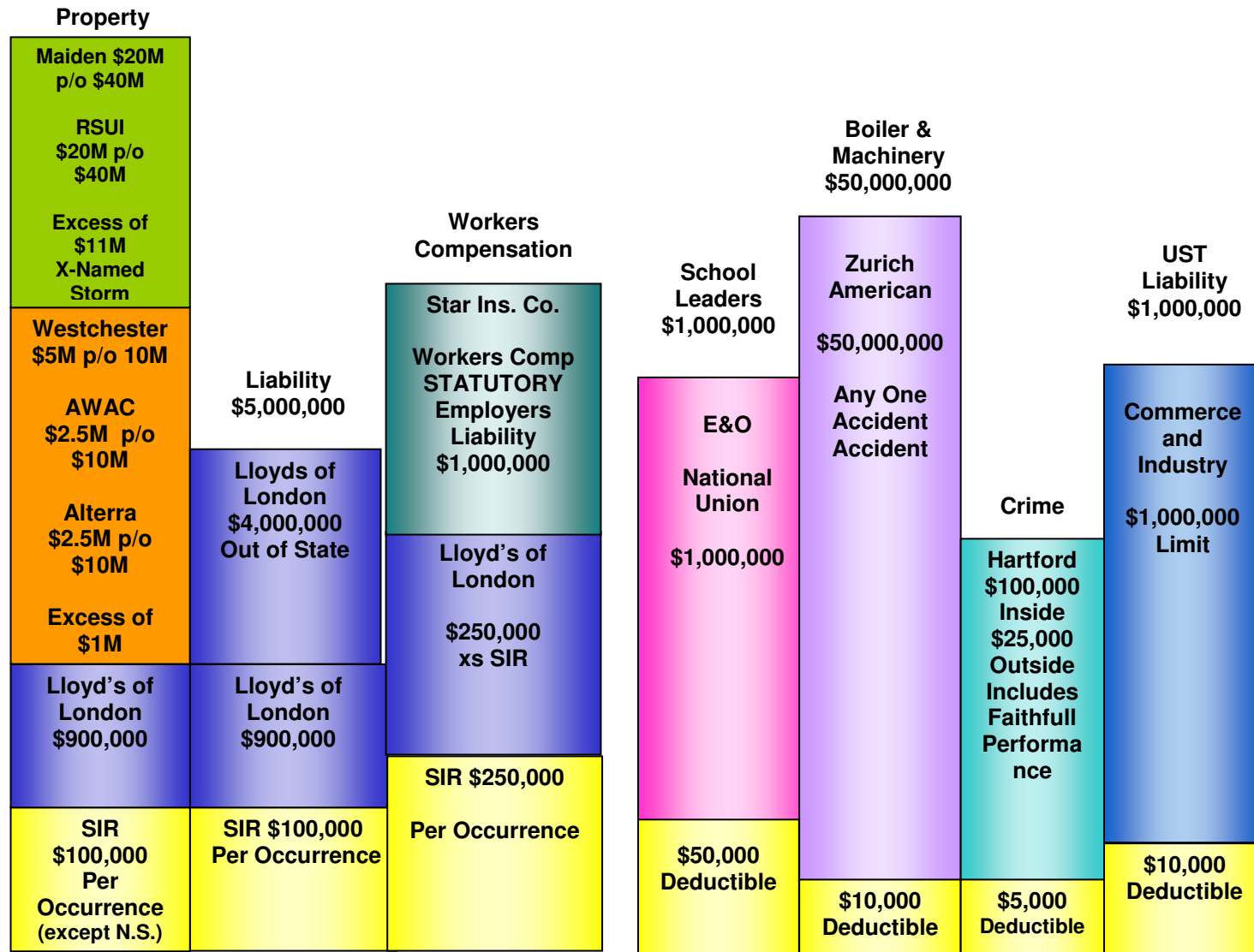
Market	Coverages	Response
Axis	Excess Property	Unable to compete with pricing
XL	Excess Property	Unable to compete with pricing
Starr Specialty	Excess Property	Cannot improve on quoted terms
Lloyds of London	Package	Quoted
Star Insurance Company	Excess WC	Quoted
Midlands Management	Excess WC	Cannot be competitive
Midwest Employers	Excess WC	No response
Arch	Excess WC	Cannot be competitive
Safety National	Excess WC	No response
Zurich American	Boiler & Machinery	Quoted
Hartford Steam Boiler Inspection and Insurance Company	Boiler & Machinery	Cannot be competitive
XL	Boiler & Machinery	Cannot be competitive
Travelers	Boiler & Machinery	Cannot be competitive
Liberty Mutual	Boiler & Machinery	Cannot be competitive
Commerce and Industry	Storage Tank	Quoted
National Union Fire	Schools Leaders Errors and Omissions	Quoted
ACE USA	Schools Leaders Errors and Omissions	Quoted, terms not as broad
Darwin Insurance Company	Schools Leaders Errors and Omissions	Cannot be competitive
RSUI	Schools Leaders Errors and Omissions	Cannot be competitive
Hiscox	Schools Leaders Errors and Omissions	Declined
Hartford Casualty Insurance	Crime	Quoted



# Clay County School District

## 2012-2013 Program Illustration (Renewal as Expiring)

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



# Clay County School District



## Renewal Report

### Market Responses for Clay County School District

We are very proud of the results that we have been able to obtain on this year's property and casualty insurance renewal. This was truly a team effort, and the assistance of District staff, who worked diligently to help us update the District's statement of values, was invaluable in enabling us to obtain a very favorable program.

### Gallagher Premier Public Entity Package

- Foundation for the District's Self-Insurance program, providing property, liability, and workers compensation coverages.
- We have obtained two options for the Public Entity Package renewal:
  1. Renew as expiring, with a 7.5% named storm deductible, for the same premium as expiring
  2. Option to take a 10% named storm deductible for a reduction in premium
- **Renewal Premium: \$395,000 or \$390,000, respectively**

Please keep in mind that the Gallagher Premier Public Entity Package may also make funds available to the School District for related loss control projects.

### Excess Property Insurance Program

We have secured two options for the School District's renewal program, each with a \$50 million Loss Limit, and a \$10 million Named Windstorm sublimit (excess of \$1 million). As indicated, we were expecting premium increases, due to the tightening market, but the District's assistance, in partnership with the Gallagher team, was invaluable to keeping costs down.

### **Master Property Insurance Program Premium Options**

	2011	2012	
	Expiring	Option I Renew as Expiring 7.5% Named Storm Ded	Option II Renew with 10% Named Storm Ded
Loss Limit	\$50,000,000	\$50,000,000	\$50,000,000
Named Storm Sublimit	\$10,000,000	\$10,000,000	\$10,000,000
Named Storm Deductible	7.5% / \$1,000,000 minimum	10% / \$1,000,000 minimum	10% / \$1,000,000 minimum
<b>Premium</b>	<b>\$830,250</b>	<b>\$830,250</b>	<b>\$807,250</b>
% Premium Change		0.00%	-2.77%

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



## Renewal Report

### Excess Property Insurance Program Schematic



- Package Layer is \$900,000 excess of \$100,000 Self Insured Retention
- Depending on option selected, 7.5% or 10% (minimum \$1 million) Deductible applies to Named Windstorm

# Clay County School District

## Renewal Report

### Boiler and Machinery (B&M)

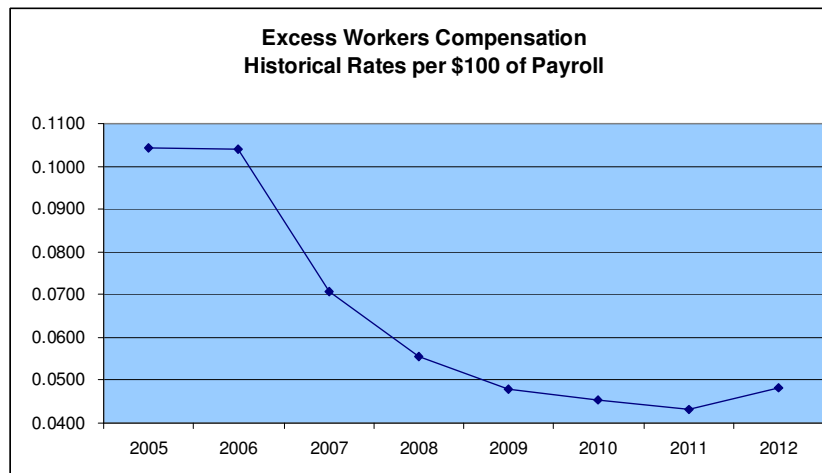
Coverage remains the same as expiring, and since the replacement values have been reduced, the premium is slightly lower than expiring.

- **Renewal Premium: \$13,720**

### Excess Workers Compensation

Clay County School District has been with its current excess workers compensation underwriter since 2009. Initially the District selected Star Insurance Company (and its predecessor) because they offered a very competitive premium. And, during the time that Star has been the District's carrier, they have continued to renew at very competitive rates (as illustrated below). Due to the changing market, Star has quoted this year's renewal with an 11% rate increase. For this reason, we have contacted four other carriers who write this type of coverage, and can confirm that Star's rate continues to be very competitive.

	2005	2006	2007	2008	2009	2010	2011	2012
Payroll (\$Millions)	\$129.9	\$144.0	\$178.3	\$188.0	\$175.1	\$191.7	\$185.5	\$187.7
Premium	\$135,607	\$149,583	\$126,035	\$104,210	\$83,661	\$87,187	\$80,321	\$90,456
Rate / \$100 of payroll	0.1044	0.1039	0.0707	0.0554	0.0478	0.0455	0.0433	0.0482



- \$500,000 Self-Insured Retention (to be eroded by the \$250,000 package buffer layer)
- Statutory Workers Compensation and \$1,000,000 Employers Liability Coverage
- **Renewal Premium: \$90,456**

# Clay County School District



## Renewal Report

### Crime

- Crime coverage is provided by Hartford Insurance Company
- Limits and deductibles are as follows (same as expiring):

Coverage	Limit	Deductible
Public Employee Blanket Bond	\$100,000	\$5,000
Theft, Disappearance and Destruction – Money, Securities, and other Property	\$25,000	\$5,000

- Includes Faithful Performance of Duties
- **Renewal premium remains \$2,382**

### School Leaders Errors & Omissions and Employment Practices Liability

- Coverage is provided by National Union Fire Insurance Co.
- The limit of insurance is \$1,000,000 with a \$50,000 deductible
- **Renewal Premium: \$34,575**

### Storage Tank Liability

- Coverage is provided by Commerce & Industry Insurance Co.
- Limits provided are \$1,000,000 per Occurrence/\$1,000,000 Aggregate.
- Subject to a \$10,000 deductible
- Coverage is for scheduled tanks at scheduled locations only, to meet statutory requirements.
- **Renewal Premium: \$3,157**

# Clay County School District



## Options and Cost Summary

Premiums	2011-2012	2012-2013	
	Expiring	Option I	Option II
		Renew as expiring 7.5% Named Storm Deductible (min \$1M)	Renew with 10% Named Storm Deductible (min \$1M)
London Package	\$ 395,000.00	\$ 395,000.00	\$ 390,000.00
Excess Property	\$ 830,250.00	\$ 830,250.00	\$ 807,250.00
Excess WC	\$ 80,321.00	\$ 90,456.00	\$ 90,456.00
B&M	\$ 16,216.00	\$ 13,720.00	\$ 13,720.00
E&O	\$ 32,646.00	\$ 34,575.00	\$ 34,575.00
Storage Tank	\$ 3,853.00	\$ 3,157.00	\$ 3,157.00
Crime	\$ 2,382.00	\$ 2,382.00	\$ 2,382.00
Total Cost before fees	\$ 1,360,668.00	\$ 1,369,540.00	\$ 1,341,540.00
Florida Surcharges/ FEMA Fees	\$ 24.00	\$ 24.00	\$ 24.00
Admitted Surcharges	\$ 235.13	\$ 658.81	\$ 658.81
Citizens Assessment	\$ 17,153.50	\$ 12,252.50	\$ 11,972.50
FHCFEA Assessment	\$ 16,644.51	\$ 15,928.25	\$ 15,564.25
FIGA (0.8%)	\$ 729.98	\$ 342.91	\$ 342.91
AJG Risk Management Fee	\$ 60,000.00	\$ 60,000.00	\$ 60,000.00
	<b>\$ 1,455,455.12</b>	<b>\$ 1,458,746.47</b>	<b>\$ 1,430,102.47</b>

- Above premiums do not include Optional TRIA Terrorism coverage.



## Notes of Importance

- Subject to:
  - Signed statement of values
  - Signed package application
  - Signed TRIA Terrorism forms.
  - Original signed storage tank application
  - Inspection and compliance with recommendations deemed essential by property underwriters.

## Recommended Coverages

Following are coverages that we encourage you to consider in order to enhance the School District's insurance program. Please let us know if you would like to discuss any or all of these coverages further, if you would like for us to obtain additional quotes, or if you have additional concerns that we have not addressed herein.

- NFIP Flood Insurance for Shadowlawn Elementary (now shown to be in Zone A)
- Higher windstorm limit.
- Higher non-named windstorm limit (for locations valued over \$51 million).
- Terrorism (standalone options available upon request).
- Abuse & Molestation
- Network Security (Cyber Risk and Privacy Liability).

## Conclusion / Recommendations

Considering the challenging market, we are very pleased with the favorable results that we have been able to obtain for this year's renewal. And, we credit the District's staff with undertaking the diligence necessary to help make this year's favorable renewal a reality. Renewing based on Option I will maintain the same program as expiring for a total cost that is close to that of the expiring program. Selecting Option II will yield some premium savings, in exchange for the District taking on some additional risk.

We continue to recommend that the District consider increasing the Non-named Windstorm, and/or the "All Other Perils" limit, particularly for the higher-valued locations. We would also like to continue the dialogue about setting up a "TULIP" program for the District, which we believe will provide a great benefit for the community, and may not generate any costs to the District (further discussion on the next page).

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.

# Clay County School District

## Facilities and Grounds Use / TULIP Discussion

Clay County School District is self insured for most of its losses. When a third party holds an event at a District facility, this creates potential liability, outside of the District's normal scope of operations. Losses that occur at these events must be handled by the District's staff or its Third Party Administrator, and can result in payments made to claimants; all of which comes at a direct cost to the District. Therefore, as is a common practice among facilities owners, the District requires that facilities and grounds users maintain liability insurance, and name the District as an Additional Insured on such policies.

If the facility user is an established business, it should be readily able to evidence the necessary insurance. However, if the user is a less formal organization, it could be cost prohibitive for the user to obtain the required insurance for what could be a one-time event. For this reason, we have suggested establishing a Tenant User Liability Insurance Program (TULIP) for the District.

Subject to underwriting approval, TULIP is a "turn-key" solution where prospective facilities users log onto a website where they can price and purchase the insurance necessary to comply with the TULIP sponsor's requirements. Once a user purchases coverage, using their credit card, the TULIP provider automatically forwards evidence of insurance to the sponsoring organization (e.g. the District), thus ensuring that the user has secured the required coverage, and allowing them to comply with the organization's requirements. Pros and cons of this approach, include:

Pros	Cons
<ul style="list-style-type: none"> <li>• Cost effective</li> <li>• Certainty as to coverage, and limits</li> <li>• Staff does not need to explain coverage or review insurance documents</li> <li>• Evidence come directly to TULIP sponsor, no need to request and follow up</li> <li>• No cost to the sponsor (subject to approval)</li> </ul>	<ul style="list-style-type: none"> <li>• Not for all types of events</li> <li>• Some events will require underwriting approval, and some will be excluded</li> <li>• Notable exclusions for athletic participants*, carnivals, certain types concerts, cycle events, fireworks, skateboarding, swimming and pool facilities, et. al.</li> </ul>

\*TULIP is not intended to cover athletic participants. It is suggested that athletic events be allowed based on District-determined guidelines, and that the facility or grounds user provide Sports Accident Insurance to cover participant injuries.

### **Hypothetical cost to facilities users (not including optional coverages and surcharges) for recent one-day-event examples (premiums are for discussion purposes only, they are non-bindable)**

Event	No. of Attendees	Premium
Political town hall meeting	100 attendees	\$75
Ballet recital	125 (100 attendees, 25 dancers)	\$75
Amateur wrestling	125 (100 attendees, 25 participants)	\$200
Memorial service	100 attendees	\$75
5K run to benefit charity	300 (200 participants, 100 spectators)	\$200

(optional coverages include Third Party Property Damage and Terrorism)

The above are cited as examples only. Individual events may be subject to underwriting approval, and coverage may not be available. This is not intended to be an exhaustive discussion of all potential exposures, types of insurance, and other risk management techniques that are available.