



Arthur J. Gallagher Risk Management Services, Inc.

CLAY COUNTY SCHOOL DISTRICT

Property & Casualty Insurance Renewal Executive Summary

for
June 30, 2013 to June 30, 2014

Presented by:

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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 4th 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 13,000 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
- 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
- Miami-Dade County School District
- State of Florida
- 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
- Lafayette County School District
- Suwannee County School District
- 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.

Last year we worked closely with the District's Business Affairs, Code Enforcement, and Facility Planning & Construction departments to recode the report of locations to current industry standards. This team effort **resulted in a reduction of more than 35% in the District's modeled loss projection (a very strong result), and continues to help us obtain the most favorable property insurance pricing and terms available.**

This year we were met with a challenging market for Excess Workers Compensation insurance and School Leaders Liability insurance. We have therefore worked diligently to ensure that the District is receiving the best coverage terms and pricing available.

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 and advising on contracts and third party insurance.
- Loss Control and Claims Advocacy Services, which are available
- Placing the TULIP program. This has become a valuable service to the community, and has resulted in cost savings to local citizens, while helping the District to manage its liability exposure.
- Finding creative ways to minimize costs while maximizing the protection that the District receives.

Clay County School District

EXECUTIVE SUMMARY (continued)

Marketplace Status as of June 2013

Property Insurance – Firming, but not hardening

The last 15 months can be characterized as a transitional period in the property insurance market. Although no major property loss events occurred in Florida in 2011, rates crept up in 2012 due to the prior year's global catastrophes, and the introduction of RMS 11 modeling software. This resulted in 2012 being a profitable year for most property insurers. Superstorm Sandy caused an estimated \$25 to \$30 billion in insured losses, but this has not had a direct effect on Florida property insurance. The general consensus is that Sandy will force insurers to reevaluate their flood and storm-surge exposure in the Northeast.

Notwithstanding the recent positive underwriting results in Florida, due to the investment climate, the overriding factor affecting rates *for all lines of coverage* is a move away from cash flow underwriting, and toward earning an underwriting profit.

Excess Workers Compensation – Market remains volatile

We continue to see significant tightening in the excess workers compensation insurance market, as industry losses have been catching up to the soft market premiums of recent years. This is reflected in industry combined ratios which have exceeded 100% (and which have little to no investment income to make up the difference). Some of the symptoms:

- In 2010, Chartis announced that it would exit the excess workers compensation market entirely.
- Recently Liberty Mutual has virtually exited the market
- Several carriers implemented large rate increases (up to 35%). In many cases this made them uncompetitive, and revealed that they preferred to lose accounts, than continue to provide coverage at existing rates.
- Carriers have had their ratings threatened

Schools Leaders Errors & Omissions – Market hardening

As we approached the renewal this year, National Union (part of AIG) advised us that they are re-examining their School Leaders Liability Insurance portfolio in light of the overall book's claims experience. AIG advises that their overall book has been priced at about 30% of the actuarially-derived level, and that this has become evident as their losses have exceeded the amount of premium collected. Accordingly, AIG is repricing their entire book of business as follows:

1. Accounts with no losses over an extended period of time (8 to 10 years) are receiving rate increases of 20% or more.
2. Accounts with a few manageable losses are receiving up to a 40% rate increase.
3. Accounts with unacceptable loss experience, if they continue to be renewed, are receiving rate increases of up to 65%.

Based on its loss history, Clay County School District falls into the second category. However, it is important to note that National Union is an admitted carrier, and that their rates are filed with, and approved by the State of Florida, and program sustainability is a major consideration.

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):** Each year we analyze the School District's property schedule, in terms of wind exposure using the RMS and AIR models. This year the models remain consistent with last year in projecting a PML in the \$25 to \$50 million range. Thanks to the efforts of District Staff, the significant reduction in the RMS loss projection continues to help us in negotiate a very favorable property renewal.
- 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.

2013 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	\$52,618,621	\$19,810,540	\$109,374,546	\$86,688,791
0.20%	500	\$37,518,818	\$13,544,416	\$81,259,742	\$62,075,201
0.40%	250	\$25,727,787	\$10,510,906	\$55,680,995	\$39,710,476
1.00%	100	\$11,157,978	\$2,613,397	\$28,130,046	\$14,965,657
2.00%	50	\$5,937,403	\$865,306	\$13,492,931	\$1,220,971
5.00%	20	\$1,671,926	\$130,630	\$3,186,522	\$0
AAL		\$539,700	\$155,488	\$1,115,435	\$521,872

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

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	\$69 million
Orange Park Sr. High	\$61 million
Middleburg Sr. High	\$58 million
Ridgeview Sr. High	\$52 million



EXECUTIVE SUMMARY (continued)

Exposure Changes Since Last Year

Exposure	2012 - 2013	Projected 2013 - 2014	% Δ
Total Insured Values (TIV)	\$1,071,388,873	\$1,046,329,082	-2.34%
Total Vehicles	510	510	0.00%
Total Payroll	\$187,667,129	\$192,612,291	2.64%
GOE	\$240,784,958	\$242,468,366	0.70%
Student Count	35,777	34,781	-2.78%
Employee Count	4,842	4,880	0.78%

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 2013 renewal was to maintain stability in the program within existing premium levels, broaden coverage, and obtain premium reducing options.

Results and major options obtained for Clay County School District include:

- An option to renew the overall program at a 2% reduction in cost, which is about \$24,000 in savings.
- An option to change the School Leaders Liability insurance limit, to match the in-state Liability limits, as well as add Abuse coverage. This will reduce the District's costs by an additional \$15,000.
- An option to change the School Leaders Liability policy to a new carrier, for additional savings.

Clay County School District



Market Review

We have approached the following carriers in an effort to obtain the most comprehensive and cost effective insurance program.

CARRIER	LINE OF COVERAGE	CARRIER POSITION
Certain Underwriters at Lloyd's	Package	Quoted
Munich Re	Package	Non Bindable Indication \$480,000
New York Marine	Excess Workers Compensation	Pending Response
ACE USA	Excess Workers Compensation	Declined- Does not meet Minimum Premium
Safety National Insurance Co	Excess Workers Compensation	Pending Response
Arch Insurance Company	Excess Workers Compensation	Declined- Unable to compete
Star Insurance Company	Excess Workers Compensation	Quoted
National Union Fire Insurance Company of Pittsburgh, Pa.	School Leader E&O	Quoted
Hiscox, Inc	School Leader E&O	Declined- Loss History does not meet underwriting guidelines
Landmark American	School Leader E&O	Non bindable indication- \$78K to \$85K with \$150K retention
Darwin	School Leader E&O	No response
Colony	School Leader E&O	No response
Scottsdale	School Leader E&O	No response
Chubb	School Leader E&O	No response
Western World	School Leader E&O	No response
ACE American	School Leader E&O	Non bindable indication with \$150K EPL SIR
Commerce and Industry Insurance Company	Storage Tank Liability	Quoted
Zurich American Insurance Company	Boiler & Machinery	Quoted
Hartford Steam Boiler Insp.	Boiler & Machinery	Non bindable Indication
Hartford Fire Insurance Company	Crime	Quoted
Westchester Surplus Lines Insurance Company	Property	Quoted
Allied World Assurance Company, Ltd	Property	Quoted
Alterra Excess & Surplus Insurance Co	Property	Quoted
Maiden Specialty Insurance Company	Property	Quoted
Landmark American Insurance Company	Property	Quoted
Liberty Surplus Ins. Co.	Property	Quoted

Clay County School District



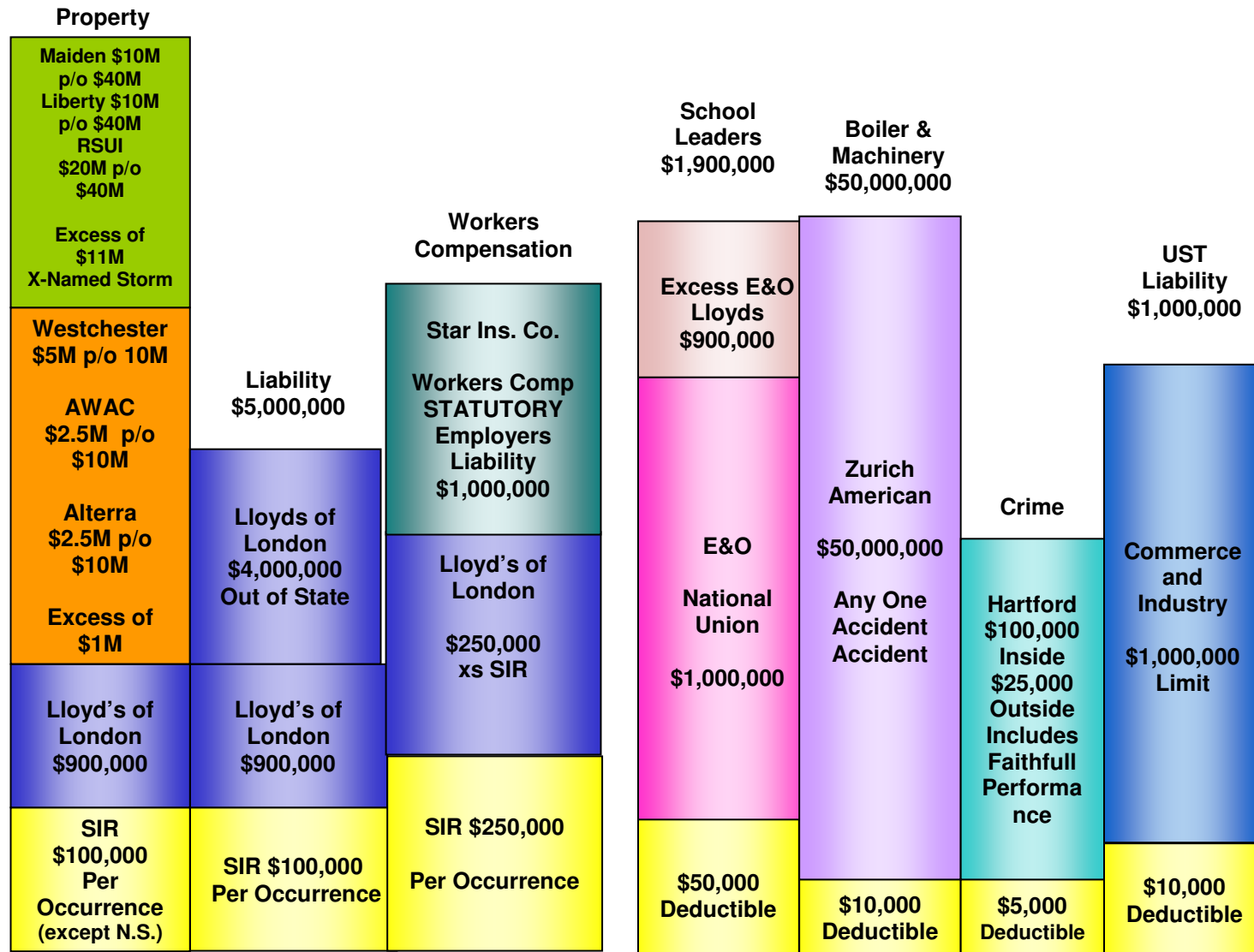
Market Review (continued)

CARRIER	LINE OF COVERAGE	CARRIER POSITION
General Security Indemnity Co.	Property	Non bindable indication- \$10m xs primary at \$725k layer premium
Aspen Specialty Insurance Co.	Property	Primary/Excess Market. Capacity filled, awaiting formal response.
Axis Surplus Ins. Co.	Property	Indicated interest in a quota share layer, capacity filled.
United National Ins. Co.	Property	Unable to entertain due to size of TIV
Essex Ins. Co.	Property	Merged with Alterra so unable to quote since Alterra is already on the program.
Great American Insurance Co. of NY	Property	Cannot entertain including wind peril.
Hiscox Inc. on behalf of certain Underwriters at Lloyd's of London	Property	Uncompetitive pricing
Ironshore Specialty Ins. Co.	Property	Non bindable indication-\$3.3m part \$10m xs primary at currently quoted pricing
Torus Specialty Ins. Co.	Property	Not actively quoting wind exposed accounts
Lexington Insurance Com	Property	Primary Market. Capacity filled, awaiting formal response.
Colony Insurance Co.	Property	Capacity filled, awaiting formal response.
Lloyds of London	Property	Indicated interest in a quota share layer, capacity filled
Maxum Indemnity Com.	Property	Capacity filled, awaiting formal response.
Westport Insurance Corp	Property	Primary/Buffer Market. Capacity filled, awaiting formal response.
Travelers Indemnity Com	Property	Possibly entertain x-wind coverage
Indian Harbor Insurance Company	Property	Indicated interest in a quota share layer, capacity filled
Homeland Insurance Co.	Property	Cannot entertain including wind peril.
Arch Specialty Ins. Co.	Property	Primary/Excess Market Capacity filled, awaiting formal response.
Certain Underwriters at Lloyds (AmRisc)	Property	Indicated interest in a quota share layer, capacity filled
Columbia Casualty Com.	Property	Capacity filled, awaiting formal response.
James River Ins. Co.	Property	Excess market, capacity filled

Clay County School District

2013-2014 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. The team effort that we began last year, and District staff's diligence in maintaining its statement of values is continuing to pay dividends, and this year we were able to obtain an additional reduction in the District's property insurance premium. In addition, we have obtained options to further reduce costs, while enhancing the District's insurance program.

School Board Package

- Foundation for the District's Self-Insurance program, providing property, liability, workers compensation coverages, and optionally, Educators Legal Liability.
- We are presenting two options for the package renewal:
 1. Renew as expiring, with no change in pricing
 2. Reduce the excess School Leaders Liability limit, to match the District's in-state casualty limit, and add Abuse coverage. This will reduce the premium by \$15,000.
- **Renewal Premium: \$390,000 (Option 2 Premium: \$375,000)**

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

Excess Property Insurance Program

The Excess Property Insurance program provides \$50 million of coverage (\$10 million of Named Windstorm coverage) in excess of \$1 million of coverage provided by the package. We are happy to report that we have been able to obtain a premium reduction of \$54,000 on this coverage. This is due to the District's assistance, in partnership with the Gallagher team, as well as our negotiations in the market, and maintaining a competitive environment.

Master Property Insurance Program Premium Options

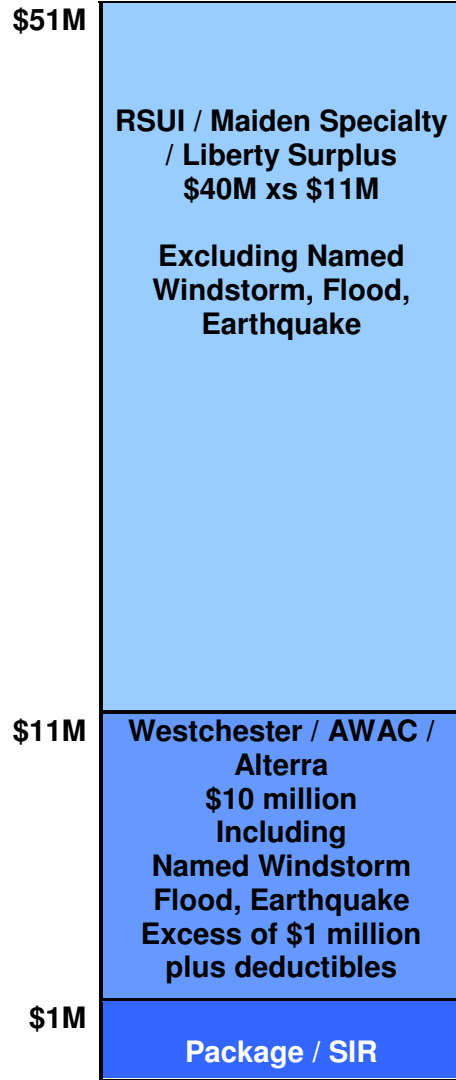
	2012	2013
Loss Limit	\$50,000,000	\$50,000,000
Named Storm Sublimit	\$10,000,000	\$10,000,000
Named Storm Deductible	10% / \$1,000,000 minimum	10% / \$1,000,000 minimum
Premium	\$807,250	\$753,256
% Premium Change		-6.69%

- 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.
- An option for reducing the named storm deductible on the package and excess property program is available; please let us know if you would like to discuss this further.



Renewal Report

Excess Property Insurance Program Schematic



- Package Layer is \$900,000 excess of \$100,000 Self Insured Retention
- 10% (minimum \$1 million) deductible applies to Named Windstorm

Clay County School District

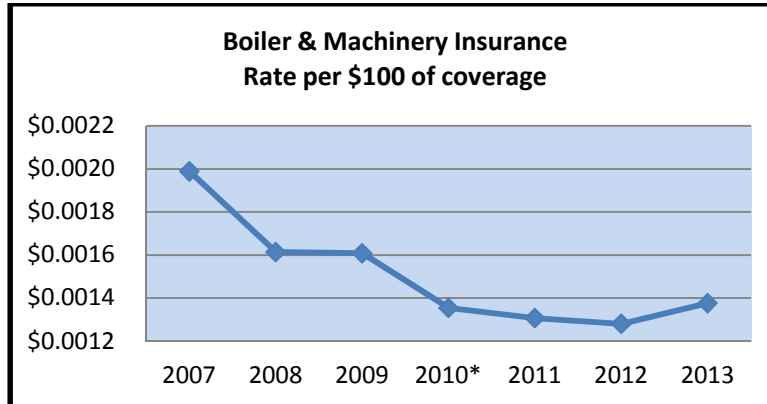


Renewal Report

Boiler and Machinery (B&M)

Coverage is provided by Zurich, and remains the same as expiring. However, the rate has increased by 5%. There may be an option to move this coverage to another carrier, and reduce the premium slightly. However, we have seen the responsiveness of Zurich claims department in action, and we do not recommend moving this coverage away from them.

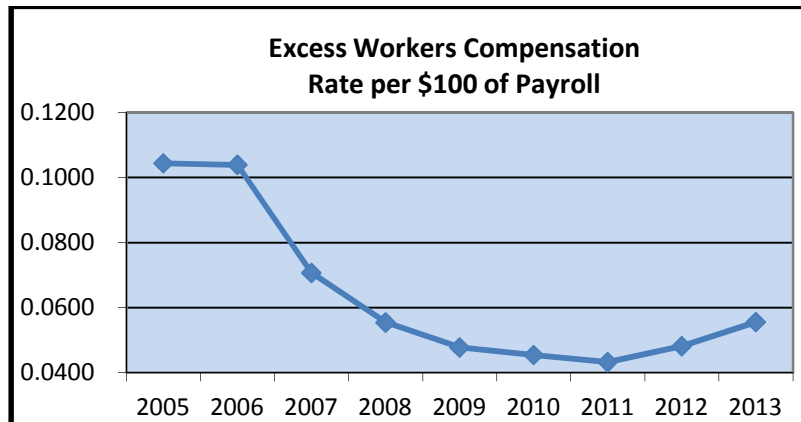
- **Renewal Premium: \$14,403**



*deductible increased

Excess Workers Compensation

As discussed above, the excess workers compensation market has been tightening over the last two years, and it is not uncommon to see rate increases of over 30% year-over-year. Although the District's rate for this coverage has increased by about 15% this year, this pricing continues to remain historically low. This is considered to be a positive result in the current market, and it indicates that the carrier values the District's continued business. We have also marketed this program to other insurers, and have not found any who will offer a competing quote, further validating this renewal pricing.



- \$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: \$107,092**

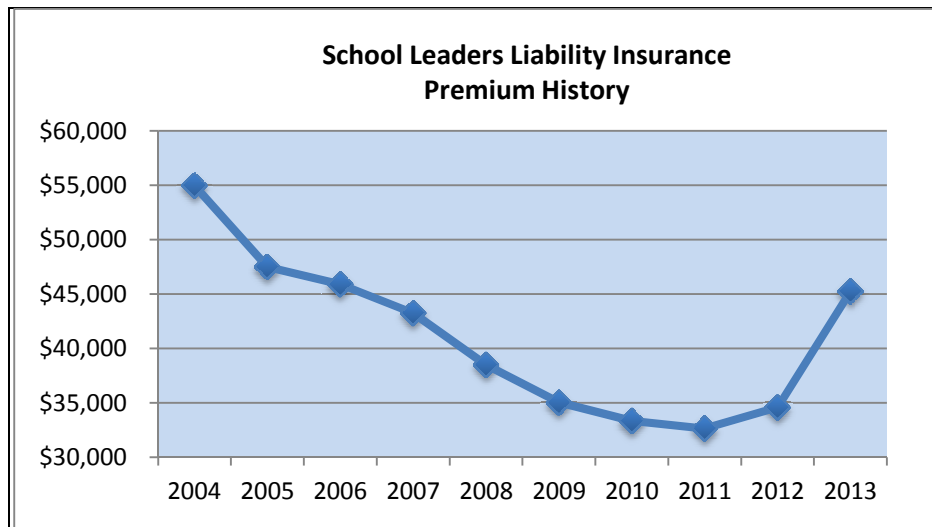


Renewal Report

School Leaders and Employment Practices Liability

As discussed above, the School Leaders Professional Liability Insurance market is experiencing difficulties, and the premium for this coverage has increased by about \$10,000. While this results in a 30% rate increase, it is notable that the District's pricing has been very favorable for the last few years (as illustrated below). We have done extensive marketing of this program, and find that the pricing and coverage remain very competitive, but there is an alternative to discuss.

- Coverage is provided by National Union Fire Insurance Co.
- The limit of insurance is \$1,000,000 with a \$50,000 deductible
- **Renewal Premium: \$45,268**
- **Alternative option with Western World is available, and warrants consideration**



Crime

- Crime coverage is provided by Hartford Insurance Company
- Limits and deductibles are as follows (same as expiring):
 - Public Employee Blanket Bond: \$100,000 limit, \$5,000 deductible
 - Theft, Disappearance, and Destruction of Money, Security, and Other Property: \$25,000, \$5,000 deductible
 - Includes Faithful Performance of Duties
- **Renewal premium: \$2,382**

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: \$3,275**

Clay County School District



Options and Cost Summary

Premiums	2012 - 2013	2013 - 2014		2013 - 2014	
		Option I Renew as Expiring	% Change	Option II Remove excess School Leaders and add Abuse coverage	% Change
London Package	\$ 390,000.00	\$ 390,000.00	0.00%	\$ 375,000.00	-3.85%
Excess Property	\$ 807,250.00	\$ 753,256.00	-6.69%	\$ 753,256.00	-6.69%
Excess WC	\$ 90,456.00	\$ 107,092.00	18.39%	\$ 107,092.00	18.39%
B&M	\$ 13,720.00	\$ 14,403.00	4.98%	\$ 14,403.00	4.98%
School Leaders	\$ 34,575.00	\$ 45,268.00	30.93%	\$ 45,268.00	NA
Storage Tank	\$ 3,157.00	\$ 3,275.00	3.74%	\$ 3,275.00	3.74%
Crime	\$ 2,382.00	\$ 2,382.00	0.00%	\$ 2,382.00	0.00%
Total Cost before fees	\$ 1,341,540.00	\$ 1,315,676.00	-1.93%	\$ 1,300,676.00	-3.05%
Florida Surcharges/ FEMA Fees	\$ 24.00	\$ 28.00	16.67%	\$ 28.00	16.67%
Admitted Surcharges	\$ 658.81	\$ 108.02	-83.60%	\$ 108.02	-83.60%
Citizens Assessment	\$ 11,972.50	\$ 11,432.56	-4.51%	\$ 11,282.56	-5.76%
FHCFEA Assessment	\$ 15,564.25	\$ 15,711.60	0.95%	\$ 15,516.59	-0.31%
FIGA (0.8%)	\$ 342.91	\$ -	-100.00%	\$ -	-100.00%
AJG Risk Management Fee	\$ 60,000.00	\$ 60,000.00	0.00%	\$ 60,000.00	0.00%
	\$ 1,430,102.47	\$ 1,402,956.18	-1.90%	\$ 1,387,611.17	-2.97%

Notes:

- Additional Option: Select Western World School Leaders Liability for approximate premium savings of \$8,000. Please see program comparison on the last page of this summary.
- 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 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.

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

Conclusion / Recommendations

Considering the continuing challenges in the market, we are very pleased with the results that we have been able to obtain for this year's renewal. While some lines of coverages have increased in cost, for reasons outside of anyone's control, we have been able negotiate some options that represent significant cost savings as well as broadening of coverage.

Renewing based on Option I will result in a premium savings of \$27,000 while maintaining the same coverages in place. In addition, renewing based on Option II will result in savings of more than \$40,000, and provide additional valuable coverage. Additional premium savings of about \$8,000 can be obtained by selecting a new insurer for School Leaders Liability insurance, and this may be something to consider as well.

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. And please let us know if there are any other coverages or exposures you would like to discuss.

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.



Appendix: School Leaders Policy Comparison

Carrier / Policy Information	National Union	Western World
A. M. Best Rating	A XV	A+ IX
FL Authorization Status	Admitted	Non-Admitted
FIGA Participation	Participates	Does not participate
Policy Form	School Leaders	Modified Not-for-Profit D&O
Coverage Trigger	Claims Made and Reported within 30 days of expiration	Claims Made and Reported within 60 days of expiration
Domestic Partner	Recognized	Recognized
Limits		
Aggregate Limit	\$1,000,000	\$1,000,000
Crisis Management sublimit	\$25,000	\$25,000
Defense Provisions		
Defense Expense	Outside of Limit	\$1,000,000 sidecar, then erodes limit
Defense Expense for Non-Monetary Demands	Included	\$100,000
Defense Expense for Corporal Punishment	Covered, if successful	\$100,000, if successful
Choice of Counsel	Included	Included, with lower fee allowances
Softened Hammer	N/A	50/50
Claims Expense Aggregates		
IEP Hearing	\$100,000	Included
Desegregation	\$100,000	\$100,000
Breach of Contract	\$100,000	\$100,000
Breach of Fiduciary Duty	\$25,000	\$25,000
Retention/Deductibles		
Each Wrongful Act	\$50,000	\$50,000
Each Employment Practice	\$50,000	\$50,000
Each IEP Hearing	\$25,000	\$50,000
Premium*	\$45,268	\$37,203

* Subject to additional state surcharges, and favorable review of additional information.