

**INSURANCE ADVISORY BOARD  
100 NORTH ANDREWS AVENUE  
8<sup>TH</sup> FLOOR CONFERENCE ROOM  
FORT LAUDERDALE, FL 33301  
WEDNESDAY, FEBRUARY 2, 2011 – 8:00 a.m.**

<b>MEMBERS</b>	<b>ATTENDANCE</b>	<b>CUMULATIVE 1/11 – 12/11</b>	
		<b>PRESENT</b>	<b>ABSENT</b>
Joseph Cobo, Chair	P	1	1
Mark Schwartz, Vice Chair	P	2	0
Joe Piechura, Sr.	P	2	0
Jim Drake	P	2	0
Charles Grimsley	P	2	0
Steve Botkin	A	1	1
Jonathan Macy	P	2	0

As of this date there were 7 appointed members to the Board, which means that 4 would constitute a quorum.

**Staff**

Guy Hine, Risk Manager  
Matthew Cobb, Risk Management Coordinator  
Mike Walker, Procurement & Contracts Manager  
Alan Florez, Vice President, PRIA

**1. Roll Call**

Chair Cobo called the meeting to order at 8:08 am

**2. Approval of Minutes of January 5, 2011**

**Motion** by Mr. Cobo, seconded by Mr. Piechura, to approve the minutes of the January 5, 2011, meeting. In a voice vote, the motion passed unanimously.

**3. Communications to the City Commission**

None.

**4. Unfinished Business**

- **Discussion on and Motion to approve property policy quote**

Mr. Hine reminded the Board that an appraisal was done near the end of the last calendar year, and it was substantially higher, as expected. There were increases in

values and additions to the total insured values. He advised the Board to take that information into consideration as they hear Mr. Florez' presentation.

Mr. Hine commented that they will be going with a "not to exceed" number that will eventually be presented to the City Commission. Mr. Florez will present a few options and then the Board can select the option they want to recommend to the City Commission. After that, Mr. Florez will continue to negotiate the selected option. Continued negotiations should result in the lowering of the premiums currently being indicated.

Mr. Florez referred the Board to the first page of his appraisal overview. The ISO is the construction type, and for ISO 6 they went from 41% of the construction schedule to 76%. That was due to an increase in utilities and an adjustment. There were also some buildings on the Non-Utility side that were changed to ISO 6, and that helped offset one of the negative factors of the appraisal.

Mr. Florez explained that by "amount added," he meant how many buildings were added and what their value was to the schedule. There was a 24% increase in the Non-Utility side, and the majority of that was \$30M for the Fort Lauderdale Stadium. On the Utility side, \$12M was added in new structures (a 6% increase). Adding the additional locations/structures plus the increase in values due to trending, resulted in a jump from \$180M to \$253M on the Non-Utility side (a 40% increase) and from \$199M to \$256M on the Utility side (a 28% increase). The total percentage increase in values was 33%.

Mr. Florez brought the Board's attention to the bottom of the page, where the effect of the appraisal on the overall risk was described. There had been 150 structures insured, and now there are 260. However, the locations only increased by 10.

Mr. Florez then proceeded to explain what the premium would be if the City renewed the existing policies with the new values. He reviewed the amounts the City already paid. For the 2010-2011 policy year, all the insurances - the Non-Utility structure layered program, the Starr-Tech program for Utility, the Zurich boiler machinery and all the flood policies purchased in the last year - total \$2,051,907. Using the current rate, the City would be paying \$2,630,223, a \$578,000 increase (28%). He pointed out that it is a 33% increase in values, but only a 28% increase in rates. The NFIP stays the same, and that explains the 5% difference.

Mr. Florez continued onto the next page regarding wind modeling. He explained the numbers comparing the net loss column and the Occurrence Exceedance Probability (OEP) of 2011 to the OEP of 2010. The net loss category means that this is in consideration of the deductible. For the 500-year storm event and the 250-year storm event, there is a 47% and 48% increase respectively in the OEP. He directed the Board's attention to the section on Drivers for Change, noting that the Downtown Garage, Arts & Sciences garage and the Fort Lauderdale Stadium had a huge negative impact on the modeling.

Mr. Florez clarified that even though there are no losses, the underwriters use the OEP as a guide. He said that the City continues to be covered adequately relative to standards for those of like size and scope, as it is insured well over the 250-year storm event.

He expanded on the Drivers for Change, pointing out the impact of the AAL's (average annual loss) for certain properties. He indicated that the Downtown Garage went from \$158,000 to \$204,000, the Arts & Sciences garage went from \$40,000 to \$201,000, and Fort Lauderdale Stadium was not on the schedule for 2010. Because of the three locations, it went up by \$445,000. Consequently, this year's AAL increased by approximately \$500,000.

Mr. Florez noted that their modeling would improve if the stadium was not insured, because open structures do not model well.

Mr. Hine noted that the City Commission is considering a water park in the area of the stadium. If that plan materializes, the idea is to have the water park insure the stadium. No matter how detrimental the Fort Lauderdale Stadium is in terms of premiums, the City does have to insure it, as it has no other coverage. If they did not have the stadium, it would be a negotiating point in the City's favor.

Mr. Florez then moved to the last page of his handout which detailed the options:

- Option One. This is the status quo: \$2,630,000 if the rate remains the same. It includes a 5% negotiated rate reduction, and is the "not to exceed" number. Currently the "not to exceed" is \$2,542,658. Instead of a 28% increase, this option would provide a 24% increase over last year. For a 33% increase in value, there is a 24% increase in premium based on the reduced rate.
- Option Two. All terms and conditions would stay the same, except the deductible. The deductible would stay the same on the Non-Utility portion of the program, but the \$2.5M flat deductible on the Utility portion would be accepted. This would save approximately \$80,000 (total premium \$2,459,442).
- Option Three. This would put a \$5M flat deductible on both programs, instead of the current 5% deductible. That option would reduce the premium to \$2,199,027 (a 33% increase in value, and 7% increase in premium based on the reduced rate).
- Option Four. This option has a \$5M flat deductible only on the Utility, and keeps the 5% deductible on the Non-Utility (City Hall, police stations and so forth). This option would increase the premium by 14%, for a cost of \$2,347,942.

Mr. Florez remarked that each option is on the higher end of the indication from Starr-Tech. He was provided with a range from Starr-Tech, but had to choose the higher end, as Starr-Tech said they would not exceed an additional 5%. He noted it is likely that they will get the Starr-Tech portion down another 5%. In addition, he said they still have a lot of negotiating on the Non-Utility side.

Vice Chair Schwartz asked a question about how much the City had already paid in 2010, and Mr. Florez said it was \$2,050,000. The aggregate wind deductible on the Non-Utility was 5% per building. The Non-Utility values total \$250M, so 5% on that would be \$12.5M.

Mr. Florez cautioned the Board about using the term "wind resistant." There are many buildings in ISO 6 that are Utility, and that might mislead the public.

Mr. Hine noted that the issue will be brought to the City Commission at their first meeting in March. He said that the cost of each one of the presented four options is likely to decrease to a degree. He said they would like the Board to give them feedback on which option they recommend.

Mr. Hine noted that over the past couple of years, the City (Risk) has been able to build up a surplus of approximately \$7.5M in the 543 Fund. The City (Risk) is cutting back on the charges to the different departments because of decreases in expenses (claims, insurance premiums and operations).

Vice Chair Schwartz said if they go with Option Three, they should not be overly concerned about the utilities, because they feel they are well built. But in the non-utilities, the worst case scenario would be the \$5M deductible.

Mr. Hine noted that in Hurricane Wilma, there were 11 or 12 structures that were damaged beyond the deductible. Four or five of those were Parks and Recreation Buildings, and two were Fire Stations. Historically speaking, the exposure is not with the utilities.

Vice Chair Schwartz added that with Option Three, the City would still be ultimately reducing the exposure on the Non-Utility by more than twice. He was curious about the net effect of the money collected from FM Global (for Hurricane Wilma) and was informed it was \$1.6M.

For the next meeting, Mr. Florez recommended running the Wilma scenario through each of the options, or the option they select. If there were 10 structures in that \$1.6M loss, and FM Global paid \$1.6M over each \$100,000 deductible paid, that would be \$2.6M that the City would no longer get. At least last time the City got \$1.6M. Under Option Four, they would have a better chance of collecting \$1M under that scenario, whereas under Option Three they could potentially lose \$2.6M.

There was a discussion about saving money by insuring (reasonably) for a big storm event, since it is unknown if (and when) they would have a big storm. If the money saved could be put back in a fund, then if there is a big storm, they would have enough money in a "property fund."

Mr. Grimsley noted that the City did not suffer much of a loss in Hurricane Wilma. Even considering the increase in values, it was felt that that the City would not incur a big loss now if they had a Class 2 hurricane. A larger storm would incur significant damage, however.

Mr. Hine informed the Board that they budgeted \$2.5M (for this year's property policy purchase), as in previous years.

Mr. Florez reminded the Board that since they have only negotiated for seven working days, they did not want to be confined to only one option when they are still at the very early stages. It was suggested that the motion allow for continuing negotiation.

Mr. Hine noted that the premium cost is undoubtedly a consideration; however, they need to also consider the possibility of a large storm event, and what the City's exposure would be.

Mr. Florez pointed out that the exposure under Option Three is \$10M (\$5M for Utility and \$5M for Non-Utility), and \$5M on the Utility plus 5% on the Non-Utility under Option Four.

Mr. Grimsley suggested recommending Option Three to the City Commission, but stating that Option Four was a backup if the City Commission felt uncomfortable with the added risks of Option Three.

Mr. Walker pointed out that other Boards have taken similar actions.

**Motion** by Mr. Grimsley, seconded by Mr. Piechura, that the Insurance Advisory Board recommends Option Three as our primary recommendation, based upon our collective experience and past experience with Hurricane Wilma, but that we also explain to the City Commission the differences between Option Three and Option Four, and advise them that we would recommend Option Four as a secondary possibility dependent upon the City Commission's risk tolerance perceptions. Option Three has a \$5M all-risk combined deductible for both programs, whereas Option Four has a \$5M deductible on the Utility, but a 5% deductible for buildings on the Non-Utilities. In a voice vote, the motion passed unanimously.

There was discussion about the differences between the flat deductible and a percentage.

## **5. New Business**

None.

## **6. Open Discussion – Old/New Business**

Mr. Hine mentioned that the Crime Policy went to the City Commission at their meeting on the previous evening. He said that Mr. Drake and Mr. Peichura also attended the meeting. The City Commission was very pleased with the Board's work, particularly with the \$2,000 reduction in the premium.

Mr. Florez mentioned that Travelers Insurance was very good about working with the City on reducing the premium.

## **7. Schedule Next Meeting – March 2, 2011**

Chair Cobo announced that their next meeting would be March 2, 2011, at 8:00 a.m.

## **8. Adjourn**

**Motion** by Vice Chair Schwartz to adjourn the meeting at 8:50 a.m.

[Minutes prepared by J. Rubin, Prototype, Inc.]