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April 2, 2014

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Human Resources Director  
City of Coral Gables  
Department of Human Resources  
2801 Salzedo Street, 2nd Floor  
Coral Gables, Florida 33134

Subject: City of Coral Gables  
Siver Summary and Recommendation  
Commercial Property and Casualty Insurance Program

Dear Ms. Jaramillo-Velez:

At the request of the City of Coral Gables, Florida ("the City"), Siver Insurance Consultants ("Siver") has reviewed various renewal options presented to the City by Arthur J. Gallagher and Company ("Gallagher") for renewal of the City's public entity liability insurance package policy ("the Package") and the City's commercial property insurance program ("the Property Program").

As a result of our review of these proposals and additional supporting documentation, we offer the following recommendations and commentary.

## **RECOMMENDATION**

### **Public Entity Package Policy**

Siver recommends that the City accept the Package, including the Excess Liability proposal, from Underwriters at Lloyd's/Brit Syndicate 2987 ("Brit"), as presented by Gallagher. The Public Entity Package policy provides a total limit for the City of \$5,000,000 per occurrence (\$4,650,000 in excess of the City's self-insured retention levels of \$350,000 per occurrence)

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for the liability coverages included in the package.<sup>1</sup> The Workers' Compensation coverage provided by the Package is subject to a limit of \$500,000 for any one accident in excess of a self-insured retention of \$500,000 per occurrence. The premium for this package from Brit, before Florida fees and assessments, is \$750,000.<sup>2</sup>

We also recommend the purchase of the excess workers' compensation proposal from New York Marine and General Insurance Company, which provides statutory limits over the Package's workers' compensation coverage (i.e., excess of \$1,000,000 per occurrence) for a premium (before fees and assessments) of \$188,205.

### **Commercial Property Insurance**

Our recommendation is that the City accept the proposed Property Program to be provided by a combination of Underwriters at Lloyd's ("Lloyd's"), Liberty Insurance Company ("Liberty"), Arch Specialty Insurance Company ("Arch"), Alterra Excess and Surplus Insurance Company ("Alterra"), and Landmark American Insurance Company ("Landmark"), as presented by Gallagher.

The recommended program includes \$25,000,000 of Named Windstorm coverage, \$5,000,000 of flood coverage, and \$213,800,563 of coverage for "all other perils," subject to a deductible of \$50,000 per occurrence, except for the perils of Named Windstorm and flood from Named Windstorms, which are subject to a deductible of 5% of the total insurable value of each building at each damaged location.<sup>3</sup> Flood losses from other than a Named Windstorm are subject to a \$100,000 deductible per occurrence, except for those locations within a special flood hazard area where coverage will be provided in excess of the maximum limits available from the National Flood Insurance Program.

The premium, before Florida fees and assessments, for the recommended Property Program, is \$1,090,558.<sup>4</sup>

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<sup>1</sup> The Public Entity Package includes the City's general liability, automobile liability, public officials' liability, workers' compensation and employer's liability coverages.

<sup>2</sup> While at the time of this letter, we do not have an exact breakdown of the specific fees and assessments applicable to each individual policy, the Gallagher proposal provided the aggregate amount of fees and assessments for all recommended policies (including the excess property) which equals \$35,709.

<sup>3</sup> The Named Storm percentage deductible is subject to a \$250,000 minimum for windstorm damage. For Named Storm related flood, the minimum deductible is \$500,000 for buildings and \$500,000 for contents, which is consistent with the maximum limits available from the National Flood Insurance Program.

<sup>4</sup> The \$1,090,558 property insurance premium includes an additional \$8,384 premium for a stand-alone boiler and machinery insurance which needed to be purchased because that coverage is not included in the Lloyd's property insurance program.

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### **Cyber Liability**

We are also recommending that the City accept the proposal presented from Gallagher for Cyber/Privacy Liability coverage, with the option to increase the limit of liability from \$1,000,000 per claim/aggregate to \$3,000,000 per claim/aggregate from AIG Specialty Insurance Company (“AIG”) for a premium of \$37,333.

### **Miscellaneous Policies**

In addition, we recommend that the City purchase the renewal of the following additional miscellaneous property and casualty policies for which renewal was offered by Gallagher:

<b>Coverage</b>	<b>Insurer</b>	<b>Premium</b>
<b>Accidental Death &amp; Dismemberment – Business Travel</b>	Hartford Life and Accident Insurance Company	\$360
<b>Accidental Death &amp; Dismemberment – Police and Fire</b>	Hartford Life and Accident Insurance Company	\$11,803
<b>Public Official Bond – Finance Director</b>	Hartford Fire Insurance Company	\$1,750
<b>Underground Storage Tank</b>	Commerce and Industry Insurance Company	\$1,639
<b>Excess Crime</b>	Travelers Casualty and Surety Company of America	\$4,518
<b>Sports Liability</b>	National Casualty Insurance Company	\$21,296
<b>Accidental Death and Dismemberment – Amateur Sports</b>	National Casualty Insurance Company	\$16,003
<b>TOTAL PREMIUM</b>		<b>\$57,369</b>

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## DISCUSSION

### **Public Entity Package**

#### *Premium*

Last year, the City purchased its Package Policy from Princeton Excess and Surplus Lines Insurance Company ("PESLIC"). PESLIC provided the \$5,000,000 of coverage using a combination of a primary \$1,000,000 limit policy and an excess policy with a limit of \$4,000,000. The combined premium for the expiring (2013-14) PESLIC Package, including the Excess Liability policy and Excess Workers' Compensation<sup>5</sup> policy was \$1,302,217.

For the 2013/2014 policy year, PESLIC offered to renew the City's Package for a total premium of \$1,309,654. This represents an approximate 0.6% increase from the expiring premiums.

In addition to the PESLIC renewal proposal, Gallagher also brought a competing proposal from Brit for the City's Package coverage. The proposed premium for the recommended Brit program (including excess workers' compensation) was \$938,205, which is \$371,449 or approximately 28.4% less than the proposed renewal from PESLIC.

In summary, a breakdown of the recommended program, compared to the expiring program and the proposed PESLIC renewal, is as follows:

Policy	2013/2014 PESLIC	2014/2015 PESLIC	2014/2015 Brit
<b>Package Policy</b>	\$ 877,495.00	\$ 869,116.00	\$ 750,000.00
<b>Excess Liability</b>	\$ 252,355.00	\$ 252,333.00	
<b>Excess Workers' Comp.</b>	\$ 172,367.00	\$ 188,205.00	\$ 188,205.00
<b>TOTAL</b>	<b>\$ 1,302,217.00</b>	<b>\$ 1,309,654.00</b>	<b>\$ 938,205.00</b>

Our firm was provided copies of the Brit coverage forms from Gallagher to compare to the expiring PESLIC form. While the Brit and PESLIC coverage forms are nearly identical because they are both based on the same basic form, we did identify two areas of coverage concern that related to settlement rights and claims adjusting. We were very pleased to learn

<sup>5</sup> In both the 2013-14 and 2014-15 policy years, the Excess Workers' Compensation portion of the Package is provided by New York Marine and General Insurance Company. However, for the sake of brevity, when discussing the Package, we will refer to the Package insurers as PESLIC and Brit, accordingly.

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that upon further discussions with the Brit underwriters, Gallagher was able to have the two provisions that were of concern removed from the policy.<sup>6</sup>

### **The Property Program**

#### *Background*

The City's Property Program is provided by a combination of insurers which includes Lloyd's, Liberty, Arch, Alterra and Landmark. The Property Program includes \$25,000,000 of coverage for Named Storms and \$5,000,000 of coverage for flood. For perils other than Named Storm, Landmark provides property coverage excess over the first \$25,000,000 up to the City's total insured values of \$213,800,563. The deductible in the City's Property Program is \$50,000 per occurrence, for all perils except for the perils of named windstorm and flood, which are subject to a deductible of 5% of the total insurable values at the damaged location, subject to a minimum of \$250,000 per occurrence.

The total program cost of the City's expiring Property Program (including Boiler and Machinery) is \$1,180,269 before fees and assessments.

#### *Renewal Terms*

Gallagher has offered a renewal proposal to the City on the same terms as the expiring program with all of the same insurers. The proposed renewal premium (including Boiler and Machinery) is \$1,090,558, which represents a reduction in premium of \$89,711 or approximately 7.6%.

#### *Boiler and Machinery*

Similar to last year, Boiler and Machinery/Equipment Breakdown coverage is excluded in the Lloyd's policy. As a result, Gallagher provided a quote for stand-alone Boiler and Machinery/Equipment Breakdown from Travelers Property and Casualty Insurance Company ("Travelers"). The Travelers policy provides \$50,000,000 of Boiler and Machinery/Equipment Breakdown coverage which is a significant increase over the Lexington policy which was subject to a \$35,000,000 sublimit. The premium for the Travelers Boiler and Machinery/Equipment Breakdown is \$8,384, which is included in the total Property premium for the City noted above.

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<sup>6</sup> It is worth noting that there were also several areas of coverage difference noted in which the Brit policy provided superior coverage to PESLIC. Among the most notable of these potentially beneficial coverage differences are a less restrictive pollution exclusion that gave back coverage for pesticide and herbicide application, and a clearer "Separation of Insureds" provision.

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The following chart shows the new participation level of each insurer, compared to the expiring policy.

	<b>2013/2014</b>		<b>2014/2015</b>	
<b>Layer</b>	<b>Insurer</b>	<b>Limit</b>	<b>Insurer</b>	<b>Limit</b>
Primary – Includes Named Storm	Lloyd's	\$10,000,000	Lloyd's	\$10,000,000
1 <sup>st</sup> Excess – Excess of \$10,000,000 Includes Named Storm	Liberty Alterra Arch	\$5,000,000 \$7,000,000 <u>\$3,000,000</u> \$15,000,000	Liberty Alterra Arch	\$7,500,000 \$3,500,000 <u>\$4,000,000</u> \$15,000,000
2 <sup>nd</sup> Excess Excess of \$25,000,000 Excludes Named Storm	Landmark	\$184,201,816	Landmark	\$188,800,563

The chart below is intended to summarize the renewal costs of the total Property Program in comparison to the expiring program.

<b>Policy/Program</b>	<b>2012/2013 Policy Year</b>	<b>2013/2014 Policy Year</b>	<b>Percentage Change</b>
<b>Total Insurable Values</b>	\$209,201,816	\$213,800,563	2.2%
<b>Property Program Premium</b>	\$1,183,106	\$1,090,558	-7.6%
<b>Program Rate (per \$100 of Insurable Value)</b>	0.566	0.510	-7.6%

*Probable Maximum Loss*

In 2013, Gallagher provided catastrophe modeling studies from two different catastrophe modeling software systems (RMS and AIR) for the City's properties. While the City's total values at risk have changed to some extent, in our opinion, the 2013 modeling results are still useful as a guide to determining the reasonableness and appropriateness of the Named Storm limits that the City purchases (i.e., \$25,000,000 per occurrence).

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### RMS Probable Maximum Losses

Using the results of the RMS model (version 11.0), the following probable maximum losses were projected for the City in 2013, both on a “ground up” basis (i.e., total loss with insurance recoveries not considered) and on a “gross loss” (i.e., the portion of the loss predicted to be paid by the insurer after taking into account deductibles), over the following time intervals.

<b>Time Interval</b>	<b>Probable Maximum Loss “Ground Up” (i.e., total loss)</b>	<b>Probable Maximum Loss “Gross Loss” (i.e., net of deductibles)</b>
20	\$3,640,410	\$1,705,274
50	\$11,858,239	\$9,383,682
100	\$20,401,558	\$17,410,086
<b>250</b>	<b>\$34,661,467</b>	<b>\$30,805,326</b>
500	\$47,936,984	\$43,360,357
1,000	\$63,479,990	\$58,066,260

### AIR Probable Maximum Losses

In addition to the results from the modeling software from RMS, in 2013, Gallagher also provided results from the AIR catastrophe modeling software package. As the chart below shows, the AIR model has provided significantly lower probable maximum loss projections for the City in all time intervals than the RMS model’s projections. Unfortunately, while in our opinion, the AIR model is a valuable analytical tool and should prove useful for the City in its own decision-making process, in our experience, only a few insurance companies will consider the results of the AIR model when determining the rates they will charge.

Using the results of the AIR catastrophe model, the following probable maximum losses were projected for the City.

<b>Time Interval</b>	<b>Probable Maximum Loss “Ground Up” (i.e., total loss)</b>	<b>Probable Maximum Loss “Gross Loss” (i.e., net of deductibles)</b>
20	\$2,098,281	\$1,140,075
50	\$7,026,127	\$3,044,818
100	\$12,603,570	\$6,690,750
<b>250</b>	<b>\$21,643,409</b>	<b>\$14,001,249</b>
500	\$27,609,443	\$19,484,237
1,000	\$39,187,538	\$30,082,304

Essentially, the results of both models are intended to represent, for each given time interval, the largest loss the City should expect to suffer from a catastrophic event. In other words,

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with the 100 year loss, this translates into a 1/100 or 1% probability that the City would experience that size loss in a given year. Likewise, the 250 year storm would represent a 1/250 or 0.4% probability that a loss of that size would occur in a given year.

The 250 year storm level is considered by many to be a reasonable amount to use as a benchmarking tool for property insurance purchasing decisions. The City's 250 year "ground up" probable maximum loss was estimated by RMS at \$34,661,467. The City's 250 year "ground up" probable maximum loss was estimated by AIR to be \$21,613,409.

When considering an amount of named storm coverage, it is important to understand that the limit selected applies in excess of the property program's 5% deductible. When looking at the amount of that same loss that is estimated to be collectible under the City's Property Program ("the gross loss"), the projected amount that would be collected from insurance is \$30,805,326 in the 2013 RMS study, which is approximately \$5,000,000 higher than the \$25,000,000 named storm coverage currently maintained by the City. However, it is worth noting that, at the 250 year level, the AIR catastrophe model predicts insured losses significantly lower than the \$25,000,000 limit of insurance at \$14,001,249.

Based on our experience with the limits maintained by other Florida public entities, in our opinion, the City's \$25,000,000 Named Storm coverage is a reasonable amount for the City to purchase. Also, it is worth noting that, for purposes of FEMA eligibility, Gallagher obtains on behalf of the City annually, a certification of the "reasonableness" of the City's property insurance program from the Florida Office of Insurance Regulation.

In any event, while we support the City's purchase decision as being a reasonable decision, it is important for the City to recognize that at the City's current level of Named Storm insurance which the City purchases, there is a foreseeable possibility that actual losses from a major catastrophe could exceed the amount of insurance being purchased.

Of course, as always, we caution the City should not base its entire insurance buying decision on such computer catastrophe models. Typically, our advice is to use such studies as benchmarking tools, which can assist the analysis and decision-making process with respect to named windstorm limits. Regardless of the results of any study, we still often recommend our clients purchase named windstorm limits beyond their 250 year probable maximum loss projections when such coverage is available for a reasonable price. In our opinion, one of the most helpful uses of the catastrophe study is in determining the relative reasonableness of the pricing of a particular coverage, not whether there is a reason to purchase the coverage if reasonably priced.



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## **Cyber Liability**

### *Current Policy*

Last year, the City elected to purchase Cyber Liability insurance from AIG. This policy was the first Cyber Liability policy ever purchased by the City. The current policy provides a \$1,000,000 per claim/aggregate limit for the following coverages:

- Security & Privacy Liability;
- Technology Errors and Omissions;
- Event Management;
- Regulatory Action;
- Media Content Liability
- Cyber Extortion; and
- Business Interruption.

Regulatory Action is subject to a \$250,000 sublimit. Event Management (including notifications, credit monitoring, and ID theft coverage) is subject to a \$250,000 sublimit,<sup>7</sup> and Business Interruption is subject to a \$250,000 sublimit.

The AIG policy is subject to a \$25,000 self-insured retention.

The premium for the expiring AIG policy is \$18,452.

### *Renewal Options*

Gallagher offered three options for the City for the renewal of the Cyber Liability coverage. The first option was to renew with the current \$1,000,000 per claim/aggregate limit for the same premium as expiring (\$18,452).

The second option was to increase the limit of liability to \$3,000,000 per claim/aggregate for a premium of \$37,333, and the third option was to increase the limit to \$5,000,000 per claim/aggregate for a premium of \$49,870.

Due to the City's (and the rest of the world's) continuously growing and evolving exposures to Cyber Liability and other privacy-type claims (see below for more detail), we have recommended that the City purchase the \$3,000,000 limit option presented by Gallagher.

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<sup>7</sup> Event Management coverage also includes coverage for notification, credit monitoring and ID theft for up to 500,000 affected people, outside of the policy limit.

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*Cyber-Liability Coverage and Exposures – In General*

There are a number of evolving first and third party risks which are insured by Cyber Liability insurance. Much of the potential liability which can arise from these risks is not covered by the City's liability insurance program.

Most notable among these types of risks are the following:

- Privacy Concerns – This includes both the wrongful release of confidential personal or medical information of both employees and private citizens.
- Other Cyber-Security Risks – In addition to the release of confidential data, breaches in network security can result in many other types of potential losses including, but not limited to, liability for dissemination of a virus, malware and other malicious computer code, and liability arising from denial of service attacks.
- Cyber Extortion – While closely related to the cyber-security risks above, cyber-extortion is a demand by a party for payment in order to prevent them from carrying out an attack on data, a release of private data or to interrupt or suspend your computer systems. As this type of payment does not arise from "liability" per se, it typically must be addressed and covered separately from the standard Cyber-Liability coverage.
- Technical Services Errors and Omissions – If an entity provides technical support services, software installation services or training services to third parties, they may also incur liability arising from cyber losses suffered by that third party as a result of such services.
- Business Interruption – Business Interruption coverage on standard property insurance policies requires that, in order to be covered, the loss must arise out of a covered loss to property. Therefore, to the extent the City suffers a Business Interruption loss arising from its computer-related activities, there would arguably be no coverage for that loss on the City's property insurance program if there was no damage to covered property.
- Media Content Liability – Losses can arise from the content presented on the web and transmitted over the Internet if copyright, trademark or other intellectual property violations are committed. In addition, liability for defamation can also arise from such content. Many of these types of liability actions are excluded from the City's current liability insurance program.

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In our opinion, Cyber Liability is a valuable and timely addition to the City's portfolio of property and casualty insurance policies.

### **Miscellaneous Property and Casualty Policies**

We have also recommended that the City purchase the renewal of the additional miscellaneous property and casualty policies which are shown below. With the exception of some changes in premium, which you can see in the chart, these policies have been offered for renewal without any significant changes in coverage.

<b>Coverage</b>	<b>Insurer</b>	<b>2013/2014 Premium</b>	<b>2014/2015 Premium</b>
<b>Accidental Death &amp; Dismemberment – Business Travel</b>	Hartford Life and Accident Insurance Company	\$360	\$360
<b>Accidental Death &amp; Dismemberment – Police and Fire</b>	Hartford Life and Accident Ins. Company	\$11,803	\$11,803
<b>Public Official Bond – Finance Director</b>	Hartford Fire Insurance Company	\$1,750	\$1,750
<b>Underground Storage Tank</b>	Commerce and Industry Ins. Company	\$1,521	\$1,639
<b>Excess Crime</b>	Travelers Casualty & Surety Co. of America	\$4,518	\$4,518
<b>Sports Liability</b>	National Casualty Insurance Company	\$19,433	\$21,296
<b>Accidental Death and Dismemberment – Amateur Sports</b>	National Casualty Insurance Company	\$15,240	\$16,003
<b>TOTAL PREMIUM</b>		<b>\$54,625</b>	<b>\$57,369</b>

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### **Financial Strength of Insurers**

The insurers proposed by Gallagher have the following financial ratings from A.M. Best's:

<b>Insurance Company</b>	<b>Coverage</b>	<b>Best's Rating</b>
Underwriters at Lloyd's (Brit)	Public Entity Package Policy	A+ (XV)
New York Marine and General Ins. Co.	Excess Workers Compensation	A (IX) <sup>8</sup>
Underwriters at Lloyd's	Property – First \$10,000,000 including named windstorm	A+ (XV)
Liberty Surplus Ins. Co.	Property - \$5,000,000 part of \$15,000,000 excess of \$10,000,000 including named windstorm	A (XV)
Arch Specialty Ins. Co.	Property - \$3,000,000 part of \$15,000,000 excess of \$10,000,000 including named windstorm	A+ (IX)
Alterra Excess and Surplus Ins. Co.	Property - \$7,000,000 part of \$15,000,000 excess of \$10,000,000 including named windstorm	A (XV)
Landmark American Ins. Co.	Property - \$184,201,816 excess of \$25,000,000 excluding named windstorm	A (XIV)
Travelers Property Casualty Insurance Co.	Boiler and Machinery	A+(XV)
AIG Specialty Ins. Co.	Cyber Liability	A(XV)
Hartford Life and Accident Ins. Co.	Accidental Death & Dismemberment – Business Travel/Police and Fire	A- (XV) <sup>9</sup>
Hartford Fire Ins. Co.	Public Official Bond – Finance Director	A (XV)
Commerce and Industry Ins. Co.	Underground Storage Tank	A (XV)
Travelers Casualty and Surety Co. of America	Excess Crime	A+ (XV)
National Casualty Ins. Co.	Sports Liability/ Accidental Death and Dismemberment – Amateur Sports	A+ (XV)

<sup>8</sup> As was the case last year, A.M. Best's continues to show NY Marine and General as having an outlook of "Negative." This is an indication that their current rating of "A" could be downgraded at some point in the future. We will continue to monitor this situation and inform the City of any change.

<sup>9</sup> Hartford Life and Accident Ins. Co. was downgraded to "A-" from "A" during the past year. While this is still an acceptable rating and A.M. Best has the outlook for company listed as "Stable," we will continue to monitor this insurer in case any further rating action is taken.

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## **SUMMARY AND CLOSING**

To summarize, Siver recommends that the City accept the Package from Brit as presented by Gallagher. The premium for this package option from Brit, before Florida fees and assessments, is \$750,000. We also recommend the purchase of the excess workers' compensation proposal from New York Marine and General Insurance Company, which provides statutory limits over the Package's workers' compensation limits for a premium (before fees and assessments) of \$188,205.

We recommend that the City accept the proposed Property Program to be provided by a combination of Lloyd's, Liberty, Arch, Alterra, Landmark, and Travelers as presented by Gallagher. The premium, before Florida fees and assessments, for the recommended Property Program, is \$1,090,558.

We recommend that the City accept and purchase the proposed Cyber Liability coverage from AIG, with the limits increased to \$3,000,000 per claim/aggregate for a premium of \$37,333.

In addition, we recommend that the City purchase the renewal of seven additional miscellaneous property and casualty policies for which renewal was offered by Gallagher. These policies include the policies for Accidental Death & Dismemberment – Business Travel, Accidental Death & Dismemberment – Police and Fire, Public Official Bond – Finance Director, Underground Storage Tank, Excess Crime, Sports Liability and Accidental Death and Dismemberment – Amateur Sports. The combined premium for these seven policies before any applicable fees and assessments is \$57,369.

In total, all of the insurance programs we have recommended to the City can be summarized as follows:

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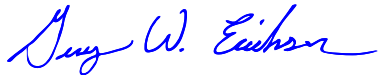
<b>COVERAGE</b>	<b>2013/2014 COST</b>	<b>2014/2015 COST</b>
<b>Package (including Public Entity Package, Excess Liability and Excess Workers' Compensation)</b>	\$1,302,217	\$938,205
<b>Property Program</b>	\$1,180,269	\$1,090,558
<b>Cyber Liability</b>	\$18,452	\$37,333
<b>Miscellaneous Property and Casualty Policies (7 total)</b>	\$54,625	\$57,369
<b>Florida Fees and Assessments (all policies)</b>	\$42,366	\$35,709
<b>Total after surcharges</b>	\$2,597,929	\$2,159,174
<b>Broker Fee</b>	\$120,000	\$120,000
<b>Total Cost of Program</b>	<b>\$2,717,929</b>	<b>\$2,279,174</b>

We note that the above Total Cost of Program for the 2014/2015 policy year is \$438,755 (or 16.1%) less than last year's Total Cost of Program of \$2,717,929. While some portion of this savings can be attributed to the current competitive market for liability insurance, in our opinion, the savings can also be attributed, at least in part, to the City's recent improved liability loss experience.

We appreciate this opportunity to be of service to the City of Coral Gables. If you have any questions, please let us know.

Very truly yours,

SIVER INSURANCE CONSULTANTS



George W. Erickson, JD, CPCU, LLM