

AGENDA

**Port Freeport
Finance Committee
Special Meeting
Wednesday, February 14, 2024, 3:20 pm - 3:50 pm
In Person & Videoconference - Administration Building - 1100 Cherry Street - Freeport**

This meeting agenda with the agenda packet is posted online at www.portfreeport.com

The meeting will be conducted pursuant to Section 551.127 of the Texas Government Code titled "Videoconference Call." A quorum of the Finance Committee, including the presiding officer, will be present at the Commissioner Meeting Room located at 1100 Cherry Street, Freeport, Texas. The public will be permitted to attend the meeting in person or by videoconference. The videoconference is available online as follows:

Join Zoom Meeting

<https://us02web.zoom.us/j/84312790523?pwd=Z0dzcU5eldrUkdBWFd0RmhodVlwUT09>

Meeting ID: 843 1279 0523

Passcode: 686142

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• 1 346 248 7799 US (Houston)

Meeting ID: 843 1279 0523

Find your local number: <https://us02web.zoom.us/j/kbsLjAPXqu>

1. Committee Members: Giesecke (Chairman), Croft, Kincannon
2. CONVENE OPEN SESSION in accordance with Texas Government Code Section 551.001, et. seq., to review and consider the following:
3. Roll Call.
4. Public Comment. (Public comment on any matter not on this Agenda will be limited to 5 minutes per participant and can be completed in person or by videoconference)
5. Public Testimony. (Public testimony on any item on this Agenda will be limited to 5 minutes per agenda item to be addressed per participant and can be completed in person or by videoconference. The participant shall identify in advance the specific agenda item or items to be addressed)
6. Discussion regarding property insurance coverage renewal.
7. Adjourn.

The Committee does not anticipate going into a closed session under Chapter 551 of the Texas Government Code at this meeting for any other items on the agenda, however, if necessary, the Committee may go into a closed session as permitted by law regarding any item on the agenda.

With this posted notice, Port Commissioners have been provided certain background information on the above listed agenda items. Copies of this information can be obtained by the public at the Port Administrative offices at 1100 Cherry Street, Freeport, TX.



Phyllis Saathoff, Executive Director/CEO

PORT FREEPORT

Participation is welcomed without regard to race, color, religion, sex, age, national origin, disability or family status. In accordance with Title II of the Americans with Disabilities Act and Section 504 of the Rehabilitation Act, persons with disabilities needing reasonable accommodations to participate in this proceeding, or those requiring language assistance (free of charge) should contact the Executive Assistant no later than forty-eight (48) hours prior to the meeting, at (979) 233-2667, ext. 4326, email: bevers@portfreeport.com.

La participación es bienvenida sin distinción de raza, color, religión, sexo, edad, origen nacional, discapacidad o situación familiar. De acuerdo con el Título II de la Ley de Estadounidenses con Discapacidades y la Sección 504 de la Ley de Rehabilitación, las personas con discapacidades que necesiten adaptaciones razonables para participar en este procedimiento, o aquellas que requieran asistencia lingüística (sin cargo), deben comunicarse con el Asistente Ejecutivo a más tardar cuarenta -ocho (48) horas antes de la reunión, al (979) 233-2667, ext. 4326, correo electrónico: bevers@portfreeport.com.



Executive Summary

March 1, 2024-2025

Port Freeport

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CORE360® Executive Summary Scorecard

2024 Total Program Cost for Property, Boiler & Machinery, and Terrorism Coverage - \$2,543,047; an increase of 17.25% year over year, of which Property is the largest component.

- The key metrics behind the Property increase are exposure and rate:
 - ✓ Exposures increased 31.08% from \$355.3M to \$465.7M total insurable values; \$110M associated with “Berth 8.”
 - ✓ Rate decreased **10.64%** from \$0.58 to \$0.51 per 100.
- Below are the reinsurance rate increases as of 1/1/2024:
 - ✓ “Catastrophe” loss free % change: +0% to +10%
 - ✓ “Catastrophe” loss hit % change: +10% to 50%
 - ✓ “Non Catastrophe” loss free % change: +0% to +10%
 - ✓ “Non Catastrophe” loss hit % change: +7% to 50%
 - ❖ *Port Freeport has outperformed the market and Gallagher negotiated a rate decrease of **10.64%** while reinsurance rate increases are 0% to 10%.*
 - ❖ *How was this achieved?*
- April 28, 2023 - Gallagher UK – Ports & Terminal & 11 London underwriters toured Port Freeport facility including Berth 8 :
 - ✓ QBE (Lead Underwriter), Liberty , Markel, NAVIUM, Beazley, Munich RE, Indigo, AIG, TT Club, Axis, and Allianz
 - ✓ Increased Rates due Significant Property Losses
 - ✓ Deductible Structures Changes
 - ✓ Capital Deployment on Renewals



- 2nd Program Option – Capped Named Storm Deductible at \$5M vs Uncapped (Expiring Structure)
 - ✓ Current property program has an uncapped “Named Storm” deductible of 1.5% which equates to \$6,580,707 (excluding business interruption) – This is Option 1 - Property premium is \$2,397,594.
 - ✓ The 2nd property option caps the “Named Storm” deductible at \$5M; equates to 8.9% in additional premium compared to “Option 1” or \$214,285
 - ✓ The entire property premium for the 2nd option is \$2,611,879.
- We did explore options to increase the business interruption waiting period (deductible) from 10 days to 30 – lead underwriter only indicated savings of approximately **\$80,000 weighed against 20 days of lost revenues**
 - We do not recommend increasing the waiting period (deductible).
- The choice comes down to risk tolerance for a potential CAT loss:
 - Premium is approximately 12.5% of the potential deductible savings for upcoming year - \$214,285 additional premium for potential savings on deductible of \$1,580,707.
- 10% Continuity Credit “paused” until 2025, but not formally removed.



State of the Property Market – What a Difference a Year Makes

The 1.1.24 renewal season has seen major changes in market conditions compared to last year. Only 12 months ago property catastrophe reinsurance was considered an unpredictable and volatile class warranting reduced capacity and changes in coverage, attachment and pricing. Capacity was mostly appetite constrained rather than capital constrained, with shortages of supply limited to a few areas of peak exposure.

This year, property supply and demand has snapped back into balance, with returns for the first three quarters of 2023 exceeding reinsurers' increased cost of capital. Retained earnings, modest new capital raises, ample retrocession capacity and buoyant ILS markets combined to increase available catastrophe reinsurance limits. The structural changes that manifested this time last year really were an exception, with a much calmer renewal period and an improved alignment of all parties' expectations leading into 2024.

Challenges Remain

A lack of large US wind events had a positive impact on insurers' and reinsurers' results alike. However, there were more than \$100 billion of insured property catastrophe losses over the course of 2023 worldwide. In the US, severe convective storms losses exceed \$59 Billion in 2023. This resulted in US Insurer assuming most of the losses net, given increased retentions and the scarcity of aggregate protection. Divergence also exists in personal and commercial lines, with those operating in tightly regulated markets having limited ability to pass on the increased cost of risk. The impact of 2023's 'sudden discontinuity' of certain structures and significant repricing of risk has caused some buyers to seek capacity from alternative sources of capital.

Property: Commentary for US

- The market dislocation experienced during the 01.01.2023 renewal season has subsided. Reinsurers had clearly defined plans in place for renewal business, which allowed for an orderly quoting process.
- Reinsurers returned to a more bespoke, client-specific underwriting approach, heavily influenced by company performance and strategies related to rate, insurance value, and deductibles.
- Buyers with favorable loss experience were able to attract more capacity to their programs which dampens further pressure on rated and risk-adjusted retentions.
- Following heavy scrutiny on structure and particularly attachment points at 01.01.23, reinsurers were generally comfortable with renewal structures this year. They did not apply the same pressure on attachment points for loss-free programs.
- Loss-impacted catastrophe programs, primarily driven by heightened severe convective storm (SCS) activity, experience further pressure on retentions, rates, and narrower reinsurer quoting panels.
- Lower attaching catastrophe layers experienced the greatest pressure on rate, while mid to upper layers benefited from ample capacity.
- Loss impacted risk programs experience varying level of pressure on retentions
- Overall, there was an adequate supply of catastrophe and risk capacity and in some cases capacity outpaced demand. But there was greater reinsurer price sensitivity on loss-impacted programs.
- Capacity for frequency coverage remained selective, as reinsurers focused their efforts on existing programs.

- Reinsurers adjusted their view of SCS frequency to account for the 2023 storm season, which put additional pressure on pricing.
- Event deductibles within the catastrophe aggregate structures came under scrutiny.

Figure 1: Property Rate Movements

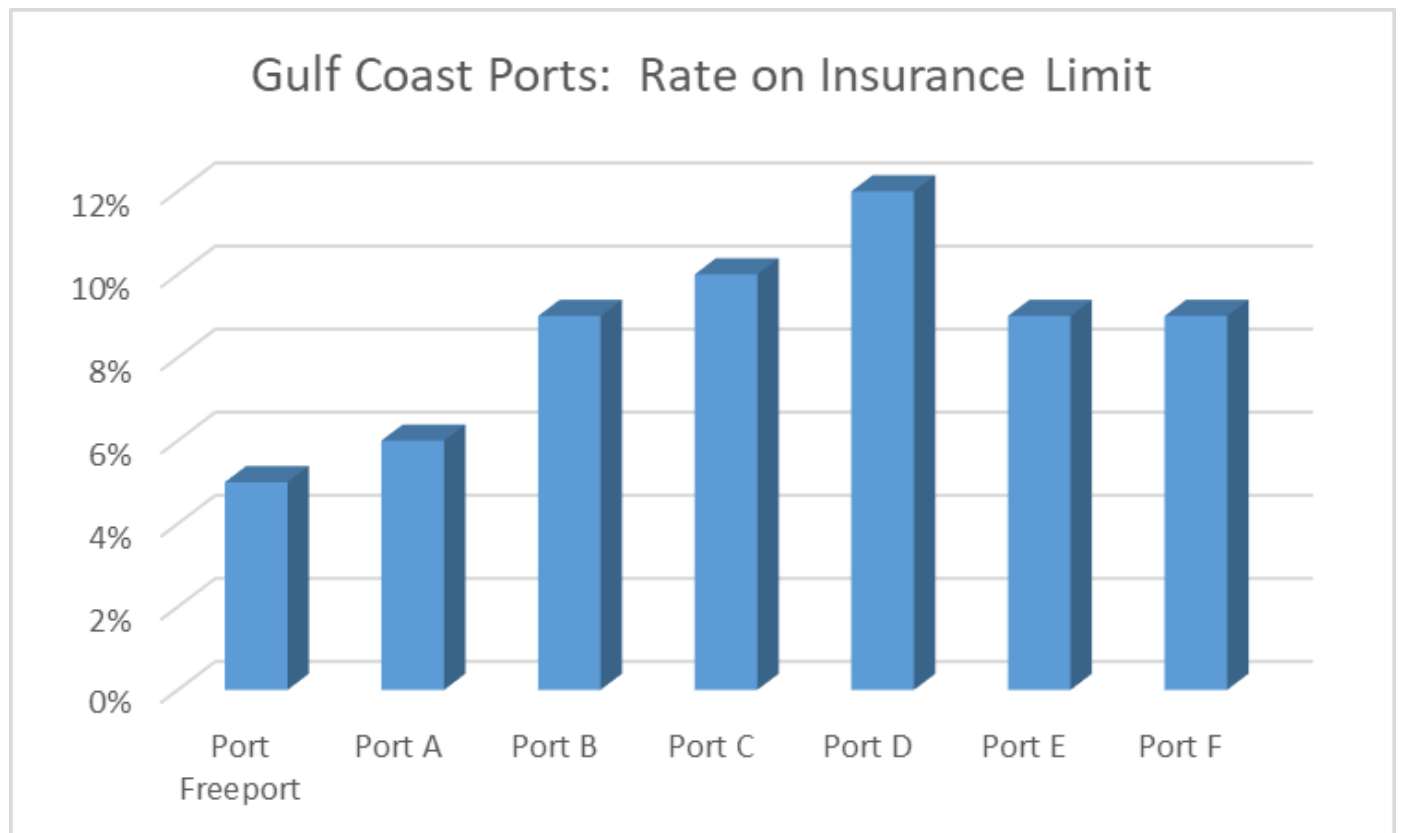
Territory	Pro rata commission	Risk loss-free % change	Risk loss-hit % change	Catastrophe loss-free % change	Catastrophe loss-hit % change
Australia	-2.5% to 0%	+2.5% to +7.5%	+10% to +30%	+2.5% to +10%	n/a
Austria	n/a	+7.5% to +10%	+20% to +40%	+5% to +12%	+10% to +15%
Canada	n/a	0% to +10%	+10% to +50%	0% to +10%	+10% to +35%
Central & Eastern Europe	QS: 0% to -1% Surplus: -2% to -5%	+7.5% to +15%	+20% to +40%	+5% to +10%	+10% to +45%
China	-5% to 0%	+5% to +20%	+5% to +20%	+5% to +15%	+25% to +30%
Europe (Large programs excluding Turkey)	n/a	+5% to +10%	+20% to +40%	+5% to +10%	+15% to +40%
France	n/a	+0% to +5%	+10% to +15%	+5% to +10%	+10% to +15%
Germany	n/a	+7.5% to +10%	+20% to +40%	+5% to +12%	+10% to +30%
Italy	n/a	0% to +7.5%	+10% to +30%	n/a	+25% to +50%
Indonesia	-2.5% to 0%	0% to +5%	+15% to +20%	0% to +5%	+15% to +20%
Korea	0%	0% to +5%	+5% to +25%	-5% to +5%	0% to +15%
Latin America & Caribbean	-3% to 0%	+5% to +10%	+10 to +50%	0% to +10%	n/a
Malaysia	0%	0% to +10%	n/a	0% to +10%	n/a
Middle East & Africa	n/a	0% to +10%	+20% to +35%	0% to +10%	+20% to +25%
Netherlands	n/a	+5% to +10%	+10% to +25%	+2.5% to +10%	n/a
Nordic Countries	n/a	+5% to +10%	+20% to +50%	+2.5% to +7.5%	+20% to +30%
Switzerland	n/a	+7% to +15%	+15% to +30%	+2.5% to +10%	+10% to +15%
Taiwan	-1% to +0%	+5% to +10%	+10% to +50%	+2.5% to +10%	n/a
Turkey	-5%	+50% to +100%	+100%	n/a	+100%
United Kingdom	0%	+5% to +10%	+7.5% to +20%	0% to +5%	n/a
United States	0% to +2%	0% to +10%	+7% to +50%	0% to +10%	+10% to +50%
Vietnam	0%	+5% to +10%	n/a	+5% to +10%	n/a

Note: Movements are risk-adjusted.
Source: Gallagher Re

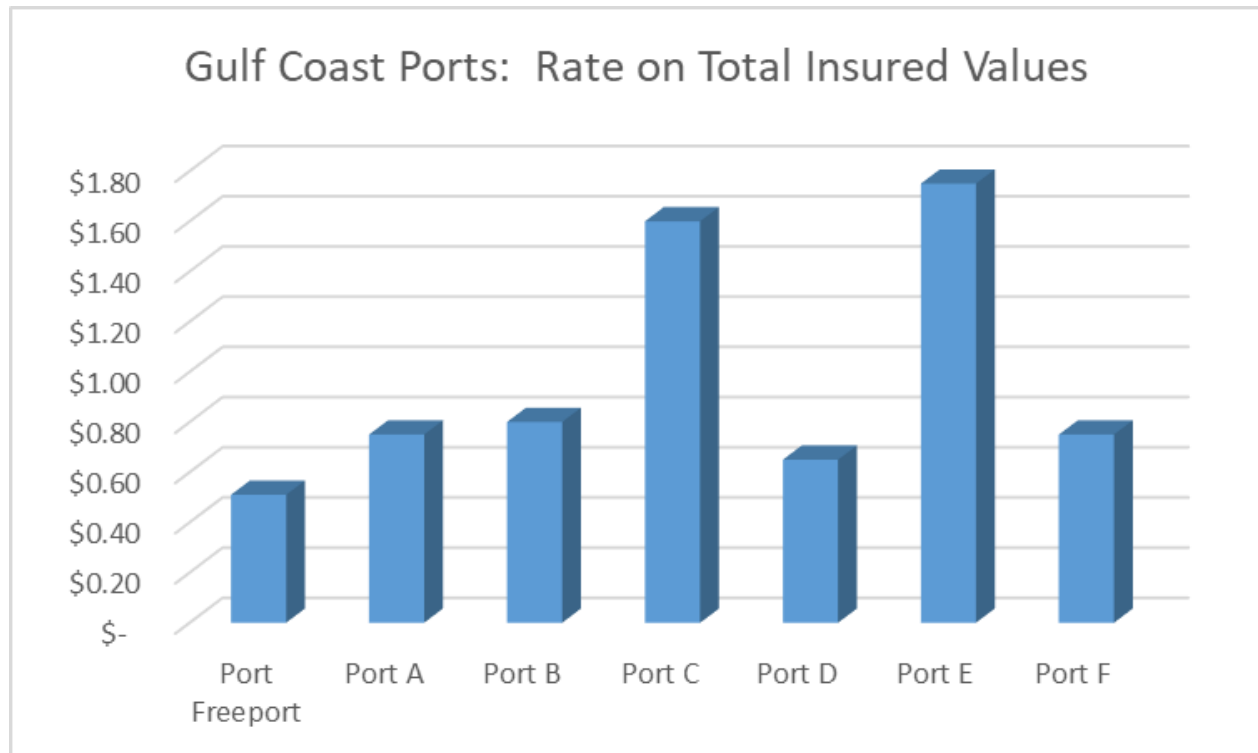
How Port Freeport Compare to Other Gulf Coast Ports in 2024

Gulf Coast Port	Total Insured Values	Insurance Carrier	Insurance Limit	Rate on Insurance Limit	Rate on Total Insured Values
Port Freeport	465,700,000	Lloyds' of London	50,000,000	5%	\$0.51
Port A	400,000,000 – 450,000,000	Lloyds' of London	50,000,000	5%-6%	\$0.70 - \$0.75
Port B	500,000,000 - 550,000,000	Lloyds' of London	50,000,000	8%-9%	\$0.75 - \$0.80
Port C	50,000,000 - 60,000,000	Lloyds' of London	10,000,000	9%-10%	\$1.50 - \$1.60
Port D	1,000,000,000 - 1,400,000,000	Lloyds' of London	70,000,000	11%-12%	\$0.60 - \$0.65
Port E	500,000,000 – 600,000,000	Lloyds' of London	100,000,000	8%-9%	\$1.60 - \$1.75
Port F	100,000,000 – 130,000,000	Lloyds' of London	10,000,000	8%-9%	\$0.675 - \$0.75

Compared with similar Ports in the Gulf of Mexico, the “Rate on Insurance Limit” paid by Port Freeport, being the premium divided by the Policy Limit, remains competitive.



Similarly, comparing “Rate on Total Insured Value” (premium divided by total insurable values), Port Freeport continues to be one of the most competitive at \$0.51 rate.





2024 Insurance Premiums – Option 1

Uncapped Named Storm Deductible

Option 1: 1.5% Catastrophic Deductible - Uncapped			
Property	2023	2024	Change
Premium	\$2,046,935	\$2,397,594	17.13%
Taxes & Fees	\$100,914	\$118,082	17.01%
Property Values including Piers, Wharves and BI	\$355,354,525	\$465,799,337	31.08%
Policy Limit	\$50,000,000	\$50,000,000	0.00%
Rate per Hundred	\$0.58	\$0.51	-10.64%
All Other Peril Deductible	\$100,000	\$100,000	0.00%
Business Interruption - Waiting Period	10 days	10 days	0.00%
Named Storm Deductible - Waiting Period	21 days	21 days	0.00%
Named Storm Deductible - Percentage	1.50%	1.50%	0.00%
Named Storm Deductible - Maximum	\$4,926,707	\$6,580,707	33.57%
Boiler and Machinery	2023	2024	Change
Premium	\$8,420	\$9,115	8.25%
Total Insurable Values	\$178,010,774	\$182,299,347	2.41%
Policy Limit	\$150,000,000	\$150,000,000	0.00%
Rate per Thousand	\$0.05	\$0.05	5.71%
Stand Alone Terrorism	2023	2024	Change
Premium	\$12,000	\$17,400	45.00%
Taxes and Fees	\$592	\$857	44.85%
Declared Values	\$335,498,378	\$465,799,334	38.84%
Limit	\$50,000,000	\$50,000,000	0.00%
Rate per Million	\$240	\$348	45.00%
Total Cost	2022	2024	Change
Total Premium including Taxes and Fees	\$2,168,860	\$2,543,047	17.25%
	Change	\$374,187	



2024 Insurance Premiums – Option 2

\$5M Capped Named Storm Deductible

Option 2: 1.5% Catastrophic Deductible - Capped at \$5M			
Property	2023	2024	Change
Premium	\$2,046,935	\$2,611,879	27.60%
Taxes & Fees	\$100,914	\$128,635	27.47%
Property Values including Piers, Wharves and BI	\$355,354,525	\$465,799,337	31.08%
Policy Limit	\$50,000,000	\$50,000,000	0.00%
Rate per Hundred	\$0.58	\$0.56	-2.66%
All Other Peril Deductible	\$100,000	\$100,000	0.00%
Business Interruption - Waiting Period	10 days	10 days	0.00%
Named Storm Deductible - Waiting Period	21 days	21 days	0.00%
Named Storm Deductible - Percentage	1.50%	1.50%	0.00%
Named Storm Deductible - Maximum	\$4,926,707	\$5,000,000	1.49%
Boiler and Machinery	2023	2024	Change
Premium	\$8,420	\$9,115	8.25%
Total Insurable Values	\$178,010,774	\$182,299,347	2.41%
Policy Limit	\$150,000,000	\$150,000,000	0.00%
Rate per Thousand	\$0.05	\$0.05	5.71%
Stand Alone Terrorism	2023	2024	Change
Premium	\$12,000	\$17,400	45.00%
Taxes and Fees	\$592	\$857	44.85%
Declared Values	\$335,498,378	\$465,799,334	38.84%
Limit	\$50,000,000	\$50,000,000	0.00%
Rate per Million	\$240	\$348	45.00%
Total Cost	2022	2024	Change
Total Premium including Taxes and Fees	\$2,168,860	\$2,767,886	27.62%
	Change	\$599,025	

London Perspective

Comparing rate at inception last year versus the rate at inception this year is as follows;

- 2023 @ Rate 0.576%
- 2024 @ Rate
 - Option 1: 0.5147% (rate reduction **10.64%**) – “Uncapped” Named Storm Deductible
 - Option 2: 0.5607% (rate reduction **2.656%**) – Capped Named Storm Deductible

Both options quoted this year are a rate reduction (unheard of in the market) against inception last year

Our recommendation and that of our London team encourages considering Option 2 as this may be the only chance we'll get to reduce the CAT deductible. Option 2 puts it at a flat \$5m whereas option 1 is 1.5% uncapped which is about 6.5m these days

The Gallagher team in London perspective is that the market will turn in the coming 24 months, it is “rate” that is likely to be given back **NOT** deductible structures.

Our recommendation is to take the deductible improvement this year knowing that as and when the market softens, Port Freeport will start improving premium **in time leaving Port Freeport with the best of both worlds.**

One additional thought is that as the SOV keeps increasing, having a % deductible as current (and option 1) is just going to result in the retaining more and more self-insurance via the deductible.

By considering option 2 we avoid the situation in which the deductible will not increase as insurable values continue to increase. Option 2 places Port Freeport in the same deductible position that they were in at inception last year (i.e. 1.5% * inception SOV in 2023 was \$5m) which is also valuable.

Lastly, the consensus in the market from the followers so far is that they would prefer Port Freeport to take Option 1 which also tells a bit of a story and highlights that they're of a similar opinion that as the market turns they would rather give off rate and not deductible.

Your Team

Your Gallagher team is a true partner. We have the expertise to understand your business and we're here to service and stay alongside you, every step of the way.

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Thank You for Your Business

We have enjoyed our partnership and appreciate the continued time, support and confidence you have placed in us as your risk management team. This past year has been successful as evidenced by your scorecard. Your total cost of risk is being impacted favorably and our strategy for this upcoming renewal continues to focus on ways to improve this positive impact on your profitability. Thank you.