

Financial Affairs
Richard H. Hinds, Chief Financial Officer

SUBJECT: RECOMMENDATION TO AUTHORIZE NEGOTIATIONS WITH PRESENT SURETY COMPANIES PROVIDING COMPREHENSIVE FIDELITY BOND AND RELATED COVERAGES FOR RENEWAL OF JUNE 1, 2002

The Board's comprehensive fidelity bond program, which provides surety coverage for fraudulent or dishonest acts of employees, was last re-marketed in 1997 for a five year term which expires on June 1, 2002. At the time the program was re-marketed, the fidelity bond market was very aggressive and the recommendation was made to the Board to seek competitive proposals for its program to take advantage of the market. The re-marketing effort resulted in lower premiums and an additional \$20 million in limits.

The fidelity bonding market has become very restrictive in the past two years, with premiums rising, and surety companies declining to insure public entity business. The bankruptcy of Enron Corporation, where surety claims are presently in excess of \$1 billion, has affected virtually every surety company, and has further deteriorated the marketplace. Numerous articles which have been appearing in *Business Insurance Magazine*, indicate that sureties are restricting limits, increasing premiums, and requiring a significant amount of information regarding financial processes and controls prior to providing coverages, as they attempt to determine what their liabilities are from the failed company.

The Board's present program provides multiple layers of blanket bonds which covers all Miami-Dade County Public School (M-DCPS) employees with \$6.5 million limit per occurrence; a position bond program which provides selected employees in the financial area \$7 million limit per position; and a second layer blanket bond which provides coverage in excess of the blanket and position bonds with \$20 million limit per occurrence. The program also provides miscellaneous bonds which includes Notary Bonds, Board Member Bonds, Superintendents Bonds, Chair and Vice-Chair Bonds.

Based upon the provisions of State Board Rule 6A-1.012(11), which permits School Boards when purchasing insurance, entering risk management programs, or contracting with third-party claims administrators, to make any such acquisitions through the bid process, or by direct negotiations and contract, staff is recommending that negotiations begin with the Board's current sureties, through its broker, Arthur J. Gallagher & Co., in order to achieve the best renewal possible. Final recommendations for specific renewal terms will be brought back to the Board for approval prior to the expiration of the present program which is June 1, 2002. Attached to this item is a letter from the Board's insurance consultant for property/casualty insurance programs, which further outlines the status of the marketplace and recommends the Board's authorization for renewal of its present program.

RECOMMENDED:

That The School Board of Miami-Dade County, Florida, authorize the Superintendent to enter into negotiations for renewal of its current comprehensive fidelity bond and related coverages program, through Arthur J. Gallagher & Co., for renewal terms and conditions of all fidelity related coverages with a current expiration date of June 1, 2002, with specific recommendations for renewal terms and conditions to be brought back to the Board at a future Board meeting.

RHH:sc