Office of Superintendent of Schools
Board Meeting of March 13, 2002

February 25, 2002

Financial Affairs
Richard H. Hinds, Chief Financial Officer

SUBJECT: RENEWAL OF BOARD'S PROPERTY INSURANCE PROGRAM

At the Board meeting of May 16, 2001, the Board provided confirmation of the Board's property insurance program, pursuant to the authority which had been provided at the Board meeting of April 18, 2001, to secure and bind property coverages with premiums not to exceed $13 million for coverage limits up to $700 million. This program renewed on May 1, 2001 and at that time $580 million of coverage had been secured. However there were layers of the program where the Board had to participate as a self-insurer due to a significant lack of capacity in the property insurance marketplace.

The Board also authorized the Superintendent, through Arthur J. Gallagher & Co., to continue meetings with prospective insurers to complete the gaps in the current program, to attempt to seek additional limits up to $700 million in coverage, and begin negotiations for renewal terms and conditions for coverages beginning May 1, 2002.

A memorandum was sent to the Board on November 7, 2001 updating the Board on the status of the property insurance program, explaining that the layers which the Board had been participating as a self-insurer had been completed, but that only $580 million of the $700 million of coverage which had been sought could be purchased. Additionally, the Board was informed in that memorandum of the catastrophic impact that the tragedy of September 11, 2001 would have on the insurance marketplace, affecting all lines of coverage, but especially property insurance and related coverages.

Pursuant to the authorization received from the Board, staff and the Board's broker have continued to meet with property insurance underwriters representing both domestic insurers, as well as those in Europe, including Lloyd's of London, other London-based underwriters, and companies from Germany. The state of the property insurance marketplace is extremely difficult as a result of the claims stemming from the tragedy of September 11, 2001, including direct property coverage claims, as well as business interruption coverages.

Insurers who were covering that risk, also purchased coverages to protect themselves from reinsurers who never expected that the entire limits of coverage would be exposed. These same insurers and reinsurance companies are the companies who worldwide insure all property, including the Board's property. This difficulty in the marketplace, coupled with the fact that the Board is identified as a catastrophic-prone risk, as a result of the hurricane exposures, results in a program which is difficult to structure, and expensive to insure.

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Based upon meetings both with domestic and London-based insurers, it is anticipated that the annual premium for the present $580 million could increase from approximately $13 million to $15 million, representing an increase of more than 15%. Additionally, the Board's current deductible for named storms is 2% of the values on a per-location basis. In order to secure a renewal program, based upon the significant restrictions in the market, the Board may be forced to assume more risk through a higher deductible for named storms which could be as high as 4%.

Present negotiations have already occurred whereby staff, and the Board's broker, informed the markets that the initial 5% deductible which was being discussed was not an option, as it would force the Board to assume too much risk in the event of significant loss like Hurricane Andrew.

The Board's strategy for structuring the program since 1993, following the Hurricane Andrew loss of $96 million, has had a significant positive affect on the underwriter's view of the program. The excellent relationship that the Board has with its present carriers have been instrumental in keeping them in the program; however, many carriers, at the last renewal, and again in the upcoming renewal have had to reduce the amount of coverage they can provide. The Board's reputation for sound management practices and quality construction has also enabled staff, and the Board's broker, to recruit new carriers into the program for the first time.

It is important to note that in addition to the requirements found in Florida Statute, Section 230.23(9)(d), whereby the Board is required to carry property insurance on its properties, the Board's relationship with financial institutions which insure Certificates of Participation (COP), to enhance marketability of the securities, also have requirements for insurance on the properties which have been funded through the issuance of COPS.

To maximize the time frame which staff has to finalize the placement of the coverages which entail over 15 insurers, along with Lloyd's of London syndicates, which entail an additional 50+ entities, it is recommended that the Board authorize the Board's broker to continue to seek and place orders for coverage, with a maximum annual premium authorized, for coverages to become effective May 1, 2002.

A report to confirm coverages, carriers, deductibles, limits and premiums will be brought back to the Board at its meeting of May 15, 2002. It is important to have this time to be able to meet with additional insurers and review recently run reports which reflect possible damages to Board-owned property utilizing computer programs which use established property values and model different variations of storms to determine possible loss scenarios.

RECOMMENDED: That The School Board of Miami-Dade County, Florida authorize Arthur J. Gallagher & Co., to secure and bind maximum available limits of property insurance coverage, with annual premiums for its catastrophic, all risk, replacement cost coverage not to exceed $15 million, effective May 1, 2002, with payment to be funded from its property insurance budget, with a full report, including confirmation of coverages, carriers, deductibles, terms, and other property coverages, including flood and wind coverages for equipment for WLRN, to be submitted to the Board at its meeting of May 15, 2002.

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