

Financial Affairs
Richard H. Hinds, Chief Financial Officer

**SUBJECT: REQUEST FOR CONFIRMATION OF PROPERTY INSURANCE
PROGRAM LAYER OF COVERAGE**

At the Board meeting of May 15, 2002 the Board authorized the renewal/purchase of the Board's excess all risk, replacement cost property insurance program, with total limits included in this authorization up to the following amounts:

Property insurance coverage, including windstorm (named hurricane) - \$150 million/occ.
Property insurance coverage for terrorism peril - \$50 million/occ./annual aggregate
Property insurance for perils other than windstorm, earthquake, flood - \$350 million/occ.

The total annual premium authorized for this purchase was \$17,754,364.25

At that meeting, the Board also authorized the Superintendent to continue to obtain additional property insurance limits, including coverage for windstorm/hail, with limits of at least \$50 million, subject to pricing in the area of \$2,250,000 and bind such available coverage if insurance coverage is available for at least 50% of the \$50 million layer. The Board would coinsure the balance of that layer, with a confirmation of coverage to be brought back to this Board meeting.

The Board's broker has been successful in obtaining insurance coverage for the entire layer as follows:

<u>\$50 MILLION EXCESS OF \$150 MILLION</u>			
<u>CONFIRMED CARRIERS</u>	<u>A.M. BEST</u>	<u>LIMITS</u>	<u>PREMIUM</u>
Lloyd's and other Co.'s*	A- XV	\$26,675,000	\$1,200,379.00
Allianz Insurance Co.	A++ XV	\$ 6,750,000	\$ 303,754.00
Royal Surplus Lines Ins. Co.	A- X	\$ 5,000,000	\$ 225,004.00
Commonwealth Ins. Co.	A-VIII	\$ 5,500,000	\$ 247,500.00
Endurance Specialty	A- XII	\$ 3,000,000	\$ 135,004.00
U.S. Fire Ins. Co. (C&F)	A- X	\$ 3,075,000	\$ 138,517.38
TOTAL**		\$50,000,000	\$ 2,250,162.38

* A.M. Best rating for Lloyd's of London - other companies vary

**Includes mandatory Florida Insurance Guarantee and State Fire Marshall fees

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Purchase of these limits results in the following program which will be in effect through April 30, 2002:

Property Ins. including windstorm (named hurricane) - \$200 million/occ.
Property Ins. for terrorism peril - \$50 million/occ./annual aggregate
Property Ins. for perils other than windstorm/hail, earthquake, flood - \$400 million/occ.
Total Annual Premium - \$20,004,526.63

Pursuant to the terms of the covenants in the Board's Certificate of Participation (COP), a annual report from the Board's insurance consultant must be completed outlining the Board's property program. This year, the report is of great importance, since the amount of available coverage, especially for windstorm, has been reduced substantially from \$580 million to \$200 million. A copy of the report from Siver Insurance Consultants will be provided to the Board as back-up information to this item.

FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)

As was outlined in Agenda Item, Replacement G-49, Board meeting of May 15, 2002, the Office of Risk and Benefits Management is taking precautionary steps which would maximize the Board's recovery from FEMA in the event of a catastrophic storm. This ability to access FEMA funds quickly is important because of the increase in the Board's windstorm deductible, as well as the fact that available limits of coverage are diminished.

Section 406 of the Federal Stafford Act requires that a grantee obtain and maintain such types and amounts of insurance coverage as are reasonable and necessary to protect against loss and that the Regional Director shall not require greater types and extent of insurance than are certified as reasonable by the State Insurance Commissioner.

In order to determine the reasonableness factor, a letter from the Superintendent has been sent to Insurance Commissioner Tom Gallagher, asking him to review the current structure of the program and provide a written response. Copies of the letter will be included in the back-up information sent to the Board.

OUTSTANDING ISSUES

Since Hurricane Andrew, the Board has insured its transmission equipment for WLRN including antennae, dishes, lines, etc. on a separate policy from its other owned property. This was structured in order to obtain lower deductibles for this equipment, than were available for other Board-owned property. The Board authorized an expenditure not to exceed \$500,000 for this equipment to be insured separately, and a report on limits, premiums and carriers was to be brought back to the Board at this meeting.

Negotiations have proven unsuccessful to identify insurers which will provide coverage on a separate policy as has been done previously. To date, only \$1 million of the needed amount of coverage, estimated at \$14 million (including new tower values) has been authorized.

Therefore, staff and the Board's broker, Arthur J. Gallagher & Co. are negotiating with underwriters to include this equipment in the master program, with already authorized premiums not to exceed \$500,000. The equipment would be subject to a sublimit in the master program, and subject to a flat \$1 million wind deductible per occurrence, as opposed to the master program's windstorm (named hurricane) deductible of 4% of the total insured values per location. This approach will assure that the equipment will be properly covered. The Board will be provided updated information regarding the WLRN equipment as it becomes available.

Finally, insurance experts predict that this difficult market will not improve quickly. In an article which appeared in *Business Insurance*, members of a recent panel of insurance and risk management executives speaking at the 2002 Harold H. Hines, Jr. Memorial Symposium, felt that the current hard market may last for a few years. The Board will continue to have increased insurable values, as the building of school facilities continues.

With that in mind, it is critical for ongoing meetings to take place with insurance representatives, including underwriters who are currently providing coverage to the Board, as well as those who may in the future, in order to achieve higher limits of insurance in the future, through either the traditional insurance marketplace, or other alternative markets.

Therefore, it is recommended that the Board authorize the Superintendent to continue discussions with appropriate representatives of the industry and conduct meetings to discuss ongoing renewals and market alternatives for May 1, 2003.

RECOMMENDED: That The School Board of Miami-Dade County, Florida:

1. confirm the purchase of additional limits of property insurance for its master property program, through Arthur J. Gallagher & Co., effective May 1, 2002 to May 1, 2003, for limits of \$50 million per occurrence, of all risk coverage, subject to the terms and conditions of all previously authorized property coverages, including deductibles, sublimits, and endorsements, resulting in total insured limits of \$200 million per occurrence of windstorm (named hurricane) coverage; \$50 million per occurrence/annual aggregate of terrorism coverage; and \$400 million per occurrence of coverage other than windstorm/hail, earthquake, flood, etc., with annual premiums for the additional \$50 million of coverage at \$2,250,162.38, resulting in total annual premiums of all bound coverage of \$20,004,526.63;

2. authorize the Superintendent to negotiate placement of the Board's transmission lines, antennae, dishes, towers, and other equipment, into the Board's master property program, subject to a sublimit for specified coverage limits, and a per claim flat deductible of \$1 million per occurrence, with annual premiums not to exceed \$500,000, previously authorized for a separate property program, effective May 1, 2002; and
3. authorize the Superintendent, through Arthur J. Gallagher & Co., to continue meetings with prospective and current insurers in order to begin negotiations for renewal terms and conditions, as well as discussions of alternative coverage markets, for coverage beginning May 1, 2003.

RHH:sc