

Financial Affairs
Richard H. Hinds, Chief Financial Officer

SUBJECT: BOILER AND MACHINERY INSURANCE COVERAGE

COMMITTEE: FINANCIAL AFFAIRS

The Board carries insurance coverage on its boilers, air conditioning systems and other vessels, pursuant to the requirements contained within Section 230.23(9)(d), Florida Statutes. This insurance provides coverage in the event of the following:

equipment breakdown of electrical, mechanical and pressure equipment; property damage to pay for the cost to repair or replace damaged equipment or other property; business interruption coverage; extra expense for additional costs incurred after a loss to maintain operations; service interruption of electricity, water, gas, communications, refrigeration, air conditioning, waste disposal, heating, air or steam; perishable goods; computer equipment; demolition and increased construction costs; expediting expenses; hazardous substances; and CFC refrigerants.

Ten years ago, this coverage provided protection for breakdown of this equipment, as well as damage as a result of windstorm. As a result of Hurricane Andrew, the Board collected \$2.2 million from Hartford Steam Boiler Insurance Company (HSB).

At the Board meeting of September 12, 2001, the Board authorized staff to begin negotiations with Hartford Steam Boiler Inspection and Insurance Company, through Arthur J. Gallagher & Co., for a three-year renewal program. Staff has been working to secure a renewal program; however, because of the significant changes which have occurred in the insurance marketplace subsequent to the catastrophic events of September 11, 2001, few companies are willing to commit themselves for a multi-year program, and many companies have restricted their ability to renew coverages at all. The expiring annual premium for the Board's coverage, which includes not only the insurance coverage, but all state-mandated inspection services, is \$80,624.

The following four companies provided proposals for the Board's Boiler and Machinery coverage:

- Hartford Steam Boiler Inspection and Insurance Company (A.M. Best A+ IX) - Quoted Annual Premium - \$88,624
- Travelers Indemnity Company (A.M. Best A++ XV) - Quoted Annual Premium - \$204,629
- Zurich American Insurance Company (A.M. Best A+ XV) - Quoted Annual Premium - \$207,000
- CNA Insurance Company (A.M. Best A XV) - Quoted Annual Premium - \$89,875

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Negotiations occurred with the companies with the lowest two quoted premiums, CNA Insurance Company and Hartford Steam Boiler Inspection and Insurance Company (HSSB). While HSSB's quoted premium was higher than the expiring premium by \$8,000, due to increased equipment values, negotiations have proven successful in obtaining the following contract improvements:

1. Higher limits of coverage from the current \$10 million of coverage to \$50 million of coverage;
2. Deductible change from \$10,000 per occurrence, except \$25,000 per occurrence for air conditioning systems and electrical motors driving air conditioning compressors, and air conditioning compressors in excess of 125 horsepower; to \$25 per horsepower for damaged equipment, subject to a minimum of \$10,000 per occurrence; and
3. Three year policy period of September 13, 2002 to September 13, 2005, subject to annual re-rate.

Staff is recommending that the Board purchase the Boiler and Machinery Insurance Policy proposed by HSSB.

RECOMMENDED:

That The School Board of Miami-Dade County, Florida authorize purchase of its all risk, replacement cost Boiler and Machinery Coverage with Hartford Steam Boiler Inspection and Insurance Company (HSSB)(A.M. Best A+ IV), providing limits of \$50 million of coverage, subject to a per occurrence deductible of \$25 per rated horsepower of subject equipment and a minimum per occurrence deductible of \$10,000, through Arthur J. Gallagher & Co., for a three year period, effective September 13, 2002 to September 13, 2005, subject to annual re-rate, with a first year annual premium of \$88,624, with subsequent renewals to come to the Board for approval in the event of a change in the annual premium.

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