

Financial Affairs
Richard H. Hinds, Chief Financial Officer

**SUBJECT: RECOMMENDATIONS REGARDING AVAILABLE TERRORISM
COVERAGE FROM CURRENT PROPERTY INSURANCE
CARRIERS, MADE AVAILABLE FOR ADDITIONAL PREMIUM AS
A RESULT OF THE TERRORISM RISK INSURANCE ACT OF 2002**

COMMITTEE: FINANCIAL AFFAIRS

As a result of the recently enacted legislation entitled The Terrorism Risk Insurance Act of 2002, (The Act), Board-purchased property insurance which contained exclusions for acts of terrorism must now provide that coverage, subject to restrictions approved by the Federal Government. As part of the Board's current property insurance program, specific coverage for acts of terrorism was purchased with limits of \$50 million, with coverage provided by Berkshire Hathaway Insurance Companies (A.M. Best A++XV).

The primary purpose of The Act is to make available commercial property and casualty insurance coverage for losses resulting from certain acts of terrorism on the same material terms as losses from other events. The Act establishes a transition process, which includes the suspension of existing terrorism exclusions to the extent that the exclusion would otherwise apply to losses from acts of terrorism (as defined in The Act).

The Board's current property insurance program consists of the following components:

<u>Coverage Provided</u>	<u>Limits Provided</u>	<u>Carriers/Markets</u>
Windstorm (Named Hurricane)	\$200 million/occurrence	15 including Lloyd's
All perils except Windstorm, Earthquake and Flood	\$400 million/occurrence	15 including Lloyd's
Terrorism (per carrier's definition)	\$50 million/occurrence	Berkshire Hathaway

CURRENT ANNUAL PREMIUMS FOR PROPERTY COVERAGE IS \$20,004,526.63

**REPLACEMENT
G-48**

During negotiations for the current program, Berkshire Hathaway Insurance Companies provided a quotation for \$30 million windstorm, \$50 million terrorism and \$200 million for other perils. Purchase of this coverage was approved by the Board at the Board meeting of May 15, 2002. That agenda item went into great detail about terrorism coverage being either excluded entirely or significantly limited in most of the Board's program, therefore, it was staff's recommendation that the coverage offered by Berkshire Hathaway be purchased. Now that The Act has been passed, the terrorism coverage purchase was clearly in the Board's best interest since all companies with terrorism exclusions and limitations must now provide coverage, pursuant to the terms of The Act, and inform the insured of the additional premium charge for providing terrorism coverage. The insured must then either pay the additional premium for the terrorism coverage, or reject the coverage, with the previous exclusions reinserted.

Since The Act did not provide insurers parameters for premiums which could be charged, the additional premiums being requested by the carriers currently providing coverage to the Board varies greatly. As a result of this, and the fact that the terrorism coverage provided as a result of The Act is much more limited than the terrorism coverage the Board currently carries through Berkshire Hathaway Insurance Companies, staff is recommending that the Board reject the terrorism coverage being offered as a result of The Act. This recommendation is being made for the following reasons:

- ◆ *WITH ALMOST \$5 BILLION IN PROPERTY VALUES CONCENTRATED IN A HURRICANE-PRONE AREA, THE BOARD'S BIGGEST RISK FOR LOSS FOR BUILDINGS AND FURNITURE, FIXTURES AND EQUIPMENT IS WINDSTORM*

- ◆ *WITH OUTSTANDING CERTIFICATES OF PARTICIPATION (COP'S) CLOSE TO \$1 BILLION, SUBSEQUENT TO THE ISSUANCE OF SERIES 2002A AND 2002B, APPROVED AT THE BOARD MEETING OF DECEMBER 11, 2002, ALL OF WHICH REQUIRES THAT THE BANKS MUST BE NAMED AS LOSS PAYEE ON COP-FUNDED PROPERTY, PURSUANT TO THE TERMS OF SECTION 5.3 OF THE MASTER LEASE AGREEMENT, STAFF FEELS THAT THE BANKS WOULD BE MORE INTERESTED IN HAVING THE BOARD OBTAIN HIGHER WINDSTORM LIMITS AT RENEWAL, RATHER THAN PURCHASING ADDITIONAL TERRORISM COVERAGE*

Because due diligence is necessary when making these decisions, staff did ask that the Board's broker, Arthur J. Gallagher & Co., obtain a quotation for adding \$50 million of terrorism coverage to the present \$50 million provided by Berkshire Hathaway Insurance Companies. Again, the coverage provided by Berkshire Hathaway Insurance Companies is much broader than the coverage provided by the other carriers as a result of The Act. The additional premium quoted for adding the \$50 million terrorism coverage, resulting in \$100 million per occurrence, is \$265,000 for the period of January 1, 2003 through April 30, 2003. When annualized, this coverage would cost \$795,000.

The Board's current expenditure for its property coverage is \$20,004,526.63. While the additional coverage is available, staff is recommending that no additional coverage be purchased at this time, but that authorization be provided to seek additional limits of windstorm coverage during renewal negotiations for the Board's renewal program, effective May 1, 2003.

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

1. reject the purchase of property coverage for terrorism offered on a mandatory basis pursuant to the provisions of The Terrorism Risk Insurance Act of 2002, due to the fact that the Board currently carries property insurance for terrorism losses with broader coverage than that offered as a result of the passage of The Terrorism Insurance Act of 2002;
2. authorize the Superintendent to notify all current carriers providing such coverage, through its broker, Arthur J. Gallagher, Inc., of its decision not to purchase additional coverage; and
3. authorize the Superintendent, as part of the renewal negotiations for its property insurance coverages, authorized at the Board meeting of June 19, 2002, to attempt to purchase additional limits of windstorm (named hurricane) coverage, with recommendations for renewal to come back to the Board at its meeting of April 9, 2003.

RHH:sc