

Financial Affairs  
George M. Burgess, Chief Financial Officer

**SUBJECT: RENEWAL OF BOARD'S PROPERTY INSURANCE PROGRAM**

**COMMITTEE: BUSINESS AND FINANCIAL SERVICES**

At the Board meeting of January 15, 2003, the Board authorized the Superintendent, as part of the renewal negotiations for its property insurance coverages, approved at the Board meeting of June 19, 2002, to attempt to purchase additional limits of windstorm coverage, with recommendations for renewal to come back to the Board meeting of April 9, 2003.

The renewal date of the Board's current property insurance program is May 1, 2003. Due to the very volatile nature of the insurance marketplace, placing the Board's property insurance program continues to be challenging. Meetings have occurred and continue with underwriters representing domestic insurance companies, as well as insurance companies and Lloyd's of London syndicates, and other markets. Early reaction from the underwriters has been very positive regarding the prospect of achieving the Board's goal in obtaining windstorm insurance limits in excess of the current \$200 million.

The placement of coverage and negotiations with multiple markets is continuing. The process which has been in place since Hurricane Andrew includes the Board providing authorization to secure and bind the most coverage possible, effective the renewal date of May 1, subject to a maximum annual premium expenditure. Last year, staff reported to the Board the specifics of the coverage which had been secured as of the renewal date of May 1, and returned to the Board at subsequent Board meetings with recommendations to purchase additional coverages as limits became available.

Both domestic and in particular, London-based insurers have indicated to staff that because of the professional business relationships which have been built in the years subsequent to the Board's \$96 million loss from Hurricane Andrew, which resulted in the cancellation of all in-force coverage at the time, ***that any increased capacity made available by the companies would be first offered to the Board.*** This is crucial because all insurance companies are currently reviewing their computer-generated hurricane models, which are reflecting a maximum probable property insurance loss in excess of \$350 million for Miami-Dade County Public Schools, based upon a storm of Hurricane Andrew's size. This estimated \$350 million does not take into account the Board's current windstorm deductible of 4% of values per location, which would result in an additional \$70 million loss. Based upon state verification that the Board secured required property insurance based on what was available in the marketplace, we fully expect FEMA's assistance in covering the deductible, as well as other FEMA-covered items, in the event of a declared disaster.

**G-47**

Due to marketplace conditions the Board was only able to secure \$200 million in windstorm coverage at the last renewal, therefore, in the event of a storm which is much smaller than an Andrew-type storm, the Board would be under-insured. The insurers of the Board's Certificates of Participation (COP's) are aware of the problem and are anxiously awaiting the results of our efforts to increase limits, as the Board will have in excess of \$1 Billion in outstanding COP's in the next fiscal year. These COP's require loss payee status on the Board's property insurance policies.

As part of our current negotiations, pricing levels on existing layers, as well as newly negotiated layers, are currently being discussed. Staff and the Board's broker, Arthur J. Gallagher & Co., are holding firm during negotiations regarding pricing concessions on newly acquired limits. Additionally, one aspect of the current policy which includes windstorm coverage, coverage for other perils, such as fire, vandalism, etc., as well as terrorism coverage, is being unbundled in an effort to secure more coverage at much more reasonable prices.

Staff is recommending that the Board provide authorization to secure and bind coverage, effective May 1, 2003, with a not-to exceed premium, so as to maximize the ability to secure as much coverage as possible throughout the month of April. This time is needed to finalize the placement of the coverages which entails over 15 insurers, along with Lloyd's of London syndicates, and other London companies which entail an additional 50+ entities. The negotiations are occurring with the focus of achieving the highest possible limits available, while attempting to keep the renewal premium as close to the expiring premium as possible.

The total cost of property insurance coverage, including the Board's towers, aerials and equipment for WLRN TV/FM, for the policy period of May 1, 2002 to May 1, 2003 is \$20,504,526.63. Confirmation has already been received that Allianz Insurance Company will underwrite the Board's \$10,650,000 values of transmitter equipment/aerials/towers, etc. at a 3% deductible, or \$319,500, versus the current flat \$1 million deductible. Taking into consideration the possibility of securing that coverage, as well as a possible maximum limit for windstorm and other perils of \$500 million, authorization is sought to secure and bind coverage with annual expenditures not to exceed \$22,000,000. Once final pricing is confirmed, a cost-benefit analysis will be made to determine whether it makes more sense to purchase \$400 million of coverage, which would provide insurance in excess of the estimated maximum probable loss of \$350 million.

At the Board meeting of May 14, 2003, a full agenda item will be presented to the Board, confirming the amount of coverage which was secured effective May 1, 2003, as well as any other recommendations which may be available at that time.

RECOMMENDED:

That The School Board of Miami-Dade County, Florida authorize Arthur J. Gallagher & Co., to secure and bind maximum available limits of all risk, replacement cost property insurance coverage, with annual premiums not to exceed \$22 million, effective May 1, 2003, with payment to be funded from its property insurance budget, with a full report, including confirmation of coverages, carriers, deductibles, costs, terms, and recommendations for other property coverage, including flood, as required by FEMA, to be submitted to the Board at its meeting of May 14, 2003.

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