Office of Superintendent of Schools
Board Meeting of May 19, 2004

May 5, 2004

Financial Affairs
Edward Marquez, Chief Financial Officer

SUBJECT: RENEWAL OF BOARD'S PROPERTY INSURANCE PROGRAM

COMMITTEE: BUSINESS AND FINANCIAL SERVICES

At the Board Meeting of April 14, 2004, the Board authorized Arthur J. Gallagher & Co. to secure and bind maximum available limits of all risk, replacement cost, property insurance coverage, not to exceed $700 million in limits, with annual premiums not to exceed $22 million, effective May 1, 2004. This item, pursuant to the authority received in April will provide the Board a full report of the program which was bound, effective May 1, 2004; establish a budget for flood insurance as required by the National Flood Insurance Program (NFIP); confirm the authorization to purchase flood coverage for those properties which renewed May 1, 2004, and outline the property insurance program for antennae, towers and equipment owned by the Board related to its television and radio operations.

CURRENT STATUS OF THE INSURANCE MARKETPLACE

The global property insurance market, unlike certain liability and workers' compensation lines of business, consistently improved throughout 2003 and is poised to provide policyholders with greater value in 2004. It appears that the following will occur throughout the rest of 2004:

- Capacity has increased in the marketplace where meaningful competition amongst insurers will work to the advantage of insurers;
- The influence of the Bermuda market will continue to grow;
- There will continue to be a consolidation of capacity in the domestic market as evidenced by the recent merger between Travelers and St. Paul Ins.;
- The financial strength of insurers will bear vigilant and continual scrutiny;
- The outcome of the recently held jury trial over the property insurance coverage for the World Trade Center (WTC), which will decide whether or not the planes hitting both towers were one or two occurrences, with the continuing litigation following that determination to continue to affect the property market; and

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- Insureds with large property schedules, like the Board, with significant natural catastrophe exposures, such as windstorm, will see their program's structure influenced heavily on loss modeling when determining rates and committing capacity. With the introduction of a new loss model that typically generates higher damage estimates, which is being widely used by underwriters, limit expansion and price reduction for catastrophe risks has been and will continue to be more measured than property in non-catastrophe prone areas.

Policy limits purchased were restricted by the reduced available capacity and by the resulting supply and demand influence on pricing throughout 2002. The School Board has undergone a massive swing in the limits of coverage it has been able to secure, which has proven to be a difficulty because it is contractually obligated to purchase at least $700 million in coverage as a result of the requirements in the Certificates of Participation (COPs) contracts. The six year history of limits purchased, as compared to the Board's property values is as follows:

	PROPERTY VALUES	INSURANCE LIMITS
1999	$4.2 Billion	$700 Million
2000	$4.5 Billion	$700 Million
2001	$4.6 Billion	$580 Million
2002	$4.7 Billion	$200 Million
2003	$4.8 Billion	$560 Million
2004	***$4.9 Billion***	***$700 Million***

STRUCTURE OF PROPERTY COVERAGE AND BOARD'S APPROACH

Since the Board's $96 Million loss from Hurricane Andrew, which when trended in 2004 dollars and current catastrophe modeling, would result in a $300 – $400 Million loss, staff, and the Board's property insurance broker, Arthur J. Gallagher & Co., have developed a layered program where numerous Lloyd's of London syndicates, as well as other foreign and domestic insurers, share a portion of the risk for each layer of coverage. This technique has numerous advantages, three of which are listed below:

1. AT THE TIME OF THE LOSS, NO ONE INSURER IS EXPOSED TO AN INORDINATE SHARE OF THE LOSS;

2. WHEN THE MARKET TURNS DIFFICULT, LIKE IT DID IN 2001, SECURING INSURERS TO REPLACE LAYERS, WHERE OTHER INSURERS HAVE NOT BEEN ABLE TO PROVIDE COVERAGE RENEWALS, BECOMES LESS FORMIDABLE; AND

3. INSURERS CAN DISTRIBUTE THEIR COVERAGE THROUGH MULTIPLE LAYERS, SOME WITHIN THE PROXIMATE MAXIMUM LOSS (PML) LAYERS, WHERE THE CATASTROPHE MODELING INDICATES THEY ARE MOST AT RISK FOR LOSS, THEREBY MAXIMIZING THEIR AVAILABLE LIMITS FOR FLORIDA CATASTROPHE BUSINESS.

As indicated earlier, insurers who write coverage in catastrophe-prone areas like South Florida are now relying more heavily than ever on computer-generated catastrophe modeling. Most insurers are using one of three systems which include RMS, AIR, and EQE, which take the following variable into consideration when determining the Board's PML:

»Windfield ***»Distance to Coast*** ***»StormSurge*** ***»Vulnerability***

According to the most recent analyses, the PML for the School Board, based upon these three models are as follows:

PROBABILITY	RETURN PERIOD	AIR	RMS	EQE
1%	100 YEARS	$180 Million	$209 Million	$499 Million
.4%	250 YEARS	$288 Million	$396 Million	$871 Million
.2%	500 YEARS	$386 Million	$616 Million	$1.2 Billion

While the insurance industry illustrates these models with a relatively low possibility percentage, the insurance industry is very cognizant of these loss amounts and relies upon them to determine their primary capacity. More importantly, however, the reinsurance companies utilize them for purposes of assigning a portion of their overall capacity for Florida Catastrophic Aggregates. As such, it is staff's job to market the Board's property risk as one which is a better risk than other catastrophic-prone risks, to garner as much of that capacity as possible. It is exactly this method which has proven successful for the Board is developing relationships with markets and obtaining needed coverages.

The Board's ability to continue to be successful in obtaining needed coverages, even in times of a difficult marketplace, as well as being in the best posture to negotiate better terms and pricing at the time of market improvement, is directly as a result of the relationships with its insurers. The market views the Board as a stable, quality customer which understands its risks, and takes the necessary steps to mitigate them, including obtaining FEMA funding for mitigation. All underwriters which staff has met with, both domestic and international, specifically cite Miami-Dade County School Board's understanding of its risk, and its long term commitment to specific insurance markets (eg. London, Allianz, AIG), as their basis for their decision to commit any available capacity increases to the Board, in lieu of customers who do not employ the same business partnerships. As a result of the Board's strong partnerships, staff, and the Board's broker have been successful in ***substantially increasing the limits of coverage made available, in conjunction to receiving concessions on pricing and terms and conditions.***

PROPERTY INSURANCE PROGRAM EFFECTIVE MAY 1, 2004

Effective May 1, 2004, $700 million of coverage was secured and bound with annual premium of $20,532,682.97, including applicable Fire Marshall surcharges and FIGA fees, as required by the State of Florida. This coverage is subject to a per occurrence windstorm deductible of three percent (3%), **reduced from 4%,** of values per affected location, subject to a minimum per loss deductible of $1 million, and $500,000 per occurrence for all other perils, except flood, which is in excess of National Flood Insurance Program (NFIP) – covered properties. Additionally terrorism insurance, covering both foreign and domestic terrorist activities with per occurrence and annual aggregate limits of $50 million, subject to a per loss deductible of $100,000 per occurrence was bound for an annual premium of $425,004, **the same as expiring**. Also, all risk coverage for the aerials, transmitter equipment, towers, etc., which provides broadcasting capabilities to WLRN radio and television was secured and bound with limits of $12,315,000, with annual cost of $550,550 This coverage is subject to a per loss deductible for wind of three percent (3%), with a minimum deductible amount of $500,000. **Total property insurance premiums totaled $21,508,236.97 under the authorization not to exceed $22 million provided by the Board at its meeting of April 14, 2004 for property coverage premiums.**

The following chart reflect the expiring and current property insurance program:

YEAR	LIMITS OF COVERAGE		DEDUCTIBLES	TOTAL PREMIUM
2003-2004	Windstorm -	**$500 million**	**4% values/loc.**	**$20,544.038**
	Other Perils-	$500 million	$500,000/loss	Included
	Terrorism-	$ 50 million	$100,000/loss	$ 425,004
	WLRN	$10.6 million	3%/values/loc.	$ 500,504
	TOTAL PREMIUM			**$21,469,546**
2004-2005	Windstorm-	**$700 million**	**3% values/loc.**	**$20,532,683**
	Other Perils-	$700 million	$500,000/loss	Included
	Terrorism-	$ 50 million	$100,000/loss	$ 425,004
	WLRN	$12.3 million	3%/values/loc.	$ 550,550
	TOTAL PREMIUM			**$21,508,237**

When comparing the expiring program to the current program, staff and Board's broker were successful in renewing the program with the following improvement:

- **40% INCREASE OF COVERAGE LIMITS FROM $500 MILLION TO $700 MILLION**
- **25% DECREASE IN WINDSTORM DEDUCTIBLE FROM 4% VALUES PER LOCATION TO 3%**
- **16% INCREASE IN WLRN LIMITS FROM $10.6 MILLION TO 12.3 MILLION**
- **ALL IMPROVEMENTS NEGOTIATED WITH BASICALLY THE SAME PREMIUM AS PREVIOUS YEAR.**

Confirmation of coverage has been provided to The Bank of New York, Jacksonville, which requires that they are named as "Loss Payee" on the policies to protect their interests for properties which are financed with Certificates of Participation (COPs). Section 5.3 of the Master lease Purchase states that any policy of all risk property insurance must be obtained from a commercial insurance company or companies rated A+ by A.M. Best Company, or in one of the two highest rating categories of Moody's and S&P, or otherwise approved by the Credit Facility Issuer. Meeting these stringent guidelines continues to be a problem, as many insurers involved in the Board's program have A.M. Best ratings of either A or A-, however it is necessary to utilize these companies in order to obtain the limits of coverage necessary to meet the statutory obligations of the Board, pursuant to **Section 1001.42(9)(b)(8)(d), Florida Statutes, whereby the Board must carry insurance on every school building in all school plants including contents, boilers and machinery, except building of three classrooms or less, and on school buses and other property under the control of the district school board or title. It is also necessary to meet the contractual obligations of the Board for its COPs program.**

The Board's property insurance program, effective May 1, 2004 is as follows:

PRIMARY $50 MILLION LAYER

INSURER	A.M. BEST	LIMITS	ANNUAL PREMIUM
LLOYD'S OF LONDON/UK*	A- XV	$22,500,000	$ 3,142,141.00
U.S. FIRE INS. CO.	A- XII	$ 4,500,000	$ 629,057.43
ALLIANZ GROUP	A XV	$ 5,000,000	$ 698,952.25
LANDMARK AMERICAN	A X	$ 4,000,000	$ 558,604.00
WESTCHESTER SURPLUS	A X	$ 4,000,000	$ 558,604.00
EMPLOYERS/WAUSAU	A XV	$ 5,000,000	$ 698,952.25
COMMONWEALTH INS.	A- VIII	$ 2,500,000	$ 349,129.00
AXIS SURPLUS	A XIII	$ 2,500,000	$ 349,129.00
TOTAL LAYER		**$50,000,000**	**$ 6,984,568.93**

$50 MILLION EXCESS OF PRIMARY $50 MILLION

LLOYD'S OF LONDON/UK*	A- XV	$21,000,000	$ 1,564,088.00
AXIS SURPLUS/UK	A XIII	$ 4,000,000	$ 297,924.00
ALLIANZ GROUP	A XV	$ 5,000,000	$ 372,772.40
LANDMARK AMERICAN	A X	$ 4,000,000	$ 297,924.00
LLOYD'S/CRC	A- XV	$ 1,500,000	$ 111,724.00
EMPLOYERS/WAUSAU	A XV	$ 5,000,000	$ 372,776.40
COMMONWEALTH	A- VIII	$ 1,500,000	$ 111,724.00
ESSEX INS.	A XI	$ 3,000,000	$ 223,444.00
GREAT AMERICAN	A XIV	$ 5,000,000	$ 372,404.00
TOTAL LAYER		**$ 50,000,000**	**$ 3,724,780.80**

$50 MILLION EXCESS OF $100 MILLION

INSURER	A.M. BEST	LIMITS	ANNUAL PREMIUM
LLOYD'S OF LONDON/UK*	A- XV	$ 13,500,000	$ 754,114.00
U.S. FIRE INS.	A- VIII	$ 5,500,000	$ 307,541.23
ALLIANZ	A XV	$ 5,000,000	$ 279,579.30
CONTINENTAL/CNA	A XV	$10,500,000	$ 587,120.53
LLOYD'S/CRC	A- XV	$ 4,500,000	$ 251,374.00
FIRST SPECIALTY	A XV	$10,000,000	$ 558,604.00
ESSEX INS.	A XI	$ 1,000,000	$ 55,864.00
TOTAL LAYER		**$50,000,000**	**$ 2,794,197.06**

$50 MILLION EXCESS OF $150 MILLION

LLOYD'S OF LONDON/UK*	A-XV	$ 28,000,000	$ 1,173,064.00
ALLIANZ GROUP	A XV	$ 5,000,000	$ 209,684.48
LANDMARK AMERICAN	A X	$ 5,000,000	$ 209,479.00
COMMONWEALTH INS.	A- VIII	$ 2,500,000	$ 104,741.50
AXIS SURPLUS INS.	A XIII	$ 1,250,000	$ 52,372.75
XL INS. AMERICA	A+XV	$ 2,250,000	$ 94,362.01
GREAT LAKES INS. (UK)	A+XV	$ 2,000,000	$ 83,794.00
ARCH SPECIALTY	A- XII	$ 2,500,000	$ 104,741.50
EMPLOYERS/WAUSAU	A IX	$ 1,500,000	$ 62,909.34
TOTAL LAYER		**$ 50,000,000**	**$ 2,095,148.58**

$50 MILLION EXCESS OF $200 MILLION

LLOYD'S OF LONDON/UK*	A-XV	$ 22,000,000	$ 700,708.00
ALLIANZ GROUP	A XV	$ 5,000,000	$ 159,409.25
AXIS SURPLUS	A XIII	$ 2,000,000	$ 63,704.00
XL INS. AMERICA	A+ XV	$ 8,000,000	$ 255,804.80
GREAT LAKES INS. (UK)	A+ XV	$ 2.000,000	$ 63,704.00
ARCH SPECIALTY	A- XII	$ 7,500,000	$ 238,879.00
GLENCOE GROUP	A IX	$ 3,500,000	$ 111,479.00
TOTAL LAYER		**$ 50,000,000**	**$ 1,592,938.05**

$50 MILLION EXCESS OF $250 MILLION

LLOYD'S OF LONDON/UK*	A- XV	$ 12,000,000	$ 294,008.00
AXIS SURPLUS (UK)	A XIII	$ 5,000,000	$ 122,504.00
ALLIANZ GROUP	A XV	$ 5,000,000	$ 122,622.50
COMMONWEALTH INS.	A- VIII	$ 2,500,000	$ 61,254.00
CLARENDON AMERICA	A- X	$ 5,000,000	$ 122,504.00
XL INS. AMERICA	A+ XV	$ 12,000,000	$ 294,294.00
GREAT LAKES INS. (UK)	A+ XV	$ 2,000,000	$ 49,004.00
AXIS SURPLUS	A XIII	$ 2,000,000	$ 49,004.00
GLENCOE GROUP	A IX	$ 4,500,000	$ 110,254.00
TOTAL LAYER		**$ 50,000,000**	**$ 1,225,448.50**

$50 MILLION EXCESS OF $300 MILLION

INSURER	A.M. BEST	LIMITS	ANNUAL PREMIUM
LLOYD'S OF LONDON/UK*	A- XV	$ 10,725,000	$ 157,661.50
ALLIANZ GROUP	A XV	$ 5,000,000	$ 73,573.50
XL INS. AMERICA	A+ XV	$ 7,500,000	$ 110,360.25
GREAT LAKES INS. (UK)	A+ XV	$ 2,000,000	$ 29,404.00
AXIS SURPLUS/UK	A XIII	$ 5,000,000	$ 73,504.00
WESTCHESTER SURPLUS	A X	$ 5,000,000	$ 73,504.00
COMMONWEALTH INS.	A- VIII	$ 3,525,000	$ 51,821.50
FIRST SPECIALTY	A XV	$ 10,000,000	$ 147,004.00
GLENCOE GROUP	A IX	$ 1,250,000	$ 18,379.00
TOTAL LAYER		**$ 50,000,000**	**$ 735,211.75**

$50 MILLION EXCESS OF $350 MIILLION

LLOYD'S OF LONDON/UK*	A- XV	$ 25,000,000	$ 245,008.00
ALLIANZ GROUP	A XV	$ 5,000,000	$ 49,049.00
XL INS. AMERICA	A+ XV	$ 8,000,000	$ 78,478.40
GREAT LAKES INS. (UK)	A+ XV	$ 2,000,000	$ 19,604.00
AXIS SURPLUS/UK	A XIII	$ 5,000,000	$ 49,000.00
FIRST SPECIALTY	A XV	$ 5,000,000	$ 49,004.00
TOTAL LAYER		**$ 50,000,000**	**$ 490,143.40**

$100 MILLION EXCESS OF $400 MILLION

LLOYD'S OF LONDON/UK*	A- XV	$ 35,000,000	$ 171,504.00
AXIS SURPLUS (UK)	A XIII	$ 10,000,000	$ 49,000.00
ALLIANZ GROUP	A XV	$ 10,000,000	$ 49,049.00
XL INS. AMERICA	A+ XV	$ 11,000,000	$ 53,953.90
GREAT LAKES INS. (UK)	A+ XV	$ 4,000,000	$ 19,604.00
USF&G SPECIALTY	A+ XV	$ 5,000,000	$ 24,504.00
COMMONWEALTH INS.	A- VIII	$ 5,000,000	$ 24,504.00
LANDMARK AMERICAN	A X	$ 20,000,000	$ 98,004.00
TOTAL LAYER		**$100,000,000**	**$ 490,122.90**

$200 MILLION EXCESS OF $500 MILLION

LLOYD'S OF LONDON/UK*	A- XV	$ 63,500,000	$ 127,008.00
LANDMARK AMERICAN	A X	$ 50,000,000	$ 100,004.00
CLARENDON AMERICA	A- X	$ 5,000,000	$ 10,004.00
COMMONWEALTH INS.	A- VIII	$ 32,000,000	$ 64,004.00
ALLIANZ GROUP	A XV	$ 46,000,000	$ 92,092.00
EMPLOYERS/WAUSAU	A X	$ 3,500,000	$ 7,011.00
TOTAL LAYER		**$200,000,000**	**$ 400,123.00**

PROPERTY TOTAL	**$700,000,000**	**$20,532,682.97**

***includes Lloyd's of London syndicates and other London-based insurers including Lexington Insurance, QBE Insurance, and Houston Casualty**

The program reflects limits of $700 Million per occurrence and separate annual aggregates as respects Earthquake and Flood, which have annual aggregates as follows:

Earthquake - $700 Million for all occurrences in any one policy-year
Flood - $20 Million for any one occurrence and annual aggregate

TERRORISM

While insurers are still struggling to quantify the exact financial loss associated with the events of September 11, 2001. A six week trial recently occurred in New York City in an effort to determine whether the insurance which was purchased on the World Trade Center was written with coverage terms which would view the loss of the two towers as either one event or two. The outcome of this decision will result in either $3.5 billion or $7.0 billion, to be paid by the various insurers on the risk at the time.

On November 19, 2002 Congress passed the Terrorism Insurance Act of 2002 (TRIA). Insurance coverage provided by companies, pursuant to the provisions of TRIA, are solely for foreign terrorism acts, which is a concern for many large public entities including Miami-Dade County, City of Chicago, Metropolitan Exposition and Pier Authority (Chicago), among others, who feel that coverage for acts of domestic terrorism is vital. Beginning in 2003, the School Board rejected TRIA coverage and purchased stand alone terrorism coverage, which includes foreign and domestic events. Staff is recommending that such coverage be continued for its 2004-2005 coverage year because of the risk of having an event such as a truck driving through a school, etc., bomb threats, etc., which would not be covered any longer under the traditional property insurance coverage, but would be covered in the event of a "terrorist event". The Federal TRIA act expires in 2005 and it is not known whether Congress will renew the legislation, or if other forces will prevail. Obviously, the outcome of this will have an affect on the Board's program and staff will keep the Board abreast as to any recommendations which may arise as a result of Federal law changes.

The renewal of the Board's terrorism coverage is as follows:

Coverage provided by Lloyd's of London with $50 Million per occurrence and aggregate with a deductible of $100,000 each and every occurrence (all locations, buildings and contents), as set forth in the schedule agreed by Underwriters and held on file by Thompson, Heath and Bond Ltd.

Coverage will exclude biological or chemical materials and is on Form T3, Lloyd's of London with an annual premium of $425,004, same as expiring.

WLRN TRANSMISSION EQUIPMENT

The School Board owns various equipment which is placed throughout Monroe, Miami-Dade and Broward Counties to support the television and radio operations of WLRN. This equipment is scheduled and replacement costs are determined in order to adequately insure it. Allianz Insurance Company has agreed to continue to provide coverage for this equipment by issuing an endorsement to their property policy as they did last year. Because of the exposure of this equipment, adequate insurance is crucial to a business continuity plan for WLRN. A relatively recent inspection report on the Board's smaller tower does indicate significant corrosion, suggesting that the tower may need to be lowered if it is going to be utilized in the future. Meeting with stakeholders in this regard are occurring and the insurer will be apprised of the actions taken.

The limits and pricing of the components of the property program are as follows:

PROPERTY TOTAL	**$700,000,000**	**$20,532,682.97**
TERRORISM (LLOYD'S)	**$ 50,000,000**	**$ 425,004.00**
WLRN ANTENNAE/TOWER/EQUIP.	**$ 12,315,000**	**$ 550,550.00**
PROGRAM TOTAL	***$762,315,000***	***$21,508,236.97***

TERMS AND CONDITIONS OF MASTER PROPERTY INSURANCE PROGRAM

Sublimits (per occurrence):

Landscape	$ 5,000,000
Extra Expense	$ 5,000,000 **(increased by $2,500,000)**
Increased Cost Of Construction	$30,000,000**(increased by $10,000,000)**
Demolition Off-Premises	$30,000,000**(increased by $10,000,000)**
Power deprivation	$ 5,000,000
Flood	$20,000,000

Deductibles:

All perils, excluding windstorm and hail»	$500,000 each occurrence, except for flood, which is $500,000 per occurrence except for NFIP recoverable properties
Terrorism, excluding biochemical» and nuclear	$100,000 each occurrence

Hurricane»	Three percent (3%) of the Total Insured Value per location/per campus, any one occurrence subject to a minimum deductible of $1,000,000 any one occurrence. If the claim involves loss or damage at more than one location/campus, the deductible amount shall be calculated separately for each location/campus suffering loss or damage and applied separately to the adjusted loss at each location/campus, but in no event shall be applied to a single occurrence be less than the minimum amount specified above for all loss or damage arising from one occurrence.

Hurricane means a windstorm that:

a. Has sustained winds of 74 miles per hour or greater;
b. Has been declared by the National Weather Service to be a hurricane;
c. Includes the period of time
    1. For the entire duration of the hurricane
    2. The 72 hours immediately following the downgrading of a hurricane

Hurricane cause also includes loss resulting from:

a. Rain or wind driven rain/water which enters the covered building or structure through an opening created by the force of a hurricane
b. One or more tornadoes that are a result of actions or effects of a hurricane
c. Any material, object or debris that is carried, propelled, or in any many moved by a hurricane

MAIN TERMS/CONDITIONS:

Terms and Conditions subject to M-DCPS Manuscript Policy wording, including but not limited to:

√ Blanket Coverage
√ 90 days notice of cancellation-10 days for non-payment of premium
√ No coinsurance provision
√ Replacement Cost Valuation
√ Actual Cash Value on Automobiles (per manuscript form)
√ Premium based on total insured values (TIV) of $4,924,774,305 excluding aerials
√ Permission for Excess Insurance Endorsement

- √ Loss Payee Clause
- √ Joint Loss Adjustment Clause
- √ Off-Premises Deprivation Clause

CONDITIONS SPECIFIC TO CARRIER:

Terms/Conditions including but not limited to:

- √ Cyber and Computer Virus Exclusion
- √ Terrorism Exclusion
- √ Mold/Fungus Exclusion
- √ Boiler & Machinery and Mechanical Breakdown Exclusion
- √ War and Nuclear Exclusion
- √ Wear and Tear, Deterioration Exclusion
- √ 25% or 35% Minimum Earned Premium applies where applicable
- √ Automatic acquisition clause
- √ Seepage and pollution exclusion clause/asbestos exclusion clause as per individual treaties

WLRN EQUIPMENT:

Coverage pursuant to schedule of $12,315,000, pursuant to Allianz endorsement subject to $500,000 all other perils, Three percent (3%) Hurricane deductible, subject to $500,000 minimum. Transmission lines included within 2000 feet from insured premises

TERRORISM:

$50,000,000 per occurrence and aggregate with a deductible of $100,000 each and every occurrence (all locations including buildings and contents, as set forth in the schedule agreed to by Underwriters and held on file by Thompson, Heath & Bond, Ltd.

Coverage includes biological or chemical materials exclusion. Terrorism Form T-3 (Lloyd's of London) includes the following terms:

- √ Blanket buildings and contents
- √ Margin Clause
- √ Transmission and Distribution Lines: $10,000,000
- √ Minimum earned premium: 100% of $425,000 annual premium

LOSS PAYEE:

It is agreed and understood the following are added as an Insured in respect to G. Holmes Braddock Sr. High School and other Certificate of Participation funded facilities, as their interests appear:

Loss Payee – Bank of New York Jacksonville, is added as a loss payee as their interest may appear on the building coverage. All losses with respect to building coverage are to be payable to Bank of New York, Jacksonville Trustee for the benefit of all insureds.

Bank of New York, Jacksonville
10161 Centurion Parkway
Highwoods Center
Jacksonville, Florida 32256
Attention: Ms. Linda Boenish, Assistant Treasurer

NATIONAL FLOOD INSURANCE PROGRAM (NFIP)

The Board's blanket property insurance program covers properties for flood, but only for those properties which are located in a flood plain which does not require purchase of flood insurance through the Federal government, pursuant to the provisions of the McCarren-Ferguson Act. Under the Federal government guidelines for NFIP, if the Board were to sustain a flood loss for properties eligible for the coverage, and failed to purchase coverage, the Federal Emergency Management Agency (FEMA) would not respond.

As has been reported to the Board in past years, well over $1 million has been collected from both NFIP and FEMA for repair or replacement of flood damaged properties. NFIP policies are written on a ***building by building basis,*** which necessitates a comparison to be done on a building by building basis of values versus NFIP limits. With building values being updated continually, a comparison will be made throughout the 2004-2005 policy year to make sure that the required limits of NFIP are purchased.

The budget for NFIP for May 1, 2003 to May 1, 2004 was $3,300,000. In order to accommodate Federal increases in NFIP rates, new policies, and increased limits, this same amount of money will be needed. If additional funds are needed further into the year as the flood policies are renewed on a monthly basis, a subsequent request will come to the Board at a future Board meeting.

Because the purchase of flood policies typically require sealed elevation certificates, pursuant to NFIP guidelines, authorization is being sought to obtain these certificates from the surveying companies currently under contract to the Board, including E. R. Brownell & Associates, Inc., J. Bonfill & Associates, Inc., Weidener Surveying & Mapping, P.A., and R. Aleman & Associates, Inc, with annual expenditures not to exceed $50,000.

LETTER OF REASONABLENESS FROM INSURANCE COMMISSIONER

For the past two years, staff has felt that it was necessary to obtain a letter from the State of Florida Department of Financial Services, Office of Insurance Regulation, seeking confirmation that the Board's program would meet the reasonableness test, pursuant to the provisions set forth in Section 406 of the Federal Stafford Act. The December 2, 2003 letter from Mr. Kevin McCarty, Director, Department of Financial Services, was forwarded to Board members earlier this year. Staff is recommending that an updated request for the current year's program be sent by the Superintendent.

OTHER OUTSTANDING ISSUES

With all insurers utilizing different catastrophe models to determine the Board's probable maximum loss (PML) in the event of a catastrophic storm, which is crucial for them to obtain reinsurance, the accurateness of the Board's property values is more important now than ever. Staff, for the last number of years, has been working closely with staff from the Facilities area to determine replacement cost figures on a per-square foot basis. This is then combined with the Florida Inventory of School House (FISH) report to obtain estimated replacement cost values on a per location and a per building basis.

While this is very accurate for most school locations, there is a concern that for administration buildings, transportation, warehouses, maintenance facilities, etc., that a more formal survey method would be more accurate. Staff is seeking authority to begin working on a Request for Proposal (RFP) to obtain competitive quotations from professional appraisal companies to have appraisals completed on selected locations.

While the current program is in place, property owners in catastrophe-prone areas such as South Florida, continue to experience market volatility. As such, staff feels that it is crucial that negotiations with its current carriers to enter into multi-year policy arrangements, subject to cancellation provisions and re-rate endorsements be pursued. Additionally, as the market changes, new markets may emerge throughout the year which may provide additional capacity in future years. Staff is recommending that ongoing meetings with these companies be scheduled, through its broker, Arthur J. Gallagher & Co. in order to obtain higher limits moving forward as the Board's construction program continues to grow, in conjunction with pursuing the multi-year program commitment

The Board's program includes coverage for buildings under construction, commonly known as "builders risk coverage". The Board requires its general contractors to provide proof of builders risk coverage for buildings which they are contracted to build, which remains in force until the Board completes final acceptance. The same is true for general contractors who are performing renovations and additions to current facilities.

The property program is designed to act as "excess coverage" to the contractor-provided builders risk coverage, in the event that the loss would exceed the limits carried by the contractor, if the builders risk insurer became insolvent, or any other unforeseen event which would render the policy uncollectible.

Staff, in conjunction with the Board's insurance consulting firm of Siver Insurance Consultants, Inc., is currently working with specific underwriters in London to finalize the policy language for builders risk coverage. The final language may include the necessity to create an additional sub-limit within the policy for this exposure.

As a result of the complexity of the Board's property program, in conjunction with the litigation which occurred as a result of the WTC loss of September 11, 2001, technical oversight of the policy language contained in the 20+ policies which are issued is crucial. This combined with the significant oversight by the Bank of New York, Jacksonville, regarding the Board's COPs, has resulted in the need for specific technical expertise from the Board's risk management consulting firm of Siver Insurance Consultants, Inc. It is recommended that consulting expenses, incurred within the current fiscal year, and expenses to be incurred during the 2004-2005 fiscal year, be charged to the Board's self-insured property fund of (0100, 5320,9112,9999,7900) in an amount not to exceed $50,000 per year.

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

1. confirm renewal of its excess, all risk, replacement cost property insurance program, through Arthur J. Gallagher & Co., effective May 1, 2004 to May 1, 2005, for total insurance limits of $700,000,000 per occurrence with the following insurance companies and annual premiums:

Lloyd's of London & other Co.s	$ 8,329,304.50
Allianz Insurance Group	$ 2,106,783.68
Landmark American	$ 1,264,015.00
Employers of Wausau	$ 1,141,648.99
U.S. Fire Ins. Co.	$ 936,598.66
XL Insurance America	$ 886,503.36
Commonwealth Ins.	$ 767,178.00
First Specialty	$ 754,612.00
Westchester Surplus	$ 632,108.00
Axis Surplus (UK)	$ 591,932.00
Continental CNA	$ 587,120.53
Axis Surplus	$ 514,209.75
Great American	$ 372,404.00
Lloyd's of London (CRC)	$ 363,098.00
Arch Specialty	$ 343,620.50
Essex Ins.	$ 279,308.00
Great Lakes Ins.	$ 265,114.00
Glencoe Group	$ 240,112.00
Clarendon America	$ 132,508.00
USF&G Specialty	$ 24,504.00
TOTAL	**$20,532,682.97**

2. confirm purchase of terrorism coverage, including domestic and foreign (T-3 form), subject to an aggregate limit of $50,000,000, from Lloyd's of London, through Arthur J. Gallagher & Co., with an annual premium of $425,004, effective May 1, 2004 to May 1, 2005;

3. confirm purchase of stated value, all risk, replacement cost physical damage property coverage for WLRN equipment, including antennae, transmission lines, dishes, towers, and other equipment, with Allianz Insurance Group (A.M. Best A XV), through Arthur J. Gallagher & Co., with limits of $12,315,000, per stated schedule, at an annual premium of $550,550, effective May 1, 2004 to May 1, 2005;

4. authorize renewal of flood insurance, with National Flood Insurance Program (NFIP), through Arthur J. Gallagher & Co., for all properties required by the Federal government to be covered, with estimated premiums not to exceed $3,300,000 for coverages effective May 1, 2004 to May 1, 2005;

5. authorize the use of E.R. Brownell & Associates, Inc., J. Bonfill & Associates, Inc., Weidener Surveying & Mapping, P.A., and R. Aleman & Associates, Inc., to produce sealed elevation certificates, pursuant to NFIP guidelines, subject to their current contracts with the Board, with expenditures for these services to be taken from the Board's self-insured property account in an amount not to exceed $50,000;

6. authorize the Superintendent of Schools to seek a letter of reasonableness of its current property insurance program from the State of Florida Chief Financial Officer, or designee, pursuant to the requirements of Section 406 of the Federal Stafford Act;

7. authorize the Superintendent to begin working on a Request For Proposals (RFP) to seek competitive quotations from professional appraisal companies to have insurance appraisals completed on selected locations;

8. authorize the Superintendent, through Arthur J. Gallagher & Co., to continue meetings with current and prospective property insurers to further negotiations for a multi-year policy commitment, subject to appropriate cancellations provisions, and annual re-rate provisions, for coverage beginning May 1, 2005, or sooner if possible; and

9. authorize consulting expenses for the Board's property program incurred for fiscal year 2003-2004, and to be incurred for fiscal year 2004-2005, to Siver Insurance Consultants, Inc., pursuant to their existing contract with the Board for risk management consulting, with funding for such expenses to be paid from the Board's self insured property fund (0100,5320,9112,9999,7900), in an amount not to exceed $50,000 per year.

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