

Office of Human Resources
Howard S. Tames, Chief Personnel Officer

SUBJECT: BOILER AND MACHINERY INSURANCE COVERAGE

COMMITTEE: LEGISLATIVE RELATIONS, PUBLIC RELATIONS AND PERSONNEL SERVICES

The Board purchases 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.

Besides providing coverage for equipment breakdown, the policy provides full inspection services, pursuant to the requirements of the State of Florida, wherein The Hartford Steam Boiler Inspection and Insurance Company (HSB)(A.M. Best A+ X) devotes one full time inspector to the Board to inspect and file inspection certificates with the state on Board equipment.

At the Board meeting of September 12, 2002, the Board authorized purchase of its all risk, replacement cost Boiler and Machinery coverage with The Hartford Steam Boiler Inspection and Insurance Company (HSB), through Arthur J. Gallagher & Co., for a three-year renewal program, inclusive of program improvements which included the following:

- ◆ Increasing the coverage limits from \$10 million to \$50 million;
- ◆ Deductible change from \$10,000 per occurrence, except \$25,000 per occurrence for air conditioning systems and electric 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
- ◆ Three year policy period of September 13, 2002 to September 13, 2005, subject to annual re-rate.

Staff has been working to secure the third year renewal of the existing program, however, because of increases in the Board's insured values, resulting in an 11% increase, and two claims which have been brought against the insurer for losses which were incurred on a Klystron Tube for WLRN, and another loss consisting of a bearing which seized inside an air handling unit at Miami Edison Middle School, HSB is unable to renew the current program at the expiring premium of \$88,625.

Following negotiations for a renewal program with HSB, which is permitted pursuant to the provisions of State Board Rule 6A-1.012(11), which states that the Board may purchase insurance through direct negotiations and contract, staff has been successful in obtaining renewal terms which are very attractive in today's insurance marketplace. While HSB wanted to update the form which is currently utilized, proper notice pursuant to policy terms, was not provided, therefore, they are unable to force the new form's adoption. As such, HSB offered two renewal options consisting of a one year renewal, with improved policy provisions, and utilizing the existing form, or an offer of a three year renewal, subject to annual re-rate, requiring adoption of the new form.

Following a detailed review of the options presented, staff is recommending that the Board take advantage of the one year renewal with improved policy provisions, while being able to retain usage of the existing form, which has less restrictive coverage provisions. Following renewal, it is recommended that staff begin work on a Request For Proposal (RFP) to seek competitive proposals for coverage to become effective next year.

The recommended renewal terms with The Hartford Steam Boiler Inspection and Insurance Company (HSB) are as follows:

*Equipment Breakdown Limit (includes property damage, business income, extra expense, and service interruption) \$50,000,000

*Perishable Goods Limit: \$ 1,000,000

*Computer Equipment, Demolition and ICC, Expediting Expenses, Hazardous Substances and CFC Refrigerants Limit: \$ 1,000,000 (was \$10,000)

*Deductible (as expiring) \$10,000 per occurrence, except A/C and Refrigerating Equipment which is \$25/per Horsepower, \$10,000 minimum

Terms and Conditions as expiring, except:

1. Exclusion of antennae, aerials, dishes or towers
2. Exclusion of vacuum tubes or gas tubes

One year term effective September 13, 2004 to September 13, 2005.

Annual premium effective September 13, 2004 – September 13, 2005 - \$94,248 (reflects 7% increase over expiring premium of \$88,082, although insured values of covered equipment has increased 11%)

RECOMMENDED:

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

1. purchase of its all risk, replacement cost Boiler and Machinery Coverage with The Hartford Steam Boiler Inspection and Insurance Company (HSB)(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 one year term, effective September 13, 2004 to September 13, 2005; and
2. the Superintendent of Schools to begin work on a Request For Proposal (RFP) for Boiler and Machinery Insurance Program, to solicit competitive proposals for such coverage, with the RFP and recommended members of the Superintendent's Ad-Hoc Review Committee, pursuant to School Board Rule 6Gx13- 3F-1.022, Professional Service Contracts for Insurance or Risk Management Programs--Policy, to be brought back to the Board prior to the RFP being distributed.

HST:sc