

Office of Human Resources
Paul M. Cholak, Chief Personnel Officer

SUBJECT: RENEWAL OF COMPREHENSIVE FIDELITY BONDS AND RELATED PROGRAMS

COMMITTEE: INNOVATION, EFFICIENCY & GOVERNMENTAL RELATIONS

At the Board meeting of March 16, 2005, authorization was received to begin renewal negotiations for the comprehensive fidelity bonding program. Procurement of fidelity bonds for School Board employees is required, pursuant to Section 1001.42(10)(h), Florida Statutes, and the authority to enter into negotiations for these types of coverages is granted in State Board Rule 6A-1.012(11).

Staff from the Office of Risk and Benefits Management, through Arthur J. Gallagher & Co., have been negotiating with representatives from the incumbent sureties, as well as other companies which provide these types of coverages. As stated in the March agenda, the surety marketplace has become very restrictive with premiums on the rise and coverages being diminished. This difficult marketplace stems from the significant claims against surety companies which has occurred as a result of the bankruptcies of Enron Corporation and K-Mart, as well as the significant mismanagement and fraud cases stemming from corporations including HealthSouth Corp., and MCI, formerly WorldCom.

The Board's present program is as follows:

CURRENT PROGRAM

PUBLIC OFFICIAL BLANKET BOND

Covers all employees except those listed to be covered by position bonds

Surety: Zurich/Fidelity and Deposit (A.M. Best A+ XV)
Limits: \$25 million per occurrence
Deductible: \$50,000 per occurrence
Annual Premium: \$100,524

PUBLIC OFFICIAL NAMED POSITION BOND

Presently covers six specific employees in Treasury Management

Surety: Liberty Mutual (A. M. Best A+ XV)
Limits: \$27 million per occurrence
Deductible: \$0
Annual Premium: \$99,960

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POLICE OFFICERS SPECIAL SECURITY BOND

Based upon 186 sworn police officers employed by the Board, however additional uniformed officers are added automatically with no premium change

Surety: Liberty Mutual (A. M. Best A+ XV)
Limits: \$5,000 per officer
Annual Premium: \$2,691 (Total premium based upon number of officers as of 6/2004)

**TOTAL ANNUAL PREMIUM FOR 2004-2005 \$203,175
EXCLUDING MISCELLANEOUS BONDS**

RECOMMENDED PROGRAM

**EMPLOYEE DISHONESTY (BLANKET BOND) (Public Official Blanket Bond)
Covers all employees – is excess coverage for the employees who are also covered by the Named Position Bond**

Fidelity & Deposit/Zurich has offered a three year policy term, with the expiring \$25 million limit per loss, subject to a \$50,000 per loss deductible, for a three year term, with no increase in premium over expiring. Annual premiums for the three year period will be \$100,524. The recommended program is as follows:

Surety: Fidelity& Deposit/Zurich (A. M. Best A+ XV)
Limits: \$25 million per loss
Deductible: \$50,000 per loss
Annual Premium: \$100,524

**PUBLIC OFFICIAL NAMED POSITION BOND
Covers six specific employees in the Office of Treasury Management**

As previously stated, the surety market has become very restrictive. Specific bond types, such as the Named Position Bonds, are only available at rates on file with the Florida Department of Insurance, which when quoted, represents a sizeable increase in premiums. Based on the proposed increase, the state filed rate for Liberty Mutual would have resulted in an annual premium of \$426,060, a 326% increase. Staff requested that the broker, Arthur J. Gallagher & Co., seek alternatives in the marketplace, however none were found that had better pricing or had underwriting criteria which could be adhered to. Since no deductible options were available, further negotiations resulted in a more aggressive premium with newly filed rates in the amount of \$371,625, representing a 271% increase over expiring premium for the current limit of \$27 million.

Two additional alternatives were requested for the following limits:

- \$20 million limit - \$280,475 annual premium (180% increase)
- \$15 million limit - \$214,337 annual premium (114% increase)

Section 1001.42(10)(h), Florida Statutes states:

(h) Bonds of employees -- Fix and prescribe the bonds, and pay the premium on all such bonds, of all school employees who are responsible for school funds in order to provide reasonable safeguards for all such funds or property.

Staff from the Office of Risk and Benefits Management has had discussions with the Chief Financial Officer regarding the choices. Since the Blanket Bond is excess over the Named Position Bond (\$25 million limit), it is felt that the reduction of the Named Position Bond limit from \$27 million down to \$15 million would not materially lessen the Board's protection in the event of a loss, however the premium savings of \$157,288 was significant enough to justify the change. Therefore, the recommended program is as follows:

Surety:	Liberty Mutual (A. M. Best A+ XV)
Limits:	\$15 million per occurrence
Deductible:	N/A
Annual Premium:	\$214,337

PUBLIC OFFICIAL BONDS FOR SECURITY OFFICERS (POLICE OFFICERS)

Although Florida Statutes no longer require this bond, the requirement does continue to exist in School Board Rule 6Gx13-4A-1.095, School Police Officers.

The quoted renewal of the Security Officers Named Position Bond, represents a 37% increase in price, however, the number of officers used as the renewal base has increased by 14% since it was last quoted. Fidelity and Deposit/Zurich does have this type of bond filed with a small \$250 per loss deductible, which staff believes is appropriate. The recommended program is as follows:

Surety:	Fidelity & Deposit/Zurich (A. M. Best A+ XV)
Limits:	\$5,000 per officer (Quote based upon 212 officers)
Deductible:	\$250 per loss
Annual Premium:	\$3,700

**TOTAL RECOMMENDED ANNUAL PREMIUM FOR 2005-2006
EXCLUDING MISCELLANEOUS BONDS**

\$318,561

The premium comparison of the current versus the recommended program is as follows:

	Employee Dishonesty	Named Position	Security Officers
2004-2005	\$100,524	\$ 99,960	\$2,691
2005-2006	\$100,524	\$214,337	\$3,700
Difference	\$0	\$114,377	\$1,009

All other bonds being secured are quoted at the expiring rates, including Public Official Bonds for School Board Members, Superintendent of Schools; Chair and Vice Chair Bonds; Governmental Bonds for JROTC programs; and Notary Bonds.

Since the Employee Dishonesty (Blanket Bond) has been quoted for a three year period, staff is recommending that the Board authorize a three year program for all types of bonds quoted, with any changes in premiums, terms, or conditions to be brought back to the Board for further authorization.

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

1. authorize purchase of its Employee Dishonesty (Blanket Bond) coverage, covering all employees, and as excess coverage for those employees covered by the Public Official Named Position Bond, with limits of \$25 million per loss, subject to a deductible of \$50,000 per loss, for a three year term, with annual premium installments of \$100,524, effective June 1, 2005 to June 1, 2008, with Fidelity & Deposit/Zurich (A. M. Best A+ XV), through Arthur J. Gallagher & Co., subject to terms and conditions as provided in their quotation;
2. authorize purchase of its Public Official Named Position Bond coverage, covering six (6) stipulated employees in the Office of Treasury Management, with limits of \$15 million per occurrence, with an annual premium of \$214,337, from Liberty Mutual Insurance Company (A. M. Best A+ XV), through Arthur J. Gallagher & Co., for a three year term, effective June 1, 2005 to June 1, 2006, with annual premiums for the second and third years (June 1, 2006 – June 1, 2007 and June 1, 2007 – June 1, 2008) to be negotiated and any increase in premium, or change in terms or conditions to be brought back to the Board prior to renewal, subject to terms and conditions as provided in their quotation;

3. authorize purchase of its Public Official Bonds for Security Officers, with a per officer limit of \$5,000, subject to an initial reporting of 212 officers, at an annual premium of \$3,700, subject to a deductible of \$250 per loss from Fidelity & Deposit/Zurich (A. M. Best A+ XV), through Arthur J. Gallagher & Co., for a three year term, effective June 1, 2005 to June 1, 2006, with annual premiums for the second and third years (June 1, 2006 – June 1, 2007 and June 1, 2007 – June 1, 2008) to be negotiated and any increase in premium, or change in terms or conditions to be brought back to the Board prior to renewal, subject to the terms and conditions as provided in their quotation; and
4. authorize purchase of ancillary Public Official Bonds, including, but not limited to Notary Bonds, School Board Member Bonds, Superintendent's Bond, Chair and Vice Chair Bonds, and JROTC Bonds, from Liberty Mutual Insurance Company (A. M. Best A+ XV), through Arthur J. Gallagher & Co., for three years, effective June 1, 2005 – June 1, 2008, subject to no changes in terms or conditions as provided in their quotation.

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