Office of Superintendent of Schools
Board Meeting of May 18, 2005

May 11, 2005

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

SUBJECT: RENEWAL OF BOARD'S PROPERTY INSURANCE PROGRAM

COMMITTEE: INNOVATION, EFFICIENCY & GOVERNMENTAL RELATIONS

At the Board Meeting of February 16, 2005, 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 \$850 million in limits, with annual premiums not to exceed \$24.5 million, effective May 1, 2005. This authorization was based upon pricing based upon a 10% increase in total insured values, with no increase in the rate itself. Additional authorization was also received to renew the Board's flood coverage through the National Flood Insurance Program (NFIP) for those properties required by the Federal government to be covered, with estimated premiums not to exceed \$3.5 million for coverages effective May 1, 2005 to May 1, 2006

This item, pursuant to the authority received in February will provide the Board a full report of the program which was bound, effective May 1, 2005, while providing the Board some information with regard to the current status of the property insurance marketplace, subsequent to the very active hurricane season of 2004.

CURRENT STATUS OF THE INSURANCE MARKETPLACE

As outlined in the February item, while the property insurance market improved throughout the first half of 2004, which was reflected in the Board's prior property insurance renewal of May 1, 2004, with increased limits and reduced deductibles. The second half of the year, however, was not as positive as a result of the catastrophic events which included typhoons in the Pacific; four hurricanes in the Atlantic striking the State of Florida; and the Tsunami in the Pacific Rim area.

The 2004 hurricane season with its series of storms including Charley, Frances, Ivan, and Jeanne not only reversed the market trend, which was on course prior to August, 2004, the insurance fallout from those hurricanes dominated the market this year, especially for large property owners such as the Board with \$5.4 billion of exposed property in a prime catastrophe-prone area.

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Although not viewed as "Andrew-esque", the four storms negatively affected most insurers in a different manner than prior storms. Usually a catastrophic storm will cause such excessive damage that the payments made by the primary insurers will be so significant that they will then rely on the reinsurance industry to pay a portion of the loss. Most primary insurers, including Lloyd's of London syndicates, had structured their reinsurance contracts to provide coverage in excess of a larger retention, meaning that the primary insurers were retaining more risk prior to their reinsurance coverage funding part of the loss.

Because the four storms were not as veracious as Hurricane Andrew, most losses were retained by the primary insurers, without collecting any money back from their reinsurers, resulting in very poor experience for the primary insurance market. It was this same type of loss which affected many customers in the residential insurance marketplace, having to incur four separate windstorm deductibles, prior to their insurance responding.

Staff, in conjunction with the Board's broker, Arthur J. Gallagher & Co. began meeting with the insurance markets late in 2004 in order to be in position to begin talks about he Board's renewal. As the Board has been told before, the reputation that the Board has in the marketplace is that of partnership, loyalty, as well as having a superior risk to insure. That is why the companies who choose to provide a portion of their capacity in the Florida catastrophe market, seek to insure properties owned by Miami-Dade County Public Schools. For the past several years, most companies rely very heavily on computer modeling to determine possible loss scenarios in the catastrophic-prone areas. They rely upon this modeling in order to decide what risks to insure, and what part of the programs they want to provide limits, based upon their own reinsurance coverage attachments points.

STRUCTURE OF PROPERTY COVERAGE AND BOARD'S APPROACH

Since the Board's $96 Million loss from Hurricane Andrew, which when trended in 2005 dollars and current catastrophe modeling, would result in a $400 – $600 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 FOLLOWING THE TERRORISTS ATTACKS OF SEPTEMBER 11, 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 two systems which include RMS 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	RMS	EQE
1%	100 YEARS	$195 Million	$540 Million
.4%	250 YEARS	$373 Million	$932 Million
.2%	500 YEARS	$582 Million	$1.3 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. Much of the information which drives these models is currently being updated to reflect to nuances of the 2004 hurricane season, as they did not reflect the storm patterns which occurred last year, and it is expected that the newer models will have higher probabilities of loss for all storm types. 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 when the marketplace becomes more difficult, as it is now, 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, as their basis for their decision to commit available capacity to the Board, in lieu of customers who do not employ the same business partnerships.

A historical perspective of the Board's program since Hurricane Andrew is as follows:

Year	Insurable Values	Insurance Limits	Rate	Deductibles AOP/Wind
1992	$1.8 billion	$150,000,000	.039	$250,000/$1 million
1993	$2.1 billion	$200,000,000	.356	$250,000/2% $1mil./$10mil.
1994	$2.2 billion	$200,000,000	.353	$250,000/2% $1mil./$10mil.
1995	$2.2 billion	$200,000,000	.308	$250,000/2% $1mil./$10mil.
1996*	$4.1 billion	$350,000,000	.223	$500,000/2% $1mil./$20mil.
1997	$4.3 billion	$500,000,000	.205	$500,000/2% $1mil./$20mil.
1998	$4.2 billion	$700,000,000	.196	$500,000/2% $1mil./$10mil.
1999	$4.2 billion	$700,000,000	.192	$500,000/1% $1mil./$10mil.
2000	$4.5 billion	$700,000,000	.201	$500,000/1% $1mil./$10mil.
2001	$4.9 billion	$580,000.000	.255	$500,000/1% $1mil./$15mil.
2002	$4.7 billion	$200,000,000	.430	$500,000/4% $1mil./unlim.
2003	$4.8 billion	$560,000,000	.442	$500,000/4% $1mil./unlim.
2004	$4.9 billion	$700,000,000	.416	$500,000/3% $1mil./unlim.
2005	***$5.4 billion***	***$700,000,000***		***$500,000 3% $1MIL./UNLIM.***

PROPERTY INSURANCE PROGRAM EFFECTIVE MAY 1, 2005

Effective May 1, 2005, a program consisting of $700 million of coverage was secured and bound with annual premium of $23,188,815.77, 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%), which was reduced last year 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.

The all risk coverage for the aerials, transmitter equipment, towers, etc., which provides broadcasting capabilities to WLRN radio and television was previously covered under a separate program underwritten by Allianz Insurance Company. Because of their reinsurance treaty problems, Allianz had originally send a non-renewal notice on the entire program, which included 10% of limits throughout the program, as well as coverage for the broadcasting equipment, with limits of $12,315,000, subject to a 3% windstorm deductible, with an annual premium of $550,000. Following meetings with the lead underwriter for North America, Allianz agreed to remain on the main program with a 5% limit throughout the program, but was unable to write the broadcasting equipment separately. Effective May 1, 2005, the broadcasting equipment coverage was placed in the main property program, with an annual premium of $605,000 included within the premium for the main program, representing a premium increase for this equipment of 10%.

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 $425,008, **the same as expiring, except for the FIGA surcharge which went from $4 to $8.**

At the Board meeting of February 16, 2005, the Board provided authorization to secure and bind a maximum of $850 million, with annual premiums not to exceed $24.5 million. This authorization was provided, based upon information available to staff in February, 2005, wherein it appeared that an additional $150 million in limits, over the currently carried $700 million, would be available.

Since February, the property insurance marketplace for catastrophe-prone areas, such as South Florida, has continued to become more restrictive. In anticipation of carriers reinsurance renewals of July 1, 2005, some carriers were unable to provide the same capacity that they had over the past few years. Additionally, Lloyd's of London has established a Franchise Board, which monitors the limits provided by the various syndicates which make up Lloyd's. The modeling system utilized by the Franchise Board is as restrictive as the EQE model previously mentioned in this item, resulting in a Probable Maximum Loss (PML) estimate for Miami-Dade County Public Schools in a Category 5 storm of $1.2 billion. Because of this PML, some syndicates who were thought to be able to provide limits in the new recommended layer of $150 million excess of $700 million, were unable to do so, based upon the underwriting information they were provided. These market forces have also made it difficult to complete the top layers of the existing $700 million program, without the School Board participating as a co-insurer. While this is a concern, staff feels strongly that the Board should not reduce the present $700 million structure to a lesser amount.

It is anticipated that the Bank of New York, Jacksonville, will be more comfortable with the renewal of the existing program, since the additional limits which were sought are not available. Additionally, staff feels that over the next month, additional capacity may become available to fill in portions where the Board is participating, thereby reducing its liability.

The Federal Emergency Management Agency (FEMA) will continue to be instrumental in the Board's property program in the event of a loss. Not only will the Board be eligible for reimbursement of its windstorm deductible, in the event of a declared emergency, any portions that the Board would have to co-insurer, if the loss was that great, would also be reimbursable by FEMA. As has been done in the past, a letter outlining the renewal program will be sent to the State of Florida, Department of Financial Affairs, seeking a written statement that the program is reasonable, based upon what is readily available in the marketplace. This letter provides the assurance that pursuant to the provisions of the Federal Stafford Act, the Board will seek reimbursement of out of pocket expenses in the event of a storm.

Effective May 1, 2005 total property insurance premiums totaled $23,613,823.76, which represents expenditures of $ 886,176.24 under the authorization not to exceed $24.5 million provided by the Board at its meeting of February 16, 2005 for property coverage premiums. The layers of the program in which the Board is participating as a coinsurer, and premiums have not been paid to carriers, represents an additional premium savings from the $23,613,823.76, all of which will be held in the program becomes fully subscribed.

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

YEAR	LIMITS OF COVERAGE		DEDUCTIBLES	TOTAL PREMIUM
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**
2005-2006	Windstorm-	**$700 million**	**3% values/loc.**	**$23,188,816**
	Other Perils-	$700 million	$500,000/loss	Included
	WLRN	$12.3 million	3%	Included
	Terrorism	$50 million	$100,000/loss	$425,008
	TOTAL PREMIUM			**$23,613,824**

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, 2005 is as follows, including applicable surcharges:

PRIMARY $50 MILLION LAYER

INSURER	A.M. BEST	LIMITS	ANNUAL PREMIUM
LLOYD'S OF LONDON/UK*	A XV	$23,500,000	$ 3,844,964.50
LLOYD'S (CRC)	A XV	$ 3,500,000	$ 572,660.50
ALLIANZ GROUP	A XV	$ 2,500,000	$ 409,450.54
LANDMARK AMERICAN	A X	$ 4,000,000	$ 654,464.00
WESTCHESTER SURPLUS	A X	$ 5,000,000	$ 818,079.00
LIBERTY MUTUAL FIRE	A XV	$ 5,000,000	$ 818,897.08
COMMONWEALTH INS.	A- IXI	$ 2,500,000	$ 409,041.50
AXIS SURPLUS (RPS)	A XIV	$ 2,500,000	$ 409,041.50
U.S. FIRE INS. CO.	A- XII	$ 1,500,000	$ 245,671.92
TOTAL LAYER		**$50,000,000**	**$ 8,182,270.54**

$50 MILLION EXCESS OF PRIMARY $50 MILLION

INSURER	A.M. BEST	LIMITS	ANNUAL PREMIUM
LLOYD'S OF LONDON/UK*	A XV	$20,500,000	$ 1,722,590.00
AXIS SURPLUS/UK	A XIV	$ 5,000,000	$ 420,144.00
ALLIANZ GROUP	A XV	$ 2,500,000	$ 210,280.07
LANDMARK AM.(RPS)	A X	$ 4,000,000	$ 336,116.00
LLOYD'S/CRC	A XV	$ 2,500,000	$ 210,074.00
LIBERTY MUTUAL FIRE	A XV	$ 5,000,000	$ 420,564.14
COMMONWEALTH(RPS)	A- IX	$ 500,000	$ 42,018.00
ESSEX INS.(CRC)	A XII	$ 2,500,000	$ 210,074.00
GREAT AMERICAN(RPS)	A XIV	$ 5,000,000	$ 420,144.00
TRADERS & PACIFIC (CRC)	A XV	$ 2,500,000	$ 210,074.00
TOTAL LAYER		**$ 50,000,000**	**$ 4,202,078.21**

$50 MILLION EXCESS OF $100 MILLION

INSURER	A.M. BEST	LIMITS	ANNUAL PREMIUM
LLOYD'S OF LONDON/UK*	A XV	$ 17,500,000	$ 1,075,317.00
JAMES RIVER(CRC)	A- VII	$ 2,500,000	$ 153,619.00
ALLIANZ	A XV	$ 2,500,000	$ 153,768.62
TRADERS & PACIFIC(RPS)	A XV	$ 2,500,000	$ 153,619.00
CONTINENTAL/CNA	A XV	$13,000,000	$ 799,600.80
CLARENDON AM.(RPS)	A- XV	$ 2,500,000	$ 153,619.00
LLOYD'S/CRC	A- XV	$ 1,000,000	$ 61,450.00
TRADERS & PACIFIC(CRC)	A XV	$ 2,500,000	$ 153,619.00
ARCH SPECIALTY(CRC)	A- XIII	$ 2,500,000	$ 153,619.00
COMMONWEALTH(RPS)	A- IX	$ 3,500,000	$ 215,065.00
TOTAL LAYER		**$50,000,000**	**$ 3,073,296.42**

$50 MILLION EXCESS OF $150 MILLION

INSURER	A.M. BEST	LIMITS	ANNUAL PREMIUM
LLOYD'S OF LONDON/UK*	A XV	$ 28,000,000	$ 1,290,382.00
ALLIANZ GROUP	A XV	$ 2,500,000	$ 115,326.46
LANDMARK AM.(RPS)	A X	$ 5,000,000	$ 230,426.50
COMMONWEALTH(RPS)	A VIII	$ 2,500,000	$ 115,215.25
AXIS SURPLUS (RPS)	A XIV	$ 1,250,000	$ 57,609.63
XL INS. AMERICA(CRC)	A XV	$ 750,000	$ 34,597.94
GREAT LAKES (UK)/ MUNICH(CRC)	AXV	$ 2,500,000	$ 115,211.25
ARCH SPECIALTY(CRC)	A XIII	$ 3,000,000	$ 138,257.50
LIBERTY MUTUAL FIRE	A XV	$ 2,000,000	$ 92,265.17
TRADERS & PACIFIC(CRC)	A XV	$ 2,500,000	$ 115,215.25
TOTAL LAYER		**$ 50,000,000**	**$ 2,304,506.94**

$50 MILLION EXCESS OF $200 MILLION

LLOYD'S OF LONDON/UK*	AXV	$ 31,000,000	$ 1,086,097.00
ALLIANZ GROUP	A XV	$ 2,500,000	$ 87,675.09
AXIS SURPLUS(RPS)	A XIV	$ 2,000,000	$ 70,074.00
XL INS. AMERICA(CRC)	A XV	$ 5,000,000	$ 175,350.18
GREAT LAKES (UK)/ MUNICH(CRC)	A XV	$ 2.500,000	$ 87,587.50
ARCH SPECIALTY(CRC)	A XIII	$ 4,500,000	$ 157,661.50
TRADERS & PACIFIC(CRC)	A XV	$ 2,500,000	$ 87,591.50
TOTAL LAYER		**$ 50,000,000**	**$ 1,752,036.77**

$50 MILLION EXCESS OF $250 MILLION

LLOYD'S OF LONDON/UK*	A XV	$ 23,000,000	$ 619,866.00
ALLIANZ GROUP	A XV	$ 2,500,000	$ 67,442.38
COMMONWEALTH (RPS)	A IX	$ 5,000,000	$ 134,754.00
CLARENDON AMERICA	A- X	$ 5,000,000	$ 134,754.00
XL INS. AMERICA	A XV	$ 5,000,000	$ 134,884.75
GREAT LAKES (UK) MUNICH(CRC)	A XV	$ 2,500,000	$ 67,375.00
AXIS SURPLUS(RPS)	A XIV	$ 2,000,000	$ 53,904.00
AXIS SURPLUS (UK)	A XIV	$ 5,000,000	$ 134,754.00
TOTAL LAYER		**$ 50,000,000**	**$ 1,347,734.13**

$50 MILLION EXCESS OF $300 MILLION

LLOYD'S OF LONDON/UK*	A XV	$ 15,500,000	$ 250,643.00
ALLIANZ GROUP	A XV	$ 2,500,000	$ 40,465.43
XL INS. AMERICA(CRC)	A XV	$ 5,975,000	$ 96,712.37
GREAT LAKES I(UK) MUNICH(CRC)	A XV	$ 2,500,000	$ 40,425.00
AXIS SURPLUS(UK)	A XIV	$ 5,000,000	$ 80,854.00
WESTCHESTER SURPLUS	A X	$ 5,000,000	$ 80,854.00
COMMONWEALTH INS.	A IX	$ 3,525,000	$ 57,003.25
STEADFAST INS.(RPS)	A XV	$ 10,000,000	$ 161,704.00
TOTAL LAYER		**$ 50,000,000**	**$ 808,661.05**

$50 MILLION EXCESS OF $350 MIILLION

INSURER	A.M. BEST	LIMITS	ANNUAL PREMIUM
LLOYD'S OF LONDON/UK*	A XV	$ 25,250,000	$ 272,199.00
ALLIANZ GROUP	A XV	$ 2,500,000	$ 26,976.95
XL INS. AMERICA(CRC)	A XV	$ 5,000,000	$ 53,953.90
GREAT LAKES (UK) MUNICH(CRC)	A XV	$ 2,500,000	$ 26,950.00
TRADERS & PACIFIC(RPS)	A XV	$ 2,500,000	$ 26,954.00
ARCH SPECIALTY(CRC)	A- XIII	$ 1,000,000	$ 10,784.00
MIAMI-DADE SCHOOLS (QUOTA SHARE PARTICIPANT)		**$ 11,250,000**	**$ 121,275.00**
TOTAL LAYER		**$ 50,000,000**	**$ 539,092.85**

$100 MILLION EXCESS OF $400 MILLION

INSURER	A.M. BEST	LIMITS	ANNUAL PREMIUM
LLOYD'S OF LONDON/UK*	A XV	$ 35,000,000	$ 188,654.00
ALLIANZ GROUP	A XV	$ 5,000,000	$ 26,976.95
XL INS. AMERICA(CRC)	A XV	$ 10,000,000	$ 53,953.90
GREAT LAKES (UK) MUNICH(CRC)	A XV	$ 5,000,000	$ 26,950.00
COMMONWEALTH(RPS)	A IX	$ 5,000,000	$ 26,954.00
LANDMARK AMERICAN	A X	$ 20,000,000	$ 107,804.00
AXIS SURPLUS (UK)	A XIV	$ 5,000,000	$ 26,954.00
MIAMI-DADE SCHOOLS (QUOTA SHARE PARTICIPANT)		**$ 15,000,000**	**$ 80,854.00**
TOTAL LAYER		**$100,000,000**	**$ 539,100.85**

$200 MILLION EXCESS OF $500 MILLION

INSURER	A.M. BEST	LIMITS	ANNUAL PREMIUM
LLOYD'S OF LONDON/UK*	A XV	$ 34,000,000	$ 74,804.00
LANDMARK AM.(RPS)	A X	$ 50,000,000	$ 110,004.00
CLARENDON AM.(RPS)	A- X	$ 5,000,000	$ 11,004.00
COMMONWEALTH (RPS)	A IX	$ 30,000,000	$ 66,004.00
ALLIANZ GROUP	A XV	$ 10,000,000	$ 22,022.00
MIAMI-DADE SCHOOLS (QUOTA SHARE PARTICIPANT)		**$ 71,000,000**	**$ 156,200.00**
TOTAL LAYER		**$200,000,000**	**$ 440,038.00**

PROPERTY TOTAL $700,000,000 $23,188,815.76**

***includes Lloyd's of London syndicates and other London-based insurers including Lexington Insurance, Swiss Re, Munich American, Houston Casualty and other specified carriers.**

****includes premium attributable to layer if full subscribed. Unspent premiums will be retained to complete layer's placement.**

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
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 at the enc of this calendar year, 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 $425,008, same as expiring, except for the FIGA fee.

WLRN TRANSMISSION EQUIPMENT
The School Board owns various equipment 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. Since 2003, Allianz Insurance Company provided stand alone coverage for this equipment by issuing an endorsement to their property policy. As stated previously, Allianz was unable to continue providing the same limits they have in the past, and was unable to continue providing the coverage for the transmission equipment. Because of the exposure of this equipment, adequate insurance is crucial to a business continuity plan for WLRN. Over the past year, staff from the Office of Risk and Benefits Management has been working with WLRN to develop a plan with regard to both the older tower, which currently only houses the FM antenna, and the new tower, which provides space for all new FCC approved equipment, once the formal approval from FCC is received.

The current condition of the older tower continues to be of concern, especially during hurricane season, because of the top 150 feet of the tower which according to an inspection report conducted approximately two years ago, is compromised. Since the equipment on this tower is mostly for emergency notification purposes for both Broward and Miami-Dade Counties, much discussion has transpired about the two counties taking responsibility for the tower in the future. According to WLRN personnel, the two counties are currently seeking proposals for the refurbishment of the tower to meet their needs. Until an agreement to do otherwise is final, the Board will need to continue to insure both towers.

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

PROPERTY TOTAL	**$700,000,000**	**$23,188,815.76**
WLRN ANTENNAE/TOWER/EQUIP.	**$ 12,315,000**	**$ 605,000.00 (included)**
TERRORISM (LLOYD'S)	**$ 50,000,000**	**$ 425,004.00**

PROGRAM TOTAL ***$23,613,815.76***

<u>TERMS AND CONDITIONS OF MASTER PROPERTY INSURANCE PROGRAM</u>

Sublimits (per occurrence):

Landscape	$ 5,000,000	
Extra Expense	$ 5,000,000	
Increased Cost Of Construction	$50,000,000	***INCREASED FROM $30 MILLION AT RENEWAL***
Demolition Off-Premises	$50,000,000	***INCREASED FROM $30 MILLION AT RENEWAL***
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 shall be deducted 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 the total deductible 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 **from being a declared hurricane by the National Weather Service to being a Tropical Storm or other non-hurricane storm. (updated 2005)**

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

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.

<u>Bank of New York, Jacksonville</u>
10161 Centurion Parkway
Highwoods Center
Jacksonville, Florida 32256
Attention: Ms. Paula Starr

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 was done during the 2004-2005 policy year to make sure that the required limits of NFIP were purchased. Newly identified properties are currently having elevation certificates finalized so that the proper applications for NFIP coverage can be provided. There is a 30 day waiting period for coverage, once the premiums are remitted on a new property.

The budget which was approved at the Board meeting of February 16, 2005 for NFIP policies purchased from May 1, 2005 to May 1, 2006 is $3,500,000. 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 three 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 most current letter is dated December 2, 2004 letter from Mr. Kevin McCarty, Director, Department of Financial Services, reviewing the 2004-2005 program. Staff will request an updated letter from the State of Florida, based upon the current year's program structure.

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.

Since all carriers and syndicates are utilizing computer generated modeling to determine the Board's PML, it is crucial that the Board provide the markets as much information as possible about specific aspects of its buildings in an effort to minimize the effects of the modeling formulas which determine possible loss values. These variables include ages of roofs by location; roofing structure; roofing type; shuttering information by location, as well as others. Staff feel strongly that it attempt to obtain as much information as possible about these items in an effort to minimize the effects of the computer modeling.

Following a challenging hurricane season which did not match any prior hurricane season in history, 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 continue with current property markets, as well as prospective markets. These negotiations must include the attempt to complete the subscription of the renewal program on the layers the Board is now participating as a quota share participant, but should also include the possibility of multi-year policy arrangements, subject to cancellation provisions and re-rate endorsements. Additionally, as the market changes, new markets may emerge throughout the year which may provide additional capacity in future years. Most recently Swiss Re and Munich American Risk Partners have become a partner on the program, and their available limits may increase in future years. Staff is recommending that ongoing meetings with these companies be scheduled, through its broker, Arthur J. Gallagher & Co.

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. Therefore, it is recommended again this year that consulting expenses, incurred within the current fiscal year, and expenses to be incurred during the 2005-2006 fiscal year, be charged to the Board's self-insured property fund of (0100, 5320,9112,9999,7900) in an amount not to exceed $60,000 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, 2005 to May 1, 2006, 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	$	10,425,516.50
Allianz Insurance Group	$	1,160,384.49
Arch Specialty(CRC)	$	460,322.00
Axis Surplus(RPS)	$	590,629.13
Axis Surplus(UK)	$	662,706.00
Clarendon America(RPS)	$	299,377.00
Commonwealth Ins.(RPS)	$	1,066,055.00
Continental CNA	$	799,600.80
Essex Ins.(CRC)	$	210,074.00
Great American(RPS)	$	420,144.00
Great Lakes(UK)/Munich(CRC)	$	364,498.75
James River(CRC)	$	153,619.00
Landmark American(RPS)	$	1,438,814.50
Liberty Mutual Fire/LMG	$	1,331,726.38
Lloyd's of London (CRC)	$	844,184.50
Steadfast Ins. Co./Zurich(RPS)	$	161,704.00
Traders & Pacific (Endurance RPS)	$	180,573.00
Traders & Pacific (OneBeacon CRC)	$	566,499.75
U.S. Fire Ins. Co.(CRC)	$	245,671.92
Westchester Surplus(RPS)	$	898,933.00
XL Insurance America(CRC)	$	549,453.04
Miami-Dade Schools (Quota Share)	$	358,329.00
TOTAL	**$**	**23,188,815.76**

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 $425,008, effective May 1, 2005 to May 1, 2006;

3. 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;

4. 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;

5. authorize the Superintendent to provide the property insurance marketplace specific underwriting criteria as needed by markets including specific information on roofing, shutters, etc., to lower the Probable Maximum Loss (PML) estimates used for computer generated modeling of hurricane claims;

6. authorize the Superintendent, through Arthur J. Gallagher & Co., to continue meetings with current and prospective property insurers to attempt to complete the layers which the Board is currently participating on a quota share basis, with the Board to be informed on additional capacity availability through a memorandum for current coverage, and to further negotiations for multi-year policy commitments, subject to appropriate cancellations provisions, and annual re-rate provisions, for coverage beginning May 1, 2006, or sooner if possible; and

7. authorize consulting expenses for the Board's property program incurred for fiscal year 2005-2006, 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 $60,000 per year.

PMC:sc