

Business Operations
Ofelia San Pedro, Deputy Superintendent

SUBJECT: BOILER AND MACHINERY INSURANCE COVERAGE

COMMITTEE: INNOVATION, EFFICIENCY & GOVERNMENTAL RELATIONS

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 of 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.

Beside 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. The current annual premium for this coverage is \$94,247.

Staff and the Board's broker for its property insurance programs, including boiler and machinery coverages, has been negotiating renewal terms for this program, 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.

In addition to the limits of coverage contained in this policy, a major function of this coverage is to provide state-mandated boiler and machinery inspections on identified vessels. HSB has developed a strategic program to provide for the necessary inspections for existing equipment, as well as newly installed covered equipment on renovated and new facilities. This includes access to inspectors who are multi-lingual, which is vital when the inspectors are dealing with the Zone Mechanics in the district. The Board's insurance consulting firm, Siver Insurance Consultants, Inc. has provided a written recommendation recommending renewal, preferably on a multi-year basis, due to unstable market conditions in the property market, and the satisfaction of the current work being done by HSB.

I am pleased to inform the Board that the negotiations have resulted in renewal terms which are very aggressive and provide for a three year commitment on behalf of HSB. The terms of the renewal are as follows:

Carrier	<u>2004-2005</u> HSB	<u>2005-2006</u> HSB
Total Insured Values (TIV) base	\$4.6 billion	\$4.8 billion
Limit of Liability	\$50 million	\$50 million
Deductible:		
Direct coverage	\$10,000/loss	\$10,000/loss
A/C and Refrig. Equip.	\$25 per HP/ \$10,000 min.	same
Perishable Goods	10% of loss/ \$10,000 min.	same
Inspections pursuant to Florida Administrative Code Chapter 69A-51, Boiler Safety	yes	yes
Annual Premium	\$94,248	\$96,132
3-year Policy (billed each anniversary Period of 9-13)	yes	yes

Since the rating base for this coverage is based upon total insured values which apply to this type of coverage, times a rate, the TIV increase of 4.1% would generate an increase in the annual premium from the expiring premium of \$94,248 to \$98,145. Due to the fact that the Board is viewed as a premium account, staff and the Board's broker has been successful in negotiating the annual premium down to \$96,132, in spite of the TIV increase, representing an increase of approximately 2.0%. The resultant rate is .00198387/\$100 value, and HSB will guarantee that rate for three years, subject to a loss ratio of equal to or less than 30%.

Staff is recommending that the Board authorize this very aggressive renewal for its boiler and machinery insurance coverage with HSB, effective September 13, 2005.

RECOMMENDED: That The School Board of Miami-Dade County, Florida, authorize renewal of its Boiler and Machinery Insurance coverage, with Hartford Steam Boiler Insurance and Inspection Company (HSB)(A.M. Best A+X), through Arthur J. Gallagher & Co., effective September 13, 2005, at an annual premium of \$96,132, based upon a rate of .00198387/\$100 value times total insured values of \$4,845,679,559, for a three year term, with the rate remaining constant for the three year term as long as the loss ratio remains at 30% or less.