Office of Superintendent of Schools
Board Meeting of May 10, 2006

May 8, 2006

Business Operations
Ofelia San Pedro, Deputy Superintendent

SUBJECT: RENEWAL OF BOARD'S PROPERTY INSURANCE PROGRAM

COMMITTEE: INNOVATION, EFFICIENCY & GOVERNMENTAL RELATIONS

At the Board Meeting of February 15, 2006, the Board authorized Arthur J. Gallagher & Co. to secure and bind maximum available limits of all risk, replacement cost, property insurance coverage effective May 1, 2006, with a goal of obtaining $350 million in limits for an annual premium not to exceed $30 million. Underlying this authorization were the following assumptions: (1) a 27% increase in total insured values driven by both the District's construction activity and increases in real estate values and construction costs; and (2) an expectation of pricing increases due to the volatility of the catastrophic insurance marketplace following the 2004 and 2005 Atlantic hurricane seasons. 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, 2006 to May 1, 2007.

PROPERTY INSURANCE PROGRAM

The excess property insurance marketplace has been seriously impacted by losses incurred during the 2004 and 2005 Atlantic hurricane seasons. Total insured catastrophic losses for 2005 are estimated at $56.8 billion, representing the largest loss in the insurance industry's history. More than 90% of the losses stemmed from the three hurricanes which struck South Florida last hurricane season (Katrina, Rita and Wilma). Increased losses result in lower capital levels for insurers, reducing the amount of risk they can take in subsequent years. This decrease in supply comes at a time when increased construction activity and higher valuations in South Florida have greatly increased demand for windstorm coverage.

Terms for reinsurance contracts which were renewed during the January 1, 2006 renewal season included significantly higher rates, larger deductibles and self-insured retentions, and in many instances specific restrictions as to the amount of coverage a primary insurer can write in a catastrophic-prone area. Higher reinsurance prices typically get passed along to the ultimate customer, driving up the price of the coverage.

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The convergence of these factors has produced a marketplace where there is less coverage available at significantly higher prices than previously anticipated. Staff's goal of obtaining $350 million in renewal limits was not achievable at any price. A program consisting of $200 million in limits was able to be bound, effective May 1, 2006. The program consists of four $50 million layers, with the Board participating as a coinsurer for approximately $30 million of the $200 million.

A major consideration for staff when determining whether to purchase property insurance in this kind of market, and how much to purchase, are the requirements of the Federal Stafford Act, which requires that the district continue to purchase adequate property insurance in order to be eligible to receive FEMA funds. Additionally, all of the district's major financing contracts, including Certificates of Participation (COP's) and Master Equipment Lease Agreements, contain requirements for the district to purchase adequate property coverage with limits which are commercially available in the marketplace, and from insurers that meet or exceed specific financial specifications. As outlined in the agenda item from the February 15, 2006 Board meeting, a letter of reasonableness from the Florida Office of Insurance Regulation is sought annually to comply with the provisions of Section 406 of the Federal Stafford Act which requires that the individual state's insurance commissioner certifies that the property insurance carried by an insured is "reasonable" based upon marketplace conditions.

The program being recommended is as good as any we have been able to identify for any South Florida insured. The time spent working with insurers to educate them on our program, and our consistent presence in the markets over the past twenty years resulted in capacity coming to Miami-Dade County Public Schools before similar risks. At the same time, staff believes that the insurance marketplace has completely overreacted to the risks presented as a result of the past two hurricane seasons. While some work was done this year to identify risk financing alternatives, we will aggressively look for creative ways to insulate the district from the very volatile insurance market in the future. Opportunities such as assuming much larger self insured retentions (deductibles) in conjunction with the creation of a risk pool of Florida school districts across the state must be thoroughly explored in an effort to insulate districts from market changes which result in limited coverage at virtually unaffordable prices.

Pursuant to the authority received at the Board meeting of February 15, 2006, a program consisting of $200 million of coverage was secured and bound, effective May 1, 2006, with annual premiums of $25,169,750 (excluding Terrorism and assessments). REVISED

This coverage is subject to a per occurrence windstorm deductible of four percent (4%) per location (school/administration building), subject to a per occurrence deductible of $25 million; and $500,000 per occurrence for all other perils, except flood, which is in excess of National Flood Insurance Program (NFIP) – covered properties. In the past, FEMA has reimbursed the district for qualifying expenses that fell below the deductible level.

The all risk coverage for the aerials, transmitter equipment, towers, etc., which provides broadcasting capabilities to WLRN radio and television has in past years been structured as a separate program from the master property program, or included in the master program, depending upon what was available in the insurance and reinsurance markets. Effective May 1, 2006, the team was successful in its negotiations to keep the WLRN equipment with limits of $15.67 million in the master property program, as opposed to having to carve it out with a much larger deductible applied to the equipment.

TERRORISM

On November 19, 2002 Congress originally passed the Terrorism Insurance Act of 2002 (TRIA) which was extended this past year by Congress to be in effect through 2007. Insurance coverage provided by companies, pursuant to the provisions of TRIA, is solely for foreign terrorism acts. Many large public entities including Miami-Dade County Public Schools, believe that coverage for acts of domestic terrorism is also 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 2006-2007 coverage year because of the risk of having an event such as a truck driving through a school, 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 recommended 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 $450,004.

CITIZENS INSURANCE ASSESSMENT

The Board was notified of the probability of having to pay an additional state assessment at the Board meeting of February 15, 2006 when the property binding authority was obtained. Citizens’ Property Insurance Corporation (Citizens), the state created insurer of last resort which was created to cover homeowners who cannot obtain windstorm insurance from private companies, announced its assessment stemming from the deficit which was created as a result of the losses from the 2004 hurricane season. The assessment is being levied against all insurers and insureds in the state, regardless of whether they had coverage with Citizens or not. The assessment of 6.84% surcharge is supposed to cover Citizens $500 million shortfall from 2004 losses, although Citizens total deficit for 2004 and 2005 losses now stands at $1.7 billion. A second assessment to cover these additional losses is likely next year.

The district's legislative staff, in conjunction with lobbyists from Miami-Dade County and the Florida School Board Association (FSBA) attempted to introduce legislation during this legislative session to exclude public entities from this assessment since it only applies to Excess/Surplus Lines insurers, and public entities are not subject to premiums taxes for Excess/Surplus Lines insurers. Unfortunately, this proposed legislation died in committee and does not appear to be a viable solution for this year. Therefore staff is seeking authority from the Board to pay its Citizens Assessment which is estimated to be approximately $1,900,000.

SUMMARY
The following chart outlines the property program which was bound effective May 1, 2006, along with recommended purchases of terrorism coverage and the state's Citizens assessment:

YEAR	LIMITS OF COVERAGE	DEDUCTIBLES	TOTAL PREMIUM	
2006-2007	Windstorm - $200 million	4% values/loc.	$25,169,750	REVISED
	Other Perils -$200 million	$500,000/loss	Included	
	WLRN Included	4% values	Included	
	Fees (FIGA & Fire Marshall)		$2,482	
	Total Coverage Bound 5-1-06		$25,172,232	
	Terrorism $50 million	$100,000/loss	$450,004	
	Citizens Assessment		$1,900,000 (estimate)	
	TOTAL PREMIUMS AND ASSESSMENT FOLLOWING BOARD MEETING OF 5-10-06		$27,552,236	REVISED

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. They will also be receiving an annual report from the Board's insurance consulting firm of Siver Insurance Consultants, Inc., as required annually, to outline the district's property program, specifically addressing the inability to secure higher limits of coverage which were reasonably and commercially available in the marketplace.

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 COPs program.

As a result of the complexity of the Board's property program, 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 2006-2007 fiscal year, be charged to the Board's self-insured property fund of (0100, 5320, 9112, 9999, and 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, 2006 to May 1, 2007, for total insurance limits of $200,000,000 per occurrence with the following insurance companies and annual premiums:

Arch Specialty (CRC)	$ 362,504.00
Axis Surplus (UK)	$ 520,281.80
Berkshire Nat. Fire & Marine (CRC)	$5,328,770.00
Commonwealth Ins.(RPS)	$1,200,012.00
Continental CNA	$ 600,604.00
Essex Ins. (CRC)	$ 480,004.00
Great Lakes (UK)/Munich (CRC)	$ 500,004.00
Landmark American (RPS)	$1,800,012.00
Lexington Ins. Co. (UK)	$2,223,379.00
Lexington (UK)	$1,482,254.00
Liberty Mutual Fire/LMG	$1,751,758.00
Lloyd's of London & Co.'s (CRC)	$ 495,008.00
Lloyd's of London UK	$3,070,248.10
Lloyd's of London UK Total	$2,406,258.00
Steadfast Munich/MARP UK	$ 531,119.10
Swiss RE UK	$1,595,008.00
Traders & Pacific (Endurance RPS)	$ 300,004.00
Westchester Surplus (RPS)	$ 525,004.00

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(includes FIGA & Fire Marshall fees)

TOTAL **$25,172,232.00**

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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 $450,004, effective May 1, 2006 to May 1, 2007;

3. authorize payment of the Citizens Assessment in the amount of 6.84% of applicable insurance premiums, pursuant to State of Florida requirements, with total assessments not to exceed $1,900,000;

4. 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;

5. 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;

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, including changing allocation through adding or deleting carriers not to exceed total expenditures of REVISED $30,000,000 for premiums, assessments and fees, with the Board to be informed on additional capacity availability or carrier changes through a memorandum for REVISED current coverage;

7. authorize the Superintendent to initiate negotiations for alternative risk financing options for future years; and

8. authorize consulting expenses for the Board's property program incurred for fiscal year 2006-2007, 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.

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