

Personnel Management and Services
Nelson E. Diaz, Deputy Superintendent

SUBJECT: RENEWAL OF BOARD'S PROPERTY INSURANCE PROGRAM

At the Board meeting of April 12, 2000, the Board authorized the second year renewal of the current three-year, all risk, replacement cost property insurance program, to be effective May 1, 2000. The Board also authorized the Superintendent, through Arthur J. Gallagher & Co., Miami, Florida, to continue to explore the possibilities of structuring a Board-provided Builder's Risk Program for its properties under construction, and authorized staff to begin negotiations with the Board's insurers regarding the third year renewal of its program, which becomes effective May 1, 2001.

Last year, the Board was informed that after a few years-of market "softening", where property insurers and reinsurance companies were negotiating lower deductibles and premium reductions, the market had taken a definitive turn for the worse, especially for property owners in high risk areas such as South Florida. Because of the May 1, 2000 renewal date for the present program, it appears that the Board was somewhat insulated from further deteriorations in the market, which plagued property owners with renewals in July through December, 2000. Unfortunately, marketplace conditions in 2001 continue to further deteriorate, creating significant challenges for property owners with large concentrated values, especially in catastrophic prone areas. The Board's reputation in the property insurance marketplace is extremely positive, however some insurance markets have restricted their coverage placements for the Board's renewal, resulting from their own reinsurance limitations. Property owners who have not continued positive relationships with carriers throughout these changing market conditions are being confronted with 50%+ rate increases, or in some instances, an inability to find necessary coverage at any price.

As a result of the authorization received from the Board last year, staff and the Board's property broker, Arthur J. Gallagher & Co., Miami, Florida, have had numerous meetings with underwriters from domestic and international carriers, as well as alternative insurance markets. These meetings are continuing at this time. It was not feasible to purchase additional coverages for property under construction, therefore the focus was placed on renewing the existing program. The current annual premium for coverage with limits of \$700 million, not including flood insurance, is \$9,103,317. With its updated property values of \$4,918,954,035 (approximately 8.7% increase from last year), the renewal is proving to be a very difficult endeavor. To achieve a renewal, it appears that significant changes in terms, including increased deductibles, and a possible reduction in coverage from \$700 million may be necessary. The annual premium for the renewal program is expected to be approximately \$13 million, stemming from a 8.7% increase from increased property values, and a 34.3% increase due to market conditions.

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It is important to note that in addition to the requirement found in Florida Statute, Section 230.23(9)(d), whereby the Board is required to carry property insurance on its properties, the Board's relationship with financial institutions which issue Certificates of Participation (COPS) also have requirements for insurance on the properties which have been funded through the issuance of COPS. In order to assure the financial institutions that any properties destroyed by windstorm, fire, etc. would be rebuilt, the Boards' property policies are endorsed to provide the financial institutions with "loss payee" status, thus obligating the insurers to pay insurance proceeds first to those properties, in the event of a loss. In effect, part of the Board's success in providing funding for its capital outlay program is contingent upon being able to renew a well structured, adequate property insurance program

Every effort is underway to complete the placement of the Board's program, prior to the renewal date of May 1, 2001. The excellent relationship that the Board has with its present carriers has been instrumental in keeping them in the program, however, many carriers have had to limit the amount of coverage they are able to provide upon renewal. The Board's reputation for sound management practices and quality construction has also enabled staff, and the Board's broker, to enlist new carriers into the program for the first time. Nevertheless, since every working day is vital in structuring these coverages, it is in the Board's best interest to allow as much time as possible to maximize the time available to finalize the placement of coverages which entail over 15 insurers, along with Lloyd's of London syndicates, which entail an additional 50 entities.

It is recommended that the Board authorize the Board's broker to continue to seek and place orders for coverage, with a maximum annual premium authorized; for coverage to become effective May 1, 2001. A report to confirm coverages, carriers, deductibles, limits and premiums will then be brought back to the Board at its meeting of May 16, 2001. In prior years, including the 1993 and 1994 renewal years following Hurricane Andrew, the Board was asked to provide this authorization with a confirmation coming back to the Board following its renewal date to provide additional time for coverage placement. This year's renewal could prove to be more difficult than in those years immediately following Hurricane Andrew which resulted in a \$96 million loss, however, the pricing of the coverage for renewal, per \$100 of total insured values, is still less than it was in 1993.

RECOMMENDED: That The School Board of Miami-Dade County, Florida authorize Arthur J. Gallagher & Co., Miami, Florida, to secure and bind property insurance coverage, providing up to \$700 million of protection in coverage limits, with annual premiums for its catastrophic, all risk, replacement cost coverage not to exceed \$13 million, effective May 1, 2001, with payment to be funded its property insurance budget, with a full report, including confirmation of coverages, carriers, deductibles, and terms to be submitted to the Board at its meeting of May 16, 2001.

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