

Personnel Management and Services
Nelson E. Diaz, Deputy Superintendent

SUBJECT: RENEWAL OF BOARD'S PROPERTY INSURANCE PROGRAM

At the Board meeting of April 18, 2001, authorization was provided to secure and bind property insurance coverage, with limits up to \$700 million of coverage, with annual premiums for its catastrophic, all risk, replacement cost coverage not to exceed \$13 million, effective May 1, 2001. This item, pursuant to the authority received in April, will provide the Board a full report of the program which was bound effective May 1, 2001.

As the Board was told, the property market is extremely difficult, especially in the South Florida area where all insurers underwrite the coverage as a catastrophic risk. Meetings with staff and the Board's broker were held as late as April 30, 2001 with prospective insurance markets, where an additional \$20 million in coverage was secured on the Board's behalf. While a major portion of the program is completed, significant changes have occurred from the expiring program. These changes are as follows:

- ✓ Program limits have gone from \$700 million in coverage to \$580 million in coverage due to lack of insurance capacity.
- ✓ Named windstorm deductible which was 1% of building values on a per campus basis, with a \$1 million per loss minimum and \$10 million per loss maximum, has now moved to an across the board 2% of building values on a per campus basis with no maximum limitation.
- ✓ Due to lack of available insurance capacity, two layers of coverage are not placed with carriers, therefore, the Board is forced to participate on a self-insured basis in the amount of \$9.8 million for the layer of \$50 million excess of \$150 million and \$5.8 million for the layer of \$80 million excess of \$200 million.

The Board's strategy for structuring the program it has had since 1993 has insulated it from current downturns in the property insurance marketplace. Following Hurricane Andrew and the Board's \$96 million loss, and subsequent cancellation of its coverage from two carriers, staff and Arthur J. Gallagher & Co. developed a layered program where numerous Lloyds' of London syndicates and foreign and domestic insurers share a portion of the risk for each layer of coverage. This technique has two advantages. First, at the time of a loss, no one insurer is exposed to a large share of the loss, because many insurers share the risk, and secondly, when the market turns difficult, as it has now, securing insurers to replace layers where other insurers have not been able to provide renewals becomes less formidable. In this year's renewal where the Board is forced to participate, the Board's risk is shared with carriers providing insurance coverage. The good news is that the Board is only subjected to this risk if a catastrophic storm hits and the Board's losses exceed the primary layers of coverage which total \$150 million.

The Board property insurance program, effective May 1, 2001 is as follows:

\$100 MILLION PRIMARY LAYER

<u>CONFIRMED CARRIERS</u>	<u>A.M. BEST</u>	<u>LIMITS</u>	<u>PREMIUM</u>
Lloyd's of London & others	A XV	\$46,710,000	\$3,736,804.00
Allianz Insurance Co.	A++XV	\$17,000,000	\$1,361,364.00
Royal Surplus Lines Ins. Co.	A XIV	\$ 8,000,000	\$ 640,004.00
Westchester Fire Ins. Co.	AIX	\$ 6,000,000	\$ 480,484.00
Coregis Ins. Co.	AIX	\$ 2,000,000	\$ 160,164.00
Employers Ins. Of Wausau	A+XV	\$ 6,000,000	\$ 480,484.00
Commonwealth Ins. Co. (WA)	AXII	\$ 2,000,000	\$ 160,004.00
Lloyd's of London/Essex	AXV/AXII	\$ 5,000,000	\$ 400,004.00
United National Ins. Co.	A+IX	\$ 7,290,000	\$ 583,204.00
TOTAL		\$100,000,000	\$8,002,516.00

\$20 MILLION EXCESS OF PRIMARY \$100 MILLION LAYER

U.S. Fire Ins. Co.	A-X	\$20,000,000	\$1,001,004.00
TOTAL		\$20,000,000	\$1,001,004.00

\$30 MILLION EXCESS OF \$120 MILLION LAYER

Employers Ins. Of Wausau	A+XV	\$10,000,000	\$ 270,274.00
Allianz Insurance Co.	A++XV	\$ 4,750,000	\$ 128,382.25
Great American Excess/Surplus	AVIII	\$ 5,000,000	\$ 135,004.00
Commonwealth Ins. Co. (WA)	AXIII	\$ 2,000,000	\$ 54,004.00
Royal Ins. Co. of America	A+XIV	\$ 2,000,000	\$ 54,058.00
London other Co.'s	AXV	\$ 6,250,000	\$ 168,754.00
TOTAL		\$30,000,000	\$ 810,476.25

\$50 MILLION EXCESS OF \$150 MILLION LAYER

Lloyd's of London & others	AXV	\$31,200,000	\$ 436,804.00
TIG Specialty Ins. Co.	AXII	\$ 9,000,000	\$ 126,004.00
<i>M-DCPS (Self-Participating Portion)</i>		\$ 9,800,000	\$ 137,200.00*
TOTAL		\$50,000,000	\$ 700,008.00

\$80 MILLION EXCESS OF \$200 MILLION LAYER

Lloyd's of London & others	AXV	\$51,200,000	\$ 576,004.00
Allianz Insurance Co.	A++XV	\$19,000,000	\$ 213,967.75
TIG Specialty Ins. Co.	AXII	\$ 4,000,000	\$ 45,004.00
<i>M-DCPS (Self-Participating Portion)</i>		\$ 5,800,000	\$ 65,250.00*
TOTAL		\$80,000,000	\$ 900,225.75

\$50 MILLION EXCESS OF \$280 MILLION LAYER

<u>CONFIRMED CARRIERS</u>	<u>A.M. BEST</u>	<u>LIMITS</u>	<u>PREMIUM</u>
Allianz Insurance Co.	A++XV	\$21,250,000	\$ 212,716.50
Royal Surplus Lines Ins. Co.	A+XIV	\$ 5,000,000	\$ 50,004.00
Lloyd's Of London & others	AXV	\$23,750,000	\$ 237,504.00
TOTAL		\$50,000,000	\$ 500,224.50

\$20 MILLION EXCESS OF \$330 MILLION LAYER

Lloyd's of London & others	AXV	\$17,000,000	\$ 119,004.00
Employers Ins. of Wausau	A+XV	\$ 3,000,000	\$ 21,025.00
TOTAL		\$20,000,000	\$ 140,029.00

\$50 MILLION EXCESS OF \$350 MILLION LAYER

Lloyd's of London & others	AXV	\$22,000,000	\$ 61,604.00
Allianz Insurance Co.	A++XV	\$26,000,000	\$ 72,876.80
TIG Specialty Ins. Co.	AXII	\$ 2,000,000	\$ 5,604.00
TOTAL		\$50,000,000	\$ 140,084.80

\$100 MILLION EXCESS OF \$400 MILLION LAYER

Lloyd's of London & others	AXV	\$52,750,000	\$ 105,504.00
Allianz Insurance Co.	A++XV	\$27,250,000	\$ 54,558.50
Royal Surplus Lines Ins. Co.	A+XIV	\$20,000,000	\$ 40,004.00
TOTAL		\$100,000,000	\$ 200,066.50

\$80 MILLION EXCESS OF \$500 MILLION LAYER

Lloyd's of London & others	AXV	\$34,500,000	\$ 64,691.50
Allianz Insurance Co.	A++XV	\$ 5,500,000	\$ 10,326.81
Commonwealth Ins. Co. (WA)	AXIII	\$10,000,000	\$ 18,754.00
Royal Surplus Lines Ins. Co.	A+XIV	\$20,000,000	\$ 37,504.00
Employers Ins. of Wausau	A+XV	\$10,000,000	\$ 18,772.75
TOTAL		\$80,000,000	\$ 150,049.06

PROGRAM TOTAL **\$580,000,000** **\$12,544,683.86**

PREMIUMS INCLUDE APPLICABLE STATE OF FLORIDA FIRE MARSHALL SURCHARGES AND FLORIDA INSURANCE GUARANTEE ASSOCIATION (FIGA) CHARGES

*INDICATES WHAT WOULD BE PREMIUM DUE FOR LAYER IF PLACED WITH CARRIER, BUT NOT PAID AS A RESULT OF BOARD PARTICIPATION

The following Terms and Conditions apply to all layers of the above-referenced program:

BLANKET PROGRAM LIMITS **\$580 MILLION/OCCURRENCE (OCC.)**

		\$580 Million/occ./earthquake aggregate
Sublimits:	Landscape	\$ 5 Million/occ.
	Extra Expense	\$ 2.5 Million/occ.
	Increased Cost of Construction	\$ 20 Million/occ.
	Demolition	\$ 20 Million/occ.
	Off-Premises Power Deprivation	\$ 5 Million/occ.
	Flood	\$ 20 Million occ./Aggregate

Deductibles:	All perils except windstorm (Pursuant to named storm endorsement)	\$500,000 each occ.
	Mobile Broadcasting Equipment	\$ 10,000 each occ.
	Electronic Data Processing	\$ 25,000 each occ.
	Flood (Non-NFIP locations)	\$500,000 each occ.

Hurricane deductible (per endorsement) - Two Percent (2%) of total vales per location/campus.

Terms/Conditions:

- ✓ Manuscript policy including Mr. Joe Eudy, or designee as adjuster
- ✓ Excess flood coverage over National Flood Insurance Program (NFIP)
- ✓ Replacement Cost valuation, except actual cash value (ACV) for autos
- ✓ 90-day notice of cancellation, except 10 days for non-payment of premiums
- ✓ Each carrier attaches its own endorsements for asbestos, seepage, pollution, and nuclear

Loss Payees:

As respects G. Holmes Braddock Senior High School:
Chemical Bank, Trustee
450 West 33rd Street
New York, NY 10001
Attention: Michelle Stein, Senior Trust Officer

As respects other Certificate of Participation (COP) funded facilities:
Bank of New York, Jacksonville
101 Centurion Parkway, Tower Mark Plaza
Jacksonville, Florida 32256
Attention: Ms. Barbara Buck

PROPERTY COVERAGE FOR WLRN EQUIPMENT

Since Hurricane Andrew, the Board has insured various equipment consisting of antennae, transmission lines, transmitters, and dishes at five locations in Broward, Miami-Dade and Monroe Counties with Lloyd's of London. Expiring values for this equipment was \$2,291,582, however, staff from WLRN have re-valued the equipment, especially the television tower, with new values of \$5,210,000. As a result, annual premiums for this equipment are increasing from \$89,146.55 to \$234,524.34, including a \$5,000 deductible for perils other than wind, and a 3% of values per location deductible for windstorm.

NATIONAL FLOOD INSURANCE PROGRAM (NFIP)

The Board's blanket property insurance covers properties for flood, but only 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 the NFIP coverage, the Federal Emergency Management Agency (FEMA) would not respond.

As result of the flooding, resulting from the storm of October 3, 2000, the Board made flood claims against several of its NFIP policies which were in force at the time. Total collected from NFIP policies for this storm to date is \$240,585.40. Additional claims have been made with FEMA for other non-NFIP eligible expenses resulting from the flood including deductibles, overtime, etc. These claims are currently pending review by FEMA. Some of the schools which were flooded by the storm were not in a flood zone requiring the purchase of NFIP policies. Staff is currently evaluating the losses incurred at these locations and comparing possible reimbursement from FEMA for these damages to the cost of having to begin insuring these locations in the future, as required by FEMA. Based upon the cost/benefit analysis, some additional NFIP policies may be purchased on non-NFIP required locations in order to pursue a claims with FEMA. NFIP policies are written on a *building by building basis*, therefore requiring numerous polcies for some of the Board's multi-building campuses.

The budget for NFIP for May 1, 2000 to May 1, 2001 was \$2,500,000, but with additional facilities to be insured, its is recommended that the flood budget be increased to \$3,000,000 for May 1, 2001 to May 1, 2002.

As purchase of flood policies typically requires 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, J. Bonfill & Associates, Inc., Manucy & Associates, Ludovici & Orange Consulting Engineers, Inc., and Precision Engineering and Surveying, with annual expenditures not to exceed \$50,000.

CATASTROPHIC RISK MODELING FOR HURRICANES

All insurance companies utilize a catastrophic modeling program which used to be called IRIS and is now called RiskLink, owned by Risk Management Solutions, Inc., Menlo Park, California. Insurance companies request different versions of this modeling to determine what they believe is their exposure to financial risk, based upon Board property values, as determined by storm intensity and numerous other factors. This creates a factor known as Probable Maximum Loss (PML) and determines the extent of damage insurance companies feel the Board will have to its property in the event of a catastrophic storm. This year, insurance companies placed the Board's PML any where from \$150 Million to \$500 Million, depending upon how this report was run for them. Staff is recommending that it secure its own report through RiskLink so that the data can be adequately managed and shared with companies for next year's renewal. This program can be secured through the Board's broker, Arthur J. Gallagher & Co., Miami, Florida, with a cost not to exceed \$50,000. It is recommended that the Board authorize this expenditure, with funds to be taken from the Board's property insurance budget.

Authorization is also requested to allow staff and the Board's broker to continue meeting with insurance markets in an effort to fill in the gaps left in the two layers, as well as obtaining additional limits to complete the expired \$700 million in limits, with total property premiums not to exceed \$13 million, as approved by the Board on April 18, 2001. It is also recommended that the Superintendent be authorized to begin dialogue with companies for its renewal of May 1, 2002, in an effort to share vital information with them as early as possible to secure the best possible renewal terms.

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., Miami, Florida, effective May 1, 2001 to May 1, 2002, for total insurance limits of \$580,000,000 per occurrence with the following insurance companies and annual premiums:

Lloyd's of London & other companies	\$5,337,919.50
Allianz Insurance Company	\$2,054,192.61
Royal Surplus Lines Ins. Co.	\$ 767,516.00
Westchester Fire Insurance	\$ 480,484.00
Coregis Insurance Company	\$ 160,164.00
Employers Insurance of Wausau	\$ 790,555.75
Commonwealth Insurance Co.	\$ 232,762.00
United National Ins. Co. & others	\$ 583,204.00
U.S. Fire Insurance Co.	\$1,001,004.00
TIG Specialty Insurance Co.	\$ 176,612.00
Great American Excess and Surplus Lines	\$ 135,004.00
Lloyd's/Essex	\$ 400,004.00
Royal Insurance Company	\$ 54,058.00
London - others	\$ 168,754.00
TOTAL	\$12,342,233.86

2. authorize renewal of its all risk, stated value, replacement cost physical damage insurance for antennae, transmission lines, dishes, towers, and other equipment with total values of \$5,210,000, at five locations, through Arthur J. Gallagher & Co., Miami, Florida, from Lloyd's of London for \$3,647,000 of coverage with an annual premium of \$164,119 and from Allianz Insurance Company for \$1,563,000 of coverage with an annual premium of \$70,335, effective May 1, 2001 to May 1, 2002;
3. authorize renewal of flood insurance through the National Flood Insurance Program (NFIP), through Arthur J. Gallagher & Co., Miami, Florida, for all properties required by the Federal Government to be covered, with estimated annual premiums not to exceed \$3,000,000;
4. authorize the use of E.R. Brownell & Associates, Inc., J. Bonfill & Associates, Inc., Manucy & Associates, Inc., Ludovici & Orange Consulting Engineers, Inc., and Precision Engineering & Surveying to produce sealed elevation certificates for properties requiring such 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 Arthur J. Gallagher & Co., Miami, Florida to contract with Risk Management Solutions, Inc., Menlo Park, California, for a catastrophic modeling program utilizing RiskLink, at a cost not to exceed \$50,000, with the expenditure for this service to be taken from the Board's self-insured property account; and
6. authorize the Superintendent, through Arthur J. Gallagher & Co., Miami, Florida to continue meetings with prospective insurers to complete the gaps in the current program, and purchase additional limits of coverage, not to exceed to previous coverage limits of \$700,000,000, with total property insurance premiums not to exceed \$13 million, and begin negotiations for renewal terms and conditions for coverage beginning May 1, 2002.

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