

Financial Affairs
Richard H. Hinds, Chief Financial Officer

SUBJECT: RENEWAL OF BOARD'S COMPREHENSIVE FIDELITY BONDS AND RELATED COVERAGES

At the Board meeting of March 13, 2002, the Board authorized the Superintendent to enter into negotiations for renewal of its current comprehensive fidelity bond and related coverages program, through Arthur J. Gallagher & Co., pursuant to the authority granted in State Board Rule 6A-1.012(11), whereby the Board is authorized to directly negotiate and enter into contracts for insurance, risk management programs, or third party administrators. The procurement of fidelity bonds for school board employees is required, pursuant to the provisions of Section 230.23 (10)(h). The current program expires May 31, 2002.

The recommendation to enter into negotiations was made as a result of the significant restrictions of the bonding market over the past two years. The bankruptcies of Enron Corporation and K-mart Corporation in recent months has exacerbated the pricing and capacity problems which are plaguing companies that rely on surety bonds, partly to back their self-insurance arrangements. Ironically, Kmart's own petition for Chapter 11 protection listed "the evaporation of the surety bond market" as one reason for the "rapid decline in liquidity" that led to its January 22, 2002 bankruptcy filing.

The Board's present program provides multiple layers of blanket bonds which cover all Miami-Dade County Public School (M-DCPS) employees with \$6.5 million limit per occurrence; a position bond program which provides selected employees in the financial area \$7 million limit per position; and a second layer blanket bond which provides coverage in excess of the blanket and position bonds with \$20 million limit per occurrence. The program also provides miscellaneous bonds required by Florida Statutes, including Notary Bonds, Board Member Bonds, Superintendent's Bond, and Chair/Vice Chair Bonds. Current total premiums for the expiring program, excluding the individual miscellaneous bonds, is \$130,039.

Staff and the Board's broker have been meeting with underwriters to structure a renewal program, with the goal to keep the highest limits possible, while balancing premium costs and increased deductibles. Of the nine companies which were contacted, two companies declined to quote altogether; two companies provided indications, but not actual quotations; one company was attempting to quote, however was unable to provide details in a timely manner; and four companies provided full quotations.

**REPLACEMENT
G-48**

Because of the volatility in the marketplace, a multi-year commitment is being sought. The recommended program reflects a three-year program, subject to annual premiums as stipulated:

PUBLIC OFFICIAL BLANKET BOND

(covers all employees except those listed to be covered by positions bonds)

Company: Zurich/Fidelity and Deposit (A.M. Best A+ XV)

Limits: \$25 million per occurrence

Deductible: \$50,000 per occurrence

Annual Premium: \$100,524 (same in years two and three)

PUBLIC OFFICIAL NAMED POSITION BOND

(covers six specific employees in Treasury Management)

Company: Liberty Mutual (A. M. Best A+ XV)

Limits: \$27 million per occurrence

Deductible: N/A

Annual Premium: \$97,200 (years two and three would be \$99,960)

POLICE OFFICERS SPECIAL SECURITY BOND

(covers sworn police officers employed by the Board)

Company: Liberty Mutual (A.M. Best A+ XV)

Limits: \$5,000 per officer

Premium: \$2,691(based upon 186 officers)

TOTAL ANNUAL PREMIUM 2002-2003 (excluding miscellaneous bonds) \$200,415

All miscellaneous bonds such as Notary Bonds, Board Member Bonds, Superintendent's Bond, Chair and Vice-Chair Bonds, etc. will be written by Liberty Mutual Insurance Company with individual premiums determined by the type of bond required.

Most companies provided quotations which excluded coverage for any employee who had prior convictions of dishonesty or crimes. Because of the broad-based nature of such a coverage restriction, and the inability to know if an employee is properly bonded, staff negotiated a compromise with Zurich. By taking the per occurrence deductible from \$5,000 to \$50,000, Zurich was willing to not require a blanket endorsement which would eliminate coverage for any employee who we become aware of who had prior convictions of dishonesty/crimes.

They are requiring, however, that coverage be canceled for any employee, in which the Administrative Director, Office of Risk and Benefits Management, becomes aware of who has had a prior conviction of dishonesty/crimes in excess of \$25,000. Therefore, it will be necessary to screen this issue for any existing or new employee to ensure proper coverage.

RECOMMENDED:

That The School Board of Miami-Dade County, Florida:

1. authorize purchase of its Public Official Blanket Bond coverage, covering all employees, except those covered by the Public Official Position Bond coverage, subject to a \$50,000 per occurrence deductible, with limits of \$25 million per occurrence, with an annual premium of \$100,524, to Zurich/Fidelity and Deposit Insurance Company (A.M. Best A+ XV), through Arthur J. Gallagher & Co., for a three-year term, effective June 1, 2002, with premiums for the second and third years (June 1, 2003 – June 1, 2004, and June 1, 2004 – June 1, 2005) to remain at the same annual premium of \$100,524, subject to terms and conditions as provided in their quotation;
2. authorize purchase of its Public Official Named Position Bond coverage, covering six (6) stipulated employees, with limits of \$27 million per occurrence, with an annual premium of \$97,200 to Liberty Mutual Insurance Company (A.M. Best A+ XV), through Arthur J. Gallagher & Co., for a three-year term, effective June 1, 2002, with annual premiums for the second and third years (June 1, 2003 – June 1, 2004 and June 1, 2004 – June 1, 2005) to be \$99,960, subject to terms and conditions as provided in their quotation;
3. authorize purchase of its Police Officers Special Security Bond with a per officer limit of \$5,000, subject to an initial reporting of 186 officers, at an annual premium of \$2,691, to Liberty Mutual Insurance Company (A.M. Best A+ XV), through Arthur J. Gallagher & Co., for a three-year term, effective June 1, 2002, with premiums for the second and third years (June 1, 2003 – June 1, 2004 and June 1, 2004 – June 1, 2005) to remain at the same annual premium of \$2,961, based upon 186 officers, subject to the terms and conditions as provided in their quotation; and
4. authorize purchase of ancillary Public Official Bonds, including, but not limited to Notary Bonds, Board Member Bonds, Superintendent's Bond, Chair and Vice Chair Bonds, and JROTC Bonds, to Liberty Mutual Insurance Company (A.M. Best A+ XV), through Arthur J. Gallagher & Co., for a three year term, effective June 1, 2002.

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