

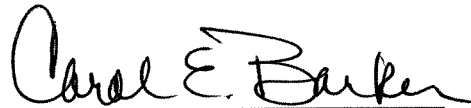
RFP 22-015V
ADDITIONAL RECOMMENDATION 5 OF 5
BOARD MEETING: SEPTEMBER 19, 2006

THE SCHOOL BOARD OF BROWARD COUNTY

ADDITIONAL RECOMMENDATION
RFP 22-015V
VARIOUS INSURANCE COVERAGES AND
CLAIM/RISK MANAGEMENT SERVICES

It is recommended that the School Board authorize an additional expenditure of \$25,000,000 to the subject contract. This recommendation does not require any changes to the District budget. This recommendation will allow the Risk Management Department to continue coverage for property/casualty insurances and claim/risk management services as required through June 30, 2007, and will provide for an approximate total expenditure of \$126,000,000 for the award period.

Note: Market conditions for catastrophic wind coverage deteriorated during the calendar year and premium increases exceeded initial expectations.



Carol E. Barker
Carol E. Barker, CPPB
Purchasing Agent

Attachments:

Spending Authority Increase Memorandum
2006-2007 Insurance Renewal Memorandum
Original Recommendation

Jeffrey S. Moquin, Director
Risk Management Department

Telephone: (754) 321-3200
Facsimile: (754) 321-3290

August 10, 2006

SIGNATURE ON FILE

TO: Carol Barker, Purchasing Agent
Supply Management & Logistics

FROM: Jeffrey S. Moquin, Director
Risk Management Department

SUBJECT: **SPENDING AUTHORITY INCREASE**

On March 7, 2006, the School Board approved Agenda Item EE-5, entitled 'Renewal of 22-015V, Various Insurance Coverages and Claim/Risk Management Services'. The approval of this item extended RFP 22-015V through June 30, 2007, for the provision of insurance brokerage services by Arthur J. Gallagher. As a component of the Agenda Item, staff requested an additional spending authority of \$23 million under this RFP. This spending authority was estimated based on the lines of coverage which were being extended as well as insurance market conditions at the time the request was drafted.

Unfortunately, market conditions for catastrophic wind coverage continued to deteriorate during the calendar year, and actual premium increases exceeded initial expectations. As a result, the remaining spending authority on the RFP is insufficient to cover the anticipated insurance premiums for the 2006-2007 fiscal year. The Budget Department was presented with this information during the renewal process, and the appropriate budgetary considerations were addressed. Additionally, management discussed potential strategies to improve the District's position with regard to severe premium increases. One factor placing the District at a disadvantage is its renewal period coinciding with the fiscal year. Management has agreed it is in the District's best interest to move the policy renewal date to March 1st. This will provide the District with a competitive advantage with respect to capacity availability and the impact of reinsurance treaty renewals. Accordingly, it will be necessary to conduct a second property insurance renewal within the scope of this one-year extension. This will result in the need for additional spending authority under this RFP to cover the second renewal. Please be aware this information was previously communicated to the School Board in a June 26, 2006 renewal update (copy attached).

Please take the necessary actions to increase the spending authority of this RFP by another \$25 million to permit the processing of the outstanding invoices under the existing purchase order and provide for the renewal in March 2007. Clearly, this increase is merely an estimate. Although I anticipate receiving a pro-rated reimbursement of premium when the current policies are cancelled for the March 1st renewal, this new spending authority should eliminate the need to request subsequent increases. The funding source for this additional spending authority will continue to be the District's self-insured liability fund (Fund 712). If you have any questions, do not hesitate to contact me at (754) 321-3201. Thank you for your usual cooperation.

JSM/tpo

cc: Donnie Carter, Deputy Superintendent, Operations
Robert Waremburg, Director, Supply Management & Logistics

The School Board of Broward County, Florida
OFFICE OF THE SUPERINTENDENT

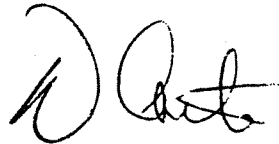
Dr. Frank Till
Superintendent of Schools

PHONE: 754-321-2600

FACSIMILE: 754-321-2701

June 26, 2006

TO: School Board Members
FROM: Donnie Carter, Deputy Superintendent
Operations
VIA Frank Till
Superintendent of Schools
SUBJECT: 2006-2007 INSURANCE RENEWAL



The Risk Management Department, in association with the District's insurance broker, is currently in the process of renewing the District's Property/Casualty Excess Insurance Program. Each year the primary driving force impacting the District's total premium costs is the excess property insurance, protecting the District's physical assets from fire, hurricane, and other natural perils.

The purpose of this correspondence is to provide the School Board with an update on the property insurance renewal for the 2006-2007 fiscal year. Last year, the District procured \$300 million of excess property insurance coverage at a premium of approximately \$13 million. Initial projections at the onset of calendar year 2006 suggested the District could anticipate a 50% increase in premium for the upcoming fiscal year and difficulty with obtaining the same capacity (\$300 million). These initial projections were primarily based on the impact of the hurricane activity of the last two years and the Citizens Assessment (under Florida law, Citizens has the authority to charge an assessment to financially recover from an operational deficit resulting from providing insurance to residential and commercial property policyholders in Florida who cannot find coverage in the private insurance market) the District must pay to the state.

Unfortunately, the property insurance market has continued to deteriorate as the calendar year has progressed, and the initial premium increases projected will fall short of the funds necessary to procure adequate coverage. Insurers are significantly decreasing their catastrophic wind capacity as the result of four factors:

- Costs of reinsurance (insurance for insurance companies) have drastically risen because of global losses resulting from recent hurricane activity (seven of the nation's ten most costly storms have occurred over the last fourteen months). As a result, direct insurers are having to increase their net risk retention;
- Hurricane Katrina demonstrated the computer models predicting maximum losses (PML) were insufficient. The new modeling is utilizing more conservative assumptions, increasing the projected maximum losses;
- Total Insured Values (TIVs) are increasing to account for the "demand surge" in the construction industry, as well as margin clauses being incorporated into policies to ensure accurate TIV reporting; and
- Regulators and rating agencies such as AM Best are requiring improved risk to capital ratios to ensure the ability of insurers to pay claims.

The occurrence of any one of these factors independently would dictate increases in premium; however, the cumulative affect has resulted in large decreases in capacity with increased demand. The basic laws of supply and demand outline with decreases in supply and increases in demand, price significantly increases.

Based on the initial surveys of the market, it would appear the most capacity the District would be able to procure at any price is \$200 million of coverage. Staff has met with the Chief Financial Officer and Budget Department to review these issues and to discuss the most prudent manner to move forward. The Director of Risk Management and the District's insurance broker have recommended allocating an additional \$5 million beyond the initial \$6 million increase originally budgeted for procuring excess property insurance. Even with \$24 million of budget, it is unlikely there will be sufficient insurers in the market willing to participate in the District's program at this rate. However, there comes a point when the premium necessary to garner the insurance coverage no longer represents a financially effective transfer of risk. In the event the new budget allocation is insufficient to "fill" the \$200 million of coverage, the District will seek to assume additional risk in order to avoid even further increases in the premium.

Some industry experts are hopeful this year represents an anomaly in the property insurance market, and capacity and premium will begin to stabilize in calendar year 2007. Although optimistic, staff is proactively preparing for future renewals.

The first programmatic change staff will implement is to advance the District's renewal date to the spring. A renewal date earlier in the calendar year will provide the District with a competitive advantage with respect to capacity availability and the impact of reinsurance treaty renewals. Additionally, the Director of Risk Management will continue collaborating with the insurance staff of other school districts to identify an alternative wind risk transfer mechanism. In the event there are significant hurricane losses again this year, an alternative wind risk transfer mechanism may be the only method of avoiding fully self-insuring the District's catastrophic wind risk exposure.

Upon completion of the program renewal, final details concerning capacity and premium costs will be communicated to the School Board. **If you have any questions concerning the District's Property/Casualty Insurance Program, please contact Jeffrey Moquin, Director of Risk Management at (754) 321-3201.**

FT/DC/JSM:tpo:sms

cc: Senior Management
Jane Turner, Director, Budget Department
Jeffrey S. Moquin, Director, Risk Management Department

The School Board of Broward County, Florida
Purchasing Department

RFP No.: 22-015V Board Meeting MAY 15, 2001
 Description: VARIOUS INSURANCE COVERAGES AND CLAIM/RISK MANAGEMENT SERVICES TERM CONTRACT RFPs Sent: 60 Proposals Rec'd: 7 No Response: 25
 Proposal Opening: APRIL 4, 2001
 For: RISK MANAGEMENT DEPARTMENT Advertised Date: MARCH 20, 2001
 (School/Department)
 Fund: DEPARTMENT'S OPERATING BUDGET Award Amount: \$65,000,000* (PER CONTRACT PERIOD)

POSTING OF PROPOSAL RECOMMENDATION/TABULATION: RFP Recommendations and Tabulations will be posted in the Purchasing Department on APRIL 24, 2001 @ 3:00 P.M., and will remain posted for 72 hours. Any person desiring to protest the Proposal Recommendation/Tabulation shall file, in writing, a notice of protest within 72 hours after the time posted as stated herein, and shall file a formal written protest within ten days after filing the notice of protest. Saturdays, Sundays and legal holidays shall be excluded in the computation of the 72-hour time period. Filings shall be at the office of the Director of Purchasing, 7720 West Oakland Park Boulevard, Suite 323, Sunrise, Florida 33351. Section 120.57(3)(b), Florida Statutes, states that "The formal written protest shall state with particularity the facts and law upon which the protest is based."

BASED UPON THE RECOMMENDATION OF THE EVALUATION COMMITTEE CONSISTING OF:

- JEFFREY MOQUIN, DIRECTOR, RISK MANAGEMENT, CHAIRPERSON
- DONNIE CARTER, DIRECTOR, PURCHASING AND WAREHOUSING
- NELL JOHNSON, DIRECTOR, ACCOUNTING
- HENRY ROBINSON, TREASURER
- RONALD WEINTRAUB, DIRECTOR, BENEFITS

IT IS RECOMMENDED THAT THE AWARD BE MADE TO:

- ARTHUR J. GALLAGHER & CO.
(UNITED NATIONAL INSURANCE COMPANY)
- ARTHUR J. GALLAGHER & CO.
(UNITED NATIONAL INSURANCE COMPANY)
- ARTHUR J. GALLAGHER & CO.
(HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY)
- ARTHUR J. GALLAGHER & CO.
(GREAT AMERICAN INSURANCE COMPANY)
- ARTHUR J. GALLAGHER & CO.
(CONTINENTAL CASUALTY COMPANY)
- ARTHUR J. GALLAGHER & CO.
(HARTFORD LIFE INSURANCE COMPANY)
- ARTHUR J. GALLAGHER & CO.
(COMMERCE AND INDUSTRY INSURANCE COMPANY)
- GALLAGHER BASSETT SERVICES, INC *953770001*

- COVERAGE:
- PUBLIC ENTITY PACKAGE
- SCHOOL LEADERS ERRORS & OMISSIONS
- BOILER & MACHINERY INSURANCE
- CRIME/DISHONESTY
- EXCESS WORKERS' COMPENSATION
- STATUTORY DEATH BENEFITS INSURANCE
- STORAGE TANK LIABILITY
- CLAIM & RISK MANAGEMENT SERVICES

By: _____ Date: _____
 (Buyer/Purchasing Agent)

RECOMMENDATION TABULATION
RFP 22-015V
VARIOUS INSURANCE COVERAGES AND CLAIM/RISK MANAGEMENT SERVICES
PAGE 2

THE FOLLOWING PROPOSERS HAVE SUBMITTED M/WBE PARTICIPATION BY THE FIRMS LISTED:

ARTHUR J. GALLAGHER & CO.
SETNOR BYER INSURANCE & RISK

GALLAGHER BASSETT SERVICES INC.
BASS REPORTING SERVICES
CAN WE TALK, INC.
HI-TECH REPORTING SERVICES
ICDA INVESTIGATIONS
PRECISE REPORTING
PROBE INVESTIGATIONS
SELTZER DELMAN, INC.
WESTON INVESTIGATION

AWARD PERIOD: JULY 1, 2001 THROUGH JULY 1, 2006.

ADDITIONALLY, IT IS REQUESTED THAT THE BOARD APPROVE AND AUTHORIZE THE EXECUTION OF THE ATTACHED AGREEMENT WITH ARTHUR J. GALLAGHER & CO.

*THE REQUESTED AWARD AMOUNT INCLUDES THE NECESSARY AWARD AMOUNT FOR PREMIUMS ON INSURANCE COVERAGES AS STATED IN THE RFP AND THE ATTACHED AGREEMENT, INCLUDING EXCESS PROPERTY INSURANCE COVERAGE (SEE ESTIMATED SPENDING AUTHORIZATION SUMMARY ATTACHED).

FOR FURTHER INFORMATION ABOUT THIS RFP, SEE PAGE 2 OF 102 PAGES OF THE RFP.