

City of Coral Gables City Commission Meeting
Agenda Item I-3
March 28, 2023
City Commission Chambers
405 Biltmore Way, Coral Gables, FL

City Commission

Mayor Vince Lago

Vice Mayor Michael Mena

Commissioner Rhonda Anderson

Commissioner James Cason

Commissioner Kirk Menendez

City Staff

City Attorney, Cristina Suárez

City Manager, Peter Iglesias

City Clerk, Billy Urquia

Human Resources Director, Raquel Elejabarrieta

Public Speaker(s)

Maria Perez, Arthur J. Gallagher

Jackson Rip Holmes

Agenda Item I-3 [11:40 a.m.]

A Resolution of the City Commission authorizing the renewal of the Property and Casualty Insurance Program which includes, but is not limited to, property, general liability, automobile liability, public officials errors and omissions, excess workers' compensation, crime liability, cyber liability, terrorism property and liability, pollution liability, deadly weapon protection coverage, flood, as well as other ancillary lines of insurance coverage and insurance broker fees through Arthur J. Gallagher Risk Management Services, Inc., for a not to exceed amount of \$3,930,212 for the policy period of May 1, 2023 to May 1, 2024 (Funding Source: Insurance Fund).

Mayor Lago: Moving onto I-3.

City Attorney Suarez: I-3 is A Resolution of the City Commission authorizing the renewal of the Property and Casualty Insurance Program which includes, but is not limited to, property, general

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liability, automobile liability, public officials errors and omissions, excess workers' compensation, crime liability, cyber liability, terrorism property and liability, pollution liability, deadly weapon protection coverage, flood, as well as other ancillary lines of insurance coverage and insurance broker fees through Arthur J. Gallagher Risk Management Services, Inc., for a not to exceed amount of \$3,930,212 for the policy period of May 1, 2023 to May 1, 2024.

HR Director Elejabarrieta: Good morning again. So this year, as we did last year, we worked with our agent, our broker which is Arthur J. Gallagher and Maria Perez is here with us from Arthur J. Gallagher. As you all know, this year has been probably the hardest property insurance market renewal that I've ever gone through and I think Maria has ever gone through in her 30-plus years of doing this. The property insuring continues in 2023, rates continue to climb, capacity continues to shrink. This is mainly the result of global insured losses from natural hazards, which are estimated just in 2022, as estimated at \$140 billion dollars and this is the fifth year since 2017 that losses top \$100 billion dollars. This together in September of 2022, we had Hurricane Ian; Hurricane Ian was the costliest weather event to hit Florida, with an estimated losses of anywhere between \$55 and \$75 billion dollars. In addition to this, increased frequency of natural disasters, other factors that are putting pressure on the underwriting and pricing of property insurance or the high inflation, a historic supply chain crisis, challenging reinsurance treaty renewals and labor issues in key industries. As a response to these multitude of adverse variables, the property insured market has hardened and when lines of insurance hardens it means that carriers diminish their appetite for risk, they offer less favorable terms of coverage and increase the cost of premiums. In some worst case scenarios, we're actually seeing this now, carriers also chose to pull out of riskier markets altogether and Florida is considered a catastrophic market. Because of the volatility of these properties, insurance markets underwriters are not even providing us with firm quotes. We usually come before you with already a firm quote and usually some wiggle room to negotiate down. Currently, we are just receiving indications, not even firm quotes. Our renewal period is May 1st to May 1st. Initial indications shows that the maximum rate increase for the city's property insurance rate was about a week ago, and this is all new information. Maria just came in and told me, Peter, you're not aware of this either, but the estimated rate increase was about 37 percent and that's what we expected on a worst-case scenario. As Arthur J. Gallagher continues to fill our program, that a rate increase may be increasing now into the mid-40's. So, we are still working. We will continue to work with Arthur J. Gallagher to make sure that we fill the capacity. We are looking to obtain \$50 million of windstorm insurance. It's what we've had for the last five years, is what we believe we need to have. We hope to get and fill that capacity and we will probably be working with the underwriters and the London market probably through the end of April.

Mayor Lago: Raquel, first off, thank you for your team and everybody involved. Obviously, its not very good news. What are we looking at in regards to from year over year, what are we paying additional. I know you gave us a percentage, I want, because people are going to ask me.

HR Director Elejabarrieta: So this year we are looking at just on the property insurance, we are renewing all our lines of insurance, but the issue is on our property lines of insurance, we are looking anywhere between one million to a \$1.2 to 3 million dollar increase, just in our premium, which is about a 40 percent rate increase. In addition to that, our property values have increased. So yes, our rate increase is going to increase anywhere between 35 and 45 percent, our property values have increased by approximately 18 percent. So our premium increase is going to be close, hoping it was going to be a million, it might be a little bit more than a million. And we have seen in the last five years, the property market has been hardening the last five years, but the last five years we've been seeing single digit increases.

Commissioner Cason: We have new buildings too.

HR Director Elejabarrieta: Yes, we have Garage 7, we have the Country Club that was also added, so that also increased.

Mayor Lago: New Fire Station.

HR Director Elejabarrieta: Fire Station and that's not added yet.

Mayor Lago: I know, but it's going to be.

HR Director Elejabarrieta: It will be added. We had our bridges appraised which we hadn't had them appraised in over 15 years, that increased also the values of our property.

Vice Mayor Mena: Help me understand. You list here a variety of things that are covered by the policy, which these are not sort of, I wouldn't strictly call for sort of property related things. When you say that its an additional one-plus million dollars on property.

HR Director Elejabarrieta: Property alone.

Vice Mayor Mena: But its also to cover all the things I see listed here, which range from deadly weapon protection coverage to all this stuff, you know, terrorism, property, liability, this is like the whole sort of gauntlet, right.

HR Director Elejabarrieta: Everything. It's the city's entire insurance package, not only on property liability, excess workers comp.

Vice Mayor Mena: And for the windstorm component which I think you just said was \$50 million.

HR Director Elejabarrieta: \$50 million of windstorm.

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Vice Mayor Mena: In coverage.

HR Director Elejabarrieta: Of coverage.

Vice Mayor Mena: That's just covering our facilities.

HR Director Elejabarrieta: Correct.

Vice Mayor Mena: Our brick-and-mortar facilities, right.

HR Director Elejabarrieta: Correct. Correct.

Vice Mayor Mena: That's not covering like infrastructure like trees and that kind of thing.

HR Director Elejabarrieta: Correct.

Vice Mayor Mena: Buildings.

HR Director Elejabarrieta: Just buildings.

Vice Mayor Mena: Are we, this may be a silly question and I'm not in the industry, but it's a big policy. I understand we have a lot of facilities, but I guess at what point are you over-insured on property, I mean, the new police and fire building, for example is a large and significant building, but its also pretty hardened building, to say the least, its an EOC. So how much insurance coverage do you really need from windstorm for a facility like that. I would presume, hopefully not a ton, because that's the whole point, right. So walk me through that a little bit just to sort of understand.

HR Director Elejabarrieta: So just to give you an idea, Hurricane Irma, which was I think came in as a Category 1 storm, it was basically a wind event, we suffered \$7 million dollars in damages.

Vice Mayor Mena: \$7 million – okay, I was going to ask you that.

HR Director Elejabarrieta: So, Category 1 windstorm event, \$7 million dollars of damages, also five years ago.

Vice Mayor Mena: Can you give me, and I'm not asking for every line item, but generally speaking, what buildings suffered \$7 million dollars in damages?

HR Director Elejabarrieta: So, it was a combination, right, mostly they were roof issues and our pump stations. So, the Youth Center got a new roof, the Miracle Theater got a new roof, the Museum got a new roof, 72nd also was a new roof. So new roof as a result of the damage done by debris.

Vice Mayor Mena: Shouldn't that also help bring down the policy?

HR Director Elejabarrieta: Yes.

Vice Mayor Mena: New roofs?

HR Director Elejabarrieta: Yes – and so we update our, what’s called the scope of all of our buildings. We provide a report to our underwriters and we advise them, we actually meet with the underwriters from London, and we inform them of the new roofs, you know the impact windows that our properties are appraised and we have what’s called a Cat model and would show us what a 250-year storm, the damage that at a 250-year storm would bring to the city and it is approximately \$30 million dollars, and so that is why, I believe...

City Manager Iglesias: That is not what it appears to be. We looked at that extensively last time and the problem is the much risk that we are willing to accept.

Vice Mayor Mena: I want to make sure we’re talking about – I heard you clearly while you’re addressing, you’re saying that underwriters said a significant storm might cause \$30 million.

HR Director Elejabarrieta: They use either a 500 or a 250 return period storm and I don’t know if you want to explain.

Vice Mayor Mena: What does that mean?

HR Director Elejabarrieta: You want to explain that a little bit better.

Vice Mayor Mena: You mean a mega storm?

City Manager Iglesias: That is not...

Vice Mayor Mena: Like a once in a lifetime storm, basically, hopefully.

City Manager Iglesias: That’s a very complex study by...research which I deal with, so I think we need to look at it more in terms of what storm are we willing to accept. What we had on the west coast was a Category 4 storm, it caused a tremendous amount of damage. You have storm surge; storm surge in our facilities down south, there is storm surge in our bridges, we have older historical structures that are not at the level of the Public Safety Building. We are improving all these structures. A building like this will never get to that point. So looking at what we have as far as \$50 million dollars, I think it’s reasonable.

Vice Mayor Mena: I’m just saying – listen, I will not pretend to be an expert in this, but going on the information you are giving me, and you’re telling me this company said for sort of storm of a lifetime, \$30 million and we’re insuring for \$50 (million).

City Manager Iglesias: That information is...

Vice Mayor Mena: You don't agree. I get it.

City Manager Iglesias: Is a little bit different.

Vice Mayor Mena: Maybe you do 35 or 40.

City Manager Iglesias: I know where it comes from, because I deal with it all the time.

Vice Mayor Mena: Also, how much of a difference does a policy really make at that point? Let's say, I'm just brainstorming with you. You go down to \$40 million in coverage. How much would that really matter in terms of your premium?

Commissioner Cason: That was going to be my question. How much would it – not many options; one would be you go to \$40 million, for example, but would you save much money for the extra risk you're taking on. What other options there are?

Ms. Perez: In today's hard market and with the capacity crunch we're having and everything else that Raquel spoke about earlier. Going from a 50 to a 40 is not going to create much of a credit unfortunately.

Vice Mayor Mena: Right. That's what I figured.

Ms. Perez: So this morning, I've been on the phone since 4 a.m. in the morning with underwriters, getting prepared for what I heard overnight or what I woke up to at 3 o'clock in the morning, which was a rate increase difference. And I even went out and said, well, what if we secured a \$25 million for now and then continue to buy the extra \$25 million, and the priced decreased, the premium decreased from a \$50 million to a \$25 million is barely a million dollars, barely.

Mayor Lago: So, can I ask you a quick question, if I may, just dovetailing off the Vice Mayor. We as a city carry more windstorm than much other larger cities, correct.

HR Director Elejabarrieta: I don't have that study in front of me.

Ms. Perez: Not necessarily. There's actually a benchmark that we prepared together with...

HR Director Elejabarrieta: We did a benchmark and we looked at what other cities.

Mayor Lago: By the way, I'm not saying or even debating going against the recommendation.

Vice Mayor Mena: Neither am I. I'm just asking a question.

Mayor Lago: I'm like you guys. I open up the envelope when my insurance carrier sends to me, and I'm like take a step back, I'm like, what just happened. We're in a tough market right now and I understand that completely. I'm trying to find ways to save money without jeopardizing the city.

Vice Mayor Mena: Agreed.

Mayor Lago: And that's what the entire Commission is trying to do right now. We're just trying to understand this, because I'm not an insurance salesman, so I don't really understand the market as a whole.

HR Director Elejabarrieta: We did do that benchmark, we looked at other cities. So, we have our total insured value is \$340 million dollars. We have a lot of large buildings, we have a lot of property that we insure, so the \$50 million is only a small portion of that. We looked at the City of Ft. Lauderdale, the City of Miami Beach, the County, and we are well within the norm of, at least when it comes to windstorm insurance, in terms of what we have for our total insured value, which is...

Mayor Lago: Do they have more buildings than us? – do they have maybe more needs, so they actually carry more windstorm than we do?

HR Director Elejabarrieta: Some do, some carry less. So, we're within the norm.

Commissioner Cason: Our biggest risk is really wind.

HR Director Elejabarrieta: That's our biggest risk.

Commissioner Cason: Fire, we have a terrific Fire Department, we have building codes, super, and we haven't had a major fire in a long time, so probably fire is not the biggest risk.

Ms. Perez: That's correct. That's correct.

HR Director Elejabarrieta: So we have obtained some savings in another line of insurance. So we have excess workers compensation insurance and our current deductible for workers compensation claims is \$500,000. We received a quote from another carrier that said, if we increased our deductible from \$500,000 to a million, we would be able to save about \$380,000 in premiums. So we looked at a report of the history of all our workers compensation claims and none of that, none of our claims in the last ten years had hit the deductible of \$500,000. So, we have decided to increase our deductible to a million to realize about \$380,000 worth of savings. We feel that that is a low risk that we are taking, based on our history, our loss history runs for the last ten years.

Commissioner Cason: And that's already built into the quote that you've got here.

HR Director Elejabarrieta: Yes.

City Manager Iglesias: Commissioner Cason, we also have an issue of storm surge in our coastal zones, in our bridges, and infrastructure. We also have to be careful because after a storm, your construction prices escalate tremendously. So, if you remember after Hurricane Andrew, the prices

doubled or tripled as far as construction. So, we have to look at all those issues. The return period is they are providing, I understand, I went over it completely. I talked to their technical people; the theoretical analysis is correct. Its not what it appears to be.

Vice Mayor Mena: I've heard from homeowners now, which I recognize is a totally different animal, but still, is there any upside to sort of bifurcating coverage where you have like windstorm with somebody and another coverage with others. I know a lot of homeowners have done that and reached a better premium situation, but I realize there's a lot more involved in this type of policy.

Ms. Perez: It's a very good question, but we're already doing that. We use about a dozen different property insurance carriers to create the entire property portfolio.

Vice Mayor Mena: Got it.

Ms. Perez: It's a worldwide problem. You don't just go to Lloyd's of London. We use U.S. insurance carriers also to complete displacement and we also use Bermuda carriers. So, we are out there and probably four dozen different property insurance carriers out in the open market that we went to that will have interest in city properties, and we're working through it. The other problem we have is that no one is releasing quotes more than 30 days.

Commissioner Cason: So, I get there's a certain sense of urgency as well. You said, May 1st – what happens if we didn't do anything today, what would happen if we didn't have resolution of this until May some time. What would happen? What's the downside?

Ms. Perez: So, I'm going to answer your question with a statement. The earlier we can bind coverage and capture that capacity that has been provided to us as we continue to fill it, the better we're going to be, because what I'm seeing is that as the days go by, their rates are going up, because the capacity is going down, and the insurance carriers are just sitting there with, I'd rather give you the capacity at ten points more than you, because I can.

Commissioner Cason: By capacity you mean the amount of money they have available to put in Florida for this purpose.

Ms. Perez: So, just to give you an example, we placed \$50 million of windstorm and all other perils, so everything's included in that. And then you have an additional, all other peril coverages, but I'll have \$50 million, there could be a carrier that's giving us \$2 and-a-half million, another one is giving us a million. Its like a quilt. I call it a quilt. It ends up looking like a puzzle at the end of the day, because it takes several different carriers and they are not all doing the same percentage of the \$50 million; some may be taking 10 percent of it vertically, others may be taking ten percent of it horizontally and it clearly really does become a quilt, actually. You have a picture of it there of what it looked like last year.

Commissioner Cason: It could come apart.

Ms. Perez: Well, its going to come together. There's one major question here that we all have and that is, will 100 percent of it be placed by May 1st and we don't know that, until the day comes. So, my suggestion to Raquel early this morning and the City Manager last week was, let's bind whatever we can as soon as we have it. So we have the primary 25 in any shape or form, we should bind that, and not give that capacity up, because if not, someone else is going to take it.

Commissioner Anderson: Right. That sounds like very good advice. The other thing is, although the weaker storms for us, hurricanes are starting earlier and earlier and earlier, and although we have the best building code, some of our structures are older, so we have to be mindful of that.

City Manager Iglesias: We would like to bind as soon as possible and that's why we're here today.

Commissioner Menendez: I just want to add that, we've dodged a lot of hurricane bullets of late, you know the ones that make a turn away from us at the last second. We've seen the impact, you know. God forbid we get hit, but they're getting closer and closer, and what's the old saying, better safe than sorry.

Commissioner Cason: We can't take the risk.

HR Director Elejabarrieta: And to the Vice Mayor's point, we are trying to think outside the box and think creatively and we are looking at, do we insure certain buildings for all other perils and not windstorm, right. So garages, do we need to insure them for windstorm or can we just insure them for fire, but what we're realizing is that, that doesn't move the needle in terms of savings. So we're not sure, you know, saving \$20,000 or \$30,000 in premium is worth the risk of having certain garages not insured for windstorm, right.

Mayor Lago: Having a catastrophe on our hands.

HR Director Elejabarrieta: So we are looking, we're on the phone on a daily basis, we are meeting with our Insurance Advisory Board as well. We met with them twice, they are fully aware of what's going on. They understand what is going on in the market. This is just unprecedented.

Commissioner Cason: Penny wise is pound foolish.

Mayor Lago: So, to bind today we need a motion.

Commissioner Cason: I'll make a motion.

HR Director Elejabarrieta: So, today before you is what that not to exceed number.

Commissioner Cason: Understood.

HR Director Elejabarrieta: We'll continue to negotiate. From conversations that I just had with Maria today, we may exceed that. It might go up, but we will come before you in May, if we go over that \$3.9 million.

Mayor Lago: We have a motion from Mayor Cason.

City Manager Iglesias: But Mayor, Commissioners, we would like to be able to bind insurance while we're here.

Mayor Lago: Okay.

Vice Mayor Mena: Second.

Mayor Lago: Mr. Clerk.

City Clerk Urquia: Mr. Mayor, before we vote.

Mayor Lago: I'm sorry, there's public comment, I apologize, excuse me.

City Clerk Urquia: Mr. Rip Holmes wishes to speak on the item.

Mr. Holmes: Rip Holmes, I live here in Coral Gables, I have a business and can I say a strange thing, thank you for addressing the nightmare. You think the city has it bad, 37 percent raise, try 300 percent, 300 percent raise. I had the good luck of attending the Florida Tax Watch Organization, they had their annual meeting here. These people are incredible. If you get a chance to go to one of their meetings, don't miss it. So, they gave us, the people in attendance a full breakdown on how the state government – these people are incredible. They had Jimmy Petronas speaking, all the great leaders you get to meet and I don't, but I finally did. Anyway, they had everything knocked, right, except climate change, and so, here we have these incredible people helping the city who got to actually talk with the reinsurers, but I said in a very humble way when I realized they are not talking about climate change. I said, if I'm a reinsurer, I wouldn't be too sympathetic to the State of Florida and its insurance woes, if they are not even addressing warmer waters causing more intense hurricanes. That's irresponsible. Where am I going with this? – I know that you all have been trying to get the word across, trying to communicate to deaf ears in Tallahassee about these climate change issues, we need to – a 300 percent hike in my insurance, we need to like blow whistles. Thank you very much.

Mayor Lago: Thank you. You have a motion and a second.

Vice Mayor Mena: Yes

Commissioner Menendez: Yes

Commissioner Anderson: Yes

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Commissioner Cason: Yes

Mayor Lago: Yes

(Vote: 5-0)