



**City of Coral Gables
CITY COMMISSION MEETING
JANUARY 11, 2022**

ITEM TITLE:

Insurance & Risk Management Advisory Board meeting minutes November 15, 2021

SUMMARY OF MEETING:

OPENING:

Chair Juan C. Diaz-Padron opened the meeting. Meeting was called to order at 8:12am. Quorum was reached. Everyone introduced themselves for the record.

Voting for Chairperson and Vice Chairperson – Mr. Juan C. Diaz-Padron

Mr. Diaz-Padron addressed board regarding voting for Chairperson as well as Vice Chairperson.

Mr. Diaz-Padron as current Chairperson expressed his interest to continue to serve as such. Mr. Reshesky nominated and motioned for Mr. Diaz-Padron to continue being board Chairperson.

Motion by: Gary Reshesky / 2nd Matthew Weaver / All approved unanimously

Mr. Weaver nominated and motioned for Mr. Reshesky to serve as Vice Chairperson.

Motion by: Matthew Weaver / 2nd Juan C. Diaz-Padron / All approved unanimously

Biltmore Hotel –Raquel Elejabarrieta & David Ruiz

Ms. Elejabarrieta addressed the board regarding the Biltmore Hotel lease regarding the insurance requirements. Ms. Elejabarrieta advised the current lease between the city and Biltmore is a 50-year lease which was entered into around 1986 and has been amended several times since then.

Ms. Elejabarrieta stated currently the lease requires the Biltmore to have property insurance for all risks, including windstorm, for the full actual replacement cost of the buildings. She advised last year (March 2019-March 2020), the Biltmore carried \$173 million limits, which included 2 other properties: Sheraton Sand Key in Clear Water and a condo at the David William Hotel. She advised the amount of the \$173 million was established by a 2018 appraisal report prepared that used an income-capitalization approach and not an actual replacement cost approach which provided an estimated value of approximately \$90 million.

She stated in order to determine if the Biltmore was in compliance with the lease the Biltmore would have to obtain an appraisal based on actual replacement cost. Biltmore renewed its insurance on March 27, 2020 and reduced their property coverage to \$100 million. An appraisal completed in April of 2020, by Duff & Phelps, determined the cost of reproduction (replacement cost) for the Biltmore hotel would be approximately \$215 million.

Ms. Elejabarrieta stated after city received appraisal it began a detailed analysis as to whether it would be reasonable to require the Biltmore to obtain \$215 million of insurance for all risks including windstorm as required by the Lease and if it would be determined not reasonable, what would be a reasonable requirement. Ms. Elejabarrieta stated it was understood any changes to the Lease insurance requirements would need a Lease amendment subject to approval by the Commission.

Ms. Elejabarrieta stated in difficult markets such as South Florida's market, it is valuable to review a catastrophic model in order to determine the adequacy of policy limits. She advised in May/June of 2020, the Biltmore provided city with the catastrophe study, conducted by RMS (Risk Management Solutions). Ms. Elejabarrieta stated in

addition there were several lengthy very detailed conference calls between city engineers, including City Manager who himself is an engineer, and RMS engineers discussing data used in the RMS study and how it had been conducted. She stated after these detailed conversations, the city felt comfortable with the information used by RMS as it relates to the Biltmore and that the assumptions made were reasonable.

Ms. Elejabarrieta advised RMS concluded in a 250-year storm, the Seaway Hotel company would suffer a projected total loss of \$17.9 million net of deductible and stated the 250-year storm is commonly used and the accepted benchmark for deciding the amount of windstorm coverage that should be purchased. Ms. Elejabarrieta stated if city were to use a 5000-year storm, the highest magnitude loss over a 5000-year return period would be \$93 million. Based on the 250-year study it was decided by the city that the \$100 million limit being carried by the Biltmore is reasonable.

Ms. Elejabarrieta stated the city also conducted research into other municipalities regarding their purchase of the amount of windstorm insurance to make sure the \$100 million Biltmore would like to carry would be sufficient. She shared with board information obtained (Exhibit 1). Ms. Elejabarrieta and the board discussed coverage held by the various municipalities and it supported that the \$100 million limits being carried by the Biltmore is reasonable. There is also a priority of payment endorsement (required in the lease) in the Biltmore's coverage which protects the City as such an endorsement allocates payment of any property claim to be applied first to the property before applying to contents and business income loss.

Ms. Elejabarrieta stated the deductible for the Biltmore is 5% per unit of insurance, \$2.5 million maximum aggregate to the Biltmore location.

Mr. Diaz-Padron asked if the windows have been upgraded and believes this was discussed in the past triggering this subject. Mr. Ruiz advised windows were updated approximately 2 years ago.

Mr. Reshesky asked city to make sure that there is language regarding deductible the deductible in the Lease. Ms. Elejabarrieta advised there is language in the lease regarding deductible and city is to be advised of any changes. She advised in the Biltmore's current property insurance they do have a historical reproduction endorsement even though it is not stated in the current lease, however this requirement will be added to this lease amendment. Mr. Weaver asked if property insurance carriers for the Biltmore were participating on percentage bases or towers and Ms. Elejabarrieta advise it was on towers.

Ms. Elejabarrieta stated the item regarding the lease amendment would hopefully be placed on the upcoming December commission meeting.

Mr. Reshesky asked if this included management agreement with the golf course. Ms. Elejabarrieta stated it does not, however the \$100 million does cover the golf courses (Tee & Green coverage).

Mr. Diaz-Padron asked if it has been looked into to just taking control of this property as done with others, does it make more financial sense for city to pay the premium for the Biltmore location. Ms. Elejabarrieta stated city has not conducted this in much detail due as it is difficult to obtain quotes just to "look" and not actually quotes. Ms. Elejabarrieta advised it is stated on the lease the city has option of requiring limit increases every three years.

Ms. Elejabarrieta advised that the lease states the Biltmore is required to carry the lesser of actual replacement cost or \$100 million and that the deductible must be a commercially reasonable deductible and it must be disclosed to the city annually.

Over review 2021- 2022 Insurance Renewal Process – Mr. David Ruiz

Mr. Ruiz advised some of the renewal insurance applications have been received. He advised the city has also reached out once again to FMIT to see if they will a viable option. He stated that the current indication for property insurance market is a 10 to 15 percent increase based on clients which have had no catastrophic losses within a five-year period. He stated city had Hurricane Irma about four years ago, however an argument could be made that prior to that it had been over ten years of not having any catastrophic loss. Mr. Ruiz stated Ms. Perez of Arthur J.

Gallagher will be traveling to London and will have a better indication of what property market is going to be by January 10, 2022.

Ms. Elejabarrieta advised that cyber liability cost increased 314% last year and that it is going to be another tough year for cyber renewal.

Regarding FMIT, Ms. Elejabarrieta stated some of the issues with FMIT on the liability side were retro dates, selection of outside counsel, and ability to settle. Mr. Ruiz stated some of the issues with FMIT on the property side were coverage of sea walls, docks and not having historical endorsement type coverage.

Ms. Elejabarrieta stated the city's IT Department is very pro-active and are leaders in making sure everything is done to assure city's systems are protected. Ms. Elejabarrieta stating city's IT department will be meeting with Arthur J. Gallagher and BRIT to advise them of all the steps in place to assure protection from cyber-attacks. Mr. Ruiz stated that Arthur J. Gallagher has been made aware of very high certification received by IT Department and Police Department. Ms. Elejabarrieta stated city has a meeting with BRIT December 6, 2021.

Ms. Elejabarrieta advised that the City's Finance is aware of expected increases to the City's Insurance Program. Ms. Elejabarrieta stated it comes down to what the city can afford and how much it is willing to risk. Mr. Reshesky stated he feels perhaps a ten-year comparison of premiums, TIV, city's budget. Ms. Elejabarrieta stated this has been done in past and it was when city was able to purchase additional coverage.

Ms. Elejabarrieta advised board the tough insurance market which will require for city to be more creative and is open to the board for their ideas, suggestions, and input. Ms. Elejabarrieta stated the December 3, 2021, meeting is really to get into more detail, to advise Arthur J. Gallagher what board would like for them to really look into.

Mr. Diaz-Padron asked if there would be an updated executive summary available by Arthur J. Gallagher in January and Ms. Elejabarrieta advised Arthur J. Gallagher has advised due to the current market, they will not be any hard quotes until March 2022.

MEETING ADJORNED: 08:59am

Motion by: Matthew Weaver / 2nd Austin Tellam / All approved unanimously

NEXT MEETING: December 3, 2021

ATTACHMENT(S):

Minutes of the November 15, 2021