

City of Coral Gables City Commission Meeting
Agenda Item F-5
March 8, 2022
City Commission Chambers
405 Biltmore Way, Coral Gables, FL

City Commission

Mayor Vince Lago

Vice Mayor Michael Mena

Commissioner Rhonda Anderson

Commissioner Jorge Fors

Commissioner Kirk Menendez

City Staff

City Manager, Peter Iglesias

City Attorney, Miriam Ramos

City Clerk, Billy Urquia

Labor Relations and Risk Management Director, Raquel Elejabarrieta

Public Speaker(s)

Agenda Item F-5 [2:29 p.m.]

An Ordinance of the City Commission authorizing execution of the Second Amendment (“Second Amendment”) to Amended and Restated Lease (“Lease”) between the Biltmore Hotel Limited Partnership, a Florida Limited Partnership (“Developer”) and the City of Coral Gables, a Florida Municipal Corporation (“City”) executed February 10, 1986 and amended and restated July 29, 1999 (“Original Lease”) and amended on January 2, 2001 (the “First Amendment”) amending Section 15 of the lease by revising the property insurance requirements and including a sovereign immunity provision; providing for a repealer provision, severability clause, and providing for an effective date.

Mayor Lago: Mr. Manager, do you want to address the issues that we have in regards to the Biltmore because I know that Mr. Prescott is here.

City Manager Iglesias: Yes, Mayor.

Mayor Lago: And I don't want to have him here any longer.

City Manager Iglesias: Scott's here so yes. We have F-5.

City Attorney Ramos: F-5 is an ordinance of the City Commission authorizing execution of the Second Amendment to the Amended and Restated Lease between the Biltmore Hotel Limited Partnership, a Florida Limited Partnership and the City of Coral Gables, a Municipal Corporation executed February 10, 1986 and amended and restated July 29, 1999 and amended on January 2, 2001 amending Section 15 of the lease by revising the property insurance requirements and including a sovereign immunity provision; providing for a repealer provision, severability clause, and providing for an effective date. This is a public hearing item, and it needs to be adopted by a four-fifths vote.

Labor Relations and Risk Management Director Elejabarrieta: Good afternoon, Mayor and Commissioners. Raquel Elejabarrieta, Director of Labor Relations and Risk Management. The current lease between the City and the Biltmore requires that the Biltmore secure and maintain, among other insurance requirements, property insurance coverage for all payrolls equal to equal to the full actual replacement cost of the building, the contents, improvements, and betterment, which would be well over \$200 million in property insurance coverage. As you know, the market for property insurance, particularly here in South Florida, is extremely difficult, and there are definite limitations as to the amount of windstorm insurance that can be purchased by a single buyer. This is particularly true in Miami-Dade and Broward County. As a result of this, we did a detailed analysis to determine what would be the appropriate amount of property insurance to

require the Biltmore to carry going forward. The analysis consisted of two things. We looked at the largest public entity purchasers of property insurance in Miami-Dade and Broward County, and we also looked at the catastrophe wind model that was performed on the Biltmore properties by the insurance and their underwriters. Included in the backup information for the ordinance is an analysis of the property limits that were purchased by some of the largest public entities in Miami-Dade and Broward County. And as you can see, the amount of property limits, particularly windstorm limits, purchased by these entities is significantly less than the total insured value for these entities. Beginning with the City of Coral Gables, our TIV, our total insured values are over \$280 million, and we carry \$50 million of windstorm insurance. If you go on that chart, you'll see that the City of Fort Lauderdale has \$261 million of TIV. They purchased \$50 million in windstorm; City of Hialeah, \$276 million in TIV, purchased \$25 million of windstorm insurance; City of Miami, \$557 million in TIV, and they have \$25 million of windstorm insurance. Miami Beach TIV is \$1.3 billion, and they carry \$30 million in windstorm insurance. They do have a separate paramedic coverage for an additional \$20 million of insurance coverage, but that paramedic coverage alone is \$1.1 million in premium. Two more entities that we looked at, we looked at Miami-Dade County. Their TIV is \$13.7 billion, and they carry \$150 million of windstorm. And the Miami-Dade County Public schools, their TIV is \$10.8 billion, and 200 -- and they carry \$200 million in windstorm. So, in reviewing the coverages purchased by not only the City of Coral Gables, but by these large public entities, it is apparent that requiring the Biltmore to carry property insurance limits, and particularly, windstorm limits for full replacement costs, which would be in excess of \$200 million, is not in line with the market and does not appear to be reasonable. In addition to reviewing these -- what the markets -- what these large entities purchase on the property markets, we also looked at the windstorm catastrophe model that is conducted annually by the Biltmore's underwriters. A windstorm catastrophe model is a process of using computer-assisted technology to estimate the losses that would be sustained due to a catastrophic wind event, such as a hurricane here in South Florida. These models incorporate advanced technology, scientific insight, engineering methods, statistical data, and analysis to model complex scenarios of events. When determining what the amount of property insurance to purchase,

especially in difficult markets such as Miami, it is often valuable to look at these catastrophic models that are performed on the properties. We reviewed in detail the wind modeling study that was performed on the Biltmore's account. The Biltmore's account also includes a property on the west coast and a condo within the City. The study was also analyzed in extreme detail with the City Manager and then the engineers at RMS, which is a company that performed the study to ensure that the assumptions, the engineering methods, and all these statistical data analysis that was inputted into these models was accurate and reasonable. The study concluded using a 250-year return period, which is common practice when purchasing insurance, that there is a .4 annual chance of one wind event causing more than \$17.5 million in losses. If we use a more conservative approach, which would be a 500 return period, there is, I believe, a .2 percent of one single event each year causing damages in excess of \$30 million. After carefully looking at the catastrophe model and analyzing it in detail, looking at the current property insurance market, what other large public entities are purchasing in terms of property insurance, we believe that amending the lease to require the Biltmore to carry \$100 million of property insurance is reasonable, and we believe that it will be properly insured. In addition to that, we are requiring that the Biltmore obtain what is called a priority of payments endorsement. What that would do is if there was an event of any loss of over \$100 million, the policy limits and also limits -- any amounts paid under the policy would first go to the necessary repairs of the building. The second amendment that's before you also updates certain insurance requirements in Section 15, and also adds a sovereign immunity provision. I'm available for any questions. And I believe...

Mayor Lago: Thank you very much. I have just one brief question. Again, I'm not going to pretend to be an insurance expert. Did this go before the Insurance Advisory Board?

Labor Relations and Risk Management Director Elejabarrieta: We've had two meetings in front of the Insurance Advisory Board, and they were presented with the same information that I just presented.

Mayor Lago: Okay, what was their recommendation on that?

Labor Relations and Risk Management Director Elejabarrieta: They did not take a vote, but they had no objections.

Mayor Lago: Had no objections, okay. My only concern -- and as long as staff can tell me that, you know, we're perfectly fine -- is that the asset, the Biltmore, is protected in case of any type of catastrophic hurricane or natural disaster. If you tell me that we're, you know, potentially covered for any losses to that historic asset, then I'm taking you on your word and your expertise. But I see this market, and like I talked to Mr. Prescott, I told him, it's -- I see this market where it's more and more difficult for us to get insurance, and I've spoken to professionals about it. I always thought you would want to have more insured coverage as property values go up. I didn't think you wanted to have less insurance. But I understand that having the level that's called for or that they had before was economically potentially not even feasible as a result of the costs for insurance now. So, if you're telling me that staff feels comfortable and that our Insurance Advisory Board feels comfortable in regards to the insurance that you're recommending, I'm willing to move forward.

City Manager Iglesias: Mayor, a very sophisticated RMS model was done, which is very similar to wind tunnel technology, looking at the probabilistic issues of window currents. That was also coupled with the construction type, which is very important, and it yielded a 500-year return, which is approximately a higher level hurricane of about 31 million. And we -- 27 or aggregated to 31 million, and we're at \$100 million. We went in depth into that report, and that's a sector-based report, and it was done in accordance with really the current technology, very sophisticated report done in accordance with really current wind technology.

Mayor Lago: Okay.

Commissioner Fors: And the fact is, when you look at Fort Lauderdale, Hialeah, Miami, Miami Beach, Miami-Dade County, Miami-Dade County Schools, the percentage of total value that we're insuring is in line with -- more or less with what those other municipalities are doing and counties.

Labor Relations and Risk Management Director Elejabarrieta: Correct. So, I placed that in there as a way of example. If you look at the amount of windstorm insurance that they purchase, and most of them are purchasing \$50 million, \$25 million, and their TIV is close to \$300 million.

City Manager Iglesias: Ours is higher, ours is much higher.

Labor Relations and Risk Management Director Elejabarrieta: We are requiring the Biltmore to have \$100 million of windstorm coverage and that priority of endorsement -- priority of payment endorsement, which if any loss exceeds \$100 million, the first \$400 million would come to the City. It can't go to the Biltmore for business interruptions or content. It would go to repair and replace -- hopefully, repair the building.

Commissioner Fors: Alight. And the concept here is that you don't -- correct me if I'm wrong -- you don't set out to cover a complete rebuilding of a structure when there's only a fractional percentage in terms of probability that that structure will be literally leveled to the ground.

Labor Relations and Risk Management Director Elejabarrieta: Correct.

City Manager Iglesias: Correct. It would be a .2 percent probability exceeding \$31 million...

Mayor Lago: And this...

City Manager Iglesias: .2 percent.

Mayor Lago: And Item F-5 is just dealing with insurance, correct?

Labor Relations and Risk Management Director Elejabarrieta: Correct.

Mayor Lago: Nothing else.

Labor Relations and Risk Management Director Elejabarrieta: And we added a sovereign immunity provision, a paragraph in the lease that I guess it was missing.

Commissioner Fors: I have -- go ahead.

Commissioner Menendez: Yeah, I'm quicker probably.

Commissioner Anderson: You think you are.

Commissioner Menendez: You never know, right? I think everyone who owns property is always looking for ways to reduce your premium payments through all kinds of programs that the insurance companies offer, so I understand the desire and the need to lower the premiums, that's without saying. Does -- we're talking about wind. God forbid there's a fire. How does that play into this situation because I think a fire could do as much if not worse damage?

Labor Relations and Risk Management Director Elejabarrieta: So, the \$100 million is for all perils, so it would include fire. It's up to \$100 million.

Commissioner Menendez: And my other question -- because I've had, you know, folks in the community reach out to me because, again, we have to present this in a way that the community understands why we make decisions that we make, and that's part of what we should be about. And do we know what kind of coverage other historic landmarks in South Florida, Freedom Tower,

Vizcaya, do we have --? I mean, because I think the Biltmore's close to those types of historic landmarks than, you know, just a regular home. And if we don't have that information, I would, at the very least be -- like to know at some point as education, as informative.

City Manager Iglesias: Could you repeat the coverage of Miami because that would answer, I think.

Labor Relations and Risk Management Director Elejabarrieta: So, is the Freedom Tower owned by the City of Miami?

City Manager Iglesias: I believe so and...

Labor Relations and Risk Management Director Elejabarrieta: If it is...

Unidentified Speaker: Yes.

Labor Relations and Risk Management Director Elejabarrieta: I believe the City of Miami has \$30 million in windstorm coverage.

City Attorney Ramos: I think it's owned by Miami Dade College actually.

Labor Relations and Risk Management Director Elejabarrieta: Miami Dade College.

City Manager Iglesias: Miami Dade College.

Labor Relations and Risk Management Director Elejabarrieta: Okay. So, no, I...

Commissioner Menendez: And Vizcaya, that would...

City Manager Iglesias: Vizcaya.

Commissioner Menendez: Fall under?

Labor Relations and Risk Management Director Elejabarrieta: I don't know who owns Vizcaya.

City Attorney Ramos: Vizcaya I think is owned by the Vizcayans, isn't it? Maybe it's owned by Miami, and they raise money, I'm not sure.

Labor Relations and Risk Management Director Elejabarrieta: I'm not sure.

City Manager Iglesias: There's quite a bit of historical buildings that Miami owns and...

City Attorney Ramos: Maybe -- yeah, maybe that one is (INAUDIBLE).

City Manager Iglesias: So, Miami -- what is the Miami percentage? What is the total loss for...?

Labor Relations and Risk Management Director Elejabarrieta: City of Miami has a total TIV of \$557 million. That excludes their utilities, and they have \$25 million in windstorm coverage.

Commissioner Menendez: Okay. No, I'm...

City Manager Iglesias: Give you an approximate, Commissioner.

Commissioner Menendez: Yeah, I -- and I understand and the numbers, like you said, support reducing the premium. I'd like -- just as the Mayor, I defer to the experts and to the Administration for guidance. But I am a little bit -- just a little bit worried that the unexpected happens -- because

it usually does when you don't expect it, I guess that's why it's called the unexpected. But I'm ready to -- not bad, huh? I'll move it over to my colleague, Commissioner Anderson.

Commissioner Anderson: City Manager -- and I know you know most of this on your fingertips, and if not, we have very qualified staff here to answer the question. When the lease was first implemented to require full insurance coverage, did we have impact windows in the Biltmore?

City Manager Iglesias: I think we had the older windows. I think the Biltmore has now a very robust -- as a matter of fact, they even have Code Compliance approval on it. It's a very good looking, very robust impact rated window.

Commissioner Anderson: Okay. So, since that -- since the time that lease was executed, we have shored up the building.

City Manager Iglesias: Yes, Commissioner. And that should help the structure quite a bit.

Commissioner Anderson: Were there any other changes with the fire sprinkler system or any other systems that would impact the level of insurance coverage needed?

City Manager Iglesias: Well, we have what was Code required for that structure when it was rehabbed, but the fire damage is also \$100 million, so it's quite substantial.

Commissioner Anderson: Okay, so there were -- basically, since it was rehabbed, the sprinkler system hasn't been...

City Manager Iglesias: That's correct.

Commissioner Anderson: Any further changes?

City Manager Iglesias: I don't know what current changes have happened, but the sprinkler systems have been extremely effective from the fire perspective to the point that certain egress requirements have been lessened in the building codes because of the effectiveness of fire suppression systems that we're using now.

Commissioner Anderson: Okay. Well, based upon the fact too that the Insurance Advisory Board has looked at this and the building has been -- you know, the openings have been sealed better, I'm much more comfortable with this at this point. I guess what's left is the roof is the -- would be the major issue.

City Manager Iglesias: And they did -- as I mentioned, they did a very robust statistical analysis of the wind. It's sector-based similar -- wind tunnel based, building based -- sector based, which is fine really for insurance. And they did a very strong wind analysis, the type of wind analysis that we use in wind tunnel work, which I'm very familiar with, and it was a robust analysis. It comes up with the probabilities. It does all kinds of simulation events and things like that so that you kind of model thousands of hurricanes coming through, their methods, their probabilistic methods of doing that, which they did. I met with their engineers, looked -- went through what they -- how they accomplished it. And the only difference would be sector based, based on a site base, which is just fine. We did it from an insurance company perspective because of the cost of doing those kinds of analysis, and those are the probabilities, and those are reasonable probabilities. Those are probabilities that we design building to.

Commissioner Anderson: Okay. Well, thank you. Anybody else have any comments or questions?

Mayor Lago: No, no. My biggest concern was that, obviously, that this had gone before the Insurance Board and that everybody felt comfortable from staff. I have no other comments.

City Attorney Ramos: Mr. Clerk, does anybody wish to speak on this item?

City Clerk Urquia: No, ma'am.

Mayor Lago: I'll entertain a motion.

Commissioner Anderson: I'll move it.

Commissioner Menendez: I'll second.

Commissioner Anderson: Yes.

Commissioner Fors: Yes.

Vice Mayor Mena: Yes.

Commissioner Menendez: Yes.

Mayor Lago: Yes.

(Vote: 5-0)