

## DF Distribution

### MINUTES EMERGENCY FIRE COST COMMITTEE SPECIAL MEETING February 23, 2015

In accordance with the provisions of ORS 477.455, a meeting of the Emergency Fire Cost Committee (EFCC) was held at the State Forester's Headquarters, 2600 State Street, Salem, Oregon.

#### **Committee Members Present:**

Ken Cummings, Chair  
Lee Fledderjohann  
Steve Cafferata  
Pete Sikora (Absent)

#### **Others Present:**

Tim Keith, EFCC Administrator  
Doug Decker, State Forester  
Nancy Hirsch, Division Chief, Fire Protection Program  
Doug Grafe, Deputy Chief, Fire Protection Program  
Nick Yonker, Meteorology Manager, Fire Protection Program  
Charlie Stone, Policy Analyst, Fire Protection Program  
Tracy Guenther, Administrative Support, Fire Protection Program  
Jeff Friesen, Willis of Oregon  
Mike Dykzeul, Oregon Forest Industries Council  
Marlena Standley, DAS Risk Management  
Todd Scharff, DAS Risk Management  
Michelle VanSchaick, Asst. Chief of Staff, Senate President Peter Courtney  
Rod Nichols, Public Affairs  
Satish Upadhyay, Division Chief, Administrative Services  
Paul Bell, Deputy State Forester  
Dan Thorpe, District Forester, Southwest OR District  
Mike Robison, District Manager, Coos Forest Protective Assn.  
Melvin Thornton, District Manager, Douglas Forest Protective Assn.  
Kate Skinner, District Forester, Tillamook District  
Eric Simpkins, Resource Stewardship Consortia  
David Foote, Resource Stewardship Consortia  
Debbie Miley, Executive Director, National Wildfire Suppression Association  
Paul Betts, Miami Corp.  
Dave Lorenz, Southern Area Director  
Milt Moran, Cascade Timber Consulting  
Bret West, EGS Administrator, DAS  
Cathy Connolly, Policy & Budget Analyst, Chief Financial Office, DAS  
Dustin Ball, Policy & Budget Analyst, Chief Financial Office, DAS  
Jake Gibbs, Lone Rock Timber  
Mark Hubbard, Finance Director, Administrative Services  
Rep. Dan Rayfield, State Representative, House District 16  
Lauri Aunan, Governor's Natural Resource Office  
Matt Stayner, Legislative Fiscal Analyst  
Mark Wall, Roseburg Resources  
Scott Melcher, Melcher Logging  
Mike Totey, District Forester, West OR District  
Cat Smith, Budget Analyst, Administrative Services  
Greg Alexander, Assistant District Forester, Southwest OR District  
Jim James, Oregon Small Woodlands Association  
Gary Springer, Board of Forestry  
Randy Hereford, Starker Forests

#### **ITEM 1: CALL TO ORDER**

Chair Cummings called the meeting to order at 1:00 p.m. Introductions were made around the table. He outlined the meeting agenda briefly, setting ground rules and expectations. He pointed out that ultimately the EFCC will make a recommendation to the State Forester regarding purchase of a catastrophic insurance policy.

**ITEM 2: POTENTIAL 2015-16 CATASTROPHIC INSURANCE POLICY FOR THE OREGON FOREST LAND PROTECTION FUND [Information Item]**

Chair Cummings briefly outlined the early February trip to meet with Lloyds of London that State Forester Decker, Assistant State Forester Nancy Hirsch, Jeff Friesen with Willis of Oregon, Marlena Standley with DAS Risk Management and he made. He noted that Lloyds had been in business for 327 years and passed around a hand-out showing the underwriters that insured the Titanic – many of those companies are still in business. Lloyds' ability to attract capital worldwide and their stature as the largest underwriting syndicate in the world for natural resource disasters are reasons for turning to them for Oregon's catastrophic firefighting insurance policy. On behalf of landowners, Chair Cummings pointed out to underwriters that landowners stood to lose many times the cost of suppressing fire, therefore a strong wildfire suppression system is important for Oregon's landowners.

State Forester Decker stated that the OR Department of Forestry (ODF) had two objectives for the Lloyds' London trip. First to thank them for their support and 'show our respect' for the long-standing relationship. Second, to reassure Lloyds' underwriters that Oregon has the best fire protection system in the world. He pointed out that Chair Cummings did an excellent job speaking for Oregon's forest landowners and the complete and coordinated system. The key question was, what will it take going forward in order that Oregon can maintain the band of fiscal protection that the insurance policies have provided in the past.

State Forester Decker reported that 12 separate meetings were held with prospective underwriters. They met on the 23<sup>rd</sup> floor of the Willis Building adjacent to Lloyds of London, facilitated by Neil McBride with Willis of London. To a person the underwriters were all active and engaged as the presenters worked through the paper copy of the PowerPoint presentation, asking questions throughout. Nancy Hirsch noted that they operate much like ODF, keying on relationships. Chair Cummings noted that he would characterize the trip as a sales trip, not a negotiation.

Marlena Standley reported that DAS Risk Management purchases insurance policies for Oregon, both agency-specific and statewide policies. Oregon retains the predictable loss, relying heavily on self-insurance for that, and insures for unpredictable losses with a high self-insured retention (deductible). ODF's policy is an interesting one, the only policy of its kind found anywhere in the world. She pointed out that Lloyds demands that clients demonstrate how they manage risk – which was the focal point of the presentation the group made. She stated that Nancy Hirsch, State Forester Decker and Chair Cummings did an incredible job, which led to strong underwriter participation in the meetings. She reported that she is very pleased that London is still engaged and willing to work with Oregon on a new catastrophic policy.

Jeff Friesen explained the confidence his firm has in their London team. Their relationships with underwriters is critical to helping them understand the nature and value of policies such as Oregon's. Education of the underwriters – several of which are new to this policy – was an important aspect of the visit. He stated that without the visit to London, Oregon would probably have lost the policy.

Chair Cummings reported that back-to-back full limits losses necessitated changes – things have to change or we will no longer be able to have an insurance policy. The \$20 million retention is simply not sustainable. The Willis of London team has been asked to turn over every rock possible to find options that might work for Oregon and the underwriters for this year and into the future. He stated that it was likely that a new policy would not be ready by April 1<sup>st</sup>, the traditional policy year kick-off, but that April 1<sup>st</sup> is not a mandate. Jeff Friesen said that they met with agri-business experts from London that work with a derivative product popular in the agriculture industry, where losses are paid once certain benchmarks are surpassed. More than one underwriter came to the conclusion separately that derivatives may work, but that the appropriate benchmarks need to be researched and established; it is a complicated product. Derivatives may be a viable future product for 2016 or 2017.

Nancy Hirsch gave an update on the status of HB 2454. The Wildfire Protection Act made a series of changes: increasing severity and sharing those costs 60-40 between the OFLPF and the General Fund, lowering the insurance deductible to \$20 million and splitting those costs between the OFLPF and General Fund with a three biennia phase-in, and setting an annual OFLPF expenditure ceiling of \$13.5 million (\$10 million for suppression, \$3 million for severity and \$.5 million for purchasing 50% of an insurance policy premium and administrative costs.) Because of the epic 2013 fire season and the rising cost of insurance, HB 2454 was proposed which would remove purchase of insurance and administrative costs from the cap. She reported that the bill is on hold for the time being until specifics of policy costs and/or options are known.

Chair Cummings pointed out that procuring an insurance policy is not a Legislative mandate. The OFLPF has sufficient resources to pay higher premium costs plus suppression and severity (\$13 million) if HB 2454 were passed.

State Forester Doug Decker said that in a best case scenario for the future: 1) a policy would provide a band of insurance coverage to protect the State – even if it is smaller, 2) a different type of tool such as derivatives is developed to be used solely or in combination with the existing type of policy, and/or 3) Oregon adopts a posture of increasing self-insurance. He noted that there were a lot of questions regarding the policy given the cyclic nature of

fire seasons going back 100 years, underwriters asked what will it take to protect Oregon's forests going forward? Underwriters were also very interested in a correlation between drought and lightning. State Forester Decker said having the best diversity of financial protections in place over the long haul is the goal for Oregon.

Chair Cummings concluded the first agenda item noting that OFLPF revenue is over \$11 million per year. Prior to the past two seasons we had been averaging \$8 million per year in suppression costs, consequently the fund's balance has been growing. The statutory limits of \$22.5 and \$30.0 million are within reach – where taxes and fees are reduced by 50% or completely shut-off respectively. These limits should be part of a larger debate to position the OFLPF and fire protection financing in Oregon for the long haul.

### **ITEM 3: INPUT ON POTENTIAL INSURANCE POLICY [Informational Item]**

Chair Cummings opened the floor to input/questions from the floor. Gary Springer asked if there is a drop dead date for securing insurance. Chair Cummings stated that there isn't, but that the longer it goes, the higher the risk that a policy option is no longer available if we get too close to fire season. Paul Betts noted that the policy really protects the state. He asked if there had been any discussion about risk/cost tolerance between the state and the EFCC. Chair Cummings responded that no, that discussion hadn't occurred, but is an important one for the future. He stated that the OFLPF has paid 80% of the large fire suppression cost over the past two decades, landowners are still striving to get to a full 50-50 split with the General Fund.

Mike Dykzeul asked that, realizing the complexity of negotiations, does the state recognize that the General Fund is responsible for large fire suppression costs after April 1<sup>st</sup> but before July 1<sup>st</sup>. Nancy Hirsch responded that much like the previous year, the OFLPF cap and insurance policy limits have been reached, consequently new costs before July 1<sup>st</sup> must be borne by the state. Mike noted that it would be beneficial if the various annual cycles (policy, fiscal and calendar) could be consolidated going forward. He asked if co-insurance is still a possibility. State Forester Decker said that it was still an option – what underwriters ultimately propose will determine the terms of a new policy. Chair Cummings noted that underwriters will be looking at options that will reduce their exposure and earn some of their money back. State Forester Decker said that no one has talked specific numbers, policy terms and cost yet. The purpose of this discussion today is to determine if there is agreement from all parties to secure a new policy for 2015-16.

Jake Gibbs expressed appreciation for setting up the special meeting of the EFCC and updating everyone. He asked what is needed from landowners between now and April 1<sup>st</sup>. Chair Cummings responded that this meeting is a key part of what's needed, and educating others that landowners have been paying more than their fair share. Mike Dykzeul pointed out that we are entering the second biennium of the phase-in cycle of the Wildfire Protection Act deductible sharing formula; the final full 50-50 sharing of large fire suppression costs will occur in the 2017-19 biennium. Randy Hereford pointed out that those costs are direct costs of fire suppression, landowners continue to bear the indirect costs of wildfire suppression damage.

Mike Wall asked what the implications are of no policy in 2015. Chair Cummings pointed out that there was no direct benefit to the OFLPF, but that the impact would be felt by the state. State Forester Decker said that the impact would be higher to the state if fire suppression costs exceed deductibles and no policy was in effect – the decision on how to handle that additional cost would be made by the Legislature since statutes are silent on who pays those costs beyond \$20 million. Randy Hereford said that based on \$13.5 million expenditures annually (which occurred this biennium) and with the current \$11 million per year revenue flow, the OFLPF would eventually run out of money. The exposure is too high if the ceiling is reached each year. Chair Cummings responded that we traditionally don't hit the ceiling every year, and that we could afford higher premiums if the current \$13.5 million cap were changed for a couple of years or more. Charlie Stone agreed, noting that the current revenue structure was designed to support up to \$15 million per year, expecting that expensive years would be off-set by milder fire seasons and lower costs. We are still in a pretty good place with current authority and limits. Mike Dykzeul pointed out that when revenue flow was \$8 million and the expenditure ceiling \$15 million, the OFLPF was going broke and eventually led to the need to borrow \$5 million, and in turn revenue was increased by 25%. Chair Cummings concluded this discussion by noting that 2015 could very well be a bridge year to the future, potentially resulting in a different model.

Nancy Hirsch reported that discussion at the January EFCC meeting focused on the future of fire suppression funding. The consensus was that a statewide work group should be convened in the near future to identify alternatives for moving forward. She expects that this will be a likely outcome of discussions with Legislators deliberating on the agency's budget.

State Forester Doug Decker noted that the presentation and notes from the London visit are available upon request. He will continue to work closely with the EFCC, Board of Forestry, DAS Budget and Management Office and Legislative Fiscal Office to reach consensus on the decision whether or not to purchase a policy.

Jim James asked if the EFCC would know policy terms by their March 3<sup>rd</sup> EFCC meeting. Chair Cummings responded that he had not heard anything yet. Jeff Friesen said that the marketing effort is complete and was successful, and that negotiations are continuing in London. The next hurdle will be to determine if the terms are acceptable. He believes that we won't hear anything until sometime after the upcoming EFCC meeting. Chair Cummings noted that once those terms are known, things will occur very quickly and that communication will be a challenge to ensure all parties are fully apprised. State Forester Decker noted that adding to the complexity this year was that we asked for all the possibilities to be considered for a new policy. Marlena Standley noted that this policy is for a 12 month, cumulative loss policy, which is very unusual; policies are generally designed for single occurrences. One option that has been suggested is a shorter-term policy – perhaps 3-4 months.

Nancy Hirsch noted that the timeline will be very compressed. HB 2454 will need to move out of Committee quickly to match up with securing a policy. In addition, the agency budget will need to work quickly through the Ways & Means Natural Resource Committee. She said that State Forester Decker and she would work to assure that all of the processes will move forward concurrently and in alignment.

#### **ITEM 4: PUBLIC COMMENT/GOOD OF THE ORDER**

Jim James complimented the EFCC, department and insurance representatives for the hard work to secure a policy for Oregon; it's important to landowners.

There being no further business before the committee, Chair Cummings thanked participants for attending and adjourned the meeting at 2:20 p.m.

The next regular meeting of the committee will be held on Tuesday, March 03, 2015, at 10:00 a.m. in the Tillamook Room of the State Forester's Headquarters in Salem.