

DF Distribution

**MINUTES
EMERGENCY FIRE COST COMMITTEE
March 03, 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

Others Present:

Tim Keith, EFCC Administrator
Paul Bell, Deputy State Forester
Nancy Hirsch, Division Chief, Fire Protection Program
Doug Grafe, Deputy Chief, Fire Protection Program
Travis Medema, Eastern Oregon Area Director, Prineville
Nick Yonker, Meteorology Manager, Fire Protection Program
Charlie Stone, Policy Analyst, Fire Protection Program
Tracy Guenther, Administrative Support, Fire Protection Program
Whitney Lanham, Administrative Support, Fire Protection Program
Colleen Conlee, Emergency Fund Finance Coordinator
Jeff Bonebrake, Investigation & Cost Recovery Coordinator, Fire Protection Program
Jeff Friesen, Willis of Oregon
Mike Dykzeul, Oregon Forest Industries Council
Marlena Standley, DAS Risk Management
Todd Scharff, DAS Risk Management
Karen Swearingen, Fire Operations Manager, Fire Protection Program
Rod Nichols, Public Affairs
Cathy Connolly, Policy & Budget Analyst, Chief Financial Office, DAS
Dustin Ball, Policy & Budget Analyst, Chief Financial Office, DAS
Lauri Aunan, Governor's Natural Resources Office
Mark Hubbard, Finance Director, Administrative Services
Chad Davis, Resource Planning

ITEM 1: CALL TO ORDER

Chair Cummings called the meeting to order at 10:02 a.m. Introductions were made around the table. He outlined the meeting agenda briefly, pointing out that additional time was being set-aside for discussion regarding procuring an insurance policy for the 2015-16 policy year.

ITEM 2: APPROVAL OF THE MINUTES OF THE JANUARY 06, 2015 COMMITTEE MEETING *[Decision Item]*

The minutes of the January 06, 2015 meeting were approved unanimously by the committee.

ITEM 3: FINANCIAL STATUS OF THE OREGON FOREST LAND PROTECTION FUND *[Informational Item]*

Below is an updated summary of the financial status of the Oregon Forest Land Protection Fund (OFLPF) prepared and reported by Colleen Conlee:

Balance as of 7/1/2014	\$ 25,826,051
Estimated revenue (including Balance)	\$ 37,374,161
Less estimated expenditures	\$ (15,746,097)
Projected Fund Ending Balance 6/30/2015	\$ 21,628,064

Colleen reported that the February Harvest Tax turnover was greater than had been estimated bringing increased revenue of \$41,329 to the fund.

Revenue from fire cost collection efforts for the Wilt fire occurring during fire season 2007 in Central Oregon District has been received; \$81,307 was collected of which \$70,171 will be distributed to the fund and \$11,135 will be returned to the district.

Funds totaling \$3,453,211 were transferred in late February to the department for the 2013 and 2014 fire season severity costs.

Klamath-Lake District's FY13 claim has been finalized; the net claim was \$928,033 which was \$140,488 less than what had previously been estimated. Funds for this claim were transferred to the district in late January.

ITEM 4: WEATHER UPDATE [*Informational Item*]

Nick Yonker opened the weather briefing showing a recent picture of Hoodoo Ski Bowl without any snow in sight. He commented that this is an extremely rare sight this time of year. The next slide showed that we continue under weak El Niño conditions with the average of the models show a continuation of weak El Niño through the summer. This has been the primary cause of the mild and dry weather this winter. Snow water equivalent graphics show an extremely low snowpack ranging from 10 – 50 percent of normal. A comparison picture to last year at the same time shows the snowpack at less than half.

Looking into the future, models are forecasting a likelihood of above normal temperatures through spring with a weak signal toward below normal precipitation. Thus, what little snow there currently is will melt quickly. Drought conditions remain in place with only the northwest corner of the state at near normal moisture conditions. June through August forecasts of moisture show no signal toward dry or wet, which actually may be a good sign. Temperature predictions appear to keep an above normal signal.

Summarizing the current conditions and potential future fire season, Nick highlighted the extremely low snow pack and continuing drought, but stated that a third severe fire season would be unprecedented, having not occurred since the early 1930s. In addition, most El Niño years don't result in above average fire seasons. His prediction was that fire season was likely to be average to above average but not likely as severe as the last two seasons. Nancy Hirsch asked whether there was a correlation between drought years and fire seasons but Nick had not done that analysis.

ITEM 5: UPDATE ON STATUS OF LARGE FIRE COST COLLECTION EFFORTS [*Informational Item*]

Jeff Bonebrake, ODF Investigation and Cost Recovery Coordinator, presented the committee with a brief overview and status update for on-going fire cost recovery cases, focusing on significant fire cost collections.

Jeff reported that in the last couple of months they have made significant progress in some of the fire cost collection cases. Two North Cascade District fires (123 Complex and Gates Complex) were collected in the past two months. Two new billings for Bryant Creek (\$300 K) and Euchre Creek (\$217 K) are out. He reported that the agency is in settlement cost negotiations on Siskiyou – issues have arisen with the attorneys representing the other side regarding allocating costs between this fire and the other fire in the South County Complex; we are educating them on how OR Department of Forestry (ODF) tracks costs for fires and are confident of a positive settlement for that fire. Deer Creek will be the next large fire to be negotiated with the same legal firm representing Pacific Power, followed by Microwave.

Jeff reported that they are in the negotiating phase of many cases on the last page, progress is being made on the list. There is significant potential to settle several of these cases early depending on the willingness of parties to negotiate. Elephant Rock continues to be 'a thorn in our side' as a new set of attorneys is now in place. A settlement agreement is currently being negotiated on Pacifica. A number of the other cases are still active investigations, many are getting to the point where they're being finalized. A criminal restitution hearing is being heard later this month on the Chip Ross Fire in West Oregon involving juveniles.

Pete Sikora asked if there was any progress on the Two Bulls Fire. Jeff Bonebrake responded that it's a very complex investigation, one of the most complex he has seen. At this point in time we do not have a responsible party but are tracking down a number of people to get information; several people are asserting Fifth Amendment rights if deposed because of the potential for criminal charges as the fire cause was originally thought to be intentional. He said that until we are able to find the key person that will talk to us, we're at a roadblock. Pete asked if we knew what started the fire. Jeff responded that yes, we do have a good idea what the cause of the original fire is. There was a nearby second fire where the cause is not obvious, and there was a third fire that started in the vicinity two days later. The potential remains that there may be a 'bug' working the area, as there have been 13 starts since January 1st last year in the vicinity. One of the ignitions on Two Bulls may have been accidental, yet the other two are suspicious. A strong task force involving OSP, USFS, federal law enforcement personnel and ODF continues to work the case.

ITEM 6: INSURANCE POLICY FOR 2015 FIRE SEASON [Decision Item]

Chair Cummings opened the discussion stating that typically by this time of year, the committee had an insurance proposal on the table for renewing the policy -- with minor edits the committee is usually able to recommend that the State Forester purchase the policy through DAS Risk Management. He stated that we are not there this year. A Special Meeting of the EFCC was held on February 23rd to inform and brief folks regarding what is transpiring, any updates that have occurred since that meeting will be shared today. This process will likely drag on past April 1st and require a telephone meeting of the committee sometime after that date to make a decision on insurance policy purchase. He concluded that this is an iterative and evolving process.

Chair Cummings turned the discussion over to Jeff Friesen from Willis of Oregon. Jeff said that the February visit to London was designed to build underwriters' confidence in the policy. The lead underwriter -- Catlin -- was no longer interested in participating prior to the visit; the good news was that the visit did turn them around, the bad news was that the pricing was unacceptably high -- a \$25 million deductible for a \$25 million policy with a premium cost of \$19 million. Chair Cummings pointed out that this number did provide a book-end -- one end of a spectrum of pricing options. Marlena Standley pointed out that Catlin ran the numbers and did an actuarial analysis; that resulted in their offer which reflects a 900% five-year loss ratio.

Jeff said that they purposely met with a number of underwriters, including 'new blood' in London. These meetings did spur interest in providing policy terms for consideration. The next likely lead, Canopus, has given us three options for a \$25 million policy: 1) \$50 million retention for a premium of approximately \$3.5 to \$4.0 million, 2) \$60 million retention which would reduce the premium approximately \$1 million, and \$75 million retention which would reduce premium another \$500 K. The lead will need to get up to 12 more underwriters on board to fund this proposal. Jeff just received these numbers on the ride down this morning and feels this is a positive indication. Conversations are continuing with agri-business people to consider what options may be possible with derivative products.

Nancy Hirsch stated that this is new information for everyone; when complete, they will share it and everyone needs to collectively manage the information that is shared. Jeff pointed out that these numbers are fluid; if there are difficulties finding participants, they may need to pay more to completely fill the policy. Chair Cummings asked if Catlin might participate at the back end of this proposal. Jeff responded that it might be possible.

Mike Dykzeul noted that this has been a very fluid process, the decision will probably come down to a phone vote. He asked who will make the final decision, especially in light of the OFLPF being subjected to higher costs. Chair Cummings said that in a word, simultaneous conversations. Currently there is a financial 'wall' that OFLPF has -- the \$13.5 million annual expenditure limit.

Nancy Hirsch stated that Chair Cummings has described the situation correctly; the law is the law. The committee consults with the State Forester regarding a decision to purchase a policy. HB 2454 would change the expenditure limit -- exempting insurance policy premium and administrative costs from the annual ceiling -- but that its fate as well as this entire process is iterative.

Pete Sikora asked Jeff Friesen if any options may come in below the \$50 million retention offer. Jeff responded that co-insurance could drive down retention and premium cost. This underwriter is very hesitant to suffer any additional losses, so it's unlikely that they would propose anything lower. He believes that it's possible that retention could drop into the '\$40 million range' but unlikely. Chair Cummings wrote on the white board, sketching out costs associated with a policy and identifying what might leverage reductions in retention and possibly even premium. Jeff Friesen noted that the co-insurance arrow is 'still in the quiver'. Pete stated that it was clear that retention will be in the \$40 to \$50 million or greater. Marlena Standley concurred. Nancy Hirsch stated that these are the kind of discussion that need to occur with all interested parties, and particularly with Ways & Means Co-Chairs and the Governor's office.

ITEM 7: DETERMINE UNENCUMBERED BALANCE OF OFLPF AS OF FEBRUARY 16, 2015 [Decision Item]

Tim Keith handed out a one-page balance sheet projecting the balance of the OFLPF on February 16, 2015. He pointed out that there are pencil-changes and one formatting error that has been corrected and that will be discussed.

He stated that by statute, the committee is to certify the unencumbered balance of the fund on or before February 16. The purpose for this is to determine whether the fund balance limits will be reached by fiscal year end, necessitating a reduction in revenue that the OFLPF collects. At a balance of \$22.5 million and less than \$30 million, revenue sources are reduced 50%. At a balance of \$30 million or more, revenue is completely shut-off for the succeeding fiscal/calendar year.

The form distributed to committee members is that calculation. The formatting error is on the second line; the \$230,000 refund from Douglas Forest Protective Association was subtracted, whereas it should have been added. Therefore the revised unencumbered balance is \$20,129,403. The other formatting error did not affect computations

– the sub-bullets under the third bullet item – fire season severity payments – should be indented. Tim apologized for the errors.

He pointed out that these numbers include actual revenue/cost through mid-February this year; they cannot be easily compared and reconciled against Colleen's Balance Sheet which includes estimates through the end of the fiscal year. He noted that FEMA pre-placement revenue was not included in these estimates.

The committee unanimously approved the February 16, 2015 OFLPF unencumbered balance of \$20,129,403.00 with the corrections made, and directed Tim Keith to notify the Oregon Department of Revenue as required to continue collecting harvest taxes in 2015 at the full OFLPF rate.

ITEM 8: PROTECTION DIVISION REPORT:

a. Strategic Investment Process [Decision Item]

Doug Grafe reported that this is a follow-up to the June 2014 EFCC meeting discussion about the process. The corrections have been made pursuant to the committee's feedback and recommendations. One copy being distributed has the edits that were made, and the other is a clean copy. Nancy Hirsch noted that strategic investments were a component of the Wildfire Protection Act and the process was created by the Strategic Investment Committee that included an EFCC member as well as forest landowners.

Lee Fledderjohann noted that the committee would like to get feedback on how the process and investments are working. Doug Grafe agreed and stated that staff will do that. Nancy said that a guidance document would have value and should accompany applications for funding. Pete Sikora stated that the Headquarters Service's committee will have their hands full, particularly if there isn't complete information available. The root cause of larger fires and proposals to address these should be a priority of these investments. What investments will be most probable in mitigating large fire risk? Nancy noted that there will be a set of criteria for the review committee to use in evaluating projects. Pete agreed and said that these need to be available to project proposal developers in order that the most appropriate projects are proposed. Nancy said that the agency will ensure that these criteria are available to applicants, evaluators and the committee.

Mike Dykzeul said that the Strategic Investment Committee had this discussion at length: what are the desired outcomes, how do the proposals get ranked. He said that the desired outcome is a key component of a proposal. Everyone needs to realize that these projects must be done within the expenditure limits of the OLFPP. Travis Medema agreed that Pete had a great question. He pointed out 'c' in the narrative document states that how the investment will reduce risk, and 'f' speaks to the likelihood that a project will be successfully implemented. Pete agreed and stated that as long as everyone addresses these criteria, then ranking can be made appropriately. Nancy noted that implementation of strategic investments is designed to be iterative; what we learn will result in necessary changes and adaptations.

Chair Cummings said that it will be important to get the criteria in writing to objectively analyze projects. The goal is to make continuous improvements in the process. Travis noted that the beauty of the process is the value of a district building a proposal application with the input and support of their association board of directors. Pete said he heard that the process isn't rigid, but that the entire process is iterative and can include give-and-take between proposers and evaluators. He noted that some coaching will be needed in the first round of applications to ensure that the key criteria are addressed. Nancy agreed, a package needs go out with the applications to help guide folks.

Steve Cafferata asked Doug Grafe how available dollars will be determined, particularly since that needs to be made later in a fiscal year. Doug noted that available fund tracking has been developed and focuses on January determination. Tim Keith noted that improvements in staff's tracking of severity costs has made this process more viable. Nancy Hirsch pointed out that the program is still working to refine cost estimates to help make this work. Steve asked if we missed an opportunity in FY 2013-14. Nancy agreed that yes, looking back, we did miss an opportunity to make modest investments. The fire protection division will continue the conversations to improve timing of spending decisions. Steve stated that this will be key to capture opportunities to make these investments. Tim and Nancy agreed that there is still homework to be done to coordinate the timing in funding decisions.

Chair Cummings noted that this process will be fluid. The committee unanimously approved the strategic investment grant application and review process for strategic investments with the caveat that changes be made as it moves forward. He thanked all of those who worked hard on developing the concept.

b. 2015 Severity Plan [Informational Item]

Doug Grafe handed out the proposed severity plan for 2015. He highlighted what is new for 2015. Several of the changes are due to funding provided by the Wildfire Protection Act (WPA). A notable change is the reduction of one large air tanker, replacing it with type 2 helicopters each in South Cascade and Central OR District (either Prineville or Fossil), additional Single Engine Air Tankers (SEAT's) – two in Prineville and one in John Day (to match with a federal SEAT stationed there). He reported that these initial attack resources – both helicopters and SEAT's are proving to be very effective in initial attack, which is the intent of the WPA. Pivotal to the decision of reducing one large air tanker was the reason ODF got into the business – in 2002 the federal government shut down the entire nationwide fleet which had peaked at 44 planes. Over the course of the last decade the air tanker fleet has increased and now stands at 29 air tankers – including two Very Large Air Tankers (VLAT's). In addition, there are additional call-when-needed air tankers from Canada and Alaska, plus water scoopers that proved valuable last summer. Pete Sikora asked for clarification of the number of air tankers. Charlie Stone pointed out that in 2002 after two air tankers crashed, the entire fleet was grounded temporarily. Initially ODF contracted with Alaska air tankers to meet that season's needs. In 2003 the air tankers were re-instated at lower numbers, but then at the beginning of the 2004 season they were grounded again for the entire fire season. That's when the agency started contracting with Butler out of Redmond, OR. When the program started back up, they numbered 13 nationally – those low numbers cemented the notion that ODF needed to be in the air tanker business.

Doug pointed out that the other portion of the severity plan includes discretionary dollars to be used if the season proves to be challenging. The total potential cost of the severity plan is \$5.8 million. The key is to manage risk and secure appropriate resources at the beginning of fire season, rather than struggle to procure them during a busy fire season. He pointed out the growth in severity resources the past two years due to the WPA. Nancy Hirsch noted out that the evolution the chart shows reflects new funding, the change in the fire environment, and the desire of districts and aviation folks to invest in more helicopters and SEAT's – it's the best mix of aviation resources. Chair Cummings asked about the one large air tanker – will it be stationed in Medford and shared with USFS tankers there. Doug responded that it will -- the contractor is Aero Air. Chair Cummings asked if the tanker might be transferred to eastern OR. Doug responded that the air tanker would use eastern OR tanker bases if the fire situation dictated, but that Medford is its home base. Chair Cummings asked if its use on federal land will be eligible for reimbursement. Doug answered that it would not be eligible, but would be used if needed to protect ODF/association-protected land. Use of the additional helicopters and SEAT's on federally-protected lands is reimbursable, which is an advantage over the second air tanker.

Lee Fledderjohann asked if ODF over-budgets for severity knowing that many costs may be returned in billings from federal agencies. Doug responded that yes, that calculation is part of the risk management process in building the severity plan. Travis Medema noted that during one season prior to the WPA, helicopter billings were not adequate to pay down much of the contract costs. Over-budget severity costs were levied to districts based on their respective use of severity. Tim Keith noted that the ability to reduce costs from \$5.8 million to \$5.0 million or less is improved with these new severity resources – the proposal is a good mix. Paul Bell pointed out that with the looming low snowpack throughout the western U.S., there may be significant competition for resources. This is a good year to lock down these aviation resources early. Pete Sikora asked if the 2015 mix would have been better to tackle the challenging 2014 season. Doug answered that they believe this is an improved mix – the agency would have been better off. Travis pointed out the rave reviews that the SEAT tandem received in northeast Oregon last season, which led to increasing the SEAT program by three planes. He reported that the Area is working with Walker Range Forest Protective Association to develop a temporary SEAT reload base there if the need is in northern Klamath County.

Steve Cafferata asked if any district foresters are saying that the severity plan is not taking care of them. Doug responded that the three area directors unanimously support the plan. Travis noted that these are statewide resources, and these resources are moved based on conversations with Salem and all three area directors. Mike Dykzeul pointed out that these severity resources are in addition to the aircraft that several districts secure with their own contracts.

Doug stated that he will continue to bring in the severity plan each year for the committee's review and feedback.

c. FEMA Status [Informational Item]

Doug Grafe reported that there is a new team in place continuing to process FEMA claims. The final claims for the 2013 season were completed and submitted for payment from FEMA this past winter. The new team is starting to work on the five 2014 fire season fires which will total approximately \$20 million. The deadline is September but the plan is to complete most of the work by the end of June.

d. Legislative Update [Impromptu Report – Informational Item]

Nancy Hirsch handed out a one-page Fact Sheet on HB 2454. The second paragraph under 'Responding to increased insurance costs' is the best summary of what the bill proposes to do; and that is to remove OFLPF administrative expenses and insurance premium cost from the expenditure limit, leaving the \$10 million suppression and \$3.0 million severity expenditure limits in place. The bill is still on hold at the request of the agency. She is working to set up a meeting with OFIC to strategize moving forward on the concept before the Legislature's April deadline for moving bills.

She reported on HB 2501 which was introduced by Senator Whitsett and Representative Whitsett; it requires ODF report on property loss on fires greater than 1,000 acres in size. Reportable assets would include timber, buildings, livestock, fences, and lost grazing opportunity costs if the land is unavailable for two or more grazing seasons. Charlie Stone reported that it passed the House 58-0 yesterday. Nancy said that the agency met with the Whitsetts to ensure that the expectations of the bill were understood. ODF has agreed that the agency will gather the information at a very high level – summarizing fire damage at the highest level but not compromising private property information. Monetizing value of losses will be problematic; if landowners provide information, that information will be used, otherwise high level assumptions/tables will be developed and used. The key is to manage expectations and honor the support the concept has from the Legislature. Chair Cummings asked the reason they (the Whitsetts) wanted this information published. Nancy responded that they want to increase general public awareness of the destructive nature of wildfire, and not just the cost of suppression. Paul Bell reported that the 1,000 acre threshold was established to prevent the additional workload from becoming a fiscal impact for the agency – ODF averages three 1,000 acre fires per year. Steve Cafferata noted that the public may not understand that 1,000 acres in southeast Oregon may not be nearly as destructive as 300 acres in western Oregon.

Nancy then reported on HB 2132 which was introduced in the House Revenue Committee, one of five bills that county assessors introduced. This bill would allow counties to retain a percentage of forest patrol assessments and surcharges to pay for their own administrative costs. ODF met with their lobbyist last week and communicated that the bill will raise concerns with forest landowners. The message was received – Nancy expects they will be in touch with OFIC and OSWA. They now propose to amend the bill, shifting the language from 'retain' to 'charge', with a not-to-exceed charge of 1%; this would affect revenues to districts and the OFLPF. They also want to maintain the right to charge for 'uncommon' work such as forestland classification changes. Pete Sikora asked what would be the impact on those districts that collect assessments from association members rather than through the assessment process. Charlie answered that this would only affect money that passes through a county.

Nancy reported that HB 2588, introduced by Representative Holvey, would set a \$19/MBF harvest tax, setting \$3 aside for the OFLPF. Paul Bell reported that it is likely that a hearing will be scheduled on the bill. The larger portion of the bill would create an assessment on log exports.

She reported that the agency is aware of a concept being discussed by fire chiefs that would eliminate the 5-acre dual assessment limitation that currently is in statute, allowing them to assess properties greater than five acres. Charlie reported that an interim work group has been meeting and discussing the concept; Bob Young has participated in that group. They are meeting again next week so more will be known then as to whether or not they plan to move the concept forward.

Paul Bell reported that the harvest tax bill had a hearing in the House Agriculture and Natural Resources Committee last week and has a referral to Ways and Means. Charlie reported that SB 613 has a notification and website requirement that would report on herbicide application and prescribed burning. It would double the information collection that is already occurring for smoke management.

Nancy brought up one additional topic. At the February 23rd Special Meeting of the EFCC, the question came up as to whether or not the agency needed a third party actuarial analysis. Subsequent discussions occurred with State Forester Decker, Paul Bell, Marlena Standley, Dustin Ball and Cathy Connolly with DAS BAM, and Matt Stayner with LFO. They collectively came to the conclusion that a risk assessment would be appropriate, looking into the future to inform funding policy option frameworks that might be needed, as well as address the agency's organization capacity to meet demands of catastrophic fire seasons. There are models related to future climatic conditions that can be tapped, as well as the agency's historical cost and loss data. This conversation will continue and include the EFCC. A broader statewide committee will come together this next fall and carry on these discussions. Chair Cummings asked Marlena if there is any urgency for this analysis. She responded that this notion came from Legislative Fiscal and Paul Bell; it is timely and the sooner we move on this, the better with regards to what Oregon should be doing. Paul noted that the Legislature has asked the agency in the past to address the system when there has been consecutive difficult fire seasons. Pete Sikora noted

that this could help inform the entire Strategic Investment program – where can the program's investments be made to help the most.

ITEM 9: EFCC ADMINISTRATOR REPORT *[Informational Item]*

Tim Keith reported that reappointment of Steve Cafferata will be considered at tomorrow's Board of Forestry meeting.

ITEM 9: PUBLIC COMMENT/GOOD OF THE ORDER

There being no further business before the committee, Chair Cummings adjourned the meeting at 12:15 p.m.

The next regular meeting of the committee will be held on Tuesday, June 02, 2015, at 10:00 a.m. in the Tillamook Room of the State Forester's Headquarters in Salem.

TRK.