2015 Fire Program Review - Sustainable Large Wildfire Funding Work Group

May 13, 2016

Oregon Department of Forestry
Santiam Room – State Forester’s Office Operations Bldg. D
2600 State St., Salem, OR

Welcome and introductions
- Committee members and guests introduced themselves and their representation.

Opening remarks
- Opening remarks from Fire Protection Division Chief Doug Grafe, regarding this final meeting for the workgroup and a request to use the day to make work group recommendations as clear and specific as possible. Work group Co-Chair Dave Lorenz commented the he and co-chair Tim Keith were seeking to focus on developing final recommendations for the June 6th Fire Program Review Committee (FPRC) meeting.

Recommendation 1: Trust Fund
- Security of the Trust Fund
  - Discussion centered on security of the Trust Fund and constitutional vs. statutory options. Both will be difficult to pass through the Legislature. The long term needs should be the driving focus when deciding the right option is to pursue.
  - The preferred path should be a legislative referral for a constitutional fund. This message has been consistent within the work group from the beginning.
  - When asked if they would be willing to support dialogue around other options if the constitutional approach is found to be unfeasible before the June 6th meeting, the work group stated that they wish the message of support for a constitutional fund to be clear, and not get muddied with any associated support for an alternative method.

- Purposes/ Uses of Trust Fund
  - The narrow options of how to use the fund should be structured hierarchically and should be flexible to maintain a best fit option for changing scenarios (fire seasons). What is the comfort level of looking more broadly?
    i) It was suggested that the best way to create purpose and certainty in the fund would be to utilize the whole fund amount (from the ‘Refining Our Recommendations’ document – a combination of Option A: Costs between the first $20 million shared deductible and the insurance policy from $20 million to $50 million and Option C: Include the $10 million General Fund for the shared level).

    ii) Another suggestion was that the fund needs to be a forestry-centric funnel and that once fund limits are reached the spill-over can be used for forestry-driven projects. Will have to provide the story for this idea twice, once to the legislature and then the voting public. Using the spill-over funds for fire mitigation/prevention purposes may help the success of these communications and allow for leverage in conversation around investments, and at a lower level in severity.
Instead of using the term “General Fund”, talk about gap as being the “public share of large fire costs” (PSLFC), since the amount of this gap is highly fluid. It was understood that the PSLFC includes the Lloyd’s insurance policy.

Brett Brownscombe raised concern that over time if fund language allowed for it, firefighting standards would become more relaxed due to the fund verbiage seeming to seek greater insurance pay-outs and fund pay-ins. The work group, as a whole, agreed that language would need to be created to attempt to deter this from evolving. Nancy Hirsch reminded group of the Legislature’s standard of keeping 98% of fires at 10 acres or less. Couple this with the agency’s inherent culture of aggressive firefighting and that the agency will not easily lend itself to fighting fires passively simply to gain a greater insurance pay-out. This was acknowledged, but further counseled to consider public perception and education that will be necessary when moving forward with any suggestion. The need for fund flexibility and the allowance for fund overages for risk reduction work was agreed upon, but the threshold language is in need of refinement.

Create a pot that initially covers the public share exclusive of anything over the insurance policy, with understanding that the insurance policy may go away someday. Need to define a number that puts enough money into the fund that we are comfortable will cover future needs.

The ‘over threshold’ purposes for fund uses were suggested as:
- Risk reduction (use language that opens up strategic investment opportunities as well as fuels projects, defensible space, rangeland fire protection associations and resilient community initiatives). Using forest and community health language allows for further broad interpretation that could also potentially include fire.
- It was further counseled to avoid overly broad language, so as not to create grey area that would be susceptible to the funds getting used for purposes outside forest lands. Example was to avoid conservation language.
- Don’t want to cover costs that are already getting covered by other funds. Example used was the State Police/State Fire Marshal and the federal funding that they received for the 2015 fire season. Work group agreed that they want to avoid the fund becoming the go-to fire funding mechanism for other agencies.
  - Will need to define the large fire costs associated with suppression as provided by ODF. However, only looking at the ODF-related costs could cause ‘back pressure’ to include perspectives of the total costs of fighting fire.
  - Nancy Hirsch suggested a more refined recommendation of the fund use to being “the public share of large fire suppression costs tied to the Department of Forestry’s jurisdictionally responsible fires”. A question arose if fire costs were tied to a conflagration over which ODF has jurisdiction, would the fund cover fire costs for other agencies that are brought in to support suppression efforts? It was pointed out that currently, when other agency resources are hired by ODF, they are paid by options A and C (as referenced above). The group consensus was to tighten the definition around forestland, with Department of Forestry suppression costs being key terms, instead of language that implies any costs associated to fire.

Revenue Sources
- Does the workgroup wish to suggest or prioritize specific revenue recommendations or present the full list to the FPRC?
- Use of General Funds is considered politically unfeasible. Perhaps language such as ‘funds not precluding other revenue sources’, would leave open future possibilities for the use of General Funds. Work group agreed to shelf further General Fund conversations.
Pete Sikora stated that 1.5% of lottery funds would generate nearly $10M a year. Would want no less than $10M as a base yearly revenue stream. Solid support for this option moving forward with emphasis on the importance of strong branding for the public. Could consider 2% from lottery. With a larger revenue flow, the threshold will not need to be as high due to the fund filling at a faster rate (to assure that it is keeping up with the 5-year average. It was agreed that a specific percentage be developed that is tied to a 5-year threshold, but does not preclude other sources of funding.

We should include private sources for funding, such as philanthropic organizations, even if they would be inconsistent sources of funding.

It was asked why gamble on a parametric policy if a constant revenue stream was obtained? It was clarified that the parametric policy is geared more toward a short-term fix until the fund gains a sustainable balance regardless of an average fire season being met.

The marijuana tax was again mentioned, but this revenue stream has already been fully allocated.

Funding options to keep for presentation to the committee:
- Federal funding excluding BLM contract
- Lottery
- Parametric insurance policy
- Private sources (grants, etc.)
- Fire insurance policy surcharge (to be researched further)
- State lodging tax

**Fund Governance and Management**

- Should a committee be created just to govern this fund or should governance be kept within the Board of Forestry, with specific legislative language developed. The EFCC would be utilized for claims and audits, and language would also need to be clear enough that the Trust Fund would not compromise FEMA eligibility.
- The cap amount needs to be clearly defined.
- Discussion: EFCC audits expenditures, but ultimate control resides with the Legislature. An alternative is to utilize OWEB's board structure as a model. If a governance board was created, it would need to have statutory support like the EFCC.
- The legislative concept would be considered in the 2017 legislative session with a call for referral in the near future.

**Fund Cap or Limits**

- Options: 150% of a 5-year rolling threshold average with the overflow used for risk reduction purposes. Governance would need to set the cap level and percentage standards. Suggest use the wording ‘150% of the current annual exposure’. A link would need to be established to the most current data so that 90% of the time the fund smooths costs. It was mentioned that the 5-year average may be too short. Consider allowing the governing board to assess fire climate and adjust percentages as needed.
- Hybrid option suggested: not to be less than a percentage of a period, but can be set at a higher level based on the board’s perception of the coming year. It was felt that a constitutional referral without strong language around thresholds or rolling averages would be difficult to sell and would lose public support. Nancy suggested an alternate that the primary purpose (large fire funding) receive 80% of funding and a secondary purpose such as fire risk reduction receive 20%. Ultimately, it was felt that current recommendation should move forward, but the work group is struggling with no concrete numbers to work from due to the fluid nature of the funding gap.
- Work group suggestion was to build fund to 150% of exposure, with the definition of ‘exposure’ to be defined further. Governance should have inherent flexibility to recognize
that until 2012 the agency had a long-term average fire season expenditure of $10M; and enough authority to be able to make necessary changes as cost averages, hopefully, ebb. Essentially, flexibility needs to be built into constitutional provisions to meet funding need changes.

- An additional 2-hour meeting/conference call was requested to draft a strong governance and threshold statement for presentation to the FPRC. Date will be May 26th from 2:00 to 4:00. Other data or topic needs for May 26th meeting:
  - Use the 10 year data, but also provide 3, 5, and 10-year averages.
  - Determine how responsive the Trust Fund can be to changes based on a set revenue flow.
  - Revised recommendations from today’s meeting will be emailed to the group for reference.
  - Reword ‘other fees and surcharges’ language, under the ‘other revenue sources’ topic.

**Recommendation 2: Insurance**

- Parametric policies – principles
  - Target of insurance is the $30M gap. How to even out the cash flow and share risk of exposure? This is broken up into $10M increments, and is a simple structure.
  - With parametrics, the $10M increments would get paid out based on pre-determined acreage-burned thresholds being met. There is a question of whether insurance payouts could be used for severity investment.
  - Currently ODF is at the point of asking for an offer on parametric options, however, due to timing this option may not be the best fit for 2016. There is a placeholder letter and it was felt by Doug Grafe, that the $10M incremental threshold insurance policy is a tangible and valid option if the state wants to manage the risk. There is a more complex policy that looks at a substantial return on the premium after 5 years if there are no claims. It has a potential exposure of $5M each year to cover the $30M. There is not enough information to know if this model is feasible for the state, and will need more extensive research. Once a quote is received, that will be the time to have outside discussions about this opportunity.
  - Discussion: There is still a lack of understanding surrounding the parametric product and it seems contrary to use acreage burned as a trigger for payouts - feels like incentivizing the burning of acres. Safeguards for thresholds is a priority to flesh out for future parametric considerations. Tim Keith mentioned that in the 5-year insurance option, there is a rebate associated with not reaching certain thresholds in acres burned. It was clarified that it is not a threshold burned that results in payout, but that there is an associated payout for acres burned. Doug Decker acknowledged these concerns and stated that this option needs more research before the topic moves to the next level of consideration. The idea may not be ready for action as it stands currently, but this recommendation needs to get put into the correct scope looking to a viable solution in the future. The work group’s goal is to decide whether or not to continue exploration of the feasibility of a parametric policy.
  - The work group is comfortable moving forward continuing to explore the option of parametric insurance as a large fire funding revenue source.
- Tim Keith opened the topic of continuing to purchase a catastrophic fire insurance policy.
  - Pete Sikora mentioned that the premium or the retention amount is not fixed. The group was comfortable continuing to purchase insurance as long as ODF and the EFCC continues to evaluate the value of the policy and explores opportunities to reduce retention amount.

**Recommendation 3: Western OR BLM protection study**
Pete Sikora agreed with the identification of the BLM contract as an area to consider for cost and exposure, and that the research needed to proceed with this will be extensive. As presented, the recommendation is valid, and the EFCC is willing to help pursue. Project will be funded through the EFCC.

Craig Goodell, with BLM, mentioned studies done in regards to large fire transmission across the landscape. These studies, done by Alan Ager, may be extended to western Oregon and could be useful to the EFCC when conducting their study.

BLM involvement: BLM should be involved as early as possible, and often, when moving this recommendation forward, as well as in the design of the study. The timeline has yet to be determined, but the current contract expires in 2 years. Work will need to start soon.

Landowners would like to see a thoughtful and analytical discussion around the topic, and that ODF, EFCC, and BLM are the right partners to be at the table in these discussions. Nancy Hirsch mentioned that transparency will be key, as well as fluid landowner input as the process moves forward.

Brett Brownscombe raised general concerns around involving BLM in an inclusive and conscientious manner. This is not just an ODF conversation, but also potentially involves the OR Division of State Lands and rangeland fire protection associations. Historically there has been BLM tension around the emphasis placed on sage grouse and fire, and now more focus around the agency’s budget. When bringing discussions to BLM, need to keep key question in mind; what does it mean when funds get shifted from rangeland to forestland? Doug Grafe counseled that this concern falls more heavily within the policy work group realm.

Work group acknowledged consensus to move the recommendation forward to the FPRC.

Wrap-up and next meeting
- Work group recommendations will be finalized for June 6th FPRC meeting at the newly scheduled May 26th Large Fire Funding work group meeting.
- The parametric letter will be pulled from the E-Board, and will be revisited post fire season.
- Doug Decker mentioned the uniqueness of the work group and parent committee, in that most other states do not have such collaborations in place.

Attendees
- Tim Keith, Large Fire Funding Wkgrp Co-Chair
- Dave Lorenz, Large Fire Funding Wkgrp Co-Chair
- Doug Decker, Oregon State Forester
- Nancy Hirsch, ODF Deputy State Forester
- Doug Grafe, ODF Protection Division Chief
- Brett Brownscombe, Governor’s Natural Resource Office
- Ross Holloway, FPRC Facilitator
- Mike Cafferata, ODF Forest Grove District Forester
- Melvin Thornton, Douglas Forest Protective Association District Manager
- Kate Skinner, ODF Tillamook District Forester
- Tracy Wrolson, ODF Central Oregon Admin. Representative (phone)
- Peter Sikora, EFCC Representative
- Craig Goodell, Bureau of Land Management
- Todd Scharff, DAS Risk Management
- Kristina McNitt, Oregon Forest Industries Council
- Jeff Friesen, Willis Representative
- Amanda Rich, The Nature Conservancy
- Randy Hereford, Starker Forests, Inc.
- Toni Chambers, ODF Fire Business Manager
- Roger Beyer, OSWA
- Greg Miller, Weyerhauser (phone)
- Cathleen Connolly, Chief Financial Office
- Phil Adams, Roseburg Forest Products
- Ann Walker, Private Consultant
- Ron Graham, ODF Protection Deputy Chief
- Jamie Paul, ODF FPRC Project Manager