

DF Distribution

**MINUTES
EMERGENCY FIRE COST COMMITTEE
January 03, 2017**

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
Steve Cafferata
Pete Sikora
Lee Fledderjohann (Conference Call)

Others Present:

Tim Keith, EFCC Administrator
Doug Grafe, Division Chief, Fire Protection Program
Ron Graham, Deputy Chief, Fire Protection Program
Nick Yonker, Meteorology Manager, Fire Protection Program
Tracy Guenther, Administrative Support, Fire Protection Program
Julie Tacchini, Fire Business Manager, Fire Protection Program
Julie Fetsch, FEMA Coordinator, Fire Protection Program
Mike Dykzeul, EFCC, Fire Protection Program
Nancy Ashlock, EFCC, Fire Protection Program
Mike Totey, ODF District Forester, West Oregon District
Jeff Friesen, Willis of Oregon
Catherine Brown, MARSH
Jeff Bonebrake, ODF Investigation and Cost Recovery Coordinator
Todd Scharff, DAS Risk Management
Marie Hansen-Wargnier, DAS Risk Management
Amy Patrick, Oregon Forest & Industries Council
Roger Beyer, Oregon Small Woodlands Association
Rex Storm, Associated Oregon Loggers

ITEM 1: CALL TO ORDER

Chair Cummings called the meeting to order at 10:04 a.m. Introductions were made around the table.

ITEM 2: APPROVAL OF THE MINUTES OF THE September 06, 2016 COMMITTEE MEETING [Decision Item]

The minutes of September 06, 2016 meeting were approved anticipating minor edits and changes that Steve Cafferata proposed on pages 3 and 4. Tim Keith agreed to make the edits and email the committee the revised meeting minutes for their concurrence. *[Administrator's Note: the committee unanimously approved the emailed edited minutes.]*

Ken Cummings stated that the meeting minutes provided an excellent recap of the meeting. There are key data points summarized there that provide important comparisons to previous fire seasons.

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

Tim Keith prepared and presented the Oregon Forest Land Protection Fund (OFLPF) financial status in Colleen Conlee's absence. It was noted that Lee Fledderjohann did not have a copy of the financial report – Tim agreed to send him one after the meeting. Below is an updated summary of the OFLFPF financial status:

<u>Balance as of FY16</u>	<u>\$ 8,503,458</u>
<u>Estimated revenue (including Balance)</u>	<u>\$ 26,327,985</u>
<u>Less estimated expenditures</u>	<u>\$ (14,542,995)</u>
Projected Fund Ending Balance for FY16	\$ 20,288,448*

*[*Administrator Note: the balance sheet handed out at the January 3, 2017 erroneously reported this projected final balance to be \$20,288,449 – when in actuality it is \$1.00 less. That error is corrected here in the summary.]*

Tim Keith stated that this report was very similar to September's report. Items of note: harvest tax revenues are trending down with consecutive reduced quarterly revenues, whereas interest income is up \$25,260 to date and the income is expected to continue to increase due to the high balance and slight increase in interest rates. Under

expenditures, the BLM Study cost estimate of \$70,000 is high – a more accurate total should be available in March. The \$22.5 million threshold continues to be close, but is unlikely to be reached this fiscal year.

ITEM 4: WEATHER UPDATE

Nick Yonker presented a PowerPoint presentation summarizing the winter to date and projecting its potential effect on the 2017 season.

- Currently the region is experiencing a weak La Niña. La Niña usually produces more low elevation snow events, which has been occurring. La Niña will give way to neutral conditions late this winter into spring.
- Snowpack is generally normal to above normal. The 0-90 day temperature outlook calls for near normal to continuing below normal temperatures; this coupled with likely above normal moisture should result in an above normal snow pack.
- Spring temperatures are likely to stay near to below normal and not melt the snowpack early.
- Nick compared current drought conditions to last year which revealed that Oregon's drought is essentially over. Northeast Oregon is on the dry side but drought there appears to be trending down.
- Summer temperatures are forecasted to be above normal with precipitation below normal – although Nick feels it's likely that both will be near-normal, especially moving into a neutral El Niño condition.
- Overall, an above normal snowpack and slow snow melt, plus end of the drought should lead to a likely below-normal fire season in 2017.

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 there are five new fires greater than \$5,000: Stratton Creek, Service Creek, Fall Creek, Granite Hill #2 and Swamp Creek. In addition, there has been new activity on the following fires greater than \$5,000: Lost Hubcap, Mt. Tom, and N. Fork Salmonberry.

Jeff stated that they have three more claims since September 2016 less than \$5,000. They have closed two fires: Anderson Creek and Highway 66, both paid in full.

He reported that nine significant fires were in various stages of investigation and data gathering: Two Bulls in Central Oregon District, Moccasin Hill and Ferguson in Klamath-Lake District, Niagara in North Cascade District, Stouts in Douglas Forest Protective Association, Weigh Station and Griffin Gulch in Northeast Oregon District, 2500 Road in West Oregon District, Cleveland Ridge in Southwest Oregon District, and High Pass 12.5 in Western Lane District.

Jeff said that the Protection program had lost their cost recovery administrative person recently, slowing progress to a certain degree. They are managing to generally keep up however processing new demands has been delayed. Julie Tacchini, ODF Fire Business Manager, stated that she was in contact with Human Resources – posting for this position has closed, and they hope to fill the position soon.

Pete Sikora asked Tim Keith about the additional fire cost collection cases that were mentioned during the financial status discussion of the OFLPP – which cases/fires are those? Tim responded that 2500 Road has the potential of returning revenue to the fund. Several other fire cost recovery fires will return funds to the General Fund or insurance underwriters.

ITEM 6: INSURANCE POLICY FOR 2017 FIRE SEASON [Decision Item]

Chair Cummings asked Jeff Friesen to report on the potential for a new insurance policy for the upcoming fire season. Jeff pointed out that last year was a good year, not only from a fire season standpoint but also because of positive interaction with Lloyds of London and Bermuda. The London visit in February was followed by a very successful visit in October from Willis of London representatives and underwriters. After the tour, the question was put to the London brokers whether there was a need to take another trip to London this year. Both the brokers and underwriters unanimously said 'no', the good work done in October was enough to carry Oregon through this policy

renewal process. Jeff stated that they're ready to start on the submission, sharing information about the good work that was done last year. Chair Cummings asked if two alternatives would be pursued: a policy with the same terms as last season, and another with higher limits. Jeff reported that last year those two options were offered, and the agency chose the lower cost \$25 million policy, taking the premium savings. Market conditions are similar to last year, as such he anticipates a slight decrease in premium for a similar policy.

Pete Sikora asked about the status of the parametric policy concept. Jeff said that it was a great exercise and a good learning opportunity. The final decision was not made by the agency, but by the Legislature. With budget constraints, the decision was made not to pursue the concept. Doug Grafe reiterated that it was really good work. The climate changed while the concept was being pursued, going from uncertainty about the current policy and the need for a back-up approach, to a more solid situation that coupled with fiscal concerns resulted in tabling the parametric policy concept. The conversation was part of the Fire Program Review. He said the resulting good work will stay on the back burner and provides an opportunity to resurface the concept if conditions change. Pete asked if data is being collected to compare down-the-road in a few years to see if the parametric policy would work. Doug said that that the data will be available to make that analysis, but that he has not put someone on point to follow it. That analysis can be done if needed in the future. Jeff said that months were spent on the concept and different iterations. The structure is there, the data would simply need to be updated – the markets were certainly interested in participating in such an approach. He finished by saying the state is well positioned. Chair Cummings said the biggest challenge is outside this room – with folks understanding the potential of parametric products and securing the funding – it would be a huge educational process. Todd Scharff pointed out that it is a different risk financing approach – pre-funding and waiting to see how it plays out whether or not monies will be returned. Jeff stated that historically we have not pre-funded – it is an entirely different approach.

Steve Cafferata asked Jeff when we can get to a point where a decrease in retention can be considered. Jeff answered that the conversation occurs each year – the market showed no interest in a lower retention following two successive full limit claims – it's simply too early to have that discussion. He pointed out that had a third successive claim been filed, it would have been likely that a parametric policy may have been the only type of policy available. Chair Cummings said that he left London feeling that it would take at least five years for retention level changes to be considered.

The committee unanimously recommended a policy for the 2017 fire season be pursued, with the options identified.

ITEM 7: SET DISTRICT DEDUCTIBLE RATES FOR 2017-18 FISCAL YEAR [*Decision Item*]

Chair Cummings stated that this meeting was the time at which the committee decides what the district deductible rates will be for the following fiscal year [fiscal year 2017-18]. He pointed out that the state budget was in a difficult place; with a healthy ending balance in the OFLPF, there are not any compelling reasons to increase the rates. Tim Keith recommended for those reasons that no change be made to the rates, which stand at \$.10 per acre for timber and \$.05 per acre for grazing.

Pete Sikora moved that the rates remain at the same level -- \$.10/acre on timber and \$.05/acre on grazing – for fiscal year 2017-18. The committee unanimously approved the motion.

ITEM 8: BLM WESTERN OREGON PROTECTION STUDY UPDATE [*Informational Item*]

Chair Cummings reminded those present that this is a public meeting which met the initial intent that the BLM study be a public process, affording an opportunity for individuals to stay informed and comment if they desire on the study.

He introduced Mike Dykzeul and Nancy Ashlock who are working for the EFCC conducting the study. Mike Dykzeul began, stating that they would provide a brief overview of where they're at and how they got to this point in the study, and conclude with the future steps. He utilized a PowerPoint presentation for the audience's benefit.

The BLM Western Oregon Protection Study 2006-2015 was initiated from recommendation #3 of the 2015-16 Fire Program Review, Sustainable Large Wildfire Funding task group. The task was to "Recommend ODF, EFCC and BLM initiate a study examining the equity of BLM contributions to large fire funding compared to large fire costs expended on BLM lands and present alternatives for reconciling any identified issues to agency leaders." The EFCC decided at their June 2016 meeting to sponsor and fund the study.

The project focused on BLM's financial impacts to Oregon's large fire funding system – both revenue in and suppression costs out from western Oregon BLM lands that are protected by the OR Department of Forestry (ODF), recognizing that the 'gateway' to access OFLPF funds is the fire eligibility determination. Mike briefly reminded the audience of the structure of Oregon's large fire funding system, reviewing the 'birthday cake' diagram. He stated that the project methodology was to isolate data from the study area during the 2006-15 time period – identifying both

BLM and the combined all 'Other' landowners' costs and contributions. He and Nancy identified the acres protected, revenues to the OFLPF from the landowner types, and fire suppression cost and acres burned.

The study area includes all of the BLM land covered under the BLM protection contract with ODF. The boundaries are straight-forward and illustrated by the map Teresa Alcock developed for Mike and Nancy – the challenging area to determine revenues and costs was in southern Oregon east of the crest of the Cascades and west of Highway 97 in Klamath County – those lands are in BLM's Lakeview District. Chair Cummings asked if Mike and Nancy had information on the total amount of BLM land in Oregon, and what percentage the BLM contract area was of the statewide total. Mike noted that significant BLM acreage in eastern Oregon is rangeland which has much different firefighting exposure than that experienced on western Oregon timber lands. Nancy responded that they can provide that information.

The study revealed that 2,394,974 acres – 22% of the total – are BLM, and 8,327,691 acres – 78% of the total – are 'Other' landowners protected by ODF in the BLM study area, both private and other public. Revenues into the fund include acreage assessments (7.5 cents/acre for grazing and eastside timber, and 5 cents/acre for westside timber), minimum and improved lot surcharges (\$3.75 and \$47.50 per lot respectively), and forest products harvest tax (62.5 cents/MBF). The revenue research found that BLM contributed to the fund through harvest tax and acre assessments only, whereas private landowners paid the full suite of revenues and Other Public generally paid the harvest tax and acreage assessment with a few exceptions.

The 10-year revenue data revealed that BLM contributed \$894,147 from harvest tax and \$1,200,144 from acre assessments for a total of \$2,094,291 (3% of the total or \$0.087/acre), whereas all Other contributed \$18,340,732 from harvest tax (exclusive of USFS harvest), \$5,256,985 from acreage assessments and \$55,458,566 from minimum and improved lots for a total of \$79,056,283 (97% of the total or \$0.9497/acre).

Statewide expenses for the 10-year period included \$81,043,394 in suppression cost (85.9% of the total cost), \$5,041,423 in insurance premiums (5.3% of the cost), \$704,937 in administration costs (.7% of the cost) and \$7,599,386 in severity availability (8.1% of the cost).

OFLPF 'eligible' fires were reviewed – those over 10 acres in size and receiving OFLPF suppression cost support within the study area – and grouped into three ownership categories: BLM Only, Other Only, and Other Mixed ownership. There were a total of 256 fires over the 10-year period that fit into these categories. Preliminary data reveals that BLM Only accounted for 27,986 acres at a cost of \$33.6 million in suppression, and BLM's share of Other Mixed ownership fires was 45,608 acres for a cost of \$34.7 million. Total BLM acres burned were 73,594 acres (56.4% of the total acres burned) at a cost of \$68.3 million (59% of the total suppression cost). Other Only ownerships totaled 2,808 acres at a cost of \$6.5 million, and 54,125 acres in Other Mixed ownership at a cost of \$41.1 million. Others totaled 56,933 acres burned (43.6% of the total acres burned) at a cost of \$47.6 million (41% of the total suppression cost). Chair Cummings asked for clarification of how the mixed ownership costs were assigned, Mike responded that they were split on a pro-rata acres-burned basis. Steve Cafferata and Pete Sikora both noted that these mixed ownership costs may very likely under-estimate the actual cost of suppression on BLM land. Mike stated that it was impossible to make an accurate cost split with existing fire data; Pete agreed that this was the appropriate method to allocate costs given the data limitations. Mike pointed out that removing the Big Windy fire changes the 10-year numbers significantly, lowering BLM acres burned and suppression cost over that time frame.

The next steps in the study include finishing a draft report using input from today's EFCC meeting, meeting with BLM on January 20 to review project methodology and answer questions, meeting on February 1 for the final time with the study steering committee, EFCC and stakeholders, and submitting the final report to the State Forester, EFCC, BLM, and stakeholders in February. Mike thanked a number of people who provided support to Nancy and him throughout the process.

During open discussion, Chair Cummings stated the data is what the data is – it is actual information. This data is what everyone will have to work with going forward in an effort to build a more equitable system. Roger Beyer asked if there are any fires that are not in the database because of the \$25,000/fire/day deductible. Can those fires be shown in an appendix? Mike commented that if the fires received no OFLPF funding, they were outside the scope of the project and were not considered. Complexes include a number of smaller fires – complexes that met deductibles are included in the cost analysis. Chair Cummings clarified that the smaller periphery fires are a part of the total workload, but that their costs are not significant and therefore were not considered. Roger clarified that he was interested in knowing whether a disproportionate share of these smaller fires were on BLM. Mike concluded that this data wasn't available, but he did point out that one of the spreadsheets illustrates where mixed ownerships fires started and eventually spread to other ownerships. More fires spread from 'Other' to BLM than the reverse but roughly in proportion to the ownership. Tim Keith pointed out that the smaller fires that were covered by a district's deductible are paid by local district funds, and that BLM participates at an equitable level in funding district operations.

Roger stated that by not including insurance and severity payments in the total costs, true costs are skewed and are borne disproportionately by Oregon landowners and citizens. Doug Grafe pointed out that the one slide with total costs could be confusing – the final report should be directed to suppression cost. Roger asked about the final distribution list of the report – Mike stated that the primary interest groups including OSWA are on the list.

ITEM 9: PROTECTION DIVISION REPORT:

Chair Cummings asked Doug Grafe to give his Protection Division report. Doug said that Ron Graham will tag-team with him – providing final fire season information and strategic investments. He will conclude with fire season financials. This is a preview of the report they will be making tomorrow to the Board of Forestry.

Ron said that he'll recap the fire season but not get into the detail that was shared in September. He reported that there were 825 fires that burned, compared to the 10-year average of 1010 fires. The primary driver was the significant decrease in the number of lightning-caused fires – 72 lightning fires compared to the 10-year average of 270 fires. These lightning fires traditionally cause 80% of the acres burned, so the decrease had a significant effect here also. Human-caused fires were slightly above average at 753 fires, which is consistent with what is being seen nationally. Factors include more and more people moving into rural areas, moving state-to-state and lacking familiarity with local conditions, and increases in tourism. He pointed out that an example is the eclipse coming up this summer that may bring a threat of increased wildfire starts as people flock to eastern Oregon to take it in.

Acres burned were just over 5,600, well below the 10-year average of 35,000 acres. Lightning fires produced less than ½ of those acres burned. Fire suppression costs were \$17.5 million with net costs \$13.3 million, compared to the 10-year average of \$33.8 million net cost.

The total fire costs lead into the topic of strategic investments, as the anticipated spending totals this fiscal year will likely fall well below the threshold of \$13.5 million. Last year, despite hitting the threshold, the Division did entertain proposals for strategic investments and received over a dozen proposals. The process wasn't finished due to lack of financing and new workload that included the Fire Program Review. They've restarted the process this year, reaching out to Areas informing them that proposals will be accepted from the districts. This year the projects will need to be prioritized and evaluated for consistency between areas. The amount of available money will be watched closely the next few months including insurance premium costs and early season fires. At a spring meeting the proposals will be reviewed with the committee. Chair Cummings asked how commitments can be made for large projects with the potential for a \$2 million Two Bulls Fire occurring in June? Tim Keith answered that a placeholder for an approved project will be placed on any available money – if the money is still available July 1st, the project can be completed then and paid with funds from this fiscal year. In essence obligating funds into the succeeding year. It's the only way we can safely make these investments and avoid conflict with firefighting needs in May or June. Tim pointed out that we are up \$2.2 million according to the projected costs in the Balance Sheet, and that barring any fires should rise to \$2.5 million or more. Pete Sikora asked if the proposals will go to the Headquarters Services Committee for review. Ron responded that the concept was taken to the Committee last year and the decision was to not review and approve them, but they instead would like to be given a list of the projects and an update on their status. Doug said that the Headquarters Services Committee will meet in late January, so they'll be given an early look at the proposed projects. Originally the concept was to have them review and prioritize the projects, but the timing of their meetings didn't fit well with the approval process for strategic investments. Pete asked if districts understand that the committee is looking for new ideas that will bring value to the protection system – effective use of technology for example. Ron said that some proposals that they saw last year would be filtered out. Mike Totey offered that from his perspective as a district forester when these opportunities come up, clarification/guidance to the district is critical as there are a number of large ticket opportunities that local districts and their budget committees are considering. Chair Cummings agreed that these proposals become a budgeting issue.

Doug Grafe then closed with fire season financials. Slide #5 highlights the financial requests that were made upon close of the fire season to the Emergency Board. There was a \$1.7 million Special Appropriation request for the General Fund share of severity resource costs that was approved and the money received. The remaining costs have been deferred to an early Legislative session bill including \$6.7 million for the State's share of large fire costs, \$667,136 for Treasury loan interest, \$532,278 to pay for district deductibles, and \$111,813 in severity costs over and above the \$1.7 million already received. In addition, there will be a close-of-session bill that would balance the books and eliminate a \$2.6 million base budget shortfall which was the result of successive challenging fire seasons. That number is a projection – they want to wait as long as possible before making the decision to set the number and off-set the shortfall. There is a keen awareness on the part of Legislators of fire funding issues. Steve Cafferata asked for an example of why the base budget shortfall occurred. Doug responded that several districts over-expended their base budgets due to the long, difficult fire season. An example is Western Lane that had four large fires that exceeded their budget due to the four \$25,000/fire/day deductibles that were unbudgeted.

Doug reported that fire season ended in a unique way with an opportunity to support other states. In early November ODF sent a number of fire personnel to several states in the southeast United States – a total of 60 people. An ODF

incident management team was dispatched to manage the Party Rock Fire, the largest fire in North Carolina. In addition, 23 contract crews were sent to the southeast. The most devastating fire in that region was the Gatlinburg Fire in Tennessee that killed 14 civilians during its significant run. Steve asked about savings from these deployments. Doug responded that approximately \$250,000 in total personnel costs, \$100,000 to the General Fund, were saved by dispatching these people to the southeast.

ITEM 10: EFCC ADMINISTRATOR REPORT

Tim Keith pointed out that Jeff Friesen had already reported on the insurance underwriters' tour. Steve Cafferata asked Jeff if he had received any feedback from London. Jeff said that the feedback they heard was all positive – no questions or concerns. He said it had been a number of years since anyone had been out to Oregon; having the new lead syndicate attend the tour was very timely. Chair Cummings agreed and stated that State Forester Peter Daugherty's comments to start the day were well received and set the stage for the tour. Peter then attended the dinner at the end of the day, building relationships with the underwriters. Chair Cummings went on to say that the day with the Lloyds of London group was very successful, they were able to fly some of the coast range and subsequently offered him very positive feedback. Tim said that that they met with Sen. Devlin at the Capitol the next day and had a good visit with him before the contingent started home. Pete Sikora stated that Link Smith did a really good job at Veneta explaining the fact that landowners have no insurance on losses to their forest resource – and that fire protection from ODF and operating associations was the insurance coverage they need to protect their forests from fire losses. Link had emphasized the importance of an effective firefighting system from initial attack through large fire suppression because of this need to minimize resource loss.

ITEM 11: PUBLIC COMMENT/ GOOD OF THE ORDER

There being no further business before the committee, Chair Cummings adjourned the meeting at 11:40 a.m. The next regular meeting of the committee will be held at 10:00 a.m. on Tuesday, March 07, 2017 in the Santiam Room of the State Forester's Headquarters in Salem.