

Analysis

Item 44: Department of Forestry

Catastrophic Wildfire Insurance

Analyst: Matt Stayner

Request: Appropriate \$2,176,549 General Fund to purchase catastrophic wildfire insurance for the 2016 fire season.

Recommendation: Allocate \$2,176,549 from the special purpose appropriation made to the Emergency Board for the Department of Forestry to purchase catastrophic wildfire insurance for the 2016 fire season.

Analysis: The cost of the catastrophic fire insurance premium is generally split on a 50/50 basis between the General Fund and the Oregon Forest Land Protection Fund (OFLPF). A single fire year spans two fiscal years, so the funding mechanism for the payment of the insurance premium prior to each of the fire years within a biennium are different. Generally, a fire-year is considered to run early spring to late fall of a given calendar year. For the "first" fire year this means the last quarter of the second year of any given biennium and the first two quarters of the following biennium. The first year insurance premium is normally not budgeted in the base budget for the agency since the insurance premium for the first fire year is due prior to the beginning of the fiscal year, but some anticipated amount is usually included in a special purpose appropriation made to the Emergency Board in the prior biennium. The "second" year premium is typically included in the Department of Forestry's (ODF) budget.

2013 Fire Season (1st year) Fiscal Years 2013 and 2014

HB 5023 (2011), ODF's budget bill, included a special purpose appropriation to the Emergency Board of \$4,781,000 that included \$477,500 for the 2013 fire season. The Emergency Board allocated \$427,463 of these funds to ODF in December 2012 for the payment of one-half of the total insurance premium cost of \$854,926; the other half was paid from the OFLPF.

2014 Fire Season (2nd year) Fiscal Years 2014 and 2015

Following an extraordinarily costly 2013 fire season that included a \$25 million claim against the insurance policy, fully exhausting the policy coverage, the insurance premium for the 2014 fire season increased dramatically to \$2,012,040. Half of this amount, \$1,006,020, was paid by the General Fund; \$430,000 was included in the ODF budget and an additional \$576,020 was provided by the Emergency Board in December 2014.

2015 Fire Season (1st year) Fiscal Years 2015 and 2016

The 2014 fire season once again exhausted the \$25 million insurance policy and resulted in both a near doubling of the insurance premium and an increase in the retainer, or deductible, from \$20 million to \$50 million. The General Fund portion, \$1,918,155, of the \$3,836,310 premium, was appropriated to ODF in HB 5045 (2015). The remaining half was paid from the OFLPF. In addition, the 2015-17 biennium budget for ODF (HB 5019, 2015) included a General Fund increase of \$518,036 for the second year insurance premium, bringing the total budgeted funding for the second year premium to \$960,000.

2016 Fire Season (2nd year) Fiscal Years 2016 and 2017

The 2015 fire season did not result in a claim against the catastrophic fire insurance policy due to a large portion of the fire costs being eligible for reimbursement from the Federal Emergency Management Agency (FEMA). This resulted in a small reduction in 2016 fire season premium cost for the same terms as the 2015 fire year policy. The total premium cost of \$3,529,380 would normally be split 50/50 between the General Fund and the OFLPF, however, due to the statutory cap on the OFLPF, only \$392,381 is available from that fund, leaving a shortfall of \$1,371,859 in the Other Funds half of the cost. The ODF budget includes \$960,000 General Fund for second year insurance premium costs, leaving a shortfall of \$804,690 for the General Fund half of the cost. The total budgetary shortfall is \$2,176,549.

The special purpose appropriation of \$6 million General Fund made to the Emergency Board in HB 5019 (2015) nominally included \$4 million for severity resources and \$2 million for first-year (2017 fire season) insurance premium costs. SB 5701 (2016) provided \$2,054,823 of the \$6 million to ODF for severity resources, leaving a balance of \$3,945,177.

The Legislative Fiscal Office recommends allocating \$2,176,549 from the special purpose appropriation made to the Emergency Board to the Department of Forestry toward the purchase of catastrophic wildfire insurance for the 2016 fire season. This action will leave \$1,768,628 in the special purpose appropriation.

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**Oregon Department of Forestry
Connolly**

Request: Allocate \$2,176,549 from the special purpose appropriation made to the Emergency Board for purchase of a catastrophic wildfire insurance policy for the 2016 fire season.

Recommendation: Approve the request.

Discussion: The Oregon Department of Forestry has for many years purchased a catastrophic wildfire insurance policy to cover part of the state's expenses for fighting large wildfires. Under the current funding structure for wildfire suppression on lands managed by Forestry, the department operates a base level "Fire Department" that handles fire suppression. Partial coverage comes from a Statewide Severity account, which covers preparedness and initial attack resources, and shared responsibility for \$20 million in large fires suppression costs, covered by \$10 million in General Fund and \$10 million from the Oregon Forest Land Protection Fund. The final identified resource is a \$25 million catastrophic wildfire insurance policy that has a \$50 million deductible.

Funding for the insurance policy in even numbered fire season years is placed in the agency's biennial budget; funding for the insurance policy in odd numbered fire season years is placed in a Special Purpose Appropriation (SPA) within the Emergency Fund from which Forestry requests funding for the General Fund portion of the policy premium.

The agency's 2015-17 budget bill established a SPA of \$6.0 million, identifying \$2.0 million for severity costs in each of the 2015 and 2016 fire seasons and \$2.0 million to fund the fire insurance premium in 2017. During the February 2016 Session, \$2,054,823 was released to Forestry to pay for severity costs during the 2015 fire season. If the remaining balance needed to pay for the insurance policy for the 2016 fire season is released to ODF that will leave only \$1,768,628 available for severity costs during the 2016 fire season. No General Fund dollars will be available in the SPA to pay for the 2017 insurance premium as originally intended.

The total cost of the Fire Season 2016 premium is \$3,529,380, a reduction of approximately \$300,000 compared to the cost of the 2015 insurance policy. The agency has base funding of \$960,000 General Fund in their budget for the cost of the premium and \$392,831 Other Funds from the Oregon Forest Land Protection Fund. The agency is requesting the remaining balance of \$2,176,549 be covered by the General Fund.

The Oregon Forest Land Protection Fund (OFLPF) could contribute up to 50 percent of the fire insurance premium cost. However, OFLPF is constrained by a statutory cap on their annual spending of \$13.5 million. The statute contains additional limits on how the revenue can be spent: up to \$10.0 million can be spent on large fire suppression, up to \$3.0 million can be spent on severity costs; not more than 50 percent of the cost of the fire insurance premium can be paid; and the fund can pay for the administrative costs associated with the OFLPF. Because of these restrictions the OFLPF will pay for 11.0 percent of the 2016 premium.

Legal Reference: Allocation of \$2,176,549 from the special purpose appropriation made to the Emergency Board by chapter 809, section 5(1), Oregon Laws 2015, to supplement the appropriation made by chapter 809, section 1(1), Oregon Laws 2015, for the Oregon Department of Forestry, Fire Protection Program for the 2015-17 biennium.



Oregon

Kate Brown, Governor

Department of Forestry

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April 25, 2016



"STEWARDSHIP IN FORESTRY"

The Honorable Senator Peter Courtney, Co-Chair
The Honorable Representative Tina Kotek, Co-Chair
State Emergency Board
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

RE: OREGON DEPARTMENT OF FORESTRY – General Fund Request for Catastrophic Wildfire Insurance Policy Premium

Dear Co-Chairs:

Nature of the Request

The Oregon Department of Forestry respectfully requests an appropriation of \$2,176,549 of General Fund to purchase catastrophic wildfire insurance for the 2016 fire season. The insurance policy is identical in structure to last year's policy, providing for \$25 million in large-fire funding coverage in excess of a \$50 million deductible.

Agency Action

The Oregon Department of Forestry has, in coordination since 1973 with the Emergency Fire Cost Committee and the Department of Administrative Services Risk Management Division, acquired a catastrophic wildfire insurance policy, currently through Lloyd's of London. To date, cumulative paid premiums are approximately \$61 million, while pay-outs for large fire costs total about \$102 million, which reflects a positive \$41 million cumulative difference (Cost-Claim). The policy coverage, premiums and deductibles have all varied throughout the history of this relationship.

This year's total premium cost of \$3.53 million represents a reduction of \$300,000 from last year's premium. The agency's 2015-17 budget has \$960,000 available to pay the premium, plus \$392,831 available under the \$13.5 million cap of the Oregon Forestland Protection Fund. This leaves a net shortfall of \$2,176,549 to pay for this season's catastrophic wildfire insurance policy.

Action Requested

The agency respectfully requests an appropriation of \$2,176,549 from the General Fund to pay the premium for the 2016 fire season's catastrophic wildfire insurance policy.

Legislation Affected

HB 5019, Chapter 809, section 1(1), Oregon Laws 2015.

Thank you for your time and consideration. I would be pleased to answer any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Doug Decker", with a long horizontal flourish extending to the right.

Doug Decker
Oregon State Forester

cc: Richard Whitman, Governor's Office
Brett Brownscombe, Governor's Office
Gabriela Goldfarb, Governor's Office
Lauri Aunan, Governor's Office
Oregon Board of Forestry
ODF Executive Team
Matt Stayner, Legislative Fiscal Office
Cathy Connolly, Chief Financial Office
James Short, ODF Budget Director
Mark Hubbard, ODF Finance Director