

ANALYSIS

Item 52: Department of Forestry Fire Insurance Policy Premium

Analyst: Matt Stayner

Request: Allocate \$1,957,075 General Fund and increase the Other Funds expenditure limitation by \$315,000 for the Oregon Department of Forestry, for payment of premium costs associated with the state’s 2022 catastrophic wildfire insurance policy.

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). Statutory limitations on the annual expenditures from the OFLPF limit the fund’s participation in the premium costs for the 2022 fire season to \$315,000. It’s notable however that although the OFLPF contributes to the premium costs, the wildfire cost protection provided by the insurance reduces the exposure of the General Fund.

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 agency's budget.

The 2022 fire season is the second-year season for the current biennium. This year’s total premium cost was \$4,066,425. The Department of Forestry’s budget includes \$1,794,350 towards this expense. The Department also has available \$315,000 Other Funds from the Oregon Forest Land Protection Fund. That amount being the residual remaining balance of the fund available for this purpose under the annual expenditure cap outlined in statute. The shortfall between available resources and the premium cost is \$1,957,075.

Fire Insurance Premium Costs and Claims by Fire Season (in millions)				
Fire Season	Insured Amount	Retention	Premium	Claims
2013	\$25.00	\$20.00	\$0.92	\$25.00
2014	\$25.00	\$20.00	\$2.01	\$22.23
2015	\$25.00	\$50.00	\$3.83	\$0.00
2016	\$25.00	\$50.00	\$3.53	\$0.00
2017	\$25.00	\$50.00	\$3.24	\$0.00
2018	\$25.00	\$50.00	\$3.56	\$0.00
2019	\$25.00	\$50.00	\$3.73	\$0.00
2020	\$25.00	\$50.00	\$4.01	\$0.00
2021	\$25.00	\$50.00	\$4.13	\$18.94
2022	\$25.00	\$75.00	\$4.07	\$0.00
Total			\$33.03	\$66.17

Since the 2013 fire season, the insured loss has remained at \$25 million, but retention, or deductible, amounts have increased to both keep premium costs down and enable the procurement of the policy. The retention amount for the 2022 fire season increased by 50% to \$75 million from \$50 million on the back of a \$18.4 million estimated claim against the policy for the 2021 fire season.

As shown in the table, the total cost of premiums is slightly less than half of the value of claims over the past 10 years. It's important to keep in mind that the insured amount applies to those unbudgeted costs that are net of Federal Emergency Management Agency reimbursements, partner agency reimbursements, and certain ineligible costs. The average net fire costs to the state since 2013 are just over \$41.6 million per year with insurance reimbursements covering an average of \$6.6 million per year of those costs. The increased retention amount greatly reduces the probability of a claim, but does not preclude it. The 2013 fire season resulted in \$75 million of net costs (before insurance claim of \$25 million). Weighed against the distinct possibility that forgoing insurance would result in the state being unable to procure insurance in the future, the reduced likelihood of a claim due to the higher retention amount does not seem sufficient to warrant a change at this time.

Recommendation: The Legislative Fiscal Office recommends that the Emergency Board allocate \$1,957,075 General Fund from the Emergency Fund to the Oregon Department of Forestry and increase the Other Funds expenditure limitation for the Oregon Department of Forestry by \$315,000, for payment of premium costs associated with the state's 2022 catastrophic wildfire insurance policy.

Request: Allocate \$2.0 million from the Special Purpose Appropriation made to the Emergency Board for fire protection and increase Other Funds expenditure limitation by \$315,000 for the purchase of catastrophic wildfire insurance for the 2022 fire season.

Recommendation: Approve the request.

Discussion: The Oregon Department of Forestry works with the Department of Administrative Services (DAS) Risk Management Division to procure a catastrophic wildfire insurance policy each season. This policy has been purchased annually since 1973. For the 2022 fire season, the policy will provide \$25.0 million of coverage after meeting a \$75.0 million retention. The retention amount has increased from the previous \$50.0 million level, due in part to the increasing severity of fires in the state.

The policy premium for this year is \$4.1 million, which represents a small decrease in the premium when compared to last year. The Department received \$1.8 million as part of its Fire Protection base budget to pay the policy premium. The Oregon Forestland Protection Fund also contributes to the policy premium each year but due to a statutory cap on spending (ORS 477.775) is only able to provide \$315,000 this year. This leaves the remaining \$2.0 million of the premium to be paid with General Fund.

Legal Reference: Allocation of \$1,957,075 from the Special Purpose Appropriation made to the Emergency Board by chapter 605, section 5(1) to supplement the appropriation made by chapter 605, section 1(2), Oregon Laws 2021, for Oregon Department of Forestry, Fire protection for the 2021-23 biennium.

Increase Other Funds limitation established by chapter 605, section 2(2), Oregon Laws 2021 by \$315,000, for the Oregon Department of Forestry, Fire Protection for the 2021-23 biennium.



Oregon

Kate Brown, Governor

Department of Forestry

State Forester's Office

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May 2, 2022

Senator Peter Courtney, Co-Chair
Representative Dan Rayfield, Co-Chair
Joint Emergency Board
900 Court Street NE
H-178 State Capitol
Salem, OR 97301

RE: Request for Catastrophic Wildfire Insurance Policy Premium

Dear Co-Chairs:

Nature of the Request

The Oregon Department of Forestry respectfully requests an appropriation of \$1,957,075 General Fund and \$315,000 of Other Funds limitation to pay the premium for the state's 2022 catastrophic wildfire insurance policy.

Agency Action

Since 1973, the Oregon Department of Forestry has acquired a catastrophic wildfire insurance policy, in coordination with the Emergency Fire Cost Committee and the Department of Administrative Services' (DAS) Risk Management Division.

The insurance policy structure has changed in comparison to last year's policy, providing for \$25,000,000 million in coverage after meeting a \$75,000,000 retention. This year's total premium cost of \$4,066,425 represents a 1.58% decrease (\$64,998.75) from last year's premium. Included in the agency's base fire protection budget is a General Fund appropriation of \$1,794,350 to pay the premium on this policy. The Oregon Forestland Protection Fund is able to contribute \$315,000 toward its portion of the premium, as it has reached its statutory expenditure cap (ORS 477.775) for the fiscal year. This leaves the General Fund portion of the premium at \$1,957,075.

As part of the standard process, DAS Risk Management procures the insurance policy and the department is invoiced the premium costs for repayment to the state's Insurance Fund. Typically the department would work with DAS to delay repayment until after fire season as a way of mitigating the pressure that fire season suppression costs place on its cash reserves. Then, the additional GF needed to cover the premium would be part of the department's end-of-season ask of the Legislature. However, this year the Insurance Fund is experiencing its own depletion of resources. Risk Management has requested the department to expedite its payment as soon as resources allow, which is why the department is making this request earlier than usual.

Action Requested

The agency respectfully requests an appropriation of \$1,957,075 from the General Fund and \$315,000 of Other Funds limitation to pay the premium for the state's 2022 catastrophic wildfire insurance policy.

Legislation Affected

SB 5518, Chapter 605, section 1(2), Oregon Laws 2021
SB 5518, Chapter 605, section 2(2), Oregon Laws 2022

Thank you for your time and consideration. Please feel free to contact me with any questions.

Sincerely,



Cal Mukumoto
Oregon State Forester
(503) 945-7211

c: Jason Miner, Governor's Office
Oregon Board of Forestry
Matt Stayner, Legislative Fiscal Office
Renee Klein, Chief Financial Office