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Joint Informational Hearing

Assembly Insurance Committee Select Committee on Wildfire Prevention

Wildfire Insurance: Risk, Resiliency & Recovery

Monday, October 9, 2023

1:00 p.m. – 3:00 p.m.

Santa Rosa City Council Chambers
100 Santa Rosa Ave, Santa Rosa, CA

I. Introduction

It's no secret, with the pause of business or exit of several notable insurers, the California insurance market is on rocky terrain, with consumers feeling the greatest impact. Over the last year, the Assembly Insurance Committee held several informational hearings examining the unfortunate instability of the insurance market. A previous informational hearing on the California Fair Plan painted the insurance availability crisis that California is facing, when Fair Plan policies go up, this means the admitted market is not working as it should. The Fair Plan is after all, the insurer of last resort. The Assembly Insurance Committee also held an informational hearing on obstacles insurers' face (that other states don't have to navigate) which includes not being able to factor into rates the use of catastrophe modeling and reinsurance.

This informational hearing will take a closer look into wildfire risk, steps being taken to become more resilient, and whether these steps move the needle on availability of insurance. Rightfully so, investment in wildfire mitigation has been at the forefront, but the question remains whether investments have translated to reducing the risk of wildfires as it relates to insurance availability. If communities mitigate, will insurers see these "distressed areas" as more desirable?

Consumers and communities want assurances that if they mitigate, if they're doing everything right to lessen their "risk" when the next wildfire ignites, will they not only receive a "discount" under the new Safer from Wildfires framework (discussed more below) but, first and foremost, will they be more likely to receive insurance coverage? The answer is far more complicated than most would think. Nevertheless, it seems, insurers want to issue policies (it's their business), as much as, consumers need coverage (it's a requirement). So, where's the disconnect?

II. Wildfire Risk

Wildfire risk has continued to increase in California over the past several years. Large wildfires have not only become more frequent, but have also become more destructive – burning more acreage, destroying more structures, and resulting in a greater loss of life.

Physical Losses Due to Wildfires

California Department of Forestry and Fire Protection (CAL FIRE) data shows that since 2017, 12 of the state's 20 largest wildfires have occurred. This has resulted in more than 5 million acres burned. The top three largest fires – the August Complex fire in 2020, the Dixie fire in 2021, and the Mendocino Complex fire in 2018 – burned a collective 2.45 million acres and destroyed 2,526 structures.

Those losses do not reflect the destruction from the Camp Fire in 2018, because the 153,336 acre blaze doesn't rank among the state's largest, by acreage. However, it was the state's most destructive and it's deadliest. The Butte County fire destroyed 18,804 structures and caused 85 deaths.

In addition to the Camp Fire, 10 of the other 20 most destructive fires in California have occurred since 2017. In total, these 11 fires have resulted in the loss of 37,973 structures and caused 146 deaths. This includes the Tubbs fire in 2017 and the North Complex fire in 2020. Together with the Camp Fire, these three fires alone resulted in the destruction of 26,792 structures, 122 deaths, and the loss of more than 509,000 acres.

The destruction from wildfires in California seems to be more prevalent in recent years compared to other states. According to the Western Fire Chief's Association, prior to this summer's Lahaina Fire in Maui, three of the 10 deadliest wildfires in United States history have occurred in California since 2017.

As of September 25, 2023, CAL FIRE reports responses to 5,601 wildland fire incidents impacting 275,058 acres. It reports responding to 3,312 structure fire incidents for the year.

Insurance Claims and Loss Data

In addition to the acres burned, structures destroyed, and lives lost these fires have had a significant effect on the insurance industry in the state.

The California Department of Insurance (CDI) publishes a biennial Wildfire Risk Report that includes two years' worth of data related to the fire risk insurance companies face. This report provides insurance loss data represented as both the number of claims and the incurred losses. The data covers six policy types – homeowners, renters/tenants, condominium unit owners, mobile home, dwelling-fire owner occupied, and dwelling-fire tenant occupied.

While these numbers may show the number of claims received and losses incurred by insurers, they also illustrate how individuals have been impacted by wildfires – every claim belongs to a consumer and the losses incurred by insurers represent the value of structures and other personal property lost by those individual consumers.

A review of this loss data shows that for the period covering 2018 - 2021 (the most recent data available) for homeowners' policies alone there have been 108,330 claims related to fire caused damage. These same claims resulted in a reported \$12.7 billion in incurred losses. This includes claims for both structure damage and damage or loss of personal property. Note this number does not include claims made on other policy types, such as renters or mobile homes.

When both fire and smoke damage is included for all six policy types, the CDI Wildfire Risk Report shows that from 2018 – 2021 there were 199,363 claims and \$16.2 billion in incurred losses.

III. Economic Impact on California

In addition to the insurance claims and costs related to wildfires there have also been several other economic impacts to the state. A June 2023 report by the Gordon and Betty Moore Foundation estimates the economic, fiscal, and environmental costs of California wildfires for the period covering 2017 – 2021.

The data in the report includes the estimated economic impact wildfires have had on the General Fund plus the other economic impacts wildfires have had, including labor market disruptions, costs related to loss of life, and the cost of climate impacts. The report concludes that “Over the 2017 – 2021 period, we estimate that average annual losses totaled over \$117.4 billion. Of this amount, an estimated \$5 billion annually was incurred as a fiscal loss by the State of California attributable to reduced tax revenues and increased wildfire response costs.”

The table below shows how the report estimated these annual costs.

Table 13: Average annual impact of wildfires on California (2017 – 2021) (mil \$)

Economic Loss Category	Economic Loss	State Fiscal Component	Fiscal Loss
Direct Losses	(\$11,426)	Direct Losses	(\$1,407)
Property losses (destroyed structures)	(\$9,910)	State property losses	(\$277)
Fire casualties (civilians and firefighters)	(\$386)	N/A	N/A
Total suppression, clean-up costs	(\$1,130)	State suppression, clean-up costs	(\$1,130)
Indirect Losses	(\$105,997)	Indirect Losses	(\$3,628)
Increased deaths from smoke exposure	(\$45,593)	N/A	N/A
Medical costs from smoke exposure	(\$286)	State share of Medi-Cal expenditures	(\$21)
Total loss of income	(\$60,119)	State loss of income tax revenue	(\$3,607)
TOTAL (Direct + Indirect)	(\$117,423)	TOTAL (Direct + Indirect)	(\$5,035)

Source: “The Economic, Fiscal, and Environmental Costs of Wildfires in California,” James Paci, Matthew Newman, and Tim Gage (Gordon and Betty Moore Foundation), June 27, 2023

IV. State Funding and Programs for Wildfire Management and Prevention

California’s increased annual burned area in recent years can be linked to many factors. Increased tree density combined with extreme drought conditions have all contributed to the extreme fire risk in recent years. Climate change will likely continue to contribute to increasing fire severity as well.

To help address increased wildfire risk the state has taken several steps in recent years.

In 2021, the state budget guaranteed nearly \$1 billion in wildfire prevention funding for the 2021-22 fiscal year and required at least \$200 million annually in additional funding for the next six years. This funding commitment was nearly triple what was approved for wildfire prevention and resource management in 2020.

More recently, in July 2023, the Governor announced \$113 million in new funding, made possible by the \$52 billion California Climate Commitment budget.

These monies largely went to various wildfire grant programs. For example, the funding announced this past July will support 96 wildfire prevention projects across the state – with more than eight in 10 grants directed towards vulnerable or underserved communities.

Wildfire Prevention Grants

The state has several grant programs operated by CAL FIRE to help improve forest health and firefighting capacity throughout the state, including the Wildfire Prevention Grant program. The Wildfire Prevention Grant program provides funds for projects in and near fire threatened communities to improve public health and safety while reducing greenhouse gas emissions.

Grant recipients include cities, like the City of Paradise and the City of Mission Viejo, conservation groups, and local fire authorities, like the Northern Sonoma Fire Protection District. The majority of the projects are focused on reducing hazardous fuels, often by creating and maintaining fuel breaks, vegetation clearance, and selective tree removal.

Home Hardening Program

In addition to the Wildfire Prevention Grants, the state’s efforts to strengthen community-wide resilience against wildfires includes the Home Hardening Program, a state home hardening program to retrofit, harden, and create defensible space for homes at high risk to wildfires.

In 2019, the Governor signed Assembly Bill 38 (Wood) authorizing the California Office of Emergency Services (Cal OES) and CAL FIRE to enter into a joint powers agreement to oversee the development and implementation of the program. This home hardening program focuses on high social vulnerability communities and provides financial assistance for home hardening activities to low- and moderate-income households.

This effort encourages cost-effective wildfire resilience measures to create fire-resistant homes. Mitigation measures such as home hardening, vegetation management, defensible space, and other fuel modification activities provide neighborhood and community-wide benefits against wildfire. The program takes a whole community approach with the goal of hardening entire neighborhoods to increase their resilience to wildfires.

CDI Safer from Wildfires Framework

In 2022, CDI announced the “Safer from Wildfires” framework, which directs insurers to provide discounts to consumers and businesses if they take specified mitigation measures. In crafting this regulation, CDI worked with emergency preparedness agencies in the Governor’s Administration, including CAL FIRE, Cal OES, the Governor’s Office of Planning and Research, and the California Public Utilities Commission.

The framework provides a list of home and community wildfire mitigation measures that consumers and business can take to provide protection for the structure, the immediate surroundings, and the community. Under the regulation, the more “Safer from Wildfires” steps a consumer takes the more they may be able to save on their insurance.

The regulation required insurance companies to submit new rate filings incorporating the wildfire safety standards created by CDI and also requires insurance companies to provide consumers with their property’s “wildfire risk score” and a right to appeal that score. Once the regulation is fully implemented it should help protect consumers. Steps a consumer can take to help mitigate their property under this framework include:

- **Class-A fire rated roof** – Most roofs qualify including asphalt shingles, concrete, brick, or masonry tiles, and metal shingles or sheets.
- **5 foot ember resistant zone, including fencing** – Removing greenery and replacing wood chips with stone or decomposed granite 5 feet around your home prevents fire from getting a foot in the door.
- **Ember- and fire-resistant vents** – Installing 1/16 to 1/8 inch noncombustible, corrosion-resistant metal mesh screens over exterior vents can keep wind-blown embers out of your house.
- **Non-combustible 6 inches at the bottom of exterior walls** – Having a minimum of 6 vertical inches measured from the ground up and from any attached horizontal surface like a deck can stop embers from accumulating and igniting your walls. Noncombustible materials include brick, stone, fiber-cement siding or concrete.
- **Enclosed eaves** – Installing soffits under your eaves can prevent heat and embers from getting trapped and igniting. When enclosing eaves, non-combustible or ignition resistant materials are recommended.
- **Upgraded windows** – Multi-paned windows are more resistant to breaking during a wildfire, which helps keep flames from entering. Multi-paned glass or added shutters all qualify.
- **Cleared vegetation, weeds and debris from under decks** – Noncombustible materials like concrete, gravel, or bare soil are permitted.
- **Removal of combustible sheds and other outbuildings to at least a distance of 30 feet** – These include sheds, gazebos, accessory dwelling units (ADUs), open covered structures with a solid roof, dog houses and playhouses.
- **Defensible space compliance** – following state and local laws requiring defensible space including trimming trees and removal of brush and debris from yard.

V. Conclusion

The California Insurance Commissioner, who oversees CDI, very recently announced a “sustainable insurance strategy to improve [the] state’s market condition for consumers.” It’s speculated that the actions CDI will take as a result of this recent announcement will help improve insurance availability while maintaining California’s strong consumer protections. Only time will tell, but in the meantime, this hearing hopes to raise awareness for our consumers on how they too can be active participants in improving our “state’s market condition.” Reducing risk and increasing resiliency should help California return to a healthy, competitive insurance market, which benefits our consumers.

Addendum: Information provided by the Assembly Natural Resources Committee

What is defensible space?

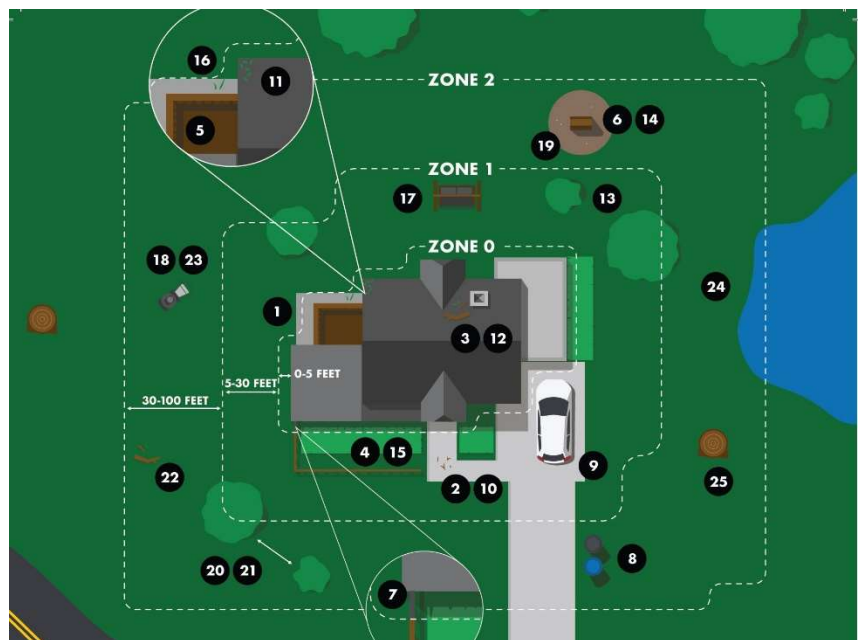
Defensible space is the buffer created between a building on a property and the grass, trees, shrubs, or any wildland area that surrounds it. This space is needed to slow or stop the spread of wildfire, and it helps protect structures from catching fire—either from embers, direct flame contact or radiant heat. Proper defensible space also provides firefighters a safe area to work in to defend property.

Current law requires defensible space of 100 feet from each side and from the front and rear of the structure, but not beyond the property line, with certain exceptions. The amount of fuel modification necessary considers the flammability of the structure as affected by building material, building standards, location, and type of vegetation. Fuels are required to be maintained in a condition so that a wildfire burning under average weather conditions would be unlikely to ignite the structure.

The Department of Forestry and Fire Prevention (CAL FIRE) requires the removal of all dead plants, grass, and weeds, and the removal of dry leaves and pine needles within 30 feet of a structure. In addition, tree branches must be 10 feet away from a chimney and other trees within the same 30 feet surrounding a structure. These existing requirements still permit most vegetation within five feet of the house or structure.

According to the University of California Division of Agriculture and Natural Resources, implementation of this five-foot non-combustible area could make a significant difference in a home's ability to withstand a wildfire. AB 3074 (Friedman, Chapter 259, Statutes of 2020) established an ember-resistant zone within five feet of a structure as part of revised defensible space requirements for structures located in high fire hazard areas.

The following year, the Legislature approved SB 63 (Stern, Chapter 382, Statutes of 2021) to authorize CAL FIRE to fund residential vegetation management programs, including defensible space training and public wildfire resistance education outreach to facilitate managing and monitoring vegetation on residential properties to help slow or stop an active wildfire from growing.



Current law also requires a seller of a property that is located in a **high or very high fire hazard severity zone** to provide documentation of a compliant Defensible Space Inspection. If that documentation cannot be provided by close of escrow, the law allows the buyer to enter into a written agreement that documentation of compliance will be made available within one year of the close of escrow.

CAL FIRE currently has a defensible space Collector App where defensible space inspectors can track each defensible space inspection with a high level of detail and the history of any citations on a property. The Collector App has been developed to provide a consistent standard of data collection during defensible space inspections and is part of a central archival location for analysis, research, and regulation development to reduce fire loss. The simplified data collection system has added to the understanding of how defensible space and building construction may help reduce wildfire impacts in the WUI.

It is important to note that many local government agencies have local ordinances for defensible space or weed abatement. These local ordinances will often be more stringent than the state's minimum requirements

What is home hardening?

Home hardening includes ways one can 'harden' a home and make it more fire resistant. Examples include, but are not limited to:

- **Roofing:** Building a roof or re-roof with materials such as composition, metal, clay or tile. Block any spaces between roof decking and covering to prevent embers from catching.
- **Vents:** Cover all vent openings with 1/16-inch to 1/8-inch metal mesh. Do not use fiberglass or plastic mesh because they can melt and burn. Use Ember and flame resistant vents (WUI vents).
- **Eaves and Soffits:** Eaves should be boxed in (soffited-eave design) and protected with ignition-resistant* or noncombustible materials.
- **Windows:** Heat from a wildfire can cause windows to break even before the home is on fire. This allows burning embers to enter and start fires inside. Single-paned and large windows are particularly vulnerable. Install dual-paned windows with one pane of tempered glass to reduce the chance of breakage in a fire. Consider limiting the size and number of windows that face large areas of vegetation.
- **Walls:** Build or remodel your walls with ignition resistant* building materials, such as stucco, fiber cement wall siding, fire retardant, treated wood, or other approved materials. This is especially important when neighboring homes are within 30-feet of the home. Be sure to extend materials from the foundation to the roof.
- **Deck:** Surfaces within 10 feet of the building should be built with ignition-resistant*, noncombustible, or other approved materials. Create an ember-

resistant zone around and under all decks and make sure that all combustible items are removed from underneath your deck.

- Rain Gutters: Install a corrosion-resistant and noncombustible metal drip edge for additional protection of the combustible components on your roof's edge. Use a noncombustible gutter cover to prevent buildup of debris and vegetation in the gutter.
- Chimney: Cover chimney and stovepipe outlets with a non-flammable screen. Use metal screen material with openings no smaller than 3/8-inch and no larger than 1/2-inch to prevent embers from escaping and igniting a fire.
- Garage: Have a fire extinguisher and tools such as a shovel, rake, bucket, and hose available for fire emergencies.

The Legislative Analyst's Office's [2021 report](#) notes that while there is a general consensus among researchers that defensible space can help protect homes from igniting during wildfires, there are still gaps in knowledge. For example, there is limited information on the degree to which the effectiveness of defensible space depends on the specific setting of a home, including the adjacent topography and vegetation types.

*Ignition-resistant building materials are those that resist ignition or sustained burning when exposed to embers and small flames from wildfires. Examples of ignition-resistant materials include "noncombustible materials" that don't burn, exterior grade fire-retardant-treated wood lumber, fire-retardant-treated wood shakes and shingles listed by the State Fire Marshal (SFM) and any material that has been tested in accordance with SFM Standard 12-7A-5.

What do we know about the success of defensible space and home hardening?

In 2019, CAL FIRE staff conducted an analysis of the relationship between defensible space compliance (as assessed through its defensible space inspection program) and destruction of structures during the seven largest fires that occurred in California in 2017 and 2018. Overall, this analysis concluded that the odds of a structure being destroyed by wildfire were roughly five times higher for noncompliant structures compared to compliant ones.

In 2021, the Insurance Institute for Business and Home Safety (IBHS) collaborated with a private data analytics firm on an analysis of more than 70,000 properties within wildfire areas over a three-year period. Using pre- and post-satellite imagery, the study estimated that homes with heavy vegetation coverage near the structure were roughly twice as likely to be destroyed by a wildfire than homes with less vegetation.

List and description of recent legislative efforts on home hardening and defensible space:

SB 896 (Dodd, Chapter 222, Statutes of 2022) Incentivizes and improves defensible space assessment data collection and reporting by local government entities, and requires CAL FIRE to annually provide a defensible space report to the Legislature.

AB 2672 (Flora) would require the Director of CAL FIRE, on or before July 1, 2023, to procure or establish a statewide defensible space and home hardening platform that would allow

property owners to support and augment CAL FIRE in defensible space inspection requests. This bill was held in the Assembly Appropriations Committee.

AB 9 (Wood, Chapter 225, Statutes of 2021) established the Deputy Director of Community Wildfire Preparedness and Mitigation to be responsible for fire preparedness and mitigation missions of CAL FIRE and is responsible for defensible space requirements, among other fire prevention responsibilities.

SB 63 (Stern, Chapter 382, Statutes of 2021) enhances fire prevention efforts by CAL FIRE, including, among other things, improved vegetation management and expanding the area where fire safety building standards apply.

AB 3074 (Friedman, Chapter 259, Statutes of 2020) establishes an ember-resistant zone within five feet of a structure as part of revised defensible space requirements for structures located in high fire hazard areas.

List and description of programmatic/regulatory efforts by CAL FIRE on home hardening/defensible space:

- Inspections are the main type of activity state and local agencies undertake related to defensible space. Statewide, as of 2021, CAL FIRE had identified about 768,000 parcels within the state responsibility area subject to defensible space inspections. CAL FIRE's goal is to inspect each of these parcels once every three years (roughly 250,000 parcels annually). In total, CAL FIRE (including contract counties) had completed more than 200,000 inspections in each of the past couple years, so the agency is falling somewhat short of its goal. SB 896 is intended to support this data collection.
- *Public outreach.* CAL FIRE conducts general public outreach through different media outlets and provides printed information to homeowners upon inspection. CAL FIRE also reports that the main purpose of its inspection program is to educate the public. If homeowners are present during inspections, CAL FIRE inspectors will use the opportunity to engage homeowners and educate them on defensible space.
- Local assistance grants. CAL FIRE administers the state's Fire Prevention Grant Program. This program is funded through GGRF and provides grants to government agencies, nonprofits, and tribes to support projects that reduce wildfire risk and increase community resiliency. This program has supported various activities related to defensible space, including community outreach and education; the purchase of equipment (such as wood chippers); and removal of dead trees or other hazardous vegetation on certain properties, such as those owned by seniors or the disabled.
- AB 3074 requires the Board of Forestry and Fire Protection to develop the regulation for an ember-resistant zone (Zone 0) within 0 to 5 feet of the home by January 1, 2023. These regulations have not yet been developed.