

COUNTY OF NEVADA
STATE OF CALIFORNIA
BOARD OF SUPERVISORS



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NEVADA COUNTY BOARD OF SUPERVISORS
Board Agenda Memo

MEETING DATE: May 28, 2019
TO: Board of Supervisors
FROM: **Ed Scofield**
SUBJECT: Letter of Concern regarding the availability and affordability of homeowners' fire insurance in Nevada County.

RECOMMENDATION: Approve and authorize the Chair to sign and submit the attached letter.

FUNDING: N/A

BACKGROUND:

California has been hit by the most destructive wildfires in the state's history in the last two years alone with the Camp Fire, in neighboring Butte County, being the deadliest with 153,336 acres burned, 18,804 structures destroyed with 86 deaths. Due to the catastrophic severity of the wildfires, insurance companies across the state are being forced to redefine wildfire risks once considered as "attritional" but now seen as "catastrophic" like hurricanes, tornados and floods in the southeast United States. To provide context to the severity of the risks presented to insurers, wildfires in 2017 alone wiped out the underwriting profits of \$12.1 billion saved from 2001 to 2016, to be used for rare catastrophic events, needed to be paid out that single year. Insurance companies can be at serious risk of becoming insolvent like Merced Property and Casualty Co. did after the Camp Fire with \$64 million in claims. Subsequently, many insurance companies are declining to renew homeowners' policies and are pulling out of the Wild Urban Interface (WUI) areas of the state that are identified as elevated or extreme high-fire danger areas, also referred to as Tier 2 and Tier 3 areas, respectively. Staff estimates that out of Nevada County's 47,283 improved parcels 21,284 and 14,775 are located in Tier 2 and Tier 3 areas. This means that approximately 76% of all improved parcels within the County are located in areas at jeopardy of losing or receiving high insurance premium hikes.

As insurance companies begin to apply different risk models to evaluate the new heightened risks of wildfires as catastrophic events, there is very little transparency and no standardization on risk modeling and how fire mitigation activities at the individual, neighborhood, and regional levels are being incorporated, if at all. An often cited programmatic model in the County of Boulder, Colorado is a home fire mitigation certification program called Wildfire Partners where the County provides home fire mitigation certification that is formally recognized via contractual agreement between the County and insurers to recognize the decrease of risk in order for rate payers to receive lower premiums. No such programmatic model currently exists in California and it is

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unclear whether mitigation variables such as fuel, surface composition, home hardening, defensible space are incorporated into insurers' risk models. Should an insurance provider become insolvent, the California Insurance Guarantee Association (CIGA) covers claims up to \$500,000. However, the CIGA limit was set in statute in 1978 and has remained stagnant since. The Senate Committee on Insurance identified that the limit may no longer be adequate to cover claims against an insolvent insurer for losses with higher replacement values.

While the issue is complex and challenging with solutions not being easily identified or implemented, the loss of availability and/or affordability of homeowners' insurance is and will continue to have a major impact on Nevada County residents and community. As such, I strongly urge the Board to approve and authorize the Chair to submit the attached Letter of Concern to the California Insurance Commissioner highlighting this important issue and requesting that County and local governments are at the table and a part of the conversation to address this issue.

Further background information is available in the supporting documents for this agenda item which include but are not limited to the Senate Committee on Insurance Update on Wildfires and Homeowners Insurance: Access and Affordability Report presented on May 8, 2019.

Sincerely,

Ed Scofield
District II Supervisor