

Resiliency and Mitigation Council

Wednesday, December 11, 2024

1:00 P.M.

I. Welcome and Opening Remarks

Director Barbara D. Richardson, Chair

General Meeting Logistics

- This meeting is being broadcast online and is being recorded.
- The recording and associated meeting materials will be posted on the Council's webpage. Comments in the chat will not be recorded.
- For Council members online, please use the hand raise feature to speak.
- Except for public comment periods, only Council members online will be able to unmute themselves and turn on their camera.
- If public comments are taken, each speaker's time will be limited to provide everyone who wishes to comment the opportunity to do so.
- To comment, fill out a speaking slip or the Google Form (if you are online).

Council Purpose and Duties

Purpose: Investigate the availability and affordability of homeowners insurance in areas of the state at risk to wildfire and strategies to mitigate property loss.

Duties: The Council will consider a number of items in its investigation, including:

1. DIFI's and DFFM's current operations and regulatory authority.
2. The prevalence and wildfires and resultant insurance losses.
3. Wildfire modeling.
4. Building codes and other construction practices.
5. Public outreach and education.
6. Available funding for wildfire mitigation projects.
7. Strategies undertaken by other states to reduce wildfire risk.

Council Objective

By December 1, 2025, the Council shall submit a report of its findings to DIFI, DFFM and the Governor.

The report will be an objective explanation of the Council's findings on the availability and affordability of homeowners insurance in areas of the state at risk to wildfire and any strategies or efforts it has examined that may or are being undertaken to reduce the risk of loss due to wildfire. The Council will ***not*** make any recommendations in support or opposition to any mitigation strategy or effort it has examined.

II. Member Introductions

III. DIFI's Regulatory Authority and the Arizona Homeowners Insurance Market

Tom Zuppan and Gio Espinosa, DIFI

DIFI's Regulatory Authority

Property and Casualty Rate Filings

- If an insurer wishes to change rates for an existing insurance product, or introduce a new insurance product, they must file the rates with DIFI.
- Rate changes are “Use and File” (A.R.S. § 20-385)
 - Rate changes may be instituted immediately; insurers must file within 30 days
- DIFI does not have authority to “approve” rate filings
- Rates must not be:
 - *Excessive* - rates must be competitive
 - *Inadequate* - rates must be sufficient to ensure solvency
 - *Unfairly discriminatory* - like risks must be rated similarly
- Statute presumes that rates are not excessive and that the market is competitive
 - DIFI has limited authority to disapprove rate filings

Rate-setting Criteria for Insurers

- When setting rates an insurer **must** consider (A.R.S. § 20-384):
 1. past and prospective loss and expense experience
 2. catastrophe hazards
 3. profit margin and contingencies
 4. investment income
 5. trends within and outside the state
 6. dividends or savings to be returned to policyholders
 7. other judgment factors
- ***Rates may be modified for individual risks*** in accordance with reasonable standards for measuring probable variations in hazards or expenses

Highlights of the Arizona Homeowners Insurance Market

Issues Facing Arizona Homeowners



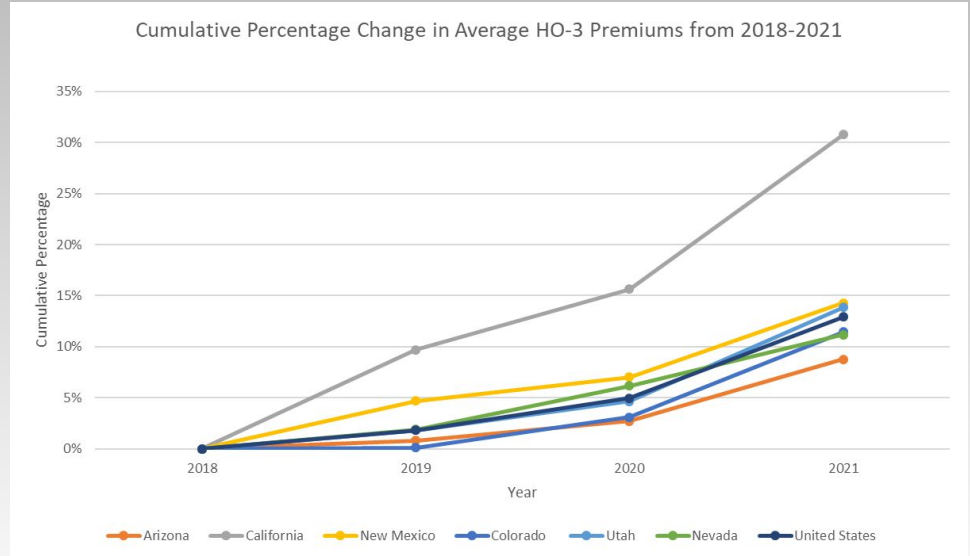
1. Homeowners insurance premiums are increasing across the state, not just in wildfire-prone areas
2. Consumers, especially in wildfire-prone areas, are experiencing non-renewals and may struggle to find coverage
3. Adequate coverage limits
4. Impact on mortgage affordability and availability
5. Increased flood risk after wildfires

Factors Influencing Rates and Availability

- Increases in the severity/number of natural disasters
 - Community preparedness and response to wildfires
 - Resiliency of the structure to fire
- Inflation and higher home values
 - Increases the cost to repair or replace covered property
 - Higher value homes require higher coverage limits
- Reinsurance cost and availability
- Underwriting restrictions
- Coverage type, limits, and deductibles

Cumulative Average HO-3 Rate Changes

- From 2018 to 2021, the average HO-3 rate increased cumulatively by approximately 9% in Arizona, compared to 13% nationally.
 - Does not account for geographic variations in rates within Arizona.
 - HO-3 represents 75.8% of the exposure and 73.6% of the HO premiums written in Arizona.



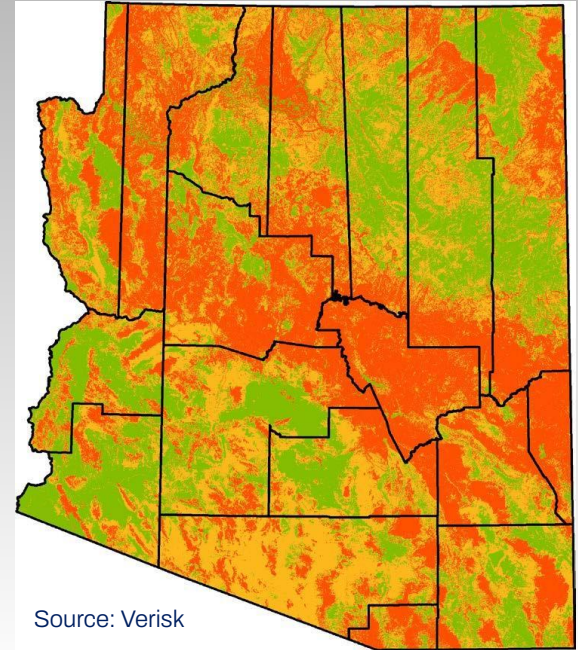
Source: NAIC, raw data – unadjusted

Factors Influencing Wildfire Risk to Homes

- Wildland-Urban Interface/Intermix (WUI) Encroachment
 - Development adjacent to (interface) and within (intermix) forested areas
- Building Codes
 - Standards to make structures more resilient to fire
 - ➔ This also includes how the land around a structure is used and maintained
- Fire Protection Services
 - Rating (PPC score) and resources of local fire fighting authorities to respond to fires

Wildfire Risk in Arizona

- As of October 2023, 5% of structures in Arizona are at high to extreme risk from wildfire according to Verisk
- Counties with high concentrations of structures in high to extreme risk zones:
 - Gila - 41%
 - Navajo - 33%
 - Greenlee - 27%
 - Apache - 25%
 - Coconino - 22%
- Legend:
 - Green - low risk
 - Yellow - moderate risk
 - Red - high to extreme risk



Construction Costs Increasing Nationally

- Nationally construction costs have increased over 30% within the last 5 years.
- Average reconstruction costs for residential structures in Arizona increased 6% from September 2022 to September 2023 (Verisk).
- Construction costs vary based on:
 - the type of residence
 - building materials
 - local climate
 - building codes/regulations

Cost Indicators: Home Insurance

Producer Price Index, Cumulative Percent Change over Five Years



Source: APCIA

NAIC PCMI Data Call

The National Association of Insurance Commissioners issued a Property & Casualty Marketing Intelligence data call in March of this year with the goal of better understanding the trends in the homeowners insurance market.

- Covers roughly 80% of the national homeowners insurance market
- Granular data, down to the zip code level
- Data for 5 years (2018-2022) is currently being reviewed and validated against other data sources

IV. An Overview of DFFM's Forestry Management and Wildfire Mitigation Operations

Deputy Director Bill Boyd, DFFM



Presentation to the

Resiliency and Mitigation Council

**Presented by Deputy Director Bill Boyd
on behalf of AZ State Forester Tom Torres**

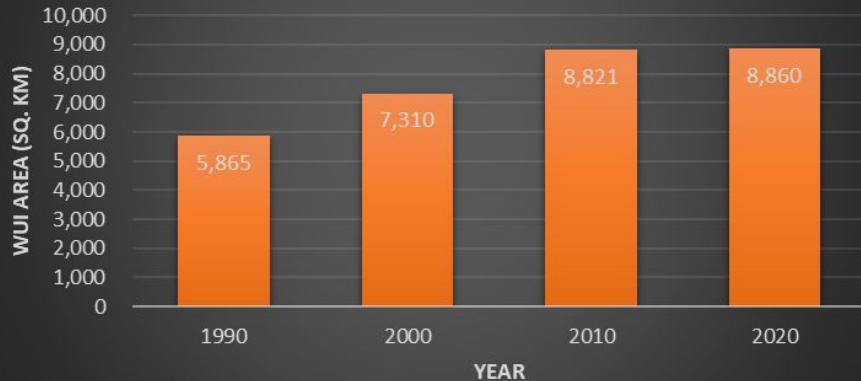
December 11, 2024

Purpose

- **Status of Wildland Urban Interface conditions in Arizona**
- **Discuss Recent Wildfire Activity & Risk**
- **Wildfire Mitigation Measures and Resources**

Arizona Statewide WUI Conditions – Area vs. Housing

AZ Statewide WUI* Area (Sq. KM.) 1990 - 2020

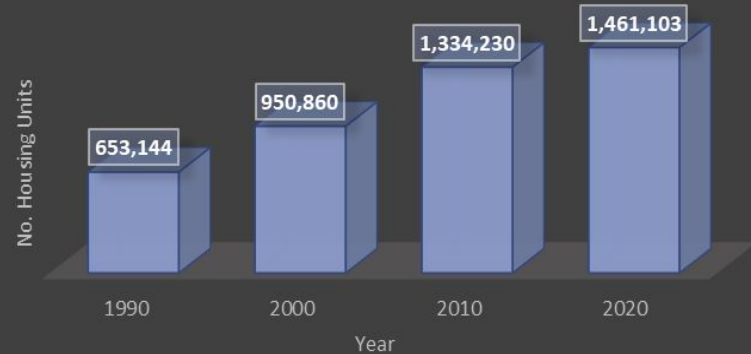


* WUI = Intermix and Intermingle

Percent Change: 1990 to 2020 = 51%

Percent Change: 2010 to 2020 = 0.4%

AZ STATEWIDE HOUSING UNITS IN WUI* AREA (1990-2020)



* WUI = Intermix and Intermingle

Percent Change: 1990 to 2020 = 124%

Percent Change: 2010 to 2020 = 10%

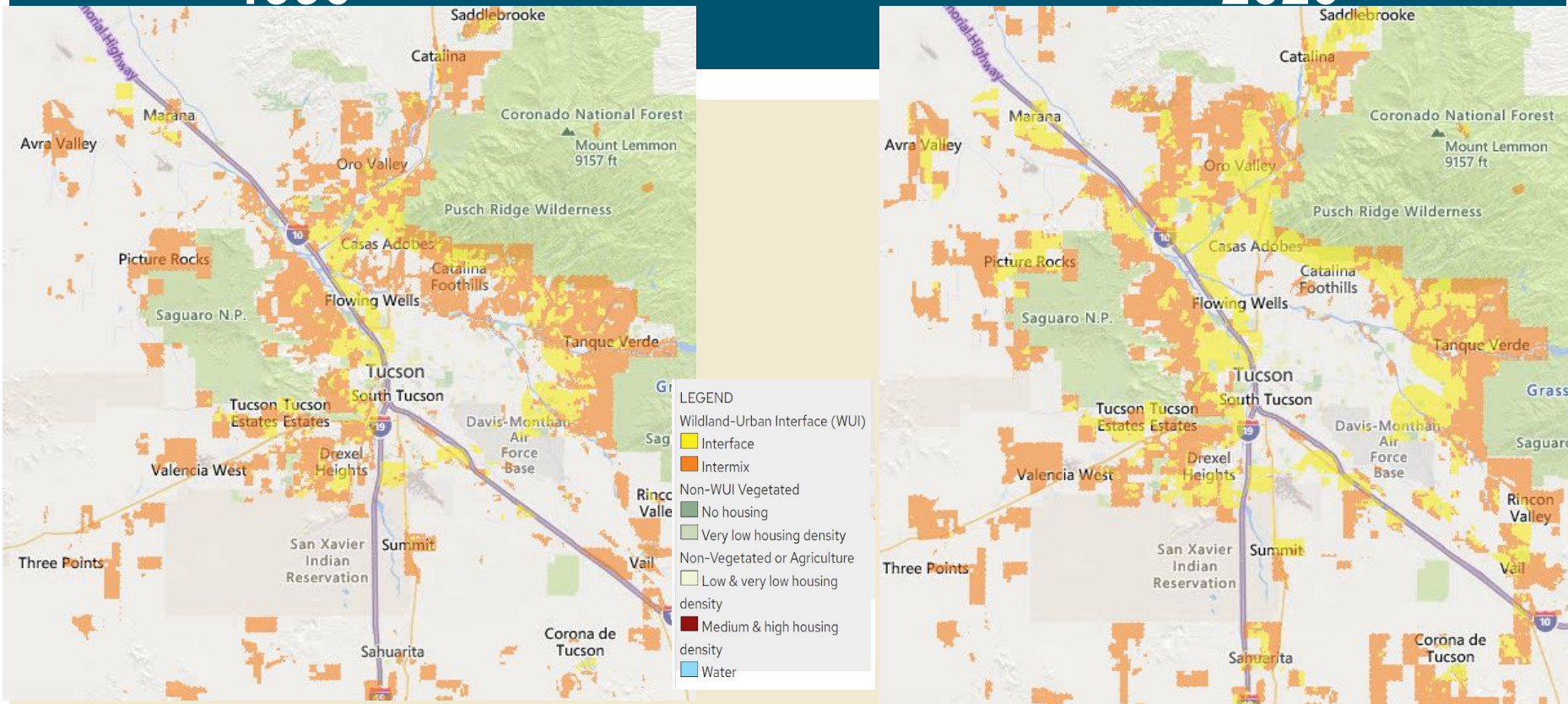
Housing Units in WUI* Area by AZ County

COUNTY	1990	2000	2010	2020	% change 1990 - 2020
Apache County	16,570	19,892	20,906	18,779	13%
Cochise County	36,243	46,268	53,654	53,834	49%
Coconino County	37,516	47,868	57,817	64,156	71%
Gila County	22,050	27,107	31,443	31,072	41%
Graham County	8,094	10,411	11,989	12,626	56%
Greenlee County	3,235	3,524	3,968	4,016	24%
La Paz County	8,329	13,129	13,529	11,345	36%
Maricopa County	201,879	319,951	490,571	565,629	180%
Mohave County	42,290	68,427	96,119	102,450	142%
Navajo County	31,195	38,790	48,696	48,726	56%
Pima County	139,703	191,645	252,319	275,133	97%
Pinal County	39,896	65,839	120,587	128,715	223%
Santa Cruz County	8,633	12,007	17,014	17,703	105%
Yavapai County	50,229	75,956	103,530	114,395	128%
Yuma County	7,282	10,046	12,088	12,524	72%
Totals	653,144	950,860	1,334,230	1,461,103	124%

Example: Tucson Area WUI Conditions

1990

2020



Source: SILVIS LAB, Univ. of Wisconsin-Madison <https://silvis.forest.wisc.edu/data/wui-change/>

Wildfire Challenges

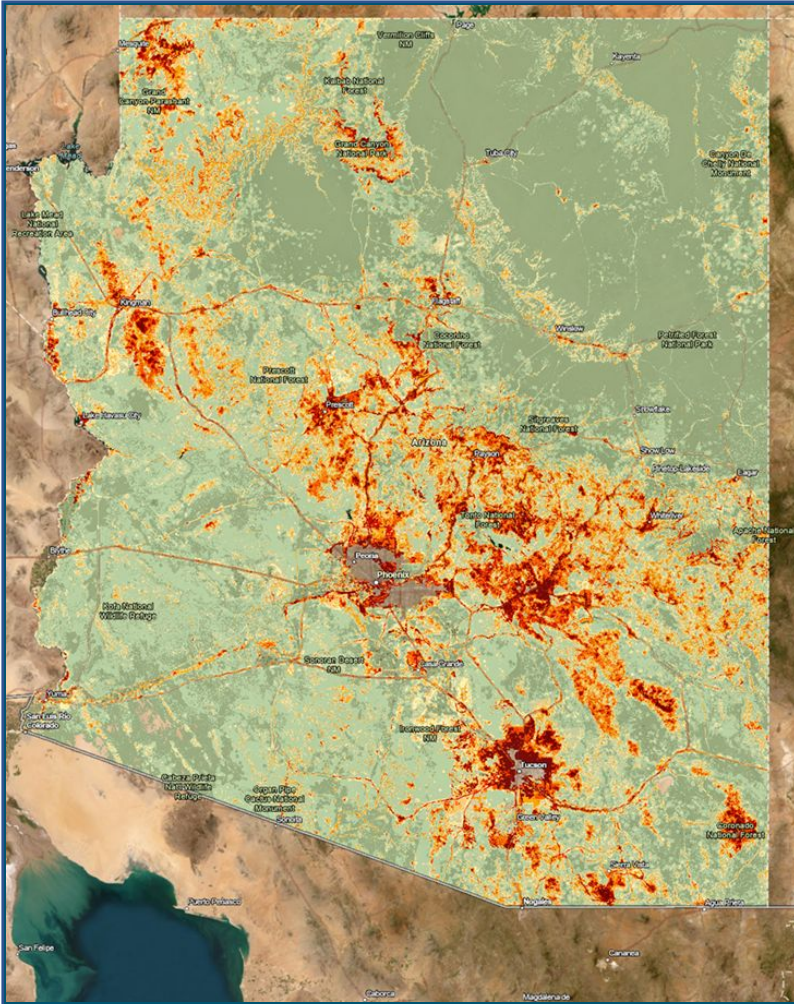
1. **Continued Growth and Development and RISK** - Expanding housing developments in fire-prone areas.
2. **Increased Wildland Fire Response Responsibilities** - of fire departments/districts – often with decreasing resources and revenue
3. **Insurance** – Affordability/Availability for homeowners and financial solvency for private providers.
4. **Changing Fire regimes** – invasive species... e.g. Grassification of the Sonoran Desert
5. **Competing Priorities for Investment** – Community Protection, Watershed health, power corridors, habitat values, Cultural Resource Values,
6. **Climate Change Impacts** – Increased Risk, Extreme fire behavior, stressed vegetation, drought conditions, higher sustained temperatures, extended fire seasons.
7. **Limited Resources** - Fire fighting capacity of local/municipal/state/federal agencies, Strain on firefighting personnel and equipment. • Budget constraints for land management and mitigation programs.
8. **Community Awareness and Social Acceptance** - Gaps in understanding wildfire risks. • Resistance to proactive mitigation measures like vegetation removal, prescribed fire or defensible space regulations.
9. **Interagency and Stakeholder Coordination**

Wildfire Risk

AZWRAP

Arizona Wildfire Risk Assessment Portal

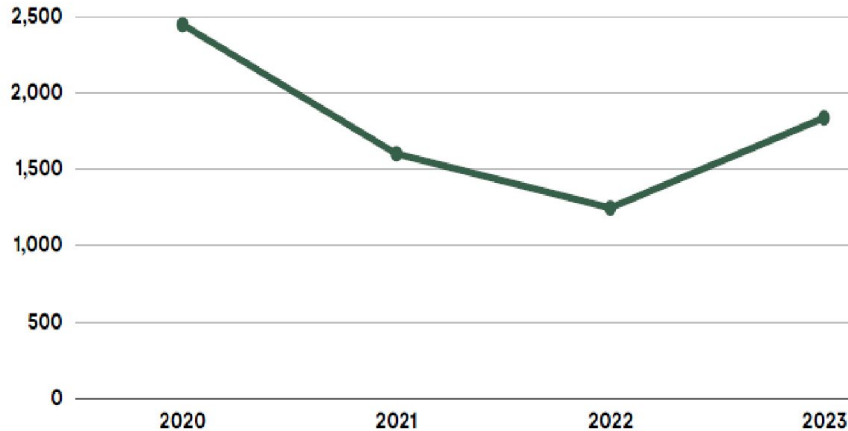
- Wildfire Risk – possibility of loss or harm occurring from a wildfire.
- AZWRAP is a key mechanism for AZ DFFM to share wildfire risk information and create awareness about wildfire issues across the state (large scale).
- Informs wildfire mitigation projects, investments and priorities with partners and communities.



Recent Arizona Fire History



Number of Fire Incidents



Five-Year Fire Data*

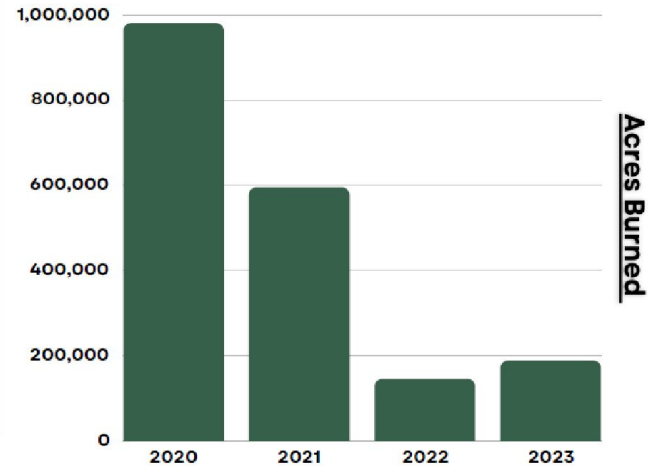
2023:
1,837 fires
188,483 acres burned

2022:
1,248 fires
145,422 acres burned

2021:
1,602 fires
595,135 acres burned

2020:
2,447 fires
980,308 acre burned

*Data is reflective of all land jurisdictions to include, State Trust, Federal, and Tribal lands, along with the Arizona Strip.



Acres Burned



DFFM Wildfire/Fire Mitigation Actions

1. Wildfire Response and Wildfire Mitigation **Capacity Building & Investments** (Healthy Forest Initiative) – Grants/Inmate Crews/Contracts
2. Increased attention to **Prevention Program** and NFPA Firewise Education
3. **Fire Code Rulemaking**: 2024 Fire Code adoption with WUI Code Appendix
4. Increased Strategic Goals for Wildfire Mitigation – **40k acres by 2026**
5. Increased coordination with US Forest Service, Corporate, and Quasi-Governmental Organizations (SRP) via **Good Neighbor Authority**
6. Increased support of **Private Industry via State Contracting**
7. Increased and sustained **Support to Local Fire Districts** - \$10 mil. fire apparatus grants
8. Investments in **Community Wildfire Protection Plans** and Implementation.
9. **Insurance Reform** Council w/ Dept. of Insurance and Financial Institutions (DIFI)
10. Increased engagement with **Partners and Stakeholders** to address wildland fire.

Wildfire Suppression Resources (2023/2024)

DFFM (State)

1 - State Fire Management Officer
1 – Deputy Fire Management Officer
1 – Asst. Fire Management Officer (Logistics)
5 - District Fire Chiefs
15 - Battalion Chiefs
5 – Prevention Patrols
8 - Fire Engines (5 Type 6 / 3 Type 3)
1 - 20 person Type 2 IA Crew (Post Release)
12 - 20 person Incarcerated Hand Crews
(240 maximum persons)
1 – Air Attack Aircraft
6 – Single Engine Air Tankers (SEAT)
3 – UAS Fixed-Wing Aviation Drones
Department of Public Safety provides
helicopter support – if needed – other LE
agencies
FY 2023 134 Qualified Firefighters
(Permanent and Seasonal Employees, w/o Inmates)

Local Cooperators*

200+ Fire Departments & Departments
2,700 (est.) Cooperator Wildland Firefighters
3,000 (est.) Fire Fighting
Equipment/Apparatus

* Via CFRA

Federal Partners**

4 Tanker Bases – VLATs, Tankers, Helicopters
Hot shot Crews
Fire Engines
Hand Crews
Prevention Patrols
Etc...

** Via Cooperative Fire Agreement
with Federal Government
USFS/BLM/BIA/Tribal/NPS



The Arizona Fire Service



FEMA



Thank You

V. Council Remarks & Discussion

VI. Public Comments

Public Comment Logistics

- If you have not done so, please fill out a speaking slip or the Google Form (if you are online) to comment.
- Online comments will be taken after in-person comments.
- Online attendees will be able to unmute themselves and turn on their camera.
- When providing comments, please first identify yourself and who you are representing, if applicable.
- The Council will not be answering any questions during the public comment period but may request that any matters presented be reviewed by Council staff or placed on an upcoming agenda.

VII. Closing Remarks and Next Meeting Logistics

Looking Ahead

In subsequent meetings, the Council will consider:

- Current on the ground risk and mitigation efforts
- Current resiliency and mitigation research
- Wildfire modeling in the homeowners insurance market
- Construction methods and building codes
- Available funding for wildfire mitigation
- Insurers of last resort and residual market mechanisms
- Any other issues the council finds necessary to investigate

Next Meeting Logistics

- The Council will meet monthly on the second Wednesday of each month.
- The next Council meeting is scheduled for January 8, 2025 at 1:00 P.M.
- The topic of the next meeting is current on the ground risk and mitigation efforts.

Contact Information

For inquiries or written comments, please contact Resiliency and Mitigation Council Staff: RMCouncil@difi.az.gov

Council Webpage: <https://difi.az.gov/resiliency-and-mitigation-council>*

* Includes a link to sign up for the Council's mailing list.