Mountain News

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Big Changes Happening In Home Fire Insurance

BY ZEV BLUMENFELD
Special Assignment Reporter

Northeast of Lake Arrowhead, stars dot the night sky above Deer Lodge Park. A breeze picks up, sweeping the aroma of black and coulter pine through the mountains. In the distance, the Pinnacles stand, still giants in the night. Yvette Marshall Page has called this "home" for 23 years. She has watched her kids graduate from Rim of the World High School and plans to do the same with her two grandchildren. She has built her livelihood here. But in September of 2019, she received a notice that her home fire insurance policy was set to nearly triple in cost, from $2,900 to $6,987 per year, bringing into question the viability of continuing life in the mountains.

"I almost had a heart attack. I started crying. I was panicking—absolutely panicking. We cannot afford that extra payment," Marshall Page said.

At the suggestion of her neighbor, Marshall Page phoned Mills Insurance. She spoke with an agent who agreed to investigate possible policy options and get back to her. Then came the waiting...and waiting. It took four days before Mills **INSURANCE/A6**

This is why fire insurance is important. HARRY BRADLEY

Home Heater Replacement

BY NICK KIPLEY
Reporter

If the South Coast Air Quality Management District (SCAQMD) had gotten its way recently, mountain residents would not have been able to upgrade their old, energy-inefficient, home furnaces and would have instead been stuck perpetually repairing them for the foreseeable future. However, local HVAC contractors quickly shot down the idea by working together and confronting the regulatory bureaucracy just two days after the rule officially went into effect.

The amendment to longstanding rule AB1111, which was slated to go into effect on Oct. 1, was set to slap consumers with a Cuba-like mandate that would have prevented HVAC contractors from installing new furnaces in the homes of their Mountain-dwelling clientele. This is because AB1111 states that HVAC contractors who fall under the SCAQMD's jurisdiction must install ultra-low nitrous oxide (ultra-low NOx) emitting furnaces from now on. At the time of press, no manufacturers have produced or tested an ultra-low NOx furnace that works above 5,000 feet. This means the new rule to AB1111 would have made it illegal for HVAC contractors to install working furnaces in the homes of people living in mountain communities. This ruling would have gone into full-effect were it not for a meeting that took place between SCAQMD members and mountain HVAC contractors on Oct. 3.

"No furnace manufacturer currently produces a furnace that meets the ultra-low NOx emission standards that works above 5,000 feet," said one contractor, who chose not to be named. "The new rule makes it so that it's illegal to install any furnace that doesn't meet these standards. You can repair your old, inefficient, furnace though. So it's crazy. It's like the DMV saying 'You have a 1955 car and you want a new one? Too bad, fix your old one!' Luckily we came up with a working solution with the [SC]AQMD."

In the past two years, SCAQMD has used an amendment to longstanding rule AB1111 to levy a "mitigation fee" on consumers who chose to install furnaces that didn't meet ultra-low NOx emissions standards. The SCAQMD originally put these mitigation fees in place back in early 2018 to encourage HVAC manufacturers to rapidly produce a furnace that is compliant with the ultra-low NOx emission standards, but the fee was inevitably passed from the manufacturer to the consumer. This meant that consumers who bought a furnace for a home above 5,000 feet between 2018 and 2019 paid a one-time mitigation fee because their new furnace didn't abide by ultra-low NOx standards.

"Every single person who lives in the SCAQMD district who has replaced their heater in the last two years has paid between $200 and $400 in mitigation fees," the same unnamed contractor said. "All of my estimates over the past two years have had two line items: here's the cost of the furnace you just bought, here's the cost of the mitigation fees, here's the total out the door. In the past two years [AB1111] has collected probably about $20,000 from my customers alone."

As of Oct. 1 however, rule AB1111 made it completely illegal for HVAC contractors to install heaters that didn't meet ultra-low NOx emissions standards, despite consumers paying the mitigation fees. Since the current ultra-low NOx furnaces don't work above 5,000 feet, this means that residents of mountain communities who fall under the SCAQMD's jurisdiction are not able to legally buy a new furnace under the new ruling.

"I don't wanna install these (ultra-low NOx) furnaces because I don't think they're appropriate or safe to install in my customer's homes," the anonymous contractor said. "I think the manufacturers had to rush production of these (ultra-low NOx) furnaces because they had to comply with [the SCAQMD's] regulations. It's possible [manufacturers] didn't do the proper [research and development] because the furnaces don't work above 5,000 feet. If we're putting in faulty equipment that may or may not work properly, that's a bad, bad, bad solution to my customers in Lake Arrowhead who don't want their houses to freeze during the winter. Most people don't shut their heaters off all year long so their pipes don't freeze and burst and flood their house"

However, the meeting between HVAC contractors and the SCAQMD on Oct. 3 came to a resolution that allows HVAC contractors to file an 'enforcement discretion request' on the SCAQMD's website. Contractors are required to submit their enforcement discretion request at least five hours before equipment installation and the SCAQMD said that they will reply within the same business day with an authorization. The service runs 24/7 so that emergency requests can be made at night too. These enforcement discretion requests allow HVAC contractors to buy illegal equipment, legally.

Contractors are also legally allowed to stock furnaces under this new agreement since it was decided in the meeting that the need for an enforcement discretion request only goes into effect once the new furnace is installed.

HVAC contractors, distributors, and manufacturers are currently working to get a proper variance for altitude on rule AB1111 so that things can return to "business as usual," as quickly as possible, but the earliest that could happen would be early next year.

Dry, Windy Weather Prompts Power Shut-offs

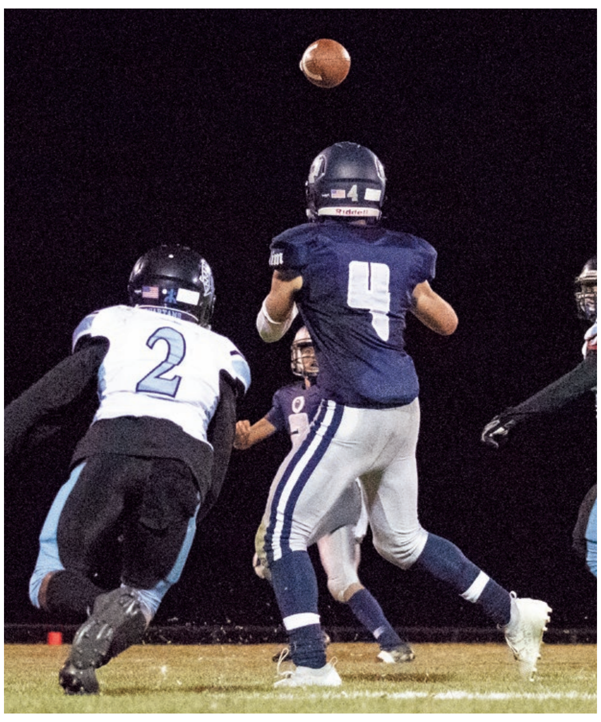
BY ZEV BLUMENFELD
Special Assignment Reporter

A "Red Flag Warning" has been issued by the National Weather Service for the mountain communities. The warning will be in effect from 3 a.m. on Thursday, Oct. 10 through 6 p.m. on Friday, Oct. 11. Winds will develop in the San Bernardino Mountains around midnight, reaching 20 to 35 mph with gusts up to 50 mph. The Cajon pass will likely see gusts up to 70 mph. Blustery conditions and low humidity will create a dangerously dry environment. These predictions have prompted Southern California Edison to issue power outage alerts across the mountain communities.

At the time of print, Lake Arrowhead Village, Toptown and downtown Crestline are not within the Edison outage boundary.

Low humidity is expected to continue into Saturday, though winds are expected to weaken.

A "Red Flag Warning" means warm temperatures, very low humidities and stronger winds are expected to combine to produce an increased risk of fire danger.



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INSURANCE

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returned with a two-part solution: the California FAIR Plan with a "wrap-around" or Difference In Conditions (DIC) policy through Travelers Insurance. The total? $2,800.

Marshall Page's story may sound surprisingly familiar to homeowners in the mountain communities, many of whom have seen their premiums double or triple in 2019. Others have been outright cancelled by the very companies with whom they have been customers for decades. Meanwhile, local insurance agents are scrambling to find and write policies in a dwindling market. Those afflicted by the changes have been left astonished, questions piling up and concern growing as they stare into the fire insurance quagmire.

So where did this all begin? What prompted the rate increases and cancellations? According to various agents in the Lake Arrowhead community, home fire insurance prices have been steadily climbing for the past three to four years. So what prompted the sudden spike?

HELL IN PARADISE

On the morning of Nov. 8, 2018, high winds, dry conditions and a faulty electrical grid led to a hellish inferno that engulfed the town of Paradise, CA. The fire became the deadliest and most destructive wildfire in California history, destroying over 10,000 single-family homes and taking 85 lives. While the utility company Pacific Gas and Electric (PG&E) was held liable for the fire, insurance companies have since become fearful of conducting business in "high-risk" and "extreme wildfire risk" areas.

"It was the straw that broke the camel's back," said independent insurance broker, Craig Coston, who credited Paradise and other California wildfires between 2016-2018 as fueling concern among the insurance companies. Coston has seen the rates of his customers double, triple or quadruple in recent months. He feels helpless, and as a long-time resident of the mountain community, voiced his concern.

"One of my most disastrous areas right now is the (Lake Arrowhead) Villas," Coston added about the insurance prices. "Those small houses have tripled — easily tripled."

Some homeowners have been dropped from their policies entirely. Farmers Insurance customer and mountain resident, Angela McCaskell experienced this firsthand.

"It's a little frustrating. I've been with them since 2008, so you'd think that they'd be calling," McCaskell said after Farmers did not return her call.

Meanwhile, agents have been swamped with work. Many like Coston have elected not to take on new customers. Others like Eric Price and Joshua Jenkins of Farmers Insurance are continuing to write, primarily through something called the California FAIR Plan (FAIR).

"Farmers, they're not cancelling all of their policies on the mountain, just a real large portion, unfortunately," Price said.

INSURERS OF THE INSURERS

The decision to discontinue business in the mountain communities goes deeper than the insurance companies. Many current and former insurance professionals interviewed by the Mountain News have pointed to reinsurance companies — insurers of the insurance companies — as the parties behind the decision. Reinsurers protect insurers from bankruptcy after a catastrophe like the one experienced in Paradise. Sometimes they are at the mercy of hedge funds and are called, "Hedge Fund Reinsurers."

"These reinsurance companies are now having to foot the bill for hundreds of millions and/or billions of dollars. Those reinsurance companies told Farmers [and others] that if you want our policies again, you're going to have to get rid of quite a bit of fire policies in these "high-hazard" areas," Price said.

"A lot of the reinsurers got together and said, 'We're not going to support this anymore unless we cut out the fire side of things. We'll help you with everything other than fire, but we're not touching fire,'" Jenkins said.

Coston spoke of how reinsurers made the determination to pull out.

"It's really a factor of density — how much burnable material is in an area."

Whether the price of one's policy stays the same, goes up or gets cancelled, boils down to a simple score determined by an algorithm — and in some cases even neighbors might have completely different results.

FIRELINE SCORE

In 2013, Verisk Analytics — a data analytics provider — created the Insurance Services Office (ISO) and implemented a scoring system known as the "FireLine" score. Three factors determine the score of a residence: Fuel — the vegetation growing within a mile of the home; Slope — the grade of the land on your property; and Access — the ease of accessibility for emergency first responders, including your proximity to fire hydrants. Dead-end roads or roads not frequently maintained will raise your score. Four-12 is considered a "high fire risk" area, while 13-30 is considered an "extreme wildfire risk."

"The score is based on a very simple formula: slope times fuel plus access," independent broker, Shelli Wimmer said. "The slope isn't going to change and most likely your road will not. The fuel is the largest variable."

However the score is far from perfect. Coston saw a homeowner near Saint Bernard Lane get non-renewed by a company, even though the homeowner's family member living a block or two away had the policy renewed by the same company. Wimmer witnessed her own score jump from six to 12 in 2015. She investigated the reasoning behind the surge, but never received a satisfying answer.

Don't let this happen to you. HARRY BRADLEY

The Special Hazard Interface Area (SHIA) is also taken into consideration. SHIA identifies properties that border areas with elevated FireLine scores. SHIA assesses the likelihood of a home being exposed to wind-borne embers and high heat from nearby fuels.

"It's not consistent; it's not accurate." Wimmer said, "So that system needs to be revamped."

WHAT IS "FAIR?"

High FireLine scores translate to fewer options in fire insurance. Like Marshall Page and McCaskell, many homeowners and agents have found the California FAIR Plan (FAIR) to be the only option.

But FAIR is shrouded in misinformation.

Developed by the California FAIR Plan Association in 1968, it was intended as insurance of "last resort." Their website states that, "FAIR is a security option for those who, beyond their control, have been unable to obtain insurance."

The association is not a governmental agency, but an organization comprised of member insurance companies. Think of it as a potluck of insurance. Theoretically, each company pitches in food (capital and surplus) and later, anybody who needs food may eat. The homeowner gets insurance backed by the member companies of FAIR. If a fire damages the home, then the policy will pay out.

But there are caveats to FAIR — take the $1.5 million cap on coverage. If your home is valued at or above $1.5 million, or your house is valued less but the items inside bring it to more than $1.5 million, then you will not qualify. Homes that have been vacant for more than a year will not qualify. Damaged homes do not qualify and must be repaired in their entirety.

Another caveat is the extent of its coverage. FAIR does not cover perils like liability, water damage and theft. Therefore, homeowners must use a broker to find Difference in Conditions coverage (DIC), also known as a wraparound plan. DIC plans supplement the portions that the FAIR Plan does not cover. In Marshall Page's case, the wraparound-FAIR Plan combination was affordably priced.

Rick Dinon, a former senior vice president of an insurance company and 34-year industry veteran, recommends that people looking for insurance make sure their agent is well-versed in the California FAIR Plan.

"Make sure you have a total evaluation of your property that, in case of a loss, you're properly insured," Dinon said.

"The Fair Plan was based as a policy of last resort with minimal barebones coverage," Wimmer said. "(It) shouldn't be banged on for what it isn't, we should appreciate it for what it is. But know that you have to have a second policy along with it…"

WHO'S WRITING?

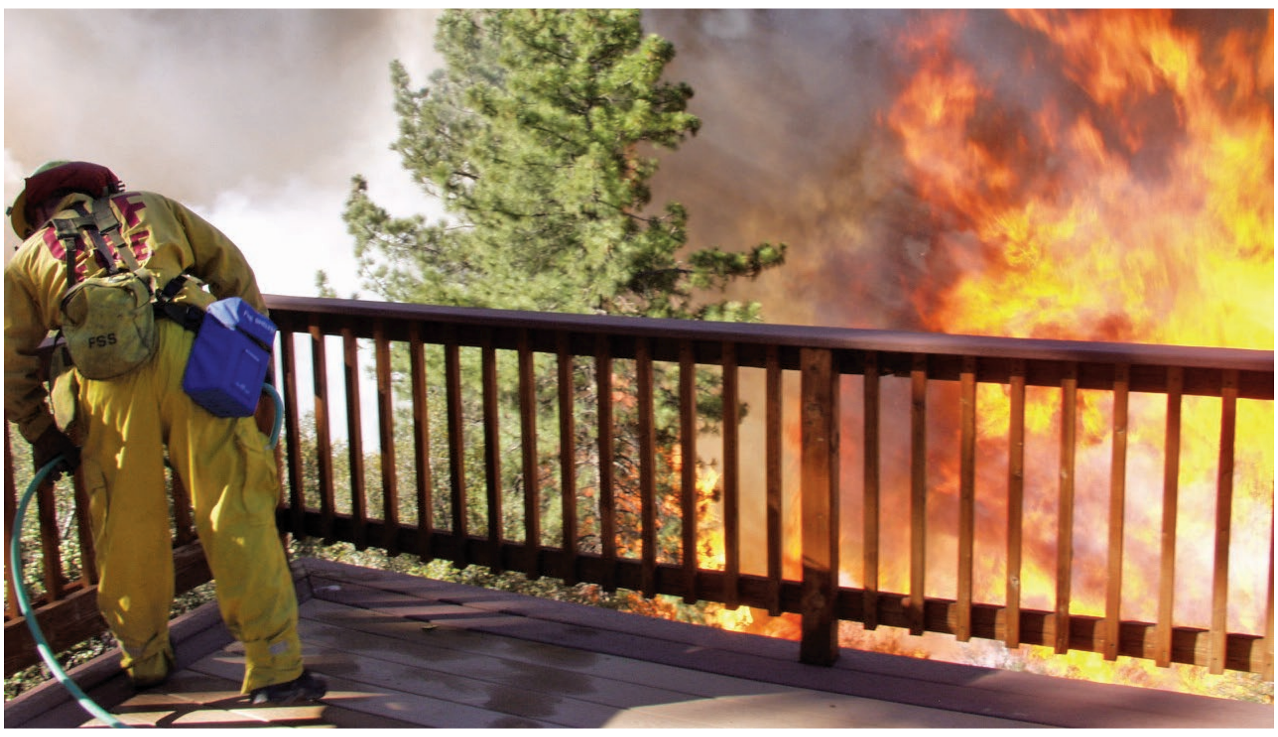
Affordable alternatives to FAIR are miniscule.

"Right now, a lot of it is coming down to the California FAIR Plan for the fire portion," Price said. His agency had only heard of a couple other agencies currently writing policies in the mountains. Wawanesa has written policies for homes that fit very specific conditions. United Services Automobile Association (USAA) and Travelers have written for some and not for others.

Marshall Page, whose husband is a military veteran, contacted USAA. They refused to insure her, stating that she's in a "high fire zone."

Luckily, FAIR is an "admitted" carrier — a company backed by the California Department of Insurance.

Wimmer and Price advise people to use caution when it comes to choosing between admitted and non-admitted carriers.



Protect your home and assets. HARRY BRADLEY

"If there is a catastrophe like Paradise or Santa Rosa and a company goes bankrupt because the losses are so big, and they're (using) a non-admitted company, then the insured doesn't have any recourse," Price said.

THE FUTURE OF FIRE INSURANCE

In April of 2019, the California Fair Plan Association raised its rates for the first time in eight years, according to Wimmer.

"They said 20 percent, but most of (my customers saw) 26-27 percent increases," Coston said.

On Sept. 23, the Mountain News asked the California FAIR Plan Association if they anticipated another rate increase.

In an email they responded stating, "A rate analysis is being conducted right now and we will know more in less than a month."

With a boom in clientele and no plan to limit their customer pool, the association could raise rates without much consequence.

Changes to the $1.5 million cap are also coming.

"We are targeting a 4-1-2020 effective date for a $3 million limit, twice that (of) what we write today," stated the FAIR.

Some agents hope the limited options will be a phase and with calmer fire seasons, reinsurers and insurers will cover the mountain communities in the future. Others aren't as optimistic.

"The longer term impact is in housing values and the ability to attract new people to the mountain community," Dinon said. "I think that areas with lower earning demographics are going to be impacted to a greater degree, simply because people don't have the financial resources. To respond as readily to sharp increases in premiums."

Ray York, a Running Springs resident affected by the increases, offered a possible solution to the problem — if insurance companies want to do business within the state of California then they should be required to designate a percentage of their budget towards high-risk areas.

"I thought this was a pool," Coston said, speaking from the perspective of a concerned community member. "How come Garden Grove or San Fernando Valley get incredibly cheap rates. Isn't it supposed to be a pot?"

On Sept. 26, Marshall Page and Gus Gevers organized a town hall-style meeting to discuss the fire insurance issues with members of the community. The event and led to the inception of the Facebook group the Mountain Homeowners Insurance Advocacy Group. Wimmer attended the meeting urging everybody to bombard their government representatives with factually-driven written letters.

MISSING IN ACTION

Dinon points out that individual insurance companies are constrained by antitrust laws. These laws prohibit companies from speaking with one another in order to prevent collusion. However, California Insurance Commissioner, Ricardo Lara has the option of sponsoring a meeting between the insurance and reinsurance companies. With Lara mediating, a plan could be developed and refined.

Lara was initially scheduled to address the mountain community in early September, but the visit was postponed indefinitely. At the Lake Arrowhead Municipal Advisory Council meeting on Oct. 3, District Representative Lewis Murray, from Second District Supervisor Janice Rutherford's office, said the supervisor was "trying to work on that."

"It seems like the can keeps getting kicked down the road," Murray said. "Originally, (Lara) was going to come in September. But then they gave us some dates in October. So the elected officials (Senator Mike Morrell, Assemblyman Jay Obernolte and Representative Rutherford) selected the dates that would work and submitted them. Now they're saying they're maybe going to come (in) December and maybe they're going to want to meet with everyone down in San Bernardino."

At the time of press, no date or location had been announced.

"People are so, so disgusted with the state of California and nothing getting done at the insurance department level," Coton said.

Dinon echoed this sentiment.

"Commissioner Lara has been very silent on what actions his department is taking to mitigate this issue," Dinon said. "I find that disappointing."

From the insurance agents to the homeowners who wait in flux, unsure of their next move, the mountain community anxiously hopes for a solution.