

2025 January FDD Insuring against Fires

Jon Stavney

Devastation in CA: It could happen here

Defining fires as “wildfires” or “urban” or in the Wildland Urban Interface appears to be a thing of the past. As risk skyrockets alongside the costs, it begs several wicked questions for insurers, for individuals and for state and local officials to consider. Can any places with extreme drought and high winds really be safe? Can massive fires in neighborhoods be mitigated without completely revamping our land planning and building practices? Can we be honest about the limitations of mitigation and the capabilities of water systems and firefighting? How much are we willing to pay to rebuild in places where high risk cannot reasonably be mitigated?

It’s shocking how few people we’ve learned so far have perished in the massive California wildfires. The scale boggles the mind. News covers finger pointing leaders. This misses the question of whether such a fire is preventable at all. It obscures the fact that Job #1 was done extraordinarily well. The evacuation was amazingly smooth. I trepitate over the scale of total structures demolished ([approaching 20,000 residences](#)) more than the miraculously few lives lost (approaching 30). The Palisades and Eaton wildfires around Los Angeles have conflagrated with Santa Ana winds that are forecast to whip up again. It feels too close to home here on the West Slope of Colorado where massive fires have become the norm.

Blame casting misses the larger implications: our infrastructure, response systems and financial models were not designed to address the scale of what is happening there. It wouldn’t be different here. For each major weather event that increase in frequency and intensity ([NIH](#), [USGS](#), and the EPA), there is an corresponding insurance event. The Colorado Sun reports that for [each dollar earned, insurers lose \\$1.15](#) here, and that premiums are up 60% in five years. Worse, insurers are beginning to non-renew. The U.S. government provides disaster relief because if we allowed every community devastated each year to not recover, the cumulative cost to our economy and society for so many failed places, displaced and suffering people would be magnitudes worse. For all the chatter about FEMA and Federal Disaster Relief, that is just to address the immediate situation and a limited portion of the recovery. The costs fall hardest upon states.

Like California, Colorado has stepped up to be an insurer of last resort. Meaning that if it didn’t “re-insure” large carriers and provide public insurance some companies would leave the state, and many residents soon could not afford insurance at all. This cascades to the ability to get a loan, avoid bankruptcy and homelessness after a major event. This also

seems like a recipe for financial insolvency with the constraints on both states budgets which voters have imposed. Colorado as a [state ranks 6th in the rate of homeowner policies being non-renewed](#). Leslie Kaufman, a reporter from Bloomberg Business discusses the implications nationally of the L.A. fires, and of California's insurance of last resort which has "[a half a trillion dollars of risk on the books](#)" already. [The video](#) is worth a watch. When asked if there is a place in the U.S. that doesn't have much risk for natural disaster, she suggested "the great lakes region... maybe." The conversation on Amanpour and Company got to some of the most uncomfortable questions such as; should land owners even be allowed to rebuild in high-risk areas with public support. It is a question not yet on the table, but soon to be. It is difficult to imagine any lawmaker wanting to tackle that one. Besides, wildfires, and now massive "urban fires" which we thought were a thing of the past—vast, dense tenements built of wood without sprinkler systems or firefighting infrastructure—que the Dalmatians, the Cow and the lamp—today, our improvements to those days are not standing up as events intensify and are less predictable. They also seem to be extending far beyond those places with a history of wildland fire, hurricanes, tornados, or geologic disasters.

With fire protection, homeowners wildly overestimate the system's ability to protect neighborhoods against catastrophes. Take the [Marshall Fire where](#) that started in a particularly dry and windy December day and progressed through neighborhood so rapidly that local fire agencies had no chance to mobilize or get ahead of it. Three years later only 2/3 of homes are rebuilt and insurance payouts average \$100,000 less than actual costs

There is no avoiding the increased risk- physical or financial. Taxpayers are on the hook at all levels of government and are paying much more than they may realize locally for fire protection. It is not just the property taxes going to the local fire districts they pay. Not incidentally with the [SB24-194](#) trojan horse last spring, special districts now have the power to levy impact fees without a vote, and for the first time can add sales tax, read the [CML January newsletter](#) (p. 7). It is difficult to say no to firemen, much easier to say no to new property taxes that would provide the infrastructure they need, most of which is supplied by a municipality and water district. That law is going to be a major headache for cash-strapped municipalities who were left out of the discussion and will ensure fire districts bypass any local government collaboration when it comes to fees and taxes. There will be more shiny trucks and equipment because Special Districts are famously non-transparent, often passing property tax increases with only a handful of voters because the vast majority of voters were never made aware there was a vote. Real reform would be to make all special districts only have elections with general elections in November and to force entities who provide the trucks to talk to the people who supply the water systems with those who approve the land uses. Colorado may have some of the

lowest property taxes in the nation, it is also one of the more handicapped states when it comes to tax reform. That doesn't mean people here believe there is capacity for additional taxes. [The Wall Street Journal reports that 9% of homeowners, up from 4% \(2014\) now have more than half of their monthly mortgage payment going to Homeowners Insurance and Property Taxes](#), which is a trend the WSJ says has no sign of reversing. This is especially impactful to those on fixed incomes and in retirement, but it also impacts midlife, middle-class households like my own where our monthly payment is \$1,200 to principal, \$1,400 to interest (2.99%) and \$1,800 to Escrow for property taxes (\$600) and home-owners insurance (\$1,200). In other words, we are paying the same amount for insurance as our principal at this early point in our mortgage.

I was also once on a town board and even then, 20 years ago, struggled at the cost of our water system, and the fact that most of our storage tanks, even the 1M and 2M gallon ones were close to 50% oversized to meet NFPA firefighting emergency storage requirements. That is a lot of extra capacity to fund. I was also stunned to understand that ours, like most fire districts don't have the resources to fight more than one structure fire at a time without mutual aid. Many neighborhoods served by a single tank have water pumped uphill which limits supply and is reliant on power. Those oversized tanks were part of overlapping systems for all that extra capacity were built to fight only two or three residences at a time. Perhaps the ratios are a bit different now, but the general point stands: there are massive gaps between capabilities and expectations, and no one is looking at the problem wholistically. If they did, they would balk at the actual cost of increasing capacities as risks rise.