Fighting Fires With "Forest Resilience" Bonds.

The rocky Yuba River meanders in a remote corner of California. It's here that insurers, environmentalists and venture capital firms are joining forces to create a "Forest Resilience Bond" aimed at solving a multibillion-dollar problem plaguing the wildfire-ravaged state.

Nearly 100 people have died and 1,000 are unaccounted for from the two most recent mega-fires, both of which remain active. And in what the Association of International Fire Chiefs now calls "a year-round fire season" for this and other tinderbox states, more destructive blazes are all but a certainty.

One major factor behind the fires: an overabundance of dry brush from a seven-year drought and millions of dead trees from an influx of bark beetles – none of which is cleared away until a campfire spark or downed power line ignites these fuel-rich forests. Meanwhile, the money budgeted for forestry conservation or to hire more firefighters often pays instead for paramilitary equipment, such as airplanes and helicopters.

Funding for forests

Enter Blue Forest Conservation. The startup, launched by University of California, Berkeley business school graduates and backed by the World Resources Institute, works to raise money to save the forest through a public-private partnership. To do so, it created the first "Forest Resilience Bond."

"There are 58 million acres of forest at high risk of wildfire in the U.S.," said Linc Walworth, vice president of investments for CSAA Insurance Group, one of the bond's backers. "If the concept works, there will be lots of opportunity for forest restoration bonds, and they could become a permanent source of financing for our forests."

A $4 million bond is small relative to the massive economic losses caused by infernos such as the "Camp Fire" in Northern California and the "Woolsey Fire" around Los Angeles, but it could be seed money for what is to come. Blue Forest's goal is to shift the financial burden of preventing fires from the state's overtaxed fire and forestry services to private industry. The California fire agency has already exhausted its $443 million budget and needs another $234 million to continue the fight.

The bond works by tapping private capital to maximize forest restoration without stressing the already overtaxed state budget. CSAA, along with an investment firm and two foundations, will fund the investment. The National Forest Foundation will use the bond to hire private contractors to "thin" the forests by cutting down trees, perform "controlled burns" and trim brush that could fuel fires in the 15,000-acre Tahoe Forest above the Yuba River.

The money will be repaid over five years by the Yuba Water Agency, a public utility, and though a grant from California. The utility benefits from cleaner water. Its hillsides, ravaged by fire erosion, are also prone to flooding because scorched soil lets water flow downhill unimpeded. The state benefits because the work will be done in less than half the time it would take the state forest service to do it.

Forest resilience bonds could also amount to a good deal for investors. CSAA will provide $1 million, while The Rockefeller Foundation, the Gordon and Betty Moore Foundation, and a unit of Calvert Investments (a fund known for so-called responsible investing), will contribute the rest. They will realize a 4 percent return on their investment, better than the 3 percent from an average bond.

Getting insurers on board

As an American Automobile Association insurer, in theory CSAA will get an additional bonus: fewer payouts on property claims from fire damage.

Insurers will have to pay an estimated $13 billion this year to repair and replace homes and businesses burned in the California fires. As a result, Walworth said it makes sense for big property insurers to get involved once they see that the small pilot program works. “If a market develops for these types of bonds, we think other insurers will see the benefit in making similar investments,” he said.

In 2017, California set a state record, with more than 9,000 fires torching 1.4 million acres, burning down 10,000 homes and killing 47 people. This year will be much worse, topping all previous statewide disaster costs.

President Donald Trump, who visited the fire-ravaged state on Saturday, has been critical of its forest management, even threatening to withhold federal funds. “They should take a lesson from Finland, where they do a lot of raking and cleaning… and they don’t have this problem,” he said in visiting Paradise, California, a town devastated by the Camp Fire.

So does it make sense for big insurers like Allstate, Geico and State Farm, which have billions invested in California, to help underwrite bonds or other investments meant to fund the protection of forests? As of year-end 2017, the property casualty insurance industry’s “policyholders’ surplus” – the amount of money available to pay claims – reached an all-time high of $752.5 billion, up more than $50 billion from the year earlier and at its strongest level in history.

“The industry is extremely well capitalized and financially able to pay very large-scale losses in 2018 and beyond,” according to a statement by the Insurance Information Institute, which represents the industry.

Or, as Blue Forest suggests, it could join forces with other private investors and – just possibly – cut those losses.

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