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November 2018 Wildfires Consolidated Debris Removal Program Insurance Fact Sheet (12/13/2018)

As a result of the recent wildfires, local, state, and federal agencies have initiated a consolidated debris removal program. This action was taken due to the health and safety concerns associated with hazardous substances, ash, and other materials. Homeowners are being asked to sign a Right of Entry form in order to participate in this program. If the homeowner agrees to participate in the program and signs the Right of Entry Form the consolidated debris removal program is being done free of charge, whether the property owner is insured or not insured. If the property is insured, there will be no reduction in the homeowners' coverages available for the rebuilding process.

As noted in the Right of Entry Form, if the homeowner has insurance in effect at the time of the wildfire that provides specified coverage for debris removal (i.e. a certain dollar amount or percentage), the homeowner authorizes that these specified debris removal benefits be paid directly to County up to the specified amount of coverage, after which the homeowner will not be liable for any further costs to County. In the event that coverage for debris removal are not provided on the basis of a specified amount but are included within another coverage category, payment to County shall be limited to the unused benefit amount (if any) in that coverage category after the residence is rebuilt, after which Owner shall not be liable for further costs to County. The benefits of this program would apply even if the homeowner decides not to rebuild in the same location but purchases a replacement home in another location.

Homeowners' (HO) insurance policies cover costs for debris removal in a few different ways. You should consult your specific insurance policy to determine how debris removal benefits are paid. The most common type of HO policy will have (up to) three separate major coverages applicable to debris removal:

Coverage A (Primary Structure): Cost to rebuilt or replace the primary structure.

Coverage B (Other Structures): Cost to rebuilt or replace other structures including detached garages, sheds, etc.

Coverage C (Contents or Personal Property): Cost to replace personal property.

In addition to debris removal benefits that can be paid from the above coverages, many HO policies provide a specified additional benefit for debris removal. The most common HO policy will add additional debris removal coverage of 5% of the policy limits for Coverage A, if Coverage A limits are exhausted (used up) for the actual rebuild costs. Some policies also have additional coverage of 5% of the policy limits for Coverage B and for Coverage C.

Under these types of policies, FEMA, state and local governments (in order to avoid a duplication of benefits) would only require the County to collect up to the additional specified coverage amounts for debris removal (i.e. 5% of Coverage A, plus 5% of Coverage B, plus 5% of Coverage C). This would leave the primary coverage limits intact for the rebuild.

Example 1: Typical HO Policy with Specified Additional Debris Removal Benefits:

| Coverage | Coverage Limits | Specified Additional Debris Removal Coverage |
|---|-----------------|--|
| Coverage A: Primary Structure | \$200,000 | (5% Cov A): \$10,000 |
| Coverage B: Other Structures | \$20,000 | (5% Cov B): \$1,000 |
| Coverage C: Contents | \$100,000 | (5% Cov C): \$5,000 |
| Total Direct Coverage Available for Debris Removal (Amount to be paid to County) | NA | \$16,000 |
| Sample Debris Removal Cost* | | \$75,000 |
| Deficiency (Homeowner not liable for this deficiency only if they go through the Consolidated Debris Removal Program)** | | \$59,000 |

* The Average Cost for Debris Removal from the Valley and Butte Fires was about \$115,000 per property, so \$75,000 is a very conservative cost, even if the work is done by a private debris removal company (assuming they have all the permits, licenses, plans, equipment, and environmental clearances). Also, an insurer would not be expected to pay an unreasonable amount for debris removal costs.

** If the insured does NOT go through the consolidated debris removal program, the \$59,000 deficiency would erode the insured’s primary coverage limits, leaving less money to rebuild. Typically, the insurer would deduct the \$59,000 from Coverage A (Primary Structure), leaving the insured (in this example) with only \$141,000 to rebuild the Primary Structure.

Example 2: Less Common Type of HO Policy: Another type of HO policy has less coverage than the above scenario and does not provide for an additional specified debris removal coverage. In this case, as noted above, attempting to collect debris removal costs would erode most of the Coverage A, B and C limits leaving very little for the property owner to rebuild (i.e. underinsured). However, under these policies, FEMA, state, and local governments will only seek to collect from these types of policies if (after the property owner rebuilds or replaces the home) there is coverage left over in any of the Coverages A, B, or C (that have debris removal benefits). For example using the same coverage limits as above:

| Coverage | Coverage Limits | Coverage Used by Insured to Rebuild | Amount Available for Consolidated Debris Removal |
|---|-----------------|-------------------------------------|--|
| Coverage A: Primary Structure | \$200,000 | \$200,000 | \$0,000 |
| Coverage B: Other Structures | \$20,000 | \$18,000 | \$2,000 |
| Coverage C: Contents | \$100,000 | \$ 93,000 | \$7,000 |
| Total Coverage Available for Debris Removal (Amount paid to County) | NA | NA | \$9,000 |
| Sample Cost on Invoice | | | \$75,000 |
| Deficiency (Homeowner not liable for this deficiency only if they go through the Consolidated Debris Removal Program)** | | | \$66,000 |

** If the insured does NOT go through the consolidated debris removal program, the \$66,000 deficiency would erode the insured’s primary coverage limits, leaving less money to rebuild. Some insurers would first deduct the full \$75,000 from Coverage A (Primary Structure), leaving the insured with only \$125,000 to rebuild the Primary Structure.

There are other types of residential property insurance policies that differ in how they cover debris removal costs. Homeowners should review their insurance policy to determine how debris removal costs are handled. But, regardless of what type of policy the homeowners has, if the homeowner agrees to participate in the program and signs the Right of Entry Form the consolidated debris removal program is being done **free of charge** to the homeowner. If a homeowner has questions on the consolidated debris removal program and the Right of Entry form, please contact your county administrative offices. If a homeowner has questions on any insurance-related issues, they may visit one of our insurance experts at the Local Assistance Center (while they are operational) in their county or contact the California Department of Insurance by calling our toll-free Hotline at (800) 927-4357 or visit us online at www.insurance.ca.gov