

Editorial: The heartbreaking reason why many victims won't rebuild

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For many homeowners, the full extent of the devastation from the October fires is still unfolding — on their calculators.

As Staff Writer Bill Swindell spelled out in his front-page story a week ago “Painful insurance reality,” Sunday), the number of people in Sonoma County who lost their homes and were underinsured or uninsured has exceeded the fears of many local leaders and even some industry experts. A survey by San Francisco-based consumer group United Policyholders shows nearly 70 percent of local fire victims believe they do not have enough insurance to rebuild their homes. According to Amy Bach, executive director of United Policyholders, those homeowners are finding that the gap between what they need to rebuild and what they can expect to receive from insurance companies is between tens of thousands of dollars to more than \$1 million. “Those are breathtaking numbers,” Bach said.

The result is many homeowners are coming to the conclusion — or may soon — that rebuilding is not an option. They will simply sell their land, use what insurance funds they have to pay off their mortgages, if they can, and walk away. As we have noted before, the consequences of losing so many teachers, business professionals, health care workers, friends, neighbors and even family members is unthinkable. What’s particularly discouraging is that this is not a new problem. Many of the victims of the Oakland Hills fires experienced similar challenges of insufficient coverage 27 years ago. The situation led to a state Supreme Court decision that granted the state insurance commissioner more authority to regulate the insurance companies. But it’s still not enough. Insurance Commissioner Dave Jones is still limited in his ability to force insurers to do anything behind the minimum of what the policies require.

The problem is usually rooted in the initial agreement reached between the homeowners and the insurers. Homeowners often are primarily concerned with getting the largest amount of coverage at the lowest available price. And insurance companies are more than eager to sell such policies in order to keep their business. Unfortunately, the dirty secret is that homeowners are often left with policies that won’t adequately cover their home and possessions in the event of a complete loss.

The problem is only compounded in the event of a natural disaster such as the fires in October, which wiped out some 5,300 homes in Sonoma County alone. The pressure for materials and labor to rebuild is now only driving up the costs of reconstruction even more, building professionals contend. The prices for rebuilding are still all over the map but can range from around \$300 per square foot in Coffey Park to \$600 per square foot in Fountaingrove, according to Keith Woods, chief executive officer of the North Coast Builders Exchange.

The situation places all the more importance on a series of bills now working their way through the state Legislature that are focused on helping fire victims with their insurance challenges. Some we have discussed before, but two in particular deserve particular attention. One, AB 1797 by Assemblyman Marc Levine, D-San Rafael, would require insurance companies to give customers a full replacement cost estimate each year and offer them an opportunity to purchase that amount of coverage. Homeowners would not be obligated to buy such policies, but at least they would know the real risk of buying policies that may not ensure full replacement.

The second is SB 1263 by state Sen. Anthony Portantino, D-Glendale, which would automatically ratchet up the coverage limits to 150 percent of the policy in the event of a widespread catastrophic event, such as the North Bay fires, that results in a declared state of emergency. This would protect homeowners from being caught with a coverage gap created primarily because of cost inflation resulting from a shortage of materials and labor for large-sized disasters.

These measures won't provide much help for North Bay homeowners who are now trying to pencil out if and when they can go home again. But they can help ensure and protect homeowners from being caught in this insurance trap again.