United States Department of Agriculture

Farm and Foreign Agricultural Services

Risk Management Agency

1400 Independence Avenue, SW
Stop 0801
Washington, DC
20250-0801

BULLETIN NO.: MGR-11-017

TO: All Approved Insurance Providers
All Risk Management Agency Field Offices
All Other Interested Parties

FROM: William J. Murphy */s/ William J. Murphy* *12/13/2011*
Administrator

SUBJECT: Request for Comments to Actual Production History (APH) Potential Enhancements

BACKGROUND:

The Risk Management Agency (RMA) seeks comment from stakeholders in the Federal crop insurance program regarding potential enhancements to regulations and procedures related to APH. Many of the proposed enhancements under consideration by RMA focus on how acreage and production is reported by the insured and the Approved Insurance Provider (AIP) and its subsequent use and maintenance for crop insurance purposes, including establishment of the producer's approved APH yield and the associated production guarantee.

Some proposed enhancements may be accomplished through the regulatory process or changes in procedures while others will require revisions to statute. RMA believes this effort can result in a more efficient and effective Federal crop insurance program that includes:

- Correlating producer and land experience into the production guarantee;
- Addressing producer concerns regarding approved APH yields and associated production guarantees;
- Simplifying production reporting requirements;
- Refining production guarantees and premium rates to ensure actuarial appropriateness;
- Increasing the use of precision agriculture technologies and geospatial data; and
- Facilitating enhanced data sharing capabilities within USDA.

ACTION:

An overview of the potential enhancements is attached to this bulletin. RMA requests comment, including potential impacts, additional considerations or alternative enhancements.

Please submit comments by February 9, 2012 to rma.kc.cih@rma.usda.gov or by mail to:

Office of the Deputy Administrator for Product Management
Product Administration and Standards Division
USDA-Risk Management Agency
Beacon Facility – Mail Stop 0812
P.O. Box 419205
Kansas City, Missouri 64141-6205

DISPOSAL DATE:

December 31, 2011

POTENTIAL ENHANCEMENTS

There are four general categories of potential enhancements to Actual Production History (APH). A discussion of each follows.

1. **Permanent Databases:** The data from production reports provided by producers through their Approved Insurance Provider (AIP) will be transmitted to RMA. The production data will be used to establish and maintain two permanent databases. The data contained in these permanent databases will be the official data used for program purposes, such as establishing an approved APH yield and the associated production guarantee. Further, the permanent databases will allow efficient development and use of personal Transitional Yields (T-Yields) in the Federal crop insurance program to individualize T-Yields, and improve actuarial soundness, program integrity and producer equity, as discussed below. The two permanent databases are as follows:

   - The Producer History Database (PHD), representing a permanent historical record of production for the producer, either as an individual or as part of an entity; and

   - The Land History Database (LHD), representing a permanent historical production record for the land by Farm Service Agency (FSA) common land unit (CLU). In addition to production history, the use of permanent land descriptors will also allow linkage of land attributes (e.g., soil typology, hydrology, etc.) to specific parcels of land, thus improving the actuarial efficiency of the insurance offer to the producer.

   A cross-reference between the PHD and the LHD will identify producer(s) who have farmed individual CLUs, as well as the actual production history by CLU, regardless of who farmed the land.

   AIPs would submit the production report of producers for the current crop year instead of the entire production history (encompassing multiple years) of producers as is currently reported. Each new crop year of production experience (i.e., producer's production report) would be added, by RMA, to previous history contained in the PHD and LHD. The permanent database structure enables any producer to use the land production history regardless of AIP or agent.

2. **Production Guarantee**: Expand the use of actual production records as a basis for establishing the production guarantee while minimizing the reliance on T-Yields.

   USDA, through the Acreage Crop Reporting Streamlining Initiative (ACRSI) project, has adopted the FSA CLU as the method of land identification within the Department. The CLU is represented by the combination of the FSA Farm, Tract and Field numbers. Over the next several years, RMA will continue to increase requirements to report each unit contained in the producer's acreage report by CLU. Ultimately, AIPs should strive towards incorporating

the geospatial files into mapping tools allowing producers to identify a parcel of land on a digital map, thereby reducing the burden on producers to obtain CLUs from the local FSA office and provide them to their agent. The mapping tools would establish the link between the identified location on the map and the CLU. For example, Unit A represents CLU_1 and CLU_2 and Unit B represents CLU_3, CLU_4, and CLU_5.

Using the CLUs for each unit contained on the producer's acreage report, the AIP would access the LHD and PHD to establish an approved APH yield and the associated production guarantee.

Each producer would have a Personal T-Yield (PTY), constructed from the PHD, which would essentially replace the T-Yield, as applicable, currently used for the crop insurance program. The PTY determined from the PHD would be similar to the personal T-Yield pilot program in North Dakota. Information regarding the North Dakota personal T-Yield pilot program is available at www.rma.usda.gov/bulletins/rd/2006/PDF/pm06-028.1-attach.pdf. Use of a PTY would individualize T-Yields, and further refine actuarial soundness, program integrity and producer equity.

Once a producer has four years of history in the LHD for the CLUs contained within the unit, the production guarantee will be the producer's production history for those CLUs. If the producer has less than four years of history in either, or both, the LHD or PHD, then a combination would be used such that the producer's approved APH yield and resultant production guarantee for a unit would reflect a weighted combination of the production history contained in the PHD and the LHD.

A county T-Yield would still be established by RMA for situations when neither the land nor producer has history for the crop/practice/type/map area.

Related improvements:

- Reduce the use of yield floors, yield cups, and simple average T-yields;

- Incorporate yield and similar trends that arise from technological advances and improved production practices into the PHD/LHD similar to the recently approved 508(h) submission for corn and soybeans. Information regarding the 508(h) Trend-Adjusted APH can be found on RMA's website at: www.rma.usda.gov/bulletins/pm/2011/index.html#46;

- Authorize a replacement yield in lieu of the current procedure requiring zero production for third party damage; and

- Address declining yields by replacing the current yield adjustment of 60 percent of the county average T-Yield with 60 percent (or such other number as may be authorized by statute) of the producer's PTY obtained from the PHD and LHD.

RMA recently submitted a report to Congress on declining yields, available on the RMA website at: www.rma.usda.gov/pubs/2011/decliningyields.pdf, which recommends adoption of this type of approach.

3. **Production Reporting**: The production report would be provided by the producer to the AIP consistent with existing program requirements, but also within a different timeframe as discussed below. However, the AIP will only transmit this production report to RMA rather than the entire APH database. RMA will use the yearly production reports to allocate production to the permanent databases (PHD and LHD) as provided above to the CLU and identification number associated with the producer's acreage report.

   At a minimum, production would be reported by the applicable unit/practice/type/map area level and be apportioned across CLUs. The apportionment would be based on the acreage-weighted share of each CLU in the total acreage comprising the unit. For example, 2 CLUs (CLU_1, CLU_2) comprise the unit; CLU_1 is 40 acres, CLU_2 is 60 acres; CLU_1 share of production represents 40 percent of the total acres (40 acres/100 total acres), CLU_2 share of production represents 60 percent (60 acres/100 total acres).

   Producers would have the option to report production from acreage at a lower level than crop/unit/practice/type/map area, e.g., by CLU.

   Additionally, RMA believes that in many cases, the production reporting date can be earlier to facilitate reporting production at the end of the crop year in which the commodity was produced and for the unit in which it was insured (i.e., close-out the current crop year). Currently, producers report production by the unit structure for the upcoming crop year. The expected benefits include: enabling the agent to assure no loss occurred to the unit in the current crop year; allowing the agent to provide the producer with a better idea of the production guarantee in advance of the producer electing coverage levels and price election for the subsequent crop year; enhancing lenders ability to assess adequate coverage; and to use the data more efficiently and for greater use in area- based plans of insurance.

4. **Technology**: RMA has authorized, through its procedures, the use of precision agriculture technologies for certain program purposes since 2002. Changes were made to procedures in 2011 to further support the use of precision agriculture technologies for production, acreage and loss reporting purposes.

   RMA anticipates continued expansion of procedural authorization, including electronic reporting for the Federal crop insurance program to further increase efficiency, reduce costs, and improve program integrity. For example, machinery-based technologies now record the location and acreage planted to a crop in a field and could be enhanced to facilitate acreage reporting by CLU. Additionally, global positioning systems (GPS) and combine yield monitors could be used for production reporting and potentially reduce the need for in-field

loss adjustment. Incorporating the electronic use of this information for crop insurance reporting would reduce reporting burdens to producers and AIPs. In addition, these technologies would allow further refinement of the Federal crop insurance program to better meet the needs of the agricultural producers.

SUMMARY

The APH program represents a significant milestone in the evolution of the Federal crop insurance program. However, there are opportunities to improve the program, with benefits accruing to all program stakeholders. The potential enhancements presented in this paper are intended to generate significant program efficiencies and cost savings, reduce complexity, improve program integrity, while incorporating technological innovations. Given technologies that are now available and increasing in use, the permanent databases could be constructed with minimal personal involvement. Further, much of the work necessary to generate the insurance offer could be automated given the permanent databases.

Fully implementing the potential enhancements to APH is a long-term project. Work has begun on some of the potential enhancements, such as allowing greater use of precision agriculture technologies and reporting acreage by CLU. Some producers may chose not to use technologies such as GPS, yield monitors, etc.; therefore, no enhancement will serve as an impediment to participation by such producers. Accordingly, RMA will assure that our stakeholders are substantially involved as potential enhancements evolve.