



United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Risk
Management
Agency

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DATE: November 15, 2012

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: William J. Murphy /signed/
Manager

SUBJECT: Manager's Report
Exhibit No. 4114

This memorandum serves as the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) for the November 15, 2012 meeting.

Livestock Gross Margin for Dairy Cattle: Section 523(b)(10) of the Federal Crop Insurance Act limits the amount that can be expended on livestock plans of insurance to \$20 million (premium subsidy and administrative and operating subsidy). For the October 26, 2012, sales period of Livestock Gross Margin for Dairy Cattle (LGM-Dairy) plan of insurance, RMA allocated \$14.9 million of underwriting capacity. Total LGM-Dairy sales from this sales period used just over \$4.6 million of underwriting capacity.

Organic Production Survey & NASS Partnership: To enhance the availability and soundness of program offers, RMA partnered with the National Agricultural Statistics Service (NASS) to collect additional price information from certified organic growers. Under the cooperative agreement with RMA, NASS conducted the 2011 USDA Certified Organic Production Survey (OPS) to gather detailed production and marketing information. All certified organic farming operations within USDA's organic registry were surveyed although responses were not mandatory. The intent of the survey was to provide RMA with additional data, particularly price data that can be used to improve Federal crop insurance programs for organic crops, as required by the 2008 Farm Bill. The survey targeted all certified organic crops, but placed special emphasis on apple and grape production because these crops are the largest non-grain organic crops in the U.S.

NASS held a Special Release Briefing in Washington, D.C., on October 4, 2012 to announce the survey results to the public. A publication will be made available on the NASS website and a special tabulation of data will be provided to RMA for internal analysis to assist in potential expansion of organic crop insurance coverage, particularly organic price elections. The data represent one year of price information but the survey results should provide a useful starting point to estimate the potential additional price amounts that organic growers may receive.



Rainfall and Vegetation Index Programs: On October 11, 2012, RMA issued 2012 crop year final grid indices and payment calculation factors for Apiculture and Pasture, Rangeland, Forage. This release covered the July through August period for the Rainfall Index program and the June through August period for the Vegetation Index program. During the July-August interval, approximately 5.2 million acres were insured under the Rainfall Index

The table below shows information from those states in the Rainfall Index July-August period and the Vegetation Index June-August period that exceeded a 1.0 loss ratio for the time period. In addition, \$8.4 million of indemnity will be generated in Texas (Rainfall Index State) for this period with a loss ratio of .61.

State and Plan	Estimated Indemnity	Loss Ratio for Intervals 631 & 650
California – RI	\$53,652	2.41
Colorado – RI	\$804,993	2.45
Florida - RI	\$14,027	1.07
Kansas - RI	\$571,827	2.28
Minnesota - RI	\$82,977	3.22
Missouri - RI	\$341,975	4.26
Montana - RI	\$559,672	1.67
New York - RI	\$30,257	1.36
North Dakota - RI	\$723,042	1.18
Oklahoma - RI	\$1,730,492	2.42
Virginia - RI	\$57,485	1.06
Wisconsin - RI	\$224,312	3.39
Nebraska – VI	\$478,337	4.2
Nevada – VI	\$106,657	2.66
New Mexico – VI	\$809,368	5.0
South Dakota – VI	\$342,791	2.91
Wyoming – VI	\$394,224	6.09

Total indemnities earned under both the Rainfall and Vegetative Index programs for the year to date are approximately \$89.5 million.

Limited Irrigation: RMA issued a solicitation for a single indefinite-delivery/indefinite-quantity (ID/IQ) type contract entitled “Insuring Irrigation” and Task Order 1 entitled “Limited Irrigation Analysis & Evaluation.” The solicitation close date was November 5, 2012. The purpose of this solicitation is to conduct research and analysis regarding an irrigation policy for potential crop insurance program development. This effort will involve several phases accomplished via task orders issued under the IDIQ.

Pomegranate Feasibility Study: Proposals have been reviewed and the award of this contract will be made shortly. The purpose of this contract is to gather research regarding pomegranates for consideration of the development of a crop insurance program in the future.

IT Modernization (ITM) – Corporate Reporting: The first set of RMA Information Reporting System (RIRS) internal reports went into production in September. These include the Actuarial Prices report and the County Commodity Programs reports. These first reports are expected to be available to the public within the next month. When the ITM initiative is fully completed, this system will allow users to research actuarial, accounting, and crop policy information using selection criteria to drill down to useful subsets of data.

ITM - Accounting: RMA is working on the new accounting system with SAIC and is using the new Agile Scrum methodology for developing business support systems. The IT Modernization Accounting initiative will provide RMA stakeholders timely and accurate financial reports and data to support the Standard Reinsurance Agreement as part of the Federal crop insurance program and its external reporting requirements. This initiative will provide an opportunity for automation and modernization of business processes bringing standardization and consistency across all of RMA's business systems.

Regulations:

Florida Citrus: The final rule is being prepared for publication and will add provisions to align the Florida Citrus Fruit Crop Provisions with other perennial crop provisions for the 2014 and succeeding crop years.

Pecan Revenue: The final rule is pending publication and will amend the Pecan Revenue Crop Insurance Provisions to clarify and strengthen existing policy provisions, add provisions to improve the integrity of the program, add provisions that benefit the policyholder, and remove provisions that are no longer necessary for the 2014 and succeeding crop years.

Area Risk Protection Insurance Plan : The final rule is currently being prepared for publication and will combine the area based insurance plans into one policy with the intention to implement the new policy for the 2014 crop year.

Forage Seed: The proposed rule is being prepared for publication and will propose to make the pilot Forage Seed program that covers forage seed contracted or grown as certified forage seed a permanent program.

REGIONAL OFFICES (RO)

Yields/Types/Practices/Varieties

The Topeka RO announced that it is offering limited irrigation coverage for corn and soybeans in Sheridan and Thomas counties in Kansas starting the 2013 crop year. RMA is offering this coverage in response to declining water yields in groundwater wells in that area. Prior to this program, RMA offered only an irrigated and a non-irrigated practice. For producers experiencing declining water yields such that they can no longer grow their APH yield, the only option was to choose non-irrigated coverage – a significantly lower guarantee and a significantly higher rate. With this new coverage, the producers can maintain their irrigated practice, but with a lowered guarantee based on yield estimation models developed by University of Nebraska and Kansas State University.

The Davis Regional Office (RO) met with representatives of the Pear Advisory Board (PAB) to discuss the industry's current practices. The RO used information from the meeting to submit comments and suggestions for the pear policy review, including, revisions to the sizing information and recommendations for a modified quality adjustment endorsement in California.

The Davis RO met with the Olive Growers Council and the Western Pistachio Association to review the first year of the new olive and pistachio pilot programs. A Senior Risk Management Specialist discussed the current policy structure and received comments for improvements to the programs.

To ensure that underwriting procedures for the macadamia nut program are correctly followed the Davis RO created a new statement in the Special Provision of Insurance that clarified how to determine the T-yield per acre. The statement will prevent miscalculations of the approved production averages and guarantees from occurring.

The Davis RO has implemented a new special provision statement to make the Actual Revenue History Cherry program available to more farmers. The statement provides farmers that have not met the average production requirement, the option of requesting RMA for a yield determination to insure acreage that has reached at least the fifth growing season after being set-out or grafted.

This past week a Biodiesel producer from the Minneapolis suburb of Anoka contacted the St. Paul RO inquiring about insuring camelina in Minnesota and Iowa. Mcgyan Biodiesel LLC is currently producing biodiesel fuel from waste cooking oils and tallow, and has interested growers wanting to supply the plant with the oil seed. Since camelina has a very short maturity, a double crop practice could be expected in Iowa. Also, inter-seeding soybeans into established camelina and harvesting when the soybeans are six inches high is showing promise. The processor was informed that camelina is a new pilot crop in North Dakota and Montana and that expansion and written agreements are not an option at this time.

The Raleigh RO announced that a rotations statement for flue cured and burley tobacco will be added for the 2012 crop year. Tobacco will not be insurable on any acreage planted to tobacco in the 2 previous crop years. Acreage planted to tobacco in consecutive years is more susceptible to disease and insect losses. This change is expected to improve the soundness of the tobacco program. Final Planting Dates for flue cured tobacco and loss history were reviewed by using data from the Center for Agribusiness Excellence (CAE), and also climatic data. As a result, most final planting dates will be moved 10 to 15 days earlier for the 2013 crop year. This is expected to improve the soundness of the flue cured tobacco program.

Peanut yields are exceptional this year and with the increase in planted acres. The Valdosta RO continues to work with Product Management to address concerns raised by approved insurance providers (AIP) on quality adjustment of peanuts.

The 2013 Peach Policy was released and concerns were raised by agents and producers concerning records required to qualify as a fresh peach producers. Valdosta RO worked with the Raleigh and Springfield ROs and Product Management to develop a bulletin for producers to qualify for peaches as fresh for producers whose records do not normally include grade or size.

Prevented Planting/Final Planting Dates

Meetings

On August 29, the Davis RO hosted an annual fall update meeting in Davis, California for regional Insurance Providers. Risk Management Specialists covered underwriting changes and issues affecting the regional crop programs. There were 60 participants in attendance from eight (8) regional Insurance Providers. A live webinar was hosted for underwriters who were not able to attend.

The Davis RO presented to more than 100 producers on two Hawaiian Islands with education on the coffee program. The conference was hosted by the University of Hawaii Extension, a funded cooperative agreement partner.

The Davis RO, Director presented at two (2) conferences dealing with water, drought, and climate change. At the Western States Water Council meeting in San Diego, California, the Director discussed risk management information for farmers, as part of a panel on tools for preparedness and response to extreme weather events. At the NASA Applied Sciences Program Water Resources Team Meeting in Moffett Field, CA, the Director provided input and was a resource on USDA/RMA program availability. The meeting topics included weather models, water quality, and drought forecasting.

On September 26, the Davis RO attended a producer meeting in Lovelock, Nevada. A Senior Risk Management Specialist provided a presentation on the Livestock Risk Protection program and responded to inquiries on other crop insurance products availability.

On November 1 - 2, the Spokane RO hosted three members of Japan's Ministry of Agriculture, Forestry, and Fisheries (MAFF) and one Japanese Insurance Company representative. The meeting in Spokane was the fourth stop in a series of meetings on a survey mission related to the agricultural insurance system in the country. The focus in Spokane was on adjusted gross revenue (AGR) and included a detailed overview of the region and AGR by Spokane RO staff, a meeting with insurance company representatives, and a trip to Yakima, Washington to meet with two producers who use AGR.

RMA is implementing new 508(h) insurance policy endorsements for Dry Pea Revenue and Dry Bean Revenue. The Spokane and Billings RO's are coordinating in preparing informational material for presentation to growers and industry members of the U.S.A. Dry Pea and Lentil Council and the Northharvest Bean Growers Association. These organizations will be hosting several meetings over the following months and RMA has been invited to attend.

On November 12-14, the Spokane RO participated in the Tri-State Grains Conference. On November 12, the Spokane RO Director was the luncheon speaker for the Oregon Wheat Growers League at their annual meeting luncheon. The Director was asked to speak on several specific issues from members of the League. On November 14, the Spokane Regional Office Director provided a crop insurance workshop for Idaho, Oregon and Washington wheat producers. The workshop focused on yield and revenue crop insurance options and comparisons (small grains, oilseeds, and pulse crops). Are insured's considering all the options and do they understand the impact on the cost of their insurance? Participants were able to review the choices they make each year and the impact on the cost of their insurance. Under Secretary, Michael T. Scuse will also speak at a general session during the conference.

Valdosta RO Director updated the Pecan Growers who attended a field day in Tifton, Georgia

on the status of implementing the new pecan policy. The implementation will be for everyone in 2014 and it will put some policyholders in the middle of their 2 year module. The RO assured policyholders there would be procedure to address that before the 2014 crop year.

October 16-18, the Valdosta RO participated in the Sunbelt Ag Expo, Moultrie, Georgia. There were over 85,500 people in attendance this year.

On November 28, the Valdosta RO will have an AIP update meeting in Quitman, Georgia at the County Extension office.

Drought Conditions/Large Claims

Severe and Extreme drought conditions are now being experienced throughout the entire St. Paul Region. The latest U.S. Drought Monitor indicates extreme drought in most all of Iowa and Southwest Minnesota.

The Billings RO provided drought damage reports for the region through the DERS system. Extreme drought conditions during the summer of 2012, led to widespread crop damage to pasture, forage, and dry land corn production.

As of November 5, there are no reports of extensive damage to crops along the coast in the Valdosta Region. The 2012 crops in the Spokane region are in fairly good condition, with only a few isolated spots of concentrated loss activity.

The St. Paul RO continues to receive large claim notices. To date, 725 notifications have been received where the claim could be in excess of \$500,000. Most of the notices are being received from Iowa due to this past summer's drought.

The Springfield RO responded to the shortage of hay and pasture across Illinois, Indiana, Ohio and Michigan by putting in place rules that allow producers to hay and graze cover crops this fall and next spring without impacting the insurability of their spring crops.

These changes are part of the Department's response to this summer's drought. These provisions loosen the restrictions on haying and grazing of cover crops and provide livestock farmers some relief from the short supply created by this year's drought. A news release was issued in September to provide producers details on the changes.

The Oklahoma City RO has received several inquiries from producers about the ongoing drought and reduced irrigation supplies for sugarcane in the Texas, Rio Grande Valley. The Oklahoma City RO has made contacts to extension and confirmed that some producers did not have enough water to raise their 2011 crop. The 2012 crop year is starting with some producers having only one watering for their sugarcane. The Valley area is divided into twenty plus water districts spread over a four county area. About half of these districts have sufficient water for the 2012 crop the other half do not. Some districts may have water for sale to producers in other districts. Kansas City, Product Management was contacted about this issue by NCIS.

Reduced irrigation supplies will also affect onions and other vegetable crops in the region that have a required irrigation practice. Cotton and corn in this area will probably be grown under the non-irrigated practice to divert water to higher value crops.

Crop Insurance Indemnities and Taxes

On October 22, a St. Paul RO Risk Management Specialist attended a Tax Insight Course in Eau Claire, Wisconsin. Approximately 200 tax preparers, CPA's, attorney's, and agricultural experts gathered to learn more about agricultural tax issues. Topics included: tax provisions that expired in 2011 and 2012, weather related sales, hedging contracts, depreciation, and division of property. The main question raised was: **in what tax year must crop insurance indemnity payments be reported?** Generally, farmers who use cash accounting must report income in the year they receive payments. However, an exception to the rule allows farmers to postpone the payments received due to crop loss for one year if he/she can show the income would normally have been reported in the year following the crop loss. Only payments for destruction or damage of the crop are eligible for deferral. Compensation received due to reduced market price under revenue protection (RP) policies is not eligible for deferral. Therefore, a farmer who receives compensation from a RP policy must determine the portion of the payment that is due to crop damage, rather than due to a reduced market price. The session concluded with tax provisions set to take effect in 2013.

Outreach

Several Risk Management Specialists in the St. Paul RO will be making the following presentation during the next few weeks:

- On November 7, **Midwest Forage Council:** Meeting in Rochester, Minnesota Forage Insurance Options for 2013.
- On November 14 and 15, the St. Paul RO will attend the **Iowa State University Pro-Ag Outlook & Management Seminar Series.** Presentations will be made in Mt. Pleasant, Amana, Waterloo and Mason City Iowa. Highlights and an overview of crop and livestock programs will be presented.

- On November 16, the St. Paul RO will attend the **Albert Lea Seed House** meeting for organic growers in Albert Lea, Minnesota where a presentation on insuring organic crops in the Upper Midwest will be given.
- On November 28, the St. Paul and Billings Regional Offices will have their joint meeting Updating meeting for AIP area staff. This will be a webinar presentation on program changes and highlights.
- On December 11, the St. Paul RO will meeting with the **Minnesota Canola Council** in Roseau, Minnesota where a Webinar presentation from the St. Paul RO on program changes will be given.

During the month of October, the Davis RO participated in eight (8) *USDA Fire and Drought Assistance for Nevada Agriculture Producers* workshops, sponsored by the University of Nevada Cooperative Extension. The RO Outreach Coordinator along with other USDA agencies presented and answered questions on how crop insurance programs and other USDA programs can assist Nevada producers affected by fire and drought.