United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

BULLETIN NO.: MGR-00-009

TO: All Reinsured Companies
All Risk Management Agency Field Offices
All Other Interested Parties

FROM: Kenneth D. Ackerman /s/ Ken Ackerman 3-13-00
Administrator

SUBJECT: Arizona and California Irrigation

<u>BACKGROUND</u>:

The Risk Management Agency (RMA) has received numerous questions regarding reports of pending water shortages in Arizona and California and how these shortages impact producers' crop insurance coverage. Producers recognize that when they are informed that past allocations of water are not available, they must respond by reducing the amount of acreage that otherwise would have been planted this year. Under these circumstances, policyholders must also determine what acreage may be reported for prevented planting under the terms of the crop insurance policy. Some water shortages can result from government mandated diversion to other uses and increased water prices. Questions have been raised as to how these situations impact crop insurance coverage.

It is essential under these conditions that all insurance providers administer the program consistently to ensure equal treatment for producers under similar circumstances. Although recent rains have decreased the severity of the current water shortages, some areas of Arizona and California are still expected to be adversely affected by reduced reservoir capacities and water supplies due to insurable and uninsurable causes of loss. The crop insurance policy only covers failure of the irrigation supply to the extent the failure is caused by an insurable cause of loss that occurs within the insurance period.

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ACTION:

Insurance providers must verify that any failure of the irrigation supply is in fact due to an insurable cause, and that the producer accurately reported acreage for prevented planting or planted acreage that failed in the event the water supply is interrupted due to an insurable cause of loss after planting.

The questions RMA has received to date from Arizona and California and these responses are intended to address the issues raised specifically for these two States. However, similar circumstances may occur in other areas of the country and would receive similar guidance.

- Producers may allocate life sustaining amounts of water to their perennial crops to avoid long term losses to their operations, regardless of whether or not a perennial crop is insured. Using a life sustaining amount of water for perennial crops will not result in an appraisal for uninsured causes of loss for any insured crop. Allocation of available water between crops other than as allowed in this paragraph will be adjusted in accordance with procedures contained in the Loss Adjustment Manual (LAM).

- Carryover policyholders (those with 1999 policies) who have evidence of decreased water allocations due to an insurable cause **prior to** planting may report acreage for prevented planting in accordance with the prevented planting provisions. Prevented planting coverage levels may not be increased if a cause of loss that will or could prevent planting is evident at the time the insured requests increased coverage.

- New policyholders are eligible for prevented planting payments only if the peril insured against occurred after the sales closing date for the current year.

- Policyholders who obtain evidence of decreased water allocations due to an insurable cause **after** planting may report losses due to failure of the irrigation water supply in accordance with the policy provisions.

- Decreased water allocations resulting from government diversions of water for environmental or other reasons are not insured causes of loss.

- Increased cost for water from traditional sources is not considered an insurable cause of loss under the policy. Conversely, the availability of high cost water from a non-traditional source will not be considered a reason to deny an otherwise payable claim.

Example -

A producer normally receives 100 units of water per year from two sources (50 units each) to irrigate 1000 acres of land for a crop or crops for which failure of the irrigation water supply due to drought is a covered cause of loss. The producer receives notice that due to reduced carryover water in the reservoir, the normal allocation is being cut by 20 units. Ten of the units cut are attributable to decreased availability on account of an ongoing drought and an additional ten units are being diverted by the Bureau of Reclamation to support the flow of water downstream. At the same time, the producer learns that the other water source is doubling the cost of water due to increased demand by urban users. The producer calculates that only 30 units will be purchased from this source based on the increased price.

The producer will only have 60 units of available water for the year and must allocate or reduce the acreage accordingly. Prevented planting may only be reported and claimed for that acreage associated with the ten units of water decreased due to drought. Assuming 1 unit of water irrigates 10 acres, the producer would have available water for 600 acres and be permitted to claim prevented planting on 100 acres. The acreage associated with the 30 units of water lost due to the government diversion and increased cost are not insurable.

Although this is an oversimplified example, it is indicative of the process producers must go through to determine the number of insurable acres under these circumstances.

DISPOSAL:

This bulletin is for the purpose of transmitting /updating information and the disposal date is December 31, 2000.