United States Department of Agriculture

Risk Management Agency

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

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: Ross J. Davidson, Jr. /Signed/
Manager

SUBJECT: Transmittal Memorandum –
Docket No. CI-Cherry Dollar Pilot Crop Insurance Program-05-01

Attached for Board consideration of approval or disapproval is the Risk Management Agency's (RMA) Cherry Dollar Pilot Crop Insurance Program docket and related material for extending the pilot program.

Cherry Dollar Pilot Program
For the 2006 and 2007 Crop Year
Docket No. CI- Cherry Dollar Pilot Crop Insurance Program-05-01

EXECUTIVE SUMMARY

Statement of Action

The action before the Board is to decide whether to authorize the Federal Crop Insurance Corporation (FCIC) to continue to offer the Cherry Dollar Pilot Crop Insurance Program through the 2007 crop year, or to convert, modify, or terminate the program at this time. Extension of the crop insurance pilot program is necessary to allow sufficient time for significant modifications to the program to be developed and considered by the Board.

Past Action

In August 1998, the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) approved the Cherry Dollar Pilot Crop Insurance Program. On October 29, 2003, the Board approved the continuation of the Cherry Dollar Pilot Crop Insurance Program on a pilot basis through the 2005 crop year.

Background Information

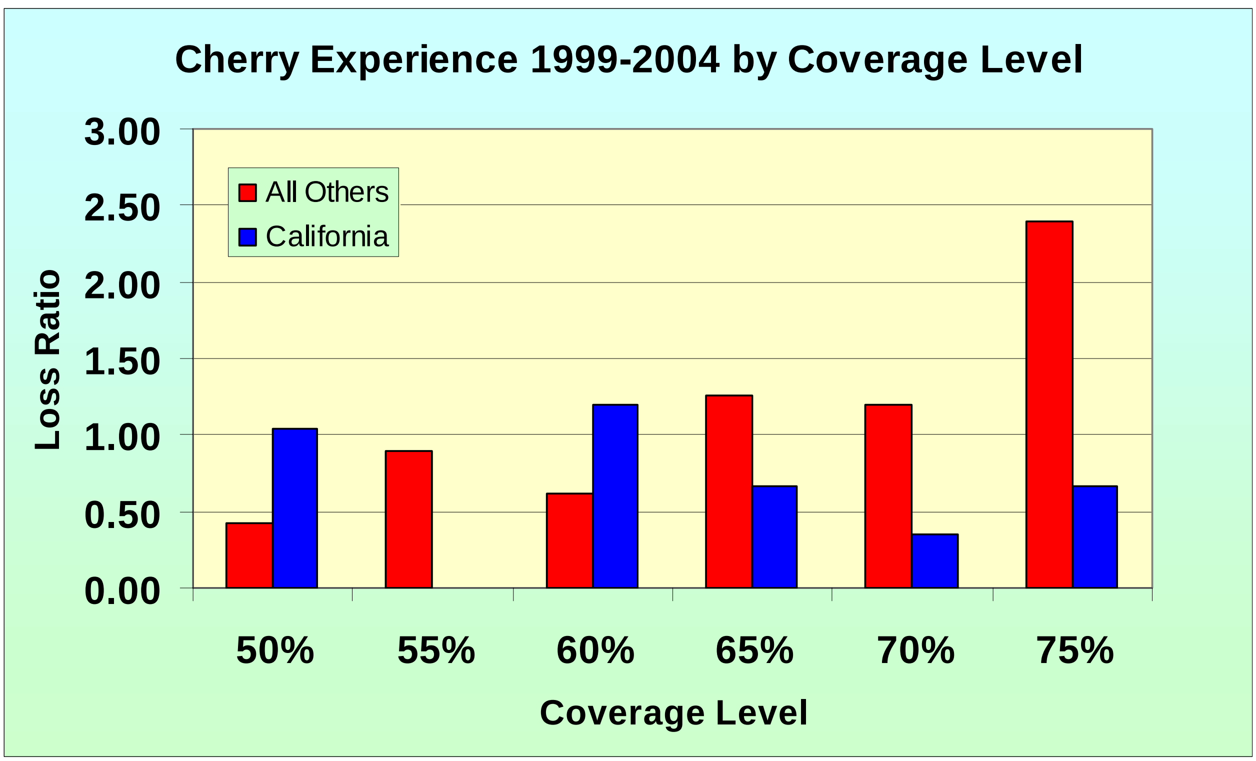
RMA developed the Cherry Dollar Pilot Insurance Program utilizing the Dollar Plan of insurance for the 1999 crop year in selected counties in California, Oregon, and Washington. The program was expanded in 2000 into selected counties in Montana, Michigan, Utah, and additional counties in Oregon and Washington.

The Dollar Plan utilizes the Reference Maximum Dollar Amounts (RMDA) to establish liability determined from an average range of pre-harvest costs per acre that producers can expect to incur during the growing season in their county. The producers' amount of insurance per acre is determined by multiplying the RMDA times the coverage level. The producers' indemnity is the difference between the liability and the revenue received, less allowable costs (harvest cost), plus the value of unharvested production.

Participation has steadily increased in the program and the majority of the participation is at the Buy-up level (only 17% CAT) and over half of the insureds have selected the 75% coverage level. The graph of Cherry experience data below indicates that most of the losses have come at the 75% level of coverage (excluding California).

The major causes of loss are frost, freeze and excess moisture. The program has a loss ratio of 0.98. However, California has approximately 40% of the total program liability and a combined loss ratio of only 0.55. When the California data are excluded from the cumulative loss ratio for the program, the combined loss ratio of the other states is 1.61. Michigan, which has the highest loss ratio of 4.37, experienced an extremely unseasonable freeze event in 2002 that caused widespread damage. Most of the remaining losses have occurred in a few specific counties in Oregon and Washington. Marion, Polk, and Yamhill counties in Oregon and Benton and Franklin counties in Washington have had loss ratios exceeding 1.00 in all but one year of the program. Premium rates were increased in Michigan for 2004 and 2005 and in Oregon (processing cherries) and Montana for 2005.

Year	Policies Earning Premium	Insured Acres	Liability	Total Premium	Indemnity	Loss Ratio
1999	867	23,102	39,710,259	3,473,627	4,011,043	1.15
2000	1,145	30,661	47,929,020	4,331,936	4,746,083	1.10
2001	1,259	32,378	50,257,495	4,675,722	4,854,602	1.04
2002	1,360	34,463	52,712,714	4,965,164	5,087,032	1.02
2003	1,428	36,736	57,099,516	5,302,605	3,470,348	0.65
2004	1,479	40,994	63,108,938	5,734,304	5,744,416	1.00
Sum/Avg	**7,538**	**198,334**	**310,817,942**	**28,483,352**	**27,913,524**	**0.98**



Cherry Dollar Pilot Program
For the 2006 and 2007 Crop Year
Docket No. CI- Cherry Dollar Pilot Crop Insurance Program-05-01

Reason for the Action

This action is being submitted to the Board at this time, because the Board only authorized the pilot program to continue through the 2005 crop year, so some action must now be taken to continue, convert, modify, or discontinue the program.

IMPACT ANALYSIS

Producers:

- Continuing the existing cherry program with changes provides a needed risk management program for producers.

- Developing a new program for cherries may result in improved risk management protection for growers.

- Continuing the cherry program with significant changes for 2006 may reduce the frequency of indemnities paid to producers and reduce the amount of insurance available for producers.

Stakeholders:

- The recommended changes would likely reduce the excess losses that have occurred over the past 5 years. The 5 counties with the highest losses (Marion, Polk, and Yamhill counties in Oregon, and Benton and Franklin counties in Washington) have had indemnities exceeding the premium by $4.45 million.

- Reductions in coverage levels and amount of insurance will lower premium and consequently lower the amount of subsidy paid.

Approved Insurance Providers:

- Reductions in coverage levels and amount of insurance will lower premium and consequently lower administrative and operations expenses to the companies.

- Program changes would likely reduce participation but also reduce losses.

Reinsurance:

- The proposed changes should not increase the need for outside reinsurance.

Other Participants:

- Lenders may prefer a product that offers higher amounts of insurance.

Cherry Dollar Pilot Program
For the 2006 and 2007 Crop Year
Docket No. CI- Cherry Dollar Pilot Crop Insurance Program-05-01

BUDGET CONSIDERATIONS

The impact of continuing this program in pilot status on Information Technology resources is minimal (likely less than $10,000) since the actuarial documentation for the program currently exists. For maintenance of this program, the requirements are not considered to be excessive, and can be absorbed within current staff limits (less than 1 FTE), since these requirements have been handled on an ongoing basis since implementation of the program.

DELEGATION OF AUTHORITY

If approved by the Board, the Board could delegate to the Manager of the Corporation authority to make such technical policy changes, as necessary, to make the policy legally sufficient.

FOR OFFICIAL USE ONLY DESIGNATION

This program docket is “For Official Use Only” and the “For Official Use Only” designation will terminate once the Board takes a substantive action regarding this docket, or upon approval of the product in the case of a 508(h) submission.

LEGAL AUTHORITY

The Office of General Counsel previously reviewed program materials for legal sufficiency and at this time has identified no legal impediments that would prohibit Board approval.

Cherry Dollar Pilot Program
For the 2007 Crop Year
Docket No. CI-Cherry Dollar Pilot Program-05-01

FINAL RESOLUTION

RESOLVED, that pursuant to the information contained in Docket No. CI-Cherry Dollar Pilot Crop Insurance Program - 05-01, Exhibit No. 2795, as well as other related materials that were submitted to the Board for consideration and discussion, the Board approves the continuation of the Cherry Dollar Pilot Crop Insurance Program through the 2008 crop year with reinsurance, risk subsidy, and administrative and operating subsidy in amounts and under such terms and conditions as determined appropriate by the Manager as authorized under section 523(a)(4)(b) of the Federal Crop Insurance Act. AND BE IT FURTHER RESOLVED, That the Board delegates to the Manager the authority to make such technical policy changes as are necessary to make the policy legally sufficient.

Adopted by the Board of Directors on: June 8, 2005

/Signed/
Byron Anderson, Secretary
Federal Crop Insurance Corporation

[SEAL]

Approved by:

/Signed/
Keith Collins
Chairman of the Board

June 8, 2005
Date

Cherry Dollar Pilot Program
For the 2007 Crop Year
Docket No. CI-Cherry Dollar Pilot Program-05-01

Year	State	Pol Earn Prem	Net Acres	Liability	Total Prem	Indem	LR
1999	CA	276	9,684	17,603,885	2,419,063	2,936,051	1.21
2000	CA	330	11,163	20,254,566	3,057,927	2,820,142	0.92
2001	CA	360	11,483	21,158,219	3,322,347	2,951,186	0.89
2002	CA	359	11,867	22,587,854	3,590,090	1,158,139	0.32
2003	CA	357	11,943	23,189,266	3,715,545	10,220	0.00
2004	CA	358	12,311	24,222,475	3,885,513	1,055,525	0.27
AVG							0.60
2000	MI	80	2,261	2,097,895	73,167	303,011	4.14
2001	MI	87	2,502	2,579,982	95,584	53,409	0.56
2002	MI	89	2,616	2,400,410	88,528	1,844,124	20.83
2003	MI	111	3,010	2,843,523	106,584	14,989	0.14
2004	MI	169	4,173	3,994,816	177,101	148,409	0.84
AVG							5.30
2000	MT	42	253	449,721	39,076	50,001	1.28
2001	MT	42	236	436,274	40,363	73,182	1.81
2002	MT	44	274	513,637	46,680	17,376	0.37
2003	MT	45	278	514,658	46,282	0	0.00
2004	MT	42	264	497,217	44,980	27,801	0.62
AVG							0.82
1999	OR	106	5,112	7,679,481	359,301	85,362	0.24
2000	OR	133	6,491	8,893,522	410,189	658,058	1.60
2001	OR	141	6,076	7,743,641	350,105	606,026	1.73
2002	OR	158	6,472	6,777,176	292,834	398,981	1.36
2003	OR	159	6,406	6,765,854	322,523	8,921	0.03
2004	OR	171	7,338	7,771,795	368,777	600,797	1.63
AVG							1.10
2000	UT	5	212	206,311	17,981	0	0.00
2001	UT	7	224	215,381	18,786	23,357	1.24
2002	UT	6	220	217,981	19,637	116,167	5.92
2003	UT	7	217	205,048	18,421	0	0.00
2004	UT	8	212	204,172	19,217	0	0.00
AVG							1.43
1999	WA	431	8,048	13,955,832	653,816	854,966	1.31
2000	WA	485	10,263	16,027,005	733,596	914,871	1.25
2001	WA	552	11,864	18,162,998	854,855	1,147,442	1.34
2002	WA	601	12,973	20,189,556	926,485	1,548,978	1.67
2003	WA	649	14,652	23,169,883	1,072,098	178,130	0.17
2004	WA	731	16,696	26,418,463	1,238,716	3,911,884	3.16
AVG							1.48

Cherry Dollar Pilot Program
For the 2007 Crop Year
Docket No. CI-Cherry Dollar Pilot Program-05-01