



**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-California Citrus Dollar Pilot Program-05-01

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



The Risk Management Agency Administers
And Oversees All Programs Authorized Under
The Federal Crop Insurance Corporation

An Equal Opportunity Employer

California Citrus Dollar Pilot Program
For the 2007 Crop Year
Docket No. CI-California Citrus Dollar Pilot 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 California Citrus Dollar Pilot Program (CCDPP) Crop Insurance Program on a pilot basis effective through the 2009 crop year. Extension of the Crop Insurance Pilot Program is necessary to allow sufficient time for alternatives to be developed by the agency and forwarded for consideration by the Board.

Past Action

On May 17, 2000, the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) approved the CCDPP for the 2001 through 2003 crop years. On October 29, 2003, the Board approved the continuation of the CCDPP on a pilot basis through the 2006 crop year.

Background Information

RMA developed the CCDPP utilizing the Dollar plan of insurance for the 2001 crop year for navel oranges in Madera, Fresno, Tulare, and Kern Counties in California.

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. There have been no modifications to the program during the pilot phase.

There are two crop insurance programs available in the pilot counties for citrus, the CCDPP and a Grower Yield Certification (GYC) program, which is identical to an Actual Production History program. The CCDPP provides revenue protection for price and quality, while the Grower Yield Certification (GYC) regulatory program does not. One concern about most dollar plans is that the RMDA is offered to all producers in the county regardless of whether they are capable of producing at, or above, the county average yield. In order to address this issue, the CCDPP contains a minimum production requirement of 300 cartons of oranges per acre in order for the insured to be eligible for coverage. In addition, the amount of insurance available (RMDA) is factored down in proportion to the number of cartons produced less than 600. The crop provisions state:

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

If your highest level of production per acre in one of the most recent three years has been less than 600 cartons but greater than 300 cartons, your amount of insurance will be equal to the reference maximum dollar amount times the ratio of your highest per acre production divided by 600, times your selected coverage level.

For example, if the RMDA is \$2075 and you select 75% coverage and if your highest production in one of the past three years has been 500 cartons, your amount of insurance will be: $\$2,075 * (500/600) * 0.75 = \$1,297$ per acre.

The implementation of this production requirement into the policy provisions has likely been a factor in maintaining an overall favorable loss ratio for the program. Over-insurance is addressed by not allowing insureds to select an amount of insurance that is not justified by their production history. In the 2005 crop year, 43% of the units insured had their amount of insurance limited by the production requirement. The table below indicates that there has been only one year in which the loss ratio exceeded 1.00. The loss ratio for the program from 2001-2005 is 0.81. The loss ratio for the GYC program in California during 2001-2005 is 0.31.

Year	Policies Earning Premium	Insured Acres	Liability	Total Premium	Indemnity	Loss Ratio	% Part.
2001	15	719	\$782,087	\$32,452	\$0	0.00	0.6
2002	481	22,992	\$30,951,485	\$2,001,970	\$1,236,000	0.62	18.6
2003	416	19,517	\$26,104,790	\$1,675,588	\$3,217,703	1.92	15.8
2004	341	14,336	\$18,717,826	\$1,241,165	\$651,353	0.52	11.6
2005	377	15,966	\$20,559,169	\$1,434,341	\$58,978	0.04	12.9
Sum/Avg	1630	73,530	\$97,115,357	\$6,385,516	\$5,164,034	0.81	11.9

The CCDPP has the greatest appeal to producers who typically produce at or below the 600 cartons per acre range because the amount of insurance is adequate and the program provides a form of price and quality coverage. Citrus producers who typically grow more than 600 cartons per acre generally do not believe that the amount of insurance is adequate, and they overwhelmingly select the GYC Citrus program. The participation in 2005 CCDP was about only 12% of the total navel orange acreage in the pilot counties. As seen in the table above, the number of policies and acres have declined since a peak in 2002.

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

Most of the insureds participating in the CCDPP are electing buy-up coverage (97% in 2005), compared to 80% buy-up in GYC. The minimum value options also have high participation. The minimum value (\$2.50 for CCDPP) is used to determine the value of unharvested production and is also used as a lower limit to the price received (less allowable costs) for valuing harvested production. Minimum value options allow the insured to select lower minimum values listed on the Special Provisions of Insurance. Sixty-three percent of the insureds selected Minimum Value Option I (MVI) (\$1.00) and 28% selected Minimum Value Option II (MVII) (\$0.50). Indemnities are proportionate to the participation with 59% of the losses coming from MVI and 34% of the losses coming from MVII. Excessive heat has been the most frequent cause of loss with hail being the second most common.

In general, the CCDPP program has been a viable program with a favorable loss ratio. However, the program may be viable for a narrow range of producers. As evidenced by the approximately 12% participation in the CCDPP and the 88% participation of the GYC citrus program (and information from producer listening sessions), most of the California citrus producers likely believe the CCDPP program does not provide adequate coverage.

Reason for Action

This action is being submitted to the Board at this time, because the Board only authorized the pilot program to continue through the 2006 crop year, so some action must now be taken to continue, convert, modify, or discontinue the program.

IMPACT ANALYSIS

Producers:

- Citrus producers will continue to have the CCDPP available for price and quality protection until an alternative program can be developed. At least 12% of producers now participate.
- If a better alternative can be developed then all producers will have an opportunity to insure price and quality including many that are likely at or above the average.
- Continuing alleviates market disruptions while a better alternative is designed.

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

Stakeholders:

- There will be no immediate impact on stakeholders, the CCDPP pilot is operating with a loss ratio under 1.00.

Approved Insurance Providers:

- There will be no immediate impact on insurance providers.
- Although two plans of insurance will continue to be available, approved insurance providers have been delivering both programs since 2001.
- There will be no immediate impact on the administrative and operating expenses or the subsidy amounts paid if the CCDPP is continued.

Reinsurance:

- There will be no immediate impact on the need to acquire additional outside reinsurance.

Other Participants:

- Lenders may want a program that offers price and quality protection with amounts of insurance that are adequate for all producers.

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.

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

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 reviewed the policy materials for legal sufficiency when the program was approved by the Board and at this time has identified no legal impediments that would prohibit Board approval for a continuation of the pilot.

FINAL RESOLUTION

RESOLVED, that pursuant to the information contained in Docket No. CI-California Citrus Dollar Pilot Program- 05-01, Exhibit No. 2794, as well as other related materials that were submitted to the Board for consideration and discussion, the Board approves the continuation of the California Citrus Dollar Pilot Program through the 2009 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

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

California Citrus Dollar Pilot Counties

