



**United States
Department of
Agriculture**

Federal Crop
Insurance
Corporation

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

DATE: April 26, 2007

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: Eldon Gould /signed/
Manager

SUBJECT: Manager's Report
Exhibit No. 2887

This memorandum serves as the Manager's Report to the Board of Directors (Board), Federal Crop Insurance Corporation (FCIC), for the April 26, 2007 meeting. The report relates to program issues as outlined below:

Program Issues:

Pasture, Rangeland and Forage Pilot (PRF) Program Sales – As of April 9, 2007, the sales of the new Pasture, Rangeland and Forage Rainfall and Vegetation Index pilot programs have exceeded expectations. There have been a robust 8,023 Rainfall Index policies sold covering 24,535,220 acres with \$328,234,326 in total liability. Each state in the pilot has a policy sold. The pilot area in Texas had the greatest number of policies sold with 5,928 policies and over 20.8 million acres covered. In the pilot, Texas has the largest area and South Carolina has the smallest number of potential acres. South Carolina had the lowest number of policies sold at 9 and just over 2,000 acres insured with \$159,995 in liability. The total liability to date already well exceeds the \$205 million for the life of the pilot.

Vegetation Index pilot program sales are at 1,687 policies sold covering 3,962,930 acres and \$61,786,236 in total liability. All states in the pilot sold policies with the exception of Pennsylvania. The South Dakota pilot area contained the largest potential acres and has the highest number of policies with 885 policies sold. These policies insure 3,029,871 acres and a liability of \$41,982,206. The state with the lowest number of sales is South Carolina with two policies covering 318 acres and \$20,289 in liability.

The participation in the pilot program areas are at approximately 16 percent, while the target goal was 10 percent at the end of the pilot.

The RMA PRF Team and the contractor have outlined a Standard Operating Procedure for processing the data at the end of the Index Intervals. This procedure incorporates several processes to accomplish the Board's trust in the program.

Aquaculture Partnership – Mississippi State University delivered the final report on the feasibility of insuring Farm-Raised Catfish, Atlantic Salmon, Trout, and Baitfish. Comments have been received from RMA Kansas City and Regional Offices and will be presented to the Board at the July 2007 scheduled meeting.

Mitigating Declining Yields Update – Two separate contracts were awarded to Science Applications International Corporation (SAIC) and AgriLogic, Inc. to develop a solution to declining Actual Production History (APH) yields due to successive years of crop losses. On November 16, 2006, the Federal Crop Insurance Corporation Board of Directors (Board) voted to send the AgriLogic Inc. and SAIC proposals to six independent expert reviewers to evaluate their proposals. RMA has received and reviewed the expert reviewer comments and presented their comments/recommendations at the April 2007 board meeting.

Peanut Option to Purchase Contracts - On September 26, 2006, the Risk Management Agency (RMA) published a final rule in the *Federal Register* for the Peanut Crop Provisions, which is effective for the 2007 crop year. The new provisions allow peanut producers to insure peanuts grown under a Sheller Contract at the price stated in the Sheller Contract. For insurance purposes, the price for peanuts grown under a Sheller Contract is limited to no more than 120 percent of the RMA established price election, which is 19 cents per pound. Therefore, the maximum price election allowed for peanuts grown under a Sheller Contract would be 22.8 cents per pound.

RMA received questions from peanut producers, their representative's and Approved Insurance Providers (AIPs) regarding whether "option" contracts with a Sheller meet the definition of Sheller Contract contained in the 2007 Peanut Crop Provisions. These contracts were specifically designed and worded with assistance from Farm Service Agency (FSA) legal counsel to permit producers to retain ownership (beneficial interest) of the peanuts while they are in the Farm Service Agency (FSA) loan program.

On March 23, 2007, after consulting with AIPs and others, RMA issued Manager's Bulletin MGR-007-004, authorizing the AIPs to accept "Option to Purchase" contracts as meeting the definition of a Sheller Contract in the Peanut Crop Provisions for the 2007 crop year only. Additionally, David Clauser, Chief, Policy Administration Branch, has been invited by FSA to be a guest speaker to provide an overview of the RMA Peanut crop insurance program at the 2007 Peanut Industry Meeting on May 24, 2007 in Atlanta, Georgia. The meeting will be held in conjunction with the American Peanut Sheller's Association. The meeting will review the 2006 peanut marketing season and plans for the implementation of the marketing assistance loan and loan-deficiency payment programs for the 2007 peanut crop year.

Regulatory Update:

Combination Regulation Update – Currently, the draft final rule is in RMA's Product Management (PM) Office. The final rule is targeted for Office of General Counsel (OGC) review and approval by late April 2007. The final rule is to be effective for the 2009 crop year.

Mustard Crop Provisions – On November 16, 2006, the proposed rule published in the *Federal Register* converts the Mustard pilot crop insurance program to a permanent program. The proposed

rule comment period ended January 16, 2007. RMA's Product Administration and Standards Division (PASD) is in the final rule process of responding to the public comments. The final rule is targeted for the 2008 crop year.

Cabbage Crop Provisions – On November 16, 2006, the proposed rule published in the *Federal Register* converts the Cabbage pilot crop insurance program to a permanent program. The proposed rule comment period ended January 16, 2007. PASD is in the final rule process of responding to the public comments. The final rule is targeted for the 2009 crop year.

Grape and Table Grape Crop Provisions – On September 29, 2006, the draft proposed rule was sent to AIPs for comment. PASD is reviewing comments and incorporating appropriate changes into the draft proposed rule. The rule is targeted for the 2009 crop year.

Fresh Market Sweet Corn – The final rule is in PM's concurrence process. The final rule updates the policy to reflect expansion of the program to select states and counties. The final rule is targeted for the 2008 crop year for counties with an November 30, 2007 contract change date.

Mint Crop Provisions - The rule converts the mint program from a pilot program to a permanent program based upon FCIC Board action. PASD is working to address OGC's comments to the final rule. The final rule is targeted for the 2008 crop year.

Northern Potato Crop Provisions and the Central and Southern Potato Crop Provisions – On September 26, 2006, the proposed rule public comment period for Northern Potato Crop Provisions and Southern Potato Crop Provisions ended. PASD is in the final rule process of preparing responses to the public comments. The rule makes changes to the Storage Coverage Endorsement and the process for determining production to count for claim purposes intended to improve program integrity and address audit recommendations. The final rule is targeted for the 2008 crop year for the Northern Potato Crop Provisions and the 2009 crop year for the Central and Southern Potato Crop Provisions.

Almond and Walnut Crop Provisions – The final rule was published in the *Federal Register* on March 12, 2007. The final rule will take effect for the 2008 crop year.

Millet Crop Provisions – On December 27, 2006, the proposed rule was published in the *Federal Register* to remove the indemnity reductions for unharvested acreage that has caused some producer concern for several years. The proposed rule comment period ended on February 26, 2007. PASD prepared responses to the public comments and the draft final rule is in PASD's concurrence process. The final rule is targeted for the 2008 crop year.

Florida Citrus Fruit – On November 27, 2006, the public comment period for the proposed rule for Florida Citrus Fruit ended. The proposed rule clarifies insurable citrus crops and provides coverage for wind damage on fresh fruit when in conjunction with a hurricane or tornado. Due to issues raised by public comments to the proposed rule, RMA is conducting additional analysis before preparing the final rule. The final rule is targeted for the 2009 crop year.

Coverage Enhancement Option (CEO) – Currently, PASD is working to resolve OGC's issues with the proposed rule. The proposed rule converts the pilot program to a permanent program option. The

final rule is targeted for the 2009 crop year. On a side note, CEO is only offered in Texas for citrus trees.

Cultivated Wild Rice – The draft proposed rule is with OGC for review and approval. The proposed rule converts the cultivated wild rice program from a pilot program to a permanent program. The projected implementation is the 2009 crop year.

Contracted Tobacco – PASD is working to resolve OGC's issues with the proposed rule. The proposed rule rewrites and renames the current Guaranteed Tobacco Crop Provisions to the Contracted Tobacco Crop Provisions reflecting the elimination of tobacco quotas. The revised regulation will eliminate the Quota Tobacco Crop Provisions as well. The final rule is targeted for the 2009 crop year.

Program Highlights/Announcements:

Florida State Department of Insurance Hurricane Assessment - The Florida State Board of Administration (SBA) issued a draft rule authorizing the Office of Insurance Regulation (OIR) to impose an assessment to replenish the funding for the Florida Hurricane Catastrophe Fund (FHCF). The proposed assessment is one percent of the insured's premium, which must be paid by the insured. This took effect January 1, 2007. RMA and some of the approved insurance providers filed written challenges to the assessment against Federally reinsured MPCCI premium asserting that it is actually a premium tax, which is precluded by section 511 of the Federal Crop Insurance Act. In November 2006, the companies were granted a motion for temporary injunction and have filed a motion for summary judgment. A ruling was recently made in favor of the insurance providers. Therefore, the OIR has terminated its effort to impose the assessment against MPCCI insurance providers.

Request for Applications (RFA) – On April 2, 2007, the 2007 RFA for Non-Insurance Risk Management Program Partnerships was published in the *Federal Register*. The RFA announced the availability of approximately \$3 million for partnership agreements for the development of non-insurance risk management tools for direct use by producers. The closing date for receipt of applications is May 17, 2007. Also, the RFA is posted at Grants.gov and complies with the OMB requirement that all discretionary and cooperative agreement programs with application packages be posted on the Grants.gov web site by FY 2007. In addition, the electronic submissions will be accepted through the web site, which assists USDA in meeting Office of Management and Budget (OMB) goals for electronic submissions. The objective of the RFA is to develop non-insurance risk management tools that will increase knowledge of and participation in existing insurance programs.

2007 Risk Management Education Request for Application Review Process - The deadline for submitting applications to RMA under the Targeted States, Commodity Partnerships, and Small Sessions programs is April 23, 2007. This year, at the request of the FCIC Board, the Commodity Partnerships Program announcement and the Targeted States program announcement include project objectives within each RMA region. During the week of June 4, 2007, RMA will meet in Raleigh, NC to review the applications and determine which applications scored highest to warrant funding consideration. The next step is RMA senior officials will meet with the Administrator in mid-June to discuss those applications that warrant funding and once approved, RMA will begin negotiations with the potential awardees prior to developing cooperative and/or partnership agreements.

FFA Risk Management Writing Contest – On January 31, 2007 was the deadline for the FFA Risk Management Writing Contest. Out of Hundreds of essays that were submitted by FFA members from across the country, the top 33 finalists were selected. From there, an independent review panel assembled by the RMA selected the 10 National Winners. From May 3 to May 4, 2007, the winners and their advisors will visit and tour Washington, DC. There, they will meet with USDA officials, tour the U.S. Capitol Building, and participate in a recognition ceremony where they will be recognized for having communicated mastery of risk management topics. On Friday, May 4, Secretary Johanns is scheduled to meet with the students.

This year marks the 10th year of the RMA sponsored Risk Management Writing Contest. The contest is a strong complement to the USDA's risk management education initiative because it promotes risk management education to young people enrolled in agricultural education. The contest provides an opportunity for FFA members to demonstrate their comprehension of risk management principles and application of various risk management tools and strategies through their personal enterprises.

The following are the 10 National Winners:

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| 1) Shelly Patton | Madison County FFA, Danielsville, Georgia |
| 2) Emilie Kuhn | Rushville FFA, Rushville, Indiana |
| 3) Gabriel Holdwick | Harbor Beach FFA, Harbor Beach, Michigan |
| 4) Heather Mekelburg | Platte Valley Academy FFA, Shelton, Nebraska |
| 5) Rachael Arkfeld | Lourdes Central Catholic FFA, Dunbar, Nebraska |
| 6) Ashley Willis | Kingfisher FFA, Kingfisher, Oklahoma |
| 7) Yancy Farney | Stafford FFA, Stafford, Kansas |
| 8) Tyler Elsner | Fort Atkinson FFA, Fort Atkinson, Wisconsin |
| 9) Andrew Bartlett | Merino FFA, Merino, Colorado |
| 10) Katie Gillmore | Buhler FFA, Buhler, Kansas |

Easter Weekend Freeze in Mid-South – During the weekend of April 7, 2007, freezing temperatures were recorded in the states of Arkansas, Mississippi, Tennessee, and Kentucky. Much of the wheat acreage in the area is at a growth stage vulnerable to damage from freeze. There are 4,870 wheat policies in these four states with 1,187,215 net acres insured, while the liability is \$110,853,858. The majority of the expected corn acres in Arkansas and Mississippi has been planted and emerged. Also, about 25 percent of the corn acreage in Tennessee had emerged. Based on NASS Prospective Planting Report, the combined total expected corn acreage in Arkansas and Mississippi for 2007 is 1,510,000 acres, which is a 185 increase over 2006. It is too early to know the extent of damage or cost of seed.

Spring Freeze: Apples, Peaches & Blueberries – On Sunday, April 8, a record breaking freeze devastated the state of North Carolina's apple and peach orchards. This destroyed fruit buds that turn into fruit later in the season. The temperature fell to a low of 18 degrees in Henderson County, North Carolina, and to 21 degrees in Moore County, North Carolina.

For the 2007 crop year, apple liability in North Carolina is \$12,370,624. A total of 4,993 acres are insured out of 6,800 acres, or 73 percent of the total apple acreage.

For the 2007 crop year, peach liability in North Carolina is \$768,331. A total of 710 acres are insured out of 1,200 NASS acres, or 59 percent of the total acreage.

For the 2007 crop year, Blueberry liability in North Carolina is \$8,920,222. A total of 4,264 acres are insured out of 4,700 NASS, or 91 percent of the total acreage. It is reported that all of the non-irrigated blueberry acreage (10 percent of total acreage) suffered damaged and 50 percent of the irrigated acreage may show a production loss in 2007. Damage assessment on the irrigated frost/protected acreage cannot be determined at this time.

For the other states in the Raleigh Region, Virginia through New England, moderate freeze damage is expected. On a side note, the northern states in the Raleigh Region did not experience above normal warm temperatures during the month of March and the subsequent drastic drop in temperature that would affect fruit blossoms and potential fruit for the 2007 crop year.

California Freeze Update - Over the weekend of January 14, 2007, a freeze swept through the state of California bringing record low temperatures and heavy damage to the citrus crop. Damage has been reported in San Joaquin Valley (Madera, Fresno, Tulare, and Kern Counties) and the Central and Southern Coasts of California. RMA has 202,679 citrus acres insured with a total liability of \$311 million in California. In addition to citrus, damage has been reported on avocados, strawberries, and nursery. The freeze for some avocados and lemon trees will affect next year's crops in certain areas. Approved Insurance Providers (AIP) are informing their producers that if they are conducting heavy pruning to their insured acres, then they must notify their company so that an appraisal can be done. April is the normal month of harvest for Valencia oranges. AIPs will gain a better assessment of the Valencia crop's condition. Initial reports indicate that the crop is in poor condition, but growers are willing to take the crop to harvest. Currently, \$16.3 million has been paid in indemnities for avocados, citrus, and sugar beets.

Arizona Freeze Update: The January freeze significantly reduced the size of Arizona's citrus crop. On April 1, the forecast for the 2006-2007 crop estimated 2.5 million cartons for lemons, which is 34 percent below the previous season, and the oranges were forecasted at 350,000 boxes, which is 22 percent below the previous season. In addition, the forecast for tangerines was at 350,000, which is 45 percent below average, and the forecast for grapefruits forecast remains unchanged with 100,000 boxes. On a side note, Valencia oranges harvest just began in April so handling in packinghouses has taken place. Currently, \$13,518 has been indemnified for lemons only.

Lawn Seed – The final report for the feasibility study was delivered and has been reviewed by RMA Kansas City and Regional Offices. The report indicates a general lack of interest for insurance in the major producing region of Oregon. There is also an insufficient amount of data available to establish either rates or prices. A viable alternative may be the use of Adjusted Gross Revenue (AGR) of Adjusted Gross Revenue (AGR-Lite).

Small Value Crops – On March 7, 2007, the final research report for the development of an insurance product to insure Small Value Crops was delivered. The contractor recommended the development of a Selected Crop Climate (SCC) plan of insurance to manage risk for the approximately \$2 billion of uninsured Small Value Crops. The SCC approach, as conceived, would allow individual producers to “select” up to five weather related perils and perilous time frames that identify the “crop climate”

profile of particular concern. This report is being reviewed to determine if this concept is feasible and if it meets the standards of the contract.

Financial Review Staff and National Association of Insurance Commissioners (NAIC)

Coordinate Efforts - The Financial Review Staff enhanced and fostered a stronger ongoing reciprocal relationship with the National Association of Insurance Commissioners and State Insurance Regulators. A significant tangible benefit from these efforts is NAIC agreement to provide data directly to RMA, thus alleviating companies from providing duplicate data to RMA. Companies sent eight fewer reports in their reinsurance year 2008 Plan of Operation as a result. Also, the enhanced working relationship has yielded benefits to both RMA and NAIC in communication, training, and oversight of approved insurance providers. On a quarterly basis, NAIC provides vital and detailed regulatory information about AIPs that is incorporated into RMA's review protocol.

Improving Program Access - To improve access to crop insurance services and programs for persons with limited English proficiency, RMA and NCIS have developed plans to capture, disclose, and increase awareness of agents who speak multiple languages as well as reaching the hearing impaired and blind. The Agent Locator on the RMA website will note the languages or services that the agent speaks or accommodations the agent is able to provide. Participation in the program by agents is voluntary. An Informational Bulletin outlining the initiative will be sent to reinsured companies in the first week of May. Further, the May issue of Crop Insurance Today magazine will feature a Florida company that makes an effort to ensure that producers speaking other languages are accommodated.

National Financial and Operations Reviews (NFOR) – The Financial Review Staff provides financial and operational oversight over all AIPs and managing general agencies participating in the Federal crop insurance program. Financial and operational oversight includes analyzing and assessing the financial and operational performance of all AIPs. In fiscal year 2007, the staff will continue to enhance its financial oversight of all 16 approved insurance providers by leading and conducting six full on-site National Financial Operations Reviews, 16 AIP annual financial analysis reviews, 64 AIP quarterly financial analysis reviews, and one new company financial analysis review. The Financial Review Staff continues to be on target with its goal of conducting an on-site review of every AIP at least once every three years.

Financial Review Staff have scheduled on-site National Financial and Operations Reviews (NFOR) of the following companies for fiscal year 2007:

- Stonington Insurance/Agro National LLC (October 2007)
- Producers Agriculture Insurance Company (March 2007)
- ACE Property and Casualty Insurance Company/Rain and Hail LLC (April 2007)
- NAU Country Insurance Company (May 2007)
- Agrinational Insurance Company/AgriServe Insurance Company (July 2007)
- Clearwater Insurance Company/Crop USA (September 2007)

Payment by Cooperatives and Trade Associations - Section 508(b)(5)(B) of the Federal Crop Insurance Act authorizes benefits to be provided to producers through cooperatives and trade associations as an exception to the Standard Reinsurance Agreement's (SRA) anti-rebating provisions. The crop insurance industry has shown increasing interest in providing such benefits. Therefore, on

January 9, 2007, RMA sent a draft Manager's Bulletin and procedures to all AIP's for review and comment by January 19, 2007. RMA reviewed all comments and made a number of changes, and a revised draft is currently circulating within USDA for clearance. These procedures, when finalized, would be used by RMA to administer benefits provided to producers under the authority of section 508(b)(5)(B).

Conflict of Interest Update - RMA's Reinsurance Services Division (RSD) circulated a draft Managers Bulletin on July 14, 2006 to provide guidance to AIP's regarding *Conflict of Interest* disclosures by company employees, agents, and loss adjusters. After evaluating the comments received from the industry, on January 30, 2007, RSD circulated a second draft for comment. RMA is preparing responses to the second draft comments and will be providing the companies an opportunity to discuss the draft before it is finalized in a Program Integrity conference scheduled for May 22, 2007 in Overland Park, Kansas.

Livestock Price Reinsurance Agreement (LPRA) - RMA contracted with Watts and Associates, Inc. to conduct a study of the Federal livestock insurance program, including the Livestock Price Reinsurance Agreement (LPRA). RSD is evaluating the recommendations of the study regarding the LPRA, and incorporating appropriate recommendations into a draft LPRA for the 2009 reinsurance year.

Prevented Planting - Parts of the states of California, Nevada, Utah, and Arizona did not obtain enough snowpack and/or precipitation for irrigation to receive reasonable water allocations for the growing season this year. In California, the reasonable expectation for the Central Valley Project is 65 percent and the State Water Project is 68 percent of their allocations to water contractors.

Electronic Written Agreements (eWA) Project - The eWA Investment project is an initiative to replacement the current RMA automated systems and methodologies. The initiative consists of the development of an enterprise architecture and platform necessary to support the RMA processes and store current and historical data. The project continues to be on schedule for implementation beginning in the winter of 2007-2008 to support the introduction of the COMBO product for Crop Year 2009.