



**United States
Department
of
Agriculture**

DATE: July 30, 2009

TO: Board of Directors
Federal Crop Insurance Corporation

Federal Crop
Insurance
Corporation

FROM: William J. Murphy /signed/
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SUBJECT: Manager's Report
Exhibit No. 3012

This memorandum serves as the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) for the July 30, 2009, meeting.

Product Management

Program Updates:

Grain Sorghum Price Project

The Food, Conservation, and Energy Act of 2008 requires RMA to enter into agreements with five expert reviewers to develop and recommend a methodology for determining an expected market price for sorghum, applicable to both the production and revenue-based plans of insurance, that may more accurately reflect the actual price at harvest. Expert reviewers were from USDA, the grain sorghum industry and institutions of higher learning. A notice has been posted in the Federal Register that outlines the process RMA is recommending to be used and invites public comment on the recommendation. The reports received from the expert reviewers are available for review at RMA's website, www.rma.usda.gov. RMA is holding a public meeting for those who wish to provide comments on the recommended pricing process on August 20, 2009, at 9:00 AM in Kansas City, Missouri.

Honey Bees

The Food, Conservation, and Energy Act of 2008 requires RMA to enter into a contract with a qualified entity to carry out research and development regarding insurance policies that cover loss of bees. A solicitation for proposals to do so was posted by Acquisition Services Directorate, and will close August 10, 2009. The objective of the study is to obtain an analysis of the feasibility and issues related to insuring Honey Bees.

Skiprow Cropping Practices

The Food, Conservation, and Energy Act of 2008 requires RMA to enter into a contract with a qualified entity to carry out research into needed modifications of policies to insure corn and sorghum produced in the Central Great Plains through use of skiprow cropping practices. Several proposals were received and clarifying questions were sent to the submitters. The technical evaluation team has finalized their recommendations to the contracting officer, so a contract should be awarded shortly.

Regulatory Updates:

Common Crop Insurance Policy

The interim rule published in the Federal Register on June 15, 2009, for public comment revises enterprise unit provisions affected by the changes mandated by the 2008 Farm Bill. The definition of “enterprise unit” in the Basic Provisions is revised to specify that to qualify for an enterprise unit at least two of the sections, section equivalents, FSA farm serial numbers, or units established by written agreement must each have planted acreage that constitutes at least the lesser of 20 acres or 20 percent of the insured crop acreage in the enterprise unit. The public comment period ends on August 14, 2009.

Comprehensive Information Management System (CIMS) Update

Since February 6, 2009, Approved Insurance Providers (AIPs) have made over 1.1 million requests for CIMS data. RMA added system’s capacity in June 2009 to increase system performance and turnaround time of the high volume of data requests. In addition, weekly reports are provided to AIPs for their producers where CIMS has identified differences in producer entity type or acreage between RMA and FSA data.

By August 7, 2009, AIPs will be provided the second set of FSA digitized Common Land Unit (CLU) files, without farm serial number, tract and field identifiers, for the States where they are approved to sell and service crop insurance policies. These CLU files allow AIPs to create maps to identify field locations and are used with RMA actuarial information to determine applicable insurance coverage, whether the field is insurable, and to validate correct premium (especially in areas designated as high risk.)

Necessary steps are being identified to provide FSA state and county office employees’ access to CIMS by October 2009. RMA and FSA are also exploring the possibility of using CIMS for staging recalculated RMA data for use by the Supplemental Revenue Assistance Payment Program (SURE).

Insurance Services

Cherry ARH Claims Issues in Washington State

A combination of winter tree damage, perfect pollination and a late harvest season resulted in far more cherries coming into Washington packinghouses all at once than could be marketed. Warehouses were forced to stop taking smaller fruit that would have sold at a profit in previous years in an attempt to keep quantity in line with demand. Market prices have dropped below what it costs some growers to grow, pick and pack the fruit. Average prices for best-quality cherries range from \$20 to \$26 for an 18-pound box, about half of what they were for last year’s crop. The Spokane regional office has been working with the National Crop Insurance Services regional committee and the Product Management office to address issues with the new ARH Cherry Pilot. Packing sheds are limiting the amount of fruit they will accept. For many growers, including most of the small operations in the Wenatchee region, warehouses are telling them to not harvest as they will not deliver and sell the fruit. If the growers do harvest, they would receive a bill as much of the crop would be culled out and not packed. If the fruit is not delivered and

sold the grower is charged an “annual NASS price” for their cherries taking many of them out of a loss situation though they are not compensated for cherries they harvested and were unable to sell.

California’s Almond Crop

This year's harvest is expected to be smaller than last year, which may raise the price growers receive. After 3 years of record harvests, growers are expecting a 1.35 million pound crop this year. This year’s crop has fallen by 7 percent from the May forecast and will be 17 percent below last year's crop. Higher consumption and a smaller crop will also mean a smaller carryover into the 2010 marketing year.

California Farmers Dealing with Drought

Interior Secretary Ken Salazar held a town hall meeting in Fresno to discuss the extent of the water crisis. Federal, State, and environmental regulations and policies have crippled California farmers’ future water supplies. Less acres have been planted this year and perennial crop acreage is being pulled. In addition to the impacted crops, the economy has suffered a great hardship. The Davis regional office participated in the meeting in Fresno on June 28.

Reinsurance Services Division Plan of Operations

All of the 2009 reinsurance-year, approved insurance providers have been approved for the 2010 reinsurance year with the exception of Western Agricultural Insurance Company whose crop insurance business was acquired by ACE Property and Casualty Insurance Company. There was one new Plan of Operation submission, which following RMA’s evaluation, was denied due to a lack of financial and operational resources, and an unacceptable performance record.

Risk Management Education Division Reviewed Grant Proposals for 2009-2010

A 27-member Review Panel met in Springfield, Illinois June 23-25, 2009 to review proposals submitted for the Targeted States Program and Commodity Partnership Small Sessions Program for 2009-2010. There were 18 applications received for the Targeted States Program: three from Hawaii, a new State added to the Targeted States program for 2009-2010. Only one project per State will be funded from the 16 States.

The Targeted States Program for Vermont was re-announced in the *Federal Register* on July 20, for a 15-day comment/submission period, due on August 4. RMA did not receive complete and valid application packages for Vermont under the original Request for Application published in the *Federal Register* on April 8. Funding for the Targeted States Program is approximately \$4.5 million.

A maximum of 90 cooperative partnership agreements would have been available for funding, with no more than 9 in each of the 10 RMA Regions. The maximum amount for any Small Session agreement is \$10,000. Only 70 Small Session proposals received the 40-points, passing score to qualify them to be recommended for funding. Total funding for the Small Session program will be approximately \$700,000.00.

A New Director Joins the Risk Management Education Division

Janie Simms Hipp, J.D., LL.M., was selected as the Director of the Risk Management Education Division, effective July 20. Prior to joining RMA, Dr. Hipp served as the National Program Leader for Farm Financial Management, Risk Management Education, Trade Adjustment Assistance, and the Beginning Farmer and Rancher Development Program for the USDA Cooperative State Research, Education and Extension Service. She has a passion for educating agricultural producers and farm families to improve their understanding of legal issues and risk management strategies. She is uniquely experienced, with an agricultural law background, to manage the life cycle of grants and cooperative agreements related to risk management education.

Compliance

Compliance Database Modernization Project

The Compliance Activities and Results System (CARS) project is now live and operational. As part of the overall RMA Information Technology Modernization (ITM) project, CARS represents the completion of obtaining a replacement database management system for Compliance cases and reporting. Work is in progress to complete the vision of a final system that will accommodate an all electronic exchange of findings and responses to each of the companies. Compliance has started the initial tests with one company to develop the processes necessary for paperless interactions.

Update Government Accounting Office Report on Fraud, Waste, and Abuse

This audit provided recommendations to RMA as to how we could improve compliance efforts. RMA agreed in principle with most of the Government Accounting Office's recommendations and agreed to proceed on the following items:

- Adjusting the producer spot-check list procedures to permit FSA to review fall seeded crops for the following year as opposed to the current year, which was ineffective. RMA discussed the possibility of separating the data mining algorithms for the fall and spring, but determined that essential data would be excluded in the process. FSA has stated that without additional resources, it will be unable to perform 100 percent of the designated growing season inspections.

Status - Complete

Distributing to each AIP the listing of its policyholders whose tax identification numbers or shareholders with substantial beneficial interests did not reconcile with FSA's permitted entity file. RMA will formally require the AIPs to review the discrepancies under Appendix IV and report the results in the future.

Status – Overdue

FSA continues to work on adding "Producer Provided Information Data Mining by RMA" to its routine use listing under the Privacy Act. Until FSA completes this task, RMA cannot use FSA entity or other reported information to implement the GAO recommendation. On July 24, FSA and RMA executed the Memorandum of Understanding on data sharing between the two agencies. This was a critical document

to complete for CIMS, as well as a precursor to the publication of the updated Privacy Act Notice by FSA to inform FSA program participants of how the data they supply will be used, including data mining by RMA.

- Finalizing a quality control program for the AIPs intended to help RMA assess the effectiveness of the quality controls used by the AIPs. In addition, RMA Compliance will continue to test AIP quality control programs during scheduled national operations reviews.

Status – In Progress

RMA continues to work on ensuring companies can fully report their quality control results through the Type 57 record and there are additional modifications necessary to make the record itself more user friendly. We continue to show this issue as “in progress” because we continue to modify the Type 57 record. While the project is operational and substantially complete, it remains subject to modification and improvement to meet the automated reporting goal.

- Finalizing the Agricultural Risk Protection Act of 2008-implemented sanctions regulations as soon as the Office of General Counsel has completed its review of the current draft. RMA informed the Government Accounting Office that the lack of these regulations had not hindered RMA from using the statutory authority to sanction some producers. However, getting the regulations in place should help improve the overall sanctions process.

Congressional Updates

RMA Administrator met with Agriculture Committee Members and Staff

During the last two weeks, newly appointed RMA Administrator William Murphy participated in introductory courtesy meetings with the Chairmen and Ranking Members of the House Committee on Agriculture and the House Subcommittee on General Farm Commodities and Risk Management. Mr. Murphy also met with the majority and minority committee staffs for the Senate Committee on Agriculture, Nutrition and Forestry. Finally, Mr. Murphy met with Agriculture Legislative Assistants to the Members of the House and Senate Agriculture Committees where he was introduced and provided a general briefing on RMA’s current top priorities.