



**United States  
Department  
of  
Agriculture**

DATE: August 12, 2010  
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. 3076

This memorandum serves as the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) for the August 12, 2010, meeting.

**PROGRAM UPDATE:**

**Pasture, Rangeland, Forage (PRF) Expansion:** RMA implemented significant expansions to the Vegetation Index (VI) and Rainfall Index (RI) PRF pilot plans of insurance. On June 25, 2009, the FCIC Board approved implementation of an Indemnity Factor, subject to funding availability in compliance with Office of Management and Budget Memorandum, "Budget Discipline for Agency Administrative Actions", dated May 23, 2005, for the VI PRF pilot plan of insurance. Funding for implementation of the Indemnity Factor (identified as "Total Loss Factor" in the program materials) became available for the 2011 crop year, thus the factor was implemented for the program.

The FCIC Board previously approved expansion of both the RI and VI programs to additional counties and states, subject to available funding. Funding became available for those expansions as well, and the programs were expanded for the 2001 crop year as follows:

The Rainfall Index (RI) PRF plan of insurance has been expanded to specific counties in Colorado and all counties in the states of California, Florida, Georgia, New York, North Dakota, Oklahoma, Pennsylvania, South Carolina, and Texas.

The VI PRF plan of insurance has been expanded to the balance of counties in Idaho, Oregon, and South Dakota not previously included in the program; and all counties in the states of Arizona, New Mexico, and Utah.

RMA has received several requests for expansion of the PRF pilot programs which will be scheduled for Board consideration at an upcoming meeting this fall. States included in these requests are Nevada, Arkansas, Minnesota, and Maryland.

**Weighting of Historical Experience:** RMA contracted with Sumaria, Inc for a comprehensive review of RMA's Actual Production History rating methodology. The report received suggested that RMA may wish to review its current method for weighting historical loss experience. A solicitation for proposals to conduct a Methodology Analysis for Weighting of Historical Experience was posted through July 19, 2010. Bids offered by prospective contractors have been received and are under review. An award of the contract is expected shortly.

**Organics:** The Food, Conservation and Energy Act of 2008 required RMA to contract for research into whether or not sufficient data exists upon which RMA could determine a price election for organic crops; if such data does exist to pursue further development of a pricing methodology using that data; and that RMA contract for research into underwriting, risk and loss experience of organic crops as compared with the same crops produced in the same counties during the same crop years using nonorganic methods. Three studies that resulted from this research, Organic Crops: Report on Research of Additional Price Elections; Organic Crops: Final Development of Additional Price Elections and Organic Crops: Revised Written Rating Report are expected to be released shortly. RMA has determined that organic price elections are feasible for corn, cotton, soybeans and processing tomatoes, and plans to issue those price elections using the basic methodology outlined in the reports for the upcoming crop year.

#### **REGULATORY UPDATE:**

**Apple Crop Provisions:** The Product Administration and Standards Division (PASD) is working with the Office of General Counsel (OGC) to complete the final rule targeted to be in effect for the 2011 crop year.

**Stonefruit Crop Provisions:** The final rule was published in the Federal Register on July 29, 2010 and is in effect for the 2010 crop year. The major change to the program is to provide insurance coverage for plums under the Stonefruit Crop Provisions.

**COMBO (Common Crop Insurance Policy) rollout:** A training session for the new Common Crop Insurance Policy was held in Overland Park, Kansas on May 18-19, 2010. This train-the-trainer meeting, sponsored jointly by RMA and National Crop Insurance Services (NCIS), provided crop insurance companies and RMA staff details regarding the changes within the new policies that combined Crop Revenue Coverage, Income Protection, Indexed Income Protection and Revenue Assurance plans of insurance with the Common Crop Insurance Policy. There were over 300 attendees at the meeting.

RMA has placed informational materials on its website ([www.rma.usda.gov](http://www.rma.usda.gov)) regarding the new policies. Since May's training session, RMA and NCIS have received very few questions regarding the new policies. The first sales closing date for impacted crops (Small Grains) for the 2011 crop year is September 30, 2010.

#### **SUPPLEMENTAL REVENUE ASSISTANCE PROGRAM (SURE) UPDATE:**

RMA's Product Management staff continues to work with the Farm Service Agency (FSA) Production, Emergencies, **and** Compliance Division (PECD) on the 2008 SURE program.

Weekly teleconferences address questions and concerns presented by the crop insurance industry and/or FSA staff regarding the SURE program. Subject matter experts from both Product Management and Insurance Services review the operation of crop insurance policies to assure that FSA has a clear understanding of data provided for the SURE program and to assist FSA in determining whether data modifications are required to the SURE output file being provided by RMA. The RMA output file for crop year 2009 SURE is under discussion with FSA. The target date for providing the output file to FSA is mid-September. In addition to utilizing existing programming specifications for crop year 2008 in the crop year 2009 SURE output file, additional programming change requests must be initiated for new insurance policies available in crop year 2009 and other changes in the output file requested by FSA.

## **MEETINGS**

National Cattlemen's Beef Association (NCBA) Summer Conference and Pasture, Rangeland, Forage (PRF) Pilot Programs. RMA was invited to speak at the NCBA Summer Conference in Denver on July 30, 2010. This meeting provided an opportunity for RMA to outline the technical aspects of the PRF insurance products and to provide a brief overview of the Decision Support and Historical Indices Tools to producers.

## **COMPLIANCE**

**National Program Operations Review (NPOR):**The regional Compliance Offices are continuing their reviews the following 2009 Approved Insurance Providers during 2010. Field reviews are being conducted nationwide and include interviews with policyholders, company personnel, agents, and adjusters who are identified with the selected policies.

CRCO- Hudson Insurance Company (HU)  
MRCO- Agrinational Insurance Company (AN)  
NRCO- Farmers Mutual Hail Company (FH)  
SRCO - John Deere Risk Protection (PE)  
WRCO- Stonington Insurance Company (ST)

On account of significant ongoing and anticipated OIG Audit and Investigation activity in the ERCO region, the ERCO will not be assigned a NPOR for this year. ERCO continues to engage problems in the Nursery program and has initiated a process to review problems identified with the Tobacco program.

**Final Findings Issued Since the May Board Meeting:** Since the last Board meeting Compliance has issued final findings to AIPs for the following amounts: premium overstatements \$279,464; indemnity overpayments \$455,588; premium understatements \$1,650; and indemnity underpayments of \$23,217. Compliance review activities also resulted in the non-payment or waiver of questioned claims totaling \$393,629.

**Recent Compliance Investigation, Appeals, and Sanction Activity:** Wilson County, NC – On July 21, 2010, two North Carolina producers and one tobacco warehouseman pled guilty for their participation in a tobacco crop insurance fraud and money laundering scheme.

Investigators determined that the warehouseman purchased "hidden" tobacco from the producers to facilitate crop insurance fraud and concealed the fraud by structuring the payments. During the course of the conspiracy, the warehouseman facilitated the sale of approximately \$1,451,084 in "hidden" tobacco. The producers sold the "hidden" tobacco through the tobacco warehouseman and also conspired with their crop insurance agent. These plea agreements are part of the ongoing Office of Inspector General investigation into fraudulent tobacco insurance activity in North Carolina and other states.

In June, the US Attorney for the Eastern District of North Carolina announced another tobacco-related plea agreement from the ongoing investigation. This plea concerned an individual who acted as a middleman for cashing checks that were issued for tobacco claimed as lost for crop insurance, but was actually sold under other entity names. The Department of Justice press release said this individual may have assisted in the sale of nearly \$4 million worth of diverted tobacco.

**Supplemental Revenue Assistance Program (SURE) Referrals:** As of August 6, 2010, the regional Compliance Offices have received 1,429 SURE referrals from FSA, almost double the number report to the Board in the May report. Compliance began receiving SURE program referrals from FSA in January 2010. Since FSA relies on crop insurance program data to calculate payments under SURE, FSA is in a position to discover reporting discrepancies while reviewing producer applications. Compliance anticipates that entity, reported acreage, and production discrepancies will constitute the majority of the referrals similar to our experience with the Crop Disaster Program.

**Current Crop Disaster Program (CDP) Referrals:** RMA continues to work to resolve the 6,761 CDP referrals received to date from Farm Service Agency offices. About half of these referrals result from policyholders reporting one entity to RMA and another to FSA. These referrals are the result of FSA identifying discrepancies noted between downloaded 2005, 2006, and 2007 crop year insurance data and data certified for farm programs at FSA.

## **INSURANCE SERVICES**

### **Regional Offices (RO)**

**Large harvest expected in Saint Paul Region (IA, MN, WI):** Although flooding, hail, and other storm damage have affected crops in some areas, the overall crop yield is expected to be large and prices are expected to hold. Even though losses have **been** reported in some areas, the region overall appears to be shaping into to a good crop insurance year.

**Iowa Flooding:** Torrential rains fell across south central Iowa July 19, northwest Iowa July 21, and northeast Iowa July 22 and 23. The worst flooding was in northeast Iowa, including the town of Olwein, which received 13.31 inches of rain which flowed to the Maquoketa River, causing the Lake Delhi dam to burst. The Delaware County NRCS District Conservationist, Keith Krause, estimates 2,000 acres of crop land and 2,000 acres of pasture were flooded. Jones

County reports roughly 4,000 acres of crop land flooded. Even if the crops survive the flooding, they may be difficult to harvest because trees, rocks, wood and other debris have been deposited in the fields. Pastures are likely a loss as the plants are covered with silt and mud. The majority of Iowa crops are in good condition with 70% of the corn and 71% of the soybean acreage rated good to excellent. Iowa planted an estimated 13.3 million acres of corn and 10.2 million acres of soybeans in 2010.

**Sugar Beet Pre-pile Starts Early:** American Crystal Sugar anticipates a large crop due to early planting in mid to late April and a good growing season. An estimated 451,000 acres of sugar beets were planted in Minnesota in 2010. The large crop is prompting American Crystal to begin their pre-pile harvest around August 17, which is about two weeks earlier than normal. The pre-pile process allows the processing facilities to ramp up for processing when the full campaign begins. The full stockpile harvest will begin around October 1, with most of the beets piled and stored to wait processing. The sugar beet yield is expected to be about 25.5 tons per acre, which would be near a record year. The sugar content of the beets is not known yet, but if normal or higher, the processed sugar yield could be the largest on record.

National Agriculture Research, Extension, Education, and Economics Advisory Board  
The board held a Specialty Crop Listening Session in Sacramento, California, on June 9. The purpose of the session was to obtain stakeholder input on specific issues related to specialty crops. A Davis RO staff member attended this event.

**California Department of Food & Agriculture (CDFA):** The Secretary of the CDFA called a meeting on June 10, in Sacramento, California, to seek understanding of the programs and services that are available to California farmers. The state's farmers have been greatly impacted by losses due to drought and cold, wet weather. Private lenders, Farm Service Agency, Risk Management Agency, California Farm Bureau Federation, California Farm Workers Association, and other state/federal programs were present to share information pertaining to programs and farmers. California Governor, Arnold Schwarzenegger, urged lawmakers to pull an \$11.1 billion water bond off the November ballot. A lot of effort was invested in getting the bond to be available for the public to act. The Republican governor had said improving the state's water storage and delivery system was one of his top priorities and wants to delay the measure until 2012. The prospects for approval would be hurt by putting the measure on the ballot.

The governor's office will begin working with lawmakers to remove the Safe, Clean and Reliable Drinking Water Supply Act from the ballot. The bond is intended to upgrade California's vast water system, which was built decades ago for a population about half the size of today's 38.5 million people. It would provide money to clean up contaminated groundwater, boost conservation efforts, update sewage systems and research the possibility of building at least two dams sought by farming interests to boost their water supply. The \$11.1 billion bond was part of a larger package of water bills passed by the Legislature.

**European Grape Vine Moth (EGVM):** The EGVM pest has established itself in several areas of premium wine grape country of California's North Coast. There are more than 1,300 square miles under quarantine in parts of Napa, Sonoma, Mendocino, and Solano counties. The pest has not shown up in any significant numbers elsewhere in the state, even though it has been caught in traps in at least three areas. There are two small areas in Fresno County (90 square miles) and

Merced County (108 square miles) where multi-finds have triggered quarantines. Different methods to control the worm pest are aggressively being applied.

**California Cotton:** This season's pima cotton crop is a few weeks behind compared to last year. A normal crop is not to be expected due to a shorter flowering period. In a normal length growing season, growers will focus on setting a bottom crop to pay the bills and a top crop for profit. It is anticipated that the average production will be three to three and half bales. For the 2010 crop year, there are 362 policies earning premium with \$93.1 million in liability to insure 134,196 acres of pima cotton.

**2010 California Almond Crop:** This year's almond crop is expected to reach 1.65 billion meat pounds, which is a 17 percent increase above last year's crop. The forecast is based on 740,000 bearing acres. Despite a variable spring weather (coolness, rain), nut set is high, weights, and measurements for the crop is up. Early harvest was expected to take place in late July. For the 2010 crop year, there are 3,436 policies earning premium with \$951 million in liability to insure 583,748 acres of almonds.

**Cool, Wet Weather Affects Other California Crops:** Other crops that may be affected by the cool wet weather in the spring are grapes that will have a 6 percent decline in production compared to last year. The crop is nearly two weeks behind and mildew has been a problem. Freestone Peaches are expected to be down slightly by 3 percent compared to previous estimates. Cool weather during bloom and the occurrence of hail in the spring was experienced. Cling Peaches are expected to be 10 percent lower than last year's crop. For the 2010 crop year for Cling and Freestone Peaches, there are 712 policies earning premium with \$67.4 million in liability to insure 41,217 acres.

## **Risk Management Services Division**

**Klamath Basin Update:** The Upper Klamath Basin experienced a serious drought over last fall and winter. Reclamation's Klamath Project serves approximately 1,400 farms (Deschutes, Douglas, Jackson, Lake, Lane, and Klamath Counties in Oregon, and Modoc and Siskiyou Counties in California) totaling some 210,000 acres. U.S. Senators Jeff Merkley and Ron Wyden announced that the U.S. Department of Agriculture has designated Klamath County as a primary natural disaster area due to severe drought conditions affecting Oregon farmers and ranchers. This designation will bring economic assistance to water users in the area for emergency loans and other assistance.

Farmers in the Klamath Basin grow a variety of crops including barley, oats, wheat, onions, potatoes, sugar beets and forage. The drought conditions resulted in many producers being without adequate supply from Upper Klamath Lake, Clear Lake and Gerber Reservoirs during the times necessary to implement proper irrigation practices on many crops. RMA along with FSA and NRCS hosted several grower meetings throughout the spring including two large meetings in Klamath Falls. The purpose of these meetings was to explain programs and answer questions related to irrigation concerns and prevented planting. The Davis and Spokane RO's have worked hand in hand with the AIP's to ensure the program is administered in accordance with RMA approved policy and procedure. Overall Federal crop insurance program

participation was up substantially in the Basin. For example, policies earning premium in Klamath County increased from 102 policies in 2009 to 171 in 2010 (not all of the business entered in FCIC's system to date).

**Prevented Planting:** There are areas in the Prairie Pothole Region of North Dakota and South Dakota that have been continually wet for several years. Much of this acreage is able to be planted only in the driest years and therefore would not be considered normally "available for planting". However, many of these acres have consistently been paid a prevented planting payment. RMA continues to provide guidance and coordination to the AIPs to ensure that prevented planting payments are made consistent with regulations and procedures. Recently, RMA issued a Final Agency Determination (FAD-110) which states that the number of acres eligible for prevented planting is limited to the acres that are physically available for planting. National Appeals Division has overturned some RMA decisions to deny prevented planting claims on acreage that was determined to not be normally available for planting. RMA is evaluating its options on pursuing further action on these decisions which may include Judicial Review.

In eastern South Dakota, livestock producers are concerned about the lack of forage as a result of flooding of low lying hay fields and prevented planting forage crops. They are looking for relief in regard to planting a secondary cover crop on the prevented planting acres that could be harvested for forage in the fall without being penalized by reducing the prevented planting indemnity payment by 35%. However, RMA does not have the authority to change these provisions of the Act.