United States Department of Agriculture

Farm and Foreign Agricultural Services

Risk Management Agency

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DATE: May 18, 2011

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: William J. Murphy */s/*
Manager

SUBJECT: Manager's Report
Exhibit No. 4020

This memorandum serves as the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) for the May 18, 2011 meeting.

2011 Mississippi River Flooding: The Risk Management Agency (RMA) has been monitoring numerous flooding issues that many producers are facing this spring. In accordance with the Federal Crop Insurance Act (Act) and the Common Crop Insurance Policy Basic Provisions (11-BR) (Basic Provisions), Section 12 Causes of Loss., states: "Insurance is provided only to protect against unavoidable, naturally occurring events." On May 4, 2011, RMA issued Manager's Bulletin MGR-11-004 regarding losses related to flooding in the Bird's Point-New Madrid Floodway and that such were considered insurable causes of loss due to existing flooding of crop land, the overtopping of the frontline levee, and the impending failure of the levee system from flooding and saturation due to excess rainfall and thus an unavoidable, naturally occurring event. RMA continues to monitor additional flooding issues, as needed, to assess the insurability of crop losses within the confines of the Act and the policy terms and condition.

Flooding in the Topeka Region: In response to recent flooded of approximately 350,000 acres in the boot heel of Missouri, Topeka Regional Office (RO) staff participated in disaster meetings over 4 days (May 10-13), in select locations in the flooded areas of Missouri. On May 10-11, Topeka RO staff participated in meetings involving the entire community, to include USDA agencies along with FEMA, and others. May 12, they met with the Army Corp of Engineers. On May 13, the Topeka RO Director and staff joined Natural Resources Conservation Service and Farm Service Agency (FSA) staff to conduct three meetings with producers in various locations. These meetings were designed to answer as many producer questions as possible at this time, regarding support of USDA.

Flooding in the Jackson Region: Catastrophic flooding on the Mississippi River is a major concern across much of the Jackson region, which includes the states of Arkansas, Kentucky, Louisiana, Mississippi and Tennessee.

As the Mississippi River reaches historic crests downstream over the coming weeks, other issues similar to the one at the Birds Point Floodway have emerged. The Morganza Spillway, which is located just north of Morganza, Louisiana was completed in 1954 by the USACE to divert floodwaters away from New Orleans. The spillway consists of a collection area (referred to as the forebay), a levee and gated control structure across the front of the spillway and a diversion channel behind the control structure (referred to as the tailbay). It is estimated that 80,000 acres of cropland was affected when water is released from the Morganza Spillway.

Prior to opening the Morganza Spillway, the United States Army Corps of Engineers (USACE) extensively reviewed the situation and determined a series of scenarios likely to result from the decision to open the Morganza Spillway at fifty percent and a decision not to open the Morganza Spillway. Under each of those scenarios, a significant amount of cropland floods even if USACE elects not to open the Morganza Spillway at points West of the Mississippi River between Morganza and Baton Rouge, Louisiana, and points north of the Mississippi River between Baton Rouge and New Orleans, Louisiana. However, according to the scenarios, if the Morganza Spillway had not been opened, there would have been additional flooding of cropland northwest of the Morganza Spillway. Thus opening the Morganza Spillway effectively mitigates flooding of certain prime cropland that would otherwise have occurred. Therefore, crop losses resulting from such flooding is caused by unavoidable naturally occurring events and is insurable under the Basic Provisions and the individual Crop Provisions for crop programs applicable to this area.

Major crop damage from flooding is also anticipated outside the aforementioned areas. In the south Delta region of Mississippi, approximately 126,000 plus acres are forecast to flood along backwater areas of the Mississippi and Yazoo Rivers. Significant crop damage is also anticipated in central Louisiana in backwater areas of the Black River, Red River and the Atchafalaya River. Arkansas and Tennessee also is expected to have significant crop damage from flooding.

Red River Flood Mitigation Plan: The St. Paul RO staff met with the St. Paul Army Corps of Engineers (ACE) on April 4, to discuss their flood mitigation plan for the Red River and impacts on farmland in the Fargo-Moorhead area. This area is prone to flooding as the Red River exceeded flood stage in 50 of the past 106 years and every year from 1993 to 2009. ACE is proposing solutions to reduce the flood risk of the Fargo-Moorhead area that include diversion channels, levees, floodwalls, and a water containment area. The proposed storage and “staging” area would include approximately 38,000 acres of farmland south of Fargo. The project, if approved, would be completed in stages and would take approximately 10 years to complete. The St. Paul and Billings regional offices are working together to assess the impact on total farm land acres, number of crop insurance policies, total liability, and other data to provide to headquarters. The project’s web site is: http://www.internationalwaterinstitute.org/feasibility/index.htm

Product Management Update

Regulations: Subpart Y-Good Performance Refund spending cuts during the 2011 budget negotiations eliminated the funds available to provide the Good Performance Refund that RMA proposed in a rule published January 6. Therefore, no refunds will be made to producers during the 2011 fiscal year.

Area Risk Protection Insurance Plan (ARPI): A Proposed Rule has been prepared that combines the Group Risk Protection (GRP), Group Risk Income Protection (GRIP) and Group Risk Income Protection - Harvest Revenue Option (GRIP-HRO) insurance plans into one insurance plan. The proposed rule is in the USDA review and approval process prior to publication for public comment. The final rule is targeted for the 2013 crop year.

Other Regulations Under Consideration: RMA is also preparing to update and make program improvements to the following crop insurance policies: Fresh Market Tomato (Dollar Plan) provisions, Onions, Peaches, Pecan Revenue, Sugar beets, and Tobacco. RMA is also working on regulations to convert the Forage Seed and Processing Chili Pepper Pilot programs to permanent programs.

Energy Contracts: RMA has solicited for proposals from prospective contractors to perform two separate feasibility studies regarding the viability of insuring advanced biofuel feedstocks. RMA solicited for proposals to study (1) the feasibility of insuring crop residues, such as straw and corn stover, and (2) the feasibility of insuring woody biomass, such as poplar and willow trees, as a biofeedstock. Both solicitations were announced through the Department of Interior's Acquisition Services Directorate, and several proposals were received. RMA is currently evaluating the proposals submitted, and expects to complete the process for awarding these contracts within the next 60 days.

Livestock Gross Margin for Dairy Cattle (LGM-Dairy): Sales increased dramatically after Board approved changes were implemented for the second half of the 2011 reinsurance year. LGM-Dairy was allocated $16.2 million in underwriting capacity for the 2011 fiscal year and exhausted that amount during the March sales period. Below is the performance of LGM-Dairy prior to and after implementation of the revisions. LGM-Dairy sales will resume with the beginning of the 2012 fiscal year.

Time period	CWT Insured	Total Premium	Producer Subsidy	Policies Earning Premium
Prior to 12/17/10	1,637,795	$524,393	$0	63
After 12/17/10	44,570,920	$24,516,690	$10,742,560	1198
Total	46,208,715	$25,041,083	$10,742,560	1261

IT Modernization: The IT Modernization program continues Phase II development. Phase II focuses on corporate reporting and providing data reporting and analysis capabilities. Phase II is scheduled for operation in mid-2011. Phase I focused on actuarial processes, policy processing, premium calculations, and other functions needed to file Crop Year 2011 insurance offers and implement the new Combo policy for 2011. Phase 1 successfully started operations in June 2010, but several enhancements and improvements are being considered and implemented heading to the 2012 crop year. RMA supports many information technology functions using private contractors. A new contract for IT services was entered into in January 2011. SAIC was awarded the contract. This contract is for 1 base plus 4 option years.

New Breaking of Native Sod for Annual Crop Production: The 2008 Farm Bill provision prohibited USDA from offering crop insurance or Non Insured Disaster Assistance Program coverage for 5 years on native sod within the Prairie Pothole National Priority Area, which was broken out for crop production. However, the provision was only applicable if elected by the Governor of the State. To date, no Governor has elected to make the provision applicable. Current crop insurance regulations provide insurance coverage for crops previously enrolled in a USDA program, such as the Conservation Reserve Program; however, for other land breaking these regulations provide that if more than 5 percent of the acreage in the insurable unit has not been planted and harvested, or insured, in at least one of the three previous crop years, that a new breaking written agreement is required. New breaking written agreements are individually underwritten by RMA staff. Concerns continue to be expressed to RMA regarding native sod and whether the crop insurance program contributes to a producer's decision to break the ground for crop production. Therefore, RMA has undertaken a review of its experience for new breaking written agreements and is considering changes to its underwriting rules that would further limit any insurance offer on such acreage to a reduced percentage of the transitional yield (e.g. not to exceed 65 percent of the transitional yield) if a producer cannot substantiate that the acreage has been previously broken.

Insurance Services Update

Spring Planting: Several weeks of cold, wet weather finally gave way to dry and warm weather, giving farmers the chance to do fieldwork and plant corn. Iowa corn planting increased 61 percentage points in one week (May 2 – 8), and has now caught up with the 5-year average. Minnesota and Wisconsin planting continues to lag behind average due to wet conditions and below average temperatures.

California's Central Valley Project: The Bureau of Reclamation has increased water allocations to the southern San Joaquin Valley farmers from 75 percent to 80 percent. The revised outlook is an increase of 30 percentage points from the initial allocation made in February and 35 percentage points above the final allocation for last year. West-side farmers receive water under long-standing contracts with the federal government, and allocations vary depending on the supply of water and environmental restrictions. The water is pumped from the Sacramento-San Joaquin River Delta, but supplies have been restricted to protect endangered species. Water is plentiful this year with conditions taking the state out of a 3-year drought.

Arizona Citrus Quarantine Update: The Animal and Plant Health Inspection Service (APHIS) issued an interim rule that will permit the interstate movement of nursery stock even from areas quarantined for citrus canker, citrus greening, sweet orange scab and the presence of Asian citrus psyllid infestations. The rule was published April 28, to prevent a gap in the domestic citrus supply in years to come. The quarantine rules for various diseases and pests often prevented any movement of plants out of quarantine zones. The quarantines were preventing nurseries from delivering new citrus trees to commercial growers who wanted to expand their groves and/or replace existing groves. Certificates and limited permits will be issued only for shipments of plants originating from facilities that operate under a compliance agreement with APHIS.

Informational Sessions for Actual Revenue History Strawberry Program: The Davis RO conducted grower and approved insurance provider sessions on the Actual Revenue History Strawberry Program that will be available for the 2012 crop year. Sales will end in July of 2011. The approved insurance provider session was held in Fresno, California, on April 27. Other sessions for growers were held in Santa Maria, Ventura, Watsonville, and Salinas. Meetings were conducted in English and Spanish in May.

Operations Plans: The Reinsurance Services Division is currently evaluating insurance providers' Operations Plans submissions that are required by Appendix II of the Standard Reinsurance Agreement and the Livestock Price Reinsurance Agreement for the 2012 reinsurance year. The 2012 reinsurance year begins July 1, 2011.

Compliance Update

Final Findings Issued Since the February 2011 Board Meeting: Since the last Board meeting Compliance has issued final findings to reinsured companies for the following amounts: premium overstatements - $817,438; indemnity overpayments - $2,208,228; premium understatements - $187,423; indemnity underpayments - $46,684; and cost avoidance - $1,324,245.

National Program Operations Review (NPOR): The regional Compliance offices (RCO) have initiated reviews of the following Approved Insurance Providers for the 2010 crop year. Field reviews will be conducted nationwide to include interviews with policyholders, company personnel, agents, and adjusters identified with the selected random and judgmentally selected policies.

2010 Crop Year

Central RCO-	American Agri-Business Insurance Company (WN)
Midwestern RCO-	Great American Insurance Company (GA)
Northern RCO-	NAU Country Insurance Company (NA)
Southern RCO -	Producers Agriculture Insurance Company (PL)
Western RCO-	Austin Mutual Insurance Company (AU)

Due to significant ongoing and anticipated OIG Audit and Investigation activity in the Eastern Regional Compliance Office's (ERCO) region, the ERCO was not assigned a NPOR for 2009 or 2010. ERCO continues to engage issues involving the Nursery program and the data mining assisted review of problems identified with the Tobacco insurance program.

Tobacco Program Issues Under Review: ERCO is reviewing the Tobacco crop insurance program to address identified program vulnerabilities associated primarily with shifting production between insured units and entities. Concurrently RMA is working to address quality adjustment problems that have increased since the quota tobacco program was terminated. The present lack of independent graders and markets for tobacco has created an unacceptable vulnerability for the program, which if not corrected, may result in a recommendation to eliminate quality adjustment for tobacco. RMA will use data mining to review the Tobacco program experience for 2010 compared with previous years to determine if the impact of these quality control reviews can be recognized and quantified. Compliance is currently looking at reports of similar problems with the Tobacco program in Kentucky and Tennessee.

Recent Compliance Investigation, Appeals, and Sanction Activity
Sanctions will continue to increase through at least the end of 2011 due to the investigation of tobacco growers, adjusters, and agents in North Carolina.

Supplemental Revenue Assistance Program (SURE) Referrals: As of May 10, the regional compliance offices have received 4,629 SURE referrals from FSA, about 600 more than were reported to the Board in the February report. Compliance began receiving 2008 crop year 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. Compliance is currently receiving referrals for the 2009 crop year as a result of FSA recently opening that crop year for SURE participation.

New OIG and GAO Audits in Progress: GAO Audit 361259, Crop Insurance Benefits, initiated February 2011. The objectives of this audit are to determine:

(1) how effective are USDA's procedures in detecting and preventing fraud, waste, and abuse in the Federal crop insurance program to minimize its costs,
(2) to what extent do eligibility standards including income and benefit limitation that apply to USDA farm subsidy programs also apply to the crop insurance program, and
(3) what is the distribution of benefits to participants in the crop insurance program.