Risk Management Agency Interpretation of FCIC Provisions:

Subject: Request dated September 25, 2020, to the Risk Management Agency for an interpretation regarding whether sections 49(a), (d), & (e) of the 2018 Whole-Farm Revenue Protection (WFRP) Pilot Policy and subparagraph 71(d)(i) of the 2018 WFRP Pilot Handbook considers only the amount of revenue from the physical expansion of the farm operation is limited to the expected revenue from the second crop.

The relevant policy provisions provided by the requestor are sections 49(a), (d), & (e):

49. Expanded Operations

(a) If you can show us your farm operation has physically expanded during the insurance period or lag year by adding production capacity to your farm operation (e.g., by adding land or an addition of a greenhouse), increasing use of existing production capacity (e.g., by double-cropping existing land or beginning production on high density orchards), or making physical alterations to existing production capacity (e.g., by adding irrigation to existing land or beginning production on certified organic acreage) we may at our discretion approve your farm operation as an expanding operation (we will not consider crop rotation or planting a higher value commodity without changes to your existing production capacity to be physical expansion. For example; if you planted more of your existing land to a high value commodity during the insurance period than in previous years, but did not otherwise change the production capacity of your farm operation, we will not approve your farm operation as an expanding operation). If so:

(1) You must provide verifiable records that we agree are sufficient to determine the amount of revenue an expansion can be expected to generate during the insurance period;
(2) We will determine the amount of revenue from the expansion approved for the purpose of determining your expanding operation factor; and
(3) If more than one expansion is applicable to your farm operation, we will determine the amount of revenue approved for each expansion separately.

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(d) If we have approved your farm operation as an expanding operation, your expanding operation factor will be calculated by:

(1) Adding the amount of revenue from the physical expansion of your farm operation during the insurance period, as determined by us, to your Average Allowable Revenue;
(2) Adding to paragraph (1) the amount of revenue from any expansions that occurred in your lag year, as determined by us; and
(3) Dividing the result of paragraph (2) by your Average Allowable Revenue to determine your expanding operation factor, not to exceed 1.35.

(e) Your expanded operation adjusted revenue will be your average allowable revenue multiplied by your expanding operation factor.

The relevant handbook procedure provided by the requestor is subparagraph 71(3)(d)(i):

71 Revenue

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(3) Expanded operation average revenue will be calculated for all applicants/insureds when the insured provides documentation indicating their operation is physically expanding either by adding production capacity to their farm operation (i.e., by adding land or an addition of a greenhouse), increasing the use of existing production capacity (e.g., by double-cropping existing land or beginning production on high density orchards), or making physical alterations to existing production capacity (e.g., by adding irrigation to existing land or beginning production on certified organic acreage) and is approved by the AIP. If so:

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(d) The expanded operation adjusted revenue will be calculated using the following tables for:

(i) An expansion that will occur in the current year:

Step	Action
1	Determine the Average Allowable Revenue for the Whole-Farm History Period. Refer to subparagraph 71(1). **Example**: Insured A has the following allowable revenue: \$130,500 for 2011; \$149,500 for 2012; \$112,000 for 2013; \$139,600 for 2014; and \$160,360 for 2015. 2011 = \$130,500 2012 = \$149,500 2013 = \$112,000 2014 = \$139,600 <u>2015 = \$160,360</u> Total = \$691,960 ÷ 5 years = \$138,392 average allowable revenue
2	Add the amount of revenue from the physical expansion of the farm operation that will or has occurred during the current policy year, as determined by the AIP, to the Average Allowable Revenue. **Example**: For the current policy year, the insured has added 50 acres to the farm operation with an additional \$10,000 of expected revenue determined by the AIP. \$138,392 <u>+ \$10,000</u> \$148,392
3	Divide the result of step 2 by the result of step 1. Round the result to two decimal places, not to exceed 1.35, to determine the Expanding Operation Factor. **Example**: \$148,392 ÷ \$138,392 = 1.07 (expanding operation factor)

Step	Action
4	Multiply the result of step 1 by the result of step 3 to determine the Expanded Operation Adjusted Revenue. **Example**: $138,392 X 1.07 = $148,079

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Interpretation Submitted by Requestor(s)

The requestors' interpretation is an insured may establish a farm operation is physically expanding by documenting an increase in the use of production capacity through the double-cropping of existing land, as set forth in section 49(a) of the WFRP Policy and subparagraph 71(3) of the WFRP Handbook. On the other hand, section 49(a) of the policy states: "we will not consider crop rotation or planting a higher value commodity without changes to your existing production capacity to be physical expansion. For example; if you planted more of your existing land to a high value commodity during the insurance period than in previous years but did not otherwise change the production capacity of your farm operation, we will not approve your farm operation as an expanding operation." Thus, adding acreage through implementation of a double-cropping practice constitutes a physical expansion of the farm operation, while the rotation from a lower value commodity to a higher value commodity does not.

In the event a farm operation is approved as an expanding operation, the methodology for computing the expanding operation factor is set forth in section 49(d) of the policy and subparagraph 71(3)(d) of the handbook. This factor is calculated by adding "the amount of revenue from the physical expansion of the farm operation" to the Average Allowable Revenue and then dividing the sum by the Average Allowable Revenue (with the result rounded to two decimal places and capped at 1.35).

Under the scenario outlined above, the physical expansion of the farm operation is based on the addition of a double-cropping practice. Thus, the "the amount of revenue from the physical expansion of the farm operation" would be limited to the expected revenue from the second crop. The expected revenue from the first crop would not be considered for purposes of calculating the expansion factor.

Federal Crop Insurance Corporation Determination

FCIC agrees with the requestors' interpretation that when a farm operation is determined to be physically expanding by utilizing a double-cropping practice on existing acreage within the farm operation, only the expected revenue from the second commodity is considered for the purposes of calculating the expansion factor. FCIC also agrees that section 49(a) of the policy does not consider the expected revenue of a higher value commodity planted on existing acreage within the farm operation as a physical expansion of the farm operation and must not be considered when calculating an expansion factor.

In accordance with section 33(a)(1) of the WFRP Pilot Policy, this FCIC interpretation is generally applicable and binding in any mediation or arbitration. In accordance with section 33(a)(1), any appeal of this interpretation must be in accordance with 7 C.F.R. part 11.