



United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

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DATE: August 8, 2013

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: Brandon C. Willis /signed for/Michael Hand/
Manager

SUBJECT: Manager's Report
Exhibit 4137

This document is the Manager's Report to the Federal Crop Insurance Corporation Board of Directors meeting on August 8, 2013.

New and Revised Products

Contract Price Addendum: Beginning with the 2014 crop year, the Contract Price Addendum (released May 21) will be available to producers who grow crops under guaranteed contracts, allowing them to use prices established in those contracts as their "price elections" in place of the RMA-issued prices. This will allow producers who receive a contract price for their crop to get a crop insurance guarantee that precisely reflects the actual value of their crop, which should be especially helpful for organic producers. The Contract Price Addendum will be offered for more than 60 different commodities in 2014.

Annual Forage Update: The first Sales Closing Date for fall crops under the new Rainfall Index Annual Forage product was July 15. This policy provides insurance for annually planted crops used for feed or fodder. The policy, approved by the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) under section 508(h) of the Federal Crop Insurance Act, is available for the 2014 crop year for producers in Kansas, Nebraska, North Dakota, Oklahoma, South Dakota, and Texas.

Research, Contracts, Studies, and Workgroups

Interagency Cover Crop Work: The growing use of cover crops for the improvement of soil quality, nutrient cycling, nitrogen production, erosion control, weed management, and soil moisture availability has created high levels of interest regarding cover crops. To address cover crop practices that have been developed recently based on new research as well as provide consistency across the United States Department of Agriculture (USDA), RMA, the National Resource Conservation Service (NRCS), the Farm Service Agency (FSA), and various stakeholders and cover crop experts worked together to develop cover crop management guidelines across Federal crop insurance policies that will reference the NRCS guidelines for cover crop farming practices. These guidelines form consistent

recommended cover crop management practices and proper termination timeframes for each crop production area. The Cover Crop guidelines were released in June for non-irrigated crops for the 2014 crop year. An overview of the new guidelines was provided to the crop insurance industry at the National Crop Insurance Services (NCIS) Train-the-Trainer meeting July 17. A national webinar was held on July 24, to explain the new guidelines.

Actuarial and Econometric Analysis Support Contract: In May, RMA awarded a contract with Sumaria Systems, Inc., to provide actuarial and econometric analysis support to RMA. Initially, the contract will focus on area-based program design concepts with a major emphasis on the use of data reported to RMA under the crop insurance program. This will include a review of existing data standards for area-based crop insurance programs and the effects varying program standards have on the ability to produce actuarially sound yield expectations and premium rates. This contract will also provide continued support for maintaining and updating premium rates.

Limited Irrigation Research Study: RMA issued a solicitation for a contract to conduct research and analysis regarding irrigation policy for potential crop insurance program development. This effort involves several phases accomplished with task orders issued under a contract awarded to Watts and Associates on January 23. The first deliverable, received in February, documents and outlines where the current policy and procedure are adequate or inadequate for handling reduced irrigation practices. In March, listening sessions were held in Colby, KS and Kearney, NE, to obtain input and ideas from growers, industry, and other interested stakeholders regarding limited irrigation and crop insurance. The second deliverable, received May 23, evaluated the feasibility of insuring limited irrigation using a model developed by University of Nebraska – Lincoln (UNL), RMA, or whether alternative solutions are warranted. From this deliverable it was suggested the UNL model is not the appropriate vehicle for offering limited irrigation insurance, and RMA is in the process of evaluating options to determine the most feasible approach for developing an alternative approach that will best meet the needs of a wide range of producers, and provide long-term viability and sustainability as part of the Federal crop insurance program.

Hybrid Sweet Corn Seed Insurance Product Development: A contract to develop an insurance product for hybrid sweet corn seed has been completed. The proposed pilot program will be presented to the FCIC Board of Directors at the August meeting.

Tart Cherries Insurance Product Development: A contract to develop an insurance product for tart cherries was completed and the FCIC Board voted to send the proposal to expert review at the May 2013 Board Meeting. The reviews have been completed and the results will be presented at the August board meeting.

Data and Computer Applications

Acreage and Crop Reporting Streamlining Initiative: The Acreage and Crop Reporting Streamlining Initiative (ACRSI) project launched a pilot acreage reporting web application for 2013 spring crops. The application is available in four central Kansas counties, and is being tested by specified USDA employee-producers. The limited pilot

provides a controlled environment for testing and evaluation of the web application and the underlying systems that share data across multiple USDA agencies.

Regulations

Final Rules

Area Risk Protection Insurance Plan (ARPI): The final rule was published on June 26. ARPI combines the area based insurance plans Group Risk Plan, Group Risk Income Plan and Group Risk Income Plan Harvest Revenue option, into one policy that offers both yield and revenue coverage on an area basis. The new ARPI policy is available for the 2014 crop year.

Catastrophic Risk Protection Endorsement: The changes clarify existing policy provisions and incorporate changes that are consistent with those made in the Common Crop Insurance Policy Basic Provisions and the Area Risk Protection Insurance Basic Provisions. The final rule has cleared USDA's Office of General Counsel and is in the final USDA review process. The changes will be effective for the 2014 and succeeding crop years for all crops with a contract change date on or after the effective date of the rule, and for the 2015 and succeeding crop years for all crops with a contract change date before the effective date of the rule.

Processing Sweet Corn: The final rule is pending publication and will amend the Processing Sweet Corn Provisions to use the base contract price as the price election. This will allow producers the ability to establish an insurance guarantee more reflective of the producer's expected market price for processing sweet corn. The new policy is targeted to be in place for the 2014 crop year.

Arizona-California Citrus: The final rule was published on August 1. The final rule amends the Arizona-California Citrus Crop Insurance Provisions to clarify existing policy provisions and to better meet the needs of policyholders. The new policy will also reduce vulnerability to program fraud, waste, and abuse. The major changes include standardizing terminology, allowing optional units by commodity type if allowed by the special provisions, expanding insurable causes of loss for fruit damaged by insects and disease unless damage is due to insufficient or improper application of control measures, and clarifying insurability requirements for topworked and grafted trees. The changes are targeted to be effective for the 2015 and succeeding crop years.

Proposed Rules

Subpart U – Ineligibility for Programs under the Federal Crop Insurance Act: The proposed rule was published in the *Federal Register* on December 5, 2011. The changes eliminate redundancies, improve clarity, remove or update obsolete references, and add other references to other regulations and statutes regarding ineligibility for Federal crop insurance. In addition, it removes Subpart C – Mutual Consent Cancellation and Subpart F – Food Security Act of 1985, Implementation; Denial of Benefits. The proposed

changes are targeted for the 2015 and succeeding crop years. The comment period ended February 3, 2012. RMA reviewed and provided responses to all comments received. The draft final rule is proceeding through the concurrence process.

Forage Seed: The proposed rule to make the Forage Seed Pilot program into a permanent program has been drafted and is in the review process. The rule has cleared USDA's Office of General Counsel review and issues raised are being addressed. The rule is expected to be published in August. The Forage Seed Crop Provisions provide insurance protection for forage seed that is contracted or grown as certified forage seed.

Reinsurance Services Division

For the 2014 reinsurance year, RMA has 19 approved insurance providers (AIP), one which sells livestock products only. A new AIP for 2014 is Atlantic Specialty Insurance Company, and its managing general agency Climate Crop Insurance Agency (CCIA). The Climate Corporation has marketed their "Total Weather Insurance" supplemental policy for the last few years and decided to enter the multiple peril crop insurance marketplace, so they created CCIA to administer their multiple peril crop insurance business.

Regional Offices

StrikeForce

On May 23, the Valdosta Regional Office (RO) attended the Georgia StrikeForce Informational Meeting in Fort Valley, GA. The background and purpose of the StrikeForce Initiative was discussed with the audience, which consisted of several community based organizations and congressional representatives.

On June 5, a Raleigh RO risk management specialist traveled to Richmond, VA to attend the Virginia StrikeForce Board Meeting. Agencies in attendance included NRCS FSA, Rural Development (RD), Food and Nutrition Service (FNS), and their partner, Virginia State University. Each agency provided an update on progress made in the 2013 Business Plan. Another event attended was a June 25 Summer Lunch Start-Up in Sandston, VA—one of 15 Rural Development sites where income-eligible children will be provided with lunches throughout the summer. The RMA StrikeForce mission and goals were shared with the Board. This is RMA's first meeting as a new Virginia StrikeForce Board member.

On June 25, the Davis RO participated in a USDA StrikeForce Initiative meeting, "Local Food and Rural Arizona: USDA and You," in Phoenix, AZ. The meeting, led by Lisa Pino, Deputy Assistant Secretary, with the Office of the Assistant Secretary for Civil Rights, included USDA program information and stakeholder discussions sessions. The sessions included USDA agency representatives from: NRCS, FNS, RD, RMA, FSA, Agricultural Marketing Service, Food Safety and Inspection Service, and the Office of the Assistant Secretary for Civil Rights. The Davis education coordinator provided information on crop insurance programs and cooperative partnership agreements programs. There were over 100 participants.

Prevented Planting, Final Planting, and Acreage Reporting Dates

On June 3, the St. Paul RO director spoke with the Iowa Cattleman's Association and Rural Strategies, LLC regarding hay shortages, winterkill, prevented planting, and haying/grazing of cover crops. Concerns about crop insurance impacts for cattle producers who want to hay and graze cover crops after prevented planting, as well as corn silage insurance were discussed.

On June 13, a risk management specialist from the Springfield RO provided general information on prevented planting at a meeting sponsored by Cooperative Extension held to discuss producer options this spring related to prevented and late planting. The meeting was held at Rend Lake Community College in Mt. Vernon, IL.

On June 14, a St. Paul RO senior risk management specialist met with Practical Farmers of Iowa via webinar to discuss prevented planting. They asked about the November 1, date and if chopping of a cover crop is permitted if it is after November 1. They were told the November 1 date could not be moved. NRCS and Iowa State Extension presented cover crops and prevented planting rules. There were 95 people on the webinar.

On July 15, the St. Paul RO director spoke with the Wisconsin Farm Bureau about prevented planting options and the policies covering the harvesting of forage on these acres. Discussion focused on winterkill acres of forage, wet spring planting conditions, prevented planting acres, and options for harvesting forage cover crops without impacting prevented planting payments. Farm Bureau members were encouraged to talk to their crop insurance agent and access RMA's fact sheets and web site information.

On June 20, the Davis RO participated in the California Wild Rice Advisory Board Meeting in Yuba City, CA. The RO provided producers a brief overview of the crop insurance program and the latest program changes available. The RO will research the final plant dates at the producers request that some county dates are too early in comparison to normal cultural practices.

On June 27, the Raleigh RO deputy director and a risk management specialist met with the North Carolina Cotton Cooperative and North Carolina Cotton Council. On July 2, they met with the North Carolina Farm Bureau to discuss changes to the cotton final planting date for the 2014 crop year. All parties have agreed that it would be acceptable to move the final planting date to May 25, which is 5 to 10 days later than the 2013 final planting date.

The Oklahoma City RO reviewed acreage reporting dates for potatoes and annual forage, barley, canola, rye, and wheat in Oklahoma, Texas, and New Mexico to support the common acreage reporting initiative between FSA and RMA.

The Valdosta region experienced a cool, wet planting season that delayed planting. Some areas of Alabama, Florida, Georgia, and South Carolina continue to experience rainfall daily that impacts the crop progress and quality. At this time the Valdosta RO has not experienced a high volume of large claim notices of losses to consider.

Drought Conditions, Large Claims, Flooding, Rain and Hail Damage

California is experiencing the driest January-through-June period in 90 years. The State Water Resources Control Board regulates water rights in California has informed water users that extremely low runoff in California rivers could require even senior water rights holders to reduce their consumption this summer and fall. Further water reductions would affect producers of rice, tomatoes, and other row crops.

Utah, Nevada, and Hawaii, much like the rest of the West, are experiencing scarce water conditions, primarily affecting rangelands.

Asian citrus psyllids have been found in the heart of California's main citrus-producing region. The concern is that Asian citrus psyllids can carry huanglongbing, also known as HLB or citrus greening. The bacterial disease can devastate citrus trees, threatening the State's \$2 billion industry. There are over 227,000 acres insured with a liability of \$510.5 million in California.

In response to the drought and questions received from both producers and AIPs, the Oklahoma City RO issued several helpful guides on the RMA public web site. This information includes: several frequently asked question guides dealing with crop insurance and drought damaged crops and irrigated prevented planting, an irrigation documentation tool in Microsoft Excel, and a list of resources for AIP and policyholder decisions regarding irrigation water availability.

On July 18, thunderstorms struck north central Washington in the early morning hours damaging the apple crop. The storms delivered hail in some production areas, while other production areas had been hard hit by hail about 7 weeks earlier. Earlier rains had already caused damage to the cherry crop. Early and mid-season cherries were hit by May and June rains. Some growers did not pick because of rain damage and already light crops. The Northwest Cherry Growers reported that the industry had shipped 9.7 million, 20-pound boxes through July 18, with 350,000 boxes per day over each of the previous 4 days. A fast increase in temperature after a rain can cause cherries to split.

Outreach

On July 10, the Oklahoma City RO hosted a 2014 crop year update meeting. All Approved Insurance Providers were encouraged to attend. This meeting was provided for company underwriters and those who deal with the written agreement issues and extranet written agreement requests. The RO also provided an overview of the 2014 crop year program changes and 2014 Written Agreement Handbook updates.

On July 19, a St. Paul RO risk management specialist attended a field day sponsored by the Minnesota Apple Growers Association. The field day consisted of a meeting, a tour of the apple orchard, the packing plant, the apple juice processing facility, and the cold storage facilities. There were 175 people registered to attend and they had some additional walk-ins. People came from all over the Midwest for this annual presentation. Each year it is held at a different orchard. This year it was held at Pepin Heights Orchard in Lake City, MN. Speakers from the University of Minnesota discussed pollination,

fruit setting, and fertilization. The Minnesota Department of Natural Resources spoke about the program they have to provide assistance for fencing the orchards.

On July 19, the St. Paul RO director presented on new and beginning farmer programs RMA has to offer. The audience consisted of FFA members from across the country.

On July 24, the St. Paul RO director and deputy director participated with the Planning Committee to help set up the One USDA Tribal Training Session tentatively scheduled for September 4 - 5. So far, the Committee has two volunteer tribes for hosting the event, the Mole Lake Lodge Tribe and the Ho-Chunk Wisconsin Dells Tribe. The purpose of the event is to educate Wisconsin tribes about USDA programs available and the services offered.

Crop Expansion

The Davis RO recommended ten new county crop expansions for pecans, olives, blueberries, corn, and grain sorghum. The expansion will extend insurance to an additional 11,000 acres in California, Nevada, and Arizona.

Irrigation

Idaho growers who produce high value crops like potatoes and sugar beets, wheat, malt barley, and dairy-quality corn and alfalfa hay, in the 400-mile-long Snake River Plane of southern Idaho have faced many untimely weather events this growing season. A mid-June frost followed by record heat during the first part of July stressed crops already being affected by a second year of drought conditions. The frost and heat mainly caused concern for wheat and malt barley producers, as those crops were in the critical flowering and/or kernel fill stage.

Drought conditions of moderate to severe (USDA Drought Monitor July 16) along with already depleted reservoirs now have growers and canal companies scrambling for water. One irrigation district covering 62,000 acres will soon exhaust their share of surface water about a month ahead of normal, and will then have just 48 percent of their typical reservoir storage. Another district saw 36,000 acres run out of irrigation water for the balance of the 2013 season, causing many hay producers to only harvest one cutting of hay while some of the grain will not make it to harvest. Other districts in southwestern Idaho, who usually have surface water supplies that typically last until mid-October, are hoping to keep the water flowing until the first part of September. That is critical for dry beans, potatoes, sugar beets, and some fruit orchards.

In southeastern Idaho, some dryland grain producers are anticipating crop yields to be 50 to 90 percent of average. After a dry summer last year, winter wheat crops were hurting this spring. Add to that the huge temperature swings in June and continued dry conditions and some farmers are saying they will not run their combines through some fields. Participation levels are high particularly on grain crops in Idaho.

While there have been recent rain events in central and eastern Oklahoma, the drought situation continues to drastically affect irrigation supplies, both surface and ground water in the rest of Oklahoma, Texas, and New Mexico.

Waste and Fraud

The criminal fraud case United States of America v. Lynn J. Olsen, II, Mark G. Peterson, Blake T. Bennett, Jeffrey J. Gordon, Olsen Ag. Inc., Poco, L.L.C, Tri-Cities Produce, Inc., and Fred F. Ackerman concluded as the longest running court case in the United States District Court Eastern District of Washington history. The trial lasted 38 days. Assistant United States Attorney Tyler Tornabene presented the Government's case. Several staff members from RMA were Government witnesses in this case. The jury deadlocked one count of conspiracy and two counts of false applications to overvalue crops for insurance purposes. The U.S. Attorney General's Office filed its notice of intent not to re-try the criminal case and a motion to dismiss the remaining counts without prejudice. The Spokane RO is working with the U.S. Attorney General's Office in Spokane, WA and USDA's Office of General Counsel in Portland, OR to file a civil fraud case for false claims.

Cover Crops

On May 30, the St. Paul RO deputy director and senior risk management specialists met with Iowa FSA and NRCS staff via teleconference to discuss prevented planting and cover crops. They had specific questions of what cover crops could be planted and what options producers have for prevented planting. The St. Paul RO discussed cover crops, directed them to the Prevented Planting fact sheet and reminded them to advise customers to talk to their crop insurance agents. NRCS and FSA will send a joint memorandum to their field staff with the information RMA provided.

On June 13, the St. Paul RO director, deputy director, and senior risk management specialists met with Wisconsin NRCS and FSA to discuss cover crops and prevented planting. The One USDA Message was discussed as well as the rules for each agency's program.

On June 18, the St. Paul RO director and a senior risk management specialist met with NRCS and FSA in St. Paul, MN to discuss the different cover crop rules for each agency and a plan to help promote the One USDA Message. NRCS also discussed the Cover Crop fact sheet they are preparing for Minnesota cover crops.

On June 18, a St. Paul RO senior risk management specialist met with the Minnesota State FSA Committee in St. Paul, MN to discuss recent crop insurance highlights, prevented planting rules, and coordination of cover crop rules involving the two agencies. The recent winterkill of alfalfa in southeastern Minnesota was discussed at length and the types of emergency forage available.

On June 24, the St. Paul RO director and senior risk management specialist met with Wisconsin USDA Service Center staff to discuss cover crops and prevented planting. Many counties in Wisconsin were impacted by alfalfa winterkill, followed by a cool, wet

spring that delayed or prevented planting. Many questions arose in this area about prevented planting policies, cover crop restrictions, and the haying and grazing of cover crops. The One USDA Message was discussed as well as the rules for each agency's program.

Large Claims

The Davis RO is currently participating in two large claims for pears and macadamia nut crops and we expect a significant cost savings in both. Errors in the appraisal process and unit structure have been identified and are being resolved. In addition, the RO has recommended policy revisions to the Macadamia Nut program unit structure to reduce vulnerabilities in the program and align the program more with other perennial programs.

Compliance

Since the May 2013 Board meeting RMA's Compliance Office has issued final findings to reinsured companies for:

- Premium overstatements of \$4,011,949;
- Indemnity overpayments of \$1,074,467;
- Premium understatements of \$11,480;
- Indemnity underpayments of \$6,176.

Compliance also reported \$210,529 in indemnity cost avoidance.

The 2013 Conflict of Interest Review List

On July 31, the initial 2013 Conflict of Interest Review List (COI) was provided to the AIPs by the Strategic Data Acquisition and Analysis Staff and the Center for Agribusiness Excellence. Since 2013 crop year data is still relatively shallow. This year an initial list was produced to capture the 2013 fall-seeded crop data and preliminary spring crop data. Policies with a relationship that could potentially qualify as a conflict at loss time were included in the initial COI data run that resulted in 32,146 policies being identified. To determine the number of mandatory reviews for the 2013 crop year, the requirements were that the policyholder must have reported a loss and the policy score had to be more than five points above the county average score. Using these criteria, the number of mandatory reviews for all AIPs at this time is 4,021 policies. The mandatory review list will be updated in the future as additional claims are transmitted to RMA, which may result in additional reviews being assigned to the AIPs

National Program Operations Review (NPOR)

The reviews of companies selected for the 2012 crop year NPORs are in process and the field reviews for at least 360 random and non-random selected policies around the country are being completed. The companies being reviewed this year are:

Hudson Insurance Company (HU)

Farmers Mutual Hail Company (FH)
Agrinational Insurance Company (AN)
Rain and Hail, LLC (RH)
John Deere Risk Protection (PE)
CGB Diversified (AU Closeout)

The Regional Compliance Offices are also wrapping up their final findings and reports for the 2011 crop year NPOR reviews. The companies reviewed for the 2011 crop year were:

Occidental Fire and Casualty (Agrilogic - OX)
XL Reinsurance (Heartland - GI)
Country Mutual (CM)
Prevented Planting
Rural Community Insurance Services (EF)
American Agricultural Insurance Company (FA)

Supplemental Revenue Assistance Program (SURE) Referrals

For the week ending August 2, 2013 the Regional Compliance Offices had received 8,794 SURE referrals from FSA or slightly more than 700 additional referrals compared to what was reported to the Board in May. 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 is currently receiving referrals for the 2008, 2009, 2010, and 2011 crop year from FSA. The majority of the new referrals since May are from the 2011 crop year.

Tobacco Program Abuse

The U.S. Attorney for the Eastern District of North Carolina continues to successfully pursue persons abusing the crop insurance program. Compliance will also continue to provide investigative support to the Office of Inspector General and revoke program eligibility using debarment or disqualification for persons found to have committed offenses warranting their exclusion from program participation. Similar efforts are ongoing in other tobacco producing states.