To: Leiann Nelson, Senior Underwriter, RMA-USDA

From: The National Sustainable Agriculture Coalition

Date: April 24, 2015

RE: Whole Farm Revenue Protection Policy (WFRP) Recommendations for Crop Year 2016

The National Sustainable Agriculture Coalition (NSAC) has been an advocate for the development of a viable Whole Farm Revenue Protection (WFRP) policy for a few years. Our interest in this issue stems from our belief that all farms including small, diversified, niche, direct to consumer, and organic farms deserve access to the federal crop insurance program equal to that enjoyed by corn, soybean, wheat, cotton, and peanut farmers.

We very much appreciate the Risk Management Agencies (RMA) efforts last year to ready WFRP for the 2015 crop year. The uptake by farmers of WFRP in 2015 has been encouraging, but there have also been challenges that have limited its usefulness for many farmers, including those that market directly to consumers.

We appreciate the opportunity to provide comments and recommendations on WFRP in advance of the 2016 crop year. Our comments and recommendations are made with the goal of strengthening WFRP during its pilot period in order to make it more useful and available to farmers. We fully realize that some of these recommendations may not be able to be implemented this year, but we include them in order to make sure they are kept in mind as the pilot period progresses.

Recommendations

1. **Develop a web-based Whole Farm Revenue Protection tool for farmers.**

   While RMA has a cost estimator for WFRP, that tool does not go into as much detail as we envision a web-based tool could. RMA previously supported the development of an AGR-Lite "wizard," which we see as the model for this new tool. The wizard allowed farmers to input all of the information they would need when visiting their agent from the comfort of their own home. This allows them to evaluate the product before visiting the agent. The AGR-Lite wizard also allowed farmers to explore possible "loss scenarios" and estimated indemnity payments, which made for a better assessment of whether the product would provide the level of coverage desired. Finally, since this policy is more complicated and time consuming than a single crop policy, allowing the farmer to get all of their information organized ahead of time will make the process with the agent easier.

   We have heard that some agents are reluctant to recommend the policy because of the time it takes to compile the needed paperwork and write the policy. The agent has to collapse the farmer's crop list for all the crops that are not on RMA's list and consolidate minor crops that don't individually amount to enough revenue to be reported. An online Wizard could

shorten the time it takes to write the policy by showing the farmer what crops will need to be collapsed and consolidated.

The wizard can also help farmers identify issues early on that might prevent them from being able to purchase the policy, such as if they derive more than 35 percent of their revenue from livestock, or if they don't have enough diversity to be able to access discounts or the highest level of coverage.

2. **Continue to seek out ways to make WFRP available to beginning farmers.**

   We understand the need to have some historical data for a farm in order to rate a farmer's risk, but the requirement for five years of farm revenue data presents an un-scalable wall for many beginning farmers. We appreciate the allowance for using the revenue from prior owners, but in many cases this information is not available to use. Many new and beginning farmers with whom we work are farming land that doesn't have the appropriate history or is being returned to farming and has no recent revenue history.

   There is also a bit of irony in the juxtaposition of the current five-year requirement for WFRP and the new farm bill provision for a 10 percent premium subsidy bonus for beginning farmers for the first five years they have insurable crops and livestock. This combination of current policies is saying, in effect, that you are eligible for single crop insurance products, with a bonus, but are ineligible for insurance for diversified operations, notwithstanding the positive risk and economic benefits of diversification. In fact, if you choose diversification, you are surrendering your opportunity to benefit from the beginning farmer crop insurance incentive. In our view, this is both unwise and unfair.

   We suggest that RMA require only three years of historical data for beginning farmers. Premiums could be increased, if necessary, for actuarial soundness.

   A shortened revenue history requirement could also help address concerns that WFRP does not work for rapidly growing operations including existing grain farms that want to diversify into new crops (i.e. specialty crops/livestock) to take advantage of growing demand for local and regional food.

   An alternative, that would likely take longer, would be to develop transitional revenue factors to function similarly to transitional yields used for individual crop policies.

   We also encourage RMA to work with FSA to explore how Non-insured Disaster Assistance Program (NAP), including buy up coverage, could serve as a bridge to WFRP. For instance, NAP record keeping requirements could be set up to mimic what would be required for WFRP so that in five years a NAP users would be ready for WFRP.

3. **Simplify and streamline the reporting and recordkeeping requirements for WFRP, including process for determining individual crop prices for the Farm Operation Report.**

   For farms that are highly diversified or that sell into multiple streams (direct to consumer, CSA, and wholesale), purchasing a WFRP policy can be a daunting task.

Farms that grow a couple dozen crops and sell them into multiple channels for different prices have a hard time using WFRP because the price obtained from each stream is different. Many farms that have CSA's also sell in other channels, and for CSAs it is very hard to calculate the value of each crop since they are not paid for separately.

It can also be a very time consuming policy for crop insurance agents, which makes some of them disinclined to recommend the policy. In order to determine the premium the insurance agent has to collapse the farmer's crop list for all the crops that are not on RMA's list and consolidate minor crops that don't amount to enough revenue to be reported separately. If the farmer's records for each crop and each market type are not in great shape, this process can take a long time.

There is concern that when it comes time to approve an indemnity and a farmer has recorded a price on their Farmer Operations Report that appears higher than other farms in the area, they could have their claim denied for lack of adequate price evidence.

We appreciate the addition of guidance to the WFRP handbook on the types of records needed to support the prices entered into the Farm Operation Report. We understand that this list is not intended to be a hierarchy and support that not being the case.

Given the complicated nature of the application process it could simplify the reporting process to allow farmers to use the documented average price for the proceeding year or a contract price and the average price for a crop across all marketing channels and crop varieties for the intended expected value of the commodity. While the ability of farmers to insure their crop for the actual price they receive is an important element of WFRP, for highly diversified farms, that may not be feasible or desired.

We also recommend RMA eliminate the mid-growing season, Revised Farm Operation Report. Requiring its completion at the busiest time of year, gives one more reason to avoid the policy. Given the level of detail required in the initial Farm Operation Report it is unclear if the mid-season report is really needed.

4. **Return to the definition of qualified causes of loss included in the AGR-Lite policy by amending the policy handbook's definition of loss (Section 91, first paragraph, page 45)**

"WFRP provides protection against the loss of approved revenue due to unavoidable natural causes or market fluctuations that cause a loss in revenue that occur during the insurance period. A decline in local market price will NORMALLY be presumed to be from unavoidable natural causes. ~~unless the AIP or FCIC specifically identifies a man-made cause that resulted in a measurable change in the price. A decline in local market price due to man-made causes is not an insurable cause of loss."~~

This change will also necessitate striking item 16 from the list of uninsurable causes of loss since market fluctuations are an insurable cause of loss even if most often caused by natural causes.

~~(16) Decline in local market prices due to man-made causes.~~

5. **Strike item 12, page 46 from the list of uninsurable losses in the WFRP policy handbook.**

   This item on the list of uninsurable losses should either be struck or clarified. This is related to recommendation 3 above. This appears to imply that if you sell a product at a higher or lower price than some "established" local market value then the revenue generated by that product is uninsurable? A farmer holding this policy has no more control of the local price than a corn farmer has over price, but nonetheless a corn farmer is protected in a revenue policy by clauses that protect them in case of price changes as well as yield changes.

   ~~(14) Failure to obtain a price for any commodity that is reflective of the local market value.~~

6. **Clarify procedures for farms that operate CSA's but also market in other ways.**

   While we understand that CSAs traditionally act as their own informal insurance policy, many farmers the operate CSA's also direct market and sell into the wholesale market. CSA's are often an entry point into farming for those that don't have the capital, land, insurance, or access to market their crops in other ways. A single crop can have a different price based on how it marketed CSA, wholesale, or direct to consumer. In the case of the CSA, that price can be extremely difficult to document since consumers receive a variety of crops for a set number of weeks in exchange for a single payment.

   Farmers that operate CSA's and market their crops in other ways should still able to purchase a WFRP policy even if the CSA portion of their crop is not eligible to be covered.

   We recommend that RMA provide the ability for these producers to insure the non-CSA portion of tier crop in a simple and straightforward manner.

   If this recommendation cannot be adopted and CSA crops need to be included in the policy, we would then recommend that RMA develop a method for farmers to estimate an expected value for crops in the CSA. It is extremely difficult for a farmer to develop a price for CSA crops since they are not sold individually. Allowing a substitute price from another marketing channel could do this. Allowing them to use the mixed vegetable commodity code (0956) for the CSA portion of the production could be another option.

7. **Expand WFRP to every state.**

   Secretary Vilsack indicated in his written testimony before the Senate Agriculture Committee on February 24th that he expects WFRP to be expanded to every state for the 2016 crop year. We support the expansion of WFRP to every state. The policy cannot be truly successful unless all farmers have access.

8. **Continue to expand the WFRP crop list to avoid the need to lump commodities.**

First, we want to thank you for your quick response to concerns that RMA's WFRP crop list had only a limited number of crops available in some states.

When the WFRP system does not list a crop, the farmer, using the cost estimator, or the agent, when calculating the premium, must utilize the "other …" categories in order to calculate the premium. This necessitates the lumping of crops into the "other ..." categories, which reduces the credited diversity of the farm.

As a result of this lumping a farmer's premiums could be higher than their actual level of diversity requires. The "other…" categories also have a higher risk rating because the crop is unknown, which increases premiums.

In some cases lumping can eliminate access to the full subsidy, diversity discount, or highest coverage levels.

9. **Eliminate the 35 percent maximum on the amount of revenue from livestock and instead lower the $1 million cap.**

We recommend the elimination of the 35 percent cap on revenue from livestock and would instead suggest a simple flat dollar cap at a level less than the current $1 million (perhaps $500,000 with a separate higher cap for dairy). Because of the high value attached to livestock relative to grain crops , a diversified small grain and hog operation can cause a farm to exceed the 35 percent cap, closing off WFRP to many diversified farmers. For example a $500,000 cap would still allow a diversified farmer with a 60-sow farrow to finish operation to triple in size and still qualify. Lowering the dollar cap would also reduce the risk of eliminating the 35 percent cap so that the largest livestock operations that are not truly diversified cannot take advantage of the program.

10. **In partnership with FSA, develop and fund a train-the-trainer program for WFRP and NAP.**

NSAC was pleased to see that many of RMA's Risk Management Education Partnership agreements went to organizations that are educating farmers on WFRP. However, we feel that a joint effort between RMA and FSA to fund outreach on each of these agency's risk management tools would be beneficial to farmers.

We recommend that RMA partner with FSA to develop a comprehensive train-the-trainer program to cross-train NGOs, FSA, RMA, Extension, and insurance agents on both NAP and WFRP in order to increase participation in both programs. FSA agents should be trained in WFRP requirements so they encourage NAP users to keep good records and also so they can help guide producers to the program that works best for them.

This could potentially be accomplished through cooperative agreements funded by RMA's Risk Management Education Partnership program, interagency agreements, the new Bridges to Opportunities initiative, and possibly also via the NIFA regional Risk Management Education RFAs. We recommend an agreement be struck and funding identified in the coming months, with roll out beginning by late summer or early fall.

11. **Modify or remove the requirement that farmers spend at least 70 percent of historical expenses.**

While we understand the need to include controls on moral hazards, WFRP is the only crop insurance policy to have this requirement. Including this provision could require farmers to spend money on a crop when it has already been lost, wasting their money and time when they are likely most in need of help. For example, there was a grower in Idaho who had an AGR-lite policy and a substantial part of his gross income came from grape production that was destroyed by a severe freeze and then he fell below on average expenses and got his indemnity lowered. The possibility of this happening is real.

When a wheat grower in North Dakota buys a wheat revenue policy, there is no check on whether that wheat grower spent at least 70% of their historic average expenses during the year of insurance as check on moral hazard.

Having this requirement can create a perverse incentive to seek to lower one's costs of production, lest they jeopardize their insurance benefits. The costs of some inputs can swing widely, which could also cause a farmer to fall below this, apparently, arbitrary number.

12. **Consider ways to encourage agents to not steer farmers away from WFRP.**

Crop Insurance Agents are required to write WFRP policies, but this doesn't mean they are required to promote it or encourage farmers that qualify to consider the product.

We have heard that some agents steer farmers away from WFRP. This can happen for a variety of reason, but one that could be addressed is the extended amount of time an agent has to spend with a farmer to fill out WFRP's required documents. WFRP takes longer than other polices to write, which means that some agents won't or don't take the time to learn it or write it.

We recommend that RMA explore ways to compensate agents for the increased amount of time WFRP takes to write compared to single crop revenue policies. This could be done through the Standard Reinsurance Agreement, by providing greater compensation for writing WFRP policies.

13. **Conduct and evaluation of why the vast majority of the WFRP polices sold in 2014 were in five states (WA, ID, OR, MT, and NC).**

An evaluation of why WFRP has been most popular in these states could inform future efforts to improve the policy. It is likely just a few agents are responsible for many of these policies in these states, so it should not be difficult to conduct interviews with them.

14. **Eliminate the requirement for summarized weighted averages within a commodity code.**

After having made the applicant go through the complicated exercise of separating out sub-types of commodities they are then required to utilize a summarized weighted average. This

information is all summed into the approved revenue so there is no need to break it out like this in the first place.

15. Eliminate the lag year.

The lag year is required between the current years and 5-year of tax records because it is assumed producers won't have taxes filed for the previous year before the sales closing date. However, we hear from farmers that they can and have filed their taxes for the previous year before the sales closing date on WFRP.

RMA should require the lag year only if the applicant hasn't completed their taxes for the previous year. If the producer has completed taxes, the 5 most recent years should be allowed.

16. Raise the minimum commodity count to two.

While a farmer must have at least two commodities in order to receive the highest subsidy and must have three in order to access the highest coverage levels, we recommend requiring two commodities in order to purchase a WFRP policy at all.

The minimum commodity count should be increased to two commodities in order for a farm to be eligibile for a WFRP policy for the 50 -75% coverage levels. (while still maintaining the "other "revenue insurance and necessary potato limitations). This would be a small step towards assuring that the policy serves diversified crop and mixed crop and livestock farmers rather than specialized farmers who only grow one commodity for which alternative single-crops based policies offer a better alternative.

17. Allow those purchasing WFRP policies to purchase a CAT level individual policy.

If a producer has purchased a CAT policy and they receive a CAT payment; that revenue would be deduct from their revenue to count under WFRP. This ensures that a farmer does not receive a double payment for the same loss.

18. Provide replant payments for non-annual crops.

We have heard from at least one agent who had a farmer who could have benefited from WFRP if non-annual crops were eligible for replant coverage. (this probably about bi-annual crops like alfalfa that are replanted every few years)

19. Push back the sales closing date for all areas to March 15.

We have heard from some agents that pushing the closing date for WFRP back to March 15 would be helpful because there would be more time sell the policy after farmers have filed their taxes.

20. Do not allow for a cropping practice to be the basis of increasing the commodity count for a single crop.

For example, in Montana there are four separate commodity codes for summerfallow wheat, continuous cropped wheat, and irrigated wheat. Thus, a farmer in Montana could apply for a WFRP policy and obtain higher levels of coverage if they grew irrigated, summerfallow and continuous wheat because these would be classified as three separate crops. This also seems counter to the current intent of the policy that farms growing only one commodity are ineligible for a WFRP if revenue protection is available for that commodity. Clearly, a revenue insurance is available for all wheat producers in Montana regardless of the practice used in growing it.

21. **Increase the subsidy for the 80% and 85% coverage levels**.

    Currently, the subsidy drops for these coverage levels at three crops to 71% and 56% respectively. As a result, North Carolina agents report selling no policies over the 75% coverage level. RAFI recommends keeping the subsidy at 80% for the first 75% of coverage and then drop the subsidy level only for the last 5 to 10% of coverage in order to make 80% and 85% coverage more affordable.

Conclusion

We thank you for taking the time to consider these recommendations. The pilot period for WFRP is when significant changes can be made with relative ease, and we encourage RMA to maximize this opportunity.

We understand that not all of these changes can be made easily and that in some cases more time and data may be needed before changes can be made. However, we hope that RMA will seek to make substantive changes that will really improve WFRP for crop year 2016.