



November 29, 2017

**United States  
Department of  
Agriculture**

Federal Crop  
Insurance  
Corporation

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**TO:** Board of Directors  
Federal Crop Insurance Corporation

**FROM:** Heather Manzano */signed/*  
Acting Manager

**SUBJECT:** Manager's Report  
Exhibit No. 4446

This is the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors meeting on November 29, 2017.

### **Research, Contracts, Studies, and Workgroups**

**Actual Revenue History (ARH) Evaluations:** A contract will be awarded in December to evaluate the (ARH) plan of insurance, including the ARH Sweet Cherry and ARH Tart Cherry Pilot Programs. The contract will include a comprehensive analyses of the programs to determine if any problems exist and if the programs are effective risk management programs for producers, as well as being acceptable to Approved Insurance Providers (AIP), and other interested parties. The evaluation will be used to determine if the cherry programs should continue to be piloted, converted to permanent programs, or terminated.

### **Program Changes**

**Emergency Procedures Issued:** The Risk Management Agency (RMA) issued Manager's Bulletins (MGR), MGR-17-014 and MGR-17-014.1 providing emergency procedures for crops damaged by Hurricane Irma, and MGR-17-013, MGR-17-013.1, and MGR-17-013.2 all related to emergency procedures for crops damaged by Hurricane Harvey. Emergency procedures provide relieve to insureds and crop insurance providers by providing streamlined reporting, allowing additional time for reporting losses, and handling other specific crop insurance issues caused by the hurricanes.

### **Risk Management Education Cooperative Agreements**

In September 2017, the Risk Management Agency (RMA) entered into 76 risk management education cooperative agreements totaling \$9.8 million. Awards under the Crop Insurance in Targeted State Program and the Risk Management Education Partnerships Program include nine first-time recipients, ten national-level projects, and six projects that partner with state Future Farmers of America organizations.

For fiscal year 2018, recipients will provide producers with risk management training on education priorities such as Whole-Farm Revenue Protection, Crop Insurance, Organics, Livestock, and Pasture, Rangeland, and Forage (Rainfall Index). Additionally, they will

develop crop insurance education programs where there is a low level of Federal crop insurance participation and availability, specifically in the states of Alaska, Connecticut, Delaware, Hawaii, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming.

### **2018 Tobacco Program Modifications**

For the 2016 crop year, RMA issued procedures that required crop insurance loss adjusters to witness the destruction of tobacco that was graded as “no value” to prevent the tobacco from being sold for near or full contract price after receiving a full crop insurance payment. Previously, producers could self-certify destruction. Some of these vulnerabilities such as the use of inflated market prices, have been alleviated. However, the tobacco program continues to experience losses that exceed total premium (loss ratio in excess of 1.0). The 2012-2016 average loss ratio for tobacco is 1.81 compared to 0.80 for other crops in the same counties.

While high loss ratios are not necessarily an indicator of program abuse or vulnerabilities, loss ratios consistently above 1.0 and the disparity in tobacco loss ratios compared to other crops in the area does cause concerns. To improve the overall performance of the tobacco crop insurance program, RMA has engaged with crop insurance companies, tobacco producers, tobacco grower organizations, tobacco cooperatives, and other stakeholders to identify opportunities to improve the tobacco program. RMA plans to implement program modifications to address the issues identified by these engagements as outlined below.

**Quality Adjustment:** The current quality adjustment procedure does not consider the price received by producers for graded tobacco. In some cases, tobacco receiving the Agricultural Marketing Service (AMS) grades that normally indicate severe quality damage have received at or near full market price when sold, which should not be the case if there were truly quality issues with the tobacco. To ensure that tobacco that receives quality adjustment is actually of lower quality, the quality adjustment procedure will be changed to also consider the price received for the tobacco when sold.

**Final Harvesting Dates:** Tobacco remaining unharvested in the field past the date that is considered optimal for both harvest and curing is likely to have quality damage, which can lead to loss payments that could have been avoided if the harvest was completed earlier. To address this issue, RMA established an October 20 harvest date for the 2016 crop year. However, many stakeholders consider that date well past optimal and have proposed October 10 as the new final harvest date. RMA has proposed a change in the final harvest date for burley tobacco from October 20 to October 10 for the 2018 crop year in Indiana, Kentucky, Missouri, Ohio, and Tennessee.

**Tracking of Tobacco:** Inability to track a bale of tobacco once it receives a grade from AMS has led to concern by stakeholders that tobacco can be repackaged after the initial grading, allowing a single bale of tobacco to be graded multiple times. This could allow a producer to improperly receive quality adjustment for tobacco that is not damaged or has not been graded.

Starting with the 2017 crop year (this year), AMS is placing a stamp on the tobacco stating when it was graded, the grade assigned, and that removal of the stamp will result in no quality adjustment being allowed for the tobacco. For the 2018 crop year, RMA is adding language to the policy and procedures to provide that the tobacco will not be eligible for quality if the stamp is removed.

### **Budget**

The Chief Financial Officer (CFO) staff has completed another successful fiscal year. Thanks to the hard work and dedication of the CFO staff working with the Program and Staff offices, the RMA-FCIC audit has been completed and the financial statements have been published. Once again, RMA received an unmodified opinion!