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USDA IMPLEMENTATION OF THE AGRICULTURAL RISK PROTECTION ACT OF 2000 AND RELATED CROP INSURANCE ISSUES

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

JUNE 12, 2003

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CONTENTS

Page

HEARING(S):

USDA Implementation of the Agricultural Risk Protection Act of 2000 and Related Crop Insurance Issues 01

Thursday, June 12, 2003

STATEMENTS PRESENTED BY SENATORS

Cochran, Hon. Thad, a U.S. Senator from Mississippi, Chairman, Committee on Agriculture, Nutrition, and Forestry 01
Leahy, Hon. Patrick, a U.S. Senator from Vermont 17
Roberts, Hon. Pat, a U.S. Senator from Kansas 02
Stabenow, Hon. Debbie, a U.S. Senator from Michigan 21

WITNESSES

Collins, Keith, Chief Economist, U.S. Department of Agriculture, Washington, DC 06
Davidson, Ross, Administrator, Risk Management Agency, U.S. Department of Agriculture, Washington, DC 08
Penn, J.B., Under Secretary for Farm and Foreign Agricultural Services, U.S. Department of Agriculture, Washington, DC 03

APPENDIX

PREPARED STATEMENTS:
- Harkin, Hon. Tom 30
- Collins, Keith 44
- Davidson, Ross 49
- Leahy, Hon. Patrick 32
- Penn, J.B. 37
- Stabenow, Hon. Debbie 34

DOCUMENT(S) SUBMITTED FOR THE RECORD:
- Baucus, Hon. Max 64
- Background Commodity Insurance Information, Risk Management Agency 65
- Written Statements (several companies) 72

QUESTIONS AND ANSWERS:
- Cochran, Hon. Thad 104
- Harkin, Hon. Tom 110
- Baucus, Hon. Max (no answers provided) 126
- Conrad, Hon. Kent 115
- Crapo, Hon. Mike 123
- Leahy, Hon. Patrick 121
- Lincoln, Hon. Blanche 109

USDA IMPLEMENTATION OF THE AGRICULTURAL RISK PROTECTION ACT OF 2000 AND RELATED CROP INSURANCE ISSUES

THURSDAY, JUNE 12, 2003

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room SR–328-A, Russell Senate Office Building, Hon. Thad Cochran [Chairman of the Committee], presiding.

Present or submitting a statement: Senators Cochran, Roberts, Chambliss, Harkin, Leahy, Stabenow and Nelson.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

The CHAIRMAN. The hearing will please come to order.

Three years ago this month the Congress passed and the President signed into law the Agricultural Risk Protection Act of 2000. This Act significantly increased premium subsidies for Federal crop and revenue insurance policies. It also improved insurance coverage for farmers affected by multiple years of natural disasters, authorized pilot insurance programs for livestock, and placed increased emphasis on the insurance needs of specialty crops and underserved regions.

Farmers have significantly increased their purchases of crop insurance since the enactment of this legislation. Insured acreage reached 79 percent of eligible acreage in crop year 2001 with 63 percent insured at the higher levels of coverage. Insured acreage increased again in 2002 and will likely be up again this year.

For crop year 2002, risk-based crop insurance premiums totaled $2.9 billion. The value of associated crop insurance protection reached $37.3 billion, an increase of 34 percent since 1998.

The law also shifted responsibility for the development of new insurance products to the private sector and away from the Agriculture Department's Risk Management Agency. It also increased private sector representation on the Federal Crop Insurance Corporation Board of Directors and gave the restructured board authority to approve new insurance product proposals.

Though it is largely out of the new product development business, the Risk Management Agency continues to play a major role in the administration of the Crop Insurance Program. In this re-

gard, it should be remembered that the agency was given new tools to help reduce crop insurance fraud and abuse.

It is well-known that the crop insurance industry, which delivers the insurance program to farmers and ranchers on the Federal Government's behalf, has been dealing with significant financial challenges in recent months. For these reasons, we are conducting this hearing of the Agricultural Risk Protection Act and to assess its effectiveness in meeting the risk management needs of farmers and ranchers.

With us today are Dr. J.B. Penn, Under Secretary of Agriculture for Farm and Foreign Agricultural Services; Mr. Ross Davidson, Risk Management Agency Administrator; and Dr. Keith Collins, Chief Economist of the U.S. Department of Agriculture. We appreciate very much your attendance and your assistance at this hearing.

Senator Roberts.

STATEMENT OF HON. PAT ROBERTS, A U.S. SENATOR FROM KANSAS

Senator ROBERTS. Thank you Mr. Chairman, and thank you so much for your leadership in holding this hearing today on this very important topic. Some of my statement will be redundant with yours, but the points are well taken.

With the third anniversary of the signing of the Agricultural Risk Protection Act just 10 days away, it is important we hold this hearing to review the implementation of what is very important legislation.

I want to thank, as the distinguished Chairman has, our Under Secretary, Dr. J.B. Penn; our Administrator, Ross Davidson; and our Chief Economist, the man who is the only economist I know who does not say on the other hand, Keith Collins, for joining us as of today.

I want to take them personally for their efforts and on behalf of my farmers and ranchers in Kansas, because the difference between this program and what we had before saved a lot of farmers.

Mr. Chairman, I have more than just a little interest in this topic. Former Senator Bob Kerrey of Nebraska, who was in town just the other day—he said we ought to provide crop insurance to Iraq, Mr. Chairman. I am not quite sure what he meant by that.

We really worked for nearly 2 years to make this legislation a reality. In Kansas, we call it the Roberts-Kerrey bill. In Nebraska, it is the Kerrey-Roberts bill. If you do not like it then it is the Kerrey bill.

Our intention behind pushing for these reforms was to improve this important risk management tool for our producers. It was a bipartisan effort and I am proud of the final product.

Our primary goals in the legislation were to make crop insurance more affordable, increase participation, and expand the program to the underserved areas. We are hopefully headed in the right direction on all of these fronts.

The increase in subsidies greatly reduced the cost of the purchasing policies for many of our farmers. As Mr. Davidson's testimony does point out, what the Chairman has alluded to, the in-

crease in participation and the coverage levels have been absolutely amazing.

In 1998, only 9 percent of the eligible acreage was insured at the 70 percent or higher level. Last year more than 50 percent of the eligible acreage was insured at 70 percent or higher. Quite frankly, the increased coverage levels and the affordability of the revenue policies under ARPA literally, as I said before, saved many of our Kansas producers during our terrible drought of last year and the previous year.

Mr. Chairman, I realize that many people say that ARPA and crop insurance do not work because we still have a disaster bill again as of this year. My preference, and I think it is shared by the Chairman and most of us who have the privilege of serving on the Ag Committee, would be not to do another disaster bill, that circumstances would be such that we would not have to do that. We need to consider this fact: the total cost of our disaster bill was $3.1 billion, $3.1 billion, including livestock assistance and all of the other cats and dogs—and I do not mean that as a pejorative. The total crop insurance indemnities paid for 2002 crop losses are just over $4 billion. Let me repeat that, total indemnities paid on 2002 losses are $4 billion.

Now Mr. Chairman, I am first to admit that there may be areas where we should do and I hope will do some additional tweaking in the program. For the critics, I have to say that if $4 billion is a broken program, what more can we ask for?

Overall, we can term the first 3 years of ARPA a success. Again, sir, I thank you for holding this hearing and I look forward to our discussion with today's witnesses.

The CHAIRMAN. Thank you very much, Senator Roberts.

It is obvious that you are due a great deal of credit and an expression of appreciation for the hard work you did personally in developing this legislation 3 years ago and helping guide it to passage. The facts speak for themselves about the participation and the effectiveness of the newly designed insurance program.

Dr. Penn, we appreciate your being here this morning. We hope you will proceed with any statement you would like to make. We have a copy of your prepared statement which we will make a part of the record in full. You may proceed.

STATEMENT OF J.B. PENN, UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. PENN. Thank you, Mr. Chairman. I will be brief. Senator Roberts.

I am very pleased to appear before you today at this oversight hearing for the Federal Crop Insurance Program. You have acknowledged Dr. Collins and Mr. Davidson, and I agree with you that they are the two resident experts on the Crop Insurance Program. That suggests to me that you should direct most of your questions to them at the appropriate time.

The Federal Crop Insurance Program was first instituted in 1938. Crop insurance, as we have traditionally called it, and now more recently other types of risk management tools, have become an increasingly important part of the economic safety net for Amer-

ican agriculture. They are an expanding component, alongside the several other farm programs that include marketing assistance loans, direct and countercyclical payments, dairy price support payments, and other specialty commodity programs.

As the world has become more technical and interconnected, the risk faced by farm businesses also have increased and become more complex. In addition to the always present natural risk, market risks have expanded, new risks have emerged such as liability related to consumer safety, and now we have the threat of intentional sabotage of the food system.

The Federal Crop Insurance Program has grown rapidly in the past few years in response to this changing risk environment. Insurance not only protects farms from devastating loss in times of extreme weather such as extensive drought or flood, but it protects individual farming operations from adverse impacts of more localized conditions as well.

More and more producers have recognized that it is good business to have crop insurance and commercial lenders increasingly require producers to have crop insurance as a condition of obtaining a loan. Today, as you have noted, over 80 percent of the acres for the major program crops are covered by crop insurance, and more than half of those acres have coverage at the 70 percent level or high.

Since passage of ARPA in 2000, RMA has placed a high priority on extending coverage to a wide array of products, including specialty crops, forage, rangeland, livestock, and even aquaculture.

However, Government risk management tools are fundamentally different from traditional farm programs. They are unique in several respects. The Congress recognized this with the passage of ARPA in 2000. The vision at that time of some of the architects of the ARPA was for risk management, at some point in the future perhaps, to constitute the major component of the safety net for the commercial farm sector, supplanting some of the more traditional farm programs.

The ARPA provided the structure for the envisioned expansion of risk management tools, both the development of new innovative tools and their widespread use across more of the farm sector.

Risk management also is unique in that it is actuarially based. It is not another farm program with an often-negotiated or bureaucratically determined set of rules for providing benefits. Rather, it is a program providing individual producer protection with cost and benefits based upon historical experience and evaluations of specific risk.

Congress has required actuarial soundness, meaning that the amount collected from premiums roughly equals the amount paid out for claims over time. Producers pay for their insurance coverage, which is provided through commercial contracts between the producer and the private sector insurance company. The insurance companies then in turn deliver the products, make indemnity payments, and bear a proportion of the commercial risk.

This component of the farm safety net also is unique in that it involves this public/private partnership in masking risk management services available to American producers. It involves the participation of private companies—some dozen-and-a-half or so

today—in both the development and delivery of the service to farmers. At the same time it involves the participation of a major government agency, RMA.

ARPA placed the RMA in a unique position of being both a regulator of the agricultural insurance industry and a reinsurer of billions of dollars of incurred liability annually. The partnership involves broad representation through an oversight board, as Chairman Cochran mentioned, the Federal Crop Insurance Corporation Board whose composition was determined by the Congress with individual members selected by the Administration.

We are concluding, as Chairman Roberts noted, the third year since enactment of ARPA, and this hearing thus we believe is very timely, presenting a very good opportunity to review progress and performance since ARPA's passage and also to assess any technical or structural changes that may appear warranted.

The challenges ahead are enormous, however. U.S. agriculture today counts some 2.1 billion places as farms and together they produce about $200 billion worth of products annually. All of this $200 billion comes from a highly differentiated farm structure that encompasses a large number of very small diversified farms, a small number of very large special specialized farms, and a wide variety of all farm types in between. It is to this very diverse group of farms that RMA attempts to provide risk management tools for improved farm management.

As been noted today, risk management still is largely crop insurance and only about $38 billion of this $200 billion of value generated each year is insured. The demand is growing for tools that can provide a safety net for farms and products that receive little or no benefits from the traditional farm programs.

The challenge to the insurance industry and the challenge to RMA is clear. More products are needed that address the differing risk environments of the different farm types. More products are needed for the rest of the crop sector and we have only begun to develop appropriate products for the livestock sector.

The other challenge, as Senator Roberts mentioned, is one that confronts the Congress especially and that is in providing risk protection to farmers and determining the relative roles of ad hoc disaster assistance versus the risk management tools of the program, especially crop insurance.

The presence of a federally administered insurance program does not guarantee that a disaster program will never be needed, but it can reduce the extent and frequency of disaster over time.

As Senator Roberts also noted, the recent drought of 2002 demonstrates this point very vividly. Over $4 billion in claims have been paid to date as he noted. Most of those were paid within 30 days of the evaluation of the loss.

Congress also passed a substantial disaster package for that same period, but the $4 billion paid in crop insurance claims represents a substantial and growing portion of all disaster payments. Furthermore, the premiums paid by producers reduced total outlays of the Federal Government. As crop insurance is used more extensively and as more risk commodities and geographic areas are afforded coverage, the need for disaster assistance should decline.

Finally, Mr. Chairman we are working very diligently to implement the ARPA as Congress directed. We have gained considerable experience in the past 3 years and we believe that that will improve in invaluable as we move forward.

We welcome continued discussions with the insurance industry, with farmers and ranchers, with the committees of the Congress as we attempt to refine and improve this increasingly important part of the farm safety net.

We look forward to working with you and the committee, and thank you again for the opportunity to be here today.

[The prepared statement of Mr. Penn can be found in the appendix on page 37.]

The CHAIRMAN. Thank you Dr. Penn. We appreciate your statement very much and your participation at this hearing.

Dr. Collins, we have a copy of the statement you have submitted and we will make that a part of the record but we invite you to make any opening statement you would like to this time.

STATEMENT OF KEITH COLLINS, CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. COLLINS. Thank you very much, Mr. Chairman, Senator Roberts. I appreciate the opportunity to join Under Secretary Penn and Administrator Davidson here today.

I would never contradict Senator Roberts, but I must say on the one hand I am the Chief Economist of the USDA, but on the other hand I currently serve as the Chairman of the Board of Directors of the Federal Crop Insurance Corporation. My comments are going to focus on the activities of the board since the passage of ARPA in the summer of 2000.

As we have talked about here, ARPA has made substantial changes in the functions and responsibilities of the Federal Crop Insurance Corporation. For example, they changed the composition of the board. As you noted, Mr. Chairman, the private sector representation has gone from four members of the board to six members of the board. Now, out of a total of nine voting members of the board, six represent the private sector.

That change, of course, symbolizes the emphasis that is placed on the private sector not only for guidance and management to the corporation, but also for the research and development of new products.

The board has met 31 times since the enactment of ARPA, and our work has cut across a wide range of management issues. To help deal with those, for the first time ever, we have established a governance committee and a financial and audit committee. Most of our activities over this period have focused on the decision of whether to approve new products that have been submitted by the private sector for sale to producers.

We have to make decisions on those submissions under a very tight timeline. We must issue a notice of intent to disapprove a product within 90 days after the receipt of a complete submission, and then either approve or disapprove within 120 days after the submission. The board must also contract with independent actuarial and underwriting reviewers to get independent reviews on each of these products. Then we are required by law to take those

reviews into consideration to determine the approval or disapproval.

Since the enactment of ARPA, we have had over 150 independent expert reviews on about two dozen products that have been submitted, new products or program modifications. The board currently has about 40 expert reviewers under contract to do that work.

The board has approved several new risk management products over the past few years, including four livestock products, whole farm insurance policies such as AGR-Lite, Adjusted Gross Revenue, expansions of existing products such as revenue assurance into new areas, new specialty crop insurance programs such as one for forage seed, and the expansion of certain pilot programs such as the Pecan Insurance Pilot Program.

Another board effort has been to review the rating structure of APH, revenue assurance, and crop revenue coverage plans of insurance. That may lead to substantial change in rates as we move ahead into the future.

The board also reviewed Crop1's premium discount plan and we recommended its approval subject to certain conditions being determined by the Risk Management Agency. As we look to the future, the board is committed to working closely with the Risk Management Agency. Our goal is, like theirs, improve risk management capacity of farmers and ranchers.

In order to ensure the resources of the Federal Crop Insurance Corporation are being used in the best possible way, at the end of last year we authorized two studies to look at FCI's current and future products. One study is looking at inconsistencies or overlaps between the statutes, the plans of insurance themselves, and all of the materials, directives, handbooks and so on that RMA puts out. The other study is looking at the whole portfolio of products that RMA offers, existing products as well as the need for new products, and trying to identify gaps in coverage or overlaps in coverage.

Work will help RMA and the board deal with the large number of pilot projects and feasibility studies that are in the pipeline and that we are going to have to make a decision on either to put into place or to terminate at some point in the future.

In conclusion, the FCIC board is committed to strengthening the Nation's crop insurance and other risk management programs, as well as the regulatory functions of the Risk Management Agency. I can speak on behalf of all of the board members. They are very pleased to have the opportunity to serve American agriculture and they are all working very diligently and very responsibly to make this a continued and indispensable part of the farm safety net.

Thank you.

[The prepared statement of Mr. Collins found in the appendix on page 44.]

The CHAIRMAN. Thank you, Dr. Collins.

Mr. Ross Davidson is Administrator of the Risk Management Agency. We have a copy of the statement you have prepared for our hearing. It will be printed in the record in full, but we encourage you to make an opening statement.

STATEMENT OF ROSS DAVIDSON, ADMINISTRATOR, RISK MANAGEMENT AGENCY, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. DAVIDSON. Thank you very much, and let me just give you some highlights. I appreciate the opportunity to be with you today.

The primary mission of the Risk Management Agency is to promote, support and regulate the delivery of sound risk management solutions to preserve and strengthen the economic stability of America's agricultural producers.

RMA is also, as you know, responsible for implementing Congressional directives and the decisions made by the Federal Crop Insurance Board of Directors.

Let me just highlight a little bit about ARPA and its implementation. In response to subsidies provided by ARPA, farmers have increased their levels of coverage in crop insurance. As noted by Senator Roberts, in 2002 over 50 percent of the insurable acreage was insured at 70 percent coverage or higher, compared to only 9 percent in 1998.

This high participation rate and the higher levels of coverage have enabled the ability of crop insurance to become the main risk management tool for American producers.

However, the traditionally underserved States and some commodities still lag in participation and coverage. RMA is working to promote and facilitate the development of revenue and specialty crop insurance to address availability questions and affordability concerns in the underserved areas especially.

In February, the Department announced an effort to better serve the 15 traditionally underserved States by providing up to $18 million of additional subsidy for higher levels of coverage through the Targeted States Financial Assistance Program. This program, which is designed to help producers manage production price and revenue risk has been very successful.

This additional financial assistance has encouraged many producers to purchase crop insurance for the first time and has allowed many producers to purchase the maximum coverage level available.

RMA has received many positive letters from producers, producer groups, and insurance agents in many States on this program and we expect to have more definitive participation data later in the summer after acreage reporting dates have passed, and we will be pleased to share that information with you.

With regard to products and coverage, RMA is undergoing an extensive product review, conducting listening sessions with producers across the U.S., and identifying crop insurance priorities of local and national producer groups, lender organizations, and State Departments of Agriculture to improve and fine-tune its products.

Under guidance from Secretary Veneman and the board, RMA continues to support and regulate the development of new risk management tools, update and adapt existing tools to meet emerging market needs, technologies and risks, and expand availability of risk management tools for all producers.

RMA's work with the apple industry recently to improve apple insurance coverage is a good example of how producers, insurers, and the agencies can work together to adapt the program to ad-

dress market changes, new risks, and local conditions. We plan to do everything within our authority to expedite the appropriate changes to the apple policy, and RMA regularly works with producers to address such emerging needs as these.

RMA recently announced a Livestock Risk Protection Pilot Program for fed and feeder cattle which the board approved. Both plans protect producers from declining cattle prices. Additionally, RMA is entering into its second year of insuring slaughter hogs in Iowa under two different pilot insurance plans. Several other livestock initiatives are currently underway, including a feasibility study for various livestock-related insurance plans and for insuring against catastrophic livestock diseases. RMA is also testing a number of pasture and forage products.

With regard to adjusted gross revenue, in accordance with the 2002 Farm bill, RMA expanded the areas for the AGR program to additional counties in Pennsylvania and California. AGR is nearing the completion of its pilot phase and will undergo final evaluation, after which the Board of Directors will consider nationwide expansion.

RMA has received interest from many States in an adaptation of AGR called AGR-Lite which was submitted by the Pennsylvania Department of Agriculture and approved by the board for use in Pennsylvania. Recently the Pennsylvania Department submitted certain changes and requested the expansion of AGR-Lite. On May 7th, 2003 the board sent the submission out for review by external reviewers.

Cost of production is a new and untested insurance concept and approach. Many issues, including program design, rating, delivery, and administration still must be addressed. RMA and the contractor on this product are currently addressing the issues raised during the board's consideration process. We expect to revisit these issues by midsummer, when the product is resubmitted for the board's additional consideration.

Pending resolution of these issues to the board's satisfaction, a policy for cotton may be available for spring crop year 2004. Any decision to expand to other crops would be decided by the board, taking into consideration the experience on this initial pilot program.

As we all know, excessive drought has plagued and continues to affect many producers in the U.S. and RMA recognizes this challenge and has several programs that address the needs of drought stricken producers. RMA has demonstrated its continued service to producers during the drought stricken years by paying, for crop year 2002, over $4 billion in indemnities compared to $3 billion in 2001.

Prevented planning provisions cover producers in times of excessive multi-year drought. Recently, RMA provided supplementary information explaining prevented planting policies to producers and most producers have found that they are better covered than they originally thought.

Additionally, RMA is holding a series of prevented planting forums to improve RMA's prevented planting coverage for the future.

We are also evaluating the possibility of requesting revisions to the yield substitutions that are in the APH structure to address

long-term production decline such as those induced by extended drought.

With regard to education and outreach, we have an extensive program. In 2002, RMA established 13 cooperative agreements to deliver crop insurance education and information to producers in the 15 underserved States and awarded 72 partnership agreements to conduct producer training and risk management with a priority to producers of specialty crops throughout the Nation.

In addition, our Civil Rights and Community Outreach Division entered into 46 outreach partnerships covering approximately 34 States serving women, Asians, African-Americans, Native Americans, and Hispanic farmers and ranchers.

RMA has also participated in the 14 public educational briefings that USDA conducted across the country on the 2002 Farm bill and to explain USDA programs and services.

We all have concerns about fraud, waste and abuse and managing that. As directed by ARPA, RMA instituted new provisions strengthening program integrity and compliance and these have shown positive results. To combat fraudulent claims, RMA provided crop insurance oversight training to 2,500 FSA personnel. This helps RMA and insurance providers monitor crop conditions and producer behavior during the growing season through onsite farm service agency personnel inspections.

USDA's 2001 compliance report to Congress noted that RMA has reduced program costs an estimated $94 million by preventing payments on potential fraudulent claims. In addition to that, our traditional investigation, criminal, civil, and administrative processes have generated recoveries of approximately $35 million in overpaid indemnities in the last year.

ARPA also requested the use of data mining and data warehousing to administer and enforce crop insurance. An additional spot checklist is extracted from RMA's data mining warehouse to identify producers who should have growing season inspections performed by FSA personnel. The indemnities of producers on the spot checklist were reduced from over $210 million to just over $100 million dollars in 2002, representing approximately $110 million in cost avoidance.

In addition, RMA is upgrading its Geographical Information System, or GIS, using current mapping and imagery technology and infrared data to assist in making compliance determinations, and is integrating imagery technology into its data mining effort. These combined efforts provide additional help in preventing, deterring, and prosecuting crop insurance fraud.

Recently, we have had to deal with the failure of a large insurance company that is a major portion of our delivery system. We continue to work with the Nebraska Department of Insurance, the rehabilitator of American Growers, in assuring the timely service and payment of claims. Currently, fewer than 200 open claims remain of the nearly 29,000 processed for 2002. A few new claims are added each week.

All 2003 policies have now been transferred to other insurance companies.

Although most of American Growers' employees have been separated from employment at this time, a number of them were re-

tained to help work these claims and we acknowledge that without their assistance and dedication this effort would not have been as successful as it was.

We believe that this has been a very good example, also, of cooperation between Federal and State regulatory officials. We appreciate the insurance industry for picking up the additional policies and absorbing that business volume.

Secretary Veneman recently charged RMA to examine its own authorities and processes to ensure effective oversight of the insurance industry. RMA is considering several changes in its authorities and organizational structure to increase oversight of the companies participating in the Federal Crop Insurance Program.

RMA recently published procedures by which any reinsured company may apply to offer a premium reduction plan under strict standards for approval and operation. RMA has and will continue to exert careful regulatory oversight of these types of programs to ensure compliance with Federal law, particularly with respect to the proper use of licensed agents, producer service, and illegal rebating and tying prohibitions.

With regard to changes in our basic provisions, RMA has incorporated the final requirements as mandated by ARPA into its common crop insurance policy for basic provisions. We recognize that there are a number of questions surrounding these proposed changes and hope to publish the basic provisions in the near future.

The standard reinsurance agreement is the method by which we reinsure and provide subsidy to insurance companies that are helping us with the delivery of crop insurance. The current standard reinsurance agreement has been in effect since 1998. ARPA authorizes the Department to renegotiate the SRA once before 2005, and we plan to begin working with the insurance companies to begin renegotiation of that in the near future.

As demonstrated, Mr. Chairman, by my testimony today, RMA is proactively striving to fulfill Congress' and Secretary Veneman's continued commitment to better serve our Nation's producers.

I appreciate the opportunity to visit with you at this time and we will be happy to respond to any questions.

[The prepared statement of Mr. Davidson can be found in the appendix on page 49.]

The CHAIRMAN. Thank you very much for your statements. I have a few questions to ask but I will yield first to my good friend from Kansas for any questions that he might have of this panel. Senator Roberts?

Senator ROBERTS. Thank you, Mr. Chairman. Some of this may be repetitive to the testimony given by our three expert witnesses.

Last fall Senator Harkin and I, Mr. Davidson, wrote you regarding several of our concerns in your proposed rule for changes to the basic provisions. I know you receive many comments and are now in the process of completing the final rule.

As you know, June 30 is the deadline for making policy changes for the 2004 winter crops. Winter wheat is the top crop in our State and in the Great Plains. If the final rule comes out after June 30, but is still applied to the 2004 spring crops, it will create enormous confusion in the Great Plains and in Kansas. We would face a situ-

ation where our producers would be operating under one set of rules on their 2004 winter wheat and another set on their 2004 spring planted crops. This could cause some real problems especially in the area of prevented planting and double insurance.

My question to you is if you cannot issue the regulation by June 30, would you delay the implementation until 2005 to avoid this confusion in the countryside?

Mr. DAVIDSON. There is virtually no chance that it will not implemented before June 30th. We will have it published and ready to go.

Senator ROBERTS. That is the kind of answer we like to have. That is great.

Your proposed rule also included significant changes to the rules regarding written agreements. As you know, these agreements are often used for producers that are moving to new crops but do not have a significant cropping history or where standard policies are simply not available in the county.

We do not have many cropping options in the high plains but in recent years we have seen our producers switching or rotating to crops including canola and cotton. Mike, how many acres do we have in cotton now, 60,000?

It has been predicted 120,000 acres of cotton. I do not think that the distinguished Senator from Mississippi realized that when Stephen Foster wrote the song old cotton fields back home, he was talking about Kansas.

I do have some concerns with your proposal on the written agreements. One of the primary purposes of ARPA was to expand the coverage to the additional crops and regions. I know that we have to work to prevent fraud. We do not want a 60 Minutes program or anything like that. At the same time, we must work to ensure that we do not really discourage our producers from trying to get new crops and we must ensure that new beginning producers can get insured.

Have you addressed these issues in the revised rule?

Mr. DAVIDSON. I believe we have and we have a continuing effort to evaluate the written agreement procedures. In fact, our Board of Directors has asked us to do that to ensure that it is balanced with responsiveness as well as with responsibility.

Senator ROBERTS. Thank you, sir.

In the Farm bill, a provision was included to equalize the loan rates for sorghum and corn. There was also a provision in the Cochran-Roberts proposal that the Chairman and I put forward at the time. The provision was included to try to keep producers from deciding to plant corn simply because of the higher loan rates.

Sorghum is also a less water intensive crop, which is very important in the high plains. I have heard from many producers concerned with lower crop insurance price elections for sorghum than corn. Could you please take a look at this issue and let us know where you stand on it?

Mr. DAVIDSON. Yes, I am aware of that issue and we are looking at it. We would be happy to come back to you on that.

Senator ROBERTS. A big-time issue, if I might, Mr. Chairman, the industry has seen some drastic structural changes in the last 8 months. American Growers has gone out of business. Firemen's

Fund Insurance has been merged into RCIS. Thus, we have lost two of our largest crop insurance providers in the past 8 months.

My question is are you taking steps to ensure the financial integrity of the industry? Are there any other upcoming financial problems we should be aware of? Or do you think the situation has begun to stabilize?

Mr. DAVIDSON. We have increased our scrutiny of all of the companies as a result of the American Growers failure. I cannot tell you at this time that we are not concerned about other companies because we do have a couple that we are watching very carefully.

We believe that those companies, if they have a problem, will be able to preempt that rather than to have an abject failure to deal with. I do have some concerns about a couple of smaller companies.

Senator ROBERTS. We have come through a very difficult time, especially out in the high plains, Montana, Wyoming, so on and so forth, with the drought and forest fires, et cetera, et cetera. That is part of the reason, we hope that Mother Nature is a little kinder to us as we go into these next few years.

In recent weeks we have heard many comments regarding a new company called Crop1 and their premium discount policy. The acronym for that is PDP.

I understand the concerns some have expressed in regard to the use of the Internet to provide this policy. At the same time, I was a strong supporter, and others were as well, during the ARPA debate, of developing new policies and reduced cost to our producers.

We also had a very lively debate during the ARPA discussions on something called rebating. I recall from those discussions insurance rebating is prohibited by 48 State insurance laws, the exceptions being California and Florida.

Except for these two States, I thought Congress was very clear, we did not want rebating taking place in the Federal Crop Insurance Program. Can you assure me that rebating is not taking place under this new policy?

Mr. DAVIDSON. Yes, I can. We have evaluated it very carefully. We have actually put out additional communication to all parties with regard to rebating. There are certain aspects of being able to reduce the cost of insurance to farmers that Congress has allowed in legislation. Those are the types of reductions that are allowed through this PDP program. If an insurance company can reduce its cost of delivery or there is another section that indicates that if you can reduce the risk of the product itself, that those savings can be passed along to farmers. That is what PDP does. It is an allowed reduction to benefit the farmer.

Senator ROBERTS. I see.

A related question, and my final question, Mr. Chairman, and then I have other questions I will submit for the record because I know time is valuable.

I know that the company is using input suppliers, I am talking about the implement dealers, the seed dealers, the grain elevators, to promote their policy. That is fine. Do I have your assurance that these organizations are not operating as unlicensed agents, and that not servicing the policies and assisting producers in making their crop insurance decisions?

Mr. DAVIDSON. It is against State law for them to do so. It is against our rules and regulations for them to do so. If they do it, they will have to be eliminated from the program.

Senator ROBERTS. Thank you for answering these questions in such a precise manner, and thank you for the job that you are doing.

I would like to submit some additional questions for the record, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Roberts.

In connection with the question about the failure of American Growers and the questions that were raised about the financial strength of some of the companies that are selling and providing crop insurance, do you have enough tools available to you, Mr. Davidson, to help assure those who are relying on the solvency of these companies to continue to participate in the program?

I know there is a reinsurance agreement vehicle that is used. Do you need any additional legal authorities to obtain financial documents or other information that would enable you to help ensure that we do not have failures among the companies that sell and service federal crop insurance policies?

Mr. DAVIDSON. We are evaluating all of the authorities that we have. It has been an interesting experience to deal with this American Growers failure because we have determined that we really do not have the authority to, for example, take over a company, supervise as a State insurance regular would, and rehabilitate that company. We have had to rely on the authorities that exist in the State of Nebraska to do that had to collaborate with them.

That has worked well with regard to American Growers because basically we have provided the funding and the guidance and the insurance commissioner has provided the regulation. In another instance where a company did not have nearly 100 percent of Federal crop insurance, it might be difficult to sort out the relative roles of the Federal Government and a State insurance commissioner. We are working with the National Association of Insurance Commissioners to sort that out. Likely we will need additional authority for some things.

The CHAIRMAN. I have a few more questions, but I intend to yield now to my friend from Iowa, Senator Harkin, for any statement or questions he might have. Senator Harkin?

Senator HARKIN. Thank you very much, Mr. Chairman and I will just ask that my opening statement be made a part of the record.

The CHAIRMAN. Without objection, it is so ordered.

[The prepared statement of Senator Harkin can be found in the appendix on page 30.]

Senator HARKIN. Thank you, and I just have a couple questions here. The bulk of my questions were basically dealing with the letter that Senator Roberts and I had sent last year, and you have already answered those. I appreciate that.

I had a couple of more that I wanted to ask. The one thing that was in the letter that Senator Roberts did not ask about and that was one of your proposed changes was introduced was to eliminate the arbitration of crop insurance claims. I am sure you have heard from a number of groups, as I have, about this, and we put that in our letter to you.

Do so still intend to eliminate arbitration? If so, do you have a proposal for an alternative dispute resolution process?

Mr. DAVIDSON. That was in the proposed provisions because we did intend to replace it with something that is more responsive to producers. One of my concerns, as I first came here, many of the letters that I received in the first few months had to do with a producer doing something in good faith based upon the representation of an agent or an insurance company or a loss adjuster, and then at the end losing their farm because it was not really something that they could rely upon, and having very little ability to come back and to deal with that.

We still are searching for a better way for producers to be able to deal with small and large complaints. The arbitration provision currently, as it stands, is not as responsive as I would like to see it. However, we are probably not going to have that arbitration provision taken out yet because we have not found the Holy Grail that would replace it.

Senator HARKIN. You are going to come out with these rules before June 30th.

Mr. DAVIDSON. The arbitration provision will not be taken away.

Senator HARKIN. It will not be in there. Then the present——

Mr. DAVIDSON. No, the arbitration will not be taken away.

Senator HARKIN. It will still be there?

Mr. DAVIDSON. Yes.

Senator HARKIN. We did not address this, so I hope that you will consult with us as we go along, because we did not address that in the legislation at all.

Mr. DAVIDSON. Sure.

Senator HARKIN. I sense what you are saying.

Mr. DAVIDSON. We are just looking for something more responsive.

Senator HARKIN. If you find it, let me know.

Mr. DAVIDSON. We have a group working on it right now, and we will.

Senator HARKIN. I have two questions. Senator Daschle, who could not be here, wanted me to ask this question and I will just ask on his behalf. Last Friday USDA was to begin sign up for the crop disaster program that Congress passed several months ago. Producers have been waiting for this assistance, many of them barely hanging on.

I am told that many States are not prepared to accept applications and are being turned away and told to come back in 2 weeks. This week I am told that some offices are taking manual applications.

It was USDA who announced when the sign up would occur. It is one thing for producers to have to wait so long, but another for them to adjusted their schedule during a busy time of year and go to an FSA office only to be told that they will have to come back later.

I am told that this is a National office delay and that the software was not ready. I understand that the Department is busy but why do not field offices have everything in place to take the applications when the sign up date is announced?

I would like to explain to the committee why there is a delay? Additionally, when is the deadline for producers to apply? Dr. Penn?

Mr. PENN. Senator Harkin, let me try to respond to that. The information that you have just cited is not exactly consistent with the information that I have.

This is a massive undertaking, as you know. New software had to be developed. The software was delivered to the county offices and sign up did begin last Friday, June 6th, as we said.

As with all undertakings of this scope and magnitude there were some glitches. There were some county offices where the software was not received or there were some places where it did not work as intended. These have been relatively minor and relatively few.

As far as I am aware, the sign up is going as intended and we intend for the checks to start flowing within a few days after the producer signs up.

I acknowledge there have been some few glitches but these were relatively minor and relatively few and the sign up progresses pretty much as we had intended.

Senator HARKIN. Again, on behalf of Senator Daschle, would you check on South Dakota and see how it is moving along?

Mr. PENN. I will do that.

Senator HARKIN. Thank you, Dr. Penn.

One less question. Mr. Davidson, many farmers in my home State and others have made a lot of fixed investments in ethanol production facilities. As you know, these add value to corn, they reduce our dependence on foreign energy. We just about a vote on that in the Senate, as you know.

However, as you may know, the profitability of these facilities depends on a lot of forces outside their control, market price for example. When corn prices are high or when energy prices are low, ethanol producers are put in a squeeze. These are risks associated with these potential losses. They have reduced some of the capital availability of the plants and their farmer-owners.

My question basically is would your agency be willing to look at insurance coverage, some kind of risk management tools, to farmer-owners that have co-ops of ethanol facilities in a manner that is similar to your recent efforts to guarantee the gross margins of hog producers, for example, on the livestock end?

Mr. DAVIDSON. That is an interesting concept. I guess, yes, we are willing to look at anything. It may require additional authority to do something in that area, I would guess. We would be happy to take a look at any proposal.

Senator HARKIN. Mr. Chairman, I will just submit to you some proposals that have come to me in that regard and have you take a look at them and see how they might fit into that and whether or not we need additional authority to do something like that.

Mr. DAVIDSON. Sure.

Senator HARKIN. Thank you, Mr. Davidson. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Harkin. Senator Leahy.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Senator LEAHY. Thank you, Mr. Chairman.

I have a whole statement that I might put in the record, but I would like to mention a couple of things.

We made changes in ARPA in the 2002 Farm bill and was actually beginning to help farmers in the Northeast enroll in crop insurance, help them manage risk in other innovative ways such as using conservation practices which, in our part of the country, can help very much to manage risk. Better financial management, farm diversification.

The Department deserves credit for developing new crop insurance products to cover the crops in the Northeast, such as whole farm insurance policies. I just now would like to see them become available. There is only about 1 percent or so of our farmers can even use the programs that all of us worked to put in the Farm bill.

There is a perfect storm of events occurring this year to stop past progress in helping these underserved States. I mention this because all 50 States contributed with their taxes, both to the salaries of the people at USDA, and I notice that there is a humongous number of people from USDA here, but also for the programs in the Farm bill. A great deal of those taxes come from the Northeast. I am not sure this is realized.

The Department decided to make a 180 degree change in the AMA program. Second, the Department did not implement the regional equity language, guaranteeing the Northeast conservation funding, even though a bipartisan majority of the House and Senate wanted that.

Third, and this is most inexplicable, the Department decided to cut the conservation programs that we know worked very well in the Northeast, to fund technical assistance for other programs that do not work.

This leaves a lot of the farmers in my part of the world, especially in Vermont, feeling that they have been left behind again by farm policy. That is the same feeling I hear throughout a number of the far more populated States of the Northeast.

Let us solve at least one of these problems. The Agriculture Management Assistance Program was flexible, it was locally driven, it was directly responding to risk management needs in each of the participating States. Those needs changed. it was not one size fits all.

It was so successful that in the Farm bill we—and by we I mean all the Republicans and the Democrats in the Senate, all the Republicans and Democrats in the House—expanded its mandate and we doubled the funding.

USDA does not seem to see the benefits it provided farmers and given them a variety of risk management choices.

Earlier this year the Department transferred the vast majority of funds for the Agricultural Management Assistance, the AMA, from the Natural Resources Conservation Service to the Risk Management Agency. RMA has just used these funds for traditional crop insurance subsidies.

If we had wanted to put more money in these traditional crop subsidies, we would have done it. Instead we were trying to point out another area. The funding would not have been put in there at all, had it not been for the fact that we assumed USDA would actually follow the law and the funding as we in the Congress wrote it.

We can sometimes be a stumbling block to USDA doing whatever they want to do, but after all the money does come from up here.

These new subsidies would make crop insurance more affordable for those who are eligible to purchase it. I understand that. By diverting the funds you in the Department killed an innovative program which had funded conservation, market development, farm viability efforts. That is why 24 of the senators from these AMA States, Republicans and Democrats, wrote to the Secretary to urge you to restore the AMA program to its original purpose. A number of these senators, I would note, are on the Appropriations Committees.

AMA had offered farmers in my State a new way to diversify into other markets and help improve their bottom line. It was working and it is almost—I see so much money going into programs that have not worked for decades and they just keep getting added two.

Now we have one that is working, so it is almost like if it is working it is going to get punished.

We went through all of this debate when ARPA was authorized. We decided we did not want to put all of our eggs in one basket. Risk management is more than just crop insurance. I hope the Department will recognize that.

What I want to know is why did the Department invested AMA funds in traditional risk management programs instead of building upon past successes? What did the Department ignore the broader authorization of AMA, and instead use the AMA funds to only pursue one risk management tool, crop insurance, a tool that is really not available to any meaningful fashion to us, throughout much of the Northeast?

Anyone of all the USDA folks here want to take a try at that?

[The prepared statement of Senator Leahy can be found in the appendix on page 32.]

Mr. DAVIDSON. Let me take a stab at it.

Senator LEAHY. I know you came up here, Mr. Davidson, and met with the staff yesterday.

Mr. DAVIDSON. Yes, and it was very informative and very helpful.

Senator LEAHY. They have probably given you a little bit of a heads up that I am somewhat concerned.

Mr. DAVIDSON. I understand that you have some feelings about this.

Senator LEAHY. I have been here 29 years. I have been very supportive of the Department in a lot of things. I am just so frustrated I am about to lose what little bit of hair I have left. That frustration, I have to tell you, is going to carry over into my senior position on the Appropriations Committee.

Mr. DAVIDSON. Let me first say that personally, and as an agency, we support development of broad risk management tools. We have a commitment to that. We also support the idea that there are many other things that can be done other than insurance, in

fact, many other things that should be done other than insurance to deal with risks on the farm.

We do have a commitment to that, and we demonstrated that commitment last year by providing over $8 million in funding for development of other risk management tools. Again this year, tomorrow, in the Federal Register, will appear another request for applications to development risk management tools for producers that are not insurance related.

We have been given the mandate to try to increase——

Senator LEAHY. Looking for more things, I mean there is outstanding AMA contracts with Vermont farmers that are probably not going to be met because of the Department's program change. Before you go out looking for even more, why do you change and cut these people out?

Mr. DAVIDSON. We are actually hoping to receive several applications from Vermont producers for those.

Senator LEAHY. You have some in there already that, because of your change, are not being met. I am told the State and local officials were not even consulted or informed about a lot of these changes. You have a Republican Governor up there, a Republican Commissioner of agriculture. If you do not want to talk to me, at least talk to them.

Mr. DAVIDSON. We actually, in implementing this program, did talk to the State Departments of Agriculture. They assisted us in communicating the program to all farmers in every State.

Senator LEAHY. They do not believe that up in Vermont. They are uncomfortable with this. Go ahead, answer the question.

Mr. DAVIDSON. I just wanted to respond to you. We have a commitment to that, and it is our understanding that NRCS has a commitment to continued funding of all the conservation measures. I know there has been issues with regard to implementation in that. We have had——

Senator LEAHY. Even though we increased substantially the money for conservation in this bill, something I supported, also at the request of a lot of you in the Department of Agriculture, I supported that increase in funding. I am told now actually that even though we increased it, the money available for conservation programs in my State is actually going down.

Mr. COLLINS. Mr. Leahy, can I respond to this conversation? I do not want to comment too much on the funding that has been directed toward increasing the subsidization on insurance in the Northeast. That was well motivated by the very low participation and low coverage rates in the Northeast.

The question that you are getting at is the tradeoff between the conservation aspect of it and the risk management or the crop insurance aspect of it.

When this decision was made, as this process unfolded, we looked at exactly what you pointed out. There was about an 80 percent increase in conservation spending. We had every reason to believe that there was going to be an increase in conservation spending in 2003. NRCS, in fact, indicated that to us, as well. That was part of the reason we went to this decision.

Well then, as it turned out, the appropriation for the conservation programs, because of the debate over technical assistance

funding, was not made until after April 1st and NRCS did not—I do not know what they told you in the briefings on the Hill this week—but they did not implement the regional equity provisions in 2003. Your concerns on that are well justified and well motivated.

One of the things think NRCS has done, however, is they have held back a certain amount of funds in reserve for the conservation programs for 2003. I can tell you, in discussions I have had with Under Secretary Ray and Chief Knight, that they have every intention of making a priority in allocating those unallocated funds over the rest of this year, making the Northeastern States a priority for the distribution of those remaining funds.

Now that is not going to solve all of the issues that you have raised, but we recognize what has happened here. We did not get the conservation increase that we expected to get when we made these AMA decisions, and hopefully we can try and address it, maybe not fully, but try and address it in some way over the course of this year.

Senator LEAHY. As I said, I am not trying to point fingers of blame. I am trying to fix what is a real problem. It appears to me, as a related thing, that the vast majority of agriculture income that is generated in Vermont, because it comes from dairy and livestock farms, is not even going to have a chance of being protected under the changes that have been made to AMA.

That is one thing. You couple that with decrease in conservation funds, we kind—we are in a situation like—and this is not dissimilar to a lot of the other Northeastern States—we have been sawed-off and let float out to sea, as far as the Farm bill is concerned. We are paying one heck of a lot of the bill for that farm bill.

It took a lot of Northeastern Senator's votes to pass the Farm bill. I would hate like heck to be on the floor trying to get those votes this year. I just could not do it.

Is that not true, that with these changes, the vast majority of agricultural income generated in Vermont would not have the chance of being protected under AMA?

Mr. DAVIDSON. I do have to say that the program has been very successful in the way it was directed this year. We have had significant increase in participation.

Senator LEAHY. In the Northeast?

Mr. DAVIDSON. In the Northeast, in crop insurance. Nearly 100 percent increase in buy-up coverage in those areas, based on policy count.

Senator LEAHY. Let me ask you this. 100 percent increase. What percentage of that reflects the actual income being produced up there? For example, in my State they might have had 100 percent increase in sign up, but you are talking about 1 percent, or less than 2 percent certainly, under the way this program is designed of the farm income producing areas.

You can say 100 percent increase, but if it is not really covering much, it is like saying here if we have one person in this room has health insurance and we say two more have signed up, we have a 300 percent increase but we have an awful lot of people not covered with health insurance.

Mr. DAVIDSON. It is true that a large increase off of a small base is still a small result. We have seen a significant amount of increase in various States. It has ranged—the main thing that we are concerned about is making sure that we have tools that Vermont and other farmers can use. I am really encouraged by the development of Adjusted Gross Revenue and Adjusted Gross Revenue Lite to meet the dairy farmer interest in Vermont. That program hopefully will be available in Vermont in the near future.

I tend to agree with you that we need to do more with regard to the tools available to farmers, not just insurance but also all risk management tools.

Senator LEAHY. Thank you, Mr. Chairman. As you can imagine, my staff and I will probably do some followup on this. Thank you.

The CHAIRMAN. Thank you, Senator. Senator Stabenow.

STATEMENT OF HON. DEBBIE A. STABENOW, A U.S. SENATOR FROM MICHIGAN

Senator STABENOW. Thank you, Mr. Chairman, Senator Harkin, for convening this very important meeting. I do have a full statement and some questions to enter into the record, but I would like to address a couple of those concerns today, as well as talk about some things that are positive that are happening in Michigan.

I was a member of the House when we debated and signed the bill to increase crop insurance and to broaden the scope as a risk management tool. I was especially pleased of provisions that we were able to add at that time to expand opportunities for specialty crops to begin to focus on options for specialty crops. I appreciate the fact that we have begun to do that and that it is challenging to do that, I know. Practically in a State like Michigan, with great diversity in terms of fruits and vegetables.

My concern continues to be that when we pass disaster packages, and Michigan has needed emergency assistance because of our crop losses in the last couple of years, very severe losses. For many of our growers right now that is the only risk management tool that they have, is a disaster relief package. We want very much to be able to provide them greater options, affordable options under crop insurance.

We have seen some improvements in Michigan since 1999, processed cucumbers and sweet cherries and cabbage has been added to pilots. I would encourage you to add additional crops and additional pilots and expand them to more counties. One of the biggest concerns that I hear is that the pilots operate in only a few counties, and that more growers want to be able to use them.

The other concern that I here, and probably the greatest complaint, is that coverage is still too expensive and that most producers can only afford catastrophic coverage. Even though we added dollars, we took major steps toward addressing this in ARPA, to increase the Federal subsidy, but some growers still find the highest level of coverage out of their reach, and complain about variations from county to county that still need to be addressed.

There are specific issues, and I will not go through them in detail, I would like a followup with information I have received in talking to growers, but I would say first of all that I know that there was a comprehensive review of crop insurance for sugar

beets. I know that was just completed in March and that there is a meeting this coming Monday with growers to address issues that they have raised. I hope that a copy of the report is going to be available soon for us to be able to look at that in detail, and I am anxious to see that the growers are able to work with you to resolve a number of outstanding issues as it relates to sugar beets.

The response to the sweet cherry crop in Michigan has been very positive. In fact, it is only available in two counties but there has been an 80 percent sign up rate. That is positive.

The concern is that with tart cherries that we do not have right now a pilot for them. In the beginning there was some question of whether it would be for tart cherries or sweet cherries. We need it for both, and I would like to know when that tart cherry crop insurance will be available, even on a pilot project in Michigan. If any of you are aware of what is happening, I would like to know, from your perspective. There is a great concern about having this happen as soon as possible.

[The prepared statement of Senator Stabenow can be found in the appendix on page 34.]

Mr. DAVIDSON. I understand that a number of years ago we had a tart cherry pilot that did not work very well, and so it was pulled. When the decision was made as to which variety to go with on a pilot, it was decided this time to start with sweet cherries and then see how that went and then look at tart part cherries later, not only from Michigan but from other states. I have also had the request to have a tart cherry program looked at carefully, and we will start doing that.

Senator STABENOW. As I mentioned, even though it is limited in Michigan, the sweet cherry pilot has gone very well. It has been very successful.

Mr. DAVIDSON. It seems to be very successful. Successful in terms of participation. It remains to be seen how well it will meet the needs of producers.

Senator STABENOW. The message, I guess, that I would leave you with is that there is great need and great interest. We continue to have fluctuations in weather that has caused great damage in Michigan. We do not want our growers to be in a situation where the only option they have is for us to come back again and talk about another disaster relief package. They are very anxious to figure out a way to be able to make sure that there is affordable crop insurance for them.

The other issue, and I will not go into it in detail, but apple crop insurance has been available in the State for some time. There are a number of issues right now that relate to that that I would appreciate your attention to. I will followup in writing, and would like to work with you and encourage you to look at those issues so that we can resolve them.

Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator. Senator Nelson?

Senator NELSON. Thank you very much, Mr. Chairman.

Before I arrived, I understand that Senator Roberts raised a question which we have raised with Mr. Davidson earlier. It is our concern about the crop insurance rates for the planting of water conserving crops.

We remain interested, very much interested in that because of the necessity for conserving water in general, but in particular because of the drought conditions that Nebraska has experienced over the last several years. It only makes good sense.

We appreciate very much your interest in that. We would like to continue to follow through and make sure that that is administered in a way that will get the greatest amount of impact for the program, not only in Nebraska but elsewhere, but particularly in our State.

It is also good to see you again after a few years and we appreciate the work that you are doing to make this essential risk management program work for our Nation's farmers.

One of the questions that has been raised to us, and we corresponded back and forth, and we are getting ready to respond to your recent letter, is the development of the premium discount plan. The agents, the independent agents who have been working with this program and implementing it with their accounts have raised a number of questions about how it was developed.

There are always reasons to do things at times on an actuarial basis and there are times to do it on an non-actuarial basis. If you do it on an actuarial basis, you will have people raise questions about the actuarial assumptions. If do not do it on an actuarial basis, of course, the question is why did you not.

We need to continue to work through this to get the producers satisfied that the discount is appropriate under all of the circumstances, and that it does not have to be done a single way to be appropriate.

I appreciate the fact that you have responded back and we will try not to become pen pals on this, but I do think it is important to get some satisfaction out there and perhaps a better understanding and acceptance, if possible, of the basis for determining this discount.

Mr. DAVIDSON. We would be happy to work with you on that.

Senator NELSON. You have been, and we appreciate that, and we will continue to have some dialog and correspondence back and forth. If we can be of any help in this area or any other area of the risk management program, as you know, it is an area that I have more than a passing interest in. I may not be good at it, but I have had some experience with it. We like to be a party to any kind of development of rates and/or other programs that you might be working on.

Mr. DAVIDSON. Thank you.

Senator NELSON. I appreciate it, and I thank the other gentlemen for being here. It is good to see you both again. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Nelson. Senator Chambliss.

Senator CHAMBLISS. Thank you, Mr. Chairman. Gentlemen, it is good to see all of you here this morning.

Mr. Davidson, I just have a couple of quick questions that I want to make sure that we get on the record. I know that my staff has talked to you about expansion of the Blueberry Pilot Program. We are pretty anxious to make sure that we get it expanded for the 2004 crop season, particularly in Georgia.

I understand that is underway but I wanted to make sure that we have your comments on the record relative to that.

Mr. DAVIDSON. We are also anxious. We would like to get it expanded to as many areas as possible. In some areas, the challenge is just not enough information to be able to establish appropriate premium rates, and we are working to try to obtain that information. It is our goal to get it established as broadly as possible.

Senator CHAMBLISS. Is that information that has not been forthcoming from the farmer level, or is it just you are not able to get the information that you are looking for?

Mr. DAVIDSON. Both.

Senator CHAMBLISS. We will certainly push our folks and encourage them to get that to you.

The other thing I would just comment on, the Pecan Program is working well. Our farmers are really excited about that. That is one pilot program that I know was very difficult to get initiated, but it really has worked well. It is an area where I am glad to see us expand the Crop Insurance Program into. I commend you, your staff, and everybody else at USDA that got this off the ground and got us moving and has made it work. I commend you on that.

Mr. DAVIDSON. Thank you. Georgia is the envy of all other States that want to see that expanded as rapidly as possible.

Senator CHAMBLISS. Let us use all the money we have right now, and then we will talk about that.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Chambliss.

Let me ask each of you about some specific suggestions that we have heard from farmers. There are a good many Southern farmers that think crop insurance is too expensive, that there is room for improvement in the program. There may be too much opportunity for fraud. Some producers feel like they are left out.

The Alabama Farmers Federation specifically has come up with a suggestion called an individual risk management account. Under this proposal, a producer would put money that he would normally pay for crop insurance into a tax-deferred interest-bearing account. USDA would add to the account the same amount of funding that would usually go to subsidize the producer's crop insurance premium. Then the farmer could make withdrawals when his income from farming fell below a certain level.

I do not know whether you have had an opportunity to look at this or whether you have heard about it, but my purpose is to ask you to look at it and let us know what your thoughts are.

I guess the board would have to approve something like that and maybe there is no authority to approve a scheme like that. What do you think, Dr. Collins?

Mr. COLLINS. Mr. Chairman, this type of concept has had some history, as you know. I have supported them in the past. There was similar proposals in the 2002 Farm bill debate for individual risk management accounts, not ones that would substitute for crop insurance premium subsidies but ones in which producers would put money into an account, matched or not matched by the Federal Government, with an interest rate paid, subsidized or not subsidized by the Federal Government. Then the funds could be pulled out if there is a drop in income or a disaster.

I would say that the Risk Management Agency has a contract right now, I believe with the Economic Research Service, to look at these kinds of tools. We are looking at that. I cannot say that this specific version is part of the mix that they are looking at, but we will take that information and pass that on to the research staff at RMA and to ERS and see if that could be incorporated into it.

As a general statement about these programs, the Department was very supportive of these during the run up to 2002 Farm bill. We view those programs not as a substitute for crop insurance, I would be worried about this being a substitute for crop insurance, but as something that would work in parallel with crop insurance, perhaps as a way to remedy some of the shortfalls that crop insurance has in certain parts of the country.

You mentioned some of the views that people have in the South, for example, about crop insurance. We think crop insurance is working.

Even so there are concerns that people have about having a deductibility, for example, in crop insurance. There are concerns raised by the existence of disaster assistance programs which are premised on the fact that maybe crop insurance is not working for everyone.

Well, this kind of a program, running alongside crop insurance, a risk management account running alongside crop insurance, might in fact, lessen the need for a disaster assistance program, might deal with this question of the deductibility or the low APH or whatever problems that producers face across the country with crop insurance.

In concept, the idea sounds good. In practice, the problems are trying to get it workable and trying to pay for it.

The CHAIRMAN. A similar suggestion that we have heard is that cotton farmers thought that premiums for crop revenue coverage were too high. I wonder whether or not there has been an opportunity to review crop revenue coverage rates to see whether or not they are too high?

Mr. COLLINS. We will give you a two-part answer on this. Let me start, and then maybe Mr. Davidson would like to add to this.

When I became Chairman of the Board of FCIS in 2001, it was shortly thereafter that I started getting calls from around the country from farmers, as well as from crop insurance companies, presidents of companies, raising questions about CRS rates, rates for revenue products, crop revenue coverage and revenue insurance.

As a result of that, we did contract for a study to look at the rates of revenue products. We contracted with four of the most preeminent analysts in the world. They came back to us with some concerns about the CRS rates, also some concerns about the RA rates.

For the 2003 year, we were able to work with the companies, make some rate changes. We did not go far down that road.

One of the reasons is this is very complicated. These rating methods are very difficult. They are very different for these different insurance products. We wanted to make sure that what we were doing is sound.

We took this study that these four preeminent expert did and we put it out for extra review, including we had the insurance industry represented in the expert review team.

We have those results back. We got those back in December or so. We are satisfied that there are some things that we can continue to do that would result in rate changes across the board, not just for the revenue products but for the underlying multiple peril products as well.

The Board of Directors has accepted that study and has recommended to the Risk Management Agency that they proceed to begin prudently, slowly implementing those rate changes.

With that, I will turn it to Mr. Davidson to followup for more details.

Mr. DAVIDSON. You have done a wonderful job.

The CHAIRMAN. Senator Chambliss has a question.

Senator CHAMBLISS. I just had one question to Dr. Penn. It is not directly related to crop insurance, but I am already starting to get calls from our farmers about the disaster program. I know our sign up started on June 6th. I wonder if you could tell us what your projected timeline is on that, please?

Mr. PENN. This question was raised by Senator Harkin a little earlier.

As you know, the sign up started last Friday, and the software was delivered to the county offices. We understand that the sign up is well under way. We expect that to run for several weeks. Having the software available, we can issue the checks to producers within a few days after they sign up.

There is a termination date, but I do not know the exact date for this sign up. This should be done within the next few weeks.

Senator CHAMBLISS. Thank you.

The CHAIRMAN. There is some question about whether or not it has been appropriate for Congress to make available disaster payments to farmers for weather-related disasters at a time when we have this Crop Insurance Program in place. It is apparently working much better than a lot of the critics said it would.

What do you say to those who complain that we may have gone overboard in providing too much relief to farmers?

Mr. PENN. Let me just say a couple things, Senator. I noted in my statement that there is a constant tension there between operating a Crop Insurance Program and providing ad hoc disaster assistance.

If the producer community begins to think that this ad hoc disaster assistance is going to be available every time there is a disaster of any consequence, then that tends to undermine the Crop Insurance Program. It tends to reduce the incentive for people to purchase crop insurance.

On the other hand, as we have noted here this morning several times, most of the protection is available only to the producers of certain crops. There is very little protection available to the livestock sector, for example. That was one of the big concerns in the past 2 years, is as we have had this extended drought, more and more livestock producers who depend on forage have been adversely affected and they have not had an opportunity for crop insurance.

It seems to be that there is an ongoing tension here in trying to not undermine the program for crops where we have insurance available. At the same time we need to be operating as quickly as we can. As Mr. Davidson has noted, that is what we are trying to do, to develop new products and to expand those products, especially in the livestock sector.

The CHAIRMAN. I appreciate very much your response and I thank you all for your attendance at the hearing and cooperation with our committee.

We may have additional questions to submit to you in writing and we hope you will be able to respond to those within a reasonable time.

The hearing is adjourned.

[Whereupon, at 11:29 a.m., the Committee was adjourned.]

APPENDIX

JUNE 12, 2003

http://harkin.senate.gov (202) 224-3254

For Immediate Release:

Contact: Allison Dobson
202-224-3254

SENATOR TOM HARKIN (D-IA), RANKING DEMOCRATIC MEMBER
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
HEARING ON THE FEDERAL CROP INSURANCE PROGRAM
June 12, 2003

I want to thank Chairman Cochran for holding this hearing on crop insurance. We are now nearly three years past the enactment of the Agricultural Risk Protection Act of 2000 (ARPA), and it seems a good time to take a look at how it is doing. Crop insurance is an important risk management tool for our farmers. The $4.1 billion paid out in indemnities in 2002 was the second largest source of federal government support to farmers.

The main objectives of the crop insurance reform legislation were to make insurance more affordable to encourage farmers to increase their coverage, to provide coverage to a wider range of commodities, including livestock and specialty crops, and to find a way to permit farmers to obtain adequate crop insurance coverage if they have suffered from multiple years of losses.

To encourage higher coverage, ARPA made higher premium subsidies permanent, and accordingly, between 1997 and 2002, the number of acres insured rose 18 percent, and the value of coverage for insured products increased 46 percent. Expanding the coverage and availability of crop insurance is still a work in progress. Revenue insurance for hogs has been offered on a pilot basis in Iowa, and similar products for fed cattle and feeder cattle went on sale for the first time earlier this week. But improving the availability of insurance for specialty crops has been mixed, and there still is not even a pilot product for cost of production insurance despite strong interest. It remains to be seen how well the modest fix in ARPA will work to help farmers with multiple years of losses maintain at least some reasonable level of insurable yields.

Last fall, the Risk Management Agency published proposed rules for implementing some of the more complicated provisions of ARPA, such as the changes in prevented planting, as well as proposed changes on matters not addressed in ARPA, such as eliminating the arbitration system for disputed claims. Those proposals drew numerous comments from interested parties, including from Senator Roberts and me in our joint letter. I remain keenly interested in how these controversial proposals are finally addressed and whether new rules will be in place for the new reinsurance year, which begins in a few months for some crops.

Crop insurance faces continuing challenges. The severe droughts in 2001 and 2002 exposed gaps in how we insure certain crops, especially forage crops and rangeland. Although the RMA did a good job dealing with the aftermath of the failure last year of American Growers,

the then-largest crop insurance company, the event does raise questions about how well RMA monitors the financial health of the companies that deliver this crucial program. I look forward to testimony about lessons learned from that experience.

The administration has proposed to reduce by nearly 20 percent the reimbursement rate to crop insurance companies for administrative and overhead expenses. In recent years, however, most companies have been unable to cover their expenses with the current A&O reimbursement rate. They have had to rely on underwriting gains to show an operating profit. Especially in the wake of heavy crop losses and underwriting losses by companies in 2002, it is not reasonable to slash one of the companies' two major sources of revenue.

Crop insurance has come a long way since it first became a national program in the early 1980's, but the compelling case for disaster assistance legislation earlier this year shows we still have work to do in improving the federal crop insurance program. I look forward to hearing what today's witnesses may have to say about these issues.

Statement of Senator Patrick Leahy
At the Senate Agriculture Committee
Agriculture Risk Protection Act Oversight Hearing
June 12, 2003

I want to thank the distinguished Chairman, Senator Cochran, and the distinguished ranking member, Senator Harkin, for holding this important hearing.

I also want to thank Dr. J.B. Penn, Dr. Collins, and Administrator Ross Davidson for taking time out of their schedules to brief the Committee on their progress in implementing the Agriculture Risk Protection Act of 2000 (ARPA).

This was an important piece of legislation to producers in Vermont and around the country. I am glad that you are willing to discuss with us your efforts and advise us on any needed changes in USDA's risk management portfolio. When we wrote ARPA, one of the key successes of the bill in my mind was a new program -- the Agriculture Management Assistance program -- to help farmers in states like Vermont manage their risk in ways other than buying crop insurance.

As you know, Vermont has very few farmers enrolled in crop insurance programs. Last year, of Vermont's $556 million in annual revenue from farm receipts, only $10,561,348 in liability was covered by crop insurance. In fact the entire Northeast has never been a large participant in these programs. Even the Department seems to acknowledge this, as the regional office for risk management in Vermont is way down in Raleigh, North Carolina.

However, changes made in ARPA and the 2002 farm bill were starting to help farmers in the Northeast enroll in crop insurance and help them manage risk in other innovative ways, such as using conservation practices, better financial management and farm diversification. I give the Department credit for developing new crop insurance products to cover the crops in the Northeast, such as whole-farm insurance policies but I would encourage you to quickly make this available to farmers in Vermont and elsewhere.

Unfortunately, in my view, this is one of the few bright spots in risk management. Instead, the "perfect storm" of events occurred this year to stop past progress in helping the underserved states. First, the Department decided to make a 180-degree change to the AMA program. Second, the Department did not implement the regional equity language guaranteeing the Northeast conservation funding. Third, the Department decided to cut the conservation programs that work well in the Northeast to fund technical assistance for other programs that don't. As you can understand, these changes have left Vermont farmers feeling that they have again been left behind by farm policy.

Today, I hope you will commit to working with me to solve at least one of these problems. The Agriculture Management Assistance program was flexible and locally-driven, directly responding to the risk management needs in each of the participating

states. This program was so successful that in the Farm Bill we expanded its mandate and doubled the funding.

Yet USDA has not seemed to see the benefits it providing farmers a variety of risk management choices. Earlier this year, the Department transferred the vast majority of funds for the Agriculture Management Assistance from the Natural Resources Conservation Service to the Risk Management Agency. RMA has used these funds for traditional crop insurance subsidies.

No one doubts that these new subsidies made crop insurance more affordable for those who were eligible to purchase it. But by diverting these funds, the Department killed an innovative program which had funded conservation, market development, and farm viability efforts. That was why 24 out of the possible 30 Senators from the AMA states wrote to the Secretary to urge her to restore the AMA program to its original purpose.

Vermont dairy farmers are facing the lowest prices in 25 years. AMA offered farmers in my state a new way to diversify into other markets and help improve their bottom line. The Department's changes to AMA pulled the rug out from under a successful program. You have shut another door that was providing assistance to these farmers in the hope that they will enroll in crop insurance. We went through this debate when ARPA was authorized and decided we did not want to put all of our eggs in that basket.

Risk management is more than just crop insurance. I hope the Department will recognize that and work with me to get AMA back on track.

OPENING STATEMENT
SENATOR DEBBIE STABENOW
AGRICULTURE COMMITTEE HEARING ON
IMPLEMENTATION OF FEDERAL CROP INSURANCE PROGRAM
JUNE 12, 2003

Mr. Chairman and Senator Harkin, thank you for convening this hearing so that we may review the progress of the Agriculture Risk Protection Act (ARPA).

I was a member of the House Agriculture Committee when the bill was debated and ultimately signed into law. We all worked very hard to make crop insurance a reliable risk management tool that was available to the widest variety of crops and affordable. I was especially proud of provisions to expand opportunities for specialty crops that I was pleased to help develop.

Each year, Congress has passed substantial disaster packages. In Michigan that emergency assistance was badly needed, as many of our crops suffered record breaking losses. For many of our growers, this is the only risk management tool available as many fruits and vegetables are not eligible for crop insurance.

It is challenging to develop products for diverse fruit and vegetable crops, but funding was set aside in ARPA do the necessary research and to develop pilots.

Michigan has seen some improvement. Since 1999, processed cucumbers, sweet cherries and cabbage have been added as pilots. I would encourage USDA to continue to develop these pilots and expand them to more counties. One of the greatest concerns I hear from growers is that pilots operate in only a handful of counties and more growers would like to use them.

The single greatest complaint, however, is that coverage is still too expensive, and most producers can only afford catastrophic coverage. We took major steps forward in ARPA to increase the federal subsidy of the premium, but some growers still find the highest level of coverage out of their reach. Many also complain about the variation from county to county.

I would like to share some specific concerns that specialty crop growers have highlighted.

I understand that a comprehensive review of crop insurance for sugar beets, a very important crop in Michigan was completed on March 28, 2003. Sugar beets are covered by crop insurance right now, but some outstanding issues that range from "staged" coverage to clarifying language on frozen beets need to be addressed and resolved. I hope that a copy of that report will be made available as soon as possible. I also understand that USDA will meet with grower leaders next Monday to begin the work plan on addressing these concerns. I hope that the growers and USDA can work together resolve these outstanding issues.

The response to the sweet cherry crop insurance has been very positive. It is only available in two counties, but the sign up rate has been 80 percent. However, a tart cherry crop insurance product is desperately needed. In fact, I understand that originally the pilot was supposed to be for tart cherries and somewhere along the road it was switched to sweet. I would like to know when tart cherry crop insurance will be available, even on a pilot level in the state.

Finally, I would like to share some concerns shared with me by apple growers. Apple crop insurance has been available in my state for some time. There are 2 primary markets for apples: fresh apples and processed products (such as applesauce, sliced apples

used in making pies and other baked goods, and apples pressed into cider or juice).

The current basic crop insurance policy available from USDA is for apples that meet the low cider-grade or better, with an option to buy-up for "U.S. Fancy" grade fresh apple coverage. To qualify for an indemnity payment under the basic (non buy-up) provision, quality must fall below cider-grade, meaning below the lowest quality level. Apples destined for the fresh market and the processing market must be of a higher quality than those destined for cider or juice, and consequently command higher market prices. Thus, the grower is not being indemnified currently under the basic policy for actual market loss on fresh or non-cider or juice processed apples. Unfortunately, the market price for apples sold for cider or juice is below the cost of producing apples, also undermining the benefit of the policy. The cider grade or better coverage level provides too little coverage for both fresh and processed apples, and does not reflect market conditions. Producers need coverage to meet their specific needs.

Growers looking for higher coverage for fresh apples have the option to purchase a "buy-up," or additional coverage. However, this coverage does not adequately meet their needs. Many of the other weather-related perils that cause loss are not covered, such as russeting, frost rings, misshapen apples caused by frost during bloom, or split apples from too much rainfall. (The buy-up option currently does cover hail and sunburn damage.) These uncovered weather-related perils often compromise apple quality, rendering the fruit unable to meet the "U.S. Fancy" grade and unsuitable to market for fresh consumption. Yet for the purposes of the fresh apple buy-up option, these apples are not considered damaged for the fresh market and therefore not eligible for crop insurance payments.

I urge USDA to address these concerns.

Thank you for this opportunity to comment on the implementation of ARPA.

STATEMENT OF J. B. PENN
UNDER SECRETARY FOR FARM AND FOREIGN
AGRICULTURAL SERVICES, U. S. DEPARTMENT OF AGRICULTURE
BEFORE THE U. S. SENATE COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY

June 12, 2003

Mr. Chairman, Senator Harkin, and Members of the Committee, I am pleased to appear before you today at this oversight hearing for the Federal Crop Insurance Program. Here today with me is Dr. Keith Collins and Mr. Ross Davidson. Dr. Collins, the Chief Economist of the Department of Agriculture, also serves as Chairman of the Board of Directors the Federal Crop Insurance Corporation (FCIC). Mr. Davidson is Manager of the FCIC and Administrator of the Risk Management Agency (RMA) that oversees the Federal Crop Insurance Program.

Introduction

The Federal Crop Insurance program was first instituted in 1938. Crop insurance, as we have traditionally called it, and now more recently other types of risk management tools, have become an increasingly important part of the economic safety net for American agriculture. They are an expanding component, alongside the several other farm programs that include marketing assistance loans, direct and countercyclical payments, dairy price support and payments, and other specialty commodity programs.

As the world has become more technical and interconnected, the risks faced by farm businesses also have increased and become more complex. In addition to the always-present natural risks (diseases, insects, aberrant weather), market risks have expanded, new risks have emerged such

as liability related to consumer safety, the loss of irrigation waters due to competing demands, and now we have the threat of intentional sabotage of the food system.

Policy Role of Risk Management

The Federal Crop Insurance Program has grown rapidly in the past few years in response to the changing risk environment. Insurance not only protects farms from devastating loss in times of extreme weather such as extensive drought or flood, but it protects individual farming operations from adverse impacts of more localized conditions as well. More and more producers have recognized that it is just good business to have crop insurance, and commercial lenders increasingly require producers to have crop insurance as a condition of obtaining a loan. Today over 80 percent of acres for major program crops are covered by crop insurance. And, more than half of those acres have elected coverage at the 70 percent level or above.

Since passage of the Agricultural Risk Protection Act of 2000 (ARPA), RMA has placed a high priority on extending coverage to a wide array of products including: specialty crops, forage, rangeland, livestock and even aquaculture.

Today, RMA has insurance products in pilot phase or under development for the majority of specialty crops. Other products, such as Adjusted Gross Revenue, which are nearing the end of their pilot stages, will provide risk management tools for most specialty crops and an increasing portion of the livestock and livestock products markets as well.

RMA also has programs that provide specific protection for certain classes of livestock and for forage and rangeland. These products are still pilot programs and while they are in their infancy, the FCIC Board is moving judiciously to ensure that they effectively and safely meet demonstrated market needs and can be operated with actuarial soundness.

However, government provided risk management tools are fundamentally different from the traditional farm programs. They are a unique entity on the spectrum of agricultural policy tools. They are unique in several respects, and the Congress recognized this with passage of the ARPA in 2000.

The vision at that time of some of the architects of the ARPA was for risk management, at some point in the future perhaps, to constitute the major component of the safety net for the commercial farm sector, supplanting some of the more traditional farm programs. The ARPA provided the structure for the envisioned expansion of risk management tools—both the development of new, innovative tools and their widespread use across more of the farm sector.

Risk management also is unique in that it is actuarially based—it is not another farm program with an often negotiated or bureaucratically determined set of rules for providing benefits. Rather, it is a program providing individual producer protection with costs and benefits based upon historical experience and evaluations of specific risks. Congress has required actuarial soundness, meaning that the amount collected from premiums roughly equals the amount paid out for claims over time. Producers pay for their insurance coverage, which is provided through commercial contracts between the producer and a private sector insurance company.

Insurance companies deliver the products, make indemnity payments and bear a portion of the commercial risk.

Public-Private Partnership

This component of the farm safety net also is unique in that it involves this unusual private-public partnership in making risk management services available to American producers. It involves the participation of private companies—some dozen and a half today—in both development and delivery of the service to farmers. At the same time, it involves the participation of a major government agency, the RMA within the Department of Agriculture.

ARPA placed the RMA in a unique position of being both a regulator of the agriculture insurance industry and a reinsurer of billions of dollars of incurred liability annually. And, the partnership involves broad industry representation through an oversight board—the FCIC board—whose composition was determined by the Congress with individual members selected by the Administration. The nature of this unique partnership still is evolving.

We now are in the fourth year since enactment of ARPA. This hearing thus is very timely, presenting a good opportunity to review progress and performance since ARPA's passage and also to assess any technical or structural changes that may appear warranted.

The Challenge Ahead

U.S. agriculture today counts some 2.1 million places as farms, together producing about $200 billion of products annually. This highly productive farm sector is widely diverse, producing the traditional row crops that long have been the focus of farm policy, horticultural crops of even greater value, and a large livestock output. All of this is from a highly differentiated farm structure that encompasses a large number of small, diversified farms, a small number of very large specialized farms, and a wide variety in between.

It is these farms of widely differing structure and economic circumstances that RMA attempts to provide risk management tools for improved farm management.

Today, risk management tools, still largely crop insurance, cover only about $38 billion of the $200 billion of value generated each year. And, they still are largely focused on the traditional large acreage field crops. But, demand is growing for tools that can provide a safety net for farms and products that receive little or no benefits from traditional farm programs.

The challenge to the insurance industry and to RMA is clear. More products are needed that address the differing risk environments of the different farm types. More products are needed for the rest of the crops sector, and we have only begun to develop appropriate products for the livestock sector.

But, these products must fit the needs of the different farms across differing regions. And, they must be affordable, delivered efficiently, and provide timely benefits, as required.

Program Integrity

The RMA also has a particular challenge in maintaining the integrity of the risk management tools. They are not farm programs but structured on an actuarial basis, not very amenable to mid-course adjustments. They are subject to abuse and require greater vigilance to prevent their misuse.

Ad Hoc Disaster Versus Risk Management

One other challenge, one confronting the Congress especially in providing risk protection to farmers, is determining the relative roles of ad hoc disaster assistance versus the risk management tools of the Program, especially crop insurance. The presence of a Federally administered insurance program does not guarantee that disaster payments will never be needed, but it can reduce the extent and frequency of disaster assistance over time.

Likewise, the requirement in the recent disaster legislation that uninsured producers receiving a payment purchase buy-up insurance for two years is appropriate discipline to ensure that crop insurance serves the primary role of providing disaster assistance. Traditionally, the disaster legislation also has favored those who had crop insurance with a slightly higher payment rate.

The recent drought of 2002 demonstrates the impact that crop insurance has had in managing risks. Over $4 billion in claims have been paid to date – most of them were paid within 30 days of the evaluation of the loss. While Congress also passed a substantial disaster package for that period, the $4 billion paid in crop insurance claims represents a substantial and growing portion of all disaster payments. Furthermore, the premiums paid by producers reduced total outlays of the Federal government. As crop insurance is used more extensively and as more risks, commodities and areas are afforded coverage, the need for disaster assistance should decline.

Summary

We are working diligently to implement the ARPA as the Congress directed. We have gained considerable experience which we believe will prove invaluable as we move forward. We welcome continued discussion with the insurance industry, farmers and ranchers and the Congress as we attempt to refine and improve this increasingly important part of the farm safety net. We look forward to working with this Committee.

Thank you.

STATEMENT OF KEITH COLLINS
CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

June 12, 2003

Mr. Chairman and Members of the Committee, thank you for the opportunity to be at today's hearing on crop insurance and risk management issues for U.S. agriculture. I currently serve as Chairperson of the Board of Directors (Board) of the Federal Crop Insurance Corporation (FCIC). My remarks today will focus on the activities of the Board since passage of the Agricultural Risk Protection Act (ARPA) of 2000.

ARPA made substantial changes to both the functions and responsibilities of the FCIC. In today's hearing, Mr. Ross Davidson, Manager of FCIC and Administrator of the Risk Management Agency (RMA), and other witnesses will discuss many of these changes, including:

- Expanding pilot programs to include livestock, a sector of agriculture specifically excluded in the past,
- Emphasizing service to underserved states, underserved crops, and underserved producers,
- Outsourcing the internal research and development of crop insurance products,
- Increasing risk management and crop insurance education and
- Expanding the role and the use of cutting edge technology, such as data mining, to increase risk management compliance.

ARPA also changed the management of FCIC to facilitate the changes in priorities and the increased activity mandated by this new legislation. Prior to the enactment of ARPA, the Board of Directors consisted of: the Corporation Manager; two Under Secretaries of Agriculture, one responsible for the Federal crop insurance program; a crop insurance professional not otherwise

employed by the Federal government; and three active producers who were policyholders and not otherwise employed by the Federal government

Under ARPA, the number of private sector Board members has increased. The new structure of the Board is: the Corporation Manager as an ex officio non-voting member; two Under Secretaries of Agriculture, one responsible for the Federal crop insurance program; the U.S. Department of Agriculture's Chief Economist; one crop insurance professional; one member experienced in reinsurance or the regulation of insurance; four active producers who are policyholders from different geographic areas of the United States, and represent a cross-section of agricultural commodities, including at least one specialty crop producer.

The Board has met thirty-one times since enactment of ARPA in June 2000, compared to twenty-seven times from 1996 through 2000. Several factors contributed to this increase in activity, including the increased submission of private products under section 508(h) of the Federal Crop Insurance Act (Act), and the requirement that the Board use independent expert reviewers to assist in the decision making of the Board.

Section 508(h) of the Act authorizes the reimbursement of certain costs associated with the development and submission of products from persons outside FCIC. This incentive, along with the expansion of allowable commodities, such as livestock, has fueled an increase in the number of private submissions. The legislation also requires FCIC to make determinations on submissions to the Board by issuing a notice of intent to disapprove a product not later than 90 days and approve or disapprove a product not later than 120 days after receipt of a complete submission.

ARPA also requires the Board to contract with independent actuarial and underwriting experts for the independent review of policies, plans of insurance, and related materials prior to

the Board giving approval for such products. In making its decisions, the Board must take the results of the expert reviews into consideration before its determination of approval or disapproval. Since the enactment of ARPA, over 150 independent expert reviews have been conducted on over two-dozen submitted products and program modifications. The Board currently has nearly forty expert reviewers under contract. The recruitment and retention of qualified expert reviewers is an ongoing task.

The Board approved several new risk management products over the past two years, including the Livestock Risk Protection (LRP) and Livestock Gross Margin (LGM) plans, as well as whole farm insurance policies such as AGR-Lite, and a Nutrient Best Management Practices insurance plan. New specialty crop insurance program proposals have been approved including caneberries and forage seed. The Board has also approved the expansion of certain pilot programs, such as the pecan insurance pilot program.

The Board generally delegates ratemaking issues to the Manager of FCIC. However, due to the magnitude of the potential changes to the rating structure of major FCIC products, the Board decided to be directly involved in the review of the rating methods for several products, including APH, Revenue Assurance, and Crop Revenue Coverage. This review may lead to substantial changes in the way most crop insurance is rated. The Board also reviewed Crop1's Premium Discount Plan and recommended its approval if the criteria in the procedure, created by the Board, were met.

As we look to the future of FCIC, the Board will be focusing on a range of issues crucial to improving the risk management capacity of farmers and ranchers. In order to ensure that FCIC's resources are used in the best possible way to meet the needs of producers and the industry, the Board has authorized a set of studies looking at the FCIC's current and future

products. The first is a comprehensive review of policies, plans of insurance and related materials. This study focuses on any inconsistencies or overlaps between the program legislation, regulation and program materials. The second is an analysis of the FCIC product portfolio, with specific attention on coverage overlap and gaps. We believe this study will help the Board and RMA deal with the large number of pilot programs and feasibility studies that are in the pipeline. The results of both of these studies should give FCIC valuable assistance in developing a strategic product development plan.

The Board is also mindful of the statutory charge that "The management of the Corporation shall be vested in a Board of Directors subject to the general supervision of the Secretary." While the Board is very active in the general management of FCIC, the Board cannot and should not manage day-to-day activities and issues that continually arise in this complex program. That is the task of Under Secretary Penn and Administrator Davidson, and they are doing an excellent job.

In order for the Board to manage its considerable responsibilities of guidance and oversight placed on it by the Act, as amended by ARPA, the Board has created a committee structure to help ensure appropriate attention is given to the full range of issues the Board must address. Newly created Governance and Audit and Finance Committees are the first stop for many of the issues that need Board attention. For example, the Governance Committee is currently addressing the delegation of authorities from the Board to the Manager of FCIC. The Board expects its review and reformulation of the delegations to be finished this summer.

The Board is fulfilling, and will continue to fulfill, its statutory responsibilities, including the provision of oversight, guidance and direction to FCIC and RMA. The Board is committed to strengthening the nation's crop insurance and other risk management programs and the

regulatory functions of RMA. All of the Board members are pleased to have the opportunity to serve American agriculture and all are working diligently to ensure this crucial part of the farm safety net functions as efficiently and as effectively as possible.

That completes my remarks. Thank you.

STATEMENT OF ROSS J. DAVIDSON, JR.
ADMINISTRATOR, USDA RISK MANAGEMENT AGENCY
BEFORE THE U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

June 12, 2003

Mr. Chairman and members of the committee, it is a pleasure to appear before you to discuss the progress and challenges of the federal crop insurance program. RMA has made significant progress in implementing the letter and intent of the Agriculture Risk Protection Act of 2000 (ARPA). ARPA charged the U.S. Department of Agriculture (USDA) and RMA to enhance the federal crop insurance program to better serve our nation's agricultural producers. Specifically, these enhancements include:

- Improving program integrity, compliance and regulation
- Expanding crop insurance to include livestock, rangeland and forage
- Expanding agriculture assistance programs to include additional underserved states and producers
- Increasing risk management education and outreach to help more producers better mitigate their risks
- Expanding specialty crop programs to reach more producers

GENERAL OVERVIEW

The federal crop insurance program, administered by RMA, is a government-private sector partnership in which RMA oversees the sale and service of crop insurance by 18 private insurance companies, reinsured by FCIC, through licensed private agents and brokers. This system includes over 25,000 professionals consisting of RMA, the reinsurance companies, insurance agents and loss adjusters. Reinsured companies are responsible for marketing the policies, collecting premiums, and resolving producers' claims.

The primary mission of the Risk Management Agency (RMA) is to promote, support and regulate the delivery of sound risk management solutions to preserve and strengthen the economic stability of America's agricultural producers. In fulfilling this mission, RMA is also responsible for implementing Congressional directives and decisions made by the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board).

PARTICIPATION

In response to subsidies provided by ARPA and an aggressive education program, farmers have actually purchased higher levels of protection and revenue crop insurance coverage policies. In 2002, over 50 percent of the insurable acreage was insured at 70 percent coverage or higher compared to only 9 percent in 1998. The high participation rate and the higher levels of coverage purchased have enhanced the ability of crop insurance to become the main risk management tool for America. In addition, the increased number of farmers buying up higher levels of coverage has generated increased efficiencies.

However, the traditionally underserved states still lag in participation. The main reason given for this lower participation has been unavailability of appropriate coverage and the perceived high cost of buy-up coverage. RMA is working assiduously to promote and facilitate the development of revenue and specialty crop insurance to address availability questions and affordability concerns.

ARPA provided funding for the Agriculture Management Assistance program, and then was modified to include additional funding by the 2002 Farm Bill. In February, the Department announced an effort to better serve the 15 historically underserved states targeted under the Agricultural Management Assistance program by providing up

to $18 million in additional subsidy for higher levels of coverage through the Targeted States Financial Assistance program.

This program, which is designed to increase participation in the crop insurance program and help producers manage production, price and revenue risk, has been very successful. Providing this additional financial assistance has encouraged many producers to purchase crop insurance for the first time and has allowed many producers to purchase the maximum coverage level available. RMA has received many positive letters from producers, producer groups and insurance agents in many states who are pleased with the program. We expect to have more definitive participation data later in the summer, after acreage reporting dates have passed, and we will be pleased to share that with you.

PRODUCTS & COVERAGE

Portfolio Review

In fulfilling ARPA requirements, Secretary Veneman asked the Risk Management Agency to undertake a major initiative in 2003 to identify the underserved producers and closely examine the regions, commodities and risks to better serve producers. RMA is undergoing an extensive product portfolio review, conducting listening sessions with producers across the U.S. and identifying crop insurance priorities of local and national producer groups, lenders and state departments of agriculture to identify ways in which it can improve and fine-tune its products. Under guidance from Secretary Veneman and the Board, RMA continues to support and regulate the development of new risk management tools, update and adapt existing tools to meet emerging market needs, technologies and risks, and expand availability of risk management tools for all producers.

A variety of insurance products are available to producers, including yield-based plans, revenue insurance plans, dollar plans, and pilot programs for livestock, rangeland

and forage, and specialty crops. RMA has nearly 30 feasibility studies and product developments currently underway. Significant demands are placed on RMA to monitor, update and keep up with technology advances, changing and growing farm practices, and emerging producer needs.

RMA is also actively fulfilling ARPA's vision of education, outreach, and the use of technology to safeguard the future viability and integrity of the program. Following are highlights of recent and ongoing activity.

Apples

RMA's work with the apple industry to improve apple insurance coverage is a good example how producers, insurers and the agency can work together to adapt the program to address market changes, new risks and local conditions. RMA, in conjunction with U.S. Apple Association, has been working to make improvements to the current apple policy. While several options are being considered, it is important that meeting the needs of producers is first and foremost. Members of U.S. Apple and producers have been pleased with the discussions thus far. We hope to reach a consensus soon and will do everything within our authority to expedite the appropriate changes. RMA regularly works with producers to address such emerging needs.

Livestock, Rangeland & Forage

ARPA authorized RMA to insure several types of animals and animal products, including dairy. RMA recently announced a Livestock Risk Protection (LRP) pilot program for fed and feeder cattle. Both risk protection plans protect cattle producers from declining cattle prices. Sales open for both products on June 9, 2003. Additionally, RMA is entering its second year of insuring slaughter hogs in Iowa under two different pilot insurance plans. The LRP pilot program provides swine producers with protection from declining prices. The Livestock Gross Margin (LGM) pilot program protects swine producers from increasing prices in corn and soybean meal and/or declining slaughter

hog prices. Several other livestock initiatives are currently underway, including two contracts: a feasibility study for various livestock related insurance plans and another contract to study possibilities for insuring against catastrophic livestock diseases, both of which include dairy.

RMA is also testing pasture and forage products in order to fulfill ARPA requirements. The Group Risk Protection (GRP) rangeland pilot is currently offered in twelve Montana counties. While this product is not working as well as RMA or producers would like, RMA is doing everything possible to ensure that the discovery and determination of yields used to make loss payments are accurate and fairly represent the crop year's production experience of Montana's rangeland producers. RMA has contracted for an evaluation of the GRP program and a feasibility study specifically for pasture and rangeland to determine if an individual risk management program can be developed rather than the group program.

The performance of the Actual Production History (APH) forage program is being reviewed and a contract has been awarded to improve the loss adjustment methodology and determine the feasibility of a forage quality adjustment endorsement.

Adjusted Gross Revenue (AGR)

In accordance with the 2002 Farm Bill, RMA expanded the areas for the AGR program to additional counties in Pennsylvania and California. AGR is nearing the completion of its pilot phase and will undergo final evaluation after which the Board of Directors will consider nationwide expansion.

RMA has received interest from many states in an adaption of AGR called AGR-Lite which was submitted by the Pennsylvania Department of Agriculture and approved by the Board for use in Pennsylvania. Recently the Pennsylvania Department of Agriculture submitted certain changes and requested the expansion of the AGR-Lite

program. On May 7, 2003, the Board sent the submission out for review by five external reviewers.

Cost of Production

Cost of Production (COP) is a new and untested insurance concept and approach. Many issues, including program design, rating, delivery and administration, still must be addressed. RMA and the contractor on this product are currently addressing the issues raised by independent expert reviewers, RMA staff, the Office of General Counsel, and Board members during the Board's consideration and approval process. We expect to revisit these issues by mid-summer when the product is resubmitted for the Board's re-consideration. Pending resolution of these issues to the Board's satisfaction, a policy for cotton may be available for the spring 2004 Crop Year. Any decision to expand this program to other crops would be decided by the Board, taking into consideration the experience of any initial pilot program.

Drought Coverage

Excessive drought has plagued and continues to affect many producers in the U.S. RMA recognizes this challenge and has several programs that address the needs of drought-stricken producers. RMA has demonstrated its continued service to producers during drought stricken years by paying all legitimate indemnity claims which, for CY 2002, amounted to over $4 billion in indemnities compared to $3 billion for CY 2001.

Prevented planting provisions cover producers in times of excessive and multi-year drought. Recently, RMA provided supplementary information explaining prevented planting policies to producers. Most producers have found that they are covered better than they originally thought. Additionally, RMA is holding a series of prevented planting forums consisting of RMA, insurance industry representatives and commodity group representatives to improve RMA's prevented planting coverage for the future.

To mitigate the effects of drought on Actual Production History (APH) yields and insurance coverage, yield substitutions authorized by ARPA are in place. This allows producers who have suffered catastrophic losses to receive a yield equal to 60 percent of the transitioned yield for the county. RMA is also evaluating the possibility of requesting revisions to the yield substitutions to determine if more assistance can be provided to address long-term production declines such as those induced by extended drought.

EDUCATION & OUTREACH

RMA targets risk management education activities to states that have been underserved by crop insurance. The Secretary selected 15 states for this program: Maine, New Hampshire, Vermont, New York, Connecticut, Massachusetts, Rhode Island, New Jersey, Delaware, Pennsylvania, Maryland, West Virginia, Wyoming, Utah, and Nevada. These states have a disproportionately large share of small farms. In 2002, RMA established 13 cooperative agreements totaling $1.8 million to deliver crop insurance education and information to producers in the 15 underserved states.

In addition, RMA awarded 72 partnership agreements to conduct producer training in risk management, with a priority to producers of specialty crops. These agreements were awarded to universities, grower groups, private agribusiness organizations, and state departments of agriculture across the country.

In fiscal year 2002, RMA's Civil Rights and Community Outreach division entered into 46 outreach partnerships totaling over $3 million dollars, covering approximately 34 states serving women, Asians, African Americans, Native Americans and Hispanic farmers and ranchers. Through these partnerships, women, limited resource and other traditionally under served agricultural producers will receive program technical assistance and training on the availability and use of risk management tools to improve

their economic viability. Many small and limited resource producers participated in similar outreach activities in 2002, totaling over 100 producer groups and 35,000 individual producers.

RMA has also participated in 14 public educational briefings across the country on the 2002 Farm Bill and USDA programs and services.

PROGRAM INTEGRITY, COMPLIANCE & REGULATION

Fraud, Waste & Abuse

As directed by ARPA, RMA instituted new provisions strengthening program integrity and compliance, which have shown positive results. While RMA believes that most producers use good farming practices and comply with federal regulations, there are some instances of waste, fraud and abuse. As a result, RMA has launched several oversight efforts, which have proven successful in deterring and detecting fraud.

To combat fraudulent claims, RMA provided crop insurance oversight training to 2,500 FSA personnel. This training helps RMA and insurance providers monitor crop conditions and producer behavior during the growing season through on-site FSA inspections. USDA's 2001 Compliance Report to Congress noted that RMA has reduced program costs an estimated $94 million by preventing payments on potential fraudulent claims. Although prevention efforts and implementation of the Act have been major priorities for RMA, traditional investigation and criminal, civil, and administrative processes are continually ongoing and have generated recoveries of approximately $35 million in overpaid indemnities.

APRA also required the use of data mining and data warehousing "to administer and enforce" the crop insurance program. The Center for Agribusiness Excellence (CAE) contract requires an annual spot check list be extracted from the data warehouse through data mining. The purpose of the spot check list is to identify producers who should have

growing season inspections performed. The spot check list is then forwarded to FSA after RMA's six Regional Compliance Offices review and revise the list. Producers on this list were identified through data mining utilizing five scenarios:

- Triplets - Agents, adjusters, and producers linked anomalous behavior suggestive of collusion (as required by ARPA)
- Frequent Filers - Producers with consecutive multi-year losses
- Added Land/New Producer - Producers who appear to abuse the added land and new producers provisions
- Cotton Yield Switchers - Producers identified by Illinois Institute of Technology Research Institute (IITRI)
- Frequent Losers – Producers identified using criteria developed by a Regional Compliance Office Director.

The indemnities of the producers on the spot check list reduced substantially from 2001 to 2002, from over $210 million to just over $100 million. This translates into approximately $110 million in cost avoidance.

In addition, RMA is upgrading its Geographic Information System (GIS), using current mapping and imagery technology, and infrared data to assist in making compliance determinations. For example, RMA began monitoring the lay down of raisins from the air using aerial infrared images in combination with field visits by RMA personnel to deter potential crop insurance abuse due to low prices and other market conditions. In combination with favorable weather conditions, these efforts resulted in maintaining a very low loss ratio on approximately 400,000 acres of raisins. Now, RMA is looking at further integrating imagery technology into its data mining effort to reduce and prevent fraud.

GIS provides timely and historical imagery analysis of individual fields and tracts. A GIS workstation has been established in every regional and compliance office using Environmental Systems Research Institute (ESRI) software. RMA is also working with business partners, private industry and other government agencies to enhance our GIS technology. These combined efforts provide additional help in preventing, deterring and prosecuting crop insurance fraud through information technology.

American Growers Insurance Corporation

RMA continues to work with the Nebraska Department of Insurance, the rehabilitator of American Growers, in assuring the timely service and payment of claims. Currently, fewer than 200 open claims of the nearly 29,000 processed were pending and a few new claims continue to be filed each week.

The transfer of 2003 crop year policies to other active companies is proceeding. All fall 2003 policies have been transferred to other companies and RMA is in the process of transferring the rest of the spring 2003 policies. Substantial work remains in areas such as completing claims processing, safeguarding crop insurance records and disposing of company property.

RMA's oversight and advisory team of four senior managers rotate their time onsite in Council Bluffs. In addition, many other RMA employees are involved in supporting this on-going effort. Although most of American Grower's employees have been separated from employment at this time, RMA acknowledges that without their assistance and dedication to getting the 2002 claims paid, this project would not have been as successful as it was. RMA also recognizes that the remainder of the crop insurance industry has assumed the American Growers producer policy business. We believe this has been a very good example of federal-state regulatory cooperation.

Although the final accounting analysis of American Growers remains incomplete, it appears the company may have made management and/or operational decisions prior to

2002 that caused its continued survival to be dependent on earning sizeable underwriting profits for the 2002 reinsurance year. With a greater than normal loss year, the underwriting gains did not materialize, leaving the company unable to meet expenses. As a result, RMA recognizes that closer scrutiny of company expenses in the future is desirable.

Secretary Veneman recently charged RMA to "examine its own authorities and processes to ensure effective oversight of the industry." RMA has determined that additional reporting and review is necessary to anticipate insurance company problems in advance. RMA is considering several changes in its authorities and organizational structure to increase oversight of the companies participating in the Federal crop insurance program.

Premium Discount Plan

Converium and Crop1 Insurance companies, under section 508 (e) (3) of the Federal Crop Insurance Act, submitted the Premium Discount Plan (PDP) to the FCIC Board. The Board recommended approval of PDP if RMA determined that Crop1 and Converium met the requirements of the Act and the other procedures established by the Board. After rigorous review and approval by the Board, RMA authorized the PDP in seven states for five crops in each state for the 2003 Crop Year.

Under PDP, the premium paid by producers to purchase crop insurance was reduced commensurate with cost savings achieved by Converium and Crop1 primarily through the use of their enhanced computer operating system and use of affiliates to make insurance more accessible to producers. Converium, the SRA holder, has recently discontinued its relationship with Crop1. RMA is working closely with these entities to ensure that services to producers are completed correctly and in a timely manner for all 2003 policies purchased through Crop1.

Because approval was based in part on the relationship between Crop1 and Converium, the existing PDP program has not been approved for Crop Year 2004. However, PDP can be resubmitted for approval for the 2004 crop year. RMA recently published procedures by which any reinsured company may apply to offer a premium reduction plan, under strict standards for approval and operation. These procedures were reviewed and commented on by independent insurance companies. RMA has and will continue to exert careful regulatory oversight of these types of programs to ensure compliance with federal law and the provisions of the Standard Reinsurance Agreement, particularly with respect to the proper use of licensed agents, producer service, and illegal rebating and tying prohibitions.

Basic Provisions

RMA has incorporated the final requirements as mandated by ARPA into its Common Crop Insurance Policy for Basic Provisions. We recognize that there are several questions surrounding these changes and hope to publish the Basic Provisions in the near future.

Information Technology & Common Computing Environment

RMA's FY 2004 request of $78.5 million for Administrative and Operating Expenses represents an increase of about $8 million from FY 2003. This budget will support increases for information technology (IT) initiatives in the amount of $5.5 million. These IT funds are targeted towards the continual maintenance and enhancement of the corporate operating systems necessary to run the program.

This budget also includes a funding request of about $8.7 million for information technology for RMA under the Common Computing Environment (CCE) in the budget of the Chief Information Officer. RMA has an aging information technology system, of which, the last major overhaul occurred about 10 years ago. The funding requested under the CCE will provide for improvements to RMA's existing information technology

system to improve coordination and data sharing with the insurance companies and FSA. The funding will also provide for the development of a new information technology architecture.

Standard Reinsurance Agreement

The Standard Reinsurance Agreement (SRA), the Livestock Price Reinsurance Agreement, and the Aquatic Crop Reinsurance Agreement are considered cooperative financial assistance agreements between the FCIC and the insurance company named on the agreement. Each reinsurance agreement establishes the terms and conditions under which the FCIC, with delegated authority to RMA, will provide subsidies and reinsurance on eligible crop insurance contracts. The current SRA has been in effect since 1998 and includes a provision for renegotiations on an annual basis (from July 1 to June 30) provided the Department gives notice at least 180 days in advance. ARPA authorizes the Department to renegotiate the SRA once before 2005. In December 2002, USDA announced that the RMA's Standard Reinsurance Agreement and Aquatic Crop Reinsurance Agreement would remain in effect for the 2004 reinsurance year. RMA plans to announce renegotiation of the SRA and the ACRA effective with the 2005 reinsurance year in the coming weeks.

CONCLUSION

Since the passage of ARPA, RMA has been very active in accommodating the needs of American producers through additional products. RMA has reduced program costs by preventing payments on potential fraudulent claims. Data mining efforts successfully reduced indemnities by approximately $110 million. Improvements and enhancements are being made to GIS, infrared, and other information technologies as well as the Common Computing Environment. New specialty crop and livestock pilot programs are currently underway. Education and outreach programs have been enhanced and expanded to help more producers learn how to better mitigate their risks. RMA continues to serve producers that have been plagued by excessive drought. As demonstrated by my testimony today, RMA is proactively striving to fulfill Secretary Veneman's continued commitment to better serve our nation's producers.

Thank you, Mr. Chairman and members of the committee. At this time, I will respond to any questions.

DOCUMENTS SUBMITTED FOR THE RECORD

JUNE 12, 2003

Max Baucus

Statement of Senator Max Baucus
Senate Agriculture Committee Hearing
June 12, 2003

Thank you Mr. Chairman. The reforms made to Crop Insurance in the Agricultural Risk Protection Act (ARPA) of 2000, undoubtedly strengthened the risk management tools available to our nation's agricultural producers. We did not create the perfect risk management system, but the changes were positive. Yet there are still many issues to resolve.

As you know, the farmers and ranchers in my state of Montana have suffered from consecutive years of drought. They used the proper risk management tools, including crop insurance, but because they have had multiple years of disaster, their premiums have increased. Additionally, each year, their actual production history average decreases and their indemnity payments fall. It's a double whammy---they pay more and they get less. During these tough times, crop insurance by itself has not provided enough protection to help producers hang on to their operations.

Ranchers are in a pickle because of the lack of available coverage for forage and grazing land. Farmers who raise high-value specialty crops have also been hit hard because of a lack of coverage.

Crop insurance is an important risk management tool, but the struggle to keep the program actuarially sound while adequately covering our producers continues.

We must improve our risk management strategies to ensure that producers who suffer from consecutive years of weather related disasters have adequate coverage and are not penalized. We must also make sure that a viable risk protection plan exists for forage and rangeland.

We made big improvements with ARPA, but we must be diligent and keep revising and improving the federal crop insurance programs so that the programs do what they were intended to do. We must make sure that federal crop insurance is affordable, workable and provides the protection our producers need.

Background Commodity Insurance Information

Risk Management Agency
Testimony before the Senate Committee on Agriculture, Nutrition, and Forestry
June 2003

Commodity Insurance Overview 1
Commodities Covered Under the 2003 Insurance Program 3
Feasibility Studies 4
Research and Development Agreements 6

Commodity Insurance Overview

Buying a commodity insurance policy is one risk management option. Producers should always carefully consider how a policy will work in conjunction with their other risk management strategies to insure the best possible outcome each crop year. Commodity insurance agents and other agri-business specialists in the private and public sectors can assist farmers in developing a good management plan.

RMA provides policies for more than 100 commodities. (This number would be much higher if every crop variety/commodity insured in every county were counted.) RMA is also currently conducting studies to determine the feasibility of insuring many other commodities and is conducting pilot programs for some new commodity policies in selected states and counties. Federal commodity insurance policies typically consist of the Common Crop Insurance Policy, the specific commodity provisions, and the policy endorsements and special provisions.

See RMA's Summary of Business Reports (http://www.rma.usda.gov/data/#sumbus) for information about commodity policies available in specific counties and states.

Types of Policies

Producers may select from various types of policies. Standard Multiple Peril Crop Insurance (MPCI) policies are available for most insured crops. Other plans may not be available for some insured commodities in some areas. In addition, some of the policies listed below are not available nationwide; they are being tested in pilot programs and are only available in selected states and counties.

Yield-based (APH) Insurance Coverage

Multiple Peril Crop Insurance (MPCI)—These policies insure producers against losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease. The farmer selects the amount of average yield he or she wishes to insure; from 50 to 75 percent (in some areas to 85 percent). The farmer also selects the percent of the predicted price he or she wants to insure; between 55 and 100 percent of the crop price established annually by RMA. If the harvest is less than the yield insured, the farmer is paid an indemnity based on the difference. Indemnities are calculated by multiplying this difference by the insured percentage of the established price selected when crop insurance was purchased.

Group Risk Plan (GRP)—These policies use a county index as the basis for determining a loss. When the county yield for the insured crop, as determined by the National Agricultural Statistics Service (NASS), falls below the trigger level chosen by the farmer, an indemnity is paid. Payments are not based on the individual farmer's loss records. Yield levels are available for up to 90 percent of the expected county yield. GRP protection involves less paperwork and costs less than the farm-level coverage described above. However, individual crop losses may not be covered if the county yield does not suffer a similar level of loss. This type of insurance is most often selected by farmers whose crop losses typically follow the county pattern.

Dollar Plan—The dollar plan provides protection against declining value due to damage that causes a yield shortfall. The amount of insurance is based on the cost of growing a crop in a specific area. A loss occurs when the annual value of the crop is less than the amount of insurance. The maximum dollar amount of insurance is stated on the actuarial document. The insured may select a percent of the maximum dollar amount equal to CAT (catastrophic level of coverage), limited, or additional coverage levels.

The dollar plan is available for several crops, including fresh market tomatoes, strawberries, and cherries (on a pilot program basis in limited areas only).

Revenue Insurance Plans

Note: All revenue-based options determine revenue differently. See each policy's provisions for their definition of revenue.

Group Revenue Insurance Policy (GRIP)—makes indemnity payments only when the average county revenue for the insured crop falls below the revenue chosen by the farmer.

Adjusted Gross Revenue (AGR)—insures the revenue of the entire farm rather than an individual crop by guaranteeing a percentage of average gross farm revenue, including a small amount of livestock revenue. The plan uses information from a producer's Schedule F tax forms to calculate the policy revenue guarantee.

Crop Revenue Coverage (CRC)—provides revenue protection based on price and yield expectations by paying for losses below the guarantee at the higher of an early-season price or the harvest price.

Income Protection (IP)—protects producers against reductions in gross income when either a crop's price or yield declines from early-season expectations. To determine coverage, see the policy provisions.

Revenue Assurance (RA)—provides dollar-denominated coverage by the producer selecting a dollar amount of target revenue from a range defined by 65-75 percent of expected revenue. To determine coverage, see the policy provisions.

Policy Endorsements

Catastrophic Coverage (CAT)—pays 55 percent of the established price of the commodity on crop losses in excess of 50 percent. The premium on CAT coverage is paid by the Federal Government; however, producers must pay a $100 administrative fee for each crop insured in each county. Limited-resource farmers may have this fee waived. CAT coverage is not available on all types of policies.

Producer Obligations

Producers must:

- Report acreage accurately,
- Meet policy deadlines,
- Pay premiums when due, and
- Report losses immediately.

Producer Expectations

Producers will receive:

- Accurate answers to questions on types of coverage,
- Prompt processing of their policy, and
- Timely payments for covered losses.

Important Deadlines

Sales closing date—last day to apply for coverage.

Final planting date—last day to plant unless insured for late planting.

Acreage reporting date—last day to report the acreage planted. If not reported, insurance will not be in effect.

Date to file notice of crop damage—after damage; the date the producer decides to discontinue caring for the crop; prior to the beginning of harvest; immediately, if farmer determines that the crop is damaged after harvest begins; or the end of the insurance period, whichever is earlier.

End of insurance period—latest date of insurance coverage.

Payment due date—last day to pay the premium without being charged interest.

Cancellation date—last day to request cancellation of policy for the next year.

Production reporting date—last day to report production for Actual Production History (APH).

Debt termination date—date insurance company will terminate policy for nonpayment.

New Policies and Policy Expansion

Although in recent years, RMA has streamlined the process of developing new policies, much has to be done before a policy can be made available nationwide, especially if it is a new type of policy or a policy on a commodity which is not similar to any crop already insured. Generally, the process takes several years.

In areas where an established commodity policy is not available, farmers may request that their RMA Regional Office expand the program to their county the next crop year. They may also request that for the current crop year they be insured under a written agreement, a kind of individual policy which bases

premium rates on data from other counties. Producers are required to have documented experience in growing the crop, or in growing an agronomically similar crop, to obtain the agreement.

Note: Any examples are for illustrative purposes only. Contact a crop insurance agent for terms for an individual farm.

❧ For more information on RMA's commodity policies, visit our Policy page online at: www.rma.usda.gov/policies/

Commodities Covered Under the 2003 Insurance Program

Adjusted Gross Revenue
Adjusted Gross Revenue-Lite
Alfalfa Seed
All other citrus trees
All other grapefruit
Almonds
Apples
Avocados (APH, Revenue)
Avocado Trees (Florida)

Barley (APH, IP)
Blackberries/Raspberries
Blueberries
Burley Tobacco

Cabbage
Canola (APH, RA)
Cherries (Dollar)
Chile Peppers
Cigar Binder, Filler, & Wrapper Tobacco
Citrus
- Grapefruit
- Lemons
- Limes
- Mandarins
- Murcotts
- Navel Orange Dollar
- Oranges
- Tangelos
- Tangerines

Citrus Trees
Clams
Corn (APH, CRC, GRIP, GRP, IP, RA)
Cotton (APH, CRC, GRP, IP)
Crambe
Cranberries

Cultivated Wild Rice
Dark Air Tobacco
Dry Beans
Dry Peas

Early & Midseason Oranges

Figs
Fire-Cured Tobacco
Flax
Flue-Cured Tobacco
Florida Fruit Trees
- Carambola
- Grapefruit
- Lemon
- Lime
- Orange
- All other citrus trees

Forage Production (APH, GRP)
Forage Seed (Alfalfa)
Forage Seeding
Fresh Apricots
Fresh Freestone Peaches
Fresh Market Beans
Fresh Market Sweet Corn
Fresh Market Tomatoes
Fresh Nectarines

Grain Sorghum (APH, CRC, GRP, IP)
Grapefruit
Grapefruit Trees
Grapes
Green Peas

Hybrid Corn Seed
Hybrid Sorghum Seed
Late Oranges
Lemon Trees
Lime Trees
Livestock (Swine)

Macadamia Nuts
Macadamia Trees
Mandarins
Mango Trees
Maryland Tobacco
Millet
Minneola Tangelos
Mint
Mustard

Naval Oranges (Citrus)
Nursery (FG&C)

Oats
Onions
Orlando Tangelos

Peaches
Peanuts (APH, GRP)
Pears
Pecans
Peppers
Plums
Popcorn
Potatoes
Processing Apricots
Processing Beans
Processing Cling Peaches
Processing Cucumbers
Processing Freestone
Prunes

Raisins
Rangeland (GRP)
Raspberry/Blackberry
Rice (APH, CRC)
Rio Red & Star Ruby
Ruby Red Grapefruit
Rye

Safflower
Soybeans (APH, CRC, GRIP, GRP, Indexed IP, IP, RA)
Stonefruit
- California Apricots
- California Nectarines
- California Peaches

Strawberries
Sugar Beets
Sugarcane
Sunflowers
Sweet Corn
Sweet Oranges
Sweetpotatoes
Swine

Table Grapes
Tobacco
Tomatoes (Canning and Processing)

Valencia Oranges

Walnuts
Wheat (APH, CRC, GRP, IP, RA)
Winter Squash

Bold face=new for 2003; APH=Actual Production History; CRC=Crop Revenue Coverage; GRIP=Group Risk Income Protection; GRP=Group Risk Plan; IP=Income Protection; LGM=Livestock Gross Margin; LRP=Livestock Risk Protection; and RA=Revenue Assurance.

Source: USDA/RMA web site, www.rma.usda.gov/policies/03croplist.html, May 19, 2003.

Feasibility Studies

Crop	Date of Study	Available Documents Online
Aquaculture	December, 1998	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/Aquacult.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/aquacult.pdf
Artichoke	November 20, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/artichok.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/artichok.pdf
Asparagus	August 3, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/asparags.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/asparags.pdf
Avocado	February 23, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/avocado.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/avocado.pdf
Blueberry	February 18, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/bluebery.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/bluebery.pdf
Bramble	October 21, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/bramble.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/bramble.pdf
Broccoli	August 25, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/broccoli.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/broccoli.pdf
Buckwheat	November 13, 1996	Executive Summary: N/A Study: http://www.rma.usda.gov/pilots/feasible/pdf/buckwht.pdf
Cabbage	September 26, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/cabbage.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/cabbage.pdf
Cantaloupe	December 15, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/cantloup.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/cantloup.pdf
Carrot	June 27, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/carrot.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/carrot.pdf
Cauliflower	September 12, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/cauflwr.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/cauflwr.pdf
Celery	June 9, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/celery.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/celery.pdf
Christmas Tree	December 18, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/xmastree.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/xmastree.pdf
Crambe	November, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/crambe.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/crambe.pdf
Cucumber	October 3, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/cucumber.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/cucumber.pdf
Eggplant	May 7, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/eggplant.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/eggplant.pdf
Field-grown Bulb Crops	April 28, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/bulb.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/bulb.pdf
" Floriculture Crops	April 24, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/florcult.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/florcult.pdf
Garlic	May 20, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/garlic.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/garlic.pdf
Hay	October 25, 1995	Executive Summary: N/A Study: http://www.rma.usda.gov/pilots/feasible/pdf/hayrpt.pdf
Honeydew Melon	December 27, 1994	Executive Summary: http://www.rma..usda.gov/pilots/feasible/txt/honeydew.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/honeydew.pdf
Hops	July 26, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/hops.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/hops.pdf
Income Protection	August 19, 1997	Executive Summary: N/A Study: http://www.rma.usda.gov/pilots/feasible/pdf/ip_technical-paper.pdf
Lettuce	June 1, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/lettuce.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/lettuce.pdf

Feasibility Studies, cont'd

Crop	Date of Study	Available Documents Online
Millet	December 18, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/millet.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/millet.pdf
Mint	June 28, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/Mint.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/mint.pdf
Mushroom	April 28, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/mushroom.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/mushroom.pdf
Nursery	April 24, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/nursery.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/nursery.pdf
Nut Trees	May 25, 1998	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/NutTrees.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/nuttrees.pdf
Olive	December 20, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/olives.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/olives.pdf
Pineapple	June 8, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/pineappl.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/pineappl.pdf
Pistachio	July 18, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/pistchio.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/pistchio.pdf
Snapbean	December 20, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/snapbean.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/snapbean.pdf
Squash/Pumpkin	February 28, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/Squash.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/squash.pdf
Strawberry	October 31, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/strawbry.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/strawbry.pdf
Sweet Cherry	April 4, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/swcherry.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/swcherry.pdf
Sweet Potato	July 20, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/sweetpot.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/sweetpot.pdf
Tart Cherry	August 26, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/tcherry.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/tcherry.pdf
Turfgrass Sod	February 23, 1995	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/turfsod.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/turfsod.pdf
Watermelon	November 22, 1994	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/wtrmelon.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/wtrmelon.pdf
Wild Rice	June 24, 1996	Executive Summary: http://www.rma.usda.gov/pilots/feasible/txt/wildrice.txt Study: http://www.rma.usda.gov/pilots/feasible/pdf/wildrice.pdf

Source: USDA/RMA web site, www.rma.usda.gov/pilots/feasible.html, May 19, 2003.

Research and Development Agreements Announced December 2002

Apiculture Insurance Product
AgriLogic, Inc.
States: All
Objective: To generate the necessary data and information to assist AgriLogic and RMA policymakers in analysis and evaluation of an insurance program for apiculture.

Burning Risk Advisory Support System (BRASS): Fine Fuel Prediction System to Assist State Forestry Agencies in Catastrophic Fire Loss Reduction on Private Wildlands
AgriLogic, Inc.
States: AR, LA, OK, TX
Objective: To develop a BRASS for private landowners that would facilitate characterization of fine-fuel loading values to improve Internet based State forestry wildland fire assessment programs.

Developing a Prescribed Fire Liability Product
Iowa Department of Natural Resources Bureau of Forestry
States: All
Objective: To prevent, control, and suppress wildfires through the development of an insurance product that reduces the liability of private contractors and non-governmental organizations when conducting prescribed fires on private forestland.

Developing Weather-Based Risk Management and Insurance Products for NAP and Specialty Crops in the Mid-Atlantic and Southwest States
Rutgers, The State University of New Jersey
States: AZ, DE, MD, NJ, NY
Objective: To develop a research program to evaluate the equity and efficiency of weather insurance for NAP and specialty crops.

Feasibility and Development of Triticale Risk Insurance Product
AgriLogic, Inc.
States: IA, MI, WI
Objective: To generate the necessary data and information to assist AgriLogic and RMA policymakers in analysis and evaluation of the insurance options for triticale.

Insurance Vision: A Risk Management Decision-Support Tool
AgriLogic, Inc.
States: All
Objective: To design and develop a risk management decision-support tool for agricultural producers.

An Integrated Approach to Spatio-Temporal Models and Tools for Agricultural Risk Assessment and Exposure Analysis
Board of Regents, University of Nebraska - Lincoln
States: All
Objective: To develop web-based tools that provide spatial analysis and mapping and to develop a series of risk education workshops for producers and educators.

An Organic Comparative Analysis Tool (OCAT) for Direct Marketing Strategies of Organic Commodities
Georgia Organics, Inc.
States: AL, FL, GA, SC, TN
Objective: To develop and analyze a simulation model capable of examining the joint use of crop insurance, forward pricing, and the three USDA price risk protection programs (LDP, fixed payments, and counter-cyclical payments) in a multiple-crop context.

Reducing Exposure to Drought Risk in Potato Production Systems
University of Idaho
States: ID (may also be applicable to WA and OR)
Objective: To develop a web-based software tool that can be used by potato growers, water managers and risk management personnel to reduce exposure to drought risk in potato cropping systems.

Research of Labor Issues and Development of Labor Cooperatives as Operational Risk Management Tools for Limited-Resource and Small Family Farms in Mississippi and Florida
North-South Institute (NSI)
States: FL, MS
Objective: To establish two agricultural labor cooperatives that will serve as operational risk management tools for limited-resource and small family farms in selected areas.

Risk Management for Fruit Crops Through Prediction of Frost Conditions
University of Georgia Research Foundation, Inc.
States: AL, FL, GA, NC, SC
Objective: To develop an intelligence-based risk management system that will utilize short-term weather data to predict frost and reduce risk for horticultural crop producers, especially fruit crops, in the southeastern U.S.

Risk Reduction for Specialty Crops in the Southeastern U.S.
University of Florida
States: AL, FL, GA
Objective: To produce web-based products that provide climate forecast information to producers and to provide risk management decision aids for use in three specialty crop commodities and forestry.

Research Partnership for Risk Management Development and Implementation: Addressing the Bioterrorism Threat to Agriculture
Science Applications International Corporation (SAIC)
States: All
Objective: To develop a better understanding of potential bioterrorist threats at different points in the food chain and the implications on the farming sector; develop interim solutions or actions; and develop insurance coverage against bioterrorist threats.

Use of Weather Station Data to Create Yield Insurance Products for Underserved Crops
Iowa State University
States: All
Objective: To conduct basic research in economics and finance and to develop risk management tools that target particular weather events for underserved commodities.

For more information on RMA's 2002 partnership agreements, visit these pages on the RMA web site:
News Release: www.usda.gov/news/releases/2002/12/0490.htm
Education: www.rma.usda.gov/news/2002/11/educationtable.html
Outreach: www.rma.usda.gov/news/2002/11/outreachtable.html
R&D: www.rma.usda.gov/news/2002/11/r&dtable.html

Written Statement of:

Aspen Wilderness Workshop, Center for Native Ecosystems, Colorado Environmental Coalition, Colorado Mountain Club, Colorado Wild, High Country Citizens' Alliance, San Luis Valley Ecosystem Council, Rocky Mountain Chapter of the Sierra Club, Western Colorado Congress, Western Slope Environmental Resource Council, The Wilderness Society

For the Senate Agricultural Committee
On the Hearing of HR 1904, "Healthy Forests Restoration Act of 2003"
8 July 2003

Mr. Chairman, and members of the Senate Agricultural Committee, eleven conservation organizations throughout the state of Colorado, Aspen Wilderness Workshop, Center for Native Ecosystems, Colorado Environmental Coalition, Colorado Mountain Club, Colorado Wild, High Country Citizens' Alliance, San Luis Valley Ecosystem Council, Rocky Mountain Chapter of the Sierra Club, Western Colorado Congress, Western Slope Environmental Resource Council, The Wilderness Society, would like to thank you for the opportunity to provide recommendations and comments on HR 1904, the "Healthy Forests Restoration Act of 2003" on behalf of the more than 44,000 members and supporters of our organizations in the state of Colorado.

Responsible wildfire legislation will build on existing consensus that mitigating the risk to communities targets limited resources to communities themselves and recognizes that environmental and public participation laws do not create undue project delays. *We have grave concerns that HR 1904 stands in sharp contrast to this widespread consensus and echo the concerns raised by over 50 locally-elected Colorado officials in letters addressed to Rep. Scott McInnis and/or Senators Wayne Allard and Ben Nighthorse-Campbell (attached).*

Based on our experience with forest and fire management practices in Colorado, we offer the following set of recommendations followed by our specific concerns with HR 1904.

FIRE AND FUEL REDUCTION ON NATIONAL FOREST LANDS IN COLORADO: Recommendations for the Future

The goal of national fire policy should be to reduce the threat of fires to humans and homes, and to restore forests to a more natural fire regime. We recommend several specific ways to achieve this goal:

Protect Life and Property. Protecting lives, homes and communities should be the highest priority of our national fire policy. To prevent loss of lives and homes, fire safety efforts should focus on maintaining defensible space in the immediate vicinity of homes in the wildland-urban interface. Where fire poses an immediate threat to homes and communities, it should be suppressed.

- *Implement Forest Service Program that Prioritizes the Wildland-Urban Interface.* Equally important, but currently lacking, is a Forest Service policy that prioritizes

Restore Ecological Health: In the backcountry, where human lives and property are not at risk, the focus of our national forest policy should be to restore natural fire cycles and forest conditions. Fuel reduction efforts should focus on the use of prescribed fire to restore natural fire cycles and, where ecologically necessary, thinning smaller trees and underbrush. Commercial logging of bigger, older trees for fire-risk reduction is NOT scientifically justified.

- *Acknowledge Fire's Role*. Federal land managers should adopt comprehensive management plans that acknowledge the natural role fire plays in maintaining forest ecosystems, and that they educate the public on the importance of natural fire regimes. Where lives and property are not at stake fire suppression should be undertaken only under limited circumstances, such as when fire threatens critical or rare components of ecosystems (such as old growth forest and endangered species habitat) while these elements are being restored to healthy levels.

- *Return Forests to Natural Conditions and Fire Cycles, Specific to Each Forest Type.* In certain fire-evolved forest types -- such as lower-elevation ponderosa pine -- fire suppression and other activities including livestock grazing and logging large trees have allowed stand densities to increase above natural or pre-European-settlement era conditions. In such fire-dependent forest types, we support vegetation "treatments" -- such as thinning and prescribed fire -- as necessary to restore natural conditions and processes.

  We note, however, that forest ecosystem types with longer fire cycles have not been significantly impacted by the past century of fire suppression and are thus well within their historic range of natural variability in terms of stand densities. For example, high-elevation Englemann spruce-subalpine fir forests typically burn every 300-400 years, are still at natural densities, and thus do not need to be "restored." It is only in the lower elevation forests in the wildland-urban interface, where fuel reduction is needed to reverse a century of human fire suppression, that thinning would be appropriate for these forest types.

- *Utilize Prescribed Fire Where Safe and Appropriate.* In terms of restoring natural conditions and processes, obviously fire itself is the most natural restoration mechanism and has been shown to be particularly effective at reducing fuel loads. (The Hayman Fire, which appeared to stop when it reached the Polhemus Prescribed Burn area and the Schoonover Wildfire area, may be a good illustration of this point.) However, where there is a high risk of a stand-replacing fire (i.e., a fire that burns so hot that it kills virtually all vegetation and may damage soils) or an uncontrollable fire that would threaten the wildland-urban interface, some mechanical thinning may be appropriate in certain forest types before conducting prescribed burning.

  It is also essential that prescribed burning be implemented only when and where conditions will allow for its safe use. While prescribed burning does contribute to air pollution and can aggravate the health of people with asthma and breathing difficulties, it generally results in far less pollution than uncontrolled forest fires. We believe that the federal agencies should significantly increase the annual amount of acreage which is prescribed burned, and urge states to cooperate and support these efforts.

- *Protect Old and Large Trees.* In circumstances where science dictates that mechanical thinning is necessary to reduce fuel loads before fire can be safely reintroduced, such restoration treatments should protect old and large trees. In addition to being more fire-resistant, larger trees and old-growth forests are a scarce and important ecological value in Colorado's lower-elevation forests and should be preserved.

- *Keep Roadless Areas Wild.* Roadless areas are critical wildlands, and are generally healthier ecosystems than logged and roaded areas. Forest Service studies have found that of the 89 million acres of National Forestlands that have a moderate to high risk of stand-replacing fires, less than 16 percent are in inventoried roadless areas. In addition, roadless areas tend to be farther from homes and communities and thus are not usually at issue in wildland-urban interface fuel reduction efforts. We therefore take issue with the timber industry exploiting the public's fear about forest fires to promote commercial logging in roadless areas. Such traditional logging would not reduce the risk of fire adversely affecting humans and their properties, and actually can increase forest flammability. Furthermore, building more logging roads into the backcountry only increases the risk of wildfires as most fires are started, whether deliberately or inadvertently, by humans along forest roads – e.g., from hot catalytic converters on vehicles, discarded cigarettes, or abandoned campfires.

  However, while we oppose commercial logging in roadless areas because of the wildland, recreation and wildlife values that logging destroys, we do not oppose restoration treatments – including mechanical thinning where scientifically justified -- in certain ecosystems (low elevation, dry forest types with frequent low intensity fire regimes) where these treatments are necessary to restore natural conditions and processes, and where such treatments can be undertaken while maintaining or improving roadless character. We note, however, that scientists are still in disagreement over what level of intervention is necessary to restore different forest types, and the Forest Service has proposed few roadless projects to date that meet this restoration goal. We also note that there are tens of millions of acres of forest lands adjacent to communities and homes outside of roadless areas that can and should be treated first. The Forest Service estimates that there is at least 20 years of fuel reduction work that is needed just within the wildland-urban interface .Any fuel reduction or forest restoration projects in roadless areas must avoid construction of new roads, and should preserve the wild character of the landscape.

Build Public Support for Forest Restoration and Fire Management: In order to restore the public's faith in federal land management, the Forest Service should focus its efforts where there is public consensus, pursue only scientifically justified projects, include the public in designing and implementing fuel reduction and forest restoration projects, design projects to maximize learning by setting up experiments and control areas and applying adaptive management, and continue to build scientific understanding of fire and forest management.

- *Focus on Areas of Consensus.* There is virtual agreement by all interests – in both the public and scientific arenas -- on the need to pursue important fuel reduction efforts in the wildland-urban interface to reduce risk in the immediate vicinity of homes and communities. The federal agencies should therefore focus their efforts and resources there, rather than wasting money and political goodwill on controversial and scientifically questionable logging projects in the backcountry. By

avoiding, or at least greatly reducing, controversy and pursuing consensus projects, the federal agencies would be more efficient, effective, and would help to build a successful track record and rebuild public faith and support. There is at least two decades of fuel reduction work to do in the wildland-urban interface alone – meanwhile scientists could be researching and creating public consensus on the more complex and controversial issues of restoring natural fire cycles in the backcountry.

- *Don't Cut Out the Public.* "Streamlining" compliance with environmental laws that guarantee public input and review as a way of speeding fuel reduction projects is a shortsighted approach that would likely lead to the approval of ill-considered and poorly designed projects, could result in huge delays due to litigation, and would destroy opportunities to build consensus around projects that could benefit both the public and the land. We strongly oppose legislation aimed at broadly limiting the application of environmental laws for fuel reduction or salvage projects. Improved public education is also critical to creating understanding and support for the restoration of fire's role in forests. This education would not happen under laws where the public has little or no input on proposed projects.

- *Pursue Scientific Understanding by Appointing a Fire Review Panel.* In order to learn as much as possible about fire behavior, we support directing State Foresters to convene an impartial, non-partisan, scientific panel of fire and forest ecology experts to help clarify the lessons to be learned from recent fires– as requested by Rep. Udall of the Hayman fire. In Colorado, the Hayman, Coal Seam, and Missionary Ridge fires occurred in areas with different ecosystem types that had been managed differently by federal and other land management agencies, including areas where previous forest fires had occurred and where some fuel treatment had been conducted. Examination of the behavior of these fires, the factors that led to their intensity, and the way the fires behaved when they encountered these previously affected or treated areas will be instructive in designing future risk-reduction projects, to the benefit of both land managers and the public, and will move us beyond the "blame game" to pursuing scientifically based solutions.

- *Convene a Stakeholders Forum to Build Consensus on Future Fuel Reduction Projects.* Another mechanism for building public consensus would be for State Foresters to convene a meeting of stakeholders to reach agreement on where, when, and what fuel reduction treatments are appropriate. This would build on recent efforts (e. g., the 1998 Forest Health summit convened by Colorado's then-Governor Romer) that reach consensus that forest health management efforts should be directed at the "red zone" (AKA the wildland-urban interface).

The Healthy Forests Restoration Act of 2003, HR 1904, Fails To Address These Recommendations

The scope of HR 1904 is extremely broad, applying to virtually all forested landscapes in the United States through the bill's various titles. However, as Title I of the bill is most focused on providing legislative direction for forest fire management pertaining communities-at-risk, our review focuses on the provisions of this Title alone.

HR 1904 Fails to Prioritize Community Protection: The Forest Service has limited resources. The best way to reduce the risks of fires to homes and lives is to focus on forest areas immediately around communities.

- HR 1904 does not focus scarce federal funding and resources where they would do the most good: in the Community Protection Zone adjacent to at-risk communities. Instead, the bill will continue to allow the Forest Service and Department of Interior to conduct misguided logging projects deep in the backcountry in the name of "fuel reduction." In fact, these plans would provide more help to timber companies than to fire-threatened and cash-starved communities.

- Through block grants to states, responsible legislation will provide funds for fuel reduction on private, state and tribal lands—which comprise 85 percent of the forested land near vulnerable communities—as well as on federal lands. This approach would put the limited available funds to use where they are most effective: at the sites where forest fires pose a real threat to human lives and homes.

- HR 1904 does not, however, prioritize projects that would create a crucial defensible space around western communities. Instead it calls for logging 20 million acres of federal lands, often far from any community, and provides virtually no funding for fuel reduction on non-federal lands. What scant funds the bill provides to local communities are buried within new programs in the bill that are not dedicated to protecting communities from forest fires.

HR 1904 Unnecessarily Restricts Meaningful Public Participation and Binds the Hands of an Independent Judiciary. There is also significant concern about the chilling effect that HR1904 would have on the basic democratic principal of public participation in the management of public lands.

Academic and government research refutes notions that environmental and public participation laws interfere with the timely implementation of fuel reduction projects. Two General Accounting Office (GAO) reports and an independent study by Northern Arizona University point to the fact that the overwhelming majority of fuel reduction projects proceed unobstructed within the 90-day period allowed by law.

- The bill seeks to eliminate the most important part of the National Environmental Policy Act (NEPA) – the requirement that alternatives to agency actions be considered. The Council on Environmental Quality has called this consideration of alternatives the "heart of NEPA."

- HR 1904 also seeks to significantly interfere with our nation's independent judiciary. It requires a court to limit preliminary injunctions of logging projects carried out under the bill to 45 days, unless the court affirmatively acts to renew the injunctions. It also seeks to force any courts, including appellate courts, to issue a final ruling on a case in 100 days. It even attempts an astounding change in the American legal standard that governs how courts determine equitable relief for an injured party.

In sum, solutions to the problem of severe wildfire risk currently exist that are rooted in consensus rather than controversy. These explicitly prioritize community protection and recognize that public participation and environmental laws play a critical role in safeguarding the public's interests in the management of their lands. Any responsible

wildfire legislation must specifically direct federal land management agencies and appropriate funding to address community risk mitigation in an open and democratic process. Unfortunately, HR 1904 fails to address either of these criteria at the expense of communities and lives.

The problem of increased fuel loading near homes and communities did not appear overnight. Likewise, this problem will not be solved overnight. Rather, a well designed program of treatments in the highest priority areas, designed and implemented with public consensus, will, over time, protect our at-risk communities and restore our forests to a more natural state.

We appreciate the opportunity to provide to the committee our comments and recommendations.

Sincerely,

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Wildfire Program Coordinator
Four Corners Regional Office
The Wilderness Society
7475 Dakin Street, #410
Denver, CO 80221

Enclosures

The Honorable Scott McInnis
320 Cannon House Office Building
Washington, D.C. 20515

Via Facsimile

Re: H.R. 1904

Dear Representative McInnis:

The Board of County Commissioners of Pitkin County, Colorado would like to thank you for your leadership and efforts to find a solution to the threat that wildfires pose to our communities in Colorado. However, we are concerned that your legislation, H.R. 1904, will not adequately enable communities and homeowners to mitigate the risk of future wildfires.

Hence, we are writing to request that H.R. 1904 be amended to include provisions that will ensure that federal dollars are spent first and foremost on defending homes and communities. As we see it, good legislation should focus resources in the Community Protection Zone in the following ways:

1. Emphasize educating the public about measures they can take to make their homes and property safe from wildfire;
2. Provide funding to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. Encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, H.R. 1904 does not provide local communities with the necessary tools to mitigate risk from future fires. Despite the fact that 85% of the land within the Community Protection Zone is non-federal, H.R. 1904 channels funds to federal land projects. We respectfully request that you amend the legislation to prioritize protecting communities through locally based initiatives.

Sincerely,

Board of County Commissioners of Pitkin County, Colorado

By: Jack Hatfield
Jack Hatfield, Chairman

Cc: Representative Mark Udall

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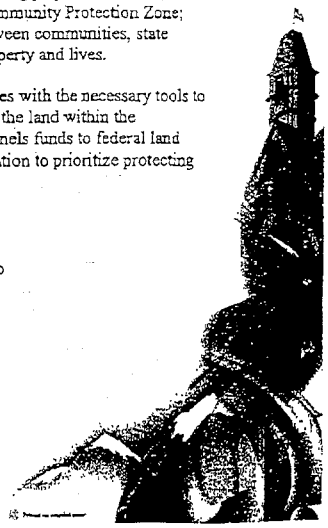

May 13, 2003

The Honorable Scott McInnis
320 Cannon House Office Building
Washington, D.C. 20515
FAX: 202-226-0622

Re: HR 1904

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2. provide funding to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, H.R. 1904 does not provide local communities with the necessary tools to mitigate risk from future fires. Despite the fact that 85% of the land within the Community Protection Zone is non-federal, H.R. 1904 channels funds to federal land projects. I respectfully request that you amend the legislation to prioritize protecting communities through locally-based initiatives.

Sincerely,

Randy Cosay
Box 1314
Silt, Co. 81652
1-970-945-8205
876-2924

Hi Scott,
Please give these concerns your serious consideration
Thank You, Randy

949 East Second Ave.
Durango, CO 81301-5109
970-385-2801
FAX 970-247-4159

FAX 970-385-2804

Mayor
Virginia Castro

Mayor Pro-Tem
Joe Colegan

City Council Members
Dick Garland
Antoni Vincent
Sally Zink

City Manager
Robert D. Lanham, I

15 May 2003

The Honorable Scott McInnis
320 Cannon House Office Building
Washington, D.C. 20515

Re: HR 1904

Dear Representative McInnis:

Thank you for your efforts and dedication to finding a solution to the threat of wildfires in Colorado. I am concerned, however, that your legislation, HR 1904, will not adequately enable communities and homeowners to mitigate the risk of future wildfires.

Therefore, I write this letter to request that HR 1904 be amended to include provisions that will guarantee that federal dollars are spent first and foremost on defending homes and communities. To ensure local control and the ability to protect local communities, this legislation should focus resources on emphasizing public education about measures that can taken to make homes and property safe from wildfire; providing funds to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone; and on encouraging programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

As I read HR 1904, it does not provide local communities with the necessary tools to mitigate risk from future fires. I respectfully request that the legislation be amended to prioritize protecting communities through locally-based initiatives.

Once again, I thank you for your dedication to our state and this very important issue. Please feel free to contact me if I can be of assistance to you in any way

Sincerely,

Virginia Castro

Virginia Castro
Mayor of Durango

JAMESTOWN
COLORADO

May 21, 2003

Hon. Ben Nighthorse-Campbell
380 Russell Senate Office Building
Washington, D.C. 20510
Fax: 202.228.4609

Re: HR 1904

Dear Senator Nighthorse-Campbell

This week, the House passed HR 1904 and this measure will soon be before the Senate. The Town Government of Jamestown is opposed to the measure in it's present form and it is our hope that it can be amended to include provisions that will ensure that federal dollars are spent first and foremost on defending homes and communities. Good legislation should focus resources in the Community Protection Zone in the following ways:

1. emphasize educating the public about measures they can take to make their homes and property safe from wildfire;
2. provide funding to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, H.R. 1904 does not provide local communities with the necessary tools to mitigate risk from future fires. Despite the fact that 85% of the land within the Community Protection Zone is non-federal, H.R. 1904 channels funds to federal land projects. We respectfully request that you work to amend the legislation to prioritize protecting communities through locally-based initiatives.

Sincerely,

Kenneth F. Lenarcic
Mayor

cc:
Town Board
Town Clerk

Town of Jamestown Colorado, PO Box 298, Jamestown, CO 80455

June 17, 2003

Honorable Ben Nighthorse Campbell
380 Russell Senate Office Building
Washington, D.C. 20510

Honorable Wayne Allard
525 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Re: "Healthy Forests Restoration Act"

Dear Senators:

We're writing to you from the front lines. Our friends and neighbors, the volunteers of the Carbondale and Rural Fire Protection District, fought three major wildfires last year: the Coal Seam, Panorama and Thompson Creek fires. Other friends and neighbors suffered the tragedy of losing their homes and property.

We're writing to ask you to amend the "Healthy Forests Restoration Act" by including provisions that provide communities with the resources needed to safeguard lives and property. As we see it, your constituents would best be served by focussing resources in the Community Protection Zone. We have the following recommendations:

1. emphasize public education programs which inform citizens about the measures they can take to make their homes and property safe from wildfire;
2. provide funding for communities to assist with thinning and other fire management projects within the Community Protection Zone;
3. encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, the "Healthy Forests Restoration Act" does not provide local communities with the necessary tools to mitigate risk from future fires. This bill channels resources to federal lands, providing no support to communities for the locally based mitigation initiatives that are so desperately needed. We need your help, please amend the legislation to prioritize homes and lives.

Respectfully,

Michael Hassig
Mayor

Scott Chaplin
Trustee

Russ Criswell
Trustee

Town of Carbondale, Colorado

May 16, 2003

The Honorable Scott McInnis
320 Cannon House Office Building
Washington, D.C. 20515
FAX: 202-226-0622

Re: HR 1904

Dear Representative McInnis:

I would like to thank you for your leadership and efforts to find a solution to the threat wildfires pose to our communities in Colorado. However, I am concerned that your legislation, H. R. 1904, will not adequately enable communities and homeowners to mitigate the risk of future wildfires.

Hence, I am writing to request that H.R. 1904 be amended to include provisions that will ensure that federal dollars are spent first and foremost on defending homes and communities. As I see it, good legislation should focus resources in the Community Protection Zone in the following ways:

1. emphasize educating the public about measures they can take to make their homes and property safe from wildfire;
2. provide funding to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, H.R. 1904 does not provide local communities with the necessary tools to mitigate risk from future fires. Despite the fact that 85% of the land within the Community Protection Zone is non-federal, H.R. 1904 channels funds to federal land projects. I respectfully request that you amend the legislation to prioritize protecting communities through locally-based initiatives.

Sincerely,

Donald L. Vanderhoof, Mayor
The City of Glenwood Springs

101 West 8th Street Glenwood Springs, Colorado 81601 970-384-6400
www.ci.glenwood-springs.co.us 970-945-2597 FAX

MOE KELLER
State Senator
4325 Iris Street
Wheat Ridge, CO 80033
Home: (303) 425-0130
Capitol: (303) 866-4856
Capitol FAX: (303) 866-4543
E-mail: moe.keller.senate@state.co.us

Senate Chamber
State of Colorado
Denver

COMMITTEES
Member of:
Appropriations
Local Government
State, Veterans & Military Affairs

May 14, 2003

The Honorable Scott McInnis
320 Cannon House Office Building
Washington, D.C. 20515

Dear Representative McInnis:

I would like to thank you for your leadership and efforts to find a solution to the threat wildfires pose to our communities in Colorado. As a State Senator, I share your interest and concern. As we continue to grow in population, and more homes are built in forested areas, we must work together to define plans that will ensure safety for all and keep our forests healthy. However, I am concerned that your legislation, H.R. 1904 will not adequately enable communities and homeowners to mitigate the risk of future wildfires.

Hence, I am writing to request that H.R. 1904 be amended to include provisions that will ensure that federal dollars are spent first and foremost on defending homes and communities. I believe that good legislation should focus resources in the Community Protection Zone in the following ways:

1) emphasis should be on educating the public about measures they can take to make their homes and property safe from wildfire;

2) provide funding to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection zone;

3) encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, H.R. 1904 does not provide local communities with the necessary tools to mitigate risk from future fires. Despite the fact that 85% of the land within the Community Protection Zone is non-federal, H.R. 1904 channels funds to federal land projects. I respectfully request that you amend the legislation to prioritize protecting communities through locally-based initiatives. We in the State Legislature are very eager and willing to work with you on the use of these federal funds.

Please feel free to contact me should you feel I can be of assistance; I would live to visit with you.

Sincerely,

Moe Keller

Moe Keller

SAN MIGUEL COUNTY

BOARD OF COMMISSIONERS

ART GOODTIMES

May 13, 2003

The Honorable Scott McInnis
320 Cannon House Office Building
Washington, D.C. 20515
FAX: 202-226-0622

Re: HR 1904

Dear Representative McInnis:

I would like to thank you for your leadership and efforts to find a solution to the threat wildfires pose to our communities in Colorado. However, I am concerned that your legislation, H.R. 1904, will not adequately enable communities and homeowners to mitigate the risk of future wildfires.

Hence, I am writing to request that H.R. 1904 be amended to include provisions that will ensure that federal dollars are spent first and foremost on defending homes and communities. As I see it, good legislation should focus resources in the Community Protection Zone in the following ways:

1. Emphasize educating the public about measures they can take to make their homes and property safe from wildfire;
2. Provide funding to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. Encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, H.R. 1904 does not provide local communities with the necessary tools to mitigate risk from future fires. Despite the fact that 85% of the land within the Community Protection Zone is non-federal, H.R. 1904 channels funds to federal land projects. I respectfully request that you amend the legislation to prioritize protecting communities through locally based initiatives.

Sincerely,

Art Goodtimes

P.O. BOX 1170 • Telluride, Colorado 81435 • (970) 728-3844 • FAX (970) 728-3718

May 13, 2003

The Honorable Scott McInnis
320 Cannon House Office Building
Washington, D.C. 20515
FAX: 202.226.0622

Re: HR 1904

Dear Representative McInnis:

I would like to thank you for your leadership and efforts to find a solution to the threat wildfires pose to our communities in Colorado. However, I am concerned that your legislation, H. R. 1904, will not adequately enable communities and homeowners to mitigate the risk of future wildfires.

Hence, I am writing to request that H.R. 1904 be amended to include provisions that will ensure that federal dollars are spent first and foremost on defending homes and communities. As I see it, good legislation should focus resources in the Community Protection Zone in the following ways:

1. emphasize educating the public about measures they can take to make their homes and property safe from wildfire;
2. provide funding to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, H.R. 1904 does not provide local communities with the necessary tools to mitigate risk from future fires. Despite the fact that 85% of the land within the Community Protection Zone is non-federal, H.R. 1904 channels funds to federal land projects. I respectfully request that you amend the legislation to prioritize protecting communities through locally-based initiatives.

Sincerely,

Elaine R.C. Fischer
San Miguel County Commissioner

Dear Representative McInnis:

As a resident and State Representative of the red zone in Colorado as well as a member of my volunteer fire department, I would like to thank you for your leadership and efforts to find a solution to the threat wildfires pose to our communities in Colorado. However, I am concerned that in addressing the threat of wildfires, your legislation, H. R. 1904 may do more harm than good.

The thinning that is required in my part of Colorado (the mountains west of Denver/Boulder) is primarily that of Douglas Fir and to a certain extent Lodgepole pine. Areas have become overgrown precisely because these trees are not "commercially attractive" to logging companies. Rather, they would prefer to remove large, fire resistant Ponderosa Pines and old growth which help to diminish the threat of wildfires.

Communities, as well as the National Forest Service, recognize that thinning the forests in the areas closest to communities of these "non-commercial" trees is an expensive proposition that cannot be accomplished without citizen participation. Therefore, I would recommend that H.R. 1904 be amended to include provisions that will ensure that federal dollars are spent first and foremost on defending homes and communities. As I see it, good legislation should focus resources in the Community Protection Zone in the following ways:

1. emphasize educating the public about measures they can take to make their homes and property safe from wildfire;
2. provide funding to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. encourage programs that foster cooperation between communities, businesses, state agencies and federal agencies to best protect property and lives.

Without these measures, we are simply subsidizing an industry at the expense of the safety of our communities without providing real solutions. I respectfully request that you amend the legislation to prioritize protecting communities through locally-based initiatives.

Sincerely,

Tom Plant
State Representative
Colorado House District 13

Sent via e-mail 5/13/03

Summit County
COLORADO

970-453-2561
fax 970-453-5535

Post Office Box 68
208 East Lincoln Avenue
Breckenridge, Colorado 80424

May 13, 2003

The Honorable Scott McInnis
320 Cannon House Office Building
Washington, DC 20515

Re: HR 1904

Dear Representative McInnis:

We would like to thank you for your leadership and efforts to find a solution to the threat wildfires pose to our communities in Colorado. However, we are concerned that your legislation, H.R. 1904, will not adequately enable communities and homeowners to mitigate the risk of future wildfires.

Hence, we are writing to request that H.R. 1094 be amended to include provisions that will ensure that federal dollars are spent first and foremost on defending homes and communities. As we see it, good legislation should focus resources in the Community Protection Zone in the following ways:

1. emphasize educating the public about measures they can take to make their homes and property safe from wildfire;
2. provide funding to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, H.R. 1094 does not provide local communities with the necessary tools to mitigate risk from future fires. Despite the fact that 85% of the land within the Community Protection Zone in non-federal , H./R. 1094 channels funds to federal land projects. We respectfully request that you amend the legislation to prioritize protecting communities through locally-based initiatives.

Sincerely,

Gary M. Lindstrom
Chairman

Thomas A. Long
Commissioner

William C. Wallace
Commissioner

OFFICE OF THE
BOARD OF COMMISSIONERS
(970) 328-8605
FAX: (970) 328-8629
TDD (970) 328-8797
Email: Eagleco@eagle-county.com
www.eagle-county.com

EAGLE COUNTY

MICHAEL L. GALLAGHER
TOM C. STONE
ARN M. MENCONI

July 1, 2003

Honorable Ben Nighthorse Campbell
380 Russell Senate Office Building
Washington, D.C. 20510

Re: Healthy Forests Restoration Act

Dear Senator Campbell,

As an Eagle County Commissioner, I understand the dangers of fire in our national forests. I have seen first hand last summers Durango and Glenwood Springs' fires damage to local communities. I am writing to ask you to amend the Healthy Forests Restoration Act of 2003 by including provisions that provide communities with the resources they need to safeguard lives and property. These are the same recommendations from the Northwest Colorado Council of Governments.

Please provide direction to federal land managers to establish local multi-jurisdictional wildlife mitigation working groups comprised of elected officials from affected municipalities and counties and policy level personnel from fire districts and state and federal land and resource management agencies to:

1. Assesses wildfire hazards and assess community with respect to risks and vulnerabilities.
2. Emphasize educating the public about measures they can take to make their homes & property safe from wildfire;
3. Provide funding for communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;

I am in agreement to the "how to" of addressing wildfire mitigation. However, I do not think that it is appropriate land managers to develop and implement wildfire mitigation actions unilaterally.

Respectfully,

Arn M. Menconi
Eagle County Commissioner

June 23, 2003

Honorable Ben Nighthorse Campbell
Russell Building, Room 380
Washington, D.C. 20510

Re: Healthy Forests Restoration Act

Dear Senator Nighthorse Campbell:

As you know, fires wreaked havoc in a number of Colorado communities last year, highlighting the need to support communities in their efforts to safeguard homes, lives and property. The Hayden Town Board of Trustees is writing to ask you to amend the "Healthy Forests Restoration Act" by including provisions that provide communities with the resources they need to safeguard lives and property. As we see it, good legislation should focus resources in the Community Protection Zone in the following ways:

1. emphasize educating the public about measures they can take to make their homes and property safe from wildfire;
2. provide funding for communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, the "Healthy Forests Restoration Act" does not provide local communities with the necessary tools to mitigate risks from future fires. Despite the fact that 85 percent of the land within the Community Protection Zone is state, private or tribal, this bill channels resources to federal lands, providing no support to communities for locally-based mitigation initiatives that are so desperately needed. This will not protect lives or communities. Please amend the legislation to prioritize homes and lives.

Sincerely,

Charles G. Grobe
Mayor

178 W. Jefferson Avenue • P.O. Box 190, Hayden, Colorado 81639 • (970) 276-3741 • Fax (970) 276-3644

Paul A. Strong
Certified Public Accountant

P.O. Box 776189
320 Lincoln Avenue, Suite C2
Steamboat Springs, Colorado 80477-6189

970.879.9211 voice
970.879.9215 fax
paul@strong-cpa.com

June 10, 2003

Honorable Ben Nighthorse Campbell
380 Russell Senate Office Building
Washington, D.C. 20510

Honorable Wayne Allard
525 Dirksen Senate Office Bldg.
Washington , D.C. 20510

Re: "Healthy Forests Restoration Act"

Dear Senators:

As you know, fires wreaked havoc in a number of Colorado communities last year, highlighting the need to support communities in their efforts to safeguards home, lives, and property. I am writing to ask you to amend the "Healthy Forests Restoration Act" by including provisions that provide communities with the resources they need to safeguard lives and property. As I see it, good legislation should focus resources in the Community Protection Zone in the following ways:

1. emphasize educating the public about measures they can take to make their homes & property safe from wildfire;
2. provide funding for communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, the "Healthy Forests Restoration Act" does not provide local communities with the necessary tools to mitigate risk from future fires. Despite the fact that 85 percent of the land within the Community Protection Zone is state, private, or tribal, this bill channels resources to federal lands, providing no support to communities for locally-based mitigation initiatives that are so desperately needed. This will not protect lives or communities. Please amend the legislation to prioritize homes and lives.

Sincerely,

Paul A. Strong
City Council President Pro-Tem, City of Steamboat Springs

May 13, 2003

The Honorable Scott McInnis
320 Cannon House Office Building
Washington, D.C. 20515
FAX: 202-226-0622

Re: HR 1904

Dear Representative McInnis:

I would like to thank you for your leadership and efforts to find a solution to the threat wildfires pose to our communities in Colorado. However, I am concerned that your legislation, H. R. 1904, will not adequately enable communities and homeowners to mitigate the risk of future wildfires.

Hence, I am writing to request that H.R. 1904 be amended to include provisions that will ensure that federal dollars are spent first and foremost on defending homes and communities. As I see it, good legislation should focus resources in the Community Protection Zone in the following ways:

1. emphasize educating the public about measures they can take to make their homes and property safe from wildfire;
2. provide funding to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, H.R. 1904 does not provide local communities with the necessary tools to mitigate risk from future fires. Despite the fact that 85% of the land within the Community Protection Zone is non-federal, H.R. 1904 channels funds to federal land projects. I respectfully request that you amend the legislation to prioritize protecting communities through locally-based initiatives.

Sincerely,

Kenya Green
Ward 4 Councilor
City of Golden

May 15, 2003

The Honorable Scott McInnis
320 Cannon House Office Building
Washington, D.C. 20515

RE: Wildfire Protection, HR 1904 and funding to protect non-federal lands of the Community Protection Zone not currently included in HR 1904

Dear Representative McInnis:

I wish to (1) thank you for your efforts to find solutions to wildfire threats, and (2) encourage you to add provisions to HR 1904 that will ensure protection from wildfires to local residents whose threat is centered in non-federal lands of the Community Protection Zone.

HR 1904 addresses wildfire threats to federal land projects, although the vast majority of land within the Community Protection Zone (approximately 85%) is non-federal. As you know, the Town of Basalt is surrounded by wild lands and the threat of wildfire is extremely high. We are concerned that HR 1904 will not adequately enable our Town and its residents to mitigate the risk of future wildfires.

We ask that you set priorities within HR 1904 that (1) foster cooperation between federal agencies, state agencies and local communities, (2) including public education on measures local residents can take to protect their homes and property, and (3) the ability of local jurisdictions and fire protection districts to obtain funding for thinning projects on non-federal lands in the Community Protection Zone.

We know you support local solutions to local problems. We seek your assistance to enable our Town and Fire Protection District to safeguard Basalt homes and lives from the very real threat of wildfire. We seek your support to include provisions for local funding within HR 1904.

You have seen the ravages of the Coal Seam Fire. We thank you in advance for your consideration of our request to protect our community from this kind of disaster.

Sincerely,

Richard P. Stevens
Mayor

101 Midland Ave. • Basalt, CO 81621 • 970-927-4701 • Fax 970-927-4703

CITY
OF
BOULDER

CITY COUNCIL OFFICE

Will Toor, Mayor
Thomas Eldridge, Deputy Mayor
Dan Corson, Councilmember
Spencer Havlick, Councilmember
Donald Mock, Councilmember
Lisa Morzel, Councilmember
Françoise Poinsatte, Councilmember
Gordon Riggle, Councilmember
Mark Ruzzin, Councilmember

May 12, 2003

The Honorable Scott McInnis
320 Cannon House Office Building
Washington, D.C. 20515
FAX: 202-226-0622

Re: HR 1904

Dear Representative McInnis:

I would like to thank you for your leadership and efforts to find a solution to the threat wildfires pose to our communities in Colorado. However, I am concerned that your legislation, H. R. 1904, will not adequately enable communities and homeowners to mitigate the risk of future wildfires.

Specifically, I am writing to request that H.R. 1904 be amended to include provisions that will ensure that federal dollars are spent first and foremost on defending homes and communities. As I see it, good legislation should focus resources in the Community Protection Zone in the following ways:

1. emphasize educating the public about measures they can take to make their homes and property safe from wildfire;
2. provide funding to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, H.R. 1904 does not provide local communities with the necessary tools to mitigate risk from future fires. Despite the fact that 85% of the land within the Community Protection Zone is non-federal, H.R. 1904 channels funds to federal land projects. I respectfully request that you amend the legislation to prioritize protecting communities through locally-based initiatives.

Sincerely,

William R. Toor
Mayor

P.O. Box 791 • Boulder, Colorado 80306-0791 • (303) 441-3002 • Fax (303) 441-4478 • www.ci.boulder.co.us
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CITY
OF
BOULDER

CITY COUNCIL OFFICE

Will Toor, Mayor
Thomas Eldridge, Deputy Mayor
Dan Corson, Councilmember
Spencer Havlick, Councilmember
Donald Mock, Councilmember
Lisa Morzel, Councilmember
Françoise Poinsatte, Councilmember
Gordon Riggle, Councilmember
Mark Ruzzin, Councilmember

May 13, 2003

The Honorable Scott McInnis
320 Cannon House Office Building
Washington, D.C. 20515
FAX: 202-226-0622

Re: HR 1904

Dear Representative McInnis:

I would like to thank you for your leadership and efforts to find a solution to the threat wildfires pose to our communities in Colorado. However, I am concerned that your legislation, H. R. 1904, will not adequately enable communities and homeowners to mitigate the risk of future wildfires.

Hence, I am writing to request that H.R. 1904 be amended to include provisions that will ensure that federal dollars are spent first and foremost on defending homes and communities. As I see it, good legislation should focus resources in the Community Protection Zone in the following ways:

1. emphasize educating the public about measures they can take to make their homes and property safe from wildfire;
2. provide funding to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

Unfortunately, H.R. 1904 does not provide local communities with the necessary tools to mitigate risk from future fires. Despite the fact that 85% of the land within the Community Protection Zone is non-federal, H.R. 1904 channels funds to federal land projects. I respectfully request that you amend the legislation to prioritize protecting communities through locally-based initiatives.

Sincerely,

MRRuzzin

Mark Ruzzin
City Councilmember
Boulder, Colorado

P.O. Box 791 • Boulder, Colorado 80306-0791 • (303) 441-3002 • Fax (303) 441-4478 • www.ci.boulder.co.us
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JIM STARR

GUNNISON COUNTY COMMISSIONER
P.O. BOX 1167
CRESTED BUTTE, CO 81224
(970)349-5363
jim@starrattorneys.com

May 14, 2003

The Honorable Scott McInnis
320 Cannon House Office Building
Washington, DC 20515
FAX: 202-226-0622

RE: HR 1904

Dear Representative McInnis:

You wrote me a couple of weeks ago about HR 1904 and I applaud your efforts to find a solution to the threat wildfires pose to our communities. However, I am concerned that the legislation will not adequately enable our communities and homeowners to mitigate the risk of future wildfires.

I am writing to request that you consider amending HR 1094 to include provisions that will ensure that federal dollars are spent first and foremost on defending homes and communities. The legislation should focus resources in the Community Protection Zone by:

1. Emphasizing education of the public about measures that they can take to make their homes and properties safer from wildfire;

2. Providing funding to counties to conduct thinning projects on and immediately adjacent to municipalities and other developed areas within the Community Protection Zone;

3. Encouraging programs that foster cooperation among communities and state and federal agencies to best protect property and lives.

Unfortunately, HR 1094 does not seem to provide local communities with the necessary tools to maximize the mitigation of risks from future fires. Despite the fact that 85% of the land within the Community Protection Zone is non-federal, HR 1094 channels funds primarily to federal land projects, most of which will not protect developed areas. I respectfully request that you amend the legislation to prioritize protecting communities

through locally-based initiatives.

As the representative of Gunnison County to the CPR Board for the Pilot Forest Project, I am excited about counties being at the table when wildfire mitigation projects are approved. However, we need to have the financial resources available for where they are most urgently needed.

Thank you for considering my comments.

Sincerely Yours,

James H. Starr
Gunnison County Commissioner

Date: June 17, 2003

To: US Representative Scott McInnis

From: San Juan County Commissioner Peter McKay

Re: HR 1904, "Healthy Forest Restoration Act of 2003" (HFRA)

Dear Representative McInnis,

I am writing this letter to express my dissatisfaction with and inability to support the "Healthy Forest Restoration Act of 2003". As a County Commissioner living in Western Colorado and having experienced first hand the fire season of 2002 I understand the need to mitigate the risk of wildfire. However I do not feel that HFRA is the proper approach. My concerns are as *follows:*

- I would like to see more of the Federal funding and effort go toward the Community Protection Zone, an area adjacent to homes and communities.

- I am concerned that the HFRA focuses more on logging older more profitable trees deep in the national forests than protecting communities bordering high-risk wooded areas.

- I am comfortable with the current process under the National Environmental Protection Act (NEPA). Although this process may take longer I feel it is necessary to consider all alternatives in a careful and deliberate way. Forest health and wildfire mitigation plans are too important to rush.

- I am extremely concerned about the shortened comment period and appeals process in the HFRA. I remain unconvinced that the present system has stalled thinning projects and feel the proposed changes will set a negative precedent for the future. Many individuals and groups feel they will be cut out of the process and this feeling can not help in the need for all of us to work together in determining new and innovative ways in dealing with forest problems and solutions.

I now join the entire County Commissions of Pitkin and Summit Counties and individual County Commissioners Art Goodtimes and Elaine Fisher of San Miguel County and Jim Starr of Gunnison County with my concerns regarding the HFRA. I speak only for myself and in no way represent the views of my fellow San Juan County Commissioners. One can see from the above list of County Commissioners in our area of Southwest Colorado that support for this bill is far from unanimous. I have always felt that different points of view are important in the decision making process and know that while we may differ in approach each of us cares deeply about our national forests and the safety of our communities. Thank you for considering my opinion.

Sincerely,

Peter C McKay

Peter McKay
San Juan County Commissioner

John Martin
Glenwood Springs, CO

Larry McCown
Rifle, CO

Trisi Houpt
Glenwood Springs, CO

Garfield County
BOARD OF COUNTY COMMISSIONERS

June 25, 2003

The Honorable Wayne Allard
Senator, State of Colorado
SD-525 Dirksen Senate Office Building
Washington, DC 20510-0606

VIA FACSIMILE: 202.224.6471

Dear Senator Allard:

I am writing this letter as a Garfield County Commissioner, however not on behalf of my Board of County Commissioners. I would like to thank you for your leadership and efforts to find a solution to the threat wildfires pose to our communities in Colorado.
There are approximately 50 bills in front of you this year on this issue, I am certain that some address the concern specifically and others need further scrutiny, I am writing specifically about H.R. 1904. If the Senate is going to pass a wild land fire mitigation bill, please make sure it is targeted to meet that goal and not become a broad authorization for timber extraction.

If the goal is to protect communities and municipal water supplies from wildfire impact, why target remote forests rather than concentrating on a range of solutions for populated areas? H.R. 1904 enables millions of acres to be considered for "fuels reduction projects".

Many of the fires in the west do not occur in areas of dense pine forest-land. For example, the Coal Seam Fire in Glenwood Springs last summer spread because of wind conditions and was fueled primarily with scrub oak and grass. Existing wind and wind generated from the fire caused it to jump a railroad corridor, the Colorado River an Interstate and a roadway, totaling approximately ½ mile. During a fire, embers fly, logs roll downhill and extreme wind conditions are created by the fire itself, each of these occurrences cause these fires to spread. Even in dense forest areas, I am not convinced that "fuels reduction projects" will prevent the risk of fire or would even significantly slow a fire down that had the momentum of the Coal Seam or Hayman Fires, unless we allow extreme clear-cutting and even that would not eliminate the risk of a fire jumping to another wooded area.

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H.R. 1904 places a great deal of emphasis on natural resource extraction for commercial use; for this reason, I believe it should be referred to as a commercial forest biomass extraction bill to better define the discussion Congress should be having. The implications of a bill dealing with wild land fire mitigation and the enhancement of commercial activity in our forests are quite different.

The impacts if increased logging projects may include disturbance to wildlife and ecosystems, an increase in roadways, heavy traffic, noise increased pollution and view-scape concerns. If "fuels reduction projects" are encouraged throughout the west in National Forests, on BLM land and in Wilderness areas and at the same time we establish a grant program to improve the commercial value of forest biomass, for economic reasons, use will realistically go beyond healthy forest efforts.

I am concerned that H.R. 1904 will not adequately enable communities and homeowners to mitigate the risk of future wildfires. Please consider the approximately 49 other wild land fire mitigation bills coming before you and support one that emphasizes the following:

1. Educating the public about measures they can take to make their homes and property safe from wildfire;
2. Provide funding to communities to conduct thinning projects on and immediately adjacent to their property in the Community Protection Zone;
3. Encourage programs that foster cooperation between communities, state agencies and federal agencies to best protect property and lives.

I thank you in advance for your thoughtful consideration.

Sincerely,

Tresi Houpt
Garfield County Commissioner

cc: Commissioner John Martin
Commissioner Larry McCown

QUESTIONS AND ANSWERS

JUNE 12, 2003

Senate Agriculture, Nutrition, and Forestry Committee
Submitted Questions & Answers
June 2003

Senator Thad Cochran (MS)

1. QUESTION: *Crop Insurance Company Financial Requirements: A group of crop insurance companies sell and service farmers' federal crop insurance policies and share with USDA the crop insurance program's underwriting risk through a contractual arrangement known as the Standard Reinsurance Agreement (SRA). What capital standards and financial information does USDA require crop insurance companies to maintain and provide? Is USDA reviewing these requirements or making adjustments to them in light of the American Growers, Inc. situation? Does USDA need additional statutory authority to investigate and monitor the financial health of these SRA holders?*

ANSWER:
To be approved for federal reinsurance, an insurance company must meet the Standards for Approval requirements found in 7 C.F.R part 400, subpart L. These standards include ratio requirements and surplus to liability minimums. The situation regarding American Growers Insurance Company has resulted in RMA expanding its financial analysis, which is being implemented currently with the 2004 reinsurance year reinsurance submissions.

RMA has determined that additional reporting and review is desirable to increase the ability to see problems in advance. RMA is considering the need for a number of changes in its authorities and organizational structure. Currently we are:

- Requesting additional expense and financial information from companies and increasing the extent of our evaluations.
- Requiring remedial action plans of those companies for which significant issues remain unresolved and monitoring progress toward resolution.
- Identifying strategic back up plans for the agency to ensure continued service in the event of another failure to include possible revisions to the SRA and other arrangements to include, allowing the agency to acquire through contract with other SRA holders to help process claims and to intervene where necessary to support policy service and ancillary business processing requirements of a failed insurer.
- Working with the National Association of Insurance Commissioners (NAIC) and specific state insurance departments to develop closer coordination with state regulators on company monitoring and remedial actions.
- Examining the agency's regulatory processes to ensure effective oversight of the industry.
- Establishing appropriate performance standards for companies, agents and loss adjusters, including financial standards and disclosure requirements.

We will work closely with Congress, the NAIC and State Departments of Insurance to achieve these overall objectives. It is possible that additional statutory authority may be required and we are currently assessing current authority in view of our objectives to make such a determination.

Senate Agriculture, Nutrition, and Forestry Committee
Submitted Questions & Answers
June 2003

***2. QUESTION**: Sales Closing Date: Is there any flexibility in adjusting sales closing dates by crop by region? Some producers (especially in regions hit by last year's drought) had a difficult time receiving credit and could not purchase insurance before the final date. Is there precedence for adjusting closing dates?*

ANSWER:
RMA has little flexibility in changing sales closing dates, especially for spring planted crops because section 508 (f) (2) (B) of the Federal Crop Insurance Act (Act) statutorily set sales closing dates for spring crops that are 30 days earlier than they were for the 1994 crop year. For example, the sales closing dates for corn range from January 31 (south Texas) to March 15 (Midwest and Northern States). Sales closing dates are established early enough in the crop year to minimize adverse selection to the program.

***3. QUESTION**: Prevented Planting: Why does USDA's Risk Management Agency (RMA) decrease levels of preventing planting (PP) coverage for multiple drought years especially as it pertains to water reduction allocations in irrigation projects? Is there a way to remedy this problem? Western producers see levels of PP coverage decrease in years of successive drought because the coverage is based off of the previous year instead of normal conditions.*

ANSWER:
Section 508 (h) (6) of the Federal Crop Insurance Act (Act) specifies the time period that coverage for prevented planting can be provided. For producers who keep their coverage in place from year to year, the time period covered begins on the sales closing date for the prior crop year. For new applicants, the time period begins on the sales closing date for the current crop year.

Prevented planting payments must be based on the effects of drought within these specific time frames. Therefore, the effect of drought that occurs prior to this time period cannot be considered when determining prevented planting losses. Insurance providers are required to "measure" the effects of drought occurring within the applicable insurance period and should not simply limit coverage based on what was paid the previous year. Eligibility for a prevented planting payment due to drought must be determined by the loss adjuster based on normal conditions . However, in years or prolonged drought even normal conditions may not provide sufficient water to irrigate all the acreage that the producer intends to or previously planted. To be consistent with good insurance practices, the amount of acres eligible for prevented planting cannot exceed the number of acres that the producer could have planted, using good irrigation practices. If normal conditions would permit irrigation of all acreage under a good irrigation practice, then all the acreage should be eligible for prevented planting. RMA is working closely with the industry to ensure prevented planting payments are being determined in a fair and consistent manner.

RMA has established a prevented planting workgroup that consists of the insurance industry, commodity groups and RMA staff. This workgroup is tasked with reviewing

current prevented planting rules and looking for possible improvements to provide more certainty in years of extended drought and make them easier to administer.

RMA has also announced the availability of approximately $4 million for partnership agreements that will fund risk management research activities. One of the objectives of the announcement is to solicit proposals that will develop risk management tools to assist producers in reducing the impact of multiple-year losses.

***4. QUESTION**: Deferred Appraisals: Why is there a need for an 8-day deferred appraisal period on the late planting period and can it be eliminated? This delays loss adjustment and inhibits producers' ability to plant a secondary crop.*

ANSWER:

The 8-day deferred appraisal period only applies to spring-seeded crops where insufficient soil moisture has affected seed emergence. The deferral period was established to ensure program integrity, guaranteeing uniform treatment of all insureds, for all crops, across the country.

Current agronomic data shows that the current 8-day deferral period is needed to assure that a crop planted in dry conditions has the full opportunity to emerge and be carried to harvest. Without this deferral period, it is possible that losses will be paid on the first crop even though there may not have been a loss or only a partial loss. Elimination of the 8-day deferral period would expose the program unnecessary risks and would be contrary to the mandate in section 506(o) of the Act to operate the program in an actuarially sound manner

This procedure is not intended to impede any producer's ability to plant a secondary crop. The procedure's purpose is to determine whether there has been a genuine loss

***5. QUESTION**: Rating: Can RMA move towards individual rating or modify the Montana State program to take into account a lesser time period for determining a history of production. Some cotton producing areas, such as the southeast, have seen a dramatic increase in acreage in recent years and this could improve the cost/benefit ratio for these producers.*

ANSWER:

By Montana Program, we assume you mean the Income Protection (IP) insurance plan. The IP does not require modification to take into account a lesser time period for determining a history of production. IP uses the same actual production history rules, as do APH, CRC, and RA.

Under current APH rules, prior crop history is not a requirement to be eligible for coverage under any of these insurance plans. However, a minimum requirement of four years of producer crop history is typically required to avoid a yield penalty in establishing a producer's individual actual production history. The Federal Crop Insurance Act (Act) requires the use of assigned Transitional (T) yields when a producer has less than 4 years of Actual Production History.

***6. QUESTION**: Group Risk Plan: Does RMA have any latitude to combine Group Risk Plan (GRP) coverage with a subsidized hail or other specialty coverage? Can a tiered type indemnity payment be implemented to shorten the period of time before payment (i.e., partial payments for estimated losses)? How widespread is GRP used in southern and southeastern states?*

ANSWER:
RMA may have some latitude to combine the GRP plan with other specialty coverage; however, without more specific information RMA is not able to fully assess the request and its potential. An insurance company has submitted a product that combines GRP with the Income Protection Program (GRIP) to also provide area based revenue protection.

When GRP was implemented as a pilot program, in 1993 partial payments (preliminary payments) were made based on county yield crop estimates. Often, this resulted in over payments to producers that had to be collected back from them once the final county yields were issued. This situation was unacceptable to producers and insurance companies and the GRP was revised to remove preliminary payments. RMA has not yet figured out another way to make tiered payments that would not have the same problem.

The GRP accounted for only about 2 percent ($900 million) of the total amount of crop insurance in force ($37 billion) for the 2002 crop year. Participation in the GRP program in many of the southern and southeastern states is less than 2 percent.

*7. **QUESTION**: Cost of Production Insurance: Please provide an update on Cost of Production products and when they will be made available? Will the Cost of Production product for cotton be among the first to reach the FCIC Board of Directors for approval? Is this the intent?*

ANSWER:
The COP policy for cotton is the first policy to reach the Board of Directors of FCIC for approval. The Board of Directors of FCIC considered the COP proposal last fall and did

not approve it because of the problems identified with the product. RMA and Agri-Logic are addressing numerous technical issues raised by independent expert reviewers during the Board's consideration and approval process. COP was resubmitted for the Board's re-consideration, and on July 1, 2003, the Board voted to send the proposed for additional expert review. Pending resolution of the technical issues to the satisfaction of the Board, a policy for cotton may be available for the spring 2004 crop year.

***8. QUESTION**: Cotton Quality Loss Provisions: How does RMA determine quality losses? Will adjusters be formally trained on any new regulations to standardize the process?*

ANSWER:
Currently, under to the Standard Reinsurance Agreement (SRA), it is the responsibility of the insurance companies to train agents and loss adjusters. In such training, they are required to use FCIC approved policy and procedures. Therefore, loss adjusters should be trained by the insurance companies on any new quality loss procedures.

Cotton is quality adjusted on a bale-by-bale basis with the weight of each bale reduced by separate quality factors such as color, leaf grade, staple length, micronaire reading, and extraneous matter. Then the adjusted weights of all bales produced in a unit are totaled and this amount is compared to that unit's guarantee. When the quality adjusted weights fall below the guarantee, the producer is eligible for an indemnity payment.

An industry workgroup has been established to work on methods to simplify the quality loss adjustment procedures for cotton while still providing meaningful quality adjustments for insured producers. If the outcome of this effort is successful RMA will consider adopting any simplification and work with the crop insurance industry to institute it with proper training.

Senate Agriculture, Nutrition, and Forestry Committee
Submitted Questions & Answers
June 2003

Senator Blanche Lincoln (AR)

1. **QUESTION:** At what time is the Secretary of Agriculture planning to implement the Cost of Production Crop Insurance pilot program for cotton that was requested by Congress in 2001 and submitted by Agri-Logic and the CAAP (Coalition of American Agriculture Producers) group?

ANSWER:

The Board of Directors of FCIC considered the COP proposal last fall and did not approve it. RMA and Agri-Logic are addressing numerous technical issues raised by independent expert reviewers and Board members during the Board's consideration and approval process. COP was resubmitted for the Board's re-consideration, and on July 1, 2003, the Board voted to send the proposed for additional expert review. Pending resolution of the technical issues to the satisfaction of the Board, a policy for cotton may be available for the spring 2004 crop year.

Senate Agriculture, Nutrition, and Forestry Committee
Submitted Questions & Answers
June 2003

Senator Tom Harkin (IA)

1. **QUESTION:** Major sources of public pressure on Congress to provide disaster assistance for the droughts of 2001 and 2002 were the heavy losses experienced by livestock producers because of drought-damaged forage and pasture. Although some insurance coverage is available for forage and pasture, this coverage is widely viewed as inadequate. What is RMA doing to address the problems and inadequacies of current forage insurance coverage?

ANSWER:
RMA is aware of concerns with the operation of the forage pilot program. The products are not working as well as RMA would like or as producers and ranchers need them to. The GRP Rangeland Pilot is an area plan and, as such, does not meet the needs of all producers. RMA will be entering into a contract for the development of a more appropriate payment trigger. RMA is also planning to contract for the development of a forage and rangeland program that is based more on an individual rather than group data.

The performance of APH forage program is being reviewed and a program improvement contract has been awarded. The purpose of the contract is to improve loss adjustment methodology and to determine the feasibility of a forage quality adjustment endorsement. RMA expects changes to the forage program to be made by the 2005 crop year.

RMA is continuing to evaluate its actions regarding current forage programs to determine if any other actions or alternatives can be pursued in an effort to assure the greatest opportunity for improving existing programs or creating new programs. On June 13, RMA announced the availability of approximately $4 million for partnership agreements that will fund risk management research activities. One of the objectives of the announcement is to solicit proposals that will develop risk management tools to assist forage and rangeland producers in improving techniques for managing production, establishing and maintaining forage production records, drought mitigation, and the harvesting and marketing of production.

2. **QUESTION:** I hear from many farmers that crop insurance still does not adequately protect against back-to-back or multi-year disasters. What is the Risk Management Agency doing to address this problem?

ANSWER:

RMA is addressing this issue in multiple ways. For example, RMA's prevented planting workgroup consists of the insurance industry, commodity groups and RMA staff. This workgroup is tasked with reviewing current prevented planting rules and looking for possible improvements to provide more certainty in years of extended drought and make them easier to administer.

One problem with multi-year disasters is that a producer's yield (APH) declines, which reduces effective coverage. However, limitations on APH declines and on yields used to calculate APH help prevent this problem. Yield adjustments may be elected by insureds that can substitute 60 percent of the applicable Transitional ("T") Yield for actual yields that are less than 60 percent of the "T" Yield. RMA is currently evaluating the effectiveness of the yield substitution process and the basis for calculation of transitional yields, to determine if more assistance can be provided.

RMA has also announced the availability of approximately $4 million for partnership agreements that will fund risk management research activities. One of the objectives of the announcement is to solicit proposals that will develop risk management tools to assist producers in reducing the impact of multiple-year losses.

3. **QUESTION:** In your written testimony, you have indicated that there are more producers participating in the crop insurance program and they are purchasing higher levels of coverage. This would mean there is a lower deductible for the farmer, so is it true the producer is more likely to have a higher frequency of claims if he purchases higher levels of coverage? Is it correct, that as the administrative and operating expense reimbursement to the companies has been reduced in recent years, there has been at the same time more demand on the companies due to the higher frequency of claims?

ANSWER:

A. The data for seven major crops (barley, corn, cotton, grain sorghum, rice, soy, and wheat), which make up 78 percent of the FCIC program premium, indicate that average coverage level changed as follows:

Crop Year	Average Coverage Level
2000	68.8%
2002	71.2%

This change reflects, in part, the impact of the increased premium subsidy provided by the passage of ARPA in June of 2000. It also reflects widespread drought concerns during 2002.

B. It would not be correct to say that, "the administrative and operating (A&O) expense reimbursement to the companies has been reduced in recent years." The reason for this is that although the *rate* of reimbursement was reduced via an amendment of the Federal Crop Insurance Act in 1999, from a maximum of 27 percent to 24.5 percent, *the actual dollars of A&O reimbursement have increased significantly.*

The reason for this is that total premium increased faster than the A&O rate decreased, so the A&O dollars paid per policy also increased.

Premiums have increased for several reasons, among which are the following:

* Increased subsidies provided by the passage of ARPA in June of 2000, have encouraged farmers to buy up to higher - and more expensive - levels of coverage.

* The strong popularity of crop-revenue insurance plans also means higher premium rates and an increase in total dollars of A&O subsidies.

* The widespread drought of 2001/2002 may also have encouraged the use of higher coverage levels

4. **QUESTION:** When do you expect the insurance portfolio review to be completed, and will you provide its findings to the House and Senate Agriculture Committees?

ANSWER:

Phase I of the Portfolio Review has recently been distributed to the Federal Crop Insurance Corporation Board of Directors and Risk Management Agency personnel for review and consideration. Phase I of this contracted project was geared toward market survey and inventory of existing products and needs. The Board of Directors will consider the information contained in the Phase I report and determine if they wish the contractor to begin Phase II, which would be more analytical modeling to determine the most effective portfolio of risk management products. Until such time as the Board considers the report and finds it complete, it would be inappropriate to release the report. However, we would be happy to provide you with a copy once the Board has accepted it.

5. **QUESTION:** What were the causes of failure at American Growers Insurance Company, and what has RMA learned about what signs to look for in companies to avoid similar problems in the future?

ANSWER:

Although the final accounting analysis of American Growers remains incomplete, it appears that the company may have made management and/or operational decisions prior to 2002 that caused its continued survival to be more highly dependant on earning sizeable underwriting profits for the 2002 reinsurance year. With a greater than normal loss year, the underwriting gains did not materialize, leaving the company unable to meet expenses and maintain its financial solvency.

As a result, RMA determined that closer scrutiny of company expenses in the future is desirable to increase the ability to anticipate and address problems in advance. RMA is also looking to enhance other financial documentation that may provide a timelier picture of the financial health of the companies. To this end, RMA is considering the need for changes in its authorities and organizational structure to increase its oversight of the companies that participate in the Federal Crop Insurance Program.

Senate Agriculture, Nutrition, and Forestry Committee
Submitted Questions & Answers
June 2003

6. **QUESTION:** What sort of financial review did USDA undertake prior to permit American Growers Insurance Company to acquire IGF Insurance?

ANSWER:

Prior to approving the American Growers Insurance Company assumption of IGF Insurance Company's assets and policies, RMA confirmed that American Growers had sufficient policyholder surplus and commercial reinsurance to cover the additional liability.

7. **QUESTION:** I understand that RMA has published informal guidelines that it will use to evaluate PDP proposals in the future and I am heartened to hear that many of the issues that agents have raised with the Department of Agriculture are addressed in those guidelines, including a commitment by RMA that it will consider all of the factors outlined in the pilot approval procedural provisions included in Section 523 (d) of the Act. Guidelines are great as far as they go and these particular guidelines seem appropriate, but guidelines are not binding. Why isn't RMA proposing these guidelines, as official –and binding – regulations and subjecting them to the normal notice and comment procedures such rules normally must satisfy to being implemented?

ANSWER:

The legislation allows RMA to issue procedures regarding premium reduction plans. Such procedures contain the information that must be provided and the criteria that would be used by RMA to ensure that any submission approved supports program integrity. While RMA solicited and reviewed comments from the companies before issuing these procedures, the determination of what was necessary to protect the program was a decision required to be made by RMA. Further, this Manager's Bulletin was not informal guidelines, but procedures that all companies must follow for submitting premium-reduction plans to RMA for consideration. RMA will not consider any premium-reduction plan that does not follow the premium reduction procedures contained in MGR-03-008.

8. **QUESTION:** What was the rationale for the Board to approve PDP under Section 508 (e) (3) and not as a pilot program as was originally sought by Crop1?

ANSWER:

Section 523(d) of the Federal Crop Insurance Act (Act) states, "The purpose of the pilot program established under this subsection is to determine whether approved insurance providers will compete to market policies or plans of insurance with reduced rates of premium, in a manner that maintains the financial soundness of approved insurance providers and is consistent with the integrity of the Federal crop insurance program." One of the requirements is that the rates be actuarially appropriate.

Section 508(e)(3) of the Act states, "if an approved insurance provider determines that the provider may provide insurance more efficiently than the expense reimbursement

amount established by the Corporation, the approved insurance provider may reduce, subject to the approval of the Corporation, the premium charged to the insured by an amount corresponding to the efficiency."

When Crop1 first provided its submission, it was unclear what it was proposing to do, reduce the premium rate or reduce its A&O expenses so that a portion of the producers' premium could be reduced. After refining the proposal, it became clear that Crop1 had determined that it could achieve efficiency in the sale and delivery of crop insurance and that it was passing that savings on to the insured. Therefore, while both sections 508(e)(3) and 523(d) pertain to premium reductions, only section 508(e)(3) fits the exact proposal submitted by Crop1.

Senate Agriculture, Nutrition, and Forestry Committee
Submitted Questions & Answers
June 2003

Senator Kent Conrad (ND)

1. **QUESTION:** Crop insurance agents and producers in North Dakota are extremely concerned about the continued availability of crop insurance and related servicing in high-loss areas of the state, especially given the limited number of companies that remain in these areas and the resultant dwindling competition. What steps is the Risk Management Agency (RMA) contemplating to address these concerns, either through changes in the Standard Reinsurance Agreement (SRA), increases in the assigned risk pool, or other incentives, such as an increase in expense reimbursement rates?

ANSWER:

RMA is aware of the concern that exists in North Dakota and is actively evaluating a variety of solutions including some of those mentioned in your question. RMA will also work to develop some flexibility into any solution that is implemented to help ensure that justifiable adjustments can be made without having to create a new Standard Reinsurance Agreement.

2. **QUESTION:** My understanding is that RMA has recently completed a review of crop insurance for sugar beets, and has prepared a report on that subject. When will that report be made available to members of the Committee?

ANSWER:

RMA awarded a contract for an independent assessment of the sugar beet program. RMA has received a report on the contractors findings and has provided this report to the American Sugarbeet Growers Association. RMA is developing a process by which reports of this nature will be approved for publication and then will be placed on its website. In the meantime a copy of this report is being provided to Members of the Committee.

3. **QUESTION:** Manager's bulletins have severely restricted the ability of producers to protect their crops through Written Agreements. For example, loss thresholds reflecting prior history often do not account for region-wide or countywide loss experiences resulting from severe natural events. Such restrictions may be reasonable when a producer's loss history is substantially different from other producers in the area, but some method should be provided to allow coverage when area-wide losses have occurred. Has RMA considered other alternatives, such as limits on the type and level of coverage available (e.g., only MPCI with coverage no greater than 60% protection)?

   In addition, producers often find out too late that their written agreement request has been denied, preventing them from applying for Non-Insured Assistance coverage through the Farm Service Agency. Not only are such producers left without crop insurance, they are left without even the minimal protection of NAP. Has USDA

given thought to allowing in such instances the automatic consideration of NAP applications when a timely crop insurance application had been filed?

ANSWER:

Because written agreements are exceptions to policy terms established through the rulemaking process and those upon which the premium rates are based, RMA has taken steps to limit risk on those policies found to have excessive loss ratios. This requirement has been in effect for some 2002 and all 2003 written agreements to protect program integrity. RMA is currently rewriting the written agreement procedures, which will be subjected to expert review and FCIC Board of Director approval. We would expect that fewer written agreements would be offered as a result of this process. Other alternatives to the excessive loss ratio restriction may be considered during this review and approval process.

In addition, in response to your concern, we are looking into this matter further to determine the feasibility of allowing those who have a valid crop insurance application to have the option of automatic application to the NAP program in the event their written agreement is denied.

4. **QUESTION:** What is the policy of RMA with regard to how companies do business with agents? For example, can a company sign a contract with an agent, but shortly after the sales closing date transfer the business to an affiliated company operating under the same SRA and then force substantially lower agent commissions after the business has been delivered? [This happened recently in North Dakota when Crop Hail Management signed contracts with agents and after the sales closing date transferred the business to Heartland, which then cut agent commissions on a "take it or leave it" basis. Both companies share the same reinsurance company (Greenwich) and apparently operate under the same SRA.]

ANSWER:

RMA does not have statutory authority to regulate the contractual arrangements between the insurance companies and agents. However, we obviously expect the companies to follow all applicable State and Federal laws and regulations. If the agents believe that any of the companies involved have acted inappropriately, we suggest they contact the North Dakota Department of Insurance.

5. **QUESTION:** It is my understanding that USDA's Office of General Counsel is directing RMA to require that any producer who either under or over reports acreage by more than 5 percent will be charged the premiums yet denied any claims. To be sure, there needs to be some safeguards against misreporting acreage, but is the 5 percent tolerance level appropriate? What was the previous policy on this point? Can the producer revise the reported acreage after and official measurement service from the Farm Service Agency, with penalty?

ANSWER:

RMA develops regulations in consultation with the Office of General Counsel and other Department staff offices. The Office of General Counsel (OGC) does not have the authority to set policy for RMA. OGC's role was to bring to RMA's attention any conflict between and among its certifications and various provisions of the policy that had to be resolved. The method agreed upon by RMA, and proposed in the Proposed Rule, was to consider misreporting to be a breach of contract, but allow a certain tolerance level. A significant number of comments were received in response to this proposed change and RMA is now in the process of evaluating the comments to determine if the 5 percent tolerance level is appropriate.

As stated, there is a conflict among the certifications signed by the producer and certain policy provisions. Some provisions limit insurance liability based on the amount of reported acreage when a producer reports fewer acres than actually exist. In addition, production from the unreported acreage is counted against the producer's production guarantee. When a producer reports too much acreage, the amount of acreage reported is reduced to reflect the amount that actually exists. However, the certifications signed by the producer state that misreporting on the forms could subject the producer to criminal, civil or administrative sanctions. Other policy provisions require voidance of the policy or disqualification from the program for misreporting.

Current procedures allow revisions of acreage in limited situations. For example, when acreage measurement services have been requested prior to the acreage-reporting deadline, producers with Catastrophic Risk Protection Policies and producers in some areas where acreage measurement is particularly difficult may revise their reports without penalty. Circumstances in which revisions are allowed are limited because of program vulnerabilities associated with late changes to acreage reports. To avoid any potential repercussions, measurements should be obtained before acreage is reported.

6. **QUESTION:** The Agricultural Risk Protection Act required RMA to contract for establishing reasonable quality loss adjustments appropriate to the local market, and this requirement was reaffirmed in the 2002 Farm Bill. My understanding is that the contractor was having difficulty determining "local market discounts," and in an effort to provide more flexibility on this issue, report language in the Farm Bill suggested local market discounts could be reflective of regional discounts. What is the status of this effort?

ANSWER:

Section 508 (m) of the Federal Crop Insurance Act required FCIC to contract with a qualified person to review quality loss adjustment procedures to determine if they accurately reflect local quality discounts. The final deliverable for that study has been received and accepted. RMA has several concerns with the study's recommendations, including a viable solution for potential problems with regional discount differences, such as differences along state or county lines.

Senate Agriculture, Nutrition, and Forestry Committee
Submitted Questions & Answers
June 2003

RMA plans to send the study to agricultural industries, universities, extension offices and the crop industry and ask for comments on the study and seek recommendations and ideas for developing quality adjustment procedures that would be:

- Reflective of the local market.
- Easy to administer within current staffing levels.
- Not be subjected to price manipulation, fraud, waste and abuse.

7. **QUESTION: Transparency.** North Dakota's potato producers have expressed concern that in the past, RMA has made errors in calculating prices for purposes of establishing price election levels, or retroactively made policy changes, such as in the case of certified seed potatoes, after the crop had been planted or insurance had been purchased. Can RMA provide an opportunity for public notice and comment on such issues, so that errors or changes can be identified and corrected before policies are offered to farmers?

ANSWER:

The initial prices are set prior to the contract change date, which is frequently set months before the crop is ever planted. Therefore, even using the best estimates, not all announced prices will be reflective of the actual market price for the crop. For certain crops, an additional price election can be announced but it is imperative that producers receive prices not later than the termination date so that they can make informed risk management decisions. In most cases there is not sufficient time from when the latest price data becomes available before the contract change date or termination date, as applicable, for a public notice process to occur. Further, after insurance attaches, prices cannot be changed without introducing significant program vulnerabilities as a result of adverse selection.

8. **QUESTION: Frost-Free Date.** My understanding is that the so-called frost free date for potato policies in North Dakota was changed from October 15 to September 30, but remains October 15 in other Northern potato-growing states. Why the apparent discrepancy, and can the October 15 date be re-established in North Dakota?

ANSWER:

Previous to our current potato policy, the frost freeze date was set at September 30th. Our current policy establishes the frost freeze date and the end of insurance period to be the same (October 15), with the exception of North Dakota and Minnesota. According to the Special Provisions of Insurance, these two States have October 7th as the frost freeze date. This change was made in response to a request from the potato growers, as well as research provided by RMA subject matter experts.

In order to extend the date to October 15, RMA would need supporting data regarding the frost freeze dates in these two States that shows that the significant risk of frost freeze did not occur until October 15. If there is such data, RMA could

implement the change by deleting the statement from the Special Provisions of Insurance and the end of insurance period (October 15) would become the frost freeze date.

9. **QUESTION: Storage Endorsement.** With the advent of improved storage equipment and capabilities, along with new late-season varieties, potato producers would like to have the option of purchasing longer storage coverage, in 30-60 day increments. Will RMA consider allowing such options?

ANSWER:

Insurance is only provided for causes of loss that occur during the insurance period. Under the current storage endorsement, coverage is provided for damage that occurs prior to storage that becomes apparent within 60 days after being placed in storage. In developing the current storage endorsement, consultation with potato grower organizations and University specialists concluded most diseases become apparent within 45 days after being placed in storage. However, to be certain adequate time was allowed, RMA established the current 60-day time period. RMA will consider whether it is feasible to modify the current potato storage endorsement to allow the option of purchasing coverage in 30-60 day increments for periods longer than 60 days. However, before any such change could be made additional research needs to be conducted regarding improved storage equipment, new late-season varieties and kinds of damage that become apparent more than 60 days after production is stored. The detection and control of disease is a major consideration in extending the coverage period under the endorsement. If through the research, it is concluded the storage period can be increased, RMA will propose changes to the potato policy. This would require a change to the policy through a proposed rule in the Federal Register.

10. **QUESTION: Insurance Type and Variety.** Today potato producers need to grow different types and varieties of potatoes on different farm units to respond to market demand and to help manage risk. Each variety reacts differently to adverse conditions at various stages of growth. Growers might, for example, have a loss on Red Norlands while their Shepody crop may produce enough to avoid a loss on the unit. What is the prospect that RMA will provide for separate insurance policies for different types and varieties of potatoes?

ANSWER:

Due to the numerous varieties throughout the United States, separate insurance policies by each variety/type would be difficult to administer. In addition, the premium rate necessary for varieties or types more prone to disease or other causes of loss may be significantly higher than current rates, thereby increasing some premium amounts currently paid by producers.

Allowing units by variety or variety groupings has been considered in the past, but was not proposed because growers in areas where one potato type is predominant were not supportive of the change. If there is renewed interest, RMA can re-examine the issue.

11. **QUESTION: Indemnity Reduction on Unharvested Acres.** My understanding is that, in the case of potatoes, RMA reduces indemnities by 20 percent on unharvested acres. North Dakota potato producers believe that current data supports a lower indemnity reduction of approximately 8-10 percent. What is the basis for RMA's higher discount, and what data are required to support a change in policy?

ANSWER:

The current 20 percent reduction for unharvested acreage was established to reflect the costs not incurred by producers. This percentage was determined based on average harvesting cost potato growers incur in the states grouped by the Northern Potato Crop Provisions. Individual state costs may vary. Before proposing a change, RMA would need specific cost data indicating costs are lower than the current 20 percent. If North Dakota potato producers have data showing the 20 percent should be reduced, RMA would like to review that data as well as data from other states before proposing any changes. Any change in the percentage would require RMA to propose a change to the current potato crop provisions in the Federal Register.

Senate Agriculture, Nutrition, and Forestry Committee
Submitted Questions & Answers
June 2003

Senator Patrick Leahy

1. **QUESTION:** Over the last couple of years, USDA successfully worked with our states and farmers to create new risk management tools with Agriculture Management Assistance funds, such as improved irrigation, better financial management and farm diversification. Yet, today, we have a classic case of the Department fixing what was not broke. Why did the Department invest AMA funds in traditional risk management programs instead of building upon your past success? Why did the Department ignore the broader authorization of AMA and instead used the AMA funds to only pursue one risk management tool – crop insurance?

ANSWER:

At the time the decision was made to use the majority of AMA funding for crop insurance, the Department believed the regional equity provisions contained in the 2002 Farm Bill would ensure more than adequate funding to continue the use of non-traditional risk management tools in the Targeted States. Unfortunately, as you are aware, the lateness of the Fiscal Year 2003 appropriations process made it impossible to fully implement the regional equity provisions. The Department believed at the time, and continues to believe today, that using the AMA funding for crop insurance was appropriate. We have received many positive comments from State and local officials and the early results suggest that the program has been very successful at encouraging participation by producers in the Targeted States.

2. **QUESTION:** Many people in Vermont were fully expecting USDA to implement AMA as it had done in the past. One of the virtues of this program was its ability to meet local needs. That was one reason I supported doubling the funding for AMA in the Farm Bill. Yesterday, my staff was informed that there are actually outstanding AMA contracts with Vermont farmers that may not be met because of the Department's program change. That tells me that the Department did not fully consider the local impact of this 180-degree program change. Why did the Department not consult or even inform state and local officials about the changes in AMA until the decision was already final?

ANSWER:

As indicated above, at the time the decision was made, the Department believed there would be adequate funding available to maintain these contracts. We are exploring options to ensure that all existing commitments are met.

3. **QUESTION:** One of the reasons that I was disappointed that AMA funds were used for crop insurance subsidies is that most of the agricultural income in Vermont is currently ineligible for coverage by crop insurance. I understand that the Department has piloted the Adjusted Gross Revenue, Adjusted Gross

Revenue-Lite, and Livestock Risk Protection program. When will we these programs be available to Vermont farmers? If AMA funds that were previously administered by NRCS had to be used for crop insurance, why were none of the funds transferred used to establish and expand these livestock and whole farm programs?

ANSWER:

The 2003 AMA program funds were in fact used to provide assistance to purchasers of AGR in the underserved states where that program is available, including Vermont where AGR is being provided under the current pilot program.

The AGR-Lite plan of insurance is owned by the Pennsylvania Department of Agriculture and only approved by the Board of Directors (Board) for reinsurance under section 508(h) of the Act. The Pennsylvania Department of Agriculture submitted certain changes and requested the expansion of the AGR-Lite program for 2004. AGR-Lite was available in Pennsylvania for 2003 and producers were provided assistance under the AMA program for their purchases of AGR-Lite.

On August 1, 2003, the Board voted to expand the AGR-Lite program to reach a number of counties in Connecticut, Delaware, Maine, Vermont, Massachusetts, New Hampshire, New Jersey and Rhode Island, and selected counties in West Virginia, New York, and Maryland, as approved by RMA. Additional modifications were also approved for the program in all states including Pennsylvania. These modifications will qualify more livestock, organic and small to medium size producers in these states for a whole-farm risk management approach compared with currently available policies. Sales are expected to begin in early December.

Senate Agriculture, Nutrition, and Forestry Committee
Submitted Questions & Answers
June 2003

Senator Mike Crapo (ID)

QUESTION:

The National Potato Council has been working with the Risk Management Agency (RMA) on a number of administrative issues of interest and concern to potato growers. First, growers perceive a lack of transparency in the Agency's method of calculating prices. The industry has expressed concern that there have been instances where prices were based upon incorrect assumptions, but there was not a mechanism to provide input prior to the final decisions being announced.

Second, there continues to be concerns with the manner that actual production history (APH) is calculated, which impacts whether coverage is adequate in a disaster situation.

Third, the industry has suggested that the coverage for potato storage be extended from 60 to 120 days.

Fourth, the industry has suggested that RMA look into having a specific endorsement to protect early generation seed growers from risks associated with no qualifying for recertification.

Can you provide an update on how RMA is addressing these concerns?

ANSWER:

1) A perceived lack of transparency in the setting of price elections results from both the timing of forecasted price elections and the need for non-biased establishment of price elections. With respect to timing, the initial prices are set prior to the contract change date, a pre-established date generally several months before the crop is planted. Producers must receive prices early so they can make informed risk management decisions before the cancellation and sales closing dates. The price election is a forecasted estimate of anticipated price the producer may receive for a typical crop many months into the future when the insured crop is harvested and sold into the market. Therefore, even using the best estimates, not all announced prices will be reflective of the actual market price for the crop when it is eventually harvested and sold. In addition, "normal' weather and marketing conditions are assumed.

For potatoes, RMA bases the price elections on historical data from the National Agricultural Statistics Service (NASS). The price election is based on an average with a small adjustment to remove storage costs. We are unaware of the instances referred to of potato prices being based upon incorrect assumptions.

In addition to NASS, other sources utilized are the Economic Research Service, World Agricultural Outlook Board, and the Cooperative State Research, Education and

Extension Services. For some commodities, the Farm Service Agency commodity marketing loan rates are used as a floor price when prices are expected to fall. When there are no NASS data available, Agricultural Marketing Service information may be used. If there are no government unbiased data available, industry contacts and specific grower associations provide input.

Some data sources require and expect confidentiality and anonymity; otherwise, they would cease to provide vital information utilized to forecast the most accurate price election. Since RMA administers an insurance program that is unique within the USDA, the crop insurance program takes great care to ensure that its price elections are established without either the appearance of or the reality of bias or conflict of interest from insureds, reinsured companies, or other interested parties who might benefit directly or indirectly from changes in price elections. Consequently, releasing proposed price elections for industry input prior to announcement could make RMA vulnerable to criticism or political influence. In addition to these concerns, RMA attempts to incorporate the latest price data available into its price elections and establishment of a public notice process would require additional time. Since contractual dates are static, the result would be exclusion of the most current data to provide the industry review time.

It is important to note that all RMA price elections are subject to review by the Office of Management and Budget (OMB) and that for certain crops, an additional price election can be announced later in the season (prior to insurance attachment) if additional information becomes available that suggests the appropriateness of a higher price. After insurance attaches, prices cannot be changed without introducing significant program vulnerabilities as a result of adverse selection.

2) Currently, yield limitations and adjustments in the form of yield substitutions are used to mitigate the effects of prolonged periods of drought on APH yields and insurance coverage. Yield limitations consist of yield cup limits, which keep an insured's approved yield from dropping no more than 10 percent from one year to the next. Yield floors provide a limit how far approved APH yields can fall. Yield floors are not available for CAT coverage or most perennial crops. Yield adjustments may be elected by insureds that can substitute 60 percent of the applicable "T" Yield for actual yields that are less than 60 percent of the "T" Yield. RMA is currently evaluating the effectiveness of the yield substitution process to determine if more assistance can be provided.

3) Insurance is only provided for causes of loss that occur during the insurance period. Under the current storage endorsement, coverage is provided for damage that occurs prior to storage that becomes apparent within 60 days after being placed in storage. In developing the current storage endorsement, consultation with potato

grower organizations and University specialists concluded most diseases become apparent within 45 days after being placed in storage. However, to be certain adequate time was allowed, RMA established the current 60-day time period. RMA will consider whether it is feasible to modify the current potato storage endorsement to allow the option of purchasing coverage in 30-60 day increments for periods longer than 60 days. However, before any such change could be made additional research needs to be conducted regarding improved storage equipment, new late-season varieties and kinds of damage that become apparent more than 60 days after production is stored. The detection and control of disease is a major consideration in extending the coverage period under the endorsement. If through the research, it is concluded the storage period can be increased, RMA will propose changes to the potato policy. This would require a change to the policy through a proposed rule in the Federal Register.

4) Representatives from the Northern Plains Potato Growers Association met with RMA representatives early in August 2003 regarding several potato coverage issues, including coverage for producers of early generation seed. No development work on an endorsement for early generation seed has been done to date. RMA understands rejection rates during winter testing are extremely high which may make it difficult to develop affordable coverage. However, after more information is obtained from the Northern Plains Potato Growers, the National Potato Council and other experts, it may be possible to move forward with this coverage.

QUESTION:

I would like to commend RMA for working with apple growers to develop draft revisions to the current apple crop insurance policy. In my April 11 letter to Secretary Veneman, I urged implementation of improvements since the present policy only covers low-grade, low-priced juice apples. Moreover, the apple crop insurance pilot quality option program is not available in all apple states, including Idaho. I understand that a revised apple policy is near completion at RMA that would extend coverage to fresh-market and processing apples and cover important perils such as a crop-damaging frost, for all apple growers.

Do you plan to expedite implementation of this improved apple crop insurance policy? Will this policy be available to apple growers for their 2004 apple crop?

ANSWER:

RMA received final comments regarding proposed changes to the apple crop insurance program from the U.S. Apple Task Force on July 11, 2003. RMA is finalizing the proposed rule for regulatory review according to the Administrative Procedures Act. A proposed rule must also be published in the Federal Register to afford the general public an opportunity to comment on the proposed changes. Generally, comment periods for proposed rules are 60 days; however, in some instances can be shorter. Regardless of the

length of the comment period, RMA must address all comments received and make appropriate changes. To be effective for the 2004 crop year, the regulation must have been published as a final rule in the Federal Register by the contract change date of August 31, 2003. We expect any finally adopted changes to the policy to be effective for the 2005 crop year.

Max Baucus

Questions for Mr. Ross Davidson from Senator Max Baucus
Senate Agriculture Hearing
June 12, 2003

1. Malt Barley is an important crop in Montana. Many of the malt barley growers would like to see an adjustment to the malt barley endorsement to more accurately reflect malt industry quality standards. Has RMA looked into the possibility of adjusting the malt barley endorsement?

2. My state of Montana has suffered from consecutive years of drought. Each year, the premiums on crop insurance get higher and as the actual production history averages get smaller, the indemnity payments decrease. What improvements can you suggest to the federal crop insurance program to make the program a more comprehensive risk management tool to producers in consecutive years of weather related disasters?

3. The Group Risk Plan Rangeland program piloted in Montana a few years back and as you stated, the program is not working as well as RMA or producers would like. What has RMA learned from this pilot program and what kind of future do you see for GRP?

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