Agricultural Marketing Policy Center

Agricultural Marketing Policy Center
Linfield Hall
P.O. Box 172920
Montana State University
Bozeman, MT 59717-2920
Tel: (406) 994-3511
Fax: (406) 994-4838
Email: ampc@montana.edu
Web site: www.ampc.montana.edu

This publication was developed with financial support from the Risk Management Agency USDA and the University of Wyoming.

Risk Management for Specialty Crop and Specialty Livestock Operations through Farm Service Agency Programs and Risk Management Agency Products

James B. Johnson
Emeritus Professor
Montana State University

Vincent H. Smith
Professor
Montana State University
Director
Agricultural Marketing Policy Center

John P. Hewlett
Senior Extension Educator
University of Wyoming

Agricultural Marketing Policy Paper No. 51
August 2016

Introduction

Two questions are central to understanding producer options for risk management and other government programs related to specialty crops and specialty livestock operations. First: what is a *specialty crop*? Second: what is a *specialty livestock operation*? Each of these terms has a legal or administrative definition and a common usage definition. We begin by examining the definition and use of the term *specialty crop:*

Specialty crops---Specialty crops are defined in by the federal government, in the Federal statutes, as "fruits and vegetables, tree nuts, dried fruits and horticulture and nursery crops, including floriculture."

This definition leaves some room for interpretation. Fruits, vegetables, tree nuts, nursery crops and floricultural crops are considered to be horticultural crops. The specific mention of these crop groups suggests that the plants classified as included in these groups automatically qualify as horticultural crops. However, the legal definition requires that interpretation with respect to whether plants (plant groups) not mentioned in the legislation can be classified as horticultural crops.

Horticulture is defined as that branch of agriculture concerned with growing plants that are used by people for food, for medicinal purposes, and for aesthetic gratification. The word *crop* can carry several definitions. With respect to plants, the United States Department of Agriculture (USDA) considers *crops* to be those plants that cultivated either for sale or for subsistence. Wild plants are not considered specialty crops even though they may be used for the same purposes as cultivated crops. In order for a crop to be considered cultivated, some form of management must be applied. The intensity and extent of that management is not critical in determining whether or not a plant is cultivated.

Some cultivated plants have multiple uses. The purpose for which a plant is grown may therefore affect whether or not it will be classified as a specialty crop. For example, amaranth may be grown as a leafy green or as a grain. Leafy greens are vegetables and therefore amaranth grown as a leafy green would be considered as a specialty crop. However, grains are not considered a specialty crop under the USDA definition and therefore amaranth grown for grain would not be considered a specialty crop.

The publication, ***USDA Definition of Specialty Crop***[1] provides an exhaustive discussion of what is legally considered a specialty crop. The publication includes appendices that identify plants commonly considered fruits and tree nuts, vegetables, culinary herbs and spices, medicinal herbs, and floriculture and nursery crops, all of which fit within the legal definition of a *specialty crop*. The publication also includes a final appendix that by crop group provides a partial listing of *ineligible crops* under the USDA legal definition of a *specialty crop*. Crops of some interest in Wyoming, that are by crop type defined as **not being** specialty crops, include: oil seed crops---camellia, crambe, mustard seed, safflower, sunflower seed, canola, flaxseed, and rapeseed; field and grain crops---amaranth for grain, corn, oats, rye, sugar beets, wheat, buckwheat, barley, and proso millet; forage crops---alfalfa, clover, hay, and range grasses; and fiber crops such as flax.

The legal definition of a *specialty crop*, which is exhaustive, may limit a producer or producer group seeking USDA grant funding for market development for any given crop under the rubric of specialty crops. Essentially, eligibility for the grant for market development is likely to be dependent on whether the crop of concern fits within the legal definition of a specialty crop. However, for production, price and revenue risk management purposes, including USDA Risk Management Agency crop insurance programs, a more encompassing interpretation usually prevails. A producer on irrigated land in Park County producing buckwheat or amaranth for grain would likely be considered a specialty crop producer.

[1] The publication is available at www.ams.usda.gov/sites/default/files/media/USDASpecialtyCropDefinition.pdf

Specialty livestock operations. In contrast to the legal definition of a *specialty crop*, as expressed in Federal statutes, there appears to be no parallel legal definition of what constitutes *specialty livestock* in the statutes, or in rules promulgated under those statutes. However, the term *other livestock* has an implied definition through its use in the Census of Agriculture that is conducted every five years by the USDA's National Agricultural Statistics Service.

The 2012 USDA Census of Agriculture includes a set of definitions of terms. In that set of definitions, *other livestock production* is defined as comprising of establishments primarily engaged in the raising of animals and insects (except cattle, hogs, and pigs, poultry, sheep and goats, and aquaculture) for sale of product. These establishments are primarily engaged in the production and marketing of one of the following: bees, horses and other equine, rabbits and other fur-bearing animals, etc., and producing products such as honey or other bee products.

The 2012 Census of Agriculture questionnaire includes a section on Other Livestock and Livestock Products in which producers are asked to report the value of their sales from alpacas, llamas, bison, deer in captivity, elk in captivity, live mink, and live rabbits. They are also asked to report their aggregate sales from livestock operations, including sales of laboratory animals, worms, bees, etc. not otherwise reported. A third question asks producers to report their aggregate value of sales from products such as embryos, fur or pelts, horns, manure, sold, semen, breeding fees, and other animal specialties.

The 2012 Census of Agriculture category, *other poultry production*, includes the domestic production of game birds, including chukars and pheasants, and the production of some domesticated poultry types such as ducks and peacocks.

As with the legal definition of specialty crops, the definitions for *specialty livestock* and *other livestock* (and poultry) implied by the USDA Census of Agriculture questions about other livestock and livestock production may determine eligibility for grant programs to foster the initiation, expansion and marketing of these livestock and livestock products. However, for production and revenue risk management purposes, a more encompassing definition of specialty livestock and poultry seems to prevail. For example, a livestock producer in Fremont County producing grass-fed goats for meat and free-range domestic ducks for meat would likely be considered a producer of specialty livestock/poultry.

This paper is focused on management of production, price, and revenue risks for *specialty crops* and *specialty livestock* and the farms and ranches that have incorporated such enterprises into their overall enterprise mix. To be inclusive, the terms *specialty crops* and *specialty livestock operations*, will be given their broadest and most encompassing interpretations.

Farm Service Agency Risk Management and Disaster Assistance Programs

The ***Non-insured Crop Disaster Assistance Program*** (**NAP**), which was reauthorized in the 2014 Farm Bill, may be of interest to specialty crop producers and specialty livestock operation managers.

NAP is generally available to farm and ranch managers where RMA does not offer catastrophic coverage level (CAT coverage) crop insurance for a subject crop. More specifically, NAP is not available for crops for which CAT coverage under section 508 (b) or additional coverage under sections 508 (c) or 508 (h) of the Federal Crop Insurance Act are available. If either CAT coverage or additional coverage (excluding pilot policies or plans of insurance) is available for a crop, NAP is unavailable.

Any commercial agricultural crop or commodity (except livestock and livestock products) grown for food or fiber is eligible for NAP coverage when CAT level coverage crop insurance under section 508 (b) is not available or additional coverage under sections 508 (c) or 508 (h) is not available.

Crops grown for food, crops planted and grown for livestock consumption, and crops grown for fiber (except trees) are eligible for NAP coverage. NAP ***does not*** cover livestock or livestock products but may be used by specialty livestock operations to cover certain crops planted and grown by those operations for livestock feed.

Forage vegetation eligible for NAP coverage consists of annual, biennial, and perennial grasses, legumes and small grains, etc. produced in a commercial operation for animal consumption or for seed for the propagation of forage for animal feed.

Specialty crop producers and managers of specialty livestock operations may benefit from NAP because the program provides *financial assistance* to producers of non-insurable crops to protect against natural disasters that result in lower yields or crop losses due to prevented planting of a crop. Natural disasters include: (1) damaging weather that includes drought, excessive moisture, and/or a hurricane; (2) adverse natural occurrences including events such as floods and hurricanes; and (3) related conditions including events such as excessive heat or insect infestations associated with damaging weather or adverse natural occurrences.

Prior to passage of the 2014 farm bill, NAP covered losses in excess of 50 percent of the producer or manager's expected production of the crop. The NAP payment rate was 55 percent of the average market price (as established by the USDA's Farm Service Agency). Essentially the program provided for coverage at 27.5 percent of the expected value of production of the crop (50 percent of expected production x 55 percent of the expected average market price for the crop). This level of coverage continues to be available for all eligible crops. It is ***the only NAP coverage*** available for crops and grasses intended for grazing. The 2014 Agricultural Act provided for buy-up NAP coverage for other crops for the production years 2015, 2016, 2017 and 2018. The buy-up coverage is available at the 50, 55, 60, and 65 percent of the crop's expected production, all at 100 percent of the expected average market price.

Producers and managers have to satisfy applicable Farm Service Agency (FSA) requirements to be eligible for NAP. They must certify compliance with management requirements for highly erodible land and wetlands, and annually report crop acreage to FSA.

To remain eligible for NAP financial assistance a producer must report crop or forage losses within 15 days of the date the disaster that caused the loss occurred and request payment under NAP within 60 days of the last day of coverage for a crop in a crop year. Local FSA personnel can assist producers and managers with eligibility requirements and any required evidence of loss.

Eligible producers must file annually for NAP coverage of eligible crops. Applications for coverage and applicable fees must be paid by the pertinent closing dates. In Wyoming ***April 1st*** is the applicable closing date for all eligible crops and forages; ***December 1*** is the applicable closing date for honey.

Eligible producers must pay the lesser of the following alternative fees to participate in NAP, as well any premiums associated with NAP buy-up policies:

1. A service fee of $250 per **crop** (or forage) service fee to be covered by NAP not to be exceed $750 per **producer per administrative county** or,
2. $1,875 for a producer with eligible crops in multiple counties.

Fee waivers are available for beginning, limited resource, and targeted underserved farmers and ranchers. Those farmers and ranchers are eligible for a **waiver of the service fee**. They are also eligible for a **50 percent premium reduction** when they file the USDA form entitled *Socially Disadvantaged, Limited Resource and Beginning Farmer or Rancher Certification.*

To be eligible for the NAP service fee waiver and premium reduction, the producer must qualify as one of the following:

Beginning farmer or rancher---A person or legal entity who: has not operated a farm or ranch for more than 10 years; and materially or substantially participates in the operation.

For legal entities to be considered a beginning farmer, all members must be related by blood or marriage and all must be beginning farmers.

Limited resource farmer or rancher---A person or entity that: earns no more than $173,600 from farm sales in each of the two calendar years that precedes the complete taxable year before the program year; and has a total household income at or below the national poverty level for a family of four; or has a total household income that is less than the county median household income for both of the previous two years.

Limited resource producer status may be determined using the **USDA Limited Resource Farmer and Rancher Online Self Determination Tool** located at **http://lrftool.sc.egov.usda.gov.** The tool calculates and displays adjusted gross farm sales per year and the higher of the national poverty level or the county median household income.

For legal entities requesting to be considered a Limited Resource Farmer or Rancher, the sum of gross sales and household income must be considered for all members.

Targeted underserved farmer or rancher---a farmer or rancher who is a member of a group whose members have been subject to racial, ethnic or gender prejudice because of their identity as members of a group without regard to their individual qualities. Those groups include: American Indians or Alaskan Natives; Asians or Asian Americans; Blacks or African Americans; Native Hawaiians or other Pacific Islanders; Hispanics; and Women.

For legal entities to be considered targeted underserved producers, the majority interest must be held by targeted underserved individuals.

It is anticipated that there are farmers and ranchers in Wyoming who could qualify under one or more of these categories and receive service fee waivers and premium reductions when they participate in NAP.

For a producer or manager seeking only the CAT level of NAP coverage (27.5%) the only cost is the service fee.

Producers seeking buy-up NAP coverage are subject to the applicable service fees (see above) and a NAP premium. The premium calculations are the following:

Total NAP Premium = Total NAP Liability x Premium Rate, where,

Total NAP Liability = Producer Share x Approved Yield x Coverage Level x Verified Crop Acreage x Price Level x NAP Premium Rate of 5.25%.

When a natural disaster results in losses for the covered crop the level of financial assistance is calculated by crop for each **unit**. A **unit** is all eligible acreage of the eligible crop in the administrative county in which the (1) producer has a 100 percent crop share or (2) the eligible land is owned by one person and the producer operates the land on a crop share basis.

Consider a producer with 300 acres of irrigated oat hay for which he paid the applicable service fee and premiums for buy-up NAP coverage. He owns one field that is planted to 200 acres of irrigated oat hay. The farmer crop-shares another 100 acres of oat hay on his neighbor's farm and receives a two thirds share for producing and harvesting the crop. For NAP purposes he has two units where NAP financial assistance would be calculated if there was a covered crop loss.

The calculations for NAP financial assistance are as follows:

Calculated NAP Payment = (Net Production for Payment x Applicable Price x Price Percentage x Payment Factor) - (Salvage Value), where,

Net Production for Payment = (Eligible Acres x Producer Share x Approved Yield x Yield Coverage Level) - (Production to Count).

Producer Share is the operator's share of the crop which equals 100 percent if produced on land the farmer owns or on land the farmer has cash leased. **Approved Yield** is the yield established for the crop historically through annual reporting to FSA. The **Yield Coverage Level** is selected by the producer as 50, 55, 60, or 65 percent of the **Approved Yield**.

Production to Count is all harvested, appraised, and assigned production for the insured **unit**. The **Applicable Price** is established by the State FSA Committee for the subject crop (not by the producer). **Price Percentage** is 50 percent of the **Applicable Price** for CAT-level coverage and 100 percent for all buy-up levels. **Payment Factors** are specified by FSA and are used to reflect cost savings realized when harvest and other costs are not incurred. **Salvage Value** is the dollar amount received by an eligible producer for harvested product that has to be sold into a product market as a lower quality and/or lower priced product than was intended.

For grazing there is a specific NAP payment procedure for determining losses based on *Animal Unit Days.* The procedure is outlined in *Agricultural Marketing Policy Issues Paper* No. 49, Montana State University, July 2015 available at www.ampc.montana.edu/documents/policypaper/policy49.pdf

The maximum NAP financial assistance available to a producer in any crop year is $125,000.

To summarize, the NAP program can be used to ameliorate some production risks faced by farmers and ranchers and the program may be of use to certain specialty crop producers and specialty livestock operation managers. NAP requires an annual application for each crop to be covered, payment of service fees, and also payment of premiums when buy-up levels of coverage are selected by a producer. For some operators and managers, service fee waivers and premium reductions may be available.

The FSA also offered four disaster assistance programs that, in contrast to the Noninsured Crop Disaster Assistance Program, require no service fees or premiums. These are the Livestock Forage Program, the Livestock Indemnity Program, and the Emergency Assistance for Livestock, Honeybees, and Farm-Related Fish Program, and the Tree Assistance Program. Each of these program offers financial assistance to producers for certain types of disasters and require producer actions only **after** a disaster occurs.

The ***Livestock Forage Program (LFP)*** provides financial assistance to eligible livestock producers that have suffered **grazing losses** due to **drought** or **fire** on land that is native or improved pastureland with permanent vegetative cover or that is planted specifically for grazing. This program is important for producers in a semi-arid state such as Wyoming where it addresses a limited but important category of loss, grazing loss due to drought or fire. The operation and applicability of ***LFP*** to a Wyoming ranch situation is fully outlined in Montana State University Agricultural Marketing Policy Issues Paper No.49, July 2015.

The ***Livestock Indemnity Program (LIP)*** provides financial assistance to livestock producers for livestock deaths in excess of normal carrying capacity caused by adverse weather (or by attacks by animals reintroduced into the wild by the Federal government).

The ***Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program (ELAP)*** provides emergency assistance to eligible producers of livestock, honeybees and farm-raised fish for losses due to disease (including cattle tick fever), adverse weather, or other conditions such as blizzards and wildfires not covered by LFP or LIP.

The ***Tree Assistance Program (TAP)*** provides financial assistance to eligible orchardists and nursery tree growers to replant or rehabilitate eligible trees, bushes and vines lost by natural disasters.

Risk Management Agency Insurance Products

The Federal crop insurance program managed by the Risk Management Agency (RMA) provides risk management products to address crop yield and/or revenues losses and livestock price and margin risks on farms and ranches. RMA has a long history of developing and making available through private insurers crop insurance products of use to traditional farm program crops such as corn, barley and wheat. Since the late 1990s, RMA has also provided insurance products that address production risks for forage crops such as alfalfa and production on grazing land, both pasture and range land.

In recent years federal crop insurance program offerings have expanded with insurance products to address production and revenue risks associated with specialty crops. A 2012 report entitled *Federal Crop Insurance for Specialty Crops: Background and Legislative Proposals* issued by the Congressional Research Service noted that crop insurance was available for over 80 specialty crops at that time. Insurance offerings for specialty crops have continued to expand and have received increased attention in the most recent farm bills.

Like the coverage for other crops, crop insurance policies for specialty crops are generally either yield-based or revenue based. Commercial nursery operators can obtain a crop insurance policy that covers losses in nursery stock asset values. The most recent offering of a whole farm revenue insurance policy that addresses revenue loss at the farm level, rather than at the individual crop or livestock enterprise level, maybe of interest to specialty crop producers and specialty livestock operation managers.

In the most recent crop year, federal crop insurance products were offered in one or more counties for 14 individual Wyoming crops or crop groups. Among these 14 crops or crop groups, three would generally be considered specialty crops---dry beans, dry peas, and nursery crops. In addition to the RMA agricultural insurance programs that address production and/or revenue risks for individual crops or crop groups, the Pasture, Rangeland, and Forage Vegetative Index product was offered in Wyoming to cover mechanically harvested forage and grazing. An apiculture insurance product was also available.

Federally subsidized AGR-Lite whole farm insurance has also been available. Two other products were offered for livestock producers. Livestock Risk Protection was available for price risk management for fed cattle, feeder cattle, lambs and swine. Livestock Gross Margin insurance was available for cattle, swine, and dairy.

Specialty crop producers and specialty livestock operation managers evaluating whether or not to expand their existing farming operations by adding specialty crops or specialty livestock operations are likely to be concerned with managing additional production and revenue risks.

Crop producers and farm managers, through their crop insurance agents, may readily determine whether multiple peril crop insurance is available for the additional specialty crops they are considering. Crop insurance agents can readily determine if there are RMA actuarial tables for the subject crops available in the counties where production is being considered. If actuarial tables are available, the producer can work with his crop insurance agent to determine coverage, potential indemnities, and premium costs.

However, no actuarial tables may be available for the specialty crops of concern. In those cases, other avenues may be pursued.

First, as discussed above, a crop producer might pursue the use of NAP through consultation with USDA Farm Service Agency personnel.

Second, a specialty crop producer could pursue a *Written Agreement* for a crop for which no crop insurance actuarial table exists in the county he operates.

Third, if multiple specialty crops are involved, the farmer could consider using RMA's current whole farm product, *Whole-Farm Revenue Protection.*

The Written Agreement: A specialty crop producer seeking a **W*ritten Agreement*** initiates the process by filing a ***Request for Actuarial Change*** with his crop insurance agent. Before this process is started, a specialty crop producer or manager of a specialty livestock operation should have some idea of the expected outcome. A successful Request for Actuarial Change results in a Written Agreement. This agreement, if accepted by the producer, is an individualized agreement to insure the specific specialty crop in the specified county in that crop year.

The request for actuarial change process is initiated by the specialty crop producer conferring with his crop insurance agent. The producer and the crop insurance agent then complete the *Request for Actuarial Change* form. The form requires the following information: the specialty crop producer's name and address, social security number, etc.; the crop, type, and practice; the location of the proposed production on which crop insurance is being sought; and the actual production history form with the crop production history for the specialty crop to be insured. There must be actual production history for at least the last three years the subject crop was seeded; FSA aerial photography for the proposed production location for the specialty crop for which insurance is being sought; and evidence of the adaptability of the subject crop.

The following details of this process need to be fully understood by both the specialty crop producer and the crop insurance agent.

First, the applicant must be clear about *crop, type* and *practice*. Consider the following example dry pea example where the crop is to be produced on dryland. The farmer and insurance agent would report the following:

- Crop**: dry peas**
- Type: **spring smooth green**
- Practice**: non-irrigated**

Second, the location of the proposed specialty crop production requires a legal description supported by the FSA aerial photography of the proposed production location. Such photography is readily available in local FSA offices along with soils information for the crop fields under consideration.

Third, the production history for the subject crop needs to be specified. Much of this information may be available from annual crop acreage reports the specialty crop producer makes to FSA. This history must include acres, yield and production for the most recent three years the crop was seeded/planted.

Fourth, evidence of the adaptability of the subject crop needs to be provided. Production of the subject specialty crop currently under consideration in the area or like areas should be cited. The most convincing data would likely be prior successful production at economically viable levels on the specialty crop producer's own farm. Production in the same county under similar soil and climatic conditions would be helpful.

Once the *Request for Actuarial Change* form is completed, it is forwarded by the specialty crop producer's crop insurance agent to one of the private companies with which the agent works for research and review. Subsequent to the insurance company's review for accuracy of the information, the request is forwarded to the regional office of the USDA Risk Management Agency for consideration. Requests from Wyoming specialty crop producers or specialty livestock operation managers would be considered by personnel in the Billings Risk Management Agency Regional Office.

RMA personnel will first consider the adaptability of the subject specialty crop. If there is a positive determination on the specialty crop for the specified Wyoming location, the request process will proceed.

A positive adaptability determination is not assured. The RMA determines whether or not crop insurance policies are being written for the subject specialty crop somewhere in the United States. If there is a determination that no policies are being written, insurance coverage will not be made available to the requesting specialty crop producer. In effect, there must be a regular multiple peril policy available for the subject specialty crop somewhere in the United States for the Request for Actuarial Change process to proceed.

Once a positive determination about the adaptability of the subject crop has been made and that the crop is covered somewhere in the United States under a multiple peril crop insurance policy, the Risk Management Agency then specifies a *reference county*. RMA personnel are charged with finding a county where a multiple peril crop insurance policy exists for the subject specialty crop that has similar production conditions to the county from which the request originated.

Consider an example. In Wyoming the only county with an actuarial table for dry peas is Laramie County. A producer in Platte County is seeking a *Written Agreement* for dry peas. RMA personnel might specify Laramie County as the *reference county* as it is the only county in Wyoming that currently has an actuarial table for crop insurance for dry peas and that cropland in northern Laramie County has been rated for dry pea crop insurance. RMA personnel would then have to establish whether, in their determination, growing conditions for dry peas in Platte County are sufficiently similar to those in Laramie County to consider Laramie County the *reference county.* If that is not the case, RMA personnel would then need search for a *reference county* elsewhere.

If the adaptability and reference county determinations are successfully completed, RMA personnel review the information on the request to determine the specialty crop producer's production history for the specialty crop of concern. Then the RMA prepares a Written Agreement with the approved yield, insurable price, and the premium rate specified.

The specialty crop producer can then decide whether or not to accept the Written Agreement and select a yield coverage level, and to pursue other risk management opportunities.

Whole-Farm Revenue Protection: Whole-Farm Revenue Protection (WFRP) is a federally-subsided whole farm revenue protection plan. The WRFP policy covers revenue losses from farm-raised crop commodities, animal commodities and unprocessed (unaltered) animal products such as milk and wool. **Specialty commodities** (crop and livestock) can be covered under a WFRP policy.

The WFRP policy was available to producers in all Wyoming counties in 2016 and will continue to be offered in those counties in future years. It can be structured to match a farm's fiscal year revenues or calendar year revenues. The example presented later in this section assumes the farm operates on a calendar year basis.

The WFRP policy provides protection against losses of revenue that the insured producer expects to earn or will obtain from agricultural commodities produced or purchased for resale during the prevailing insurance period. As with other RMA products, a WRFP contract provides protection against loss of a farm's expected revenue resulting from unavoidable natural causes that occur during the insurance period. In addition, declines in local market prices are presumed to be unavoidable unless a man-made cause is identified that results in a measurable change in price.

The *Whole-Farm Revenue Protection Pilot Policy (section 21-c)*[2] enumerates causes of loss that are not insurable. Many uninsurable causes of loss are associated with producer mismanagement such as the failure to follow good farming practices, or actions by other producers such as spray drift damage from a neighboring farm.

A WFRP policy provides farm-specific revenue insurance that covers revenue generated by sales of most commodities produced on a farm operation, including specialty commodities. Some producers may choose to use a WREP contract as stand-alone coverage. A WRFP contract can also be used as umbrella coverage when a farm operator chooses to insure one or more commodities under commodity specific federally-subsidized yield and revenuers insurance products based on an individual's actual production history, group plans, and livestock insurance plans that address price risk. When used in conjunction with other insurance plans the premiums for a WFRP contract are adjusted. Both uses of WRFP are illustrated below.

Essentially, a WFRP contract covers the revenue from all commodities produced on a farm including animals and animal products, commodities purchased for resale (up to a value of 50 percent of a farm's total revenues), and certain crop replanting costs.

Some commodity related farm revenues are ***excluded from coverage***; these include revenue derived from timber, forest, forest products and animals for sport, show or pets.

An operation's whole farm revenue history and WRFP insurance coverage are based on the individual farm's yields, product quality and marketing history. A WFRP contract provides revenue protection based on a producer's own yield, quality, expense and price histories.

As a WRFP contract is based on the individual farm's actual revenue history, revenue calculations are based on local market prices that may be different and either higher or lower than national average prices. For example, high value varieties of a commodity may be sold at a premium relative to the national average

[2] The *Whole-Farm Revenue Protection Pilot Policy* is available on the RMA website at www.rma.usda.gov/policies/wfrp/2016/16-0076.pdf.

market price for the commodity. These include commodities produced in ways intended to generate price premiums (for instance, certified seed crops).

A WFRP contract may be well suited for highly diverse farms with specialty commodities including those farms selling to direct markets, specialty markets, and farm-identity preserved markets. All farm revenue is insured under WFRP. Individual commodity losses are not considered; it is the farm's revenue from all commodities covered under the WFRP that determine whether a loss has occurred and the amount of any indemnity.

There are some limits to the dollar value of the losses and composition of the revenue losses covered. The maximum allowable loss under a WFRP contract is $8,500,000. Thus, the amount of whole farm revenue that can be insured depends on the coverage level. For example, the maximum farm revenue that could be considered at an **85 percent coverage level** is $10,000,000 as the maximum loss would be $8,500,000, but at the **50 percent coverage level** the maximum farm revenue that could be covered would be $17,000,000. A WFRP contract can also cover up to $1,000,000 in expected revenue from animals and animal products and up to $1,000,000 in expected revenue from nursery/greenhouse enterprises.

Basic historical information must be provided by a farm or ranch manager (or other producer) who files federal income taxes. That information needs to be available when a producer works with their crop insurance agent to obtain WFRP coverage for his farming or ranching operation. In the example presented below, the producer is assumed to insure the operation's revenues under a WFRP contract for the 2016 calendar year.[3]

For a 2016 WFRP contract, a farm operator who has been managing the farm for at least six previous years must provide historical revenue and expense information for five previous calendar years. Those years would be 2010, 2011, 2012, 2013, and 2014. Note that records are not required for the year immediately previous to the insurance year. That year (2015 in this example) is considered to be a *lag* year. Often farms will not have filed taxes for that lag year by the time they acquire coverage under a WRFP policy for the current year.

Under certain conditions farms may be allowed to provide IRS information on revenues and expenses for fewer than five years of history. These include the following: if production was interrupted in one or more years, the farm operator qualifies as a beginning farmer, or an entity is not required to file taxes with IRS.

For each of the five years for which basic historical information is required (2010-2014 in the example), a producer seeking WRFP coverage for 2016 has to specify **Allowable Revenue** and **Allowable Expenses**.

For each of the five years of historical records, **Allowable Revenue** and **Allowable Expense** information can be summarized on two worksheets provided by RMA: the **Allowable Revenue Worksheet** and the **Allowable Expense Worksheet**. The **IRS Schedule F** form (or its equivalent) serves as the primary source of the historical information reported on these worksheets for each year in the farm's financial history. As illustrated below, revenue and expense totals from the five sets of worksheets are then transferred to the **Whole-Farm History Report** form.

Allowable Revenue is defined as farm revenue from the production of commodities produced on the farm operation, or purchased for further growth and development on the farm operation, that IRS required to be reported. **Allowable Revenue** includes revenues from all insurable commodities.

Part I of IRS Schedule F reports Farm Income. Referencing this form, ***Allowable Revenue*** includes the following:

- Line 1---Sales of animals purchased for resale less their basis;

[3] As discussed above, an operator who files taxes on a fiscal year basis would assemble needed information for the pertinent fiscal years.

- Line 2---Sales of livestock, produce, grains and other products the farmer raised;
- Line 3---The taxable amount of total cooperative distributions directly related to the sale of commodities;
- Line 4---Other revenue: including revenue related to the production of commodities that IRS requires the farmer to report, including revenue from bartering and pay from buyers of commodities for bypassed acreage; and federal and state gasoline or fuel tax credits or refunds.

Some Schedule F revenue items are excluded from allowable revenue. An extensive list of those excluded revenue items is presented in *section 10 (b)* of the *Whole-Farm Revenue Protection Pilot* Policy. Excluded is most of the farm income that would be reported on lines 4a through 8 in Part I of IRS Schedule F. The revenue information can be readily summarized on the **Allowable Revenue Worksheet** (an example of which is included in Appendix 1).

SCHEDULE F (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Profit or Loss From Farming

▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B.

▶ Information about Schedule F and its separate instructions is at *www.irs.gov/schedulef*.

OMB No. 1545-0074

2015

Attachment Sequence No. 14

Name of proprietor			Social security number (SSN)
A Principal crop or activity	B Enter code from Part IV ▶	C Accounting method: ☐ Cash ☐ Accrual	D Employer ID number (EIN), (see instr)

E Did you "materially participate" in the operation of this business during 2015? If "No," see instructions for limit on passive losses ☐ Yes ☐ No

F Did you make any payments in 2015 that would require you to file Form(s) 1099 (see instructions)? ☐ Yes ☐ No

G If "Yes," did you or will you file required Forms 1099? ☐ Yes ☐ No

Part I **Farm Income—Cash Method.** Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 9.)

1a	Sales of livestock and other resale items (see instructions)	1a				
b	Cost or other basis of livestock or other items reported on line 1a	1b				
c	Subtract line 1b from line 1a				1c	
2	Sales of livestock, produce, grains, and other products you raised				2	
3a	Cooperative distributions (Form(s) 1099-PATR)	3a		3b Taxable amount	3b	
4a	Agricultural program payments (see instructions)	4a		4b Taxable amount	4b	
5a	Commodity Credit Corporation (CCC) loans reported under election				5a	
b	CCC loans forfeited	5b		5c Taxable amount	5c	
6	Crop insurance proceeds and federal crop disaster payments (see instructions)					
a	Amount received in 2015	6a		6b Taxable amount	6b	
c	If election to defer to 2016 is attached, check here ▶ ☐			6d Amount deferred from 2014	6d	
7	Custom hire (machine work) income				7	
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)				8	
9	**Gross income.** Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50 (see instructions) ▶				9	

Part II of Schedule F reports Farm Expenses. Most of the expenses reported on lines 10 through 32 of Schedule F are ***Allowable Expenses***. However, ***Allowable Expenses*** do exclude the expenses reported on the following lines:

- Line 14 --- Depreciation, except that related to animals
- Line 15 --- Employee Benefits
- Line 21 --- Mortgage interest payments and other interest
- Line 22 --- Shareholder wages
- Line 23 --- Pension and profit-sharing plans
- Line 24 --- Rent and lease payments on machinery, land, other
- Line 29 --- Taxes

Other Expenses, listed on Line 32, are limited to those directly related to the production of commodities that are included in the WFRP contract.

Allowable Expenses specifically exclude any expenses associated with post-production operations, or commodities in which the farmer does not have an insurable interest**.** As discussed above, **Allowable Expenses** can be summarized on the **Allowable Expenses Worksheet** (an example of which is also included in Appendix 1).

Part II **Farm Expenses—Cash and Accrual Method.** Do not include personal or living expenses (see instructions).

10	Car and truck expenses (see instructions). Also attach **Form 4562**	**10**		**23**	Pension and profit-sharing plans	**23**	
11	Chemicals	**11**		**24**	Rent or lease (see instructions):		
12	Conservation expenses (see instructions)	**12**		**a**	Vehicles, machinery, equipment	**24a**	
13	Custom hire (machine work) .	**13**		**b**	Other (land, animals, etc.) . .	**24b**	
14	Depreciation and section 179 expense (see instructions) .	**14**		**25**	Repairs and maintenance . .	**25**	
15	Employee benefit programs other than on line 23 . . .	**15**		**26**	Seeds and plants	**26**	
16	Feed	**16**		**27**	Storage and warehousing . .	**27**	
17	Fertilizers and lime . . .	**17**		**28**	Supplies	**28**	
18	Freight and trucking . . .	**18**		**29**	Taxes	**29**	
19	Gasoline, fuel, and oil . . .	**19**		**30**	Utilities	**30**	
20	Insurance (other than health)	**20**		**31**	Veterinary, breeding, and medicine	**31**	
21	Interest:			**32**	Other expenses (specify):		
a	Mortgage (paid to banks, etc.)	**21a**		**a**		**32a**	
b	Other	**21b**		**b**		**32b**	
22	Labor hired (less employment credits)	**22**		**c**		**32c**	
				d		**32d**	
				e		**32e**	
				f		**32f**	

33	**Total expenses.** Add lines 10 through 32f. If line 32f is negative, see instructions . . . . ▶	**33**	
34	**Net farm profit or (loss).** Subtract line 33 from line 9	**34**	
	If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.		
35	Did you receive an applicable subsidy in 2015? (see instructions) . . . . ☐ Yes ☐ No		
36	Check the box that describes your investment in this activity and see instructions for where to report your loss.		
	a ☐ All investment is at risk. **b** ☐ Some investment is not at risk.		

As discussed above, **Allowable Revenue** and **Allowable Expenses** are recorded for each relevant year in the farm's financial history (2010-21014 in the example) for the year being insured (2016). Once revenue and expense values are entered for each year of the history for the insured year, these values a summed and the totals for revenue and expenses are entered on Line 9 of the **Whole-Farm History Report**.

Example Farm

It is useful to illustrate how WFRP works with an example farm. The example farm is assumed to be located in Park County, Wyoming. The farm raises four separate crops on 200 irrigated acres. The crops are alfalfa (established and growing on 100 acres), barley (planted on 50 acres), corn for grain (planted on 30 acres), and sweet corn raised for the fresh market (planted on 20 acres). The insurance year is 2016. **Allowable Revenues** and **Allowable Expenses** for the farm from those crops in each year (2010, 2011, 2012, 2013 and 2014) are recorded on the example **Whole-Farm History Report** for each year in the farm's financial history. The sums of these values over the five year period are reported on line 9 of that report and the simple averages of the two five year series are calculated and entered on Line 10. For the example Park County farm, these averages respectively are $138,392 and $92,186.

Whole Farm History Report		
1. Producer Information:		2. Agency Information Agent Code: XX
3. Insurance Year	4. IRS Accounting Method: Cash	5. State/County: Wyoming/Park
6. Tax Year	7. Allowable Revenue	8. Allowable Expenses
2010	$ 130,500	$ 83,500
2011	149,500	109,660
2012	112,000	83,500
2013	139,600	73,900
2014	160,360	110,370
9. Total	$ 691,960	$ 460,930
10. Simple Average	$ 132,392	$ 92,186
11. Indexed	$ 184,200	$ 100,206
12. Expanded Operation (10 percent)	$ 177,142	$ 117,998
12. Whole-Farm Historic Average (higher of items 10, 11, and 12)	$ 184,200	$ 100,206

Line 11 of the **Whole-Farm History Report** reports an indexed value for revenue and an indexed value for expenses. Indexing is permitted when the last two years of A**llowable Revenue** exceed the simple average revenue over the farm's five-year history.

The indexing procedure for allowable revenue is as follows: the 2011 value is divide by the 2010 value; the 2012 value is divided by the 2011 value; the 2013 value is divided by the 2012 value; and the 2014 value is divided by the 2013 value. These four ratios are then summed and the average of the four ratio values is determined. This average is then raised to the fourth power, and then multiplied by the average revenue value reported on Line10 to obtain the indexed value reported on Line 11.

For the example farm, the four year to year revenue column index ratios are 1.146; 0.800; 1.200; and 1.149. Those ratios sum to 4.295 and average 1.074. The value 1.074 to the fourth power is: 1.074 x 1.074 x 1.074 x 1.074 = 1.331. This value is then multiplied by $138,392 (the simple allowable revenue average) to provide the index value for the example farm's allowable revenue of $184,200, which is reported on Line 11. Using the same procedure for allowable expenses, an index value of allowable expenses for the example farm of $100,206 is obtained.

A farm operation may be expanding over time. Such expansion can be taken into account in estimating allowable revenues and allowable expenses. The procedure is as follows on page 14.

Intended-Farm Operation Report

FARM OPERATION REPORT

1. Insurance Year:	2. Producer Information: Person Type: Individual SSN:	3. Agency Information: Agent Code Policy:	4. State/County: Wyoming/Park	5. Other Insurance: None

Intended								**Revised**			**Final**	
6. Commodity Name/Code	7. Method of Establishment	8. Yield	9. Expected Value	10. Expected Revenue (8x9)	11A. Intended Quantity	11B. Cost/Basis and/or Value	11C. Total Expected Revenue (10x11A) – 11B	12A. Actual Quantity	12B. Actual Cost/Basis and/or Value	12C. Total Expected Revenue (8 x 9 x 12A) – 12B	13A. Final Total Production	13B. Final Revenue
Feed/Barley 0856	acres	$119 bu	$3.31/bu	$394	50 acres	------------	$19,700					
Alfalfa 0850	acres	5 ton	$165/ton	$825	100 acres	------------	$82,500					
Sweet Corn 0044	acres	1 ton	$2,000/ ton	$2,000	20 acres	------------	$40,000					
Corn, Grain 1001	acres	110 bu	$3.86/bu	$425	30 acres	------------	$12,750					
14. Total At SCD												
15. Total												
16. Total Expected Revenue @ SCD (Total of Item 14 and 15 @ SCD)							$154,500					
17. Whole-Farm Historic Average Revenue (Item 13 of WFHR)							184,200					
18. Total Expected Revenue @ Revised Reporting Date (Item 15)												
19. Approved Revenue (Lesser of item 16 and 17 @ SCD or item 17 and 18 @ RRD)						19a	$154,500		19b			
20. Approved Expenses						20a			20b			
21. Narrative, Expected Values, and Report of Changes:												
22. Integrated/Post-production Operations: ( ) YES or (x) NO See Special Circumstances in Section 6.												

Line 12 of the **Whole-Farm History Report** records revenue and expense values for an **Expanded Operation**. If the farm manager can show that his farm is expanding, either by adding production capacity to the farm through acquiring more cropland acres or by making increased use of existing acreage through intensifying production, perhaps through improved irrigation water application, then the farm manager might be approved through RMA as an ***expanding operation***.

An expansion factor will be approved by adding the amount of expected revenue due to expansion to the Average Allowable Revenue and then dividing that amount by the Average Allowable Revenue. The maximum allowable value for this ratio is 1.35 (implying a maximum value expansion factor of 35 percent of the five year Average Allowable Revenue).

The Line 12 value is then the simple average value reported on Line 10 multiplied by the approved expansion factor. In the example for the Park County farm, for allowable revenue, this value is $177,142, ($138,392 x 1.28). Similarly, the average of the allowable expenses are increased by the approved expansion factor of 1.28.

Once the farm's history is appropriately documented, a farmer must complete an **Intended Farm Operation Report**. This report (form) enables the farmer to provide all the information required for WFRP insurance about the commodities that will be produced in the insurance year.

The operator of the example Park County farms decides to continue with his recently developed crop mix in the 2016 insurance year. However he plans to expand the acreage planted to his specialty crop, fresh market sweet corn, which he produces and markets to retail grocers in regional markets in Cody, Wyoming, and Billings, Montana.

Using historical yields for the four crops, and expected prices based on crop insurance information and local market expectations, the farmer's expected revenue from 2016 production is $154,500, as summarized on the **Intended Farm Operation Report** (page 13).

The Park County farmer forwards all required documentation to his crop insurance agent. The agent uses information form the **Intended Farm Operation Report** to carry out a **commodity count** for WFRP insurance premium and premium subsidy purposes. He uses the RMA **WFRP---Commodity Count Calculation** tool as an aid in making the count. In this tool, there are different commodity codes for different crops. The tool is used to determine which crops have sufficiently large sales to be included in the commodity count. The codes for the example farm's four crops are as follows:

- 0856 for irrigated feed barley
- 0850 for irrigated alfalfa hay
- 1001 for irrigated corn (for grain)
- 0044 for sweet corn (for the fresh market)

For WFRP purposes, the *commodity count determinant = 1.0/number of commodity codes X 0.333 X the farm's expected revenue*. For the example farm, the *commodity count determinant = 1.0/4 X 0.333 X* $154,500*= $12,862.* The **commodity count** for WREP purposes is the number of commodities with expected revenues greater than *commodity count determinant*, sales in excess of $12,862 for the example farm. T**hree** commodities meet this criterion for the example farm.

WFRP-Commodity Count Calculation

Intended							
6. Commodity Name/Code	7. Method of Establishment	8. Yield	9. Expected Value	10. Expected Revenue (8x9)	11A. Intended Quantity	11B. Cost/Basis and/or Value	11C. Total Expected Revenue (10x11A) – 11B
Feed barley 0856	Acre	119 bu	$331/bu	$394	50 acres	-----------	$19,700
Alfalfa 0850	Acre	5 ton	$165/ton	$825	110 acres	-----------	$82,500
Sweet Corn 0044	Acre	1 ton	$2,000/ton	$2,000	20 acres	-----------	$40,000
Corn 1001	Acre	110 bu	$386/bu	$425	30 acres	-----------	$12,750
14. Total At SCD							$154,500

The following calculation will determine the commodity count:

- Formula: Divide 1.0 by the number of commodities (separate commodity codes) on Farm Report x 0.333 x the expected revenue = ¼ x 0.333 x $154,500
- Determine how many commodities have expected revenue equal to our greater than $12,862
- Commodities with the same commodity code will be combined before the calculation is done. Commodity Count = 3

The amount of WFRP insurance that can be obtained is based on the **Approved Revenue** for the farm for the 2016 crop year. **Approved Revenue** is the lesser of the **Whole Farm Historical Average Revenue** ($184,200) or the **Total Expected Revenue** ($154,500).

A farm's **Approved Expenses** are based on the determination of the farm's **Approved Revenue**. If the **Approved Revenue** on the **Farm Operation Report** is equal to the **Total Expected Revenue**, **Approved Expenses** are calculated as follows: divide the farm's **Total Expected Revenue** by the **Average Allowable Revenue** on the **Whole-Farm History Report** and multiply this ratio by the **Average Allowable Expenses** on the **Whole-Farm History Report**.

For the Park County farm, the **Approved Revenue** is $154,500, the **Total Expected Revenue** for the 2016 insurance year. The **Average Allowable Revenue** is $138,392. This ratio is: 1.12 = $154,500/$138,392. The **Average Allowable Expenses** are $92,186. The **Approved Expenses** are $103,248 = 1.12 x $92,186.

If the **Approved Revenue** is equal to the **Whole-Farm Historical Average Revenue**, **Approved Expenses** are equal to the **Whole-Farm Historical Average Expenses**.

Once this information is prepared by the farm manager (perhaps in cooperation with his insurance agent), the farm manager needs to provide the following to his insurance agent by the sales closing date for WFRP:

- Application for WFRP
- IRS Tax Forms 1040 Schedule F
- The Intended-Farm Operation Report for the insurance year

The application must also be accompanied by the following forms and worksheets:

- Allowable Expenses Worksheet
- Allowable Revenue Worksheet
- Whole Farm Operation Report
- Beginning Inventory Report (if applicable)
- Account Receivable and Payable Report (if applicable)
- Market Animal and Nursery
- Inventory/Accounting Worksheet (if applicable)

The inventory and accounts receivable/payable worksheets must be filled out if the farmer carries product or input inventory over the end of the insurance period. These forms are needed to assure that revenue is attributable to production that occurred in the insured year and that expenses are for inputs to production in the insured year.

The crop insurance agent working with the farmer will determine the exact insurance premium for the farmer's 2016 WRFP coverage. However, the farmer can use the RMA online cost calculator to obtain a reasonable estimate of the premium he will pay for WRFP coverage at different coverage levels.

For WRFP, as is generally the case for RMA crop insurance products, the farm-level premium depends on the county where the farm is located. The premium also depends on the commodities being grown, the percentage of revenue from each of the commodities grown, and the commodity count (the more diversified, the lower the premium rate). The premium calculation is therefore influenced by a farm's location and diversification. The premium payment is calculated by multiplying the **Insured Revenue** (**Approved Revenue** x **Coverage Level**) by the farm-level premium rate.

In Wyoming and other western states a farmer or rancher cannot include insurance liability for commodities such as pasture or rangeland covered by rainfall index or vegetation index policies because these commodities are not insured under the WRFP policy (they are excluded from approved farm revenue). Further, an **85 percent coverage level** is only available to producers whose operations are determined through the commodity count calculation to have a commodity count of **3 or more commodities**.

The premium subsidy is determined by the commodity count calculation. A **commodity count of 2 or more** will result in a **whole-farm premium subsidy** and **a commodity count of 1** will result in a **basic premium subsidy**.

The example Park County farmer has a commodity count of 3. The operator can therefore select an 85 percent coverage level if desired, and is entitled to the whole farm premium subsidy because of his commodity count. The Park County farmer first wants to obtain insurance premium estimates for using a WFRP contract as a **stand-alone** coverage revenue risk management coverage for his farming operation. The RMA Cost Calculator provided the following estimated coverage and premiums for the example farm:

WRFP Coverage Level (%)	**WRFP Revenue Coverage ($)**	**WRFP Total Premium ($)**	**WRFP Premium Subsidy ($)**	**WRFP Percent Subsidy (%)**	**WRFP Producer Premium ($)**	**WRFP Admin. Fee ($)**
85	131,708	12,512	7,007	56	5,005	30
80	123,960	10,413	7,393	71	3,020	30
75	116,213	8,716	6,973	80	1,743	30
70	108,465	7,050	5,640	80	1,410	30
65	100,718	5,741	4,593	80	1,148	30
60	92,970	4,741	3,793	80	948	30
55	85,223	3,920	3,136	80	784	30
50	77,475	3,176	2,541	80	635	30

After reviewing the revenue coverage he could obtain using a WREP contract for stand-alone coverage, the Park County farmer decides that the coverage level he would select under that contract would be 80 percent, providing him with coverage for $123,960 of revenue. The premium cost for that contract would be $3,020 plus a $30 administrative fee.

However, the farmer also wants to evaluate premium costs using WFRP for partial umbrella coverage. Historically the farmer had used a revenue product to insure the farm's barley production at an 80 percent level of coverage. To obtain an 80 percent coverage level revenue contract for the farm's 50 acres of barley, which have an actual production history of 119 bushels per acre, the farmer's premium for that contract, involving $15,756 revenue coverage, would be $778. The total premium for the barley 80 percent coverage revenue contract would be $1,497 with the government providing a subsidy amount for that contract of $719 at a subsidy rate of 48 percent.

If the farmer insures the 50 acres of barley under a crop specific revenue product, his producer premiums for the "umbrella" WFRP contract will be reduced at all coverage levels, as shown in the table below.

If the farmer insures barely under a separate APH revenue contract and then also uses the WRFP contract (both at 80 percent coverage levels), the total premium paid by the producer for that joint coverage is the sum of the premium the farmer pays for the barley APH revenue contract and the WFRP umbrella contract. That amount would be $ 3,414 = $778 + $2,636. This total amount of premium exceeds the premium of $3020 the producer would pay if the WFRP contract were used as a stand-alone risk management product. The Park County farmer would also incur two $30 administrative fees, not one.

Producers must file a **Revised Farm Operation Report** to report any changes in the farm operation subsequent to the sales closing date for WFRP. For instance, the farmer might have been prevented from planting a particular crop or had the contract price change on a specialty crop. The example Park County farmer would have to file that report by July 15, 2016 because his insurance year is the calendar year.

WRFP Coverage Level (%)	WRFP Revenue Coverage ($)	WRFP Total Premium ($)	WRFP Premium Subsidy ($)	WRFP Percent Subsidy (%)	WRFP Producer Premium ($)	WRFP Admin. Fee ($)
85	131,708	11,015	6,168	56	4,847	30
80	123,960	9,089	6,453	71	2,636	30
75	116,213	7,534	6,027	80	1,507	30
70	108,465	6,026	4,821	80	1,205	30
65	100,718	4,823	3,874	80	969	30
60	92,970	3,938	3,150	80	788	30
55	85,223	3,195	2,556	80	639	30
50	77,475	2,530	2,024	80	506	30

Indemnities under a Stand-Alone WFRP

Suppose that the Park county example farm uses an 80 percent coverage level WFRP contract for stand-alone revenue protection for the 2016 calendar year. On July 6, 2016 a wildfire that started on public land encroaches on the farm's land and burns across the barley field and burns alfalfa in the windrow. The resulting appraised loss is for all of the barley crop and for a 40 percent loss in alfalfa hay revenue.

On July 7, 2016, the Park County farmer reports those wild fire losses to his insurance company meeting the notice of loss requirement that losses must be reported within 72 hours of their initial discovery. This **notice of loss** requirement is that the farmer let the insurance company know that the actual allowable revenue received by the farm during the insurance period could fall below the farm's insured revenue because of an insurable cause of loss. However, the Park County farmer has until 60 days after the original date that the farm tax forms for the insurance year must be filed with IRS to submit a claim for an indemnity (that is, IRS tax forms for the insured year must be submitted as part of the WFRP claims process).

Substantial documentation is required to complete a claim under a WFRP contract. The documentation to be submitted is as follows:

- Claim for Indemnity Report
- Claim Year Tax Form 1040 Schedule F
- Final Farm Operation Report
- Claim Year Allowable Expenses Worksheet
- Claim Year Allowable Revenue Worksheet
- Inventory and Accounts Receivable (if applicable
- Market Animal and Nursery Inventory (if applicable)
- Replant Payment Worksheet (if applicable)

Procedurally, the claim process will initially focus on determining the allowable revenue from the farm tax forms and adjusting for inventories of product and changes in accounts receivable accounts. Then allowable expenses will be determined from information available on the farm tax forms for the insurance year. In addition, accrual adjustments will be made for inventoried inputs, etc.

Adjustments may be made to the indemnity provided to the farmer if there is substantial reduction in actual expenses relative to the expenses expected at the time the WFRP contract was signed where the lower actual expenses were due to the insurable loss.

Allowable Expenses are determined for the insured year using information transferred to the **Allowable Expenses Worksheet** from the tax forms. **Allowable Expenses** are then compared with **Approved Expenses**, the expenses that were established the time the farmer applied for WFRP coverage.

If the ratio of the two expenses estimates, defined as **Allowable Expenses/Approved Expenses**, is greater than or equal to 0.70, then there is no expense reduction and no adjustment to **Approved Revenue** because of any expense reductions that have occurred because of the loss. If the ratio is less than 0.70, a reduction in the Approved Revenue is calculated as follows:

(0.70 – **Allowable Expenses/Approved Expenses**) x (**Approved Revenue)** = **Dollar reduction in Approved Revenue**.

The **Adjusted Approved Revenue** is calculated as follows: **Adjusted Approved Revenue** = **Approved Revenue** - **Dollar reduction in Approved Revenue**.

The **Insured Revenue** is then equal to the **Adjusted Approved Revenue** times the **Coverage Level** specified in the WFRP contract.

Consider the Park County farm example where a substantial loss in barley and alfalfa hay revenue occurs as a result of a wild fire. In the example, there is a 100 percent appraised loss in barley production and a 40 percent loss in alfalfa hay revenue that amounts to a gross revenue loss of $52,700, ($19,700 + $33,000). The only expense reductions are for combining and grain hauling on the 50 acres of barley and lower baling and hauling costs for the 80 acres of hay that burned in the windrow. Final tax reports indicate that actual expenses were reduced by $6,950.

In this instance, the reduction in expenses is much less than 30 percent of the expenses approved at the time the WFRP contract was signed. So there is no reduction in insured revenue due to the decrease in actual expenses incurred on the farm. The indemnity to the example Park County producer would be calculated as follows:

Approved Revenue: $154,500
X
Coverage Level: 0.80
=
Insured Revenue: $123,960
-
Revenue to Count: $101,800 ($154,500 - $52,700)

Indemnity: $22,160 ($123,960 -101,800)

Indemnities under an Umbrella WFRP Wrap Application

The WRFP indemnity will be lower if a farmer insures a crop under an individual crop contract and uses a WRFP contract as umbrella coverage. In the case of the Park County example farm, the loss of the barley crop would first be indemnified under the 80 percent coverage level APH revenue insurance contract under which the farm's barley production was insured. The amount of that indemnity (for a complete loss and zero production of barley) would be $15,756. This indemnity amount would then be added to **Revenue to Count** in the calculation of the indemnity to be paid to the farm under the WFRP contract.

The indemnity the example Park County farmer receives under the APH revenue barley contract increases the example farm's **Revenue to Count** by $15,756 to $117,556 and reduces the WFRP indemnity to $6,404. Note that the barley indemnity leads to a dollar for dollar reduction in the WRFP indemnity (a dollar for dollar offset). So the Park County farmer would receive the same total indemnity of $22,160, ($15,756 + $6,404).

However, as discussed above, the total premium paid by the farmer increases when, in conjunction with the APH revenue contract for the farm's barley production, the WFRP contract is used as a partial umbrella product. The reason for the premium increase is that the APH barley contract will provide the farmer with an indemnity if revenue from the barley contract falls below its insured level but the reduction in total revenue from all commodity sales under the WFRP does not trigger a sufficiently large indemnity payment to trigger a dollar for dollar offset in indemnity payments.

Suppose, in the Park county example farm case, the wild fire only destroys the farmer's barley field but does not affect alfalfa hay production. Using WRPF as a partial umbrella, the farm would still receive an indemnity for the loss of barley revenue under the APH barley revenue contract.

However, the decrease in WRFP Approved Revenue would only from $154,500 to $134,800 (because of the $19,700 in lost revenue from barley production caused by the wild fire). In this situation, the farm's WFRP **Approved Revenue** ($134,800) would exceed the farm's WRFP **Insured Revenue** ($123,960) and there would be no WRFP indemnity payment. Thus, had the WRFP been used as a stand-alone product, the farm would have not have received an indemnity even though there was a substantial barley crop loss.

Summary

In Wyoming, producers of specialty crops and specialty livestock commodities have a range of FSA programs and RMA products they may use as risk management tools. These include the FSA NAP and various livestock disaster aid programs established and revised under the provisions of the 2014 farm bill. They also include a wide range products, including individual and area based yield and revenue insurance products, written agreements and the current Whole Farm Revenue Product. This policy issue paper has provided detailed explanations of how the revised NAP program, written agreements, and the WFRP may be used by specialty crop and livestock operations.

Appendix 1

Allowable Revenue Worksheet				
1. Producer Information:	2. Policy Number:		3. State/County:	
	4. Tax Year:			
5. Adjustment Codes: A = Schedule F income specifically excluded B = Cost of post-production operations C = Co-op distributions not directly related	G = Net gain from commodity hedges H = Not directly related to production I Other			
6. Schedule F Part I Revenue	7. Schedule F Line Number	8. Amount on Schedule F	9. Revenue Adjustment Amount and Code	10. Allowable Revenue Per Item
a. Sales of animals and other resale items, less the cost or other basis of such items				
b. Sales of livestock, produce, grains, and other products you raised				
c. Cooperative distributions				
d. Agricultural program payments				
e. Commodity Credit Corporation (CCC) loans				

Allowable Expenses Worksheet				
1. Producer Information:	2. Policy Number: 3. State/County: 4. Tax Year:		5. Adjustment Codes: A = Schedule F expenses specifically excluded B = Cost of post-production operations H = Not directly related to production I = Other	
6. Schedule F Part II Expenses	7. Schedule F Line Number	8. Amount on Schedule F	9. Expense Adjustment Amount and Code	10. Allowable Expense Per Item
Car and truck Expenses	10			
Chemicals	11			
Conservation expenses	12			
Custom hire	13			
Depreciation and section 179 expense	14			
Employee benefit programs other than on line 23	15			
Feed	16			
Fertilizers and lime	17			
Freight and trucking	18			
Gasoline, fuel, and oil	19			
Insurance (other than health)	20			
Interest: Mortgage and Other	21			
Labor hired	22			