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Risk Management for Wyoming Crop and Livestock Commodities Produced Under Organic Practices through the Use of Risk Management Agency Products and Farm Service Agency Programs

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Introduction

USDA organic regulations describe ***organic agriculture*** as the application of a set of cultural, biological, and mechanical practices that support the recycling of on-farm resources, promote ecological balance and conserve biodiversity. These practices include maintaining and enhancing soil and water quality; conserving wetlands and wildlife; and avoiding use of synthetic fertilizers, sewage sludge, irradiation, and genetic engineering.

Organic producers use natural processes and materials when developing farming and livestock production systems. These contribute to soil quality, crop and livestock nutrition, pest and weed management, attainment of production goals, and conservation of biological diversity.

The major focus here is on crops and livestock, the categories of organic products for which USDA Risk Management Agency insurance products and USDA Farm Service Agency programs may be available to address production, price and revenue risks and losses from natural catastrophic disasters.

Crop and livestock producers must go through stringent certification processes to become ***certified organic producers.*** Organic certification verifies that a farm or ranch operation complies with USDA organic regulations. The certification then allows the certified enterprise to sell, label, and represent the products the enterprise produces as ***organic.*** USDA regulations describe the specific standards required for producers to use the word ***organic*** or the organic seal on food, feed, or fiber products. The USDA National Organic Program administers these regulations. The application of these regulations results in the certification of the production process but does not address the product safety or nutritional properties of the food or feed products.

The USDA organic regulations identify four categories of organic products:

1. ***Crops.*** A plant that is grown to be harvested as food, livestock feed, fiber, or used to add nutrients to a field;
2. ***Livestock***. Animals that can be used as food or in the production of food, fiber, or feed.
3. ***Processed products***. Items that have been handled and packaged (i.e., chopped carrots) or combined, processed, and packaged (i.e., soup).
4. ***Wild crops***: Plants are from growing sites that are not cultivated.

Organic certification provides consumers with the assurance of the organic product's integrity. Farms and ranches may be certified by private, state or even foreign entities accredited by USDA. These entities are called ***certifying agents.***

Materials used in organic production must comply with USDA organic regulations. However, USDA organic regulations do not require organic certification of inputs such as soil amendments and pest control materials. Nevertheless, some input manufacturers may choose to apply for the approval of their input as ***organic***.
There is a transition period for any producer who wants for move from conventional production methods to organic production methods. For most producers the transition period is three years.

Any land used to produce raw organic commodities must not have had any prohibited substances applied to it for the past three years. Until the full 36 month transition period is completed, a producer may not label, sell or represent the product as ***organic***. Nor can the producer use the USDA or certifying agent's seal. Costs are incurred by producers during the certification process. Certifying costs vary widely depending on the size, type, and complexity of a producer's operation. The USDA provides producers with technical and cost-share assistance during the transition period through the Environmental Quality Incentives Program (EQIP). Once a producer is certified, the USDA Organic Certification Cost Share program may reimburse eligible operations for a portion of their certification costs. After the certification process is completed, ***organic producers*** must continue to use the practices established during the transition period to produce ***organic crops*** and ***organic livestock***.

Organic Crop Production. Organic crop producers can build soil quality by adding compost, animal manures or green manures. They must not apply sewage sludge or bio-solids to soil. Organic crop producers must also use organic seeds and planting stock to protect the integrity of their crops. They may use conventionally grown seeds when an equivalent organic variety is not commercially available, but only if the seeds have not been genetically modified or treated with prohibited substances such as fungicides.

Organic crop producers practice crop rotation (rotating the crops they grow in a field or planting bed over time) to interrupt insect life cycles, suppress soil borne plant diseases, prevent soil erosion, build organic matter, fix nitrogen, and increase farm biodiversity. While crop rotation is practiced by many conventional farmers on a voluntary basis, organic producers are required by USDA organic regulations to implement the practice.

Pest management on organic farms relies on prevention, avoidance, monitoring, and suppression. Prevention and avoidance are the first line of defense against pests, weeds, and diseases. If pest or weed suppression becomes necessary, producers often use mechanical, physical and biological practices, such as releasing predatory insects to reduce pest populations or laying down a thick layer of mulch to smother weeds. As a last resort, producers may work with their organic certifier to use an approved pesticide, such as naturally occurring microorganisms, insecticides naturally derived from plants, or one of a few approved synthetic substances. Prohibited materials cannot be applied to land used for organic cultivation for 36 months prior to the harvest of organic crops.

Organic crop producers are responsible for preventing contact between organic and conventionally-grown crops and preventing contact with prohibited inputs such as pesticides or fertilizers. Split operations (farms that raise organic and conventional crops) must make sure that organic crops don't contact prohibited substances through accidental sprays of conventional agrochemicals, spray drift from fields on which conventional non-organic practices are used, or residues on equipment previously used in non-organic fields. Fields from which organic crops are harvested must have defined boundaries and buffer zones such as hedgerows separating them from conventional crops and roadways.

Organic Livestock Production. Organic livestock producers provide living areas that encourage the health and natural behavior of their animals. Organic practices reflect the concerns for animal welfare and the desire to balance productivity with both animal well-being and environmental quality. Livestock must be managed organically from at least the last third of gestation for mammals or the second day of life for poultry.

Organic livestock must have access to outdoor areas, shade, shelter, space for exercise, fresh air, clean drinking water, and direct sunlight. Organic livestock must be raised on certified organic land meeting all organic crop production standards.

Organic producers must give ruminant animals access to pasture during the grazing season and organic ruminant livestock must have free access to certified organic pasture for the entire growing season. The growing season period is specific to a producer's geographic location but must be at least 120 days. However, the grazing period does not have to be continuous; that is, interruptions are allowed because of climate or weather. Diets for organic ruminant animals must contain at least 30 percent dry matter (on average) from certified organic pasture. The rest of their diet must be certified organic including hay, silage, grain and other agricultural products.

Organic feed must be grown and processed by certified organic operations. Similarly, any pastures, forages, and plant-based bedding accessible to livestock must be certified organically grown and processed. Certain additives such as vitamins and minerals not produced organically can be fed to organic livestock in trace amounts but others are prohibited, including hormones used to produce growth.

Organic animal health relies on preventative practices and systems. Balanced nutrition, exercise and a low stress environment contribute to building strong immune systems in animals. Vaccination and other preventative measures are common. Organic livestock producers work to manage exposure to disease and

parasites through grazing management, proper sanitation, and preventing the introduction of disease agents.

Since organic livestock producers cannot routinely use drugs to prevent disease, they rely on management practices. Pain medication and dewormers (for dairy and breeding livestock) are examples of medications that can be allowed. However, these therapies are permitted only when preventative strategies fail and animals become ill. If approved interventions fail, the animals must be given all appropriate treatments. However, once an organically-managed animal is treated with a prohibited substance such as an antibiotic, neither the animal nor its product can be sold as organic.

Crop Insurance for Organic Production

Organic crop production was recognized as an emerging farming practice by the federal government in farm bill legislation in the 1990s. Subsequent to inclusion in federal farm legislation, efforts were initiated to establish guidelines for certifying organic production methods. Organic certification processes were then established in federal regulations and the number of organic producers and the amount of organic production expanded.

Nevertheless, risk management opportunities for organic producers were very limited. Some crop insurance coverage of organic production was provided through the use of Written Agreements. However, initially organic production practices were not included in the USDA Risk Management Agency's (RMA) definition of ***good farm practices.*** Since then RMA has made changes to the definitions of good farm practices.

A 2014 RMA Good Farming Practices Handbook defines ***good farming practices*** as follows:

The production methods utilized to produce the insured crop and allow it to make normal progress toward maturity and produce at least the yield used to determine the production guarantee or amount of insurance, including any adjustments for late planted acreage, which are: (1) for conventional and sustainable farming practices, those generally recognized by agricultural experts in the area; or (2) for organic farming practices, those generally recognized by the organic agricultural industry for the area or contained in the organic plan."

This definition originated in the ***Agriculture Risk Protection Act*** of 2000. The statutory language was maintained in the **good farming practices** definition in the recent handbook and provides a less arduous process for producers using organic practices to obtain crop insurance to manage production and revenue risks.

In general the regulations governing the insurability or organic and transitional production practices are now the same as for conventional practices. The Risk Management Agency provides coverage for both (1) **certified organic acreage** and (2) **transitional acreage**, acreage transitioning to certified organic acreage in accordance with an organic plan.

Crop insurance can be provided for any crop grown using organic practices when a premium rate for an organic practice is specified in the actuarial documents for the crop of concern or if there is an applicable Written Agreement.

All production loss or revenue loss due to an insured cause of loss listed in the crop provisions for the subject crop apply to organic crops and the acreage being transitioned to organic practices, unless otherwise specified. The perils covered are the same as those for conventional farming practices.

Causes of covered loses include drought, excess moisture, freeze, hail, prevented planting, insect damage, and weeds when recognized farming practices fail to provide effective control. For those using organic production practices the following losses are not covered: (1) losses when the producer did not follow good organic farming practices; (2) the producer failed to comply with the USDA National Organic Standards; or (3) the crop was contaminated by application of drift of prohibited substances onto land for which crops were grown using organic practices on any certified organic, transitional or buffer zone acreage.

To assure crop insurance coverage when organic practices are being used, on the date crop acreage is to

be reported, the organic producer must have the following information available:

1. For certified organic acreage, the current organic plan and a recent written certification in effect from the certifying agent.
2. For transitional acreage, a certificate or written documentation from the certifying agent indicating the organic plan is in effect.
3. For the certified and transitional acreage, records from the certifying agent showing the location of each field of certified organic, transitional, buffer zone, and acreage maintained or not maintained under organic farming practices.

Crop Insurance Coverage for Organic Production in Wyoming in 2016

Crop insurance coverage is available for 15 individual crops or crop groups in Wyoming. However, for several crops insurance coverage is only available in a limited number of counties.

When crop insurance is available for a crop produced under irrigation in a county, the insurance coverage is usually available for both **certified organic acreage** and **transitional acreage**. Crops with such coverage available in one or more counties in Wyoming include: alfalfa seed; several types of barley; corn for grain and for silage; numerous types of dry edible beans; dry peas, smooth green or yellow; forages including alfalfa, alfalfa/ grass, and grass/ alfalfa; forage seed for alfalfa and alfalfa/grass; oats; potatoes; sugar beets; sunflowers for confectionary use and for oil; and spring wheat and winter wheat.

When crop insurance is available for a crop produced under a non-irrigated production system in a county, the insurance coverage is usually available for both **certified organic acreage** and **transitional acreage**. Crops with such coverage in one or more Wyoming counties include smooth green or yellow dry peas; forage production including alfalfa, alfalfa/grass and grass/alfalfa; oats after summer fallow and continuous oats; spring wheat after summer fallow and continuous spring wheat; and winter wheat after summer fallow and continuous winter wheat.

For commercial nursery production, a host of trees, shrubs and plants can be covered by crop insurance for **organic production** in **containers** or **organic field production**.

Prices used in Crop Insurance for Organic Production

In certain markets, organic crops receive a price premium in comparison to prices for conventionally grown crops. However, even after organic farming practices were understood to be good farming practices within RMA, price elections for organic production were initially based on the same prices available for production from conventional methods.

In response to a congressional mandate in the 2008 farm bill, RMA contracted research to develop pricing methodology for crop insurance offered for crops produced using organic practices. The initial research identified one of the major problems limiting the specification of statistically reliable prices from which organic producers could make their price elections was the paucity of price information for crops produced using organic practices and marketed as organic.

Markets for organic production were often small and isolated. Furthermore, even those USDA agencies collecting price data on organic crop sales were reporting spot prices with no accompanying information on the volume of sales at different prices. So it was not possible to estimate a weighted seasonal or annual price for organic production of most crops. Among the approaches adopted by RMA to address the issue, one has been to periodically survey organic producers to secure information on organic practices and to determine prices received for organic production.

In 2011 a pilot program specified ***organic price premiums*** for just a few organically-produced crops including corn and soybeans. In each subsequent year organic price premiums were specified for additional crops. In the 2016 crop year nationally organic price premiums were specified for 47 crops.

Another measure being used to more accurately identify the prices organic producers receive for organic production is the ***contract price addendum.*** The contract price addendum allows a certified organic or transitional producer who has a written contract from a buyer by the insurance sales closing date to insure their organic production at the contract price. This program was initiated in 2014 and was available for organic crop production from **certified organic acreage** for some crops in the year of inception. In 2016, nationally, the ***contract price addendum*** can now be applied to 73 crops produced on **certified organic acreage** and, for the first time, **transitional acreage.**

The mechanics of the ***contract price addendum*** are not burdensome. As discussed above, the producer must select this pricing opportunity by the sales closing date for the insurance being purchased and provide a copy of the contract to their insurance agent by the acreage reporting date.

If the contract provides for a fixed price for the contracted production, the contract price will serve as the ***projected price*** or the ***price election.***

If the contract provides for a premium amount over the base price to be determined and the base price is set before the acreage reporting date, then the contract price (premium plus base price) is the ***projected price*** or the ***price election.***

If the contract provides for a premium over a base price to be determined and the base price is not established prior to the acreage reporting date, then the ***projected price*** or the ***price election*** is the sum of the price premium and the applicable projected price or price election of conventional production.

Each contract price will have an upper limit referred to as the ***maximum contract price.*** Most organic crops have a maximum contract price or premium that is **2 times the announced conventional price election** or **1.5 times the announced *organic price premium.***

Organic Price Premiums and Contract Price Addendums in Wyoming

Organic price premiums in 2016 were available for Wyoming producers insuring **barley, corn, dry beans, dry peas, oats, potatoes, and wheat. Organic** producers of **barley, corn, dry peas, oats, potatoes, sugar beets, sunflowers and wheat** can use of the ***contract price addendum*** to more adequately reflect the prices they receive for the organic production when insuring their crops.

Other Opportunities to Insure Organic Production

In Wyoming, most of the crops raised by organic producers can be insured through yield and revenue insurance products that have organic practice provisions.

Crop producers, through their crop insurance agents, may readily determine whether there are offerings of multiple peril crop insurance for the additional crops they are considering for production on **certified organic acreage** using practices that will lead to the crops being certified as **organic.**

Crop insurance agents can readily determine if there are RMA actuarial tables for the subject crops with approved organic practice coverage available in the counties where production is being considered. If there are actuarial tables available, the producer can work with his crop insurance agent to determine coverage, potential indemnities, and premium costs. But there may be no actuarial tables with an approved organic practices for the crops of concern. In such instances, as discussed above, producers may pursue another crop insurance avenue: a **Written Agreement**.

A producer of an organic crop may pursue a **Written Agreement** for a crop for which no actuarial table exists in the county in which he farms or, if the farm has multiple enterprises, could also consider the application of RMA's current pilot whole farm product, **Whole-Farm Revenue Protection**.

A producer of organic crops seeking a **Written Agreement** initiates the process by filing a **Request for Actuarial Change** with his crop insurance agent. Before this process is started, the crop producer 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 subject organic crop in the specified county in that crop year.

The Request for Actuarial Change process is initiated with the 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 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; the actual production history form with the crop production history for the subject organic crop to be insured. There must be actual production history for at least the last three years the subject crop was seeded; Farm Service Agency aerial photography for the proposed production location for the 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 organic crop producer and the crop insurance agent.

First, the applicant must be clear about *crop, type* and *practice*. Consider the following organic 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**: organic, non-irrigated**

Second, the location of the proposed organic crop production requires a legal description supported by the FSA aerial photography of the proposed production location. Such photography is readily 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 organic 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 organic 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 organic 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 is completed, it is forwarded by the organic 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 completed, the request is forwarded to the regional office of the Risk Management Agency, USDA for consideration. Requests put for by Wyoming organic crop producers or organic 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 crop using organic practices. If there is a positive determination on the crop for the specified Wyoming location, the request process will proceed.

A positive determination is not assured. The Risk Management Agency determines whether or not crop insurance policies are being written for the subject crop produced using organic production practices somewhere in the United States. If there is a determination that no policies are being written, insurance coverage may not be made available to the producer. Usually there must be a regular multiple peril policy available for the organically-produced 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 organic 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. An organic 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 with an organic practice for dry peas and cropland in northern Laramie County has been rated for dry pea crop insurance. RMA personnel would then have to establish that, in their determination, growing conditions for dry peas in Platte County are 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 organic crop producer's production history for the organic crop of concern. Then the RMA prepares a Written Agreement with the approved yield, insurable price, and the premium rate specified.

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

Whole-Farm Revenue Protection (WFRP)

Perhaps one of the more attractive options for insuring organically-produced crops is through the use of the Risk Management Agency's new whole farm insurance product.

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. Crop and livestock can be covered under a WFRP policy.

The WFRP policy was available to producers including certified organic 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.

A WFRP policy provides protection against losses of revenue that the insured organic producer expects to earn or will obtain from agricultural organic commodities produced organic commodities 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)*[1] 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 on to a certified organic producer's crops.

A WFRP policy provides farm-specific revenue insurance that covers revenue generated by sales of most products produced on a farm operation, including organic products. Some producers may choose to use a WRFP contract as stand-alone coverage. A WRFP contract can also be used as umbrella coverage when a

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

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, a certified organic commodity may be sold at a premium relative to the average market price for the commodity.

A WFRP contract may be well suited for certified organic producers with diverse mix of organic commodities, selling into 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 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.

WFRP that determine whether a loss has occurred and the amount of any indemnity.

There are some restrictions on the dollar value of the losses that can be covered under a WRFP contract, and the composition of those revenue losses. 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. At the **50 percent coverage level** the maximum farm revenue that could be covered would be $17,000,000. A WFRP contract can also include coverage for 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 his crop insurance agent to obtain WFRP coverage for their organic 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.[2]

For a 2016 WRFP 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.

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

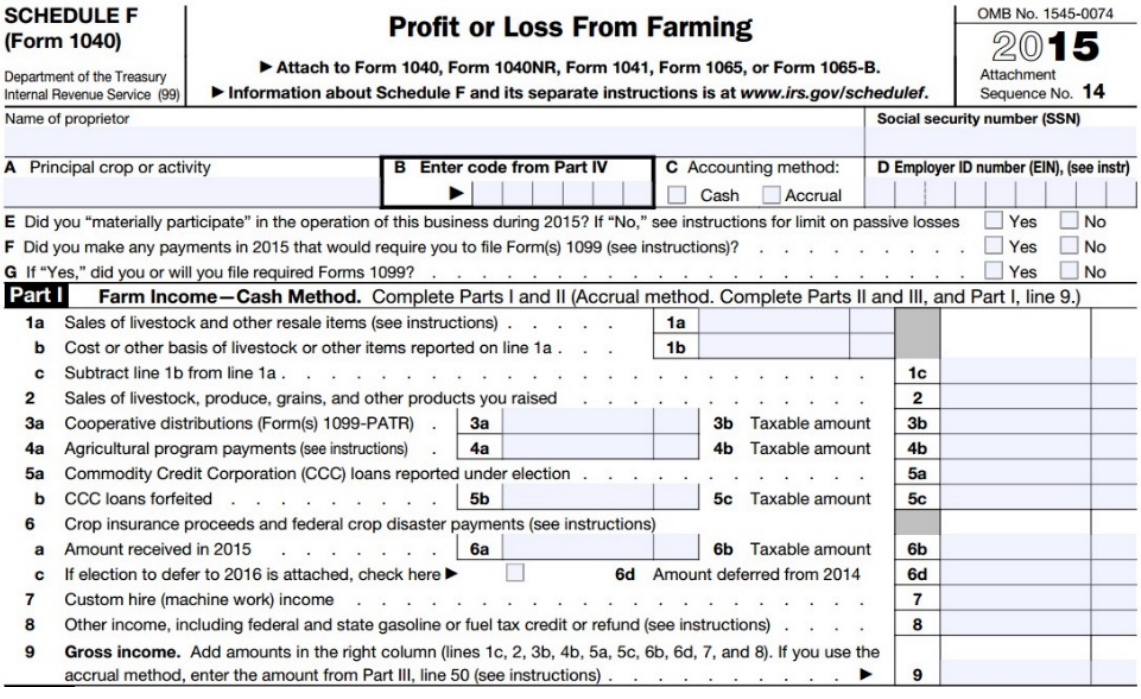
For each of the five years for which basic historical information is required (2010-2014 in the example), a producer seeking WRFP coverage for 2016 has to specify **Allowable Revenue** and **Allowable Expenses**.

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** (See Appendix 1). 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;
- 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 certified organic 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 as $691, 960, and $460, 930 and the simple averages of the two five year series are calculated and entered on Line 10 as $138,962 and $92,186, respectively.

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 **Allowable 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 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 13.

Intended-Farm Operation Report

FARM OPERATION REPORT

1. Insurance Year:	2. Producer Information:	3. Agency Information:	4. State/County:	5. Other Insurance:
2016	Person Type: Individual SSN:	Agent Code Policy:	Wyoming/Park	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	$65 bu	$6.06/bu	$394	50 acres	----------	$19,700					
Alfalfa 0850	acres	4.25 ton	$195/ton	$825	100 acres	----------	$82,500					
Sweet Corn 0044	acres	0.5 ton	$4,000/ ton	$2,000	20 acres	----------	$40,000					
Corn, Grain 1001	acres	51 bu	$8.31/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 certified organic 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 farm decides to continue with his usual mix of crops produced as certified organic for 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 offering certified organic vegetables in regional markets in Cody, Wyoming, and Billings, Montana.

Using historical yields for the four crops produced using certified organic produce, 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 12).

The Park County organic crop producer 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.

W FRP-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	65 bu	$6.06/bu	$394	50 acres	----------	$19,700
Alfalfa 0850	Acre	4.25 ton	$195/ton	$825	110 acres	----------	$82,500
Sweet Corn 0044	Acre	0.5 ton	$4,000/ton	$2,000	20 acres	----------	$40,000
Corn 1001	Acre	51 bu	$8.31/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. This producer of certified organic commodities 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 (see coverage and premium table, page 15).

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 certified organic 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 $601. The total premium for the barley 80 percent coverage revenue contract would be $1,115 with the government providing a subsidy amount for that contract of $554 at a subsidy rate of 48 percent.

If the farmer insures the 50 acres of the certified organic 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 coverage and premium table below.

If the farmer insures the certified organic 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 certified organic barley APH revenue contract and the WFRP umbrella contract. That amount would be $ 3,190 = $554 + $2,636. This total amount of premium exceeds the premium of $3,020 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 certified organic crop such as the sweet corn for the fresh market. 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 the 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 changes in inventories of insured commodities 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 organic commodity producer who incurs substantial losses in barley and alfalfa hay revenues 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 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. 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.

Farm Service Agency Risk Management and Disaster Assistance Programs

The FSA has several important risk management programs that can potentially be used by many organic producers. These include the ***Non-insured Crop Disaster Assistance Program*** (**NAP**) and four standing disaster programs.

The ***Non-insured Crop Disaster Assistance Program*** (**NAP**) may be of interest to crop and livestock producers using organic production practices. NAP was most recently reauthorized in the 2014 Agricultural Act.

NAP is generally available to farm and ranch managers where catastrophic levels (CAT coverage) of Risk Management Agency crop insurance for a subject crop is unavailable. 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 for which CAT level coverage crop insurance under section 508 (b) is not available or additional coverage under sections 508 (c) or 508 (h) are available are eligible for NAP coverage. Crops grown for food, crops planted and grown for livestock consumption, and crops grown for fiber (except trees) are eligible for NAP coverage. To clarify, NAP does not cover livestock or livestock products but may be used by organic livestock operations to address the production risk of crops produced with organic practices and used for livestock feed.

Forage eligible for NAP coverage is vegetation consisting 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.

Organic crop producers and managers of livestock operations using organic production practices will be encouraged that NAP 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.

Historically 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 Farm Service Agency). Essentially this provided for coverage at 27.5 percent of the expected value of production (50 percent of production x 55 percent of the average market price). This level of coverage is available for all eligible crops but is the **only** NAP coverage available for crops and grasses intended for grazing. The 2014 Agricultural Act provided for buy-up NAP coverage for the production years 2015 through 2018. The buy-up coverage is available at the 50, 55, 60, and 65 percent of the expected production, all at 100 percent of the expected average market price.

Producers and managers had to satisfy applicable Farm Service Agency requirements to be eligible for NAP. They have to certify compliance with management requirements for highly erodible land and wetlands, annually report crop acreage and production to Farm Service Agency, and to remain eligible for NAP financial assistance report crop or forage losses within 15 days of the date the disaster and request payment under NAP within 60 days of the last day of coverage for a crop in a crop year. Local Farm Service Agency personnel can assist producers and managers with eligibility requirements.

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 and December 1 is the applicable closing date for honey.

Eligible producers must pay the lesser of $250 per **crop** (or forage) service fee to be covered by NAP not to be exceed $750 per **producer per administrative county** or $1,875 for a producer with eligible crops in multiple counties. There are fee waivers for beginning producers, limited resource, and targeted underserved farmers and ranchers.

Beginning, limited resource, and targeted underserved farmers or ranchers are eligible for a **waiver of the service fee** and a **50 percent premium reduction** when they file a form entitled *Socially Disadvantage, Limited Resource and Beginning Farmer or Rancher Certification.* To be eligible for the service fee waiver or premium reduction, the NAP covered 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 must be beginning farmers.

Limited resource farmer or rancher---A person or entity that: earns no more than $173,600 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 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 Limited Resource Farmer or Rancher, the sum of gross sales and household 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. 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, 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, and

NAP Premium Rate = 5.25%.

When a natural disaster results in covered crop losses 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% 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 managed using organic production practices 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. His 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 following outlines the calculations for NAP financial assistance:

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, 100 percent if owned and operated or cash leased. **Approved Yield** is that established for the crop historically through annual reporting to the Farm Service Agency. **Yield Coverage Level** is that selected by the producer as 50, 55, 60, or 65 percent.

Production to Count is all harvested, appraised, and assigned production for the **unit**. **Applicable Price** is that established by the State FSA Committee for the subject crop. **Price Percentage** is 50 percent for the 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 costs are not incurred, etc. **Salvage Value** is the dollar amount received by an eligible producer for harvested product sold into a lesser product market 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 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 ameliorate some of the production risks faced by farmers and ranchers. NAP may be of use to certain crop and livestock producers using organic production practices. NAP requires an annual application for each crop to be covered and the payment of service fees, and also the payment of premiums when buy-up levels of coverage are desired. For some producers fee waivers and premium reductions may be available.

In contrast to the Noninsured Crop Disaster Assistance Program, the Farm Service Agency offers four disaster assistance that require no service fees or premiums. These are the ***Livestock Forage Program***, ***Livestock Indemnity Program***, ***Emergency Assistance for Livestock***, ***Honeybees, and Farm-Related Fish Program***, and ***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 very important in a semi-arid state such as Wyoming where it addresses a single but important loss, grazing losses 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 Paper No.49, July 2015 (available at www.ampc.montana.edu/documents/policypaper/policy49.pdf).

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.

Summary

In Wyoming, producers of certified organic 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 farm and ranch operations producing certified organic commodities.

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			