

2008 Explanatory Notes
Risk Management Agency

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RISK MANAGEMENT AGENCY

Purpose Statement

The Risk Management Agency (RMA) was established under provisions of the Federal Agriculture Improvement and Reform Act of 1996 (1996 Act), P.L. 104-127, approved April 4, 1996. This Act amended the Department of Agriculture Reorganization Act of 1994, P.L. 103-354, Title II, to require that the Secretary establish within the Department an independent office responsible for supervision of the Federal Crop Insurance Corporation (FCIC), administration and oversight of programs authorized under the Federal Crop Insurance Act (7 U.S.C. 1501 *et seq.*), including delivery of program services through local offices of the Department, any pilot or other programs involving revenue insurance, risk management savings accounts, or the use of the futures market to manage risk and support farm income that may be established under Federal Crop Insurance Act or other law, and such other programs as the Secretary considers appropriate. Title I, Subtitle D, Section 142 of the Agricultural Risk Protection Act (ARPA) of 2000, P.L. 106-224, approved June 20, 2000, modifies this, reestablishing the general provision of the FCIC by a Board of Directors, subject to the general supervision of the Secretary.

Over the past six decades, Federal crop insurance has been the primary product provided by the FCIC/RMA and consists of many public and private alternatives designed to improve the economic stability of agriculture. In light of new legislative mandates, significant program growth and the development of many large and complex new programs have and are expected to transpire. RMA will strive to provide adequate risk protection for our Nation's agricultural producers and to address long-standing concerns about Federal crop insurance through such steps as: increasing subsidies for buy-up coverage; addressing the problems of multi-year losses; making important financial commitments to crop insurance expansion; modifying research and development activities (contracting and reimbursements); and helping prevent abuse of the insurance program while improving aspects of compliance.

RMA continues to evaluate risk management products, review and approve private sector products to be reinsured by FCIC, and ensure delivery of these products to agricultural producers. Risk management products can help producers protect themselves from yield risks, market risks, or both. RMA's legislation allows the development of new and innovative insurance tools such as revenue insurance, forage, rangeland, specialty crops, and livestock pilots. Education, outreach, and non-insurance risk management assistance initiatives and tools further contribute to the producers' ability to protect their financial stability. Through the effective use of these tools, agricultural producers will have available a cost-effective means of managing their risk in order to improve the economic stability of agriculture.

RMA estimates 553 FTEs for fiscal year (FY) 2008 and has staff at the Headquarters office in Washington, D.C., the National office in Kansas City, MO, 10 Regional Offices (ROs), and six Regional Compliance Offices (RCOs). As of September 30, 2006, RMA had 477 staff years with 461 permanent full-time employees on board located throughout the nation as follows: 75 at Headquarters in Washington, D.C., 140 at the National Office in Kansas City, MO, 155 in ROs, and 91 in RCOs.

Major RMA functional areas include: Program Management/Office of the Administrator (OA): OA consists of the following: Administrator's Staff, Civil Right and Community Outreach Staff, External/Congressional/Public Affairs, Financial Management Staff, and Program Support Staff. Product Management (PM): PM consists of the following: Deputy Administrator's staff, Product Analysis and Accounting Division, Product Administration and Standards Division, and Actuarial and Product Design Division; Insurance Services Division (ISD): ISD consists of the following: Deputy Administrator's staff, Reinsurance Services Division, Risk Management Education Division, Risk Management Services Division and 10 ROs located in the following cities: Billings, Montana; Jackson, Mississippi; Oklahoma City, Oklahoma; Raleigh, North Carolina; Davis, California; St. Paul, Minnesota; Spokane, Washington; Springfield, Illinois; Topeka, Kansas; and Valdosta, Georgia; and Risk Compliance: Compliance consists of the following: Deputy Administrator's staff, Insurance Operations Division, Policy, Procedures and

Evaluation Division, and six regional compliance offices at the following locations: Dallas, Texas; Indianapolis, Indiana; Kansas City, Missouri; Raleigh, North Carolina; Davis, California; and St. Paul, Minnesota.

Office of the Inspector General (OIG)/General Accounting Office (GAO) Reports:

The following table provides a list of RMA audits completed during FY 2006.

OIG/GAO AUDITS COMPLETED IN FISCAL YEAR 2006		
REPORT TITLE	IDENTIFYING NUMBER	DATE ISSUED
FCIC Financial Statements as of September 30, 2004, and 2005: The report presents the auditors' opinion on the Risk Management Agency and Federal Crop Insurance Corporation principal financial statements for the fiscal years ended September 30, 2004, and 2005.	05401-14-FM	11/04/05
Prevented Planting Payments for Cotton Due to Failure of the Irrigation Water Supply in California and Arizona – Crop Year 2003: The objective of this audit was to evaluate the effectiveness of RMA's controls to ensure that cotton producers who may have sold all or part of their water service rights complied with the prevented planting provisions.	05099-11-SF	11/09/05
New Crop Products Submitted by Private Companies: The objectives of this audit were to (1) identify and evaluate the adequacy of controls over the submission, approval, and reimbursement process of section 508(h) Federal crop insurance products, and (2) evaluate the procedures used to monitor and review the implementation of these section 508(h) insurance products.	05601-13-Te	2/13/06
Financial Management Controls Over Reinsured Companies: The objectives of this audit were for OIG to (1) identify and to familiarize themselves with RMA's management procedures in approving reinsured companies' Standard Reinsurance Agreements and monitoring their financial soundness, including the existing controls for preventing and/or detecting the insolvency of reinsured companies, and (2) determine the need and areas for additional audit work.	05801-03-KC	4/25/06

OIG/GAO AUDITS IN PROGRESS DURING FISCAL YEAR 2006		
REPORT TITLE	IDENTIFYING NUMBER	START DATE
FCIC Financial Statements as of September 30, 2005, and 2006: The audit examines the Risk Management Agency and Federal Crop Insurance Corporation principal financial statements for the fiscal years ended September 30, 2005, and 2006.	05401-15-FM	5/2/06
Group Risk Crop Insurance: The objective of this audit is to evaluate the adequacy of the management controls over the group risk and group risk income protection plans to ensure that they are effectively administered and actuarially sound.	05601-14-Te	3/21/06
Review of Asian Soybean Rust Claims: The objectives of this audit are to evaluate the adequacy of controls over loss claims over the filing and processing of loss claims to ensure loss claims resulting from Asian Soybean Rust are properly reported.	05099-113-KC	3/14/06
RMA 2005 Emergency Hurricane Relief Efforts in Florida: The objectives of this audit are to evaluate the adequacy of RMA's management controls to ensure timely and proper processing and establishment of loss determinations and indemnity payments resulting from Hurricanes Katrina and Wilma in Florida.	05099-28-AT	3/05/06
Audit of ARPA Related Contracts and Partnership Activities: The objectives of this audit are to determine if (1) RMA properly administered, controlled, and monitored ARPA related contracts and agreements to ensure ARPA provisions were effectively and efficiently implemented; (2) contracts and agreements awarded met intent of ARPA; (3) RMA used ARPA contract and agreement deliverables to improve crop insurance program; and (4) contracts and agreements were awarded in accordance with applicable laws, regulations, policies and procedures.	05099-112-KC	2/23/06
Monitoring the Financial Condition of RMA's Reinsured Companies: The objectives of this audit are to assess the adequacy and effectiveness of RMA's policies and procedures to monitor the financial conditions of reinsured companies.	05099-111-KC	11/09/05
RMA Compliance Activities: The objectives of this audit are to determine if compliance activities are adequate to (1) improve program compliance and integrity and (2) detect and reduce fraud, waste, and abuse.	05601-11-AT	10/31/05
Adjusted Gross Revenue Pilot Program: The objectives of this audit are to evaluate the adequacy of RMA internal controls and oversight to ensure the actuarial soundness of this pilot program.	05601-4-SF	3/14/05

<p>Monitoring FSA and RMA Implementation of Emergency Relief Programs and Procedures for 2004 Hurricanes in Florida (Phase 1): The objectives of this audit are to review the implementation the emergency loss procedures for Federal disaster assistance and crop insurance payments for losses that resulted from Hurricanes Charley, Francis, and Jeanne.</p>	50099-45-AT	2/3/05
<p>Review of Fund Designations by Reinsured Companies: The objectives of this audit are to evaluate the management controls over the process of designating policies to funds and test controls to detect switching of policies between funds by reinsured companies.</p>	05601-9-At	9/23/04
<p>Zero Acreage Reporting Abuse: The objectives of this audit are to evaluate zero or null acreage data for insured crops submitted to RMA via reinsured companies where producers submitted an acreage report for the crops to FSA.</p>	50099-51-KC	4/19/04

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION FUND

Available Funds and Staff Years
FY 2006 Actual and Estimated FY 2007 and FY 2008

Item	2006		2007		2008	
	Actual	Staff	Estimated	Staff	Estimated	Staff
	Amount	Years	Amount	Years	Amount	Years
<u>Administrative & Operating (A&O) Expenses</u>						
A&O Expense Appropriation.....	\$77,048,000	477	\$76,278,000	553	\$79,062,000	553
Rescission 1/.....	-770,480	0	0	0	0	0
Transfer to WCF.....	-325,000	0	0	0	0	0
Unobligated Balance.....	-11,463	0	0	0	0	0
Total, A&O Expenses.....	75,941,057	477	76,278,000	553	79,062,000	553
<u>Federal Crop Insurance Corporation (FCIC) Fund</u>						
Premium Subsidy.....	\$2,291,266,000	0	\$2,727,720,000	0	\$3,466,894,000	0
Delivery Expenses.....	961,682,000	0	1,110,750,000	0	1,190,285,000	0
ARPA Costs.....	42,510,000	0	74,500,000	0	74,500,000	0
Transfer to CSREES.....	-5,000,000	0	-5,000,000	0	-5,000,000	0
Treasury Transfer for Excess Losses.....	0	0	466,286,000	0	86,420,000	0
Total, FCIC Fund.....	3,290,458,000	0	4,374,256,000	0	4,813,099,000	0
Total, Risk Management Agency.....	3,366,399,057	477	4,450,534,000	553	4,892,161,000	553

1/ The amount in FY 2006 was rescinded pursuant to P.L. 109-148.

RISK MANAGEMENT AGENCY

Permanent Positions by Grade and Staff Year Summary
2006 Actual and Estimated 2007 and 2008

Grade	2006			2007			2008		
	Wash. DC	Field	Total	Wash. DC	Field	Total	Wash. DC	Field	Total
ES Grade	3	1	4	4	1	5	4	1	5
GS-16	0	2	2	0	2	2	0	2	2
GS-15	8	7	15	12	7	19	12	7	19
GS-14	10	31	41	15	34	49	15	34	49
GS-13	33	140	173	37	150	187	37	150	187
GS-12	12	137	149	10	169	179	10	169	179
GS-11	2	17	19	5	20	25	5	20	25
GS-10	1	0	1	1	0	1	1	0	1
GS-9	2	10	12	5	14	19	5	14	19
GS-8	1	3	4	4	6	10	4	6	10
GS-7	7	18	25	6	17	23	6	17	23
GS-6	1	15	16	4	25	29	4	25	29
GS-5	1	7	8	2	2	4	2	2	4
GS-4	1	7	8	0	1	1	0	1	1
Ungraded Positions.....	0	0	0	0	0	0	0	0	0
Total Permanent									
Positions.....	82	395	477	105	448	553	105	448	553
Unfilled Positions									
end-of-year.....	7	9	16	0	0	0	0	0	0
Total, Permanent Full-time									
Employment, end-of-year..	75	386	461	105	448	553	105	448	553
Staff Year Estimate.....	82	395	477	105	448	553	105	448	553

RISK MANAGEMENT AGENCY

SIZE, COMPOSITION AND COST OF MOTOR VEHICLE FLEET

The 2008 Budget Estimates propose no changes in passenger motor vehicles.

All the vehicles are leased from the General Services Administration (GSA). These vehicles are assigned in the RMA field structure of the Regional and Compliance Field Offices. Each Regional and Compliance office is assigned a geographical area within the United States to perform monitoring and oversight of the crop insurance program. These vehicles are used to perform site visits of crops and/or inspections of crop losses. Also, they are used to attend conferences. Since these vehicles are leased from GSA, RMA relies upon GSA to supply the Agency with alternative-fueled vehicles as required by law.

RMA has a total of six vehicles. There is no request for changes to the motor vehicle fleet at this time. Replacement of vehicles now in operation is planned in FY 2007. These six vehicles are located in four field locations and are used for monitoring and oversight of the crop insurance program. All vehicles proposed for replacement have an average mileage of 35,000.

There are no identified impediments to managing the motor vehicle fleet in the most cost-effective manner.

Size, Composition, and Annual Cost
(in thousands of dollars)

Fiscal Year	Sedans & Station Wagons	Number of Vehicles by Type					Total Vehicles	Annual Operating Costs
		Light Trucks 4X2	Light Trucks 4X4	Medium Trucks	Heavy Trucks	Buses		
FY 2005	1	0	3	2	0	0	6	\$43
Change **	0	0	0	0	0	0	0	
FY 2006	1	0	3	2	0	0	6	\$45
Change **	0	0	0	0	0	0	0	
FY 2007	1	0	3	2	0	0	6	\$46
Change **	0	0	0	0	0	0	0	
FY 2008	1	0	3	2	0	0	6	\$47

Explanation:

All of the vehicles listed are leased from the General Services Administration (GSA). These vehicles are assigned in the RMA field structure of the Regional and Compliance Field Offices. Each Regional and Compliance office is assigned a geographical area within the United States to perform monitoring and oversight of the crop insurance program. These vehicles are used to perform site visits of crops and/or inspections of crop losses. Also, they are used to attend conferences and meetings related to crop insurance issues.

Since these vehicles are leased from GSA, RMA relies upon GSA to supply the Agency with alternative-fueled vehicles as required by law.

RISK MANAGEMENT AGENCY

The estimates include appropriation language for this item as follows:

Administrative and Operating Expenses:

For administrative and operating expenses, as authorized by section 226A of the Department of Agriculture Reorganization Act of 1994 (7 U.S.C. 6933), \$79,062,000: *Provided*, That not to exceed \$1,000 shall be available for official reception and representation expenses, as authorized by 7 U.S.C. 1506(i).

RISK MANAGEMENT AGENCY

Lead-Off Tabular Statement

ADMINISTRATIVE AND OPERATING EXPENSES

Estimate, 2007.....	\$ 76,278,000
Budget Estimate, 2008.....	<u>79,062,000</u>
Increase in Appropriation.....	+ <u>2,784,000</u>

SUMMARY OF INCREASES AND DECREASES

(On basis of adjusted appropriation)

<u>Item of Change</u>	<u>2007</u> <u>Estimated</u>	<u>Pay</u> <u>Costs</u>	<u>Program</u> <u>Changes</u>	<u>2008</u> <u>Estimated</u>
Administrative and Operating Expenses, Available.....	\$76,278,000	\$2,555,000	+	\$229,000
Total Available.....	<u>76,278,000</u>	<u>2,555,000</u>	+	<u>229,000</u>

Project Statement
(On basis of appropriation)

	<u>2006</u> <u>Actual</u>		<u>2007</u> <u>Estimated</u>		<u>Increase</u> <u>or</u> <u>Decrease</u>	<u>2008</u> <u>Estimated</u>	
	<u>Amount</u>	<u>Staff</u> <u>Years</u>	<u>Amount</u>	<u>Staff</u> <u>Years</u>		<u>Amount</u>	<u>Staff</u> <u>Years</u>
1. Administrative and Operating Expenses.....	\$75,941,057	477	\$76,278,000	553	+	\$2,784,000	553
2. Unobligated Balance.....	11,463	0	0	0		0	0
Total Available or Estimate.....	<u>75,952,520</u>	<u>477</u>	<u>76,278,000</u>	<u>553</u>	+	<u>2,784,000</u>	<u>553</u>
Rescission.....	770,480		0				
Transfer to WCF.....	325,000	---	0	---			
Total, Appropriation.....	<u>77,048,000</u>	<u>---</u>	<u>76,278,000</u>	<u>---</u>			

Justification of Increases and Decreases

- (1) An increase of \$2,784,000 for administrative and operating costs and activities directed at achieving the RMA mission, which is:

“To promote, support, and regulate sound risk management solutions to strengthen and preserve the economic stability of American agricultural producers.”

To successfully achieve our mission, RMA is requesting:

- (A) An increase of \$2,555,000 for pay costs of 553 staff years, which includes \$1,172,000 for FY 2007 and \$1,383,000 for FY 2008 pay costs.

Funding for pay costs is necessary to maintain appropriate staffing to carry out the RMA mission and mandated requirements. This funding is a critical component of our ability to provide support for a significantly growing program. RMA personnel are involved in reviews of new insurance products and feasibility studies pertaining to the development of new products. All new programs must be reviewed before being submitted to the Federal Crop Insurance Corporation Board of Directors for approval. In addition, staffs are working with public and private partners to provide educational tools to the nation’s producers. This includes programs targeted to the small and limited resource farmers by offering risk management training and educational workshops to meet the goal of increasing the effectiveness of risk management tools. Reduced funding for salaries negatively impacts the following objectives of RMA Strategic Plan: Objective 1.1, to improve the economic stability of the agricultural producer by increasing the availability and effectiveness of risk management solutions; Objective 2.1, to improve and protect the soundness, safety, efficiency and effectiveness of the risk management delivery system; Objective 3.1 to ensure that customers and stakeholder have knowledge and awareness of risk management tools and products to help strengthen the economic viability of farm and ranch production systems; Objective 4.1, to ensure effective oversight of the crop insurance industry and enhance deterrence and prosecution of fraud, waste, and abuse; and Objective 5.1, to fulfill its commitment to provide a sound and effective risk management program by developing, acquiring, and aligning activities, resources, and skills to efficiently achieve vision, mission, and strategic objectives. For example, our Risk Compliance staffs are charged with ensuring that funds expended by RMA for the development, administration, operation, and delivery of risk management programs are spent in accordance with laws, rules, regulations and policies to achieve the intended purpose. This involves performing reviews of RMA programs and activities; reviewing and evaluating internal and management control systems; working with external audit and investigating agencies; and reviewing activities of reinsured companies and others involved in the delivery of RMA programs.

- (B) An increase of \$229,000 for Information Technology Investment 4 – Infrastructure Modernization

The Federal Crop Insurance Program’s IT system provides the insurance industry/reinsured companies access for the exchange of financial and program data in addition to supporting the system requirements of Federal employees. This IT system disburses billions of dollars in indemnity payments and is critical to ensure: 1) indemnities are paid timely; 2) a corporate IT system is maintained that provides crop insurance data for decision-making; 3) accurate reporting of crop insurance data to support program oversight; and 4) maintenance of a data source to respond to program information requests such as identifying indemnities in a specific county or region in the USA or Puerto Rico.

The IT system supports a database that provides current and historical crop insurance information to the industry and the public. RMA’s IT initiatives support the Federal Crop Insurance Program which is expected to offer more than \$63 billion in coverage to America’s producers in 2008.

Investment 4 is RMA's Infrastructure Modernization initiative. A request of \$229,000 is required to ensure funding of expected increases in telecommunication costs. Investment 4 supports system administration of the Agency's network and operating environment. It also supports the Federal Crop Insurance Program's IT connections to the insurance industry's various IT systems. RMA's infrastructure requires customized servers to provide uniform and controlled access to its computer systems. Without this controlled IT environment, the required financial and program data exchanges between RMA and the reinsured companies could be compromised without maintenance of infrastructure security controls. In addition, this modest increase will ensure RMA's IT infrastructure remains in alignment with Department's e-government initiatives. This investment also supports interfaces with industry partners and other government entities such as: the National Information Technology Center, the National Finance Center, and the Farm Service Agency.

RISK MANAGEMENT AGENCY
ADMINISTRATIVE AND OPERATING EXPENSES

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS
2006 Actual and Estimated 2007 and 2008

	2006		2007		2008	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
California.....	\$2,691,006	27	\$2,702,946	32	\$2,801,598	32
District of Columbia.....	34,817,627	82	34,972,109	104	36,248,524	104
Georgia.....	1,490,167	16	1,496,779	16	1,551,408	16
Illinois.....	1,537,348	15	1,544,169	15	1,600,528	15
Indiana.....	1,055,381	12	1,060,064	12	1,098,754	12
Kansas.....	1,294,857	12	1,300,602	14	1,348,072	14
Minnesota.....	3,369,825	35	3,384,777	37	3,508,314	37
Mississippi.....	1,407,705	16	1,413,951	16	1,465,557	16
Missouri.....	19,010,362	171	19,094,709	207	19,791,629	207
Montana.....	1,549,754	13	1,556,630	16	1,613,444	16
North Carolina.....	3,127,775	34	3,141,653	34	3,256,317	34
Oklahoma.....	1,417,485	13	1,423,774	17	1,475,739	17
Texas.....	1,478,942	16	1,485,504	17	1,539,722	17
Washington.....	1,692,823	15	1,700,334	16	1,762,393	16
Subtotal, Available or Estimate.	75,941,057	477	76,278,000	553	79,062,000	553
Unobligated balance.....	11,463	0	0	0	0	0
Total, Available or Estimate.....	75,952,520	477	76,278,000	553	79,062,000	553

RISK MANAGEMENT AGENCY
 Classification by Objects
 2006 Actual and Estimated 2007 and 2008

ADMINISTRATIVE & OPERATING EXPENSES:	<u>2006</u>	<u>2007</u>	<u>2008</u>
Personnel Compensation:			
Washington, D.C.	\$7,866,457	\$7,941,000	\$8,341,000
Field.....	31,465,828	31,760,000	33,366,000
11 Total Personnel Compensation.....	39,332,285	39,701,000	41,707,000
12 Personnel Benefits.....	9,405,075	9,479,000	10,028,000
13 Benefits for Former Personnel.....	16,000	0	0
Total Pers. Comp. and Benefits.....	48,753,360	49,180,000	51,735,000
Other Objects:			
21 Travel.....	1,780,244	1,800,000	1,800,000
22 Transportation of Things.....	114,612	115,000	115,000
23.2 Rental Payments - Other.....	478,084	480,000	480,000
23.3 Communications, Utilities, misc. charges.....	887,870	890,000	890,000
24 Printing and Reproduction.....	291,911	292,000	292,000
25 Other Services.....	18,672,299	18,601,000	18,830,000
25.1 Advisory and Assistance Services.....	1,906,232	1,907,000	1,907,000
25.2 Personnel Related Services.....	299,457	300,000	300,000
25.3 Repair/Maintenance of facilities/Equip.....	131,974	132,000	132,000
25.5 Agreements.....	2,000,000	2,000,000	2,000,000
26 Supplies and Materials.....	273,730	274,000	274,000
31 Equipment.....	306,916	307,000	307,000
42 Litigation Fees/Settlement-EEO.....	43,294	0	0
43 Interest.....	1,074	0	0
Total Other Objects.....	27,187,697	27,098,000	27,327,000
Total Direct A&O Obligations.....	75,941,057	76,278,000	79,062,000
Position Data:			
Average Salary, ES Positions.....	\$152,000	\$154,280	\$156,594
Average Salary, GS Positions.....	\$75,887	\$77,025	\$78,181
Average Grade, GS Positions.....	12.6	12.6	12.6
FCIC FUND:			
25 Delivery Expenses.....	961,682,000	1,110,750,000	1,190,285,000
ARPA costs.....	42,510,000	74,500,000	74,500,000
42 Indemnities.....	3,588,977,000	4,886,345,000	5,072,214,000
Total Direct FCIC Fund Obligations.....	4,593,169,000	6,071,595,000	6,336,999,000
TOTAL DIRECT OBLIGATIONS.....	4,669,110,057	6,147,873,000	6,416,061,000

RISK MANAGEMENT AGENCY
ADMINISTRATIVE AND OPERATING EXPENSES

STATUS OF PROGRAM

Current Activities: The Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) is composed of ten members, including agricultural producers, insurance and reinsurance experts, and senior USDA officials. This Board, either directly or through delegations to the Manager of the FCIC and Risk Management Agency (RMA), manages FCIC and the Federal Crop Insurance Fund. The Board receives, reviews, and approves policies and plans of insurance and other related materials for reinsurance, risk subsidy, and administrative and operating subsidy. The Board is authorized to reimburse outside entities for research, development and maintenance costs to provide an incentive for the development of new and innovative risk management products, to directly contract for the research and development of such products, and to fund crop insurance education programs. During FY 2006, the FCIC Board considered 31 action items during six board meetings. The action items included 3 expert reviews, 18 program revisions and modifications, 3 new program submissions, and 7 corporate administrative items.

Office of the Administrator (OA) – Headquarters includes all management and administrative support functions of the RMA. This includes coordinating FCIC Board Meetings, providing coordination of administrative support services to all locations of RMA through human resources, training, procurement, and other services. OA is responsible for developing agency strategic plans, performance plans and reports as required by the Government Performance and Results Act; formulating, recommending and administering RMA policies and procedures concerning acquisition activities including contracting, and cooperative agreements; and developing Information Resource Management plans and policies as required by the Information Technology Management Reform Act of 1996 (ITMRA) and other legislation.

OA directs the establishment of RMA plans and policies relative to obtaining public participation in the rule-making process, with coordination of regulatory review requirements. Coordinating and publishing regulations; formulating RMA public information policies and programs within the framework of USDA's public affairs policy; directing public information activities through news releases, audiovisual products, articles, and speeches; answering correspondence; and producing public information on RMA activities and initiatives. OA provides policy-making recommendations that impact the often conflicting needs of agricultural producers, the crop insurance industry, insurance agents, and the FCIC. OA advises the Congress regarding Administration policy positions and matters relating to constituent service issues; and serves as the focal point for all financial management activities with overall responsibility for planning, organizing, and directing RMA fiscal functions including budget, accounting, financial reporting and other related functions. OA formulates, recommends, administers and evaluates the Civil Rights and Equal Employment Opportunity programs of RMA. There are currently four staff offices under the Office of the Administrator: Program Support, External Affairs, Civil Rights and Community Outreach, and Financial Management.

Product Management (PM) enters into contracts for the research, development, pilot testing, and evaluation of new crop insurance programs. PM also contracts for plans of insurance and risk management strategies, especially for specialty crops and underserved commodities in underserved states and areas. PM enters into partnerships for developing non-insurance risk management tools to help growers mitigate various risks inherent to farming and raising livestock; evaluates and makes recommendations for improvement of existing risk management programs; and coordinates support for specialty crop programs. PM issued over 20 contracts and partnership agreements furthering program goals for expansion of new crop insurance programs and risk management strategies and continued to improve existing programs. Examples include 14 research and development partnership agreements and a number of other existing program research, development, and evaluation projects to expand and improve the risk management opportunities for American producers. These partnership projects are located on RMA's website at <http://www.rma.usda.gov>. In addition, the PM function includes accounting for RMA's program operation and

financial analysis and operations reviews of the insurance delivery system. PM is responsible for developing federal regulations and establishing the crop insurance policies, premium rates, coverage provisions, transitional yield factors, and other appropriate insurance data for approximately 39,000 county-crop programs nationwide. PM establishes reporting and validating business and implementation requirements for automated systems that receive and validate crop insurance sales, loss and acreage data from reinsured companies and other sources. PM uses the data for analysis, determination of rates, calculation and payment of expense reimbursements and underwriting payments to reinsured companies, payment of claims, summaries of business and various other purposes. PM coordinates RMA's review of products submitted under Section 508(h) of the Federal Crop Insurance Act and assures RMA's compliance with the Paperwork Reduction Act of 1995.

The Insurance Services Division (ISD) develops and administers the reinsurance agreements, the RMA national risk management education program, and all phases of program administration. ISD also directs ten Regional Offices (ROs) that provide risk management education and outreach, assistance with contracting and implementation of new products and programs, field underwriting, rate review, assessments of insurance products. They also provide program services to producers, farm organizations, insurance providers, elected officials, and other interested parties. The ISD also performs large claim reviews and provides good farming practice determinations. Headquarters staff complements field activities by ensuring consistent application of actuarially sound insurance principles in field-level underwriting tasks and monitoring a uniform system of loss adjustment on a national basis. Within ISD, there are three sub-division offices that provide specific services. These offices are Reinsurance Services Division (RSD), Risk Management Services Division (RMSD), and Risk Management Education (RME) division.

The RSD staff oversees the administration of the Standard Reinsurance Agreement (SRA), the contract between the private insurance providers and RMA. RMA approves insurance providers on an annual basis by reviewing their annual plans of operation. RSD works closely with product analysis and accounting division (PAAD) in conducting financial, accounting, or other reviews. In addition, RSD actively works with the National Association of Insurance Commissioners (NAIC) and other regulatory entities to maintain the soundness of the Federal crop insurance program.

The RMSD provides guidance regarding burgeoning risk management issues involving claims and underwriting. RMSD coordinates requests for Final Agency Determinations under 7 CFR Part 400 Subpart X, and is responsible for managing requests for good farming practice determinations and RMA's participation in reviews of large claims equal to or exceeding \$500,000. RMSD responds to all briefing requests received from the Office of the Secretary, OMB, and Congress. RMSD provides National insured crop program damage assessments and coordinates development of disaster report data received from regional offices. RMSD coordinates recommendations for crop expansion of regulatory programs and Special Provisions of Insurance Statements. RMSD also manages the internal control reviews of Insurance Services' Regional Office business processes.

The RME division works with public and private partners to train farmers and ranchers in using risk management tools and strategies. RME supports ISD's mission of delivering Federal crop insurance, through providing farmers with information and educational opportunities to learn more about risk, the tools available to manage risk, and the process of making sound risk management decisions.

The Civil Rights and Community Outreach (CR&CO) office also works with public and private partners to train farmers and ranchers. The CR&CO staff formulates, recommends, administers, evaluates and implements the Civil Rights and Equal Employment Opportunity (EEO) and Community Outreach partnership programs of RMA. CR&CO advises the Administrator and other management officials on the development and implementation of plans, policies and procedures and develops and administers civil rights impact analyses to ensure programs are implemented in a nondiscriminatory manner. Major initiatives the staff is responsible for are (1) providing civil rights training to all employees, reinsured companies, outreach and risk management education partners; (2) developing and implementing USDA/RMA's policies and procedures to address program and employment complaints in a timely and more cost effective manner; (3) monitoring and providing substantial involvement for partnership agreements with universities, community based organizations, Hispanic Serving Institution (HSIs),

Federal and State organizations; and (4) developing and implementing a civil rights compliance program for program delivery.

Compliance is responsible for ensuring that the funds expended by RMA for the operation and delivery of risk management programs are spent in accordance with laws, rules, regulations, policies, procedures, and instructions to achieve the intended purpose. Compliance performs this mission by conducting reviews of RMA programs and activities; maintaining liaison with external audit and investigative agencies; and reviewing the activities of reinsured companies and others involved in the delivery of RMA programs. Compliance also performs special request reviews based on the Office of the Inspector General Hotline complaints, external audits and investigations, complaints and other sources to gather evidence to support allegations of non-compliance with laws, regulations, or agreements. Compliance works closely with the Farm Service Agency (FSA) field offices in the detection and monitoring of suspected waste, fraud, and abuse by using data mining to target anomalous insurance payments to producers.

Selected Examples of Recent Progress:

Nursery Crop Insurance Provisions - On September 1, 2006, FCIC published a Proposed Rule for changes to the Nursery Crop Insurance Provisions and Nursery Peak Inventory Endorsement. The Proposed Rule amended the Nursery Crop Insurance Provisions to clarify the definition of “liners.” The Proposed Rule also amended the Nursery Peak Inventory Endorsement to clarify that the peak amount of insurance is limited to 200% of the amount of insurance established under the Nursery Crop Insurance Provisions. The public was afforded a 60-day comment period, which ended on October 31, 2006. RMA responded to the comments and prepared the Final Rule. The Final Rule published in the Federal Register December 12, 2006, with an effective date of January 11, 2007.

Common Crop Insurance Regulations, Basic Provisions; and Various Crop Insurance Provisions (Combo) – On July 14, 2006, FCIC published a Proposed Rule in the Federal Register to amend the Common Crop Insurance Regulations, Basic Provisions, Small Grains Crop Insurance Provisions, Cotton Crop Insurance Provisions, Coarse Grains Crop Insurance Provisions, Malting Barley Crop Insurance Provisions, Rice Crop Insurance Provisions, and Canola and Rapeseed Crop Insurance Provisions to provide both revenue protection and yield protection. FCIC also proposed to amend the Common Crop Insurance Regulations, Basic Provisions to incorporate changes resulting from input and recommendations by the prevented planting work group. The amended provisions will replace the Crop Revenue Coverage (CRC), Income Protection (IP), Indexed Income Protection (IIP), and the Revenue Assurance (RA) plans of insurance.

The intended effect of this action is to offer producers a choice of revenue protection (protection against loss of revenue caused by low prices, low yields or a combination of both) or yield protection (protection for production losses only) within one Basic Provisions and the applicable Crop Provisions. This is to reduce the amount of information producers must read to determine the best risk management tool for their operation and to improve the prevented planting and other provisions to better meet the needs of insured producers. This combined policy is expected to cover nearly \$43 billion of the nearly \$50 billion of FCIC’s total liability and 94 percent (approximately one million policies) of all policies earning premium. The changes will apply for the 2009 and succeeding crop years for all crops with a contract change date on or after the effective date of the Final Rule, and for the 2010 and succeeding crop years for all crops with a contract change date prior to the effective date of the Final Rule. On September 26, 2006, FCIC extended the comment period for the rule via a “notice of reopening and extension of comment period” in the Federal Register. Written comments and opinions on the proposed rule were accepted until close of business October 26, 2006.

Peanut Crop Insurance Provisions – On September 26, 2006, FCIC published a Final Rule for changes to the Peanut Crop Insurance Provisions, effective for the 2007 crop year. The final rule removed all references to quota and non-quota peanuts because the Farm Security and Rural Investment Act of 2002 eliminated the peanut quota program as administered by the Farm Service Agency (FSA). FCIC anticipated quotas could be eliminated years ago and previously included policy provisions permitting insurance guarantees to be based on the Actual Production

History (APH) of the producer. This allowed the program to operate under the APH plan of insurance beginning with the 2002 crop year. In addition, coverage for peanuts grown under a sheller contract at the contract price is available.

Group Risk Income Protection (GRIP) - GRIP makes indemnity payments only when the average county revenue for the insured crop falls below the revenue chosen by the farmer. GRIP offers producers a guarantee against decline in county revenue, which is based on the applicable Board of Trade futures prices for corn, grain sorghum, soybeans and wheat and the New York Cotton Exchange futures prices for cotton, and National Agricultural Statistics Service (NASS) county yields as adjusted by the FCIC. The GRIP policy provides coverage on an enterprise unit basis. The amount of any loss will be finalized when the final county yields and harvest price are known in the spring following the crop year. The GRIP policy contains no replant, late, or prevented planting provisions.

In an effort to combine redundant policies, the GRP, GRIP, and GRIP-HRO (Harvest Revenue Option) policies are to be combined under the Area Risk Protection Combo policy for the 2009 crop year. A GRP/GRIP evaluation contract is a priority for the 2007 crop year. The primary objective of the contract is to evaluate procedures for establishing expected county yields and to provide a recommendation for the most appropriate method or methods for doing so. The contract also entails a review and recommendation of how these procedures should be incorporated into the ratemaking models for GRP and GRIP in an actuarially sound manner. RMA is currently reviewing proposals to the contract.

Livestock Risk Protection (LRP) – LRP insures against a decline in price for cattle and swine. LRP is owned by a private company and was first introduced for swine with sales beginning on July 8, 2002, for all counties in Iowa. LRP expanded to cover Feeder Cattle (LRP-Feeder) and Fed Cattle (LRP-Fed) with sales beginning on June 9, 2003. LRP now insures Swine, Feeder Cattle, and Fed Cattle in Colorado, Indiana, Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, North Dakota, Oklahoma, Ohio, South Dakota, Texas, Utah, West Virginia, Wisconsin, and Wyoming. LRP sales for the 2005 crop year totaled 1,434 policies with 233,754 head of livestock insured at \$103.9 million in liability and \$2.2 million in total premium. LRP sales for the 2006 crop year totaled 1,151 policies with 287,330 head of livestock insured at \$152 million in liability and \$2.3 million in total premium.

Livestock Gross Margin (LGM) - LGM is a gross margin index, designed to protect profit margins for swine and cattle producers, and is based on futures contracts at the Chicago Mercantile Exchange and the Chicago Board of Trade. For the 2005 reinsurance year, LGM has provided coverage for 544,217 head of slaughter hogs for a liability of \$51.3 million with a premium of \$2.8 million. LGM for cattle was made available for sale to producers beginning with the 2006 reinsurance year. For the 2006 reinsurance year, LGM insured 513,701 head, total liability of \$37.5 million and premium of \$2.6 million.

Insurance Services Division

For crop year 2006, the ROs reviewed rates, practices, and filing documents for 51,405 county crop programs in more than 3,000 counties in all 50 states and Puerto Rico. The ROs reviewed 1,049 added land requests, 3,377 determined yields, and 11,145 written agreement requests to respond to a variety of individual producers' crop insurance needs. In addition, the ROs increased the availability of risk management programs, researched and recommended expansion of crop insurance programs in 174 counties. Improvement of current policies through RO increased oversight of the delivery channel was accomplished through routine reviews of company, product, program, 256 large claims reviews, participating in 91 large claims, and reviewed 16 good farming practices determinations. The ROs also provided technical support to reinsured company personnel in all program areas, provided update meetings to reinsured companies, and attended meetings as representatives of the Federal crop insurance program.

Risk Management Education

The ROs continue to implement risk management education provisions of the Agricultural Risk Protection Act of 2000 (ARPA). During the past year through development and coordination of partnerships, the ROs provided risk

management education and outreach to over 48,000 agricultural producers and representatives during over 121,080 hours of RMA sponsored training at meetings and workshops throughout the United States.

Accomplishments in the Risk Management Education area included: assisting the ROs in executing cooperative agreements in 15 underserved states totaling \$4.5 million in funding; funding 78 partnership agreements across the nation totaling \$5.6 million; working with the Cooperative State Research, Education and Extension Service to fund \$5 million in risk management education grants; and cooperating with the National Future Farmers of America (FFA) Foundation in operating the 10th Annual FFA Risk Management Writing Contest. See page 22g-10 for further details on some of these accomplishments.

Community Outreach

Accomplishments in the Community Outreach Partnership Program includes funding, administering and providing substantial involvement for 62 outreach projects, totaling over \$7.1 million dollars, aimed at providing women, limited resource farmers and ranchers with the information and training necessary to make informed decisions regarding the use of existing and emerging risk management tools. Through Partnership Agreements, we supported local training that disseminated information from the Regional Conferences entitled, "Success Strategies for Small and Limited Resource Farmers and Ranchers".

RMA entered into a Memorandum of Understanding (MOU) with the National Society of Minorities in Agriculture, Natural Resources and Related Sciences (MANRRS) to promote diversity in agriculture, natural resources and related sciences. RMA's initiatives include servicing agricultural producers through effective, market-based risk management solutions; promoting outreach efforts to diverse communities and organizations regarding the mission of RMA; and encouraging minorities and women students and professionals to consider careers with RMA. RMA has awarded \$10,000 in scholarships to MANRRS for four years. RMA representatives attended the MANRRS 21st Annual Career Fair and Training Conference.

RMA also participated in the League of United Latin American Citizens' (LULAC) Convention and Career Fair in FY 2006. LULAC advances the economic condition, educational attainment, political influence, health and civil rights of Hispanic Americans through community-based programs operating at more than 700 LULAC councils nationwide. The organization involves and serves all Hispanic nationality groups. Historically, LULAC has focused heavily on education, civil rights, and employment for Hispanics. LULAC councils provide more than a million dollars in scholarships to Hispanic students each year, conduct citizenship and voter registration drives, develop low income housing units, conduct youth leadership training programs, and seek to empower the Hispanic community at the local, state and national level.

RMA also participated in the Hispanic Youth Symposium (HYS). The coalition includes nonprofit organizations, government agencies, corporations and institutions of higher education that developed a program to encourage Hispanic high school students to seek brighter futures for themselves and their families by developing essential skills and rooting themselves in the basic principle of success; educational achievement, community service and personal responsibility.

Compliance

RMA Compliance concentrates on the mission-critical task of evaluating and improving processes to prevent and deter waste, fraud and abuse, as well as building and adapting our reporting, tracking, and feedback systems to complement and incorporate the multiple integrity-related components mandated by ARPA. In 2004, Compliance initiated national operation reviews of insurance providers to capture a program error rate in accordance with statutory requirements and assess company activities under the Standard Reinsurance Agreement. The Office of Management and Budget (OMB) as well as the USDA, Office of the Chief Financial Officer (OCFO) approved the plan to determine a program error rate. Compliance has completed the fieldwork on the second round of six

companies selected for review. This procedure calls for a review of one third of the participating Approved Insurance Providers each year in order to derive a program error rate every three years.

RMA, FSA and the Approved Insurance Providers continued to improve program compliance and integrity through: 1) data reconciliation and matching for disaster program payments; 2) evaluating and amending procedures for referring potential crop insurance errors or abuse between FSA and RMA; and 3) creating anti-fraud and distance learning training packages as required by ARPA. Compliance has also improved efforts to integrate other data mining projects; explore avenues to expedite the processing of sanctions requests; and implement the Compliance case management and tracking system.

The formalized alliance with FSA, along with data mining and analysis, greatly improved referral activity to and from RMA. This is attributable to the greater emphasis placed upon deterrence and prevention efforts. In order to deal with the referral activity and the responsibilities of data reconciliation with FSA, RMA has sought to manage the increase in workload by increasing emphasis on data management and computer based resources. RMA will continue to develop strategies to increase program compliance through data mining and integration tools to evaluate, track, and improve program compliance and integrity.

PART Assessments

RMA supports the use of Program Assessment Tool (PART) for informing of budget decisions, supporting management activities, identifying design issues, and promoting performance measurement and accountability. During FY 2005, RMA underwent a re-PART Review resulting in a score of "Moderately Effective." Results of this review indicate: the program has set ambitious goals; the crop insurance program is a valuable tool for agricultural producers; the program is effective at providing a risk management tool; and management of this program is relatively good. However, OMB pointed out that there is room for improvement to make this program more effective and efficient. Specific OMB recommendations to RMA include a) achieving proposed legislative changes to make the program more effective and efficient by covering more acres at a lower subsidy cost and b) developing other efficiency measures that incorporate the whole taxpayer cost (administrative, indemnities, underwriting gains, premium subsidies, and company reimbursements) needed to run the program.

RISK MANAGEMENT AGENCY

The estimates include appropriation language for this item as follows:

Federal Crop Insurance Corporation Fund:

For payments as authorized by section 516 of the Federal Crop Insurance Act (7 U.S.C. 1516), such sums as may be necessary, to remain available until expended.

RISK MANAGEMENT AGENCY

Lead-Off Tabular StatementFEDERAL CROP INSURANCE CORPORATION FUND

Estimate, 2007.....	\$4,374,256,000
Budget Estimate, 2008.....	4,813,099,000
Increase in Appropriation.....	+ <u>438,843,000</u>

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION FUNDSUMMARY OF INCREASES AND DECREASES

(On basis of appropriation)

<u>Item of Change</u>	<u>2007 Estimated</u>	<u>Pay Costs</u>	<u>Program Changes</u>	<u>2008 Estimated</u>
Premium Subsidy.....	\$2,727,720,000	0	\$739,174,000	\$3,466,894,000
Delivery Expenses.....	1,110,750,000	0	79,535,000	1,190,285,000
Agricultural Risk Protection Act of 2000 Initiatives:				
Improving Program Compliance and Integrity.....	0	0	(11,165,000) 1/	(11,165,000)
Research and Development.....	40,000,000	0	0	40,000,000
Pilot Programs (Livestock and Wild Salmon).....	21,000,000	0	0	21,000,000
Education and Risk Management Assistance.....	10,000,000	0	0	10,000,000
Transfer to CSREES.....	-5,000,000	0	0	-5,000,000
Policy Consideration and Implementation.....	3,500,000	0	0	3,500,000
Treasury Transfer for Excess Losses.....	466,286,000	0	-379,866,000	86,420,000
Total Available.....	<u>4,374,256,000</u>	<u>0</u>	<u>438,843,000</u>	<u>4,813,099,000</u>

1/ The budget includes a General Provision providing the authority to use Agricultural Risk Protection Act funding for program compliance and integrity purposes. \$9M will be used for Data Mining and DataWarehousing activities (IT Investment 07) and \$2.2M will be used for the Comprehensive Information and Management System (IT Investment 17).

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION FUND

Project Statement
(On basis of appropriation)

	2006 Actual	2007 Estimated	Increase or Decrease	2008 Estimated
Premium Subsidy.....	\$2,291,266,000	\$2,727,720,000	\$739,174,000	\$3,466,894,000
Delivery Expenses.....	961,682,000	1,110,750,000	79,535,000	1,190,285,000
Agricultural Risk Protection Act of 2000 Initiatives:				
Improving Program Compliance and Integrity.....	0	0	(11,165,000) 1/	(11,165,000)
Research and Development.....	27,679,000	40,000,000	0	40,000,000
Pilot Programs.....	1,509,000	21,000,000	0	21,000,000
Education and Risk Management Assistance.....	10,000,000	10,000,000	0	10,000,000
Transfer to CSREES.....	-5,000,000	-5,000,000	0	-5,000,000
Policy Consideration and Implementation.....	3,322,000	3,500,000	0	3,500,000
Treasury Transfer for Excess Losses.....	0	466,286,000	-379,866,000	86,420,000
Total Available or Estimate.....	3,290,458,000	4,374,256,000	438,843,000	4,813,099,000
Total, Appropriation.....	3,290,458,000	4,374,256,000	438,843,000	4,813,099,000

Project Statement
(On basis of available funds)

	2006 Actual	2007 Estimated	Increase or Decrease	2008 Estimated
1. Expenses:				
(a) Indemnities.....	\$3,588,977,000	\$4,886,345,000	\$185,869,000	\$5,072,214,000
(b) Delivery Expenses.....	961,682,000	1,110,750,000	79,535,000	1,190,285,000
(c) Agricultural Risk Protection Act of 2000 Initiatives:				
Subtotal, Expenses.....	37,510,000	69,500,000	0	69,500,000
(d) Underwriting Gains/Losses.....	4,588,169,000	6,066,595,000	265,404,000	6,331,999,000
923,981,000	923,981,000	789,736,000	102,607,000	892,343,000
Total, Expenses.....	5,512,150,000	6,856,331,000	368,011,000	7,224,342,000
2. Funds Available from Revenue and prior year balances				
(a) Producer Premium.....	-2,085,069,000	-1,931,080,000	-318,576,000	-2,249,656,000
(b) Administrative Fees.....	-47,189,000	-43,077,000	-589,000	-43,666,000
(c) Unobligated Balance Brought Forward from Prior Year.....	-1,355,273,000	-1,265,839,000	507,918,000	-757,921,000
(d) Unobligated Balance Carried Forward to Next Year.....	1,265,839,000	757,921,000	-117,921,000	640,000,000
Total, Funds from Revenue and Balances.....	-2,221,692,000	-2,482,075,000	70,832,000	-2,411,243,000
3. Total, Available Funds.....	3,290,458,000	4,374,256,000	438,843,000	4,813,099,000

1/ The budget includes a General Provision providing the authority to use Agricultural Risk Protection Act funding for program compliance and integrity purposes. \$9M will be used for Data Mining and Data Warehousing activities (IT Investment 07) and \$2.2M will be used for the Comprehensive Information and Management System (IT Investment 17).

Federal Crop Insurance Corporation

- (1) A budget increase of \$438,843,000 is estimated for the Federal Crop Insurance Corporation (FCIC) Fund directed at achieving our mission, which is:

“To promote, support, and regulate sound risk management solutions to strengthen and preserve the economic stability of America’s agricultural producers.”

- (a) An increase of \$739,174,000 is projected for premium subsidy.

Premium subsidy is based, primarily, on the result of participation changes. Program indicators suggest a modest increase in compared to potential acreage coverage. Each year, approximately 1.3 million crop insurance policies are sold. The Federal government subsidizes premium on those policies. Over the past few years, the crop insurance program has seen a significant shift in business due to increased subsidy levels. The requested \$3.5 billion in premium subsidy is necessary to effectively provide producers higher levels of protection at more affordable prices.

Premium Subsidy supports RMA’s Objective 2.1, “To improve and protect the soundness, safety, efficiency, and effectiveness of the risk management delivery system”.

- (b) An increase of \$79,535,000 is projected for delivery expenses.

Delivery expenses support RMA’s Objective 2.1. A funding increase for delivery expenses, the amount of administrative and operating expense reimbursements provided to approved insurance providers, is projected because of an increase in participation and an increase in total crop insurance premium. These funds are for delivering risk management services and/or products, and are based on a percentage of estimated total premiums for each crop year. In accordance with the Agricultural Research, Extension, and Education Reform Act of 1998, the reimbursement rate shall not exceed 24.5 percent of the premium used to define loss ratio.

For FY 2008, estimated total premium is projected at \$5.7 billion. As a result, RMA anticipates delivery expenses of \$1.2 billion. These funds will assure effective delivery of risk management products to the agricultural community through reinsured companies, a process to which the Department is committed.

- (c) A decrease of \$379,866,000 for excess losses.

The total amount requested, \$86.4 million, will fund expected excess losses and is based on the projected/mandated loss ratio of 1.040. In addition, these funds will cover any underwriting gain due reinsured companies. Excess loss funds are authorized under the appropriation language “such sums as may be necessary”, and directly contribute to improving the economic stability of agriculture. Without these funds, farmers experiencing crop/livestock losses would not receive full benefit for the projected \$5.1 billion in indemnities to protect them from unavoidable causes such as weather, reduced prices, or reduced yields. The increase is attributable to changes in the crop, acres and yield data based on the latest program indicators report.

- (d) An increase of (\$9,000,000) – (Non-add) for Strategic Data Analysis.

(1) An increase of \$3,600,000 is requested to maintain the data mining/data warehousing system and provide funding to support system updates and upgrades. It is estimated that in its first year of operation, data mining prevented nearly \$94 million in improper payments and helped recover nearly \$35 million in improper indemnities. During January through December 2004, program

costs were reduced by an estimated \$71 million by preventing or deferring suspicious claims.

(2) An increase of \$5,401,000 is requested for ongoing support of the business applications and hardware for the Strategic Data Analysis initiative. This funding is necessary to replace hardware and operating system software originally purchased in 2001. By year 2008, this equipment will be at the end of its life cycle. Current applications have outgrown servers and storage devices making it increasingly difficult to ensure the ongoing operation or recovery of the Strategic Data Analysis initiative. The data mining/data warehousing initiative was undertaken to reduce fraud, waste, and abuse and to assure program compliance. Investigators, actuaries, underwriters and program personnel at all levels use this database to confirm and assure optimal program management. The reports generated by data mining have resulted in more than \$160 million in savings to the taxpayer primarily in cost avoidance of indemnity payments for questionable insurance claims. The ratio of dollars saved to expended is 20:1.

Mandatory spending of \$9 million will be allowed by including a general provision within the budget to make data mining an authorized purpose from the research and development funding in the Crop Insurance Act, replacing the likely enacted for this purpose.

(e) An increase of (\$2,165,000) – (Non-add) for Comprehensive Information and Management System.

The Comprehensive Information Management System (CIMS) was authorized in section 10706(b) of the Farm Security and Rural Investment Act of 2002. CIMS is a shared IT system between RMA and the Farm Service Agency (FSA). It was undertaken to identify common and unique producer and crop information reported to both agencies and reduce the reporting burdens to farmers, ranchers and producers, FSA, RMA, and crop insurance providers. Producers submit over three million acreage reports to RMA and FSA annually. This investment standardizes information reported under both programs; standardizes business elements; centralizes storage of CIMS elements; improves timely reporting of RMA, FSA and USDA information; reduces the cost of data duplication, data inconsistency and reporting errors; eliminates or reduces the need for on-going data reconciliation; provides a centralized source for approved information reporting for RMA and FSA; reduces fraud and abuse vulnerabilities; and improves overall program integrity.

This investment supports the line-of-sight/results chain: a database of producer data will exist prior to a disaster. This database allows FSA to access data readily in order to process disaster assistance to producers. CIMS also allows FSA to confirm any requirement for federal crop insurance coverage without formal requests for data exchange between RMA and FSA. Real-time access to this data makes disaster loss processing more efficient, thereby, mitigating costs for both agencies as well as potential losses for the producer.

In 2002, funding was authorized from the Commodity Credit Corporation. The authorized amount will be depleted in 2007. RMA and FSA have expended significant effort in developing a joint information management system for their programs. This effort has improved the efficiencies of data sharing between the two agencies. The requested funds will provide resources to maintain the current system and resources to continue with development to improve upon efficiencies achieved thus far. The additional funds will be used to replace hardware and operating systems that will be at end of life cycle in FY 2008. Labor costs for 2008 will be \$1,560,000; hardware/software replacement \$300,000; short-term labor to install and integrate new components into RMA/FSA architecture \$300,000; and \$5,000 for IT supplies.

Mandatory spending of \$2.1 million will be allowed by including a general provision within the budget to make CIMS an authorized purpose from the research and development funding in the

Crop Insurance Act. This replicates how Data Mining is being funded in the likely enacted and the FY 2008 Budget.

- (f) FY 2008 Budget proposal: affects post 2008 mandatory funding and out [-\$15 million/year beginning in 2009].

The 2008 Budget includes a proposal to implement a participation fee in the Federal crop insurance program. The proposed participation fee would initially be used to fund modernization of the existing information technology (IT) system and would supplement the annual appropriation provided by Congress. Subsequently, the fee would be shifted to maintenance and would be expected to reduce the annual appropriation. The participation fee would be charged to insurance companies participating in the Federal crop insurance program; based on a rate of about one-half cent per dollar of premium sold, the fee is expected to generate about \$15 million annually beginning in 2009. The existing IT system is nearing the end of its useful life and recent years have seen increases in "down-time" resulting from system failures. Over the years, numerous changes have occurred in the Federal crop insurance program; including, the development of revenue and livestock insurance which have greatly expanded the program and taxed the IT system due to new requirements, such as daily pricing, which were not envisioned when the existing IT system was designed. These new requirements contribute to increased maintenance costs and limit RMA's ability to comply with Congressional mandates pertaining to data reconciliation with the Farm Service Agency. The participation fee will alleviate these problems.

RISK MANAGEMENT AGENCY

Summary of Increases and Decreases - Proposed Legislation
(On basis of appropriation)

Item of Change	2008		
	Current Law	Program Changes	Agency Request
Premium Subsidy.....	\$3,466,894,000	\$0	\$3,466,894,000
Delivery Expenses.....	1,190,285,000	0	1,190,285,000
Agricultural Risk Protection Act of 2000 Initiatives:			
Improving Program Compliance and Integrity.....	0	(11,165,000)	(11,165,000)
Research and Development.....	40,000,000	0	40,000,000
Pilot Programs (Livestock and Wild Salmon).....	21,000,000	0	21,000,000
Education and Risk Management Assistance.....	10,000,000	0	10,000,000
Transfer to CSREES.....	-5,000,000	0	-5,000,000
Policy Consideration and Implementation.....	3,500,000	0	3,500,000
Treasury Transfer for Excess Losses.....	86,420,000	0	86,420,000
Total Available or Estimate.....	4,813,099,000	(11,165,000)	4,813,099,000

EXPLANATION OF PROPOSED LEGISLATION:Improving Program Compliance and Integrity

RMA is requesting Data Mining/Data Warehousing to be funded through the ARPA account. \$3.6 million is requested in FY 2008 and subsequent years to maintain the system and provide funding to support systems updates and upgrades. \$5.4 million is requested in FY 2008 to replace hardware and operating system software that is at the end of its life cycle.

RMA is requesting Comprehensive Information Management System (CIMS) be funded through the ARPA account. \$2.2 million is requested in FY 2008 and subsequent years. CIMS is a shared IT system between RMA and the Farm Service Agency (FSA). It was undertaken to identify common and unique producer and corp information reported to both agencies and reduce the reporting burden to farmers, ranchers and producers, FSA, RMA, and crop insurance providers. The FSA/CCC was the original source of funding for the CIMS project and because RMA's share of the funds to develop CIMS was transferred from FSA/CCC to the Crop Insurance Fund, CIMS funding was never included in the base of the A&O account.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION FUND

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
2006 Actual and Estimated 2007 and 2008

	2006	2007	2008
	Amount	Amount	Amount
Alabama.....	\$77,910,404	\$106,073,990	\$110,108,881
Alaska.....	0	0	0
Arizona.....	11,869,785	16,160,557	16,775,279
Arkansas.....	24,536,201	33,405,715	34,676,416
California.....	95,914,239	130,585,976	135,553,264
Colorado.....	92,249,742	125,596,811	130,374,319
Connecticut.....	3,425,509	4,663,785	4,841,188
Delaware.....	3,823,823	5,206,085	5,404,117
Florida.....	207,203,436	282,104,753	292,835,581
Georgia.....	134,789,778	183,514,511	190,495,119
Hawaii.....	238,989	325,380	337,757
Idaho.....	23,819,234	32,429,574	33,663,144
Illinois.....	73,210,287	99,674,844	103,466,320
Indiana.....	55,206,452	75,162,858	78,021,937
Iowa.....	130,169,325	177,223,824	183,965,144
Kansas.....	244,087,400	332,321,785	344,962,792
Kentucky.....	14,578,327	19,848,201	20,603,195
Louisiana.....	25,412,494	34,598,776	35,914,860
Maine.....	8,205,288	11,171,392	11,596,334
Maryland.....	11,869,785	16,160,557	16,775,279
Massachusetts.....	2,708,542	3,687,644	3,827,916
Michigan.....	30,670,251	41,757,143	43,345,521
Minnesota.....	76,317,144	103,904,788	107,857,165
Mississippi.....	49,231,727	67,028,350	69,578,004
Missouri.....	26,448,112	36,008,757	37,378,475
Montana.....	40,628,125	55,314,658	57,418,741
Nebraska.....	126,584,490	172,343,119	178,898,785
Nevada.....	716,967	976,141	1,013,272
New Hampshire.....	318,652	433,840	450,343
New Jersey.....	1,194,945	1,626,902	1,688,787
New Mexico.....	12,586,752	17,136,698	17,788,551
New York.....	19,676,758	26,789,648	27,808,685
North Carolina.....	81,893,553	111,496,996	115,738,169
North Dakota.....	451,290,835	614,426,539	637,798,373
Ohio.....	44,053,633	59,978,442	62,259,929
Oklahoma.....	107,465,373	146,312,692	151,878,200
Oregon.....	10,674,841	14,533,655	15,086,493
Pennsylvania.....	21,588,670	29,392,691	30,510,743
Rhode Island.....	79,663	108,460	112,586
South Carolina.....	32,582,163	44,360,186	46,047,579
South Dakota.....	276,510,236	376,465,051	390,785,199
Tennessee.....	20,553,051	27,982,709	29,047,128
Texas.....	763,968,069	1,040,132,481	1,079,697,511
Utah.....	1,911,912	2,603,043	2,702,058
Vermont.....	1,513,597	2,060,742	2,139,130
Virginia.....	23,102,267	31,453,433	32,649,873
Washington.....	66,438,933	90,455,734	93,896,530
West Virginia.....	796,630	1,084,601	1,125,858
Wisconsin.....	45,965,545	62,581,485	64,961,988
Wyoming.....	12,985,067	17,678,998	18,351,480
Puerto Rico.....	0	0	0
Subtotal, Indemnities a/.....	3,588,977,000	4,886,345,000	5,072,214,000
Undistributed b/.....	999,192,000	1,180,250,000	1,259,785,000
Total, Available or Estimate.....	4,588,169,000	6,066,595,000	6,331,999,000

a/ Due to the inability to predict the location of losses, it is impossible to accurately estimate a State cost distribution. These estimates are based on previous distribution.

b/ Undistributed includes, Delivery Expenses, ARPA costs, Interest and other expenses that cannot be distributed by states.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION FUND

STATUS OF PROGRAM

The Federal Crop Insurance Corporation (FCIC) is a wholly owned government corporation created February 16, 1938 (7 U.S.C. 1501.) The program was amended by Public Law (P.L.) 96-365, dated September 26, 1980, to provide for nationwide expansion of a comprehensive crop insurance plan. FCIC is administered by the Risk Management Agency (RMA), and promotes the national welfare by improving the economic stability of agriculture through a secure system of crop insurance.

Current Activities: Approximately 1,146,553 policies were written in crop year 2006 with an estimated \$4.58 billion in premium, and an estimated \$4.5 billion to be paid in indemnities. In FY 2006, \$3.6 billion in indemnities was obligated. The variation in indemnities between crop year 2006 and fiscal year 2006 is about \$1 billion. These indemnities are carried forward to the following fiscal year. Crop insurance is available for more than 350 different commodities in over 3,060 counties covering all 50 states, and Puerto Rico.

RMA continues to pursue initiatives to make higher levels of crop insurance protection more affordable and useful to producers, provide better protection to farmers experiencing multi-year losses, expand risk management education opportunities, stimulate development of new risk management products, and improve program integrity.

Pilot Programs

Currently, RMA has 31 active pilot programs, including 508(h) programs, which are in various states of the pilot phase of development. A Product Management priority for 2006 was continuing to conduct Final Pilot Program Evaluations.

Current pilot programs are: Adjusted Gross Revenue (AGR) and AGR-Lite, avocado actual production history, avocado revenue, cabbage, cherries, citrus (dollar), coverage enhancement option, cultivated clams, cultivated wild rice, Florida fruit trees, forage seed, the IP and Indexed IP plan of insurance, mint, mustard, nursery price endorsement; onion pilot stage removal option, Pasture, Rangeland, Forage (Rainfall); Pasture Rangeland, Forage (Vegetation); Hawaii tropical fruit; Hawaii tropical tree; processing chile peppers, rangeland (GRP), silage sorghum, strawberries, sweet potatoes, GRIP HRQ, Hybrid Seed/Corn Price Endorsement; Livestock Gross Margin and Livestock Risk Protection. Five pilots were terminated with the 2006 crop year. These were winter squash; processing cucumbers; raspberry/blackberry; apple quality option and fresh market beans. Four of the pilots listed above are new with the 2007 crop year. These are the Pasture, Rangeland, Forage (Rainfall) and Pasture Rangeland, Forage (Vegetation), Hawaii tropical fruit and Hawaii tropical tree.

Evaluations conducted and actions taken on the affected pilot programs are as follows:

AGR - The pilot program evaluation for AGR was concluded in June, 2006. The AGR pilot program was substantially modified as a result, with a successor pilot rolled out effective for the 2007 crop year.

Avocado (Revenue) – The pilot program evaluation for avocado (revenue) was presented to the FCIC Board in July, 2006. The Board determined it should be converted to an APH pilot plan of insurance. The conversion is currently underway.

Forage Seed – The pilot program evaluation for forage seed was presented to the FCIC Board in April, 2006. The Board determined that the program should be converted to a regulatory program as resources permit.

Onion Stage Removal – The pilot program evaluation for onion stage removal was presented to the FCIC Board in April, 2006. The Board determined to continue the pilot for an additional three years in New York State only.

Apple Quality Option – The Apple Quality Option was initiated in crop year 2001 in 160 counties in California, Michigan, New York, Pennsylvania, Virginia and Washington. The pilot program evaluation was presented to the FCIC Board in July, 2006. The Board determined to terminate the pilot with the 2006 crop year.

Raspberry/Blackberry – The Raspberry/Blackberry pilot program was initiated in 2002 in California, Oregon and Washington. The pilot program evaluation was presented to the FCIC Board in July, 2006. The Board determined to terminate the pilot with the 2006 crop year.

Pilot program evaluations were initiated in FY 2006 and are currently underway for the Avocado (APH) pilot program and the Cultivated Clams pilot program. Both are expected to conclude during FY 2007.

In addition to the five pilot program evaluations initiated in FY 2006, nine other contracts were awarded to evaluate and further the effectiveness of current programs. Three examples of those agreements, still underway, are review of the disaster reserve factor, a review of declining yields and an evaluation of the cotton program.

Also, 8 new partnership agreements were awarded in 2006:

- **Analysis of Risk Management Strategies for Irrigation During Periods of Water Shortages in Oregon**, a partnership to develop a web-based decision-support tool to assist producers with irrigated farms dealing with reduced water supplies by modeling the relationship between irrigation intensity and crop yield reductions.
- **Integrated Risk Management Tool for Cattle Health Monitoring**, a partnership to develop a risk-management tool to enable beef cattle producers to quickly identify, isolate, and treat diseased cattle to reduce the spread of infectious disease and improve production and performance.
- **Risk Management Assessment of Winter Canola Production Practices in Kansas**; a partnership to develop recommendations for winter canola in Southcentral and Southwest Kansas that will assist in controlling pest pressures resulting from the continuous cropping of cereal crops.
- **Building Farm Energy Self-Sufficiency: Tools for Self-Protection**; a partnership to help producers in Montana and California develop alternative energy supply strategies so farmers and ranchers can protect themselves from energy supply disruption and encourage self-protection for agricultural operations vulnerable to losses due to terrorism.
- **Enhancing Irrigation Management Tools and Developing a Decisions System for Managing Limited Irrigation Supplies**; a partnership to develop a tool to determine the optimum strategies for managing water allocations, evaluate irrigation system improvements, and develop improved irrigation response crop production functions for oil seed and pulse crops
- **Development of a Disease Forecasting System for Strawberries as a Tool on *AgClimate***; a partnership to develop a web-based disease forecasting system to predict anthracnose and botrytis so Strawberry growers in Florida will be able to access information needed for decisions on fungicide applications to reduce

application and production costs without compromising disease control.

- Pest Management Options and Related Investment Analysis System for Forage Lands; a partnership to design a decision support system to inform forage producers in Texas and New Mexico of sound pest management options associated with weed and brush control as well as the economic impact of the pest management options considered.
- Water Allocation Risk Analysis Tool; a partnership to develop a web-based tool to provide individual producers in Texas, Kansas, Colorado and Nebraska with expectations of crop yields, yield variability, and profitability under a variety of water-use scenarios utilizing distinctively localized information.

Additional funding was also made available to the following three interagency agreements:

- Organic Market Information – Enhance the Market News Portal and the Market News Information System to better meet the needs of the organic sector and initiate a nationwide pilot project to enhance price reporting for organic fruits and vegetables.
- Risk Management Tool for Soybean Rust (Leguminous Crops) – Develop an effective decision support tool for managing pests and diseases of crops, particularly soybean rust, for selected specialty crops. A coordinated framework for surveillance, reporting, prediction and management will be developed.
- Florida Risk Management Tool for Clam Producers – Develop an effective decision support and centralized data source for water quality in the cultivated clam pilot insurance growing areas of Florida based on data from the water quality monitoring stations in Florida.

Reinsurance

During FY 2006, the Reinsurance Services Division (RSD) issued Manager's Bulletin 05-019 in October 2005 which provides guidance regarding conflicts of interest during loss adjustment. In addition to conflict of interest, RSD continued to monitor the Premium Reduction Plan (PRP) program during FY 2006.

Several changes involving approved insurance providers (AIPs) occurred during FY 2006. For the 2007 reinsurance year (RY) (which began at the start of the 4th quarter of the 2006 FY), Clearwater Insurance Company entered the crop insurance program as a new AIP for, with CropUSA as its managing general agent (MGA). Second, during FY 2006 Great American Insurance Company acquired the book of Farmers' Alliance Mutual Insurance Company through the purchase of their MGA, Farmers Crop Insurance Alliance. Third, during FY 2006, Occidental Fire and Casualty Company of North Carolina (Occidental) absorbed the book of Farm Bureau Mutual Insurance Company (Farm Bureau) for the remainder of the 2006 RY, which resulted from Farm Bureau's purchase of Crop Insurance Direct, Inc., the MGA for Occidental. For RY 2006 which began July 1, 2006, Occidental withdrew its SRA and all previous Occidental and Crop business is through Farm Bureau's 2007 SRA.

National Outreach Program

RMA has implemented several initiatives to increase awareness and service to small and limited resource farmers and ranchers and other under-served groups and areas. Through the Partnership Agreements, we provided a venue for public and private agricultural organizations, land grant universities, community based organizations, farmers and ranchers and other stakeholders to identify, develop and promote successful risk management strategies that small and limited resource farmers and ranchers can utilize to remain economically viable in a rapidly changing agricultural environment. RMA is also partnering with community-based organizations, 1890, 1994, 1862 land grant

colleges and universities, and Hispanic Serving Institutions to provide technical program assistance and risk management education on strategies associated with legal, production, marketing, human resources, and labor risks. RMA funded 62 outreach projects in FY 2006 totaling more than \$7.1 million to provide outreach and assistance to women, small and limited resource farmers and ranchers.

Student Employment Programs

The agency utilized the student intern programs to address the under representation of women and minorities. In FY 2006, RMA hired several students of various nationalities and both genders. RMA will continue to use these programs to achieve diversity goals.

Risk Management Education

During FY 2006, education and outreach programs focused on underserved states, specialty crop producers, and grants through the Cooperative State Research, Education, and Extension Service.

In April 2006, RMA announced Request for Applications for three programs. The first was to establish cooperative agreements in states that have been historically underserved with respect to crop insurance. As a result of this announcement, 15 cooperative agreements were established totaling \$4.5 million. These agreements were executed with state departments of agriculture, universities, and for-profit organizations to deliver crop insurance education to producers in Connecticut, Delaware, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming. Specifically, these cooperative agreements will expand the amount of risk management information available; promote risk management education opportunities; inform agribusiness leaders of increased emphasis on risk management; and deliver crop insurance training to producers with an emphasis on reaching small farms.

The second program was for commodity partnership agreements to reach producers of specialty crops. A total of 46 commodity partnership agreements were established at a cost of \$5.3 million. These agreements were executed with state departments of agriculture, universities, grower groups, non-profit organizations, and profit organizations. These agreements will reach specialty crop producers with broad risk management education. In addition, efforts were continued with the Future Farmers of America organization to educate and encourage youths' participation in the agriculture.

The third program was for small session commodity partnership agreements to reach producers of specialty crops. A total of 32 small session commodity partnership agreements were established at a cost of \$312,000. These agreements were executed with universities, grower groups, non-profit organizations and for-profit organizations. These agreements will reach specialty crop producers with broad risk management education.

Program Compliance and Integrity

RMA, FSA and the Approved Insurance Providers continued to improve program compliance and integrity through: 1) data reconciliation and matching for disaster program payments; 2) evaluating and amending procedures for referring potential crop insurance errors or abuse between FSA and RMA; and 3) creating anti-fraud and distance learning training packages as required by ARPA. Compliance has also improved efforts to integrate other data mining projects; explore avenues to expedite the processing of sanctions requests; and implement the Compliance case management and tracking system.

The formalized alliance with FSA, along with data mining and analysis, greatly improved referral activity to and from RMA. This is attributable to the greater emphasis placed upon deterrence and prevention efforts. In order to deal with the referral activity and the responsibilities of data reconciliation with FSA, RMA has sought to manage the increase in workload by increasing emphasis on data management and computer based resources. RMA will continue to develop strategies to increase program compliance through data mining and integration tools to evaluate, track, and improve program compliance and integrity.

The spot check effort alone resulted in reduced program costs by an estimated \$140 million by preventing or deferring suspicious claims during January 2005 through December 2005, and will be reported in the RMA *Program Compliance and Integrity Annual Report to Congress*.

RISK MANAGEMENT AGENCY

Summary of Budget and Performance
Statement of Goals and Objectives

The primary responsibility of the Risk Management Agency (RMA) is to administer the Federal Crop Insurance Program in accordance with the 1938 Federal Crop Insurance Act (7 U.S.C. 1501 et seq.) as amended. The Risk Management Agency was established in 1996 in the United States Department of Agriculture (USDA) to improve the economic stability of agriculture through a sound system of crop insurance and to provide the means for the research and experience helpful in devising and establishing such insurance. The mission of the agency is to promote, support, and regulate sound risk management solutions to strengthen and preserve the economic stability of America’s agriculture producers. RMA provides an actuarially sound risk management program that protects against agricultural production losses due to unavoidable causes such as drought, excessive moisture, hail, wind, hurricane, tornado, lightning, insects, etc. In addition to these causes, revenue insurance programs are available under which producers of certain crops are protected against loss of revenue stemming from low prices, poor yields, or a combination of both. Federal crop insurance is available to producers through private insurance companies that market and service policies upon which those companies also share in the risk. Thus, the program is a joint effort between the Federal government and the private insurance industry for program delivery.

The RMA has one strategic goal and five strategic objectives that directly support the achievement of USDA Goal 2: Enhance the Competitiveness and Sustainability of Rural and Farm Economies, and more specifically, USDA Objective 2.3: Provide Risk Management and Financial Tools to Farmers and Ranchers.

USDA Strategic Goal/Objective	Agency Strategic Goal	Agency Objectives	Programs that Contribute	Key Outcome
<p>USDA Goal 2: Enhance the Competitiveness and Sustainability of Rural and Farm Economies</p> <p>USDA Strategic Objective 2.3: Provide Risk Management and Financial Tools to Farmers and Ranchers</p>	<p>Agency Goal : Preserve and strengthen the economic stability of America’s agricultural producers by promoting and supporting the use of sound risk management tools among farmers and ranchers.</p>	<p><u>Objective 1.1:</u> Increase the availability and effectiveness of risk management solutions.</p> <p><u>Objective 2.1:</u> Improve and protect the soundness, safety, efficiency and effectiveness of the risk management delivery system.</p> <p><u>Objective 3.1:</u> Ensure customer and stakeholders have knowledge and awareness of risk management tools and products.</p>	<p>Federal Crop Insurance</p>	<p><u>Key Outcome:</u> 1.1: Increase the normalized value of risk protection provided to agriculture producers through FCIC sponsored insurance (\$Bil)</p>

USDA Strategic Goal/Objective	Agency Strategic Goal	Agency Objectives	Programs that Contribute	Key Outcome
<p>USDA Goal 2: Enhance the Competitiveness and Sustainability of Rural and Farm Economies</p> <p>USDA Strategic Objective 2.3: Provide Risk Management and Financial Tools to Farmers and Ranchers</p>	<p>Agency Goal: Preserve and strengthen the economic stability of America's agricultural producers by promoting and supporting the use of sound risk management tools among farmers and ranchers.</p>	<p><u>Objective 4.1:</u> Ensure effective oversight of the Crop Insurance industry and enhance deterrence and prosecution of fraud, waste, and abuse.</p> <p><u>Objective 5.1:</u> Develop, acquire, and align activities, resources, and skills to efficiently achieve the RMA vision, mission, objectives, and actionable strategies.</p>	Federal Crop Insurance	<p><u>Key Outcome:</u> 1.1: Increase the normalized value of risk protection provided to agriculture producers through FCIC sponsored insurance (\$Bil)</p>

Strategic Objective and Funding Matrix

STRATEGIC OBJECTIVE 1.1: Increase the availability and effectiveness of risk management solutions.

STRATEGIC OBJECTIVE 2.1: Improve and protect the soundness, safety, efficiency, and effectiveness of the risk management delivery system.

STRATEGIC OBJECTIVE 3.1: Ensure customers and stakeholders have knowledge and awareness of risk management tools and products.

STRATEGIC OBJECTIVE 4.1: Ensure effective oversight of the Crop Insurance industry and enhance deterrence and prosecution of fraud, waste, and abuse.

STRATEGIC OBJECTIVE 5.1: Develop, acquire, and align activities, resources, and skills to efficiently achieve the RMA vision, mission, objectives, and actionable strategies.

Strategic Objective and Funding Matrix (On the basis of appropriation)

Strategic Objective 1.1:

	2006 Actual		2007 Budget		Increase or Decrease	2008 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
Administrative and Operating Expense	\$19,068,000	130	\$19,748,000	150	+1,065,000	\$20,813,000	150
FCIC	32,510,000	0	64,500,000	0	0	64,500,000	0
Total, Objective 1.1	51,578,000	130	84,248,000	150	+1,065,000	85,313,000	150

Strategic Objective 2.1:

	2006 Actual		2007 Budget		Increase or Decrease	2008 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
Administrative and Operating Expense	\$12,199,000	65	\$11,658,000	80	+1,573,000	\$13,231,000	80
FCIC	3,252,948,000	0	3,838,470,000	0	+818,709,000	4,657,179,000	0
Total, Objective 2.1	3,265,147,000	65	3,850,128,000	80	+820,282,000	4,670,410,000	80

Strategic Objective 3.1:

	2006 Actual		2007 Budget		Increase or Decrease	2008 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
Administrative and Operating Expense	\$6,474,000	55	\$6,511,000	63	+677,000	\$7,188,000	63
FCIC	5,000,000	0	5,000,000	0	0	5,000,000	0
Total, Objective 3.1	11,474,000	55	11,511,000	63	+677,000	12,188,000	63

Strategic Objective 4.1:

	2006 Actual		2007 Budget		Increase or Decrease	2008 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
Administrative and Operating Expense	\$22,642,000	147	\$23,927,000	169	-2,938,000	\$20,989,000	169
FCIC	0	0	0	0	0	0	0
Total, Objective 4.1	22,642,000	147	23,927,000	169	-2,938,000	20,989,000	169

Strategic Objective 5.1:

	2006 Actual		2007 Budget		Increase or Decrease	2008 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
Administrative and Operating Expense	\$15,558,000	80	\$14,434,000	91	+2,407,000	\$16,841,000	91
FCIC	0	0	466,286,000	0	-379,866,000	86,420,000	0
Total, Objective 5.1	15,558,000	80	480,720,000	91	-377,459,000	103,261,000	91
Total, Available	\$3,366,399,000	477	\$4,450,534,000	553	+441,627,000	\$4,892,161,000	553

Selected Accomplishments Expected at the FY 2008 Proposed Resource Level:

- RMA will continue efforts to increase the availability and effectiveness of risk management solutions.
- RMA will continue to evaluate contracts for the development of new and innovative risk management solutions to increase the availability of insurance for insuring pasture, rangeland, forage, and hay.
- RMA will work to resolve IT system deficiencies that have resulted from aging and outdated systems.

- RMA will continue to work towards establishing a system of recurring reviews of insurance providers to provide greater assurance in the integrity of all components of the risk management program.
- RMA will continue to invest in data mining and data warehousing of crop insurance data that have been proven to be useful tools to accomplish the goals of the program in detecting possible instances of fraud, waste, and abuse.

Means and Strategies

The RMA strategic goal will be achieved by accomplishing the tasks necessary to satisfy the objectives. The enabling strategies include formalizing the use of strategic information and market analysis to improve decision-making, improving internal and external communication, focusing and harmonizing products and services to address demonstrated market needs, and developing a comprehensive and coordinated assurance delivery system. The objectives represent a multifaceted approach to improving the stability of the agricultural economy through the expanded use risk management tools. By promoting additional improved or consolidated products, enhancing product delivery, providing educational opportunities, and reducing program and administrative inefficiencies, RMA will promote and support the use of sound risk management tools among farmers and ranchers.

RISK MANAGEMENT AGENCY

Summary of Budget and Performance
Key Performance Outcomes and Measures

Agency Goal: Preserve and strengthen the economic stability of America's agricultural producers by promoting and supporting the use of sound risk management tools among farmers and ranchers.

Key Outcome: Increase the normalized value of risk protection provided to agriculture producers through FCIC sponsored insurance. Agricultural producers face severe economic losses annually due to such unavoidable causes as bad weather, natural disasters, pests, and price fluctuations or any combination of these factors. Much of the agricultural production sector is composed of small profit margins and good and bad production years. RMA provides risk management tools to farmers and ranchers to assist them in protecting their needs in times of disasters or other uncontrollable conditions that may threaten their livelihood. The Federal Crop Insurance Program provides tools to mitigate and manage the economic risk of U.S. agricultural producers. It improves the economic stability of agriculture by providing a variety of risk management tools and by continuing to assess producers' needs to ensure that new and innovative risk management alternatives are available. The increased value of risk protection provided to agricultural producers through FCIC sponsored insurance illustrates not only the acceptance of these products by producers but also the broadening of economic stability across the agricultural spectrum.

Key Performance Measure: Increased normalized value of risk protection provided to agricultural producers through FCIC sponsored insurance. The value of risk protection denotes the amount of insurance in force protecting and stabilizing the agricultural economy. The normalized value uses an average of the 2000 through 2004 ten staple commodity prices that comprise the bulk of the liability. The model uses the latest information from the crop insurance program and combines it with the USDA baseline projections for the major crops including corn, wheat, soybeans, sorghum, barley, rice, and cotton. In making the projections, the model holds various factors constant, such as premium rates and average coverage level. The model assumes that all non-major crops behave in a way that is consistent with the USDA projections for the major crops. Thus, the budget and performance projections for the crop insurance program mainly depend on the baseline projections from USDA.

Key Performance Targets

<u>Performance Measure</u>	<u>2003 Actual</u>	<u>2004 Actual</u>	<u>2005 Actual</u>	<u>2006 Actual</u>	<u>2007 Target</u>	<u>2008 Target</u>
#1 – Increase the normalized value of FCIC risk protection coverage provided through FCIC sponsored insurance (in billions)	\$40.6	\$46.7	\$44.2	\$49.9	\$46.9	\$49.5
Mandatory and discretionary funding associated with measure (in billions)	\$2.8	\$3.4	\$2.3	\$3.4	\$4.5	\$4.9
Discretionary IT Funding (in millions)	\$11.6	\$10.4	\$15.1	\$17.1	\$17.1	\$13.7
#2 – Increase the number of crop insurance or non-insurance risk management tools which address pasture, rangeland and forage production needs	2	2	2	3	5	7

<u>Performance Measure</u>	<u>2003 Actual</u>	<u>2004 Actual</u>	<u>2005 Actual</u>	<u>2006 Actual</u>	<u>2007 Target</u>	<u>2008 Target</u>
Mandatory and discretionary Funding associated with Measure (in millions)	\$.75	\$.75	\$.75	\$.75	\$ 1.57	\$ 1.1
#3– The number of pilot programs evaluated for potential conversion from pilot program to permanent program status	3	8	8	4	4	4
Mandatory and discretionary funding associated with measure (in millions)	\$.29	\$ 2.5	\$ 2.6	\$ 1.5	\$ 1.5	\$ 1.6
#4 – Crop insurance participation rate for the ten staple crops	78%	78.5%	80%	79.5%	80%	80%
Mandatory and discretionary funding associated with measure (amount per billion in liability)	\$ 2,908	\$ 2,925	\$ 1,738	\$ 2,765	\$ 1,549	\$ 1,470
#5 – The number of producers reached through Commodity Partnership and Targeted States Cooperative Agreements	N/A	47,000	47,000	48,000	48,899	49,877
Mandatory and discretionary funding associated with measure (in millions)		\$ 14	\$ 14	\$ 15	\$ 15	\$ 15
#6 – The number of operational reviews conducted of insurance companies receiving funding through FCIC	10	5	7	5	6	7
Mandatory and discretionary funding associated with measure (in millions)	\$.14	\$.06	\$.11	\$.08	\$.09	\$.11
#7 – Number of program reviews of insurance providers receiving funding through FCIC	0	1	5	6	6	6

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<u>Performance Measure</u>	<u>2003 Actual</u>	<u>2004 Actual</u>	<u>2005 Actual</u>	<u>2065 Actual</u>	<u>2007 Target</u>	<u>2008 Target</u>
Mandatory and discretionary funding associated with measure (in millions)	\$0	\$0.28	\$1.4	\$1.7	\$1.7	\$1.7

RISK MANAGEMENT AGENCY
Full Cost By Strategic Objective

	FY 2006	FY 2007	FY 2008
	(\$000)	(\$000)	(\$000)
Strategic Objective 2.3: Provide Risk Management and Financial Tools to Farmers and Ranchers			
PROGRAM	PROGRAM ITEMS		
Federal Crop Insurance Corporation Fund			
Compliance and Integrity Program	\$ -	\$ -	\$ (11,165)*
Research and Development Program	27,679	40,000	40,000
Pilot Programs	1,509	21,000	21,000
Policy Consideration and Implementation	3,322	3,500	3,500
Premium Program	2,291,266	2,727,720	3,466,894
A&O Expenses/Delivery Expenses	961,682	1,110,750	1,190,285
Risk Management Assistance Program	5,000	5,000	5,000
Excess Crop Losses	-	466,286	86,420
Total	<u>\$ 3,290,458</u>	<u>\$ 4,374,256</u>	<u>\$ 4,813,099</u>
Administrative and Operating Expenses			
Administrative Costs (direct)	\$ 58,854	\$ 59,191	\$ 65,346
Information Technology	17,087	17,087	13,716
Total	<u>\$ 75,941</u>	<u>\$ 76,278</u>	<u>\$ 79,062</u>
Performance measure: Increase the normalized value of FCIC risk protection coverage provided through FCIC sponsored insurance (in billions)			
Performance target:	\$49.9	\$46.9	\$49.5
Unit Cost:	N/A	N/A	N/A
TOTAL PROGRAM	<u>\$ 3,366,399</u>	<u>\$ 4,450,534</u>	<u>\$ 4,892,161</u>
TOTAL FTEs	477	553	553

*The total of \$11.2M is offset from ARPA, Research and Development Initiative