

2009 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) 2009 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, 2007, RMA had 488 staff years with 472 permanent full-time employees on board located throughout the nation as follows: 77 at Headquarters in Washington, D.C., 166 at the National Office in Kansas City, MO, 152 in ROs, and 77 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. 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 2007.

| <b>OIG/GAO AUDITS COMPLETED IN FISCAL YEAR 2007</b>  |                           |                    |
|--|---------------------------|--------------------|
| <b>REPORT TITLE</b>  | <b>IDENTIFYING NUMBER</b> | <b>DATE ISSUED</b> |
| <b>FCIC Financial Statements as of September 30, 2005, and 2006:</b> 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, 2005, and 2006.  | 05401-15-FM               | 11/04/06           |
| <b>Adjusted Gross Revenue Program:</b> The purpose of this audit was to (1) become familiar with the pilot program and to evaluate the adequacy of the Risk Management Agency's internal controls and oversight to ensure the actuarial soundness of the pilot program, (2) determine whether the pilot program was effectively and efficiently implemented, and (3) evaluate RMA's controls to ensure that insurance providers issued policies and paid indemnities in accordance with regulation and procedures and that indemnity payments were proper. | 05601-04-SF               | 2/02/07            |
| <b>Citrus Indemnity Determinations Made for 2004 Hurricane Damages in Florida:</b> The purpose of this audit was to review the implementation of the emergency loss procedures for Federal disaster assistance and crop insurance payments for losses that resulted from Hurricanes Charley, Francis, and Jeanne.  | 05099-27-AT               | 4/16/07            |
| <b>Zero Acreage Reporting Abuse:</b> The purpose of this audit was 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.  | 50099-51-KC               | 5/03/07            |
| <b>Review of Asian Soybean Rust Claims:</b> The purpose of this audit was 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              | 7/17/07            |

| <b>OIG/GAO AUDITS IN PROGRESS DURING FISCAL YEAR 2007</b>  |                           |                   |
|--|---------------------------|-------------------|
| <b>REPORT TITLE</b>  | <b>IDENTIFYING NUMBER</b> | <b>START DATE</b> |
| <b>Hurricane Indemnity Program – Integrity and Reliability of Data Provided by RMA:</b> The purpose of this audit is to evaluate the adequacy of RMA’s management controls over changes in data provided to FSA for use in its HIP and FSA’s controls to ensure proper payments and any collection of overpayments resulting from these changes.   | 50601-15-AT               | 6/18/07           |
| <b>FCIC Financial Statements as of September 30, 2006, and 2007:</b> 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.  | 05401-16-FM               | 5/2/07            |
| <b>Crop Losses and Quality Adjustments for Aflatoxin-Infected Corn:</b> The objective of this audit is to evaluate the adequacy of management controls over quality adjustments used in making indemnity payments on CYs 2005 and 2006 aflatoxin-infected corn insurance claims.   | 05601-15-TE               | 2/7/07            |
| <b>Group Risk Crop Insurance:</b> 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           |
| <b>RMA 2005 Emergency Hurricane Relief Efforts in Florida:</b> The objective of this audit is 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           |
| <b>Audit of ARPA Related Contracts and Partnership Activities:</b> 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           |
| <b>Monitoring the Financial Condition of RMA’s Reinsured Companies:</b> The objective of this audit is 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          |
| <b>RMA Compliance Activities:</b> The objective of this audit is to determine if compliance activities are adequate to improve program compliance and integrity, and to detect and reduce fraud, waste, and abuse.   | 05601-11-AT               | 10/31/05          |

|  |            |         |
|--|------------|---------|
| <b>Review of Fund Designations by Reinsured Companies:</b><br>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. | 05601-9-AT | 9/23/04 |
|--|------------|---------|

RISK MANAGEMENT AGENCY  
FEDERAL CROP INSURANCE CORPORATION FUND

Available Funds and Staff Years  
FY 2007 Actual and Estimated FY 2008 and FY 2009

| Item   | 2007                 |                | 2008                 |                | 2009                 |                |
|--|----------------------|----------------|----------------------|----------------|----------------------|----------------|
|  | Actual               |                | Estimated            |                | Estimated            |                |
|  | Amount               | Staff<br>Years | Amount               | Staff<br>Years | Amount               | Staff<br>Years |
| <u>Administrative &amp; Operating (A&amp;O) Expenses</u> |                      |                |                      |                |                      |                |
| A&O Expense Appropriation.....                           | \$76,657,520         | 488            | \$76,658,000         | 553            | \$77,177,000         | 553            |
| Rescission 1/.....                                       | 0                    | 0              | -537,000 1/          | 0              | 0                    | 0              |
| Transfer to WCF.....                                     | -400,000             | 0              | 0                    | 0              | 0                    | 0              |
| Transfer to DA Office of Ethics.....                     | 0                    | 0              | -73,000 2/           | 0              | 0                    | 0              |
| Unobligated Balance.....                                 | -813,701             | 0              | 0                    | 0              | 0                    | 0              |
| Total, A&O Expenses.....                                 | <u>75,443,819</u>    | <u>488</u>     | <u>76,048,000</u>    | <u>553</u>     | <u>77,177,000</u>    | <u>553</u>     |
| <u>Federal Crop Insurance Corporation (FCIC) Fund</u>    |                      |                |                      |                |                      |                |
| Premium Subsidy.....                                     | \$2,727,720,000      | 0              | \$3,846,559,000      | 0              | \$4,100,446,000      | 0              |
| Delivery Expenses.....                                   | 1,110,750,000        | 0              | 1,479,566,000        | 0              | 1,471,876,000        | 0              |
| ARPA Costs.....  | 74,500,000           | 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.....                 | 466,286,000          | 0              | -1,250,534,000       | 0              | 936,123,000          | 0              |
| Total, FCIC Fund.....                                    | <u>4,374,256,000</u> | <u>0</u>       | <u>4,145,091,000</u> | <u>0</u>       | <u>6,577,945,000</u> | <u>0</u>       |
| Total, Risk Management Agency.....                       | <u>4,449,699,819</u> | <u>488</u>     | <u>4,221,139,000</u> | <u>553</u>     | <u>6,655,122,000</u> | <u>553</u>     |

1/ The amount in FY 2008 was rescinded pursuant to P.L. 110-161.

2/ Beginning in 2008, the Department will transfer and consolidate all Ethics activities under the Office of Ethics in Departmental Administration (DA). On a comparable basis the full annual cost of the activity is \$73,000 for 2009.

## RISK MANAGEMENT AGENCY

Permanent Positions by Grade and Staff Year Summary  
2007 Actual and Estimated 2008 and 2009

| Grade  | 2007     |       |       | 2008     |       |       | 2009     |       |       |
|--|----------|-------|-------|----------|-------|-------|----------|-------|-------|
|  | 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  | 9        | 6     | 15    | 12       | 7     | 19    | 12       | 7     | 19    |
| GS-14  | 12       | 33    | 45    | 15       | 34    | 49    | 15       | 34    | 49    |
| GS-13  | 26       | 137   | 163   | 37       | 148   | 185   | 37       | 148   | 185   |
| GS-12  | 14       | 141   | 155   | 10       | 156   | 166   | 10       | 156   | 166   |
| GS-11  | 2        | 16    | 18    | 5        | 20    | 25    | 5        | 20    | 25    |
| GS-10  | 1        | 0     | 1     | 1        | 0     | 1     | 1        | 0     | 1     |
| GS-9   | 4        | 19    | 23    | 5        | 20    | 25    | 5        | 20    | 25    |
| GS-8   | 3        | 6     | 9     | 4        | 6     | 10    | 4        | 6     | 10    |
| GS-7   | 4        | 25    | 29    | 6        | 28    | 34    | 6        | 28    | 34    |
| GS-6   | 3        | 13    | 16    | 4        | 19    | 23    | 4        | 19    | 23    |
| GS-5   | 1        | 4     | 5     | 2        | 4     | 6     | 2        | 4     | 6     |
| GS-4   | 0        | 3     | 3     | 0        | 3     | 3     | 0        | 3     | 3     |
| Ungraded Positions.....                              | 0        | 0     | 0     | 0        | 0     | 0     | 0        | 0     | 0     |
| Total Permanent Positions.....                       | 82       | 406   | 488   | 105      | 448   | 553   | 105      | 448   | 553   |
| Unfilled Positions end-of-year.....                  | 5        | 11    | 16    | 0        | 0     | 0     | 0        | 0     | 0     |
| Total, Permanent Full-time Employment, end-of-year.. | 77       | 395   | 472   | 105      | 448   | 553   | 105      | 448   | 553   |
| Staff Year Estimate.....                             | 82       | 406   | 488   | 105      | 448   | 553   | 105      | 448   | 553   |

RISK MANAGEMENT AGENCY

SIZE, COMPOSITION AND COST OF MOTOR VEHICLE FLEET

The 2009 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.

In fiscal years (FY) 2006 and 2007, RMA had six vehicle which consisted of one sedan; three light trucks, and two medium trucks. The annual operating cost for FY 2006 was \$41,349. In FY 2007, the annual operating cost was \$42,589. During FY 2007, one sedan, one light truck, and two medium trucks were replaced. All vehicle replaced had an average mileage of 35,000. At the end of FY 2007, one light truck was retired. RMA currently has a total of five vehicles. There is no request for changes to the number of motor vehicles at this time. The estimated annual operating cost for FY 2008 is \$38,615. In FY 2009, the estimated annual cost is \$39,773. Replacement of one light truck is planned in FY 2008. These five vehicles are located in three field locations and are used for monitoring and oversight of the crop insurance program.

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        | Number of Vehicles by Type* |                             |     |                      |            |       |                     | Total Number of Vehicles | Annual Operating Cost (\$ in thous) *** |
|--------------------|-----------------------------|-----------------------------|-----|----------------------|------------|-------|---------------------|--------------------------|---|
|                    | Sedans and Station Wagons   | Light Trucks, SUVs and Vans |     | Medium Duty Vehicles | Ambulances | Buses | Heavy Duty Vehicles |                          |   |
|                    |                             | 4X2                         | 4X4 |                      |            |       |                     |                          |   |
| FY 2006            | 1                           | 0                           | 3   | 2                    | 0          | 0     | 0                   | 6                        | \$41                                    |
| Change from 2006   | 0                           | 0                           | 0   | 0                    | 0          | 0     | 0                   | 0                        | +2                                      |
| FY 2007            | 1                           | 0                           | 3   | 2                    | 0          | 0     | 0                   | 6                        | \$43                                    |
| Change from 2007** | 0                           | 0                           | -1  | 0                    | 0          | 0     | 0                   | -1                       | -4                                      |
| FY 2008            | 1                           | 0                           | 2   | 2                    | 0          | 0     | 0                   | 5                        | \$39                                    |
| Change from 2008   | 0                           | 0                           | 0   | 0                    | 0          | 0     | 0                   | 0                        | +1                                      |
| FY 2009            | 1                           | 0                           | 2   | 2                    | 0          | 0     | 0                   | 5                        | \$40                                    |

## NOTES:

\* 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.

\*\* One 4X4 light truck retired at the end of 2007.

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), [\$76,658,000] \$77,177,000: *Provided*, That [not more than \$11,166,000] the funds made available under section 522(e) of the Federal Crop Insurance Act (7 U.S.C. 1522(e)) may be used for [program compliance and integrity purposes, including] the data mining project, [and for] the Common Information Management System, and the development, modernization, and enhancement of the information technology systems used to manage and deliver the crop insurance program: Provided further, 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

|   |               |
|---|---------------|
| Appropriations Act, 2008.....   | \$ 76,658,000 |
| Budget Estimate, 2009.....  | 77,177,000    |
| Increase in Appropriation.....  | + 519,000     |
| <br>  |               |
| Adjustments in 2008:  |               |
| Appropriations Act, 2008.....   | \$76,658,000  |
| Rescission under P.L. 110-161 a/.....   | -537,000      |
| Activities transferred to Departmental Administration (DA) Office of Ethics b/..... | -73,000       |
| Adjusted Base for 2008.....   | \$76,048,000  |
| Budget Estimate, 2009.....  | 77,177,000    |
| Increase over adjusted 2008.....  | + 1,129,000   |

a/ The amount is rescinded pursuant to Division A of Title VII, Section 752 of P.L. 110-161.  
b/ Beginning with 2008, the Department will transfer and consolidate all Ethics activities under the Office of Ethics in DA.  
On a comparable basis the full annual cost of the activity is \$73,000 for 2009.

SUMMARY OF INCREASES AND DECREASES  
(On basis of adjusted appropriation)

| <u>Item of Change</u>                                 | <u>2008</u><br><u>Estimated</u> | <u>Pay</u><br><u>Costs</u> | <u>Program</u><br><u>Changes</u> | <u>2009</u><br><u>Estimated</u> |
|---|---------------------------------|----------------------------|----------------------------------|---------------------------------|
| Administrative and Operating Expenses, Available..... | \$76,048,000                    | \$1,129,000                | \$0                              | \$77,177,000                    |
| Total Available.....                                  | 76,048,000                      | 1,129,000                  | 0                                | 77,177,000                      |

Project Statement  
(On basis of adjusted appropriation)

|   | <u>2007</u>   |              | <u>2008</u>      |              | <u>Increase</u><br><u>or</u><br><u>Decrease</u> | <u>2009</u>      |              |
|---|---------------|--------------|------------------|--------------|---|------------------|--------------|
|   | <u>Actual</u> | <u>Staff</u> | <u>Estimated</u> | <u>Staff</u> |   | <u>Estimated</u> | <u>Staff</u> |
|   | <u>Amount</u> | <u>Years</u> | <u>Amount</u>    | <u>Years</u> |   | <u>Amount</u>    | <u>Years</u> |
| 1. Administrative and Operating Expenses..... | \$75,443,819  | 488          | \$76,048,000     | 553          | + \$1,129,000                                   | \$77,177,000     | 553          |
| 2. Unobligated Balance.....                   | 813,701       | 0            | 0                | 0            | 0   | 0                | 0            |
| Total Available or Estimate.....              | 76,257,520    | 488          | 76,048,000       | 553          | 1,129,000 (1)                                   | 77,177,000       | 553          |
| Rescission.....                               | 0             | ---          | 537,000          | ---          |   |                  |              |
| Transfer to WCF.....                          | 400,000       | ---          | 0                | ---          |   |                  |              |
| Transfer to DA Office of Ethics.....          | 0             | ---          | 73,000           | ---          |   |                  |              |
| Total, Appropriation.....                     | 76,657,520    | ---          | 76,658,000       | ---          |   |                  |              |

Justification of Increases and Decreases(1) An increase of \$1,129,000 for 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.

RISK MANAGEMENT AGENCY  
ADMINISTRATIVE AND OPERATING EXPENSES

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS  
2007 Actual and Estimated 2008 and 2009

|                                   | 2007        |                | 2008        |                | 2009        |                |
|-----------------------------------|-------------|----------------|-------------|----------------|-------------|----------------|
|                                   | Amount      | Staff<br>Years | Amount      | Staff<br>Years | Amount      | Staff<br>Years |
| California.....                   | \$2,819,709 | 31             | \$2,842,290 | 32             | \$2,884,487 | 32             |
| District of Columbia.....         | 13,277,297  | 82             | 13,383,626  | 105            | 13,582,318  | 105            |
| Georgia.....                      | 1,597,770   | 16             | 1,610,566   | 16             | 1,634,476   | 16             |
| Illinois.....                     | 1,641,076   | 15             | 1,654,218   | 15             | 1,678,777   | 15             |
| Indiana.....                      | 953,921     | 12             | 961,560     | 12             | 975,836     | 12             |
| Kansas.....                       | 1,343,844   | 14             | 1,354,606   | 14             | 1,374,716   | 14             |
| Minnesota.....                    | 3,267,577   | 37             | 3,293,745   | 37             | 3,342,643   | 37             |
| Mississippi.....                  | 1,388,469   | 16             | 1,399,588   | 16             | 1,420,366   | 16             |
| Missouri.....                     | 39,759,851  | 168            | 40,078,262  | 206            | 40,673,259  | 206            |
| Montana.....                      | 1,560,043   | 16             | 1,572,536   | 16             | 1,595,882   | 16             |
| North Carolina.....               | 3,198,601   | 34             | 3,224,217   | 34             | 3,272,083   | 34             |
| Oklahoma.....                     | 1,454,750   | 17             | 1,466,400   | 17             | 1,488,170   | 17             |
| Texas.....                        | 1,484,450   | 15             | 1,496,338   | 17             | 1,518,552   | 17             |
| Washington.....                   | 1,696,461   | 15             | 1,710,047   | 16             | 1,735,434   | 16             |
| Subtotal, Available or Estimate.  | 75,443,819  | 488            | 76,048,000  | 553            | 77,177,000  | 553            |
| Unobligated balance.....          | 813,701     | 0              | 0           | 0              | 0           | 0              |
| Total, Available or Estimate..... | 76,257,520  | 488            | 76,048,000  | 553            | 77,177,000  | 553            |

RISK MANAGEMENT AGENCY  
Classification by Objects  
2007 Actual and Estimated 2008 and 2009

| ADMINISTRATIVE & OPERATING EXPENSES:               | <u>2007</u>   | <u>2008</u>   | <u>2009</u>   |
|--|---------------|---------------|---------------|
| <b>Personnel Compensation:</b>                     |               |               |               |
| Washington, D.C. ....                              | \$8,073,151   | \$8,315,346   | \$8,491,346   |
| Field.....   | 32,292,604    | 33,261,382    | 33,966,382    |
| 11 Total Personnel Compensation.....               | 40,365,755    | 41,576,728    | 42,457,728    |
| 12 Personnel Benefits.....                         | 10,007,109    | 10,326,234    | 10,574,234    |
| 13 Benefits for Former Personnel.....              | 18,361        | 0             | 0             |
| Total Pers. Comp. and Benefits.....                | 50,391,225    | 51,902,962    | 53,031,962    |
| <b>Other Objects:</b>                              |               |               |               |
| 21 Travel.....                                     | 1,640,540     | 1,650,000     | 1,650,000     |
| 22 Transportation of Things.....                   | 132,584       | 133,000       | 133,000       |
| 23.2 Rental Payments - Other.....                  | 483,435       | 485,000       | 485,000       |
| 23.3 Communications, Utilities, misc. charges..... | 897,809       | 900,000       | 900,000       |
| 24 Printing and Reproduction.....                  | 125,623       | 126,000       | 126,000       |
| 25 Other Services.....                             | 17,466,683    | 16,737,038    | 16,737,038    |
| 25.1 Advisory and Assistance Services.....         | 1,131,990     | 1,133,000     | 1,133,000     |
| 25.2 Personnel Related Services.....               | 209,558       | 210,000       | 210,000       |
| 25.3 Repair/Maintenance of facilities/Equip.....   | 130,920       | 131,000       | 131,000       |
| 25.5 Agreements.....                               | 2,000,000     | 2,000,000     | 2,000,000     |
| 26 Supplies and Materials.....                     | 283,498       | 284,000       | 284,000       |
| 31 Equipment.....                                  | 355,340       | 356,000       | 356,000       |
| 42 Litigation Fees/Settlement-EEO.....             | 192,827       | 0             | 0             |
| 43 Interest.....                                   | 1,787         | 0             | 0             |
| Total Other Objects.....                           | 25,052,594    | 24,145,038    | 24,145,038    |
| Total Direct A&O Obligations.....                  | 75,443,819    | 76,048,000    | 77,177,000    |
| <b>Position Data:</b>                              |               |               |               |
| Average Salary, ES Positions.....                  | \$154,600     | \$156,919     | \$159,273     |
| Average Salary, GS Positions.....                  | \$77,897      | \$79,065      | \$80,251      |
| Average Grade, GS Positions.....                   | 12.6          | 12.6          | 12.6          |
| <b>FCIC FUND:</b>                                  |               |               |               |
| 25 Delivery Expenses.....                          | 1,110,750,000 | 1,479,566,000 | 1,471,876,000 |
| ARPA costs.....                                    | 74,500,000    | 74,500,000    | 74,500,000    |
| 42 Indemnities.....                                | 3,368,787,000 | 5,529,758,000 | 7,279,820,000 |
| Total Direct FCIC Fund Obligations.....            | 4,554,037,000 | 7,083,824,000 | 8,826,196,000 |
| TOTAL DIRECT OBLIGATIONS.....                      | 4,629,480,819 | 7,159,872,000 | 8,903,373,000 |



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. This is 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 2007, the FCIC Board considered 28 action items during eight board meetings. The action items included 9 expert reviews, 9 program revisions and modifications, 5 new program submissions, and 5 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's (PM's) primary function is to operate the crop insurance program. Key functions include policy administration, establishment of underwriting and loss adjustment criteria, calculation, and maintenance of premium rates, and determination of price election. In addition, PM enters into contracts for 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 13 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 8 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, 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 52,750 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.

Insurance Services Division (ISD) oversees program delivery through reinsurance, underwriting and loss adjustment activities, and risk management education. Within ISD, Reinsurance Services Division (RSD) develops and administers reinsurance agreements with private insurance providers. Risk Management Services Division (RMSD) and ten Regional Offices (ROs) coordinate underwriting and loss adjustment activities, including appeals, and provide substantial contributions to program development, outreach, and education. Risk Management Education (RME) administers risk management education activities, primarily competitively selected partnership agreements. ISD also manages the internal control reviews of Insurance Services' Regional Office business processes.

RSD 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 financial capacity and 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.

RMSD provides guidance directly and through ROs on emerging issues involving claims and underwriting and along with the ROs represents RMA on program issues relating to underwriting and claims, including National Appeals Division and Mediation cases. RMSD coordinates requests for Final Agency Determinations under 7 CFR Part 400 Subpart X, and is responsible for guidance to the ROs in managing requests for good farming practice determinations and 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 RO recommendations for crop expansion of regulatory programs and Special Provisions of Insurance Statements and program changes if indicated. RMSD also supports the internal control reviews of Insurance Services' Regional Office business processes. RMSD conducts administrative reviews of RO large claim determinations and reconsideration of RO good farming practice determinations.

The ROs also provide field-underwriting services and support PM by reviewing rates and providing assistance with contracting, implementing, and assessing new products and programs. The ROs provide program information to producers, farm organizations, insurance providers, elected officials, and other interested parties. RMSD 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.

RME staff 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.

During fiscal year 2007, ISD designed and began implementation of a system of standard operating procedures in full compliance with OMB directives A-123 regarding managerial controls and A-11 regarding performance planning and reporting. This process includes clarifying roles and responsibilities across the divisions, as well as

reviewing written procedures specifically for managerial controls sufficiency. As a result of these improvements to management capacity, ISD can more accurately and efficiently identify priority resource needs and uses and respond to rapidly changing workload demands. ISD managers have improved capacity to balance the program development challenges dictated by the Strategic Plan with program delivery challenges which are dictated by same vagaries of nature that drive the need for agricultural risk management services.

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 funds expended by RMA for 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 Office of 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:**

**Common Crop Insurance Regulations, Basic Provisions; and Various Crop Insurance Provisions (Combo)** – 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 \$57 billion of the nearly \$67.3 billion of FCIC's total liability and 94 percent (approximately one million policies) of all policies earning premium. The changes are targeted to apply for the 2010 and succeeding crop years for all crops with a contract change date on or after the effective date of the Final Rule.

**Pasture, Rangeland, and Forage Pilot Programs** – The Risk Management Agency (RMA) now offers two new pilot Group Risk Protection risk management programs for pasture, rangeland, and forage (PRF). These innovative pilot programs are based on vegetation greenness and rainfall indices and were developed to provide livestock producers the ability to purchase insurance protection for losses of forage produced for grazing or harvested for hay. These programs were developed to become a risk management tool for the 588 million acres of U.S. pastureland and the 61.5 million acres of hayland. Beginning with the 2007 crop year, the pilot programs were available for testing in selected States with 9,713 policies sold covering more than 28.5 million acres.

**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; 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 proposed to be combined into a simplified policy for the 2010 crop year.

**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 and Fed Cattle 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 2007 crop year totaled 4,564 policies with 148,309 head of livestock insured at \$67.5 million in liability and \$1.3 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 2007 reinsurance year, LGM has provided coverage for 354,647 head of slaughter hogs for a liability of \$27.1 million with a premium of \$1.6 million. For the 2007 reinsurance year, LGM has provided coverage for 13,219 head of livestock cattle for a liability of \$15.1 million with a premium of \$327 million. LGM for cattle was available for sale to producers in early 2006.

#### **Office of Insurance Services**

For crop year 2007, still in progress, the ROs reviewed rates, practices, and filing documents for 52,787 county crop programs in more than 3,066 counties in all 50 states and Puerto Rico. The ROs reviewed 690 added land requests, 2,514 determined yields, and 14,150 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 66 counties for the 2008 crop year. Improvement of current policies through RO increased oversight of the delivery channel was accomplished through routine reviews of company, product, program, 285 large claims notices, participating in 62 large claims determinations, and issued 75 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.

#### **Reinsurance Services Division (RSD)**

#### **RMA/National Association of Insurance Commissioners (NAIC) Collaborative Regulatory Efforts**

**Loss Adjuster Licensing:** On September 30, 2007, RMA provided the Crop Insurance Working Group of the NAIC with an update on crop insurance and, together with National Crop Insurance Services (NCIS), gave a

presentation on the problems the crop insurance program faces with inconsistent State requirements for loss adjuster licensing. A conference call with RMA, NAIC Working Group Members, NCIS representatives, and industry representatives was conducted on September 27 to consider options for state loss adjuster licensing uniformity.

RMA is finalizing an informational memorandum that will notify the industry of the financial penalties it will assess companies that violate the Standard Reinsurance Agreement (SRA) requirement that all loss adjusters must be licensed by the State if the State requires licensing.

**Federal/State Rebating Enforcement Initiative:** RMA and insurance commissioners from a number of key States are planning to issue a letter to approved insurance providers (AIPs) announcing a collaboration in the enforcement of State and Federal anti-rebating statutes. AIPs will be directed to ensure that agents and loss adjusters are fully aware of the rebating prohibitions and stepped-up enforcement initiative prior to spring sales in March 2008.

**RMA Conflict of Interest Disclosure Guidance:** On September 20, 2007, RMA's Reinsurance Services Division circulated the latest draft of the Conflict of Interest Disclosure Guidance to the industry for comment. The companies have submitted their comments back to RMA which are currently under review.

**Disaster Estimation and Reporting System (DERS):** The purpose of DERS is to provide timely and accurate indemnity estimates, reports, and maps prior, during, and after crop disasters. The current system is designed for hurricanes. In FY 2007, RMA used the system in an ad hoc manner to generate reports on the following disasters: California and Arizona Crop Freeze, January 2007; Alabama, Georgia, Mississippi, North Carolina, and South Carolina Crop Freeze, April 2007; Texas, Oklahoma, Kansas, and Missouri Floods, June-July 2007; and Drought Indemnities estimation, September 2007.

**National Operations Review Follow-up Activities:** RSD responded to several national operations review reports from RMA Compliance which required development and implementation of corrective action plans with AIPs to address serious SRA violations.

**State Crop Insurance Premium Assistance:** RSD facilitated development of Memorandums of Understanding with the states of Delaware, Pennsylvania, and the AIPs to implement state crop insurance premium assistance payment programs for the 2007 crop year.

### **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 49,000 agricultural producers and representatives during over 124,900 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 93 partnership agreements across the nation totaling \$5.1 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 11<sup>th</sup> Annual FFA Risk Management Writing Contest. See page 22g-11 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 65 outreach projects, totaling over \$8.3 million dollars. This 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 sponsored a National Outreach Conference entitled “Risk Management Strategies for Beginning and Small Farmers and Ranchers” to train users to disseminate 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 22<sup>st</sup> Annual Career Fair and Training Conference.

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 program 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 third round of six companies selected for review that will complete a three-year review cycle intended to provide an overall program assessment. The review plan 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 ad hoc 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 continues 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 has continued to be responsive and submitted input for the revised 2005-2010 USDA Strategic Plan (SP) published in FY 2006. In response to the new USDA SP, RMA created a Strategic Planning Team (SPT) with the responsibility to work the various RMA Program Units to revise the RMA SP to ensure that it is aligned with the

Department. The SPT also established objectives, performance measures, and actionable strategies to help RMA meet its goals. This process affected the original timetable established during the FY 2006 Budget and Performance cycle. During the PART process, RMA developed milestones to propose key legislation based on GAO and IG recommendations. RMA continues to update and report its progress in meeting the PART milestones in the Management Information Tracking System. RMA gained final approval for its 2006-2011 Strategic Plan and the plan is available on the RMA website. RMA also has implemented an internal quarterly reporting process generated from the performance measures contained in its Strategic Plan that keeps management aware of the progress that RMA is making to implement the improvement plan recommended by the IG. This information will be made readily available on the RMA website upon its completion.



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 - CURRENT LAW

|                                |                 |
|--------------------------------|-----------------|
| Estimate, 2008.....            | \$4,145,091,000 |
| Budget Estimate, 2009.....     | 6,577,945,000   |
| Increase in Appropriation..... | + 2,432,854,000 |

FEDERAL CROP INSURANCE CORPORATION FUND - PROPOSED LEGISLATION

|   |                 |
|---|-----------------|
| Budget Estimate, Current Law, 2009.....           | \$6,577,945,000 |
| Change due to Proposed Legislation.....           | -277,000,000    |
| Net Request, President's 2009 Budget Request..... | + 6,300,945,000 |

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

(On basis of appropriation)

| <u>Item of Change</u>                                 | <u>2008<br/>Estimated</u> | <u>Pay Costs</u> | <u>Program<br/>Changes</u> | <u>2009<br/>Estimated</u> |
|---|---------------------------|------------------|----------------------------|---------------------------|
| Premium Subsidy.....                                  | \$3,846,559,000           | 0                | \$253,887,000              | \$4,100,446,000           |
| Delivery Expenses.....                                | 1,479,566,000             | 0                | -7,690,000                 | 1,471,876,000             |
| Agricultural Risk Protection Act of 2000 Initiatives: |                           |                  |                            |                           |
| 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.....              | -1,250,534,000            | 0                | 2,186,657,000              | 936,123,000               |
| Total Available.....                                  | <u>4,145,091,000</u>      | <u>0</u>         | <u>2,432,854,000</u>       | <u>6,577,945,000</u>      |

RISK MANAGEMENT AGENCY  
FEDERAL CROP INSURANCE CORPORATION FUND

Project Statement - Current Law  
(On basis of appropriation)

|   | 2007 Actual       | 2008 Estimated    | Increase or<br>Decrease | 2009 Estimated        |
|---|-------------------|-------------------|-------------------------|-----------------------|
| Premium Subsidy.....                                  | \$2,727,720,000   | \$3,846,559,000   | +                       | \$4,100,446,000       |
| Delivery Expenses.....                                | 1,110,750,000     | 1,479,566,000     | -                       | 1,471,876,000         |
| Agricultural Risk Protection Act of 2000 Initiatives: |                   |                   |                         |                       |
| Research and Development.....                         | 40,000,000        | 40,000,000        | 0                       | 40,000,000            |
| Pilot Programs.....                                   | 21,000,000        | 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.....          | 3,500,000         | 3,500,000         | 0                       | 3,500,000             |
| Treasury Transfer for Excess Losses.....              | 466,286,000       | -1,250,534,000    | +                       | 936,123,000           |
| <br>Total Available or Estimate.....                  | <br>4,374,256,000 | <br>4,145,091,000 | <br>+                   | <br>6,577,945,000     |
| <br>Total, Appropriation.....                         | <br>4,374,256,000 | <br>4,145,091,000 | <br>+                   | <br>6,577,945,000 (1) |

Project Statement - Current Law  
(On basis of available funds)

|   | 2007 Actual     | 2008 Estimated  | Increase or<br>Decrease | 2009 Estimated  |
|---|-----------------|-----------------|-------------------------|-----------------|
| 1. Expenses:  |                 |                 |                         |                 |
| (a) Indemnities.....  | \$3,368,787,000 | \$5,529,758,000 | +                       | \$7,279,820,000 |
| (b) Delivery Expenses.....                                      | 1,335,776,000   | 1,479,566,000   | +                       | 1,471,876,000   |
| (c) Agricultural Risk Protection Act of 2000 Initiatives:       | 39,608,000      | 69,500,000      | +                       | 69,500,000      |
| Subtotal, Expenses.....   | 4,744,171,000   | 7,078,824,000   | +                       | 8,821,196,000   |
| (d) Underwriting Gains/Losses.....                              | 834,021,000     | 1,481,907,000   | +                       | 709,357,000     |
| Total, Expenses.....  | 5,578,192,000   | 8,560,731,000   | +                       | 9,530,553,000   |
| 2. Funds Available from Revenue and prior year balances         |                 |                 |                         |                 |
| (a) Producer Premium.....                                       | -2,150,426,000  | -2,754,170,000  | +                       | -2,910,206,000  |
| (b) Administrative Fees.....                                    | -46,582,000     | -42,559,000     | +                       | -42,402,000     |
| (c) Unobligated Balance Brought Forward<br>from Prior Year..... | -1,265,839,000  | -2,258,911,000  | +                       | -640,000,000    |
| (d) Unobligated Balance Carried Forward<br>to Next Year.....    | 2,258,911,000   | 640,000,000     | +                       | 640,000,000     |
| Total, Funds from Revenue and Balances.....                     | -1,203,936,000  | -4,415,640,000  | +                       | -2,952,608,000  |
| 3. Total, Available Funds.....                                  | 4,374,256,000   | 4,145,091,000   | +                       | 6,577,945,000   |

Federal Crop Insurance Corporation

- (1) A budget increase of \$2,432,854,000 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 \$253,887,000 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 \$4.1 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) A decrease of \$7,690,000 is projected for delivery expenses.

Delivery expenses support RMA’s Objective 2.1. A funding decrease for delivery expenses, the amount of administrative and operating expense reimbursements provided to approved insurance providers, is projected because of a decrease in participation. 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 2009, estimated total premium is projected at \$7.0 billion. As a result, RMA anticipates delivery expenses of \$1.5 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) An increase of \$2,186,657,000 for excess losses.

The total amount requested, \$936.1 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 \$7.3 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.

## RISK MANAGEMENT AGENCY

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

| <u>Item of Change</u>                                 | 2009                 |                        |                       |
|---|----------------------|------------------------|-----------------------|
|   | <u>Current Law</u>   | <u>Program Changes</u> | <u>Agency Request</u> |
| Premium Subsidy.....                                  | \$4,100,446,000      | \$0                    | \$4,100,446,000       |
| Delivery Expenses.....                                | 1,471,876,000        | 0                      | 1,471,876,000         |
| Agricultural Risk Protection Act of 2000 Initiatives: |                      |                        |                       |
| 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.....              | 936,123,000          | 0                      | 936,123,000           |
| Farm Bill Proposals.....                              | 0                    | -277,000,000           | -277,000,000          |
| Total Available or Estimate.....                      | <u>6,577,945,000</u> | <u>-277,000,000</u>    | <u>6,300,945,000</u>  |

EXPLANATION OF PROPOSED LEGISLATION:Farm Bill Proposals

The Administration's Farm Bill proposals include specific proposals for Crop Insurance. These include allowing farmers to purchase supplemental insurance that would cover their deductible in the event of a county wide loss, reducing the expected loss ratio to 1.00 from 1.075, along with a continuation of a series of crop insurance reforms that have been proposed in the past that will increase program participation and at the same time control program costs.

RISK MANAGEMENT AGENCY  
FEDERAL CROP INSURANCE CORPORATION FUND

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS  
2007 Actual and Estimated 2008 and 2009

|                                   | 2007          | 2008          | 2009          |
|-----------------------------------|---------------|---------------|---------------|
|                                   | Amount        | Amount        | Amount        |
| Alabama.....                      | \$74,648,164  | \$122,532,616 | \$161,311,831 |
| Alaska.....                       | 0             | 0             | 0             |
| Arizona.....                      | 4,078,714     | 6,695,081     | 8,813,945     |
| Arkansas.....                     | 27,088,818    | 44,465,444    | 58,537,902    |
| California.....                   | 84,652,557    | 138,954,513   | 182,930,942   |
| Colorado.....                     | 58,795,049    | 96,510,225    | 127,053,854   |
| Connecticut.....                  | 3,847,844     | 6,316,114     | 8,315,043     |
| Delaware.....                     | 23,779,673    | 39,033,586    | 51,386,965    |
| Florida.....                      | 31,013,619    | 50,907,881    | 67,019,245    |
| Georgia.....                      | 67,414,218    | 110,658,321   | 145,679,550   |
| Hawaii.....                       | 76,957        | 126,322       | 166,301       |
| Idaho.....                        | 28,012,301    | 45,981,312    | 60,533,512    |
| Illinois.....                     | 127,671,448   | 209,568,670   | 275,893,121   |
| Indiana.....                      | 88,885,185    | 145,902,238   | 192,077,489   |
| Iowa.....                         | 164,225,961   | 269,571,755   | 354,886,028   |
| Kansas.....                       | 342,688,944   | 562,513,132   | 740,537,715   |
| Kentucky.....                     | 60,026,359    | 98,531,382    | 129,714,668   |
| Louisiana.....                    | 19,162,261    | 31,454,249    | 41,408,913    |
| Maine.....                        | 3,540,016     | 5,810,825     | 7,649,839     |
| Maryland.....                     | 49,329,354    | 80,972,584    | 106,598,849   |
| Massachusetts.....                | 2,616,534     | 4,294,958     | 5,654,229     |
| Michigan.....                     | 96,503,915    | 158,408,145   | 208,541,274   |
| Minnesota.....                    | 314,676,643   | 516,531,821   | 680,004,203   |
| Mississippi.....                  | 28,243,171    | 46,360,278    | 61,032,414    |
| Missouri.....                     | 49,483,268    | 81,225,229    | 106,931,451   |
| Montana.....                      | 80,958,628    | 132,891,043   | 174,948,501   |
| Nebraska.....                     | 147,449,364   | 242,033,497   | 318,632,441   |
| Nevada.....                       | 76,957        | 126,322       | 166,301       |
| New Hampshire.....                | 538,698       | 884,256       | 1,164,106     |
| New Jersey.....                   | 2,770,447     | 4,547,602     | 5,986,831     |
| New Mexico.....                   | 3,847,844     | 6,316,114     | 8,315,043     |
| New York.....                     | 19,700,959    | 32,338,505    | 42,573,019    |
| North Carolina.....               | 188,390,419   | 309,236,952   | 407,104,497   |
| North Dakota.....                 | 290,358,272   | 476,613,979   | 627,453,132   |
| Ohio.....                         | 71,108,148    | 116,721,791   | 153,661,992   |
| Oklahoma.....                     | 132,827,558   | 218,032,263   | 287,035,279   |
| Oregon.....                       | 19,316,174    | 31,706,893    | 41,741,515    |
| Pennsylvania.....                 | 36,785,384    | 60,382,052    | 79,491,809    |
| Rhode Island.....                 | 0             | 0             | 0             |
| South Carolina.....               | 45,096,726    | 74,024,859    | 97,452,302    |
| South Dakota.....                 | 219,480,994   | 360,271,155   | 474,290,043   |
| Tennessee.....                    | 66,798,563    | 109,647,743   | 144,349,144   |
| Texas.....                        | 115,127,478   | 188,978,137   | 248,786,082   |
| Utah.....                         | 1,000,439     | 1,642,190     | 2,161,911     |
| Vermont.....                      | 2,462,620     | 4,042,313     | 5,321,627     |
| Virginia.....                     | 64,182,030    | 105,352,785   | 138,694,914   |
| Washington.....                   | 26,627,077    | 43,707,510    | 57,540,096    |
| West Virginia.....                | 2,847,404     | 4,673,925     | 6,153,132     |
| Wisconsin.....                    | 67,722,046    | 111,163,610   | 146,344,754   |
| Wyoming.....                      | 12,851,797    | 21,095,821    | 27,772,243    |
| Puerto Rico.....                  | 0             | 0             | 0             |
| Subtotal, Indemnities a/.....     | 3,368,787,000 | 5,529,758,000 | 7,279,820,000 |
| Undistributed b/.....             | 1,375,100,000 | 1,549,066,000 | 1,541,376,000 |
| Total, Available or Estimate..... | 4,743,887,000 | 7,078,824,000 | 8,821,196,000 |

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 1,136,500 policies were written in crop year 2007 with an estimated \$6.55 billion in premium, and an estimated \$4.4 billion to be paid in indemnities. In FY 2007, \$3.4 billion in indemnities was obligated. The variation in indemnities between crop year 2007 and fiscal year 2007 is \$1 billion. These indemnities are carried forward to the following fiscal year. Crop insurance is available for more than 350 different commodities in over 3,066 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 28 active pilot programs and six programs developed by private parties or persons submitted to FCIC under section 508(h) of the Federal Crop Insurance Act. A Product Management priority for 2007 was identifying new commodities for development.

Current pilot and 508(h) programs are: Adjusted Gross Revenue (AGR) and Adjusted Gross Revenue-Lite (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, 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 HRO, Hybrid Seed/Corn Price Endorsement; Livestock Gross Margin and Livestock Risk Protection; and Livestock Risk Protection-Lamb.

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

- Florida Avocado – The pilot program evaluation for Florida avocado was concluded in January 2007. The Board approved conversation of the pilot program to regulatory status, and authorized its continuation until such action could be affected.
- Cultivated Clams – The Cultivated Clams pilot program evaluation concluded in April 2007. The Board approved continuation of the Cultivated Clam Pilot Program through 2011 with some program modifications to further strengthen the program's integrity. The pilot will once again be scheduled for an evaluation at that time.

- In addition to the formal pilot evaluations listed above, the Board reviewed the impact changes made by State of Florida regarding Asiatic Citrus Canker (ACC) had on the Florida Fruit Tree pilot program. Based on Florida's decision to adopt a strategy of managing rather than eradicating ACC through the destruction of trees, the Board approved removing ACC coverage from the pilot program effective with the 2008 crop year.
- Pilot evaluations are currently in progress for the Silage Sorghum Endorsement Pilot Program, the Sweet Potato Pilot Program and the Group Risk Plan (GRP) Rangeland Pilot Program. Evaluations for these products are expected to conclude or commence in FY 2008.
- In addition to the two pilot program evaluations initiated in FY 2007, four other contracts were awarded to determine the feasibility of including commodities under crop insurance, make recommended changes to pilot programs and to provide actuarial review of programs.

Also, 8 new partnership agreements were awarded in 2007:

- Crop Insurance Decision-Making Tools: The Second Generation for Midwest Farmers – This partnership with the University of Illinois is to develop a second generation of tools to aid Midwest farmers in making crop insurance decisions. These tools will provide farmers with advice on insurance product selection. The second generation tools will be part of the iFARM suite of tools available in the crop insurance section of Farm Decision Outreach Central (FARMDOC), a website that provides a variety of web based decision support tools and information directed towards producers.
- A Range Risk Management Tool: With Supporting Documents and Fact Sheets in English and Spanish – This partnership with Utah State University is to develop a risk management tool that enables cow-calf producers in Utah to compare risk and returns by using available marketing products, such as futures, options and federal crop insurance products, specifically Livestock Risk Protection and Adjusted Gross Revenue-Lite.
- A Tool for Making Wheat and Stocker Cattle Production, Insurance, and Price Risk Management Decisions – This partnership with Texas Tech University is to develop a decisions support system for producers in the Southern Great Plains and selected Southeast states to evaluate the expected profitability and risk associated with stocker carrel production. The tool will utilize alternative interrelated forage and livestock production systems and consider alternative pricing and insurance strategies.
- Accessing AGR Lite: A Risk Management Software Tool for Diversified Farmers – This partnership with the National Center for Appropriate Technology is to develop a user friendly tool that will assist diversified farmers gather necessary information to estimate the benefits that the Adjusted Gross Revenue-Lite insurance product may provide.
- Risk Management Tools for Diversified Vegetable Production in the Upper Midwest – This partnership with the University of Wisconsin is to develop two decision-support tools specifically for vegetable producers in Wisconsin and Minnesota. First, a computer spreadsheet will be developed to allow growers to trace their cost of production of specific crops and assess their profitability in specific markets. The second tool will assist growers in determining the benefits of purchasing Adjusted Gross Revenue crop insurance for their specific farm.
- Bullet Development of LRP and AGR-Lite Decision Support Tools for Livestock Producers – This partnership with Custom Ag Solutions will develop decision-support tools to improve livestock producers'

decision related to participation in RMA's Livestock Risk Protection and AGR-Lite programs. Calculators, worksheets, data feeds and organizers will be developed to increase knowledge and participation in the programs.

- DARTS – Diversified Agriculture Revenue Translation System – This partnership with AgriLogic, Inc., will develop a risk management tool to enable producers to develop sound recordkeeping processes in order to improve financial management of the farming enterprise and to generate reports required by the Adjusted Gross Revenue insurance program. The DARTS will be a downloadable software application and will be available in both English and Spanish.
- Using the Cattle Feeding Return Risk Analyzer to Evaluate Risk Management Mechanisms and Livestock – This partnership with North Carolina State University will use the Cattle Feeding Return Risk analyzer developed under an earlier RMA partnership to evaluate how farmers in North Carolina and Kansas can use livestock insurance as well as private market instruments, such as futures, hedging and options to manage their risk.

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

- Agricultural Marketing Service – Organic Market Information – Enhance the Market News 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.
- Cooperative State Research, Education and Extension Service – 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.
- Agricultural Research Service – Remote Sensing – To refine spatial analysis tools for corn and soybean production risk assessment to include analysis of risk due to weeds, insects or disease.

### **Reinsurance**

For the 2008 reinsurance year, RSD approved 16 insurance companies and the Commonwealth of Puerto Rico's plan of operations to participate in the delivery of the Federal crop insurance program. RSD also approved 9 insurance companies plan of operations to participate under the Livestock Price Reinsurance Agreement. RSD continues to monitor the Premium Reduction Plan (PRP) program implemented during FY 2006. PPR was not available in 2007 because of congressional action in the appropriations bill but has resumed for the 2008 reinsurance year. For 2008, RSD determined that 4 AIPs are eligible for the opportunity to offer PRP.

### **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, 1862, 1890, 1994 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 65 outreach projects in FY 2007 totaling more than \$8.3 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 2007, RMA hired ten students from across the country of various nationalities and both genders. RMA will continue to use these programs to achieve diversity goals.

### **Risk Management Education**

During FY 2007, education and outreach programs focused on underserved states, specialty crop producers, and grants through the Cooperative State Research, Education, and Extension Service.

In March 2007, 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 49 commodity partnership agreements were established at a cost of \$4.6 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 44 small session commodity partnership agreements were established at a cost of \$416,000. 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 \$35.2 million by preventing or deferring suspicious claims during January 2006 through December 2006, 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 four 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><b>USDA Goal 2:</b><br/>Enhance the Competitiveness and Sustainability of Rural and Farm Economies</p> <p><b>USDA Strategic Objective 2.3:</b><br/>Provide Risk Management and Financial Tools to Farmers and Ranchers</p> | <p><b>Agency Goal :</b> 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><br/>Increase the availability and effectiveness of risk management solutions.</p> <p><u>Objective 2.1:</u><br/>Improve and protect the soundness, safety, efficiency and effectiveness of the risk management delivery system.</p> <p><u>Objective 3.1:</u><br/>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><br/>1.1: Increase the normalized value of risk protection provided to agriculture producers through FCIC sponsored insurance (\$Billions)</p> |

| USDA Strategic Goal/Objective  | Agency Strategic Goal   | Agency Objectives   | Programs that Contribute | Key Outcome  |
|--|---|---|--------------------------|--|
| <b>USDA Goal 2:</b><br>Enhance the Competitiveness and Sustainability of Rural and Farm Economies<br><br><b>USDA Strategic Objective 2.3:</b><br>Provide Risk Management and Financial Tools to Farmers and Ranchers | <b>Agency Goal:</b> 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. | <b>Objective 4.1:</b><br>Ensure effective oversight of the Crop Insurance industry and enhance deterrence and prosecution of fraud, waste, and abuse. | Federal Crop Insurance   | <b>Key Outcome:</b><br>1.1: Increase the normalized value of risk protection provided to agriculture producers through FCIC sponsored insurance (\$Billions) |

### Strategic Objective and Funding Matrix

**STRATEGIC OBJECTIVE 2.3:** Provide Risk Management and Financial Tools to Farmers and Ranchers

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

#### Strategic Objective 2.3:

|                                      | <u>2007 Actual</u> |                    | <u>2008 Budget</u> |                    | Increase or Decrease | <u>2009 Estimated</u> |                    |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|----------------------|-----------------------|--------------------|
|                                      | <u>Amount</u>      | <u>Staff Years</u> | <u>Amount</u>      | <u>Staff Years</u> |                      | <u>Amount</u>         | <u>Staff Years</u> |
| Administrative and Operating Expense | \$75,443,819       | 488                | \$76,048,000       | 553                | +1,129,000           | 77,177,000            | 553                |
| FCIC                                 | 4,374,256,000      | 0                  | 4,145,091,000      | 0                  | +2,432,854,000       | 6,577,945,000         | 0                  |
| Total, Objective 1.1                 | 4,449,699,819      | 488                | 4,221,139,000      | 553                | +2,433,983,000       | 6,655,122,000         | 553                |

#### Selected Accomplishments Expected at the FY 2009 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.
- As resources allow, 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.
- As resources allow, 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:**

| Performance Measure   | 2004<br>Actual | 2005<br>Actual | 2006<br>Actual | 2007<br>Actual | 2008<br>Target | 2009<br>Target |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| #1 – Increase the normalized value of FCIC risk protection coverage provided through FCIC sponsored insurance (\$Billions)            | \$41.5         | \$44.7         | \$48.1         | \$50.7         | \$53.7         | \$54.8         |
| Mandatory and discretionary funding associated with measure (\$Billions)  | \$3.5          | \$2.3          | \$3.4          | \$4.4          | \$4.2          | \$6.7          |
| Discretionary IT Funding (\$ Millions)  | \$10.4         | \$15.1         | \$19.6         | \$17.1         | \$13.7         | \$13.7         |
| #2 – The number of crop insurance or non-insurance risk management tools which address pasture, rangeland and forage production needs | 2              | 2              | 3              | 5              | 7              | 8              |

| <b>Performance Measure</b>  | <b>2004<br/>Actual</b>       | <b>2005<br/>Actual</b>       | <b>2006<br/>Actual</b>       | <b>2007<br/>Actual</b>       | <b>2008<br/>Target</b>       | <b>2009<br/>Target</b>       |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Mandatory and discretionary funding associated with measure   | \$750,000                    | \$750,000                    | \$1.5M                       | \$1.8M                       | \$1.8M                       | \$1.4M                       |
| #3 – The number of pilot programs evaluated for potential conversion from pilot program to permanent program status | 8                            | 8                            | 4                            | 4                            | 3                            | 2                            |
| Mandatory and discretionary funding associated with measure   | \$3.0M                       | \$3.0M                       | \$3.0M                       | \$4.0M                       | \$3.0M                       | \$0.2M                       |
| #4 – Crop Insurance participation rate for the ten staple crops   | 78%                          | 79%                          | 79.5%                        | 79.5%                        | 80.0%                        | 80.5%                        |
| Mandatory and discretionary funding associated with measure   | \$2,926/\$1B<br>In liability | \$2,713/\$1B<br>In liability | \$2,521/\$1B<br>in liability | \$2,390/\$1B<br>in liability | \$1,549/\$1B<br>in liability | \$1,470/\$1B<br>in liability |
| #5 – The number of producers reached through Commodity Partnership and Targeted States Cooperative Agreements       | 47,000                       | 47,000                       | 48,000                       | 48,720                       | 49,451                       | 50,193                       |
| Mandatory and discretionary funding associated with measure   | \$15M                        | \$14M                        | \$14M                        | \$15M                        | \$15M                        | \$15.8M                      |
| #6 – The number of financial operational reviews conducted of insurance companies receiving funding through FCIC    | 5                            | 7                            | 5                            | 6                            | 7                            | 7                            |
| Mandatory and discretionary funding associated with measure   | \$63,000                     | \$97,000                     | \$62,000                     | \$90,000                     | \$109,000                    | \$119,000                    |
| #7 – The number of program operational reviews of insurance providers receiving funding through FCIC                | 1                            | 5                            | 6                            | 6                            | 6                            | 6                            |
| Mandatory and discretionary funding associated with measure   | \$3M                         | \$1.4M                       | \$1.7M                       | \$1.7M                       | \$1.8M                       | \$1.9M                       |

**RISK MANAGEMENT AGENCY**  
**Full Cost By Strategic Objective**

|   | <b>FY 2007</b>             | <b>FY 2008</b>             | <b>FY 2009</b>             |
|---|----------------------------|----------------------------|----------------------------|
|   | <b>(\$000)</b>             | <b>(\$000)</b>             | <b>(\$000)</b>             |
| <b>Strategic Objective 2.3: Provide Risk Management and Financial Tools to Farmers and Ranchers</b>   |                            |                            |                            |
| <b>PROGRAM</b>  | <b>PROGRAM ITEMS</b>       |                            |                            |
| Federal Crop Insurance Corporation Fund   |                            |                            |                            |
| Research and Development Program  | 40,000                     | 40,000                     | 40,000                     |
| Pilot Programs  | 21,000                     | 21,000                     | 21,000                     |
| Policy Consideration and Implementation   | 3,500                      | 3,500                      | 3,500                      |
| Premium Program   | 2,727,720                  | 3,846,559                  | 4,100,446                  |
| A&O Expenses/Delivery Expenses  | 1,110,750                  | 1,479,566                  | 1,471,876                  |
| Risk Management Assistance Program  | 5,000                      | 5,000                      | 5,000                      |
| Excess Crop Losses  | 466,286                    | (1,250,534)                | 936,123                    |
| Total   | <u>\$ 4,374,256</u>        | <u>\$ 4,145,091</u>        | <u>\$ 6,577,945</u>        |
| Administrative and Operating Expenses   |                            |                            |                            |
| Administrative Costs (direct)   | \$ 58,369                  | \$ 62,332                  | \$ 63,461                  |
| Information Technology  | 17,075                     | 13,716                     | 13,716                     |
| Total   | <u>\$ 75,444</u>           | <u>\$ 76,048</u>           | <u>\$ 77,177</u>           |
| Performance measure: Increase the normalized value of FCIC risk protection coverage provided through FCIC sponsored insurance (in billions) |                            |                            |                            |
| Performance target:   | \$50.7                     | \$53.7                     | \$54.8                     |
| Unit Cost:  | N/A                        | N/A                        | N/A                        |
| <b>TOTAL PROGRAM</b>  | <b><u>\$ 4,449,700</u></b> | <b><u>\$ 4,221,139</u></b> | <b><u>\$ 6,655,122</u></b> |
| <b>TOTAL FTEs</b>   | <b><u>488</u></b>          | <b><u>553</u></b>          | <b><u>553</u></b>          |