Pasture, Rangeland, and Forage Insurance Comments

By: Brandon Willis

I appreciate USDA's Risk Management Agency's (RMA) attempts to continue to improve the Pasture, Rangeland, and Forage program (PRF). As a former Administrator of the Risk Management Agency I understand the constant struggle it is to ensure that programs operate as intended. For a program to remain viable it must meet the needs of producers, yet not overpay or be subject to abuse. PRF is vital for western livestock producers. Any adjustments need to improve the program and its participation, not limit either.

RMA should be deliberate and judicious with any potential changes, ensuring they are well vetted. PRF is the only successful rangeland insurance program USDA has ever offered for livestock producers. Certain alternative recommendations provided to RMA outside of the contracted Review of the Pasture, Rangeland, Forage Rainfall Index Crop Insurance Program Indexing and Rating Methodology Final Report (Contracted Report) need much more consideration, as the impacts of such recommendations could have damaging impacts to the overall program and the livestock producers the program strives to serve. The Contracted Report itself appears to be well researched and thoughtful. Even so, RMA would be wise to make any adjustments to PRF only after a thorough analysis as even many of the alternative recommendations will have consequences far worse than any perceived problem.

While considering risk management options for livestock producers I strongly suggest that USDA bring back the PRF-Vegetation Index (PRF-VI) plan of insurance that was discontinued in 2014. The justification to bring back PRF-VI is straightforward and beyond refute when data is analyzed. Additional information is provided below.

I hope that RMA will use this opportunity to evaluate areas where PRF RI doesn't provide a safety-net for producers. Nothing in the Contracted Report indicates that lack of participation in certain areas is a concern, but my personal experience working with producers in many western states is that in certain areas PRF RI simply doesn't provide them adequate coverage during dry periods. I hope that attention will be given to that issue as much as other perceived issues where participation is higher.

Continued refinements and improvements are necessary to all insurance programs. Below I have attempted to categorize potential changes in order of good, worth considering (with caution), and harmful. Rather than provide detailed answers to each recommendation I have provided concise comments below. I would note a few items at the beginning of this section are not considered in either report, but could improve the program.

GOOD IDEAS:

- **County Base Values (Contracted Report):** RMA should be commended for adjusting County Base Values (CBV) in 2019. Accurate CBVs prevent over insuring or under insuring. It was disappointing that certain individuals attempted to overturn common-sense adjustments that benefit the program in the long run.

RMA should not rely upon one source for CBV information. Adjustments should be made only after rigorous analysis combined with ground truthing that involves local experts with varied backgrounds. Determining appropriate CBVs is a challenge and takes significant RMA resources, but is vital for the program's long-term success. Updating CBVs does not need to be performed annually as CBVs won't change significantly year to year so a reasonable approach would be to update CBVs with a schedule that evaluates each region of the nation on a 5-year rotation. The goal must be accurate CBVs which will mean that some are increased and some are reduced.

<u>Continuing to refine CBVs is the single most important step RMA can take to ensure PRF functions properly. Significant attention should be paid to this issue.</u>

- **Vegetation Index:** The decision to discontinue PRF-VI was well intended, but information exists today that didn't when it was discontinued. Overwhelming evidence suggests its time to bring it back, even if only in certain areas, to determine if it can address isolated but serious problems with PRF RI. There are producers who cannot utilize PRF-RI due to issues with recently installed high-elevation weather stations impacting historical weather data and making PRF-RI ineffective. In other words, new weather stations installed at higher elevations than the older weather stations used to establish the bulk of the historical precipitation dataset for PRF-RI artificially impact current precipitation totals. This is especially troublesome near mountainous areas. <u>The data on this topic is irrefutable and RMA should be as concerned about the potential for underpayments as the potential for overpayments. Both harm the program. One wastes taxpayer dollars while the other wastes producers' premium.</u>

  I was a member of the FCIC Board and attended the meeting when PRF-VI was discontinued. Issues that we know now were not known in 2014. Had the FCIC Board known then, what we know now, I doubt they would have approved ending PRF-VI, certainly I would have been strongly opposed. As it stands today by only offering PRF-RI we are telling certain producers their risk management needs are not important because their livestock graze in the wrong locations.

  Further, it's possible that certain issues discussed in the Report could be remedied by bringing back PRF-VI. For example, perhaps PRF-VI impacts frequency of payments. Has analysis taken place to determine if perceived issues may be resolved with PRF VI? RMA or contractors certainly have the ability to simulate PRF VI indemnities and could determine if in some situations PRF VI resolves certain issues. The most comprehensive report that addressed PRF VI was conducted by Agralytica in 2014. The report indicated it worked well, but at the time due to lack of agent knowledge regarding both PRF products issues had arisen with PRF VI. Notably the issue wasn't the product, but revolved around lack of understanding by agents when agents were not focused on PRF products in general. Below outline key points from that study that may be instructive today:

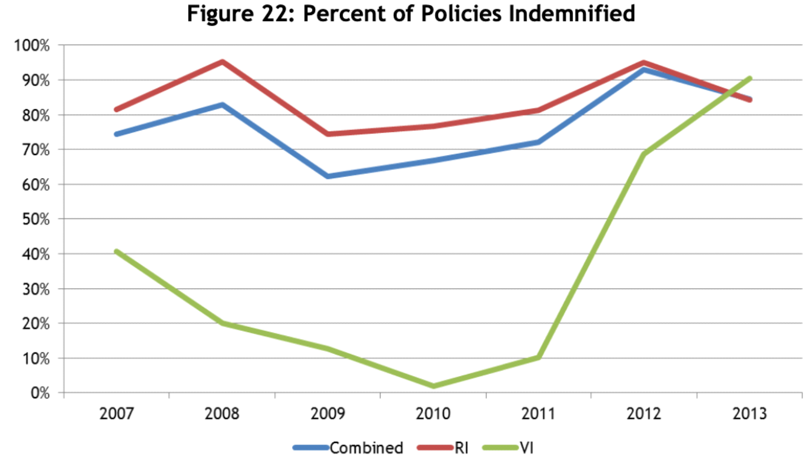
  Forage Growth: "It is well established that NDVI is correlated with forage growth; however, farmers/ranchers and agents need to be confident that the average NDVI interval values represent the conditions on the ground." Agralytica P. 75

PRF VI availability: "Subject to our reservations about the deficiencies of the product (see Section 3.3.3a)) we recommend no changes other than more intensive education of farmers/ranchers that (a) illustrates the validity of NDVI results and the impact of averaging over 3 months, and (b) underlines that indemnities are paid in relation to historic averages. If technically feasible, greater transparency of images over shorter periods than the full interval would aid understanding." Agralytica P. 75

Expansion and Dry Regions – VI: "We would not recommend VI expansion to other states. There was discussion about replacing VI with RI, but that may cause problems since VI is currently available in mostly desert regions where rainfall is sparse and volatile. If the current RI plan was used without modification in VI states, rates and indemnity frequencies would be high. We would also be concerned about the basis risk in these states." Agralytica P. 7

Frequency of Indemnities: The Contract Report mentions frequency of PRF payments. Perhaps PRF RI has a different level of payment frequency that should be explored. Below is a graph from the Agralytica report that indicates that may be possible.

Figure 22: Percent of Policies Indemnified



Source: RMA Summary of business data as of April 2014

Agralytica P. 50

To make material changes to PRF-RI without fully evaluating whether PRF-VI may be a solution to certain perceived issues is shortsighted. RMA should bring back PRF-VI for the 2022 crop year so that producers in areas where PRF is impacted by new high elevation weather stations can manage their risks.

In conclusion, I am not suggesting that PRF VI replace PRF RI. In fact, in 95% of locations PRF-RI may be a better tool. Yet in certain isolated areas producers need another option and PRF VI is a field-tested program that could be utilized immediately that may not only provide producers in those regions better risk management options, but it may address some of the issues that appear to be weighing on the RMA.

- **Extended Sales Season (Alternative Recommendations Paper)**: The PRF sales closing date should be extended until December 1st. It will lead to improved service to livestock producers who are very busy during the current sales season due gathering livestock off vast western ranges and often shipping calves/lambs to market. There would be no program integrity issues related to this extension.

- **Enforce Deadlines**: Agents have significant time after the November 15th sign-up deadline to enter policy information into the system. Unfortunately, at times this flexibility is abused. RMA needs to ensure that those who follow deadlines are not disadvantaged by flexibility that inadvertently allows a small cadre of agents to sign clients up after November 15th.

WORTH CONSIDERING (WITH CAUTION)

- **Coverage Levels (Contracted Report)**: Most MPCI policies have coverage levels up to 85%. PRF allows 90%. If RMA believes 90% coverage should be eliminated they should conduct rigorous analysis to determine if there are material side effects. Recommendations in the Contracted Report to eliminate both 90% and 85% coverage levels go too far and could harm producers who need higher levels of coverage. Further, elimination of 85% indicates that forage coverage doesn't need the same level of coverage as most other crops, yet there is no evidence to substantiate that.

  RMA should carefully evaluate the programmatic impacts of elimination of 90% coverage level including whether PRF will continue to adequately compensate producers, frequency of payments and whether there are any regional differences to the answers of those questions. RMA should carefully evaluate the impacts of eliminating the 90% coverage level, but not consider further reductions.

- **Disappearing Deductible Concept (Contracted Report)**: The Report suggests adjusting PRF by utilizing a disappearing deducible concept. This concept has a lot of potential. The idea may be a good one. The key is how it is implemented.

  This concept should not replace PRF, but rather it could be piloted as an <u>alternative</u> to PRF for those who want to try it. RMA could either create this product themselves or contract for its creation and then offer it in certain regions to test its viability. A pilot period of multiple years (4-5) to evaluate its effectiveness under different geographic and weather conditions would be necessary. A wholesale change could prove disastrous, but allowing producers the option to choose whichever concept works best is a more strategic option to test the concept.

- **Factoring in Livestock Numbers (Alternative Recommendations Paper)**: In concept this is a reasonable idea. Nobody would suggest that 10,000 acres should be insured when a producer owns three goats, thought admittedly if the goats wanted to graze all 10,000 acres no fence would ever stop them from doing so.

  Demonstrating how many head of livestock have grazed an insured area will prove challenging. Further, RMA staff and Approved Insurance Companies (AIPS) are ill-suited to determine what amount of livestock should reasonably be grazing certain areas. A potential approach would be to provide policy language that requires that "producers graze an amount of livestock on the insured acreage that is not unreasonable. Any producers found in violation of this provision will still owe premium, but will not receive an indemnity" Then, if during audits, stocking issues arise policy language exists that allows USDA to deny payments is these very rare circumstances.

At times (see the Livestock Forage Program) USDA has created additional rules and hurdles related to stocking capacity that were never intended by Congress. RMA should not get in the business of policing carrying capacity or how many livestock need to be grazing to be eligible for PRF payments, but language that requires the amount not be "unreasonable" may provide RMA the ability in rare circumstances to stop any potential abuse.

- **Narrowing Productively Factor Ranges (Contracted Report)**: In concept if CBVs are accurate then the need for a wide-ranging productivity factor is minimized, except to the extent that actual land in each county has varying productivity levels. However, the suggested ranges in the report are too narrow and could force underinsurance on highly productive acreage. Instead of accepting the Contracted Report's suggestions RMA should consider narrowing the range from a range of 0.5 to 1.5 RMA to 0.8-1.35 for a 2-5 years and see how that operates. <u>This will be a major change</u> and small incremental adjustments to the factor would be wiser than large adjustments. In fact, RMA could consider just allowing a factor of 1.0-1.35 as there is no reason to go below 1.0 since the same purpose can be achieved by reducing coverage acres. It's worth noting that other crops have similar flexibilities such as trend yields, APH adjustment, etc. so any changes to PRF's productivity factors should also be considered for the aforementioned flexibilities so that RMA remains consistent.

HARMFUL IDEAS

- **Block Out Winter Intervals (Alternative Recommendations Paper)**: Eliminating winter intervals will create more problems that is solves. It suggests that government employees know more about when precipitation is needed than livestock producers. This type of idea is conceived when one assumes that the whole world looks like what one sees out their own front porch. One of the challenges with running a nationwide program is appreciating that each part of the nation is different and that PRF needs to work for the entire nation. Each region needs precipitation at different times depending upon a myriad of factors such as climate, elevation, plant communities, historical weather patterns, etc. This recommendation would harm the program.

- **Lengthen Intervals (Both Papers)**: Lengthening intervals will make indemnities less correlated to forage yield reductions due the physiology of plant growth and the importance of timely precipitation. <u>Exactly the opposite of the desired outcome.</u>

  Depending upon the type of plant, season, etc., the timing of precipitation is key. Precipitation that arrives weeks after key growing periods cannot compensate for what was needed during key growing periods even if the amount is above average. That is why producers need the ability to insure whatever months they feel best corresponds to their plant growth needs.

Extending the intervals beyond 2 months risks that a precipitation event after the key timeline for plant growth has passed will both eliminate any indemnity and there is no corresponding forage growth. This concept is a solution in search of a problem and the solution is far worse than any perceived problem that may exist.

- **Weighted County Based Value by Interval (Alternative Recommendations Paper)**: On one hand, there is a recommendation (see Blocking Out Winter Intervals) for not insuring winter months and on the other its suggested to tie precipitation to the amount of coverage in each interval. In many western areas one cannot reconcile those two concepts due to snowfall in the winter outweighing summer precipitation. The consequences of implementing this recommendation far outweigh any perceived problem it is attempting to solve.

- **Limit Grid Selection by Physical Location of Acreage (Contracted Report)**: This change would dramatically impact PRF's effectiveness and harm producers. If the grid system was perfect and accurately reflected what happened in each grid it would work. But the grid system is far from perfect and taking away the opportunity to pin one grid and use contiguous land is vital for PRF's success. Further, depending upon where a producer's land is within a grid allowing a producer to insure based upon a continuous grid could more accurately reflect precipitation on the producers insured acreage. PRF has basis risk and allowing a producer to choose a grid when the land is all contiguous is one way a producer may minimize that risk.

- **Smaller Grid Sizes (Contracted Report)**: This may be beneficial, especially in the eastern U.S. However, the value of this change may not be worth the effort, especially with other priorities. With other changes more likely to yield demonstrable improvements the time spent on it could likely be better spent elsewhere. With weather stations in the west already spread apart it seems the value of this adjustment is minimal.

- **Not Covering All Counties (Contracted Report):** The Contracted Report discussed not covering certain counties where productivity is low. Unfortunately, in those counties, livestock grazing may be the only productive use of the land. How does USDA eliminate certain counties from insurance coverage when it's an economically viable enterprise? Rather than eliminate coverage for what may be the only economically viable agricultural use of the land CBVs should be carefully examined to reflect the value of the grazing acres. Eliminating insurance coverage in counties where livestock grazing exists would be step backwards for the crop insurance program that has a goal of providing a reasonable safety-net to all producers.

Additional Items of Note:

- **Transparent Precipitation Data**: When producers sign up for PRF they understand that the precipitation data is non-appealable. However, that doesn't mean that information on adjustments shouldn't be public information. Increased transparency regarding the calculation of precipitation, any adjustments, etc., would improve the public's perception of the program. Having worked at USDA I have the utmost confidence in those overseeing PRF, however, others have a natural skepticism of government and the lack of transparency and useful information into precipitation data only feeds those already skeptical of government. Further in unlikely, but not rare circumstances the reported precipitation data is weather data isn't well correlated to a producer on the ground experience. Not providing useful information on how the data is derived compounds an already frustrated experience for producers.

I would note the following from the Agralytica report in 2014 on this topic saying "[i]n summary, farmers need to trust the data collected from different sources, understand how it is processed into grids, and how the grid results are processed. They need to be assured that careful quality control is used by NOAA to avoid errors and anomalies, and above all, they need to be reassured that the process is fair.

Because of the complexity of the grid data collection and processing procedures, much will continue to rely on trust as few will fully understand all the procedures. Consequently, sufficient information must be given to generate trust." Agralytica P. 82.

- **Non-irrigated Hay**: In certain states (UT, AZ and CA) there is significant amounts of non-irrigated alfalfa grown that is entirely dependent upon precipitation. Yet, that practice is not available to insure. Ironically, in many of the areas irrigated hay acres can be insured, yet irrigated hay would not be near as dependent upon precipitation. RMA should explain why in states with significant acres of non-irrigated hay they have decided to not allow producers to insure those acres.

- **Irrigated Hay**: Insurance indemnities should correlate to the production risk they are meant to cover. One could question why PRF covers irrigated hay. On one hand, the risk of lower production due to reduced precipitation is minimal, especially if the irrigation is from a well. Further, PRF only covers a small portion of the crop's value so if there is a large loss a producer is likely to feel that PRF didn't provide adequate compensation. RMA should consider whether there is a strong enough correlation to hay yields and precipitation on irrigated acreage to continue covering irrigated hay.

- **Additional Weather Stations**: A common refrain is "we need more weather stations." It's a simplistic talking point on how to improve PRF. In many cases, particularly in the west it is also wrong. As time goes on additional weather stations are often added to higher elevations whereas earlier weather stations were located in towns, often near small airports. Unfortunately, adding a weather stations at a higher elevation results in it receiving additional precipitation than historical weather stations had received. For example, in most cases the top of a nearby mountain receives more precipitation than the airport in town, especially during winter months. So, when weather stations are added and the amount of precipitation they received is not correlated to historical weather data that comprises the PRF weather data history it does not help the program. It significantly harms producers in the area impacted and reduces confidence in the equity of the program. There should be no effort to create additional weather stations for purposes of PRF.

- **Risk of Loss**: In certain situations, PRF does not provide protection for the individual who has the risk of loss. In some cases, often called "custom grazing" the landowner takes custody of somebody's livestock and grazes them on his/her land. If there is a lack of forage then the livestock do not graze as long or at all. So, the loss to forage is not something that impacts the owner of the livestock, but rather the person who needs insurance is the landowner. Current rules do not allow the landowner to purchase insurance if they do not own the livestock even though they are the ones who will suffer the loss during dry periods.

Final Comments: RMA should not underestimate how harmful certain recommendations from both papers would be to the America's livestock producers. RMA resources should be spent on areas where the impacts can be well understood and that can materially improve the program. With limited resources I suggest that RMA focus on areas that are outlined in the "Good Ideas" and "Worth Considering with Caution" sections as those provide RMA the highest likelihood of improving the program with their existing resources.