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House Committee on
Appropriations

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION

Statement of Brandon Willis, Administrator
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies

Chairman Aderholt, Ranking Member Farr and members of the Subcommittee, I am pleased to discuss the 2017 Budget for the Risk Management Agency (RMA) and the Federal Crop Insurance Corporation (FCIC). Further, I am glad to report to this Subcommittee the progress RMA has made in the last eight years. A strong program is even stronger thanks to the work of RMA employees, our private sector partners, and Congress. Farmers, ranchers, and the entire rural economy depend upon crop insurance, and I am proud of the accomplishments we have achieved.

Overview of the 2017 Budget Proposal

The 2017 budget requests more than $8.9 billion for the FCIC and RMA, including $8.8 billion for mandatory expenses of the FCIC and $66.6 million for RMA salaries and expenses, with up to an additional $20 million collected from administrative fees to be made available for RMA salaries and expenses. This reflects a net increase of approximately $970 million over 2016 levels which includes: an increase of $812 million in premium subsidy, an increase of $146 million in underwriting gains, an increase of $1 million in delivery expenses. The 2017 budget request is able to include a decrease of $8.2 million for the discretionary appropriation for RMA salaries and expenses because of the enhanced funding created by the requested transfer authority of the $20 million in mandatory offsetting collections from crop insurance fees. The fees are already being collected as mandated under the Federal Crop Insurance Act. The transfer will simply allow RMA to use these funds more efficiently and allows flexibly to maintain operations.

The budget proposes legislation for two significant Federal crop insurance policy changes that will result in a savings of $1.2 billion in the FCIC budget in 2017 and $18 billion over 10 years. The proposals provide a balanced approach by reducing premium subsidies paid on behalf of producers as well as reforming prevented planting coverage. The changes will allow RMA to maintain crop insurance as a significant part of the safety net for producers while operating the program at less cost to the taxpayers.

The proposed crop insurance legislation includes two elements:

The first proposal is to reduce the premium subsidy rate by 10 percentage points for revenue coverage that protects the price at the time of harvest. The current average premium subsidy rate is about 62 percent. The harvest price revenue protection compensates producers for their lost bushels of production based on the price at harvest if it is higher than the original planting-time price. This proposal would continue to provide producers an affordable and sound risk management product while saving $16.9 billion over ten years.

The second proposal, which came about in part as a response to an OIG audit, reforms the prevented planting program by eliminating optional add-on coverage, and requiring that 60 percent of the county transitional yield be applied to the producer's actual production history even if a second crop is not planted. Current prevented planting rules do not apply the 60 percent county transitional yield if a producer does not plant a second crop, which creates a disincentive for produces to plant a second crop. The proposed changes would save $1 billion over ten years.

RMA Accomplishments

Since 2009, RMA has made great progress in expanding the safety net for America's farmers and ranchers – over 38 new policies have been implemented. From offering new coverage to organic and specialty crop growers to enhancing coverage for staple crops, RMA has made every effort to provide effective risk management options to farmers and ranchers regardless of what they grow.

RMA has made significant progress in offering organic price election for all crops. In 2011, RMA offered organic price elections for just four crops. RMA now offers separate organic prices for 56 different crops. Progress will continue as more data becomes available. In 2014, RMA added an option called the contract price addendum. This option is currently available for 73 crop types. The result is that producers can obtain the organic premium price in their contract even if RMA does not have an organic price election. As a result of these efforts, since 2009 RMA increased the number of organic policies sold by 63 percent, and increased the number of organic acres insured by 51 percent with liability of organic commodities insured increasing by 189 percent.

To further expand crop insurance options for all growers, Pasture, Rangeland, and Forage is now available in every State in the continental United States. RMA continues to engage with ranchers to improve this policy.

In addition, RMA designed and implemented Whole Farm Revenue Protection – a single policy that allows a farmer or rancher to insure all the crops on their farm, not just one as with a traditional multi-peril crop policy. The 2014 Farm Bill required RMA to offer a product to cover diversified farms; however, RMA began work on this effort well before the 2014 Farm Bill was enacted into law. Prior to the passage of the 2014 Farm Bill, RMA developed the Whole Farm Revenue Protection policy and the FCIC Board of Directors approved the policy shortly after the 2014 Farm Bill became law. As a result, Whole Farm Revenue Protection was available for purchase for the 2015 crop year, and is available in every county in the United States for the 2016 crop year – a first for the crop insurance program. RMA continues to make changes to this new policy to meet the needs of diversified farmers.

During the summer of 2013, RMA, along with the Farm Service Agency (FSA) and Natural Resources Conservation Service (NRCS), published a set of national guidelines to clarify rules regarding the planting and termination of cover crops and the impact on crop insurance and FSA farm programs. Additionally, a Cover Crop Termination Zone Map was published by the three agencies to provide an easy to use tool for producers to use in determining appropriate termination dates for their cover crops. These national guidelines and map provide consistent guidance on cover crops between agencies and gives producers the ability to plant cover crops and meet crop insurance requirements.

I am also proud to report the great work RMA has done to implement the 2014 Farm Bill. The Supplemental Coverage Option and Actual Production History Yield Exclusion now cover over 85 percent of the crop insurance program liability and expansion will continue as more data for crops becomes available. The Stacked Income Protection Plan for Producers of Upland Cotton is currently available for every county that has a crop insurance policy for cotton and producers now have the ability to request coverage under a written agreement if it is not available in their county. Peanut Revenue Protection is available in every county with peanut coverage, and Margin Protection Insurance is available for wheat, corn, rice, and soybeans in select counties. Coverage Level by Practice is now available for 52 crops. Enterprise Unit by Practice is now available for 16 crops. These changes provide producers more options to tailor crop insurance for their specific needs.

The new and beginning farmers and ranchers (NBFR) incentives authorized in the 2014 Farm Bill make crop insurance more affordable for NBFR by providing a 10 percent premium discount, as well as a waiver of the catastrophic and additional coverage administrative fees. Over 13,500 producers have taken advantage of the NBFR incentives provided in the 2014 Farm Bill. NBFR have saved over $14.5 million in premiums and administrative fees because of the incentives.

In an effort to ensure that producers continue to receive premium subsidies, RMA worked with NRCS, FSA, our private partners, and commodity groups to inform farmers and ranchers about the new conservation compliance requirements. Any farmer or rancher that was potentially out of compliance received three letters and at least one phone call. As a result, over 98 percent of crop insurance customers complied with the provisions. Most of the remaining two percent are likely retired, deceased, or operating under a different entity. RMA has implemented several exemptions to ensure NBFR and those who are new to USDA programs, as well as those that have formed new entities, do not lose premium subsidy. To date, over 1,000 exemptions have been granted. Throughout all these changes, RMA and our private partners continued to conduct day to day business. Since 2009, about 8 million active crop insurance policies have been written, and more than $64 billion has been paid out in indemnities to farmer and ranchers.

Compliance and Program Integrity

In addition to our efforts to expand the program, RMA has been working on a process to reduce improper payments. RMA has developed and received approval from the Office of Management and Budget for a new sampling and review methodology for measuring improper payments. Throughout the development process RMA Compliance worked closely with the Office of Inspector General to address concerns the oversight agency had with the previous methodology. The collaborative effort has resulted in significant improvements to the improper payment sampling methodology and review process. The new sampling methodology will allow RMA to more accurately estimate an improper payment rate for the crop insurance program and identify root causes of the improper payments. The improper payment rate is now derived from a statistically valid sample of policies and reflects all payment categories, including premium subsidy benefits and indemnity payments provided to insured farmers, and administrative and operating expense payments made to approved insurance providers. I am proud to report that the improper payment rate for 2015 is 2.2 percent, down from 5.5 percent in 2014. Beginning in 2017, RMA will determine an improper payment rate for each approved insurance provider in addition to the overall program rate.

In addition to work on improper payments, RMA Compliance has entered into a contract for a program-level assessment of operational processes and controls for assuring program integrity. This contract is almost complete. The contract is examining the benefits and effectiveness of RMA's current quality control activities and provides recommendations to better leverage available resources to enhance program integrity, including modification of existing processes and the development of new initiatives. Based on the results of the assessment, a new auditing program will be developed to evaluate the effectiveness of the internal processes and controls used by approved insurance providers in administering the crop insurance program. RMA hopes to implement the changes by August of this year.

Conclusion

I am pleased to report the Federal crop insurance program is functioning as intended by providing timely assistance to producers that have suffered losses. It helped producers and the surrounding rural economies to maintain their local economic infrastructure. Crop insurance helps to provide a reliable and abundant food supply. It also benefits those outside of agriculture by adding stability to lenders and rural businesses; thereby making a major contribution to local economies. It benefits all consumers in the long run by providing a stable and safe food supply, and in doing so allows America's producers to be the most efficient in the world. Again, thank you for inviting us here today and I look forward to working with you.

Mr. Chairman, I would be pleased to answer any questions that you and other Members of the Subcommittee may have. Thank you.

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