USDA

United States Department of Agriculture

Office of the Under Secretary
Washington, D.C. 20250

OCT 0 3 2018

The Honorable Martha McSally
U.S. House of Representatives
510 Cannon House Office Building
Washington, D.C. 20515

Dear Congresswoman McSally:

Thank you for your letter to the Secretary of September 18, 2018, cosigned by your colleagues regarding the latest update to the county base values for the Pasture, Rangeland, and Forage (PRF) crop insurance program. The latest updated values go in to effect for the 2019 crop year, which begins on January 1, 2019, and do not affect coverage for the 2018 crop year. Due to the reasons outlined below, the published county base values for 2019 will remain in place.

Each year the Risk Management Agency (RMA) visits with stakeholders to receive feedback on ways to improve programs. RMA received feedback that county based values were too high and not reflective of the expected value of production on the insured land, which was causing the product to be marketed as an investment tool rather than a crop insurance policy. In order to provide a viable risk management tool for ranchers and protect taxpayer dollars, RMA considered and discussed removing the ability to insure certain months (intervals) in select regions as well as limiting the ability to increase the county base values through what is known as the "productivity factor." While RMA did strengthen program requirements to address specific concerns, RMA decided that changes to the intervals and the productivity factor merited more review and therefore those changes were not made.

At the time of these discussions, the county base values were not a topic of discussion and had not been finalized. For the 2019 crop year, county base values did decline significantly for grazing in most parts of the country because data indicated that the value of forage production per acre was overvalued when solely hay prices were used. Hay prices incorporate production costs and do not recognize the nutritional differences between hay and forage. In retrospect, it would have been helpful for RMA to proactively remind stakeholders that county base values, like price elections for all other policies, commonly change each crop year. RMA will make this clear going forward.

It is important to note that the reason for updating the county base values was not for actuarial soundness but rather to update and better reflect the expected value of production on the insured land. If a crop is insured for twice its expected value, it is possible to charge twice the premium to cover the doubling of loss payments that would occur, and maintain good actuarial performance. However, since that premium is subsidized, over insurance results in the producer getting more subsidy than was intended by law, and increasing the cost of the program. It also can lead to a situation where a producer is better off with a crop loss and getting insurance payments rather than having a normal crop. The agricultural community works hard to avoid situations like this.

As with any crop insurance change, changes were made two and half months before the rancher needs to purchase the policy on November 15, which gives sufficient opportunity to sit down with a crop insurance agent and discuss options, including the ability to increase the county base value by 50 percent, which was not removed.

The Department of Agriculture (USDA) remains committed to providing the risk management and safety net ranchers need. However, the current county base values were not sustainable and these changes will help ensure PRF will continue for years to come. USDA is committed to working with you in the months to come to listen and determine what type of policy may work better or how improvements can be made to other USDA disaster programs.

Again, thank you for your letter and for your interest in, and continued support of, the Federal crop insurance programs. A similar letter has been sent to your colleagues.

Sincerely,

Bill Northey

Bill Northey
Under Secretary
Farm Production and Conservation