

# HAWAII RISK MANAGEMENT EDUCATION IN TARGETED STATES

Hawaii

Agreement # 14-IE-53300-009



## About the Project



# This project was made possible by a grant from the USDA Risk Management Agency, Risk Management Education Program.

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# AgriLogic Consulting



- Agricultural economic and insurance consulting firm
- Over 250 years combined experience in crop insurance research, program development, expert review, and administration
- Completed more than 50 projects for USDA-RMA, since 2001



### **AgriLogic Clients**

































Sandia National Laboratories

FRONTIER















Farm Credit





NATIONAL **GRAIN** SORGHUM **PRODUCERS** 





State Governments BANK OF TEXAS

MIDWESTERN GOVERNORS' CONFERENCE









# **RECORDKEEPING:** The foundation to profitability and sustainability in agriculture





### Avocado Example Assumptions



60% organically produced avocados

40% organically produced mangos

Establishment expenses amortized over 30 years



#### Avocado Income





#### Income per Acre Above **Total** Expenses

	Yield (lbs/acre)						
\$/lb	7,400	8,400	9,500	10,500	11,600	12,600	13,600
1.02	-4,823	-3,966	-3,024	-2,167	-1,224	-368	489
1.12	-4,083	-3,126	-2,074	-1,117	-64	892	1,849
1.22	-3,343	-2,286	-1,124	-67	1,096	2,152	3,209
1.32	-2,603	-1,446	-174	983	2,256	3,412	4,569
1.42	-1,863	-606	776	2,033	3,416	4,672	5,929
1.52	-1,123	234	1,726	3,083	4,576	5,932	7,289
1.62	-383	1,074	2,676	4,133	5,736	7,192	8,649



#### What is Risk?



The possibility that something BAD will happen in the future.

It is not a matter of <u>IF</u> an event will happen, it is a matter of <u>WHEN</u>.

### Three Types of Farm Risk



- <u>Production Risk</u> Anything that negatively affects the quantity or quality of your production.
- Market Risk Anything that negatively affects the price you receive for your product.
- <u>Financial Risk</u> Having the ability to pay your cash obligations in a timely manner, to obtain capital and financing, and to protect or grow your equity.

# Three Components of Risk



- 1. How often will the event happen? (FREQUENCY)
  - Can I do anything to reduce the chances that this event will happen? NO
- 2. How bad is the event going to be? (SEVERITY)
  - ☐ Can I take action to reduce the negative consequences if this event happens? (windbreaks, IPM management, price contracts, etc.) YES
- 3. How much is a bad event going to cost me?
  - Can I protect against the financial loss this bad event is going to cost my farm in terms of lost yield or revenue and ensure that I can remain in business regardless of the frequency and severity? YES

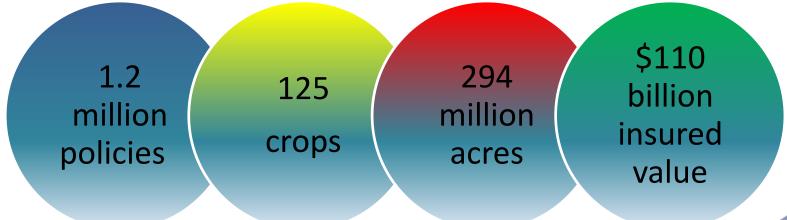
Purchasing crop insurance is one way to manage the risk associated with Question #3.

### What is Crop Insurance?



A risk management tool that producers purchase to protect against the loss of crops due to natural disasters such as hail, drought, freezes, floods, wind, fire, insects, disease, and wildlife, or the loss of revenue due to a decline in price. Crop insurance is Federally supported and regulated and is sold and serviced by private-sector crop insurance companies and agents.

#### **2014 U.S. Crop Insurance Statistics – Source: NCIS**



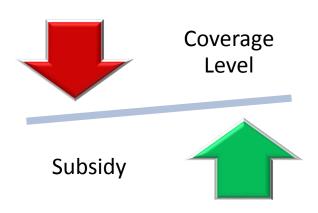
# **Subsidy Factors**



Coverage	CAT	Buy-up					
CL	CAT	50%	55%	60%	65%	70%	75%
Subsidy	1.00	.67	.64	.64	.59	.59	.55

#### EXAMPLE:

- 65% coverage level
- 59% subsidized
- You pay 41% of premium
- At 0.5% rate, farmer paid
   premium rate would be 0.2%



# Actual Production History (APH) Programs









Banana



Papaya



**Mac Nuts** 

- Covers YIELD losses due to insured causes of loss ONLY
- Also referred to as Multiple Peril (MPCI)
- Insured causes of loss:
  - Weather, disease, insects, fire, earthquake, tsunami, volcanic eruption, wildlife, failure or irrigation water supply, destroyed trees that have been infected by a disease if authorized
- Uses your average yield to determine "approved yield"

#### Hawaii Tree Programs



- Can purchase in addition to or independent of fruit policy
- Hawaii Tropical Fruit Tree Program
  - Covers coffee, papaya and banana trees
  - Per Tree Basis, Priced by Stage (Age)
  - Comprehensive Tree Value Endorsement (CTV)
    - Coffee and papaya ONLY
    - OPTIONAL additional coverage that allows the producer to insure the lost future revenue until replacement tree is producing at level of destroyed tree
  - Occurrence Loss Option (OLO)
    - Coffee trees only
    - OPTIONAL additional coverage for allows producer to be paid on smaller, more frequent losses (3% trigger)
- Mac Nut Tree Program
  - Dollar Amount Per Acre
  - No CTVE or OLO



# Whole Farm Revenue Protection (WFRP)



- Umbrella revenue coverage for all covered crops on a farm
  - Eligible crops include fruit, veggies, livestock, eggs, honey, etc.
- Coverage based on allowable (farm) revenue
  - Lesser of 5-year average from Schedule F, or current year's expected revenue
- Improvements to program target:
  - Highly diversified farms; and
  - Farms selling 2-5 commodities to wholesale markets

**Good news for Hawaii!** 



# WFRP Premium Subsidy



- Coverage levels are 50-85% at 5% increments; NO CAT
  - Eligibility for the 80 and 85% coverage levels requires 3 commodities
- 2+ qualifying commodities = WFRP higher subsidy factors

Coverage Level	50%	55%	60%	65%	70%	75%	80%	85%
Whole-Farm Subsidy-Qualifying Commodity Count: 2	80%	80%	80%	80%	80%	80%	1	
Whole-Farm Subsidy-Qualifying Commodity Count: 3 or more	80%	80%	80%	80%	80%	80%	71%	56%

#### Whole Farm Quote



CE0401

85%

Quick Criteria		Coverage	Producer
* Commodity * Commodity Year * State	: Whole Farm Revenue Protect ✓ : 2015 ✓ : Hawaii 15 ✓	Level	Paid Premium
County Type	: Hawaii 001   : Calendar Year Filer 670	50%	\$70
* Practice	: No Practice Specified 997	55%	\$91
ndividual Coverage - Whole Farm Revenue P	Protection 76	60%	\$120
* MPCI Liability * Allowable Revenue	: 0 : 2009: 36000	65%	\$155
	2010: 32000 2011: 28000	70%	\$209
	2012: 42000 2013: 28000	75%	\$279
* Commodity Values	:Select A Commodity Add	80%	\$478
	Add Multiple Remove All		

Total Value Delete

: 11000

: 12000

Commodity

Lettuce 0604

Mango 0984

Sweet Potatoes 0085 (M): 10200

\$906

3 crops allows up

to 85% CL

**Quick Estimate** 

#### **DARTS Software**



#### DARTS Diversified Agriculture Revenue Translation System



Assisting diversified agricultural producers hit the target in maintaining sound financial records.



Photos courtesy of Canola Council, USDA, Alderman's CaseIH, Inc., and S. Clifton Parks

What Is DARTS

**DARTS** Tutorial

**DARTS Software** 



#### What is DARTS?

The Diversified Agriculture Revenue Translation System (DARTS) is a <u>downloadable</u> software application that has been specifically designed to assist the American agricultural producer in maintaining sound financial records and ease the administrative burden of participating in the <u>Whole Farm Revenue Protection (WFRP)</u> or crop insurance

#### **Nursery Program**



- FG&C Field Grown and Container
- Eligible Plant List (contained on USB)
- Uses Plant Inventory Value Report (PIVR) to determine value of insurable plants
  - Optional Endorsements
    - Peak Inventory Endorsement, Rehabilitation Endorsement

Amount of Insurance Example	Loss Example
\$100,000 Plant inventory value × 65% coverage level × 100% Share \$65,000 amount of insurance	\$100,000 Field market value before loss - \$50,000 Field market value after loss \$50,000 Value of loss - \$35,000 Deductible \$15,000 Indemnity

### **Organic Farms**



- One of the fastest growing segments of U.S. agriculture
- RMA currently provides coverage for:
  - Certified organic acreage (OC);
  - Transitional acreage (OT) (organic farming practices are being followed but does not yet qualify as certified organic acreage); and
  - Buffer zone acreage
- Insurance only provided if an organic premium rate is provided in actuarial documents
  - Coffee, Bananas, Papayas, and Mac Nuts all have OC and OT rates
  - Hawaii Tropical Fruit Trees and Mac Nut Trees also have OC and OT rates
- More info can be found at RMA's website:

www.rma.usda.gov/news/currentissues/organics/



## Beginning Farmer and Ranchers



- Someone who has not actively operated and managed a farm or ranch as an owner-operator, landlord, tenant or sharecropper for more than 5 crop years
- 2014 Farm Bill Benefits:
  - Additional 10 percentage points of premium subsidy during first
     5 years of farming
  - Exemption from \$300 administrative fee for CAT coverage
  - Ability to use the production history of entities where they were previously employed or helped to manage
  - An increase in the substitute Yield Adjustment, which allows you to replace a low yield due to an insured cause of loss, from 60 to 80 percent of the applicable transitional yield (T-Yield)

### **Minority Groups**



- A group whose members have been subject to racial, ethnic or gender prejudice because of their identity as members of a group without regard to their individual qualities
  - American Indians or Alaskan Natives, Asians, Blacks or African-Americans, Native Hawaiians or other Pacific Islanders, Hispanics and women
- FSA makes and guarantees loans to eligible individuals and entities who are part of a minority group to buy and operate family-size farms and ranches

# Limited Resource Farmer or Rancher



- Limited resource farmers and ranchers are those who have direct or indirect gross farm sales:
  - Not greater than \$176,800 in each of the previous two years; AND
  - Total household income at or below the national poverty level for a family of four, or less than 50% of county median household income in each of the previous two years.
    - Hawaii County \$34,176

 Producers may visit the USDA Limited Resource Farmer and Rancher website at <u>www.lrftool.sc.egov.usda.gov/</u> and use the online Self Determination Tool to find out if they meet the requirements

### **Conservation Compliance**



- 2014 Farm Bill requires compliance with Highly Erodible Land Conservation (HELC) and Wetland Conservation (WC) provisions to be eligible for certain USDA benefits including farm loans and crop insurance subsidies
- To be in compliance for crop insurance subsidies, you must complete FSA Form AD-1026
- Necessary for <u>annually tilled</u> and <u>perennial</u> crops
- Submit completed forms and direct any questions regarding this form to local FSA office

his form is available electronically.	(See Page 2 for Privacy Act and Paperwork Reduction Act Stat	ements,
D-1026 (0-30-14)	U.S. DEPARTMENT OF AGRICULTURE FarmServiceAgency	
HIGHLY	Y ERODIBLE LAND CONSERVATION (HELC) AND FLAND CONSERVATION (WC) CERTIFICATION	
Read attached AD-1028 Appendix befo		
PART A - BASIC INFORMATION		
Name of Producer	Tip: Identification Number (Lear 4 signs)     3. Crop \(	ear
<ol> <li>Names of affiliated persons with farming in</li> </ol>	terests. Erter "None," if applicable.	
Affiliated persons with farming interests must 5. Check one of these box as if the statement	also file an AD-1026. See item 7 in the Appendix for a definition of an affiliated person, applies; otherwise continue to Part B.	
person's land, producers of crop	I have interest in land devoted to agriculture. Examples include bee keepers who place their hives on a grown in greenhouse, and producers of aquaculture AND these producers do not ownfease any a check this box (fittle producer shares in a crop.	
	ISDA program that is subject to HELC and WC compliance except Federal Crop Insurance, oted to agriculturewhich is exclusively used for perennial crops, except sugarcane, and	
	milted to, tree fruit, tree nuts, grapes, olives , native pasture and perennial forage. A producer that prod Conservation Service at the nearest USDA Service Center to determine whether such production qualifi-	
	rockoer in Part A does not perfoipate in Firm Service Agency (FSA) or Natural Resources Conservation Officerion number of the producer must be provided, but establishment of detailed farm records with FSA it date.	
PART B. HELCANG COMPLIANCE OF Indicate YES or NO to each question.		-
If you are unsure of whether a HEL deten USDA Service Center.	mination, welland determination, or NRCS evaluation has been completed, contact your local	ES I
	he term of a requested USDA loan, did or will the producer in Part A plant or produce an ne) on land for which an HEL determination has not been made?	十
<ol> <li>Has anyone performed (since December</li> </ol>	23, 1985), or will anyone perform any activities to:	+
A. Create new drainage systems, conduct by NRCS? If "YES", Indicate the year	ct land leveling, filling, dredging, land clearing, or excevation that has NOT been evaluated ar(a):	
B. Improve or modify an existing draining	e systemthat has NOT been evaluated by NRCS? If "YES", indicate the year(s):	$\neg$
Note: Maintenance is the repair, reh continued use of wedlands cur were used before December 2	that has NOT been evaluated by NRCS? If "YES", indicate the year(s): soliditation, or replacement of the capacity of existing drainings systems to allow for the rendy in agricultural production and the continued menagement of other areas as they 13, 1965. This allows a person to reconstruct or maintain the capacity of the original if it system that is more durable or will realize lower maintainance or costs.	
Note: If "YES" is checked for Item 7A	or TB, then Part C must be completed to authorize NPCS to make an HELCMC and/or certified restified land. If "YES" is checked for them TC, NPCS does not have to conduct a certified welland.	
8. Check one or both boxes, if applicable; of	herwise, continue to Part C or D.	
Check this box only if the product Part A, including any affiliated part.	oer in Part A has FCIC reinsured crop insurance and filing this form represents the <u>first time</u> the producers on, has been subject to HELC and WC provisions.	cer in
<ul> <li>Is a tenent on a farm that is a</li> </ul>	flowing applies to the producer and crop year entered in Part A: will not be in compliance with HELC and WC provisions because the landlord refuses to allow compli- ted that landlord are in compliance. (AP-1026B, Tenant Exemption Request must be completed).	ince, bu

#### Contacting RMA





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