Whole Farm Revenue Protection
The Basics of Farm Revenue Insurance Coverage

Presented by:

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What is Whole Farm Revenue Protection (WFRP)

- A crop insurance product that provides producers with risk management protection for all commodities on the farm, under one insurance policy

- This can be a stand-alone policy or an umbrella policy over a multiperil crop insurance policy

- Provides protection against loss of revenue due to decline in yields and/or market prices

- Insurance period/year follows the growers filing period
  - Fiscal or calendar year

- Premiums are subsidized or “discounted” by the federal government
  - Up to 80% premium subsidy for diversified farmers
The farming entity must have tax returns for 5 consecutive years (2014-2018) under the same tax ID for the insurance year (2020) unless one of the following applies:

- Entity changed tax ID or entity without altering the farm operation (e.g., spouses filing taxes as a partnership instead of an individual, forming a corporation, etc.)
- Entity purchased a farm operation (at least 90%) and the tax records of that operation are available
- Entity meets special circumstances that allow gaps or missing years in tax history
The policies “Approved Revenue” is based on the lower amount of either:

- The farm operation’s 5 year average revenue (with any options applied); OR

- The expected revenue from the commodities produced in the insurance year
The expected revenue from the commodities produced in the insurance year **must be realistic and substantiated**

- Growers with an existing contract *should* be okay
  - A revised farm operation report is due prior to July 15th, this indicates any adjustments in the expected revenue

- Growers with no current contract may have issues
  - Uncertainty in what to use to substantiate 2020 prices

Additional information to follow from the Risk Management Agency
Yield losses caused by covered causes of loss

A decline in local market price*
  • Unless the FCIC specifically identifies a man-made cause that resulted in a measurable change in the price

All commodities* that a grower produces in the insurance period, whether they are sold or not; this includes crops, livestock, and aquaculture

Commodities a grower purchases for resale during the insurance period*

Some exclusions apply
What is Covered

• Adverse weather
• Earthquake
• Failure of irrigation water supply (due to a covered peril)
• Fire
• Insects, plant disease (unless insufficient or improper application of control measures occurs)
• Volcanic eruption
• Wildlife
What is NOT covered?

- Declines in local market price due to man-made causes

- Inability to market commodities due to a quarantine or boycott, lack of labor and/or inability to find a buyer either due to poor planning or failure to follow contract requirements

- Failure to collect payment for sold commodities or receive a price reflective of market value

- Deterioration of commodities in storage which reduces the quality/value of the commodity, unless this is due to a covered cause of loss
• Improper farming practices (not irrigating, not utilizing proper control measures for disease and pests)

• Negligence, mismanagement, or wrongdoing by the insured, any member of the insured’s family or household, or the insured’s tenants, employees, or contractors

• An act by any person that affects the revenue on the farm operation including, but not limited to, chemical drift or fire caused by anything other than a naturally occurring event

• Water contained by or within structures that are designed to contain a specific amount of water, such as dams, locks, or reservoir projects, when such water stays within the designed limits
• Only $2M in expected revenue from animals and/or products is allowed under WFRP

• Only $2M in expected revenue from nursery/greenhouse operations is allowed under WFRP

• Growers are ineligible if there is an underlying CAT MPCI policy on commodity(ies)

• Growers are ineligible if producing a controlled substance
  • Hemp is allowed
Exclusions and Special Circumstances

- WFRP does not cover timber, forest, forest products, and animals for sport, show or pets

- Only 50% of total revenue can come from resale commodities

- Growers wanting to insure potatoes or commodities with an underlying MPCI revenue policy available, require 1 additional commodity to be eligible for WFRP (2 total)

- Disaster and program payments like the WHIP program are excluded from revenue to count during claim assessment
Why is diversification and commodity count important?

- **Subsidy qualifications**: Farms with 2 or more commodities receive additional subsidy towards their premium
- **Premium discount based on diversification**: Farms with 2 or more commodities will receive a premium rate discount determined by the amount of diversification
- **Coverage levels available**: Farms with 3 or more commodities can purchase 80 and 85% coverage levels
- **Potential for disqualification**: Each commodity requires a specific amount of revenue to be counted towards farm diversification
Determine the amount of eligible commodities codes on the farm. Add them together, divide by the result & then multiply by .333. Minimum amount of revenue that must be greater than this percentage to qualify as a commodity code.

<table>
<thead>
<tr>
<th>Commodity Count</th>
<th>Eligibility Calculation</th>
<th>Minimum Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>((1 \div 2 = .500) \times .333)</td>
<td>16.7%</td>
</tr>
<tr>
<td>3</td>
<td>((1 \div 3 = .333) \times .333)</td>
<td>11.1%</td>
</tr>
<tr>
<td>4</td>
<td>((1 \div 4 = .250) \times .333)</td>
<td>8.3%</td>
</tr>
<tr>
<td>5</td>
<td>((1 \div 5 = .200) \times .333)</td>
<td>6.7%</td>
</tr>
<tr>
<td>6</td>
<td>((1 \div 6 = .167) \times .333)</td>
<td>5.6%</td>
</tr>
<tr>
<td>7</td>
<td>((1 \div 7 = .143) \times .333)</td>
<td>4.8%</td>
</tr>
</tbody>
</table>
## WFRP – Commodity Count Subsidy

<table>
<thead>
<tr>
<th>Coverage Level</th>
<th>50%</th>
<th>55%</th>
<th>60%</th>
<th>65%</th>
<th>70%</th>
<th>75%</th>
<th>80%</th>
<th>85%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Subsidy - 1 Commodity</td>
<td>67%</td>
<td>64%</td>
<td>64%</td>
<td>59%</td>
<td>59%</td>
<td>55%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Whole Farm Subsidy - 2 Commodities</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Whole Farm Subsidy - 3 Commodities</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>71%</td>
<td>56%</td>
</tr>
</tbody>
</table>
Growers can select coverage between 50% and 85% (in 5% increments)
- **Must have 3 or more commodities to qualify for 80% and 85%**
The policy liability limit is $8.5M in insured revenue

<table>
<thead>
<tr>
<th>Coverage Level</th>
<th>Min. Commodity Count Required</th>
<th>Max. Farm Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>85%</td>
<td>3</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>80%</td>
<td>3</td>
<td>$10,625,000</td>
</tr>
<tr>
<td>75%</td>
<td>1</td>
<td>$11,333,333</td>
</tr>
<tr>
<td>70%</td>
<td>1</td>
<td>$12,142,857</td>
</tr>
<tr>
<td>65%</td>
<td>1</td>
<td>$13,067,923</td>
</tr>
<tr>
<td>60%</td>
<td>1</td>
<td>$14,166,167</td>
</tr>
<tr>
<td>55%</td>
<td>1</td>
<td>$15,454,545</td>
</tr>
<tr>
<td>50%</td>
<td>1</td>
<td>$17,000,000</td>
</tr>
</tbody>
</table>
Approved Revenue is based on the *lower* amount of either:

- The farm operation’s 5 year historic average revenue; **OR**
- The expected earned revenue from the commodities produced in the insurance year
The insured may select one or more of the following options

- **Revenue Substitution (RS)**
- **Revenue Exclusion (RX)**
- **Revenue Cup (RC)**

The option providing the highest revenue amount will be used in determination of the historic average and premium, options can not be used in conjunction
Revenue Substitution

When elected, allows the substitution of any year within an insured’s whole-farm history period that falls below 60 percent of their simple average allowable revenue (or indexed revenue)

- Simple Average = $1M \times 60\% = $600,000
- Any years below $600,000 in revenue, will be substituted with $600,000 to go towards the average
Revenue Exclusion

When elected, allows the exclusion of the lowest year within the insured’s whole-farm history period

2014 – $5,750,000
2015 – $4,780,000
2016 – $6,200,000
2017 – $5,900,000
2018 – $5,850,000

Average uses the four highest revenue years
Revenue Cup *(for carryover insureds only)*

When elected and necessary, allows the replacement of the average revenue with 90% of the previous policy year’s approved revenue

- Previous year approved revenue = $1,000,000
- Current years historic average = $860,000
- Current years average with RC = $900,000
Options have a 10% premium surcharge, and will also increase your liability.

REMEMBER: Options impact the average revenue determination only

• The policy is based off the lessor of the average, with options applied, OR the expected revenue for the year
Lodi grape grower, crush district 11:
Cabernet Sauvignon, 395 acres, averages 8.4 tons/acre, contract price of $1300/ton = $4,315,200 estimated revenue

Chardonnay, 140 acres, averages 8.1 tons/acre, contract price of $900/ton = $1,019,466 estimated revenue

Olives (for oil), 25 acres, 135 gallons/acre, $18/gallon = $59,334 estimated revenue.

Total Estimated Revenue = $5,394,000
Determine the 5 year historic average:

2014 – $5,750,000
2015 – $4,780,000
2016 – $6,200,000
2017 – $5,900,000
2018 – $5,850,000

Average Revenue = $5,925,000

Note, there is a “lag year” where the most recent years revenue is not included
2020 Whole Farm Revenue Protection Example

Determine the lesser of the two:

\[ \text{Average Revenue} = \$5,925,000 \]

\[ \text{OR} \]

\[ \text{2020 Expected Commodity Revenue} = \$5,394,000 \]
Commodity Count:

- Red Grapes – $4,315,200 (80% of revenue)
- White Grapes – $1,019,466 (18.9% of revenue)
- Olives – $59,334 (1.1% of revenue)

Based on commodity qualification calculations, only 2 commodities qualify towards diversification.
Determine the coverage level based on $5,394,000 in approved revenue.

<table>
<thead>
<tr>
<th>Coverage Level</th>
<th>Insured Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>95%</td>
<td>$4,584,000</td>
</tr>
<tr>
<td>90%</td>
<td>$4,315,200</td>
</tr>
<tr>
<td>75%</td>
<td>$4,045,500</td>
</tr>
<tr>
<td>70%</td>
<td>$3,775,800</td>
</tr>
<tr>
<td>65%</td>
<td>$3,506,100</td>
</tr>
<tr>
<td>60%</td>
<td>$3,236,400</td>
</tr>
<tr>
<td>55%</td>
<td>$2,966,700</td>
</tr>
<tr>
<td>50%</td>
<td>$2,697,000</td>
</tr>
</tbody>
</table>
Comparing premiums for coverage with, and without underlying multiperil coverage

### 50% MPCI coverage level

<table>
<thead>
<tr>
<th>MPCI Policy at 50%</th>
<th>Insurance Price for Losses</th>
<th>Tonnage Guarantee</th>
<th>Total Liability</th>
<th>Farmers Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cabernet Sauvignon</td>
<td>$1,300 per ton</td>
<td>1,639 tons</td>
<td>$2,131,090</td>
<td>$11,176</td>
</tr>
<tr>
<td>Chardonnay</td>
<td>$900 per ton</td>
<td>567 tons</td>
<td>$510,300</td>
<td>$2,676</td>
</tr>
<tr>
<td>Olives</td>
<td>NONE</td>
<td>NONE</td>
<td>NONE</td>
<td>NONE</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>$2,641,390</strong></td>
<td><strong>$13,852</strong></td>
</tr>
</tbody>
</table>
Comparing premiums for coverage with, and without underlying multiperil coverage

<table>
<thead>
<tr>
<th>Coverage Level</th>
<th>Liability</th>
<th>WFRP Premium with NO MPCI ($0)</th>
<th>WFRP Premium with MPCI ($2.6M)</th>
<th>MPCI Policy Premium</th>
<th>Total Premium (WFRP &amp; MPCI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>$2,697,000</td>
<td>$12,406</td>
<td>$6,203</td>
<td>$13,852</td>
<td>$20,055</td>
</tr>
<tr>
<td>55%</td>
<td>$2,966,700</td>
<td>$17,207</td>
<td>$8,603</td>
<td>$13,852</td>
<td>$22,455</td>
</tr>
<tr>
<td>60%</td>
<td>$3,236,400</td>
<td>$22,655</td>
<td>$11,327</td>
<td>$13,852</td>
<td>$25,179</td>
</tr>
<tr>
<td>65%</td>
<td>$3,506,100</td>
<td>$29,451</td>
<td>$14,726</td>
<td>$13,852</td>
<td>$28,578</td>
</tr>
<tr>
<td>70%</td>
<td>$3,775,800</td>
<td>$40,023</td>
<td>$20,012</td>
<td>$13,852</td>
<td>$33,864</td>
</tr>
<tr>
<td>75%</td>
<td>$4,045,500</td>
<td>$53,401</td>
<td>$26,700</td>
<td>$13,852</td>
<td>$40,552</td>
</tr>
</tbody>
</table>
Claim Example

$5,394,000 Approved Revenue
X 75% Coverage level
$4,045,500 Insured Revenue

$2,911,100 2020 Revenue
+ $130,000 MPCI claim payment (assuming 50% MPCI coverage)
$3,041,100 Total revenue to count towards insurance guarantee

$4,045,500 - $3,041,100 = $1,004,400 Revenue Loss (WFRP indemnity payment)

$1,134,400 WFRP indemnity if there was no MPCI coverage
• Claims should be filed timely (within 72 hours of notice of potential damage or loss in revenue has occurred)

• WFRP claims are paid AFTER a grower files their taxes for the year

• Growers have 60 days after filing to notify company of a loss in revenue
Application Deadline Dates for California operations:
- November 20 (Late fiscal year filers)
- February 28

Revised Farm Operations Reporting Dates:
- On or before July 15

Based on the state/county the farm operation is headquartered in, and the filing method.
• Provide necessary policy documents including additional information to support and special circumstances

• Must describe any changes to the farm operation through the year

• Must provide applicable organic certificates

• Provide information on additional insurance purchased

• Must meet claims reporting requirements

• Insured must retain complete verifiable records and direct marketing sales records for three years after the later of: end of insurance, or date of final indemnity payment
Questions?

Don’t forget to register for the next CAWG webinar,
Employment Law Changes in 2020 – January 7th at 10AM
Presented by Brandon K. Kahoush, attorney at law with Fisher & Phillips, LLP