Preparing a Diversified Veggie & Fruit Farm for Whole Farm Revenue Protection Crop Insurance

A revenue protection policy for diversified farms

Whole Farm Revenue Protection (WFRP) is a crop insurance policy that protects a farm's adjusted gross revenue from production losses or decline in market prices due to natural causes. The deadline to enroll in WFRP is March 15, 2018 for the 2018 growing season. Revenue from crops, livestock, animals and nursery products can be insured under WFRP. These products are referred to as "commodities."

Preparing the records to enroll

The purpose of this factsheet is to generally explain the farm-level records required so that farmers can understand the policy and prepare for a meeting with a crop insurance agent. Table 1 lists the farm records needed for enrollment. This table can be used as a checklist to help organize your own farm records.

Table 1. Required farm records and a checklist for enrolling in Whole Farm Revenue Protection in 2018.

Farm records required[1]	Why needed?	More details	Records are used to…
Schedule F tax records (5 years) 2012 (Y/N) ____ 2013 (Y/N) ____ 2014 (Y/N) ____ 2015 (Y/N) ____ 2016 (Y/N) ____	To prove historical gross revenue and expenses.	Qualifying beginning farmers may be allowed to supply Schedule F's from the previous 3 years; The year preceding the tax year (i.e. 2017) is known as the 'lag year' and is not included in the reporting.	Complete the **Allowable Revenue and Allowable Expenses Worksheets** and the **Whole Farm History Report**.
Intended 2018 farm plan 2018 (Y/N) ____	Lists crops to be produced and the intended yield and revenue from each for the insurance year.	A *revised* report is due during the insurance year if the *intended* plan changes. A *final* report is due at the end of the insurance year.	Complete the **Farm Operation Report**.
Verifiable sales records 2012 (Y/N) ____ 2013 (Y/N) ____ 2014 (Y/N) ____ 2015 (Y/N) ____ 2016 (Y/N) ____ 2017 (Y/N) ____	To verify Schedule F revenue, justify intended yields and income of commodities, and to justify final production for the insurance year.	Sales figures must be tracked per commodity. Records must include info on the commodity sold, name of buyer or market, price per unit, quantity and date sold. Verifiable records include: 1) Accounting records, farm management records, warehouse receipts, ledger sheets, sales receipts, etc.; 2) Records developed at time of "direct market" sales (i.e. at farmer's market, u-pick, farm stand, internet sales, etc.).	Verify values on the **Allowable Revenue and Allowable Expenses Worksheet**s and the **Farm Operation Report**.

[1] Note that for animals/animal products/nursery/greenhouse products an "inventory report" is needed at the beginning and end of the insurance period;
A report of "accounts receivable and payable" would be required as applicable;
Form AD-1026 must be on file with the Farm Service Agency to receive the premium subsidy.

How are the farm's *Schedule F's* used?

The agent will use the 5-year Schedule F history to complete the **Allowable Revenue and Expense Worksheets**. Each worksheet reflects a different year of the farm's Schedule F history. "Allowable revenue" is farm revenue from the production of commodities produced by your farm operation, or purchased for further growth and development by your farm operation. "Allowable expenses" are farm expenses that are incurred in the production of commodities on your farm. These expenses include "market readiness" costs that are the minimum needed to remove the crop from the field to make it market ready. For example, certain expenses such as washing, packing and packaging can be left in as allowable expenses. However revenue and expenses from "added-value" processes such as the value of making gift baskets with fruit are not considered "allowable" and would have to be factored out of the farm's history. Why are expenses taken into consideration when WFRP is a revenue protection program? Expenses are factored in to ensure that the farmer is taking the steps needed to manage the crop or to ensure the farmer is following "good farming practices."

The agent will summarize the information from the **Allowable Revenue and Expense Worksheets** in the **Whole Farm History Report**. This worksheet shows the total allowable revenue and allowable expenses from each of the worksheets. The agent will complete three equations for comparing the revenue and expense history, these include the:

1) <u>Simple average</u>: 5-year total/5 years;

2) <u>Indexed average</u>: This applies if the allowable revenue in either of the two most recent tax years in the whole-farm history period are greater than the average allowable revenue. An indexing calculation is applied to account for growth in the farm operation; and

3) <u>Expanded operation calculation</u>: If the farm can prove that the operation has physically expanded during the insurance period or lag year by increasing or adding production capacity, or, by making physical alterations to the farm operation, the agent may approve the farm operation as an "expanded operation." The "expanded operation" amount would be the average allowable revenue multiplied by the expanded operation factor, not to exceed 1.35. For example, if the farm has new apple trees and vegetable acreage in production, the expanded operation calculation may be applied.

The "Whole Farm Historic Average Revenue" will be the greater of the simple, indexed or expanded operation average.

How are the farm's *intended* plan and verifiable records used?

What the farm *intends* to produce for the 2018 insurance year will be listed on the **WFRP Farm Operation Report**. The sales records are used to justify *intended* pricing and production for each crop. The "approved gross revenue" will be the lesser of the revenue the farm *intends* to produce in the insurance year and the "Whole Farm Historic Average Revenue." The approved gross revenue is the basis for the WFRP policy.

As the season is underway if the farmer follows their *intended* plan they will not have to *revise* the **WFRP Farm Operation Report**. However, if they make changes to the *intended* plan such as planting more or less potato acreage, the farmer will report these changes when completing the *revised* report. The *revised* farm operation report is due by July 15, 2018 and is similar to the Acreage Report used for other types of Federal crop insurance. At the end of the insurance year and prior to next year's sales closing date, the farmer will complete the **WFRP Farm Operation Report** by filling out the *Final* section.

How does the farm get credit for being diversified?

The farm's premium subsidy and coverage level options will be based on the number of countable farm commodities produced (Table 2). The agent will perform a commodity count calculation as opposed to a simple count of the different commodities. The calculation determines the minimum proportion of revenue a commodity must contribute to the farm to be considered a countable commodity. The minimum proportion to be considered a countable commodity is one-third of the evenly distributed amount, depending on the number of commodities. In the example provided in Table 3, each commodity would have to make up at least 8.3% of the total farm revenue in order to qualify (Table 3).

Table 2. Percentage of the total premium that is subsidized.

Coverage level	50%	55%	65%	70%	75%	80%	85%
1 Commodity	67%	64%	64%	59%	55%	NA	NA
2 Commodities	80%	80%	80%	80%	80%	NA	NA
3 Commodities	80%	80%	80%	80%	80%	71%	56%

Table 3. Commodity count calculation example for four commodities.

1.0/4 commodities	= 0.25
0.25 x 0.333	= 8.3%[1]

[1] Percent of total revenue each commodity must exceed to qualify.

The farm commodities included in the calculation are those listed on the *intended* **WFRP Farm Operation Report**. Commodities with revenue below the minimum threshold will be grouped together in order to recognize diversification and make the commodity count higher. Table 4 shows an example of the total guarantee, premium and the farmer's premium for a farm with at least 3 qualifying commodities and $198,450 of approved gross revenue. In this example, the farmer selects the 75% coverage level. This means they are protecting $148,838 of approved gross revenue. The "total guarantee" is also known as the "insurance trigger." The farm's actual revenue must fall below the insurance trigger to receive an indemnity payment. Premiums are due by August 15, 2018. Lastly, if the farmer is going to insure revenue from perennial crops the agent will visit the farm and complete the **Pre-Acceptance Worksheet for Perennial Crops** to verify the existence of perennial crops.

Table 4. Estimated premium quote[1] for $198,450 of approved gross revenue and 3 qualifying commodities.

Coverage level	Total Guarantee	Total Premium	Farmer Premium
50%	$99,225	$3,969	$794
55%	$109,148	$4,803	$961
60%	$119,070	$5,834	$1,167
65%	$128,993	$6,837	$1,367
70%	$138,915	$8,474	$1,695
75%	$148,838	$10,419	$2,084
80%	$158,760	$12,542	$3,637
85%	$168,683	$15,350	$6,754

[1] Contact an agent for an actual quote.

What happens when a loss occurs?

For example, a hailstorm in July damages over half of the intended apple and blueberry yields. The farmer provides a notice of loss to their crop insurance agent within 72 hours of discovering the damage. An adjuster visits the farm to inspect the loss. The farmer does not harvest the damaged fruit because they have no alternative market for juice or cider. If the farmer wanted to use the damaged fruit for a purpose other than its intended use the agent should be notified. If the farm were to generate revenue from the damaged fruit this would count towards the "revenue-to-count." Due to the hailstorm the farm's actual gross revenue on their 2018 taxes is $138,750, which is below their insurance trigger (Table 4). Although the loss occurred in July, the claim for the loss wouldn't be submitted until after the farmer filed their 2018 taxes. To settle the claim, the **Claim for Indemnity** form must be completed based on the filed 2018 Schedule F.

The farm's actual expenses were $65,000, which was $15,642 lower than expected due to the reduction in labor costs. If the farm's expenses were to drop below 70% of their approved expenses, an expense reduction factor would be applied. As a result of the loss the farm receives an indemnity payment of $10,088.

Locating a crop insurance agent

The deadline to enroll in WFRP is March 15, 2018 for insurance during the 2018 growing season, but farmers should begin the sign-up process with a crop insurance agent well in advance of the deadline to ensure coverage. Having your farm records organized before you meet with an agent is favorable.

Locate a crop insurance agent using the online agent locator tool:
(https://prodwebnlb.rma.usda.gov/apps/AgentLocator/#/).

(Enter your location in box at top left, and in "Licensed in" box on right, click on Maine in the drop-down menu. Adjust other filters as desired, than click on blue "Search" box.)

More Information

Farmers should seek out a crop insurance agent to address specific questions pertaining to their farm. More information about crop insurance can be found by visiting the UMaine Risk Management and Crop Insurance website at: https://extension.umaine.edu/agriculture/crop-insurance/.

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