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Whole-Farm Revenue Protection **for Smaller Scale Farms**

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The Whole-Farm Revenue Protection Pilot program (WFRP) was first released in November 2014 for the 2015 crop year and has seen many changes since that time. As a pilot program, changes and improvements can be made in quick fashion when compared to other Federal crop insurance policies codified in the Federal regulations. Having a program in pilot status is both beneficial and challenging. Beneficial from the standpoint that needed improvements can be implemented and put into effect almost immediately. Challenging in that keeping up with changes requires diligence on the part of Approved Insurance Provider (AIP) training staff and agents to fully understand the impact of the changes and what that means to farmers.

The most recent change to WFRP is the addition of a new policy for smaller scale farms, or micro farms. The first time we discussed WFRP on the pages of Crop Insurance TODAY® was the February 2015 edition. The article was contributed by the USDA's Risk Management Agency (RMA). In that article WFRP was explained as follows: "The WFRP policy was specifically developed for farms that tend to sell to direct, local or regional, and farm-identity preserved markets and grow specialty or organic crops and animals and animal products." In USDA's November 30, 2021, news release announcing the availability of the Micro Farm policy, Marcia Bunger, Administrator for USDA's RMA stated: "USDA is focused on supporting local and regional food systems, and Micro Farm is one more example of how we're helping agriculture producers with farms of all shapes and sizes to manage their unique operations and risk." The objectives in the two statements do not sound all that different, so what does the new Micro Farm policy provide that wasn't previously available?

To start the conversation, it's best to begin with identifying a major challenge with offering any Federal crop insurance program. In a nutshell the challenge can be summed up thusly: To provide meaningful coverage without overburdensome record requirements yet obtain adequate information necessary to underwrite insurance policies and protect the integrity of the program. Does the existing WFRP program meet this challenge for highly diversified small-scale farms? A quick read of the study on the feasibility of insuring local food production contracted by RMA1, which is available on the RMA website, would say that the current WFRP program primarily misses on two accounts. First, the record requirements of the current program are overly burdensome for highly diversified small-scale operations. Second, the existing program does not provide meaningful coverage because it tends to focus on wholesale pricing that is often much less than prices received in direct-to-consumer markets.

Addressing the first concern, the current program requires that farmers have yield and price information for each commodity they produce. If you are familiar with WFRP, you know that WFRP provides protection against loss of revenue that a farmer expects to earn or will obtain from all insurable commodities produced on the farm operation or purchased for resale during the insurance period. One does not pick and choose which commodities to insure or not insure. The Micro Farm policy does not change this tenet of WFRP. Tracking revenue earned from individual commodities is difficult at best and nearly impossible for farmers growing multiple commodities on small acreages with multiple growing seasons. Add in that multiple commodities may be grown on the same acreage or space during the insurance year further complicates recordkeeping by commodity. Referencing the contracted study, the following sums up the concerns expressed about excessive recordkeeping requirements of the current WFRP program.

"Producers were very vocal about the unique reports they need to submit to be eligible for insurance and the requirement to report revenue by commodity. Providing sales records by commodity is cumbersome and viewed as excessive and unnecessary by local food producers."

So how does the new Micro Farm policy address this concern?

Under the Micro Farm policy, individual commodities are not required to have separate expected values on the Farm Operation Report (FOR), a requirement of the current program. To arrive at an amount of coverage, the farmer will need to provide a minimum of three years of tax records and sales records which may be certified, to build a revenue history instead of the current five-year requirement. Consolidated sales records are acceptable, but the AIP may request sales records that comprise a complete marketing record of commodities on the farm operation to ensure that the farm operation is properly covered. The FOR is still a requirement under the Micro Farm policy, except that there will only be one line entry representing the total expected value for all insurable commodities produced on the farm operation instead of a line entry with expected values of each insurable commodity produced on the farm.

In the third quarter 2019 edition of the Crop Insurance TODAY® magazine, in an article titled "WFRP Myths and Misperceptions", I emphasized the importance of the farmer educating their agent about their operation to minimize any misunderstandings in coverage should there be a claim. To be more specific, farmers need to make sure their agent is aware of any changes in market conditions, the commodity mixtures on the farm, or production capacity (increase or decrease in acreage, removal, or replacement of diseased or overaged trees, etc.) used to produce the commodities on the farm operation that could result in the expected revenue to be less than the average of the previous three-year history.

The Micro Farm policy does not completely do away with the accrual accounting aspects of the WFRP program. A beginning and ending inventory along with a beginning and ending accounts receivable are still required. Refer to the "WFRP Myths and Misperceptions" article in the third quarter 2019 Crop Insurance Today magazine for an explanation of these reports and their role in determining coverage.

But a bit of good news. **Expenses are NOT required to be reported!** Under the Micro Farm policy, a farmer does not complete an Allowable Expense Worksheet.

Turning our attention to the second concern. Based on comments from listening sessions in the contracted study, WFRP does not provide meaningful coverage to small-scale farmers because it tends to focus on wholesale pricing that is often much less than prices received in direct-to-consumer markets. So how does the Micro Farm policy address this?

Recall from above that expected values for Micro Farm coverage are not determined for each individual insurable commodity that is produced or purchased for resale on the farm operation. Instead, the total value of expected revenue of all insurable commodities will form the basis of coverage. If the wholesale value of an individual commodity is not reflective of the value of the commodity produced by the farm operation, the Micro Farm policy makes the point moot because the individual value is only a part of the total value of all commodities produced. This feature of Micro Farm coverage also alleviates having to prove a higher price for organically produced commodities. The writers of the Micro Farm policy did not stop there in addressing expected value concerns.

Not mentioned previously is the difficulty small-scale farms have in separating out the value of the raw commodity from the end products they may sell at direct-to-consumer markets. For example, a small-scale farmer may produce strawberries to make jam that they then sell at a farmers' market. For this farm operation, they are mostly dependent upon the sale of the jam and not the raw commodity strawberries. Providing coverage only on the value of the raw strawberries is not adequate or meaningful to the small-scale farmer. Therefore, the Micro Farm policy allows for covering post-production costs and added values. Coverage that is not afforded under the standard WFRP coverage.

To conclude this article, let's look at other features a farmer interested in Micro Farm coverage would need to know.

Farmers who select coverage under the Micro Farm policy automatically qualify for the highest available coverage level of eighty-five percent. Under standard WFRP, a farmer would need to meet the three-commodity count rule to qualify for the highest coverage level. The three-commodity count rule is based on how much of the total expected value a single commodity makes up of the total expected value. If the expected value of a single commodity does not make up a certain percentage of the total, then it's expected value may be combined with the expected value of another commodity to meet the minimum. It is possible that a farmer with three commodities may not meet the rule if two of the commodities make up a small percentage of the farm operation's revenue. Micro Farm coverage eliminates the need to determine if the farm operation meets the three-commodity count rule.

Standard WFRP offers a premium discount based on the level of diversification of the farm. In the previous paragraph I explained the three-commodity count rule and how it is determined from the expected value a single commodity makes up of the total expected value of the farm. This commodity count process is used to determine how diversified the farming operation is and for operations that are highly diversified, WFRP offers a premium discount. RMA eliminated this calculation under the Micro Farm policy and replaced it with a standard premium discount factor. Agents and farmers alike should find this feature beneficial because it eliminates the need to recalculate commodity counts later in the year should the farmer not produce all the commodities intended.

What size of smaller-scale farm operation is Micro Farm coverage designed to cover? For the initial year of Micro Farm coverage, a farmer that reports $100,000 or less in approved revenue can qualify. For subsequent years, the farmer would be considered a carryover insured and the limit is increased to $125,000 of approved revenue. It is important to note that approved revenue is the amount after certain adjustments are made to the reported revenue history. Revenue from sources other than insurable commodities such as souvenir sales, bottled water, etc. sold through a farm stand must be removed. Except for revenue from post-production operations or value added to commodities, the standard WFRP rules apply to determining approved revenue. One very important point to remember, approved revenue does not equal the insurance guarantee. Once approved revenue is determined, it is then multiplied by the coverage level selected by the insured to arrive at the insurance guarantee. Available coverage levels are in five percent increments from fifty percent to eighty-five percent.

In summary, the new Micro Farm policy strives to reduce reporting requirements, offer meaningful coverage by allowing post-production costs and added values to be included in approved revenue, automatically qualifies the farmer for the highest coverage level, and eliminates the need to calculate commodity counts and diversification discounts.

This article does not attempt to cover everything a farmer needs to know about the new Micro Farm policy but should provide a better understanding of the major features and benefits available to small-scale farm operations.