



PRIOR TO THIS YEAR, when drought struck, there was little that could be done for those who owned rangeland. That may be changing thanks to a USDA pilot program.

# Drought Insurance

By DAVID AUSTIN

“Some producers have had to sell their livestock because it doesn’t make sense to have them,” says Shepard of the recent drought. The USDA pilot program was six years in the making and will be evaluated each of the next three years to determine its continuation.



2005 was tough on the bottom line for many in Texas. Rainfall was short in much of the state and water often had to be hauled in to salvage thirsting ground.

**W**hen it comes to agriculture, Marc Shepard knows the lay of the land. He used to run a commercial cow-calf ranch, but now serves as an agent with Hargrove Crop Insurance. Hargrove is headquartered in Rotan and the Lone Star State has too often been home to land lacking in proper moisture in recent years. Drought has taken its toll.

While farmers had different types of crop insurance that were subsidized by the government, rangeland owners had little protection against the whims of Mother Nature. Thus, if it didn't rain, and the cattle couldn't properly graze, there was little that could be done to fix the problem.

But the climate is changing. Hargrove works for one of 16 private insurance companies which offer rangeland insurance. So now, ranchers can cover their land in case they don't get enough

rain. The pilot program was unveiled in August and Shepard expected a rousing reception. He wasn't disappointed.

"The response has been great," says Shepard. "It has probably exceeded our expectations."

Since it's a pilot program, rangeland insurance is currently available in just nine states — Oklahoma, Colorado, North Dakota, South Dakota, Pennsylvania, South Carolina, Idaho, Oregon and Texas.

Those who were interested in coverage for 2007 had to sign up for the insurance by Nov. 30, 2006. The deadline for 2008 coverage is Nov. 30, 2007.

"If I'm a producer in an eligible county, there is one fundamental thing that I need to be successful, and that's grass to feed the livestock," says Shepard. "If it doesn't rain, I don't have any grass and I'm buying supplemental feed to

feed those animals. That's not good on the bottom line."

The year 2005 was tough on the bottom line for many in Texas. Rainfall was short in much of the state and water often had to be hauled in to salvage thirsting ground. Extra expense was incurred and many suffered.

"Some producers have had to sell their livestock because it doesn't make sense to have them," says Shepard. "Rainfall is the No. 1 component for forage production."

### A call for help

Constituents called upon their respective governing bodies for some relief. And soon, Congress was asking the United States Department of Agriculture (USDA) to develop a type of crop insurance which would protect ranchers. The USDA contracted

## Rangeland insurance is a three-year pilot program.



The rangeland insurance pilot program is available in nine states — Oklahoma, Colorado, North Dakota, South Dakota, Pennsylvania, South Carolina, Idaho, Oregon and Texas. Owners of land in the shaded counties in this map are eligible to participate in the program.

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with private consultants to come up with a plan for drought insurance and Grazingland Management Systems, Inc., developed a pair of possibilities — a rainfall index and a vegetative index.

The rainfall index — formally known as the Pasture, Rangeland, Forage Rainfall Index — is based on National Oceanic and Atmospheric Administration information dating back to 1948. Using a grid system which breaks down land into 12-mile by 12-mile patches, and applying NOAA's moisture records, the average rainfall for each track can be determined over a span of nearly 60 years. Ranchers who sign up for coverage can determine how much of their land they want insured as well as when they want it covered. Coverage is broken down into two-month intervals.

"Let's say I have a ranch and it's in 'Grid A,'" explains Shepard, "and I want to insure 75 percent of the average rainfall. During

each two-month time period, the rainfall is recorded. If that actual amount is below my 75 percent of average rainfall, that triggers an indemnity."

For example, the rancher may choose to insure 75 percent of the average rainfall spread across six two-month periods. If the rancher receives one inch of rain during a period of time that the average rainfall is four inches, the rancher would receive an indemnity equal to 66 percent of the coverage available for that two-month period. This is because one inch represents one third of the guaranteed rainfall.

According to Shepard, "While you won't retire on these payments, they are often enough to pay for supplemental feed and these claim payments increase with the severity of the drought."

In addition to his position as the director of the Center for Grazinglands and Ranch Management — which is based in College Station — Wayne Hamilton works for

Grazingland Management Systems, Inc. He helped develop both the rainfall and vegetative indexes and is proud of them.

"I think it's a great tool for the ranching industry," says Hamilton. "It's the first time on any scale or scope that there's been the opportunity for forage producers to invest themselves in a product that would cover forage loss.

"There are other programs that cover catastrophic loss. But, we're talking about by utilizing an insurance company, you can make an investment in insurance against loss. That's not happened before."

Three states — Colorado, South Carolina and Pennsylvania — offer both the rainfall and vegetative indexes. But while Texas, North Dakota, Idaho, Colorado, South Carolina and Pennsylvania offer just the rainfall index, Oklahoma, Colorado, South Carolina, Pennsylvania and Oregon feature the vegetative index.

The vegetative index uses

smaller grids — eight by eight kilometers, which equates to 4.8 by 4.8 miles — and is measured by satellite, Earth Resources Observation Systems. Using reflections from the surface of the earth, greenery is calculated. Satellites have been observing long-term variations in vegetation greenness since 1989. The index — formally referred to as the Normalized Difference Vegetation Index — accounts for temperature as well. Using the program, the country is divided into six regions due to differing weather patterns.

“There are studies that show that information coordinates highly with production,” says Hamilton of the information gathered by the satellites. “It is used as an index instead of rainfall. It has a little more complexity in it.”

### USDA encourages contacting an agent

Shirley Pugh serves as the director of public affairs for the USDA's Risk Management Agency (RMA). To help get the word out about rangeland insurance, her office sent out numerous information postcards to ranchers who worked in states eligible for coverage. But while she wants as many people as possible to know about the product, she figures it might not be the right tool for everyone. So, whenever a rancher calls with questions about rangeland insurance, she encourages them to meet with an agent. Then, they can look back on a dry year and use the indexes to determine if the insurance would have paid off.

“People who have called me have been anxious to look at the details and find out if the insurance is right for them,” says Pugh. “They have been very excited to have a crop insurance policy that is meant for ranchers.”

Rangeland insurance is a three-year pilot program. Thus, it can be modified over that time pe-

riod. Perhaps the rainfall index will survive, or maybe the vegetative index could. They could both make it and the program could be launched nationally. Or it could dry up altogether.

Ultimately, the fate of rangeland insurance lies in the hands of those who make up both the RMA and the Federal Crop Insurance Corporation (FCIC). The FCIC is the legal entity that reinsures the private insurance companies who sell the policies. All 16 of the private insurance companies which feature the program have a signed agreement with the FCIC, which serves as the regulating body.

“In exchange for their agreement, we reinsure and take much of the risk from their policies,” notes Pugh. “The idea behind it is if it was simply commercial, the profit to the insurance companies would not encourage them to be in the business. Or, the high cost of the premiums would discourage the farmers.

“We subsidize the premiums at a very high rate. We also pay the companies part of their expenses. We're subsidizing both ends,” she explains.

The first interval for coverage under the rainfall index is February through March. For the vegetative index, the initial interval is April through June.

The rainfall and vegetative indexes were developed by Grazingland Management Systems, Inc. at Texas A&M University. Rangeland insurance was subsequently unveiled in early August on the Texas A&M campus during the 52nd annual Beef Cattle Short Course. The conference, which features vendors and insight into the cattle industry, seemed the perfect place to show off a new product.

“I was there and it was a good event,” says Pugh. “We set up an RMA booth and told people about rangeland insurance.”

### Risk management tool

Cary Franks knows plenty about rangeland insurance. He serves as a marketing representative with ARMtech, the fifth-largest crop insurance company in the country. ARMtech writes crop insurance in 42 states and is looking to expand. Franks has been with the company — which boasts a lofty B++ rating — for two years. Prior to joining ARMtech, he raised cattle.

Franks monitored rangeland insurance from its infancy, when legislation prompted the development of the product in 2000. It gestated for the next six years.

“As far as anyone who is located in Texas or Oklahoma, this should get them listening because we've been in a drought for so long,” says Franks, who is based in Lubbock.

“This is a risk-management tool. The numbers speak for themselves over the last 20 years when you see the way it would have helped the producer,” Franks says.

When rangeland insurance was introduced in College Station, expectations were that roughly 10 percent of those in eligible areas throughout the nation would sign up. The expectations didn't seem overly ambitious and have generally been met.

From his vantage point, in and around the Lone Star State, Shepard has faith in the staying power of the product. Hargrove has used an intense marketing campaign to spread the word about rangeland insurance, utilizing direct mailings as well as advertising in newspapers, magazines and other publications.

“We feel that more than 10 percent of the acres in Texas will be insured,” says Shepard. “The response has really been great.”

Perhaps one day, the nationwide response will be great enough to affect the roughly 588 million acres of pasture and rangeland which are found throughout the country. ■