Managing Risk for Nursery Producers – New Insurance to Add to Your Tool Box

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Last fall we discussed the federal nursery crop insurance program and its potential benefits to nursery producers. Since then another tool has become available which will complement the nursery crop insurance program. The new program is called Adjusted Gross Revenue-Lite (AGR-Lite) and will be available by January 1, 2007 for producers in Arizona and in the western region for all states with the exception of Hawaii and California. AGR-Lite was first developed by the Pennsylvania Department of Agriculture and expanded to four western states (Alaska, Idaho, Oregon, and Washington) in 2004.

AGR-Lite is a whole-farm revenue protection plan of insurance. The plan provides protection against low revenue due to unavoidable natural disasters and market fluctuations that affect income during the insurance year. Most farm-raised crops, animals, and animal products are eligible for protection. Unlike the nursery crop insurance program, AGR-Lite offers more inclusive coverage for nursery plants, floriculture plants, and cut flowers.

AGR-Lite can stand alone or be used in conjunction with other federal crop insurance plans currently available in Arizona. When producers purchase both AGR-Lite and other federal crop insurance, the AGR-Lite premium will be reduced. A key difference between AGR-Lite and most other programs is the focus on the whole farm income and tax year compared to the traditional programs that are centered around the production year, yields or pounds of product sold. More information on the federal nursery crop insurance program can be found on the Risk Management Agency website: http://www.rma.usda.gov.

AGR-Lite and federal nursery crop insurance are both subsidized by the federal government. The government will pay a portion of the premium for the AGR-Lite policy that equals 48, 55, or 59 percent of the total premium at the corresponding coverage levels of 80, 75, or 65 percent, respectively. The annual administrative fee is $30 in addition to the producer premium. Starting January 1, 2007, policies will be sold for this year until the closing date of March 15, 2007.

Insurance is provided against loss of revenue due to any unavoidable natural occurrence including, but not limited to, adverse weather, fire, insects, disease, wildlife, earthquakes, volcanic eruption, or failure of irrigation water supply that causes production losses during the current or previous insurance year or market fluctuations that cause a loss in revenue during the current insurance year. No payment will be made for losses due to negligence, mismanagement, or wrongdoing by the insured, the
insured’s family, members of the household, tenants, employees, or contractors; crop abandonment; bypassing of acreage; or other causes listed in the insurance policy. Following is an abbreviated example how a loss is calculated under the program.

**Loss Calculation Example:**

\[
\begin{align*}
&\text{Approved AGR} \quad \text{Coverage Level (deductible)} \\
&\$143,500 \quad \times \quad .75 \\
&\text{Revenue Trigger Point} \\
&\$107,625
\end{align*}
\]

In the event of loss:

\[
\begin{align*}
&\text{2006 crop revenue} \\
&\$97,000 \\
&\text{Revenue Shortfall} \\
&\$10,625 \\
&\text{Payment Rate (deductible)} \\
&\times \quad 75\% \\
&\text{Indemnity} \\
&\$7,969
\end{align*}
\]

In the example, the approved AGR amount is the lesser of either the 5-year historical farm average revenue as reported on the tax forms or the 2007 expected income. The crop mix income includes nursery plants that are grown in the field or in covered structures at $65,000, cut flowers at $53,500, and seasonal potted plants at $25,000. In the example the revenue trigger point of $107,625 is the guaranteed income with the 75% coverage level purchased. If farm revenue falls below this value due to causes covered by the policy, then indemnity will be paid as shown. This is a simplified example and insurance agents need to be consulted for detailed calculations.

Since the expansion of AGR-Lite into the first four western states, over 76% of all policies have been purchased in the West, indicating that this program fills a niche to insure the diverse crops produced in this region. Arizona nursery producers now have access to this tool and can evaluate how AGR-Lite and other crop insurance programs can help them manage their risk of production.

**Production costs** have a great effect on profitability of a nursery business. The spreadsheet developed in cooperation between Trent Teegerstrom, University of Arizona and Stuart Nakamoto, University of Hawaii has been refined and updated based on feedback received from nursery cooperators last year. This tool allows growers to estimate the break-even point thus making projections on price and profitability of individual species and for different production practices.

If you are interested in finding out more about either of the programs mentioned above, please contact Trent Teegerstrom ([tteegers@ag.arizona.edu](mailto:tteegers@ag.arizona.edu)) or Ursula K. Schuch ([ukschuch@ag.arizona.edu](mailto:ukschuch@ag.arizona.edu)).