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The Emergency Agricultural Provisions in the FY1999 Omnibus Appropriations Act

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Summary

The FY1999 Omnibus Consolidated and Emergency Appropriations Act (P.L. 105-277) contains $5.9 billion in emergency spending for USDA programs, primarily to shore up farm income and to compensate farmers for natural disasters. More than one-half of this amount ($3.1 billion) is in the form of direct payments to grain, cotton, and dairy farmers for income assistance, which was paid out shortly after enactment. The Secretary announced on December 12 that the $2.375 billion in disaster payments provided by the Act will be disbursed in the spring of 1999 to farmers who either experienced crop losses in 1998 greater than 35% percent of normal yields, or had losses in 3 of the last 5 years. A portion of this money will be reserved to further subsidize farmer participation in the crop insurance program. The Act also includes livestock disaster assistance, commodity loans for honey and mohair producers, and additional funding for farm operating loans and overseas commodity assistance for emerging democracies, among other provisions. The expectation of continued low farm commodity prices in 1999 may cause policymakers to consider changes to risk management and income safety net policies for agriculture. For more background on FY1999 agriculture appropriations, see CRS Report 98-201, *Appropriations for FY1999: U.S. Department of Agriculture and Related Agencies.*

To help mitigate the financial impact of low commodity prices and natural disasters in some agricultural sectors and regions, the FY1999 Omnibus Consolidated and Emergency Appropriations Act (P.L. 105-277, H.R. 4328) contains $5.9 billion in emergency spending provisions for USDA programs. Congress and the President designated the full amount as emergency spending, meaning that no budgetary offsets of this spending are required.

"Market Loss" Payments

More than one-half of the $5.9 billion emergency appropriation for agriculture ($3.057 billion) is for grain, cotton and dairy farmers. According to conference

committee report language, the funds are to compensate for the loss of 1998 farm income caused by "regional economic dislocation, unilateral trade sanctions and the failure of the government to pursue trade opportunities aggressively." USDA began making "market loss" payments to grain and cotton contract holders in early November. Of the amount provided, $2.857 billion is for grain and cotton farmers who were eligible for a final 1998 production flexibility contract payment.[1] The balance of $200 million is reserved for dairy farmers. Among contract holders, the $2.9 billion is to be distributed in approximately the following proportions: corn contract holders ($1.3 billion), wheat ($750 million), upland cotton ($332 million), rice ($242 million), and other feed grains ($212 million). Nearly two-thirds of the market loss payments went to 10 states: Iowa ($268 million), Texas ($245 million), Illinois ($235 million), Nebraska ($201 million), Kansas ($200 million), Minnesota ($163 million), Arkansas ($135 million), North Dakota ($124 million), Indiana ($116 million), and California ($101 million).

P.L. 105-277 requires that these "market loss" payments be paid in the same proportion as the $5.6 billion in FY1998 contract payments. That is, farmers with production flexibility contracts will receive a payment equal to about 50% of their FY1998 contract payment, regardless of whether they experienced any income losses. Although contract holders are the recipients of these payments, the payments technically are not considered contract payments. Consequently, these new payments do not count toward the per person limitation on contract payments of $40,000 in a calendar year.

The Secretary of Agriculture will have to determine how the $200 million in dairy payments will be distributed among milk producers, since milk is not a contract commodity. Distributing dairy assistance is complicated by record high milk prices recorded in November 1998, when the base price of farm milk reached $16.84 per hundred pounds. Some have suggested that these dairy payments should be delayed until farm milk prices retreat, as they are forecasted to do in 1999. The National Milk Producers Federation, the largest trade group of dairy farmer cooperatives, has proposed that all dairy farmers receive 18 cents for every one hundred pounds of milk marketed in 1998, subject to a ceiling of $6,000 per producer.

Crop Disaster Payments

P.L. 105-277 authorizes $2.375 billion in direct disaster payments to crop farmers with either a significant production loss of a 1998 crop ($1.5 billion available) or multi-year crop losses ($875 million) caused by a natural disaster or crop disease. The multi-year disaster payments are expected to benefit primarily producers in the Northern Plains and Upper Midwest. These farmers have experienced severe weather over the last several years coupled with wheat scab, a chronic crop disease that has also limited production.

The Act gave USDA significant flexibility in how to implement these two programs. On December 12, 1998, the Secretary of Agriculture announced that producers can

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[1]Production flexibility contracts, authorized by the 1996 farm bill (P.L. 104-627), provide participating producers of wheat, feed grains, cotton, and rice with a fixed annual payment for crop years 1996 through 2002. Contract payments replaced the previous federal farm income support mechanism, which paid participating producers when market prices of a commodity fell below an established target price.

receive 65% of the relevant price (60% for those who waived 1998 crop insurance coverage) on any crop losses in excess of 35% of normal yields. Or, if the producer had losses in 3 or more years between 1994 through 1998, he could receive a multi-year loss payment equal to 25% of the total amount of crop insurance indemnity payments or noninsured assistance program payments received during that 5-year period. P.L. 105-277 prohibits any producer from receiving both a 1998 crop loss payment and a multi-year loss payment. The Secretary also announced that $400 million of these available disaster funds will be reserved for an additional premium discount for those who purchase crop insurance coverage in 1999. Another $30 million will be earmarked to compensate farmers with flooded land that is expected to be out of production indefinitely. Applications for all payments will be accepted by USDA between February 1 and March 12, 1999. If funds are insufficient to fully fund the payment formulas, available money will be proportionately paid out to all applicants. Payment limits are $80,000 per farmer for the disaster payments, and $80,000 for the additional crop insurance premium subsidy.

As a condition for receiving a disaster payment, the Act requires any farmer who waived crop insurance coverage in 1998 to purchase crop insurance in 1999 and 2000. This provision was driven by concerns that future participation in crop insurance might be compromised by making disaster payments available to non-participants. Because the federal government pays the entire premium for the farmer for the basic level of crop insurance coverage, the mandatory purchase requirement is expected to cost an additional $66 million, which is factored into the $5.9 billion supplemental appropriation.

Estimated Costs of the Emergency Supplemental Agricultural Provisions in the FY1999 Omnibus Appropriations Act (P.L. 105-277)

million $

Provision	**FY99 cost**	**Provision**	**FY99 cost**
Market Loss Payments	$3,057	Alaska Salmon Assistance	$50
Disaster Payments - 1998 Crop Losses	$1,500	Cotton Warehouse Payments	$5
Disaster Payments- Multi-Year Losses	$875	Raisin Assistance	$3
Crop Insurance Purchase Requirement	$66	Food for Progress	$25
Dairy Disaster Assistance	$3	Farm Service Agency Salaries	$40
Livestock Feed Assistance	$200	Forestry Incentives Program	$10
Farm Operating Loans: Loan Subsidy (1)	$31.4	Pilot Livestock Price Reporting Study	$0.25
Recourse Loans: Mohair Honey	 $27 $1	**Grand Total -- Emergency Supplemental Agricultural Spending**	**$5,893.7**

(1) The appropriation of $31.4 million supports a total of $540.5 million in new direct and guaranteed USDA Farm Service Agency farm operating loans ($233.8 million in direct loans and $306.7 million in guaranteed loans).

Source: CBO estimates, provided by the House Appropriations Committee

Livestock Feed Assistance

During persistent drought, livestock feed can become scarce and water supplies dry up, forcing many producers to prematurely sell off their herds. This can depress market prices and farmer income. Prior to 1996, USDA had the legislative authority to provide a wide array of livestock assistance programs to help farmers purchase feed off the farm when on-farm feed losses were significant. However, these emergency livestock programs were suspended by the 1996 farm bill until 2002, because many felt that some of these programs duplicated the federal assistance provided by crop insurance.

P .L. 105-277 provides $200 million in emergency livestock feed assistance. The law did not state how these funds are to be distributed, leaving that to the discretion of the Secretary. On November 12, the Secretary of Agriculture announced that USDA will make assistance available to livestock growers in any county that experienced a 40% grazing loss for 90 or more consecutive days. Applications will be received until early January. Payments will be made shortly after regulations are issued.

Recourse Loans for Honey and Mohair Producers

Honey and mohair were, for many years, federally supported commodities -- mohair through direct incentive payments, and honey through nonrecourse loans and direct payments. The federal support programs for these two programs were terminated at the end of 1995 (wool and mohair) and in 1996 (honey). P.L. 105-277 authorizes two separate, temporary recourse loan programs for producers of honey and mohair. These two commodities have experienced large supplies and low market prices in recent months. A recourse loan provides producers with interim financing to assist them in marketing their crop in an orderly manner, and must be repaid within a certain term.

The mohair provision in P.L. 105-277 allows a producer to borrow $2.00 for each pound of 1998 (or previous years) mohair production placed under loan. These full recourse loans will have a one-year term, are interest-free, and are authorized only for FY1999. The estimated cost of making and administering these mohair loans is $27 million, with most of the cost attributed to the interest-free provision.

The honey loan provision in P.L. 105-277 allows producers to place 1998 production under loan, and requires the Secretary of Agriculture to determine "fair and reasonable terms and conditions" of the loan. The law does stipulate that the amount a producer can borrow for each pound of honey placed under loan shall be equal to 85 percent of the average market price of honey during the 1993 through 1997 crop years, excluding the highest- and lowest-price years. The Secretary is required to operate the program on a no-net-cost basis, meaning that recipients must repay their loans with interest, and cover any administrative costs associated with the program. Because some of the loans might not be repaid until after FY1999, the program is estimated to cost $1 million in FY1999, an amount which should be offset in FY2000 or subsequent years.

Other Emergency Agricultural Provisions

$50 million in disaster assistance to help western Alaska fishermen recover from poor salmon returns. The disaster aid includes $18 million in direct disaster assistance, $15

million in economic development projects, $7 million in research money, and $10 million in small business loans and funding to help fishermen compete in world markets.

$40 million in additional salaries and expenses for the Farm Service Agency (FSA), the USDA agency that administers farm commodity, disaster and loan programs. Conferees to P.L. 105-277 expect FSA to use these funds to administer the emergency provisions of the act.

$31 million in budget authority to support $540.5 million in additional USDA Farm Service Agency (FSA) farm operating loans (OL). These loans help family farmers who cannot obtain credit from commercial lenders to finance operating costs, such as the purchases of feed, seed, machinery and equipment. The supplemental appropriation in P.L. 105-277 is to accommodate the backlog of FY1998 loan applications that was caused by a shortage of available funds. The $540.5 million in new OL authority is broken down into $233.8 million in direct loans, $156.7 million interest-rate subsidized guaranteed loans; and $150 million in unsubsidized guaranteed loans.

$25 million for Food for Progress, a mandatory program administered by USDA's Foreign Agricultural Service, which provides commodities to governments, cooperatives and certain organizations for use in developing countries and emerging democracies committed to free enterprise in their agricultural economies. The program has a statutory limitation of $30 million for its transportation costs, which P.L. 105-277 raised to $35 million for FY1999 only, and a $10 million limit for support to private voluntary organizations, which the omnibus act increased to $12 million. The combined $7 million increase in these two accounts for FY1999 is expected to support an estimated $18 million in additional commodity purchases, for a total additional cost of $25 million.

$10 million for the Forestry Incentive Program, within USDA's Natural Resources Conservation Service, providing financial assistance for up to 65% of the cost of tree planting and timber stand improvement on private forest stands of less than 1,000 acres.

$5 million in indemnity payments for cotton producers in Georgia. These funds are to be submitted to the state of Georgia to partially fund a state-managed indemnity fund to compensate cotton producers in the state for 1998 or 1999 losses associated with the bankruptcy of any warehouse where the crop is being stored. The federal contribution will be made only if Georgia makes a similar $5 million contribution. If the state contribution is not made, the federal funds will be made available to the Secretary of Agriculture to make partial compensation to state cotton producers. If the state fund is implemented, the state is also expected to submit to the Secretary and Congress a progress report on the use of the fund by October 1, 1999.

$3 million in disaster payments to raisin producers who obtained at least the catastrophic coverage level of crop insurance but, because of adverse weather conditions, were unable to comply with the policy deadlines for laying the raisins in trays.

$3 million in dairy disaster assistance is meant to supplement the $6.8 million made available in the FY1998 supplemental appropriations act (P.L. 105-174). This new program pays dairy farmers $4 per hundredweight for any milk that was produced but rendered unmarketable due to any disaster occurring between November 27, 1997 and

May 1, 1998. These funds primarily assist dairy farmers in New England who were affected by a severe ice storm last winter.

$250,000 for a 12-month pilot price reporting program, which will require certain large buyers, sellers or marketers of beef and lamb to report prices paid to USDA.

Implications for the 106th Congress

The enactment of a multi-billion dollar emergency relief package for agriculture following major reforms to the federal crop insurance program and federal farm price and income support policy has heightened concern among some policymakers about the financial safety net for farmers.

The federal crop insurance program underwent major policy reforms in 1994. The changes were intended to bolster program participation and permanently replace the need for annual ad hoc disaster payments. Current law requires farmers who declined crop insurance coverage to sign a waiver declaring that they cannot receive disaster payments on any crop that could have been insured. Despite this provision, farmers who signed waivers will be recipients of disaster payments under P.L. 105-277. There are concerns about the effect such payments will have on future participation in the crop insurance program. Although participation rates have increased significantly since the reform, some regions have complained that coverage is not adequate, particularly when the region is affected by multi-year disasters, which have the effect of reducing insurable crop yields.

The omnibus 1996 farm bill replaced a system of direct payments to participating farmers when crop prices were below a target level with fixed but declining contract payments. The intended purpose was to free farmers from planting constraints and decisions driven by federally set target prices for individual crops. This past year, farm income in some sectors and regions continued to decline after record highs in 1996. In response, several attempts were made by Democratic farm state Senators to raise the loan rates (price guarantees) for major commodities. Initially reluctant to raise the loan rates, the President ultimately vetoed the FY1999 agriculture appropriations bill because it did not contain the increase in the loan rates proposed by the Democrats. House and Senate Republican leadership strongly opposed an increase in the loan rates, because of budget cost ($5 billion), and because of concern that higher loan rates would fundamentally undermine the policy changes made in 1996.

A compromise agreement in P.L. 105-277 instead provided the $3.057 billion in "market loss" payments. A separate law (P.L. 105-228) allowed contract holders to receive all of their FY1999 contract payments in full in October 1998 to bolster 1998 income. Considering that 1999 crop prices are forecasted to remain low and that a large portion of 1999 contract payments were advanced in 1998, the 106th Congress might be asked to respond with renewed assistance.

The Agriculture Committees will likely examine the results of the 1998 emergency package with an eye to alternative safety net measures. One option likely to receive attention is an expansion of revenue insurance. This tool, which is already in use on a pilot basis, guarantees a certain level of an individual farmer's revenue regardless of whether any shortfall is caused by low prices or production losses.