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Farm Disaster Assistance

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Summary

Several regions of the nation have been affected by persistent drought, and this drought has had an adverse impact on crop and livestock production. The U.S. Department of Agriculture (USDA) offers several permanently authorized programs to help farmers recover financially from a natural disaster, including federal crop insurance, the noninsured assistance program and emergency disaster loans. The 108th Congress is considering making financial assistance available to farmers and ranchers, in the context of the pending FY2003 omnibus appropriations measure (H.J.Res. 2). The Administration has stated that it will not support additional farm assistance unless it is offset with spending reductions in other programs. Meanwhile, USDA implemented a new $937 million Livestock Compensation Program making direct payments to certain livestock producers for 2001 and 2002 forage losses, using its administrative authority and existing funds from other sources.

Ongoing Major USDA Disaster Programs

USDA has at its disposal three major programs designed to help crop producers recover from the financial effects of natural disasters — federal crop insurance, noninsured assistance program (NAP) payments, and emergency disaster loans. All three of these programs have permanent authorization and receive regular annual funding.

Federal Crop Insurance

The federal crop insurance program is administered by USDA's Risk Management Agency. The program is designed to protect crop producers from unavoidable risks associated with adverse weather, and weather-related plant diseases and insect infestations. A producer who chooses to purchase an insurance policy must do so by an administratively determined deadline date, which varies by crop and usually coincides with the planting season. Crop insurance is available for most major crops.

The federal crop insurance program was instituted in the 1930s and was subject to major legislative reforms in 1980, and again in 1994 and 2000. The Agriculture Risk Protection Act of 2000 (P.L. 106-224) pumped $8.2 billion in new federal spending over a 5-year period into the program primarily through more generous premium subsidies to help make the program more affordable to farmers and enhance farmer participation levels, in an effort to preclude the need for ad-hoc emergency disaster payments. For FY2001, the first full fiscal year following the 2000 legislative enhancements, total government costs of the program were approximately $3.2 billion. For crop year 2002, USDA estimates that total indemnity payments to farmers alone will approach $4 billion.

Under the current crop insurance program, a producer who grows an insurable crop selects a level of crop yield and price coverage and pays a premium that increases as the levels of yield and price coverage rises. However, all eligible producers can receive catastrophic (CAT) coverage without paying a premium. The premium for this portion of coverage is completely subsidized by the federal government. Under CAT coverage, participating producers can receive a payment equal to 55% of the estimated market price of the commodity, on crop losses in excess of 50% of normal yield, or 50/55 coverage.

Although eligible producers do not have to pay a premium for CAT coverage, they are required to pay upon enrollment a $100 administrative fee per covered crop for each county where they grow the crop. The fee can be waived by USDA for financial hardship cases. Any producer who opts for CAT coverage has the opportunity to purchase additional insurance coverage from a private crop insurance company. For an additional premium paid by the producer, and partially subsidized by the government, a producer can increase the 50/55 catastrophic coverage to any equivalent level of coverage between 50/100 and 85/100, (i.e, 85 percent of yield and 100 percent of the estimated market price), in increments of 5%.

For many insurable commodities, an eligible producer can purchase revenue insurance. Under such a policy, a farmer potentially can receive an indemnity payment when actual farm revenue falls below the target level of revenue, regardless of whether the shortfall in revenue was caused by poor production or low farm commodity prices. P.L. 106-224 requires USDA to subsidize premiums for revenue insurance coverage at the same rate as traditional crop insurance policies. P.L. 106-224 also required USDA to conduct two or more pilot programs to evaluate the effectiveness of revenue insurance for livestock farmers. Two new livestock pilot programs were established for 2002 for Iowa hog producers. (For more on the 2000 reforms, see CRS Report RL30739, *Federal Crop Insurance and the Agriculture Risk Protection Act of 2000 (P.L. 106-224)*.)

Noninsured Assistance Program (NAP)

Producers who grow a crop that is currently ineligible for crop insurance may be eligible for a direct payment under USDA's noninsured assistance program (NAP). NAP has permanent authority under the Federal Crop Insurance Reform Act of 1994 (P.L. 103-354, as amended), and is administered by USDA's Farm Service Agency. The program's principal clientele are farmers who grow a crop that is ineligible for federal insurance. NAP is not subject to annual appropriations. Instead, it receives mandatory funding through USDA's Commodity Credit Corporation, which has a line of credit with the U.S. Treasury to fund an array of farm programs.

Eligible crops under the NAP program include any commercial crops grown for food or fiber that are ineligible for crop insurance, and include mushrooms, floriculture, ornamental nursery, Christmas tree crops, turfgrass sod, aquaculture, and ginseng. Trees grown for wood paper or pulp products are not eligible.

To be eligible for a NAP payment, a producer first must apply for coverage under the program by the application closing date, which varies by crop, but is generally about 30 days prior to the final planting date for an annual crop. Like catastrophic crop insurance, NAP applicants must also pay a $100 per crop service fee at the time of application. In order to receive a NAP payment, a producer must experience at least a 50% crop loss caused by a natural disaster, or be prevented from planting more than 35% of intended crop acreage. For any losses in excess of the minimum loss threshold, a producer can receive 55% of the average market price for the covered commodity. Hence, NAP is similar to catastrophic crop insurance coverage in that it pays 55% of the market price for losses in excess of 50% of normal historic production. A producer of a noninsured crop is subject to a payment limit of $100,000 per person and is ineligible for a payment if the producer's qualifying gross revenues exceed $2 million. Total NAP payments were an estimated $174 million in FY2002.

Emergency Disaster Loans

When a county has been declared a disaster area by either the President or the Secretary of Agriculture, agricultural producers in that county may become eligible for low-interest emergency disaster (EM) loans available through USDA's Farm Service Agency. Producers in counties that are contiguous to a county with a disaster designation also become eligible for an EM loan. EM loan funds may be used to help eligible farmers, ranchers, and aquaculture producers recover from *production* losses (when the producer suffers a significant loss of an annual crop) or from *physical* losses (such as repairing or replacing damaged or destroyed structures or equipment, or for the replanting of permanent crops such as orchards). A qualified applicant can then borrow up to 100% of actual production or physical losses (not to exceed $500,000) at a below-market interest rate (which is currently 3.75%).

Once a county is declared eligible, an individual producer within the county (or a contiguous county) must also meet the following requirements for an EM loan. A producer must: 1) be a family farmer and a citizen or permanent resident of the U.S.; 2) experience a crop loss of more than 30 percent or a physical loss of livestock, livestock products, real estate or property; and 3) be unable to obtain credit from a commercial lender, but still show the potential to repay the loan. Applications must be received within 8 months of the county's disaster designation date. Loans for nonreal estate purposes generally must be repaid within 1 to 7 years; loans for physical losses to real estate have terms up to 20 years. Depending on the repayment ability of the producer and other circumstances, these terms can be extended to 20 years for nonreal estate losses and up to 40 years for real estate losses.

The EM loan program is permanently authorized by Title III of the Consolidated Farm and Rural Development Act (P.L. 87-128), as amended, and is subject to annual appropriations. Each year an appropriation is made for EM loans within the regular agriculture appropriations bill. However, most of the funding for the program in recent years has been provided through emergency supplemental appropriations. Most recently, emergency provisions in the Consolidated Appropriations Act of 2000 (P.L. 106-113) provided funding to make $547 million in EM loans. Total EM loans made were $90 million in FY2001 and $58 million in FY2002.

Emergency USDA Disaster Programs

In recent years, Congress has supplemented the regularly funded disaster assistance programs with additional emergency aid. Funding for these programs generally are provided in emergency supplemental appropriations bills. Among these major ad-hoc farm disaster programs are: 1) direct disaster payments, 2) livestock assistance, and 3) emergency conservation assistance. The 107th Congress considered ad-hoc assistance for 2001 and 2002 crop and livestock losses, but no final action was taken. Such assistance is being considered again in the 108th Congress. For a summary of all emergency supplemental spending for agriculture since 1988, see CRS Report RL31095, *Emergency Spending for Agriculture: A Brief History of Congressional Action, FY1989-FY2001*. For a comparison of disaster bills offered to date in the 108th Congress for 2001 and 2002 farm losses, see CRS Report RL31700, *Farm Disaster Bills in the 108th Congress: A Comparison.*

Crop Disaster Payments

For virtually every crop year from 1988 through 2000, Congress has authorized emergency crop disaster payments to eligible producers affected by any type of natural disaster that caused a significant reduction to that year's crop yields. Any producer of a commercially grown crop was potentially eligible for a direct disaster payment within these programs regardless of whether the crop was insurable or non-insurable, and even if a producer waived crop insurance coverage. Most recently, emergency provisions in the FY2000 agriculture appropriations act (P.L. 106-78) provided ad-hoc payments of $1.2 billion for 1999 crop losses, and under emergency provisions in the FY2001 agriculture appropriations act (P.L. 106-387) direct disaster payments of $1.8 billion were made for 2000 crop year losses.

Payments for the three separate disaster payment programs for the 1998 , 1999 and 2000 crop years were implemented by USDA under similar terms. In each year, the minimum loss requirement was 35% of a producer's normal yield. For losses, in excess of the 35% threshold, a producer could receive a payment. For crops that were eligible for crop insurance, the payment rate was 65% of the estimated market price for the commodity as determined for the crop insurance program (the crop insurance price election). The payment rate dropped to 60% of the crop insurance price election for any producer who could have insured their commodity but waived coverage. A grower of a non-insurable commodity (i.e., crop insurance was unavailable to the producer for that commodity) was compensated at 65% of the 5-year average market price for the commodity. For those who waived an available crop insurance policy, the producer was required to insure that crop for the two subsequent crop years, as a condition for receiving a disaster payment. Payments from the available funding also were made to producers who suffered a loss of crop value because of poor crop quality caused by a disaster.

Recent Congressional Action. Numerous farm disaster bills have been introduced in the 108th Congress. On January 15, 2003, the full Senate adopted S.Amdt.

1 (Stevens) to the Senate FY2003 Omnibus Appropriations Bill (H.J.Res. 2), which provides $3.1 billion in economic assistance to agricultural producers. Just under $500 million of that amount is specifically directed to producers who experienced a natural disaster. Most of the agricultural relief in the amendment (an estimated $2.2 billion) is supplemental direct payments to producers of various crops, but with no distinction of whether the producer has been affected by a natural disaster. The cost of the amendment was offset as part of a 1.6% across-the-board reduction in all non-defense discretionary spending.

In contrast, several other measures have been introduced to provide emergency funding (with no offsets) and target the funds to disaster regions. For a comparison of these bills and S.Amdt. 1, see CRS Report RL31700, *Farm Disaster Bills in the 108th Congress: A Comparison*.

Some Members justify new disaster expenditures without any budget offsets because USDA currently expects lower spending on FY2003 farm programs than was earlier estimated. As of early September, CBO estimates that farm commodity support spending in FY2003 likely will be $5.6 billion below its earlier projection. However, current budget rules do not allow the re-estimate to be scored as savings. In the same way that increased spending for farm programs above budget estimates does not require an offset, a downward re-estimate in spending does not result in savings that can be automatically spent elsewhere.

Livestock Assistance

Prior to 1996, USDA had the legislative authority to provide an array of livestock assistance programs which were used primarily 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 policymakers felt that some of these programs duplicated the federal assistance provided by crop insurance and NAP. Despite the suspension of the previously authorized livestock assistance programs by the 1996 farm bill, Congress funded an ad-hoc Livestock Assistance Program (LAP) within various emergency supplemental acts in subsequent years. Since 1996, emergency assistance was made available for livestock feed losses in 1998 ($270 million authorized), 1999 ($200 million) and 2000 ($430 million).

The most recent version of LAP provided direct payments to eligible livestock producers who suffered grazing losses due to natural disasters during calendar 2000. Before an individual producer could be eligible, the producer's county must have suffered a minimum 40% loss of available grazing for at least 3 consecutive months due to a disaster during the year. The county also must be declared a disaster area by either the President or the Secretary of Agriculture. Once the county qualified for assistance, a producer had to have a minimum loss of 40% in order to qualify for a payment to compensate for a portion of the producer's purchase of off-farm feed. Producers with more than $2.5 million of gross revenue were ineligible. The maximum payment was $40,000 per person. Separately, periodic authority and emergency funding have been given to a Livestock Indemnity Program (LIP), whereby a payment is made to help producers defray the cost of replenishing their herds when livestock are killed by a natural disaster. The most recent appropriation LIP received was emergency funding of $10 million for 2000 livestock losses.

USDA has other authorities that can be activated when disasters strike livestock growers. Producers in counties declared eligible by USDA are permitted to cut hay or graze livestock on land idled under the Conservation Reserve Program (CRP). The CRP is a USDA program that allows participating farmers to idle environmentally-fragile farmland for 10 years in return for annual federal rental payments. On September 9, 2002 the Secretary authorized haying and grazing for the entire nation, giving producers until November 30, 2002 to apply for assistance. Emergency grazing was extended until December 31, 2002 in Colorado, Texas, Utah and Washington. Separately, USDA exercised its standing authority to release a portion of its inventory of nonfat dry milk purchased under the dairy price support program, which it converted into livestock feed and provided to certain drought-stricken states.

Livestock Compensation Program. In late 2002, USDA implemented a new 2002 Livestock Compensation Program (LCP), which was designed to compensate livestock producers experiencing severe 2001 and 2002 feed and pasture losses. Under the new program, direct payments were made to producers of beef, dairy, sheep and goats in any county that was declared a disaster area by the Secretary between January 1, 2001 and September 19, 2002 (including disaster designation requests pending on September 19, 2002 that were subsequently approved.) To date, an estimated $836 million had been disbursed to eligible recipients under the LCP, out of a total allocation of $938 million.

The payment rates under the LCP were $31.50 per adult dairy cattle, $18 per adult beef cattle, $13.50 for certain livestock over 500 lbs, and $4.50 per sheep or goat. Payments are limited to $40,000 per person, and are not being made to any person with qualifying gross revenue over $2.5 million. Funding for the program (estimated by USDA at $937 million) is being provided through Section 32 funds, which originate from a portion of customs receipts that are made available to USDA to support the farm sector through various activities (for more information, see CRS Report RS20235, *Farm and Food Support Under USDA's Section 32 Program*.) Measures have been introduced in Congress to extend LCP payments beyond the September 19, 2002 disaster designation deadline. For a comparison of livestock provisions in pending bills, see CRS Report 31700, *Farm Disaster Bills in the 108th Congress: A Comparison*.

Emergency Conservation Program

The emergency conservation program (ECP) provides funds to farmers and ranchers for sharing the cost of rehabilitating farmland damaged by natural disasters, and for carrying out water conservation measures during severe drought. It is permanently authorized by Title IV of the Agricultural Credit Act of 1978 (P.L. 95-334), administered by USDA's Farm Service Agency, and subject to annual appropriations. However, almost all of its funding in recent years has come from emergency supplemental appropriations. Cost-sharing may be offered for such measures as removing debris from farmland, re-leveling or grading farmland, and restoring permanent livestock fences, structures and other installations. Funds can be used to replace or restore a conservation practice or to restore the land to a condition similar to that existing prior to a natural disaster, and may not be offered to address a conservation problem existing prior to the disaster. No funding was made available for FY2002 or in FY2003, to date.