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Agricultural Disaster Assistance

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Summary

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. In recent years, Congress frequently has made supplemental financial assistance available to farmers and ranchers on an ad-hoc basis, most notably in the form of direct crop disaster payments and emergency livestock assistance. Congress provided an estimated $3.1 billion of such assistance in the Consolidated Appropriations Act of 2003 (P.L. 108-7) for 2001 and 2002 crop and livestock losses. Some farm groups would like to see similar assistance provided for 2003 losses, particularly in regions of the Midwest and West that have experienced prolonged drought conditions. To date, no ad-hoc assistance has been made available for 2003 losses.

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 the 2002 crop year, the federal government provided $1.7 billion in premium subsidies. Additionally, total losses of the program (total indemnities paid less total premiums) were approximately $1.8 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. New livestock insurance pilot programs were established for 2002 for hog producers and were expanded for 2003 and 2004. (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 such sums as are necessary 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 thirty 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. To date, total NAP payments were approximately $209 million for losses associated with the 2002 crop year.

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 over a multi-year period. Total EM loans made were $90 million in FY2001, $58 million in FY2002, and just under $100 million for FY2003.

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. Most recently, the Consolidated Appropriations Act for FY2003 (P.L. 108-7) provided an estimated $3.1 billion in assistance for 2001 and 2002 crop and livestock losses. Some farm groups would like to see similar assistance provided by Congress for 2003 losses, particularly in regions of the Midwest and West that have experienced prolonged drought conditions. To date, no additional assistance has been provided for 2003 losses.

For a summary of all emergency supplemental spending for agriculture since 1988, see CRS Report RL31095, *Emergency Funding for Agriculture: A Brief History of Supplemental Appropriations, FY1989-FY2003*. For an update of the implementation of the emergency assistance provided in P.L. 108-7, see the CRS electronic briefing book page on *Farm Disaster Assistance* (http://www.congress.gov/brbk/html/ebagr48.html).

Crop Disaster Payments

For virtually every crop year from 1988 through 2002, 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 FY2003 Consolidated Appropriations Act (P.L. 108-7) provided "such sums as are necessary" to fully fund a disaster payment formula for 2001 and 2002 crop losses. Total payments under this provision are expected to reach $2 billion by the time payments are completed later this year.

Regardless of whether a farmer is in a declared disaster area, a producer can be eligible for assistance if individual crop losses were in excess of 35% in either 2001 or 2002. For losses in excess of the 35% threshold, an eligible producer can receive a payment equal to 50% of the relevant price for the commodity. Producers who had the opportunity to insure the crop and waived insurance for that year will be slightly penalized and receive a payment equal to 45% of the relevant price. All commercially grown crops are eligible for a payment under this formula except for sugar and tobacco, which have separate disaster payment programs authorized by P.L. 108-7. All producers must choose between a 2001 or a 2002 payment, and may not receive a payment for both year's losses. A participating producer also must agree to purchase crop insurance for the next two crop years, or, when insurance is not available, purchase coverage under the noninsured assistance program for two years.

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), 2000 ($430 million), and in P.L. 108-7 for either 2001 or 2002 losses ($250 million).

The most recent version of LAP provides direct payments to eligible livestock producers who suffered grazing losses due to natural disasters during either calendar year 2001 or 2002 (not both). Before an individual producer can 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 had to have been declared a disaster area by either the President or the Secretary of Agriculture in 2001 or 2002. 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 are ineligible. The maximum payment is $40,000 per person.

Separately, in 2002 and 2003, USDA implemented a new Livestock Compensation Program (LCP), which was designed to compensate livestock producers for 2001 and 2002 feed and pasture losses. Under the program, estimated total direct payments of just over $1 billion were made to all producers of beef, dairy, sheep and goats in any county that was declared a disaster area by the Secretary between January 1, 2001 and February 20, 2003, regardless of the individual producer's loss experience. 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 were limited to $40,000 per person, and were not made to any person with qualifying gross revenue over $2.5 million. The program was not specifically authorized by Congress but was initially implemented by USDA under existing authorities.

Periodic authority and emergency funding has 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. Subsequent funding for LIP has not been provided.

USDA has other authorities that can be activated when disasters strike livestock growers. Producers in counties declared eligible by USDA occasionally 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. Separately, USDA exercised its standing authority last year to release a portion of its inventory of nonfat dry milk purchased under the dairy price support program, which was converted into livestock feed and provided to certain drought-stricken states.

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.