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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. Since 1988, Congress regularly has made supplemental financial assistance available to farmers and ranchers, primarily in the form of crop disaster payments and emergency livestock assistance. A severe drought in portions of the Midwest and a series of hurricanes (particularly Katrina and Rita) in the Gulf adversely affected 2005 agricultural production in those regions. So far, Congress has provided nearly $200 million for farm debris cleanup in a supplemental act (P.L. 109-148). However, no emergency assistance has been provided to compensate producers for 2005 crop and livestock losses. Some groups are pressuring Congress to provide assistance similar to the farm disaster package that was provided for 2003 and 2004 production losses in an earlier supplemental (P.L. 108-324). This report reviews ongoing and recently enacted ad-hoc emergency USDA disaster programs. It will be updated as conditions warrant.

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 five-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. Since 2000, the federal subsidy to the crop insurance program has averaged about $3.3 billion per year, up from an annual average of $1.1 billion in the 1990s and about $500 million in the 1980s. Nearly two-thirds of the current federal spending is used to subsidize producer premiums, and the balance primarily covers the government share of program losses and reimburses participating private insurance companies for their administrative and operating expenses.

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 in subsequent years. (For more information, see the "Federal Crop Insurance" section of CRS Report RL33037, *Previewing a 2007 Farm Bill* and 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 crop 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 NAP 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. USDA estimates FY2005 NAP payments of $247 million.

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 eight months of the county's disaster designation date. Loans for nonreal estate purposes generally must be repaid within one to seven 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. Traditionally, an appropriation was 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. 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, just under $100 million in FY2003, $30 million in FY2004, and $23 million in FY2005.

Emergency USDA Disaster Programs

Since 1988, Congress frequently 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, (3) tree assistance, and (4) emergency conservation assistance. The FY2005 Military Construction Appropriations Act (P.L. 108-324) contained supplemental funding to provide an estimated $3.5 billion in assistance for 2003 or 2004 crop, livestock, and tree losses, primarily in response to drought in the West and a series of 2004 hurricanes that damaged or destroyed agricultural production in the Southeast. For 2005, agricultural production was adversely affected by a severe drought in portions of the Midwest and by an extremely active hurricane season (particularly Hurricanes Katrina and Rita in the Gulf). Supplemental appropriations attached to the FY2005 defense appropriations bill (P.L. 109-148, H.R. 2863) provided $199.8 million to clean up and rehabilitate farmland and operations damaged by the 2005 hurricanes. However, to date, no agricultural assistance has been provided to compensate for crop and livestock losses in 2005. The sections below review the major ad-hoc farm disaster programs that have been funded in past years, which potentially could serve as a model for assistance if Congress provides funding for 2005 agricultural 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-FY2005*. For a review of the emergency agricultural assistance included in P.L. 108-324 in response to the 2004 hurricanes and Western drought, see CRS Report RL32581, *Assistance After Hurricanes and Other Disasters: FY2004 and FY2005 Supplemental Appropriations*.

Crop Disaster Payments

For virtually every crop year from 1988 through 2004, Congress authorized emergency crop disaster payments (CDP) 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 attached to the FY2005 military construction appropriations act (P.L. 108-324) provided "such sums as are necessary" to fully fund a disaster payment formula for 2003 and 2004 crop losses. USDA estimated crop disaster payments of $2.4 billion for 2003 and 2004 losses. The application deadline expired on September 9, 2005.

Under P.L. 108-324, a producer was potentially eligible for assistance if individual crop losses were in excess of 35% in either 2003 or 2004, regardless of whether the farmer was in a declared disaster area. For losses in excess of the 35% threshold, an eligible producer could receive a payment equal to 65% of the relevant price for the commodity. Payments could be made for only one of the two years' losses, except for producers in Virginia and North Carolina, which under the act were allowed to receive payments in both years. Any producer who had the opportunity to insure the crop and waived insurance for that year was slightly penalized, and received a payment equal to 60% of the relevant price. All commercially grown crops were eligible for a payment under this formula except for cottonseed and sugarcane, which had separate disaster payment programs authorized by P.L. 108-324. A participating producer also had to agree to purchase crop insurance for the next two crop years, or, when insurance is not available, to purchase coverage under the noninsured assistance program for two years. The sum of disaster payments, crop insurance indemnities, and crop marketings could not exceed 95% of the historical value of crop production. Maximum payments were $80,000 per person, and individuals with adjusted gross income in excess of $2.5 million were ineligible. The $2.5 million income limitation is waived if more than 75% of income is derived from farming. Also, a Florida producer could not receive a crop loss payment under P.L. 108-324 if the producer already received a crop loss payment under USDA's Florida Hurricane Disaster Assistance Program, which was implemented by USDA before enactment of P.L. 108-324 in response to the 2004 hurricanes using existing funds.

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), 2001 and 2002 combined ($250 million), and 2003 and 2004 combined (estimated at $475 million).

As provided in P.L. 108-324, LAP payments were made for 2003 and 2004 livestock feed losses. The 2003/2004 LAP provided direct payments to eligible livestock producers who suffered grazing losses due to natural disasters during either calendar year (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 three 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 2003 or 2004. 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.

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. USDA also has exercised its standing authority to release a portion of its inventory of nonfat dry milk, which has been converted into livestock feed and provided to certain drought-stricken states. Separately, in 2002 and 2003, USDA implemented a new Livestock Compensation Program (LCP), which made payments 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 program was not specifically authorized by Congress but was initially implemented by USDA under existing authorities, and later supplemented with funding provided in the FY2003 omnibus appropriations act (P.L. 108-7).

Tree Assistance Program

The Tree Assistance Program (TAP) provides financial assistance to orchard growers to help them replant eligible trees, bushes, and vines that have been damaged or destroyed by a natural disaster. A grower who loses more than 15% of eligible trees to a natural disaster can be reimbursed for 75% of the cost of replanting eligible losses. Payments are limited to 500 acres and no more than $75,000 per person. The program had been funded on an ad-hoc basis in several years between 1992 and 1998 for eligible growers anywhere in the country. TAP was permanently authorized by the 2002 farm bill (P.L. 107-171), subject to annual appropriations. FY2004 appropriations were made for specific state losses: $12.5 million for California wildfires, $9.7 million for Michigan fire blight (a bacterial disease), and $5 million for an April 2003 ice storm in New York. The FY2005 supplemental appropriations measure attached to the Military Construction Appropriations Act (P.L. 108-324) fully funded TAP for any tree losses occurring between December 1, 2003 and December 31, 2004, at an estimated cost of $35 million.

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), 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 and structures. 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. Supplemental appropriations attached to the FY2006 defense appropriations act (P.L. 109-148, H.R. 2863) included $199.8 million for the ECP, exclusively for recovery from the 2005 hurricanes. Of this amount, $20 million is earmarked for uninsured poultry growers, and an unspecified amount is required for assistance to nursery, oyster, and poultry producers for cleaning up debris and structures.