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CRS Report for Congress

# 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. The 109th Congress provided about $1.6 billion in agricultural assistance in two emergency supplemental acts (P.L. 109-148, P.L. 109-234) exclusively for agricultural losses caused by the 2005 Gulf state hurricanes. To date, Congress has not authorized any emergency agricultural assistance for 2005 production losses outside of the Gulf region, or for any 2006 agricultural losses nationwide. In the final days of the 109th Congress, Senate supporters of farm disaster aid offered a $4.8 billion package that would have covered both 2005 and 2006 production losses. However, because of its cost and opponents' demand for a budgetary offset for the new spending, the amendment was not adopted. In the 110th Congress, supporters have introduced a similar package of assistance (S. 284). A series of severe winter storms in late 2006 and early 2007 could broaden the scope of proposed assistance to include 2007production losses. This report 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% of yield and 100% 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),* for a summary of the issues addressed in the 2000 legislation.)

## 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 FY2006 NAP payments of $117 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% 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, $23 million in FY2005, and approximately $51 million in FY2006.

# Recent Congressional Action

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) crop disaster payments, (2) livestock assistance, (3) tree assistance, and (4) emergency conservation assistance. (For a history of the congressional response to agricultural disasters, see CRS Report RL31095, *Emergency Funding for Agriculture: A Brief History of Supplemental Appropriations, FY1989-FY2006*.)

## FY2006 Supplemental Acts (P.L. 109-148, P.L. 109-234)

For the 2005 crop year, agricultural production was adversely affected by drought in portions of the Midwest and by an extremely active and severe hurricane season in the Gulf states. In FY2006, Congress provided approximately $1.6 billion in emergency supplemental assistance for USDA programs in two separate supplemental acts (P.L. 109-148 and P.L. 109-234), all of which is restricted to the hurricane-affected states. This includes funds for growers and processors of various farm commodities ($250 million), livestock assistance ($140 million), farm debris cleanup ($200 million), watershed rehabilitation ($351 million), rural development ($118 million), and a new program to assist nonindustrial timber growers for 2005 hurricane losses ($504 million). Separately, USDA transferred $250 million of existing funds to provide direct payments for crop, livestock, tree, and aquaculture losses, exclusively for 2005 hurricane victims.

## Pending Assistance for Farm Production Losses

Many farm state members want Congress to consider additional farm disaster assistance for 2005 production losses in regions outside of the hurricane-affected states and for 2006 losses nationwide. Prior to the October 2006 recess, supporters wanted Congress to consider legislation that would provide assistance for both 2005 and 2006 losses, at an estimated cost of $6.5 billion. However, the combination of the high cost and leadership insistence on a budgetary offset prevented any action. On December 5, 2006, a version of the proposal (estimated at $4.95 billion) was offered as an amendment

(S.Amdt. 5205) to the FY2007 agriculture appropriations bill (H.R. 5384). The amendment was not adopted, falling four votes short of the required 60 to overrule a budgetary point of order. Included in S.Amdt. 5205 was an estimated $3 billion in crop disaster assistance and $1.75 billion in livestock disaster assistance, as well as $182 million for various conservation programs and $100 million in grants to small businesses that suffered economic losses as a direct result of a disaster affecting 2005 and 2006 crop and livestock production. In the 110$^{th}$ Congress, a variation of S.Amdt. 5205 has been introduced (S. 284), which sponsors might offer as an amendment to floor legislation in the early months of the Congress. A series of 2006-2007 winter storms affecting fruit and vegetable and livestock production could expand the scope of any legislation to include 2007 production losses. Separately, S. 165 and H.R. 185 would aid producers who suffered livestock losses as a result of the recent blizzards.

**Crop Disaster Payments.** Congress has provided ad-hoc crop disaster payments in various emergency supplemental acts for nearly every crop year from 1988 through 2004. S. 284 would require USDA to provide crop disaster payments in a similar fashion as past disaster supplemental acts, but with a somewhat lower payment rate. Under S. 284, a crop producer in any region of the country would be potentially eligible for assistance if individual losses to a 2005 or 2006 crop (or both) were in excess of 35%, caused by any type of disaster, regardless of whether the farmer was in a declared disaster area. For losses in excess of the 35% threshold, an eligible producer could then receive a payment equal to 45% of the established price for the commodity (or 20% of the price if the producer waived crop insurance coverage.) Maximum payments would be $80,000 per person, as in the past. All commercially grown crops would be eligible for a payment under this formula except for sugar cane and sugar beets, which have separate disaster payment programs in the bill. Payments would not be permitted to duplicate any already made to the Gulf region following the hurricanes.

**Livestock Assistance.** S. 284 contains funding for an array of emergency livestock programs that have been implemented on an ad-hoc basis in past years. Funding would be provided for a Livestock Compensation Program (LCP), which compensates livestock growers for the additional cost of having to procure livestock feed in the marketplace following a disaster. It would provide payments to all producers of beef, dairy, sheep, goats, and catfish in any county that was declared a disaster area by the Secretary between January 1, 2005, and the date of enactment, regardless of the individual producer's loss experience. USDA would be required to use the same payment mechanism it used for the 2002 LCP, but S. 284 limits payments to 70% of the 2002 payment rates.

S. 284 also would authorize necessary funds for a Livestock Indemnity Program (LIP) to compensate producers for livestock killed by a natural disaster in 2005 or in 2006. The payment rate would be left to the discretion of the Secretary of Agriculture, but the rate could not be set less than 30% of the market value of the applicable livestock at the time of the disaster. The bill also would provide $95 million for dairy producers in disaster counties, and $13 million to help producers replace and retain ewe lamb breeding stock.

Funding in the Senate bill is in addition to the estimated $95 million in LCP funds and $45 million in LIP funds provided by P.L. 109-148, exclusively to the Gulf states following Hurricanes Katrina and Rita in 2005. Meanwhile, the Administration implemented a new Livestock Grant Assistance Program which provides a total $50 million in state block grants to help livestock producers partially recover from forage losses. Any state with a county that experienced either severe or extreme drought conditions at any point during the 2006 growing season is eligible.

**Conservation Assistance.** 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, subject to annual appropriations. However, almost all of its funding in recent years has come from emergency supplemental appropriations. S. 284 would provide $35 million to the ECP for all regions, in addition to the $200 million provided exclusively to the Gulf states by an earlier FY2006 supplemental act (P.L. 109-148). The Senate bill would also provide $70 million in Emergency Watershed Protection funding to supplement the $300 million already provided by P.L. 109-148, and $75 million in additional funds for the Environmental Quality Incentives Program.

**Small Business Economic Loss Payments.** S. 284 also would provide an estimated $100 million in payments to small businesses that "suffered material economic losses" during the 2005 or 2006 crop year as a result of crop or livestock losses associated with a natural disaster. The grant money would be allocated to states that had at least 50% of their counties declared disaster areas during 2005 or 2006. Each state department of agriculture in an eligible state would provide direct payments to eligible businesses using the available funds.