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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 has regularly made supplemental financial assistance available to farmers and ranchers, primarily in the form of crop disaster payments and emergency livestock assistance.

The conference agreement on the FY2007 Iraq war supplemental bill (H.R. 1591) contained an estimated $3.5 billion in emergency agricultural assistance. The total included an estimated $1.85 billion in crop loss assistance and $1.43 billion in livestock aid, compensating agricultural producers for losses in any one of the last three years — 2005, 2006, or early 2007. The President vetoed the measure on May 1, 2007, primarily because of Iraqi war provisions. Agricultural disaster provisions similar to those in the vetoed bill are expected to be included in a future supplemental bill. However, the future of disaster provisions remains uncertain since the Administration has stated its opposition to any disaster aid that is not offset by other spending reductions. 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. (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. NAP payments were $110 million in FY2005 and $66 million in FY2006.

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.

Agricultural Disaster Provisions in the Vetoed Conference Agreement on FY2007 Supplemental Appropriations (H.R. 1591)

Since 1988, Congress frequently has supplemented the ongoing federal farm disaster assistance programs with additional emergency aid. The 109th Congress provided approximately $1.6 billion in ad-hoc emergency farm disaster spending exclusively for the Gulf states in two emergency supplemental acts (P.L. 109-148 and P.L. 109-234) in response to agricultural losses caused by Hurricanes Katrina, Rita, and Wilma. (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*.)

Farm state members made several attempts in the 109th Congress to provide emergency farm assistance for 2005 and 2006 crop losses nationwide. However, leadership and Administration insistence on a budgetary offset prevented any action. In the 110th Congress, the conference agreement on the FY2007 Iraq war supplemental spending bill (H.R. 1591) contained assistance for crop and livestock losses in any one of the last three years — 2005, 2006, or early 2007. The measure was vetoed on May 1, 2007, because of Administration opposition to a timetable for troop withdrawal from Iraq. Agricultural disaster provisions similar to those in the vetoed bill are expected to be included in a future supplemental bill. However, the future of disaster provisions remains uncertain, since the Administration has stated its opposition to any disaster aid that is not offset by other spending reductions.

As estimated by the Congressional Budget Office, the conference agreement on H.R. 1591 contained total farm disaster aid of $3.5 billion, including an estimated $1.85 billion for crop loss assistance and $1.4 billion for livestock feed and mortality losses. Not included in the final agreement was a Senate provision that would have provided $100 million in grants to small, non-farm agricultural businesses in disaster areas or a House provision that would have compensated spinach producers and processors for market losses following last year's health advisory on bagged spinach. Separately, the conference agreement concurred with a Senate provision to extend authority for a dairy income support program. (See CRS Report RL33475, *Dairy Policy Issues*, for more on this funding issue.) The following is a description of the major farm disaster provisions in the vetoed conference agreement on H.R. 1591.

Crop Loss Assistance. The conference agreement on H.R. 1591 provided such sums as necessary to fund a crop disaster payment program for 2005, 2006, or early 2007 production losses. CBO estimates the cost of the crop loss provisions at $1.85 billion. In order to reduce the cost of the program, a producer cannot receive a payment for more than one crop year. If a producer opts for a payment on 2007 losses, only crops planted prior to February 28, 2007, would be eligible. Eligible producers would receive a payment on losses in excess of 35% of normal crop yields. The payment rate would be 50% of the established market price for the commodity. Also included in the agreement was a prohibition on any crop disaster payments to a producer who either waived crop insurance or did not participate in the Noninsured Assistance Program in the year of the loss. Also, the sum of disaster payments, crop insurance indemnities, and crop marketings cannot exceed 95% of what the value of the crop would have been in the absence of losses. Deleted from the conference agreement were House provisions to provide $25 million to spinach growers and handlers who were unable to market the crop following the September 2006 health advisory, and a separate $24 million disaster program for sugar beet growers.

Livestock Assistance. The vetoed conference agreement on H.R. 1591 contained necessary sums to fund a Livestock Compensation Program (LCP) that would reimburse livestock growers for feed losses caused by a natural disaster. CBO estimates the cost of the LCP provision at $1.38 billion. Payments would be made to producers of beef, dairy, sheep, goats, and catfish, in any county that was declared a disaster area by the President or Secretary of Agriculture between January 1, 2005, and February 28, 2007, with payments limited to one year of losses. The agreement limited the payment rate to 70% of the payment rate used in previous years. For the same time period, the vetoed conference agreement contained necessary funds (estimated by CBO at $33 million) for a Livestock Indemnity Program to reimburse producers for replacing livestock killed by a natural disaster, at a payment rate of at least 30% of the market value of the livestock prior to death. Also included in the conference measure was $20 million to dairy producers for production losses in disaster-designated counties. A Senate provision for $13 million in economic assistance for sheep growers was deleted in conference.

Conservation. The conference agreement contained $20 million in additional funding for the Emergency Conservation Program (ECP) to assist farmers in the cleanup and restoration of farmland damaged by a natural disaster. The final language did not stipulate what regions would receive the funding. However, the House version stated that funds were primarily for farmland damaged by a January 2007 freeze, while the Senate intended its funds to primarily assist Western wildfire victims. The conference agreement also would have restored $115 million in FY2007 funding to the Conservation Security Program, which was prohibited by the FY2007 continuing resolution. Deleted in conference was a Senate provision for $50 million for the Emergency Watershed Protection Program.