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Agricultural Disaster Assistance

Ralph M. Chite
Specialist in Agricultural Policy
Resources, Science, and Industry Division

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 (NAP), and emergency disaster loans. Since 1988, Congress has regularly made emergency financial assistance available to farmers and ranchers, primarily in the form of crop disaster payments and livestock assistance. The FY2007 Iraq war supplemental appropriations act (P.L. 110-28), as amended, is expected to provide an estimated $3.4 billion in emergency agricultural assistance for crop and livestock losses occurring in 2005, 2006, or 2007, for which applications are still being accepted..

In order to provide a regular supplement to crop insurance and NAP payments, the Food, Conservation, and Energy Act of 2008 (P.L. 110-246, the 2008 farm bill) includes authorization and funding for a crop disaster program for FY2008-FY2011. The 2008 farm bill also authorizes three new livestock assistance programs and a tree assistance program over the same period. Primarily in response to the recent Midwest floods and other disasters, the FY2008 Supplemental Appropriations Act (P.L. 110-252) contains a total of $480 million in emergency funding to eligible farmers to defray the cost of clean-up and rehabilitation of farmland and watersheds following a disaster.

Ongoing Major USDA Disaster Programs

Over the years, USDA has had 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. In recent years, program costs have been increasing steadily, mainly because premium subsidies and company reimbursements are based on total premiums, and total premiums have been rising in tandem with farm commodity prices.

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 (rising to $300 per crop per county in 2009, as required by the 2008 farm bill (P.L. 110-246)). 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. Insured producers also can be eligible for reduced coverage if they are late or prevented from planting because of flooding. (For more information on the federal crop insurance program, see CRS Report RL34207, *Crop Insurance and Disaster Assistance in the 2008 Farm Bill).*

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 (rising to $250 in 2009 as required by the 2008 farm bill). 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, $66 million in FY2006, and an estimated $154 million in FY2007.

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, $51 million in FY2006, and $75 million in FY2007.

Disaster Assistance in the 2008 Farm Bill

During the congressional debate on the omnibus farm bill, some policymakers wanted to make permanent in the farm bill some level of disaster payments to supplement the crop insurance program. Consequently, Title XV of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246, the 2008 farm bill) authorizes a new $3.8 billion trust fund to cover the cost of making agricultural disaster assistance available on an ongoing basis over the next four years (FY2008-FY2011) through five new programs.

Supplemental Crop Revenue Assistance Program

The largest of the new farm disaster assistance programs authorized through the 2008 farm bill is a supplemental revenue assistance payment program for crop producers. The program is designed to compensate eligible producers for a portion of crop losses that are not eligible for an indemnity payment under the crop insurance program (i.e., the portion of losses that is part of the deductible on the policy.) An eligible producer can receive a payment equal to 60% of the difference between a target level of revenue and the actual total farm revenue for the entire farm. The target level of revenue will be based on the level of crop insurance coverage selected by the farmer, thus increasing if a farmer opts for higher levels of coverage. To be eligible for a payment, a producer must be in or contiguous to a county that has been declared a disaster area by either the President or the Secretary of Agriculture. Payments are limited so that the disaster program guarantee level cannot exceed 90% of what income likely would have been in the absence of a natural disaster.[1]

The producer also must have at least the minimum level of crop insurance (CAT) coverage for insurable crops and participate in the NAP program for non-insurable crops. The statute makes an exception for the 2008 crop year by allowing producers who did not purchase crop insurance or NAP coverage in advance to be eligible for the program, as long as they pay the equivalent administrative fee for coverage within 90 days of enactment. Final payments for 2008 crop losses cannot be determined until late 2009, since a portion of the disaster payment formula is based on the national average market

[1] For a more detailed description of the authorized payment formula, see the full page text box in CRS Report RL34207, *Crop Insurance and Disaster Assistance in the 2008 Farm Bill*.

price of the commodity, which is determined at the end of the marketing year. For example, the 2008 marketing year for corn and soybeans ends September 30, 2009.

Other Farm Bill Disaster Programs

In addition to the supplemental crop revenue assistance payment program described above, the 2008 farm bill also authorizes and funds four smaller disaster programs through FY2011: (1) Livestock Indemnity Payments, which compensate ranchers at a rate of 75% of market value for livestock mortality caused by a disaster; (2) Livestock Forage Disaster Program, to assist ranchers who graze livestock on drought-affected pastureland or grazing land; (3) Emergency Assistance for Livestock, Honey Bess and Farm Raised Fish, which will provide up to $50 million to compensate these producers for disaster losses not covered under other disaster programs; and (4) Tree Assistance Program, for orchardists and nursery growers who can receive a payment to cover 70% of the cost of replanting trees or nursery stock following a disaster (up to $100,000 per year per producer).

Emergency Supplemental Farm Disaster Assistance

In virtually every crop year between 1988 and 2007, Congress has provided ad hoc disaster assistance to farmers and ranchers with significant weather-related production losses. Ad-hoc assistance has been made available primarily through emergency supplemental appropriations to a wide array of USDA programs.[2]

2008 Supplemental Assistance

Primarily in response to the 2008 Midwest floods, the FY2008 Supplemental Appropriations Act (P.L. 110-252) contains a total of nearly $480 million in emergency funding to eligible farmers to defray the cost of clean-up and rehabilitation of farmland and watersheds following a disaster. Of the total amount available, $89.4 million is for the Emergency Conservation Program, which assists farmers in the cleanup and restoration of farmland damaged by a natural disaster, and $390.5 million is for Emergency Watershed Protection Program, which is designed to relieve imminent hazards created by natural disasters and to alleviate future flood risk. No emergency supplemental disaster assistance has been authorized for 2008 crop and livestock losses, since new programs were authorized and funded through the 2008 farm bill, as described above.

2005-2007 Supplemental Assistance

Title IX of the FY2007 Iraq war supplemental appropriations act (P.L. 110-28) provided emergency agricultural disaster assistance, primarily for crop and livestock losses in any one of the last three years — 2005, 2006, or early 2007. Subsequently, Congress extended the assistance for crop and livestock losses in all of 2007 in the FY2008 Consolidated Appropriations Act (P.L. 110-161, Division A, Section 743). Both

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[2] 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*.

laws limit payments to one of the three years, as selected by the producer. As estimated by CBO, the cost of 2005-2007 assistance is approximately $3.4 billion, including $2.14 billion for crop loss assistance and $1.24 billion for livestock feed and mortality losses. USDA is still accepting applications for the various programs authorized by P.L. 110-28, as amended. The following is a description of the major agricultural disaster provisions.[3]

Crop Loss Assistance. P.L. 110-28, as amended by P.L. 110-161, provides such sums as necessary to fund a crop disaster payment program for 2005, 2006, or 2007 production losses. CBO estimates the cost of the crop loss provisions at $2.14 billion. In order to contain program costs, a producer cannot receive a payment for more than one crop year. Eligible producers can receive a payment on losses in excess of 35% of normal crop yields. The payment rate is 42% of the established market price for the commodity. The act also prohibits 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. P.L. 110-28 also required USDA to make payments to farmers who experienced quality losses to their 2005-2007 crops, as well as for quantity losses. On June 23, 2008, USDA began to accept applications for crop quality loss payments.

Livestock Assistance. P.L. 110-28, as amended by P.L. 110-161, contains necessary sums to fund a Livestock Compensation Program (LCP) to reimburse livestock growers for feed losses caused by a natural disaster. CBO estimates the cost of the LCP provision at $1.2 billion. Payments are being made to producers of beef, dairy, poultry, hogs, 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 December 31, 2007, with payments limited to one year of losses. To contain costs, the act limits the payment rate to 61% of the payment rate used in previous years. For the same time period, P.L. 110-28, as amended, contains necessary funds (estimated by CBO at $39 million) for a Livestock Indemnity Program to reimburse producers for replacing livestock killed by a natural disaster, at a payment rate of at least 26% of the market value of the livestock prior to death. The statute also includes $16 million to dairy producers for production losses in disaster-designated counties.

Conservation. P.L. 110-28 contains $16 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 act did not stipulate which regions will receive the funding, but it was anticipated that it would benefit farmland damaged by a January 2007 freeze and assist western wildfire victims. Separately, P.L. 110-28 in effect provides additional funds for the Emergency Forestry Conservation Reserve Program, a new program that helps restore forest lands in the South that were damaged by the 2005 hurricanes. The act removes statutory language that prohibited any spending beyond calendar year 2006, which CBO estimates will cost $115 million in FY2007.

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[3] For more information on these disaster programs, see various USDA fact sheets accessed at [http://www.fsa.usda.gov/FSA/webapp?area=home&subject=diap&topic=landing]