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 (NAP), and emergency disaster loans. 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) included authorization and funding for a new crop disaster program to cover losses for FY2008 through FY2011. The 2008 farm bill also authorized three new livestock assistance programs and a tree assistance program for the same period. The new programs are designed to address the ad hoc nature of disaster assistance provided to producers during the last two decades. 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.

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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. In addition to benefits provided under these standing programs, Congress has regularly made emergency financial assistance available to farmers and ranchers in the form of disaster payments.

During the congressional debate on the omnibus 2008 farm bill, some policymakers wanted to make permanent some level of disaster payments to supplement the crop insurance program and attempt to end the ad hoc (but regular) nature of emergency disaster assistance. 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.

This report has two sections. The first provides an overview of the current USDA disaster assistance programs: federal crop insurance, noninsured assistance program (NAP) payments, emergency disaster loans, the new supplemental revenue assistance (SURE) program, and four other smaller disaster programs authorized in the 2008 farm bill. The second section reviews the recent history of emergency supplemental farm disaster assistance.

Major USDA Disaster Assistance Programs

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. Insurance products that protect against loss in revenue (yield times price) are also available.

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 $3.5 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 $300 administrative fee per covered crop for each county where they grow the crop.[1] 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*, by Ralph M. Chite and Randy Schnepf; and CRS Report R40532, *Federal Crop Insurance: Background and Issues*, by Dennis A. Shields.)

Noninsured Crop Disaster 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 crop disaster 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 an administrative fee. The NAP fee is $250 per crop payable at the time of application (rising from $150 per crop, as required by the 2008 farm bill).

[1] The 2008 farm bill (P.L. 110-246) increased the fee to $300 per crop per county from the existing $100 fee.

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, $127 million in FY2007, $74 million in FY2008, and an estimated $275 million in FY2009 as of April 2009.

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 non real 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 non real 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, $75 million in FY2007, $45 million in FY2008, and $22 million in FY2009 (through June 2, 2009).[2]

[2] For more information on emergency disaster loan funding and program details, see http://www.fsa.usda.gov/FSA/webapp?area=home&subject=fmlp&topic=fun.

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 (SURE) payment program for crop producers for losses incurred on or before September 30, 2011. 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, or have an overall 50% farm loss. 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. 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.[3]

Final payments for 2008 crop losses cannot be determined until late 2009, since a portion of the disaster payment formula is based on the average market 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 August 31, 2009. Consequently, some farm groups have asked USDA to make more timely payments under the new program by providing advance payments until the final payment levels can be determined. To date, USDA has not issued regulations for the SURE program, and farm groups are calling for their publication so farmers can learn program details, sign up, and consider related business issues such as appropriate insurance coverage levels.

Other 2008 Farm Bill Disaster Programs

In addition to the Supplemental Crop Revenue Assistance 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 Bees, and Farm Raised Fish, which provides up to $50 million to compensate these producers for disaster losses not covered under other disaster programs; and (4) Tree Assistance Program, under which eligible orchardists and nursery growers 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).

To date, USDA has not issued regulations for these programs, and producers have been asking for program details and signup information. At a hearing by the Subcommittee on General Farm

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[3] For more information on the SURE program, see CRS Report R40452, *A Whole-Farm Crop Disaster Program: Supplemental Revenue Assistance (SURE)*, by Dennis A. Shields. The 2008 farm bill made an exception to the crop insurance/NAP requirement 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. Subsequently, language contained in P.L. 110-398 and P.L. 111-5 (the economic stimulus bill) modified program details for the 2008 and 2009 crops.

Commodities and Risk Management of the House Agriculture Committee on June 25, 2009, USDA announced that it will publish the regulations soon, offer signup in July, and begin making payments in July as well. Producer concerns have surfaced following floods in the northern Plains this spring and a heat wave in the central and southern Plains in June.

Emergency Supplemental Farm Disaster Assistance

In virtually every crop year between 1988 and 2007, Congress 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.[4] While disaster programs authorized in the 2008 farm bill are meant to replace the need for ad hoc payments, it is an open question whether policymakers in the future will turn to additional emergency payments for producers. Below is a description of the most recent emergency funding.

American Recovery and Reinvestment Act of 2009

The enacted American Recovery and Reinvestment Act of 2009 (ARRA, P.L. 111-5) contains provisions worth $744 million, as estimated by CBO, to directly assist farmers, including $674 million for crop disaster programs (primarily the supplemental revenue assistance program (SURE)). The SURE program changes affect 2008 crop payments by altering the payment formula and program dates.

The enacted ARRA also authorizes a new $50 million grant program for aquaculture producers to compensate them for their share of high feed prices in 2008. Under the program, USDA's Farm Service Agency provides grants to state governments for distribution to farmers. USDA published a notice of proposal in the *Federal Register* on June 2, 2009. State departments of agriculture began announcing program availability on June 18, 2009.[5]

The final component of ARRA related to farm disaster assistance is $20 million in budget authority (loan subsidy) for the Farm Service Agency to support $173 million in direct farm operating loans. FSA lends to farmers and ranchers who are not able to obtain credit from commercial lenders.

For more information on ARRA, see CRS Report R40160, *Agriculture, Nutrition, and Rural Provisions in the American Recovery and Reinvestment Act (ARRA) of 2009*, coordinated by Jim Monke.

2008 Supplemental Assistance

Primarily in response to the 2008 Midwest floods, the FY2008 Supplemental Appropriations Act (P.L. 110-252) contained a total of nearly $480 million in emergency funding to eligible farmers

[4] 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-FY2009*, by Ralph M. Chite.

[5] Florida Department of Agriculture and Consumer Services, "Bronson Announces 2008 Aquaculture Grant Program," press release, June 18, 2009, http://www.doacs.state.fl.us/press/2009/06182009.html.

to defray the cost of clean-up and rehabilitation of farmland and watersheds following a disaster. Of the total amount available, $89.4 million was for the Emergency Conservation Program (ECP), which assists farmers in the cleanup and restoration of farmland damaged by a natural disaster, and $390.5 million was for Emergency Watershed Protection Program (EWPP), which is designed to relieve imminent hazards created by natural disasters and to alleviate future flood risk. Second supplemental amounts of $115 million for ECP and $100 million for the EWPP were provided under the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009 (P.L. 110-329).[6] No emergency supplemental disaster assistance was 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 years 2005, 2006, or 2007 (for crops planted before February 28, 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 laws limited payments to one of the three years, as selected by the producer. The cost of 2005-2007 assistance was $2.45 billion, including $2.03 billion for crop loss assistance and $383 million for livestock feed and mortality losses.[7]

The following is a description of the major agricultural disaster provisions.[8] The producer signup period for 2005-2007 crop years ended on February 27, 2009.

Crop Loss Assistance

P.L. 110-28, as amended by P.L. 110-161, provided such sums as necessary to fund a crop disaster payment program for 2005, 2006, or 2007 production losses. Payments under the crop loss provisions were $2.03 billion. In order to contain program costs, a producer could not receive a payment for more than one crop year. Eligible producers could receive a payment on losses in excess of 35% of normal crop yields. The payment rate was 42% of the established market price for the commodity. The act also prohibited 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 could not 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.

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6 U.S. Department of Agriculture, Farm Service Agency, *FY2010 USDA Budget Explanatory Notes for Committee on Appropriations*, Farm Service Agency, June 3, 2009, p. 68, http://www.obpa.usda.gov/18fsa2010notes.pdf.

7 Payment figures in this section are from U.S. Department of Agriculture, Economic Research Service, *Agricultural Outlook: Statistical Indicators*, Table 35—CCC Net Outlays by Commodity and Function, April 2009, http://www.ers.usda.gov/publications/agoutlook/aotables/2009/05May/aotab35.xls.

8 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

Livestock Assistance

P.L. 110-28, as amended by P.L. 110-161, contained necessary sums to fund a Livestock Compensation Program (LCP) to reimburse livestock growers for feed losses caused by a natural disaster. Payments under the LCP provision were $341 million. Payments were 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 limited the payment rate to 61% of the payment rate used in previous years. For the same time period, P.L. 110-28, as amended, contained necessary funds (payments totaled $42 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 included payments to dairy producers for production losses in disaster-designated counties (payments totaled $12 million).

Conservation

P.L. 110-28 contained $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. Separately, P.L. 110-28 in effect provided additional funds for the Emergency Forestry Conservation Reserve Program, a program that helps restore forest lands in the South that were damaged by the 2005 hurricanes. The act removed statutory language that prohibited any spending beyond calendar year 2006, which CBO estimated at $115 million for FY2007.

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