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The Federal Response to the 1988 Drought

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The cumulative impacts of the 1988 drought vary by region and commodity. In some cases, the severity will be determined by the length of the drought and such impacts may not be known for some time. The federal government began monitoring the drought in March, took action to alleviate stress in drought-stricken counties throughout the summer and, more recently, passed the \$3.9 billion Drought Assistance Act of 1988.

The purpose of this report is to briefly describe the assistance provided by that Act and other existing governmental policies. CR 865 contains a worksheet to estimate crop disaster payments. Rules and regulations to accompany the Drought Assistance Act were being developed as this report went to print. Producers will need to check with their local ASCS office for details. A comment period may be allowed but no major changes are likely to follow. Eligible producers affected by the 1988 disaster must apply for assistance under the Act no later than March 31, 1989.

Aid under the Act is not restricted to drought-stricken farmers. Assistance is also provided for damage caused by hail, excessive moisture, hurricanes or related conditions. Nor is assistance restricted to participants in government commodity programs. However, disaster benefits are for losses suffered only in 1988. Producers must have ASCS clearance before taking any action (for example, reestablishing drought-damaged pasture, harvesting drought damaged crops) for which they plan to seek federal assistance. As will be shown, producers expecting to apply for assistance under the Act should maintain detailed records of production and feed and forage use to verify eligibility for assistance.

Highlights of the act include:

1. Feed assistance for livestock producers who grow their own feed
2. Water assistance projects
3. Crop loss assistance

4. Alternative uses of program crop base
5. Additional dairy price supports.

The maximum amount of feed assistance per livestock producer is \$50,000. Assistance to crop producers for yield losses is limited to \$100,000. And, total combined crop and livestock feed assistance per producer is limited to \$100,000. The disaster assistance payment limitation is separate from the \$50,000 deficiency payment limit in other government commodity programs, such as the wheat and feed grains production adjustment programs.

Disaster payments will not be made to crop producers whose qualifying gross revenues exceed \$2 million annually and no feed assistance will be given to livestock owners with qualifying gross annual revenues greater than \$2.5 million. If the farming operation is the source of more than 50 percent of an individual's total income, only gross revenues from farming are considered. If the farm provides less than 50 percent of gross revenue, all income sources are included.

If crop losses exceed 65 percent of normal production, farmers who accept emergency relief will be required to sign up for crop insurance for 1989 crops, if available. If the premium is greater than 125 percent of the 1988 premium or greater than 25 percent of the disaster payment, or if the purchase of crop insurance would be an undue financial hardship, the producer may petition the ASCS committee for a waiver.

Crop insurance payments may be supplemented by disaster payments if indemnities are less than the income a producer would have received from normal crop yields. Crop insurance indemnity payments less premiums paid for coverage together with disaster payments cannot exceed the payment rate multiplied by acreage multiplied by payment yield. Thus,

$$\frac{[(\text{Indemnities} - \text{Premiums}) + \text{Disaster Payments}]}{\text{Payment Rate} \times \text{Acreage} \times \text{Payment Yield}}$$
cannot be greater than
More detail is provided in the worksheet.

Payments for Enrolled Producers of Program Crops

Payments for program crops cover three degrees of yield loss: less than 35 percent, 35 to 75 percent, and greater than 75 percent. Producers whose yields are reduced up to 35 percent receive no disaster payments but can keep advance deficiency payments on production losses in the 0 to 35 percent range. For example, a corn producer who suffers a 10 percent crop loss and received a \$0.44 per bushel advance deficiency payment would keep:

10 percent x \$0.44/bu x established yield
x planted acres.

If a producer enrolled in the program and did not take an advance, it can be requested.

For losses greater than 35 percent and up to 75 percent of program yield, disaster payments equal to 65 percent of the target price will be made. Advance deficiency payments received on production subsequently lost to drought in excess of 35 percent must be repaid by July 31, 1989. For example, a corn producer who suffers a 45 percent crop loss and received a \$0.44 per bushel advance deficiency payment would repay:

(45 percent - 35 percent) x \$0.44 x established
yield x planted acres.

Disaster payments equal to 90 percent of the target price will be made on yield losses exceeding 75 percent of program yield. Again, advance deficiency payments received on crops covered by disaster payments (all losses over 35 percent) must be repaid by July 31, 1989.

Payments for Nonenrolled Producers of Program Crops

Program crop producers who are not enrolled in the government program and whose yields are reduced between 35 and 75 percent receive a payment equal to 65 percent of the county loan rate on losses exceeding 35 percent. Losses in excess of 75 percent are covered by a disaster payment equal to 90 percent of the county loan rate. ASCS established yields are used in calculating payment for nonenrolled producers of program crops. Total payments are reduced by the applicable 1988 crop acreage reduction factor, for example, 27.5 percent for wheat in 1988.

Payments for Nonprogram Crops

Nonprogram crops are all commercial crops other than program crops, peanuts, soybeans, sugar beets, sugar cane and tobacco. For losses of 35 to 75 percent of normal yields, payments equal 65 percent of the simple average market price received by the producers of the commodity as determined by the Secretary during the previous five marketing years, excluding the high and low years. Payments for losses of more than 75 percent are equal to 90 percent of the simple average price (again discarding the high and low years).

Crop Assistance Worksheet

In general, net drought aid can be computed as shown in the worksheet in CR-865.

OTHER PROVISIONS

Alternative Uses of Base

Commodity stock adjustment provisions in the Drought Assistance Act allow additional planting of soybeans and sunflowers in 1989 on 10-25 percent of wheat, feedgrain, upland cotton or rice program acreage, without affecting the base, if the Secretary determines this will not adversely affect 1989 average market prices for such crops. It also allows planting oats on program acres in 1989 and 1990 without loss of other crop base if the acreage reduction program for feed grain crops is 12.5 percent or less in each of the 1989 or 1990 crop years.

LIVESTOCK FEED ASSISTANCE

The state, county or area in a state must receive designation by the Secretary of Agriculture to be eligible for livestock feed assistance. Feed assistance programs that will be made available by the Secretary of Agriculture are:

1. Up to 50 percent cost sharing of eligible feed, a continuation of the Emergency Feed Program (EFP). Types of feed that can be purchased under the program include feedgrains, wheat, oilseeds, meal, premixes or mixed feed, roughage, liquid or dry supplemental feed, pasture and forage.
2. Allow producers to purchase CCC grain at 75 percent of the county loan rate, a continuation of the Emergency Feed Assistance Program (EFAP). The same types of feed as for EFP can be purchased under EFAP if available.

Eligible livestock include cattle (including dairy), sheep, goats, swine, poultry (including egg producers), horses and mules (used for food or food production), and fish used for food. There may also be other animals designated by the Secretary of Agriculture that are part of a foundation herd or offspring or purchased as a part of normal operations and not to obtain additional benefits from the program. Livestock producers of other animals may receive special approval.

Other programs which may be available at the option of the Secretary include:

1. CCC feedgrain donations to producers financially unable to purchase feed. Producers may also be reimbursed for 50 percent of transportation and handling costs for donated grain.
2. Hay and forage transportation assistance, not to exceed 50 percent of the costs of transporting hay or forage when purchased beyond the producer's normal trade area (not to exceed \$50 per ton for hay or forage; \$12.50 for silage).

The maximum eligible quantity of eligible hay and forage is the lesser of 20 pounds per day per head or the quantity of additional feed needed by the producer for the duration of the livestock emergency.

3. Assistance in transporting eligible livestock to and from available grazing locations not to exceed \$24 per head or the local cost of the quantity of additional feed needed for the duration of the livestock emergency.
4. ASCS may also share 50 percent of the costs of burning prickly pear to make it suitable for animal feed.
5. A \$50 million program is mandated to share the expense (up to \$3,500 per producer) of reestablishing damaged pasture that will not regenerate naturally.

WATER ASSISTANCE PROJECTS

Water assistance projects may include:

1. Reimbursement of 50 percent of the cost of installing tanks, pipelines, or other facilities for livestock water; construction or deepening of wells; and developing springs or seeps for livestock water.
2. Sale of water to farmers and other users by the Department of the Interior.
3. Assistance in paying increased pumping costs and funds for conservation and/or acquisition and transportation of water through a \$25 million Department of Interior loan program.

CROP LOSS ASSISTANCE

Disaster payments are available to anyone who meets the crop loss criteria, whether or not he or she resides in a disaster county. A producer must have lost 35 percent of an annual commercial crop in 1988 to be eligible. Producers who intend to harvest a drought damaged crop should contact the ASCS county office and ask for a field inspection before they harvest if the crop is going to be harvested in some manner other than its intended use (such as for hay or silage). If the crop is harvested for its intended use, the producer needs to preserve production records.

Payment rates will be based upon the target price for participating program crops, the county loan rate for nonparticipating program crops, the price support level for quota peanuts or additional peanuts as applicable, the average commodity price received in the previous five years excluding both the high and low years for soybeans and nonprogram crops.

Payment yields are the ASCS farm program yield for program crops and peanuts, the county average yield for soybeans, proven yields based on at least one year of satisfactory evidence from the preceding three crop years for nonprogram crops (if available; otherwise the county average yield). Minimum yields with a value equal to the harvesting cost of each crop may be established. If this option is implemented, crop production will be considered

zero for purposes of payment computation if the actual yield is less than or equal to the minimum yield.

To establish yields for nonprogram crops, a producer must provide the ASCS county office with satisfactory evidence of production of the crop for at least one of the previous three years. Evidence may include sales receipts, appraisal of a crop used for something other than grain (such as corn for silage), scale tickets supported by evidence of sales, measurement of grain stored on-farm, and/or a summary from the elevator of grain volume delivered by a producer.

Dairy Price Supports

The 50 cent dairy price support cut authorized in January is eliminated and a price support increase of 50 cents will be implemented from April through June, 1989.

Forestry

Tree farmers whose seedling mortality exceeds 35 percent (adjusted for normal mortality) will be eligible for cost share assistance, either 65 percent of the costs of replanting or an equivalent number of seedlings at USDA discretion. Benefits are limited to tree farmers who own 1,000 or fewer acres and to trees planted within the last two years. Assistance is capped at \$25,000 per person.

Farmers Home Administration (FmHA) Loans

USDA is directed to take steps to assist businesses affected by the drought by making operating loans available for 1989 operations. FmHA is encouraged to aid drought affected producers by exercising forbearance on the collection of loan proceeds and declaring loans in default. FmHA loan guarantees will be extended to help producers who have borrowed from other agricultural lenders. Emergency loans at 4.5 percent interest through FmHA will be available for eligible producers in eligible counties regardless of whether they purchased 1988 crop insurance. No counties in Oklahoma as of yet have been declared eligible for emergency loans because of drought in 1988.

TAX PROVISIONS RELATED TO DROUGHT

Four tax provisions should be kept in mind:

1. The sale of animals held for draft, dairy, breeding or sporting purposes which are sold solely because of drought can be treated as an involuntary conversion. An involuntary conversion means the producer can buy replacement animals within two years and postpone paying income tax on the gain.

2. Producers using cash accounting who are forced to dispose of livestock held for sale because of drought may be able to defer the reporting of gain until the following year for sales "in excess of usual business practices". To be eligible, the producer must establish that the sale would not have occurred but for the drought.

3. Income from crop insurance indemnities and disaster payments may be deferred until 1989 (the year following the crop loss) if income from the sale of the crop would normally have been reported in the later year, given the producer's tax practices.

4. Cost-sharing payments received under federal or state cost-sharing programs can be excluded from income, if they are for a capital expenditure or are specifically excluded from income by state or federal law. To be excluded from income, the payment must not be for an expense you could deduct this year.

SUMMARY & CONCLUSIONS

Eligible producers now have expanded opportunities because of government assistance to better

manage unexpected losses from such weather as drought. Emergency programs that were approved prior to this legislation may still be in effect. The Drought Assistance Act of 1988 provides a menu of aid for producers in a variety of weather-stressed situations. Producers should check with their local ASCS office for details. Educational information to assist the producer in making related management decisions may be obtained at the local Cooperative Extension office.

Producers will need to keep abreast of related issues as the drought situation continues. These include such issues as whether the Secretary will reconsider setaside limits for program crops, delays in 1989 program sign-up, payment eligibility and limits, and restrictions on Conservation Reserve Program acreage. Some policies that may be discussed if the drought worsens affect the economic environment for agriculture and a producer's ability to recover assuming good weather returns within the next year.



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