



Current Report

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FARM LEVEL EVALUATION OF CROP LOSS ASSISTANCE PROVIDED BY THE DROUGHT ASSISTANCE ACT OF 1988

Damona G. Doye
Extension Economist

Larry D. Sanders
Extension Economist

Farm level impacts of the 1988 drought vary by region and commodity. To alleviate financial stress caused by natural disasters, Congress passed the Drought Assistance Act of 1988, a \$3.9 billion bill to aid eligible producers. The purpose of this report is to highlight the assistance provided by that Act and provide a worksheet for farm level evaluation of drought aid for crop losses. A more detailed discussion of the Act may be found in Current Report 864.

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. Eligible producers affected by the 1988 disaster must apply for assistance under the Act no later than March 31, 1989.

Drought Assistance Act of 1988

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. Farmers who use the cash accounting method and who would normally sell their drought-damaged crop in 1989 can claim income from disaster payments on 1989 tax forms even if the income is received 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. 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.

Crop Loss Assistance

Crop loss disaster payments depend on whether a crop is a program or nonprogram crop, whether or not the producer is enrolled in the government commodity program, and the extent of the crop loss. Disaster payments are available to anyone who lost 35 percent or more of an annual commercial crop in 1988, whether or not he or she resides in a disaster county. Producers who intend to harvest a drought damaged crop should contact the ASCS office and ask for a field inspection before they harvest.

Payments for crop losses cover three degrees of yield loss: less than 35 percent, 35 to 75 percent, and greater than 75 percent. Losses are calculated relative to payment yield.

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).

Payment rates for crop loss assistance are:

- 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.

Farmers will be required to repay the advanced deficiency payment on bushels for which they receive disaster payment by July 31, 1989; that is, growers cannot receive deficiency payments and drought aid payments on the same program "bushels". Crop insurance payments may be supplemented by disaster payments if net indemnities plus disaster payments are less than the income a producer would have received from normal crop yields.

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.¹

The Secretary of Agriculture may make additional disaster payments to producers of crops that suffer losses resulting from reduced quality due to natural disasters in 1988. Contact your ASCS office after regulations have been written to see if this is an option in your area.

Payments for Enrolled Producers of Program Crops

Producers whose yields are reduced up to 35 percent receive no disaster payments but can keep unearned advance deficiency payments on production losses in the zero to 35 percent range. For example, a corn producer who suffers a 15 percent crop loss and received a \$0.44 per bushel advance deficiency payment would keep as the first payment: 15 percent x \$0.44/bu. x payment 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, a second payment at 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/bu. x payment yield x planted acres.

A third payment at 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 exceeding 75 percent are covered by a disaster payment equal to 90 percent of the county loan rate. ASCS established yields will be 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 commercial crops other than program crops, peanuts, soybeans, sugar beets, sugar cane and tobacco. Yields for nonprogram crops will be either a producer's established yield or the county average yield. To establish yields for nonprogram crops, a producer must provide the ASCS county office satisfactory evidence of production of the crop for at least one of the previous three years. Evidence may include sales receipts, appraisal of grain 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 volume of grain delivered by a producer.

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 Loss Assistance Worksheet

Factors which influence the amount of aid per producer provided by the Drought Assistance Act include:

- actual and payment yields and the level of crop loss
- advance deficiency payments received
- timing of drought-response production activities relative to legal requirements

¹ Crop insurance can be a valuable risk management tool and may result in easier access to credit at better terms. To evaluate the benefits and costs of insurance for you farm, see OSU Circular E-870, "Multiple Peril Crop Insurance: What Is It? Should I Buy It?" for more information.

- payment rates
 - acres planted and prevented from being planted
 - crop insurance indemnities and premiums
 - limitations on the maximum payment per producer.
- To help estimate the level of drought aid that may be obtained by an eligible producer, a worksheet is given below. A discussion of information required for each entry in the worksheet, line by line, follows. To illustrate the calculations, an example for a drought affected corn crop is developed. For the example, assume the producer is enrolled in the government program for corn (a program crop), purchased no crop insurance in 1988 and:

ASCS Program Yield	100 bu./acre
Actual yield	55 bu./acre
Planted acres	100 acres
Target price	\$2.93/bu.

The calculations assume that no acres were prevented from being planted. ASCS regulations being developed will spell out how acres prevented from being planted will be estimated for program crops and nonprogram crops and for crops in rotation.

Worksheet

	Corn Example	Your Estimate
1. Actual yield (bu/acre)	55	_____
2. Payment yield (bu/acre)	100	_____
3. Crop loss	0.45	_____
4. First payment level (\$/acre)	\$15.40	_____
5. Second payment level (\$/acre)	\$19.05	_____
6. Third payment level (\$/acre)	0	_____
7. Estimated disaster payment	\$3,445	_____
8. Net crop insurance indemnities	0	_____
9. Disaster payment limit	\$16,115	_____
10. ASCS disaster payment	\$3,445	_____
11. "Unearned" advance deficiency payment	\$440	_____
12. ASCS disaster payment net of "unearned" advance	\$3,005	_____

Worksheet Discussion

Line 1. Actual yield (bu./acre)

For our example, actual yield = 55 bu./acre. A producer's actual yield program crops is the average yield on all acres of the given program crop with the same farm serial number. ASCS regulations will specify if the same rule applies to nonprogram crops.

A minimum yield with a value equal to the harvesting cost of the crop may be set by ASCS for each

affected crop. If this provision is implemented and if crop production is less than this *de minimis* yield, the actual yield will be considered zero. For your analysis enter the number of bushels per acre you actually harvested.

Line 2. Payment yield (bu./acre)

Payment yields are:

1. the ASCS farm program yield for program crops and peanuts,
2. the county average yield for soybeans, or
3. 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).

In the example, payment yield is equal to the ASCS program yield because the acreage was enrolled in the corn program. Thus, payment yield is equal to 100 bu. You may need to check your records or contact your local ASCS office for the correct payment yield.

Line 3. Crop loss/acre = 1 - (line 1/line2).

Dividing your actual yield (line 1) by your payment yield (line 2) tells you what fraction your actual yield is of your payment yield. When you subtract that proportion from 1, you get the proportion of crop loss per acre. While it is not necessary for this worksheet, if you want to convert this answer into a percentage, multiply by 100. In the corn example, the crop loss/acre = $1 - (55/100) = 0.45$ or 45 percent.

If the crop loss/acre is 0.35 or less, you are not eligible for disaster payments but you can keep unearned advance deficiency payments on losses in this range.

Line 4. First payment level

This calculation is to determine how much of advance deficiency payments you get to keep. If you are calculating potential payments for a program crop and are not enrolled in the government commodity program for the crop, enter zero for line 4.

If your crop loss/acre (line 3) is greater than 0.35, use the following formula to calculate your first payment level:

$$= 0.35 \times \text{advance deficiency payment rate} \times \text{line 2}$$

Advance deficiency payment rates per bushel are: wheat, \$0.612; corn, \$0.44; sorghum, \$ 0.432; barley, \$0.304; oats, \$0.12. In the corn example, the first payment level is: $= 0.35 \times \$0.44/\text{bu.} \times 100 \text{ bu./acre} = \$15.40/\text{acre}$.

If your crop loss/acre (line 3) is 0.35 or less, use the following calculation to determine your first payment level and discontinue the use of the worksheet since you are not eligible for disaster payments at the second and third levels:

$$= \text{line 3} \times \text{advance deficiency payment rate} \times \text{line 2.}$$

Line 5. Second payment level

Second and third payment levels provide assistance in lieu of deficiency payments. The second payment level covers crop losses between 35 percent and 75 percent. If line 3 is 0.75 or less, then the second payment yield is:

$$= \text{line 3} - 0.35$$

For the corn example, the second payment yield is:

$$= 0.45 - 0.35 = 0.10.$$

If your crop loss/acre (line 3) is greater than 0.75, your second payment yield will be 0.40 (that is, 0.75 - 0.35). In other words, no more than 40 percent of your losses can be paid at the 65 percent rate.

The second payment level is:
= 0.65 x payment rate x line 2 x second payment yield.

For the corn example, the second payment level is:
= 0.65 x \$2.93/bu. x 100 bu./acre x 0.10 = \$19.05/acre.

Line 6. Third payment level

This level provides a higher percentage payment rate (90 percent of the payment rate) for crop losses greater than 0.75. If line 3 is 0.75 or less, enter zero on line 6. (This is what was done in the corn example.) If, however, line 3 is greater than 0.75, you need to compute the portion of your losses over 75 percent eligible for this higher rate. The third payment yield is:

= line 3 - 0.75.

The third payment level is then:
= 0.90 x payment rate x line 2 x third payment yield.

Line 7. Estimated disaster payment

Total disaster payments equal acres planted times disaster payments per acre. Disaster payments per acre are the sum of the three payment levels:

= (line 4 + line 5 + line 6)

For the corn example, disaster payments per acre are:
= \$15.40/acre + \$19.05/acre + 0 = \$34.45/acre.

Total disaster payments are:

= (line 4 + line 5 + line 6) x planted acres

For the corn example, total disaster payments are:
= \$34.45/acre x 100 acres = \$3,445

Line 8. Net crop insurance indemnities

If no crop insurance was in place on the 1988 crop, net crop insurance indemnities equal zero. Otherwise, net crop insurance indemnities equal:

= Indemnities received - Premiums paid.

Since the producer in our example did not have crop insurance, line 8 is zero.

Line 9. Disaster Payment Limit

Disaster payments plus net crop insurance indemnities cannot exceed "normal" income from crops.

Therefore, total disaster payments must be less than or equal to:

= (line 2 x acres planted x payment rate) - line 8

In the corn example, the disaster payment limit is:

= (100 bu./acre x 100 acres x \$2.93/bu.) - 0

= \$29,300

No producer may receive more than \$100,000 in disaster payments. If line 9 is greater than \$100,000, set line 9 equal to \$100,000.

Line 10. ASCS Disaster Payment = line 7 or line 9, whichever is smaller.

Line 11. Advance deficiency payment in excess of "earned" deficiency payment

The intent of the law is to prevent double payments. The producer can keep the advance on losses in the 0 to 35 percent range. Beyond that, producers receiving disaster aid will be required to repay the advance. This portion that must be repaid is computed as follows:

= Advance deficiency payment rate x (line 3 - 0.35) x ASCS yield x planted acres.

If (line 3 - 0.35) is negative, set line 11 equal to zero. For the corn example, unearned advance deficiency payments are:

= \$0.44/bu. x (0.45 - 0.35) x 100 bu./acre x 100 acres = \$440

Line 12. Net estimated ASCS disaster payment
= line 10 - line 11

= \$3,445 - \$440 = \$3,005

A factor which producers may need to consider in deciding whether to apply for aid is the cost of crop insurance for 1989. Producers with crop losses exceeding 65 percent who receive disaster payments will be required to purchase crop insurance for 1989 if available, unless a waiver is approved by the ASC committee.

Summary

The Drought Assistance Act of 1988 provides aid for producers in a variety of weather-stressed situations. Producers should contact 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.



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