



Current Report

Cooperative Extension Service • Division of Agriculture • Oklahoma State University

The Disaster Assistance Act of 1989

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The Disaster Assistance Act of 1989 (DAA) is a complex combination of emergency assistance for crop and livestock producers, rural businesses, Indian tribal groups, and rural water districts. The Act was designed to alleviate distress in rural communities resulting directly or indirectly from adverse weather. The purpose of this Current Report is to assist farmers and ranchers in determining their eligibility for disaster payments and, if eligible, the dollar value of potential disaster assistance.

Benefits Vary With Commodity Program

The rationale for basing the payment formula on the commodity program burden carried by producers demonstrates the increased reluctance of Congress to provide assistance to producers not willing to participate in government programs (specifically crop insurance). The funds available for this legislation (an estimated

KEY POINTS ARE THESE:

- * THERE ARE VARYING LEVELS OF CROP LOSS THAT TRIGGER DISASTER PAYMENTS:
-PROGRAM CROP PARTICIPANTS AND PEANUT PRODUCERS WITH CROP INSURANCE--35%
-PROGRAM CROP PARTICIPANTS AND PEANUT PRODUCERS WITHOUT INSURANCE--40%
-SOYBEAN AND SUNFLOWER PRODUCERS--45%
-NONPARTICIPATING PROGRAM CROP PRODUCERS, NONPROGRAM CROP PRODUCERS--50%
- * PROGRAM CROP PARTICIPANTS WITH CROP INSURANCE CAN KEEP ADVANCE DEFICIENCY PAYMENTS ON THE FIRST 35% OF LOSSES EVEN THOUGH THEY MAY NOT BE EARNED; IF THEY DID NOT HAVE CROP INSURANCE, THEY CAN KEEP 40%.
- * DISASTER PAY COVERS 65% OF ANTICIPATED VALUE OF LOSS OVER THE TRIGGER LEVEL.
- * PRODUCERS WHO FILE A COMPLETE APPLICATION PRIOR TO SEPTEMBER 30 WILL BE PAID WITHIN 15 DAYS. BUT THEY DO HAVE UNTIL THE END OF MARCH 1990 TO APPLY.
- * PRODUCERS WITH LOSSES EXCEEDING 65% WILL BE REQUIRED TO SIGN UP FOR CROP INSURANCE IN 1990.
- * DISASTER BENEFITS WILL BE REDUCED BY THE VALUE OF 75% OF THE REPLACEMENT CROP ACTUAL PRODUCTION.
- * DISASTER PAYMENTS WILL BE MADE IN GENERIC CERTIFICATES.

\$900 million) are provided at no increase over projected costs for government programs. Severe weather reduced output of most commodities, increasing prices and thus reducing deficiency payments and government outlays.

These savings, through this Act, are returned to both commodity program participants and nonparticipants alike. In effect, an estimated \$200 million in government outlays will be transferred from commodity program participants to nonparticipants and nonprogram crop producers. Congress sought to make it clear that producers severely affected by adverse weather conditions, who participated in crop insurance and commodity programs would get priority in disaster relief assistance.

In an effort to reduce the payments to commodity program nonparticipants and nonprogram crop producers, a 50 percent loss threshold constrains eligibility. Damage may be the result of a variety of weather conditions including drought, hail, tornado, hurricane, freeze, storm, excessive moisture or wind or from related conditions such as insect infestations and plant diseases that have been accelerated by damaging weather.

Federal Crop Insurance Required In 1990

A second important feature requires producers with losses exceeding 65 percent to obtain federal (multiperil) crop insurance on all crops eligible for insurance in Oklahoma. However several exemptions to this provision reduce its bite. The provision is effective only if the 1990 premium is less than 125 percent of 1989 premium, or is less than 25 percent of the Emergency Crop Loss Assistance (ECLA) payment or, does not pose an undue financial hardship.

Determination of undue financial hardship is the responsibility of the ASCS county office where a request is made. Examples of cases that may be considered include farms in bankruptcy or farms under an agency or court directive to restructure.

Assistance For Environmental Quality

Several environmental provisions, which have been discussed as separate pieces of legislation, found their way into the DAA of 1989. The previously announced reduction in rental payments for the haying or grazing of CRP acreage may not be reduced to the extent that the owner or operator of the CRP acreage carries out and pays for additional approved conservation practices such as establishment of shelterbreaks, windbreaks, tree plots or wildlife food plots or the restoration of wetlands.

Emergency Crop Loss Assistance

Although the 1989 DAA provides widespread assistance the heart of the Act is the assistance to crop producers via the ECLA. Major benefits under the ECLA include the formula payments, nonremittance of advance deficiency payments, crop quality reduction payments and disaster credit and forbearance.

The eligibility requirements for any of the ECLA benefits include:

- o Total payment limit of \$100,000 per person.
- o No double payment on replanted acres unless double cropping can be demonstrated by cropping history.
- o The sum of any Federal Crop Insurance net indemnities (indemnities less premiums paid) and ECLA payments may not exceed 100 percent of expected value of output.
- o Gross revenues must be less than \$2 million from agricultural enterprises where the majority of revenues is from agriculture or less than \$2 million from all sources where the majority of revenues is not from agriculture.
- o Applications for benefits or payments must be submitted prior to April 2, 1990. Sign-up may begin immediately and full or advanced payments are to be made within 15 days of sign-up or September 15 (whichever is later) for those who submit a complete application prior to September 30 of this year.
- o For commodity program participants, no payments will be made for acreage in excess of that permitted under the commodity program.

Specific provisions within the ECLA are as follows:

Formula Payments The enclosed worksheet outlines steps in estimating disaster payments. For commodity program participants who obtained multiperil crop insurance, the formula for direct ECLA payments is 65% of the value of losses in excess of 35%, participants without crop insurance 65% of the value of losses in excess of 40%, soybean and oil seed producers 65% of the value of losses in excess of 45%, and nonprogram crop producers 65% of the value of losses in excess of 50%.

The level of damage is determined as the difference between the value of expected output and value of actual output. Determination of expected output varies depending upon crop and participation. For program commodities value of expected output is determined by multiplying the farm program payment yield by the total eligible acreage (acreage planted to harvest and acreage not planted to harvest as a result of damaging weather) at the established price for the crop (the target price for program participants).

Payments to producers of program commodities not participating in the commodity programs must also base yields on established farm yields. Acreage will be the sum of planted acres and any previously approved prevented planted acres, but if prevented planting is involved the total disaster assistance acreage cannot exceed the higher of 1988 acreage plus approved prevented planting or the three year average. Acres may be limited when prevented planting is involved. The basic price for nonparticipating program crops will be the loan rate.

For beans and other nonprogram crops, state, area or county yields may be used (proven yield for at least 1 of the 3 preceding years may be substituted), acreage is calculated as for nonparticipating program commodities, and price is based upon simple average of past five years less the highest and lowest prices (determined by state ASCS on a crop by crop basis to allow for multiple varieties). However, 70 percent of nonmarketable harvest may be excluded from determining the level of output. This would allow nonprogram crop producers with less than 50 percent weather related losses at harvest who experience quality losses at the market to be eligible for disaster payments. Basic prices for nonprogram crops are currently being established and will be available at ASCS offices.

Disaster Assistance Worksheet for Crops

To illustrate the worksheet calculations, we will use an example farm with 500 acres of wheat in the government program with an ASCS or proven yield of 40 bushels per acre. Because of a natural disaster, yields this year were reduced to 15 bushels per acre on 300 acres (see attached Example). The crop was not insured. Sudan for hay was planted as a replacement crop on 180 acres and yields were 4 tons of hay per acre. The target price for wheat is \$4.10 per bushel and the loan rate is \$2.57 per bushel. Sudan hay sells for approximately \$35 per ton,

Preliminary Information Since the producer is participating in the commodity program for wheat, the estimated price per unit in the "Preliminary Information" section is the target price for wheat (\$4.10 per bushel). The estimated loss as a percent of the ASCS or proven yield is 62.5 percent (25 bushel loss divided by 40 bushel yield). Total affected acres is 300 acres. Total production of all "replacement crops harvested" is 720 tons (180 acres X 4 tons/acre).

Production Status In our example, the producer is a program crop participant without crop insurance and so would check (2b). Because losses listed in (1c) are 62.5 percent and thus exceed 40 percent, the producer is eligible for disaster assistance.

Estimation of Per Acre Benefits The disaster payment calculation for our example producer is given in (3b):

$$\begin{aligned}\text{Payment} &= (62.5\% - 40\%) \times 40 \text{ bu.} \times \$4.10/\text{bu.} \times 65\% \\ &= .225 \times 40 \times \$4.10 \times .65 \\ &= \$23.985\end{aligned}$$

Estimation of Net Disaster Payment The gross disaster payment is the estimated per acre benefit calculated in (3) times the number of affected acres. In our example the gross disaster payment is:

$$\$23.985/\text{acre} \times 300 \text{ acres} = \$7,195.50.$$

The replacement crop is valued at \$25,200 (720 tons produced x \$35 per ton). Because seventy five percent of the value of the replacement crop (\$25,200 x .75 = \$8,900) exceeds the gross disaster payment, the producer in our example receives no disaster assistance payments. Note that the per unit value is an estimate. Check with the ASCS office for basic rates that are currently being established.

Other Disaster Assistance Provisions

Advance Deficiency Payments Commodity program participants will not be required to refund advance deficiency on the portion of their reduced output (resulting from damaging weather) which is less than the threshold loss level (35 percent with crop insurance and 40 percent without). Thus, the value of output lost due to damaging weather (when loss is less than 35 percent) can be used to offset part or all of any advance deficiency payment. Any advance deficiency payment remaining will not have to be refunded until July 31, 1990. Eligible producers may apply to receive advance deficiency payments beginning September 18, 1989.

Crop Quality Reduction Payments This provision may or may not be implemented at the discretion of the Secretary of Agriculture. This is an additional payment for losses due to reduced crop quality as a result of damaging weather or related conditions. Producers must have incurred a loss of at least 45 percent but not more than 75 percent. The payment rate must be established by the Secretary, but may not exceed 10 percent of price established under the formula payment.

Disaster Credit and Forbearance Direct 1990 operating loans will be made available to farmers and ranchers suffering major losses as a result of damaging weather or related conditions. In addition, loan guarantees to commercial or cooperative lenders for refinancing or reamortizing either 1989 loans or 1989 and 1990 installments for debt on real estate, farm equipment or buildings, livestock loans, or operating debt will be available through FmHA. Eligible producers must be current in obligations to the lenders. Lenders may extend the installment period for a period not to exceed 6 years from the original due date.

Forages, Orchards, and Forest Crops Disaster payments will be made available to producers of forages

and silage damaged by weather or related conditions. The terms and conditions for these payments will be announced by the end of August. For orchards and forest crops, disaster payments are available for the loss of trees planted for commercial purposes if the loss exceeds 45 percent of the normal mortality. The payment will be for 65 percent of the cost in excess of the 45 percent loss or, at the Secretary's discretion, sufficient seedlings for replacement. A maximum payment of \$25,000 per person is available. Producers of orchard crops must have no more than 500 acres of orchard crops or 1,000 acres of forest crops to be eligible.

Relief For Livestock Owners Assistance for livestock producers is a simple extension of the Emergency Livestock Assistance (ELA) offered under the 1988 Disaster Act except for minor changes and a few extra provisions. Two of the new provisions allow the Secretary (at his discretion) to provide at least \$25 million to transport livestock and at least \$25 million for water development projects.

The ELA for 1989 will be made available to livestock producers in a state, county or area at the Secretary's discretion. While there are several Oklahoma counties technically eligible to apply for feed assistance, there are currently no plans to make application because pasture conditions have improved in the last few months. The benefits available to producers may include one or more of the following:

- 1) The donation of feed grains with a charge up to 50 percent of the transportation cost.
- 2) The sale of feed grains at 75 percent of the basic loan rate if the emergency existed prior to January 1, or 50 percent of the average market price.
- 3) Up to 50 percent cost share for the transport of hay and forage from beyond a producer's normal trade area.
- 4) Up to 50 percent of the cost of moving livestock to available grazing locations.
- 5) Up to 50 percent of the cost of installing pipelines, tanks, troughs, ponds or wells for supplying water to livestock.

Conclusions

The 1989 DAA is complex and will be difficult for USDA to implement in the allotted 30 day time period. Because total expenditures must stay below the \$900 million budgeted for the Act, many of the provisions in the Act left to the Secretary's discretion may be implemented later or not at all. Procedures for implementing the ECLA for program crops will likely be provided to county ASCS agents quickly. For exact details on any of the provisions discussed above, or for questions regarding eligibility for assistance not described, producers should check with their local ASCS office.

EXAMPLE
DISASTER ASSISTANCE PAYMENT WORKSHEET FOR CROPS

1. PRELIMINARY INFORMATION

A. ASCS or proven yield	<u>40 bu./acre</u>
B. Estimated price per unit (target price)	<u>\$4.10/bu.</u>
C. Estimated loss as % of A	<u>62.5</u>
D. Total affected acres	<u>300</u>
E. Total production of all "replacement" crops harvested (yield x acres)	<u>720 tons</u>
F. Estimated per unit value of replacement crop	<u>\$35/ton</u>

NOTE: IF 1C IS LESS THAN 35%, STOP. YOU ARE NOT ELIGIBLE FOR DISASTER PAYMENT. YOU MAY, HOWEVER QUALIFY TO KEEP THE PORTION OF YOUR ADVANCE DEFICIENCY PAYMENT RELATED TO YOUR LOSS.

2. PRODUCTION STATUS (Check one)

- A. Program crop participant w/crop insurance _____
- B. Program crop participant w/o crop insurance √
- C. Peanut producer w/crop insurance _____
- D. Peanut producer w/o crop insurance _____
- E. Soybean/sunflower producer _____
- F. Program crop nonparticipant _____
- G. Nonprogram crop participant _____

NOTE: IF YOU CHECKED (2B OR 2D) & 1C IS LESS THAN 40%, STOP. YOU ARE NOT ELIGIBLE. SEE NOTE 1 ABOVE.

IF YOU CHECKED 2E & 1C IS LESS THAN 45%, STOP. YOU ARE NOT ELIGIBLE. SEE NOTE 1 ABOVE.

IF YOU CHECKED (2F OR 2G) & 1C IS LESS THAN 50%, STOP. YOU ARE NOT ELIGIBLE. SEE NOTE 1 ABOVE.

3. ESTIMATION OF PER ACRE BENEFITS

- A. For 2A or 2C, your disaster payment = $(1C - 35\%) \times 1A \times 1B \times 65\% =$ _____
- B. For 2B or 2D, your disaster payment = $(1C - 40\%) \times 1A \times 1B \times 65\% =$ \$23,985/acre
- C. For 2E, your disaster payment = $(1C - 45\%) \times 1A \times 1B \times 65\% =$ _____
- D. For 2F or 2G, your disaster payment = $(1C - 50\%) \times 1A \times 1B \times 65\% =$ _____

4. ESTIMATION OF NET DISASTER PAYMENT

- A. Gross disaster payment = $(3A, 3B, 3C \text{ or } 3D) \times 1D =$ \$7,195.5
- B. Affected replacement crop value = $1E \times 75\% \times 1F =$ \$18,900
- C. Net disaster payment = 0 if $4B > 4A$. Otherwise, net disaster payment is:
 $4A - 4B =$ 0

NOTE: MAXIMUM TOTAL PAYMENT LIMIT IS \$100,000 PER PERSON.

DISASTER ASSISTANCE PAYMENT WORKSHEET FOR CROPS

1. PRELIMINARY INFORMATION

- A. ASCS or proven yield _____
- B. Estimated price per unit (target price) _____
- C. Estimated loss as % of A _____
- D. Total affected acres _____
- E. Total production of all "replacement" crops harvested (yield x acres) _____
- F. Estimated per unit value of replacement crop _____

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- C. Peanut producer w/crop insurance _____
- D. Peanut producer w/o crop insurance _____
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- B. For 2B or 2D, your disaster payment = $(1C - 40\%) \times 1A \times 1B \times 65\% =$ _____
- C. For 2E, your disaster payment = $(1C - 45\%) \times 1A \times 1B \times 65\% =$ _____
- D. For 2F or 2G, your disaster payment = $(1C - 50\%) \times 1A \times 1B \times 65\% =$ _____

4. ESTIMATION OF NET DISASTER PAYMENT

- A. Gross disaster payment = $(3A, 3B, 3C \text{ or } 3D) \times 1D =$ _____
- B. Affected replacement crop value = $1E \times 75\% \times 1F =$ _____
- C. Net disaster payment = 0 if $4B > 4A$. Otherwise, net disaster payment is:
 $4A - 4B =$ _____

NOTE: MAXIMUM TOTAL PAYMENT LIMIT IS \$100,000 PER PERSON.



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