Food Conservation and Energy Act of 2008: Disaster Assistance Programs

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The 2008 farm legislation introduced a new Supplemental Agricultural Disaster Assistance (SADA) Program to deal with the county level agricultural disasters that occur annually across the United States. An Agricultural Disaster Relief Trust Fund (Trust Fund) is established to fund SADA with receipts from duties collected on commodities covered under the Harmonized Tariff Schedule. SADA contains five specific disaster assistance programs (see box).

Each of these SADA programs is a new program, although disaster assistance for the commodities covered by the programs has been provided as ad hoc disaster relief in the past. The new disaster assistance program provides for payments to be made when certain conditions are met without additional Congressional action.

The broadest of these programs and of greatest interest to most producers is Supplemental Revenue Assistance (SURE). The interaction of SURE with the commodity programs will affect the producer's choice between the Direct-Countercyclical Program (DCP) and the Average Crop Revenue Election (ACRE). These programs are described in Fact Sheet AGEC-1011.

Supplemental Revenue Assistance (SURE) Payments - to assist with farm revenue losses due to natural disasters. The SURE program replaces former Ad Hoc Crop Disaster programs.

Livestock Indemnity Payments - to assist producers for losses due to livestock death in excess of normal mortality as a result of adverse weather.

Livestock Forage Disaster Program – to assist producers of covered livestock for grazing losses due to drought or fire.

Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish – to assist producers of livestock, honey bees, and farm-raised fish for losses due to disease, adverse weather, and/or conditions not covered by SURE Payments, Livestock Indemnity Payments or by Livestock Forage Disaster Program.

Orchard and Nursery Tree Assistance Program – to assist producers of eligible orchards and nurseries for trees lost to natural disasters.

What farms are eligible for SURE payments?

- Farm is located in a county (or contiguous county) covered by a qualifying national disaster declaration by the USDA Secretary;

Or

- Whole farm must have a 50 percent loss in expected revenue (planted acres x adjusted APH or Countercyclical program (CCP) yield times the insurance price guarantee);

And

- The farm must suffer at least a 10 percent eligible production loss on at least one crop of economic significance (any crop that contributed, or is expected to contribute, 10 percent or more of the total expected value of all crops grown by the producer);

And

- Producer must purchase either federal crop insurance or FSA's Noninsurable Crop Disaster Assistance Program (NAP) coverage for all mechanically harvested crops (planted or intended) that are of economic significance;

And

- Producer must meet Adjusted Gross Income (AGI) limits
  - 2008 – not eligible if AGI > $2.5 million unless 75 percent or more of income is from farming
  - 2009 and subsequent years – not eligible if non-farm income > $500,000.

How are SURE payments calculated?

The SURE payment is 60 percent of the difference between the SURE guaranteed revenue and the actual farm revenue. However, SURE payments are calculated differently for insured and non-insured crops. Non-insured crops include all crops for which insurance is not available for purchase. A SURE cap of 90 percent of the expected revenue for each crop is also in place.

Actual Farm Revenue – sum of crop insurance or NAP indemnities, prevented planting, 15 percent of any direct payments, CCP or ACRE payments, marketing loan proceeds, value of any other natural disaster assistance payments, and crop values (harvested acres x yield x marketing year average price)

SURE Payment = 60% * (Disaster Program Guarantee – Actual Farm Revenue

Insured Crops: Disaster Program Guarantee =
115%
times
crop insurance price election
times
acres planted (or prevented)
times
% crop insurance yield elected
times
Greater of: Adjusted APH or CCP yield

Non-Insured Crops: Disaster Program Guarantee =
120%
times
NAP Revenue Guarantee
times
acres planted (or prevented)

How are SURE payments and commodity programs linked?

As the example in Table 1 indicates, the difference between the SURE guaranteed revenue and the actual revenue is reduced by any crop insurance payment, prevented planting payment, 15 percent of the direct payment and any other commodity or disaster payments. Since the SURE payment is 60 percent of the difference between the SURE guarantee and the actual farm revenue, every dollar of ACRE or DCP payment will reduce the SURE payment by 60 cents.

How will SURE affect my decision to participate in ACRE?

The DCP program provides direct payments regardless of market price or production, plus a countercyclical payment based upon market price but independent of production. Because market price normally increases (decreases) when production decreases (increases), price increases when yields are low and decreases when yields are high. Thus, a CCP payment is not likely to be paid unless yields are high, but may be made when yields are low. A decline in yields of at least 10 percent is required to receive a SURE payment. Thus, the potential for both a CCP and SURE payment is highly unlikely.

On the other hand, an ACRE payment simply requires that the actual revenue (yield on harvested acres times market price) be less than an average historic (benchmark) revenue. Thus, as in the example above, receiving both an ACRE and a SURE payment is possible.

To enroll in the ACRE program requires giving up 20 percent of the Direct Payment (DP). This can be seen as the cost of obtaining the revenue insurance provided by ACRE as opposed to the price protection (but not yield) offered by the DCP. When yield falls, there is a strong possibility that the ACRE payment will exceed the loss in the DP making ACRE a better choice than DCP. However, should a disaster exist in the county of operation and the producer yield drop by more than 10 percent to trigger a SURE payment, the ACRE payment will reduce the SURE payment by 60 cents for every dollar of ACRE payment and the total income the producer receives from SURE and ACRE may be less than the amount received under SURE and DCP. Table 2 provides an example of total government payments under the DCP and ACRE programs using the same example as in Table 1 above. The difference between total government payments under the ACRE and DCP programs, including the loss in DP, is $17,456 without a SURE payment and $628 with a SURE payment. In this example, the benefit of being enrolled in the ACRE program when a SURE payment is issued is small. Since the ACRE payment reduces the SURE payment, the producer only had a slight increase in total government payments when both an ACRE and SURE payment was received.

How does my crop insurance affect the SURE payment?

The crop insurance election that a producer makes affects the SURE payment in two ways. First, the level and price of yield protection provided directly affects the value of the SURE guarantee as indicated in the SURE payment formula above. Generally, the higher the price and yield protection elected, the larger the SURE guarantee. Second, just as in the case of the ACRE and DCP payment, any insurance indemnity received reduces the difference between the SURE guarantee and the actual revenue. Thus, for every dollar of insurance indemnity received, any SURE payment will be reduced by 60 cents.

Note the ACRE and SURE government programs and the RA and CRC (see sidebar for definitions, page 4) types of crop insurance are all designed to protect against revenue shortfalls resulting from short-term yield or price declines.

Summary

Decisions related to ACRE, DCP, SURE, and crop insurance should be considered jointly by producers due to the

Table 1. SURE Calculation.

	Commodity Program	*DCP with SURE*	*ACRE with SURE*	*Difference*
1	Planted Acres	1,000	1,000	
2	APH Yield for Crop Insurance	32	32	
3	Counter-cyclical payment base yield	32	32	
4	Crop insurance guarantee %	$8.77	$8.77	
5	Crop insuarance guarantee %	75%	75%	
6	Crop insurance guarantee (1 * 2 * 4 * 5)	210,480	210,480	
7	Harvested Acres	1,000	1,000	
8	Actual yield on harvested acres	26	26	
9	Harvest crop insurance price	$6.40	$6.40	
10	2008 marketing year price	$5.75	$5.75	
11	Crop insurance guarantee (6)	$210,480	$210,480	
12	Crop insurance actual revenue (4* 7 * 8)	$166,400	$166,400	
13	Crop insurance indemnity payment	$44,080	$44,080	
14	SURE guarantee before cap	$242,052	$242,052	-
15	SURE cap (maximum guarantee)	$252,576	$252,576	-
16	SURE guarantee in effect	$242,052	$242,052	-
17	SURE actual revenue	$149,500	$149,500	-
18	Crop insuance indemnity payment (12)	44,080	44,080	
19	Prevented planting payment received	-	-	
20	15% of FSA direct payment (DP)	$2,496	$1,997	($499)
21	Other FSA commodity payments received (ACRE or CCP)	-	$28,545	$28,545
22	Other federal disaster payments received	-	-	-
	Actual crop revenue, including insurance payment, 15% of direct payments, DCP or ACRE, and other disaster payments	$196,076	$224,121	$28,045
	Disaster Program Guarantee minus Actual Farm Revenue	$45,976	$17,931	($28,045)
	SURE PAYMENT (60% of difference, maximum of $100,000)	$27,586	$10,758	($16,827)
	Total Crop Revenue (including SURE payment)	$223,662	$234,880	$11,218

Table 2. Wheat Example: DCP and ACRE Comparison.

	No SURE	*With SURE*
DCP		
Direct Payment	$13,861.12	$13,861.12
Counter-Cyclical Payment	-	
SURE Payment	-	$27,585.60
Total Government Payments	$13,861.12	$41,446.72
ACRE		
Direct Payment	$11,088.90	$11,088.90
ACRE Payment	$28,544.67	$28,544.67
SURE Payment	-	$10,758.32
Total Government Payments	$39,633.57	$50,391.88
NET (ACRE - DCP)	$25,772.00	$8,945.00
3 additional years lost DP	$8,317.00	$8,317.00
NET of 3-year loss of 20% DP	$17,456.00	$628.00

interactions between these programs. The new ACRE and SURE programs combine with crop insurance to form a suite of programs to manage risk. Each of the new programs and crop insurance has an associated cost. For ACRE, the cost is the 20 percent reduction in the DP. For SURE, the premiums to insure all required crops is the cost, while the cost of crop insurance is the premium. The producer must weigh each of these potential costs of the additional risk management against the benefits (potential to reduce short term declines in revenue).

Crop Insurance Options

Actual Production History (APH) – insures producers against yield losses only. A producer selects the level of yield protection desired (50 to 75 percent) and the percent of the predicted price (50 to 100 percent) to receive on the protected yield. If the harvest yield is less than the insured yield, an insurance indemnity is paid equal to the difference between the yield protection level and actual yield at the chosen price.

Crop Revenue Coverage (CRC) – provides protection of revenue based on both yield and price expectations. An insurance indemnity is paid when the actual revenue at the higher of the early season or harvest price falls below the revenue guarantee.

Revenue Assurance (RA) - insures producers for a dollar-denominated level of revenue. An insurance indemnity is paid when actual revenue falls below the level selected.

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