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DISASTER PAYMENTS ON 1988 CROP LOSSES

by

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On August 11, 1988 the Disaster Assistance Act of 1988 was signed into law. One of the provisions of this Act will allow farmers with gross incomes of less than $2.0 million to receive up to $100,000 in disaster payments on crop losses. This paper's purpose is to explain how the crop loss assistance program will work. Hopefully the explanations offered here will help farmers and agricultural professions obtain a better understanding of this relatively complex program.

Disaster Payments

Farmers experiencing a loss of 35 percent or more on their crops will be eligible to receive disaster payments. These payments will only compensate farmers for losses that are in excess of 35 percent of normal production. The disaster payments received by farmers may be comprised of two components. One component, that will be referred to here as a Tier 1 payment, will be related to the losses that are experienced on the production that represents 36 to 75 percent of normal production. The other component, referred to here as the Tier 2 payment, will be related to losses experienced on production that represents 76 to 100 percent of normal production. We will now consider these two payments that may comprise the total deficiency payments that farmers receive.

Tier 1 Payment As stated earlier this payment pertains to lost production that represents 36 to 75 percent of normal production. The per unit compensation rate used to compute this payment will be:

a)   65 percent of target price;

b)   65 percent of loan rate; or

c)   65 percent of average market price.

The first compensation rates will be paid on program crops that were lost by crop program participants. The second compensation rate will be paid on program crops when farmers are not program participants. For all other crops, the per unit compensation rate will be 65 percent of average market price.

The quantity of production eligible for the Tier 1 payment equals the lesser of: 1) the value that is obtained when actual production is subtracted from 65 percent of normal production, or 2) 40 percent of normal production.

To illustrate how the Tier 1 payment is computed the following example is offered. A farmer, not in the corn program, experiences a 50 percent loss and only harvests 12,500 bushels (actual production) versus 25,000 bushels (normal production). This farmer collects $1.15/bu. (65% of $1.77 loan rate) on 3,750 bushels ([.65 X 25,000 bu.] - 12,500 bu.) and receives a Tier 1 payment of $4,132.50 (3,750 bu. X 1.15/bu.).

Tier 2 Payment Farmers experiencing losses in excess of 75 percent of normal production will be eligible to collect this payment that is related to the last quarter of normal production (76 to 100 percent of normal production). For Tier 2 payments the per unit compensation rate will be:

a)   90 percent of target price;

b)   90 percent of loan rate; or

c)   90 percent of average market price.

The first rate applies to farmers that were crop program participants. The second rate applies to program crops that were not enrolled in crop programs and the final payment rate is used for all other crops.

The quantity of production that qualifies for a Tier 2 payment equals the value that is obtained when actual production is subtracted from 25 percent of normal production. At a maximum the Tier 2 payment can only be collected on one quarter of normal production.

The following example illustrates how a Tier 2 payment is computed. A farmer, not in the corn program, experiences an 80 percent loss and produces 5,000 bushels on acres that normally yield 25,000 bushels of corn. This farmer will collect $1.59/bu. (90% of $1.77 loan rate) on 1,250 bushels ([.25 X 25,000 bu.] - 5,000 bu.). The Tier 2 payment on the losses in excess of 75 percent of normal production will be $1,987.50 ($1.59/bu. X 1,250 bu.).

Total Disaster Payment The Tier 1 payment applies to losses on production that represents 36 to 75 percent of normal production and the Tier 2 payment applies to losses that represent 76 to 100 percent of normal production. Farmers with losses of 75 percent or less will only be eligible to receive the Tier 1 payment, but farmers with losses in excess of 75 percent will be able to collect a Tier 2 payment as well as a Tier 1 payment.

To illustrate how total disaster payments are computed, the following example is offered. A farmer, who is a corn program participant, experiences an 80 percent loss on corn and harvests 5,000 bushels versus 25,000 bushels. This farmer receives a Tier 1 payment of $19,045.00 because the farmer is paid 65 percent of the $2.93 bu. target price on 10,000 bushels of corn (production that comprises 36 to 75 percent of normal production). This

farmer also receives a Tier 2 payment of $3,296.50 because 90 percent of the $2.93 bu. target price would be paid on 1,250 bushels (lost production representing 76-80 percent of normal production). The farmer's total disaster payment is $22,341.50 ($19,045.00 + $3,296.50).

Special Benefit for Crop Program Participants

Crop program participants will be eligible to receive disaster payments on losses in excess of 35 percent of normal production and they will also be eligible to retain advance deficiency payments on losses that are related to the production that represents the first 35 percent of their normal production (0-35 percent). At a maximum, a farmer will only be able to keep the advance deficiency on the first 35 percent of normal production because disaster payments can be collected on the other portion of normal production.

The following is an example of this provision that allows crop program participants to retain the advance deficiency payments on lost production. A farmer experiences a 20 percent loss on a corn crop that was enrolled in this year's program. The farmer's actual and normal production levels are 20,000 bushels and 25,000 bushels, respectively, and the total production loss is 5,000 bushels (25,000 bu.-20,000 bu.). This farmer will be allowed to retain the 44¢/bu. advance deficiency payment on the 5,000 bushels that were lost. This farmer therefore receives a benefit worth $2,200 (.44¢/bu. X 5,000 bu.).

Concessions Required of Farmers

Farmers who receive disaster payments will have to make two concessions. One of these concessions concerns advance deficiency payments. Farmers will have to return the advance deficiency payments on the bushels of production

that are in excess of 35 percent of production. In general this means farmers will have to return the advance deficiency payments on bushels that qualified for disaster payments. The second concession involves multi-peril crop insurance. Farmers receiving disaster payments will be required to purchase multi-peril crop insurance in 1989 if the farmer's losses are 65 percent or more of normal production. Farmers experiencing losses that are less than 65 percent of normal production will not be required to purchase multi-peril insurance in order to receive disaster payments.

Worksheets for Computing Disaster Payments

Farmers wanting to estimate the value of the disaster payments that they may be eligible to receive may benefit from some worksheets that are presented at the end of this paper. These worksheets summarize the calculations that need to be performed when one is estimating disaster payments. Worksheet 1 is used determine: 1) how much production is eligible for disaster payments; 2) how much production is eligible for a Tier 1 payment; and 3) how much production is eligible for a Tier 2 payment. Worksheet 2 is used to estimate the disaster payment that may be obtained on a lost crop. Worksheet 3 applies to program crops that were raised by program participants. This worksheet is used to determine the advance deficiency payment that program participants will have to return when disaster payments are received.

The example worksheets presented here pertain to a situation where a corn program participant experiences a 50 percent loss on a corn crop. This farmer normally produces 50,000 bushels of corn but only harvests 25,000 bushels. Using these production values and Worksheet 1 the farmer determines

that no bushels are eligible for Tier 2 payments (Line E) but 7,500 bushels are eligible for Tier 1 payments (Line G).

To compute the disaster payment on the lost corn, the farmer sets the compensation price equal to the $2.93/bu. target price for corn and then completes Worksheet 2. From this worksheet the farmer determined that a $14,250 disaster payment could be collected in corn.

The example farmer also completes Worksheet 3 because the farmer realizes that the 44¢/bu. advance deficiency payment has to be returned on each of the 7,500 bushels of corn that are eligible for disaster payments. Using Worksheet 3 the farmer determines that $3,300 of the total advance deficiency payment will have to be returned.

The worksheets presented here will hopefully make it easier for farmers and those who work with farmers to estimate disaster payments. These worksheets require some thought but they should be readily usable by those who want to estimate disaster payments.

Conclusion

This crop loss assistance program we have been considering is not going to prevent farmers from experiencing substantial declines in their incomes. Under this program farmers will be forced to bear most or all of the first 35 percent of their production losses because the program provides for little or no payments on losses at this level. This 35 percent "deductible" that has been incorporated into the disaster payment program is going to prevent farmers from recovering much of their crop losses. Therefore farmers should not be expecting this program to solve the income problem because this program is only going to provide modest compensation for crop losses.

Worksheet 1: Quantity Values Needed To Compute Disaster Payment

Normal Production	A)	50,000
65 % of Normal Production (.65 x A)	B)	32,500
Actual Production	C)	25,000
Total Production Eligible for Disaster Payments (B-C)* *[If negative value is obtained enter value of Zero (0)]	D)	7,500
40 Percent of Normal Production (.40 x A)	E)	20,000
Production Eligible for Tier 2 Payment (D-E)* *[If Negative Value is Obtained Enter Value of Zero (0)]	F)	0
Production Eligible For Tier 1 Payment (D-F)	G)	7,500

Worksheet 2: Disaster Payment on Crop

Compensation Price*	A)	2.93
Tier 1 Payment		
Compensation Rate (.65 x A)	B)	1.90
Production Eligible for Tier 1 Payment (G from Sch. 1)	C)	7,500
Tier 1 Payment (B x C)	D)	14,250
Tier 2 Payment		
Compensation Rate (.90 x A)	E)	2.64
Production Eligible for Tier 2 Payment (F from Sch. 1)	F)	0
Tier 2 Payment (E x F)	G)	0
Total Disaster Payment (D + G)	H)	14,250

* Compensation Price Should be:
   a) target price for program crop enrolled in program;
   b) loan rate for program crop not enrolled in program; or
   c) average market price for nonprogram crop.

Worksheet 3: Advance Deficiency Payment That Must Be Returned When Disaster Payments Are Received By Program Participants

Quantity of Production Upon Which Disaster Payments are Received (D From Sch. 1)	A)	7,500
Advance Deficiency Payment Per Unit of Production	B)	.44
Advance Deficiency Payment to be Returned (A x B)	C)	3,300