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BRIEFING

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Harvested Roughage and Rangeland Production Risk Management in Montana–Noninsured Crop Disaster Assistance Program

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Objective

Analysis

for Informed

Decision Making

Introduction:

Because of continuing drought in certain areas of Montana, farm and ranch managers are concerned about managing production risks associated with harvested roughage and rangeland.

Production risks for harvested roughage and rangeland production can be ameliorated to some degree by using multiple peril crop insurance products underwritten in part by the Federal Crop Insurance Corporation and managed by the USDA's Risk Management Agency (RMA). When such products are unavailable in a county, and RMA has a regular actuarial offering in other counties, producers may file a *Request for Actuarial Change* through their insurance agent that may result in a *Written Agreement*, an individualized crop insurance agreement for roughage for that year. Currently the RMA rangeland insurance product is a pilot program for which a *Request for Actuarial Change* is not allowed.

Another opportunity for producers to manage production risks for harvested roughage or rangeland production is to use the Noninsured Crop Disaster Assistance Program, commonly known as *NAP*. *NAP* coverage is generally only available to producers in counties where a crop insurance actuarial table for the subject crop does not exist. *NAP* is administered by the Farm Service Agency (FSA) to provide

financial assistance to farm and ranch managers who have crop production that has been impacted by a natural disaster.

NAP for Harvested Roughage:

NAP coverage is available for grains planted for the purpose of harvesting as hay (and not insured to be harvested as grain).

NAP is available for irrigated and non-irrigated grass hay.

New perennial forage seedings, either irrigated or non-irrigated, are not eligible for *NAP* coverage during the year of stand establishment.

Under *NAP* coverage, forage crops intended for harvest can be grazed. There are pull-off dates specified on which all grazing should cease in the spring on forage intended for mechanical harvest. Acreage grazed after the pull-off date will be eligible for *NAP* coverage. However, forage intended for mechanical harvest that is grazed after the pull-off date will be covered under the grazed forage provisions and loss will be determined on an animal unit day basis regardless if it is later mechanically harvested.

NAP coverage is available at the basic unit level by crop using RMA's definition of basic unit.

The fee structure for NAP coverage is \$100 per crop in a county payable to FSA not to exceed \$300 per producer.

In the case of loss due to a natural disaster, NAP covers the amount of loss in excess of 50 percent of a producer's expected production, based on the producer's approved yield and reported acres for the subject harvested roughage. The per unit of production payment rate is 55 percent of the average market price for the specific harvested roughage, as specified by the state FSA committee. The calculated NAP payment may be reduced by a payment factor reflecting decreases in production costs if the loss caused the crop to be left unharvested.

Consider oats planted for hay on irrigated cropland in Roosevelt County where production was reduced due to a shortage of irrigation water. Only 0.5 tons of oats per acre were harvested from a basic unit where the approved yield for NAP purposes was 2 tons per acre. For the 2003 crop year, the Montana FSA state committee specified an oat hay average market price of nearly \$70 per ton. The financial payment per acre for this loss would be calculated as:

$$[(1.5 \text{ ton/acre loss}) - (2 \text{ ton/acre} \times 0.5)] = (0.5 \text{ ton/acre}) \times (\$70/\text{ton} \times 0.55) = (0.5 \text{ ton/acre}) \times (\$38.50/\text{ton}) = \$19.25/\text{acre}.$$

NAP for Rangeland and other Grazing:

NAP coverage is available statewide for forage that is to be grazed including the 12 Montana counties where a group risk plan is offered by RMA as a pilot insurance program (Figure 1)*. NAP is available because the RMA pilot program uses a group product rather than an individual product.

For purposes of NAP coverage forage for grazing is categorized as grass and grass mixtures, perennials, and annually-planted forages. These three main categories are further stratified:

1. Grass and Grass Mixtures: *tame*, seeded less than 20 years ago; and *native*, never seeded or seeded over 20 years ago.
2. Perennials: includes legume and legume mixtures such as alfalfa, alfalfa mixtures, clover, etc.—other than grasses.
3. Annually-planted forages: includes but not limited to small grains.

Each pertinent type of forage for grazing in each county is assigned a normal carrying capacity. Normal carrying capacity is expressed in *animal unit days* per acre. An *animal*

unit is specified to have a daily net energy for maintenance requirement of 13.6 Mcal. (This is equivalent to the daily net energy required of an 1,100 beef cow in her sixth month of pregnancy. Or alternatively, an animal that would require 16 pounds of TDN per day.)

Consider as an example in Carter County for a FSA-specified 215 day grazing period starting May 1 and ending December 1. Carrying capacities for pertinent forage types are specified (Table 1).

Again, the payment is \$100 per crop not to exceed \$300 per producer in a county. The fee structure for grazing is determined by three fee groupings—two of which are pertinent to Montana:

1. Alfalfa, alfalfa mix, and all other grasses and legumes;
2. Seeded small grain forages; and
3. Sorghum forages

 * In these 12 counties producers may sign up for both insurance and NAP coverage. But producers can only return benefits from one of these USDA programs. There are no refunds of the NAP fees or insurance premiums.

Figure 1: Montana Counties with Rangeland Group Risk Plan Coverage, 2003

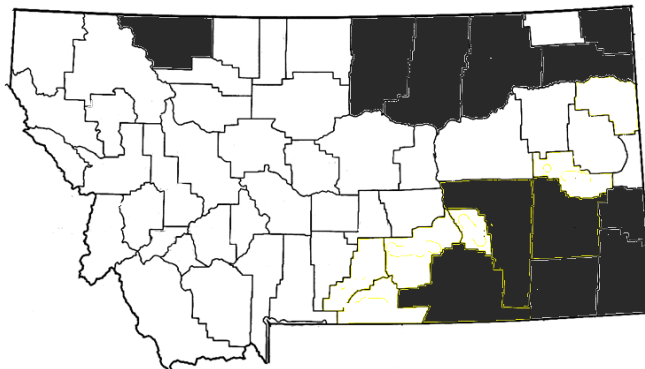


Table 1: Carrying Capacity, expressed as Acres/Animal Unit, by Type of Forage for Carter

County

Forage Type	Acres/Animal Unit
Grass, non-irr. native	20.30
Grass, irr. native	n/a
Tame, non-irr.	10.50
Perennial, non-irr. forage	6.30
Perennial, irr. forage	2.45
Annual, non-irr. forage	5.25
Annual, irr. forage	3.50

For your county, contact the FSA office for carrying capacity information.

Alfalfa, alfalfa mixtures, grasses and legumes collectively carry a \$100 fee.

For small grains planted for grazing, the NAP fees depend upon the grains planted. Wheat, barley, oats, triticale, and rye each carry a \$100 fee up to a maximum of \$300 for the producer in the county.

Sorghum forage carries a \$100 fee.

Consider an example ranch operation. The producer plants 200 acres of oats for grazing, wants to obtain NAP coverage on 640 acres of native grass, and has 160 acres in a mixture of clover and alfalfa that will be grazed. The producer would pay \$200 to cover all of this grazing under NAP.

In the case of a loss in grazing carrying capacity due to a natural disaster, the county FSA committee will require an independent assessment of the average loss in grazing. This assessment may be conducted by a range scientist independent of the producer and the FSA committee.

As with all other crops covered under NAP, only losses in excess of 50 percent of the normal carrying capacity will be financially compensated at 55 percent of the established payment rate. For the

2004 grazing year, the nationally-established payment rate is \$0.5374 per animal unit day.

Consider the NAP compensation for the example ranch operation where the producer suffered more than a 50 percent loss in normal carrying capacity on only the native grass. This Carter County operation has 640 acres of non-irrigated grass. Calculations for compensation are as follows:

Normal Production:
(640 acres/20.3 acres per animal unit) x 215 days = 6,788 animal unit days

Assessed Production Loss:
70%, or (6,788 animal unit days x 0.70) = 4,751 animal unit days

Compensation Production Loss:
[4,751 animal unit days) - (6,788 animal unit days x 0.50)] = 1,356 animal unit days

Compensation:
[(1,356 animal unit days) x (\$0.5374 per animal unit day) x 0.55)] = \$401 /640 acres = \$0.626/acre

2004 NAP Important Dates:

The application closing date for perennial forage crops for the 2004 crop year is December 1, 2003.

Producers interested in purchasing NAP coverage for grass, pastures, and mixed forage crops for which multiple peril crop insurance is not available in their county need to contact their FSA county office to complete the NAP coverage application and pay appropriate fees by December 1.

A Linkage Requirement:

Producers who received Crop Disaster Program payments for crop years 2001 or 2002 (and did not have crop insurance or NAP coverage) are expected under the

"linkage requirement" to have crop insurance or NAP for the next two crop years.

NAP Eligibility for AUM/AU Grazing Leases:

In Montana, there is a policy change related to NAP applicability for AUM/AU grazing leases for the 2004 crop year.

AUM or AU leases are defined as those leases where the operator only pays for grazing actually received each year. If the grazing is reduced, the producer either pays less, receives a refund, or receives a credit towards the next year's grazing.

The landowner of an AUM/AU lease will always be at risk because they have a direct loss of income due to the reduction in grazing AUMs. They also often pay for all or a portion of capital improvements such as water developments and fencing.

The operator of AUM/AU leases may also be determined to be at risk if they pay for range improvements such as water developments and fencing. Operators are also at risk when they perform maintenance on capital improvements.

For 2004 NAP applications for AUM/AU grazing leases will follow two specific policies, one for private leases and one for Federal AUM/AU grazing leases.

For private leases the following policy will prevail: If both the owner and operator are determined to be at risk on a lease, NAP eligibility will be determined based on shares agreed to by parties to the lease and deemed to be reasonable by the county FSA committee.

All parties determined to be at risk will need to purchase their own NAP grazing policies.

For Federal AUM/AU grazing leases

the following policy will prevail: The Montana state FSA committee has determined that both the operator and owner are at risk. Because such leases are quite standard, shares are determined to be 60 percent for the operator and 40 percent for the owner,

(the Forest Service or the Bureau of Land Management).

Operators will need to obtain NAP coverage treating the Federal land as a separate NAP unit. AUMs or AUs will have to be converted to acres

covered by the NAP policy.

As Federal agencies, the Forest Service and the Bureau of Land Management are ineligible for NAP coverage.



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