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Agricultural Disaster Assistance: Potential Impact on Kansas and Nebraska¹

Summary Points

- Agricultural disaster assistance legislation for certain crop and livestock losses in 2005 and 2006 is included in the Emergency Supplemental Appropriations Act legislation that was approved in the Senate and awaits action in Conference with the House of Representatives.
- The legislation includes several proposed disaster assistance programs, some of which are focused exclusively on areas facing agricultural losses due to hurricanes in 2005. However, a few of the provisions also extend to losses from other weather-related disasters or economic conditions that affect producers in many parts of the country, including Kansas and Nebraska.
- The impact of four of the proposed programs could be significant for Kansas and Nebraska producers, judging from a program-by-program analysis summarized below and contained in the report. In total, Kansas producers could expect to receive approximately \$199 million in payments from the four analyzed programs while Nebraska producers could expect to receive approximately \$177 million in payments from the same four programs.
- The Crop Disaster Program would provide assistance to crop producers for losses suffered on the 2005 crop. The program would cover quantity and quality losses below a 65-percent loss threshold at 50 percent of the relevant price for the crop. The analysis suggests Kansas producers would receive \$53 million in crop disaster payments while Nebraska producers would receive \$33 million.

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- The Livestock Compensation Program would provide direct payments to beef, dairy, sheep, and goat producers in qualifying counties at a rate equal to 75 percent of the rate used in the 2002 Livestock Compensation Program. Through the program, Kansas producers could expect about \$44 million in payments and Nebraska producers could expect about \$41 million in payments.
- The Ewe Lamb Replacement and Retention Program would target \$15 million to U.S. sheep producers through per head payments for ewe lambs purchased or retained in 2006. Based on the analysis, Kansas producers could receive \$121 thousand in payments while Nebraska producers could receive \$236 thousand in payments.
- The Supplemental Economic Loss Payments Program would provide additional payments to producers who received Direct Payments for the 2005 crop year. The payment rate would be 30 percent of the original Direct Payment formula. Based on program information, Kansas producers would receive \$102 million in supplemental payments and Nebraska producers would receive \$103 million in supplemental payments.

Disaster Assistance Legislation

Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006

The emergency supplemental appropriations legislation currently awaiting conference committee action includes several programs of agricultural disaster assistance that could benefit Kansas and Nebraska producers. A brief description of the agricultural disaster assistance language in the Senate version of the appropriations bill follows below:

The Crop Disaster Assistance section (Sec. 3011) would provide assistance to crop producers for quantity and/or quality losses on the 2005 crop due damaging weather or related conditions. Losses below a threshold level of 65 percent would be covered at a rate equal to 50 percent of the established price. The established price for insurable crops is the price established by USDA-RMA for crop insurance policies under APH coverage (formerly known as MPC coverage). The relevant price for non-insurable crops is established from market price information from USDA-NASS. Losses would be covered at the same rate regardless of whether insurance was purchased or was not purchased. However, recipients who did not purchase insurance on insurable crops or sign up for the non-insured assistance program on non-insurable crops would be required to purchase insurance or sign up for the non-insured assistance program for the next 2 crops. The combination of crop revenue, net crop insurance indemnities, and any disaster payments is also not capped as under recent disaster assistance programs. Additional crop disaster assistance may come in the provisions of the Sugarcane and Sugar Beet Disaster Assistance (Sec. 3014). The proposed legislation would appropriate \$40 million for sugar beet producers suffering production losses in quantity or quality. The assistance would work in the same manner as that earlier provided for the 2001 and 2002 sugar beet crop.

Livestock producers would also receive assistance under several programs (Sec. 3012), including a Livestock Compensation Program, livestock indemnity payments, and a Ewe Lamb Replacement and Retention Payment Program. The Livestock Compensation Program would provide fixed per head payments to producers of beef cattle, dairy cattle, sheep, and goats in qualifying counties. The rate would be 75 percent of the rate used in the 2002 Livestock Compensation Program. The Ewe Lamb Replacement and Retention Payment Program would make payments to producers of qualifying ewe lambs retained or purchased during the calendar year of 2006. A total of \$15 million would be authorized

for this program, so a per head rate is not specifically set. For reference, the payment rate used in the program when offered in 2004 was \$18 per head, subject to funding availability.

The legislation would also provide supplemental economic loss payments (Sec. 3022) based on 30 percent of the Direct Payment formula for producers participating in the Direct Payment and Countercyclical Payment Program for the 2005 crop year.

An economic analysis of the proposed crop disaster assistance (including the sugar beet assistance), the livestock compensation program, the ewe lamb replacement and retention program, and the supplemental economic loss payments follows below.

Crop Disaster Assistance

The proposed Crop Disaster Program would pay producer for losses on the 2005 crop below a 65-percent loss threshold at a rate equal to 50 percent of the established price. While an exact calculation of eligible losses on all acres is not possible, we can analyze indemnity payments on the 2005 crop under existing crop insurance programs from USDA's Risk Management Agency. By adjusting the crop insurance indemnity payments to the standard 65-percent loss threshold and then adjusting the payment rate to 50 percent, one can estimate what crop disaster payments would be per insured acre. Expanding the estimated crop disaster payment per acre to the total acres of each crop provides an estimate of total crop disaster payments by crop for each state. Table 1 summarizes these calculations for Kansas and Nebraska for selected crops for which insurance indemnity information is available.

This summary suggests that the proposed crop disaster assistance could amount to approximately \$53 million for Kansas crop producers and \$33 million for Nebraska crop producers. However, this number should be considered a partial estimate. Not all potential qualifying crops are included in the available statistics, thus a loss estimate could not be calculated. In particular, information on forage acres and forage losses is not available for Kansas and could add substantially to the total. Also, these statistics are calculated as potential payments available before any limitations.

There are certain limitations that could affect eligibility for the crop disaster assistance program. Assistance under the program is limited to individuals who had purchased crop insurance on insurable crops or filed paperwork and fees for the non-insured assistance program on non-insurable crops. Producers not meeting these qualifications can still receive the proposed disaster assistance if they enter a contract with USDA to purchase qualifying crop insurance coverage for the next two crops.

To be eligible for the assistance, individuals are also subject to the \$2.5 million adjusted gross income limitation as established in the Farm Security and Rural Investment Act of 2002. The limit requires an individual to have an average adjusted gross income of \$2.5 million or less unless at least 75 percent of the adjusted gross income is from agricultural activities. Also, the legislation calls for implementation of the proposed program in the same manner as the 2000 Crop Disaster Program. That program included a limit of \$80,000 in assistance per individual.

Table 1. Crop Insurance Indemnities and Estimated Crop Disaster Program Payments for Selected Crops.*

| Selected Crops | Insured Crop Acres <i>(with buy-up coverage)</i> | Crop Insurance Indemnities <i>(adjusted to 65% coverage)</i> | Crop Insurance Indemnities per Insured Crop Acre | Estimated Disaster Payments per Crop Acre | Total Planted Crop Acres | Estimated Total Crop Disaster Payments |
|-----------------------|--|--|---|--|---------------------------------|---|
| <u>Kansas</u> | | | | | | |
| Barley | 7,572 | \$ 131,861 | \$ 17.41 | \$ 8.71 | 19,000 | \$ 165,436 |
| Corn | 2,957,193 | 27,644,744 | 9.35 | 4.67 | 3,650,000 | 17,060,658 |
| Cotton | 48,564 | 896,834 | 18.47 | 9.23 | 74,000 | 683,281 |
| Dry Beans | 10,846 | 192,961 | 17.79 | 8.90 | 13,000 | 115,641 |
| Grain Sorghum | 1,990,448 | 8,624,491 | 4.33 | 2.17 | 2,690,000 | 5,827,804 |
| Oats | 11,243 | 20,243 | 1.80 | 0.90 | 100,000 | 90,025 |
| Silage Sorghum | 18,089 | 315,894 | 17.46 | 8.73 | 60,000 | 523,900 |
| Soybeans | 2,135,585 | 6,712,268 | 3.14 | 1.57 | 2,900,000 | 4,557,434 |
| Sunflowers | 214,102 | 1,289,420 | 6.02 | 3.01 | 300,000 | 903,368 |
| Wheat | 8,313,263 | 38,308,784 | 4.61 | 2.30 | 10,000,000 | 23,040,763 |
| Selected Total | 15,706,905 | \$ 84,137,500 | \$ 5.36 | \$ 2.68 | 19,806,000 | \$ 52,968,310 |
| <u>Nebraska</u> | | | | | | |
| Corn | 7,332,425 | \$ 29,892,790 | \$ 4.08 | \$ 2.04 | 8,500,000 | \$ 17,326,377 |
| Dry Beans | 168,399 | 2,575,806 | 15.30 | 7.65 | 175,000 | 1,338,387 |
| Forage Production | 73,217 | 112,654 | 1.54 | 0.77 | 2,870,000 | 2,207,937 |
| Grain Sorghum | 201,406 | 521,835 | 2.59 | 1.30 | 340,000 | 440,463 |
| Millet | 108,854 | 310,787 | 2.86 | 1.43 | 135,000 | 192,718 |
| Oats | 21,811 | 42,946 | 1.97 | 0.98 | 150,000 | 147,675 |
| Potatoes | 10,862 | 49,460 | 4.55 | 2.28 | 19,500 | 44,397 |
| Soybeans | 4,051,281 | 5,417,039 | 1.34 | 0.67 | 4,700,000 | 3,142,226 |
| Sugar Beets | 45,846 | 1,276,166 | 27.84 | 13.92 | 48,400 | 673,629 |
| Sunflowers | 78,474 | 516,817 | 6.59 | 3.29 | 99,000 | 325,999 |
| Wheat | 1,550,848 | 11,188,372 | 7.21 | 3.61 | 1,850,000 | 6,673,281 |
| Selected Total | 13,643,423 | \$ 51,904,672 | \$ 3.80 | \$ 1.90 | 18,886,900 | \$ 32,513,089 |

* Crop insurance acreage and indemnity information from USDA-RMA, crop acres from USDA-NASS.

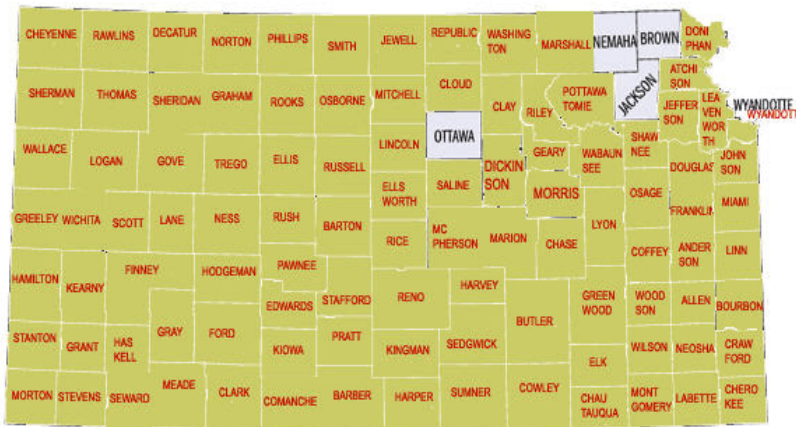
Livestock Compensation Program

The proposed Livestock Compensation Program would provide producers assistance through a direct, fixed payment per head of qualifying beef cattle, dairy cattle, sheep, and goats. The legislation calls for USDA to utilize the 2002 Livestock Compensation Program mechanics to provide compensation for qualifying losses during the 2005-2006 period. The proposed legislation does make a major change in the program by modifying the eligibility guidelines such that all counties declared a disaster county by Presidential designation or Secretary of Agriculture designation and all contiguous counties would be eligible for the program. In 2002, only primary disaster counties were eligible.

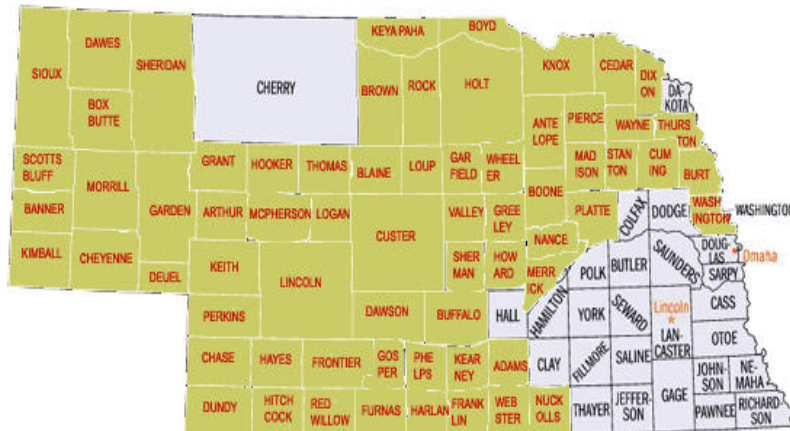
The following maps highlight current counties in Kansas and Nebraska that meet the primary or contiguous county guidelines at present. Only a small number of counties in either state (4 in Kansas, 26 in Nebraska) are currently ineligible, although some counties could yet be added if subsequent disasters or disaster designations occur that meet the definition of losses during 2006. By contrast, all counties in both states were eligible for the 2002 Livestock Compensation Program based on the primary disaster designation that existed for all counties in both states at the time.

Estimating potential benefits under the proposed Livestock Compensation Program requires several calculations and estimates. While statistics on payments under the 2002 program are available, several factors would change for the program covering the 2005-2006 period. First, the payment rates would change under the proposed legislation to 75 percent of the rate used in the 2002 Livestock Compensation Program. Thus, the rate for adult beef cattle would change from \$18 per head to \$13.50 per head and for qualifying heifers, steers, and bulls, from \$13.50 per head to \$10.13 per head. For dairy cattle, the rate would change from \$31.50 per head to \$23.63 per head. For all sheep and goats, the rate would change from \$4.50 per head to \$3.38 per head.

Kansas Eligible Disaster Counties as of May 15, 2006



Nebraska Eligible Disaster Counties as of May 15, 2006



Second, exact information on livestock inventories that would be eligible for the program is not readily available. Limited data exists on historical livestock inventories by county and current livestock numbers by state, but current numbers in eligible counties are unavailable. In addition, certain livestock are eligible depending on where the base of the operation is, not on where the livestock are physically located. Certain livestock are ineligible for compensation, including cattle owned by packers or commercial feedlot operations. Certain individuals are also ineligible, based on payment eligibility guidelines. The 2002 program included a \$40,000 individual payment limit and an eligibility limit of \$2.5 million of gross

revenue. Any individual with more than \$2.5 million in gross revenue would be ineligible for assistance. It is important to note that this is substantially different than the crop disaster assistance, which based eligibility on \$2.5 million of adjusted gross income. The \$2.5 million gross revenue cap is more constraining and could limit the number of livestock producers actually eligible for assistance.

A straight-forward analysis of 2002 livestock inventories and program payments and 2006 livestock inventories offers the best method to estimate potential Livestock Compensation Program payments under the proposed legislation. Table 2 summarizes the relevant inventory data from January 1 of 2002 and 2006, the actual payments from 2002, and the estimated payments for 2005-2006.

Table 2. Livestock Inventories and Livestock Compensation Program Information from 2002 and Estimates for 2005-2006.*

| Category | 2002 | 2005-2006 |
|---|---------------|---------------------|
| Kansas | | |
| All Cattle (head) | 6,600,000 | 6,650,000 |
| Beef Cattle (head) | 1,504,000 | 1,560,000 |
| Dairy Cattle (head) | 96,000 | 110,000 |
| All Sheep (head) | 100,000 | 95,000 |
| All Goats (head) | 25,000 (est.) | 26,410 |
| Share of Inventory Eligible (share of cattle inventory in eligible counties) | 100% | 96.7% (est.) |
| LCP Payments (dollars) | \$58,130,193 | \$43,761,347 (est.) |
| Nebraska | | |
| All Cattle (head) | 6,400,000 | 6,550,000 |
| Beef Cattle (head) | 1,932,000 | 1,930,000 |
| Dairy Cattle (head) | 68,000 | 60,000 |
| All Sheep (head) | 101,000 | 106,000 |
| All Goats (head) | 15,000 (est.) | 17,750 |
| Share of Inventory Eligible (share of cattle inventory in eligible counties) | 100% | 81.1% (est.) |
| LCP Payments (dollars) | \$66,146,677 | \$41,326,001 (est.) |
| * Livestock inventory numbers from USDA-NASS, Livestock Compensation Program payment information from USDA-FSA. | | |

The data suggest total Livestock Compensation Program payments would be approximately \$43 million in Kansas and \$41 million in Nebraska. The larger reduction in estimated payments relative to the 2002 program for Nebraska is primarily due to the reduced number of counties that are currently eligible. Only 67 of 93 counties in Nebraska currently meet the eligibility guidelines. Those 67 counties have approximately 81 percent of the livestock, leaving about 19 percent of total livestock inventory ineligible for assistance. In Kansas, only 4 of 105 counties do not meet the current guidelines, thus only about 3 percent of livestock inventories would be ineligible.

Ewe Lamb Replacement and Retention Program

The proposed Ewe Lamb Replacement and Retention Program would appropriate \$15 million to make payments to producers for each qualifying ewe lamb retained or purchased during the 2006 calendar year. The program would be carried out under the guidelines of the 2004 program, which made payments to producers of \$18 per head, subject to funding availability. While the proposed qualifying period is still open, we can analyze the potential payments based on January 1, 2005 inventory numbers and 2005

reported replacements and make adjustments for 2006 based on January 1, 2006 numbers. The relevant data follows below in Table 3.

Table 3. Sheep and Lamb Inventories and Estimated Ewe Lamb Replacement and Retention Program Payments.*

| Category | 2005 | 2006 |
|---|---------|-------------------|
| <u>Kansas</u> | | |
| All Sheep and Lambs, January 1 (head) | 106,000 | 95,000 |
| Replacement Lambs (head) | 7,500 | 6,722 (est.) |
| Estimated Program Payment Rate (per head) | | \$ 18 (est.) |
| Estimated Program Payments (dollars) | | \$ 121,000 (est.) |
| <u>Nebraska</u> | | |
| All Sheep and Lambs, January 1 (head) | 97,000 | 106,000 |
| Replacement Lambs (head) | 12,000 | 13,113 (est.) |
| Estimated Program Payment Rate (per head) | | \$ 18 (est.) |
| Estimated Program Payments (dollars) | | \$ 236,000 (est.) |

* Sheep and lamb inventory and replacement numbers from USDA-NASS.

While it is a small program relative to the proposed Crop Disaster Program and the proposed Livestock Compensation Program, the ewe lamb program would provide estimated benefits of \$121 thousand to Kansas producers and \$236 thousand to Nebraska producers.

Supplemental Economic Loss Payments

The proposed Supplemental Economic Loss Payments would be paid to producers who receive Direct Payments for the 2005 crop year under the commodity program provisions of the Farm Security and Rural Investment Act of 2005. The proposed legislation would calculate payments based on 30 percent of the formula for direct payments. Thus, the proposed supplemental payments would equal the Direct and Counter-cyclical program crop acreage base multiplied by the Direct Payment program crop yield multiplied by the Direct Payment rate multiplied by 85 percent multiplied by 30 percent.

Of note, the direct payments are limited to \$40,000 per individual. Since the supplemental payments are calculated based on 30 percent of the formula and not 30 percent of the actual payment, the supplemental payments are not actually limited to \$12,000 (30 percent of \$40,000). However, the number of individuals for which the supplemental payment would actually exceed \$12,000 would be the same as the number of producers for which the \$40,000 limit is constraining. Some calculations from previous years suggest the number so affected would be small, generally less than 5 percent of producers.

Based on Direct and Counter-cyclical Program enrollment information from the original program sign-up under the 2002 Act, we can calculate the estimated direct payments and thus the estimated supplemental economic loss payments for both Kansas and Nebraska. There could be minor shifts in enrolled acreage over time that would affect the total payments, but the original enrollment numbers provide a solid estimate. The calculations are shown in Table 4.

Table 4. Direct and Counter-cyclical Program Information and Estimated Supplemental Economic Loss Payments.*

| Program Crop | Direct and Counter-cyclical Payment Program Base Acres | Direct Payment Program Yield Per Acre | Direct Payment Rate | Estimated Direct Payments | Estimated Supplemental Payments |
|-----------------|--|---------------------------------------|---------------------|---------------------------|---------------------------------|
| <u>Kansas</u> | | | | | |
| Wheat | 12,283,438.6 | 34.1 bu | \$0.52/bu | \$ 185,138,443 | \$ 55,541,533 |
| Cotton | 20,239.8 | 362.1 lb | 0.0667/lb | 415,508 | 124,652 |
| Corn | 2,796,755.6 | 102 bu | 0.28/bu | 67,894,039 | 20,368,212 |
| Sorghum | 4,324,684 | 54.5 bu | 0.35/bu | 70,119,345 | 21,035,804 |
| Barley | 166,298.9 | 37.3 bu | 0.24/bu | 1,265,402 | 379,620 |
| Oats | 100,259.6 | 40.6 bu | 0.024/bu | 83,039 | 24,912 |
| Soybeans | 1,669,370 | 22.1 bu | 0.44/bu | 13,798,011 | 4,139,403 |
| Sunflowers | 111,442.9 | 1024.5 lb | 0.0080/lb | 776,378 | 232,913 |
| Canola | 129.1 | 719.8 lb | 0.0080/lb | 632 | 190 |
| Mustard | 19.1 | 140 lb | 0.0080/lb | 18 | 5 |
| Sesame | 151 | 147 lb | 0.0080/lb | 151 | 45 |
| Peanuts | 64 | 778 lb | 36.00/ton | 762 | 229 |
| Total | 21,472,852.6 | | | \$ 339,491,728 | \$ 101,847,518 |
| <u>Nebraska</u> | | | | | |
| Wheat | 2,501,725.6 | 36.3 bu | \$0.52/bu | \$ 40,139,187 | \$ 12,041,756 |
| Cotton | 8.2 | 113 lb | 0.0667/lb | 53 | 16 |
| Corn | 9,539,286.3 | 105.8 bu | 0.28/bu | 240,203,045 | 72,060,913 |
| Sorghum | 1,420,247 | 71.9 bu | 0.35/bu | 30,379,439 | 9,113,832 |
| Barley | 75,404.3 | 39.5 bu | 0.24/bu | 607,608 | 182,282 |
| Oats | 145,139.6 | 43.9 bu | 0.024/bu | 129,981 | 38,994 |
| Soybeans | 2,628,840.9 | 32.9 bu | 0.44/bu | 32,346,836 | 9,704,051 |
| Sunflowers | 41,327.9 | 762.5 lb | 0.0080/lb | 214,285 | 64,286 |
| Canola | 2.1 | 788 lb | 0.0080/lb | 11 | 3 |
| Safflowers | 14.8 | 488 lb | 0.0080/lb | 49 | 15 |
| Flaxseed | 65.3 | 10 lb | 0.0080/lb | 4 | 1 |
| Total | 16,352,062 | | | \$ 344,020,497 | \$ 103,206,149 |

* Direct and Counter-Cyclical Program information from USDA-FSA.

Based on the available enrollment information and the proposed payment rates, the supplemental economic loss payments would be approximately \$102 million to Kansas producers and \$103 million to Nebraska producers. While not explicitly included in the legislation, producers receiving benefits through this program would also be subject to the \$2.5 million adjusted gross income. Eligibility for these payments would be contingent on receiving 2005-crop Direct Payments. Since the \$2.5 adjusted gross income cap applies for that program, it effectively applies to this proposed program as well.