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New Permanent Disaster Assistance: How It Works and When to Expect Payments

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The issue of disaster assistance for agriculture has been debated on and off for many years. In most years in the past decade, Congress provided ad hoc disaster assistance for various agricultural disasters across the country. The most recent packages have had a difficult time getting through Congress, as the president insisted on budget offsets to pay for them. A few key members of Congress pushed hard and were successful in including a permanent disaster program in the 2008 farm bill. The newly enacted legislation issues a fleet of disaster assistance programs for specialty crop, livestock, honeybee, and farm-raised fish and program crop disasters. The largest title covers program crops and is called the Supplemental Revenue Assistance Program (SURE).

SURE is a new type of disaster program. Most of the past disaster programs made payments based on individual crop losses and were often tied to base acres for either direct payments or countercyclical payments. SURE is a whole-farm disaster assistance program that is tied to crop insurance coverage and farm planted acreage. SURE will cover the 2008–11 crop years, so the recent Midwest flood damage will likely trigger payments under SURE. While the USDA is still developing the rules and regulations for SURE, the farm bill outlined the program guarantees and payment triggers. A review of these guarantees and triggers in general and an example to flesh out the details are offered next.

For the 2008 crop year, there is a special provision for SURE. For all other crop years (2009–11), producers will need to purchase crop insurance in order to sign up for SURE. But because the farm bill was passed after the sign-up for crop insurance in 2008, Congress has waived the requirement for this year. Instead, producers who want to participate in SURE in 2008 but who have not purchased crop insurance can sign up if they pay a fee equivalent to the fee for catastrophic (CAT) crop insurance coverage by August 22, 2008. SURE will then function for these producers as though they had purchased CAT crop insurance.

In general, SURE payments can be triggered by two events. First, if a county is covered by a federal disaster declaration or the county is contiguous to a county with such a declaration, then SURE benefits will be available. Second, if a farm suffers a 50 percent revenue loss, regardless of the disaster status of the county, then the farm qualifies for SURE payments. So SURE can be triggered by county-level and/or farm-level disasters.

The three main variables that determine SURE guarantees and payments are the program guarantee, computed actual revenue, and expected revenue. The farm-specific program guarantee is determined by a complicated formula. First, because SURE provides whole-farm coverage, each crop’s contribution to the whole-farm guarantee must be calculated using the following formulas:

For insurable crops: 115 percent × crop insurance coverage level × crop insurance price election × maximum (actual production history [APH] yield or countercyclical program [CCP] yield for the farm) × planted area

For non-insurable crops: 120 percent × the Non-insurable Crop Assistance Program (NCAP) revenue guarantee for the crop × planted area

These crop-specific guarantees are summed across all crops to compute the farm-specific SURE program guarantee. Note that this is a total-farm guarantee, not a per acre guarantee.

The next step is to calculate farm-specific SURE expected revenue. This is accomplished in a similar manner beginning with each crop’s contribution.

Insured crops: crop insurance price election × maximum (APH yield or CCP yield for the farm) × planted area

Non-insurable crops: NCAP price guarantee for the crop × NCAP yield guarantee for the crop × planted area

The SURE expected revenue is found by summing each crop’s contribution across all crops. The maximum SURE payment equals
90 percent of the resulting whole-bushel for soybeans. The APH prices in 2008 are $4.75/bushel for corn and $11.50/bushel for soybeans. The APH yield is used in all of the formulas, the farm’s APH yield is equal to the minimum of:

- 60 percent of the difference between the program guarantee and the computed actual revenue, or
- 90 percent of the expected revenue.

All of these calculations are a lot to digest. An example will help illustrate how these formulas work. Consider a 200-acre farm with 100 acres planted to corn and 100 acres planted to soybeans. The farm has 100 corn base acres and 100 soybean base acres with payment yields equal to the state average payment yield. Suppose this farmer has purchased 75 percent APH insurance (yield insurance) for both crops and has APH yields equal to the trend yields for Iowa (170 bushels/acre for corn and 50 bushels/acre for soybeans). With these settings, the farm’s APH yield is higher than its CCP yield, so the APH yield is used in all of the formulas. The APH prices in 2008 are $4.75/bushel for corn and $11.50/bushel for soybeans.

The farm’s SURE program guarantee is $119,240.63. The separate corn and soybean contributions are calculated as follows:

**Corn:** 115 percent × 75 percent × $4.75/bushel × 170 bushels/acre × 100 acres = $69,646.88

**Soybeans:** 115 percent × 75 percent × $11.50/bushel × 50 bushels/acre × 100 acres = $49,593.75

The farm’s SURE expected revenue is $138,250.00, which is calculated as the sum of the following crop-specific calculations:

**Corn:** $4.75/bushel × 170 bushels/acre × 100 acres = $80,750.00

**Soybeans:** $11.50/bushel × 50 bushels/acre × 100 acres = $57,500.00

Based on this information, the farm’s computed actual revenue will need to be below $119,240.63 in order to qualify for SURE payments and the maximum SURE payment the farmer could receive is $124,425.00, which is 90 percent of the farm’s SURE expected revenue. To compute the farm’s actual revenue, additional information is needed. At harvest time, suppose that the farmer is able to harvest all 200 acres, but yields are poor because of overly wet conditions throughout the growing season. The farmer gets 90 bushels/acre for corn and 25 bushels/acre for soybeans. The farmer’s county had flooding and received a federal disaster declaration, so the farmer is eligible for SURE benefits. Assume that the final season-average prices for corn and soybeans are $5.80/bushel and $11.75/bushel, respectively. So CCP, ACRE, and marketing loan payments are zero. The farm did not receive any other disaster assistance payments. Based on this information, the farm’s SURE actual revenue can be calculated. The first part is market revenue, which is $14,375.00. Adding up market revenue, 15 percent of direct payments, and crop insurance indemnities, the farm’s SURE actual revenue is $114,377.25.

Since the county was declared a federal disaster area, all farmers in the county are eligible for SURE payments. The example farm’s actual revenue is below the program guarantee, so this farmer will receive a SURE payment. In this case, the payment is $2,918.02, which is 60 percent of the difference between the SURE program guarantee ($119,240.63) and the farm’s SURE actual revenue ($114,377.25). SURE payments are affected by many factors: the choice of crop insurance settings, farm yields, national season-average prices, and farm program and other disaster assistance payments. If, in the example, the corn season-average price were $6.50/bushel, holding everything else the same, then the example farm would not receive a SURE payment because actual revenues exceed the SURE program guarantee.

The description and example outline the basics of the SURE disaster assistance program. SURE can provide support when a farm suffers a whole-farm revenue shortfall. One of the complicating factors is that SURE depends on the national
2009 and for two different state average yields. The 2008 season average price used to set the ACRE guarantee is $5.80/bu, which is the mid-point of the range of corn prices projected by the USDA in the middle of June. As stated earlier, the only situation that favors current commodity programs is that in which ACRE payments are zero. Because ACRE is similar to revenue insurance, the price at which ACRE payments begin to be made depends on the state yield. When the state yield is 180, ACRE payments begin when the price falls below $4.40. When the state yield is 140, ACRE payments begin when the price falls below $5.60.

The second point illustrated by this graph is that ACRE will generate more payments than current commodity programs even at corn prices that trigger countercyclical and loan deficiency payments. ACRE payments will be double the level of traditional programs even if the season average corn price falls to $2.00 per bushel.

The important trade-off to consider when choosing between ACRE and traditional commodity programs is the distinction between the reduction in payments that occurs under ACRE given high prices versus the large potential ACRE payments should prices drop. For corn farmers who believe that ACRE payments will be zero because corn prices are going to remain above $6.00 for the life of the farm legislation and state yields will always be at or above trend levels, it would be better to choose the current programs to avoid a 20 percent cut in direct payments. But for farmers who believe that there is a chance that price or yield will drop unexpectedly, the large payments under ACRE (up to a maximum of $216.90/acre, which includes direct payments) will make the new program the preferred option.

The pattern of payments shown in the graph for Iowa corn is nearly identical to the situation for corn in other states and for wheat and soybeans in all states. This suggests that a large proportion of U.S. farmers will find ACRE much more attractive than current commodity programs.

Authors’ note: This information about ACRE is as accurate as possible at this time. However, significant changes to the program could come about as the USDA implements ACRE.

This article is taken from a document meant to accompany the spreadsheet calculator (available at www.card.iastate.edu/ag_risk_tools/) that CARD researchers put together to enable farmers to determine if ACRE makes sense for them.

**SURE is available for the 2008 crops and could provide support based on the recent flooding, the SURE payments will not reach producers until late in 2009, nearly a year and a half after the disaster.**

One final note: another article (page 4) examines the new ACRE program. If crop losses in a state are widespread enough to trigger ACRE payments, then it will be ACRE that compensates farmers for crop losses, not SURE. Furthermore, farmers who suffer farm-level losses in a year that triggers ACRE payments will receive double indemnities because crop insurance indemnities are not subtracted from ACRE payments as they are in SURE. Because most crop losses in Corn Belt states are triggered by widespread drought or excess rainfall, most farmers will find that ACRE will provide more assistance when disaster strikes than the new disaster assistance program.