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MINNESOTA

STATE GOVERNMENT

ISSUES

FEDERAL AGRICULTURAL DISASTER PROGRAM

EXECUTIVE SUMMARY

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Executive Branch Policy Development Program
1984-1985

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STATE GOVERNMENT
ISSUES**

**FEDERAL AGRICULTURAL DISASTER PROGRAM
EXECUTIVE SUMMARY**

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1984-1985**

FEDERAL AGRICULTURE DISASTER PROGRAMS

EXECUTIVE SUMMARY

ISSUE TITLE: Federal Agricultural
Disaster Programs

SUBCABINET: Energy/Environment/Resources

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INTRODUCTION

This study of federal agricultural disaster programs was initiated primarily at the request of producers and elected officials in Northwest Minnesota. Several consecutive years of natural disasters and a depressed farm economy have placed agricultural disaster programs--particularly FmHA's emergency (EM) loan program--under intense pressure to meet producer needs. In Northwest Minnesota, producers found that recent changes in federal policies had combined to eliminate sizeable numbers of producers from eligibility for disaster assistance, and reduced the effectiveness of those same programs. Delays in application processing and uncertainties about obtaining loans led to public discussions which resulted in the issue becoming part of Governor Perpich's policy development process. In summary, four factors combined to highlight the EM program in Northwest Minnesota and led to this study: (1) the general farm economy which has resulted in more producers seeking FmHA loans of all kinds thereby increasing the work load of local officials; (2) the county designation policy which increases the length of the application period and discriminates against producers in non-designated counties; (3) the impact of the 5-year average used to establish a producer's crop base in determining eligibility; and (4) the increase in production loss criteria that determines EM loan eligibility from 20 to 30 percent.

The analysis focuses almost entirely on FmHA's emergency (EM) loan program, since it is the most active federal agricultural disaster program in Minnesota. Also, some attention is given to the Federal Crop Insurance Corporation's (FCIC) program, as there is a need for a better awareness given the current Administration's goal to eventually replace all federal agricultural disaster programs with FCIC. Therefore, while the following study does not address all federal agricultural disaster programs, it does contain an analysis of the two major programs that affect Minnesota producers.

The findings, conclusions and recommendations represent those of the Minnesota Department of Agriculture. A Federal Agricultural Disaster Program Task Force was established to assist the Department. It was consulted for input and review of technical information and initial drafts of the report. The final report, however, represents a synthesis of information from a variety of sources and conclusions drawn by the Department.

SUMMARY OF MAJOR ISSUES

There are two broad issues that have been raised throughout this analysis. The primary issue deals with the adequacy and effectiveness of the current

FmHA EM loan program to meet the needs of disaster victims in northwest Minnesota. The second broad issue examines federal crop insurance (FCIC) as a replacement for ASCS disaster payments as well as the future sole federal agriculture disaster program. Within each of these broad areas are a multiple of "sub" issues. These are outlined below:

- * Agricultural economic conditions and consecutive years of disaster resulted in a great need for federal agricultural disaster programs in Northwest Minnesota. Producers found the EM loan program to be restrictive and discriminatory due to FmHA policies that have a questionable legal basis and may be inconsistent with state and federal farm policies.
- * Recent Congressional and FmHA administrative changes have produced restrictive and confusing disaster program policies. The current county disaster designation policy and procedures make eligibility for an EM loan highly arbitrary, as this policy assumes storm paths follow county lines. Of particular severity is the combined administrative requirement of a 30% county-wide production loss and the legislative criteria requiring an individual 30% production loss.
- * Results of surveys conducted by the Department verify anecdotal information that the EM program is confusing and misunderstood. Many producers do not have appropriate information about what to do if they need to seek financial assistance due to a natural disaster. The USDA county emergency board members agreed that recent federal program changes have restricted producer eligibility and have reduced the effectiveness of these programs.
- * The authority to make EM loans available was transferred to the Secretary of Agriculture from the FmHA State Director in 1982. This centralization of authority has taken away the timeliness offered by the State Director's proximity to the disaster and has produced confusing procedures, such as the county designation process.
- * The timeliness of EM loans has become a serious matter for producers. FmHA administrative changes cumulatively leave a sizeable portion of Minnesota producers in "limbo" - not knowing if or when their loan will be approved. This has a ripple effect upon all farming communities as well.
- * FmHA administrative policy uses a 5-year production average to establish a crop base from which EM loan eligibility is calculated. The inclusion of disaster year yields dilutes the base yield in the case of consecutive years of disasters. Producers, therefore, are not able to prove eligibility.
- * Federal crop insurance is the only complete protection available to producers. Current policy goals call for all federal agricultural disaster programs to be replaced by FCIC. However, farmers' perceptions and criticisms of this program have deterred its success in replacing the ASCS program. As a result, there is 14% participation among Minnesota producers and 15% participation nationally.

- * FCIC's low participation is due to adverse selection where higher risk producers make up the majority of participation in the program, and thus drive up premiums. Participation by lower risk producers is necessary to help balance FCIC's risk and to lower premiums; however, until premiums are lowered, low risk producers are not inclined to participate.
- * The effectiveness of federal agricultural disaster programs has been questioned previously at times when natural disasters have affected large areas, such as Northwest Minnesota. The repetitiveness of these allegations raises doubts that any effective action has taken place as a result of these studies.

MAJOR FINDINGS AND CONCLUSIONS

- * In each instance where previously addressed, these programs were said to lack the flexibility to adequately address the unpredictable problems caused by natural disasters.
- * Current agricultural economic conditions place greater dependence on all federal financial assistance programs, putting pressure on agricultural disaster programs.
 - Minnesota's FmHA director recently estimated that if the current economic conditions continue, FmHA will increase their lending from 12% to 20% of Minnesota's producers.
 - Less credit is available through traditional lenders, largely due to the devaluation of land and machinery.
 - There is an additional volume of emergency loan applications associated with a natural disaster.
- * Recent Congressional and FmHA administrative changes have restricted eligibility for disaster assistance. Major legislative and administrative changes since 1980 are identified as follows:
 1. The 1980 Federal Crop Insurance Act phased out the ASCS disaster payment program and replaced it with an expanded FCIC program.
 - The transition to federal crop insurance has left many producers without disaster protection. Minnesota's state-wide participation rate is 14%. The producer survey indicated this program does not have the incentives needed to attract greater participation.
 - The majority (66%) of the producers polled have looked into federal crop insurance. Fifty-three percent (of 66%) chose not to buy it.
 2. In 1981, Congress increased the qualifying production loss from 20% to 30% for individual producers to be considered eligible for EM loan assistance. This change made fewer producers in Northwest Minnesota eligible for EM loans, and those

experiencing consecutive years of disaster became ineligible sooner (due to the 5-year average calculation).

- 1983 Disaster Assistance Reports show that in a 10-county area of Northwest Minnesota 618 producers, or 11% of all producers with losses, experienced losses of 20-29% and were excluded from EM loan eligibility.
 - A survey of county emergency board members showed that 63% thought the 1981 qualifying production loss change from 20% to 30% had a significant impact on the number of producers eligible for federal assistance.
 - A survey of producers in nine disaster designated counties (1983) showed that of those EM loan applicants found ineligible, 62% had a 20-29% production loss.
 - A hypothetical case study shows that given the current 30% loss criteria, a producer with three consecutive years of 50% production losses becomes ineligible in the third year. Under the 20% loss criteria, the producer would become ineligible in the fourth disaster year.
3. A 1982 administrative change was made whereby FmHA required proof of a 30% county-wide production loss and added the county designation process. This regulation had substantial effects upon application timetables and the number of producers eligible for loans.
- Individuals and/or small groups of "substantially affected" producers are not eligible for EM loans, except when a lengthy reconsideration process by the Secretary of Agriculture is pursued.
 - As reported by the survey, eighty percent (80%) of the responding county emergency board members agreed the current county designation process discriminates against producers who are not located in designated or contiguous counties.
 - 1983 Damage Assessment Reports show that 266 producers over 3 Northwest Minnesota counties had qualifying losses. These producers did not become eligible for EM loans until the 1984 contiguous county legislation was passed.
 - Mahnomen county, a non-designated county in 1983, had 160 producers with qualifying losses. Three designated counties (Beltrami, Clearwater, and Polk) had fewer qualifying producers. This raises doubts about the accuracy and fairness of disaster assessment procedures.

* A serious question has been brought to the attention of both the U.S. Federal District Court and the GAO about whether the original intent

of Congress is represented in the current FmHA administrative policy requiring a county designation.

- In 1978, Congress amended 7 U.S.C. § 1961 by deleting an area designation requirement for disaster victims.
 - An opinion issued by the U.S. Comptroller General held that FmHA's county designation requirement was contrary to the legislative history and purpose of the program. An unreported Federal District Court decision on July 15, 1983, concurred with the Comptroller General's opinion.
 - The 1984 amendments to 7 U.S.C. § 1961 allow aid to disaster victims in EM designated counties and counties that are contiguous to these. This amendment seems to give legislative support for an FmHA policy that had been declared illegal and violative of procedural due process by both a Federal District Court and the GAO.
- * A major focus of this study was to ascertain if producer information and understanding about the EM program was adequate. Survey research supported anecdotal information that producers and local administrators alike misunderstand these complex procedures. Two surveys - one of producers and one of CEB members - found the following:
- A potential gap in the reporting of information to initiate the county designation process was identified. County emergency board (CEB) members usually receive information needed to initiate designation proceedings through direct requests from producers. While 87% of the CEB members receive their information in this manner, 59% of the producers are not aware this contact is necessary.
 - Producers were asked in the survey if they knew the most appropriate action to take if they experience a natural disaster. Forty one percent (41%) responded correctly and 59% did not know what to do. The result is surprising because seven of the nine counties polled have been hit by several years of natural disasters.
 - Almost half (48%) of all responding producers said they were not made aware of the federal assistance available due to a county disaster designation.
- * The centralization of the authority to designate counties has further complicated and delayed the county designation process. A flow chart was constructed to illustrate the complexity of this communication process. (See Appendix F).
- Only 7% of the county emergency board (CEB) members polled thought the Secretary of Agriculture is in the best position to make county designations.

- Some 73% of the CEB respondents agreed that the 1981 FmHA regulation change which centralized the authority to designate a county actually made the county designation process less efficient.
 - Of the CEB respondents, 96% felt the county designation process could be modified. Fifty-three percent (53%) agreed this practice is a practical administrative practice. However, the data indicates strong support for decentralization of authority to the state level and flexibility regarding the geographic basis of designations.
 - Polk County's 1982 designation request was lost in this process.
- * FmHA policy to determine EM loan eligibility is to establish a crop base, which is an average of the 5 years immediately preceding the disaster year. This policy works against producers who have experienced several consecutive disasters. (See Appendix B)
- Hypothetical case studies show that a producer with several consecutive years of a 50% production loss would become ineligible for an EM loan in the third year.
 - A producer could experience an annual 15% production loss in five consecutive years. This analysis shows that the producer could experience a 39% production loss over a three-year period, but not qualify for an EM loan.
- * When natural disasters occur, the extra volume of work leads to loan backlogs. The time delay leads to uncertainty among the business community about whether the producer's credit needs will be met.
- In February, 1984, an FmHA National Task Force discovered a loan application backlog of 427 EM loans within a three-county area of Northwest Minnesota. Plans for spring planting were delayed by the subsequent time delay.
 - Over half (53%) of the producers who applied for an FmHA EM loan thought that the loan approval process took longer than expected.
- * Inconsistency was found among the Damage Assessment Reports (DAR). For example, six of ten counties in Northwest Minnesota were identified by the DAR as having more farms with losses than the Ag Census reports to exist. The National Science Foundation's "Study of Government Responses to Drought in the U.S." identified that a "lack of appropriate designation procedures and reliable, objective criteria on which to base those decisions will hamper program delivery and result in ineffective response."

RECOMMENDED ACTIONS

1. The State should request the Minnesota Congressional Delegation to initiate the following actions:

- Amend current FmHA legislation to provide explicit statutory guidance to FmHA in the following areas:
 - Deletion or modification of the county designation and the 30% county-wide production loss criteria.
 - Exclusion of disaster years from the 5-year crop base used to determine EM loan eligibility.
 - Hold oversight hearings to investigate how the legislative change from 20% to 30% production loss requirement has affected producer eligibility for Federal assistance.
 - Decentralization of the authority to make EM loans available from the Secretary of Agriculture to the FmHA State Director.
 - Examination of how FCIC might be improved to increase participation by Minnesota producers.
2. The Minnesota state legislature should expand the Farm Crisis Assistance Program of the Minnesota Department of Agriculture.
 - To work with producers to develop needs assessments and assist with the prompt preparation of damage assessment reports as required by federal agencies. (This was a need identified by the National Governor's Association.)
 - To assist in urgent situations, such as periods of high loan volume, by assisting producers with required paperwork.
 - To make available to producers up-to-date information relating to federal disaster programs.
 3. The FmHA should develop contingency procedures to deal with the increased loan activity in localized areas during times of disaster.
 4. The Minnesota state legislature should investigate possibilities for interim emergency loan guarantees to provide assistance to affected producers during the period between loan application approval and receipt of the loan.
 5. The 1980 Federal Crop Insurance Act allows for a 30% state subsidy of the FCIC premium. Because this would create incentives for participation, a bill (HF 1226) was introduced to the Minnesota legislature in March, 1984. The feasibility to provide a state subsidy should be explored.

ISSUE BACKGROUND

- * The problems identified in this report regarding current federal agricultural disaster programs are not new. The problems have been addressed several times in the past 10 years at both state and national levels.

- * The Minnesota Congressional Delegation, the Governor and the Minnesota Department of Agriculture have presented testimony to Congressional agriculture subcommittees and have held state-wide and regional hearings to investigate the economic impact of natural disasters in Minnesota.
- * The specific issues identified each time the problems with federal agricultural disaster programs have been addressed have been related to debt servicing, to transportation problems, and to lack of awareness of how federal agriculture disaster programs function, which is further confused by the centralization of authority.
 - A recently released report by the National Science Foundation also identified problems that have been identified in previous studies of federal agriculture disaster programs.
- * The National Governor's Association (NGA) 1984 agricultural policy identified how ineffective these federal programs are because attempts to manage the problems occur amidst the crisis. Rather, this policy calls for improvement in preparation for a potential crisis.
- * Currently, this issue is being analyzed as a result of Governor Perpich's policy development process and initiatives by the Northwest Minnesota Emergency Action Committee. The group called attention to the problems of Northwest Minnesota farmers' face in getting financial assistance because of 3 to 5 years of consecutive flooding.

FISCAL HISTORY

The following table illustrates the federal dollars spent in Minnesota for agricultural disaster purposes. FmHA's EM loan program and FCIC are currently the only active federal agricultural disaster programs in Minnesota. ASCS has a new emergency feed grain livestock program, implemented to address the 1983 drought. SBA disaster loan assistance was extended to agriculture in 1976 and stopped and started again in the fall of 1983.

<u>FY</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u> <u>Through</u> <u>July 31</u>
FmHA (EM Loan)	63,459,444	139,881,280	47,139,770	5,572,810	19,462,220
FCIC					
30% Premium					
Subsidy	N/A	2,555,543	5,313,753	3,657,301	N/A
Indemnities					
Paid	N/A	2,400,000	15,900,000	16,700,000	12,700,000
ASCS	33,000,000	10,000,000	*	*	*
SBA	N/A	N/A	N/A	N/A	N/A

N/A - Not Available

* - Program discontinued

ISSUE CHARGE

The team will identify and review current federal disaster programs, including policies regarding designation of disaster areas. Specific issues that will be addressed include:

- Adequacy of knowledge of potential participants/actors regarding availability of relief programs, eligibility requirements, federal procedures, etc;
- Coverage of existing programs (geographically and commodity specific);
- Barriers to participation in current programs; and
- Options/alternatives for state initiatives, if any.

METHOD OF ANALYSIS

Initial research of this issue began with a general literature search, meeting of the Task Force members, and interviews with farmers from the Northwest Minnesota Emergency Action Committee and state and federal personnel who are directly involved with the active programs in Minnesota. These interviews helped the Task Force to establish the work program and to identify major issues.

The Minnesota Department of Agriculture conducted three surveys to collect information from the farmers and federal personnel who are involved with these programs; a general phone survey of the USDA county emergency board revealed the need for a more in-depth mail survey of farmers and federal personnel (See Appendix C for survey summaries). As issues became further defined, more specific research was conducted using federal laws and regulations, Damage Assessment Reports (upon which a major program is based) and national studies of federal agricultural disaster programs.

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OTHER SOURCES

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2. Federal Crop Insurance Corporation, Underwriting Division, St. Paul.
3. Agricultural Stabilization and Conservation Service, St. Paul.
4. Minnesota Department of Public Safety, Division of Emergency Services.
5. University of Minnesota, Department of Agriculture and Applied Economics.
6. Minnesota Department of Agriculture.

APPENDICES*

- A. 1983 Damage Assessment Report Data
- B. Hypothetical Case Studies: Effects of Consecutive Disasters Upon Producer Eligibility
- C. Summary of Disaster Programs Surveys
- D. Description of Federal Agricultural Disaster Programs
- E. List of Disaster Designation Requests/Responses: 1981, 1982 and 1983
- F. EM Loans: Flow Chart of Administrative Actions
- G. Issue Back Ground
- H. EM Loan Program: Legislative Analysis
- I. Alternate Options

*Available Upon Request