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REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Alleviating Agricultural Producers' Crop Losses: What Should The Federal Role Be?

Department of Agriculture

Two Agriculture programs--an insurance program and a direct-payment program--now offer agriculture producers some protection against loss of income when crops are damaged or destroyed by natural disasters or other uncontrollable hazards.

Legislation has been proposed to expand the insurance program and repeal the payment program. This would shift most of the disaster protection cost from the taxpayers to the primary beneficiaries--the producers. Agriculture estimates this would save the Government $259 million annually.

GAO believes the proposed legislation has considerable merit. It recognizes, however, that various options can be considered in deciding on the Federal role in agricultural disaster protection. This report discusses the main options and their advantages and disadvantages to producers and to the Government and the taxpayers.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses two Department of Agriculture programs which provide some financial protection to agricultural producers whose crops are damaged or destroyed by natural disasters or other uncontrollable hazards. The report

--points out some inconsistencies in the Commodity Credit Corporation's disaster payment program for cotton, wheat, and feed grain producers;

--describes the Federal Crop Insurance Corporation's current crop insurance program and proposed legislation--S. 1647 and H.R. 7247--which would expand the crop insurance program and repeal the disaster payment program; and

--sets forth several options as to the Government's role in protecting agricultural producers from serious crop losses.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of Agriculture.

Elmer B. Staats

Comptroller General
of the United States

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ABBREVIATIONS

ASC	Agricultural Stabilization and Conservation
ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
FCIC	Federal Crop Insurance Corporation
GAO	General Accounting Office

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

ALLEVIATING AGRICULTURAL PRODUCERS' CROP LOSSES: WHAT SHOULD THE FEDERAL ROLE BE? Department of Agriculture

D I G E S T

Two Department of Agriculture programs offer thousands of the Nation's agricultural producers some protection against loss of income when their crops are damaged or destroyed.

--The Commodity Credit Corporation's disaster payment program. It is a direct-payment program authorized in 1973 for the 1974-77 crop years. It is limited to producers with acreage allotments for upland cotton, wheat, and three feed grains--corn, grain sorghum, and barley. It is intended to alleviate losses when natural disasters or other uncontrollable conditions prevent specified crops from being planted or result in abnormally low production. (See ch. 2.)

--The Federal Crop Insurance Corporation's crop insurance program. The insurance is available for more than 20 crops, including the 5 crops covered by the disaster payment program. It is not available everywhere. Producers participate voluntarily and their premiums are tax deductible. The insurance takes effect when the crop is planted. (See ch. 3.)

What should the Federal role be in protecting producers from serious losses? Several options and their advantages and disadvantages are discussed in chapter 4.

The President has proposed legislation to expand the crop insurance program and to repeal the disaster payment program. Under the proposed legislation:

--Agriculture estimated that the Government would save at least $259 million for 1977 (and like amounts annually through 1980 should the disaster payment program be extended) by shifting most of the disaster protection cost from the taxpayers to the primary beneficiaries; i.e., the producers.

--The Government's potential liability would be limited annually to the amount of insurance coverage purchased by the producers. The actual cost to the Government would be limited to administrative and operating expenses and the amount, if any, by which indemnities might exceed premiums and accumulated reserves.

--The inequities resulting from the disaster payment program would no longer exist. (See pp. 6 to 13.)

--Those instances in which disaster program payments and crop insurance program indemnities cover the same loss would be eliminated. (See p. 26.)

--One Federal program would be eliminated.

--Limitations now restricting development of a reinsurance program would be removed, encouraging the private insurance industry to become involved in the multiperil crop insurance program. (See pp. 44 to 46.)

Also, the proposed legislation is in line with congressional and executive branch policy that Government activities which provide indentifiable recipients with special benefits or privileges should be financially self-sustaining to the extent possible. (See p. 46.)

GAO believes the proposed legislation has considerable merit but recognizes that it also has the following shortcomings which will have to be dealt with in the legislative process.

--The crop insurance program, under existing and proposed legislation, does not cover situations in which producers are prevented from planting their crops.

--Although crop insurance would be authorized for cotton, wheat, and feed grain producers wherever these crops are grown commercially, the Federal Crop Insurance Corporation could still limit or refuse insurance to such producers because of the insurance risk involved or because offering an insurance program in some counties might be economically unfeasible.

--Expansion of the crop insurance program into high-risk areas could result in producers in these areas having to pay relatively high premium rates. (See pp. 31, 41, and 46.)

If the disaster payment program is retained, the Congress should reconsider the program's authorizing legislation in light of inconsistencies in program coverage, eligibility requirements, payment rates, and yield definitions. (See pp. 6 to 19.)

If the proposed legislation is to be enacted, the Congress should consider:

--Authorizing the Federal Crop Insurance Corporation to develop and implement a plan for providing insurance coverage in situations where uncontrollable conditions prevent producers from planting their crops. (See p. 32.)

--Authorizing lower-than-full-cost premium rates limited to those cases in which producers might otherwise have to pay prohibitively high rates. (See p. 42.)

In any event, the Congress should consider adopting those portions of the proposed legislation which would:

--Make it easier for the Federal Crop Insurance Corporation to start a reinsurance program.

--Revise the way in which the Corporation's administrative and operating activities are funded.

--Otherwise bring the Corporation's law up to date. (See pp. 27 to 30.)

Agriculture agreed with GAO's findings on the limitations of the disaster payment program. The agency strongly supports the legislative proposal to expand the crop insurance program and eliminate the disaster payment program. Agriculture does not believe that using different crop yields for different program purposes is inconsistent with congressional intent. (See pp. 19 and 47 and app. V.)

CHAPTER 1

INTRODUCTION

1 Two Department of Agriculture programs--one an insurance 42 program and the other a direct-payment program--offer thousands of the Nation's agricultural producers some protection against loss of income when their crops are damaged or destroyed by natural disasters or by other conditions over which the producers have no control.

The insurance program is administered by the Department's 2 Federal Crop Insurance Corporation (FCIC), which was created 515 in 1938 to promote the national welfare by providing crop insurance to improve the economic stability of agriculture. The program covers more than 20 crops against practically all causes of loss, including adverse weather, insect infestation, and plant diseases. The insurance, which is developed by experimentation and gradual expansion, is not available in all counties or on all crops in any county. For major crops, however, it covers most counties where the crops are important to the area's economy.

The insurance is voluntary, with the producers paying premiums for the protection. The protection, by law, cannot exceed 75 percent of a farm's average yield or generally be more than the cost of producing the crop in the area. The premiums, developed on an actuarial basis, may vary widely depending on the crop insured, the risks of the area, and the amount of insurance protection for each acre. The premiums are tax-deductible business expenses.

3 The direct-payment program, a Commodity Credit Corporation 250 (CCC) program administered by the Department's Agricultural 4 Stabilization and Conservation Service (ASCS), was authorized 514 in 1973 for the 1974-77 crops. It covers five crops: upland cotton, wheat, and three feed grains--corn, grain sorghum, and barley. Each of these crops is also covered under FCIC's insurance program. Although CCC's program is not limited geographically, only producers with acreage allotments for these crops are eligible for payments. The payments are made to alleviate losses due to drought, flood, or other natural disasters or conditions beyond the producers' control. The program is, in effect, a free insurance program. The producers pay no premium for the protection.

During the 1974 growing season--the first covered by the CCC program--a combination of adverse weather conditions in major agricultural regions caused widespread damage to U.S. agricultural production. Extremely wet conditions in the spring delayed planting and replanting; hot, dry summer weather reduced growth and yield; early frost prevented normal maturing; and poor drying conditions at harvest reduced yields.

For the five crops covered under its disaster program, CCC made direct payments for crop year 1974 totaling $557 million on 321,500 farms. It estimates its payments for crop year 1975 at $275 million. For the same five crops, producers purchased $584 million in FCIC insurance coverage for crop year 1974 and an estimated $835 million for crop year 1975. For crop year 1974, FCIC collected premiums of $31.8 million on 155,700 insured crops and has estimated it will pay 44,300 indemnities totaling $49.8 million, a loss ratio of 1.57 (amount of indemnities divided by premiums). For crop year 1975, FCIC has estimated its premiums at $45.9 million and its indemnities at $38.6 million, a gain of $7.3 million. From 1948 through 1974, FCIC's overall loss ratio on the five crops was .95.

The President's budget for fiscal year 1976 pointed out that poor weather during the 1974 growing season in much of the Corn Belt and the Great Plains had resulted in large claims for payments under CCC's disaster payment program. It said that legislation to expand all-peril crop insurance--the FCIC program--as a substitute for CCC's direct-payment program would be sent to the Congress. It said that this change would place disaster protection on a sound financial basis and shift most of the cost from the taxpayers to the primary beneficiaries--the agricultural producers.

The proposed legislation was sent to the Congress in March 1975 and was introduced in May 1975 as S. 1647 and H.R. 7247. S. 1647 has been referred to the Senate Committee on Agriculture and Forestry; H.R. 7247 to the House Committee on Agriculture.

CHAPTER 2

OBSERVATIONS ON CCC DISASTER PAYMENT PROGRAM

The Commodity Credit Corporation's disaster program helped alleviate some of the losses which thousands of cotton, wheat, and feed grain producers suffered in 1974 and 1975 when natural disasters or other conditions beyond their control prevented them from planting their crops or reduced their crop yields to abnormally low levels. The program, on which there is little legislative history, however, includes certain inconsistencies in producer eligibility requirements, program coverage, and payment rates.

Also, (1) the lack of a definition of conditions beyond the producers' control has led to questionable payments, (2) the Department uses different definitions of crop yields for different program purposes, and (3) the Agricultural Stabilization and Conservation Service encountered considerable difficulty during the program's first year in administering the program and explaining it to producers.

DISASTER PROGRAM PROVISIONS

CCC's disaster payment program is authorized by the Agriculture and Consumer Protection Act of 1973, as amended (Public Law 93-86, 84 Stat. 1358). It covers the 1974-77 crops of cotton, wheat, and feed grains. The program is intended to alleviate losses suffered by producers who are prevented from planting the specified crops or who obtain low yields from such planted crops because of drought, flood, or other natural disasters or conditions beyond their control.

ASCS, through its State and county offices, administers the program nationwide for CCC. Agricultural Stabilization and Conservation (ASC) county committees, comprised of (1) three farmers elected by the farmers in the county and (2) the county agricultural extension agent (ex officio), administer local operations. These committees are supervised by ASC State committees which are comprised of (1) from three to five members appointed by the Secretary of Agriculture and (2) the State's director of agricultural extension services (ex officio).

Disaster payments are based on two factors: acreage allotments and established yields. To participate in the disaster program, a producer's farm must have an acreage allotment established by the Department. Allotments are historically evolved acreages allocated to individual farms for use under Federal farm programs. For example, corn allotments were assigned to farms beginning in 1961 on the basis of the 1959-60 average of planted corn acreage. The ASC county committee sets established yields on the basis of the county's average yields for past years.

To establish eligibility for 1974 program benefits, a producer had to sign up and certify his acreage either at the ASCS county office or by mail. Certification had to be made by a specified date. For 1975, the procedure was simplified and a producer established eligibility when he filed a crop disaster report.

An application for payment is made at the ASCS county office. A farm inspection (or a visit to a warehouse or other place if necessary) is made to verify the disaster condition which prevented planting or to ascertain the production from planted or harvested acreage. ASCS or Federal Crop Insurance Corporation employees make the inspections. The ASCS employees are trained by FCIC, which has years of experience in crop verification and appraisal work. On the basis of the inspection, the county office determines production for eligibility and payment purposes.

Payment computations

A prevented-planting payment is computed on the basis of the farm's established yield times the allotted acreage on which planting is prevented. For low-yield payments, two computations are made: one to determine eligibility and the other to determine the amount to be paid.

The formula for determining eligibility for a low-yield payment, as specified in the law, is basically the same for all eligible crops. For example, the section on feed grains (7 U.S.C 1441 note (Supp. III, 1973)) states:

> "If the Secretary determines that, because of such a disaster or condition, the total quantity of feed grains * * * which the producers are able to harvest on any farm is less than 66 2/3 percent of the farm acreage allotment times the yield of feed grains * * * established for the farm, the rate of payment for the deficiency in production below 100 percent shall be * * *."

If the county office determines that a producer is eligible for a low-yield payment, the amount is based on the deficiency below his normal production computed by multiplying the allotted acreage (or planted acreage if less) by the established yield.

Producers who qualified for either prevented-planting or low-yield payments for 1974 and 1975 were paid at the following rates, as provided by law, for their deficiency in production.

Commodity	Rate
Corn	$0.46 bu.
Barley	.38 bu.
Grain sorghum	.44 bu.
Wheat	.68 bu.
Upland cotton	.127 lb.

These rates are one-third of the established, or target, prices which the 1973 act initiated for cotton, wheat, and feed grain producers.

The total amount a person may receive annually under the disaster and other programs established by the 1973 act is limited to $20,000.

1974 and 1975 program activity

In 1974 a combination of adverse weather conditions caused widespread damage to agricultural production, particularly in the Nation's midsection. (See app. I.) Of the farms which received CCC disaster payments, more than half suffered damage from drought, as shown in the table below. Some farms experienced more than one type of disaster.

Disaster	Percent of farms receiving payments
Drought	58
Excess rain	19
Frost or freeze	15
Hail	4
Flood	2
Disease	1
Other	1
Total	100

Under the 1974 program, producers submitted 580,000 applications for disaster payments. A separate application was required for each commodity and for either a prevented-planting or low-yield payment. Of the 580,000 applications, 476,000, involving 321,500 farms, were approved for payment and 104,000 were ineligible. Disaster payments totaled $557 million--$35 million for prevented planting and $522 million for low yield. The average payment for each farm was $1,733.

Most of the payments were made in

--Texas ($143 million),

--Nebraska ($67 million),

--Iowa ($46 million),

--South Dakota ($39 million),

--Illinois ($35 million), and

--Missouri ($32 million).

A summary of 1974 payments by State and by commodity is shown in appendix II. CCC estimates payments of $275 million under the 1975 program. As of February 5, 1976, payments under the 1975 program totaled $208 million. (See app. III.)

INCONSISTENCIES IN ELIGIBILITY REQUIREMENTS

One unit of production can determine entitlement to substantial payment

An eligible producer is entitled to a low-yield payment, under the law and program regulations, if his production is less than the specific quantity computed in accordance with the prescribed formula. (See p. 4.) Thus, a difference of one unit of production could determine whether a producer is entitled to payment. This situation occurs in any program having a specific eligibility cutoff point. However, because eligibility under CCC's program is based on a percentage of full production while payment is based on 100 percent or full production, the difference of one unit of production worth a few dollars can mean the difference between a substantial payment and no payment at all.

For example, if two producers each must incur a production deficiency of at least 5,000 bushels of corn to qualify for a payment and one producer's deficiency is 5,000 bushels and the other's is 4,999 bushels, only the first would be eligible for payment. The first would receive a payment of $2,300 (5,000 bushels times 46 cents a bushel), while the second, whose deficiency was only one bushel less, would receive nothing.

Eligibility nullified or payments reduced by production from unallotted acreage

Although only allotted acreage is considered in establishing a producer's full production level, production from all his planted acreage--both allotted and unallotted--is considered in determining his eligibility for payment and the amount of his payment. Thus, some producers who incurred crop damages have not been eligible for disaster payments and the payments to others have been reduced because the loss in production from their allotted acreage was fully or partially offset by their production from additional planted acreage.

We visited six counties, three each in Iowa and Minnesota (see app. IV), which had sustained considerable crop damage in 1974 with county corn yields ranging from 43 to 59 percent of the previous year's yields as shown in the following table.

State and county	1974 Bushels an acre	1974 Bushels produced (millions)	1973 Bushels an acre	1973 Bushels produced (millions)	Bushels an acre--percent of 1974 to 1973
Iowa:					
A	44.5	7.5	103.3	16.1	43
B	45.5	6.8	103.3	15.8	44
C	43.8	1.6	99.0	3.4	44
Minnesota:					
D	40.8	4.9	90.0	11.6	45
E	37.3	1.8	75.0	3.8	50
F	61.2	5.2	104.0	8.1	59

Some producers in these counties had planted not only their allotted acreage but also additional acreage. As illustrated by the following examples from one of the six counties, in some cases the producers' additional planted acreage almost equaled or was greater than their allotted acreage.

Producer	Acreage Allotted	Acreage Additional	Acreage Total	Percent of additional to allotted acreage
A	26.1	33.9	60.0	130
B	97.7	107.3	205.0	110
C	102.0	111.0	213.0	109
D	68.9	68.1	137.0	99
E	50.6	41.7	92.3	82

According to ASCS county officials, the production from the additional planted acreage

--precluded many producers from submitting applications for payment,

--was the main cause of applications for payment being denied, and

--affected the amount of many producers' payments.

Producers and ASCS county officials we interviewed questioned the fairness of basing full-production levels only on allotted rather than on all planted acreage, particularly after having been encouraged by the Department of Agriculture to plant additional acreage--go for all-out production. One official indicated that, in the future, producers might split their allotted and unallotted acreage into two farms to avoid becoming ineligible or having their potential payments reduced because of planting additional acreage. One of the ASCS county offices we visited had encouraged producers to split their farms to avoid becoming ineligible.

Prevented-planting provisions inconsistent between crops

The law allows that a producer, prevented from planting cotton on the acreage covered by his cotton allotment, be eligible for a prevented-planting payment even if he subsequently plants or could plant some other crop and thereby make up all or part of his lost income. A producer prevented from planting the acreage covered by his feed grain or wheat allotment, however, is not entitled to a prevented-planting payment if he subsequently plants some other specified crop or if such planting is feasible before the end of the normal planting season.

The language in the act authorizing prevented-planting payments under each of the three programs--cotton, wheat, and feed grains--is essentially the same, except that the sections for wheat and feed grains each provide that all nonconserving crops 1/ are to be considered in determining a producer's eligibility for a prevented-planting payment. The section relating to wheat (7 U.S.C. 1445a(c)(Supp. III, 1973)), for example, states:

> "If the Secretary determines that the producers are prevented from planting, any portion of the farm acreage allotment to wheat <u>or other nonconserving crop</u>, because of drought, flood, or other natural disaster or condition beyond the control of the producer, the rate of payment on such portion shall be * * *." (Underscored phrase also included in feed grain section but not in cotton section.)

Because cotton is grown in areas that have relatively long growing seasons, a delayed planting of some other crop, such as soybeans, would seem to be practical. In one major cotton and soybean growing State, for example, the usual planting of cotton ranges from April 25 to May 25 and of soybeans from May 1 to June 30. The act's cotton section, however, does not require a producer to plant a different crop on that portion of the acreage covered by his cotton allotment on which he is prevented from planting cotton.

In hearings before the Senate Committee on Agriculture and Forestry held in Iowa in March 1975, an ASCS official who had worked as a technical adviser to the Committee on the 1973 act testified that, as initially drafted by the Senate Committee, the prevented-planting provisions were the same for cotton and grains. He said that the Committee was not necessarily interested in making a payment to someone who was prevented from planting a particular crop

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1/ ASCS defines nonconserving crops as feed grains, wheat, upland cotton, or any other annual crop intended for harvest or utilized in any feed form, except the following:

--Annual grasses regardless of use, including sweet sorghum, millet, and sudan grass.

--Legumes. Peas or beans planted for seed, grain, or processing are a nonconserving crop unless their planting was delayed beyond the normal planting period by a disaster and the crop turns out too poor to be used for seed, grain, or processing, or used in any manner for feed as a mature crop.

--Immature small grains, other than barley or wheat, destroyed by any means or used for other than grain.

but was concerned about the situation in which an individual could not get any cash crop planted.

The official said that, when the bill went to the House Agriculture Committee, the cotton and grain sections went to the respective subcommittees and "other nonconserving crops with regard to under planting of cotton, was eliminated."

INCONSISTENCIES IN PROGRAM COVERAGE

Farms without acreage allotments

Under the law disaster payments are available only on cotton, wheat, and feed grain farms that have acreage allotments. Many farms on which these crops are grown, however, do not have allotments. According to a Department official, either these farms did not grow these crops when acreage allotments were established or their allotments had terminated due to nonuse over a period of time. Some farms, for example, were used for pasturing dairy cattle during the time used for establishing allotments.

Ten percent of the farms in the six counties we covered had no corn allotments and, therefore, were ineligible for program participation. As shown in the following table, these farms averaged 32 acres of cropland compared to 144 acres for farms having allotments.

Acreage allotment	Farms Number	Farms Percent	Cropland Acres	Cropland Percent	Average acreage per farm
20 acres and less	2,583	22	126,819	8	49
More than 20 acres	8,067	68	1,406,580	90	174
	10,650	90	1,533,399	98	144
None	1,182	10	38,255	2	32
Total	11,832	100	1,571,654	100	133

Although the average farm without an allotment is small, some farms without allotments are considerably larger than the 32-acre average. In one of the counties, for example, a farm with 111 acres of cropland was ineligible because it had no allotment. But two neighboring farms with 265 and 299 acres of cropland and allotments of 122 and 125 acres, respectively, had each been approved for a disaster payment of about $4,100.

Some major crops not covered

The law authorizes disaster payments to producers with acreage allotments for upland cotton, wheat, corn, grain sorghum, and barley. Producers of other major crops, such as soybeans, oats, rice, and tobacco, do not benefit from the program. As shown in the following table, one of these crops--soybeans--which is second highest in national crop value, sustained an adverse yield in 1974 that, percentage-wise, was equal to that of wheat and upland cotton and greater than that of barley.

Commodity	Unit	Yield per acre 1972-73 average	Yield per acre 1974	Yield per acre Percent of decrease	1974 acreage harvested	1974 production Units	1974 production Value
					(millions)		(billions)
Covered by program:							
Corn	bu.	94.2	71.3	24	65.2	4,651	$16.3
Grain sorghum	bu.	59.6	45.1	24	13.9	628	1.9
Barley	bu.	42.0	37.2	11	8.3	308	.9
Wheat	bu.	32.2	27.4	15	65.5	1,793	7.7
Upland cotton	bale	1.08	.92	15	12.6	11.6	a/ 3.2
Not covered by program:							
Soybeans	bu.	27.8	23.5	15	52.5	1,233	9.5
Tobacco	cwt.	20.3	20.4	-	1.0	20	2.1
Rice	cwt.	44.9	44.4	1	2.6	114	1.2
Oats	bu.	49.3	46.6	5	13.3	621	1.0

a/ Includes value of cottonseed.

Source: Statistical Reporting Service, Department of Agriculture

As the following table shows, the overall average decreases in corn and soybean yields in 1974 in the six counties we visited were more than double the national average yield decreases of 24 percent for corn and 15 percent for soybeans.

Area and commodity	Yield 1972-73 average	Yield 1974	Percent of decrease
	(bushels)		
3 Minnesota counties:			
Corn	92.2	46.9	49
Soybeans	30.9	18.8	39
3 Iowa counties:			
Corn	107.3	44.8	58
Soybeans	35.0	24.5	30
Total:			
Corn	101.1	45.7	55
Soybeans	33.3	22.1	34

Although adverse weather conditions in 1974 affected both corn and soybean production in the six counties, only producers with corn allotments were eligible for disaster payments.

Yield factor revised

Under the 1974 program, ASCS classified corn and sorghum crops in many counties as being grown for grain. Upon harvest, production was determined on grain yield only although, on some farms, such crops were harvested for silage (combination of grain and stalks). In other counties, classified as silage counties, the silage was considered as production.

For 1975 ASCS revised the yield factor after concluding that its 1974 program procedures caused inequities among producers. According to ASCS, producers who harvest corn and sorghum for silage get much more than just the grain because the silage also contains feed nutrients. On this basis, ASCS now includes both grain and silage yields in determining production for program purposes.

PREVENTED-PLANTING AND LOW-YIELD PAYMENTS MADE AT SAME RATES

The law prescribes, for each commodity, the same rate per unit--for example, 46 cents a bushel for corn--for both prevented-planting and low-yield payments, although a producer's out-of-pocket costs generally increase as he progresses through the various phases of the crop production cycle. At the preplanting phase, the producer might have incurred out-of-pocket costs for plowing (machinery repairs and fuel) and fertilizer. As a crop is planted and during the growing season, the producer incurs costs for seed, planting and cultivating (machinery repairs and fuel), pesticides, and additional fertilizer.

According to the Department's Economic Research Service, the estimated out-of-pocket costs to produce corn until harvest time at a typical northeast-central Iowa farm--a farm with 200 acres for corn and an established (normal) corn yield of 110.7 bushels an acre--totaled $46.66 an acre in 1973. The preplanting costs were $17.38 an acre, and the planting-growing costs were $29.28. These costs do not include the value of the producer's labor or fixed costs, such as depreciation on machinery and equipment, taxes on farmland, and insurance.

Assuming these same costs and cost relationships, the following analysis shows the difference between the amounts of disaster payments and out-of-pocket costs for this typical farm if the producer obtained no production (1) by being prevented from planting his land or (2) after carrying out his normal preplanting and planting-growing activities.

	Prevented planting	Crop failure
Normal production (200 acres x 110.7 bushels an acre)	22,140 bu.	22,140 bu.
Actual production	0	0
Production deficiency	22,140 bu.	22,140 bu.
Rate per bushel	x 46 cents	x 46 cents
Disaster payment	$10,184.40	$10,184.40
Out-of-pocket costs:		
Preplanting only (200 acres x $17.38 an acre)	3,476.00	
Preplanting and planting-growing (200 acres x $46.66 an acre)		9,332.00
Difference	$ 6,708.40	$ 852.40

CONDITIONS QUALIFYING AS DISASTER CAUSES NOT SPECIFICALLY DEFINED

Neither the law nor program regulations define a condition beyond the control of the producer. The definition is left to ASCS county officials. This latitude could result in inconsistent treatment of producers between counties. In 1974 it led to some questionable payments.

Payments for conditions beyond producers' control under the 1974 program totaled $569,900 for 511 farms, of which 219 farms in Texas received $230,000. According to an ASCS official, most of the Texas payments involved cotton which was adversely affected by drifting chemicals that had been sprayed from airplanes on nearby ricefields and pastureland. The official said that a producer sustaining such damage might have recourse against the damaging party but that legal action generally was not financially practical.

In the March 1975 hearings before the Senate Committee on Agriculture and Forestry, an ASCS official testified that the phrase "beyond the control of the producer" was so broad and vague that it was difficult to administer.

DEFINITION OF NORMAL YIELD USED TO DETERMINE ELIGIBILITY DIFFERS FROM THAT USED TO COMPUTE PAYMENTS

Because disaster payments for low yields are intended to compensate producers for crop yields below normal, the definition of such yields is critical. For each of the cotton, wheat, and feed grain programs, the law seems to provide for a single definition of normal yield to be used for all program purposes. The Department's regulations, however, prescribe different definitions for (1) computing the amount of a disaster payment--referred to as the payment yield--and (2) determining a producer's eligibility for a low-yield payment--referred to as the disaster yield. The use of the disaster yield, which is usually lower than the payment yield, is questionable. Its use has eliminated many producers from program participation.

Although there are some variations among the three programs in the methods of computing crop yields, a discussion of the methods under the feed grain program will illustrate the point.

The section of the law authorizing low-yield payments to feed grain producers states:

> "If the Secretary determines that, because of such a disaster or condition, the total quantity of feed grains (or of wheat, or cotton planted in lieu of the allotted crop) which the producers are able to harvest on any farm is less than 66 2/3 percent of the farm acreage allotment times <u>the yield of feed grains (or of wheat, or cotton planted in lieu of the allotted crop) established for the farm</u>, the rate of payment for the deficiency in production below 100 percent shall be * * *." (7 U.S.C. 1441 note (Supp. III, 1973)) (Underscoring added.)

In computing the amount of a disaster payment, the Department uses the feed grain yield established annually for the farm by the ASC county committee in accordance with program regulations (7 C.F.R. 775.8 and 775.9). The regulations require that the individual farm's yield be based on the county yield for the commodity, adjusted to reflect the farm's productivity. The county yield is determined on the basis of the yield established for the county for the preceding crop with such adjustments as are determined necessary to provide fair and equitable yields. Adjustments are made to reflect yield trends, fertilizer use, and other technical aspects of agricultural production.

Another feed grain program regulation (7 C.F.R. 775.18(b)(2)) provides, however, that a farm shall not be deemed to have suffered a loss which qualified it for a low-yield payment unless its production is less than 66-2/3 percent of the farm's average yield over a 10-year period. 1/ Because yields have generally increased due to improvements in agricultural technology, the 10-year average yield is generally lower than the current established yield. For example, the national average annual corn yields for 1963-72--the yields used in computing the 10-year average yield for the 1974 program--rose sharply from 68 bushels an acre in 1963 to 97 bushels an acre in 1972. For the 10-year period, the average yield nationally was 78 bushels an acre.

A case involving an Iowa producer illustrates the effect on the individual producer of using the 10-year average yield. The producer had an allotment of 10.5 acres and was assigned an established yield of 117 bushels an acre by the county committee. The yield was adjusted downward to 90.1 bushels an acre, however, on the basis of the 10-year average yield. The producer's total production in 1974 was 728 bushels.

If the established yield had been used to determine eligibility for payment, the producer would have qualified because his production of 728 bushels would have been below the eligibility point of 819 bushels (10.5 acres x 117 bushels an acre x 66-2/3 percent--the disaster level prescribed in the act). However, by using the 10-year average, the eligibility point was reduced to 631 bushels (10.5 acres x 90.1 bushels x 66-2/3 percent) and the producer's production of 728 bushels was too high to entitle him to payment. In effect, using the 10-year average substituted 51 percent for 66-2/3 percent as the percentage of the established yield below which this producer would be eligible for payment.

In the Agriculture and Consumer Protection Act of 1973, which also authorized the target price program for the same commodities covered under the disaster payment program, the Congress consistently used a set phrase when referring to the yield of a particular commodity. For feed grains, the law uses the phrase "yield of feed grains established for the farm." On the basis of this language, yields for the target price program and for computing the amount of the disaster payment are based on the yield for the preceding crop. But for determining eligibility for disaster payments, the same phrase is interpreted to provide for a yield based on average yield for 10 years.

1/Under certain conditions, other factors and time periods can be considered in computing the average yield. These are discussed on page 18.

It is a general principle of statutory interpretation that, where the same phrase is used in different parts of the statute, the phrase will be construed to have been used in the same sense, unless the context indicates otherwise. 1/ For each of the three commodities covered in the 1973 act, the Congress selected among similar phrases and always connected the same phrase with the same commodity. This pattern of word use in the statute implies that the regulations are in conflict with the law because of the differing definitions.

The Senate-House conference added the low-yield disaster provisions to the bill that became the 1973 act. The Conference report contained the following explanation:

> "Senate provided for [disaster] payment of one-third of 'target price' for wheat, feed grains, and cotton only where producer is prevented from planting.
>
> "House provided such payment also where producer is prevented from harvesting.
>
> "The Conference substitute provides such payment where the producer is prevented from planting or where he harvests less than two-thirds of a normal corp [sic]." (Original emphasis.) (H. Rept. No. 93-427, 93d Cong., 1st Sess. 34 (1973)).

In defending its regulations, the Department cited problems encountered in using the usual estimate of crop yield in a way that is consistent with the concept of a "normal crop." The Department contended that the statutory formula for estimating yield for nondisaster payments produces figures that are unrealistically high in many cases. We understand that the cotton program estimates of yield are the most inflated, and we will accordingly use cotton as an example. Similar problems apparently exist for wheat and feed grains, but high estimates for these commodities are less widespread.

In a June 1975 letter, the Deputy Assistant Secretary of Agriculture for International Affairs and Commodity Programs explained the factor responsible for the inflated cotton estimates.

1/ Hodgson v. Prophet Company, 472 F. 2d 196 (10th Cir. 1973); Sampsell v. Strauh, 194 F. 2d 228 (9th Cir. 1951), cert. denied, 343 U.S. 927 (1952); 82 C.J.S. Statutes §348 (1953).

"A. The Agricultural Act of 1970 required that 1970 farm projected yields be substituted in lieu of 1968 and 1969 actual yields in establishing 1971 farm payment yields. The 1970 farm projected yields were established under authority of the Food and Agriculture Act of 1965 which provided for adjustments in actual yields for abnormal weather conditions, for trends in yields and for changes in production practices. Thus, the 1970 farm projected yields reflected the upward yield trends of the mid-1960's and were substantially above 1968-70 actual yields. As a result of this legislative requirement, 1971 farm payment yields were established at a level well above the preceding 3-year actual yields.

"B. The abnormal weather adjustment provisions limit the year-to-year downward adjustment of farm payment yields. Actual yields reduced as a result of abnormal weather conditions are adjusted to 90 percent of the farm payment yield. This limits the payment yield adjustment to no more than about 3 percent a year.

"C. The 1970 Act also provides that no farm payment yield may be reduced from the preceding year if the total quantity of cotton harvested on a farm in the preceding year is at least equal to the farm's expected production (allotment X payment yield). This means that the payment yield cannot be reduced, regardless of the actual yield, if enough extra acres are planted above the allotment so that the total production is at least equal to the expected production."

In some cases estimates are reputedly as much as twice the actual expected production. As a result, some producers with a normal harvest of crops may always have production that is less than two-thirds of the estimate and will meet the first test for low-yield disaster payments. By using a 10-year average, the Department has made it harder for producers to qualify merely because of the inflated estimate.

The use of a 10-year average appears to be reasonably related to the purposes of the disaster payment program. However, there are several problems.

First, the reliance on reduced yields as a means of eliminating producers with high estimates from eligibility implies that the Department does not normally use the disaster standard as a measure of eligibility. Under the law, a producer qualifies for disaster payments if his production is less than two-thirds of estimated production and if the reduction is due to a natural disaster. While both the law and the regulations require that there be a disaster, a Department representative has stated that there is no suitable definition. However, defining and using a disaster standard would eliminate any problem with the producer with a high estimate because his reduced harvest would not have resulted from a disaster.

Second, the nondisaster estimates are to be used, naturally enough, for calculating nondisaster payments. To the extent that the estimates are higher than normal, the nondisaster payments would also be higher. Since the Congress set the standards for calculating estimates in such a way as to produce high estimates, it may be argued that the Congress intended to make the higher payments. With the disaster program, a similar argument may be made to justify higher payments.

Third, while using the 10-year average tends to produce a more equitable result for producers with inflated estimates, producers with accurate estimates have a much harder time qualifying. Also, once a producer qualifies, his payments are based on the loss, as measured by the estimate, regardless of how unrealistic the estimate may be. Thus, using the 10-year average cures the problem by trying to limit eligibility but does nothing to reduce high payments for producers who manage to qualify anyway. Given the effect on producers of using the 10-year average, the result may be a random elimination of some payments.

The regulations do provide alternative methods of calculating loss that avoid using the 10-year average, but these methods have a limited scope. The alternatives do not apply at all if a producer's nondisaster estimate is reduced because of a change in farming practices. Thus, a producer whose estimated yield is lowered because of a shortage of fertilizer cannot use alternative methods. The reason for this limitation is not clear.

There are two alternative methods. The first uses the producer's actual unadjusted average for the preceding 5 years (3 years for cotton). While this is more in keeping with the nondisaster method of estimation, we understand that the necessary records may not be available. The second method of measuring loss requires convincing proof of a sudden and identifiable destruction of crops and production from some acreage equal to two-thirds of the nondisaster estimate. The requirement of sudden destruction of only part of a crop is much more restricted than the statutory requirement of a "natural disaster." Because of the limitations on these loss-calculating methods, they cannot be considered as implementing the nondisaster estimates. (See 7 C.F.R. 722.809(k), 728.18(b), and 775.18(b) (1975).)

The Department does not believe that the regulations are inconsistent with congressional intent. (See app. V.) Since our analysis indicates problems with yield definitions, the Congress may wish to reexamine this matter if the CCC program is retained. (See p. 47.)

ADMINISTRATIVE DIFFICULTIES

ASCS encountered considerable difficulty in administering the disaster payment program in 1974 and in explaining it to producers. This situation resulted not only from the large volume of questions and payment applications from producers because of widespread agricultural damage but also from ASCS's inexperience with this type of program and the program's complex administrative procedures.

Inexperience with program

The disaster payments authorized in August 1973 for the 1974-77 crops were a feature never included under farm programs administered by ASCS. ASCS had an established administrative structure so one basic element necessary to implement a new program was available. However, other basic factors, such as developing policies, issuing regulations, establishing procedures, training employees, and informing potential beneficiaries, needed to be accomplished.

According to an ASCS official who testified before the Senate Committee on Agriculture and Forestry in March 1975, ASCS was rushed in issuing its administrative instructions on the 1973 act and many change notices and directives were subsequently issued. He said that ASCS had not anticipated the situation that developed and that, where losses were astronomical, the county offices were not in a position to keep up with them. He also said that there was no question that, in the first year of operation, some producers did not understand the program, because ASCS's education program had not reached all of them and because some of them did not become interested in the program until their crops were damaged or destroyed.

ASC county committee members said they were unable to keep up with the constant changes in administrative procedures. One ASCS county office official said that it took a long time for the employees to learn the program. The ASC county committee members also said that the constant changes in administrative procedures increased the difficulty of answering producers' questions. The county office official said it was practically impossible to explain the program to the producers. In one county, the ASCS official told us that some producers could not qualify for disaster payments because they had not understood the program. For example, producers had not realized they needed to leave some strips of corn in their fields for appraisal of production.

Complex administrative procedures

Because of the various factors involved in determining producer eligibility and the amounts of disaster payments, the administrative procedures were very complex. Among these factors were:

--Acreage allotments and planted acreage.

--Acreage actually harvested and acreage not harvested but required to be considered in determining total production.

--Established yields and disaster yields. (See p. 14.)

--Substitution of nonconserving crops.

--Cause of crop damage or destruction.

--Total production and production for program purposes.

--Ability to replant the specified commodity or, in the case of wheat and feed grains, to plant or replant other specified crops.

--The portion of the allotment on which planting was prevented.

According to ASCS county office employees, the procedure used in 1974 for determining whether a producer had sustained enough damage to be eligible for a low-yield payment was the most difficult to administer. A complex mathematical procedure was necessary to determine production for program purposes after a producer applied for a low-yield payment and the acreage yield was ascertained by inspection and appraisal.

The complexity of this procedure was due mainly to a series of computations to convert crop production to an acreage basis and to adjust the normal acreage yield to one based on the 10-year county average combined with the 66-2/3-percent factor specified by law. The conversion of production to an acreage basis was to enable combining different eligible crops of a farm on a uniform basis and to thereby enable a composite comparison of actual production from planted acreage with production computed on eligible allotted acreage.

County office personnel were specially trained to apply this procedure but, according to one official, the procedures was so complex that there was uncertainty as to the accuracy of the determinations and the amounts computed for payment. He said that, because of this uncertainty, some payments to producers were delayed so that the county office would not be confronted with the task of seeking refunds from producers in case of overpayment.

For 1975 ASCS changed the method for computing production to simplify eligibility computations.

CHAPTER 3

OBSERVATIONS ON PROPOSAL TO EXPAND FEDERAL CROP INSURANCE PROGRAM

Two identical bills (S. 1647 and H.R. 7247) introduced in the Congress in May 1975 would, if enacted, repeal the Commodity Credit Corporation disaster payment program and expand the Federal Crop Insurance Corporation's crop insurance coverage on the five crops designated for CCC disaster payments. According to the Department, Federal savings for 1977 through 1980 would amount to at least $259.1 million annually, should this legislation be enacted.

The proposed legislation would provide for cotton, wheat, and feed grain producers now covered under CCC's disaster payment program to pay a premium for protection similar to the protection they now receive free. Under the expanded FCIC program, however, the inconsistencies in the CCC program, which were discussed in chapter 2, would not exist and, according to the President's 1976 budget, most of the cost of the program would shift from the taxpayers to the primary beneficiaries--the agricultural producers.

Our analysis of the proposed program showed, however, certain matters relating primarily to program coverage and premium rates which we believe should be considered during the legislative process.

EXISTING FCIC PROGRAM

The Federal Crop Insurance Act, as amended (7 U.S.C. 1501), authorizes FCIC to insure crops against unavoidable losses due to a wide variety of causes on an experimental basis to determine the most practical plan, terms, and conditions of insurance for agricultural commodities. A sound system of crop insurance is to be developed with the protection, ultimately, to be made generally available to producers on the major part of their annual crop investments.

The act limits the maximum level of coverage to 75 percent of the farm's average yield but not more than the usual investment an acre in the crop in the area. Under existing law, FCIC can expand its insurance operations each year to cover not more than 3 additional crops and 150 additional counties. For crop year 1974 FCIC insured crops in 1,442 counties. It had 3,561 county programs involving 23 crops. The number of county programs by crop ranged from 7 to 731. For the 5 crops covered by CCC's program, FCIC had from 179 to 731 county programs. (See p. 25.) Only 3 other crops--oats, soybeans, and tobacco--had as many as 179 county programs.

FCIC insurance for the five crops covered by CCC's program was available in 1974 for about 102 million acres of cropland. This potential was about half of the acreage planted for the five crops. Producers purchased FCIC insurance on about 15 million acres.

The act authorizes FCIC to set premiums at rates sufficient to cover claims for crop losses and to establish a reserve for unforeseen losses as expeditiously as possible. Operating and administrative expenses are financed by annual appropriations which, by law, are limited to $12 million. Specified additional amounts of premium income may also be used for such expenses. Premium income may also be used to pay the direct cost of loss adjusters. However, operating and administrative expenses and the direct cost of loss adjusters are not permitted to be included in setting the premium rates.

FCIC is also authorized to reinsure private insurance companies if they offer producers insurance similar to that offered by FCIC. This provision has never been implemented, however, because private companies generally offer only hail and fire insurance and because the act limits reinsurance to not more than 20 counties. According to the Department, the 20-county limitation precludes having a sufficient base or dispersion of risk to build a sound reinsurance program and the private insurance industry, although expressing interest in multiperil crop insurance, is reluctant to commit resources to it.

FCIC organization

FCIC is managed by a Board of Directors appointed and supervised by the Secretary of Agriculture. The Board consists of two Department of Agriculture employees, two persons experienced in the insurance business who are not employed by the Government, and FCIC's Manager who is its executive head.

FCIC's organization includes a headquarters office in Washington, D.C.; a National Service Office and actuarial division in Kansas City, Missouri; 14 regional offices serving individual States or groups of States; and about 320 local offices serving individual counties or groups of counties.

Each regional office is responsible in its region for sales and collection programs, servicing and loss adjustment for contracts, and supervising the offices serving the counties. The local offices may be staffed by FCIC employees or by commission agents under contract to sell and service the insurance and provide an office.

Insurance operations

Once FCIC has determined the crops eligible for insurance in a county, an FCIC representative contacts the producer who may select those crops on which he wants insurance. An initial application must be submitted by an established closing date which precedes the usual planting period.

The application covers all insurable crops in the county in which the producer has a share at the time of planting. At the time of application the producer chooses a price per production unit (bushel, ton, hundredweight, etc.) from among those offered in his county at which any loss will be converted to dollars. The application includes a promissory note for the premium each year. The application is reviewed and, if satisfactory, is accepted by the National Service Office. The producer receives an insurance policy setting forth the terms of the insurance contract. The producer does not have to reapply each year because the insurance contract continues in force from year to year unless either he or FCIC cancels it by a specified date.

After planting, the producer reports the location and acreage planted and his share in the crops. This may be done by a visit to the local FCIC office, by mail or telephone, or by advising an FCIC representative who visits the farm. Shortly after this report, the producer receives a summary from FCIC showing by insurance units the amount he is guaranteed and the premium. His premium may be paid after harvest. Depending on his insurance experience over a number of years, the producer may receive up to a 25-percent discount on his premium. The premium is a tax-deductible business expense.

The producer is expected to follow good farming practices from planting through harvest. His contract does not cover losses resulting from negligence or poor farming practice. If, during the growing season, the crop or part of it is so badly damaged that the producer does not expect to continue to take care of it, or if he wants to put the land to other use, he must promptly notify the county office. An adjuster will inspect the crop and, if he agrees that other use may be made of the land, will give consent in writing. Until consent is given, the producer cannot destroy his crop and plant a different one without penalty in the loss settlement. If any of the acreage on the insurance unit remains for harvest, the loss cannot be settled until after harvest. The producer is advised to report again after he has harvested the crop if production is below his guarantee.

Most reports of loss are submitted after harvest. The producer is required to keep an accurate record of production or to keep production on the farm so that the loss may be determined. The loss, if due to insured causes, is the difference between guaranteed production and actual production. An adjuster will visit the farm, measure the stored crop, obtain information about the fields where the crop was grown, and determine the acreage. The producer will normally submit a claim for indemnity based on these findings and, if the claim is approved, will be paid the amount of his indemnity.

FCIC's experience on insuring cotton, wheat, and feed grains

FCIC's experience in 1974 on the crops covered by CCC's program is shown in the following table.

Crop	County programs	Crops insured	Coverage	Premiums	Indemnities Number	Indemnities Amount	Loss ratio
			(000 omitted)	(000 omitted)		(000 omitted)	
Upland cotton	262	8,690	$ 53,022	$ 3,059	3,404	$ 6,846	2.24
Wheat	731	66,063	284,406	16,346	13,240	15,839	.97
Corn	612	59,892	216,586	10,437	22,686	23,981	2.30
Grain sorghum	179	9,148	18,596	1,110	2,801	1,815	1.64
Barley	191	11,893	11,480	844	2,176	1,290	1.53
Total	1,975	155,686	$584,090	$31,796	44,307	$49,771	1.57

Over the 27 years from 1948 through 1974, FCIC's experience on these same five crops indicates a net excess of premiums over indemnities, as follows.

Crop	Premiums	Indemnities	Excess of premiums over indemnities	Loss ratio
	------------(000 omitted)------------			
Upland cotton	$ 72,836	$106,910	$-34,074	1.47
Wheat	302,544	255,198	47,346	.84
Corn	126,364	122,446	3,918	.97
Grain sorghum (1959-74)	12,284	9,441	2,843	.77
Barley (1956-74)	14,928	10,281	4,647	.69
Total	$528,956	$504,276	$ 24,680	.95

The loss ratios and the amounts of difference between premiums and indemnities in the foregoing tables do not necessarily reflect the actual or comparative profitabilities of the insured crops, because they do not include administrative costs or the direct cost of loss adjusters for the individual crop programs.

For crop year 1975, FCIC's insurance coverage on the five crops is estimated at $835 million. Premiums are estimated at $45.9 million and indemnities at $38.6 million, a gain of $7.3 million.

Information obtained from one of the six counties we visited showed that some producers had received both CCC disaster payments and FCIC indemnities for the same loss. In this county, CCC payments totaling about $1.5 million for 1974 were made to 965 corn producers. Of these, 264 who received about $450,000 in CCC payments--an average of $1,705--also received FCIC indemnities totaling about $520,000--an average of $1,970. FCIC also made 52 other indemnity payments in this county totaling about $75,000 to producers who did not receive CCC payments.

CHANGES PROPOSED IN FCIC PROGRAM

The principal changes which the proposed legislation would make in FCIC's program are

--expanding coverage of cotton, wheat, corn, grain sorghum, and barley;

--encouraging a reinsurance program to be implemented; and

--revising the way in which FCIC's activities are funded to permit greater fiscal flexibility and capital stability.

The proposed legislation also would delete some authorities that have never been used or are no longer needed and would update certain other aspects of the existing law.

Expanding coverage of crops now included in CCC program

The proposed legislation would permit FCIC to offer insurance on the five crops covered by CCC's program "wherever [they are] grown commercially." Insurance would continue to be offered on an experimental basis to producers of other agricultural commodities. The provision that now limits annual expansion to 3 additional crops and 150 additional counties would be eliminated.

The limitation on additional counties was introduced in 1948 when FCIC's program was reduced to an experimental basis following heavy losses in earlier years. As shown on page 26, FCIC has realized an excess of premiums over indemnities from 1948 through 1974 on four of the five crops covered by CCC's program. Because cotton showed an unfavorable loss ratio, FCIC adjusted cotton coverages and rates beginning with the 1970 crop year. It hopes these adjustments will result in a more favorable experience. According to the Department, FCIC's experience on these major crop programs shows that they are sound enough to permit offering them nationwide.

The proposed legislation would delete, as a factor limiting the level of coverage, the usual crop investment for each acre in an area. The other limiting factor--75 percent of the farm's average yield--would continue. According to the Department, the 75-percent factor is the true limiting factor, whereas the investment factor requires FCIC to develop and maintain production data which is rarely used to limit coverage. Also, in most instances, the coverage level is well below 75 percent of a farm's average yield because of the higher risks involved as the 75-percent limitation is approached. According to the Department, this keeps the program actuarially sound.

Encouraging a reinsurance program to be implemented

Another limitation that would be removed is the 20-county limitation on providing reinsurance to private insurance companies. According to the Department, removing this limitation would allow for perfecting an additional delivery system--the private insurance industry--for the crop insurance program since the private insurance industry is now reluctant to commit resources to an experimental effort.

The Department intends to offer reinsurance only on an actuarially sound basis and only if such reinsurance is not available from recognized private sources at a reasonable cost. Therefore, according to the Department, additional budget authority or Federal outlays would not be required under normal production conditions. Additionally, participation by the private sector would provide impetus for reducing the Government's role in crop insurance over the long run.

Revising the way in which FCIC's activities are funded

FCIC's existing law limits direct appropriations for administrative and operating expenses to $12 million annually but allows FCIC to use premium income to pay prescribed amounts above $12 million each year and to pay the direct cost of loss adjusters for crop inspections and loss adjustments. Over the years, FCIC has used about $74 million in premium income for these expenses.

FCIC is not allowed, however, to recover administrative and operating expenses and the direct cost of loss adjusters in setting its premium rates. Therefore, although premiums have exceeded indemnities by $61 million through June 30, 1975, FCIC is in an impaired capital position. The reserve for unforeseen losses which was to be established as expeditiously as possible clearly does not exist. The excess of premiums over indemnities, which was the intended source of the reserve, has been drawn off to pay expenses. According to the Department, an increase in administrative expenses to $25.5 million for the expanded FCIC program is anticipated and continued use of premium income to cover expenses over $12 million would accelerate capital depletion.

Instead of the $12 million limitation, the proposed legislation would authorize FCIC to use any available funds for administrative and operating expenses, subject to any limitation prescribed in applicable appropriation acts. Further, to insure stability of FCIC's capital structure, it is intended that FCIC's actual net operating losses, including administrative and operating expenses, be restored by appropriation the second fiscal year after such losses are incurred.

The proposed legislation would also permit the largely uncontrollable commission agent payments, which fluctuate widely with the level of business, to be considered as non-administrative or nonoperating expenses and to be paid directly from premium income as is now done in the case of loss adjusters. According to the Department, this procedure would enable FCIC to more effectively plan for the use of its funds and to more efficiently use them.

FCIC would also be granted discretionary borrowing authority to insure that it would be able to pay indemnities if heavy losses occur early in the crop year or in 2 consecutive years. Such borrowing would be covered subsequently by premium collections or by restoration of net operating losses through appropriations.

Other changes

In addition to the principal changes discussed above, the proposed legislation would amend the FCIC law to:

--Delete the requirement that FCIC's principal office be in the District of Columbia. Although the Department contemplates no immediate relocation, this change would remove a restriction that is not in accord with the principle of decentralizing Federal functions as much as is reasonable and possible.

--Update the limits for daily compensation rates and expense allowances of non-Federal members of FCIC's Board of Directors and advisory committee members. The Department estimates an annual cost of these changes at less than $1,000.

--Delete authority to establish or use committees or associations of producers to help administer the FCIC program. FCIC has never used, nor does it foresee using, this authority.

--Revise language relating to the use of other Agriculture agencies and ASC county committees to help administer the FCIC program to bring it up to date with current terminology and actual practice.

--Delete the authority to establish premiums on the basis of parity prices or average market prices. This authority has never been used.

--Delete the requirement to post in the county courthouse a list of indemnities paid in the county since the information is on file in the FCIC county office and is available from FCIC's headquarters office and its National Service Office. Over the years, FCIC has found little interest in such information at the county level.

--Delete authority to purchase and sell agricultural commodities in connection with its insurance operations. FCIC no longer uses this authority.

--Delete authority to provide for an additional premium and indemnity to cover cottonseed losses. FCIC does not use this authority.

Savings projected by the Department

Department projections, sent to the Congress in March 1975 for fiscal years 1976 through 1980, showed that, should the CCC and FCIC programs continue to operate under existing legislation, Federal outlays would total $277.7 million in 1977 and, if the CCC program is extended, $282.7 million each in 1978, 1979, and 1980. These projections do not include the costs of administering the CCC program.

Should the proposed legislation be enacted, however, the Department projections showed that Federal outlays would be reduced to $20.2 million in 1976 and to $18.6 million annually for 1977 through 1980, a savings in Federal outlays each year of at least $259.1 million.

EFFECT OF EXPANDED FCIC PROGRAM ON INCONSISTENCIES IN CCC PROGRAM

Under the FCIC program, as it would be expanded, inconsistencies noted in the CCC program would not exist.

A substantial payment would not depend on one unit of production (see p. 6): Although one unit of production determines a producer's eligibility for an FCIC indemnity payment, payment is based not on the deficiency below 100 percent or full production but on the deficiency below the producer's guaranteed production. Thus, the producer having a deficiency of 1 bushel below the guarantee receives an indemnity only for that bushel.

Production would be considered from all acreage (see p. 6): Under the FCIC program, there is no distinction between allotted and unallotted acreage. The producer's entire planted acreage is considered in determining both full or normal production and actual production.

Eligibility would not depend on possessing an acreage allotment (see p. 10): With few exceptions, producers in the counties in which crop insurance is offered are eligible to purchase the insurance. Participation in the FCIC program does not depend on the producer's farm having an allotment.

All major crops would be covered (see p. 11): The FCIC program offers insurance on 23 crops. It does not limit coverage only to cotton, wheat, and feed grains. All crops are not covered in all counties but, for major crops, most counties are covered where the crops are important to the area's economy. For the four crops mentioned on page 11, FCIC experience in 1974 was as follows.

Crop	County programs	Crops insured	Coverage	Premiums	Indemnities Number	Indemnities Amount	Loss ratio
			(000 omitted)			(000 omitted)	
Soybeans	624	46,422	$ 98,964	$5,186	7,940	$5,200	1.01
Oats	258	16,086	6,004	375	1,236	395	1.05
Tobacco	254	61,276	315,734	7,481	2,034	2,164	.29
Rice	24	261	4,651	125	24	51	.41

According to FCIC officials, coverage can be expanded to additional commodities, crop programs, and counties as resources and experience permit.

Silage factor would be applied equitably (see p. 12): According to an FCIC official, FCIC considers both grain and silage yields in computing production for insurance program purposes.

Disaster causes would be well-defined on a programwide basis (see p. 13): Both the existing FCIC law and the proposed legislation include the same extensive list of specific causes against which commodities are to be insured. These causes are drought, flood, hail, wind, frost, winterkill, lightning, fire, excessive rain, snow, wildlife, hurricane, tornado, insect infestation, and plant disease. In addition, FCIC's regulations add earthquake, freeze, and poleburn to the list of causes and, under the existing law and the proposed legislation, FCIC's Board of Directors can specify other unavoidable causes. According to FCIC officials, the existing and proposed FCIC programs do not cover, nor should they cover, chemical spray damage for which CCC payments have been made.

MATTERS TO BE CONSIDERED IN DETERMINING MERITS OF EXPANDED FCIC PROGRAM

Although many inconsistencies which exist in the CCC program would not exist in the expanded FCIC program, certain matters relating primarily to FCIC program coverage and premium rates need to be considered in determining the merits of the proposed legislation.

Coverage of producers prevented from planting their crops

The CCC program provides for payments to producers who are prevented from planting specified crops on their allotted acreage because of a natural disaster or other condition beyond their control. The FCIC program, as it exists and as it would be expanded, does not cover prevented planting. FCIC insurance takes effect when the crop is planted and continues until the crop is harvested or removed from the field, unless this is later than a specified date.

According to FCIC officials, insurance to cover prevented-planting situations could be devised if FCIC was authorized to provide such coverage. The specifics of prevented-planting insurance, including eligibility, level of coverage, and premium rates, would have to be worked out.

FCIC latitude in determining where, when, and to whom insurance will be offered

FCIC's existing law provides considerable latitude in determining where, when, and to whom it will offer insurance. This enables FCIC to administer the program in a businesslike manner as intended by the authorizing legislation. Under the proposed legislation, FCIC would retain much the same latitude.

Under existing legislation and FCIC's implementing regulations:

--The insurance program for each crop is considered to be experimental.

--Insurance plans, terms, and conditions are developed on the basis of actuarial data.

--FCIC is authorized to limit or refuse insurance in any county or area or on any farm on the basis of the insurance risk involved.

--FCIC is not to provide insurance on any crop in any county in which it determines that the income from such crop constitutes an unimportant part of the county's total agricultural income, except that producers can be provided insurance if their farms are in a local producing area bordering on a county which has an insurance program.

These legislative and operating provisions either require or permit FCIC to classify counties, certain land in a county, or certain producers as uninsurable. Also FCIC can cancel a producer's insurance as of the end of any crop year on any or all crops by notifying the producer in writing by a specified cancellation date. In addition, if there is an unpaid overdue premium for a previous year, the insurance contract automatically terminates on a specified date. According to FCIC, it cancels some insurance contracts every year. Most of these are canceled because the producer (1) is an occasional rather than a regular producer of the crop, (2) is a poor insurance risk often evidenced by frequent losses, or (3) fails to pay his premium note, thus automatically terminating the contract.

In addition to its latitude in determining where and to whom it will offer insurance, FCIC establishes closing dates for each type of insurance, after which new applications in that year will not be accepted. These dates precede the usual planting period, in some cases by a considerable time. Closing dates are necessary to get insurance sold before much can be known about planting conditions and crop prospects. This avoids adverse selection-of-risk situations in which producers would take insurance only when less-than-normal chances for a crop were indicated. Under certain conditions, sales can be stopped even before the specified closing dates or the closing dates can be extended if no adverse selectivity will result during the extension period.

Under the proposed legislation, FCIC's program and its latitude in determining where, when, and to whom it will offer insurance would remain essentially the same except that FCIC would be authorized to insure producers of cotton, wheat, corn, grain sorghum, and barley not on an experimental basis but wherever these crops are grown commercially. FCIC could still refuse insurance to these producers, however, because of risk or because a county has so little crop acreage as to make offering an insurance program economically unfeasible. Using closing dates and cancellations would also continue.

Establishment of premium rates

Both the existing and proposed legislation authorize and empower FCIC to set its premiums at rates adequate to cover claims for losses and to provide, as expeditiously as possible, a reasonable reserve for unforeseen losses. In its actuarial work FCIC generally tries to fit both the insurance guarantee (coverage) and the premium rates according to the crop and production methods and to the risks of a class, group, or area. Land in a county is divided into rate areas primarily on the basis of production risks and actual insurance loss experience. The premium rates may vary widely by crop, area, and amount of coverage for each acre.

Premiums paid on cotton, wheat, and feed grain crops under FCIC's program in 1974 averaged $204. On the average this amount purchased insurance coverage worth $3,752, a ratio of premium to insurance coverage of 5.4 percent.

The rates which cotton, wheat, and feed grain producers not previously covered by FCIC's program would have to pay under an expanded program would have to be determined. In areas where FCIC now offers such insurance, the premium rates should be comparable to those now charged participating producers. It can be assumed, however, that any expansion of FCIC's program into higher risk areas would result in higher premium rates.

The producer has some discretion in the total premium paid, however, because FCIC generally provides several prices per bushel or other production unit from which the producer may select one to be used in computing any loss. The premium rates vary according to the price selected.

Ability of producers to pay premium

Under FCIC's program, producers must pay a premium for protection. The producer has some discretion in selecting the premium--a tax-deductible business expense--he will pay, but no allowance is authorized for the individual producer's ability to pay. FCIC's program, however, includes certain features that help low-income producers in the payment of premiums. These features are (1) premiums generally do not have to be paid until after harvest, enabling the producer who does not incur an indemnified loss to pay the premium from the proceeds from the sale of his crops and (2) FCIC can deduct the amount of the premium from the indemnity should the producer incur an indemnified loss. Crop insurance premiums may also be deducted from payments under other Department programs.

Reaching all eligible producers

According to FCIC, little crop insurance is sold as a result of producers coming into an office to ask for it. Most is sold by salesmen. If the cotton, wheat, and feed grain producers not now in FCIC's program are to be covered, FCIC will have to take steps to make sure all eligible producers know about the program and have an opportunity to apply for the insurance.

Currently, FCIC provides information about crop insurance through its local office employees, commission agents, the press, radio and television, talks at group meetings, and advertising. Generally, the insurance is sold to the individual producer through direct contact. In cases of absentee landlords, the insurance may be sold by mail.

An expanded program could be expected to require some increase in FCIC's information dissemination activities. The degree of such increase would have to be determined. Expansion can also be expected to require some increase in sales activity. According to FCIC officials, FCIC would anticipate the need for two additional regional offices under the expanded program, with ASCS county offices being used to the extent practical at the local level.

CHAPTER 4

PROGRAM OPTIONS

Several options could be considered in determining what the Federal Government's role should be in providing crop producers, particularly cotton, wheat, and feed grain producers, with some protection against loss of income when their crops are damaged or destroyed by natural disasters or other conditions over which they have no control. Each option has advantages and disadvantages.

The main options appear to be:

--Maintaining the existing CCC and FCIC programs.

--Enacting the proposed legislation as it has been introduced.

--Maintaining the existing FCIC program and eliminating the inconsistencies in the CCC program to the extent feasible.

--Amending and enacting the proposed legislation to provide an insurance program offering producers adequate protection at an equitable cost.

These options are discussed below. Two other possible options are discussed beginning on page 42.

MAINTAINING EXISTING PROGRAMS

The existing CCC and FCIC programs could be maintained as they are.

Advantages to producers	Disadvantages to producers
1. Cotton, wheat, and feed grain producers with acreage allotments are provided some protection against loss of income without having to pay for such protection.	1. Cotton, wheat, and feed grain producers without acreage allotments and producers of other crops are not eligible for participation in CCC's program.
2. Many producers eligible for CCC's program are eligible to purchase protection under FCIC's program.	2. Some producers are not eligible to participate in either CCC's or FCIC's program.

Advantages to producers	Disadvantages to producers
3. A producer qualifying for a CCC payment is paid for the entire deficiency below his established production level at one-third of the commodity's target price.	3. An otherwise eligible producer who misses qualifying for a CCC payment by as little as one production unit is not compensated for any portion of his production deficiency.
4. Eligible producers who are prevented from planting specified crops on their allotted acreage are eligible for CCC disaster payments.	4. Only those producers eligible to participate in CCC's program are protected against loss when they are prevented from planting.
5. Eligible cotton producers are entitled to receive CCC prevented-planting payments whether or not they are able to plant some other crop on acreage covered by their cotton allotment.	5. Producers not eligible for CCC's program have no protection against disasters which prevent planting.
6. Agricultural producers who meet FCIC's legislative and operating requirements are eligible to purchase FCIC crop insurance.	6. FCIC's program is limited to those areas and producers that meet its legislative and operating requirements. Also FCIC is somewhat constrained in extending its program because of the limitation on its administrative and operating expenses.
7. FCIC's program spreads the risk of crop failure among many producers and over many areas and years, thus protecting part of the producer's investment as well as insuring him some purchasing power every year.	

Advantages to Government and taxpayers	Disadvantages to Government and taxpayers
1. Providing agricultural producers with protection against loss of income due to natural disasters assists in maintaining a strong agricultural sector, which is essential to the Nation's well being.	1. The Government's and therefore the taxpayers' annual potential liability under the CCC program is open ended. In years of widespread disaster, the CCC program can result in huge Federal outlays.
	2. The Government administers two programs which are duplicative in some respects and competitive in others. For example, a separate organizational structure administers each program, some producers receive payments from both programs for the same loss, and some producers may elect not to participate in the FCIC program because they receive some protection without cost under the CCC program.
	3. The Government plays the major role in providing disaster protection under the CCC program while under the FCIC program the producers participate with the Government. Existing legislative limitations on an FCIC reinsurance program discourage the private insurance industry's involvement in providing multiperil crop insurance.

ENACTING THE PROPOSED LEGISLATION AS IT HAS BEEN INTRODUCED

The proposed legislation--S. 1647 and H.R. 7247--which would expand the FCIC program and repeal the CCC program could be enacted without amendment.

Advantages to producers

1. Inconsistencies in the CCC program which result in inequitable treatment among eligible producers and between eligible and ineligible producers would no longer exist.

2. With some exceptions, cotton, wheat, and feed grain producers would be eligible to purchase FCIC insurance on their crops.

3. Producers would be able to decide for themselves if they wished to purchase FCIC insurance.

Disadvantages to producers

1. Certain cotton, wheat, and feed grain producers would lose the benefits they now enjoy without cost under the CCC program.

2. Producers now eligible to receive CCC disaster payments at no cost to themselves would, if they wished to be protected against loss from disaster, have to purchase such protection. Some such producers might not be eligible to participate in the FCIC program because of FCIC's legislative and operating requirements.

3. FCIC's program does not cover situations in which a producer is prevented from planting his cropland because of natural disasters or other adverse conditions.

4. Cotton, wheat, and feed grain areas to be brought under the FCIC program for the first time can be expected to be higher risk areas than those already covered with corresponding higher-than-average premium rates.

Advantages to Government and taxpayers

1. The Government's and taxpayers' annual potential liability would be limited to the amount of insurance coverage purchased by the producers.

Disadvantages to Government and taxpayers

1. The Government and taxpayers would be committed annually to pay any amount by which indemnities exceeded premiums and accumulated reserves.

Advantages to Government and taxpayers	Disadvantages to Government and taxpayers
2. Most of the cost of providing disaster protection to cotton, wheat, and feed grain producers now covered under the CCC program would be shifted from the taxpayers to the producers.	2. Producers who would not participate in FCIC's program, either by choice or because of FCIC's legislative and operating requirements, could be wiped out by a disaster with an adverse effect on the stability of the farming community. This could reduce the volume of production and tend to result in higher food prices.
3. Only one agency would be responsible for administering the program, with economies in administration.	3. The producers' insurance costs could be passed on to consumers in the form of higher food prices.
4. Limitations restricting development of a reinsurance program would be removed, thus encouraging the private insurance industry to become involved in the multiperil crop insurance program.	

MAINTAINING FCIC PROGRAM AND ELIMINATING INCONSISTENCIES IN CCC PROGRAM TO THE EXTENT FEASIBLE

The FCIC program could continue to operate unchanged with the legislation authorizing the CCC program being amended to eliminate to the extent feasible the inconsistencies which result or can result in inequitable treatment among CCC program participants and between CCC program participants and other agricultural producers. Because of the many inconsistencies in the CCC program and the many ways in which each of the inconsistencies could be resolved, it is impractical to present the advantages and disadvantages of each possible combination of corrective actions.

Any inconsistencies that would be resolved so as not to lessen the CCC program participants' existing benefits could be expected to provide or increase benefits to other producers and thus increase the Government's and taxpayers' annual potential liability. For example, if the CCC program was expanded to cover additional crops, producers of those crops would be provided the same free protection against unavoidable losses which cotton, wheat, and feed grain producers with allotments now enjoy. This would, however, increase CCC's annual potential liability and could lead to many producers choosing not to purchase FCIC insurance.

On the other hand, any inconsistencies that would be resolved so as to reduce CCC program participants' existing benefits would be to the disadvantage of currently covered producers but would reduce the Government's and taxpayers' annual potential liability. For example, if payments to qualifying producers were not based on the full production deficiency but were limited to the production deficiency below that portion of normal production at which a producer is considered to have incurred a serious loss--i.e., 66-2/3 percent--payments to some producers would be reduced. This would, in turn, reduce program costs.

Also, resolving the apparent inconsistency with congressional intent of the Department's use of different methods for computing yields for eligibility purposes and for payment purposes could lead to increased or decreased Federal payments depending on how the matter would be resolved.

AMENDING AND ENACTING THE PROPOSED LEGISLATION

The proposed legislation could be enacted with amendments which would provide an insurance program offering producers adequate protection at an equitable cost. Again, it is impractical to list all the advantages and disadvantages of each combination of possible amendments.

It can be expected that the advantages of the proposed legislation listed on pages 39 and 40 would continue to apply and that the benefit of receiving protection without cost, which cotton, wheat, and feed grain producers with allotments now enjoy under the CCC program, would be lost. However, the manner in which the matters relating to program coverage and premium rates would be resolved could increase certain producer and Government-taxpayer advantages with some corresponding increases in actual or potential costs to the Government and the taxpayers.

If FCIC insurance was authorized to cover prevented-planting situations, many producers would be able to obtain protection not now available to them. This protection would serve to further stabilize the Nation's agricultural sector by enabling producers, who might otherwise be forced out of business, to stay in business. There would be a corresponding increase in FCIC's costs should indemnities ever exceed premiums.

Providing some access to FCIC's program for producers, who for good and sufficient reasons (1) could not otherwise participate because of the insurance risk involved or because offering insurance in some counties might be economically unfeasible or (2) would be unable to pay prohibitively high premium rates, is another matter to be considered. In a similar situation under the Government-sponsored national flood insurance program, the Congress authorized the establishment of lower-than-full-cost rates with the difference providing the basis for a subsidy by the Federal Government. The subsidy, in the form of a quarterly premium equalization payment to the insurer, is made after losses covered by the less-than-full-rate policies are paid. Providing a similar solution under the FCIC program might enable more producers to obtain insurance, thus helping to stabilize the agricultural sector, but would involve some additional Federal costs.

OTHER OPTIONS

CCC's program could be cut back to cover only prevented-planting situations--as was the original intent of the Senate-passed version of the 1973 act (see p. 16)--and FCIC's law could be amended to (1) expand FCIC coverage of production losses of cotton, wheat, and feed grain producers, (2) make it easier for FCIC to start a reinsurance program, (3) revise the way in which FCIC's administrative and operating activities are funded, and (4) otherwise bring FCIC's law up to date as provided in the Department's proposed legislation. Prevented-planting payments totaled $35 million for 1974 and are estimated at $25 million for 1975 compared with low-yield payments of $522 million for 1974 and an estimated $250 million for 1975.

In connection with this option, consideration might also be given to assigning FCIC the responsibility for administering the prevented-planting payments.

Another option would be to retain CCC's program with such changes as may be decided on and expand FCIC's program as proposed but (1) require producers, for eligibility under CCC's program, to have at least a minimum level of FCIC insurance whenever such insurance is available and (2) make CCC payments only to cover the difference between a producer's computed loss and his FCIC indemnity.

This option would eliminate a producer receiving double payment for the same loss but would involve complex administrative procedures, a considerable amount of monitoring, and an extraordinary degree of coordination between FCIC and ASCS.

CHAPTER 5

CONCLUSIONS, DEPARTMENT COMMENTS, AND

MATTERS FOR CONSIDERATION BY THE CONGRESS

CONCLUSIONS

The Commodity Credit Corporation disaster payment program has helped alleviate some of the losses which many cotton, wheat, and feed grain producers incurred in 1974 and 1975 as a result of natural disasters and other conditions beyond their control. The program, however, has been costly and provides some agricultural producers with benefits not available to others. The Government's annual potential liability under the program is open ended, while the benefiting producers receive protection at no cost to themselves.

Resolving certain inconsistencies in the CCC program to provide more equitable treatment among program participants and between participants and other agricultural producers could lead to considerable additional Federal expenditures.

The Federal Crop Insurance Corporation crop insurance program provides similar protection against unavoidable losses not only to cotton, wheat, and feed grain producers but also to producers of other crops. To obtain this protection, however, the producer is required to pay a tax-deductible premium. The program is not available in all areas or to all producers; it is limited to those areas and producers that meet FCIC's legislative and operating requirements.

Legislation has been proposed which would

--expand the FCIC program,

--repeal the CCC program,

--remove the limitations restricting a reinsurance program,

--revise the way in which FCIC administrative and operating activities are funded, and

--otherwise bring FCIC's law up to date.

In our view, the proposed legislation would accomplish the following.

--It would shift most of the cost of and responsibility for providing disaster protection for cotton, wheat, and feed grain producers from the taxpayers to the producers themselves--the primary beneficiaries.

--The Government's liability would be limited annually to the amount of insurance coverage purchased by the producers. The actual cost to the Government would be limited to administrative and operating expenses and the amount, if any, by which indemnities might exceed premiums and accumulated reserves. In years when premiums exceed indemnities, the excess would go toward increasing the reserve for future losses.

--The inequities resulting from the inconsistencies in the CCC program would no longer exist.

1. Each participating producer would be paid only for the deficiency below his guaranteed production. Substantial payments would not depend on one unit of production.

2. No distinction would be made between allotted and unallotted acreage.

3. Participation would not depend on the producer's farm having an allotment.

4. With some exceptions, producers of important crops in major production areas would be eligible for program benefits.

5. Disaster causes would be well defined on a program-wide basis rather than leaving their definition to local program officials.

--Those instances in which CCC payments and FCIC indemnities cover the same loss would be eliminated.

--One of two Federal programs, which are duplicative in some respects and competitive in others, would be eliminated.

--Limitations now restricting development of a reinsurance program would be removed, encouraging the private insurance industry to become involved in the multiperil crop insurance program. Currently, the Federal Government has the major role in providing disaster protection to agricultural producers.

--The way in which FCIC activities are funded would be revised to permit greater fiscal flexibility and capital stability.

--Some FCIC authorities that have never been used or are no longer needed would be deleted and certain other authorities would be revised to bring FCIC's law up to date.

While we believe the proposed legislation has considerable merit, we recognize that certain matters will have to be dealt with in the legislative process if the expanded FCIC program is to provide those cotton, wheat, and feed grain producers eligible to participate in CCC's disaster payment program with essentially the same protection they now enjoy. These matters, which we believe are remediable, are as follows.

--The FCIC program, under existing and proposed legislation, does not cover situations in which producers are prevented from planting their crops.

--Although FCIC would be authorized to insure cotton, wheat, and feed grain producers wherever these crops are grown commercially, FCIC could still limit or refuse insurance to such producers because of the insurance risk involved or because offering an insurance program in some counties might be economically unfeasible.

--Expansion of FCIC's program into high-risk areas could result in producers in these areas having to pay relatively high premium rates.

In the case of prevented-planting situations, FCIC officials have indicated that insurance to cover such situations could be devised. In the other two cases, some form of subsidy similar to that under the national flood insurance program might be developed.

Faced with ever increasing expenditures, it is important that the Federal Government adopt all available cost-savings opportunities. At the same time, the agricultural producer should have assurances that he will not be wiped out by disasters or other uncontrollable hazards. Repealing the CCC disaster payment program and expanding FCIC's crop insurance program would serve both purposes. Also it seems reasonable to expect cotton, wheat, and feed grain producers, as a prudent business practice, to purchase basic protection against losses due to natural disasters and other uncontrollable hazards through any reasonably available insurance.

The proposed legislation is also in line with the congressional and executive branch policy expressed in title V of the Independent Offices Appropriation Act, 1952

(31 U.S.C. 483a), and in Office of Management and Budget Circular No. A-25 that Government activities which provide identifiable recipients with special benefits or privileges should be financially self-sustaining to the extent possible.

DEPARTMENT COMMENTS

In a January 22, 1976, letter (see app. V), the Department concurred in the findings on the inequities, deficiencies, and limitations of CCC's disaster payment program and expressed its strong support for the legislative proposal to expand the FCIC program and eliminate the CCC disaster payment program. It said that the cost for providing disaster protection would be shifted from the taxpayers to the producers and would reduce Federal outlays under other agricultural programs.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress may wish to consider the information presented in this report in evaluating the various alternatives for protecting agricultural producers from serious losses caused by natural disasters or other conditions beyond their control.

Should the CCC program be retained, the Congress may wish to reconsider the program's authorizing legislation in light of the inconsistencies in program coverage, eligibility requirements, payment rates, and yield definitions discussed in this report.

If the proposed legislation is to be enacted, the Congress may wish to authorize FCIC to develop and implement a sound plan for providing insurance coverage in situations where uncontrollable conditions prevent producers from planting their crops. It may also wish to authorize establishing lower-than-full-cost premium rates limited to those cases in which producers might otherwise have to pay prohibitively high rates.

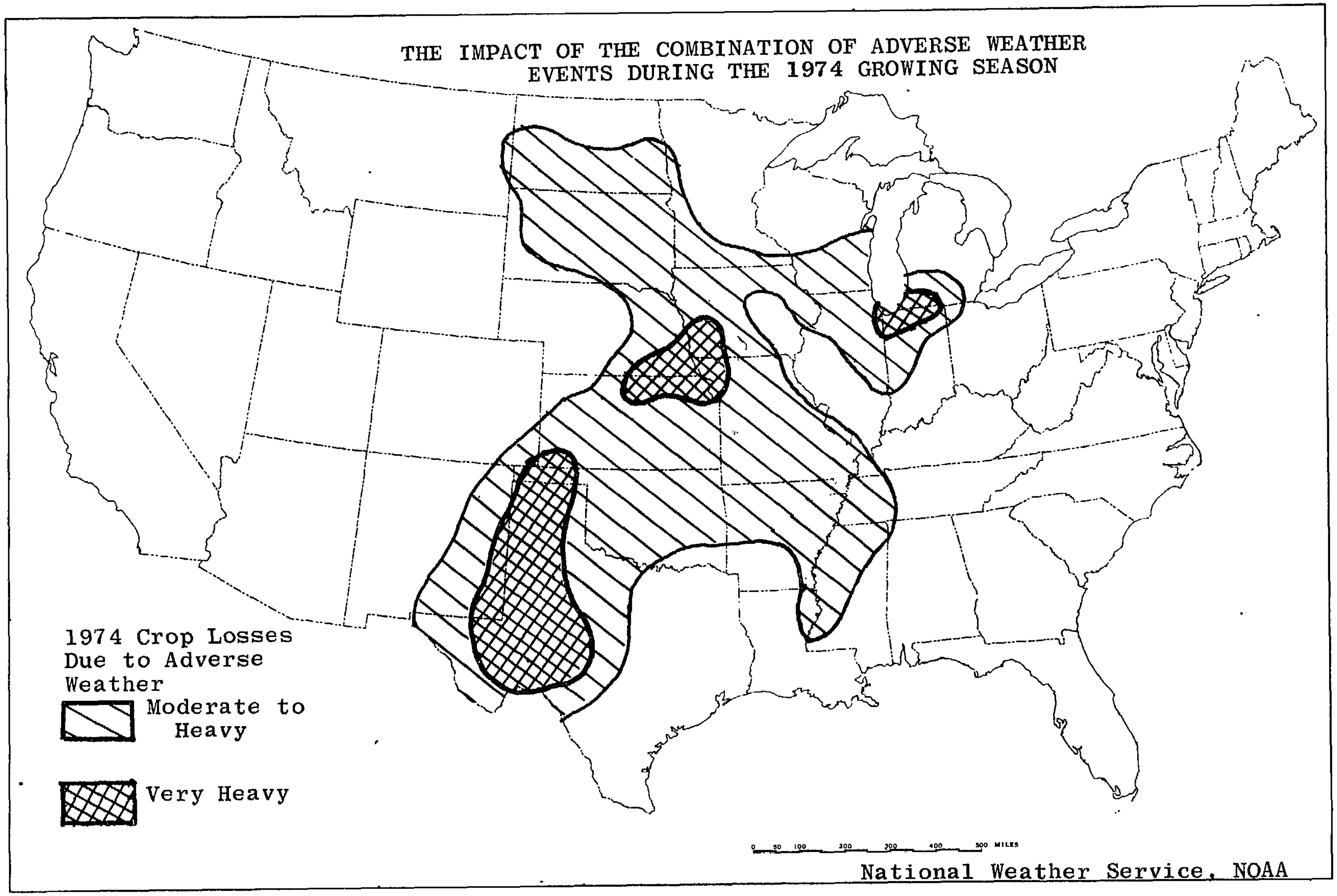
In any event, the Congress may wish to consider adopting those portions of the Department's proposed legislation which would (1) make it easier for FCIC to start a reinsurance program, (2) revise the way in which FCIC administrative and operating activities are funded, and (3) otherwise bring FCIC's law up to date.

CHAPTER 6

SCOPE OF REVIEW

We (1) reviewed the legislation authorizing the Commodity Credit Corporation program and program records, (2) observed appraisals of damaged crops at farms, and (3) discussed program matters with national, State, and county level Agricultural Stabilization and Conservation Service officials; farmers; appraisers of crop damage; and commercial insurers. We also verified computations, including those pertaining to producers' eligibility, for some disaster payments. Also, we analyzed and discussed with Federal Crop Insurance Corporation officials (1) FCIC's authorizing legislation, regulations, and program instructions and (2) the Department of Agriculture's legislative proposal for expanding FCIC's program and repealing CCC's program.

The review was made at the ASCS and FCIC headquarters offices in Washington, D.C.; two ASCS State offices--Iowa and Minnesota; and three ASCS county offices in each of the two States. We did not visit a State in which cotton was grown but reviewed statistical information on the crop.


THE IMPACT OF THE COMBINATION OF ADVERSE WEATHER
EVENTS DURING THE 1974 GROWING SEASON
1974 Crop Losses
Due to Adverse
Weather
Moderate to
Heavy
Very Heavy
0 50 100 200 300 400 500 MILES
National Weather Service, NOAA

APPENDIX I

COMMODITY CREDIT CORPORATION
1974 DISASTER PAYMENT PROGRAM
SUMMARY OF EXPENDITURES

State	Prevented planting		Low yield		Total		Total amount by commodities		
	Farms	CCC payments (000 omitted)	Farms	CCC payments (000 omitted)	Farms (note a)	CCC payments	Feed grains	Wheat	Cotton
						---(000 omitted)---			
Alabama	51	$ 51	5,906	$ 4,596	5,942	$ 4,647	$ 806	$ 15	$ 3,826
Arizona	2	7	10	20	11	27	19	-	8
Arkansas	2,260	2,210	6,014	8,599	7,978	10,809	223	122	10,464
California	42	97	150	456	183	553	236	275	42
Colorado	129	162	1,795	3,731	1,869	3,893	2,104	1,789	-
Connecticut	-	-	1	(b)	1	(b)	(b)	-	-
Delaware	-	-	42	26	42	26	24	2	-
Florida	2	1	290	229	292	230	121	-	109
Georgia	1	5	2,039	2,152	2,040	2,157	743	67	1,347
Idaho	8	7	1,348	3,123	1,355	3,130	846	2,284	-
Illinois	1,535	1,519	19,282	33,471	20,496	34,990	32,947	2,028	15
Indiana	416	427	8,938	11,247	9,264	11,674	10,866	808	-
Iowa	474	423	23,367	45,191	23,688	45,614	45,097	517	-
Kansas	471	282	19,292	27,550	19,617	27,832	16,994	10,838	-
Kentucky	46	34	843	523	879	557	466	14	77
Louisiana	72	72	2,236	3,285	2,299	3,357	175	64	3,118
Maine	-	-	1	(b)	1	(b)	(b)	-	-
Maryland	1	(b)	12	5	13	5	4	1	-
Michigan	210	77	4,848	3,509	5,011	3,586	3,045	541	-
Minnesota	1,207	581	16,989	21,103	18,079	21,684	20,673	1,011	-
Mississippi	1,580	1,312	6,660	8,606	7,860	9,918	516	68	9,334
Missouri	2,892	2,300	22,123	29,622	24,469	31,922	23,635	3,031	5,256
Montana	3	2	2,264	9,925	2,265	9,927	2,830	7,097	-
Nebraska	12	7	32,989	67,366	32,994	67,373	61,308	6,065	-
Nevada	-	-	3	13	3	13	-	13	-
New Hampshire	-	-	1	(b)	1	(b)	(b)	-	-
New Jersey	-	-	1	1	1	1	1	-	-
New Mexico	718	1,446	2,339	9,200	2,552	10,646	4,962	4,865	819
New York	11	3	111	51	122	54	39	15	-
North Carolina	11	7	2,061	1,219	2,068	1,226	182	7	1,037
North Dakota	1,556	1,210	14,676	26,952	15,544	28,162	9,294	18,868	-
Ohio	36	12	3,425	2,218	3,452	2,230	1,962	263	5
Oklahoma	442	247	7,670	10,643	7,974	10,890	2,600	6,535	1,755
Oregon	2	1	122	277	124	278	57	221	-
Pennsylvania	-	-	459	170	459	170	142	28	-
South Carolina	-	-	2,226	1,931	2,226	1,931	247	38	1,646
South Dakota	2	1	21,625	39,115	21,625	39,116	26,532	12,584	-
Tennessee	2,859	1,716	10,799	8,588	13,209	10,304	1,769	52	8,483
Texas	9,177	20,922	46,357	122,486	50,508	143,408	43,320	19,638	80,450
Utah	13	6	679	934	687	940	192	748	-
Vermont	4	1	11	2	15	3	3	-	-
Virginia	-	-	86	40	86	40	29	4	7
Washington	8	6	285	804	293	810	133	677	-
West Virginia	-	-	10	5	10	5	5	(b)	-
Wisconsin	225	123	13,529	12,521	13,691	12,644	12,572	72	-
Wyoming	4	2	205	284	208	286	75	211	-
Rounding difference	-	2	-	-2	-	-	-1	2	-1
Total	26,482	$35,281	304,119	$521,787	321,506	$557,068	$327,793	$101,478	$127,797

a Some farms involved both prevented-planting and low-yield payments; therefore the total may be less than the sum of the farms shown in the individual columns for prevented planting and low yield.

b Less than $500.

COMMODITY CREDIT CORPORATION
1975 DISASTER PAYMENT PROGRAM
SUMMARY OF EXPENDITURES
FEBRUARY 5, 1976

State	Prevented planting		Low yield		Total		Total amount by commodities		
	Farms	CCC payments (000 omitted)	Farms	CCC payments (000 omitted)	Farms (note a)	CCC payments	Feed grains	Wheat	Cotton
						---(000 omitted)---			
Alabama	89	$ 207	2,900	$ 3,037	2,981	$ 3,244	$ 232	$ 12	$ 3,000
Arizona	-	-	17	55	17	55	7	-	48
Arkansas	1,382	3,140	1,277	1,536	2,588	4,676	5	35	4,636
California	8	32	137	424	143	456	114	335	7
Colorado	44	106	3,773	9,978	3,798	10,084	2,123	7,961	-
Delaware	-	-	12	6	12	6	1	5	-
Florida	35	181	511	391	538	572	324	-	248
Georgia	193	427	1,178	1,162	1,362	1,589	385	47	1,157
Idaho	62	77	790	1,772	844	1,849	342	1,507	-
Illinois	51	40	805	694	850	734	542	180	12
Indiana	50	33	822	669	869	702	658	44	-
Iowa	15	18	9,827	14,081	9,839	14,099	14,078	21	-
Kansas	200	163	13,217	16,506	13,334	16,669	6,923	9,746	-
Kentucky	31	39	1,272	602	1,298	641	559	34	48
Louisiana	1,685	3,264	921	1,269	2,496	4,533	41	7	4,485
Maryland	-	-	35	14	35	14	9	5	-
Michigan	170	90	803	322	955	412	316	96	-
Minnesota	69	48	9,520	12,618	9,570	12,666	11,068	1,598	-
Mississippi	3,295	5,070	4,029	7,392	6,971	12,462	62	12	12,388
Missouri	552	821	10,926	11,553	11,389	12,374	9,560	807	2,007
Montana	90	97	541	1,232	621	1,329	261	1,068	-
Nebraska	3	2	9,425	11,188	9,431	11,190	7,012	4,178	-
Nevada	-	-	1	5	1	5	-	5	-
New Jersey	-	-	4	4	4	4	4	(b)	-
New Mexico	140	300	1,062	2,605	1,161	2,905	1,023	702	1,180
New York	4	3	63	25	66	28	20	8	-
North Carolina	123	146	2,952	1,438	3,057	1,584	927	83	574
North Dakota	405	298	5,109	8,491	5,425	8,789	3,124	5,665	-
Ohio	52	20	588	270	637	290	229	61	-
Oklahoma	811	836	6,251	8,504	6,826	9,340	887	5,531	2,922
Oregon	3	3	160	367	161	370	50	320	-
Pennsylvania	34	16	260	73	289	89	62	27	-
South Carolina	55	129	997	1,110	1,042	1,239	115	17	1,107
South Dakota	11	25	16,349	23,929	16,357	23,954	19,937	4,017	-
Tennessee	1,807	1,801	4,043	3,661	5,639	5,462	209	187	5,066
Texas	2,176	3,290	18,058	36,413	19,760	39,703	5,969	3,755	29,979
Utah	90	68	310	682	378	750	85	665	-
Vermont	-	-	20	6	20	6	6	-	-
Virginia	-	-	507	141	507	141	29	112	-
Washington	9	7	37	64	46	71	4	67	-
West Virginia	1	2	12	5	13	7	4	3	-
Wisconsin	35	17	3,694	2,043	3,723	2,060	2,046	14	-
Wyoming	1	(b)	197	360	198	360	69	291	-
Rounding difference	-	1	-	-	-	1	-2	1	2
Total	13,781	$20,817	133,412	$186,697	145,251	$207,514	$89,419	$49,229	$68,866

[a] Some farms involved both prevented-planting and low-yield payments; therefore the total may be less than the sum of the farms shown in the individual columns for prevented planting and low yield.

[b] Less than $500.

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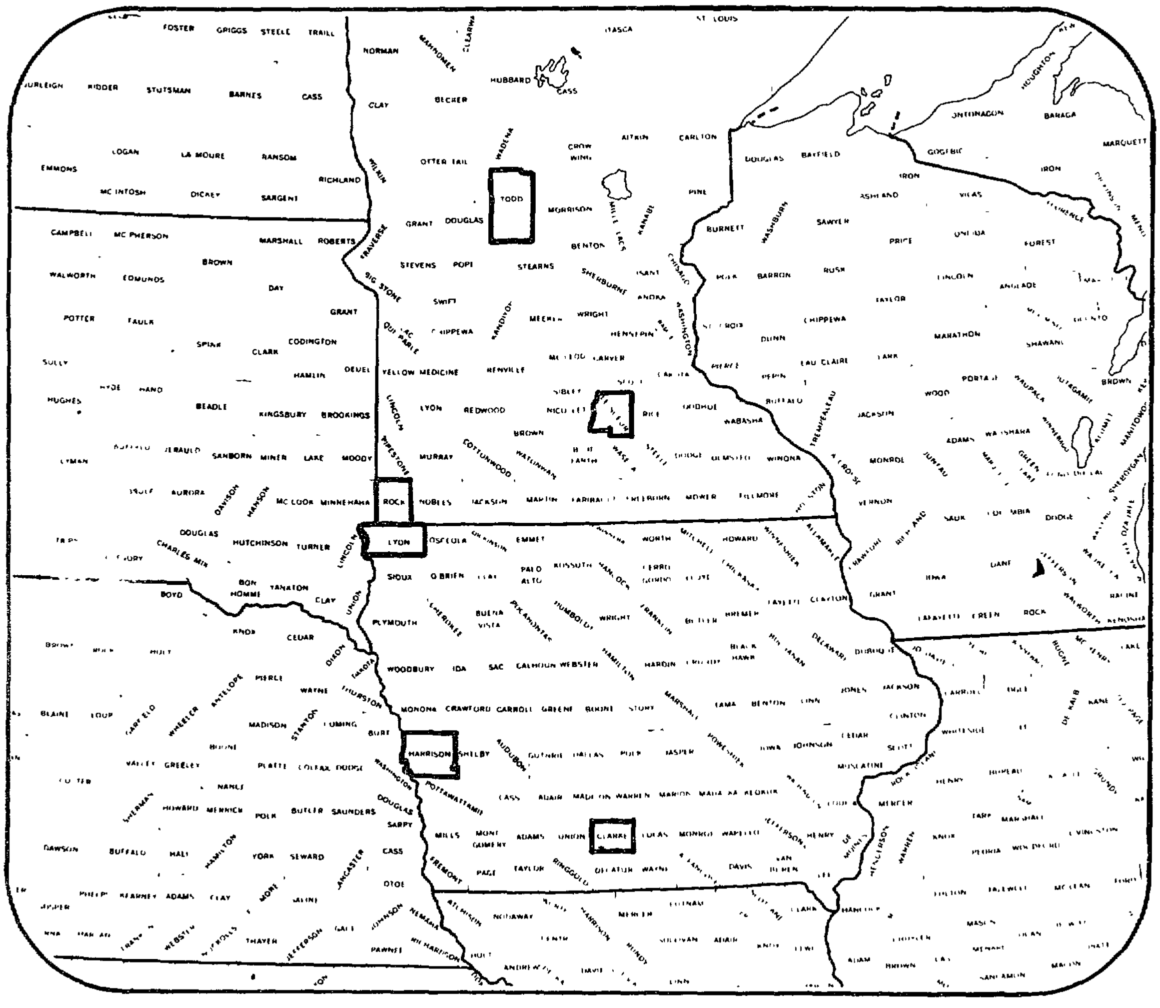
APPENDIX IV

COUNTIES IN IOWA AND MINNESOTA VISITED BY GENERAL ACCOUNTING OFFICE



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

JAN 22 1976

Mr. Henry Eschwege
Director, Resources and Economic
Development Division
General Accounting Office

Dear Mr. Eschwege:

Generally, the Department is in agreement with the conclusions presented in the draft of a proposed report of the General Accounting Office entitled "Need to Reassess Federal Role In Alleviating Agricultural Producers' Losses When Crops Are Damaged or Destroyed." Correction of some minor technical information involving Federal Crop Insurance matters were discussed informally with Mr. Podolsky of your office.

We concur with the findings of the report which relate the inequities, deficiencies, and limitations of the disaster payment program of the Agriculture and Consumer Protection Act of 1973. However, we do not agree that use of the "disaster yield" for purposes of determining payment eligibility is inconsistent with congressional intent.

The Department strongly supports enactment of S. 1647 and H.R. 7847 which would expand the FCIC program and eliminate the disaster payment program provisions of the Agriculture and Consumer Protection Act of 1973. An expanded FCIC program would reduce outlays under the FmHA Emergency Loan Program as well as reduce need for the Livestock Feed Program.

The Department encourages immediate consideration of S. 1647 and H.R. 7847 by the respective Senate and House Agriculture Committees. We agree that the items recommended for consideration by the Congress contained in the report as well as others be given thorough consideration in the development of effective legislation which would shift the cost of and responsibility for providing disaster protection for cotton, wheat, and feed grain producers from the taxpayers to the producers themselves--the primary beneficiaries.

Sincerely,

Dale Sherwin

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Richard E. Bell	July 1975
ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, AND EXECUTIVE VICE PRESIDENT, COMMODITY CREDIT CORPORATION:	
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