Agricultural Marketing Policy Center

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Production Risk Management for Wyoming Ranches: The Future for Federal Disaster Programs

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Introduction

Wyoming ranchers know they are involved in risky enterprises and use a wide range of tools to manage risk and reduce the chances that they will suffer financial losses. As a result, they are experienced in developing and implementing risk management strategies for their operations and carefully develop and implement their production risk management strategies.

A Wyoming ranch manager is likely to choose among alternative risk management strategies on the basis of the ranch's financial structure and the ranch manager's preference and capacity for taking on or avoiding risk. Ranchers use a wide variety of production techniques to reduce forage and livestock losses; for example, rotational grazing, inoculating livestock against disease, and ensuring they have carryover stocks of hay for feed from one year to the next. Additionally, ranchers make use of Federal crop insurance products and, when they are eligible for disaster aid, permanent disaster aid programs.

The Food, Conservation and Energy Act of 2008 authorized five standing (or permanent) disaster programs. These were: the Supplemental Revenue Assistance Program (SURE); the Livestock Forage Disaster Program (LFP); the Livestock Indemnity Program (LIP); the Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP); and the Tree Assistance Program (TAP).

These programs were administered by the Farm Service Agency (FSA), USDA. All but the tree assistance program were used by ranch managers over the period 2008 to 2011 to address production losses attributable to disaster conditions. Appropriations to implement LFP, LIP and ELAP in fiscal year 2012, the three permanent disaster programs of most interest to livestock producer, were not authorized in the 2008 Farm Bill or through subsequent legislation. However, attempts were made in Congress, both in the Senate and House, to reauthorize funding under those three programs for losses incurred in 2012 and again in 2013. No such attempts were made to refund the SURE program for crop losses and the new Senate and House Bill proposals would simply terminate that program.

Changes in the future operation of, and funding levels for some of these permanent disaster programs are under consideration in Congress as efforts to formulate a new 2013 farm bill move forward. The fundamental elements of several permanent disaster programs have largely been left in place in the proposed legislation. The next section will briefly outline the central elements of the current (2008 Farm Bill) LFP, the LIP, and the ELAP) programs, all of which are important financial risk management programs for Wyoming ranchers.

The 2008 Farm Bill Permanent Disaster Programs

The **Livestock Forage Program** (**LFP**) provides compensation to eligible livestock producers who have suffered **grazing losses** because of qualifying **drought** or **fire**. For **drought**, losses eligible for compensation must have occurred because of a qualifying drought during the normal grazing period for a county on land that is native or improved pastureland with permanent vegetative cover, or land planted with a crop specifically for grazing livestock.

For **fire,** the program provides payments to eligible livestock producers who have suffered grazing losses on rangeland managed by a Federal agency when the producer is not allowed to graze the normally permitted livestock on the managed rangeland because of a qualifying fire. The eligible grazing losses must occur in the same calendar year for which LFP program benefits are being requested.

Compensation provided under LFP can be used for any purpose by the program participant. In each fiscal year over the period 2008-2011, the Secretary of Agriculture was allowed to use such funds as necessary from the Commodity Credit Corporation to provide financial assistance to eligible producers suffering a loss for which compensation could be provided under the LFP.

Details on eligible grazing types, eligible grazing lands, eligible covered livestock and eligible livestock producers are described in more detail in the policy paper: ***Livestock Forage Disaster Program (LFP)***, *Montana State University Agricultural Marketing Policy Center Policy Paper No. 34, February 2010*, by Johnson, James B., John P. Hewlett and Vincent H. Smith.

There is a **risk management purchase requirement** for a ranch to be eligible LFP disaster aid benefits. To be eligible for financial assistance under LFP for grazing land, a producer must either (1) obtain a USDA Risk Management Agency (RMA) policy or plan of insurance for the forage crop, or (2) file the required paperwork and pay the administrative fee by the application closing date for the FSA managed Noninsured Crop Disaster Assistance Program (NAP) coverage.

Livestock producers are not required to purchase a pilot insurance program offered by RMA to be eligible for LFP, but can become eligible for LFP if they purchase such insurance instead of NAP coverage. The only RMA-approved insurance program available for pastureland and grazing land in Wyoming is **Pasture, Rangeland and Forage Vegetation Index (PRF-VI).** This is a pilot insurance program and because PRF-VI is not offered at the catastrophic level, coverage under NAP is available to producers in all Wyoming counties.

In Wyoming, for purposes of meeting the LFP risk management purchase requirement a producer may purchase the PRF insurance or NAP coverage, or both (and under the current 2008 Farm Bill provisions a ranch can indemnified for losses under both PRF and NAP).

A general signup period and ending date are not applicable for LFP. A county FSA office announces that livestock producers in the county may make application for LFP because the county has a **qualifying drought** based on the U.S. Drought Index severity rating. The severity of the index severity rating will also influence the level of payments made to livestock producers, as described in Policy Paper No. 34, referenced above.

The **Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program** (**ELAP**) provides disaster aid assistance to eligible producers of livestock, honeybees, and farm-raised fish. Disaster aid under ELAP is provided to producers who have losses due to disease, adverse weather, or other conditions, including losses due to blizzards or wildfire, as determined by the Secretary of Agriculture. The ELAP program provides disaster aid only for losses **not covered** under the LFP, LIP, and SURE disaster assistance programs.

Between 2008 and 2011, ELAP provided coverage for the following five types of losses incurred by livestock producers that were not eligible for aid under other disaster aid programs:

(1) Livestock producers were eligible for ELAP disaster aid if they had eligible grazing losses due to eligible adverse weather or other eligible loss conditions that occurred on eligible grazing lands physically located in a county that experienced the eligible adverse weather or eligible loss conditions. Eligible adverse weather and loss

conditions included, but were not limited to blizzards, floods, hurricanes, wildfires on non-federal lands, and hail.

(2) Livestock producers of forage or feedstuffs intended for feed for the producer's livestock were eligible for ELAP if feed was damaged or destroyed when the feed was located in a county that experienced the eligible adverse weather or loss condition.

(3) Livestock producers were eligible for ELAP to cover a portion of the loss related to additional costs incurred in transporting livestock feed to eligible livestock due to an eligible adverse weather or loss condition.

(4) Livestock producers were eligible for ELAP to cover a portion of the loss related to the cost of purchasing additional livestock feed above normal quantities to maintain eligible livestock due to adverse weather or eligible loss condition until livestock feed becomes available. The additional feed had to be fed to livestock in the county where the eligible adverse weather or adverse loss condition occurred.

(5) Livestock producers were eligible for ELAP for losses due to livestock death in excess of normal mortality because of an eligible loss condition that was **not** eligible under LIP. ELAP also covered death losses due to other eligible loss conditions.

Details on eligibility criteria and select examples of financial assistance provided to livestock producers are fully outlined in the briefing paper, ***Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP): Wyoming*****,** *Montana State University Agricultural Marketing Policy Center Briefing No. 101, January 2012,* by Smith, Vincent H., James B. Johnson, and John P. Hewlett.

The 2008 Act provided a maximum national funding level of $50,000,000 per fiscal year to compensate farmers and ranchers for all approved claims under ELAP. This resulted in the proration of claim amounts in any fiscal year in which the sum of all approved ELAP claims exceeded the $50,000,000 funding maximum.

ELAP has a risk management purchase requirement. To be eligible for ELAP payments, producers on a farm must have purchased insurance for each "insurable commodity," with the exception of **grazing land** (for which federal crop insurance or NAP coverage was not required)**. "**Insurable commodities" are those commodities for which a plan of insurance can be obtained from RMA. Coverage for "noninsurable" commodities is generally available through the Noninsured Crop Disaster Assistance Program (NAP) administered by FSA. So, to be eligible for ELAP assistance producers must have obtained an RMA plan of insurance or NAP coverage for all crops **except** for grazing land.

The 2008 Farm Bill **Livestock Indemnity Program (LIP)** provides payments to eligible livestock owners and contract growers for livestock death loss in excess of normal mortality in due to adverse weather.

LIP payments are based on eligible losses incurred by individual owners (or contract growers) because of adverse weather conditions. No Secretarial Disaster Declaration, Presidential Disaster Declaration, state, county, or other trigger is needed to define eligibility for LIP. Several forms of adverse weather events may cause livestock deaths eligible for compensation under LIP. These include blizzards, tornadoes, lightning, earthquakes, floods, extreme cold, extreme heat, wildfire, and disease.

Wildfires that cause livestock deaths must be related to an adverse weather event. Drought is generally not an eligible adverse weather event for the cause of livestock death under LIP.

The general indemnity calculation under LIP is 75 percent of the average fair market value of applicable livestock on the day before death, as determined by FSA.

Details on eligibility criteria and select examples of compensation for livestock death loss are presented in ***Livestock Indemnity Program (LIP): Montana,*** *Montana State University Agricultural Marketing Policy Center Policy Paper No. 31, January 2010*, by James B. Johnson and Vincent H. Smith.

LIP does **not** have a **risk management purchase requirement** for program benefit eligibility.

Some of the key elements of LFP, ELAP and LIP are summarized in Table 1.

Potential Changes in the Standing Disaster Assistance Programs

The Senate and the House have recently approved alternative proposals for a 2013 Farm Bill. In the Agricultural Reform, Food, and Jobs Bill passed by the Unites States Senate in June 2013, most of the major elements of LIP from the Food, Conservation and Energy Act of 2008 are retained.

Under provisions of the Senate bill, LFP coverage would be expanded and it would become the **one** livestock forage disaster assistance program for weather-related losses. Although ELAP would retains its title, the scope of coverage for livestock producers under ELAP would be reduced because its provisions for livestock forage losses resulting from adverse weather and other allowable causes of loss would be moved to LFP. This could be potentially beneficial for Wyoming livestock operations and compensation for eligible losses would not be pro-rated under the revised LFP as they would be under ELAP.

Funding for LIP, the indemnity program for the loss of livestock in excess of normal mortality rates, would renewed and provided by the Commodity Credit Corporation. This would allow indemnities to be paid without proration as the program could not be oversubscribed. However, the payment rate set by the Senate bill would be reduced from 75 percent (the rate established under the provisions of the 2008 farm bill) to 65 percent of the market value of the livestock, as determined by the Farm Service Agency (FSA).

Under the Senate bill, the function of LFP would be expanded beyond its current role of providing compensation for grazing losses due to drought or fire. Under the provisions of the Senate bill, the LFP would become the only source of disaster aid for livestock producers to seek financial assistance for weather-related livestock forage losses. This would be accomplished by combining the livestock forage loss functions of the Noninsured Crop Disaster Assistance Program (NAP) and other forms livestock forage loss disaster assistance that were addressed by the ELAP program, as established under the provisions of the 2008 Farm Bill.

The Commodity Credit Corporation would continue to fund financial assistance for livestock forage losses under LFP, and, as discussed above, disaster aid payments for livestock forage losses would not be prorated (as they could be under ELAP).

Wyoming ranchers and other livestock producers will have to await the outcomes of a congressional conference committee and the subsequent Federal rule making process to fully evaluate the implications of augmenting the existing LFP with livestock forage losses previously addressed by ELAP, NAP and federal crop insurance.

Under the Senate farm bill proposal, ELAP funding would be reduced from its 2008 Farm Bill annual funding level of $50,000,000 to $15,000,000 for financial assistance to eligible livestock, honey bee and farm-raised fish producers. However, as discussed above, livestock forage loss assistance previously provided under ELAP would be covered under LFP and not subject to proration.

Under the Federal Agriculture Risk Management Bill of 2013 passed in July 2013 by the United States House of Representatives, only nominal changes were made in the disaster assistance programs of relevance to most Wyoming ranchers---LIP, LFP, and ELAP.

The 2013 House farm bill contains no language suggesting that livestock forage losses under ELAP be moved to LFP or that LFP would include certain functions of NAP or Federal crop insurance in an expanded program.

The House bill reduces ELAP funding from $50,000,000 for the existing program to $20,000,000 per year. Unless program changes are made in ELAP, this reduced level of funding could marginalize financial assistance to livestock producers for weather-related forage and feed losses because those payments would be likely be prorated.

The House bill continues the livestock loss indemnity rate for livestock death at 75 percent of the market value of the livestock with funding from the Commodity Credit Corporation at a level to provide financial assistance to all producers with allowable losses.

A summary of LIP, LFP and ELAP elements included in the recent legislation is provided in Table 2.

The Use of LIP, LFP and ELAP by Wyoming Ranchers in Future Years

Wyoming ranchers can look forward to continued financial assistance from the LFP, LIP and ELAP standing disaster assistance programs. There may be some reconfiguration of these programs, depending on decisions made by the congressional conference committee, and changes in operating rules, but much of the funding for financial assistance will continue.

Currently, what is least clear, and of concern to Wyoming farmers and ranchers, is how some Of the NAP program provisions program managed by FSA and the federal crop insurance program managed by RMA may be linked with LFP.

Table 1: Summary of Key Elements of the LFP, ELAP, and LIP Standing Disaster Programs authorized under the 2008 Farm Bill

Program	Losses Addressed	Production Risk Purchase Requirement	Funding
Livestock Forage Disaster Program (LFP)	Grazing losses due to drought or fire	Crop insurance or NAP (or both Crop Insurance and NAP) for grazing land	Commodity Credit Corporation funds to compensate farmers for eligible losses
Emergency Assistance for Livestock, Honeybees and Farm Raised Fish (ELAP)	Losses incurred by livestock producer s not covered under other disaster programs	Crop insurance on insurable commodities and NAP coverage where available on other commodities **except grazing land**	$50,000,000 per year; if national losses exceed the limit, payments on eligible losses are prorated
Livestock Indemnity Program (LIP)	Livestock death losses in excess of normal mortality rates due to adverse weather	None	Commodity Credit Corporation funds to indemnity producers for eligible livestock losses

Table 2: Summary of Key Elements of the LFP, ELAP, and LIP Supplemental Disaster Programs Under the Senate and House Proposals for a 2013 Farm Bill

Program	Losses Addressed	Production Risk Purchase Requirement	Funding
Livestock Forage Disaster Program (LFP)	A **one** stop program to provide financial assistance for **all** livestock forage losses caused by adverse weather and other allowable causes per Senate bill. House bill does not change central elements of the current program	Unknown at this time due to the proposed combination of certain NAP and Federal crop insurance programs with LFP in Senate bill	Commodity Credit Corporation funds to compensate eligible losses
Emergency Assistance for Livestock, Honeybees and Farm Raised Fish (ELAP)	Losses , other than livestock forage losses, incurred by livestock producers not covered under other disaster programs per Senate bill; no change from existing program under House Bill	Somewhat unclear but likely crop insurance on insurable commodities and NAP coverage where available on other commodities	$15,000,000 in the Senate Bill and $20,000,000 if oversubscribed, payments on eligible losses are prorated
Livestock Indemnity Program (LIP)	Livestock death losses in excess of normal mortality rates due to adverse weather	None	Commodity Credit Corporation funds to indemnity producers for eligible livestock losses; payment rate 65 percent in Senate bill and 75 percent in the House bill