



# **A Whole-Farm Crop Disaster Program: Supplemental Revenue Assistance Payments (SURE)**

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## Summary

In an effort to end the ad-hoc nature of emergency crop disaster assistance to farmers, Congress authorized a new Supplemental Revenue Assistance Payments Program (SURE) in the Food, Conservation, and Energy Act of 2008. The program provides payments to producers for crop revenue losses due to natural disaster or adverse weather incurred on or before September 30, 2011. It essentially compensates eligible producers for a portion of losses that are not eligible for an indemnity payment under a crop insurance policy. The program departs from both traditional disaster assistance and crop yield insurance by calculating and reimbursing losses using total crop revenue for the entire farm (i.e., summing revenue from all crops for an individual farmer).

Under SURE, a farmer's revenue from *all* crops in *all* counties is compared with a guaranteed level that is computed mostly from expected or average yields and prices. As a result, the program considers the disaster's impact on a farmer's entire enterprise and not on just the crop(s) that were adversely affected. If the actual farm revenue (including farm program payments and insurance indemnities) is less than the farm's guaranteed level, the producer receives a payment, calculated as 60% of the difference between the two amounts. In contrast, if actual whole farm revenue does not fall below the guarantee, whereby losses for one crop are offset by revenue gains for another, no disaster payment is made. Payments are limited so that the guaranteed level cannot exceed 90% of expected farm income in the absence of a natural disaster. In 2010, the U.S. Department of Agriculture (USDA) issued more than \$2.0 billion for 2008 crop losses under the SURE program, with the level of payments by state generally proportional to indemnities.

USDA officials say that SURE is the most complex program USDA's Farm Service Agency has undertaken. It has faced a number of implementation challenges in terms of program administration, such as collecting and tabulating a significant amount of data for individual farmers, as well as crop price data that are not readily available. Another issue has been accounting for various insurance products when determining the farmer's guarantee level.

Part of the motivation behind SURE was to provide a pre-designed program that farmers could incorporate in their risk management planning. Also, payments would be presumably more timely because legislation would already be in place when disaster strikes. However, disaster payments under SURE arrive well after the crop loss because some of the data needed to compute payment rates become available more than one year after harvest. Computing actual farm revenue requires season-average prices, which USDA publishes after the market year ends. Also, government commodity payments, which are also needed for the revenue calculation, can occur 1½ years after the crop is harvested. Thus, SURE program payments have not been as timely as some farmers and policymakers would like. In fact, legislation was introduced in late 2009 in both chambers (S. 2810 and H.R. 4177) that would have made emergency payments for losses in calendar 2009. The legislation did not pass Congress, but the Administration implemented an ad hoc program in fall 2010 that paralleled the legislation.

In the next farm bill debate, Congress will likely be interested in the effectiveness of SURE, and, if the program is continued, how it will be funded. SURE is one of 37 programs that does not have budgetary baseline. Major policy questions are likely to be (1) whether the SURE program can be modified to eliminate the need for ad-hoc crop disaster payments, and (2) how well this whole-farm approach helps manage farm-level risk. Some farmers have already complained that the whole-farm approach typically does not result in disaster payments for diversified operations. In contrast, where farmers have qualified for payments, the reaction has been generally favorable.

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The Food, Conservation, and Energy Act of 2008 (P.L. 110-246, 2008 farm bill) created a set of disaster programs called “Supplemental Agricultural Disaster Assistance.” The programs supplement crop insurance coverage and provide disaster assistance for livestock (including aquaculture and honey bees), forage, and tree and nursery crops.

The largest component of Supplemental Agricultural Disaster Assistance is a new crop disaster program called the Supplemental Revenue Assistance Payments Program (SURE). The program pays producers for crop revenue losses due to natural disaster or adverse weather incurred on or before September 30, 2011. It essentially compensates eligible producers for a portion of losses that are not eligible for an indemnity payment under a crop insurance policy. The program departs, however, from both traditional disaster assistance and crop yield insurance by calculating and reimbursing losses using total crop revenue for the entire farm (i.e., summing revenue from all crops for an individual farmer). Because of the size and complexity of SURE, this report focuses on the program’s mechanics and some implementation and policy issues.

On December 28, 2009, the U.S. Department of Agriculture (USDA) issued regulations for SURE.<sup>1</sup> USDA officials say that this is the most complex program USDA’s Farm Service Agency has undertaken, and the Department has faced a number of issues as it implements the program.

In the next farm bill debate, Congress will likely be interested in the effectiveness of SURE, and, if the program is continued, how it will be funded. SURE is one of 37 programs that does not have a continuing budgetary baseline that could be used to pay for extending the program.

## Federal Programs for Crop Disaster

Historically, three ongoing federal programs help farmers deal with risk associated with crop losses. Each has permanent authorization and receives regular annual funding. *Crop insurance* indemnifies participating producers for yield or revenue losses for their farms. USDA’s *noninsured crop disaster assistance program (NAP)* provides crop-loss coverage for crops not covered by insurance policies. *Emergency disaster loans* are available to producers when a county has been declared a disaster area either by the President or the Secretary of Agriculture.

In recent decades, when these programs did not provide sufficient financial assistance to producers, Congress has provided “ad-hoc” emergency crop disaster assistance. In virtually every crop year between 1988 and 2007, Congress provided disaster assistance to farmers and ranchers with significant weather-related production losses. During this period, federal ad-hoc crop disaster programs provided approximately \$1 billion per fiscal year to farmers who experienced a major crop loss caused by a natural disaster. Ad-hoc assistance has been made available primarily through emergency supplemental appropriations to a wide array of USDA programs. In 2010, the Administration, using “Section 32” authority, implemented the Crop Assistance Program to make payments for losses in calendar 2009. The program stems from legislation (S. 2810 and H.R. 4177) that was introduced but not passed in the 111<sup>th</sup> Congress.<sup>2</sup>

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<sup>1</sup> Farm Service Agency, USDA, “Supplemental Revenue Assistance Payments Program,” 74 *Federal Register* 68480-68498, December 28, 2009. The regulation and other information on SURE are available from USDA at <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=diap&topic=sure>.

<sup>2</sup> For more information, see CRS Report RS21212, *Agricultural Disaster Assistance*; and CRS Report RL31095, *Emergency Funding for Agriculture: A Brief History of Supplemental Appropriations, FY1989-FY2009*.

In an effort to end the ad-hoc nature of emergency assistance, with legislation enacted *after* the disaster occurred, Congress authorized the SURE program in the 2008 farm bill. Part of the motivation was to provide a pre-designed program that farmers could incorporate in their risk management planning. It would presumably provide more timely payments.

## **How SURE Works**

A major distinction of SURE is that payments are based on whole-farm crop revenue, not crop-specific losses. In previous disaster programs, producer payments were based on individual crop losses. If a farmer experienced a yield loss, the farmer would be eligible for a payment specific to that crop loss, assuming other criteria were met. Revenue losses are, in general, determined by the calendar year of harvest.

Under the new program, a farmer's revenue from *all* crops in *all* counties is compared with a guaranteed level of revenue that is computed mostly from expected or average yields and prices. As a result, the program considers the disaster's impact on a farmer's entire enterprise and not on just the crop(s) that were adversely affected. If the actual farm revenue (including farm program payments and insurance indemnities) is less than the farm's guaranteed level, the producer receives a payment. In contrast, if actual whole farm revenue does not fall below the guaranteed level, whereby losses for one crop are offset by revenue gains for another, no disaster payment is made. Payments are limited so that the guaranteed level cannot exceed 90% of expected farm income in the absence of a natural disaster.

## **Eligibility Requirements**

The law specifies that farmers must purchase insurance on all crops in their farming operation, including field crops, hay, double-crop plantings, and fruits and vegetables. Requiring insurance coverage ensures that SURE is supplemental, not primary, insurance, which limits expenditures. This requirement covers production in all counties and states where a farmer has a share in the production. If crop insurance is not available, producers must purchase Noninsured Crop Disaster Assistance Program (NAP) coverage. The value of any crop not eligible to be insured under either program is not be considered under SURE.

Producers are not required to purchase insurance or NAP coverage if the crop is not economically significant or if the NAP administrative fee (currently \$250 per crop) exceeds 10% of the value of the coverage. Economic significance is defined by the crop having at least a 5% share of the producer's total expected revenue from all crops grown.

Finally, eligible farmers must have a financial interest and be at risk in the production of crops located in a secretarial-disaster-declared county (or a contiguous county), or have an overall yield loss greater than 50%, as measured by total production and acreage of all crops in all counties for an individual producer. At least one crop of economic significance must suffer at least a 10% yield loss due to disaster, adverse weather, or disaster-related conditions.

## Payment Calculation

SURE payments will be made when an individual producer's *program guarantee* total is greater than the *farm revenue*. The payment is 60% of the difference between the two. Both revenue and guarantee are calculated by summing the values for all crops across all locations for an individual producer. The SURE calculation described below is summarized in Box 1. A hypothetical scenario for an individual farmer is shown in Box 2.<sup>3</sup>

## SURE Guarantee

The guaranteed revenue level in the SURE program is essentially the sum of a farm's crop insurance guarantees increased by 15%, and NAP guarantees increased by 20%. These factors are designed to partly fill the gap left by insurance or NAP coverage.<sup>4</sup> Values for both insured and NAP crops are summed to arrive at a farmer's total revenue guarantee.

For insurable crops, the guarantee is the product of the 1.15 factor, the (adjusted) actual production history (APH) yield,<sup>5</sup> the insurance coverage level, planted or prevented planted acreage, and price election. The yield for determining federal counter-cyclical payments (Direct and Counter-Cyclical Payment Program) is used if it is higher than the adjusted APH yield. Including the insurance coverage level is designed to encourage farmers to purchase higher levels of coverage. For non-insurable crops, a similar calculation is made. The guarantee is the product of a 1.20 factor, the NAP price, planted and prevented planted acreage, and 50% of the adjusted NAP yield (or the counter-cyclical payment yield, if higher).

The program guarantee cannot exceed 90% of total expected revenue. The expected revenue is calculated the same as the guarantee, except the 1.15 factor, 1.20 factor, and insurance coverage level are not included in the calculations. The effect of this limit is that the SURE guarantee cannot be greater than a 90% insurance guarantee across all crops.

## Total Farm Revenue

The formula for total farm revenue is the actual value for all crops, plus government payments and crop salvage value (if losses are incurred). Each crop value is determined by multiplying actual harvested production times the national average market price (the regulation provides for adjustments for quality at the local level). For NAP crops, the national average market price cannot be greater than the NAP price.

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<sup>3</sup> For software that estimates a farm's SURE payment, see USDA's program website at <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=diap&topic=sure>. Iowa State University Extension Service also provides software at <http://www.extension.iastate.edu/agdm/crops/html/a1-44.html>.

<sup>4</sup> The factors for 2008 crop guarantees are 1.20 and 1.25, respectively, as provided in the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).

<sup>5</sup> When at least four years of history are available, the adjusted APH averages all years of historical yields and ignores yield "plugs" (substitute data when yields were affected by disaster). When less than four years are available, the yields are averaged after dropping the lowest plug yield.

### Box I. Supplemental Revenue Assistance Payment Mechanism

Title XV of the 2008 farm bill (P.L. 110-246) authorizes a new crop disaster program for FY2008-FY2011. Eligible farmers must be in or contiguous to a disaster-declared county, or have a loss greater than 50% (as measured across all crops in all counties). They must have purchased crop insurance or have coverage under the Noninsured Crop Disaster Assistance Program (NAP), where applicable. Amounts for insurable and non-insurable crops are added together for whole-farm totals (for both the guarantee and farm revenue calculations).

#### I. Payment Formula

Eligible crop producers can receive a supplemental payment equal to:

**60% of (Program Guarantee minus Total Farm Revenue)**

Formula is based on the revenue of the entire farm. The guarantee cannot exceed 90% of Expected Revenue.

#### II. How to Calculate the Program Guarantee:

##### A. Insurable Crops

Program Guarantee = 115% of (Payment Rate X Payment Acres X Payment Yield)

Payment Rate = Crop Insurance Price Election

Payment Acres = Planted and Prevented Planting Acreage

Payment Yield = Selected Crop Insurance Coverage Level X Adjusted Crop Insurance Yield or Counter-Cyclical Payment (CCP) Yield, whichever is higher

##### B. Non-insurable Crops

Program Guarantee = 120% of (Payment Rate X Payment Acres X Payment Yield)

Payment Rate = 100% of the Noninsured Assistance Program (NAP) Price

Payment Acres = Planted and Prevented Planting Acreage

Payment Yield = 50% X Adjusted NAP yield or Counter-Cyclical Payment (CCP) yield, whichever is higher

#### III. How to Calculate Total Farm Revenue:

Total Farm Revenue = Estimated Actual Value for each crop produced on the farm =

Value of Actual Crop Production + 15% of Direct Payments + CCP or Average Crop Revenue (ACRE) Payments + Loan Deficiency Payments (LDP) or Marketing Loan Gains (MLG) + Net Crop Insurance Payments (Indemnities – Premiums) + NAP Payments + Other Disaster Payments + Crop Salvage Value

Where the Value of Actual Crop Production = Actual Harvested Production X National Average Market Price

For NAP eligible crops, the National Average Market Price cannot be greater than 100% of NAP Price.

#### IV. How to Calculate Expected Revenue:

Program Guarantee cannot exceed 90% of Expected Revenue

Expected Revenue = (Adjusted APH or CCP Yield X Planted and Prevented Planted Acreage X Price Guarantee) + (Adjusted NAP Yield X NAP Price)

**Source:** Adapted from CRS Report RL34207, *Crop Insurance and Disaster Assistance in the 2008 Farm Bill*, by Ralph M. Chite and Dennis A. Shields.

**Box 2. SURE Payment—Hypothetical Example for Wheat/Watermelon Farm**

Farmer Martin has just two crops on his farm: 500 acres of wheat and 100 acres of watermelon. To remain eligible for SURE, he purchases (1) crop insurance for wheat and (2) Noninsured Crop Disaster Assistance Program (NAP) coverage for watermelon because crop insurance is not available. The watermelon crop is economically significant because it accounts for at least 5% of expected value of all crops grown by the producer. Assume poor weather adversely affects both crops, and one of the fields is located in a county that has been designated as a disaster county. Using the formula outlined in Box 1, Farmer Martin's SURE payment would be \$15,203.

**I. Payment Formula**

**60% of (Program Guarantee minus Total Farm Revenue)**

$$\text{SURE Payment} = 60\% \times (\$156,488 - \$131,149) = \$15,203$$

**II. How to Calculate the Program Guarantee:**

**A. Insurable Crops (wheat in this example)**

Program Guarantee = 115% of (Payment Rate X Payment Acres X Payment Yield)  
 Program Guarantee = 115% X \$7.35/bu. X 500 acres X 30 bu./ac. = \$126,788

Payment Rate = \$7.35 per bushel  
 Payment Acres = 500 acres  
 Payment Yield = 75% X 40 bu./ac. = 30 bu./ac.

**B. Non-insurable Crops (watermelon in this example)**

Program Guarantee = 120% of (Payment Rate X Payment Acres X Payment Yield)  
 Program Guarantee = 120% X \$8.25/cwt. X 100 acres X 30 cwt./acre = \$29,700

Payment Rate = \$8.25 per cwt.  
 Payment Acres = 100 acres  
 Payment Yield = 30 hundredweight (cwt.)/ac. (50% of average yield); (i.e., 3,000 lbs./ac.)

**Total Program Guarantee = \$126,788 + \$29,700 = \$156,488**

**III. How to Calculate Total Farm Revenue:**

Total Farm Revenue = Estimated Actual Value for each crop produced on the farm =  
 Value of Actual Crop Production + 15% of Direct Payments + Other government payments + Net Crop Insurance  
 Payments (Indemnities – Premiums) + NAP Payments + Other Disaster Payments + Crop Salvage Value

Revenue = wheat (13,000 bu. X \$7/bu.) + watermelon (4,200 cwt. X \$5.75/cwt.) = \$115,150;  
 Direct Payments = 15% X \$8,663 = \$1,299; Net Crop Insurance Payments (Indemnities – Premiums) = \$14,700

**Total Farm Revenue = \$115,150 + \$1,299 + \$14,700 = \$131,149**

**IV. How to Calculate Expected Revenue:**

Program Guarantee cannot exceed 90% of Expected Revenue (Acre X Yield X Price) = **90% X \$196,500 = \$176,850**

Expected Revenue = [500 ac. X 40 bu./ac. X \$7.35/bu.] + [100 ac. X 60 cwt./ac. X \$8.25 per cwt.] = \$196,500

**Source:** Adapted from U.S. Department of Agriculture, Oklahoma Farm Service Agency, *Supplemental Revenue Assistance Payments (SURE)*, Farm Bill 2008 Information Sheet, Oklahoma City, OK, November 2008, [http://www.fsa.usda.gov/Internet/FSA\\_File/sure\\_fact\\_sheet\\_ok.pdf](http://www.fsa.usda.gov/Internet/FSA_File/sure_fact_sheet_ok.pdf).



The government payment sum equals 15% of direct payments plus 100% of all other payments—counter-cyclical payments, average crop revenue election payments, loan deficiency payments, marketing loan gains, net crop insurance payments (indemnities minus premiums), NAP payments, and other disaster payments. Including government payments prevents a farmer from receiving two payments for the same loss.

## **Payment Timing**

Disaster payments under SURE arrive well after the crop loss because some of the data needed to compute payment rates become available more than one year after harvest. Computing actual farm revenue requires season-average prices, which USDA publishes after the market year ends. For example, the 2008 corn crop was harvested in fall 2008. The 2008 corn marketing year ended on August 31, 2009, and USDA published the market year average price on September 29, 2009. After that date, revenue calculations were determined for farms producing corn, assuming other data were also available. Thus, crop disaster payments in any year are delayed for more than a year after the actual loss. In contrast, crop insurance indemnities are typically paid about one month after the farmer signs the claim form.

## **Income and Payment Limits**

For 2008 crops, SURE payments are not available for persons or legal entities if their average adjusted gross income (AGI) for 2005, 2006, and 2007 exceeds \$2.5 million, unless 75% or more of their AGI is from agriculture (AGI includes farm and nonfarm income). Beginning in crop year 2009, the limit is \$500,000 for average adjusted gross nonfarm income.

Total payments per person may not exceed \$100,000 for SURE and the three livestock-related programs under the 2008 farm bill's Supplemental Agricultural Disaster Assistance programs.<sup>6</sup>

## **Changes to SURE Since the 2008 Farm Bill**

The authorizing statute for SURE has been amended twice since the 2008 farm bill was enacted. The first was on October 13, 2008, when P.L. 110-398 made a variety of technical corrections. It also extended the date by which producers were required to “buy-in” to crop insurance or NAP coverage for 2009 crops with closing dates prior to August 14, 2008. Producers would remain eligible for the 2009-crop SURE program by paying the applicable fees by January 12, 2009. (This affected producers with crops such as citrus, nursery, avocados, selected fresh vegetables, and macadamia nuts). Paying the administrative fees makes farmers eligible for SURE payments as if they had purchased crop insurance or NAP on time, but it does not provide coverage itself.

The second change, which affects the 2008 crop year, was contained in the American Recovery and Reinvestment Act of 2009 (ARRA, P.L. 111-5). The enacted ARRA extended “buy-in” deadline for 2008 crops from September 16, 2008,<sup>7</sup> to May 18, 2009 (90 days after enactment of the conference agreement).<sup>8</sup> Additionally, the enacted law allows all producers to receive

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<sup>6</sup> A separate limit of \$100,000 applies for the Tree Assistance Program, as specified in the 2008 farm bill.

<sup>7</sup> The 2008 farm bill originally extended the buy-in date to September 16, 2008.

<sup>8</sup> The buy-in fee is \$100 per crop. The maximum fee for insurable or noninsurable crops is \$300 per county, per producer, not to exceed \$900 for multi-county producers. Paying the fee does not provide the producer with crop (continued...)

potentially higher SURE payments than they otherwise would have received by altering the payment formula.<sup>9</sup> SURE is expected to have greater participation because of ARRA.

## **Interaction with Other Government Programs**

The SURE program is designed to help fill gaps in other government commodity and risk management programs. The cost to the farmer is relatively low, and becoming eligible for SURE does not affect decisions for other programs.<sup>10</sup> As a result, interest in SURE is expected to increase demand for crop insurance and NAP coverage, resulting in a greater share of U.S. crops covered under crop insurance and NAP.<sup>11</sup> Also, farmers who select higher insurance coverage will increase their SURE guarantee.

To reduce the possibility of double payments, the SURE formulas account for indemnities and farm program government payments, including any ad hoc disaster payments. For example, payments under USDA's Crop Assistance Program in 2010 are added to a farm's actual revenue, which reduces the likelihood and/or size of a SURE payment.

## **Funding Source and Expected Outlays**

SURE and the four other disaster programs authorized in the 2008 farm bill are to receive funding through a newly authorized Agricultural Disaster Relief Trust Fund within the U.S. Treasury. The Trust Fund is to receive the equivalent of 3.08% of the amount received each year (FY2008-2011) in U.S. Customs receipts collected on certain goods.

At the time of 2008 farm bill enactment, the Congressional Budget Office (CBO) estimated the combined total costs of the five programs to be \$3.8 billion over the four-year life of the programs. Of this total, CBO estimated that supplemental crop revenue assistance would cost \$1.7 billion over the four years, or an average of \$425 million per year. Another \$1.6 billion would cover increased crop insurance and NAP costs associated with the requirement that participants purchase either crop insurance or NAP coverage. The balance of \$500 million would cover the combined estimated cost of the other four disaster programs, according to CBO. If the cost of the programs exceeds the level of funding provided through Customs receipts, the 2008 farm bill gives the Trust Fund the authority to borrow from the Treasury such sums as necessary to meet its obligations.

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(...continued)

insurance or NAP for the 2008 crop year; it merely permits the producer to become eligible for the 2008-crop disaster assistance programs.

<sup>9</sup> For 2008 crops, a producer's SURE calculation will be based on 70% yield crop insurance coverage (with 100% of price) even if less coverage was purchased. In addition, for farmers who met the original September 16, 2008, deadline, the guarantee for a 2008 crop is the greater of two calculated amounts based on (1) the 70/100 coverage or (2) increased payment factors, specifically 120% for crop insurance and 125% for NAP coverage instead of the 115% or 120% in current law.

<sup>10</sup> For catastrophic coverage, producers pay an administrative fee of \$300 per crop per county. For NAP coverage, the fee is the lesser of \$250/crop/county or \$750/producer/county, not to exceed \$1,875 for producers with farming interests in multiple counties.

<sup>11</sup> Crop insurance coverage is already relatively high. Policies covered 256 million acres in 2010, 265 million acres in 2009, and 272 million acres in 2008 and 2007, according to USDA's Risk Management Agency. U.S.-harvested cropland totaled 310 million acres in 2007, according to the Census of Agriculture.

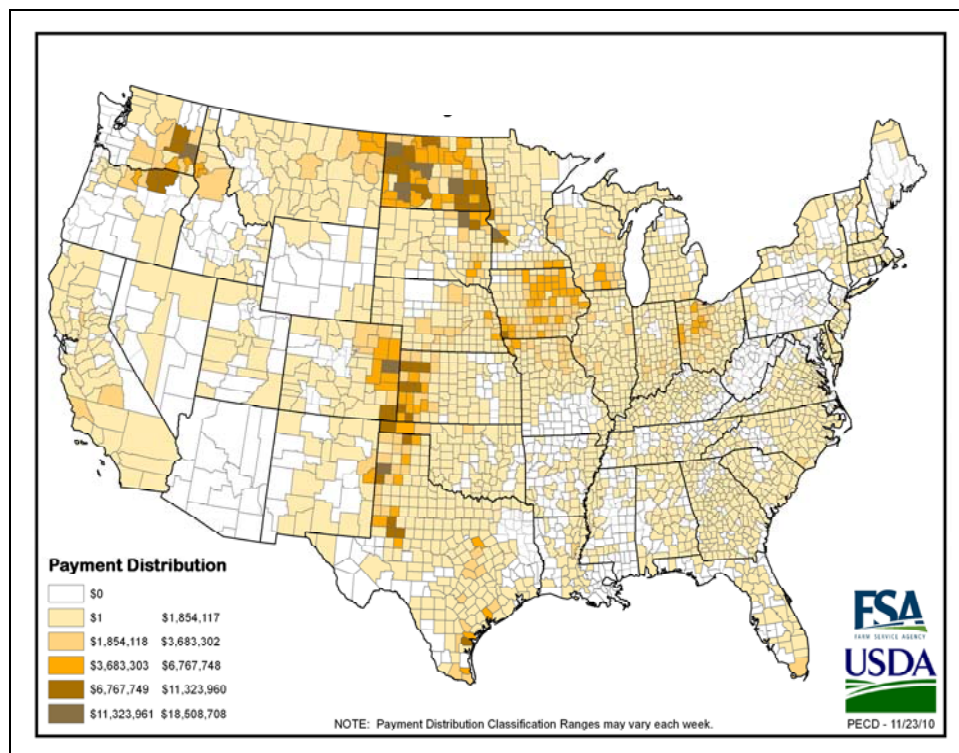
SURE provisions in the American Recovery and Reinvestment Act of 2009 (ARRA, P.L. 111-5) are expected to cost an additional \$674 million, according to CBO estimates. About \$500-\$600 million would be for higher SURE program benefits for the 2008 crop, with the remaining for the cost of crop insurance subsidies associated with additional policy purchases.

USDA estimates total SURE payments at \$3.4 billion for 2008-2011, or \$0.85 billion per year. This is less than average annual payments of \$1.14 billion per year under previous ad hoc disaster programs (1998-2007). When the estimate was made, USDA expected SURE to cost less because losses would be lower when calculated at the farm level, with individual crop losses partially offset by crop insurance indemnities, NAP payments, and revenue from other crops. Also the SURE guarantee cap of 90% is 5 percentage points lower than previous ad hoc disaster programs.

## SURE Payments for 2008 Losses

As of November 2, 2010, SURE payments for 2008 losses totaled more than \$2.0 billion, with slightly more than one-third of the total attributed to changes under ARRA. The geographic distribution of SURE payments is extensive, based on payment data for 2008 losses (**Figure 1**).<sup>12</sup> (Losses for 2009 have not been distributed yet.) SURE payments have been sent to 2,157 counties, or 69% of the total counties served by USDA's Farm Service Agency.

**Figure 1. SURE Payments by County, 2008**

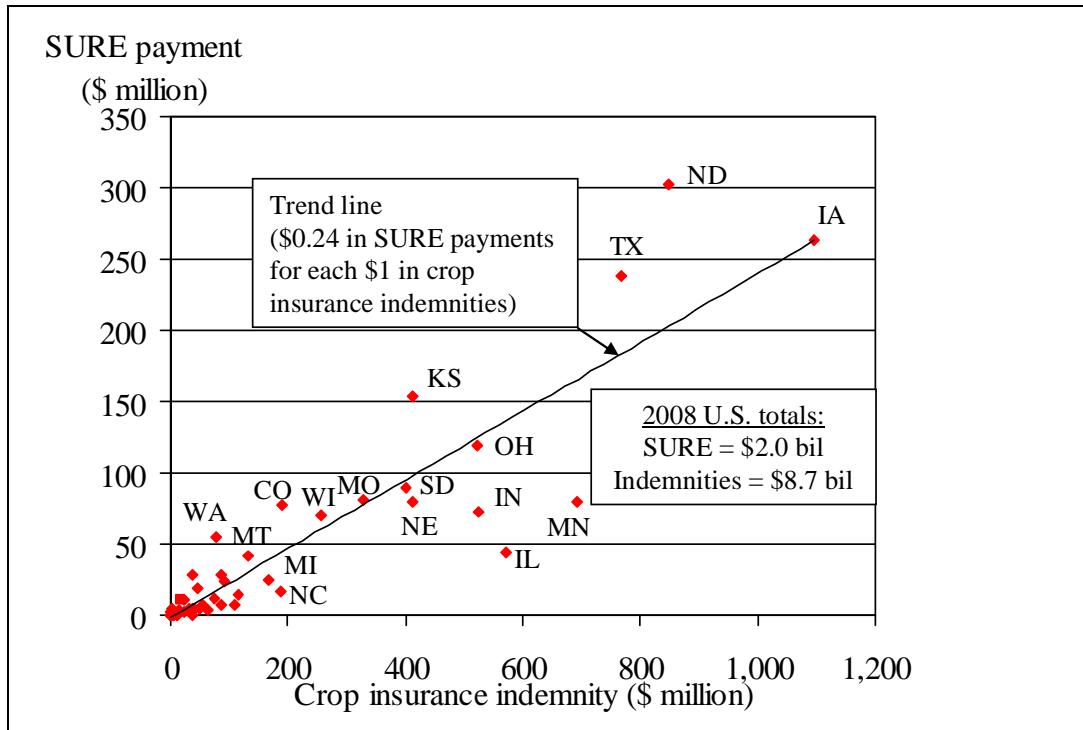


**Source:** U.S. Department of Agriculture, Farm Service Agency.

<sup>12</sup> USDA's Farm Service Agency publishes SURE payment data (by state) and maps at <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=diap&topic=landing>.

Also, SURE is providing supplemental payments at levels that are roughly proportional to crop insurance indemnities when aggregated to the state level (see **Figure 2**). In 2008, for every dollar of crop insurance indemnities, the SURE program paid \$0.24. The states receiving highest indemnities in 2008—Iowa, North Dakota, and Texas—also received the highest amount of SURE payments.

**Figure 2. SURE Payments and Crop Insurance Indemnities by State, 2008**  
(level of SURE payments corresponds with level of indemnities)



**Source:** SURE payments (as of November 23, 2010) from USDA, Farm Service Agency; crop indemnities from USDA, Risk Management Agency.

## Program Implementation Issues

On December 28, 2009, USDA issued regulations for SURE.<sup>13</sup> Farmer signup for 2008 crop losses began January 4, 2010, and USDA began making payments shortly thereafter. The Department expects to begin accepting applications for 2009 losses in late 2010 or early 2011.

USDA officials say that SURE is the most complex program USDA’s Farm Service Agency (FSA) has undertaken. It has faced a number of implementation challenges in terms of program administration.

<sup>13</sup> Farm Service Agency, USDA, “Supplemental Revenue Assistance Payments Program,” 74 *Federal Register* 68480-68498, December 28, 2009. The top three states for 2008 payments are Iowa, North Dakota, and Texas.

## **Computational Challenges**

From a computational standpoint, a significant challenge for USDA is to create software for issuing producer payments. It requires loading, retrieval, and manipulation of a significant amount of data, including the collection of data from FSA county offices across the country, wherever a farmer may be operating. USDA intends to develop a Web-based system that will use data from its mainframe system in Kansas City and combine it with data located elsewhere. For example, NAP records are housed in each county office. The system will share data so that the “home” county office designated by the farmer has access to all of that producer’s records. In order to expedite program delivery and payments, USDA began accepting and processing applications in January 2010 using an interim (manual) process until software that incorporates all SURE program rules can be developed.<sup>14</sup>

Along the same lines, the “farms” used for commodity program payments by USDA’s Farm Service Agency (FSA) are different tracts of land than units used for FSA’s NAP program and the Risk Management Agency’s crop insurance program. Yields from all three may be needed in order to determine the appropriate yield for the SURE guarantee. This requires tabulating weighted average yields for a farmer across all farms in all counties. A significant amount of case-by-case attention may be required to ensure all data have been accounted for and used in the guarantee calculation.

## **Determining Prices**

Determining prices used in the guarantee and farm revenue calculations has also been challenging. USDA’s National Agricultural Statistics Service publishes average prices for major crops and some specialty crops. For some additional specialty crops, USDA’s Market News Service reports daily or weekly prices but does not tabulate average prices weighted by volume. For minor and/or thinly traded crops, USDA may find it difficult to gather enough data to determine average prices for the both the revenue and the guarantee calculation.<sup>15</sup> However, USDA reports that FSA’s state committees have considerable experience developing prices for NAP crops, using a variety of sources such as extension agents.<sup>16</sup>

## **Insurance Issues**

Another issue has been accounting for various insurance products when determining the farmer’s guarantee level. The statutory language for the SURE calculation follows traditional yield-loss insurance in that a farmer selects a coverage level and price. However, some insurance products under the federal crop insurance program, such as adjusted gross revenue,<sup>17</sup> do not fit within this

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<sup>14</sup> For the interim process, all producer information is manually loaded into a spreadsheet to calculate the SURE payment for a farmer. Given the potential for errors in the manual process, USDA implemented a plan in April 2010 to review SURE calculations for selected individuals.

<sup>15</sup> Technical corrections to the 2008 farm bill eliminated the requirement of using national prices, which some say is problematic because crop prices can vary significantly across the country. As specified in regulation, USDA will allow price adjustments by Farm Service Agency state committees to reflect regional variations consistent with prices established for crop insurance or NAP.

<sup>16</sup> FSA state committees review state office operations and make decisions on how programs are applied statewide.

<sup>17</sup> Adjusted gross revenue (AGR) insures revenue of the entire farm rather than an individual crop by guaranteeing a percentage of average gross farm revenue. To calculate the policy revenue guarantee, the plan uses a producer’s (continued...)

structure because there are no yields or prices in the policy on which to base the guarantee. In this case, to determine a farmer's revenue guarantee (on a crop-by-crop basis), USDA will use a combination of data from the individual (planted acres and insurance coverage level elected by the producer) and substitute data (county average yields and NAP prices). For "value loss" crops such as ornamental nursery, which are also covered by non-yield-based insurance policies, SURE payment eligibility will be determined by the inventory immediately before and after a disaster. This will help maintain consistency with insurance policies and NAP for these types of crops. USDA says daily inventory records required for NAP or crop insurance will typically be sufficient for documenting losses for SURE payment eligibility.

## Issues for the 112<sup>th</sup> Congress

In the next farm bill debate, Congress will likely be interested in the effectiveness and cost of the SURE program. Based on CBO and USDA cost estimates, annual SURE payments over the four-year life of the program are expected to be less than the typical levels of ad-hoc disaster payments. However, relatively high first-year (2008) payments, plus the Administration's ad hoc disaster program for 2009 losses for certain crops,<sup>18</sup> have raised the question of whether SURE, as it is currently designed, provides an acceptable (and cost-effective) level of disaster assistance. Moreover, SURE and the other disaster programs in the 2008 farm bill do not have "baseline funding," which means that if Congress wants to reauthorize SURE, it will need to find either new funding or budget offsets to pay for it (see "Funding SURE for Losses Beyond September 30, 2011," below).

A primary policy question is how well this whole-farm approach helps manage farm-level risk. Payment data from 2008 indicate that SURE payments have supplemented crop insurance indemnities as intended (see **Figure 2**), at least in certain parts of the country, including the Corn Belt and Great Plains. While this effectively reduces the deductibles that farmers pay, subsequent years of data are needed to determine how effective the program is for individual farmers over a longer time period. Nevertheless, some farmers have already complained that the whole-farm approach typically does not result in disaster payments for diversified operations because aggregating revenue across a farmer's entire operation substantially reduces the likelihood of receiving assistance.<sup>19</sup> For these farmers, the SURE whole farm approach runs counter to the historical custom of receiving disaster payments that are crop-specific. In contrast, where farmers have qualified for payments, the initial reaction has been generally favorable. For example, farmers in North Dakota are reportedly fairly satisfied with SURE, in combination with benefits provided under crop insurance.<sup>20</sup>

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Schedule F tax form and current-year expected farm revenue.

<sup>18</sup> The Administration's program (called Crop Assistance Program) stems from legislation that was introduced in late 2009 in both chambers (S. 2810 and H.R. 4177) to make emergency payments to producers for losses in calendar 2009. Congress did not pass the legislation. For more information, see CRS Report RS21212, *Agricultural Disaster Assistance*, by Dennis A. Shields and Ralph M. Chite.

<sup>19</sup> U.S. Congress, House Committee on Agriculture, *Testimony of Ronnie Holt*, hearing to review U.S. agriculture policy in advance of the 2012 farm bill, 111<sup>th</sup> Cong., 2<sup>nd</sup> sess., May 17, 2010, <http://agriculture.house.gov/hearings/statements.html>.

<sup>20</sup> U.S. Congress, House Committee on Agriculture, hearing to review U.S. agriculture policy in advance of the 2012 farm bill, 111<sup>th</sup> Cong., 2<sup>nd</sup> sess., April 21, 2010, unofficial transcript of hearing available at (continued...)

Another question is how much overlap exists in federal payments and farm risk reduction among the Average Crop Revenue Election program (ACRE), SURE disaster payments, and crop insurance indemnities. While it may be possible that the same price decline (resulting in revenue loss) may affect both ACRE and crop insurance indemnities, SURE payments account for these programs, thereby minimizing overlap with SURE.

## **Loss Trigger Differs Across Producers**

One outcome of the SURE program design is that the loss trigger differs across producers depending on whether or not they produce crops located in a secretarial-disaster-declared county (or a contiguous county). Producers who are located in a disaster county (or a contiguous county) must show only a 10% yield loss on one crop before qualifying for a SURE payment. Producers in all other counties must show a 50% yield loss. As a result, SURE may address the “shallow loss” problem only in certain counties.

Some have also pointed to the “roulette wheel” nature of SURE, whereby a small change in yield (e.g., 1 bushel per acre) might mean the difference between receiving a large SURE payment and no SURE payment, which can diminish the value of SURE as a risk management strategy.<sup>21</sup>

Part of the issue is the disaster designation process, which results in some states and counties requesting declarations for many or all counties while others are more selective. The dichotomy raises concerns that the possibility of SURE payments depends too much on the designation process, and that the designation may or may not correspond with an individual farmer’s disaster situation.

A related policy issue is that a disaster designation for a particular county can bring with it a “lower bar” (the 10% yield loss rather than the 50% yield loss) for a much larger amount of acreage, if farmers have substantial acreage outside of the disaster or adjacent county. Basing SURE payments on the county where the land is located could make the program less costly, but it would reduce the “whole farm” aspect of the program.

## **Loss Calculation and Payment Level**

The SURE loss calculation, as it is currently designed, builds in downward bias in the revenue determination, which can make it easier to trigger a payment and raise overall program costs. The revenue determination uses a farm or cash price, which is typically lower than the insurance prices (based on futures contract prices) used to calculate many of the guarantees. Putting the prices on the same level (by adjusting one or the other) would reduce additional payments inadvertently caused by program design.

Also, some producers have relatively high Counter-Cyclical Program yields used by SURE because some factors such as irrigation pushed up yields in the 1980s (when those yields were

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<http://www.farmpolicy.com/wp-content/uploads/2010/05/KGood042110-1.pdf>.

<sup>21</sup> Gary Schnitkey, “2008 SURE Window Closes September 30,” *Department of Agricultural and Consumer Economics*, September 24, 2010, [http://www.farmdoc.illinois.edu/manage/newsletters/fefo10\\_16/fefo10\\_16.html](http://www.farmdoc.illinois.edu/manage/newsletters/fefo10_16/fefo10_16.html).

determined). Farmers in this situation can appear to have perpetual losses based on the current SURE formula.

## **Time Lag for Payment Delivery**

The time lag between actual losses and government payments remains a concern (see “Payment Timing”), as evidenced by the (unsuccessful) attempts to pass ad hoc assistance in the 111<sup>th</sup> Congress and the subsequent disaster payment program established by USDA. In contrast to SURE payments, the method for determining losses under the livestock programs is more streamlined, and livestock payments arrive more quickly. For example, livestock death losses for individual producers immediately trigger Livestock Indemnity Program payments, while the weekly publication *U.S. Drought Monitor* is used to determine payments for grazing losses under the Livestock Forage Disaster Program. By its nature, disaster payments using a whole-farm approach like SURE can take more time to determine payment levels.

Some have suggested that making payments on an individual crop basis using crop insurance “harvest prices” (which are known immediately after harvest) could speed up the process and more closely tie disaster payments with need for losses. Such a change would also require provisions to either estimate other government payments (e.g., ACRE) or remove them from the SURE revenue calculation because they are not known until after the marketing season.

## **Reimbursing Farmers for High Input Costs**

Some farmers are encouraging policymakers to consider reimbursing producers for other “losses” related to high input costs. For example, rice farmers have noted that SURE (like crop insurance) does not provide any coverage for increased harvest costs associated with “downed rice” following excessive rain or flooding immediately prior to harvest, which was a widespread problem in 2009.<sup>22</sup> Because SURE is based on revenue (and not costs or margins), some farmers in this circumstance do not qualify for SURE payments. One of the motivations for crop disaster bills in the 111<sup>th</sup> Congress, which preceded the ad hoc disaster program established by the Administration for 2009 losses, was higher 2009 costs for rice producers.

## **Encouraging Risky Behavior**

One potential outcome of the SURE program could be to inadvertently encourage some farmers to increase their farm business risk. Because SURE addresses whole-farm crop revenue risk, some analysts expect SURE to favor farmers with a single crop produced in a single county or counties with high yield variability. In contrast, planting multiple crops in multiple locations adds diversity to a farm, thereby reducing the chance that a farm would drop below its guaranteed revenue trigger. Consequently, in order to take advantage of SURE, farmers might eliminate crops from their rotations.<sup>23</sup>

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<sup>22</sup> U.S. Congress, House Committee on Agriculture, testimony of Joe Mencer, hearing to review U.S. agriculture policy in advance of the 2012 farm bill, 111<sup>th</sup> Cong., 2<sup>nd</sup> sess., May 15, 2010, <http://agriculture.house.gov/hearings/statements.html>.

<sup>23</sup> G. A. “Art” Barnaby Jr., “SURE Calculator (New Standing Disaster Aid),” research paper, Kansas State University, Manhattan, Kansas, August 28, 2008, [http://www.agmanager.info/crops/insurance/risk\\_mgt/rm\\_pdf08/](http://www.agmanager.info/crops/insurance/risk_mgt/rm_pdf08/) (continued...)



An additional concern involves the qualifying conditions for the program, specifically the 50% loss provision and potential outcomes for farmers who are not in a SURE-eligible county. Researchers have pointed out that the program criteria may encourage risky behavior or poor production practices (the “moral hazard” problem) because producers could receive a bump in revenue simply by allowing a crop to fail (with at least a 50% yield loss) rather than taking steps to minimize losses.<sup>24</sup>

## **Funding SURE for Losses Beyond September 30, 2011**

The future of SURE is also affected by funding. Under the 2008 farm bill, the SURE program provides payments to producers for crop revenue losses due to natural disaster or adverse weather incurred on or before September 30, 2011. As a result of the expiring authority and budget assumptions made by the Congressional Budget Office when scoring the 2008 farm bill, SURE and several other program do not have “budget baseline” beyond their expiration that could be used to pay for extending the programs. If policymakers want to continue these programs in the next farm bill, they will need to pay for them with new funding or budget savings (offsets) from other programs. The cost of extending SURE (and four other disaster programs) is estimated at about \$1 billion per year.<sup>25</sup> Finding this level of offsets may be a difficult task in a tight budget environment.

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ABSURE\_CALC.pdf.

<sup>24</sup> Vincent H. Smith, “The New Standing Disaster Program: A SURE Invitation to Moral Hazard,” presentation for the USDA Economists Group, Washington, DC, November 18, 2010, <http://www.usdaeconomists.org/sure%20power%20Nov%2018%202010.ppt>.

<sup>25</sup> For more information, see CRS Report R41433, *Previewing the Next Farm Bill: Unfunded and Early-Expiring Provisions*, by Jim Monke.