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**Research Report**

## Overview of drought relief provisions in the FY2020 Further Consolidated Appropriations Act

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**AFPC**

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# Overview of Drought Relief Provisions in the FY2020 Further Consolidated Appropriations Act

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## Introduction

Since passage of the 2008 Farm Bill, Congress has appropriated very little supplemental disaster assistance for agriculture (Congressional Research Service). That all changed with passage of the Bipartisan Budget Act of 2018 (P.L. 115-123; 2018 BBA) in February 2018 in response to “hurricanes Harvey, Irma, and Maria, and other hurricanes and wildfires occurring in calendar year 2017.” The support package included \$2.36 billion which U.S. Secretary of Agriculture Sonny Perdue used, in part, to create the Wildfires and Hurricanes Indemnity Program (WHIP). Following “hurricanes Michael and Florence, other hurricanes, floods, tornadoes, typhoons, volcanic activity, snowstorms, and wildfires occurring in calendar years 2018 and 2019,” Congress passed the Additional Supplemental Appropriations for Disaster Relief Act of 2019 (P.L. 116-20; 2019 Supplemental) in June 2019. The package included just over \$3.0 billion which led to the creation of the Wildfires and Hurricanes Indemnity Program Plus (WHIP+). In December 2019, Congress passed the FY2020 Further Consolidated Appropriations Act (P.L. 116-94; FY2020 Appropriations Act), which in addition to funding the government for the remainder of the fiscal year, made losses due to “quality losses of crops, drought, and excessive soil moisture” in crop years 2018 and 2019 eligible for WHIP+. This paper provides a brief overview of the WHIP and WHIP+ programs and focuses primarily on the treatment of losses due to drought.



**Table I: WHIP Factors.**

| Coverage Level      | WHIP Factor |
|---------------------|-------------|
| Uninsured           | 65%         |
| CAT/NAP Basic 50/55 | 70%         |
| 50% - <55%          | 72.50%      |
| 55% - <60%          | 75%         |
| 60% - <65%          | 77.50%      |
| 65% - <70%          | 80%         |
| 70% - <75%          | 85%         |
| 75% - <80%          | 90%         |
| >=80%               | 95%         |

Source: FSA WHIP Handbook.

## Background

### WHIP

The 2018 BBA stipulated that any proceeds from disaster assistance—along with indemnities from Federal crop insurance and the Noninsured Crop Disaster Assistance Program (NAP)— could not exceed 85 percent of the loss. It also required recipients of assistance to purchase crop insurance or NAP, as applicable, for the next two available crop years. Beyond that, USDA was given significant discretion in deciding how to deliver the assistance. The department responded by establishing the WHIP program, which was designed to reward those producers who purchased crop insurance. They accomplished this by establishing the “WHIP Factors” in Table I; the higher your crop insurance coverage level, the higher your WHIP Factor.

The WHIP Value (or overall measure of support) is determined by multiplying the Expected Value of the Crop by the WHIP Factor. All other sources of revenue are then netted out to arrive at the WHIP Payment. The payment formula is as follows:

$$= \{[(\text{Expected Value of the Crop} \times \text{WHIP Factor}) - \text{Actual Value of Crop Harvested} - \text{Salvage Value}] \times \text{Share} \times \text{Payment Factor}\} - \text{NAP or Crop Insurance Indemnities Received by Producer}$$

WHIP payments are limited to \$125,000 per person or legal entity unless 75 percent of your income is derived from farming, ranching or forestry, in which case there is an optional payment limitation of \$900,000 per person or legal entity.

### WHIP+

On June 6, 2019, President Trump signed the 2019 Supplemental, which provided just over \$3.0 billion for “necessary expenses related to losses of crops (including milk, on-farm stored commodities, crops prevented from planting in 2019, and harvested adulterated wine grapes), trees, bushes, and vines,” as a result of the catastrophes noted above. Beyond authorizing assistance for an expanded list of crop losses in crop years 2018

**Table 2: WHIP+ Factors.**

| Coverage Level      | WHIP+ Factor |
|---------------------|--------------|
| Uninsured           | 70%          |
| CAT/NAP Basic 50/55 | 75%          |
| 50% - <55%          | 77.50%       |
| 55% - <60%          | 80%          |
| 60% - <65%          | 82.50%       |
| 65% - <70%          | 85%          |
| 70% - <75%          | 87.50%       |
| 75% - <80%          | 92.50%       |
| >=80%               | 95%          |

**Source:** FSA WHIP+ Handbook.

and 2019, the 2019 Supplemental mandated a few simple changes to the WHIP program. In particular, it stipulated that any proceeds from disaster assistance—along with indemnities from Federal crop insurance and the Noninsured Crop Disaster Assistance Program (NAP)—could not exceed 90 percent of the loss—an increase from the 85 percent threshold in the 2018 BBA. It also mandated that “in the case of a crop...for which the Federal Crop Insurance Corporation offers a revenue insurance policy...the Secretary shall use the greater of the projected price or the harvest price for such crop to determine the expected value of such crop.” USDA responded by increasing the WHIP factors to those listed in Table 2. To distinguish this latest round of assistance from that covering the 2017 losses, USDA also changed the name of the program from WHIP to WHIP+.

For WHIP+, USDA imposed a \$125,000 payment limit per person or legal entity that is cumulative for 2018, 2019, and 2020. Importantly, if at least 75 percent of a person’s or legal entity’s AGI is derived from farming, ranching or forestry, there is an optional payment limitation of \$250,000 per person or legal entity that applies to **each** of the program years 2018, 2019, and 2020, and may not exceed \$500,000 in total.

Finally, USDA paid 100 percent of the calculated WHIP+ payments for 2018 losses but limited payments for the 2019 and 2020 crop years to 50 percent of the calculated payments to ensure adequate funds were available to cover all losses. USDA previously announced they would reassess payments for the 2019 and 2020 crop years after January 1, 2020, based on available funds; as of the date of this publication, USDA has made no announcement.

## **Fiscal Year 2020 Omnibus Appropriations**

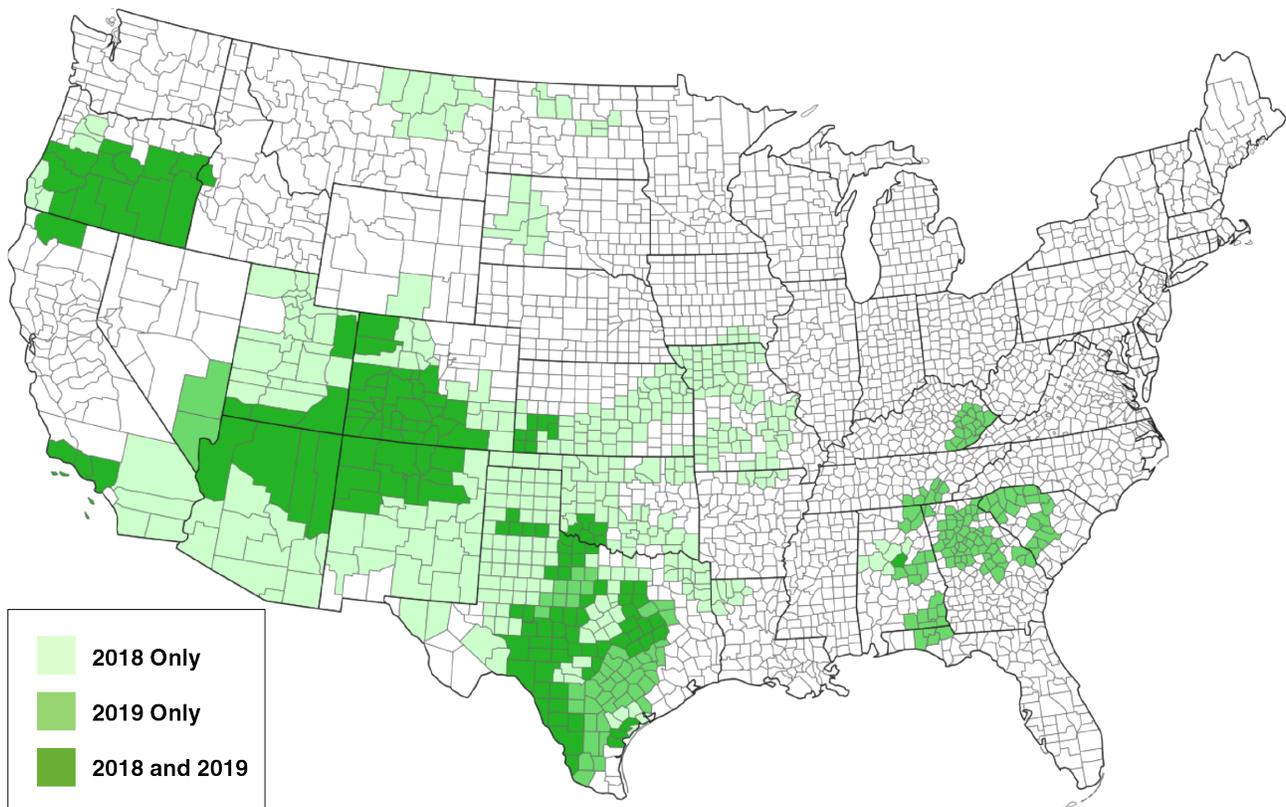
While USDA continues to administer WHIP+, a significant amount of funding from the original WHIP program remained unobligated as of December 2019. In the FY2020 Appropriations Act, Congress chose to rescind those remaining balances and to re-appropriate them for a variety of purposes, including adding “quality losses of crops, drought, and excessive moisture” to the WHIP+ program for the 2018 and 2019 crop years. The law further stipulates “that losses due to drought shall only be eligible [for WHIP+] if any area within the county in which the loss occurs was rated by the U.S. Drought Monitor as having a D3 (Extreme Drought)

or higher level of drought intensity during the applicable calendar years.” Figure 1 highlights the counties that were in D3 (or greater) drought in crop years 2018 and 2019 (and, in the case of 138 counties, both 2018 and 2019). The FY2020 Appropriations Act made no other structural changes to the WHIP+ program.

## WHIP+ Illustrations for Drought

In the illustrations that follow, we look at a hypothetical dryland cotton farm in Hall County, TX, for the 2018 crop year. In the example, we assume the farm has 1,000 acres of cotton with an APH of 500 lbs/ac. The farm purchased a 70 percent Revenue Protection insurance policy in 2018 and harvested 200 lbs/ac. For the 2018 crop year, the crop insurance price election at planting was \$0.76/lb and the harvest price was \$0.77/lb. WHIP+ utilizes the higher of the two prices, so the price used to calculate the WHIP+ Payment is \$0.77/lb. As indicated in Table 3, this farm would qualify for an estimated WHIP+ Payment of \$67,375 (or \$67.38/ac).

WHIP and WHIP+ were also designed to accommodate the purchase of area-wide crop insurance policies like the Stacked Income Protection Plan (STAX) for cotton. For purposes of determining the appropriate WHIP+ Factor, the STAX coverage level is added to the coverage level of the underlying individual crop insurance policy. If the farm above (which purchased a 70 percent Revenue Protection policy) had also purchased a 20 percent STAX policy, FSA would assume a 90 percent crop insurance coverage level (70 percent Revenue



**Figure 1: Map of Counties in D3 (or Greater) Drought by Crop Year.**

**Source:** AFPC analysis of U.S. Drought Monitor data.

**Table 3: WHIP+ Drought Illustration.**

| <b>KEY INPUTS</b>                      |                  |  |
|--|------------------|--|
| <b>Expected Crop Value</b>             | <b>\$385,000</b> |  |
| Acres                                  | 1,000            |  |
| APH (lbs/ac)                           | 500              |  |
| Price (\$/unit)                        | \$0.77           |  |
| <b>CROP INSURANCE COVERAGE</b>         |                  |  |
| <b>Crop Insurance Guarantee</b>        | <b>\$269,500</b> | Expected Crop Value x Crop Insurance Coverage Level  |
| Expected Crop Value                    | \$385,000        |  |
| Crop Insurance Coverage Level          | 70%              |  |
| <b>Actual Value</b>                    | <b>\$154,000</b> |  |
| Acres                                  | 1,000            |  |
| Price (\$/unit)                        | \$0.77           |  |
| Actual Yield (lbs/ac)                  | 200              |  |
| <b>Crop Insurance Indemnity</b>        | <b>\$115,500</b> | If Actual Value < Guarantee, then Guarantee minus Actual Value   |
| <b>WHIP+ PAYMENT</b>                   |                  |  |
| <b>WHIP+ Value</b>                     | <b>\$336,875</b> | Expected Crop Value x WHIP+ Factor   |
| Expected Crop Value                    | \$385,000        |  |
| WHIP+ Factor                           | 87.50%           | from Table 2   |
| <b>less Actual Value</b>               | <b>\$154,000</b> | Calculated above.  |
| <b>less Salvage Value</b>              | <b>\$0</b>       |  |
| <b>multiplied by Share</b>             | <b>100%</b>      |  |
| <b>multiplied by Payment Factor</b>    | <b>100%</b>      | Less than 100% if the crop is unharvested.   |
| <b>less Crop Insurance Indemnities</b> | <b>\$115,500</b> | Include STAX indemnities if applicable.  |
| <b>equals WHIP+ Payment</b>            | <b>\$67,375</b>  | = [(WHIP+ Value - Actual Value - Salvage Value) x Share x Payment Factor] - Crop Insurance Indemnities |

Protection plus 20 percent STAX) which would result in a WHIP+ Factor of 95 percent (from Table 2). Indemnities from STAX would be also be netted out of the WHIP+ Value in calculating the WHIP+ Payment. For the 2018 crop year, the STAX payment in Hall County averaged \$16.25/ac (or \$16,250 on our hypothetical farm). This value is reflected in the Crop Insurance Indemnities received in Table 4. Relative to the example in Table 3,

**Table 4: WHIP+ Drought Illustration with STAX.**

| <b>WHIP+ PAYMENT</b>                   |                  |  |
|--|------------------|--|
| <b>WHIP+ Value</b>                     | <b>\$365,750</b> | Expected Crop Value x WHIP+ Factor   |
| Expected Crop Value                    | \$385,000        |  |
| WHIP+ Factor                           | <b>95.00%</b>    | from Table 2, assuming 90% Crop Insurance Coverage (with STAX)   |
| <b>less Actual Value</b>               | <b>\$154,000</b> | Calculated above.  |
| <b>less Salvage Value</b>              | <b>\$0</b>       |  |
| <b>multiplied by Share</b>             | <b>100%</b>      |  |
| <b>multiplied by Payment Factor</b>    | <b>100%</b>      | The factor will be less than 100% if the crop is unharvested.  |
| <b>less Crop Insurance Indemnities</b> | <b>\$131,750</b> | \$115,500 + \$16,250 (STAX)  |
| <b>equals WHIP+ Payment</b>            | <b>\$80,000</b>  | = [(WHIP+ Value - Actual Value - Salvage Value) x Share x Payment Factor] - Crop Insurance Indemnities |



**Table 5: WHIP+ Drought Illustration with Unharvested Cotton Crop.**

| <b>CROP INSURANCE COVERAGE</b>         |                  |  |
|--|------------------|--|
| <b>Crop Insurance Guarantee</b>        | <b>\$269,500</b> | Expected Crop Value x Crop Insurance Coverage Level  |
| Expected Crop Value                    | \$385,000        |  |
| Crop Insurance Coverage Level          | 70%              |  |
| <b>Actual Value</b>                    | <b>\$0</b>       |  |
| Acres                                  | 1,000            |  |
| Price (\$/unit)                        | \$0.77           |  |
| Actual Yield (lbs/ac)                  | 0                |  |
| <b>Crop Insurance Indemnity</b>        | <b>\$269,500</b> | If Actual Value < Guarantee, then Guarantee minus Actual Value   |
| <b>WHIP+ PAYMENT</b>                   |                  |  |
| <b>WHIP+ Value</b>                     | <b>\$365,750</b> | Expected Crop Value x WHIP+ Factor   |
| Expected Crop Value                    | \$385,000        |  |
| WHIP+ Factor                           | 95.00%           | from Table 2, assuming 90% Crop Insurance Coverage (with STAX)   |
| <b>less Actual Value</b>               | <b>\$0</b>       | Calculated above.  |
| <b>less Salvage Value</b>              | <b>\$0</b>       |  |
| <b>multiplied by Share</b>             | <b>100%</b>      |  |
| <b>multiplied by Payment Factor</b>    | <b>88%</b>       | Assuming cotton not harvested.   |
| <b>less Crop Insurance Indemnities</b> | <b>\$285,750</b> | \$269,500 + \$16,250 (STAX)  |
| <b>equals WHIP+ Payment</b>            | <b>\$36,110</b>  | = [(WHIP+ Value - Actual Value - Salvage Value) x Share x Payment Factor] - Crop Insurance Indemnities |

the WHIP+ Payment would actually increase, in part because the \$16.25/ac STAX payment was far short of the maximum possible payment and because of the higher WHIP+ Factor.

If we further assume the crop on the farm was a complete failure (i.e. 0 lbs/ac) and was not harvested, an unharvested factor may apply. While USDA has not published a list of unharvested factors (which are established at the discretion of the State FSA Committees), previous disaster programs have utilized an 88 percent factor for cotton in Texas. If we apply a similar factor to the example in Table 4, the results would change as illustrated in Table 5. In other words, imposing the unharvested factor would result in a 55-percent reduction in the WHIP+ Payment.

**Table 6: WHIP+ Payments (\$/ac) Across a Range of Cotton APHs (Assuming No Harvested Production and a Price of \$0.77/lb).**

| Coverage Level | WHIP+ Factor | Actual Production History (lbs/ac) |         |         |         |         |          |          |
|----------------|--------------|------------------------------------|---------|---------|---------|---------|----------|----------|
|                |              | 300                                | 350     | 400     | 450     | 500     | 750      | 1,000    |
| 50%            | 77.50%       | \$42.04                            | \$49.05 | \$56.06 | \$63.06 | \$70.07 | \$105.11 | \$140.14 |
| 55%            | 80%          | \$35.57                            | \$41.50 | \$47.43 | \$53.36 | \$59.29 | \$88.94  | \$118.58 |
| 60%            | 82.50%       | \$29.11                            | \$33.96 | \$38.81 | \$43.66 | \$48.51 | \$72.76  | \$97.02  |
| 65%            | 85%          | \$22.64                            | \$26.41 | \$30.18 | \$33.96 | \$37.73 | \$56.60  | \$75.46  |
| 70%            | 87.50%       | \$16.17                            | \$18.87 | \$21.56 | \$24.25 | \$26.95 | \$40.42  | \$53.90  |
| 75%            | 92.50%       | \$14.78                            | \$17.25 | \$19.71 | \$22.18 | \$24.64 | \$36.96  | \$49.28  |
| 80%            | 95%          | \$8.32                             | \$9.70  | \$11.09 | \$12.47 | \$13.86 | \$20.79  | \$27.72  |
| 85%            | 95%          | \$0.00                             | \$0.00  | \$0.00  | \$0.00  | \$0.00  | \$0.00   | \$0.00   |

Table 6 illustrates WHIP+ Payments across a range of APHs. In this example, we again assume we are operating in the 2018 crop year, with an insurance price of \$0.77/lb. We also again assume that the crop on the farm was a complete failure (i.e. 0 lbs/ac) and that an 88 percent payment factor applies.

While the lower coverage levels receive the larger WHIP+ Payments, that is only one part of total compensation. WHIP+ Payments, combined with crop insurance indemnities and actual value, by definition may not exceed the respective WHIP+ Factor multiplied by the Expected Value of the Crop. It's also worth noting that the payment factor leads to some interesting anomalies, including eliminating WHIP+ Payments at the 85 percent crop insurance coverage level in this example.

### Conclusion

While we know enough about WHIP+ to expect that it will provide meaningful assistance for producers in the 707 counties facing D3 (or greater) levels of drought in crop years 2018 and/or 2019, nothing is official until USDA releases the program details. This paper will be updated to reflect any changes in implementation that were not anticipated.

Regardless, this infusion of working capital comes at a particularly precarious time for many producers and their creditors who have suffered from a 6-year slump in the farm economy. The latest baseline projections from the Agricultural & Food Policy Center (AFPC) show that over half of the representative crop farms maintained by AFPC are in marginal or poor overall financial condition. For those producers impacted by D3 (Extreme Drought) or worse, this will most certainly be welcome news.

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