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336



Alaska State Legislature

House of Representatives

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

M E M O R A N D U M

TO: House Resource Committee members

FROM: Committee Staff

DATE: May 10, 1984

RE: CSSP 336(Res) An Act relating to federal crop insurance

On Monday, May 14, the House Resources Committee will be hearing CSSP 336(Res). What follows is a sectional analysis.

Section 1 Amends AS 03.10.030(c) by placing a condition on the applicant. Applicants who apply for a short term loan under the agricultural revolving loan fund may be required to purchase insurance through the Federal Crop Insurance Act.

Section 2 Requires that the State shall enter into agreement with the Federal Crop Insurance Corporation. Requires that the State pay to the Federal Crop Insurance Corporation a part of the premiums paid by the farmers. Requires that 30% of each producer's premium, on coverage of up to 65% of the appraised average yield, shall be paid by the State.

Section 3 Effective date clause, the act takes place Immediately.

BACKGROUND

The Federal Crop Insurance Program provides risk protection for crop producers nationwide. The program protects against losses from natural disasters, freeze, wind, disease, drought, excess moisture and animal damage. It covers barley, oats, potatoes, forage, and nearly 30 other major crops.

Insurance coverage is limited to a percentage of the guaranteed yield. (65%) The guaranteed yield is based on average historical yields. Indemnities that are paid are equal to the difference between the farmer's actual yield and his guaranteed yield. The settlement price, or the dollar amount that will be paid on the product that is not harvestable, is limited to 90% of the estimated harvest price.

CSSB 336
May 10, 1984
Page 2

Coverage of the Delta farmer's barley crop began with the 1981 crop year. During 1983, approximately 75% of the 12,000 Delta barley acres were insured, at an average insurance cost of \$12 per acre.

Under the program, the federal government subsidizes 30% of the farmer's premium payment, on coverage of up to 65% of the farm's average yield. The State's 30% premium payment will be over and above the federal contribution. The farmer would pay only 40% of his premium payment.

The Division of Agriculture, Department of Natural Resources, estimates the cost to the State for its participation at \$140,000 for FY 85 (for the 1984 and 1985 crop years), \$80,000 for FY 86, and \$90,000 for FY 87. These figures are based on a total premium of \$12 per acre, with the State's share figured at \$4 per share.

To date, Texas is the only other State to have introduced legislation that would authorize State participation in the Federal Crop Insurance Program.

Revision Date: 1-26-84

REQUEST

Bill/Resolution No.: CS SB 336 (Request)
Title: Crop insurance

FISCAL DETAIL

Agency Affected: Dept. of Natural Resources
Program Category Affected: Agriculture Management

Sponsor: Moss
Requestor:
Date of Request: 1-26-84

BRU, Program or Subprogram(s) Affected:
Agriculture Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL			80.0	90.0		
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-*	80.0	90.0		
CAPITAL	-0-	-0-	-0-	-0-		
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-*	80.0	90.0		
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-		
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

* FY 85 funding (\$140.0) appears in the Governor's budget.

ANALYSIS: Attach a separate page for analysis

Prepared By: Sharon L. Barton Phone: 465-2400
Division: Commissioner's Office Date: 2-21-84

Approved by Commissioner: William D. Amundson Deputy Commissioner Date: 2-21-84
Agency: Department of Natural Resources

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SB 336
 Title: State contributions to the Federal Crop Ins. Prog.
 Sponsor: Moss
 Requestor: _____
 Date of Request: 1-9-84

FISCAL DETAIL

Agency Affected: Department of Natural Resources
 Program Category Affected: Ag Management
 BRU, Program or Subprogram(s) Affected: Agricultural Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL	140.0	80.0	90.0			
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	140.0	80.0	90.0			
CAPITAL	-0-	-0-	-0-			
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	140.0	80.0	90.0			
FEDERAL FUNDS						
OTHER						
TOTAL	140.0	80.0	90.0			

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: Bill Heim, Director Phone: 376-3276
 Division: Agriculture Date: 1-19-84

Approved by Commissioner: Alvin D. Arnold, Deputy Date: 1-20-84
 Agency: Department of Natural Resources

Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

SENATE SPECIAL COMMITTEE ON AGRICULTURE
Senator H. Pappy Moss, Chairman

SENATE BILL 336 "An Act relating to federal crop insurance; and providing for an effective date."

Federal crop insurance protects farmers against losses due to adverse weather conditions, insect infestation, plant disease and other natural disasters. Currently, the federal government subsidizes the cost of federal crop insurance to the farmer by 30%. Senate Bill 336 provides for the state to further subsidize the federal crop insurance premium up to another 30%.

Senate Bill 336 also requires that an applicant for a short term loan may be required to purchase insurance through the federal crop insurance program as a condition of obtaining a loan. Federal crop insurance protection adds guarantees that farmers in the state will be able to meet loan repayment obligations and to pay cash costs even when crops fail.

The Department of Natural Resources has projected a cost of \$140,000 for the first two years of participation in the Federal Crop Insurance program. This amount appears in the Governor's budget for FY 85. For FY 86 and FY 87, the expenditures would be 80 and 90 thousand dollars respectively, and would come from the general fund. The FCIC pays all administration costs of the program.

The federal crop insurance program will protect the farmer against low crop yields and will protect the state's investment in agriculture by providing a means for farmers to repay their state loans even in bad crop years. The passage of SB 336 should lead to greater participation by Alaska producers in the federal Crop insurance program.

SENATE SPECIAL COMMITTEE ON AGRICULTURE
Senator H. Pappy Moss, Chairman

NOTES ON SENATE BILL 336 "An Act relating to federal crop insurance;
and providing for an effective date."

What is Federal Crop Insurance?

Federal Crop Insurance is offered to farmers of this nation to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance. Since 1980, when the FCIC expanded the availability and coverage of crop insurance, the program has grown significantly. Federal crop insurance protects against losses due to adverse weather conditions, insect infestation, plant disease and other natural disasters.

What Will Senate Bill 336 Do?

Currently, the Federal government subsidizes the cost of Federal Crop insurance to the farmer by 30%. Senate Bill 336 provides for the state to further subsidize the Federal Crop insurance premium up to another 30%.

SB 336 also requires that an applicant for a short term loan may be required to purchase insurance through the Federal Crop Insurance Program as a condition of loan. Farmers are not alone in suffering financial loss when crop disaster strikes. Crop insurance will also help protect creditors, lending institutions, businesses supplying agricultural needs and the entire community from risks associated with crop disasters.

Nation wide, more lenders are requiring crop insurance as a condition for farm operating loans because such insurance helps protect their investment in agriculture.

What is The Benefit To The State?

Federal Crop Insurance protection adds guarantees that farmers in the state will be able to meet loan repayment obligations and to pay cash costs even when crops fail. Farmers participating in the program are assured of recovering, at a minimum, the lost capital they must have in order to continue farming--to buy the seed, fuel, and fertilizer that are required to assure the next year's crop.

Currently the Alaska Revolving Loan Fund will cover operating costs, but not insurance. SB 336, helping the farmer with an additional premium subsidy, helps protect the farmer, and the state's investment in agriculture, against both area and individual disasters.

What Is The Cost To The State?

The Department of Natural Resources has projected a cost of \$140,000.00 for the first two years of participation in the Federal Crop Insurance program. This amount appears in the Governor's budget for FY '85. For FY 86 and FY 87, the expenditures would be 80 and 90 thousand dollars respectively, and would come from the general fund.

The State contribution need not be seen totally as a subsidy. This form of insurance may partially replace other public safety nets by providing insurance premiums in lieu of reimbursement to farmers for damage by wildlife, etc.

The FCIC will work with the state of Alaska to minimize administrative expenses to the state. Those that are incurred will be low, and related only to the preparation and transmission of payments by the state to FCIC on the behalf of Alaska producers.

How Will The Program Work?

The FCIC is encouraging participation by Alaskan farmers. It has expanded its program for Alaska beyond barley, to include wheat and oats, and will soon include potatoes among the crops covered by this protection.

Each farmer may select the percent of average yield he would like to have guaranteed and the price he would like to be paid for his deficiency if he falls below the guaranteed level. Depending on his selection, a federally subsidized premium is established which he must pay. There are three different levels that a farmer may choose from in selecting a coverage rate (50, 65, and 75 %). There are also three different price election rates (\$2.00, 2.25, and 2.60). Federal legislation now permits the State to pay a matching subsidy, up to 30%.

Justification

The Federal Crop Insurance Program will insure a farmer against low crop yields rather than low price. In Alaska, this program will help protect against mid-summer frosts, early rain during harvest, and bison damage to barley, which has occurred in the past. Even after a year without disaster, farmers face an everpresent concern for the next crop year. In this sense, FCIC and the State of Alaska can help to provide Alaskan agriculture with more than just business security.

The passage of SB 336 should lead to greater participation by Alaska producers in the Federal Crop Insurance program. The needs of producers for risk protection will be better met. This increased protection will have a beneficial impact on other segments of the economy whose viability depends on a healthy agriculture, helping to stabilize the economic activity of local communities and strengthen the surrounding rural economy, and, to a lesser degree, the urban economy.

Senator Vic Fischer

(907) 465-4954

Alaska State Legislature
Pouch V • Juneau, Alaska 99811 • (907) 465-4954



MEMORANDUM

May 2, 1984

TO: Members, Senate Finance Committee
FROM: Senator Vic Fischer *Vic F.*

RE: CSSB 336 (Res) An act relating to federal crop insurance;
effective date.

The purpose of SB 336 is to support Alaska agriculture by subsidizing farmers' premiums paid to the Federal Crop Insurance Program. A secondary purpose is to protect the state's investment in agriculture by providing insurance coverage of crops supported by Agriculture Revolving Loan Fund loans.

The federal government now will pay 30% of a farmer's crop insurance. Under this program the state will pay an additional 30%, leaving 40% to be paid by the individual farmers.

Virtually all of the administrative costs of the program are paid by the federal government. All of the costs of working with the individual farmers are covered. The only expense left for the state is that of making one lump-sum payment to the Federal Crop Insurance Corporation.

Section 1 provides that the Ag Revolving Loan Fund may require crop insurance as a condition of a loan.

Section 2 establishes the program:

- Agreement with Federal Crop Insurance Corporation
- Amount of contributions (matches feds contribution)
- Limitations on state subsidy (30% of premiums)
- Provides for appropriations from general fund; allocation on first come basis
- Definitions

Section 3 provides an immediate effective date.

The fiscal note is zero for FY 85 and 80.0 per year starting in FY 86. Costs for this program were included in the Governor's FY 85 operating budget for DNR at 140.0, which provides funding for two crop years - 1984 and 1985. At this time, both Senate and House DNR budgets include crop insurance funding.

The bill is favored by the Administration. Sharon Barton of the DNR is expected to be here to answer questions from the Committee.

Alaska State Legislature

BETTYE FAHRENKAMP, Chairman
ROBERT H. ZIEGLER, SR., Vice Chairman
DICK ELIASON
PAUL FISCHER
VIC FISCHER
BOB MULCAHY
ARLISS STURGULEWSKI



POUCH V
STATE CAPITAL
JUNEAU, ALASKA 99811
(907) 465-3834
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Senate Committee on Resources

MEMORANDUM

DATE: January 9, 1984

TO: Senate Resources Committee Members

FROM: Senate Resources Committee Staff

RE: Federal Crop Insurance Program

On Wednesday, January 11, at 3:00pm in the House Resources Committee Room (Room 118, Capitol), the Senate and House Resources Committees will be briefed on the Federal Crop Insurance Program.

The Federal Crop Insurance Program provides risk protection for crop producers nationwide. In effect since 1939, the program initially provided coverage on wheat, cotton, and flax. In 1980, Federal Crop Insurance was streamlined by the Federal Crop Insurance Act, which expanded the scope of the program, both in terms of crops insurable and areas insured, and authorized state participation in the program.

The current program protects against losses from natural disasters, freeze, wind, disease, drought, excess moisture and animal damage, and covers barley, oats, potatoes, forage, and nearly 30 other major crops. It essentially guarantees the farmer a certain income despite his actual crop yield. A guaranteed yield is determined based on average historical yields. Insurance coverage is provided on this guaranteed yield, which is limited to 50, 60, or 75% of the farm's average yield. In the event of a poor crop year, indemnities are paid on the difference between the producer's actual yield and his guaranteed yield. The settlement price, which is the dollar amount that will be paid on each bushel or pound that is not harvestable, is limited to 90% of the estimated harvest price.

Coverage of Delta area farmers' barley crop began with the 1981 crop year. (Coverage of the Pt. MacKenzie area and of oats and wheat is expected to begin in 1984.) During 1983, approximately 75% of the 12,000 Delta barley acres were insured, at an average insurance cost of \$12 per acre. Under the program, the federal government subsidizes 30% of each farmer's premium payment, on coverage of up to 65% of the farm's average yield. The 1980 Act authorized state participation in the program by allowing states to provide an additional subsidy (up to 30%) over and above the federal contribution.

Authorizing the State of Alaska to provide an additional 30% subsidy to Alaskan farmers would reduce the cost of crop insurance to the farmers, and since most farms are initially financed through the Agricultural Revolving Loan Fund, would conceivably help protect the state's collateral against natural disaster. The Division of Agriculture, Department of Natural Resources, estimates the cost to the state for its participation at \$140,000 for FY 85 (for the 1984 and 1985 crop years), \$80,000 for FY 86, and \$90,000 for FY 87. These figures are based on a total premium of \$12 per acre, with the state's share figured at \$4 per acre.

To date, Texas is the only other state to have introduced legislation that would authorize state participation in the Federal Crop Insurance Program.

A CROP INSURANCE PRIMER

BACKGROUND

The Federal Crop Insurance Corporation (FCIC), some 45 years old, is the Federal agency charged with administering a nationwide crop insurance program which is the American producer's primary source of risk protection.

The program, initially very limited, was overhauled by the Federal Crop Insurance Act of 1980, which authorized crop insurance coverage of every commercially grown crop in the U.S., plus timber, livestock, and aquiculture. Today, crop insurance coverage is offered on over 30 major crops in 3,000 U.S. counties. Virtually all former "disaster crop" acreage is or soon will be covered.

HOW DOES IT WORK

A crop insurance policy can be designed to accommodate a producer's individual needs: more than 50 different coverage options are available.

YIELD GUARANTEES. The 1980 FCI Act limits crop insurance coverage to 75 percent of a producer's average yield. Crop insurance offers yield guarantees at 50, 65, or 75 percent of average yield.

Although the average yield on most crops is determined on an "area coverage" basis, FCIC's Board of Directors recently approved using a producer's actual production history as the sole basis for yield guarantees. Producers have often complained that area coverages are substantially lower than the production expectations on their farms, making crop insurance less desirable.

Actual production history will be used to determine guarantees on cotton and rice beginning in 1984; other insured crops will join the program by 1987.

PRICE SELECTIONS. A producer may select one of three different prices for his policy. Price selections are made for each crop by estimating the harvest price for the crop, and pegging the top value at 90 percent of that price. Price selections change annually and represent high, medium and low harvest price estimates.

PREMIUMS. Premiums are calculated to cover risk of loss and are adjusted periodically to account for changes in loss history. The FCI Act of 1980 requires that the crop insurance program be actuarially sound. To accomplish this, FCIC maintains a loss ratio (indemnities paid vs. premiums collected) goal of .90, with the remainder intended to cover catastrophic losses.

The Federal Government subsidizes producer premiums at 30 percent up to the 65 percent coverage level. The dollar subsidy at the 75 percent coverage level remains the same, but the percentage is understandably lower.

INDEMNITIES. Indemnities are paid whenever the producer's actual yield falls below his yield guarantee. The difference between the two yields is multiplied by the price election and the number of acres insured. The result is the indemnity due.

HAIL-FIRE OPT OUT. A producer carrying private hail-fire coverage may exclude such coverage from his policy and receive a commensurate premium reduction. Private hail-fire coverage, however, must be in an amount equal to or greater than that which would be provided under an FCIC policy.

CROP INSURANCE-POLICIES. Crop insurance policies are continuing contracts which renew automatically unless specifically cancelled in writing by the insured or insurer. Unpaid premiums may result in the cancellation of a policy if the account is not settled by a predetermined "termination date."

HOW IS IT DELIVERED

The FCI Act of 1980 established a dual delivery system for crop insurance, with each system utilizing the insurance resources of the private sector.

MASTER MARKETERS. General Sales and Service Agencies (known as Master Marketers) with at least 25 agents contract with FCIC to write policies on FCIC paper. Master Marketers provide management, supervision, contract servicing and quality control, and the Federal Government compensates the agencies on a commission basis.

Training for Master Marketing agents is provided by FCIC, and all such agents must be licensed and certified in the crops they intend to sell.

Additionally all loss adjustment functions on master marketer policies are carried out by FCIC.

REINSURED COMPANIES. Under this system, private Multi-Peril Crop Insurance Companies write crop insurance policies under their own brand names, but in identical terms and conditions as Master Marketers. The Federal Government reinsures the private companies against catastrophic loss and compensates them for sales and loss adjustment functions.

Reinsured companies provide marketing, distribution, servicing, training, quality control, premium collection and loss adjustment functions.

ASCS. In a small number of counties with marginal agricultural activity, ASCS will continue to provide crop insurance sales and service. As private delivery systems become available in these counties, it is anticipated that ASCS activity will be phased out.

SHARE OF BUSINESS. As more private companies handle the crop insurance line, the share of business written by reinsured companies will continue to grow. In crop year 1982, when relatively few MPCIC companies were writing crop insurance, reinsured companies accounted for only 20 percent of FCIC's total book of business. Although final crop year 1983 figures are not yet in, it is estimated that the reinsured share will increase to approximately 35 percent. For 1984, we expect reinsurance to continue to grow and account for approximately 45 percent of all crop insurance business.



TO: Interested Parties

FROM: Manager

SUBJECT: State Participation in Federal Crop Insurance

Background:

The Federal Crop Insurance Act, as amended October 1, 1980, provides under Section 508(b) (5) that:

"The Board (of Directors) may enter in to agreements with any State or agency of a State under which such State or agency may pay to the Corporation additional premium subsidy to further reduce the portion of the premium paid by farmers in each State."

Discussion:

There are presently four methods available to the Corporation to accommodate states desiring to participate in this program:

1. The State could make direct payments to the producers for a specified share of the farmer-paid portion of his premium which is paid to the Federal Crop Insurance Program. This would be in the form of a State "refund" for a pre-determined portion of that premium.
2. The State could provide tax credits for participating farmers on its State Income Tax returns. This would be regulated strictly within each State and would have no direct Federal connection other than added incentive.
3. The Federal government could bill each cooperating State for its share of the additional payment--to be determined initially by each State--at the time the acreage reports are processed and the extent of farmer participation in each State is determined for the crop year.
4. The State could offer the entire insurance plan and FCIC or a Federal agency could act as a reinsurer and share in the cost to a pre-determined extent.



Conclusion:

The Corporation will provide any information needed by states participating in this program in order to facilitate the process and will work directly with State officials to meet their particular needs. Following is an example of the Corporation's work with officials to establish a program in their State:

A State wished to explore the possibility of providing assistance to farmers. Officials contacted us and asked that we provide estimated premium volume in their State for the current and two succeeding years. They selected option 3 as their preferred method of compensating insured farmers. At their request, we met with budget personnel and the Comptroller of that State to assist them in arriving at dollar needs over the next two years and determining the mechanism and frequency of billing for amounts due the Corporation. We also offered suggestions concerning courses of action in the event that demand exceeded funds available. At this point in time a bill is now before the State Legislature for consideration.



United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

Spokane
Field Actuarial
Office

N. 112 University Rd.
Suite 200
Spokane, Washington 99206

535-6641

To: Merritt W. Sprague, Manager
FCIC, Washington, D. C.

August 25, 1983

Attention: Dennis Lynn, Comptroller

Subject: Alaska Proposed Legislation
(Conversation Knox -- J. W. Ellis)

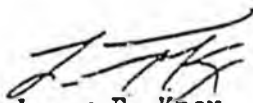
With regards to the proposed Congressional Affairs and Legislation Division of FCI meeting with Alaskan agriculture officials to explain the advantages of Alaskan legislation subsidizing premiums paid by farmers, it has come to our attention that specific crop acreage, yields, and historical data is unavailable to your office as Alaska does not have a strong data bank of such information as it is "new" on the agriculture scene.

The attached information was put together using existing Alaska Statistical Reporting Service (SRS) data, present insurance premium rates, participation levels, and the following assumptions:

1. FCI Management will approve additional crops for insurance purposes in Alaska 1982-1990.
2. Alaska cropland eligible for insurance purposes will expand at the rate of 10 percent per year 1982-1990 inclusive.
3. Projected actuarial information, i.e. percent of participation, production guarantee's, settlement price election, and crop premium rates are based upon existing programs and projected risk rate levels as viewed by SFAO Director Knox.

With regards to data shown on attachment 5, base year of 1981 was used as it more closely fits the "norm" than 1982 due to extreme climatic conditions during 1982 crop year.

If Mr. Lynn, or one of his staff, has any questions with regards to this situation or wishes further verification, please contact Mr. Knox.


Leroy F. Knox
Director

Attachments (5)



The Federal Crop Insurance
Corporation is an agency of the
Department of Agriculture

BARLEY - ALASKA 1975-1981
(Total State Acres through 1982)

District	Year	Area Planted Acres	Area Harvested for Grain				Production Cwt.	Value (000)
			Acres	Yield Bu.	Bu.	Bu.		
Tanana Valley	1975	300	250	21.7	5.4	2,600	23.4	
	1976	157	175	34.3	6.0	2,900	26.0	
	1977	1,350	1,300	47.6	61.9	29,700	240.0	
	1978	2,500	2,450	33.9	83.1	39,900	310.0	
	1979	4,400	4,080	45.6	186.0	89,300	536.0	
	1980	12,500	10,600	29.2	309.6	148,600	904.0	
	1981	15,600	5,800	32.9	191.0	91,700	774.0	
Matanuska Valley	1975	1,200	1,200	52.4	62.9	30,200	255.0	
	1976	1,175	1,125	54.2	61.0	29,300	235.0	
	1977	1,720	1,300	49.3	64.1	30,800	239.0	
	1978	1,710	1,550	43.2	66.9	32,100	260.0	
	1979	2,050	1,720	58.7	101.0	46,500	325.0	
	1980	1,400	900	32.7	29.4	14,100	113.0	
	1981	900	700	38.6	27.0	13,000	120.0	
Kenai Peninsula	1975	100	50	33.3	1.7	800	8.6	
	1976	50	-	-	-	-	-	
	1977	30	-	-	-	-	-	
	1978	90	-	-	-	-	-	
	1979	50	-	-	-	-	-	
	1980	100	-	-	-	-	-	
	1981	-	-	-	-	-	-	
State Total	1975	1,600	1,500	47.0	70.0	33,600	287.0	
	1976	1,400	1,300	51.5	67.0	32,200	261.0	
	1977	3,100	2,600	48.5	125.0	60,500	479.0	
	1978	4,300	4,000	37.5	150.0	72,000	570.0	
	1979	6,500	5,800	49.5	287.0	137,800	861.0	
	1980	14,000	11,500	29.5	339.0	162,700	1,017.0	
	1981	16,500	6,500	33.5	218.0	104,700	894.0	
	1982	8,500	-	-	-	-	-	

OATS - ALASKA 1975-1981
(Total State Acres through 1982)

District	Year	Area Planted Acres	Area Harvested for Grain		Production		
			Acres	Yield Bu.	Bu.	Cwt.	Value
				(000)		(000)	
Tanana Valley	1975	3,000	250	37.2	9.3	3,000	24.5
	1976	2,900	250	39.2	9.8	3,100	24.5
	1977	1,500	300	44.8	13.4	4,300	35.5
	1978	2,000	450	48.6	21.9	7,000	57.5
	1979	400	150	54.2	8.1	2,600	19.0
	1980	2,100	450	42.9	19.3	6,200	52.0
	1981	5,100	300	47.7	14.3	4,600	39.0
Matanuska Valley	1975	900	150	50.0	7.5	2,400	19.5
	1976	700	50	43.8	2.2	700	5.5
	1977	800	100	62.0	6.2	2,000	15.5
	1978	600	150	45.8	6.9	2,200	21.5
	1979	500	150	50.0	7.5	2,400	22.0
	1980	600	150	45.3	6.8	2,200	29.0
	1981	600	200	37.0	7.4	2,400	26.0
Kenai Peninsula	1975	400	-	-	-	-	-
	1976	400	-	-	-	-	-
	1977	500	-	-	-	-	-
	1978	500	-	-	-	-	-
	1979	300	-	-	-	-	-
	1980	400	-	-	-	-	-
	1981	300	-	-	-	-	-
State Total	1975	4,300	400	42.0	16.8	5,400	44.0
	1976	4,000	300	40.0	12.0	3,800	30.0
	1977	2,800	400	49.0	19.6	6,300	51.0
	1978	3,100	600	48.0	28.8	9,200	79.0
	1979	1,200	300	52.0	15.6	5,000	41.0
	1980	3,100	600	43.5	26.1	8,400	81.0
	1981	6,000	500	43.5	21.7	7,000	65.0
	1982	3,200					

POTATOES - ALASKA 1975-1981
(Total State Acres through 1982)

District	Year	Area Harvested Acres	Yield Cwt.	Production	
				Cwt.	Value (000)
Tanana Valley	1975	120	125	15,000	210.0
	1976	95	108	10,300	135.0
	1977	95	103	9,800	123.0
	1978	125	135	16,900	223.0
	1979	110	159	17,500	254.0
	1980	95	129	12,300	247.0
	1981	80	110	8,800	191.0
Matanuska Valley	1975	390	230	89,700	1,038.0
	1976	400	196	78,500	927.0
	1977	405	253	102,300	1,163.0
	1978	300	205	61,500	688.0
	1979	330	190	63,800	745.0
	1980	340	184	62,700	1,176.0
	1981	395	204	80,500	1,591.0
Kenai Peninsula	1975	20	200	4,000	56.0
	1976	15	147	2,200	30.0
	1977	20	145	2,900	37.0
	1978	25	105	2,600	21.0
	1979	20	185	3,700	47.0
	1980	25	80	2,000	40.0
	1981	25	228	5,700	118.0
State Total	1975	530	205	108,700	1,304.0
	1976	510	178	91,000	1,092.0
	1977	520	222	115,000	1,323.0
	1978	450	180	81,000	932.0
	1979	460	185	85,000	1,046.0
	1980	460	167	77,000	1,463.0
	1981	500	190	95,000	1,900.0
	1982	480			

FORAGE
ALL HAY - ALASKA 1975-1981
(Total State Acres through 1982)

District	Year	Area Harvested Acres	Yield Tons	Production	
				Tons	Value (000)
Tanana Valley	1975	4,600	1.72	7,900	979.0
	1976	4,350	1.56	6,800	788.0
	1977	3,600	1.39	5,000	635.0
	1978	3,850	1.53	5,900	711.0
	1979	3,000	1.03	3,100	380.0
	1980	4,900	.86	4,200	580.0
	1981	6,200	1.39	8,600	1,317.0
Matanuska Valley	1975	7,600	1.45	11,000	1,420.0
	1976	7,350	1.33	9,800	1,268.0
	1977	6,570	1.92	12,600	1,670.0
	1978	6,600	1.80	11,900	1,578.0
	1979	6,200	1.73	10,700	1,420.0
	1980	6,250	1.34	8,400	1,160.0
	1981	6,200	1.55	9,600	1,595.0
Kenai Peninsula	1975	2,050	1.17	2,400	370.0
	1976	1,900	1.00	1,900	255.0
	1977	2,030	1.43	2,900	462.0
	1978	1,650	1.52	2,500	349.0
	1979	1,400	1.29	1,800	232.0
	1980	1,450	1.38	2,000	300.0
	1981	1,900	1.00	1,900	304.0
Southwest <u>1/</u>	1975	100	.67	100	13.0
	1976	100	1.00	100	14.0
	1977	100	1.00	100	14.0
	1978	100	1.00	100	14.0
	1979	200	1.00	200	22.0
	1980	200	2.00	400	60.0
	1981	100	1.00	100	16.0
State Total	1975	14,400	1.49	21,000	2,782.0
	1976	13,700	1.36	18,600	2,325.0
	1977	12,300	1.67	20,600	2,781.0
	1978	12,200	1.67	20,400	2,652.0
	1979	10,800	1.46	15,800	2,054.0
	1980	12,800	1.17	15,000	2,100.0
	1981	14,400	1.40	20,200	3,232.0
	1982	13,100			

1/ Includes Southeast.

Cr/Yr	Acres	80% Insured	Bushel Guarantee	Settlement Price Election	Premium Rate	Projected Premium Subsidy
<u>Barley</u>			30	\$2.60	.20	.30
1981	16,500	13,200	396,000	\$1,029,600 Liability		\$ 62,000
1985	24,000	19,200	576,000	1,497,600 Liability		90,000
1990	38,700	30,960	928,800	2,414,880 Liability		145,000
<u>Oats</u>			50	\$1.70	.20	.30
1981	6,000	4,800	240,000	\$ 408,000 Liability		\$ 24,500
1985	8,800	7,000	352,000	598,400 Liability		35,900
1990	14,200	11,400	568,000	965,600 Liability		58,000
<u>Potatoes</u>			150 Sacks	\$4.00	.25	.30
1981	500	400	60,000	\$ 240,000 Liability		\$ 18,000
1985	800	640	96,000	384,000 Liability		28,800
1990	1,300	1,040	156,000	624,000 Liability		46,800
<u>Forage (All Hay)</u>			.8 Tons	\$45.00	.25	.30
1981	14,400	11,520	9,200	\$ 414,000 Liability		\$ 31,000
1985	21,000	16,800	13,440	604,800 Liability		45,400
1990	33,800	27,040	21,600	972,000 Liability		72,900
<u>Total Acres -- all 4 crops</u>				Total Projected Premium Subsidy -- all 4 crops (based on our expansion assumptions)		
1981	37,400			1981		\$135,500
1985	54,600			1985		200,100
1990	88,000			1990		322,700

*12.50

13.60

10.90

7.20

document provided by USDA 9/1/83

State Participation in Federal Crop Insurance

Unlike most other businesses, individual farmers have only limited control over the quantity of production or the prices received from their products. Farm income is more variable than any other national income category--six times more than non-farm proprietor's income. It takes only a 5 percent change in the aggregate quantity of production to cause a 25 percent change in net farm income.

The Federal Crop Insurance Act administered by USDA's Federal Crop Insurance Corporation (FCIC) complements provisions of the Farm Act which provides protection for farmers against price risk through its commodity loan and target price provisions. FCIC protects farmers against losses from natural disasters not provided for in the Farm Act. Farmers are assured of recovering, at a minimum, the lost capital they must have in order to continue farming--to buy the seed, fuel, and fertilizer that are the inputs of next year's food supply.

The Federal government through its system of ad hoc disaster assistance programs has accepted a role in providing assistance to farmers with the overriding purpose of stabilizing agriculture income which, in turn, benefits the entire economy by maintaining agricultural purchasing power for products produced by non-farmers which translates into increased food security for the American consumer.

The same logic can be applied to state governments which often provide programs and benefits to support various segments of the state economies.

This type of support in agriculture is not unprecedented. There are many combined local, state, and federal programs operating now involving research programs, informational programs, and direct aid programs all within the sphere of agriculture.

The insurance concept provided by FCIC provides a unique mechanism for such state-federal cooperation in the area of farm disaster and does not require exhaustive or expensive state systems of regulation.

Basically, the new law provides that state governments be given the opportunity to increase participation within their individual states in the comprehensive insurance program by providing additional subsidy incentive for farmers over and above the Federal contribution.

The Federal contribution is 30 percent of the premium cost up through the 65 percent of yield coverage level. An additional subsidy from a state for those farmers within that state would make the insurance more affordable and might encourage participation to be increased thus assuring a strong farm economy regardless of risk conditions.

page 2.

This type of support could be accomplished by the states in a number of ways:

1. The state could make direct payments to the producers for a specified share of the farmer-paid portion of his premium which is paid to the Federal Crop Insurance Program. This would be in the form of a state "refund" for a pre-determined portion of that premium.
2. The state could provide tax credits for participating farmers on its State Income Tax returns. This would be regulated strictly within each state and would have no direct Federal connection other than added incentive.
3. The Federal government could bill each cooperating state for its share of the additional subsidy--to be determined initially by each state--at the time the acreage reports are processed and the extent of farmer participation in each state is determined for the crop year.

This would be similar to the Canadian plan, only the Federal Government bills the State, instead of the Province billing the Federal Government.

4. The State could offer the entire insurance plan, similar to the Canadian program, and FCIC or a Federal agency could act as a reinsurer and share in the cost to a pre-determined extent.

The side benefits beyond the farm sector to rural communities and urban areas would be enormous. The additional guarantees that farmers in the state would have to meet loan repayment obligations and to pay cash costs, even when crops fail, would stabilize the economic activity of local communities and strengthen the surrounding rural economy and, to a lesser degree, the urban economy.

8/20/82

Alaska State Legislature

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Senate

Committee on Resources

M E M O R A N D U M

TO: Senate Resources Committee Members

FROM: Senate Resources Committee Staff

RE: SB 336, An Act relating to state contributions toward the premium for federal crop insurance.

DATE: January 20, 1984

On Monday, January 23, 1984 the Senate Resources Committee will hear SB 336, An Act relating to state contributions toward the premium for federal crop insurance.

In effect in Alaska since 1982, the Federal Crop Insurance Program protects against losses from natural disasters. During 1983, approximately 75% of the 12,000 Delta barley acres were insured, at an average cost of \$12 per acre. The federal government subsidizes 30% of each farmer's premium payment.

Under SB 336, the state would provide an additional 30% subsidy, which would reduce the insurance premium paid by the farmer. The corporation would calculate the state's premium share, and payments to the corporation would be through appropriations from the general fund.

The Division of Agriculture, Department of Natural Resources, estimates the cost to the state for its participation at \$140,000 for FY 85 (for the 1984 and 1985 crop years), \$80,000 for FY 86, and \$90,000 for FY 87. These figures are based on a total premium of \$12 per acre, with the state's share figured at \$4 per acre.

The meeting will be held at 3:00 pm in the Beltz Room.

MEMORANDUM

State of Alaska

TO: Senator Bettye Fahrenkamp

DATE: 1/19/84

FILE NO:

TELEPHONE NO:

FROM: *Bill Heim*
Bill Heim, Director
Division of Agriculture
Department of Natural Resources

SUBJECT: S.B. 336

The administration requests that the following amendment be added to S.B. 336.

03.10.030 (c) An applicant for a short term loan may be required to purchase insurance through the Federal Crop Insurance program.

The Agricultural Revolving Loan Fund Board (ARLF) has been doing this on a selective basis during the past year. If this amendment was part of the statute it would give the ARLF Board a more solid base to require certain borrowers to participate in the Crop Insurance Program. Since the State is the major lender of operating funds to small grain farmers, the ARLF should make every effort to protect its collateral through the Crop Insurance Program.

cc: Sharon Barton, Special Assistant
Dean Brown, Deputy Director

Comments Concerning the Federal Crop Insurance Program
by William H. Beardsley, submitted to the
Senate Special Agriculture Committee in
Anchorage, Alaska on October 6, 1983

My name is William H. Beardsley. I am director of the Division of Finance and Economics, Department of Commerce and Economic Development, State of Alaska. I am not an expert on Federal Crop Insurance nor do I propose to take a position on the advisability of the State underwriting part of the premium. Rather, I would like to make a few observations.

It is my understanding that the Federal Crop Insurance Program (FCIP) is a program to insure a farmer against low crop yields rather than low price and that basically the Federal Government underwrites the program by about 30%. Stated another way, the program plans to pay out \$1.00, 90¢ of which goes out on a recurring basis and 10¢ is set aside for catastrophe. For this, the farmer and/or the State pays 70¢. In fact, the federal subsidy is greater than 30% because the feds pick up administrative costs, such as the adjuster who is in Delta Junction right now.

If my understanding is correct, a region is classified as having a certain average yield per acre given certain minimal production practices. Ultimately, an individual farmer can receive his own average yield classification.

Next, each farmer may select the percent of average yield he would like to have guaranteed and the price he would like to be paid for his deficiency if he falls below the guaranteed level. Depending on his selection, a federally subsidized premium is established which he must pay. Federal legislation permits the State to pick up a share of that premium. In Alaska, talk of the State picking up 30% of the premium has been discussed.

While the following comments may include some inaccuracies, I believe they are issues deserving of further consideration.

First, where an average yield is established for an area, say Delta, there appears to be a greater incentive for low yield producers to participate in FCIP than high yield producers since they are statistically more likely to collect. This inequity can be addressed by developing different average yields for each farm.

Second, if FCIP production standards are not rigorous, a farmer might profit by reducing standards to maximize insurance in the short run. For FCIP to enhance farming practices, high standards must be strictly enforced.

Third, the State may opt to be reimbursed for its share of the investment when a failure occurs rather than have the total reimbursement go to the farmer. In essence, if this strategy is used, the State subsidizes success rather than failure and program costs are reduced. The pros and cons of State reimbursement should be studied carefully.

Fourth, it is my understanding that there is nothing sacred about a State contribution of 30% and that participation rates in other states are rarely high. This suggests that a ceiling of, say, \$100,000 and a variable State percentage contribution could be used, thereby fixing the State's annual outlay. At 30%, \$100,000 would insure 27,000 acres. If more acres were insured the percentage State subsidy would fall and if fewer acres were insured 30% could become a ceiling and the State would not expend the entire amount. Methods for limiting State exposure might be worth investigating.

Fifth, the State contribution need not be seen totally as a subsidy. This form of insurance may partially replace other public safety nets and may provide insurance compensation in lieu of reimbursement to farmers for damage by bison. Pennsylvania has such a wildlife compensation clause in its insurance contribution. The benefits and costs other than direct assistance should be considered.

Finally, it is probable that subsidizing an insurance program in early years of agricultural development, when crop yields are likely to fluctuate most broadly and capitalization is generally weakest, is least likely to undermine free market forces than in a mature production region. A phase out or sunset provision for State subsidy might be considered.

Thank you.

WHB/wfs3/7

10583a

Statement of Merritt W. Sprague, Manager
Federal Crop Insurance Corporation
U.S. Department of Agriculture
before the
ALASKA HOUSE & SENATE COMMITTEE ON RESOURCES
Juneau, Alaska
January 11, 1984

The crop insurance program administered by the Federal Crop Insurance Corporation (FCIC), and agency of the U.S. Department of Agriculture, is the first line of defense against the adverse economic impact of severely reduced crop production due to natural disasters. Crop insurance replaces many of the disaster payment programs of the past. It is the kind of user-supported program, making maximum involvement of private sector participation, that is favored by many in today's society.

The crop insurance program is expected by Congress to be conducted as a business which follows sound insurance practices and principles. It is designed to provide farmers with dependable, equitable protection that utilizes taxpayer's support in the most cost-effective manner possible.

In keeping with the mandates of the 1980 Federal Insurance Act, much progress has been made toward expanding participation, increasing number and adequacy of insurance offers, building a professional, well-trained delivery system, and developing an effective agency which meets its responsibilities in a timely and efficient manner.

Crop insurance premiums are almost entirely used to pay losses or build reserves to cover future catastrophic loss situations. The premiums are cost-shared by the U.S. Department of Agriculture to a maximum extent of 30 percent at the 55 percent coverage level. The administrative costs of the crop insurance program, including all expenses related to sales, loss adjustment, and operations of the FCIC, are paid from appropriated funds and in effect, are a further indirect subsidy to the program.

Even without state subsidy, the cost of crop insurance to the producer is often less than the cost of the seed planted. Crop insurance is a

high-value, reasonably-priced package of protection which each and every producer needs to fully consider.

The Federal Crop Insurance program seems particularly designed for and should be very useful to farmers in Alaska considering the known risks of crop production in the Alaskan areas presently producing field crops.

Mid-summer frosts, early fall rain during harvest, and the acquired taste for barley by Buffalo seems to occur with some regularity in at least the Delta Junction area where the major portion of our insurance experience has been. Federal Crop Insurance has, since the 1982 crop year, been able to help Alaskan farmers respond to these unavoidable risks to crop production in the Delta Junction and Matanuska Valley areas. Our 1983 program provided for protection from all of the natural risks on approximately 70 percent of the planted acres in the primary crop producing areas of the state. This was accomplished through a partnership between the Federal Crop Insurance Corporation and insured farmers -- both sharing in the premium costs.

As I indicated earlier, our current legislation provides for the Federal Government to participate in approximately 30 percent of the total premium payment. The intent of the proposed Alaska legislation is to provide this same premium partnership between the Alaska State Government and Alaskan farmers. This is a long range plan for a risk sharing partnership between Alaskan farmers and the legislative body which also created the legislation which provided for the development of cropland from forest ground. It is my understanding most of the area producing field crops (barley) has been developed from native forest land during recent years and much more cropland development is planned for the future.

It would be our intent that this long range partnership and risk management plan should not become a tax burden to the citizens in the great state of Alaska. Rather, this proposal would allow the Alaska State Government to make an annual investment in a three-way partnership along with Alaskan farmers and the Federal Government to help manage the considerable risks of growing field crops.

Today's crop insurance is greatly improved and can serve as a very important part of producer's risk management plan. Everyone would benefit from greater

participation; farmers most especially. Lenders are in greater numbers requiring crop insurance as a condition for farm operating loans because such insurance helps protect their investment in agriculture.

Crop insurance provides individual farmers significant help in resolving cash flow problems when production problems arise. This will further strengthen the local agricultural economies. For example, farmers will be able to meet financial obligations to the Alaska Revolving Loan Fund by insuring against crop loss due to natural hazards.

We in crop insurance have increased our level of commitment to Alaskan farmers as we have expanded the areas and crops insurable in Alaska effective for the 1984 crop year. During 1984, for the first time Federal Crop Insurance may be obtained by any Alaskan farmer producing wheat or oats, wherever they are located in the state, simply by letting us know his need.

The ultimate result of this proposed legislation will be to provide Alaskan State Government support for the tremendous efforts of individual Alaskan farmers to produce field crops on a commercial basis to meet future needs.

The FCIC will work with the State of Alaska to minimize administrative expenses associated with state support for crop insurance. The only required administrative costs to the state should relate to the preparation and transmission of payments by the state to FCIC on the behalf of Alaska producers.

In summary, the bill being discussed today should lead to greater participation by Alaska producers in the crop insurance program. The reduced cost to the producer should make it far more attractive to individual farmers. It will be a higher value package in relation to its cost.

Increased participation will mean that the needs of producers for risk management protection will be better met. This is particularly significant in view of the absence of other disaster payment programs. Also, increased risk protection for more Alaskan farmers will have a beneficial impact on other segments of your economy whose viability depends on a healthy agriculture.

The recent improvements in crop insurance contracts and operational procedures make crop insurance more attractive than ever to producers. The need for financial protection in uncertain economic times is greater than ever. As a result, high levels of participation in crop insurance are vital to the protection and maintenance of the modern agricultural economy. The bill, which would provide additional incentives to participation in crop insurance, should benefit all segments of Alaska society.

We, at FCIC, are committed to working with you in any appropriate fashion in what we consider to be a major initiative to help Alaska producers. We commend you for your foresight and efforts. I thank you for this opportunity to appear before the committee.