

120029

BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Honorable Berkley Bedell House Of Representatives

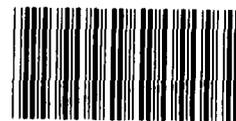
RELEASED

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations

USDA Needs Objective Criteria For Awarding Special Disaster Payments

The Department of Agriculture recently awarded special disaster payments to 83 counties in Texas, New Mexico, and Oklahoma. Many counties designated to receive special disaster payments suffered severe crop losses. However, some designated counties sustained less crop loss than nondesignated nearby counties and counties in other parts of the country.

The Department does not have criteria for assuring that special disaster payments are awarded in a consistent manner. GAO recommends that the Department establish objective criteria to be used in awarding special disaster payments.



120029



GAO/RCED-83-54
NOVEMBER 2, 1982

523874

Request for copies of GAO reports should be sent to:

**U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760**

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-209679

The Honorable Berkley Bedell
House of Representatives

Subject: USDA Needs Objective Criteria for
Awarding Special Disaster Payments
(GAO/RCED-83-54)

Dear Mr. Bedell:

Based on your July 20, 1982, letter and subsequent discussions with your office, we reviewed the Department of Agriculture's (USDA's) decision to award special disaster payments estimated to be between \$200 million and \$250 million in 83 counties in Texas, New Mexico, and Oklahoma. On August 19, 1982, when we briefed you on our preliminary work, we agreed to focus our review on (1) the criteria USDA used in designating counties to receive disaster payments and (2) the equity of USDA's decision concerning farmers outside the designated counties.

In summary, we found that:

- Many of the counties USDA designated to receive special disaster payments suffered severe losses to their major crops.
- USDA designated some Southwestern counties to receive special disaster payments that sustained less crop loss than some nearby counties which were not designated. For some designated counties, losses to major crops ranged between 0 and 35 percent. However, some nondesignated counties suffered losses to their major crops ranging between 44 and 80 percent.
- Counties in other parts of the country experienced more severe crop losses than some designated Southwestern counties. Counties in Iowa, Missouri, and Nebraska have suffered losses to their major crops ranging between 23 and 79 percent. However, USDA has not awarded special disaster payments in areas outside the Southwest.

--USDA does not have objective criteria to apply in designating counties to receive special disaster payments. USDA officials told us that they used their best judgment in awarding these payments. The crop loss data we have analyzed and statements of USDA officials involved in the disaster payment decision demonstrate that USDA did not use objective criteria in awarding disaster payments.

Our review shows that USDA used its discretionary authority to award disaster payments in an inconsistent manner. We believe that special disaster payments should be awarded based on objective criteria applied uniformly throughout the country.

We are recommending that the Secretary of Agriculture establish objective criteria to be used in awarding special disaster payments.

Appendix I contains background information on USDA's designation of the Southwestern counties and our analysis of USDA's decision to award special disaster payments to these counties. Appendix II contains our replies to the specific questions posed in your July 20, 1982, letter.

Our work was conducted at USDA headquarters in Washington, D.C., and included review of related legislation, reports, disaster summaries, and agency correspondence as well as interviews with officials involved in the disaster payment decision. We also reviewed disaster assessment reports from Texas, New Mexico, and Oklahoma. These reports, which were prepared by local USDA officials, contain the only quantitative crop loss data USDA used in its decision to award disaster payments to counties in these three States. We also reviewed disaster assessment reports from States which have sustained substantial crop loss and whose congressional representatives also requested disaster assistance: Iowa, Missouri, and Nebraska.

We obtained oral comments from the Deputy Assistant Secretary, Marketing and Inspection Services. He concurred with the factual content, conclusions, and recommendation of our report. He also clarified USDA's reasons for establishing the contiguous area of Southwestern counties to receive special disaster payments. As a result of his comments, appropriate changes were made to the report.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this

B-209679

report until 30 days from its issue date. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



J. Dexter Peach
Director



C o n t e n t s

Page

APPENDIX

I	ANALYSIS OF USDA'S DESIGNATION OF 83 SOUTH- WESTERN COUNTIES TO RECEIVE DISASTER PAYMENTS	1
	Federal Government policies and procedures on disaster payments	1
	Objectives, scope, and methodology	2
	Background on the Southwestern disaster designation	3
	USDA county designations were inconsistent	4
	USDA used indefinite criteria in awarding disaster payments	9
	Conclusions	14
	Recommendation to the Secretary of Agriculture	15
	Agency comments	15
II	GAO'S RESPONSES TO CONGRESSMAN BEDELL'S SPECIFIC QUESTIONS	16

ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
DAR	disaster assessment report
FCIC	Federal Crop Insurance Corporation
FmHA	Farmers Home Administration
GAO	General Accounting Office
USDA	U.S. Department of Agriculture

ANALYSIS OF USDA'S DESIGNATION OF 83 SOUTHWESTERN
COUNTIES TO RECEIVE DISASTER PAYMENTS

FEDERAL GOVERNMENT POLICIES AND
PROCEDURES ON DISASTER PAYMENTS

The Federal Government's policy on assisting farmers adversely affected by weather has undergone major changes in recent years. In the past, USDA has spent hundreds of millions of dollars annually in disaster payments assisting cotton, feed grain, wheat, and rice producers who had suffered large crop losses. However, in 1981 USDA stated that disaster payments would be phased out and that Federal crop insurance would become the primary Federal disaster program for farmers. The Agriculture and Food Act of 1981 legislated the phaseout of disaster payments, requiring that "producers on a farm shall not be eligible for disaster payments*** if crop insurance is available to them under the Federal Crop Insurance Act***." However, the act provides that, notwithstanding the availability of crop insurance, the Secretary may make special disaster payments if he determines that the following conditions exist:

- As the result of drought, flood, or other natural disaster, producers on a farm have suffered substantial losses of production which have created an "economic emergency" for the producers.
- Federal crop insurance payments and other Federal Government assistance are insufficient to alleviate such "economic emergency" or no crop insurance covered the loss because of "transitional problems" with the Federal crop insurance program.
- Additional assistance must be made available to such producers to alleviate the economic emergency.

The Secretary exercised the act's special disaster payment authority for the first time when he designated 83 counties in Texas, New Mexico, and Oklahoma to receive disaster assistance. The July 15, 1982, press release announcing the Secretary's action included information which addressed the act's requirements for special disaster payments. The press release stated (1) the area had sustained heavy losses, (2) the Federal Crop Insurance Corporation (FCIC) was in a transitional phase, and (3) the disaster called for extraordinary measures.

While USDA has not published regulations governing the administration of special disaster payments, USDA's Agricultural Stabilization and Conservation Service's (ASCS's) Director of Emergency Operations and Livestock Programs described to us the

procedures under which they are executing this special authority. ASCS, the agency that administers disaster payments, maintains county offices which, among other functions, monitor weather conditions affecting farming. For each county, a County Emergency Board, composed of ASCS, Farmers Home Administration (FmHA), Soil Conservation Service, and Cooperative Extension Service representatives, prepares a disaster assessment report (DAR) when weather conditions develop into significant disaster situations. The report is forwarded to the State Emergency Board, composed of State representatives from 10 USDA agencies, who review the reports. If the State Emergency Board concurs, it sends the reports to the respective ASCS area office director and provides copies to the State Governor. After reviewing the disaster reports, the Governor may petition the Secretary of Agriculture for Federal disaster assistance. Under the act's provisions regarding Federal crop insurance and crop losses the Secretary has discretion to decide whether or not he will authorize special disaster payments. Once the Secretary has designated disaster counties, ASCS representatives immediately begin assessing farmers' losses and making payments. Farmers are not required to make any repayment of this special disaster assistance.

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to Congressman Bedell's July 20, 1982, request and subsequent discussions with his office, our objectives were to determine whether (1) USDA's decision to award special disaster payments was equitable and consistent and (2) USDA used objective criteria in making its decision.

During our work, we interviewed USDA officials involved in the disaster payment decision and reviewed applicable legislation and documents. We also reviewed all available DAR's from Texas, New Mexico, and Oklahoma. Although USDA compiled crop loss percentages from the data contained in these DAR's, USDA did not retain records of the crop loss percentages. Therefore, using the procedures which USDA analysts told us they had used, we recomputed crop loss percentages for all Texas counties which filed DAR's, the four designated New Mexico counties, and the four designated Oklahoma counties. For major crops listed on a county's DAR we compared the estimated 1982 countywide yield with the county's historical yield, as reported by ASCS. The crop loss percentages indicate how much 1982's yield is estimated to be below the county's historical yield.

Using the same methodology as described above, we also compiled crop loss percentages for all Iowa, Missouri, and Nebraska counties that submitted DAR's. We reviewed all available DAR's from Iowa, Missouri, and Nebraska because these States have experienced adverse weather similar to that experienced in the Southwest and because congressional representatives from these States

and a Governor from one of these States have requested disaster assistance.

The information in the DAR's regarding farmers' individual losses (as opposed to countywide losses) is not broken down according to the specific crops farmers were growing. In order to show how many farmers in a particular county have suffered substantial crop loss, we selected one crop loss percentage--30 percent--which would represent a substantial loss for the many different crops aggregated in the reports. We recognize that in administering the special disaster payment program USDA's "substantial loss" requirement for individual farmers varies from crop to crop. However, USDA uses only one crop loss percentage for all crops--30 percent--in qualifying farmers for disaster loans administered by FmHA. USDA's Emergency Operations Handbook states that farmers receiving these disaster loans must have suffered a "substantial" loss. Therefore, in evaluating farmers' individual losses, we used 30 percent to represent a substantial loss.

We made the review in accordance with generally accepted government auditing standards.

BACKGROUND ON THE SOUTHWESTERN DISASTER DESIGNATION

During the spring and early summer of 1982, a large area of Texas and certain parts of New Mexico and Oklahoma underwent weather conditions adverse to the area's major crops--cotton, wheat, and feed grains. According to county emergency boards, hail, heavy rain, wind, and cool weather besieged the area for many weeks. On Friday, June 25, 1982, the Governor of Texas talked to the Secretary of Agriculture regarding the developing crop damage, and on Monday, June 28, 1982, a team of USDA officials arrived in Texas for a 3-day survey of the damage. On July 9, 1982, the Texas Governor's written request for disaster assistance was received at USDA. As stated in USDA's July 15, 1982, press release, the Secretary phoned the Governor to announce that farmers in 68 Texas counties, 4 New Mexico counties, and 4 Oklahoma counties would be eligible for special disaster payments. It should be noted that actual losses cannot be determined until after harvest.

A memo, dated July 16, 1982, from ASCS headquarters to Texas, New Mexico, and Oklahoma ASCS committees contained a list of counties designated for the special disaster program which showed that seven Texas counties had been added to the designated area, bringing the total number of designated Southwestern counties to 83. It also contained statements on why these counties were designated. According to the document, "a special review showed that these counties had been hit by a multitude of hail and severe

weather problems over a prolonged period. They constitute a large contiguous area in which the loss to crops, particularly wheat and cotton is severe." As for excluded counties, the memo stated that "the counties did not meet the criteria for the severity of damage due to abnormal weather." If counties in other areas of the country suffer severe damage due to abnormal weather conditions, they "would receive their own separate review for possible designation," according to the memo.

The July 16, 1982, memo stated that all farmers in the designated area were eligible for special disaster payments provided that:

- They had sustained a crop loss greater than 25 percent for cotton or 40 percent for wheat or feed grains.
- They were currently participating in the acreage reduction program.

Even though farmers will receive Federal crop insurance indemnity payments on their losses, they are still eligible for full special disaster payments.

FmHA emergency disaster loans will be made available in counties that meet the normal criteria for such aid. FmHA will determine which counties are eligible at harvest time. An FmHA emergency loan officer told us that all counties which received disaster payments probably will not be eligible for FmHA disaster loans, because all those counties will not meet FmHA's criteria for substantial loss--30 percent countywide loss on all crops. It should be noted that any FmHA loan will be reduced by any disaster payment compensation.

USDA COUNTY DESIGNATIONS WERE INCONSISTENT

While many counties USDA designated for disaster assistance sustained severe crop damage, some of the designated counties sustained relatively little crop damage. Conversely, several non-designated counties suffered greater losses than the counties designated for disaster payments.

According to the DAR's, many counties USDA designated for special disaster payments suffered severe losses to their major crops. For example, Hockley County, Texas, suffered a 95-percent production loss on its highest acreage crop, cotton, and a 76-percent loss on its second highest acreage crop, wheat. Floyd County, Texas, suffered 80 percent losses on its two highest acreage crops, cotton and wheat. In both counties, almost all farmers suffered a production loss above 30 percent with individual losses ranging as high as 100 percent. Of the designated counties, many suffered 80 percent losses on their cotton or wheat crops.

However, the DAR's also show relatively mild crop losses in some designated Texas counties. While USDA stated in its July 15, 1982, press release that it was making disaster payments available to the Southwestern counties because the "extent of crop losses *** calls for extraordinary measures," some counties receiving designation had mild losses compared with neighboring nondesignated counties. The following table provides crop loss data for some relatively mildly affected designated counties.

Texas Counties Designated for Disaster Payments

Having Relatively Low Losses

<u>County</u>	<u>Acres planted (note a)</u>			<u>Percent Crop Loss</u>		<u>Percent farmers with 30% or more loss</u>
	<u>Pasture</u>	<u>#1 crop</u>	<u>#2 crop</u>	<u>#1 crop</u>	<u>#2 crop</u>	
Coke	470,000	10,000 (sorghum)	6,000 (wheat)	0	17	13
Deaf Smith	366,000	225,000 (wheat)	130,000 (sorghum)	8	25	18
Stephens	480,000	9,000 (wheat)	4,500 (oats)	35	14	4
Taylor	337,000	80,000 (wheat)	30,000 (sorghum)	0	7	5
Wilbarger	645,000	100,000 (wheat)	80,000 (cotton)	0	33	8

a/Figures include acres that farmers intended to plant but were prevented from planting due to weather.

The table shows relatively low losses for each of these counties, as compared to nondesignated counties, both in terms of major crop losses and individual farmer losses. Moreover, all counties have huge pasture acreages. Pasture land suffers little from heavy rain and hail, according to ASCS' Acting Deputy Administrator for State and County Operations and ASCS' Acting Deputy Director, Analysis Division.

Two other Texas counties, Hartley and Moore, were included in the disaster designation, although according to ASCS' Director of Emergency Operations and Livestock Programs, no DAR's were submitted for these two counties. However, the Texas State ASCS office estimated mild damage for the two counties. It estimated that Hartley County had a 16-percent loss on 15,400 acres of wheat and a 2-percent loss on 1,000 acres of grain sorghum. Moore county was estimated to have a 15-percent loss on 11,000 acres of wheat and 5-percent loss on 150 acres of barley.

While USDA designated counties with relatively mild losses, more severely affected Texas counties suffered from the same adverse weather conditions that rendered nearby counties eligible for disaster assistance. More importantly, these nondesignated counties suffered greater losses to major crops and individual farmers than some of the designated counties experienced. The following table shows several examples of counties that, according to the DAR's, sustained greater damage but did not receive disaster payments.

Texas Counties Not Designated for Disaster Payments

Having Relatively High Losses

<u>County</u>	<u>Acres planted (note a)</u>			<u>Percent crop loss</u>		<u>Percent farmers with 30% or more loss</u>
	<u>Pasture</u>	<u>#1 crop</u>	<u>#2 crop</u>	<u>#1 crop</u>	<u>#2 crop</u>	
Denton	272,000	80,000 (wheat)	25,000 (sorghum)	50	51	99
Guadalupe	220,000	50,000 (sorghum)	23,000 (wheat)	50	47	43
Tarrant	164,000	24,000 (wheat)	16,000 (oats)	63	57	75
Wise	341,000	45,300 (cotton)	14,000 (wheat)	80	44	68

a/Figures include acres that farmers intended to plant but were prevented from planting due to weather.

Counties in other States have suffered more crop loss than some disaster designated counties

While USDA made disaster payments available to relatively mildly affected Texas counties, counties in other States suffered severe crop losses but received no disaster payments. For example, during the spring of 1982 County Emergency Boards in Missouri, Nebraska, and Iowa reported crop losses resulting from heavy rainfall, hail, wind, and cool weather. DAR's were prepared for many counties. County emergency boards from several counties recommended disaster assistance. Congressional representatives from these States wrote the Secretary requesting disaster payments for the affected farmers.

The following table (see p. 8) shows that several counties in Iowa, Missouri, and Nebraska suffered extreme crop damage. These crop loss figures were compiled using the same method USDA used in

compiling loss figures for the 83 Southwestern counties afforded disaster payments. As the table shows, losses to major crops ranged as high as 50 percent in most of these counties. In each county, between 70 and 100 percent of the farmers had production losses of 30 percent or more.

Crop Losses of Selected Counties Outside the Southwest (note a)

County	Acres planted (note b)			Percent crop loss			Percent farmers with 30% or more loss
	#1 crop	#2 crop	#3 crop	#1 crop	#2 crop	#3 crop	
Iowa:							
Fremont	114,000 (soybeans)	108,500 (corn)	5,400 (wheat)	c/41	31	44	70
Ringgold	67,200 (corn)	43,100 (soybeans)	13,000 (oats)	51	c/28	47	72
Missouri:							
Daviess	106,000 (soybeans)	30,000 (wheat)	26,000 (corn)	c/36	59	53	80
Gentry	79,000 (soybeans)	34,000 (corn)	20,000 (wheat)	c/50	28	58	94
Harrison	79,700 (soybeans)	42,000 (corn)	25,000 (wheat)	c/61	64	70	94
Livingston	122,000 (soybeans)	35,000 (wheat)	12,000 (sorghum)	/67	50	73	100
Nodaway	193,500 (soybeans)	110,000 (corn)	12,000 (wheat)	c/40	79	48	100
Putnam	38,000 (soybeans)	20,000 (corn)	8,000 (wheat)	c/43	55	71	100
Nebraska:							
Otoe	90,000 (soybeans)	75,000 (sorghum)	55,000 (corn)	c/33	23	42	91

a/Although the act does not provide for soybean disaster payments, we included soybean acres grown and crop loss percentages because soybeans are a major agricultural product in these counties. Furthermore, USDA maintains that it considers the losses to an area's major crops in deciding whether to award special disaster payments.

b/In most of these counties, a significant number of acres (ranging from 44,000 to 189,000) is grown for pasture. Also, figures include acres that farmers intended to plant but were prevented from planting due to weather.

c/To estimate soybean losses, we took a 5-year county average yield and compared it with this year's estimated yield. This method is acceptable to ASCS. The number shown represents the percentage below average that this year's yield is expected to be.

USDA USED INDEFINITE CRITERIA
IN AWARDING DISASTER PAYMENTS

While USDA in its July 16, 1982, memo referred to "criteria for severity of damage" which it used in deciding which counties would receive disaster payments and which counties would not, USDA officials responsible for making the designation told us that the criteria were not well defined. ASCS' Administrator stated that the criteria used for designating counties were "subjective." USDA's Under Secretary for Small Community and Rural Development, who was heavily involved in the designation process, told us that county designations were based on the "best judgment" of a task force composed of high-level officials. 1/ The Associate General Counsel, Production Distribution and Assistance, stated that "an element of arbitrariness" was involved in the designation.

The criteria USDA used do not appear to be based solely on crop loss data. As stated earlier, our analysis of production losses to major crops showed that counties sustaining mild crop losses received disaster payments, while more severely affected counties were excluded from the special payments. USDA documents show that an important factor motivating USDA to award disaster payments was the loss to cotton and wheat crops. However, when we analyzed county cotton and wheat losses, we found that some nondesignated counties had greater cotton or wheat losses than some designated counties. The following table provides examples.

1/Officials involved in the disaster designation included the Under Secretary, Small Community and Rural Development; the Deputy Assistant Secretary, Marketing and Inspection Services; the Under Secretary, International Affairs and Commodity Programs; and the Administrator, ASCS.

Cotton and Wheat Crop Losses
(selected Texas counties)

	Cotton		Wheat	
	Acres planted (note a)	% loss	Acres planted (note a)	% loss
Designated counties:				
Coke	1,000	27	6,000	17
Shackelford	3,100	16	29,000	23
Taylor	20,000	38	80,000	0
Wilbarger	80,000	33	100,000	0
Nondesignated counties:				
Collin	15,000	30	120,000	61
Denton	6,000	35	80,000	50
Grayson	2,465	100	100,000	63
Wise	45,300	80	14,000	44

a/Figures include acres that farmers intended to plant but were prevented from planting due to weather.

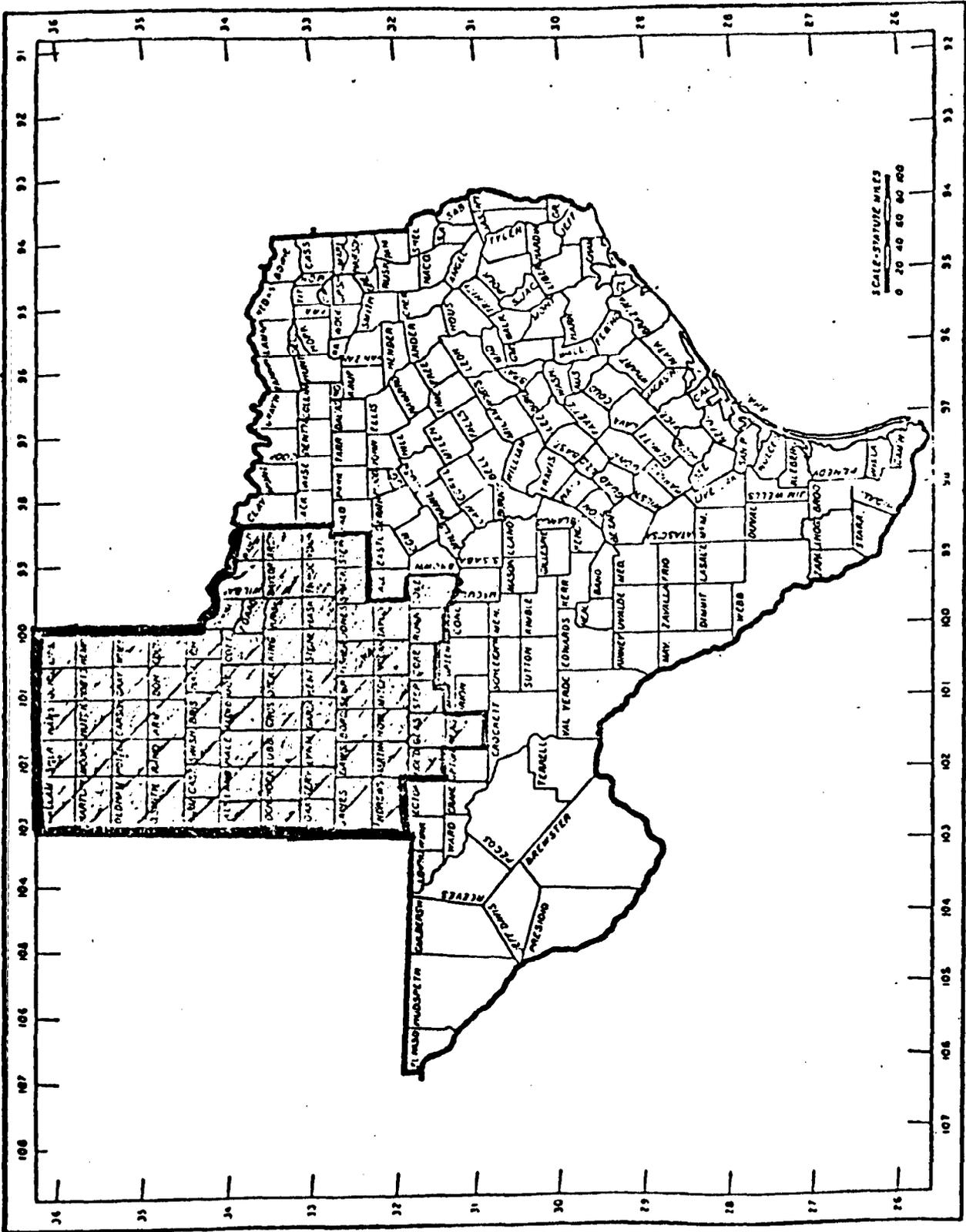
One senior level USDA official told us that the designation task force used crop losses as criteria for designating counties. However, according to the official, the task force had a contiguous group of counties in mind for designation and the task force changed its criteria for designation several times in an effort to designate all counties in the contiguous area. According to this official, the task force initially used a 60-percent county-wide crop loss as the criterion for designation. Once it became apparent that not all counties in the contiguous area would be designated under this criterion, the task force lowered its criteria to a 50-percent countywide crop loss. Subsequently, the criterion was lowered to a 30-percent countywide crop loss. Although a few counties did not meet the 30-percent loss criterion, the task force decided to designate these counties anyway because they were located in the contiguous area, according to the USDA official.

As mentioned earlier, no DAR's were submitted for two counties, Moore and Hartley, but nevertheless USDA designated these counties for disaster payments. When we asked ASCS' Director of Emergency Operations and Livestock Programs why these counties were designated without the benefit of disaster assessment, the official told us that these two counties were designated because they fell within the "contiguous area."

We asked several USDA officials involved in the designation process why and how the contiguous area had been established. USDA officials told us that they awarded special disaster payments to this contiguous area to support the affected region's economy.

The designated area's economy is highly dependent on agriculture, according to USDA officials. They stated that the disaster affected not only farmers but also the banks and businesses that deal with farmers. Officials involved in the designation process stated that they were particularly concerned about crop losses in this region because it contains about 50 percent of the Nation's planted cotton acreage. Two officials involved in the designation process told us that another important reason for establishing a contiguous area was to contain the special disaster payment program in the Southwestern region. The officials explained that in order to obtain the Office of Management and Budget's approval of the special disaster program's cost, USDA had to limit the area receiving the special payments. Furthermore, USDA officials wanted to avoid making payments to other parts of the country because they did not want to reopen a nationwide disaster payment program. As for how the contiguous area was established, USDA officials told us that the boundaries were established according to somewhat subjective and arbitrary criteria. The designated contiguous area is shown as the shaded portion on the following map.

TEXAS



USDA policy on awarding disaster
payments to other parts of
the country

USDA stated in its memo to State agricultural stabilization and conservation committees that if counties outside the Southwestern disaster area suffered severe damage they "would receive their own separate review for possible designation." It told Iowa, Missouri, and Nebraska congressional representatives requesting disaster payments that the State Governor's "formal request" was required for the Secretary's consideration of awarding special disaster payments.

USDA apparently imposed this requirement on Iowa, Missouri, and Nebraska but not on New Mexico and Oklahoma. While Texas' Governor did send the Secretary a written request for disaster payments, neither New Mexico's Governor nor Oklahoma's Governor did so. However, as stated above, four counties in each of these States received special disaster payments.

Nebraska's Governor followed USDA's instructions and on July 26, 1982, formally requested that the Secretary award special disaster payments to six Nebraska counties. More than 2 months later, on October 6, 1982, USDA responded that it would not award disaster payments to any Nebraska counties. (USDA's reasons for denying the request are stated in app. II, p. 17.) Three of Nebraska's counties had greater losses to major crops than some Texas counties receiving disaster payments. For example, according to the DAR for Cuming County, Nebraska, many farmers suffered huge individual losses, with 297 out of 1,410 farmers sustaining 100 percent crop loss. The table on the following page compares countywide crop losses.

Crop Losses in Selected Nebraska and Texas Counties

	Acres planted a/			Percent crop loss		
	#1 crop	#2 crop	#3 crop	#1 crop	#2 crop	#3 crop
Nebraska:						
Cuming	150,000 (corn)	95,000 (soybeans)	14,000 (oats)	27	42	35
Washington	85,240 (corn)	61,480 (soybeans)	6,240 (wheat)	29	32	29
Wayne	101,000 (corn)	54,000 (soybeans)	21,000 (oats)	13	44	27
Texas:						
Coke	10,000 (sorghum)	6,000 (wheat)		0	17	
Deaf Smith	225,000 (wheat)	130,000 (sorghum)		8	25	
Taylor	80,000 (wheat)	30,000 (sorghum)		0	7	

a/Figures include acres that farmers intended to plant but were prevented from planting due to weather.

ASCS' Director of Emergency Operations and Livestock Programs Division told us that in deciding to deny Nebraska's request USDA did not use any concrete crop loss criteria.

Awarding disaster payments is subject to the requirement that Federal crop insurance is either insufficient to alleviate the producers' "economic emergency" or no crop insurance covered the loss because of "transitional problems" with the Federal crop insurance program. For the Southwestern counties, the Secretary determined that Federal crop insurance "is still in a transitional phase." This situation is not, however, unique to the Southwest. The FCIC Manager told us that FCIC is in a transitional phase nationwide. According to the FCIC Manager, FCIC is no more transitional in the Southwest than in the rest of the Nation.

CONCLUSIONS

Our review shows that USDA awarded special disaster payments in an inconsistent manner. While some counties USDA designated for disaster payments did indeed suffer severe crop losses, other designated counties experienced losses that were no greater than losses suffered in other parts of the country. The crop loss data we have analyzed and the statements of USDA officials involved in the designation lead us to believe that USDA's overriding

concern in designating counties was that all counties be designated which fell into a subjectively defined contiguous area.

The Agriculture and Food Act of 1981 provides USDA with discretionary authority to award special disaster payments. We believe USDA's use of this discretion should be based on objective criteria. However, USDA has not developed objective criteria to be used in awarding special disaster payments. This lack of criteria may result in subjective or inconsistent application of the act.

RECOMMENDATION TO THE
SECRETARY OF AGRICULTURE

We recommend that, in order that special disaster payments be awarded uniformly and equitably, the Secretary establish objective criteria to be used in awarding special disaster payments.

AGENCY COMMENTS

We obtained oral comments from the Deputy Assistant Secretary, Marketing and Inspection Services. He concurred with the factual content, conclusions, and recommendation of our report. He also clarified USDA's reasons for establishing the contiguous area of Southwestern counties to receive special disaster payments. As a result of his comments, appropriate changes were made to the report.

GAO's RESPONSES TOCONGRESSMAN BEDELL's SPECIFIC QUESTIONS

Your July 20, 1982, request that we review USDA's Southwestern disaster designation included several specific questions. We have listed them below along with our responses.

1. Will farmers be reluctant to pay for Federal crop insurance if they believe that the Federal Government will provide direct paid disaster assistance?

While we can only speculate on the effect which USDA's special disaster payments will have on farmers' actions, some indications suggest that disaster payments discourage FCIC participation. For example, Texas' FCIC participation rate (in terms of acres) is 9 percent, 10 percent below the national participation rate. Texas' low participation rate may be due, in part, to the State's history of receiving large portions of total U.S. disaster payments. During the years 1978-81, Texas received 32 percent of total U.S. disaster payments. This year, Texas is expected to receive an estimated 97 percent of total U.S. special disaster payments. (New Mexico and Oklahoma will receive the other 3 percent.) FCIC's Manager told us that the 1982 disaster payments certainly will not encourage Texas farmers to enroll in the FCIC program. Other high-ranking USDA officials told us that these disaster payments would not adversely affect the FCIC program. Furthermore, in announcing the disaster designation, the Secretary stated:

"We continue to support the principle and the mandate from Congress that the expanded crop insurance program will replace disaster payments. The heavy losses created by the storm damage in this three-state region dramatically demonstrate the necessity for farmers here, and nationwide, to take advantage of the protection offered by the Federal Crop Insurance Corporation."

2. Is the disaster payment decision equitable? Will other farmers who sustain severe crop losses be afforded similar assistance? If not, how can this preferential treatment of Southwestern farmers be justified?

As stated in appendix I, the disaster payments were awarded in an inconsistent manner. While USDA has stated that if counties in other areas of the country suffer severe damage they "would receive their own separate review for possible designation," as of October 21, 1982, USDA had not designated any county outside the Southwestern disaster area. On October 6, 1982, USDA responded

to the Governor of Nebraska's July 26, 1982, request for disaster payments for six Nebraska counties. In denying the request, USDA stated:

"This decision was made because the disaster was not widespread nor unique in nature, the resulting production loss for major crops in the area was not substantial when compared to the total production of the area, and results of the disaster would have very little impact on the economic health and structure of the entire region."

According to ASCS' Director of Emergency Operations and Livestock Programs Division, USDA did not use any concrete production loss criteria in making this decision. As the table on page 14 demonstrates, some Nebraska counties suffered greater losses than some designated Texas counties. Furthermore, one USDA official told us that since the Southwestern disaster designation, USDA has "held the line" on making disaster payments to other States.

3. Was undue political pressure brought to bear in determining whether these payments would be made?

As discussed in our August 19, 1982, meeting with you, we are not in a position to judge whether undue political pressure was exerted on USDA to make disaster payments to the Southwestern counties. Congressmen Hance, Hightower, Skeen, and Stenholm were in the disaster area when the USDA team surveyed the crop damage. In addition, staff members from the offices of Senators Bentsen, Domenici, Schmitt, and Tower met with the USDA team. Several of these Congressmen wrote letters urging the Secretary to award special disaster payments to the Southwestern counties. However, it should be noted that congressional representatives from other States have also urged USDA to award disaster payments to their respective States.

4. Did this area experience inordinate difficulties with the implementation of the new crop insurance program?

According to several USDA officials, FCIC has experienced problems in expanding and revising its insurance programs, but these problems are of national, not regional, scope. FCIC's Manager told us that Federal crop insurance in Texas is experiencing no more transitional difficulties than it is elsewhere in the country.

5. What procedures were used to determine the amount of disaster assistance provided to individual farmers?

USDA initially announced the following payment rates:

- For cotton, 20.5 cents per pound for crop losses exceeding 25 percent of the crop.
- For wheat, \$1.75 per bushel for losses exceeding 40 percent of the crop.
- For feed grains, 15 cents per bushel for corn, 18 cents per bushel for grain sorghum, and 15 cents per bushel for barley for losses exceeding 40 percent.

USDA officials involved in the disaster designation told us that the payment rates were established by consensus opinion. ^{1/} We found indications that the payment rates may have been linked to the reduction in deficiency payments which USDA would have to pay. ASCS stated on July 20, 1982, that "savings in cotton deficiency payments resulting from higher prices caused by the disaster are estimated at \$85 to \$95 million--more than offsetting the cost of the special disaster payments." Furthermore, a USDA official involved in the disaster designation stated that USDA expected that, given the savings in deficiency payments, no "new" money would have to be spent to fund the special disaster payments. According to this official, since the Southwestern disaster had reduced the supply of certain crops, the prices for these crops were expected to rise; consequently, USDA deficiency payments for these crops would be reduced. Using the savings in deficiency payments as the pool of funds, USDA divided this pool among the three crop categories. Originally, feed grains were afforded a lower payment rate because, according to USDA, "the most serious economic impact on a regional basis was the damage to wheat and cotton." The Department added "there is somewhat more opportunity to replant feed grains than wheat or cotton."

However, after receiving letters from the Texas Governor and Texas Congressman Hance regarding the low feed grain payment rates, USDA raised the bushel payment levels for corn, grain sorghum, and barley to \$1.17, \$1.13, and \$1.13, respectively. This change put the payment levels for wheat, cotton, and feed grains all at about 87 percent of the payment levels used under the regular disaster program that expired in 1981.

^{1/}Officials involved in the disaster designation included the Under Secretary, Small Community and Rural Development; the Deputy Assistant Secretary, Marketing and Inspection Service; the Under Secretary, International Affairs and Commodity Programs; and the Administrator, Agricultural Stabilization and Conservation Service.

6. Will these payments be made without regard to a farmer's actual needs?

Yes. Regardless of a farmer's actual financial need, all farmers in the designated counties will receive payments based on their individual losses, provided that

- the farmer had enrolled in the acreage reduction program for the eligible commodity by April 16, 1982, and
- the farmer had sustained more than a 25-percent loss to his cotton crop or more than a 40-percent loss to his wheat or feed grain crop.

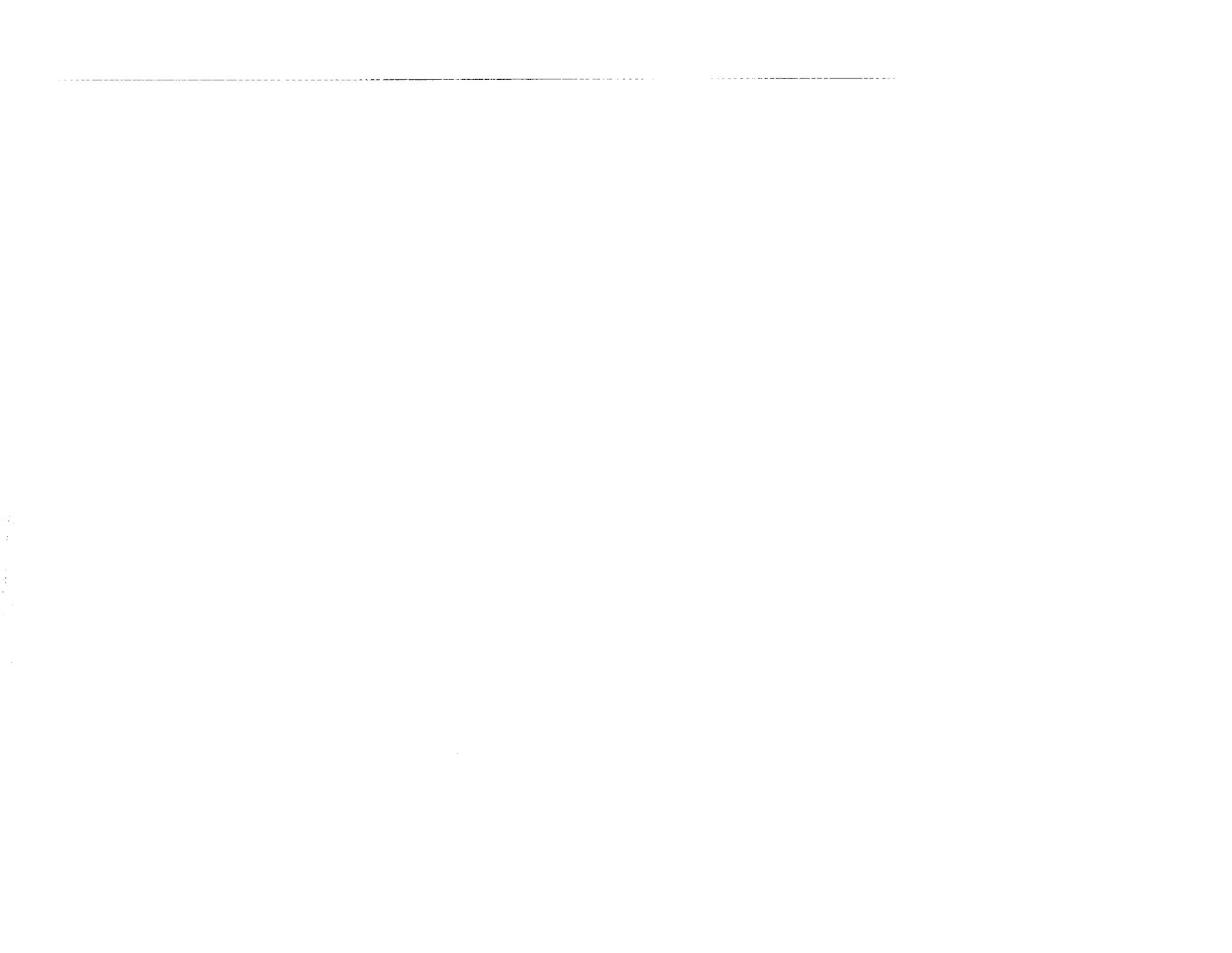
7. How will the level of disaster payments received compare with the likely income accruing to a farmer if he had produced a normal crop marketed at current prices?

The amount of special disaster payments that an individual farmer will receive is well below the income he would have received if he had sold a normal crop at current market prices. For cotton, disaster payments are made for crop losses greater than 25 percent of any farmer's normal production; that is, the farmer must absorb the first 25 percent of his crop loss. Furthermore, the special disaster payment rate for cotton is 20.5 cents per pound, which is less than half of the September 1982 market price of 52.7 cents per pound. For wheat and feed grains, the farmer must absorb the first 40 percent of his loss and the special disaster payment rates are also well below September 1982 market prices. Therefore, it is highly unlikely that a farmer will receive more in special disaster payments than he would have received without the disaster.

8. Why is USDA providing disaster payments to those producers who are also covered by FCIC?

USDA did not want to penalize those farmers who had purchased crop insurance. USDA believes that the integrity of the FCIC program would be adversely affected if uninsured farmers received disaster payments while insured farmers did not receive disaster payments.





23537

AN EQUAL OPPORTUNITY EMPLOYER

**UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548**

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



THIRD CLASS