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106TH CONGRESS, 1st Session | HOUSE OF REPRESENTATIVES | REPT. 106–300 Part 2

# AGRICULTURAL RISK PROTECTION ACT OF 1999

SEPTEMBER 22, 1999.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. COMBEST, from the Committee on Agriculture, submitted the following

## SUPPLEMENTAL REPORT

[To accompany H.R. 2559]

This supplemental report shows the cost estimate of the Congressional Budget Office with respect to the bill (H.R. 2559), as reported, which was not included in the report submitted by the Committee on Agriculture on August 25, 1999 (H. Rept. 106–300).

This supplemental report is submitted in accordance with clause 3(a)(2) of Rule XIII of the Rules of the House of Representatives.

This supplemental report also contains additional report language to section 303 of the Section-by-Section Analysis to part 1 of the report.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
*Washington, DC, August 9, 1999.*

Hon. LARRY COMBEST,
*Chairman, Committee on Agriculture,*
*U.S. House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 2559, the Agricultural Risk Protection Act of 1999.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Craig Jagger.

Sincerely,

BARRY B. ANDERSON
(For Dan L. Crippen, Director).

Enclosure.

59–616

*H.R. 2559—Agricultural Risk Protection Act of 1999*

Summary: H.R. 2559 would amend the Federal Crop Insurance Act in a number of significant ways. First, it would increase premium subsidies to reduce the cost to producers of purchasing crop insurance. The bill also would encourage development of and provide subsidies for privately developed crop insurance products. It would make adjustments in how producers' expected yields are calculated for purposes of determining crop insurance liability and premium costs. In addition, H.R. 2559 would make a number of other changes in crop insurance designed to improve the program's integrity and would change the administrative structure of the Department of Agriculture's Risk Management Agency (RMA), which oversees the program.

CBO estimates that enactment of H.R. 2559 would increase direct spending for federal crop insurance by $6.1 billion over the 2000–2004 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply. H.R. 2559 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 2559 is summarized in Table 1. The costs of this legislation fall within budget function 350 (agriculture).

TABLE 1.—ESTIMATED BUDGETARY IMPACT OF H.R. 2559, THE AGRICULTURAL RISK PROTECTION ACT OF 1999

| | By fiscal year, in millions of dollars | | | | | |
|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| DIRECT SPENDING | | | | | | |
| Crop Insurance Spending Under Current Law: | | | | | | |
| Estimated Budget Authority | 1,699 | 1,565 | 1,522 | 1,580 | 1,647 | 1,725 |
| Estimated Outlays | 1,667 | 1,618 | 1,558 | 1,551 | 1,612 | 1,685 |
| Proposed Changes: | | | | | | |
| Estimated Budget Authority | 0 | 1,080 | 1,366 | 1,435 | 1,512 | 1,684 |
| Estimated Outlays | 0 | 471 | 1,191 | 1,394 | 1,467 | 1,583 |
| Crop Insurance Spending Under H.R. 2559: | | | | | | |
| Estimated Budget Authority | 1,699 | 2,645 | 2,888 | 3,015 | 3,159 | 3,409 |
| Estimated Outlays | 1,667 | 2,089 | 2,749 | 2,945 | 3,079 | 3,268 |

BASIS OF ESTIMATE

The Federal Crop Insurance Corporation (FCIC) subsidizes the cost of federal crop insurance, which makes indemnity payments to insured producers who suffer yield or revenue losses. Producers receive premium subsidies that reduce their costs of purchasing such insurance. Private insurance companies receive payments as compensation for their costs of selling and servicing crop insurance policies for FCIC. These payments are based on the premiums charged for the policies they sell. Private insurance companies also share with FCIC the risk of gain and loss on the policies they underwrite. Because these risks are not shared proportionally, private companies, in aggregate, earn underwriting gains in most years.

*Premium subsidies*

Much of the bill's impact on direct spending would come from increases in premium subsidies. FCIC estimates a total premium cost for each crop insurance policy based on expected losses in a given year for that policy. The total premium cost for a policy depends on a number of factors, including the level of crop insurance coverage chosen by the producer. Generally, crop insurance coverage is the percent of expected crop production or value insured. For example, if a producer buys a yield loss insurance policy at the 65 percent coverage level, then 65 percent of expected production (as determined by FCIC) is insured. If actual production is less than 65 percent of expected production, the producer receives an indemnity payment. Other things being equal, the total premium cost is higher at higher coverage levels because losses occur more often at those levels.

With FCIC's premium subsidies, a producer pays only part of the total premium cost and the government pays the rest. Under both current law and H.R. 2559, the premium subsidy rate (the percent of the total premium that is paid by the government) is higher at lower insurance coverage levels and lower at higher insurance coverage levels. For example, the premium subsidy at the 50-percent coverage level is 55 percent of the premium under current law; it would rise to 67 percent of the premium under H.R. 2559. At the 65-percent coverage level, the premium subsidy is 41.7 percent of the total premium under current law; it would be 59 percent under H.R. 2559.

The outlay impact of higher premium subsidies depends on what producers do with the extra subsidy dollars that they receive from the government. Producers could simply maintain the same level of crop insurance protection (which would be cheaper to purchase under H.R. 2559) and use the extra subsidy dollars for other business or personal purposes. In that case, the only extra cost for federal crop insurance would be the higher premium subsidies on existing coverage.

Alternatively, producers could choose to buy more federal crop insurance because not only would their current coverage be cheaper under H.R. 2559, but additional crop insurance protection would be cheaper as well. They could buy more crop insurance protection on the same acres or buy insurance for crops or acres that they currently do not insure. Because the government's costs are based on the amount of crop insurance sold, if producers buy more crop insurance, government costs will show further increases beyond those directly caused by the higher premium subsidies.

Taking into account projected increases in insurance coverage, CBO estimates that the changes in premium subsidy rates specified in H.R. 2559 would cost $345 million in fiscal year 2000, $4.2 billion over the 2000–2004 period, and $10.9 billion over the 2000–2009 period, as shown in Table 2.

TABLE 2.—COMPONENTS OF THE ESTIMATED COSTS OF H.R. 2559

| | By fiscal year, in millions of dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2000–2004 | 2000–2009 |
| Change in Budget Authority | 1,080 | 1,366 | 1,435 | 1,512 | 1,684 | 7,077 | 17,014 |
| Change in Outlays: | | | | | | | |
| Increase premium subsidy rates for all buy-up plans | 345 | 835 | 960 | 1,004 | 1,082 | 4,226 | 10,873 |
| Adjust yields used for crop insurance calculations | 97 | 205 | 215 | 221 | 231 | 969 | 2,285 |
| Additional changes to 508(h) current revenue products—Pay full premium subsidy and reduce delivery expense costs | 25 | 87 | 98 | 103 | 107 | 420 | 1,044 |
| Pay full premium subsidy on other 508(h) products | 17 | 45 | 60 | 68 | 79 | 269 | 865 |
| Expand RMA authority for pilot programs | 2 | 4 | 5 | 5 | 6 | 22 | 57 |
| Establish livestock insurance pilot program | 0 | 9 | 25 | 35 | 47 | 116 | 391 |
| Allow Coop CAT purchases and association licensing fees | 10 | 20 | 20 | 20 | 20 | 90 | 205 |
| Make prevented planting an option and equalize across crops | 1 | 2 | 2 | 2 | 2 | 9 | 20 |
| Change income limits for the Non-Insured Assistance Program | 0 | 2 | 3 | 3 | 3 | 11 | 26 |
| Change double-cropping rules | −9 | −19 | −20 | −21 | −23 | −92 | −221 |
| Promote new policies and research and development | 0 | 20 | 45 | 48 | 51 | 164 | 437 |
| Reduce delivery expense and loss adjustment costs | −17 | −19 | −19 | −21 | −22 | −98 | −223 |
| Total Change in Outlays | 471 | 1,191 | 1,394 | 1,467 | 1,583 | 6,106 | 15,759 |

*Yield adjustments*

The dollar amount of crop insurance that a producer is eligible to buy depends in part on the expected yield for the producer's farm. Generally, FCIC considers the expected yield for a producer's farm to be the average of actual yields in previous years. An actual yield that is very low can significantly lower the average yield, thus reducing the amount of insurance that a producer can buy. In addition, if a producer's average yield is sufficiently below the county average, the premium necessary to provide a given level of insurance is higher.

H.R. 2559 would set a minimum yield for each year for each crop. In years when the actual yield is below the minimum yield, the minimum yield would be used to determine the average yield for crop insurance calculations. Because this new yield would be higher than FCIC's expected yield, a producer could buy a higher dollar amount of crop insurance, and FCIC would expect to pay more indemnities. As a result, FCIC would need to set higher premiums, but because of the premium subsidies, the government would bear much of the cost. Because other crop insurance costs, such as reimbursements to private companies, are based on the amount of premiums charged, these costs would increase too. CBO estimates that adopting the yield adjustment provisions of H.R. 2559 would cost $97 million in fiscal year 2000, $969 million over the 2000–2004 period, and $2.3 billion over the 2000–2009 period.

*Privately developed crop insurance products*

Some of FCIC's crop insurance products are developed by FCIC while others are developed by private insurance companies under section 508(h) of the Federal Crop Insurance Act. Currently, revenue insurance products developed by private insurance companies receive premium subsidies that are lower than FCIC's standard yield insurance policies. H.R. 2559 would allow these revenue products to receive the same premium subsidy. To partly offset the

cost, H.R. 2559 would reduce the payment made to private companies for selling and servicing these revenue insurance products. Other privately developed insurance products are not eligible for premium subsidies from FCIC and have been sold by private companies without any subsidies. H.R. 2559 would allow these policies to receive subsidies from FCIC. CBO estimates that adopting these provisions would cost $42 million in fiscal year 2000, $689 million over the 2000–2004 period, and $1.9 billion over the 2000–2009 period.

*Other provisions*

The provisions discussed above account for about 95 percent of the estimated costs of H.R. 2559. The bill would make a number of other changes in crop insurance. Such changes include provisions that would implement a limited livestock insurance program, change rules as to when and how producers can plant a second crop after a first crop either could not be planted or was planted and failed, fund research on new crop policies and risk management products, allow cooperatives to pay the insurance fee for basic insurance coverage, and reduce the rates at which crop insurance companies are paid to sell and service insurance policies. CBO estimates that these additional provisions would save $13 million in 2000, but would cost $222 million over the 2000–2004 period and $692 million over the 2000–2009 period.

Pay-as-you-go-considerations: The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

| | By fiscal year, in millions of dollars | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Changes in outlays | 0 | 471 | 1,191 | 1,394 | 1,467 | 1,583 | 1,722 | 1,830 | 1,938 | 2,037 | 2,126 |
| Changes in receipts | Not applicable | | | | | | | | | | |

Intergovernmental and private-sector impact: H.R. 2559 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

Estimate prepared by: Craig Jagger.

Estimate approved by: Robert A. Sunshine, Deputy Assistant Director for Budget Analysis.

ADDITIONAL REPORT LANGUAGE TO SECTION 303

*Sec. 303. Research and development, including contracts regarding underserved commodities*

In contracting for the research and development of new policies, plans of insurance, and materials under this section the Committee intends for the Corporation to prescribe its own procedures governing contracting without regard to federal acquisition regula-

tions. The Committee expects the procedures established will ensure contracts are entered into and completed so the policy, plan of insurance, or material can be offered to producers in the next reinsurance year or in a timely manner. Furthermore, the Committee expects the Corporation to consult with beneficiaries of the policy, plan of insurance, or material to ensure that any research and development is carried out by an entity with expertise in the area. Finally, the Committee expects that procedures established maximize the amount of funding actually available for research and development and minimize any overhead involved in complying with such procedures.

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