

Emergency Relief Program's Payment Calculations

As announced in Monday's *Cotton News*, the U.S. Department of Agriculture (USDA) Farm Service Agency (FSA) announced the Emergency Relief Program (ERP) on May 16th. The ERP represents the next round of disaster assistance authorized by last fall's Extending Government Funding and Delivering Emergency Assistance Act, which authorized \$10 billion to help crop and livestock producers impacted by adverse weather conditions that occurred during the 2020 and 2021 calendar years.

The announcement is good news for producers who have been waiting more than eight months for the program. "This week's announcement of the Emergency Relief Program has been highly anticipated for several months," explains Kody Bessent, Plains Cotton Growers Inc. (PCG) chief executive officer. "PCG, working alongside the National Cotton Council, Congress and other advocacy groups, has been encouraging the USDA to implement the program as quickly as possible to deliver this much-needed assistance to producers.

"We appreciate FSA working to streamline the application process and incorporating the changes Congress approved. The efforts are intended to improve the program as compared to disaster assistance provided to growers for losses incurred in 2018 and 2019 through WHIP-Plus."

Details on how the USDA FSA plans to deliver ERP are still somewhat sparse, however, the publication of the *Federal Register* notice announcing the availability of funds for the program, published on May 18th, paints a picture of how FSA will proceed. We now have information regarding ERP coverage factors and how payments will be calculated, as well as how FSA will apply pay limits, determine payment eligibility and other components of the program.

Simply put, the Phase 1 ERP benefit will be calculated using a similar formula as the previously implemented WHIP-Plus program and prorated by 75% to ensure that total ERP payments do not exceed available funding. Phase 1 ERP payment calculations will be based on the type and level of crop insurance obtained by the producer using the ERP factor in place of the insurance coverage level. This calculated amount will then be adjusted by subtracting the net crop insurance indemnity already received for losses minus service fees and producer-paid premiums.

Based on PCG and NCC's interpretation of the ERP rule, below are a few regional **examples** of potential disaster assistance to the producer. Any discrepancy in payment once a producer receives the official USDA pre-filled application must be done by contacting their crop insurance agent if a producer believes any of the information on the form is incorrect and, as we understand the program today, the adjusted payment will be corrected in the implementation of Phase 2 ERP at a later date.

ERP Revenue Protection (RP) Upland Cotton Payment Example – Hansford County

	ERP 2020 Irrigated	ERP 2020 Non-irrigated
RP Coverage Level	65%	65%
Projected Price	\$0.68	\$0.68
Harvest Price	\$0.69	\$0.69
APH	1200	500
Actual Yield	725	300
Expected Crop Value (max(Projected Price, Harvest Price) * APH)	\$828.00	\$345.00
Actual Crop Value (Harvest Price * Actual Yield)	\$500.25	\$207.00
RP Guarantee (RP Coverage Level * Expected Crop Value)	\$538.20	\$224.25
RP Indemnity (RP Guarantee – Actual Crop Value)	\$37.95	\$17.25
RP Producer Premium	\$24.40	\$15.49
RP Net Indemnity (RP Indemnity – RP Producer Premium)	\$13.55	\$1.76
ERP Coverage Level	87.5%	87.5%
ERP Guarantee (ERP Coverage Level * Expected Crop Value)	\$724.50	\$301.88
ERP Indemnity (ERP Guarantee – Actual Crop Value - RP Net Indemnity) *(75% Prorated Factor)	\$158.03	\$69.84

*Calculations based on interpretation of ERP rule by Plains Cotton Growers and National Cotton Council.

*Examples based on February projected price period and October harvest price period.

*The structure of payment calculations for WHIP+ and ERP are similar except the ERP expected crop value is calculated using the higher of the projected price and harvest price. WHIP+ only used the projected price to calculate the expected crop value.

ERP Revenue Protection (RP) Upland Cotton Payment Example – Crosby County

	ERP 2020 Irrigated	ERP 2020 Non-irrigated
RP Coverage Level	65%	65%
Projected Price	\$0.68	\$0.68
Harvest Price	\$0.69	\$0.69
APH	1000	350
Actual Yield	650	175
Expected Crop Value (max(Projected Price, Harvest Price) * APH)	\$690.00	\$241.50
Actual Crop Value (Harvest Price * Actual Yield)	\$414.00	\$120.75
RP Guarantee (RP Coverage Level * Expected Crop Value)	\$448.50	\$156.98
RP Indemnity (RP Guarantee – Actual Crop Value)	\$34.50	\$36.23
RP Producer Premium	\$21.55	\$21.46
RP Net Indemnity (RP Indemnity – RP Producer Premium)	\$12.95	\$14.77
ERP Coverage Level	87.5%	87.5%
ERP Guarantee (ERP Coverage Level * Expected Crop Value)	\$603.75	\$211.31
ERP Indemnity (ERP Guarantee – Actual Crop Value - RP Net Indemnity) *(75% Prorated Factor)	\$132.60	\$56.85

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*Examples based on February projected price period and October harvest price period.

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USDA FSA intends to start mailing pre-filled applications to eligible participants as early as May 23rd for losses incurred in 2020 and 2021. Phase 1 is based on completed crop insurance or NAP

loss records. Separate application forms will be generated for each production year. Please note that FSA will mail application forms for policy holders with 2021 crop year coverage under Stacked Income Protection (STAX), Supplemental Coverage Option (SCO), Enhanced Coverage Option (ECO), Margin Protection (MP), and Area Risk Protection Insurance (ARPI) when the final data for these products becomes available.

Producers who receive ERP Phase 1 payments are required to purchase crop insurance at a coverage level equal to or greater than 60% for the next two available crop years, just as they did with WHIP-Plus. Phase 2 ERP will be implemented at a later date and will fill gaps and cover producers who did not receive payment under Phase 1 ERP, including producers who had a shallow loss that didn't trigger an indemnity for crop insurance.

If a producer or eligible participant has any questions as the Phase 1 ERP is implemented, we encourage them to contact PCG, NCC or their local FSA office.