Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1389 (Delegate Conway, *et al.*)
Environmental Matters Education, Health, and Environmental Affairs

Agriculture - Crop Insurance Premium Program - Cost Share

This bill reestablishes the Maryland Crop Insurance Premium Program as the Maryland Crop Insurance Premium Cost Share Program and specifies that the Secretary of Agriculture may provide a cost share payment for a qualifying federal crop insurance product purchased by a farmer in the State. A cost share payment may not exceed 8% of the net book premium established by the Federal Crop Insurance Corporation (FCIC). The Secretary has to submit an annual report to the Governor and General Assembly on or before August 1 of each year that provides an estimate of the amount of funds needed to pay 8% of the net book premium for crop insurance expected to be purchased by farmers in the State in the following crop year. The Secretary must adopt regulations, by January 1, 2008, that establish qualifications for a farmer's eligibility to receive a cost share payment.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: General fund expenditures could be affected beginning in FY 2008; however, it cannot be reliably estimated whether expenditures would increase or decrease, or to what extent they would be impacted, without knowing how the average net book premium per acre paid by Maryland farmers might change in future years or how the program would be administered by the Maryland Department of Agriculture (MDA) within the payment limits. The FY 2008 budget does not include any funding for the program.

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: The Maryland Crop Insurance Premium Program is established to encourage eligible farmers to participate in the Federal Crop Insurance Program administered by the U.S. Department of Agriculture (USDA). The Secretary of Agriculture may pay a farmer eligible to participate in the Federal Crop Insurance Program up to $2 per acre for any federal crop insurance premium paid by the farmer.

Background: Funding for the existing program has not been included in the budget for several years.

The Federal Crop Insurance Program is a subsidized program authorized by the Federal Crop Insurance Act, 7 U.S.C. §§ 1501 – 1524, that provides financial protection for farmers from crop losses caused by natural disasters such as droughts or floods. The program is administered by FCIC, an agency of the USDA, and the activities of FCIC are administered by USDA's Risk Management Agency (RMA). Private-sector companies sell and service the policies under the program, but RMA develops and/or approves the premium rates, administers subsidies, approves and supports products, and reinsures the private-sector insurance companies.

MDA advises the net book premium is the total of the premium amount paid by the farmer and the federal subsidy provided under the Federal Crop Insurance Program.

In 2006, 736,322 acres of Maryland's crop acreage were insured under the Federal Crop Insurance Program. **Exhibit 1** shows a history of the crop insurance purchased by Maryland farmers from 2002 to 2006. A drought occurred in 2002 resulting in Maryland farmers receiving over $23 million.

Exhibit 1
Maryland Crop Insurance History
2002 – 2006

	2002	2003	2004	2005	2006
Policies	4,471	4,886	5,599	5,563	5,456
Net Acres Insured	686,595	707,544	751,047	750,088	736,322
Gross Premium	$8,477,941	$14,944,777	$16,341,275	$15,011,898	$17,015,078
Losses	$23,406,615	$11,325,348	$2,670,578	$4,380,815	$4,907,594
Loss Ratio	2.76	0.76	0.16	0.29	0.29

Source: USDA Risk Management Agency

MDA indicates a federal cost share program that was in addition to the subsidy provided under the Federal Crop Insurance Program was phased out in 2004 and 2005, which has led a number of Maryland farmers to reduce their level of insurance. The number of Maryland farmers insuring their crops at the 75% level (at which income loss is highly protected) declined from 41.3% in 2003 to 16.6% in 2006.

MDA reports that farmers in the Northeast portion of the U.S. have traditionally not participated in federally controlled crop insurance at the rates of those in other parts of the country, yet advises that crop insurance is an important financial risk management tool for farmers and is critical to supporting a healthy agricultural economy in the State.

State Fiscal Effect: General fund expenditures could be affected beginning in fiscal 2008 due to payments being subject to a maximum of 8% of the net book premium paid by a farmer rather than $2 per acre insured. However, it cannot be reliably estimated whether expenditures would increase or decrease or to what extent they would be impacted. Nonetheless, it is not likely that any impact would occur until fiscal 2009 or 2010 as regulations must first be adopted and Maryland would reimburse RMA for administering the program. The majority of crop insurance would generally be purchased by March 15, with farmers billed in October. The State cost share payment would be deducted from each farmer's bill, and it is expected that Maryland would be billed by RMA for its share of costs the following January.

For illustrative purposes only, based on the number of insured acres in Maryland in 2006 (736,322 acres) and the total amount of net book premiums paid by Maryland farmers in 2006 ($17,015,078), if the farmers participating in the program in 2006 were all paid the full amount of assistance in a given fiscal year, general fund expenditures could decrease by $111,438.

MDA advises, that the cost share program would likely be designed (through the adoption of regulations) to encourage farmers to insure their crops at higher coverage levels, by providing more assistance at higher levels. If the cost share payments were administered in that manner, some farmers could receive assistance equal to less than 8% of their net book premium, which could reduce the total amount paid out by the State. On the other hand, designing the program to encourage farmers to insure crops at higher coverage levels could increase the total dollar amount of net book premiums paid and consequently the total amount paid out by the State. Without knowing how the program would be designed or the level of insurance maintained by farmers and insurance premium costs in future years, the total amount that would be distributed by the State and consequently to what extent general fund expenditures would be affected cannot be reliably estimated.

MDA advises that the department would not be charged a fee for RMA to administer the crop insurance premium cost share payments.

MDA could prepare the required annual report with existing resources.

Small Business Effect: A farmer that purchases crop insurance at a higher level of coverage (paying a higher net book premium) could potentially benefit from being able to receive a cost share payment of up to 8% of the net book premium rather than $2 per acre insured. Farmers purchasing insurance at lower coverage levels (paying a lower net book premium), however, could be eligible to receive less assistance under the 8% cap rather than the $2 per acre cap. However, because only the maximum payment levels are set forth under both current law and the bill and actual payments would be subject to the discretion of the Secretary, it cannot be determined whether, or to what extent, a farmer that would not receive the maximum amount of assistance would be affected by the bill.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of Agriculture, U.S. Department of Agriculture (Risk Management Agency), Department of Legislative Services

Fiscal Note History: First Reader - March 22, 2007
mll/ljm Revised - Enrolled Bill - May 7, 2007

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