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Weekly Farm Economics: Quality Loss Adjustment Program

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Farms that suffered crop quality losses in 2018 or 2019 can apply for aid in a new disaster relief program. The Quality Loss Adjustment program was announced by the United States Department of Agriculture earlier this month and is the latest in a series of USDA programs offering disaster assistance for farmers.

Background

The Quality Loss Adjustment (QLA) Program, funded by the Further Consolidated Appropriations Act of 2020, was announced by USDA on January 5, 2021. The sign-up period began the following day and continues through March 5, 2021.

The QLA Program provides aid to farmers whose eligible crops suffered quality losses due to qualifying natural disasters in 2018 and 2019. Generally, the disaster event causing quality loss must have occurred in an area that received a Presidential Emergency Disaster Declaration or a Secretarial Disaster Designation, though producers in other areas may still apply for QLA with supporting documentation to show that crop quality was directly affected by a qualifying event. All counties in Illinois received a qualifying disaster designation from the U.S. Secretary of Agriculture for the 2019 crop year.

Most crops that can be covered by federal crop insurance or the noninsurance crop disaster assistance program are eligible crops including corn, soybeans, and wheat. Eligible crops may have been sold, fed on-farm to livestock, or may be in storage at the time of application. To be eligible the crop must have been harvested. Therefore, grazed crops are not eligible.

Applying for the QLA Program

There are two ways to apply for the QLA program. Producers with an eAuthentication account can apply online through the QLA Application Portal. Alternatively, the QLA Program application (FSA-898) may be completed and submitted to a local FSA office.

Along with the application, submission of verifiable documentation of quality loss including quantity of production affected is required. The quality loss on affected production should be documented using nutrient factors or grading factors within 30 days of harvest to eliminate quality loss that occurred in storage. Accepted forms of documentation include records such as sales receipts, settlement sheets, truck scale tickets, sales contracts, quality loss records, and forage nutritional records.

The payment is made on units in which quality was negatively impacted. There must be at least a 5% quality loss because of the disaster to be eligible for a payment. Applicants must specify the condition that caused quality loss, for example low test weight, falling numbers, or reduced nutrient values. Notably, value loss due to moisture discounts are not included.

Applicants must also specify the beginning date and ending date of the disaster event. The USDA Farm Service Agency provides county level records of disaster designations by year that includes beginning and ending dates (see FSA Disaster Designation Information).

Farmers who receive QLA Program payments are required to purchase crop insurance of NAP coverage for the next two crop years at a minimum of a 60% coverage level.

Payment Calculation

There are four different QLA payment calculations based on the type of crop and the documentation submitted by the producer. At a minimum, verifiable documentation of quality loss on the affected production is required to be submitted with the application.

For forage crops, quality loss extra documentation of historical nutrient factors can result in a more favorable payment calculation. Likewise, extra documentation showing total dollar value loss can result in a more favorable payment calculation for non-forage crops.

Forage Crop with Full Documentation (nutrient factors on affected and historical)
QLA Payment = Total Affected Production x Verifiable % Loss x Average Market Price x 0.7

Forage Crop with Partial Documentation (nutrient factors on affected only)
QLA Payment = Total Affected Production x County Average % Loss x Average Market Price x 0.7 x 0.5

Non-Forage Crop with Full Documentation (quality factors on affected and total dollar value loss)
QLA Payment = Total Dollar Value Loss on Affected Production x 0.7

Non-Forage Crop with Partial Documentation (quality factors on affected only)
QLA Payment = Total Affected Production x County Average Loss Per Unit of Measure x 0.7 x 0.5

The county averages in the payment calculations will be computed by FSA using the average loss figures submitted by producers applying with verifiable documentation, if at least five eligible producers in the county submitted that documentation.

QLA Payment Example – Non-Forage Crop with Full Documentation

As an example, consider a farmer who harvested 50,000 bushels of corn from November 15 through November 20. The corn was sold in three sales within 30 days of harvest and the farmer has a sales receipt for each sale to provide verifiable documentation:

Sale 1: 25,000 bushels on December 2, 2019
Sale 2: 10,000 bushels on December 4, 2019
Sale 3: 15,000 bushels on December 9, 2019.

Table 1 shows the sales receipt information for each sale and how that is used in the calculation of an estimated QLA payment. For each sale, the gross amount was reduced by a moisture discount, a test weight discount, a damage discount, and Illinois Corn Check-Off payment to reach the net amount. On these discounts, only the test weight discount and damage discount are qualifying discounts to be considered in the QLA payment calculation. For Sale 1 the total of the qualifying discounts is $1,500. That amount is divided by the gross sales amount to arrive at 1.6% discount loss. Even though the loss on Sale 1 does not meet the 5% minimum loss, all affected production must be submitted. The 5% loss will be calculated based on the entire crops affected production.

Table 1. QLA Payment Example: Non-Forage Crop with Full Documentation

	Sale 1	Sale 2	Sale 2
From Sales Receipt			
Bushels	25,000	10,000	15,000
Sale Price	$3.74	$3.68	$3.65
Gross Sales Amount	$93,500.00	$36,800.00	$54,750.00
Moisture Discount	$4,000.00	$2,000.00	$2,500.00
Test Weight Discount	$500.00	$2,500.00	$3,000.00
Damage Discount	$1,000.00	$4,000.00	$5,000.00
IL Corn Check-Off	$156.25	$62.50	$93.75
Net Sales Amount	$87,843.75	$28,237.50	$44,156.25
Qualifying Discount Total	$1,500.00	$6,500.00	$8,000.00
Qualifying Discount % of Gross Sale	1.60%	17.66%	14.61%
Eligible Dollar Value Loss	$0.00	$6,500.00	$8,000.00
Payment Factor	70%	70%	70%
Esimated QLA Payment Amount	$0.00	$4,550.00	$5,600.00

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The qualifying discount totals for Sale 2 and Sale 3 are $6,500 and $8,000, respectively. Both exceed the 5% minimum loss threshold. For a non-forage crop with full value loss documentation, the QLA payment is 70% of the total dollar value loss on affected production. Using the calculation, the quality loss on Sale 2 resulted in an estimated QLA Payment of $4,550 and the quality loss on Sale 3 results in an estimated QLA Payment of $5,600. Note that QLA payments will not begin to be issued to producers until after the close of the application period on March 5.

After all applications are collected FSA will calculate county averages and the total of payments requests. There is a limited amount of funding available for the program. All payments will be prorated if needed to fit within funding limitations, so the calculations used provide an estimated QLA payment amount.

An applicant would enter information from all sales for the affected crop. Figures entered on the application should correspond with each sales receipt (or other form of verifiable documentation) and each should be entered on a separate line.

Conclusion

While other disaster aid programs for crops have covered yield loss, this program is distinctly different in covering quality losses only. The condition that caused quality loss must be specified, for example low test weight, falling numbers, or reduced nutrient values. Value loss due to moisture discounts are not eligible.

To determine if the documented loss exceeds the minimum 5% quality loss, a farmer can add the qualifying discount values and divide by the gross sales amount. Producers can utilize documents providing evidence of quality loss documented within 30 days of harvest. If the documentation only provides quality loss rating, as opposed to dollar value of loss, the producer can still apply but will receive a less favorable payment calculation.