

Options for Federal Indemnity Payments Veterinary Services Bovine Tuberculosis and Brucellosis Programs

Proposed Approach for Indemnity

The bovine tuberculosis (TB) and brucellosis draft regulatory framework document described the objectives and underlying concepts for indemnity. These concepts are part of the proposed comprehensive TB and brucellosis rule that is under development. Key points outlined in the framework document included:

- Indemnity will continue to be contingent upon the availability of Federal funds.
- A calculator will be used to determine the fair market value (FMV) of an animal.
- There will not be provisions for a separate appraisal or an appeal of the value determined for the animal(s).
- In addition to compensating the producer for the animal's or animals' FMV, Veterinary Services (VS) proposes to pay up to 100 percent of the transportation and disposal costs.

Fair Market Value and Appraisals

Federal indemnity payments are based on the FMV of the animal or animals that will be destroyed. An appraisal determines the FMV. Indemnity is the actual payment a producer receives and is a function of FMV with the actual amount based on regulations and policies. Indemnity at 100 percent of FMV provides for like-kind replacements—that is, animals of the same quality and age.

In the TB and brucellosis draft regulatory framework, VS proposed to use calculators to determine the FMV of animals in place of the traditional appraisal. The use of a calculator to appraise the value of an animal is discussed in a companion document.

Options for Federal Indemnity Payments

VS is requesting feedback on potential options that would impact the indemnity payment producers receive when animals are destroyed due to TB or brucellosis. One or a combination of the proposed options below may be used to determine the amount of future Federal indemnity payments.

1. **Combined Federal indemnity payments and non-Federal payments will total the fair market value of the animal(s).**

This approach would allow the producer to receive full FMV for each animal. The Federal indemnity payment would be calculated as the FMV minus any salvage value, State indemnity payments, insurance payments, and other incentive payments. Without any additional restrictions, this approach would provide the largest possible Federal indemnity payment to the producer. However, it is possible that all available Federal indemnity funds could be expended early in the year, leaving other affected herds, and

possibly exposed animals, under quarantine and/or test and removal management plans. Many of VS' animal health programs use some alternative of this approach. The TB program currently uses this approach in combination with option 2 below.

2. **Establish a maximum payment (i.e., a “cap”) for the amount of Federal indemnity paid per animal.**

This approach would allow most producers to receive FMV for their animals as described in option 1 above. However, Federal indemnity would not provide full FMV for certain highly valuable animals such as breeding animals with desirable genetics. VS would only pay up to a set amount, or “cap,” even if the FMV minus any salvage value, State indemnity payments, insurance payments, and other incentive payments exceeds that amount. The TB program currently limits Federal indemnity payments to no more than \$3,000 per animal, even if the FMV of the animal is greater.

3. **Establish a “fixed rate” for the amount of Federal indemnity paid per animal.**

Using this approach, producers might only receive a portion of the FMV of their animal or they could potentially receive more than FMV. In fact, the FMV of an animal would not need to be determined if this approach were adopted. Although this option would reduce the amount of indemnity paid per animal, it would increase the total number of animals that could be removed with some level of Federal indemnity, given a limited amount of indemnity funding. The fixed-rate indemnity option currently exists for animals destroyed because of brucellosis. The fixed-rate method reflects a pre-determined value for nonregistered bison and cattle and a second predetermined value for registered beef cattle and both registered and nonregistered dairy cattle. The fixed-rate option is only available for brucellosis-exposed cattle or bison and for herds that have been approved for whole herd depopulation.

4. **Link Federal indemnity payments to certain biosecurity measures.**

This approach, known as multi-tiered compensation, would assign a percentage of the FMV for implementing a specific biosecurity measure within an affected herd. As the biosecurity of a herd increases, the amount of Federal indemnity received for each animal increases up to a maximum of the FMV. This approach is expected to reduce the amount of indemnity paid per animal in some herds, but reward other producers who have implemented certain biosecurity practices by paying Federal indemnity equal to the FMV. This concept has already been implemented by VS in its low pathogenicity avian influenza program. Flocks that participate in the National Poultry Improvement Program have an indemnity rate of 100 percent of appraised bird value, while flocks that do not participate have their indemnity rate reduced to 25 percent of appraised bird value.

Feedback on Options for Federal Indemnity Payments

VS welcomes additional feedback concerning these potential options for Federal indemnity. Please consider the following questions:

1. Given the limited availability of indemnity funds, which of the following do you consider to be the highest priority and why? (A) Provide the largest indemnity payment possible for each animal; or (B) Provide indemnity for as many animals as possible.
2. Which specific option or combination of options do you prefer and why?
3. If option 1 were adopted, do you envision any other sources of payments?
4. If option 2 were adopted, what do you think the maximum payment or cap paid per animal should be? How should the maximum payment be determined?
5. If option 3 were adopted, what do you think the fixed payment per animal should be? How should the fixed rate be determined?
6. If option 4 were adopted, what biosecurity practices should be linked to the indemnity payment? How should the indemnity payment be determined (i.e., what percent of FMV should be linked to a certain practice?) How should VS determine if these practices are in place?