

The New Farm Bill: New Decisions for Producers

Troy Dumler
Kansas State University

2008 Insurance Workshop

**“Meeting the Risk Management Challenges of a
New Farm Bill and New Price Relationships”**

November 6, 2008

Courtyard by Marriott
Salina, Kansas



TROY DUMLER
Extension Agricultural Economist
and Policy Specialist
Southwest Area (Garden City)
Kansas State University
Email: tdumler@oznet.ksu.edu
Phone: 620-275-9164

Troy Dumler is a K-State Extension Agricultural Economist in southwest Kansas. A native of Kansas with B.S. and M.S. degrees in agricultural economics from Kansas State University, Troy has developed a national reputation as a farm policy analyst. Recently he has focused much of his attention on the 2008 Farm Bill and how it will impact Kansas farmers and ranchers. In addition to his farm policy work, Dumler has also conducted research and extension programs on a variety of crop and livestock management topics, especially dryland and irrigated cropping systems

Commodity Program Decisions in the 2008 Farm Bill

Troy Dumler
Extension Agricultural Economist
Kansas State University

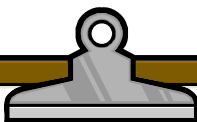
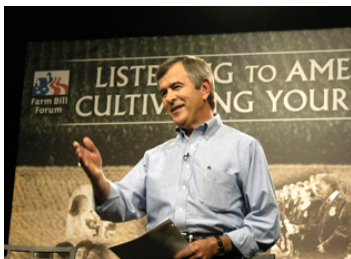
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Farm Bill Timeline

July 7, 2005

- Secretary Johanns and Orion Samuelson conduct first Farm Bill Listening Session at RFD-TV studio in Nashville.

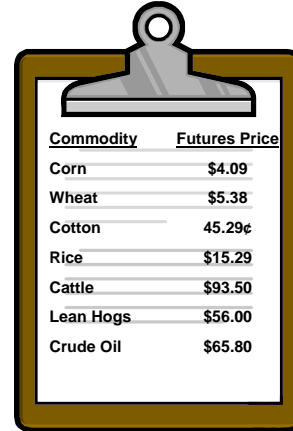


| Commodity | Futures Price |
|-----------|---------------|
| Corn | \$2.34 |
| Wheat | \$3.38 |
| Cotton | 50.90¢ |
| Rice | \$6.18 |
| Cattle | \$80.10 |
| Lean Hogs | \$68.35 |
| Crude Oil | \$60.73 |

Farm Bill Timeline

June 18, 2008

- House and Senate override Presidential veto of H.R. 6124
- *Food, Conservation and Energy Act of 2008* becomes P.L. 110-246
 - 3 years of deliberation
 - 9 months of delay
 - 8 temporary extensions
 - 2 Presidential vetoes
 - 2 Congressional overrides
 - 1 missing farm bill title
 - 1 farm bill



| Commodity | Futures Price |
|-----------|---------------|
| Corn | \$4.09 |
| Wheat | \$5.38 |
| Cotton | 45.29¢ |
| Rice | \$15.29 |
| Cattle | \$93.50 |
| Lean Hogs | \$56.00 |
| Crude Oil | \$65.80 |

The 2008 Farm Bill

More than Just the Farm

- | | |
|---------------------------------|--|
| I. Commodity Programs | IX. Energy |
| II. Conservation | X. Horticulture and Organic Agriculture |
| III. Trade | XI. Livestock |
| IV. Nutrition | XII. Crop Insurance and Disaster Assistance Programs |
| V. Credit | XIII. Commodity Futures |
| VI. Rural Development | XIV. Miscellaneous |
| VII. Research & Related Matters | XV. Trade and Tax Provisions |
| VIII. Forestry | |


 United States Department of Agriculture

America's Farm Bill

2008

Primary Driving Factors of 2008 Farm Bill

- Pay-As-You-Go (PAYGO) Budget Rule
 - Any increases in spending in a bill must be offset by spending cuts or tax increases

- Non-agricultural Interest Groups
 - Nutrition
 - Conservation



The 2002 Farm Bill Safety Net

- Direct (Fixed) Payments

- Counter-Cyclical Payments

- Marketing Assistance Loans and Loan Deficiency Payments



Direct Payment Rates

| Commodity | 2002 Farm Bill | 2008 Farm Bill |
|----------------------|----------------|----------------|
| Corn (bu) | \$0.28 | \$0.28 |
| Sorghum (bu) | \$0.35 | \$0.35 |
| Barley (bu) | \$0.24 | \$0.24 |
| Oats (bu) | \$0.024 | \$0.024 |
| Wheat (bu) | \$0.52 | \$0.52 |
| Soybeans (bu) | \$0.44 | \$0.44 |
| Other oilseeds (cwt) | \$0.80 | \$0.80 |
| Upland cotton (lb) | \$0.0667 | \$0.0667 |
| Rice (cwt) | \$2.35 | \$2.35 |



Counter-Cyclical Target Prices

| Commodity | 2002 Farm Bill | 2008 Farm Bill | |
|----------------------|----------------|----------------|-----------|
| | | 2008-09 | 2010-2012 |
| Corn (bu) | \$2.63 | \$2.63 | \$2.63 |
| Sorghum (bu) | \$2.57 | \$2.57 | \$2.63 |
| Barley (bu) | \$2.24 | \$2.24 | \$2.63 |
| Oats (bu) | \$1.44 | \$1.44 | \$1.79 |
| Wheat (bu) | \$3.92 | \$3.92 | \$4.17 |
| Soybeans (bu) | \$5.80 | \$5.80 | \$6.00 |
| Other oilseeds (cwt) | \$10.10 | \$10.10 | \$12.68 |
| Upland cotton (lb) | \$0.7240 | \$0.7125 | \$0.7125 |
| Rice (cwt) | \$10.50 | \$10.50 | \$10.50 |



Marketing Loan Rates

| Commodity | 2002 Farm Bill | 2008 Farm Bill | |
|----------------------|----------------|----------------|-----------|
| | | 2008-09 | 2010-2012 |
| Corn (bu) | \$1.95 | \$1.95 | \$1.95 |
| Sorghum (bu) | \$1.95 | \$1.95 | \$1.95 |
| Barley (bu) | \$1.85 | \$1.85 | \$1.95 |
| Oats (bu) | \$1.33 | \$1.33 | \$1.39 |
| Wheat (bu) | \$2.75 | \$2.75 | \$2.94 |
| Soybeans (bu) | \$5.00 | \$5.00 | \$5.00 |
| Other oilseeds (cwt) | \$9.30 | \$9.30 | \$10.09 |
| Upland cotton (lb) | \$0.52 | \$0.52 | \$0.52 |
| Rice (cwt) | \$6.50 | \$6.50 | \$6.50 |



The 2002 Farm Bill Safety Net

- Direct (Fixed) Payments
 - Payments will be made on 83.3% of base acres in 2009-2011 (85% in 2008, 2012)
- Counter-Cyclical Payments
 - Payments will be made on 85% of base acres
- Marketing Assistance Loans and Loan Deficiency Payments
 - 30-day moving average calculation of PCP
- No payments if farm is less than 10 acres



**Average Crop Revenue Election
(ACRE)**

and

**Supplemental Revenue Assistance Program
(SURE)**



Average Crop Revenue Election (ACRE)

- Optional revenue program that replaces price counter-cyclical program
 - Revenue guarantee based on state-level yields and national prices
 - Paid on 83.3% (85% in 2012) of planted acres on farm up to total base acres
 - Signup for 2009-2012 crop years
 - Must stay in program once enrolled
 - Must enroll all crops on farm



Mechanics of ACRE

- ACRE payment made if
 - Actual **state** crop revenue is less than the **state** revenue guarantee for the crop

AND

- Actual **farm** crop revenue is less than the **farm** benchmark revenue



Mechanics of ACRE

- State
 - *State Revenue Guarantee =*
*(Benchmark State Yield * Benchmark Price * 90%)*
 - *Benchmark State Yield =*
5-Year Olympic Average State Yield per Planted Acre
 - *Benchmark Price =*
2-Year National Average Market Year Price
 - *Actual State Revenue =*
*Actual State Yield per Planted Acre * MYA Price*

* State Revenue Guarantee cannot increase or decrease more than 10% from one year to the next.



Mechanics of ACRE

➤ Farm

– *Benchmark Farm Revenue =*

*(Benchmark Farm Yield * Benchmark Price) + Crop Insurance Premiums Paid*

▪ *Benchmark Farm Yield =*

5-Year Olympic Average Farm Yield per Planted Acre

– *Actual Farm Revenue =*

*Actual Farm Yield per Planted Acre * MYA Price*



Mechanics of ACRE

➤ ACRE Payment Rate =

The lesser of

(State Revenue Guarantee – Actual State Revenue)

*or (25% * State Revenue Guarantee)*

** (Benchmark Farm Yield/Benchmark State Yield)*

➤ ACRE Payment =

*ACRE Payment Rate * Planted Acres * 83.3%*

(85% in 2012)



Other ACRE Considerations

- Irrigated and Non-irrigated State Guarantees
 - If a state has at least 25% of the acres of a crop that are irrigated and at least 25% of the acres of the crop that are non-irrigated then the Secretary shall calculate separate irrigated and non-irrigated ACRE program guarantees
 - Corn in Kansas



Other ACRE Considerations

- To participate in ACRE, producers must
 - Reduce direct payments by 20%
 - Reduce marketing loan rates by 30%
- Payments will not be made until October 1, or as soon as practicable after the applicable marketing year (one year after harvest)

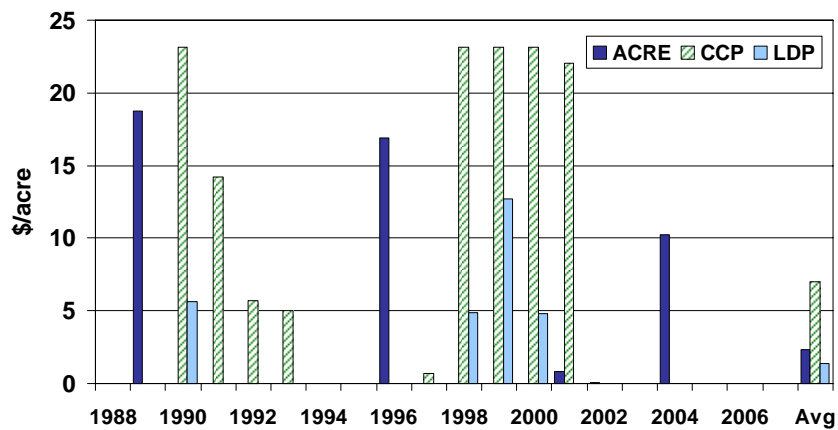


Average Direct Payments for Primary Kansas Crops

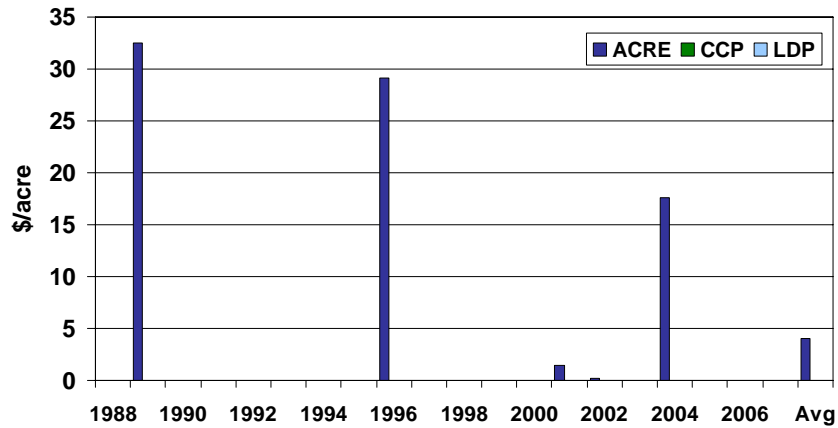
| | Wheat | Corn | Sorghum | Soybeans |
|------------------------|-------|-------|---------|----------|
| Payment Yield (bu/ac) | 34.1 | 102.1 | 54.4 | 22.1 |
| Payment Rate (\$/bu) | 0.52 | 0.28 | 0.35 | 0.44 |
| Direct Payment (\$/ac) | 17.73 | 28.59 | 19.04 | 9.72 |
| ACRE Reduction (\$/ac) | 3.55 | 5.72 | 3.81 | 1.94 |



Historical Commodity Payments for Kansas Wheat



Historical Commodity Payments for Kansas Wheat (Adjusted Yields and Prices)



Wheat ACRE Example

| Year | US MYA Price (\$/bu) | Kansas Yield (bu/planted acre) |
|------|-------------------------|-----------------------------------|
| 2004 | 3.40 | 31.5 |
| 2005 | 3.42 | 38.0 |
| 2006 | 4.26 | 29.7 |
| 2007 | 6.65 | 27.3 |
| 2008 | 7.00 | 37.0 |
| 2009 | 5.23 | 36.8 |
| 2010 | 5.21 | 37.1 |
| 2011 | 5.31 | 37.4 |
| 2012 | 5.35 | 37.7 |

Based on FAPRI March 2008 Baseline



Wheat ACRE Example

| Year | Benchmark State Yield (bu/plt ac) | Benchmark Price (\$/bu) | State Rev Guarantee (\$/plt ac) | Actual State Rev (\$/plt ac) | ACRE Payment (\$/plt ac) |
|------|-----------------------------------|-------------------------|---------------------------------|------------------------------|--------------------------|
| 2009 | 32.7 | 6.74 | 198.46 | 192.46 | 6.10 |
| 2010 | 34.5 | 6.12 | 189.87 | 193.29 | 0.00 |
| 2011 | 34.5 | 5.22 | 170.88 | 198.59 | 0.00 |
| 2012 | 37.0 | 5.26 | 175.00 | 201.70 | 0.00 |
| Avg | -- | -- | -- | -- | 1.52 |



Wheat ACRE Example (Updated Prices)

| Year | US MYA Price (\$/bu) | Kansas Yield (bu/planted acre) |
|------|----------------------|--------------------------------|
| 2004 | 3.40 | 31.5 |
| 2005 | 3.42 | 38.0 |
| 2006 | 4.26 | 29.7 |
| 2007 | 6.65 | 27.3 |
| 2008 | 7.00 | 37.0 |
| 2009 | 5.85 | 36.8 |
| 2010 | 6.35 | 37.1 |
| 2011 | 6.62 | 37.4 |
| 2012 | 6.62 | 37.7 |

Based on 10-30-08 futures prices

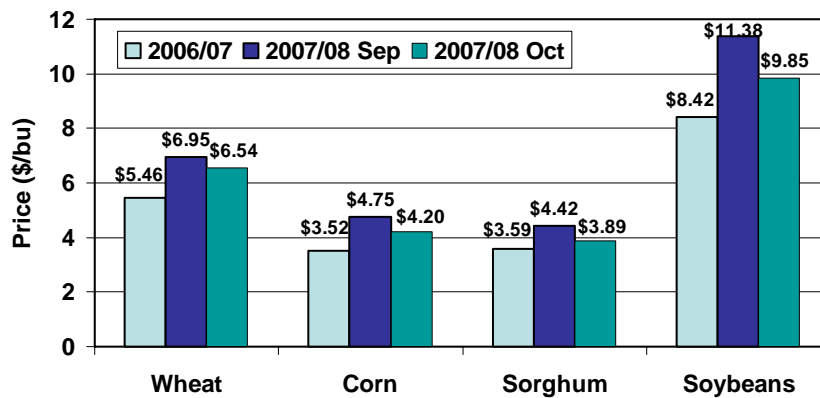


Wheat ACRE Example (Updated Prices)

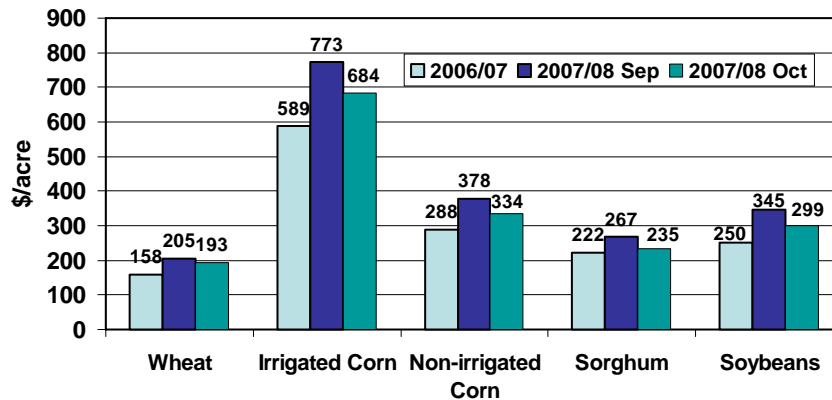
| Year | Benchmark State Yield (bu/plt ac) | Benchmark Price (\$/bu) | State Rev Guarantee (\$/plt ac) | Actual State Rev (\$/plt ac) | ACRE Payment (\$/plt ac) |
|------|-----------------------------------|-------------------------|---------------------------------|------------------------------|--------------------------|
| 2009 | 32.7 | 6.54 | 198.56 | 216.45 | 0.00 |
| 2010 | 34.6 | 6.23 | 193.66 | 237.49 | 0.00 |
| 2011 | 34.6 | 6.10 | 189.77 | 250.24 | 0.00 |
| 2012 | 37.1 | 6.49 | 208.75 | 251.56 | 0.00 |
| Avg | -- | -- | -- | -- | 0.00 |



Projected Kansas ACRE Benchmark Prices



Projected Kansas ACRE State Revenue Guarantee



Do I enroll in ACRE?

- What are prices and yields going to be over the next 4 years?
- Will ACRE payments (with reduced direct payments and lower loan rates) on average be greater than current commodity program payments?
- Even if ACRE payments are not greater than current commodity program payments, will it provide more risk management protection?

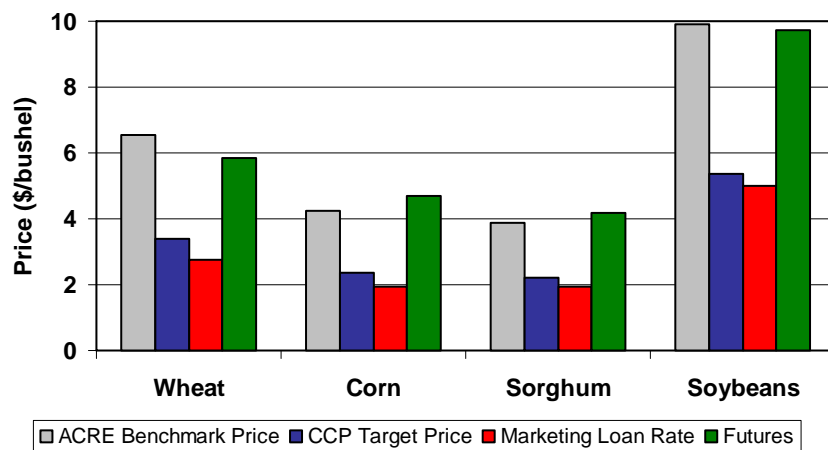


Do I enroll in ACRE?

- What is the price-yield correlation between state yields and national prices?
- What is the correlation between state yields and farm yields?
- How does ACRE compare with each crop in the crop mix? Does it work better for some crops than others?
- How complementary is ACRE with crop insurance and disaster assistance?



Relevant Commodity Program Prices in 2009



ACRE Conclusions

Don't be in a hurry to make a decision!



Payment Limitations

- Direct attribution of payments
 - Eliminates three-entity rule
 - Spouse qualifies for payments if other spouse is determined to be “actively engaged” in the farming operation
- Direct payments - \$40,000
- Counter-cyclical payments - \$65,000
- Marketing loan payments - no limits
- ACRE payments
 - Direct payments = \$40,000 – 20% reduction in direct payments
 - ACRE payments = \$65,000 + 20% reduction in direct payments
- SURE payments - \$100,000



Payment Eligibility

- 2002 Farm Bill
 - Ineligible for payments if AGI greater than \$2.5 million unless 75% is from farming

- 2008 Farm Bill
 - Ineligible if average *nonfarm* AGI exceeds \$500,000
 - Ineligible if average *farm* AGI exceeds \$750,000



Summary and Conclusions

- ACRE Enrollment
 - Interim rules have not been issued
 - No start date for enrollment, but must be completed by June 1

- Payment Limitations and Eligibility
 - Goes into effect for the 2009 crop
 - Overall impact will likely depend on how USDA defines those “actively engaged” in the farming operation

