

FARM BILL UPDATE

WHAT CAN WISCONSIN EXPECT?

Paul D. Mitchell

Agricultural and Applied Economics

University of Wisconsin, Madison, WI, USA

Farm Management Update for Ag Professionals

Kimberly, WI September 7, 2012

2012 Farm Bill?

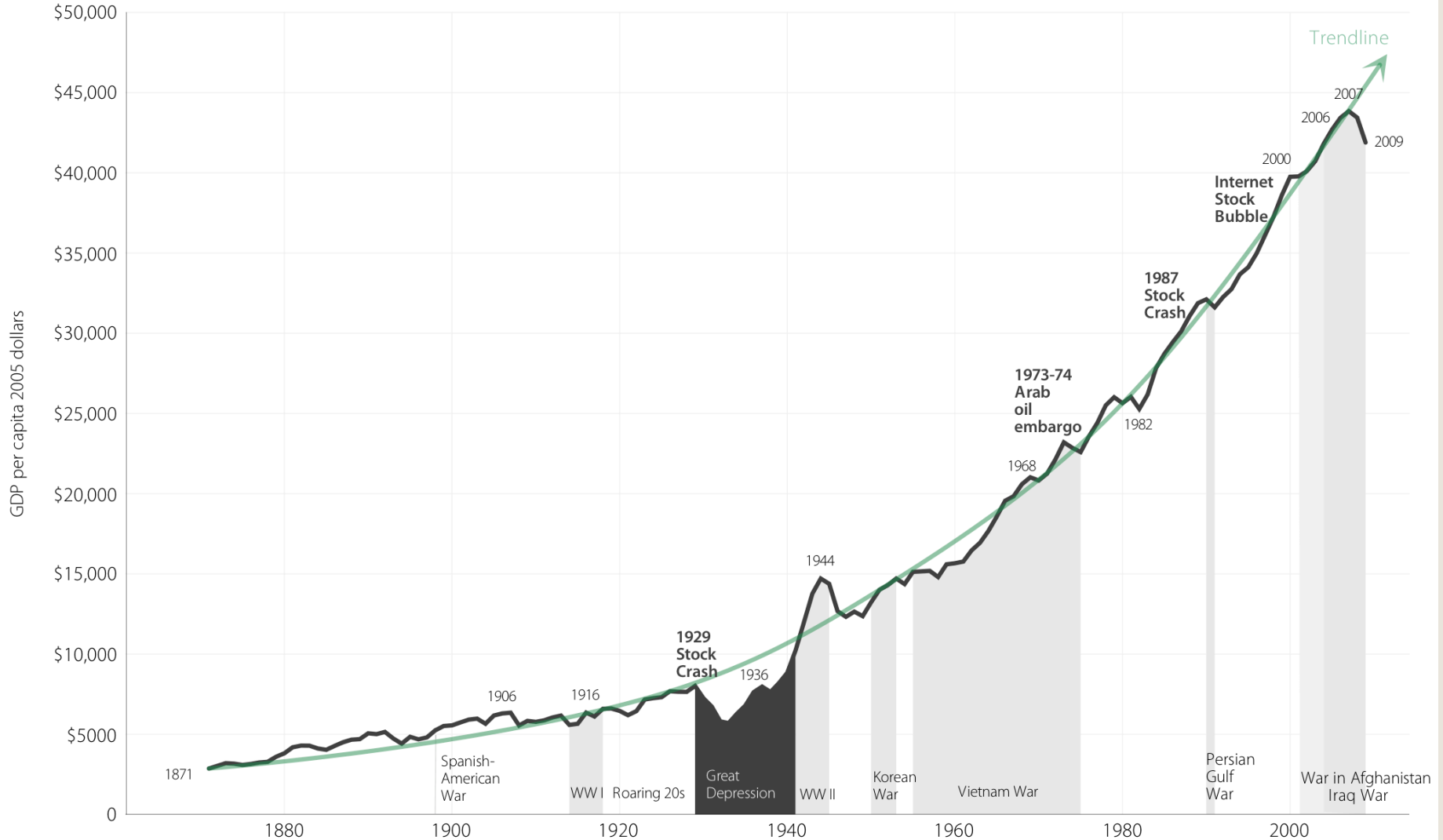
- Senate passed Farm Bill on June 21
 - Agriculture Reform, Food & Jobs Act (S. 3240)
- House Ag Committee passed Farm Bill July 1
 - Federal Agriculture & Risk Management Act (H.R. 6083)
- 2008 Farm Bill expires on September 30, 2012
 - Will Congress pass a 2012 Farm Bill?
 - Will Congress pass Farm Bill extension?
 - Congress is running out of time!!!

Overview

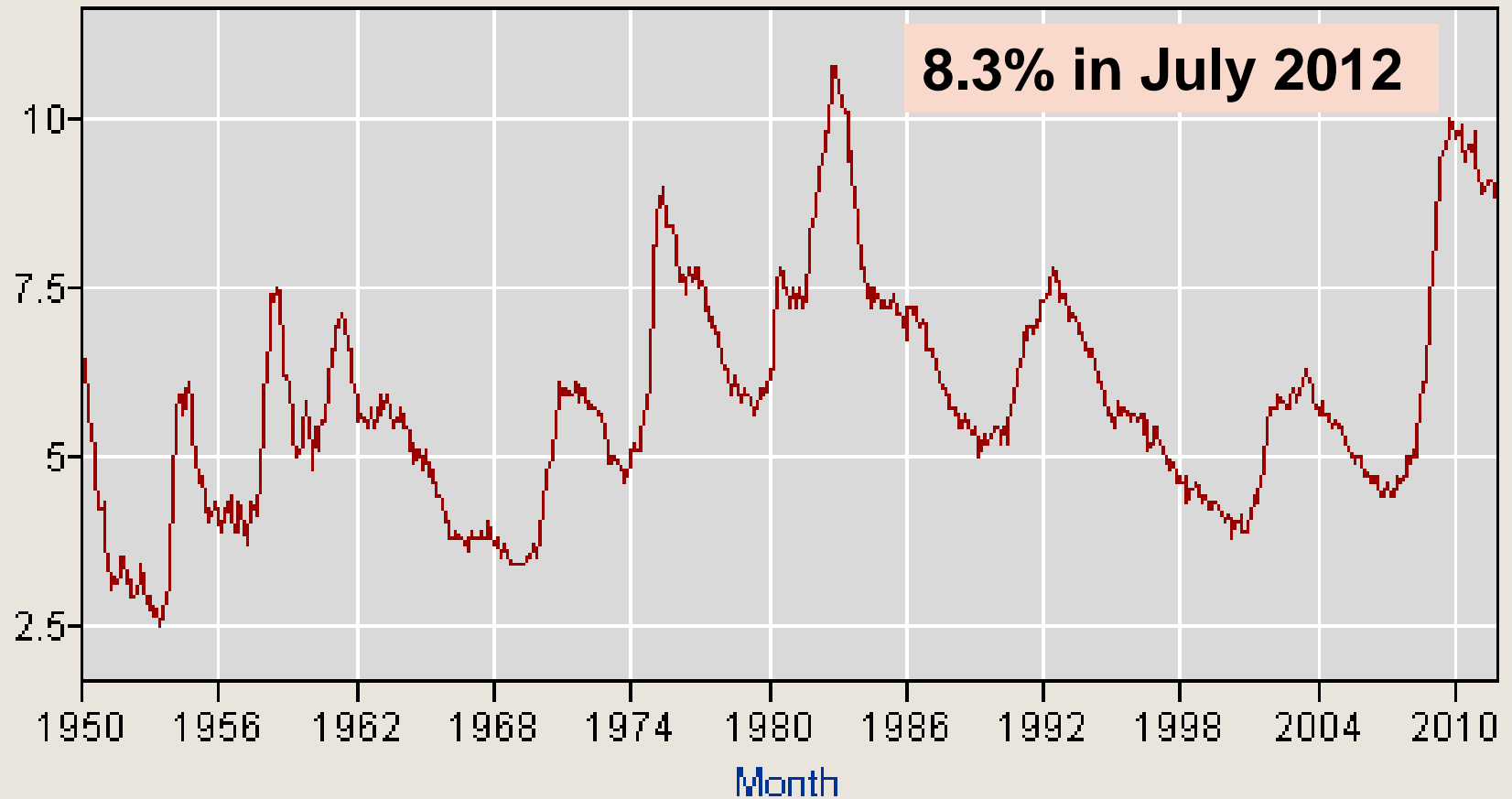
- Federal Fiscal Reality
 - Big Picture, where USDA and Ag fits in
- Likely Farm Bill Program Changes
 - Commodity Support
 - Crop Insurance
- Dairy covered by Mark Stephenson

Long-term real growth in US GDP per capita 1871–2009

GDP per capita adjusted for inflation using 2005 dollars

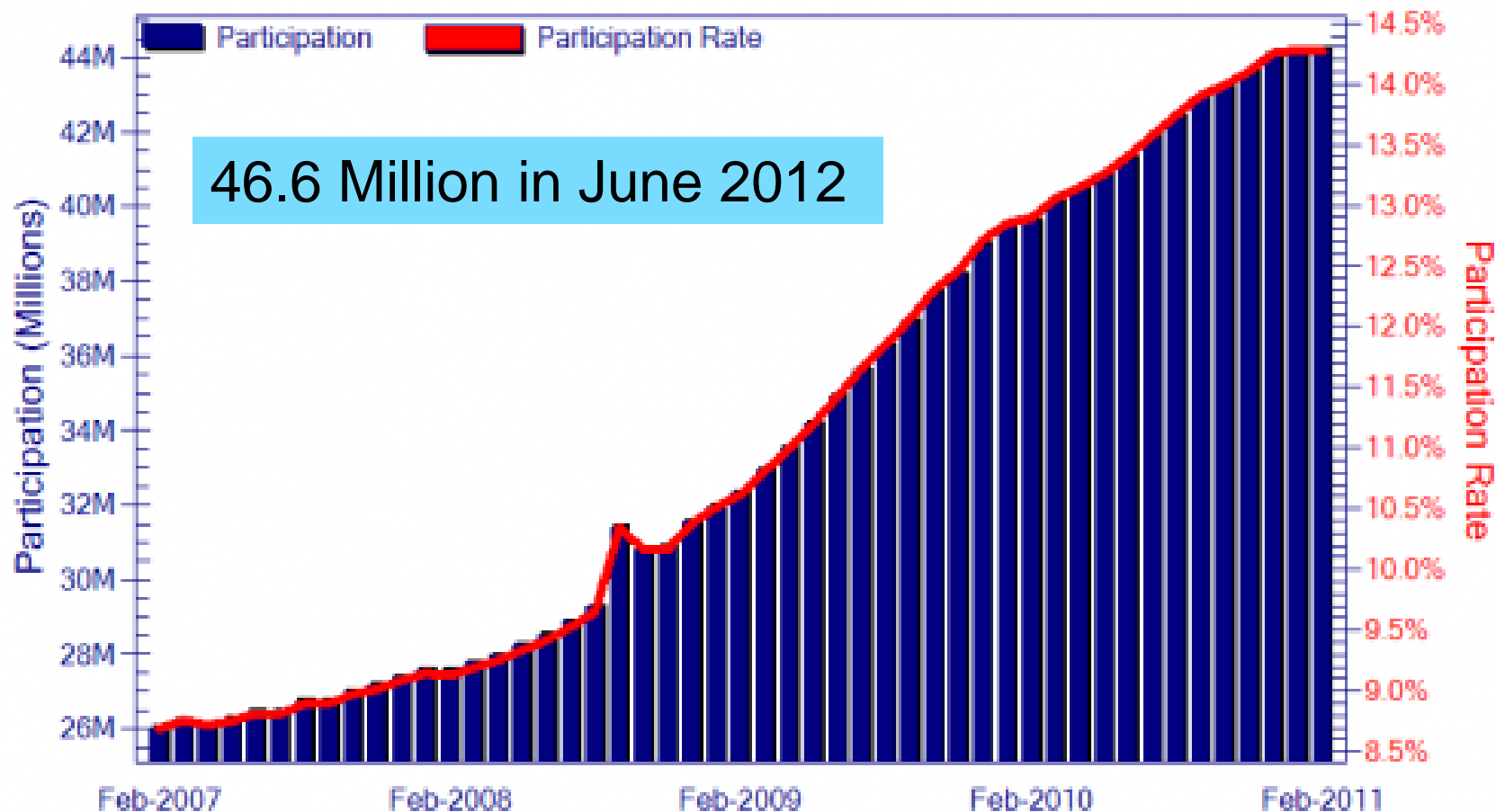


US Monthly Unemployment Rate



Food Stamp Recipients at Record Highs

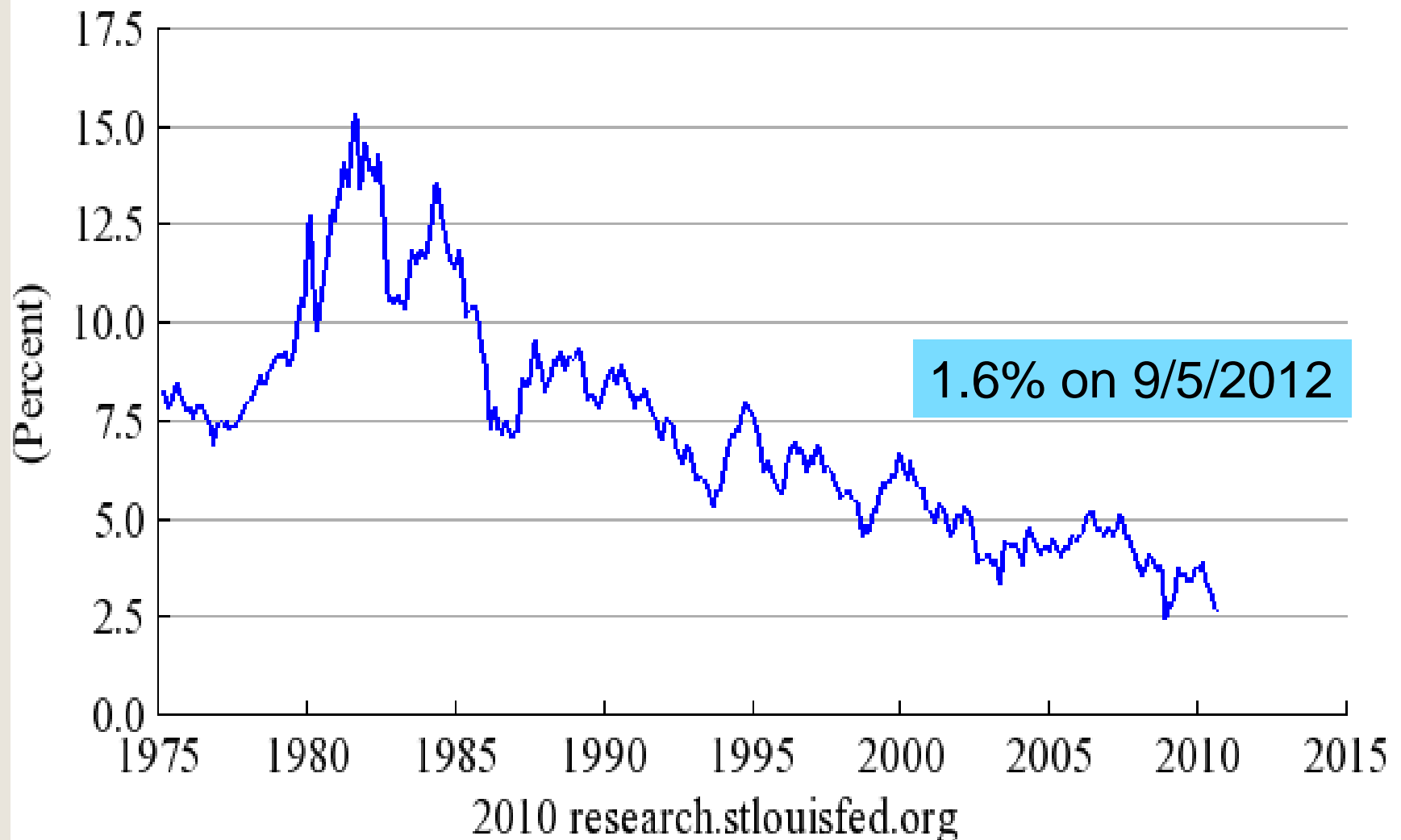
Food Stamps



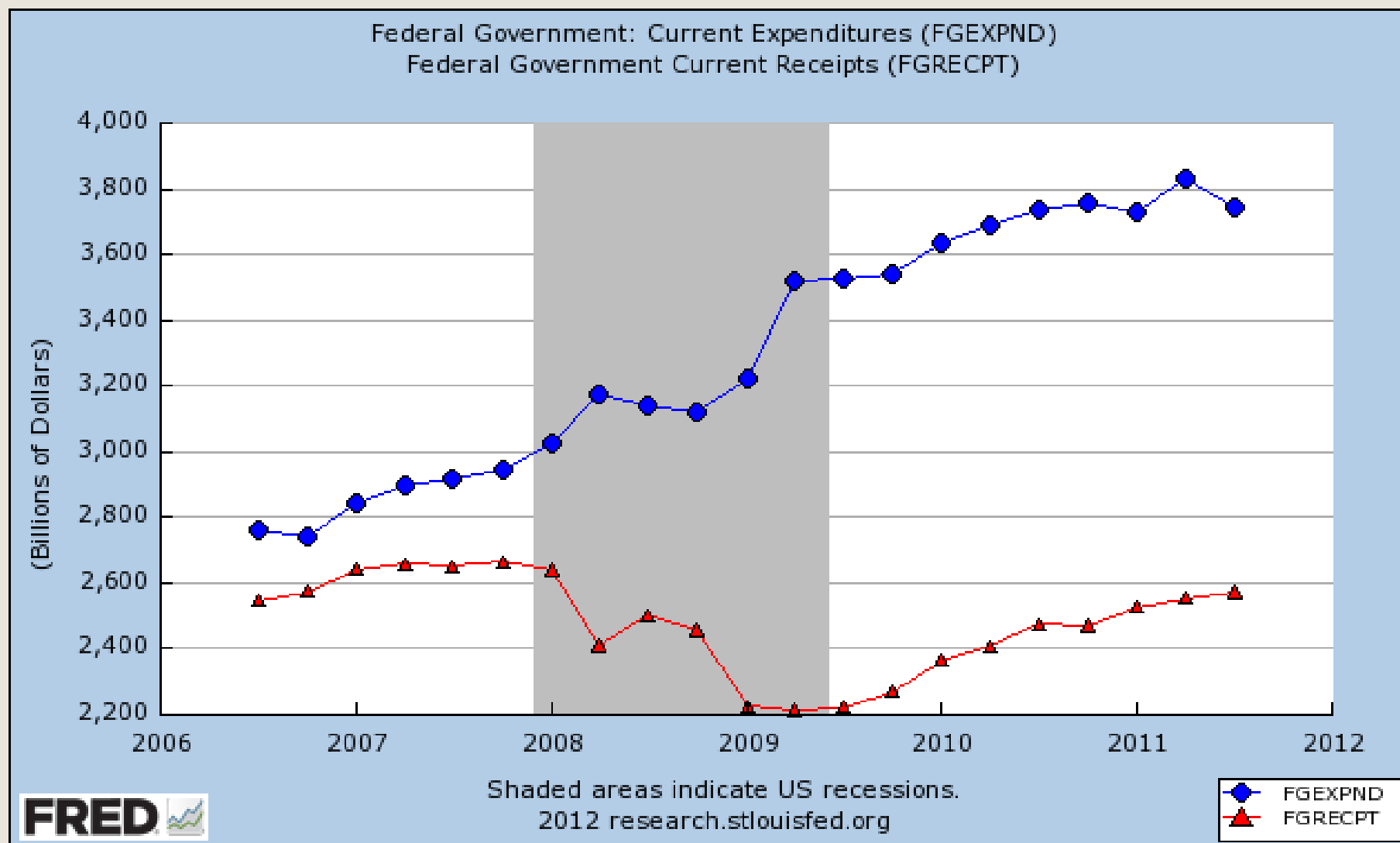
Source: SNAP

10-Year Treasury Constant Maturity Rate (GS10)

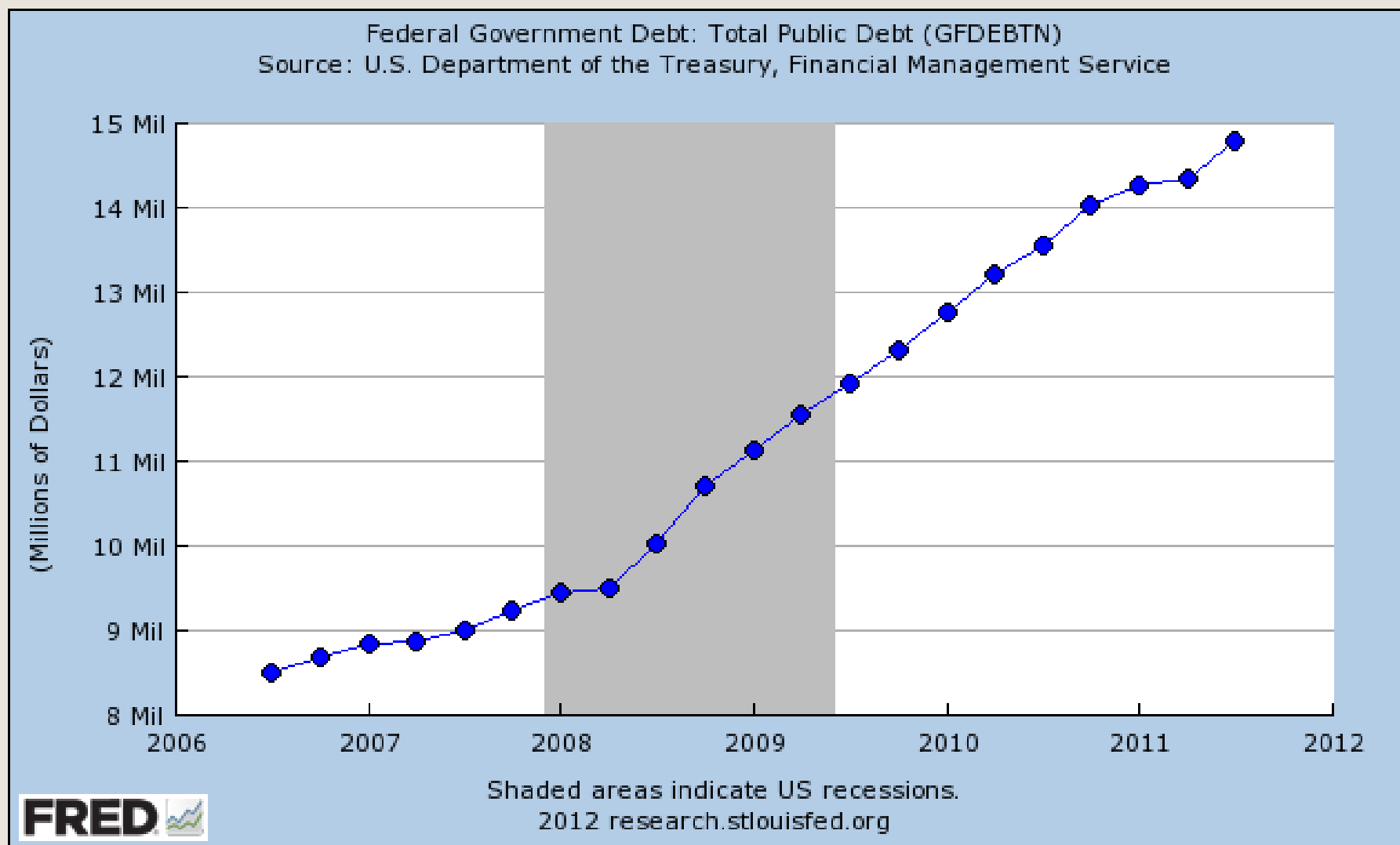
Source: Board of Governors of the Federal Reserve System



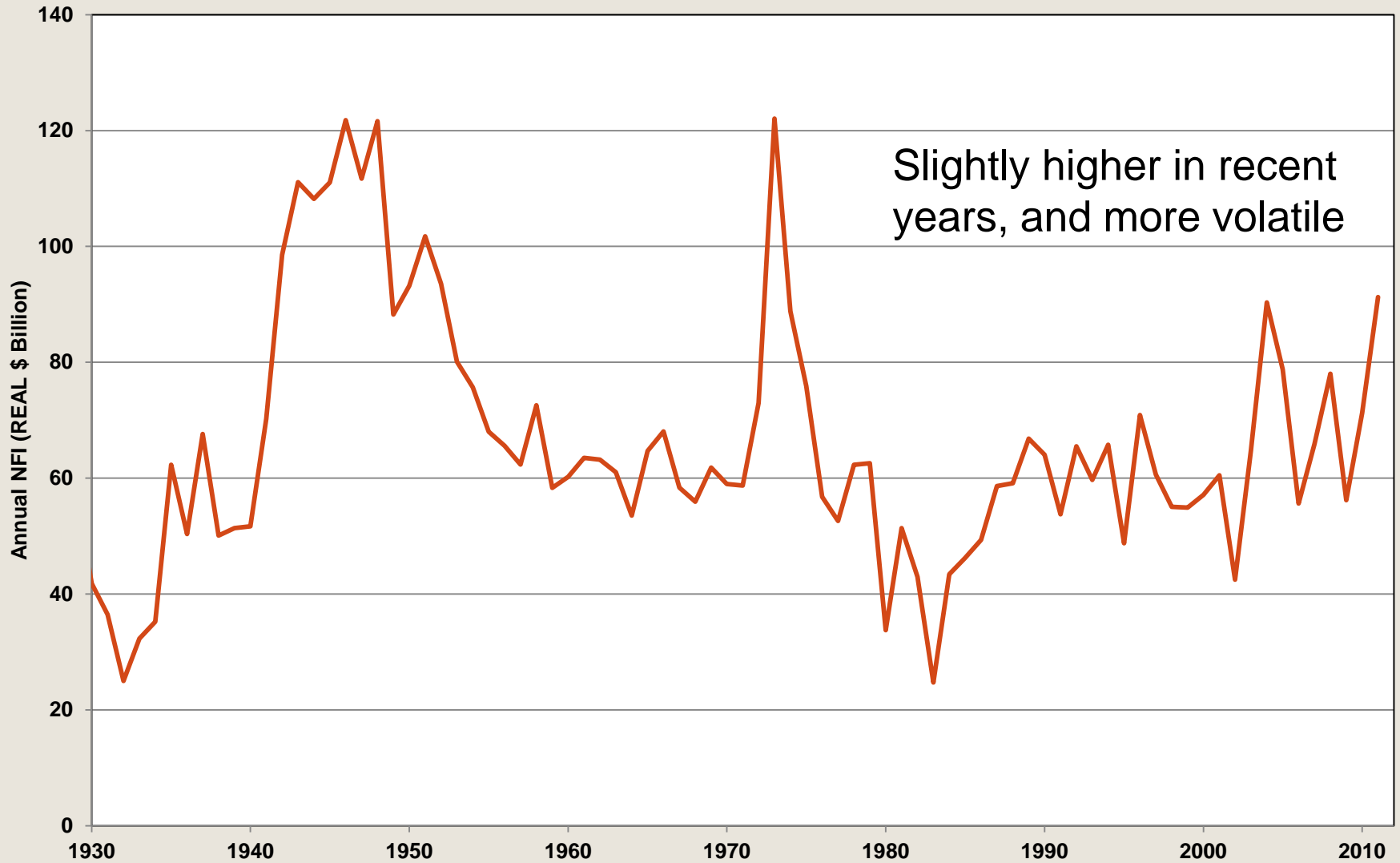
Federal Budget Situation



Federal Budget Situation



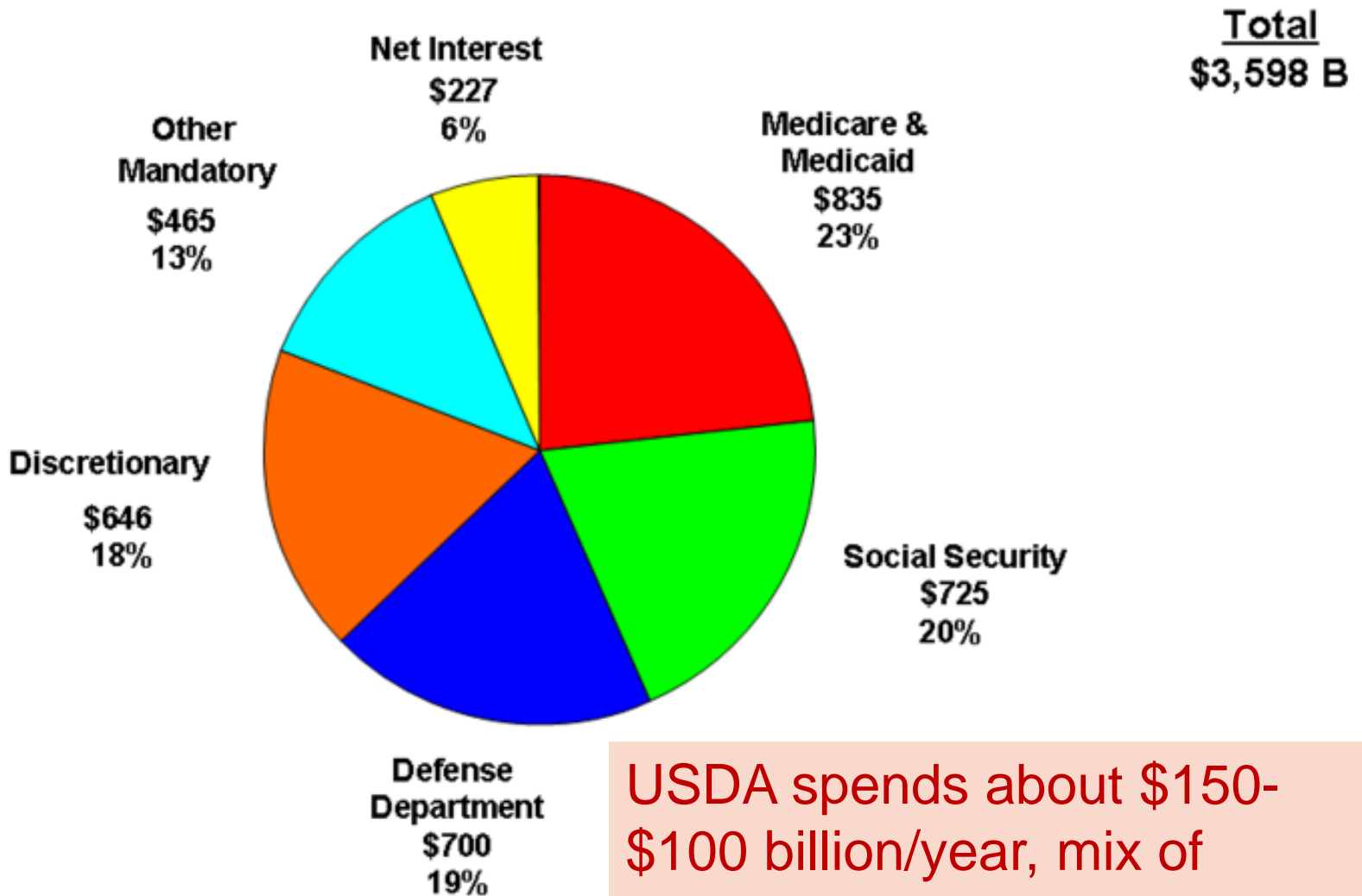
Real Net Farm Income in the USA



Federal Fiscal Reality

- US Economy still big trouble: Worst economic problem since Great Depression / WW II
- Recovery of some sort seems to be happening very slowly, but economy still fragile
- US Federal Government stimulated economy with Monetary and Fiscal policy
 - Historically low interest rates
 - Huge federal debt
- 2012 Farm Bill: Outbreak of Fiscal Austerity at a time of high (and volatile) Net Farm Income

U.S. Federal Spending – Fiscal Year 2011 (\$ Billions)

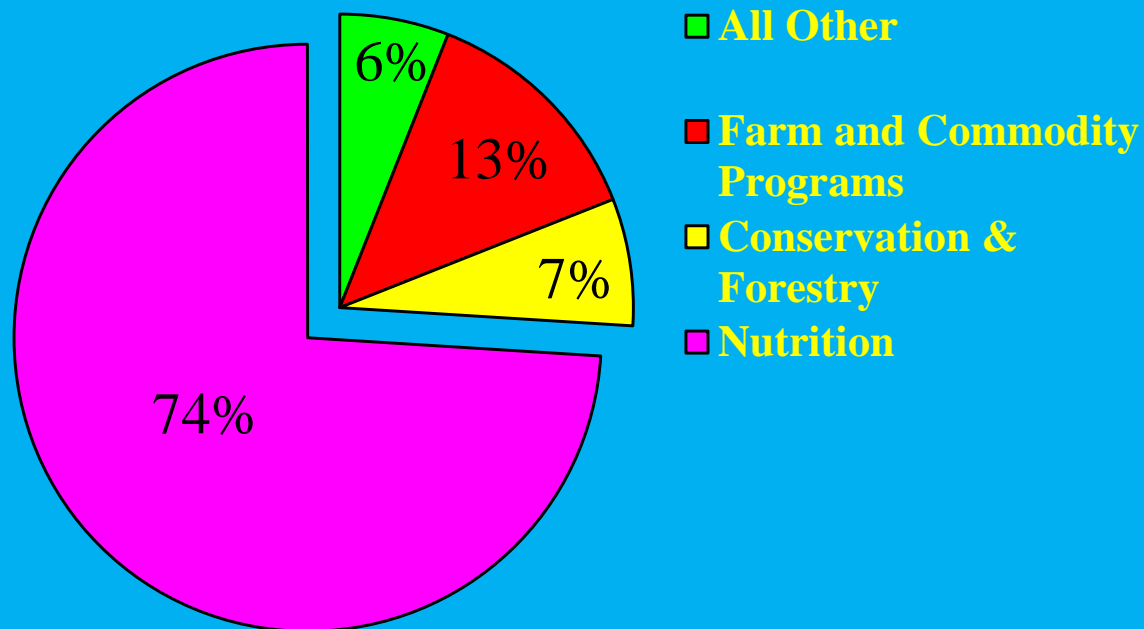


USDA spends about \$150-\$100 billion/year, mix of mandatory and discretionary

USDA Outlays

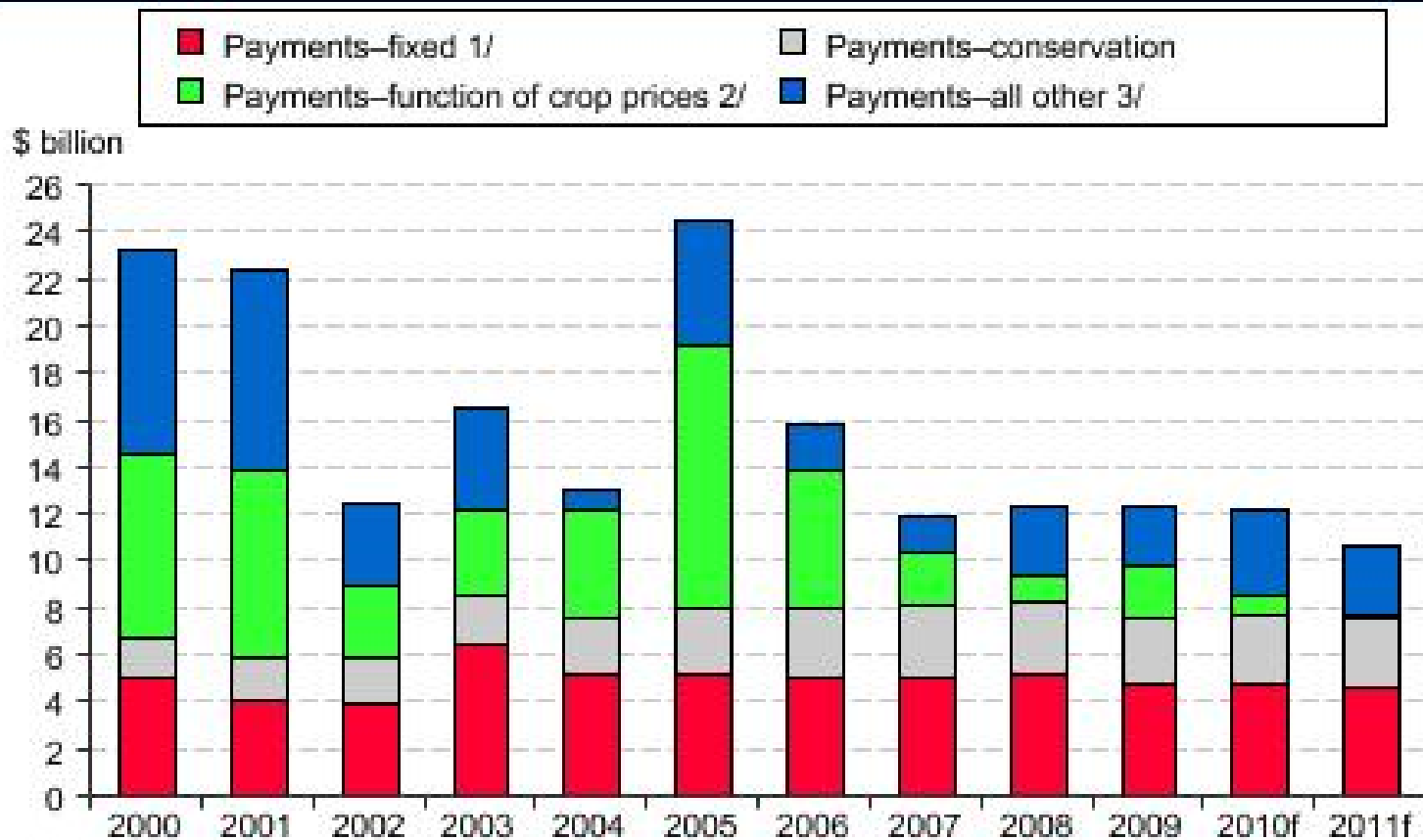


CBO Baseline for 2013 onward is \$100 billion per year



Most USDA budget is mandatory and for Nutrition Programs (SNAP, WIC, School Lunch)

Government payments, 2000-2011f



1/ Production flexibility contract payments and direct payments whereby payment rates are fixed by legislation.

2/ Counter-cyclical payments, loan deficiency payments, marketing loan gains, certificate exchange gains, and ACRE payments whereby commodity payment rates vary with crop prices.

3/ All other payments include disaster relief payments, tobacco transition payments, and dairy program payments.

Source: FSA, NRCS, and CCC, *p* – preliminary; *f* – forecast.



ERS

CBO Baseline Projection

- Chite (2012) Congressional Research Service (<http://www.nationalaglawcenter.org/assets/crs/R42552.pdf>)
- USDA spending over 10 years = \$993 billion with current Farm Bill, or Annual spending of about \$100 billion
 - \$77.2 billion Nutrition (SNAP, WIC, Schools)
 - \$9.1 billion Crop Insurance
 - \$6.3 billion Commodity Support
 - \$6.1 billion Conservation
 - <\$1 billion Everything Else
- Senate and House Ag Committee version cuts range 2.3% to 3.5% (\$23-\$35 billion over 10 years)

Projected Farm Bill Spending Changes

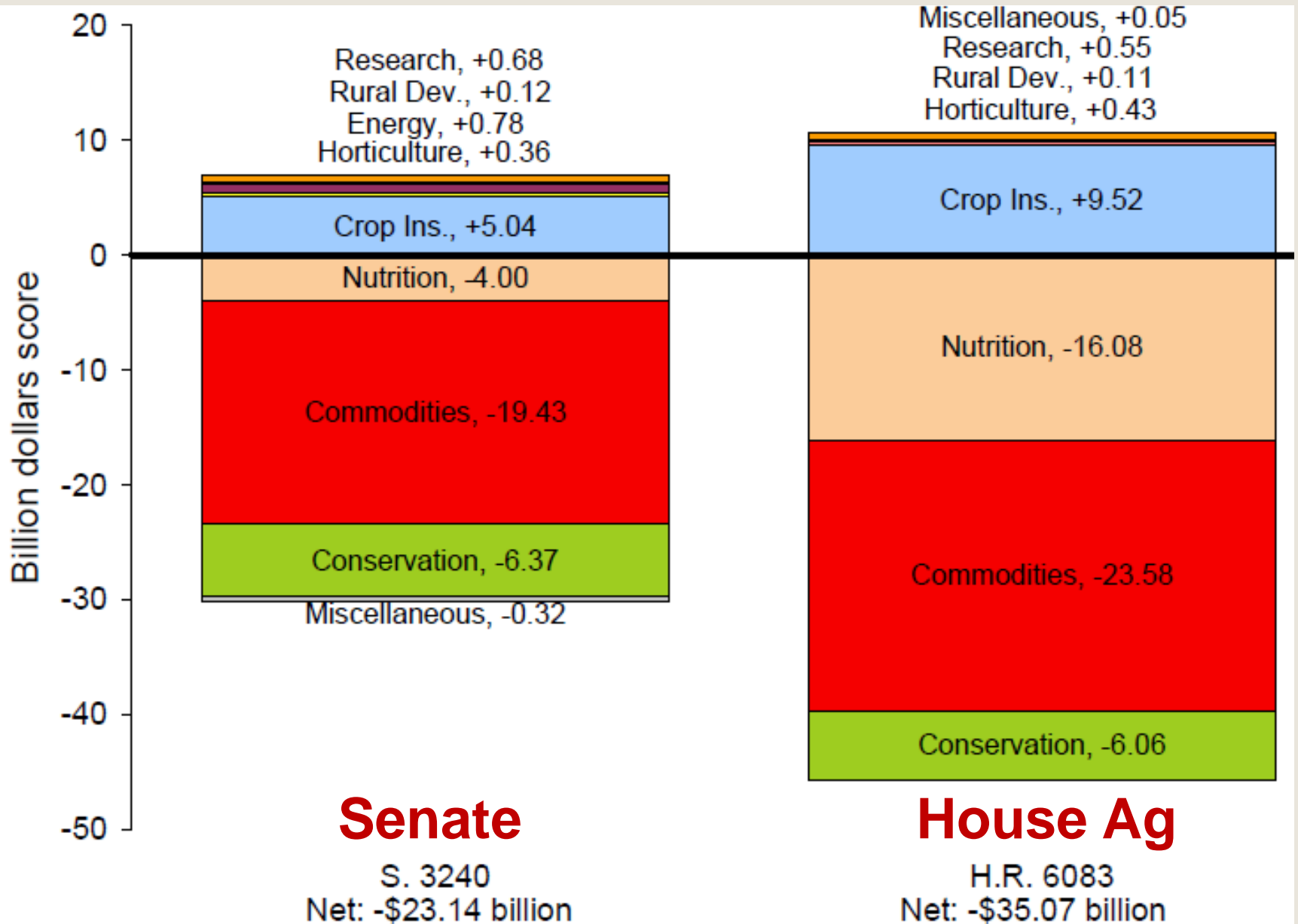
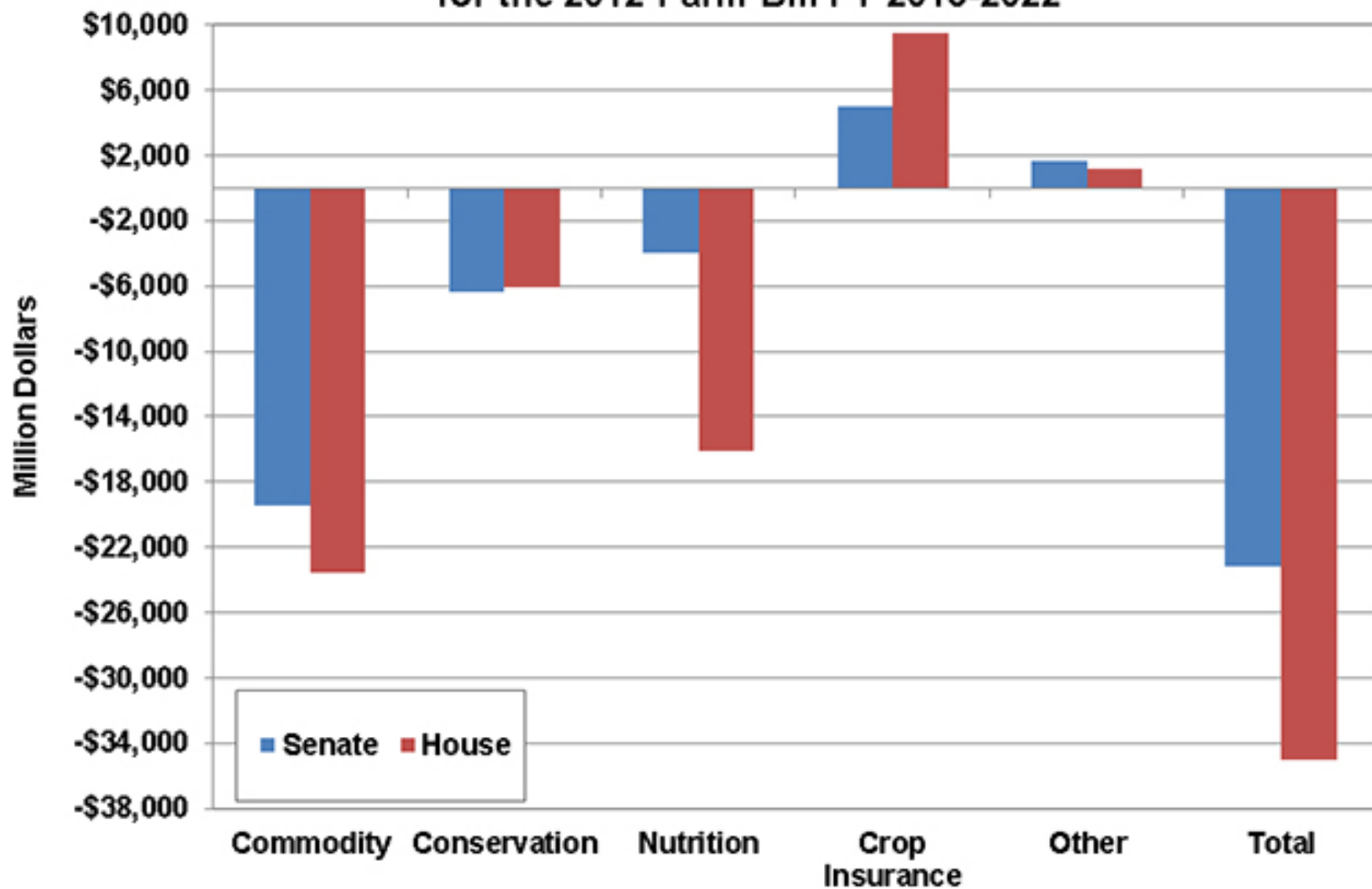
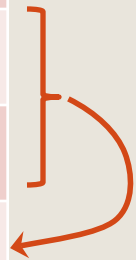


Figure 1: Projected Changes in Program Spending by Title for the 2012 Farm Bill FY 2013-2022



Proposed Cuts as % from Baseline (or ~ as \$ billion per year)

	Senate	House Ag
Nutrition	-0.4%	-1.6%
Crop Insurance	+0.5%	+1.0%
Commodity Programs	-1.9%	-2.4%
Crop Insurance + Commodity	-1.4%	-1.4%
Conservation	-0.6%	-0.6%
Total	-2.3%	-3.5%



- Senate and House closer than most realize
- Really debate about how much to cut Food Stamps and how to support commodity ag
- Could a compromise appear quickly???

USDA Budget Summary & Proposed Cuts

- Most USDA spending is mandatory spending on Nutrition Programs (~75%)
- Almost all remaining spending is for Crop Insurance, Commodity Support and Conservation Programs
- Senate vs House Ag debate is about
 - How much cut Nutrition: \$400 million or \$1.6 billion?
 - Both decreases commodity ag support by \$1.4 billion (from \$15.3 to \$13.9 billion/yr, or 9.1% cut), but disagree on how much to emphasize crop insurance
- Let's look at specific proposed changes to commodity ag support

Commodity Programs

- Direct Payments: both eliminate
- Counter-Cyclical Payments: both eliminate
- ACRE Program: both eliminate
- Marketing Assistance Loans and Loan Deficiency Payments: both retain, keep same loan rates
- Disaster Programs: both eliminate SURE, keep other programs (LIP, LFP, ELAP, TAP)
- Differ on farm safety net
 - Senate creates Agriculture Risk Coverage (ARC)
 - House Ag creates Price Loss Coverage (PLC) and Revenue Loss Coverage (RLC)

Senate's Agriculture Risk Coverage

- ARC replaces DCP and ACRE with Revenue Support
- Farmer chooses farm or county-level support, irrevocable
- Revenue Guarantee: $89\% \times 5\text{-yr average (farm or county) yield} \times 5\text{-yr Olympic average of national price}$
- Actual Revenue: Actual yield (farm or county) \times 5-month average of national price
 - Sept to Jan average so not wait 1 year for payment
- ARC payment = ARC Guarantee – Actual Revenue, up to 10% of Revenue Guarantee
- Producer pays first 11% of losses, ARC pays next 10% and crop insurance pays any greater losses

House Ag Committee Programs

- Farm owners choose either Price Loss Coverage (PLC) or Revenue Loss Coverage (RLC)
 - Choose for each crop separately, Irrevocable choice
- PLC is essentially CCP, but with higher target prices
- PLC triggered if Effective Price < Reference Price
- PLC Payment Rate = $85\% \times (\text{Ref Price} - \text{Eff Price}) \times \text{CCP Payment Yield}$

Crop	Target Price	Reference Price
Corn	\$2.63	\$3.70
Soybeans	\$6.00	\$8.40
Oats	\$1.79	\$2.40
Wheat	\$4.17	\$5.50

House Ag Committee's RLC

- RLC payments if Actual County Revenue < County Revenue Guarantee
- County Revenue Guarantee = 85% x 5-yr Olympic avg county yield x 5-yr Olympic avg national price
- Actual County Revenue = actual county yield x 5-month average of national price
- RLC payment = Cnty Revenue Guarantee – Actual Cnty Revenue, up to 10% of Cnty Revenue Guarantee
- Producer pays first 15% of losses, RLC pays next 10% and crop insurance pays any greater losses

Administrative Changes

- Payment Limits: currently \$105,000
 - Senate: ARC = \$50,000, LDP = \$75,000
 - House Ag: PLC + RLC = \$125,000, none on LDP
- AGI Limits: currently separate farm and non-farm AGI, with \$500,000 non-farm AGI and \$750,000 farm AGI
- Senate: combine and set AGI limit at \$750,000
- House Ag: combine and set AGI at \$950,000

Commodity Program Comparisons

- Senate's ARC and House Ag's RLC are very similar
 - ARC trigger is 89%, RLC trigger is 85% of average
 - ARC offers county or farm-level, RLC only county-level
 - Both sit on top of crop insurance, much like SURE, but crop specific
- House Ag keeps CCP, just renames it and raises target prices, way to keep traditional program
- Both tighten payment limits and AGI thresholds
- Nor really major differences, the joint committee to reconcile bills would not have a lot of work
- The \$100 billion question: Can the full House pass the Bill?

Crop Insurance

- Senate and House Ag both create Supplemental Coverage Option (SCO)
- Farmer can buy county-level crop insurance (GRIP) to cover part of individual crop insurance deductible
- Suppose farmer has 70% Rev Protection: 30% deductible
- Can buy 90% GRIP coverage as SCO for losses above 10% and less than 30% (when crop insurance kicks in)
- If enrolled in ARC, only gets SCO payments for losses between 21% and 30% (when crop insurance kicks in)
- If enrolled in RLC, only gets SCO payments for losses between 25% and 30% (when crop insurance kicks in)

Effect of Revenue Protection Coverage Level on Losses Covered by SCO with ARC

Rev Prot Covg Lev	Deductible	Farmer	ARC	SCO
85%	15%	11%	10%	0%
80%	20%	11%	10%	0%
75%	25%	11%	10%	4%
70%	30%	11%	10%	9%
65%	35%	11%	10%	14%
60%	40%	11%	10%	19%
55%	45%	11%	10%	24%
50%	50%	11%	10%	29%

Effect of Revenue Protection Coverage Level on Losses Covered by SCO with RLC

Rev Prot Covg Lev	Deductible	Farmer	RLC	SCO
85%	15%	15%	10%	0%
80%	20%	15%	10%	0%
75%	25%	15%	10%	0%
70%	30%	15%	10%	5%
65%	35%	15%	10%	10%
60%	40%	15%	10%	15%
55%	45%	15%	10%	20%
50%	50%	15%	10%	25%

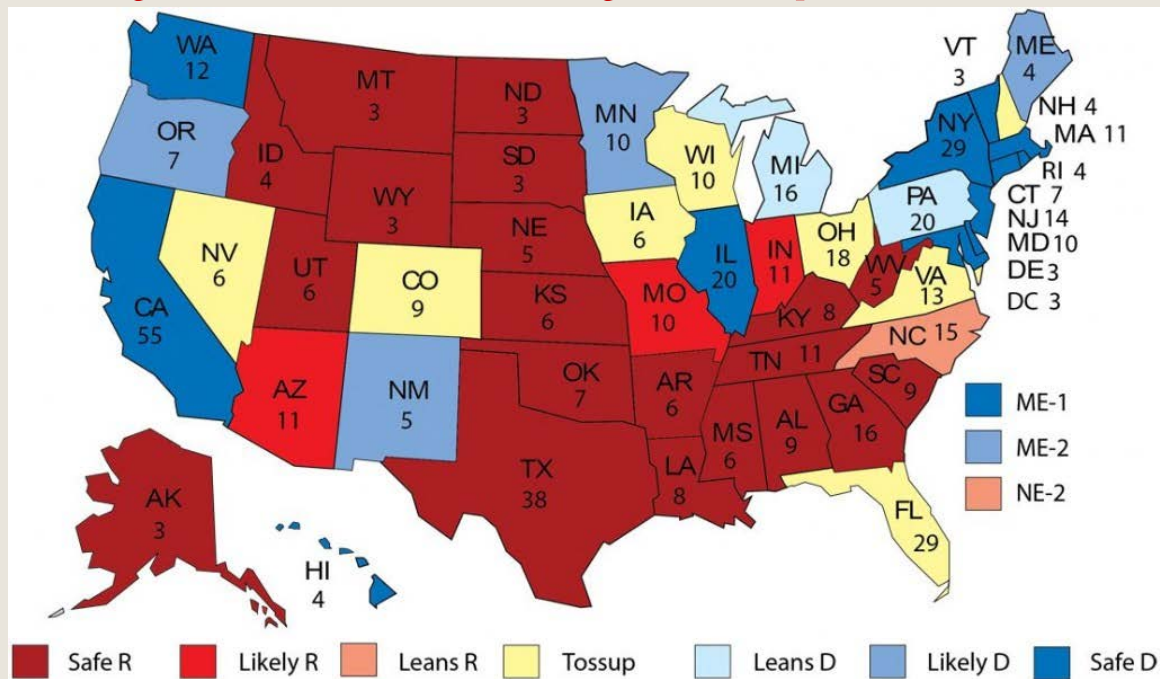
SCO Main Idea

- SCO layers GRIP with RP and ARC/RLC
- Farmers can reduce RP coverage and use SCO with “free” ARC/RLC coverage
- GRIP premium for use as SCO is subsidized at 70% (farmer pays 30% of fair premium)
- Problem: “basis risk” for GRIP coverage of RP deductible
 - How often will GRIP pay when farmer has actual loss?

Premium Subsidy Changes

- Reduced Premium Subsidies for various cases
- Premium subsidies reduced 15% points if AGI > \$750,000
- Sod Saver: reduced premium subsidies 50% points for 4 years if break native sod for crop production
 - Senate whole US, House Ag if in Prairie Pothole region
- Senate only: Requires conservation compliance within 5 years and wetland compliance immediately to receive premium subsidies

A Farm Bill will eventually pass, maybe even by Sept. 30!



- Many swing states are agricultural states
- How concerned will House and Republicans get about not passing a Farm Bill?

What Can Wisconsin Expect?

- Likely not major decrease in average federal spending to support commodity ag (9.1% cut, 2.4% to 3.5% total decrease), but shift in how money spent
- Federal policy moving to greater emphasis on crop insurance and revenue support, not income/price support
- Want farmers to use federal programs to manage risk, share the costs in a public-private partnership
- More individual responsibility: develop risk management program for your own needs
- Risk management is more than just crop insurance and federal programs, but both can be a part of good risk management

Crop Insurance in WI and Neighboring States

% Planted Acres Insured in 2011

State	Corn	Soybeans
WI	69%	74%
MN	94%	94%
IA	90%	91%
IL	81%	78%
MI	72%	71%

- Wisconsin has room to grow for participation in crop insurance programs and increased coverage levels
- Expect continued push from crop insurance companies to increase sales in WI

What Can Wisconsin Expect?

- Ag Lenders play major role in ag risk management
 - Encourage, recommend, require risk management to protect borrowers and themselves
 - Help farmers make good crop insurance choices and integrate crop insurance with federal programs
 - More than just crop insurance and federal programs, but both can be a part of risk management
 - Need to understand crop insurance options & federal programs like ARC/RLC and SCO
- More farmer responsibility for risk management means more individual responsibility for ag lenders as well
 - Those helping their borrowers are more likely to prosper

Thanks for Your Attention!

Questions?

Paul D. Mitchell

Agricultural and Applied Economics

University of Wisconsin, Madison, WI

pdmitchell@wisc.edu 608-265-6514

<http://www.aae.wisc.edu/pdmitchell/extension.htm>