

DECEMBER 19, 2000**FEFO 00-3****GOVERNMENT PAYMENTS TO ILLINOIS GRAIN FARMS**

Federal government payments have shored up net incomes on Illinois grain farms during the extended period of low commodity prices occurring since 1998. This article lists government payments received by crop farms in 2000. Impacts on farm decision-making then are examined.

Net Farm Incomes and Government Payments

A study conducted by the University of Illinois estimated net farm incomes for 1,037 grain farms located in Illinois. These 1,037 farms are enrolled in Illinois Farm Business Farm Management (FBFM) and have an average of 833 tillable acres. During the decade of the 1990s, net farm income on these farms averaged between \$45,000 and \$50,000 per farm. Net farm income for 2000 is projected at \$32,414 per farm, continuing a string of low incomes occurring in 1998 (\$13,827 average net income) and 1999 (\$33,180).

In 2000, government payments received by these farms is projected at \$50,277 per farm. Without these payments, average net farm income would have been negative in 2000. These payments come from four programs:

1. Agricultural and Marketing Transition (AMTA) payments. AMTA payments result from Production Flexibility Contracts authorized in the Federal Agricultural Reform and Improvement (FAIR) Act of 1996. For the 1,037 Illinois grain farms, these payments averaged \$12,379 per farm, or 25 percent of the \$50,277 total government payments received by these grain farms. For these farms, AMTA payments averaged \$21 per operator acre. (An operator acre equals an acre on which revenue is earned. One cash rent or one owned acre equals one operator acre. One share rent acre where revenue is split 50-50 between the landlord and tenant equals one-half operator acre.)

In 2000, AMTA payments are scheduled to decline by 19 percent. AMTA payments are based on a farm's program yields and per bu. payment rates. The 2000 payment rates are \$.334 per base corn bu. and \$.588 per base wheat bu. The rate for corn in 2001 is \$.269 per bu. The rate for wheat in 2001 is \$.474 per bu.

AMTA payments will again decline in 2002. Payment rates are estimated at \$.25 per bu. for corn and \$.44 per bu. for wheat. Under the 1996 FAIR Act, payments are scheduled to end in 2002.

2. Market Loss Assistance (MLA) payments. MLA payments are additional payments resulting from special legislation passed by the U.S. Congress. MLA payments have occurred in 1998, 1999, and 2000. In 2000, MLA payments averaged \$13,451 per farm on the 1,037 farms. MLA payments account for 27 percent of total government payments received by these Illinois grain farms averaging \$22 per operator acre.

The emergency legislation authorizing MLA payments in 2000 do not provide for payments in 2001. Therefore, MLA payments will not occur in 2001 unless the U.S. Congress passes legislation authorizing additional payments.

3. Oilseed payments. Oilseed payments again result from special legislation passed by the U.S. Congress. Oilseed payments have been made for production occurring in 1999 and 2000. The 2000 payment for the 1,037 farms is projected to average \$2,365 per farm, or 5 percent of total government payments received by these farms. These payments average about \$4 per operator acre. Similar to MLA payments, an oilseed payment for 2001 is not authorized. Therefore, Congress will have to pass legislation for Oilseed payments to continue in 2001.

4. Loan Deficiency Payments (LDP) and Marketing Loan payments. In 2000, estimated LDP and Marketing Loan payments for the 1,037 grain farms are \$22,082 per farm, or 50 percent of total government payments received by these farms. The LDP and Marketing Loan programs will be intact for 2001. Amount of payments will depend on the level of commodity prices after harvest next year. Payments will occur if commodity prices are below loan rates. In Illinois, 2000 loan rates averaged about \$1.95 for corn and \$5.45 for soybeans.

Farm Decision-Making

There is considerable uncertainty about the form and level of government payments in coming years. For 2001, the LDP and Marketing Loan programs will provide payments when market prices are below loan rates, providing a price floor near \$1.95 for corn and \$5.45 for soybeans given that marketing and LDP pricing decisions are made in sync with one another.

However, total AMTA, MLA, and Oilseed payments are not known. The lowest possible payment in 2001 is the scheduled AMTA payment. For the 1,037 farms, this payment will average \$16 per operator acre in 2001. In 2000, AMTA, MLA, and Oilseed payments total \$47 per operator acre; hence, the lowest possible payment is \$31 per operator acre less than received in 2000. Many political observers believe that the U.S. Congress will pass legislation continuing MLA and Oilseed payments in 2001. This legislation may not have the form of previous emergency legislation and may build in counter-cyclical features into payments.

At this point in time, planning only to receive the scheduled AMTA payments seems prudent. Balancing cash inflows and outflows at scheduled AMTA payments places a farm in a position to weather adverse events. Receiving additional government payments, if any, will then provide a cash flow cushion.

Uncertainties also exist concerning what form government programs will take after payments from the 1996 FAIR Act expires in 2002. It is highly likely that the next farm bill will continue some form of payments. So far much of the policy discussion has centered on making payments counter-cyclical – increasing during periods of low incomes and decreasing in periods of high incomes.

The level of payment after 2002 obviously has critical impact on cash rental and farmland purchase decisions. In Illinois, the 1996 FAIR Act essentially built in revenue of roughly \$20 per operator acre in the form of scheduled AMTA payment for 1996 through 2002. These scheduled payments allowed higher bids for cash rents and, to some extent, increased farmland prices. The level of payments after 2002 will impact economical cash rent bids.

It still is too early to say what the level of payments will be after 2002. Hence, the impact of cash rents and farmland prices cannot be determined.

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