



Revenue Implications of the New Farm Bill

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2007 Illinois Farm Economic Summit

The Profitability of Illinois Agriculture: Where to from Here?

Presentation Outline

- **Progress on the new Farm Bill**
- **Commodity programs**
 - Outline House proposal provisions
 - Outline Senate Ag Committee proposal provisions
- **Estimated revenue implications (expected program payments)**
- **Estimates of potential risk-reduction**
- **Conclusions**

- House approved its version in July
- Senate Ag Committee approved its version in October
- Currently being debated on the Senate floor
- Possible amendment limitations in attempt to approve a bill this year
- House and Senate versions will need to be reconciled
- Veto threat if there is lack of reform

- Direct payment, price-based counter-cyclical payment (PCCP), and marketing loan programs unchanged
- Rebalances target prices and loan rates
- Optional revenue-based countercyclical program (RCCP)
- Payment limit modifications for commodity programs

- Producers would have a one-time option to choose between PCCP and RCCP
- RCCP provides payments when a national revenue index falls below the guarantee
- National revenue index
 - $\text{NASS National Yield} * \max[\text{SAP}, \text{Loan Rate}]$
- Fixed revenue guarantee for each eligible commodity set by Congress

- **RCCP Payment Rate**
 - $(\text{Revenue Guarantee} - \text{Actual Revenue}) / \text{Payment Yield}$
- **RCCP Payment**
 - $0.85 * \text{Payment Rate} * \text{CC Yield} * \text{Base Acres}$
- Payments made to all producers if triggered, regardless of farm-level revenue
- Coverage is “scaled” to the producer according to their CC Yield

House Farm Bill Provisions



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	Direct Payment Rate	Loan Rate	PCCP Target Price	RCCP Target Revenue	Payment Yield
Corn	\$0.28	\$1.95	\$2.63	\$344.12	114.4
Soybeans	\$0.44	\$5.00	\$6.10*	\$231.87	34.1
Wheat	\$0.52	\$2.94*	\$4.15*	\$149.92	36.1

*Denotes an increase from current level

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House Payment Limitations



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- **Adjusted Gross Income (AGI) cap of \$1 million**
 - If AGI > \$500k, 2/3 of income must be from farming
- **Direct payment cap of \$60k (increased from \$40k)**
- **Retains CC payment cap of \$65k**
- **Marketing loan gain cap eliminated (currently \$75k)**

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Senate Farm Bill



- Direct payment, counter-cyclical payment (PCCP), and market loan programs continued
- Rebalances target prices and loan rates
- Optional Average Crop Revenue (ACR) program (starting in 2010)
- Modified payment limitations for commodity programs
- Crop insurance reform

Senate Farm Bill Provisions



	Direct Payment Rate	Loan Rate	PCCP Target Price
Corn	\$0.28	\$1.95	\$2.63
Soybeans	\$0.44	\$5.00	\$6.00*
Wheat	\$0.52	\$2.94*	\$4.20*

*Denotes an increase from current level

- **One-time choice of:**
 - Current direct payment, PCCP, and marketing loan programs
 - OR
 - \$15 flat direct payment, ACR, and recourse loans
- **ACR payments made when state-level revenue falls below the guarantee**
- **ACR revenue index (Actual Rev.)**
 - $\text{NASS State Yield} * \text{FCIC Harvest Price}$
- **ACR revenue guarantee**
 - $0.90 * \text{State Trend Yield} * 3\text{-yr Avg. FCIC Pre-planting Price}$
 - Revenue guarantee moves with the market

- **ACR Payments**
 - $0.85 * (\text{Rev. Target} - \text{Actual Rev.}) * \text{Yield Factor}$
 - $\text{Yield Factor} = \text{APH Yield} / \text{State Trend Yield}$
- **Payments made to all producers if triggered, regardless of farm-level revenue**
- **Coverage is “scaled” to the producer according to their Yield Factor (APH yield)**

ACR Parameters – IL Corn



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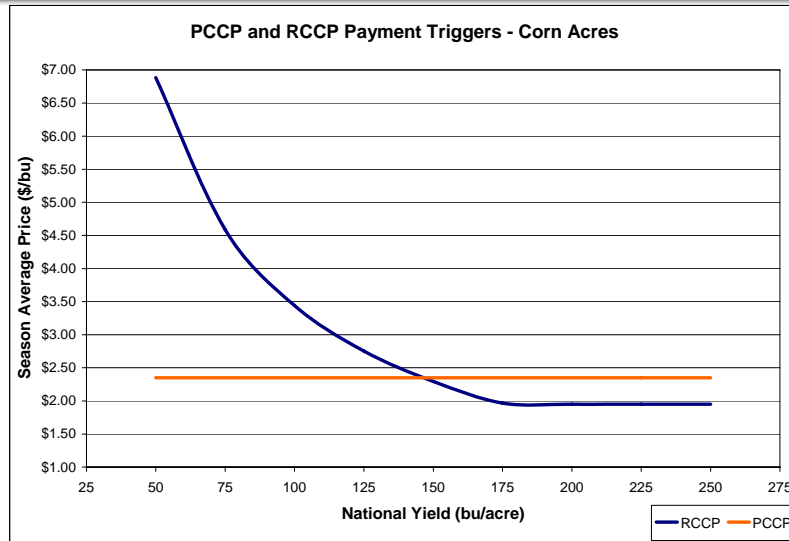
Year	Pre-planting Price	Trend Yield	Revenue Guarantee
2007	\$2.99	161	\$481
2008*	\$3.44	163	\$560
2009*	\$3.95	165	\$652
2010*	\$4.25	167	\$710

*Estimates based on current corn futures

PCCP and RCCP Payments



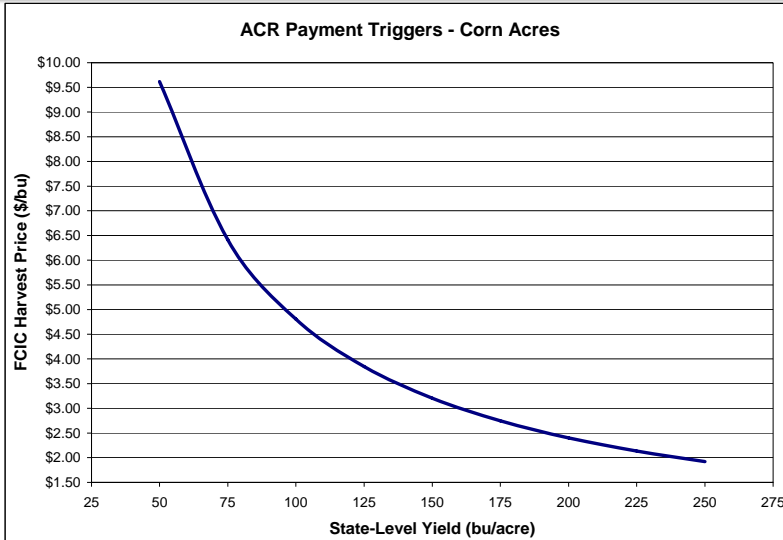
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ACR Payments



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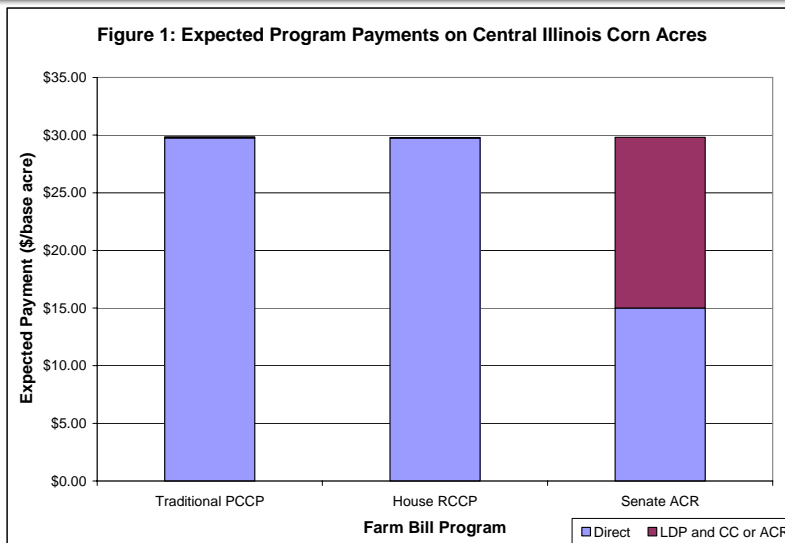
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2008 Expected Payments



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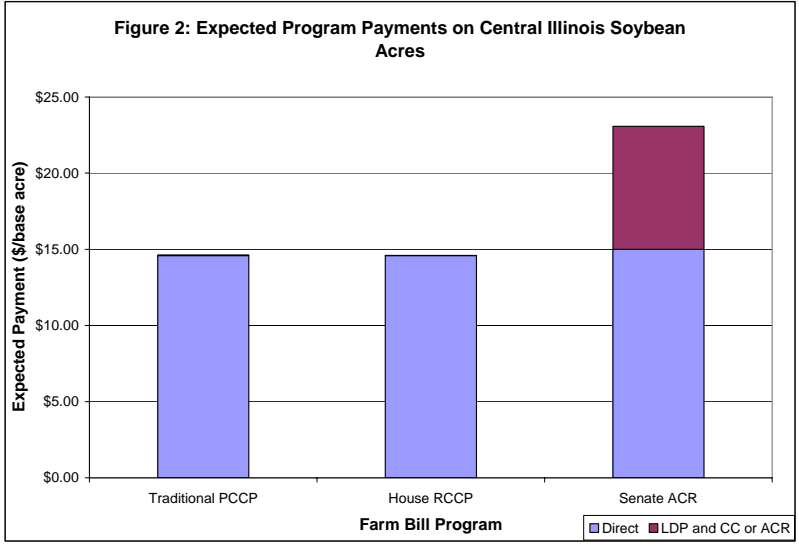
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2008 Expected Payments



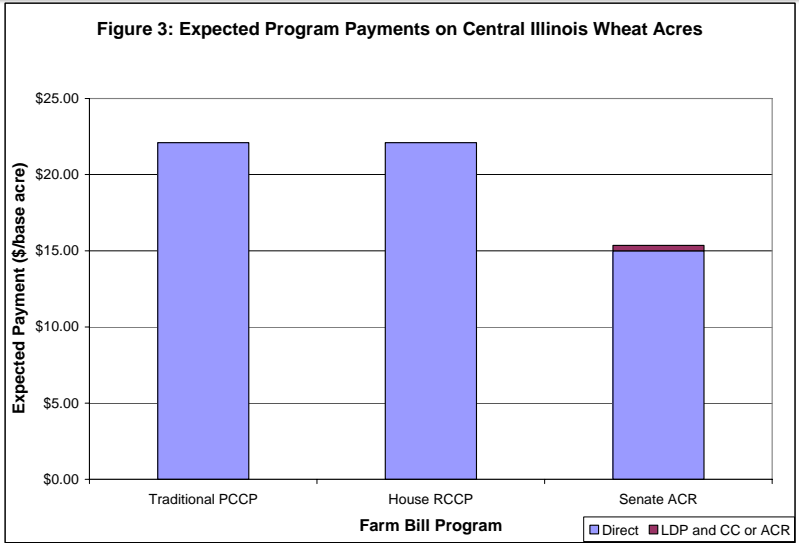
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2008 Expected Payments



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▪ **Probability of program payments coinciding with a farm-level loss**

➤ **Farm-level yield highly correlated with State**

	PCCP	RCCP	ACR
Corn	2%	<1%	78%
Soybeans	1%	<1%	63%
Wheat	0%	0%	7%

▪ **Probability of program payments coinciding with a farm-level loss**

➤ **Farm-level yield not correlated with State**

	PCCP	RCCP	ACR
Corn	2%	<1%	56%
Soybeans	1%	<1%	50%
Wheat	0%	0%	5%

- **Corn Acres**
 - Expected total payment levels roughly equal across the three programs
 - ACR payments are not guaranteed, lower direct payments
- **Soybean Acres**
 - Higher expected payments for ACR, direct payments are about the same
- **Wheat Acres**
 - Direct payments only given current price environment, lower under ACR

- **Both House CC plans estimated to result in small chance of payments**
 - Expected prices well above fixed target prices
- **Senate's ACR plan estimated to pay more often with larger payments per acre**
 - Revenue target moves with the market
 - Yield trends used in the revenue guarantee are well above those used in the House plan
 - Effect on direct payments differs by commodity

- **Amount of risk reduction offered by each plan depends on how closely farm revenues track the guarantee**
 - If farm-level yields are highly correlated with national- or state-level yields the revenue-based plans may provide more timely payments