

# Funds Available for the 2007 Farm Bill and the Administration Proposal

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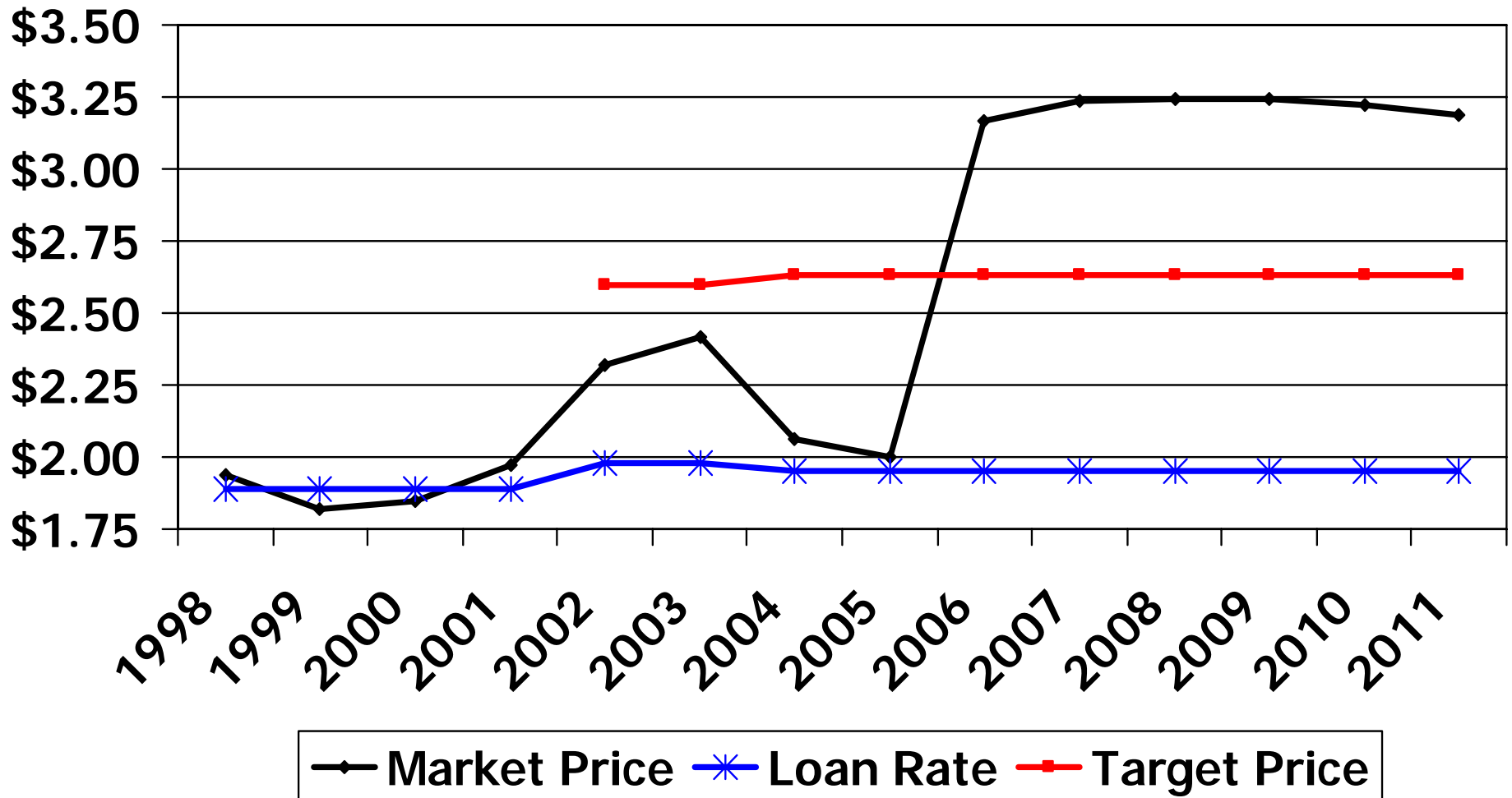


# Presentation Outline

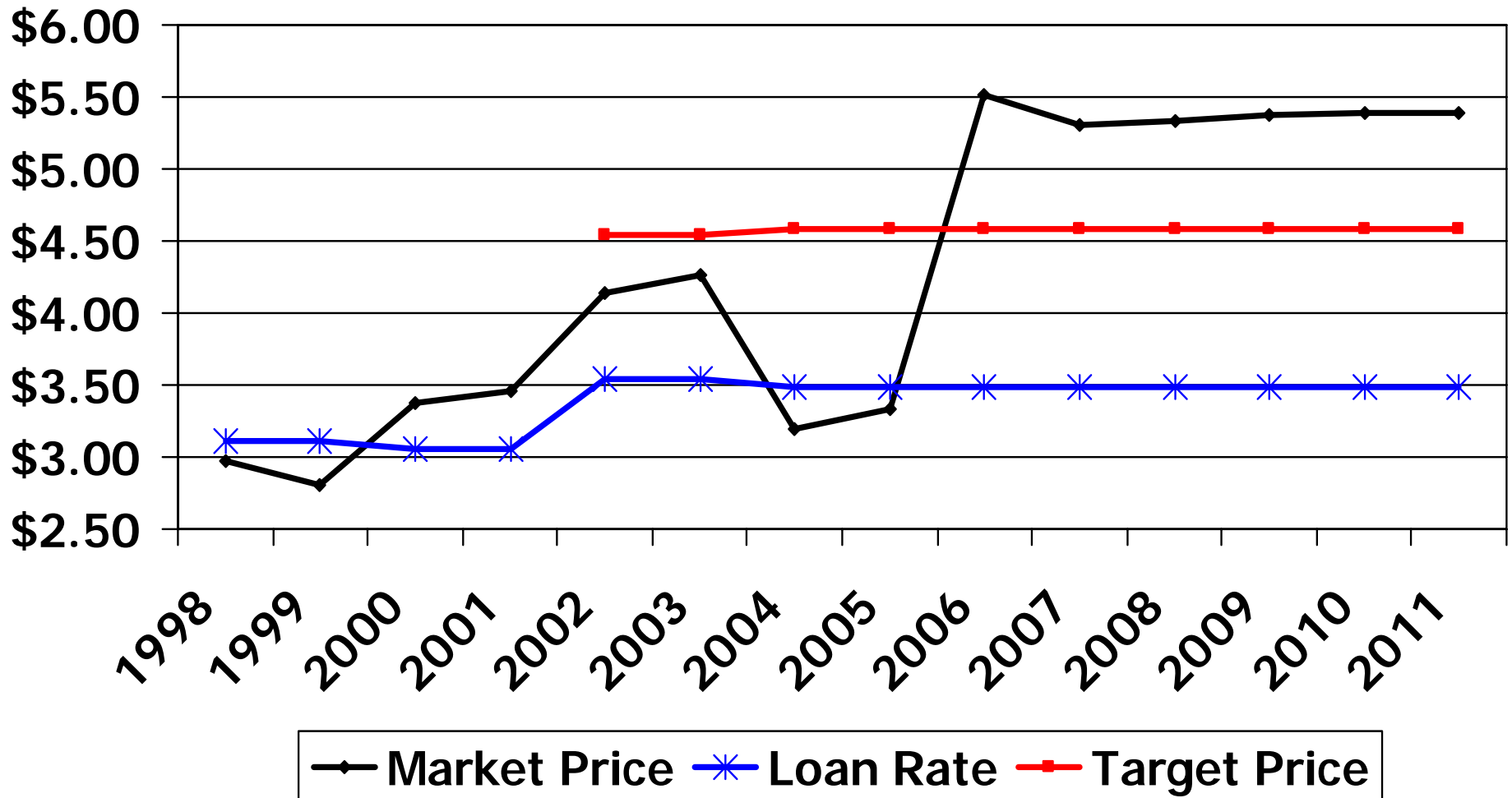
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- Farm Outlook
- CBO Baseline Score for the Farm Bill
  - How much money will there be for 2007 farm bill?
- Administration's Farm Bill Proposal
  - Means Test for program benefits
  - Revenue Assurance to replace CCPs

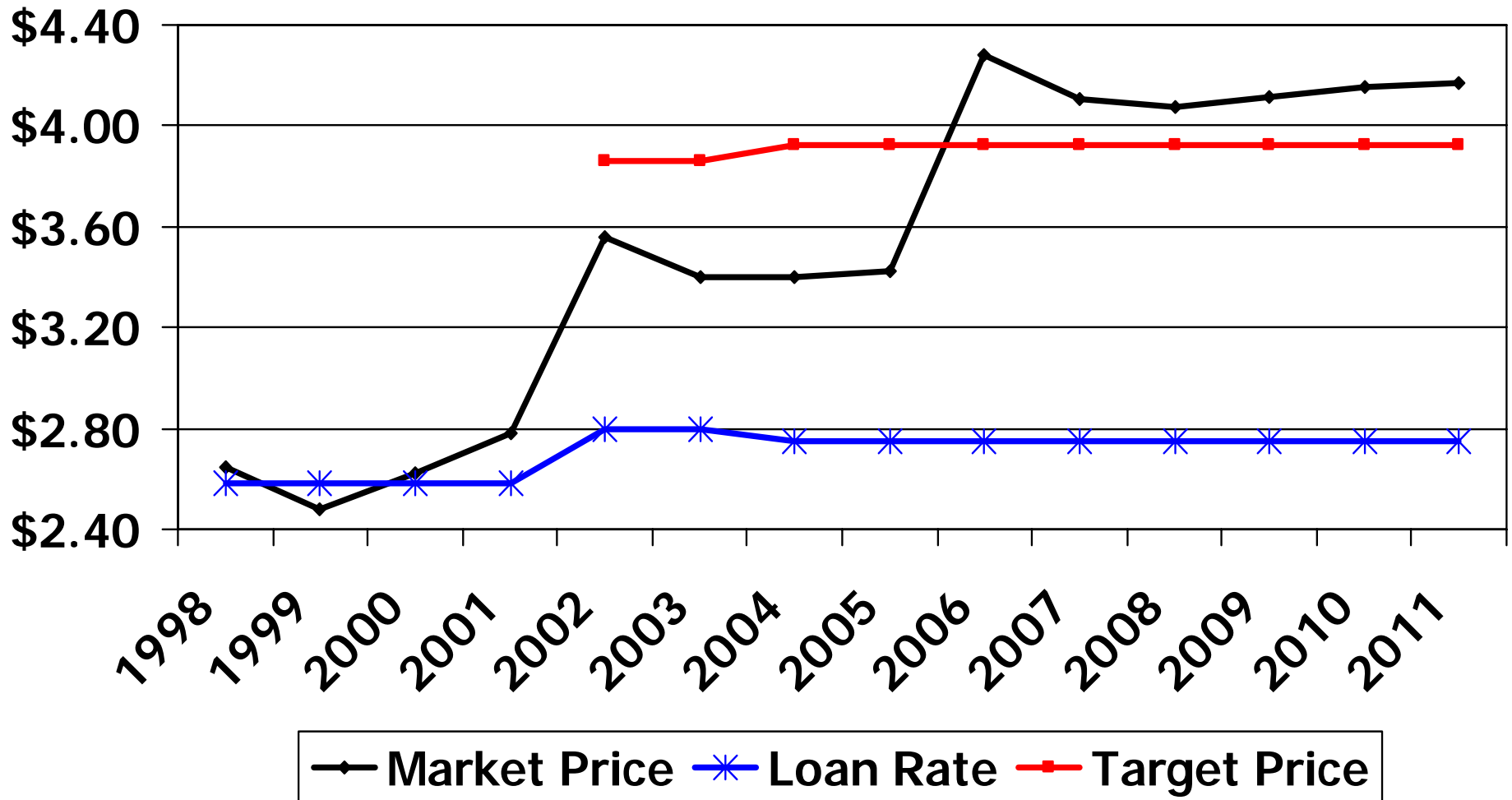
# FAPRI January 2007 Baseline Market Price, Loan Rate, and Target Price for Corn, 1998-2011



# FAPRI January 2007 Baseline Market Price, Loan Rate, and Target Price for Sorghum, 1998-2011



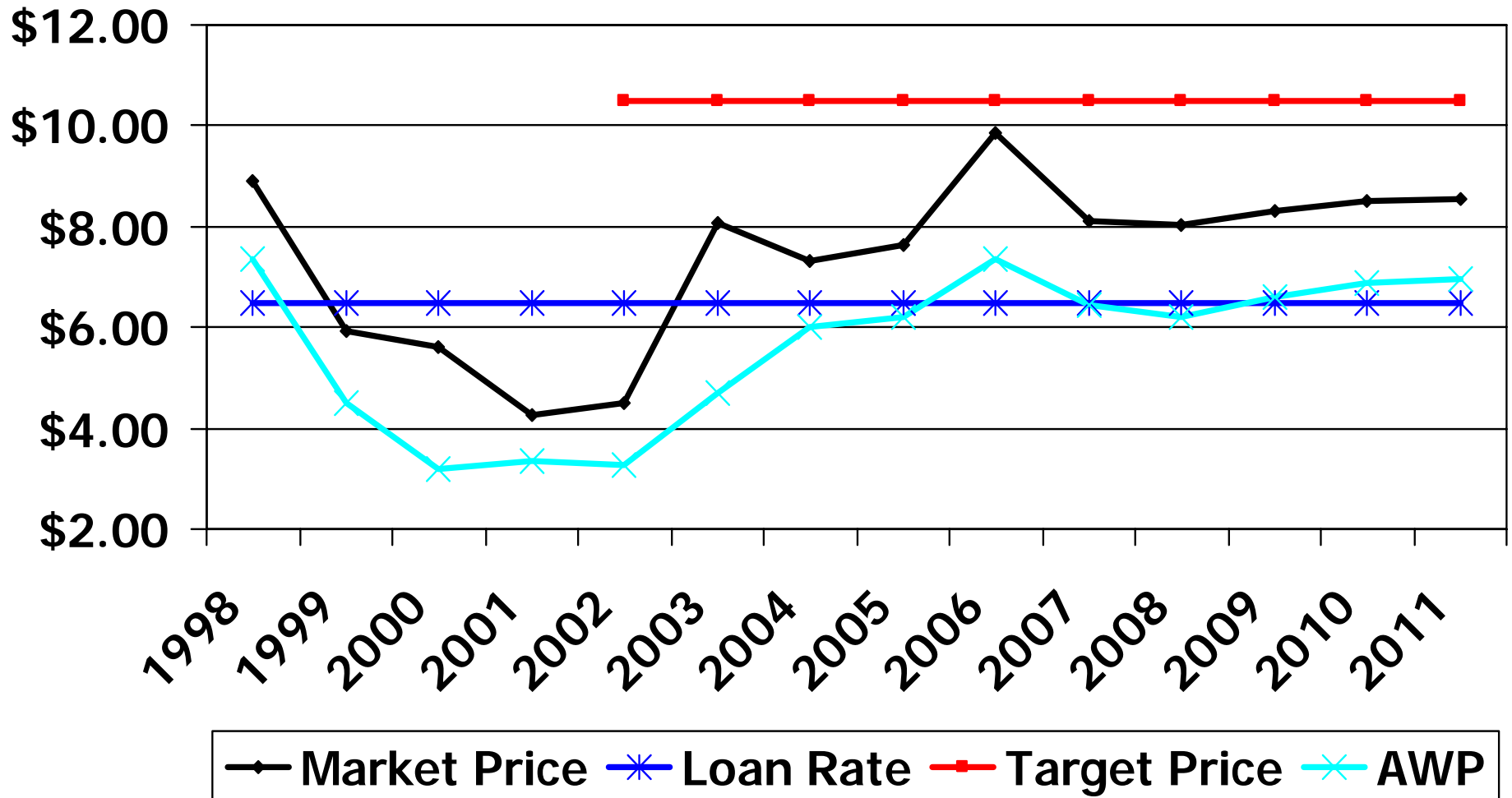
# FAPRI January 2007 Baseline Market Price, Loan Rate, and Target Price for Wheat, 1998-2011



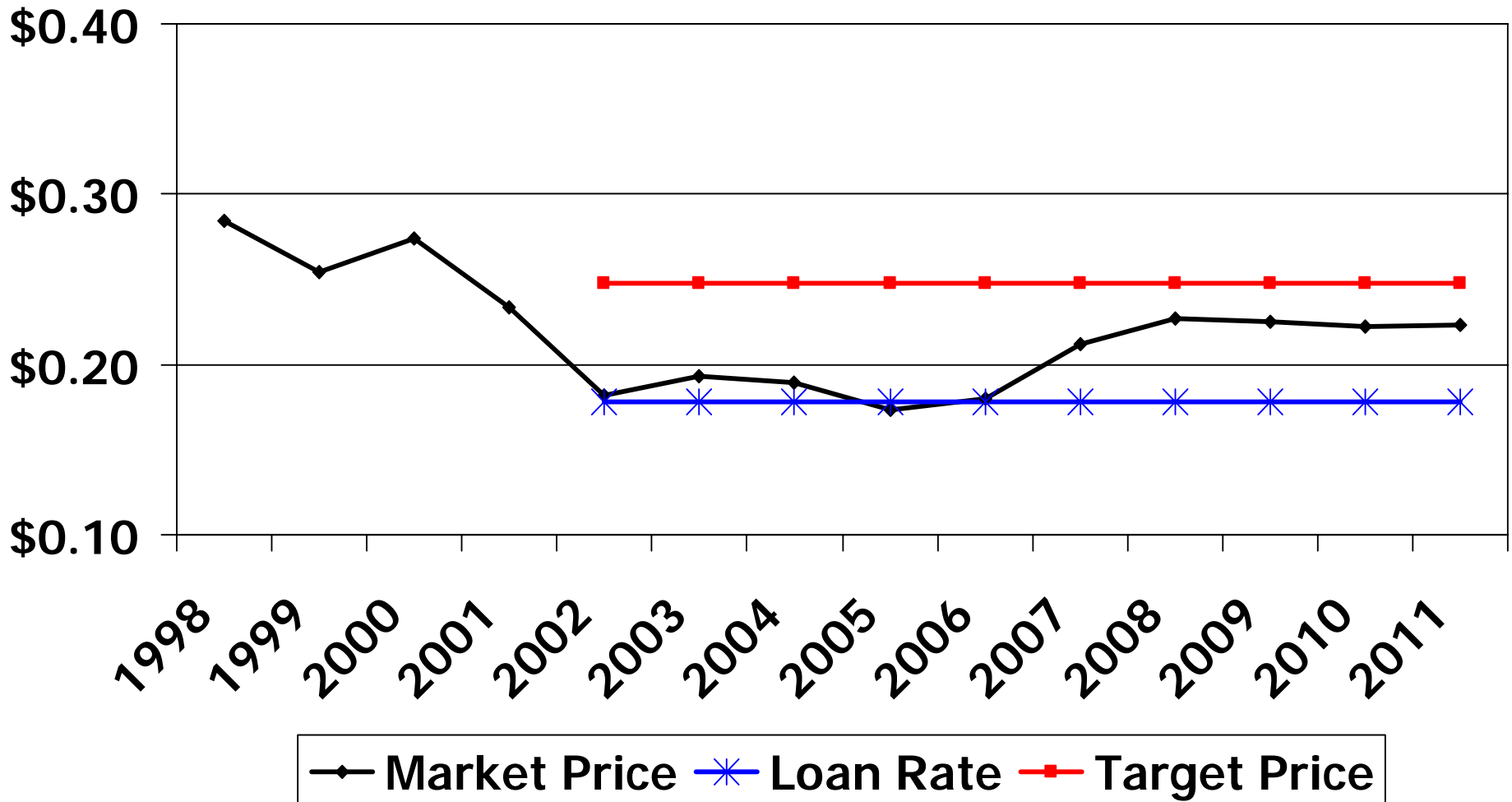
# FAPRI January 2007 Baseline Market Price, Loan Rate, and Target Price for Cotton, 1998-2011



# FAPRI January 2007 Baseline Market Price, Loan Rate, and Target Price for Rice, 1998-2011



# FAPRI January 2007 Baseline Market Price, Loan Rate, and Target Price for Peanuts, 1998-2011

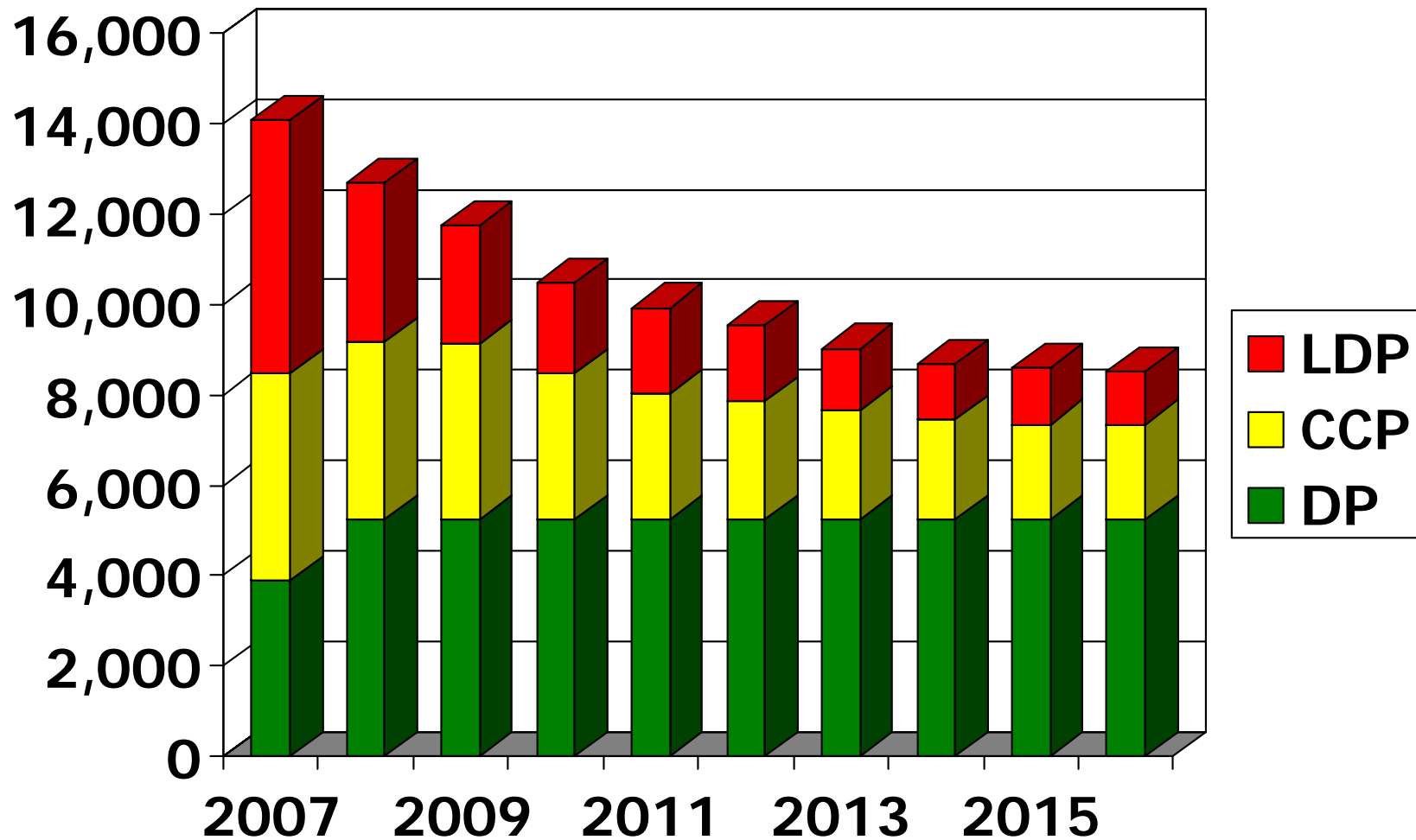


# CBO Baseline Score for 2007 Bill

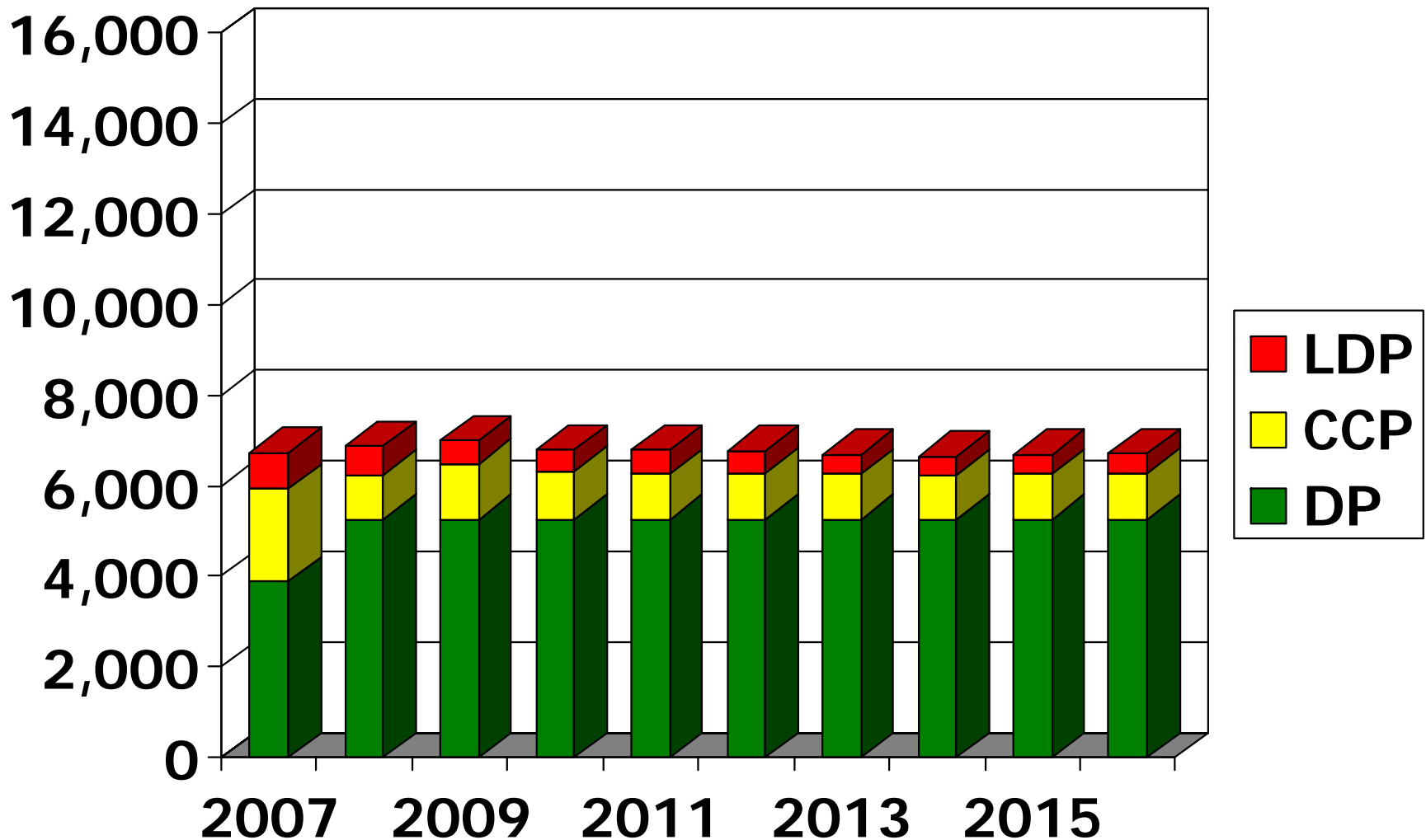
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- CBO prepares a March Baseline Score
  - 10 year cost estimate for the current farm bill
- Rule is that the Baseline Score must assume a continuation of existing farm programs
- Some parts of the 2002 farm bill expire before the next 10 years
  - MILC program
  - Conservation Security Program (CSP)
    - The net effect is to further cut the Budget Score

# March 2006 CBO Baseline of Government Payments to All Program Crops, 2007-2016 (Mil. \$)



# AFPC Projection of CBO March 2007 Baseline for Payments to All Program Crops, 2007-2016 (Mil. \$)



# CBO Score

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- March CBO Baseline for 9 crops was \$103.2 Bill.
  - Our update forecast of the Baseline score is \$67.7 Bill.
  - Or a loss of \$35.5 Bill.
- As a point of comparison how much was available to write the 2002 Farm Bill?
- Mr. Combest and Mr. Stenholm had a CBO score of \$105 Bill. for the Title I crop programs
- Mr. Peterson will likely have about \$68 Bill. for Title I and an expanded shopping list of new programs
  - Renewable fuel
  - Fruits and vegetable
  - Conservation more inclusive and extensive

# Administration's Proposal

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- Increase direct payment rates
- Lower loan rates
- Lower payment limits (\$110,000 each DP and CCP and \$140,000 LDP)
- **Means test** (\$200,000 Adj Gross Income or AGI)
- **Replace CCP** with National Revenue Assurance
- Increase conservation programs
- Extend CRP
- Request \$5 billion more in budget

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# *Economic Impact of a Proposed AGI Means Test on Representative Crop Farms*

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**AFPC Briefing Paper 07-1**

**February 2007**

**Agricultural and Food Policy Center  
The Texas A&M University System**



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# AGI Means Test for Farm Payments

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- Analyzed 64 representative crop farms over 2008-2014 assuming continue 2002 farm bill
- 17 of 19 feedgrain farms lose payments
  - Average of \$77,750 lost payments
- 8 of 10 wheat farms lose payments
  - Average of \$33,830 lost payments
- 16 of 20 cotton farms lose payments
  - Average of \$87,730 lost payments
- 4 of 15 rice farms lose payments
  - Average of \$41,270 lost payments

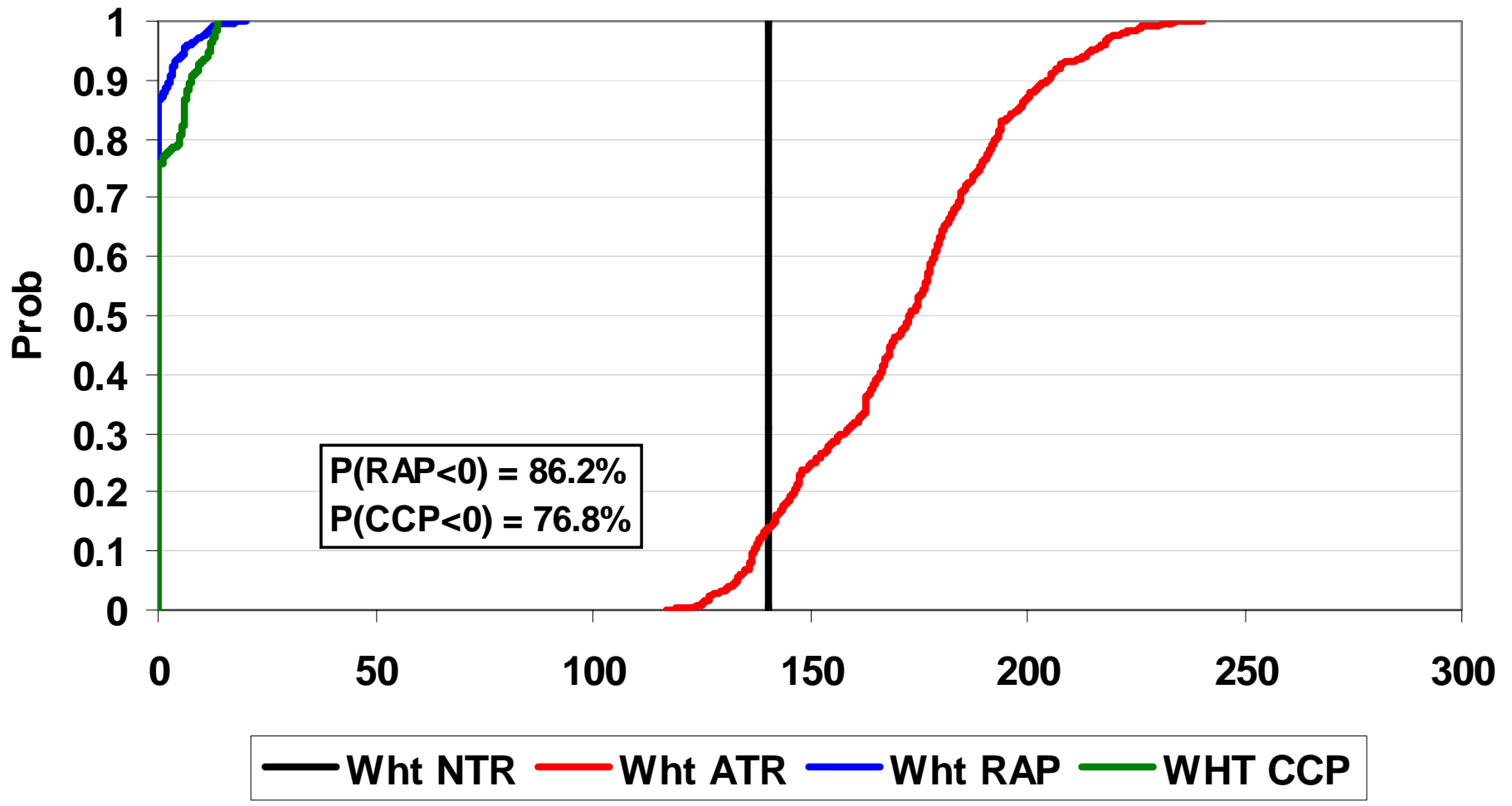
'The Bush administration proposal for tighter crop subsidy rules sporadically would deny benefits to average-size U.S. farms, **and not just to the big operators targeted**, a **think tank at Texas A&M University** said Wednesday. The administration has proposed to deny crop subsidies to growers with an adjusted gross income above \$200,000 a year. USDA officials say about 38,000 people would lose subsidies. **"We found it's probably going to impact more people than we've been led to believe,"** said James Richardson, co-director of the Agriculture and Food Policy Center at Texas A&M. Farm revenue fluctuates, so a stellar year could disqualify a family-size farm even when the trigger proposed by USDA is the average adjusted gross income over three years, Richardson said. **In a report, the think tank said "a farm could be eligible for payments one year and not the next year."**

# Preliminary Look at the Administration's Proposal for RA

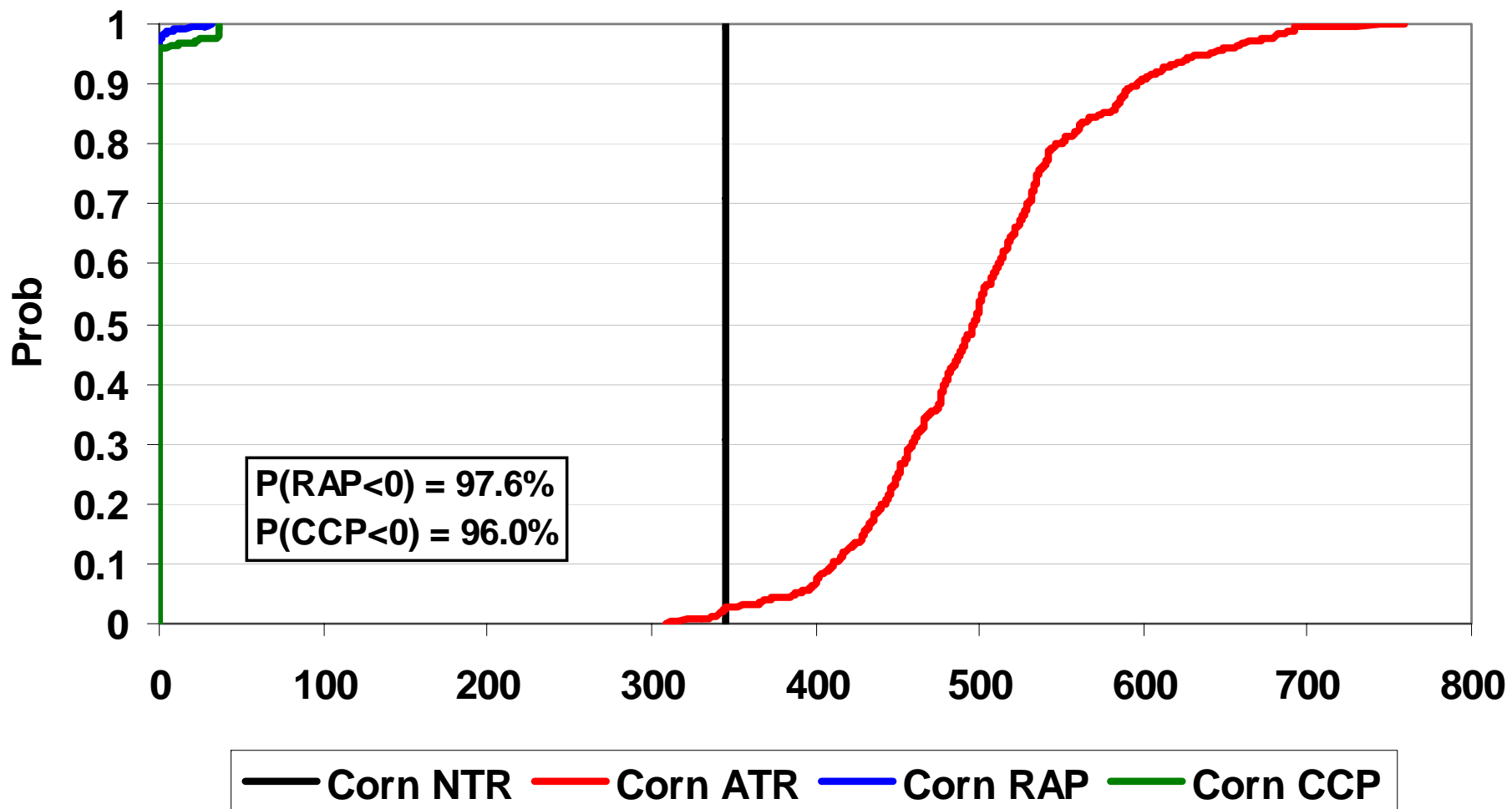
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- National Target Revenue calculated  
$$\text{NTR} = (\text{TP-DPrate}) * (\text{2002-06 Olympic Average Yield})$$
- Actual Target Revenue calculated  
$$\text{ATR} = \text{Actual Yield} * \text{Max}[\text{Market Price, Loan Rate}]$$
- Revenue Assurance Payment (RAP) is paid if  $\text{ATR} < \text{NTR}$
- RAP paid per base acre is  
$$\text{RAP} = (\text{NTR} - \text{ATR}) / (\text{CCP Pymt Yield} * 0.85)$$

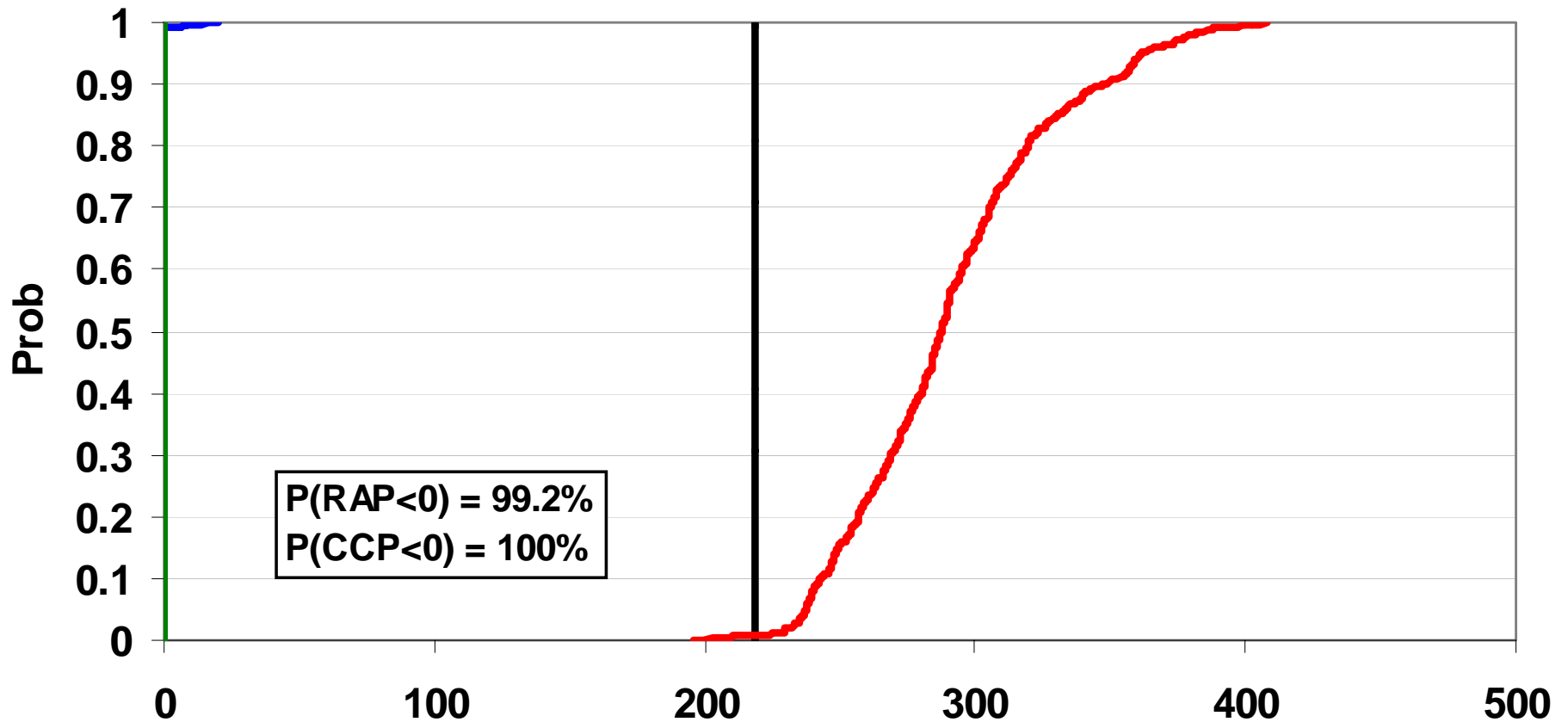
# Comparison of Proposed Revenue Assurance to CCP in 2008 for Wheat \$/acre



## Comparison of Proposed Revenue Assurance to CCP in 2008 for Corn \$/acre

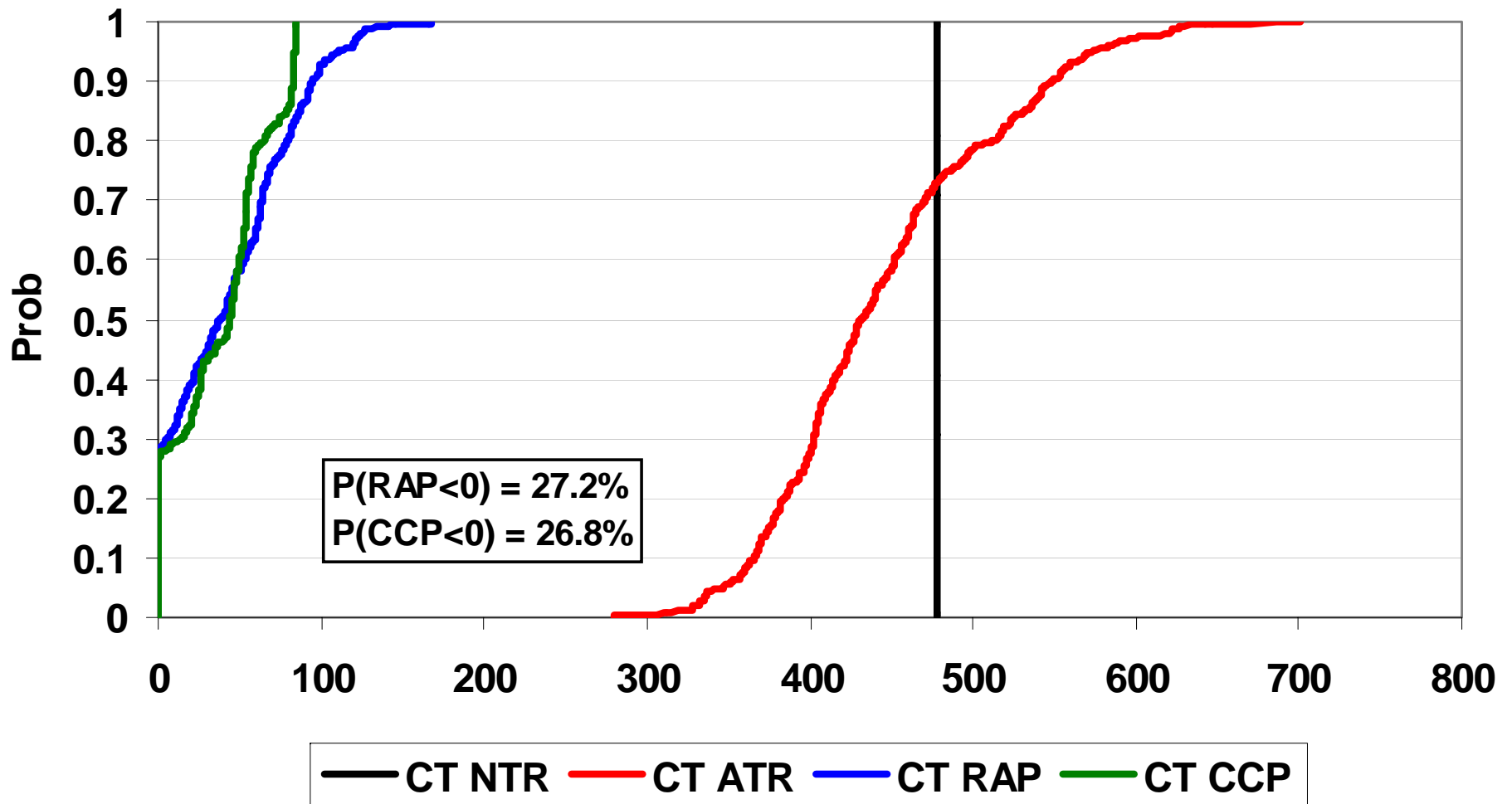


# Comparison of Proposed Revenue Assurance to CCP in 2008 for Soybean \$/acre

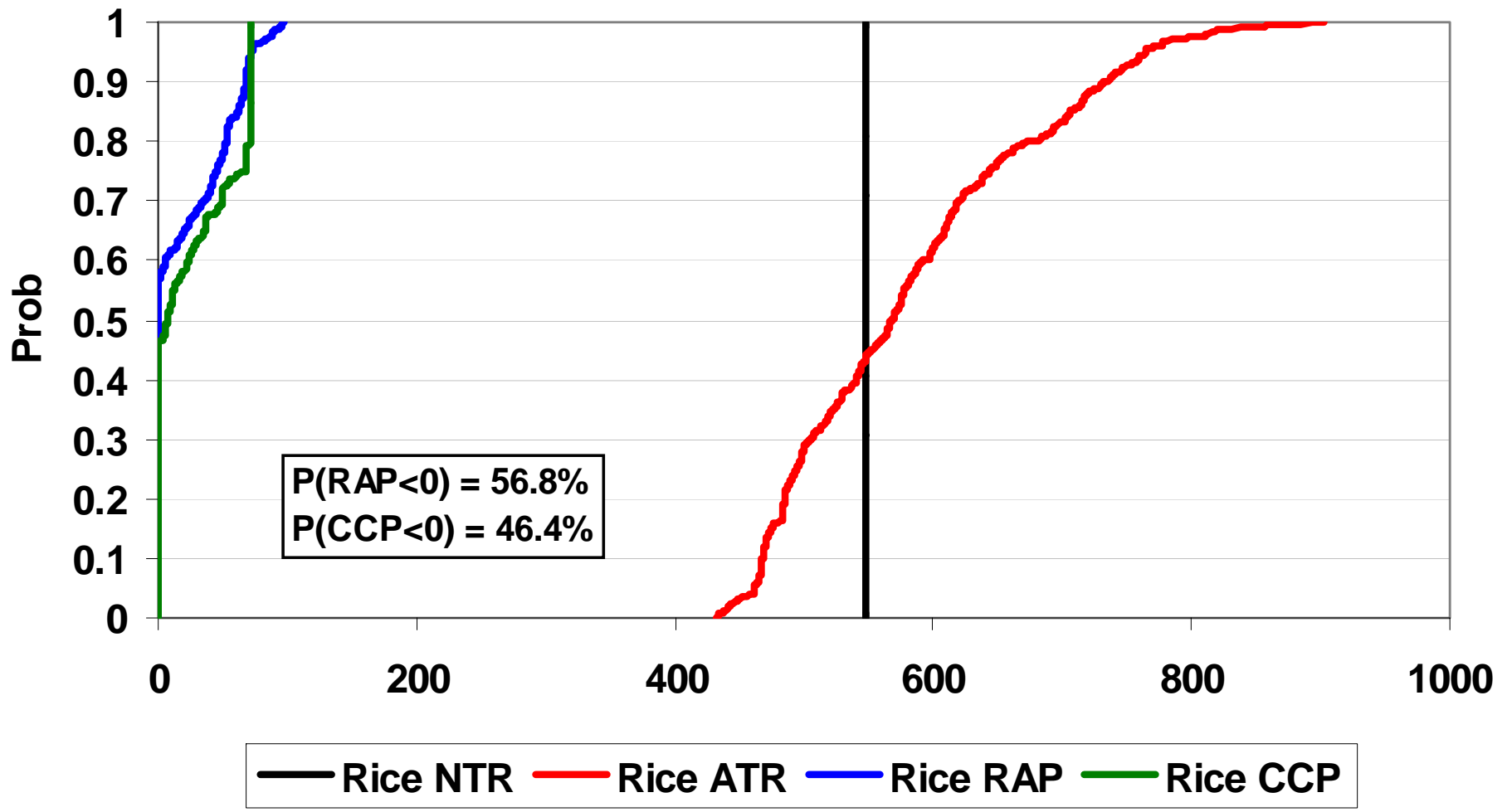


— SB NTR — SB ATR — SB RAP — SB CCP

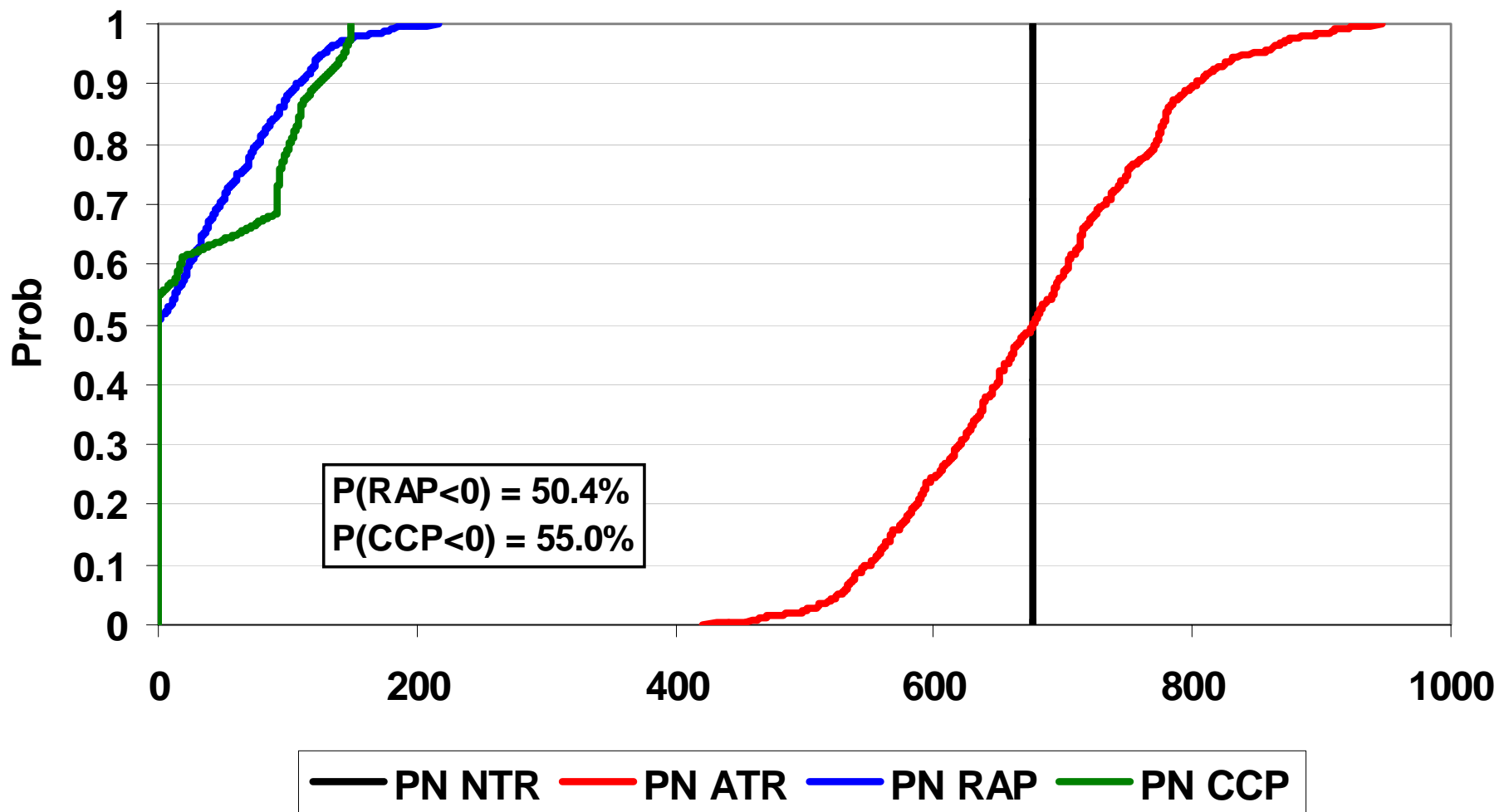
## Comparison of Proposed Revenue Assurance to CCP in 2008 for Cotton \$/acre



# Comparison of Proposed Revenue Assurance to CCP in 2008 for Rice \$/acre



## Comparison of Proposed Revenue Assurance to CCP in 2008 for Peanut \$/acre



# Administration's RA Proposal

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- Does the Revenue Assurance proposal save money?
- Secretary claims \$5 Bill. in the first 5 years
- Our estimates show only \$1 Bill. savings in the first 5 years
- Savings over 9 years is \$3 Bill.

# Outlook on Policy

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- Outlook for grain farms best since Fall of 1995, cotton and rice still show red
- New farm bill is all about the CBO Budget Score and:
  - Fruits and vegetables will get subsidies of some kind
  - Renewable fuels research spending will come from somewhere
  - Don't discount conservation emphasis in next bill
- Caution: Doha is not Dead
  - Still working to get back to negotiations
  - Timing is critical if it is to affect 2007 farm bill
  - Do not dismiss WTO impacts on bill
    - Cotton, corn, and level of payments challenges
- Our bottom line...
  - Very likely to have much the same programs in 2007 FB not because that's what everyone wants but ... because it may be the best safety net we can afford