Government Program Payments for Crop Cost-Return Budgets

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The Food, Conservation and Energy Act of 2008 maintains the primary safety net elements of the 2002 Farm Bill in establishing farm policy through 2012. Direct payments, counter-cyclical payments, and marketing loans remain in place under the new farm bill. A new, optional program available to producers in 2009 is the Average Crop Revenue Election (ACRE) program. This optional program is a state-level revenue counter-cyclical program that would replace the price counter-cyclical program. Should producers elect to enroll in ACRE, payments would be made when actual state revenue is less than the state revenue guarantee and actual farm revenue is less than the benchmark farm revenue. In addition, to participate in ACRE, producers must reduce direct payments by 20 percent and loan rates by 30 percent. Because final details of the ACRE program are yet to be released, ACRE payments will not be estimated for 2009 crops.

Direct payments are determined according to the following formula for each crop: Direct Payment = Direct Payment Rate × Program Acreage Base × Direct Payment Yield × 83.3 percent. Thus, fixed payments are a function of the base acreage and payment yield decisions made at initial program sign-up.

Like direct payments, counter cyclical payments are tied to the base acreage and payment yield decisions made at initial program sign-up and are calculated according to the following formula for each crop: Counter-Cyclical Payment = Counter-Cyclical Payment Rate × Program Acreage Base × Counter-Cyclical Payment Yield × 85 percent. For each year of the new farm bill, the counter-cyclical payment rate for each crop is equal to the target price for that crop minus the direct payment rate minus the higher of the national average marketing year price or the national average loan rate. Thus, the counter-cyclical payment can vary each year, dependent on market prices.

Marketing loans are available on actual production, and provide benefits when the local posted county price of a commodity is below that county's adjusted loan rate. Thus, expected benefits under the marketing program can be estimated with expected local market prices and need not be estimated separately.

Estimating direct payments per acre is a function of the legislated payment rates as well as the base acreage and payment yield decision made by the producer at sign-up in the first year of the new farm bill. Estimating counter-cyclical payments per acre is a function of the base acreage and payment yield decision too, but also depends on expected market prices over the life of the farm bill. As such, the choice of expected market prices is critical to determining expected government payments.

Using the loan rates, direct payment rates, and target prices as set in the farm bill (Table 1), expected government payments can be calculated under various market price scenarios. One scenario is the marketing year average prices determined from K-State models using futures market price quotes for coming months as an indicator of expected market prices for those months. Those price estimates, made as of Oct. 15, 2008, are reported in Table 2.

The program payment values listed in the crop cost-return budgets in the Farm Management Guide series are based on

Table 1. *Loan Rates, Direct Payment Rates, and Target Prices for Program Commodities*

Crop	Loan Rates		Direct (Fixed) Payment Rates	Target Prices	
	2008-2009	2010-2012	2002-2007	2008-2009	2010-2012
Corn (bu)	$1.95	$1.95	$0.28	$2.63	$2.63
Sorghum (bu)	$1.95	$1.95	$0.35	$2.57	$2.63
Barley (bu)	$1.85	$1.95	$0.24	$2.24	$2.63
Oats (bu)	$1.33	$1.39	$0.024	$1.44	$1.79
Wheat (bu)	$2.75	$2.94	$0.52	$3.92	$4.17
Soybeans (bu)	$5.00	$5.00	$0.44	$5.80	$5.80
Other Oilseeds (cwt)	$9.30	$10.09	$0.008	$10.10	$12.68
Rice (cwt)	$6.50	$6.50	$2.35	$10.50	$10.50
Upland cotton (lb)	$0.52	$0.52	$0.0667	$0.7125	$0.7125

an analysis of a set of Kansas Farm Management Association farms regarding program sign-up decisions. Direct and counter-cyclical payments were calculated on the estimated program acreage bases and payment yields for the farms in the analysis.

The estimated direct payments are listed in the second column of Table 3 by Kansas Farm Management Association region and are designed to be used for yield level II in the cost-return budgets. Counter-cyclical payments are estimated for 2004 through 2009 using the K-State price projections from October 15, 2008. These estimated payments are listed in columns 3 through 8 of Table 3. The sum of the direct payment and the 2009-crop counter-cyclical payment is reported in column 9 of Table 3. This sum represents the total estimated government payment for 2009 for use in the crop cost-return budgets. Tables 4 and 5 are companion tables to Table 3 and estimate payments that are 8 percent higher and lower than Table 3 payments. They are designed to be used with yield levels I and III respectively in the cost-return budgets.

*Table 2. Estimated National Average Marketing Year Prices ($/bushel)**

	Marketing Year (Beginning Year of Harvest)					
Crop (Marketing Year)	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Wheat (June-May)	$3.40	$3.42	$4.25	$4.28	$6.58	$5.92
Corn (September-August)	2.06	2.00	3.20	3.05	3.91	4.04
Milo (September-August)	1.78	1.80	3.30	3.30	3.79	3.94
Soybeans (September-August)	5.75	5.65	6.20	6.36	8.48	8.28

** Reported by USDA or estimated by a futures-based national average price model, Kansas State University, October 15, 2008.*

Table 3. *Estimated Direct and Counter-cyclical Payments per Acre of Cropland by Farm Management Association Region, 2004-2009, Yield Level II ($/Acre)*

Region of Kansas	Estimated Direct Payments	Estimated Counter-cyclical Payments*						2009 Estimated Government Payments**
		2004	2005	2006	2007	2008	2009	
NW	$12.36	$8.56	$6.47	$0.00	$0.00	$0.00	$0.00	$12.36
SW	13.66	7.61	6.80	0.00	0.00	0.00	0.00	13.66
NC	14.16	6.74	6.84	0.00	0.00	0.00	0.00	14.16
SC	15.35	6.15	6.83	0.00	0.00	0.00	0.00	15.35
NE	13.60	12.97	7.65	0.00	0.00	0.00	0.00	13.60
SE	11.39	7.84	5.54	0.00	0.00	0.00	0.00	11.39

** The estimated counter-cyclical payments for each year are based on K-State projected prices estimated on October 15, 2008.*
*** The estimated government payments in each crop budget for 2009 are based on the estimated direct payments plus the estimated counter-cyclical payments for 2009.*

Table 4. *Estimated Direct and Counter-cyclical Payments per Acre of Cropland by Farm Management Association Region, 2004-2009, Yield Level I ($/Acre)*

Region of Kansas	Estimated Direct Payments	Estimated Counter-cyclical Payments*						2009 Estimated Government Payments**
		2004	2005	2006	2007	2008	2009	
NW	$11.37	$7.88	$5.95	$0.00	$0.00	$0.00	$0.00	$11.37
SW	12.57	7.00	6.26	0.00	0.00	0.00	0.00	12.57
NC	13.03	6.20	6.29	0.00	0.00	0.00	0.00	13.03
SC	14.12	5.66	6.28	0.00	0.00	0.00	0.00	14.12
NE	12.51	11.93	7.04	0.00	0.00	0.00	0.00	12.51
SE	10.48	7.21	5.10	0.00	0.00	0.00	0.00	10.48

** The estimated counter-cyclical payments for each year are based on K-State projected prices estimated on October 15, 2008.*
*** The estimated government payments in each crop budget for 2009 are based on the estimated direct payments plus the estimated counter-cyclical payments for 2009.*

Table 5. *Estimated Direct and Counter-cyclical Payments per Acre of Cropland by Farm Management Association Region, 2004-2009, Yield Level III ($/Acre)*

Region of Kansas	Estimated Direct Payments	Estimated Counter-cyclical Payments*						2009 Estimated Government Payments**
		2004	2005	2006	2007	2008	2009	
NW	$13.35	$9.24	$6.99	$0.00	$0.00	$0.00	$0.00	$13.35
SW	14.75	8.22	7.34	0.00	0.00	0.00	0.00	14.75
NC	15.29	7.28	7.39	0.00	0.00	0.00	0.00	15.29
SC	16.58	6.64	7.38	0.00	0.00	0.00	0.00	16.58
NE	14.69	14.01	8.26	0.00	0.00	0.00	0.00	14.69
SE	12.30	8.47	5.98	0.00	0.00	0.00	0.00	12.30

** The estimated counter-cyclical payments for each year are based on K-State projected prices estimated on October 15, 2008.*
*** The estimated government payments in each crop budget for 2009 are based on the estimated direct payments plus the estimated counter-cyclical payments for 2009.*

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Kansas State University Agricultural Experiment Station and Cooperative Extension Service

MF-2236 October 2008

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