

Potential Effect of the Dorgan-Grassley Payment Limitation Amendment on the Economic Viability of the NCPC U.S. Representative Peanut Farms

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Payment limitations continue to be a highly debated issue in the 2007 Farm Bill discussions. As an amendment to the farm bill passed by the U.S. Senate Committee on Agriculture, Nutrition and Forestry, Senators Dorgan and Grassley are offering much tighter payments limitations than are in the committee bill, as well as the current law. The potential impact these payment limitations could have on peanut farms and southern agriculture is questioned by many in the agricultural arena.

To address this issue, the National Center for Peanut Competitiveness (NCPC) analyzed the potential effect of the government payment limitations offered by Senator Dorgan of North Dakota and Senator Grassley of Iowa, would have on the Center's 19 U.S. Representative Peanut Farms' economic viability. The Dorgan-Grassley Amendment would limit an individual to Direct Payments (DP) of no more than \$20,000 a year, Countercyclical Payments (CCP) to no more than \$30,000 per year and Marketing Loan Gains/Loan Deficiency Payments (LDP/MLG), Commodity Certificates and Loan Forfeiture Gains to \$75,000 per year. The amendment would in effect allow the limits to double to \$40,000 DP, \$60,000 CCP, and \$150,000 MLG/LDP, certificates, and forfeiture gains. The separate payment limitations for peanuts would no longer be in effect. All government payments for all based commodities would be lumped into the before mentioned payment limits for DP, CCP, and LDP/MLG, certificates, and forfeiture gains. This analysis assumes a continuation of policy set forth by FSRIA of 2002. The only exception is the payment limitations proposed by Senators Dorgan and Grassley as outlined. Results are summarized in Table 1 and Charts 1 and 2 on the following pages.

The August 2007 baseline benchmark analysis is summarized utilizing stoplight charts that indicate how a farm or groups of farms rank in various financial definitions. The farms are classified as being good (green), marginal (yellow) or poor (red) in terms of overall economic viability. The August 2007 Benchmark classifies 4 farms as good, 7 farms as marginal, and 8 farms as poor in terms of the overall economic viability. If the payment limitations outlined in the Dorgan-Grassley Amendment are implemented in 2008 and beyond, the economic viability of the 19 representative farms are summarized as 3 farms good, 6 farms marginal, and 10 farm poor. It should be noted that although some farms didn't change in terms of the categorical classification of overall economic position, many of these farms did experience a significant increased probability of a negative ending cash flow as well as the probability of a decline in real net worth.

Weighted by total cultivatable acreage, the yearly change in Net Cash Farm Income (NCFI) from 2008 through 2014 for the 19 representative farms due to the Dorgan-Grassley Amendment is an average loss of \$52,223 per year, per farm. The weighted average change for the 7 representative farms originating in Georgia was an average loss of \$81,125 per year, per farm. Eighteen of the 19 representative farms were negatively impacted by the proposed Dorgan-Grassley Amendment, with a maximum average decline in NCFI of \$185,071 per year and minimum decline in NCFI of \$19 per year.

Declines in NCFI can be attributed to more than just loss of government payments. Loosing income streams will force farms to borrow additional operating capital to offset loss of government payments by placing liens against their owned land and/or equity. These operating loans will create additional interest expenses to be incurred by the farming operation and will cause the effect of tightening payment limitations to be greater than just the loss of government payments alone. Further declines in NCFI will only make an industry's, and in reality, a major portion of southern agriculture's economic survival questionable in the long run.

Table 1. Average Yearly Change in Net Cash Farm Income (NCFI) from the August 2007 Baseline Benchmark Due To Potential Effect of the Dorgan-Grassley Payment Limitations Amendment on the NCPC Representative Peanuts Farms

Farm ID	SEPARATE PEANUT LIMITS	COMBINED LIMITS
	Average Yearly Change in NCFI (2008-2014) (\$1,000)	Average Yearly Change in NCFI (2008-2014) (\$1,000)
FARM A	-\$107.941	-\$185.071
FARM B	-\$7.196	-\$58.184
FARM C	\$0.000	-\$0.044
FARM D	-\$7.010	-\$38.653
FARM E	-\$0.686	-\$0.686
FARM F	-\$9.660	-\$20.549
FARM G	\$0.000	-\$8.616
FARM H	\$0.000	-\$0.843
FARM I	-\$3.256	-\$31.207
FARM J	-\$42.644	-\$105.569
FARM K	\$0.000	\$0.000
FARM L	\$0.000	-\$4.359
FARM M	-\$0.003	-\$4.511
FARM N	\$0.000	-\$0.019
FARM O	-\$45.087	-\$45.574
FARM P	-\$20.587	-\$36.779
FARM Q	-\$40.236	-\$47.930
FARM R	-\$55.121	-\$106.641
FARM S	-\$0.007	-\$16.267
US Rep Farm Wted Avg	-\$26.568	-\$52.223
GA Rep Farm Wted Avg	-\$39.555	-\$81.125

Chart 1.

Economic Viability of US Representative Peanut Farms over the Period 2007-2014 based on AUGUST 2007 Baseline "Benchmark"

Overall Economic Viability ¹	P(Negative Ending Cash) ²	P(Real Net Worth Decline) ³
Farm A	1-27	1-4
Farm B	5-97	1-44
Farm C	99-99	1-74
Farm D	1-12	1-1
Farm E	99-99	1-2
Farm F	12-99	1-84
Farm G	10-18	1-2
Farm H	99-94	1-49
Farm I	58-97	1-20
Farm J	34-91	1-42
Farm K	5-7	1-1
Farm L	3-28	1-1
Farm M	39-89	1-71
Farm N	1-1	1-1
Farm O	2-44	1-3
Farm P	13-91	1-69
Farm Q	26-46	1-5
Farm R	14-53	1-27
Farm S	3-30	1-12

¹ Viability is classified as good (green), moderate (yellow), and poor (red) based on the probabilities of having negative ending cash reserves and losing real net worth: <25 26-50 >50
² P(Negative Ending Cash) is the probability that the farm will have a negative ending cash reserve. Reported values represent the probabilities for 2007 and 2014.
³ P(Real Net Worth Decline) is the probability that the farm will have a loss in real net worth relative to the beginning net worth. Reported values represent the probabilities for losing real net worth from 2005 to 2007 and 2005 to 2014.

Chart 2.

Economic Viability of US Representative Peanut Farms over the Period 2007-2014 based on AUGUST 2007 Baseline "Dorgan-Grassley Amendment"

Overall Economic Viability ¹	P(Negative Ending Cash) ²	P(Real Net Worth Decline) ³
Farm A	1-65	1-45
Farm B	5-99	1-72
Farm C	99-99	1-74
Farm D	1-38	1-6
Farm E	99-99	1-2
Farm F	12-99	1-86
Farm G	10-24	1-3
Farm H	99-94	1-49
Farm I	58-98	1-41
Farm J	34-94	1-79
Farm K	5-7	1-1
Farm L	3-29	1-1
Farm M	39-89	1-72
Farm N	1-1	1-1
Farm O	2-66	1-15
Farm P	13-96	1-80
Farm Q	26-65	1-13
Farm R	14-67	1-46
Farm S	3-46	1-20

¹ Viability is classified as good (green), moderate (yellow), and poor (red) based on the probabilities of having negative ending cash reserves and losing real net worth: <25 26-50 >50
² P(Negative Ending Cash) is the probability that the farm will have a negative ending cash reserve. Reported values represent the probabilities for 2007 and 2014.
³ P(Real Net Worth Decline) is the probability that the farm will have a loss in real net worth relative to the beginning net worth. Reported values represent the probabilities for losing real net worth from 2005 to 2007 and 2005 to 2014.

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