

Farm and Agribusiness Management in the Ad Hoc Era



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Overview

- The Ad Hoc Era of Farm Policy
- Managing for uncertain payments
- Spending payments when received

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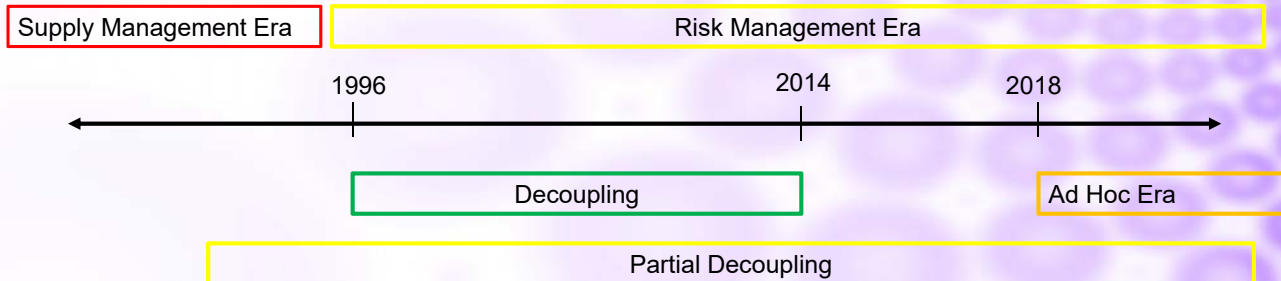
Ad hoc

- Payments that are unplanned, as needed
- Mechanisms:
 - Congress
 - USDA through CCC authority
- Recent ad hoc programs
 - Market Facilitation Program payments (MFP)
 - Pandemic-related programs, including CFAP (Coronavirus Food Assistance Program)
 - Emergency Relief Program, recent

Mechanisms

- Commodity Credit Corporation
 - Funding mechanism for USDA – government corporation with no employees
 - USDA secretary has broad authority/discretion to use CCC funds
 - Discretionary uses increasing from 2018
- Congress
 - Stand-alone legislation (CARES ACT)
 - Spending bills

Farm Policy Eras

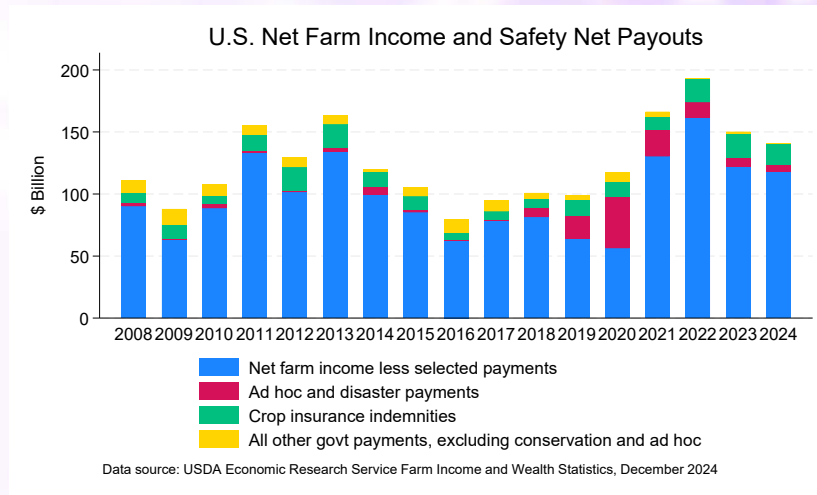


Safety Net Expenditures/Payouts - \$ billion

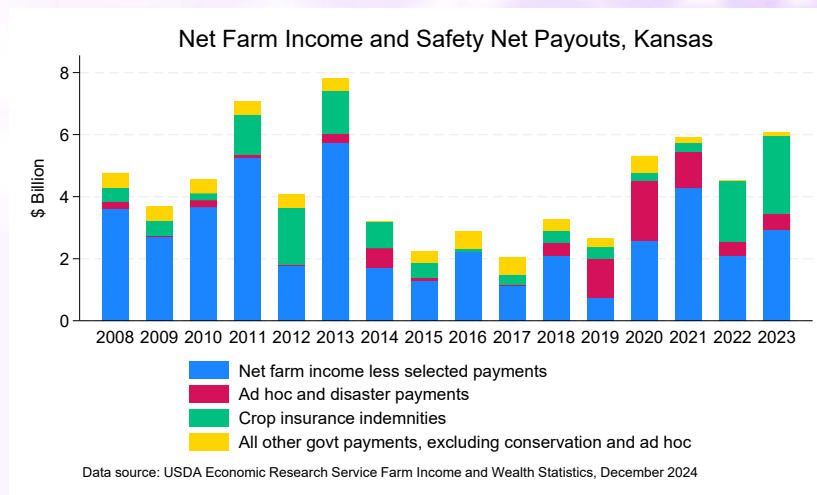
	Crop Insurance* (Subsidy/Indemnity)	Title 1 (ARC/PLC)	Ad hoc**
2018	\$6.3/\$7.3	\$3.2	MFP: \$5.1
2019	\$6.4/\$11	\$2.7	MFP: \$14.2
2020	\$6.3/\$9.2	\$6.2	MFP: \$3.8 /Pandemic: \$29
2021	\$8.8/\$9.8	\$2.2	Pandemic: \$16
2022	\$12/\$19	\$0.4	ERP 1: \$10 B authorized, some paid out in 2023/\$11 all disaster aid
2023	\$11/\$18	\$0.3	ERP 2: \$3 B authorized, some paid out in 2024/ \$6.6 all disaster aid
2024	\$9.9/\$11**	\$0.5	\$5.6 all disaster aid
2025 (???)			At least \$10 billion, up to \$30 billion

*Crop business only; **Disaster aid numbers include standing programs, ***2024 indemnities are likely to increase
Crop insurance data is from the RMA Summary of Business, Other data is from the USDA Economic Research Service Farm Income and Wealth Statistics

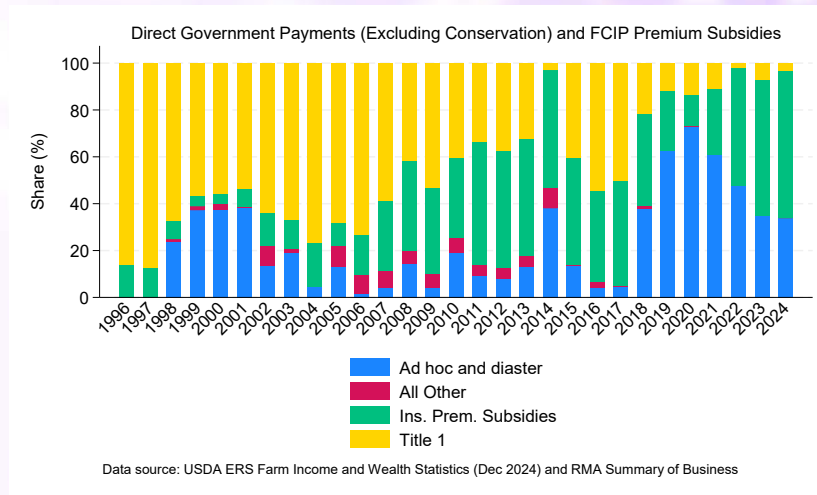
Large ad hoc, crop insurance payouts in recent years



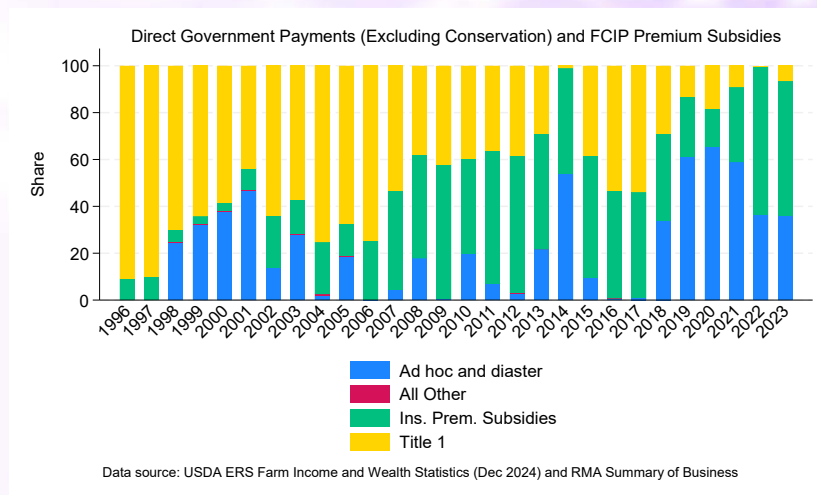
Ad hoc, crop insurance payouts important for Kansas producers in recent years



Recent ad hoc payments larger than 1998-2002



Crop insurance, ad hoc largest in Kansas



The Ad Hoc Era!?

- Ad hoc payments larger than crop insurance in some recent years, larger than Title 1 from 2018
- Ad hoc payments have been durable across administrations
 - Crop insurance “limited” by use of current market prices
 - Title 1 “limited” by farm bill negotiations, congressional budgeting rules and norms
- No indication that the “ad hoc era” will end with the current administration
 - Evidence: durability of agricultural aid in American Relief Act, testimony of Secretary of Agriculture nominee
 - Open question: will a 2025/202X Farm Bill be designed for higher Title 1 or disaster payouts?

So what? Management Decisions

- Crop insurance and Title 1
 - Expected revenue with these payments is (roughly) known in advance
- Ad hoc payments
 - The degree to account for payments that haven’t been authorized or are unknown when making production and investment decisions
 - How to spend payments once received

What are Strategic Risks?

Strategic risks are risks caused by exogenous market shocks

Sources:

- Government policy changes
- Geopolitical Conflicts
- Disease
- Changes in consumer preferences
- Shifting weather patterns
- Technological uncertainties



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Evidence for How Farmers Use Farm Program Payments

- Decoupled Payments: Pay down debt (Bekkerman et al., 2015)
- CFAP payments did not impact amount of debt. Did find correlation with being current on loans or not. (Martinez et al., 2022)
- MFP payments influenced farmers willingness to store grain thus impacting short-term working capital. (Janzen et al., 2023)
- Type of payment and timing influenced how farmer's used the farm program payment

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Why Ad-Hoc would be different?

- Traditional Farm Bill Program
 - When a government payment is announced, and it is reliably trusted, farmers may take on new debt to access that cash flow earlier
 - Shifts the government payment to the period it is needed in (i.e. sooner)
- Analogous to spending money ahead of a paycheck, bonus, or tax-return
 - Revenue hardly ever matches the timing of expenditures
 - What this allows for is planning of expenses.

Why Ad-Hoc would be different?

- Ad-Hoc is much more variable in certainty and timing
 - Predictability
 - Size of transfer
 - State of the world
 - Cost of borrowing is unknown
 - Other demands for farm liquidity/equity
- Overall, it makes planning harder!

Why Ad-Hoc would be different?

- Because ad-hoc payments are unpredictable, robust financial planning becomes even more critical.
 - Overall, it makes planning harder!
- If one thing becomes more variable, we need to focus in on what we can control and other risk management strategies.
 - Crop Insurance
 - Marketing

Having a plan is step 1 How to think about strategic planning

Output Price

Manage price you get for what you produce.

Yield

Manage how much output you produce.

Costs

Manage how much it costs you to produce.

Assets

Manage your balance sheet/What tools you use to produce.

People

Manage the people that help you with the four levers above.

Be Strategic

Monitor Working Capital

- May need more of a buffer with higher uncertainty with safety nets

Interest Rate Risk

- With increased demand for loans, monitor interest expense

Monitor Debt Service

- Expected cash flow is now more uncertain

Prioritize needed expenses

- Set strategy for ad-hoc payments
- Example: Pay 50% hoping payment happens?

Financials? Will the buffer I need change?

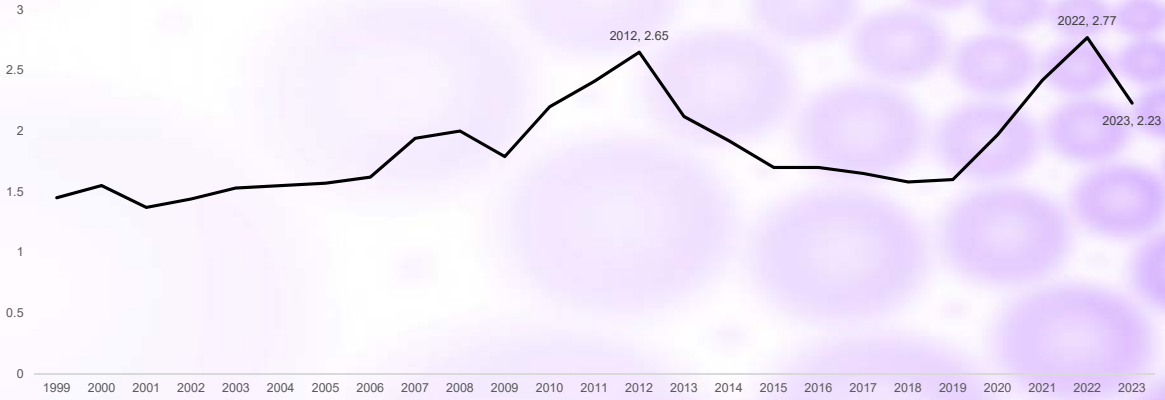
	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Current Ratio	0.63	0.99	1.24	1.54	1.95	2.44	3.33	4.58	8.6	24.35

- We normally advise farms to have a current ratio greater than 2
- Should we be okay with depleting working capital further to avoid interest rate costs?
- Do we need a larger buffer in light of transition to ad-hoc payments?

Source: FINBIN. Retrieved from finbin.umn.edu.

Liquidity down since 2022

Current Ratio
Current Assets/Current Liabilities
1999 - 2023



Source: FINBIN, Retrieved from finbin.umn.edu.



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Interest Expense as Share of Income Decreasing

Interest Expense as a Percent of Gross Farm Income
Farm Interest Expense / Gross Farm Income
1996 to 2022



Source: FINBIN, Retrieved from finbin.umn.edu.



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Monitor financial risk

Operating Profit Margin & Asset Turnover 1999-2023



Source: FINBIN. Retrieved from finbin.umn.edu.

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Have a spending plan in place

- When revenues can be predicted, it becomes easier to plan out future expenses
 - Pre-pay expenses
 - What should be strategy considering ad-hoc payments?
 - What risk are you willing to assume as a farm?
 - Example strategy: 50/50 pre-pay
- Have strategy in place even if you haven't pre-paid expenses

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An example of a plan: Equipment Decision Checklist

- What are the tasks that need to be performed?
 - What tools/implements are necessary for accomplishing the work?
 - What are the minimum horsepower requirements for those implements?
 - How many acres or number of head can this purchase be divided over?
 - What will owning those implements cost?
 - What will owning the tractors with the minimum hp and features requirements cost?
 - How much does a custom operator charge to perform the same task?
 - How much do you anticipate the regular maintenance will cost?
- Source: Iowa State University

What specific equipment (and size) do I need?

What will be the financial implications of this purchase?



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Farmer Checklist	Your Score	Green (3 points or 4*)	Yellow (2 points)	Red (1 point)
1. Knows cost of production		Written	In head	No idea
2. Knows cost of production by enterprise		Written*	In head	No idea
3. Goals - business, family, & personal		Written*	In head	No idea
4. Record keeping system		Accrual	Schedule F (one & done)	No idea
5. Projected cash flow		Written*	In head	No idea
6. Financial sensitivity analysis		Written*	In head	No idea
7. Understand financial ratios, break evens		Written*	In head	No idea
8. Work with advisory team and lender		Yes*	Sometimes	Never
9. Marketing plan written and executed		Yes	Sometimes	Never
10. Risk management plan executed		Yes	Sometimes	Never
11. Modest lifestyle habits, family living budget		Yes*	Sometimes	Non existent
12. Written plan for improvement executed & strong people management		Yes*	Sometimes	Non existent
13. Transition plan/Business Owner plan		Yes	Working on plan	Non existent/controversy
14. Educational seminars/courses		Yes*	Sometimes	Never attend
15. Attitude		Proactive	Reactive	Indifferent
*Extra Points: - Progressive Business may receive 4 points for #2,6,7,8,14 - Struggling Business Attempting Turnaround may receive 4 points for #3,5,8,11,12 (See pg. 2 for Progressive and Attempting Turnaround)		Score 35-50 24-34 <24	Overall Analysis Strong management rating, strong potential for resiliency & agility Moderate management rating, potential issues in resiliency & agility Weak management rating, potential major issues in resiliency & agility	

2021 Version - Developed by: Dr. David M. Kohl, Professor Emeritus, Ag & Applied Economics, in cooperation with Dr. Alex White, Dairy Science, Virginia Tech



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Parting thoughts

- No indication that the “ad hoc era” will end anytime soon
 - But politics...
- Control what you can control
 - Know your cost of production, financial position
 - Fully utilize other risk management strategies: crop insurance, marketing
 - Explicit strategy to manage ad hoc payments
- Contingency planning
 - What happens if payments are delayed?
 - What happens if payments are smaller than anticipated?
 - What happens if payments go away?

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