



# Farm Lease Letter

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Letter No. 2

CASH RENTS AFFECTED BY THE FAIR ACT

July 2000

What effect will the Federal Agriculture Improvement and Reform (FAIR) Act have on rental terms for farmland in Iowa? The answer depends on several factors, including the program yield and corn base of the farm, and the cropping patterns that have been followed in past years.

Rental rates depend mostly on the profit potential of the land being rented. There are at least three ways that FAIR will affect profits, compared to the most recent farm program, the Acreage Reserve Program (ARP). The most talked about feature of the FAIR is the transitional payment that will be received annually through the year 2002. It is based on the program yield and the corn base acres for each farm. As noted in the table on the next page, the FAIR payment decreased by \$.03 per bushel in 2000, and will continue to decline gradually over the next two years.

A second effect is the additional income that can be realized by bringing set aside acres back into production. Third, some producers will find that new production flexibility will allow them to plant more profitable crop rotations without affecting program benefits. This is where the "freedom to farm" label sometimes attached to the act enters in.

## TRANSITION PAYMENTS

The value of the FAIR transition payments must be

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compared against the loss of deficiency payments that were paid under ARP program. The table on the next page compares deficiency payments received by Iowa farmers from 1989 to 1995 to the projected transition payments from 1996 to 2002. In the example shown, payments for a farm with a fifty percent corn base and a 125 bushel per acre program yield would average over \$7 per acre less under FAIR. When the corn base is a higher percent of total crop acres, the difference is even larger. From this we can conclude that the change from deficiency to transition payments, all else equal, should have a negative effect on such rents. This effect may be felt more in future years as payments gradually decline through the year 2002.

FAIR rules decreased the maximum payment per farm unit from \$50,000 to \$40,000. For some larger farms, this may further reduce the effective payment per acre, and possibly encourage a change to crop share or other leasing arrangements.

## SET ASIDE ACRES

Set aside requirements have varied from zero to ten percent of the corn base acres since 1989. Under FAIR no set aside acres are required. The added income over variable costs that can be realized from former set aside acres can be conservatively

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estimated at \$100 per acre. Compared to leaving five percent of the corn base unplanted, for example, bringing those acres into production would add an average of \$5 per corn base acre to profits. Thus, a farm with a 50 percent corn base would realize added profits of \$2.50 per crop acre, a small but positive impact.

**CROP ROTATIONS**

Finally, there is the question of changes in crop rotations. There are many possible situations, but one simple one is to compare a continuous corn pattern to a corn-soybean rotation. In the past, deficiency payments have been tied to the number of corn acres planted each year. This gave producers an incentive to plant as many acres of corn as was allowed, despite the lower yields and higher production costs often associated with continuous corn.

The FAIR transitional payments are based on the size of the corn base following the 1995 crop year, and will not be affected by future planting patterns. Thus, some producers who have been planting more than half their crop acres to corn may find that they can increase yields and reduce input costs by shifting some corn acres to soybeans or other crops. Research has shown an advantage of \$40 to \$50 per acre for a corn-soybean rotation over continuous corn on the same land over time. Therefore, the largest gains from FAIR may accrue to farms that have a high percentage corn base, built up by producing continuous corn. They can receive payments based on the high corn base, but also realize gains from shifting land to other crop rotations. Farms with high feed needs for livestock or highly erosive land may have less flexibility in changing rotations, however.

To the extent that the FAIR act affects profits to farmland through the three factors discussed above, cash rents can be expected to eventually adjust by about the same value. The 2000 Iowa State University Extension farmland cash rent survey, available at County Extension Offices, showed

slightly higher cash rents for 2000, although there was considerable variation from county to county

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A comparison of deficiency and transition payments

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**Deficiency Payments**

<u>Year</u>	<u>per bushel</u>	<u>per acre</u>
1989	\$ .58	\$36.25
1990	.51	31.88
1991	.41	21.78
1992	.73	38.78
1993	.28	14.88
1994	.49	26.03
1995	.00	.00
Average	.43	\$24.23

**Transition (FAIR) Payments\***

<u>Year</u>	<u>per bushel</u>	<u>per acre</u>
1996	\$ .24	\$12.75
1997	.46	24.44
1998	.36	19.13
1999	.35	18.59
2000	.32	17.00
2001	.28	13.81
2002	.25	13.28
Average	.32	\$17.00

\*Based on 125 bushel program yield and program acres (corn base) equal to 50 percent of crop acres. Payments in 1989 and 1990 were paid on all program acres. Since 1991, they have been paid on 85 percent of program acres. Payments after 1994 are estimates, and are not adjusted for repayment of advance payments for previous years.

