

# Financing the 2007 Farm Bill

A Presentation by

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for:

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*Note: Supplemental Material Beyond that  
Presented At the Forum Has Been Added.*

# Reminder #1: What a Farm Bill Does

## 1. Authorizes Programs:

- Provides USDA the authority to operate programs using provisions specified in the bill.
- For most programs, the authority to operate is temporary (e.g. 2002 through 2007 crops).
- A few programs have permanent authority to operate (i.e., until changed).

## 2. Funds Ag Committee Programs:

- Provides upfront ALL of the funds needed to provide benefits for an Ag Committee “Mandatory” program during its authorized life.
- Funding can be (a) whatever amount turns out to be needed under specified provisions OR (b) a fixed annual amount.
- These “Mandatory” programs and funding under Ag Committee jurisdiction are not subject to enactment of a new law every year—as with the “Discretionary” programs and funding of the Appropriations Committees.

## Reminder #1 (cont.): **What a Farm Bill Does**

### **3. Authorizes the Appropriation of Funds for Appropriation Committee Programs.**

- Not all programs authorized in a farm bill are Ag Committee mandatory programs with Ag Committee funding. Some are programs authorized for management and funding by the Appropriations Committee. Here, the Ag Committee authorizes the program and a funding level but it is then up to the Appropriators as to whether or not to fund the program.
- “Discretionary” programs are funded one year at a time; their operation and funding levels are reviewed each year by the appropriators.
- Discretionary funding generally covers salaries and expenses of USDA agencies and offices, building costs, most rural development programs, and most research programs.
- Enactment of an Ag Appropriations Act (or a continuing resolution) is needed each year for USDA to operate.
- Before funds are appropriated, the appropriation is supposed to be 3 authorized but this does not always occur.

## Reminder #1 (cont.): What a Farm Bill Does

4. **Must address “permanent law”** provisions of the Agricultural Act of 1949. Outdated commodity provisions of the 1949 Act (including acreage allotments and marketing quotas based on 1950s farm-level production and parity-based loan rates) would become effective if no new farm bill or extension were enacted. So far, the route has been to suspend the 1949 act for the years covered by a farm bill. Periodic attempts to repeal the 1949 Act have, to date, been unsuccessful.

## Reminder #2: The Agriculture Committee Writes a Farm Bill for Programs Under Its Jurisdiction

- **The House Ag Committee HAS PRIMARY JURISDICTION for:**
  - Commodity Programs
  - Conservation Programs
  - Crop Insurance Programs \*\*
  - Agricultural Trade Programs
  - Rural Development Programs (Most funds provided through Appropriations)
  - Agricultural Research (Most funds provided through Appropriations)
  - Foods Stamps & Selected Other Nutrition Programs
  - Forestry \*\*
  
- **The House Ag Committee DOES NOT HAVE jurisdiction for:**
  - School lunch and other child nutrition (Senate Ag has jurisdiction)
  - Immigration
  - Taxes
  - Trade Laws

\*\* May or may not be included in a farm bill. Usually addressed in separate <sup>5</sup> bills.

# Aggregate Funding for the 2007 Farm Bill

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## Funds Available to Write the 2007 Farm Bill

- = CBO March 2007 Baseline
- + Any Funds Added in the FY 2008 Budget Resolution
- Any Cuts Required by Budget Reconciliation

## The CBO Baseline: The Major Farm Bill Funding Source

- The CBO Baseline is a projection of future program costs for the next 10 fiscal years (beyond the current fiscal year) under the assumption that most current laws and policies continue indefinitely (i.e., the remaining years of authorization and beyond)
- The CBO baseline covers all federal government spending and receipts and often provides significant details for many programs.
- In constructing Ag Committee baselines, CBO analysts incorporate current and projected market conditions, economic trends, and USDA implementation decisions. (This is especially important for farm programs).
- As market conditions change, baseline levels may change, too.

## The CBO Baseline (cont.): The Major Farm Bill Funding Source

- A program must have outlays greater than \$50 million in the current fiscal year to “earn” a baseline for years beyond the authorization period. (Providing a baseline is automatic for programs first authorized before August, 1997 and up to the Budget Committees for later programs.)
- Under budget law, baseline funding levels are estimated based on:
  - For years during a law’s authorization period, the costs as determined by (a) the interaction between projected economic or market conditions and program parameters provided in law (e.g., counter-cyclical payments, food stamps) or (b) specific funding levels provided in law (e.g. Environmental Quality Incentives Program (EQIP)).
  - For years after a law’s authorization period, the same as above except costs are based on the program parameters or the specific funding levels in effect on the last day of a program’s authorization.
- If funding for a program is stopped before the last day of a law’s authorization, no baseline funds are provided.
- Various programs have no baseline after 2007. (see below)

## Two EQIP Baseline Examples:

- (1) Current Law from the CBO March, 2006 Baseline.
- (2) A Hypothetical Scenario with no funds in the last year of authorization.

- The CBO March, 2006 Baseline covers Fiscal Years 2006 (the current year), 2007 (the budget year), and 2008 through 2016 (nine "out-years").
- EQIP's last year of authorization was extended from FY 2007 to FY 2010 in the FY 2006 Budget Reconciliation Act.

EQIP Baseline. Budget Authority: \$ Million.

Fiscal Year: 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

Example 1: Current law: CBO 03/06 with \$1300 in last year of authorization:

Authorized:	1017	1270	1270	1270	1300	---	---	---	---	---	---
Projected:	---	---	---	---	---	1300	1300	1300	1300	1300	1300

Example 2: Hypothetical scenario: No funding in last year of authorization:

Authorized:	1017	1270	1270	1270	0	---	---	---	---	---	---
Projected:	---	---	---	---	---	0	0	0	0	0 <sup>9</sup>	0

## Programs Under HAC Jurisdiction

Status as of May 15, 2006

*\*\* May or may not be included in farm bill.  
(Crop Insurance often has its own bill)*

Baseline Funding  
Available to  
Continue Program?

Permanent  
Authorization—  
Prog Automatically  
Continues?

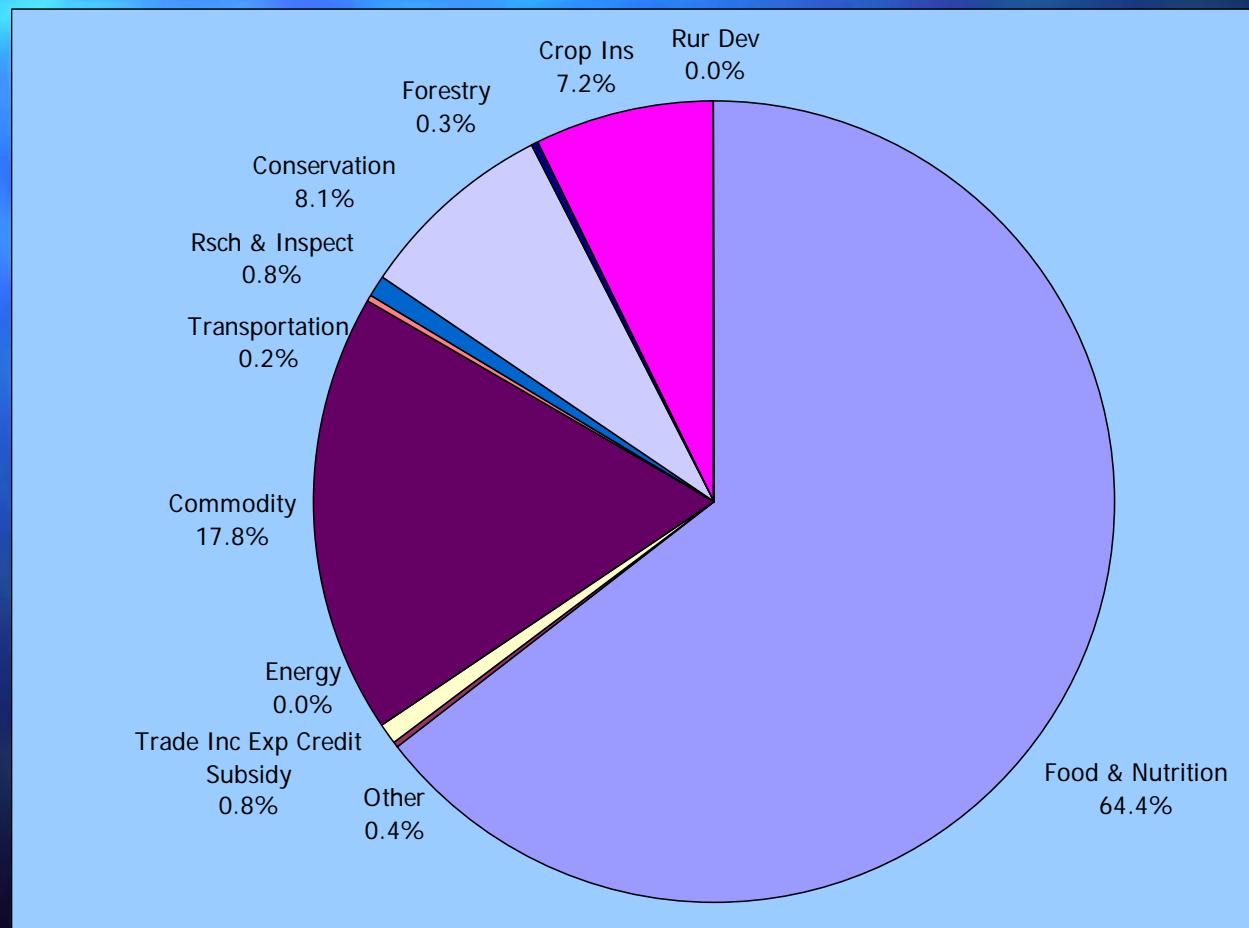
1. Food Stamps	YES	no
2. Most Commodity Programs	YES	no
a. Milk Income Loss Contracts	no	no
b. Peanut Storage Costs	no	no
3. Most Conservation Programs	YES	no
a. Small Watershed Rehab Prog.	no	YES
b. Ag Management Asst. Prog.	no	YES
4. Trade Programs	YES	no
5. Crop Insurance **	YES	YES
6. Research: Init. Fut. Ag & Food Sys **	YES	YES
7. Renewable Energy Program	no	YES
8. Most Rural Development Programs	no	YES <sub>10</sub>

*\*\* Supporters of a program would like a "YES" in both columns.*

# CBO's Current March, 2006 Baseline: House Ag Committee Funding by Type of Program.

FY 07-16 Outlays for Programs Under House Ag Committee  
Jurisdiction = \$608 Billion.

Of this Total, a projected 64.4% is for Food & Nutrition and 33.1%  
is for Commodities, Conservation & Crop Ins. 2.5% is for Other.

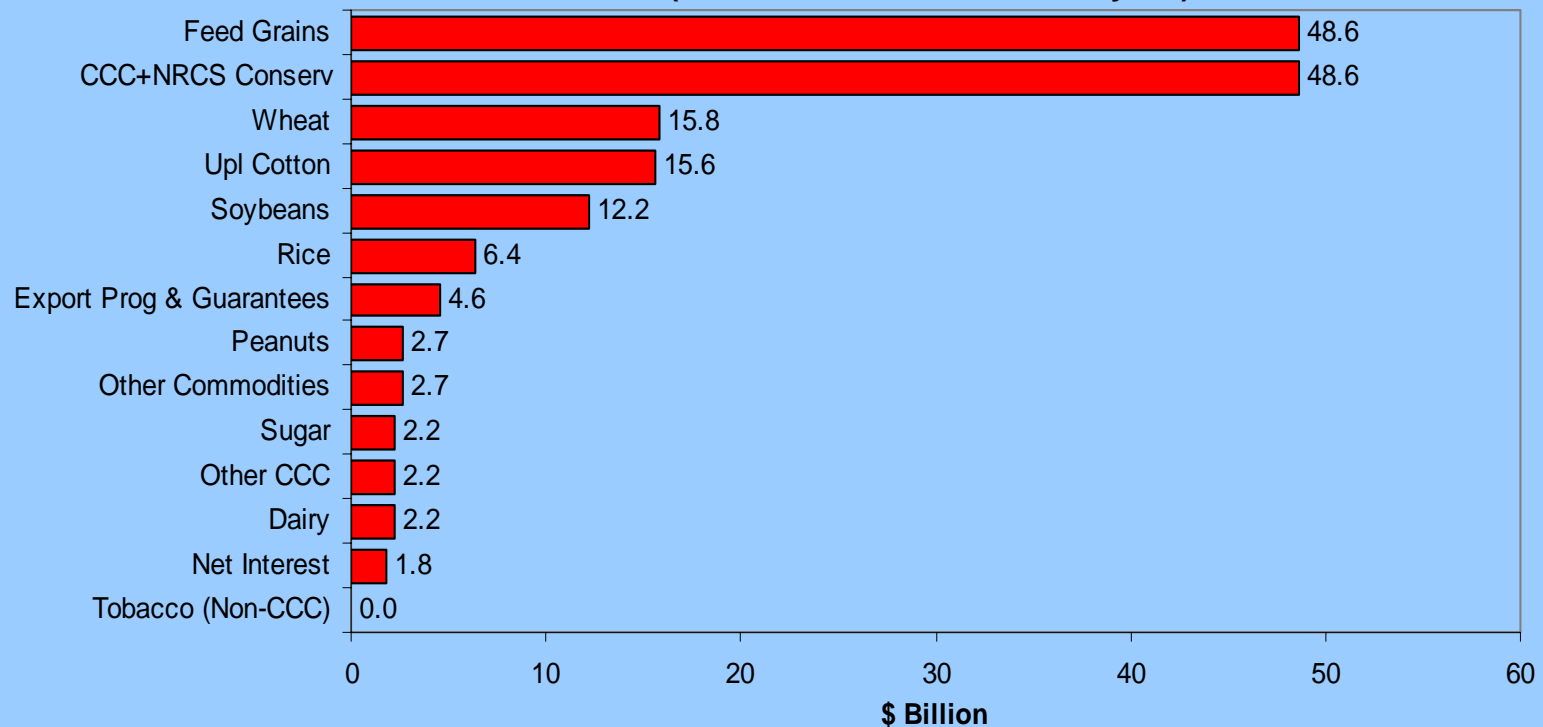


# CBO's Current March, 2006 Baseline: CCC + NRCS Conservation Spending by Crop or Program Area

## CCC (+NRCS Conservation) Outlays, CBO 10-Year Projections

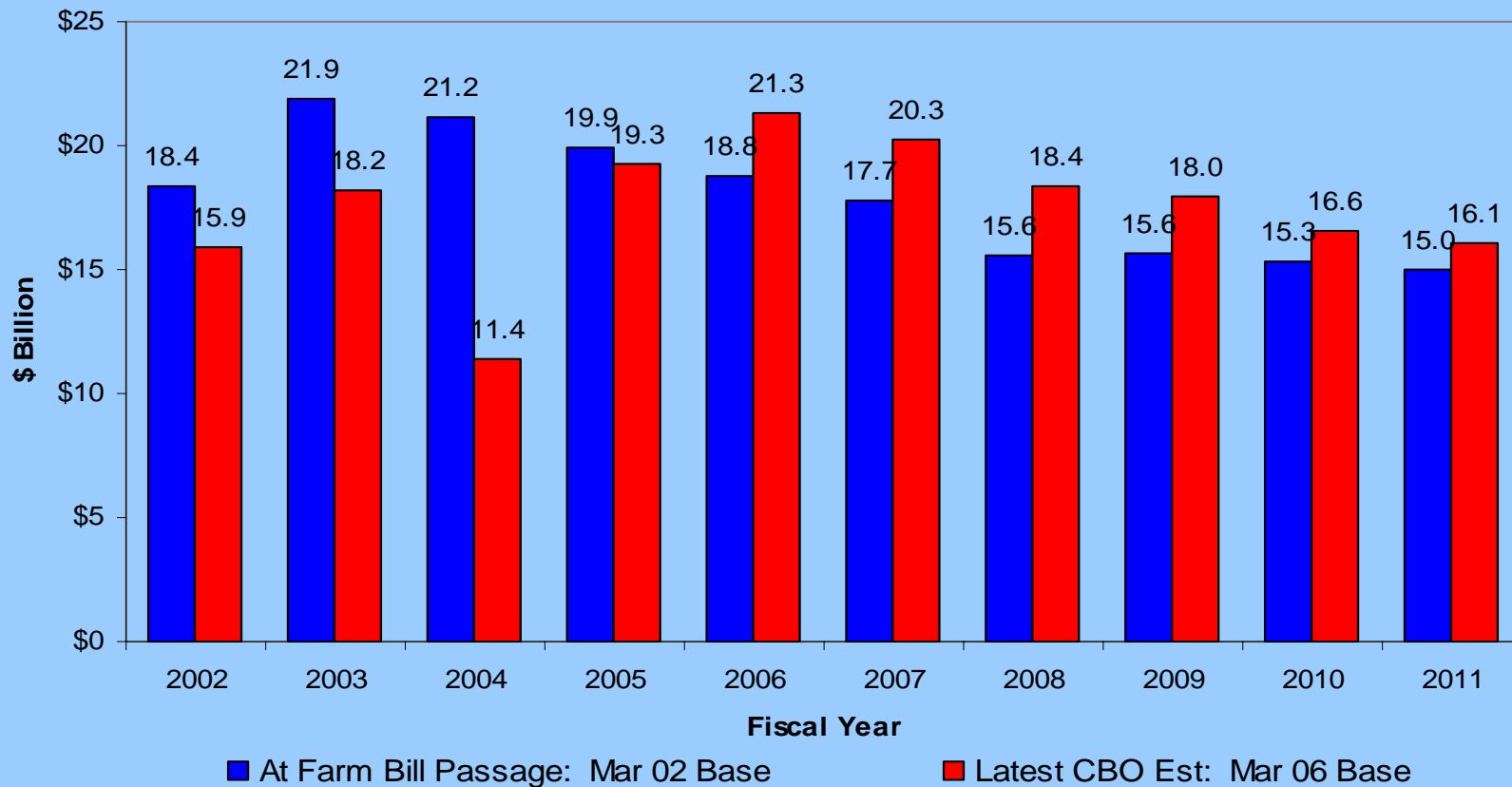
FY 07-16 = \$165.6 Billion

### CBO Mar 06 Baseline (Exclude Tobacco Quota Buyout)

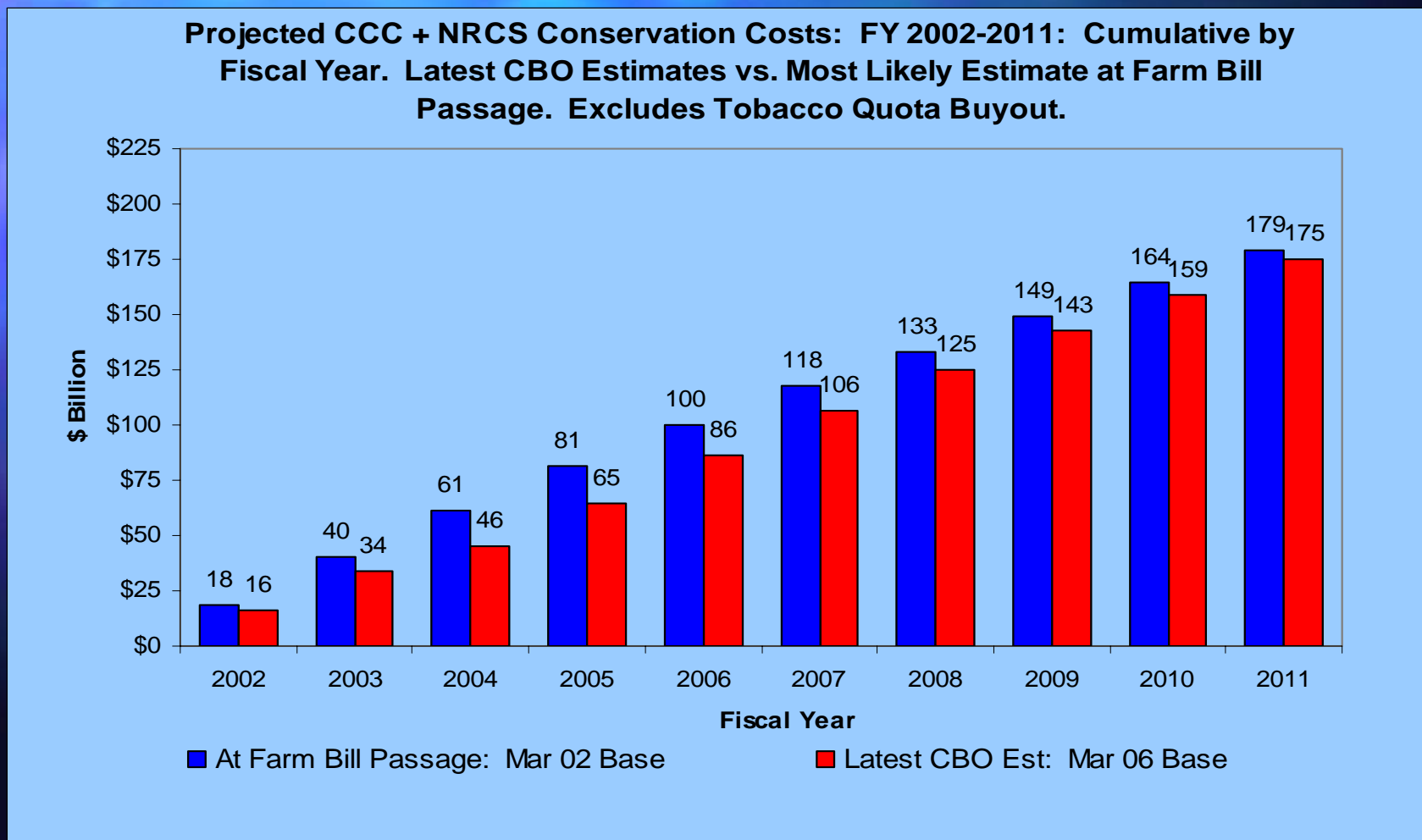


**CCC Outlays for the first 4 Fiscal Years of the 2002 farm bill were \$16 billion Lower than CBO Projected When the Farm Bill Was Passed.**  
*("Savings" cannot be used to offset cost increases elsewhere)*

**Projected Total CCC + NRCS Conservation Outlays: FY 2002 - 2011.  
 At Farm Bill Passage and Current Estimate**



**And CBO's Current Baseline Projects \$8 Billion Less Cumulative CCC & NRCS Conservation Spending by FY 2008 than CBO's 2002 Farm Bill Projections (*FY 2008 roughly corresponds to the last (2007) crop year of the 2002 farm bill*)**



# Funds Added in the Congressional Budget Resolution: A Historical Possibility

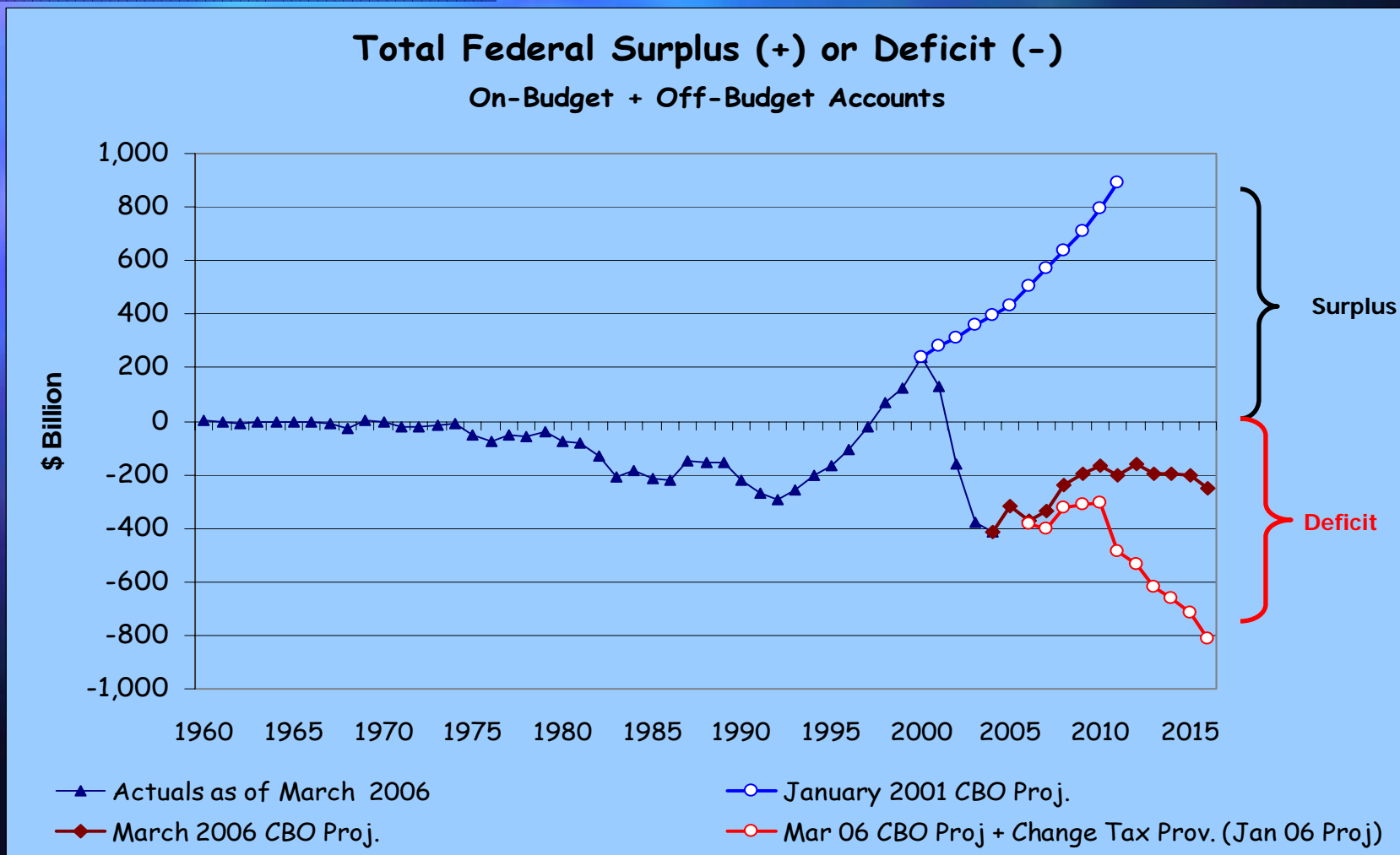
## History:

- 1994: Added \$1 billion per year for crop insurance reform. Law passed.
- 1999: Added \$6 billion over 4 years for new risk management. Bill not completed during year.
- 2000: Increased 1999 funding to \$8.2 billion over 5 years. 2000 ARPA passed.
- 2001: Added \$79 billion over 11 years for the ag safety net. \$5.5 billion used for 2001 Market-Loss Assistance. \$73.5 billion left for Farm Bill which was not completed in 2001.
- 2002: Continued 2001 funding consistent with 2001 levels. 2002 FSRIA passed at CBO estimated cost increase of \$73.497 billion.

## It is Very Unlikely That Any New Funding will be Added for the 2007 Farm Bill in the FY 2008 Congressional Budget Resolution as was Done for the 2002 farm bill.

1. Counter-Cyclical Payments added in the 2002 farm bill and higher loan rates can be viewed as having largely fixed the safety net problem that led to the 4 years of one-year-at-a-time ad hoc market loss assistance under the 1996 farm bill. These payments were a main reason for the extra funding for the 2002 farm bill.
2. Residual payment envy by some who are still upset over the \$79 billion over 10 years added for the 2002 farm bill and other safety net programs.
3. Current deficits and increasing debt compared to projected surpluses in 2001.

# The Overall Budget Climate is different than in 2001 when \$79 billion over 10 years were added for the 2002 farm bill and other safety net programs in the Budget Resolution.



## Cuts (from Baseline Levels) Required by Budget Reconciliation: A Distinct Possibility

- Budget Reconciliation for Ag & Most Other committees: share the pain of reducing the deficit by all changing their mandatory programs at once to reduce spending.
- Budget Reconciliation is initiated by including reconciliation instructions in the annual Congressional Budget Resolution.
- The FY 2006 Budget Resolution establishes a sense of Congress that reconciliation be done every two years.
- FY 06 Reconciliation Conference Instructions:
  - Reduce HAC baseline spending by \$3 billion over 5 years (1% of HAC Total spending).
  - Final Reduction: \$2.7 billion.
- Some Prior (and Current) Budget Reconciliations Affecting Agriculture: 2005/2006, 1995, 1993, 1990, 1989, 1987
- The 1990 and 1995 farm bills were done in tandem with budget reconciliation. Many observers expect this to be the case for the 2007 farm bill.

## Average Annual Proposed Ag Cuts in House & Senate Reconciliation Instructions Since 1990 Have Varied from \$74 Million to \$6.9 Billion. Annual Average = \$1.9 Billion

2005: H: \$5.3 billion over 5 yrs. Annual average: \$1.06 billion.  
S: \$2.8 billion over 5 yrs. Annual average: \$560 million.

2004 House bill (dropped in conf.):  
H: \$0.37 billion over 5 yrs. Annual average: \$74 million.

2003 House bill (dropped in conf.):  
H: \$18.6 billion over 10 yrs. Annual average: \$1.86 billion.

1995: H: (Total Outlay Limit)  
S: \$48.40 billion over 7 yrs. Annual average: \$6.92 billion.

1993. H: \$2.95 billion over 5 yrs. Annual average: \$590 million.  
S: \$3.17 billion over 5 yrs. Annual average: \$634 million.

1990. H: \$13.63 billion over 5 yrs. Annual average: \$2.73 bil.  
S: \$13.47 billion over 5 yrs. Annual average: \$2.70 bil.

# Availability of Aggregate Funding for the 2007 Farm Bill: Best Guess Conclusion

## Funds Available to Write the 2007 Farm Bill

- = CBO March 2007 Baseline: Likely Only Source. (*Programs with no baseline mean, other things equal, reduced funds from levels in 2002 farm bill. Prevailing market conditions will also be a factor that could increase or decrease projected commodity program costs.*)
- + Funds Added in the FY 2008 Budget Resolution: Very Unlikely.
- Budget Reconciliation Cuts: Cuts Below Baseline Levels Are a Distinct Possibility and Could Be Significant.

**Conclusion: Available funds will be less than needed to continue 2002 farm bill programs unchanged. Expect a Smaller Pie.** 20

## Cutting Funding for Existing Programs to Increase Funding for Another Existing or New Program: The Last Resort

- Various Groups want additional funding from the likely smaller pie for:
  - Fruits and Vegetables
  - Conservation
  - Rural Development
  - Crop Insurance
  - Standing disaster assistance (Budgeteers have increasingly wanted to tighten up on “emergency” spending—sometimes in recent years requiring offsets from existing programs).
  - Other(?)

## Caveats on Offsetting Increased Costs for New Programs by Cutting Costs of Current Programs

- Every program has a constituency. Proposed cuts may lead to interest group wars.
- Policy proposals that save money may become more attractive than they otherwise would be.
- Can lead to “bad” policy if policies are designed to capture quirks in CBO baselines or scoring (see explanation of scoring below).
- Cost trade-offs and savings opportunities can be heavily dependent on CBO Baselines and Scoring--which especially under “probability scoring” can be hard to predict.
- CBO’s introduction for the 1996 farm bill of “probability scoring” (stochastic analysis) has reduced the number of policy proposals (and enacted policy) that rely on budget gimmicks.
- Because probability scoring generally increases costs of price-dependent programs, probability scoring has increased the aggregate pool of available baseline funding.

# CBO Cost Estimates are Used to Determine the Costs of Legislative Proposals (and, thus, the Funding Tradeoffs Among Programs)

- A CBO cost estimate (i.e., the “score”) shows the difference over the next ten years between:
  - Expected federal costs if a new proposal becomes law and
  - Expected federal costs if current laws are assumed to continue (i.e., “the baseline”).
- Remember: the score shows the change in spending--NOT total spending.
- The Budget Committees can (but rarely do) override a CBO cost estimate.
- Official cost estimates are approved by the CBO director and posted on the CBO website: [www.cbo.gov](http://www.cbo.gov)
- Informal cost estimates are provided by CBO analysts to committees or members as legislation is being developed. Typically, this is a spreadsheet table. Congress and CBO work very closely as bills are being developed.

# What Legislative Changes Are Scored as Changes in Program Costs?

## (From the Perspective of Achieving Savings)

- For commodity programs, underlying parameters need to be changed to achieve savings (e.g. target prices, loan rates.) Remember offsetting interactions between variables.
- For some conservation programs, savings are achieved by cutting funding levels. For other conservation programs, program parameters (acreage cap, payment rates) must be changed to achieve savings.
- Only legislated changes count. No credit is given for lower-than-expected costs from changes in market conditions or USDA implementation decisions different than expected.
- Cuts must be prospective—e.g., fewer future contracts. Current signed long-term contracts cannot be cancelled or modified to get savings.
- CBO generally does not score savings for enforcement activities.
- Market conditions can impact CBO baseline projections and thus the amount of funding available for possible shifting around.

## Probability-Scoring and a Probability Scored (i.e., Stochastic) Baseline

- Probability analysis recognizes:
  1. that there are many possible supply, demand, and price outcomes in the future beyond the “point estimates” published in a baseline balance sheet and
  2. that program costs will vary depending on which outcome actually occurs.
- A Probability Scoring method: (1) Calculate the product of (a) the estimated cost for each possible outcome and (b) the probability of that outcome occurring and (2) Sum these products. The sum is the expected total cost.
- Costs calculated under probability scoring are different than costs calculated in the old way based on the one “most likely” outcome. Example: If the most-likely price equals the effective target price, probability scoring will show a cost because under some possible outcomes the price will be below the effective target price. Without probability scoring, the cost would be zero.
- Bottom Line: Probability scoring is a complicated black box. It makes forecasting CBO’s scoring more difficult. Remember—only CBO’s scoring counts. So don’t bet the farm on others’ forecasts of CBO scoring.

## Why Probability Scoring Matters: An Example

- The example shown on the next three pages illustrates why probability scoring matters when program costs/benefits depend on market prices (or other variables) whose values cannot be projected with certainty.
- The example estimates the change in the corn counter-cyclical payment rate for a \$0.10 reduction in the effective target price for corn. It shows how results differ under a simple probability-scoring (“stochastic”) model from those under a non-probability-scoring (“deterministic”) model.
- The countercyclical payment rate = “the effective target price” less the higher of (a) the market year price and (b) the loan rate. The effective target price = the target price less the direct payment rate.
- NOTE: See Appendix, page 36, for an explanation of calculations in the Baseline and Option Tables on pages 27 and 28.

# Why Probability Scoring Matters: An Example (cont.)

How Much Does the Corn Counter Cyclical Pay (CCP) Rate Change For A \$0.10 Reduction in the Effective Target Price (Eff. TP)?  
Probability Scoring vs. NOT Probability Scoring?

**STEP 1: Calculate the BASELINE Total CCP Rate. Eff. TP = \$2.35**

A	B	C	D	E	F	G						
Expected CCP Rate for Each Price. Sum = Total	=	Probability of Each Price Occurring	x	CCP Rate = Max of: Zero, Calc Rate	=	Effective Target Price	-	Higher of: Exp MY Price, \$1.95 Loan Rate	=	Range of Expected Mkt-Year Prices	=	Price Range Labels

1 **Probability Scoring.** Calc Total Rate Using Range of Prices and Associated Probabilities.

2	<b>\$0.200</b>	←	Total Rate = Sum of Calc Rate at Each Price TIMES Probability of Each Price Occurring									
3	\$0.000	=	1%	x	\$0.00	=	2.35	-	\$2.65	=	\$2.65	High Price
4	\$0.000	=	4%	x	\$0.00	=	2.35	-	\$2.55	=	\$2.55	↑
5	\$0.000	=	7%	x	\$0.00	=	2.35	-	\$2.45	=	\$2.45	
6	\$0.000	=	12%	x	\$0.00	=	2.35	-	\$2.35	=	\$2.35	↓
7	\$0.016	=	16%	x	\$0.10	=	2.35	-	\$2.25	=	\$2.25	
8	<b>\$0.040</b>	=	<b>20%</b>	x	<b>\$0.20</b>	=	<b>2.35</b>	-	<b>\$2.15</b>	=	<b>\$2.15</b>	Most Likely
9	\$0.048	=	16%	x	\$0.30	=	2.35	-	\$2.05	=	\$2.05	↓
10	\$0.048	=	12%	x	\$0.40	=	2.35	-	\$1.95	=	\$1.95	
11	\$0.028	=	7%	x	\$0.40	=	2.35	-	\$1.95	=	\$1.85	
12	\$0.016	=	4%	x	\$0.40	=	2.35	-	\$1.95	=	\$1.75	
13	\$0.004	=	1%	x	\$0.40	=	2.35	-	\$1.95	=	\$1.65	

14 **NOT Probability Scoring.** Calculate Total Rate Using Only the ONE "Most Likely Price."

15	<b>\$0.200</b>	←	\$0.20	=	2.35	-	\$2.15	=	\$2.15
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# Why Probability Scoring Matters: An Example (cont.)

How Much Does the Corn Counter Cyclical Pay (CCP) Rate Change For A \$0.10 Reduction in the Effective Target Price (Eff. TP)?  
Probability Scoring vs. NOT Probability Scoring?

**STEP 2: Calculate the OPTION Total CCP Rate. Eff. TP = \$2.25**

A	B	C	D	E	F	G
Expected CCP Rate for Each Price. Sum = Total	= Probability of Each Price Occurring	x CCP Rate = Max of: Zero, Calc Rate	= Effective Target Price	- Higher of: Exp MY Price, \$1.95 Loan Rate	Range of Expected Mkt-Year Prices	Price Range Labels

1 **Probability Scoring.** Calc Total Rate Using Range of Prices and Associated Probabilities.

2	<b>\$0.124</b>	←	<u>Total Rate = Sum of Calc Rate at Each Price TIMES Probability of Each Price Occurring</u>								
3	\$0.000	=	1%	x	\$0.00	=	2.25	-	\$2.65	\$2.65	High Price
4	\$0.000	=	4%	x	\$0.00	=	2.25	-	\$2.55	\$2.55	
5	\$0.000	=	7%	x	\$0.00	=	2.25	-	\$2.45	\$2.45	
6	\$0.000	=	12%	x	\$0.00	=	2.25	-	\$2.35	\$2.35	
7	\$0.000	=	16%	x	\$0.00	=	2.25	-	\$2.25	\$2.25	
8	<b>\$0.020</b>	=	<b>20%</b>	x	<b>\$0.10</b>	=	<b>2.25</b>	-	<b>\$2.15</b>	<b>\$2.15</b>	<b>Most Likely</b>
9	\$0.032	=	16%	x	\$0.20	=	2.25	-	\$2.05	\$2.05	
10	\$0.036	=	12%	x	\$0.30	=	2.25	-	\$1.95	\$1.95	
11	\$0.021	=	7%	x	\$0.30	=	2.25	-	\$1.95	\$1.85	
12	\$0.012	=	4%	x	\$0.30	=	2.25	-	\$1.95	\$1.75	
13	\$0.003	=	1%	x	\$0.30	=	2.25	-	\$1.95	\$1.65	Low Price

14 **NOT Probability Scoring.** Calculate Total Rate Using Only the ONE "Most Likely Price."

15	<b>\$0.100</b>	←	<b>\$0.10</b>	=	<b>2.25</b>	-	<b>\$2.15</b>	<b>\$2.15</b>
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## Why Probability Scoring Matters: An Example (cont.)

How Much Does the Corn Counter Cyclical Pay (CCP) Rate Change  
For A \$0.10 Reduction in the Effective Target Price (ETP)?  
Probability Scoring vs. NOT Probability Scoring?

### STEP 3: Subtract the BASELINE Results from the OPTION Results

Result: A \$0.100 reduction in the Effective Target Price leads to a \$0.076 Reduction in the CCP Rate with Probability Scoring and a \$0.100 Reduction in the CCP Rate without Probability Scoring.

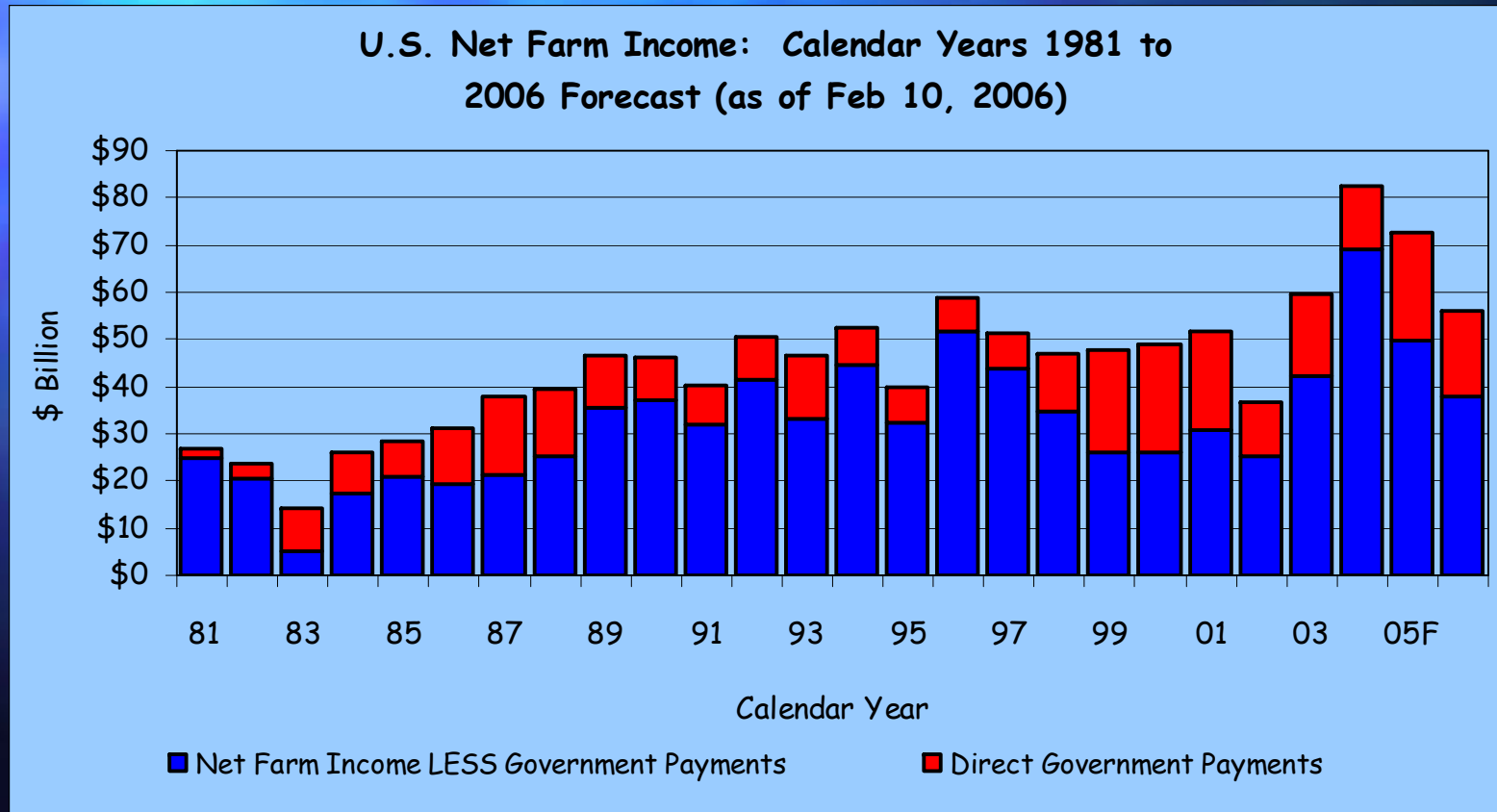
	<u>Prob. Score</u>	<u>NOT Prob. Score</u>
Option Rate	\$0.124	\$0.100
- <u>Baseline Rate</u>	- <u>\$0.200</u>	- <u>\$0.200</u>
Change in Rate	- \$0.076	- \$0.100

# Especially Under Probability Scoring, Impacts of Commodity Program Changes on Bottom Line Costs May Be Different Than Expected

<b>Interactions Among Corn Program Parameters Under Probability Scoring</b>				
	<b><u>A</u> Reduce Target Price by 1 Cent</b>	<b><u>B</u> Decrease Fixed Rate by 1 Cent</b>	<b><u>C</u> Decrease Loan Rate by 1 Cent</b>	<b><u>D</u> Reduce 85% Payment Factor by 1 Percent</b>
<b>1. CCP Rate</b>	<b>Down by Less than 1 cent</b>	<b>Up by Less than 1 cent</b>	<b>Up by Less than 1 Cent</b>	<b>No Change</b>
<b>2. Direct Pay Rate</b>	<b>No Change</b>	<b>Down by 1 Cent</b>	<b>No Change</b>	<b>No Change</b>
<b>3. LDP Rate</b>	<b>No Change</b>	<b>No Change</b>	<b>Down by Less than 1 cent</b>	<b>No Change</b>
<b>4. Net Impact on Payment Production</b>	<b>No Change</b>	<b>Increase Payment Bushels (CCP &gt; Direct)</b>	<b>Depends (CCP vs. Baseline Production + Production Changes)</b>	<b>Reduce Payment Bushels (CCP and DP Down. No LDPChange)</b>
<b>5. Net Cost</b>	<b>Down</b>	<b>Depends</b>	<b>Depends</b>	<b>Down</b>

## Reminder: Government Commodity & Conservation Payments Continue to Be a Major Contributor to U.S. Net Farm Income (and to Land Values)

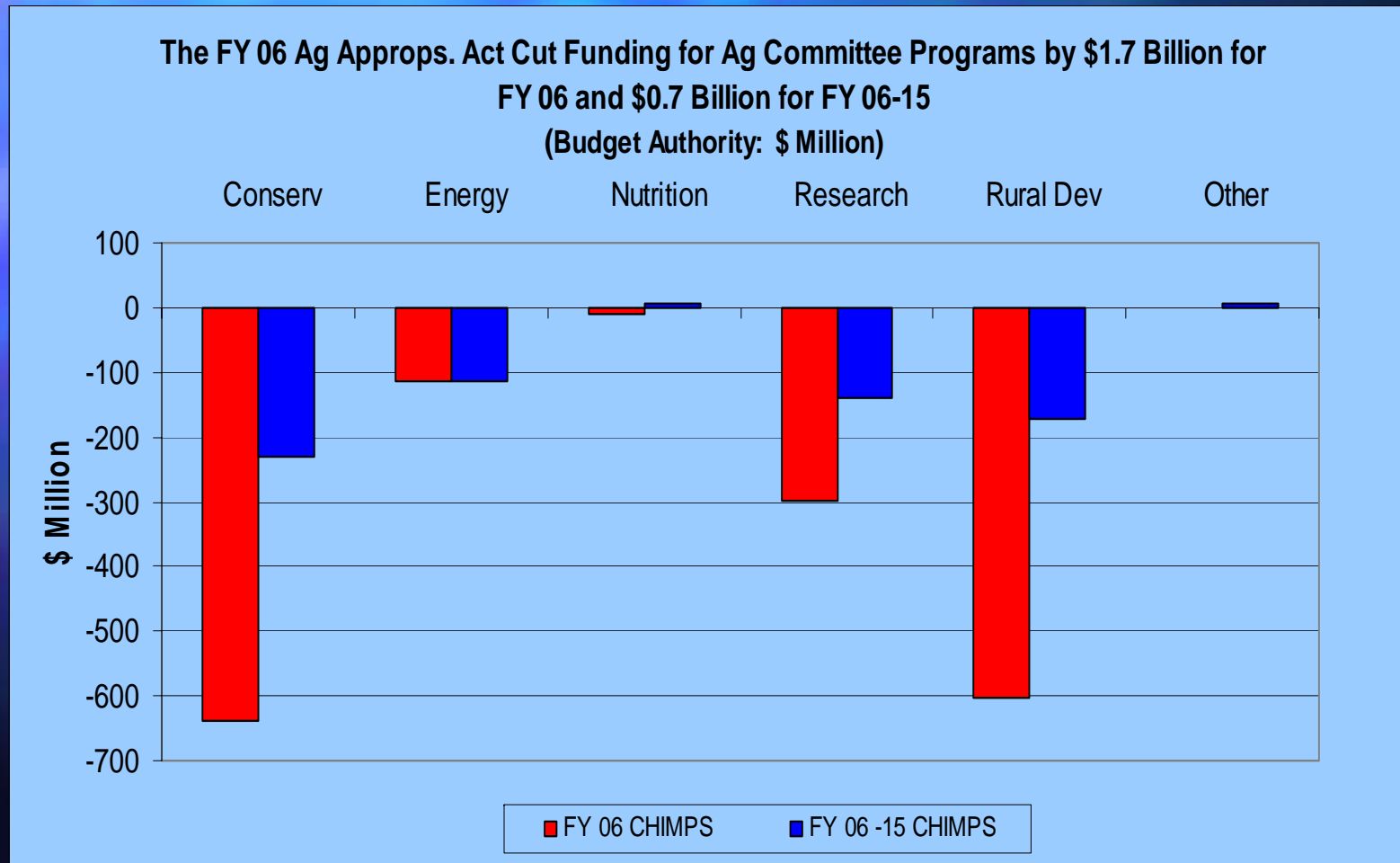
Government payments averaged 29% of net farm income over the prior 10 years, 30% over the prior 3 years, and 33% (forecast) for 2006



## Appropriation CHIMPS affect the desirability of funding certain types of programs in the 2007 Farm Bill

- CHIMPS = "CHanges In Mandatory Program Spending" enacted by Appropriations Committees
- Under Scorekeeping Guideline #3, the Appropriations Committees can limit spending on the Ag Committee's mandatory programs and use the funds saved to increase or maintain spending on their discretionary programs.
- If appropriators continue to take funding from Ag Committee programs to fund their programs (ag or otherwise), how much scarce Ag Committee funding should be put into rural development, research, energy, selected conservation, and other programs that may never be implemented or implemented at dramatically lower levels than intended?

# The FY 06 Ag Approps. Act Cut Funding for Ag Committee Programs by \$1.7 bil. For FY 06 and \$0.7 bil. For FY 06-15



## FY 2007 CHIMPS in the Pending House Appropriations Bill are lower BUT . . .

- The pending FY 07 House Ag Appropriations Bill as Reported by the House Appropriations Committee cuts Ag Committee Programs by \$592 million for FY 07. The Senate has not taken up their bill yet.
- While the FY 07 House proposed first-year CHIMPS are less than the \$1.7 billion for FY 06 the amount is still significant.
- A major factor in the reduced CHIMPS amount is that available funding for traditional CHIMPS programs was reduced by more than \$1 billion by the Ag Committees to meet the FY 06 budget reconciliation required cuts.
- The House vote on the bill is expected soon.

# Contact Information

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## Appendix: An Explanation of the Baseline and Option Probability Scoring Tables on Pages 27 and 28.

Step	Action	Cell(s)	Calculation	Baseline Value	Option Value
<b>A. Probability Scoring: Rows 1 to 13.</b>					
1	Calculate: CCP Rate for Each Price	C3 to C13	[Example: C8 for Price = \$2.15]	---	---
		C8	CCP Rate = Maximum of: Zero, Calc Rate	\$0.20	\$0.10
		Not Shown	Zero	\$0.00	\$0.00
		Not Shown	Calculated Rate	\$0.20	\$0.10
		D8	= Target Price	\$2.35	\$2.25
		E8	- Higher of: Exp MY Price, \$1.95 Loan Rate	\$2.15	\$2.15
		F8	Expected Market-Year Price	\$2.15	\$2.15
	Not Shown	\$1.89 Loan Rate	\$1.89	\$1.89	
2	Calculate: Expected CCP Rate for Each Price	A3 to A13	[Example: A8 for Price = \$2.15]	---	---
		A8	Expected CCP Rate	\$0.040	\$0.020
		B8	= Probability of Price Occurring	20%	20%
		C8	x CCP Rate [Step 1]	\$0.20	\$0.10
3	Calculate: Total CCP Rate	A2	Total CCP Rate	\$0.200	\$0.124
		A3 to A13	= Sum of Expected CCP Rate for Each Price [Step 2]	Vary	Vary
		A3 to A13	= A3+A4+A5+A6+A7+A8+A9+A10+A11+A12+A13	Vary	Vary
<b>B. NOT Probability Scoring: Rows 14 to 15.</b>					
1	Calculate: Total CCP Rate	A15	Total CCP Rate	\$0.200	\$0.100
		C15	= Maximum of: Zero, Calc Rate	\$0.20	\$0.10
		Not Shown	Zero	\$0.00	\$0.00
		Not Shown	Calculated Rate	\$0.20	\$0.10
		D8	= Target Price	\$2.35	\$2.25
		E8	- Higher of: Exp MY Price, \$1.95 Loan Rate	\$2.15	\$2.15
		F8	Expected Market-Year Price	\$2.15	\$2.15
		Not Shown	\$1.89 Loan Rate	\$1.89	\$1.89

## Craig Jagger Biographical Sketch

Craig Jagger has been the Chief Economist for the House Committee on Agriculture since February, 2001. The 2007 farm bill will be his fourth farm bill. He was in his current position for the 2002 farm bill, at the Congressional Budget Office for the 1996 farm bill, and at USDA's Farm Service Agency (then ASCS) for the 1990 farm bill. He also has worked for the U. S. General Accounting Office and USDA's Economic Research Service.

Craig was raised on the Kansas family farm that his great-grandparents homesteaded 140 years ago. He started his formal education at a two-room country school a mile and a half from the farm. His bachelors and masters' degrees are from Kansas State University and his Ph.D. is from Cornell University.

Craig is married to Joy Harwood, Director of the Economic and Policy Analysis Staff for USDA's Farm Service Agency. For eight years, they co-taught a popular evening class on commodity programs at the USDA Graduate School.

Joy and Craig have two adopted daughters from China—Margaret who is almost 6 years old and Caroline who is 22 months old.