House Agricultural Committee Testimony
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My name is Ronald Rainey, and I am humbled to provide input into this important, deliberative process that means so much to all of our farmers, ranchers, and rural communities. I have over three decades of experience working primarily as an Extension Agricultural Economist with the University of Arkansas, our state's flagship, Land-Grant University. I currently serve as Assistant Vice President of the Division of Agriculture and Center Director for the Southern Risk Management Education Center, which serves 13 states and two territories in the Southeast United States. My testimony is based on anecdotal evidence and comments from producers and leadership efforts developing and implementing regional and national risk management technical assistance. My University of Arkansas co-authors are agricultural finance and agricultural policy specialists.

Current Economic Update on Agriculture

Farmers across the South continue to adapt to the challenging agriculture environment made worse by relatively high input prices, historically low commodity prices, and current relatively high interest rates. The current environment has placed increasing pressure on farmer/rancher's balance sheets, forcing them to increase farm debt levels as they attempt to survive the current economic challenges. The gap between the prices farmers receive and the prices that they are paying for inputs forces farmers to strategically manage their balance sheets (increasing farm debt levels) to survive. Across our small and mid-sized farms and many of our large-scale commercial operations, farm profitability remains a challenge. The issue is magnified for small, historically underserved and marginalized farmers because they have somewhat limited access to many of the farm safety net triggers either because of a lack of historical production, limited additional financing options, and/or limited access to federal crop insurance products. The current relatively higher interest rate market makes seeking additional financing a risky and costly tactic to manage the current market situation. Additionally, many producers have limited options beyond their balance sheets to manage the added risks.

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Many specialty crop producers have limited crop insurance options. The number of federal crop insurance products available for producers has expanded risk mitigating options in recent years: whole farm revenue, dairy margin, livestock, forage, to name a few. Still, gaps in coverage remain as you examine Risk Management Agency's business summary across all products. For example, the poultry sector – which is the largest single agricultural industry in many southern states – is dominated by contract production. Contract growers have virtually no access to insurance products. Additionally, many marginalized producers are only aware of the Non-insured Crop Disaster Assistance Program (NAP) available through USDA-Farm Service Agency. The Crop Insurance Navigator program, a regional Risk Management Agency (USDA-RMA) pilot project (https://srmec.uada.edu/navigator.html) across the southeast region is currently highlighting the federal crop insurance gaps in understanding, access, and service for marginalized and small farmers/ranchers.

The Navigator project reveals that even where newer insurance product offerings are available, a lack of understanding on the functionality of a number of these more specialized products is a persistent problem. Additional training is needed to improve farmer and rancher understanding and use of these products. There also appears to be training needs for insurance companies and agents on the array of available products to serve small, specialty crop producers, and historically underserved. Some producers complain about the lack of a company/agent offerings in terms of a desired insurance product(s) as well as a lack of engagement with certain producer groups. Some of the limited engagement seems to occur from a specialization within the crop insurance companies. If an insurance company's portfolio of clients in a particular region is made up primarily of large-scale commercial row-crop farms, agents/companies appear to have little incentive to cultivate business among small, specialty crop, and/or livestock producers, particularly on products for which sales or underwriting procedures are more difficult, such as whole farm revenue or micro-farm insurance.

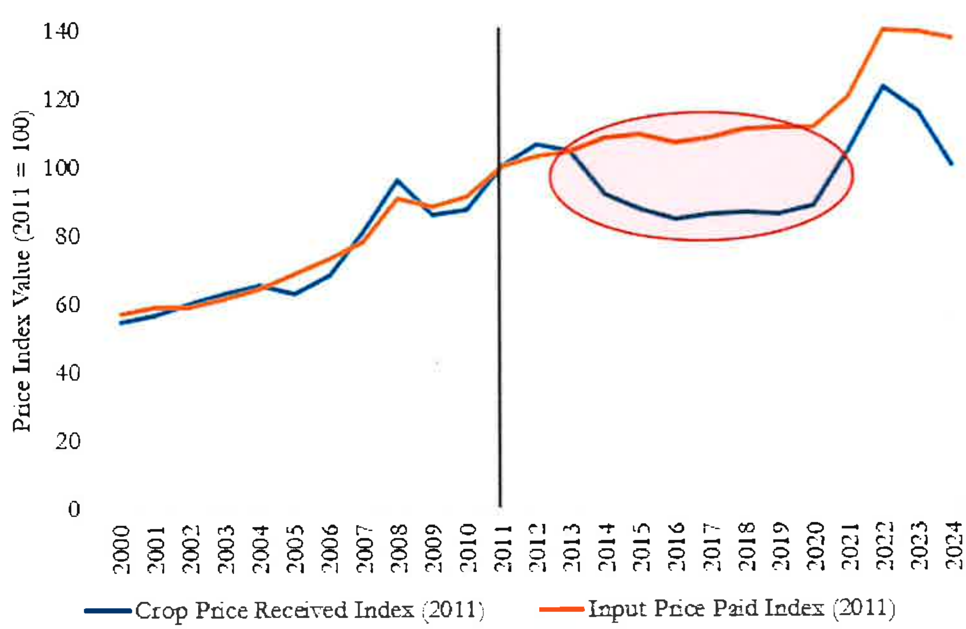
Current Market Challenges – Tightening Farm Profit Margins

The United States Department of Agriculture National Agricultural Statistics Service (USDA-NASS) releases monthly indexes for input prices paid and output prices received. These indexes include collecting survey responses for output and input prices for agricultural production, crops, livestock, and food commodities. The spread between these two indices often helps understand where farmers are getting price squeezed and how their profit margins are impacted. Current farm income instability from inflationary pressures, high interest rates, and several supply chain disruptions (e.g., the Russian-Ukraine war and Panama/Suez Canal) are forcing farmers to pay higher input costs while receiving lower commodity prices, emphasizing the need to consider these indexes into the future.

These price indices measure the change in prices paid (and received) relative to a point in time—2011 in this case (Figure 1). The base year is often chosen during a time without prevailing inflation or major supply chain disruptions (Schulz, 2022). 2011 was a good year for agricultural production and profitability. As such, using 2011 as a base year is a way to highlight how better or worse-off agricultural producers are compared to a good year.

Figure 1 compares the annual index value from 2000-2024 for the two indices with 2011 as the base year. The price received index in 2012 was 102.8%, meaning that the crop price received, on average, in 2012 was 2.8% higher than in 2011 (base year = 100%). The red circle in Figure 1 shows the beginning of a divergence between input and output prices. In 2013, when writing the 2014 farm bill, the index for input prices paid was almost exactly the index for output prices received. This is where most of our current farmer safety net support stems from, and since then, we've seen a major divergence in the two indices, with the widest gaps between 2014 – 2020 (USDA-NASS). From 2021 – 2022, we saw both indices increase, but the gap remained, and the divergence has grown wider in 2023 and 2024 due to declining commodity prices.

Figure 1. Crop Output Prices Received vs. Input Prices Paid

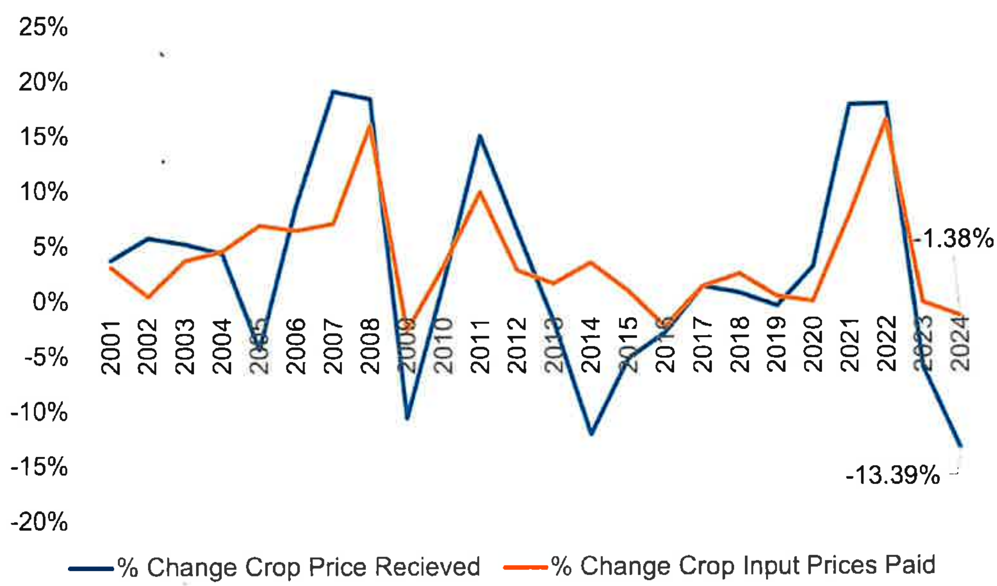


SOURCE: Loy, Ryan, and Hunter Biram. 2024.

Another way to view the indices is to calculate how they change year to year. Figure 2 plots the same indices as Figure 1 but shows the yearly change between the index values. Using this percentage change helps producers understand 1) the volatility of crop output prices and 2) the magnitude of change as compared to the previous year. A key takeaway is that input prices are less volatile (in terms of yearly % change) than output prices. Secondly, the percentage change in crop output prices between 2023 and 2024 (-13.8%) is much larger than the percentage decrease in input prices (-1.38%) during that period.

Without any relief in the form of improved crop prices received, figure 1 suggests farmers will continue to suffer from cost/price squeezes and eroding profit margins. Further, figure 2 shows the magnitude of that spread between the indices in Figure 1; if input and output prices continue this trajectory, an improved farm safety net will be warranted. This will be at the forefront of every producer's mind, with ongoing Farm Bill debates in 2024.

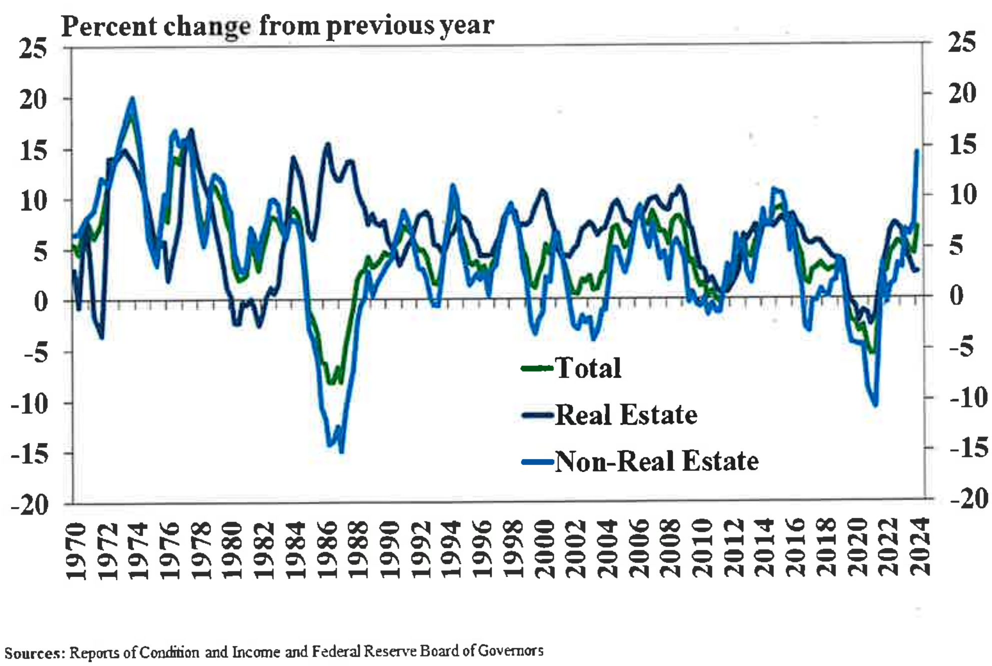
Figure 2. Year-over-Year % Change in Input and Output Crop Prices



SOURCE: Loy, Ryan, and Hunter Biram. 2024.

A recent article (Francisco Scott and Ty Kreitman) detailing recent changes in farm debt levels highlights increased debt levels specially among small and mid-sized farms. The article details steady increases in farm debt at commercial banks bolstered by continued growth in farm operating debt. While the observed peaks are relatively lower than early 2023 observations, the growth in real estate debt remained robust. The solid development in farm operating debt in the first quarter signals an increase in farmers' financing needs. While the current interest rate market helps farmers finance this uptick in demand for loans, the rates reflect higher cost risk management options for farmers and ranchers. The considerable growth in agricultural production loans increased farm debt balances. Figure 3 details farm debt levels from 1970-2024 for commercial banks. As noted in the referenced article, the growth in agricultural debt was concentrated among small and mid-sized farm lenders. Three quarters of the $15 billion increase in farm debt was attributed to banks with agricultural loan portfolios less than $500 million. Non-real estate farm loans at commercial banks ended the first quarter nearly 15% higher than a year ago, the largest increase since the late 1970s. The rapid increase in operating debt boosted total agricultural debt even as farm real estate debt increased only modestly.

Figure 3. Farm Debt Outstanding at U.S. Commercial Banks.



Sources: Reports of Condition and Income and Federal Reserve Board of Governors

.5Role of Southern Risk Management Education Center (SRMEC)

The Agricultural Risk Protection Act (ARPA) of 2000, authorized the Secretary of USDA to carry out the program, Partnerships for Risk Management Education. Under this authority NIFA partners with four regional Extension Risk Management Education (ERME) Centers to carry out a national competitive grants program in Risk Management Education to educate agricultural producers about the full range of risk management activities. The Southern Risk Management Education Center (SRMEC) at the University of Arkansas has been a part of ERME since 2009, serving 13 states and 2 territories—the Southern Region. SRMEC's goal is *to **Empower Producers to Manage Risks.*** The Center strives to improve producers' ability to manage risk and increase profitability of southern agriculture by delivering programs designed to change risk management behavior among key producer populations.

The ERME authorizing language has been amended through successive legislation, namely the 2008, 2014, and 2018 Farm Bills. As amended, the language describes the purpose of this risk management partnership as "educating agricultural producers and providing technical assistance to agricultural producers on a full range of farm viability and risk management activities, including futures, options, agricultural trade options, crop insurance, business planning, enterprise analysis, transfer and succession planning, management coaching, market assessment, cash flow analysis, cash forward contracting, debt reduction, production diversification, farm resources risk reduction, farm financial benchmarking, conservation activities, and other risk management strategies."

Section 11125 of the Agricultural Improvement Act of 2018 provides authority for the USDA NIFA to expand the Partnerships for Risk Management Education program to serve a new audience, defined as "producers that are underserved by the Federal crop insurance program". ERME implemented the expanded program by offering two separate grant pools within our annual Request for Applications (RFA) that seeks education project proposals: risk management education (our traditional program area), and producers underserved by crop insurance.

SRMEC works with a 10-member advisory council made up of public and private agricultural stakeholders that are strategically and intentionally engaged to serve our region's diverse agriculture sector—commercial, small, diversified, row-crop, livestock, organic, sustainable, urban, and specialty. Representation includes farmers, ranchers, 1862 and 1890 land-grant university faculty, and community based organization representatives. The Center annually manages $2.5 Million in competitive grants that seek to empower producers to manage risk on their individual operations through educational offerings. To manage our two separate grant pools, SRMEC employs a 10-member advisory council and a 7-member evaluation panel made up of public and private agricultural stakeholders to identify our grant regional priority areas and capacity building efforts across the region. Additionally our advisory council and crop insurance evaluation panel serve as reviewers for our grants selection process using a transparent merit-based process.

In recent years, ERME has been selected to manage additional grant portfolios because of our national program structure, a national program delivered regionally. Those new programs include a one-time meat processing RFA and our just released Technical Assistance Producers Network (TAPN) RFA which seeks to assist financially distressed farmers with assistance to understand and improve USDA Farm Service Agency loan decisions. The TAPN technical assistance focuses on the Southern and Western regions where FSA loan application denials are the highest. This technical assistance effort is funded by USDA-FSA to address limited access concerns and improved customer service issues.

The ERME program has delivered technical assistance across the country and effectively engaged all segments that make up U.S. agriculture. The engagement includes working in collaboration with crop insurance sector and USDA agencies as well as funding projects with land-grant universities and community-based organizations.

Engagement with Risk Management Agency (RMA) and crop insurance industry

The ERME program routinely collaborates with RMA to promote RMA resources and to engage with its regional offices. Both programs collaborated to jointly develop and distribute a primer, *Introduction to Risk Management* (Crane, Gantz, Isaacs, Jose, and Sharp, 2013). The publication details ERME and RMA's consistent approach to managing risks across five areas: production, marketing, finance, legal, and human. The document not only defines each risk area but details specific tools and strategies to successfully mitigate the unique risks that agricultural producers face. Beyond the publication and on-going communications, each ERME Center has RMA representation on its advisory council. SRMEC has an RMA representative on our Advisory Council and two representatives on our crop insurance evaluation panel. We communicate on program and funding areas to build on the synergies of each program to serve farmers and ranchers. SRMEC actively engages with multiple regional offices and has on-going conversations with RMA administrators on ways to enhance outreach efforts and resources.

In addition to the Crop Insurance Navigator program, SRMEC has collaborated on the release of a publication from University of Arkansas, Fundamentals of Federal Crop Insurance. The publication serves as a primer written for farmers/ranchers and their influencers to understand the history and basics of federal crop insurance. Lastly, SRMEC has on-going conversations with the crop insurance industry—individual companies, National Crop Insurance Services, and Crop Insurance Professional Association (CIPA)—on ways to collaborate on company/agent trainings.

Current Condition for SDFRs

The Census of Agriculture reveals that most socially disadvantaged farmers and ranchers (SDFRs) on average operate relatively smaller sized farms, thereby leveraging smaller operating loans to produce their crops each year. It should be noted that USDA program historical equity and access issues have played a role in limiting the opportunities for SDFRs to gain economies of scale—increasing farm size and investing in innovative or new machinery/technology. The lack of opportunities to scale up results in lower productivity and relatively higher input costs on average. Even when SDFRs participate in USDA farm programs, they receive a disproportionately lower level of federal support in terms of funds to re-invest in their farms. The cumulative impact of lower support levels over an extended period of time—10-year, 20-year horizon, etc.—results in real differences in terms like the size of operation and equipment/facilities investments. The relatively smaller-sized operations are generally less efficient creating additional hurdles for economic viability. These operations lag their majority farmer investments in precision agriculture technologies and innovative practices because of the relatively tighter profit margins.

I serve on the board of directors for the Socially Disadvantaged Farmer and Rancher Policy Research Center at Alcorn State University. The Policy Research Center actively organizes and examines research, data, and producer feedback to provide insights to enhance understanding of SDFR conditions and policy recommendations to enhance their economic viability and survival. The Policy Research Center notes the following discrepancy in risk management/crop insurance subsides. As federal crop insurance subsidies programs have increased, the "subsidy gap" has widened between White and Black farmers. Because crop insurance subsidies are based on the value of a producers' crop, the larger subsidy premiums go to producers with the highest sales. The vast majority of farmers that receive the highest subsides are White.

Another issue that continues to plague SDFRs is real and perceived trust issues resulting from current/past experiences and on-going confrontations. For example, there are a number of producers who refuse to enter a USDA office even in 2024 because of fear—based on experiences—of disparate treatment, losing their land or being foreclosed on a loan under perceived less than fair conditions. Therefore, the ability to build and restore trust and relationships is a critical hurdle to effectively reach marginalized producers and their communities with USDA programs/resources. The resulting community impact of inequitable access to federal and state programs have played a significant role in individual and community wealth levels across both urban and rural areas. Multiple high-poverty rural regions--Arkansas/Mississippi Delta, Alabama Black Belt, etc.—traces their roots back to the great depression and the initial farm legislation which introduced the allotment programs which literally took and/or reduced acreage from many minority producers[2]. The resulting historical federal policies and their implementation through local county committees results in present-day inequities among base acre allotments today for many minority producers.

In terms of risk management technical assistance, my experience with managing education projects—ERME projects; Agricultural Finance, Tax, and Asset Protection Program (https://agftap.org/), and Crop Insurance Navigator project—reveals that technical assistance in record-keeping, price risk management (understanding and use of futures markets), business planning, and tax preparation are core areas to build and maintain viable businesses. These fundamental processes are directly linked to credit access and indirectly linked to the use of crop insurance. Additional technical assistance in these core areas could enhance producer understanding of ways to leverage crop insurance products to support their businesses.

Overview of working with 1862, 1890 Land Grants & Community-Based Organizations

As SRMEC director, I have been privileged to work with a collection of public and private agricultural stakeholders assisting our farmers and ranchers across the region and nationally. SRMEC has intentionally engaged with diverse stakeholder groups to build meaningful relationships across not just the entire region but also the diverse farm types and producer backgrounds. We collaborate annually with 1890 Extension and outreach specialists, small farm program (2501) directors, and community-based organizations that serve an array of producer groups ranging from African American, Native American, Hmong, Organic, Sustainable, Livestock, Row-Crop, Greenhouse & Nursery, to name a few. Within the 1862 land-grants, we collaborate with the region's farm management committee—Southern Extension Economics Committee. The committee is made up of agricultural economists from the region's land-grant institutions, primarily those with Extension responsibilities. Annually, the Center supports the region's premiere academic outreach meeting, the Southern Outlook Conference, which is

[2] Agricultural Adjustment Act (1933), Agricultural Adjustment Act Amendment of 1935, Soil Conservation and Domestic Allotment Act of 1936, and Agricultural Adjustment Act of 1938.

hosted by Southern Extension Economics Committee. SRMEC features its collaborations with the farm management committee and 1890 partners on our website, https://srmec.uada.edu/.

Lastly, SRMEC partnered with the Agricultural and Food Policy Center at Texas A&M to lead a collaborative effort among the Southern Extension Economics Committee to launch Southern Ag Today (SAT), https://southernagtoday.org/ . SAT provides daily insight and analysis on issues impacting Southern farmers and producers and is a timely resource for anyone – farmers, ranchers, Extension educators, lenders, policy makers, and media – who wants a better understanding of the issues affecting agriculture in the region.

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