Testimony of

Paul T. Combs

Before the U.S. House of Representatives
Committee on Agriculture
Subcommittee on General Farm Commodities and Risk Management

Hearing regarding an Update on the Financial Health of Farm Country

Washington, DC
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Introduction

Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee, thank you for holding this hearing regarding an update on the financial health of farm country. I appreciate the opportunity to offer testimony on farm country from the perspective of a producer who comes from an area that produces many different crops and where we have a number of cropping options.

My name is Paul T. Combs. I grow rice, soybeans, corn, and wheat in Dunklin and Pemiscot counties in the Missouri boot heel. In addition to our farming operation, my family and I also own and operate farm equipment dealerships in both Missouri and Arkansas.

I recently completed two terms on the board of the Federal Reserve Bank of St. Louis and I also serve on several boards and committees for farm organizations, including the USA Rice Federation.

Overview of the Agriculture Economy

As a producer, implement dealer, former Federal Reserve of St. Louis board member, and current board member of my local bank, I have an opportunity to observe the agricultural economy from multiple angles.

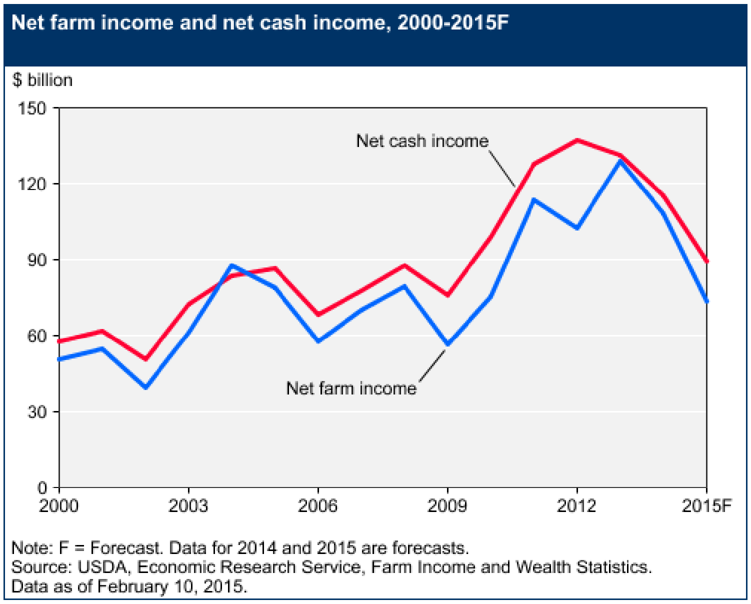
As a farmer I have seen the farm price received for corn fall from $6.79 per bushel in July of 2013 when the Farm Bill first passed the House of Representatives, to $3.81 per bushel today, a 44 percent drop. It is a similar story for other crops as well. Adding to the squeeze on producers' balance sheets are the costs of inputs, which haven't declined. Farmers are still paying high prices for seed, fertilizer, fuel and electricity costs for irrigation, and wages for their employees. All told, this year is shaping up to be difficult across farm country. The only silver lining so far is that we have had some good moisture and there is potential to make up for the falling prices with good production. But as we know well in Missouri after experiencing a devastating flood in 2011 and drought conditions in 2012, nothing is certain until the grain is in the bin.

As an implement dealer I operate 11 dealerships and employ 185 people in rural Missouri and Arkansas. So when the farm economy struggles I get hit not only as a producer, but on the business side as well. One of the first areas in which farmers try to control costs in the face of tighter margins is in their equipment investments. The past several years had been good for equipment sales. When prices were high and farmers had good income many reinvested their profits in buying new tractors and equipment, but over the past year sales have slowed significantly. My sales are down 15% year over year and that's even with producers having the benefit of hedging their 2014 crop. However, that hedging opportunity did not present itself in 2015 and we are very concerned about the prospects of the 3rd and 4th quarters of this year. In other areas of the country where they did not experience a few good years to build up reserves the situation for agribusinesses is more serious with sales almost completely stagnant.

Farm equipment manufacturers are feeling the effects of the lower commodity prices and slow sales. Last August, Deere & Co. announced it would lay off a total of over 1,000 workers in their harvesting and agricultural equipment factories, and earlier this year Caterpillar announced it would be closing two plants in North Carolina and Georgia, leaving 275 people out of work. CNH Industrial, which manufactures Case IH and New Holland equipment, has also announced a number of layoffs at local plants across the country. The same is true for other equipment manufacturers as well where in the face of falling revenue they are forced to idle plants and reduce output.

Implement dealers aren't the only ones affected by the downturn in farm country. Other agribusinesses that rely on farmers are also impacted, from the dealerships that sell trucks to the seed and chemical companies; no one is left unharmed when farm income takes a nosedive.

During my tenure on the Federal Reserve Board of St. Louis I was able to observe the health of the agriculture sector from a macro level and witness the effect that agriculture has on the state of the rural economy. In 2012 a Kansas City Fed white paper spoke directly to this, stating "The global boom in commodity markets underpinned rural economic gains in 2011. Supported by strong global demand, booming commodity markets spurred robust growth in many mining and farming communities." While the rest of the country was experiencing severe economic turmoil, rural areas, though still impacted, were somewhat insulated and bolstered by a strong farm sector. However, today the situation is quite the opposite. Despite the urban economy starting to show signs of life, falling commodity prices are a drag on rural America. In the Summary of Commentary on Current Economic Conditions, commonly referred to as the "beige book", the Federal Reserve publishes observations about the health of the economies of various industries in the different regions of the country. In the report released February 2015 edition the Kansas City district states relative to agriculture that, "District farm income weakened further since the last survey period… Looking forward, District contacts expected modest declines in cropland values and further deterioration in farm loan repayment rates amid tighter profit margins for crop producers".



Also highlighting the downturn in farm country is the Economic Research Service of USDA whose 2015 Farm Sector Income Forecast predicts net farm income to fall to $73.6 billion this year, down 32% from last year and 43% from the high of 2013. Fluctuating prices are part of the nature of farming and for the most part producers are adept at adjusting in the face of hard times, but the plummet that we are seeing today is far more severe than anything even the best managers could have predicted or planned for.

As a board member of First National Bank of Kennett I have seen first hand the stress this has put on the lending community. Some of our producers were forced to move from a conventional operating loan to FSA guaranteed or subordinated loans, a loan of last resort. Plus, of the farmers that were approved this year many were barely able to cash flow, just one year of poor yields and many of them will be forced out of business, or will have to refinance their loss, which can take in some cases excess of 10 years to pay back.

Effects of Strong Farm Policy

The current situation that I have outlined above has generated a need for farmers to take steps to minimize their exposure to risk, resulting in a pullback in investments for their farm. This pullback starts first with their suppliers of inputs (equipment, grain storage facilities, fertilizer) and then begins to impact the majority of businesses in rural America. We've seen this cycle play out over and over and I hope we will not repeat the mistakes of the past by taking for granted how important a dependable safety net is, not just to producers, but all businesses and families that depend on agriculture.

Effective farm policy gives producers, agribusinesses, and lenders alike the confidence we need to continue investing in our farms, and obtaining credit to finance these investments.

Successes of the 2014 Farm Bill

I want to therefore commend the work that the members of this Subcommittee, the Agriculture Committees and both chambers of Congress did to write and pass the Agricultural Act of 2014. I know full well how long of a road it was to get the farm bill to the President's desk, but the conditions of today just underscore how vital it was to get it passed when you did.

Throughout the farm bill debate, beginning with hearings in 2010, the farm economy was booming in many areas of the country. Net farm income was at record highs, land values were steadily increasing, and many producers were paying down debt and investing further in their operations. This led many to be lulled into a false sense of security, with some economists claiming that we had reached a "new normal" for agriculture due to high commodity prices. Many farm bill ideas were based on this assumption and were not written to withstand the hard times that many of us knew were on the way. Fortunately Congress listened to the needs of all producers and crafted a farm bill that provides the ability to tailor risk management to each operation in order to weather this downturn in the markets and survive to farm another year.

A cornerstone of the safety net for many producers is Federal Crop Insurance, without which most farmers would never be able to secure financing for their operations or survive one year of disaster. The availability and affordability of crop insurance ensures that producers are able to participate and purchase a level of insurance that works for their operations. For lenders this is crucial when considering extending credit to farmers as it provides at least some certainty that he can repay his loan even if wiped out by weather or market collapse. The Farm Bill made several enhancements to crop insurance and provided producers greater ability to tailor their insurance purchase to their farms. This is especially important to many producers, regions, and crops that have been underserved under Federal Crop Insurance.

However, there is one form of risk that insurance is not meant to address, which is falling and sustained low prices. This is the exact scenario I warned against 3 years ago the last time I testified before the Agriculture Committee and it is the exact scenario we find ourselves in today. Fortunately the Farm Bill addresses this risk by providing a commodity title that can help a farmer weather the bad times and survive to farm again in the good times when prices recover.

For my operation I was able to enroll my corn and soybeans in ARC and protect myself against the downturn in prices for at least the first few years and enroll my rice, wheat, and sorghum in PLC where my primary risk is not revenue fluctuations but rather sustained low prices. This flexibility is absolutely essential and producer choice, although complicated, is part of what made the Farm Bill a success.

These policies are not just important to me as a producer, but are essential to the agribusinesses that rely on the agricultural economy as well. If a market or weather event like the 2012 drought were to repeat itself and there were no farm policy in place not a single tractor would leave the lot next year and my 185 employees would be out of work. Furthermore, without the underpinnings of sound farm policy creditors would not be able to extend financing to producers. I do not know many farmers in my area that are sitting on enough cash reserves to self finance what can be upwards of a million dollars in expenses for just one year on just the hope that they will make a crop at the end of the season. And if they were able to self finance, it would only take one year of drought, floods, or an untimely hail storm to put a farmer out of business.

All of this is to say, the farm economy is struggling, but the one bright spot for me as a producer and businessman is that we have a five year farm bill in place that was written to help us weather this storm.

Other Challenges

In addition to falling commodity prices, the rural economy faces challenges due to burdensome regulations, unpredictable tax policy, and transportation issues, just to name a few. Farmers need certainty and the threat of potentially not being able to plow through the field without violating the law, not knowing what the tax code will be 12 days before the end of the year, and not having a reliable means to deliver a crop to market all provide added worries and impediments to a profitable agricultural economy. These factors also impede our global competitiveness.

Regulations

One needs to look no further than the Clean Water Rule (formerly known as Waters of the United States, or WOTUS), which was issued last week, to find an example of regulatory overreach that threatens to saddle us with huge new costs and even stiff civil and criminal penalties. The process the Environmental Protection Agency used to arrive at the final Clean Water Rule was convoluted and not at all transparent. I am very concerned about the impact the rule will have on my farming operation and implement dealerships.

Tax Policy

One other aspect of federal policy that seriously hinders my business is the uncertain nature of the tax code, specifically the expiration of Section 179 and bonus depreciation. After expiring at the end of 2013, Congress did eventually retroactively extend these provisions for the 2014 tax year, but not until December 19th. This is not enough time to get the full economic value of these provisions. The provisions ought to be made permanent but if that is not in the cards then an earlier extension of current law is very important. The current 25,000 dollar limit that Section 179 reverted to on January 1st of this year would not even cover the cost of most plows I sell, much less the tractors needed to pull them.

Transportation Issues

Farmers rely heavily on transportation infrastructure to get their crops to market, we in Missouri are fortunate to have access to several waterways where transporting via barges is a cost effective and efficient way to move our commodities. However, aging locks and dams and the lack of investment in river infrastructure has caused problems for many producers, especially those upriver from me. Some of these issues were addressed in the Water Resources Development Act which passed last session of Congress, however there is more work needed to be done to ensure that transportation costs or delays do not get in the way of farmers delivering their crops to domestic and overseas markets.

Conclusion

Over all, I think we have some very rocky waters to navigate ahead of us. U.S. farm policy is absolutely critical to helping us avoid the shoals. I thank each of you for your work in helping to develop, preserve, and protect these policies.

Again, thank you for your leadership and for the opportunity to offer my testimony this morning. I look forward to working with you and your staff and will be happy to respond to any questions you might have.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2009.

Name: ___________PAUL T. COMBS_______________________________________

Organization you represent (if any): ____

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1. **Please list any federal grants or contracts (including subgrants and subcontracts) <u>you</u> have received since October 1, 2009, as well as the source and the amount of each grant or contract. House Rules do <u>NOT</u> require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:**

Source:_________NONE___________________________ Amount:_______________

Source:____ Amount:_______________

2. **If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) <u>the organization</u> has received since October 1, 2009, as well as the source and the amount of each grant or contract:**

Source:____ Amount:_______________

Source:____ Amount:_______________

Please check here if this form is NOT applicable to you: _________________________

Signature: Paul T. Combs ____

* Rule XI, clause 2(g)(5) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

PAUL T. COMBS

Paul T. Combs is President of Combs Farming Company and Sunrise Land Company, which together own farmland in Dunklin and Pemiscot Counties in Missouri. Crops produced on these farms include rice, soybeans, corn, and wheat sorghum. He is also President of Baker Implement Company, a family-owned retail farm equipment dealership with 11 locations in Southeast Missouri and Northeast Arkansas.

Mr. Combs serves on the board of First National Bank of Kennett and is Vice President of the Board of Supervisors of The Little River Drainage District, which is largest agricultural drainage district in the country. He is a member of the Board of Directors of the USA Rice Producers' Group and previously served as its Chairman. Mr. Combs has provided testimony on farm policy numerous times before the Agriculture committees of the U.S. Senate and the U.S. House of Representatives. He is a member of the Executive Board of the Greater St. Louis Area Council Boy Scouts of America. Mr. Combs served two terms as a Director of the Federal Reserve Bank of St. Louis from 2005-2010. In 1995, Missouri Governor Carnahan appointed Mr. Combs to a six-year term on the Board of Curators of the University of Missouri System. During his tenure on the Board of Curators, Mr. Combs served as both Vice President and President of the Board.

Mr. Combs earned his B.S. in Accountancy from the University of Missouri—Columbia in 1987 and is a Certified Public Accountant. Prior to joining his family business, Mr. Combs was a tax associate at the Price Waterhouse accounting firm in St. Louis.

Mr. Combs and his wife Holly have two children, Meredith and Hayden and make their home in Kennett, Missouri and Memphis, Tennessee.