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STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON SELECT REVENUE MEASURES
OF THE
HOUSE COMMITTEE ON WAYS AND MEANS

ON THE
DEPARTMENT OF AGRICULTURE'S
PAYMENT-IN-KIND PROGRAM

Mr. Chairman and Members of the Subcommittee:

We are glad to be here today at your request to discuss a number of issues pertaining to the Department of Agriculture's 1983 Payment-In-Kind (PIK) program.

We have several reviews ongoing of various aspects of the Department's PIK program and will be reporting on their results over the next several months. We also plan to issue a report to the Congress in the summer of 1984 on the overall management and effectiveness of the 1983 PIK program. Our objective is to provide the Congress with a comprehensive assessment of the PIK program for its use in deliberating the 1985 farm bill. The issues we will be discussing today will be further developed as we continue our overall assessment of the PIK program.

The Department announced the 1983 PIK program in January 1983 in response to trends that had been evolving in the agricultural sector since 1980. These trends included record harvests and decreased domestic and foreign demand. This resulted in low commodity prices for producers, decreased farm incomes, and a large

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buildup of government-held (government and producer owned) grain and cotton stocks. These trends had required the Department to increase its farm program payments fourfold between 1980 and 1982. Potential payments for 1983 were estimated at 7 times those of 1980. Because of this situation, the Department had some difficult decisions to make regarding a 1983 farm program. The Department's response was the announcement of the 1983 PIK program on January 11, 1983. The program covers wheat, corn, grain sorghum, rice, and cotton.

After it became apparent that there would be a high level of PIK participation by producers, you asked us to estimate the cost to the Department of the 1983 PIK program, identify farms that would receive large PIK payments, and review the reasonableness of the Department's estimated budget savings attributable to the PIK program. Let me briefly highlight our findings and then discuss in some detail each of these areas.

SUMMARY OF GAO FINDINGS

On the basis of our review, we estimate that the 1983 PIK program will cost the Department between $10 billion and $11 billion. This estimate is based on the Department's August 29, 1983, commodity needs to meet PIK corn, grain sorghum, wheat, and rice obligations to producers and the Department's September 9, 1983, estimate to meet cotton obligations. Nearly all of these costs represent government assets given up to meet PIK payment obligations to producers and, for the most part, have not directly affected fiscal year 1983 budget outlays. We caution, however, that this is an estimate at one point in time using the best available data. Final cost data will not be available until after

March 31, 1984. Our cost estimate includes only the government's PIK costs; it does not include costs to consumers and businesses.

In our survey of large PIK payments, we obtained information on 708 farms in 9 states. Our sample was judgmental in that we selected the states and counties having the largest participation in the PIK program and then identified the larger participating producers. We did this for each PIK commodity. On the average, each of the 708 farms in our survey will receive commodities valued at $175,000. Of these 708 farms, 35 will receive commodities valued at over $500,000 each, including 7 farms that will receive commodities valued at more than $2 million each. Also, of the 10 farms that were scheduled to receive the largest payments, 8 were California cotton producers. However, let me emphasize that the farms in our survey were not statistically sampled. Therefore, the results should not be interpreted as including all such large payments nor, on the other hand, should they be interpreted as being representative of all PIK payments.

The Department, in the President's mid-session budget update, estimated that the 1983 and 1984 PIK programs would result in a $14.9 billion savings in farm program outlays for the 4-year period ending in 1986. In view of the September 29, 1983, announcement that there will not be a 1984 PIK program for corn and grain sorghum, the Department's estimates will have to be revised. Regardless of the need for revisions, however, budget savings on farm programs for a 4-year period are very difficult to project not only because farm program components generally change from year to year, but because of the uncertainties, such as future weather and economic conditions, surrounding the agricultural

sector. We also have reservations about the reasonableness of the estimated savings because the PIK program and the non-PIK program that it was compared with, for determining the savings, were not analyzed under the same set of assumptions. If the same set of assumptions had been used, the savings attributable to the PIK program would be less. However, as explained later, because of the uncertainty surrounding future farm program outlays, we cannot quantify the amount of budget savings from PIK.

BACKGROUND

The Department of Agriculture uses a number of farm programs to try to stabilize farm commodity prices and incomes. The three major programs have been the supply control, direct payment, and price-support programs, including commodities held in the reserve program.

The supply control programs are designed to reduce the amount of planted acres during a given crop year. Such programs permit the Department some control over production and commodity inventory levels from year to year. Under these programs, producers must take a certain percent of land out of production before becoming eligible for farm program benefits. These benefits may include direct cash payments and/or price-support loans. In addition, producers must enroll in the supply control programs before being eligible to participate in PIK.

Under the direct payment program, the Department supplements farm incomes by paying producers deficiency payments and diversion payments. Deficiency payments are cash payments made directly to producers to supplement the producers' income when a commodity's market price is lower than a set price, or a target price,

established by law. Diversion payments are cash payments to producers, at a specified rate, for taking a certain percent of their cropland out of production.

Under the price-support program, the Department makes loans at established minimum prices, which are in essence floor prices, to producers who agree to store reserve commodities, thereby keeping them off the market during periods of excess supply to help keep prices from falling. The producer can either pay back the loan or forfeit the commodity to the government when the loan comes due. If forfeited, the government takes possession of the commodity and it becomes part of the inventory of the Department's Commodity Credit Corporation (CCC).

The Department's decision to implement a PIK program was partially a result of the farm programs' not meeting their objectives of stabilizing farm commodity prices and farm incomes during the past few years. This occurred because of record harvests in the United States, decreased demand both in the United States and abroad, and increased foreign production.

In 1981, U.S. farmers produced record levels of wheat and corn and near record levels of cotton. However, both domestic and foreign demand for these and other U.S. commodities weakened throughout the marketing year. This resulted in growing U.S. stock levels. In an effort to reduce supplies, the Department implemented acreage reduction programs for wheat, corn, grain sorghum, rice, and cotton in 1982. Despite this effort to reduce the acres planted, U.S. producers increased their per acre yields and harvested even larger crops of wheat and corn in 1982. The record production plus the 1981 carryover in stocks dramatically

increased stock levels for nearly all major commodities. By the end of the 1982 crop year, ending rice stocks had quadrupled their level of 2 years earlier; grain sorghum, corn, and cotton stocks had tripled; and wheat stocks had increased about 60 percent. The combination of increased stocks and low commodity prices resulted in a dramatic increase in federal outlays for farm programs because they (1) required higher deficiency payments and (2) provided the producers a greater incentive to put their commodities under loan. In fiscal year 1980, federal outlays for farm programs were $2.7 billion; however, in fiscal year 1982 these outlays jumped to $11.6 billion, over a fourfold increase.

The initial 1983 acreage reduction and paid land diversion programs, which the Congress mandated in the Omnibus Budget Reconciliation Act of 1982, were aimed at taking more land out of production than in 1982. However, it became evident soon after these programs were announced that the adverse agricultural trends since 1980 would continue and federal outlays for farm programs would continue to soar. The Department estimated that fiscal year 1983 federal outlays would increase to $18.9 billion, a $7.3 billion increase over fiscal year 1982 and a sevenfold increase since 1980.

PIK program

The 1983 PIK program was a supplemental program to the acreage reduction and paid land diversion programs for wheat, corn, grain sorghum, rice, and cotton. To be eligible to participate in PIK, producers had to enroll in these earlier announced programs.

Under PIK, producers who agreed to take an additional 10 to 30 percent of their acreage, or in some cases, their entire

acreage, out of production were to receive a certain percent of the commodity they otherwise would have planted and harvested. The program's overall objectives are to (1) reduce production of these commodities, (2) reduce surplus commodity stocks, (3) increase commodity prices, which will eventually increase producers' income, and (4) avoid increased budget outlays that would otherwise be necessary under existing farm programs. It is too early to judge whether all of these objectives have been met. These issues will be addressed in our other ongoing and future reviews of the PIK program.

As a result of the various aspects of the 1983 farm program, producers took out of production about 80 million of the approximately 212 million acres that were expected to be planted in wheat, corn, grain sorghum, rice, and cotton. Of the 80 million acres, about 11 million acres were taken out on farms that did not participate in PIK but did participate in the earlier announced acreage reduction and paid land diversion programs. Of the other 69 million acres, about 48 million acres represent PIK acres and the remaining 21 million acres represent acres taken out of production by PIK participants under the acreage reduction and paid land diversion programs.

To meet its PIK obligations to producers, the Department initially planned to make PIK payments in two ways. If a participating producer had one or more outstanding loans with CCC, then the Department would forgive part or all of the producer's loan or loans (principal and interest) and the producer would retain the commodity used as loan collateral as the PIK payment. A producer

who did not have an outstanding loan would receive an entitlement letter to receive CCC stocks as payment.

Because of the large participation in PIK, the Department did not have sufficient CCC stocks of wheat, corn, grain sorghum, and cotton available to pay producers who did not have outstanding loans. As a result, the Department had to purchase additional quantities of these commodities. As provided for in the PIK regulations, it purchased these additional quantities at a premium through a competitive bid process from producers who had commodities under CCC loan that were not being used for PIK payments. For example, a producer with 50,000 bushels of corn still under loan would transfer ownership of 40,000 bushels to the Department and the Department would forgive the producer's loan of 50,000 bushels. The producer would retain 10,000 bushels which would represent the premium the Department paid for purchasing the producer's commodity.

Even after purchasing these commodities, the Department did not have sufficient stocks of wheat and cotton to meet all its PIK obligations. However, the Department had established procedures, labeled "harvest for PIK" to meet its wheat and cotton PIK obligations to make up for these shortages. Under these procedures, the Department required PIK producers of wheat and cotton, who were to receive their PIK payments from CCC inventory and who had not enrolled their entire wheat and cotton acreage in PIK, to obtain CCC loans for their 1983 crops. The wheat or cotton under loans was to be assigned to the Department as collateral with the producers receiving the loan proceeds. The Department would then

forgive the loans and return the wheat or cotton to the producers as their PIK payments.

COST OF PIK

On the basis of the Department's estimated PIK needs for corn, grain sorghum, wheat, and rice as of August 29, 1983, and cotton as of September 9, 1983, we calculate that the 1983 PIK program will cost the Department between $10 billion and $11 billion. Nearly all of these costs represent government assets given up to meet PIK payment obligations to producers and, for the most part, have not directly affected fiscal year 1983 budget outlays. The assets given up include, for example, commodities under government loans and government-owned commodities. However, it should be noted that these assets will be written off by CCC and included in net realized losses to CCC. As such, CCC may eventually have to be reimbursed for these losses through budget outlays in future fiscal years. A cost range is presented because three elements used in determining PIK costs--storage costs, diversion payments, and potential interest forgiven--can vary; consequently, a single value cannot be assigned to these elements. The following table shows the cost elements used in making our estimate and the estimated minimum and maximum costs associated with each element.

Cost element	Minimum cost	Maximum cost
	------(billions)-------	
Cost of commodities[a]	$ 9.363	$ 9.363
Storage costs	.104	.390
Diversion payments	.336	.371
Distribution of commodities	.167	.167
Potential interest forgiven	0	.826
Other	.055	.055
Estimated cost for 1983 PIK program	$10.025	$11.172

[a]The cost of commodities is based on the Department's August 29, 1983, estimate of PIK obligations for wheat, corn, grain sorghum, and rice and September 9, 1983, estimate for cotton. PIK estimates have fluctuated considerably and most likely will continue to do so. As a result, the cost associated with PIK obligations will vary until final PIK obligation data is available.

Before discussing the costs of each of these elements in some detail, let me emphasize that there most likely will be future budget savings as a result of PIK. The Department, in July 1983, estimated that as a result of a 2-year PIK program in 1983 and 1984, it would save about $14.9 billion in farm budget outlays through 1986. We will address the Department's savings estimate in a few moments.

Cost of PIK commodities

As of August 29, 1983 (September 9 in the case of cotton), the Department estimated its obligations to producers at 1.744 billion bushels of corn, 177.4 million bushels of grain sorghum, 548.7 million bushels of wheat, 4 billion pounds of rice, and 4 million bales of cotton. I would like to point out that the Department's estimates of PIK needs have fluctuated considerably and most likely will continue to do so as program reports on needs

are updated. In addition, depending on the commodity, geographic location, and when the producers elect to take possession of their PIK commodities, actual payment to producers, which began on June 1, 1983, can take place any time up through March 31, 1984. As a result, actual commodity costs associated with PIK probably will not be known until at least April 1984.

Our commodity cost estimates are based on CCC's estimated quantities to meet the PIK obligations. The estimates are also based on the sources the Department expected to use to fulfill its PIK obligations. These sources, as I mentioned earlier, include (1) loan forfeitures for producers who had outstanding loans, (2) loan forfeitures for purchasing additional commodities from producers, (3) CCC inventory, and (4) in the case of wheat and cotton, requiring some producers to take out 1983 loans on their crops and using those crops as their PIK payments. We valued the commodities at CCC's cost, which varies depending on the source of the commodities. An alternative method of valuing the PIK commodities is at current market values. However, it is difficult to determine market values because many producers have not yet taken possession of their PIK commodities and market values vary by geographical areas. Our methodology, a detailed breakdown of our estimated cost of the PIK commodities, and our reasons for not using market values are discussed in appendix I.

Storage costs

Under the PIK program, the Department will pay all producers for up to 5 months storage after their PIK commodities become available. Also, the Department will pay an additional 7-months

storage compensation to producers who have commodities that are stored on the farm in a special type of loan account called a farmer-owned reserve and are to be used to meet PIK obligations. These reserve loans are designed to keep the commodities in storage for an extended period of time. The Department is paying this additional 7-month storage compensation because of the cost these producers incurred for constructing on-farm storage facilities for commodities placed in the reserve. The 7-month storage cost will be paid regardless of when the producers dispose of their PIK commodities. Together, the up to 5-month and the 7-month storage payments will result in a PIK cost ranging from about $104 million to $390 million.

The lower amount--$104 million--is the additional 7-month storage compensation to be paid to producers who have reserve loan commodities stored on their farms. This amount will be paid by the Department regardless of how long the PIK crops are actually stored on the farm. The cost for the up to 5-month storage depends on the time at which producers will take delivery of their PIK commodities. If all producers take possession immediately after they are entitled to the commodities, no 5-month storage costs would be incurred. However, if all producers wait the entire 5-month period, then storage costs will be $286 million. In the latter case, this would increase the total storage costs under PIK to about $390 million.

More detailed cost information and the methodology we used in calculating increased storage costs is in appendix II.

Diversion payments

As stated earlier, to be eligible to participate in the PIK program, producers were required to enroll in the paid land diversion program. Under this program, producers receive direct payments, at a specified rate, for taking a certain percent of their cropland out of production. These payments are called diversion payments. Because more producers participated in the PIK program than in the originally announced 1983 farm program, more producers will receive diversion payments.

In determining the increase in diversion payments as a result of PIK, we relied heavily on the Department's commodity analysts' estimates of what the farm enrollment and paid land diversion acres would have been under the originally announced program and compared their estimates with the program enrollment in PIK.

We estimated a range of $336 million to $371 million for the increase in diversion payments because the cotton program offers a voluntary paid land diversion option while the other commodity programs do not give producers an option. Consequently, because we could not precisely estimate the increased cotton diversion payments attributable to PIK, we used a range. The estimated $336 million increase in diversion payments is based on no participation in the voluntary cotton diversion program and the estimated $371 million is based on the maximum allowed. Appendix III contains more details on the methodology we used and the estimated increased costs for diversion payments.

In all likelihood, there will be no additional costs for deficiency payments as a result of PIK. In fact, the Department may realize savings. Deficiency payments are direct payments to

farm program participants to supplement the participants' income when a commodity's market price is lower than a set price, or a target price, established by law. Possible deficiency payments and what impact the PIK program has had on deficiency payments are difficult to assess. Because commodity prices are much higher today than they were when the Department announced the initial 1983 farm program, the Department most likely will pay less in deficiency payments than it originally expected. However, it is difficult to assess what impact the PIK program has had on increasing commodity prices because abnormal weather conditions have also affected the prices of cotton, corn, and grain sorghum. In addition, deficiency payment rates are based on a 5-month average market price and for most commodities this 5-month period has not yet ended.

We will discuss the Department's estimate of potential budget savings as a result of PIK, including deficiency payments, later.

Distribution of PIK commodities

The Department is obligated to provide PIK commodities as near as possible to a warehouse designated by each producer; however, government-owned stocks needed to meet PIK obligations to the producers are often not located where they are needed. Instead of transporting PIK commodities to the locations needed, the Department chose whenever possible to exchange its commodities for commodities owned by dealers in the needed locations. This generally resulted in the Department paying a premium.

We estimate, based on Department records as of September 30, 1983, that a premium of $167 million was paid to dealers to execute exchanges on wheat, corn, and grain sorghum. The premium

value is based on Department records which show that it paid an additional 5.3 million bushels of wheat, 47.6 million bushels of corn, and 2.9 million bushels of grain sorghum to dealers to execute the exchanges. We identified only one actual shipment of grain that was made to meet PIK requirements. In this case, about 307,000 bushels of corn were shipped from Missouri to Texas at a cost of about $245,000.

Interest costs

We estimate that forgiving loans under the PIK program may cost the Department up to $826 million in potential interest payments from producers. By forgiving loans to meet some of its PIK obligations, the Department forgoes any opportunity to recapture the interest owed by producers on these loans.

The actual interest lost would depend on how many producers would have repaid their loans. A producer's decision to repay the loan would depend on the market price of the particular commodity under loan. When commodity prices are high, producers would most likely repay their loans, including interest; take possession of their commodities; and then sell their commodities in the market. When commodity prices are low, producers tend to forfeit their loan collateral (let the Department take possession of their commodities) rather than pay off the loans. When the collateral is forfeited, both the loan principal and the accumulated interest are written off. Thus, interest due the Department is not received from producers on these forfeited loans. As a result, if producers would not have repaid the loans forgiven because of PIK, then no forgiven interest would have occurred. However, if these loans would have eventually been repaid, then the Department will

lose the potential interest which could be as high as $826 million.

Since cotton, corn, and grain sorghum prices are currently high because of the drought in the South and Midwest, these loans may have been repaid and forgiving these loans would result in an additional PIK cost to the Department. More details on the methodology used and the calculations on the potential interest forgiven are in appendix IV.

In commenting on a draft of this statement, Department officials told us there would savings of $1.5 billion in interest expenditures as a result of PIK. However, this savings was not addressed in the President's mid-session budget estimate. Since this savings was just recently brought to our attention, we have not had the opportunity to review its accuracy and reliability.

Other costs

Our estimate of $55 million for other PIK costs includes $44 million for transferring, into warehouses, farm-stored commodities that the Department purchased under its PIK acquisition program and $11 million for miscellaneous costs to administer the PIK program. Other miscellaneous costs, such as weighing and inspection fees for rice in inventory, will be incurred but are not known at this time.

LARGE PIK PAYMENTS

To respond to your request on large PIK payments, it was necessary for us to survey selected counties because information on individual PIK payments is not expected to be available on a nationwide basis until February 1984. The counties and farms we surveyed were judgmentally, rather than statistically, selected as

follows. Because our objective was to identify large PIK payments, we identified states having the largest total quantities of PIK entitlements for each commodity. We then selected in rank order two states each for rice and cotton, four states for wheat, and five states for corn and grain sorghum. These included a total of nine states because some had the largest entitlements for more than one commodity.

We further selected counties in these states that had either special PIK participants, those whose deficiency and diversion payments would, except for the $50,000 payment limitation, be expected to exceed this limit that was set by law and which tend to be the largest producers, or large farms that put their entire base acres under PIK. After selecting the counties, which numbered 170, including some that had large producers of more than one commodity, we asked the Agricultural Stabilization and Conservation Service's office in each county to provide us information on up to the three largest PIK payments, by crop, in its county. This resulted in collecting information on 708 farms. The dollar value of the PIK entitlements is based on our calculations of the estimated costs of the PIK commodities, which are shown in appendix I to this statement. More detailed information on our survey procedures on large PIK payments is in appendix V.

Our survey results should not be interpreted as including all such large payments nor, on the other hand, should they be interpreted as being representative of all PIK payments.

Survey results

Each of the 708 farms surveyed will receive commodities valued at an average of $175,000; 35 will each receive commodities

valued at over $500,000. Of these 35, 7 will each receive commodities valued at more than $2 million. Six of these seven are California cotton farms and one is a California rice farm.

Of the farms in our survey, those receiving the largest PIK payments are cotton farms in California. These are followed by California rice farms and midwestern corn farms. Texas cotton, Arkansas rice, and wheat and grain sorghum farms will receive PIK commodities valued at lesser amounts.

We obtained PIK payment information for 21 of the approximately 4,000 California cotton farms enrolled in PIK. Twelve of these 21 farms will each receive cotton valued at over $1 million, and all 21 farms will receive cotton valued at a total of about $27 million. The 21 California cotton farms represent about one-half of 1 percent of the total California cotton farms enrolled in PIK, yet they will receive almost 13 percent of the PIK cotton payments due California cotton farmers. In Texas, where large payments were not as prevalent, the 148 cotton farms in our survey, which represented three-tenths of 1 percent of the total Texas cotton farms, will receive almost 6 percent of that state's cotton payments.

Rice payments in California are somewhat similar to cotton payments in California. The 26 California rice farms on which we obtained information will each receive rice valued at an average of $447,000, with four farms receiving payments exceeding $1 million each. The 26 farms, which represent about 1.6 percent of the total California rice farms enrolled in PIK, will receive almost 17 percent of California's rice PIK payments.

At your request, Mr. Chairman, we also identified from the 708 farms in our survey the three largest PIK payments for each of the five PIK crops, including the payments the producers will receive for other PIK crops on their farms or for other farms enrolled in PIK. Of these 15 producers, 13 had other PIK crops on their farms and/or other farms enrolled in PIK which will increase their PIK payments. For example, the largest payment we identified will go to a corporation operating a California cotton farm. The corporation will receive nearly 14,000 bales of cotton costing about $3.6 million. The corporation will also receive about 29,000 bushels of wheat costing nearly $115,000, increasing the total PIK payment to about $3.7 million.

In another case, a corporation operating a Nebraska farm will receive 701,200 bushels of corn valued at about $2 million. The corporation also operates three other farms enrolled in PIK that are located in Texas and Arkansas, and it will receive nearly 234,600 bushels of wheat and 193,600 bushels of corn for these farms. The additional corn and wheat will cost about $1.5 million and increase the total PIK payment to about $3.5 million. More detailed information on the PIK costs associated with these 15 producers is shown in the second table in appendix V.

REASONABLENESS OF BUDGET SAVINGS ATTRIBUTABLE TO PIK

As mentioned earlier, Mr. Chairman, budgetary savings most likely will occur as a result of PIK. In the President's mid-session budget update of July 15, 1983, the Department states that the 2-year PIK program will result in about a $14.9 billion savings from fiscal year 1983 through fiscal year 1986. The

Department's estimate is based on a comparison of estimated program outlays through fiscal year 1986 as a result of a 2-year PIK program and the originally announced 1983 farm program which did not include PIK. It should be pointed out that since July, the Department has revised its 1984 PIK program plans. The July budget estimate was based on a 1984 PIK program for wheat, corn, grain sorghum, rice, and cotton. On August 9, 1983, the Department announced a 1984 PIK program for wheat; however, on September 29, 1983, it announced that there would be no 1984 PIK program for corn and grain sorghum because the 1983 drought made it unnecessary. On October 28, 1983, the Department announced there would be no 1984 PIK program for cotton. The Department has yet to announce its 1984 plans for rice and cotton. As a result of the revisions already made to the 1984 PIK program, the budget estimates and potential savings made in July will need to be revised.

Concerning the July budget estimate, most of the savings were attributed to decreased outlays for storage, diversion, and deficiency payments as a result of the PIK program. A breakdown of the Department's estimated budget savings is as follows.

--$3 billion of the estimated savings represents lower producer storage payments. The $3 billion figure is based on the assumptions that (1) because the PIK program provides a greater incentive for producers not to plant in 1983 and 1984, less commodities will be grown and (2) commodity prices will be high enough so that producers will have no incentive to take out loans on the commodities they do grow. As a result of less commodities being placed

under government loan, the Department will incur less storage payments.

--$3.4 billion represents lower diversion payments. The Department believes that a 1984 PIK program and acreage reduction programs in 1984 and 1985 will keep commodity stocks at desired levels and, therefore, eliminate the need for paid land diversion programs in 1984, 1985, and 1986.

--$7.1 billion represents a reduction in deficiency payments. In estimating this saving, the Department assumed that the Congress would repeal the annual increases in target prices called for in the 1981 farm act and would legislate a freeze on target prices through 1986 at the 1983 price levels. The Department also assumed that the loan rates, which it sets, would be frozen at or below the 1983 levels and that commodity prices would generally exceed the loan rates. The Department believed that with lower target prices and commodity prices higher than loan rates, the deficiency payment rate, which is generally based on the difference between the two prices, would be reduced and the corresponding projected deficiency payments would be substantially lower. The Department also assumed that less acres would be planted in 1983 and 1984 because of the PIK program; thus, less acres would be subject to deficiency payments and this would further reduce the amount of future deficiency payments.

--The other $1.4 billion in estimated savings represents a reduction in net lending on loans and less costs for handling and transportation of commodities.

Budget estimates on farm program costs are very difficult to project because of the uncertainties surrounding the agricultural sector of the economy. These uncertainties involve (1) weather conditions, which have an enormous impact on crop production (the latest evidence of which is the drought this year in the Midwest which resulted in the Department's revising its 1984 PIK program plans), (2) domestic and foreign demand for our agricultural commodities, (3) foreign production of commodities, (4) the strength or weakness of the dollar, and (5) legislative and administrative changes affecting farm programs.

Of the areas covered in the Department's estimates, storage, net lending, and the handling and transportation of commodities appear to offer the potential for savings. However, we have concerns about the Department's assumptions on diversion and deficiency payments. On diversion payments, the Department assumed that with PIK, a paid diversion program would not be needed in 1984, 1985, and 1986 and that the Congress would not legislate a paid land diversion program. However, increased commodity prices brought on by a combination of PIK and the drought could provide producers with the incentive to increase plantings in crop year 1984 and beyond which could result in large harvests in future years. Under this scenario, if a paid land diversion program is needed, or is legislated, the savings for diversion as a result of the PIK program may be negated.

Our concerns with the projected deficiency payment savings stem from the fact that the two programs the Department compared, the PIK program and the originally announced land diversion program, were not analyzed on the same basis. As stated earlier,

deficiency payments are cash payments made to producers to supplement the producers' income when a commodity's market price is lower than a set price, or target price, established by law. If target prices are reduced and loan rates remain the same, deficiency payments will be lower.

In analyzing the PIK option, the Department assumed that loan rates for 1984 through 1986 would be about the same as those for 1983 and that the Congress would comply with its request to repeal the higher target prices currently scheduled to go into effect through 1985 and freeze these target prices at the lower 1983 levels. This would result in lower deficiency payments. In analyzing the non-PIK option, the Department assumed that loan rates for 1983 through 1986 would be similar to those it assumed under the PIK option but that the higher target prices established by law would stay in effect. This would result in higher deficiency payments. If the higher prices currently in effect were used under the PIK option analysis, deficiency payments under the PIK option would most likely be higher, thus decreasing the savings attributable to the PIK option. In fact, Department officials who commented on a draft of this testimony said that $4.0 billion of the $7.1 billion deficiency savings is not a result of PIK but a result of anticipated frozen target prices.

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As I indicated at the outset of my statement, Mr. Chairman, we will be continuing our analysis of the PIK program, building on the information we have developed to date.

That concludes my statement. We will be glad to respond to any questions.

METHODOLOGY USED TO CALCULATE THE ESTIMATED COST OF PIK COMMODITIES

Our estimate of the cost of PIK commodities is based on the Department's estimate of quantities needed to satisfy PIK obligations to farmers. We priced these quantities at CCC's cost, which varies depending on the source used to fulfill the obligation; that is, whether the commodities come from outstanding loans, CCC inventory, purchases of additional commodities from producers with outstanding loans, or "harvest for PIK."

The quantities needed for PIK are based on the Department's report of total quantities needed as of August 29, 1983 (September 9, 1983, for cotton) plus the Department's estimated quantities needed to account for any differences between the quality of commodities given to producers and the quality required by the program. For example, producers entitled to No. 2 yellow corn will in some cases be given No. 3 or No. 4 corn by CCC. In these cases, CCC has to make up for the quality difference by giving the producers additional quantities of corn.

The sources of the commodities used to pay PIK obligations will vary. The first source for each crop is the producer's own commodity that has been pledged as collateral for a CCC loan. In these cases, the Department would forgive part or all of the loan (principal and interest) and the producer would retain the commodity as payment for PIK. If the PIK participant has no loan, then the commodity must come from CCC's inventory stocks which it has

acquired either through normal loan forfeitures or through purchases from producers who had commodities under loan that were not needed for their PIK entitlements. If the loans and CCC's inventory stocks are not sufficient to pay all PIK requirements, as is the case for wheat and cotton, selected producers are required to take out CCC loans on their 1983 crop and then, through immediate forfeiture of the loan collateral, use that crop as their PIK payment. This is labeled as the "harvest for PIK" program.

We determined the dollar value to be placed on the quantities needed for PIK for each source to be used for payment. For loans forgiven to meet PIK obligations, we first determined (1) all outstanding loans in effect as of April 30, 1983, that could possibly have been used for PIK and (2) the weighted average unit price for each commodity for these outstanding loans. We then determined the quantities of commodities under loans to be forgiven as a result of PIK and valued each of these commodities based on the same weighted average unit price determined for all outstanding loans on that commodity. We used these prices based on our assumption that the mix of loans forgiven for PIK would be the same as the mix of all loans as of April 30, 1983. It was necessary to make this assumption because the actual mix of loans to be forgiven was (and is) not known. We chose the April 30, 1983, date because April was the last month prior to any unusual impact on loans from PIK activity, such as loan acquisitions, which is discussed below.

For commodities that CCC had purchased, we determined the weighted average unit price for each commodity using the same method discussed above. We then added the additional cost, or premium, the Department paid to producers when it acquired these commodities. Although the crop years of the commodities purchased under the acquisition program are known, we used the same weighted average unit prices we used on the forgiven loans because some of the acquisition program commodities, specifically wheat and grain sorghum, will be used for other than PIK purposes. Although the amount of commodities to be used for other purposes can be determined, their identity, by crop year, can not.

We valued PIK payments from CCC's inventory at the April 30, 1983, average unit cost to CCC, as computed by the Department, for commodities in CCC's inventory. We valued the 1983 wheat and cotton "harvest for PIK" loans at the 1983 weighted national average loan rate.

An alternative method of valuing the PIK commodities is at current market values. Although current market values may reflect actual commodity values to producers, it is difficult to determine these values because first many producers have not yet taken possession of their PIK commodities and secondly market values vary in different geographical areas. The methodology we used to determine the value of the PIK commodities is based on what the commodities cost the Department and is more representative of the cost to the federal government in making PIK commodity payments to producers.

Our estimated cost is not the final cost that will be incurred to meet PIK obligations. It is merely an estimated cost to the government of the commodities at one point in time. The Department's estimates of needs have fluctuated considerably from time to time and will most likely continue to change as program information is updated. For each 1 million bushel change in corn, sorghum, and wheat, we estimate the cost will vary by about $2.8, $2.9, and $3.9 million, respectively. For each 1 million pound change in rice, the cost will vary by about $80,000; and for each 1,000 bale change in cotton, the estimated cost will vary by about $264,000. Fluctuations in the Department's estimates of requirements for PIK are as follows:

Fluctuations in USDA's Estimated PIK Needs

	Corn (bushels)	Sorghum (bushels)	Wheat (bushels)	Rice (pounds)	Cotton (bales)
	(thousands)				
Estimated needs, 5/25/83	1,799,260	227,232	550,977	4,029,059	4,110
Changes in Needs:					
5/25 to 7/13/83	+10,037	-26,906	+5,126	+66,381	-25
7/13 to 8/8/83	-55,658	-11,847	-20,708	-133,572	-27
8/8 to 8/29/83	-9,499	-11,067	+8,288	+38,511	-
8/29 to 9/9/83	+112,813	-418	+2,541	+110,530	-46
Estimated needs, 9/9/83	1,856,952[a]	176,994	546,225[a]	4,110,909	4,012

[a]Does not add due to rounding.

As the table shows, some significant increases and decreases have occurred. For example, the requirement for corn increased nearly 113 million bushels between August 29 and September 9, 1983. Unless there is a subsequent decrease, this increase alone will add about $321 million to the cost of PIK commodities.

The following table presents our estimates of the cost of the commodities that will be used as PIK payments, based on the Department's estimate of PIK requirements as of August 29, 1983 (September 9, 1983, for cotton).

Estimate of the PIK Cost of Commodities

	Quantity	Rate	Cost
CORN (bushels)			
Quantity needed as of 8/29/83	1,744,139,524		
Plus: quality adjustment needs	91,000,000		
Total needed	1,835,139,524		
Provided from:			
Producer loans	815,007,081	$2.69441	$2,195,963,229
Loan purchases	760,076,566	2.69441	2,047,957,900
Added cost of loan purchases (133,563,650 bu. x $2.69441)	-		359,875,234
CCC inventory[a]	260,055,877	2.36296	614,501,635
Total	1,835,139,524		$5,218,297,998
SORGHUM (bushels)			
Quantity needed as of 8/29/83	177,411,825		
Plus: quality adjustment needs	16,000,000		
Total needed	193,411,825		
Provided from:			
Producer loans	82,263,613	$2.69153	$221,414,982
Loan purchases[b]	111,148,212	2.69153	299,158,747
Added cost of loan purchases (17,728,140 bu. x $2.69153)	-		47,715,821
Total	193,411,825		$568,289,550

Estimate of the PIK Cost of Commodities

	Quantity	Rate	Cost
WHEAT (bushels)			
Quantity needed as of 8/29/83	543,683,769		
Plus: quality adjustment needs	5,000,000		
Total needed	548,683,769		
Provided from:			
Producer loans	207,482,922	$3.69474	$ 766,595,451
Loan purchases[b]	188,229,352	3.69474	695,458,516
Added cost of loan purchases (33,203,658 bu. x $3.69474)			122,678,883
Harvest for PIK 1983 loans	152,971,495	3.65	558,345,957
Total	548,683,769		$2,143,078,807
RICE (pounds)			
Quantity needed as of 8/29/83	4,000,378,582		
Plus: quality adjustment needs	230,100,000		
Total needed	4,230,478,582		
Provided from:			
Producer loans	2,067,452,384	$0.08174	$168,993,558
CCC inventory[a]	2,163,026,198	0.07862	170,057,120
Total	4,230,478,582		$339,050,678

Estimate of the PIK Cost of Commodities

	Quantity	Rate	Cost
COTTON (bales)			
Quantity needed as of 9/9/83[c]	4,011,915		
Plus: quality adjustment needs	200,000		
Total needed	4,211,915		
Provided from:			
Producer loans	2,404,828	$248.72225	$ 598,134,231
Loan purchases	779,695	248.72225	193,927,495
Added cost of loan purchases (170,265 bales x $248.72225)			42,348,694
CCC inventory[a]	520,685	242.71370	126,377,383
Harvest for PIK 1983 loans	505,707	264.00000	133,770,648
Total	4,211,915		$1,094,558,451
Grand total all crops			$9,363,275,484

[a]Calculated as the remaining quantity needed to satisfy PIK needs.

[b]Another 36,180,837 bushels of sorghum valued at about $97.4 million and another 34,766,727 bushels of wheat valued at about $128.5 million were purchased under the loan acquisition program but were not needed to fulfill PIK needs. Instead, these commodities will probably be used to meet other farm program requirements. The Department also paid a premium to acquire these commodities. The extra sorghum cost about $15.3 million more than the average loan rate, and the extra wheat cost about $20.9 million more.

[c]The 9/9/83 date was used because cotton needs were not available as of 8/29/83 due to recalculations resulting from the cotton acquisition program.

INCREASED STORAGE COMPENSATION AS A RESULT OF PIK

FARMER-OWNED RESERVE COMMODITIES STORED ON THE FARM

The Code of Federal Regulations relating to the PIK program provides that additional compensation for storage is to be paid for farm-stored reserve commodities that are used to meet PIK entitlements. The payment rate for wheat, corn, and grain sorghum is 15.5 cents per bushel for the loan quantity used and represents 7 months of storage. Only corn, sorghum, and wheat have reserve loans.

We determined the estimated amount for this additional storage compensation in the following manner, assuming that the farm-stored reserve loan quantities actually used for PIK will have the same relationship of reserve to regular loans and farm-stored to warehouse-stored commodities as the total quantities under loan at April 30, 1983.

First, we determined, by commodity, the percentage of loan quantities in reserve as of April 30, 1983, and the ratio of reserve loan quantities that were farm stored. We then applied the reserve loan quantity percentage factor, by commodity, to the latest information available on the total producer loan quantities to be used in meeting PIK entitlements as reported by the Department of Agriculture for August 29, 1983. This gave us the reserve loan quantity for each of the three commodities.

Next, we applied the farm-stored ratio to the reserve loan quantity and multiplied the resulting bushels by the additional storage rate of 15.5 cents per bushel. The result (as scheduled below) shows an estimated $104 million will be paid as additional storage for farm-stored reserve commodities.

Additional Storage Compensation

for Farm-Stored Reserve Commodities

	Producer commodities used	x	Farm-stored ratio	=	Farm-stored quantity	x	7-month storage rate (cents)	=	Additional storage amount
CORN									
Total bushels (at 8/29/83)	815,007,081								
x Reserve share	x .9281								
Reserve quantity	756,408,072	x	.7213	=	545,597,142	x	15.5	=	$ 84,567,557
SORGHUM									
Total bushels	82,263,613								
x Reserve share	x .9773								
Reserve quantity	80,396,229	x	.1896	=	15,243,125	x	15.5	=	2,362,684
WHEAT									
Total bushels	207,482,922								
x Reserve share	x .9405								
Reserve quantity	195,137,688	x	.5628	=	109,823,491	x	15.5	=	17,022,641
Total additional storage compensation to producers with farm-stored reserve commodities									$103,952,882

POSSIBLE ADDITIONAL STORAGE PAYMENTS

Producers may claim (take title to) their PIK entitlements any time during a 5-month period beginning with the normal harvest date in their area. For those producers having commodities under loan, either farm-stored or warehouse-stored, the Department will pay storage for up to 5 months after the date of entitlement. The Department will also pay storage for up to 5 months for those producers who will receive PIK entitlements that came from the Department's loan purchases and for those producers required to take out 1983 "harvest for PIK" wheat and cotton loans. Storage payments will not be incurred on PIK commodities coming directly from government-owned CCC inventory stocks held prior to the PIK program.

If all eligible producers took immediate possession of their PIK entitlements on the availability dates, no storage costs would be incurred. On the other hand, if all eligible producers waited until the last dates of the 5-month availability periods, maximum storage costs of about $286 million would result. We estimated this amount as follows.

APPENDIX II

Possible Storage Payments for Producers

	Quantity	Monthly storage rate[a]	Monthly storage amount
CORN (bushels)			
Total need (8/29/83)	1,835,139,524		
Less: CCC inventory qty.	260,055,877		
Storage quantity	1,575,083,647	$0.0220833	$ 34,783,045
SORGHUM (bushels)			
Total need (8/29/83)	193,411,825		
Less: CCC inventory qty.	0		
Storage quantity	193,411,825	0.0220833	4,271,171
WHEAT (bushels)[b]			
Total need (8/29/83)	548,683,769		
Less: CCC inventory qty.	0		
Storage quantity	548,683,769	0.0220833	12,116,748
RICE (pounds)			
Total need (8/29/83)	4,230,478,582		
Less: CCC inventory qty.	2,163,026,198		
Storage quantity	2,067,452,384	0.0007083	1,464,377
COTTON (bales)[b]			
Total need (9/9/83)	4,211,915		
Less: CCC inventory qty.	520,685		
Storage quantity	3,691,230	1.26	4,650,950
Monthly total storage			57,286,291
Times 5 months maximum limit			x 5
Total maximum storage payments			$286,431,455

[a]Monthly storage rates are calculated at 1/12 of the annual rates, as follows:

	Annual rate	Monthly rate
Corn	$ 0.265 bu.	0.0220833
Sorghum	0.265 bu.	0.0220833
Wheat	0.265 bu.	0.0220833
Rice	0.0085 lb.	0.0007083
Cotton	15.12 bale	1.26

[b]The storage amounts for wheat and cotton include possible payments to "harvest for PIK" producers. No other crops have "harvest for PIK." The "harvest for PIK" wheat amounts to 152,971,495 bushels for a monthly storage cost of $3,378,115, and the "harvest for PIK" cotton amounts to 506,707 bales for a monthly storage cost of $638,451. Thus, "harvest for PIK" storage payments could range from zero, if all producers took possession on the dates of entitlement, to $20,082,830, if all producers waited to the end of the 5-month storage periods to take possession of their "harvest for PIK" wheat and cotton.

APPENDIX III

METHODOLOGY FOR COMPUTING INCREASED DIVERSION PAYMENTS

Enrollment in the 1983 farm program with the PIK component is substantially greater than the anticipated enrollment in the originally announced 1983 farm program. While one cannot determine the exact effect that PIK had on producers' decisions to withdraw from the originally announced program, remain in the originally announced program, or participate in PIK, one can reasonably say that enrollment in the 1983 farm program increased after PIK was announced. Because of this increased enrollment, additional acreage was enrolled in the paid land diversion program and increased diversion payments will have to paid as a result of PIK.

To determine the increase in diversion payments attributable to PIK, we relied heavily on Department commodity analysts' estimates of what the farm enrollment and paid land diversion acres would have been under the originally announced program. The analysts had prepared two estimates, one in January and another in July 1983. After discussions with the analysts, it was determined that the July estimate, although lower than the January estimate, was their best estimate of what the enrollment and diverted acres would have been under the original program. We then compared that estimate with the actual PIK program enrollment as of August 1983 to determine increased diversion payments. Because corn and grain sorghum data on the August 1983 PIK enrollment report was combined, we determined increases in corn and grain sorghum diversion

payments by using the estimates prepared by the Department's Interagency Feed Grains Estimates Committee in June 1983 rather than the August enrollment report.

Using these sources, we determined the increase in paid land diversion participation and the corresponding increase in units (bushels for wheat, corn, and grain sorghum and pounds for rice and cotton) that would be subject to increased diversion payments. We then applied the 1983 diversion rates to the increased units to determine the increase in diversion payments as a result of PIK. Because the cotton program offers a 5-percent voluntary paid land diversion option, the increased cotton diversion payments attributable to PIK were not readily determinable. The following table, therefore, shows the estimated increase in diversion payments based on both no participation in the cotton option and the maximum 5-percent participation.

APPENDIX III

Increased Diversion Payments Attributable to PIK

Commodity	Increase in paid land diversion acres under PIK	Increase in units subject to diversion payments	Diversion payment rate	Increase in diversion payments attributable to PIK
Corn	1,300,000	164,000,000 bu.	$1.50 bu.	$246,000,000
Sorghum	300,000	18,000,000 bu.	1.50 bu.	27,000,000
Wheat	664,488	22,127,450 bu.	2.70 bu.	59,744,115
Rice	25,625	126,570,000 lbs.	0.0270 lb.	3,417,390
Total (Based on no participation in cotton)				336,161,505
Cotton	116,093	138,136,730 lbs.	0.25 lb.	34,534,182
Total (Based on 5 percent participation in cotton)				$370,695,687

METHODOLOGY FOR COMPUTING POTENTIAL INTEREST LOST

Producers who take out regular and reserve loans under the CCC price-support program are generally charged interest on their loans. For regular loans, interest is usually charged for the 9-month loan period. For reserve loans, which are issued for 3 years and can be extended for an additional 2 years, interest is charged for only the first year. When commodity prices are strong, producers would most likely repay their loans, including interest, at or before the end of the loan period so they could sell their commodities in the market. When commodity prices are weak, producers tend to hold their loans until maturity and to forfeit their loan collateral at that time rather than pay off the loan. When loan collateral is forfeited, the producer is no longer responsible for paying either the loan principal or accrued interest. Consequently, CCC receives no interest from producers on forfeited loans.

The Department will meet its PIK obligation to PIK participants who have outstanding regular and reserve loans by forgiving their outstanding loans in proportion to their PIK payments. In addition, the Department purchased additional wheat, corn, grain sorghum, and cotton from producers with outstanding loans to meet its PIK obligations. The Department paid the producers for these additional purchases by forgiving the producers' outstanding

loans. When it forgives loans, the Department forgoes any opportunity to recapture the interest producers owe on these loans. Therefore, this forgiven interest income can be considered a PIK cost.

In determining the amount of loans with potential forgiven interest, we used (1) the actual amount of the loans, by crop year, that were forgiven as a result of the Department's additional purchases and (2) an estimate of the amount of loans forgiven to meet producers' PIK payments from outstanding loans. The actual amount of these latter loans will not be known until 5 months after the last PIK availability date has been met, or sometime after March 1984. To estimate the amount of these loans, we determined the universe of outstanding loans, by crop year, as of April 30, 1983, and then weighted the loans that would be forgiven, by crop year, in the same proportion as that reflected in the April 30, 1983, loan figures.

The interest rates we used in calculating the potential interest forgiven were based on the Department's interest schedules which showed the various interest charges by crop year. For crop year 1976 through 1980 loans, the interest rate was fixed for the life of the loan and the interest rates tended to remain the same for the entire crop year. Beginning with crop year 1981 loans disbursed after January 1, 1981, variable monthly interest rates were charged based on the interest rates the U.S. Treasury charged CCC during the month the loan was disbursed. In addition,

the interest rates on outstanding 1981 and subsequent crop year loans is reviewed each January and increased or decreased to reflect Treasury rates at that time. Because most outstanding loans would carry the January rate, we based interest rates for crop year 1981 and 1982 loans on the January interest rate the U.S. Treasury charged CCC in the applicable year.

Since all regular loans except those for rice have a maturity of 9 months, we calculated the potential interest forgiven on all corn, grain sorghum, and wheat loans for a 9-month period. Because 1980 and 1981 regular cotton loans have been extended and continue to accrue interest, the potential interest forgiven on these loans is based on 29 months for 1980 loans and 17 months for 1981 loans.[1] Since rice loans have a common maturity date of April 30, and the majority of these loans are issued by October, the potential interest forgiven was calculated for a 7-month period. The potential interest forgiven on reserve loans is based on 1 year. All interest rate calculations were based on simple interest.

The following table summarizes the potential forgiven interest associated with loans forgiven as a result of the 1983 PIK program.

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[1]Regular 1980 cotton loans have since been extended for 8 and then 12 additional months. Regular 1981 cotton loans have been extended an additional 8 months. Interest continues to accrue on these extensions.

Computations of Potential Interest Forgiven on PIK Loans

	Producer loans	Acquisitions from loans	Value of loans forgiven[a]	Loan values subject to interest	Interest rate	Potential forgiven interest
	(thousands)					(thousands)
CORN						
Regular loans:						
1981	$ 28,164	$ 34,120	$ 62,284	$ 62,284	13.1	$ 6,119
1982	120,176	137,950	258,126	258,126	9.0	17,424
Total	148,340	172,070	320,410	320,410		23,543
Reserve loans:						
1976[b]	118	13	131	131	7.5	10
1977	4,669	3,912	8,581	8,581	6.0	515
1978	3,549	3,386	6,935	6,935	7.0	485
1979	4,136	3,337	7,473	7,473	9.0	673
1980	30,219	26,219	56,438	47,456[c]	11.5	5,457
1981	939,479	1,177,049	2,116,528	2,116,528	13.1	277,265
1982	1,065,448	1,005,678	2,071,126	2,071,126	9.0	186,401
Total	2,047,618	2,219,594	4,267,212	4,258,230		470,806
Total	$2,195,958	$2,391,664	$4,587,622	$4,578,640		$494,349

APPENDIX IV

Computations of Potential Interest Forgiven on PIK Loans

	Producer loans	Acquisitions from loans	Value of loans forgiven[a]	Loan values subject to interest	Interest rate	Potential forgiven interest
	(thousands)					(thousands)
SORGHUM						
Regular loans:						
1981	$ 773	$ 1,857	$ 2,630	$ 2,630	13.1	$ 258
1982	3,660	8,585	12,245	12,245	9.0	827
Total	4,433	10,442	14,875	14,875		1,085
Reserve loans:						
1980	4,063	5,642	9,706	9,635[c]	11.5	1,108
1981	99,233	211,909	311,142	311,142	13.1	40,760
1982	113,685	231,627	345,313	345,313	9.0	31,078
Total	216,981	449,178	666,161	666,090		72,946
Total	$221,414	$459,620	$681,036	$680,965		$74,031

APPENDIX IV

Computations of Potential Interest Forgiven on PIK Loans

	Producer loans	Acquisitions from loans	Value of loans forgiven[a]	Loan values subject to interest	Interest rate	Potential forgiven interest
	(thousands)					(thousands)
WHEAT						
Regular loans:						
1981	$ 2,671	$ 12,844	$ 15,515	$ 15,515	13.1	$ 1,524
1982	9,663	46,461	56,123	56,123	9.0	3,788
Total	12,334	59,305	71,638	71,638		5,312
Reserve loans:						
1976[d]	4,169	38	4,207	4,207	7.5	316
1977	8,843	457	9,300	9,300	6.0	558
1978	6,469	289	6,758	6,758	7.0	473
1979	11,641	1,449	13,090	13,090	9.0	1,178
1980	121,714	122,676	244,390	141,851[c]	11.5	16,313
1981	152,212	222,245	374,457	374,457	13.1	49,054
1982	418,654	591,195	1,009,848	1,009,848	9.0	90,886
Total	723,702	938,349	1,662,050	1,559,511		158,778
Total	$736,036	$997,654	$1,733,688	$1,631,149		$164,090
RICE						
Regular loans:						
1982 (Total)	$212,652	-	$212,652	$212,652	9.0	$11,164

APPENDIX IV

Computations of Potential Interest Forgiven on PIK Loans

	Producer loans	Acquisitions from loans	Value of loans forgiven[a]	Loan values subject to interest	Interest rate	Potential forgiven interest
	(thousands)					(thousands)
COTTON						
Regular loans:						
1980	$ 9,174	$ 608	$ 9,782	$ 9,782	11.5	$ 2,570
1981	255,499	9,421	264,920	264,920	13.1	41,765
1982	333,461	234,496	567,957	567,957	9.0	38,337
Total	$598,134	$244,525	$842,659	$842,659		$82,672
Total	$3,964,194	$4,093,462	$8,057,657	$7,946,065		$826,306

[a]Total may not add due to rounding.

[b]Final settlement date for called corn reserve loans in reserves I, II, and III which had to be settled by May 31, 1983. Settlement was required for all corn reserve loans except those designated for PIK or accepted under the acquisition program.

[c]The total 1980 crop reserve loans have been adjusted based on USDA estimates to reflect interest-free 1980 crop loans in reserves II and III.

[d]Some 1976 crop loans entered the reserve program in 1978 and matured in January 1983. These loans can be extended beyond their maturity date and used for PIK.

APPENDIX IV

APPENDIX V

METHODOLOGY FOR IDENTIFYING LARGE PIK PAYMENTS

At the time of our survey, the Department had not accumulated PIK entitlement information on an individual farm basis in a centralized location. It was available only at the county offices of the Department's Agricultural Stabilization and Conservation Service. We therefore decided that the best way to acquire information on payments to individual farms was by a telephone survey of selected county offices.

To identify county offices that might have farms receiving large PIK entitlements, we initially ranked the states having the largest quantities of PIK payments for each commodity. We selected the states sequentially, starting with the state with the highest quantity, until about half the total nationwide payments was reached.

From these states, we then selected 170 counties to survey, these counties represent the total universe of counties having special PIK participants in the selected states. These are farmers who, expecting that their deficiency and diversion payments would exceed the $50,000 limit set by law, could enter a proportionate share of their acreage in the special PIK program. We chose special PIK participation because we believed it was a good indicator of potentially large payments. In addition, the Department had records showing the counties that had special PIK participants. The scope of our survey selection is shown in the table on page 47.

We then called each of the 170 selected county offices, including some that had larger producers of more than one commodity, and obtained, for each applicable crop, information on up to three farms in each county that had received or were expected to receive the largest quantities of PIK commodities. This resulted in collecting information on 708 farms. Using the results, we then identified for each commodity the farms and operators with the three largest payments. These payments included all PIK contracts entered into by the operator regardless of farm, county, or state. In some cases we had to call additional counties and states to acquire copies of all applicable PIK contracts for these operators.

We then placed a dollar value on these PIK quantities based on a weighted average price per unit. The weighted average price was calculated on the basis of total PIK needs as of August 29, 1983 (Sept. 9, 1983, for cotton), and the cost of providing those PIK needs from farmer-owned loans, CCC loan purchases, and CCC inventory.

PIK Payment Survey Results

Commodity and state	PIK farms in states selected for survey		PIK quantities for selected states		Farms surveyed			Value of PIK quantities for farms surveyed			
	Number	Percent of U.S.	Number	Percent of U.S.	Number	Percent of U.S.	Percent of state surveyed	Quantity	Amount	Percent of U.S.	Percent of state surveyed
Corn/Sorghum (bushels)											
Illinois	89,622	10.43	262,155,332	12.92	30	0.003	0.033	2,677,602	$ 7,613,868	0.132	1.021
Iowa	112,160	13.05	376,851,464	18.58	24	0.003	0.021	2,103,599	5,981,668	0.103	0.558
Kansas	59,183	6.89	44,166,063	2.18	36	0.004	0.061	898,158	2,639,004	0.046	2.034
Nebraska	62,171	7.24	214,438,665	10.57	102	0.012	0.164	6,527,645	18,603,782	0.321	3.036
Texas	43,840	5.10	51,040,020	2.52	74	0.009	0.169	1,513,902	4,448,207	0.077	2.966
Total	366,976	42.71	948,651,544	46.77	266	0.031		13,720,906	$39,286,529	0.679	
Wheat (bushels)											
Kansas	89,469	15.51	51,537,377	9.39	42	0.007	0.047	1,273,034	$ 4,972,280	0.232	2.470
North Dakota	54,456	9.44	83,573,485	15.23	27	0.005	0.050	1,135,014	4,433,194	0.207	1.358
Oklahoma	45,245	7.84	55,051,939	10.03	21	0.004	0.046	552,118	2,156,490	0.101	1.003
Texas	44,672	7.74	46,231,138	8.43	85	0.015	0.190	1,749,189	6,832,070	0.319	3.784
Total	233,842	40.54[a]	236,393,939	43.08	175	0.030[a]		4,709,355	$18,394,034	0.858[a]	
Rice (pounds)											
Arkansas	10,147	51.09	1,370,720,391	32.40	72	0.363	0.710	103,603,613	$ 8,302,794	2.449	7.558
California	1,594	8.03	873,720,092	20.65	26	0.131	1.631	144,988,874	11,619,408	3.427	16.594
Total	11,741	59.12	2,244,440,483	53.05	98	0.493[a]		248,592,487	$19,922,202	5.876	
Cotton (bales)											
California	4,042	3.45	791,419	18.79	21	0.018	0.520	103,734	$26,957,554	2.463	13.107
Texas	53,125	45.35	1,316,209	31.25	148	0.126	0.279	75,115	19,520,279	1.783	5.707
Total	57,167	48.80	2,107,628	50.04	169	0.144		178,849	$46,477,833	4.246	

[a]Does not add due to rounding.

APPENDIX V

Total PIK Payments to the Operators of the Farms Receiving the Three Largest PIK Payments for Each Crop[a]

Crop	Farm	For crop on selected farm	Other crops on selected farm	Operator's other farms	Total
Cotton	A	$3,636,388	$114,875	-	$3,751,263
	B	2,543,886	49,706	-	2,593,592
	C	2,506,984	-	-	2,506,984
Total		$8,687,258	$164,581	-	$8,851,839
Rice	A	$2,190,218	$ -	$ -	$2,190,218
	B	1,548,291	192,537	-	1,740,828
	C	1,229,346	-	92,067	1,321,413
Total		$4,967,855	$192,537	$92,067	$5,252,459
Corn	A	$1,993,890	$ -	$1,466,749	$3,460,639
	B	1,427,204	8,630	-	1,435,834
	C	936,125	5,074	-	941,199
Total		$4,357,219	$13,704	$1,466,749	$5,837,672
Wheat	A	$ 637,146	$ -	$ 32,329	$ 669,475
	B	548,100	8,218	33,188	589,506
	C	421,945	-	2,079	424,024
Total		$1,607,191	$8,217	$67,596	$1,683,005
Sorghum	A	$290,189	$435,887	$127,998	$ 854,074
	B	250,115	68,076	15,197	333,388
	C	241,541	94,915	168,251	504,707
Total		$781,845	$598,878	$311,446	$1,692,169

[a]The dollar value is calculated by multiplying the PIK quantities from CCC contracts times the weighted average price per unit. The weighted average price is calculated on the basis of PIK needs as of August 29, 1983 (Sept. 9, 1983, for cotton) and the cost of providing the PIK commodities from loans, loan purchases, and CCC inventory.

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