

# FARM BILL CHOICES: WHAT SHOULD CROP FARMERS DO?

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**Farm Management Update for Ag Professionals**

September 5, 2014 Kimberly, WI

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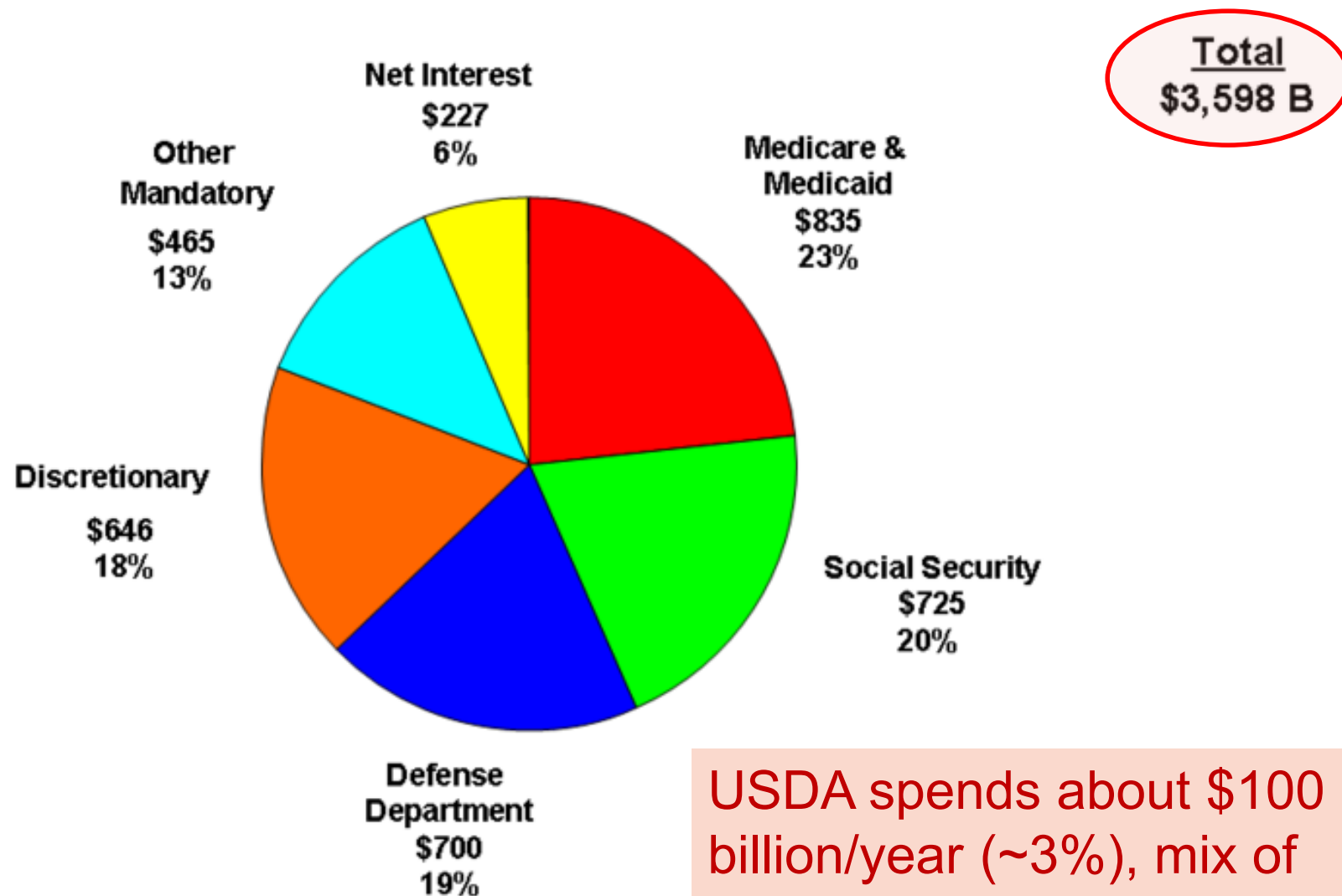
<http://www.aae.wisc.edu/pdmitchell/extension.htm>

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# Goal Today

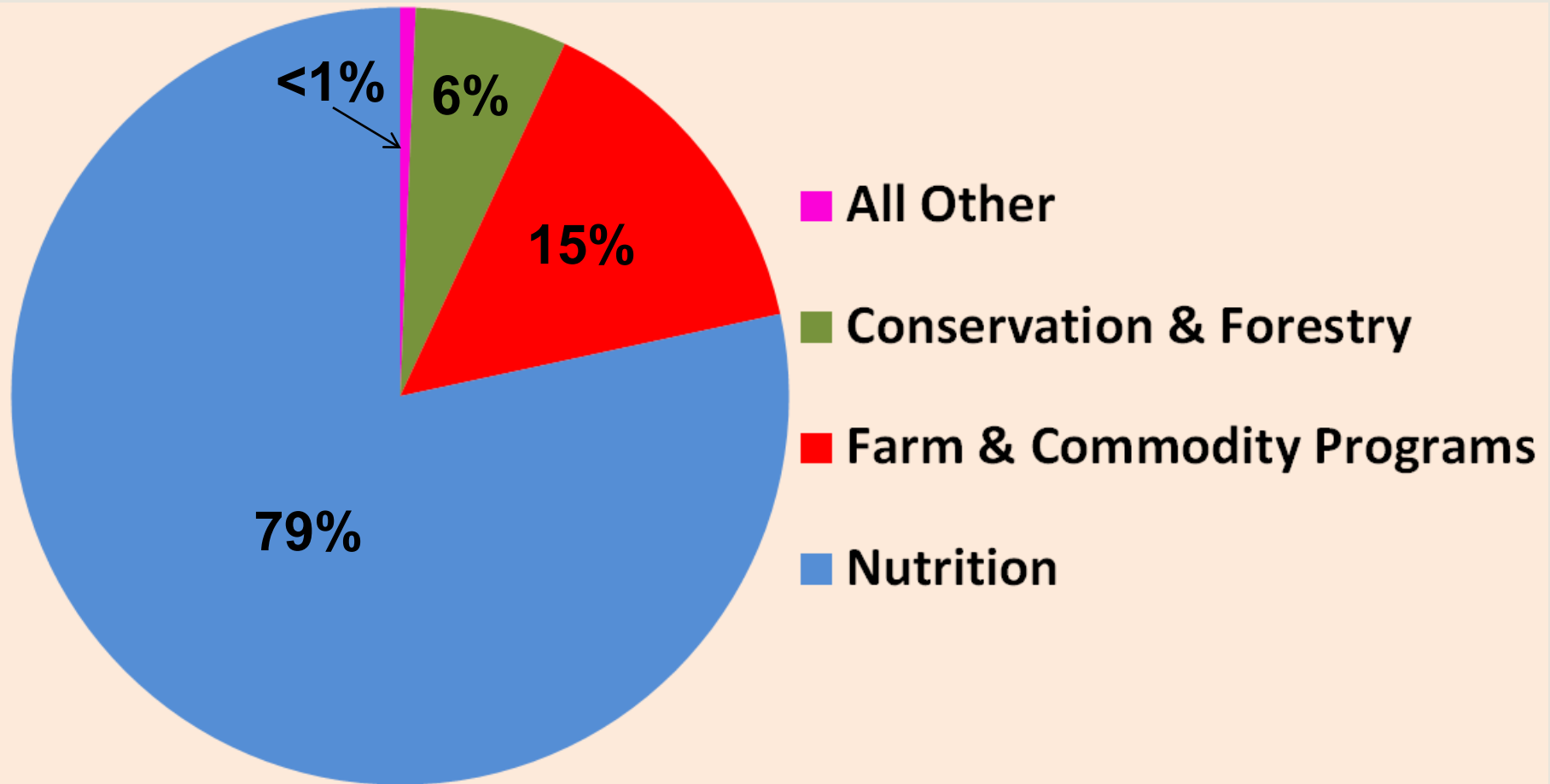
- Overview 2014 Farm Bill changes for Commodity Support
  - DCP and ACRE versus PLC+SCO and ARC
  - Decision points will come later this year (patience)
- Overview crop insurance changes in the Farm Bill
  - Farm Bill did not affect 2014 spring planted crops, changes in place for 2014 winter wheat & 2015 crops

# U.S. Federal Spending – Fiscal Year 2011 (\$ Billions)



USDA spends about \$100 billion/year (~3%), mix of mandatory & discretionary

# Most of the USDA budget under 2008 Farm Bill is for Nutrition Programs (SNAP/Food Stamps, WIC, School Lunch Program)



# Average Annual Outlays Under 2008 Farm Bill

**Crop Insurance**  
**\$8.3 billion**

**Risk Management**  
(field & specialty crops)  
**\$8.4 billion**

Non-insured Disaster Assistance (NAP)  
\$0.1 billion

Supplemental Revenue Assistance Payments Program (SURE)

Ad hoc disaster payments

Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program

**Direct Payments (DP) \$4.9 billion**

Counter-Cyclical Payments (CCP) \$0.559 billion

OR

Average Crop Revenue Election (ACRE) \$0.311 B

Marketing Assistance Loans  
\$0.225 billion

Loan Deficiency Payments (LDP) \$0.225 billion

**Commodity Programs**  
(field crops)  
**\$5.9 billion**

**Farm Safety Net**  
**\$15 B**

**Disaster Assistance**  
(crops & livestock)  
**\$0.8 billion**

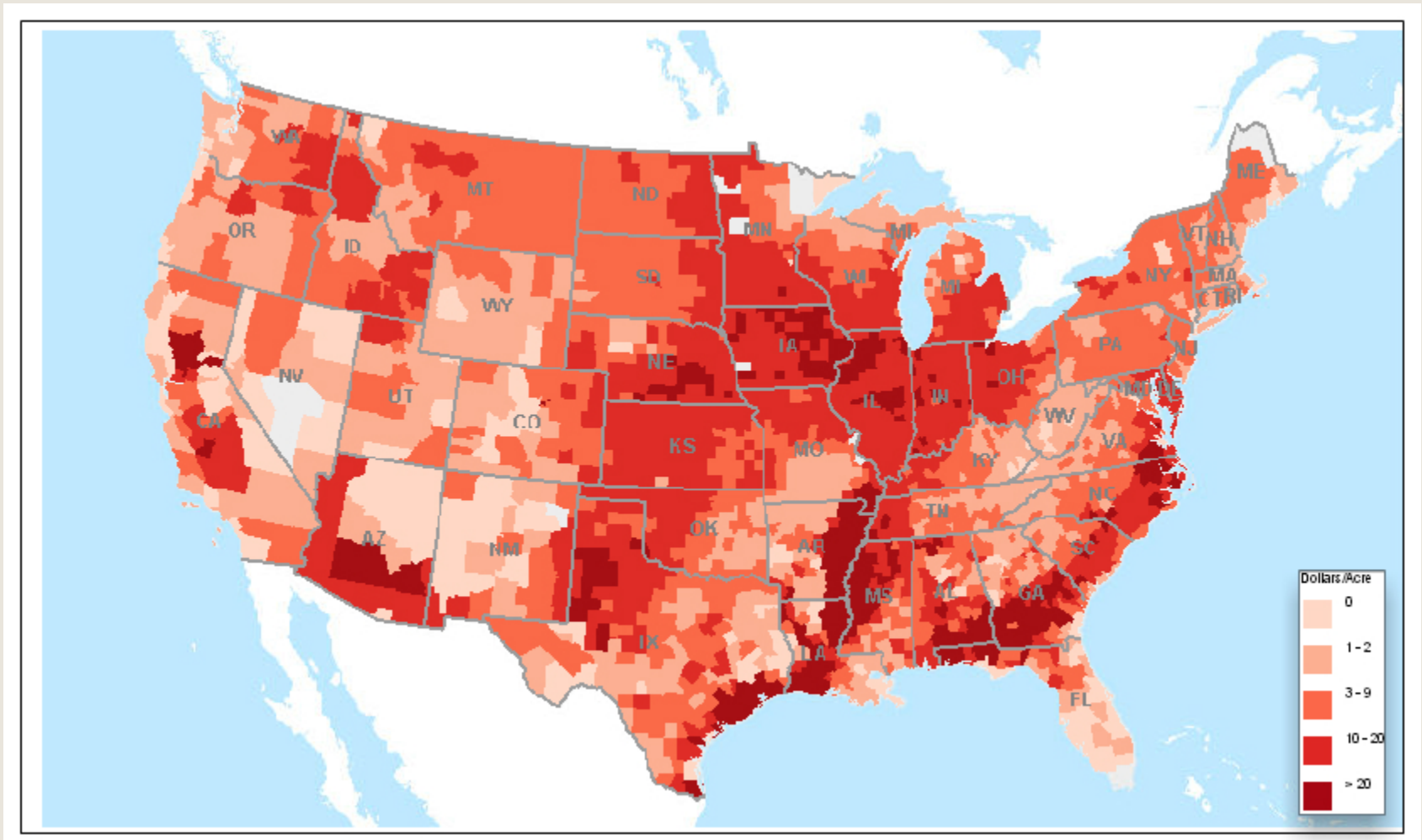
Livestock Indemnity Program

Livestock Forage Disaster Program

Tree Assistance Program

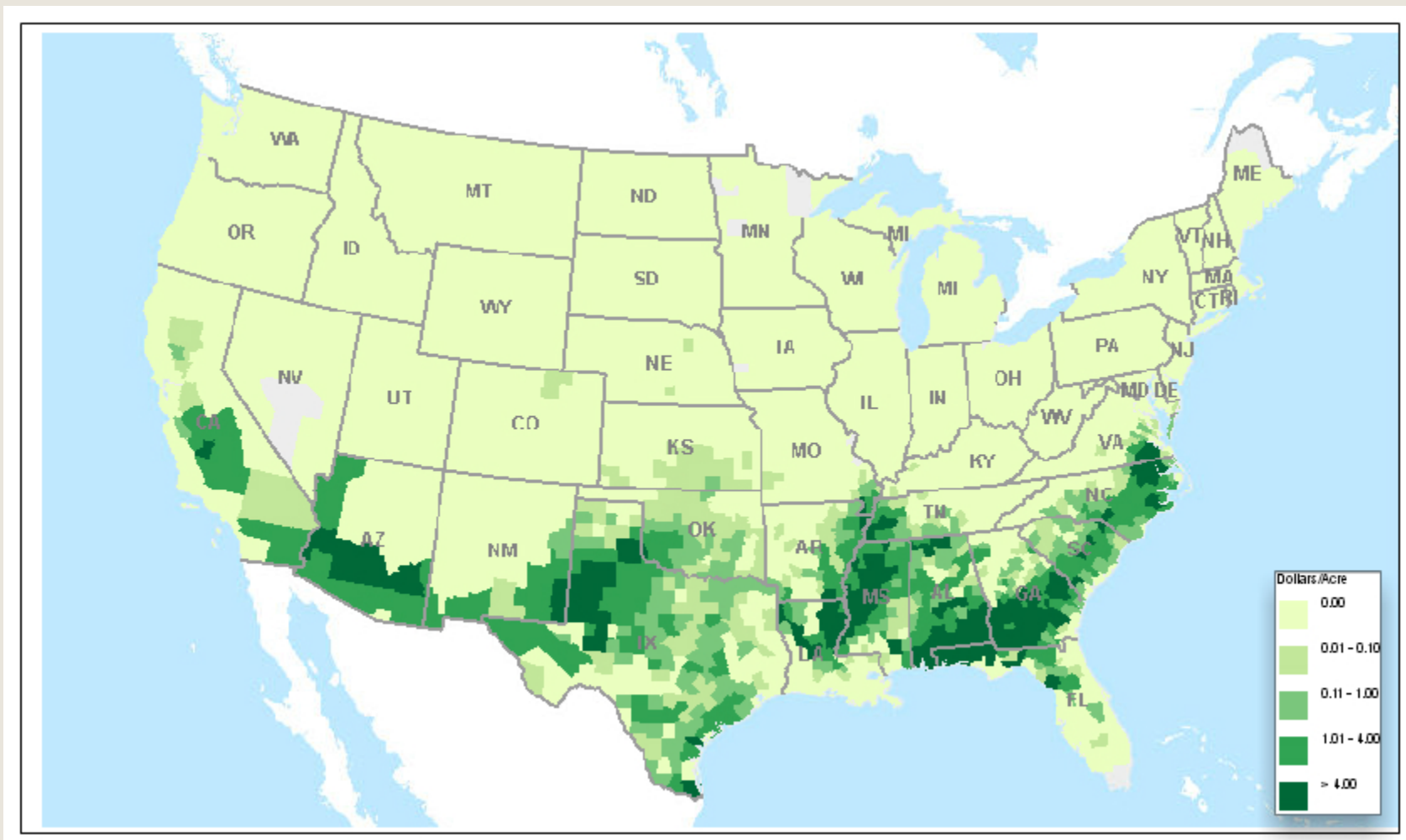
Emergency Disaster Loans

# Direct Payments \$/ac in 2009



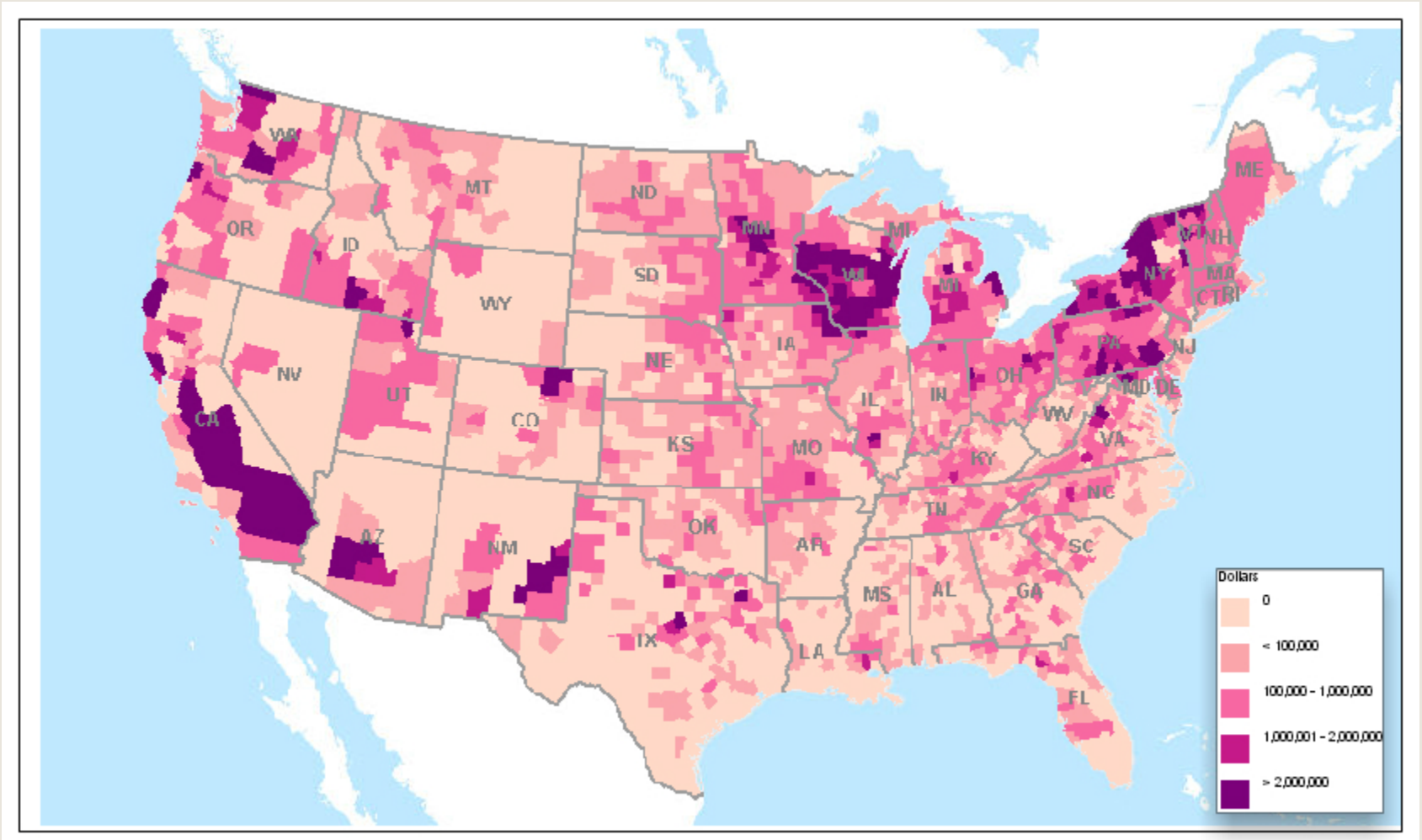
Source: USDA-ERS Farm Program Atlas <http://www.ers.usda.gov/data-products/farm-program-atlas/go-to-the-atlas.aspx#.UgvP3pLCY6k>

# Counter-Cyclical Payments \$/ac in 2009



Source: USDA-ERS Farm Program Atlas <http://www.ers.usda.gov/data-products/farm-program-atlas/go-to-the-atlas.aspx#.UgvP3pLCY6k>

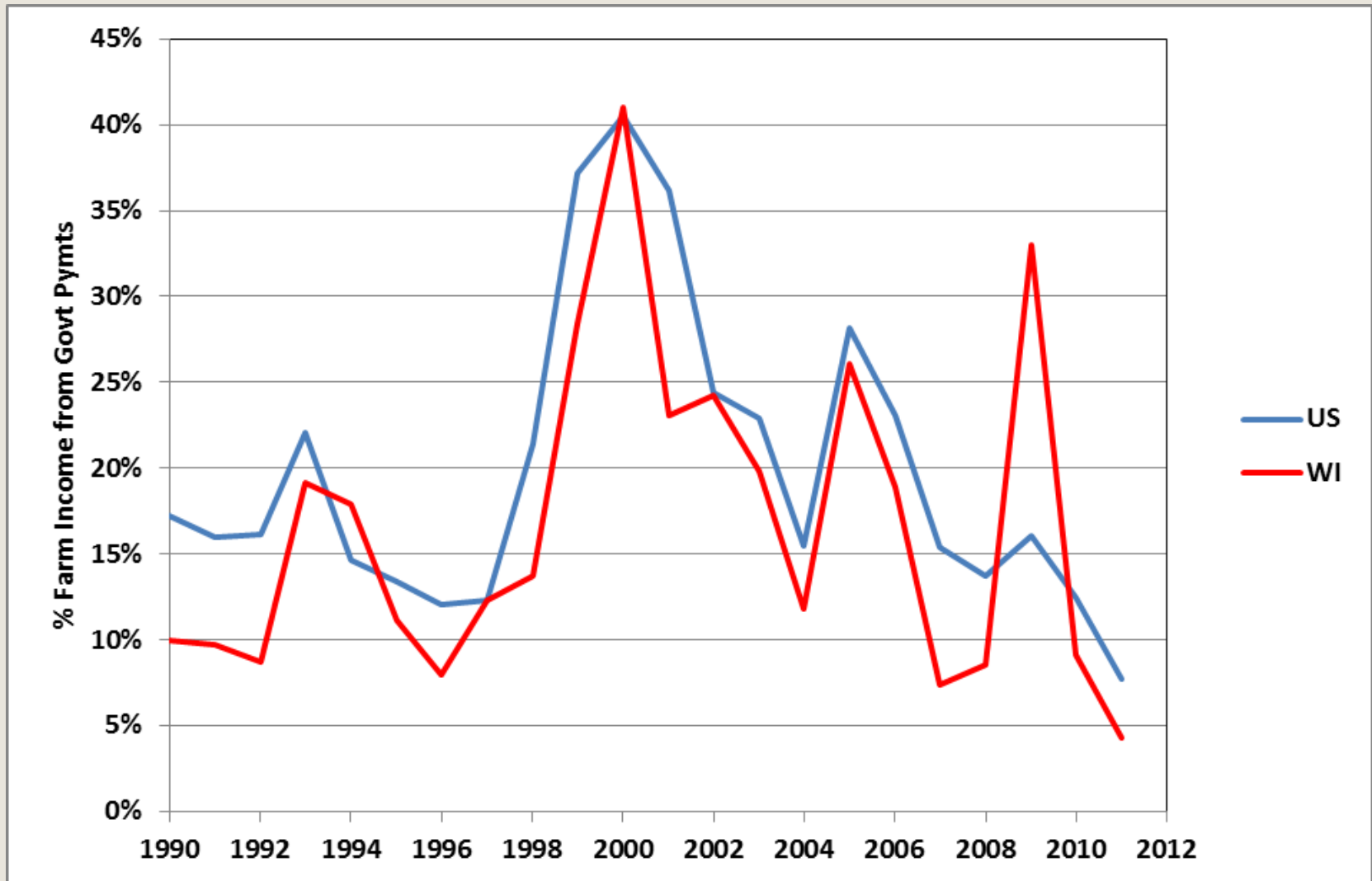
# MILC Payments 2009



Source: USDA-ERS Farm Program Atlas <http://www.ers.usda.gov/data-products/farm-program-atlas/go-to-the-atlas.aspx#.UqvP3pLCY6k>

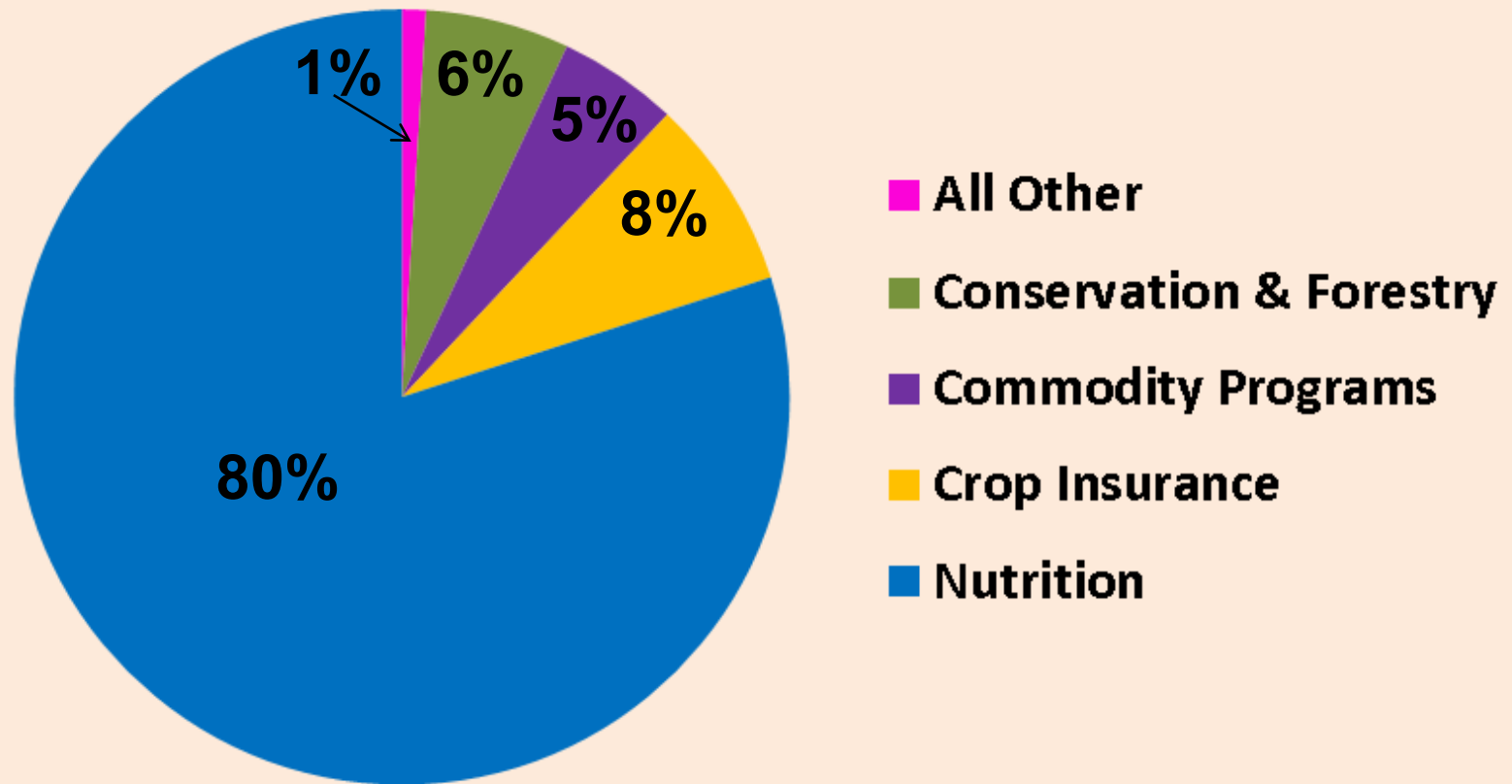


# % Net Cash Income from Govt. Payments not including premium subsidies or indemnities

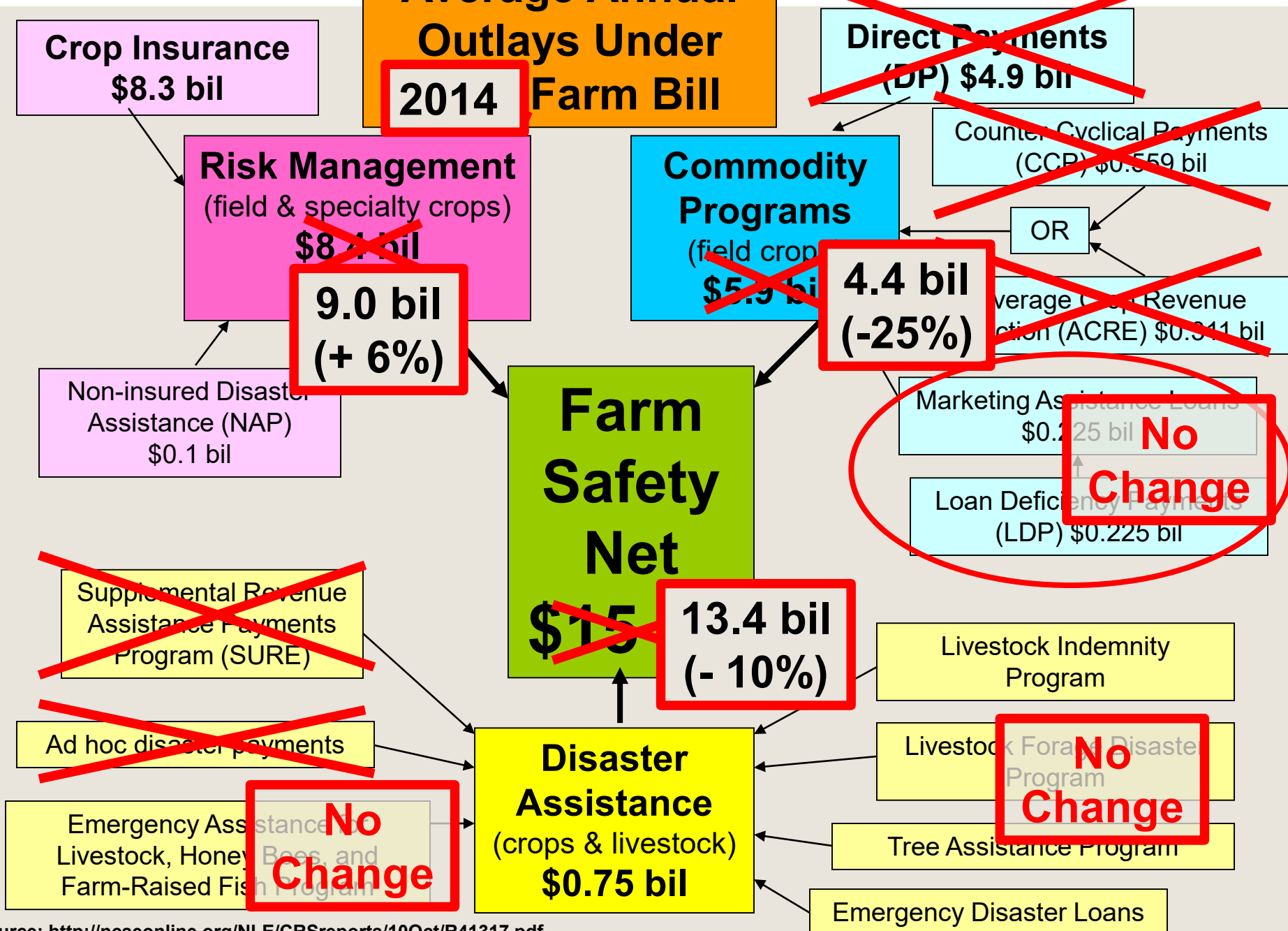


# Most of the USDA budget under 2014 Farm Bill is still for Nutrition Programs

Commodity Support now a 13% share (vs 15%)



# Average Annual Outlays Under 2014 Farm Bill



Source: <http://ncseonline.org/NLE/CRSreports/10Oct/R41317.pdf>

# New Commodity Support Programs

- Price Loss Coverage (PLC)
  - Basically counter-cyclical payments (CCP) with higher target prices
  - Can add Supplemental Coverage Option (SCO) [later]
- Agriculture Risk Coverage (ARC)
  - New and improved ACRE program (revenue support)
  - County revenue by crop or Individual revenue for whole farm
- In 2014, farmers/land owners will have to choose PLC, County ARC by crop or Whole Farm ARC
  - Irrevocable for 2014 – 2018 crop years
  - **FSA will announce signup (Rumor is Jan 2015)**

# Price Loss Coverage (PLC)

- Same as CCP, but higher “Reference Prices”
  - Corn \$3.70, Soybeans \$8.40, Wheat \$5.50, Oats \$2.40
- If National Marketing Year Average Price is less than the Reference Price, PLC payments made
  - $\text{PLC PaymentRate} = \text{ReferencePrice} - \text{MYAPrice}$
  - $85\% \times \text{BaseAcres} \times \text{PaymentYield} \times \text{PLC PaymentRate}$
- Can't increase Base Acres, but can reallocate Base Acres based on shares of covered crops planted 2009-2012
- Can update Payment Yields to 90% of the farm average yield over 2008-2012
- Eligible for Supplemental Coverage Option (SCO) [later]

# Updating Base Acres

- Suppose an FSA “Farm” has 100 base acres: 50 corn, 30 soybean and 20 oats based on previous history
- Average acres planted during 2009-2012: 55 corn acres, 35 soybean and 10 oats
- Can shift PLC payments to crops that you have been planting: from oats to more corn and more soybeans
- Beneficial because expect higher payments with corn and soybeans than with oats
- Note that the farm cannot increase total base acres, only the shares for corn, soybean, oats or other program crops planted during 2009-2012

# Updating: Payment Yields

- It's been awhile since allowed to update payment yields to reflect current yield potentials
- Payment Yields now can become 90% of the farm average yield during 2008-2012
- Payment yields have always been low relative to the farm's expected yield
- PLC Payments
  - $\text{PLC PaymentRate} = \text{ReferencePrice} - \text{MYAPrice}$
  - $85\% \times \text{BaseAcres} \times \text{PaymentYield} \times \text{PLC PaymentRate}$
- **FSA will announce Base Acre update (this fall?)**
  - **Data confirmation in progress right now!**



July 28, 2014

Dear [REDACTED]

On February 7, 2014, the President signed the Agricultural Act of 2014 (the 2014 Farm Bill), which provides owners with an option to reallocate base acres and update yields for "covered commodities". The reallocation of base acres and the updating of counter-cyclical yields for covered commodities are in preparation for producers to enroll in the Price Loss Coverage (PLC) and/or Agriculture Risk Coverage (ARC) programs authorized by the 2014 Farm Bill. Covered commodities include barley, canola, large and small chickpeas, corn, crambe, flaxseed, grain sorghum, lentils, mustard seed, oats, peanuts, dry peas, rapeseed, long grain rice, medium grain rice (includes short grain rice and temperate japonica rice), safflower seed, sesame, soybeans, sunflower seed, and wheat. **Note:** Upland cotton is no longer a covered commodity.

The attached Summary Acreage History Report shows the acreage of covered commodities reported to the Farm Service Agency (FSA) for farm(s) in which FSA's records reflect that you are currently the owner and/or operator of the farm(s) listed. For each covered commodity, the report shows the farm's 2014 base acres and counter-cyclical (CC) yields, and for 2008-2012 the planted acres, the acres prevented from being planted, and acres planted after failed or prevented acres (called subsequent acres).

Please review the attached information and carefully examine the data for each crop, year, and farm. If you determine the information is both complete and accurate, do not take any action at this time.

**If you determine that any of the data is incorrect, incomplete, or missing, you must contact the county office where the farm is administratively located to provide verifiable documentation of your acreage as soon as possible, but no later than 60 days from the date of this letter.**

**Early submission of this information will result in a timelier update of base and yield history.**

Verifying the accuracy of a farm's acreage history is the initial step that is required to ensure the 2014 base acres of a covered commodity are accurate for PLC and/or ARC program purposes. Verifiable documentation for previously unreported and/or prevented planted acreage may include your crop insurance records, if applicable. All verifiable documentation is subject to FSA County Committee review and approval.

Additional information will be provided to you in the near future for reallocating base acres, updating yields, and electing and enrolling in PLC and/or ARC.

Sincerely,

Juan M. Garcia  
Administrator

If correct data, do nothing!

***"If you determine that any of the data is incorrect, incomplete or missing, you must contact the county office where the farm is administratively located to provide documentation of your acreage as soon as possible, but no later than 60 days after receipt of this letter."***



2014 Commodity		2014 Base Acres	2014 CC Yield	2014 Commodity		2014 Base Acres	2014 CC Yield
Soybeans		57.00	32.00	Corn		85.80	109.00
History							
Crop		2008	2009	2010	2011	2012	
Soybeans	Planted	69.40	41.70	78.40	44.80	103.70	
Soybeans	Prevented	0.00	0.00	0.00	0.00	0.00	
Soybeans	Double	0.00	0.00	0.00	0.00	0.00	
Soybeans	Subsequent	0.00	0.00	0.00	0.00	0.00	
Corn	Planted	50.70	95.50	67.80	103.70	58.80	
Corn	Prevented	0.00	0.00	0.00	0.00	0.00	
Corn	Double	0.00	0.00	0.00	0.00	0.00	
Corn	Subsequent	0.00	0.00	0.00	0.00	0.00	
Oats	Planted	7.30	0.00	14.00	5.00	0.00	
Oats	Prevented	0.00	0.00	0.00	0.00	0.00	
Oats	Double	0.00	0.00	0.00	0.00	0.00	
Oats	Subsequent	0.00	0.00	0.00	0.00	0.00	

- Note reported, but can calculate the 2009-2012 Average Planted Acres: 67.15 soybeans, 81.45 corn and 4.75 oats
- Existing base acres: 57.0 soybean and 85.8 corn
- Farm shift: less corn, more soybeans, added oats
- Farm Payment Yields are quite low for Iowa: 32 bu/ac for soybeans and 109 bu/ac for corn
- To update yield, have to update base acres too

# Base Acreage Updating Info and Tool

- USDA-FSA: Base Reallocation, Yield Updates, Price Loss Coverage (PLC) & Agricultural Risk Coverage (ARC)
- <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=arpl&topic=landing>

Crop	2013 Base Acres	Planted and Considered Planted (P&CP) Acres				2009-12 Average P&CP	Reallocation Percentage	2014 Reallocated Base Acres
		2009	2010	2011	2012			
<i>Barley</i>								
<i>Canola</i>								
<i>Corn</i>	85.80	95.50	67.80	103.70	58.80	81.45	53.11%	75.85
<i>Crambe</i>								
<i>Dry Peas</i>								
<i>Flaxseed</i>								
<i>Grain Sorghum</i>								
<i>Large Chickpeas</i>								
<i>Lentils</i>								
<i>Mustard Seed</i>								
<i>Oats</i>			14.00	5.00		4.75	3.10%	4.42
<i>Peanuts</i>								
<i>Rapeseed</i>								
<i>Rice (Long Grain)</i>								
<i>Rice (Medium/Short Grain)</i>								
<i>Safflower</i>								
<i>Sesame Seed</i>								
<i>Small Chickpeas</i>								
<i>Soybeans</i>	57.00	41.70	78.40	44.80	103.70	67.15	43.79%	62.53
<i>Sunflower Seed (All)</i>								
<i>Wheat</i>								
<b>Totals</b>	<b>142.80</b>	<b>137.20</b>	<b>160.20</b>	<b>153.50</b>	<b>162.50</b>	<b>153.35</b>	<b>100.00%</b>	<b>142.80</b>

# Main Point

- Farmers who have received Direct Payments should have received a letter from FSA: If not, contact FSA
- Check the acreage information to see if it's correct, if not, go to FSA office and correct it
- Yield/Production data are not reported in the letter, but farmers should examine their yield data and compare
- If 90% of 2008-2012 average > CC yield, good reason to go into FSA and update Program Yields

# Agriculture Risk Coverage (ARC)

- County ARC payments made if Actual County Revenue is less than County Guarantee
- County Benchmark = 5-Year Olympic Average County Yield x 5-Year Olympic Average MYA Price
  - Use PLC Reference Price if higher than MYA Price
  - Use 70% County T Yield if higher than County Yield
- County Guarantee = 86% of County Benchmark
- Actual Revenue = County Average Yield x MYA Price
- ARC Payment Rate = County Guarantee – Actual County Revenue, up to 10% of County Benchmark
- ARC Payment = 85% x BaseAcres x ARC Payment Rate

# Corn 2014 Example St. Croix County

Year	Yield	Price
2013	85.4	4.50
2012	165.6	6.89
2011	164.6	6.22
2010	172	5.18
2009	167	3.55

- Olympic Average Yield = 165.7
- Olympic Average Price = 5.30
- ARC County Benchmark =  $5.30 \times 165.7 = \$878.21$
- ARC Guarantee =  $86\% \times \$878.21 = \$755.26$
- Maximum ARC Payment =  $10\% \times \$755.26 = \$75.53$

# Corn 2014 Example St. Croix County

- Hypothetical Example: Suppose 2014 County ARC Guarantee is \$755.26/ac for corn in St. Croix County
- Suppose 2014 actual USDA yield in St. Croix County is 160 bu/ac and 2014 MYA corn price is \$4.40
- Actual revenue is  $160 \times 4.40 = \$704/\text{ac}$ , triggers payment
- ARC Payment Rate =  $755.26 - 704.00 = \$51.26/\text{ac}$
- ARC Payment =  $85\% \times \text{BaseAcres} \times \text{ARC Payment Rate}$
- ARC Payment = \$43.57 per corn base acre
- ARC pays well in times of long-term declining prices due to 5-year Olympic averages

# Comparing County ARC and ACRE

ACRE	County ARC
5-Year Olympic Avg STATE yield	5-Year Olympic Avg COUNTY yield
No yield floor	County T-yield as yield floor
2-Year Average Price	5-Year Olympic Average Price
No price floor	PLC Reference price as floor
10% cup/cap on Guarantee change	No cup/cap on Guarantee change
Loan rates reduced 30%	No effect on loan rates
DCP default, gave up 20% DP	PLC default, lose 2014, start 2015
ACRE for all crops or none	Mix county ARC and PLC for crops
Annual opportunity to elect	Single signup opportunity
Shallow loss coverage: 67.5%-90%	Shallow loss coverage: 76%-86%

# Agriculture Risk Coverage (ARC)

- Individual ARC based on revenue from all program crops as a whole for an FSA farm, not crop by crop
- To be simple, assume 2 program crops (corn & soybeans)
- Benchmark Revenue by Crop = 5-Year Olympic Average of (Yield per Planted Acre x MYA Price)
- Individual Benchmark Revenue =  
$$(\text{Corn Acres} / \text{Total Acres}) \times \text{Corn Benchmark Revenue} +$$
$$(\text{Soy Acres} / \text{Total Acres}) \times \text{Soy Benchmark Revenue}$$
- Individual Guarantee = 86% of Farm Benchmark Revenue



# Agriculture Risk Coverage (ARC)

- Individual ARC Payment Rate = Farm Guarantee – Actual Farm Revenue, up to 10% of County Benchmark
- Individual ARC Payment = **65%** x Base Acres x Individual ARC Payment Rate
  - Maximum is 10% of County Benchmark
- Actual Revenue = (Corn Production x MYA Corn Price) + (Soy Production x MYA Soy Price) / Total Planted Acres
  - Use PLC Reference Price if higher than MYA Price
  - Use 70% County T Yield if higher than your Yield

Corn	Year	Yld	Price	Revenue
	2013	175	4.50	787.50
Acres	2012	150	6.89	1,033.50
300	2011	185	6.22	1,150.70
	2010	170	5.18	880.60
	2009	150	3.55	532.50
Crop Benchmark				900.53
Soy	Year	Yld	Price	Revenue
	2013	43	12.70	546.10
Acres	2012	45	14.40	648.00
200	2011	51	12.50	637.50
	2010	43	11.30	485.90
	2009	35	9.59	335.65
Crop Benchmark				556.50

## Hypothetical Example

- Individual Benchmark =  
 $(300/500) \times 900.53 + (200/500) \times 556.50 = \$762.92$
- Individual Guarantee =  
 $86\% \times \$762.92 = \$656.11$
- “Actual” 2013 Corn =  
 $(300 \times 160 \times \$4.62) + (200 \times 40 \times \$11.36) / 500 = \$625.28/\text{acre}$
- Payment Rate =  $656.11 - 625.28 = \$30.83$
- ARC Payment = **65%** x  
Base Acres x \$30.83

# Commodity Crop Support Summary

- All producers for a farm will have to choose one of these if they have base acres (PLC is the default)
  1. PLC: Same as CCP, but higher reference prices
    - \$3.70 for corn and \$8.40 for soybeans
    - Have the option to buy SCO
  2. County ARC: Basis risk for your farm versus county
  3. Individual ARC: Tied to farm revenue, but crops can offset each other
- Wait for USDA-FSA to announce sign-up deadlines
- All producers for each FSA farm will have to sign the form

# Commodity Crop Support Final Comments

- Note: **NO** Direct Payments will come fall of 2014
  - If PLC/ARC payments are due to you for 2014, will be paid in fall of 2015 after 2014 Marketing Year ends
- Note that at plant you will not know the county revenue guarantee for ARC because the previous marketing year will not be completed
  - 2013 marketing year does not end until Aug 2014, so to generate the example, I used \$4.50 for corn and \$12.70 for corn as the “estimated” 2013 MYA price

# Commodity Support: Timing

- **Step 1 Now:** Check base acres to make sure correct
- **Step 2 This Fall:** Decide whether to reallocate base acres and update payment yields
  - Assemble yield data to be ready when sign up actually occurs this fall (during harvest???)
- **Step 3 Jan 2015:** Sign up for PLC or ARC
- Education and decision aids will be available
  - Is base acre update worth it?
  - Which should I use: PLC or ARC?

Questions?

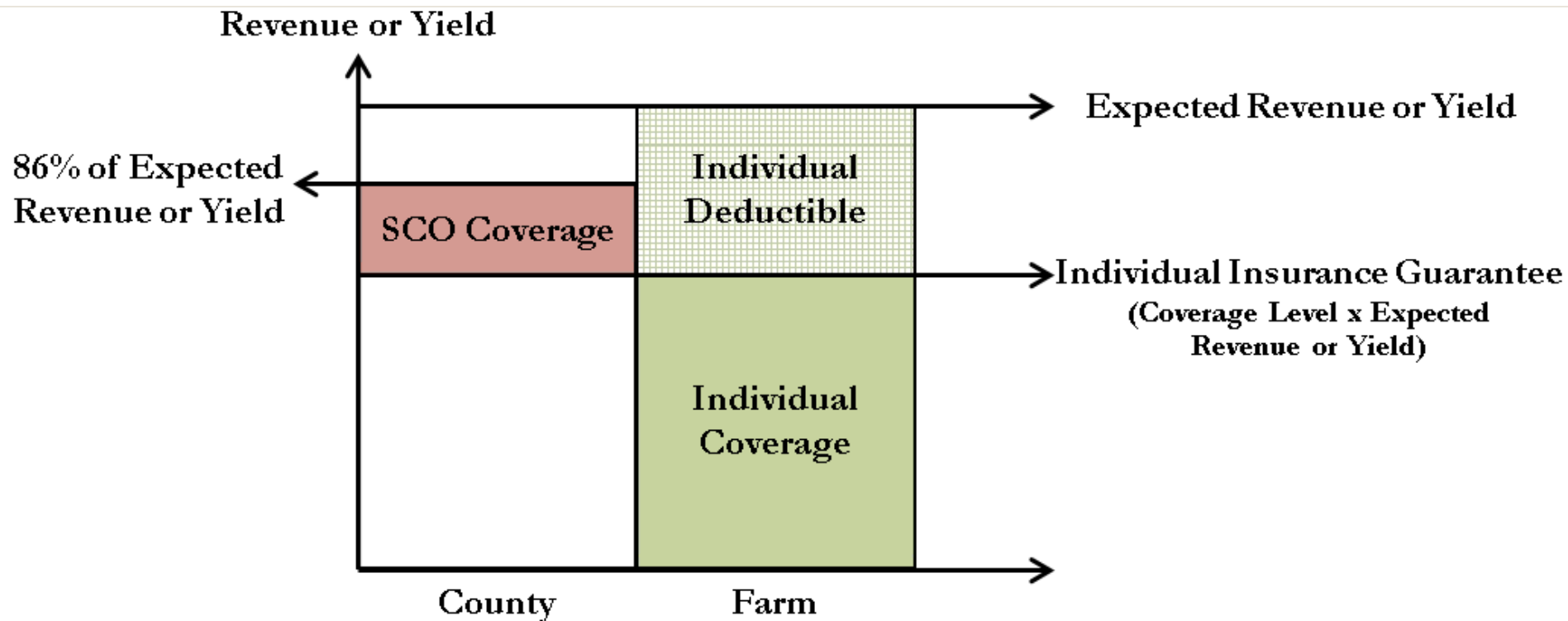
# Crop Insurance in the 2014 Farm Bill

- Several (mostly minor) changes
  1. **Supplemental Coverage Option (SCO)**
  2. **Conservation compliance for premium subsidies**
  3. Lower premium subsidies if break native sod
  4. Choose different coverage levels for irrigated vs dryland
  5. Enterprise unit discounts made permanent
  6. Increasing county yield plugs for yield history
  7. Focus on underserved commodities: rice margin insurance, peanut RP, sorghum irrigation, livestock catastrophic disease, organic price elections, ...

# Supplemental Coverage Option (SCO)

- SCO: allows you to insure part of your RP/YP deductible with a county policy (ARP/AYP)
  - Layer individual & county coverage
  - Can't exceed 86% total coverage
- Add SCO to an RP policy to increase coverage up to the 86% maximum
  - SCO will not pay until county loss exceeds 14%
  - 65% SCO premium subsidy (farmer pays 35%)
- SCO available in 2015, **only if choose PLC**
  - If choose ARC, cannot buy SCO





## Possible outcomes with RP plus SCO

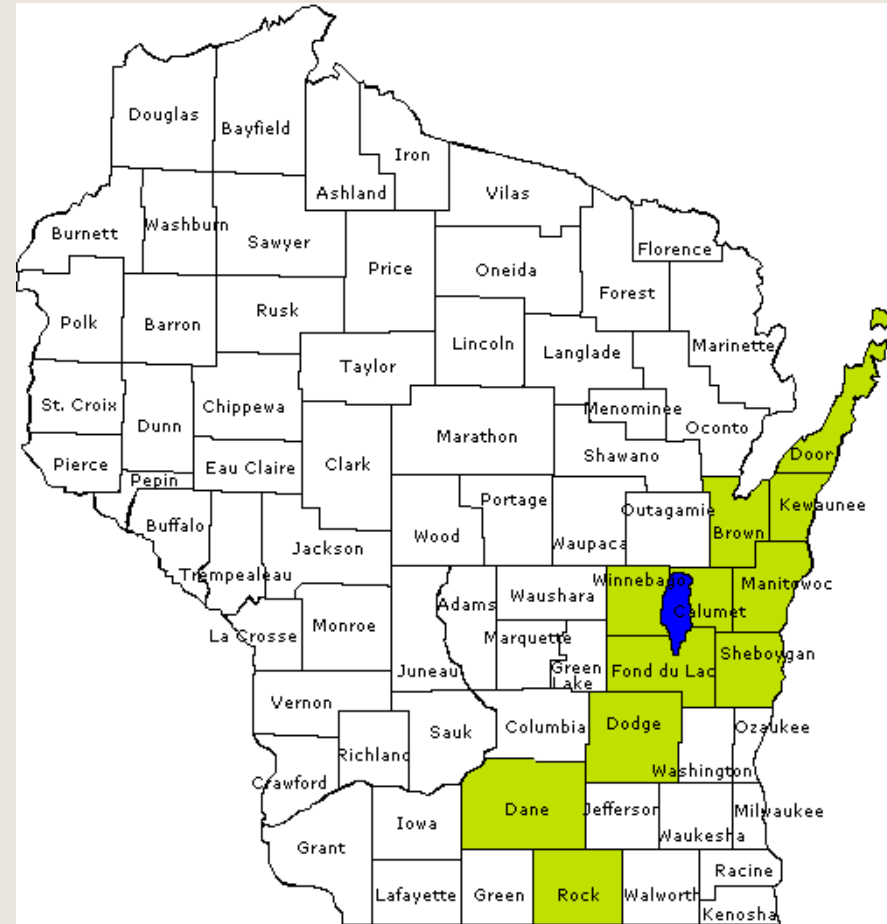
1. SCO pays, but not RP
2. RP pays, but not SCO
3. Both SCO and RP pay
4. Neither SCO nor RP pays

# Supplemental Coverage Option (SCO)

- Suppose have 75% RP on corn (25% deductible)
- Suppose added 86% SCO (max)
- Outcome 3: both RP and SCO pay
- Suppose county revenue is 80% of average
- Suppose your revenue is 65% of guarantee
- Receive SCO indemnity for a 6% loss
- Receive RP indemnity for a 10% loss
- Will buy SCO from crop insurance agent for 2015

# SCO available for winter wheat right now!

- Can sign up for SCO now
- Problem: Can't sign up for PLC to be eligible for SCO
  - Have until Dec 15<sup>th</sup> to make decision, which is still likely before PLC deadline
  - Main point: can sign up now & opt out by Dec 15<sup>th</sup>
- **Recommendation: If buy wheat insurance, sign up for SCO to keep options open & decide by Dec 15<sup>th</sup>**



Counties with SCO available  
for winter wheat

# County ARC versus SCO

County ARC	SCO
Free	Buy from crop insurance company
USDA payment limits apply	No payment limits
5-Year Olympic Average Price	Crop insurance price (futures based)
USDA-FSA	USDA-RMA/crop insurance company

- U of IL FarmDOC has run County ARC versus SCO using historical (1977-2013) price and IL county yield data
- <http://farmdocdaily.illinois.edu/2014/05/2014-farm-bill-estimated-payment-sizes-county-arc-sco-corn-illinois.html>
- Focus on average payments for county ARC versus SCO, ignore crop insurance payments and PLC payments

# Average of IL County Payments

Payment	County ARC	SCO + 75% RP
Average Payment	1.65%	2.94%
Premium “Guess”	free	1.03%
<b>Average “Net Payment”</b>	<b>1.65%</b>	<b>1.91%</b>

- **SCO free in this analysis**, results **suggest** premium rates, so calculated assuming 65% subsidy
- Payments & Premiums as % of revenue/yield guarantee
- SCO with 75% RP looks like a good deal
- Maps show lots of variability between counties
- Lots of guess still, no premiums, no PLC/ARC/SCO yet

Figure 1. Average Payment Size for County ARC in IL,  
1977 to 2013

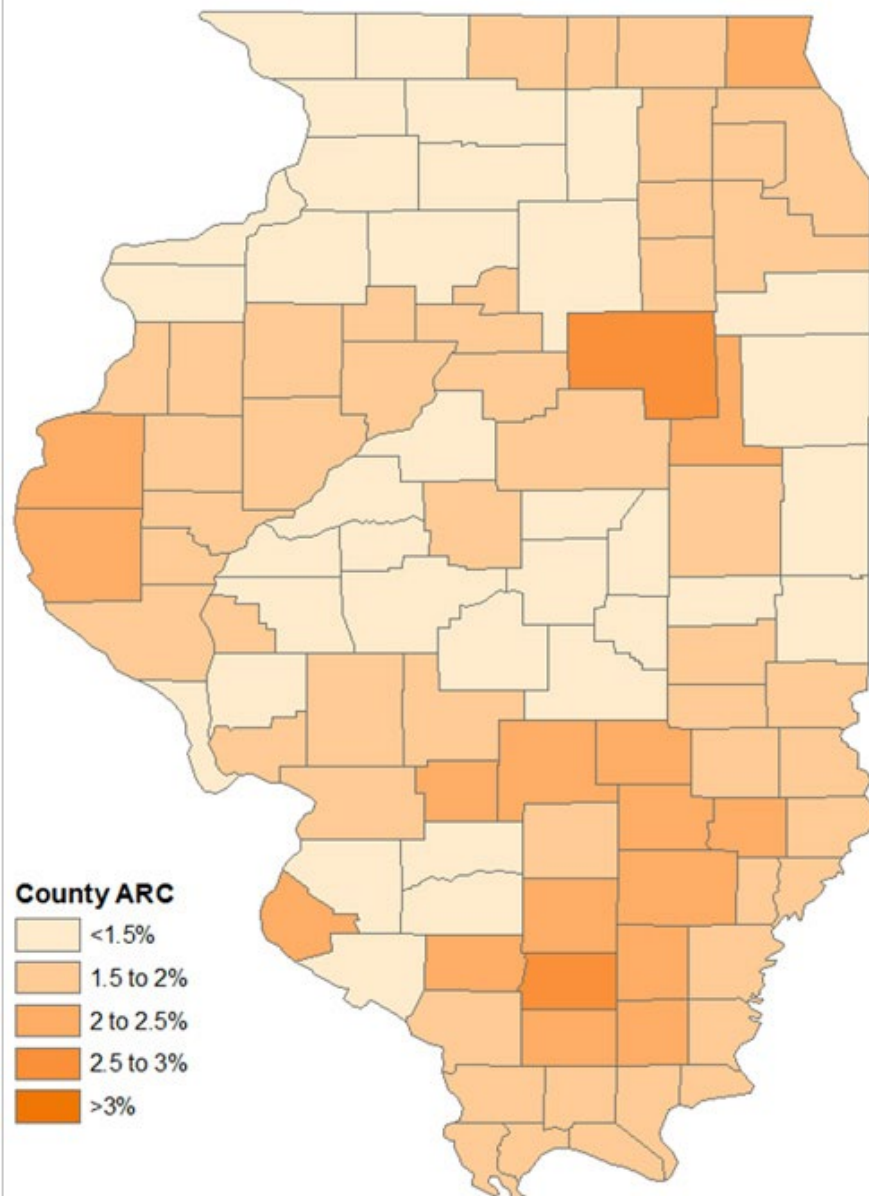
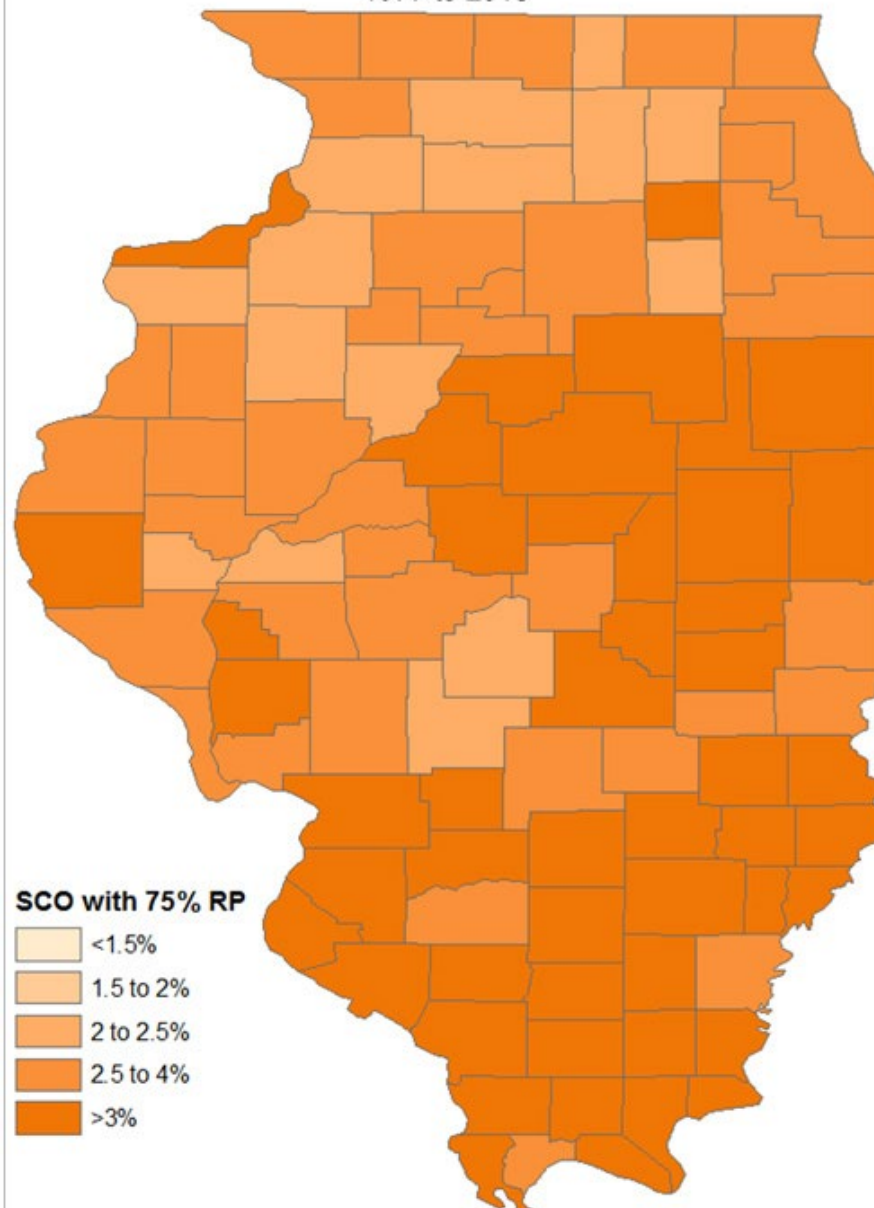


Figure 4. Average Payment Size for SCO with 75% RP in IL,  
1977 to 2013



**Source: N. Paulson** <http://farmdocdaily.illinois.edu/2014/05/2014-farm-bill-estimated-payment-sizes-county-arc-sco-corn-illinois.html>

# Summary

- No direct payments this fall
- Expected Timeline
  - Update base acres & payment yields this fall
  - Signup for new commodity programs Jan 2015
- Choices will be
  - 1. PLC with the option to buy SCO
  - 2. County ARC (crop by crop)
  - 3. Individual ARC (whole farm)
- Decision aids will be available
- **FARM BILL CHOICES: WHAT SHOULD CROP FARMERS DO?**
- **BE PATIENT! USDA FSA WORKING ON IT**

# Thanks for Your Attention!

## Questions?

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