

The New Farm Bill: New Programs and New Requirements

Paul D. Mitchell

Ag and Applied Economics, UW-Madison

608.265.6514 pdmitchell@wisc.edu

Platteville, WI September 10, 2008

Extension Web Page:

www.aae.wisc.edu/mitchell/extension.htm

Goal Today

- Update on the new Farm Bill, focusing on
 - New commodity support programs
 - New disaster aid programs
 - New requirements for disaster aid
- Crucial deadlines rapidly approaching

Food, Conservation, and Energy Act

- July 2007: House passes
- December 2007: Senate passes
- May 2008: Chambers both pass same version
- May 2008: Bush vetoes, confusion ensues
- Finalized June 18, 2008
- 673 pages (vs. 408 in 2002 Farm Bill)
- Several new programs

The Farm Bill

More than just Farms

- Commodity Programs
- Conservation
- Trade
- Nutrition
- Credit
- Rural Development
- Research and Related Matters
- Forestry
- Energy
- Horticulture and Organic Agriculture
- Livestock
- Crop Insurance and Disaster Assistance Programs
- Commodity Futures
- Miscellaneous
- Trade and Tax Provisions

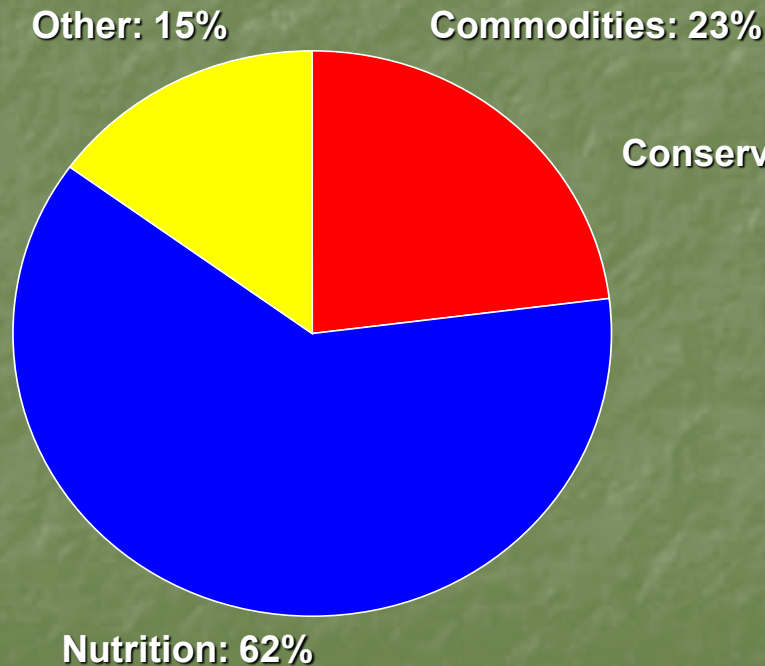
AAE Farm Bill Materials

- 2008 Farm Bill Fact Sheets: Wisconsin Focus
- http://future.aae.wisc.edu/farm_bill.html#1
- Overall Farm Bill Summary
- Title I: Direct and Counter-Cyclical Payments Summary
- Title I: Payment Limitations
- Title I: Average Crop Revenue Election (ACRE) Program
- Title I: Dairy Subtitle Summary
- Title II: Conservation
- Title IV: Nutrition
- Title V: Credit
- Title VII: Research
- Title X: Horticulture and Organic Agriculture
- Title XV (Subtitle C): Tax Provisions

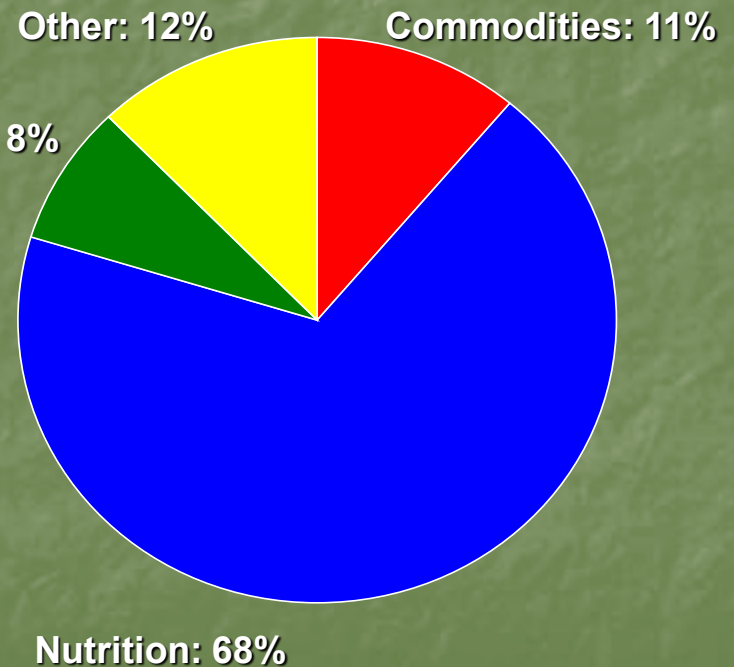
Where the Money Goes

U.S. Farm Bill Spending by Category

2002 Farm Bill



2008 Farm Bill



Focus Today

- ACRE: New commodity support program
- SURE and New Disaster Programs
- Risk Management Purchase Requirement

Average Crop Revenue Election (ACRE)

- Alternative to current commodity programs: Direct Payments, Loan-Deficiency Payments, and Counter-Cyclical Payments
- Reduce DP's 20%, LDP loan rates 30%
- Receive ACRE payments, no CCP's
- ACRE: creates a revenue floor not a price floor for commodity producers

ACRE Payments

- Fairly complicated formula to determine payments, give main idea here
- Kind of like Revenue Insurance
 - Sort of mixes GRIP and CRC
 - GRIP: County revenue guarantee based on NASS county yields and CBOT prices
 - CRC: Farm revenue guarantee based on farm yields and CBOT prices

ACRE Payments

- Two triggers satisfied to receive ACRE \$
 - 1) Actual State Rev. < ACRE State Rev. Guarantee
 - 2) Actual Farm Rev. < ACRE Farm Benchmark Rev.
- Trigger calculations: See next slide
- If triggers met, then receive ACRE payments =
(State Rev. Guarantee – Act. State. Rev) x
83.3% Farm Planted Acres x
(5-year avg farm yld/5-year avg state yld)

Average Crop Revenue Election (ACRE) Payments^a

BOTH triggers must be met before ACRE payments are made

1. STATE TRIGGER	<div style="border: 2px solid blue; padding: 2px; text-align: center;">Actual State Revenue</div> <div style="text-align: center;">less than</div> <div style="border: 2px solid blue; padding: 2px; text-align: center;">ACRE State Revenue Guarantee</div> <div style="border: 2px solid red; padding: 2px; text-align: center;"> <div style="border: 1px solid black; padding: 2px; text-align: center;">Actual State Yield per Planted Acre</div> <div style="border: 1px solid black; padding: 2px; text-align: center;">times larger of</div> <div style="border: 1px solid black; padding: 2px; text-align: center;"> <div style="display: inline-block; vertical-align: middle;">{</div> <div style="display: inline-block; vertical-align: middle; text-align: left;">National Average Market Price or 70% of National Loan Rate</div> <div style="display: inline-block; vertical-align: middle;">}</div> </div> </div>	<div style="border: 2px solid blue; padding: 2px; text-align: center;"> <div style="border: 1px solid black; padding: 2px; text-align: center;">90% of Benchmark State Yield per Planted Acre (5-year Olympic^b average)</div> <div style="border: 1px solid black; padding: 2px; text-align: center;">times</div> <div style="border: 1px solid black; padding: 2px; text-align: center;">ACRE Program Guarantee Price (2-year average of National Market Price)</div> </div>	no more than a 10% change from previous year
2. FARM TRIGGER	<div style="border: 2px solid blue; padding: 2px; text-align: center;">Actual Farm Revenue</div> <div style="text-align: center;">less than</div> <div style="border: 2px solid blue; padding: 2px; text-align: center;">ACRE Farm Benchmark Revenue</div> <div style="border: 2px solid red; padding: 2px; text-align: center;"> <div style="border: 1px solid black; padding: 2px; text-align: center;">Actual Farm Yield</div> <div style="border: 1px solid black; padding: 2px; text-align: center;">times larger of</div> <div style="border: 1px solid black; padding: 2px; text-align: center;"> <div style="display: inline-block; vertical-align: middle;">{</div> <div style="display: inline-block; vertical-align: middle; text-align: left;">National Average Market Price or 70% of National Loan Rate</div> <div style="display: inline-block; vertical-align: middle;">}</div> </div> </div>	<div style="border: 2px solid blue; padding: 2px; text-align: center;"> <div style="border: 1px solid black; padding: 2px; text-align: center;">Average Farm Yield per Planted Acre (5-year Olympic^b average)</div> <div style="border: 1px solid black; padding: 2px; text-align: center;">times</div> <div style="border: 1px solid black; padding: 2px; text-align: center;">ACRE Program Guarantee Price (2-year average of National Market Price)</div> </div>	no more than a 10% change from previous year
		<div style="border: 2px solid blue; padding: 2px; text-align: center;">plus</div> <div style="border: 2px solid red; padding: 2px; text-align: center;">Per Acre Producer-Paid Crop Insurance Premium</div>	

Calculating ACRE payments^c

$$\begin{array}{c}
 \text{Lesser of: } \left\{ \begin{array}{l} \text{ACRE State Revenue Guarantee} \\ \text{ACRE State Revenue Guarantee} \end{array} \right. \begin{array}{c} \text{minus} \\ \text{times} \end{array} \begin{array}{c} \text{Actual State Revenue} \\ 25\% \end{array} \\
 \begin{array}{c} \text{times} \\ 83.3\% \text{ }^d \text{ of Farm Planted Acres }^e \end{array}
 \end{array}$$

5-year farm Olympic^b average of yield per planted acre / 5-year state Olympic^b average of yield per planted acre

^a Farms participating in ACRE receive no counter-cyclical payments, direct payments reduced by 20%, and a loan rate reduced by 30%.

^b An Olympic average drops the highest and lowest observations before calculating the average.

^c ACRE payments will be issued October 1 with no advance payments made.

^d Becomes 85% in 2012

^e Total planted acres for which a producer may receive ACRE payments may not exceed a farm's total base acres. If total planted acres exceeds a farm's base acres, the farm may elect which planted acres to enroll in ACRE.

How about a little help?

- With today's prices and expected prices, seems unlikely we will trigger LDP's or CCP's any time soon, so the pertinent question is:
- Do expected ACRE payments exceed 20% of your DP's?
 - ACRE is like revenue insurance, with premium = 20% of your DP
- What will make for low ACRE payments?
 - Market prices for 2009 to 2012 above 2007 and 2008 average prices and/or state average yields at or above trend yields
- What will make for high ACRE payments?
 - Market prices below 2007 and 2008 average prices and/or low state average yields

More Technical Help

- Iowa State University-CARD: Excel program that simulates random prices and yields to estimate ACRE payments, LDP's and CCP's
- You choose 2008 and 2009 prices, then it simulates prices, state yields, and average ACRE payments vs. current program
- Can also do what-if scenario analysis
http://www.card.iastate.edu/ag_risk_tools/acre/

ACRE: Final Comments

- ACRE will have an annual signup period
- ACRE is an irrevocable choice, so be sure you want to do it
- When will the 2009 signup be?
 - DP and CCP signup begin Oct. 1, as usual
 - Software for ACRE out sometime after Jan 1st
 - Will be able to change your 2009 decision once ACRE signup detail are out

Federal Disaster Programs

- Congress has regularly passed ad hoc disaster bills to set up temporary aid programs for specific disasters
- Most recent was May 2007: “Agricultural Assistance Act of 2007”
 - Created five new temporary programs and extended two other temporary programs
 - For losses suffered in 2005, 2006 or 2007

Other Federal Disaster Programs

- USDA-FSA administers other disaster programs that are more permanent
- Conservation Program (ECP): to rehabilitate damaged farmland
- Emergency Farm Loans: low interest loans to help with disaster recovery
- Noninsured Crop Disaster Assistance Program (NAP): provides catastrophic coverage for crops lacking a traditional crop insurance policy

New Disaster Programs

- Congress has always wanted to get away from ad hoc disaster programs
 - Difficult to plan for fiscally (GAO reviews)
 - Want farmers to use crop insurance
 - Political pressure usually too great
- New Farm Bill creates new permanent disaster programs with set levels of funding
- Provide an overview today

“New” Disaster Programs

- Supplemental Revenue Assistance Payments (SURE) Program
- Tree Assistance Program (TAP)
- Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (ELAP)
- Livestock Indemnity Program (LIP)
- Livestock Forage Disaster Program (LFP)

Supplemental Revenue Assistance Payments (SURE)

- New comprehensive disaster program for crop farmers (organic and specialty crops)
- Farms in declared disaster counties or adjacent counties, or suffer 50% crop loss due to weather to be eligible
- Whole farm revenue guarantee to supplement crop insurance guarantees

SURE Program

- Whole farm revenue guarantee: If actual revenue falls below guarantee—SURE pays up to 60% of the difference
- Includes revenue from all crops: anything mechanically harvested or grazed, in all counties and states
- Actual revenue includes other USDA payments (e.g. ACRE) and crop insurance indemnities: not paid twice for a loss

SURE Guarantee

- Guarantee equals sum of all crop insurance guarantees increased by 15% to decrease farmer deductible
 - 75% coverage becomes $75\% \times 1.15 = 86.25\%$
 - Guarantee capped at 90% insurance guarantee
- Some adjustments for low yield history
 - Based on APH yields, but sometimes use CCP yields, replace yield “plugs” with higher yields

SURE Actual Revenue

- Actual yields x USDA marketing year average price (Sept-Aug)
- Crop insurance indemnities (including replant and prevented planting)
- 15% of DP's, CCP's, LDP's, and ACRE
- Other disaster payments received

SURE Calculator

- This overview glosses over details
- FSA has SURE calculator on web for farmers to use
- www.fsa.usda.gov/Internet/FSA_File/sure_calculator.xls
- www.fsa.usda.gov/Internet/FSA_File/sure_calc_instructions_v1.pdf
- Informational only—not binding, does not deal with all possible scenarios (yet)
- FSA still finalizing SURE details—be patient

New Requirements

- Risk Management Purchase Requirement
- To eligible for SURE payments, must have all crops insured, including pasture
 - SURE supplements crop insurance and SURE guarantee depends on insurance guarantees
- APH, CRC, GRP, GRIP, AGR-Lite(?)
- CAT coverage acceptable (50% coverage level with 55% price election)
- NAP policy: FSA CAT policy for crops uninsurable with traditional crop insurance (e.g., pasture)

Why?

- Congress wants to end ad hoc disaster programs by encouraging farmers to buy crop insurance
- If you do not want disaster assistance, then don't worry about it
- Lenders: like borrowers to have crop insurance and to be eligible for disaster programs
- Higher and higher input costs, larger up-front investment, more risky to give operating loans, these programs reduce risk

SURE for 2008

- Farm Bill became law on June 18, 2008, but applies to crops planted in 2008
- If you suffered losses from 2008 floods, you may be eligible for SURE payments
- Insurance requirement still applies for SURE payment eligibility
- How can you be expected to buy crop insurance after the March 15th deadline???
- How does the federal govt. deal with this?

“Buy-in” Fee for 2008

- To be eligible for 2008 SURE payments, you must register each crop by paying administrative fees as though have a CAT/NAP policy
- Do not get actual insurance coverage, only registered so possibly eligible for SURE and other disaster programs
- \$100/crop, \$300/county, \$900 max per farm
- Due September 16th at FSA office

“Buy-in” Fee for 2008

- SURE details not settled, but you have to decide by 9/16/2008—do I pay the fee?
- Visit the FSA office/Use the SURE Calculator and see how likely you think you are to trigger SURE payments for 2008 losses
- FSA: recommends that farmers keep options open—pay the fee and when national office sets SURE details, can see if actually get payments
- If no disaster losses in 2008 and don't think will have any in 2008, don't pay the fee

Disaster Assistance for 2009

- If you want to be eligible for SURE
- Mar. 15th crop insurance deadline for most crops
- Fall crops
 - Sept. 30th deadline for crop insurance
 - Usually Sept. 30th for fall NAP policies
 - This year only—NAP deadline extended to Dec. 1st
- Perennial crops
 - Nov. 20th deadline for crop insurance and NAP

Other New Disaster Programs

- Quickly go over the other four
- Tree Assistance Program (TAP)
- Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (ELAP)
- Livestock Indemnity Program (LIP)
- Livestock Forage Disaster Program (LFP)

Tree Assistance Program (TAP)

- To help growers replant or salvage trees, bushes & vines suffering death loss or damage from natural disasters
- Originally created by 2002 Farm Bill
- Now includes X-mas and nursery trees
- Risk Management Purchase Requirement applies—buy crop insurance for all crops

Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (ELAP)

- New program, few details at this time
- For losses not covered by other livestock programs (SURE, LIP, and LFP below)
- Horses will likely be covered
- Risk Management Purchase Requirement applies again

Livestock Indemnity Program (LIP)

- For livestock death losses due to natural disasters in declared disaster counties and adjacent counties
- Many types of livestock qualify: beef, swine, dairy, sheep, goats, buffalo, deer, horses, reindeer, chickens, turkeys, ducks, and geese
- Temporary in May 2007 bill, now permanent
- Risk Management Purchase Requirement does not apply

Livestock Forage Disaster Program (LFP)

- For ranchers suffering livestock death loss or forced sale from drought or fire
- Grazing livestock only—no feedlots
- Complicated payment formula depending on county drought status, feeding costs, carrying capacity, etc.
- Risk Management Purchase Requirement applies again

Conclusion

- New Farm Bill has new programs
 - ACRE: New commodity support program
 - SURE and New Disaster Programs
 - Risk Management Purchase Requirement
- Deadlines rapidly approaching for some critical decisions you will have to make
- You still have time for some others
- Talk to the FSA office, your UWEX agent, your crop insurance agent, your banker, and don't forget your spouse and/or business partners

Questions?

Paul D. Mitchell

UW-Madison Ag & Applied Economics

Office: (608) 265-6514

Cell: (608) 320-1162

Email: pdmitchell@wisc.edu

Extension Web Page:

www.aae.wisc.edu/mitchell/extension.htm