Ag Policy Update:
Base Acre Re-Allocation

September 2, 2014

Kurt M. Guidry
Department of Agricultural Economics & Agribusiness

By now, producers and landowners have likely received letters from USDA that provides existing base acres and acreage history on their farms. As mentioned in a previous Ag Policy Update, it is extremely important that producers review these letters closely to ensure that the USDA acreage data is accurate and complete. This is important because this data will be used by USDA in base acre reallocation calculations. While USDA has not yet opened the enrollment period for producers to make base acre reallocations, producers will have an opportunity to adjust base acres to reflect more closely their planting history over the last several years.

Base Acre Reallocation

The base acre reallocation process involves adjusting existing base acres on the farm (existing base acres are the base acres on the farm as of September 30, 2013) to reflect the farm's actual acreage during the 2009 to 2012 time period. Producers have a one-time opportunity to either maintain the farm's existing base acres or to reallocate base acres. Once that decision is made, the base acres are set for the remainder of the farm bill.

When talking about the base acre reallocation process, a distinction must be made between base acres of covered commodities and generic base acres. Base acres of covered commodities are existing base acres on the farm for commodities such as corn, soybeans, wheat, rice, and grain sorghum. Cotton, however, is not considered a covered commodity in the 2014 Farm Bill and any existing cotton base acres are now considered generic base acres. The base reallocation process only considers base acres of covered commodities. Generic base acres are handled differently and will be described later in this report.

If a producer chooses to reallocate base acres, the total number of base acres of covered commodities will be changed based on the proportion or percentage of the total number of crop acres of covered commodities on the farm from 2009 to 2012 represented by each commodity. For example, assume that a producer had the following bases acres on a farm as of September 30, 2013:

Commodity	Base Acres
Corn	300
Soybeans	100
Cotton	400
Total Base Acres	400
Total Generic Base Acres	400

The farm's existing base acres of corn and soybeans would still be considered base acres under the 2014 Farm Bill as both are still covered commodities. The cotton acres, however, would now be considered generic base acres. So, the farm would have 400 acres of existing base (corn plus soybean acres) and 400 acres of generic base. The decision for the producer would be to maintain these base acres or to reallocate the total number of existing base acres to reflect what was grown on the farm from 2009 to 2012.

The base reallocation process calculates at a simple 4 year average of crop acreage for each covered commodity on the farm. Years in which there is no history of crop acreage for a commodity would still be counted in the 4 year average calculation. The acres that are considered as part of the farm's crop acreage for a commodity are planted acres, acres prevented from being planted, and double cropped acres (assuming it was in an approved double crop situation). In keeping with our example, assume the acreage history from 2009 to 2012 for the farm was:

Commodity	2009	2010	2011	2012	4 Year Average	Percent of Total Acres
Corn	300	300	300	300	300	54.55%
Soybeans	200	200	200	200	200	36.36%
Wheat	100	100	0	0	50	9.09%
Cotton	200	100	100	100	125	N/A
Total of Covered Commodities	600	600	500	500	550	N/A
Total of All Acres	800	700	600	600	675	N/A

The 4 year average of covered commodity acres on the farm was 550 acres. While the farm averaged 675 acres, 125 acres were from cotton and, as mentioned, are not considered in the base reallocation process. The percentage of total covered commodity acres represented by each commodity is determined by taking the 4 year average acreage of a particular commodity and dividing it by the total number of covered commodity acres. So, for example, corn had a 4 year average of 300 acres. Those 300 acres represents 54.55% of the total number of covered commodity acres on the farm (300 / 550 = 54.55%). Similarly, soybean acreage represents 36.36% of total covered commodity acres (200 / 550 = 36.36%) and wheat acres represent 9.09% (50 / 550 = 9.09%).

These percentages are then used to allocate the existing total base acres on the farm to each of the covered commodities. The example farm had total base acres of covered commodities of 400 acres. These 400 acres of existing base would be reallocated to the covered commodities grown on the farm from 2009 to 2012 based on the percentage of each commodity. Mathematically, this would be:

*Reallocated Base Acres = Total Existing Base Acres * Commodity's Percentage of Total Acres*

This calculation would be done for each covered commodity with an acreage history on the farm from 2009 to 2012. The producer would then have to decide if the farm should retain its existing base acres or reallocate them based on its cropping history from 2009 to 2012. For the example farm, the producer would have to decide between:

Commodity	Existing Base Acres	Re-Allocated Base Acres
Corn	300	218.2
Soybeans	100	145.5
Wheat	0	36.4
Generic	400	400
Total Base Acres	400	400
Total Generic Base Acres	400	400

Corn acres would fall from the original 300 acres to 218.2 acres while soybean acres would increase from the original 100 acres to 145.5 acres. While the farm did not have wheat base acres originally, since it was planted

during the 2009 to 2012 time period, it would now have 36.4 acres of base once reallocated. It should be noted that only commodities with an acreage history on the farm from 2009 to 2012 can be allocated base under the reallocation process. So, for example, this farm could not create rice base acres because it does not have a acreage history for rice. In addition, under no conditions is the total number of base acres allowed to increase from the existing base acre option to the reallocated base option. As shown, the total number of base acres for the farm remains at 400 acres under both options. Also, since the base reallocation process does not consider generic base acres, those are the same under both scenarios as well.

Generic Base Acres

While the final rules and regulations of exactly how these generic base acres will be treated have not been released at this point, it is widely believed that these generic base acres will be able to be allocated to a covered commodity based on the number of acres of that commodity planted on the farm in a given year. While the base acre reallocation decision is a one-time decision, the generic base allocation process will be a yearly decision. The amount of generic base acres that will be able to be allocated to a covered commodity will depend on that commodity's percentage of total acres planted on the farm in a given year. So, for example, the amount of generic base that will be allocated to a commodity for the 2014 crop year will depend on that commodity's percentage of total acres planted on the farm in 2014. Assume that the example farm planted the following in 2014:

Commodity	2014 Acreage	Percent of Total Acres of Covered Commodities	Allocation of Generic Base Acres
Corn	100	16.67%	66.7
Soybeans	300	50.00%	200.0
Grain Sorghum	100	16.67%	66.7
Wheat	100	16.67%	66.7
Cotton	200	N/A	N/A
Total of Covered Commodities	600	N/A	400.
Total Cotton	200	N/A	N/A

The farm had 600 acres of covered commodities in 2014 and 200 acres cotton. Since cotton is not a covered commodity, those acres would not be considered in determining the percentage of total acres for each of the covered commodities. So, corn, grain sorghum, and wheat represented 16.67% (100 / 600 = 16.67%) of total acres while soybeans represented 50% (300 / 600 = 50%). These percentages would then be used to determine how much of the farm's total generic base acres would be allocated to each commodity in 2014. Given the farm had 400 total acres of generic base, corn, grain sorghum and wheat would each be allocated 66.7 acres (400 * 16.67% = 66.7) of the generic base while soybeans would be allocated 200 acres (400 * 50% = 200).

For the 2014 crop year, the farm would therefore be able to add these acres of allocated generic base to the base acres already associated with the farm. For our example farm this would mean that the base acres for 2014 would be:

.

Commodity	2014 Base Allocation Assuming Maintaining Original Base Acres	2014 Base Allocation Assuming Re-Allocating Original Base Acres
Corn	366.7	284.9
Soybeans	300.7	345.5
Grain Sorghum	66.7	66.7
Wheat	66.7	103.1
Total Base Acres	800	800

If the producer had decided to maintain the existing base on the farm, then it would add generic base allocated to a commodity to the existing base acres for that commodity to get the total number of base acres for 2014. For example, the farm had 300 existing base acres of corn and could be allocated 66.7 acres of generic base in 2014. So, the farm would then have 366.7 base acres of corn for the 2014 crop year. If, on the other hand, the producer had decided to relocate his existing base acres, the farm would have 218.2 acres of corn base acres and could be allocated the 66.7 acres of generic base for a total of 284.9 corn base acres in 2014. The same process would be done for each covered commodity to determine total base acres for each for the 2014 crop year.

With the generic base acres allocated to covered commodities, the farm does not have any generic base acres for the 2014 crop year. This is an important concept since only base acres are eligible for either the new Agricultural Risk Coverage (ARC) or Price Loss Coverage (PLC) programs in the 2014 Farm Bill. As it is understood at this time, the only way in which a farm would continue to have generic base acres for a given year would be if that farm planted all of its acres to cotton in that year. In that situation, with no covered commodities planted, the generic base acres would not be able to be allocated. As such, those generic base acres would not be eligible for any ARC or PLC payments that might exist.

Given the way that it is believed that generic base acres will be able to be allocated, it is apparent that the total number of base acres for a specific commodity could change from year to year. It is important, however, to note that the only difference from year to year will be in the amount of generic base acres allocated to the commodity. The original base acres are set for the life of the farm bill and are determined once the producer decides to either maintain base acres or reallocate base acres. Assuming that the example producer decided to maintain his existing base acres, the farm would have a minimum of 300 acres of corn base acres each year for the remainder of the farm bill. If the producer planted no corn in 2015, it would obviously not be eligible for any of the generic base allocation but would still maintain that original 300 acres of corn base. Similarly, if the producer decided to reallocate the farm's base acres, the farm would have a minimum of 218.2 acres of corn base acres for the remainder of the farm bill.

Final Comments

While producers are not yet able to make the base acre reallocation decision, the USDA originally announced that it would open enrollment sometime over the next month. The Farm Service Agency has released a spreadsheet based tool that allows producers see how their existing base acres would be reallocated if that option is chosen. That spreadsheet can be found at the following link:

http://www.fsa.usda.gov/FSA/webapp?area=home&subject=arpl&topic=landing

It should be noted, however, that this spreadsheet does not indicate how generic base acres would be allocated to covered commodities. As mentioned earlier, the final rules and regulations on the allocation of generic base acres have not yet been released.