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A Quick Reference Guide to Farm Bill Options

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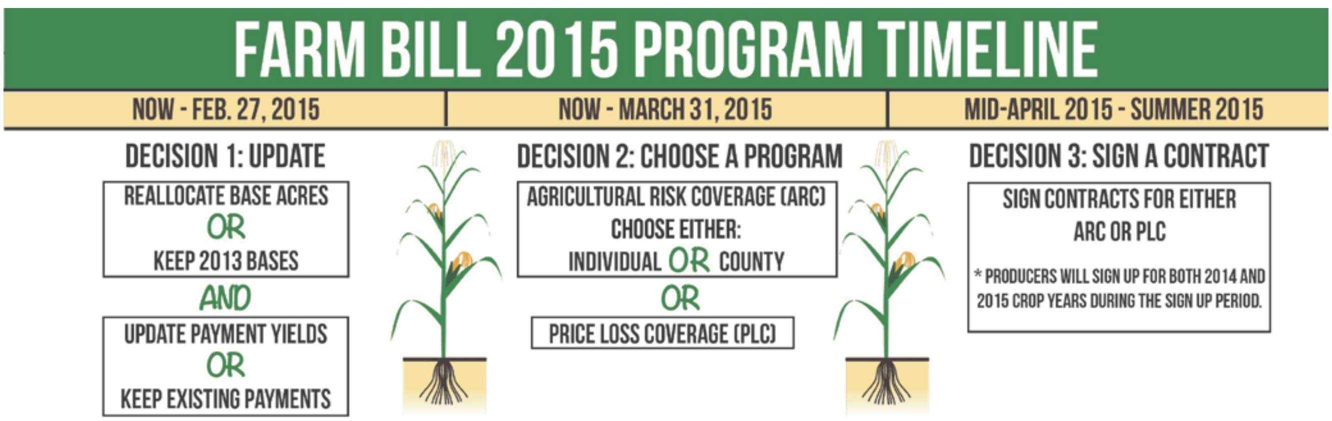
As 2014 farm bill decision deadlines approach, farm owners and producers will be tasked with making a series of irrevocable farm program choices that will remain in effect for their operations over the next five years. USDA FSA field staff along with LSU Agricultural Center personnel have conducted several farm bill educational seminars throughout the state pertaining to (1) base acre reallocation, (2) payment yield update, and (3) an overview of the ARC and PLC programs. This report summaries major points of emphasis of each decision.

The following illustration depicts a timeline for farm program implementation for the 2014 and 2015 crop years.



Source: USA Rice Federation, 2015.

<u>Decision 1: Base acre reallocation</u>

The first decision deadline involves retaining the farm's current base acres (as of September 30, 2013) or reallocating the base acres of a farm to reflect current plantings on that farm from 2009-2012. The total number of base acres cannot be exceeded through reallocation. This decision should not be made without evaluating the ARC/PLC program payment potential for covered commodities under the existing base and if the reallocation option were to be exercised. Since ARC-CO and PLC programs pay on 85% of the base acres, the reallocation process could result in a significant increase or decrease for certain commodities if payments were to trigger. Equating an 'earning potential' in terms of program dollars for the base acres of your farm can assist the farm manager in making the decision to retain or reallocate bases. To restate the previous point, making the decision to reallocate base acres should not be made without considering the program payment potential under each program option; because adding 200 acres of soybean base at the expense of 50 acres of rice base does not indicate the economic gain or consequence of this tradeoff.

For farms that contain a majority of cotton base, cotton is no longer a covered commodity under the new farm bill and is ineligible to participate in ARC or PLC. Cotton base that exists on the farm is not subject to the reallocation process as is automatically retained as 'generic' acres for the 2014-18 crop years. Generic acres, when planted to a covered commodity, are treated as base acres of the planted commodity eligible for ARC/PLC participation. Generic acres must be planted to a covered commodity and plantings on generic acres can vary from year-to-year. For example, if a farm plants corn on generic acres in 2015, those plantings are attributed to the corn base on the farm for that year. Suppose in 2016, this same farm wants to plant wheat on those generic acres, then those plantings are attributed to the wheat base for 2016. Depending on the amount of covered commodity bases that exist in conjunction with cotton base, the decision to reallocate may be relatively straightforward. For example, if the farm is 100% cotton base, the decision to reallocate is non- applicable, as cotton is no longer a covered commodity. For farms with a majority cotton base, the decision to reallocate will be a function of the amount of existing covered commodity base that is subject to the reallocation process. If a farm has 500 total base acres, 400 of which are cotton and 100 are soybeans. The maximum amount of soybean base that can be retained/reallocated to a covered commodity is 100 acres even if the farm has planted in excess of 400+ acres of soybeans from 2009 to 2012 (Recall that 400 acres are retained as generic).

Base acre reallocation is a farm owner decision. This decision is classified as a whole farm decision. Producers who have a clause in their power of attorney contracts that grants them the decision-making authority for all current and future program decisions may be able to sign on the farm owner's behalf at their local FSA office. If no election is made by the February 27, 2015 deadline, the default option is that farm will retain its current base, with the cotton base transitioning to generic acres through 2018.

There is a base acre reallocation tool (Microsoft Excel) available through FSA at: http://www.fsa.usda.gov/FSA/webapp?area=home&subject=arpl&topic=landing as well as a decision aid developed by the LSU Agricultural Center Department of Agricultural Economics and Agribusiness obtained via your local county agent. The user guide to this educational tool can be obtained at http://www.lsuagcenter.com/en/our_offices/departments/Ag_Economics_Agribusiness/extension_outreach/2014-Farm-Bill-Information/Base-Acre-Reallocation-Decision-Tool-Users-Guide.htm

Decision 2: Payment yield update

This a farm owner decision to retain the CC yields for covered commodities under the previous farm bill (as the default option) or elect to update the farm's yields, reflective of 90% of the average yield from the 2008-12 crop years. Payment yields will only be used to calculate PLC payments for crops enrolled in the program. With that, if a producer is considering the PLC program, the updated payment yield should be calculated. However, yields that are updated will remain on file with FSA in the event that the ARC program is selected. This may be one of the easier decisions as most yields from 2008-12 are greater than existing CC yields on file for the farm. Another important point to consider is that an updated payment yield on file with FSA may be used in future farm bills in some capacity, so updating the yield to reflect recent production could prove beneficial. The deadline for this decision is February 27, 2015.

A payment yield spreadsheet is available from FSA through their website: http://www.fsa.usda.gov/FSA/webapp?area=home&subject=arpl&topic=landing

Decision 3: Program Election

This may be the most complex decision afforded to producers in the farm bill. There are three program options: ARC-CO, ARC-IC, and PLC. ARC-CO and PLC program options can be selected crop-by-crop, farm-by-farm. ARC-IC is a whole farm revenue program. The ARC programs are shallow loss revenue programs that are intended to cover losses in revenue (86% to 76%) that mitigate price and yield risk. The ARC-CO program option operates at the county level and uses no individual farm data. The ARC-IC program operates at the individual farm level, aggregating revenues from all crops produced on all enrolled ARC-IC farms in a state. A major difference between CO and IC is that the IC option pays on 65% of the planted base total of all crops, whereas ARC-CO and PLC pay on 85% of the commodity base acres. The PLC program is best described as a price protection program that operates similarly to the target price program of the previous farm bill. This program decision should already be under evaluation, especially when deciding whether or not to retain or reallocate base acres on the farm- as different program choices may affect payment potential for certain covered commodity bases for the farm.

The following table presents a brief comparison on program mechanics.

Design Feature	PLC	ARC-CO	ARC-IC
Decision Framework	One-time irrevocable decision for the 2014 through 2018 crop years.		
Enrollment	Covered commodity-by-covered commodity on individual FSA farm	Covered commodity-by-covered commodity on individual FSA farm	Whole-farm program across all planted covered commodities on an individual FSA farm
Payment Acres	Payments made on 85% of base acres	Payments made on 85% of base acres	Payments made on 65% of base acres
Payment Trigger	Statutory set reference prices (in effect for the duration of the farm bill)	5-year Olympic moving average revenue guarantee (set at 86% of benchmark revenue)	5-year Olympic moving average revenue guarantee (set at 86% of benchmark revenue)
Payment Made When	The U.S. MYA price is less than the reference price for the covered commodity	The actual revenue is less than the ARC revenue guarantee for the covered commodity	The actual farm revenue is less than all farm ARC revenue guarantee (a whole farm program as the payment entity
Payment Yield	May retain current FSA farm CC yield or Update to 90% of farm average planted acre yield for 2008-2012 crops	Does not pertain to ARC-CO program	Does not pertain to the ARC-IC program
Payment Range	Reference price minus the loan rate	10% cap (maximum) of program crop revenue benchmark	10% cap (maximum) of whole farm revenue benchmark across all planted crops
Payment Limit	Aggregate $125,000 per legal entity ($250,000 for person and spouse)		
SCO Option Availability	SCO is available for purchase through a crop insurance agent to buy county-level insurance to cover yield or revenue loss between 86% and coverage of individual policy	Participation in ARC-CO prohibits purchase of a SCO endorsement insurance policy	Participation in ARC-IC prohibits purchase of a SCO endorsement insurance policy

Adapted from the following sources: (a) Purdue Agricultural Economics Report. Features of New Commodity Programs. April 2014; (b) Zulauf, C. 2014 Crop Safety Net Decision: Key Considerations. University of Illinois. February 12, 2014; and (c) Deliberto, M. Farm Program and Crop Insurance Decisions Moving into the 2015 Crop Year. LSU Agricultural Center. January, 2015.

The deadline for program selection is March 31, 2015. All producers on a farm must unanimously agree on the program choice on a covered commodity-by-covered commodity, farm-by-farm basis. For cash leases, a landowner is not consider a producer. In situations where the landowner shares risk in the crop (via a share rent), then the landlord is considered a producer and must agree with the program choice.

A series of ARC-CO/PLC program decision aids can be obtained at the parish level (when applicable) through contact with the LSU Agricultural Center Department of Agricultural Economics and Agribusiness or through your local county agent. The user guide to this tool can be obtained at http://www.lsuagcenter.com/en/our_offices/departments/Ag_Economics_Agribusiness/extension_outreach/2014-Farm-Bill-Information/ARCCO--PLC-Decision-Tool-Users-Guide.htm

When using this decision tool, it is suggested that producers enter a range of marketing year average prices (MYA) as well as a range of expected county yields when evaluating the ARC-CO/PLC decision over the next five years. Under different price and yield conditions, program payments will be altered relative to operational mechanics of each program. For instance, if a series of MYA prices were entered into the decision aid above the reference price level, the PLC payment for that year would be $0 while the ARC-CO may or may not trigger a payment. The design features of these new programs are different from direct payments, in which annual payments were fixed regardless of prices or production. The possibility exists that both, one, or none of the programs will trigger a payment over the next five years. The emphasis of multi-year price risk and the interaction with crop insurance products serves a new farm safety net feature. From a risk management standpoint, is the management strategy one to maximize farm program payments are to mitigate revenue risk through price and yield protection.

An overview of the decisions contained in this report is presented on the next page. In summary, here are a few questions to consider when evaluating farm program options:

- What is the likelihood that an ARC-CO or PLC program would trigger payment over the next five years? If triggered, how much is the program payment per base acre?
- Under what price and yield scenarios would a payment be triggered? How realistic are these MYA price and county-level yield scenarios?
- Is the frequency of payments the same for all covered commodities?
- Is the ARC-IC program appealing to non-diversified farms with individual farm yields that do not correlate with county yields?
- How will different crop insurance products fit into the farm's risk management strategy?

This information is presented for educational purposes only and is not an endorsement for one farm program or insurance product over another. Consultation should be sought from a certified crop insurance agent regarding insurance options for a commodity produced in a particular geographical area. Additional information can be obtained on farm programs at the LSU Agricultural Center's Department of Agricultural Economics and Agribusiness farm bill webpage at:
http://www.lsuagcenter.com/en/our_offices/departments/Ag_Economics_Agribusiness/extension_outreach/2014-Farm-Bill-Information/

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Overview of 2014 Farm Bill Decisions

The schematic that follows illustrated the decisions resting with the farm owner as well as the producers on farm that may vary on a covered commodity-by-covered commodity as well as a farm-by-farm basis.