

FARM PROGRAMS IN THE 2014 FARM BILL

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COMMODITY TITLE PROGRAMS & DECISIONS

KEY PROVISIONS

Direct Payments, Counter-Cyclical Payments, ACRE and SURE are eliminated.

- Price Loss Coverage (**PLC**); or
- Agriculture Risk Coverage at the county level (**County ARC**); or
- Agriculture Risk Coverage at the individual level (**Individual ARC**)

KEY PROVISIONS (CONT.)

- **Continues Marketing Assistance Loans with Marketing Loan Gains and Loan Deficiency Payments (LDP) as in 2008 Farm Bill (same loan rates; except cotton)**
- **New crop insurance product called Supplemental Coverage Option (SCO); only for PLC commodities**

KEY PROVISIONS (CONT.)

Payment Limits & Eligibility

- **\$125,000 per person—all inclusive (PLC, ARC County and ARC Individual, plus any marketing loan gains or LDP's); all commodities except peanuts**
- **Separate \$125,000 for peanuts**
- **Single AGI of \$900,000 (3-year rolling average)**

DECISIONS

The following decisions are made for each Farm Service Agency (FSA) farm; are made only once by date to be determined by FSA and cannot be changed for the life of the 2014 farm bill:

- 1) Retain or reallocate base acres
- 2) Update payment yields
- 3) Program Elections/Selections:
 - ✓ PLC (commodity-by-commodity)
 - ✓ County ARC (commodity-by-commodity)
 - ✓ Individual ARC (all commodities)

BASE ACRES

All programs make payments on base acres

Farm's total base acres cannot be increased, but farm owners can elect to:

- ✓ **Retain** current base acre allocation across program crops; or
- ✓ **Reallocate** base acres across program crops based on proportion of planted (and prevent planted) in 2009 to 2012 years

(Note: special rules for "generic" base acres that were cotton base)

REALLOCATING BASE—EXAMPLE

- FSA farm with 100 base acres—55 corn; 35 soybeans; 10 wheat
- 2009 to 2012 plantings averaged: 75 corn; 25 soybeans
- Base Acre Alternative:
 - ✓ Retain current base acre allocation (55 corn; 35 soybeans; 10 wheat)
 - ✓ Reallocate base acres (75 corn 25 soybeans)

PAYMENT YIELDS

Payment yields are only used for PLC

Farm owners can choose:

- ✓ **Update** payment yields to 90% of the average yields from 2008 thru 2012
- ✓ **Keep** current payment yields at levels used in 2008 Farm Bill Counter-Cyclical Payments

PROGRAM CHOICE

For each FSA farm, producers and farm owners must choose:

- ✓ For **each** program crop, enroll in either:
 - ✓ PLC; or
 - ✓ County ARC

- ✓ Or, for **all** program crops on the farm, enroll in Individual ARC.

PROGRAM CHOICE (CONT.)

- A farm could choose County ARC and PLC for different crops (for example, County ARC for corn; PLC for soybeans);
- If Individual ARC is elected, it is for all crops and no PLC, County ARC or SCO.
- **Default:** if no choice is made in 2014, all crops default to PLC in 2015 and the farm forfeits any potential 2014 payments



PRICE LOSS COVERAGE (PLC)

PLC Payments:

- Triggered when the Market Year Average (MYA) price is below the Reference Price.
- MYA is for the 12-month marketing year of the crop (e.g., the 2014 MYA for corn and soybeans is Sept. 2014 through Aug. 2015).

Crop	Reference Price
Corn	\$3.70 per bu.
Soybeans	\$8.40 per bu.
Wheat	\$5.50 per bu.
Grain Sorghum	\$4.95 per bu.
Barley	\$4.95 per bu.
Oats	\$2.40 per bu.
Other Oilseeds	\$20.15 per cwt.
Dry peas	\$11.00 per cwt.
Rice	\$14.00 per cwt.
Peanuts	\$535 per ton
Lentils	\$19.97 per cwt.
Small chickpeas	\$19.04 per cwt.
Large Chickpeas	\$21.54 per cwt.

PRICE LOSS COVERAGE

Calculations

Payment Rate = Reference price – (higher of) MYA price or loan rate

Payment = Payment rate X payment yield X 85% of crop's base acres

[Note: Payment yields can be updated; Base acres can be reallocated]

PLC—EXAMPLE

Corn: McLean County, Illinois

Reference Price	\$3.70
MYA Price	\$3.55
Payment Rate (Reference — MYA)	$\$0.15 = \$3.70 - \$3.55$
Payment Yield	150 bu./acre
Base Acres	100
Payment (Rate X Yield X 85% of Base)	$\$1,913 = \$0.15 \times 150 \text{ bu.} \times (85\% \text{ of } 100)$

AGRICULTURE RISK COVERAGE

COUNTY ARC

Calculations

Benchmark Revenue =	5-year Olympic average county yields X 5-year Olympic average MYA Prices ➤ (reference price replaces prices below it; 70% of T-yield replaces county yields below it)
Guarantee =	86% of the Benchmark Revenue
Actual Revenue =	county average yield X MYA price
Payment Rate =	Guarantee – Actual Revenue (when actual revenue is below the guarantee); not to exceed 10% of Benchmark Revenue
Payment =	Payment Rate X 85% of the Base Acres

COUNTY ARC—BENCHMARK REV.

Year	Price	County Yield
2009	\$3.70*	186
2010	\$5.18	169.5
2011	\$6.22	159.6
2012	\$6.89	109.5
2013	\$4.50	188
5-Year Olympic Avg.	\$5.30	171.7
Benchmark	\$910	
Guarantee (86% of Benchmark)	\$783	

Corn—McLean County, Illinois

*2009 price \$3.55 is replaced by \$3.70 reference price

Used in Olympic average calculation

COUNTY ARC—EXAMPLE

Corn: McLean County, Illinois	
2014 MYA Price (USDA estimate)	\$3.90
2014 County Yield (Trend)	180
Base Acres	100
2014 Actual Revenue	$\$702 = \3.90×180
Guarantee (86% of Benchmark)	\$783 (previous slide)
Max. Payment	\$91 (10% of \$910 benchmark)
Payment Rate (Guarantee—Actual up to Max)	$\$81 = \$783 - \$702$
Payment (Rate X 85% of 100 base)	$\$6,852 = \$81 \times 85\% \text{ of } 100$

COUNTY ARC—BENCHMARK REV.

Year	Price	County Yield
2009	\$9.59	54.0
2010	\$11.30	58.5
2011	\$12.50	56.0
2012	\$14.40	52.3
2013	\$12.70	55.0
5-Year Olympic Avg.	\$12.17	55.0
Benchmark	\$669	
Guarantee (86% of Benchmark)	\$575	

Soybeans—McLean County, Illinois

No prices were below the Reference Price

Used in Olympic average calculation

County ARC—Example

Soybeans: McLean County, Illinois	
2014 MYA Price (USDA estimate)	\$9.65
2014 County Yield (Trend)	56
Base Acres	100
2014 Actual Revenue	\$540
Guarantee (86% of Benchmark)	\$575
Max. Payment	\$67
Payment Rate (Guarantee—Actual up to Max)	\$35
Payment (Rate X 85% of 100 base)	\$2,982

INDIVIDUAL ARC

NOTES:

- ✓ operates on the **sum** of all covered commodities on all farms enrolled in Individual ARC
- ✓ calculations are based on the **producer's share** of production on all farms in the state in Individual ARC
- ✓ Crop year **planted acres** determine the weights used to calculate revenue (actual and benchmark)
- ✓ Payments made on **65%** of Base acres for all program crops on the farm

INDIVIDUAL ARC

Calculations: Benchmark Revenue

Revenues

Each program crop's revenue for each of the 5 most recent crop years is calculated individually = Yield X MYA

- (reference price replaces prices below it; 70% of T-yield replaces farm yields below it)

Olympic Average Revenues

Each crop's revenue for each of the 5 most recent crop years, dropping the highest and lowest revenues

Weighted Sum is Benchmark Rev.

Current crop year's planted acreage of each crop used to weight the Olympic average revenue of each crop; all weighted Olympic average revenues added together = Benchmark Revenue

INDIVIDUAL ARC

Calculations: Actual Revenue

Revenues	Calculate revenue for each crop = farm level yield in the crop year X MYA price for the crop year
Planted Acres	Acres planted to each crop used to weight the actual revenue
Weighted Sum is Actual Rev.	Each crop's revenue is weighted by planted acres and added together to get the actual Individual ARC revenue

Individual ARC

Calculations Continued

Benchmark Revenue =	Weighted sum of the Olympic average revenues for all planted program crops
Guarantee =	86% of the Benchmark Revenue
Actual Revenue =	Weighted Sum of actual revenues for all program crops
Payment Rate =	Guarantee – Actual Revenue (when actual revenue is below the guarantee); not to exceed 10% of Benchmark Revenue
Payment =	Payment Rate X 65% of the Base Acres for all program crops on the farm

INDIVIDUAL ARC—2014 CALCULATIONS

Corn: McLean County, Illinois			
Year	Yield	Price	Rev.
2009	186.0	\$3.70*	\$688
2010	169.5	\$5.18	\$878
2011	159.6	\$6.22	\$993
2012	109.5	\$6.89	\$755
2013	188.0	\$4.50	\$846
Olympic Average Rev.			\$826

Soybeans: McLean County, IL			
Year	Yield	Price	Rev.
2009	54.0	\$9.59	\$518
2010	58.5	\$11.30	\$661
2011	56.0	\$12.50	\$700
2012	52.3	\$14.40	\$753
2013	55.0	\$12.70	\$699
Olympic Average Rev.			\$687

*the \$3.55 MYA is replaced with the reference price

Used in the Olympic average calculation

INDIVIDUAL ARC—EXAMPLE

<p>McLean County, IL (representative farm) 100 base acres 60 planted corn 2014 40 planted soybeans</p>	<p>2014 MYA Corn = \$3.90 2014 (Trend) Yield Corn = 180 bu. 2014 MYA Soybeans = \$9.65 2014 (Trend) Yield Soybeans = 56 bu.</p>
Benchmark Revenue	$\$770 = (0.6 \times \$826) + (0.4 \times \$687)$
Guarantee	$\$662 = 86\%$ of the Benchmark
Actual Revenue	$\$637 = (0.6 \times \$702) + (0.4 \times \$540)$
Payment Rate (difference)	\$25
Max. Payment (10% of Benchmark)	\$77
Payment	$\$1,631 = \$25 \times 65\%$ of 100 total base acres

INITIAL CONCLUSIONS

- Presuming trend yields for corn and soybeans, County ARC in 2014 would reach the cap in most Midwestern counties at prices well **above** the Reference Prices but below USDA's projected prices.
- Individual ARC payments likely smaller than County ARC payments.

INITIAL CONCLUSIONS (CONT.)

➤ **Corn: \$3.70 Reference Price**

- ✓ If MYA prices stay above, County ARC provides assistance with price declines; PLC will not
- ✓ If MYA prices extremely low (\$3.00 or less), PLC might provide more assistance (at least in years 4 & 5)

➤ **Soybeans: \$8.40 Reference Price**

- ✓ MYA forecasts are well above the Reference Price, County ARC provides assistance with expected declines but PLC will not

DECISION CONSIDERATIONS

- **What are your price expectations?**
 - ✓ For PLC to be effective for Midwestern corn and soybeans, prices will have to collapse
 - ✓ County ARC guarantee will decline if prices remain low

- **Keep in mind:**
 - ✓ County ARC on a commodity = ineligible for PLC and SCO
 - ✓ Individual ARC = entire farm ineligible for PLC and SCO

QUESTIONS?

THANK YOU.

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