

# 2014 Farm Bill Fact Sheet

## Commodity Program Primer

### Overview

The 2014 Farm Bill has completely overhauled the U.S. crop commodity payment system. Direct payment, counter-cyclical payment, and ACRE (average crop revenue election) payment programs have all been eliminated.

In place of the eliminated programs, the 2014 Farm Bill has created a new commodity safety net with 3 primary payment options and additional flexibility for how farmers enroll different crops into those programs. Additionally, landowners have the option of updating their program information on base acre allocation and historical yields which are used in calculation of payments.

Each of these decisions will require careful consideration by farm decision makers as well as communication between land owners, tenants, and lenders. The purpose of this fact sheet is to provide a primer to help decision makers begin the process of analyzing the set of one time decisions that must be completed in February and March of 2015.

### Important Dates & Timeline

August 1, 2014: USDA begins sending acreage history and yield reports to producers. These are the basis for updating payment yields and reallocating base acres.

September 26, 2014: USDA publishes final rule on Title I (commodity programs) of 2014 Farm Bill and announces deadlines for all decision steps of program enrollment.

February 27, 2015: Final date for reallocating base acreage and updating yields through USDA-FSA office. Updating acreage and yield began Sept. 29, 2014.

March 31, 2015: Final date for program election. Election refers to the one time signup for either PLC, ARC-CO, or ARC-IC. This decision is irrevocable and will determine program payments for the life of the 2014 Farm Bill which ends with the 2018 crop year.

Summer 2015: Enrollment for commodity programs is not yet specified but will begin in mid-April and extend into summer 2015. Enrollment is required for each crop year even though there is no decision required in subsequent years. Producers will sign up for both 2014 and 2015 crop years in spring/summer of 2015.

### Basic Decision Steps

#### 1. Farm owner update of payment yields

A one time option for updating yields is provided in the 2014 farm bill. Participants may either keep the established payment yield reported in their letter of August 2014 or update to 90% of their certified average yield produced over the 2008-2012 crop years. Participants certify their yields but must be able to produce confirming evidence (e.g. crop insurance yields) in the event of an audit.

#### 2. Farm owner reallocation of base acres

A one time option for reallocating base acres is provided in the 2014 farm bill. Participants may either keep the existing acreage allocation reported in their letter of August 2014 or update using planted and considered planted acreage from 2009-2012.

#### 3. Producers make program election

Participants elect the commodity program that will determine their annual payments. The decision is for the life of the farm bill. ARC-CO and PLC are elected on a crop by crop basis. ARC-IC is a whole farm election.

#### 4. Producers make annual enrollments

Required annual signup for elected program.

# Key Factors in Program Decisions

## 1. Yield Updates

- Any program yield for a covered commodity may be updated. Program participants may update yields whether they intend to elect the PLC program that uses the program yield or not.
- Decision should be guided simply by whichever program yield option is larger.
- Option 1: Maintain existing program yield for a crop.
- Option 2: Update program yield using the 2008-2012 average yield for the crop.

## 2. Acre Reallocation

- All farms are eligible for base acre reallocation. Total base acres are same before and after update, no new base acres are created.
- Decision will likely be guided by choosing the allocation option that places the largest portion of base acres in crop with higher potential payout. Early analyses show corn payout potentials to be highest among Indiana crops for 2014 and 2015 crop years.
- Option 1: Maintain existing allocation of base acres to crops.
- Option 2: Update using the average share of acres planted to a crop between 2009-2012. For example, if on average 60 percent of a farm's base was planted to corn and 40% of base was allocated to soybeans in 2009-2012 this would be the reallocation option.
- These are the only 2 options for base allocation. Base acres do not impact and are not impacted by plantings in upcoming crop years.

## 3. Program Election

- Participants make one time choice among three program options:

### PLC: Price Loss Coverage

- Price protection program. When the national marketing year average (MYA) falls below a crop specific reference price payments are made.
- Payments increase with lower MYA prices.
- Election is commodity by commodity.
- Program favors price declines that are consistently below the reference price.
- Payments made on 85% of base acres.

### ARC-CO: Ag Risk Coverage Cty

- County Revenue protection program. Five year county yield and national price averages determine a benchmark revenue. Payments made when current revenue falls below 86% of benchmark revenue.
- Payments increase as current revenue falls, up to a limit of 10% of benchmark revenue.
- Election is commodity by commodity.
- Program favors shallow losses triggered by drop-offs in price or yields.
- Payments made on 85% of base acres.

### ARC-IC: Ag Risk Coverage Ind

- Individual Revenue protection program. Five year on-farm yield and national prices determine a benchmark revenue. Payments made when current revenue falls below 86% of benchmark revenue.
- Payments increase as current revenue falls, up to a limit of 10% of benchmark revenue.
- Election is whole-farm only, ARC-IC requires all crops in same program.
- Program comes with a base acre penalty. Payments made on only 65% of base acres.

### Resources for Decision Makers:

USDA has sponsored two coalitions charged with providing educational materials to assist farmers with decisions related to the 2014 farm bill. The University of Illinois led toolbox is available at <http://fsa.usapas.com/>. The Texas A&M led decision aid is available at <https://www.afpc.tamu.edu/models/decisionaid.php>. Each of these tools allows users to input their own information on plantings, yields, and crop insurance choices to provide output useful in comparing program options.

Additional information on 2014 Farm Bill programs and resources for analyzing program options can be found on the Policy resources page hosted by the Purdue Center for Commercial Agriculture.

<https://www.agecon.purdue.edu/commercialag/resources/policy/index.html>

*Disclaimer: This document is provided for education purposes. The information in this fact sheet is intended to assist farm operators and land owners as they form their own decisions based on the specifics of their operations as well as their own management objectives and risk attitudes.*