The Agricultural Act of 2014: Title I Program Options for Corn Producers
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Overview of Commodity Programs
- Covered Commodities: Wheat, Oats, Barley, Corn, Grain Sorghum, Long Grain Rice, Medium Grain Rice, Pulse Crops, Soybeans, Other Oilseeds, and Peanuts
- Direct Payments, the Average Crop Revenue Election (ACRE) program, and Counter-Cyclical Payments are repealed
- For the 2014 crop, producers of covered commodities must choose between Agriculture Risk Coverage - County (ARC-C), Agriculture Risk Coverage - Individual (ARC-I), and Price Loss Coverage (PLC)
  - Only producers who choose PLC will be eligible to participate in the Supplemental Coverage Option (SCO) for crop insurance, beginning in 2015
- The decision farmers make in 2014 will determine which program they are in for the next five crop years (until 2018)
- If no choice is made in 2014, no payments will be received for 2014, and for the remainder of the Farm Bill the producer will be automatically enrolled in PLC
- Regardless of which program is chosen, the first payment (if any is due) will not be made until after September 30th 2015 for the 2014 crop

Additional Considerations
- Producers will have the opportunity to reallocate their base acres to crops planted on each farm from 2009 to 2012
- Cotton is no longer a covered commodity. Base cotton acres are now called “generic base” acres and are eligible for program payments based on annual planted acreage
- If producers choose the PLC option they have the opportunity to update their payment yields to 90% of the 2008-2012 crop year averages or leave the payment yields unchanged (USDA may let everyone update regardless of choice, however updates will only affect PLC enrolled producers)
- Both PLC and ARC are decoupled (paid on base acres, not planted acres – except on generic base which is partially tied to covered crop planted each year)
- Overall payment limit per person – $125,000 combined for PLC, ARC, Loan Deficiency Payments, and Marketing Loan Gains
- No change to the spousal rule ($250,000 per couple)
- No limit on marketing loan forfeitures
- Adjusted Gross Income (AGI) test – 3 year average of $900,000 or less for commodity and conservation program eligibility
- AGI does not apply to crop insurance

Crop Insurance
- Crop insurance is changed slightly from previous years
- Conservation compliance is required to receive cost share for crop insurance
- Producers who enroll in the PLC program are eligible to purchase a Supplemental Coverage Option (SCO) with a 65% cost share on the premium
  - The SCO will cover losses greater than 14% of normal levels. It will cover losses between 86% and coverage level of individual insurance
  - Producers must have crop insurance to enroll in SCO
  - Farmers can choose between a county or individual yield and loss when determining indemnities
- Beginning in 2015, producers who raise both dryland and irrigated crops can insure the crops at different coverage levels
- Beginning farmers and ranchers shall receive premium assistance 10 percentage points greater than would otherwise be available

Figure 1. CBO Estimated Percentage of 2014 Farm Bill Spending by Program (Total Spending estimated at $956.4 Billion from 2014-2023)
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**Base Acreage Reallocation**

- Legislation allows for a one time base reallocation, decision is made on each FSA farm unit
  - Two choices
    - Reallocate (cannot add to 2013 base acres on a farm)
    - Retain existing base acres
  - Reallocations bases other than cotton that were on the farm as of September 30, 2013
  - Reallocation is in proportion to the ratio of:
    - The 4 year average of planted acres from 2009 to 2012 plus prevented planting acres for all covered commodities
    - Under planting does not affect the amount of base. The planted acres of covered commodities only affects the proportion of base acres that you will reallocate among commodities

**Table 1. Base Reallocation Example**

<table>
<thead>
<tr>
<th>Crop</th>
<th>Existing Base</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>All Crops</th>
<th>Title I Covered Crops</th>
<th>% Planted to Title I Covered Crops</th>
<th>Reallocated Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>250</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>50%</td>
<td>500</td>
</tr>
<tr>
<td>Grain Sorghum</td>
<td>250</td>
<td>50</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>13</td>
<td>1%</td>
<td>13</td>
</tr>
<tr>
<td>Soybeans</td>
<td>250</td>
<td>450</td>
<td>500</td>
<td>400</td>
<td>500</td>
<td>463</td>
<td>463</td>
<td>46%</td>
<td>463</td>
</tr>
<tr>
<td>Wheat</td>
<td>250</td>
<td>0</td>
<td>0</td>
<td>100</td>
<td>0</td>
<td>25</td>
<td>25</td>
<td>3%</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>100%</td>
<td>1,000</td>
</tr>
</tbody>
</table>

**Cotton and Generic Base**

- Cotton base acres become generic base and cannot be reallocated, but can be reassigned annually to other covered commodities based on percentages of planted covered commodity acres
- Cotton will receive transition payments in 2014 and possibly 2015
- Cotton will receive support through crop insurance and
  - Supplemental Coverage Option (SCO)
  - Stacked Income Protection (STAX)
  - Cannot choose both SCO and STAX
- Generic Base Example:
  - 1,000 total base acres on farm: 500 acres of corn, 500 acres of cotton (generic base)
  - If 500 acres of corn and 500 acres of soybeans are planted, then payments will be determined as 750 base acres of corn and 250 acres base acres of soybeans

**Table 2. Program Payments on Generic Base Acreage**

<table>
<thead>
<tr>
<th>Crop</th>
<th>Existing Base</th>
<th>2015 Planted</th>
<th>Title I Covered Crops</th>
<th>% Planted/Prevented to Title I Covered Crops</th>
<th>Payment Acreage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>50%</td>
<td>750</td>
</tr>
<tr>
<td>Soybeans</td>
<td>0</td>
<td>500</td>
<td>500</td>
<td>50%</td>
<td>250</td>
</tr>
<tr>
<td>Cotton (Generic Base)</td>
<td>500</td>
<td>0</td>
<td>500</td>
<td>50%</td>
<td>250</td>
</tr>
<tr>
<td>Total</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>100%</td>
<td>1,000</td>
</tr>
</tbody>
</table>
Yield Update for Price Loss Coverage

- One time decision and applies to PLC but may be allowable for ARC acres (will not apply to ARC payments)
- Made on crop-by-crop basis for each FSA farm unit
  - 90% of the average yield for the 2008-2012 crop years
  - Exclude any year that the planted acres are zero
  - If the farm yield per planted acre for any year is less than 75% of the country average yield for 2008-2012, then use 75% of county yield

<table>
<thead>
<tr>
<th>Crop</th>
<th>Units</th>
<th>Existing CCP Yield</th>
<th>Actual Yields per Planted Acre</th>
<th>&quot;Plug&quot; Yields</th>
<th>90% of the 2008-2012 Average Yield</th>
<th>PLC Payment Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>bu</td>
<td>120</td>
<td>125 180 175 200 125</td>
<td>80 145</td>
<td>145</td>
<td></td>
</tr>
<tr>
<td>Grain Sorghum</td>
<td>bu</td>
<td>60</td>
<td>85 65 55 75 85</td>
<td>63 66</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>Soybeans</td>
<td>bu</td>
<td>35</td>
<td>65 45 40 35 75</td>
<td>23 47</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td>bu</td>
<td>45</td>
<td>64 68 60 45 50</td>
<td>41 52</td>
<td>52</td>
<td></td>
</tr>
</tbody>
</table>

Price Loss Coverage (PLC)

- PLC is a “target price” type program
- Under this program, farmers receive payments on 85% of their base acres if prices fall below reference prices established by USDA
- The payment will be based on their program yields, which can be updated at the time of program election
- Farmers can choose to participate on a covered commodity-by-covered commodity basis
- Reference prices:
  - Wheat: $5.50/bu
  - Corn: $3.70/bu
  - Grain sorghum: $3.95/bu
  - Soybeans: $8.40/bu
- Covers losses in income due to covered commodity price declines below established reference prices
- PLC Payment Rate = Reference Price – Higher of the National Average Marketing Year Price or Marketing Loan Rate
- PLC Payment = PLC Payment Rate * Payment Yield * Base Acres * 0.85
- For example, if a farmer has 100 base acres of corn with a program yield of 150 bushels/acre and the MYA price for corn is $3.60/bu, then a farmer will receive a total payment of $1,275 ($0.10/bu * 150 bu * 100 acres * 0.85), or $12.75/acre
Average Revenue Protection (ARC)

- Covers losses in revenue for a covered commodity relative to a revenue guarantee
- Two program choices: county (ARC-C) or individual (ARC-I)
  - ARC-C chosen on a commodity-by-commodity basis (coverage can be elected for ARC-C for one covered commodity and PLC on another commodity on the same farm)
  - ARC-I applies to all covered commodities on an individual farm

ARC-C

- Under ARC-C, farmers will be paid on 85% of base acres if actual county-level revenue falls below benchmark revenues for a crop enrolled in the program
- ARC-C allows separate irrigated and non-irrigated ARC guarantees
- Benchmark revenue is the product of county Olympic average yields and national Olympic average [MYA] prices
  - Benchmark revenue is a moving calculation for the most recent 5-years. Ex. 2016 will be Olympic averages for 2011-2015
- Example:
  - Olympic average county yield is 156 bu/acre
  - Olympic average national price is $4.80/bu
    - Benchmark revenue is 156 * $4.80 = $749/acre
  - Revenue guarantee is $749 * 0.86 = $644/acre
  - Payment rate will not exceed $749 * 0.10 = $74.90/acre
  - Payment is on 85% of acres or a max of $63/acre
  - If actual county yield is 145bu/acre and MYA price is $4.20:
    - Actual county revenue is 145 * $4.20 = $609/acre
    - Payment rate will be $644 − $609 = $35 * 0.85 = $29.75/acre

 ARC-I

- Benchmark revenue is farm revenue determined by historical farm yields and national prices and is a moving measure of the 5 most recent years
- Payments are paid on 65% of total base acres
- Individual ARC will pay when a farmer’s revenue is between 76% and 86% of a five-year rolling Olympic average.
- Benchmark revenue changes as annual planted acreage crop mix changes
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Comments and Observations

- Expectations for future crop prices will be an important consideration when choosing whether to enroll in PLC or ARC. If prices are expected to stay above PLC reference prices, ARC may be the better choice. However, if prices are expected to be below PLC reference prices, PLC may be the better choice.

Figure 5. Marketing Year Average Prices for Corn, Soybeans, and Wheat from 2009/10 to 2014/15

- Farmers may find it advantageous to enroll in PLC and county ARC for different crops. This may be a sound risk management strategy depending on an individual’s situation.
- Sign-up dates are unknown but will most likely occur in late 2014 early 2015.
- The Farm Service Agency (FSA) needs to finish writing regulations that determine how the farm bill will be administered.
- Decision aids are currently being developed to aid producer decisions.
  - Texas A&M Agricultural Food an Policy Center (AFPC) has received funding to build the decision aid the USDA FSA web page. A preliminary version can be found online at [http://decisionaid.afpc.tamu.edu/](http://decisionaid.afpc.tamu.edu/)
  - University of Tennessee Department of Agricultural & Resource economics will be releasing Excel spreadsheet based decision aids after FSA finalizes regulations. Updates can be found on the University of Tennessee Crop Economics webpage [http://economics.ag.utk.edu/crop.html](http://economics.ag.utk.edu/crop.html).
- University of Tennessee Institute of Agriculture, Farm Credit Mid-America, Tennessee Farm Bureau, and the Tennessee Soybean Association will be conducting informational meetings across Tennessee from August 18th to 21st. The meetings are free to attend however registration is requested by going on line: [www.e-farmcredit.com/FarmBill2014](http://www.e-farmcredit.com/FarmBill2014) or you may also register by contacting your local Farm Credit Mid-America office at 1-800-444-FARM.
- Locations and Dates:
  - August 18, 2014 - 7:00 PM CST, West Tennessee Research Center, 605 Airways Blvd., Jackson, TN 38301
  - August 19, 2014 - 7:00 PM CST, Tennessee Tractor LLC, 500 Community Park Drive, Dyersburg, TN 38024
  - August 20, 2014 - 2:00 PM CST, Lincoln County Fairgrounds, 1003 Hedgemont Ave., Fayetteville, TN 37334
  - August 21, 2014 - 7:00 PM EST, Plant Biotechnology Building, 2505 E J. Chapman Drive, Knoxville, TN 37996.