

Policy Issues and Decision Tools

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This material is based upon work supported by the U.S. Department of Agriculture, Farm Service Agency, under Agreement No. 58-0510-4-039 N



Glossary

- **Price Loss Coverage** – **price protection** program similar to the countercyclical program
- **Agricultural Risk Coverage** – **revenue protection** program similar to the Average Crop Revenue (ACRE) program (shallow loss program)
 - County
 - Individual Farm
- **Supplement Risk Coverage** – an **insurance** add-on enable the producer to increase coverage to 86% of expected revenue (shallow loss program)



ONE CROP, ONE YEAR, ONE ACRE



ARC - County

2015 All Wheat Only

Computing the Benchmark Revenue for County Coverage

| Year | County Average Yield per Planted Acre ¹ <i>bushels/acre</i> | Olympic Average Yield <i>bushels/acre</i> | National Marketing Year Average Price <i>\$/bushel</i> | Olympic Average Price <i>\$/bushel</i> | County Benchmark Revenue <i>\$/acre</i> | Factor | County Revenue Guarantee <i>\$/acre</i> |
|------|---|--|---|---|--|--------|--|
| 2010 | 37.0 | 0.0 | 5.70 | 0.00 | | | |
| 2011 | 28.0 | 28.0 | 7.24 | 7.24 | | | |
| 2012 | 27.0 | 0.0 | 7.77 | 0.00 | | | |
| 2013 | 36.0 | 36.0 | 6.87 | 6.87 | | | |
| 2014 | 34.0 | 34.0 | 5.99 | 5.99 | | | |
| 2015 | Olympic Avg ² | 33.0 | | 6.70 | 221.10 | 0.86 | 190.15 |



ARC - County

Computing the ARC Payment

| Description | Actual County Yield <i>bushels/acre</i> | National Average Market Price <i>\$/bushel</i> | Marketing Loan Rate <i>\$/bushel</i> | Effective Price <i>\$/bushel</i> | |
|--|--|---|---|-------------------------------------|--------|
| County Revenue, 2015 | 33.0 | 4.89 | 2.94 | 4.89 | 161.37 |
| Difference between County Revenue Guarantee and County Revenue | | | | | 28.78 |
| ARC Payment Cap (10 Percent of the County Benchmark Revenue) | | | | | 22.11 |
| Gross ARC Payment (minimum of two previous calculations) | | | | | 22.11 |
| Final ARC Payment, \$/acre (Gross ARC Payment x 85%) | | | | | 18.79 |



Price Loss Coverage (PLC)

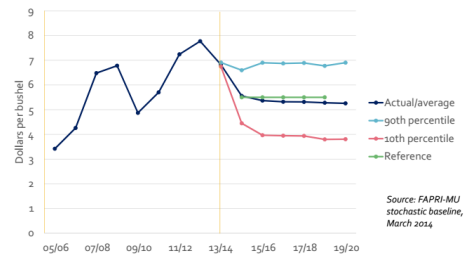
- Similar to countercyclical payments
 - Payments are tied to **base acreage** and **program yields**
 - Makes payments when price fall below a trigger (reference price)
 - Payment rate is simple – just the difference between the reference price and higher of the national season-average farm price and the loan rate.



Reference (and Target) Prices

| Commodity | CCC Payment Trigger | PLC Payment Trigger | Percent Increase |
|-----------|---------------------|---------------------|------------------|
| Corn | \$2.35/bu | \$3.70/bu | 57% |
| Wheat | \$3.65/bu | \$5.50/bu | 53% |
| Soybeans | \$5.56/bu | \$8.40/bu | 66% |
| Peanuts | \$459/ton | \$535/ton | 17% |
| Rice | \$8.15/cwt | \$14/cwt | 72% |
| Barley | \$2.39/bu | \$4.95/bu | 107% |

U.S. Farm Prices for Wheat



Price Loss Coverage

| Payment Calculations Under the Price Loss Coverage Program (PLC) | |
|---|---------|
| PLC Reference Price, \$/bushel | 5.50 |
| Effective Price (higher of National MYA Price and Marketing Loan Rate), \$/bushel | 4.89 |
| PLC Payment Amount, \$/bushel | 0.61 |
| Payment Yield (CC Yield or Updated Yield) ³ bushels/acre | 33.0 |
| Gross PLC Payment, \$/acre | 20.1 |
| Final PLC Payment, \$/acre (Gross PLC Payment x 85%) | \$17.11 |

Supplemental Coverage Option

| Payment Calculations for Supplemental Coverage Option (SCO) | |
|---|---------|
| Coverage Level for Underlying Policy (revenue protection in this example) | 75% |
| Maximum SCO Indemnity, \$/acre | 19.74 |
| Payment Factor | 0.645 |
| SCO Indemnity, \$/acre | 12.73 |
| Premium paid by the Farmer, \$/acre | 2.70 |
| Net SCO Indemnity, \$/acre | 10.03 |
| PLC + SCO Payments per acre | \$23.34 |

Yield Updating Options

- **Retain** the farm's/crop's Counter-Cyclical (CC) yield from the 2008 Farm Bill (**NOT Direct yield**)
- **Update** the farm's/crop's yield based on **90%** of the farms 2008-2012 "**average yield**" per "**planted**" acre, excluding years of zero plantings/prevent plant.
 - 75% of County Average Yield will be "**substituted**" for years in which there is a low yield and/or no production/yield available for planted acres

Yield Updating

| (1) Replacing substitute yields and calculating updated yield | | | | | | | | | |
|---|------------------------|------|------|------|------|---------|---------------|---------------|--|
| State | Montana | | | | | | | | |
| County | Judith Basin | | | | | | | | |
| Crop | Wheat 23 minimum yield | | | | | | | | |
| | 2008 | 2009 | 2010 | 2011 | 2012 | Average | Update Factor | Updated Yield | |
| Yield per planted acre, wheat | 16 | 21 | 37 | 13 | 19 | | | | |
| Substitute yield ¹ | 23 | 23 | 23 | 23 | 23 | | | | |
| Yield used | 23 | 23 | 37 | 23 | 23 | 25.8 | 0.9 | 23 | |

¹ Substitute yield is 75% of 2008-2012 county average yield

Yield Updating

(2) Considering unplanted acres and calculating updated yield

| | | | | | | | | | |
|-------------------------------|--------------|------|------|------|------|---------|---------------|------------------|--|
| State | Montana | | | | | | | | |
| County | Judith Basin | | | | | | | | |
| Crop | Barley | | | | | | | 26 minimum yield | |
| | 2008 | 2009 | 2010 | 2011 | 2012 | Average | Update Factor | Updated Yield | |
| Yield per planted acre, wheat | | | | 38 | 19 | | | | |
| Substitute yield ¹ | 26 | 26 | 26 | 26 | 26 | | | | |
| Yield used | | | | 38 | 26 | 32 | 0.9 | 29 | |

¹ Substitute yield is 75% of 2008-2012 county average yield

Yield Updating

(3) Considering unplanted and planted acres with no yield and calculating updated yield

| | | | | | | | | | |
|-------------------------------|--------------|------|------|------|------|---------|---------------|------------------|--|
| State | Montana | | | | | | | | |
| County | Judith Basin | | | | | | | | |
| Crop | Barley | | | | | | | 26 minimum yield | |
| | 2008 | 2009 | 2010 | 2011 | 2012 | Average | Update Factor | Updated Yield | |
| Yield per planted acre, wheat | | 0 | 54 | 52 | 52 | | | | |
| Substitute yield ¹ | 26 | 26 | 26 | 26 | 26 | | | | |
| Yield used | | 26 | 54 | 52 | 52 | 46 | 0.9 | 41 | |

¹ Substitute yield is 75% of 2008-2012 county average yield

Base Acre Reallocation

- A farm owner may choose between two "Base Election" options for 2014 base acres on a farm:
 - RETAIN base acres in effect as of 9-30-2013
 - Base acres may be adjusted for CRP - exit or enrollment.
 - REALLOCATE base acres using 2009-2012 planted/considered planted history, as reported on the FSA-578 (Base acres cannot INCREASE)
- Decision by the OWNER of the farm.

Base Acre Reallocation

| Crop | 2014 | Crop History | | | | Average | Reallocation | Reallocated |
|--------|--------|--------------|--------|--------|--------|----------|--------------|-------------|
| | Base | 2009 | 2010 | 2011 | 2012 | Planting | Percentage | Base |
| Wheat | 624.7 | 228.40 | 261.00 | 76.72 | 260.93 | 206.76 | 71.0 | 1,097.95 |
| Barley | 893.3 | 0.00 | 0.00 | 260.93 | 76.72 | 84.41 | 29.0 | 448.25 |
| Oats | 28.2 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.0 | 0.00 |
| Total | 1546.2 | 228.40 | 261.00 | 337.65 | 337.65 | 291.18 | 100.0 | 1,546.20 |

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Questions?

Summary

- Farm Bill Decision Tools
 - Base Reallocation
 - Yield Updating
 - Agricultural Risk Coverage (ARC)
 - Price Loss Coverage (PLC)
 - Supplemental Coverage Option (SCO)