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More Farm Bill Questions[1]

Note to readers: We do very little editing on the questions sent to us. Thanks to all who sent questions, but these selected questions keep being re-asked, so we are posting them. We will always answer questions during the October 2 KSU Farm Bill Webinar. **AB**

OSU-KSU team,

"I like your calculator – especially the fact that so much of the data is displayed after inputting and I can easily change projected yields and prices to see different outcomes."

Thank you!
Lola, Montana Grain Growers

[Art Barnaby] Thank you Lola for your comments. We hope others will give the OSU-KSU Farm Program Commodity Program Analysis model a try. I should tell the readers I will never provide the emailer's name without their permission. Thank you Lola for granting permission.

Art,
I was wondering, is the calculator you guys created outside the ones funded by USDA or part of that program? Also, is your webinar going to be focusing on winter wheat, or looking at the full scope of enrollment?
C….,

[1]Prepared by G. A. (Art) Barnaby, Jr., Professor, Department of Agricultural Economics, K-State Research and Extension, Kansas State University, Manhattan, KS 66506, September 25, 2014, Phone 785-532-1515, e-mail – barnaby@ksu.edu.

[Art Barnaby] Oklahoma State University had a grant from the Southern Risk Management Center, so there was no USDA funding and it is not a part of a USDA program. The state Extension services will receive formula funding to help pay the education cost on the Farm Bill. However, it comes with "strings attached" and one of those strings is the Extension Service must use one of the FSA approved decision aids, either from University of Illinois or Texas A&M. We don't know of anything that prevents those folks from using the OSU-KSU model, but they will also have to use one of the FSA approved models to receive the formula funding. KSU will utilize the Texas A&M model and the OSU-KSU model.

We did not expect any USDA financial help providing education on the Farm Bill so early on we signed agreements with 4 Premier Sponsors who will fund our 15 regional in-depth seminars. Thanks to Ag Risk Solutions, ProAg, ARMtech Insurance Services, and Farm Credit Associations of Kansas for agreeing to be Premier Sponsors. We will announce soon how other agribusinesses that would like to be supporting sponsors may join in on these 15 regional Farm Bill meetings.

We did not know USDA was going to fund the development of a decision aid tool. OSU had funding lined up for their modeling two years ago. Therefore, KSU asked to be a part of the OSU team, and we did kick in some real dollars to have our name on the program. My friends at OSU have already pointed out we could have had more purple on the title page if we would put in more money! Thanks to OSU for doing all of the coding, but we have been working with OSU from the start on the content in the computer program.

Not everyone has a fast internet connection "needed" for the on line simulators like the one built by Texas A&M and there is something to be said for a simple model. The OSU-KSU model is a point estimate written in Excel and farmers can change and should change the price and yield assumptions to see how the results change. We always had planned to use the Texas A&M model for the more complicated farms, however for a large number of farmers this simpler model will likely provide them with all of the information they want in order to make a decision. Others may prefer the Illinois model rather than the Texas A&M model. The OSU-KSU model was never expected to compete with the more complicated computer simulation models that provides probability distributions for price and yields.

The OSU-KSU model covers all program crops, in all states and counties. So the Webinar will cover all crops in all states and all counties. We will have lots of time to answer specific questions too. As you know I often see the world differently than my colleagues at other universities, so my real objective is to get participants to think about the alternatives before they make a decision. There is no correct decision, and only in hindsight will farmers know what they should have done; just like marketing. Regardless of the computer model selected, farmers should use one to evaluate the commodity program. Our objective is to get farmers to the point they understand what price level and yields they are betting on when they make their decision.

Art

Gentlemen,

I've got a couple of questions needing clarification pertaining to base acres of a crop please:
payments - pay only to 85% of base (ARC CO) or does exceeding the base acreage
1) If a grower plants more than their base acreage, how will FSA handle potential loss total disqualify for any potential loss of monies?

[Art Barnaby] The Agricultural Risk Coverage (ARC-county payment) is based on the county yield and the Marketing Year Average (MYA) price. If for example that number was $50, then the payment would be $50 X base acres X 85%. The payment is on base acres and base crop only. The acres without base gets no payment. So if they plant more acres than they have base acres there is no impact on their government payments. Lucas wanted payments to be on planted acres, but that did not carry the day. Also farmers don't have to plant their base acres to that crop with the base history. For example, they may plant soybeans on corn base acres. If the farm serial number is not enrolled in ARC, then farmers can buy Supplemental Coverage Option (SCO), added crop insurance coverage, on all planted acres. If the farm serial number's corn base is enrolled in ARC, farmers can plant soybeans (or any other crop) on those corn base acres and buy SCO coverage on the soybeans. However, if they plant corn they cannot buy SCO on the corn planted on corn base acres enrolled in ARC. If there are a lot of planted acres over the base, then it may make sense to enroll in Price Loss Coverage (PLC) and buy SCO coverage on all planted acres. However, one can just buy higher levels of RP and not buy the SCO.

2) Clarification / confirmation - a grower must plant crop to receive any potential payment; i.e. have barley base, but not plant barley and barley has a loss in the county. It would seem logical, no plant, no payment.

[Art Barnaby] There is no requirement to plant and no restriction on planting. If the land has a base farmers can plant those acres to any crop (except fruit and vegetables) or no crop and still receive the payment.

3) Are types blended for payment calculation purposes; i.e. winter wheat yields are blended with spring wheat yields for that particular year, or is there a revenue calculation for each type? Appears that a single, blended average is the methodology employed, although we have average yearly data for each type.

[Art Barnaby] The MYA price is all wheat and the only factor in PLC. For ARC it is the MYA price and the county yield that determines the payment. If they elect ARC-individual it gets a lot more complicated, and probably the reason for the delay in sign up.

4) Another question for clarification please - I don't find or read any participation requirement as prior Farm Bills had; i.e. a particular participation level of crop insurance garnered a higher payment in the event of a qualifying payment under SURE / ACRE.

Some landlords are questioning purchasing crop insurance for 2015, given the expense and they have no input costs to protect.

What say you - do you read any crop insurance participation requirement?

[Art Barnaby] There is no crop insurance requirement to be in the FSA program.

Hi Art. Hope that you can add some clarity to some farm bill questions that keep coming up.

1. The PLC ref price for corn is $3.70. When they state that they will determine the price to compare to that reference price by using locations thru out the country during the MY, I have always assumed that those were cash prices not futures. Is that correct?

[Art Barnaby] It is the difference between $3.70 and the Marketing Year Average (MYA) Price. The MYA price is based on the reports required from the big elevators (Cargill, ADM, etc.) and a survey sample of the smaller elevators. They report the total dollars paid for cash corn that month and the total bushels purchased. NASS divides the two numbers to get the price per bushel for that month. They then calculate the percent of total bushels for the year purchased in each month to generate the weight. It is a weighted national average cash price and is the same in all counties. Because of the weighting and we are 4 months in to the new marketing year for wheat, is the reason we know the monthly cash price for wheat will need to be below $5 in the remaining 8 months for the wheat PLC to trigger in the first year. We are just starting to calculate the MYA price for 2014/15 corn and soybeans. I update those estimates each month on AgManager.info, and the link is:
http://www.agmanager.info/crops/insurance/risk_mgt/rm_pdf14/AB_Est-MYA.pdf

2. The ARC program will use a 5 yr OA for their pricing mechanism and I have also assumed that was a futures price not cash ?

[Art Barnaby] No, it is the MYA cash price. The above link has the estimate that is near final. For corn it is $5.29 for the first year of ARC. Unlikely the final number will differ from the $5.29 price for the first year of ARC.

3. I read over the weekend in one of many handouts I have collected these past 4 months that when determining the ARC OA price, that if the price in that 5 yr period is below the ref price of $3.70, that they will plug in the $3.70 along with the other prices for the 5 yr period. Can that be right?

[Art Barnaby] Yes, that is correct. In the above link you will notice I plugged in $3.70 for the year 2009 corn, because the 2009 MYA corn price was below $3.70.

If it is, it changes my opinion on PLC vs ARC and my concern about CBOT prices staying in a $340-3.90 range for 15 and 16 crop with the basis affecting the cash price from there. In that scenario the PLC floor appeared to be a better choice if you were bearish vs how the ARC will determine its pricing mechanism. Your thoughts?

[Art Barnaby] Crop insurance prices are based on the monthly average closing future prices for the harvest future contract. Crop insurance prices assume a zero basis, and is often the market low for the year. The MYA price is a weighted average cash price for the entire year. Because it is a national cash price, in some markets the cash price is over the Board. In 2013 and 2012 the MYA price was higher than the crop insurance harvest price. In the other 4 years the MYA price was lower than the crop insurance harvest price. However, there was only one year when the MYA price was below $3.70 and would have triggered PLC payments. In order to trigger PLC payments greater than ARC with an average crop for the county, the MYA price will need to be near $3.20. Not a simple answer, but one of the major issues to be covered in our October 2 webinar that is available for registration.

YEAR	Harvest Price	MYA Price
2013	**4.29**	**4.48**
2012	**7.50**	**6.89**
2011	**6.32**	**6.22**
2010	**5.46**	**5.18**
2009	**3.72**	**3.55**
2008	**4.13**	**4.06**

Art:
I haven't read anything about 2013 ACRE payment calculations on spring crops.
In Nebraska, dryland corn could have a payment in areas that the 2012 drought continued into 2013. The 2013 state dryland corn yield was very good, but the corn price has been tanking.
J

[Art Barnaby] The ACRE guarantee for 2013 dryland Nebraska corn was $552.24. The actual revenue to count against the ACRE guarantee is not final because the 2013/14 MYA price has not been published. The Nebraska state dryland corn yield was 132 bushels. The FSA estimated 2013 MYA price is $4.45. Based on those two values the revenue to count is 132 bushels times $4.45 equals $587.40. That amount exceeds the guarantee, so there is <u>no</u> payment. My estimate of the MYA 2013/14 price is higher at $4.48, making the revenue to count even larger.

The ACRE program should not be confused with the new program, ARC. In any case for farmers that enrolled in ACRE for the 2013 crop, they will find the values for their state on the FSA website at;
http://www.fsa.usda.gov/FSA/webapp?area=home&subject=dccp&topic=landing

The MYA 2013/14 MYA price will be published by NASS on September 29, 2014. I would expect FSA will announce any ACRE payments shortly after the MYA price is announced.

We read regs that as a onetime offer one can sign up for SCO on 2015 wheat and then if one chooses ARC at FSA in December (?) one can cancel the SCO. Are we correct however that if at FSA one picks PLC on wheat then cancelation of the SCO is not possible?

[Art Barnaby] If winter wheat farmers sign up for SCO then they can cancel their SCO coverage by acreage reporting date (December 15 for Kansas) and owe nothing. If farmers don't cancel, but next spring they select ARC, then their SCO coverage is cancelled and they owe 20% of the SCO premium. If next spring they are in the middle of a drought it may pay them to select PLC and keep their SCO coverage that would likely trigger payments on all planted acres with no payment limit, and not just on 85% of the base acres under ARC. At the National Training conference for FSA it was a point of emphasis that if it is a cash lease it is the tenant who makes the selection of ARC vs. PLC. That doesn't prevent the landlords from writing in their cash leases restrictions on the decision. All parties that have a risk position in the crop must sign. Probably a good idea to find out if one's cash rent landlords are okay with the decision. If the required

parties don't make a decision, then they are out of the commodity program on the 2014 crop and their SCO coverage remains on the 2015 crop. FSA will place this farm entity that cannot reach a decision in PLC in 2015. So the answer is yes, if farmers let FSA select the commodity program in 2015, then farmers' SCO coverage remains.

Note from KSU: We are offering a webinar on October 2 to update farmers and other interested parties on the commodity title in the Farm Bill. We will focus in on factors that will make either ARC or PLC the preferred choice. That choice will be different by farm as one size does not fit all. We will also discuss the use of the OSU-KSU computer decision aid that will allow farmers to run alternative scenarios to compare the two commodity programs. The webinar cost is $25 and one can register at the following link: http://commerce.cashnet.com/ksuagecon

More information is available at: http://www.agmanager.info/events/Webinars/default.asp