1. How will NASS determine the Marketing Year Average (MYA) prices used in the new farm commodity program to set the Agricultural Risk Coverage (ARC) county yields?

The National Agricultural Statistical Service (NASS) generates the Marketing Year Average (MYA) price based on surveys. NASS surveys the largest grain merchandizers every month and a sample of the smaller co-op elevators. The grain buyers report the total bushels purchased each month and the total dollars paid for grain that month. At the end of the marketing year, NASS calculates the percent of the total bushels that were purchased in each month. The percent of the crop sold in a month is the weight that is used to weight the prices each month to arrive at the national MYA price. The MYA is a national weighted-by-sales-volume average price for the marketing year.

NASS also reports prices by state and by type of crop. For example, NASS reports prices for spring wheat and winter wheat. It is also true that NASS will sometimes adjust some of their prices, but this is survey data so there is an error term around each estimated price. These adjustments are always small and in most cases have little impact on the final number.

KSU forecasts future NASS MYA prices on AgManager.info and it is updated each month with the most recent MYA reported prices and a new forecast of future MYA prices. NASS will post new prices on about the last day of the month. You can find that data on the NASS website at: http://www.nass.usda.gov/.

A history of prices over the past 30 years are on www.AgManager.info and the link is: http://www.agmanager.info/marketing/outlook/WA SDE/default.asp#Corn Supply & Demand Charts1

2. How soon will farmers have to make a decision on the new Commodity Crop program?

The Secretary of Ag has stated that farmers will be allowed to update their program yields and reallocate base acres this summer. Sign-up in the commodity programs will not happen until this fall. Farmers should use their current time to organize their crop yields so they can update their program yields this summer. Most likely, farmers will use their crop insurance yields to document their updated program yields. Crop insurance records are by legal description. So farmers will need to match each field’s crop records to the correct Farm Service Agency (FSA) Farm Serial Number (FSN). It should also be noted that the decision to update program yields and base reallocation are independent decisions, and farmers can choose not to make any changes in base acres or program yields. However, farmers cannot build base. There will be no new base acres, only reallocation of existing base acres based on recent crop plantings.
3. When I sign-up in the ARC or PLC (Price Loss Coverage) is this for the county I farm in or is it by FSA FSN?

It is by FSA farm serial number (FSN). FSA is set up to run by FSN and the administrative cost to change that procedure would be too costly. This procedure will allow a farmer with 3 different farm serial numbers to put one farm in county-ARC, one in farm level ARC, and one farm in PLC. Farmers may also split the crops if county-ARC is selected. For example they could put the corn in county-ARC and the wheat in PLC on the same farm serial number, but if they elect farm level ARC they must put all crops planted on that farm serial number in the farm-ARC, i.e. it is a whole farm guarantee for the farm serial number. In addition, if farmers have more than one farm serial number enrolled in farm-ARC, then the crops are combined across all farm serial numbers for determining losses for farm-ARC. This means farmers could have a wheat crop make that would eliminate a payment for a grain sorghum loss. However, the farm serial numbers not enrolled in farm-ARC would receive payments based on those guarantees independent of the farm-ARC program.

4. If during the life of the farm bill I buy another farm, will I have the option to choose which program to sign it up in?

No, the program selected for that farm serial number cannot be changed for the life of the Farm Bill. The changing of tenants or sale of the land will not allow the new farmer to change commodity programs.

5. What about if I pick up a new farm and the landlord signed up different than me? What if he did not sign up for anything?

The program selected goes with the land. So that farm serial number will be in the program that was selected, even if it changes tenants or owners. If the landlord and tenant cannot agree, then the default program is the Price Loss Coverage program (PLC), however they give up any payments on the 2014 crop if it goes to default.

6. If these cannot be revoked many farmers could find themselves in a situation where they had chosen PLC with the intent of purchasing the SCO (Supplemental Coverage Option) becoming ineligible for SCO simply by picking up a farm that had been enrolled in ARC.

Crop insurance requires all acres of a crop in a county to be insured. One cannot just insure some of the acres. The FSA program is by farm serial number, so it is possible the farmer would have SCO on his corn, but the new land is a different farm serial number and enrolled in ARC that cannot be changed. So you have two different agency rules that are in conflict and this is one of those items the Secretary about which will have to make a ruling.

7. New breaking land put in cultivation, will there be an opportunity to sign up in program? Are the rules same for land coming out of CRP?

It all depends on if that CRP land has a base. CRP acres often have base acres.

8. It seem U of Illinois Farm Doc web site is pro ARC and Iowa State University’s Babcock is pro PLC, based on just buy higher RP coverage and if prices tank, PLC pays better. If USDA outlook prices through 2018 are right, what is your guess as to the taxpayer cost of ARC if in the fall before required signup ARC makes/offers the payments Farm Doc outlined?

Barnaby doesn’t agree with the statement that Farm Doc is bias toward ARC and Babcock is bias toward PLC. All of these programs are just derivatives of the option and insurance markets, with the government effectively paying 100% of the premium. ARC is effectively a “free revenue insurance guarantee” and the PLC is a “free put” with the government paying
the entire premium costs. However, one could rate these two programs for their premium value. Because the reference (strike) price was so high, based on the prior five marketing years, the reference price is in the money for corn and soybeans. Even after adjusting for the 14% deductible in ARC (86% X benchmark revenue), effectively the county-based revenue guarantee under ARC had a near zero deductible guarantee for corn and soybeans, while the corn “put” at $3.70 in PLC is about 85 to 87 cents farther out of the money than ARC. Therefore, if ARC had a calculated premium, the rate would likely be above 30% in the Corn Belt. A put that far out of the money would generate more in commission cost than in premium in the private market. So clearly the market is saying the ARC has more value than PLC, but that does not guarantee that ARC will pay more than PLC on corn and soybeans.

Because the PLC and ARC reference prices are so close on wheat it is likely that PLC would rate out higher than ARC for wheat. However, I should note both FSA programs have lost market value because of higher corn and wheat prices. Those higher prices have made the deductible larger, or saying the same thing, made the coverage further out of the money.

One scenario that would cause PLC to pay more than ARC is a large national crop driving down the price. If that would occur, the PLC would pay more because it does not have a stop-loss equal to 10% of the reference revenue and higher yields in ARC would lower or eliminate payments. Because of the 10% stop-loss in ARC, farmers who drop their crop insurance and assume ARC will provide their protection, will discover that more than 90% of their expected crop value is not insured under county-ARC. In addition, county-ARC only covers 85% of base acres, so 92.5% of the expected crop value is not insured, and is even less for farmers who have crop acres with no base or those fansers who elect farm-ARC that covers only 65% of the base acres.

One scenario almost no one has considered is higher prices that have recently occurred on winter wheat. If the experts are wrong and prices don’t fall, then neither PLC nor ARC will offer much protection. Crop insurance guarantees will be based on higher prices, assuming farmers purchased Revenue Protection (RP), caused by either planting time prices or harvest prices being higher. The USA is not the only place in the world where farmers produce corn, wheat and soybeans and they can have crop failures too, and that will affect grain prices!

Barnaby doesn’t know if there is a best plan because sign-up will not happen until this fall or later. The program that will pay the most will be determined by price and yield. By sign-up, we will know the wheat yield and half of the MYA wheat price on the 2014 crop. We will have a good estimate of the yields for the spring-planted crops, so all of this could change.

Food and Agricultural Policy Research Institute’s (FAPRI), University of Missouri, long-run price forecast would generate payments for the 2014 and 2015 crops under the county-ARC program compared to PLC, but that trend reverses in later years of the Law. So it does come down to a price and a yield forecast. Higher yields reduce or eliminate ARC payments, and most estimates are based on long-run average trend yields.

So a very risk adverse person might be willing to forego county-ARC payments in the early years to avoid a catastrophic price decline in the years 2017 and 2018 when PLC might generate higher payments than county-ARC. Most farmers are accustomed to risk and the author doubts that catastrophic price protection will be the deciding factor.
9. A farm could be interpreted two different ways either as the Entity or the FSA Farm. If the interpretation of enrollment is by entity, I would assume that means all counties/states in the farm operation would have to choose either the ARC or PLC? If this is interpreted by FSA farm number would the farmer have the choice by county between ARC and PLC? In this case if a farm physically located in two different counties is certified in one FSA office would both counties have to be enrolled in the same program?

The FSA program is tied to farm serial number. You can select one crop for PLC and a different crop for county-ARC. However, if farmers enroll in the farm-ARC on multiple farm serial numbers, then all crops that they have a financial interest in the “state” enrolled in farm-ARC are combined when calculating any payments. Effectively, it is a whole-farm revenue guarantee that combines crops from all farm serial numbers enrolled in farm-ARC, rather than a single crop revenue guarantee. Clearly farm-ARC would favor a single crop farmer. However, farmers don’t have to enroll all of their farm serial numbers in the same commodity program.

10. Irrevocable choice scenario – does the choice follow the FSA Farm number if the operator changes in the middle of the farm bill timeline? I farm 40 acres and choose ARC for my farm. Two years later I decide to cash rent this ground out to a farmer who has chosen PLC. Can this election change to match what the new operator chose in 2014?

The commodity program selected will remain with the land during the life of the Farm Bill, even if it changes operators or owners. Without that rule, FSA would have a lot of game-playing.

11. Same scenario with a share rent whereby I will still have a share in the crop. Will this farm be able to change the election that was made in 2014?

12. Same scenario with the land being sold. Can the ARC election be revoked and changed to PLC?

No.

13. If these cannot be revoked many farmers could find themselves in a situation where they had chosen PLC with the intent of purchasing the SCO becoming ineligible for SCO simply by picking up a farm that had been enrolled in ARC.

This is one of those items the Secretary of Ag will have to rule on. Crop insurance requires all acres planted to the same crop in the county must be insured. The rules of the two agencies are in conflict on this point.

14. Conservation requirements tied to crop insurance premium subsidies. I have a landlord who does not want his farm enrolled in anything at the FSA office. In the past I have been able to insure those acres on my crop insurance policy even though they were not certified at FSA. How will I be able to prove that there are no wetland or HEL problems? Will I no longer be able to insure those acres because RMA will not be able to verify conservation compliance?

The landlord will need an approved conservation plan from NCRS in order to receive the government’s share of the premium. Farmers may still purchase crop insurance, but they would have to pay 100% of the premium. There is no cross-compliance between crop insurance and the FSA commodity programs. The only cross-compliance is the conservation requirement in order for the government to pay a share of the premium.
15. Wetland or HEL issues that have not been resolved for several years. How is a farmer going to be able to find out if there is an ongoing wetland or HEL issue that is not resolved on ground being considered for rent or purchase? NCRS and FSA have privacy requirements that prevent them from disclosing this information.

Put a condition in the lease that the land meets the conservation requirements.

16. I’m a beginning farmer with a farm that has no established base. I first farmed in 2012 on a farm that had never established a base. Wanting to update to 2008-2012 yield average for the ARC program, will 2012 be the only year used to determine the average?

If you are talking about the county-ARC, then the payment is not tied to the program yield. If you are talking about the farm-ARC, then the “Secretary will establish a reasonable yield”. However, none of this matters in your question, because if the land has no base, then the farmer is not eligible for any of the FSA commodity programs. Farmers are not allowed to build base. Farmers are only allowed to reallocate base, but they cannot build new base.

17. Payment limitation on county ARC. Is the payment limitation on ARC by county/crop or by as much as is allowed by the farm entity structure?

There is a payment limit of 10% of the benchmark revenue (stop loss) and all farmers will have that stop loss. If farmers have only county-ARC with no crop insurance, then over 90% of their expected crop revenue will have no coverage. In addition, total payments from all Title I programs, including ARC, are limited to $125,000 per entity or $250,000 per couple.

18. Is the reallocating of base acres and updating program yields combined or are these two decisions independent? For example may farmers update their program yields, but not reallocate their base acres.

These two decisions are independent. Farmers may elect to update their program yield and not change their base acres. They can also reallocate their base acre, but not update their program yields. Or farmers can do both adjustments. However, to change base acres to another crop is not allowed unless the farmer planted that crop during the crop years 2008-2012. For example, a farmer with wheat base and wants to reallocate those acres to corn base can only do the reallocation if they were planting corn on that wheat base during the years 2008-2012. Again farmers cannot build base.

19. Do farmers have to enroll in PLC to update their program yields or can they enroll in ARC and still update their program yields?

The program yield doesn’t affect county-ARC payments, but the updated program yields will likely go with the land should it sell and the next Farm Bill might include the program yield. So if farmers can prove higher programs yields, it is strongly recommended that they update their yields.

20. Will the ARC program give a separate guarantee for irrigated vs. dryland?

The ARC program will offer a separate guarantee for irrigated vs. dryland farms, in counties that have significant amounts of both irrigated and dryland acres.

21. Will there be one county yield for all of these program changes?

My guess is no; in fact I am sure the answer is no. The county yield is used by many parts of the safety net and Congress is encouraging the agencies to set
one county yield. However, a single county yield will have many issues that must be solved because there have been many different definitions for county yield.

a. The county yield used for the 50% county trigger to allow a yield to be excluded from an APH is a 10-year moving average county yield.

b. The ARC county yield is an Olympic average yield.

c. RMA has the T-yield that is a county yield based on planted acres.

d. The county yield used for Area Risk Protection (ARP, old GRIP) is a trend-adjusted expected NASS county yield.

e. One would assume the same ARP county yields would be used for SCO. Trend yield can also be lowered by recent poor weather years, depending how the math is done, which is likely to affect wheat and grain sorghum.

f. Will ARC be settled on based on harvested yield, planted yield, harvested yield plus failed acres, etc? Defining county yield is not an easy solution, but the definition will clearly change the results. AgManager.info will continue to follow the county yield definition issue.

22. Will the 10-year county yield, that requires a 50% reduction in yield to allow farmers to exclude a yield from their APH, be a 10 year moving average?

For example, if one had a loss in 2009, would it require the 2009 county yield be 50% below the 10 year average yield for the period 1998-2008? Effectively, every year’s 50% county trigger would have a different 10-year base. My reading of the Law suggests it is a moving “10 year average yield”. If one’s county does not meet the 50% county trigger, but a contiguous county does meet the 50% test, then one may also exclude that year’s yield from one’s APH.

23. If one’s county has two years that meets the 50% county trigger can one exclude two of one’s yields out of one’s APH?

Yes, but it appears to be a 10-year moving average. Therefore, once there is a major county loss, the next year’s average county yield will be lower and require a lower county yield to meet the 50% county trigger.

24. If there are less than five years of data, is it possible to update program yields?

Barnaby doesn’t have any information on this question. I would check with FSA when they announce they are ready to accept updated yields for program yields. This is likely to be a common question, because many farmers may have a year when they did not plant a particular crop on one of their farm serial numbers.

Source: *Farm Bill Questions and Comments from Readers*, Dr. Art Barnaby, Extension Economist, Kansas State University (KSU) Ag Manager website, April 1, 2014.