

# An Overview of Key Commodity Provisions of the 2008 Farm Bill: Implementation Issues and Processes

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Joy Harwood, Director  
Economic and Policy Analysis Staff  
USDA/Farm Service Agency

- The 2008 farm bill—
  - A comparison with the 2002 farm bill
  - Issues surrounding new program provisions:
    - ACRE
    - Supplemental disaster
    - MILC
    - Others
  - Implementation steps
- Research needs
- Additional resources

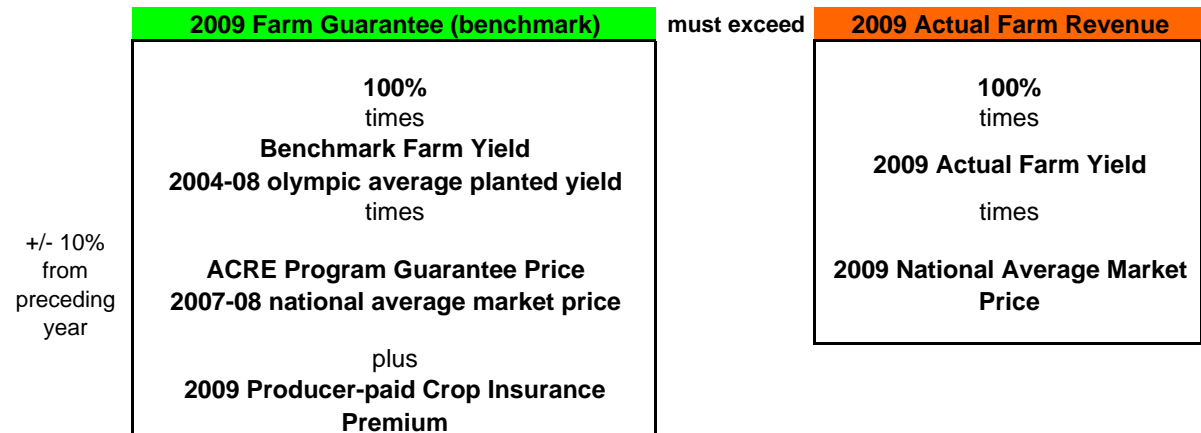
## Average Crop Revenue Election for the 2009 Crop

**TWO TRIGGERS MUST BE MET BEFORE PAYMENTS CAN BE ISSUED**

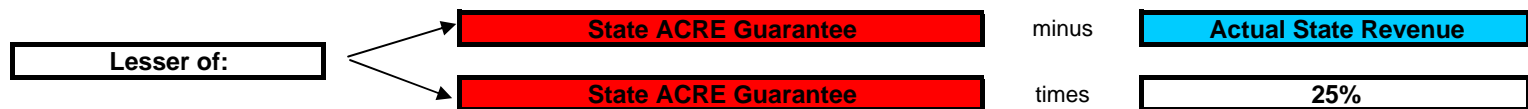
### 1. STATE TRIGGER



### 2. FARM TRIGGER



**FARM PAYMENT = 83.3% of farm's planted acres <sup>1/</sup> times (farm's benchmark yield divided by State expected yield) times**



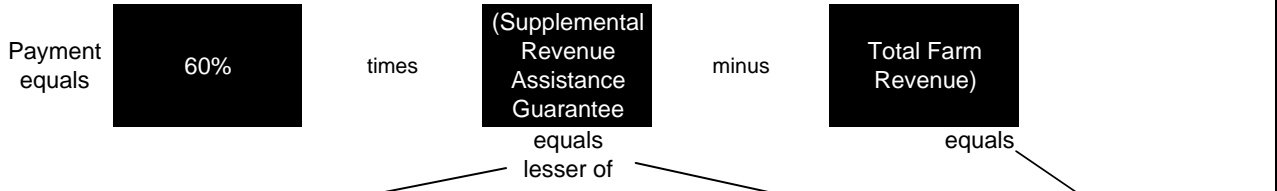
**In exchange for participating in ACRE, a producer's direct payment is reduced by 20% and loan rate is reduced by 30%**

**1/ The total number of planted acres for which a producer may receive ACRE payments may not exceed the total base acres for the farm. If the total number of planted acres exceeds the total base on the farm the producers may elect which planted acres to enroll in ACRE**

Payments issued at end of marketing year (no advance payments)

Note: This is intended for educational use, solely to provide information and not forecasts of future outcomes. Source: USDA/FSA.

**Supplemental Revenue Assistance Program (SURE)**



Program Guarantee	
For Insurable Crops	For NonInsurable Crops
equals	equals
Planted and Prevented Acres	Planted and Prevented Acres
times	times
Higher of: adjusted APH <sup>1/</sup> or counter-cyclical yield	Higher of: adjusted APH <sup>1/</sup> or counter-cyclical yield
times	times
115%	120%
times	times
Percentage of Crop Insurance Price Elected by Producer	100% of NAP Price
times	
Coverage Level Elected by Producer	

Expected Revenue	
For Insurable Crops	For NonInsurable Crops
equals	equals
Planted and Prevented Acres	Planted and Prevented Acres
times	times
Higher of: adjusted APH <sup>1/</sup> or counter-cyclical yield	Higher of: adjusted NAP <sup>1/</sup> yield or counter-cyclical yield
times	times
90%	90%
times	times
100% of Insurance Price Guarantee	100% of NAP Price

Farm Revenue
For All Crops
equals
Harvested Acres
times
Actual Harvested Yield
times
100%
times
National Average Market Price * (adjusted for quality at local level)
plus
15% of direct payment; 100% of MLG, LDP, Counter-cyclical Payments; Indemnities and NAP Payments

Coverage level	115.0%	120.0%
55%	74.75%	66.00%
65%	80.50%	
70%	86.25%	
75%	92.00%	
80%	97.75%	
85%		

\* Not to exceed 100% of NAP price

<sup>1/</sup> Formula for adjusted APH:  
 At least 4 years of non-plug yields: average all non-plug yields  
 Less than 4 years of non-plug yields: average all yields after dropping lowest plug yield  
 All other: do not adjust APH  
 Note: This is intended for educational use, solely to provide information and not forecasts of future outcomes.  
 Source: USDA/FSA.

**CORN: HYPOTHETICAL FARM AND STATE "ACRE" REVENUE PAYMENT RATE CALCULATIONS**

#	Item	Description/Formula	Unit	2004	2005	2006	2007	2008	2009
<b>STATE PAYMENT RATE CALCULATIONS</b>									
<u>PROGRAM PARAMETERS</u>									
a	Planted acreage (State)		mil. ac.	12.7	12.8	12.6	14.2	13.2	14.0
b	Production (State)		mil. bu.	2,244	2,163	2,050	2,368	2,225	2,400
c	Average farm price (National)		per bu.			\$3.04	\$4.25	\$5.50	\$4.04
cc	Average loan rate (National)		per bu.						\$1.37
d	Yield per planted acre (Y/P) (State)	(b)/(a)	bu. per ac.	176.7	169.0	162.7	166.8	168.6	171.4
<u>STATE LEVEL REVENUE GUARANTEE</u>									
1	Guarantee price (GP)	2-yr moving average of (c)	per bu.						\$4.88
2	Guarantee Y/P acre	5-yr Olympic Average of (d)	bu. per ac.						168.1
3	Gross revenue guarantee	(1)*(2)	per ac.						\$820.33
4	Formula revenue guarantee	90% of (3)	per ac.						\$738.30
5	Upper limit revenue guarantee	110% of (7) (t-1)	per ac.						
6	Lower limit revenue guarantee	90% of (7) (t-1)	per ac.						
7	Revenue guarantee	(4) but NGT (5) and NLT (6)	per ac.						\$738.30
<u>STATE LEVEL ACTUAL REVENUE</u>									
8	Actual national average price	higher of (c) or (cc)	per bu.						\$4.04
9	Actual yield	(d)	bu. per ac.						171.4
10	Actual revenue	(c)*(d)	per ac.						\$692.46
<u>STATE ACRE PAYMENT RATE</u>									
11	Guarantee-Actual	(7)-(10), but NLT \$0	per ac.						\$45.84
12	Revenue guarantee cap	25% of (7)	per ac.						\$184.58
13	ACRE payment rate	Lesser of (11) or (12)	per ac.						\$45.84
<b>FARM LEVEL PAYMENT TRIGGER</b>									
<u>FARM LEVEL PROGRAM PARAMETERS</u>									
Fa	Planted acreage		acres	100	100	100	200	150	100
Fb	Production		bushels	14,000	17,000	16,000	35,000	22,500	15,000
Fc	Yield per planted acre (Y/P)		bu. per ac.	140.0	170.0	160.0	175.0	150.0	150.0
Fd	Crop insurance premium		per ac.						\$60.00
<u>FARM ACRE BENCHMARK REVENUE</u>									
F1	Guarantee price (GP)	2-yr moving average of (c)	per bu.						\$4.88
F2	Guarantee Y/P acre	5-yr Olympic Average of (Fc)	bu. per ac.						160.0
F3	Gross revenue guarantee	(F1)*(F2)	per ac.						\$780.80
F4	Crop insurance premium	Fd	per ac.						\$60.00
F5	Benchmark revenue	(F3)+(F4)	per ac.						\$840.80
<u>ACTUAL FARM REVENUE</u>									
F8	Actual national average price	higher of (c) or (cc)	per bu.						\$4.04
F9	Actual yield	(d)	bu. per ac.						150.0
F10	Actual revenue	(c)*(d)	per ac.						\$606.00
<u>DETERMINING WHETHER THERE IS A FARM LEVEL (INDIVIDUAL) LOSS</u>									
Is ACTUAL REVENUE less than BENCHMARK REVENUE?									Yes
<b>FARM PAYMENT AMOUNT</b>									
F11	STATE ACRE Payment Rate	(13)	per ac.						\$45.84
F12	Payment acreage 1/	(Fa) *0.833	acres						83.3
F13	Guarantee Y/P ratio (Farm/State)	(F2/2)							0.9518
<b>Farm Payment</b>									<b>\$3,634.48</b>

1/ The payment percentage for crop years 2009-2011 is 0.833 and for crop year 2012 is 0.85.

Note: This is intended for educational use, solely to provide information and not forecasts of future outcomes. Source: USDA/FSA.



## Comparing the 2002 and 2008 Acts...



Item	2002 Farm Act	2008 Farm Act	Percent Change
Pages in total conference report	687	1,100	Up 60%
Pages of bill language	414	672	Up 62%
Titles	10	15	Up 50%
Sections/Provisions	419	616	Up 47%



## This Translates Into...



- 167 regulations across the Department...
- ...of which 40 regulations must be completed within 90 days of enactment.<sup>1</sup>
- And 30 regulations for the Farm Service Agency...
- ...of which 21 must be completed within 90 days of enactment, or for 2008 crops.

<sup>1</sup> By September 16, 2008.



## The "ACRE" Program...



- Average Crop Revenue Election (ACRE):
  - Starts in 2009 as a whole-farm, irrevocable alternative to receiving CCPs;
  - Enrolling requires a 20% reduction in direct payments and a 30% reduction in the loan rate.
  
- In a comparison with CCPs, ACRE:
  - Is revenue-based, not price-based;
  - Payment rate is triggered at the state level, not the national level;
  - Guarantee uses a moving average, rather than a fixed "target."
  
- ACRE payments are triggered when:
  - Actual state revenue < ACRE program guarantee; and
  - Actual farm revenue < ACRE benchmark revenue.

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## A Few ACRE Definitions...



- The ACRE state-level program guarantee—
  - $0.90 * (5\text{-yr Olympic state ave. planted yield} * 2\text{-yr national ave. market price})$ ;
  - May not change more than 10% year to year.
- The ACRE farm-level benchmark revenue—
  - $(5\text{-yr Olympic ave. planted yield on a farm} * 2\text{-yr national ave. market price}) + \text{crop ins. premium}$ .
- The ACRE payment amount—
  - Lesser of  $[(\text{ACRE program guarantee} - \text{actual state revenue}) \text{ or } (0.25 * \text{ACRE program guarantee})] * (0.833^1 * \text{planted acres on farm}) * \text{farm productivity ratio}^2$ .

<sup>1</sup> 0.85 in 2012. <sup>2</sup> Calculated as farm's 5-yr Olympic average yield per planted acre divided by the state 5-yr Olympic average yield per planted acre.

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## An ACRE Example for Iowa Corn<sup>1</sup> (assumes the farm-level trigger has been met)



	2009	2012
<b>State-Level Revenue Guarantee:</b>		
2-yr natl. average price/bushel	\$4.88	\$3.00
5-yr Olympic average state yield	168.1 bu/A	174.0 bu/A
0.90 * gross revenue guarantee	\$738.30/A	\$538.22/A <sup>2</sup>
<b>State Actual Revenue:</b>		
National average price	\$4.04	\$2.75
Actual yield	171.4 bu/A	177.5 bu/A
Actual revenue	\$692.46	\$488.12
ACRE payment rate	\$45.84	\$50.10
Farm Payment Amount:	$\$45.84 * 83.3 * .95$	$\$50.10 * 85 * .95$
State payment rate * 83.3 (or 85) * farm/state yield ratio	\$3,634.48	\$4,045.58

<sup>1</sup> Calculations assume a 100 acre farm, Iowa production data, and hypothetical prices. <sup>2</sup> Revenue guarantee would be  $\$3 * 174 * 0.9 = \$469.80$  if not for the 10-percent change limit per year. <sup>7</sup>



## The ACRE Decision...



- When deciding on ACRE participation, a producer must assess the multi-year trade-off between:
  - Loss of potential CCPs and reduction in DPs and possible marketing loan benefits; and
  - The revenue protection provided by ACRE and his/her beliefs on yield and price trends and variability.
- ACRE provides the most attractive option if a farmer:
  - Expects a significant decline in the season average price and/or considerable state-level yield variability;
  - Has farm yields that strongly correlate with state yields;
  - Is a corn or soybean producer who has a relatively low direct payment (relative to cotton or rice).

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## New Supplemental Agricultural Disaster Assistance<sup>1</sup>...



- The Supplemental Revenue (SURE) component:
  - Provides payment eligibility to Secretarial disaster counties (and those contiguous) or farms with losses  $\geq 50\%$  of normal;
  - Uses a whole farm approach to calculate the payment.
- Under SURE:
  - The guarantee is the lesser of the program guarantee or 90% of expected revenue;
  - Actual farm revenue is for all crops: (harvested acres \* yield \* national ave. market price<sup>3</sup>) + govt. payments
  - Payment is  $0.60 * (\text{SURE guarantee} - \text{actual farm revenue})$ .

<sup>1</sup> In addition to SURE, other programs include: Livestock Forage; Livestock Indemnity; Tree Assistance; and Livestock, Honeybees, and Farm-Raised Fish. <sup>2</sup> For insurable crops, the program guarantee is (planted and prevented planted acres) \* higher of adjusted APH or CCP yield \* 115% \* % crop insurance election \* coverage level chosen by producer. <sup>3</sup> Adjusted for quality at local level.

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## A Few Comments on Dairy Provisions...



- Milk Income Loss Contract (MILC) Program
  - Payment rate and per-operation poundage limit both increase.
  - The \$16.94/lb used to determine payment amounts is adjusted upward when a "feed cost adjuster" is triggered.
  - The "feed cost adjuster":
    - Is computed monthly based on NASS data.
    - Is not expected to result in MILC payments during calendar 2008.

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## How Does the MILC Feed Cost Adjuster Work?



	March	April	May	June (preliminary)
Feed component—				
Corn	\$4.70/bu	\$5.15	\$5.28	\$6.12
Soybeans	\$11.50/bu	\$12.10	\$12.10	\$13.50
Alfalfa hay	\$143/ton	\$157	\$177	\$172
Ration cost <sup>1</sup> (\$/cwt)	\$8.74/cwt	\$9.51	\$10.05	\$10.90
0.45 * [(% that ration cost exceeds \$7.35) - 1]	0.0854	0.1322	0.1653	0.2173
Adjusted target	\$18.39/cwt (1.0854*16.94)	\$19.18	\$19.74	\$20.62
Boston Class I milk price	\$19.95/cwt	\$21.86	\$19.87	\$21.43

<sup>1</sup> The feed cost ration is based on these allocations: corn, 51%; soybeans, 8%; alfalfa hay, 41%. <sup>11</sup>



## Other Key Provisions...



- **Payment Limits**
  - **Direct Attribution**—Payments made to corporations and other entities now have to be traced to the owners of those entities.
  - **Elimination of 3-entity rule**—Can now derive payments from an unlimited number of entities (until you hit the payment limit).
- **Sugar Program**
  - The U.S. market is allocated 85% of the estimated quantity of sugar for domestic human consumption for the crop year.
  - **New sugar-to-ethanol program**—Excess sugar is directed to ethanol production.
  - **Restrictions on TRQ**—Set at minimum trade agreement levels prior to April 1, 2009 unless emergency exists.

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## A Few Comments on CRP Provisions



- Enrollment authority reduced to 32 million acres beginning in FY 2010;
- Incentives for beginning or socially disadv. farmers to facilitate transition of expiring CRP lands into sustainable production;
- Eligibility for the Farmable Wetlands Program was expanded to include:
  - Constructed wetlands;
  - Commercial pond-raised aquaculture;
  - Intermittently flooded lands.

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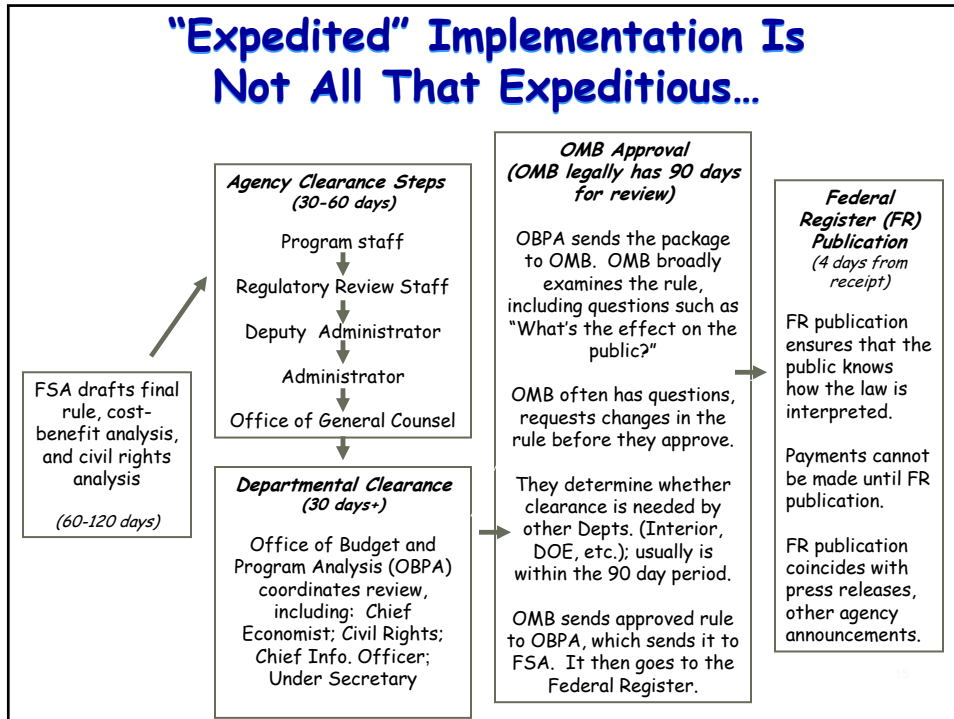
## Implementing a New Farm Bill Takes Time...



- Careful drafting and review of regulations are necessary to—
  - Ensure that Congressional intent is achieved.
  - Provide time for interaction between policy officials, program staff and attorneys, civil rights officials, economists, and others—all of whom have different perspectives that must be represented.
  - Ensure that payments are provided equitably to all eligible persons.
  - Ensure that in case a legal challenge occurs, program benefits to all are protected.

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## "Expedited" Implementation Is Not All That Expeditious...

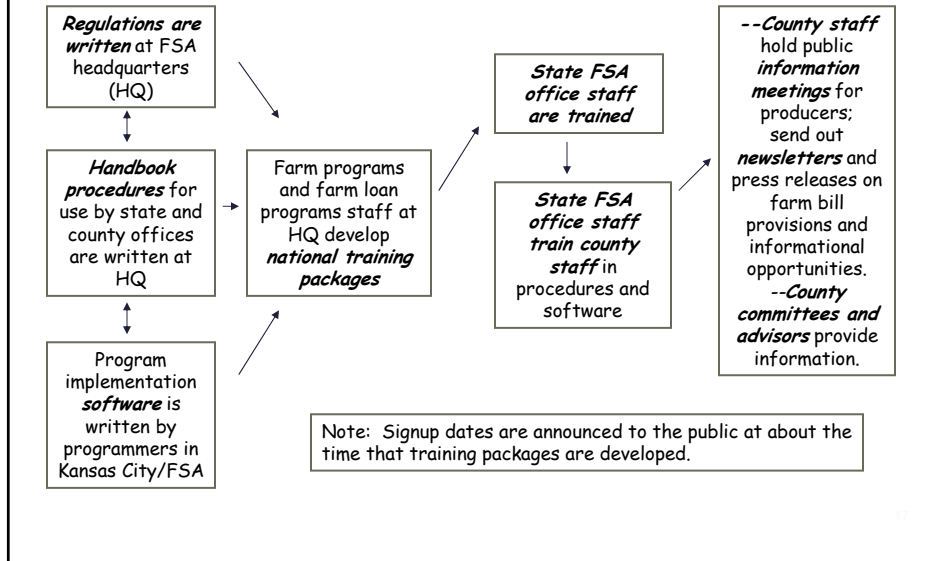


## FSA Field Implementation



- Implementation involves:
  - More than 2,000 county offices.
  - About 12,000 county employees.
  - About 9,000 county committee members and advisors.
- Plus:
  - Re-writing or amending dozens of program handbooks, each of which is 100-200 pages.
  - The extent of handbook re-writing depends on legislative changes; amendments suffice for changes that are not complex.

## Informing Field Staff and Producers is an Important Step in the Process



## Research Needs



- ACRE—
  - How can we best model a producer's decision to participate?
  - Can we better model budgetary exposure?
- For both ACRE and Supplemental Disaster—
  - How can we best assess whole-farm issues?
- Overlapping income support/risk mgt programs—
  - How do these programs interact, and are they all necessary? Which are most effective in stabilizing revenues?
- Conservation--
  - How can we better quantify the water quality and wildlife benefits associated with long-term land retirement?



## Additional Resources...



- Full legislative language and statement of managers is at:  
[http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110\\_cong\\_bills&docid=f:h6124enr.txt.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110_cong_bills&docid=f:h6124enr.txt.pdf)
- Farm Service Agency handbooks and notices are available at:  
<http://www.fsa.usda.gov/FSA/webapp?area=home&subject=lare&topic=landing>
- USDA/ERS "side-by-side" will be posted at:  
[www.ers.usda.gov](http://www.ers.usda.gov) ;
- Congressional Research Service reports are posted at:  
<http://www.nationalaglawcenter.org/crs/#farmbills>