2008 Farm Bill Implementation: A View from the Farm Service Agency

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

AAEA Annual Meeting
July 27, 2009

FSA Implementation Activities to Date

June 2008: 2008 Crop Loans and LDPs
June 2008: 2008 DCP Signup Begins

July 2008: 2008 DCP Advance Payments
July 2008: 2008 Cotton and Peanut Loans and LDPs Begin

October 2008: Sugar Loans

December 2008: 2009 DCP Signup Begins
December 2008: 2009 DCP Advance Payments

December 2008: MILC Signup Begins
December 2008: 2008-12 Payment Limitation/AGI Rule Published

February 2009: Payment Limitation Comment Period Extended
February 2009: Fruit and Vegetable Planting Pilot Signup Begins

April 2009: MILC Payments Begin
April 2009: ACRE Signup Begins

June 2009: BCAP Phase 1 – Collection, Harvest, Storage, and Transportation
June 2009: 2009 Commodity Loans Begin
June 2009: Aquaculture Grants to States

June 2009: CRP Part 1 Rule Published
July 2009: Livestock Indemnity Program Signup and Payments Begin
The “ACRE” Program...

- Average Crop Revenue Election (ACRE):
  - Starts in 2009 as a whole-farm, irrevocable alternative to receiving counter-cyclical payments (CCPs);
  - Enrolling requires a 20% reduction in direct payments and a 30% reduction in loan rates on all program crops.

- In a comparison with CCPs, ACRE:
  - Is revenue-based, not price-based;
  - Payment rates trigger at the state, not the national level;
  - Guarantee uses a moving average, rather than a fixed “target.”

- ACRE payments are triggered when:
  - Actual state revenue < ACRE state guarantee revenue; and
  - Actual farm revenue < ACRE farm benchmark revenue.

ACRE Sign Ups As of July 23

- 3,994 ACRE contracts have been approved by county office committees—
  - Illinois - 881
  - Nebraska - 787
  - Iowa - 628
  - South Dakota - 312
  - Ohio - 286
  - Indiana - 228
  - Oklahoma - 226

  These states account for 84% of ACRE approvals

- About 1,900 ACRE contracts have producer signatures, but have not yet been approved.

- In contrast, 1.4 million “traditional program” (DCP) contracts have been approved.
Will Sign Up for ACRE Increase in August?

Are producers waiting for the August 12 NASS and WASDE reports? =>
ACRE signup ends on August 14.

- If sign up remains low, possible reasons include:
  - If a producer signs up for ACRE, he’s in until 2012;
  - Producer gives up 20% of direct payment, 30% of loan;
  - Double-trigger and state-level aspect creates payment uncertainty;
  - For crops such as cotton and rice, expected ACRE return is low relative to DCP;
  - Program complexity.

A Bit More on ACRE Complexity...

- The ACRE state-level program guarantee—
  - 0.90 * (5-yr Olympic state ave. planted yield * 2-yr national ave. market price);
  - May not change more than 10% year to year.
- The ACRE farm-level benchmark revenue—
  - (5-yr Olympic ave. planted yield on a farm * 2-yr national ave. market price) + crop ins. premium.
- The ACRE payment amount—
  - Lesser of [(ACRE program guarantee - actual state revenue) or (0.25 * ACRE program guarantee)] * (0.83311 * planted acres or considered planted on farm2) * farm productivity ratio.3

1 0.85 in 2012. 2 Not to exceed base acres on the farm. 3 Calculated as farm’s 5-yr Olympic average yield per planted acre divided by the state 5-yr Olympic average yield per planted acre.
2008 Farm Bill
Permanent Disaster Programs

Disaster Trust Fund

- **SURE**—Assistance to farmers who suffer crop losses due to natural disasters.
- **LFP**—Assistance to ranchers who suffer grazing losses due to drought.
- **TAP**—Assistance to orchardists whose vines or trees are killed due to a natural disaster.
- **LIP**—Assistance to ranchers whose livestock are killed in a natural disaster.
- **ELAP**—Funds for losses that are not covered by any other program.

**Background on SURE**

- **SURE** is a whole farm, revenue-based program to replace ad hoc crop disaster assistance;
- Payment calculation looks simple:
  \[
  0.6 \times (SURE\text{ Revenue\ Guarantee} - \text{Actual Farm Revenue})
  \]
- But, as many as 6 variables* are used in calculating the guarantee...
  - Planted acres, APH vs. counter-cyclical yield, crop insurance price guarantee, etc.
- ...and up to 8 variables in calculating actual farm revenue...
  - Actual harvested production, national average market price, marketing loan benefits, crop insurance indemnities, etc...

*Assumes only 1 crop on the farm.
SURE Eligibility

• To receive benefits under SURE, a producer must:
  - Carry crop insurance coverage under the Federal Crop Insurance Act or coverage under the Noninsured Crop Assistance Program (NAP) on their entire farm;
  - Have suffered at least a 10% production loss to a significant crop; and
  - Either:
    • A) Be located in a county covered by a Secretarial natural disaster declaration for production losses (or a contiguous county), or
    • B) Show proof of an individual loss of at least 50 percent of normal.

Blackfeet Nation (Primary Disaster Area)
Ft. Peck Reservation
Flathead Reservation

SECRETARIAL DISASTER DESIGNATIONS - CY2008
PRIMARY & CONTIGUOUS COUNTIES DESIGNATED BY THE SECRETARY - USDA:
FINAL TOTALS
The Dairy Crisis

• The all-milk price for 2009 is 34% lower than in 2008. As a result:
  - The Milk Income Loss Contract (MILC) program has paid out over $500 million since April 1, 2009, and
  - Over 270 million pounds of nonfat dry milk have been acquired by USDA.
• For 2010, USDA projects the calendar year price at $15.35/cwt, up from the $12.00/cwt projected for 2009.

<table>
<thead>
<tr>
<th>State</th>
<th>Maximum PTPP Acres Allowed</th>
<th>2009 PTPP Acres Requested</th>
<th>Percent Requested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois</td>
<td>9,000</td>
<td>1,924</td>
<td>21</td>
</tr>
<tr>
<td>Indiana</td>
<td>9,000</td>
<td>2,611</td>
<td>29</td>
</tr>
<tr>
<td>Iowa</td>
<td>1,000</td>
<td>113</td>
<td>11</td>
</tr>
<tr>
<td>Michigan</td>
<td>9,000</td>
<td>712</td>
<td>6</td>
</tr>
<tr>
<td>Minnesota</td>
<td>34,000</td>
<td>5,013</td>
<td>13</td>
</tr>
<tr>
<td>Ohio</td>
<td>4,000</td>
<td>280</td>
<td>7</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>9,000</td>
<td>529</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>75,000</td>
<td>11,181</td>
<td>14</td>
</tr>
</tbody>
</table>

Planting Transferability Pilot Program
("PTPP" allows planting of certain processing vegetables on base acres in selected states)
Conservation Programs

- **Conservation Reserve Program (CRP)—**
  - New 32 million acre cap introduced by the 2008 farm bill.
  - 3- or 5-year contract extension announced on May 1 for 1.5 million acres out of 3.9 million expiring 9/30/09.

- **Conservation Stewardship Program (CSP)—**
  - Voluntary program that encourages producers to address resource concerns by improving, maintaining, and managing existing conservation activities, and undertaking additional activities.

Process Considerations...

- **Environmental Compliance**
  - Agencies must take a "hard look" at environmental consequences per the National Environmental Policy Act and other statutes and directives.
  - Consequences do not drive decisions:
    - No requirement to select least environmentally damaging alternative.
    - No requirement to elevate environmental concerns above other considerations.
  - There is no "environmental compliance regulator" -- oversight is largely through the courts.

- **“PAYGO” (Pay-as-you-go)**
  - OMB requires that any discretionary, administrative actions that increase program costs above baseline levels must be offset elsewhere.
  - Examples: CRP extensions, new crop insurance programs.
Upcoming Regulations…

- Later this summer—
  - Livestock Forage Program
  - Emergency Livestock Assistance Program
  - Farm Storage Facility Loan Program
- This fall/winter—
  - Biomass Crop Assistance Program
  - SURE
  - Payment Limitations/Actively Engaged

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/air quality, carbon sequestration, and wildlife benefits associated with conservation programs?