

# Agricultural Act of 2014

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## PLC (Price Loss Coverage) And ARC (Agricultural Risk Coverage)

# Subjects to be covered at today's meeting

- Elimination of direct payments for 2014 and future years
- One-time opportunity to update FSA payment yields and reallocate base acreage
- Review the general provisions of the:
  - Price Loss Coverage (PLC) program
  - Agricultural Risk Coverage - County (ARC – CO) program
  - Agricultural Risk Coverage – Individual Coverage (ARC-IC) program

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## Base Acres

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<b>Base Acreage or “Covered Commodities” Grown in the San Luis Valley</b>		
<b>Barley</b>	<b>Canola</b>	<b>Corn</b>
<b>Oats</b>	<b>Wheat</b>	

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## Price Loss Coverage (PLC)

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## Price Loss Coverage

Payments made when effective price is less than the reference price for a covered commodity.

Effective Price is the higher of Marketing year Average Price (MYA) for the crop or the National Loan Rate for the crop.

Payments made on **85%** of base acres of the covered commodity.

Payments are made regardless of the planting of the covered commodity.

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## PLC – Reference Prices      2014 Projected \$ As of 1/12/15

Wheat	- \$5.50/bu	\$6.10/bu
Barley	- \$4.95/bu	\$5.25/bu
Corn	- \$3.70/bu	\$3.65/bu
Oats	- \$2.40/bu	\$3.25/bu
Canola	- \$0.2015/lb	\$.1675/lb



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## Price Loss Coverage Example

Farm #100: Barley Base: **400 acres** PLC Yield: **98 bu/ac**

- Reference price for barley = \$4.95/bu.
- Market Year Average (MYA) price = \$4.50/bu (example only)
- The national average loan rate = \$1.95/bu.

PLC PAYMENT CALCULATION:

**\$4.95 - \$4.50 = \$0.45/bushel payment rate.**

**400 base ac x 85% x 98 bu PLC yield x \$0.45 = \$14,994 payment**

**Note: MYA for 2014 projected to be \$5.25 therefore no payment**





## Supplemental Coverage Option

- Purchased with individual crop policy
- Area based coverage
- Yield based or revenue based depending on plan
- Payments made when yield or revenue falls below expected level.
- Contact your Crop Insurance Agent

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## Agricultural Risk Coverage County Option ARC-CO

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## Agriculture Risk Coverage – County (ARC-CO)

Payments made when the **ARC-CO Actual Revenue** is less than the **ARC-CO Guarantee** for a covered commodity.

*County data is used, not individual farm data.*

The payment rate can be no higher than **10%** of the ARC-CO Benchmark Revenue for the covered commodity.

Payments made on 85% of base acres of the covered commodity.

Payments are made regardless of the planting of the covered commodity.

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## Agriculture Risk Coverage – County (ARC-CO)

Example:

Farm #1: Barley Base = **400 acres**

- Step 1: Calculate county benchmark revenue for Barley
- Step 2: Calculate the county guarantee for Barley
- Step 3: Calculate actual county revenue for Barley
- Step 4: Determine if the county suffered a loss for Barley
- Step 5: Calculate Payment

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## Agriculture Risk Coverage – County (ARC-CO)

**Step 1: Barley ARC-CO Benchmark Revenue Calculation**  
(County Data):

Benchmark Yield = 5 year Olympic Average (**139.3 bu/ac**)

Benchmark Price = 5 year Olympic Ave of the higher of  
MYA or the Reference Price = **\$5.45**

Barley	2009	2010	2011	2012	2013
<b>Yield</b>	154	90	132	<b>154</b>	132
<b>70% of T-Yield</b>	100	<b>100</b>	100	100	100
<b>MYA Price</b>	<del>\$4.66</del>	<del>\$3.86</del>	\$5.35	<b>\$6.43</b>	\$6.06
<b>Reference Price</b>	<b>\$4.95</b>	\$4.95	\$4.95	\$4.95	\$4.95
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## Agriculture Risk Coverage – County (ARC-CO) (continued)

### Barley ARC-CO Benchmark Revenue Calculation:

Benchmark Yield = **139.3 bu/ac**

Benchmark Price = **\$5.45/bu**

**Benchmark Revenue = \$759.18 (139.3 X \$5.45)**

### Step 2: Barley ARC-CO Guarantee Calculation:

**Benchmark Revenue (\$759.18) X 86% = \$652.90/acre**



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## Agriculture Risk Coverage – County (ARC-CO)

### Step 3: Barley ARC-CO Actual Revenue:

$$(120 \text{ bu/ac} \times \$5.25/\text{bu} = \$630.00/\text{acre})$$

**NOTE:** Use higher of MYA price or National Loan Rate

CROP	2014 CO Actual Yield (hypothetical)	2014 MYA Price (hypothetical)	National Loan Rate	Actual Revenue (hypothetical)
Barley	120	\$5.25	\$1.95	\$630.00/ac



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## Agriculture Risk Coverage – County (ARC-CO) (continued)

### Step 4: ARC-CO Calculation:

Barley <b>ARC-CO:</b>	Guarantee:	<b>\$652.90</b>
	Actual Revenue:	<b>\$630.00</b>
	<b>Revenue Loss =</b>	<b>\$ 22.90/acre</b>

**Note:** Maximum Payment Rate would be **\$65.29**  
(Benchmark Revenue of \$652.90/ac X 10%)

### Step 5: Payment computation for this example would be:

Barley base 400 acres X 85% X \$22.90 = **\$7,786**

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## Agricultural Risk Coverage Individual Option ARC-IC

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## Agriculture Risk Coverage – County (ARC-IC)

Payments are made when the collective Actual Revenue of all covered commodities planted in the farming operation for the current year is *less than* the collective ARC-IC Guarantee for the farming operation.

The payment rate is the difference in the ARC-IC Guarantee and the ARC-IC Actual Revenue, but can be *no higher than* 10% of the ARC-IC Benchmark Revenue for all covered commodities on the farm.

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## Agriculture Risk Coverage – County (ARC-IC)

- The ARC-IC farm consists of all farms enrolled in ARC-IC within the state for the producer. The ARC-IC Revenues are calculated across ALL covered commodities planted on ALL farms
- If an ARC-IC payment is earned, the payment calculation will be as follows:

Total base acres on the farm X **65%** X ARC-IC payment rate X producer share

# ARC-IC Highlights

- ARC-IC is the ONLY program option that can generate a payment based upon losses that are directly tied to the crops being produced in the farming operation.
- ARC-IC provides risk protection to producers that plant ANY of the 21 “covered commodities”, regardless of whether or not the farm has base acreage for that commodity.

# ARC-IC Overview

- FSA will compute benchmark revenue figures for each covered commodity crop that is planted in the current year, regardless of whether or not the producer has history of producing that crop.
- Current year revenue is determined based upon the production that is received from the ARC-IC farm, and does NOT include MPCl indemnities



# ARC-IC – Example

## **ARC-IC Payment Calculation - (Two Crops – One Farm):**

**FSN 7400**

**Barley Base: 125 acres**

**Wheat Base: 58 acres**

**Total Base Acres: 183 Acres.**

**Operator – 100% Share**

**Planted Acres:**

**Barley: 125 acres**

**Wheat: 60 acres**



# ARC-IC – Example

## ARC-IC Payment Calculation - (Two Crops – One Farm):

Covered Commodities On ACR-IC Farm	PLANTED ACRES	Planted / Total Planted	Producer Weighted % Planted Acres across all Farms
Barley	125	(125 / 185)	67.57%
Wheat	60	(60 / 185)	32.43%
Total	185		

# ARC-IC – Example

## ARC-IC Benchmark Revenue Calculation for Barley – (Two Crops – One Farm):

Barley	2009	2010	2011	2012	2013	5-Year Olympic Average Revenue	Producer Weighted %Planted Acres across all Farms	Weighted 5-year Olympic Average
Yield	146	141	135	117	131			
70% of T	101	101	101	101	101			
MYA	\$4.66	\$3.86	\$5.35	\$6.43	\$6.06			
Reference Price	\$4.95	\$4.95	\$4.95	\$4.95	\$4.95			
Revenue	\$723	\$698	\$722	\$752	\$794	\$732	67.57%	\$494

# ARC-IC – Example

## ARC-IC Benchmark Revenue Calculation for Wheat - (Two Crops – One Farm):

Wheat	2009	2010	2011	2012	2013	5-Year Olympic Average Revenue	Producer Weighted %Planted Acres across all Farms	Weighted 5-year Olympic Average
Yield	103	105	114	83	108			
70% of T	69	69	69	69	69			
MYA	\$4.87	\$5.70	\$7.24	\$7.77	\$6.87			
Reference Price	\$5.50	\$5.50	\$5.50	\$5.50	\$5.50			
Revenue	\$567	\$599	\$825	\$645	\$742	\$662	%32.43	\$214.69

# ARC-IC – Example

## ARC IC Weighted ARC-IC Benchmark (BM):

Barley BM Revenue: ( $\$732.33 \times 67.57\%$ )	= \$494.84
Wheat BM Revenue: ( $\$662.00 \times 32.43\%$ )	= <u>\$214.69</u>
Total Farm Benchmark	= \$709.53

## Weighted Guarantee:

ARC-IC Farm Guarantee:  $\$709.53 \times 86\% = \$610/\text{acre}$

# ARC-IC – Example

## ARC-IC - (Two Crops – One Farm) Current Year Revenue:

CROP	2014 Total Production	2014 MYA Price	National Loan Rate	ARC-IC Total Revenue
Barley 140 bu/ac on 125 ac)	17,500 bu	\$5.15	<del>\$1.95</del>	\$90,125
Wheat (111 bu/ac on 60 ac)	6,660 bu	\$6.00	<del>\$2.94</del>	\$39,960
Total Revenue				\$130,085
ARC-IC Actual Revenue \$130,085/ 185 Total Planted Acres				\$703.16/Ac

# ARC-IC – Example

## ARC-IC Payment Calculation:

ARC-IC Guarantee: \$610.20

ARC-IC Actual Revenue: \$703.16

**\$-92.96 payment acre or (\$0)**

**Note:** Payment rate CAP no more than **10%** of the ARC-IC Benchmark Revenue (\$610.20) **or \$61** in this example.

**Total Base Acres 183 X 65% X \$0 = \$**

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# ARC-IC – Example 2

## ARC-IC - (Two Crops – One Farm) Current Year Revenue:

CROP	2014 Total Production	2014 MYA Price	National Loan Rate	ARC-IC Total Revenue
Barley 140 bu/ac on 125 ac)	17,500 bu	\$5.15	\$1.95	\$90,125
Wheat (35 bu/ac on 60 ac) Hail	2,100bu	\$6.00	\$2.94	\$12,600
Total Revenue				\$102,725
ARC-IC Actual Revenue \$102,725 / 185 Total Planted Acres				\$555.27/Ac



# ARC-IC – Example 2

## ARC-IC Payment Calculation:

ARC-IC Guarantee: \$610.20

ARC-IC Actual Revenue: \$555.27

**\$54.93/payment acre of base**

**Note:** Payment rate CAP no more than **10%** of the ARC-IC Benchmark Revenue (\$610.20) **or \$61** in this example.

**Total Base Acres 183 X 65% X 54.93 = \$6,533.92**



# Summary

## Program Comparison

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	<b>PLC</b>	<b>ARC-CO</b>	<b>ARC-IC</b>
Yield Comparison	Uses Price plus PLC Yield	Uses Price Plus “County” Level Yield	Uses Price Plus Producer’s yield on the farm(s)
Base Acre Comparison	Payment determined by individual covered commodity crop base acres	Payment determined by individual covered commodity crop base acres	Payment determined by planted covered commodities combined on the farm(s) in the State

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	<b>PLC</b>	<b>ARC-CO</b>	<b>ARC-IC</b>
Payment Acre Comparison	Payments made on 85% of specific crop base acres on farm	Payments made on 85% of specific crop base acres on farm	Payments made on 65% of TOTAL base acres on farm
Production Reports	Production report NOT required	Production report NOT required	Requires annual Production report of all covered commodities planted

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	<b>PLC</b>	<b>ARC-CO</b>	<b>ARC-IC</b>
Requirement to Plant?	Planting of covered commodities NOT required	Planting of covered commodities NOT required	Planting of covered commodities REQUIRED
Program Election Comparison	Elect by Covered Commodity Base Acres by farm  <i>May mix ARC-CO and PLC on same farm by base crop</i>	Elect by Covered Commodity Base Acres by farm  <i>May mix ARC-CO and PLC on same farm by base crop</i>	Elect on ALL Covered Commodities on the farm  <i>ARC-CO &amp; PLC not eligible on farm</i>

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	<b>PLC</b>	<b>ARC-CO</b>	<b>ARC-IC</b>
When Do Payments Trigger?	When effective price falls below reference price	When ACTUAL county revenue falls below calculated benchmark guarantee revenue in the county.	When ACTUAL farm revenue from <u>enrolled</u> farms falls below the calculated benchmark revenue for all enrolled farms in the state.



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## 3 Step Process

1. Update (Base Reallocation and Yield Update)
2. Elect (One-time program election)
3. Enroll (Annual enrollment contract)

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## Yield Update

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## Payment Yield Update Option

On a “**Crop by Crop**” basis the owner of a farm has the following options:

1. **Retain** the farm’s/crop’s Counter-Cyclical (**CC**) **yield** from the 2008 Farm Bill (***NOT Direct yield***)
2. **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.

**NOTE:** 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

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## Payment Yield Update Option Example #1

1 Year average of Planted acreage

(60/1=60)

**Farm #1**

**Wheat CC Yield: 85 bu/ac**

Crop	2008	2009	2010	2011	2012	Total	Average Yield	PLC Yield (90%)
Wheat	Zero plant	Zero plant	100	Zero plant	Zero plant	100	100	90 bu/ac
Average CO Yield (75%)	69	69	69	69	69			

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## Payment Yield Update Option Example #2

4 Year Average of Planted acres

Farm #1		Wheat CC Yield: 85 bu/ac						
Crop	2008	2009	2010	2011	2012	Total	Average Yield	PLC Yield (90%)
Wheat	Zero Plant	Planted No Evidence	101	95	105	370	93 bu/ac	84 bu/ac
Average CO Yield (75%)	69	69	69	69	69			

# How to Update PLC Yields

- Gather production records for the 2008 – 2012 crop years
  - **NOTE: Bring your records to the COF**  
Report your per/acre production figure on form CCC-859, which may be obtained from your local FSA office.
- **Owner** makes yield update decision and certify to the applicable yields on the CCC-858 by February 27, 2015.
- **Maintain records of production for the life of the farm bill, as FSA is required to spot-check PLC yield certifications.**



# How to Update PLC Yields

**NOTE:** This is a **ONE-TIME** opportunity to update your crop yields at FSA, regardless of the program option that you choose.

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## Reallocation of Base Acres

Producers may choose between two “Base Election” options for 2014 base acres on a farm:

- **RETAIN** base acres in effect as of 9-30-2013
- **REALLOCATE** base acres using 2009-2012 planted/considered planted history, as reported on the FSA-578 (Base acres cannot **INCREASE**)

**NOTE:** The decision to reallocate is made by an **OWNER** of the farm.

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## Reallocation of Base Acres

(continued)

Reallocation of bases will result in the farm's base acres being redistributed in the same proportion to the 4 year average of acres that were Planted and/or Considered Planted to covered commodities during the 2009 – 2012 crop years

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## BASE REALLOCATION EXAMPLE #1

Farm #3000

Wheat Base: 500.0 acres

Barley Base: 100.0 acres

Oat Base: 50.0 acres

**TOTAL BASE: 650.0 acres**

CROP HISTORY				
CROP	2009	2010	2011	2012
Wheat	250.0	250.0	250.0	250.0
Barley	250.0	250.0	250.0	250.0

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## BASE REALLOCATION EXAMPLE #1

CROP	2013 Base Acres	Planted Acres				Average 2009-12	Realloc %	Realloc Acres
		2009	2010	2011	2012			
Barley	100	250	250	250	250	250	50%	325
Oats	50	0	0	0	0	0	0	0
Wheat	500	250	250	250	250	250	50%	325
<b>Totals:</b>	<b>650</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>100%</b>	<b>650</b>

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## BASE REALLOCATION EXAMPLE #2

Farm #4000

Wheat Base: 500.0 acres

Barley Base: 300.0 acres

TOTAL BASE: 800.0 acres

CROP HISTORY				
CROP	2009	2010	2011	2012
Wheat	700.0	600.0	700.0	600.0
Alfalfa	150.0	150.0	150.0	150.0



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## BASE REALLOCATION EXAMPLE #2

CROP	2013 Base Acres	Planted Acres				Average 2009-12	Realloc %	Realloc Acres
		2009	2010	2011	2012			
Barley	300	0	0	0	0	0%	0	
Wheat	500	700	600	700	600	650	100%	800
Totals:	800	700	600	700	600	650	100%	800

# Yield Options

## **Base & Yield Update - 4 Options:**

- 1) Retain the farm's bases and yields.
- 2) Retain the farm's bases and update one or more crop yields
- 3) Reallocate the farm's bases and retain all yields
- 4) Reallocate the farm's bases and update one or more crop yields.

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## Program Election

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## Program Election

All current owners, operators and tenants with an interest in the cropland on the farm **MUST** agree to the program **ELECTION**.

The 2014 program Election remains in effect through 2018.

- **Program Election remains ON THE FARM**

**NOTE:** Failure to make a unanimous program election during the designated election period of November 17, 2014 through March 31, 2015 will result in a default designation to **PLC** effective **2015-2018** and **THE LOSS OF ALL ARC/PLC** payments for the farm in 2014.



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## Program Election

**ELECTION** is *Farm By Farm*

If **ARC-CO** or **PLC** is selected on a Farm:

- Each **Covered Commodity** will have a PLC or ARC-CO election option
- RMA's SCO – is an option for crops with a PLC election

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## Program Election

(continued)

If **ARC-IC** is selected on a Farm:

- All covered commodities planted on the farm are ARC-IC crops.
- PLC is NOT an option for the farm
- ARC-CO is NOT an option for the farm
- RMA's SCO - is NOT an option for any crop on the farm



# Timeline for Actions

- Base Acre Reallocation and Yield Updates:  
September 29, 2014 through February 27, 2015
- Election of ARC-CO, ARC-IC, or PLC for 2014-2018 Program Years – November 17, 2014 through March 31, 2015
- ARC/PLC Annual Enrollment for 2014-2015 crop years – Proposed for Mid-April through Summer of 2015

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## Additional Program Requirements

- **Acreage & Production Reporting:**
  - Producers are required to annually report all cropland acres on enrolled farms on a FSA-578, same as in past programs
  - Production Reporting required for ARC-IC only

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## Payments

- 2014 payments will be issued after October 1, 2015 for PLC/ARC-CO/ARC-IC if triggered
- 2015 – 2018 payments are issued after MYA prices are determined and after October 1 of the subsequent year

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## Payment Limitations

**\$125,000** for ARC/PLC payments received **directly** or **indirectly** for all covered commodities except peanuts

**NOTE:** Included in each of the \$125,000 payment limitations are payments received through Marketing Assistance Loan gains and Loan Deficiency Payment (LDP) programs.

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- DECISION TOOLS
  - [WWW.FSA.USDA.GOV](http://WWW.FSA.USDA.GOV)
- Home page – ARC/PLC Programs  
Evaluate your safety net options...
- Texas A & M
  - University of Illinois

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- USDA Price Projections

- |      | Barley | Oats   | Wheat  |
|------|--------|--------|--------|
| 2014 | \$5.25 | \$3.25 | \$6.10 |
| 2015 | \$4.80 | \$2.70 | \$5.00 |
| 2016 | \$4.50 | \$2.40 | \$4.65 |
| 2017 | \$4.10 | \$2.30 | \$4.75 |
| 2018 | \$3.90 | \$2.30 | \$4.80 |



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- FAPRI\* Price Projections

	Barley	Oats	Wheat
2014	\$5.30	\$3.25	\$6.12
2015	\$4.71	\$3.18	\$5.14
2016	\$4.52	\$3.15	\$5.19
2017	\$4.57	\$3.14	\$5.38
2018	\$4.68	\$3.19	\$5.62

- \* Food and Agricultural policy Institute



- Questions?