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Sequestration and Farm Program Payments

Jonathan Coppess, Gary Schnitkey, Nick Paulson

Department of Agricultural and Consumer Economics
University of Illinois

Carl Zulauf

Department of Agricultural, Environmental and Development Economics
Ohio State University

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Recent **reports** indicate that payments from the Price Loss Coverage (PLC) or Agriculture Risk Coverage (ARC) programs for the 2014 crop year may be reduced by nearly 7% due to sequestration. The following discussion provides additional background information on sequestration and its likely impact on payments.

Sequestration is a product of Congressional efforts in 2011 to reduce spending and the Federal budget deficit. It is a complicated process that produces an across-the-board reduction in Federal spending when expenditures are estimated to exceed Congressionally-mandated levels. Under sequestration, the Office of Management and Budget (OMB) estimates needed reductions and Federal agencies apply that reduction to the programs they administer. Some Federal spending programs are exempt from sequestration. For example, Conservation Reserve Program (CRP) payments and prior legal obligations of the Federal Crop Insurance Corporation are exempt. Farm commodity program payments are not exempt.

OMB is expected to require a reduction in farm program payments at a level between 6.8% and 7.3%. According to a **Congressional Research Service** (CRS) report, sequestration levels for farm programs in the previous two fiscal years (FY2014 and FY2015) were 7.2% and 7.3%, respectively. Once the reduction percentage is set, USDA then has to determine how to reach that reduction by cutting specific program payments (technically, sequestration is applied to the Commodity Credit Corporation (CCC) Fund and not to individual programs). Agencies **appear** to have some discretion as happened with a previous sequester when FSA applied a higher percentage to direct payments in order to avoid requiring repayments from farmers who had received dairy and disaster assistance.

Sequestration is mandated by the 2011 law and can only be prevented or avoided by a change in the statute. Additionally, the PLC and ARC **contracts** state that all payments "are subject to availability of funds" and that they "may be reduced by a certain percentage due to a sequester order required by Congress."

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Therefore, farmers should be aware that – barring an act of Congress – sequestration will impact the 2014 crop year PLC and ARC payments. The exact impact on individual payments will not be known until OMB decides the reduction level and USDA figures out how to apply it to individual programs and payments.

One final note: the payment estimates provided by the Agricultural Policy Analysis System (APAS) and the *farmdoc* FAST tool calculators did not include sequestration reductions. The payment estimates are based on modeled results using price and yield expectations; sequestration was (and remains) too much of an unknown to be included in the calculations. Actual payments are still to be determined based on final marketing year average prices and may differ from previous estimates based on final prices. And, as discussed here, payments could be further reduced because of sequestration. Payments are scheduled to be made after October 1st and farmers are advised to pay attention for notices from FSA for further information.

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