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Agricultural Outlook Forum



Risk Management in the Farm Service Agency

An Assessment of 2008 Farm Bill Programs

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Slide 15 revised





What Takes So Long? Regulations, Regulations, Regulations



More than 30
2008 farm-bill
related
regulations need
to published by
FSA in the
Federal Register

National
Environmental Policy
Act

Requires
environmental
analysis before
regulations can be
written

Currently, examining
impact of NEPA on
about a dozen
programs



What Takes So Long? Actors in The Review Process



Program Staff

Deputy
Administrator

Administrator

Office of General
Counsel

Office of Budget
and Program
Analysis

Chief Economist

Civil Rights

Chief Info. Officer

Chief Finan. Officer

Under Secretary

Secretary

Farmers

OMB

Capitol Hill

- Implementation involves training :
 - 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 several hundred pages long.
 - Creating sign-up forms
 - Writing and testing software



Menu of FSA Programs



Traditional Programs

Direct and Counter-Cyclical Program (DCP)

Commodity Loans

Farm Loans

Conservation Reserve Program (CRP)

Milk Income Loss Program (MILC)

Ad Hoc Disaster



What is Wrong with Ad Hoc Approach to FSA Disaster Programs?



Unpredictable, dependent upon Congressional appropriations

Payments may be issued years after losses occur

Successive years of bad weather reduce benefits because of low APHs

Discourage purchase of crop insurance

Why purchase insurance when ad hoc disaster is free?

Note: This slide is a duplicate from 2008 Outlook Speech



Solution is to Develop "Permanent" Rules for Ad Hoc Assistance



FSA Recommendations in 2008 Outlook Speech

Develop a framework in the farm bill. Regulations and software can be written in advance so payments can be issued timely.

2008 farm bill did provide for "permanent" programs.

Provide funds in the appropriations process.

2008 farm bill provided funds.

Develop procedures to boost yields for disaster payments (an "enhanced" disaster yield) when several years of bad weather occur.

2008 farm bill did provide for "enhanced" yields.



One Solution is to Base Ad Hoc On Crop Insurance Indemnity



FSA Recommendation in 2008 Outlook Speech

Provide a "Top-Up" Payment in 2008 Farm Bill: give producers an ad hoc payment based on a percentage of the crop insurance indemnity.

Example: If a producer received a \$1,000 indemnity payment, the "TOP-UP" payment would be \$300 (30% of \$1,000).

The 2008 Farm Bill did not provide a Top-Up payment, but created ACRE and SURE programs.



Benefits of "Permanent" Rules



Benefits more predictable.

Payments will be more timely.

Use of an "Enhanced" Disaster Yield will help producers who have experienced poor weather or shallow losses.

Requires purchase of crop insurance to receive SURE payments.



New FSA Programs in the 2008 Farm Bill



Average Crop Revenue Election Program (ACRE)
Biomass Crop Assistance Program (BCAP)
Feed Price Adjustment to Milk Income Loss Program (MILC)

"Permanent" Disaster Programs

Supplemental Revenue Assistance Program (SURE)
Livestock Forage Program (LFP)
Livestock Indemnity Program (LIP)
Tree Assistance Program (TAP)
Livestock, Honey Bees, and Farm-Raised Fish
Other Non-Appropriated Programs



New Risk Management Tools



Focus on Two 2008 Farm Bill Programs

ACRE

Offered as producer option to counter-cyclical.
Revenue-based payments replace price-based.

SURE

Offered as permanent disaster program.
Losses in "farm"-based revenue replace
traditional crop-based quantity loss.

For first time, FSA programs focus on revenue.



General AGI Provisions



Producer ineligible for DCP/ACRE, SURE, MILC, LDPs, NAP and other disaster programs if **non-farm** AGI > \$500,000

Producer ineligible for direct payments if **farm** AGI > \$750,000

Producer ineligible for conservation programs if **nonfarm** AGI > \$1 million

Exception: If at least 66.66% of AGI is derived from farming producer is eligible for conservation programs



Direct Attribution



Payments limited to "warm body".

Combined payments issued to the individual and the individual's pro-rata share of payments to business entities are limited to specific amounts.

\$40,000 for direct; \$100,000 for SURE



"Actively Engaged"



Requirements Apply to DCP/ACRE

Producer ineligible if not "actively engaged". To be actively engaged, producer must contribute: (1) land, capital, equipment; and (2) personal labor or management.

New Requirement in 2009

Contribution must be performed on a regular basis; identifiable and documentable; and separate and distinct



General Rules for 2009 ACRE



Farm trigger and State trigger must be met:

Farm trigger:

2009 crop revenue must be less than historical crop revenue plus producer-paid crop insurance premium.

This slide has been revised



General Rules for 2009 ACRE



State trigger:

2009 State revenue for a crop must be less than historical State revenue

When both triggers are met, a producer's payment is based on 83.3 percent of the farm's plantings times the shortfall in State revenue



What's Next for ACRE?



State yields: We have finalized computation of the historical State average yields for each crop, and irrigated and non-irrigated yields if triggers are met.

Publication of data: We will be posting to the Internet state yield, national prices, and state revenue guarantees shortly.

Signup: 2009 signup to begin in in month or two.



General Rules for SURE



Pays for crop losses due to natural disasters.

Pays for shallow crop losses: a portion of the deductible not covered by crop insurance or NAP.

Producers must have purchased crop insurance or non-insured assistance program (NAP),



General Rules for SURE (continued)



Farm must have one crop of economic significance with a 10-percent production loss

Farm must either be:

- (1) located in a disaster county or contiguous county or,
- (2) if not in disaster county, the farm must have a production loss of at least 50 percent

Enhanced yields: Drop low yields when calculating a producer's yield history



General Rules for SURE (continued)



"Farm" means the sum of all crop acreage in all counties that is planted or intended to be planted for harvest by the eligible producer

SURE payment equals 60 percent of the difference between the disaster assistance guarantee and total farm revenue



Stimulus Bill



Provides another 90-day window for producers who did not purchase crop insurance or NAP to "buy-in" to the 2008 SURE program (\$100 fee per crop)

2008 SURE program payments are "sweetened"

(1) Producers with less than 70 percent coverage will receive SURE payments as if they had coverage at 70 percent

(2) Payments are issued for even shallower losses

Also provides for a \$50 million grant program to States for aquaculture program for increased feed costs



What's Next for SURE?



Policy Issues: Need to develop procedure for the new provisions in the Stimulus bill.

Regulation: We still need to publish the regulation.

Signup: 2008 signup will begin in fall when all data is available.



Conclusion



What FSA Asked in 2008 Outlook Speech

Will Congress enact a permanent disaster program that is really "permanent"? **Yes, they did in 2008 farm bill**

Will Congress enact an ad hoc program on top of a permanent program? **Yes, they already did in Stimulus bill**

Will adequate funding be available? **Yes, they financed the cost in the 2008 farm bill.**

Conclusion



Farmers have a wider variety of “permanent” risk management programs available to them, especially for crops under ACRE and SURE. These programs are based on revenue losses.

FSA also offers new “permanent” programs for livestock, trees, honey bees and farm-raised fish.

Conclusion



Uncertainties

How many producers will sign up for the ACRE program. Will ACRE payments more than offset 20-percent reduction in direct payments and 30-percent reduction in loan rates?

It is unclear if the SURE benefits will be large enough, since the program is based on whole-farm revenue losses. Stimulus bill already increased the benefits.

How will FSA's risk management programs influence a producer's decision for coverage under crop insurance.

Average Crop Revenue Election for the 2009 Crop

TWO TRIGGERS MUST BE MET BEFORE PAYMENTS CAN BE ISSUED

1. STATE TRIGGER

	2008 State ACRE Guarantee	must exceed	2008 Actual State Revenue
+/- 10% from preceding year	<p>80% times</p> <p>Benchmark State Yield (2004-08? olympic average planted yield)</p> <p>times</p> <p>ACRE Program Guarantee Price (2007-08? national average market price)</p>		<p>100% times</p> <p>2008 Actual State Planted Yield</p> <p>times</p> <p>2008 National Average Market Price</p>

AND

2. FARM TRIGGER

	2008 Farm Guarantee (benchmark)	must exceed	2008 Actual Farm Revenue
+/- 10% from preceding year	<p>100% times</p> <p>Benchmark Farm Yield (2004-08? olympic average planted yield)</p> <p>times</p> <p>ACRE Program Guarantee Price (2007-08? national average market price)</p> <p>plus</p> <p>2008 Producer-paid Crop Insurance Premium</p>		<p>100% times</p> <p>2008 Actual Farm Yield</p> <p>times</p> <p>2008 National Average Market Price</p>

FARM PAYMENT = 83.3% of farm's planted acres^{1/1} times (farm's benchmark yield divided by State expected yield) times

Lesser of:	State ACRE Guarantee	minus	Actual State Revenue
	State ACRE Guarantee	times	25%

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

^{1/1} 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)

Detailed Rules for ACRE (1)

- ACRE Payments are revenue-based and not price based; based on State parameters and not National parameters
- ACRE Payments triggered when both apply:
 - Actual **State** revenue for the crop year for the covered commodity is **less than** ACRE program guarantee for the crop year for the covered commodity
 - Actual Farm revenue for the crop year for the covered commodity is **less than** the **Farm** ACRE benchmark revenue for the crop year for the covered commodity

Detailed Rules for ACRE (2)

- ACRE Program Guarantee
 - 90% **times** Benchmark State Yield (Five year Olympic state average yield) **times** the ACRE Program Guarantee Price (Two year national simple average market price)
 - Shall not **decrease** or **increase** more than 10% from the previous year's ACRE Program Guarantee

Detailed Rules for ACRE (3)

- Actual State Revenue
 - Actual State Yield for each planted acre for the crop year for the commodity or peanuts
 - Multiplied by
 - The National Average Market Price for the crop year for the covered commodity or peanuts

Detailed Rules for ACRE (4)

- Actual State Yield
 - Quantity of the covered commodity or peanuts that is produced in the State during the crop year
 - Divided by
 - Number of acres that are planted to a covered commodity or peanuts in the State during the crop year.

Detailed Rules for ACRE (5)

- National Average Market Price
 - Greater of the
 - National average price received by producers during the 12 month marketing year for the covered commodity or peanuts, as determined by the Secretary

OR

- The marketing assistance loan rate for the covered commodity or peanuts with the 30 percent **reduction**

Detailed Rules for ACRE (6)

- Actual Farm Revenue
 - Actual yield for the covered commodity **times** the national average market price received by producers during the 12-month marketing year for the covered commodity
- Farm ACRE Benchmark Revenue
 - Five year Olympic average yield per planted acreage for the covered commodity **times** the ACRE Program Guarantee Price (Two year national simple average market price) **plus** the amount of the crop insurance premium required to be paid by the producers on the farm

Detailed Rules for ACRE (7)

- ACRE Payment Amount is the product obtained by multiplying the lesser of:
 - (A) The Acre State program guarantee for the crop minus the Actual State revenue for the crop
- OR
- (B) 25% of the ACRE Program Guarantee

Detailed Rules for ACRE (8)

ACRE Payment Amount Calculation Continued:

- **Times** 83.3 percent (2009 through 2011 crop years) or 85% (2012 crop year) of the average planted or considered planted to the covered commodity for harvest on the farm
- **Times** the quotient obtained by dividing the Five year Olympic average yield per planted acre for the covered commodity of the producers on the farm by the Benchmark State Yield for the crop year.

Detailed Rules for SURE (1)

- Disaster Assistance Program Guarantee
 - **Insurable crop** on the farm, 115 percent of the product obtained by multiplying the:
 - crop insurance price election for the crop
 - acres planted or prevented from being planted to the crop
 - percentage of the crop insurance yield elected by the producer by the higher of the adjusted APH or the counter-cyclical program payment yield

Detailed Rules for SURE (2)

- **Total Farm Revenue** for a farm shall be the sum obtained by adding the following:
 - the estimated actual value of each crop produced on a farm by the product obtained by multiplying the:
 - actual crop acreage harvested
 - estimated actual yield
 - national average market price for the marketing year for each crop
 - 15 percent of any direct payments issued

Detailed Rules for SURE (3)

- **Non-insurable crop** on the farm, 120 percent of the product obtained by multiplying:
 - 100 percent of the NAP program established price for the crop
 - the acres planted or prevented from being planted to the crop
 - the higher of the adjusted NAP program yield guarantee or the counter-cyclical program payment yield

Detailed Rules for SURE (4)

Total Farm Revenue Calculation Continued

- The total amount of all counter-cyclical or average crop revenue payments
- The total amount of all marketing loan proceeds (including certificate gains)
- The total amount of all crop insurance or NAP indemnities
- The value of any other natural disaster assistance payments for the same loss