Reallocating Base Acres

2014 Farm Bill

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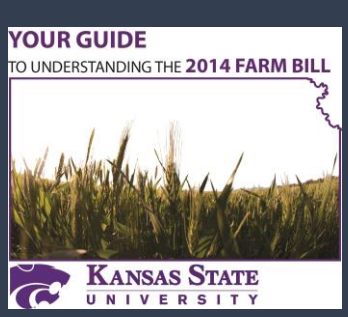

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Disclaimer: This publication is designed to aid farmers with their marketing and risk decisions. This information is based on the author's interpretation of the 2014 Farm Bill. Some details may change after final rules and regulations are released by FSA. This information is intended for educational purposes only.

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REALLOCATING BASE ACRES-2014 FARM BILL

The 2014 Farm Bill gives landowners a one-time opportunity to reallocate base acres and update payment yield, if they so choose. This is an important decision, since the new Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC) programs through Farm Service Agency (FSA) determine payments by commodity base acres, not actual planted acres. The reason for this "decoupling" is so planting decisions by producers will not be influenced by which commodity might receive the largest government payments in a given year. Base acres are designed to reflect the long-term average acreage of each commodity on that farm, thus equating program payments to commodity risk.

Landowners have already received letters from FSA informing them of their historical planted acres from 2008-2012. In many cases, the current base acres no longer reflect the average planted acres of each commodity on that farm. Perpetual base acres were first established by the 1996 Farm Bill as 1991-1995 average acres planted. It is estimated that only 39% of base acres in the United States were reallocated with 1998-2001 average plantings in the 2002 Farm Bill (*USDA Economics Research Service Website*). This is because many producers forecasted their current base would receive higher government payments than their reallocated base. The new ARC and PLC programs of the 2014 Farm Bill make this situation much less predictable, so more producers may consider reallocating base acres to reflect recent plantings.

The decision to reallocate base acres falls in the hands of the farm owner and will take effect starting with any 2014 program payments. Base acres cannot be increased with reallocation, just re-arranged to reflect current plantings. If the landowner decides not to update, or fails to decide, the current base acreage will be maintained. Base acres are not divided between irrigated and non-irrigated practices, however some counties will have separate ARC county guarantees for both. In this case, FSA will look at commodity acres planted in each production practice and allocate a percentage of base to each practice and these will be maintained for the life of the Farm Bill. For example, if a farmer has 100 acres of corn base and 2/3 of corn planted was irrigated in 2008-2012, then 66.6 acres will be paid on with the irrigated corn ARC county guarantee and 33.4 acres would be paid on with the dryland corn ARC county guarantee.

Producers can determine their potential updated base acreage by calculating a simple average of their 2009-2012 plantings, including preventative planted acres. If yearly planted acres exceed the current total base amount, a ratio must be used to bring the average back to the current base total. In contrast, if a non-program crop was planted on base acreage (such as alfalfa, or grass for hay or pasture), a producer may find their total planted acres less than current base acres. A ratio will also be used in this case to extend average plantings of covered commodities out to the current base. This can be done by taking the average planted acres (including approved preventative planting) of each commodity divided by the total average acres planted on the farm from 2009-2012. The following simple steps and chart below will walk you through this calculation:

Step #1: Enter current base acres per FSA farm number in Table 1 (this information will be in the letter received from FSA) and total them in the end column. More columns may need to be added if there are additional commodities.

Step #2: Enter 2009-2012 plantings for that FSA farm number (this will also be in the FSA letter). Total the plantings for each year and for each commodity across all four years.

Step #3: Calculate an average of the 2009-2012 plantings for each crop (take the total acres planted for each crop and divide by four). Also do this for the end column of Total acres so you will also have an average Total plantings.

Step #4: Divide your average plantings for each crop (average for each column) by your average Total acres planted (average for last column); this will give your ratio value.

Step #5: Multiply each ratio value by your **total base for current base acres** (Step #1), this will give your reallocated base amount. (Remember you cannot build base acres, so you need to bring it back to the original base acre amount regardless of if you actually planted more acres than that.)

Table 1. Your Reallocation Calculation							
			Corn	Soybean	Sorghum	Wheat	Total
Step #1	Current Base						
Step #2	Plantings	2009					
		2010					
		2011					
		2012					
		Total					
Step #3	Average Plantings						
Step #4	Ratio						
Step #5	New Base						

Table 2. Example Reallocation Calculation						
		Corn	Soybean	Sorghum	Wheat	Total
Current Base		50	20	80	100	250
Plantings	2009	100	50	50	100	300
	2010	150	100	0	50	300
	2011	80	60	60	110	310
	2012	120	80	30	80	310
	Total	450	290	140	340	1220
Average Plantings		112.5	72.5	35	85	305
Ratio		.369	.238	.115	.279	1
New Base		92.2	59.4	28.7	69.7	250

In the example above, reallocated base would include more corn and soybeans and less wheat and grain sorghum. Nationally, and in much of Kansas, this is the trend most producers will see according to a recent article published by University of Illinois (farmdoc Daily Website). The authors compared the number of farms with base acreage in a crop to the number of farms that reported harvested acreage of that crop according to the 2012 Census of Agriculture. They found wheat base to be 18 million acres more than planted acres, while corn and soybean base were 12 and 27 million acres less than planted acres, respectively.

Producers will employ one of the following two strategies to make the decision to reallocate base. First, if they want to maximize their potential to receive government payments, they would pick the base (current or reallocated) that gives them the most acreage in the commodity that they predict to pay the most. Forecasting payments for both the PLC and ARC programs across all commodities over the course of 5

or more years is not an easy thing to do, however, so this strategy might be hard to carry out. The second strategy is to minimize risk by matching base acres to planted acres; which in most cases means reallocate (assuming the crop rotation in 2009-2012 is what it will also be going forward). This way government payments, if any, will help alleviate the risk of what crops are actually being produced. In the past, producers tended to go with the first strategy, but that decision may be much less clear with this Farm Bill.

Some other special situations to note are:

- Some Kansas farms have cotton base, which is no longer a covered commodity for the PLC or ARC programs. The 2014 Farm Bill renamed cotton base into "generic base", which will be kept separate even if a producer decides to reallocate base. If the generic base is planted to a covered program commodity, it is eligible to receive payments (if any) for that program year. Example: If corn is planted on generic base, any PLC or ARC payments made to corn will include those base acres.
- Base acres cannot exceed an FSA farm's actual cropland acres. The only exception to this is in areas where double cropping is designated as an established practice. If land has been converted to a non-farm use and will not likely return to farm use, such as being subdivided or developed, the base acreage will be reduced. If land has been planted to a non-program crop or pasture, this land may still be included in total base since it is still agricultural use.
- If approved preventative planting caused the original crop in the rotation to be changed to a different crop, the producer can elect either of those two crops to count towards the average. For example, if corn was not planted because of extreme weather conditions but later on soybeans were planted instead, the producer has the option of counting those acres to either corn or soybeans in that year (assuming preventative planting was approved on corn).
- Conservation Reserve Program (CRP) acres that are have expired or been voluntarily terminated will have a single opportunity to elect PLC or ARC and farm base will be adjusted accordingly to reflect these acres. If CRP had base acreage that was protected going into the contract, it will be added back to base. However if those base acres were moved to other production acres, the expiring CRP will not add back to base.
- If a producer chooses ARC at the individual level, base reallocation will not affect payments. Since all covered commodities are aggregated together to set a guarantee, payments (if any) are made on 65% of total base acres.

The decision to reallocate base acreage will affect program payments for PLC and county ARC for the remainder of the 2014 Farm Bill, so it is a big choice for producers to make. They will need to run the numbers and work with FSA on performing the update if they choose to do so. K-State Research and Extension and Oklahoma State University have partnered on developing a Microsoft Excel based decision tool to help producers run the numbers on their own farm, along with different price scenarios, to evaluate these decisions. It is available at www.AgManager.info by clicking on the "2014 Farm Bill" icon, along with more information and upcoming events. There is also a "Quick Calculator" and other tools on FSA's website at www.fsa.usapas.com that will make these calculations.

Base reallocation can be completed at the local FSA office until March 31st, 2015.