YOUR GUIDE TO UNDERSTANDING THE 2014 FARM BILL
Kansas State University

Glossary of Farm Bill Terms

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Base Acres

If Farm Bill programs paid farmers on what they actually planted, farmer's planting decisions would be impacted on what commodities might receive the largest support payments. Therefore, by not having payments tied to actual plantings (commonly called being decoupled) farmers will plant what is best for their operation and be paid on their "base" acres.

Base acres are meant to reflect the long-term average planted acres of each commodity on the farm. They were established in 1996, as 1991-1995 average acres planted of covered commodities. There are many farms today that actually plant more acres then what they have in total base acres. This is because they may have had acres in pasture, hay, or other uncovered commodities when base was established. The 2014 Farm Bill does not give producers the option to increase base acres, but they can reallocate the base acres into proportions of covered commodities that were planted from 2009-2012.

FSA Farm number

Each "farm" is given a unique number as it's identifier for FSA programs. Landowner and/or producers many times have multiple sets of acreage that will have unique FSA farm numbers.

Sign-up for FSA programs will be by FSA farm number, so anyone involved in production risk on that farm number will need to be involved in making the program selection. Producers can make different selection decisions for each FSA farm number.

FSA yield

This is also referred to as "Countercyclical Yield" since it was the established yield for the individual farm that was used in the previous farm bill programs. It is also called "Program Yield". This is the yield that is assigned to a given FSA farm number to reflect its own crop yields. Once established, it does not change year to year with actual production. This is why producers should take advantage of the one-time opportunity to update FSA yields with the 2014 Farm Bill. FSA yield is used in the PLC program to determine payments after price loss is established. It is not used in the ARC programs.

PLC

Price Loss Coverage. Payment is made if the Marketing Year Average (MYA) price falls below the reference price, which is set in statue by the Farm Bill. The payment is calculated by taking the difference in the MYA price and the reference price, multiplied by the farm's program yield, multiplied by 85% of base acreage.

ARC-CO

This stands for Agricultural Risk Coverage at the County level. The ARC-CO guarantee is set by multiplying the 5-year moving Olympic average MYA price by the 5-year moving Olympic average County Yield and then by 86% (to factor in the 14% deductible). Actual county revenue is determined by the current year's MYA price multiplied by the current year's county yield. The payment (if any) is the difference in the guarantee and the actual revenue, multiplied by 85% of base acres. ARC-CO looks at each commodity independently.

ARC-IC

This stands for Agricultural Risk Coverage at the Individual Farm level. The ARC-IC benchmark is set by determining an Olympic average of the previous 5 year's revenue (MYA price multiplied by individual farm yield) for each commodity and then weighting each commodity revenue by the percent of planted acres in that year. There is also a 14% deductible, which then determines the guarantee. All covered commodities are combined together and loss is determined by comparing actual revenue to the guarantee. Payment is made on 65% of the total base acres.

Plug yields

In years of really poor yield, "plug" yields (also called "substitute" yields) are used to reduce the severity of the impact on producer or county's average yields. In the 2014 Farm Bill, there are a number of places these are used and in different percentages.

For updating FSA program yield, a producer can replace a year of poor yields with 75% of the county average in 2008-2012, before taking their 5-year average. This way their FSA program yield is not as penalized as much by low yielding years from drought or other reasons.

When calculating the 5-year Olympic average County Yield for the ARC-CO program, plug yields in the amount of 70% of the transitional yield are used to replace poor yielding years. These same plugs are also used for an individual farm's yield in ARC-IC.

MYA

Marketing Year Average is the average price of the commodity in that marketing year. A marketing year corresponds to when the crop was harvested until the next harvest. For corn, sorghum, and soybeans, the Marketing Year starts on September 1 and ends on August 31 of the next year. For wheat, the Marketing Year starts on June 1 and ends on May 31 of the next year. The National Average price each month is multiplied by the percentage of the crop marketed that month and then these weighted prices are added up to become the Marketing Year Average.

MYA reference price

An Olympic average of the previous 5 year's Marketing Year Average prices is used as the "reference price" for the ARC-CO program. This is multiplied by the 5-year Olympic average county yield to make up the ARC-CO benchmark revenue.

PLC Statute price

The PLC guarantee is written in the statutes of the 2014 Farm Bill, hence it may be referred to as the "statute price". This "strike" or "reference" price for common Kansas commodities is $5.50 for wheat, $3.95 for sorghum, $3.70 for corn, and $8.40 for soybeans. These prices will not change for the life of the current Farm Bill.

APH

Actual Production History. This is used in crop insurance (including SCO) and is generated based on the actual yields of the farm. It represents an average long-term yield for that farm and is adjusted each year to include current year's yields. Many times you will hear terminology of the 5-year APH, or 10-year APH. This just means that APH is based on the previous 5 or 10 year's actual yields. For FSA program purposes, records for APH can be used for updating program yield on the farm.

SCO

Supplemental Coverage Option. SCO is designed to cover some of the deductible on the crop insurance contract, up to 86%. For example, if an insurance policy provides 75% coverage, SCO may be purchased for an additional 11% of coverage (86%-75%). SCO covers all planted acres, not just base acreage. There is no payment limit and it is not subject to budget sequestration. It can be purchased by talking to your crop insurance agent. Farmers must be in conservation compliance to be eligible for this program, have a crop insurance contract, and not be enrolled in ARC. If the farm does not have base acreage in the planted commodity, but it is a covered commodity, they can still purchase SCO with their crop insurance even though their base acreage is enrolled in ARC with a different commodity.

T-yield

Transitional Yield. This is a yield figure generated by the Risk Management Agency for each crop in each county based on historical average county yields. It is updated periodically, but not every year. Seventy percent of its value is used as a plug yield in the ARC-CO and ARC-IC programs.

Shallow Revenue loss

Small losses in revenue. If there is a downturn in prices and/or a lower than average yield resulting in revenue loss the term "Shallow Revenue loss" would refer to the first amount of loss a producer experiences. The ARC program can be considered a "Shallow Revenue Loss" program because it covers revenue losses after 14%, but then caps out at 10% of benchmark revenue. This way, only a small amount of revenue loss is covered.

CAT Coverage

Catastrophic coverage. Typically this term is used in a program or insurance product that does not kick in (pay indemnities) until a producer experiences a severe loss.

70% RP

This is a crop insurance term. Basically, the three options for crop insurance are Risk Protection (RP), Risk Protection-Harvest Price Excluded (RP-HPE), and Yield Protection (YP). The 70% refers to the percent of the crop that is insured, so the remaining 30% would be the deductible.

- **Revenue Protection** policies insure producers against revenue losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, disease, and a change in the harvest price from the projected price. The producer selects the amount of average revenue he or she wishes to insure; from 50-75 percent (in most areas up to 85 percent). The ***projected*** price and the harvest price are 100 percent of the amounts determined in accordance with the Commodity Exchange Price Provisions and are based on daily settlement prices for certain futures contracts. The amount of revenue protection is based on the greater of the projected price or the harvest price times their APH (average yield), times percent coverage. The revenue to count that is equal to the harvested yield plus any appraised production multiplied by the harvest price. If the revenue to count is less than the guaranteed revenue, then the producer is paid an indemnity based on the difference.
- **Revenue Protection with Harvest Price Exclusion** policies insure producers in the same manner as Revenue Protection polices, except the revenue guarantee does not increase if the harvest price is greater than the projected price. If the revenue to count is less than the amount of the revenue guarantee, the producer is paid an indemnity based on the difference.
- **Yield Protection** policies insure producers based on yield loss only. Farmers may insure from 50% to 85% of their average yield. If their production plus any appraised yield is less than their guaranteed bushels then the difference in bushels (production) are indemnified at the projected price. Producers may select the percent of the indemnity price between 55 and 100 percent.
- More information can be found at http://www.rma.usda.gov/policies/

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