

PolicyPennings by Dr. Daryll E. Ray

Farm program signup is no walk in the park this year

Major changes in crop programs are usually accompanied by uncertainty on the part of farmers. The late passage of the 1996 Farm Bill and its radically new provisions had farmers scratching their heads as they struggled to understand AMTA payments (Agricultural Market Transition Act) and the Marketing Loan Program with its Loan Deficiency Payments and Marketing Loan Gain provisions.

By way of contrast, farm bills, like the 2002 legislation, that make only incremental changes are taken in stride. Farmers, along with their bankers and CPAs, know what to expect and the uncertainty is low.

The 2008 Farm Bill included a new program ACRE (Average Crop Revenue Election) that would reduce Direct Payments (by 20%), replace the Counter-Cyclical Payment program, and lower the rate for marketing loan payments (by 30%). Farmers must decide whether to switch to the ACRE program or continue to use the current set of payment programs.

This last week we had the opportunity to talk with farmers in Texas and Louisiana, many of whom grow cotton or rice. They were not convinced that ACRE would be to their benefit compared to the current program, mostly because Direct Payments—those payments that stay the same regardless of prices— and counter cyclical payments tend to kick-in more beneficially for cotton and rice than for other crops.

Several universities have example calculations and/or calculators that farmers can use to see how they would fare with the ACRE program. At this point the most important determinants of ACRE computations are unknown.

One important unknown is the price that will be used to determine the State Revenue Guarantee. That price for the 2009 crop year is average of the season average prices for the 2007 and 2008 crop years. But the 2008 season average prices won't be available until months after the sign-up deadline.

We have seen reports suggesting that the ACRE program will provide corn farmers with a \$50 to \$150 per acre advantage over the current program. Given a high enough average of the season average prices for 2007 and 2008 crop years and specific assumptions about benchmark and actual state and farm level yields, those advantages are not out of the realm of possibility.

But carefully consider the numbers that are used in ACRE examples. If the average 2007 to 2008 price for corn is \$4.10, say, does that square with what you expect (given the 2007 season average price of

\$4.20, the \$4.10 average would imply a \$4.00 price for 2008). Are the yield assumptions likely events, etc.

Deciding whether to convert to ACRE irrevocably through 2012 is not the only headache that farmers are likely to experience on the farm program front this spring.

The legislation also included new payment limits and new rules to determine who is actively involved in farming and who is not. Be prepared to surrender your 1040s.

In addition to the per person payment limits by payment program type, there are now lower eligibility limits based on overall income over a three year period (adjusted gross income of \$500,000 per year of non-farm income; AGI of \$750,000 per year of farm income). Also the three-entity rule was eliminated.

While by no means thrilled about those payment limitations, farmers we talked with at commodity annual meetings in Texas, Louisiana and Iowa knew beforehand of the payment limitations because they were coded directly into the 2008 Farm Bill.

They were less generous in their evaluation of the paperwork that is required to satisfy Bush administration rules and regulations concerning program eligibility and documentation of acreage and yields for the ACRE program. Hostile is the descriptor that comes to mind.

If you have not been to your local Farm Services Agency (FSA) office, you may be in for an unpleasant shock. The complexity of the signup requirements has increased exponentially. While the comment period on the payment limitations and eligibility procedures has been extended, those comments will likely be used by the Obama administration to prepare rules and regulations for 2010 and beyond—probably not for 2009.

Given this climate of complexity and uncertainty, we suggest the following:

First, June 1 is closer than you think. Head out to your FSA office and get the papers that will have to be filled out to participate in the program. Ask questions and get all of the information you can. Take your time filling out the paperwork.

Do not hesitate to get your lawyer involved when addressing certain questions, especially questions concerning "active involvement." If your operation

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Farm program signup

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is a partnership, a lawyer is probably a must.

Second, start getting all of your records in one place so you can substantiate yields, acreages, and other requirements in preparation for ACRE participation.

Third, work through a number of different scenarios using data from your farm. Be sure to calculate worst-case scenarios as well as ones that give you favorable responses.

We are concerned that many may be overestimating the 2008 season average price, making the ACRE program appear more lucrative than it might turn out to be. Run a set of calculations using prices from the low end of the range of the USDA monthly price projections for the 2008 crop year.

Those calculations will give you an estimate of the lower bound for the price portion of the income protection that you can expect from the ACRE program for any given yield event.

Do not make your decision based on the calcula-

tions of others. Your situation may be different, depending on your farm size and your yields compared to your state average.

Fourth, sit down and talk to your banker and CPA. They are likely to have made these calculations for a number of other farmers. What they have learned may help you understand the potential risks and benefits of the program when it comes to your operation

This year the decision of whether to/how to participate in the 2009 farm program is not a matter of showing up at the FSA office and leaving all signed up a short time later. Bottom line: Start early and don't hesitate to secure professional advice.

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