
PENNYROYAL FARM ANALYSIS NEWS

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Farm Security and Rural Investment Act of 2002

The Farm Security and Rural Investment Act of 2002, which includes laws that govern Federal farm programs for the next six years, was signed by the President on May 13, 2002. The Farm Service Agency (FSA) is currently taking steps to implement provisions of the new Farm Bill. These steps include writing regulations in regard to specific provisions.

With the passing of the new Farm Bill, there is a new method for calculating your FSA payments. You will have the option of re-establishing your base and or updating your historic yields on each FSA farm number. While this will prove beneficial for many farms, there will be some circumstances where updating will not be to your advantage. Your choice will have a major impact on your payments for the next six years.

We will be conducting county meetings from approximately August 10-25th to discuss the new Farm Bill, the update option and the new payments. Prior to this you will receive a letter from the FSA giving you the current base for each farm, and your planting history for the 1998-2001 crop years. In the case of rented farms, both the operator and the owner should receive this report. Please make sure you have a report for each farm that you are operating. On rented farms, it will be the owner who makes the final decision on whether to update bases and yields. We would suggest that you not make any decisions or sign up at the FSA office until you have worked through all of the calculations for each FSA farm number. We have a spreadsheet available in our office that will compare the different options for each farm to establish the best scenario. This spreadsheet can also be downloaded from the Ag Econ website at <http://www.uky.edu/Ag/AgEcon/farmbill/decisiontools.html>.

If you would like us to enter your data in the spreadsheet and print the output pages for you, we will be happy to do so. When you receive your report from FSA for each farm, send us a copy. To most accurately project you payments we also need your actual yield for each crop for each year by farm number. There is an enclosed worksheet for this information. Please make as many additional copies of this worksheet as you might need. We will run each farm number and mail it back to you as soon as possible or have it for you at the meeting. If you are unable to get us a copy of your reports, please bring them to the meeting.

We know that the meetings will be during a busy time, but believe they will be very important for you. Your decision on the options will impact your payments for the next six years. Please make every effort to attend.

- Oilseed producers will establish base and be eligible for direct payments.
- Counter-cyclical payments for all base acreage crops.
- The option for producers to update crop bases and yields used to calculate counter-cyclical payments

Meeting Schedule			
Location	Date	Time	Meeting Place
Princeton	Monday, August 12	7:00 PM	UK Research & Education Center
Greenville	Tuesday, August 13	10:00 AM	Muhlenberg Co Extension Office
Elkton	Monday, August 19	7:00 PM	United Southern Bank Meeting Room
Hopkinsville	Tuesday, August 20	7:00 PM	Christian Co Extension Office
Franklin	Thursday, August 22	7:00 PM	Simpson Co Extension Office
Russellville	Monday, August 26	7:00 PM	Logan Co Extension Office

- Continue the Conservation Reserve Program (CRP) and expanding acreage from 36.4 million acres to 39.2 million acres with limited haying and grazing privileges
- Authorize the Grassland Reserve Program at 2 million acres
- Authorize the Conservation Security Program for helping producers in adopting practices on private agricultural land and to incidental forests
- Continue the Wetlands Reserve Program
- Continue the Environmental Quality Incentive Program and increase funding from \$200 million to \$400 million in 2002 and gradually increase annual funding to \$1.3 billion for fiscal year 2007
- Continue the Wildlife Habitat Incentive Program and increase annual funding

The 2002 Farm Bill

Preface

The **Farm Security and Rural Investment Act of 2002**, which includes laws which govern Federal farm programs for the next six years, was signed by the President on May 13, 2002. Farm Service Agency (FSA) is currently taking steps to implement provisions of the new Farm Bill. These steps include writing regulations in regard to specific provisions.

Readers of this material must be advised that the enclosed material is believed to be correct. However, specific regulations, when released, will supercede any information provided herein. The purpose of this material is to provide grain producers with some insight into program workings relative to primary crops grown in western Kentucky.

Features:

- Highlights:
 - Higher loan rates for most crops
 - Direct payments for wheat, feed grains, cotton, and rice . . . like the 1996 Farm Bill

- Some provisions take effect immediately
 - New loan rates take effect upon harvest
 - Counter-cyclical payments take effect when producers sign contracts
 - Funding increases on certain programs
- Payment Limitations:
 - Direct payments \$40,000
 - Counter-cyclical payments \$65,000
 - LDP & MLG payments \$75,000
(Note: Producers will still have the opportunity to use generic certificates in capturing MLGs.)
 - \$2.5 million adjusted gross income limit on program participation

Table 1 shows the target price, direct payment, maximum counter-cyclical payment and the national loan rate for the most common crops in southern Kentucky. Reference will be made back to these numbers as we do some of the calculations in later examples.

Table 1 - Target Prices, Loan Rates, Direct Payments & Counter Cyclical Payments					
Commodity	Target Price	Direct Payment	Trigger Price	Max Counter Cyclical Pay	National Loan Rate
Wheat	3.86	0.52	3.34	0.54	2.80
Corn	2.60	0.28	2.32	0.34	1.98
Grain Sorghum	2.54	0.35	2.19	0.21	1.98
Barley	2.21	0.24	1.97	0.09	1.88
Oats	1.40	0.02	1.38	0.03	1.35
Soybeans	5.80	0.44	5.36	0.36	5.00

Direct De-Coupled Payments - These payments are analogous to the Production Flexibility Payments (PFC) as provided under the 1996 Farm Bill. As before, these payments are not influenced by annual planting choices (other than restricted crops).

Counter Cyclical Payments - Counter-cyclical payments are available to producers on program crops whenever the effective price is less than the target price. Where supplemental legislation allowed for Market Loss Assistance (MLA) payments and oilseed payments based on production flexibility contract payments and 1997 - 1999 soybean planting, respectively, producers will receive counter-cyclical payments based on the payment rate, the payment acres, and the payment yield. The effective price is equal to the sum of 1) the higher of the national average farm price for the marketing year, or the national loan rate for the commodity and, 2) the direct payment rate for the commodity.

Base Acreage - Each producer must select one of two options for base acres for all covered commodities enrolled for the farm, including oilseeds, during a **one-time** sign up period. A producer must choose one of the following in establishing base acreage:

1. Update base acres to reflect the 4-year average of planted acreage plus prevented from planting acreage for the commodity during crop years 1998 - 2001, or

2. Update to reflect contract acreage that would otherwise have been used for 2002 PFC payments (this

acreage base was established in the early eighties) plus the 4-year average (1998 - 2001) of oilseed acreage. Oilseed base acreage cannot exceed the difference between total acreage determined for all covered commodities for that crop year and the total contract acreage.

The base acreage cannot exceed available crop land (except in counties that have a history of double-cropping). Crop land subject to a Conservation Reserve Program contract that is terminated voluntarily or expires may be added to base acreage.

Payment Acreage - Payment acreage is equal to 85 percent of the base acres.

Base Acreage and Payment Acreage Example. This example is partly based on Pennyroyal Farm Analysis Group historical data for Todd County. Certain other assumptions (i.e., contract acreage) are not taken from these data.

Crop Year	Planted Acreage			Crop Land
	Corn	Soybeans	Wheat	
1998	536	615	444	1147
1999	580	597	388	1177
2000	583	593	439	1176
2001	610	579	354	1189
4-Year Avg.	577	596	406	1173
Contract Acreage From 1996 Farm Bill				
	Corn	Soybeans	Wheat	Crop Land
	500	0	450	1200

Base Acreage:

Option 1: Update four-year average of planted acreage plus prevented planting acreage. In this example, the four-year averages are 577, 596, and 406 acres for corn, soybeans, and wheat, respectively.

Option 2: Update acreage by using previous contract acreage and the four-year average of oilseed acreage. The oilseed acreage is limited by the sum of 1998 - 2001 contract acreage. In this example, the new contract acreage is 500, 596, and 450 acres for corn, soybeans, and wheat, respectively.

Dependent on the option selected, **payment acreage** will be 85 percent of the base acreage, or

	For Option 1	For Option 2
Corn	490.4	425.0
Beans	506.6	506.6
Wheat	345.1	382.5

Program Yield - Payment yields for **direct payments** are **unchanged** except for soybeans and other oilseeds, which are added to the program. Oilseed payment yields will be determined based on the farm's 1998 - 2001 average yield and then adjusted by a ratio of the national average yield for 1981 - 85 (i.e., about 30 bu.) and the national average yield for 1998 - 2001 (i.e., about 38.3 bu). If the yield per planted acre for a crop of an oilseed for a farm for any of the 1998 through 2001 crop years was less than 75 percent of the county yield for that oilseed crop, the Secretary of Agriculture shall assign a yield for that crop year equal to 75 percent of the county yield for purposes of determining the average yield for the 1998 through 2001 crop years.

Payment yields **only** for **counter-cyclical payments** may be updated during the sign up period using one of two options: These are:

Option 1. Determining 70% of the difference between program yields for 2002 crops and the farm's average yields for the 1998 - 2001 and adding the 70% difference to program yields, or

Option 2. Using 93.5 percent of 1998 - 2001 average yields.

Program Yield Example:

Assume that the following represents actual soybean farm yields during 1998 - 2001:

<u>Crop Year</u>	<u>My Yield</u>	<u>Todd Co Average</u>
1998	29	27
1999	14	11
2000	35	34
2001	36	37
4-Year Avg.	28.5	27.25

Since the actual yields exceed the 75% level in each case, the program yield calculation is as follows:

Program Yield = 28.5 x 30/38.3 or 22.3 bushels

If the actual yield realized in any crop year had been lower than the respective 75% level, the actual yield is replaced with the 75% yield level for that crop year. Although the procedure for establishing actual yields is not in place, it is apparent that the penalty is rather severe if actual yields are not available, in that the 75% level would be used and result in the following program yield:

Program Yield = 27.25 x 30/38.3 or 21.3 bushels

Payment yields **only** for counter-cyclical payments may be updated during the sign up period using one of two options, and only if you update bases. These are:

Option 1. Determining 70% of the difference between program yields for 2002 crops and the farm's average yields for the 1998 - 2001 and adding the 70% difference to program yields, or

Option 2. Using 93.5 percent of 1998 - 2001 average yields.

An example for updating the counter-cyclical payment yield for corn:

Assume that the following represents actual corn farm yields during 1998 - 2001:

<u>Crop Year</u>	<u>Yield</u>	<u>Program Yield</u>
1998	136	100
1999	130	100
2000	119	100
2001	159	100
4-Year Avg.	136.0	100

Option 1. 70% Difference = (136.0 - 100) x 0.7 = 36.0 x .7 = 25.2 bushels
Program Yield plus 70% difference = 25.2 + 100 = 125.2 bushels

Option 2. 93.5% of actual yields = 0.935 x 136.0 = 127.2 bushels

This serves to illustrate that Option 2 results in the highest yield. The counter-cyclical payment yield does not have to be updated. More than likely, it will benefit producers who take the time to do so! There are no “rules of thumb” that guarantees which option is best.

Counter-cyclical payments are based on the payment rate, the payment acres, and the payment yield. Determining payment acres and payment yields have been discussed to this point. We will now cover the payment rate.

Payments will be made when the “effective price” is less than the target price. Target prices are shown in Table 1. The **effective price** is equal to the sum of

- the higher of the national average farm price for the marketing year, or
- the national loan rate for the commodity;
- and the direct payment rate for the commodity.

For example, to find the effective price for corn, we assume:

National average farm price	\$2.00
National loan rate	1.98
Direct payment rate	0.28

The effective price for corn is equal to \$2.28 per bushel (\$2.00 + 0.28). We subtract this amount from the target price (i.e., \$2.60) to determine the counter-cyclical payment rate. In this example, the payment rate is \$0.32 per bushel (\$2.60 - 2.28). If the national average price was \$1.96 per bushel, the payment rate would be \$0.34 per bushel (\$2.60 - (1.98 + 0.28)). Hopefully you see why!

To finish the counter-cyclical payment example for corn, we review previous example results:

Payment Acres 85% of Program Acres	490.4
Payment Yield 93.5 % of Actual Payment Rate	127.2
Market Price influences	0.32
Counter-cyclical payment for corn	\$19,961
(Per acre basis)	(\$40.70)

Observation: This seems larger than Market Loss Assistance payment levels found in recent history. However, a national “short crop” phenomenon lowers the payment level to zero when average prices exceed the target price minus the direct payment. Counter-cyclical payments are not directly influenced by a producer’s own production. They are directly influenced by the average national marketing year

price. This creates an interesting marketing dilemma.

Other Notes of Interest

- Since PFC payments for fiscal year 2002 were made prior to enactment of the 2002 Farm Bill, 2002 payments will be adjusted after new contracts are signed.
- No changes on commodity loans except on loan rates. (See Table 1 & 2)
- Loan Deficiency Payments are continued with minor modifications. For 2002 through 2007, LDPs will continue to be determined on the date of the request for an LDP. If beneficial interest is lost prior to the date of the request, no LDP will be forthcoming.
- The 3-entity rule is maintained. (For individuals involved in three (3) separate farming operations.)
- Authority for use of commodity certificates is retained.
- Participants must continue to maintain conservation plans including compliance with conservation and wetland provisions to receive payments.
- Crop insurance will continue with federal subsidies as before.
- Family Farmer Bankruptcy Protection provisions are extended to December 31, 2002.

Following in Table 2 are the local county loan rates for selected crops and selected counties in western Kentucky:

Table 2 - Loan Rates for Selected Kentucky Counties

County	Corn	Wheat	Soybeans	Barley	Oats	Grain Sorghum
Allen	2.09	2.48	5.21	1.67	1.20	2.09
Barren	2.03	2.54	5.21	1.67	1.20	2.03
Butler	2.05	2.57	5.21	1.67	1.20	2.05
Caldwell	2.06	2.64	5.21	1.67	1.20	2.06
Christian	2.09	2.55	5.21	1.67	1.20	2.09
Crittendon	2.10	2.70	5.21	1.67	1.20	2.10
Livingston	2.12	2.73	5.26	1.67	1.20	2.12
Logan	2.10	2.55	5.21	1.67	1.20	2.10
Lyon	2.09	2.63	5.21	1.67	1.20	2.09
Metcalfe	2.09	2.47	5.16	1.67	1.20	2.09
Monroe	2.09	2.47	5.16	1.67	1.20	2.09
Muhlenberg	2.11	2.57	5.21	1.67	1.20	2.11
Simpson	2.11	2.57	5.21	1.67	1.20	2.11
Todd	2.10	2.54	5.21	1.67	1.20	2.10

Another difference from the 1996 Farm Bill is the timing of payments. Generally, the payments from the 2002 farm bill are going to come later in the year, some as much as 12 months later than producers have been used to. The direct payment will only have a 50% advance where we could get all of the AMTA payment in advance. The counter cyclical payment will be made in three different installments. Table 3 shows a schedule of when to expect various payments.

The other aspect of the new schedule of payments is that some of these payments overlap crop years and you could be getting different types of payments for different crop years at the same time. It will be very important to study and file the paperwork that comes with each payment. If the past is indicative of the new program, the paperwork provided gives a very detailed explanation of what payment you have received if you take the time to study it. For those operators with multiple farm

Table 3 - Schedule of Payments

Month - Year	Wheat Barley Oats	Corn Sorghum Soybeans
Spring 2002	2002 AMTA Advance	2002 AMTA Advance
Fall 2002	2002 Final Direct Payment 2002 1st Advance Counter Cyclical	2002 Final Direct Payment 2002 1st Advance Counter Cyclical
Dec 2002	2003 Advance Direct Payment	2003 Advance Direct Payment
Feb 2003	2002 2nd Advance Counter Cyclical	2002 2nd Advance Counter Cyclical
Jul 2003	2002 Final Counter Cyclical	
Oct 2003	2003 Final Direct Payment 2003 1st Advance Counter Cyclical	2002 Final Counter Cyclical 2003 Final Direct Payment 2003 1st Advance Counter Cyclical
Feb 2004	2003 2nd Advance Counter Cyclical	2003 2nd Advance Counter Cyclical
July 2004	2003 Final Counter Cyclical	
Oct 2004		2003 Final Counter Cyclical

numbers, I know the volume of paper will seem immense. Table 4 presents a worksheet that you may choose to use to keep track of the payments that you have received for each farm number. Suggested entries in each square would be the date received and the dollars received.

Table 4 - Worksheet of Payments Received						
Farm #	Farm Name	Direct Adv	Direct Final	1st Adv CC	2nd Adv CC	Final CC
1	Smith					
2	Jones					
3	Home					
4	Dad					