



Producer Decisions Under the 2014 Farm Bill: Base Reallocation Decisions

FIRM Team Fact Sheet 14-06

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The Agricultural Act of 2014 (the “2014 Farm Bill”) contains several provisions that are important for landowners and tenants. In particular, the 2014 Farm Bill requires decisions on three issues that owners and tenants will need to address in the next few months. First, owners will be permitted to update the program yields on their farms. Second, owners will be permitted to reallocate the base acres on their farms. Finally, landowners and/or tenants will be required to elect either the new Agricultural Risk Coverage (ARC) or Price Loss Coverage (PLC) programs for each covered crop on their farms. This Fact Sheet provides information on the program base reallocation decisions facing owners. Additional Fact Sheets will address the yield update and ARC versus PLC decisions.

Base Acres: Their Use in USDA Commodity Programs

Commodity programs are administered by the Farm Service Agency of the U.S. Department of Agriculture (FSA). Under the FSA system, each farm eligible for program benefits is assigned a “farm number” for purposes of distributing program benefits. The base acreage on each FSA farm is “the farm’s crop-specific acreage eligible to enroll in commodity programs” (Young, et. al.) and is used to calculate a farm’s program payments.

As planted acreage has changed over time, a difference can exist between a farm’s base acreage and its actual planted acreage to each crop. As a result, Congress included in the 2014 Farm Bill an opportunity for owners to reallocate a farm’s base acreage to better reflect today’s acreage plantings.

General Rules for Base Reallocation Decisions

Each owner and operator received a letter and report that included the farm’s covered commodity base acres and counter-cyclical (CC) yield, as of September 30, 2013, along with the planted and considered planted acres on the farm as reported to FSA for all covered commodities in the years 2008 through 2012 (covered commodities in Michigan would be corn, soybeans, wheat, oats and barley). Owners should review the crop base acres for the covered commodities listed on the report and determine whether the planted acreage for the 2009 to 2012 years would support a reallocation of the farm’s existing base acres for the covered commodity on the farm. If the owner also decides to update the program yield(s) on the farm, then the farm’s updated yield(s) would be applicable to the reallocated base acres of covered commodity crops.

The rules for base reallocation decisions will be:

1. Owners are allowed to make a 1-time decision to reallocate base acres on farms using the Planted and Considered Planted (P&CP) acres during the 2009 to 2012 period.
2. The owner of the farm must make the decision to reallocate base acres during the period from September 29, 2014 to February 27, 2015.
3. If the owner chooses not to reallocate base acres on the farm or does not make the necessary reallocation before the base reallocation period ends, then the farm's 2013 base acres for each covered commodity will be carried forward as the farm's base acres for the 2014 to 2018 crop years.
4. Owners may exercise either of the following options:
 - a. Retain all of a farm's base acres, as of September 30, 2013, for each covered commodity, or,
 - b. Reallocate the base acres of covered commodities on a farm, based on the 4-year average P&CP acres in the 2009 through 2012 crop years. The reallocation is permitted among base acres of covered commodities on the farm.
5. Total base acres on the farm cannot increase above the total base acres in effect on September 30, 2013.
6. Farms with zero bases will not have bases calculated or reallocated.
7. Partial retention of bases or partial reallocation of bases is not permissible.
8. Base acres may be reallocated regardless of the election of the Price Loss Coverage (PLC), Agriculture Risk Coverage-County Coverage (ARC-CO), or Agriculture Risk Coverage-Individual Coverage (ARC-IC) program. Base reallocation decisions must be made on a farm before the farm's ARC/PLC program election can be made.
9. Some owners have granted power of attorney to their tenant(s) for purposes of enrolling in FSA commodity programs. The form FSA-211, "Power of Attorney" may be used to complete the base reallocation decision on behalf of an owner. The form FSA-211 must be marked "All Current and Future Programs" and "All Actions" to be used to make the base reallocation decision.

Sample Calculations of a Base Reallocation

An example of the base reallocation rules can be seen in the following case. Assume that Jones had base acres on the farm of 100 corn base acres, 50 soybean base acres, and 50 wheat base acres on September 30, 2013 (a total of 200 base acres). Jones' P&CP acres for the 2009 to 2012 crop years were:

| | <u>Corn</u> | <u>Soybeans</u> | <u>Wheat</u> |
|-----------------------------------|-------------|-----------------|--------------|
| 2009 | 100 | 100 | 0 |
| 2010 | 0 | 200 | 0 |
| 2011 | 200 | 0 | 0 |
| 2012 | 100 | 100 | 0 |
| <u>2009-2012 P&CP Average</u> | <u>100</u> | <u>100</u> | <u>0</u> |
| Reallocation Percentage | 50% | 50% | 0% |
| Reallocated Base Acres | 100 | 100 | 0 |

Applying the rules to Jones' base reallocation decision, Jones' base reallocation options are either of the following:

1. Retain 100 base acres of corn, 50 base acres of soybeans and 50 base acres of wheat, or
2. Reallocate base acres to 100 base acres of corn and 100 base acres of soybeans.

The sum of the reallocated base acres must equal 200 base acres (the total base acres on September 30, 2013 in this example).

Conclusions: Some Final Considerations on the Base Reallocation Decision

Some additional factors should be considered when examining the base reallocation decisions:

1. All owners should consider exercising this opportunity to reallocate base acres. First, the decision to reallocate base acres could affect the program benefits available to the farm for life of the 2014 Farm Bill (the 2014 to 2018 crop years). Second, because Congress rarely provides opportunities to reallocate base acres, failure to exercise this opportunity in 2014 could affect a farm's program benefits for several years after 2018 if Congress does not provide another opportunity in the near future.
2. As a general rule, the greater the difference a farm's 2013 base acres and the farm's P&CP acreage in recent years, the greater will be the advantage of reallocating base acres.
3. Cooperation and sharing of information between landowners and tenants in making base reallocation decisions is likely to result in the best financial benefit for the farm.

References and Other Sources of Information on the Base Reallocation Decisions

For other sources of information on the 2014 Farm Bill's base reallocation decisions, go to:

1. U.S. Department of Agriculture, Farm Service Agency, *Agricultural Act of 2014 (2014 Farm Bill), Title I Information About the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) Programs*. Notice ARCPLC-4, May 23, 2014. Available at: https://www.fsa.usda.gov/Internet/FSA_Notice/arcplc_4.pdf
2. U.S. Department of Agriculture, Farm Service Agency, *Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) Base Reallocation Provisions*. Notice ARCPLC-7, August 3-, 2014. Available at: http://www.fsa.usda.gov/Internet/FSA_Notice/arcplc_7.pdf
3. U.S. Department of Agriculture, Farm Service Agency, *Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) Base Acre Reallocation and Yield Update Provisions*. Notice ARCPLC-12, September 26, 2014. Available at: http://www.fsa.usda.gov/Internet/FSA_Notice/arcplc12.pdf
4. Young, Edwin C. David W. Skully, Paul C. Westcott, and Linwood Hoffman. *Economic Analysis of Base Acre and Payment Yield Designations Under the 2002 U.S. Farm Act*. Economic Research Report No. (ERR-12) 46 pp, September 2005.

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