

## 2013 Farm Bill Proposals: Title I. Shallow Revenue Loss Provisions—Payment Calculations



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### HOUSE PROPOSAL

The Federal Agriculture Reform and Risk Management (FARRM) Act of 2012 (H.R. 6083) passed the House Committee on Agriculture on July 12, 2012 (Vote: 35-11). Title I includes the Price Loss Coverage (PLC) and Revenue Loss Coverage (RLC) programs. These programs replace the Direct Payment, Counter-cyclical Payment and Average Crop Revenue Election Programs of the 2008 farm bill. For all program crops except cotton, producers in 2013 can make a one-time irrevocable decision between PLC and RLC, on a crop-by-crop and farm-by-farm basis. The producer can also participate in the Supplemental Coverage Option (SCO) only if PLC option is selected. The decision on which program to choose depends heavily upon individual farm yields vs. county yields and crop insurance coverage level.

#### PRICE LOSS COVERAGE (PLC) PROGRAM

- PLC is similar in structure to the Counter-Cyclical Payment (CCP) program of the 2002 and 2008 Farm Bills, with the major difference that payment is calculated on planted acres rather than program base acres.
- A payment is received if the EFFECTIVE PRICE is lower than the REFERENCE PRICE (\$14/cwt. for rice).
- The EFFECTIVE PRICE is the higher of the NATIONAL LOAN RATE (\$6.50/cwt. for rice) and the 5-MONTH AVERAGE MID-SEASON PRICE (August-December for rice).
- The PAYMENT RATE is the difference between the REFERENCE PRICE and the EFFECTIVE PRICE.
- The PAYMENT YIELD is established under the CCP 2008 farm bill provision. A farmer can update the PAYMENT YIELD for a crop to 90% of the five year (2008-2012) planted acres average excluding years in which the planted acreage was zero. For any of the five years 2008-2012, a plug of 75% of the average county yield can replace the yield on the farm if it is lower than this value.
- The PAYMENT ACRES are equal to 85% of the total planted acres and 30% of prevented planted acres. (85% factor total farm PAYMENT ACRES cannot exceed cap equal to total farm BASE ACRES including cotton BASE ACRES).
- The PAYMENT AMOUNT is the product of the PAYMENT RATE, the PAYMENT YIELD, and the PAYMENT ACRES.
- Payment limit of \$125,000/person and adjusted gross income (AGI) limit of \$950,000.

#### REVENUE LOSS COVERAGE (RLC) PROGRAM

- RLC is similar in structure to the Senate proposed ARC county level coverage program.
- Payment is received if the ACTUAL COUNTY REVENUE is lower than the COUNTY REVENUE LOSS COVERAGE TRIGGER.
- The ACTUAL COUNTY REVENUE is equal to the product of the ACTUAL COUNTY YIELD and the higher of the MID-SEASON PRICE and the NATIONAL AVERAGE LOAN RATE.
- The COUNTY REVENUE LOSS COVERAGE TRIGGER is equal to 85% of the BENCHMARK COUNTY REVENUE.
- The BENCHMARK COUNTY REVENUE is equal to the product of the 5-year Olympic average of the AVERAGE HISTORICAL COUNTY YIELDS and the 5-year Olympic average of the NATIONAL MARKETING YEAR AVERAGE PRICE, where:
  - The NATIONAL MARKETING YEAR AVERAGE PRICE for any of the 5 years cannot be lower than the REFERENCE PRICE.
  - The AVERAGE HISTORICAL COUNTY YIELD for any of the 5 years cannot be lower than 70% of the TRANSITIONAL YIELD.

- The PAYMENT RATE is the lower of:
  - The difference between the COUNTY REVENUE LOSS COVERAGE TRIGGER and the ACTUAL COUNTY REVENUE, and
  - 10% of the BENCHMARK COUNTY REVENUE.
- The PAYMENT ACRES are determined as under the PLC program.
- The PAYMENT AMOUNT is equal to the product of the PAYMENT RATE and the PAYMENT ACRES.
- The Payment and AGI limits are the same as under the PLC program.

### **SENATE PROPOSAL**

The Agriculture Reform, Food, and Jobs Act of 2012 (S. 3240) passed the United States (U.S.) Senate on June 21, 2012 (Vote: 64-35). Title I includes the Agriculture Risk Coverage (ARC) program, which replaces the Direct Payment, Counter-cyclical and Average Crop Revenue Election (ACRE) programs of the 2008 Farm Bill. ARC is available for producers of crops such as rice, corn, wheat, and soybeans (cotton is ineligible).

#### **AGRICULTURE RISK COVERAGE (ARC) PROGRAM**

- In 2013, farmers make a one-time irrevocable decision to receive an individual or a county coverage.
- Payment is received if the ACTUAL CROP REVENUE is less than the AGRICULTURE RISK COVERAGE GUARANTEE.
- The AGRICULTURE RISK COVERAGE GUARANTEE is 89 percent of the BENCHMARK REVENUE.
- The ACTUAL CROP REVENUE is equal to the product of:
  - (A)(i) in the case of individual coverage, the ACTUAL AVERAGE INDIVIDUAL YIELD; or (ii) in the case of county coverage, the ACTUAL AVERAGE YIELD FOR THE COUNTY; and
  - (B) The higher of: (i) the MIDSEASON PRICE; or (ii) if applicable, the NATIONAL MARKETING ASSISTANCE LOAN RATE.
- The BENCHMARK REVENUE is the product of:
  - (I) (aa) in the case of individual coverage, the Olympic AVERAGE INDIVIDUAL YIELD, for the most recent 5 crop years; or (bb) in the case of county coverage, the Olympic AVERAGE COUNTY YIELD for the most recent 5 crop years and
  - (II) The Olympic AVERAGE NATIONAL MARKETING YEAR AVERAGE PRICE for the most recent 5 crop years.
    - Includes a MINIMUM PRICE BENCHMARK for long and medium-grain rice of \$13.00/cwt. for any of these five years (as well as \$530/ton for peanuts)
    - Under an individual coverage, the AVERAGE INDIVIDUAL YIELD for any of the 5 most recent years (starting in 2013) cannot be lower than 70% of the TRANSITIONAL YIELD.
- Separate ACTUAL CROP REVENUE and AGRICULTURE RISK COVERAGE GUARANTEE for irrigated and non-irrigated covered commodities are calculated in the program.
- The PAYMENT RATE is equal to the lesser of:
  - (A) the amount that (i) the AGRICULTURE RISK COVERAGE GUARANTEE for the covered commodity; exceeds (ii) the ACTUAL CROP REVENUE for the crop year of the covered commodity; or
  - (B) 10 percent of the BENCHMARK REVENUE for the crop year of the covered commodity.
- The PAYMENT AMOUNT is the product of:
  - (A) The PAYMENT RATE; and
  - (B)(i) In the case of individual coverage the sum of: (I) 65 percent of the planted eligible acres of the covered commodity; and (II) 45 percent of the prevented planted acres;
  - or (ii) In the case of county coverage: (I) 80 percent of the planted eligible acres of the covered commodity; and (II) 45 percent of prevented planted acres.
- Payment limit of \$50,000/person and adjusted gross income (AGI) limit of \$750,000.