

Making the Base Acre Reallocation Decision

By: Chris Bruynis, Assistant Professor and Extension Educator

Questions have been asked if there is any way to determine which base acres are the most valuable under the 2014 Farm Bill. Historically direct payments were greatest for corn, followed by wheat, and then soybeans. But with direct payments eliminated with the current farm bill, farmers are looking for guidance in making the decision between retaining their existing base acres or reallocating them to reflect the 2009-2012 actual planting acres. This article will attempt to provide some guidance based on potential Agriculture Risk Coverage – County (ARC-CO) and Price Loss Coverage (PLC) payments. The Agricultural Risk Coverage – Individual will not be discussed, but maximum program payments would be similar to the ARC-CO since it follows the same 10% revenue cap rules.

Understanding how revenue guarantees and payments are calculated under each program is critical in understanding potential payments. Under ARC-CO each county has a unique revenue guarantee based on the five year county Olympic yield and the five year Olympic market year average price. This article will discuss 2014 estimated revenue guarantee since it will change each year based on the Olympic average. Four counties will be highlighted to illustrate the differences between county ARC-CO guarantee 10% revenue caps which would be the maximum received by producers under that program.

County	10% Limit Max Corn ARC-CO	10% Limit Max Beans ARC-CO	10% Limit Max Wheat ARC-CO
Adams	\$65	\$45	\$25
Ross	\$74	\$51	\$36
Marion	\$78	\$51	\$34
Putnam	\$73	\$49	\$34
Max ARC-CO payment = (((5 yr Olympic county yield x 5 yr Olympic MYA price) x 85%) x 10%)			

In examining the maximum payment for these crops under the ARC-CO program, in all four counties the results are the same. Corn has the largest potential payment (\$65 – \$78), followed by soybeans (\$45 – \$51), and then wheat (\$25 – \$36). This same result is expected to be the same for all the counties in Ohio. Later in this article, the likelihood of reaching the maximum payments will be discussed.

PLC provides payments when the market year average price falls below the reference price on program base acres and program base yields. The reference prices are \$3.70 corn, \$8.40 soybeans, and \$5.50 wheat. The program payments continue until the prices fall to the National Loan rate for each commodity which are \$1.95 corn, \$5.00 soybeans, and \$2.94 wheat. In this article, a county average program base yield will be used. However, every farm in the county will have its own unique program base yield which will affect the potential program payments.

County	PLC Max Corn	PLC Max Soybeans	PLC Max Wheat
Adams	\$147	\$81	\$67
Ross	\$167	\$104	\$102
Marion	\$183	\$110	\$120
Putnam	\$198	\$113	\$131
Max PLC payment = (reference price – national loan rate) x program base yield			

Using maximum PLC payments to determine which program base acres might be the most valuable results in a similar outcome. Clearly corn is the most valuable program base acres to keep (\$147 – \$198). The order of soybeans and wheat is mixed depending on the county. In Adams and Ross County, soybeans (\$81 – \$104) could provide a larger maximum payment than wheat (\$67 – \$102) but in Marion and Putnam wheat is first (\$120 – \$131) followed by soybeans (\$110 – \$113). It is expected that corn may provide the largest maximum payment under PLC on all farms. However, the decision between soybeans and wheat will depend upon the program base yields on that farm.

The maximum payment by program only addresses part of the answer in terms of which program base acres are the most valuable to retain. The likelihood of receiving a payment is dependent on the market year average prices for each commodity. In the charts below the December 10, 2014 projected market year average prices from USDA's World Agricultural Supply and Demand Estimates of \$3.50 corn, \$10.00 soybeans, and \$6.00 wheat will be used. For argument purposes, the potential 2014 program payments will be forecasted at current prices as well as 10%, 25% and 50% price reductions. This is not looking at future year's potential payments, only 2014, since the ARC-CO payment guarantee will change in future years.

		MYA Estimate Dec 10, 2014		10% MYA Reduction		25% MYA Reduction		50% MYA Reduction	
	Crop	ARC- CO	PLC	ARC- CO	PLC	ARC- CO	PLC	ARC- CO	PLC
Adams	Corn	\$65	\$17	\$65	\$46	\$65	\$90	\$65	\$147
	Soybeans	\$2	\$0	\$41	\$0	\$45	\$21	\$45	\$81
	Wheat	\$0	\$0	\$0	\$3	\$25	\$26	\$25	\$66
Total Potential Payment		\$67	\$17	\$106	\$49	\$135	\$137	\$135	\$294
Ross	Corn	\$74	\$19	\$74	\$52	\$74	\$102	\$74	\$167
	Soybeans	\$20	\$0	\$51	\$0	\$51	\$28	\$51	\$104
	Wheat	\$0	\$0	\$12	\$4	\$36	\$40	\$36	\$100
Total Potential Payment		\$94	\$19	\$137	\$56	\$161	\$170	\$161	\$371
Marion	Corn	\$78	\$21	\$78	\$58	\$78	\$112	\$78	\$183
	Soybeans	\$7	\$0	\$50	\$0	\$51	\$29	\$51	\$110
	Wheat	\$0	\$0	\$8	\$5	\$34	\$47	\$34	\$117
Total Potential Payment		\$85	\$21	\$136	\$63	\$163	\$188	\$163	\$410
Putnam	Corn	\$73	\$23	\$73	\$62	\$73	\$121	\$73	\$198
	Soybeans	\$11	\$0	\$49	\$0	\$49	\$30	\$49	\$113
	Wheat	\$0	\$0	\$7	\$5	\$34	\$51	\$34	\$128
Total Potential Payment		\$84	\$23	\$129	\$67	\$156	\$202	\$156	\$439

Examining the chart above, corn makes the largest payment under all four price scenarios. Under the ARC-CO election soybeans are projected to make larger payments than wheat in all four counties selected. However, under the PLC election wheat performs better than soybeans under 25% to 50% price reductions. Yet an ARC-CO soybean election is still better than a PLC wheat election until very low prices. Depending on how bullish or bearish a producer is on future prices, it could make sense to accept a reallocation that reduces program wheat acres in favor of program soybean acres. Also knowing what program election one is planning to make becomes an important piece in making the ARC-CO/PLC election. This is why knowing your program election and price forecasts are important in determining your base reallocation decision.

Additionally, this chart provides some suggestion as to which program choice might be best depending on price assumptions. Remember, this only looks at one year of a five year farm program and does not provide all the information to make an informed decision. This is simply information that, when combined with other information, can help direct an informed decision.