

2015

Base acreage reallocation decisions

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Base acreage reallocation decisions

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The USDA Farm Service Agency (FSA) will be mailing letters to farmland owners and operators mid-summer. These letters will designate by FSA farm number the 2013 base acreage, the planted acres for commodity crops during each year from 2009-12 and the Counter-Cyclical (CC) Yield associated with the yields on that farm from a previous period of time.

The first option will be a one-time opportunity for the landowner to reallocate base acres, but not increase base acres on a farm by doing one of the following:

- Retain the farm's 2013 base acres through 2018, or
- Reallocate base acres on a farm, not to exceed the total base acres in effect as of Sept. 30, 2013. The election to reallocate bases will use the same acreage of each covered commodity in proportion to the four-year average of planted acres to the covered commodity, during the 2009-12 crop years.

This would exclude any year when no commodity crop acreage was planted. Yields in any of the 2008-12 years that are less than 75 percent of the county average can substitute that yield in the calculation.

ARC or PLC election and enrollment

Sometime next fall or winter, farmland owners or their operators can then elect by FSA farm number between a revenue program that covers price and yield losses – Agricultural Risk Coverage (ARC) and a price-only program known as Price Loss Coverage (PLC).

If ARC is elected, they will have to choose between a county ARC (ARC-CO) on a commodity-

continued on page 2

Handbook updates

For those of you subscribing to the handbook, the following new updates are included.

Season Average Price Calculator – A2-15 (1 page)

Historic Hog and Lamb Prices – B2-10 (4 pages)

Historic Cattle Prices – B2-12 (6 pages)

Improving Your Farm Lease Contract – C2-01 (10 pages)

Crop-Share Leasing Provisions – C2-30 (1 page)

Please add these files to your handbook and remove the out-of-date material. *continued on page 6*

The choice to retain or reallocate base acres is an “all or nothing” proposition. Partial retention of bases or partial reallocation of bases on a farm is not possible.

In addition, landowners can also choose to update the program payment yields for each covered commodity crop on a farm based on 90 percent of the farm's 2008-'12 average yield per planted acre.

Inside . . .

Research Briefs from the ISU Department of Economics.....Page 2
 Dealing with Flooding - 2014
Page 6

Base acreage reallocation decisions, continued from page 1

by-commodity basis or choose an individual farm ARC (ARC-IC) that combines all the program commodities on the farm together.

Payments for the county ARC are issued when the actual county crop revenue of a covered commodity is less than ARC-CO benchmark revenue. Payments are not dependent on the planting of a covered commodity crop or planting of the applicable base acre crop on the farm. If a payment is made, it is based on 85 percent of the base acres of the covered commodity times the difference between ARC-CO guarantee and actual county crop revenue for the covered commodity. Payments may not exceed 10 percent of the ARC-CO benchmark county revenue.

Potential ARC-CO payments occur when actual county yield times the national marketing year cash price for a commodity is below the ARC revenue guarantee for that crop year. The ARC-IC potential payments depend on whole farm revenue, since program commodities are combined. The program covers losses on 85 percent of the base acres for the ARC-CO, but only 65 percent of base acres for ARC-IC.

PLC is a target-price program that makes payments when national average cash crop prices drop below a "reference price" set in the farm bill. The reference prices are: \$3.70 per bushel for corn, \$8.40 per bushel for soybeans and \$5.50 per bushel for wheat. Beginning in 2015, PLC enrollment also allows the purchase of SCO insurance to reduce the traditional crop insurance deductible levels. Only farmers enrolled in the PLC program may buy SCO insurance and county yields are used.

The farmland owner or their operator have to make a one-time, irrevocable election to enroll a farm in ARC or PLC for the life of the five-year farm bill. If no decision is made, that farm is automatically enrolled in PLC beginning in 2015.

Payment triggers for both the ARC and PLC programs are based on marketing year average cash prices. Thus, any payments for revenue or price losses won't be made until the year following a loss when these prices are known. The party at risk on the farm – the operator on a cash rent farm – must still enroll annually the farm in the ARC or PLC program as designated by the election. That enrollment is not expected until early 2015 for the 2014 crop year.

More information available

It is still unclear when local county FSA offices will be actually processing forms that allow base acreage reallocation and yield updates, which won't happen until after the FSA regulation is published.

Also, it is uncertain whether FSA will honor existing power of attorney forms that were signed and put in place after the 2008 farm program was enacted.

The FSA Notices ARCPLC-4 and ARCPLC-5 provide a further explanation of this process, including screenshots of the online base acreage reallocation calculator, www.fsa.usda.gov/Internet/FSA_Notice/arcplc_4.pdf and www.fsa.usda.gov/Internet/FSA_Notice/arcplc_5.pdf.

Research Briefs from the ISU Department of Economics

Alumni Update 2014 now available

The spring 2014 Alumni Update, an annual publication of the Department of Economics at ISU, is now available both online and in hard copy. It features news and information about alumni, faculty, graduate and undergraduate students, and staff of the department.

A downloadable PDF is available at: www2.econ.iastate.edu/newsletter/spring-2014/newsletter.pdf.

Additional hardcopies are available upon request by emailing ksenty@iastate.edu.

Department welcomes Assistant Professor Plastina

The Department of Economics wishes to welcome new faculty member, Assistant Professor Alejandro Plastina.



Plastina was previously a senior economist at the International Cotton Advisory Committee (ICAC) in Washington, DC, specializing on market outlook, price analysis, labeling, and sustainability metrics. His areas of academic focus include industrial organization, production

Research Briefs from the ISU Department of Economics, continued from page 2

economics, and econometrics. His publications cover a wide range of topics, including country of origin labeling, biotechnology adoption, healthcare reforms, returns to public investments in agricultural R&D, pass-through of prices, the socio-economic impacts of market disintermediation, and the potential effects of eliminating subsidies in the world cotton sector. Plastina received both a PhD in agricultural economics and an MS in statistics from the University of Nebraska-Lincoln; and both an MA in health economics (ABD) and a BS in economics from the University of La Plata (Argentina).

Contact Plastina at: 478E Heady Hall, 515-294-6160, plastina@iastate.edu.

Roy finds evidence of growing polarization in U.S.

To better understand the growing political divide in America, Sunanda Roy, Department of Economics lecturer, and other Iowa State researchers, developed a technique to determine if election results truly represent the “will of the people.” Their study of ballot data from the Cambridge, Massachusetts City Council elections provides new evidence of the growing polarization of U.S. voters. Read the full story by Angie Hunt, ISU News Service, at: www.news.iastate.edu/news/2014/06/24/voterpolarization.

Deiter discusses student athlete unionization in Daily article

Professor Ron Deiter teaches a class in the economics of sports. In a June 11 article for the Iowa State Daily, he said that because of the complicated and legal nature of the issue, he does not see mass student-athlete unionization throughout the nation on the horizon, and that includes Iowa State. Read the full article by Max Dible at: www.iowastatedaily.com/sports/article_07b0d680-d077-11e3-af83-001a4bc-f887a.html.

Census data analysis by Eathington shows majority of Iowa communities are shrinking

Jobs continue to be a driving factor of population growth and shifts in Iowa, which explains the ongoing decline in many small towns. An analysis of U.S. Census Bureau data found more than 60 percent of cities lost population since 2010. Liesl Eathington, an Department of Economics assistant scientist for the

Iowa Community Indicators Program, says this is a continuation of past trends. Read the full article by Angie Hunt, ISU Service, at: www.news.iastate.edu/news/2014/05/27/iowapopulation.

Singh and Weninger receive grant to improve Gulf fisheries management

Rajesh Singh and Quinn Weninger were awarded a \$205,100 grant from the Lenfest Oceans Program, a branch of the Pew Charitable Trust. They will combine ecological and economic models to learn how to better manage Gulf of Mexico commercial and recreational fisheries.

Department farewells

Around 200 individuals gathered at Heady Hall on Thursday, May 1, to wish Mike Duffy and Jim Kliebenstein well as they transition into their respective retirements. The department also hosted a farewell reception for Professor Joe Herriges on April 30.

Moschini and Lapan awarded NIFA grant

GianCarlo Moschini and Harvey Lapan were awarded a \$260,000 grant through the USDA National Institute of Food and Agriculture. One long-term goal of their study is to develop a framework to assess biofuel policy tools used by major economies (including the US, Brazil, and the EU) that explicitly accounts for their international ramifications.

Beghin receives grant to study free trade between US and EU

John Beghin was awarded a \$268,000 grant from the National Institute for Food and Agriculture to study the competitiveness and prosperity of a free trade agreement between the US and EU. Beghin's study will examine the potential impact of a US/EU free trade agreement on the bio-energy markets, bilateral global trade, and welfare of each region.

Hennessy and Feng awarded NIFA grant

David Hennessy and Hongli Feng were awarded a \$550,000 grant from the USDA's National Institute of Food and Agriculture (NIFA) to develop an integrated framework for understanding agro-ecosystem adaptation to climate change in a production system transition zone. They will join other researchers from the University of Wisconsin-Madison and the Universities of North and South Dakota in an interdisciplinary study.

Research Briefs from the ISU Department of Economics, continued from page 3

Luvaga and undergrad Premkumar honored with Cardinal Key Award

Ebby Luvaga, senior lecturer in the Department of Economics, and undergraduate economics major Deepak Premkumar were recently honored with Iowa State University's Cardinal Key Award.

The award was established in 1926 to honor outstanding leaders among students, faculty, and staff at the university. Awardees demonstrate exemplary leadership in university activities, a high level of scholarship, strength of character, and outstanding service to the university community. The Cardinal Key designation also serves to identify a unifying body of campus leaders who promote "cardinal virtues" within the university community.

Duffy and Edwards honored by the Iowa chapter of AFSMRA

William Edwards and Mike Duffy received the Distinguished Service Award to Iowa Agriculture given by the Iowa Chapter of the American Society of Farm Managers and Rural Appraisers on February 6, 2014, at the chapter's annual meeting in Ames. The award is given to individuals who have made outstanding contributions to Iowa agriculture over their professional careers.

Beghin honored for work in international agriculture

Professor John Beghin was recognized for Outstanding Achievement in International Service at the College of Agriculture and Life Sciences' spring 2014 awards program, held on March 12. The award recognizes Iowa State faculty who have promoted and integrated international perspectives in their research and teaching.

Beghin has provided important insights on international agricultural policy for a quarter century in the areas of international trade in agriculture, economic issues confronting developing countries, and an evaluation of European agriculture. His published

work has covered global agriculture with articles focused on Africa, Asia, Australia and Europe, as well as the Americas. Among Beghin's published work to date, he has sole or joint authorship on 55 journal articles, seven edited volumes and 25 book chapters on various aspects of international agricultural trade and policy. His research has garnered numerous awards from the USDA and academic societies, and has established him as one of the leading authorities on international agriculture worldwide.

Working papers

Intergenerational transfers and the fertility-income relationship

Cordoba, Juan Carlos; Ripoll, Marla
WP #14013, June 2014

Extensive evidence from cross-sectional data reveals a robust negative relationship between family income and fertility. This paper argues that constraints to intergenerational transfers are crucial for understanding this relationship. If parents could legally impose debt obligations on their children as a way to recover the costs incurred in raising them, then fertility would be independent of parental income. In this case, if the present value of a child's future income exceeds the cost of raising the child, as the evidence suggests is the case, parents would have incentives to raise as many children as possible in order to maximize rents. A relationship between fertility and income arises when parents are unable to leave debts behind either because of legal, enforcement, or moral constraints. We also derive the conditions under which the fertility-income relationship is negative. Notably, an intergenerational elasticity of substitution larger than one is required. In this case, parental consumption is a good substitute for children's consumption making it optimal for income-rich parents to have fewer children.

Full text: www.econ.iastate.edu/sites/default/files/publications/papers/p17662-2014-06-05.pdf.

Research Briefs from the ISU Department of Economics, continued from page 4

Optimal insurance for small stakeholders

Frankel, David M.

WP #14012, April 2014

We study optimal insurance for consumers who must decide whether or not to buy from a unionized firm that produces a good that is subject to network externalities. The union first announces a wage schedule. The firm then sees a precise public signal of a random economic state and chooses a price. The consumers then see even more precise signals of the state and decide whether or not to buy. The network externality and the union pricing distortion lead them to buy too infrequently. We show that the first best alternative can be costlessly attained by providing countercyclical purchase insurance.

Full text: www.econ.iastate.edu/sites/default/files/publications/papers/p17551-2014-04-26.pdf.

Altruism, fertility and risk

Cordoba, Juan Carlos; Liu, Xiyang

WP #14010, April 2014

This paper studies fertility choices and fertility policies when children's earning abilities are random and parents are altruistic. We characterize equilibrium allocations arising in endowment economies with either complete or incomplete markets. Both models can replicate a number of empirical regularities, such as inequality, social mobility and fertility decreasing with ability, but the incomplete markets model provides a number of more plausible predictions. We find that fertility policies are generally welfare detrimental in our models even when fertility is inefficiently high.

Full text: www.econ.iastate.edu/sites/default/files/publications/papers/p17481-2014-04-05.pdf.

The relative capital structure of agricultural grain and supply cooperatives and investor owned firms

Li, Ziran; Jacobs, Keri; Artz, Georgeanne M.

WP #14007, March 2014

This paper seeks to examine the issue of capital constraints on U.S. agricultural supply and grain cooperatives and investor-owned firms (IOFs). A variant of the DuPont model – a technique that breaks down a firm's rate of return to equity into measures that relate to profitability, efficiency in asset use, and leverage – permits an empirical comparison between IOFs and cooperatives on their activities, debt structure, equity, and liquidity factors. Using firm-level panel data of financial information for cooperative and IOF agricultural grain and supply firms in Iowa, the two ownership types are compared to identify whether significant differences exist in their investment activities and financial efficiency. Whether capital structure is impacted by firm type and the financial determinants which may contribute to such differences is highlighted.

Full text: www.econ.iastate.edu/sites/default/files/publications/papers/p17451-2014-03-28.pdf.

Dealing with Flooding – 2014

Iowa State University Extension and Outreach has resources Iowans can use to plan before a flood situation, recover and clean up from flood water damage, and conserve water. Find the website for Dealing with Flooding - 2014 at: www.extension.iastate.edu/content/dealing-flooding-2014.

Extension and Outreach also operates the Iowa Concern Hotline that offers 24-hour confidential assistance related to stress, legal questions and financial concerns. To reach a stress counselor call or 800-447-1985, or visit the website at www.extension.iastate.edu/iowaconcern/ to “live chat” with counselors. All Iowa Concern services are available 24 hours a day 7 days per week at no charge.

To find current conditions in Iowa, visit the DNR Current Disasters in Iowa website, www.iowadnr.gov/InsideDNR/SocialMediaPressRoom/DisasterAssistance.aspx, follow flood and drought conditions in the state, and find resources and assistance information. The national Extension Disaster Education Network (EDEN), eden.lsu.edu/Pages/default.aspx, provides additional resources for county extension offices on the Floods and Flooding webpage, eden.lsu.edu/Topics/Hazards/Floods/Pages/default.aspx.

Updates, continued from page 1

Internet Updates

The following Information Files and Decision Tools have been updated on www.extension.iastate.edu/agdm.

Farm Employee Management: Getting the New Employee Off to a Good Start on Day One – C1-76 (2 pages)

Farm Employee Management: Employment Eligibility Verification – The Basics of Form I-9 Compliance – C1-77 (2 pages)

Current Profitability

The following tools have been updated on www.extension.iastate.edu/agdm/info/outlook.html.

Corn Profitability – A1-85

Soybean Profitability – A1-86

Iowa Cash Corn and Soybean Prices – A2-11

Season Average Price Calculator – A2-15

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15

... and justice for all

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and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964.

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