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Agricultural Business Management

AGRICULTURAL ACT OF 2014

Landlords and the 2014 Farm Bill

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Landowners should be involved in 2014 Farm Bill decisions for their farm. In fact, two of the three farm bill decisions that need to be made must be made by the landowner rather than the tenant.

DECISION	MADE BY	DEADLINE
UPDATE PAYMENT	LANDOWNER	FEB. 27, 2015
REALLLOCATE BASE ACRES	LANDOWNER	FEB. 27, 2015
PLC/ARC ELECTION	CURRENT PRODUCER	MARCH 31, 2015

Landowners should be involved in all three of these decisions, all of them have some potential to affect land values and rental rates in the future.

YIELD UPDATE

Landowners have two choices:

1. Update your payment yields to 90% of average yields from 2008 to 2012
2. Keep your current payment yields

Yields can be updated on a crop by crop basis. Landowners should always select the highest yield for each program crop. For most farms updating the payment yield will be the best choice. Current payment yields either reflect average yields from 1998-2001 or from 1981-1985. Yields have increased significantly since either of those time periods. If the landowner does nothing, payment yields will not be updated.

The biggest challenge for landowners will be getting written evidence that documents the yields for 2008 to 2012. Landowners will self-certify to the Farm Service Agency (FSA) the yield history for 2008 to 2012. They will not have to provide any documentation at the time of sign-up. However, FSA can conduct audits, or spot checks, at any time from 2015 through 2018, to verify the yields submitted.

If the tenant changed during the 2008 to 2012 time period, getting yield evidence for those years may be challenging. But even if the tenant did not change, there is a chance tenants could change before 2018, so getting written yield history and keeping it on file will be important. Four kinds of yield evidence will be accepted by FSA if they conduct an audit.

- Crop Insurance data from RMA, specific year yields used in APH records
- Production evidence based on quantities sold or placed in commercial storage.
- On-farm storage records.
- FSA loan records

BASE ACRE REALLOCATION

Landowners again have two choices:

1. Reallocate base acres based on program crops planted from 2009 to 2012
2. Retain current base acre allocation

Total base acres cannot be increased, existing base acres can only be reallocated.

Reallocated acres are based on plantings from 2009 to 2012 versus the current base acres which reflect plantings from either 1998-2001 or from 1981-1985.

The decision to reallocate base acres is not as straightforward as the decision to update yields and landlords may want to consult with their renters before deciding whether to reallocate acres. There are two approaches to the base acre reallocation question, minimize financial risk or maximize government payments. To minimize risk, a landowner/producer may want to allocate base acres to match as closely as possible what is typically planted on the farm. This will result in payments more closely corresponding to price and yield changes for the crops currently being produced.

To maximize government payments, the base acre decision should be considered in conjunction with the PLC/ARC decision. Payments for both the Price Loss Coverage (PLC) and the Agricultural Risk Coverage (ARC) programs are calculated using base acres. The most feasible method to integrate these two decisions is to run one of the national decision aid online tools described below.

PLC/ARC DECISION

The PLC/ARC decision is made by the current producer as of the date of signing up for the program. A producer is anyone with a share in the crop and who shares in the risk of producing the crop. So under cash rental arrangements, the renter will make this decision rather than the landlord. However, in the case of share rental arrangements, landlords are considered producers. Once the election is made it stays with the farm until 2018, even if the tenant changes.

The Price Loss Coverage (PLC) and the Agricultural Risk Coverage (ARC) programs are designed to protect producers against different types of risk. PLC provides a payment to the producer if prices are below a pre-determined reference price, so it helps producers mitigate the impact of low prices. ARC provides a payment if the current year's revenue, price times yield, is lower than the revenue during the previous five years, but it is capped at ten percent of the previous five year average. It helps producers manage shallow revenue losses resulting from declining prices or yields.

To learn more about these programs along with yield updates and base acre reallocations, there are detailed fact sheets available on each of these topics at http://z.umn.edu/cropfarmbill.

To analyze these decisions in more depth and to run various price scenarios, national online decision aid tools have been developed. Go to http://fsa.usapas.com to access these tools.

Landowners most likely will consult with their tenant to evaluate these choices. The landowner can file an FSA power of attorney form with the local FSA office that allows the tenant to make these decisions for the landowner.

For more information:
extension.umn.edu/agriculture/business/farm-bill