Planting for Washington

April 2018

A signature achievement claimed by proponents of the Agricultural Act of 2014 (2014 Farm Bill) was the bills estimated impact of reducing anticipated spending compared to previous farm bills. The claimed reductions in projected costs came mostly from eliminating existing commodity-specific programs, namely the direct payments program, and providing agricultural businesses the opportunity to instead participate in "cheaper" programs Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC). Actual spending on Title 1 supports, however, is much greater than projected. The programs also appear to be unduly influencing planting decisions. These cost overruns and likely modifications in the next farm bill adversely impact taxpayers, the environment, and the agricultural sector.

Agricultural Income Entitlement Programs

The 2014 Farm Bill created a number of programs to subsidize the incomes of agricultural businesses. These Title 1 commodity programs (named after the section of the farm bill that created them) create programs that subsidize the incomes of producers of everything from milk and sugar to cattle ranchers and growers of row crops such as corn, soybeans, wheat, cotton, and rice. The two programs covering the greatest number of farm businesses, and with the greatest costs, are Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC).

Businesses that choose ARC receive payments if revenue in a given year falls below a revenue guarantee (86% of the five-year Olympic average) calculated by the Farm Service Agency of the United States Department of Agriculture (USDA).[1] Businesses enrolled in PLC receive payments if prices for an individual crop in a given year dip below a minimum price established in the 2014 Farm Bill. ARC and PLC cover less than two dozen specific crops listed in the Farm Bill.[2] These programs were advertised as cheaper replacements for the discredited direct payments program, which sent payments to agricultural businesses every year regardless of economic conditions. Both ARC and PLC are provided at no cost to

[1] P.L. 113-79 § 1117(c)(1)

[2] P.L. 113-79 § 1111. Eligible commodities include: wheat, oats, and barley (including wheat, oats, and barley used for haying and grazing), corn, grain sorghum, long grain rice, medium grain rice, dry peas, pulse crops (lentils, small chickpeas, large chickpeas), soybeans, other oilseeds (sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, sesame seed), and peanuts. Upland cotton is not eligible for ARC or PLC, but is subsidized through a separate Risk Management Agency (RMA) "shallow loss" program the Stacked Income Protection Plan (STAX).

farm businesses. Businesses electing to participate in ARC or PLC can also participate in the highly subsidized federal crop insurance program.

After implementation of the 2014 farm bill, there was an election period when all agricultural producers made a decision whether they wanted to participate in ARC or PLC. The election decision made for the 2014 crop year remained in effect for that farm through the 2018 crop. If a valid election was not made in the election period, producers were ineligible for any 2014 ARC/PLC crop year payments and the producers on the farm were deemed to have elected PLC for the life of the farm bill.

Program Election by Commodity Base Acres

		Percent of Base Acreage in ARC/PLC -- National			
	Base Acres	PLC	ARC-CO	ARC-IC	Total
BARLEY	5,185,717	75%	22%	4%	100%
CANOLA	1,476,317	97%	2%	1%	100%
CORN	96,768,447	7%	93%	0%	100%
CRAMBE	2,603	65%	34%	1%	100%
DRY PEAS	441,890	44%	50%	6%	100%
FLAXSEED	230,292	63%	36%	1%	100%
GRAIN SORGHUM	8,979,430	66%	33%	0%	100%
LENTILS	287,063	53%	41%	7%	100%
LARGE CHICKPEAS	85,634	23%	66%	11%	100%
LONG GRAIN RICE	4,014,721	100%	0%	0%	100%
MEDIUM GRAIN RICE (SOUTHERN)	173,824	96%	4%	0%	100%
MUSTARD	24,715	56%	38%	6%	100%
OATS	2,095,226	32%	67%	1%	100%
PEANUTS	2,020,243	100%	0%	0%	100%
RAPESEED	2,481	44%	54%	2%	100%
SAFFLOWER	99,068	63%	34%	3%	100%
SESAME	5,206	84%	16%	0%	100%

SMALL CHICKPEAS	22,067	23%	68%	9%	100%
SOYBEANS	54,514,972	3%	97%	0%	100%
SUNFLOWERS	1,650,954	56%	43%	1%	100%
TEMPERATE JAPONICA RICE	575,194	62%	34%	4%	100%
WHEAT	63,699,144	42%	56%	2%	100%
Generic 1/ (former cotton)	17,582,910				
U.S. Total	259,938,116	23%	76%	1%	100%

Agricultural Income Entitlement Program Costs Are Out of Control

The ARC and PLC programs are vastly more expensive than advertised. In fact, cost projections for ARC and PLC come in higher every single year.

Comparing 10-Year Cost Projections for ARC and PLC
($ in billions, FY2014-FY2023)

Date of CBO Estimate	PLC	ARC	Total	Total Cost Compared to Original
At Farm Bill Adoption (February, 2014)[3]	$13.12	$14.11	$27.23	n/a
March, 2015[4]	$20.19	$14.89	$35.08	**128.80%**
March, 2016[5]	$19.49	$23.13	$42.62	**156.50%**
June, 2017[6]	$24.61	$20.59	$45.2	**165.99%**
April 2018[7]	$27.46	$20.55	$48.01	**176.31%**

The Agriculture Risk Coverage and Price Loss Coverage programs **are on pace to be 76.3% ($20.8 billion) more expensive than originally estimated, wiping out all projected savings from the 2014 farm bill.**

Actual Costs of ARC and PLC Exceed Even Revised Estimates

Payments under ARC and PLC are dependent upon USDA's calculation of actual prices and yields achieved in a given year. Because this information is only obtained after harvest, and by law any

[3] CBO. Cost Estimate of H.R. 2642, Agricultural Act of 2014. 28 January 2014.
[4] CBO. March 2015 Baseline for Farm Programs. 9 March 2015
[5] CBO. March 2016 Baseline for Farm Programs. 24 March 2016.
[6] CBO. June 2017 Baseline for Farm Programs. 29 June 2017.
[7] CBO. April 2018 Baseline for Farm Programs. 9 April 2018

payments start after September 30th –the last day of the government's fiscal year, payments under the program lag two fiscal years from when the calculated "loss" occurred. So for crops grown in 2014, the first year ARC and PLC were operating, USDA began making payments in Fiscal Year 2016. Payments for 2015 crops were sent in Fiscal Year 2017. And so on. A look at costs incurred thus far is disheartening. Congressional Budget Office reports indicate the ARC and PLC programs cost nearly $13.5 billion in Fiscal Years 2016 and 2017. As of April 5, 2018, the USDA reports making an additional $7 billion in payments for crops grown in 2016. The president's Fiscal Year 2019 Budget Request indicates the administration expects to spend more than $7.5 billion on the programs in Fiscal Year 2018, with costs finally dipping below $5.0 billion in Fiscal Year 2019 (at $4.965 billion). [8] Agricultural businesses were on pace to be paid merely $4.5 billion annually under the discredited direct payments program that these programs replaced.[9]

Projected Cost of ARC/PLC by Fiscal Year *($ in billions)*				
Date of CBO Estimate	**FY2016**	**FY2017**	**FY2018**	**FY2019**
At Farm Bill Passage (February, 2014)[10]	$3.77	$4.08	$3.80	$3.26
March 2016[11]	$5.02	$8.17	$8.01	$5.27
June 2017 – FY2016 Actual Outlays[12]	$5.31	$8.06	$7.63	$5.87
April 2018 – FY2017 Estimated[13]	$5.31	$8.12	$7.90	$5.35

Reference Prices and Base Acres Influencing Planting Decisions

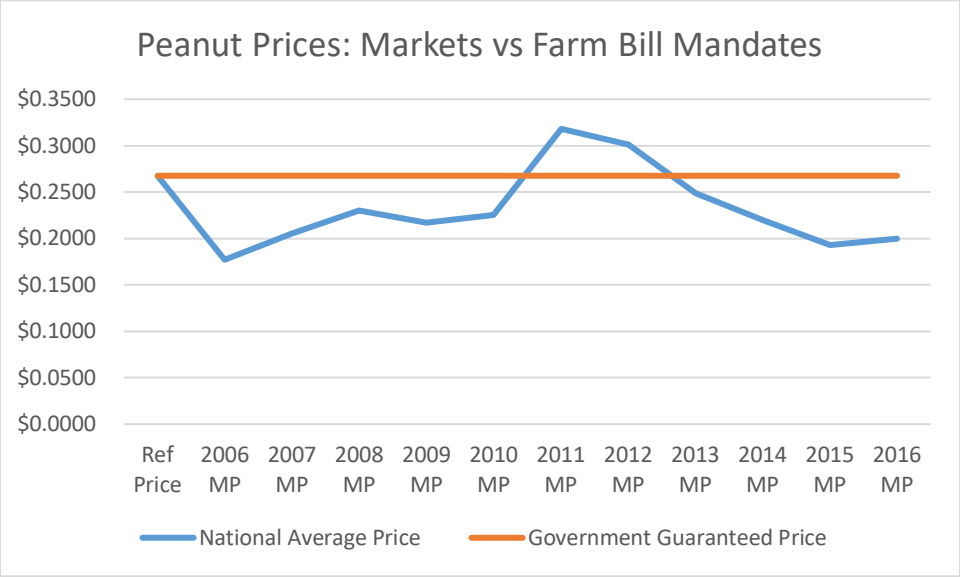
One of the most substantial changes in the 2014 Farm Bill was elimination of cotton as a covered commodity, which was done as part of an agreement to settle a longstanding World Trade Organization ruling against U.S. cotton subsidies. Instead of participating in ARC/PLC, cotton was provided a separate, crop insurance program called STAX. Nearly 17 million cotton base acres were in turn converted to "generic base." Owners of generic base can elect to participate in ARC/PLC on an annual basis by planting any other covered commodity on their base acreage. Any payments for that year are calculated on the performance of the crop that is actually planted. Generic base acreage payments, therefore, are "coupled" to the performance of a crop, unlike base acreage for other crops.

[8] USDA. FY 2019 Budget Summary. p. 17
[9] Ibid, Note 4; Table 4
[10] Ibid, Note 4; Table 4
[11] Ibid, Note 6
[12] Ibid, Note 7
[13] Ibid, Note 8

Base acreage planted to another commodity crop 2014-2016

Crop		2014	2015	2016
Grand Total		10.2 million acres	10.7 million acres	
Soybean		3.2 million acres	3.5 million acres	3.0 million acres
Corn		2 million acres	2 million acres	2.7 million acres
Wheat		2.6 million acres	2.4 million acres	2.0 million acres
Peanuts		707,600 acres	926,000 acres	982,000 acres
Sorghum		1.3 million acres	1.5 million acres	840,000 acres

Artificially high reference prices for certain commodities coupled with the unique treatment of cotton base acreage appear to have influenced the planting decisions of many agricultural businesses. Owners of base acreage have been able to choose their plantings based on an expected rate of governmental payment each year.[14] This ability to pad net revenue with governmental payments has had the most obvious impact in the planting of peanuts. In spite of market prices that are consistently far below the farm bill reference price, which is supposedly set at a price at which producers suffer a loss, increased plantings of peanuts have occurred every year since passage of the 2014 farm bill. In addition, peanuts planted on generic base acres, and guaranteed to receive a payment at the time of planting, have made up an increasing share of peanut acreage.



[14] http://farmdocdaily.illinois.edu/2017/05/generic-bases-impact-on-planted-us-acres.html

Table 1. Base Acres and Generic Acres Attributed to Peanuts, Peanut Plantings

Year	Peanut Base Acres [1]	Generic Acres Attributed to Peanuts [1]	Base Plus Generic	Peanut Plantings [2]	Peanut Share Planted on Generic Acres [3]
	(1,000 acres)				
2014	1,969	708	2,677	1,343	53%
2015	1,961	926	2,887	1,616	57%
2016	1,940	982	2,922	1,649	60%

[1] Base acres and generic acres attributed reported by FSA

[2] Plantings as reported by FSA

[3] Equals generic acres attributed to peanuts divided by peanut plantings

Source: FarmDocDaily http://farmdocdaily.illinois.edu/2017/04/have-generic-acres-impacted-planting-decisions.html

Conclusion

Taxpayers can afford a safety net to help agricultural producers protect themselves from perils that can't be managed. What the country cannot afford is lawmakers misusing the Farm Bill to plant programs that pay out in good times and bad and claim to save tax dollars while actually increasing costs. In order to right size the financial safety for agricultural businesses to something taxpayers can afford, lawmakers must use the 2018 Farm Bill debate to create programs that are cost-efficient, transparent, responsive to need, and holds all parties accountable for producing results. This includes reforming the agricultural business income entitlement programs to reward producers that plant for the market rather than those looking to harvest taxpayer dollars.