Thune-Brown Agriculture Risk Coverage Improvement and Innovation (ARC-II) Act

Overview

The 2014 farm bill represented a significant reform in American agriculture policy. The bill repealed the old system of direct payment subsidies that paid out every year, whether they were needed or not. It provided farmers with responsible risk management tools to support farmers only when there is need – when disaster strikes or prices drop.

Farmers had a choice between two new programs: the Price Loss Coverage (PLC) program, which provides assistance to farmers when commodity prices drop below statutory reference prices; or the Agriculture Risk Coverage (ARC) program, which provides support when a producer's losses exceed recent market averages at the county or farm level. The vast majority of corn, soybean, and wheat producers are enrolled in the ARC-county level (ARC-Co) option.

The agriculture economy has shifted dramatically since the passage of the 2014 farm bill. Commodity prices have dropped by more than half, resulting in the steepest drop in net farm income since the Great Depression. Fortunately, commodity programs have functioned as expected, providing critical revenue protection as the markets shifted.

Looking ahead, the outlook for the farm economy remains grim. The U.S. Department of Agriculture (USDA) projects that 2018 will represent the fifth consecutive year of declining farm income – levels not seen since 2006. Input costs remain high, too.

Due to the five-year price decline, and because ARC, in its current form, uses a five-year rolling commodity price average to calculate payments, this legislation modifies the ARC payment calculation to improve its safety net potential.

This bill also builds on commodity program reforms of the 2014 farm bill by ensuring the ARC program remains as a viable risk management option for producers who prefer revenue protection based on both price and yield.

It addresses several issues that arose during the implementation of ARC and ensures an option that is more reflective of market and yield trends. The bill takes crucial steps toward ensuring farm programs are also responsible to taxpayers by providing more equitable support prices that are more reflective of actual market value for all crops. It also ensures that payments are not being made on land that is no longer being farmed.

Beginning farmers will also, for the first time since 2002, have a new opportunity to be eligible for new "base acres" on certain farms that were previously ineligible for farm programs.

Responsive Risk Management

This bill makes several key changes to ensure ARC remains a viable option in the future. ARC provides assistance to producers in years when their revenue (price X yield) losses for a crop year exceed the county average "benchmark" revenue guarantee.

Changes to the ARC guarantee include:

Old ARC Guarantee	New ARC Guarantee
Payments issued when producers' losses exceed 14% of the **Benchmark County Revenue Guarantee** Defined as: Olympic average of five most recent historical county yields X Olympic average of five most recent Market Year Average prices	Payments issued when producers' losses exceed 10% of the **Benchmark County Revenue Guarantee** Defined as: Olympic average of five most recent historical county yields X Simple average of three most recent Market Year Average prices (with a floor price of the 10-year simple average)
Substitute yields: The historical county yield is substituted with 70% of the County Transitional (T) yield for each year the historical yield is less than 70% of T.	Substitute yields: The historical county yield is substituted with **80%** of the County Transitional (T) yield for each year the historical yield is less than **80%** of T.

Additional changes include:

- Trend-Adjusted Yield Factor: Directs the secretary to adjust benchmark yield data utilizing the same trend-adjusted yield factor that is used by the Risk Management Agency, which allows the program to be more reflective of yields producers are actually receiving.
- Wheat Quality Adjustment Factor: Allows the secretary to adjust the current benchmark yields up to 50 percent for wheat to account for weather-related quality factors, such as protein, falling numbers, or mycotoxins, utilizing the average quality adjustment discount factor used by RMA (yields in the benchmark would not be adjusted).
- All improvements to the ARC-CO program also apply to the ARC-individual coverage option.

Implementation Fixes

The bill addresses several lessons that were learned through the implementation of the 2014 farm bill, including several provisions that were first introduced by Sens. Joni Ernst (R-Iowa) and Heidi Heitkamp (D-N.D.) in the ARC-CO Improvement Act (S. 1998) and Thune's Commodity Program Improvement Act (S. 1259).

These changes include:

- Direct FSA to use the more widely available data from RMA as the first choice for yield calculations.
- Calculate safety net payments based on a farm's physical location, rather than the antiquated administrative county unit.
- Provide FSA state committees the discretion to adjust yield data estimates to reduce inexplicable variations between counties or along boundaries with neighboring states.
- Gives USDA the authority to split large counties under certain circumstances. ARC-CO was designed to be responsive to local market and weather conditions, but large counties in some regions of the country can vary greatly in terms of variables, like soil type or rainfall. This provision allows the largest counties (greater than 1,500 square miles with more than 10,000 base acres) to split into three smaller administrative units to better reflect a producer's history.

Opportunity for Beginning Farmers

Beginning farmers of covered commodities will have a one-time opportunity to increase base acres. Producers that entered farming after 2002 may not have base acres, and thus are ineligible for the ARC and PLC programs.

The bill allows beginning farmers of covered commodities, as determined by the secretary, to obtain or add new base acres to their farm, up to a total of 5 million new base acres nationwide.

Strict eligibility rules are included to prevent misuse and ensure the program is targeted only to beginning farmers. This includes "actively engaged" requirements, ownership, or a pathway to ownership of the farm for the beginning farmer, provisions to ensure base acres do not exceed recent plantings, and a loss of the new base acres if the beginning farmer leaves the farm.

Creating Defensible Farm Programs

Market Oriented:

The bill takes an important step toward creating more market-oriented farm programs that are defensible to taxpayers and farmers.

Farm safety net programs should provide responsible risk management instead of protection at levels that guarantee an annual payment, based on statutory reference prices that are not reflective of market trends.

With that in mind, the bill requires that PLC reference prices cannot exceed the previous 10-year average price, on a moving basis.

Statutory Reference Prices Compared to 10-year Market Price Averages			
Covered Commodity	**2014 Farm Bill Reference Price**	**10-year Marketing Year Average (2007-2017)**	**Reference Prices as percentage of 10-year average**
Corn ($/bu.)	$3.70/bu	$4.52/bu	82%
Soybeans ($/bu.)	$8.40/bu	$10.94/bu	77%
Wheat ($/bu.)	$5.50/bu	$6.05/bu	91%
Seed Cotton	$0.367/lb	$0.344/lb	107%
Barley ($/bu.)	$4.95/bu	$5.15/bu	96%
Oats ($/bu.)	$2.40/bu	$2.88/bu	83%
Sorghum ($/bu.)	$3.95/bu	$4.22/bu	93%
Long grain rice	$14.00/cwt	$12.72/cwt	110%
Medium/short rice (exc. Japonica)	$14.00/cwt	$14.38/cwt	97%
Japonica rice	$16.10/cwt	$19.83/cwt	81%
Peanuts (cents/lb.)	$535/ton	$471/ton	114%
Canola ($/cwt.)	$20.15/cwt	$19.27/cwt	105%

Reducing Payments to Non-Farmers – Unassigned Base Acres

To help ensure that farm programs are targeted to producers and land that is still actively farmed, base acres that have not been planted to a covered commodity in any year from 2009-2016 crop years will be converted to ‘unassigned’ base acres and will be ineligible for payments under either ARC or PLC.

Base acres that are associated with recently expired CRP contracts that were prevented from planting, as well as base acres that were subject to reductions for planting fruits and vegetables on base acres will both count as planted.

Socially disadvantaged and limited resource farmers will also be exempt from this provision.

Further Clarifications and Examples

Example of Unassigned Base Acres:

Farm with 100-acre corn base and 50-acre soybean base:

- If a producer planted zero acres of any commodity during any year between 2009 and 2016, the farm would have zero base acres, and the corn and soybean base would be moved to unassigned.
- If a producer planted 50 acres of corn and 50 acres of soybeans each year between 2009 and 2016, the farm would have 100 base acres (producer's choice as to which acres) and 50 acres would be move to unassigned.
- If a producer planted 200 acres of corn on this farm each year between 2009 and 2016, the farm would retain 150 base acres – no unassigned base acres.
- If a producer planted 150 acres of corn in 2009 and no other commodity crops were planted between 2010 and 2016, the farm would have the same 150 base acres – no unassigned base acres.

The rules would be:

1) If in **any** of the years between 2009 and 2016, any covered commodity crops were planted on enough acres on the farm to equal the base acres on the farm that farm would have no unassigned base acres and would retain its base acres.
2) If during **all** of the years between 2009 and 2016 there was **NO** year that covered commodity crop planted acres equaled or exceeded the total base acres on a farm, the base acres for the farm would equal the highest number of acres planted to a covered commodity in any of the years.

Example: If in one of the years, 100 acres of corn was planted, and that 100 acres was the highest number of commodity crop acres planted in any of the years, the farm would have 100 corn base acres and 50 unassigned base acres.

ARC-II Compared to House Farm Bill – Unassigned Base Acres

The House language uses the whole farm; therefore, if in **any** of the years between 2009 and 2017, any acreage amount (exceeding 0.1 acre) of a covered commodity crop was planted, that farm would retain all of its base acres and have no resulting unassigned base acres.

Example: A farm has a 100-acre corn base and a 50-acre soybean base. In 2009, the farm was planted to 50 acres of corn, and in the remaining years between 2010 and 2017, no covered commodity crops were planted. This farm would retain its 100-acre corn base and 50-acre soybean base. No unassigned base acres.

Base Increase for Beginning Farmers of Covered Commodities, Limitation, and Reduction of Base Acres

Definition of Beginning Farmer:

A beginning farmer (as determined by the secretary) is a farmer who is planting one or more covered commodities, but who has not planted or been prevented from planting a covered commodity on any farm before the 2002 crop year.

Eligibility for Base Increase:

The farmer:

- Is an operator on the farm and contributes a significant amount of personal labor to the farm.
- Is planting one or more covered commodities, but has not planted or been prevented from planting a covered commodity on any farm before the 2002 crop year.
- **Has an option to obtain** a significant ownership, or **has** significant ownership of the farm or a business that is producing commodities on the farm.
- Has not planted or been prevented from planting a covered commodity on the farm for any crop year before the 2007 crop year.
- Has a farm where the average number of acres planted to covered commodities during the 2013 through 2017 crop years is greater than the number of base acres on the farm.

Calculating the Added Base Acres:

Sum of:	Five-year average of acreage planted on the farm to all covered commodities
Plus:	Any acreage on the farm that the beginning farmer of covered commodities was prevented from planting during the 2013 through the 2017 crop years to a covered commodity
Minus:	The number of base acres for covered commodities on the farm
Equals:	The number of added base acres for the farm

Proportion of Added Base Acres:

Base acres are added to a farm for each covered commodity in the proportion that:

The acreage planted to a covered commodity on the farm (during the crop years 2013-2017). bears to the acreage planted to all covered commodities on the farm (during the crop years 2013-2017.

Limitation on Added Base Acres:

- No more than 5,000,000 acres shall be added to beginning farmer farms.

Reduction of Base Acre Increase:

- If a beginning farmer on a farm for which base acres have been increased under this provision no longer operates the farm for any of the 2019-2023 crop years, the added base acres shall be reduced in the same proportion they were added.

Wheat Quality Adjustment:

Quality Adjustment Factor by the Secretary

In a year with a wheat low quality issue due to weather-related quality factors, including low protein, low test weight, vomitoxin, etc., the secretary is mandated to adjust the wheat yield using:

- The same quality adjustment policies used by RMA.
- A comparable adjustment factor if the RMA quality adjustment is not available.

Quality Adjustment Factor Limit:

- The yield may not be adjusted downward more than 50 percent.

Quality-Adjusted Yield Not Used for Benchmark Revenue Calculation:

- A quality-adjusted yield shall not be used by the secretary for the purpose of calculating the benchmark revenue.