An Analysis of the Limited Base Acre Provision of the 2008 Farm Act

April, 2011

A report prepared by the Economic Research Service in cooperation with the Farm Service Agency

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What is the issue?

The Food, Conservation, and Energy Act of 2008 (2008 Farm Act) eliminates Direct and Countercyclical Payment (DCP) and Average Crop Revenue Election (ACRE) program payments to the Department of Agriculture's (USDA) Farm Service Agency (FSA)-defined farms with 10 or fewer base acres (see sections 1101(d) and 1302(d)). Farms classified as "limited resource" and "socially disadvantaged" are exempt from this provision. Moreover, producers were allowed to restructure or reconstitute their base acres so that each FSA farm could contain acreage beyond the 10-acre limit and thus ensure continued eligibility for DCP or ACRE payments. Eliminating payments on farms with 10 or fewer base acres (other than for those exempted) reduces payments made by FSA and the cost of administering the DCP and ACRE programs.

What did the study find?

The "base-10" provision affects a large number of farms but had little effect on total payments. In 2009, nearly 371,000 FSA farms became ineligible for payments under this provision, with prohibited payments equaling an upper bound of $29.1 million or about 0.5 percent of DCP payments. However, with the provision prohibiting payments averaging $79 per FSA farm, a number of these farms may not have signed a contract to receive Government payments even without the base-10 provision. As a point of comparison, 60 percent of non-exempt farms with 10 or fewer base acres in 2008—before the "base-10" provision—were eligible to enroll in the DCP program and chose not to do so mainly because the payments were small relative to the administrative costs of enrolling. As a result, the payment savings associated with the base-10 rule is likely considerably lower than the $29.1 million upper bound estimated here. (See below for a discussion of administrative cost savings.)

The East Coast is more affected by the base-10 provision than the Heartland and West Coast. Farms in the Heartland region and along much of the West Coast often hold a larger number of base acres per farm; thus, the provision has had little effect within these regions. In contrast, regions along or near the East Coast tend to have a high proportion of farms with small base acre holdings and have been more affected. For example, in the Eastern Upland and Southern Seaboard regions, 35 and 28 percent of FSA farms, respectively, became ineligible under the base-10 provision in 2009.

Adverse effects on the fruit and vegetable sector are not expected as a result of the base-10 provision. Only one percent of the acreage operated by farms that were prohibited from receiving payments under the base-10 provision was planted to fruit and vegetables in 2009. However, some operators of farms that were prohibited from receiving payments under this

provision switched to fruit and vegetable production since they were no longer constrained by program planting restrictions. An added 20,000 acres were planted to fruit and vegetables between 2008 and 2009 on these farms, which were mainly located in counties in Maine and Idaho. Comparing this small increase with the national total of 11 million planted fruit and vegetable acres, however, suggests no aggregate market effect as a result of the base-10 provision.

FSA farms for which payments were prohibited are generally part of larger operations. Seventy-six percent of FSA farms for which payments were prohibited from receiving payments were part of a larger farm operation in 2009, averaging 5.5 FSA farms and totaling 554.2 acres. While these farms had the opportunity to reconstitute, the transaction cost may not warrant restructuring, particularly given that prohibited payments averaged only $102 for these FSA farms that were a part of multi-farm operations. The transaction costs include the paperwork necessary to comply with FSA requirements, plus the efforts involved in arriving at agreement regarding reconstitution among landlords. Even if a multiple-farm operation was prohibited from receiving a payment on a 10-acre base or smaller farm in 2009, that operator would have the potential to reconstitute in future years.

Government budgetary savings would accrue from reducing administrative costs. Operators must enroll their FSA farms annually in the DCP/ACRE program and comply with reporting requirements. Operators must complete several forms to participate in DCP/ACRE, and FSA must calculate and process any farm-specific payments that are made. Reducing the number of eligible FSA farms decreases the administrative burden. We estimate $3.5 million in personnel cost savings to FSA and $0.2 million in mailing and paperwork savings associated with the base-10 provision. Combined with the reduction in payment outlays to farms of a maximum $29.1 million, the budgetary savings from prohibited payments is estimated to total as much as $32.8 million for 2009.

The analysis was prepared by Christine Arriola, Barry Krissoff, Gary Lucier, Edwin Young, and Chengxia You, Economic Research Service, USDA and Joy Harwood, FSA USDA. We appreciate the input and data provided by our colleagues at the Farm Service Agency, most notably Sandy Bryant, Vicki Larson, Dan McGlynn, and Brent Orr, and the additional input from the staff at FSA state offices, including Kevin Hinkle in West Virginia, Marilu Soileau in Connecticut, and Christina Rotz and Rebecca Csutoras in Pennsylvania.

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Introduction

Farm payment limitations have been included in farm acts for 40 years. These limitations generally restrict payments that individuals or farms can receive based on high income levels or large aggregate farm payments received. The Food, Conservation, and Energy Act of 2008, the most recent farm act, also includes a limitation with a different purpose—elimination of small payment amounts. Under the 2008 Farm Act, farms with 10 or fewer base acres[1] were prohibited from receiving Direct and Countercyclical Payment (DCP) or Average Crop Revenue Election (ACRE) program payments (see sections 1101(d) and 1302(d)).[2] Limited resource and socially disadvantaged owners are exempt from this "base-10" provision.

The intent of sections 1101(d) and 1302(d) appears more focused on reducing administrative costs to the Farm Service Agency (FSA), which administers the DCP and ACRE programs, than on lowering payment amounts (although both are important in a tight budget environment). This is because farms are allowed to restructure their base acres into larger FSA-defined farms to remain eligible for payments, reducing the administrative costs to FSA associated with many small individual farm transactions while preserving payments to many producers.

The 2008 Farm Act under sections 1101(d)(3) and 1302(d)(3) requires data collection and information regarding farm profiles, utilization of land, and crop production of farms affected by the "base-10" provision. The Act also calls for an evaluation of the base-10 provision on the supply and price of fruits and vegetables. We examine the number and location of farms affected by the provision, their loss of program payments, the size and characteristics of these farms and operators, changes in crop mix, and the possible effect on fruit and vegetable markets. In addition, we assess potential government budgetary savings due to the prohibition of program payments under this provision.

The Farm Service Agency (FSA) maintains records based on administrative units (an "FSA farm") consisting of varying groups of owners and operators and which are the basis for analyzing the base-10 provision. This report mainly relies on DCP Farm Crop, DCP Contract, and 578 Compliance Detail files, which are administrative databases maintained by FSA. These databases permit tracking of farm-level acreage and owner/operator program participation by

[1] "Base acres" reflect planting history on an FSA farm associated with certain crops (wheat, feed grains, upland cotton, rice, oilseeds, pulse crops, or peanuts) and do not necessarily reflect current crop plantings. They are used to calculate DCP and ACRE payments. Planted acres on a given FSA farm may be smaller or larger than the base acres associated with that farm.

[2] Section 1302(d) outlines the treatment of farms with limited base acre in peanuts while section 1101(d) outlines the provision for all other covered commodities. A brief discussion on peanut farms and base acres can be found in Appendix A.

FSA farm across geographic locations and over time, and contain detailed data that allow for calculation of annual DCP program payments.

Farms Affected By the Base-10 Provision

The number of FSA farms and the share with limited base acres has increased over the last decade (Figure 1). This has likely been in response to two factors: 1) ad hoc disaster provisions for crops, which were paid on an individual FSA farm basis (meaning that the smaller the geographic unit, the more likely the farm would be to qualify for a disaster payment); and 2) the fractionation of farms among multiple owners as land is passed down through generations.

By 2009, 2.2 million FSA farms were eligible to receive DCP and ACRE program payments, of which 444,000 farms had 10 or fewer base acres (Figures 2A). Of these farms, 73,000 were exempt from the base-10 provision since they were owned or operated by limited resource or socially disadvantaged farmers, leaving nearly 371,000 FSA farms prohibited from receiving payments. The dollar amount of payments prohibited by the base-10 provision in 2009 was small, with an upper bound of $29.1 million, since the affected farms control only 1.6 million or 0.6 percent of base acres (Figure 2B).

This estimate would vary from year to year, based on expected payments and program parameters. Using 2008 data as the basis for the calculation, for example, would result in $36.7 million in prohibited payments. This larger savings in 2008 can be explained by two factors. First, program crop market prices were higher for 2009 crops than for 2008 crops, suggesting greater 2008 countercyclical payments (and thus more payments prohibited if the program had been in effect in that year). Second, direct payments were calculated using 85 percent of base acres for crop year 2008, but declined to 83.3 percent for 2009 crops, based on 2008 Farm Bill provisions.

Note that these estimates, regardless of the year, are upper bounds. One reason is that farms can reconstitute to ensure their continued eligibility for DCP or ACRE payments. Nevertheless, some FSA farms may find that the costs of reconstitution outweigh the benefits. Operators affected by the base-10 provision would have foregone an average of $79 per farm in 2009, a slight amount compared to the average DCP/ACRE payment across all FSA farms of $2,620. They must weigh the amount of their expected payment against the transaction costs of reconstitution. For example, an operator may own one FSA farm and lease a second or third farm from other owners, but find that an agreement to reconstitute is very difficult or impossible to achieve among those owners. In other cases, FSA rules may not permit reconstitution because of the different tenant and ownership relationships across the various FSA farms.

A second reason that the $29.1 million (for 2009) and $36.7 million (for 2008) should be considered upper bounds is that not all operators of FSA farms have enrolled historically in the DCP/ACRE program in any given year. The estimates above are based on the total number of farms with 10 or fewer base acres that were not socially disadvantaged or limited resource.

However, in 2008—prior to implementation of the base-10 provision—only 40 percent of those FSA farms with 10 or fewer base acres actually enrolled in the DCP program, accounting for 158,000 DCP contracts. These farms, enrolled in the DCP program in 2008, received $18.1 million in payments. Using this same 40 percent rate and applying it to 2009 data results in $11.7 million in payments foregone.

In the subsequent sections of the report, we assume that all producers[3] enroll in DCP/ACRE if they are eligible (and thus, no slippage as described in the prior paragraphs). As a result, we retain the estimate of $29.1 million for 2009 prohibited payments, but acknowledge that this overstates savings, perhaps by a considerable margin.[4]

States and Regions Affected by the Base-10 Provision

The effects of the base-10 requirement differ significantly across the United States. To analyze regional differences, we adopted the Economic Research Service (ERS) farm resource regions based on the characteristics of the land and the commodities produced (USDA, ERS, 2010). Resource regions cross State boundaries but are more homogeneous with respect to natural resources and farm production than regions based on combinations of States. Figure 3 provides a visual representation of key summary statistics by resource region related to the number of farms, base acres, and prohibited payments. Figure 4 shows the share of 10 or fewer base acres for each county in the United States in 2009.

In the Heartland region, where there were a sizeable number of FSA farms (805,000), 93,000 FSA farms did not receive payments in 2009 due to the base-10 provision (Table 1). Illinois and Indiana accounted for 40,000 of these FSA farms and $3.6 million in prohibited payments. In contrast, other regions had fewer FSA farms, but the share of farms affected by the base-10 provision was much greater. The Eastern Uplands, Southern Seaboard, and Northern Crescent regions in total had 709,000 FSA farms, and over 205,000 of those farms had prohibited payments totaling $14.6 million. West Virginia and Kentucky (Eastern Uplands), Virginia and Mississippi (Southern Seaboard), and Maine, Massachusetts, and Connecticut (Northern Crescent) had a large share of farms with prohibited payments. In West Virginia, the 4,400 FSA farms had a median of 9 base acres; payments were prohibited to almost 2,000 farms, or 47 percent. Nearly 15,300 FSA farms (about 39 percent) incurred prohibited payments in the Eastern Upland portion of Kentucky,[5] where farms had a median of 7 base acres.

[3] The terms operator, producer, and farmer are used interchangeably in this report.

[4] The Congressional Budget Office estimates the official costs and savings associated with individual provisions of legislation. CBO estimated the savings of the base-10 provision at approximately $9 million for 2009 (Congressional Budget Office).

[5] Kentucky is located in two resources regions: Eastern Upland (39,117 total FSA farms) and the Heartland (25,869 total FSA farms).

Reconstitution and Crop Allocation Among Farms Affected by the Base-10 Provision

The 2008 Farm Act does not restrict FSA farms from reconstituting to avoid payment prohibition under the base-10 provision; they are treated in the same manner as all FSA farms. As a result, operators of FSA farms can: 1) reconstitute their FSA farms to exceed 10 acres per farm; or 2) not reconstitute, forgo payments, and have greater planting flexibility on that base acreage. Forty-one thousand FSA farms (with 10 or fewer base acres) in 2008 reconstituted in 2009 and continued to receive payments. These farms had an incentive to reconstitute since they were eligible for an average DCP payment of $118 in 2008, which compared favorably to the average payment of $91 for those 352,000 FSA farms with 10 or fewer base acres that did not reconstitute between 2008 and 2009. Not surprisingly, the reconstituting farms had more base acres in program crops that paid higher DCP rates. For example, in 2008, FSA farms that reconstituted the following year with rice base received $85 per base acre; for peanuts, $40 per base acre; and for upland cotton, $119 per base acre. In contrast, oat and soybean base received an average payment of $1 and $10 per base acre, respectively.

Operators who are eligible for DCP or ACRE payments can plant whatever they like on their base acres—*except* for fruit, vegetables, and wild rice.[6] Operators of FSA farms where DCP/ACRE eligibility is affected due to the base-10 provision are no longer subject to this restriction. Such a shift could lead to a decline in fruit and vegetable prices, particularly since acreage planted to fruit and vegetables is much smaller relative to acreage planted to program crops.

In 2009, 4,050 farms with 10 or fewer base acres (and which, as a result, had payment eligibility prohibited) allocated 75,000 acres to fruit and vegetables. These 75,000 acres amount to about 1 percent of the total acreage on these farms (see Figure 5). The highest proportion of prohibited-payment acres were planted to grass (36 percent) or enrolled in conservation programs (27 percent).[7] Sixteen percent of total acreage was planted to a program crop.[8]

We compare 2008 and 2009 FSA farms that met two criteria—having their payments prohibited by the base-10 provision and with the same FSA farm number (in other words, those that did not reconstitute)[9]—to see whether they increased their plantings of fruits and vegetables

[6] Lentils, mung beans, and dry peas are excluded from this restriction. Annual DCP and ACRE payments are partially or fully forfeited when fruits and vegetables are planted on base acres if there is no history of planting fruits and vegetables on the farm, but there is no permanent loss of base. For situations where there is a history of planting fruits and vegetables, the operator receives an acre-for-acre reduction in payments on that farm.

[7] Most of the conservation land is enrolled in the Conservation Reserve Program. Land allocated to other conservation programs includes Grassland, Wetland Reserve Program, Wildlife Habitat Incentive Program, Environmental Quality Incentive Program, and Wetland Bank Reserve.

[8] In contrast, program crops account for nearly 60 percent of acreage across all FSA farms, regardless of size.

[9] Ninety-five percent of 2009 FSA farms with prohibited payments existed in 2008.

since these farms were no longer limited by planting restrictions. The data indicated a 20,000[10] acre increase in fruit and vegetable plantings among farms with prohibited payments. Eighty percent of the expansion occurred on farms on which fruits and vegetables were not planted in 2008. Comparing this increase in fruit and vegetable plantings relative to the national total of over 11 million acres suggests that there would be little or no aggregate market effects resulting from the base-10 provision.

We inspected the data to determine where farmers were located who were affected by the base-10 provision and who chose to increase their fruit and vegetable acreage, as well as the specific crops for which acreage expanded. In northern Maine (Aroostook, Penobscot, and Piscataquis counties) and southern Idaho (Cassia, Gooding, Jerome, and Twin Falls counties), planted acreage for farms with prohibited payments increased by 1,900 and 800 acres, respectively, mainly in potatoes, dry beans, and other vegetables, largely in response to anticipated higher prices for 2009 relative to those in 2008. With nationwide planted acreage for potatoes at over 1 million acres and dry beans at 1.5 million acres, the increased plantings are unlikely to significantly affect national market conditions. Nevertheless, for the 155 farms affected in these two states, the added flexibility to expand into fruits and vegetables may allow these farms to accrue higher net returns because of their comparative advantage in land, machinery, or based on the knowledge and skill of the producer.

Farm Size, Owners, and Operators

Our review of FSA data indicates that FSA farms having 10 or fewer base acres and not owned by socially disadvantaged or limited resource farmers are generally small in terms of planted acres. In 2009, the average size of the 371,000 FSA farms with fewer than 10 base acres and not exempted from the base-10 provision was 48.6 planted acres (including plantings on both base and non-base acres).[11] This is about one-fifth the national average of 269.2 planted acres across all FSA farms.

An FSA farm with 10 or fewer base acres may or may not represent a "small" farming operation.[12] FSA data show that 76 percent of individual FSA farms affected by the base-10 provision are part of multi-farm operations.[13] Nationwide, producers with prohibited payments

[10] This is based on roughly 2,000 non-reconstituted farms that expanded fruit and vegetable production from 2008 to 2009.

[11] Data are based on the 159,453 FSA farms with 10 base acres or less which were not socially disadvantaged or limited resource farms and which filed compliance information on planted acres.

[12] We focus on the number of acres in an FSA farm as an indicator of size. A broader measure characterizing "small" and "large" farms or operations, such as owners' or operators' gross cash farm income (GCFI) rather than acreage, would be a better identifier since it reflects the contribution to economic activity rather than simply an input into production (Hoppe, MacDonald, Korb). Matching FSA farms or operations and their respective acres with GCFI or other income or sales data are problematic given the datasets we employ in this study.

[13] See the appendix for a description of how FSA farms were aggregated into multi-farm operations.

under the base-10 provision operate on average 5.5 FSA farms that total 554.2 planted acres (Table 2). Twenty-eight percent of these producers who had payments prohibited operate on more than six FSA farms. As indicated earlier, operators with multiple FSA farms are able to reconstitute their farms and avoid being affected by the base-10 provision; they may choose not to do so, however, if they perceive the transaction cost to be high.

The average number of multiple operations varies by regions of the United States. In Kentucky, where the base-10 provision prohibits payments to 31 percent of FSA farms, the size of an operation is typically small relative to both the national and state average. Furthermore, 81 percent of Kentucky operations with prohibited payments control only one FSA farm. In states where there are a significant portion of small farms, and where those operators control only one farm, prohibiting payments is likely to have had a greater effect on operators' farm incomes.

In contrast, in areas where farms are large and agricultural producers operate multiple FSA farms, the impact of the base-10 provision is less likely to eliminate all payments to the operation. In Indiana, 88 percent of FSA farms with prohibited payments were part of larger operations. On average, these farmers operate about nine FSA farms, of which the provision prohibits payments to approximately one FSA farm, suggesting that eight farms in an "average" operation continue to be eligible for DCP/ACRE payments. These data suggest that many of these operators found the transaction cost associated with reconstitution to be higher than the benefits, and thus did not receive payments on an average of one FSA farm per operation.

The Administration of Commodity Programs

FSA is responsible for administering the DCP/ACRE programs. FSA's administrative processes ensure that only eligible farms receive payments and that the amounts paid are based on the regulations defined in the 2008 Farm Act and associated rulemaking. These processes ensure accountability, but are also costly—both for operators of FSA farms and for the agency. The costs to the government of the DCP/ACRE programs therefore include not only the actual budgetary outlays, but also the administrative costs associated with discerning eligibility and making payments.

FSA is responsible for reporting, monitoring, and processing applications and forms at each step of the process—from enrolling farms and determining eligibility to calculating and processing payments. Numerous forms must be completed by the operator and reviewed and processed each year by FSA. For example, producers must complete form CCC-770 DCP, the eligibility check list, annually. This list contains at least six certifications and forms, including adjusted gross income certification and a "person/actively engaged" determination. Furthermore, producers must file an acreage report regarding all cropland on the farm, and ACRE enrollees must also report the production of covered commodities on the farm. FSA staff advises participants on program-related issues and processes each completed form. It follows that

decreasing the number of FSA farms processed through the system would reduce costs without substantially reducing an income safety net for farmers.

Using the FSA 2007 work load formula,[14] the County Budget & Work Measurement (CBWM) office of FSA estimates that processing the nearly 371,000 FSA farms with 10 or fewer base acres requires a total of 48 staff years annually. (This calculation assumes that the processing costs noted in the paragraph above amount to 15 minutes per FSA farm for these small farms.) Using the average salary of an FSA county employee ($72,000 annually, including benefits), results in $3.5 million annually in savings. Moreover, the elimination of mailings and transaction statements sent by FSA and the county offices to these farms amounts to an additional $200,000 in savings, increasing the total administrative cost savings to $3.7 million.

Concluding Comments on Government Budgetary Savings

Government budgetary savings are estimated at $32.8 million (the $29.1 million in savings from prohibiting payments to farms under the base-10 provision, plus $3.7 million in administration costs). This estimate should be considered an approximation for several reasons. First, in estimating budget savings, only DCP payments were included, and those who opted for ACRE were treated as DCP participants; a more accurate estimate would calculate the savings from the farms that opted for ACRE benefits. Nevertheless, our estimate is not likely to differ substantially due to this factor, given the small number of farms participating in ACRE in 2009.

Second, the administrative costs are based on the number of county staff hours required to work on a DCP contract for each FSA farm and do not include any headquarters costs, including accounting and financial management, requirements management, programming, program evaluation, and other related costs associated with eligibility and payment processes.

Third, how farmers will respond in the future to the base-10 provision is unclear. If some of the operators of the 371,000 2009 FSA farms which had payments prohibited are motivated to reconstitute and consolidate their operations in future years, then payment outlays would be higher (and the associated savings would be less). Perhaps even more importantly, farms currently with over 10 base acres may be reluctant about fragmenting in the future to avoid having payments prohibited.

Finally, the estimated 371,000 FSA farms affected by the base-10 provision reflect the number of farms that could have received payments if there were no base-10 provision. As

[14] In 2008, the County Budget & Work Measurement (CBWM) section of the Farm Service Agency concluded a study determining the cost of processing a DCP contract. They asked county staff in 150 work measurement sites to record the amount of hours they spent on the DCP program in the year 2007. Using this estimate, in conjunction with a FY 2010 average cost per staff year for county office employees with benefits, and assuming that small base acre farms would require 15 minutes per DCP contract, the FSA CBWM office was able to provide an estimate of cost savings for the reduction in staff years as well as the postage cost for mailings.

indicated earlier, however, the number of farms that would actually enroll in any given year is likely substantially less. Thus, our estimate of $32.8 million total budgetary savings is an upper bound.

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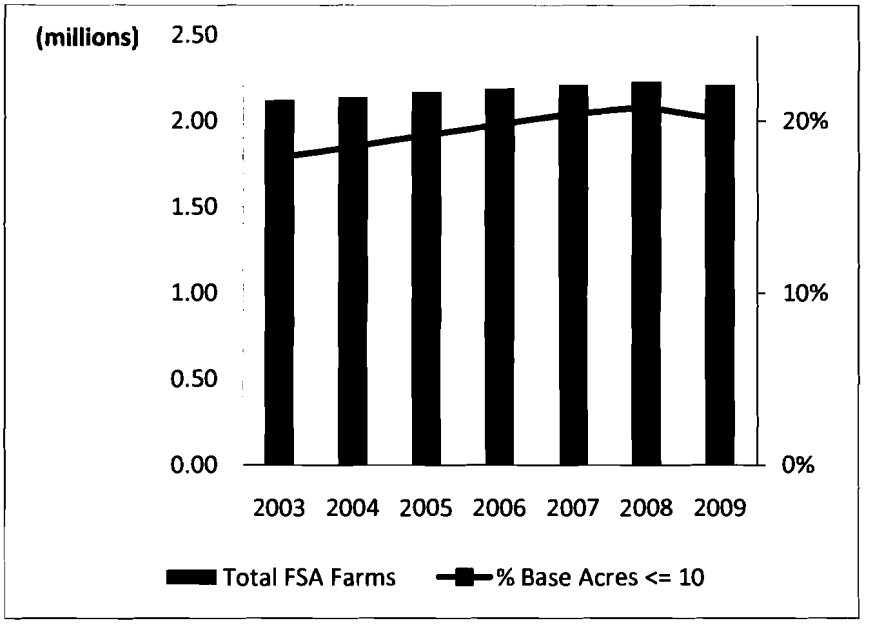
U.S. Department of Agriculture, Economic Research Service, *Structure and Finances of U.S. Farms: Family Farm Report, 2010 Edition* / EIB-66.

U.S. Department of Agriculture. Farm Service Agency. FSA Handbook: Direct and Countercyclical Program and Average Crop Revenue Election for 2009 and Subsequent Crop Years. http://www.fsa.usda.gov/Internet/FSA_File/1-dcp_r03_a07.pdf accessed August 5, 2010.

Figure 1: Number of FSA farms and share of farms with small base acre holdings, 2003-2009

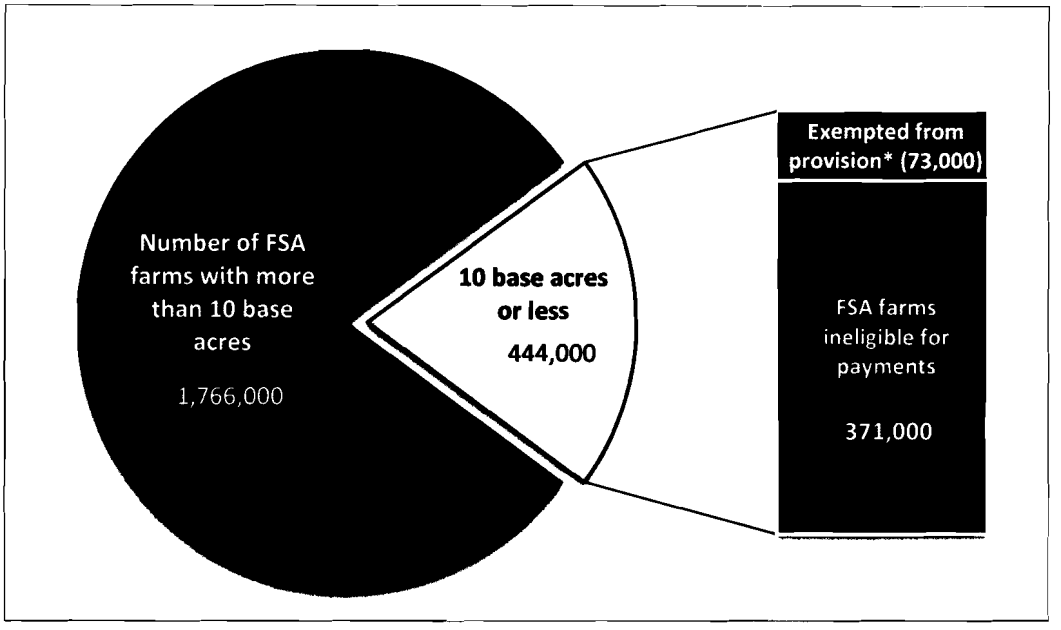


Note: The figure includes farms owned by socially disadvantage and limited resource farmers, which are exempted from the base-10 provision.

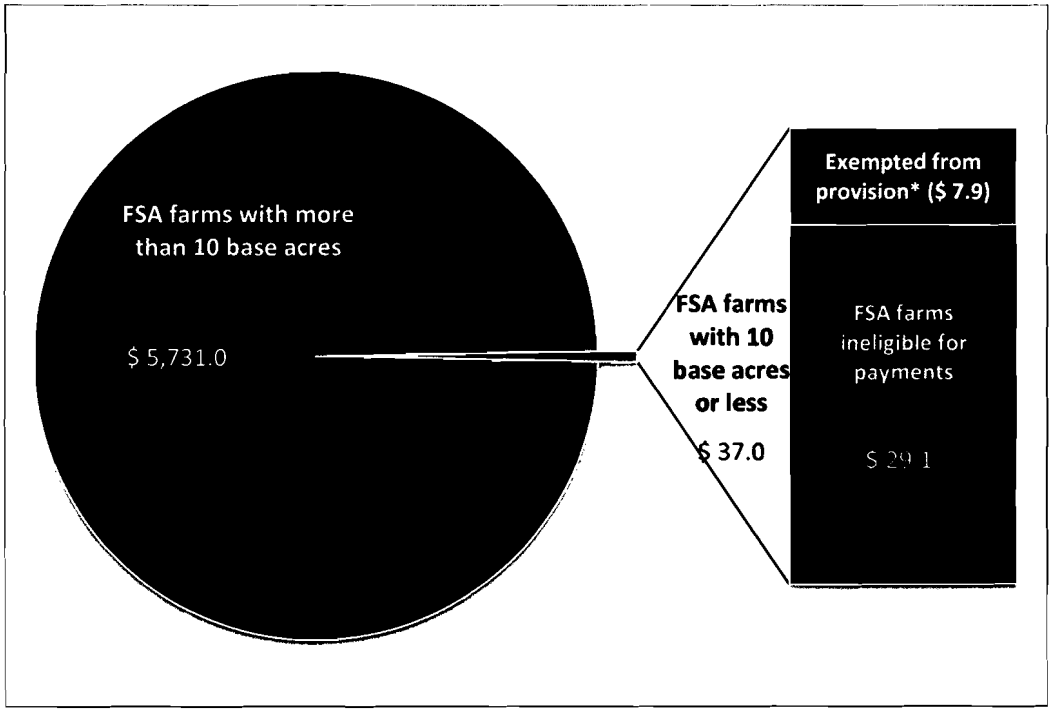
Source: USDA, Economic Research Service, calculated from Farm Service Agency data, 2009 Direct and Countercyclical Payment (DCP) farm crop database.

Figure 2: FSA farms with base acres in 2009

A) Total number of FSA farms with base acres, 2009



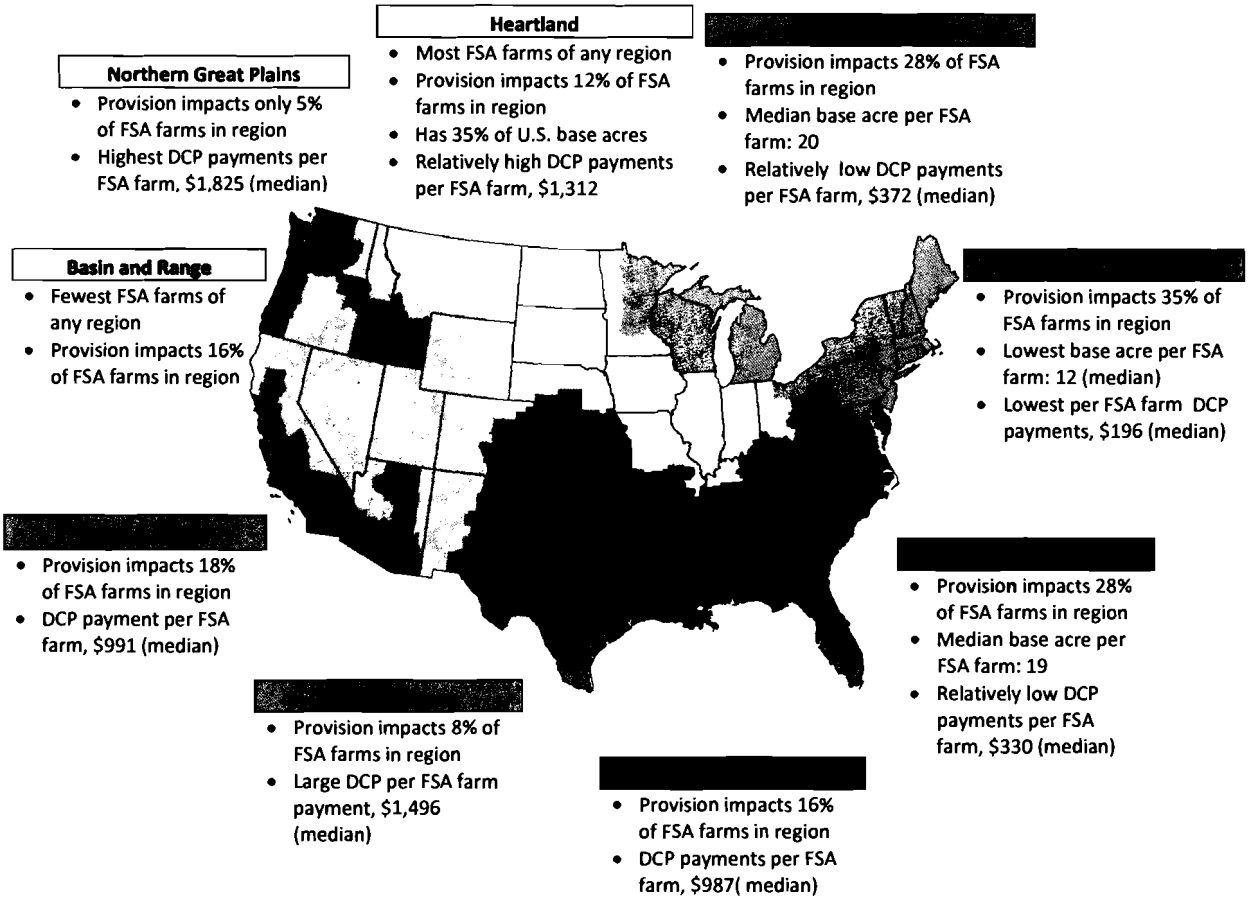
B) Total potential Direct and Countercyclical Payments (Millions U.S. $), 2009



* FSA farms owned by socially disadvantaged or limited resource farmers are exempted from the limited base acre provision.

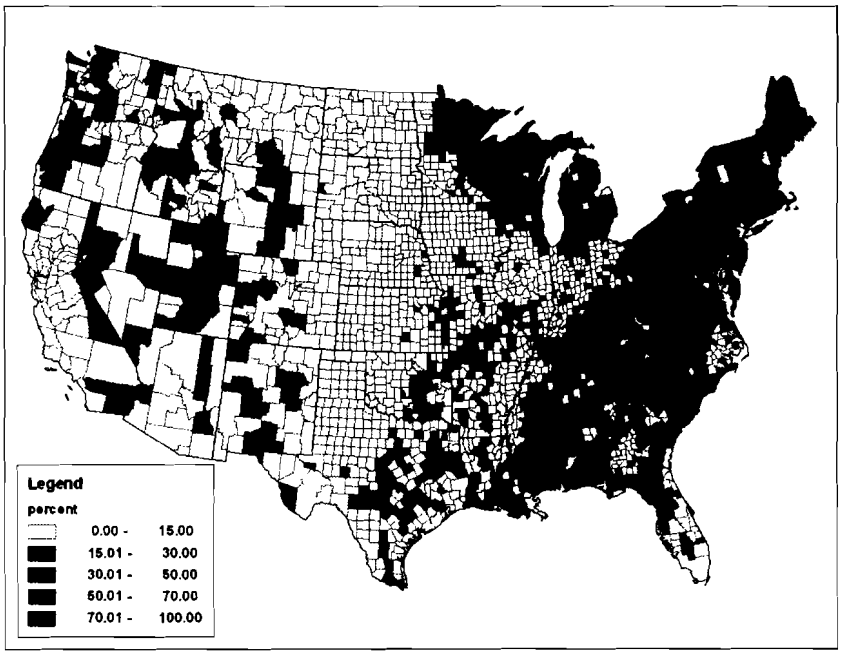
Source: USDA, Economic Research Service, calculated from Farm Service Agency data, 2009 Direct and Countercyclical Payment (DCP) farm crop database.

Figure 3: Resource Regions



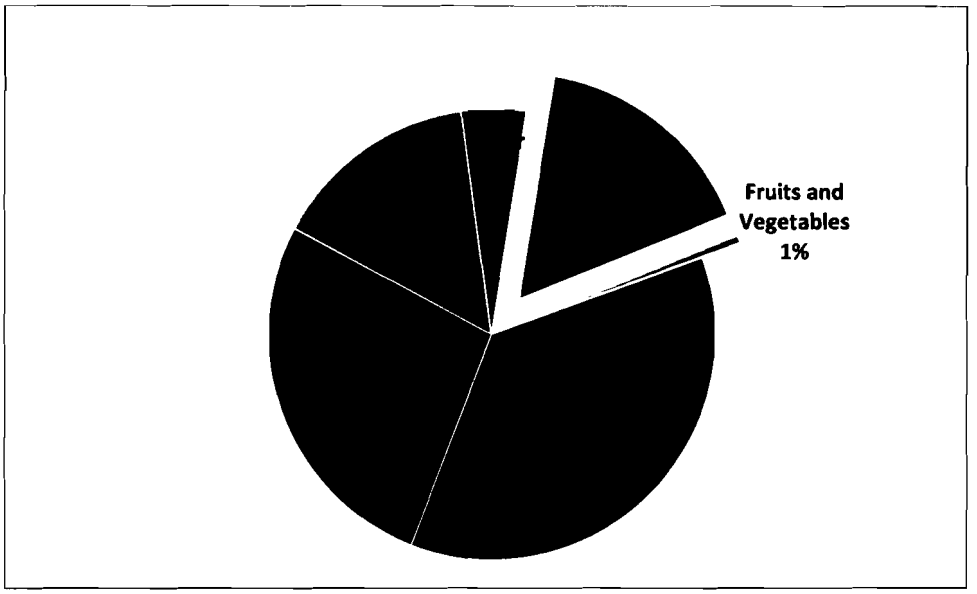
Source: USDA, Economic Research Service, calculated from Farm Service Agency data, 2009 Direct and Countercyclical Payment (DCP) farm crop database.

Figure 4: Percent of FSA farms ineligible under the "base-10" provision in each county in 2009



Source: USDA, Economic Research Service, calculated from Farm Service Agency data, 2009 Direct and Countercyclical Payment (DCP) farm crop database.

Figure 5: Distribution of acres planted by type of crop for FSA farms with prohibited payments, 2009



Source: USDA, Economic Research Service, calculated from Farm Service Agency data, 2009 Direct and Countercyclical Payment (DCP) farm crop and compliance databases.

Table 1: Potential Federal Government payments affected by the base 10 and under provision by region and for selected states, 2009

Region	State*	Number of FSA farms: All Farms ('000s)	Number of FSA farms: Prohibited payments ('000s)	% Total Farms	Direct + Countercyclical (DCP) Payments: All Farms (Millions)	Direct + Countercyclical (DCP) Payments: Prohibited payments (Millions)	% Payments
Heartland		**804.8**	**93.0**	**11.6%**	**1,951.8**	**7.9**	**0.4%**
	Kentucky	*25.9*	*4.9*	*19.1%*	*38.0*	*0.4*	*0.9%*
	Indiana	*127.6*	*18.5*	*14.5%*	*233.6*	*1.7*	*0.7%*
	Illinois	*185.5*	*21.5*	*11.6%*	*462.0*	*1.9*	*0.4%*
Northern Crescent		**363.0**	**101.3**	**27.9%**	**365.8**	**7.7**	**2.1%**
	Massachusetts	*1.9*	*1.2*	*61.3%*	*0.6*	*0.1*	*16.9%*
	Connecticut	*1.9*	*1.0*	*53.6%*	*0.8*	*0.1*	*11.5%*
	Maine	*3.6*	*1.5*	*42.0%*	*1.0*	*0.1*	*8.4%*
	Pennsylvania	*42.3*	*15.7*	*37.2%*	*23.2*	*1.2*	*5.3%*
Northern Great Plains		**138.0**	**6.7**	**4.9%**	**518.2**	**0.4**	**0.1%**
	Wyoming	*2.7*	*0.2*	*6.8%*	*5.6*	*0.0*	*0.2%*
	South Dakota	*30.2*	*1.3*	*4.2%*	*100.6*	*0.1*	*0.1%*
Prairie Gateway		**312.2**	**23.5**	**7.5%**	**1,113.7**	**1.6**	**0.1%**
	New Mexico	*4.4*	*0.5*	*11.0%*	*18.4*	*0.1*	*0.3%*
	Kansas	*113.5*	*9.1*	*8.0%*	*331.3*	*0.6*	*0.2%*
	Oklahoma	*51.0*	*2.8*	*5.5%*	*129.3*	*0.2*	*0.1%*
Eastern Uplands		**117.2**	**40.8**	**34.8%**	**85.6**	**2.4**	**2.9%**
	Virginia	*4.9*	*2.3*	*47.6%*	*1.4*	*0.1*	*8.9%*
	West Virginia	*4.4*	*2.0*	*46.8%*	*1.9*	*0.1*	*6.7%*
	Kentucky	*39.1*	*15.3*	*39.1%*	*17.6*	*0.8*	*4.8%*
	Pennsylvania	*8.7*	*3.3*	*37.4%*	*3.6*	*0.3*	*7.1%*
Southern Seaboard		**228.9**	**63.2**	**27.6%**	**392.4**	**4.5**	**1.2%**
	Mississippi	*3.4*	*1.6*	*46.6%*	*2.2*	*0.1*	*4.3%*
	Virginia	*34.6*	*11.9*	*34.3%*	*29.1*	*0.7*	*2.5%*
	South Carolina	*26.5*	*8.3*	*31.5%*	*31.8*	*0.5*	*1.6%*
	Arkansas	*0.4*	*0.1*	*16.8%*	*0.6*	*0.0*	*0.6%*
Fruitful Rim		**93.2**	**17.0**	**18.3%**	**588.2**	**2.3**	**0.4%**
	Florida	*9.1*	*3.0*	*32.6%*	*19.4*	*0.3*	*1.5%*
	Oregon	*6.6*	*1.8*	*27.5%*	*16.1*	*0.2*	*1.1%*
	South Carolina	*4.8*	*1.2*	*24.9%*	*6.6*	*0.1*	*1.3%*
	Washington	*8.4*	*1.2*	*14.8%*	*41.4*	*0.1*	*0.3%*
Basin and Range		**36.4**	**5.9**	**16.1%**	**111.6**	**0.4**	**0.4%**
	Utah	*6.1*	*1.7*	*27.9%*	*6.7*	*0.1*	*1.9%*
	Nevada	*0.5*	*0.1*	*25.0%*	*1.1*	*0.0*	*0.8%*
	Washington	*5.9*	*1.0*	*17.2%*	*33.7*	*0.1*	*0.3%*
Mississippi Portal		**116.2**	**18.9**	**16.3%**	**641.2**	**1.9**	**0.3%**
	Mississippi	*30.6*	*6.0*	*19.6%*	*169.1*	*0.5*	*0.3%*
	Tennessee	*32.1*	*5.6*	*17.5%*	*60.5*	*0.5*	*0.8%*
	Arkansas	*26.7*	*1.7*	*6.2%*	*270.9*	*0.2*	*0.1%*
United States		**2,210**	**371**	**16.8%**	**5,76 8**	**29.1**	**0.5%**

* States may be categorized in more than one region.

Source: USDA, Economic Research Service, calculated from Farm Service Agency data, 2009 Direct and Countercyclical Payment (DCP) farm crop database.

Table 2: Size of operations, 2009*

	All Operations					Operations with Prohibited Payments				
		Farmers Per Operation		Operation Size (planted acres)			Farmers Per Operation		Operation Size (planted acres)	
	N	Average	Median	Average	Median	N	Average	Median	Average	Median
Nationwide	660,425	2.6	1	614.6	198.5	43,118	5.5	3	554.2	186.3
Indiana	26,148	4.0	2	448.6	174.3	2,838	8.8	6	762.6	442.9
Michigan	15,656	3.1	1	354.3	150.0	1,733	7.2	5	589.0	272.9
Kentucky	34,794	1.2	1	143.3	70.7	2,408	1.4	1	101.5	37.68
West Virginia	1,423	1.5	1	184.8	110.7	204	2.3	1	183.5	84.8

* Data are based on the 1,703,822 FSA farms with compliance and contract information. If an operation consists of farms across multiple states, the state of the operation is the one which holds the largest total planted acres across its farms. See Appendix B, Figure B1, for a more detailed description of the methodology to calculate operation size.

Source: USDA, Economic Research Service, calculated from Farm Service Agency data, 2009 Direct and Countercyclical Payment (DCP) farm crop, contract, and compliance databases.

Appendix A—Peanuts and the Base-10 Provision

Similar to the stipulations on commodity payments in section 1101(d), section 1302(d), which focuses on peanuts, specifies that a farm may not receive DCP or ACRE benefits if the sum of the base acres of the farm is 10 acres or less. Limited resource and socially disadvantaged owners are exempt from this "base-10" provision. Our analysis of FSA data indicates that there were over 31,000 FSA farms with base acres in peanuts in 2009. Approximately 1,300 of these farms were prohibited from receiving payments under the base-10 provision, most of which were located in the Southern Seaboard region of the country. Total DCP peanut payments prohibited for these FSA farms amounted to $188,000, a very small share of peanut payments ($113 million). Among farms ineligible for payments, only 640 had a majority of their base acres in peanuts.

Appendix B—Linking FSA Farms to Size of Operation

FSA customers can be an owner, operator, or owner/operator of one or more FSA farms. In order to assess whether an operator or producer is a "large" or "small" farmer, we first must identify farms for which the FSA customer is the operator. (The terms farmer, producer, and operator are used interchangeably in this report—see earlier footnote.)

The identification process starts with determining the operator for each FSA farm and finding all the FSA farms that this customer operates. For example, in Figure B1, customer B has an interest in three farms—Farm 1011, Farm 1012, and Farm 1013. Customer B owns Farms 1012 and 1013 but operates only Farms 1011 and 1012. Accordingly, Customer B's *operation* consists of only Farms 1011 and 1012, with 550 total planted acres.

Multiple customers can be associated with one FSA farm. The customer identified as the operator on that farm is key to identifying the operation regardless of who receives the share of DCP or ACRE payments. Customer C operates only one farm—Farm 1013—with 2,000 planted acres, renting from two owners, B and D. Three customers (D, E, and F) have interests in Farm 1014. Since customer E is the operator of Farms 1014 and 1015, they both comprise customer E's operation of 15,450 planted acres.

Now, let us turn our attention to the number of base acres, farm size, FSA farms, and operators.[15] Suppose there are four farmers—Peterson, Miller, Jones, and Smith—each of whom operates two farms, one of which they own and the other which they lease from Mrs. Applebee (Table B1).[16]

[15] More examples can be found in the FSA Handbook (USDA, Farm Service Agency).

[16] A farmer who is either an owner or cash leases land determines whether he/she participates for each farm in the commodity programs. Under a share lease, all owners, operators, landlords, tenants, and sharecroppers must agree in writing to elect to participate.

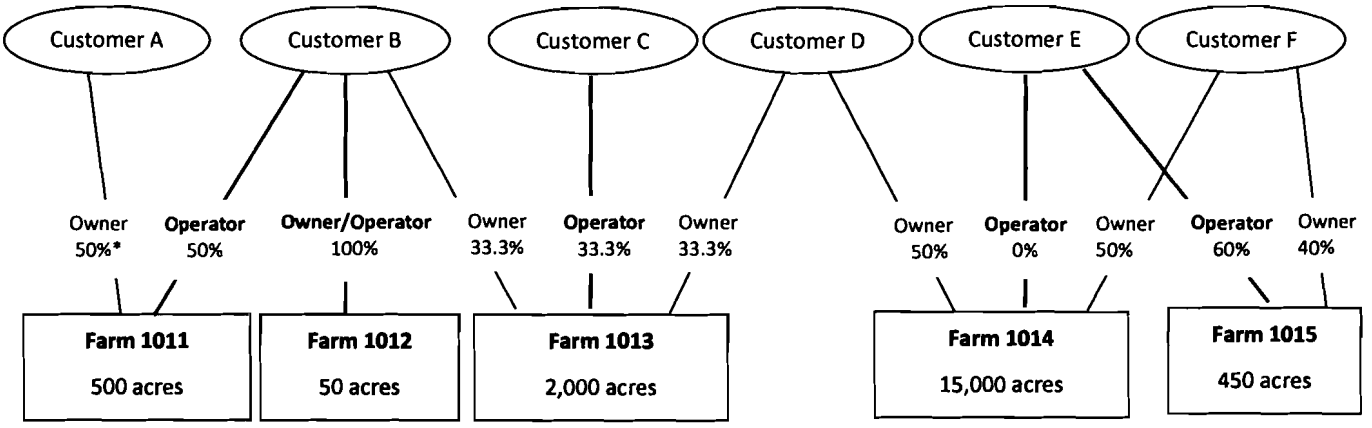
In 2009, Farmers Peterson and Miller operate Farms 1021 and 1022, and 1023 and 1024, respectively, which have over 10 base acres each, so there is no prohibition of payments. (Measuring by the number of acres, Farmer Peterson could be considered to operate two "large farms" (the Peterson operation) in contrast to the "small farms" Farmer Miller operates (the Miller operation), who controls Farms 1023 and 1024 with 50 acres each.) Had they been affected by the base-10 provision in 2008, any of these FSA farms could have been restructured to ensure that each would have over 10 base acres in 2009. Farm 1021, for instance, could have been a combination of five farms—four with 10 corn base acres and the other with 460 corn base acres—all operated by Farmer Peterson, but not necessarily solely owned by Farmer Peterson in 2008.

In the third and fourth columns in Table B1, Farmers Jones and Smith both have payments prohibited by the base-10 provision. Farmer Jones operates one "large" and one "small" farm (the Jones operation), while Farmer Smith runs two "small farms" (the Smith operation).[17] Note, though, that Farmer Smith only has payments prohibited on the farm that he owns, Farm 1027, since Farm 1028 has over 10 base acres.

As illustrated by these examples, a more accurate measure of the size of a farmer's operation requires identifying all farms operated by a producer and aggregating the planted acres across all the FSA farms. Farmer Jones would appear to be a "small" farmer if we only viewed Farm 1026 rather than the entire operation of Farms 1025 and 1026. Thus, there is not a one-to-one correspondence between small (large) farms or farmers and those that experience prohibited (not prohibited) payments under the base-10 provision.

[17] If Mrs. Applebee share leases, then she would lose part of the prohibited payment for Farm 1026.

Figure B1. Determining the size of an operation



Operation under FSA Customer B: Consists of two farms: Farm 1011 and Farm 1012. Total size=550 acres.
Operation under FSA Customer C: Consists of one farm: Farm 1013. Total size=2,000 acres.
Operation under FSA Customer E: Consists of two farms: Farm 1014 and Farm 1015. Total size=15,450 acres.

* Percentages indicate each customer's share of base acres on the FSA farm.
Source: USDA, Economic Research Service.

Table B1: Base 10 and under provision: various farmer and farm scenarios

	No Loss of Payments		**Prohibition of Payments**
Large Farmer	*Farmer Peterson* *1000 acres, 600 base acres*	**Large Farmer**	*Farmer Jones* *1000 acres, 20 base acres*
Farm 1021	500 acres of land owned by Farmer Peterson with 500 corn base acres	Farm 1025	950 acres of land owned by Farmer Jones with 10 corn base acres
Farm 1022	500 acres leased from Mrs. Applebee with 100 soybean base acres	Farm 1026	50 acres leased from Mrs. Applebee with 10 soybean base acres
Small Farmer	*Farmer Miller* *100 acres, 50 base acres*	**Small Farmer**	*Farmer Smith* *100 acres, 35 base acres*
Farm 1023	50 acres of land owned by Farmer Miller with 25 corn base acres	Farm 1027	50 acres of land owned by Farmer Smith with 10 corn base acres
Farm 1024	50 acres leased from Mrs. Applebee with 25 soybean base acres	Farm 1028	50 acres leased from Mrs. Applebee with 25 soybean base acres

Note: In these scenarios we are assuming arbitrarily that a 50-acre farm conforms to a small farm. Source: USDA, Economic Research Service.