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Payment Yield Update – A Third Option

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The 2014 farm bill provides the owner of a Farm Service Agency (FSA) farm with a one-time option to update the farm's payment yield for covered crops. This decision is commonly presented as having 2 options. This article discusses a 3rd option that has emerged given how FSA will administer the decision. For other discussions of the yield update decision see the previous articles (July 11, 2014; April 3, 2014)

Choices

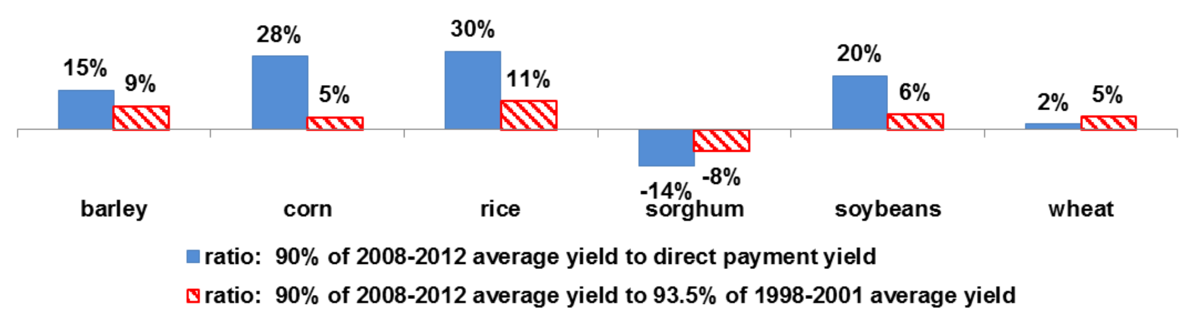
- The commonly presented choice options are (1) retain 2013 counter-cyclical payment yield, or (2)update payment yield to 90% of the simple average of a covered crop's yield per planted acre on the FSA farm for each of the 2008 through 2012 crop years.
- A year is excluded for a covered crop if no acres were planted to it and a "substitute yield" is used when the FSA farm yield for a year is less than 75% of its 2008-2012 average county yield. The substitute yield is 75% of the 2008-2012 average county yield per planted acre. A file of substitute yields for the payment yield update options is available here.
- FSA farm owners will be asked to self-certify the yields they report. Farms will then be selected for spot checks to verify reported yields. Spot checks can occur throughout the life of the 2014 farm bill. If selected for a spot check, evidence must be provided. Penalties can be imposed if the spot check finds errors. The implication is that FSA farm owners need to consider the difficulty of verifying yields.

- The “substitute” yield will also be used if the crop was planted in a year but the FSA farm owner is unable to self-certify yields because of the unavailability of supporting records or because the FSA owner does not wish to produce the supporting records.
- The preceding point implies the ‘substitute yield” is an option available to all producers and has particular relevance to FSA farm owners who have no verifiable evidence for whatever reason.
- Hence, 90% of 75% of the 2008-2012 county average yield is a third option to consider.
- The same tabular example in the July 11, 2014 *farmdoc daily* article has been modified to illustrate this situation. The “substitute yield” of 112 becomes the basis for an updated yield option equal to 101 (90% of 112).
- Figure 1 provides a national perspective on this option. The figure compares (1) 90% of the 2008-2012 average U.S. yield per planted acre to (2) 93.5% of the 1998-2001 average U.S. yield per planted and (3) average U.S. direct payment yield. These 3 situations represent the 2014 farm bill update option, 2002 farm bill update option, and the yield if the 2002 farm bill update option was not used, respectively. As Figure 1 illustrates, the "substitute yield" option will likely have particular relevance for FSA farms for which the direct payment yield is their counter-cyclical yield.

Table 1. Example Calculation of Updated Payment Yield for Corn

	2008	2009	2010	2011	2012	Sum of Yields	Average Yield (divide by 4)	Payment Yield (90%)
Yield per planted acre	planted: no evidence	planted: no evidence	planted: no evidence	~~no planted acres~~	planted: no evidence			
Substitute Yield: 75% of 2008-2012 county average yield	112	112	112	~~112~~	112			
Yield used	112	112	112		112	448	112	101

Figure 1. Comparion of Farm Program Payment Yields, Selected Crops, U.S.



Summary Observations

- At the very least, all FSA farm owners should determine if the FSA farm's “substitute yield” for the yield update decision is higher than its current counter-cyclical yield, especially if no verifiable evidence can be provided and the current counter-cyclical yield is the direct payment yield.

- This becomes more important because Congress only occasionally provides opportunities to update payment yields. Hence, the payment yields elected in this yield update option may be used by future farm bills and thus may affect payments beyond the scheduled end of the 2014 farm bill.

References

Zulauf, C., N. Paulson, J. Coppess, G. Schnitkey, and T. Kuethe. "2014 Farm Bill Decisions: Payment Yield Update Option." *farmdoc daily* (4):129, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, July 11, 2014.

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