Farmland IN PERSPECTIVE

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Lease Dates to Remember

As landowners review a lease with their tenant(s), they will want to be aware of important lease dates. In many states, the tenant's lease is reinstated automatically "as is" unless the tenant is notified by a certain date. This date should be specified in a written lease. If a verbal lease exists, the accompanying traditional dates may apply. Consult your farm manager or attorney.

State	Traditional Verbal Lease Year*	Traditional Verbal Notification Date*
Arkansas	Jan. 1 – Dec. 1	July 1
Illinois	Mar. 1 – Feb. 28	Oct. 31
Indiana	Mar. 1 – Feb. 28	Nov. 30
Iowa	Mar. 1 – Feb. 28	Sept. 1
Minnesota	Not well defined. Consult your farm manager.	Not well defined. Consult your farm manager.
Nebraska	Mar. 1 – Feb. 28	Sept. 1
Wisconsin	Mar. 1 – Feb. 28	Dec. 1 90 days advance notice is required to terminate a verbal lease.

* *Traditional lease year and notification date for verbal leases. In some states, the lease continues unless notified by a specified notification date. Lease years and notification dates may vary based on the terms of a written lease. Consult your farm manager or attorney for confirmation.*

The 2014 Farm Bill Introduces Important Changes and Decisions

By Nicholas D. Paulson, Associate Professor, University of Illinois

The 2014 Farm Bill introduced large changes to farm commodity programs after more than two years of debate in Congress. The direct and countercyclical payment (DCP) programs were eliminated due to the need to reduce spending to assist with deficit reduction. They were replaced by new programs with a strong focus on risk management. Landowners were given the option to make changes to the program yields and base acres on their farms. Farmers were given the choice of three different farm programs to help them manage risk.

Landowner Decisions

Landowners had the option of updating the program yields on their Farm Service Agency (FSA) farms. All farms which had been enrolled in farm programs in the past had existing program yields assigned to them based on historical production. These yields were used to determine the size of countercyclical program payments when prices were low.

In the new farm bill, landowners had the ability to update those yields to 90% of the average yield level over the 2008 through 2012 crop years. This decision was relatively straightforward. If landowners could increase their program yields, they most likely decided to update.

Landowners were also given the option of reallocating the base acres on their FSA farms. Base acres were also established based on historical production, and have been used to determine the total farm program payment level received by the farmer for a farm each year.

The total number of base acres on the farm did not change if the landowner chose to reallocate. This is why the decision was referred to as a reallocation rather than as a base acre update. The number of acres in each program crop could change to reflect what crops were actually planted on the farm from 2009 through 2012. The new programs will continue to use base acres to determine payment levels.

For both landowner decisions – yield updating and base acre reallocation – one option was not to make any changes and keep yield levels and base acres the same. Since farm program payments will be impacted by program yields and base acres, landowners should make sure they understand any changes that were made and confirm them with their tenants and county FSA offices.

Continued on page 2

Farmer Decisions

The third decision in the new farm bill was the choice of three different commodity programs. *See Table 1.*

Table 1. Commodity Program Choices in the 2014 Farm Bill

Price Loss Coverage (PLC)

- A target price program which is very similar to the countercyclical program.
- Provides a payment if the actual marketing year average price for the crop is lower than the fixed reference price.
- Payments equal the price difference multiplied by the crop's program yield on a given farm.
- Payment is made on 85% of a farm's base acres for that crop.

Agriculture Risk Coverage — County Level (ARC-CO)

- A county revenue program.
- Triggers a payment for a crop when actual revenue falls below that crop's revenue guarantee.
- Revenue guarantees are based on the five-year averages of the:
  1) Crop's yield in that county.
  2) The crop's national marketing year average price.
- Farms receive a payment on 85% of the base acres dedicated to that crop in years when a payment is triggered.

Agriculture Risk Coverage — Individual Farm Level (ARC-IC)

- A revenue program with some important differences from ARC-CO.
- Based on individual farm yields to set both guarantees and to determine actual revenue in any given year. Farmers will need to provide farm yield records to FSA to determine guarantee and payment levels each year.
- Not a crop-specific or single-crop program. The revenue guarantee is a whole-farm measure based on all of the crops planted to that farm.
- If payments are triggered, they will be made on 65% of the farm's total base acres.

The current farm operators had the ability to choose to participate in the farm program decision. For farms where the landowner was also the farm operator, all three decisions were made by the same individual. However, in rental situations the parties making the farm program choice depended on the lease type. In the case of a share rental agreement, the landowner is considered by FSA to be sharing in the risk of production with the farm operator and was included in the program choice decision. For cash rent or flexible/variable leases, the farm operator had the right to make the farm program decision without consulting the landowner.

Farm Program Enrollment

The Farm Service Agency recently released sign-up data for the new commodity programs. Overall, the majority of farms and base acres were enrolled in the ARC-CO program. Across all crops, 76% of the base acreage in the U.S. was enrolled in ARC-CO, compared with just 1% in ARC-IC, with the remaining 23% in the PLC program.

However, there were differences in program enrollment for different crops. *Figure 1* summarizes the enrollment figures for program crops with at least one million base acres. ARC-CO was the overwhelming choice for the largest program crops: corn and soybeans. For both corn and soybeans, the revenue guarantees for the ARC-CO program were very attractive because of the high price levels over the past five years. PLC was less attractive because the reference price levels were relatively low. The reference price for corn is $3.70/bu. and for soybeans is $8.40/bu. Both price levels are at or below expected market price levels over the next few years.

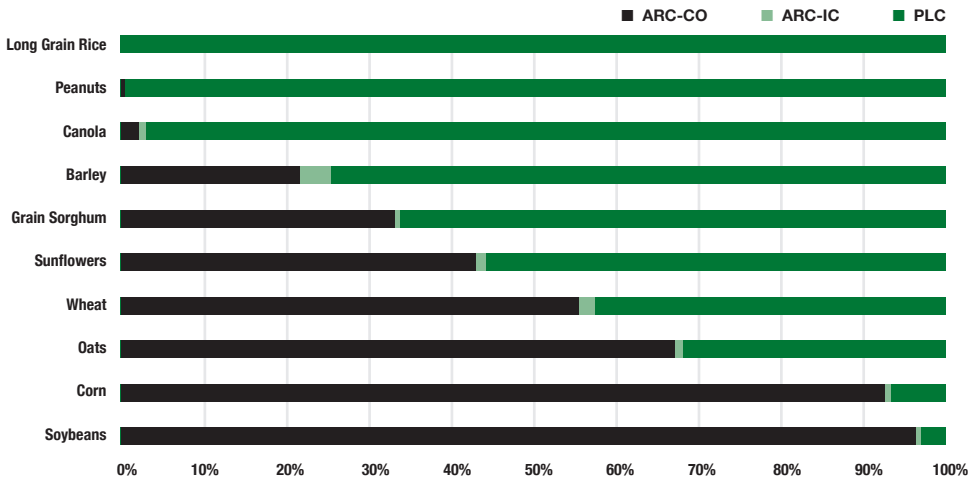
For wheat and small grains, a larger percentage of total base acres were enrolled in the PLC program. For these crops, the revenue guarantees for the ARC-CO program and the fixed reference prices for the PLC program were more similar, making the decision among programs more difficult. Looking ahead over the next five years, it was not as clear which program would end up offering better support for these crops.

Finally, for peanuts and long grain rice, virtually all base acres were enrolled in PLC, and less than 1% were enrolled in the ARC-CO program. For these crops, the PLC program price support levels were high relative to the ARC program revenue guarantees, suggesting the PLC program would offer more support to these crops. The fixed reference prices for the PLC program are $535/ton for peanuts and $14.00/cwt. for long and medium grain rice.

The ARC-IC program was not widely elected for any of the larger program crops displayed in the figure. The ARC-IC program was viewed by many as being fairly complex since it is based on all crops planted on the farm. ARC-IC enrollment rates did exceed 5% for some of the smaller program crops such as lentils, dry peas, and mustard. Chickpea base enrollment in ARC-IC reached 10% of all base acres. This suggests that, at least for the major program crops in the U.S., the vast majority of producers preferred the programs which offer them fixed price protection (i.e. PLC) or a relatively simple revenue program based on area (county) yields.

Figure 1. Percentage of Base Acres Enrolled in Each Program by Crop

Note: Only includes program crops with at least 1 million base acres



Discussion and Impacts

Even though farm program payments are received by the current farm operators, any changes that were made will also impact landowners. This applies not only for landowners who are actively engaged on their farms, but also absentee landlords in cash rent and variable lease situations. All three of the decisions will remain with the farm at least until the end of this farm bill. This means that farms will remain enrolled in the program that was chosen by the current farmer through at least the 2018 crop year. This is true even if there are changes to the tenant or structure of any farmland lease or if the farm changes ownership during this time period.

While there is no clear evidence that the decisions made in this farm bill will have any major impacts on farmland values or rental rates, owners and tenants will want to be aware of the payment yields, base acres, and farm program associated with a given farm. These will all affect any farm program payments for that farm in future years when prices or revenues are low.

Three Things To Confirm:

1. **Were the program yields on your farm(s) updated?**
2. **Were the base acres on your farm(s) reallocated?**
3. **Which of the new farm program(s) were elected on your farm(s)?**

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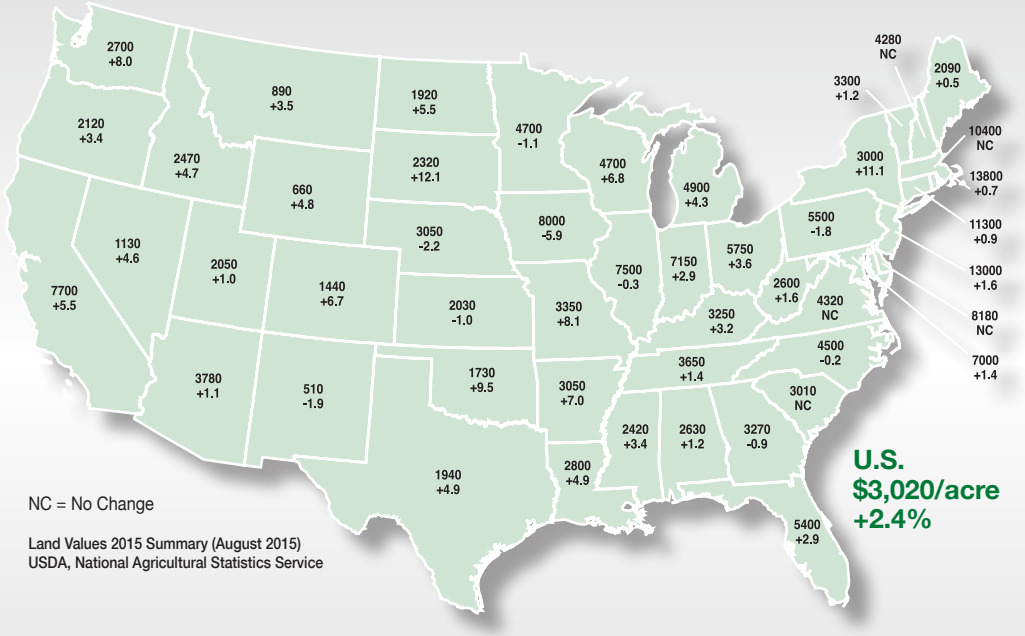
2015 Agricultural Land Values

Dollars per acre and percent change from 2014



NC = No Change

Land Values 2015 Summary (August 2015)
USDA, National Agricultural Statistics Service

The United States farm real estate value, a measurement of the value of all land and buildings on farms, averaged $3,020 per acre for 2015, up 2.4% from 2014 values, according to the National Agricultural Statistics Service of the U.S. Department of Agriculture. Regional changes in the average value of farm real estate ranged from a 6.1% increase in the Southern Plains region to a 0.3% decrease in the Corn Belt region. The highest average farm real estate value was in the Corn Belt region which averaged $6,350 per acre. The Mountain region had the lowest average farm real estate value with an average of $1,100 per acre.

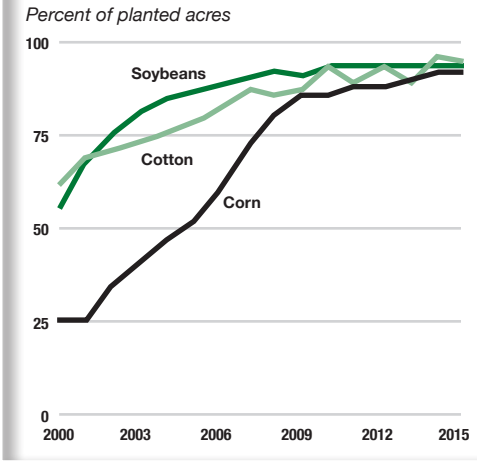
Genetically engineered seeds planted on 90+% U.S. corn, cotton, & soybean acres, 2015

U.S. farmers have adopted genetically engineered (GE) seeds in the 20 years since their commercial introduction, despite their typically higher prices, according to the U.S. Department of Agriculture.

- Herbicide-tolerant (HT) crops, developed to survive the application of specific herbicides that previously would have destroyed the crop along with the targeted weeds, provide farmers with a broader variety of options for weed control.
- Insect-resistant crops (Bt) contain a gene from the soil bacterium *Bacillus thuringiensis* that produces a protein toxic to specific insects, protecting the plant over its entire life.
- "Stacked" seed varieties carry both HT and Bt traits, and now account for a large majority of GE corn and cotton seeds.

In 2015, adoption of GE varieties, including those with herbicide tolerance, insect resistance, or stacked traits, accounted for 94% of cotton acreage, 94% of soybean acreage (soybeans have only HT varieties), and 92% of corn acreage planted in the United States.

Adoption of genetically engineered crops in the United States, 2000–15



Data for each crop include varieties with herbicide tolerance (HT), insect resistance (Bt), or both ("stacked") traits. Data are for calendar year plantings.
Source: USDA, Economic Research Service using data from USDA, National Agricultural Statistics Service, June Agricultural Survey.

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