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

Christine Arriola, carriola@ers.usda.gov**, Barry Krissoff,** barryk@ers.usda.gov, **Edwin Young, Joy Harwood, and Chengxia You**

Abstract

The Food, Conservation, and Energy Act of 2008 eliminates direct and countercyclical payments (DCP) and average crop revenue election program payments to farms with 10 or fewer base acres. This report examines the effects of the provision. Findings suggest that Federal budgetary savings from the provision are small. In 2009, nearly 371,000 of the Nation's 2.2 million farms had 10 or fewer base acres (not including farms owned by limited-resource and socially disadvantaged farmers, which are exempt from the provision). However, not all farms with 10 or fewer base acres participate in the DCP program. Based on the 2008 enrollment rate, 148,400 farms would no longer receive DCP, estimated at $11.7 million in 2009. The effect of the provision varies among U.S. regions, with a larger portion of ineligible farms found on or near the East Coast.

Keywords: Farm Act, direct and countercyclical payments, base acres, farm policy

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About the Authors

Christine Arriola and Barry Krissoff are economists with USDA's Economic Research Service (ERS). Ed Young is a former economist with ERS. Joy Harwood is the director of economic and policy analysis staff at USDA's Farm Service Agency. Chengxia You is a systems analyst with ERS.

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Summary

What Is the issue?

The Food, Conservation, and Energy Act of 2008 eliminates direct and countercyclical payments (DCP) and average crop revenue election (ACRE) payments to farms, as defined by USDA's Farm Service Agency (FSA), with 10 or fewer base acres. Farms owned by "limited-resource" and "socially disadvantaged" farmers are exempt from this provision. Additionally, under limited circumstances, producers with interests in more than one farm could shift their base acres so that each of their farms would contain acreage above the 10-acre base limit and thus ensure continued eligibility for DCP or ACRE payments. Eliminating payments to farms under the "base-10" provision reduces program payments and administrative costs.

The number of FSA farms, the administrative unit to which FSA applies the 10-base-acre provision, and the share with 10 or fewer base acres have increased over the last decade by 4 percent and 13 percent, respectively. These changes likely stem from 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 division of farms among multiple owners as land is passed down to the next generation. By 2009, 2.2 million FSA farms were eligible to receive DCP or ACRE payments, of which nearly 17 percent had 10 or fewer base acres (not including exempt farms). This study analyzes the effects of the base-10 provision on the U.S. farm sector.

What Did the Study Find?

- ***The base-10 provision affects a large number of farms but has little effect on total program payments.*** In 2009, nearly 371,000 FSA farms became ineligible for payments under the provision, with prohibited payments equaling an upper bound of $29.1 million, or about 0.5 percent of total DCP. Many of these farms, however, chose not to participate in DCP in prior years. For example, 60 percent of nonexempt farms with 10 or fewer base acres in 2008—before implementation of the provision—were eligible to enroll in the DCP program but declined to participate likely because the payments were small relative to the administrative costs of enrolling. As a result, the annual payment savings associated with the provision are likely considerably lower than the $29.1 million upper-bound estimate. Assuming only 40 percent of base-10 farms were affected by the provision in 2009, the more likely annual program savings from forgone payments are $11.7 million.

- ***The East Coast is more affected by the base-10 provision than the Midwest and the West Coast.*** Farms in the Midwest and along much of the West Coast typically have more base acres per farm than farms in other parts of the United States; thus, the provision has had little effect within these high-base-acre areas. In contrast, regions along or near the East Coast tend to have a high proportion of farms with small base acre holdings and are more affected by the provision.

- ***The provision is not expected to affect the fruit and vegetable sector.*** Only 1 percent of the acreage operated by base-10 farms was planted to fruit and vegetables in 2009. However, some operators of these farms increased fruit and vegetable production, resulting in an additional 20,000 acres devoted to these crops, mostly on farms in Maine and Idaho. Market conditions—anticipated higher vegetable prices in 2009—and relaxed planting constraints as a consequence of the provision likely influenced the decisions of farmers to change their crop mix. When viewed against the U.S. total of 11 million planted fruit and vegetable acres in 2009, an increase of 20,000 acres suggests no aggregate market effects.

- ***FSA farms for which payments were prohibited were generally part of larger operations.*** Seventy-six percent of FSA farms for which payments were prohibited were part of a multifarm operation in 2009, and 50 percent of these multiple-unit operations had at least three FSA farms. While these farms may have had the opportunity to reconstitute, the transaction costs may have prevented them from doing so, particularly given that prohibited payments averaged only $102 for these farms. Even if a multiple-farm operation was prohibited from receiving a payment for a farm with 10 base acres or less in 2009, the operator would have the option 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, which includes submitting various forms, and FSA must calculate and process any farm-specific payments that are made. Reducing the number of eligible FSA farms eases the Government's administrative burden. Estimated savings associated with the provision in 2009 include $3.5 million in personnel costs to FSA and $0.2 million in mailing and paperwork costs. Based on reductions in payment outlays to farms ($29.1 million) and administrative costs ($3.7 million), budgetary savings from the provision are estimated at as much as $32.8 million for 2009. Given the previous year's enrollment rate, however, the more likely amount is estimated at $13.2 million, based on reductions of $11.7 million in program costs and $1.5 million in administrative costs.

How Was the Study Conducted?

FSA maintains records based on FSA farms, which are the basis for analyzing the effects of the base-10 provision. This report relies on DCP farm crop, DCP contract, and 578 compliance detail files, which are administrative databases maintained by FSA. These databases enable researchers to track farm-level acreage and owner/operator program participation by FSA farm across geographic locations and over time and calculate annual DCP.

Introduction

Farm payment limitations and eligibility provisions have been included in Federal farm legislation for 40 years. These limitations generally reduce or eliminate payments that individuals or farms may be eligible to receive based on income levels or type of farm programs. The Food, Conservation, and Energy Act of 2008 (the 2008 Farm Act), 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] are prohibited from receiving direct and countercyclical payments (DCP) or average crop revenue election (ACRE) program payments (see Sections 1101(d) and 1302(d)).[2] Farms owned by limited-resource[3] and socially disadvantaged owners[4] are exempt from this "base-10" provision.

While it prohibits program payments to farmers with 10 or fewer (limited) base acres, the provision also reduces administrative costs to USDA's Farm Service Agency (FSA), which administers the DCP and ACRE programs. Farms may restructure, or reconstitute, their base acres so as to qualify as larger FSA-defined farms. This restructuring would also have the effect of reducing the administrative costs to FSA associated with many small individual farm transactions while preserving payments to the producer.

The 2008 Farm Act requires the collection of data and information on farm profiles, land use, 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 fruit and vegetables. This study examines the number and location of farms affected by the provision, the loss of program payments, the size and characteristics of affected farms and operators, changes in crop mix, and the possible effect of the provision on fruit and vegetable markets. Additionally, the study assesses potential Government budgetary savings due to the prohibition of program payments under this provision.

FSA maintains records based on administrative units ("FSA farms") defined by the combination of owners and operators, which are the basis for analyzing the effects of the base-10 provision. This report relies on DCP farm crop, DCP contract, and 578 compliance detail files, which are administrative databases maintained by FSA. These databases enable researchers to track farm-level acreage and owner/operator program participation by FSA farms across geographic locations and over time and calculate annual DCP.

[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 direct and countercyclical payments (DCP) and average crop revenue election (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 acres 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.

[3]A limited-resource owner is one who has (1) direct or indirect gross farm sales not more than $116,800 in each of the previous 2 years (in 2005 dollars, adjusted for inflation each year), and (2) a total household income at or below the national poverty level for a family of four or less than 50 percent of county median household income in each of the previous 2 years.

[4]This term refers to an owner who is a member of a "socially disadvantaged group," which is defined as a group whose members have been subjected to racial or ethnic prejudice because of their identity as members of a group without regard to their individual qualities. In the context of Titles I, V, and VI of the Farm Act, this includes members of a group subject to gender prejudice. When operators restructure the farms they own or operate, FSA assigns new farm numbers to the resulting farms. FSA farms with the same number in 2008 and 2009 are farms that did not reconstitute.

Farms Affected by the Base-10 Provision

The number of FSA farms and the share with limited base acres have increased over the last decade by 4 and 13 percent, respectively (fig. 1). Two factors may have contributed to the increases: (1) ad hoc disaster provisions for crops, which were paid on an individual FSA farm basis (meaning that the smaller the farm, the more likely it would be to qualify for a disaster payment); and (2) the division 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 (fig. 2a). Of these farms, 73,000 were exempt from the base-10 provision because they were owned 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 estimate of $29.1 million, as the affected farms controlled only 1.6 million base acres, or 0.6 percent of the total base acres on all FSA farms (fig. 2b).[5]

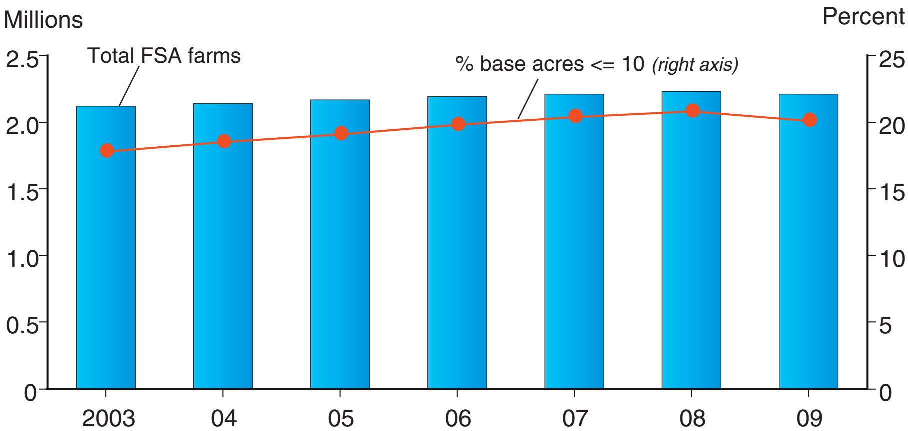
This estimate of prohibited payments would vary from year to year based on expected payments and program parameters. In 2008, for example, prohibited payments would total as much as $35.9 million. The larger amount for 2008, compared with that for 2009, stems from two factors. First, program crop market prices were higher in 2009 than in 2008, 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 Act provisions.

Note that these estimates, regardless of the year, are upper bound for two reasons. First, farms can reconstitute to ensure their continued eligibility

[5]The analysis included only direct payments, and operators who opted to enroll in ACRE were treated as DCP participants. There were limited countercyclical payments in 2009, but this program could be more of a factor in subsequent years.

Figure 1

Number of FSA farms with base acres and share of farms with small base acre holdings

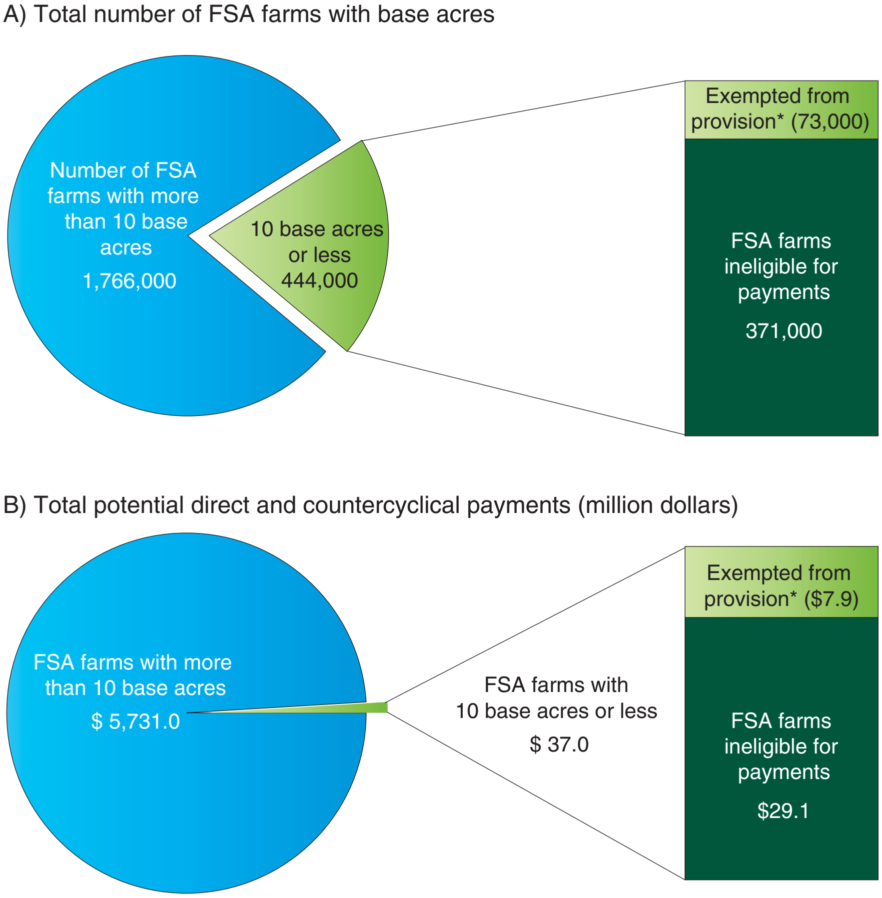


Note: The figure includes farms owned by socially disadvantaged and limited-resource farmers, which are exempt from the base-10 provision.

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

Figure 2

FSA farms with base acres in 2009



* Farm Service Agency (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 USDA, Farm Service Agency data, 2009 Direct and Countercyclical Payment farm crop database.

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 forgone an average of $79 per farm in 2009, a small amount compared with the average DCP/ACRE payment across all FSA farms of $2,620.[6] Farm operators 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 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.

Second, historically, not all operators of FSA farms have enrolled in the DCP/ACRE program in any given year. The upper-bound estimates are based on the total number of farms with 10 or fewer base acres whose owners did not qualify as 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 that enrolled in the DCP

[6]A few farms with large DCP skewed the average. An examination of the median reveals a similar disparity. Median total payments across all farms amounted to $865, which remains considerably larger than the median payment for farms with prohibited payments ($61).

program in 2008 received $17.6 million in payments. Applying this same 40 percent rate to 2009 data results in $11.7 million in payments forgone.

In the subsequent sections of this report, it is assumed that all producers[7] enroll in the DCP/ACRE programs if they are eligible. As a result, we retain the estimate of $29.1 million for prohibited payments in 2009 but acknowledge that this amount overstates actual savings, perhaps by a considerable margin.[8]

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

[8]The Congressional Budget Office (CBO) 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 (CBO, 2008).

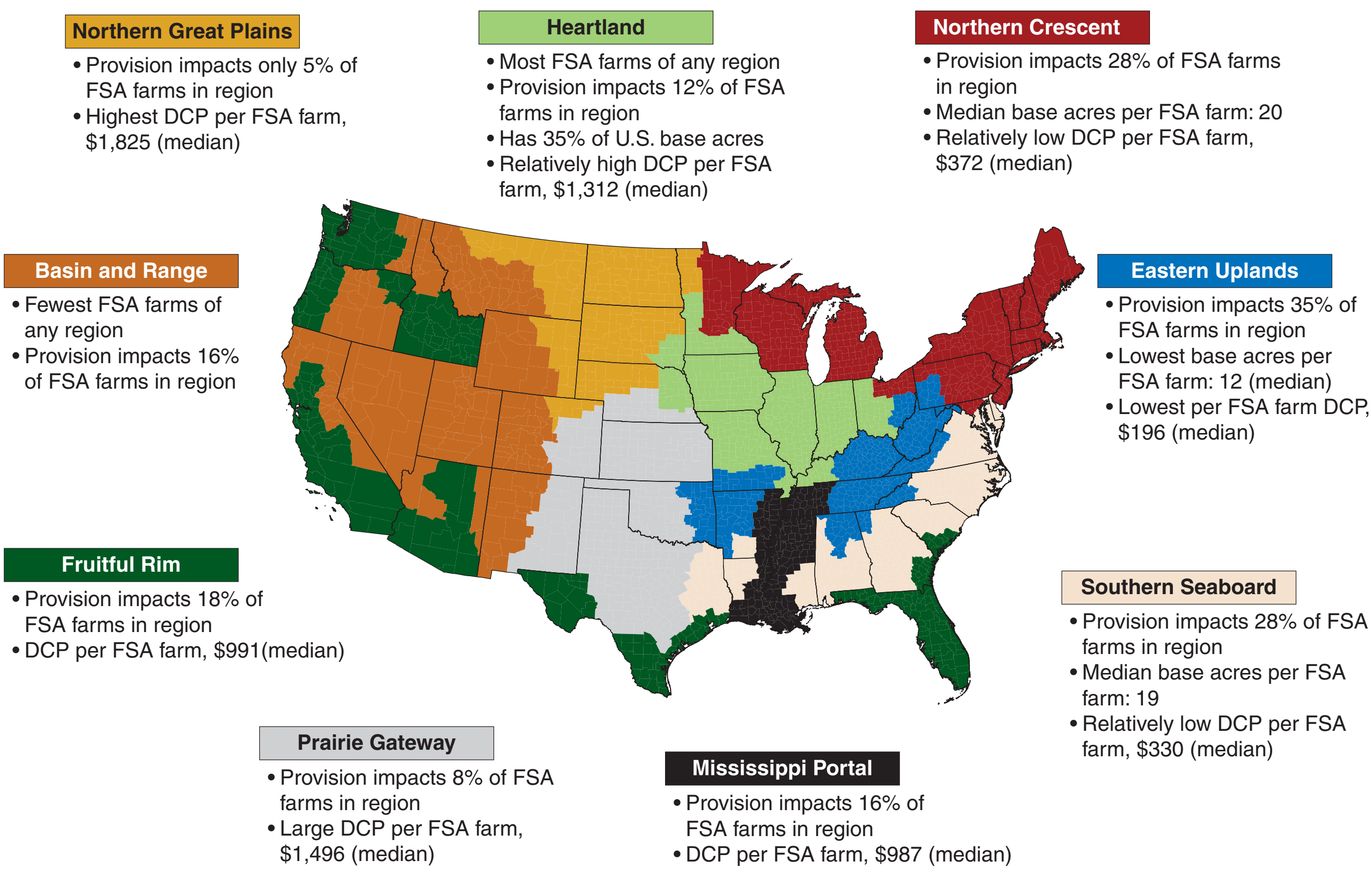
States and Regions Affected by the Base-10 Provision

The effects of the base-10 requirement vary across the United States. To analyze regional differences, we adopted the 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 key summary statistics related to the number of farms, base acres, and prohibited payments for each resource region. Figure 4 shows the share of FSA farms affected by the provision for each county in the United States in 2009.

In the Heartland, which had the highest number of FSA farms (805,000) among all regions, 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 much larger shares of farms affected by the base-10 provision. The Eastern Uplands, Northern Crescent, and Southern Seaboard regions in total had 709,000 FSA farms, and over 205,000 of those

Figure 3

ERS resource regions



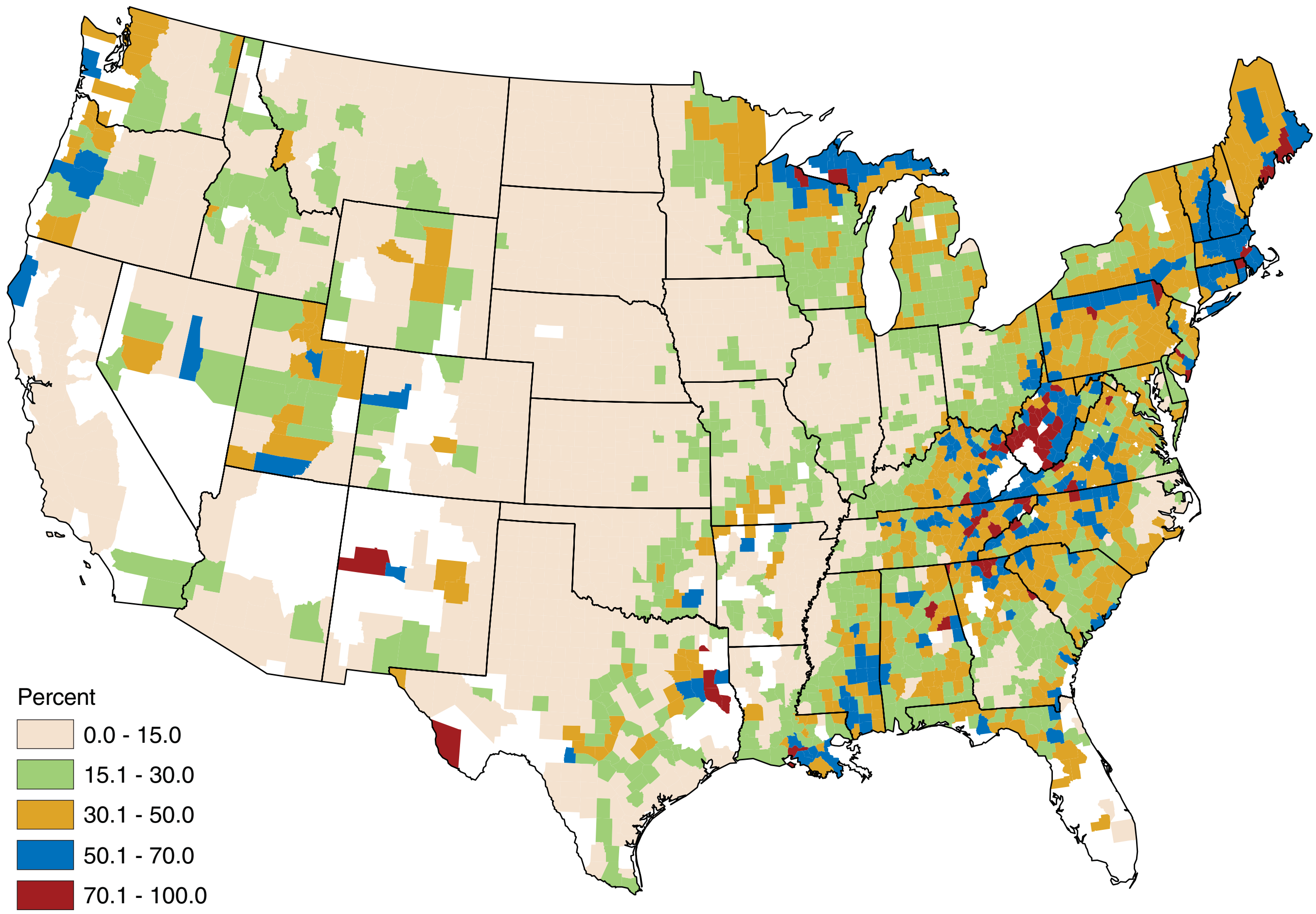
Source: USDA, Economic Research Service (ERS), calculated from USDA, Farm Service Agency data (FSA), 2009 Direct and Countercyclical Payment (DCP) farm crop database.

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 of the State's total. Nearly 15,300 FSA farms (about 39 percent) incurred prohibited payments in the Eastern Uplands portion of Kentucky,[9] where farms had a median of 7 base acres.

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

Figure 4

Share of Farm Service Agency farms ineligible under the base-10 provision, by county, 2009



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

Table 1

Potential[1] Federal Government payments affected by the base-10 provision, by region and for selected States, 2009

Region / State[2]	Number of FSA farms: All farms	Number of FSA farms: With payments prohibited	Share of all farms with payments prohibited	Direct and countercyclical payments: Received by all farms	Direct and countercyclical payments: Prohibited	Share of total payments prohibited
	Thousands	*Thousands*	*Percent*	*Million $*	*Million $*	*Percent*
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**

[1]Potential payments are based on all Farm Service Agency (FSA) farms with base acres that may or may not enroll in the Direct and Countercyclical Payment Program.

[2]States may be categorized in more than one region.

Source: USDA, Economic Research Service, calculated from USDA, Farm Service Agency data, 2009 DCP farm crop database.

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; such farms are treated in the same manner as all FSA farms. As a result, operators of FSA farms can (1) reconstitute their farms to exceed 10 base acres per farm; or (2) opt to not reconstitute, forgo payments, and have greater planting flexibility on that base acreage. A total of 41,000 FSA farms with 10 or fewer base acres in 2008 reconstituted in 2009 and continued to receive payments. Various factors may influence a farm operator's decision to reconstitute. In this case, operators of the 41,000 farms had a slightly greater incentive to reconstitute because they had more base acres in program crops that paid higher DCP rates than did nonreconstituting farms. For example, in 2008, FSA farms that reconstituted the following year received $85 per base acre for rice, $40 per base acre for peanuts, and $106 per base acre for upland cotton. In contrast, farms with 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 any crops on their base acres—*except* for fruit, vegetables, and wild rice.[10] Operators of FSA farms where DCP/ACRE eligibility is affected due to the base-10 provision are no longer subject to this restriction. A shift to planting fruit and vegetables 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 amounted to about 1 percent of the total acreage on these farms (fig. 5). The highest shares of total acres among farms with payments prohibited by the provision were planted to grass (36 percent) or enrolled in conservation programs (27 percent).[11] Sixteen percent of total acreage on these farms was planted to a program crop.[12]

A comparison of 2008 and 2009 FSA farms that met two criteria—having their payments prohibited by the base-10 provision and having not reconstituted[13]—reveals whether farms no longer constrained by planting restrictions increased their plantings of fruit and vegetables.[14] The data indicate a 20,000-acre[15] increase in fruit and vegetable plantings among base-10 farms. Farms on which fruit and vegetables were not planted in 2008 accounted for 80 percent of the expansion. Based on total U.S. plantings of fruit and vegetables for the period (over 11 million acres), the 20,000-acre increase from FSA farms subject to the provision would have little or no aggregate market effects.

Data also reveal the locations of farmers 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,

[10]Lentils, mung beans, and dry peas are excluded from this restriction. Annual DCP and ACRE payments are partially or fully forfeited when fruit and vegetables are planted on base acres if there is no history of planting fruit and vegetables on the farm but there is no permanent loss of base. For farms with a history of planting fruit and vegetables, the operators receive an acre-for-acre reduction in payments.

[11]Most of the conservation land is enrolled in USDA's Conservation Reserve Program (CRP). Other conservation programs with enrolled acreages include the Grasslands Reserve Program, the Wetland Reserve Program, the Wildlife Habitat Incentive Program, the Environmental Quality Incentives Program, and the Wetland Bank Reserve. FSA farms with land enrolled in the CRP program may receive DCP as long as the total acreage on the farm, not including that in the CRP program, exceeds total base acres. Moreover, producers who choose to enroll the entire land on their FSA farm into the conservation programs do not lose the base acres on that farm. Once the program contract expires, producers may enroll the base acres back into the DCP program. As a result, land in conservation programs is included in calculations of total planted acres of a farm.

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

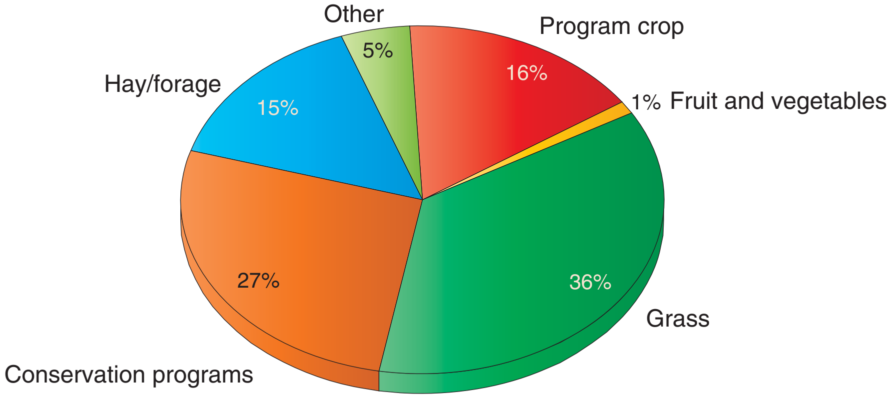
[13]When operators restructure their farms, FSA assigns new farm identification numbers to the resulting farms. Accordingly, FSA farms with the same identification number in 2008 and 2009 are farms that did not reconstitute. Ninety-five percent of 2009 FSA farms with prohibited payments existed in 2008.

[14]Even if these farms continued to be eligible for DCP payments in 2009, they may have had nonbase acres available to plant vegetables without any loss of payment.

[15]This is based on roughly 2,000 nonreconstituting farms that expanded fruit and vegetable production from 2008 to 2009. Some of these farms may not have been enrolled in 2008 and, therefore, are not subject to the fruit and vegetable planting restriction, so the 20,000 acres represent an upper bound.

Figure 5

Distribution of acres on a farm by type of crop for Farm Service Agency farms with prohibited payments, 2009



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

dry beans, and other vegetables and largely in response to anticipated higher prices in 2009 relative to those in 2008. With nationwide planted acreage for potatoes at over 1 million acres and for 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 2 States, the added flexibility to expand into fruit and vegetables may allow them to accrue higher net returns because of their comparative advantage in land, machinery, or the knowledge and skill of the producer.

Farm Size, Owners, and Operators

FSA data show 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 acres. In 2009, the average size of the 371,000 FSA farms with limited base acres and not exempted from the base-10 provision was 48.6 acres (including plantings on both base and nonbase acres).[16] This is about one-fifth of the national average of 269.2 acres across all FSA farms.

An FSA farm with 10 or fewer base acres may or may not represent a "small" farming operation.[17] FSA data show that 76 percent of individual FSA farms affected by the base-10 provision are part of multifarm operations.[18] Nationwide, producers with prohibited payments under the base-10 provision operate, on average, 5.5 FSA farms that total 554.2 acres. Fifty percent of these producers operate at least three farms totaling 186.3 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 may be 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-operation farms varies by U.S. region. 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 with a high share of small farms whose operators control only one farm, prohibiting payments is likely to have a greater effect on operators' farm incomes.

In contrast, in States where farms are large and agricultural producers operate multiple FSA farms, the base-10 provision will have less of an impact on overall farm incomes. In Indiana, 88 percent of FSA farms with prohibited payments were part of larger operations in 2009. On average, these farmers operated about nine FSA farms, of which the provision prohibits payments

[16]Data are based on the 159,453 FSA farms with 10 base acres or less that were not owned by a socially disadvantaged or limited resource farmer and that filed compliance information on reported acres. Acres include those planted to program crops and restricted fruit and vegetables, as well noncropland—for example, land used for hay or grass and that enrolled in conservation programs.

[17]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 et al., 2010). Matching FSA farms or operations and their respective acres with GCFI or other income or sales data is problematic given the datasets we employ in this study.

[18]See appendix B for a description of how FSA farms were aggregated into multifarm operations.

Table 2
Size of DCP operations, 2009[1]

	All operations					Operations with prohibited payments				
		Farms per operation		Operation size (acres)[2]			Farms per operation		Operation size (acres)[2]	
	Number	Average	Median	Average	Median	Number	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

[1]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 that holds the largest total acres across its farms. See appendix B, figure B1, for a more detailed description of the methodology to calculate operation size.

[2]Acres include land planted for hay or grass, as well as land enrolled in conservation programs.

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

to approximately one FSA farm, suggesting that eight farms in an "average" operation continue to be eligible for DCP/ACRE payments. This finding suggests 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.

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 FSA. 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 or FSA county office and reviewed and processed each year by FSA—including form CCC-770 DCP, the eligibility check list, the adjusted gross income certification, and a "person/actively engaged" determination. Furthermore, operators 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. Producers must be in compliance with highly erodible and wetland conservation provisions. FSA staff advise participants on program-related issues and process each completed form. It follows that decreasing the number of FSA farms processed through the system would reduce the costs of administering the DCP program without substantially reducing an income safety net for farmers.

Using the FSA 2007 workload formula,[19] the County Budget & Work Measurement (CBWM) office of FSA estimated that processing the forms for nearly 371,000 FSA farms with 10 or fewer base acres in 2009 requires the equivalent of 48 employees annually. This calculation assumes that the processing costs noted in the previous paragraph amount to 15 minutes per FSA farm for these small farms. Based on the average salary of an FSA county employee ($72,000 annually, including benefits), budget savings (or the opportunity cost savings of staff time) stemming from a decrease in program participants would total $3.5 million annually. Moreover, the elimination of mailings and transaction statements sent by FSA and the county offices to these farms would account for an additional $200,000 in savings, increasing the total administrative cost savings to $3.7 million per year.

[19]In 2008, the County Budget & Work Measurement (CBWM) section of FSA concluded a study determining the cost of processing a DCP contract from initiation to payment. CBWM 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 fiscal year 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.

Concluding Comments on Government Budgetary Savings

Annual Government budgetary savings are estimated at $32.8 million ($29.1 million in savings from prohibiting payments to farms under the base-10 provision, plus $3.7 million in administrative cost savings). This estimate, however, should be viewed with caution. First, in estimating budget savings, the analysis included DCP only, and operators who opted to enroll in 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 from one calculating such savings 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, it is unclear how farmers will respond to the base-10 provision in the future. If some of the operators of the 371,000 FSA farms in 2009 that 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, and even more importantly, farms with over 10 base acres may be reluctant to fragment 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 in the absence of the provision. As 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 in total budgetary savings per year is an upper bound.

References

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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, this provision specifies that a farm may not receive direct and countercyclical payments (DCP) or average crop revenue election 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. Farm Service Agency (FSA) data show that over 31,000 FSA farms had 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 Eastern United States. Total DCP for peanuts prohibited for these FSA farms amounted to $188,000, a small share of overall peanut payments ($113 million).[20] Among farms ineligible for payments, only 640 had a majority of their base acres in peanuts.

[20]Peanut cost savings are incorporated in the $29.1 million calculation in the main body of the report.

Appendix B—Linking FSA Farms to Size of Operation

A Farm Service Agency (FSA) customer can be an owner, operator, or owner/operator of one or more FSA farms. 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 individual or entity who is responsible for making planting and production decisions on the farm). As stated earlier, the terms "farmer," "producer," and "operator" are used interchangeably in this report.

The identification process starts with determining the operator for each FSA farm and identifying all FSA farms that this customer operates. For example, in figure B-1, 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.

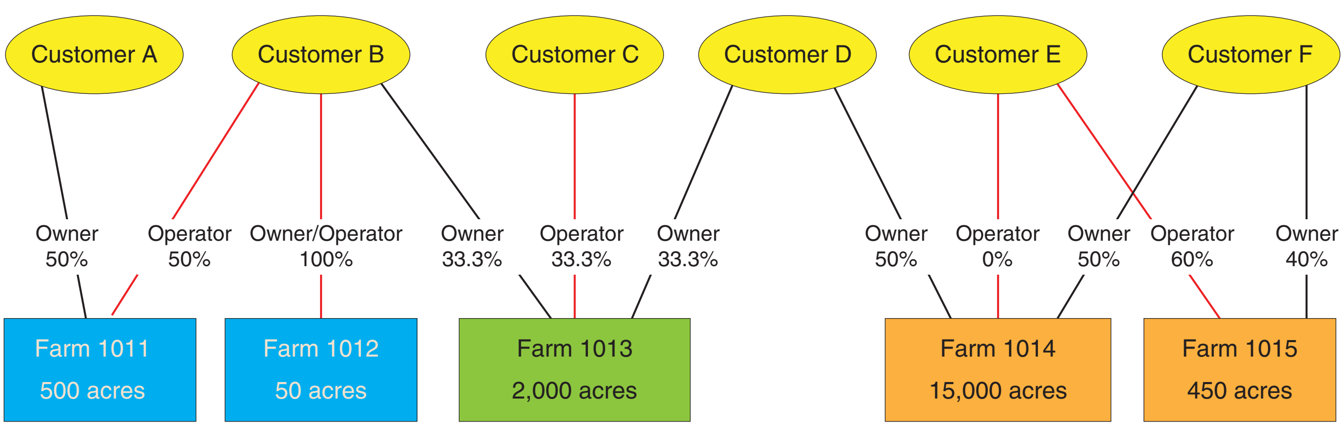
Multiple customers can be associated with one FSA farm. The customer identified as the operator of a farm is key to identifying the operation regardless of who receives the share of DCP or ACRE payments. Customer C operates only one farm—Farm 1013—with 2,000 planted acres, renting from two owners B and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

Other information important to the assessment includes the number of base acres, farm size, FSA farms, and operators.[21] Suppose there are four farmers—Peterson, Miller, Jones, and Smith—each of whom operates two

[21]More examples can be found in the *FSA Handbook* (USDA, FSA, 2010).

Figure B-1

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.

farms, one of which they own and the other of which they lease from Mrs. Applebee (table B-1).[22]

In 2009, 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, Peterson could be considered to operate two "large farms" (the Peterson operation) in contrast to the "small farms" 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 Peterson but not necessarily solely owned by Peterson in 2008.

In the third and fourth columns in table B-1, 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).[23] 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 1025 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.

[22]A farmer who either owns or cash leases land determines whether he or 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.

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

Table B-1
Base 10 and under provision: various farmer and farm scenarios

No loss of payments		Prohibition of payments	
	Farmer Peterson		*Farmer Jones*
Large farmer	*1,000 acres, 600 base acres*	**Large farmer**	*1,000 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
	Farmer Miller		*Farmer Smith*
Small farmer	*100 acres, 50 base acres*	**Small farmer**	*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 assume arbitrarily that a 50-acre farm conforms to a small farm.
Source: USDA, Economic Research Service.