THE NEW FARM BILL

DECISION TOOL INSTRUCTIONS

Disclaimer – This excel file is intended to help producers make the decisions required by the Agricultural Act of 2014. It is designed to deal SOLELY with California medium grain rice and offers no assistance for decisions for other covered commodities for which you might have base acres. This excel file references NASS information plus the producer's FSA information. If this information changes, the results will change. The producer MUST provide their projections of 2014 yields and prices, which by their very nature will in almost all instances not be proven correct. By using this Decision Tool, you are agreeing that it generates outcomes based on information that are only estimates and provides no guarantee of actual program payments.

Tim Kelleher

Step 1. Print these instructions.

Step 2. Download Excel File – Decision Tool.ARCorPLC.Medium Grain Rice.2014-2018 and save before doing any input. Then save a second file with a different name to use for your inputs. That way if you make an input mistake or somehow corrupt the file you can start over.

Explanations and Cautions

a. Please note that cells that require grower input are colored orange. Many of these cells will remain empty.
b. All cells which link to your input are orange numbers in white cells. Do not change the numbers in these cells! 1234
c. All cells which automatically calculate based on submitted data are colored light gray. YOU CANNOT CHANGE THESE FORMULAS!

Step 3. Open Tab – "Farm History"

a. Input your County, Farm Number and name of Farm Operator
b. Input Cropland Acres
c. Input total CRP Reduction, if any.
d. Input Base Acres and Counter-Cyclical Yield (NOT Direct Yield) for covered commodities (not all are listed).
e. Input Farm's planting history (you should be getting this from FSA Notice of Base, CC Yields and acres planted; check FSA numbers carefully against your records, including crop insurance).
f. Input Farm's medium/short grain production which should come from your crop insurance history. Other crops are not included in analysis for yield adjustment.

ENTER THE PRODUCTION IN POUNDS, NOT CWTS.

Step 4. Go to Tab "Reallocate Base Acres". You will not input any data on this spreadsheet. Review the calculated reallocated base acres. You now have the option to reallocate per the calculations or maintain your current base acres. Farms with multiple bases must choose PLC or ARC for ALL covered commodities (crop base acres). A producer cannot pick and choose between PLC and ARC for covered commodities on the farm. If you have multiple bases don't automatically decide to reallocate all to rice; payments under other commodities very well could be higher than for rice and are not dependent on planting those other commodities.

Step 5. Go to Tab "Yields and Prices – MG Rice".

a. Yields, Individual are carried forward from "Farm History Tab"

b. Input County Yields from Tab - "CA County Rice Yields". You will find this tab on the far right.

c. Historical Prices are from USDA/ERS, so don't change.

d. In the **Updated Yields – PLC Only** section all cells are linked or calculated.

e. In **Price and Yield Projections – Individual**, you have to enter what you think the National Average Market Price for medium/short grain price (including CCC loan) will be in 2014 – 2018. I suggest that in 3 of the 5 years you enter what you think the price will be, in one year enter the lowest expected price and in another the highest expected price. The prices you enter for the Individual section will carry down to the County section.

f. Next, enter your best guess on both your Individual Yields and County yields. Start with Individual Yields. Enter your expected yield, but in one year enter the lowest yield you think you'll see and in another the highest yield. Then do the same for County Yields. It will be helpful to compare your yield history with the County's to see both the relationship and the variability.

Step 6. Go to the Tab "PLC". You don't enter any data. Based on your projected prices from the previous Tab, you will see if there is a payment in any year and the amount. But also see Observations, below.

Step 7. Go to the Tab "ARC-Individual". Based on your historical and projected yields times the projected price (NAMP), your Benchmark Revenue must be calculated for each year. This is an **Olympic Average** (OA), which requires that the lowest and high annual amounts not be counted. Ignore years with $0 revenue.

a. You have to enter in the row labeled Item 4 as a negative number the highest and lowest revenues that are in the row labeled Item 3, Revenue/A.

b. You then move down to the row labeled Item 5 for the next year. Move over one column (2010) and again enter as negative numbers the highest and lowest revenues that are on Item 3, Revenue/A, columns 2010 through 2014.

c. You then move down to the row labeled Item 6 for the next year. Move over one column (2011) and again enter as negative numbers the highest and lowest revenues that are on Item 3, Revenue/A, columns 2011 through 2015.

d. You then move down to the row labeled Item 7 for the next year. Move over one column (2012) and again enter as negative numbers the highest and lowest revenues that are on Item 3, Revenue/A, columns 2012 through 2016.

e. You then move down to the row labeled Item 8 for the next year. Move over one column (2013) and again enter as negative numbers the highest and lowest revenues that are on Item 3, Revenue/A, columns 2013 through 2017.

f. Make sure you only put in 2 negative numbers in each row. The Benchmark Revenue for years 2014-2018 is then calculated and multiplied by 85% to determine your ARC Individual Guarantee. If the numbers on the row labeled Item 3 are not reasonably similar you may have made a mistake so start over.

g. The actual revenue for the year is calculated based on your projected yield and price. That figure is compared to your Benchmark Revenue and a payment, if any, calculated. Remember, the payment cannot be greater than 10% of your Benchmark Revenue. These calculations are made out through crop year 2018. You can then look at the Tab "Price and Yield Array" to see what combination of price and yield will generate a payment.

Step 8. Go to the Tab "ARC-County". This program option uses 2 Olympic Averages; one for yield and one for price.

a. Yield

1. On the row labeled Item 2, starting with column 2009, enter as negatives numbers the highest and lowest yields for 2009 through 2013.
2. On the row labeled Item 3, starting with column 2010, enter as negatives numbers the highest and lowest yields for 2010 through 2014.
3. On the row labeled Item 4, starting with column 2011, enter as negatives numbers the highest and lowest yields for 2011 through 2015.
4. On the row labeled Item 5, starting with column 2012, enter as negatives numbers the highest and lowest yields for 2012 through 2016.
5. On the row labeled Item 6, starting with column 2013, enter as negatives numbers the highest and lowest yields for 2013 through 2017.

b. Price

1. On the row labeled Item 8, starting with column 2009, enter as negatives numbers the highest and lowest yields for 2009 through 2013.
2. On the row labeled Item 9, starting with column 2010, enter as negatives numbers the highest and lowest yields for 2010 through 2014.
3. On the row labeled Item 10, starting with column 2011, enter as negatives numbers the highest and lowest yields for 2011 through 2015.
4. On the row labeled Item 11, starting with column 2012, enter as negatives numbers the highest and lowest yields for 2012 through 2016.
5. On the row labeled Item 12, starting with column 2013, enter as negatives numbers the highest and lowest yields for 2013 through 2017.

c. The Benchmark Revenue for each year is then calculated by multiplying the OA Yield times the OA Price. The Benchmark Revenue is then multiplied by

86% to determine your Agriculture Risk Coverage Guarantee. Based on your projected yields and prices, your payment, if any, is calculated. Your total payment will be the calculated amount times your payment acres (85% of Base Acres).

Step 9. Print Tabs PLC, ARC – Individual and ARC – County.

Step 10. Go back to your Tab "Yields and Prices – MG Rice", and change your projected prices and yields to another scenario that you consider likely to occur. Then go back through both ARC Tabs and change highs and lows as necessary because of your new projections and see what happens to payments.
Caution: Look at the calculated numbers closely. If they do not seem to make sense you have made a mistake. START OVER!

OBSERVATIONS:

PLC – The Reference Price for California Medium/Short Grain rice (temperate japonica) is $16.10. This price includes CCC loan, so you are talking about $9.60 over loan. California has not seen prices at this level since 2007. The National Average Market Price for Medium/Short Grain Rice, however, is just that – a National Average. Southern medium grain prices are generally substantially below California medium grain prices, which reduce the National Average. Comparing California medium grain prices with the medium/short grain NAMP shows that the California price is generally about 10% above the NAMP. So one could (no guarantee) project forward that the effective California Medium/Short Grain Reference Price is $17.70, or $11.20 over loan. See NASS figures, below:

YEAR	LOCATION	PRICE RECEIVED in $ / CWT	NAMP - Medium/Short Grain	%	Comments
2013	CALIFORNIA	NA	$ 17.80		
2012	CALIFORNIA	$ 17.10	$ 17.40	98%	
2011	CALIFORNIA	$ 18.60	$ 17.10	109%	
2010	CALIFORNIA	$ 21.00	$ 18.80	112%	
2009	CALIFORNIA	$ 19.60	$ 18.40	107%	
2008	CALIFORNIA	$ 27.50	$ 23.70	116%	
2007	CALIFORNIA	$ 16.20	NA		Not by type
2006	CALIFORNIA	$ 13.00	NA		Not by type
2005	CALIFORNIA	$ 10.10	NA		Not by type
2004	CALIFORNIA	$ 7.34	NA		Not by type

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ARC establishes a revenue benchmark using Olympic averages. For California, this means that the high year (2010 = $21) is not counted and the other years have pretty consistent prices. California yields have not varied by any significant amount over the recent years. Bottom line, there almost has to be a combined low yield and low price before payments will be made. That result, however, is counter-intuitive as a short crop generally means higher prices.

If your yields vary more than your county yields or are significantly higher, you may want to go with the ARC-Individual option, even though payments are 65% of base acres versus 85% for county coverage.

SCO – In 2015 crop insurance will add a Supplemental Coverage Option ("SCO"). SCO is available ONLY if you choose PLC. This insurance will cover the difference between your selected coverage level and the SCO coverage, which is 86%. This supplemental coverage will be the same as your underlying crop insurance coverage; i.e. yield protection ("YP"), revenue protection ("RP") or revenue protection with Harvest Price Exclusion ("RP-HPE"). Premiums will be subsidized at 65%. Rates have not yet been set for California rice. California rice prices for crop insurance purposes will no longer be based on long grain prices. Each year long grain prices will be adjusted using a historical factor that compares the historical California rice prices with the Chicago Board of Trade long grain rice prices. This change will make crop insurance on California rice much more attractive than before when indemnities were computed on long grain prices.

Depending on the rates, this may be an attractive alternative to ARC, which will provide payments only in the event of significant price and yield declines in any year and is limited to 10% of the benchmark revenue. Since PLC provides downside price protection and individual yields generally follow county yields, 50% PT coverage plus SCO on a YP crop insurance policy could be your best choice.

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