Kentucky NEWS

January 2009

2009 DCP and MILC Signup Underway

DCP

Enrollment for the 2009 Direct and Counter-cyclical Payment (DCP) Program for farms with base acres began Dec. 22, 2008 both online and at local USDA service centers and will continue until June 1, 2009.

Producers are urged to make use of the eDCP automated website to sign up; however, producers can visit any USDA Service Center or their administratively assigned center to complete their 2009 DCP contract.

The June 1, 2009 deadline is mandatory for all participants. USDA will not accept any late-filed applications.

The electronic DCP (or eDCP) service saves producers time, reduces paperwork and speeds up contract processing at USDA Farm Service Agency (FSA) offices. It is available to all producers who are eligible to participate in the DCP Program and can be accessed at http://www.fsa.usda.gov/dcp. To access the service, producers must have an active USDA eAuthentication Level 2 account, which requires filling out an online registration form at http://www.eauth.egov.usda.gov followed by a visit to the local USDA Service Center for identity verification.

USDA computes DCP Program payments using base acres and payment yields established for each farm. Eligible producers receive direct payments at rates established by statute regardless of market prices. For 2009, eligible producers may request to receive advance direct payments based on 22 percent of the direct payment for each commodity associated with the farm. USDA began issuing advance direct payments in Dec. 2008. Counter-cyclical payment rates vary depending on market prices. Counter-cyclical payments are issued only when the effective price for a commodity is below its target price.

Signup for DCP Payments ends June 1, 2009.

Producers who are eligible for the DCP Program will also be eligible to enroll in the Average Crop Revenue Election (ACRE) Program. The enrollment period for the ACRE Program will begin in the spring. Producers may first enroll in the DCP Program, elect to receive advance direct payments and then later modify their enrollment to include the ACRE program or they may wait and elect to enroll in DCP and ACRE at the same time in Spring 2009.

MILC

Signup for the Milk Income Loss Contract Program (MILC) began Dec 22 and will continue through the program's expiration date, Sept 30, 2012.

The 2008 Farm Bill reauthorizes the MILC Program. Under the 2008 Act, the MILC payment rate and the per-operation poundage limit are modified, depending on when the milk is produced.

- During the signup application period, participating dairy operations must select the month of the fiscal year to start receiving payments.
- Producers submitting a contract application within 30 days of the beginning of the application period can select any preceding month as the start month.
- Producers submitting contract applications after Jan. 21, 2009, will not have the option of selecting an earlier month as the payment start month for the dairy operation for a fiscal year; and will be limited to applicable start month selection rules.

Eligible dairy producers are those who commercially produce milk in the United States. Dairy producers can apply for MILC at local FSA offices.

Message from the State Director ...

Jeffery S. Hall
State Executive Director

The new farm bill became law on May 22, 2008. In the six months since it became law, the Farm Service Agency (FSA) has been busy on the implementation process. There is a great deal of work that must be completed even before the programs actually are ready for producer participation.

There are some basic policy decisions that must be made by the Secretary of Agriculture before the rules and regulations can be published. Most decisions have been made, but a few remain to be determined.

The priorities were based on the programs, which need immediate attention. Primarily, those were completion of the 2007 Direct and Counter-Cyclical Program (DCP) signup. More than 1.75 million farms were enrolled in DCP nationwide over a 3 month period. We normally have a full year for DCP signup. The commodity loan rates for the 2007 crop year were published by the middle of June. The new disaster program eligibility and signup were completed by mid-September.

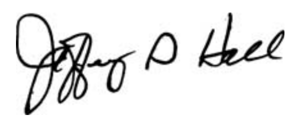
The federal regulations, which establish the rules for implementing the law, are a time consuming process. There will be more than 30 regulations published for FSA farm bill programs. The rule making process starts at the program level in the National Office and must go through several reviews within the Agency.

From there the rules must go through Department level review on several levels. Once the rules are published, there will be input from the public, from Congress, from other interested groups, before the rule becomes final; sometimes this takes months to complete. While this may seem time consuming and cumbersome, there is a value to the process even if it takes some time.

Internally, there are forms that must be developed, approved and distributed. Software for enrollment and payments many times must be modified or completely rewritten.

Even after decisions have been made, there are still changes. The 10 acre rule, for example, was changed by legislation in October. Previously, any DCP base less than 10 acres was not eligible for payments, with the exception of limited resource and socially disadvantage producers. The provision was waived until the 2009 crop year and producers will have an opportunity to combine bases with common ownership and operators.

There are still several important parts of the new farm bill that are not fully developed. Rest assured that FSA is working to make the implementation of the new farm bill as smooth as possible. Just getting the product to the county office level often involves a lot of behind the scenes work, but once it gets to our service center employees, they will be more than willing to assist.



Signature Authority for Spouses

A husband and wife may sign FSA and CCC documents on behalf of each other unless written notification has been provided to the FSA office denying a spouse this authority. Spouses may sign most documents, except promissory notes, CRP easements, and certain security agreements.

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Disaster Assistance Payments Add to the "Safety Net" for Producers

While subsidized crop insurance has been the primary form of assistance provided by the Federal Government against bad weather, plant diseases, and other natural hazards, ad hoc disaster assistance payments have also been frequently provided. The 2008 Farm Act established a permanent Supplemental Agricultural Disaster Assistance program, which includes programs for livestock as well as crop losses for producers.

Supplemental Revenue Assistance (SURE)

The program for crop producers, called SURE, is linked to crop insurance. To be eligible for SURE payments, a producer is required to obtain crop insurance or, if crop insurance is not available, to participate in the Non-Insured Assistance Program (NAP) except for grazed acreage. However grazed acreage much be insured for producers to be eligible for the Livestock Forage Program. Furthermore, crop insurance or NAP coverage is no longer required for crops that are not of economic significance or those where the administrative fee required to buy NAP coverage exceeds 10 percent of the value of the coverage.

Eligible producers in counties declared disaster counties by the Secretary of Agriculture, or in contiguous counties, or those who show proof of an individual loss of at least 50 percent are eligible to receive SURE payments for crop producer or crop quality losses. Losses are measured with consideration to the whole-farm revenue, which includes crop insurance indemnities and commodity program payments, so that producers are not paid more than once for the same loss.

Livestock Forage Program (LFP)

LFP is available to eligible livestock producers who suffered grazing losses for eligible livestock because of:

a. Drought, on land that is either of the following:

- Native or improved pastureland with permanent vegetative cover
- Planted to a crop specifically for providing grazing
- Fire, on rangeland managed by Federal agency if the eligible livestock producer is prohibited from grazing normal permitted livestock on the managed rangeland.

To be eligible for LFP, the producer must have purchased the following for the grazing land incurring the losses for which assistance is being requested:

- NAP coverage by filing the required paperwork, and paying the administrative fee by the applicable sales closing date.

An eligible livestock producer that suffers a grazing loss because of drought on owned or leased grazing land or pastureland that is physically located in a county that is rated by the U.S. Drought Monitor as having either of the following:

1. a D2 (severe drought) intensity in any area of the county for at least 8 consecutive weeks during the normal grazing period for that county, will be eligible to receive a payment equal to 1 monthly payment

2. at least a D3 (extreme drought)

- at any time during the normal grazing period for that county, will be eligible to receive a payment equal to 2 monthly payments
- for at least 4 weeks during the normal grazing period for that county, or a D4 (exceptional drought) intensity in any areas of the county during the normal grazing period for that county, will be eligible to receive a payment equal to 3 monthly payments.

Become Kentucky Firewise

Due to drought, potential for extreme fire conditions exist. Creating defensible space is the proactive way to help protect your home and property from wildland fire. Defensible space is an area around a structure where forest fuels and vegetation are treated, cleared or reduced to slow the spread of wildfire towards the structure. It also reduces the chance of a structure fire moving from the building to the surrounding forest.

More information can be found on the website: www.firewise.ky.gov.

Program Provisions for Payment Limitation and Adjusted Gross Income

Farm commodity program payment limits have been in effect since the Agricultural Act of 1970. Under the 2002 Farm Act, these payment limits were $40,000 per person per crop year for DCP direct payments, $65,000 per persons per year for counter-cyclical payments, and $75,000 per person per year for marketing loan gains and loan deficiency payments. Producers with adjusted gross income (AGI) of over $2.5 million, averaged over 3 years, were not eligible for payments unless more than 75 percent of AGI was from agriculture.

Changes for 2009

In program year 2009, the Food, Conservation, and Energy Act of 2008 (2008 Farm Act) retains the limits on DCP direct and counter-cyclical payments but removes the cap on marketing loan benefits. It also eliminated the three-entity rule and creates a system of “direct attribution” to match payments with a living person while making it easier for a spouse to qualify for payments. The 2008 Farm Act also eliminates the overall income cap for payment eligibility while establishing separate income caps for both farm and nonfarm income.

✓ The overall AGI cap is dropped in favor of separate limits on the farm and nonfarm components of adjusted gross income. These new limits include two income caps applicable to nonfarm income and one applicable to farm income. Farm income also includes other inputs, for example, sale of land.

✓ A person or entity with average adjusted gross nonfarm income in excess of $500,000 would not be

eligible for direct, counter-cyclical, average crop revenue election, marketing loan gain, loan deficiency, noninsured crop assistance, milk income loss contract program, or disaster assistance payments or benefits.

✓ A person or entity with average adjusted gross nonfarm income in excess of $1 million would not be eligible for conservation payments unless more than two-thirds of total average AGI is farm income. The Secretary of Agriculture has the authority to waive the limitation on a case-by-case basis if it is determined than environmentally sensitive land of special significance would be protected.

✓ A person or legal entity with average adjusted gross farm income that exceeds $750,000 would not be eligible for direct payments. Eligibility for other payments would not be affected as long as nonfarm income does not exceed the nonfarm limits.

For income cap purposes, average AGI is defined as the average adjusted gross income or a comparable measure for the 3 taxable years proceeding the most recent complete taxable year. Thus, the relevant years for 2009, the first year the new limitation apply, would be 2005, 2006, and 2007.

The 2008 Farm Act defines average adjusted gross nonfarm income as the residual income after deducting farm income from adjusted gross income.

NEW Policy on Releasing Farm Maps

With the enactment of the 2008 Farm Bill the FSA is prohibited from releasing information concerning the agricultural operation, farming or conservation practices, or the land itself as well as any information provided to FSA by an agricultural producer or owner of agricultural land in order to participate in a FSA program and any type of USDA geospatial information (GIS) with producer provided information about agricultural land or operations.

Therefore, based on these new provisions FSA offices can no longer provide the following:

- *Old paper aerial photography for viewing or copies*
- *GIS maps to anyone other than landowners and operators.*

Note: Landowners or operators can provide a written release for FSA to provide GIS maps to other producers including tenants.

A tenants can receive, upon request, any data relating to themselves with other owner/operator and tenant information redacted.

New ACRE Program Linked Recent Market Prices

The 2008 Farm Act introduced an alternative to traditional commodity programs. The Average Crop Revenue Election Program (ACRE) protects against revenue (national price multiplied by State yield), rather than price, shortfalls and uses moving averages of market prices, instead of legislated target prices, to set levels of protection. By incorporating yield risk and by using recent market prices, ACRE could be an attractive alternative for producers in areas of high yield risk and for crops with market prices well above the trigger levels of traditional commodity programs. The choice, however, will not be simple.

ACRE also differs from traditional programs in that it has a double trigger:
State- and farm-level revenue shortfalls are required for a producer to receive a payment. The payment rate for an ACRE crop is based on the difference between the State-level revenue guarantee and the actual State-level revenue.

The ACRE alternative will first be available in crop year 2009. To be eligible for ACRE payments, producers must elect the ACRE program for the farm, and then annually enroll in ACRE during the signup period announced by USDA's Farm Service Agency. Although an ACRE signup period will occur each year, once a producer chooses ACRE, the decision holds for the remaining years covered by the 2008 Farm Act, that is, through crop year 2012. Enrollment in ACRE applies to all covered commodities and peanuts on the farm.

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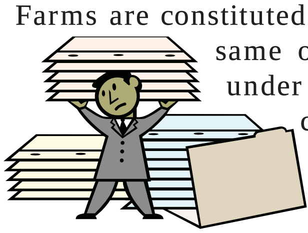
Farm Reconstitutions



Farms are constituted to group all tracts having the same owner and the same operator under one farm serial number. When changes in ownership or operation take place, a farm reconstitution is necessary. The reconstitution — or recon — is the process of combining or dividing farms or tracts of land based on the farming operation.

The following are the different methods used when doing a farm recon. Remember, to be effective for the current year, recons must be requested by Aug. 1 for farms enrolled in the Direct and Counter-cyclical Program.

Estate Method — the division of bases, allotments and quotas for a parent farm among heirs in settling an estate;

Designation of Landowner Method — may be used when (1) part of a farm is sold or ownership is transferred; (2) an entire farm is sold to two or more persons; (3) farm ownership is transferred to two or more persons; (4) part of a tract is sold or ownership is transferred; (5) a tract is sold to two or more persons; or (6) tract ownership is transferred to two or more persons. In order to use this method the land sold must have been owned for at least three years, or a waiver granted, and the buyer and seller must sign a Memorandum of Understanding;

DCP Cropland Method — the division of bases in the same proportion that the DCP cropland for each resulting tract relates to the DCP cropland on the parent tract;

Default Method — the division of bases for a parent farm with each tract maintaining the bases attributed to the tract level when the reconstitution is initiated in the system.

If DCP direct payments have already been issued on a particular farm, the reconstitution will be effective for the next year, unless the payments are refunded.

Down Payment Program

In addition to Beginning Farmers, FSA has expanded the Down Payment Direct Loan Program to include Socially Disadvantaged Farmers. This special loan program assists socially disadvantaged and beginning farmers in purchasing a farm. The maximum loan amount cannot exceed 45 percent of the least of;

(a) the purchase price of the farm or ranch to be acquired;
(b) the appraised value of the farm or ranch to be acquired; or
(c) $500,000.

Note: This would result in a maximum loan amount of $225,000 and no limitation on the purchase price

The applicant must make a cash down payment of at least 5 percent of the purchase price. The remaining balance may be obtained from a commercial lender or private party. FSA can provide up to a 95 percent guarantee on financing obtained from a commercial lender. Participating guaranteed lenders do not have to pay a guarantee fee. The interest rate for the Down Payment Program is 4 percent below the direct farm ownership rate, but not lower than 1.5 percent. The loan term is 20 years.

Secretarial Natural Disaster Determination S2792

The Secretary of Agriculture has announced the designation making all Kentucky counties eligible for disaster assistance due to drought and high winds during the incident period June 1, 2008, and continuing. This designation allows farmers and ranchers to apply for Farm Service Agency emergency farm loans. The current annual interest rate for emergency loans is 3.75 percent. Farmers or ranchers must have suffered at least a 30-percent loss in crop production or a physical loss to livestock, livestock products, real estate, or chattel property.

Emergency loan funds may be used to:

- Restore or replace essential property;
- Pay all or part of production costs associated with the disaster year;
- Pay essential family living expenses;
- Reorganize the farming operation; and
- Refinance certain debts.

Additional information on the emergency loan program is available from local USDA Farm Service Agency Service Centers or the Kentucky State Farm Service Agency Office.

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New ACRE Program

A farm's payment is based on a revenue guarantee calculated using a 5-year average state yield and the most recent 2-year national price for each eligible commodity. For the 2009 crop, the 2-year price average will be based on the 2007 and 2008 crop years.

An ACRE payment is issued when both the State and the farm have incurred a revenue loss. The payment is based on 83.3 percent (85 percent in 2012) of the farm’s planted acres times the difference between the State ACRE guarantee and the State revenue times the ratio of the farm's yield divided by the State expected yield. The total number of planted acres for which a producer may receive ACRE payments may not exceed the total base on the farm. In exchange for participating in ACRE, in addition to not receiving counter-cyclical payments, a farm’s direct payment is reduced by 20 percent, and marketing assistance loan rates are reduced by 30 percent.

Foreign Buyers Notification

The Agricultural Foreign Investment Disclosure Act (AFIDA) requires all foreign owners of U.S. agricultural land to report their holdings to the Secretary of Agriculture. Foreign persons who have purchased or sold agricultural land in the county are required to report the transaction to FSA within 90 days of the closing. Failure to submit the AFIDA report could result in civil penalties of up to 25 percent of the fair market value of the property.

New Tax ID Number Required

Producers receiving FSA program payments must provide their tax identification number to FSA, so payments can be correctly credited and reported to IRS. For individuals, this would be your social security number. Other entity types may provide a tax ID number, or use the social security number of the member- provided all conditions are met.

New for 2009

- IRS will require Limited Liability Company's (LLC's) to obtain a distinct tax ID number.
- Payments issued after the death of a program participant must be issued using the estate's tax ID number. It is the responsibility and duty of the personal representative of the estate to provide the tax ID number acquired for the estate.

What about my REVOCABLE TRUST?

If you are the sole trustee of your revocable trust, the trust may receive program payments from FSA using your social security number. However, if you also participate as an individual, you would be required to obtain a tax ID number for your revocable trust.

For more information on obtaining a tax identification number, visit www.irs.gov

New USDA Service Center Going Green

The new USDA Service Center Office is located along the KY 121 Bypass in Mayfield.

The new USDA Service Center offices in Graves County will be housed in a green building. The building is being constructed using environmental-friendly "green" materials and designs that will reduce energy usage and help prevent flooding. The energy efficient technology should give the building about a 25 percent savings over a conventional brick building in terms of energy usage.

NAP Deadline

NAP is designed to reduce financial losses that occur when natural disasters cause a catastrophic loss of production for an eligible crop by providing coverage equivalent to catastrophic (CAT) insurance.

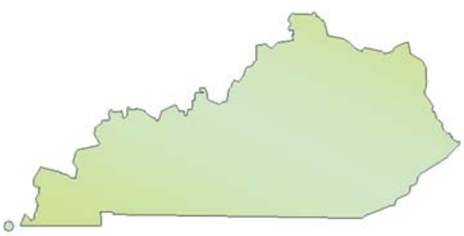
Final Dates to Apply for Coverage Under NAP for 2009

Crop	Application Closing Date
Beans	Mar-15
Beets	Mar-15
Broccoli	Mar-15
Cabbage	Mar-15
Cantaloupe	Mar-15
Cauliflower	Mar-15
Corn	Mar-15
Cucumbers	Mar-15
Eggplant	Mar-15
Gourds	Mar-15
Herbs	Mar-15
Lettuce	Mar-15
Oats	Mar-15
Onions	Mar-15

Crop	Application Closing Date
Okra	Mar-15
Peppers	Mar-15
Potatoes	Mar-15
Pumpkins	Mar-15
Radish	Mar-15
Squash	Mar-15
Strawberries	Mar-15
Sweet Potatoes	Mar-15
Tomatoes	Mar-15
Turnips	Mar-15
Watermelon	Mar-15

Note: For any crop not listed above contact your local Farm Service Agency.

USDA Farm Service Agency
771 Corporate Dr., Ste. 100
Lexington KY 40503-5478



Farm Service Agency
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Kentucky Farmers

Important Dates

√ January 19	Martin Luther King, Jr.'s Birthday - FSA offices closed
√ February 16	Washington's Birthday- FSA offices closed
√ March 1	Final date to purchase NAP coverage for Alfalfa, Clover, Grass-forage, Grass-grazing, Lespedeza and Mixed Forage
√ March 16	Final date to apply for NAP coverage for 2009
√ March 31	Final date to apply for LDP on 2008 Small Grains-
√ May 31	Final date to certify small grains planted acreage
√ June 1	Deadline to apply for 2009 DCP
√ July 4	Independence Day - FSA offices closed
√ July 15	Final crop reporting date for all other crops, except small grain and value loss crops

Special Accommodations...

will be made upon request for individuals with disabilities, vision impairment or hearing impairment. If accommodations are required, individuals should contact their local FSA Service Center.