

THE 2014 FARM BILL: Overview & Major Highlights



Rod M. Rejesus

Associate Professor and Extension Specialist

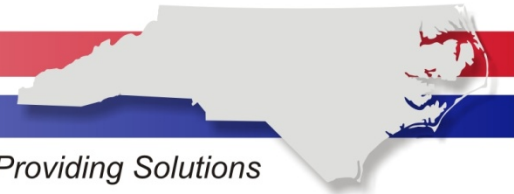
Dept. of Ag. and Resource Economics

NC State University



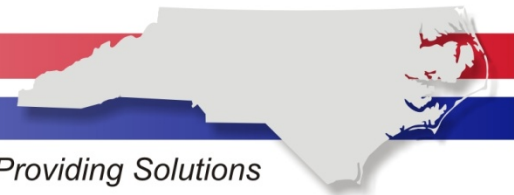
What Do We Know?

- There is a Farm Bill and it has been signed into law
 - Agricultural Act (AA) of 2014
- It is over 930 pages long
 - Will likely be over 20,000 pages long after USDA has written implementation rules for all programs



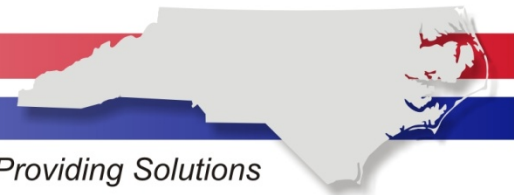
Disclaimer

- Information provided here is based on my reading of the Bill and other available materials regarding the contents of the Bill
- There may be differences in my interpretation and final regulations



Major Highlights

- What is not in 2014 Farm Bill?
 - Direct Payments (gone)
 - ACRE Program (gone)
 - Countercyclical payments (gone, but not really; PLC is very similar)
 - SURE Program (gone)
 - Dairy Price Support Program & Milk Loss Contract (gone)



Major Highlights

- The “**Big Four**” in Title I and XI
 - 1) Base reallocation & payment yield updates
 - 2) Price Loss Coverage (**PLC**)
 - 3) Agricultural Risk Coverage (**ARC**)
 - 4) Shallow Loss Programs (RMA-administered)
 - Supplemental Coverage Option (**SCO**)
 - Stacked Income Protection Plan (**STAX**)
 - Cotton producers only



Base Reallocation & Yield Updates

- Opportunity to reallocate base acres to crops planted from 2009 to 2012
 - Cotton base acres now generic base acres
- Opportunity to update program payment yield based on **90%** of farm's 2008-2012 average yield per planted acre
 - Payment yield used in PLC



Base Reallocation

Table 1. Example Calculation of Reallocated Base Acre Option

Crop	Base Acres 9/30/2013	Crop History 2009	Crop History 2010	Crop History 2011	Crop History 2012	Average Planting 2009-12	Reallocation Percentage	Reallocated Base Acre Option
Alfalfa (not covered crop)		20	20	20	20	not applicable	not applicable	not applicable
Corn	50	50	40	30	40	40	50%	50
Oats	10	0	0	0	0	0	0%	0
Soybeans	30	30	32	50	32	36	45%	45
Wheat	10	0	8	0	8	4	5%	5
Total covered crops	100	100	100	100	100	80	100%	100



Payment Yield Update

Table 1. Updated Payment Yield Examples for Corn in Brown and Carroll Counties in Illinois

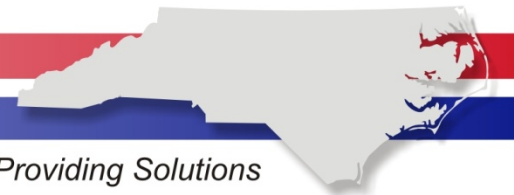
	Brown Co.			Carroll Co.		
	County	Farm	Farm-Adjusted	County	Farm	Farm-Adjusted
2008	152.0	150.0	150.0	185.0	190.0	190.0
2009	157.0	160.0	160.0	189.0	188.0	188.0
2010	119.5	120.0	120.0	189.8	191.0	191.0
2011	127.0	130.0	130.0	183.3	182.0	182.0
2012	87.0	85.0	96.4	157.9	155.0	155.0
Average Yield	128.5	129.0	131.3	181.0		181.2
Plug Yield	96.4			135.8		
Updated Payment Yield			118.1			163.1
Current Payment Yield			123.6			125.6

Note: County yields histories taken from NASS data. Farm-level yields are author examples. Current payment yields are averages by county provided by FSA.



Price Loss Coverage (PLC)

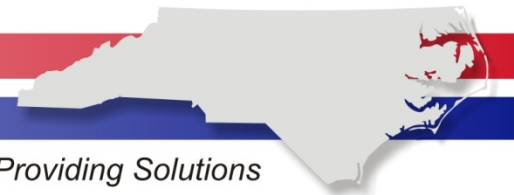
- Payments made when effective price of a covered crop is **below** its reference price established in the statute
 - E.g. reference price for corn = \$3.70
- **PLC Payment** = $0.85 \times \text{Payment Yield} \times \text{Base Acres} \times \text{PLC Payment Rate}$
 - where: **PLC Payment Rate** = [Ref. Price – Higher of (Nat'l aver mktg. year price or Marketing Loan Rate)]



Price Loss Coverage (PLC)

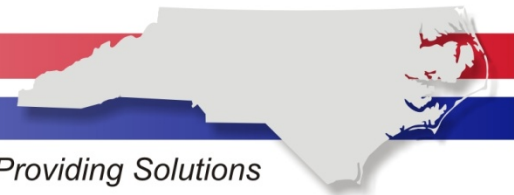
Table 1. 2014 Farm Bill Reference Prices vs. 2008 Farm Bill Target Prices

Crop	2008 FB Target Price	2014 FB Reference Price
Barley	2.24	4.95
Corn	2.63	3.7
Cotton	0.7125	NA
Grain Sorghum	2.57	3.95
Peanuts	495	535
Oats	1.44	2.4
Rice	10.5	14
Soybeans	5.8	8.4
Wheat	3.92	5.5



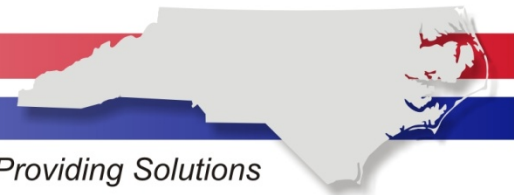
Agricultural Risk Coverage (ARC)

- County ARC or Individual ARC
- County ARC –
 - Payments when county actual revenue for covered crop < county ARC Revenue Guarantee
 - **County ARC Payment** based on **85% of Base acres**
- Individual ARC –
 - payments when actual individual crop revenues (summed across all covered commodities) are less than ARC individual guarantees (summed across all covered commodities)
 - **Individual ARC Payment** based on **65% of Base acres**



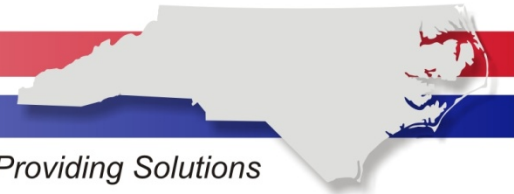
County ARC

- **County ARC Payment = [Minimum of (a) (ARC County Revenue Guarantee – Actual County Revenue) OR (b) 10% of the ARC revenue benchmark] × 0.85 × Base Acres**
 - **ARC county revenue guarantee = ARC revenue benchmark × 0.86**
 - **ARC revenue benchmark = US Olympic average marketing year price for the most recent 5 years × Olympic average county yield for the most recent 5 years**
 - **If any of 5 year prices below reference price, can use reference price. If any of the 5 year county yield < T-yields, can use T-yields**
 - **Actual county revenue = Actual county yield per planted acre × higher of [National mktg. year price OR Mktg. loan rate]**



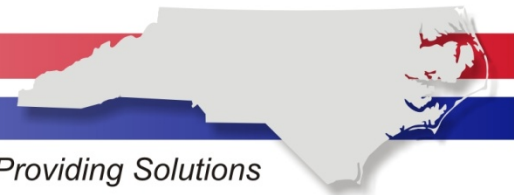
Individual ARC

- Individual ARC Payment = [Minimum of (a) (Individual ARC Revenue Guarantee – Individual Actual Revenue) OR (b) 10% of the Individual ARC revenue benchmark] × 0.65 × Base Acres
 - Indiv. ARC revenue guarantee = Indiv. ARC revenue benchmark × 0.86
 - Indiv. ARC revenue benchmark = 5 year Olympic average of individual year revenues (then summed across all covered crops)
 - Indiv. actual revenue = ARC guarantee price × actual yield (then summed across all covered crops)



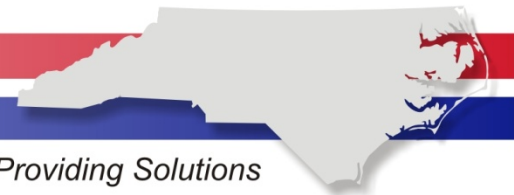
PLC or ARC?

- All producers on the farm must make a **one-time, irrevocable decision** (through the life of the bill) among PLC, County ARC & Individual ARC
- PLC & County ARC can be made on a **covered-commodity-by-covered-commodity basis**
 - Country ARC commodity ineligible for PLC & SCO
- Individual ARC applies to **all covered commodities**
 - Ineligible for PLC & SCO



Payment Limitations

- \$125,000 per person payment limits for (ARC, PLC, LDPs and marketing loan gains) combined (except for peanuts)
- Producers whose average AGI exceeds \$900,000 are not eligible to receive payments from FSA administered programs



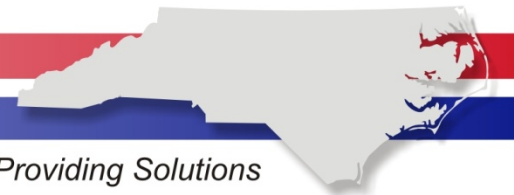
Shallow Loss Programs

- Supplemental Coverage Option (SCO)
 - “Area” triggered (based on expected county yield or revenue)
 - Covers part of the deductible of the producer’s underlying individual policy
 - Triggered if area loss exceeds 14% of expected value of crop (but not > deductible)

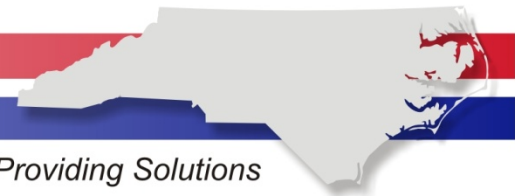
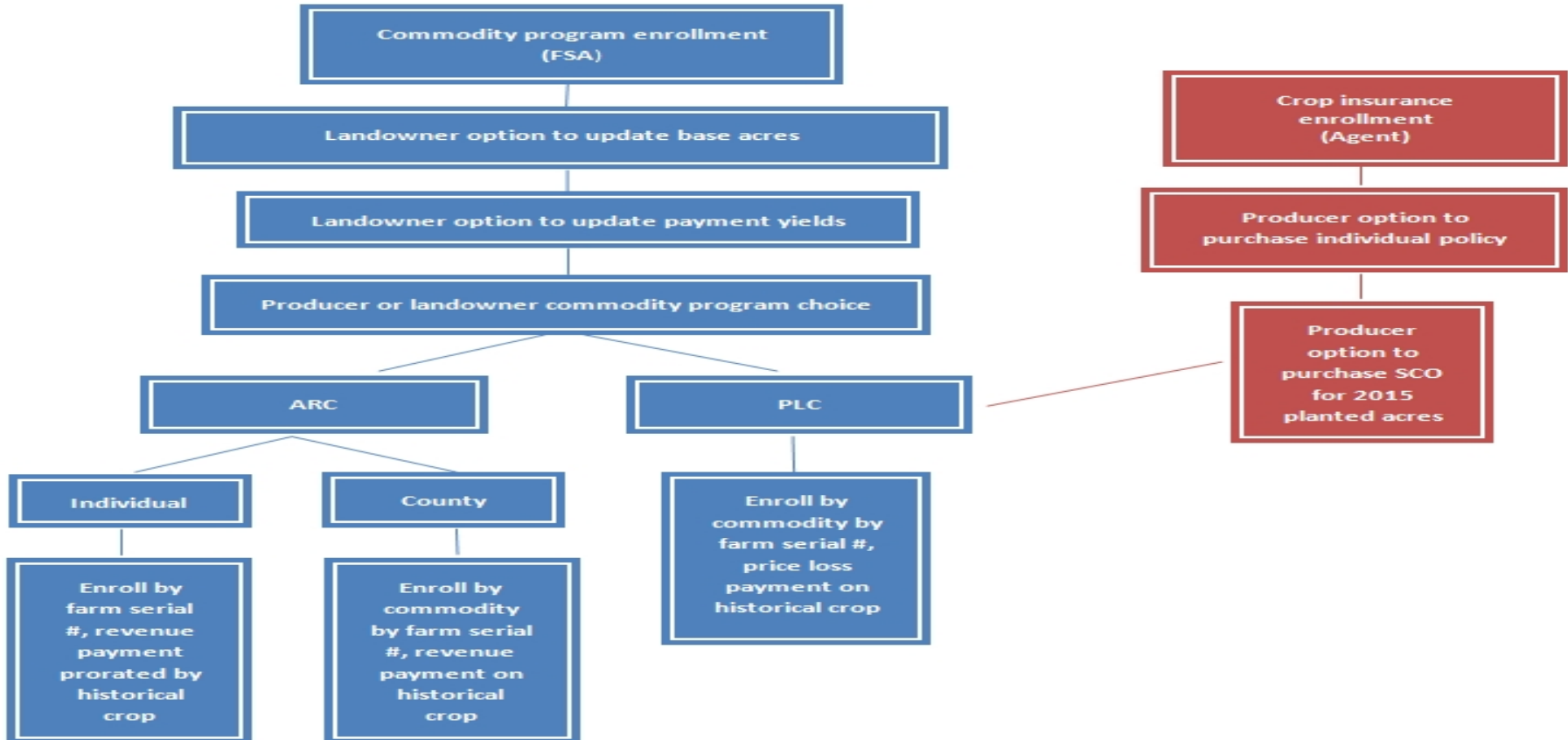


Shallow Loss Programs

- Stacked Income Protection Plan (STAX)
 - For cotton producers starting 2015 (since no more counter-cyclical for this crop)
 - Also “area” triggered (county revenue)
 - Covers part of the deductible of the producer’s underlying individual policy
 - Triggered if area revenue loss exceeds 10% of expected value of crop (but not > deductible)



The Decision Process



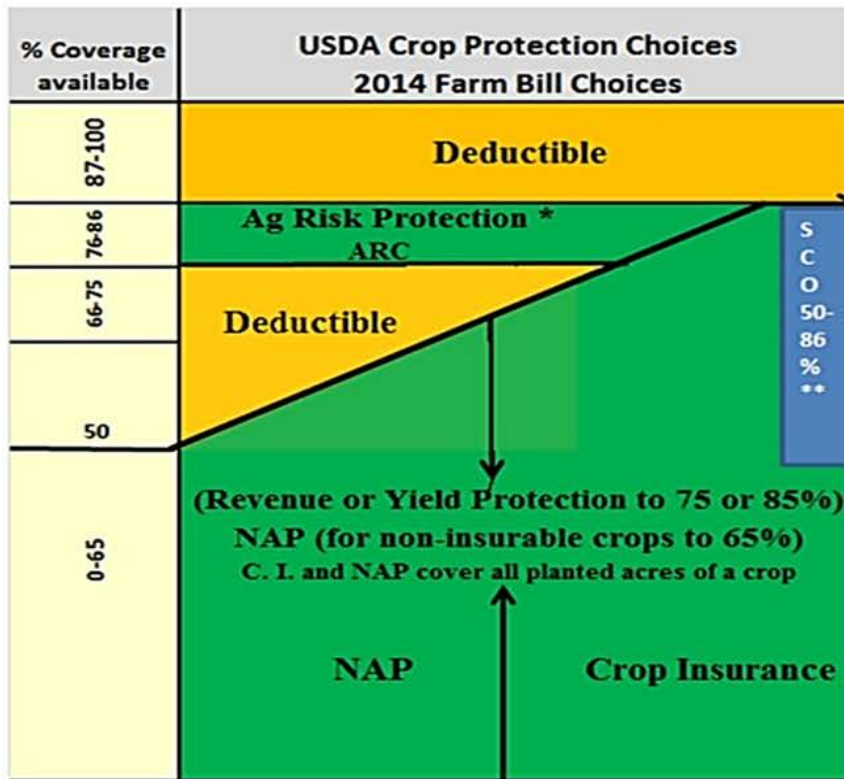
The "Sum of the Parts" - Protection for YOUR Farm

Each producer is personally responsible to develop a risk management plan for their farm(s) before enrollment deadlines. USDA provides tools for YOUR consideration.

* Price Loss Coverage (PLC) available in lieu of ARC on Program crops with base acres at FSA

* Comparison of PLC and CCP Price Support Levels

Covered Commodity	2014 Farm Bill Reference Prices Statutory	2008 Farm Bill Target Prices
Wheat	\$5.50	\$4.17
Barley	\$4.95	\$2.63
Oats	\$2.40	\$1.79
Corn	\$3.70	\$2.63
Grain Sorghum	\$3.95	\$2.63
Soybeans	\$8.40	\$6.00



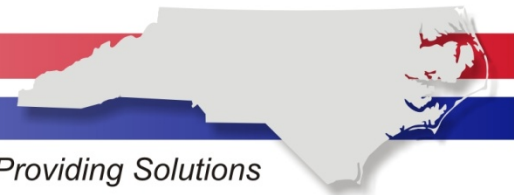
** Supplemental Coverage Option (SCO) available on an expanding number of crops (not available on crops enrolled in ARC). SCO provides area loss coverage between 86% and the individual policy coverage @65% premium subsidy.

Is YOUR Risk Management Plan Adequate to Manage a Disaster Related Business Interruption?



Take Home Messages

- 2014 Farm Bill programs are **complex**
 - Lots of **decisions** (& interactions) to think about!
 - Consider your **price and yield expectations** over the life of the bill
 - Do you expect price to be below or above ref. price?
 - Do you expect yields to be below average or average?
Are your yields correlated with county yields?



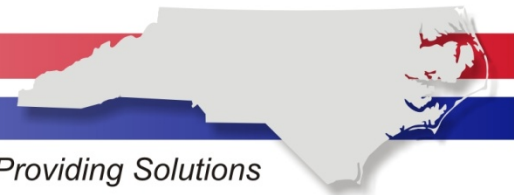
Take Home Messages

- Most decisions are irrevocable (for the life of the bill) and have important interactions with other programs
- In making decisions (i.e., PLC vs ARC), consider which choice you are most comfortable with **over the life of the bill** rather than which might provide a short-term payment



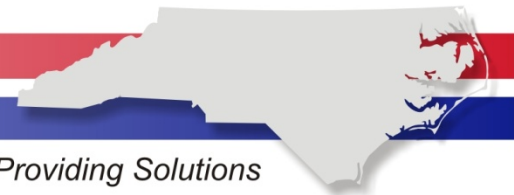
Take Home Messages

- Producers may need to rely on **decision tools** for these complex choices
 - Texas A&M tool may be best for our area:
<https://decisionaid.afpc.tamu.edu/>
- **Key deadlines:**
 - Base re-allocation: **February 28, 2015**
 - ARC/PLC choice: **March 31, 2015**



Additional Resources

- **USDA FSA & RMA websites:**
 - <http://ww.fsa.usda.gov>
 - <http://www.rma.usda.gov>
- **NC State Economist**
 - <http://ag-econ.ncsu.edu>
- **Choices magazine**
 - <http://www.choicesmagazine.org>



Thank You!

- Questions? Contact:

Rod M. Rejesus

Dept. of Agricultural and Resource Economics

NC State University

Tel. No. (919)513-4605

Email: rod_rejesus@ncsu.edu

