THE 2014 FARM BILL: Overview & Major Highlights

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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

<table>
<thead>
<tr>
<th>Crop</th>
<th>Base Acres 9/30/2013</th>
<th>Crop History 2009</th>
<th>Crop History 2010</th>
<th>Crop History 2011</th>
<th>Crop History 2012</th>
<th>Average Planting 2009-12</th>
<th>Reallocation Percentage</th>
<th>Reallocated Base Acre Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alfalfa (not covered crop)</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>not applicable</td>
<td>not applicable</td>
<td>not applicable</td>
</tr>
<tr>
<td>Corn</td>
<td>50</td>
<td>50</td>
<td>40</td>
<td>30</td>
<td>40</td>
<td>40</td>
<td>50%</td>
<td>50</td>
</tr>
<tr>
<td>Oats</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0%</td>
<td>0</td>
</tr>
<tr>
<td>Soybeans</td>
<td>30</td>
<td>30</td>
<td>32</td>
<td>50</td>
<td>32</td>
<td>36</td>
<td>45%</td>
<td>45</td>
</tr>
<tr>
<td>Wheat</td>
<td>10</td>
<td>0</td>
<td>8</td>
<td>0</td>
<td>8</td>
<td>4</td>
<td>5%</td>
<td>5</td>
</tr>
<tr>
<td>Total covered crops</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100%</td>
<td>100</td>
</tr>
</tbody>
</table>
## Payment Yield Update

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Brown Co.</th>
<th>Carroll Co.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>County</td>
<td>Farm</td>
</tr>
<tr>
<td>2008</td>
<td>152.0</td>
<td>150.0</td>
</tr>
<tr>
<td>2009</td>
<td>157.0</td>
<td>160.0</td>
</tr>
<tr>
<td>2010</td>
<td>119.5</td>
<td>120.0</td>
</tr>
<tr>
<td>2011</td>
<td>127.0</td>
<td>130.0</td>
</tr>
<tr>
<td>2012</td>
<td>87.0</td>
<td>85.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Brown Co.</th>
<th>Carroll Co.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Yield</td>
<td>128.5</td>
<td>181.0</td>
</tr>
<tr>
<td>Plug Yield</td>
<td>96.4</td>
<td>135.8</td>
</tr>
<tr>
<td>Updated Payment Yield</td>
<td>118.1</td>
<td><strong>163.1</strong></td>
</tr>
<tr>
<td>Current Payment Yield</td>
<td><strong>123.6</strong></td>
<td>125.6</td>
</tr>
</tbody>
</table>

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 × Payment Yield × Base Acres × 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>
<thead>
<tr>
<th>Crop</th>
<th>2008 FB Target Price</th>
<th>2014 FB Reference Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barley</td>
<td>2.24</td>
<td>4.95</td>
</tr>
<tr>
<td>Corn</td>
<td>2.63</td>
<td>3.7</td>
</tr>
<tr>
<td>Cotton</td>
<td>0.7125</td>
<td>NA</td>
</tr>
<tr>
<td>Grain Sorghum</td>
<td>2.57</td>
<td>3.95</td>
</tr>
<tr>
<td>Peanuts</td>
<td>495</td>
<td>535</td>
</tr>
<tr>
<td>Oats</td>
<td>1.44</td>
<td>2.4</td>
</tr>
<tr>
<td>Rice</td>
<td>10.5</td>
<td>14</td>
</tr>
<tr>
<td>Soybeans</td>
<td>5.8</td>
<td>8.4</td>
</tr>
<tr>
<td>Wheat</td>
<td>3.92</td>
<td>5.5</td>
</tr>
</tbody>
</table>
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

Commodity program enrollment (FSA)

- Landowner option to update base acres
- Landowner option to update payment yields
- Producer or landowner commodity program choice
  - ARC
    - Individual
      - Enroll by farm serial #, revenue payment prorated by historical crop
  - PLC
    - County
    - Enroll by commodity by farm serial #, revenue payment on historical crop

Crop insurance enrollment (Agent)

- Producer option to purchase individual policy
  - Producer option to purchase SCO for 2015 planted acres

NC Cooperative Extension
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

<table>
<thead>
<tr>
<th>Covered Commodity</th>
<th>2014 Farm Bill Reference Prices</th>
<th>2008 Farm Bill Target Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>$5.50</td>
<td>$4.17</td>
</tr>
<tr>
<td>Barley</td>
<td>$4.95</td>
<td>$2.63</td>
</tr>
<tr>
<td>Oats</td>
<td>$2.40</td>
<td>$1.79</td>
</tr>
<tr>
<td>Corn</td>
<td>$3.70</td>
<td>$2.63</td>
</tr>
<tr>
<td>Grain Sorghum</td>
<td>$3.95</td>
<td>$2.63</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$8.40</td>
<td>$6.00</td>
</tr>
</tbody>
</table>

USDA Crop Protection Choices 2014 Farm Bill Choices

- Deductible
- Ag Risk Protection * ARC
- Deductible
- (Revenue or Yield Protection to 75 or 85%)
- NAP (for non-insurable crops to 65%)
- C, L and NAP cover all planted acres of a crop

- Crop Insurance

** 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:

- NC State Economist
  - http://ag-econ.ncsu.edu

- Choices magazine
  - http://www.choicesmagazine.org
Thank You!

• Questions? Contact:

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