THE 2014 FARM BILL: Overview & Major Decisions

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)*
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>not applicable</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>80</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></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>County</td>
<td>Farm</td>
<td>Farm-Adjusted</td>
<td>Farm</td>
<td>Farm-Adjusted</td>
<td>Farm</td>
<td>Farm-Adjusted</td>
<td>Farm</td>
<td>Farm-Adjusted</td>
</tr>
<tr>
<td>2008</td>
<td>152.0</td>
<td>150.0</td>
<td>150.0</td>
<td></td>
<td>185.0</td>
<td>190.0</td>
<td>190.0</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>157.0</td>
<td>160.0</td>
<td>160.0</td>
<td></td>
<td>189.0</td>
<td>188.0</td>
<td>188.0</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>119.5</td>
<td>120.0</td>
<td>120.0</td>
<td></td>
<td>189.8</td>
<td>191.0</td>
<td>191.0</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>127.0</td>
<td>130.0</td>
<td>130.0</td>
<td></td>
<td>183.3</td>
<td>182.0</td>
<td>182.0</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>87.0</td>
<td>85.0</td>
<td>96.4</td>
<td></td>
<td>157.9</td>
<td>155.0</td>
<td>155.0</td>
<td></td>
</tr>
<tr>
<td>Average Yield</td>
<td>128.5</td>
<td>129.0</td>
<td>131.3</td>
<td></td>
<td>181.0</td>
<td>181.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plug Yield</td>
<td>96.4</td>
<td></td>
<td></td>
<td></td>
<td>135.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Updated Payment Yield</td>
<td>118.1</td>
<td></td>
<td></td>
<td></td>
<td>163.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Payment Yield</td>
<td>123.6</td>
<td></td>
<td></td>
<td></td>
<td>125.6</td>
<td></td>
<td></td>
<td></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** = \(0.85 \times \text{Payment Yield} \times \text{Base Acres} \times \text{PLC Payment Rate}\)
  - where: PLC Payment Rate = \([\text{Ref. Price} – \text{Higher of (Nat’l aver mktg. year price or Marketing Loan Rate)}]]\)
## Price Loss Coverage (PLC)

<table>
<thead>
<tr>
<th>Crop</th>
<th>Reference Prices</th>
<th>Crop</th>
<th>Reference Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barley 1/</td>
<td>$4.95 per bu.</td>
<td>Mustard</td>
<td>$20.15 per cwt.</td>
</tr>
<tr>
<td>Chickpeas, Large</td>
<td>$21.54 per cwt.</td>
<td>Rapeseed</td>
<td>$20.15 per cwt.</td>
</tr>
<tr>
<td>(Garbanzo Bean, Kabuli)</td>
<td></td>
<td>Safflower</td>
<td>$20.15 per cwt.</td>
</tr>
<tr>
<td>Chickpeas, Small</td>
<td>$19.04 per cwt.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Garbanzo Bean, Desi)</td>
<td></td>
<td>Safflower</td>
<td>$20.15 per cwt.</td>
</tr>
<tr>
<td>Corn</td>
<td>$3.70 per bu.</td>
<td>Sesame Seed</td>
<td>$20.15 per cwt.</td>
</tr>
<tr>
<td>Dry Peas</td>
<td>$11.00 per cwt.</td>
<td>Sunflower</td>
<td>$20.15 per cwt.</td>
</tr>
<tr>
<td>Grain Sorghum</td>
<td>$3.95 per bu.</td>
<td>Peanuts</td>
<td>$535.00 per ton</td>
</tr>
<tr>
<td>Lentils</td>
<td>$19.97 per cwt.</td>
<td>Rice, Long Grain</td>
<td>$14.00 per cwt.</td>
</tr>
<tr>
<td>Oats</td>
<td>$2.40 per bu.</td>
<td>Rice, Medium Grain 2/</td>
<td>$14.00 per cwt.</td>
</tr>
<tr>
<td>Canola</td>
<td>$20.15 per cwt.</td>
<td>Soybeans</td>
<td>$8.40 per bu.</td>
</tr>
<tr>
<td>Crambe</td>
<td>$20.15 per cwt.</td>
<td>Wheat</td>
<td>$5.50 per bu.</td>
</tr>
<tr>
<td>Flaxseed</td>
<td>$11.28 per bu.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1/ Barley price is based on the price of “all barley”. Previously the price was based on the “feed barley” price.

2/ Includes short grain and temperate japonica rice
Price Loss Coverage (PLC)

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

<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. year revenue = Indiv. Farm yield × MYA price
  - Indiv. actual revenue = ARC guarantee price (MYA 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)
    • Similar to ARPI (or GRP/GRIP before)
  – Must be purchased with an underlying individual crop insurance policy
    • Endorsement to YP, RP, RP-HPE
Shallow Loss Programs

- Supplemental Coverage Option (SCO)
  - 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
    - Covers from 86% to indiv. coverage level
    - Liability based on expected crop value for grower (but amt. based on how well county does)
2015 Crop Year Supplemental Coverage Option (SCO) Availability for Corn

Legend
- Program Offered

SCO Corn coverage is estimated to be available for:
99% of acreage insured (based on 2013 crop insurance participation)
98% of all planted acreage (based on 2013 NASS estimates)
2015 Crop Year Supplemental Coverage Option (SCO) Availability for Upland Cotton

Legend
- Program Offered

SCO Upland Cotton coverage is estimated to be available for:
- 100% of acreage insured (based on 2013 crop insurance participation)
- 98% of all planted acreage (based on 2013 NASS estimates)
2015 Crop Year Supplemental Coverage Option (SCO) Availability for Soybeans

Legend
- Blue: Program Offered

SCO Soybean coverage is estimated to be available for:
99% of acreage insured (based on 2013 crop insurance participation)
98% of all planted acreage (based on 2013 NASS estimates)
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

County

Enroll by commodity by farm serial #, revenue payment on historical crop

PLC

Enroll by commodity by farm serial #, price loss 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  Empowering People • Providing Solutions
Decision Process: Cotton

Choice of STAX with or without crop insurance or SCO with crop insurance. Can’t have both on same acres.

STAX coverage from 90% to 70% or underlying coverage level (whichever is higher).

SCO Coverage from 86% to underlying coverage level.

Area-wide policy. Premium subsidy 80%. Protection factor 80 to 120%. Loss and indemnity determined by county data.

Area-wide policy. Premium subsidy 65%. Loss determined by county data. Liability determined by individual APH.
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 Statutory</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>

Deductible

USDA Crop Protection Choices 2014 Farm Bill Choices

- 87-100
- 76-86
- 66-75
- 50

Ag Risk Protection

ARC

SCO 50-86%

** 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.

(Revenue or Yield Protection to 75 or 85%)

NAP (for non-insurable crops to 65%)

C. I. and NAP cover all planted acres of a crop

Crop Insurance

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:

Rod M. Rejesus
Dept. of Agricultural and Resource Economics
NC State University
Tel. No. (919)513-4605
Email: rod_rejesus@ncsu.edu