

ALL ABOUT THE 2014 FARM BILL

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EXTENSION SERVICE



Title I – Commodities (Programs)

- Eliminates:
 - **Direct Payments**
 - **Counter-Cyclical Payments**
 - **Average Crop Revenue Election (ACRE)**
 - **SURE**
- Retains marketing loans
- Provides a Transition Payment for Cotton in 2014
- Establishes:
 - **Agricultural Risk Coverage (ARC)** program to assist farmers when revenue (price times yield) drops due to low prices or weather disasters
 - **Price Loss Coverage (PLC)** program to assist farmers when commodity prices drop below reference levels



Title I – Commodities (Programs)

ARC and PLC:

- Producers are given a 1-time choice to enroll in either PLC or ARC (county or individual level) on a commodity-by-commodity basis for each FSN
- Both ARC and PLC pay on **decoupled base acres** designed to minimize planting and market distortions and comply with international trade agreements
- Landowners are offered a one-time opportunity to reallocate existing base acres using an average of 2009 to 2012 plantings.
- Requires conservation compliance for all commodities



Title XI Crop Insurance

- Creates two new shallow loss county triggered programs
 - Supplemental Coverage Option (SCO)
 - Stacked Income Protection Program (STAX) for cotton
- Conservation Compliance for crop insurance
- Traditional crop insurance
 - Enterprise units by dryland/irrigated practice
 - Separate coverage level by practice
 - Beginning farmers (provides 10 percentage point discount for all crop insurance premiums)
 - Authority to do peanut revenue insurance



Possible Choices

One time Landowner Choice

1. Update base yields
2. **Reallocate base acres**

One time Producer Choice

1. **Program Choice** for the life of the bill (5 years)
 - a. **County triggered Ag Risk Coverage (ARC)** [similar to county level ACRE]
 - b. **Farm-triggered ARC** [similar to farm level ACRE]
 - c. **Price Loss Coverage (PLC)** [similar to counter-cyclical payment program]
2. Cotton has the choice of SCO or STAX on planted acres every year (beginning in 2015) with a transition payment in 2014



Dates You Need to Know

- Sept. 29, 2014 to **Feb. 27, 2015**: Land owners may visit their local Farm Service Agency office to update yield history and/or reallocate base acres.
- Nov. 17, 2014 to **March 31, 2015**: Producers make a one-time election of either ARC or PLC for the 2014 through 2018 crop years.
- Mid-April 2015 through summer 2015: Producers sign contracts for 2014 and 2015 crop years



Generic Base

- “Generic Base Acres” = the number of existing base acres for **cotton**
 - Was created as cotton programs would no longer use base acres
 - It avoids the value of cotton base from being lost
- Because cotton cannot participate in PLC and ARC programs, cotton base is reallocated
 - PLC & ARC are allowed to move to other covered commodity for the crop year.
 - The generic base acres are in addition to other base acres on the farm.
- <http://blogs.msucare.com/agecon/2014/04/15/farm-bill-support-tools-and-calculators/>



Base Reallocation

- One time opportunity to elect to reallocate base acres for covered commodities on the farm, among those covered commodities planted on the farm at any time during the 2009-2012
- Reallocation of base acres among covered commodities on a farm shall be in proportion to the ratio of—
 - the 4-year average of the acreage planted on the farm to each covered commodity for 2009-2012 crop years; and any prevented planting to the 4-year average of the acreage planted on the farm to all covered commodities and prevented planting
- Cannot “build base”
- <http://blogs.msucare.com/agecon/2014/04/15/farm-bill-support-tools-and-calculators/>



Yield Updating

- Owner of a farm has a 1-time opportunity to update payment yields in 2014 for PLC.
 - equal to 90 percent of the average of the yield per planted acre for the crop of the covered commodity on the farm for the 2008 through 2012 crop years.

Example Yield Update Calculation			
Year	Corn	Rice	Soybeans
2012	165.7	7,230	46.3
2011	136.5	7,140	42.5
2010	135.4	7,120	45.0
2009	146.0	6,700	42.0
2008	158.0	6,810	42.0
Yield	148.3	7,000	43.6
Payment Yield	133.5	6,300	39.2



Price Loss Coverage (PLC)

- FSA delivered and functions much like CCP
- Payment = 85% x Base acres x base yield x [Reference price – maximum of loan rate or Market Year Average (MYA) price]
- Cotton not eligible
- Reference Prices
 - Corn, \$3.70 per bushel.
 - Long and medium grain rice \$14.00 per hundredweight
 - Soybeans, \$8.40 per bushel
 - Peanuts \$535.00 per ton
 - Wheat, \$5.50 per bushel
 - Sorghum, \$3.95 per bushel
- Can also opt for PLC and Supplemental Coverage Option (SCO)



Ag Risk Coverage (ARC)

- FSA delivered beginning in 2014.
- Either farm-level or county-level (grower chooses).
 - County-level;
 - paid on 85% of base acres
 - Commodity specific
 - Farm-level;
 - paid on 65% of base acres
 - All FSNs are aggregated
 - Multi-crop coverage
- Average benchmark revenue = 86% x 5 year Olympic average yield (farm or county) x 5 year Olympic average MYA price.
- Payment cannot exceed 10% of benchmark revenue
 - Covers 86% to 76%.
- Cotton not eligible.



Ag Risk Coverage (ARC) Soybean Example*

	2014	2015	2016	2017	2018
Olympic Average County Yield	45	43	43	43	44
Olympic Average Market Year Price	\$12.10	\$8.33	\$8.33	\$7.69	\$7.04
ARC Bench Mark	\$539.66	\$355.25	\$360.58	\$332.60	\$309.19
Payment Begins 86% of Benchmark	\$464.11	\$305.52	\$310.10	\$286.03	\$265.90
Maximum ARC Payment/Payment acre	\$53.97	\$35.53	\$36.06	\$33.26	\$30.92
Actual County Yield	42	42.63	43.27	43.92	44.58
Actual 2014 MYA Price	\$10.54	\$10.40	\$10.56	\$10.68	\$10.74
Actual Revenue	\$442.68	\$443.35	\$456.93	\$469.05	\$478.76
Revenue as a percent of ARC Benchmark	82%	125%	127%	141%	155%
Payment on % of Base Acres	85%	85%	85%	85%	85%
ARC Payment/acre	\$18.21	\$0.00	\$0.00	\$0.00	\$0.00

*Hypothetical Example

Supplemental Coverage Option (SCO)

- RMA delivered beginning in 2015.
- 65% premium subsidy.
- No payment limit.
- Top coverage of 86% coverage
- County-level optional endorsement for crop insurance policies.
 - “Tops up” crop insurance to cover deductible.
 - Yield or revenue triggered depending on underlying crop insurance policy.
 - Expected county yield = GRP trend yield. Expected revenue = GRP trend yield x crop insurance base price.
 - Actual county yield = County yield. Actual revenue = county yield x crop insurance harvest price.
 - Coverage ceases at coverage level for underlying insurance policy.
- May purchase STAX and SCO, but not on same acres.

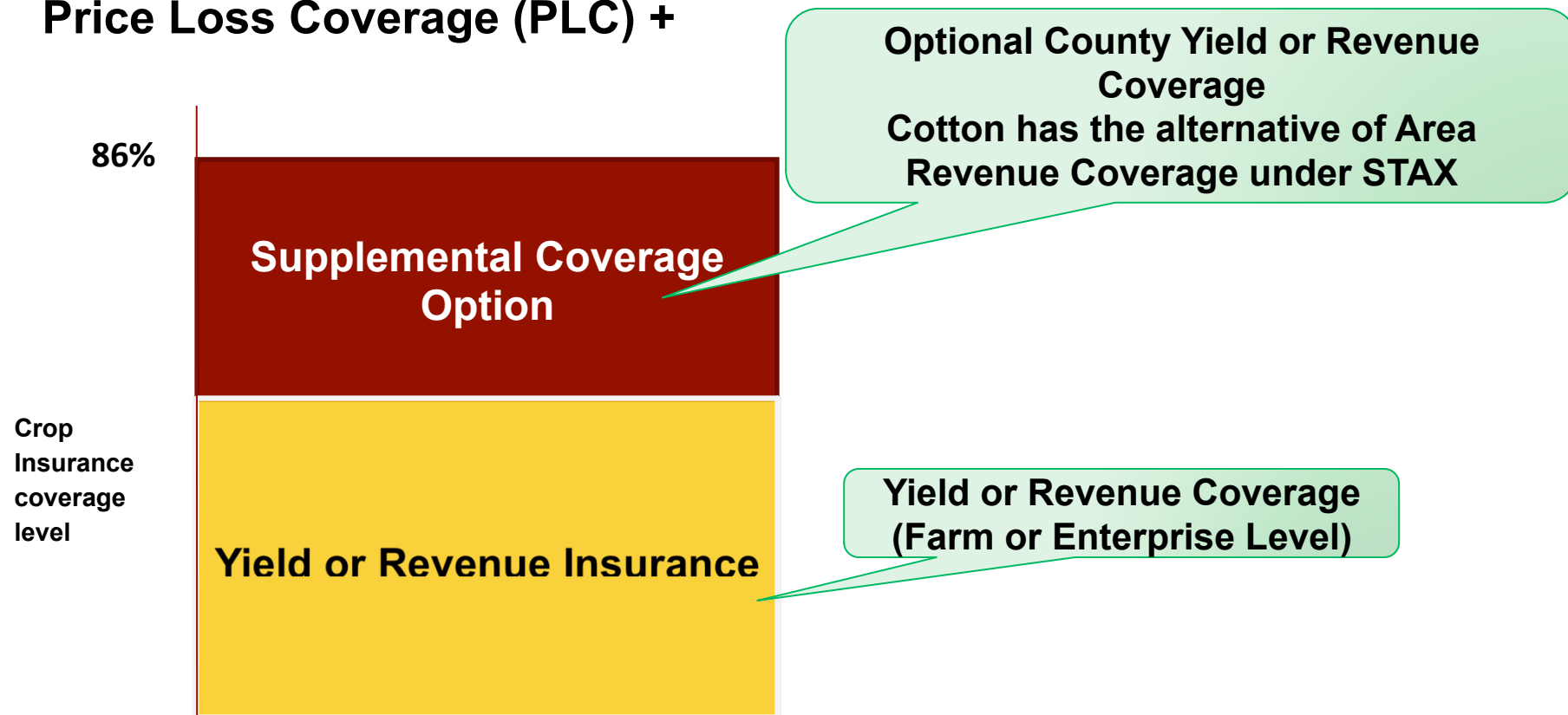
Stacked Income Protection Plan (STAX)

- RMA delivered beginning in 2015.
- Only for cotton
- 80% premium subsidy. No payment limit.
- Modified version of county-level GRIP (with harvest revenue option).
- Expected revenue: Max of GRP yield or 5 year Olympic average yield x higher of crop insurance base price
- Actual revenue: County yield x crop insurance harvest price.
- Maximum 90% coverage (10% deductible).
- Maximum range of payments is 90-70% of expected revenue.
- Do not have to purchase individual-level coverage
- If in STAX, not eligible for SCO.

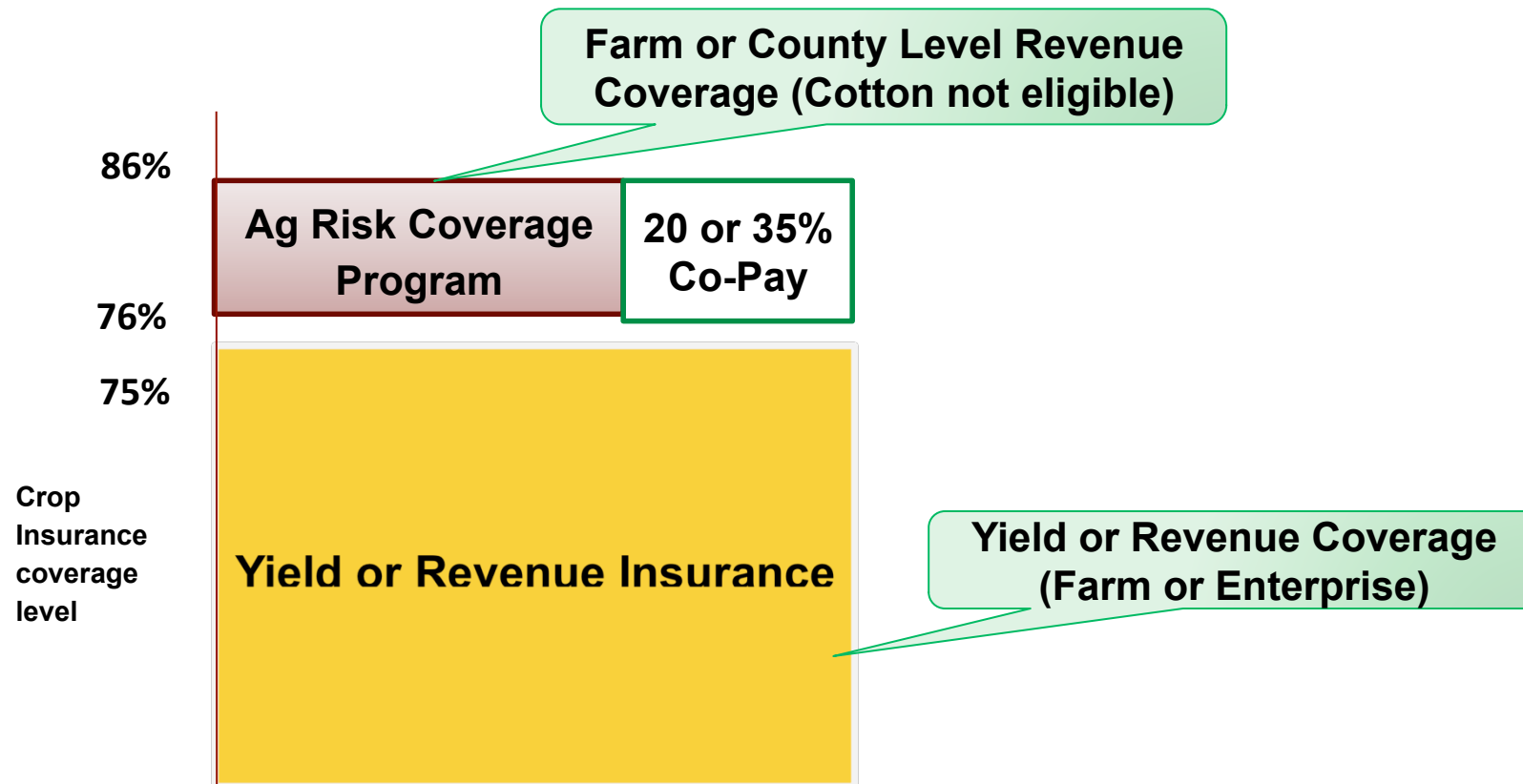


PLC + SCO + Crop Insurance

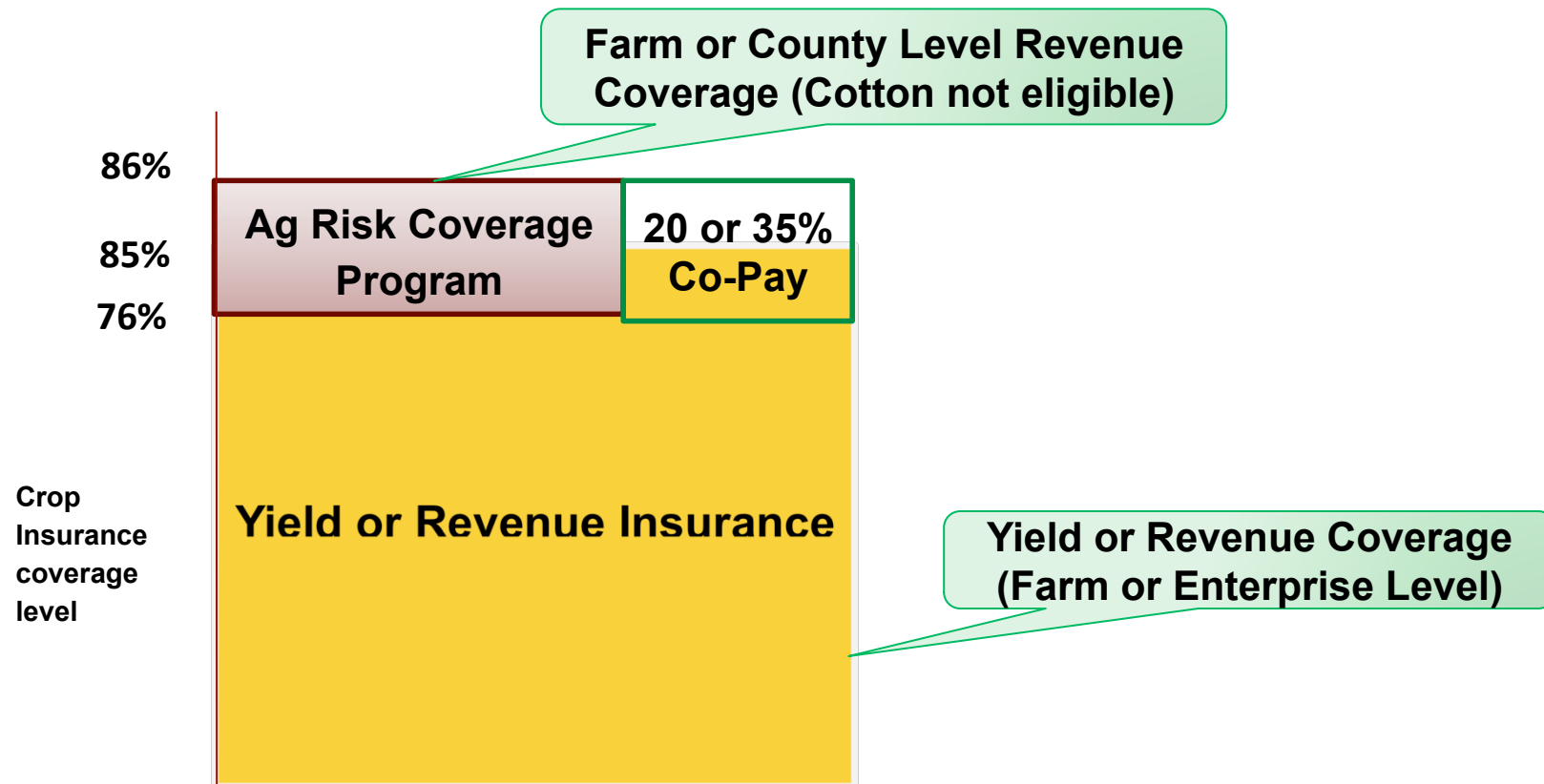
Price Loss Coverage (PLC) +



ARC + Crop Insurance




ARC + Crop Insurance



An example of how county triggered programs may not match farm losses

Farm Level	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Yield % APH	92%	54%	92%	93%	123%	133%	107%	82%	122%	71%
SCO payment needed	\$46.51	\$155.03	\$48.06	\$40.31	\$0.0	\$0.0	\$0.0	\$111.62	\$0.0	\$155.03

County Level	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Yield % APH	86%	79%	95%	103%	117%	109%	109%	87%	115%	105%
SCO payment	\$84.65	\$126.23	\$28.21	\$0.0	\$0.0	\$0.0	\$0.0	\$78.71	\$0.0	\$0.0



Note: This farm is strongly correlated with the county

Crop Insurance Choices

Coverage Level	Basic & Optional Subsidy	Enterprise Unit Subsidy	SCO Subsidy	STAX Subsidy
50%	67%	80%	65%	
55%	64%	80%	65%	
60%	64%	80%	65%	
65%	59%	80%	65%	
70%	59%	80%	65%	80%
75%	55%	77%	65%	80%
80%	48%	68%	65%	80%
85%	38%	53%	65%	80%
90%				80%



Payment Limits

- The total amount of payments received for PLC, ARC and a **marketing loan gain** or loan deficiency payment may not exceed \$125,000
- separate and equal payment limitation for peanuts.
- Payments will spike
- **Adjusted Gross Income**
 - Prohibits a person or legal entity from receiving benefits under subtitle A if the average gross income of the person or legal entity exceeds \$900,000 by using a moving three-year average.
- **Actively Engaged**
 - The Secretary may establish limits for varying types of farming operations on the number of individuals who may be considered to be actively engaged in farming.





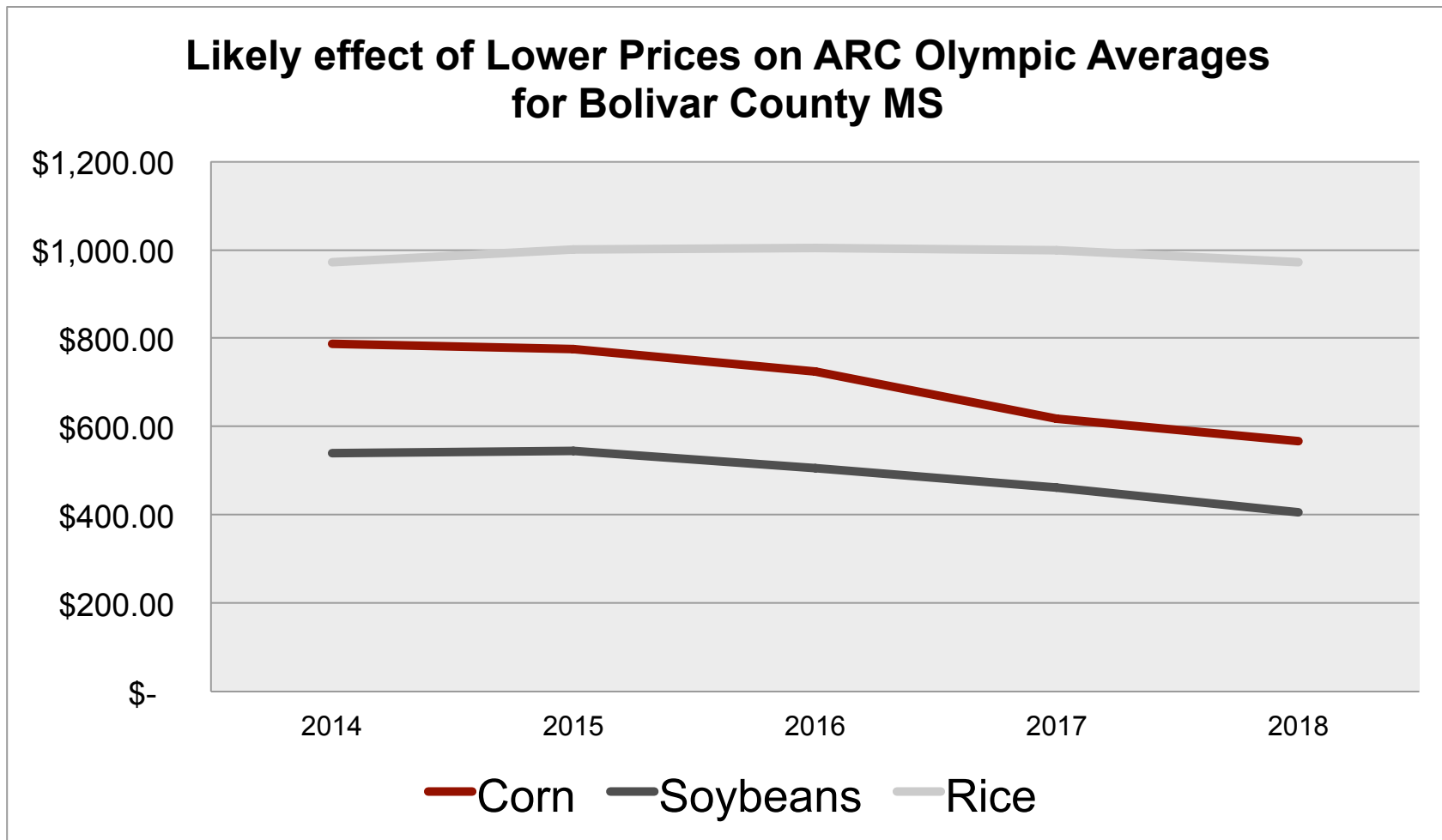
ANALYSIS OF REPRESENTATIVE FARMS

Estimating the Chances of Farm Program Payment Levels

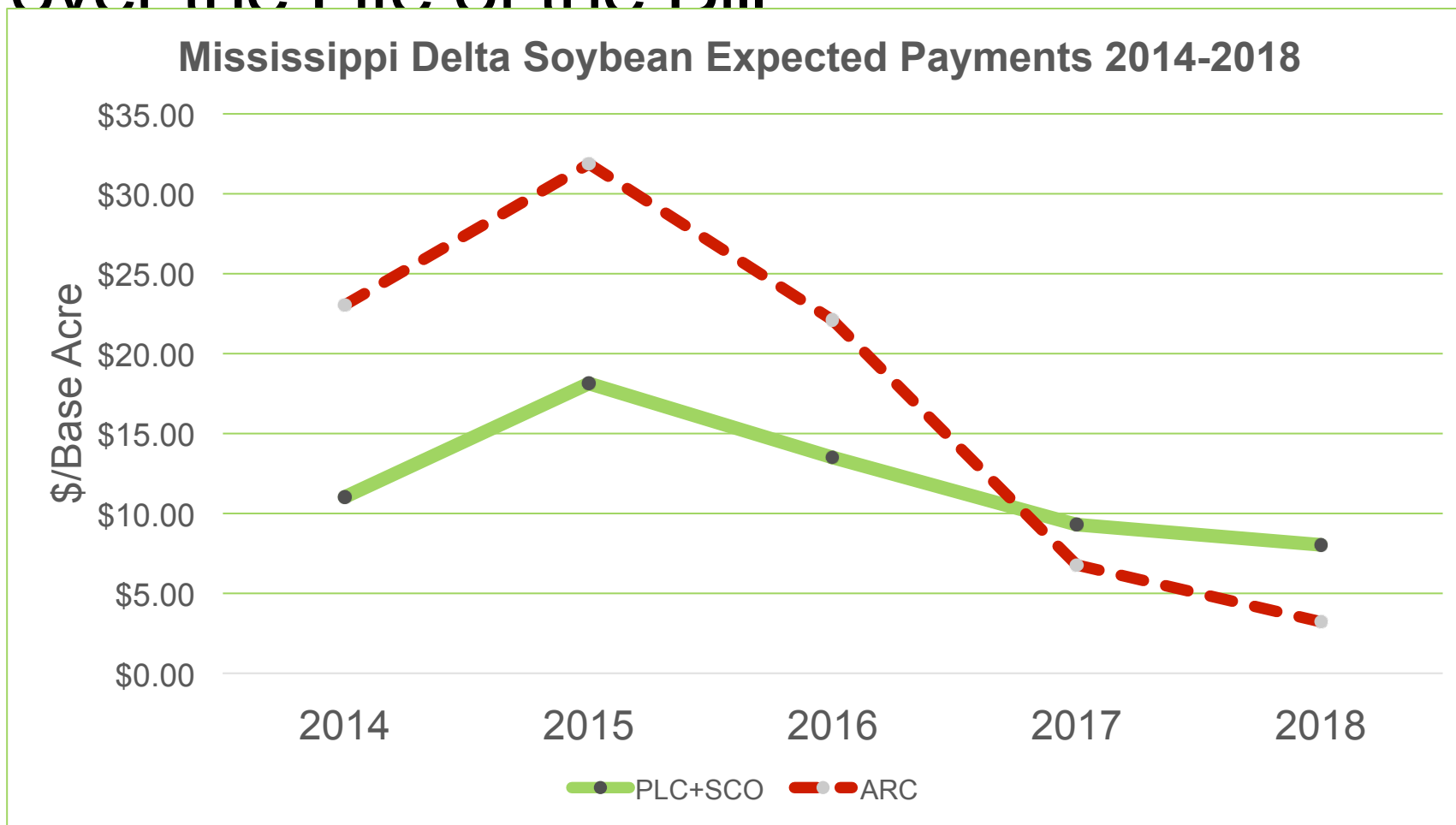
- All programs depend price and/or yield which are unknown
 - Differs from direct payments
- Use computer models that simulate price and yield outcomes
 - Price
 - We don't know what prices will be, but we know future forecast of price and the variability of price – get the odd of various price levels
 - Yield
 - Know we have significant yield trend
 - We know about the distribution of weather
 - Quantify deviations from trend to estimate the chances of a yield shortfall



ARC Guarantees Are Likely to Decline Over Time

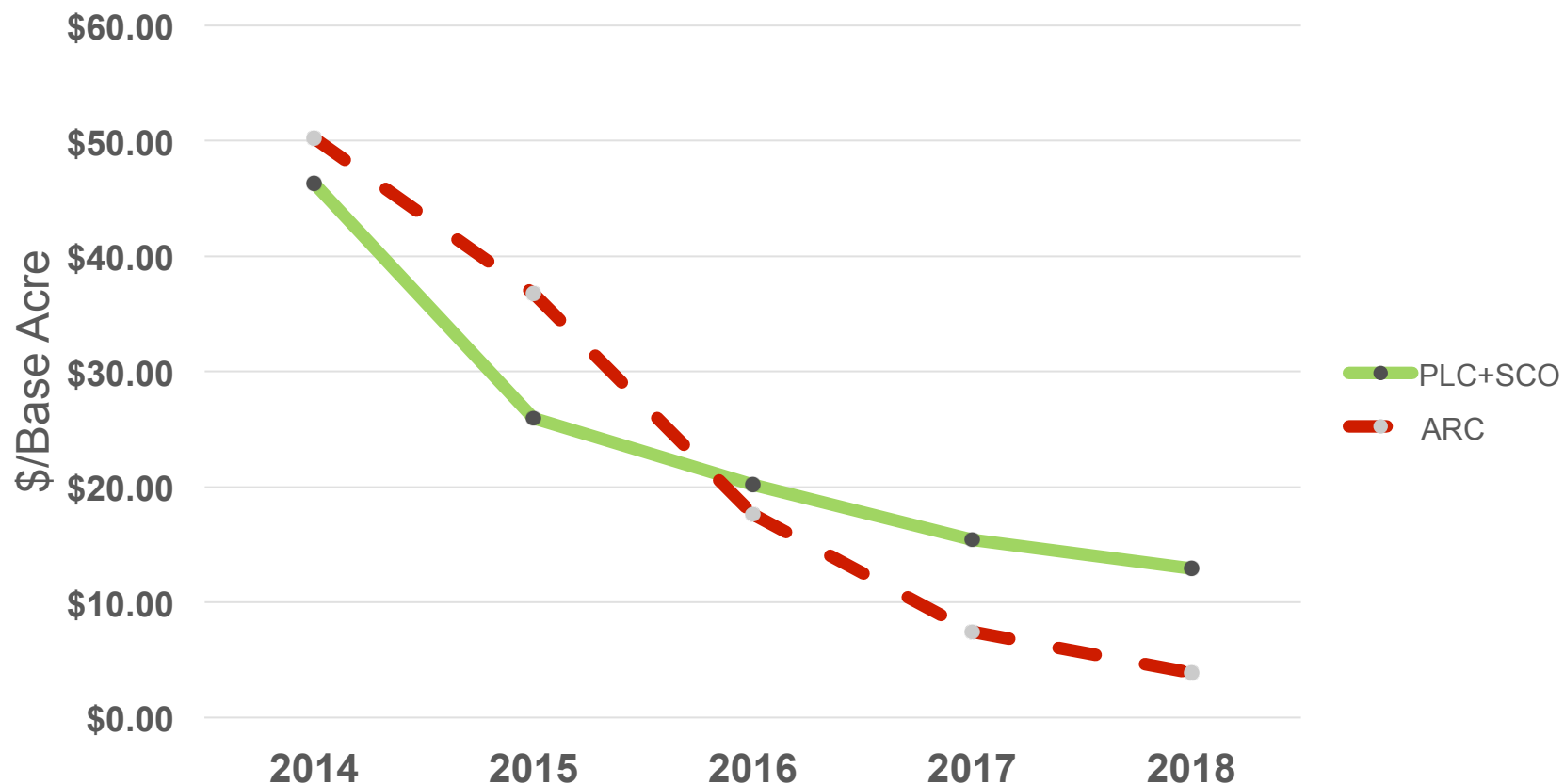


Trend in Estimated Soybean Payment over the Life of the Bill



Trend in Estimated Corn Payment over the Life of the Bill

Mississippi Delta Corn Expected Payments 2014-2018



Mississippi Delta Representative Farm Estimated Average Annual Payments 2014-2018

	Optimal Coverage Level	Net Return to Crop Insurance	PLC	SCO	PLC + SCO	ARC
Rice	60%	\$19.14	\$94.26	\$48.84	\$143.10	\$41.42
Wheat	75%	\$13.15	\$8.40	\$10.53	\$18.93	\$15.07
Soybean	75%	\$14.99	\$5.46	\$9.41	\$14.87	\$19.89
Corn	75%	\$15.04	\$18.75	\$5.41	\$24.15	\$20.35



5 Questions to ask of ARC/PLC decision aids

1. *How does the decision aide account for uncertain prices yields over the life of the bill?*
 - estimates of payments must account for the odds of various prices and yields over 5 years.
2. *If the decision aide accounts for risk, then what risks are modeled?*
 - five risk variables: Three prices: Cash price, futures price, market year average price and two yields: farm and area yield.
3. *If the decision aide accounts for risk, then how is the correlation of random variables handled?*
 - A farm considering individual ARC with three crops needs 120 correlations.
4. *Does the model ask you for lots of farm yield data?*
5. *Does the decision aid help you understand risk protections as well as expected returns?*



5 Questions to ask yourself about the ARC/PLC decision

1. *How much do you want to protect yourself from risk or increase government payments?*
2. *How much are you willing to take money upfront and be exposed in out years?*
3. *How much do you value having a price floor under the price of a crop?*
4. *How much are you willing to depend on individual crop insurance for risk protection?*
5. *How much are you willing to depend on area-triggered crop insurance for risk protection?*



Summary

- Easy calls
 - Conversion of cotton base to generic base
 - Yield updates
 - Farm level ARC may not be a good fit for diversified producers
 - STAX will be preferred to SCO for cotton unless low crop insurance coverage
- Important things to remember
 - area triggered programs may not trigger when you have a loss
 - Remember Title 1 programs are on base acres not planted acres
 - As compared to direct payments which paid every year, ARC, PLC, and SCO are expected to pay less than 50% of the time.



Decision Aides

- We have two available
- <http://blogs.msucare.com/agecon/2014/04/15/farm-bill-support-tools-and-calculators/>
- We will continue to do representative farm analysis
- USDA Supported programs - Two teams approved by USDA
 - AFPC/FAPRI
 - U of Illinois
 - We are collaborating with the AFPC/FAPRI team
- We will be doing training in December and January

