2014 Farm Bill
How does it affect you and your operation?

Section 1: Overview, Base Reallocation, and Yield Updates
Dr. Jason Fewell
Assistant Professor
Department of Agricultural & Resource Economics
University of Tennessee

jfewell@utk.edu
(865) 974-7410
Agricultural Act of 2014

- Signed into law on February 7th, 2014 after two years of negotiations
- Five-year bill covering crop years 2014-2018
- Reduces spending by $23 billion over 10 years
- Repeals or consolidates over 100 USDA programs
- Significant changes to crop producers’ safety net
- Some have called this a “transitional farm bill”
Estimated Direct Spending Outlays by Title (values in millions of dollars)

- **Commodities**: 44,458 (4.7%)
- **Conservation**: 57,600 (6.0%)
- **Crop Insurance**: 89,827 (9.4%)
- **Nutrition**: 756,433 (79%)
- **Everything Else**: 8,084 (0.9%)

Source: Congressional Budget Office. $956.4 Billion from 2014 to 2023.
Overview of Commodity Programs

- **Covered Commodities:**
  - Wheat, Oats, Barley, Corn, Grain Sorghum, Long Grain Rice, Medium Grain Rice, Pulse Crops, Soybeans, Other Oilseeds, and Peanuts

- **Cotton is no longer a covered commodity**
  - Will be covered under STAX or SCO
  - Enrollment for transition payments open until October 7th.

- **Direct Payments (DCP), the Average Crop Revenue Election (ACRE) program, and Counter-Cyclical Payments are repealed**
Overview of Commodity Programs

• For the 2014 crop, producers of covered commodities must choose between:
  • Agriculture Risk Coverage - County (ARC-CO)
  • Agriculture Risk Coverage - Individual (ARC-IC)
  • Price Loss Coverage (PLC)
• Only producers who choose PLC will be eligible to participate in the Supplemental Coverage Option (SCO) for crop insurance, beginning in 2015
Overview of Commodity Programs

• The decision farmers make in 2014 will determine which program they are in for the next five crop years (until 2018)

• If no choice is made in 2014, producers will be automatically enrolled in PLC and forfeit 2014 payments

• Regardless of which program is chosen, the first payment (if any is due) will not be made until after September 30th 2015 for the 2014 crop
Overview of Commodity Programs

- Dairy program changes significantly
- MILC is repealed, replaced with Margin Protection Program (MPP)
  - Allows producers to insure a margin over feed cost
- MPP should (will?) be available September 1st
Supplemental Agricultural Disaster Assistance Program

- **Permanent** livestock disaster aid
- Provides assistance in times of adverse weather
- Livestock Indemnity Program (LIP)
- Livestock Forage Disaster Program (LFP)
- Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (ELAP)
- Tree Assistance Program (TAP)
Other Considerations

- Producers will have the opportunity to reallocate their base acres to crops planted on each farm from 2009 to 2012.
- If producers choose the PLC option they have the opportunity to update their payment yields to 90% of the 2008-2012 crop year averages or leave the payment yields unchanged (USDA may let everyone update regardless of program choice, however updates will only affect PLC enrolled producers).
- PLC and ARC are decoupled (paid on base acres, not planted acres – except on generic base which is partially tied to covered crop planted each year).
Other Considerations

- Overall payment limit per person – $125,000 combined for PLC, ARC, Loan Deficiency Payments, and Marketing Loan Gains
- No change to the spousal rule ($250,000 per couple)
- No limit on marketing loan forfeitures
- Adjusted Gross Income (AGI) test – 3 year average of $900,000 or less for commodity and conservation program eligibility
- Payment limits and AGI test do not apply to crop insurance
Crop Insurance

• Crop insurance is changed slightly from previous years
• Conservation compliance on HEL is required to receive cost share for crop insurance premiums
• Beginning in 2015, producers who raise both dryland and irrigated crops can insure the crops at different coverage levels
• Beginning farmers and ranchers shall receive premium assistance 10 percentage points greater than would otherwise be available
SCO and STAX

• Producers who enroll in the PLC program are eligible to purchase a Supplemental Coverage Option (SCO) with a 65% cost share on the premium

• SCO is an endorsement to existing insurance.

• Cotton producers have opportunity to enroll in a new Stacked Income Protection Plan (STAX) or SCO
Conservation

- Conservation spending higher than commodity title spending ($57.6 versus $44.5 billion)
- 23 programs reduced to 13
- Many programs consolidated to improve efficiency
- Conservation Reserve Program (CRP), Environmental Quality Incentives Program (EQIP), and Conservation Stewardship Program (CSP) are continued
- CRP is largest program – acreage cap set to decline from 27.5 to 24 million acres from 2014 to 2018
- CSP is set at 10 million acres per year
- EQIP has payment limit of $450,000 per person
Base Acreage Reallocation

- Producers will have the opportunity to reallocate or retain base acreage
- Base acreage cannot increase over existing base as of September 30, 2013
- Producers (landowners) should have received a letter with current base acreage and program yields to verify
Base Acreage Reallocation

- Reallocation is in proportion to the ratio of:
  - The 4 year average of planted acres from 2009 to 2012 plus prevented planting acres for all covered commodities
  - Under planting does not affect the amount of base. The planted acres of covered commodities only affects the proportion of base acres that you will reallocate among commodities
  - If a crop was prevented from being planted, then another crop planted, landowners can use either crop in calculations but not both
## Base Acreage Reallocation Example

Planted Acreage + Prevented Plantings by Year

### 4-Year Average Acreage

<table>
<thead>
<tr>
<th>Crop</th>
<th>Existing Base</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>4-Year Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>250</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Grain Sorghum</td>
<td>250</td>
<td>50</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td>Soybeans</td>
<td>250</td>
<td>450</td>
<td>500</td>
<td>400</td>
<td>500</td>
<td>463</td>
</tr>
<tr>
<td>Wheat</td>
<td>250</td>
<td>0</td>
<td>0</td>
<td>100</td>
<td>0</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

### % Planted to Title I Covered

<table>
<thead>
<tr>
<th>Crop</th>
<th>Base</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>50%</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>1,000</td>
</tr>
<tr>
<td>Grain Sorghum</td>
<td>1%</td>
<td>13</td>
<td>13</td>
<td></td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Soybeans</td>
<td>46%</td>
<td>463</td>
<td>463</td>
<td></td>
<td></td>
<td>463</td>
</tr>
<tr>
<td>Wheat</td>
<td>3%</td>
<td>25</td>
<td>25</td>
<td></td>
<td></td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>
Base Acreage Reallocation

• Base acreage may be reduced on subdivided land and land used for other non-farming purposes if the land will not be returned to ag use

• Land owner may reduce base acreage for any commodity at any time
  • This will be permanent

• Base acreage will be adjusted as CRP expires or is terminated by landowner and farmer must choose PLC, ARC-CO, or ARC-IC
Base Acreage Reallocation

- Why reallocate base acres?
  - More closely reflects actual recent planting history
  - Has the potential to increase payments depending on ARC/PLC decision
  - This may turn out to be a very important decision.
Generic Base Reassignment

• Base cotton acres are now called “generic base” acres and are eligible for program payments based on annual planted acreage.

• Generic base cannot be reallocated, but can be reassigned annually to other covered commodities based on percentages of planted covered commodity acres.
# Generic Base Example

<table>
<thead>
<tr>
<th>Crop</th>
<th>Existing Base</th>
<th>2015 Planted</th>
<th>Title I Covered Crops</th>
<th>% Planted/Prevented to Title I Covered Crops</th>
<th>Payment Acreage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>50%</td>
<td>750</td>
</tr>
<tr>
<td>Soybeans</td>
<td>0</td>
<td>500</td>
<td>500</td>
<td>50%</td>
<td>250</td>
</tr>
<tr>
<td>Cotton (Generic Base)</td>
<td>500</td>
<td>0</td>
<td>1,000</td>
<td>100%</td>
<td>1,000</td>
</tr>
</tbody>
</table>
Payment Yield Updates

• The only “easy” decision in the farm bill
• One-time decision to update payment yields applies to PLC
  • May be beneficial for future programs
• Decision made on a crop-by-crop basis
• Criteria
  • 90% of average yield for crop years 2008 – 2012
  • Exclude years in which planted acres = 0
  • If farm yield is less than 75% of county average yield, use 75% of county average yield
## Payment Yield Update Example

<table>
<thead>
<tr>
<th>Crop</th>
<th>Units</th>
<th>Existing CCP Yield</th>
<th>Actual Yields per Planted Acre</th>
<th>&quot;Plug&quot; Yields</th>
<th>90% of the 2008-2012 Average Yield</th>
<th>PLC Payment Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>bu</td>
<td>120</td>
<td>125 180</td>
<td>80</td>
<td>145</td>
<td>145</td>
</tr>
<tr>
<td>Grain Sorghum</td>
<td>bu</td>
<td>60</td>
<td>85 65</td>
<td>63</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>Soybeans</td>
<td>bu</td>
<td>35</td>
<td>65 45</td>
<td>23</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>Wheat</td>
<td>bu</td>
<td>45</td>
<td>64 68</td>
<td>41</td>
<td>52</td>
<td>52</td>
</tr>
</tbody>
</table>
Communication!

- Landowners and tenants must communicate to work through the best option for their land.
- Base acres and payment yields are tied to land—not necessarily the producer.
- ALL parties involved in a farm must make a unanimous decision with respect to acreage, yields, programs.
Noninsured Crop Disaster Assistance Program (NAP)

• NAP is administered through FSA
• Covers losses for most crops not covered under a crop insurance policy
• 2014 Farm Bill provides additional coverage options for producers.
  • Coverage ranges from 50% to 65% of production in 5% increments
  • Allows for 100% of average market price
  • Old coverage level was only up to 50% of production at 55% of market price, for a 27.5% coverage level
NAPFF for 2012 Losses

• Payments will be available for 2012 frost/freeze losses in counties that received disaster declarations that year
• FSA will determine which level of coverage provides the best payoff to producers and subtract premium from indemnity payment
• Producers who already received NAP payment for 2012 will be allowed to get additional assistance, but cannot receive NAP and NAPFF payments for same crop loss
• Must apply by September 22nd regardless of whether payment was already made
• 2014 farm bill AGI and payment limits apply
NAPFF for 2012 Losses

• Fees if not paid in 2012
  • $250 administrative fee per crop
  • $750 administrative fee per producer
  • Not to exceed $1,875

• Tennessee eligible counties:
  • Claiborne, Grainger, Greene, Hamblen, Hancock, Hawkins, Polk, Sullivan, and Washington
# Timeline

<table>
<thead>
<tr>
<th>Timeframe</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-summer 2014</td>
<td>Producers receive letter about current yields and base acreage and 2009-2012 planting history</td>
</tr>
<tr>
<td>Late-summer 2014</td>
<td>MPP-Dairy and ARC/PLC decision tools available&lt;br&gt;MPP-Dairy and ARC/PLC regulations published&lt;br&gt;MPP-Dairy sign up starts for 2014 &amp; 2015&lt;br&gt;Producers can update yields and reallocate acres</td>
</tr>
<tr>
<td>Fall 2014</td>
<td>NAP online tool available&lt;br&gt;NAP regulations published&lt;br&gt;NAP sign up starts</td>
</tr>
<tr>
<td>Winter 2014</td>
<td>ARC/PLC one-time selections occur</td>
</tr>
<tr>
<td>Early 2015</td>
<td>ARC/PLC sign up for 2014 &amp; 2015</td>
</tr>
</tbody>
</table>

Dairy Programs

• The Milk Income Loss Contract, Dairy Export Assistance, and Dairy Product Price Support Programs are repealed
• A voluntary Dairy Margin Protection Program (MPP) and Dairy Product Donation Program are instituted
• Livestock Gross Margin – Dairy is still available
Dairy MPP

- Dairy MPP pays an indemnity if the average difference between the national all-milk price is lower than a feed ration price index calculated over a 2-month interval (Jan-Feb; Mar-Apr; etc.)
- Producers choose to insure a percentage of production and a dollar margin level
- Premiums are based on production level and margin
- Graduated premium for first 4 million pounds of milk and any amount over 4 million pounds
Dairy MPP

- Producer can choose to insure 25% to 90% of production
- Producer chooses margin from $4.00/cwt. to $8.00/cwt.
- $100 administrative fee to participate
- No premium at $4.00 coverage level
- Premiums lowered by 25% for 2014-2015
- Production insured in 5% increments and based on highest of last three years
- Annual decision to participate
- Producer may not use both LGM–Dairy and MPP
# Dairy MPP Premium levels

<table>
<thead>
<tr>
<th>Coverage Level</th>
<th>Premium per cwt.</th>
<th>Coverage Level</th>
<th>Premium per cwt.</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4.00</td>
<td>None</td>
<td>$4.00</td>
<td>None</td>
</tr>
<tr>
<td>$4.50</td>
<td>$0.010</td>
<td>$4.50</td>
<td>$0.020</td>
</tr>
<tr>
<td>$5.00</td>
<td>$0.025</td>
<td>$5.00</td>
<td>$0.040</td>
</tr>
<tr>
<td>$5.50</td>
<td>$0.040</td>
<td>$5.50</td>
<td>$0.100</td>
</tr>
<tr>
<td>$6.00</td>
<td>$0.055</td>
<td>$6.00</td>
<td>$0.155</td>
</tr>
<tr>
<td>$6.50</td>
<td>$0.090</td>
<td>$6.50</td>
<td>$0.290</td>
</tr>
<tr>
<td>$7.00</td>
<td>$0.217</td>
<td>$7.00</td>
<td>$0.830</td>
</tr>
<tr>
<td>$7.50</td>
<td>$0.300</td>
<td>$7.50</td>
<td>$1.060</td>
</tr>
<tr>
<td>$8.00</td>
<td>$0.475</td>
<td>$8.00</td>
<td>$1.360</td>
</tr>
</tbody>
</table>
Dairy MPP Indemnity Calculation

National All-Milk price ($/cwt.)

\[- \{ \text{National corn price received} \times 1.0728 \\
+ \text{Central Ill. soymeal price} \times 0.00735 \\
+ \text{National alfalfa hay price received} \times 0.0137 \} \]

= Actual dairy margin ($/cwt.)

\[- \text{Threshold margin} \]

= Indemnity payment ($/cwt.)

\*[Production \times \text{coverage \%}] 

= Total indemnity payment
Dairy MPP

- Decision aid is currently available at: http://economics.ag.utk.edu/dairymppcalculator.html

- University of Illinois is producing an online decision aid to help dairy producers determine which level of coverage works best for them.

- More information will be available at: http://dairymarkets.org/MPP/
Dairy Product Donation Program

- USDA purchases and donates dairy products when margin is less than $4.00/cwt for each of the preceding two months
- Program begins 120 days after MPP is in place