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Key Considerations in the 2014 Farm Bill:
Legislative Text of New Commodity and Crop Insurance Programs

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A farm bill process that began almost four years concluded on February 7, 2014 when the President signed the Agricultural Act of 2014. This omnibus piece of legislation contains both repeals and reforms to the farm safety net that many producers rely on as a viable risk management tool while contributing $23 billion in deficit reduction. Critics and agriculture supporters in this debate process can agree that this new farm bill contains a landmark rewrite to some of the major commodity programs along with significant changes to the crop insurance system. Policy changes to commodity support programs will require producers to evaluate the programs (e.g. ARC and PLC) afforded to them under the bill to determine which program offers a better risk management safety net for the five year duration of the law. In other words, attention should be given as to how each program will function for commodities and farms under different risk scenarios. This informational brief summarizes selected provisions from the legislative text of the H.R.2642 conference report with special attention given to the commodity and crop insurance titles.

One major change in the farm bill, which covers the 2014 through 2018 crop years, is the repeal of the direct payment program. Direct payments became a vulnerable target politically during farm bill markup as these payments are made regardless of market price and are dispersed at a fixed rate. Along with the elimination of direct payments, the countercyclical and ACRE programs are also repealed.

Producers, under the new law, have the option to retain or reallocate their base acres within their operation. For the purpose of reallocating base acres, the formula is equal to the ratio of the four-year average of the acres planted to each covered commodity for the 2009 through 2012 crop years to that of the four-year average of the acreage planted on the farm to all covered commodities. However, the reallocation of base acres may not result in a total number of base acres that exceed the number of base acres in effect on the farm on September 30, 2013.

Two additions to Title I come in the form of a revenue coverage support program called agriculture risk coverage (ARC) and the price loss coverage (PLC) program that bears a similar resemblance to the traditional countercyclical program. Both of these programs are available for all covered commodities except cotton beginning in 2014. Producers have the irrevocable election for the 2014 through 2018 crop years to obtain PLC or ARC payments.

A characteristic that is unique to the PLC program is that payment yields can be updated beginning with the 2014 crop year. The updated yield is equal to 90% of the average yield per planted acre for the crop of the covered commodity on the farm for the 2008 through 2012 crop years. The PLC program is similar to the countercyclical program approach that contained price floors. PLC payments are made if the effective price for the crop year is less than the ‘reference price’ for the covered commodity. The effective price is the higher of the national market price or the loan rate. For the PLC program, the payment acres for each covered commodity on a farm equals 85% of the base acres for the commodity.

Table 1. Reference prices for selected covered commodities for the 2014 to 2018 crop years.

Covered Commodity	Reference Price
Wheat	$5.50 per bushel
Corn	$3.70 per bushel
Grain Sorghum	$3.95 per bushel
Rice (long and medium grain)	$14.00 per hundredweight
Soybeans	$8.40 per bushel

The ARC program places emphasis on multi-year price risk. For producers that elect to participate in this program, coverage is available at the county level or at individual farm level. ARC payments are made if the actual crop revenue is less than the ARC guaranteed. Actual crop revenue for the county coverage option is equal to the actual average county yield per planted acre multiplied by the higher of the national average market price or the loan rate. In the event that a producer selects the individual coverage option, actual crop revenue is equal to total production multiplied by the higher of national market price or the loan rate. The agricultural risk guarantee is equal 86% of benchmark revenue. For the county coverage option, benchmark revenue is equal to the most recent five-year Olympic historical county yield average multiplied the five-year Olympic average national market price. Benchmark revenue at the individual coverage level follows the same five-year Olympic averaging methodology, but relies on the farm yield per planted acre in lieu of county-level data. If the national market price for any of the five most recent crop years is lower than the reference price, the reference price is inserted as a proxy for that crop year. In the case of individual coverage, ARC payment is made on 65% of base acres not the 85% as with the county level option. The maximum payment rate is 10% of benchmark revenue of the applicable crop year. Hence, the ARC program provides a coverage ban between 76% and 86% of revenue.

For producers of upland cotton, transitional payments are made in light of the repeal of the direct payment program and the delayed implementation of the STAX insurance program for the 2014 and possibly the 2015 crop year(s). This is made possible as cotton moves out of Title I commodity support and moves into an insurance-based support role. Cotton base must have been in existence for the 2013 crop year as a prerequisite for receiving these payments. The transitional assistance rate is equal to the June 12, 2013 midpoint estimate minus the December 10, 2013 midpoint estimate, as contained in the WASDE report published by USDA multiplied by the national program yield of 597 pounds per acre. The transitional amount is then multiplied by 60% and further multiplied by the payment yield under the 2008 farm bill divided by the 597 yield amount- collectively resulting in a 2014 transitional payment. For transitional payments to be made available in 2015, STAX must not be offered in county. The same transitional payment formula used in 2014 is performed but the multiplier is significantly lower- at 36.5%. The 2008 farm bill payment limitation of $40,000 for direct payments still applies to these payments.

Table 2. Nonrecourse marketing assistance loans for selected commodities 2014 through 2018 crop years.

Covered Commodity	Loan Rates
Wheat	$2.94 per bushel
Corn	$1.95 per bushel
Grain Sorghum	$1.95 per bushel
Rice (long and medium grain)	$6.50 per hundredweight
Soybeans	$5.00 per bushel

In the case of upland cotton, the loan rate for each of the 2014 through 2018 crop years is set at the simple average of the adjusted prevailing world price for the two immediately preceding marketing years but in no case less than $0.45 per pound or more than $0.52 per pound. Another important note is that the economic adjustment assistance to users of upland cotton is set at $0.03 per pound.

The total amount of payments received for any crop year under PLC, ARC, marketing loan gains, or loan deficiency payments may not exceed $125,000 per individual ($250,000 for a married couple). No sub-caps are identified by program type. Within 180 days after enactment of the Agricultural Act of 2014, the USDA shall promulgate an opportunity for notice and comment on regulations to define the term 'significant contribution of active personal management'. If a regulatory guideline is established on the number of individuals who may be 'actively engaged' in farming with respect to the operation, a significant contribution of active personal management would be determined to be the basis to meet the requirement of being actively engaged in farming and eligible to receive payments. The requirements of any such regulation pursuant will begin in the 2015 crop year. This does not apply to entities made up solely of family members. A person or legal entity shall not be eligible to receive any benefit if the average adjusted gross income, or AGI, (for three -years) exceeds $900,000. This applies to commodity and conservation program benefits but does not apply to crop insurance premium subsidies.

Contained in the crop insurance title of the Agricultural Act of 2014 are two new insurance programs, the supplemental coverage option (SCO) and the stacked income protection plan (STAX) for producers of upland cotton. Both plans are to be administered beginning with the 2015 crop year. The SCO is purchased in combination with other crop insurance products for covered commodities- including cotton. SCO coverage is triggered when losses in the area (county) exceed 14% of normal levels with coverage not to exceed the difference between 86% and the coverage level selected by the producer for the underlying insurance policy. SCO coverage can be based on individual yield and loss basis; area yield and loss basis; or individual yield and loss basis, supplemented with coverage based on area yield and loss basis to cover part of the deductable under the individual policy. Crops that are participants in the ARC program and cotton acres enrolled under the STAX plan are not eligible for the SCO. 65% of the premium is subsidized by the FCIC.

The STAX program is unique to producers of upland cotton. The inception and design of this plan can be partially attributed to a WTO court ruling against the U.S. cotton industry. STAX coverage is consistent with the GRIP plan (and the associated harvest revenue option endorsement) offered by the FCIC for the 2011 crop year. STAX can be purchased as a stand-alone policy; hence no underlying policy is required, as is the case with the SCO. STAX requires that coverage be provided for a revenue loss of not less than 10% and not more than 30% of expected county revenue, specified in increments of 5%. STAX is offered at a county-wide level and can be purchased in addition to any other individual or area coverage policy. Coverage is based in the expected price established under existing GRIP or area-wide policy for the applicable county (area) and crop year and an expected county yield that is the higher of the expected county yield established by the FCIC for existing area-wide plans or the most recent five-year Olympic average county yield data from RMA or NASS. A multiplier factor can be used to establish maximum protection per acre of not less than the higher of the level established on a program wide basis or 120%. An indemnity is paid based on the amount that expected county revenue exceeds the actual county revenue. Separate STAX coverage is offered for irrigated and non-irrigated production practices. 80% of the premium is subsidized by the FCIC.

Note: Information for this report was obtained from the H.R.2642 conference report, as approved by the U.S. House of Representatives on January 29, 2014 and the U.S. Senate on February 4, 2014. Additional information on program mechanics regarding the impact to Louisiana crops will follow.

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