2014 Farm Bill Summary
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After several years of debate, extensions and much uncertainty the 2014 Farm Bill --- The Agricultural Act of 2014 was signed into law by President Obama on February 7, 2014 which establishes nutrition, commodity, crop insurance, conservation, and other ag/food programs for next five years (2014-2018). Currently USDA is busy with implementation details. Sign-up will likely not occur until the Fall of 2014 or later. Summary points of the bill include:

Cost: $956.4 billion over the next ten years, reflecting a $16.6 billion budget savings

Nutrition ($756.4 billion): Accounts for nearly 80% of farm bill spending, and clearly was the major focus of the farm bill debate. The Senate bill called for $4 billion of cuts in the nutrition title over the next ten years compared to a reduction approaching $40 billion evolving from the U.S. House. The final bill reflected an $8 billion (1%) reduction in nutrition programs, with cuts in the Supplemental Food Assistance Program (SNAP) associated with eliminating food stamp benefits being tied to a low income heating assistance program being offered by some states (not Kentucky).

Commodity Programs ($44.4 billion): Reduced by more than $14 billion and now accounts for less than 5% of farm bill spending. DCP (direct payments and countercyclical payment) programs along with the ACRE (2007 Farm Bill revenue program) and the Supplemental Revenue Assistance (SURE) disaster payment programs are eliminated. Replaces the current (countercyclical) price and revenue support (ACRE) programs with new programs called the Price Loss Coverage (PLC) and the Agricultural Risk Coverage (ARC) program which:

- Allows producers the option to retain or reallocate base acres (based on the 2009-2012 planted acres) and update payment yields (90% of the average yield per planted acre during the 2008 through 2012 crop years). Reallocated base acres cannot exceed 2013 base acres.

- Requires producers for the 2014-2018 crop years to make a one-time, irrevocable choice for each FSA farm of either the PLC or ARC programs for individual program crops which for Kentucky are primarily corn, soybeans, and wheat. (Failure to sign-up will result in no payment on 2014 crops and default to the PLC option if no decision is made). All owners/landlords for each farm must make a joint (i.e., same) decision on which option to select.

For the PLC option:

- Producers selecting the PLC option will receive payments if the U.S. average price for the current crop marketing year is less than the crop's reference price which will be fixed throughout the life of the 2014 farm bill -- corn $3.70/bu, wheat $5.50/bu, and soybeans $8.40/bu.

- Payments will be made on 85% of base acres.

- Allows those who select the PLC program the option of purchasing additional subsidized insurance protection called Supplemental Coverage Option insurance beginning in 2015.

For the ARC option:

- Producers will have to decide between county or individual level revenue protection.

  For the ARC County Option

  - The decision on the county ARC county option is made on a program crop-by-crop basis, which allows producers to select the ARC county option for some crops and PLC option for other crops.
  - Producers selecting the county option will receive payments when the actual county revenue is below the county revenue guarantee (defined as 86% of the previous five year Olympic average (excludes the highest and lowest years for prices and yields) in determining the county "benchmark" revenue).
  - Payments will be made on 85% of base acres
  - Payments will be capped at 10% of county benchmark revenue

  For the ARC Individual Option

  - Payments will be base on whole farm revenues (across all program crops and all FSA farms) enrolled in the ARC individual option.
  - Producers selecting the ARC individual option will receive payments when the actual individual revenue is below the individual revenue guarantee (defined as 86% of the previous five year Olympic average (excludes the highest and lowest years) of individual "benchmark" revenue.
  - Payments will be made on 65% of base acres
  - Payments will be capped at 10% of individual benchmark revenue

Price Loss Coverage (PLC) Example for Corn

- **U.S. Market Year Average Price = $3.50/bu**
- **Farm Bill Reference Price for Corn = $3.70/bu**
- **Farm's Payment Yield = 150 bu.**
- **Farm's Base Acres = 100**

Payment Rate = $3.70 (Reference Price) - $3.50 (Market Price) = $0.20/bu
PLC Payment = $.20 (Payment Rate) x 150 (Payment Yield) x 100 (Base Acres) = $3000 x 85% = $2550 or $25.50/acre

Agricultural Risk Coverage (ARC) Example for Corn – County

U.S. Market Year Average Price = $4.00/bu
County Yield = 160 bu
Base Corn Acres = 100 acres
Actual County Revenue = $4.00 x 160 = $640/acre
County Benchmark Revenue = $800/acre 1/
County Benchmark Revenue Guarantee = $688/acre 2/
Payment Rate = $688 (Guarantee) - $640 (County Revenue) = $48/acre 3/
Payment = $48 (Payment Rate) x 100 acres x 85% = $4,080 or $40.80/acre

1/ County Benchmark Revenue is equal to the average of the previous five year national average marketing year price (eliminating the high and low prices) times the average county yield for the previous five years (eliminating the high and low prices).
2/ County Benchmark Revenue Guarantee is equal to 86% of the County Benchmark Revenue
3/ Can't exceed 10% of County Benchmark Revenue or $80 in this example

Agricultural Risk Coverage (ARC) Example for Corn (75%)/Soybeans (25%) – Individual

U.S. Market Year Average Price for Corn = $3.75/bu
Individual Yield for Corn = 170 bu
U.S. Market Year Average Price for Soybeans = $11.00/bu
Individual Yield for Soybeans = 45 bu
Individual Revenue = ($3.75/bu x 170 bu/acre) x 75% (% corn acres) + $11.00/bu x 45 bu/acre) x 25% (% soybean acres) = $602
Individual Benchmark Revenue = $725/acre 1/
Individual Benchmark Revenue Guarantee = $625/acre 2/
Payment Rate = $625 (Guarantee) - $602 (Individual Revenue) = $22 3/
Payment = $22 (Payment Rate) x 100 acres x 65% = $1,430 or $14.30/acre

1/ Individual Benchmark Revenue is equal to the average of the previous five year crop revenues (eliminating the high and low revenue years) weighted by the proportion of program crop acres planted on ARC-Individual farm
2/ Individual Benchmark Revenue Guarantee is equal to 86% of the Individual Benchmark Revenue
3/ Can't exceed 10% of Individual Benchmark Revenue or $72.50 in this example

Crop Insurance ($89.8 billion): Takes on increased importance in the 2014 farm bill, increasing by $5.7 billion and accounting for 9.4% of expenditures over the next decade – almost double the funding for commodity programs. Beginning with the 2014 program crops, the bill requires conservation compliance with highly erodible land and wetland conservation practices to be eligible for crop insurance premium subsidies. Lower commodity prices will cause premiums as well as protection levels to be lower in 2014. The 2014 farm bill does not impact 2014 crop insurance decisions. A new Supplemental Coverage Option insurance program will beginning in 2015, which is only offered for farmers selecting the PLC option.

Conservation ($57.6 billion) -- Condenses the number of conservation programs from 23 to 13, Reduces the Conservation Reserve Program (CRP) maximum enrollment from 27.5 million acres in 2014 to 24 million acres in 2018

Other

- Annual payment limits capped at $125,000 per person or $250,000 per couple, with payments eliminated for anyone with an adjusted gross income exceeding $900,000 based on a three year rolling average.
- Authorizes colleges and universities to develop pilot research projects for industrial hemp in states that have passed legislation supporting hemp production. (KY is one eleven states which have approved such legislation with around a dozen more states contemplating similar legislation).
- Establishes a new dairy policy with an insurance product protecting dairy profit margins (based on the difference of milk prices and feed costs)
- Reauthorizes a Beginning Farmer and Rancher Development Program
- Provides additional assistance for livestock disaster and specialty crop grants