Monday, March 03, 2014

THE NEW FARM BILL
Agricultural Act of 2014

Congress passed and the President on February 7, 2014 signed the new farm bill that will be effective for the 2014-2018 years. Title I covers Commodity Programs. Direct payments are eliminated and replaced with programs intended to provide farmers protections against significant losses. These programs are named Price Loss Coverage and Agriculture Risk Coverage. Growers in 2014 are going to have to make several choices involving these programs, possibly before regulations are written that fill in the gaps and giving further guidance. These choices are going to be difficult as they require looking forward over the 2014-2018 years and projecting both yields and prices. Growers must also understand that whatever choice they make in 2014 cannot be changed; that's their program through 2018. Nor can a producer just choose to ignore the whole issue; if they do not make all necessary elections, they will be defaulted to the Price Loss Coverage program and then only beginning in 2015.

The financial impact of these changes is substantial. First, elimination of the Direct Payments will cost producers on average approximately $136/acre. If this is to be replaced by the market, a 90 cwt crop will have to receive $1.51/cwt more to replace that lost income. With breakeven costs at $1250/acre, not counting rent, the new programs only offer some cushioning against significant losses.

The Price Loss Coverage ("PLC") program is an updated version of the counter-cyclical program that existed under prior farm bills. Reference prices are set for each of the covered commodities[1] and if the national average market price ("NAMP") for each covered commodity (medium grain rice, including short grain is a covered commodity) is below the reference price, payments are made to growers equal to the difference times the producer's historic yield on 85% of their base acres for the covered commodity.[2] These references prices have been set at levels generally below that which a producer with a normal crop would have to get to break even. If PLC is chosen, it will apply to all of the covered commodities on the farm.

The Agriculture Risk Coverage ("ARC") program is designed to cover a portion of a farmer's losses that may not be covered by crop insurance. The program does not make a farmer whole should price, yield or a combination of both generate revenues below historical levels for each covered commodity. The farmer must absorb the first 14% of the shortfall between current year's revenue versus historical revenue. ARC then can cover up to 10% of the additional shortfall (sometimes referred to as "shallow loss"), but only as to a portion of the farmer's base acres. If individual coverage is chosen, the portion covered is 65%; if county coverage is chosen the portion covered is 85%.

If a producer elects or is defaulted to the PLC program, the producer may purchase a new crop insurance policy called "Supplemental Loss Coverage" ("SCO"). This policy will cover losses

[1] Wheat, oats, barley, corn, grain sorghum, long grain rice, medium grain rice (which includes short grain), pulse crops (lentils, dry peas and chickpeas), soybeans, other oilseeds and peanuts.
[2] As written, the payments are not related to planted or prevented planted acres. This could result in payments being made even if you don't plant the covered commodity, although subsequent regulations might change this result.

between the 86% revenue level and the level selected by the producer for their underlying crop insurance policy, but based solely on countywide revenue.

A producer (actually all producers on a farm must be unanimous in their choices) must now make the following choices:

1. Select PLC or ARC?

2. If select ARC, will it be on an individual basis or on a county basis?

The first choice, PLC or ARC, will be driven primarily by whether the producer concludes where their risk is greatest: (1) Is it more likely that the market price for a covered commodity will dip below the reference price, or (2) that some combination of future yield and prices will result in their revenue falling significantly (>14%) below their historic level. Also bearing on this decision is whether the producer wants SCO, which is only available if PLC is selected. For producers who have been purchasing low levels of crop insurance, SCO is attractive. For producers who are purchasing higher coverage levels, SCO is not as valuable as the coverage range is smaller.

If ARC is chosen, the producer must select either individual or county coverage. Individual coverage applies to all of the covered commodities on the farm and to all other farms in which the producer has an interest that has not elected or defaulted to PLC. County coverage applies to each covered commodity on a farm. This decision is going to be based on several factors. First, is the individual's historic yield significantly different from the county yield for the covered commodity? If higher, individual coverage may be the better choice because the historic revenue will be higher than the county's. If lower, county coverage will provide a higher level of protection. Second, does the individual's yield vary from year-to-year more than the county yield? If more, individual coverage is more likely to provide protection in the short years. If the same, county coverage with its higher payment acres (85% for the county versus 65% for the individual), is possibly the better choice.

There are a couple additional choices that will be involved. The first choice is whether to update base acres, which are applicable to both ARC and PLC. The owner (again, not the producers) may make an election to reallocate base acres to reflect the recent historical plantings of covered commodities. Total base acres, however, cannot be increased. If PLC is elected, the owner (not the producers) can elect to update yields if 90% of the average of recent yields is greater than the covered commodity's counter-cyclical yield.

The California Rice Commission has a Decision Tool on its website that a producer can download and then input their farm information, together with projected yields and prices that will then generate potential payments under each of the programs. It is designed solely for medium grain rice (which includes short grain rice), but upon request Tim Kelleher at Rice Lawyers, Inc. can modify it for other covered commodities. With this information the payments being made under the two programs is calculated. The producer must then decide which program best suits them.[3]

[3] The new payment limitation rule is that all payments from all commodity programs, including marketing loan gains, cannot exceed $125,000 per person; double for husband and wife.

After analyzing the options, a producer might say that the new programs do not offer a level of assistance that justifies going through the paperwork and stress of the eligibility process. The eligibility tests will remain the same with the exception that it likely will be more difficult to qualify persons solely contributing management. In addition, the Adjusted Gross Income limit is now $900,000 without regard to whether it's farm or non-farm income. Before making that decision, however, understand that the Farm Service Agency will still require submitting eligibility forms if the producer wants to put their rice under CCC loan as marketing loan gains, even if not even remotely possible, are subject to payment limitations.

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