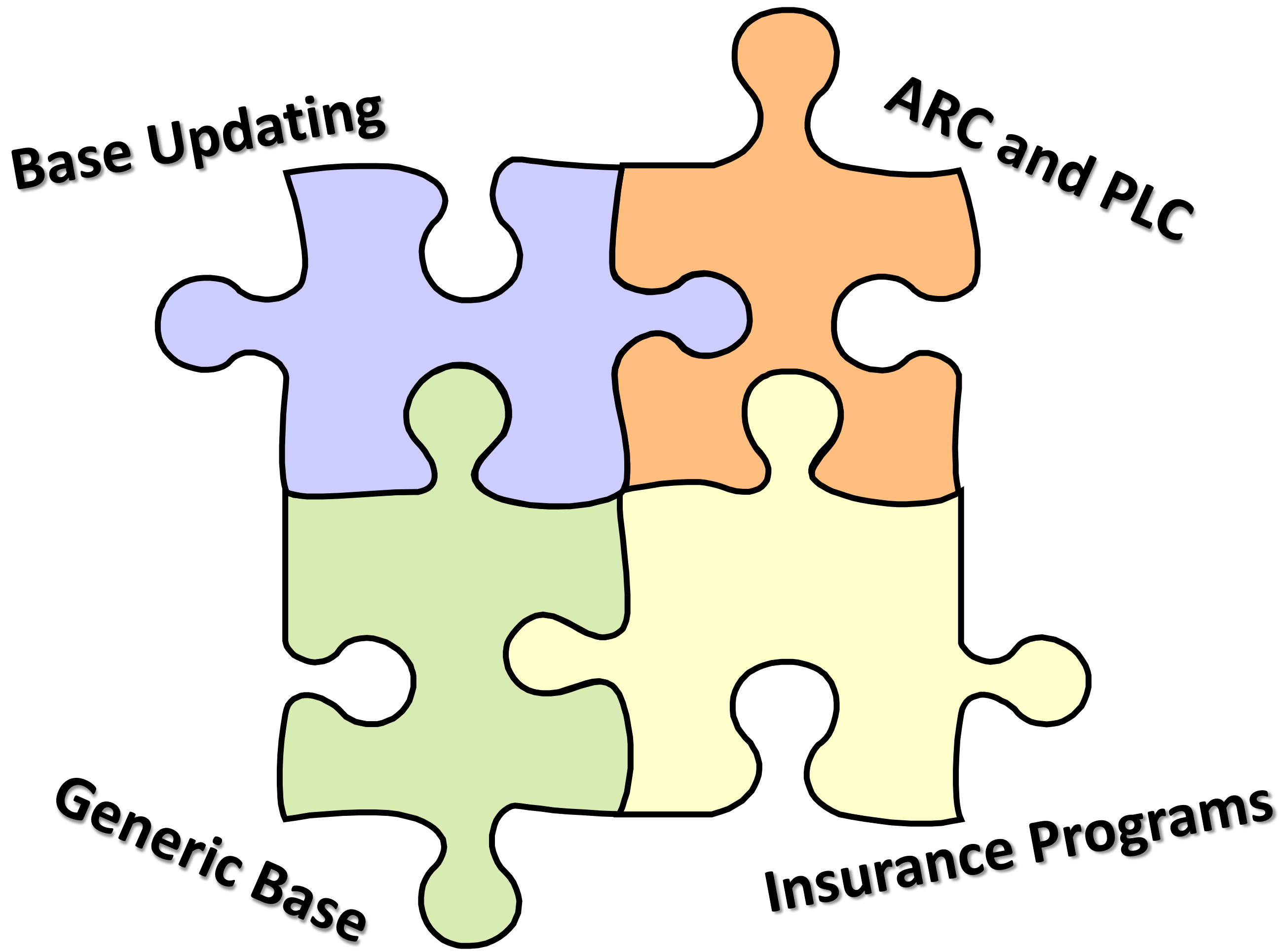
2014 Farm Bill Overview

Presented as part of a panel discussion at the City Bank Wealth of Knowledge Seminar Series, March 31, 2014

Key Elements

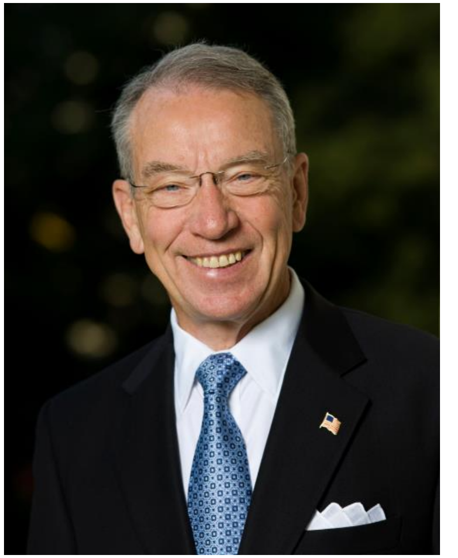


Dairy Program

- Dairy Product Support and MILC programs replaced with Dairy Production Margin Protection Program
  - Producer elects coverage between \$4-\$8/cwt (no premium for the \$4 but premiums for higher coverage levels)
  - No supply control

Payment Limits

- Both direct and indirect payments to an individual cannot exceed $125K ($250K with spouse).
  - Separate payment limit for peanuts
  - Gains from forfeiture of non-resource loans not included in the single payment limit



Base Acres

- Both programs, payment acres are 85% of the farm's base
  - Can add "generic base" (former cotton base) planted to that crop (annual decision)
- Total base is the same as current base. However, farm can elect to reallocate base among covered crops according to each crop's share of plantings from 2009-2012 (provision for prevented plantings)

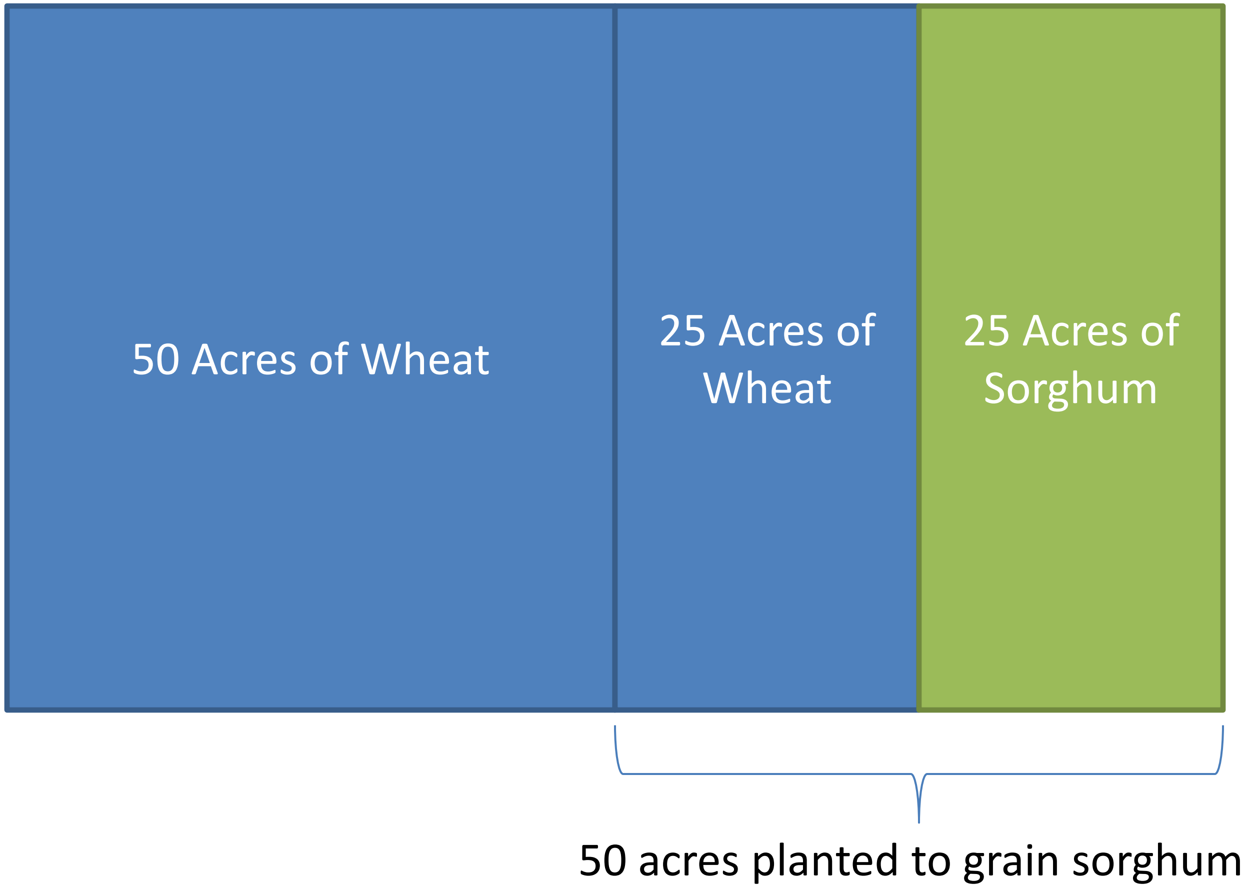
The Secretary has also been given authority to eliminate base acres on land that has been subdivided and developed…a way of focusing payments on actual farm land

Base Acre Update

Year	Corn	Sorghum	Peanuts	Wheat
Base				1000
	Actual Plantings			
2009	250	500	250	0
2010	250	500	250	0
2011	250	500	250	0
2012	250	500	250	0
Average	250	500	250	0
Percentage	25%	50%	25%	0%
New Base	**250**	**500**	**250**	**0**

Generic Base Example

100 acres of base—50 acres of wheat and 50 acres of cotton. Producer decides to plant 50 acres of wheat and 50 acres of grain sorghum.



Generic Base Example

100 acres of base—50 acres of wheat and 50 acres of cotton. Producer decides to plant 100 acres of wheat.

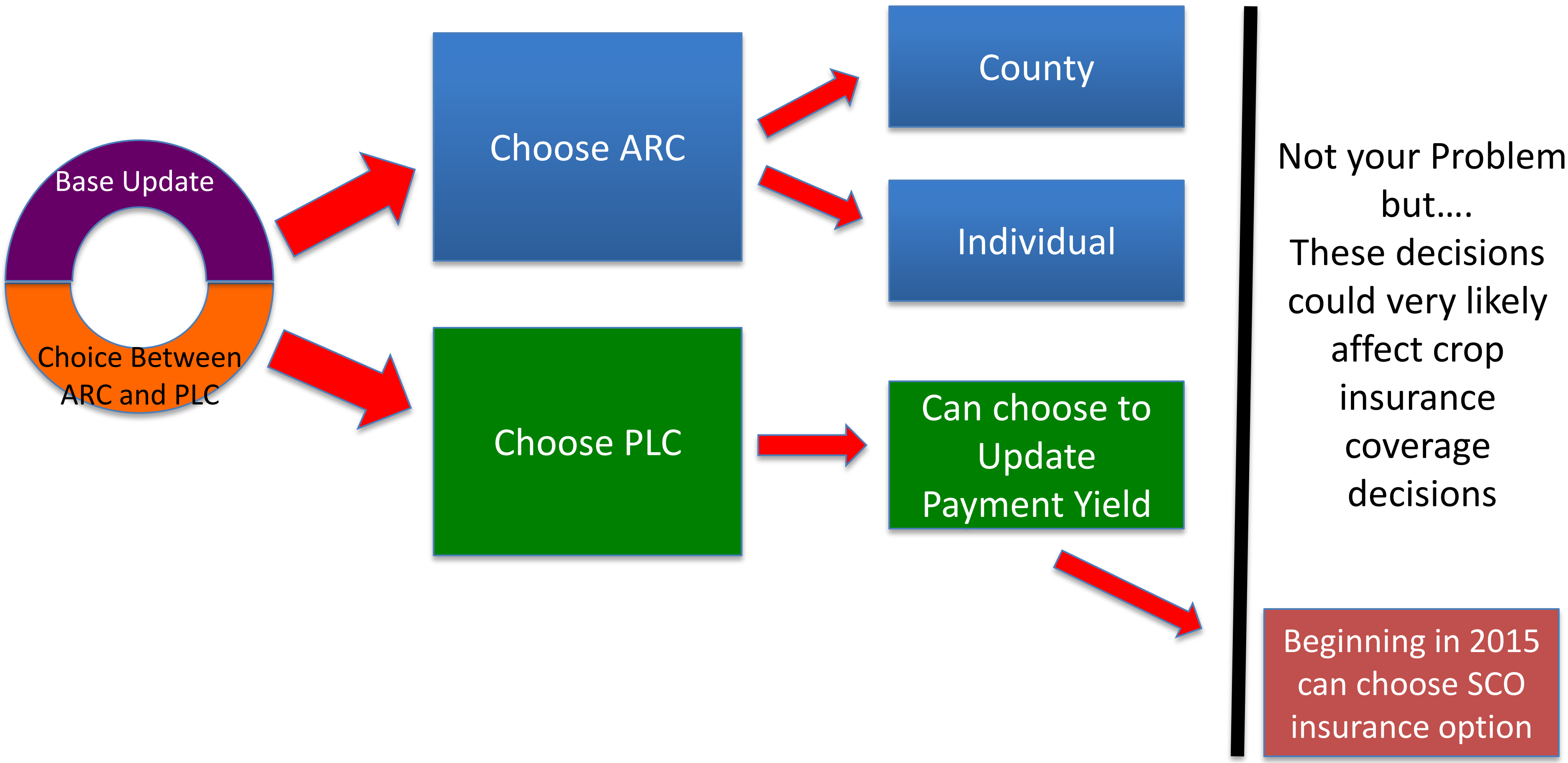
The generic base is converted to match the existing base when planted in that crop.

Producer Decisions

- Producer has a one-time, irrevocable opportunity to elect either Price Loss Coverage (PLC) or county Agricultural Risk Coverage (ARC) on a crop-by-crop basis
  - Can elect farm level ARC but this applies to whole farm and not likely useful for most producers
  - ALL Producers on a farm must make the same election or face loss of 2014 payments (share lease arrangements must have owner/tenant agreement)

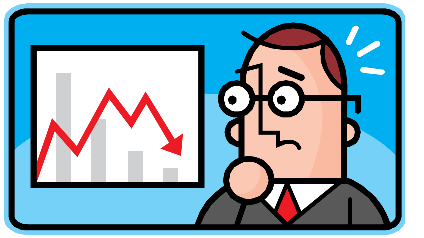
Flow Chart of Title I Producer Choices for Covered Commodities Other than Upland Cotton

Source: AFPC, Texas A&M



This decision is on a crop by crop basis for each farm unless the producer chooses individual ARC then it is for all the crops on that farm. If all parties cannot agree on a choice then the farm would not be enrolled in ARC or PLC for the 2014 crop and the farm would automatically be enrolled in PLC for the 2015 crop and beyond.

Price Loss Coverage



- PLC payments occur if the US average market price is less than the crop's reference price.
- It does not contain an element for revenue (yield*price).

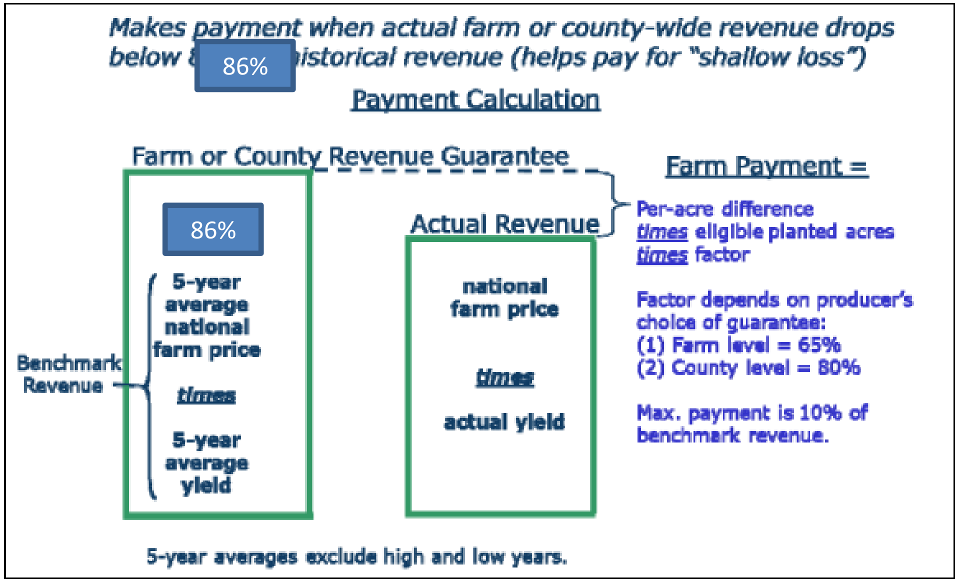
Crop	Units	Reference Price
Wheat	bu	$ 5.50
Corn	bu	$ 3.70
Grain Sorghum	bu	$ 3.95
Barley	bu	$ 4.95
Oats	bu	$ 2.40
Long Grain Rice	cwt	$ 14.00
Medium Grain Rice	cwt	$ 14.00
Soybeans	bu	$ 8.40
Other Oilseeds	cwt	$ 20.15
Peanuts	ton	$ 535.00
Dry Peas	cwt	$ 11.00
Lentils	cwt	$ 19.97
Small Chickpeas	cwt	$ 19.04
Large Chickpeas	cwt	$ 21.54

Payment yields can be updated to 90% of the farm's average planted yield over the 2008-2012 crop years.

Agricultural Risk Coverage

- ARC payments occur when actual crop revenue drops below the ARC revenue guarantee for a crop year.
  - County ARC guarantee is 86% of county ARC benchmark revenue
  - Coverage is capped at 10%, meaning coverage is between 76% and 86% of benchmark
  - Benchmark is based on Olympic average of county yields and US crop average price for preceding 5 years

Figure 3.Agriculture Risk Coverage (ARC)



Source: CRS, hypothetical example.

Agricultural Risk Coverage

Hypothetical Kansas Wheat Example

86%
X
Benchmark revenue =
$246.48

=

County Revenue
Guarantee =
$211.97

Actual Revenue
= $6.20/bu x 32
bu =
$198.40/ac

(6.48+6.78+5.70)/3
X
(40+42+35)/3

5-year Olympic average takes the high and low and discards them and averages the remaining three years

Farm Payment = (CRG – AR)*AC*0.85
=(211.97-198.40)*500*0.85
= $5,767.25
Max Payment = 10% Benchmark = $24.65
Actual = $11.54

New Insurance Options

- Supplemental Coverage Option (SCO)—shallow loss policy available for all covered commodities and cotton
- STAXX—shallow loss policy available only for cotton producers

Supplemental Coverage Option (SCO)

- The option to purchase county-level insurance that covers part of the deductible under individual yield and revenue loss policies.
  - Coverage cannot exceed 86%-coverage level in individual policy—takes on characteristics of underlying policy (RP or Yield)
  - Must be combined with individual policy
  - Premium subsidy is 65%
  - Cannot be combined with ARC

Stacked Income Protection Plan (STAX)

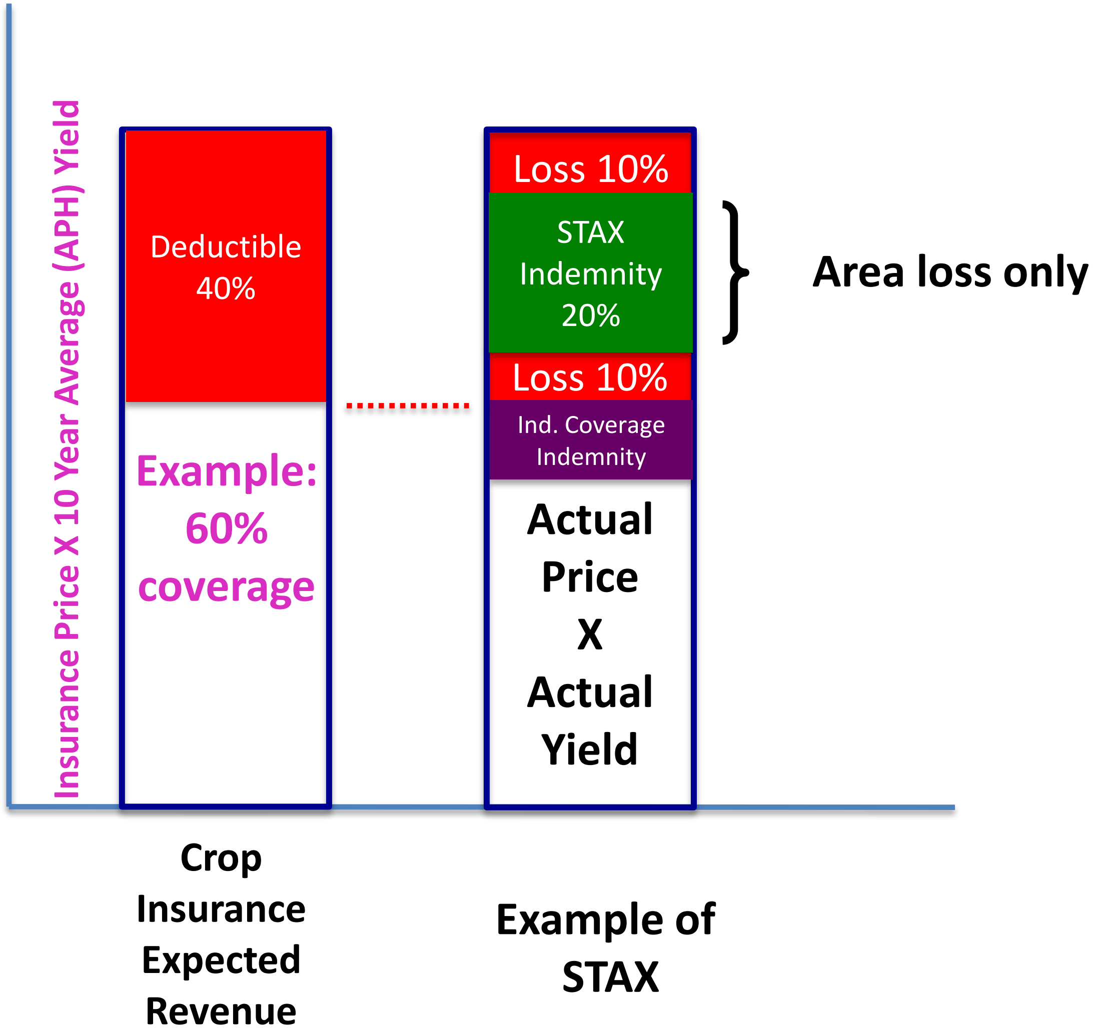
- Cotton has Stacked Income Protection Plan (STAX) which operates similar to SCO and starts in 2015.
- STAX is based entirely off the county expected revenue. Covers from 90% of revenue guarantee down to 70% or insurance coverage level (whichever is higher) in 5% increments. 80% premium subsidy and includes protection factor up to 120%
- STAX subsidy level is 80%.
- Can have STAX and SCO on the same farm but not on the same acres

Stacked Income Protection Plan (STAX)

- Revenue guarantee established based off of expected insurance price * an expected county yield (max of expected county yield for area plans or most recent 5 year Olympic average yield from RMA or NASS)
- Can be in addition to individual buy-up coverage or used as a stand alone policy
- Differentiates between irrigated and non-irrigated

Stacked Income Protection Plan (STAX)

Source: AFPC, Texas A&M



STAX - Guarantee Calculation

STAX Protection Factor:	0.8 --> 1.2
County Expected Yield:	300 lb.
Expected Price:	$0.80
County Expected Revenue:	$240.00
STAX Trigger Revenue (90%):	$216.00
(90% of County Expected Revenue)	
STAX Max. Payment (70-90%):	$48.00
(Equals 20% of County Expected Revenue)	

Source: Steve Verett, Plains Cotton Growers

STAX Indemnity Calculation

Source: Steve Verett, Plains Cotton Growers

Example One		**Example Two**	
Final County Yield:	200 lb.	Final County Yield:	250 lb.
Harvest Price:	$0.75	Harvest Price:	$0.80
Final County Rev.:	$150.00	Final County Rev.:	$200.00

Loss Calculation: Final County Rev *minus* STAX Trigger Rev.

STAX Trigger	$216.00	STAX Trigger	$216.00
minus Final Co. Rev.	- $150.00	*minus* Final Co. Rev.	- $200.00
Loss (gain)	$66.00	Loss (gain)	$16.00
Co. Rev. Loss	**$48.00**	**Co. Rev. Loss**	**$18.00**

STAX Payment Rate:

Co. Rev. Loss *times* STAX Protection Factor (0.8 – 1.2)