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An Overview of the 2014 Farm Bill

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Market Report	Yr Ago	4 Wks Ago	2/21/14
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	$124.00	$149.36	$146.94
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb..	169.01	213.63	215.40
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	139.11	172.52	173.41
Choice Boxed Beef, 600-750 lb. Carcass.	182.51	238.43	212.98
Western Corn Belt Base Hog Price Carcass, Negotiated.	77.62	80.23	92.06
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean..	81.44	86.68	97.19
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.	105.00	154.50	151.00
National Carcass Lamb Cutout, FOB.	286.47	363.54	369.22
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu..	6.99	5.97	6.48
Corn, No. 2, Yellow Nebraska City, bu..	7.07	4.14	4.33
Soybeans, No. 1, Yellow Nebraska City, bu..	14.61	12.59	13.34
Grain Sorghum, No. 2, Yellow Dorchester, cwt..	11.63	7.27	7.64
Oats, No. 2, Heavy Minneapolis, MN , bu.	4.16	4.51	4.72
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	+	+	162.50
Alfalfa, Large Rounds, Good Platte Valley, ton..	227.50	130.00	125.00
Grass Hay, Large Rounds, Good Nebraska, ton.	212.50	95.00	107.50
Dried Distillers Grains, 10% Moisture, Nebraska Average.	275.00	188.50	195.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	105.00	58.50	63.50
+ No Market			

After nearly three years of formal debate, one extension and two unmet deadlines, Congress passed the 2014 Farm Bill. Officially called the "Agricultural Act of 2014," the President signed the bill on February 7, 2014. The bill makes budget cuts and program reforms in many areas and sets federal farm and food policy through 2018. An overview and title-by-title discussion provides insight on the new farm bill and the program changes ahead for producers, landowners and others.

Overview

The 2014 Farm Bill was written in a time period of record United States farm income and record federal budget deficits. That dynamic created a focus on reforming farm programs and cutting support levels within a larger effort to cut overall spending. The comprehensive farm bill is projected to spend $956 billion over the ten-year period from fiscal year 2014 through fiscal year 2023, a cut of more than $16 billion (1.7%) from the original $973 billion ten-year baseline. (The 2014 Farm Bill is authorized from 2014-2018, but spending projections for the farm bill, as with other legislation, are based on a ten-year budget baseline.)

The political dynamic also created pressure for substantial reforms and cuts to commodity programs. Projected commodity program spending was cut nearly 25 percent, or $14.3 billion from its original $58.8 billion baseline. Accounting for an increase of $5.7 billion in crop insurance, the overall projected spending on safety-net programs was cut approximately $8.6 billion, or six percent of the combined commodity program and crop insurance baseline. Conservation programs also faced overall cuts of about six percent, while nutrition programs were cut approximately one percent. The final bill allocates projected spending among these programs of about 14 percent for commodity programs and crop insurance, six percent for conservation, 79 percent for nutrition and one percent for all other titles and programs. The following title-by-title review provides more details on these program and spending changes.

Title I - Commodities

The commodity program in the 2014 Farm Bill includes substantial reforms to programs and spending. The Direct Payments (DPs) of more than $4.5 billion per year were eliminated, a foregone conclusion of almost all groups and observers, given the political attention to these payments in recent years and the farm income and budget setting described above. From the budget savings in DPs, the remaining programs were substantially rewritten and improved. The Average Crop Revenue Election (ACRE) Program, which introduced the concept of an average revenue safety-net at the state level, was essentially replaced with Agriculture Risk Coverage (ARC) at the county or individual (farm) level, as originally proposed in the Senate legislation. The Counter-Cyclical Payment (CCP) Program was essentially retained and improved, with higher target (reference) prices in the Price Loss Coverage (PLC) Program, as originally proposed by the House. Producers will need to make a one-time decision on each of their farms between these three options, either individual-level ARC for all crops on the farm, or county-level ARC or PLC on a crop-by-crop basis on the farm. This one-time decision will last for the 2014-2018 crop years, and if producers do not make a decision, their farms will be assumed to have enrolled in PLC beginning with the 2015 crop year (meaning a sign-up decision is needed to be eligible for any 2014 crop program benefits). In addition to the ARC and PLC programs, the existing marketing loan program continues with current commodity loan rates remaining in place for all commodities except cotton. Total combined commodity program benefits under ARC, PLC and marketing loans are limited to $125,000 per person per year.

Producers will also have the opportunity during sign-up in 2014 to make a decision to update base acreage and a separate decision to update program yields. All of the ARC and PLC programs tie payments to base acres, and producers can either keep their existing base acres or reallocate their base acres to reflect their program crop plantings from 2009-2012. This base update is limited to no more than the current total base acres on the farm, but does allow for changing the base acreage crop mix to reflect recent production patterns and potentially improve the risk management relevance of the new farm programs. Producers also have an opportunity to update program yields to 90 percent of their average yields from 2008-2012, potentially a large increase from existing payment yields that may date to 1985. While the program yields only apply to the PLC Program, all producers could benefit from updating program yields, depending on what direction farm programs could go after 2018. There are special rules for cotton, for which commodity programs were eliminated in favor of crop insurance programs, but for which existing base acres are now called “generic base acres” and might be planted to other program commodities and covered accordingly. To analyze and make these decisions, producers will likely want to prepare with current base acreage and program yield information, as well as acreage and production information from 2008-2012 to consider all of the options.

The rest of the commodity title includes substantial changes to the dairy program, the reinstatement of agricultural disaster assistance and the re-authorization of the sugar program. The dairy program was the subject of substantial debate and the cause of some delay in passing the new farm bill. The changes to dairy policy include elimination of the traditional dairy product price support program in favor of a margin-based protection program focused on a milk price-over-feed cost margin. Producers will pay premiums for different levels of margin protection and will pay different premium rates on different levels of production. The disaster assistance language provides re-authorization and permanent funding support retroactive to 2012, when the last of the previous programs were available. The disaster assistance includes the Livestock Indemnity Program (LIP) for abnormal death losses due to agricultural disasters; the Livestock Forage Disaster Program (LFP) for drought and fire losses to forage and feed supplies for livestock herds; the Emergency Assistance Program for Livestock, Honey Bees and Farm-Raised Fish (ELAP) for other livestock disaster losses; and the Tree Assistance Program (TAP) for disaster losses for orchard and nursery tree growers. Agricultural disaster assistance is limited to $125,000 per person per year.

Title II - Conservation

The conservation title includes more than $57 billion in projected spending over the next ten years, with lesser spending on the Conservation Reserve Program (CRP) offset by maintained or increased spending on working lands and other targeted conservation programs and partnerships. The CRP will shrink as the enrollment cap is reduced from the current 32 million acres to 24 million acres by fiscal year 2017. With current enrollment of more than 25 million acres and enrollment of continuous sign-up, high-priority acreage projected of up to one million acres annually, it is apparent that several million acres currently in the CRP can be expected to come out of the program as contracts expire in the next four years and are not successfully re-bid into the program.

While funding for land retirement programs like CRP will shrink, funding for working lands programs like the Environmental Quality Incentives Program (EQIP) and the Conservation Stewardship Program (CSP) is largely maintained or increased. Authorization for both programs actually is reduced relative to original authorization in 2008, but projected annual spending continues to grow over the life of this farm bill. Other parts of the conservation title continue to grow as well, but with substantial reorganization and streamlining into fewer, but larger program areas.

One other conservation issue in the farm bill is conservation compliance, which is not addressed in the conservation title, but in the crop insurance title. Conservation compliance, or cross-compliance, includes requirements to establish and maintain a conservation plan on highly erodible land and to follow Sodbuster and Swampbuster provisions against breaking out sod or draining wetlands. These compliance provisions have been required of recipients of farm program benefits since 1985, whether from commodity, conservation, credit or other programs. These provisions will also now be required for crop insurance as well, with compliance required to be eligible for federal crop insurance premium supports (subsidies).

Title III - Trade

The trade title includes about $3.6 billion in projected spending over the next ten years, approximately a four percent increase over baseline levels. This funding continues and supplements many existing trade programs, primarily the Market Access Program and the Foreign Market Development Program. These programs, as well as other trade programs and export credit programs in the trade title help develop export markets and demand for U.S. agricultural products.

Title IV - Nutrition

The nutrition title includes the vast majority of all spending in the farm bill, with $756 billion in projected spending over the next ten years, or 79 percent of the total. This spending is primarily for the Supplemental Nutrition Assistance Program (SNAP), still commonly referred to by its previous name of "food stamps," but the title also includes other food programs ranging from emergency assistance and food distribution to school lunch policies and other food security efforts. The spending projection reflects a $4 billion or one percent cut from the existing baseline. While much of the focus of the farm bill debate was on how much should be cut from farm programs, a similar debate over potential cuts to food assistance programs stalled progress on the farm bill until a final compromise was reached. The new language addresses a linkage between SNAP and a separate energy assistance program, and raises the economic threshold for benefits for that program before they translate into higher calculated SNAP benefits. This provision is projected to save $8.6 billion over ten years, more than half of which is reinvested in other areas of increased spending in the nutrition title.

Title V - Credit

The credit title of the 2014 Farm Bill continues programs that provide direct and guaranteed loans to producers for farm ownership and operations. The programs include eligibility rules and requirements for targeted audiences, including beginning farmers. The budget line for the credit title is actually a positive $2.2 billion, which reflects on-budget projections of interest and other revenues earned by the federal government through the loan program.

Title VI - Rural Development

Rural development programs are projected to spend $241 million over the next ten years, primarily in the 2014-2018 time span of the new farm bill. Rural development programs include a range of grant and loan programs to support the development of rural infrastructure, business development, value-added agricultural marketing and rural broadband, among other priorities.

Title VII - Research, Extension and Related Matters

Funding in the research title contributes baseline support for research and extension efforts at the nation's land grant universities, including the University of Nebraska-Lincoln. Numerous other programs and priorities in the legislation are targeted to agricultural research and education at land grant institutions and other institutions serving agriculture. The research title includes a projected $1.2 billion in spending over ten years, an apparent $1.1 billion increase over the previous baseline, but largely because the previous baseline had been nearly zeroed out at the end of the previous farm bill.

Title VIII - Forestry

Forestry is a small component of the farm bill in terms of projected spending, at just $13 million over the next ten years. Forestry programs include preservation, stewardship and forest product marketing programs, as well as protection programs including fire protection and response.

Title IX - Energy

The energy title re-authorized many of the rural energy development programs that were included in the 2008 Farm Bill, but had expired with no baseline funding support. These programs include biobased product and biorefinery programs as well as biomass research, development and assistance programs to encourage the production of biomass for renewable fuel production. Total spending under the energy title is projected at $1.1 billion over the next ten years, an increase of $879 million over the mostly depleted budget baseline left by the previous farm bill.

Title X - Horticulture

The horticulture title focuses program support on specialty crop production and marketing, a sector of agriculture that was mostly absent from traditional farm bill legislation. Programs to improve market news, market promotion, food safety and production are included, along with block grants to states to address specialty crops and specific programs to address organic agriculture, local foods and other areas. Total spending in the horticulture title is projected at $1.8 billion over the next ten years, more than a 50 percent increase over the existing baseline.

Title XI - Crop Insurance

The crop insurance title contains substantial increases in spending, as noted in the earlier discussion on combined commodity program and crop insurance, or safety net spending. Projected spending on crop insurance is $89.8 billion over the next ten years, primarily to implement existing crop insurance programs not affected by this farm bill, but included in the spending estimate. Federal support for crop insurance includes premium supports (subsidies) that reduce the cost of crop insurance to producers, contracted administration and operating costs for the approved insurance companies delivering federal crop insurance, and reinsurance costs (or gains) from sharing part of the crop insurance portfolio with insurance companies.

The crop insurance title includes $5.7 billion in projected new spending for new crop insurance programs and provisions. The Supplemental Coverage Option (SCO) is a new crop insurance provision that will allow producers to couple individual coverage with a county-based supplemental policy that covers the gap between the individual coverage protection level and a cap of 86 percent. SCO will become part of a producer's farm program and crop insurance portfolio beginning in 2015, but will not be available on crops or farms enrolled in ARC. Another new provision that represents more than half of the new spending is a similar county-based insurance policy for cotton called Stacked Income Protection, commonly referred to as STAX. Commodity programs were eliminated for cotton in follow-up to the trade complaint filed by Brazil and upheld by the World Trade Organization. STAX represents a shift of support from commodity programs to crop insurance programs that may maintain support for cotton while resolving the trade compliance issues.

Other crop insurance provisions of particular note include the permanent authorization of enterprise unit coverage, and the expansion of coverage to protect irrigated and non-irrigated production as separate enterprises. Other provisions expand the federal premium subsidy for beginning farmers and ranchers, create a higher insurance reference price for organic crops, increase the protection provided under Catastrophic Risk Protection (CAT) and authorize the development of an index-based weather insurance product, among other priorities.

Title XII - Miscellaneous

The final title of the farm bill covers various other issues and programs. The legislation calls for several studies, including an analysis of country-of-origin labeling impacts on consumers, producers and packers, and an analysis of food safety regulations on various produce farms. The title also addresses new priorities targeted to military veterans transitioning to farming and ranching and expands the current Non-insured Crop Assistance Program (NAP) to strengthen the disaster coverage available for non-insurable crops.

Program Decisions and Impacts

This overview provides a brief description of title-by-title elements of the 2014 Farm Bill, but leaves much of the detail and analysis for further discussion. New program regulations and implementation will need to be rolled out in the coming weeks and months. As they are, educational materials, tools and programs will also need to be rolled out to producers and other program participants. Several agencies and organizations, including UNL Extension, will help address this need over the coming months.

For producers, there will be several commodity program decisions in 2014, including an enrollment decision between ARC and PLC, a base acreage update decision and a payment yield update decision. As crop insurance changes are implemented for the 2015 crop year, producers will also need to start integrating farm program and crop insurance decisions much more closely, particularly with the availability of SCO for PLC participants and the similarity between ARC and higher levels of individual buy-up crop insurance coverage.

Producers and landowners will also need to study conservation program changes and potential impacts on management decisions. A smaller CRP cap means more expired CRP acreage returning to agricultural production. Growth in working lands conservation programs means more participation opportunities. And, new conservation compliance provisions for crop insurance affects any insured crop land that is currently outside of the commodity program. Targeted programs in the rural development, research, energy, horticulture and other titles should also be of interest to many producers, meaning almost all agricultural producers should find something to study closely in the new farm bill.

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