Agricultural Act of 2014

Hertz Farm Management, Inc.

On January 29, 2014, the House passed the Farm Bill Conference Report (Agricultural Act of 2014) on a bipartisan vote of 251 to 166. It was approved by the Senate on February 4, 2014, with a 68-32 vote. President Obama signed the Agricultural Act of 2014 into law on February 7, 2014.

Below is a Summary of major provisions of the Commodity, Conservation and Crop Insurance Titles. Overall the Agricultural Act of 2014 is estimated by the Congressional Budget Office to spend $956 billion over 10 years. Of that amount, 79% or $756 billion is for the Supplemental Nutrition Assistance Program (SNAP), 9% (90 billion) is for the crop insurance program, 6% ($58 billion) for conservation and 5% ($45 billion) for commodity title programs. Compared to the 2008 farm bill, the commodity title programs took the biggest cut at $14 billion over 10 years (estimated by the Congressional Budget Office); the SNAP cut is $8 billion while crop insurance spending would increase by nearly $6 billion.

Commodity Title

The commodity title eliminates the direct, counter-cyclical and ACRE programs and replaces them with a choice for farmers between a new Price Loss Coverage (PLC) or Agricultural Risk Coverage (ARC). Farmers will have to make a one-time irrevocable decision between the two programs. Farmers who choose ARC have a further decision to make - area coverage or individual farm coverage. The choice can be made on a commodity-by-commodity basis, for example, corn can be placed in the ARC area program, peanuts in PLC. But if a farmer chooses the ARC individual program, all commodities on the farm must be placed in the ARC individual program, meaning in the previous example both peanuts and corn would have to be placed in the ARC individual program. The choice will have to be made for the 2014 crop and will remain fixed through the 2018 crop.

Price Loss Coverage - as the name implies, this program protects against a drop in price. It is similar to the current counter-cyclical program. Its payment will equal the difference between a set reference price and the 12 month National average marketing price for the crop. The price difference is multiplied by historical yield and 85% of base acres for that crop. The bill allows farmers to update, one-time in 2014, both their base acres (2009 - 2012 average) and their yield (90% of 2008 -- 2012 average). Below is a table that compares the references prices from the 2008 and 2014 farm bills.

Reference Price	Unit	2008 Farm Bill	2014 Farm Bill	Percent Change
Wheat	$/bu	4.17	5.50	31.9%
Rice	$/cwt	10.50	14.00	33.3%
Corn	$/bu	2.63	3.70	40.7%
Oats	$/bu	1.79	2.40	34.1%
Barley	$/bu	2.63	4.95	88.2%
Sorghum	$/bu	2.63	3.95	50.2%
Cotton	$/lb	.7125	n/a	n/a
Peanuts	$/ton	495	535	8.1%
Soybeans	$/bu	6.00	8.40	40.0%
Other Oilseeds	$/cwt	12.68	20.15	58.9%
Dry Peas	$/cwt	8.32	11.00	32.2%
Lentils	$/cwt	12.81	19.97	55.9%
Small Chickpeas	$/cwt	10.36	19.04	83.8%
Large Chickpeas	$/cwt	12.81	21.54	68.1%

The barley reference price for the 2008 Farm Bill used the USDA Feed Barley Price. The 2014 Farm Bill uses the USDA all-barley price.

Agricultural Risk Coverage is a revenue program. The revenue guarantee (benchmark revenue) is the product of 5 year Olympic average yields and 5 year Olympic national marketing price for the commodity. The Olympic averages are rolling so each year the guarantee will change for the commodity. If a farmer chooses area coverage the yields are based on a county or similar sized area, while if a farmer chooses individual coverage the yields are those produced for that commodity on the farm. For area coverage, producers are paid on 85% of base acres and for individual coverage 65% of base acres. Base acres can be updated one time (2009-2012), the same as PLC coverage. The ARC payment cannot exceed 10% of the benchmark revenue guarantee and has a 14% deductible so essentially it protects from 86% of the benchmark guarantee to 76%. For example, if your benchmark revenue is $1,000 per acre, you must have revenue less than $860 an acre to qualify for a payment and the total ARC payment cannot exceed $100 per acre. Both programs are subject to an Adjusted Gross Income test (three year $900,000 AGI) and payment limits of $125,000 per individual. The payment limit includes marketing loan payments as well. The marketing loan payment program is virtually the same as the 2008 farm bill loan program with the exception of cotton. In addition, cotton is not eligible to participate in PLC or ARC. Cotton growers receive a new crop insurance program (see crop insurance section). On the next page is a table summarizing key features of the new commodity program.

Additionally, the bill provides a permanent livestock disaster assistance program for producers affected by natural disasters, and also covers producers who were affected by recent droughts, winter storms that hit the Northern Plains last year, and spring freezes that affected fruit growers in the Midwest.

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Conservation Programs

The Agricultural Act of 2014 consolidates numerous conservation programs and creates 4 major conservation programs: Cost Share, Easements, Partnerships and the Conservation Reserve Program.

The CRP will become smaller dwindling to 24 million acres by 2018. The current CRP is authorized at 32 million acres with roughly 27 million acres currently enrolled. Changes are made to allow for more frequent haying and grazing with reduced rental rates. In addition, a landowner can take a reduced rental rate in the final year of the contract in order to begin land preparations to place the land back into production.

The **Wildlife Habitat Incentive Program** (WHIP) will be merged with the **Environmental Quality Incentive Program** (EQIP). The **Conservation Stewardship Program** remains as a stand-alone program, albeit with smaller enrollment levels - 10 million acres annually.

Grassland, farmland and wetland easements (GRP, FRP and WRP) are consolidated into one easement program with two legs: **Agricultural Land Easements** (ALE) and **Wetland Reserve Easements** (WRP). WRP is virtually identical to the existing program. ALE is the combination of GRP and FRP but will look very similar to the existing FRP where all easements are permanent and run through an approved 3rd party entity. Appraisals will be required to close ALE transactions, while WRP transactions will likely be valued using geographic area caps.

Crop Insurance

The Agricultural Act of 2014 adds new coverage choices for farmers. It does not in any way change current premium assistance provided under the crop insurance program. Nearly all of the crop insurance provisions will take effect for crop year 2015, so no major changes for crop insurance will occur in 2014. **No adjusted income (AGI) test is applied to the crop insurance program.**

Most farmers will have to certify that they are in compliance with sodbuster and swampbuster (conservation compliance) in order to receive crop insurance premium assistance starting with the 2015 crop year. The compliance provisions as they apply to crop insurance are somewhat different than those that apply to the farm programs. They are forwarding looking only and farmers cannot lose premium assistance if they fall out of compliance during an insurance period.

The 2014 farm bill creates three new major plans of insurance: **Supplemental Coverage** (SCO), **Stacked Income Protection Coverage** (STAX) for cotton and a peanut revenue plan of insurance. SCO allows producers the option of purchasing additional coverage based on an individual yield and loss basis, supplemented with coverage based on an area yield and loss basis to cover a part of the deductible under the individual yield and loss policy. Coverage is triggered only if losses in the area exceed 14% of normal levels. Producers enrolled in ARC or STAX are not eligible to buy SCO. SCO premium assistance is 65%. The A&O reimbursement rate for SCO is 12%, same as existing area coverage.

STAX is an additional policy available only to cotton producers. STAX provides coverage consistent with GRIP and the associated Harvest Revenue Option Endorsement. STAX is provided in addition to all other coverage available to producers of upland cotton, except that a producer who participates in SCO cannot participate in STAX. Because STAX will not be available until 2015, cotton growers receive a transition payment until STAX is available to them.

Beginning with the 2015 crop year, RMA is required to make available a revenue crop insurance program for peanut producers. This program and the MPCI program are required to use the Rotterdam price index for peanuts, as adjusted to reflect the farmer stock price of peanuts in the United States or the loan rate, whichever is higher.

Beginning with the 2015 crop year, producers will be able to choose a different level of coverage for irrigated versus non-irrigated ground at all unit levels. Farmers will also be able to drop yields in their APH record data base if the county yield is 50% below the 10 year average county yield. This is provided to help APH decline when widespread drought or flooding occurs.

Key Features of New Commodity Program

	PLC	ARC Area	ARC Individual
Level of Choice	Commodity	Commodity	All Commodities on Farm
Base Acres	85%	85%	65%
Base Update	Yes	Yes	Yes
Yield Update	Yes	n/a	n/a
Guarantee	Price	Revenue	Revenue
Guarantee Price	Reference Price	5 Year Olympic National Average	
Actual Price	12 Month National Average Marketing Price		
Yields in Guarantee	n/a	5 Year Olympic Area Average	5 Year Olympic Individual Average
Actual Yield	Historical	Actual County	Actual Individual
Yield Plug	75% of T	70% of T	70% of T

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