



Farm Bill Ushers in Substantial Reforms

AgriThought

AgriBank provides financial solutions to meet the needs of production agriculture in America's heartland. We feature our research and analysis in AgriBank Insights as part of our AgriThought initiative to help inform the financial decisions among those we serve.

President Obama signed the five-year Agricultural Act of 2014 into law on Feb. 7, just days after the bill passed the House and Senate with bipartisan support—and after several years of political wrangling and marathon negotiations. The nearly \$1 trillion measure covers a wide range of agriculture, energy and nutrition programs. It includes substantial reforms in commodity programs for producers, eliminates direct payments and expands crop insurance. This report provides an overview of key aspects of the Farm Bill that will affect producers, consumers and agribusinesses across the United States, with much of the impact on producers falling within the AgriBank District.

Contents

- 2** Key Provisions affect American agriculture
- 5** Farm Bill by the numbers
- 6** For more information

Highlights

- **\$956.4 BILLION IN SPENDING OVER 10 YEARS.** The Farm Bill provides for \$956.4 billion in spending over the next decade, with the largest share—\$756 billion—dedicated to the Supplemental Nutrition Assistance Program and other food programs.
- **MAJOR COMMODITY SUPPORT, CROP INSURANCE REFORMS.** The bill eliminates direct payments and requires producers to choose between two types of programs that require them to incur losses before being able to receive federal support.
- **POLITICAL DRAMA.** The massive bill took more than two years to complete and tested veteran Farm Bill negotiators. Even though they successfully held together the traditional rural-urban coalition for this bill, Agriculture Committee leaders have said the next Farm Bill may prove even more challenging to draft given the continuing decline in the influence of rural interests.

Key Provisions Affect American Agriculture



The Farm Bill includes numerous, wide-ranging budget and policy measures. Following are summaries of key changes that will directly affect many producers and agribusinesses that AgriBank and affiliated Associations serve.

Commodity support

Direct payments have been eliminated. Landowners will no longer receive fixed payments per acre, whether crop prices are high or low—or even if they did not plant at all. Under the new Farm Bill, in an effort to create solutions that benefit producers of program crops across all regions, producers will be able to choose one of two approaches that will provide support only when they suffer actual price or yield losses before their regular crop insurance coverage applies. The two options are:

- **AGRICULTURE RISK COVERAGE (ARC).** Under ARC, producers must choose whether to enroll in countywide coverage on a commodity-by-commodity basis or individual coverage that applies to all of the commodities on the farm. ARC will cover 85 percent of base acres for the county option, but payment acres are set at 65 percent for the individual coverage. Payments on the county option occur when actual county revenue for a covered commodity in a crop year is less than the county-revenue trigger. The payment will be the lesser of 10 percent of the benchmark county revenue for a commodity or the difference between the country trigger and the actual county revenue. The ARC guarantee for a covered commodity in a crop year is 86 percent of the benchmark revenue and historical yield.
- **PRICE LOSS COVERAGE (PLC).** Similar to traditional counter-cyclical programs, producers will receive payments if crop prices fall below set reference prices. The bill raises the floor price for all 14 crops it covers, including corn, soybeans and wheat, so payments will be made much sooner than the previous law.

In choosing an approach, producers will need to consider how much risk to assume and estimate future price levels. In addition, the legislation caps how much money an individual producer can receive—\$125,000 for individuals and \$250,000 for married couples annually for all payments under the commodity programs. It also requires producers to comply with conservation and wetlands requirements to be eligible for ARC and PLC.

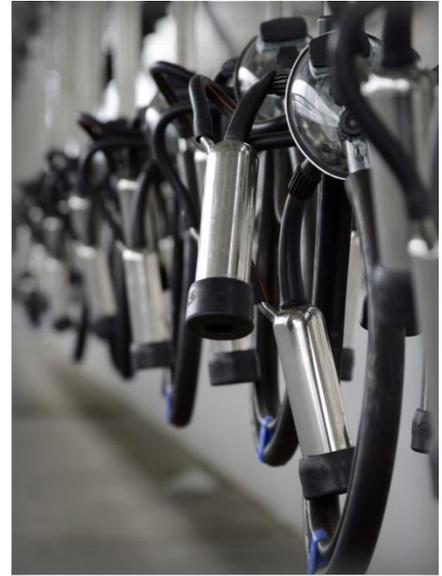


Dairy

The Farm Bill establishes dairy margin insurance and product donation programs to help producers address price volatility, but ends the 70-year old dairy price support program.

- **DAIRY MARGIN INSURANCE PROGRAM.**

Provides producers the opportunity to pay premiums in exchange for feed margin coverage. Coverage will be available only for producers' historical production, with an exception that allows for new producer entry. Producers may respond to market signals and expand production without penalty, but insurance coverage will be unavailable for the expanded production. Dairy operations will be able to participate in either the margin insurance program or the dairy livestock gross margin program under the Federal Crop Insurance Act, but not both.



- **PRODUCT DONATION PROGRAM.** Buys dairy products at prevailing market prices for donation to domestic feeding programs. It would be triggered when the dairy margin has been \$4/cwt or less for each of the immediately preceding two months. The bill has a number of triggers when the program must end, including provisions to keep U.S. dairy commodity prices competitive on world markets.

Conservation

The Farm Bill will consolidate 23 duplicative and overlapping conservation programs into 13 as well as modify several programs, including the Conservation Reserve Program (CRP). Significant changes to the CRP include:

- **REDUCED ACREAGE CAP.** The acreage ceiling will drop from 32 million acres to 24 million acres. The reduction will be implemented over the Farm Bill's five-year span, with the cap lowered each year until the final two years, when the cap settles at 24 million acres.
- **PENALTY-FREE EARLY-OUT PROVISION.** Landowners and operators can terminate their existing CRP contracts in fiscal year 2015 to respond to market conditions and allow productive farmland to exit the program. The land must have been in CRP for at least five years and must not be in one of the classes of land expressly deemed as ineligible for early termination, such as land at higher risk of erosion.

“If I expire in the next three days, I want a glass of milk carved onto my tombstone—because it’s what killed me.”

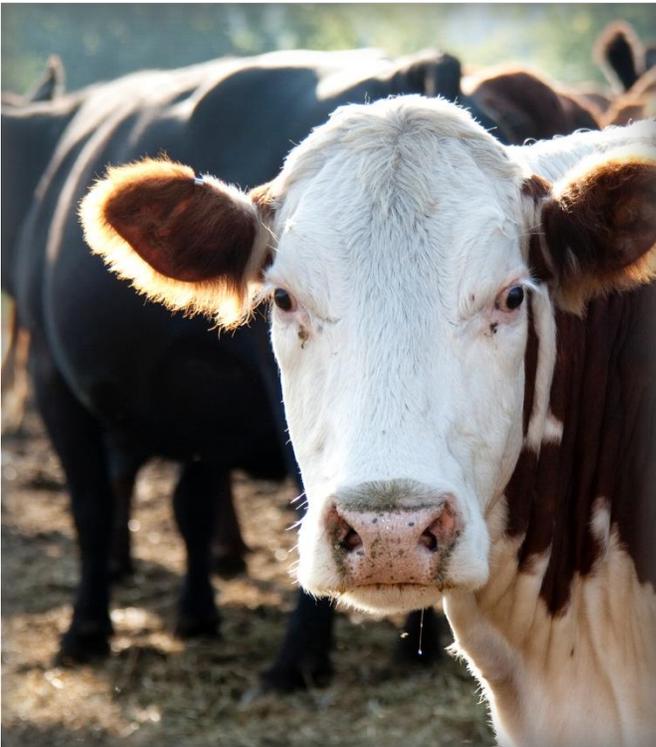
— Rep. Frank Lucas, R.-Okla., in testimony before the House Rules Committee, noting that negotiations around the Farm Bill’s dairy provisions alone were incredibly taxing for him and fellow negotiators

Energy

The Energy Title in this year's bill provides \$881 million over 10 years for programs that develop new energy sources while providing additional farm income. These programs include:

- **BIOMASS CROP ASSISTANCE PROGRAM.** Partners with producers to develop sustainable new biofuels and other products from non-food crops.
- **BIOREFINERY ASSISTANCE PROGRAM.** Provides loan guarantees for new manufacturing plants to companies producing high-performance renewable chemicals and biobased products.
- **RENEWABLE ENERGY FOR AMERICA PROGRAM.** Supports renewable energy technology, including wind, solar, biomass, biogas and hydroelectric power.
- **BIOMASS RESEARCH AND DEVELOPMENT INITIATIVE.** Supports joint USDA/Department of Energy biobased chemicals development.
- **USDA BIOPREFERRED PROGRAM.** Supports the increased use and purchase of biobased products.
- **RENEWABLE CHEMICALS.** Facilitates speed to market for renewable chemicals used in biobased manufactured products.

Livestock indemnity



Under the new Farm Bill, permanent livestock disaster assistance is available for farmers and ranchers affected by natural disasters. It will:

- Reimburse producers for losses up to 75 percent of fair market value.
- Cover losses retroactively for 2012 and 2013, and extend through the life of the Farm Bill.
- Raise the cap to \$125,000 for a single producer and \$250,000 for a married couple.

While livestock disaster assistance is nothing new, the reach back of this provision was inspired by thousands of cattle that were killed in an October 2013 blizzard, resulting in nearly \$2 billion worth of damages to North Dakota and South Dakota cattle farmers. It also covers losses due to the severe drought of 2012.

Rural development

The Farm Bill provides continued funding to support rural communities investing in their future, especially with respect to rural business development. Programs include:

- **RURAL BUSINESS DEVELOPMENT GRANTS PROGRAM.** Awards competitive grants to public agencies and non-profits for business development, planning, technical assistance or job training.
- **RURAL COOPERATIVE DEVELOPMENT GRANTS PROGRAM.** Provides competitive grants to non-profits that work to establish rural business cooperatives.
- **RURAL MICROENTERPRISE ASSISTANCE PROGRAM.** Awards grants to microenterprise development organizations to provide training, business planning assistance, market development assistance, and other services to rural businesses, or to establish microloan programs for entrepreneurs.
- **VALUE-ADDED AGRICULTURAL MARKET DEVELOPMENT PROGRAM GRANTS PROGRAM.** Encourages independent producers of agricultural commodities to process their raw products into marketable goods.
- **BUSINESS AND INDUSTRY DIRECT AND GUARANTEED LOAN PROGRAM.** Bolsters the existing private credit structure by reserving funds for projects that include the processing, distribution, storage and marketing of locally produced agricultural food products.

“While no legislation is perfect, this bill is a strong investment in American agriculture and supports the continued global leadership of our farmers and ranchers.”

—Tom Vilsack, U.S. Secretary of Agriculture

Farm Bill by the numbers

Pages in bill: **949**

Senate vote: **68 to 32**

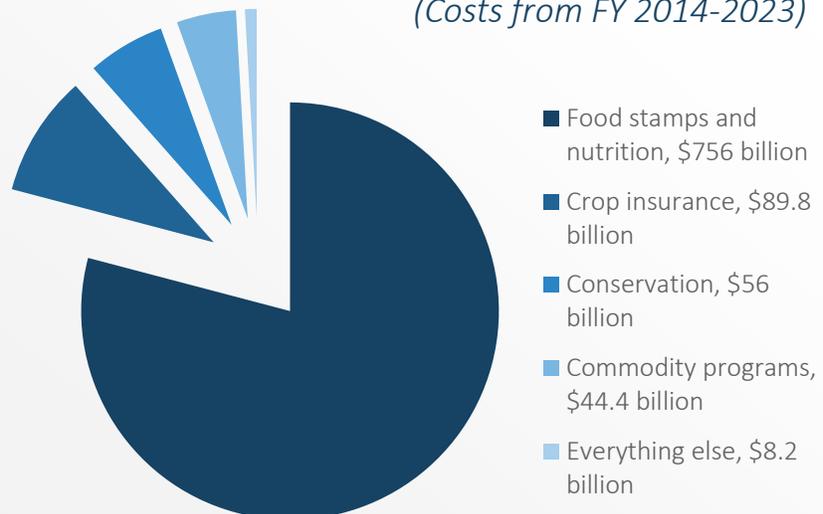
House vote: **251 to 166**

Total spending: **\$956.4 billion** over 10 years

Spending cuts from previous law: **\$16.5 billion** over 10 years

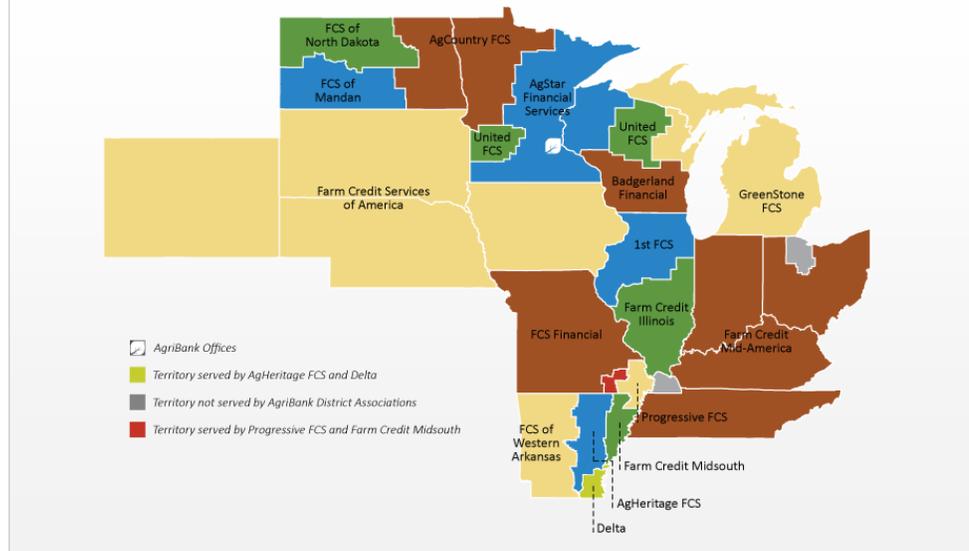
USDA programs consolidated or repealed: nearly **100**

What's in the Farm Bill? (Costs from FY 2014-2023)



Source: WONKBLOG, Washington Post, Jan. 28, 2014

Associations in the AgriBank District



For more information

Look to the following resources for further details regarding the Farm Bill, also known as the Agricultural Act of 2014:

- U.S. House Committee on Agriculture:
<http://agriculture.house.gov/farmbill>
- U.S. Senate Committee on Agriculture, Nutrition and Forestry:
<http://www.ag.senate.gov/issues/farm-bill>
- U.S. Department of Agriculture:
<http://www.usda.gov/wps/portal/usda/usdahome?navid=farmbill>

About AgriBank

AgriBank is one of the largest banks within the national Farm Credit System, with more than \$80 billion in total assets. Under the Farm Credit System's cooperative structure, AgriBank is owned by 17 affiliated Farm Credit Associations. The AgriBank District covers America's Midwest, a 15-state area from Wyoming to Ohio and Minnesota to Arkansas. More than half of the nation's cropland is located within the AgriBank District, providing the Bank and its Association owners with exceptional expertise in production agriculture. For more information, visit www.AgriBank.com.

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