

WSU Extension Farm Bill Update

2014 Farm Bill Overview

The 2014 Farm Bill introduces new programs that represent a significant departure from past legislation. Previously the farm economic safety net was primarily based on direct payments that were not tied to yields or market prices. If you remember back to the federal legislative debates when the Farm Bill was being designed in 2013, the primary issue driving the legislative process was budget reduction. Therefore the new 2014 Farm Bill commodity programs are designed to provide farmers with an effective safety net while also reducing federal budget expenditures. The new programs are directly tied to market prices and production yields. Therefore when market prices and yields are above the new program defined target levels, no payments are made –thus generating federal budget savings compared to the direct payment and the ACRE programs of the past.

Washington farm land owners and operators have several decisions to make on the new programs in the 2014 Farm Bill. The decisions facing Washington farmers are more complex than those facing a Midwest corn-soybean rotation farm. This is due to Washington farms generally having more varied crop rotation options, with individual farm yields varying considerably across a county. The main decisions land owners and producers must make are:

- Whether or not to reallocate base acres of a farm,
- Whether or not to update program yields, and
- Whether to enroll in a revenue protection program, called Agricultural Risk Coverage (ARC), at the county or individual farm level, or a price protection program, called Price Loss Coverage (PLC).
- If a farm elects to enroll in PLC, the optional Supplemental Coverage Option (SCO) insurance program becomes available.

Each program option has its advantages, rules and limitations. *Importantly the decisions made for: base reallocation, yield update, and the decision between ARC or PLC are binding for the life of the 2014 Farm Bill which is five years or potentially longer.*

To aid farmers in making program participation decisions, the 2014 Farm Bill provided funding to develop two computer decision aids for evaluating alternatives. The decision aids are being developed by the University of Illinois and the Agricultural and Food Policy Center at Texas A&M. The decision aids will be web based on-line tools. The official decision aids will not be available until the FSA completes its rule making process.

The 2014 Farm Bill does not change any Federal Crop Insurance programs. Therefore the crop insurance products and options available in the recent past will be available in the foreseeable future. The new programs, ARC and PLC are designed to complement a farmer's crop insurance decisions. The SCO option can be used to complement or substitute for crop insurance coverage levels if the PLC program is chosen. The details of these options will be covered in future education efforts. An important point to recognize is that crop insurance decisions need to be integrated with the new farm program decisions to determine the most effective risk management options for each farm. Both decision aids being developed will allow producers to look at their combined commodity program and insurance protections together, and evaluate how changes in one may affect the other.

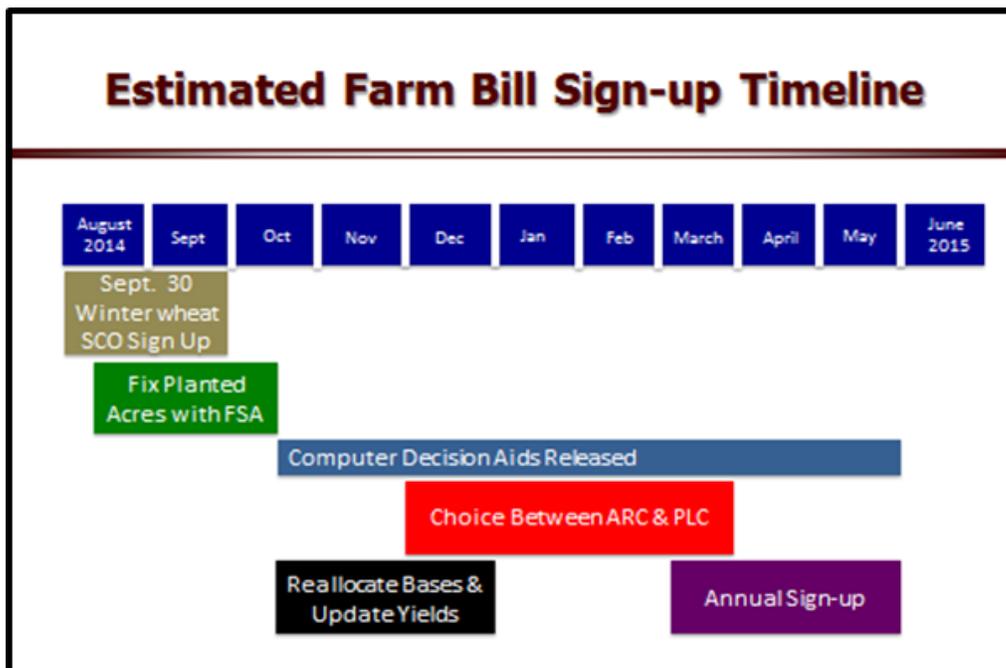


There is a lot to learn concerning the new program options. There are basically two strategies for approaching the new Farm Bill program option decisions. One strategy is to try and determine which program options will maximize program payments over the life of the Farm Bill. This strategy may be challenging because you will have to accurately forecast prices and yields for five or more years into the future. The second strategy is to evaluate the risk management needs

for how you intend to farm the land in the foreseeable future. Your expected rotation will provide guidance in determining whether making a base reallocation decision would be appropriate. That, in addition to your past crop insurance decisions, will provide a good base of information to evaluate farm program options.

Estimated Farm Bill Time Frame

One of the major concerns of the new Farm Bill is the timing of sign-up decisions. This time frame will determine when farmers need to learn about the program options, evaluate which option is best for them, and turn their final paper work into their FSA office. Part of the sign-up timing uncertainty is due to the process that the USDA Farm Service Agency must undertake to write specific rules to operate the programs. For more information on the rule making process see the Ag in Uncertain Times webinar [here](#). The official timeline for the 2014 Farm Bill program options sign-up has not been announced. However, as a planning aid, the figure below presents an estimated time frame of when decisions must be made. Actual deadlines could be sooner or later than indicated in the figure, so it is important to remain current on Farm Bill sign-up announcements. The ARC and PLC not are expected to be required until spring of 2015 except for farmers wanting to sign-up for SCO on their 2014 winter wheat plantings. In that case farmers must sign up by September 30. See below for more information on SCO.



Source: Adapted from Outlaw, J. (2014) <http://z.umn.edu/FarmBillConf>.

WSU Farm Bill Education

Since, as of this writing, the specific rules associated with implementing the new farm bill and the decision tools have not been released from FSA, it is a bit early to provide Extension based training on making farm bill program decisions. Both the final rules and the decision aids are critical in providing producers with accurate information. As noted by the timeline above, however, there should be plenty of time for training assuming the rules and decision tools are released in the next couple of weeks. Once the rules are clear education programs will be announced. It is our hope to deliver training in the October/November period.

Review Summary Acreage History Report

The 2014 Farm Bill provides land owners with options to reallocate base acres and update yields for eligible program commodities. To support analysis of these options, farm owners and operators were notified by FSA in a letter dated around July 28, 2014 of FSA's records of farms they show either being owned and/or operated by the addressee. The Summary Acreage History Report provided with the letter shows the farm's 2014 base acres and counter-cyclical (CC) yields, history from 2008-2012 on the planted acres, acres prevented from being planted, and acres planted after failed or prevented acres. If information is found to be incorrect, incomplete or missing in the summary report, the addressee is instructed to contact the county office where the farm is administered as soon as possible, but no later than 60 days from the date of the letter which would be September 29, 2014. Verifying the accuracy of the farm's acreage history is the first step required to ensure that the farm's base acres and yields for eligible commodities are accurate for PLC and/or ARC program purposes. Properly reallocating base acres and updating yields may prove to be the most important farm bill program decisions. To correct inaccurate information, verifiable documentation for previously unreported and/or prevented planted acreage may include crop insurance records. All verifiable documentation is subject to FSA County Committee review and approval.

Supplemental Coverage Option (SCO) – A New Insurance Product

The 2014 Farm Bill created a new crop insurance product called the Supplemental Coverage Option (SCO). SCO is not a stand-alone program. SCO requires that the farm be enrolled in the PLC program and not the ARC program,

(see previous overview discussion), and it is designed to supplement your crop insurance decision. This reflects its name as supplemental coverage option to the farm's crop insurance purchase. The first crop eligible for SCO will be the 2015 wheat crop which includes winter wheat planted in fall 2014. There is a September 30, 2014 deadline to purchase SCO for winter wheat. Spring planted crops in a farm's rotation will be eligible for SCO sign-up in accordance with the Farm Bill sign-up period which has not been officially announced.

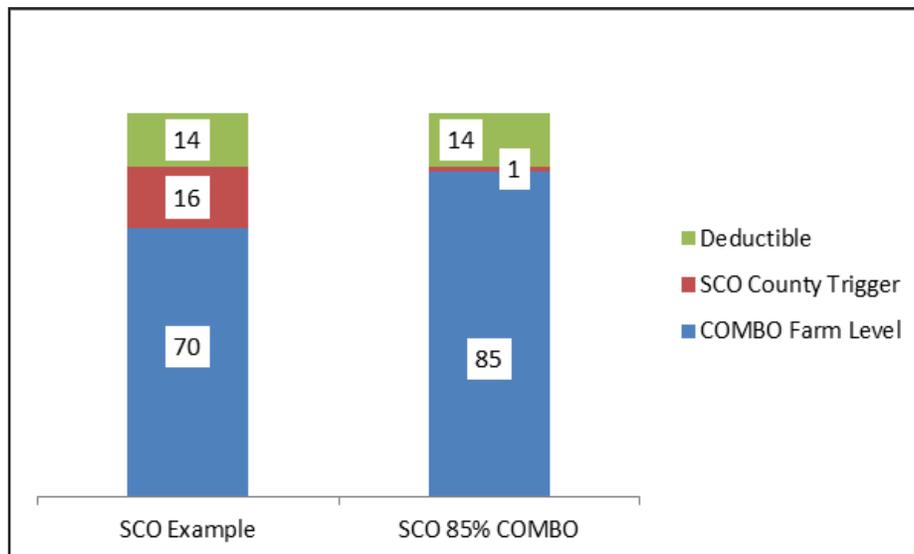
Farmers can reverse their 2015 winter wheat crop decisions to purchase SCO without penalty prior to the acreage reporting date or December 15, 2014 whichever is earlier (please verify this with your insurance agent upon sign-up). In other words, if you decide prior to the reporting date or December 15 (whichever is earlier) to enroll in the ARC program you can cancel your SCO coverage.

To be eligible for SCO a farmer must:

- Purchase a RMA COMBO crop insurance product which is based on an individual farm's yields or revenues. SCO cannot be used in combination with an Area Risk Protection Insurance Policy which is an insurance product based on county yields or revenues.
- Not enroll in the ARC Farm Bill commodity program.
- Be in a county where SCO is offered. There are 14 counties in WA eligible for 2015 winter wheat crop SCO.

SCO is Available in 14 Counties	
Adams	Grant
Asotin	Klickitat
Benton	Lincoln
Columbia	Spokane
Douglas	Walla Walla
Franklin	Whitman
Garfield	Yakima

SCO is a county-level insurance product that provides risk protection from 86% coverage down to the coverage level of the underlying COMBO product. The figure below illustrates how SCO and COMBO can work together to provide risk protection. The COMBO product is triggered when individual farm losses fall below covered levels. The SCO is triggered when county level losses fall below covered levels. In the SCO example on the left, the deductible represents 14%, SCO is purchased at 16% and the COMBO protection represents 70% of the coverage. SCO provides protection from 86% down to 70% of the insured farm revenue based on the underlying COMBO product, triggered by shortfalls in county revenue. The example on the right represents the case where a county can purchase COMBO coverage levels up to 85%. For all counties in Washington where SCO is available, COMBO can be purchased up to 85%. This leaves only 1% SCO coverage.



SCO provides protection in the range from 86% down to the coverage level of the COMBO product, but losses are triggered based on county revenues or yields. Thus, it is possible for the farm to have a loss from 86% down to the COMBO coverage level while the county does not experience a loss. In these cases, SCO will not make a payment because SCO triggers on county results. Alternatively, SCO could trigger a payment while the farm does not have a loss. Lowering COMBO coverage levels and using SCO will not provide risk protection coverage that matches farm revenue losses as closely as purchasing a COMBO product at higher coverage levels. Also, SCO does not protect against prevented plantings if they occur. Although SCO has limitations, some farmers may find SCO to be advantageous because of unique individual farm versus county risks. In addition, SCO premiums are subsidized. Each farm will have to evaluate SCO based on its own risk preferences and production risks. SCO options will be included in the forthcoming decision aids.

Producers should contact their local crop insurance agent for complete crop insurance details and to determine premiums on coverage options. A list of crop insurance agents is available at all USDA service centers throughout the United States or on the RMA website available [here](#).

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