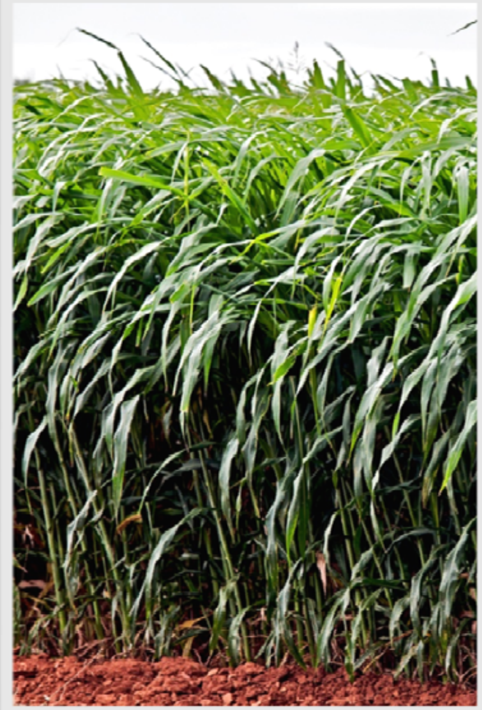


NATIONAL SORGHUM PRODUCERS

the voice of the sorghum industry

Chris Cogburn

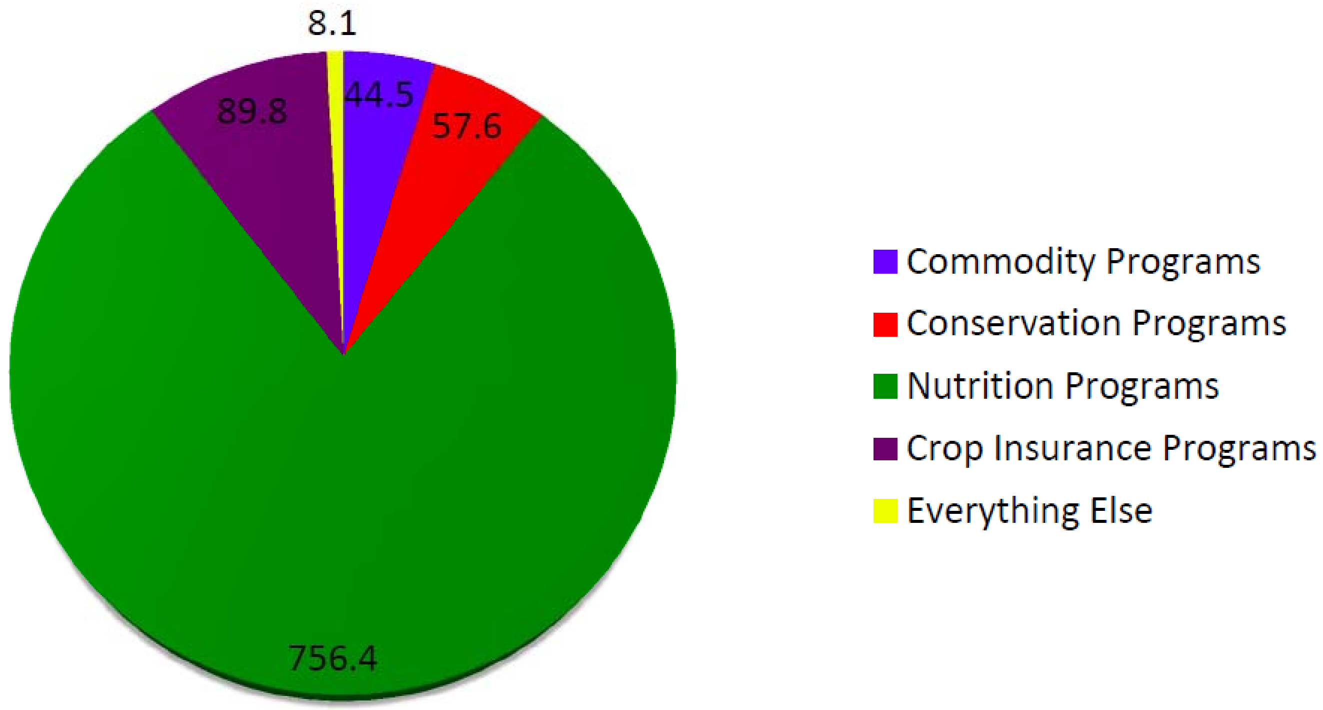
Strategic Business Director
National Sorghum Producers

2014 FARM BILL

DISCLAIMER

- This presentation is based on NSP's reading of the bill and discussion with our lobbying firm and members of the House Ag Committee staff
- There will likely be some differences once FSA and RMA publish final rules and interpretations

Estimated Outlays for 2014 Farm Bill (Billion $), 2014 to 2023.



Source: Compiled from CBO estimates, January 28, 2014

Source: Joe Outlaw, AFPC

COMMODITY PROGRAMS

- Eliminates direct payments, counter-cyclical payments, and ACRE
  - CCP and ACRE may still pay for 2013 depending on the program
- For the 2014 crop, producers must choose between Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC)
- No ARC or PLC payments until October 1, 2015
- One-time decision for ARC or PLC
- If no decision for 2014, no payments and automatically enrolled into PLC for 2015-2018

BASE ACRES

- Can reallocate base acres to crops planted on the farm between 2009 and 2012
- Cotton base acres are now generic base acres and CANNOT be reallocated
- Base acres CANNOT be increased during the reallocation
- Non-covered commodities will not enter in the base reallocation calculation
- Separate decision to update base and yield (for PLC) – not like the 2002 Farm Bill
- Farm number by farm number decision

COVERED COMMODITIES

- Wheat, oats, barley, corn, grain sorghum, long grain rice, medium grain rice, soybeans, peanuts, other oilseeds, and pulse crops
  - Other oilseeds – sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, sesame seed, and any oilseed designated by the Secretary
  - Pulse crops – dry peas, lentils, small chickpeas, and large chickpeas
- Any thing else is a non-covered commodity and will not enter into the base reallocation calculation

BASE REALLOCATION

- One time chance to update base by farm number – it is a choice to update or retain existing base acres
- Reallocates bases of covered commodities that were on the farm as of Sept. 30, 2013
- Reallocation is a ratio of the 4-year average of planted plus prevented planted acreage by crop to the total 4-year acreage planted or prevented from planting
- Under planting base will not affect the amount of total base. It only affects the ratio between covered commodities

BASE REALLOCATION EXAMPLE

	Corn	Sorghum	Soybeans	Wheat	Total
Base	0	0	0	1,000	1,000
Plantings					
2009	500	250	250	0	1,000
2010	500	250	250	0	1,000
2011	500	250	250	0	1,000
2012	500	250	250	0	1,000
Average	500	250	250	0	1,000
Share	50%	25%	25%	0%	
Reallocated Base	500	250	250	0	1,000

Source: House Agriculture Committee Staff

Source: Joe Outlaw, AFPC

BASE REALLOCATION WITH A NON-COVERED COMMODITY

	Corn	Sorghum	Soybeans	Wheat	Alfalfa	Total
Base	0	0	0	1,000	n/a	1,000
Plantings						
2009	600	100	100	0	200	1,000
2010	600	100	100	0	200	1,000
2011	600	100	100	0	200	1,000
2012	600	100	100	0	200	1,000
Average	600	100	100	0	200	1,000
Share	75%	12.5%	12.5%	0%	n/a	
Reallocated Base	750	125	125	0		1,000

Source: House Agriculture Committee Staff

Source: Joe Outlaw, AFPC

BASE REALLOCATION EXAMPLE WITH COTTON

	Cotton	Corn	Sorghum	Soybeans	Wheat	Total
Base a/	500	0	0	0	500	1,000
Plantings						
2009	200	600	100	100	0	1,000
2010	200	600	100	100	0	1,000
2011	200	600	100	100	0	1,000
2012	200	600	100	100	0	1,000
Average	200	600	100	100	0	1,000
Generic Base	500					500
Share		75%	12.5%	12.5%	0%	
Reallocated Base		375	62.5	62.5	0	500

Source: House Agriculture Committee Staff

Source: Joe Outlaw, AFPC

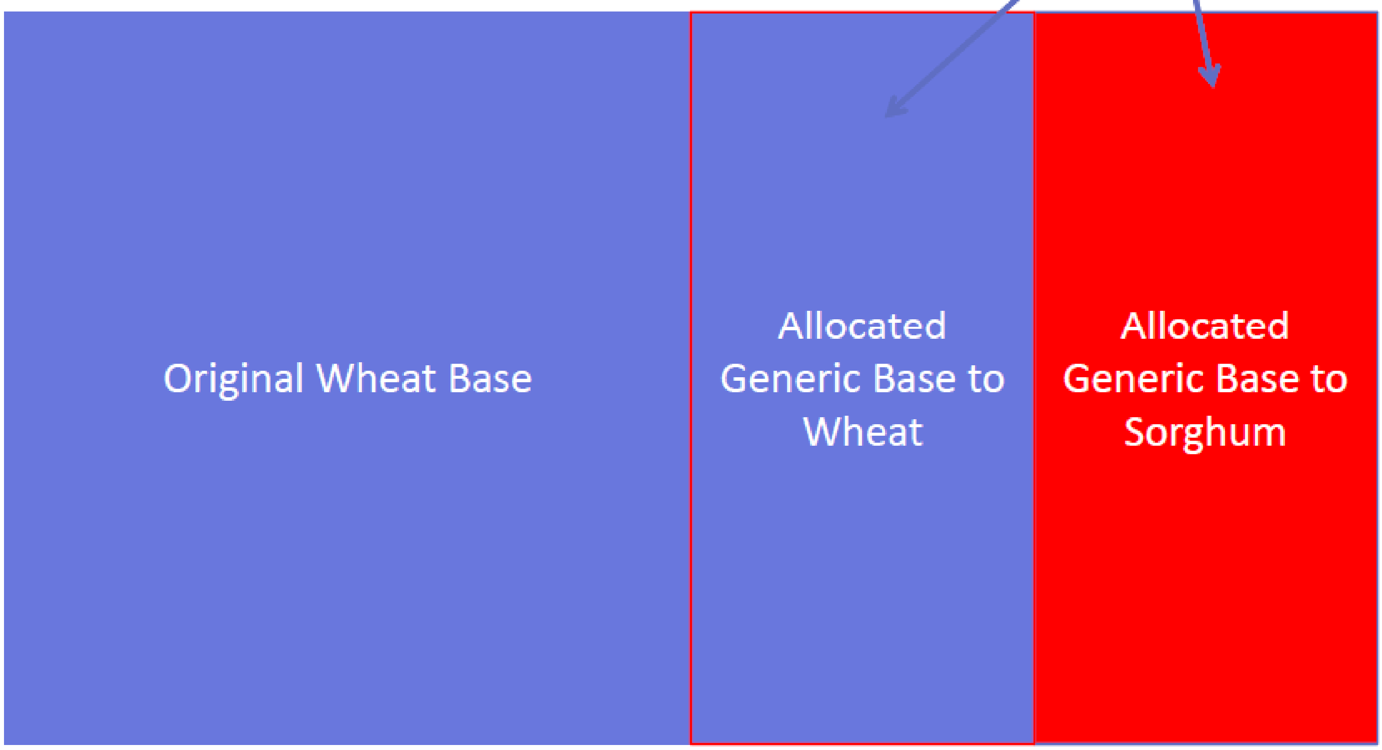
COTTON AND GENERIC BASE

- Upland cotton is no longer a covered commodity and does not receive any traditional commodity title payments
- Still has a loan program as a protection against very low prices
- Crop insurance is the farm program for cotton
- Cotton base is renamed generic base and is allocated on a yearly basis to covered commodities based on plantings of covered commodities – it is “coupled”
- Generic base will be reallocated annually independent of your choice to reallocate covered commodity base acres

GENERIC BASE - EXAMPLE 1

100 Acre Farm – Base Acres: 50 Wheat and 50 Generic

If farmer plants 50 acres of wheat and 50 acres of sorghum



Farmer has protection on 75 acres of wheat and 25 acres of GS

Source: Joe Outlaw, AFPC

GENERIC BASE - EXAMPLE 2

100 Acre Farm – Base Acres: 50 Wheat and 50 Generic

If farmer plants 100 acres of wheat

Farmer has protection on 100 acres of wheat

Source: Joe Outlaw, AFPC

GENERIC BASE - EXAMPLE 3

100 Acre Farm – Base Acres: 50 Wheat and 50 Generic

If farmer plants 100 acres of cotton

Farmer has protection on 50 acres of wheat

Source: Joe Outlaw, AFPC

UPDATING PAYMENT YIELDS

- Payment yield updates will only apply if PLC is chosen
- USDA may allow all producers to update yields – awaiting FSA rules
- On a covered commodity by covered commodity basis
- Calculated as 90% of the average of the yield per planted acre for the crop for the 2008 – 2012 crop years
- Excludes years when you did not plant a crop
- Yield plug of 75% of the 2008 – 2012 county average yield (assume FSA will use ACRE data for these county averages)

UPDATING PAYMENT YIELDS

- Based on the ACRE dataset, the 75% plug yields for Curry County are as follows:
  - Non-irrigated wheat: 7.2 bu/ac
  - Irrigated wheat: 37.2 bu/ac
  - Non-irrigated sorghum: 16.0 bu/ac
  - Irrigated sorghum: 52.4 bu/ac
  - Corn: 114.4 bu/ac
- Curry County average CCP yields:
  - Wheat: 27.5 bu/ac
  - Sorghum: 59.3 bu/ac
  - Corn: 138.6 bu/ac

BASE AND YIELD UPDATES

- Indications are that FSA will split signup
- Base and yield updates first – maybe August or September
- PLC and ARC – late fall or winter
- FSA will have all of your planted acreage
- FSA will need your yields – should be from RMA
- ACRE lessons – be prepared to get that info from your crop insurance agent because it does not always transfer automatically

QUESTIONS ON BASE AND YIELD

???

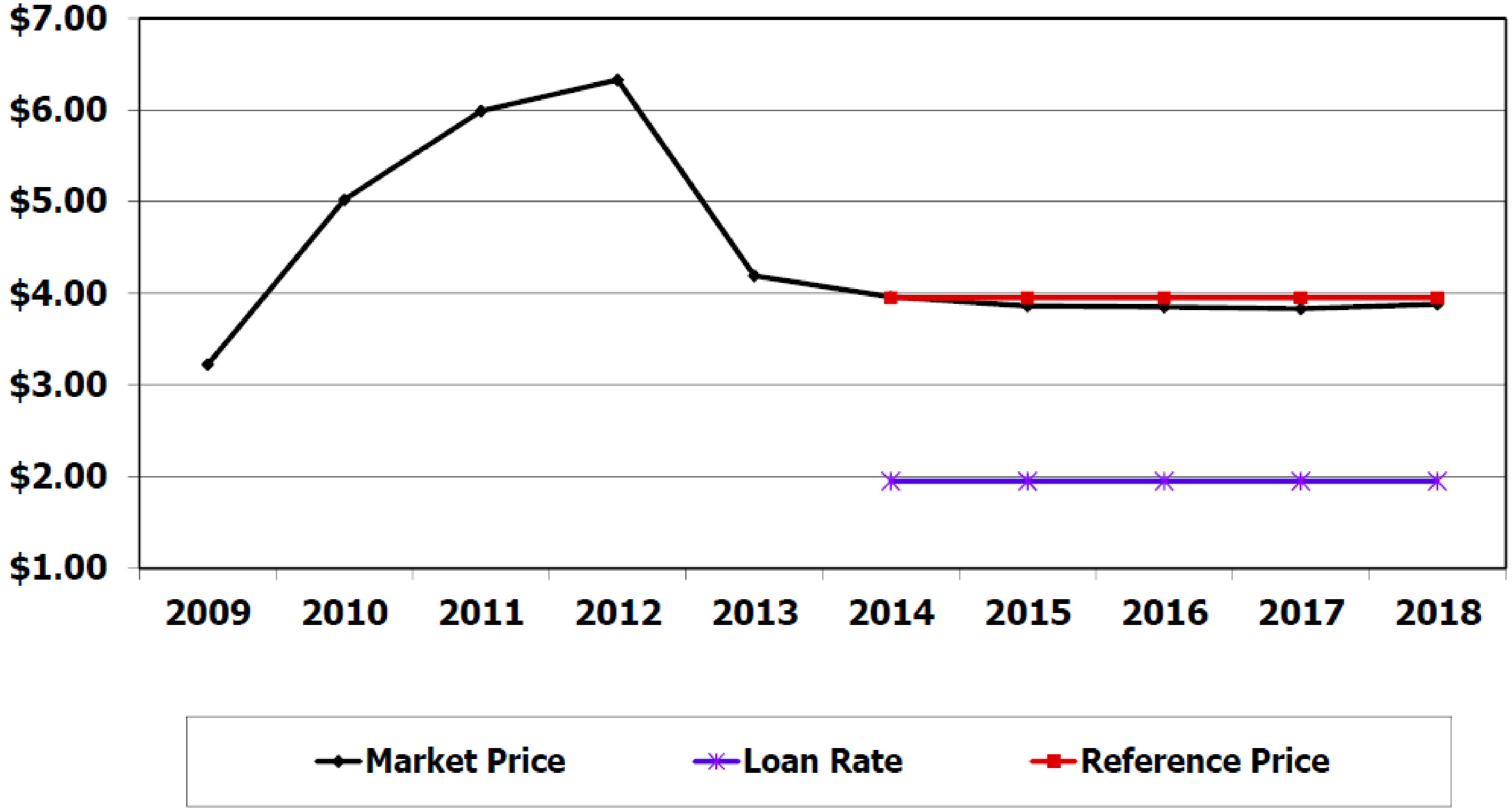
PRICE LOSS COVERAGE (PLC)

- PLC will only cover price loss – like the CCP
- Payment rate is reference price less the higher of national year market price or loan rate
- Total is payment rate x 85% of base acres x payment yield
- Reference prices:
  - Grain sorghum - $3.95/bu Corn - $3.70/bu
  - Wheat - $5.50/bu Soybeans - $8.40/bu
  - Barley - $4.95/bu Oats - $2.40/bu
  - LG Rice - $14.00/cwt MG Rice - $14.00/cwt
  - Other oilseeds - $20.15/bu Peas - $11.00/cwt
  - Peanuts - $535/ton Lentils - $19.97/cwt
  - Chickpeas – Sm - $19.04/cwt Lg - $21.54/cwt

PLC NUMERIC EXAMPLE

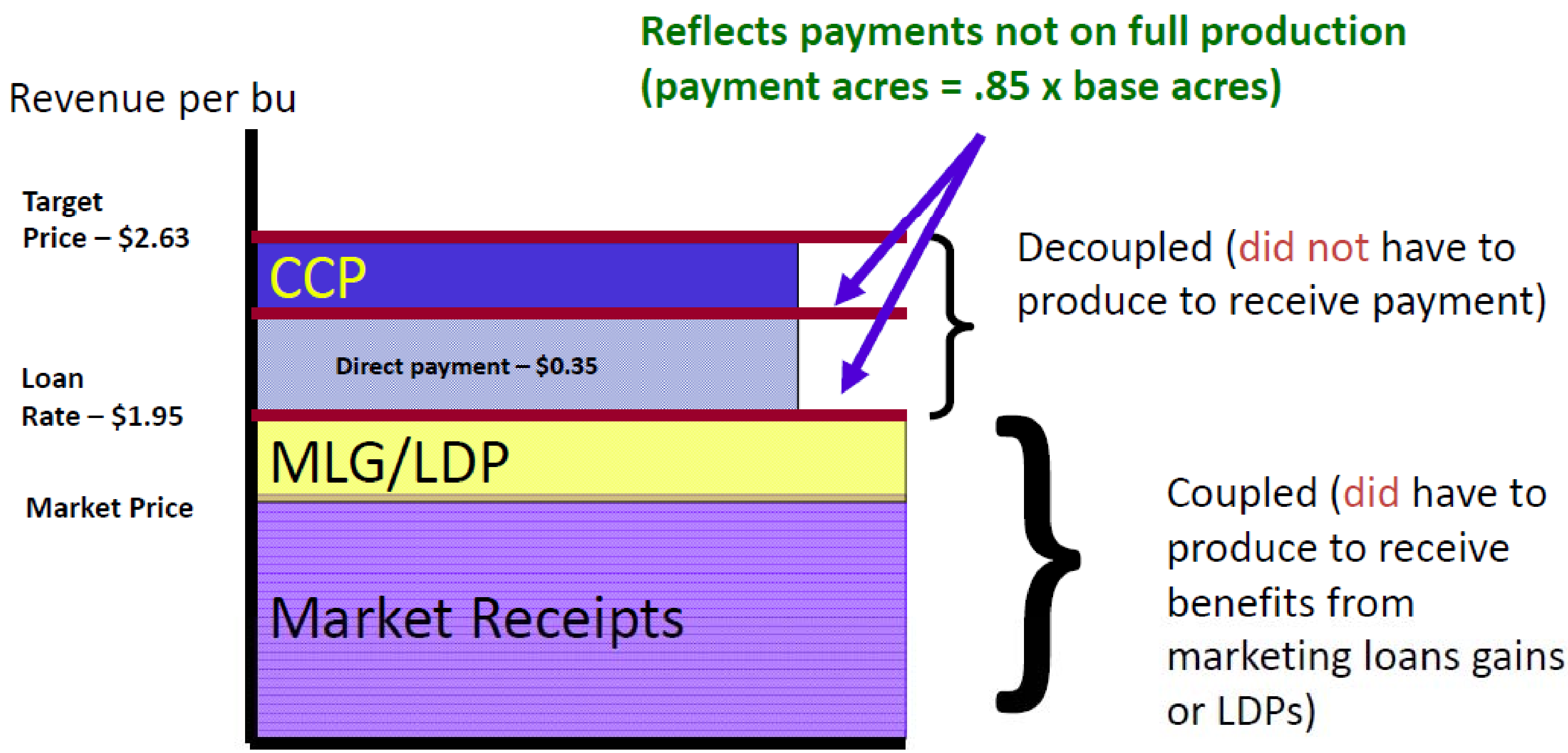
- Base of 500 acres of sorghum
- Payment yield of 50 bu/ac
- National market year price is $3.60/bu
- PLC = (3.95-3.60) x 500 x .85 x 50 = $7,437.50

FAPRI MARCH 2014 BASELINE MARKET PRICE, LOAN RATE & REFERENCE PRICE FOR SORGHUM



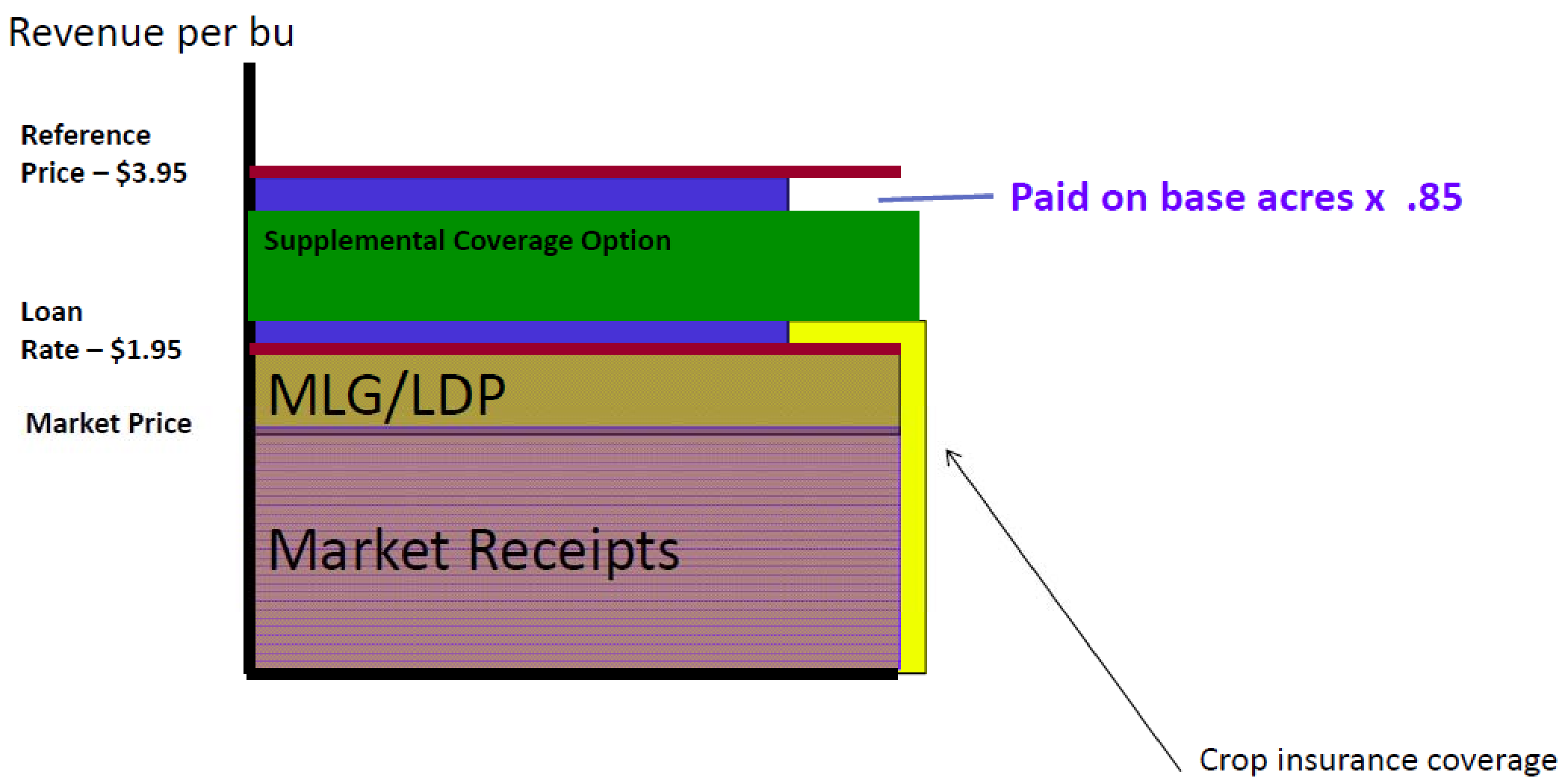
Source: Joe Outlaw, AFPC

GRAIN SORGHUM IN THE 2008 FARM BILL



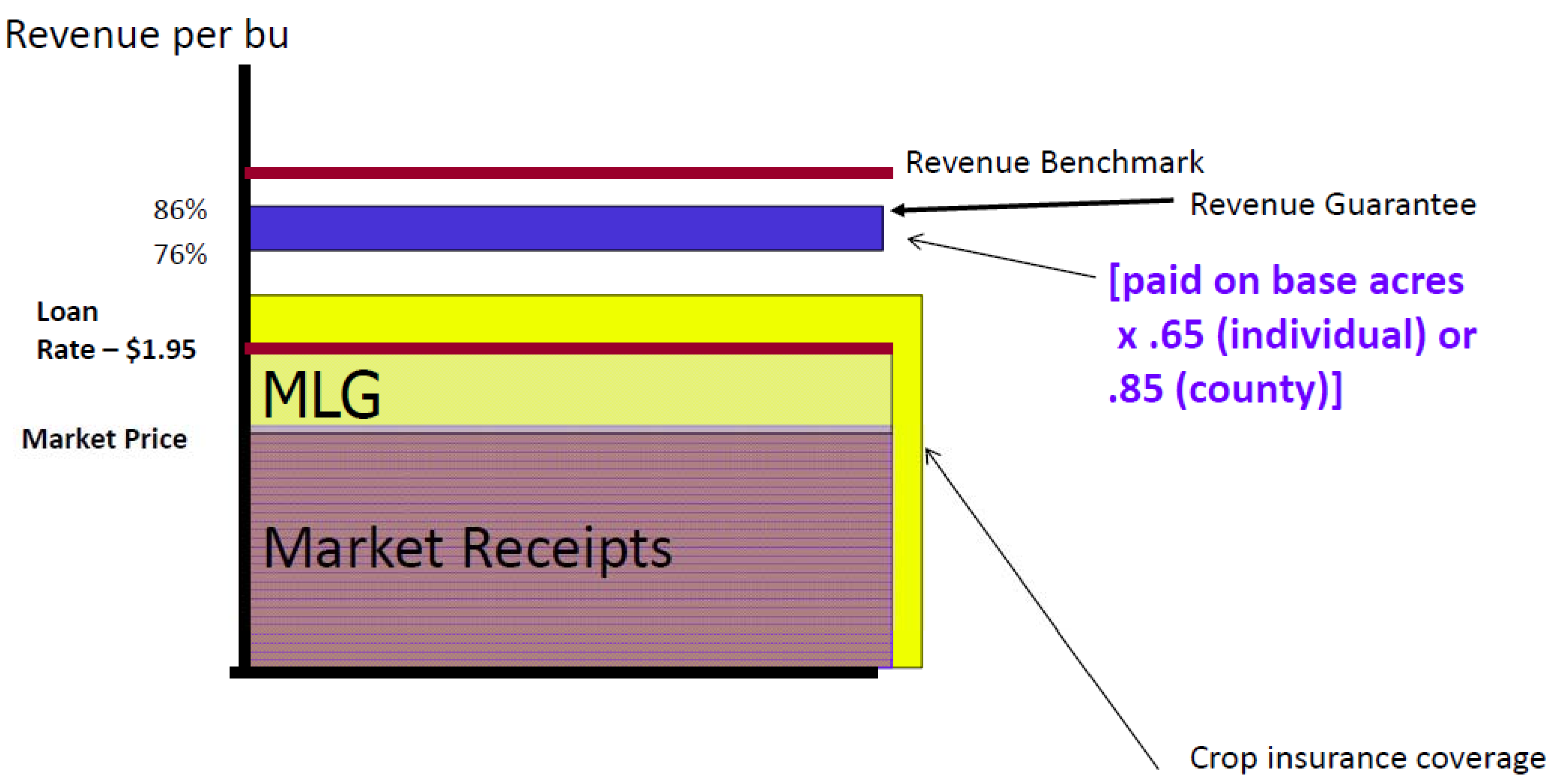
Source: Joe Outlaw, AFPC

GRAIN SORGHUM WITH PLC



Source: Joe Outlaw, AFPC

GRAIN SORGHUM WITH ARC-COUNTY



Source: Joe Outlaw, AFPC

AGRICULTURE RISK COVERAGE (ARC)

- ARC is what some call shallow loss coverage
- ARC is available at the individual and county level
- Individual coverage is whole farm revenue and covers all the commodities on the farm
  - Paid on 65% of base acres
  - If enrolled in the individual ARC, then cannot mix PLC and ARC since it is whole farm revenue
- County coverage allows mixing with PLC
  - Paid on 85% of base acres
- All producers on a farm must agree on PLC or ARC decision
- A producer is someone with risk in the crop so includes share-rent landlords

ARC - COUNTY

- Payments are made when actual county revenue for the covered commodity is less than the ARC revenue guarantee
  - Actual county revenue = actual county yield per planted acre x higher of national marketing year price (NMYP) or loan rate
  - Revenue benchmark = Olympic 5-year average of NMYP x Olympic 5-year average county yield
    - Rolling average so will use most recent 5 years
    - NMYP is plugged with reference price
    - County yield is plugged with 70% of T-yield
  - Revenue guarantee = 86% of revenue benchmark
- Payment = Minimum of [(Revenue guarantee – Actual revenue) or 10% of the revenue benchmark] x 85% of base acres
- Secretary may calculate irrigated and non-irrigated yields separately based on data availability

ARC (COUNTY) NUMERIC EXAMPLE

- Market year prices for ARC: Average of $5.11/bu
  - ~~09/10 - $3.95 (plugged)~~
  - 10/11 - $5.02
  - 11/12 - $5.99
  - ~~12/13 - $6.33~~
  - 13/14 - $4.33 (estimated)
- Yield for ARC: Average of 20.7 bu/ac
  - 09 – 32.8 bu/ac
  - ~~10 – 52.2 bu/ac~~
  - 11 – 14.7 bu/ac (plugged)
  - 12 – 14.7 bu/ac (plugged)
  - ~~13 – 14.0 bu/ac (plugged)~~

ARC (COUNTY) NUMERIC EXAMPLE (CONT.)

- Sorghum base of 500 acres
- National market year price of $3.60/bu
- County yield of 8 bu/ac
- Calculation of ARC payment
  - Benchmark = 5.11 x 20.7 = $105.78/ac
  - Guarantee = 86% of 105.78 = $90.97/ac
  - Actual = 3.60 x 8 = $28.80/ac
  - Rate = 90.97 – 28.80 = $62.17/ac
  - Cap = 10% of 105.78 = $10.58/ac
- ARC = 10.58 x 500 x .85 = $4,496.50

ARC - INDIVIDUAL

- Based on share of all covered commodities planted on all farms with ARC
- Benchmark revenue is Olympic 5-year average of historical revenue weighted by current plantings
- ARC guarantee is 86% of benchmark revenue
- Payment = Minimum of [(Revenue guarantee – Actual revenue) or 10% of the revenue benchmark] x 65% of base acres
- Remember – ARC-Individual is whole farm, so can’t mix PLC and ARC-County

PLC OR ARC ON GENERIC BASE

- Must choose coverage on other crops that could go on generic base
- Whether you plant it in 2014 or in 2018, you need to make the choice in 2014 at signup

PAYMENT LIMITS

- Everything discussed so far is subject to payment limits - $125,000 per person; $250,000 spousal
  - PLC payments
  - ARC payments
  - LDPs
  - MLGs
- Peanuts maintain a separate limit
- No limit on market loan forfeitures
- $900,000 3-year average AGI test on commodity and conservation programs

ACTIVELY ENGAGED

- Secretary must conduct a rulemaking to define the term “significant contribution of active personal management” and determine if a limit on the number of individuals in an entity qualifying under “management” is necessary
- Potential changes will NOT apply to entities that are made up solely of family members

QUESTIONS ON COMMODITY PROGRAMS

???

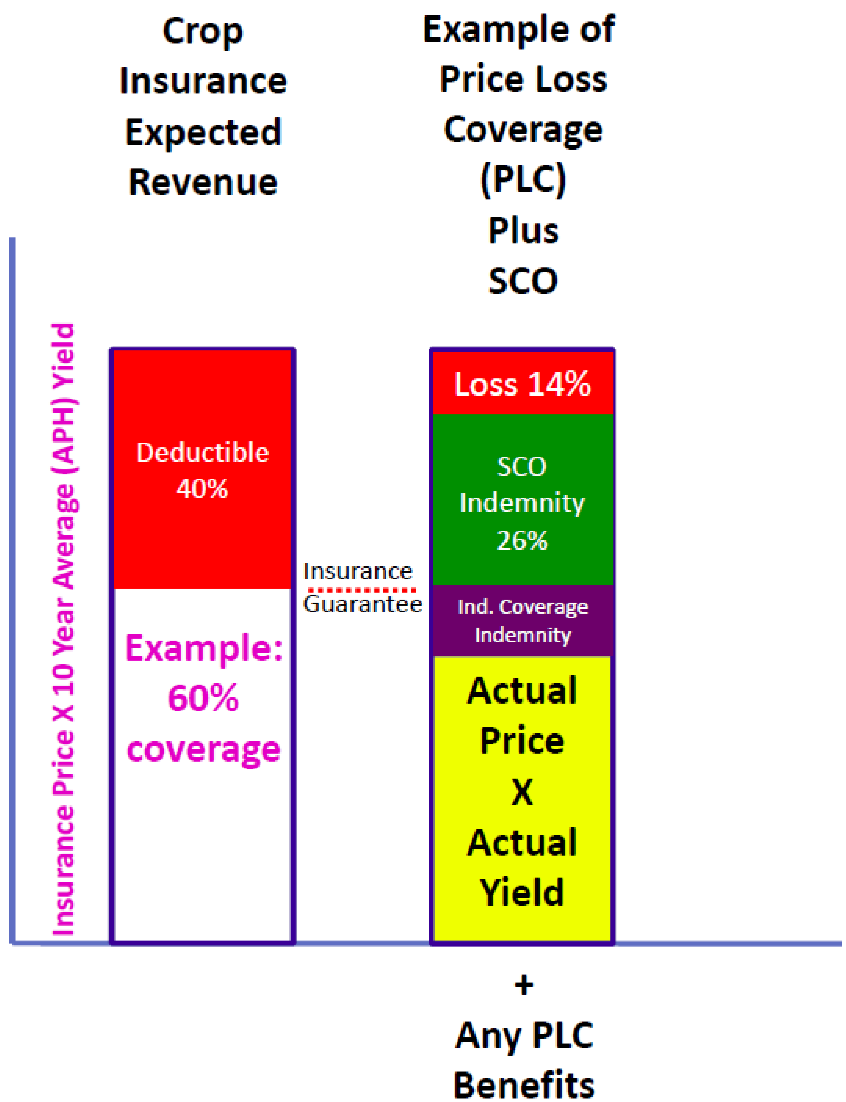
CROP INSURANCE CHANGES

- Supplemental Coverage Option (SCO) will be available beginning in 2015 – must have PLC or cotton
- Stacked Income Protection (STAX) will be available in 2015
- Makes the enterprise unit discount permanent and splits enterprise unit by irrigation practice
- Can purchase different levels of coverage by irrigation practice
- Instructs RMA to create a revenue policy for peanuts by 2015
- Conservation compliance is tied to receiving a premium subsidy
- Ghost yield provision for APH calculations
- RMA to look at insurance for sweet and biomass sorghum

SCO

- Will allow the producer to buy coverage on top of the underlying policy
  - Must have an underlying policy
  - Producer has to make the choice each year at sales closing date just like other crop insurance
- Triggered at the county level at 86%
- Coverage extends to the deductible of the underlying policy
- Designed to cover part of the deductible on the individual policy
- Premium subsidy of 65%
- RMA can go "area-wide" instead of county if data is not available at the county level

SCO



Source: Joe Outlaw, AFPC

SCO – NUMERIC EXAMPLE #1

- Producer APH of 40 bu/ac with 75% coverage
- Base price of $4.50 and a harvest price of $4.00
- County yield of 35 bu/ac
- Actual producer yield of 20 bu/ac and a county yield of 25 bu/ac
- Total SCO coverage = $19.80 [40 x 4.50 x (.86-.75)]
- Loss at the county level = 100%
  - 35 x 4.50 x .11 = $17.33 (max loss for county)
  - 35 x 4.50 x .86 = $135.45 (trigger)
  - 25 x 4.00 = $100.00 (actual revenue)
  - 135.45 – 100.00 = $35.45 (greater than max so 100% loss)
- Total SCO payment of $19.80/ac

SCO – NUMERIC EXAMPLE #2

- Producer APH of 40 bu/ac with 75% coverage
- Base price of $4.50 and a harvest price of $4.00
- County yield of 35 bu/ac
- Actual producer yield of 20 bu/ac and a county yield of 30 bu/ac
- Total SCO coverage = $19.80 [40 x 4.50 x (.86-.75)]
- Loss at the county level < 100%
  - 35 x 4.50 x .11 = $17.33 (max loss for county)
  - 35 x 4.50 x .86 = $135.45 (trigger)
  - 30 x 4.00 = $120.00 (actual revenue)
  - 135.45 – 120.00 = $15.45
  - 15.45 / 17.33 x 19.80 = $17.65 (not the max SCO)
- Total SCO payment of $17.65/ac

STAX

- STAX is area-wide coverage (county or greater) that is only available for upland cotton
- Can be purchased in addition to individual policy or may be purchased by itself
- Covers from 90% down to 70% of county revenue
  - Lower bound cannot overlap individual policy if it exists
- Allows for a protection factor of 120%
- Premium subsidy of 80%

STAX

Table 1. Basic Illustration of STAX Calculations

		County #1	County #2
1	Insurance Projected Price	$0.80	$0.80
2	Expected County Yield	900	450
3	Expected County Income	$720	$360
4	STAX Upper Coverage Level	90%	90%
5	STAX Lower Coverage Level	70%	70%
6	Income Level Triggering Indemnity	$648	$324
7	Maximum Indemnity	$144	$72
	Scenario #1 - Assume 15% Price Decline, Steady Yield		
8	Insurance Harvest Price	$0.68	$0.68
9	Actual County Yield	900	450
10	Actual County Income	$612	$306
11	County Indemnity	$36	$18
12	Indemnity with 120% Prot. Factor	$43	$22
	Scenario #2 - Assume Steady Price, 20% Yield Decrease		
13	Insurance Harvest Price	$0.80	$0.80
14	Actual County Yield	720	360
15	Actual County Income	$576	$288
16	County Indemnity	$72	$36
17	Indemnity with 120% Prot. Factor	$86	$43
	Scenario #3 - Assume 15% Price Decrease, 10% Yield Increase		
18	Insurance Harvest Price	$0.68	$0.68
19	Actual County Yield	990	495
20	Actual County Income	$673	$337
21	County Indemnity	$0	$0
22	Indemnity with 120% Prot. Factor	$0	$0

Notes:

Producer can choose to add Harvest Price Option. If Harvest Price above Projected Price, then Income Protection adjusts to Harvest Price.

Producer can choose a Protection Factor between 80% and 120%. Choice can scale County Indemnity up/down by 20%.

Source: Gary Adams, NCC

GHOST YIELD

- Allows yields to be dropped from the APH calculation when county yield is 50% or less than the 10-year county average
- 10-year county average is a rolling average
- Contiguous counties apply
- Can drop as many yields as meet the criteria
- Will be an option just like the current “YA” plug at 60% of T-yield
- What data will RMA use for the county yield – NASS, RMA, FSA plugs, some combination?

	County Yield	Trigger (50% 10-year)	Triggered	*Wheat Yields* *Producer APH Record* Actual	YA	Ghost
2001	11.7	5.6	FALSE	22	22	22
2002	5.9	5.5	FALSE	12	12	12
2003	3.3	4.9	TRUE	Z	Z	Z
2004	10.5	4.7	FALSE	Z	Z	Z
2005	19.7	4.9	FALSE	Z	Z	Z
2006	3.8	5.7	TRUE	13	13	
2007	11.4	5.8	FALSE	22	22	22
2008	2.7	5.5	TRUE	0	11	
2009	3.4	4.9	TRUE	10	11	
2010	15.8	3.9	FALSE	18	18	18
2011	0.4	4.4	TRUE	3	11	
2012	0.4	3.8	TRUE	0	11	
2013	2.0	3.6	TRUE	0	7	
			APH Values (bu/ac)	**10**	**14**	**19**
			Percent Improvement		**40%**	**90%**

Red = Estimated
Green = Triggered
Blue = Current YA

NAP CHANGES

- Allows producers to buy-up NAP like crop insurance
  - Can purchase 50-65% coverage in 5% increments at 100% of the price
  - Excludes crops and grasses for grazing
- NAP payments are reduced if harvest expenses are reduced
- Service fee + 5.25% of the liability of the buy-up NAP
- Still done at FSA and has a $125,000 farm payment limit
- NAP 50% (yield)/55% (price) still available

LIVESTOCK SURE

- Livestock Indemnity Payments
  - FY 2012 and succeeding years
  - Covers livestock mortality due to weather and federally reintroduced animals
  - 75% of the market value
- Livestock Forage Disaster Program
  - FY 2012 and succeeding years
  - Must be on native or improved pastureland or planted to a crop specifically for grazing
  - Benefits extended to 5 months for D4 areas for 4 weeks
- FSA website has an April 15 sign up date

CRP

- Conservation Reserve Program Cap Reduced from a Current Maximum of 32 to 24 million acres by 2018

	2014	2015	2016	2017	2018
	Million Acres				
CRP Cap by Year	27.7	26	25	24	24

Source: Joe Outlaw, AFPC

CONSERVATION STEWARDSHIP PROGRAM (CSP)

- Annual enrollment for CSP reduced to 10 million acres through 2022
- Must meet two priority resource concerns and must meet or exceed an additional concern by the end of the contract
- National average payment rate of $18/ac

ENVIRONMENTAL QUALITY INCENTIVES PROGRAM (EQIP)

- Merges Wildlife Incentive Program (WHIP) with EQIP
  - Upland wildlife habitat
  - Wetland wildlife habitat
  - Habitat for threatened or endangered species
  - Fish habitat
  - Habitat on pivot corners and irregular areas of a field
- At least 5% of funds targeted for wildlife habitat benefits
- 60% of funding for livestock producers
- Payment limit of $450,000 for all contracts from 2014 to 2018

EQIP

	2014	2015	2016	2017	2018
	Billion Dollars of Mandatory Funding				
Environmental Quality Incentives Program (EQIP)	1.35	1.60	1.65	1.65	1.75

Source: Joe Outlaw, AFPC

THANK YOU!!

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http://sorghumgrowers.com/farmbilloverview/