New developments in floodplains: Impacts of the 2014 Farm Bill

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Projected outlays under the 2014 Farm Act, 2014-2018

- Nutrition: 80%
- Crop insurance: 8%
- Conservation: 6%
- Commodity: 5%
- Other: 1%

Total outlays = $489 billion

2014 Farm bill

- No more direct payments - Two new programs
- Price Loss Coverage (PLC)
  - Insures against price risk
  - Supplemental Coverage Option (SCO) available for shallow losses
- Agriculture Risk Coverage (ARC)
  - Insures against price and yield risk
  - Producers may choose county-based or individual coverage
Fixed versus variable payments under Farm Act commodity programs (fiscal year)

Note: In constant 2012 dollars, assuming 2 percent inflation for 2014-2018. E = estimated.
Crop Insurance Subsidy Percentages

On average, the Federal Government pays roughly 60 percent of crop insurance premiums, and about 80 percent of acreage for all major commodity crops is now covered by crop insurance.
Noninsured Crop Disaster Assistance Program (NAP)

- When crop insurance is not available
- Applicants pay an administrative fee ($250 per crop), and no premium
- At least a 50% crop loss caused by a natural disaster, or prevented from planting more than 35% of intended crop acreage
- For production losses over the minimum, a producer receives 55% of the average market price for the commodity
- In the 2014 bill, additional coverage is available if farmers pay premia
Conservation Compliance (CC)

- Crop insurance premium subsidies could be withheld for noncompliance with conservation provisions
- Producers who fail to apply approved soil conservation plans on highly erodible cropland or who drain wetlands are non compliant
- In recent years, the value of such subsidies has risen sharply as the premium subsidy rate, crop insurance participation, and commodity prices have all risen
Sodsaver

• For producers who till native sod, reduced crop insurance premium subsidies and limit the yield or revenue guarantee available during the first 4 years of crop production

• Some limitations to noninsured crop disaster assistance

• Applies only to native sod in Minnesota, Iowa, North Dakota, South Dakota, Montana, and Nebraska
Share of conservation spending by major programs and predecessors in the 2014 and previous farm acts

- Conservation Reserve Program
- Environmental Quality Incentives Program*
- Conservation Stewardship Program**
- Agricultural Conservation Easement Program***
- Regional Conservation Partners Program****

***Includes the Wetland Reserve Program, Farmland Protection Program, and Grassland Reserve Program (easement portion) for 1996-2013.

Conservation Reserve Program annual payments, 2001-2014

Notes: General CRP signups are competitive and generally enroll whole fields or whole farms. They are announced on a periodic basis by the Secretary of Agriculture; there is no fixed schedule.

Environmentally desirable land devoted to certain conservation practices (including riparian buffers, field-edge filter strips, grassed waterways, wetland restoration, and others) may be enrolled in CRP at any time, without competition, under continuous signups.

Source: ERS, based on data from Farm Service Agency CRP summaries.
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2014 Farm Bill- Conservation

• **Agricultural Conservation Easement Program (ACEP)**
  
• ACEP consolidates the functions of the Wetlands Reserve Program, the Grassland Reserve Program (easement portion), and the Farmland Protection Program

• Funding is significantly less than that provided for ACEP predecessor programs in the 2008 Farm Act
Other land retirement programs

Average annual spending for Agricultural Conservation Easement Program and predecessor programs

$ billion

- Agricultural Conservation Easement Program
- Grassland Reserve Program*
- Farmland Protection Program
- Wetlands Reserve Program

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*Includes only easement portion (60 percent of GRP program funding).
Wetlands

- Funding for new wetland easements likely to decline
- Funding for the WRP was increased in the 2002 and 2008 Farm Acts, while the 2014 Farm Act merges WRP functions into ACEP but at much lower funding
- Even if all ACEP funding for the next 5 years was devoted entirely to wetland protection, it would be only 73% of WRP funding under the 2008 Farm Act
2014 Farm Bill- Conservation

- The Congressional Budget Office (CBO) estimates that mandatory spending on conservation programs will decline by $200 million, or less than 1% of the $28 billion that CBO projects would have been spent had the 2008 Farm Act been continued through 2018.
- These funding levels, however, are not guaranteed.
- Conservation funding has been reduced from initial levels mandated by previous Farm Acts.
Some final thoughts

• “... lands brought into or retained in cultivation due to [...] crop insurance subsidy increases are, on average, less productive, more vulnerable to erosion and more likely to include wetlands and imperiled species habitats than cultivated cropland overall.”
  ▫ LaFrance, Shimshack and Wu 2002
Some final thoughts

- Subsidizing disaster assistance and crop insurance creates substantial moral hazard risk
  - Farmers engage in activities they would not consider without the subsidies
- This is more of a concern when funding for land retirement programs is cut...
- ... and as we face more extreme events
- CC & sodsaver need to be adequately implemented to work; in the past that has not been the case