

The 2018 Farm Bill

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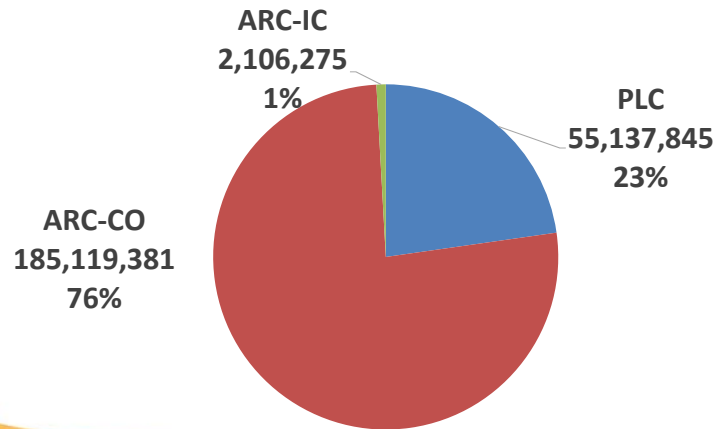
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Overview

- Context
- What's new?
- What has not changed?
- ARC/PLC decisions timing
- Summary

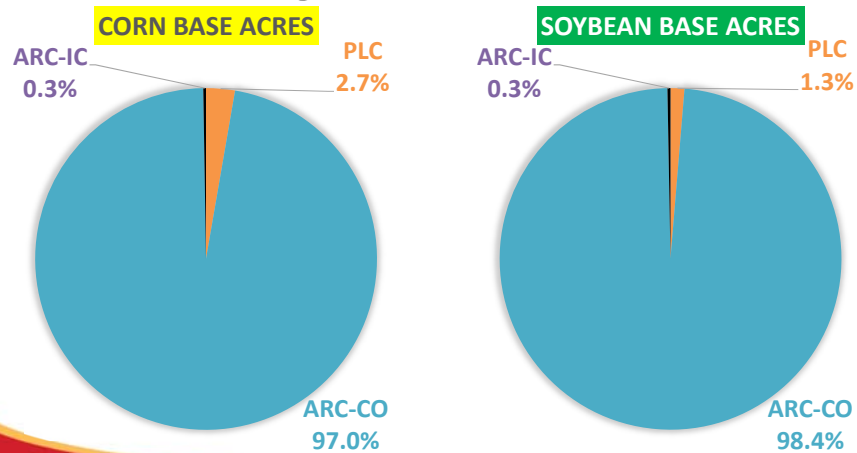
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ARC and PLC Enrolled Acres US Total



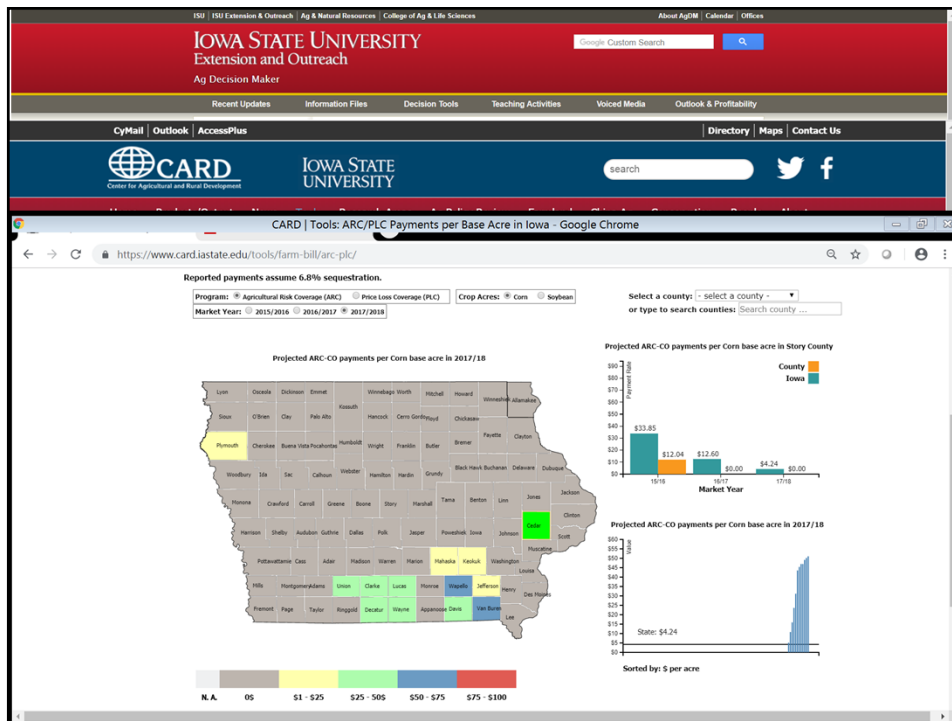
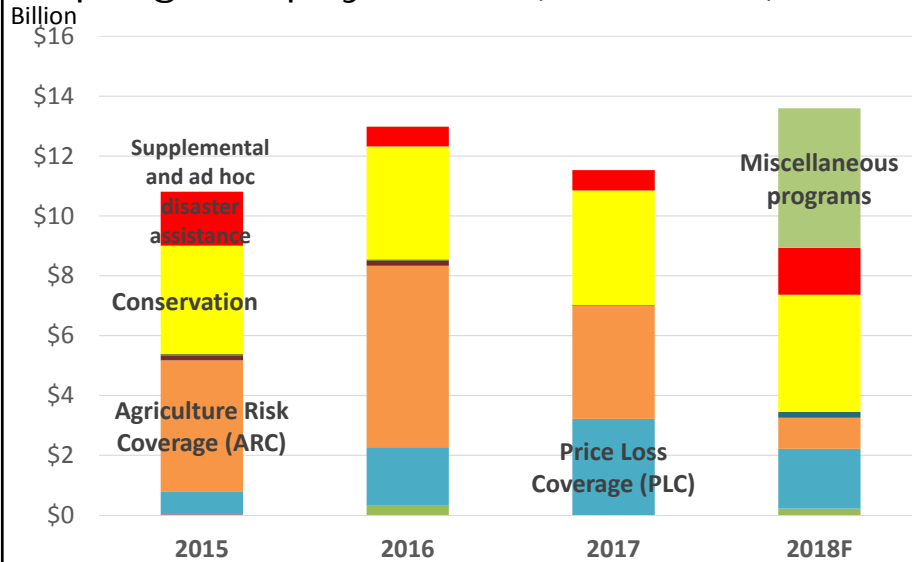
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Base Acres by Elected Program in Iowa

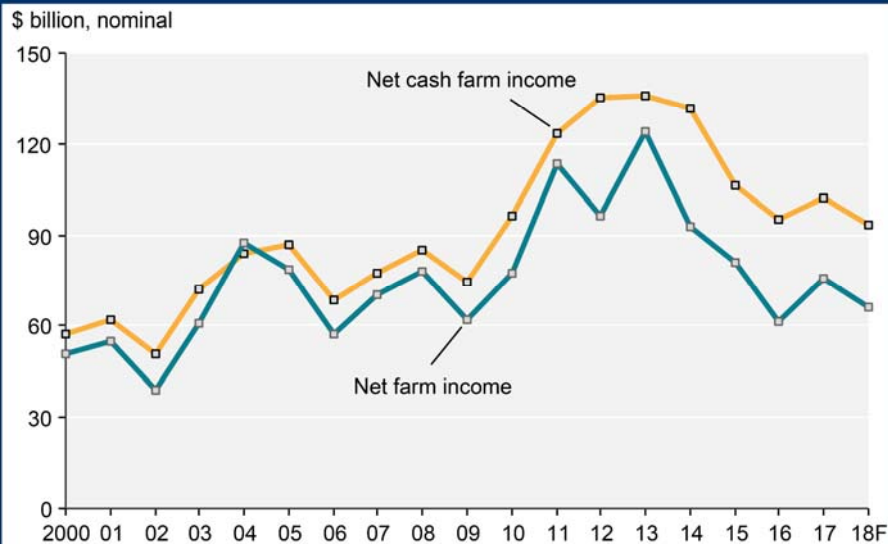


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Federal Government direct farm program payments (All states)



Net farm income and net cash farm income, 2000-18F



Note: F = forecast.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

Data as of November 30, 2018.

ARC-CO Program

Payments made when the Actual County Revenue is less than the ARC-CO Guarantee for a covered commodity.

- Actual Co Revenue = Co Yield × Marketing Year Avg Price
- ARC-CO Guarantee = 86% × 5y O.Avg Price × 5y O.Avg Yield
- Max payment = 10% × 5y O.Avg Price × 5y O.Avg Yield
- Payments made on 85% of base acres
- Payments made regardless of commodity planting

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Price Loss Coverage

Payments made when the effective price is less than the reference price for a covered commodity.

- Effective Price is the higher of Marketing Year Avg. Price for the crop or the National Loan Rate for the crop.
- Payments made on 85% of base acres
- Payments made regardless of commodity planting

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PLC Statutory Reference Prices, National Loan Rate (2014 FB)

The Reference Price & National Loan Rate for each crop was set by statute and remains the same for life of Farm Bill.

Crop	PLC Reference Price	National Loan Rate	Max PLC Rate
Corn	\$3.70	\$1.95	\$1.75
Soybeans	\$8.40	\$5.00	\$3.40
Oats	\$2.40	\$1.39	\$1.00
Wheat	\$5.50	\$2.94	\$2.56
Peanuts	\$535/ton	\$355/ton	\$180/ton

What's new?

1. Switch between ARC & PLC, update PLC yields
2. Higher Loan Rates for Marketing Assistance Program and Loan Deficiency Payments
3. Cover Crops in Crop Insurance
4. Improved dairy assistance
5. Industrial hemp

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What's new?

6. Permanent funding for farmers' markets & local food programs; veteran & minority farmers.
7. First cousins, nephews and nieces can be beneficiaries of farm programs
8. Cotton eligible for ARC/PLC

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1. ARC/PLC

- a. Farmers can change their ARC/PLC election in 2019 for 2019-20, and then yearly afterwards
- b. All FSA farms have a one-time option to update PLC yields
- c. Changes to Olympic avg. yield for ARC
- d. Reference Price “Escalator”
- e. No ARC/PLC payments for FSA farms planted 100% to grass or pasture 2009-2017

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1.b. Option to update PLC yields

Updated Yield = Yield Update Factor ×
2013 to 2017 average yields for the farm

Crop	Yield Update Factor (Estimated)
Corn	0.81
Soybean	0.81
Sorghum	0.81
All wheat	0.90

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Source: Coppess, J., G. Schnitkey, C. Zulauf, N. Paulson, B. Gramig, and K. Swanson. “The Agriculture Improvement Act of 2018: Initial Review.” *farmdoc daily* (8): 227, Dec. 12, 2018.

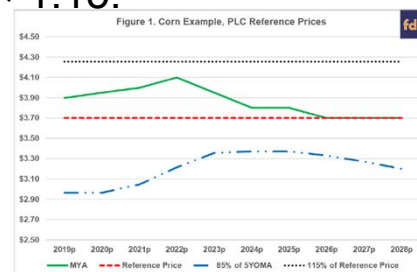
1.c. Changes to Olympic avg. for ARC

- New plug yield is 80% of the transitional yield (old 70%), used to replace yields in 5-y Olympic average in any year when county yields are below it.
- USDA will calculate a trend-adjusted yield factor (similar to crop insurance) to use for the benchmark calculation.

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1.c. Reference Price “Escalator” for ARC and PLC

- PLC payments:
effective price < **Effective Reference Price**
- ERP = Higher of Statutory Reference Price and 85% of the 5-year Olympic average price, up to statutory reference price $\times 1.15$.
- ARC: ERP used as plug price for calculation of 5-year Olympic avg. price



Source: Coppess et al. "The Agriculture Improvement Act of 2018: Initial Review." *farmdoc daily* (8): 227, Dec. 12, 2018.

2. Marketing Assistance Program and Loan Deficiency Payments

Table 2. 2018 Farm Bill Loan Rates			
Loan Commodity	Current Loan Rate	2019 to 2023 Loan Rate	Percentage Increase
WHEAT (bu.)	\$2.94	\$3.38	114.97%
CORN (bu.)	\$1.95	\$2.20	112.82%
GRAIN SORGHUM (bu.)	\$1.95	\$2.20	112.82%
BARLEY (bu.)	\$1.95	\$2.20	112.82%
UPLAND COTTON (lb.)	2-year average of world prices (between \$0.45 and \$0.52/lb.)	2-year average of world prices, not less than 98% of previous year (between \$0.45 and \$0.52/lb.)	
LONG GRAIN RICE (cwt.)	\$6.50	\$7.00	107.69%
MEDIUM GRAIN RICE (cwt.)	\$6.50	\$7.00	107.69%
SOYBEANS (bu.)	\$5.00	\$6.20	124.00%
PEANUTS (tons)	\$355	\$355	100.00%

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Source: Coppess et al. "The Agriculture Improvement Act of 2018: Initial Review." *farmdoc daily* (8): 227, Dec. 12, 2018.

So what's the expected change in Farm Bill Program Payments?

- Depends on crop, location, evolution of crop prices, 5-year trend in yields
- For Iowa, neither PLC nor ARC-CO are expected to trigger payments in 2019 and 2020 with corn and bean prices above \$3.70 and \$8.40 per bushel and yields near recent highs.

...So what's the benefit of switching from ARC to PLC?
...SCO... maybe...

Supplemental Coverage Option (SCO)

- Endorsement to Crop Insurance contract to cover part of the **deductible** in RP, YP, RPHP, APH
- Triggered by low **County** yields
- SCO indemnity depends on:
 - RP/YP/RPHP/APH liability, and
 - county yield/revenue
- Crop CANNOT be enrolled in ARC
- Buy from insurance agent (65% premium subsidy)

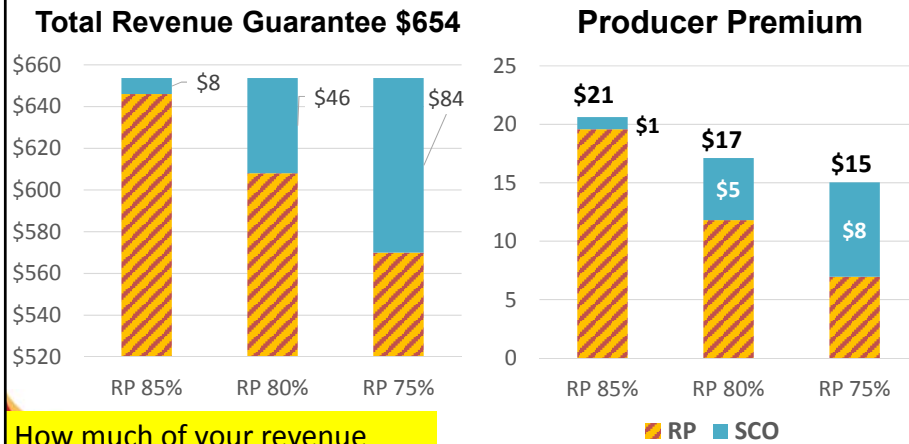
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SCO Indemnity

- Indemnity = $(86\% - \text{Actual County Yield or Revenue as \% of "Normal"}) \times \text{underlying crop insurance liability}$
- Indemnity CAP = $(86\% - \text{coverage level underlying policy}) \times \text{underlying crop insurance liability}$

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Example SCO, Story Co - Iowa

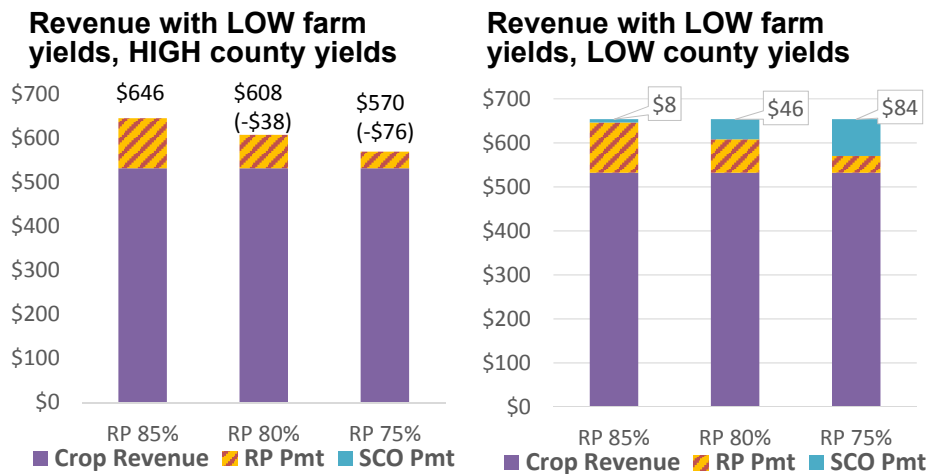


How much of your revenue guarantee would you tie to county revenue instead of farm revenue to save on premiums?

Farm APH 190 bu/a
Projected County Yield 176 bu/a
Final RP Price \$4/bu

Example

SCO makes more sense for farms with yields that move in tandem with county yields



Low Farm Yield=70% APH = 133 bu/a

High County Yield = 88% Normal County Yield = 155 bu/a

Low County Yield = 70% Normal County Yield = 123 bu/a

3. Cover Crops in Crop Insurance

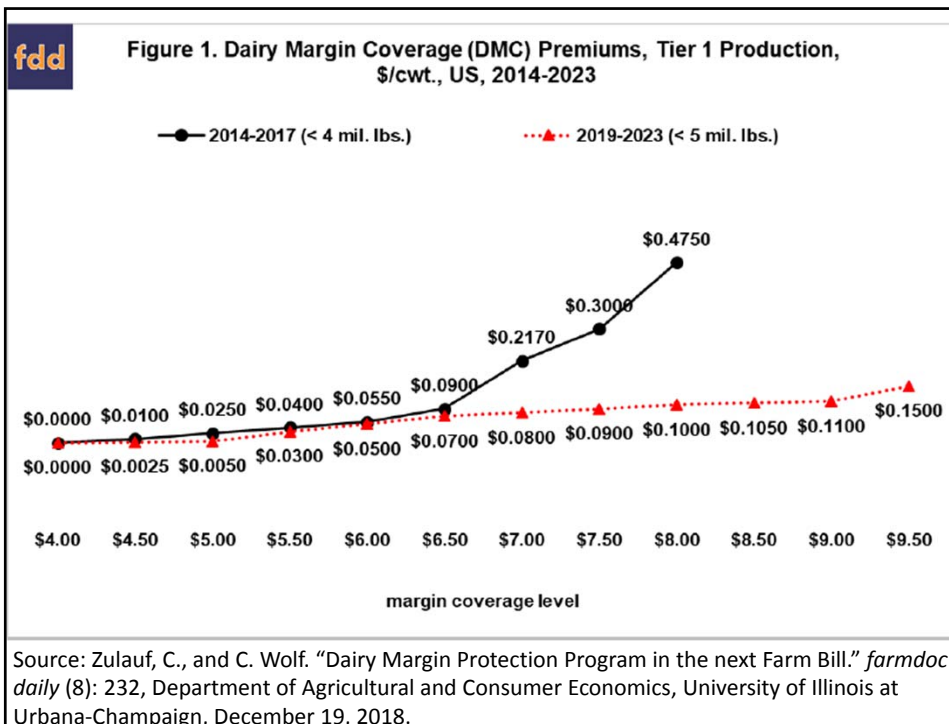
- If cover crops are terminated according to USDA guidelines (or an agricultural expert):
 - Cover crop practices are defined as a “good farming practice”; and
 - cover crop termination “shall not affect the insurability of a subsequently planted insurable crop.”

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4. Improved Dairy Assistance

- Margin Protection Program renamed Dairy Margin Coverage Program (DMC)
- Enhanced coverage
- Lower premiums
- 2014-2018 premium Repayments: 50%-75% of difference b/ MMP premiums & payments
- Dairy Product Donation Program repealed; new Milk Donation Program authorized (\$9m in 2019, \$5m annually afterwards to reimburse costs)

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5. Industrial Hemp is now an ag commodity

- Hemp is not marihuana.
- Hemp is the plant *Cannabis sativa* L. with a THC* concentration of up to 0.3% on a dry weight basis
- USDA has 1 year to determine the economic viability of the domestic production and sale of industrial hemp; and to review each agricultural pilot program, and any other research relating to industrial hemp.

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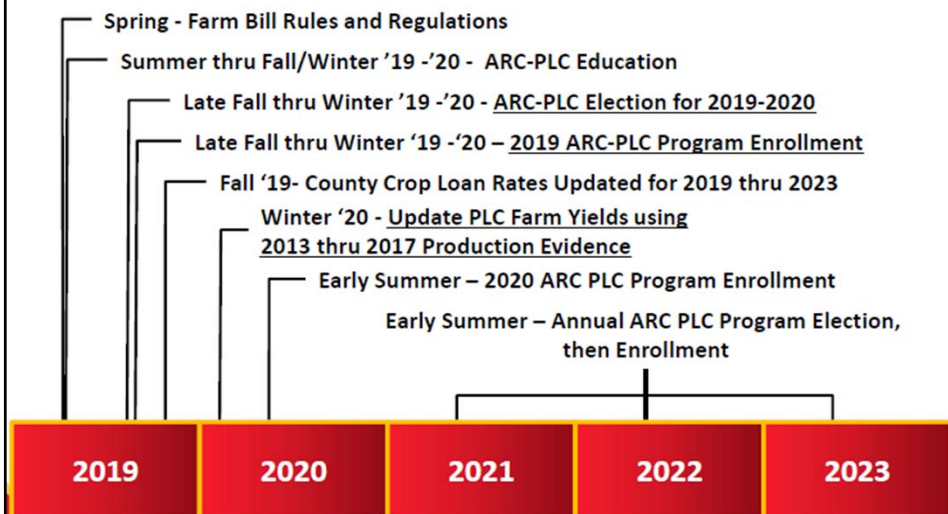
*THC = delta-9 tetrahydrocannabinol

What has NOT changed?

- Crop Insurance (other than cover crops)
- Income limitation: no benefits if average adjusted gross income exceeds \$900,000 over the 3 previous taxable years.
- Conservation Stewardship Program
- Strong bipartisan support
- Work requirements for food stamps program (SNAP)
- No projected increase in the federal deficit (compared to prior projections)

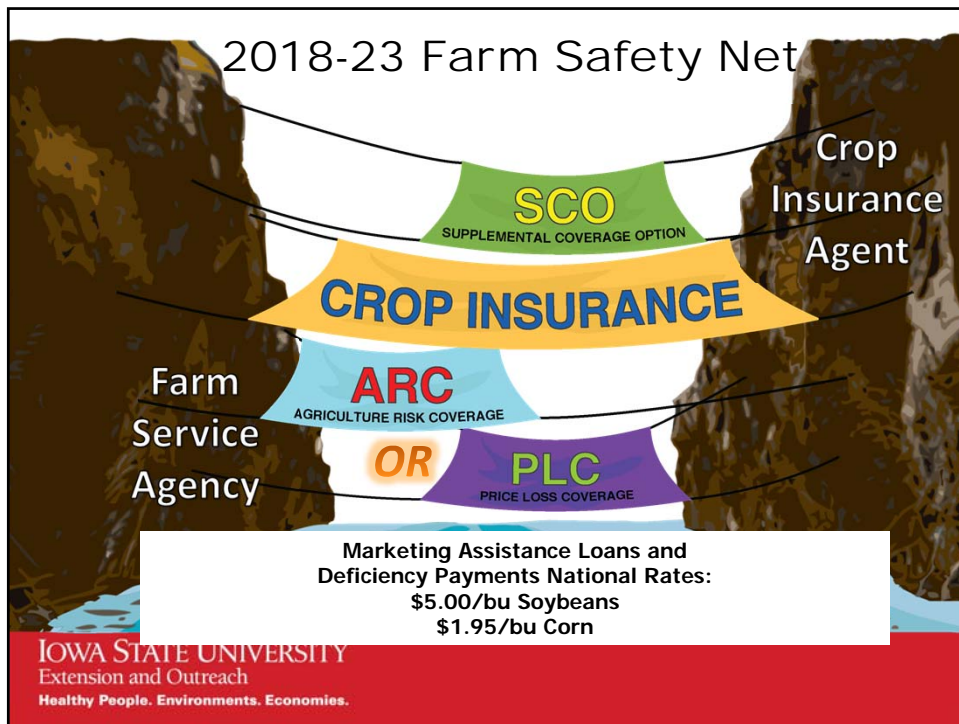
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ARC PLC Decisions Timeline



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Source: Johnson, ISU Extension, February 2019



Thank you for your attention!
Questions?

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