A First Look at the Agricultural Improvement Act of 2018 (Farm Bill 2018)-Version 2

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After a long and heated debate, the 2018 Farm Bill is law. While the 2014 Farm Bill had new farm programs and major changes, the 2018 Farm Bill is largely status quo with some improvements to Title I programs that should benefit farmers during these tough times in agriculture.

Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) are again offered, with ARC having a county and individual farm option, as before. Notable changes affecting both programs include:

- Producers will elect a program per commodity for 2019 and 2020, but then have ANNUAL elections beginning in 2021. This will alleviate much of the pressure in having to make a 5-year decision, as it was for the previous farm bill. Producers can change their program preferences based on more current market conditions.

- Base acres that have been planted to grass or pasture and planted none of their base acres to program crops for all years of 2009-2017 will effectively be "suspended" from receiving payments, but still maintain their historical base. These base acres will be eligible for the CSP grasslands program however and can receive a payment of $18/acre. These suspended acres will also be considered "planted" to program crops during this farm bill so it will maintain the base for future legislation. The definition of "grass" is uncertain at this time and will have to be interpreted by the Secretary.

  Just as a side note: Senator Roberts was absolute in his statement that no farmer would lose base acres. Under this compromise the intent is no loss of base. Freedom to Farm sponsored by Senator Roberts in 1996 allowed farmers to plant for the market rather than being required to plant the program crop in order to receive payments. This made the payment more in line with WTO trade rules, but also allowed farmers to plant forages for livestock and not be required to plant a program crop in order to receive payments and maintain their base.

  Farmers who are currently planting non-program crops on base acres are likely at some future risk of losing base acres. In 1996, economists were arguing that it was good economics to allow farmers to plant for the market and not as requirement for payments. In the current debate some economists are now arguing, farmers who don't plant program crops shouldn't receive payments. Acres that have been converted to hay and grazing are mostly wheat base. Corn belt acres are too valuable to grow forages, so the reduction in base acres and payments would come from wheat base. This idea was being pushed in the Corn Belt to generate more funds for ARC. As long as Senator Roberts is in the Senate, I think the loss of base is great threat, but who

knows under new leadership. This was a major change from the House language, but it is likely just the first step, and more crops will be added the list of crops that can't be planted on base acres and receive payments. The original House version would have eliminated base on acres planted to alfalfa, so this compromise greatly reduced the economic impact from the House planting restrictions and very few farmers will see any impact on their farm.

- Effective reference prices (ERP) now include a formula and could go up as much as 15% if commodity prices improve.

  Statutory reference prices remain the same, as follows:

	Statute reference	Maximum Effective reference (115%)
CORN	$3.70	$4.26
SOYBEANS	$8.40	$9.66
WHEAT	$5.50	$6.33
GRAIN SORGHUM	$3.95	$4.54

  To set the effective reference price for both ARC and PLC programs, an Olympic average of the last five Marketing Year Average prices (MYA's) will be multiplied by 85%. If this is higher than the statute reference price, this number will be used up to the maximum of 115% of the statutory reference prices.

  For example:
  Soybean MYA prices for the last 5 years were: $10.10, $8.95, $9.47, $9.33, and $8.60-(projected). An Olympic average of these MYA's would be $9.25, which would be multiplied by 85% and become $7.86. Since this is less than the $8.40 statute reference, $8.40 would be used.

  Because of the lower commodity prices in the last 5 years, the likelihood of this formula reference price becoming effective for our major Kansas crops is low.

- The individual payment limit remains the same at $125,000, but allows the definition of family to extend to nieces, nephews, and first-cousins. The Adjusted Gross Income cap remains at $900,000.

Some provisions that have changed specific to PLC:

- All producers will get an opportunity to update their payment yields with the 2020 crop year. The formula is somewhat complex. Average individual producer yields per planted acre from 2013 through 2017 crop years will be multiplied by 90% and then multiplied by a "detrending" ratio of the national average yield from 2008-2012 divided by the national average yield from 2013-2017. There is also a 75% county plug yield that will replace any year that an individual producer yield is low.

While this sounds complicated, the payment yield update decision will be easy. If this formula yield is higher than the current PLC yield, then a producer will want to update. This will increase PLC payments in the future, if they are made.

Some provisions that have changed specific to ARC-County:

- ARC-County payments will be calculated based on the physical location of the farm, not the administrative county.

- USDA Risk Management Agency (RMA) yields per planted acre will be used as the first source of county-yield information to set revenue guarantees and calculate payments.

- A separate irrigated and dryland ARC-County guarantee and payment will be calculated in EVERY county
  - For those counties in which there are limited data for a practice, other sources of yield information such as representative farms in adjacent counties or the crop reporting district will be used to determine a county yield that is representative of the applicable practice.

- The Effective Reference Price (as defined earlier) will be used to substitute low prices in the 5-year history of MYA prices. The ARC-CO program will then use an Olympic average of the last 5 years of MYA prices after these substitutions are made to set the price side of the ARC-County guarantee.

- The benchmark yield to set the ARC-County guarantee will again be an Olympic average of the last 5 years of county yields, but low years will be replaced by 80% of the transitional yield, AND a trend-adjustment factor will be applied.

- USDA Farm Service Agency (FSA) will be required to publish the source of data used to calculate the county yield along with the number and outcome of occurrences in which that yield was reviewed, changed, or determined not to change.

- Approved insurance providers (AIP's) will be required to submit producer yields 30 days after the final reporting date, hopefully speeding up the process of publishing a county yield value and allowing producer and lenders to estimate an ARC payment for cash flow purposes. This is particularly helpful for wheat, meaning that the yield and price for ARC should be known by July 1, allowing farmers and lenders to have a very good estimate of their ARC payment for wheat several months before the end of the marketing year, June 30 for wheat.

The Marketing Assistance Loans (MAL) and Loan Deficiency Payments (LDP) payments are no longer counted towards the $125,000 payment limit for ARC and PLC programs. Loan rates have increased to the following:

CORN	$2.20
SOYBEANS	$6.20
WHEAT	$3.38
GRAIN SORGHUM	$2.20

Title I programs also includes Dairy Margin Coverage, which has undergone significant changes already with the Bipartisan Budget Act of 2018, reducing premiums and improving risk coverage for dairy farmers. A detailed discussion of dairy policy from Dr. Andrew M. Novakovic (Cornell University) and Dr. Mark W. Stephenson (University of Wisconsin) can be found at: https://dairymarkets.org/PubPod/Pubs/BP18-02.pdf

The Conservation Title saw some heated debate and changes in the 2018 Farm Bill. The CRP acre cap will be increased over time from 24 million acres currently to 27 million acres by 2023, but rental rates will be reduced to 85% of the average county rental rate for general sign-ups and 90% of the county average for continuous CRP enrollment.

The Conservation Stewardship Program (CSP) will be phased out as a standalone acre-based program and be administered with the current Environmental Quality Incentives Program (EQIP).

The Crop Insurance Title saw very little change, which will be a relief to most farmers who consider this their number one risk management tool. Enterprise units are now allowed across county lines. One other change involves how cover crops are handled and may increase the use of cover crops in some areas.

The new law provides the authority for RMA to consider expanding availability of limited irrigation crop insurance but doesn't require it. This likely means RMA will continue expanding, but only after they are satisfied the limited irrigated data is scientifically sound.

The new law moves up the reporting date for farmers to report their yields to update their APH for crop insurance. This was done to provide the county yields earlier so farmers and lenders can estimate the FSA ARC payments earlier. The earlier county yield calculation will also allow for earlier RMA Supplemental Coverage Option (SCO) payments.

The Managers note the continued growth of Whole Farm Revenue Policies (WFRP) that is based on tax returns and they believe WFRP has the potential to provide vital risk management to producers who are underserved by crop insurance and enhance options for existing policy holders. The Law gives RMA a lot of "wiggle" room on how or if the Managers' changes are implemented. The Managers would like for RMA to provide the follow changes to WFRP:

a) Minimize paperwork for producers and agents for the purchases of WFRP.

b) Implement a WFRP option for producers with less than $1,000,000 in gross revenue that requires significantly less paperwork and recordkeeping.

c) Managers urge RMA to expedite the analysis of removing the cap on livestock and nursery revenue.

d) Managers believe RMA should target WFRP coverage to non-traditional agricultural commodities (e.g. aquaculture) or production and marketing systems (e.g. urban, local food, or greenhouses, or other commodities) that are not served well by traditional crop insurance.

e) WFRP has a major limitation for farmers who hedge their crops using futures. Futures market gains are counted in the revenue, but futures losses are not counted in the farm's expenses.

The Credit Title of the farm bill did change rather significantly with an increase in the direct loan limit (loans directly from FSA) and an increase in the guaranteed loan limit (from another bank, but guaranteed by FSA). For direct farm ownership loans, the increase was from $300,000 to $600,000 while guaranteed ownership loan amounts increased from $700,000 to $1,750,000. For operating notes, the direct loan limit increased from $300,000 to $400,000 and the guaranteed operating loan limit increased from $700,000 to $1,750,000. All these increases run from 2019 to 2023.

Also of interest to Kansas producers is the establishment of a federal vaccination bank with priority to Foot and Mouth disease, and the legalization of industrial hemp with a crop insurance program.

The nutrition title (Title IV: SNAP), the most controversial part of the bill, which held up passage earlier in the year due to revisions regarding work requirements in the House version, ended up with virtually no change.

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