

Farm Bill 2018

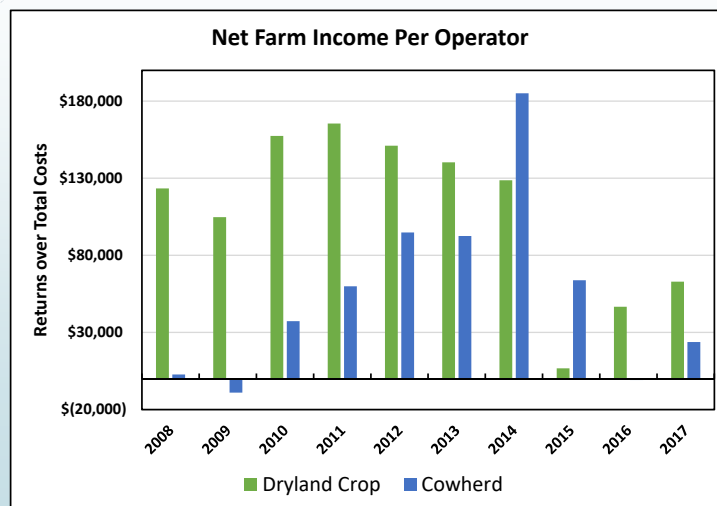
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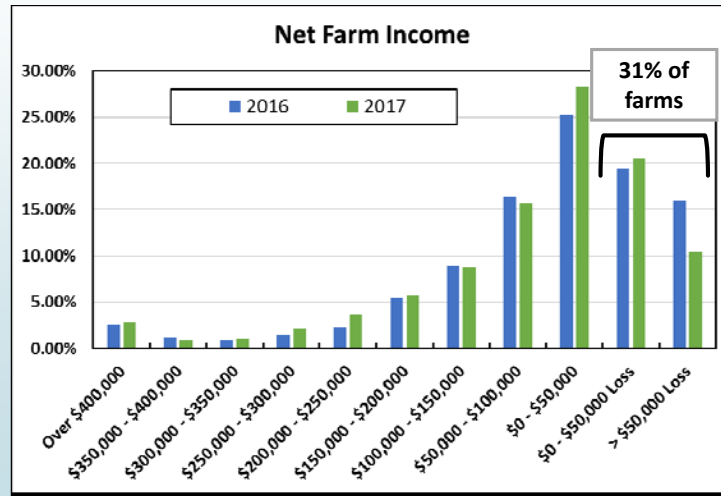
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Net Farm and Ranch Income



Distribution of NFI



Farm Bill Issues



Farm Bill Budget Outlook

- ▶ Big 4 account for 99% of spending

- ▶ Commodities
- ▶ Crop Insurance
- ▶ Conservation
- ▶ Nutrition (Supplemental Nutrition Assistance Program)

- ▶ Everything else fits in the 1%

- ▶ Trade
- ▶ Credit
- ▶ Rural Infrastructure/ Development
- ▶ Research, Extension, and Related Matters
- ▶ Forestry
- ▶ Energy
- ▶ Horticulture
- ▶ Miscellaneous



2018 Farm Bill Comparison

H.R. 2

- ▶ Reported by committee on partisan vote – April 18
- ▶ Failed on House vote – 198-213 – May 18
- ▶ Reconsidered in House – passed 213-211 – June 21

S. 3042

- ▶ Reported by committee on bi-partisan vote – June 18
- ▶ Passed in Senate – 86-11 – June 28

Current Status of Farm Bill

- ▶ Didn't pass by September 30th
 - ▶ Looking to period after midterms and before end of the year
- ▶ Crop insurance not affected (permanently funded)
- ▶ CRP and CSP enrollments are suspended
 - ▶ EQIP on autopilot for FY 2019



Commodities

Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
ARC v. PLC	Fixed reference price for PLC (and ARC) Moving average revenue guarantee at 86% for ARC	Increased reference price (higher of reference or 85% of 5-year OAP, max of 115% of reference price) Eliminate ARC-IC	Thune/Brown amendment to reduce reference prices and strengthen ARC not considered	Role of safety net? Price v. revenue? Fixed vs. moving average protection? Responsiveness to low prices/income? ARC v. PLC decision in 2019 and 2019-23 price projections?

Commodities

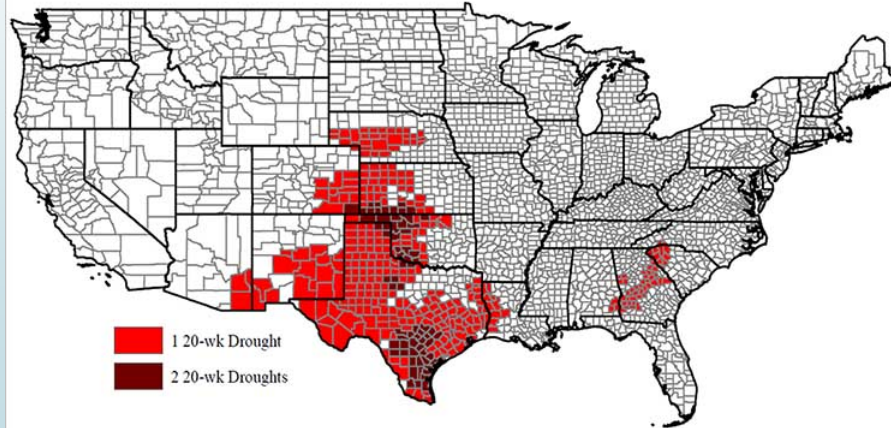
Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
ARC-CO Yields	5-year OAY – based on NASS/RMA/ committee Plug yield at 70%	Shift to RMA data first Yield update for drought-affected counties Plug yield remains at 70%	Shift to data with greatest national coverage first (RMA?) Plug yield from 70% to 75% Trend-adjusted 5-year OAY	Most representative yield history and calculation to protect production?
ARC-CO Payments	Based on administrative county – opportunity for reconstitution to split combined counties		Shift to geographic county	

Yield Updating for Drought Affected Counties

Figure 1. Counties with 20 Consecutive Weeks of Exceptional Drought, U.S. Drought Monitor, 2008-2012

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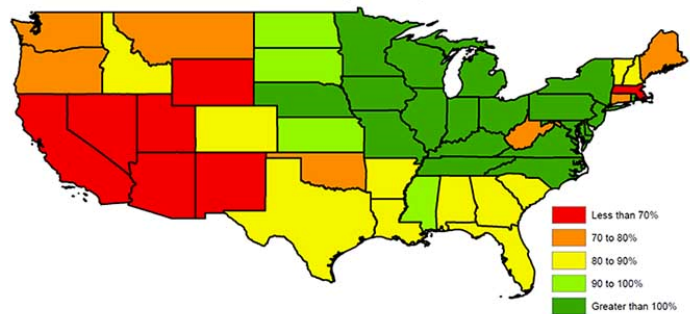


Loss of Base Acres

- House provision that would prevent payments to any farmer who did not plant program crops on base acres during the 2009 to 2017 crop years

Figure 5. Ratio of Average Planted (2009-2017) to Base Acres (2015) for All Program Crops

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Payment Limits

Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
Program Payment Limits	\$125,000 per person or per entity			
AGI Eligibility Limits	\$900,000		Reduces AGI cap from \$900,000 to \$700,000	Supports tied to production or to farms?
Direct Attribution and Entity Rules	Payments attributed to individuals for payment limit purposes regardless of entities, subject to 4 levels of entities Entities also limited to single payment limit	Relaxes entity rule - unlimited payments to qualified pass-through entities Expands familial definition - nieces, nephews, cousins		Entities vs. individuals? What defines/limits active engagement?
Active Engagement	Left hand contributions - land, labor, capital Right hand contributions - active labor and management		Grassley amendment to tighten eligibility rules added into bill	

Conservation

Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
CRP	Enrollment cap - 24 M acres Rental rate - max of 100% of county average rental rate	Expand cap to 29 M acres Reduce maximum rental rate to 80% Reduced rental rate cap for re-enrollment	Expand cap to 25 M acres Reduce maximum rental rate to 88.5% Establishes Conservation Reserve Easements Thune amendment language added to create separate Soil Health and Income Protection Program for short-term land retirement	Budget-neutral cap and rental rate shift? Willingness-to-accept for CRP re-enrollment?

Conservation Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
Working Lands	EQIP up to \$1.75 B/yr, projected outlays of \$1.5-1.7 B/yr over 2019-2023	Eliminates CSP, shifts stewardship payments to EQIP, raises EQIP by \$2.1 B, but cuts CSP by \$3.6 B over 2019-23	Reduces EQIP authority to \$1.5-1.6 B/yr, projected outlays reduced by \$626 M over 2019-23	Reduced funding for working lands programs?
	EQIP livestock share of 60%	Eliminates EQIP livestock share	Reduces EQIP livestock share to 55%	
	CSP up to 10 M ac/yr, projected outlays of \$1.6-1.8 B/yr over 2019-23		Reduces CSP authority to 8.8 M ac/yr, projected outlays reduced by \$229 M over 2019-23	

Conservation Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
Easement Programs	Budget authority of \$250 M/yr, projected outlays of \$1.347 B over 2019-23	Increases budget authority to \$500 M/yr, increases projected outlays by \$979 M over 2019-23	Increases projected outlays by \$629 M over 2019-23	Role for easement programs?
Regional Conservation Partnership Programs	Budget authority of \$100 M/yr, projected outlays of \$578 M over 2019-23	Increases budget authority to \$250 M/yr, increases projected outlays by \$558 M over 2019-23	Increases budget authority to \$200 M/yr, increases projected outlays by \$374 M over 2019-23	Role for partnership programs?

Crop Insurance

Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
Means Test	No limit		Durbin amendment to add \$700,000 AGI cap withdrawn	Impact on large operations/participation Impact on remaining operations, portfolio performance, and actuarially-sound rates
Premium Subsidy Limit	No limit			
Harvest Price Coverage	RP (w/ harvest price) – covers revenue based on higher of base or harvest price RP (w/o harvest price) – covers revenue based on base price			Role of harvest price with marketing/hedging activity Economic rationale for RP w/harvest price vs. RP w/o harvest price
Premium Subsidy Rate	Variable rate – average of 62% on full portfolio			Producer willingness-to-pay Systemic v. idiosyncratic risk, role of subsidy
Standard Reinsurance Agreement	Renegotiated regularly – outside of farm bill			Company support and returns

Food Assistance (SNAP)

Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
Categorical Eligibility	Broad-based categorical eligibility	Tightens rules, reduces projected outlays by \$2.3 B over 2019-23, \$5.0 B over 2019-28		Participation and support levels?
Standard Utility Deduction	Standard utility deduction in budget for benefit calculation	Tightens rules, reduces projected outlays by \$2.4 B over 2019-23, \$5.3 B over 2019-28		Eligibility rules? Benefit calculations?
Work Requirements and Education/Job Training	Current work requirements of 20 hours/week, but also existing waivers	Tightens rules, expands training, projected outlays increase by \$910 M over 2019-23, decrease by \$1.5 B over 2019-28	Kennedy/Cruz amendment to tighten work requirements defeated	Benefit delivery? Work requirements? Education/job training assistance?



Announced U.S. Trade Aid for Agriculture

- ▶ \$12 billion in federal assistance for agriculture
 - ▶ Market Facilitation Program (~\$8 billion)
 - ▶ Direct payments to producers for 2018 production of soybeans, sorghum, cotton, corn, wheat, dairy, and hogs
 - ▶ Food Purchase and Distribution Program (~\$4 billion)
 - ▶ USDA purchases of surplus commodities (lost exports) for food, feeding, and donation programs
 - ▶ Trade Promotion Program (~\$200 million)
 - ▶ Leveraging private sector dollars to develop new foreign markets



Announced U.S. Trade Aid for Agriculture

- ▶ MFP payments

Commodity	Initial Payment Rate	Est. Initial Payment (in \$1,000's)
Cotton	\$0.06/lb	\$276,900
Corn	\$0.01/bu	\$96,000
Dairy (milk)	\$0.12/cwt	\$127,400
Pork (hogs)	\$8.00/hd	\$290,300
Soybeans	\$1.65/bu	\$3,629,700
Sorghum	\$0.86/bu	\$156,800
Wheat	\$0.14/bu	\$119,200
Total		\$4,696,300

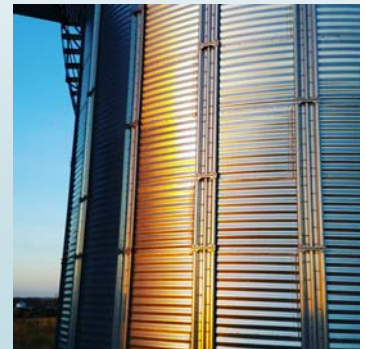


Announced U.S. Trade Aid for Agriculture

- ▶ MFP payments
 - ▶ Payments made on 50% of acres
- ▶ Trade model will be re-run on December 1, 2018 to determine if second half of payments will be at the same rate
 - ▶ Model based on quantity exported and effect on price, not on price feedback effects for other commodities



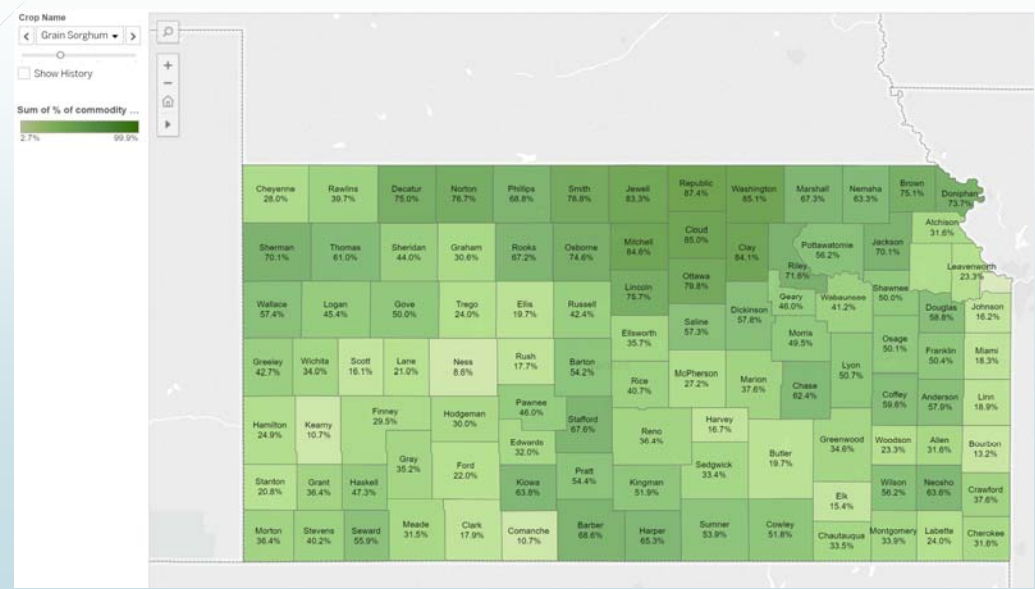
PLC and ARC-CO Enrollments



ARC-CO Enrollment - Corn



ARC-CO Enrollment - Grain Sorghum

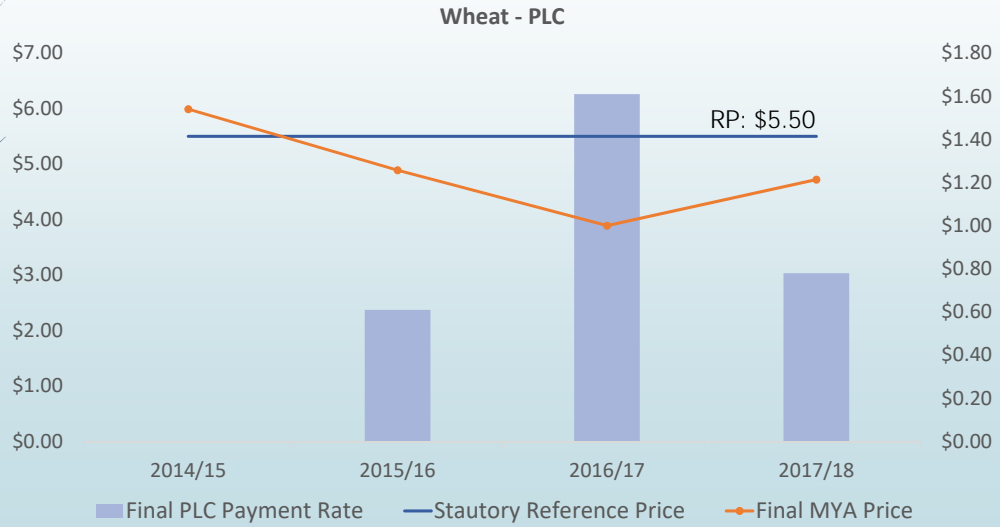


ARC-CO Enrollment – Soybeans

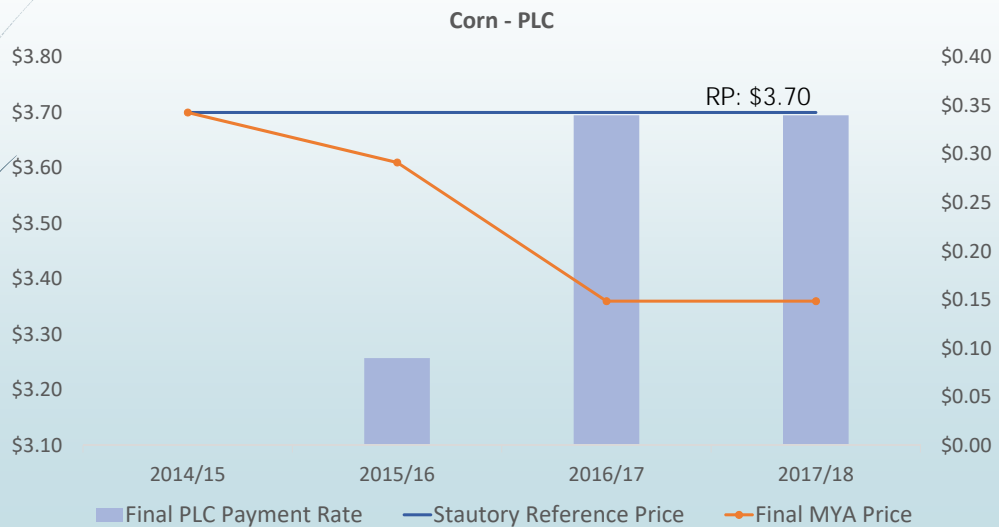


PLC Payouts

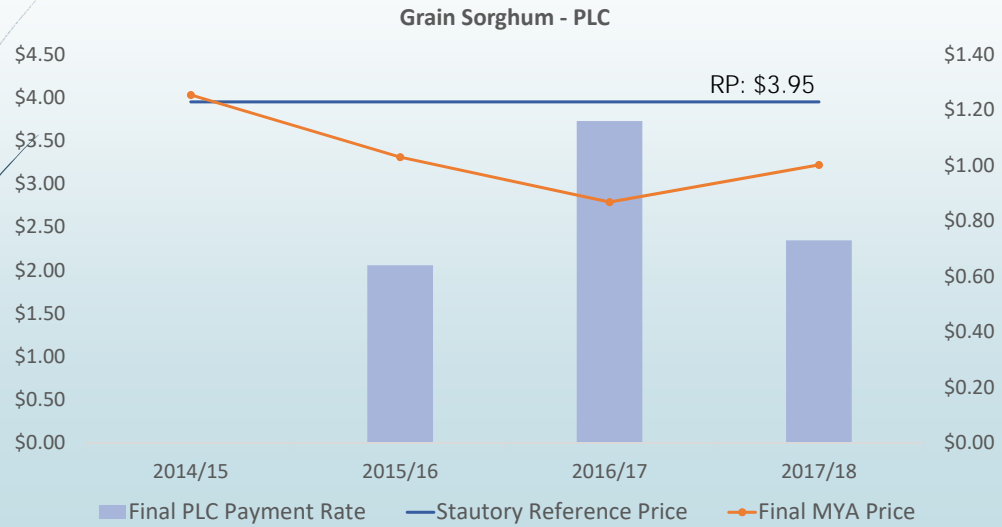
Payments for PLC



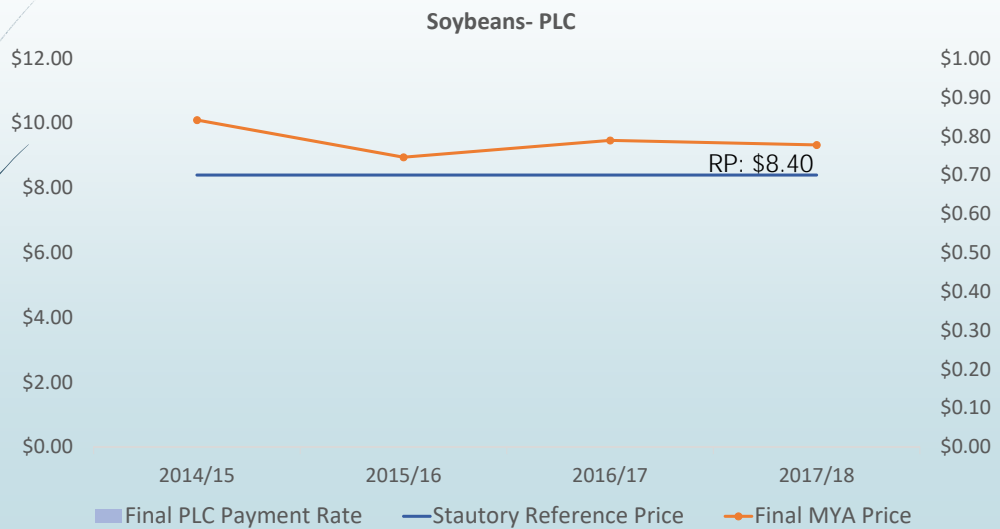
Payments for PLC



Payments for PLC



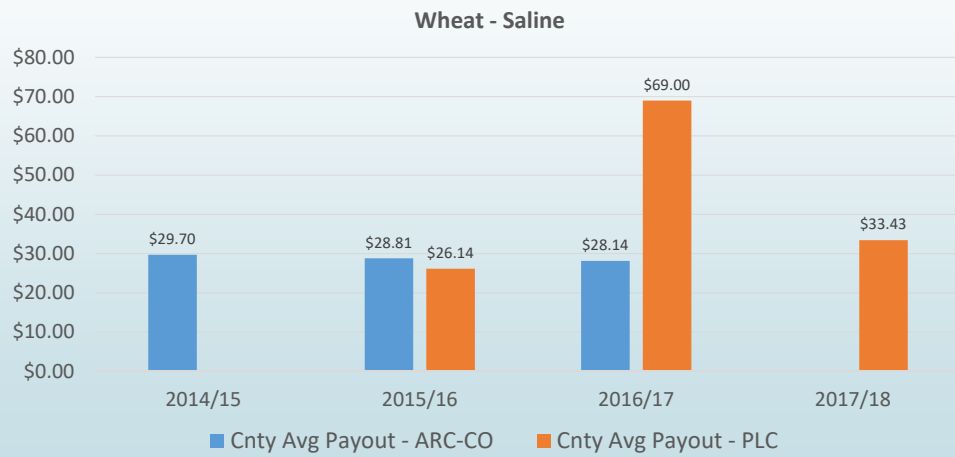
Payments for PLC



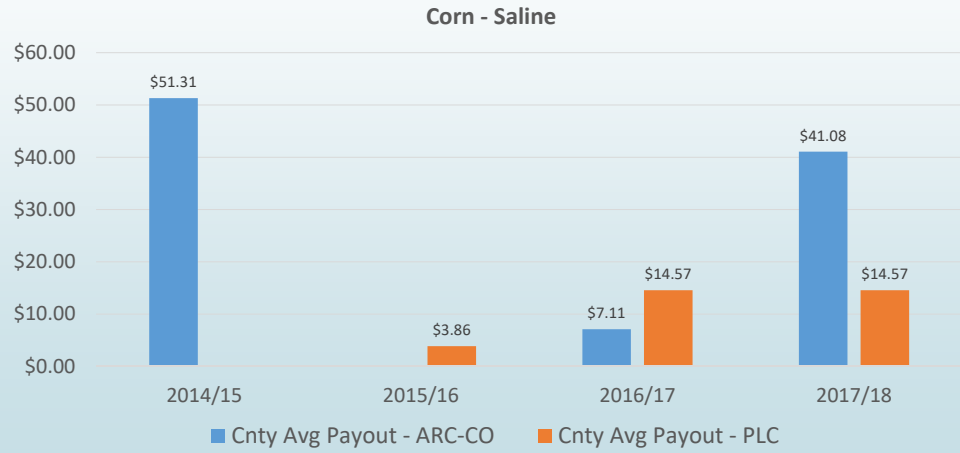
PLC vs ARC-CO



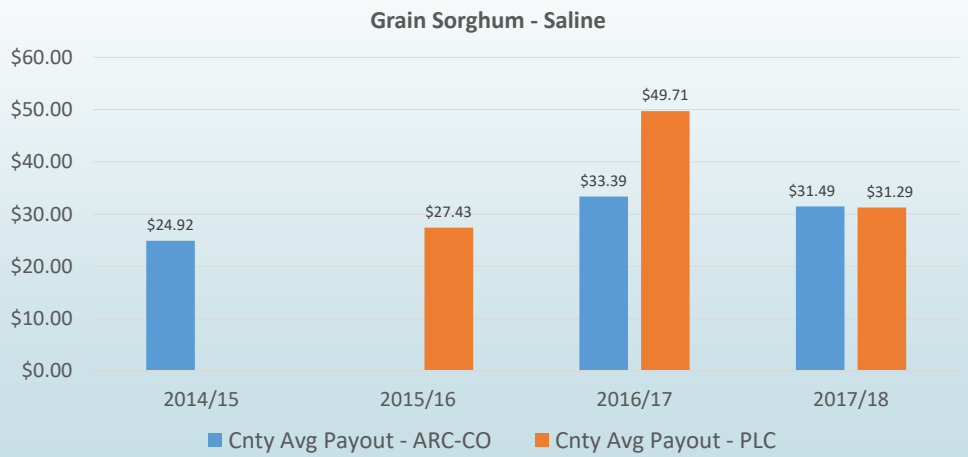
PLC vs ARC-CO



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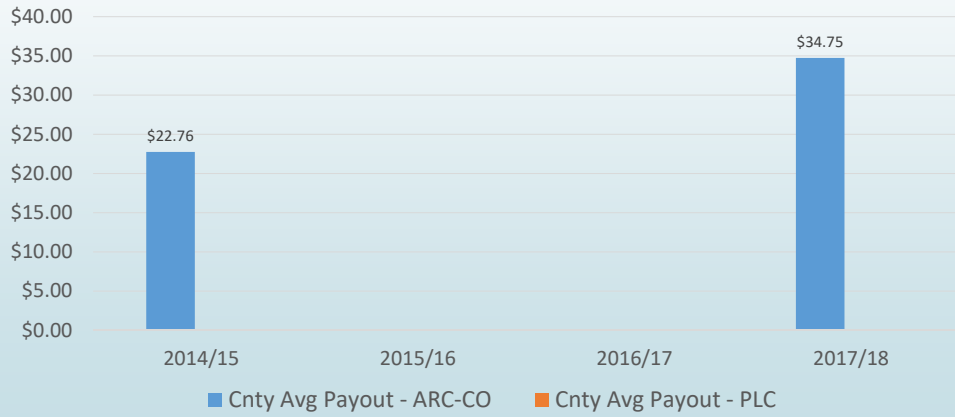


PLC vs ARC-CO

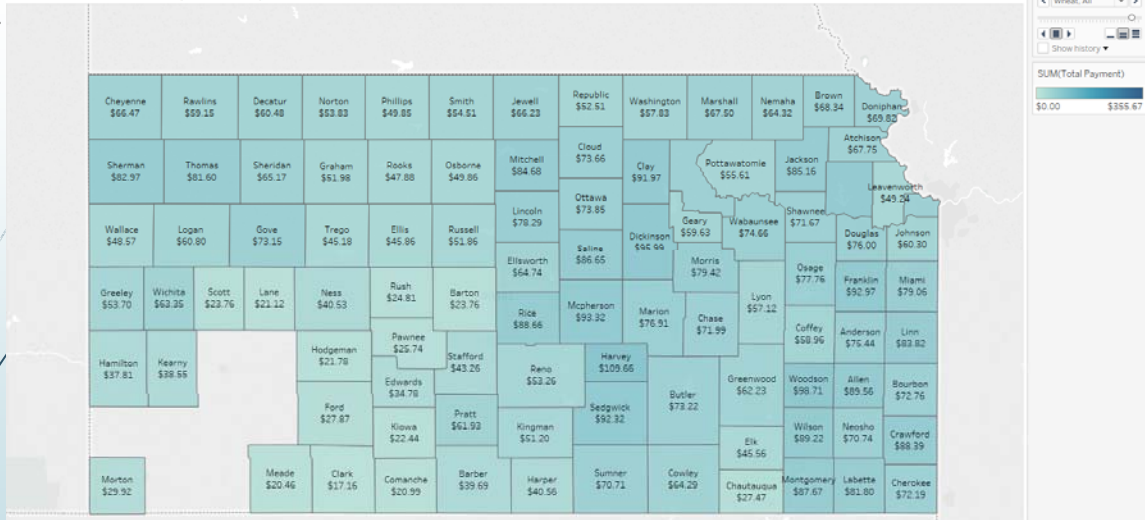


PLC vs ARC-CO

Soybeans - Saline



Total ARC-CO Payments (2014-2017) - Wheat, All



<http://www.agmanager.info/ag-policy/arc-co-historical-payment-maps>



Implications



Implications

- ▶ Picking the best program was and will continue to be a 'crap shoot'
 - ▶ Have to predict where prices will be relative to reference prices
 - ▶ Have to anticipate what yields will be at the county level
- ▶ Timing of payments
 - ▶ PLC payments were more timely relative to overall farm profitability



Implications

- ▶ If history is our guide...
 - ▶ We will pick PLC
 - ▶ Exposed to a bad crop/high price outcome (1989, 2012)
 - ▶ Depend more heavily on crop insurance-HPO



Questions?

