

Farm Bill 2018

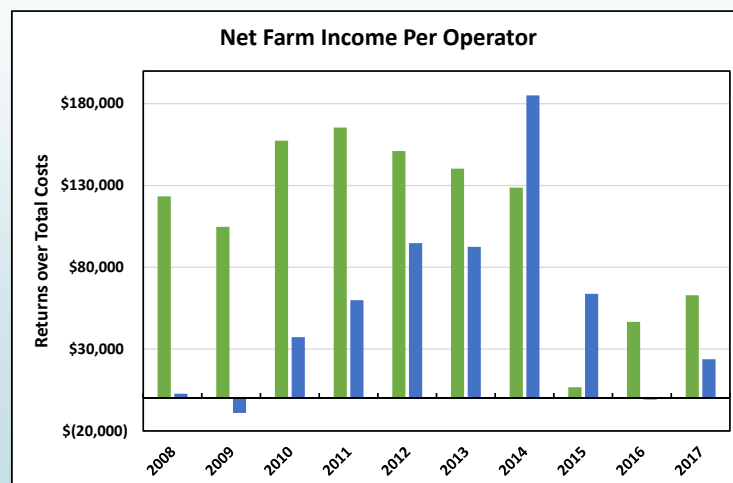
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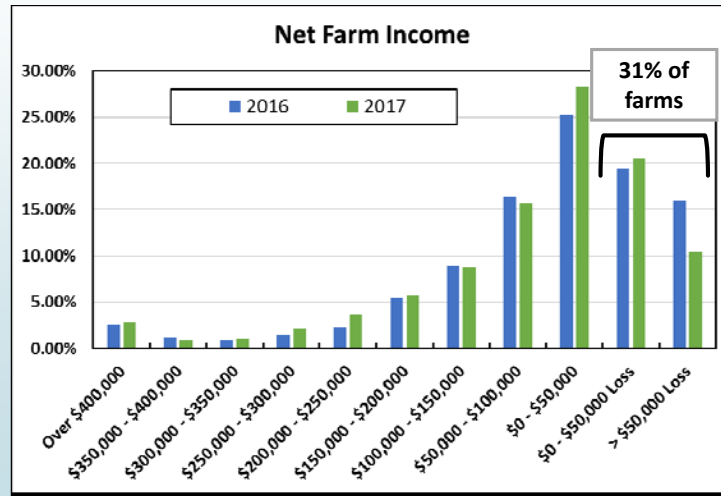
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Net Farm and Ranch Income



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
 - ▶ Have a big incentive to pass it during the lame duck session
 - ▶ All work will be thrown out and have to start over

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	

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 EQIP livestock share of 60% CSP up to 10 M ac/yr, projected outlays of \$1.6-1.8 B/yr over 2019-23	Eliminates CSP, shifts stewardship payments to EQIP, raises EQIP by \$2.1 B, but cuts CSP by \$3.6 B over 2019-23 Eliminates EQIP livestock share	Reduces EQIP authority to \$1.5-1.6 B/yr, projected outlays reduced by \$626 M over 2019-23 Reduces EQIP livestock share to 55% Reduces CSP authority to 8.8 M ac/yr, projected outlays reduced by \$229 M over 2019-23	Reduced funding for working lands programs?

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



Kansas Program Enrollment (% of total)

Crop	ARC-CO	ARC-IC	PLC	Base Acres in KS
Wheat	66.4	0.2	33.4	49.5
Corn	76.3	0.3	23.4	21.1
Soybeans	78.9	0.2	20.9	12.9
Grain Sorghum	44.9	0.1	55.0	15.6

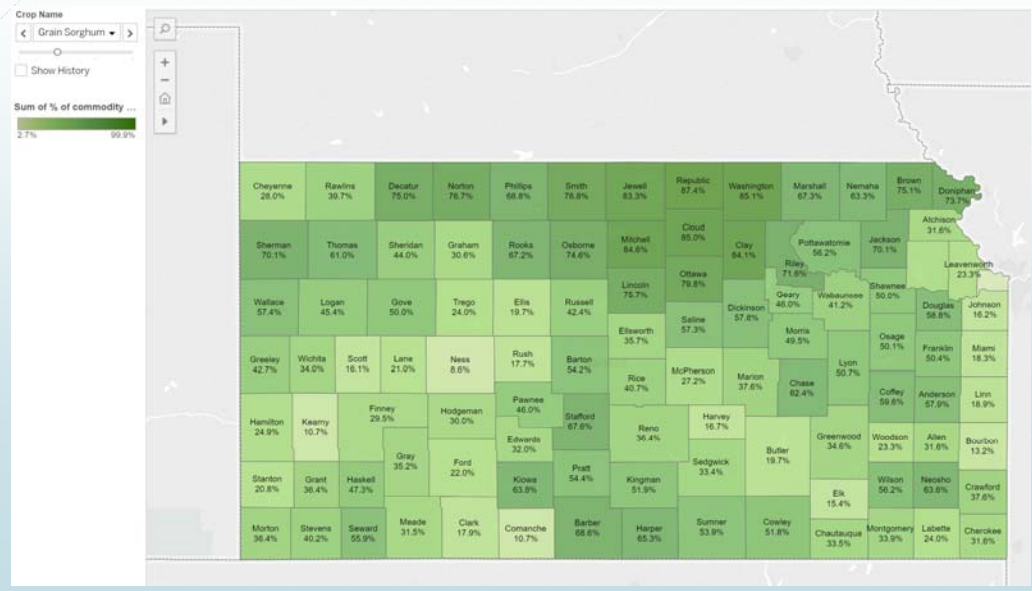
ARC-CO Enrollment - Wheat



ARC-CO Enrollment - Corn



ARC-CO Enrollment – Grain Sorghum

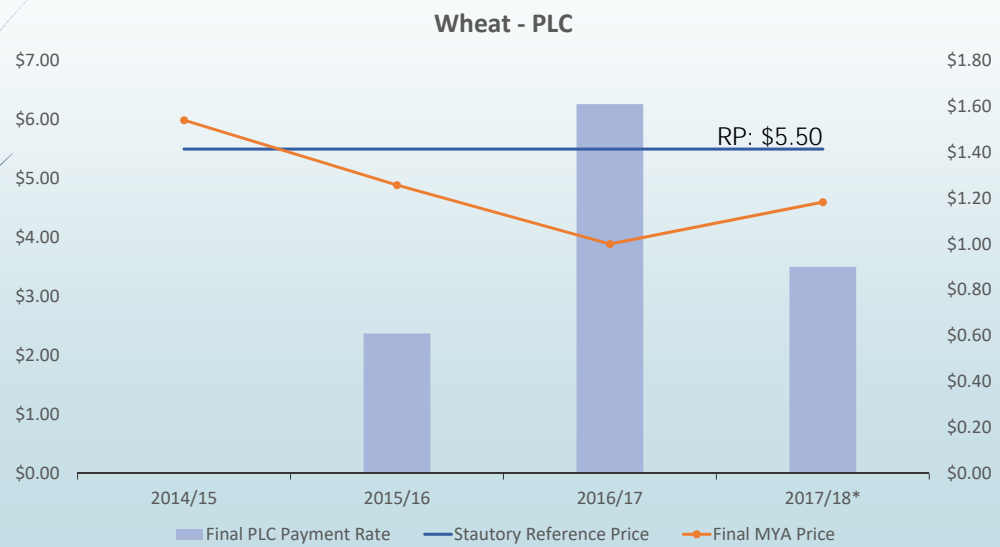


ARC-CO Enrollment – Soybeans

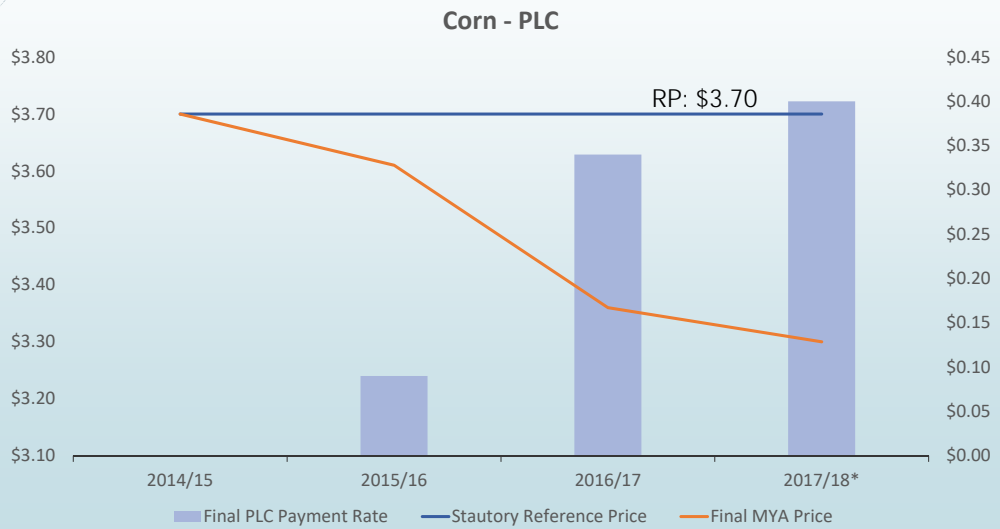


PLC Payouts

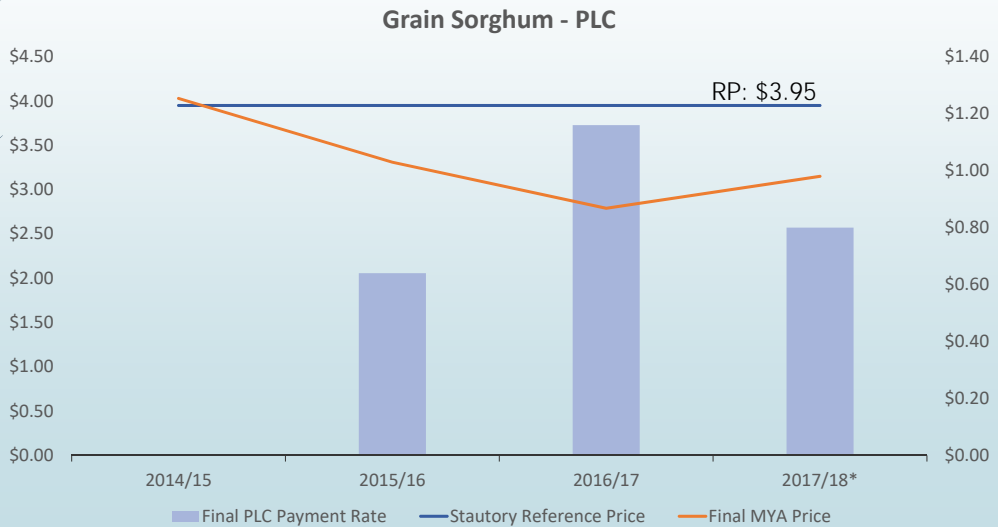
Payments for PLC



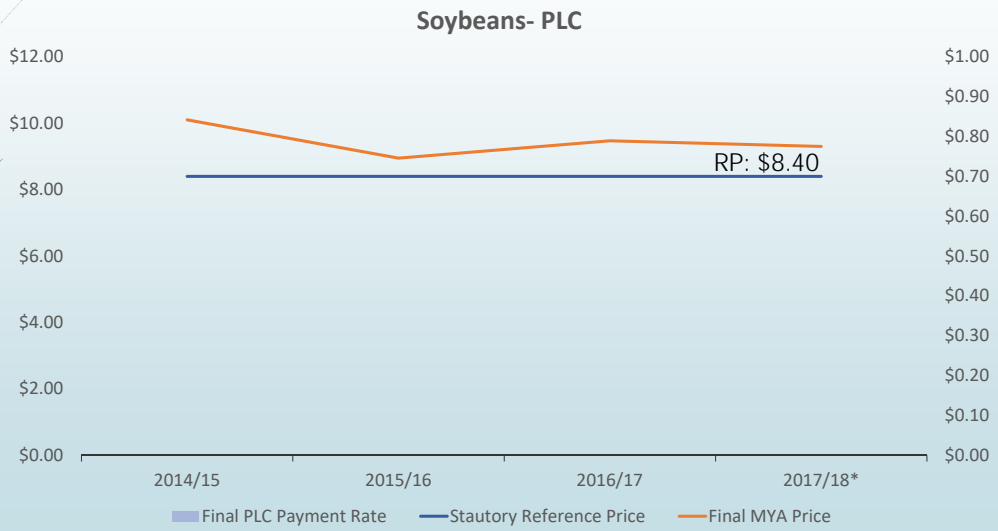
Payments for PLC



Payments for PLC



Payments for PLC



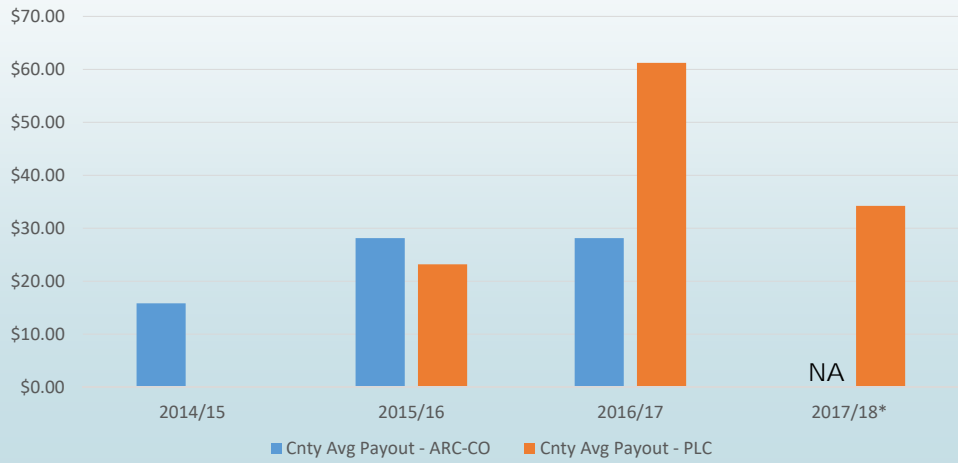
PLC vs ARC-CO

Riley County



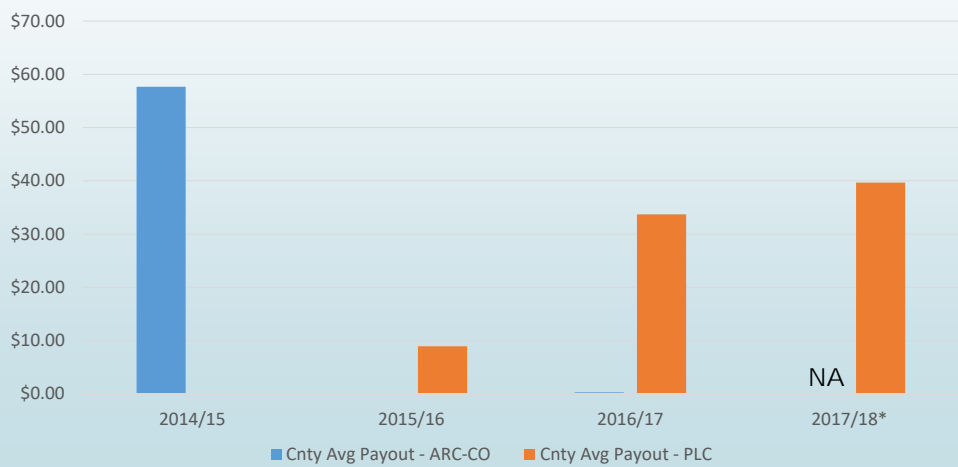
PLC vs ARC-CO

Wheat - Riley



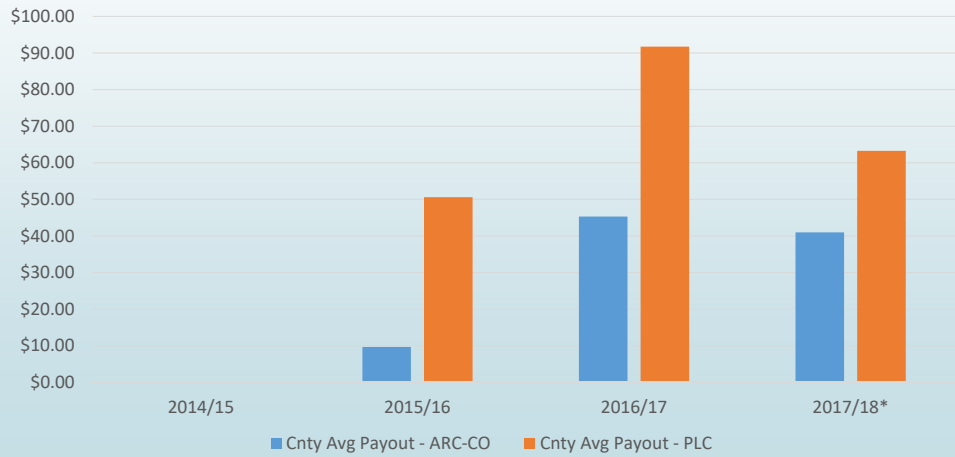
PLC vs ARC-CO

Corn - Riley



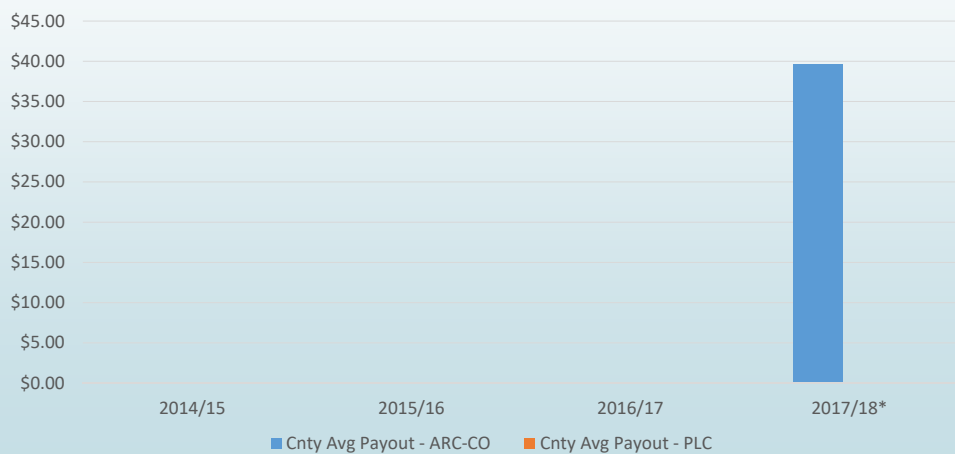
PLC vs ARC-CO

Grain Sorghum - Riley



PLC vs ARC-CO

Soybeans - Riley





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?

