

# Farm Bill Update

2017 Crop Insurance Workshop  
November 2, 2017



Rebecca Swender, Deputy District Director  
Congressman Roger Marshall, M.D.

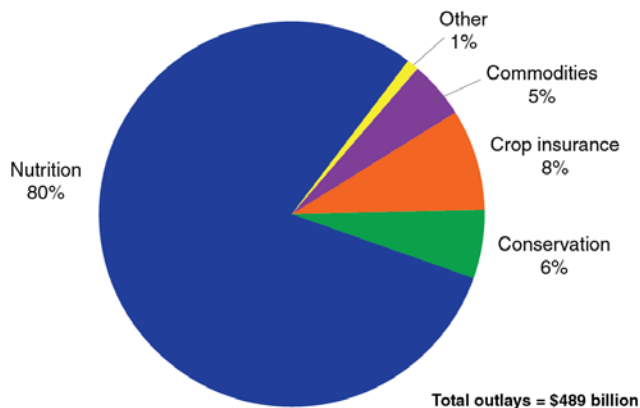
## 2014 Farm Bill Titles

- Title I: Payments and Loans; Disaster Programs; Sugar and Dairy Programs
- Title II: Conservation
- Title III: Trade
- Title IV: Supplemental Nutrition Assistance Program; Other Nutrition Programs
- Title V: Credit Programs
- Title VI: Rural Community Programs; Rural Economic Development Programs
- Title VII: Research and Extension Programs
- Title VIII: Forestry Programs
- Title IX: Energy Programs
- Title X: Horticulture Programs
- Title XI: Crop Insurance
- Title XII: Miscellaneous



# 2014 Farm Bill Funding

Projected outlays under the 2014 Farm Act, 2014-2018



Source: USDA Economic Research Service using data from Congressional Budget Office, Cost Estimates for the Agricultural Act of 2014, Jan 2014.

Essentially,  
NO NEW FUNDING  
for next Farm Bill

## 2014 Farm Bill – Major Changes

Repealed Direct Payments, Countercyclical Payments, and Average Crop Revenue Program

• Still gone

Created two new programs: Price Loss Coverage and Agriculture Risk Coverage

• Some changes to programs

Upland cotton producers were no longer eligible for PLC or ARC; created new program - Stacked Income Protection Plan (STAX)

• Likely further changes for cotton producers

Revised payment limitations and adjusted gross income eligibility rules






• Three new major proposals to crop insurance

Continued the marketing assistance loan program, except adjusted the loan rate for upland cotton



• No major changes here

# 2017 Farm Bill Committee Hearings “In the Field”

**HOUSE**

-  San Angelo, TX
-  Morgan, MN
-  Modesto, CA
-  Decatur, IL
-  Cobleskill, NY

**SENATE**

-  Manhattan, KS
-  Frankenmuth, MI

## KS-01 District Farm Bill Tour



August 18-26

1. Cottonwood Falls
2. Sterling
3. Montezuma
4. Elkhart
5. Tribune
6. Bird City
7. Hoxie
8. Smith Center
9. Minneapolis
10. Haven

# Common Themes at Hearings

1. Crop insurance is a crucial safety net and allows farmers to plant next year's crop. (Don't make any big changes!)
2. Commodity prices are too low. Need expanded trade agreements to sell crops.
3. PLC working a bit better than ARC program, but both need some changes.
4. Credit availability and terms are important to survive the economic downturn.
5. Many in Western Kansas are concerned about water availability, and are interested in new irrigation technologies.



# Crop Insurance in Kansas

- More than **19 million acres** of cropland were covered by insurance in Kansas in 2016, not including livestock policies
- Over **\$4 billion in ag liability** was protected by crop insurance in Kansas in 2016, including coverage for:
  - Livestock (through Livestock Gross Margin policy)
  - Nurseries
  - Diversified farms through Whole Farm Revenue protection
- There are **14 companies** and approximately **1,000 agents** licensed to sell crop insurance in Kansas. Additionally, numerous adjusters evaluate crop insurance claims in Kansas. Each of these sectors represent good-paying jobs in rural America and ensure top-notch service to Kansas's 61,000 farms.
- In 2016, more than **\$77 million in indemnities** were paid to Kansas farmers for losses above and beyond their deductibles, which are on average 25% of the value of the crop. **Kansas farmers paid an estimated \$241 million for this coverage.**

▪ Source: Kansas State Profile, Michael Torrey Associates, LLC



# What you hear in Kansas is not necessarily what Congress hears in Washington D.C.



## Attacks on Agriculture

Recent arguments against  
federal farm programs

- Counter-arguments from Brandon Willis,  
former administrator of USDA RMA
- as published in *the Progressive Farmer*, *Farm Policy Facts*, and others

Source: <https://www.dtnpf.com/agriculture/web/ag/perspectives/blogs/ag-policy-blog/blog-post/2017/09/26/farm-groups-challenge-heritage-farm>



# Attacks on Agriculture

Farmers have the financial means to manage risk without a safety net.

- 70% of 'farm income' came from non-farm income
- For the top four crops, when all costs are included, a farmer has a profit less than 30 percent of the time

Agricultural risk is no different than risks of other businesses

- Agriculture shows lower rate of returns, weather-related risks, and market risks
- Even with a safety net, farm exits are still above exits from non-farm businesses.

The federal government spends too much on crop insurance and other farm programs.

- Farm policy spending accounts for about 0.25% of the federal budget, and the current Farm Bill is more than \$100 billion under budget.

Source: <https://www.dtnpf.com/agriculture/web/ag/perspectives/blogs/ag-policy-blog/blog-post/2017/09/26/farm-groups-challenge-heritage-farm>



# Attacks on Agriculture

Crop insurance is a costly failure, meant only to fill in for the disaster programs of the 1970's for a few row crops.

- Crop insurance is more cost effective than ad hoc crop loss disaster programs.
- Crop insurance this year is expected to cost roughly what it did 13 years ago, despite doubling the participation, with 290 million acres, 130 commodities, and \$100 billion in liability insured, all while crop insurance has been cut by \$17 billion since 2008.

Farm policy benefits only farmers.

- Agricultural output has tripled since 1948, Americans pay less of their disposable income for food than consumers in any other country, agriculture is one of only a few areas with a trade surplus, soil erosion has been cut in half since 1985, and most farmers and ranchers would not survive without farm policy.

Source: <https://www.dtnpf.com/agriculture/web/ag/perspectives/blogs/ag-policy-blog/blog-post/2017/09/26/farm-groups-challenge-heritage-farm>



# Current Proposals on Crop Insurance

## 1) Adjusted Gross Income Limit

- Eliminates eligibility for crop insurance for any farm with AGI of:
  - \$250,000 under AFFIRM Act
  - \$500,000 under President's budget \*
- Impact of this depends on farm revenue
  - 5-10% in 'bad' years; 30-40% in 'good' years, according to KSU Ag Econ department
- Removing the highest grossing farms would result in an increase in loss ratio most years. This would likely result in higher premiums charged to the remaining farms in the risk pool.

**Our estimation: Most likely, if any of the three.**



# Current Proposals on Crop Insurance

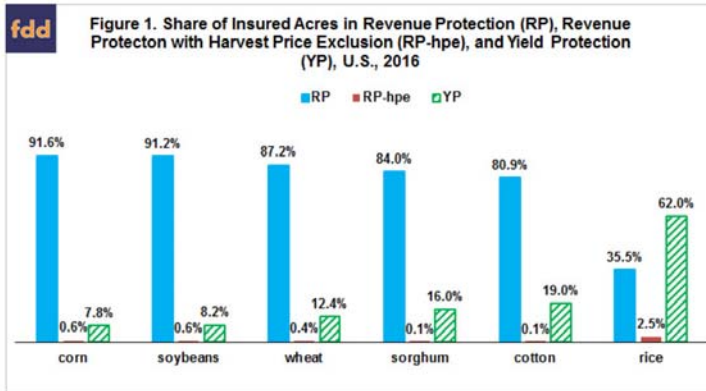
## 2) Harvest Price Option

- Removes the HPO option or the HPO cost-share from Revenue Protection Plan; essentially leaving only RP-HPE
  - Would affect all RP insured farmers, regardless of farm size or adjusted gross income
  - Corn and soybean farmers would likely switch to Yield Protection plan or drop coverage



# Current Proposals on Crop Insurance

## 2) Harvest Price Option



Widespread use of HPO, despite having to pay a higher premium, indicates that farmers value the increased coverage and the replacement value for forward sales and farm-grown feed needs.

Source: Zulauf, C., G. Schnitkey, J. Coppess, and N. Paulson. "Harvest Price Option: Historical Assessment." *farmdoc daily* (7):197. Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 26, 2017. <http://farmdocdaily.illinois.edu/2017/10/harvest-price-option-historical-assessment.html>

# Current Proposals on Crop Insurance

## 2) Harvest Price Option

- Argument for eliminating HPO is that it duplicates Commodity Title, but that's not accurate

Scenarios	HPO	PLC	ARC
Price at harvest higher than CI guarantee	Pays	Doesn't pay	Unlikely to pay
Price at harvest lower than CI guarantee	Doesn't pay	Likely to pay	Likely to pay

Source: Taylor and Barnaby, 2017

Our estimation: Some possibility of passing. HPO is not well understood in Washington.



# Current Proposals on Crop Insurance

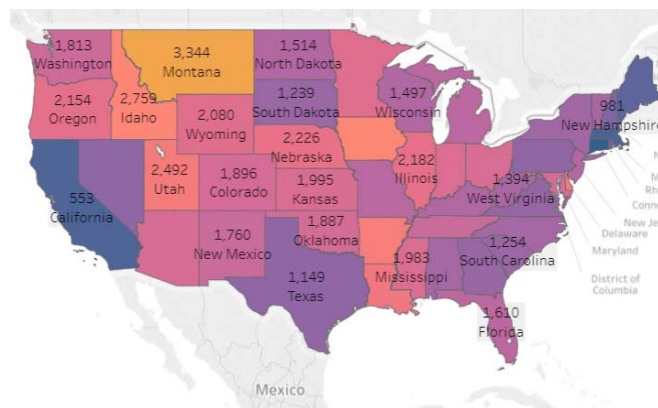
## 3) \$40,000 Limit on Premium Subsidy

- Includes SCO premium (65% federal subsidy)
- Premiums vary greatly based on:
  - Crop type
  - Commodity prices
  - Volatility
- So the number of acres required to hit \$40,000 limit will vary by year and location



# Current Proposals on Crop Insurance

## 3) \$40,000 Limit on Premium Subsidy



State:	Kansas
Year:	2016
Acres to Hit \$40K Subsidy Limit:	1,995
Farmer Paid / Acre:	\$12.45
Indemnity / Acre:	\$3.95
Liability / Acre:	\$223.22
Premium / Acre:	\$32.49
Subsidy / Acre:	\$20.05
Unadjusted Acres to Hit \$40K Subsidy Limit:	1,995

Map created by Dr. Rich Lleweln  
 Available at <http://www.agmanager.info/crop-insurance/acres-reach-40k-cap-state-and-year>

Our estimation: Least likely to pass of three options.





# Questions Anticipated for Upcoming Farm Bill

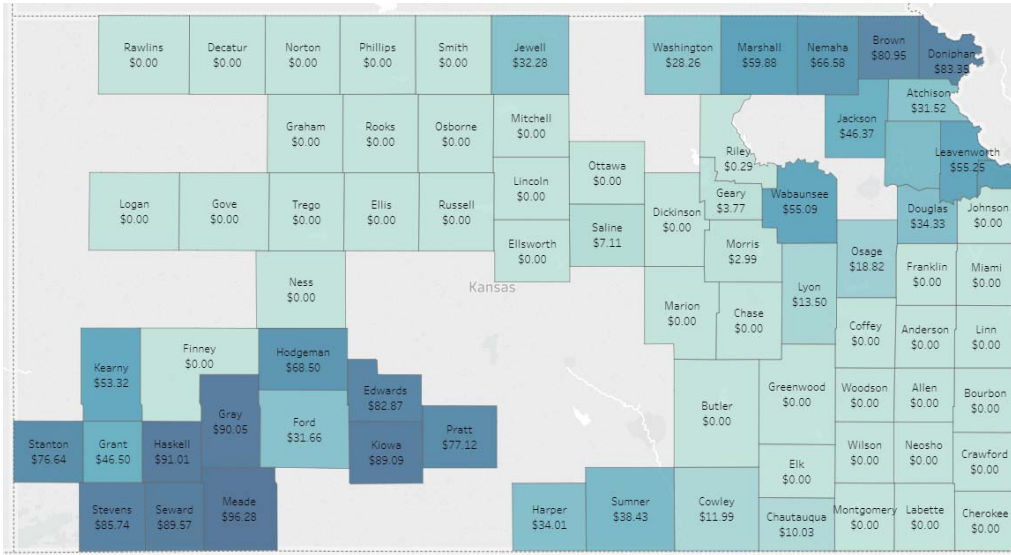
## Big Questions... No Definite Answers Yet

There's talk of 'tweaking' ARC and PLC programs. What are those 'tweaks'?

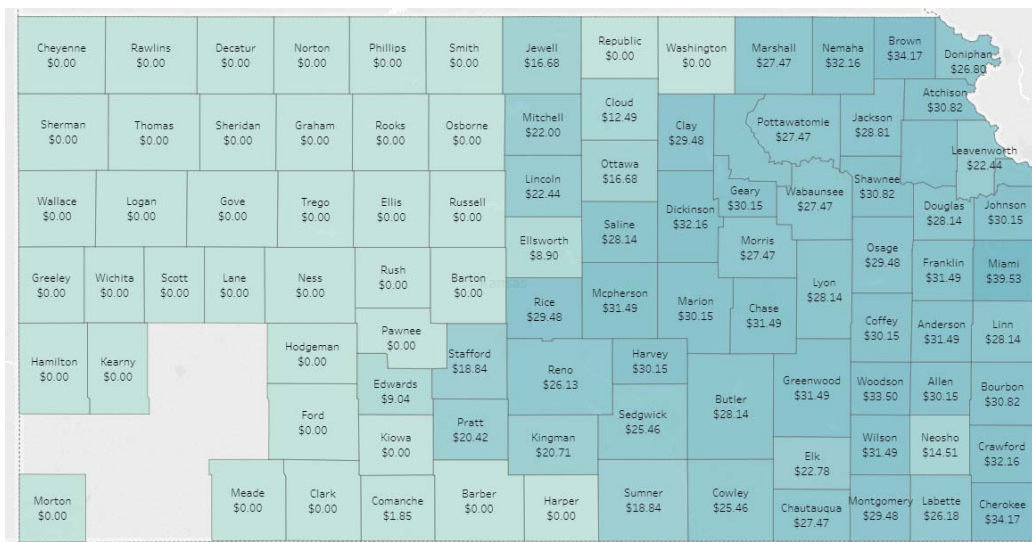
- Tweaks will most likely be to ARC, especially to data quality and use. ARC needs changes to make it more efficient and equitable in order to smooth payments between counties.
- Legislation introduced last week by Sens. Heitkamp (D-ND) and Ernst (R-IA) to direct USDA to use more widely-available data from RMA as the first choice in yield calculations, calculates safety net payments based on the county of a farm's physical location, and provides FSA state committee discretion to adjust yield data estimates to reduce variations in yields and payments between counties.



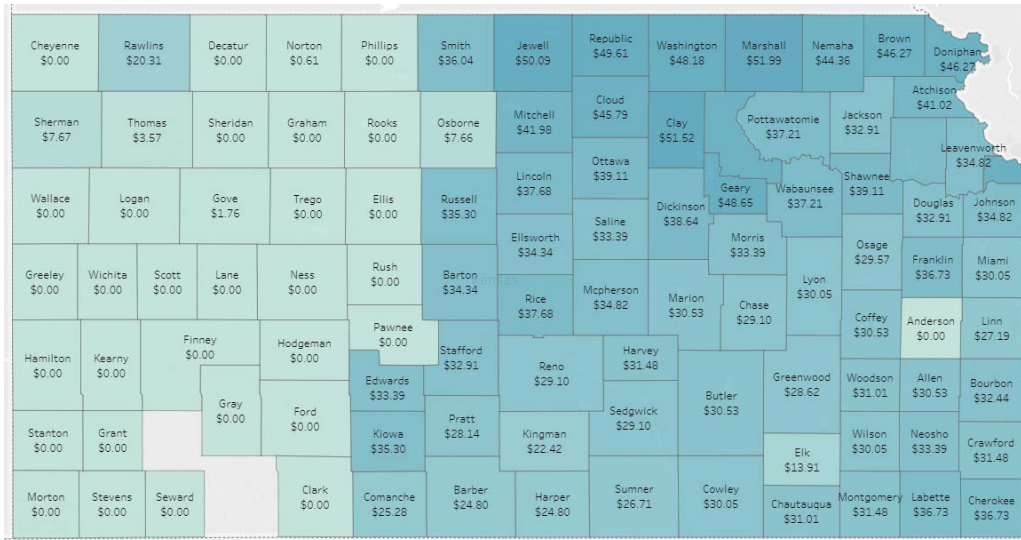
# ARC Payments - Corn



# ARC Payments - Wheat



# ARC Payments - Sorghum



## Big Questions... No Definite Answers Yet

- Is it safe to assume that the \$125,000/individual limit for ARC & PLC will remain?
  - Yes. Go ahead and assume so for now.
  
- Is there a time period set yet for another base acre reallocation for ARC & PLC?
  - Switch between programs: yes
  - Switch base acre reallocation between crops: maybe

# Big Questions... No Definite Answers Yet

Will PLC reference prices change from previous Farm Bill?

At least a nominal increase is likely. But the wild card is the cost... With crops like wheat and sorghum projected to be below the PLC target prices for the life of the next bill, any increase in reference prices costs a lot.

Commodities	Reference Price	Unit
Wheat	\$5.50	bushel
Corn	\$3.70	bushel
Grain sorghum	\$3.95	bushel
Barley	\$4.95	bushel
Oats	\$2.40	bushel
Long-grain rice	\$14.00	cwt
Medium-grain rice	\$14.00	cwt
Soybeans	\$8.40	bushel
Other oilseeds	\$20.15	cwt
Dry peas	\$11.00	cwt
Lentils	\$19.97	cwt
Small chickpeas	\$19.04	cwt
Large chickpeas	\$21.54	cwt
Peanuts	\$535.00	ton

Source: Agricultural Act of 2014, Title I

# Big Questions... No Definite Answers Yet

What is the status of cotton getting back in as a Title I program?

Cotton is almost assuredly going to get back in. They have a proposal with minimal costs over the life of the bill. Changes to cotton will include a Title I program, continuation of marketing loan programs, and the STAX program for cotton producers without cotton base acres.

# Big Questions...

## No Definite Answers Yet

Any changes to how APH is reported or used? Have heard some complaints on that.

We had the big update to APH with the catastrophic yield exclusion in the 2014 Farm Bill, so it's unlikely that there will be any further changes in the farm bill. RMA still using the idea of a 10 year APH.

Any updates to marketing assistance loan program, e.g. adjustment in loan rate?

No indication that there will be.



# Big Questions...

## No Definite Answers Yet

Any news on the number of acres allowed to enroll or re-enroll in CRP?

25 million acres is current law. Several conservation groups want an increase. The plurality of ag groups don't want any increase and are digging in, without many other asks that they have. If there is an increase, it will likely focus on the so-called "continuous programs" filter strips, buffers, etc., vs whole field enrollment. There may be additional haying/grazing flexibility if there is an increase allowed. Again, the cost associated here is enormous. A million acre increase will run somewhere between \$100-200/year. Becomes a billion or more over the life of the bill for a small increase.



# **Big Questions... No Definite Answers Yet**

American Agriculturalist and other media have reported proposed changes to Dairy Margin Protection Program.

Still very little detail out on MPP. At the core, changes to MPP get expensive. Most likely change would be a move to cheapen the cost of coverage for the first tranche (under 4 million pounds) of milk produced.



## **Farm Bill Timeline**

Expected Committee Vote...delayed.

But for fairly good reason.





**Questions?**

