2018 Farm Bill

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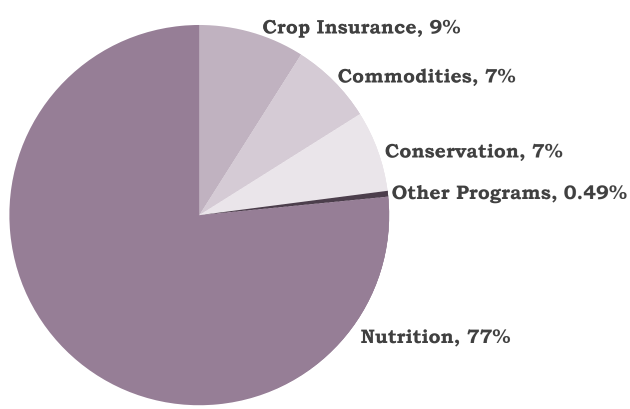
Farm Bill Basics

Farm Bill Contents

- Title I: Commodities
- Title II: Conservation
- Title III: Trade
- Title IV: Nutrition
- Title V: Credit
- Title VI: Rural Development
- Title VII: Research and Education
- Title VIII: Forestry
- Title IX: Energy
- Title X: Horticulture
- Title XI: Crop Insurance
- Title XII: Miscellaneous

Farm Bill Budget

Projected Outlays, FY2019-2028



Source: Congressional Research Service and Congressional Budget Office

Decisions to be made…

Elect a Program

Decision for each Commodity (85% of base)

PRICE LOSS COVERAGE
(PLC)

Supplemental Coverage
Option
(SCO)

(Purchased on Planted Acres)

AGRICULTURAL RISK
COVERAGE
- County Level -
(ARC-CO)

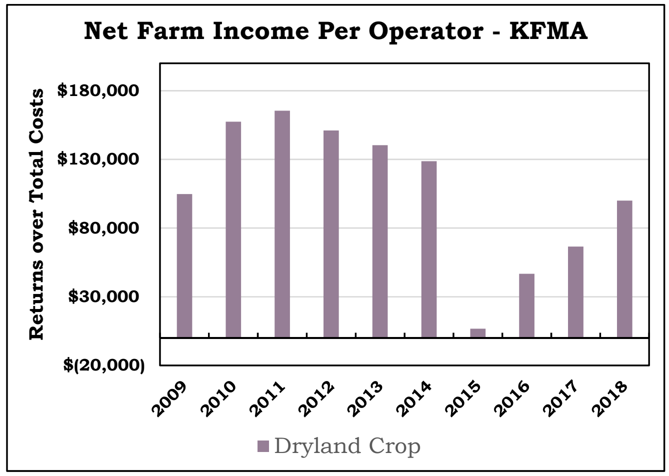
All Commodities on Farm
(65% of total base)

AGRICULTURAL RISK
COVERAGE
- Individual Level -
(ARC-IC)

The 2014 Decision

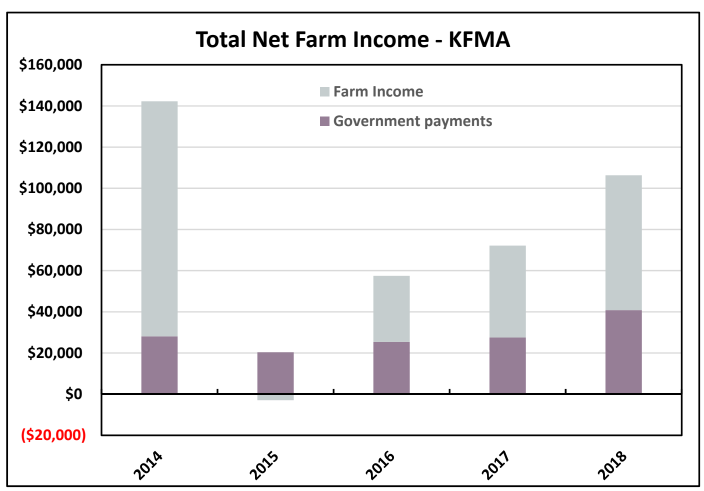
The World in January 2015…

- Net farm incomes were high over the preceding years
- Lenders were able to cash flow loan applications without government payments
- But things turned for the worse very quickly
  - 2015 net farm income = $6,000
- Incomes have recovered somewhat, however government payments have also increased



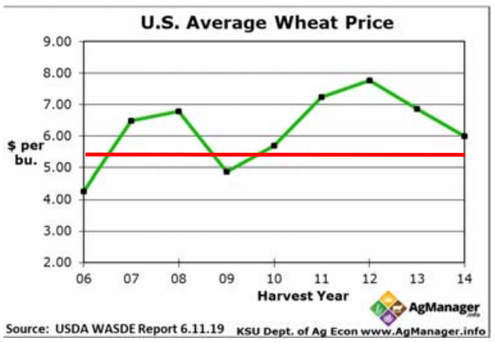
Net Farm Income - Kansas

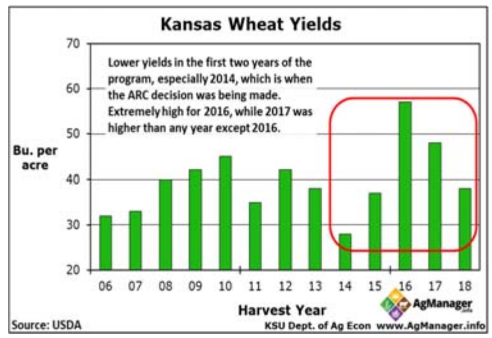
- Government payments have been increasing as a percentage of net farm income
- Government payments include
  - ARC, PLC, MFP
- Expect 2019 to be similar to 2018, depending on crop yields
- Concerns over 2020 if no MFP payment and no trade deal



Decision Drivers

- Information available to farmers at time of enrollment in early 2015
  - Prices had been high, so PLC wasn't perceived as likely to pay out
  - Many crop/county combinations had a likely ARC-CO payment



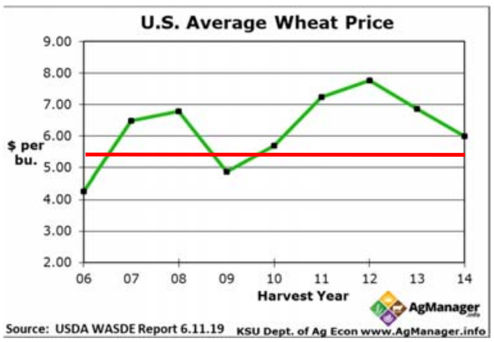


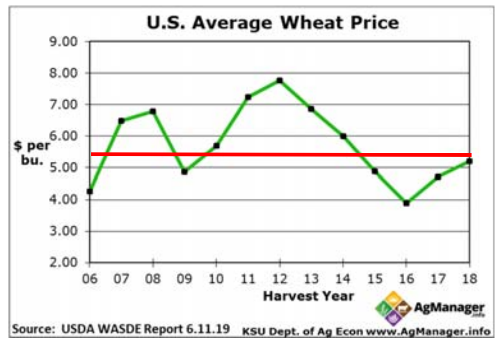
Enrollments Nationwide

Commodity	PLC	ARC-CO	ARC-IC
BARLEY	57%	42%	1%
CANOLA	93%	7%	1%
CORN	9%	91%	0%
DRY PEAS	44%	53%	3%
FLAXSEED	59%	40%	1%
GRAIN SORGHUM	54%	46%	0%
MUSTARD	53%	42%	4%
OATS	23%	76%	0%
SAFFLOWER	57%	40%	2%
SESAME	76%	24%	0%
SOYBEANS	4%	96%	0%
SUNFLOWERS	49%	50%	1%
WHEAT	34%	66%	0%

Outcome for Wheat

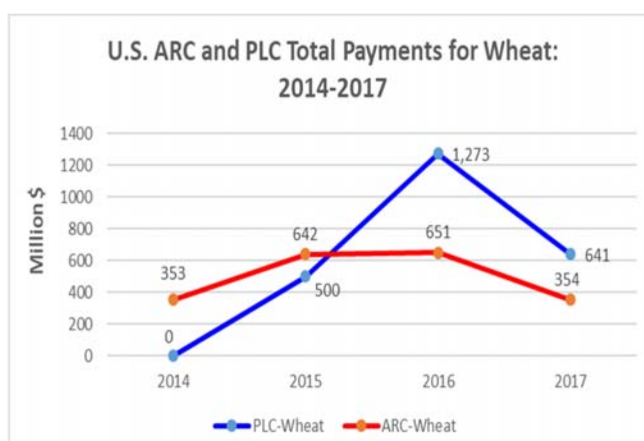
- Information available to farmers at time of enrollment in early 2015
  - Prices had been high, so PLC wasn't perceived as likely to pay out
  - Many crop/county combinations had a likely ARC-CO payment



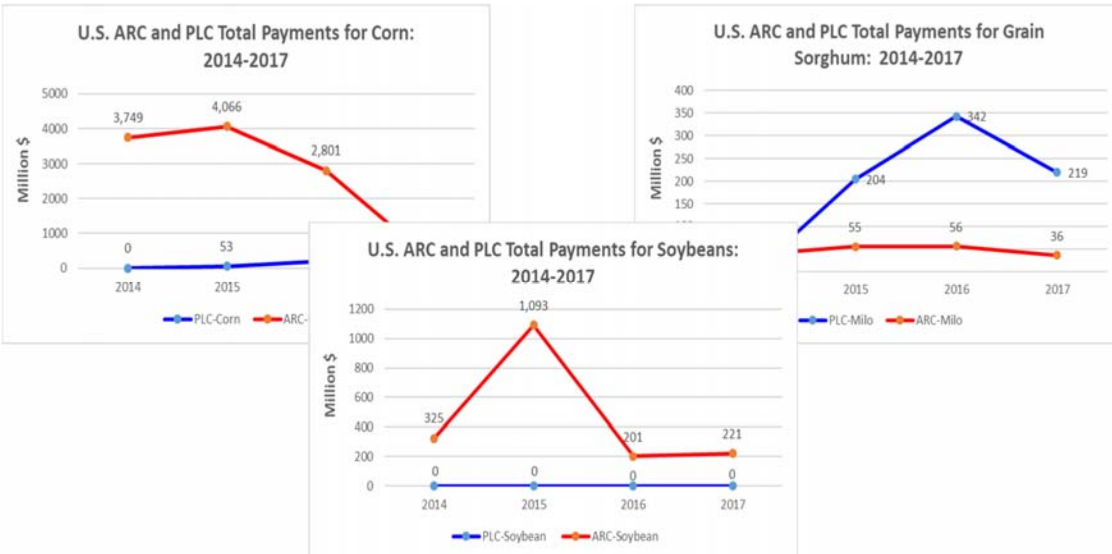


Outcome for Wheat

- Many people made their decision with the first year likely payout in mind
  - Bird in the hand attitude
- Actual payouts reflected a decrease in price caused by good crop years in 2016-17
- With a five-year fixed decision, farmers were unable to respond to changes in market conditions and change their program choice



Outcomes for Other Crops



Conclusions on 2014 Farm Bill

- Some farmers picked the “right” program (i.e. highest payout), while others did not get much for payments
- Risk management versus highest payout
  - Soybean prices didn’t go low enough to trigger a PLC payment. Is that a bad thing?
- Frustration with not being able to update their decision as market conditions changed
- Perception that differences in payments across farmers will lead to unfair advantages in ability to bid for land

The 2018 Decision

2018 Farm Bill

- Commodity programs haven't changed much
  - Still have ARC-CO, PLC and ARC-IC
  - Growers are more familiar with these programs than they were last time and this should affect their decision making process
- PLC is a catastrophic price risk program
  - Payments kick in when MYA price falls below a reference price
  - You are paid based on the difference between the MYA price and the reference price times your FSA program yield
- ARC-CO is a shallow loss coverage program
  - Pays out when the county revenue falls below a benchmark revenue

2018 Farm Bill

- ARC-IC will remain unpopular
  - Individual farm records and yields times a MYA price, high recordkeeping demands
- SCO
  - Only available with PLC
  - Make the election of SCO each year (not locked into your decision beyond the crop year)

2018 Farm Bill

- Farmers will elect ARC or PLC per commodity for 2019 & 2020, but will be able to change elections annually beginning in 2021 (but don't have to).
- This change will allow farmers to select their preferred program based on more current market conditions.
- Reduces the pressure of making a 1 time program decision for 5 years.

PLC in Review

- Catastrophic price decline protection
  - Payments occur then prices fall below reference prices
  - Payments made on base acres and program yields

Example:

Farm X has 100 base acres of corn and 120 bushel program yield

Reference price is $3.70

The MYA Corn price is $3.50

Corn payment per acre = ($3.70 - $3.50) X 120 = $24.00 per acre

Total corn payment= $24.00 X 100 base acres X 85% = $2,040.00

What Changed in PLC?

- "Effective Reference Price" will be used instead of just the statutory reference prices

Commodity	2018 Farm Bill Statutory Price ($/bu)	Highest "Effective" Reference Price Possible (115% of Statute)
Wheat	5.50	6.33
Corn	3.70	4.26
Sorghum	3.95	4.54
Soybeans	8.40	9.66

What Changed in PLC?

Payment Yield Update will again be offered in 2020

- The 2020 update is intended to benefit farmers who sustained multiple years of losses during the 2008-2012 crop years used to calculate the 2014 updated program yield.
- Will use the farm's yields from 2013-2017, excluding any years that the crop was not planted
- Formula will include 'plug' yields and a detrending factor

**Don't get caught up in the formula details. FSA will run this for you. If the update is higher than your current yield, then update, even if not in PLC

ARC-CO in Review

- Revenue protection program
  - Payments are made if per acre revenue falls below 86% of benchmark
- ARC-County benchmark
  - 5-yr Olympic avg. national MYA price X 5-yr Olympic avg. county yield
- ARC-Individual benchmark
  - 5-yr Olympic avg. of the weighted per-acre revenues
- Payments max out at 10% of benchmark revenue

ARC-CO Example

Marketing Year Average Price	
2009/2010	~~$3.70~~
2010/2011	$5.18
2011/2012	$6.22
2012/2013	~~$6.89~~
2013/2014	$4.46
Olympic Average	*$5.29*

County Yield	
2009	100
2010	~~120~~
2011	80
2012	~~70~~
2013	110
Olympic Average	*96.7*

ARC Guarantee:
$511.54 X 86% = $439.92 per acre

ARC Maximum payment:
$511.54 X 10% = $51.15

ARC-CO Example

- ARC Guarantee: $439.92, ARC Maximum payment: $51.15
- Current Year: $3.50 MYA corn price, 110 bushel county yield
  Current year revenue= $3.50 x 110 = $385.00
- Revenue Loss = $439.92 - $385.00 = $54.92
- Payment= $51.15 X 100 corn base X 85% = $4,347.75

What Changed in ARC-CO?

- The policy intends for FSA to implement a trend yield adjustment, similar to crop insurance's SCO trend adjustment, to be applied to ARC.
- FSA will use the "effective reference price" to calculate the ARC guarantee.
- Make ARC payments based on county where base acres are located rather than administrative county.
- Provide a separate irrigated and non-irrigated yield ARC guarantee in all counties with sufficient acres of each practice.
- Prioritize RMA data in the calculation of county yields used for the ARC guarantee and actual yields.

Payment Limits – ARC-CO & PLC

- The individual payment limit remains the same at $125,000.
- Spouse will also continue to receive a payment limit
- Extends the definition of family to nieces, nephews, and first-cousins.
- This is really no change from the current number of payment entities.
- The Adjusted Gross Income cap remains at $900,000.
- 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.

Other Programs

Crop Insurance Title

- At the request of virtually every farmer, rancher, rural business owner, and lender in the country, policy makers protected crop insurance.
- Enterprise units are now allowed across county lines.
- While discussed, no income limits or payment limits were applied to crop insurance.
- Retained the Harvest Price Option (HPO) that provides yield replacement coverage, that allows farmers to maintain their hedge.
- May increase the use of cover crops in some areas due to how cover crops are counted.
- Requires 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 irrigation data is scientifically sound.

Credit Title

- Increased the direct loan limit (loans directly from FSA) for farm ownership loans from $300,000 to $600,000
- Guaranteed ownership loan increased from $1,399,000 to $1,750,000
- Direct operating loan limit increased from $300,000 to $400,000
- Guaranteed operating loan limit increased from $1,399,000 to $1,750,000

Conservation Title

- The CRP acre cap will be increased over time from 24 million acres currently to 27 million acres by 2023
- CRP 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
- Conservation Stewardship Program (CSP) will be maintained as a standalone acre-based program and be administered alongside the current Environmental Quality Incentives Program (EQIP).

Resources

Industrial Hemp

https://www.northwest.k-state.edu/agronomy/industrial_hemp_resources.html

GENERAL FAQS

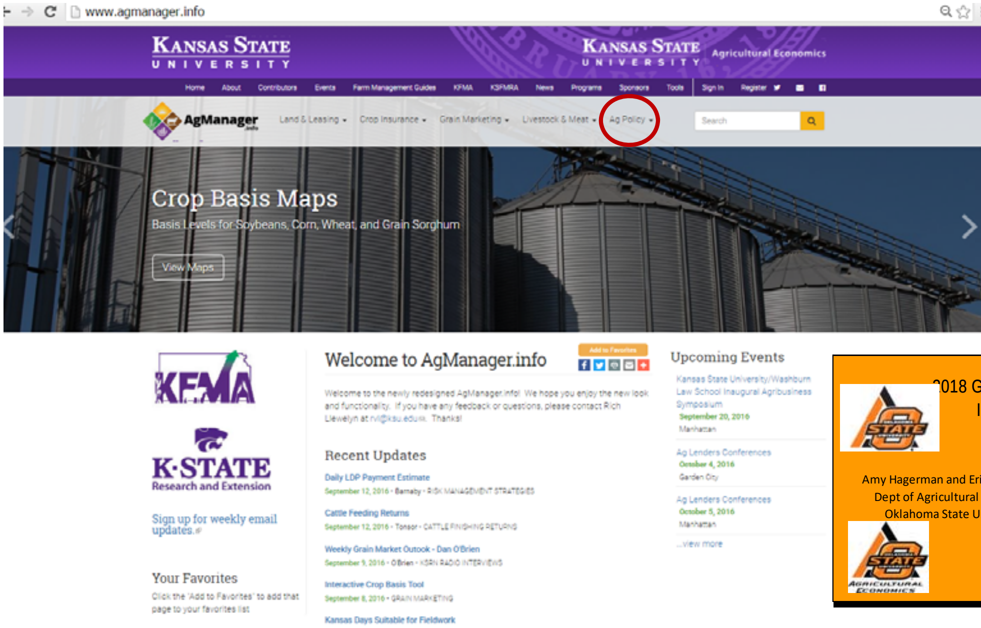
Expand all

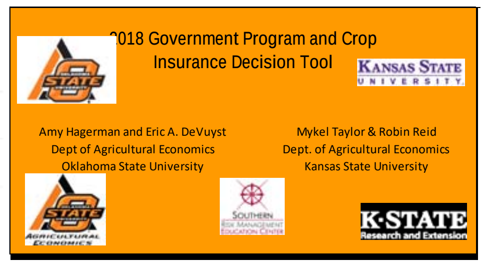
- **How does passage of the 2018 Farm Bill impact industrial hemp in Kansas?**

  Although the 2018 Farm Bill allows for the creation of federal and state plans for the commercial production of industrial hemp, new legal authority and regulations will need to be adopted before Kansas can create a commercial program. The currently proposed regulations governing the industrial hemp research program are still the only way that industrial hemp may be produced in Kansas. Therefore, at this time, the proposed regulations cannot be modified to allow the immediate creation of a program for the commercial production of industrial hemp as a result of the passage of the 2018 Farm Bill.

- **When will industrial hemp be legal in Kansas?**

  When SB 263 was published in the Kansas Register, industrial hemp was no longer categorized as a controlled substance in Kansas. However, the cultivation, growth, research, transportation, processing or distribution of industrial hemp or industrial hemp seed will only be allowed with a license as part of the research program. The regulations to acquire a license and otherwise carry out the provisions of the alternative crop research act will be complete in early 2019.





Thank You!

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