2018 Farm Bill
Making the ARC/PLC Decision

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Farm Financial Situation

Net Farm Income Per Operator - KFMA

Returns over Total Costs

$180,000
$130,000
$80,000
$30,000
$(20,000)


Dryland Crop
Farm Financial Situation

Total Net Farm Income - KFMA

- Farm Income
- Government payments

($20,000)
Farm Financial Situation

• What did our financial situation in 2014-15 mean for our Farm Bill decisions?

• Comments by lenders that government payments wouldn’t be considered in the financial analysis used for loans
  • Quickly changed in fall of 2015

• PLC wasn’t perceived as likely for many states and counties, so ARC was the higher enrollment program for corn, soybeans, wheat
  • Grain sorghum was the exception with a relatively higher reference price
### Percent of Farms that Made an ARC/PLC Election Nationally by Crop

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

Source: USDA (http://www.fsa.usda.gov/programs-and-services/arcplc_program)
What we did last time around...

- Farmers with more experience picked PLC
  - More experience with low price scenarios than newer farmers who just came off a run of very good incomes

- Farmers with higher crop insurance coverage levels preferred ARC
  - Did not see advantage to SCO option under PLC

- High levels of uncertainty pushed people toward PLC
  - Simpler program and more attractive for people who “just weren’t sure” what program to pick

- Current information on payouts of ARC in certain counties pushed people toward ARC
  - Bird in hand attitude versus looking at the entire 5-year period
What do we expect this time around?

• Tendency to look backwards and try to fix our (perceived) mistakes
• But we have to keep looking forward and using the best information we have to determine which program is the best fit
• Risk management versus highest payout
  • Is your farm more susceptible to catastrophic price scenario or shallow loss?
• MFP payments will be supplementing the ARC/PLC payments and may end up being higher for some people
  • Do not depend on MFP in the long run...
# Payment Rates for MFP2

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Units</th>
<th>MFP1 Payment Rate ($/unit)</th>
<th>Implied MFP2 Payment Rate</th>
<th>Implied MFP2 Rate as % of 2018 Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>bushels</td>
<td>0.01</td>
<td>0.23</td>
<td>6.6</td>
</tr>
<tr>
<td>Cotton</td>
<td>pounds</td>
<td>0.06</td>
<td>0.16</td>
<td>22.6</td>
</tr>
<tr>
<td>Hay, Alfalfa</td>
<td>tons</td>
<td>-</td>
<td>5.55</td>
<td>3.1</td>
</tr>
<tr>
<td>Oats</td>
<td>bushels</td>
<td>-</td>
<td>0.19</td>
<td>7.3</td>
</tr>
<tr>
<td>Peanuts</td>
<td>pounds</td>
<td>-</td>
<td>0.02</td>
<td>10.5</td>
</tr>
<tr>
<td>Rice</td>
<td>pounds</td>
<td>-</td>
<td>0.01</td>
<td>5.4</td>
</tr>
<tr>
<td>Sorghum</td>
<td>bushels</td>
<td>0.86</td>
<td>1.56</td>
<td>47.1</td>
</tr>
<tr>
<td>Soybeans</td>
<td>bushels</td>
<td>1.65</td>
<td>1.73</td>
<td>20.1</td>
</tr>
<tr>
<td>Wheat</td>
<td>bushels</td>
<td>0.14</td>
<td>0.47</td>
<td>9.2</td>
</tr>
</tbody>
</table>

2018 Farm Bill Titles

• Title I: Commodities
• Title II: Conservation
• Title III: Trade
• Title IV: Nutrition
• Title V: Credit
• Title VI: Rural Development
• Title VII: Research, Education, and Related Matters
• Title VIII: Forestry
• Title IX: Energy
• Title X: Horticulture
• Title XI: Crop Insurance
• Title XII: Miscellaneous
Farm Bill Budget
Projected Outlays, FY2019-2028

Crop Insurance, 9%
Commodities, 7%
Conservation, 7%
Other Programs, 0.49%
Nutrition, 77%

Source: Congressional Research Service and Congressional Budget Office
Decisions to be made…

• Under the commodity title, each farm will choose a farm program to enroll in starting Sept. 1st, 2019
• If you do not enroll, you farm will default to the decision made for the last farm bill and NO payment will be received on the 2019 crop
• The first payment of the new Farm Bill will be make in Oct. 2020
  • This will be on the crops harvested in 2019
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)
Basics of the 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
Basics of the 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)
This Spring Farmers will Select either ARC or PLC

- 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 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?

1. “Effective Reference Price” instead of just the statutory reference prices

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2018 Farm Bill Statutory Price ($/bu)</th>
<th>Highest “Effective” Reference Price Possible (115% of Statute)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>5.50</td>
<td>6.33</td>
</tr>
<tr>
<td>Corn</td>
<td>3.70</td>
<td>4.26</td>
</tr>
<tr>
<td>Sorghum</td>
<td>3.95</td>
<td>4.54</td>
</tr>
<tr>
<td>Soybeans</td>
<td>8.40</td>
<td>9.66</td>
</tr>
</tbody>
</table>
What Changed in PLC?

2. Payment Yield Update will again be offered by 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.
- Low yield years will be replaced by 75% of the county average yield from 2013-2017.
- The average farm yield over these years (after low yield replacement) will be multiplied by 90% and then by a “detrending” factor.

**Don’t get caught up in the formula. FSA will run this for you. If the update is higher than your current yield, then update, even if in PLC**
ARC review-2014 Farm Bill

• 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
### Setting the REVENUE guarantee

<table>
<thead>
<tr>
<th>Marketing Year Average Price</th>
<th>County Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009/2010</td>
<td>2009</td>
</tr>
<tr>
<td>$3.70</td>
<td>100</td>
</tr>
<tr>
<td>2010/2011</td>
<td>2010</td>
</tr>
<tr>
<td>$5.18</td>
<td>120</td>
</tr>
<tr>
<td>2011/2012</td>
<td>2011</td>
</tr>
<tr>
<td>$6.22</td>
<td>80</td>
</tr>
<tr>
<td>2012/2013</td>
<td>2012</td>
</tr>
<tr>
<td>$6.89</td>
<td>70</td>
</tr>
<tr>
<td>2013/2014</td>
<td>2013</td>
</tr>
<tr>
<td>$4.46</td>
<td>110</td>
</tr>
<tr>
<td>Olympic Average</td>
<td>Olympic Average</td>
</tr>
<tr>
<td>$5.29</td>
<td>96.7</td>
</tr>
</tbody>
</table>

**ARC Benchmark:** $5.29 \times 96.7 = $511.54 per acre

**ARC Guarantee:** $511.54 \times 86\% = $439.92 per acre

**ARC Maximum payment:** $511.54 \times 10\% = $51.15
ARC-County 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
Changes made to ARC County

- Increase the transitional yield plug to 80% from 70% used for the Olympic average yield calculation for ARC.

<table>
<thead>
<tr>
<th>County Yield</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>100</td>
</tr>
<tr>
<td>2016</td>
<td>120</td>
</tr>
<tr>
<td>2017</td>
<td>80</td>
</tr>
<tr>
<td>2018</td>
<td>30</td>
</tr>
<tr>
<td>2019</td>
<td>110</td>
</tr>
<tr>
<td>Olympic Average</td>
<td>96.7</td>
</tr>
</tbody>
</table>

What this means:
- Low years in yield history will be replaced by a higher number.
- This will bring the average up in some cases, raising the ARC-CO guaranteed revenue.
Changes made to ARC County

- 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.
ARC-PLC Decision Tools

- Illinois
- Texas A&M
- Kansas State/Oklahoma State
  - Includes ARC-IC
- Data hasn’t been released yet, so all tools are waiting for updates
No Loss of Base Acres?

• Farmers-ranchers who planted their entire farm to grass and pasture all years from 2009-2017 will have their base “unassigned”.

• Question: What is NOT grass and pasture?
  • All program crops.
  • Alfalfa
  • Farmers who planted base acres to wheat or oats and harvested it as hay or pasture are considered planted to a program crop.
  • CRP is considered planted and not grass/pasture
  • Farmers who planted triticale, brome, or similar forages for hay or grazing are in a “gray” area. What is the definition of “grass”? It will need to be interpreted by the Secretary.
  • Base acres converted to grass hay or native grass pasture are NOT considered planted to a crop.
No Loss of Base Acres?

• Farmers (ranchers) who have their base “unassigned” will continue have their acres considered “planted” to program crops during the life of this farm bill so it will maintain the base for future legislation.

• These base acres will be “unassigned” from receiving commodity payments, but eligible for the Conservation Stewardship Program (CSP) grasslands program payment at a rate of $18/acre.

• They will need to sign up for this NRCS program (not automatic) and address at least one resource concern
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.
• 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 phased out as a standalone acre-based program and be administered with the current Environmental Quality Incentives Program (EQIP).
THANK YOU!

<table>
<thead>
<tr>
<th>Name</th>
<th>Email</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Mykel Taylor</td>
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<td>785-532-3033</td>
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<td>620-275-9164</td>
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