



IOWA FARM BUREAU'S
DECISION
FARM BILL
2018

*An Informational Meeting Designed to Help You
Make Your Farm Program Decisions*

 Decision
Innovation
Solutions

 **PEOPLE. PROGRESS. PRIDE.**
IOWA FARM BUREAU

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Agriculture Improvement Act of 2018 “2018 Farm Bill”

Similar to 2014 Farm Bill. No big fundamental changes

Highlights include:

- You are not locked into your program decision for 5 years!
- PLC reference prices are allowed to “float” higher.
- One-time option to update yields
- Now prioritizes RMA (crop insurance) yield data, followed by NASS, and then the county committee.
- Base acres only planted to pasture/grass from 2009-2017 will not be eligible for ARC/PLC payments, but will be eligible for \$18/acre CSP payment

Agenda

- Improvements in Marketing Loan Rates
- ARC or PLC Election
- Improvements to Agriculture Risk Coverage (ARC)
- Improvements to Price Loss Coverage (PLC)
- Base Acres and Yield Updating
- ARC/PLC Details & Analysis
- Dairy
- Conservation
- Industrial Hemp

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2018 Farm Bill

- This presentation will give a general overview, many of the details have yet to be determined.
- The rule making process may alter the details/function of the program.
- Potential sign-up: FSA will open ARC/PLC elections for the 2019 crop year in September 2019 and 2020 crop year in October 2019.
- Contact your county FSA office for official rules/regulations.

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Consider YOUR Objectives

- What are your risk management needs?
 - Yield risk, price risk, revenue risk,
- Are you attempting to maximize farm program payments or manage revenue risk?
- Balance and consider near-term vs. long-term risk management.
- Get comfortable with your risk position no matter what happens in the future.



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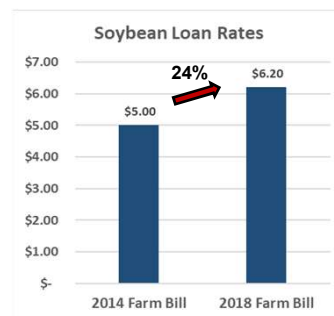
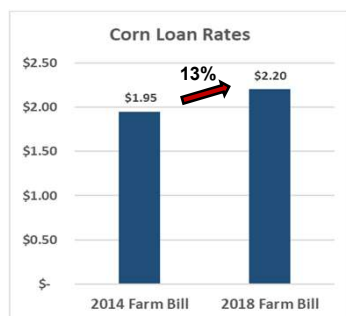
Improvements in Marketing Loan Rates

2014 Farm Bill

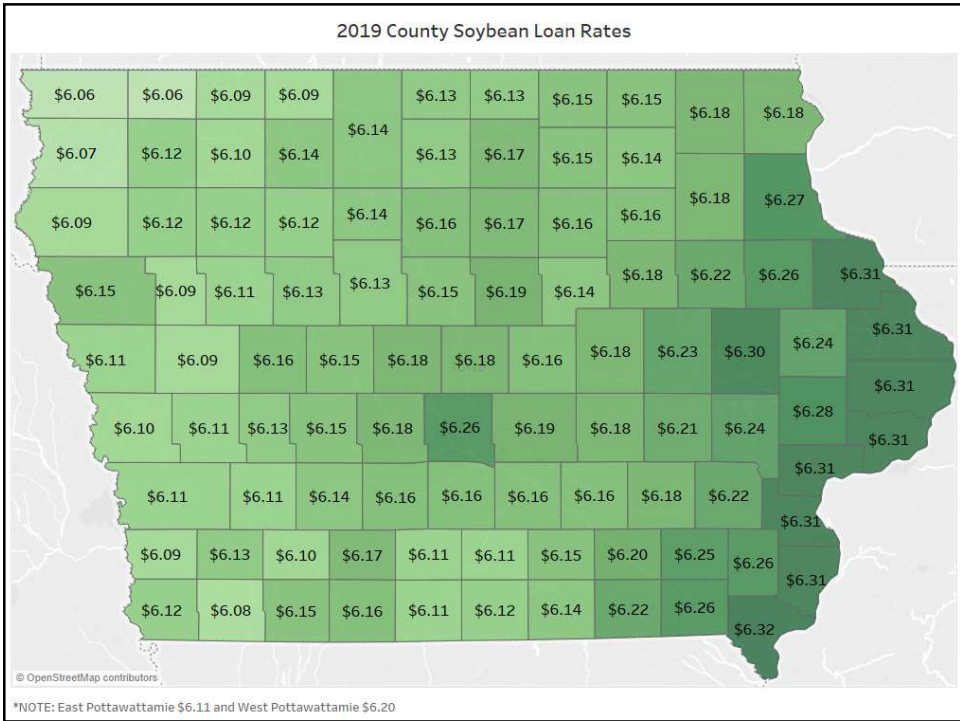
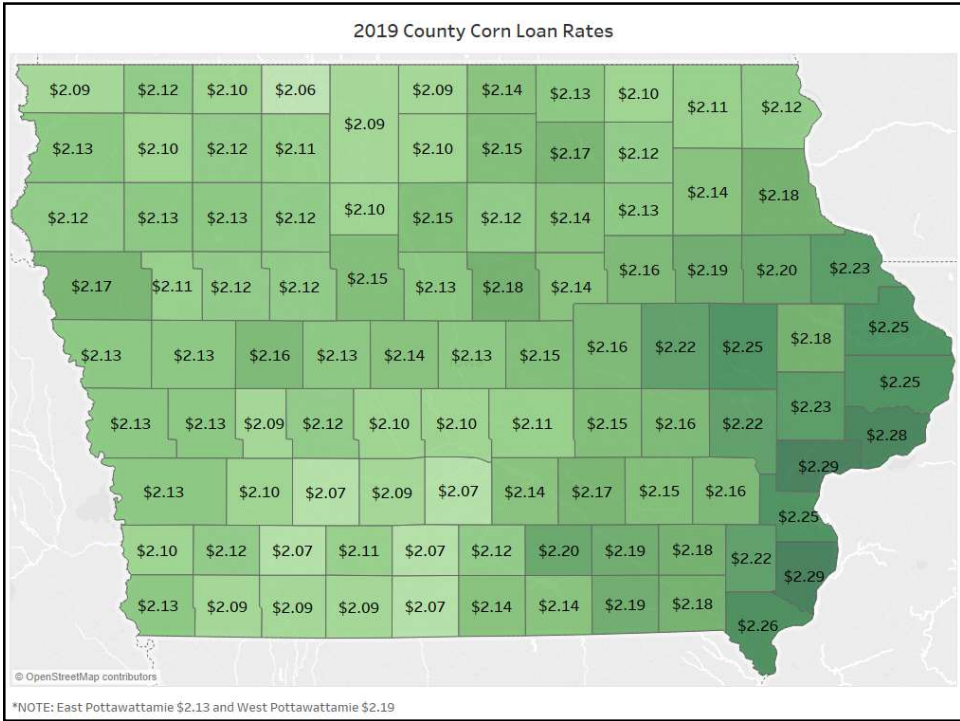
National Corn Loan Rate= \$1.95
National Soybean Loan Rate= \$5.00

2018 Farm Bill

National Corn Loan Rate= \$2.20
National Soybean Loan Rate= \$6.20



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Review:
Agriculture Risk Coverage – County
(ARC-CO)

- Payments made when the Actual County Revenue is less than the ARC-CO Guarantee.

$$\begin{aligned} \text{Actual County Revenue} &= \text{County Yield} \times \text{MYA Price} \\ \text{ARC-CO Guarantee} &= 86\% \times 5 \text{ year OMA Price} \times 5 \text{ year OMA Yield} \\ &\quad (\text{OMA} = \text{Olympic Moving Average}) \end{aligned}$$

- Maximum payment is 10% of ARC-CO Guarantee
- Payments made on 85% of base acres
- Payments made regardless of commodity planted



Review: Price Loss Coverage (PLC)

- Payments made when the price is less than the reference price for a covered commodity.
- Price is higher of Marketing Year Average price (MYA) or the National Loan Rate for the crop.
- Payments made on 85% of base acres
- Payments made regardless of commodity planted



Farm Program Decision



PLC = Price Loss Coverage
ARC = Agriculture Risk Coverage



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ARC or PLC Election

- Elect ARC or PLC in 2019 for 2019 & 2020 crop years.
- In 2021, 2022, & 2023 annual re-election of ARC or PLC
- Crop-by-crop and farm-by-farm decision



ARC or PLC Election

Year	Program Choice
2019	Elect ARC or PLC for 2019-2020
2020	Election made in 2019
2021	Optional re-election ARC or PLC for 2021
2022	Optional re-election ARC or PLC for 2022
2023	Optional re-election ARC or PLC for 2023

•After initial selection in 2019, if a producer doesn't make a change in re-election years, they will remain in their previous selection



ARC/PLC Election Process

- “Current” producers with an “interest” in cropland on the farm will make the election of ARC or PLC on each FSA Farm Number.
- The current understanding is that if an election is not made by the deadline in 2019:
 - the base crop on the farm is defaulted to the earlier 2014-18 election.
 - AND no program/payment for 2019.
 - Base would be eligible for payment in 2020 if enrolled.
 - Starting with 2021, the producer can request to change the election each year through 2023.



ARC/PLC Election Process

Definition of a producer:

A person or legal entity with a share in a crop on cropland on the farm and shares in the risk of producing the crop on the farm.

NOTE: Owners of farms receiving cash rent do not have a share in the crop nor does the owner share in the risk of producing the crop

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Improvements to Price Loss Coverage

- One of the biggest changes was the addition of an “effective reference price.”
- To utilize the new effective reference price, an Olympic moving average of the past 5 years of marketing year average prices times 85% must exceed the statutory reference price.

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Improvements to Price Loss Coverage

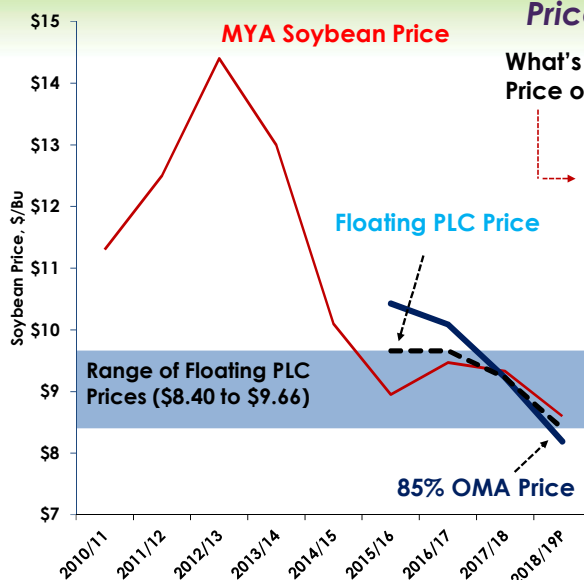
- Remember that in the 2014 Bill, PLC reference prices were fixed:

Corn \$3.70
Soybeans \$8.40

- PLC reference prices are now allowed to “float” higher based on the Olympic moving average price
- This effective reference price can increase to 115% of the statutory reference price (\$4.26 max for corn, \$9.66 max for soybeans).
- The reference price can never drop below the current statutory reference price.



Improves Price Loss Coverage



Price Support “Elevator”

What’s Higher? The Reference Price or 85% of OMA Price?

If Reference Price, Then Use Reference Price


If 85% OMA, Then...

Use Lowest Value Between:

- 115% of Reference Price
- 85% OMA Price


Source: USDA NASS, Farm Bill, AFBF Calculations



<u>Improvements to Price Loss Coverage</u>					Soybeans		Corn			
					PLC Reference Price	PLC Reference Price	PLC Reference Price	PLC Reference Price		
					\$ 8.40	\$ 9.66	\$ 3.70	\$ 4.26		
SOYBEAN EXAMPLE										
Year 1	Year 2	Year 3	Year 4	Year 5	Olympic Moving Average (OMA)	85% of OMA	PLC Reference Price	115% Max Reference Price	Effective Reference Price	
\$14.40	\$13.00	\$10.10	\$8.95	\$9.47	\$10.86	\$9.23	\$ 8.40	\$ 9.66	\$ 9.23	
CORN EXAMPLE										
Year 1	Year 2	Year 3	Year 4	Year 5	Olympic Moving Average (OMA)	85% of OMA	PLC Reference Price	115% Max Reference Price	Effective Reference Price	
\$ 6.89	\$ 4.46	\$ 3.70	\$3.61	\$3.36	\$ 3.92	\$3.33	\$ 3.70	\$ 4.26	\$ 3.70	
										

Improvements to Price Loss Coverage

- Change to Maximum PLC payment:
Marketing loan rates are used to establish the maximum payment under PLC, and as a result, higher loan rates reduce potential program payments under PLC.
- Payments are calculated as the difference between actual price (larger of actual MYA price & loan rate) and effective reference price X 85%



Improvements to Price Loss Coverage

- Payments are calculated as the difference between actual price (larger of actual MYA price & loan rate) and effective reference price X 85%

PLC Payment Example - Corn	
MYA price	\$3.60
Loan Rate	\$2.20
Actual Price: Higher of MYA & Loan Rate	\$3.60
Effective Reference Price	\$3.70
Reference - Actual Price	\$0.10
x 85% base acres	\$0.09

→ Can float from \$3.70 to \$4.26

→ This rate is then multiplied by your program yields.



Improvements to Agriculture Risk Coverage

- An increase in the yield plug from 70% to 80% of the county transitional yield.
- Primary source of yield data now RMA Crop Insurance
- The USDA must calculate and utilize trend-adjusted yield (similar to the trend adjusted yield used in the crop insurance program) to be used in yield calculations.



Improvements to Agriculture Risk Coverage

- The program will utilize an “effective reference price” when calculating benchmark revenue. These prices have certain requirements, similar to the changes to the PLC program.
- Since the PLC effective reference prices can float to 115% of the statutory reference price, ARC plug prices can also float.
- Payments based on physical location of the farm



Improvements to Agriculture Risk Coverage

- Since PLC effective reference prices can float, ARC plug prices can also float.

Soybeans		Corn	
PLC Reference Price	MAX Reference Price	PLC Reference Price	MAX Reference Price
\$ 8.40	\$ 9.66	\$ 3.70	\$ 4.26

	Year 1	Year 2	Year 3	Year 4	Year 5	Olympic Avg
MYA Soybean Prices	\$ 14.40	\$ 13.00	\$ 10.10	\$ 8.95	\$ 9.47	
2014 Farm Bill Plug Prices	\$ 14.40	\$ 13.00	\$ 10.10	\$ 8.95	\$ 9.47	\$ 10.86
2018 Farm Bill Plug Prices	\$ 14.40	\$ 13.00	\$ 10.10	\$ 9.66	\$ 9.66	\$ 10.92

*Olympic average (drop high & low before averaging)



Base Yield Updating

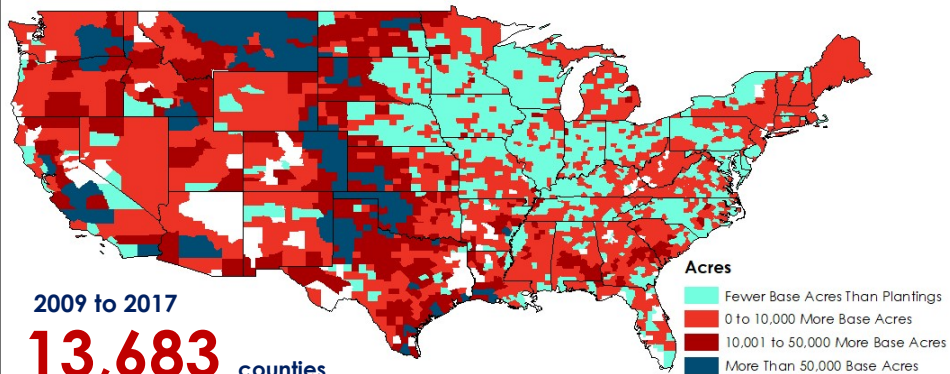
- ARC and PLC payments eliminated for acres not planted on base over 2009-2017 (can be enrolled in CSP, 5 years, \$18/a.)
- One-time option to update PLC program yields to 2013-17, with floor at 75% of county avg. yield (effective 2020)
- Opportunity to update yields for later enrollment in PLC in this Farm Bill and for later Farm Bills.



Base Acre Recalibration

A Farm's Base Acres Would Be Recalibrated to Plantings, **Suspended Base Eligible for \$18 acre**

COMPARISON OF BASE ACRES TO PROGRAM CROP ACRES



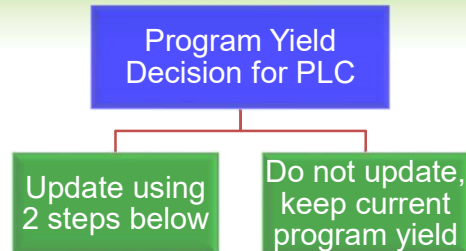
2009 to 2017
13,683 counties

Had More Base Acres Than
Average Plantings

Source: AFBF Analysis of 2018 Farm Bill



Improvements to Price Loss Coverage



- If updating, 2 Steps:
 - 1) 90% of your farm average yield for 2013-2017 crop years (excluding any years that were zero)
 - 2) reduce by a ratio that compares the 2013 through 2017 national average yields per planted acre to the 2008 to 2012 national average yields



Update or Keep Current Program Yields

- **Farm owners** get one-time opportunity to update PLC program yields. The yield update will be effective for the 2020 crop year.
- **Crop-by-crop decision:** yields can be updated for either crop or both crops
- If farm yield in any of the years (2013-17) is less than 75% of the 2013-2017 simple yield average, USDA will assign 75% of the county average yield for that year as a "plug" yield for that year in the calculation.
- If there are no yield records **for a year the crop was planted**, then "plug" yield is used for that year.
- If there is a year with no planted acres for the crop, then that year is not used in the average
 - "Prevented planting" acres are also not used in the average.



Improvements to Price Loss Coverage

PLC Program Yield Update Formula:

(90% x average 2013-17 farm yield) times (effective ratio)

Effective ratio = average US 2008-2012 yield divided by average US 2013-17

Effective Ratio Calculation				
	2008-2012 NASS National Avg Yield	2013-2017 NASS National Avg Yield	Ratio	Effective Ratio (must be between 0.9 & 1.0)
Corn (bpa)	135.3	155.9	0.87	0.9
Soybeans (bpa)	41.3	47.8	0.86	0.9

The equation can then be simplified:

(90% x average 2013-17 farm yield) times (0.9)

=

0.81 x average 2013-17 farm yield



Optional Program Yield Update

0.81 x average 2013-17 farm yield = updated yield

	Example Current Program Yield	Average Farm Yield 2013-2017	Example Yield Update Factor	Adjusted Update Yield	MAX of Current Program Yield & Adjusted Update Yield
Corn (bpa)	160	205	0.81	166.05	166.05
Corn (bpa)	180	205	0.81	166.05	180
Soybeans (bpa)	45	60	0.81	48.6	48.6
Soybeans (bpa)	55	60	0.81	48.6	55



Optional Program Yield Update

Example: Program Yield Update Using Plug Yield: Corn				
		County Yield	Example Farm Yield	Adjusted Farm Yield
	2013	167	165	165
	2014	178	181	181
	2015	168	175	175
	2016	191	195	195
	2017	149	100	128
	Average Yield	171	163	169
	Plug (75% of County Avg)	128		
Updated Program Yield				
0.81 times 2013-17 adjusted farm yield				137
2014 Farm Bill Program Yield				132

Each farm and/or county may face a different situation.



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Optional Program Yield Update

Example: Program Yield Update Using Plug Yield: Corn				
		County Yield	Example Farm Yield	Adjusted Farm Yield
	2013	167	165	165
	2014	178	not planted	
	2015	168	175	175
	2016	191	not planted	
	2017	149	100	128
	Average Yield	171	147	156
	Plug (75% of County Avg)	128		
Updated Program Yield				
0.81 times 2013-17 adjusted farm yield				126
2014 Farm Bill Program Yield				132

Each farm and/or county may face a different situation.



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Program Comparisons

- Keep updated at IowaFarmBureau.com/FarmBill or www.iowafarmbureau.com, under Trending Topics
- Decision Aids are being developed at:
 - Texas A & M University,
 - University of Illinois
- Will be linked at Farm Bureau website
 - Not available until after regulations published.
- ISU Extension and Outreach also has resources.



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Time for a short recording break;
we will continue in less than 30 seconds!




Speaker:
Ed Kordick
IFBF Farmer Education Program Manager

Farm Program Decision			
Program Name:	Price Loss Coverage	Agriculture Risk Coverage (county)	Agriculture Risk Coverage (individual/farm)
What is covered?	Individual commodities	Individual commodities	All commodities combined
Payment on what percentage of base acres?	Payments on 85% of base acres	Payments on 85% of base acres	Payments on 65% of TOTAL base acres on farm
How is benchmark revenue/price guarantee determined?	Reference Prices* Corn = \$3.70 Soybeans = \$8.40 *or effective reference price (floating)	5-year Olympic average* of county yields multiplied by the 5-year Olympic average* of national prices	5-year Olympic average* of revenue sum (national price X farm yield) for all covered commodities
If there is a payment, what is the payment?	Difference between actual price (larger of actual MYA price & the loan rate) and effective reference price X program yield X 85% base acres	Difference between actual county revenue and county ARC revenue guarantee (86% of benchmark) X 85% (limit:10% of benchmark)	Difference between actual revenue and individual ARC revenue guarantee (86% of benchmark) X 65% (limit:10% of benchmark)
	PLC participants may buy Supplemental Coverage Option (SCO)	*Olympic average (drop high & low before averaging)	

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Farm Program Decision	
Price Loss Coverage (PLC)	
What is covered?	Individual commodities
Payment on what percentage of base acres?	Payments on 85% of base acres
How is benchmark revenue/price guarantee determined?	Reference Prices* Corn = \$3.70 Soybeans = \$8.40 *or effective reference price (floating)
If there is a payment, what is the payment?	Difference between actual price (larger of actual MYA price & the loan rate) and effective reference price X payment yield X 85% base acres

PLC participants may purchase Supplemental Coverage Option (SCO)



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Farm Program Decision

Agriculture Risk Coverage (ARC-CO)

What is covered?	Individual commodities
Payment on what percentage of base acres?	Payments on 85% of base acres
How is benchmark revenue/price guarantee determined?	5-year Olympic average* of county yields multiplied by the 5-year Olympic average* of national prices (yields now includes trend-adjustment)
If there is a payment, what is the payment?	Difference between actual county revenue and county ARC revenue guarantee (86% of benchmark) X 85% (limit:10% of benchmark)

Payment rates are now based on physical location of the base acres, not the location of your FSA office.



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Farm Program Decision

Agriculture Risk Coverage (ARC-IC)

What is covered?	All commodities combined
Payment on what percentage of base acres?	Payments on 65% of TOTAL base acres on farm
How is benchmark revenue/price guarantee determined?	5-year Olympic average* of revenue sum (national price X farm yield) for all covered commodities
If there is a payment, what is the payment?	Difference between actual revenue and individual ARC revenue guarantee (86% of benchmark) X 65% (limit:10% of benchmark)



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Agriculture Improvement Act of 2018

	PLC	ARC-CO	ARC-IC
Price and Yield Comparison	Uses MYA price and PLC program yield	Uses MYA price and "County" Average Yield	Uses MYA price and producer's historical yield on the farm(s)
Base Acre Comparison	Payment determined by individual covered commodity crop base acres	Payment determined by individual covered commodity crop base acres	Payment determined by planted covered commodities combined on the farm(s) in the State

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Agriculture Improvement Act of 2018

	PLC	ARC-CO	ARC-IC
Payment Acre Comparison	Payments made on 85% of specific crop base acres on farm	Payments made on 85% of specific crop base acres on farm	Payments made on 65% of TOTAL base acres on farm
Production Reports	Production report NOT required	Production report NOT required	Requires annual production report of all covered commodities planted

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Agriculture Improvement Act of 2018

	PLC	ARC-CO	ARC-IC
Requirement to Plant?	Planting of covered commodities NOT required	Planting of covered commodities NOT required	Planting of covered commodities REQUIRED
Program Election Comparison	Elect by Covered Commodity Base Acres by farm <i>May mix ARC-CO and PLC on same farm by base crop</i>	Elect by Covered Commodity Base Acres by farm <i>May mix ARC-CO and PLC on same farm by base crop</i>	Elect on ALL Covered Commodities on the farm <i>ARC-CO & PLC not eligible on farm</i>

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Agriculture Improvement Act of 2018

	PLC	ARC-CO	ARC-IC
When Do Payments Trigger?	When the actual price of a base acreage commodity falls below reference price or effective reference price	When the ACTUAL county revenue (per acre) of a base acreage commodity falls below the ARC-CO guarantee for that crop and county.	When ACTUAL farm revenue from <u>enrolled</u> farms falls below the calculated ARC-IC guarantee for all enrolled farms in the state.

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ARC and PLC Chart Notes:

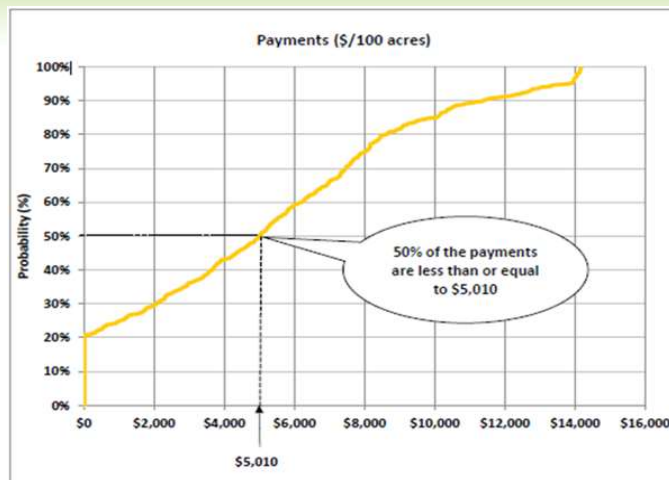
- Baseline projected 2019 to 2023 simulated Marketing Year Average (MYA) prices for corn and soybeans were stochastically generated prices within our model.
- County yield data includes 33 years of historical data from USDA/NASS (1985-2017) and one year of trended data (2018). USDA will publish final 2018 county yield data on March 21, 2019.
- The simulation model ran 500 times to generate the distribution of payments. Individual crop payments were estimated per 100 acres. Combined crop payments were estimated per 200 acres (100 corn/100 soybeans mix).
- These charts are preliminary at this point. As more data and rules are released these will be updated for each county and available here:

IowaFarmBureau.com/FarmBill



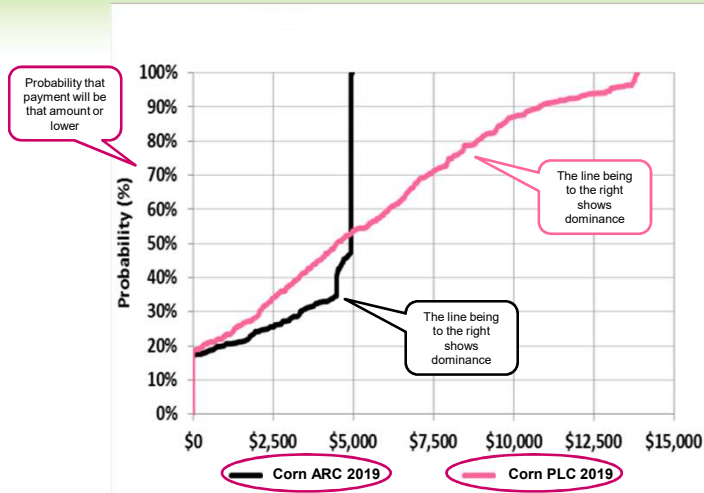
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Understanding Charts Used in the Analysis



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Understanding Charts Used in the Analysis



CDF graph: Cumulative Distributive Function

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County Level Analysis on IowaFarmBureau.com/FarmBill

•Support material and information to assist in making Farm Bill decisions.

•To be used as a guide and each program participant should make Their own decision after consulting information and using available decision tools.



County Level Analysis

•Purpose is to illustrate differences between the two primary programs in the 2018 Farm Bill (Agricultural Risk Coverage-County and Price Loss Coverage).

Payment Limitations

- Maximum dollar amount that can be received annually, directly or indirectly, under various programs by a person or legal entity. Such limitations on payments are controlled by direct attribution.
- The 2018 Farm Bill retains the limit of \$125,000 for PLC and ARC payments.
(The Loan Deficiency Program and Marketing Loan Gains no longer count towards the payment limitation)
- Participation is limited to persons/entities with AGI less than \$900,000



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Program Summary

Current FSA-211, Power of Attorneys, are valid for the ARC/PLC program if Section A and B are marked as follows:

- Section A, item 2, “All current and ALL future programs”
- Section B, item 1, “All Actions”

Check with FSA Office on Power of Attorney forms.



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Cover Crops in Crop Insurance

- If cover crops are terminated according to USDA guidelines (or an agricultural expert):
 - Cover crop practices are defined as a “good farming practice”; and
 - Cover crop termination “shall not affect the insurability of a subsequently planted insurable crop.”

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Dairy

- 2018 Farm Bill: Dairy Margin Coverage (DMC)
 - More affordable, more comprehensive for small producers
 - More meaningful, non-distorting coverage for large producers
- Producers can use 75% of net premiums paid for MPP (Margin Protection Program) from 2014-2017 as credit for DMC premiums
- Or, they can choose to receive 50% of net premium as a direct refund
- Can use both DMC and crop insurance programs



Dairy

- DMC adds coverage levels of \$8.50, \$9.00 and \$9.50/cwt for the first 5 million lbs of covered milk production
- Premium rates would range from \$4.00 to \$9.50/cwt for Tier I and \$4.00 to \$8.00 for Tier II
- Can expand covered production from 5% to 95% of production history
- 25% reduction in premium rates if you lock in a 5-yr coverage level & percentage



Conservation

- CRP
 - Increases CRP enrollment from 24 million to 27 million acres by 2023
 - Payments for general and continuous enrollment contracts are limited to 85% and 90%, respectively, of county average rental rates



Conservation

- EQIP
 - Continues the Environmental Quality Incentives Program for working lands
 - Increases funding to \$2.025 billion through 2023
 - The bill authorizes conservation innovation grants, conservation innovation trials, and soil health pilot projects.

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Conservation

- CSP
 - Continues for working lands but reduces funding from \$1.8 billion to no more than \$1 billion per year
 - Current contracts will be honored, with 1-year extension options allowed for contracts expiring in 2019
 - A farm only been planted to pasture/grass from 2009-2017 will not be eligible for ARC/PLC, but will preserve base and can be paid \$18/acre for base acres
- ACEP
 - The bill restores funding for the Agricultural Conservation Easement Program to \$450 million per year

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Industrial Hemp

- Worldwide market is \$2.5 billion, U.S. share is estimated at \$820 million
- U.S. market is growing 15-20% annually
- Made legal by the 2018 Farm Bill for hemp that has less than 0.3% THC
- Types of industrial hemp: Oilseed, fiber, and hybrid (both fiber and seed)
- Shared state-federal regulatory power over hemp production



Industrial Hemp

- The 2018 Farm Bill removes “Industrial Hemp” from the Controlled Substance Act Schedule 1 drug list, creating a legal pathway for hemp, but significant requirements must be met.
- For a State to comply with the Farm Bill, State departments of ag. must devise a plan that must be submitted and approved by the USDA Secretary.



Industrial Hemp

- The Iowa legislature passed the Iowa Hemp Act, authorizing production and marketing of hemp administered by the Iowa Department of Agriculture and Land Stewardship (IDALS).
- IDALS will submit state plan to USDA for approval.
- Iowa Hemp Act establishes license requirements & fees as well as inspection requirements & fees.
- USDA regulations in Fall, 2019 perhaps;
First possible crop would be 2020.
- Contact IDALS for more information.

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Stay in touch for updates as the 2018 Farm Bill details develop at:

IowaFarmBureau.com/FarmBill

This presentation and analysis was internally developed by Iowa Farm Bureau and Decision Innovation Solutions with information from the following sources:

*USDA, farmers.gov
AFBF
Iowa State University
FarmDoc, University of Illinois
and more*

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Iowa Farm Bureau's Margin Management Webinar Series presents:



Please fill out a brief evaluation:

<https://tinyurl.com/Aug26eval>

Webinar recordings & materials will be available:

IowaFarmBureau.com/FarmBill

Click on Farm Bill Presentations



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Iowa Concern

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Additional resources at
www.i-cash.org

<https://www.extension.iastate.edu/iowaconcern/>