The Agricultural Improvement Act of 2018

Conference Report Synopsis

Agricultural producers have faced declining commodity prices in recent years. Uncertainty, coupled with falling farm income to a 2002 level has been stabilized with the most recent legislative process. This legislative act continues the primary price support systems that expired with the 2014 Farm Bill. The conference report, Title I extends these actions beyond the 2014 Farm Bill.

Title I of the conference report provides clarity and ensures that an extension of the 2014 Farm Bill did not provide. The agreement continues the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) options through 2023, enhances current dairy program support, continues standing disaster programs, and includes measures that are sensible to the aggregate support of agricultural policy across the United States.

New Mexico agricultural producers will experience similar support processes that they have had over the past decade. These functions will vary, and should be considered and discussed with the producers Farm Service Agency personnel. Financial planning with full-information is strongly encouraged, as each agricultural situation is unique across the state.

A combination of university and industry reports were utilized to provide the following synopsis of information.

Enhances Farm Policy and Provides Additional Flexibility

PLC provides assistance to producers when the market price for a covered commodity falls to critically low levels (below the statutory reference price). ARC provides assistance to producers when actual crop revenue for a covered commodity falls below 86 percent of the benchmark revenue. Producers electing ARC can choose between county (CO) and farm-level (IC) coverage.

Updated election options: The conference report offers producers a new choice between ARC and PLC on a crop-by-crop and farm-by-farm basis, applied jointly to the 2019 and 2020 crop years. Beginning in crop year 2021, producers will have the flexibility to make an annual decision between ARC and PLC on a crop-by-crop and farm-by-farm basis.

Effective Reference Prices: The conference report allows PLC Reference Prices to adjust with improvements in market prices. This Effective Reference Price is calculated as the greatest of 85 percent of the 5-year average price and the PLC Reference Price established in the 2014 Farm Bill. In no case can the Effective Reference Price be more than 115 percent of the PLC reference price as demonstrated in table 1 found in the appendix.

Optional nationwide yield update: Beginning in crop year 2020, owners of all farms in the country will have the opportunity to update the program yield used on the farm to calculate assistance under PLC, similar to the update opportunity provided in the 2014 Farm Bill. The update is intended to benefit producers who sustained multiple years of losses during the 2008-2012 crop years (the previous update period) for which the 2014 update was less effective.

Producers may update the yield on the farm for each covered commodity to 90 percent of the average yield per planted acre on the farm from 2013-2017—ignoring years where the covered commodity was not planted on the farm—multiplied by the yield update factor for the covered commodity listed in the table below. For any year in which the yield on the farm was less than 75 percent of the county average yield from 2013-2017, owners may plug 75 percent of the county average yield.

For example, assume the average yield per planted acre on the farm from 2013-2017 for wheat was 35 bu/ac. The producer could update the PLC yield to 30.8 bu/ac (or 90% x 35 bu/ac x 0.9767).

ARC-CO improvements: The conference report makes several targeted improvements to enhance the efficacy of ARC-CO. The conference report:

- Increases the yield plug from 70 percent to 80 percent of the county transitional yield.
- Incorporates the Effective Reference Price into the calculation of benchmark revenue.
- Adds a trend adjustment factor that will function similar to the factor utilized in crop insurance policies.
- Creates a pilot program that will allow the Secretary the flexibility to divide up to 25 large counties into sub-county units with independently calculated ARC payment rates.
- Requires the Secretary to establish guarantees for irrigated and non-irrigated yields in each county.
- Prioritizes the use of RMA data for calculating county yields in accordance with H.R. 4654.
- Provides assistance based on the county of the farm's physical location.
- Requires USDA to publish payment rates and program data in a timelier manner.

Targets assistance to land in active production: The conference report suspends ARC and PLC payments on farms that have been entirely in grass or pasture since 2009 to ensure the farm safety net is targeted to those farms that are producing covered commodities. Recognizing that farms in grass are conserving natural resources, the conference report guarantees those farms an opportunity to participate in a 5-year grassland incentive contract under the Conservation Stewardship Program (CSP) at a rate of $18 per acre.

Improves the Marketing Assistance Loan

Harvest is often the lowest point of the year for commodity prices. The marketing loan allows farmers to pledge their crop as collateral and receive a loan for a portion of the crop's value, providing flexibility to market the crop when prices improve. The conference report increases the loan rates for certain commodities to more accurately reflect current market prices and provide more relevant assistance to farmers.

Dairy Industry Support Continued

All sectors of production agriculture have been struggling to cope with a period of chronically low prices, but perhaps none more so than the dairy sector. Recognizing these challenges, in February Congress passed the Bipartisan Budget Act of 2018 (BBA) which made an $800 million investment in the Margin Protection Program (MPP) and lifted the cap on livestock insurance expenditures. The conference report renames MPP as Dairy Margin Coverage (DMC) and builds on the BBA investment by offering new coverage levels for the first 5 million pounds of production, drastically reducing premiums on catastrophic coverage levels for larger producers, and eliminating the restriction between the margin program (formerly MPP, now DMC) and Livestock Gross Margin (LGM) insurance.

Increases coverage options: The conference report adds $8.50, $9.00, and $9.50 coverage levels for the first 5 million pounds of covered milk production. Additionally, the conference report expands the range of production allowed to be covered, from 5 percent up to 95 percent of production history.

Rewards risk management strategies: For dairy operations that choose to make a 5-year decision to lock in a coverage level and coverage percentage for the life of the 2018 Farm Bill, premium rates are reduced by 25 percent.

Offers flexibility and reduces certain premiums for large operations: The conference report allows dairies with covered production in excess of 5 million pounds to enroll in $8.50, $9.00, or $9.50 coverage under Tier I and to make an independent coverage level election in Tier II. Additionally, as noted in the table that follows, premiums for $5.00 coverage in Tier II are reduced by 88 percent (91 percent if the premium is discounted for 5-year coverage) in an effort to make catastrophic coverage levels more affordable.

Provides access to more risk management tools: The conference report eliminates the restriction on participating in DMC and LGM crop insurance. This flexibility, along with the new Dairy Revenue Protection (Dairy-RP) insurance policy developed by the American Farm Bureau Federation, will provide multiple options to address risk for dairy farmers.

Provides equitable relief for 2018 MPP participation: The conference report allows dairy operations that were prohibited from participating in MPP following the premium reductions enacted via the BBA (due to enrollment in an LGM contract) to retroactively enroll in coverage.

Incentivizes participation in revamped program: Recognizing MPP did not provide an adequate safety net for dairy farmers, the conference report provides dairy operations the opportunity to utilize 75 percent of the net premium paid for MPP from 2014-2017 as a credit for future DMC premiums. Alternatively, operations can elect to receive 50 percent of net premium as a direct refund.

Improves Vital Disaster Programs

Livestock Indemnity Program (LIP): LIP provides assistance to livestock producers in the event of the death or forced sale of livestock due to an eligible cause of loss. The conference report updates the eligible causes of loss to include disease and deaths of unweaned livestock, so all livestock death losses are consolidated under one program (whereas certain losses were previously covered under ELAP).

Livestock Forage Program (LFP): LFP provides feed cost replacement for livestock producers in the event of forage loss due to severe drought. The conference report maintains this critical assistance for livestock producers.

Emergency Assistance: Livestock, Honey Bees, and Farm-raised Fish (ELAP): ELAP provides assistance to producers of livestock, honey bees, and farm-raised fish to aid in the reduction of losses not covered under other disaster programs. The conference report ensures ELAP assistance will cover the inspection of herds for cattle fever tick and removes the arbitrary payment limitation on ELAP assistance. Honey bee and farm-raised fish are currently niche markets in New Mexico, but these producers should continually gain additional insight from Farm Service Agency personnel in areas of support for their operation.

Tree Assistance Program (TAP): TAP offers cost share assistance to eligible orchardists who suffer loss or damage to tree groves. Producers may receive 65 percent of the cost of replanting trees or 50 percent of the cost to remove damaged limbs and vines. The conference report increases the cost share to 75 percent for beginning farmers and veterans.

Maintains Current Administrative Provisions

Payment limitations and AGI means testing: The conference report maintains the current payment limitation of $125,000 in assistance from ARC/PLC per person or entity. The separate limit for peanuts is maintained and doubling for spouses continues to apply. Additionally, participation continues to be limited to persons or entities with less than $900,000 in average adjusted gross income (AGI). The conference report removes Loan Deficiency Payments (LDPs) and Marketing Loan Gains (MLGs) from counting toward the payment limitation.

Actively Engaged in Farming (AEF) regulations: The conference report maintains current AEF regulations and continues to ensure all individuals eligible for the farm safety net are required to contribute land, labor, or capital to the farm operation AND provide the necessary amount of labor and/or management. The conference report amends the definition of family to include first cousins, nieces, and nephews to ensure family farms are not subjected to cumbersome regulations only intended for non-family operations.

References

Source: University of Illinois, http://farmdocdaily.illinois.edu

Source: Purdue University, https://www.purdue.edu/newsroom/releases/2019/Q1/farmer-sentiment-improves-following-usdas-second-mfp-payment-announcement-and-farm-bill-approval.html

Source: Farm Press; https://www.farmprogress.com/farm-bill/2018-farm-bill-thoughts-webinars-and-key-provisions

Appendix One

Table 1. Estimated Yield Update Factor					
	2008 to 2012 National Average Yield^	2013 to 2017 National Average Yield^	Actual Ratio	Effective Ratio (between 0.9 and 1.0)	Yield Update Factor*
CORN (bu./acre)	135.3	155.9	0.87	0.90	0.81
UPLAND COTTON (lb./acre)^^	640.4	715.3	0.90	0.90	0.81
PEANUTS (lb./acre)	3,446.3	3,716.0	0.93	0.93	0.83
ALL RICE (cwt./acre)	69.6	73.7	0.94	0.94	0.85
SOYBEANS (bu./acre)	41.3	47.8	0.86	0.90	0.81
SORGHUM (bu./acre)	51.5	63.2	0.81	0.90	0.81
ALL WHEAT (bu./acre)	39.1	39.0	1.00	1.00	0.90

Notes:

^National average yields calculated as NASS production/planted acres; FSA yields likely to differ

**Updated yield option = Yield Update Factor times the 2013 to 2017 average yields for the farm*

^^Seed cotton program yield = 2.4 X upland cotton yield (as updated)

Source: University of Illinois, http://farmdocdaily.illinois.edu

Table 2. 2018 Farm Bill Loan Rates			
Loan Commodity	Current Loan Rate	2019 to 2023 Loan Rate	Percentage Increase
WHEAT (bu.)	$2.94	$3.38	114.97%
CORN (bu.)	$1.95	$2.20	112.82%
GRAIN SORGHUM (bu.)	$1.95	$2.20	112.82%
BARLEY (bu.)	$1.95	$2.20	112.82%
UPLAND COTTON (lb.)	2-year average of world prices (between $0.45 and $0.52/lb.)	2-year average of world prices, not less than 98% of previous year (between $0.45 and $0.52/lb)	
LONG GRAIN RICE (cwt.)	$6.50	$7.00	107.69%
MEDIUM GRAIN RICE (cwt.)	$6.50	$7.00	107.69%
SOYBEANS (bu.)	$5.00	$6.20	124.00%
PEANUTS (tons)	$355	$355	100.00%

Source: University of Illinois, http://farmdocdaily.illinois.edu