The Agriculture Improvement Act of 2018
(2018 Farm Bill)
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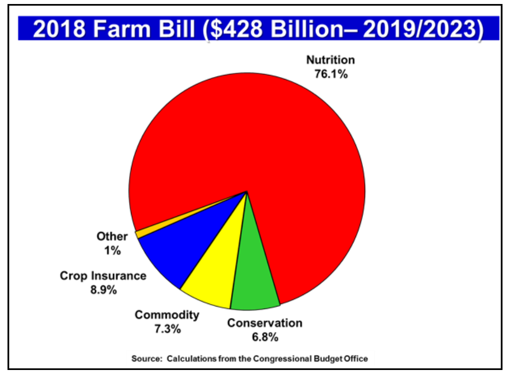
The 2018 Farm Bill was passed by Congress and signed by the President last month. In reality, the structure of the 2018 Farm Bill is not much different than the previous farm bill (2014) with crop insurance, Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) remaining the main safety net components for program crops. This status quo outcome was largely a result political realities and budget constraints. Once the controversial debate over the nutrition title was resolved, the 2018 farm bill passed by huge bipartisan support in both the U.S. House and the U.S. Senate. Given the current situation and outlook for the U.S. farm economy, the structure of this legislation provides safety net benefits, but will not by itself relieve U.S./Kentucky agriculture from the current financial stress facing the sector.

Projected costs estimates reveal that nutrition programs will account for 76% of the funding for the life of the 2018 farm bill (2019-2023), compared to nearly 80% under the 2014 farm bill. Farm-related programs (commodity, conservation and crop insurance) comprise 23% of the total expenditures. The remaining one percent is split among other programs such as trade promotion, research/extension, horticulture, rural development, forestry, credit, energy and other miscellaneous programs.



The Congressional Budget Office indicates that the 2018 Farm Bill will be budget neutral over the ten year scoring period (2019-2028). Commodity support program funding is boosted primarily due to relatively low anticipated commodity prices and not due to major structural changes. Lower farm prices have led to lower premium subsidies for crop insurance outlays, which are also impacted by higher administrative fees for farmers selecting catastrophic coverage. Conservation, trade promotion, research and extension, and horticulture (primarily local and regional food and value-added programs) received higher funding over the 2019-2023 period. Increased funding for these programs were made available from changes in an escrow account held by the nation's rural electric cooperatives to pay off USDA loans as part of adjustments within the rural development title. Highlights from various components of the 2018 farm bill are summarized below.

Commodity Title:

- Marketing loan rates for program crops produced in Kentucky are increased, but at a level, which if observed, would be devastating to the current depressed farm economy. (See Table 1)

Table 1: Loan Rates and PLC Reference Prices

	Loan Rate: 2018 vs 2014 ($/bu)	Price Loss Coverage (PLC) Reference Price ($/bu) 1/	Maximum Effective PLC Reference Price ($/bu) 2/
Corn	$2.20 vs $1.95	$3.70	$4.26
Soybeans	$6.20 vs $5.00	$8.40	$9.66
Wheat	$3.38 vs $2.94	$5.50	$6.33

1/ Unchanged from 2014 farm bill
2/ 115% of the PLC Statutory Reference Price – see text below

- Producers will have the option to select between PLC or ARC for program crops on a crop-by- crop and farm-by-farm basis in 2019, and then again annually in 2021, 2022, and 2023. PLC remains the default option if producers do not make an election.

- PLC reference prices will initially remain at the levels established under the 2014 farm bill, with an escalator provision allowing these safety net prices to increase by a maximum of 15% above their statutory level. Specifically, the effective reference price is calculated as the greater of 85% of the five year Olympic moving average price (which excludes high and low prices during the five year period) and the PLC reference prices established in the 2014 Farm Bill. In reality, it will take a sustained period of commodity price increases during the life of the 2018 farm bill to elevate PLC reference prices above their 2014 levels. (See Table 1)

- For PLC calculations, producers will have an opportunity to update their yield history in 2020, based on their yield history during the 2013 to 2017 crop years. Program yield changes for each farm bill crop will be limited to 90% of the average farm yield per planted acre from 2013-2017, adjusted by national yield trends.

- Yield data collected by the Risk Management Agency (RMA) will become the primary source of data for ARC yield calculations, replacing National Agricultural Statistical Service (NASS) survey data. Separate yields will be used for irrigated versus non-irrigated land in each county in calculating ARC payment guarantees. In addition, the yield plug used for ARC calculations will be increased from the 2014 farm bill level of 70% to 80% of the county transitional yield.

- Both PLC and ARC program payments will be suspended for producers who did not plant a program crop on their base acres over the past ten years. Under this situation, producers would be eligible to enroll these acres into the Conservation Stewardship Program (CSP) for five years at an annual payment rate of $18/acre.

- Payment limitations (for ARC/PLC programs) remain at $125,000 per person or entity ($250,000 for married couples) for those individuals/entities whose Adjusted Gross Income (AGI) is less than $900,000. Payment eligibility is expanded to include cousins, nephews, and nieces who are deemed actively engaged in the farming operation.

- The major risk management tool for dairy farmers (protecting farmers when the margin between milk prices and feed costs falls below producer-selected coverage levels) was maintained, but the Dairy Margin Protection Program (MPP) was renamed the Dairy Margin Coverage (DMC) program. In addition, the DMC calls for greater premium adjustments and coverage level options (increased coverage from $8/cwt to $9.50/cwt for the first 5 million pounds of production) to provide an improved safety net for dairy farmers, especially smaller dairies. For specific details, check out www.fb.org/market-intel/reviewing-dairy-margin-coverage and https://farmdocdaily.illinois.edu/2018/12/dairy-provisions-in-the-2018-farm-bill.html

Conservation Title:

- Increases Conservation Reserve Program (CRP) acres from 24 million to 27 million over time. CRP rental rates would be capped at 85% of local rental rates for general signup acres and 90% for continuous signup acres.

- Increases funding for conservation programs by $555 million during the life of the 2018 farm bill with increased funding for the Environmental Quality Incentives Program (EQIP), but lower funding for the Conservation Stewardship Program (CSP).

- New incentives provided for producers who utilize cover crops, crop rotations, and other conservation practices that protect water quality.

Other Components

- Hemp is removed from the controlled substance list, allowing the crop to be eligible for federal crop insurance, and federal research grants.

- Increases annual farm loan authorization to $10 billion, up from $4 billion and boosts the limits on guaranteed loans to $1.75 million per borrower (vs current limit of $700,000), with incentives for socially disadvantaged and beginning farmers.

- Funding provided for broadband projects and programs to combat opioid addiction.

- Expanded research funding for organic research and extension programs, and specialty crop research.

- Maintains value-added producer grants, and funding for farmers markets, and local food promotion programs.

- Funding provided for beginning farmer programs.

- New funding for controlling animal disease breakouts.

The government shutdown has delayed USDA offering specific regulations related to the 2018 farm bill. So stay tuned for future developments as they evolve in the coming weeks/months. A copy of the entire 2018 Farm Bill can be accessed online at https://docs.house.gov/billsthisweek/20181210/CRPT-115hrpt1072.pdf.