

# 2018 Farm Bill Status and Outlook

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# Farm Bill Outlook



## ◆ Policy Drivers

- Economics
- Budget
- Trade
- Politics

# Farm Bill Budget Outlook

- ◆ Big 4 account for 99% of spending
  - Commodities
  - Crop Insurance
  - Conservation
  - Nutrition (Supplemental Nutrition Assistance Program)
- ◆ Everything else fits in the 1%
  - Trade
  - Credit
  - Rural Development
  - Research, Extension, and Related Matters
  - Forestry
  - Energy
  - Horticulture
  - Miscellaneous

# Farm Bill Issues

## ◆ Commodity programs

- ARC mechanics
  - Yield data and history
- Reference prices
- ARC v. PLC decision
- Dairy and cotton

## ◆ Crop insurance programs

- Program features
- Eligibility limits
- Premium subsidy

## ◆ Conservation

- CRP
  - Acreage enrollment cap
  - CRP rental rates
- Working lands programs
  - EQIP and CSP funding

## ◆ Nutrition (Supplemental Nutrition Assistance Program)

- Supports and eligibility levels
- Not a source of funds for farm program spending

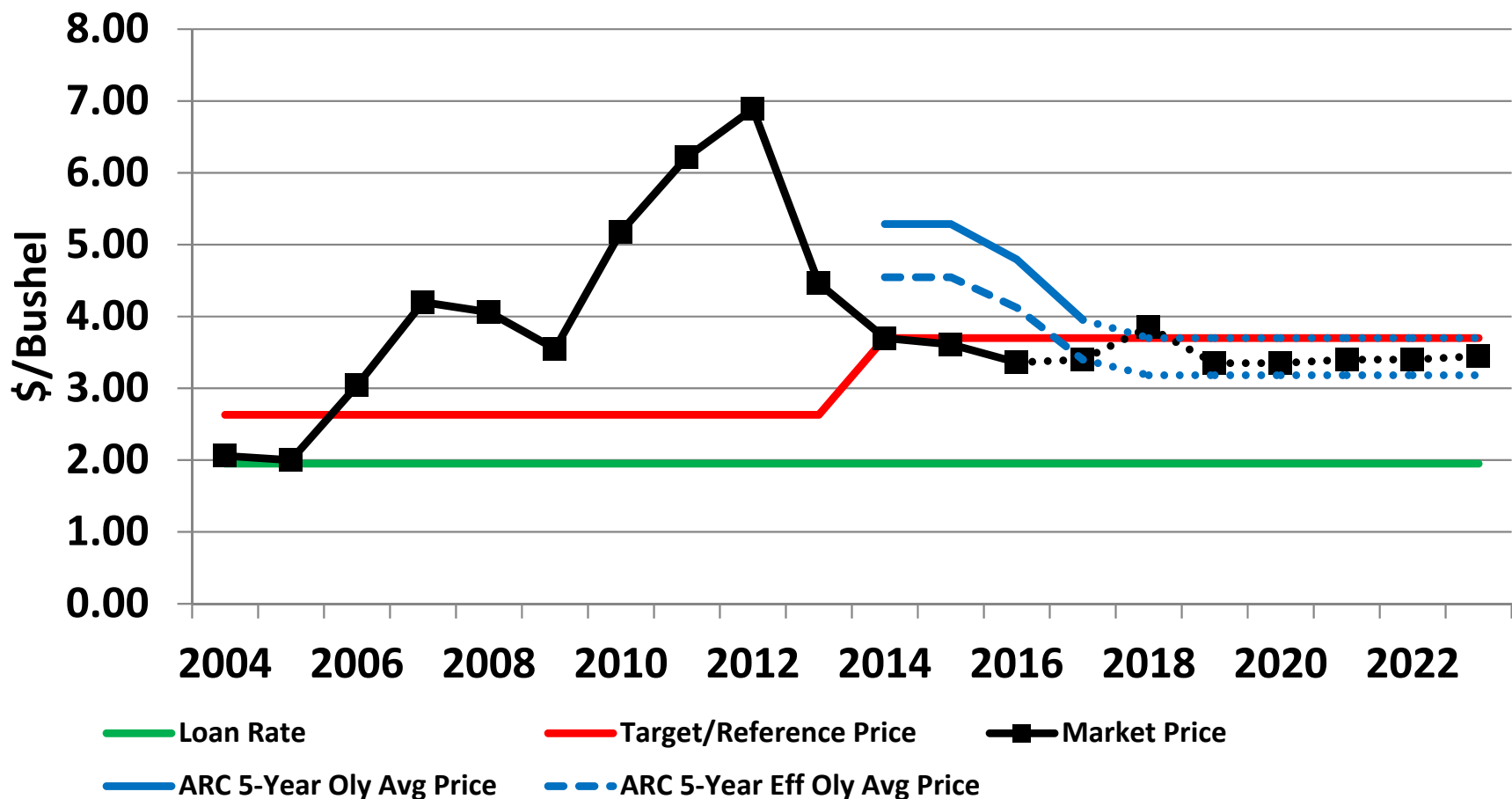
# Commodities

## Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/Questions
ARC v. PLC	Fixed reference price for PLC (and ARC) Moving average revenue guarantee at 86% for ARC	Increased reference price (higher of reference or 85% of 5-year OAP, max of 115% of reference price)  Eliminate ARC-IC	Thune/Brown amendment to reduce reference prices and strengthen ARC not considered	Role of safety net?  Price v. revenue?  Fixed vs. moving average protection?  Responsiveness to low prices/income?  ARC v. PLC decision in 2019 and 2019-23 price projections?

# Farm Income Safety Net

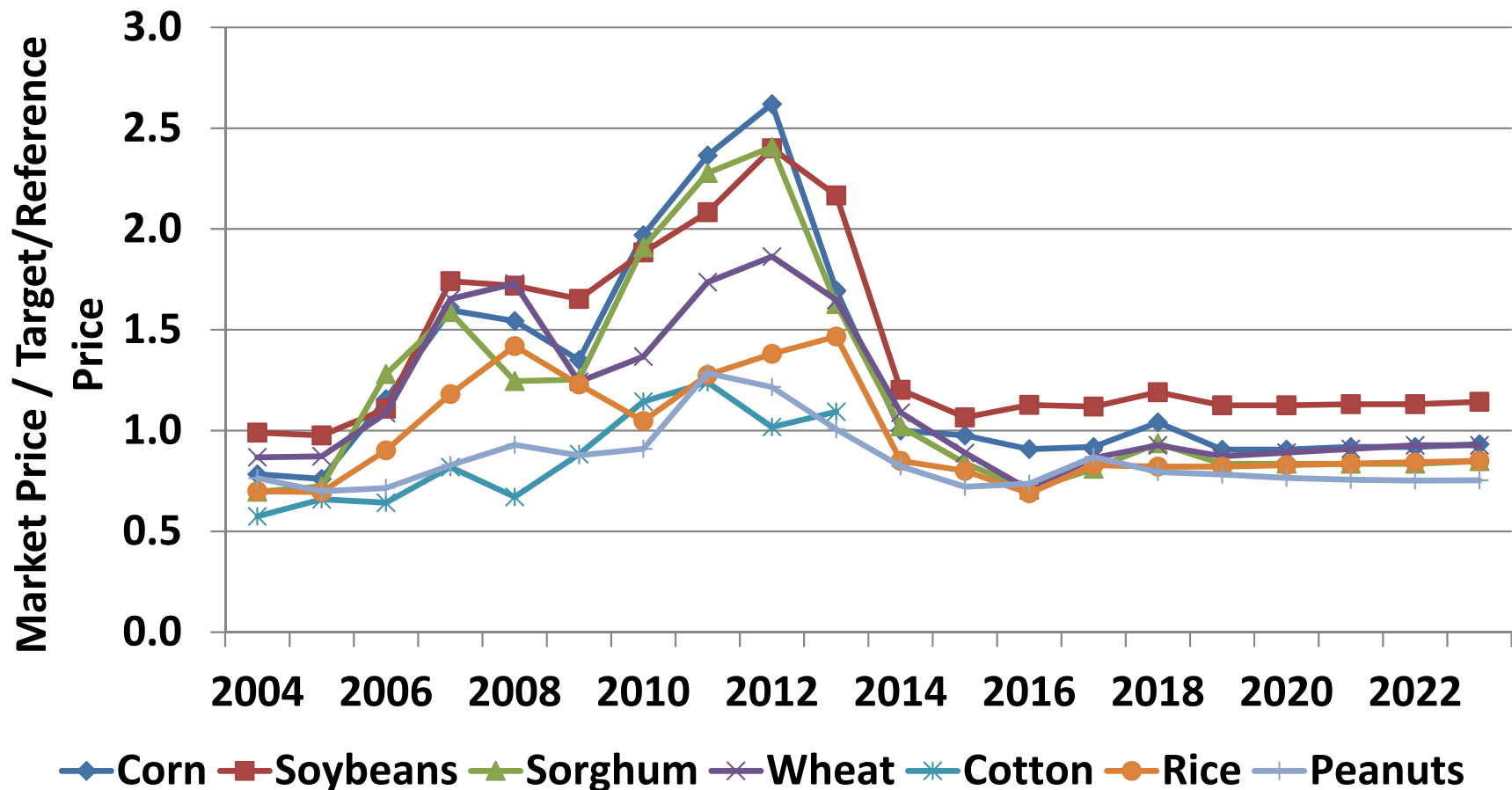
## Corn Prices, PLC, and ARC Price Protection\*



\* Price projections for 2017-2018 from USDA-WAOB and USDA-FSA as of June 2018. Price projections for 2019-2023 from USDA-OCE as of February 2018. ARC 5-year effective Olympic average price based on 86% of ARC 5-Year Olympic average price for illustration only as ARC protection is tied to revenue. Sources: USDA-FSA, USDA-NASS, USDA-WAOB and USDA-OCE.

# Farm Income Safety Net

## Market Price Levels Relative to Safety Net Levels\*



\* Price projections for 2017-2018 from USDA-WAOB and USDA-FSA as of June 2018. Price projections for 2019-2023 from USDA-OCE as of February 2018. Sources: USDA-FSA, USDA-NASS, USDA-WAOB and USDA-OCE.

# Commodities

## Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/Questions
ARC-CO Yields	5-year OAY – based on NASS/RMA/committee  Plug yield at 70%	Shift to RMA data first  Yield update for drought-affected counties  Plug yield remains at 70%	Shift to data with greatest national coverage first (RMA?)  Plug yield from 70% to 75%  Trend-adjusted 5-year OAY	Most representative yield history and calculation to protect production?
ARC-CO Payments	Based on administrative county – opportunity for reconstitution to split combined counties		Shift to geographic county	

\* Price projections for 2017-2018 from USDA-WAOB and USDA-FSA as of June 2018. Price projections for 2019-2023 from USDA-OCE as of February 2018. ARC 5-year effective Olympic average price based on 86% of ARC 5-Year Olympic average price for illustration only as ARC protection is tied to revenue. Sources: USDA-FSA, USDA-NASS, USDA-WAOB and USDA-OCE.

# Payment Limits

## Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/Questions
Program Payment Limits	\$125,000 per person or per entity			
AGI Eligibility Limits	\$900,000		Reduces AGI cap from \$900,000 to \$700,000	
Direct Attribution and Entity rules	Payments attributed to individuals for payment limit purposes regardless of entities, subject to 4 levels of entities  Entities also limited to single payment limit	Relaxes entity rule - unlimited payments to qualified pass-through entities – S Corps and LLCs  Expands familial definition – nieces, nephews, cousins		Supports tied to production or to farms?  Entities vs. individuals?
Active Engagement	Left hand contributions – land, labor, capital  Right hand contributions – active labor and management		Grassley amendment language to tighten eligibility rules added into bill	What defines/limits active engagement?

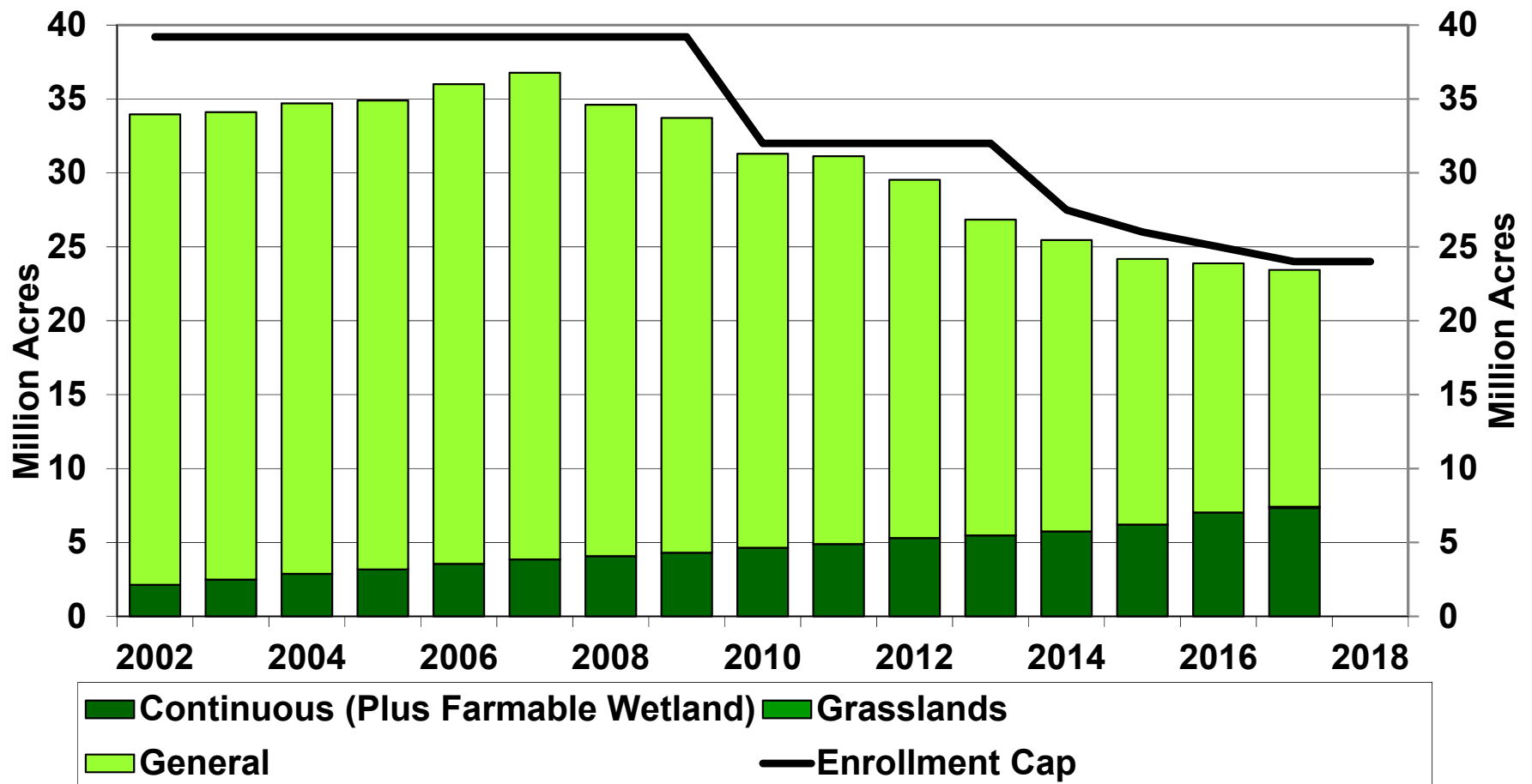
# Conservation

## Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/Questions
CRP	<p>Enrollment cap – 24 M acres</p> <p>Rental rate – max of 100% of county average rental rate</p>	<p>Expand cap to 29 M acres</p> <p>Reduce maximum rental rate to 80%</p> <p>Reduced rental rate cap for re-enrollment</p>	<p>Expand cap to 25 M acres</p> <p>Reduce maximum rental rate to 88.5%</p> <p>Establishes Conservation Reserve Easements</p> <p>Thune amendment language added to create separate Soil Health and Income Protection Program for short-term land retirement</p>	<p>Budget-neutral cap and rental rate shift?</p> <p>Willingness-to-accept for CRP re-enrolment?</p>
Working Lands	<p>EQIP up to \$1.75 B/yr, projected outlays of \$1.5-1.7 B/yr over 2019-2023</p> <p>EQIP livestock share of 60%</p> <p>CSP up to 10 M ac/yr, projected outlays of \$1.6-1.8 B/yr over 2019-23</p>	<p>Eliminates CSP, shifts stewardship payments to EQIP, raises EQIP by \$2.1 B, but cuts CSP by \$3.6 B over 2019-23</p> <p>Eliminates EQIP livestock share</p>	<p>Reduces EQIP authority to \$1.5-1.6 B/yr, projected outlays reduced by \$626 M over 2019-23</p> <p>Reduces EQIP livestock share to 55%</p> <p>Reduces CSP authority to 8.8 M ac/yr, projected outlays reduced by \$229 M over 2019-23</p>	<p>Reduced funding for working lands programs?</p>

# Conservation Reserve Program

## Enrolled Acreage by Category



Source: USDA-FSA and USDA-NASS

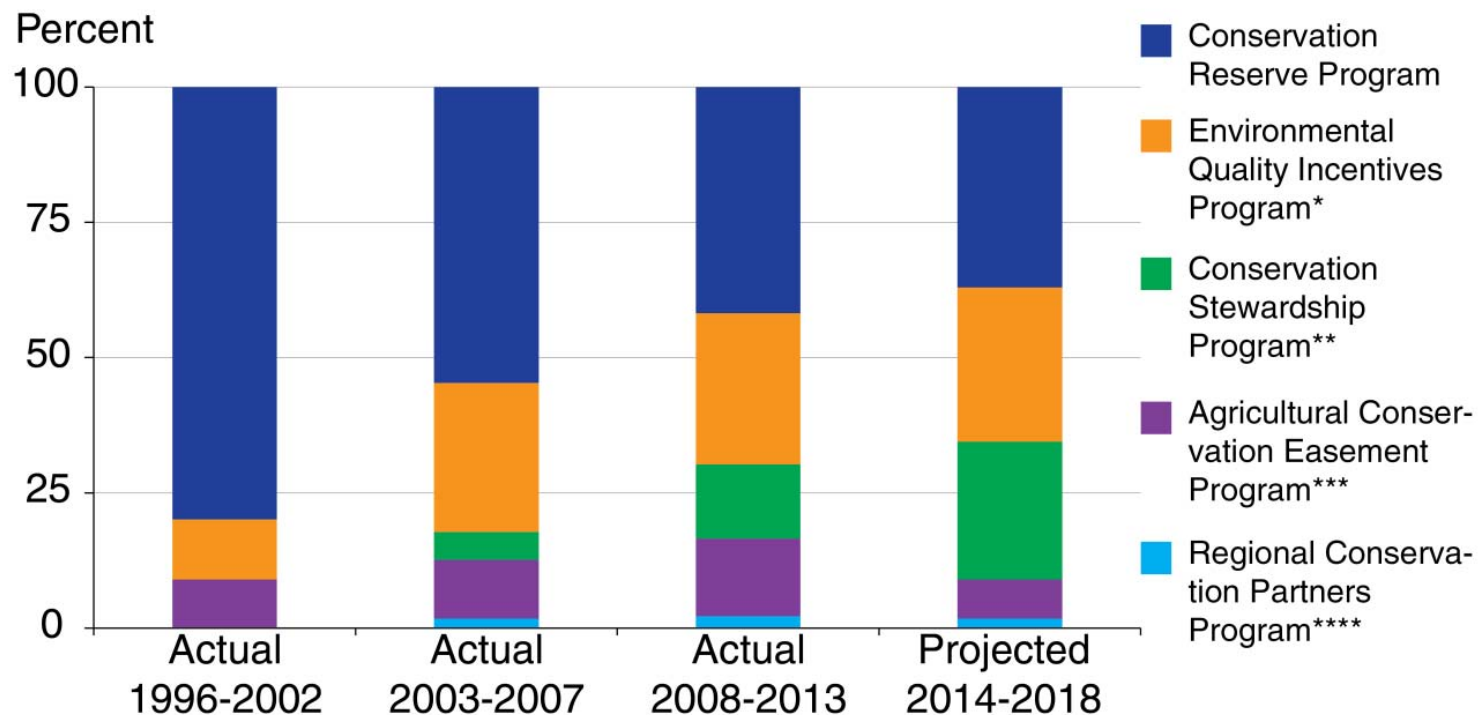
# Conservation

## Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/Questions
Easement Programs	Budget authority of \$250 M/yr, projected outlays of \$1.347 B over 2019-23	Increases budget authority to \$500 M/yr, increases projected outlays by \$979 M over 2019-23	Increases projected outlays by \$629 M over 2019-23	Role for easement programs?
Regional Conservation Partnership Programs	Budget authority of \$100 M/yr, projected outlays of \$578 M over 2019-23	Increases budget authority to \$250 M/yr, increases projected outlays by \$558 M over 2019-23	Increases budget authority to \$200 M/yr, increases projected outlays by \$374 M over 2019-23	Role for partnership programs?

# Conservation Program Spending

**Share of conservation spending by major programs and predecessors in the 2014 and previous farm acts**



\*Includes EQIP and the Wildlife Habitat Incentives Program for 1996-2013.

\*\*Includes the Conservation Security Program for 2002-2007.

\*\*\*Includes the Wetland Reserve Program, Farmland Protection Program, and Grassland Reserve Program (easement portion) for 1996-2013.

\*\*\*\*Includes the Agricultural Water Enhancement Program, Chesapeake Bay Watershed Program, Cooperative Conservation Partnership Initiative, and Great Lakes Basin Program for 1996-2013.

Sources: ERS analysis of Office of Budget and Policy Analysis data on actual expenditures for 1996-2013; spending levels provided in the 2014 Farm Act and Congressional Budget Office estimates for 2014-2018.

# Crop Insurance

## Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/Questions
Means Test	No limit		Durbin amendment to add \$700,00 AGI cap withdrawn	Impact on large operations/participation
Premium Subsidy Limit	No limit			Impact on remaining operations, portfolio performance, and actuarially-sound rates
Harvest Price Coverage	RP (with harvest price) – covers revenue based on higher of base or harvest price  RP (without harvest price) – covers revenue based on base price			Role of harvest price with marketing/hedging activity  Economic rationale for RP w/harvest price vs. RP w/o harvest price
Premium Subsidy Rate	Variable rate – average of 62% on full portfolio			Producer willingness-to-pay  Systemic v. idiosyncratic risk, role of subsidy
Standard Reinsurance Agreement	Renegotiated regularly – outside of farm bill			Company support and returns

# Food Assistance (SNAP)

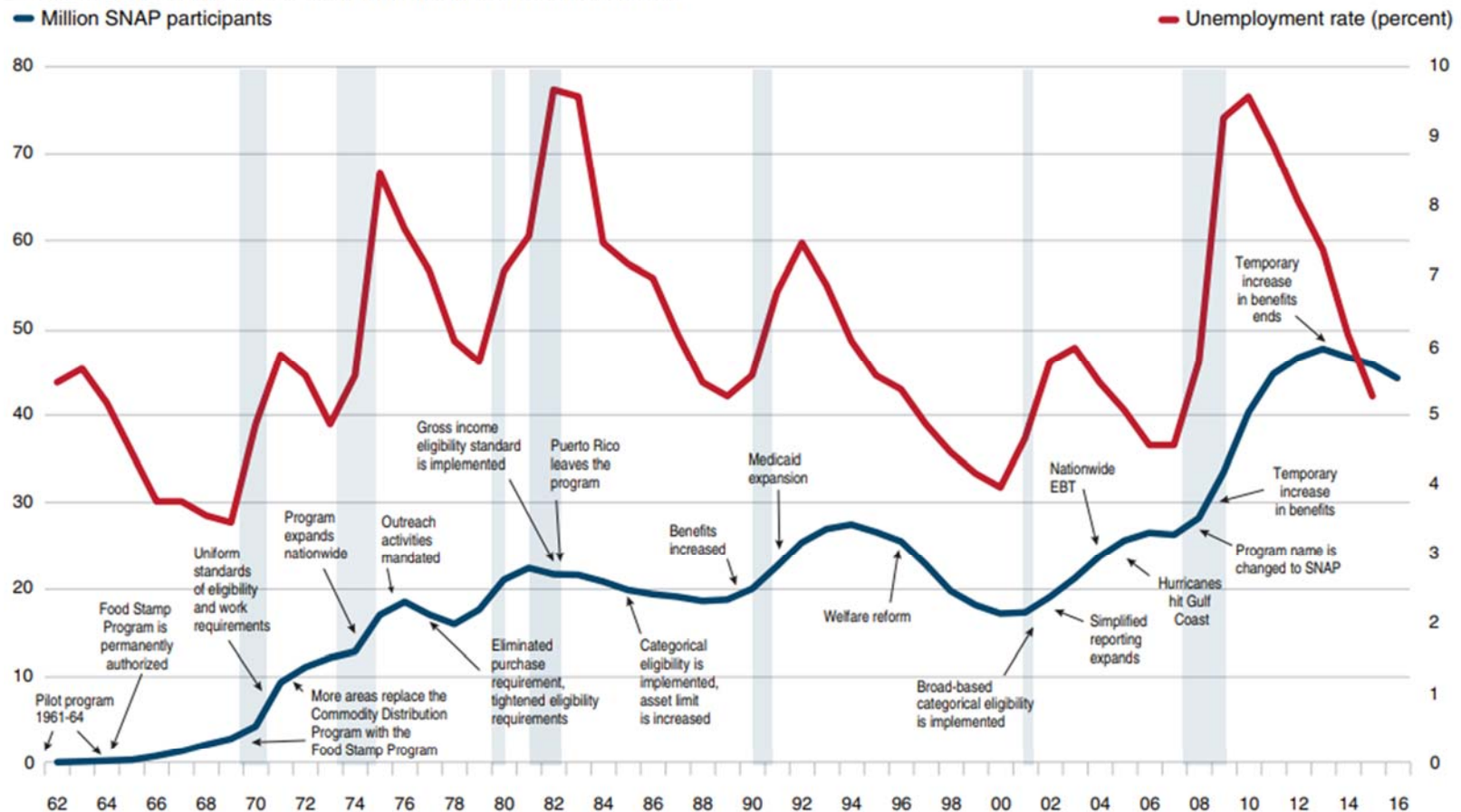
## Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/Questions
Categorical Eligibility		Tightens rules, reduces projected outlays by \$2.3 B over 2019-23, \$5.0 B over 2019-28		Participation and support levels?
Standard Utility Deduction		Tightens rules, reduces projected outlays by \$2.4 B over 2019-23, \$5.3 B over 2019-28		Eligibility rules? Benefit calculations? Benefit delivery?
Work Requirements and Education/Job Training		Tightens rules, expands training, projected outlays increase by \$910 M over 2019-23, decrease by \$1.5 B over 2019-28	Kennedy/Cruz amendment to tighten work requirements defeated	Work requirements? Education/job training assistance?

# Nutrition – Food Assistance

## SNAP and the Economy

Food stamp participation and the unemployment rate, 1962-2016



Notes: The number of Supplemental Nutrition Assistance (SNAP) participants is reported in fiscal years, and the unemployment rate is reported in calendar years. There is often a lag between the time a legislative act is passed and its implementation. There can be an additional lag between implementation of an Act and measurable effects on participation. Gray vertical bars indicate recessions. EBT = electronic benefit transfer.

Source: USDA, Food and Nutrition Service data and U.S. Department of Labor, Bureau of Labor Statistics data.

# 2018 Farm Bill Outlook

## H.R. 2

- ◆ Reported by committee on partisan vote – April 18
- ◆ Failed on House vote – 198-213 – May 18
- ◆ Reconsidered in House – passed 213-211 – June 21

## S. 3042

- ◆ Reported by committee on bi-partisan vote – June 18
- ◆ Cloture vote to proceed to floor consideration – June 25
- ◆ Passed in Senate – 86-11 – June 28

# 2018 Farm Bill Outlook

- ◆ House and Senate bills expected to go to Conference Committee in July
- ◆ Compromise on Conference Report?
  - Vote before current farm legislation expires on September 30?
  - Vote after election in lame-duck session before end of the year?
  - Permanent legislation for dairy programs would take effect on January 1, 2019 if no new/extended legislation
- ◆ New producer ARC/PLC enrollment decision in 2019 under new/extended legislation

# Implications

- ◆ Federal farm income safety net has evolved over time
  - Price support and supply control
  - Income support tied to price and revenue
  - Risk management
- ◆ Farm income safety net is complex
  - Farm programs integrate with, complement, and substitute for crop insurance
  - Decisions
    - ARC-IC vs. ARC-CO vs. PLC
    - ARC/PLC and crop insurance
- ◆ Risk management decisions are complex
  - Risk management decisions need to be based on portfolio analysis, not program-by-program decisions
  - Producer decision tools and education are a critical need