Frequently Asked Questions: Crop Provisions of the 2018 FARM BILL

1. What programs are available with the 2018 Farm Bill?

Farmers have the same options as the 2014 Farm Bill; Agricultural Risk Coverage at the County Level (ARC-CO), Agricultural Risk Coverage at the Individual Level (ARC-IC), and Price Loss Coverage (PLC). If not enrolled in an ARC program, they also have the opportunity to purchase a Supplemental Coverage Option (SCO) as additional coverage to their crop insurance contract.

2. How is the PLC guarantee set?

PLC payments are dependent on national commodity price and not related to actual yield, therefore this program offers **price protection** only. The PLC guarantee uses the “effective reference price” to set a price floor. This is calculated as 85% of the last 5 years Marketing Year Average prices *(see Question 11)* but can go no lower than statutory prices or no higher than 115% of statutory prices. Statutory reference prices for common Kansas commodities are $5.50 for wheat, $3.95 for sorghum, $3.70 for corn, and $8.40 for soybeans. Because of the low prices in recent years, it is unlikely that the effective reference price will be any higher than statutory prices for Kansas commodities.

3. When is a PLC payment received?

Payment is made if the Marketing Year Average (MYA) price *(see Question 11)* falls below the PLC guarantee. The payment is calculated by taking the difference in the MYA price and the effective reference price, multiplied by the farm’s program yield, multiplied by 85% of base acreage. Payment is made on base acres of that commodity; planted acres with no base will receive no payments.

4. How is the ARC guarantee set?

The ARC program offers **revenue** protection. The ARC-CO guarantee is set by multiplying the 5-year moving Olympic average *(see Question 12)* MYA price by the 5-year moving Olympic average County Yield (with low years being replaced with 80% of the transitional yield and a trend adjustment applied) and then by 86% (to factor in a 14% deductible). Many counties will have a separate revenue guarantee for both irrigated and dryland production practices.

With ARC-IC the guarantee is a whole farm revenue guarantee, based on a 5-year moving Olympic average of revenues. Historical revenues are calculated by multiplying the MYA price by the farm’s actual yields of each covered commodity. The current year guarantee is set in proportion to *planted* acres of each commodity in that year. All covered commodities are combined to determine the guarantee and losses are paid at the whole farm level.

5. When is an ARC payment received?

If a farmer selects ARC-CO, the farmer will receive payment if the actual county revenue is less than the guarantee. Actual county revenue is determined by the current year’s MYA price multiplied by the current year’s county yield. Payment is made on 85% of the base acres in that commodity.

If ARC-IC is selected, a payment will be received if whole farm revenue is below the guarantee. The payment will be in the amount of the difference between the guarantee and the actual revenue, times 65% of the total base acres. Both ARC-CO and ARC-IC are subject to a 10% stop loss that will cap the payment *(See Question 6)*. ARC payments are dependent on revenue, so losses in price or yield (or both) can trigger a payment.

6. What does 10% stop loss on ARC payments mean?

The maximum payment per acre that a producer can receive from ARC (both county and individual) is 10% of the benchmark revenue, which is the revenue amount that is determined before the 14% deductible is applied. For example, if the 5-year Olympic average price on corn is $4.00, and the 5-year Olympic average county yield is 100 bushels, the benchmark revenue is $400.00. The 10% stop loss, or maximum payment that could be received per acre, would be $40.00 per acre. As a side note in this example, ARC payments would start kicking in when actual revenue fell below $344.00 (after the 14% deductible on benchmark revenue).

7. What is the difference between ARC at the county level versus the individual level?

If a farmer enrolls in ARC at the county level (ARC-CO), they will receive payment on 85% of their base acres determined by the difference in current year county level revenue and the guarantee *(see Questions 5 & 6)*. They will also have the freedom to enroll some commodities in ARC and some in PLC.

If a farmer chooses ARC at the individual level (ARC-IC), they will only receive payment on 65% of the total base acreage determined by the difference between farm revenue and the guarantee. To choose this option, all crops by farm serial number must be enrolled.

8. What source of data is used to calculate the county yield for the ARC program?

The 2018 Farm Bill instructs FSA to first use yields reported by the Risk Management Agency (crop insurance) instead of the National Ag. Statistics Service, as was used by the 2014 Farm Bill.

9. What county will my ARC-CO payment be calculated on?

The 2018 Farm Bill will make ARC-CO payments based on the county the ground is physically located in (not the administrative county). If a farm has tracts within multiple counties, the payment will be weighted based on acres in each county.

10. What is the Supplemental Coverage Option (SCO)?

SCO is designed to cover some of the deductible on the crop insurance contract, up to 86%. For example, if an insurance policy provides 75% coverage, SCO may be purchased for an additional 11% of coverage (86%-75%). SCO covers all planted acres, not base acreage. SCO also triggers off *county* losses, not actual farm losses. It will take on the characteristics of the underlying insurance contract. For example, if the farmer purchases Revenue Protection (RP) SCO will be a revenue protection product. Conversely if the farmer purchases Yield Protection (YP), SCO will be a yield protection product.

There are no payment limits and SCO is not subject to budget sequestration. It can be purchased by talking to your crop insurance agent. Farmers must be in conservation compliance to be eligible for this program, have a crop insurance contract, and *not be enrolled in ARC*. If the farm does not have base acreage in the planted commodity, but it is a covered commodity, they can still purchase SCO with their crop insurance even though their base acreage is enrolled in ARC with a different commodity. SCO is only available on certain commodities in certain counties.

11. How is the Marketing Year Average (MYA) Calculated?

Marketing years correspond to when the crop was harvested until the next harvest. For corn, sorghum, and soybeans, the Marketing Year starts on September 1 and ends on August 31 of the next year. For wheat, the Marketing Year starts on June 1 and ends on May 31 of the next year. Wheat is most heavily marketed in the first three months after harvest and then varies in amount thereafter; consequently the Marketing Year Average is weighted by the percentage of the crop that is marketed each month. Corn, soybeans, and sorghum carry the largest weight in the first 5 months of the marketing year. The National Average price each month is multiplied by the percentage of the crop marketed that month and then these weighted prices are added up to become the Marketing Year Average. Because the Marketing Year Average will not be known until the next harvest, payments for PLC and ARC programs (if any) will not be received until after the next harvest.

12. What is an Olympic Average?

Olympic Averages are used in a number of different places in the 2018 Farm Bill. Out of 5 years, the highest and lowest numbers are dropped and the remaining 3 numbers are averaged together. This reduces volatility in the average. For example, an Olympic average of the previous 5 year's MYA prices (with a lag year) is used in setting the ARC benchmark revenue. The lowest and highest prices would be dropped and the remaining 3 prices would be averaged.

If it is a "moving" average, this means the guarantee will move with subsequent years. For example, the 2019 ARC guarantee will be set using prices and yields from 2013-2017. In 2020, the "moving Olympic average" will use 2014-2018 figures.

13. Once a farmer signs up for a program can they change their decision?

For crops harvest in 2019 and 2020, the same election between ARC-CO, ARC-IC, and PLC will be used. Starting with the crop harvested in 2021, producers can change their election every year. The option to purchase SCO is also an *annual* decision, as long as the crop in not enrolled in ARC that year.

14. When will sign-up start and when will it go into effect?

2019 program election and enrollment will start Sept. 3rd, 2019 and end March 15th, 2020. The program selected will make payments (if any) on 2019 crops, which is the wheat harvested summer 2019, and crops harvested in fall of 2019. Payments (if any) will be received by the farmer in fall of 2020, after the marketing year has ended.

15. What is the maximum payment amount a farmer can receive with a program?

Both ARC and PLC have a $125,000 limit per individual actively involved in farming per year. Crop insurance payments and SCO are not subject to payment limits. Any individual with a 3-year average Adjusted Gross Income (AGI) over $900,000 (farm and non-farm combined) is ineligible to receive farm program payments, but are eligible to purchase federally backed crop insurance.

16. Which farm program(s) and features should be chosen?

Basically what it comes down to is the risk preference of the farmer and their expectations for prices and yields. PLC offers protection against price decline, and does not max out until $125,000 or $250,000 with a spouse (or at the marketing loan rate, whichever comes first). ARC offers revenue coverage (protection against low prices and/or yields) but is a shallow loss program, since it caps out at 10% of benchmark revenue.

While there is no way to predict the markets exactly over the course of the program, there are tools to help producers choose what is best for their operation. Current publications on a host of topics are available on www.AgManager.info under the "Ag Policy" heading. There is also an Excel spreadsheet tool developed between Oklahoma State University and Kansas State University that allows the user to input their own farm's numbers and look at different scenarios with forecasted prices. This will also be available on the Farm Bill page of www.AgManager.info once official data for the ARC-CO program is released. Check often, or sign-up for the free email from KSU that will notify when new information is posted on AgManager.

17. Does the landlord or tenant decide the program?

There are a few items to think about in answering this question:

- Program Election (PLC or ARC) is the decision of the person that has the risk on the operation. If it is a cash lease, it is the tenant's decision (even if tenants may change in 2020). If it is a crop-share, all parties involved (landlord and tenant) have to agree on a program. Program election is by FSA Farm number, so only those involved with that farm number will have to agree. If an agreement cannot be reached, the farm will default to the election made for the 2014 Farm Bill and forego any payments for 2019.
- Yield update is the LANDOWNERS decision, unless the tenant has FSA Power of Attorney for them.
    - Payment Yield update will require historical records on yields for that specific farm from 2013-2017. These need to be verifiable. It is likely if a tenant is taking on new ground or someone purchases a new piece of ground, the previous farmer will not be willing to provide these records. If this is the case, the substitute county yield can be used in years where planting of that commodity occurred but yield is not obtainable.

18. Can base acres be reallocated?

No. Farmers were offered a one-time opportunity to reallocate a farm's base acres in the 2014 Farm Bill.

19. Will base acres be suspended if not planted to a program crop?

Base acres that have been planted to grass or pasture and with no base acres on the farm planted to program crops for all years of 2009-2017 will effectively be "suspended" from receiving payments, but still maintain their historical base. These base acres will be eligible for the CSP grasslands program however and can receive a payment of $18/acre. These suspended acres will also be considered "planted" to program crops during the 2018 Farm Bill so will maintain the base for future legislation.

20. Can payment yields be updated?

Yes, there is a one-time opportunity to update payment yield for 2020, which is used in the PLC program. The updated yield amount is an average of farm yields from 2013-2017, times 90%, times a national "detrending" factor. There are also "plug yields" that are used to replace a bad year of yields on the farm level. These plugs are equal to 75% of the county average from 2013-2017.

Farmers will need proof of their yields, if they get spot checked. Crop insurance records are preferred as they are already considered to meet review criteria. The choice to update payment yield is straightforward; take the higher of the current payment yield or the updated payment yield. Even if a farmer does not sign up for PLC, payment yields may be used in future Farm Bill programs, so it would be good to update.

21. If a farmer does not sign-up for a program, what will happen?

The farm will default to the election made for the 2014 Farm Bill if a farmer/landlord does not elect a program. They also will give up any 2019 payments.

22. Should crop insurance still be purchased even though a farmer is signed up for ARC or PLC?

ARC and PLC are not replacements for crop insurance. ARC-CO "insures" only about 7% of revenue, since it only pays on 85% of the base acres, has an 86% deductible, and has a 10% stop-loss. Also, there is no actual harvest price on ARC, so higher MYA prices may offset lower yields and eliminate any payment. PLC only protects against price loss and offers no protection against yield loss. Crop insurance is still needed for risk protection.

23. What changes were made to crop insurance?

The Crop Insurance Title saw very little change, which will be a relief to most farmers who consider this their number one risk management tool. Subtle changes include:

- Enterprise units are now allowed across county lines.
- Definitions are clearer on cover crop usage
- Limited irrigation may be expanded
- Reporting dates have been revised to allow earlier estimates of ARC program payments

This publication is brought to you by the Kansas State University Farm Bill Team:

Robin Reid Extension Associate 785-532-0964 robinreid@ksu.edu	Dr. Mykel Taylor Associate Professor 785-532-3033 mtaylor@ksu.edu	Dr. Rich Llewelyn Extension Assistant 785-532-1504 rvl@ksu.edu
Dr. Monte Vandeveer Area Extension Economist 620-275-9164 montev@ksu.edu	Dr. Dan O'Brien Associate Professor 785-462-6281 dobrien@ksu.edu	

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