



AGECON-18-06PR

May 14, 2018

**Policy Update:
House Ag Committee Farm Bill Proposal and Seed Cotton Program FSA Timeline**

Don Shurley, Yangxuan Liu, and Adam N. Rabinowitz
Department of Agricultural and Applied Economics
University of Georgia

House Agriculture Committee Proposal

The legislative process leading to the next farm bill has now begun. The current 2014 farm bill will end with the 2018 crop year. On April 18, the House Agriculture Committee approved The Agriculture and Nutrition Act of 2018 (HR 2). This was the first step in the legislative process that will lead to the next/new farm bill beginning with the 2019 crop year.

The following is a brief description and summary of several of the key provisions in the House Ag Committee proposal. Specifically, this is how new farm bill proposal would revise the current farm bill.

ARC and PLC

Continues the current Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) programs but with several revisions:

- In 2014, producers had to choose between ARC and PLC on a crop by crop, farm by farm basis. Producers would again be required to make a 1-time election of ARC or PLC for 2019-2023 on a crop-by-crop, farm-by-farm basis.
- All producers on a farm must make a 1-time unanimous election of ARC or PLC for 2019-2023. If a unanimous election is not made, the farm will not be eligible for ARC/PLC for 2019 and PLC will be assumed the choice and used for 2020-2023.
- In PLC, a payment is received if the MYA (marketing year average price) is less than the PLC Reference Price. HR 2 retains the 2014 farm bill Reference Prices, including peanuts, but would institute a new “Effective Reference Price”—which essentially allows the Reference Price to vary rather than be fixed as in the 2014 farm bill. The “Effective Reference Price” for each year would be
 - The higher of
 - a. The Reference Price, or
 - b. 85% of the average MYA price for the preceding 5 years, dropping out the high and low price years; but not to exceed 115% of the Reference Price

Essentially, this would allow the Effective Reference Price to be higher than the legislated Reference Price and thus provide a higher chance to “trigger” any PLC payment.

- This new “Effective Reference Price” would be used for PLC only. In ARC, the Reference Price is used as a substitute for the MYA price in calculating the Benchmark Price if the MYA price is less than the

Reference Price. This would not change.

- In ARC, the Benchmark Yield used to determine Benchmark Revenue and the Revenue Guarantee. The Benchmark Yield is the average county yield per planted acre for the previous 5 years, dropping the high and low years and averaging the remaining 3 years. HR 2 proposes that in any of these 5 years, the yield used would be

The higher of

- a. The actual county yield per planted acre, or
- b. 70% of the county transitional yield

Payment Yields

For the purpose of making PLC payments, the 2014 farm bill gave landowners a 1-time opportunity to update the payment yield. The PLC payment yield would be the Countercyclical Payment (CCP) yield for the crop under the 2008 farm bill or the landowner could update the payment yield to 90% of the average yield for the 2008 to 2012 crop years.

The House Agriculture Committee 2018 farm bill proposal (HR 2) would allow the landowner(s) of a farm a 1-time opportunity to update the PLC payment yield on a farm on a crop-by-crop basis if the farm is physically located in a county that experienced exceptional drought for 20 or more consecutive weeks between 1/1/2008 and 12/31/2012.

For a farm meeting the drought designation and if electing to update, the PLC payment yield for the crop would be

- 90% of the farm's average yield for 2013 through 2017 and
- If in any year from 2013 through 2017, the farm's average yield is less than 75% of the county yield for that year, a substitute yield equal to 75% of the 2013-2017 county average yield will be used.

Base Acres

- USDA is required to maintain records of base acres on a farm including any base designated as "unassigned crop base". The future and treatment of unassigned crop base acres is not specified.
- If a farm has base(s) but no covered commodity (including cotton/seed cotton) has been planted or considered planted from 2009 through 2017, all bases on that farm will be designated as unassigned crop base and ineligible for ARC and PLC.

Marketing Loan

Loan rates for the Marketing Assistance Loan (MAL) are unchanged from the 2014 farm bill but with the following modifications:

- The Loan rate rule for cotton is changed slightly. The loan rate will continue to be the average of the Adjusted World Price (AWP) for the previously completed 2 marketing years with a minimum of 45 cents and maximum of 52 cents. A proposed change would be that the Loan rate could not be less than 98% of the Loan rate for the previous year.
- The Loan Rate for seed cotton would be 25 cents per lb. There is no marketing assistance loan program for seed cotton—this loan rate is only for the purpose of determining the maximum payment rate for PLC and acting as the minimum price used in calculation of county Actual Revenue in ARC.

Seed Cotton

The Bipartisan Budget Act of 2018 authorized Seed Cotton as a covered commodity under the ARC/PLC provisions of the 2014 farm bill, effective with the 2018 crop year. The House Agriculture Committee new farm bill proposal (HR 2) would:

- Continue the seed cotton program.
- The PLC Reference Price for seed cotton would remain at 36.7 cents per lb.
- Any unassigned base on the farm as the result of the generic base/seed cotton conversion decision would remain as unassigned base.

Payment Limits and Eligibility

The current limit for PLC payments, ARC payments, marketing loan gains (MLG's), and loan deficiency payments (LDP's) for all covered commodities (excluding peanuts) is \$125,000 per person or legal entity per crop year. The following is proposed:

- The payment limit would remain at \$125,000 but MLG's and LDP's would be separate and excluded.
- There would be no limit on MLG's and LDP's.
- Peanuts would continue to have a separate \$125,000 limit.
- For purposes of determining the actively engaged in farming (AEF) eligibility requirement, the definition of "family member" would be revised to also include first cousin, niece, and nephew.
- The term "entity" is expanded to include "qualified pass through entity". The new proposal would require that an entity (regardless of type) be treated same such that each individual in an entity is subject to a separate pay limit. Current law only allows this for two types of entities—general partnerships and joint ventures. All other entity types are currently subject to the payment limit at entity level. This bill would treat all entities the same.

Crop Insurance

- STAX (the stacked income protection plan) legislated for cotton in the 2014 farm bill will continue to be available.
- STAX will be available, however, only if
 - a. The farm has no seed cotton base (former generic base), or
 - b. The farm has seed cotton base but chooses not to enroll in ARC/PLC for that crop year.
- The administration fee for CAT would increase from \$300 to \$500 per crop per county annually.
- In the past, a 10% Yield Cup (YC) has been automatically applied—a policy APH could not decrease more than 10% in a given year. HR 2 proposes to now make this a user election each year.

Remaining Farm Bill Process

The House Agriculture Committee farm bill proposal (HR 2) must now go to the full House for debate/amendment and vote. A simple majority vote for passage is needed. House consideration of the bill is expected this week (week of May 14, 2018).

The Senate Ag Committee has not yet considered its version of the new farm bill. The Senate Ag Committee is expected to consider its version of a new farm bill in late May or possibly sometime in June. Once completed, the Senate committee version must go to the full Senate for debate/amendment and vote.

Once each bill passes its respective body, both bills must then go to a joint Conference Committee to resolve the differences. Once completed, this Conference bill must go to both House and Senate for another vote. If passing both House and Senate, the bill goes to the President for signature.

The goal remains to have the new farm bill completed this year. Debate in both the House and Senate is expected to be contentious, however, where Democrats are opposed to proposed farm bill revisions in the nutrition title. There is also, as always, likely to be debate on payment limits and payment eligibility.

Generic Base/Seed Cotton Program Timeline

The Bipartisan Budget Act of 2018 authorized Seed Cotton as a covered commodity under Title I of the 2014 farm bill and eligible for ARC/PLC effective with the 2018 crop year. The legislation provides owners of a farm with generic base a 1-time opportunity to convert the generic base to seed cotton base (option 1-A or 1-B) or base of seed cotton and other covered commodities (option 2) based on 2009-2012 planting history. Landowners also have a 1-time opportunity to update the payment yield used for seed cotton PLC. Producers on the farm must select ARC or PLC for seed cotton.

Last month on April 18, USDA-FSA released Notice ARCPLC-50. This Notice provided the timeline for the Generic Base allocation (conversion), yield updates, and ARC or PLC program election and enrollment. The table below summarizes the timeline.

May 2018	All owners and operators receive their Notification of Covered Commodity Acreage History letter that includes all farms in all counties. Owners and operators are provided an opportunity to correct acreage history for years 2008 through 2016.
Late Summer 2018	Owners make final base allocation and yield update decision for the farm.
Late Summer 2018	Official 2018 Notice of Base Acre, Yield, and Election report mailed to all owners and operators on the farm, with appeal rights.
Fall 2018	All owners and operators on the farm make PLC, ARC-CO, or ARC-IC program election for the farm.
Ends September 2018	Annual enrollment into PLC, ARC-CO, or ARC-IC program for seed cotton base acre farms.

Factsheets, presentations, decision aid tools, and frequently asked questions related to the Seed Cotton program are available at the University of Georgia, Department of Agricultural and Applied Economics, Georgia Agricultural Policy webpage

<http://www.caes.uga.edu/departments/ag-econ/extension/policy.html>

The *Seed Cotton Generic Base and Yield Update Decision Aid* on the UGA Georgia Agricultural Policy webpage is available to help landowners and producers make decisions concerning the new seed cotton program generic base conversion. UGA county ANR agents are a good resource regarding to how to use the decision aid tool.

Acknowledgements

Appreciation is expressed to individuals with the National Cotton Council, USDA-RMA, and USDA-FSA for review and comment. Any remaining errors and misinterpretations are those of the authors. Appreciation is expressed to the Georgia Cotton Commission for funding support.



AGECON-18-06PR

May 14, 2018
