Ag Decision Maker

A Business Newsletter for Agriculture

Vol. 15, No. 9 www.extension.iastate.edu/agdm July 2011

Leasing issues and rental rates for 2012

by Kelvin Leibold, extension farm management specialist, 641-648-4850, kleibold@iastate.edu

In May's Ag Decision Maker newsletter, an article reviewed the *2011 leasing rental rates* (http://www.extension.iastate.edu/agdm/articles/edwards/EdwMay11.html). The article provided highlights from *Information File C2-10,* **2011 Iowa Cash Rental Rate Survey**, (http://www.extension.iastate.edu/agdm/wholefarm/html/c2-10.html) which is available on the Ag Decision Maker website or at county extension offices. Where might rental rates be headed this coming year and are there any new issues to look at?

When landlords and tenants establish rental rates they often look at: what others are paying, average crop yields, Corn Suitability Rating Index, share of the gross crop value, the return on investment, percentage of the crop and the tenant's residual.

In recent years the tenant's residual has received a lot of scrutiny. For more information on the methods listed, read *Information File C2-20,* **Computing a Cropland Cash Rental Rate** (http://www.extension.iastate.edu/agdm/wholefarm/html/c2-20.html) on calculating rental rates. A *Decision Tool* (http://www.extension.iastate.edu/agdm/wholefarm/xls/c2-20croplandcashrent.xls) for analyzing the different methods is also available.

Tenant's residual method

When people use the tenant's residual method they need to look at the potential range of outcomes. The volatility in yields has increased as weather patterns have become more variable. The volatility in prices has increased with exports, new uses for commodities such as ethanol, increased production in other countries and more world trade. Government programs, including crop insurance, have helped to stabilize some of this volatility but not to the extent that we saw in previous Farm Bills. Revenues can change by hundreds of dollars per acre in a matter of a few days.

continued on page 2

Handbook updates

For those of you subscribing to the handbook, the following new update is included.

Improving Your Farm Lease Contract – C2-01 (8 pages)

Please add this file to your handbook.

continued on page 6

Inside . . .

IOWA STATE UNIVERSITY
University Extension

Ag Decision Maker is compiled by extension ag economists
Ann Johanns, aholste@iastate.edu
extension program specialist

Leasing issues and rental rates for 2012, continued from page 1

Costs of production

Two producers with similar costs of production can have significantly different gross revenues due to marketing, crop insurance and government payments. For recent trends in grain prices you can refer to *Information File A2-11,* **Cash Corn and Soybean Prices** (http://www.extension.iastate.edu/agdm/crops/html/a2-11.html) which gives monthly prices for Iowa. The **Season Average Price Calculator** (http://www.extension.iastate.edu/agdm/crops/xls/a2-15pricecalc.xls) is another resource. The associated Decision Tool allows you to estimate future corn prices for the current crop year; just click on the calculator in the upper right corner of the screen to download the interactive spreadsheet. When adjusted for basis the *CME Commodity Prices* (http://www.cmegroup.com/trading/agricultural/)will give you an idea of what the market thinks future prices will be. At the CARD website, *Daily Corn and Soybean Basis Maps* (http://www.card.iastate.edu/ag_risk_tools/basis_maps/) for Iowa and the Midwest, you can look at the current basis or go back to previous dates to see how it changes over time.

Crop production budgets

Information File A1-20, **Estimated Costs of Crop Production** (http://www.extension.iastate.edu/agdm/crops/html/a1-20.html) takes you to the various crop production budgets. These are the 2011 budgets but will be updated to estimate what 2012 budgets will be in the coming months. If you want to enter your own data and look at the combined economics of crop rotations go to *Decision Tool,* **Crop Rotation Summary** (http://www.extension.iastate.edu/agdm/crops/xls/a1-20croprotation.xls).

The costs to watch in the coming season include seeds, fertilizers and machinery costs. Higher grain prices will allow the seed industry to increase seed costs and technology fees. The fertilizer industry is seeing increased worldwide demand with some governments subsidizing the cost to their domestic farmers. Some Iowa farmers have been "booking" fall fertilizer already and paying 20 percent or more down to lock in a price and a guaranteed supply.

Several of the major machinery manufacturers are running at full capacity and they have faced increased costs for steel and tires along with new environmental regulations for engine emissions. This, along with higher fuel prices, is driving up machinery costs.

With the weather variability we will see significant differences between counties and even within counties when it comes to yields. Soil types, drainage and weather all impact yields.

Outlook for 2012

When you look at the CME Group grain prices for 2012 new crops you see an interesting scenario. Corn currently has a negative carry. New crop corn started out at $4 per bushel and went as high as $7.20 a bushel and has retreated a $1 a bushel to around $6.20. We can easily see a $1 swing in the price of corn which may change the gross revenue by as much as $200 per acre in a matter of days. Soybeans currently have a slight negative carry. The 2012 new crop soybeans prices on the Chicago Board started out around $15, then dropped to below $9 and then moved higher into the $14 range and now sit around $13.25. We've seen the Board price move over $1 range within two trading days to illustrate the volatility in the market. Keep in mind that normally Iowa prices are lower than Chicago prices.

At this point it looks like the costs of production may increase around $75 per acre. The Farm Bill safety net, Average Crop Revenue Election (ACRE), will provide a higher level of revenue coverage than in the past, but will still be below levels producers will find acceptable. This program currently has less than 15 percent of the producers participating.

With the current high grain prices there is very little safety net in the traditional programs such as Loan Deficiency Payments and Counter Cyclical Payments. Corn prices, for example, would have to drop by half before any of these payments would kick in. The new Farm Bill will probably reduce or eliminate Direct Payments after 2012 as well. The

continued on page 3

Leasing issues and rental rates for 2012, continued from page 2

only real safety net at this time is crop revenue insurance at high levels. If the grain prices in February of 2012 are lower, then the safety net will also be much lower.

Legal issues

One common topic that comes up frequently deals with the issue of terminating leases. The Center for Agricultural Law and Taxation's (CALT) leasing publication, *Iowa Farm Leases - Legal, Economic, and Tax Considerations* (http://www.calt.iastate.edu/briefs/CALTLegalBrief-LeaseLegalIssues.pdf) goes into detail on page 6 discussing the ways to terminate a lease. The article also addresses the issues of material participation, USDA payments, landlord liens and many other topics. AgDM File C2-19 shows an example form for terminating a lease.

The CALT website also provides a list of *New Iowa Legislation Impacting Rural Landowners and Agricultural Businesses* (Effective July 1, 2010) (http://www.calt.iastate.edu/PDF/2010%20Iowa%20Legislation.pdf). There are a couple of new legal issues that may be of interest. They deal with work on drainage districts and who owns the above ground stover and residue.

House File 2458 (http://coolice.legis.state.ia.us/Cool-ICE/default.asp?Category=BillInfo&Service=Billbook&ga=83&menu=text&hbill=HF2458) also addresses the issue of mowing road ditches. The mowing of ditches is banned during the song bird nesting season with several exceptions. If your lease requires the ditches to be mowed you might want to make sure you are in compliance with the new law.

The resources listed above and more are available on the **Ag Decision Maker 2011 Leasing page** (http://www.extension.iastate.edu/agdm/info/meetings.html). Also included on this page is information on the 2011 Iowa State University Extension leasing meetings being held in July and August.

Adding hail insurance coverage

by Steven D. Johnson, farm and ag business management specialist, Iowa State University Extension, (515) 957-5790, sdjohns@iastate.edu

In the U.S. over 50 percent of hail storms occur from March to May. However, the largest crop losses to corn from hail occur from June to September.

That's because early in the growing season, losses are typically limited to leaf defoliation and reduced stand counts. According to agronomic research, hail losses increase rapidly after the V6 growth stage when the growing point breaks the soil surface. The degree of hail loss depends on the crop growth stage. Yield losses due to defoliation during this vegetative stage can be estimated, but the stalks may need to be split to determine if the plants are alive.

However, when hail losses occur during the reproductive stage, direct damage to the ear will also need to be considered. Total corn yield loss from hail is estimated by combining the expected yield loss from stand reduction, direct damage and defoliation.

Hail is a covered peril under federal crop insurance policies. Primary farm-level products for 2011 are Revenue Protection (RP) and Yield Protection (YP). If a hail loss occurs, an indemnity payment is not triggered until the loss exceeds the deductible under that policy.

In 2011 the corn crop is likely one of the most valuable crops you've produced, with current

continued on page 4

Adding hail insurance coverage, continued from page 3

cash prices for fall delivery around $6 per bushel. Should a mid-season hail storm strike, do you have adequate crop insurance coverage?

Three reasons to consider adding hail coverage

First, you've accepted a large deductible by limiting coverage to only a multi-peril crop insurance policy. Should hail damage occur, the 15 to 35 percent deductible you've accepted (electing 65 to 85 percent coverage) has never represented more dollars per acre at risk. Net returns to a harvested crop are at extremely high levels in 2011. With profit margins two to three times above normal, it could be devastating to the farmer's long term future to lose a large portion of this year's crop.

Second, if you elected to use enterprise units on your multi-peril policy, all fields planted to that crop are combined at the county level should a loss occur. The decision to elect enterprise units is popular, as it might cut farmer paid premiums by as much as 50 percent. However, the use of enterprise units potentially exposes individual farms to a hailstorm, while the rest of the unit may not suffer loss. Protection from spotty loss events such as hail on one farm and not others is more important if you've elected enterprise units.

Third, crop insurance companies are providing hail insurance at historically low rates. According to filings made to state insurance departments, crop hail rates are significantly less than their expected losses. Current crop hail rates would have to be twice as high to cover claims and expenses for an average loss year.

Explore various crop hail policies

There are a number of choices in crop hail insurance products. Traditional products such as crop-hail are offered as companions to multi-peril crop insurance policies and provide protection damage from hail and/or fire. A fire that is caused by a non-natural occurring event, such as a combine, is not covered under a multi-peril coverage.

A crop-hail product provides protection up to the actual value of the crop. These policies tend to provide coverage in dollars per acre per farm with various deductible levels. A minor loss due to hail may not trigger an indemnity payment.

Since coverage is provided on an acre-by-acre basis, a producer seeing a bumper crop or higher crop prices, can increase their coverage during the growing season to cover the value of the crop. Various options with different deductibles may also be selected that impacts the final premium paid.

Consider production hail

Another choice for hail coverage is often referred to as "production hail." Companies may refer to this product by different names, but the advantage of such a policy over the more traditional crop-hail policy is that it combines hail coverage with existing multi-peril coverage.

Production hail protects the top portion of your crop, that same area that you've accepted a deductible of 15 to 35 percent depending on the level of coverage elected in your multi-peril policy.

Typical production hail policies allow for coverage of up to 120 percent of your Actual Production History (APH) and up to 100 percent of the RP or YP projected price, $6.01 per bushel corn and $13.49 per bushel soybeans respectively in 2011. Some companies allow for enterprise units to be separate for loss purposes, similar to how optional units work.

Deductibles and qualifying losses also vary by insurance company, but premiums appear quite competitive for production hail when compared to the more traditional crop-hail policies.

Conclusion

In all cases, 2011 may very well be the year to add crop hail insurance to your risk management plan. Consider consulting a knowledgeable insurance agent to determine the best option and risk management value for you. Remember most crop-hail or production hail policies require a 24-hour waiting period before coverage begins.

Flooding and stored grain

By Charles Hurburgh, ag and biosystems engineering; Willy Klein, extension communications

Iowa is facing its third significant flooding situation in five years, which again raises the possibility of stored grain being inundated with floodwater. With only a few exceptions, flood soaked grain is not useable for feed or food. Iowa Secretary of Agriculture Bill Northey reminded farmers in a June 21 news release that grain impacted by flood waters, whether in the field or in a bin, is considered adulterated and cannot be used for feed or food.

The Iowa Department of Agriculture and Land Stewardship warning states, "The grain impacted by flood should be destroyed and not blended with uncontaminated grain. This warning does not apply to immature crops that have been flooded before producing grain."

Northey said there is the potential for a wide variety of contaminants to enter grain through flood waters, so any corn or soybeans that have been submerged are considered adulterated and must be destroyed. "It appears that most of the stored grain has been moved out of areas threatened by flooding, but we wanted to alert farmers and elevators so they can still move grain if necessary," he said.

Before being sold, the grain must be reconditioned with the written consent of the U.S. Food and Drug Administration (FDA). The Missouri River flood waters are considered contaminated and not likely to create situations where grain can be salvaged.

Flood damaged grain is considered adulterated under Chapter 198.7 of the Iowa Code. The Code prohibits the manufacturing or distribution of any food or feed from ingredients that are adulterated.

Remember that flooding affects both the stored grain and the storage structures. The best option is to move the grain before the flood reaches the bin, and stop using underfloor conveyors and legs once the water starts entering the pits.

Water coming up from tiles and pits is just as suspect because storm and sanitary sewers are usually compromised in floods. Even field tile water may contain high chemical levels and other contaminants.

A short fact sheet further outlining the handling of flood damaged grain prepared by Hurburgh and Dan Loy, ISU Extension livestock nutrition specialist, is available with other crop and livestock fact sheets on the ISU Extension Dealing with Disasters Web page at www.extension.iastate.edu/topic/recovering-disasters. These resources are updated to meet the immediate needs of Iowans coping with flooding.

Plan ahead to avoid heat stress in cattle

By Grant Dewell extension beef veternarian; Sherry Hoyer, Iowa Beef Center communications

With the weather forecast of temperatures in the mid-to upper 90s and heat index expected to top 100 degrees in Iowa this week, Iowa State University (ISU) Extension beef veterinarian Grant Dewell reminds beef cattle producers that preparing for these weather conditions is vital to maintaining herd health.

Five steps to avoiding heat stress in your herd are:

1. Plan ahead. After cattle get hot, it's too late to prevent problems.
2. Don't work cattle when it is hot. Finish working cattle before 9 to 10 a.m. in summer, and remember that during a heat wave it's best to not work cattle at all.
3. Provide plenty of fresh, clean water. When it's hot and humid, consuming water is the only way cattle can cool down. Make sure the water flow is sufficient to keep tanks full, and ensure there's enough space at water tanks (3 inches linear space per head). Introduce new water tanks before a heat event occurs so cattle know where they are.
4. Feed 70 percent of the ration in the afternoon. Heat from fermentation in the rumen is primary source of heat for cattle. When cattle are fed in the morning, peak rumen temperature production occurs during the heat of day when they can't get rid of it. By feeding 70 percent of the ration in late afternoon, rumen heat production occurs when it is cooler.
5. Provide ventilation, shade and/or sprinklers. Environmental temperatures compound the heat load for cattle during a heat wave. Remove objects that are obstructing natural air movement. Indoor cattle will benefit from shade provided by the building as long as ventilation is good. Outdoor cattle will benefit from sprinklers to cool them off. Make sure cattle are used to sprinklers before employing them during a heat wave.

Factsheets on dealing with heat stress, resources and ISU Extension staff who can help are available on the Iowa Beef Center (IBC) website, www.iowabeefcenter.org/. Dewell offers more details on heat stress in a longer article on the ISU Veterinary Medicine Beef Extension website. Keep an eye on the 7-day heat stress forecast for your area at the USDA's Agricultural Research Service website.

Updates, continued from page 1

Internet Updates

The following information files and tools have been added or updated on www.extension.iastate.edu/agdm.

Iowa Fruit & Vegetable Production Budgets – A1-17 (22 pages)

Aronia Berry Decision Tool Budget – A1-17

Organic Crop Production Enterprise Budgets – A1-18 (7 pages)

Farmland Values Data Sheet – C2-70

Flex Leases that Work – Voiced Media

Farm Succession Workshop – Voiced Media

Current Profitability

The following tools have been updated on www.extension.iastate.edu/agdm/info/outlook.html.

Corn Profitability – A1-85

Soybean Profitability – A1-86

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15

Returns for Farrow-to-Finish – B1-30

Returns for Weaned Pigs – B1-33

Returns for Steer Calves – B1-35

Returns for Yearling Steers – B1-35