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Crop insurance has some changes for 2009

By William Edwards, extension economist, 515-294-6161, wedwards@iastate.edu

Crop insurance indemnity prices, guarantees and premiums were all at record levels for corn and soybeans in 2008. Current market conditions make it unlikely that those levels will be reached again in 2009, but they will still be attractive. The Risk Management Agency has announced indemnity prices of \$4 per bushel for corn and \$9.90 per bushel for soybeans for APH (yield) insurance guarantees

for 2009, the second highest prices ever offered. Prices for revenue insurance policies will not be known until the end of February.

Producers should carefully calculate their insurance coverage needs before meeting with their crop insurance agent this year. Higher input costs and lower indemnity prices mean farmers will have to choose a higher percentage level of coverage to protect their costs of production.

harvest of \$1.50 and \$3 per bushel for corn and soybeans, respectively. The downward limits have been removed for 2009, and an upward limit equal to twice the February price has been established for both CRC and RA insurance.

Biotech endorsement

A premium discount for planting certain biotech corn hybrids was made available to corn growers in Iowa, Illinois, Indiana and Minnesota last year. The Biotech Endorsement (BE) option has been extended to the remaining Corn Belt states. Hybrids containing YieldGuard, Herculex or Agrisure genetics may be eligible. Farmers must

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Handbook updates

For those of you subscribing to the handbook, the following updates are included.

Managing Risk with Crop Insurance – A1-48 (4 pages)

Important Crop Insurance Dates – A1-50 (2 pages)

Actual Production History Crop Insurance – A1-52 (2 pages)

Crop Revenue Insurance – A1-54 (4 pages)

Proven Yields and Insurance Units for Crop Insurance – A1-55 (4 pages)

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Payments in 2008

Loss payouts in Iowa for 2008 crops were substantial. Yield losses from flooding and wet weather were significant, but the biggest factor was the large decrease in market prices from February to harvest time. As of late January, insurance companies had paid out an average of \$20.47 per acre for corn losses and \$24.52 per acre for soybeans losses. Payments amounted to 90 percent of the premiums paid by Iowa farmers for corn, and 139 percent of the premiums paid for soybeans.

Payments for Revenue Assurance (RA) policies were larger than for Crop Revenue Coverage (CRC) policies. This was because CRC insurance had price movement limits from February to

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plant at least 75 percent of the corn acres in an insurance unit to an approved hybrid. Discounts averaged about 13 percent last year, or a little over \$3 per acre. The discounts are not available for the group risk insurance policies, GRP and GRIP, however.

Enterprise and whole farm units

RMA has changed the subsidy rates for policies in which insured acres are grouped into enterprise or whole farm units. Enterprise units include all acres of one crop grown in the same county by one producer on a single policy. Whole farm units combine all crops into a single policy. Since the likelihood of a large indemnity payment is smaller as more acres are combined, these units have always had lower premiums than basic or optional units. Before this year, these units received the same percent premium subsidy from RMA as basic units did. Now they will receive the same dollar value of subsidy, which will be a higher percent. At the 75 percent coverage level, for example, basic units receive a 55 percent premium subsidy while enterprise units will receive a 77 percent subsidy and whole farm units will receive an 80 percent subsidy (see table). Producers with multiple farming units who want to lower their crop insurance premiums may want to consider applying for enterprise or whole farm units this year.

More information about managing risk with crop insurance can be found in a

series of fact sheets available from Iowa State University Extension, either from the Ag Decision Maker website at www.extension.iastate.edu/agdm/ or the online store at www.extension.iastate.edu/store/.

AgDM File A1-48/FM 1854 - Managing Risk with Crop Insurance

AgDM File A1-50/FM 1858 - Important Crop Insurance Dates

AgDM File A1-52/FM 1826 - Actual Production History Crop Insurance

AgDM File A1-54/FM 1853 - Crop Revenue Insurance

AgDM File A1-55/FM 1860 - Proven Yields and Insurance Units for Crop Insurance

AgDM File A1-58/FM 1850 - Group Risk Plan (GRP) & Group Risk Income Production (GRIP)

Coverage level	RA and CRC subsidy rate	New rate for Enterprise Units	New rate for Whole Farm
60%	64%	80%	not available
65%	59%	80%	80%
70%	59%	80%	80%
75%	55%	77%	80%
80%	48%	68%	71%
85%	38%	53%	56%



ISU Extension offers information about new farm bill programs

By William Edwards, extension economist, 515-294-6161, wedwards@iastate.edu

The Food, Conservation and Energy Act of 2008 contains a wide variety of legislation affecting everything from school lunches to milk checks. Some of the most immediate provisions that farmers must address are new limitations on commodity payments, the Average Crop Revenue Election (ACRE), and the Supplemental Revenue Assistance (SURE) program.

New payment rules basically attribute USDA commodity payments to individual taxpayers, regardless of the number and nature of farm business entities they are involved in. Operators and owners will be asked to provide information about their roles in their farming operations in order to establish eligibility for program payments. ACRE provides intermediate term protection against the risk of falling revenues from crop production, in exchange for reduced direct

program crop payments. SURE is a permanent disaster program that extends the level of coverage that producers can purchase through conventional crop insurance policies.

Additional titles in the bill address such issues as dairy price supports, organic production, horticultural crops, and programs for beginning farmers. Additional information about each of these topics can be found on the Iowa State University Ag Decision Maker website at www.extension.iastate.edu/agdm/. Simply click on the Farm Bill Information button on the home page. Another button links to a list of county level informational meetings scheduled for the next several months, featuring presenters from ISU Extension and the Farm Service Agency. For those who cannot attend a meeting, there are archived video presentations that can be accessed by home computer.



Making the transition from conventional to organic

By Craig Chase, extension farm management field specialist, cchase@iastate.edu, 319-882-4275; Ann Johanns, extension program specialist; and Kathleen Delate, organic specialist/associate professor of agronomy and horticulture.

Farming organically allows producers to incur many economic and social advantages compared to farming conventionally (Chase et al., 2008). Understanding and planning the economic returns of the transition process can aid the producer in planning and becoming organically certified.

In Iowa, higher organic prices and lower production costs more than compensate for lower yields. The size of the economic advantage will differ by the crops within the rotation, the time period of the study, and geographic location of the farm. However, there has been enough consistency among the research comparing conventional and organic production systems to permit some degree of confidence. The exact numbers for return to management and acres needed vary by assumptions, but the comparison has remained fairly constant over the last 10 years. This economic advantage would allow the organic producer to achieve a designated economic goal with fewer acres.

The need for fewer acres would allow the producer to enter into farming with lower capital requirements. Fewer acres also translate into a smaller machinery investment. Machinery for organic producers tends to be smaller, less expensive equipment compared to conventional producers. The much lower machinery and land investment for the organic producer would allow farmers with limited resources to attain economic goals with minimum debt. Therefore organic rotations offer beginning farmers an opportunity to gain access to farming without a debt load and risks that can be overwhelming. Programs and funding that are available for beginning farmers can be stretched farther in organic production than conventional.

Organic certification and the transition process

Transitioning from conventional to organic production is a regulated process. Organic certification requires that crops do not receive any synthetic chemicals including fertilizers or pesticides for three years prior to the harvest of the crops (see Delate, 2003 for a full explanation of the certification process).

Split farming operations that simultaneously grow crops organically and conventionally are allowed in Iowa but require special conditions (Delate, 2003). The ability to split farm operations allows producers to transition from conventional to organic production on a field-by-field basis rather than on a whole-farm basis. Current organic producers indicate a field-by-field transition is easier to manage due to extensive differences in nutrient and pest management between the two production systems.

Organic producers must use a longer crop rotation than conventional counterparts. Additionally, the same row crop cannot be produced in consecutive years on the same field. The usual organic rotation includes a legume (alfalfa, clover, or vetch) and small grain (oat, wheat, or barley) in addition to corn and soybeans. Legumes supply nitrogen while the small grains supply nutrients, particularly carbon, and aid in weed management. Organic corn and soybean are normally grown in the rotation in Iowa due to higher organic price premiums and profitability. The common organic rotation in Iowa is from four to six years.

Land coming out of CRP needs to meet the 3-year requirement of no prohibitive substances, but it is possible to harvest an organic crop the first year coming out of CRP if synthetic chemicals have not been applied during that period.

Transition production plan

As stated previously, organic transitions in Iowa can occur on a field-by-field or whole farm basis. Prior to determining which transition plan makes sense for an individual farming operation, a review of the plan should take place. The transition plan should start with the development of a production plan followed by the development of budgets and determination of projected profitability.

Enterprise budgets and the transition decision

An Information File and Decision Tool are available on the Ag Decision Maker website to help analyze the transition process. The spreadsheet allows the user to choose which crops to transition first and develop a whole-farm summary to see how returns are affected each year of the transition process. The spreadsheet uses a five year transition process. Conventional budgets are available for corn, soybean, and oat. Organic budgets are provided for corn, soybean, oat, and alfalfa. A blank budget is available to enable the user to insert a crop that is not listed (e.g., barley, wheat, clover, etc.).

Accurate records are a key component to becoming certified organic. The style of recordkeeping varies somewhat between certification agencies, but all require detailed logs of non-GMO seed selection and organic-compliant inputs. Therefore, it is important to identify an organic certification agency prior to beginning the transitioning process to make sure the production practices being followed and the records being kept will lead to a successful transition.

This article is an excerpt from AgDM File A1-26, Making the Transition from Conventional to Organic. See the Information File for the full text and references.



Flexible cash farm lease considerations

By Steven D. Johnson, farm and ag business management field specialist,
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The crop price volatility witnessed in recent years has made it difficult to forecast price and use fixed cash rental rates. Landowners that adapt to flexible cash farm leases receive a guaranteed base cash rent amount, in addition to a flex payment that was likely triggered by higher gross revenue (yields and/or price). With the decline of crop prices in the fall of 2008, the potential risk of setting high fixed cash rents for 2009 and beyond became a great concern for most tenants.

The use of a flexible cash farm lease will likely be fairer to both the landowner and tenant. However, that challenge is coming up with a base rent amount, maximum cash rent and a way to determine a flex payment.

FSA policy change

Beginning in 2009, the Farm Service Agency (FSA) rules state:

For 2009 through 2012, a lease that provides for the greater of the guaranteed amount or share of the crop or crop proceeds shall be considered a cash lease if the lease provides for a guaranteed amount and share of the crop.

With this change, the burden of many flex leases as crop share leases, and therefore requiring the government farm programs to be shared with the landowner, has been removed. The direct payments shared were typically a few dollars per acre, but the landowner had to sign-up for the annual Direct & Counter-Cyclical Program (DCP) as a result. Very few cash rent landowners are willing to sign related farm program documents in order to collect a few dollars of direct payments.

Expect with the FSA policy change that various forms of flexible cash farm leases will be more common. In addition, these new flexible cash leases will likely use the actual farm yields to determine the flexible portion of the rental rate. These yields will be multiplied by price to establish the gross revenue levels above which flexible rent payments are triggered.

For Central Iowa, most of the guaranteed base cash rents witnessed for 2009 were between \$200 and \$300 per acre. Such rents are typically on more productive land where high fixed cash rents have escalated. The maximum rent tends to be about \$100 per acre above the pre-established base rent. Having a maximum rent is a good safeguard for the tenant in order to better determine their potential cost of production, calculate breakeven prices and implement pre-harvest marketing strategies for production on this farm.

Determining yield and prices

To establish the farm's actual yield (dry weight for corn adjusted to 15.5 percent) most lease arrangements will need to reflect grain bin measurements, scale tickets, settlement sheets, yield monitor data, grain cart scales, or other verifiable methods. The simplest price determination might be the FSA's Posted County Price (PCP) for October and November. With FSA shifting to a 30-day moving average of PCP in 2009, this will be easy to access from the FSA's website. However, this amount could underestimate the potential value of the harvested crop since it uses only the fall pricing period. Extending the pricing period beyond November is not suggested, since the landlord should not benefit from the decision of the tenant to store or sell their crop. Price improvement post-harvest largely reflects basis and futures market carry, and the landowner does not typically pay storage or interest on the crop.

Averaging a series of harvest delivery bids at a local co-op or elevator is worth consideration for establishing the crop price on a flex lease. Such a price overcomes the potential low harvest price bias, and yet reflects the likely wider basis for a fall delivery period. This is a price that the tenant could receive should they decide to forward contract a portion of their crop on that farm. So the average price for a flex lease payment could be the cash price at a local elevator, perhaps four times during the year; mid-January, mid-April, mid-July or mid-October. Specific days of the month should be established. If you say the 15th of the month, note in the lease that if the 15th falls on a weekend, then the trading day closest to the 15th.

If a larger number of pricing periods is desired, choose one day of the month to collect the harvest delivery bids. If both parties prefer to reflect a longer period of monthly averages, consider January through October. To avoid having to record this price every month, you might want to have the local grain merchandiser simply print out this average price at the conclusion of harvest. Also request that they sign and date this information to that both the tenant and landowner are comfortable of the source of this data.

Gross revenue triggers

Determining the gross revenue triggers for both corn and soybean crops needs to be established. If crop production costs appear to be too high or too low annually, then changes could be made to: base rent, maximum rent, and the flexible cash lease triggers that more accurately reflect cost of production. For 2009, consider not triggering the flex payment until gross revenue exceeds the total cost of production, in-

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Flexible cash farm lease considerations, continued from page 4

cluding the base cash rent. If a tenant knows their estimated cost of production for each crop, use this number. The ISU Extension publication FM-1712, 2009 Estimated Costs of Crop Production could be another consideration. Those costs for conventional tillage, medium yield would be \$692 per acre for a corn following soybean rotation, and \$491 per acre for a soybeans following corn rotation.

Once the gross revenue triggers are established, consider a flex payment of roughly 35 percent for actual gross revenue on corn acres and perhaps 40 percent for soybean acres. Corn Example: A farm produces 180 bu/A dry weight corn yield and the average cash price during the year is \$4/bu. ($180 \times \$4 = \$720/A$). Subtract this amount from the gross revenue trigger of \$692/A to get \$28/A. The flex payment would thus be 35 percent of this amount, or an additional \$9.80/A on all corn acres.

Soybean Example: A farm produces 50 bu/A soybean yield and the average cash price is \$9/bu. ($50 \times \$9 = \$450/A$). The actual revenue falls below the gross revenue trigger of \$491/A, so there would be no flex payment on soybean acres.

New ACRE program considerations

Beginning in 2009, flexible cash lease agreements might request actual yield data as required by the FSA's new Average Crop Revenue Election (ACRE) program. The details of this program are yet to be finalized, but the forward thinking could help with enrolling a farm in this new program beginning in the spring. Since the program will require actual production in bushels for each FSA farm number divided by the actual planted acres, consider adjusting the cash rent to reflect the actual certified planted acres on the farm reported by the tenant to FSA each summer. Cash rent could adjust to actual planted acres that year (used by FSA to determine yield per planted acre), and also be recognized in the new ACRE program calculations in determining the farm's revenue guarantee.

The yield would then match up with the actual farm yields required by the ACRE program for each crop produced. The lease could designate the landowner be provided a copy of the acreage certification (FSA Form 578) by July 15 and the actual farm yields (likely a new FSA Form) by Dec. 15. In a flexible cash farm lease, the first half base rent could be collected prior to planting and the second half of the base rent, plus the potential flex payment could be calculated by Dec. 15 and paid on or before Dec. 20 each year. This type of arrangement could put a lot more transparency into planted acres and actual farm yields and allow for this flexible cash lease to continue for all four years of the new farm program (2009, 2010, 2011 and 2012).

Multi-year considerations

The election decision for enrollment in the new ACRE program is irrevocable, which will require the landowner(s) signature(s) and the farm must remain in the ACRE program through 2012. Since the tenant is the only one deemed "at risk" on a cash rent farm, if an ACRE payment is made, it is payable to the tenant. Consider the use of flexible cash farm leases and enrollment in the ACRE program along with a multi-year cash lease arrangement.

Where good tenant and landowner relationships exist, the landowner feels good about the four year commitment to the ACRE program and the tenant likely wants to better manage production risk on the farm. Once a multi-year agreement through 2012 is determined, the tenant can take advantage of banking fertility on the farm, better match machinery and equipment to the scale of the operation, and benefit from pre-paid expenses. The December period for paying the second half cash rent plus flex payment likely matches the tenant's income tax strategies and keeps the landlord's income in one taxable year.

Websites with flexible cash farm lease information

Consider the following websites for assistance in putting together a flexible cash farm lease in 2009.

ISU Extension Flexible Farm Lease Arrangements publication and Decision Tool: <http://www.extension.iastate.edu/agdm/wholefarm/html/c2-21.html>

ISU Extension 2009 Estimated Cost of Crop Production publication: <http://www.extension.iastate.edu/agdm/crops/html/a1-20.html>

ISU Extension Evaluating Profitability of Crop Rotations publication and Decision Tool: <http://www.extension.iastate.edu/agdm/crops/html/a1-80.html>



Supplemental Revenue Assistance (SURE) buy-in is reopened

By William Edwards, extension economist, 515-294-6161, wedwards@iastate.edu

As part of the American Recovery and Reinvestment Act (also known as the economic stimulus bill), Congress reopened the window of opportunity for farmers to qualify for possible disaster payments for 2008 crops. These payments were authorized in the 2008 farm bill under the Supplemental Revenue Assistance (SURE) program.

To be considered for SURE, crop producers were required to have purchased multiple peril crop insurance for all insurable crops that accounted for 5 percent or more of their expected gross value of crop production in 2008. Noninsurable crops that met the gross value threshold had to be covered under the Noninsured Assistance Program (NAP) available from the Farm Service Agency. For crops not already covered, producers could pay a “buy-in” fee of \$100 per crop to FSA by Sept. 16, 2008.

The opportunity to obtain eligibility for 2008 crops by paying the buy-in fee has been extended for 90 days, until May 18, 2009. Late-enrolled crops cannot receive insurance or NAP indemnity payments, but will be eligible for SURE. For purposes of SURE they will be considered to have a level of coverage not to exceed 70 percent of the proven yield and 100 percent of the indemnity price for crop insurance, or equal to 70 percent of the yield established under NAP.

Producers who take advantage of this late enrollment opportunity also will be required to obtain coverage on their 2009 insurable crops of at least 70 percent of their proven yield and 100 percent of the indemnity price, and to obtain NAP coverage on other crops.

Producers who insured all their required 2008 crops before the normal sales closing date (March 15 for corn and soybeans), or enrolled them for SURE coverage before the Sept. 16 deadline, will receive a small bonus. Their coverage levels for purposes of SURE will now be calculated as 120 percent of their crop insurance guarantee (instead of 115 percent) and 125 percent of their NAP guarantee (instead of 120 percent).

Farmers who produced crops in counties eligible for 2008 SURE assistance (see Ag Decision Maker Information File A1-44) can use the Ag Decision Maker decision tool (A1-44) to analyze whether or not they might be eligible for a SURE payment. Final eligibility and payments amounts for 2008 crops will not be known until the average USDA marketing year price is announced in September.

The Farm Service Agency has not yet officially announced the reopening of SURE eligibility, so the above information is subject to change.

Updates, continued from page 1

Group Risk Plan (GRP) & Group Risk Income Production (GRIP) – A1-58 (2 pages)

Please add these files to your handbook and remove the out-of-date material.

Internet Updates

The following updates have been added on www.extension.iastate.edu/agdm.

Making the Transition from Conventional to Organic – A1-26

Current Profitability

The following profitability tools have been updated on www.extension.iastate.edu/agdm to reflect current price data.

Corn Profitability – A1-85

Soybean Profitability – A1-86

Ethanol Profitability – D1-10

... and justice for all

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ing, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964.

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