



Ag Decision Maker

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Crop insurance proven yields can be adjusted for upward trends

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

Many farmers feel that the 10-year average Actual Production History (APH) yields used to determine their multiple peril crop insurance guarantees do not accurately reflect their current yield potential, due to improved crop genetics and cultural practices that have been introduced in recent years. A new feature

called the Trend-Adjusted APH will address this concern, starting in the 2012 crop year.

Trend-Adjusted APH has been approved by the Federal Crop Insurance Corporation (FCIC) Board for both corn and soybeans in most of the Corn Belt, including all counties in Iowa. Basically, a trend adjustment factor is estimated for each county. This factor is equal to the estimated annual increase in yield, and is based on county average yields determined by the National Agricultural Statistics Service (NASS) each year. Each yield reported in the individual insurance unit's APH history is adjusted upward by the trend adjustment factor, times the number of years that have passed since the yield was recorded.

Table 1 (next page) shows an example for an insurance unit

with 10 years of yield history for corn and an average yield of 163 bushels per acre. Assume that the trend adjustment factor in the county where the unit is located is 2.0 bushels per acre per year. So, 2.0 bushels are added to each yield for every year since it was recorded. Adjustments range from two bushels for the immediate past year to 20 bushels for a yield that was recorded 10 years ago. The adjusted APH yield is now the average of the

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Handbook updates

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

Corn Price Basis – A2-41 (11 pages)

Soybean Price Basis – A2-42 (11 pages)

Deductible Livestock Costs for Adjusting 2011 Income Tax Returns – B1-15 (1 page)

Please add these files to your handbook and remove the out-of-date material.

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adjusted yields, 174 bushels per acre, instead of the unadjusted average of 163 bushels per acre. That is the yield that will be used to calculate the unit's crop insurance guarantee in 2012.

If a farmer has substituted a yield equal to 60 percent of the county t-yield in some year when a very low actual yield was reported, the trend adjustment is applied to the substitute yield instead of the actual yield.

In some cases the land in the insurance unit may not have an actual yield for every year, either because the crop was not planted that year, no production records were available, or other factors. The unit must have an actual yield for at least one year out of the last four to be eligible for the yield trend adjustment. If actual yields are available for fewer than four years in the last 12, the annual trend adjustment factor is reduced. For three years of actual yields, yields are increased by only 75 percent of the trend factor; for two years of actual yields, yields are increased by 50 percent of the trend factor; and for one year of actual yields, yields are increased by only 25 percent of the trend factor. So, if the yield adjustment factor for the county is 2.0, the actual adjustment would be 1.5

bushels when three years of actual yields are available, 1.0 bushels when two years of actual yields are available, and 0.5 bushels when one year of actual yields is available.

In some cases a maximum or cap will be applied to the trend-adjusted average yield. The cap is equal to the highest yield in the years of yield history for the unit, plus the annual trend adjustment. Thus, in the example above the highest yield is 197 bushels per acre (2011), so the cap would be equal to 197 bushels plus 2 bushels, or 199 bushels per acre. This is higher than the average trend-adjusted yield, so the cap is not applicable. The cap will most likely apply in cases where an insurance unit has had very stable or declining yields over time.

The Trend-Adjusted APH is available for either yield protection or revenue protection policies, at all levels of guarantee except catastrophic (CAT) coverage (50 percent yield guarantee). Group policies, such as GRIP and GRP, have used trend adjusted county yields since they were introduced, and that procedure will not change. The Trend-Adjusted APH election must be made by the insured producer by the sales closing date each year, which is March 15 for soybeans and corn in Iowa.

Table 1. Trend-Adjusted Actual Production History Yield Example

Year	Reported Yield, bu/ac	Yield Adjustment, bu/ac	Adjusted Yield, bu/ac
2002	133	20	153
2003	145	18	163
2004	167	16	183
2005	122	14	136
2006	157	12	169
2007	165	10	175
2008	171	8	179
2009	193	6	199
2010	176	4	180
2011	<u>197</u>	2	<u>199</u>
Average	163		174



Employee management: Get the right start in hiring employees

by *Melissa O'Rourke, extension farm and agribusiness management specialist, morourke@iastate.edu, 712-737-4230*

Probably the most important category of resources in any business operation is human resources. That definitely includes our farm and agribusiness operations. Labor costs are often one of the highest cost categories – particularly in dairy, swine and beef feedlot operations – so it is vital to hire right and then train and retain those good employees. Here are a few notes on how to improve your hiring process.

First, review the needs of your farm and hiring practices that you have used in the past. Reviewing the needs of your operation may require an analysis of costs and cash flow for your operation to help determine what labor costs you can afford. Analyze whether full-time or part-time employees are needed and perhaps more specifically when the labor needs are greatest – such as weekends, evenings or early mornings. There may even be times of the year. For example, in dairy operations there may be peak periods of freshening when the labor requirement is somewhat increased.

Before posting that help wanted announcement, give careful thought to putting together a written position description. Don't just use a canned job description for farm workers. Sit down and make a list of all the different duties you may expect of this new employee. Then review the list and determine whether expectations are reasonable, or whether you need to prioritize some of those duties.

Be sure to include any physical requirements of the position, such as lifting, standing, reaching and stretching. Also list whether there is any knowledge, training or previous work experience you expect the new employee to bring to the job. Finally, describe the working conditions, such as days and hours to be worked, flexibility required.

With any farm employment, it is always important to determine whether the position requires a regu-

lar driver's license or CDL. There is information on the Iowa Department of Transportation website www.iowadot.gov/mvd/ods/cdl/cdlnut.pdf that can help an employer determine whether a CDL is needed for the position.

While it is not necessary to include a pay range in a job announcement or position description, a proposed pay range should be determined prior to starting the recruitment process. The pay range should be in line with what you can afford, but it is also needs to align with the expectations of the position. Consider possible incentive or bonus payments and benefits that may be offered with the position.

When you are ready to start recruiting a pool of possible applicants, be creative. Many of us come from an era of looking at "help wanted" ads in local newspapers or shoppers. However, many jobseekers these days never look in printed media. Depending on your needs, contact area schools who may have students seeking farm employment. Iowa Workforce Development is another source for listing your employment opportunities. Many local radio stations have on-air or online job boards or help wanted sites. You may want to print a simple help wanted flyer with contact information and post it on community bulletin boards. Finally, remember that word-of-mouth is one of the best ways to seek good employees. Ask your current good employees if they know anyone who may be interested in a farm labor position.

Determine what information you want from potential job applicants. Obtain or prepare a job application form for this purpose. Be sure that the form used does not seek information that is inappropriate or even illegal to request from job applicants. You will want to ask job applicants for references.

Prepare carefully for job interviews. Make a list of information that you want to share with applicants,

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such as the position description. Remember that many of your applicants will be unfamiliar with how a dairy farm operates and the kind of hours and duties that are required. Describe the hours and working conditions, and outline the training that will be provided to the new employee. Share information about the pay structure and benefits that come with the job.

Make a list of the questions that you want to be sure to ask each applicant. Again, seek legal guidance regarding inappropriate areas of inquiry. ISU Extension and Outreach offers some interview guidance at www.extension.iastate.edu/agdm/wholefarm/html/c5-101.html.

Check references. References may be former employers, teachers, volunteer work coordinators or even neighbors or community members. While persons acting as employment references may need to be careful regarding statements made about another, a potential employer can always ask a former employer to confirm employment dates and positions held. It is reasonable to ask the simple question, "Would you hire this person?" Ask the reference about the applicant's former job duties.

When you have interviewed possible applicants, make your evaluation and selection(s) and deter-

mine the nature of the job offer you wish to make. While the initial offer may be by phone, it is a good idea to follow an oral offer with a written offer of employment. This written offer can confirm the details such as pay, benefits, hours, duties and flexibility required in the position.

If the offer is accepted by your chosen applicant, be sure to contact the other applicants. Let them know of your decision. If this is a person that you might consider for other, future employment, let them know that you will keep their application on file for that purpose.

Once your employment offer has been accepted, there are a number of forms and procedures that must be completed to be in compliance with state and federal law. Those procedures will be the topic of a future article on farm and agribusiness employee management.

AgDM Information File C5-100 provides another beneficial resource on hiring good employees at: www.extension.iastate.edu/agdm/wholefarm/html/c5-100.html. In the meantime, feel free to contact me with any of your employee management questions at: morourke@iastate.edu.

Farmers have consistently produced themselves out of prosperity—what about this time?

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In reading Jerry Hagstrom's report on a three-day conference, Agriculture Investment Summit for the Americas, we were struck by the witty insight of Jason Henderson when he said, "I have never met a farmer who is unwilling to produce himself [or herself] out of prosperity."

In that one sentence, Henderson, executive vice president of the Omaha branch of the Federal Reserve Bank of Kansas City, summed up what agricultural economists have long known. Historically, the production of agricultural crops, sooner or later, outruns demand, resulting in multi-year periods of low prices. The same is true in the

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shorter-run for livestock, although producers there adjust production much more quickly than crop producers resulting in what have historically been hog and cattle cycles.

This tendency towards over-production is not a new phenomenon in U.S. agriculture. Shortly after the settlement of the first colonists in North America, farmers began to ship a new-fangled product called tobacco to London. Smoking caught on like wildfire—so to speak—and the production of tobacco became very lucrative.

The price was so lucrative that others quickly began to produce so much tobacco that within 40 years they had flooded the market. Prices fell so dramatically that several colonies were looking at acreage restrictions on the planting of tobacco in order to boost prices to a profitable level.

For a time, the production of indigo in the U.S. South was profitable, but with increased production in the U.S., Central America, and South America, along with the advent of the Revolutionary War and the loss of the British per pound bonus, U.S. producers could no longer compete and the domestic market collapsed, never to recover.

The pattern of profitable prices, followed by increased production and the addition of new production areas, resulting in long troughs of low prices has plagued the producers of corn, cotton and wheat through much of U.S. history, particularly following the Civil War and opening up of the Great Plains to crop agriculture. In the last century, this pattern was repeated following World War I, World War II and the export boom of the 1970s.

We are now experiencing a similar boom and at the investing summit, Gerald Bange, Chair of

USDA's World Agricultural Outlook Board, told his audience, "We're not going to see \$2 and \$3 corn again in the U.S." Much of his optimism is based on ethanol production and a growing export demand.

To date, agricultural exports to China, India and Russia have been growing resulting in an ethanol/export led prosperity for U.S. farmers. As Hagstrom reports (The Hagstrom Report, Oct. 24, 2011, Vol. 1 No. 194), Henderson cautioned his audience that "growing world markets may not always be there."

Henderson based his caution on a look at the stages countries go through in the development process. In Stage One, a country begins to increase the importation of food just as Brazil did in the 1970s and Russia did with meat products in the 1990s.

Russia, along with China, is in Stage Two where they are seeking to "expand protein production with an eye toward feeding themselves and shrinking meat imports." To do this they have increased their imports of soybean meal.

Brazil is now in Stage Three, a stage where they increase their production of crops so they no longer have to purchase imports to feed their own animals.

In Stage Four, a country begins to compete with their former suppliers, exporting both crops and protein. Brazil is there with regard to soybeans and is likely to soon be there when it comes to corn, wheat, beef, pork and poultry.

If the pattern holds, Russia and China may not be too far behind.



Updating your cropland cash rental rate

by Ann M. Johanns, extension program specialist, 641-732-5574, aholste@iastate.edu

Cash rent lease agreements are popular because they are supposed to be simple, relieving the owner of making decisions throughout the year and giving the tenant the freedom to make their own decisions for raising a crop. With a fluctuating market, the risk and returns from changing prices, yields and costs are all borne by the tenant, but how does a landowner decide a fair price for the land?

Ag Decision Maker’s leasing page is a portal to all Iowa State resources on improving your lease contract. The Decision Tool, **Cash Rental Rate Estimation**, is a user friendly spreadsheet to compare different methods for computing a cropland cash rent. It includes inputs for current prices, typical farm yields and estimated production costs to provide answers based on the land, not what the neighbor is charging. Users can find rents based on a share of gross income, yield potential, CSR, land value, tenant’s residual or a crop share equivalent. Detailed information on each method is available in the coordinating Information File, **Computing a Cropland Cash Rental Rate**.

According to ISU Extension and Outreach specialist Tim Eggers, many lease rates are being negotiated through the winter months.

“There is a common misperception. The lease termination deadline is Sept. 1. So landlords or tenants who want to make a change in their existing lease, whether it is oral or written, need to provide a notice of lease termination to the other party prior to Sept. 1. However, the leasing year doesn’t begin until March 1. Many lease rates and conditions are negotiated after harvest and even in the winter.”

The leasing page (www.extension.iastate.edu/agdm/wdleasing.html) links to rental surveys, lease forms and more on how to improve your lease contract. The Decision Tool (www.extension.iastate.edu/agdm/wholefarm/xls/c2-20croplandcashrent.xls) and Information File (www.extension.iastate.edu/agdm/wholefarm/html/c2-20.html) are available online, in your county ISU Extension office, or by contacting Ag Decision Maker at: agdm@iastate.edu.

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Internet Updates

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

July Corn Basis -- A2-43 (12 pages)

July Soybean Basis -- A2-44 (12 pages)

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

Season Average Price Calculator -- A2-15

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

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