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Crop insurance coverage-frequently asked questions in times of drought or floods

By Charles Brown, farm management specialist, (641) 673-5841, crbrown@iastate.edu; Steve Johnson, farm management specialist, (515) 957-5790, sdjohns@iastate.edu

In 2017, Iowa farmers are suffering the extremes of drought in the Southeast and Northwest and floods in the North and Northeast. Both losses due to drought and flooding are an insurable loss under multiple peril crop insurance. Another dynamic added to the mix this year is yield loss due to chemical drift, which is not a covered loss under multiple peril crop insurance. Especially in Southeast Iowa, due to drought conditions, claims for losses on corn and soybeans are expected to increase greatly from 2016.

Question: How many of Iowa's corn and soybean acres are covered by crop insurance?

Iowa farmers planted 23.5 million acres of corn and soybeans in

2017. Approximately 90 percent of those acres have been insured using Revenue Protection (RP) multiple peril crop insurance. These insurance policies can guarantee various levels of a percentage of the farm's average yield times the higher of the projected price (average futures price in the month of February) or the harvest price (average futures price during the month of October), using the November 2017 futures contract for soybeans and the December 2017 futures contract for corn. Most farm operators carry a guarantee of their APH from 65 percent to 85 percent level of coverage. The projected prices (futures average prices in February 2017) were \$3.96/bu for corn and \$10.19/bu for soybeans, respectively.

Question: What should an insured farmer do once a crop loss is recognized?

1. Notify the insurance agent within 72 hours of the

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Handbook updates

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

Corn Price Basis – A2-41
(12 pages)

Soybean Price Basis – A2-42
(12 pages)

Iowa Farmland Rental Rates (USDA) – C2-09 (1 page)

Please add these files to your handbook and remove the out-of-date material.

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Important point: Do not destroy a crop, commingle grain from previous years or different owners or harvest for silage before contacting your insurance agent. Bins must be measured before commingling grain.

When in doubt call your agent.

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discovery of damage, but not later than 15 days after the end of the insurance period. A notice of loss can be made by phone, in writing or in person. Although drought loss is not immediate, farmers should contact their agent as soon as they feel a loss is present.

2. Continue to care for the crop using good farming practices and protect it from further damage, if possible.
3. Get permission from the insurance company, also referred to as your Approved Insurance Provider (AIP), before destroying or putting any crop to an alternative use.

Question: Who will appraise the crops and assess the loss?

The crop insurance company will assign a crop insurance adjuster to appraise the crop and assess the loss. The insured farmer must maintain the crop until the appraisal is complete. If the company cannot make an accurate appraisal, or the farmer disagrees with the appraisal, the company can have the farmer leave representative sample areas.

These representative sample areas of the crop are to be maintained – including normal spraying if economically justified – until the company conducts a final inspection. Failure to maintain the representative sample areas could result in a determination that the cause of loss is not covered. Therefore not claims payment to the producer.

Once appraised the crop can be released by the company to be:

1. Destroyed – through tillage, shredding, or chemical means; or
2. Used as silage or feed.

Question: Once released, may I harvest my corn as silage for feed?

Check with your crop insurance company. In a county where corn can be insured as grain only, the corn will be released, or harvested as silage or sold as feed. Any grain will be counted as production for your claim. In a county where corn can be insured as silage, the harvested silage will be counted as production.

Question: What is the difference among insurance units?

Many farmers have chosen to insure their crops using enterprise units in order to pay less expensive insurance premiums. Under enterprise units, losses are calculated by crop by county. Therefore all the corn planted by a farmer in a given county would be added together to determine a loss. If a farmer has chosen optional units, then losses are calculated by crop by field unit. Premiums are typically higher if choosing optional units but a good yield on one field does not cancel out the loss on another field.

Question: When will farmers be receiving indemnity payments for their crop insurance losses?

Adjusters will be busy with the increase in losses in Southeast Iowa. As soon as you are finished harvesting notify your insurance agent and an adjuster will be assigned to you. Insurance companies cannot defer payments to the next tax year, but claims adjusted late in the year may not be paid out until the following year.

Question: What is the maximum price that the harvest time indemnity price (average October futures price) can reach?

The maximum harvest indemnity price values for 2017 are twice of the projected price; or \$7.92/bu for corn and \$20.38/bu for soybeans, respectively.

Question: Can indemnity payments for drought be deferred for income tax purposes until 2018?

A taxpayer using the cash method of accounting claims the income in the year they receive the payment. The insurance company will send the insured a 1099 showing the amount and tax year to report the income.

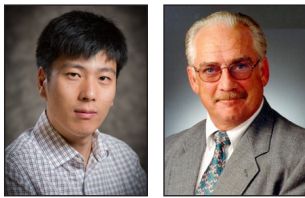
A farmer, if they are using the cash method of accounting for reporting taxes, can elect to defer crop insurance payments if the loss is due to yield loss and they normally sell more than 50 percent of their crop the year following harvest. They cannot defer any loss that is due to price loss. Farmers that are using the accrual method of accounting for reporting taxes cannot defer crop insurance payments.

Crop insurance coverage-frequently asked questions in times of drought or floods, continued from page 2

Question: Will I be asked to provide proof of my bushels this year for crop insurance verification?

All multiple peril crop insurance users are subject to production verification on a random basis. If a claim that exceeds \$200,000 is filed for an individual crop and policy, verification of production is automatically required by regulation. This also requires a 3-year audit.

For further resources and information on issues related to drought, visit the ISU Extension and Outreach - Dealing with Drought webpage, (www.extension.iastate.edu/topic/dealing-drought-2017).



Land quality perceptions in expert opinion surveys: evidence from Iowa

By Wendong Zhang, extension economist, 515-294-2536, wdzhang@iastate.edu; Mike Duffy, retired extension economist

Many land grant universities across the Midwest, the U.S. Department of Agriculture (USDA), the Federal Reserve Bank system, and many agricultural professional associations conduct annual or quarterly opinion surveys to gauge the pulse of the farmland markets. However, little is known regarding how survey respondents perceive the land quality or how land quality is defined in these opinion surveys of land values. In particular, how land quality is defined, and how the question is posed, varies significantly across the opinion-based surveys. This article analyzes how the respondents to opinion-based surveys perceive land quality in their answers to land value questions, and it is a summary of a forthcoming article in the Journal of American Society of Farm Managers and Rural Appraisers.

Land quality questions in expert opinion surveys

Table 1 shows how land quality questions are presented in opinion-based surveys of land values throughout the Corn Belt. For example, quality definitions range from statewide pre-specified ranges of crop yields in the Illinois Farmland Value Survey, to pre-specified ranges based on Land Capacity Classifications in the Nebraska Real Estate Market Survey, to subjective average crop yields reported by respondents, such as in surveys conducted by Ohio State University and Purdue University. In contrast, USDA solicits land value estimates from producers for a spatially delineated parcel, while the Federal Reserve Bank of Chicago does not offer specific land

quality definitions. Given the substantial variability across the surveys, we use Iowa State University Land Value Survey as a case study to offer some insights on how these land quality questions are perceived by agricultural professionals.

Land Value Survey, CSR and CSR2

Sponsored annually by Iowa State University (ISU) Extension and Outreach and ISU Center for Agricultural and Rural Development (CARD), the Iowa State University Land Value Survey is intended to provide information on general land value trends, geographical land price relationships, and factors influencing the Iowa land market. The survey is not intended to provide an estimate for any particular piece of property. The survey is based on reports by licensed real estate brokers, farm managers, appraisers, agricultural lenders, and selected individuals considered to be knowledgeable of land market conditions. The Iowa Land Value Survey is the only consistent data source that provides an annual land value estimate for each of the 99 counties in Iowa (Zhang 2015a).

Participants in the survey are asked to estimate the value of high, medium, and low quality land in their county as of November 1st each year. These individual land value responses are used to calculate not only average land values at the crop reporting district and state level, but also district and state level estimates for high, medium, and low quality land.

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Figure 1 presents the land quality questions from the 2015 Iowa Land Value Survey. In particular, we asked their estimates of average CSR and CSR2 for high, medium, and low quality land for a particular county. The corn suitability rating (CSR), and updated CSR2 system are soil productivity ratings for Iowa soils ranging from a low of five to a high of 100. The

values are used in disseminating individual real estate property taxes, but may also be used as one factor in figuring farmland indexes such as land values and cash rents. Survey respondents who provided estimates are given their past year's estimates as a reference.

Table 1. Land Quality Questions in Midwestern Expert Opinion Surveys of Land Value

Survey Source	Land Quality Questions	Data Source
U.S. Department of Agriculture June Agricultural Survey	The respondent is asked to provide the best estimate of the market value of agricultural land by cropland and permanent pasture excluding the value of all dwellings and buildings within the area-sampled boundary.	USDA NASS (2016)
Federal Reserve Bank of Chicago City	The agricultural lender is asked to provide the present market value of good farmland in his/her area? And the respondent is asked to exclude the best farmland as well as that of below average productivity from his/her considerations.	Oppedahl (2016)
Iowa Land Value Survey	Farmland quality classes are broken into high, medium and low quality classes, and the respondents are asked to provide corresponding average CSR/CSR2 for each quality class.	Zhang (2015a)
Realtor Land Institute Iowa Chapter	The farmland is divided into several land quality classes, including high quality cropland, medium quality cropland, low quality cropland, non-tillable pasture land, and timber land.	Hansen (2016)
Michigan Land Values and Leasing Rates Survey	Non-irrigated field cropland tiled for drainage; non-irrigated field cropland not tiled; irrigated field cropland; sugar beet; fruit trees-bearing; acreage suitable for tree fruit	Wittenberg and Wolf (2015)
Illinois Farmland Value Survey	Farmland quality classes are determined by objective expected corn yields: excellent: > 190 bu/acre; good: 170-190 bu/acre; average: 150-170 bu/acre; and fair: <150 bu/acre	Schnitkey (2016)
Ohio Cropland Values and Cash Rents Survey	Farmland quality classes are broken into top, average and poor classes, and the respondents are asked to provide the long-term average (5 year) corn/soybean yields with typical farming practices for each quality class.	Ward and Shrinkle (2016)
Indiana Land Value and Cash Rents Survey by Purdue University	Farmland quality classes are broken into top, average and poor classes, and the respondents are asked to provide the long-term average (5 year) corn yields with typical farming practices for each quality class.	Dobbins and Cook (2016)
South Dakota Farm Real Estate Market Survey	Farmland is broken into several land use types, and with each land use type the respondent is asked provide land value for average value, lower value and higher value agricultural land, which "usually has average yields, below-average yields, and above-average yields"	Janssen (2015)
North Dakota NASS Land Rent and Value Survey	The respondent is asked to provide average market value for the following land use types, including cropland rented for cash and pasture land.	NDTrust Lands (2016)
Nebraska Real Estate Market Survey	Farmland is broken into several different land use categories such as dryland cropland, grassland, hayland, irrigated land. And the survey asks for information about the range in current average per acre values of these types of farm or ranch real estate. For example, high grade cropland would be Class I while low grade cropland would be Classes III & IV.	Jansen and Wilson (2016)
Missouri Farmland Value Survey	Cropland is broken into good, average and poor, but with no specific explanations for these categories. Instructions are provided: "include only tracts larger than 40 acres not being converted to development or commercial uses. Land in CRP should be considered cropland"	Plain and White (2015)

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Land quality perception differences across crop reporting districts

The USDA divides Iowa into nine crop reporting districts (CRD). The CRDs contain approximately the same number of counties; and, for the most part, they have similar land quality and land use patterns. Table 2 shows the average and standard deviation for each CRD and for both the CSR and CSR2 responses.

Table 2 illustrates the difficulty with using specific yield ranges or soil quality measures to define high, medium, and low quality land for all farmland in Iowa. Our results seem to suggest that agricultural professionals perceive high, medium, and low quality with respect to their area or district. Note that the average CSR2 for high quality land in the Southwest and South Central districts are less than the average

CSR2 for the medium quality land in Northwest district. In addition, comparing across the districts shows a difference of 19 percent between the high and low CSR for the high quality land. Comparing medium quality land there is a difference of 28 percent between the high and the low average CSR. Low quality land shows a difference of 39 percent between the high and low CRD values.

Practical implications for producers and agricultural professionals

Some surveys, like the one conducted by the University of Illinois, provide explicit and common crop yield ranges for the respondents in completing the survey. Other surveys simply use a high, medium, and low quality or some other opinion categorization rather than a specific measure. While the land

Figure 1. Example question from ISU Land Value Survey

Farmland values in your primary county as of November 1, 2015

1. Land values for average-size farms in PRIMARY County are:

	Your reported values last year (\$/acre)	Your present estimates (\$/acre)	Your estimated average CSR	Your estimated average CSR2
High quality land	2014 HIGH VALUE			
Medium quality land	2014 MEDIUM VALUE			
Low quality land	2014 LOW VALUE			

Table 2: Summary statistics of reported average CSR and CSR2 and the standard deviations from the 2015 Iowa Land Value Survey

	High		Medium		Low		# Responses
	CSR	CSR2	CSR	CSR2	CSR	CSR2	
Iowa	79 (9)	83 (8)	67 (11)	72 (11)	55 (14)	58 (15)	426
Northwest	76 (7)	89 (6)	69 (5)	81 (8)	59 (10)	67 (13)	58
North Central	81 (5)	85 (5)	72 (8)	76 (7)	62 (9)	66 (13)	53
Northeast	80 (6)	83 (7)	68 (9)	71 (11)	54 (14)	55 (14)	54
West Central	75 (8)	81 (7)	64 (10)	70 (11)	55 (18)	59 (13)	44
Central	84 (6)	87 (4)	74 (9)	76 (8)	60 (13)	63 (13)	67
East Central	84 (6)	87 (5)	71 (6)	74 (6)	55 (11)	60 (13)	52
Southwest	73 (10)	79 (7)	61 (10)	66 (9)	49 (12)	52 (11)	40
South Central	68 (13)	71 (14)	53 (14)	56 (15)	38 (11)	42 (13)	36
Southeast	80 (9)	80 (7)	67 (11)	67 (10)	49 (11)	53 (13)	36

Note: the standard deviations of reported CSR and CSR2 are shown in the parentheses.

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value for different land quality classes are commonly used by agricultural professionals, there is no clear evidence on how land quality is subjectively defined or perceived by the respondents in many of these opinion surveys. To our knowledge, this paper provides the first empirical evidence on land quality perceptions in opinion surveys using the ISU Land Value Survey as the case study.

This paper has several important implications for professional farm managers, rural appraisers, agricultural consultants and investors, as well as those interested in the farmland market. Importantly, we find that the perceptions of land quality vary significantly across regions—the average soil productivity measure in southern Iowa for high quality land is lower than that for medium quality in northwestern Iowa. The wide spread in the average value between regions suggests that if a specific range for each of the land classes is pre-specified, the ranges would have to be wide or tailored for specific regions. This finding sheds light on the interpretation of land quality and land value for all opinion-based surveys.

In particular, our analysis suggests that land quality, even not explicitly specified in opinion surveys, tends to be perceived relative to a specific region as opposed to conforming to uniform statewide ranges of crop yields or soil quality indexes. Practically, this mean that agricultural professionals are encouraged to employ region-specific soil quality values for high, medium, and low quality land classes, and explore spatial variations in the marginal contribution of land quality improvement in land values.

In addition, we find that the majority of agricultural professionals who responded to the survey have a quantifiable measure in mind when they make the distinction among land classifications. This suggests that a soil quality index, such as CSR and CSR2 employed in Iowa, is a salient measure used by agricultural professionals when evaluating farmland market trends and individual investment opportunities. This finding is consistent with the fact that farmland auctions highlight average CSR2 or other soil quality index as one of the most important characteristic for a farmland parcel for sale.

Updates, continued from page 1

Internet Updates

The following Information Files and Decision Tools have been updated on www.extension.iastate.edu/agdm.

Grain Bid Price Comparison – A2-32-A3-41 (Decision Tool)

Grain Truck or Wagon Transportation Cost Calculator – A3-29 (Decision Tool)

Estimating Grain Transportation Costs – A3-41 (6 pages)

Making Family Business Decisions – C4-72 (2 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

Iowa Cash Corn and Soybean Prices – A2-11

Season Average Price Calculator – A2-15

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15

... and justice for all

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