BARNYARDS & BACKYARDS

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2014 farm bill: New risk management decisions for Wyoming producers – Part IV

By James Sedman and John Hewlett

Producers who select Price Loss Coverage (PLC) starting with the 2015 crop year will have the option of using the Supplemental Coverage Option (SCO).

SCO is based on county average yields and revenue and allows producers to cover a portion of their crop insurance premiums.

SCO premiums are subsidized at 65 percent similar to other types of crop insurance, and indemnities are determined by losses due to either reduced yield or revenue like the underlying crop insurance policy. Indemnities for SCO, however, are calculated using county-level data.

SCO is only available to accompany the PLC program. Either online decision tool will allow users to compare PLC coupled with SCO, with either Agricultural Risk Coverage-County Coverage (ARC-CO) or Individual Coverage (ARC-IC).

Big Horn County Farm Example

Our previous example Big Horn County farm reallocated their base acres to include 364.16 acres for corn, 169.61 acres for barley, and 6.24 acres for oats. Previously presented analysis of the NCPE tool with this information used FAPRI prices and assumed crop insurance coverage as Revenue Protection (RP) at 85 percent coverage.

The decision to use SCO with PLC versus ARC (either county or individual) will depend on several factors, including crops grown, county average prices and yields, individual prices and yields, future price expectations, and type and level of crop insurance coverage used.

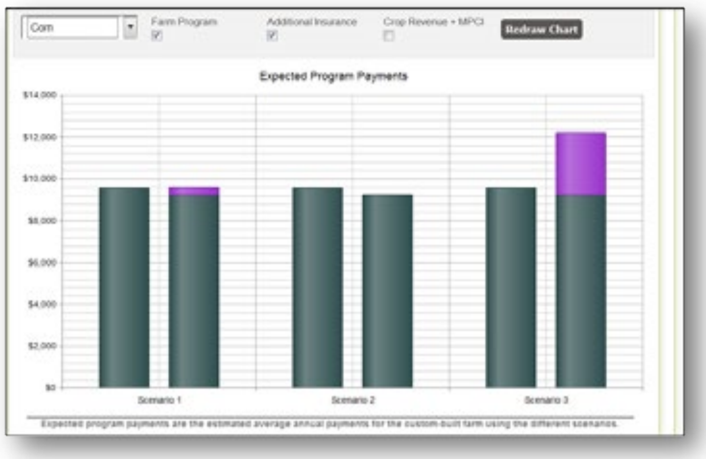

Figure 1. PLC with SCO Comparison

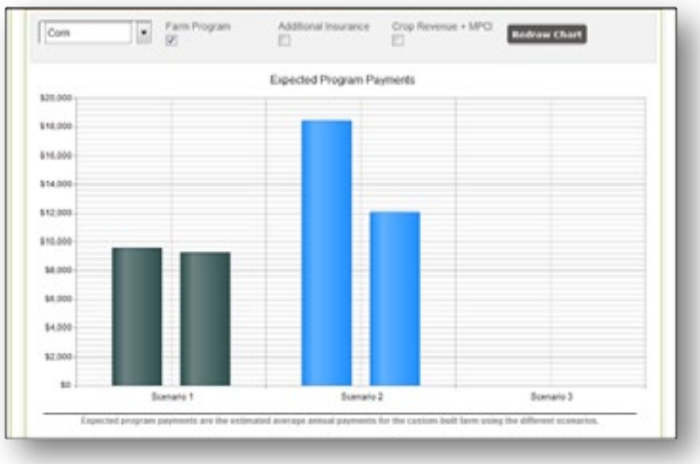

Figure 2. PLC+SCO versus ARC-CO and ARC-IC options

SCO is available for only a limited number of crops and counties for 2015.

Total coverage, with SCO and the underlying crop insurance combined, may not exceed 86 percent. Thus, as the underlying crop insurance coverage level for a given crop increases, the "insurance gap" declines, resulting in a reduced level of SCO coverage.

It is important to consider that PLC and ARC-CO make payments on 85 percent of the base acres for a commodity, while ARC-IC would pay on 65 percent of all base acres (all commodities) for a farm.

For our example farm, corn at 85 percent coverage does not leave much of an insurance gap to cover with SCO (86-85 percent coverage). If the farm were to elect 70 percent coverage instead, then the coverage gap would be considerably larger (86-70 percent coverage).

We can compare the difference in PLC with and without SCO included using the NCPE tool

Figure 1 depicts PLC+SCO with insurance coverage of 85 percent as scenario one, PLC alone with insurance coverage of 85 percent as scenario two, and scenario three is set as PLC+SCO with insurance coverage at 70 percent.

We see the average projected program payment over five years as the bar on the right. The left bar represents the projection for the 2014 payment only under each scenario.

Note that as insurance coverage is reduced to 70 percent in scenario 3, the level of projected SCO payment increases (indicated by the purple bars). When compared with the other two PLC scenarios with 85 percent insurance coverage, forecast SCO payments are much lower.

In Figure 2, we compare three alternative scenarios: scenario one is set as PLC+SCO, scenario two is ARC-CO, and scenario three shows ARC-IC.

The user may choose to also display expected crop revenue and projected crop insurance payment by selecting the checkbox above the graph. In this case, the ARC-CO option results in the highest projected program payment for corn. Note that for our example farm, the ARC-IC scenario results in no projected payment due to the high individual yields compared to county yields.

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For more information:

RightRisk.org has numerous resources available at RightRisk/WY/FarmBill for links to recorded presentations, examples for use of the online tools, slides, handouts, and other information on Agricultural Risk Coverage/Price Loss Coverage and other important topics related to the new farm bill legislation. Producers can navigate through a step-by-step process, including the NCPE tool to determine whether ARC or PLC might be the best choice.

Visit the Farm Service Agency website at www.fsa.usda.gov and click on the "ARC/PLC Program" link for more information on the trade-offs between programs and which may be the best fit. Producers should remember that time is running out on the deadline for updating/reallocating base acres and making a program election.

TIME IS SHORT

Visit Your FSA Office Soon

Base Acreage/Yields Update
February 27

SCO and Crop Insurance Sign-up Deadline
Most Spring-planted Crops
March 15

ARC/PLC Election
March 31

PLC/SCO Election
March 31

NAP Sign Up: Spring-seeded Crops
April 1

RANCHING WITH PROFIT BRINGS ITS OWN SET OF (FORTUNATE) CONSIDERATIONS

by Bridger Feuz

Ideal circumstances have led to substantial profits for cattlemen the last couple of years.

Demand for beef has remained relatively strong, while the supply of beef has been quite low. In addition, feed and other input prices have moderated.

This combination of factors has made now a great time to be in the cow-calf business; however, this success has led to something many ranchers may be unaccustomed to managing – significant profits. Therefore, managing these profits in a way that will build equity and value in their ranching operations is critical for producers. By wisely managing profits in the good times, producers can better weather bad times and significantly impact their future success.

Managing Profitability

What is the best way to manage in times of profitability? I have seen many data sets that would suggest the top 20 percent of producers are generally profitable even in moderately bad years when many other producers are seeing losses. Given this information, I think a good approach to managing in today's conditions is to look at the characteristics that make this top 20 percent consistently profitable.

Several data sets would suggest the top 20 percent of producers are generally the low-cost producers except they invest more money on range and pasture improvements and genetics. I think the key is they invest their money on things that will bring lasting value to their operations.

Taxes are one of the consequences of substantial profits, and ranchers are only able to defer taxes for so long. This often leads to decisions to utilize profit to mitigate taxes by buying/updating equipment, vehicles, and other depreciable assets. While sometime this new equipment is needed, other times it is just a convenient way to spend some money. However, these purchases do not lead to long-term profitability and do not significantly enhance the equity of the ranch.

A better use of these profits is to take an example of the top 20 percent and seek out investments that will increase the value of the ranch over time.

Does this mean ranchers now have a blank check for making range and pasture improvements, improving genetics, and other investments? Obviously, the answer is no. Careful consideration and planning is important in choosing the right opportunities to add value to the operation.

Offer Ways to Assist

University of Wyoming Extension has several resources to help with these decisions including specialists who focus on range management as well as livestock genetics. A great place to start is your local extension educator.

Another resource available through UW Extension is the website I developed to help producers make these sorts of decisions. The website is www.uwyoextension.org/ranchtools. The Wyoming Ranch Tools website has several examples and fact sheets to help guide you through the process.

In addition, I am available to help guide you through the use of any of the tools. Just contact me at bmfeuz@uwyo.edu or (307) 783-0570.

Managing in times of profitability is a good problem to have, but it is just as important to be vigilant with profit as it is to be vigilant with cost reduction in low profitability conditions. Take time to consider those improvement projects you have been considering or take inventory of opportunities that exist with your ranch resource base.

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