

SUpplemental **RE**venue (SURE)

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SUpplemental **RE**venue Assistance

Supplemental Revenue Assistance Payments (SURE)

Farm Bill & administrative changes to crop insurance

Livestock Forage Disaster Program (LFP)

Livestock Indemnity Program (LIP)

Tree Assistance Program (TAP)

Emergency Assistance for Livestock, Honey Bees & Farm
Raised Fish (EALHF) Program

SUpplemental REvenue Assistance

The devil is in the details!

Many assumptions were made in this analysis because a number of important details are not defined or left to the Secretary to define.

No warranties are implied or given in this analysis.

Use slides and analysis at your own peril!

SUpplemental REvenue Assistance (SURE)

Qualifying requires CAT or higher and NAP be purchased. For 2008 only, farmers must have paid by September 16 any unpaid CAT/NAP fees to qualify for SURE but there are no CAT/NAP payments.

Coverage is whole farm and includes all crops in all counties and crosses state lines.

County requires a Secretary's disaster declaration (include contiguous counties) or the whole farm must have a 50% yield Loss, not based on revenue.

Supplemental Revenue Assistance (SURE)

“(5) DISASTER COUNTY.—

“(A) IN GENERAL.—The term ‘disaster county’ means a county included in the geographic area covered by a qualifying natural disaster declaration.

“(B) INCLUSION.—The term ‘disaster county’ includes—

“(i) a county contiguous to a county described in subparagraph (A); and

“(ii) any farm in which, during a calendar year, the total loss of production of the farm relating to weather is greater than 50 percent of the normal production of the farm, as determined by the Secretary.

What is a 50% Yield Loss?

Is it 50% Loss on 1 crop?

50% Loss on each individual crop?

50% Average Crop Yield across all crops, including pasture?

What does FSA do with GRP plans or AGR where there are no yields reported?

Supplemental Revenue Assistance (SURE)

SURE guarantee = planted acres x % crop insurance coverage x APH/program yield x CI price election x 115%

SURE cap = 90% of expected revenue for each crop.
Planted acres x APH/proven yield x insurance price guarantee

Supplemental Revenue Assistance (SURE)

Revenue to count = indemnities, prevented planting, 15% of direct payments, CC, ACRE, marketing loan gains, crop values (harvested acres x yield x MYA price)

SURE Payment = SURE Guarantee less the Revenue to count X 60%

What is "100 percent of the insurance price guarantee"?

1. APH price election applied to SURE for all types of insurance coverage.
2. APH price election for APH insured farmers and base (planting) price for revenue insured farmers.
3. APH price election for APH insured farmers, base price for RA/IP insured farmers and the higher of base price or harvest price for RA-HPO/CRC insured farmers.
4. RA-HPO/CRC insured farmers receive higher of base price or harvest price but don't get the harvest price for setting the 90% cap on payments.



Crop Insurance and SURE Wheat Calculation Worksheet

1 Crop Ins. Coverage Level		RA-HPO
2 Crop Insurance aph		70%
3 Crop Ins. Price Election		45.3
4 \$ Crop Ins. Coverage	(ln1 X ln2 X ln3)	\$8.77
5 Yield		\$278.10
6 Crop Ins. RA Harvest Price		10.0
7 Final Revenue Guarantee	Max (ln3 , ln6) X ln1 X ln2	\$6.00
8 \$ to Count	(ln5 X ln6)	\$278.10
9 APH Indemnity Bu.	(ln1 X ln2 - 5ln)	\$60.00
10 Indemnity Pymt (RA-HPO)	(ln7 - ln8)	N/A
11 15% of Direct Pymt² + Other Gov Pymts		\$218.10
		\$1.00



Crop Insurance and SURE Wheat Calculation Worksheet

12 SURE "aph"		???
13 Coverage (Same as Crop Ins.)		70%
14 "Price" ³		
15 SURE 115% Factor		115%
16 SURE Coverage	(ln12 X ln13 X ln14 X ln15)	
17 Max Rev Cap	(ln12 X ln3 X 90%)	
18 Lesser of line 16 or line 15		
18 NASS Price ³		\$5.80
19 SURE Crop "Sales"	(ln5 X ln18)	
20 Gov Pymts & Crop Ins.	(ln10 + ln11)	
21 Gross SURE Pymt	(ln18 - ln19 - ln20)	
22 60% X SURE Pymt (net)	(ln21 X 60%)	
23 Total Revenue	(ln19 + ln20 + ln22)	
24 Crop Ins. Premium ⁵		\$16.69
Total Revenue Less Crop		
25 Ins. Premium	ln23 - ln24	

Calculate SURE "aph"

60% of T aph Yield:

2008		66.4
2007	18.6	9.0
2006		40.8
2005		45.0
2004		52.7
2003		48.4
2002		N/A
2001		N/A
2000		N/A
1999		N/A

Simple Average	43.7
aph Yield	45.3
SURE Yield	<u>50.7</u>

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Crop Insurance and SURE Wheat Calculation Worksheet

12 SURE "aph"		50.7
13 Coverage (Same as Crop Ins.)		70%
14 "Price" ³		\$8.77
15 SURE 115% Factor		115%
16 SURE Coverage	(ln12 X ln13 X ln14 X ln15)	\$357.93
17 Max Rev Cap	(ln12 X ln3 X 90%)	\$400.18
18 Lesser of line 16 or line 15		\$357.93
18 NASS Price ³		\$5.80
19 SURE Crop "Sales"	(ln5 X ln18)	\$58.00
20 Gov Pymts & Crop Ins.	(ln10 + ln11)	\$219.10
21 Gross SURE Pymt	(ln18 - ln19 - ln20)	\$80.84
22 60% X SURE Pymt (net)	(ln21 X 60%)	48.50
23 Total Revenue	(ln19 + ln20 + ln22)	\$325.60
24 Crop Ins. Premium ⁵		\$16.69
Total Revenue Less Crop		
25 Ins. Premium	ln23 - ln24	\$308.91

What adjustment to the aph will USDA make for SURE?

(2) ADJUSTED ACTUAL PRODUCTION HISTORY YIELD.—The term 'adjusted actual production history yield' means—

(A) in the case of an eligible producer on a farm that has at least 4 years of actual production history yields for an insurable commodity that are established other than pursuant to section 508(g) (4) (B) , the actual production history for the eligible producer without regard to any yields established under that section;

What adjustment to the aph will USDA make for SURE?

- *“(B) in the case of an eligible producer on a farm that has less than 4 years of actual production history yields for an insurable commodity, of which 1 or more were established pursuant to section 508(g) (4) (B), the actual production history for the eligible producer as calculated without including the lowest of the yields established pursuant to section 508(g) (4) (B)*
- If less than 4 years of history, farmers can drop one “plugged” yield. If more than 4 years, all “plugged” yields will be dropped.

How will the Secretary establish SURE guarantees for GRIP/GRP buyers?

*(D) EQUITABLE TREATMENT FOR NONYIELD BASED POLICIES.—The Secretary shall establish equitable treatment for **nonyield based policies** and plans of insurance, such as the Adjusted Gross Revenue Lite insurance program.*

GRP/GRIP is based on yields; county yields. So would **“equitable treatment”** suggest a SURE guarantee based on **county yields** rather than **aph yields**?

Net or gross indemnity?

(v) the amount of payments for prevented planting on a farm;

(vi) the amount of crop insurance indemnities received by an eligible producer on a farm for each crop on a farm;

(vii) the amount of payments an eligible producer on a farm received under the noninsured crop assistance program for each crop on a farm;

The Law states that crop insurance indemnity payments will count against the SURE guarantee, but does this mean net or gross indemnity.

How will the Secretary define "insurance price guarantee" for the 90% Cap?

(5) EXPECTED REVENUE.—The expected revenue for each crop on a farm shall equal the sum obtained by adding— (A) the product obtained by multiplying—

(i) the greatest of—

(I) the adjusted actual production history yield of the eligible producer on a farm; and

(II) the countercyclical program payment yield;

(ii) the acreage planted or prevented from being planted for each crop; and

(iii) 100 percent of the insurance price guarantee.

How will the Secretary define "insurance price guarantee for the 90% Cap?"

The insurance price guarantee for RAHPO, CRC, and GRIPHRO is the higher of the planting price or the harvest price.

In the past the revenue cap was based on the APH price election. If this price is used it will create an incentive to drop replacement-revenue coverage and reduce coverage levels.

Prevented & Late Planting

Under prevented planting crop insurance coverage is reduced to 60% of the guarantee. There is also a 1% reduction in the guarantee for each day the insured plants after the final planting date.

So is the SURE coverage also reduced or do farmers maintain the same SURE coverage level but there are fewer indemnity dollars to count against the guarantee?

Setting SURE under GRIP/GRP?

Under GRIP/GRP the coverage levels are typically 85% and 90% while it is 70% or 75% under aph products, so will USDA use the 90% GRIP coverage to set the SURE coverage at 90% or will they use 80%, similar to how the subsidy is set for GRIP (90% GRIP gets the same subsidy rate as 80% aph products)?

SURE Loss Adjusting under GRIP/GRP

Under GRIP/GRP there is no individual loss adjustment but there is under SURE assuming SURE is an aph program only.

So will FSA also adjust losses in the field?

Will FSA build its own "aph" record system?

SURE for 2008

No payments on 2008 Iowa flood losses until after September 1, 2009, i.e. end of marketing year.

SURE favors high risk single emprise farms.

SURE reduces value of CRC and RA-HPO unless replacement-revenue insured farmers have their SURE set based on the higher of base or harvest price.

\$100,000 payment limit reduces the value of SURE versus unlimited CI payments for "large" farms.

Supplemental REvenue Assistance (SURE)

SURE is unlikely to discourage crop insurance coverage above 80%.

Unclear how GRIP/GRP would be used to set SURE guarantee. If SURE provides aph coverage with GRIP/GRP, then the county programs will be more attractive because of the reduction of basis risk.

Unclear if it is net or gross indemnity that counts against the SURE guarantee.

Technical Corrections

Requires a 10 percent loss due to natural causes on at least one crop of economic significance for SURE eligibility

Eliminates counting of ghost crops in SURE guarantee and revenue to count

Adds formula for calculating normal and actual production on the farm (Clarifies the 50% yield loss calculation)

Technical Corrections

Allows for a de minimis crop if the NAP fee exceeds 10% of crop value or if crop is not of "economic significance"

De minimis crops do not count in the SURE guarantee or revenue to count

Eliminates pasture and range land from SURE but retains it in the Livestock Forage Disaster Program

All Crops Must Be Insured or Covered with NAP, But What is a Crop?

Technical Correction eliminates the insurance/NAP requirement on 2 acres of brome grass in a waterway

Technical Correction eliminates pasture as a crop

Do farmers planting uninsured winter wheat in the fall but then destroy their wheat before harvest and replant to corn-beans regain their eligibility for SURE?



SURE Payment on 2007 KS Wheat Loss Year

Unit #	2003	2004	2005	2006	2007	2008 Average APH	Approved	Crop Ins. Share	SURE Expect - ed Yield	SURE Expect - ed Yield			
1 Production	7,993	8,280	7,962	8,451	1,400	10,306							
Acres	157	157	157	157	156	156							
Yield	48.4	52.7	49.2	49.3	3.0	66.4	43.7	45.3	70.8%	5,003	96.7	5,600	110.4
Pluget yields													
2 Production	7,197	6,199	6,171	5,176	0	8,305							
Acres	128.7	128.7	128.7	128.7	128.7	128.7							
Yield	55.9	48.2	47.9	40.2	0.0	64.5	42.8	45.9	70.8%	4,182	51.4	4,684	91.1
Pluget yields													
3 Production	8,184	7,732	5,823	5,478	2,921	9,032							
Acres	126	126	126	126	126	126							
Yield	65.0	61.4	46.6	43.5	23.9	71.7	51.1	51.1	70.8%	4,559		4,559	89.2
Pluget yields													
4 Production	10,148	6,514	7,119	5,272	3,416	7,967							
Acres	138	114	142	142	142	142							
Yield	73.5	57.1	50.1	37.1	24.1	56.1	49.7	49.7	70.8%	4,997		4,997	100.5
Pluget yields													
5 Production	6,915	5,548	6,712	4,851	80	7,975							
Acres	134	134	134	134	134	134							
Yield	51.6	41.4	50.1	36.2	0.6	59.5	39.9	42.9	4.2%	241	47.8	269	5.6
Pluget yields													
6 Production	8,304	5,955	5,912	3,198	95	9,306							
Acres	141	141	141	141	141	141							
Yield	58.9	42.2	41.9	23.5	0.6	66.0	38.9	41.9	70.8%	4,183	46.5	4,642	99.8
Pluget yields													
7 Production	0	0	0	0	0	6,749							
Acres	0	0	0	0	0	108.3							
Yield													
Pluget yields													
8 Production	0	0	0	0	0	6,036							
Acres	0	0	0	0	0	151							
Yield													
Pluget yields													
9 Production	0	0	0	0	0	6,474							
Acres	0	0	0	0	0	129							
Yield													
Pluget yields													
10 Production	7,445	5,999	5,887	4,366	3,976	7,981							
Acres	114	114	114	114	114	114							
Yield	65.3	52.6	51.6	38.3	34.9	70.0	52.1	52.1	75.0%	4,455		4,455	85.5
Pluget yields													
11 Production	0	0	0	0	0	6,282							
Acres	0	0	0	0	0	109							
Yield													
Pluget yields													
12 Production	0	0	0	0	0	7,303							
Acres	0	0	0	0	0	94.2							
Yield													
Pluget yields													
13 Production	0	0	0	0	0	2,782							
Acres	0	0	0	0	0	42.1							
Yield													
Pluget yields													
14 Production	0	0	0	0	0	3,478							
Acres	0	0	0	0	0	58.9							
Yield													
Pluget yields													



SURE Payment on 2007 KS Wheat Loss Year

Unit #	2003	2004	2005	2006	2007	2008	Average	Approved APH	Share	Crop Ins. Expect - SURE Adj.	SURE Expect - ed Yield
1 Production	7,592	8,280	7,062	6,402	1,408	10,365					
Acres	157	157	157	157	156	156					
Yield	48.4	52.7	45.0	40.8	9.0	66.4	43.7	45.3	70.8%	5,003	5,600
Plugs/T yields					18.6						

SURE Payment on 2007 KS Wheat Loss Year

aph	50,019
SURE Adjusted aph ¹	51,604
CRC Price	\$4.52
Harvest Price	\$6.02
APH Price	\$3.90
Direct Payment	\$1,900.00
Coverage Level	70%
NASS all Wheat Price	\$6.65
Insurance rate/\$100	6.00%

SURE Payment on 2007 KS Wheat Loss Year with 70% Coverage

CRC/RA-HPO Insured (CRC/RA-HPO price sets SURE guarantee and 90% cap)

Percent of Crop Lost	90%	75%	50%	30% ²	25% ²	15% ²	10% ²	0% ²	10%>	Avg ²
90% Payment CAP	279,590	279,590	279,590	279,590	279,590	279,590	279,590	279,590	279,590	279,590
Unlimited SURE Guarantee	250,077	250,077	250,077	250,077	250,077	250,077	250,077	250,077	250,077	250,077
SURE Guarantee	250,077	250,077	250,077	250,077	250,077	250,077	250,077	250,077	250,077	250,077
Less:										
Indemnity	180,670	135,503	60,223	0	0	0	0	0	0	0
15% of Direct + other FSA pymts	285	285	285	285	285	285	285	285	285	285
Sales	33,263	83,157	166,315	232,841	249,472	282,735	299,367	332,629	365,892	365,892
SURE * 60% = Net SURE	<u>21,515</u>	18,679	13,952	10,171	192	0	0	0	0	0
Ad Hoc Disaster Aid	45,063	32,773	12,290	0	0	0	0	0	0	0

CRC/RA-HPO Insured (CRC/RA-HPO price sets SURE guarantee but no harvest price on 90% cap)

Percent of Crop Lost	90%	75%	50%	30% ²	25% ²	15% ²	10% ²	0% ²	10%>	Avg ²
90% Payment CAP	209,924	209,924	209,924	209,924	209,924	209,924	209,924	209,924	209,924	209,924
Unlimited SURE Guarantee	250,077	250,077	250,077	250,077	250,077	250,077	250,077	250,077	250,077	250,077
SURE Guarantee	209,924	209,924	209,924	209,924	209,924	209,924	209,924	209,924	209,924	209,924
Less:										
Indemnity	180,670	135,503	60,223	0	0	0	0	0	0	0
15% of Direct + other FSA pymts	285	285	285	285	285	285	285	285	285	285
Sales	33,263	83,157	166,315	232,841	249,472	282,735	299,367	332,629	365,892	365,892
SURE * 60% = Net SURE	<u>0</u>	0	0	0	0	0	0	0	0	0
Ad Hoc Disaster Aid	45,063	32,773	12,290	0	0	0	0	0	0	0

CRC/RA-HPO Insured (APH price sets SURE guarantee and 90% cap)

Percent of Crop Lost	90%	75%	50%	30% ²	25% ²	15% ²	10% ²	0% ²	10%>	Avg ²
90% Payment CAP	181,129	181,129	181,129	181,129	181,129	181,129	181,129	181,129	181,129	181,129
Unlimited SURE Guarantee	162,010	162,010	162,010	162,010	162,010	162,010	162,010	162,010	162,010	162,010
SURE Guarantee	162,010	162,010	162,010	162,010	162,010	162,010	162,010	162,010	162,010	162,010
Less:										
Indemnity	180,670	135,503	60,223	0	0	0	0	0	0	0
15% of Direct + other FSA pymts	285	285	285	285	285	285	285	285	285	285
Sales	33,263	83,157	166,315	232,841	249,472	282,735	299,367	332,629	365,892	365,892
SURE * 60% = Net SURE	<u>0</u>	0	0	0	0	0	0	0	0	0
Ad Hoc Disaster Aid	45,063	32,773	12,290	0	0	0	0	0	0	0

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SURE Payment on 2007 KS Wheat Loss Year with 70% Coverage

RA Insured (RA base price sets SURE guarantee and 90% cap)

Percent of Crop Lost	90%	75%	50%	30% ²	25% ²	15% ²	10% ²	0% ²	10%>	Avg ²
90% Payment CAP	209,924	209,924	209,924	209,924	209,924	209,924	209,924	209,924	209,924	209,924
Unlimited SURE Guarantee	187,766	187,766	187,766	187,766	187,766	187,766	187,766	187,766	187,766	187,766
SURE Guarantee	187,766	187,766	187,766	187,766	187,766	187,766	187,766	187,766	187,766	187,766
Less:										
Indemnity	128,150	82,982	7,703	0	0	0	0	0	0	0
15% of Direct + other FSA pymts	285	285	285	285	285	285	285	285	285	285
Sales	33,263	83,157	166,315	232,841	249,472	282,735	299,367	332,629	365,892	365,892
SURE * 60% = Net SURE	<u>15,641</u>	12,805	8,078	0	0	0	0	0	0	0
Ad Hoc Disaster Aid	45,063	32,773	12,290	0	0	0	0	0	0	0

APH Insured (APH price sets SURE guarantee and 90% cap)

Percent of Crop Lost	90%	75%	50%	30% ²	25% ²	15% ²	10% ²	0% ²	10%>	Avg ²
90% Payment CAP	181,129	181,129	181,129	181,129	181,129	181,129	181,129	181,129	181,129	181,129
Unlimited SURE Guarantee	162,010	162,010	162,010	162,010	162,010	162,010	162,010	162,010	162,010	162,010
SURE Guarantee	162,010	162,010	162,010	162,010	162,010	162,010	162,010	162,010	162,010	162,010
Less:										
Indemnity	117,046	87,784	39,015	0	0	0	0	0	0	0
15% of Direct + other FSA pymts	285	285	285	285	285	285	285	285	285	285
Sales	33,263	83,157	166,315	232,841	249,472	282,735	299,367	332,629	365,892	365,892
SURE * 60% = Net SURE	<u>6,850</u>	0	0	0	0	0	0	0	0	0
Ad Hoc Disaster Aid	45,063	32,773	12,290	0	0	0	0	0	0	0

CAT-APH Insured (APH price sets SURE guarantee and 90% cap)

Percent of Crop Lost	90%	75%	50%	30% ²	25% ²	15% ²	10% ²	0% ²	10%>	Avg ²
90% Payment CAP	99,621	99,621	99,621	99,621	99,621	99,621	99,621	99,621	99,621	99,621
Unlimited SURE Guarantee	63,647	63,647	63,647	63,647	63,647	63,647	63,647	63,647	63,647	63,647
SURE Guarantee	63,647	63,647	63,647	63,647	63,647	63,647	63,647	63,647	63,647	63,647
Less:										
Indemnity	42,917	26,823	0	0	0	0	0	0	0	0
15% of Direct + other FSA pymts	285	285	285	285	285	285	285	285	285	285
Sales	33,263	83,157	166,315	232,841	249,472	282,735	299,367	332,629	365,892	365,892
SURE * 60% = Net SURE	<u>0</u>	0	0	0	0	0	0	0	0	0
Ad Hoc Disaster Aid	45,063	32,773	12,290	0	0	0	0	0	0	0

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SURE Payment on 2009 KS Wheat with 70% Coverage

aph	50,019
SURE Adjusted aph ¹	51,604
CRC Price	\$8.77
Harvest Price	\$7.50
APH Price	\$7.35
Direct Payment	\$1,900.00
Coverage Level	70%
NASS all Wheat Price	\$7.30
Insurance rate/\$100	10.00%

CRC/RA-HPO Insured (CRC/RA-HPO price sets SURE guarantee and 90% cap)

Percent of Crop Lost	90%	75%	50%	30% ²	25% ²	15% ²	10% ²	0% ²	10%>	Avg ²
90% Payment CAP	407,309	407,309	407,309	407,309	407,309	407,309	407,309	407,309	407,309	407,309
Unlimited SURE Guarantee	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315
SURE Guarantee	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315
Less:										
Indemnity	269,555	213,283	119,497	44,467	25,710	0	0	0	0	0
15% of Direct + other FSA pymts	285	285	285	285	285	285	285	285	285	285
Sales	36,514	91,286	182,571	255,599	273,857	310,371	328,628	365,142	401,656	
SURE * 60% = Net SURE	34,777	35,677	37,178	38,378	38,678	32,196	21,241	0	0	0
Ad Hoc Disaster Aid	84,926	61,764	23,162	0	0	0	0	0	0	0



SURE Payment on 2009 KS Wheat with 70% Coverage

aph	50,019
SURE Adjusted aph ¹	51,604
CRC Price	\$8.77
Harvest Price	\$6.00
APH Price	\$7.35
Direct Payment	\$1,900.00
Coverage Level	70%
NASS all Wheat Price	\$5.80
Insurance rate/\$100	10.00%

CRC/RA-HPO Insured (CRC/RA-HPO price sets SURE guarantee and 90% cap)

Percent of Crop Lost	90%	75%	50%	30% ²	25% ²	15% ²	10% ²	0% ²	10%>	Avg ²
90% Payment CAP	407,309	407,309	407,309	407,309	407,309	407,309	407,309	407,309	407,309	407,309
Unlimited SURE Guarantee	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315
SURE Guarantee	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315
Less:										
Indemnity	277,058	232,040	157,011	96,988	81,982	51,970	36,964	6,953	0	0
15% of Direct + other FSA pymts	285	285	285	285	285	285	285	285	285	285
Sales	29,011	72,528	145,056	203,079	217,585	246,596	261,102	290,113	319,124	
SURE * 60% = Net SURE	34,777	35,677	37,178	38,378	38,678	39,278	39,579	40,179	26,944	0
Ad Hoc Disaster Aid	84,926	61,764	23,162	0	0	0	0	0	0	0



Immediate Action Required by Farmers

Farmers must insure or pay NAP fees on all fall seeded "significant" crops to maintain SURE eligibility for 2009 spring planted crops.

If it is an economically important crop, then farmers will want to buy coverage greater than CAT that will also increase their SURE coverage.

Final rules for SURE are not expected until after the fall crop insurance sales closing date.

Immediate Action Required by Farmers

Last Day Sept 16, so too Late

If the major source of revenue (wheat) has already suffered a loss, then pay the \$100 NAP/CAT fees to remain eligible for SURE for 2008.

If the major source of revenue has not been harvested (corn, beans, grain sorghum), then pay the \$100 NAP/CAT fees to remain eligible for SURE for 2008. This is a "small" cost and one could still lose the crop to freeze, wind, excess moisture, etc.

If the major source of revenue (wheat) has been harvested with no loss, then don't pay the fees.

Immediate Action Required by Farmers

While one can not define SURE, most farmers will want to insure at buy up levels and pay \$250 NAP fees on "significant" crops to maintain eligibility for 2009 SURE, including SURE on corn, beans and grain sorghum.

SURE favors single enterprise farm versus a diversified farm.

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Average Crop Revenue Election (ACRE)

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Average Crop Revenue (ACR)

ACR is "GRIP" (put option) on Expected State Revenue.

Revenue is price times yield, so how is price and yield measured?

The price election (strike, approved) is based on a 2 year average MYA price.

ACRE uses a moving 5 year Olympic average State yield.

ACRE Revenue Guarantee is approved State yield X approved (strike) price X 90%.

Average Crop Revenue (ACR)

ACRE Pymt = ACRE Guarantee – [Actual State Yield X Max (MYA price, 70% X Loan)], s.t. Farm level revenue is less than farm level benchmark + crop insurance premiums

There is 10% cups & caps on \$ Coverage after the first year, no limit on the first year.

Maximum payment is limited to 25% of ACRE guarantee.

ACRE payment limit is \$65,000 plus the reduction in direct payments.

Average Crop Revenue (ACR)

Must sign up all crops in ACRE by farm serial number. Both tenant and landlord must agree.

Accept a 20% reduction in direct payments

Accept a 30% reduction in loan rates.

A \$105,000 ACRE payment limit has been published but how is that possible?

This is the combined limit for ACRE and Direct payments (\$65,000 + \$40,000)

ACRE reduces Direct payments & payment limits by 20% (\$8,000)

The \$8,000 reduction in Direct payment limit is transferred to ACRE so the effective payment limit is \$73,000 (\$65,000 plus \$8,000)

Assume a Farmer is over the \$40,000 Direct payment limit.

ACRE effectively puts \$8,000 of the payment limit at risk and delays the payments for about a year.

Because ACRE is by farm serial number, FSA will need to keep Direct and ACRE payment limits separate.

Assume a Farmer is over the \$40,000 Direct payment limit.

Scenarios:

- If the ACRE payment is equal to zero, then the farmer has an \$8,000 reduction in total payments.
- If the ACRE payment is \$8,000 then farmer will generate the same total payments but the \$8,000 ACRE payment should be discounted to net present value before comparing with the Direct payment.

Assume a Farmer is over the \$40,000 Direct payment limit.

Scenarios:

- If the ACRE payment is greater than \$8,000 then ACRE and reduced Direct payments (assuming price is not below the loan rate) will generate the most payments.
- If the ACRE payment is greater than \$73,000, then the farmer will hit the maximum combined payment limit of \$105,000, i.e. \$73,000 for ACRE and \$32,000 for Direct.

Assume a Farmer is over the \$40,000 Direct payment limit.

Because farmers are locked in to ACRE once they signup, they should compare the expected payments over the remaining life of the Farm bill and adjust the ACRE payments for time value when comparing those payments to the reduction in Direct payments.

The larger the farm the more likely one will recover the \$8,000 reduction in Direct payment limit, i.e. if ACRE generates a "small" per acre payment, then it will require more acres to recover the \$8,000 reduction the Direct payment limit.

Average Crop Revenue (ACR)

Farm Revenue must be below Farm Benchmark revenue.

A moving 5 year Olympic average farm level yield times ACRE strike price + crop insurance premiums.

Farm revenue to count is the actual yield times the current year MYA price.

If farm revenue is below Benchmark then farm is eligible for an ACRE payment based on State revenue.



Table 1. Corn ACRE Program, Iowa

Year	Yield ¹ Planted	Olympic Average Yield ²	MYA Price	Bench- mark Revenue * 90%	10% Cup/Cap on Bench- mark ³	Revenue to Count	Pymt on 83.3% Planted Acre	Pymt per Planted Ac. ^{4,5}	% of Cover- age Paid
1980	104.5	99.1	3.11	197.86	174.04	325.00	0.00	0.00	0.00%
1981	120.2	111.1	2.50	251.08	191.45	300.56	0.00	0.00	0.00%
1982	114.8	114.5	2.55	280.54	210.59	292.65	0.00	0.00	0.00%
1983	81.7	113.2	3.21	260.31	231.65	262.39	0.00	0.00	0.00%
1984	107.8	109.0	2.63	293.32	254.81	283.57	0.00	0.00	0.00%
1985	122.8	114.3	2.23	286.53	280.30	273.90	6.39	5.32	1.90%
1986	132.3	115.1	1.50	249.91	252.27	198.38	53.88	44.88	17.79%
1987	126.9	119.2	1.94	193.26	227.04	246.14	0.00	0.00	0.00%
1988	79.5	119.2	2.54	184.48	204.34	202.03	2.30	1.92	0.94%
1989	114.7	121.5	2.36	240.26	224.77	270.74	0.00	0.00	0.00%
1990	122.1	121.2	2.28	267.85	247.25	278.30	0.00	0.00	0.00%
1991	114.2	117.0	2.37	253.11	253.11	270.64	0.00	0.00	0.00%
1992	144.2	117.0	2.07	244.81	244.81	298.53	0.00	0.00	0.00%
1993	73.3	117.0	2.50	233.75	233.75	183.33	50.42	42.00	17.97%
1994	148.5	126.8	2.26	240.59	240.59	335.53	0.00	0.00	0.00%
1995	119.9	126.1	3.24	271.66	264.65	388.47	0.00	0.00	0.00%
1996	134.7	133.0	2.71	312.10	291.12	365.15	0.00	0.00	0.00%
1997	134.6	129.7	2.43	355.98	320.23	327.09	0.00	0.00	0.00%
1998	141.5	137.0	1.94	300.11	300.11	274.55	25.56	21.29	7.09%
1999	145.3	137.0	1.82	269.32	270.10	264.46	5.64	4.70	1.74%
2000	140.5	138.9	1.85	231.73	243.09	259.90	0.00	0.00	0.00%
2001	142.3	141.4	1.97	229.42	229.42	280.25	0.00	0.00	0.00%
2002	158.3	143.0	2.32	243.10	243.10	367.31	0.00	0.00	0.00%
2003	151.9	146.5	2.42	276.11	267.41	367.58	0.00	0.00	0.00%
2004	176.7	150.8	2.06	312.45	294.16	364.05	0.00	0.00	0.00%
2005	168.9	159.7	2.00	304.06	304.06	337.89	0.00	0.00	0.00%
2006	162.7	163.3	3.04	291.81	291.81	494.63	0.00	0.00	0.00%
2007	166.8	166.1	4.00	370.42	320.99	667.14	0.00	0.00	0.00%
Average Payment								4.00	1.58%



ACRE Calculation Worksheet

ACRE Calculation Worksheet¹

1	2007/08 Corn NASS Price		\$4.25
2	USDA Forecast 2008/09 NASS Price		\$5.75
3	ACRE Strike Price	(In 1 X In 2)	<u>\$5.00</u>
4	State Yield by Year		IA
5	2004		176.7
6	2005		168.9
7	2006		162.7
8	2007		166.8
9	2008		163.0
10	State Olympic Average Yield	[(Sum (In 5...In 9) - Max (In 5...In 9) - Min (In 5...In 9))] / 3	<u>166.2</u>

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ACRE Calculation Worksheet

11	Coverage X 90% ²	(In 3 X In 10) X 90%	<u>\$748.07</u>
12	Actual 2009 State Yield		166.2
13	Max (2009/10 MYA Price, 70% X Loan)		\$4.00
14	Revenue to Count	(In 12 X In 13)	<u>664.80</u>
15	Gross ACRE Payment	(In 11 - In 14)	<u>83.27</u>
16	25% Payment Cap	(In 11 X 25%)	<u>187.02</u>
17	Pay the Lesser of In 15 or In 16		<u>83.27</u>
18	Payment Factor 0.833 (0.85 in 2012)	(In 17 X 0.833)	<u>69.36</u>
19	Farm's Olympic Yield ³		160.2
20	Farm's Crop Insurance Premium		\$40.00
21	Farm Benchmark	(In 3 X In 19) + In 20	<u>841.00</u>
22	Farm Yield in 2009		160
23	Farm Revenue to Count	(In 13 X In 22)	<u>640.00</u>
24	Eligibility Requires Farm Revenue to be less than Farm Benchmark If No, then ACRE payment for the farm is zero and Stop Calculations	IF In 21 < In 22 then "YES" otherwise "NO"	<u>Yes</u>
25	Farm's Olympic Yield Ratio / State Olympic Yield	(In 19 / In 10)	<u>0.964</u>
26	Farm Level ACRE Payment	(In 18 X In 25)	<u>\$66.84</u>

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If Average of 06/07 & 07/08 price is used it will lower the strike in 2009 ACRE and then limit the increase in 2010

	06/07	07/08	08/09	Avg of 06/07 & 07/08	Avg of 07/08 & 08/09	Max ACRE Price in 2010 if 06 price is used
Corn	\$3.04	\$4.25	\$4.90 - \$5.90	\$3.65	\$4.58 - \$5.08	\$4.01
Sorghum	3.29	4.15	4.40 - 5.40	3.72	4.28 - 4.78	4.09
Wheat	4.26	6.48	6.50 - 8.00	5.37	6.49 - 7.24	5.91
Soybeans	6.43	10.15	11.50 - 13.00	8.29	10.83 - 11.58	9.12

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Average of 06/07 price is used to set ACRE but the 10% cap is set based on the signup year

Assuming this is the final rule;

If farmers wait to signup in 2010 then their 10% cap/cup on ACRE guarantees will be based on 2010.

Farmers would get the full benefit of the higher 2008 price but ACRE signup would be delayed a year.

Because of the lag in setting the strike price it will be easier to determine if the market is trending up or down.

If the market is trending down then ACRE will offer an in the money put option on expected yield, thus increasing the odds of payments. This does **not guarantee** payment but it shifts the odds in favor of farmers without increasing the "premium" cost, i.e. 20% of direct payments.

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Summary of farm bill crop insurance title

Conduct a pilot that increases the subsidy rate on enterprise & whole farm units to match optional unit subsidy.

Administratively, USDA increased the price limits on CRC from current levels to 2 times base price, e.g. would have increased corn from a \$6.90 cap (\$5.40 + \$1.50) to \$10.80 and eliminated the downside price limit.

Administratively, USDA will apply this same price limit to RA for the first time.

Summary of farm bill crop insurance title

Reduces the A&O by 2.3 points with a 50% "snapback" provision if a state's loss ratio exceeds 1.2.

Reduces CAT reimbursement rate from 8% to 6%

Raises statutory loss ratio to 1.0 from 1.075.

Raises CAT administrative fee to \$300 per crop per county.

Moves up the billing date to August 15 beginning in 2012.

Summary of farm bill crop insurance title

Delays the payment date for A&O expenses to October 1 in 2012.

Requires USDA to renegotiate the SRA by the beginning of 2011 reinsurance year and every five years after that.

Summary of farm bill crop insurance title

Increases focus on risk management education for socially disadvantaged and beginning farmers.

Expands data mining efforts.

Increases funding to RMA for its IT system.

Requires an expert review of the crop insurance price setting method for grain sorghum.

Thank You

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