

Flood Recovery for cropland

Flood Damaged Crops, Crop Insurance Payments, and Lease Contracts

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Some Iowa corn and soybean producers are facing substantial if not complete crop losses due to flooding this year. In particular, many acres of crops in the Missouri River Valley have been under water for several months. Although short-term crop flooding is not unusual in Iowa, water standing on farm fields for this length of time is nearly unprecedented.

Crop Insurance

Fortunately, almost 90% of Nebraska and Iowa corn and soybean acres are protected by multiple peril crop insurance, and flood damage is an insured cause of loss. Most Iowa producers buy crop insurance policies with a 75% or 80% level of coverage. This means that the producer must stand the first 20% to 25% of any losses. The rate at which producers are paid depends on the type of policy purchased. Yield protection policies (YP) have fixed indemnity rates of \$6.01 per bushel of corn and \$13.49 per bushel of soybeans for 2011.

However, this year over 85% of the crop acres insured in Nebraska and Iowa are covered under Revenue Protection (RP) policies, which offer an increasing guarantee if prices rise between February and October. So far, this has added over \$1.50 per bushel to corn guarantees and about \$.50 per bushel to soybean guarantees. Moreover, since Revenue Protection policies are settled at the average

nearby futures price during October, rather than at local cash prices, farmers with payable losses will receive a bonus equal to the fall grain basis in their area.

Producers with crops that have been totally destroyed by flooding will not have to incur the variable costs of harvesting. This could save around \$20 per acre for soybeans and as much as \$70 per acre for corn, depending on potential yields and drying costs. Nevertheless, even producers who carried insurance at an 80% coverage level could be looking at reduced net revenues of at least \$100 per acre compared to normal yields this year.

Potential Losses

For example, assume an insured tract has an expected corn yield of 160 bushels per acre and an insurance proven yield of 150 bushels per acre. A normal crop marketed at \$7.00 per bushel would bring \$1,120 per acre. The insurance indemnity payment for an 80% Revenue Protection guarantee, zero yield, and an October futures price of \$7.50 would equal \$960 (150 bu x \$7.50 x 80% = \$960). Saving \$70 in harvest costs would give an equivalent of \$1,030 per acre, or \$90 below the value of a normal crop.

For soybeans, assume both the expected yield and proven yield are 50 bushels per acre, and the crop could be marketed at \$13.50 per bushel. Gross income for a normal

crop would be \$675 per acre. The insurance payment for a complete crop failure and a \$14.00 October futures price would be \$560 (50 bu x \$14.00 x 80% = \$560). Adding a \$20 savings in harvesting costs brings the equivalent of \$580 per acre, or \$95 below the value of a normal crop.

In many cases, of course, flooded acres will make up only a portion of the insured unit, so production from non-flooded acres will be averaged in with the zero yields from the flooded acres. When operators report their 2011 production, they can request that their 2011 yield histories reflect a value equal to 60% of the county “T-yield” rather than a zero or very low yield. In addition, if a producer normally markets more than half the crop in the tax year following harvest, the crop insurance indemnity proceeds can be deferred to the next tax year.

In some cases there may be doubt as to whether land flooded this year can even be planted next year. Risk Management Agency rules state that land must be physically available for planting to be insurable. Land that cannot be planted due to weather events that occurred before the sales closing date (March 15 in Iowa) will not be eligible for prevented planting payments. Even if acres can be planted, they may be reclassified as “high risk” land, which means higher insurance premiums. Alternatively, high risk acres can be excluded from a farm’s crop insurance policy. Catastrophic level coverage can still be obtained on high risk acres, however. Producers should work closely with their crop insurance agents to explore all their options.

Disaster Payments

Producers who have suffered crops losses due to flooding also may be eligible for payments under the Supplemental Revenue Assistance (SURE) program administered by the Farm Service Agency. Fremont, Harrison, Mills, Monona, Pottawattamie, and Woodbury counties plus eight contiguous counties in southwest Iowa have been designated disaster counties by the Secretary of Agriculture. Another 36 counties in Nebraska are eligible. These payments cover up to 60% of losses not covered by crop insurance, up to 90% of expected revenue. Coverage is based on national marketing year prices, which will not be known

until September 2012, so payments will not be available before then. All of a producer’s planted acres are combined, over all crops, when calculating a loss and at least one crop must have a 10% or greater yield loss. For more information on the SURE program, see information file A1-44 on the ISU Extension Ag Decision Maker website, www.extension.iastate.edu/agdm/.

The Farm Service Agency also offers disaster loans for restoring or replacing physical damages to real estate, up to a \$500,000 maximum. Terms are currently at a 3.75% interest rate, up to 30 years. Borrowers must meet all the normal FSA eligibility requirements.

Rental Contracts

The real question is how much will it cost to clean up fields and bring them back into production next year? Iowa farmers have not had prior experience with fields being under water for an extended time, so the long-term effects are difficult to estimate. Problems will range from physically removing debris to leveling eroded areas to restoring fertility.

What do these questions imply for rental contracts? A great deal of uncertainty, for one thing. Lease agreements in Iowa that were not terminated on or before September 1 continue in effect for another year under the same terms, unless both parties agree to a change. However, if flooded land will have lower yield potential or will require extra expense to be returned to its prior state, its rental value is significantly reduced.

Landowners will have to bear the burden of mitigating flood damages—that goes with owning property. But, a better solution may be for renters and owners to work together to repair the damage and bring the land back into production. Farm operators may have access that owners don’t to machinery that can help accomplish the job. In return, tenants should be compensated for their efforts, either directly, through a significant discount on the 2012 rent, or with a long-term lease. Close communication and cooperation between owners and renters can be a “win-win” strategy in the long run, but recovery will likely take several years.