

Risk Management: Farm Financial Situation, Crop Insurance, Agricultural Policy, Grain and Livestock Marketing

Situation

Though average farm income in Kansas increased somewhat in 2017 relative to 2016, many producers are still experiencing financial stress. Lower output prices for both crops and livestock, and input costs that still have not fallen proportionally, leave producers with smaller margins. In addition to reducing risk via available marketing tools and crop insurance, producers also need to effectively manage input costs, machinery expenses, and income taxes, as well as possibly restructuring debt. Other important factors in risk management of the operation include diversifying enterprises and restructuring land rental rates.

In addition, the next farm bill is currently being debated in Congress. This legislation will affect producers' viability and profitability, and education will be needed to keep producers up-to-date on how proposals for changes in farm programs and potential cuts in crop insurance may affect their operation. Producers and lenders also need to know how much they can anticipate receiving through the current ARC or PLC programs, as this affects lenders' willingness to continue to provide operating capital and other lending for agricultural operations. As a result, education will be required to help producers and lenders evaluate their current financial situation and what strategies, resources and tools are available to them to help them survive in the current market and financial situation.

Outcomes

Short-Term (Knowledge)

- Participants will learn and understand the choices they have for participating in government commodity programs and will be provided with analysis to help them make program decisions.
- Participants will learn and understand the changes to crop insurance programs which might affect their election of crop insurance coverage for their operation.
- Participants will know what government payments they can expect from ARC or PLC programs, allowing them better access to operating capital from lenders.
- Participants will learn about tools (e.g., crop insurance, options, futures and other marketing alternatives) that are available to help manage the risks associated with marketing.
- Participants will learn how to reduce and manage input and machinery costs as well as land rent values and living expenses, as well as strategies for diversification, in order to operate in a more financially sustainable way.

Indicators

- What understanding did participants gain about the farm bill legislation, including which program may be better to select, what payments may be expected, and how can this decision affect their operation?
- What understanding did participants gain about risk management tools including crop insurance, futures markets, and other pricing tools to help them manage risk in their operation?
- What understanding did participants gain in managing production costs, leases, and alternative strategies such as diversification or use of cover crops?
- What knowledge did producer participants gain about tools for risk management in marketing and how might they use these tools in their operation?

Medium-Term (Behavior)

- Participants will decide which government commodity program to participate in (ARC or PLC) and what payments may be expected over the life of the program, for use in cash flow planning and projection.
- Producers will use risk management tools that allow them to reduce the variability in income while still maintaining the ability to generate returns sufficient for long-term business sustainability (e.g., crop insurance, forward contracts, minimum price contracts, use of futures/options markets).

Indicators

- What commodity program was selected by the producer and why?
- What crop insurance coverage was selected by the producer and why?
- What risk management tools and marketing strategies do producer participants use to manage risk and ensure long-term business sustainability?

Long-Term (Change in Condition)

- Agricultural producers will better manage the financial situation of their operation, utilizing government programs and risk management tools which are available, allowing them to effectively navigate the production, policy, and market risk involved in agriculture. This will allow their operations to sustain profitability and remain in operation in the long-term.

Indicators

- Are agricultural operations profitable and sustainable in the long-term?

Public Value

When you support the Farm Management Risk Management Program, you help producers learn how to adopt risk management strategies to manage the financial soundness of their businesses, through the effective management of costs and debt, allowing them to be financially stable and sustainable. Participants will also learn to use marketing methods and tools to increase revenue as well as appropriate insurance strategies to minimize or mitigate risk. This will lead to more competitive producers who are able to sustain long-term profitability, which will benefit other community members by increasing the viability of rural communities and their access to a safer and less expensive food supply.

Outputs

- Farm Bill meetings to educate producers, lenders and other stakeholders on the changes to commodity programs, crop insurance, and other legislation for which decisions will need to be made.
- Risk-Assessed Marketing (RAM) case farm workshops (day-long meetings) integrating crop insurance and government programs with marketing tools.

- Continued training of county agents who will be able to help producers navigate difficult financial times.
- Crop insurance updates (white papers, radio interviews, and presentations) – posted to www.AgManager.info.
- Grain market situation and outlook (newsletter, radio interviews, and presentations) – posted to www.AgManager.info.
- Livestock market outlook and analysis (LMIC newsletter, radio interviews, white papers, and presentations) – posted to www.AgManager.info.
- Presentations at Risk & Profit Conference, Ag Lenders Conferences, Kansas Insurance Workshop, Farm Financial Situation meetings, and multi-county Extension meetings.
- Webinars (financial situation, crop insurance, new farm policy, etc.).
- One-on-one consultations/assistance by phone and email.