

# TAKING YOUR PROJECT TO THE NEXT LEVEL



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## Risk Controls

Market Risk - Production Risk - Institutional/Legal Risk - Human Risk - Financial Risk

### Market Risk

- risk associated with the uncertainty around markets and prices for inputs and outputs

#### 1. Livestock Prices

- USDA Agricultural Marketing Service: [Colorado Weekly Summary](#)
- USDA Agricultural Marketing Service: [Montana Weekly Summary](#)
- USDA Agricultural Marketing Service: [New Mexico Combined Wld Aq - Cattle \(weekly\)](#)
- USDA Agricultural Marketing Service: [Washington Weekly Livestock Auction Summary](#)
- USDA Agricultural Marketing Service: [Wyoming Weekly Summary](#)
- USDA Agricultural Marketing Service: [Livestock and Seed](#)
- USDA Agricultural Marketing Service: [ALL](#)
- [Beef Basis](#) - provides cattle producers with information and analytics to improve marketing decisions influenced by cattle basis risk.

#### 2. Grain Prices

- USDA Agricultural Marketing Service: [California Weekly Grain Report](#)
- USDA Agricultural Marketing Service: [Montana Cash Grain Prices](#)
- USDA Agricultural Marketing Service: [Utah Daily Grain Report](#)
- USDA Agricultural Marketing Service: [Eastern New Mexico Grain Report](#)
- USDA Agricultural Marketing Service: [Wyoming/Western Nebraska Elevator Grain Bids](#)

#### 3. Hay Prices

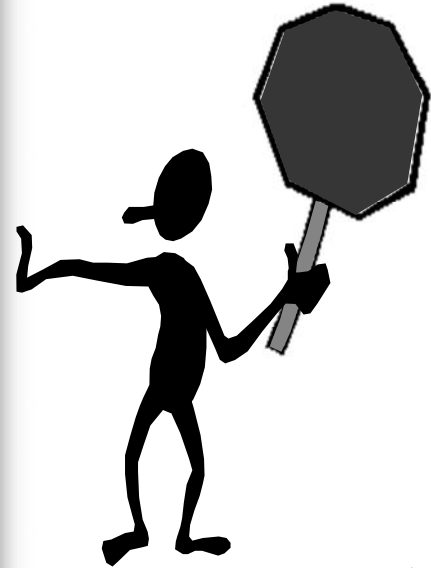
- USDA Agricultural Marketing Service: [California Weekly Hay Report](#)
- USDA Agricultural Marketing Service: [Colorado Weekly Hay Report](#)
- USDA Agricultural Marketing Service: [Idaho Weekly Hay Report](#)
- USDA Agricultural Marketing Service: [Montana Weekly Hay Report](#)
- USDA Agricultural Marketing Service: [New Mexico Weekly Hay Report](#)
- USDA Agricultural Marketing Service: [Oregon Weekly Hay Report](#)
- USDA Agricultural Marketing Service: [Utah Weekly Hay Market Report](#)
- USDA AMS: [Washington-Oregon \(Columbia Basin\) Weekly Hay](#)
- USDA AMS: [Wyoming, West Nebraska, and SW South Dakota Hay Report \(weekly\)](#)
- USDA Agricultural Marketing Service: [Wyoming Weekly Summary](#)

#### 4. Lease Rates/Grazing Fees

- USDA AMS: [Wyoming, West Nebraska, and SW Dakota Grazing Fee Report](#)
- USDA National Agricultural Statistics Service: [Cash Rents by County](#)

#### 5. Price Protection (Insurance)

- USDA Risk Management Agency: [Livestock Insurance](#), background information



<http://RightRisk.org/controls>

## Risk Management Tools

### 1. Partial Budget Analyzer

- Use this tool to evaluate smaller changes in the operation.
- [Click here for a guide](#) on using a partial budget.

### 2. Risk Scenario Planning

- Use this tool to evaluate the risk or uncertainty in your partial budget projections.
- [Click here for a guide](#) on using the Risk Scenario Planning tool and examples of its application.
- [Click here for a version](#) of the Risk Scenario Planning tool depicting the Cow/Cal "Raise Bred Heifers to Sell" example outlined in the guide linked above.
- [Click here for a version](#) of the Risk Scenario Planning tool depicting the crop farm "Replace Corn with more Dry Beans acres" example outlined in the guide linked above.
- [Click here for a version](#) of the Risk Scenario Planning tool depicting the Cow/Cal "LRP Insurance Decision" example outlined in the guide linked above.

### 3. Enterprise Risk Analyzer

- Use this tool to evaluate larger changes or changes in enterprise mix for the operation.
- [Click here for a guide](#) to use the Enterprise Risk Analyzer tool.
- [Click here for a version](#) of the ERA populated with Wyoming Big Horn Basin Cow/Cal Ranch data.
- [Click here for a version](#) of the ERA populated with Wyoming Big Horn Basin Farm data.

### 4. Whole Farm Budget

- Use this tool to evaluate more substantial changes, adding ranches/farms, whole enterprises, etc. to the operation.
- [Click here for a guide](#) to use the RDFinancial tool.

### 5. Risk Navigator Toolbox

- Access the extensive risk management library (20+ tools) designed to implement a strategic risk management strategy

### 6. Price Risk Analysis: Futures, Options, LRP Comparison

- Use this tool to evaluate market risk management alternatives for livestock enterprises. [From the Farm Management Wiki]

### 7. Financial Analysis Tool (FAT)

- Use this tool to project start-up costs, annual operating expenses, and annual revenues for any type of enterprise. [From Agriculture & Business Management (ABM)]

### 8. Should I Buy Hay or Sell Cows?

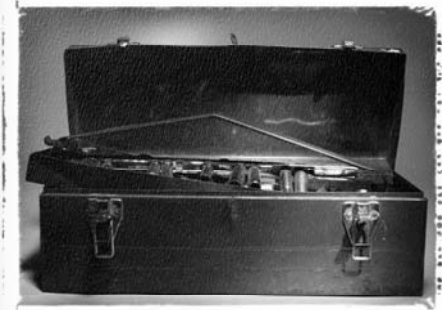
- Use this tool to evaluate cow retention decision.
- [From the Farm Management Wiki]

### 9. Livestock Marketing and Risk Management

- Use this bulletin and linked tools to better manage marketing risk for livestock enterprises.

### 10. Machinery and Operations Cost

- Use these tools to estimate the cost of individual machinery services or the cost of an entire field operation.



<http://RightRisk.org/tools>

# RISK MANAGEMENT PROFILES



## RISK MANAGEMENT PROFILES



### VI-PRF pilot insurance minimizes feed risk for Z-F

Early fall 2010 on the Z-F Ranch found owners Bob and Betsy Zomer assessing risk management strategies for their cow-calf and yearling operation. The Zomers are situated on 12,000 acres of pasture and 200 acres of native hay in Fremont County. Both husband and wife were concerned about the coming production year. This year's late summer and early fall had been dry, and they were worried it would carry over into next year.

The Zomers looked at several options for addressing their production risks. They could:

1. Buy alfalfa hay to supplement native hay production. They knew this option might become expensive, though, with hay prices high and up-front cost tying up operating capital.
2. Rent additional pasture. Unfortunately, this option would be difficult to achieve (and expensive) due to the lack of locally available pasture. Plus, the Zomers would

prefer not to travel long distances to their cattle.

3. Send the yearlings to a custom feed yard or sell them early. With high feed prices, this may or may not be economically viable.
4. Use the new Vegetative Index Pasture, Rangeland, Forage (VI-PRF) insurance. Bob recently became aware of at a local extension meeting.
5. Insure against drought using Non-insured Crop Disaster Assistance Program (NAP) coverage.

Like many producers, the Zomers decided on a combination of available options. They chose to utilize VI-PRF insurance for 3,500 acres from April 1 to June 30; 5,500 acres from July 1 to September 30; and 200 acres of hay land from June 1 to August 30. They also chose to budget \$20,000 to purchase 200



Premium/acre	Indemnity/acre	Total Indemnity	Total cost/acre
\$0.28	\$0.00	\$0	\$0.80
\$0.58	\$8.51	\$35,805	\$3,190
\$9.15	\$67.27	\$11,454	\$1,830
	<b>Total</b>	<b>\$47,259</b>	<b>\$6,000</b>

heads multiplied by 60 percent equals \$10,954.94. With the second method, calculate the carrying capacity of 19.48 acres per AU for a normal carrying capacity of 462 AU) multiplied by 30 days (\$13,860) multiplied by the daily feed cost (\$40.04/30 = \$1,334) multiplied by 60 percent to find a total payment of \$11,093.54. Therefore, the first calculation provides the smaller amount. If the Zomers had utilized NAP coverage in 2010, they would have received two added benefits.

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<http://RightRisk.org/RiskManagementProfiles>

<http://RightRisk.org> > Courses

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## RightRisk™

### RIGHTRISK NEWS

#### DATES TO REMEMBER

• **March 15, 2014:** Crop insurance sales closing and cancellation dates for spring planted crops. For more information see <http://www.rma.usda.gov>

• **April 1, 2014:** Noninsured Crop Disaster Assistance Program (NAP) application deadline for spring seeded forage and all other crops. For more information see <http://www.fsa.usda.gov>

*How Much Risk is Right for you?*

#### AGR-Lite Protects Against Low Revenues

Adjusted Gross Revenue-Lite (AGR-Lite) is a streamlined whole-farm revenue protection package that protects against low revenues due to losses attributable to unavoidable natural disasters such as fire, adverse weather, and market fluctuations. Most farm-raised crops, animals, and animal products are eligible for protection.

AGR-Lite provides insurance coverage for multiple agricultural commodities in one insurance product and establishes revenue as a common denominator for the insurance of all agricultural commodities. AGR-Lite can stand alone or be used in conjunction with other Federal crop insurance plans. However, the maximum liability of coverage is \$1 million.

To be eligible for AGR-Lite coverage, a producer must be a U.S. citizen or resident; file a calendar year or fiscal year farm tax return, and have appropriate IRS tax forms available for the previous 5 consecutive years under the same tax entity (for exceptions, contact a crop insurance agent). Also, consecutive years under the same tax entity for resale cannot exceed 50 percent of total revenues and revenues from commodities purchased for resale cannot exceed 83.35 percent of total revenue to be eligible for AGR-Lite coverage. A new policy must be purchased by March 15th for the year in which coverage is to first occur. After the first year, the policy is automatically in effect but policy changes and cancellations must occur by January 31st. Claims are settled after taxes are filed for the insurance year.

A producer, producing at least three commodities, shall select one of three levels of coverage – 65 percent, 75 percent, or 80 percent – and an associated payment percentage of either 75 percent or 90 percent. A producer, producing less than three commodities, can insure at 65-75, 65-90, 75-75, and 75-90 coverage levels and payment percentages. The government will pay a portion of the premium for the AGR-Lite policy that equals 48 percent, 55 percent, and 59 percent of the total premiums for the coverage levels of 60 percent, 75 percent, and 65 percent, respectively.

AGR-Lite Levels of Insurance	
Coverage Level	Payment Percentage
60%	75%
75%	75%
80%	75%

The 80% coverage level is not available to those producing less than three commodities.



Assume a producer had an approved AGR-Lite income of \$500,000 and wanted to insure revenues at the 80 percent coverage level at 90 percent payment rate. Further assume adjusted gross income minus out to be \$215,000.

Step 1: Calculate the loss inception point (approved AGR times the coverage level) => \$500,000 x 0.80 = \$400,000

Step 2: Calculate the loss of revenue (loss inception point less actual revenues) => \$400,000 - \$215,000 = \$185,000

Step 3: Calculate the indemnity due (lost revenue times payment percentage) => \$185,000 x 90% = \$166,500

AGR-Lite insurance can be purchased from private insurance agents. A list of crop insurance agents is available at a USDA Service Center or on the RMA web site: <http://www.rma.usda.gov/tools/agents/>

Also, more information about AGR-Lite is available at <http://RightRisk.org>

#### RISK MANAGEMENT PROFILE

Juan and Suzanne were sitting in their kitchen one January afternoon getting information ready to take to their tax preparer. Check stubs, invoices, receipts, weigh tags from the local co-op, and sale bills were scattered across the table. Suzanne was frustrated with the mess and with the amount of information Juan kept in his head. They both knew they would have a better handle on their finances, keep their banker happier, and be better prepared for their tax preparer if they maintained good financial records throughout the year. To read more see: <http://RightRisk.org> > Resources > Risk Mgt Profiles



#### HIGHLIGHTED COURSE

The interactive AGR-Lite course was designed for producers at both ends of the crop insurance knowledge spectrum – whether they already use and are accustomed to crop insurance programs or they are new to the programs available and just beginning to determine their risk management needs. The course is interactive and has lessons at the end of each section to help participants apply what they have learned to their own situation. It also provides electronic tools to help producers assess how the program may fit with their operation.

The course is divided into six sections. The first two sections cover general risk management and an overview of the AGR-Lite program. The basic concepts of risk management are discussed using real-life examples and situations. The overview of the AGR-Lite program includes a breakdown of individual farming livestock enterprises eligible for coverage under the program as well as other eligibility elements. The third section discusses the application process for AGR-Lite. This includes the necessary information as well as determining the variables and adjustments that go into setting a farm's adjusted gross revenue (the basis for the insurance coverage). The fourth section talks about steps a producer must take in the event of a loss. It is important to note losses under AGR-Lite coverage are limited on a year-to-year basis as opposed to when a loss occurs in conventional insurance. The last two sections discuss document considerations as part of AGR-Lite and a whole farm example. It is important for producing AGR-Lite to keep accurate records in the event of a revenue loss. These include invoices, weight slips, and other documents pertaining to production. For more information on the AGR-Lite course, see <http://RightRisk.org> > courses.



**RightRisk helps decision-makers discover innovative and effective risk management solutions.**

RightRisk News is brought to you by the RightRisk Team

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