

Risk Management Tools for Hawaii Ranches



John P. Hewlett

Ranch/Farm Management Specialist, University of Wyoming

Jeffrey Tranel

Ag & Business Management Economist, Colorado State University

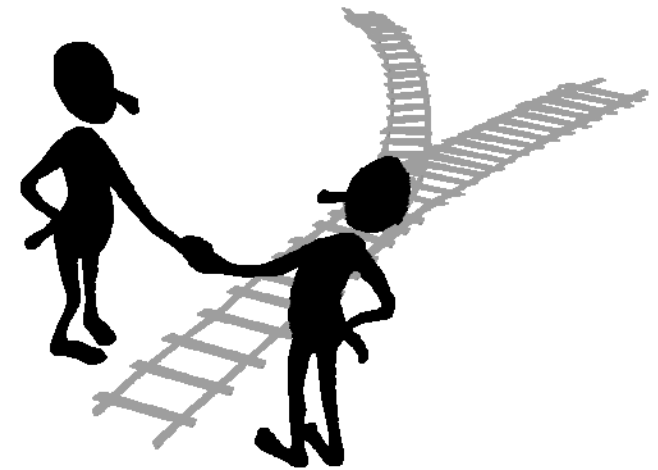
Rodney Sharp

Ag & Business Management Economist, Colorado State University



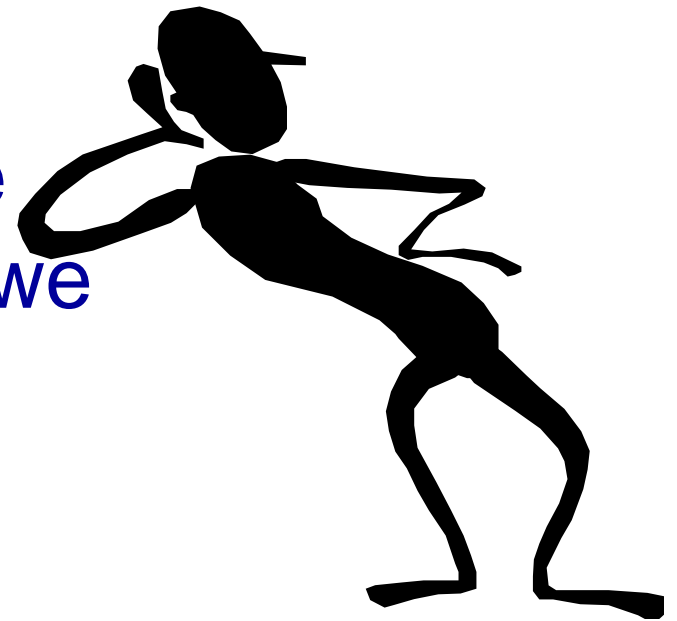
Where Do We Want to Go?

- Reduced Risk?
 - Reduced volatility = greater certainty
 - Lower risk = lower returns



Where Do We Want to Go?

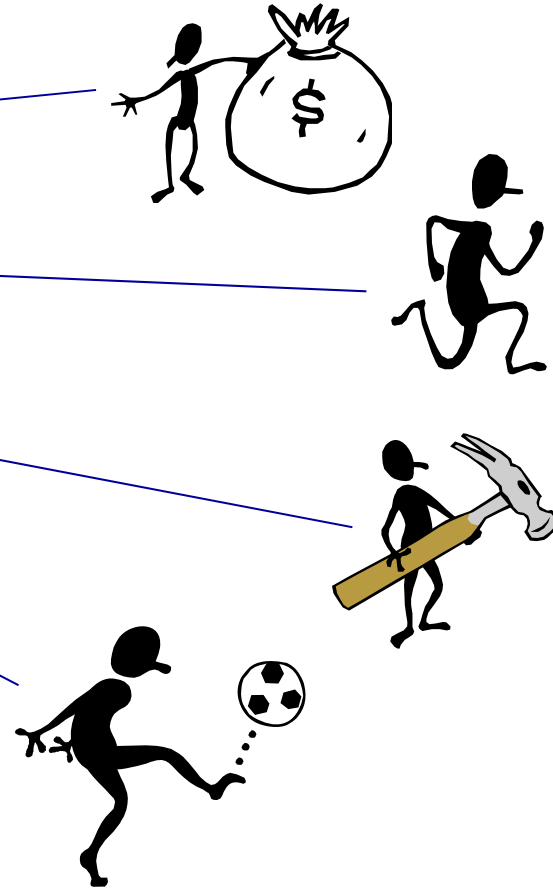
- Reduced Risk?
 - Lower volatility = greater certainty
 - Lower risk = lower returns
- Manage the risk(s) we are willing to accept at levels we are comfortable with



Where Do We Want to Go?

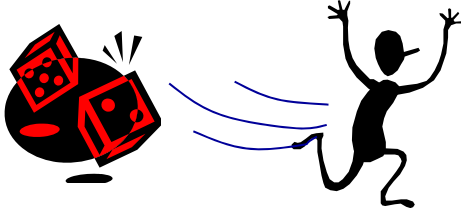

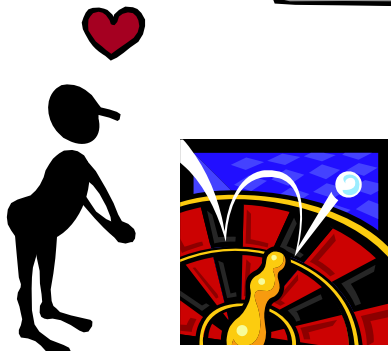
Risk Management Strategies

- Assume the risk
- Avoid the risk
- Reduce the risk
- Transfer the risk



Where Do We Want to Go?

Types of Risk Preference

- Risk Averse An illustration of a black stick figure running away from a red and black bomb with lit fuses. Blue motion lines behind the figure indicate a quick escape.
- Risk Neutral An illustration of a black stick figure standing next to a platform scale. Two white dice are on the scale, and the figure has a neutral expression.
- Risk Loving An illustration of a black stick figure running towards a dartboard. A red heart is above the figure's head, and a yellow dart is shown hitting the bullseye of the dartboard.

How Do We Get There?

- Better risk management
 - Evaluate risk(s)
 - Develop strategy
 - Use available tools



How Do We Get There?

Tools Available

- **Insurance**
- Disaster Assistance Programs
- Risk Analysis




Current Federal Insurance Options

Insurance Plans Available in Hawaii			
Insurable Crops	Insured Acres	Total Acres	Percent Insured
Tropical Fruit- Banana	252	1,300	19%
Tropical Fruit- Coffee	3,418	6,300	54%
Macadamia Nuts	11,890	17,000	70%
Tropical Fruit- Papaya	66	2,100	3%
Dollar Liability Program		Total Dollar Liability	
Adjusted Gross Revenue - LITE		\$160,441	
Macadamia Trees		\$55,677,228	
Nursery		\$16,011,698	
Tropical Tree- Banana		\$285,723	

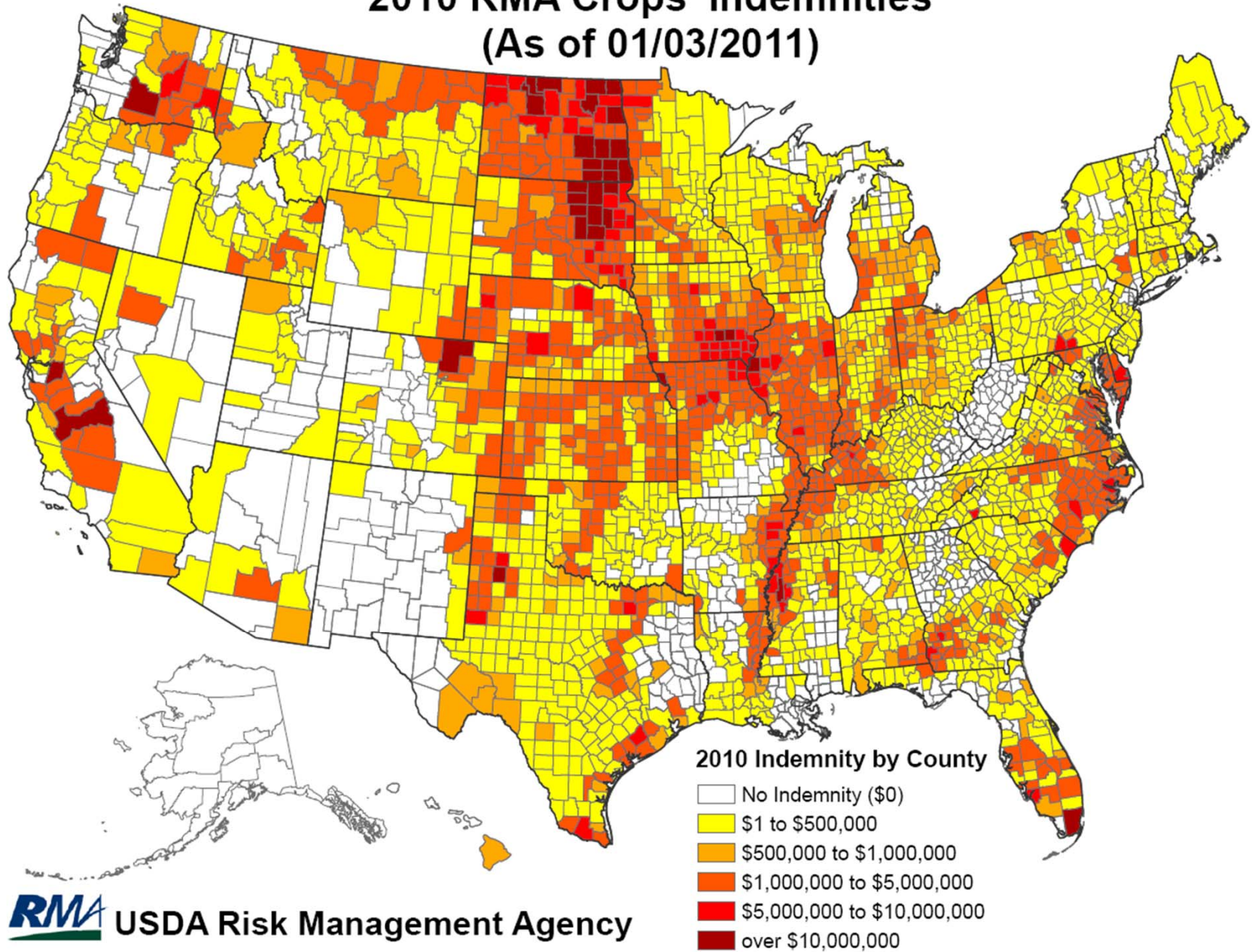
**2010
Hawaii
Crop
Insurance
Profile**

**Farm Service Agency:
Noninsured Crop Disaster Assistance Program**

<p>Davis, CA 95616 Phone: (530) 792-5870 Fax: (530) 792-5893 E-Mail: nancy.beaumont@rma.usda.gov</p>	Coffee	
	Papaya	
<p>Western Regional Compliance Office Contact: Susan Choy, Director Address: 430 G Street, # 4167 Davis, CA 95618 Phone: (530) 792-5850 Fax: (530) 792-5865 E-Mail: susan.choy@rma.usda.gov</p>		
Data as of January 2011		


Risk Management Agency/USDA

2010 RMA Crops' Indemnities (As of 01/03/2011)



RMA USDA Risk Management Agency

RIGHT RISKTM

RMA

Summary of Policies Sold, by commodity: Hawaii

Federal Crop Insurance Corporation Crop Year Statistics for 2010 As of: 5/16/2011 Nationwide Summary - By State															
State	Ins Plan	Pol Sold	Pol Earn Prem	Pol Indem	Units Earn Prem	Units Indem	Net Acres	Liabilities	Total Premium	Subsidy	Cost Share	State Sbsdy	Prem Dscnt	Indemnity	Loss Ratio
HAWAII	AGRLT	3	3	0	3	0	0	180,441	12,524	6,923	0	0	0	0	.00
	APH	85	87	17	149	43	15,844	26,674,654	773,324	460,822	0	0	0	976,404	1.28
	DOL	74	42	0	132	0	12,515	70,765,548	738,012	522,602	0	0	0	0	.00
	TDO	28	17	0	18	0	0	13,173,593	56,396	55,974	0	0	0	0	.00
HAWAII Total		190	129	17	302	43	28,159	110,774,234	1,580,256	1,046,321	0	0	0	976,404	.62
Grand Total		190	129	17	302	43	28,159	110,774,234	1,580,256	1,046,321	0	0	0	976,404	.62



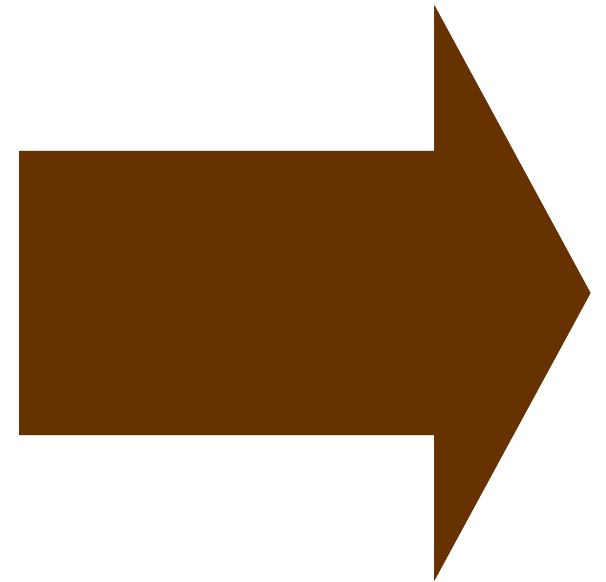
Categories of Insurance

There are three broad categories of RMA approved insurance products:

1. **Yield Insurance** pays indemnities when per acre yields are low
2. **Price insurance** pays indemnities when per unit output prices are low (currently this type of insurance is available only for certain classes of livestock).
3. **Revenue insurance** pays indemnities when per acre revenue (price x quantity) is low or when whole farm revenue is low due to losses in production and declines in product quality and price.

Older Insurance Options

- **NAP** Noninsured Crop Disaster Assistance Program - Farm Service Agency



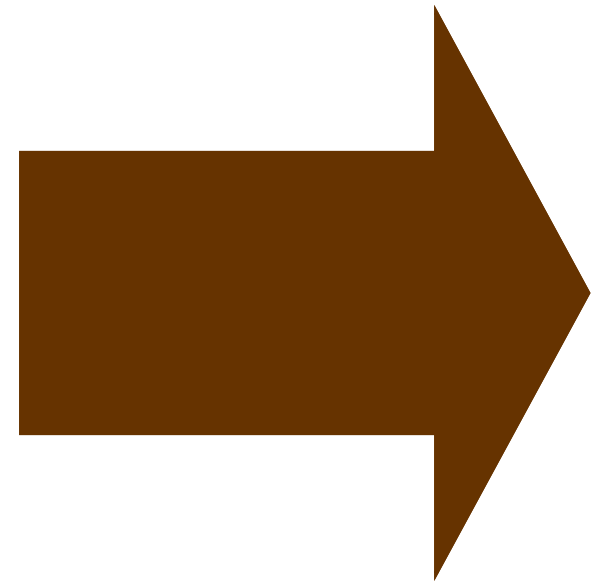
How Do We Get There?

Non-insured Disaster Assistance Program (NAP)

- Available if there is no RMA actuarial offering for the commodity in the county
- Offered by the Farm Service Agency (FSA)
- Covers crops that are non-insurable, including crops grown for food, fiber, and livestock feed
- Covers low yields, loss of inventory, or prevented planting losses

Recently Added Insurance Options

▣- **AGR-Lite** (*started November 2nd, 2006*)



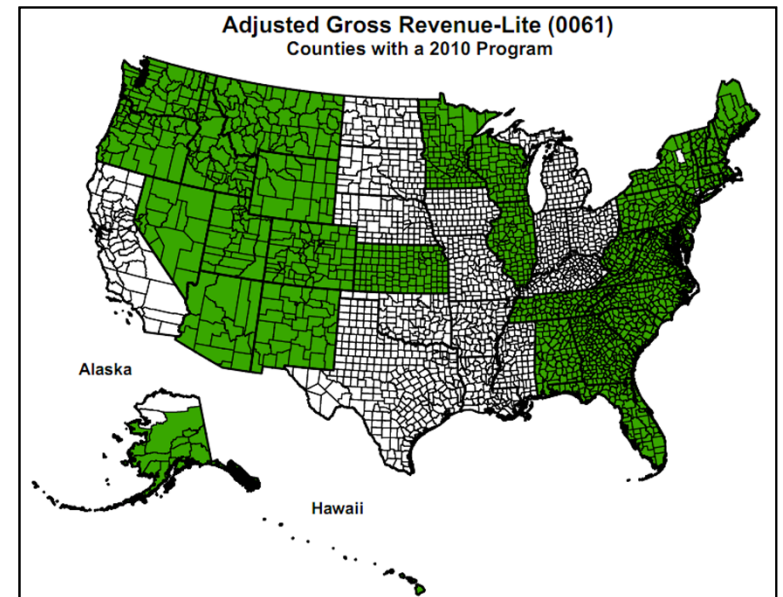
▣ *More Established Products*



Conclusion ▣

AGR-Lite Adjusted Gross Revenue-Lite

- Approved for Hawaii, starting August, 2007
- Total of 35 states have AGR-Lite available

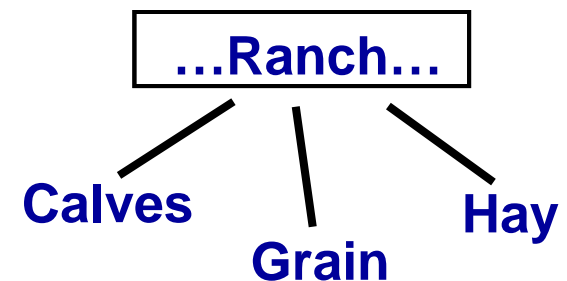


AGR-Lite cont.

- **Whole-farm revenue insurance product**, providing coverage against low revenue due to:
 - Unavoidable natural disasters
 - Market fluctuations
- **Liability limit: \$1 million annually**
(less than \$2,051,282 approved gross income)
- **Eligible crops include most farm-raised crops, animals, and unprocessed animal products**

AGR-Lite Filing

- Five-year historical farm average revenue reported by IRS Schedule F or equivalent
- Current year's farm plan (*annual farm report*)
- Uses one product to provide insurance coverage for multiple commodities
- May be used in conjunction with other insurance products
- File by March 15



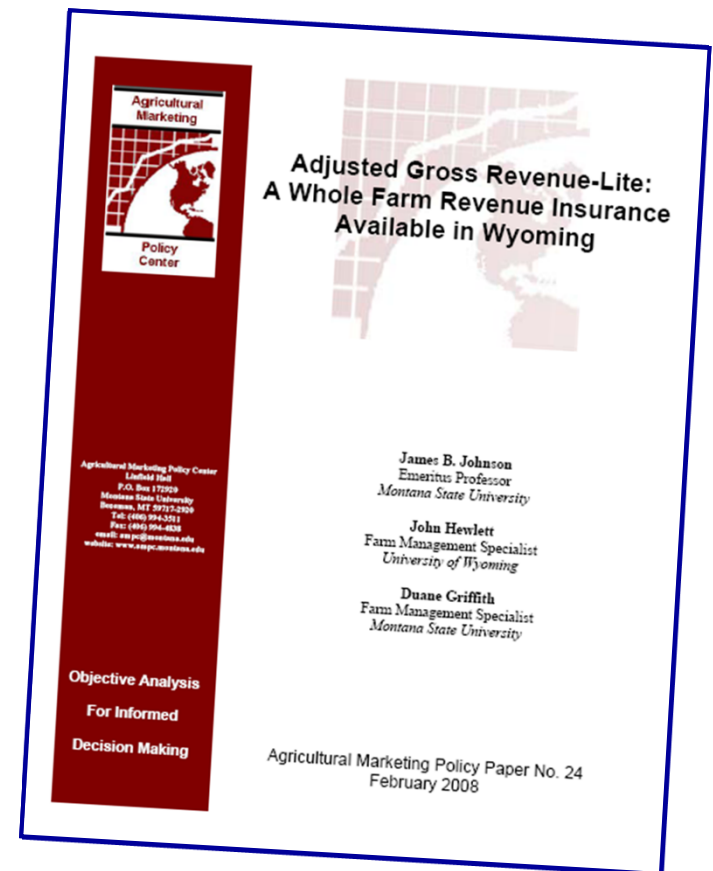
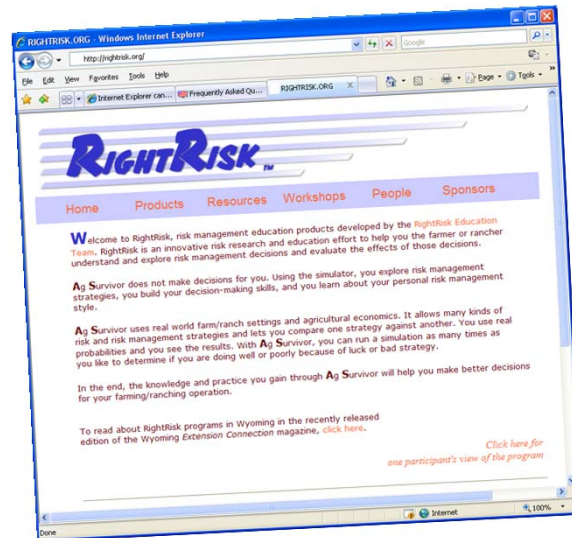
Federal Crop Insurance Corporation
 Crop Year Statistics for 2010
 As of: 5/16/2011
 Nationwide Summary - By State

State	Ins Plan	Pol Sold	Pol Earn Prem	Pol Indem	Units Earn	Units Indem	Net Acres	Liabilities	Total Premium	Subsidy	Cost Share	State Sbsdy	Prem Dscnt	Indemnity	Loss Ratio
HAWAII	AGRLT	3	3	0	3	0	0	180,441	12,524	6,923	0	0	0	0	.00
	ABH	85	87	17	140	43	15,844	28,874,854	773,324	480,822	0	0	0	976,404	1.28
	DOL	74	42	0	132	0	12,515	70,765,548	738,012	522,602	0	0	0	0	.00
	TDO	28	17	0	18	0	0	13,173,593	56,396	55,974	0	0	0	0	.00
HAWAII Total		190	129	17	302	43	28,159	110,774,234	1,580,256	1,046,321	0	0	0	976,404	.62
Grand Total		190	129	17	302	43	28,159	110,774,234	1,580,256	1,046,321	0	0	0	976,404	.62

AGR-Lite Course



- Provides an overview of the product, as well as in-depth examples of its application to common livestock and crop operations



◀ Recently Established Products



How Do We Get There?

Tools Available

- Insurance
- **Disaster Assistance Programs**
 - Supplemental Revenue Assistance (SURE)
 - Livestock Forage Disaster Program (LFP)
 - Livestock Indemnity Program (LIP)
 - Emergency Livestock Assistance Program (ELAP)
- Risk Analysis



SURE Program

- Provides disaster assistance to farms/ranches:
 - In a county where a disaster is declared by the Secretary of Agriculture, or
 - In a county adjacent to a declared county, or
 - Have experienced a farm wide crop loss in excess of 50 percent of expected production
- To be eligible, producers must buy **crop insurance** or **Non-insured Disaster Assistance Program (NAP)** for all acres of economically significant crops
- An eligible farm/ranch disaster payment is linked to the dollar amount of crop insurance coverage the farm obtains

Livestock Forage Disaster Program (LFP)

- Provides compensation to eligible livestock producers who have suffered grazing losses due to qualifying drought or fire
- To be eligible, producers must purchase rangeland insurance or Non-insured Disaster Assistance Program (NAP) for all forage acres

Livestock Indemnity Program (LIP)

- Provides payments to eligible livestock owners and contract growers for livestock death losses in excess of normal mortality due to adverse weather
- Does **NOT** have a risk management purchase requirement for program benefit eligibility
- Payments are based on eligible losses due to adverse weather conditions

ELAP Program

- ELAP covers losses **NOT** covered under other disaster assistance programs: SURE, LFP, or LIP
- Payments are limited to \$100,000 per year per person or legal entity, a combined limit with SURE, LFP, and LIP

ELAP Program cont.

- Covered losses include:
 - **Grazing losses** due to adverse weather or eligible loss conditions
 - **Loss of forage or feedstuffs raised** by livestock producers
 - **Cost of transporting additional feed** to eligible livestock
 - **Costs of purchasing additional feed** above normal quantities
 - **Payments for death loss** above normal mortality rates
 - Loss of feed intended for honeybees or farm-raised fish.
 - Honeybee colony or hive losses due to **colony collapse disorder**
 - Losses due to fish deaths from weather or eligible loss conditions
 - Livestock, honeybee or farm-raised fish losses that are not related to adverse weather or eligible loss conditions

ELAP Program cont.

- ELAP has a **risk management purchase requirement**:
 - To be eligible for ELAP payments, producers on a farm or ranch must purchase insurance for each insurable crop excluding grazing land.
 - For non-insurable crops, producers must purchase NAP coverage when available, except grazing lands.
 - Persons without insurance or NAP coverage may be exempt from the risk management purchase requirement if they are socially disadvantaged, limited resource, or a beginning farmer or rancher

Farm Bill Disaster Aid Programs

The 2008 Farm Bill created a permanent disaster aid program for U.S. farms and ranches. Specifically, five different permanent disaster programs were authorized that are intended to replace ad hoc disaster relief programs. The five standing disaster programs are the Livestock Indemnity Payments program (LIP), Livestock Forage Disaster program (LFP), Emergency Assistance for Livestock, Honey Bees and Farm Raised Fish program (ELAP), the Orchard and Nursery Tree Assistance Program (TAP), and the Supplemental Revenue Assistance Payments Program (SURE).

To be eligible to receive benefits under general of the new disaster aid programs, producers must have purchased insurance for each insurable commodity. Insurable commodities are those for which a plan of insurance can be obtained from the USDA's Risk Management Agency. Coverage for noninsurable commodities is generally available through the Noninsured Crop Disaster Assistance Program (NAP) run by the USDA's Farm Service Agency.

For livestock producers the insurable commodity of greatest concern is forage. Generally, a producer must file the required paperwork and pay the administrative fee by the application closing date for Noninsured Disaster Assistance Program (NAP) coverage.



Noninsured Crop Disaster Assistance Program (NAP)

USDA's Farm Service Agency's (FSA) Noninsured Crop Disaster Assistance Program (NAP) provides financial assistance to producers of noninsurable crops when low yields, loss of inventory or prevented planting occurs due to natural disasters.

To be eligible for NAP assistance, crops must be noninsurable crops and agricultural commodities for which the catastrophic risk protection level of crop insurance is not available, and must be one of the commercially produced crops found in the published list, including crops planted and grown for livestock consumption (not limited to grain and forage crops and including native forage).

For more information see: <http://www.fsa.usda.gov/FSA/stateoffapp?mystate=hi>

Deadline for purchase of NAP for ALL crops: **May 1st**



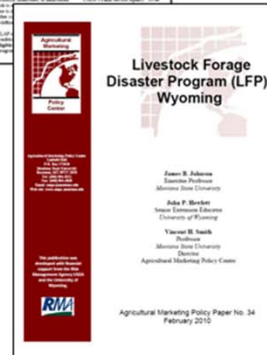
WESTERN RISK MANAGEMENT LIBRARY

Copies available at:
Western Risk Management Library
<http://agecon.uwyo.edu/RiskMgt>



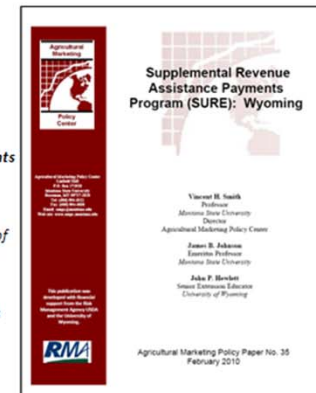
4 pages:

The Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program (ELAP) provides emergency assistance to eligible producers of livestock, honeybees, and farm-raised fish who have losses due to disease, adverse weather, or other conditions, including losses due to blizzards, or wildfire, as determined by the Secretary of Agriculture.



13 pages:

The Livestock Forage Disaster Program (LFP) provides compensation to eligible livestock producers who have suffered grazing losses because of qualifying drought or fire. The eligible grazing losses must occur within the same calendar year the benefits are being requested. Compensation provided under LFP can be used for any purpose by the program participant.



14 pages:

The new Supplemental Revenue Assistance Payments Program (SURE), created by 2008 Farm Bill, is a permanent disaster aid program for farms producing crops. The program is one of five different permanent disaster programs authorized by the act. The purpose of the SURE program is to provide agricultural producers with automatic disaster payments when the region in which they farm experiences catastrophic natural weather events or when an individual farm experiences severe crop losses due to highly localized adverse weather conditions.

How Do We Get There?

Tools Available

- Insurance
- Disaster Assistance Programs
- **Risk Analysis**
 - Financial Analysis
 - Price Risk Analysis
 - Price and Production Risk Analysis



How Do We Get There? Financial Analysis: RDFinancial

- Ag In Uncertain Times - “Determining Financial Health (RDFinancial)” webinar offered on November 18, 2009

Adobe Flash Player 9

File View Control Help

Introduction Enter Data Financial Statements Ratios Credit Scoring **Family Living, Revenues, Expenses**

Assets		Liabilities	
Beginning	Ending	Beginning	Ending
Cash on Hand	25,000	57,831	0
Crops Held for Feed (Exp)	0	0	11,889
Crops Held for Sale (Inc)	200,000	200,000	12,540
Market Livestock (Inc)	0	0	11,908
Other Current Assets (Inc)	15,000	15,000	10,000
Invest Growing Crops (Exp)	0	0	0
Supp. & Prepaid Exp. (Exp)	10,000	10,000	0
Total Current Assets	250,000	282,831	34,448
Non-Current Assets	325,000	292,500	255,399
Mach. & Equipment	325,000	292,500	242,840
Breeding Livestock	0	0	0
Real Estate (Land, Bldgs, Impr)	1,040,000	1,038,000	0
Total Business Assets	1,615,000	1,613,331	289,847
		Business Net Worth	1,325,153
		Change in Equity From Beginning to End of Year	10,890

Inflows		OutFlows	
Crop Sales & Net Insurance Payments	579,808	Cash Expenses	444,913
Mkt & Cull Livestock Sales	0	Other Cash Business Outflows/Expense	0
Lvstk Secondary Product Sales	0	Cash Int. Exp. - T.D. & C.L.*	12,540
Government Payments	28,845	Cash Int. Exp. - Operating	7,261
Other Cash business Inflows/Income	0	Loan Prin. Payments - T.D. & C.L.	11,908
Operating Loan Proceeds	207,457	Breeding Livestock Asset Purchases	0
Loan Proceeds Capital Assets	0	Mach & Equip & Real Estate Purchase	0
Non-Business Inflows/Revenue	0	Owner withdrawals	100,000
Other Nonfarm Inflows	0	Cash Taxes Paid (Income & SS)	0
Other Nonfarm Inflows	0	Other Cash Outflows (Not Expenses)	0
Total Cash Inflows	\$816,910	Subtotal	\$576,622
		Operating Loan Prin. Payments	\$207,457
		Total Cash Outflows	\$784,079
		Annual Net Cash Flow (never < zero)	57,831

Income Statement - Accrual Adj.		Income
Cash Income (Net of cull lvstk sales)		\$609,453
Non-Cash Income Adjustments		0
Non-Cash Income (Raised Brd Lvstk)		0
Capital Gain/Loss on Breeding Lvstk (Net)		0
Gross Revenue		\$609,453
	Expense	
Cash Expense (Excluding Interest)		444,913
Non-Cash Feed Inventory Adjustment		0
Other Non-Cash Non-Interest Expense		0
Depreciation (Land, Bldgs, Equip.)		34,500
Total Operating Expense		479,413
Cash Int. Exp. - T.D. & C.L.		12,540
Cash Int. Exp. - Operating		7,261
Non-Cash Interest Expense		(651)
Total Expense		\$498,563
Net Business Income From Operations		110,890
Net Business Income		110,890
Income+SS+Def. Tax--Cash & Non-Cash		0
Net Income		\$110,890

Statement of Owner Equity	
Beginning Net Worth (Cost/Mkt)	1,325,153
Net Income	+ 110,890
Non-Business Cash Inflows	+ 0
Owner Withdrawals (Cash)	- 100,000
Asset Valuation Change/Cont./Distrib.	+/- \$0
Calculated Ending Net Worth	= 1,336,043
Reported Ending Net Worth (Cost/Mkt)	1,336,043
Discrepancy	(\$0)

* T.D. = Term Debt. C.L. = Capital Lease

Mouse Over for Help Save, Load, Delete

Owner Withdrawals \$100,000
 Nonfarm Inflows #1 \$0
 Nonfarm Inflows #2 0

Percent Crop Revenue 100%
 Percent Livestock Revenue 100%
 Percent Operating Expenses Borrowed 50%

Percent Crop Cost of Production 100%
 Percent Livestock Cost of Production 100%
 Percent Government Payments 100%

Reset Print Cash Income Toggle Off/On Deferred Taxes Off/On Income Tax Off/On

- <http://FarmManagement.org/AgInUncertainTimes>

- Click on Recordings in the right sidebar

How Do We Get There?

Price and Production Risk Analysis: Risk Navigator tools

RIGHTRISK.ORG - Windows Internet Explorer

http://rightrisk.org/

RIGHTRISK.ORG

Risk Navigator

STRATEGIC RISK MANAGEMENT

- Home
- About SRMP
- Textbook
- Toolbox
- Example Farm
- Ag Survivor
- Instructors
- Conferences
- Sponsors

RightRisk
www.RightRisk.org

RMA

Home | About | Textbook | Toolbox | Example Farm | Ag Survivor | Instructors | Conferences | Sponsors

Release 1.2, Copyright © 2008 Optimal Ag Consulting, Inc. All Rights Reserved.

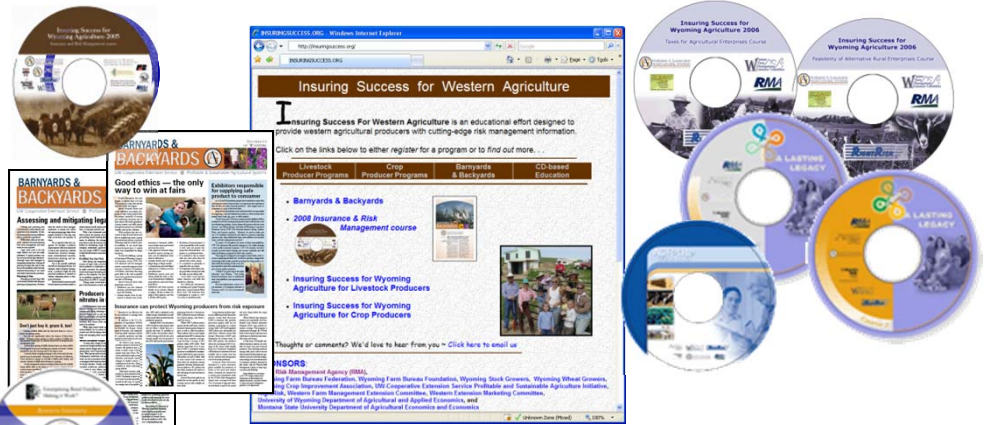
Risk Navigator SRM

Unknown Zone (Mixed) 100%

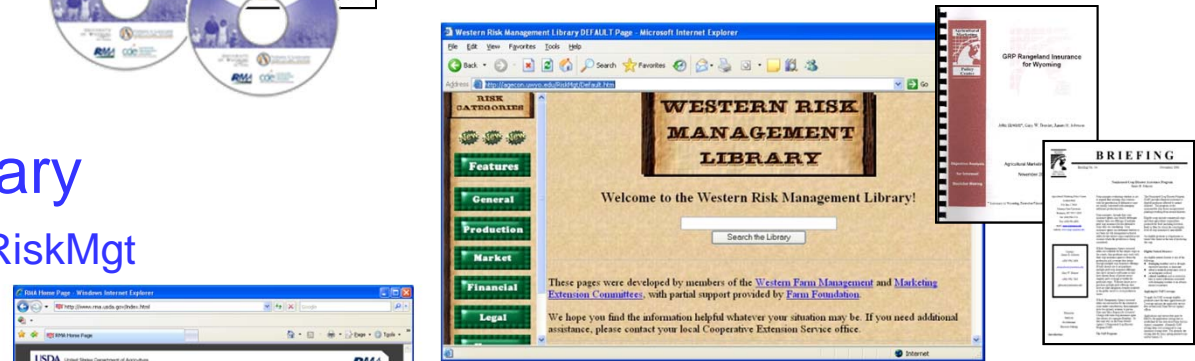
- Farm Management Wiki tool “Risk Navigator”
- <http://FarmManagement.org/Wiki>
- Click on Contents > Tools > “Risk Navigator”

Important Web Sites

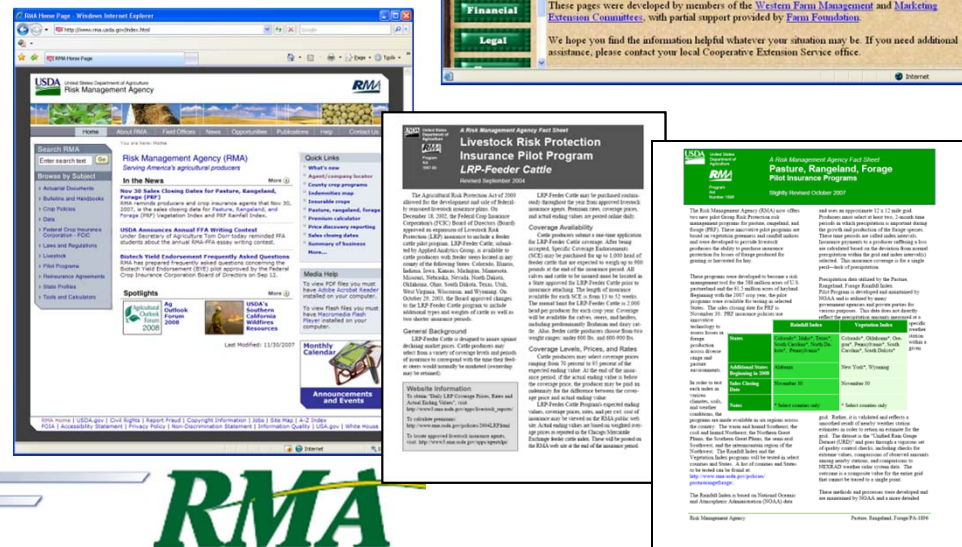
- **Insuring Success For Western Agriculture**
<http://InsuringSuccess.org>



- **Western Risk Management Library**
<http://agecon.uwyo.edu/RiskMgt>



- **Risk Management Agency**
<http://www.rma.usda.gov>



RIGHT RISK™

Master Cattleman WYOMING



RISK MANAGEMENT OPTIONS FOR WYOMING RANCHES

Table 1: Alternative RMA Product-Based Risk Management Strategies For the Large and Small Ranches

Item	Strategy 1	Strategy 2	Strategy 3	Strategy 4	Strategy 5	Strategy 6	Strategy 7
Revenue Enterprises:							
Cow Calf							
Heifers	LRP	LRP		LRP		LRP	
Steers	LRP	LRP		LRP		LRP	
Cows							
Bulls							
Fed Steers*	LRP	LGM		LRP		LGM	
Alfalfa Hay	APH	PRF		APH		PRF	
Subtotal			AGR-LITE	AGR-LITE	AGR-LITE	AGR-LITE	AGR-LITE
Non-revenue Enterprises:							
Corn, grain	APH	CRC		APH	APH	CRC	CRC
Corn, silage	APH	APH		APH	APH	APH	APH
Grass/alfalfa Hay	APH	PRF		APH	APH	PRF	PRF
Alfalfa Hay	APH	PRF		APH	APH	PRF	PRF
Rangeland	GRP	PRF		GRP	GRP	PRF	PRF
Subtotal							
Total							

* The fed steer enterprise only exists on the large ranch and so the insurance options for this enterprise are only available to the large ranch.

BRIEFING

Briefing No. 101 January 2010

Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Programs (E.L.A.F.P.) Wyoming
Vincent H. Smith, James B. Johnson & John P. Hewlett

Background: Intensive colic collapse disorder and purchased livestock feed destroyed due

Contact:
Vincent H. Smith, Professor, vsmith@montana.edu, 406.994.2512
James B. Johnson, Emeritus Professor, jjohnson@montana.edu, 406.994.5056
John P. Hewlett, Senior Extension Educator, jhewlett@montana.edu, 406.766.2196

Development of this paper was sponsored by USDA's Risk Management Agency and the University of Wyoming.

RMA

Livestock Forage Disaster Program (LFP): Wyoming

Supplemental Revenue Assistance Payments Program (SURE): Wyoming

Contact:
Vincent H. Smith, Professor, vsmith@montana.edu, 406.994.2512
James B. Johnson, Emeritus Professor, jjohnson@montana.edu, 406.994.5056
John P. Hewlett, Senior Extension Educator, jhewlett@montana.edu, 406.766.2196

Development of this publication was developed with financial support from the Risk Management Agency USDA and the University of Wyoming.

RMA

Agricultural Marketing Policy Paper No. 35
February 2010

RIGHT RISK™



