

2014

North Central Extension Risk Management Education Center

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CORNHUSKER ECONOMICS

University of Nebraska–Lincoln Extension

North Central Extension Risk Management Education Center

Market Report	Yr Ago	4 Wks Ago	5/9/14
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	\$126.00	\$150.79	\$148.37
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	159.40	236.15	236.01
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	131.74	181.50	188.50
Choice Boxed Beef, 600-750 lb. Carcass.	203.32	225.50	226.57
Western Corn Belt Base Hog Price Carcass, Negotiated.	87.62	120.24	111.45
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.	87.63	126.24	111.59
Slaughter Lambs, Ch. & Pr., Heavy, Woolled, South Dakota, Direct.	104.00	151.00	+
National Carcass Lamb Cutout, FOB.	282.13	374.01	371.47
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu.	7.12	6.54	7.59
Corn, No. 2, Yellow Nebraska City, bu.	6.81	4.71	4.85
Soybeans, No. 1, Yellow Nebraska City, bu.	14.69	14.43	14.81
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	11.63	8.16	8.45
Oats, No. 2, Heavy Minneapolis, MN, bu.	4.03	4.46	4.08
<u>Feed</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	+	210.00	190.00
Alfalfa, Large Rounds, Good Platte Valley, ton.	227.50	115.00	+
Grass Hay, Large Rounds, Good Nebraska, ton.	222.50	107.50	105.00
Dried Distillers Grains, 10% Moisture, Nebraska Average.	235.00	237.50	219.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	89.50	66.50	67.50
+ No Market			

After several years of growing agricultural prosperity and record net farm income that peaked at \$130 billion in 2013, average United States net farm income is forecast to drop more than 25 percent, to just under \$96 billion for 2014 (United States Department of Agriculture (USDA) Economic Research Service). The large drop from 2013 to 2014 after nearly a decade of strong growth in agricultural income presents a new challenge to agricultural producers, and an increased need to carefully manage risk on the farm or ranch.

The drop is buffered in part by the underlying strength of the agricultural sector. Farm income is still relatively strong, as the \$96 billion forecast remains above the ten-year average of \$87.9 billion. The farm balance sheet is in good shape as well, with a debt-asset ratio of 10.5 percent, the strongest farm financial position since USDA started tracking data in 1960 (USDA-ERS). Similarly, farmland values have grown exponentially, with U.S. average farmland values rising more than eight percent per year in the 2003-2013 period (USDA National Agricultural Statistics Service), before reports of more modest changes into 2014.

The varying outlook for agriculture stems in large part to the changes and continued volatility of agricultural commodity prices. Though current price forecasts generally remain strong for U.S. agriculture, producers also face some of the most volatile and uncertain times in history. From a low of \$1.87 per bushel in December 2005, the nearby corn futures contract on the Chicago Board of Trade climbed to \$7.65 in June 2008; fell to \$2.90 in December 2008; climbed to \$7.99¾ in June 2011; fell to \$5.51 in May 2012; rocketed to \$8.43¾ by August 2012; and fell to \$4.06¼ by January 2014, before rebounding to nearly \$5.00 as of early May 2014 (Chicago Mercantile Exchange (CME) Group).

Managing this price volatility and similar volatility in input costs can be challenging for producers. The greater recognition of production risk following a record drought in 2012, and the changing design of farm programs in the 2014 Farm Bill add more variables for producers to address in managing risk on their farm or ranch operation.

Beyond the price, production and financial risks in the recent headlines, producers face numerous other risks as well. Environmental regulations, new rules that could constrain production and marketing methods, food safety regulations, agricultural labor rules and other legal issues including tax and trade policy, all affect producers. Human risks such as labor and personnel management, or transition and estate planning also have a substantial impact.

Clearly, risk management continues to be a critical need for agriculture in 2014, even with the current economic strength of the sector. The challenge for producers is to develop and implement effective risk management strategies to manage risk and position the farm or ranch for future growth and success.

The [Extension Risk Management Education](#) (ERME) program, funded by USDA's [National Institute of Food and Agriculture](#) provides training to help producers learn new strategies to manage complex and growing agricultural risks. The goal of the program is simple - help farmers and ranchers manage risk. ERME strives to achieve this goal by encouraging and funding innovative programs across the country, and helping programs focus on tangible results (ERME, 2014). Four ERME Centers are located across the country at the University of Delaware (Northeast); the University of Arkansas (Southern); Washington State University (Western); and the University of Nebraska-Lincoln (North Central).

Since 2001, the [North Central Risk Management Education Center](#), hosted by the University of Nebraska-Lincoln Department of Agricultural Economics, addresses the volatility and uncertainty that producers in our 12-state region face in agriculture, the evolving farm policy environment that increasingly emphasizes risk management and the legislative mandate to provide risk management education to agricultural producers. The region includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin. During this time, the Center has awarded 290 projects and over \$9.6 million in funding to public, private and non-profit entities to carry out producer-focused, result-based risk management education programs. Our educational programs have resulted in 78,461 farm and ranch participants receiving risk management education and more than 179,563 measurable producer actions to better manage risk on their operations. Examples of risk management improvements (or results) that were learned, achieved or applied by producers from recently completed projects are:

- (1) In Iowa, 526 participants gained a better understanding of a variety of risk management decisions when implementing Low Cost Parlors (LCP) and Automatic Milking Systems (AMS) such as: labor efficiencies, financial risks and benefits and impact on human and animal health and well-being.
 - 379 of those participants evaluated labor efficiency on their farm versus new systems;

- 64 analyzed current labor efficiency to LCP and AMS, as well as potential milk production and milk component improvement;
 - 45 producers developed written action, financial and personnel plans for transition to LCP or AMS;
 - 22 producers implemented a change to new modernized milking systems (LCP or AMS).
- (2) In Ohio, 224 producers participated in workshops to learn more about business entities and trucking compliance, as well as the liability concerning these topics.
 - Results from the post workshop evaluation show that 100 percent of the respondents found the workshop to be beneficial, and they gained new knowledge about Limited Liability Corporation's (LLC's):
 - 52 percent stated they plan to use this knowledge to establish an LLC for their farm operation in the next 6 months;
 - 92 percent stated that they gained a better understanding of trucking regulations for farmers;
 - 71 percent did not realize that their trucking practices were out of compliance; and 67 percent plan to change their practices to be in compliance as a result of this workshop.
 - A follow-up survey indicates that several operations have taken action steps as a result of what they learned in the workshop, including:
 - 81 percent of respondents have discussed trucking regulations with those involved in the farm;
 - 63 percent have reviewed their trucking practices;
 - 25 percent have gotten their Commercial Drivers License (CDL);
 - 44 percent contacted an attorney to discuss setting up an LLC; 19 percent are in the process of setting up an LLC; and 13 percent have completed this process.
 - (3) Across Nebraska, producers participated in workshops to learn skills dealing with land leasing, landowner/tenant communications and risk management. The program served a great need, and was proven successful beyond initial expectations with 1,933 participants. The results indicate that overall, the participants gained a better understanding of flexible cash leases, the value of increased communications and use of lease terms. Over 143,380 acres of corn, 74,034 acres of soybeans and 51,200 acres of other crops were farmed by the producers in attendance.
 - End of meeting surveys from 540 participants indicated that they would make changes in the following areas: 68 percent cash leases; 44 percent farmland leases; 30 percent cropshare leases; 17 percent family relations; and 20 percent decision-making.

- Results from a six-month follow-up indicated that of 272 respondents, 78 and 75 percent, respectively, have applied skills and knowledge gained in the area of cash leases and flexible cash leases; as well as 49 percent in decision making; 45 percent in family relations; and 24 percent risk management.
- Producers noted the program has improved the profitability or cost efficiency of their business operations through improved understanding of: cash leases (74%); flexible cash leases (72%); decision-making (47%); and family relations (32%).

What is Risk Management?

There are five general types of risk: financial risk, production risk, legal risk, marketing risk and human risk (Crane et al., 2013).

Financial risk refers to a producer's farm credit and the obligation and ability of the farm to repay its debt. The current economic uncertainty greatly affects a producer's financial risk.

Production risk refers to the uncertainty of the management of crops and livestock. Weather, disease, pests and other factors affect the quantity and quality of the commodities produced.

Legal risk results from changing governmental policies. Tax laws, chemical regulations, price support payments and changes in the Farm Bill all affect the legal risk a producer faces.

Marketing risk is the uncertainty about prices producers receive for commodities sold and what their production costs may be.

Human risk includes factors such as farm transition/succession, labor relations, disability, intergenerational issues or divorce.

Funding Decisions

North Central ERME funding decisions are made by an Advisory Council composed of nine individuals involved in agricultural lending, insurance, marketing, extension and production, all from the North Central Region. When considering a proposal for funding, the Advisory Council looks to see that in addition to meeting at least one of the five areas of risk management, each project also addresses six criteria: proposed risk management results, results verification, producer demand, collaboration, creativity and applicability. Successful projects will identify targeted results that will help producers manage risk, and then describe how the project will measure those results. In addition, applicants are encouraged to consider projects that focus on special-emphasis programming such as beginning or transitioning farmers, immigrant or minority farmers, women's education and sustainable or value-added agriculture.

In 2014, 47 pre-proposals requesting \$1,990,611 were submitted through the online application process. Of this group, 31 were asked to submit a full-proposal. In April 2014, the Advisory Council awarded \$703,374 for 17 projects. The project period will be July 1, 2014 to June 30, 2015. The

Center also funded seven small, exploratory projects at \$3,000 each for a nine-month period for the purposes of program planning and development.

Table 1. Awards by State

State	Number of Awards 2001 - 2014
Illinois	20
Indiana	15
Iowa	46
Kansas	19
Michigan	10
Minnesota	29
Missouri	23
Nebraska	25
North Dakota	17
South Dakota	22
Ohio	21
Wisconsin	43
Total	290
Public Lead Institutions	237
Private/Non-Profit Institutions	53

Center Activities

The Request for Applications (RFA) is released each fall. North Central Center staff members hold a webinar for anyone interested in submitting proposals during this open time. Participants learn what makes a good risk management project and proposal, the criteria for proposal evaluation and how to use the online application site. Project directors have indicated that this training is very valuable for them as they look at potential project topics and then put their pre-proposal together.

The Center met with stakeholder listening groups, the North Central Extension Farm Management Committee and our Council several times last year to identify and assess educational needs and emerging issues. The Center builds on the needs assessment results to implement and deliver the competitive grants program and related programming as appropriate.

Together with the other regional centers and the Digital Center located at the University of Minnesota, the North Central Center recently co-hosted the 2014 Women in Agriculture Educators National Conference in Indianapolis, Indiana, with approximately 150 participants. This biennial conference featured three keynote speakers, over 40 hours of individual concurrent session presentations, a networking reception, poster session and a pre-conference seminar. The WIA conference brings together private and public sector educators, crop insurance agents, lenders and other agricultural professionals, providing an opportunity to share ongoing and emerging successful risk management education efforts directed toward women who are involved in production agriculture. Centers will sponsor the Eighth Extension Risk

Management Education Conference next spring in Minneapolis, Minnesota.

Each summer the North Central Center holds a workshop for new project directors to provide them with the building blocks to deliver successful projects and achieve results. Previous workshops have included topics such as risk management education, grant administration, effective communication, social media and evaluation and follow-up. The 2014 Summer Workshop will be held July 10-11 in Omaha, Nebraska.

References:

Crane, Laurence, Gene Gantz, Steve Isaacs, Doug Jose and Rod Sharp, 2013. *Introduction to Risk Management-Understanding Agricultural Risk: Production, Marketing Financial, Legal, Human*. Extension Risk Management Education and Risk Management Agency, USDA.

Available at:

<http://extensionrme.org/pubs/IntroductionToRiskManagement.pdf>

Extension Risk Management Education. *Progress: "Managing Risk Drives Success."* Progress Report. January 2014. Available at:

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2014 Funded Projects

Congratulations to the following project directors whose Risk Management Education projects were selected for funding in 2014:

Carl Duley	University of Wisconsin Cooperative Extension
Russ Euken	Iowa State University
Ed Farris	Purdue Extension - Huntington County
Gregg Hadley	Kansas State Research & Extension
Peggy Kirk Hall	Ohio State University Extension
Ron Haugen	North Dakota State University Extension Service
Dan Huyser	Iowa State University
Ryan Schone	University of Wisconsin Extension
Madeline Schultz	Iowa State University Extension and Outreach
Dianne Shoemaker	Ohio State University Extension - Mahoning County
Michelle Soll	Legal Aid of Nebraska
Cris Stainbrook	Indian Land Tenure Foundation
Kathie Starkweather	Center for Rural Affairs
Mercedes Taylor-Puckett	Kansas Farmers Union Foundation
Robert Tigner	University of Nebraska-Lincoln Extension
Monte Vandever	University of Nebraska-Lincoln Extension
Whitney Wiegel	University of Missouri Extension

Exploratory Projects:

Roxanne Fuller	Iowa State University Extension and Outreach - Buchanan County
Jessica Jones	University of Nebraska-Lincoln Extension
Rachel Lindvall	South Dakota State University Extension
Michelle Napier-Dunnings	Michigan Food & Farming Systems
Bob Olson	Elm Grove Enterprises LLC
Greg Stephens	Institute for Rural America
Caroline van Schaik	Land Stewardship Project

NCRME Center Staff:

Brad Lubben	Director and Extension Assistant Professor and Policy Specialist
Dave Goeller	Assistant Director
Christine Lockert	Grants Coordinator
Cheryl Griffith	Publicity and Promotion

<http://www.ncrme.org>