

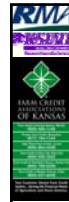
Adjusted Gross Revenue-Lite (AGR-Lite)

- Dr. G. A. "Art" Barnaby, Jr
- Kansas State University and Risk Management Agency, USDA

Phone: (785) 532-1515

- Email: barnaby@ksu.edu
- Check out our WEB at:
 - AgManager.info

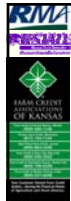
1



Adjusted Gross Revenue-Lite (AGR-Lite)

- A Whole Farm Revenue Protection Plan
- Provides protection against loss of revenue from natural and named disasters and/or market fluctuations
 - Approved for Producers in States of:
 - AK, CT, DE, ID, MA, MD, ME, NC, NH, NJ, NY, OR, PA, RI, VA, VT, WA, WV
 - States approved to proceed with rating:
 - AZ, CO, HI, **KS**, MN, MT, NM, NV, UT, WI, WV

2



States Approved for Sales of AGR-Lite



KS - First Great Plains State

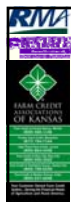
3



Adjusted Gross Revenue-Lite (AGR-Lite)

- Developed by PA Dept. of Agriculture (under section 508h of the crop insurance law) to make protection available to almost all producers.
- Expanded to other states through respective State Depts. of Agriculture.
- Kansas is working with Frontier Farm Credit (FFC), KS State Department of Agriculture, Topeka RMA, KFMA, and Kansas State University.
- Approved and backed by USDA.

4



Adjusted Gross Revenue-Lite (AGR-Lite)

- STAND-ALONE POLICY: covering the whole farming operation
- OR
- UMBRELLA TYPE POLICY: selected crops can also be protected by Multiple Peril or revenue crop policies.
- *Note: Loss payments from other insurance count towards AGR-Lite revenue guarantee.*


5



What is covered under AGR-Lite

- Eligible Commodities Include:
 - Most Crops
 - Animal Production (includes aquaculture)
 - Animal Products (milk, honey, wool, etc.)
 - Greenhouse Production
 - Organic Production


6



Kansas Insurance Profile

- Kansas produced \$8.75 billion in agricultural products in 2002.
- 98.8% (\$8.65 billion) derived from
 - Cattle and calves - \$5.7 billion
 - Grains - \$2.1 billion
 - Hogs - \$297.5 million
 - Milk and other dairy - \$248.5 million
 - Hay and other production - \$225million
 - Nursery and greenhouse - \$55.5 million
- 74 % of agricultural production currently without risk protection.


7



Top Uninsurable Commodities with Acreage

■ Grass	5,621,672	■ Cattle/Calves	
■ Alfalfa	908,218	■ 6,650,000 (Head)	
■ Rye	53,175	■ Hogs & Pigs	
■ Triticale	37,641	■ 1,780,000(Head)	
■ Millet	25,512	■ Dairy	
■ Clover	23,977	■ 111,000(Head)	
■ Lespedeza	23,303	■ Sheep	
■ Mixed Forage	6,546	■ 106,000 (Head)	
■ Pecans	2,953		
■ Peas	2,597		


8



What is covered under AGR-Lite

- Insurable Causes of Loss:
 - unavoidable natural disasters, that occurs during the current or previous insurance year
 - including but not limited to, adverse weather, fire, insects, disease, wildlife, earthquakes, volcanic eruption, or failure of irrigation water supply, if applicable,
 - market fluctuation (annual price change) that causes a loss in revenue during the current insurance year

9




Coverage Choices & Limits

Gov't Subsidy	Coverage Payment		Minimum # of Commodities *	Maximum Annual Income**
	Level	Rate		
59%	65	75	1	\$2,051,282
59%	65	90	1	\$1,709,401
55%	75	75	1	\$1,777,777
55%	75	90	1	\$1,481,481
48%	80	75	3	\$1,666,666
48%	80	90	3	\$1,388,888

*Must meet minimum income requirements. Commodity Grouping is available for the 80-percent coverage level.

**The Maximum Annual Income represents the maximum approved farm revenue at each coverage level and payment rate to be eligible for AGR-Lite due to the \$1,000,000 maximum liability allowed.


10



AGR-Lite Protection Example (With 1 or more commodity producing revenue)

- * 5 year avg. revenue = \$300,000
- * 75% coverage level = \$225,000 loss trigger
- * Revenue produced = \$100,000
- * Revenue loss = \$125,000
- * 90% payment = \$112,500 loss payment


11



AGR Pilot vs AGR-Lite

Comparison	AGR Pilot	AGR-Lite
Maximum Liability	\$6,500,000	\$1,000,000
Animal or Animal Product Limit	35 % of Allowable Income	None
MPCI Required	Yes	Optional
Coverage Level	65 , 75 , 80	65 , 75, 80
Payment Rate	75, 90	75, 90


12



How is Coverage Established?

- Federal Income Tax Records
 - Usually Schedule F
- Current Year's Farm Plan
 - "Cash Flow Budget"


13



How are Claims Calculated?

- Federal Income Tax Records reflect sales
- Beginning and End of year inventories are used to determine change in value allocated to current year.


14



Where AGR-Lite makes sense

- Otherwise uninsurable commodities are covered
- Organic production is protected at realistic prices
- Direct Marketed production is protected at realistic prices
- Umbrella over selected individual crop coverages
- Bottom line for operation from severe economic loss
- Individual protection based on personal yield, quality and price history plus low price protection,
- Provide an alternative for farmers with reduced APH caused by multiple years of drought.


15



Things to Consider with AGR-Lite

- AGR-Lite does not include indemnity payments when calculating 5 years average Gross Income that will set future guarantees.
 - This has no impact on current year's indemnity payment but it lowers future guarantees.


16



Things to Consider with AGR-Lite

- AGR-Lite does not adjust for feed or product purchased.
 - If farmers must buy fruit/vegetables/ product to meet their market commitments, this will lower Net Income but not Gross.
 - If it turns dry, and producers purchase hay to cover lost forage this loss may not be covered. This will lower Net Income but not Gross.
 - If producers normally sell excess hay, then it is covered because there will be reduced hay sales.

17



Example AGR-Lite¹

	Tax Return 1	Indexed Trend	Expected Revenue	Expected Income ²
Year				
Historical Year 1	265,000			
Historical Year 2	250,000	0.943		
Historical Year 3	260,000	1.040		
Historical Year 4	287,000	1.104		
Historical Year 5	271,330	0.945		
Historical Year 6				
Income Trend Factor				1.033
5-year Average, Contract 1				266,666
Expected Income for Insurance Year (IACR)				
Total			275,478	290,000
5-year Average Indexed, Contract 1				
Lesser of Indexed AGR or Expected Income			275,478	
5-year Average, Contract 2				
Coverage Level			75%	
Payment Rate			90%	
AGR-Lite Loss Inception Point			206,609	
AGR-Lite Liability (\$ of Coverage)			185,948	

¹Prepared by Andrew Saffert (Graduate Student), Dr. Jeffery R. Williams, Dr. G. A. (Art) Barnaby, Jr., and Dr. Michael R. Langemeier, Professors, Department of Agricultural Economics, K-State Research and Extension, Kansas State University, Manhattan, KS 66502, Risk & Profit/August 17 & 18, 2006, Phone 785-532-1515, e-mail - Barnaby@ksu.edu, or Andrew.Saffert@saffert@mail.agecon.ksu.edu.

²The expected income is generated from the annual "farm plan" similar to a cash flow budget for the upcoming year. 18

Example AGR-Lite

Revenue To Count Against AGR Guarantee	Count	Line	Revenue Included in 5 Yr Avg
Livestock and other items bought for resale	Count	(Line 3)	Included
Raised Crop and Livestock Sales	Count	(Line 4)	Included
Net Gains from Commodity Hedging	Count		Included
APH, CRC, RA Indemnity Payments (Gross)	Count	(Line 8b)	No
GRP, GRIP Indemnity Payments (Gross)	Count	(Line 8b)	No
LRP and LGM Indemnity Payments (Gross)	Count	(Line 8b)	No
Private Hail and Mortality Payments (Gross)	Count	(Line 8b)	No
Noninsured Crop Disaster Assistance Program Payments (NAP)	Count	(Line 8b)	No
Ad Hoc Disaster Payments	No	(Line 8b)	No
FSA Loans (Including Emergency Loans)	No	(Line 8b)	No
Loan Deficiency Payment (LDP)	No	(Line 8b)	No
Commodity Loans - Commodity Credit Corporation (CCC)	Count	Line (7a)	Included
Production Flexibility Contracts Agricultural Market Transaction Act (AMTA)	No	(Line 8b)	No
Market Loss Assistance Program (MLA)	No	(Line 8b)	No
Direct Counter Cyclical Payments (DCP) (Replaces Production Flexibility Contracts and MLA)	No	(Line 8b)	No
Conservation Reserve Program (CRP)	No	(Line 8b)	No
Conservation Reserve Enhancement Program (CREP)	No	(Line 8b)	No
Sale of non-cull cows & other Capital Assets	No		No
Cull Cows, intended for sale	Count		Included
Custom Harvest for a paid fee	No	(Line 9)	No
Refund payments for over payments	No	(Line 10)	No
Surgabeef - Payment in Kind	Count		Included
Marketing Orders - Cranberry, Tart, Cherries	Count		Included
Change in Accounts Receivable	Count		No
Net Change in Crop Inventory ²	Count		No
Net Change in Livestock Inventory ²	Count		No

¹The expected income is generated from the annual "farm plan" similar to a cash flow budget for the upcoming year.
²Beginning inventory is valued at the selling price during the year not the price on January 1. The ending inventory is valued at the selling price if sold before the claim is settled or at the current terminal market price¹⁹ adjusted for transportation at time of claim settlement and not the December 31 value.

Example AGR-Lite¹

Revenue To Count Against AGR Guarantee	Revenue Included in 5 Yr Avg
Revenue to count	150,000
Revenue to used for the next 5 year average	100,000
Net Insurable Loss	56,609
90% Payment rate	90%
AGR-Lite Indemnity Payment	50,948

¹Prepared by Andrew Saffert (Graduate Student), Dr. Jeffery R. Williams, Dr. G. A. (Art) Barnaby, Jr., and Dr. Michael R. Langemeier, Professors, Department of Agricultural Economics, K-State Research and Extension, Kansas State University, Manhattan, KS 66502, Risk & Profit August 17 & 18, 2006, Phone 785-532-1515, e-mail - Barnaby@ksu.edu, or Andrew Saffert asaffert@mail.ajecon.ksu.edu.
²The expected income is generated from the annual "farm plan" similar to a cash flow budget for the upcoming year.

Example AGR-Lite¹

Year	Tax Return 1	Trend	Indexed Expected Revenue Income ²	Tax Return 2	Indexed Revenue
Historical Year 1	265,000			250,000	
Historical Year 2	250,000	0.945		260,000	1.040
Historical Year 3	260,000	1.040		287,000	1.104
Historical Year 4	287,000	1.104		271,330	0.945
Historical Year 5	271,330	0.945		100,000	0.369
Historical Year 6					1.000

Income Trend Factor
 5-year Average, Contract 1
 Expected Income for Insurance Year (IACR)
 Total
 5-year Average Indexed, Contract 1
 Lesser of Indexed AGR or Expected Income
 5-year Average, Contract 2
 Coverage Level
 Payment Rate
 AGR-Lite Loss Inception Point

¹Prepared by Andrew Saffert (Graduate Student), Dr. Jeffery R. Williams, Dr. G. A. (Art) Barnaby, Jr., and Dr. Michael R. Langemeier, Professors, Department of Agricultural Economics, K-State Research and Extension, Kansas State University, Manhattan, KS 66502, Risk & Profit August 17 & 18, 2006, Phone 785-532-1515, e-mail - Barnaby@ksu.edu, or Andrew Saffert asaffert@mail.ajecon.ksu.edu.
²The expected income is generated from the annual "farm plan" similar to a cash flow budget for the upcoming year.

Things to Consider with AGR-Lite

- Market loan gains count against the AGR-Lite indemnity and are included in the 5 year average tax return revenue. This is a consistent policy. However, LDP payments are not included in the 5 year average nor do they count against the guarantee.

Things to Consider with AGR-Lite

- Currently "cull cows" are counted in the sales to count against the AGR-Lite guarantees and the 5 year average tax return revenue. If the cows are sold as part of a herd reduction then the sales do not count against the guarantee.

Things to Consider with AGR-Lite

- Currently the counter cyclical payment does not count against the AGR-Lite guarantee nor does it count in the 5 year average tax return revenue. This works in the favor of farmers because it does not reduce AGR-Lite payments in a loss year caused by lower prices.



Adjusted Gross Revenue-Lite (AGR-Lite)

- AGR Lite is whole farm revenue coverage based on tax returns
- Receives full subsidy
- Can be purchased in addition to MPC1/RA/CRC
- Insures livestock, hay, specialty crops, & other uninsurable crops
- Available in Kansas for 2007 with March 15 signup
- All day risk workshops

25

Thank You

DR. G. A. "ART" BARNABY, JR.
KANSAS STATE UNIVERSITY
& 4B AG CONSULTANTS, LLC

PHONE: 785-532-1515

EMAIL: barnaby@ksu.edu

Check out our WEB page at

<http://www.AgManager.Info>

Copyright 2007, All Rights Reserved

