Upper Midwest Management

North Central NEWS

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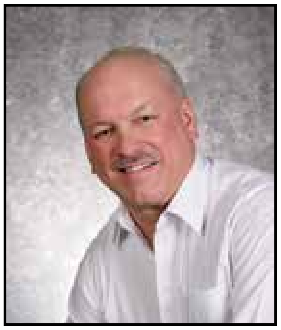
SEVERAL CHOICES WITH NEW FARM BILL



By: Kent Thiesse, Farm Management Analyst and Vice President, MinnStar Bank

The new Farm Bill, which was signed into law by President Obama on February 7, will offer several new farm program choices for producers to consider. The Farm Bill will reduce overall Federal spending, will reduce total CRP acreage, and will make some significant changes to farm commodity programs. The new Farm Bill will govern Federal farm programs for the next five years (2014-2018).

The Commodity Title of the new Farm Bill will eliminate the guaranteed direct payments, which have existed since the 1996 Farm Bill, as well as eliminating potential counter-cyclical payments, the average crop revenue (ACRE) program, and the permanent disaster program for crops (SURE), which were all part of the last Farm Bill. These programs will be replaced by either a new revenue-based Ag Risk Coverage (ARC) program or a Price Loss Coverage (PLC) program. The new legislation will offer crop producers several one-time choices for their farm program participation, which will be in place through the 2018 crop year.

Following are choices that producers will need to consider at farm program sign-up time later this year :

- **Crop Base Acres**

All farm program payments for both the ARC and the PLC programs will be calculated on crop base acres, rather than on year-to-year planted crop acres. Producers will be given a one-time opportunity to update crop base acres, based on average planted acres from 2009-2012, or they can choose to continue with the crop base acres that existed under the last Farm Bill. Total crop base acres in the new farm program can not exceed the total crop base acres that existed in 2013, under the last Farm Bill. The option to update crop base acres may be an opportunity for producers to increase corn and soybean base acres on farm units that previously had low base acres for those crops. There are no restrictions on raising fruits and vegetables on crop base acres in the new Farm Bill.

- **Payment Yields**

Producers that choose the new PLC program will have a choice of keeping their existing counter-cyclical payment yields on a farm unit from the previous farm program, or updating to 90 percent (.90) of the five year (2008-2012) average crop yields on planted crop acres on that farm unit. For the County ARC program, the most recent county five year "olympic average" yield, which drops the highest and lowest annual yields for a crop, will be used. If a county's yield in any year drops below 70% of the county crop insurance transitional yield (T-yield), the T-yield will become the "plug yield" for that year. For the Individual ARC program, the program yield will be the farm unit "olympic average" yield for each crop in the most recent five years. Similar to the County ARC program, T-yields will serve as "plug yields" in low yield years, which may be quite useful in situations where producers have had multiple years of major crop losses.

- **ARC or PLC Program**

Producers will have a one-time choice between the revenue-based Agriculture Risk Coverage (ARC) program, and the Price Loss coverage (PLC) program. Producers failing to make a choice will be in the PLC program for 2015-2018, and will have no farm program coverage for 2014. If the ARC program is chosen, there will be a choice between the County ARC program, or the Individual ARC program. Producers that opt for the County ARC can choose between the ARC program and the PLC

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program for different crops on a farm unit, while those choosing the Individual ARC program will need to have all crops on that farm unit in the ARC program. Any potential PLC or ARC payments for the 2014 crop year will not occur until October 2015.

The PLC program will function similarly to the previous counter-cyclical program, with program payments made if the 12-month national average price falls below the established reference price (target price) for a given crop. The marketing period for the 12-month price for corn and soybeans is September 1 in the year that the crop was produced until August 31 of the following year. PLC payments would be made in October of the following year, and will be made on 85% of eligible crop base acres for a given crop. (Corn Example --- 100 acres x 165 bu/acre payment yield x $.30/bu payment level x .85 = $4,207.50 payment.)

The new PLC reference (target) prices for 2014-2018 will be $3.70 per bushel for corn, $8.40 per bushel for soybeans, and $5.50 per bushel for wheat. Previous target prices were $2.63 per bushel for corn, $6.00 per bushel for soybeans, and $4.17 per bushel for wheat. CCC loan rates will remain at previous levels for the next five years, which are $1.95 per bushel for corn, $5.00 per bushel for soybeans, and $2.94 per bushel for wheat. Provisions for CCC crop loans and potential loan deficiency payments (LDP) under the new Farm Bill will remain the same as in previous years.

- **County or Individual ARC Program**

Producers that choose the ARC program option will have another choice to make, whether to have benchmark revenues and potential ARC payments determined by county-level yields or individual farm-level yields. There are several aspects to consider regarding this decision.

County ARC program payments will occur for a given crop when the actual county-level calculated revenue (county yield x national average price) is below 86% of the county benchmark revenue for that year. The maximum County ARC coverage is 10%, from 76% to 86%, of the county benchmark revenue for a crop. The county benchmark revenue for any crop in a given year is the five year "olympic average" county yield times the five year average crop price for the preceding five years. Crop prices are based on the 12-month national average crop prices for a given crop, with the high and low price removed. In any year that the 12-month average price is lower than the new reference price for a crop, the reference price will be used for calculations for that year. County ARC payments will be paid on 85% of eligible crop base acres. (Corn Example --- 100 base acres x $50/acre payment x .85 = $4,250 payment.)

The individual ARC program combines all crops on a farm unit to calculate payments, rather than the crop-specific approach used in the County ARC program. The Individual ARC benchmarks are based on five year "olympic average" farm-level yields for each crop times the five year national average price for each crop. The total revenue is the sum of all crops, which is then factored by the average percentage of acres for each crop on that farm, in order to arrive at a final benchmark revenue for that farm unit. The actual revenue for a crop in a given year is a "weighted" average of the actual farm-level crop yield times the 12-month national average price. Similar to the County ARC program, payments are made when the actual "weighted" farm-level revenue is between 76% and 86% of the benchmark revenue, a maximum of 10 percent. Individual ARC payments are made on 65% of the eligible crop base acres on a farm unit. (Example --- 100 acres x $60/acre payment x .65 = $3,900 payment.)

- **Crop Insurance Decisions**

There are no changes in crop insurance programs for 2014 that resulted from the passage of the new Farm Bill, and there will likely be very few adjustments in the basic crop insurance program in 2015 and beyond. Beginning in 2015, producers will be required to be in compliance with conservation provisions in order to purchase subsidized crop insurance, similar to the conservation compliance for participation in other farm programs. Also beginning with the 2015 crop year, producers that opt for the PLC farm program option will have opportunity to purchase additional crop insurance coverage under the Supplemental Coverage Option (SCO), which will be based on county-level yields and revenues. The SCO insurance will allow producers to insure the crop revenue between 86% of the maximum crop insurance revenue level, and the level of crop insurance coverage that is in place for a given year. (Example --- if a producer has 80% coverage for a crop, SCO would insure the portion of crop revenue from 80% to 86% with county-level coverage.) SCO coverage will have a subsidy level of 65%, meaning that producers will still need to pay 35% of the required insurance premium.

The new Farm Bill combined all previous farm program payment levels into one new payment level for all farm program payments. The new payment limit is $125,000 per individual, or $250,000 when a qualifying spouse is included. There were no changes in the legislation to the "actively engaged" rules that are used by USDA to determine farm program payment eligibility; however,

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USDA is expected to review and adjust those rules in the coming years. The new Farm Bill sets an adjusted gross income (AGI) maximum level of $900,000 in order to be eligible for potential farm program payments.

The basic commodity farm programs in the new Farm Bill will be implemented by USDA for the 2014 crop year, so farm operators will have some big decisions to make in the coming months. Land owners will also be required to sign-off on farm program choices on cash rental farms, and will need to be part of the decision making process. Farm program sign-up will likely not begin until late spring of this year at local Farm Service Agency (FSA) offices, and will probably continue well into the summer months. This will allow farm operators and land owners plenty of time to research and evaluate the various options and alternatives that will be available under the new Farm Bill.

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Caution Ahead

By: Leon Carlson, Accredited Farm Manager

I recently attended the Agricultural Symposium held at South Central College in Mankato. Guest speaker, Dr. Michael Boehlje, well known and respected economist, stated that the future of agriculture depends on doing things better, faster and cheaper. It is his opinion that agriculture has a bright future, but not without a few bumps in the road.

Dr. Boehlje indicated that historically there have been four booms in agriculture in the last 100 years, which were encouraged by strong export demands and the lower value of the dollar. The “busts”, on the other hand, have seen declining exports, rising value of the dollar and increasing interest rates.

Boehlje strongly feels that the future of agricultural exports depends on income growth and not population growth. As incomes increase in many countries, the population tends to spend additional income on protein foods; such as pork, beef, and poultry. The demand for these products is steady in the United States, so the increased demand will need to come from importing countries, such as China and India.

Dr. David Kohl, Agricultural Economist from Virginia Tech, another well known futuristic speaker in agriculture, also expressed caution ahead. He feels with the softening of the ethanol mandate, the weather in the Southern Hemisphere, and the high overhead and fixed cost structure has the grain industry “now in the 7th and 8th innings”. The livestock industry, on the other hand, is in the 3rd and 4th innings as there is solid demand for the products, a lower impact cost structure and younger people working in the industry.

Dr. Kohl also indicated technology and information will be used to a greater degree in the years ahead. Additionally, the fact that 85% of Americans are two generations away from the farm, with less understanding and empathy towards rural life, will cause some concerns for the future as well.

Have Wetlands on Your Farm?

By: Terry Dean, REALTOR®

Many of our highly productive Midwestern soils are in the Prairie Pothole Region. These soils were mainly low lying cattails sloughs 100 years ago, before the network of drainage ditches was installed to allow an outlet for the water. The government encouraged, and in fact, cost-shared many of the early tile drainage systems installed until the 1985 Farm Bill (a.k.a. Swampbuster) enacted provisions prohibiting the conversion of wetlands to crop production. Non-compliance meant ineligibility for farm program payments. Since this law was passed there have been very few acres drained and converted to crop production without going through wetland mitigation. This basically means "no net loss" of wetlands despite what you might hear by certain conservation groups.

Wetland mitigation involves replacing an impacted wetland area with acres or "credits" from another area that has been restored. The process usually begins at the local NRCS office with a 1026 Form to perform tile drainage. The technicians look at soil surveys, aerial photos and previous wetland determinations to see if there are existing wetlands. If all the areas are "PC" they are "prior converted" and in compliance with regulations. If there are areas that are "CW", "FW", or "W" they are likely "converted wetlands," "farmable wetlands" or "wetlands." Even if there is existing drainage, the size, grade or amount cannot be expanded. If there was never a determination performed, one will have to be completed, which can take months or years to get back.

If you have one of these wetlands and wish to add drainage, you can mitigate on site or purchase wetland banking credits to replace impacted areas. The on-site option is not chosen often due to the length of time involved, up to five years of reports and monitoring. The purchase of credits from an established bank holder who has already performed the restoration on their own property is much faster and allows you to purchase only the quantity needed down to the tenth of an acre. Ag land mitigations are typically at a 1:1 ratio versus higher amounts for other uses. Costs can be two or three times the going rate per acre in the given area. Typically you are required to purchase from a bank within your watershed of the impact.

Why perform a mitigation? First, tile drainage is the best way to enhance the productivity of heavy clay-loam soils. Second, pattern tile systems enhance consistency of the farm for tilling, planting and harvest. Third, the farm bill is tied to compliance on wetland regulations. The latest farm bill subsidizes crop insurance which is vital for good risk management.

If you have a situation where you are in violation or would like to add drainage to a wetland area, feel free to contact me for more information. I work with wetland mitigators and have been through the entire process on my own farm.

UMMC on the Go

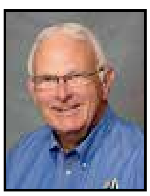
Farm Show Season

March is "Farm Show Season" for UMMC. We had a successful farm show appearance at the Farm-City Hub Club Farm Show in New Ulm on March 7 and 8 and the Willmar Ag Show at the Willmar Civic Center on March 11 and 12. For the first time, we participated in the North American Farm & Power Show in Owatonna on March 13, 14 and 15. We look forward to attending the area shows, meeting new people and sharing information about our company and the services we offer. Upper Midwest Management will attend Farmfest 2014 at Gilfillian Estate in Redwood County, MN, this coming August.

Minnesota Chapter ASFMRA Meeting

Every January, the Minnesota Chapter of the American Society of Farm Managers and Rural Appraisers (ASFMRA) gathers for its annual meeting. The meeting is an opportunity for appraisers and farm managers from around the state to gather, earn continuing education credits, and conduct its annual meeting. At this year's meeting, appraisers had an update on USPAP and a Rural Case Studies class. The farm managers attended a class entitled "Succession and Estate Planning." Together, the group learned more about estate planning laws and federal legislative issues. UMMC's Dennis Schmidt is slated as Vice President of the chapter and will take the reigns as President in 2015. This year's meeting was held in New Ulm, Minnesota.

Our Team of Professionals



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Land Values Could Decline by 30% or More

By: Ed Clark, Top Producer Business and Issues Editor
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The combination of $4.50/bu corn and a slight interest rate increase could result in farmland values dramatically toppling. According to internal modeling by AgriBank, one of the largest banks in the Farm Credit System, this decline could reach 30% to 34% in a 15 state area from Wyoming to Ohio and Minnesota to Arkansas.

This could be similar to the implications of a 50% decline in net farm income in terms of impact on cropland values. Still, AgriBank officials term what they see ahead as a soft landing for farmland values as distinguished from the hard crash during the 1980's. The decline would take several years to play out.

While 30% sounds big, that's no more than the increase in some states in 2013 alone. For instance, North Dakota had a 41.5% increase in farmland values last year—the largest of any state in the AgriBank district. This is due to a combination of a shift to corn from other crops and the oil-drilling boom.

Values rose 30.2% in South Dakota, 19.8% in Minnesota, 19% in Nebraska and 17.8% in Iowa, states posting the most rapid increase. On the other end of the spectrum, values actually declined 2.7% in Wyoming, rose a modest 1.7% in Wisconsin, 3.5% in Tennessee, 8% in Arkansas and 8.7% in Kentucky. Iowa had the largest per acre value of $8,600, followed by Illinois at $7,900 and Indiana at $7,100.

"For every $1 decline in corn prices, average district cropland values could decline by an average of $298/acre and for every 1 percentage point increase in the 10-year Treasury rate, average district cropland values would decline by an average of $357/acre," according to AgriBank's regression models. Two separate models indicate that a 50% decline in net income would result in approximately a 33% decline in farmland values.

The bank says that while interest rates influence farmland values, a more immediate challenge is declining crop prices. According to public and private forecasts AgriBank tracks, the average U.S. corn price will be $4.56/bu for 2013/14, $4.12 next year then gradually increasing to $4.33/bu by 2017. "While lower than the recent $6.50 to $7 levels, these U.S. average corn prices would still be well above the previous 10-year average of $3.51/bu." Soybean prices are expected in the $9 to $11/bu range.

While the bank thinks interest rates (the 10-year Treasury rate that tracks closely with farmland rates) likely bottomed out at 1.8% for all of 2012, rates averaged just 2.33% for 2013 and are not expected to go above 4% until early 2017. AgriBank's analysis also found, not surprisingly, that cash rent values are highly sensitive to changes in corn prices.

Call UMMC Today With Your Land Value Questions
(507) 359-2004

Real Estate Offerings

FARMLAND

RENVILLE COUNTY, MN
228.63 acres more or less
Bird Island Township
Chanted Auction
April 8, 2014 - 10:00 a.m.
Max's Grill, Olivia, MN

Benefits/Features:
- 224.48 tillable acres
- Productive soils, 92.3 PI
- Located on tar road
- Listing agent: Greg Thomas (507) 233-5772

EMMET COUNTY, IA
682.10 acres more or less
Twelve Mile Lake Township
Chanted Auction
April 10, 2014 - 9:30 a.m.
Elks Club 528, Estherville, IA

PENDING

Benefits/Features:
- 649.59 tillable acres
- Seven tracts offered
- Listing agents: Scott Nelson (507) 233-5777
  Greg Thomas (507) 233-5772

RICE COUNTY, MN
86.7 acres more or less
Cannon City Township
$7,500 per acre

Benefits/Features:
- 75.11 tillable acres
- Some tile drainage
- Listing agent: Greg Thomas (507) 233-5772

RECREATIONAL PROPERTY

BLUE EARTH COUNTY, MN
Cobb Creek Hunting Land
45.1 Surveyed acres
Danville Township

Benefits/Features:
- Wooded
- Cobb Creek and ridge on south end
- Level topography on north end
- Good deer, turkey and duck hunting
- Listing agent: Greg Thomas (507) 233-5772

DEVELOPMENT PROPERTY

BROWN COUNTY, MN
10.96 acres more or less

Benefits/Features:
- Outside city limits of New Ulm
- Presently zoned light industrial
- Listing agent: Greg Thomas (507) 359-2004

2013 PROPERTIES SOLD

County	Acres	Price Per Acre
Yellow Medicine	142.00	$7,746.47
Brown	193.04	8,037.20
Brown	88.00	8,200.00
Swift	71.67	7,018.62
Nicollet	40.82	10,289.07
Stevens	240.00	800.00
Renville	80.00	11,500.00
LeSueur	60.75	5,200.00

We have detailed information and brochures on all offerings. To receive information by mail, please contact us at one of the following offices: New Hope (763) 535-4914; New Ulm (507) 359-2004; Olivia (800) 545-6227 or Faribault (507) 334-3934. The information you will receive is from sources deemed reliable, but is not guaranteed by agent. Package is subject to prior sale, price change, correction or withdrawal.

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