



*Flood damaged crops, crop insurance payments, and lease contracts, continued from page 1*

insurance proven yield of 150 bushels per acre. A normal crop marketed at \$6.50 per bushel would bring \$1,040 per acre. The insurance indemnity payment for an 80 percent RP guarantee, zero yield, and an October futures price of \$7.00 would equal  $150 \text{ bu.} \times \$7.00 \times 80\% = \$840$ . Saving \$70 in harvest costs would give an equivalent of \$910 per acre, or \$130 below the value of a normal crop.

For soybeans, assume both the expected yield and the proven yield are 50 bushels per acre, and the crop could be marketed at \$13 per bushel. Gross income for a normal crop would be \$650 per acre. The insurance payment for a complete crop failure and a \$13.75 October futures price would be  $50 \text{ bu.} \times \$13.75 \times 80\% = \$550$ . Savings of \$20 in harvesting costs brings the equivalent of \$570 per acre, or \$80 below the value of a normal crop.

In many cases, of course, flooded acres will make up only a portion of the insured unit, so production from non-flooded acres will be averaged in with the zero yields from the flooded acres.

The real question is how much will it cost to clean up fields and bring them back into production next year? Iowa farmers have not had prior experience with fields being under water for extended periods of time, so effects are difficult to estimate. Problems will range from physically removing debris to leveling eroded areas to restoring fertility.

### Rental contracts

What do these questions imply for rental contracts? A great deal of uncertainty, for one thing. Lease agreements in Iowa continue in effect for another year under the same terms if they are not terminated on or before September 1. Either an owner or a tenant can terminate a lease. Operators who rented flood covered land this year may want to think seriously about whether they want to rent those acres next year, especially at the same level of cash rent. Leases can be terminated by delivering a notice in person to the other party, sending it by certified mail, or (rarely) publishing it.

Landowners will have to bear the burden of mitigating flood damages—that goes with owning property. But, a better solution may be for renters and owners to work together to repair the damage and bring the land back into production. Farm operators may have access to machinery that can help accomplish the job that owners do not. In return, tenants should be compensated for their efforts, either directly, through a significant discount on the 2012 rent, or with a long-term lease.

### Next year

In some cases there may be doubt as to whether land flooded this year can even be planted next year. Risk Management Agency rules state that land must be physically available for planting to be insurable. Land that cannot be planted due to weather events that occurred before the sales closing date (March 15 in Iowa) is not eligible for prevented planting payments. When operators report their 2011 production, they can request that their 2011 yield histories reflect a value equal to 60 percent of the county “T-yield” rather than a zero or very low yield.

Close communication and cooperation between owners, crop insurance agents and renters can be a “win-win” strategy in the long run, but recovery will likely take several years. Additional information about managing flood damaged cropland will be available Iowa State University Extension and Outreach as the waters recede and the situation is assessed. website at <http://www.extension.iastate.edu/topic/recovering-disasters>.