


# MESSENGER-INQUIRER

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## Farm Update

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AGRICULTURE & NATURAL RESOURCES  
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Micheal Forsythe, UK Extension Farm Management Specialist with the Pennyroyal Farm Business Analysis Association wrote the following article about positioning to survive this period of low prices.

Grain farm cash flow will be extremely tight in the upcoming year. This will require everyone to take a close look at their management practices and what can be done to improve profitability and cash flow. In doing so, there are several options a farmer can consider in determining what decisions they need to make to improve their operation.

Fertilizer, seed, and chemical expenses are some of the biggest expenses a farming operation has each year. This is the first area that should be examined to decide what improvements can be made. Farmers need to closely look at their input costs to be certain there is a return on investment from every input dollar spent.

Equipment costs are a large expense a farmer needs to examine to decide what improvements can be made. Many farmers have already cut back on equipment purchases, but are there other decisions they need to consider? Can they downsize some of their equipment or find more acres to run it over with custom-hire work? Is there any equipment that they do not need and can sell to lower their equipment costs?

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Another equipment decision is purchase or lease. In some cases, farmers trade a piece of equipment they own for a leased item that lowers the annual lease payment on that new item. The amount received for the item traded-in will have to be counted as taxable income, but the only expense offsetting this income is the lease payment. This is very different from the tax deduction received from an equipment purchase that includes a trade-in.

Labor can be a large expense for farming operations. In many cases, a farming operation may have more employees than is actually needed. A farmer may need to look at their labor costs and determine if they can cut back on this expense without hurting the operation. This can be a hard discussion, especially when employees are family members. It may be necessary for your spouse or family members farming with you to seek off-farm employment to help cover family living expense until profitable prices return.

Land rental agreements may need to be examined, both cash lease and crop share rents. Are all farms profitable enough to justify the rent being paid and the corn/soybean crop rotation implemented? If not, they are subsidizing that farm with income from other farms and decreasing overall profitability by keeping this rental agreement. The farmer may need to sit down with the landlord to renegotiate their rental agreement to determine how to keep that property profitable.

Overall, farmers need to take a close look at what they can do to improve their cash flow situation. One way to do this would be to closely look at recent equipment purchases to determine if any of them were paid for with cash or by the operating loan. If so, these purchases may need to be refinanced on a term loan to free up operating funds for other expenses. Two options that farmers may want to consider are to take an advance on grain in storage that will be sold later or to take out a CCC loan on a portion of their grain inventory. If a farmer is interested

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in taking out a CCC loan on grain inventory, they need to start that process now because it can be a lengthy process that should not be put off until the last minute. In some extreme situations, a farmer may even have to examine the possibility and need of selling capital assets, such as land and equipment, to increase cash flow.

This economic downturn is greatly impacting farming operations of all sizes. If farmers have not already started examining their management decisions and practices, they need to start soon to be as proactive as possible. The longer they put off making the decisions, the more likely they are to get into a financial situation that may take them a long time to recover from. Most importantly, be open to discussing your farm financial situation with your lenders, family and employees.

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