

Virginia Cooperative Extension



Farm Business Management Update April – May 2009

To: Extension Unit Directors, Extension District Directors, Extension Program Directors, and Farm Management Agents, and ANR Specialists

Dear Co-Workers:

Farm Business Management Update is a joint effort of the Agricultural and Applied Economics faculty and the area farm management agents. Subject matter areas include timely information on farm management, marketing, tax management, finance, credit, labor, agricultural law, agri-business, estate planning, 4-H and economic education, natural resources, and CRD. Please feel free to reproduce any article. However, please cite the title, author(s), date, and this Newsletter.

Farm Business Management Update is electronically accessible via the Virginia Cooperative Extension World Wide Web site (<http://www.ext.vt.edu/>). To see the articles listed in the reverse chronological order, select “News,” then select “Farm Business Management Update” listed under the heading “Periodicals.”

Gordon E. Groover
Extension Economist, Farm Management
and Extension Project Leader

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Renting Farm Land

By Tom Stanley (stanlevt@vt.edu), Extension Agent, Farm Business Management, Northwest District

Rented farmland is essential to virtually every full-time farming operation and many part-time Virginia farmers. One common question landowners have is, "We have not raised the farm rent in 15 years during which time assessments have gone-up astronomically; shouldn't I be getting more rent?" In general, land rental rates have not risen because profit margins in farming have not risen and 2009 promises to be an extremely difficult year in terms of net returns to farming. Our leading animal industries are struggling and input costs are still so high as to limit profitability in crop production.

A recently completed survey on land rental rates in the Shenandoah Valley and Alleghany highlands indicate that some land rental rates have gone-up since 2006. This can perhaps be most closely tied to a period of high cattle prices from 2005 to 2007.

Where rental rates have risen, it has most often been due to competition among farmers for a particular tract of land. *Landowners must remember the significant property tax savings in counties that offer use value assessment.* Thus, renting this land to a farmer qualifies the land for agricultural land use assessment which is in most cases is less than 10% of the normal assessed values for open land. Of course, this benefit does not cover the home(s) or other improvements that may be located on the farm.

So what factors go into determining an appropriate rental rate? First is supply and demand. If multiple farmers want to rent the land, the lease could be put up for bid. This largely explains why we see higher rental rates in some areas of Virginia where there are higher concentrations of full-time farm operators. Note to both landowners and tenants: when a farm lease is put out for bid, the expectations of both must be clearly spelled out. Sometimes going with the highest bidder can be a recipe for conflict later when the tenant does not do maintenance or other work the landowner assumed would be done.

A second factor in determining rental rates is *quality of the land, water supply, and facilities* on the farm. Terrain and soil types that are suitable for cultivated crops like corn or alfalfa typically command a higher rental rate. Land that has been allowed to become overgrown with small trees and brush or has low fertility will typically bring less. If the farm has poor fencing, a tenant is less likely to invest time or money in the property.

The *'non-cash' services* provided by the tenant (or landlord) are a third factor in setting a rental rate. Some farmer tenants have land maintenance agreements (such as lawn mowing, driveway clearing and grading, or building maintenance) that completely offset any cash obligation they might otherwise face for using the farmland. In other cases, the landlord agrees to take full responsibility for maintenance and replacement of perimeter fences and subsequently can command a higher rental rate.

So, what is a land owner to do? Land rental surveys conducted by Virginia Cooperative Extension can be a starting point for negotiations. However, farmland rental rates can vary significantly from one locality to the next, even within a county. For example, the area around

Dayton, Virginia has a high concentration of dairy farms. As a result, some of our highest rental rates are observed in this area. Most of our highest rental rates are associated with small tracts (less than 20 acres) and are highly valued based on their convenience to numerous farms that prefer land close to their base of operation.

The landowner must also consider what it takes to keep the land productive as farmland. Maintenance of fence lines and annual mowing are two of the most common considerations. If the tenant is expected to take care of these tasks, some consideration of the value of this work is warranted. One common approach is for the landowner to pay for materials necessary to maintain or replace fences and facilities while the tenant pays for or provides the labor to complete the task.

While there are no hard and fast rules for farmland leasing, a key component of a successful and happy relationship between landlord and tenant is regular and clear communication. Tenants need to know what is expected of them in addition to timely payments and should be mindful of the landowner's wishes. Landlords need to be sensitive to market forces that are impacting their tenant's farming operation and should appreciate the benefit of the land being assessed at agricultural value for local property tax purposes.

2009 Land Rental Guide for the Shenandoah Valley

By Bill Whittle (wwhittle@vt.edu) and Tom Stanley (stanleyt@vt.edu), Extension Agents, Farm Business Management, Northwest Districts

During late fall 2008, Cooperative Extension's Northwest District Farm Business Management staff surveyed Shenandoah Valley farmers in 14 counties on land rental values. This survey was taken during the time that farming inputs were still at record highs but commodity prices had fallen substantially. This information is not intended to be a specific recommendation for rental rates but should be used by landowners and tenants as a reference point in determining the fair market rental value for land. Farmers and agricultural lenders can use this information in developing budgets and to determine the viability of expanding the operation. This information is also beneficial when using Section 2032A of the IRS code in planning the farm transition to the next generation.

A total of 436 landowners and tenants representing 605 separate usable lease agreements responded to the survey. Respondents were split almost evenly between landlords and tenants, with some respondents indicating they were both a landlord and a tenant. Terms of leases vary greatly from contract to contract. Written lease agreements constituted 30.2% of those answering the survey, while 69.3% said that their lease was oral. In many situations individuals had both oral and written lease agreements. The percentage of written agreements is similar to that found in past surveys. However, many respondents commented that they found it useful to have the terms of the lease spelled out so neither party would be caught unaware.

The tables summarize the results of the 2009 survey. The most looked-at value is average rental rate for the various uses of agriculture land within a county. However, averages tell only part of the story. It is valuable to know the high-low range of these lease rates and the rates and ranges for the surrounding counties.

Averages are reported by county and for the Shenandoah Valley. All averages are Weighted Averages, meaning that larger tracts of land rented at a given rate have more influence on the overall average rate than a small parcel of land. Rental rates are reported for the following categories; Pasture per acre and Pasture per head, Good Cropland and Average Cropland as determined by soil productivity groupings and farmer management in a typical year. Good Cropland = Class 1 & Class 2, and Average Cropland = Class 3, 4, and 5. The latter categories include hay land, Whole Farm leases, and Dairy Farm leases.

The reliability of the average figures reported increases as the number of responses increase. The tables show the number of responses providing data for a specific category. To maintain the confidentiality of the survey, no data was reported for a county unless at least three lease agreements were reported. However, this data was used to compile the Shenandoah Valley average. In certain counties there were not enough responses to report both Average and Good Cropland. In these circumstances the average and good responses were combined if the average and range of both were similar. This allows for more data to be shown without skewing the information.

Within a rental category, the very high rental rates were generally for smaller parcels of land and the very low rental rates often had other circumstances involved such as the desire by landowner to maintain Land Use Valuation on the parcel or a family relationship between landowner and tenant.

Cash lease agreements are the predominant form of lease and the only information reported in the tables. However, many landlords and tenants participate in Crop-Share Leases. Approximately 10% of the lease agreements reported were based on the Landlord and Tenant sharing in the expenses, risk of production, and harvest of the crop. Hay was the primary cost-share lease crop but there were a few leases involving grain and silage. The percentage share was quite variable. In a majority of the reported leases the crop-share was either between family members with both parties farming or between non-related parties where the landlord receives a portion of the hay for his livestock.

Barter agreements are complex and difficult to compile as an average and range because each barter situation is different. Past surveys have indicated that a notable number of leases use barter and this survey was no exception. Though difficult to determine averages because of their complexity, most barter rentals involved hay and pasture on small acreages, i.e. under 30 acres. Generally the tenant has to keep the land mowed and cleared of brush and often provides feed and sometimes care for a few horses or other livestock. In several instances year round caretaking responsibilities such as mowing the lawn, snow removal and lane maintenance are involved while other tenants provide beef to the landowner. There are situations where hunting rights on other land was part of the arrangement. The two primary reasons that were given for participating in a barter agreement were to keep the land maintained in a productive state and to be eligible for land-use taxation rates.

A new category on the 2008 Land Lease Survey dealt with leasing the hunting rights on land. Only 14.2% of over 200 respondents who answered the questions responded that they had some type of Hunting Lease. Many of these agreements appeared to be separate from the farm land lease agreements, though it may cover the same land. Rate per acre ranged from \$2.66/acre to

\$16.40/acre. Species allowed to be taken ranged from deer only to all species when in season. In addition to cash, the tenant often agreed to post the property, to protect the property from trespassers and help keep the land productive for wildlife.

Over the past several years the land rental surveys have shown that land rental rates in the Shenandoah Valley have trended up. The Shenandoah Valley as a whole shows slow increases over time, but specific counties may have a substantial increase in certain categories.

Table 1. Pasture Rate per Acre

County	# of Responses	Average Rate Per Acre Per Year	Low Rate per Acre	High Rate Per Acre
Augusta	42	\$27.46	\$3.00	\$150.00
Bath	5	\$14.91	\$8.00	\$26.00
Highland	7	\$17.37	\$8.49	\$22.40
Rockbridge	7	\$15.23	\$8.57	\$35.00
Rockingham	52	\$34.96	\$10.00	\$65.00
Clarke	17	\$23.59	\$4.00	\$45.00
Frederick	15	\$17.11	\$9.60	\$30.00
Page	6	\$27.07	\$21.00	\$36.00
Shenandoah	25	\$16.62	\$6.15	\$40.81
Warren	3	\$10.98	\$10.00	\$15.00
Alleghany	3	\$24.28	\$5.33	\$26.66
Botetourt	11	\$22.01	\$15.00	\$30.00
Craig	5	\$12.30	\$1.00	\$20.00
Shenandoah Valley Average	198	\$22.85	\$1.00	\$150.00

Table 2. Pasture Rates per Head

Cow-Calf					
	# of Responses	Average Length of Lease (Months)	Ave Cow/Calf Rate per Month	Low Rate per Month	High Rate per Month
Shenandoah Valley Average	17	7	\$8.48	\$2.00	\$12.00
Stocker					
	# of Responses	Average Length of Lease (Months)	Ave Stocker Rate per Month	Low Rate per Month	High Rate per Month
Shenandoah Valley Average	10	7	\$7.36	\$5.00	\$11.75

Table 3. Good Crop Land*

County	# of Responses	Average Rate Per Acre Per Year	Low Rate per Acre	High Rate Per Acre
Augusta	19	\$45.14	\$15.00	\$250.00
Bath	3	\$30.44	\$10.00	\$40.00
Rockbridge	5	\$26.73	\$23.33	\$34.00
Rockingham	38	\$73.59	\$23.00	\$140.00
Clarke	6	\$30.49	\$14.00	\$40.00
Frederick	5	\$20.14	\$17.00	\$35.00
Page	5	\$48.19	\$36.00	\$50.00
Shenandoah	23	\$27.20	\$7.81	\$50.00
Botetourt	7	\$33.63	\$30.00	\$50.00
Shenandoah Valley Average	113	\$46.33	\$7.81	\$250.00

* In certain counties cropland was combined into one category, either Good Crop Land or Average Crop Land, because too few responses were received to differentiate between good and average cropland.

Table 4. Average Crop Land*

County	# of Responses	Average Rate Per Acre Per Year	Low Rate per Acre	High Rate Per Acre
Augusta	26	\$42.32	\$8.00	\$100.00
Rockingham	27	\$45.15	\$10.00	\$80.00
Clarke	7	\$16.67	\$10.00	\$25.00
Frederick	7	\$28.28	\$13.00	\$40.00
Page	3	\$37.86	\$25.00	\$45.00
Shenandoah	28	\$27.67	\$15.00	\$45.00
Craig	5	\$24.93	\$13.00	\$45.55
Roanoke	3	\$16.84	\$5.00	\$25.00
Shenandoah Valley Average	106	\$35.84	\$5.00	\$100.00

* In certain counties cropland was combined into one category, either Good Crop Land or Average Crop Land, because too few responses were received to differentiate between good and average cropland.

Table 5. Whole Farm*

County	# of Responses	Average Length of Lease (Months)	Total Acres	% Crop Land	Average Rate per Acre per Year	Low Rate per Acre per Year	High Rate per Acre per Year
Augusta	30	13	169	28.0%	\$20.10	\$5.66	\$277.50
Highland	5	12	151	14.7%	\$14.30	\$5.33	\$22.73
Rockbridge	4	27	150	3.2%	\$23.54	\$18.75	\$36.73
Rockingham	22	17	127	47.6%	\$46.61	\$6.00	\$230.23
Clarke	6	38	224	26.2%	\$26.01	\$16.67	\$46.67
Frederick	4	24	87	65.6%	\$27.41	\$13.32	\$40.91
Page	25	21	113	32.6%	\$28.50	\$14.87	\$50.00
Shenandoah	5	15	122	38.8%	\$25.72	\$14.29	\$141.18
Warren	3	36	257	27.3%	\$14.95	\$10.50	\$19.97
Botetourt	6	34	161	14.6%	\$22.61	\$17.82	\$33.60
Craig	3	12	58	31.4%	\$25.14	\$17.14	\$33.33
Shenandoah Valley Average	116	20	148	30.1%	\$26.50	\$5.33	\$277.50

* Whole farm leases often contain a mix of pasture, cropland, and wooded land. Structures such as barns or shelters and facilities such as corals may be included.

Table 6. Shenandoah Valley Dairy Farms*

Total # Responses	Average Length of Lease (Months)	Average Total Acres	Average % Crop Land	Average \$ Rate per Farm per Month	Average \$ Rate per Acre per Year	Low \$ Rate per acre per Month	High \$ Rate per Acre per Month
5	90	189	47.5%	\$1,945.00	\$123.36	\$84.55	\$337.50

* Dairy farm leases include milking facilities and land. Family residences are included.

Table 7. Inputs In Addition to Cash Rental Rates for Hay & Pasture*

	Percent of Time Supplied by Tenant	Percent of Time Supplied by Land Owner
Fertilizer (Lime was often included under Fertilizer)	30.5%	5.5%
Weed Control (Includes Spraying or Bush Hogging)	30.7%	0.0%
Herbicides Only	0.0%	8.0%
Minor Repairs of Fence, Corral & Building	36.2%	0.0%
Fence Building Supplies	0.0%	13.8%

* Other Tenant supplied inputs that were mentioned for pasture was bush hogging or clipping pasture to keep land looking good. Other landowner supplied inputs included a power supply for livestock waterers and electric fence and a water supply such as a well.

The Management Calendar

By Gordon Groover (xgrover@vt.edu), Extension Economist, Farm Management, Department of Agricultural and Applied Economics, Virginia Tech

Most business managers are uncertain about the future of their business. Declining revenues and increasing costs have lead many to shut down some enterprises or reduced production to a few core products that they can at least break even on costs. The foundation for making business management decisions during uncertain times and in better times is financial and production records. The main objective is to start where you are now and build your production and financial records system. Where do you start? The best place to start is with your fellow farmers and local extension offices asking questions about current practices. Ask what financial and production records programs are used and what’s good and bad about them. Then gauge what level of data collection and management you will feel comfortable with as a starting point. Be careful not to over estimate what you can get done the first year. I have asked a number of producers what financial system they are using on their computer and their response was, “Our accountant recommended this package (holding up a dusty box). She uses, we got it, we tried it for a few months, and gave up. We went back to the farm record book we’d always used.” So just start off simple, learn as you go, and then upgrade to more integrated software. The same is true for production records; learn as you go, and then upgrade as you realize the need and ability to incorporate the data into the daily management process. The main objective is to establish a

system that will help provide the data to manage the uncertainty and a sound foundation for decision making.

Selective information available that might be useful:

- Most of us focus on a small part of the overall agricultural and food industry with little time to stand up and take a global look at “What’s Driving Food Prices?” The folks at the Farm Foundation provided the support for this type of analysis in 2008 and then in March of 2009. This is a must-read for all of us involved in agriculture, from farmers that produce the basic ingredients to consumers that buy food. You can find the complete report at <http://www.farmfoundation.org/default.aspx>.
- Need a summary of data about Virginia or other states? Then visit the USDA Economic Research Service’s site State Fact Sheets at <http://www.ers.usdagov/StateFacts>. There are both population and agricultural census information in an accessible format and includes state demographics, per-capita income, earnings per job, poverty rates, employment, unemployment, farm and farm-related jobs, farm characteristics, farm financial characteristics, top agricultural commodities, top export commodities, and the top counties in agricultural sales.
- Please make sure that marketing is still high on your to-do list. To keep abreast of the outlook and markets producers should visit two sites regularly. Our own Mike Roberts writes a weekly outlook report. It is published on Mondays and is found at <http://www.ext.vt.edu/news/periodicals/roberts/>. On Fridays, Emmit L. Rawls and Delton C. Gerloff publish the newsletter *Tennessee Market Highlights* at <http://economics.ag.utk.edu/tnmkt.html>.

Listed below are the items that need to be included on the farm business managers' calendar for spring of 2009.

- Make sure your Virginia state income taxes are postmarked by May 1.
- Review first quarter livestock records and compare them to last year’s; look for problems and successes.
- Livestock producers should develop a detailed feed budget for all of 2009 and winter 2010. Include current feed costs, estimate this year’s production under average and drought conditions, and estimate demand until 2010. Deficits should be addressed now. First, look locally for alternatives. For example, can you contract with a neighbor to buy their forages or grains, can you rent additional lands, can you work with a grain farmer to harvest his grains as silage, can you buy grain at harvest at a discount, consider high moisture grain storage, and so on? Second, if you cannot find local solutions then look to reputable brokers for forages and try to lineup part of your supply needs this spring. As the season progresses, keep the budget up-to-date to make sure you have covered your feed demand one year out.
- Follow up with your lender to review and update your line-of-credit needs.
- Prepare a crop record keeping system for a new year. If you do not have a crop record keeping system, consider purchasing the Doane’s hand-kept crop and machinery notebook, “Field and Equipment Record Book.” This notebook provides an inexpensive way of getting started. It can be ordered via the internet at <http://www.doanebookstore.com/> or by (800) 535-2342, Extension 220. The price is less than \$20.00.

- Update your marketing plan by collecting information on prices and world market situations. Be sure to check with your local Farm Service Agency for changes in government programs and signup deadlines. Review USDA and other crop and price forecasts. All USDA reports are listed on the internet and can be viewed by going to Agency Reports on the USDA newsroom page or visit www.usda.gov/news/releases/rptcal/calindex.htm.

Youth Conference on Cooperative and Agribusiness Management

By Dixie Watts Reaves (dixie@vt.edu), Associate Professor, Agribusiness Management and Marketing, Department of Agricultural and Applied Economics, Virginia Tech

On April 3 – 5, the Virginia Council of Farmer Cooperatives will host its annual Youth Leadership Conference at Graves Mountain Lodge in Syria, Virginia. Each year, between 45 and 60 youth from across Virginia are sponsored by local cooperatives to attend the fun and educational conference.

The conference begins with lunch and an icebreaker session, followed by an overview of the history and purpose of cooperatives. A number of cooperative business leaders are then on hand to introduce attendees to the wide array of products and services offered by Virginia's cooperatives, with represented co-ops including farm supply, marketing, credit and electric cooperatives. Over the next two days of the conference, students participate in a case study competition and a business simulation, where they act as management teams making quarterly business decisions for an operating farm supply firm. Student teams compete to acquire the highest net worth, influenced by their decisions about product pricing and inventory, and personnel and debt management. In addition to the educational aspects of the conference, students participate in a casino night, outdoor recreation activities, and a dance. Participants also have opportunities to showcase their knowledge of co-ops through the completion of two written tests. At the conclusion of the conference, an awards luncheon showcases the winning case study teams and the top business simulation teams. Eight individuals are selected to receive an all-expense-paid trip to the National Institute on Cooperative Education, to be held in July at the University of Tennessee-Knoxville. Selection is based on performance on the two tests, leadership and teamwork skills displayed during group activities, and completion of a visit to a co-op prior to attending the conference.

Students between the ages of 15 and 18 are eligible to attend the conference. Extension personnel are encouraged to help conference organizers identify deserving youth to attend the conference, which is held each spring at Graves Mountain Lodge. Additional information can be obtained from Dixie Watts Reaves (dixie@vt.edu).

New Publications of Interest

By Gordon Groover (xgrover@vt.edu), Extension Economist, Farm Management, Department of Agricultural and Applied Economics, Virginia Tech

The Virginia Cooperative Extension Publication, *Virginia Landowner's Guide to the Carbon Market* (442-138), authored by John Ignosh, Kurt Stephenson, Matthew Yancey, Bill Whittle, and Mark Alley can be found at <http://www.ext.vt.edu/pubs/bse/442-138/442-138.html>.

Abstract: Over the years, scientists have concluded that our planet's atmosphere has become increasingly concentrated in greenhouse gases (GHGs). These gases help to regulate earth's temperatures and make it possible for us to live. Without GHGs, the earth's temperature would be about 60° F cooler than it is now (U.S. Environmental Protection Agency). However, too much of a good thing can become a problem. In fact, scientists have found that the concentration of these gases is higher than has ever been recorded, and many are concerned that this increase has begun to adversely affect our climate.

Virginia Tech Center for Economic Education Provides Training for High School Teachers

By Barbara J. Taylor (bjtaylor@vt.edu), Program Coordinator, Virginia Tech Center for Economic Education, and Mike Ellerbrock (mebrock@vt.edu), Professor, Natural Resources and Economic Education, Department of Agricultural and Applied Economics, Virginia Tech

The Virginia Tech Center for Economic Education is providing a well-timed response to a significant need for training teachers in the areas of economics and personal finance. Recently, the Virginia Board of Education passed a requirement that all freshman students entering high school in 2010 receive a one-year course in economics and personal finance, prior to graduation. The Virginia Tech Center for Economic Education is developing a model for that required course, with the aim of beginning teacher training on the course this summer. High school teachers who have either a Social Studies or a Career and Technical Education endorsement will be eligible to teach the required high school course; however, many need assistance to be able to do so.

Mike Ellerbrock and Barbara Taylor will offer, at the Crossroads Institute in Galax, a two-week professional development workshop in June for up to 25 teachers from Carroll, Floyd, Grayson, and Wythe counties and the city of Galax. This work is being funded through a grant to the Virginia Council on Economic Education from the Tobacco Indemnification and Community Revitalization Commission. If you are interested in attending this workshop please contact Barbara J. Taylor at: bjtaylor@vt.edu or by calling (540) 231-1147.

Calendar of Events

April

- 20 Rural Lands and Agribusiness Continuing Legal Education Seminars. Claude Moore Education Center Auditorium, Roanoke Higher Education Center, 108 North Jefferson Street, Roanoke, Virginia. Directions: www.education.edu/directions-parking.html (parking is \$5). Contact Jesse Richardson at (540) 231-7508 or by email at jessej@vt.edu.
- 22 Rural Lands and Agribusiness Continuing Legal Education Seminars. Robert E. Plecker Workforce Center, Blue Ridge Community College, One College Lane, Weyers Cave, Virginia. Directions: www.brcc.edu/wsce/CoverPages/FiveTabs/directions.htm. Contact Jesse Richardson at (540) 231-7508 or by email at jessej@vt.edu.
- 27 Rural Lands and Agribusiness Continuing Legal Education Seminars. Virginia Farm Bureau, 12580 West Creek Parkway, Richmond, Virginia. Directions: www.vafb.com/about_fb/location.htm. Contact Jesse Richardson at (540) 231-7508 or by email at jessej@vt.edu.

June

- 15-18 State 4-H Congress. Blacksburg, Virginia. Contact Katie Lafon at (540) 231-3360 or by email at kapatter@vt.edu.