

Current Farm Financial Status & Cash Rental Rates

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- Located in Abilene & Beloit
- Farm Management Economists:
 - Dave Rempe, Bob Kohman, Trenton Hargrave, & Will Feldkamp
- What do we do for our members?
 - Work with farm families to develop strategies for long-term growth and success.
 - Sound farm accounting systems
 - Whole-farm and enterprise analysis
 - Year-end tax planning and management
 - Estate and transition planning
 - Guidance for business entity and structure planning



Building Strong Relationships...Producing Excellence

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Presentation Objectives

1. Provide an outlook for the current farm financial situation
2. Use a crop budget to determine affordable cash rent levels



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Projected 2015 Farm Financial Performance

- To determine projected 2015 Net Farm Income, we used our 2014 income statement and adjusted for 2015 production and prices
- 2014 Average Income Statement

• Livestock Income	\$158,621
• Crop & Other Income	<u>\$344,278</u>
• VALUE OF FARM PRODUCTION	<u>\$502,899</u>
• Total Operating Expenses	\$350,736
• Depreciation	<u>\$49,655</u>
• TOTAL FARM EXPENSE	<u>\$400,391</u>
• NET FARM INCOME	<u>\$102,508</u>



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Projected 2015 Farm Financial Performance

- 2015 Average Income Estimates

• Livestock Income		(20%)
• Crop & Other Income		<u>(3%)</u>
• VALUE OF FARM PRODUCTION		(8%)
• TOTAL FARM EXPENSE		2%
• NET FARM INCOME	<u>Projected</u>	<u>\$54000</u>



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Projected 2015 Farm Financial Performance

- 2015 Average Income Estimates

• Projected NFI	\$54,000
• Nonfarm Income	<u>\$50,000</u>
• Available Income	\$104,000
• Family Living	\$70,000
• Income Taxes	<u>\$22,000</u>
• NONFARM EXPENSE	\$92,000
• NET WORTH CHANGE	\$12,000



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Cash Rental Rates

- How do we determine what is a fair cash rental rate now that commodity prices have dramatically decreased?
 - Use a crop production budget to determine the following items:
 - Gross Crop Revenue= Avg. Yield x Expected Price
 - Cost of Production
 - Seed, Fertilizer, Chemicals, Machinery, Crop Insurance, Interest
 - Gross Crop Revenue – Cost of Production = Profit (shared by landlord and tenant)
 - Landlord desires return on land investment above property taxes and other costs
 - Tenant must retain enough profit to pay for cost of owning machinery (depreciation) and to pay themselves for their labor



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TABLE 1. CROP BUDGETS SHOWING TOTAL COSTS AND RETURNS

Crop/System	Wheat	SB	Milo	DC SB
Planted acres of each crop	100.0	100.0	100.0	100.0
INCOME PER ACRE				
A. Yield per acre	50.0	36.0	90.0	20.0
B. Price per unit	\$4.94	\$8.19	\$3.31	\$8.19
F. Returns/acre ((A x B) + C + D	\$247.00	\$294.84	\$297.90	\$163.80
COSTS PER ACRE				
Seed	\$15.50	\$65.00	\$15.00	\$50.00
Herbicide	\$20.05	\$56.20	\$69.90	\$28.00
Fertilizer and Lime	\$77.00	\$30.00	\$70.00	\$0.00
Crop Insurance	\$12.00	\$15.00	\$15.00	\$0.00
Machinery Expense	\$45.00	\$45.00	\$45.00	\$45.00
Int on 1/2 Nonland Costs	\$7.00	\$7.00	\$7.00	\$4.00
H. TOTAL COSTS	\$176.55	\$218.20	\$221.90	\$127.00
I. RETURNS OVER COSTS (F - H	\$70.45	\$76.64	\$76.00	\$36.80

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Other Items to Consider

- Government Payments
 - It is extremely important to have knowledge of what government program each parcel of rented ground is enrolled in.
 - ARC County or PLC
 - ARC County paid up to \$32 per acre on 85% of wheat base acres for 2014 in many counties (payment reduced by 7% due to sequestration)
 - PLC has the opportunity to pay in 2015 and beyond due to low prices
- Budget must be tailored to fit your farm
 - Yield projections and pricing
 - Input prices
 - Machinery costs (labor, fuel, repairs, machine hire)



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Cash Rental Rates

- Use the returns for each crop to determine the 3 year average profit margin before accounting for machinery, operator labor and cash rent.
 - Wheat= \$70.45
 - DC Beans= \$36.80
 - Milo= \$76.00
 - Soybeans= \$76.64
 - $70.45+36.80+76.00+76.64= \259.89 per acre
 - Per year average= $\$259.89/3= \86.63 per acre
- There is approximately \$87 per acre left over after budgeted expenses.



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Cash Rental Rates

- What does this \$87 figure mean?
 - You have \$87 per acre to pay the following items:
 - Cash Rent
 - Cost of Owning Machinery (Depreciation)
 - Yourself (Unpaid Operator Labor)
 - This \$87 remaining is what producers must split with the landlord.
 - KFMA-NC average machinery ownership cost in 2014: \$30 per acre.
 - KFMA-NC average unpaid operator labor in 2014: \$32 per acre
 - If you take out these two costs from the \$87, that leaves \$25 per acre to pay cash rent.
 - How well do you believe that will go over with your landlord?



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Cash Rental Rates

- You can also figure cash rental rates as a percentage of gross revenue.
- The gross revenue per acre from our budget are as follows:
 - Wheat= \$247.00
 - DC Beans= \$163.50
 - Milo= \$297.90
 - Soybeans= \$294.84
 - Total Revenue Per Acre Per Year= $\$1003.54/3 = \$334.51/\text{acre}/\text{year}$
- The typical percentage that we use to figure cash rent from gross revenue is 20% as the landlord share.
 - Landlord Share= $\$334.51 \times 20\% = \66.90 per acre
 - Often times in competitive bids, this percentage increases to 30%. ($\$100.35/\text{acre}$)
- This compares to \$87 per acre from the budgeting exercise.
 - Keep in mind, these dollars have to cover rent, machinery, and operator labor.



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Conclusion

- With the downturn in crop prices it is more important than ever to know what your revenue and costs are.
- Once you have a handle on these two items, then you can determine what would be an economically acceptable level of cash rent to pay to your landlords.



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Questions?

- For additional information about this topic or any other questions regarding Kansas Farm Management, please see the following websites, or contact us at the phone numbers below.
 - KFMA- <http://www.agmanager.info/kfma/>
 - Ag Manager- <http://www.agmanager.info/>
 - Abilene Office- (785) 263-3421
 - Beloit Office- (785) 738-6418



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