

# Virginia Cooperative Extension



## Farm Business Management Update April – May 2008

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 use this information in your on-going Extension programs and circulate to all Extension staff. **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 Farm Management Coordinator

<u>Item</u>	<u>Page</u>
Financial Analysis of an Agricultural Business – Repayment Ability.....	1
Direct Marketers and the Virginia Sales Tax .....	3
The Management Calendar .....	5
2008 Farm Custom Rate Guide for Southern Virginia .....	6
2008 Farm Custom-Work Rate Guide for the Shenandoah Valley.....	8
Farm Bill 200_ Update.....	12
Agriculture Credit – Making the Farm Work.....	13
New Publication from the Department of Agricultural and Applied Economics .....	14
Calendar of Events .....	15

## **Financial Analysis of an Agricultural Business – Repayment Ability**

**By Alex White ([axwhite@vt.edu](mailto:axwhite@vt.edu)), Instructor, Agricultural Finance and Small Business, Agricultural & Applied Economics, Virginia Tech**

Repayment ability measures the ability of a farm or small business to generate enough cash throughout the year to cover the regularly scheduled loan payments. This is a critical factor in the success of any farm or small business. As you might expect, lenders are very interested in measuring a farm's ability to repay their loans. But managers can use this aspect of financial analysis to improve their operation.

I like to use the debt coverage ratio to measure repayment ability. This ratio measures the ability to make the regularly scheduled debt payments; it also helps identify several potential strategies for improving the cash flow of the business.

The debt coverage ratio compares the net cash income before loan payments generated by the business and household to the regularly scheduled loan payments for the year. This ratio includes all of the cash coming into the business and household throughout the year, including non-farm income. It also includes all of the cash expenses of the business, family living expenses, and income tax payments.

Here's how to calculate the debt coverage ratio:

1. Net Farm Income (from the income statement)
2. Plus: Interest Expense
3. Plus: Depreciation Expense
4. Plus: Non-farm Income
5. Minus: Family Living Expense
6. Minus: Income Taxes Paid
7. Equals: Debt Coverage Margin
8. Divided by: Total Annual Principal & Interest Payments
9. Equals: Debt Coverage Ratio

First, start with net farm income from your income statement. Next, you add back the total interest expense and depreciation expense for the year. You add interest expense back because we are trying to determine how much cash your farm is generating to make you loan payments (principal and interest). Add depreciation expense back because it represents a non-cash expense. This subtotal is essentially your net cash income before interest. Next, you add in any non-farm income because this cash can be used to repay loans.

The final adjustments are to subtract your family living expenses and your annual income taxes paid. The resulting figure is your debt coverage margin, which measures how much cash you have available to apply to your term debt payments. Obviously, you want your debt coverage margin to be greater than you annual debt payments.

To calculate the debt coverage ratio, simply divide the debt coverage margin by your annual debt payments. Like all ratios, the benchmark depends on your enterprise or your industry. In

general, I like to see this ratio greater than 125% -- this would indicate that you are generating \$1.25 of cash that is available to make every \$1 of loan payments. At a minimum, I would want this ratio to be 110% - this indicates that you have enough cash to make your payments and leave yourself about a 10% margin just in case. Remember, the higher the debt coverage ratio, the stronger your repayment ability.

What can you do if you have a low (or poor) debt coverage ratio? The debt coverage ratio is a powerful management tool because it helps a manager identify several methods of improving the cash position of the business. Here's a brief list of the main strategies for improving your debt coverage ratio:

1. Increase your farm or business receipts
2. Decrease your five largest cash expenses
3. Increase your non-farm income
4. Decrease your family living expense
5. Decrease your income taxes
6. Restructure your loans over a longer time period

How can you increase your receipts? There are two main ways to increase your receipts – increasing production without increasing your production expenses, or increasing the selling price of your products through improved marketing. In Virginia, more producers will need to look closely at their marketing plans and increasing their receipts through niche marketing, direct marketing, contracting, or price risk management.

Another method of freeing up cash for your loan payments is to reduce your top five expenses. Reducing your largest expenses by 5-10% will have a much greater impact on your “bottom line” than eliminating smaller or “insignificant” expenses. For most operations, the largest expenses typically include purchased feed, fertilizer and chemicals, labor, and interest expense.

The last main method of improving your repayment ability is to restructure your loans over a longer term. Producers tend to set up their loans over too short of a time frame – yes, this does reduce your interest expense over the life of the loan and it builds your equity faster, but it also puts a lot of pressure on your cash flow. Shorter loan terms lead to higher annual payments!! My philosophy on loans is to choose a longer time frame to repay the loan – and hence, lower scheduled payments - but make prepayments when you have the available cash.

The debt coverage ratio is one of the most useful financial ratios for a business manager. It measures repayment ability, but it also provides several potential methods of improving the cash flow of the business. Try to keep your debt coverage ratio greater than 125% and you'll be in pretty good shape.

## **Direct Marketers and the Virginia Sales Tax**

**By Bill Whittle ([wwhittle@vt.edu](mailto:wwhittle@vt.edu)), Extension Agent, Farm Business Management, Northwest District**

Historically, farmers have not paid sales tax on many purchases used in agriculture production, nor have they been concerned with collecting sales tax because they have sold a commodity product to a wholesaler or middleman. Many Virginia farmers have entered into the realm of “Direct Marketing” by selling produce, meats, further processed foods, feed for pleasure animals, etc., directly to the consumer. When they sell retail or to the “end-user” they must collect sales tax on gross receipts from all retail sales. See Figure 1 for a flow-chart defining when sales tax must be collected.

Farmers are obligated to collect and remit the sales tax on all retail sales to each customer. Retail sales can be thought of as the sale to the end user as opposed to a wholesaler. There are no exceptions or special circumstances allowed for farmers selling their own production. The tax must be separately stated and added to the sales price or charge. The Virginia Department of Taxation is the state agency responsible for insuring that this occurs.

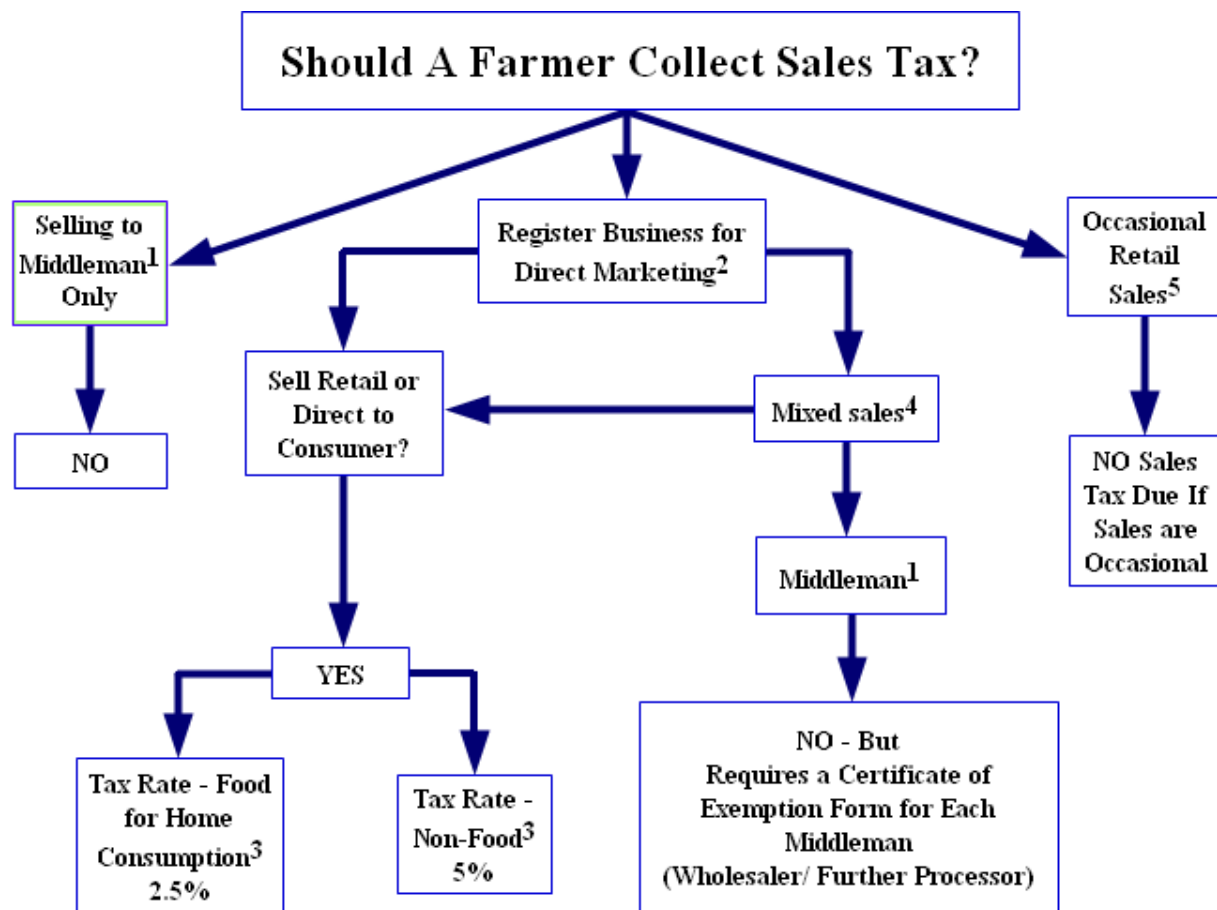
Individuals, partnerships, corporations, etc. must file for a Certificate of Registration if starting a business in Virginia or desiring to conduct business as a dealer by selling directly to the consumer. The farmer must register with the state by filing State Form R1, Combined Registration Application Form (<http://www.tax.virginia.gov/taxforms/Business/Registration/R-1.pdf>), and must collect and pay the tax due on retail sales. Once registered, the farmer will be assigned a Virginia tax identification number that will be used when conducting business with the state. If your application indicates that you will be collecting sales tax, the department will send you a Virginia Certificate of Registration for sales tax. This certificate permits sales tax collection, and allows the farmer to issue and receive exemption certificates. The Virginia Certificate of Registration must be displayed at your place of business. The farmer should also apply for a Federal Tax Identification Number (FEIN) by going directly to the IRS (<http://www.irs.gov/businesses/small/article/0,,id=98350,00.html>).

Sales tax rates fall into two basic categories that farmers selling retail need to be aware of. These are food and non-food categories. The basic sales tax for non-food items is 5% of gross sales and is comprised of 4% for the state and 1% for the locality. Food sales are taxed at a total rate of 2.5% of gross sales, which is comprised of 1.5% for the state and 1% for the locality. Department of Taxation Bulletin 5-78 discusses the sale of eligible food items subject to the reduced state tax rate of 1.5% as are deemed eligible under the federal food stamp definition.

Many direct marketers also have the opportunity to sell to a wholesaler or further-processor in addition to their retail customers. The only way a farmer does not have to collect sale tax from someone purchasing product for resale is if that person provides the appropriate Certificate of Exemption.

The sales tax applies to regular or recurring sales of farm products by farmers or peddlers at public markets, roadside stands, farms, etc. There is a provision for the occasional sale where you do not collect sales tax, but this is intended for the truly occasional sale, defined as three or

fewer separate transactions within one calendar year, providing the activity does not require a Certificate of Registration. Because sales at fairs, flea markets, etc. generally involve multiple individual sales they are not considered occasional sales.



**Figure 1: Sales tax decision tree**

<sup>1</sup>Middleman = Wholesaler, Reseller, Stockyard, Food Processor, Grain Elevator, Hay Broker, Neighbor buying tomatoes to turn into Salsa for sale.

<sup>2</sup>Register Businesses: State Form RI, Federal EIN.

<sup>3</sup>Tax Rate: Food purchased for home consumption = 2.5% (1.5% goes to the State + 1% goes to the Locality). Food Items are defined by the Food Stamp Act of 1978. Non-Food = 5% (4% goes to the state + 1% goes to the Locality).

<sup>4</sup>Mixed sale such as a gift basket containing food and non-food items--Intent and the predominance of one item can help make the determination, e.g., a gift basket with ceramic figurines with a jar of jam is probably considered non-food or a gift basket with food stuffs (processed or unprocessed) with a ceramic figurine as decoration is probably considered food.

<sup>5</sup>Occasional Sales: Defined as three or fewer transactions in a year. Sales at flea markets, fairs, etc. often involve multiple transactions and are generally not considered occasional.

The laws governing Sales and Use Tax are generally straightforward, i.e. “If you are selling retail, then you must collect sales tax.” However, an individual farmer often has unique questions specific to his operation. To address specific questions, the Department of Taxation suggests that you write the Tax Commissioner for a ruling.

Complete information on Virginia Sales and Use Tax can be obtained at the Virginia Department of Taxation website: <http://www.tax.virginia.gov/> and use the Business Link to reach the Sales and Use Tax.

## **The Management Calendar**

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

I've been traveling a bit this winter and the discussion begins with the uncertainty of prices and costs and what that means to the bottom-line and then there's the drought question. If you are looking for reasons to worry this year, there are plenty to go around. I recall one of my relatives making this statement, "I have to worry because no one else is going to." He was a grand worrier, and in the tough times he could summarize all the possible negative outcomes to any event or scenario. This approach is very useful, yet it is only the first step in managing risk. There is a chance that by listing out all the negatives that you end up wanting to hide in the barn or spend all day in the cab of the tractor with the cell phone turned off. The most important factor is not to dwell on the downside risk, but to go back to your long term goals and the business and family goals to reacquaint yourself with why you are in this business. Then systematically work through the downside risks, estimating their likelihood of occurrence, use your records to measure the fiscal impact to the business, and possible alternatives and/or strategies to address each concern. This process helps you gain perspective and control over the backlog of items that need to be worried over. Make sure you include everyone in the business to consider alternatives to the current way of doing business and have them look for ways to improve revenue and cut costs. Make sure you consider all suggested items and react positively to all comments and suggestions. Reward people for making suggestions. There's plenty to worry about, but try to put that effort to good use in addressing alternatives to the current way of doing business.

Selective information available that might be useful:

- Current thinking about the drought at the National Weather Service Climate Prediction Center for most of VA is "drought likely to improve, impact ease" (valid to June 2008). In the Valley, like most of the Midwest and Northeast areas, they are neutral about the threat of drought. To keep an eye on NOAA predictions visit their web site at <http://www.cpc.ncep.noaa.gov/index.htm>.
- High grain prices may lull crop producers into thinking less about marketing. Please make sure that marketing is still high on your to do list. Grain prices are up and so are inputs costs, so to insure positive returns, a sound marketing plan needs to be in place and followed. Anyone feeding grain knows the need for a sound marketing plan. Need I say more? 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 Emmet L. Rawls and Delton C. Gerloff publish the newsletter *Tennessee Market Highlights* at <http://economics.ag.utk.edu/tnmkt.html>.
- Organic Farmgate and Wholesale Prices: USDA Agricultural Marketing Service has a data set listing farmgate and wholesale prices for select organic and conventional produce

items for the Boston and San Francisco markets. These are not necessarily in our backyard, but the Boston data do give us trends in vegetable, fruit, eggs, poultry, and other markets on the East Coast at <http://www.ers.usda.gov/Data/OrganicPrices>. AMS adds new products to the list as the sufficient data is available.

Listed below are the items that need to be included on the farm business managers' calendar for spring of 2008.

- Make sure your Virginia state income taxes are post marked 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 2008 and winter 2009. Include current feed costs, estimate this year's production under average and drought conditions, and estimate demand until 2009. 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. For a selection of computerized crop record keeping software, take a look at the Agricultural Software Directory from Alberta Agricultural Food and Rural Development site: <http://www.agric.gov.ab.ca/app68/agsoft>
- 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](http://www.usda.gov/news/releases/rptcal/calindex.htm).

## **2008 Farm Custom Rate Guide for Southern Virginia**

**By Eric Eberly ([eeberly@vt.edu](mailto:eeberly@vt.edu)), Extension Agent, Farm Business Management Agent, Central District**

Virginia Cooperative Extension conducted a mailed written survey during October, 2007 to farmers/landowners in Southern Virginia<sup>1</sup>. The Central District Farm Business Management Agent tabulated 73 usable surveys representing 323 quotes. Jobs with less than three quotes were not reported.



The table below reports the job, the unit for which the job is quoted (acre, hour, bale, etc.), and the number of useable responses for each job, followed by the low and high quote for each job. The last column states the Southern Virginia average. Users of this data should take into account higher fuel prices that have occurred since the survey data was collected.

Job	Unit	Over-All Results			Average Southern Virginia
		No.	Low	High	
Hay and Pasture					
Bush Hog (Rotary Cutter)	Acre	4	\$9.00	\$18.00	\$13.75
	Hour	14	\$25.00	\$75.00	\$48.21
Pasture Clipping	Acre	3	\$9.00	\$15.00	\$13.00
	Hour	5	\$35.00	\$70.00	\$48.00
Mow	Acre	6	\$4.00	\$25.00	\$14.33
	Hour	5	\$25.00	\$65.00	\$42.00
Mow/Condition	Acre	3	\$5.00	\$10.00	\$8.00
	Hour	4	\$20.00	\$65.00	\$40.00
Tedder	Acre	3	\$5.00	\$10.00	\$8.00
	Hour	2	\$50.00	\$65.00	\$57.50
Rake	Acre	5	\$6.00	\$10.00	\$7.80
	Hour	5	\$20.00	\$65.00	\$41.00
Bale: Conventional Small Square Bales	Bale	3	\$0.40	\$0.75	\$0.55
Bale: 800 Lb. Large Round Bales	Bale	9	\$6.00	\$12.00	\$8.72
Bale: 1500 Lb. Large Round Bales	Bale	3	\$30.00	\$35.00	\$32.50
Cut, Rake & Bale: Small Square Bales	Bale	3	\$1.00	\$2.00	\$1.42
Cut, Rake & Bale: Large Round Bales	Bale	8	\$8.50	\$16.00	\$11.31
Tillage Operations					
Moldboard Plow	Acre	5	\$18.00	\$25.00	\$22.60
	Hour	6	\$25.00	\$70.00	\$43.33
Chisel Plow	Acre	3	\$25.00	\$25.00	\$25.00
	Hour	4	\$25.00	\$70.00	\$48.75
Subsoil	Acre	3	\$18.00	\$30.00	\$24.33
	Hour	5	\$40.00	\$85.00	\$59.00
Offset Disk	Acre	4	\$7.00	\$25.00	\$20.50
	Hour	6	\$25.00	\$70.00	\$44.17
Tandem Disk	Acre	3	\$20.00	\$25.00	\$21.67
	Hour	4	\$20.00	\$70.00	\$47.50



Job	Unit	Over-All Results			Average Southern Virginia
		No.	Low	High	
Planting Operations					
Corn Planting No-till	Acre	4	\$8.00	\$35.00	\$19.25
Forage Planting Conventional Drill	Acre	3	\$10.00	\$20.00	\$16.00
Forage Planting No-till	Hour	3	\$30.00	\$50.00	\$41.67
Grain Crop Harvesting					
Picking Corn	Hour	3	\$20.00	\$70.00	\$50.00
Combining Corn	Acre	7	\$25.00	\$40.00	\$33.57
	Hour	3	\$60.00	\$80.00	\$70.00
Combining Soybeans	Acre	8	\$25.00	\$38.00	\$31.63
	Hour	3	\$60.00	\$80.00	\$70.00
Combining Small Grain	Acre	9	\$20.00	\$60.00	\$33.33
	Hour	3	\$60.00	\$80.00	\$70.00
Other					
Post Driving	Hour	4	\$12.00	\$75.00	\$36.75
	Post	5	\$1.00	\$3.00	\$1.60
Chemical Application	Acre	8	\$5.00	\$10.00	\$7.25
Fertilizer Application	Acre	17	\$5.00	\$15.00	\$7.03
Lime Application	Acre	15	\$4.00	\$20.00	\$8.87
Tobacco Transplants	1000	9	\$22.00	\$34.00	\$28.33
Bulldozer	Hour	9	\$60.00	\$110.00	\$90.00
Backhoe	Hour	5	\$20.00	\$85.00	\$57.00
Hoof Trimming	Head	6	\$5.00	\$30.00	\$14.00
Livestock Hauling - Gooseneck Trailer	Loade d Mile	14	\$1.00	\$4.00	\$2.23
	Trip Miles	14	20	112	60

<sup>†</sup> Southern Virginia includes the counties of Amelia, Amherst, Appomattox, Bedford, Brunswick, Buckingham, Campbell, Charlotte, Cumberland, Dinwiddie, Franklin, Halifax, Henry, Lunenburg, Mecklenburg, Nottoway, Patrick, Pittsylvania and Prince Edward.

## 2008 Farm Custom-Work Rate Guide for the Shenandoah Valley

By Bill Whittle ([wwhittle@vt.edu](mailto:wwhittle@vt.edu)) and Tom Stanley ([stanleyt@vt.edu](mailto:stanleyt@vt.edu)), Extension Agents,  
Farm Business Management, Northwest District

In late 2007, the Farm Business Management Agents in the Northwest Extension District, cooperating with other Extension Agents, surveyed farmers and custom operators familiar with machinery custom-work rates in their localities. The survey instrument was prepared by the Farm Business Management Agents and mailed to farmers by participating Extension Agents in

eleven counties. The Farm Business Management Agents tabulated 219 usable surveys, representing 1347 quotes, and developed the biannual Guide that is distributed to the local Extension offices.

The table reports the job, the unit for which the charge is quoted (acre, hour, bale, etc.), the number of usable responses for each job and the average for all the quotes followed by the low and high reported quote for each job. The last column states the Shenandoah Valley average. Some quotes received were not included since they were too extreme; however, there is still a wide range of quotes for many of the reported jobs. For many jobs the quotes were "bunched" close to the reported average which gives credibility to a majority of the averages, especially where there are a large number of responses for a particular job.

Job	Unit	Over-All Results			Average Shenandoah Valley
		No.	Low	High	
Hay and Pastures					
Bush Hog (Rotary Cutter)	Acre	19	\$7.00	\$60.00	\$21.53
	Hour	23	\$23.00	\$100.00	\$50.70
Mow	Acre	14	\$10.00	\$35.00	\$18.29
	Hour	5	\$20.00	\$60.00	\$43.00
Mow/Condition	Acre	34	\$10.00	\$45.00	\$15.72
	Hour	6	\$35.00	\$70.00	\$53.00
Tedder	Acre	17	\$3.00	\$15.00	\$7.21
	Hour	4	\$20.00	\$70.00	\$36.50
Rake	Acre	18	\$3.00	\$12.00	\$8.00
	Hour	8	\$20.00	\$70.00	\$38.00
Bale Small Square Bales	Bale	37	\$0.30	\$2.55	\$0.84
Bale 400-800 Lb. Large Square Bales	Bale	31	\$4.00	\$16.00	\$6.70
Bale 800 Lb. Large Round Bales	Bale	47	\$4.00	\$18.00	\$7.89
Bale 1500 Lb. Large Round Bales	Bale	32	\$5.00	\$21.00	\$8.79
Cut, Rake, Bale (Small Square Bales)	Bale	23	\$1.25	\$5.00	\$2.33
Cut, Rake, Bale (800 Lb. Large Round Bales)	Bale	17	\$11.00	\$25.00	\$16.15
Cut, Rake, Bale (1500 Lb. Large Round Bales)	Bale	9	\$8.50	\$25.00	\$15.33
Bale Wrapping (Equipment & Operator)	Bale	31	\$4.00	\$9.00	\$5.97
Bale Bagging (Equipment & Operator)	Bale	9	\$4.00	\$6.00	\$5.06
Tillage Operations					
Moldboard Plow	Acre	3	\$20.00	\$25.00	\$23.33
Chisel Plow	Acre	8	\$12.00	\$25.00	\$17.44
Subsoil	Acre	7	\$8.00	\$25.00	\$17.29
Offset Disk	Hour	7	\$10.00	\$55.00	\$20.43
Tandem Disk	Hour	4	\$8.00	\$25.00	\$15.25

Job	Unit	Over-All Results			Average Shenandoah Valley
		No.	Low	High	
Manure Spreading					
Liquid Manure Spreading (3,000 Gal Tank)	Hour	14	\$25.00	\$95.00	\$63.14
Poultry Litter Spreading	Acre	3	\$6.00	\$17.00	\$9.67
	Hour	14	\$45.00	\$75.00	\$60.71
	Ton	19	\$6.00	\$26.00	\$12.61
Planting					
Corn - Conventional	Acre	17	\$10.00	\$25.00	\$16.47
Corn – No-Till	Acre	47	\$12.00	\$30.00	\$16.24
Soybeans – Conventional	Acre	13	\$14.00	\$20.00	\$16.69
Soybeans – No-Till	Acre	25	\$10.00	\$21.00	\$16.78
Soybeans – Drill	Acre	7	\$15.00	\$20.00	\$17.43
Small Grain – Drill	Acre	9	\$12.00	\$25.00	\$17.67
Small Grain – No-Till	Acre	21	\$12.00	\$20.00	\$15.86
Clover And Grass Seeding – Drill	Acre	11	\$8.00	\$45.00	\$18.95
Clover And Grass Seeding – No-Till	Acre	9	\$10.00	\$20.00	\$15.33
Grain Crop Harvesting					
Picking Corn	Acre	12	\$20.00	\$40.00	\$30.42
Combining Corn	Acre	49	\$25.00	\$45.00	\$32.52
	Hour	4	\$80.00	\$140.00	\$115.00
Combining Soybeans	Acre	37	\$25.00	\$45.00	\$33.53
	Hour	3	\$100.00	\$150.00	\$133.33
Combining Small Grains	Acre	32	\$25.00	\$45.00	\$33.11
	Hour	5	\$40.00	\$150.00	\$106.00
Hauling Grain	Bushel	33	\$0.10	\$0.37	\$0.18
	L. Mile	6	\$1.00	\$3.00	\$2.46
Silage Harvest					
Tractor And Harvester	Hour	7	\$60.00	\$100.00	\$74.29
Self Propelled Harvester	Hour	22	\$110.00	\$385.00	\$278.18
Hauling Silage	Hour	18	\$40.00	\$70.00	\$59.61
Silage Harvest In Bag-Complete Job	Ton	3	\$4.50	\$10.00	\$6.83
Livestock Trucking					
Per Head	Loaded Mile	6	\$0.60	\$2.50	\$1.58
2 Ton Truck	Loaded Mile	6	\$2.00	\$5.00	\$3.17
Gooseneck Trailer	Loaded Mile	51	\$1.00	\$6.00	\$2.51
Semi	Loaded Mile	3	\$2.80	\$4.00	\$3.35
Fence Building					
Fence Repair: Minor	Hour	11	\$10.00	\$25.00	\$14.18
Driving Posts	Post	9	\$0.60	\$5.00	\$2.46
	Hour	6	\$15.00	\$100.00	\$55.83

Job		Unit	Over-All Results			Average Shenandoah Valley
			No.	Low	High	
Digging Post Hole		Hole	7	\$0.50	\$2.00	\$1.50
		Hour	3	\$15.00	\$75.00	\$38.33
Labor For Building Fence		Hour	18	\$10.00	\$50.00	\$18.03
Fence Building (Complete Job, Not Including Materials.)	High Tensile	Per Ft.	6	\$1.25	\$2.80	\$1.98
	Barbed Wire	Per Ft.	4	\$2.00	\$3.00	\$2.50
	Woven Wire	Per Ft.	12	\$1.25	\$4.79	\$2.62
	Board	Per Ft.	9	\$3.00	\$7.00	\$5.41
<b>Other</b>						
Large Bulldozer		Hour	19	\$65.00	\$200.00	\$97.11
Small Bulldozer		Hour	13	\$40.00	\$100.00	\$62.38
Backhoe		Hour	26	\$35.00	\$85.00	\$60.85
Skid Loader		Hour	20	\$20.00	\$70.00	\$49.25
Farm Road/Driveway Grading		Hour	6	\$22.00	\$80.00	\$47.00
Snow Plowing		Hour	13	\$22.00	\$105.00	\$61.31
Lime Application (Excluding Cost Of Lime)		Ton	11	\$5.50	\$14.00	\$8.68
Fertilizer Application (Excluding Cost Of Fertilizer)		Acre	39	\$5.00	\$11.00	\$6.92
Chemical Spray Application (Excluding Cost Of Chemicals)		Acre	38	\$5.00	\$10.00	\$7.13
Sheep Shearing		Head	22	\$2.00	\$5.00	\$3.14
<b>Equipment Rental</b>						
Bale Wrapping Machine (Farmer Supplies Wrap & Tractor)		Bale	11	\$1.00	\$7.00	\$2.95
Bale Tube Bagging Machine (Includes Bag)		Bale	9	\$4.00	\$7.00	\$5.36
Silage Bagging Machine (Includes Bag)		Bag	11	\$300	\$750	\$577.73
No-Till Drill		Acre	61	\$5.00	\$15.00	\$8.57
Litter Manure Spreader		Day	12	\$75.00	\$160.00	\$109.17
		Ton	5	\$0.75	\$2.50	\$1.60
Rent Tractor	50-75 HP	Hour	6	\$8.00	\$35.00	\$17.83
	75-100 HP	Hour	11	\$10.00	\$50.00	\$26.45
	100+ HP	Hour	10	\$20.00	\$100.00	\$45.50

## **Farm Bill 200\_ Update**

**By Jim Pease ([peasej@vt.edu](mailto:peasej@vt.edu)), Extension Economist, Farm Management, Agricultural & Applied Economics, Virginia Tech**

I left the year of the new Farm Bill blank, because during this strangest of all Farm Bill dramas, we can't be sure what year will be used, nor even what year the next Farm Bill will be signed. As of this newsletter date, no clear resolution is in sight.

Let's review what has happened so far in Farm Bill 2007 development:

- January 2007: USDA presents the Administration proposals for the new Farm Bill after holding listening sessions throughout the country. It is very unusual for the presiding Administration to jump out ahead of the Congress in presenting proposals, particularly the detailed proposals unveiled by USDA.
- July 2007: After months during which it seemed that neither side of Congress was interested in discussing and developing a new Farm Bill, the House Agriculture Committee presented a Bill that was accepted on the floor and passed by 231-191. The Agriculture Chair (Peterson, Dem MN) and the minority ranking member (Goodlatte, Rep VA) were united in supporting the new bill.
- December 2007: After the end date of the 2002 Farm Bill on September 30, 2007, the Senate seemed to make no progress at all on developing legislation, with the Agriculture Chair (Harkin Dem IA) on a very different track from his committee members, and even from his party compatriot heading the crucial Senate Finance Committee. Nevertheless, a bill was finally sent to the Senate floor, and was passed 79-14 on December 14. Fears of reverting to permanent legislation were eased by extending the expiration of the 2002 Farm Bill until March.
- December 2007-present: Did I mention that President Bush repeatedly stated that he would veto both the House and Senate bills? It seems as if the President was impressed by the commodity and other payments reported by the Environmental Working Group ([www.ewf.org](http://www.ewf.org)), and he took a stand for lower payment limits in the Farm Bill commodity programs. He also objected to the "increased taxes" used to finance the bills, and it is hard to argue that the budgeting methods used to offset baseline budget increases are not stretching the Democrats "pay-go" principle at least to its limits.
- In February and March, the House Ag Committee has been engaged in negotiations with the White House seeking to reach a compromise on their bill. The mid-March deadline for Farm Bill passage has come and gone with no end to the process in sight. The new "deadline" of April 18 approaches, with sparring between the President, the House and Senate committee leadership, and the respective Finance Committee leadership over the general outline of plans that fit within a generally expected \$10 billion limit over the budget baseline. You wouldn't think that \$10 billion would cause such a conflict among political colleagues, but 2008 is an election year, and there are points to be made by making the other side look bad.

The latest offerings involve a proposal by the Democratic Chairs of the Senate Finance and House Agriculture committees for cuts in research (\$1.25 billion), the House-proposed Average Crop Revenue Program (\$0.4 billion), and crop insurance (\$3 billion), while food and nutrition

programs would be increased by \$10 billion. It is unclear whether such a proposal would be acceptable either to the White House or to Congressional Republicans.

There are three major options that could occur between now and the April 18 deadline: passage of a new 2008-2017 bill, an extension of the 2002 Farm Bill to 2017, and a one – or two-year extension of the 2002 program. At this point, anything could happen, but I think the odds would lean towards a short term extension, making future legislation the problem of the next Congress and next President. Other observers have suggested that an agreement on a new Farm Bill is closer than it looks. Watch carefully for the House naming its representatives, because a new bill will then be only a week away.

If you're frustrated reading about this, you're not alone. One agricultural policy specialist remarked recently, "that this has certainly been a unique farm bill process, starting with the absence of proposed bills in 2006, the lack of any clear objectives in 2007, the bills proffered by non-agriculture committees, the reluctance of the agriculture committees to work with the White House (and their own committee members) during bill development, the absence of a conference committee, and now the casting aside of major elements of the bills in order to reach some kind of agreement. If there is an agreement and a new Farm Bill this year, we can be virtually sure that it will not move in the direction of prudent agricultural policy."

## **Agriculture Credit – Making the Farm Work**

**By Bill Whittle ([wwhittle@vt.edu](mailto:wwhittle@vt.edu)), Extension Agent, Farm Business Management, Northwest District**

Credit woes abound in the popular press. Without a doubt many people have problems obtaining credit at an affordable interest rate or making payments on borrowed money. Few farmers have the resources to farm on any scale without using borrowed money. Both capital and operating loans are often needed. Many farm enterprises must survive for long periods between paydays. To survive between pay checks you need to either have deep resources to draw from or be able to borrow money to survive until pay day arrives. Availability of credit is a resource as important as any on the farm and the ability to obtain credit is key to a sustainable operation. Therefore, it is an absolute necessity to cultivate and maintain a strong credit obtaining ability and to see your lender as a financial partner and not a disinterested party or worse, a meddling foe. For many farms that financial partner is a commercial bank or Farm Credit.

You may think credit is all about your credit score, such as FICO or Fair Isaac Score. Though of great value with personal and homeowner loans, your FICO score is less valuable with business loans. Because your lender is your financial partner, it is vital that you develop a relationship with the lender. You need to get to know what the lender is looking for in a client and they want to know you so they can determine that you are a sound credit risk. This relationship development is the first step in strengthening your chances for obtaining credit.

Lenders do not lend money because you need it. They lend money with the expectation that they will receive a return on their investment. You must prove to them that you and your farming operation are a risk worth taking. They know that if you are successful they will be successful so

they ask for proof that you can succeed. You develop your proof by being prepared. You need to be able to clearly state what you want, how the money will be used, and most importantly, how any borrowed funds will be repaid.

At a minimum, your lender will want to see an up-to-date financial statement, a projected cash flow on the enterprise, a complete business analysis, and the last three years of income tax statements. Lenders would love to see a well thought out business plan for a new enterprise but are not interested in a boiler plate version.

The common denominator to virtually everything a lender desires prior to giving a loan is accurate financial and production records. If you have kept good financial records you can produce the net worth statement and cash flow projections. If an existing farm has no records or shoddy records, lenders are less likely to loan on the merits of the enterprise and often require substantial collateral. New farmers need to show lenders that they are knowledgeable, capable, and willing to collect and use these records as a management tool.

As a final note, lenders want to see that the borrower has a substantial stake in the success of the enterprise. In short they want to see that the farmer is risking his own money in addition to his sweat and labor. This lack of equity can pose a problem for young farmers getting started. This is where relatives often assist by providing opportunities to earn equity in the family farm or by providing initial loans to begin farming.

Credit is the lifeblood of most farming operations and successful farmers have learned to manage credit as a tool. The successful management of credit requires skill in managing relationships, money (income and expenses), and production. Good credit should be a tool to be proud of and bad credit needs to be avoided.

**New Publication from the Department of Agricultural and Applied Economics  
By Gordon Groover ([xgrover@vt.edu](mailto:xgrover@vt.edu)), Extension Economist, Farm Management,  
Department of Agricultural and Applied Economics, Virginia Tech**

Determining the Use Value of Agricultural and Horticultural Land in Virginia, VCE-Publication 446-011, authored by Lex Bruce and Gordon Groover can be found on the Virginia Cooperative Extension website at: <http://www.ext.vt.edu/pubs/agecon/446-011/446-011.html>. This publication describes the history of the use-value taxation program in Virginia. The remainder of the publication is devoted to a description of the methods used in calculating the final per acre estimates for agricultural and horticultural land.



## **Calendar of Events**

### **April**

23            How to Set Up and Manage a Local Food Purchasing Program. Northwest District Office, 2322 Blue Stone Hills Drive, Ste. 140, Harrisonburg, Virginia 22801. Pre-registration is required. For additional information, call (540) 432-6029.