Virginia Cooperative Extension

Farm Business Management Update
June – July 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

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VirginiaTech
Invent the Future

Issued in furtherance of Cooperative Extension work, Virginia Polytechnic Institute and State University, Virginia State University, and the U.S. Department of Agriculture cooperating. Mark McCann, Director, Virginia Cooperative Extension, Virginia Tech, Blacksburg; Alma C. Hobbs, Administrator, 1890 Extension Program, Virginia State, Petersburg.

VIRGINIA STATE UNIVERSITY

Mike Roberts is Awarded National Honor

Mike Roberts has been awarded the National Association of County Agriculture Agents (NACAA) National Search for Excellence Award in Farm and Ranch Management. The award is given each year to one recipient in recognition of outstanding Extension farm and ranch risk management work. Mike's work was chosen the winner over all Extension agent entries across the U.S. who do farm and ranch risk management Extension programs.

He received this award for creating and implementing the risk management program, The Virginia Regional Market Analysis and Economic Outlook Seminars Utilizing the Internet as an Interactive Delivery System, over the last three years. In a luncheon on July 14, 2008, Mike will make a presentation on his work and receive a $500 award and plaque during the NACAA national meeting in Greensboro, NC.

Abstract of Mike's award application: Changing commodity fundamentals, large speculative influences, and higher input costs have producers, extension educators, and agricultural community influencers scrambling for ways to increase agricultural prosperity. Beginning in 2006, this project utilized the internet and other interactive communication tools to bring risk management education to participants. Remote and on-site presentations were made by agricultural economists and experts from many states. Remote presentations were fully interactive allowing participants to see, hear, and question presenters in real time. Presenters included extension educators from eleven land grant Universities, the Federal Reserve Bank of Richmond, Virginia, and various agribusiness community influencers. Evaluations via written and telephone survey, as well as personal contact, show that the majority of participants are very accepting of this type of extension program delivery method. Savings in speaker travel costs over the three years of the project were $68,405.00. Participants reported increased net profits in excess of $1,427,616.50 over the last three years as a direct result of attending one or more seminars.

Funding for the program was provided via yearly competitive grant by the Southern Region Risk Management Education Center and USDA in the aggregate amount of $145,086.00.

The Management Calendar

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

There's been ample rain so far this spring; not enough to recharge the ground water and get the ponds back to capacity, but enough. So far in the New River Valley, we are behind our normal hay harvest schedules with limited days of clear skies to allow for cutting, curing, and baling. Along with weather uncertainties, there are many more. For example, what will happen to fuel, fertilizer, feed, and chemical prices? Will higher commodity prices offset the high input prices? What will happen to the dollar? What about the Farm Bill? All this adds up to more questions with no clear answers. Yet we know managers who keep focused on their costs-of-production and know their breakeven points for major inputs, and have business strategy in place to adjust the production plan survive uncertain times in a more favorable position. For example, most heavy field operations use about ¾ - 1 gallon of fuel to complete. At $4.00/gal diesel, it is more important than ever to know your costs. Fuel alone will cost $4.00/acre. It might pay to schedule fuel supplies when prices are more advantageous. These strategies need to be thought through in advance using family members, employees, and other advisors as a sounding board.

Selective information available that might be useful in planning your management strategies:

- *Return of the Good Times: How Long Will They Last?* is the topic of a paper by Michael Boehlje, Distinguished Professor of Agricultural Economics at Purdue University and can be found at http://www.agecon.purdue.edu/extension/pubs/paer/2008/may/boehlje.asp.
- Ag Decision Maker (AgDM) at Iowa State has two articles by Don Hofstrand, Extension Value-added Agriculture Specialist that all managers should read: first, *Managerial Costs* http://www.extension.iastate.edu/agdm/wholefarm/html/c5-209.html and second, *Opportunity Cost* http://www.extension.iastate.edu/agdm/wholefarm/html/c5-210.html. Both of these articles discuss costs and how to use them in making sound decisions and formulating strategies to succeed long term.
- Congress passed all 673 pages of the 2008 Farm Bill. Be sure to read Jim Pease's article in this issue on the highlights that affect Virginia. The complete Bill can be found at http://agriculture.house.gov/inside/FarmBill.html.
- Make sure you keep your knowledge update on commodity markets and adjust your marketing plan by reading the *Roberts' Weekly Agricultural Commodity Market Report* at http://www.ext.vt.edu/news/periodicals/roberts/ and the weekly *Tennessee Market Highlights* at http://economics.ag.utk.edu/tnmkt.html.
- Be sure to stay in touch with your local Farm Service Agency office as changes go online driven by the 2008 Farm Bill.

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

- Half the business year will soon be behind us and a six-month financial record check-up is in order. Updating your records through the month of June allows you to quickly gauge financial progress by comparing the farm's actual expenses and income to your budgeted amounts. If you did not develop a budget, compare your mid-year expenses and income to half the items reported on your 2007 Schedule F. Flag any items that are different from budgeted amounts. These differences are not necessarily problems, just items that need to be examined and explained.
- Watch your line-of-credit and be sure to keep in touch with your lender. They all know that prices of all inputs have gone up, yet it's good business practice to keep them informed of major changes and that you are managing the situation.
- Production records for livestock and crops should be updated for the first half of the year. Look for big changes from last year, and make sure to cross-reference these with production expenses.
- Even with the time constraints of summer activities, try to plan and hold regular staff meetings with family members and employees to discuss work plans and set priorities for the next day/week. Consider brainstorming about alternative ways to deal with problems.

Use some of the time to help discuss positive outcomes of previous plans and recognize individuals for being creative and doing a good job.

- Checking your credit rating in July should become an annual event. Independence Day should remind you that you should be independent from identify theft and credit mistakes. All individuals and business owners should annually check their credit ratings. Additional information on your rights to access your credit report and links to the site for obtaining a free copy of your credit report can be found at the Federal Trade Commission's (FTC) web site at http://www.ftc.gov/freereports. The FTC cautions consumers to make sure they use the correct site because there are "Imposter" sites.

Are the Employees on Your Farm Able to Criticize the Owner and Still Have a Job?

By Peter Callan (peter.callan@vt.edu), Extension Agent, Farm Business Management, Northern District

How many farms operate under the "Ben Cartwright School of Farm Management," where the boss (owner) makes **all** the decisions and the employees execute the "orders?" Employees may feel they are always walking on "egg shells" in the presence of the owner because he frequently criticizes the speed and quality of their work. In these situations if an employee makes a suggestion to the owner, the idea is quickly dismissed and told that the idea will "never work on this farm." Furthermore, the owner has the attitude of "I have farmed all my life; what would an employee know about operating **my** farm?" Employees may consider presenting ideas to the owner in a manner that allows the owner to think that the new information is "his idea." An owner whose management style is "my way or the highway" may reduce the farm's profitability since he/she will only make changes in the business when they believe that only "their ideas" will improve the operation of the farm.

Many farm owners believe that they must constantly "ride herd" over their employees. The employer has stated on numerous occasions that employees need to "tend to business and work hard; otherwise they can easily be replaced!" The employees may feel that the owner does not trust their judgment in making decisions and does not care about their physical and emotional well being. Employee moral may suffer and employee turnover may increase because the employees feel that the owner considers a model employee to be an individual with a "strong back and a weak mind."

Merely talking about employee suggestions and not implementing these suggestions communicates the distinct impression that management does not wish to change the operation of the farm. Employee morale will decline because employees perceive that the owner will **never** change the way the farm operates.

As the former owner-operator of a dairy farm, I believe that a farm's employees are the business' most important asset. Employee development will be the key to the long term viability of farms because as farms grow and expand, they will be hiring additional personnel.

My employees were encouraged to attend industry and extension meetings and farm shows. The time employees spent attending industry related functions "on the owner's time" reaped major dividends. By encouraging employees to attend educational programs, the owner conveys to the employee that the employee is a valued member of the farm operation. Second, the owner respects the employee's judgment. Finally, the owner is **looking forward to hearing** the employee's views on the program they attended. We all have different learning styles. Thus, owners and employees may pick up on certain concepts at a meeting that another person may miss. The time the owner and employees spend discussing their perspectives on an educational program may provide solutions to specific problems and strategies to improve the farm's profitability.

Implementing employee suggestions show employees that the employer values their suggestions to improve farm profitability. I am a strong proponent of the "KIS" (keep it simple) style of farm management. My former herdsman, Ron, was adept at breaking down a task into the numerous steps. Time is money. Ron was able to streamline a task in a manner which reduced the time and effort for completion of the task.

Employee meetings provide a forum where the owner can train and update employees on changes in the farm standard operating procedures. Owner and employees can air concerns about management of the farm. Prior to the busy seasons (planting and harvesting crops), meetings on my farm focused on discussing the "game plan" of the day. Employee responsibilities and safety procedures were reviewed. At times, employees were cross-trained to handle tasks performed by another employee. The meeting concluded with a discussion that the farm operates as a team. Employees left the meeting with the clear expectation that the owner and employees will do what ever it takes to get the job done.

After the busy season has been completed, my employees and I "slowed down' for one or two days. Herd, cropping, and financial records were updated. An inventory was taken of equipment that needed repairs and scheduled maintenance. Several days later, a meeting was held in which full time and part time employees discussed the farm's performance during the "crunch time." Employees were recognized for making decisions that contributed to the success of the task (e.g. quickly repairing broken equipment, taking care of the herd with a limited amount of help, etc.) Discussion was focused around the following questions: What worked well? What changes should be made? How should changes be prioritized? The owner and employees need to reach a consensus when the changes should be implemented. Then the **owner makes the changes.**

Owners and managers need to "cast their shadow" every day. This can be done through relationship building. Ask how the employee is doing (how are they feeling, how are employee's children doing in school, sports, etc), how is their job going and what can the owner do to help the employee, what equipment needs repairing, what supplies need ordered, etc. Although asking questions may take less than a minute, this gesture conveys to the employee that the owner is interested in the employee's health, well being, and helping the employee perform their job at maximum productivity.

Farm owners that are open and receptive to their employee's suggestions create a positive work environment. Employees relish the opportunity to work for a business where the owner acknowledges and implements employee suggestions. Remember the old adage, "Sometimes two heads are better than one in solving problems" is a good one.

Best wishes for a safe and profitable 2008!

The Food, Conservation and Energy Act of 2008: Highlights of Commodity and Conservation Provisions

By Jim Pease (peasej@vt.edu), Extension Economist, Farm Management, Department of Agricultural & Applied Economics, Virginia Tech

The Food, Conservation and Energy Act of 2008 (FCE) is a continuation of the omnibus, multi-year Farm Bills that authorize and fund most federal government programs that concern agriculture. It has been said that the camel is an animal that must have been designed by a committee, and that folk wisdom is brought to mind as one reads this legislation. Many observers consider FCE to be little more than an addendum to the 2002 Farm Security and Rural Investment Act, but the 2008 Act does fund some new programs that will affect commodity, conservation and other interests.

FCE has been "scored" by the Congressional Budget Office at $307 billion over 2008-2012. Of the total funds, $209 billion (68%) is for nutrition programs, $35 billion (11%) is for commodity programs, and $25 billion (8%) is for conservation programs. The political requirements of higher funding for nutrition programs caused the agriculture committee members from both House and Senate to proclaim, "This should be called a Food Bill, not a Farm Bill." Nevertheless, the ability of agricultural forces to retain their current funding allocations is impressive, particularly in the face of "pay/go" provisions in the Democratic Congress, declining budget baselines, the U.S. economic slowdown, and booming commodity prices. Below, I'll discuss some highlights of FCE Commodity and Conservation programs.

Commodity Programs

There are relatively few changes to the existing Direct Payment and Counter-cyclical Payment provisions. Direct Payment rates are unchanged throughout 2008-2012, but the budget tightrope required reduction of the percentage of payment acres in 2009-2011, so payments will be reduced in those years. Target prices for most Virginia crops except cotton remain unchanged in 2008 and 2009, but target prices are increased for wheat, barley, and soybeans beginning in 2010. Corn, cotton, and peanut target prices remain constant throughout the life of FCE. Under the marketing assistance loan program, all loan rates remain unchanged through 2012 except for wheat and barley, which are increased in 2010-2012 by 6.9% and 5.4%, respectively. The following tables provide a listing of direct payment rates, target prices, and marketing loan rates for the 2007 crop year under the 2002 Farm Bill, and rates for 2008-2012 under FCE.

Table 1. Direct Payment Rates, 2007-2012 for Selected Virginia Crops		
Commodity	2007	2008-2012
Corn (bu)	$0.28	$0.28
Soybeans (bu)	$0.44	$0.44
Wheat (bu)	$0.52	$0.52
Barley (bu)	$0.24	$0.24
Cotton (lb)	$0.0667	$0.0667
Peanuts (ton)	$36	$36

Table 2. Target Prices, 2007-2012 for Selected Virginia Crops			
Commodity	2007	2008-2009	2010-2012
Corn (bu)	$2.63	$2.63	$2.63
Soybeans (bu)	$5.80	$5.80	$6.00
Wheat (bu)	$3.92	$3.92	$4.17
Barley (bu)	$2.24	$2.24	$2.63
Cotton (lb)	$0.724	$0.7125	$0.7125
Peanuts (ton)	$495	$495	$495

Table 3. Marketing Loan Rates, 2007-2012 for Selected Virginia Crops			
Commodity	2007	2008-2009	2010-2012
Corn (bu)	$1.95	$1.95	$1.95
Soybeans (bu)	$5.00	$5.00	$5.00
Wheat (bu)	$2.75	$2.75	$2.94
Barley (bu)	$1.85	$1.85	$1.95
Cotton (lb)	$0.52	$0.52	$0.52
Peanuts (ton)	$355	$355	$355

The most significant innovation in the commodity title is the Average Crop Revenue Election (ACRE), which allows farm program participants (beginning in 2009) the option of counter-cyclical revenue assurance rather than the default counter-cyclical price protection. Whenever state revenue for covered crops (state actual yield times national average price or loan rate, whichever is higher) falls to less than 90% of a state benchmark revenue (ACRE average of state price over past two years and state Olympic average yield over the past five years), participating producers will receive a payment. Such payments are also made under similar procedures if individual farms do not meet the target crop revenue. The price of participation is imposed by reducing direct payments by 20% and loan rates by 30% for all program commodities (including peanuts) on the farm. Many more details will become available on this program, but this brief explanation indicates how producers can assure commodity revenue targets in a manner more comprehensive than Crop Revenue Coverage under traditional crop insurance policies.

Budget problems also make the loan rate program provisions change during 2008-2012. The loan rate for most crops remains the same in 2008 and 2009 as it was last year, but loan rates increase in 2010-2012 for wheat and barley (by 5% and 7%, respectively), while other Virginia crops remain at 2008/2009 levels.

The Milk Income Loss Contract (MILC) dairy program is continued for the 2008-2012 period, with a higher payment rate. Another major change in the dairy price support program directly establishes purchase prices for butter, powder, and cheese. It has been suggested that this element of dairy price support will decrease the contribution of dairy payments to Amber Box World Trade Organization limits.

There are tightened restrictions in some payment provisions. FCE requires direct attribution of payments to a person rather than a corporation or partnership, and eliminates the 3-entity rule. Beginning in 2009, individuals are ineligible for commodity and disaster program benefits if the individual's nonfarm adjusted gross income (AGI) is more than $500,000. If farm AGI exceeds $750,000, direct payments may not be made.

Conservation Programs

Conservation programs will receive a funding increase of $7.9 billion in FCE, for a total of $25 billion over 2008-2012. All major programs were reauthorized and most received funding increases or expanded authorizations. Provisions are included in several programs requiring consideration of organic, socially disadvantaged, and beginning farmers, and payment limitations are instituted for some conservation programs.

The Environmental Quality Incentives Program (EQIP) offers financial and technical assistance to farmers implementing conservation structures or practices on their land. In FY2007, Virginia was allocated approximately $14 million out of the national EQIP allocation of approximately $1 billion. Under FCE, EQIP receives $7.3 billion over FY2008-2012, an additional $2.7 billion over that originally allocated in the 2002 Farm Bill.

The Conservation Reserve Program (CRP) is the principal federal land retirement program. In exchange for removing environmentally sensitive land from production, owners receive annual rental payments for duration of the contract. Congress reduced the acreage authorization for CRP to 32 million acres over 2010-2012, down from the 39.2 million authorization of the 2002 Farm Bill.

The Conservation Security Program was initiated in the 2002 Farm Bill, largely through the influence of Senator Harkin (D-IA). The program is now re-named the Conservation Stewardship Program (CSP), and the program will establish contracts between USDA and the participating producer who proves eligibility through satisfying a minimum stewardship threshold (usually including a nutrient management plan and a soil conservation plan). Non-industrial private forest land is also eligible up to 10% of total enrollment acres. Incentive payments are made over the 5-year contract period to the producer who implements conservation activities beyond the threshold that address resource concerns identified at the state level. Over FY2009 – FY2017, the program is authorized to enroll an additional 12.8 million acres per year, with projected cost of approximately $230 million per year.

The Wetlands Reserve Program (WRP) authorizes long-term, easements, permanent easements, and cost-share agreements to restore wetlands on farmland. The program is not large in Virginia, the state received $837 thousand (0.3% of the national total) allocation for WRP in FY2007. Funding is increased to $1.3 billion in FCE, sufficient to enroll 1.22 million wetland acres. The Wildlife Habitat Incentives Program (WHIP) provides cost-share agreements to develop and improve wildlife habitat. Both technical assistance and up to 75% cost-share assistance are provided to establish/improve fish and wildlife habitat, with agreements lasting from 5-10 years. Virginia was allocated $473 thousand under this program for FY2007 (1% of the national total). The WHIP program is allocated $85 million per fiscal year in FY2008-2014.

The Grassland Reserve Program (GRP) provides technical assistance and pays landowners to establish long-term contracts or easements to restore or conserve grasslands. FCE authorizes enrollment of up to 1.22 million grassland acres. This program is relatively new to Virginia, which was allocated $105 thousand (4.5% of the national total) in FY2007. The newly re-named Farmland Protection Program (FPP) provides partial funding to state, local, and tribal governments, and to nonprofit organizations for purchase of easements on agricultural lands that protect against land development. Virginia received about $1 million (1.5% of the national total) under FPP in FY2007. Funding for FPP is increased in FY2008-2012 to $773 million under FCE.

A provision of the Conservation Title generating considerable interest in this region is Section 1240Q, which provides assistance to agricultural producers in the Chesapeake Bay watershed for the purposes of improving water quality and quantity and restoring/enhancing/preserving soil, air, and related resources. Section 1240Q represents a victory for the Bay states, which have pushed for Farm Bill consideration of the Chesapeake Bay programs since 2005 (http://www.chesbay.state.va.us/farmbill.html). The Farm Bill allocates $188 million during FY 2009-2012 to assist producers through existing programs to implement conservation activities on agricultural lands in the watershed, with particular consideration to producers in the Susquehanna, Shenandoah, Potomac, and Patuxent river basins. Conservation activities on farms that will be supported include controlling soil and nutrient losses to surface and ground water, and habitat conservation, restoration, and enhancement measures of lands with significant ecological value.

Virginia Tech Students Travel to Brazil for Agribusiness Program

By Denise Mainville (mainvill@vt.edu), Assistant Professor, Agricultural Marketing, Department of Agricultural and Applied Economics, Virginia Tech

In recognition of the ever-increasing importance of international markets and the role of Brazil as a powerhouse in world agriculture, the College of Agriculture and Life Sciences at Virginia Tech is offering a new study abroad option for students. The theme: Agribusiness, Language & Culture in Brazil. This program is Virginia Tech's only study abroad option that is focused specifically on agriculture, and is also the only one currently active in Brazil.

Currently, five students are participating in this program under the guidance of Denise Mainville, Assistant Professor of Agricultural & Applied Economics. The students are being hosted by the

Agribusiness Management Program of Sao Paulo State University in Tupa, Sao Paulo. The participating students are: Rocky Warren of Lodi, Virginia; Rebecca Ashton of King George, Virginia; Kimberly Jukes of Fairfax, Virginia; Chelsea Smith of Beaver Dam, Virginia; and Matthew Wilson of Brooklyn, New York.

During their five weeks in Brazil, the students will be participating in various activities that will increase their exposure to and understanding of agribusiness, language, and culture in Brazil. As of May 27, they have visited and toured a peanut cooperative, a coffee cooperative, a confinement cattle feeding operation, a diversified farm producing rubber, coffee, cassava, and milk, and a small town whose economic mainstay is the production and sale of value-added food products such as smoked meats, preserves, and candies. During each visit, the students learn about the history of the operation, its production and marketing operations, and the challenges that it is faces as well as how it tries to overcome them. Supplementary readings and discussions help to set the individual firms' situations within the context of the Brazilian agricultural economy and world markets. The students are also participating in a seminar series on Brazilian agribusiness, as well as intensive Portuguese classes.

In addition to the agribusiness and language program, the students are actively learning about Brazilian culture through their day-to-day activities. They are all living either with local families or other Brazilian students, and so are benefiting from direct exposure to Brazil's warm, open, and active social and family life.

The current study abroad program is the first step towards an ongoing relationship with Sao Paulo State University's Agribusiness Management program, and plans are being made for ongoing bi-lateral student exchanges as well as the development of collaborations in research and extension. For more information, please contact Denise Mainville (mainvill@vt.edu).

Figure 1: Left to right: Denise Mainville, Francisco (farm manager), Matthew Wilson, Kimberly Jukes, Rocky Warren, Chelsea Smith, Becky Ashton, in front of coffee grove at a diversified farm that produces rubber, coffee, cassava, and milk.

Calendar of Events

June

16-19	Virginia FFA State Convention; Virginia Tech Campus; Blacksburg, VA.
23-26	State 4-H Congress; Virginia Tech Campus; Blacksburg, VA.

July

13 – 17	NACAA AM/PIC Conference; Greensboro, NC.