

# Top 10 Considerations for Navigating a Struggling Farm Economy

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Kansas State University Department of Agricultural Economics – March 2017

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## Introduction

The Agricultural Economics Department at K-State conducted eight meetings across the state during the winter of 2016/2017, focusing on the state of the farm economy and the financial difficulties producers are facing. The program, titled *Top 10 Considerations for Navigating a Struggling Farm Economy*, was delivered to 814 farmers/ranchers, bankers, and other agribusiness professionals across the state. These presentations were geared to get producers thinking about how they might make changes in their business to withstand the difficult times. Many of these topics included research conducted using KFMA summary data. Below is a brief description of each presentation. Links to the PowerPoint slides and audio recordings of each presentation can be found here: <http://www.agmanager.info/top-10-considerations-navigating-struggling-farm-economy>

The program kicked off with an *Overview of the Farm Financial Situation* by Dr. Allen Featherstone and Dr. Mykel Taylor. Material presented showed Net Farm Income, Debt-to-Asset ratios, Working Capital, and Capital Debt Repayment Capacity for KFMA farms compared to historical values. Also discussed were how commodity prices had shifted to back to those seen in 2007-2008, but cost of production had increased so much since that time period that overall profitability was much worse. How this affects the land market, crop insurance, and what one might expect to see going forward in the current agricultural economy were discussed.

*Opportunities to Save on Cost of Production* is available both for Livestock, by Dr. Dustin Pendell and Robin Reid, and for Crops, by Dr. Mykel Taylor. Pendell and Reid use KFMA data to show what cost categories separate the top 1/3 of KFMA cow/calf enterprises from the bottom 1/3. Ways to save on feed costs were discussed. Dr. Taylor presented KFMA corn enterprise summaries to show what cost categories drive farms into the top and bottom 1/3 of profitability in 2015. She discusses efficient fertilizer use, chemical cost and application timing, seed costs, and custom work.

Dr. Allen Featherstone presented an activity to show ways of *Maintaining Working Capital and Restructuring Debt*. Using an “average” KFMA farm, Featherstone talks about different strategies that can be employed, such as reducing cost of production, reducing family living expenses, not reinvesting depreciation into updating equipment, and restructuring some operating line of credit deficits into long-term debt. This 5-year projection of financials is an eye-opening activity of what direction Debt-to-Asset ratio and Working Capital are headed in the current agricultural environment.

Robert White, Farm Loan Chief from Farm Service Agency, gives a short presentation on what *FSA Farm Loan Programs* are available to finance or restructure debt. These are of particular importance to those producers that are having troubling obtaining financing through traditional lending channels, new and beginning farmers, and non-traditional farmers.

Dr. Mykel Taylor rounds out the set of morning presentations with a discussion of *How Long Can I Afford to Lose Money on Rented Ground?* Although the title is a bit depressing, many producers in Kansas are facing rental rates that make their variable cost of production more than potential commodity revenue. Taylor discusses why this has occurred, what negotiations might need to take place, and based on your own farm financials, when is it time to let the ground go. A KFMA farm example is used to illustrate how farm financials changed based on letting an unaffordable piece of rented ground go versus an affordable track.

*Managing Machinery Expenses* relies heavily on KFMA farm data, showing trends in machinery costs as a percent of total costs, machinery investment per acre, repairs per acre, and Net Farm Income's effect on machinery purchases. Dr. Gregg Ibendahl (recording by Mark Wood) discusses the pros and cons to purchasing, leasing, renting, or custom hiring. Decision tools from Iowa State University are used to help illustrate making efficient machinery decisions.

Dr. Art Barnaby discusses *Farm Safety Nets*, including why the large 2016 wheat crop is causing a weak basis, estimates for 2016/2017 MYA prices, and why some producers feel they may have picked the wrong commodity program. Barnaby goes over the basics of the ARC revenue program again and why the county yield is so influential on both the ARC guarantee and calculated payment. Using an Iowa example, he demonstrates how some counties may not receive any ARC-County payment for the life of this Farm Bill because of their county yields.

*Income Tax Management* is just as important during times of low profitability as when incomes are high. Mark Dikeman and several KFMA economists across the state were part of the program to present this information. Updates on federal and state tax legislation, Farm Net Operating Loss (NOL's), self-employment tax calculations, tax credits, leases, and financial distress transactions are just a few of the topics covered during this session.

Duane Hund and Dr. Gregg Hadley tag-teamed on *Is it Time to Retire? What about the Next Generation?* (recording by Duane Hund). Many items were discussed as far as finding a purpose after retirement, financial groundwork, and how to turn over the reins to other family members. During this financial downturn, producers may be debating to change their farm succession plans. Depending on the situation, this may be the perfect time to bring in new family members to learn critical management skills, however the business may or may not be able to support them.

Finally, the day wrapped up with a presentation by Dr. Monte Vandever on *Family Living Expenses*. Vandever utilized KFMA farms that keep detailed records for family living expenses to compare the cost categories that have risen over the last 10 years. He also shows how farm income combined with off-farm income is currently

falling short of meeting family living needs for KFMA farms. Ways to budget household spending were discussed.

To wrap up the day, producers were directed to resources that they might utilize to assist with their own farm financial situation. This included the Kansas Agricultural Mediation Services (<http://www.k-state.edu/kams/>), Kansas Farm Analyst Program (<http://www.k-state.edu/kams/services/financial-counseling/index.html>), and the Kansas Farm Management Association (<http://www.agmanager.info/kfma>).

The entire day of the *Top 10 Considerations for Navigating a Struggling Farm Economy* program offered many helpful suggestions to benefit producers during this downturn in the agricultural economy. As you can see, most topics used KFMA data in some way to illustrate or present concepts that would apply to other Kansas farmers and ranchers. We thank the KFMA members and economists who work daily to make this information available for such purposes.

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