# Master Cattleman Quarterly

## Oklahoma State University


### Oklahoma Custom Rates Survey, 2009-2010


Damona Doye, Extension Economist, and Roger Sahs, Extension Assistant


The OSU Agricultural Economics Department in cooperation with the Oklahoma Agricultural Statistics Service recently surveyed Oklahoma custom operators to determine rates charged for 150 different machine operations. Data were collected from Oklahoma farmers, ranchers and custom operators during the fall of 2009. Three-hundred fifty-seven responses were returned. Custom work is defined as machine operations performed for the customer with the custom operator furnishing the machine, fuel, labor and other inputs directly associated with the machine. Custom operators do not usually furnish materials such as seed or fertilizer unless it is explicitly stated. Where sufficient responses were returned, results are reported for western, central and eastern Oklahoma.

Custom operations surveyed include tillage, fertilizer and chemical application, planting, haying, small grain and soybean harvest, corn/grain sorghum harvest, canola harvest, cotton harvest, livestock operations, tractor rental, machinery rental and miscellaneous activities. Not surprisingly, rates were generally up slightly. Items that were up more than 10% included fertilizer application (dry bulk and liquid), drilling small grains (conventional and no-till), swathing, baling large round bales, castrating livestock and brush hogging. Items that showed a slight decrease were mowing hay, down 5%, baling small square bales, down 6% and branding down 15%. A new item added to the survey this year was welding. With 40 responses, the average was $37.05 per hour with a range from $10 to $65 per hour.

This year's publication also adds charts showing the relative frequency of responses for selected operations with at least 40 responses. For instance, Figure 1 shows the distribution of responses for dry bulk fertilizer application.

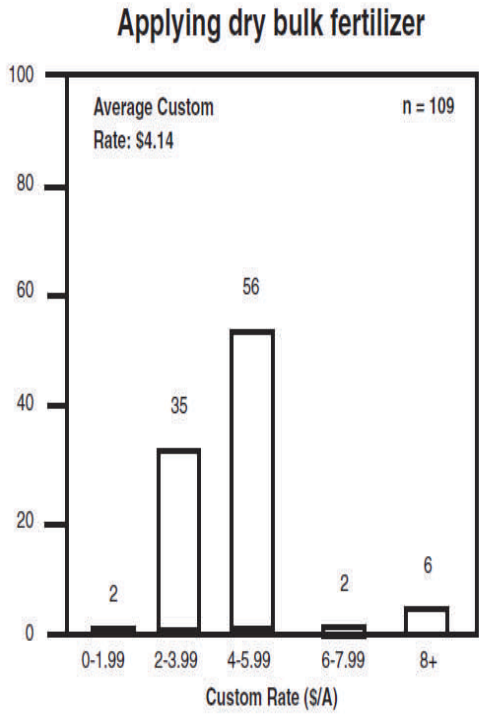


**Figure 1. Distribution of dry bulk fertilizer application custom rates**

The results are published in CR-205, "Oklahoma Farm and Ranch Custom Rates, 2009-2010". See http://pods.dasnr.okstate.edu/docushare/dsweb/ for details. At the Search prompt at the top right of the screen, enter Custom Rates. The publication also includes a worksheet designed to help users calculate the costs of ownership and operation to determine the appropriate rates to charge for custom work.


Volume 6

March 2010


**In this issue:**



Contributors in this

- Eric DeVuyst
- Damona Doye
- Shannon Ferrell
- Doug McKinney
- Kellie Raper
- Roger Sahs

## Oklahoma Beef Management and Marketing Practices Survey Update

Kellie Curry Raper, OSU Livestock Economist

The Oklahoma Beef Management and Marketing Practices (OBMMP) Survey was mailed to roughly 30% of Oklahoma cow herds in August, 2009. This survey addresses important questions regarding cow-calf producers' current and future use of value-added practices in calf management and marketing. Several opportunities now exist for adding value to cattle prior to marketing for those willing to adopt certain management practices. The Oklahoma Quality Beef Network (OQBN) is one example of producer adoption of specific management practices that may add value to calves in the marketplace. Ward, Ratcliff, and Lalman (2004) report that average OQBN premiums from 2001 through 2003 ranged from $3.42/cwt to $5.85/cwt, depending on calculation method. Another example is U.S. Premium Beef's recent extension of $35/head premiums for Age and Source verified calves (U.S. Premium Beef, 2009). The OBMMP survey establishes a baseline of current Oklahoma producer participation in value-added management and marketing practices and identifies producers' primary constraints in implementing value added practices. In this article, we provide a snapshot of producer participation in formal marketing programs and of producer adoption of specific management or marketing practices.

Producer response rates to the survey are relatively evenly distributed across both geographical quadrant of the state and cow herd size. This study consolidates the cow herd size groups into less than 100 head, 100-249 head, 250-499 head, and 500 head or greater. Figure 1 illustrates distribution of survey responses by producer size and is reflective of the size distribution of cattle and calves enterprises across the state (NASS 2009).

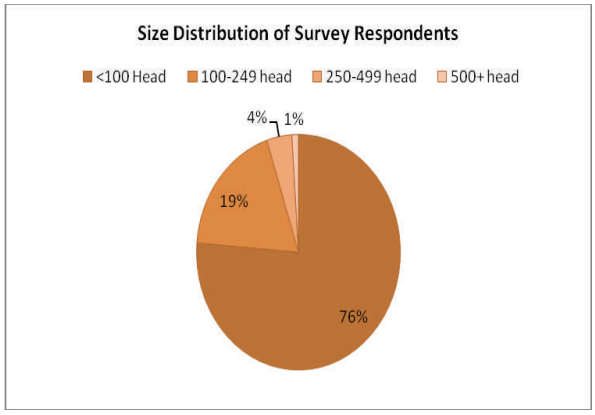


**Figure 1. Size Distribution of Survey Respondents.**

The survey asked producers whether they market calves through a formal program such as those offered by the animal health industry, breed associations, or the Oklahoma Quality Beef Network. Figure 2 shows that Oklahoma producer participation in such marketing/ management programs has grown in past years and that growth is projected to continue.

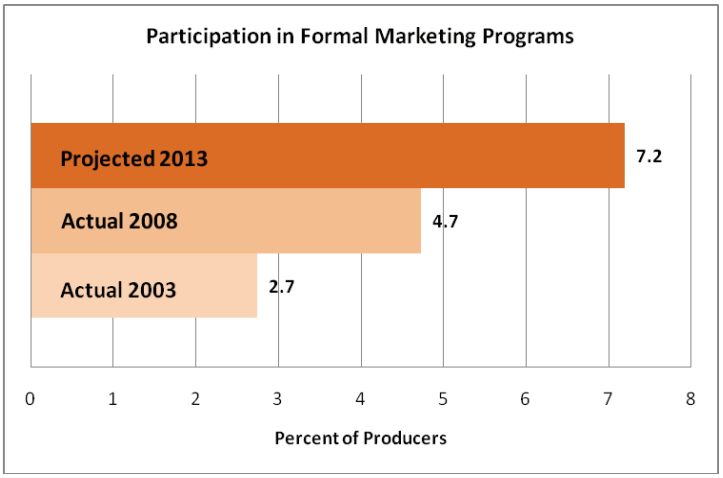


**Figure 2. Percentage of Survey Respondents Participating in Formal Marketing Programs**

The Oklahoma Beef Management and Marketing Practices survey also asks producers whether they have adopted various management and marketing practices in their operation. In the survey, producers were asked about adoption of 14 specific practices, including: castrating bull calves to be sold as steers; dehorning calves; weaning calves 45 days before marketing; two rounds of respiratory vaccinations; deworming calves; getting calves used to feed bunks; implanting calves; using no antibiotics; keeping records of vaccinations; keeping records of medical treatments; keeping records of calf birthdates; individual ID for calves; age and source verification; and documentation for country of origin labeling (COOL). Figure 3 shows adoption rates as indicated by those responding to the survey. Note that when a producer indicates use of a practice, it does not necessarily indicate that practice adoption is used in marketing calves. Future updates will examine whether adoption rates differ among herd sizes.

## Oklahoma Beef Management and Marketing Practices Survey Update (cont.)

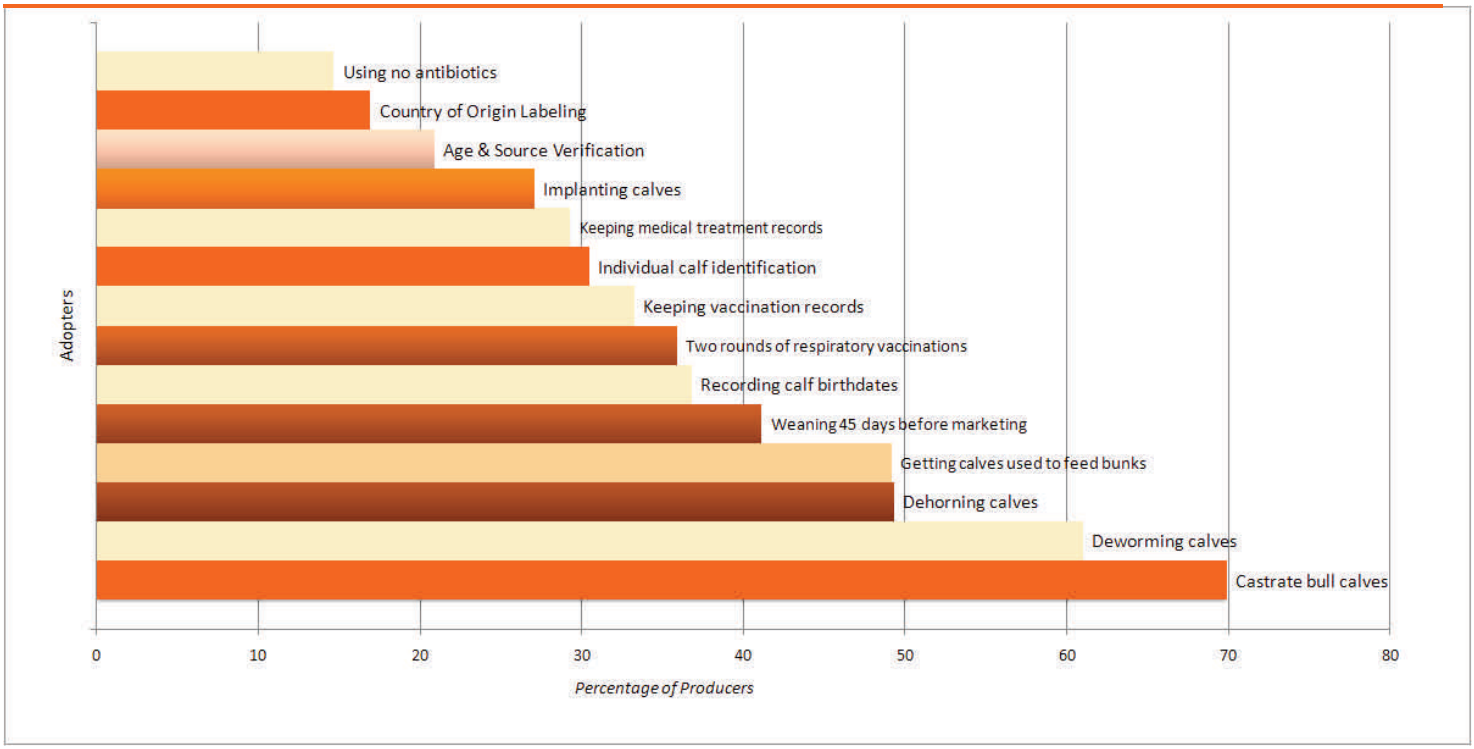


**Figure 3. Adoption Rate for Specific Practices**

**References**

"USPB Extends Its $35 Per Head Age and Source Verified Premium." U.S. Premium Beef. See http://www.uspremiumbeef.com/DocumentItem.aspx?ID=56. Accessed September 11, 2009.

Ward, Clement E., Chandra D. Ratcliff and David L. Lalman. "Price Premiums from the Oklahoma Quality Beef Network." OCES. AGEC-599. Stillwater, Oklahoma 2004.

## Simple Record-keeping Can Pay Dividends

Doug McKinney, OSU Beef Value Enhancement Specialist

As spring calving gets underway, it is important for beef producers to record calf births and keep records of their calf crop. With the tight profit margin in the cow-calf segment, producers are aggressively looking at ways to add value to their calf crop and increase net profits. Record keeping is an essential element in all successful commercial cattle operations. Record keeping options for producers include high tech computer software programs, industry red books, spiral notebooks, or simple index cards (see OSU CR-3279 for a summary of features of commercial software tools: http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-1926/CR-3279web09.pdf.) The type of record keeping system that producers use is not as important as the fact that good records are intact.

Most formal value-added marketing programs require at least **documentation of date of birth of the first calf and last calf born in the marketing group.** This is especially true for "age and source" cattle for the export markets. Other records of importance for value-added programs are BQA (Beef Quality Assurance) requirements, bull turnout date(s), vaccinations with product and lot number, antibiotics with product and lot number, and management practices with date of implementation. Good production records makes the transition into value-added programs smooth and easy. As more value added options get underway, it is important for beef producers to record and keep records of their calf crop.

## Five Questions You Should Ask About Your Wind Energy Lease

Shannon L. Ferrell, Assistant Professor, Agricultural Law

Oklahoma's wind energy industry is growing by leaps and bounds, as the power of its wind is harnessed to generate electricity for hundreds of thousands of Oklahomans. Wind energy leases can provide a significant new cash flow to your land, but they can also have an impact on how you manage your agricultural operations. Before signing any lease, ask yourself these questions:

**1. How will your current uses of the property be affected by the project?** Wind energy projects generally take up only a small portion of the land they occupy. According to the American Wind Energy Association, only about 3% of the acreage of a wind energy project is actually taken up by turbines, roads, and other facilities, with the rest of the acreage left open. However, you may still face restrictions in how you can use that open area. For example, you may be limited in the improvements (such as buildings and shelter belts) that can be constructed. You may also need to keep cattle fenced out of certain areas, and there may be restrictions on hunting and other recreational activities. Make sure you understand these restrictions and can adapt your operations to fit them.

**2. How long will the agreement last?** Some of the first wind energy leases in Oklahoma were for 99 years, and even longer in some cases. While most leases have shortened their term, many still range from 30 to 60 years. This means that for many of us, entering a wind lease is a decision that may involve multiple generations of our family. Consider involving your potential heirs in the lease discussions if the lease may be binding on them someday. Also, ask if the lease is subject to an automatic renewal, and whether certain elements of the lease may be renegotiated at those renewal intervals.

**3. What are your obligations under the agreement?** With an oil and gas lease, often times the only obligation of the surface owner is "stay out of the way" of the oil and gas operations. Things are often quite different under a wind energy lease, though. In addition to the many easements a landowner will often have to provide, there may be additional duties such as providing proof of payment for property taxes, securing agreements with neighboring landowners regarding wind power operations, and providing liability protection for the developer against any potential damage to the project caused by the landowner as well as the landowner's employees or guests.

**4. How will you be compensated?** The good news is that wind energy projects often provide a number of potential cash flows, from easements to production payments. The bad news is that it can be difficult to keep track of these cash flows and to confirm the accuracy of payments. First, chart out the payments listed in the agreement. Second, find the definitions relevant to each payment (for example, many landowner payments are based on the "gross revenues" of the project – how are "gross revenues" defined?). Third, carefully diagram how payments are calculated. Are you paid on a per-turbine or a per-capacity (*i.e.* $X per megawatt of capacity) basis? Finally, make sure that you have the right to access the developer's records as necessary to audit your payments and verify their accuracy.

**5. What happens when the project ends?** Currently, there are no requirements under Oklahoma law for a developer to clean up a project site when the lease terminates (though as this article goes to press, HB 2973 in the Oklahoma legislature would require such clean-ups). Thus, you have to make sure that your lease requires the developer to disassemble and remove all equipment (including removing all buried equipment down to plow depth), restore soil grades, erosion patterns, and provide appropriate cover vegetation.

Remember, a wind energy lease can be an important opportunity for your operation, but it can also pose its own risks. Be sure to have any wind energy lease thoroughly reviewed by a licensed attorney with experience in this highly-technical field.

## The Basics of Estate Planning

Shannon L. Ferrell, Assistant Professor, Agricultural Law

For many ranchers, transitioning farm assets to the next generation can be a daunting task. Such transitions can be difficult not only because of the legal complexities involved, but also because it is an emotionally charged issue for everyone involved. Understanding the tools that are available to you can help ease some of these concerns; it can also underscore how important it is for you to have a transition plan.

Transitioning the farm need not take place only when the principal operator passes away - there are many tools for gradually transferring control during life. For the purposes of this article, though, we will concentrate on transitions through estate planning.

Whenever someone passes away, there has to be *some* legal mechanism to transfer the ownership of their assets to another party. Generally speaking, this is done through one of three mechanisms: (1) Intestate succession, (2) the probate process, and (3) will substitutes. Let's talk about each of these in turn.

**1) Intestate Succession (Dying Without a Will):** If you die without a will, one of your "heirs" - usually a surviving spouse or a child- will have to go to the district court and request to be named the "administrator" of your estate (state law will determine who is eventually appointed the administrator). The administrator will conduct an inventory and appraisal of your estate, and will provide notice to your creditors that the estate is being settled. Once the inventory, appraisal, and notice to creditors have been completed, your property will be allocated by the court according to a set of default rules, known as the "intestate succession rules." These rules will only allocate property to spouses and to direct blood relatives; they will not allocate property to stepchildren, charities, or anyone who is not a relative. Further, these rules may not allocate property in the proportions that the person who passed away would have wanted. For example, you may have wanted all of your property to go to your spouse, but the intestate succession rules may split the property among your spouse and children. This lack of control is one of the greatest disadvantages of not having a will or will substitute.

**2) The Probate Process (Dying With a Will):** To execute a will, several requirements must be fulfilled. Many people who use a will from a purchased form or website fail to meet all these requirements and thus invalidate the will. As a result, you should get the help of an attorney to help you in preparing and executing your will.

If you die with a will, you can select who will be your executor. This eliminates the need for the court to select someone for this role. Once the will has been presented and validated, the executor will inventory and appraise the estate's property and provide notice to creditors, just as in intestate succession. The difference is that now the will can determine how the property should be allocated, rather than the intestate succession rules. This gives you much greater flexibility and control.

Control and flexibility are two of the greatest advantages of a will. The disadvantages of a will is that it must go through the probate process, which can take a significant amount of time (often at least a year) and involve some expense. Furthermore, probate is an open court process, which means that your will and other documents will become public records.

**3) Will Substitutes:** "Will substitute" is a term that refers to a vast number of tools, including trusts, insurance policies, "payable on death" (POD) accounts, joint tenancies, and anything else that can transfer property from one party to another upon the first party's death. The primary advantage of these tools is that they do not pass through the probate process. This often means that they can be transferred more quickly and at less expense than property that must go through the probate process.

There is no one "right" tool for transferring your property when you pass away. Rather, you should work with your family, attorney, and accounting professional to devise a plan that suits your individual needs and objectives. Whatever plan you prepare, make sure that your plan documents are kept together in a secure place, and make sure your family can access them. Discuss your plan with your family so that they can be prepared to implement it when needed. Finally, remember that as your family implements your plan, they will be under great emotional stress, so try to make the plan as simple as possible while still achieving your objectives.

With some thought and work, you can make the transition of your operation to the next generation much smoother and easier.

For more information on Farm Transition issues, see http://agecon.okstate.edu/farmtransitions/.

## Oklahoma Quality Beef Network: Summary of Fall 2009 Sales

Kellie Curry Raper, OSU Agricultural Economics
Doug McKinney, OSU Animal Science

Oklahoma Quality Beef Network (OQBN) calves were sold at four value-added sales this fall, including OKC-West (Nov. 4th and Dec. 2nd), Blackwell (Nov. 30th), and Red River–Overbook (Dec. 9th). Table 1 reports the number of cattle producers participating in each sale, as well as the number of OQBN calves sold in those sales. A total of 4,498 calves were sold as certified Oklahoma Quality Beef Network calves.

**Table 1. Producer Participation in Fall 2009 Oklahoma Quality Beef Network Sales.**

| Location | Producer Participation | Number of Calves | Number of Lots Sold |
|---|---|---|---|
| A | 38 | 1,647 | 61 |
| B | 32 | 1,168 | 188 |
| C | 58 | 1,683 | 112 |
| TOTAL | 128 | 4,498 | 361 |

Data was collected for each lot of OQBN calves at these sales, as well as for non-OQBN cattle that sold during the period before and after the OQBN portion of the sale. The data included not only sale price and weight information, but also information on characteristics such as breed, lot size, management protocols, cattle condition, and other variables that have been show to influence price (Ward, 2004).

Figure 1 shows price premiums per hundredweight for OQBN cattle and for noncertified preconditioned cattle as compared to non-preconditioned calves. The premiums shown have been adjusted for price differences attributable to lot size, weight category, breed, sex, fleshiness and muscling. Our results indicate that OQBN cattle received a premium of $8.12/cwt, on average, over non preconditioned cattle. Non-certified preconditioned cattle received a lesser premium of $6.70/cwt. It should be noted that most of the cattle in this non-certified group would be considered "reputation" cattle, and thus, the premium likely does not reflect what the average producer might expect for non-certified preconditioned cattle.

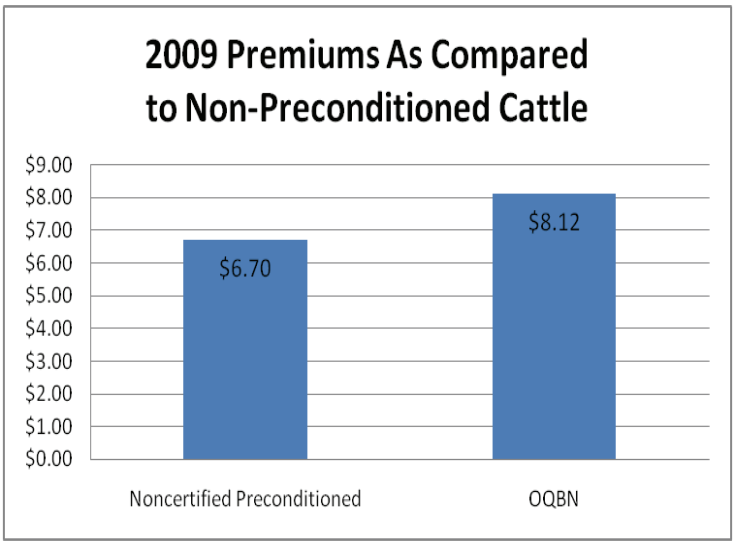


**Figure 1. Premiums at OQBN Calf Sales, Fall 2009.**

Research has shown that lot size (the number of cattle grouped together for bid) can have significant impacts on price. Figure 2 shows the average impact of lot size across Fall 2009 OQBN sales. Note that premiums are larger as the number of head approaches a truck load lot.

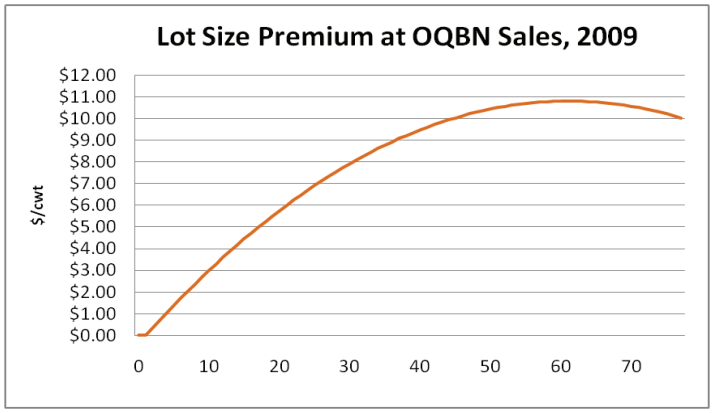


**Figure 2. Lot Size Premiums for OQBN Sales in Fall 2009.**

## Oklahoma Quality Beef Network: Summary of Fall 2009 Sales (cont.)

**Summary**

Nearly 4,500 certified OQBN calves were marketed through special sales at 3 locations across Oklahoma in Fall 2009. Data from those sales indicates a significant price premium for those calves managed and certified according to Oklahoma Quality Beef Network's health management protocol when compared to non preconditioned calves. Data also indicates lesser price premiums for noncertified preconditioned calves when compared to OQBN cattle. The results also suggest that lot size plays a significant role in determining final calf price.

For more information regarding the Oklahoma Quality Beef Network and its health management protocol and certification process, please visit http://www.beefextension.com or http://www.oqbn.okstate.edu.

**References**

Ward, Clement E., Chandra D. Ratcliff, and David L. Lalman. "Price Premiums from the Oklahoma Quality Beef Network." Oklahoma Cooperative Extension Service. Fact Sheet AGEC-599, Stillwater, Oklahoma 2004. http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-1767/AGEC-599web.pdf

## Cow Bid Price Estimate Calculator

Damona Doye, OSU Extension Farm Management Specialist

A new software tool has been added to BeefExtension.com. The Cow Bid Price Estimator originally developed by Jim McGrann, Texas A&M University professor emeritus, has been updated through a collaboration with Larry Falconer, Texas AgriLife Extension Service. This Excel spreadsheet allows users to enter cow price along with loan terms, expected calf prices and weights, and annual operating costs over the cow's expected productive life. In addition, cow sale weight and cull price are entered. This data is used to determine the annual cash flows and net present value of the investment. Check it out if you are interested in assessing whether cow purchases will generate a positive return on investment.

AgriLIFE EXTENSION Texas A&M System

**Cow Bid Price Estimate Calculator**

Texas Agrilife Extension and Oklahoma State University

Developed by
Lawrence Falconer, Professor, Texas Agrilife Extension Service and James McGrann, Professor Emeritus, Texas A&M University
Update by
Lawrence Falconer, Texas Agrilife Extension Service and Damona Doye and Roger Sahs, Agricultural Economics, Oklahoma State University

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Steer Weight (Pounds/Head) | 500 | | | Cull Cow Sale Weight (Pounds/Head) | 1,000 | Lb. | | |
| Heifer Weight (Pounds/Head) | 475 | | | Number of Calving Opportunities (Years) | 8 | | | |
| Cow Price ($/Head) | $750 | | | Discount Rate (%) | 5.00 | % | | |
| | | | | | | | Net Present Value (NPV) | |
| | | | | | | | $19.53 | |
| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 |
| Calf Crop or Weaning % | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Steers Price ($/Cwt) | $105 | $112 | $131 | $140 | $140 | $133 | $126 | $126 |
| Heifer Price ($/Cwt) | $100 | $106 | $125 | $134 | $134 | $127 | $120 | $120 |
| Cull Cow Price ($/Cwt) | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $48 |
| Gross Receipts (Calf Sales) | $500 | $532 | $624 | $668 | $668 | $634 | $600 | $600 |
| Cow Operating Cost/Year | $400 | $550 | $550 | $550 | $550 | $550 | $550 | $550 |
| Net Above Operating Cost | $100 | ($18) | $74 | $118 | $118 | $84 | $50 | $50 |

Financing Information

| | | | |
|---|---|---|---|
| Equity Requirement (%) | 30.0 | Equals | **$225.00** Per Head |
| Length of Note (Years) | 3 | | |
| Interest Rate (%) | 7.00 | | |

## Look for Us on SUNUP

Eric DeVuyst, OSU Extension, Farm Management and Production Management

Saturdays on OETA, the Division of Agriculture Sciences and Natural Resources hosts SUNUP. The weekly program spotlights research, extension and teaching at Oklahoma State University and regional research and extension centers. Weekly segments include cattle marketing with Derrell Peel and "Cow-Calf Corner" with Glen Selk. We recently started a segment showing about once a month on retained ownership outlook for cow-calf producers. With this segment, we will discuss projected returns associated with common calf retained ownership strategies. Timely segments on nutrition, breeding, management and cow-calf economics are also presented. To view the SUNUP schedule and find local stations, visit their website at: http://www.sunup.okstate.edu/ .

Damona Doye
515 Ag Hall
damona.doye@okstate.edu
405-744-9836

David Lalman
201 Animal Science
david.lalman@okstate.edu
405-744-6060

Oklahoma State University
Stillwater, OK 74078