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Some Observations on Financially Successful Producers

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I have been fortunate to live and work at five different land grant universities. During that time, I have encountered many financially-successful and financially-unsuccessful agricultural producers. There are traits that are fairly common among successful producers. I share a few of them here.

1) They know where profits and losses are coming from. When talking with the most profitable producers, there are two questions that they can answer without hesitation: What is making you money and what is losing you money? When asked, their responses to these questions are immediate. So, how can they know the answers? Financially-successful producers keep good production and financial records, and they use them in decision making.

2) They spend money to make money. When interviewing less financially-successful producers, I've often heard comments about not putting on a needed input because the enterprise's budget was already overspent. Financially-successful producers, in contrast, understand that past expenditures on a crop or livestock enterprise are sunk and have no impact on the current input decision. If a crop needs top dressing or a rescue pesticide, financially-successful producers do it because the marginal benefit of the application exceeds the marginal cost. Think of an extreme example, a wheat stocker operator has calves nearly ready for market, but they get sick and without treatment many of the calves are likely to die. If we use the unsuccessful producer decision model, we look at how much is already invested in the calves and decide if there is room in the budget for more expense, potentially leading to large economic losses. The financially-successful producer understands that it is necessary to spend money to make money (or lose less money).

3) When borrowing money, they have a plan for repaying it. I once worked with a producer that wanted a new house. His current house was an old farm house in need of repairs, but his capital debt repayment capacity was barely sufficient to meet his existing financial obligations. He was asking us if building a house was feasible. Our advice was "No, you don't have the ability to make any additional debt payments without additional sources of cash flow." Instead of listening to the sound advice, he found a builder willing to finance a new house and proceeded with construction. As you can imagine, this producer's balance sheet was very unhealthy. He had a history of taking on debt without a repayment plan, so he struggled to make payments and gain equity in his farm business. Financially-successful producers know how much cash flow is available and so are able to plan for repayment of any additional debt. Again, this requires good record keeping and utilization.

While keeping and utilizing production and financial records will not guarantee financial success, there are few financially-successful producers who do not keep and use good records. If you need help with record keeping and decision making, Oklahoma State Cooperative Extension Service offers workshops to teach producers how to use Quicken software. Contact your local extension educator to see when workshops are available. OSU also offers a free farm financial planning service, IFMAPS, to agricultural producers. You can learn more about it at http://agecon.okstate.edu/ifmaps/ or call 800-522-3755.

Rebuilding Oklahoma's Beef Cow Herd

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The Oklahoma beef cattle industry has experienced much adversity in recent years. Drought since late 2010 contributed to liquidation of cows in Oklahoma that added significantly to the national decline in beef cattle inventories. The Oklahoma beef cow herd decreased 16.4 percent from January, 2011 to January, 2013, during the worst of the drought (Table 1). The inventory of all cattle and calves decreased 19.2 percent over the same period. The losses of other cattle reflect proportionately larger decreases in replacement heifers and stocker cattle compared to liquidation of cows.

Table 1. Oklahoma Cattle, Beef Cow and Beef Replacement Heifer Inventories, 2010-2015.						
	Beef Cows, 1,000 Head	% Change from Previous Year	Beef Heifers, 1,000 Head	% Change from Previous Year	All Cattle and Calves, 1,000 Head	% Change from Previous Year
	January 1		January 1		January 1	
2010	2073		405		5500	
2011	2026	-2.3%	355	-12.3%	5200	-5.5%
2012	1728	-14.7%	310	-12.7%	4500	-13.5%
2013	1694	-2.0%	280	-9.7%	4200	-6.7%
2014	1795	6.0%	325	16.1%	4300	2.4%
2015	1900	5.8%	405	24.6%	4600	7.0%

Herd recovery began in 2013 in Oklahoma with the all cattle inventory increasing 2.4 percent in 2013 and another 7.0 percent in 2014. On January 1, 2015, the Oklahoma all cattle and calves inventory was 4.6 million head, down 8.9 percent from the 2011 level. The beef cow herd increased 6.0 percent in 2013 and another 5.8 percent in 2014. The January 1, 2015 Oklahoma beef cow inventory was 1.9 million head, down 6.2 percent from the 2011 total.

The inventory of beef replacement heifers decreased in 2011 and 2012 but jumped 16.1 percent in 2013 indicating the beginning of herd rebuilding in Oklahoma. The January 1, 2015 beef replacement heifer inventory of 405,000 head was up 24.6 percent year over year and was at the same level as in 2010. This indicates that herd expansion is likely to continue in 2015 though severe drought continues in some regions of the state and marginal drought conditions have redeveloped in much of the state. It remains to be seen if the cattle herd expansion can be sustained in 2015.

Virtually all of Oklahoma has been affected by drought in recent years but the level and persistence of drought has been significantly different in various regions of the state. The line representing severe drought seems to run north and south across Oklahoma much of the time. Table 2 indicates that the drought impacts in 2011 and 2012, particularly with respect to cow herd liquidation, were most severe in

Table 2. Regional Drought Impacts on Oklahoma Cattle			
District #	District	% Change in Beef Cows, 2011-2013*	% Change in Other Cattle, 2011-2013*
1	Panhandle	-21 %	-26 %
2	W. Central	-31 %	-32 %
3	Southwest	-24 %	-26 %
4	N. Central	-16 %	-34 %
5	Central	-16 %	-23 %
6	S. Central	-18 %	-23 %
7	Northeast	-11 %	-20 %
8	E. Central	-14 %	-23 %
9	Southeast	-14 %	-13 %

Rebuilding Oklahoma's Beef Cow Herd, cont.

the western third of the state including crop reporting districts 1 (Panhandle), 2 (West Central) and 3 (Southwest). The smallest impacts occurred in the eastern third of the state including districts 7 (Northeast), 8 (East Central) and 9 (Southeast). The drought line tends to advance and regress east and west through crop reporting districts 4 (North Central), 5 (Central) and 6 (South Central) in the middle third of the state. The middle third of the state has experienced several waves ranging from severe drought to drought removal.

Though county livestock estimates for 2014 and 2014 are not yet available, it seems likely that little recovery has occurred in the western third of the state (Districts 1, 2 and 3) where severe drought has persisted continuously since late 2010. This region of the state, with higher altitude, lower rainfall and larger proportions of native range, has the most recovery to do and will take longer to recovery compared to areas with more rainfall and introduced pastures.

Livestock Indemnity Program (LIP) Payments

J C. Hobbs, Assistant Extension Specialist

The 2014 Farm Bill made permanent the Livestock Indemnity Program (LIP). The LIP provides benefits to livestock producers who experience death losses in excess of normal mortality rates due to adverse weather conditions or attacks by animals reintroduced in to the wild by the federal government or protected by federal law which includes wolves and avian predators.

The LIP payment is equal to 75 percent of the market value of the applicable livestock on the day before the death of the livestock occurred. To be eligible to receive the payment, a producer must have legally owned the animals on the day that the death loss occurred. The livestock must have been for commercial use as a part of the farming business. Since the animals are part of the farm business, the loss is a casualty loss for income tax reporting purposes.

The casualty loss rules provide farmers an opportunity to postpone recognizing the taxable gain due to the receipt of the indemnity payment for the loss of the livestock if the livestock were held for draft, breeding, or dairy purposes. To postpone reporting the gain, the farmer must elect to replace the lost animals within the IRS required replacement period. The replacement period for losses due to adverse weather will typically by within two years of the tax year the loss occurred. The replacement period can be extended to four if the area was declared eligible for federal disaster assistance.

If the indemnity payment is for the loss of market animals, the income is taxed as ordinary income in the year the indemnity payment is received and it is not eligible for postponement unless the animals would have normally been sold in the tax year following the year the death loss occurred. In addition the payment must be received in the year the loss occurred for it to be postponed. For more information about the tax treatment of the LIP payments, contact your tax advisor. In addition, more information about the LIP program is available from your local Farm Service Agency office.

Farm Bill Decision Tools

A new version of the OSU-KSU farm bill decision tool has been posted. If you are still evaluating the program choices, download this Excel spreadsheet and enter your farm data to review potential payments in coming years under different scenarios. Every farm situation is different so it is imperative that individuals use their records to evaluate options. There is no one-size-fits-all recommendation as to what will provide the best production and financial risk protection. For more information go to http://agecon.okstate.edu/agpolicy/dt1.asp

Oklahoma Pasture Rental Rate Update

Roger Sahs, Extension Assistant

The discussion of pastureland rental rates remains a hot topic in the coffee shops around Oklahoma. Results from the OSU farmland leasing survey conducted with the assistance of the USDA-NASS, Oklahoma Field Office in late 2014 show rental rate gains over the past two years despite the fact that most pastures are still in a drought recovery mode and large portions of the major cattle producing areas in Oklahoma are still affected by moderate to exceptional drought. Will this strength continue? To help address this question, we will discuss recent agricultural rental rates in Oklahoma, an important indicator of relative land profitability.

Table 1. Average Annual Pasture Cash Rental Rate ($/acre).

	NW	SW	NC	E	State	2014 vs 2012
Native	**9.76**	**13.63**	**15.29**	**14.16**	**13.39**	**+9%**
(range)	(5-30)	(5-40)	(4-35)	(4-40)	(4-40)	
No. of responses	71	94	59	149	373	
2012 average	*8.76*	*12.83*	*14.20*	*13.03*	*12.33*	
Bermuda		**19.10**	**20.91**	**21.33**	**21.05**	**+13%**
(range)		(8-45)	(9-40)	(8-81)	(8-81)	
No. of responses		29	13	114	164	
2012 average		*17.91*	*20.25*	*18.56*	*18.64*	
Other Pasture	**15.23**	**15.31**		**25.86**	**20.89**	**+8%**
(range)	(8-25)	(10-20)		(10-84)	(8-84)	
No. of responses	12	9		25	47	
2012 average	*11.67*	*19.15*		*22.41*	*19.41*	

Source: OSU CR-216

Pasture rates on a per-acre basis are shown in Table 1 and illustrate some differences in rental rates by region and type of pasture. Averages are shown in bold with the range in reported values below the average. Comparable 2012 rates are shown in italics. The state average rental rate for native pasture was $13.39 per acre per year with responses ranging from $4 to $40 per acre. This illustrates a wide distribution of negotiated rates associated with location, fencing, water, roads, hunting privileges or personal ties. The statewide average was up 9% from 2012. Native pasture rates varied from $9.86 in northwest Oklahoma to $15.29 in the north central region.

The state average rental rate for Bermuda pasture was $21.05 per acre, up $2.41 (13%) per acre with responses ranging from $8 to $81. Rates were lowest in southwest Oklahoma and highest in eastern Oklahoma. Pasture rates of other improved/introduced forage types increased 8% statewide. Other pasture types consisted primarily of Old World Bluestem and Fescue in the southwestern and eastern regions respectively. Forage-based gains have added value especially as the productivity of the forage base grows as one travels east across the state. Pasture rents have also been supported by a strong farm economy led by profits in the livestock sector and producers with herd rebuilding plans are fueling the demand for good-quality pastures in Oklahoma.

Small grain pasture rental rates on a gain and per acre basis were mostly steady since the 2012 report (Table 2). Typically, per acre rates for winter grazing including grazeout would be expected to be higher than the winter grazing rate especially within a given livestock commodity and type. However, the per acre rates include several different classes of grazing livestock (stockers, cows-calf pairs, cows only, sheep, goats, etc.) and the livestock mix varies within each grazing period. It should also be noted that the small grain rates on a gain basis are based on relatively few responses and the averages are less reliable than they would be with more observations.

Oklahoma Pasture Rental Rate Update (cont)

Table 2. Average Annual Small Grain Pasture Cash Rental Rates ($).		
Winter grazing (Nov-March)	**0.61/lb. of gain**	**34.15/acre/season**
(range)	(0.50-0.75)	(15-100)
No. of responses	15	34
2012 average	*0.63*	*34.42*
Winter grazing and Grazeout (Nov-Oct)	**0.65/lb. of gain**	**31.82/acre/season**
(range)	(0.50-0.90)	(20-60)
No. of responses	10	47
2012 average	*0.64*	*30.10*

Source: OSU CR-216

Since rental rates reflect tenant and land owner expectations concerning profit margins, factors such as feed supplies, pasture conditions, water availability, and the cattle economy all will influence income expectations and subsequent pasture rents going forward.

Summary

In general, pasture rents have risen steadily in recent years and are supported by favorable net farm incomes provided by historically high cattle markets and lower feed costs. Persistent drought conditions remain a concern however. Whether you are renting land for yourself or renting pasture to others, knowing the market rates for your area is important. However the market rate is not necessarily the appropriate rate for your lease. Equitable rates consider productive capacity, improvements, amenities among other things. It is best for both parties (land owners and their tenants) to agree to keep their negotiated rates current and flexible enough to move appropriately as economic and forage production conditions change. And remember that written agreements are an asset to all parties since they help identify relevant issues and clarify specific terms of the lease. The Ag Lease 101 website offers sample lease forms that may be helpful in developing an equitable agreement

Pasture land rental information:

Ag Land Lease website: http://www.aglandlease.info

Kansas City Federal Reserve Bank: http://www.kansascityfed.org/research/indicatorsdata/agcredit/index.cfm

Oklahoma Cash Rents County Estimates: http://www.nass.usda.gov/Statistics_by_State/Oklahoma/Publications/County_Estimates/2014/ok_cash_rent_ce_2014.pdf

OSU CR- 216, Oklahoma Pasture Rental Rates: 2014-15. http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-7364/CR-216web14-15.pdf

Www.aglease101.com

Decision Time— Navigating the Farm Bill

Scott Clawson, NE District Area Ag Econ Specialist

Spending the majority of the past two months working with the crop producers of Northeast Oklahoma on the 2014 Farm Bill has verified what we all thought. This is a tough decision for producers. This has also turned out to be a good opportunity as well. The ability to update yields is a win for producers. Specifically in NEOK, soybean yields appear to have benefitted the most from this opportunity. But in talking with producers, three discussions take place frequently.

Decision Time— Navigating the Farm Bill (cont.)

Neither program, ARC or PLC, will replace your crop insurance.

When evaluating ARC-CO and PLC, both programs leave unmanaged risk if not complimented with crop insurance. ARC-CO is a revenue program. It can trigger a payment in response to a yield or price issue. However, the cap set at 10% of the calculated bench- mark limits the payments. In short, ARC-CO will not generate a large enough payment to cover disastrous losses. On the other hand, PLC does not have the per acre cap and will protect the producer against devastating price declines. But this program does not have any consideration of yields. For example, if a producer is looking at a 5 bu/ac wheat harvest and the national marketing year average price is $6.00/bu, you will not receive a PLC payment. Collectively, both programs leave open either a revenue or yield coverage gap that can be filled by talking with your crop insurance agent.

It is not a local price that is used in the payment calculations.

Two prices are used in calculating ARC-CO and PLC in most situations. One is a Reference Price. This price is set for the life of the 2014 Farm Bill and does not change. The second is the Marketing Year Average price. This is a weighted average using national prices. It is weighted to give months with more commodity marketing more impact on the price. For example, historically most wheat is marketed in July, August and September so those months have a greater bearing on price than does February for in- stance.

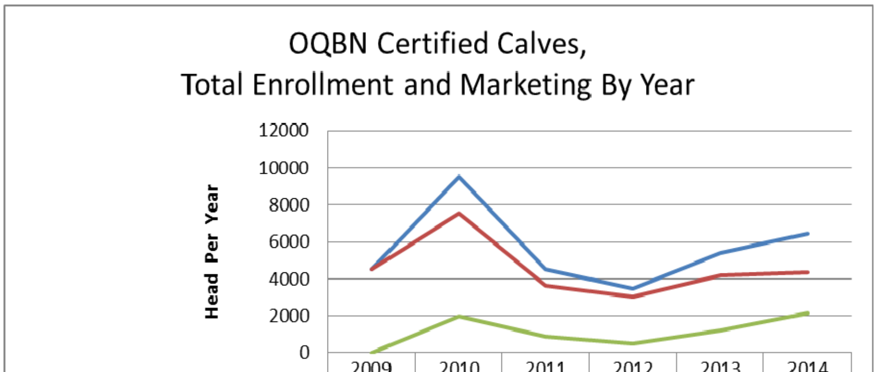
How do I know which is the right decision?

The right decision is going to be the one that fits with your farm financial management needs and crop insurance coverages. Understanding how the programs work and how they can complement your existing risk management is vital. Neither program should be looked at with the intent of it covering all of your risk. Projecting payments on the programs is necessary, unfortunately it comes to predicting prices and yields which is done with relatively low confidence. The right decision is made when the producer under- stands how there program choice functions, compliments it with other risk management tools and receives support when it is needed.

Oklahoma Quality Beef Network's Fall 2014 Sales: A Rising Tide Lifts All Boats

Kellie Curry Raper, Eric DeVuyst, Derrell Peel & Gant Mourer, OSU Ag Economics and Animal Science Departments

A rising tide lifts all boats. As the feeder calf market peaked in the second half of 2014, the Oklahoma Quality Beef Network (OQBN) experienced its highest premiums to date for OQBN certified Vac-45 feeder calves. OQBN calves are managed according to a specific health management preconditioning protocol designed to improve calf performance throughout the beef supply chain. A joint program of the Oklahoma Cooperative Extension Service and the Oklahoma Cattlemen's Association, OQBN seeks to increase producer access to value added marketing opportunities. After two years of significant drought-induced declines in enrollment with a low of 3,496 head in 2012, OQBN has seen steady increases in the number of calves certified through the program for the past two years. The enrollment total for 2014 was 6,454 head – nearly double that



	2009	2010	2011	2012	2013	2014
Total Enrollment	4498	9548	4493	3496	5401	6454
Sold through OQBN Sales	4498	7537	3611	3019	4183	4327
Direct Marketed by Producer	0	2011	882	477	1218	2127

Figure 1.

Oklahoma Quality Beef Network's Fall 2014 Sales: A Rising Tide Lifts All Boats

of 2012. Figure 1 shows total OQBN program enrollment since the re-launch of the program in 2009. The majority of OQBN calves are marketed through special OQBN sales at auctions across the state.

Documenting sale results for OQBN producers is an important part of the program. In 2014, data were collected at six sales, including Cherokee, Elk City, El Reno (OKC West) (x2), Blackwell, and Pawnee between October 29, 2014 and December 3, 2014. Data were collected on approximately 4,327 OQBN certified calves sold in 318 lots, with data collected on a total of 10,079 calves at these designated OQBN sales. The OQBN premium (weighted average) over non-preconditioned cattle for marketing years 2009-2014 is shown in Figure 2. The 2014 weighted average premium of $19.20/cwt is the highest premium for OQBN certification to date, likely reflecting the overall increased market value of a healthy calf during this timeframe and, likewise, the increased cost of death loss related to unhealthy calves. Note that the reported premium reflects the weighted-average premium for all OQBN lots

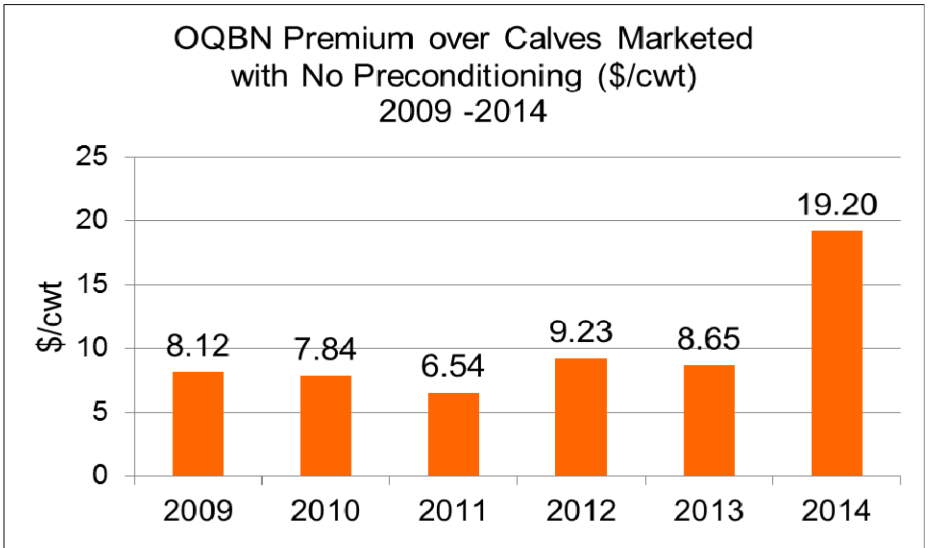


Figure 2.

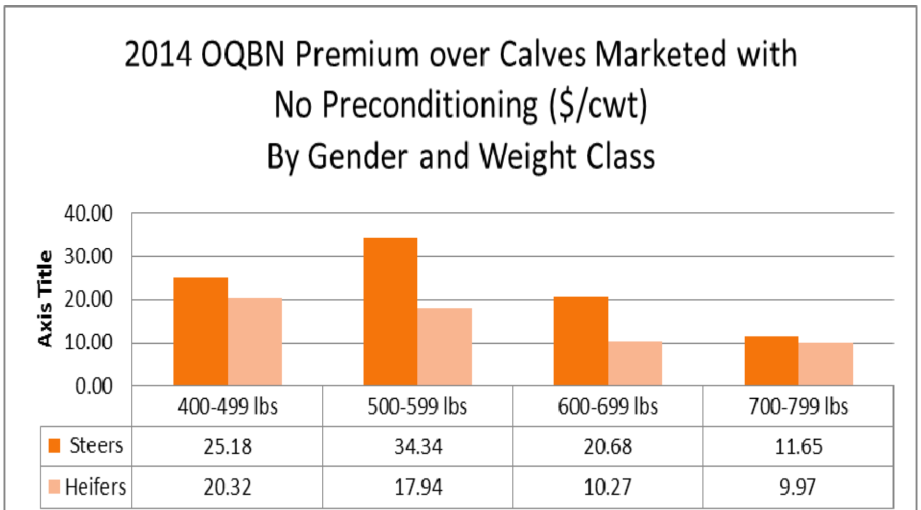


Figure 3.

as compared to non-preconditioned cattle. It does not reflect differences attributable to lot size, weight, breed, hide, color, sex, fleshiness, and muscling. Figure 3 illustrates 2014 OQBN premiums by weight category and by gender. Sizeable market premiums were earned by OQBN steers and heifers over non-preconditioned cattle in every weight category. Premiums were higher in lighter weight categories, yet even premiums for heavy weight animals still hovered near $10/cwt. Overall, the average premium per head was approximately $80.

OQBN added an estimated $530,628 in premiums for Oklahoma producers. Based on an estimated 80 pounds of gain between weaning and marketing and a net value of gain at $1.40/lb., an additional $722,848 is added. That brings the total value added from OQBN for Oklahoma producers to $1,253,476.

Producers can *access the* OQBN budgeting tool and estimate the value of preconditioning for their individual operations at www.agecon.okstate.edu/faculty/publications/3943.xlsx. See http://www.oqbn.okstate.edu for educational information and for more detailed information on the health management protocol and the certification process.

Oklahoma's Agriculture Enhancement and Diversification Program

Oklahoma's Agriculture Enhancement and Diversification Program offers loan/grant opportunities quarterly. The next application deadline is April 1. This Program provides funds in the form of 0% interest loans or grants to expand the state's value added processing sector and to encourage farm diversification. Funds, provided on a cost-share basis, must be used for marketing and utilization, cooperative marketing, farm diversification and basic and applied research. All funding proposals must clearly demonstrate the ability to directly benefit Oklahoma farmers and ranchers. Proposals are evaluated by a ten member Advisory Board with their recommendations for funding submitted to the Oklahoma State Board of Agriculture. Funding alternatives include:

- Farm Diversification Grant
- Marketing and Utilization Loan
- Cooperative Marketing Loan
- Basic and Applied Research Loan/Grant
- Enhancement and Diversification Evaluation Form

Applications are evaluated quarterly by an Advisory Board. Proposals may be submitted anytime to the ODAFF, but 15 copies must be received prior to the quarter's deadline in order to be eligible for review that quarter. Applicants are encouraged to submit their proposals at least 6 months prior to their anticipated start time. Applicants must be at least 21 years of age and shall reside and be a legal resident of Oklahoma. See the website for more information: http://www.oda.state.ok.us/mktdev/aedp.htm

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