Farm Management Newsletter

Decatur, Giles, Hickman, Lawrence, Lewis, Marshall, Maury, Perry and Wayne Counties
John Campbell, Area Farm Management Specialist

Fall 2007

CHOOSING FINANCIAL STRATEGIES

This year will be a tough year financially for many farm families. The effects of the spring freeze and summer drought will also carry over into the new year. You may have heard the statement, "You can not control what happens, but you can control your response." So, what will your response be? One way that you can respond is to work to improve your farm financial management skills. Previous periods of financial stress have shown that farm families that improve management better position themselves for the future. UT Extenson's MANAGE Program is available to all Tennessee farm families to assist in this effort. The FINPACK Computer Farm Analysis is a tool to help improve farm management skills. Intensive planning with FINPACK has help put many farm families on the right track. There is no charge for intensive planning and all information remains confidential. Contact you county UT Extension office for more information.

FINANCIAL TIPS FOR A TOUGH YEAR

- Keep close tabs on disaster programs through local Farm Service Agency offices – some disaster provisions may be forthcoming.
- Contact crop insurance carrier before harvesting anything (if you have crop insurance).
- Contact lenders as soon as possible if you need to expand credit or if you are not able to make a full loan payment.
- Consider postponing nonessential farm expenses to help increase cash flow.
- Nonfarm expenses also matter. Consider postponing optional or nonessential nonfarm expenses to help increase cash flow.
- Ask a tax professional if there are ways to reduce future tax burdens through some tax management techniques this year.
- Keep accurate records that illustrate long-term plans so a lender can help in financing some of these decisions in a year of limited cash flow.
- Seek help. Resources are available to help in making financial decisions. (See previous section.)

Source: Delton Gerloff, UT Agricultural Economics Specialist

NEW RULES FOR SALES TAX ON FARM INPUTS

New rules for the sales tax exemption on farm inputs go into effect on January 1, 2008. This change is a part of the "Streamlined Sales and Use Tax Project," a multi-state effort to make sales tax laws more uniform across the U. S. Farmers can purchase most farm supplies, including equipment costing $250 or more, without paying sales tax as long as the items purchased are used for production agriculture. These items will remain tax-free as long as the purchaser has a state-issued exemption certificate. According to the Tennessee Department of Revenue, the majority of farmers who qualify under the new rules will receive their exemption certificate along with a letter of explanation in early November. Qualifying farmers who do not receive a certificate will need to obtain an application from the Department of Revenue. The Department has a toll-free statewide help line at 1-800-342-1003.

WHEN BUYING HAY

If you are buying hay for this winter, keep these points in mind. Beware of quality. I have seen fields harvested for hay this year that had not been even mowed for 2 or 3 years. Forage tests to determine nutrient values are recommended before buying hay. It is possible for a cow to starve with a full stomach of low quality hay. Know the bale size. The cost per ton can vary greatly at varying bale sizes as the following table shows.

Hay Cost Per Ton At Varying Bales Weights

Weight	Price Per Bale				
	$40	**$50**	**$60**	**$70**	**$80**
800	$100	$125	$150	$175	$200
1,000	80	100	120	140	160
1,200	67	83	100	116	133
1,400	57	71	86	100	114
1,600	50	63	75	87	100

HAY PRODUCTION COSTS

This summer's drought may have provided a sort of wake-up call concerning the true cost of hay production. I have contended for several years now that in many cases the local market price for hay was below the cost of production. There are many factors that combine to determine the true total cost of producing hay. There is more than just seed, fertilizer, fuel, repairs and twine. Fixed equipment costs are significant and vary widely from farm to farm. Fixed costs include depreciation, interest, insurance and housing. The number of acres covered by the equipment each year has a huge impact on fixed costs. To calculate equipment costs certain assumptions must be made in regard to the purchase price, interest rate, hours of use per year, and total years of useful life. Virginia Extension has calculated equipment costs for harvesting 100, 300, and 500 acres per year. At the 100 acres use rate, variable costs for round bales were $15.36 per acre with fixed costs of $72.71 for a total of $88.07 per acre. Assuming 1,000 pound bales with a yield of 4 bales per acre, variable costs are $3.84 per bale, fixed costs $18.18, and total costs are $22.02 per bale. At 300 acres, the fuel and repair cost is $18.50 per acre, fixed cost $31.75 for a total of $50.25, $12.56 per bale. At 500 acres, the fuel and repair cost is $21.10 per acre, fixed cost $23.56 for a total of $44.66, $11.17 per bale. Variable costs per bale increase some with more use. Fixed costs per bale decrease when more acres are covered. Costs for seed and fertilizer can run $20.00 to $30.00 per bale depending on the type of hay and the yield per acre. Storage and feeding losses are one factor that determines the amount of hay a particular farm will need. A farm could use 1.5 tons per cow with a storage and feeding loss of 5% or use 2.1 tons per cow with a storage and feeding loss of 30%. Using 1.75 tons per cow (3.5 1,000 pound bales), a 30 cow herd needs about 26 acres of hay (2 tons per acre yield). A 50 cow herd would need 44 acres and a 100 cow herd 88 acres.

COUNTY EXTENSION AGENTS

Decatur	Steve Glass	731-852-2831
Giles	Kevin Rose	931-363-3523
	Erin Williams	931-363-3523
	Darby Payne	931-363-3523
Hickman	Troy Dugger	931-729-2404
Lawrence	Calvin Bryant	931-762-5506
	Wendell Smith	931-762-5506
Lewis		931-796-3091
Marshall	Rick Skillington	931-359-1929
Maury	Richard Groce	931-375-5301
	Dill Hughes	931-375-5301
Perry	Rick Ritter	931-589-2331
Wayne	Ken Burress	931-722-3229

WHAT ABOUT SWITCHGRASS?

As news of the plans for construction of a demonstration plant to make ethanol from switchgrass crosses the state, many questions arise. Switchgrass is a warm-season perennial grass native to North America. Plants can reach heights of 10 feet and well-managed stands could have productive lives of 10 to 20 years. The high cellulosic content of switchgrass makes it favorable as a feed stock for ethanol production. A site has been selected in Monroe County in east Tennessee for the construction of a demonstration plant to make ethanol from switchgrass. Transporting switchgrass is similar to transporting round bale hay. This years drought has confirmed the high cost of transporting hay very far. So, switchgrass producers will likely need to be located within 30 to 50 miles of a cellulosic ethanol plant. One of the proposes of the demonstration plant is to study the feasibility of locating a series of plants across the state that would provide the opportunity for more farmers to produce switchgrass for ethanol. The cost of producing switchgrass and its potential as a profitable crop for farmers will also be studied. Switchgrass can also be used as a forage crop. Growing switchgrass does require different management from other grasses that we are more familiar with. So remember, at the present time there is no market for switchgrass to make ethanol in middle Tennessee. Any producer considering trying switchgrass as a forage crop should study the cost and potential returns as is needed anytime considering growing a new crop. For more information on switchgrass and the UT Biofuels initiative, visit the following web site: www.UTbionergy.org.

FARM MANAGEMENT WEB SITE

For more information on Extension farm management educational programs and educational information on a variety of topics, goto my website at www.utextension.utk.edu/managecamp.

CLOSING NOTE

Some people dream of success. Others wake up and work hard for it.

For more information contact:
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