



# Ag Decision Maker

## A Business Newsletter for Agriculture

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### Cash rental rates jump in 2007

by William Edwards, extension economist, (515) 294-6161, [wedwards@iastate.edu](mailto:wedwards@iastate.edu)

As anyone who is involved with the rental market for Iowa farmland knows, rental rates have been jolted by the sharply higher corn and soybean prices that have been available since last fall. Results from Iowa State Uni-

versity Extension survey estimated that the average cash rent for corn and soybean land in the state for 2007 was \$150 per acre, compared to \$137 in the 2006 survey. This is the largest increase in a single year since the statewide survey was initiated in 1994. All of the 12 areas in Iowa that were surveyed showed increases, ranging from \$11 to \$22 per acre.

The surge in grain prices began after the September 1, 2006, deadline for terminating or revising lease contracts. Thus, many rents for 2007 reflect expectations of market prices below current levels. Other lease contracts were negotiated later in the fall or winter, usually at higher levels. Some tenants and owners have entered into flexible lease agreements in which the actual rent will not be determined until the crop is harvested.

The intent of the ISU survey is to report average rents in force for 2007, not the highest or lowest values heard through informal sources or expected rental rates for next year. Rental values were estimated by asking over 1,000 tenants, landowners, farm managers, lenders and other people familiar with the land market what they thought were typical rates in their county for high, medium and low quality row crop land, as well as for hay and pasture acres. Opinions about rental rates varied widely, even within counties, indicating a great deal of uncertainty this year.

The most positive factor affecting rents has been higher grain prices, especially for corn. Consistently good yields in recent years have also *continued on page 2*

**Handbook updates**  
For those of you subscribing to the handbook, the following update is included.

**Historical Costs of Crop Production** – A1-21 (2 pages)

**Matching Tractor Power & Implement Size** – A3-26 (2 pages)

**Cash Rental Rates for Iowa 2007 Survey** - C2-10 (14 pages)

**Farmland Values Survey** – C2-75 (2 pages)

Please add these files to your handbook and remove the out-of-date material.

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lent support. On the negative side, escalating costs for fuel, fertilizer, seed, pesticides and machinery have offset some of the higher revenues.

The latest survey also presents typical dollars of rent per bushel of corn and soybean yield for each county, based on the county average yield for each crop during the last 10 years. This year the rent per bushel ranged from \$.93 to \$1.10 for corn and from \$3.20 to \$3.60 for soybeans across the 12 areas.

Survey results are intended to be used as guidelines, only. The appropriate rent for an individual farm should take into account factors such as fertility levels,

drainage, USDA program parameters, size and shape of fields, existence of seed production or manure application contracts, local grain prices, and other services provided by the tenant.

Other resources include Ag Decision Maker information file C2-20, "Computing a Cropland Cash Rental Rate," and file C2-21, "Flexible Farm Lease Agreements." Both of these include decision file electronic worksheets to help analyze leasing questions.



## Energy agriculture - who will own it?

*by Don Hofstrand, value-added agriculture specialist, co-director AgMRC, Iowa State University Extension, 641-423-0844, dhof@iastate.edu*

The lack of profitability of agriculture over the last 50 years had a silver lining – nobody bothered us. Rates of return in production agriculture of 4 to 7 percent did not attract many outsiders. Although we have seen outside investment in the livestock sector, much of the rest of production agriculture was left untouched. So we were relatively isolated from outside intruders. This allowed us to run this industry the way we wanted to.

This is changing. Outside investors are attracted to "rates of return" like a moth is to a flame. And the recent returns to ethanol production have attracted a lot of attention. So we need to get used to sharing our turf with outsiders.

However, the concern is not with the outside investors. Rural America probably cannot adequately capitalize the array of renewable fuel companies emerging over the next decade. And outsiders bring business expertise. So outside investment is crucial for fully developing the renewable fuels industry in rural America. But to generate the maximum impact of the renewable fuels movement on rural economic development, we need to provide for rural ownership of these companies so that rural investors receive a portion of the profits.

Economic developers often look to job creation, tax base expansion and related economic activity as the

benefits of developing the renewable fuels industry. And these are important aspects. However, ownership and the returns that ownership provides are other components of rural development. Farmers and rural residents have a long history of making ownership investments in agriculture and rural America. So ownership plays an important role in rural economic development.

To the credit of many of the current renewable business projects seeking funding, they are attempting to provide investment access to rural residents. However, conducting fifty or more investor meetings to access local small investors takes a lot of time and effort. Moreover, the Security and Exchange Commission exemptions provided for small business ventures often don't fit the needs of these types of rural businesses. So it is easier to bring in two or three large outside investors than 1,000 small local investors.

### Investment Funds

Investment funds could be an attractive alternative for rural investors and for equity seeking agribusinesses. Rural investors could pool their money in an investment fund which would subsequently invest in a variety of renewable fuels and other rural companies. This would provide the individual investor with a diversified portfolio of investments without personally investing

*Energy agriculture - who will own it?, continued from page 2*

in each company. From the company's perspective, it can access capital from the investment fund rather than trying to attract investment from a wide variety of individual investors.

An impediment is the complication and expense associated with the registration required under the Investment Company Act. This fixed cost is overly burdensome for small funds of the type that would be used in rural areas.

However, funds with 99 or fewer investors are exempt from these registration requirements. This exemption is often used by large funds that are dominated by a relatively few very wealthy investors. Because of the large investment per investor, ninety-nine investors can create a fund of enormous size.

But this provides little value for rural funds that have a large number of small investors. So, under current law, rural investment funds have limited value as a vehicle for local ownership of renewable fuels and other rural businesses

Designing an exemption that restricts the size of the investment of each investor rather than the number of investors would meet rural needs. For example, limiting the size of each investment to no more than \$50,000 and limiting the size of the fund to no more than \$50 million dollars would provide a fund of at least 1,000 investors that would have adequate size to invest in a variety of renewable fuels and other rural businesses.

These funds could be tailor-made to the needs of the investors. Some funds could be designed for investors seeking a modest return and low risk profile by restricting investment to established businesses. Other funds could be designed for a high risk/high return profile by investing in startups.

### Liquidity

The ability to sell renewable fuels or other agricultural processing investments has been a problem for rural investors. New Generation Cooperatives are especially problematic because most of them are required to be owned by farmers. So when a farmer retires, he cannot be an owner. The shares must be liquidated even if the owner would like to retain them.

The market for these shares is limited because they must be sold to another farmer. For example, the ownership interest cannot pass to heirs if the heirs are

not farmers. As the number of farmers continues to decline, the size of the pool of eligible buyers for the shares also declines.

Companies formed as Limited Liability Companies (LLC) are also problematic. Although LLC shares can be owned by non-farmers and sold to non-farmers, finding potential buyers is difficult.

Clearinghouses have emerged in recent years to bring together buyers and sellers of these agricultural investments. Although providing a valuable service, these organizations don't provide the liquidity that would be provided by an organized exchange.

### Rural Mainstreet Exchange

Some of my business development friends and I have brainstormed about a stock exchange for rural America. Although it would be designed to meet the needs of rural investors and rural businesses, it would be open to anyone. We could call it the "Rural Mainstreet Exchange".

Rural investors tend to look for long-term investments. They also prefer investments that provide annual returns rather than large capital gains when the investment is sold. In other words, rural investors tend to provide "patient capital". Moreover, rural investors often look to invest in companies that provide local rural development.

Conversely, traditional stock market investors are usually looking for investments where they can quickly capture large capital gains. Moreover, the rural development aspect of these investments has little impact on their investment decision.

The exchange could be designed for electronic trading. Listed companies would provide company reports along with transparency of financial records to help buyers and sellers assess the financial value of the company.

Granted, starting a stock exchange is a daunting task. But it would provide easy access for rural residents to participate in the ownership of these businesses. It would also provide for improved liquidity when selling.



## Managing finances with high grain prices

by William Edwards, extension economist, 515-294-6161, wedwards@jastate.edu

Columns about financial management on the farm usually appear when commodity prices are low, interest rates are high, or some other condition puts a squeeze on cash flow. Over the long run, however, how we manage when prices are high may have even more impact on the economic viability of the farm business. No one wants to miss the boat when prices are good, but sinking the ship is even worse.

### Another Crisis?

Current grain prices are as attractive as we have seen for many years. And the best part is that they are caused by an increase in demand, not a short crop, as is often the case. If the world's appetite for energy remains at current levels, high prices may persist. On the other hand, there are always some "old-timers" around who remember the late 1970s when export expansion fueled an explosion in farm commodity prices, and the U.S. was poised to feed the world for many years to come. A combination of factors turned the boom into a bust, and financial stress permeated the farm sector during the 1980s.

Are current conditions similar to the 1970s? The strong increase in demand for grains and oilseeds is similar, though for different reasons. However, we have not had any short crops or grain embargoes, and the general inflation rate in the economy has remained low and steady. The average ratio of farm liabilities to assets for Iowa farms in 1970 was 21 percent. By 1985 it had risen to 34 percent. At the beginning of 2006, though, it was only 11 percent. Most Iowa farms have a substantial equity cushion.

Grain farms, at least, are certainly looking at improved cash flows and farm income for 2007, barring severe crop losses. How should a bumper crop of cash receipts be invested? Here are some possibilities.

### Pay Off Debt

Although the average Iowa farm has a low debt-to-asset ratio, there are still many operations that have substantial liabilities from purchases of land, livestock, machinery or other fixed assets. Paying off debt ahead of schedule will reduce interest costs down the road, and provide a cushion when leaner years return. Compare

interest rates on all loans, and see which ones allow for early repayment without penalty. Remember that reducing debt carries a guaranteed rate of return equal to the interest rate on the borrowed funds.

Extra funds can be used to reduce operating lines, and create a larger credit reserve for emergencies. The "current ratio" is the value of current assets like cash, stored grain, market livestock and supplies, divided by debt payments and accounts payable that are due in the next 12 months. Most lenders like to see a current ratio of 2.0 or larger. The dollar difference between current assets and current liabilities is called "working capital," and should be equal to at least 25 to 35 percent of annual gross revenues for most farms.

### Pay Cash

Many farming operations will look to replace depreciated assets such as machinery and equipment in the next few years. Instead of financing such purchases with credit, cash receipts may be sufficient to make the trade. Operators who have been leasing machinery may find this is a good time to switch to ownership and build up some equity in their equipment line. If cash is not sufficient to finance the entire purchase, a larger than usual down payment can make the debt easier to service in the future.

Land purchases look very tempting today, despite (or maybe because of) rapidly increasing land values. Increased revenue from high grain prices will eventually be bid into land prices and cash rents—it is happening already. Realistically, it doesn't take any new management skills to produce corn and soybeans for ethanol or biodiesel, but it does take access to land. Thus, a larger proportion of net farm income will accrue to land ownership and a lower proportion will accrue to labor and management.

Budget carefully when financing land purchases. Will it take a profit margin equal to 2006 or 2007 levels to meet future payments? Or can you make it cash flow under more typical economic conditions? Farm land mortgages represent a long-term commitment. Purchasing fewer acres with a higher down payment can lower financial risk.

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Managing finances with high grain prices, continued from page 4

Stay Flexible

Rental rates have also been pushed up by bullish grain markets. Unlike land purchases, most leases obligate the operator for only one year or a few years. Given the uncertainty about where "fair" rental rates should be, many tenants and landowners have agreed on flexible cash rent agreements, with the final rent established according to actual prices and yields. The ISU Extension Ag Decision Maker website has more information on flexible leases (see Flexible Farm Lease Agreements, File C2-21, www.extension.iastate.edu/agdm/whole-farm/html/c2-21.html).

Spreading net worth over more crop acres can have the same "leverage" effect as borrowing more funds. The average net worth per crop acre for Iowa farmers is around \$1,000. Values substantially below this mean that small variations in the market will have a larger effect on the farm's equity.

Finally, it doesn't hurt to have a little fun when extra cash is available. Take that vacation you have always wanted, or remodel the kitchen. You have earned it!

New hybrid not approved in international markets, farmers must keep seeds separate

DES MOINES - Iowa Secretary of Agriculture Bill Northey today encouraged Iowa farmers planting corn from Syngenta with the new "AgriSure™ RW" trait, which is resistant to rootworm, to check into marketing restrictions they will face during harvest this fall.

Sure™." The safest option available to farmers is for them to feed it to their own livestock.

"AgriSure™ RW MIR 604" has been approved by the USDA's Animal and Plant Health Inspection Service for use in the United States, but the product has not yet been approved for use by a number of countries around the world.

A major market disruption would result if "AgriSure™ RW" is found in the export channels or by countries that have not yet approved of its use. Additionally, biotech missteps may lead to additional regulation as well as longer waiting periods in the future for international acceptance.

"New technology, like corn that is resistant to rootworm, has been a huge benefit to farmers and it is important that we continue pursue this technology in a responsible way if farmers are going to meet their mandate to feed and now fuel the world," Northey said. "But, it's critical that Iowa farmers understand the restrictions that they will face as they try to market 'AgriSure™ RW' this fall and the potential enormous negative effect on our export markets if it is not handled properly."

"Syngenta has assured me that they are confident that this event can be introduced without incident and it's important they are right," Northey said. "Many experts and industry leaders have expressed concerns that Syngenta has rushed this hybrid to market and I hope those concerns aren't proved to be justified."

Since "AgriSure™" is currently only approved for domestic use, farmers will be responsible for finding markets that only serve domestic users when marketing their crop this fall. This includes Dried Distillers Grains (DDGs) produced from "AgriSure™ RW" corn by ethanol plants.

The National Corn Growers Association has requested that Syngenta not release the trait this planting season based on the current lack of full Japanese approvals. Japan is the U.S. leading export market and accounts for nearly 5 percent of total U.S. production. According to USDA, approximately 20 percent of the corn crop in America is exported annually.

Currently, it is unknown how many feed mills, ethanol plants and elevators in Iowa are willing to take "Agri-

It is likely many international markets would be closed if "AgriSure™ RW" is found in shipments to Japan or other countries that have not yet approved of its use.

It's important that farmers pay close attention to the "communication and commitment" form they signed when purchasing the product and to double check



New hybrid not approved for international markets, farmers must keep seeds separate, continued from page 5

to see limitations placed on them by the agreement. Farmers may also want to mark the planting locations on their farm maps to track of the "AgriSure" plants at harvest.

The co-mingling of corn at elevators and the increasing amount of DDGs from ethanol plants that are being exported makes the separation of "AgriSure™" corn from varieties that have been approved for export very difficult.

The rapidly changing ethanol industry is causing companies that haven't exported corn or DDGs in the past to examine international markets as a possible new destination for these products. As a result, some elevators and ethanol plants that have not exported in the past may be looking to in the future.

"The best advice for farmers that have already pur-

chased or planted this hybrid is for them to contact their elevator or feed mill and to stay in touch with them regularly until they deliver this fall," said Northey. "It's vitally important for all farmers to understand the restrictions that they will face this fall and are preparing now to deal with them."

Farmers with questions or concerns can learn more on Syngenta's website at [www.agrisuretraits.com](http://www.agrisuretraits.com) or by calling a toll free line at 1-866-796-4368.

Farmers with questions or concerns can contact the Iowa Department of Agriculture and Land Stewardship at (515) 281-5321, the Iowa Corn Growers Association at (515) 225-9242 or the Iowa Attorney Generals Office at (515) 281-5351. The Iowa Corn Growers also have a "Know Before You Grow" website with more information on all biotech hybrids that can be found at [www.iowacorn.org](http://www.iowacorn.org).

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Internet Updates

The following updates have been added to [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm).

Setting Your Price – C5-17

Commodities versus Differentiated Products – C5-203

Demand – C5-204

Decision Tools

The following decision tools have been added to [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm).

Cash Flow Budget - multiple crops and livestock – Use this Decision Tool to calculate a detailed cash-flow budget for your farm with multiple crops and livestock.

... and justice for all

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