Ag Decision Maker

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Farm Financial Management: 16 Ways to Stretch Cash Flow

No matter how well you budget or how efficiently you manage your farm business, there may be periods in which cash flow is negative. No one knows for sure when these periods will occur, and how long will they last, but every operation should have a **financial contingency plan** to provide for unexpected cash flow shortfalls.

The following actions can be taken to improve an operation's liquidity when projected cash inflows fall short of projected cash outflows. They are listed in order of expediency.

1. Utilize **cash surpluses** built up from previous years. This may involve tapping into savings accounts or liquidating financial assets.
2. Liquidate stored crops and market livestock. This is part of the farm's **working capital**. Note that this is a short-term strategy. Crop and livestock inventories should be rebuilt as soon as profits become more favorable.
3. Tap into a **credit reserve** or unused borrowing capacity for both current expenses and longer term investments. At some point lenders will put a limit on how much debt can be accumulated, though.
4. Use equity in long-term assets such as land or machinery to **refinance** excess current liabilities if the need arises. Payments can be scheduled over several years instead of being all due in one year.
5. **Lengthen the repayment period** on term loans. Rewriting a 3-year note to a 6-year note will cut the payments nearly in half. Of course, more interest is paid in the long run. **Balloon payments** can also be used to reduce debt servicing in the short run. This would allow for shorter payments in the short term and a large payment at the end of the borrowing period, when cash flow is improved.
6. **Defer capital asset purchases** until cash flow improves. Refurbish equipment instead of replacing it. Reduce livestock culling rates instead of buying replacement breeding stock.
7. **Combine farms on your crop insurance policy** to take advantage of premium discounts for enterprise units.
8. Take advantage of Farm Service Agency (FSA) **guaranteed loan programs** to reduce your credit risk and improve repayment terms and interest rates. FSA also offers low-interest **marketing loans** on stored grain for up to nine months.
9. Increase **nonfarm earnings**. Part-time or full-time employment by a family member may not only bring in added income, it may reduce health care and insurance expenses. Alternatively, use farm assets such as machinery or shop facilities to perform services for other people. Examples include moving snow, hauling grain, installing tile, repairing machinery and remodeling buildings.

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10. Decrease **nonfarm expenditures**. Postpone investments in vehicles and non-essential assets. Limit travel and recreational expenses. Utilize consumer credit or educational loans, if necessary.

11. **Cancel or renegotiate leases** if high cash rents make it unlikely that you will at least cover variable costs. Alternatively, propose a **flexible cash rent** or **crop-share arrangement**. Cash outlays can be reduced even further by converting a lease to a **custom farming** agreement.

12. **Sell off less productive assets** to raise cash. Compare reduced costs and lost income to identify assets that will have the least negative impact on total farm profits. If the land base is reduced, down size machinery, as well.

13. **Own machinery jointly** with another producer to lower fixed costs, or **trade** the use of **equipment and labor** with someone with whom you can work well.

14. If liquidating assets produces a large taxable income, check to see if **averaging income** with prior tax years can reduce your tax liability.

15. **Lease assets** instead of owning them. Machinery lease payments are often lower than loan payments. In some cases, cash flow can be improved without reducing farm efficiency by selling assets and then **leasing them back**, thereby maintaining the size of the operation and fully employing labor. Investors may be willing to purchase breeding livestock or land and allow the operator to continue providing labor and management.

16. Seek **outside resources**. Rely on relatives or other personal contacts for emergency financing or for the use of machinery or buildings at little or no cost. Businesses operating as a corporation or LLC may be able to sell shares to non-farm investors.

Low prices and high costs affect everyone. These actions are not substitutes for operating a profitable business. In some cases, actions that are not profitable in the long run may have to be taken in order to cover cash flow obligations in the short run. But, depending on the severity of the farm's financial condition, any of them can be applied as a means to continue operating until profits increase.

Financial stress can lead to increased stress in other areas. During unprofitable times in agriculture, check in with friends and neighbors. If you or someone you know is struggling, encourage them to seek professional help, possibly from a medical professional, clergy person or counselor. Assistance is also available at any time through the **Iowa Concern Hotline**, 800-447-1985.

Iowa State University Extension and Outreach offers a free and confidential program called Farm Financial Planning. It consists of one-on-one counseling with trained farm business consultants who provide help developing accurate financial statements, budgeting alternative actions, and contacting other extension programs or outside services that may be useful. More information is available at www.extension.iastate.edu/farmanalysis/. For a list of Farm Financial Planning associates go to www.extension.iastate.edu/farmanalysis/associatelist.htm.

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