

After the Freeze of 2012, How do I Prepare for the Future?

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Steps to Moving Forward

- Re-evaluate everything about your business
- Get a firm handle on your financial position
- Look for opportunities
- Address Risk

Re-Evaluation

- Time to retire?
 - Sell or lease?
 - Give my successor a chance?
 - Expand?
 - Get outside employment?
- Do I have a successor?
 - Are you listening to successor?
 - Parent want successor to be successful?
 - Parent's job to train and educate successor to be more successful than they were (fly the nest)
 - Moves business to next level
 - Are you listening to advisors but making no changes?

Re-Evaluation Continued

- Will business support me and a successor?
 - If not, someone has to retire or leave
- In full production years did you have major income tax obligations?
- Sell some land reinvest in business? (downsize)
- Do I have under performing assets to sell?
 - Recreation land
 - Building lots
 - Sell second home?
 - Other things I can sell?
 - Sell & use proceeds for business?

Get Firm Handle on Financial Position

- Annual accrual balance sheet is minimum
 - Business analysis recommended
- Someone in business **must** become financially savvy
 - Create annual budget
- Know difference between cash flow and profit
 - Evaluate each block financially
 - $\text{Yield} \times \text{price} - \text{expenses} = \text{profit}$
 - Then deduct an allocation of overhead, loan principle, family living, cap expenditures
 - An unprofitable block will produce cash flow
 - Keeping an unprofitable block creates bigger impacts later; like right now

Get Firm Handle on Financial Position

Continued

- Is my re-planting schedule adequate?
 - Annually renewing plantings?
 - No growth = falling behind
- If I retire, need income from farm?
 - What is my personal financial position?
 - Will I need land rent from the farm?
- Maximize resources you have
 - Irrigation?
 - High density?
 - More cost effective than buying land

New Opportunities

- Asparagus lease
 - Existing grower already has the labor
 - Asparagus easy sell environmentally
 - Industry needs virgin land
- Renew orchard with MI emergency loan funds?
- Other crops?
- Future goal: major income tax problems

New Opportunities Continued

- Lease established orchard
- State of MI emergency loan?
- Farm Service Agency emergency loan?

MI Emergency Loans

- 1% interest
- 5 year term
- Annual installments
- First year interest only
- 25% of principal years 2-5
- “Qualified” loans usually secured by real estate
- Max loan 75% loan to appraised value
- No origination fees
- Applicant to pay appraisal, title insurance, other misc. fees
- Covenants will apply, e.g. crop insurance coverage
- Funds can be used to refinance existing loans - be cautious;
FCS 20 yr loan tier 1 at 4.95% now
- **Loans must be closed by March 31, 2013**

Address Risk

- NAP a no brainer for tart cherries
- Crop insurance
 - Do not consider insurance a profit center
 - Don't need insurance until you need it
 - Goal from insurance: stay in business

Federal NAP (Non-insured Assistance Program Continued)

- Example: 100 acre tart cherry farm
- APH yield: 7,000 lb/acre tart cherry
- 2012 harvest: 0 pounds/acre
- Yield coverage: $50\% \times 7,000 \text{ lb/acre} = 3,500 \text{ lb/a}$
- Price coverage: $55\% \times 5 \text{ year avg mkt price} = \$.222$
- Economic coverage: $3,500 \text{ lb/ac} \times \$.222/\text{lb} \times 55\% = \$427/\text{acre}$
- For “0” harvest payment reduced 20% (no harvest cost)
- Payment = $\$427 \times 80\% = \$341/\text{acre}$
- If 2012 harvest of 1000 lb; NAP pymt for 2500 lb;
- $2,500 \times \$.222 \times 55\% = \$305/\text{acre} + \text{cherry sales } 1,000\text{lb/ac}$
- NAP Premium \$250

Resources

- Tart Cherry Cost of Production 2010
AECReport6391 - Tarts.pdf
- Orchard/Vineyard Lease Template With
Trees/Vines Pre-Existing
- Long-Term Orchard/Vineyard Lease (This lease
is designed to accommodate an
orchard/vineyard from pre-planting through
its productive life).

MSU Extension Can Assist

- MSU Extension Farm Management Educators can assist commercial producers with compiling balance sheets and calculating future income projections
- Contact your local extension office to determine the educator for your area
- Or, contact Curtis Talley Jr. 231-873-2129 to determine the educator for your area

Thank You

- QUESTIONS???