May WASDE Provides the First Crop Projections for the 2015-16 Marketing-Year

USDA’s May World Agricultural Supply and Demand Estimate (WASDE) report is widely anticipated by the grain market as it provides the first supply and demand estimates for the 2015-16 marketing-year. The USDA Agricultural Baseline Projections released in February provide a long-term outlook for the crop sector but are based on economic models. In contrast, the May WASDE uses the Prospective Plantings survey from March as a guide in defining potential acres for 2016 with weather-adjusted trend model yields assumed in projecting production.

USDA is currently projecting the 2015 corn crop at 13.63 billion bushels (Table 1) based on a planted area of 89.2 million acres based on the March survey. If realized, the 2015 corn crop would be 586 million bushels smaller than the record 2014 crop. USDA is projecting corn yields at 166.8 bushels/acre which would be the second largest on record after the 2014 record yield of 171 bushel/acre (Table 1). Corn use is projected to increase by 138 million bushels mostly through increased exports and increased feed use. USDA is projecting 2015-16 corn ending-stocks to decline slightly to 1.746 billion bushels which would be a 12.7% stocks-use ratio. Prices are still projected to decline as the 2015-16 U.S. Marketing-Year Average (MYA) price is projected at $3.50/bushel which would be $0.15/bushel lower than the 2014-15 MYA price (Table 1).

Table 1: U.S. Corn Supply and Use

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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Planted Area (million)</td>
<td>97.3</td>
<td>101.4</td>
<td>90.5</td>
<td>89.2</td>
<td>-1.4</td>
</tr>
<tr>
<td>Harvested Area (million)</td>
<td>87.4</td>
<td>87.6</td>
<td>83.1</td>
<td>81.7</td>
<td>-1.4</td>
</tr>
<tr>
<td>Yield (bushels/acre)</td>
<td>183.1</td>
<td>185.1</td>
<td>171.0</td>
<td>166.8</td>
<td>-4.2</td>
</tr>
<tr>
<td>Total Plants</td>
<td>15,904</td>
<td>15,668</td>
<td>15,672</td>
<td>15,505</td>
<td>-44</td>
</tr>
<tr>
<td>Production</td>
<td>12,765</td>
<td>13,926</td>
<td>14,016</td>
<td>13,550</td>
<td>-500</td>
</tr>
<tr>
<td>Imports</td>
<td>162</td>
<td>35</td>
<td>55</td>
<td>56</td>
<td>-0</td>
</tr>
<tr>
<td>Total Supply</td>
<td>16,090</td>
<td>15,668</td>
<td>15,722</td>
<td>15,505</td>
<td>-44</td>
</tr>
<tr>
<td>Feed and Residue</td>
<td>5,916</td>
<td>5,905</td>
<td>5,920</td>
<td>5,350</td>
<td>-56</td>
</tr>
<tr>
<td>Food, Seed Industrial</td>
<td>6,938</td>
<td>6,921</td>
<td>6,547</td>
<td>6,650</td>
<td>-83</td>
</tr>
<tr>
<td>Ethanol and by-products</td>
<td>6,941</td>
<td>6,134</td>
<td>5,350</td>
<td>5,200</td>
<td>-140</td>
</tr>
<tr>
<td>Exports</td>
<td>3,356</td>
<td>3,627</td>
<td>3,627</td>
<td>3,627</td>
<td>0</td>
</tr>
<tr>
<td>Total Use</td>
<td>11,139</td>
<td>10,746</td>
<td>10,882</td>
<td>10,770</td>
<td>-160</td>
</tr>
<tr>
<td>Ending Stocks</td>
<td>2,516</td>
<td>1,858</td>
<td>1,465</td>
<td>1,745</td>
<td>254</td>
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<tr>
<td>Stocks/Use</td>
<td>7.47%</td>
<td>9.27%</td>
<td>13.56%</td>
<td>12.71%</td>
<td>-0.95</td>
</tr>
<tr>
<td>Days of Stocks</td>
<td>37</td>
<td>33</td>
<td>50</td>
<td>45</td>
<td>-5</td>
</tr>
<tr>
<td>U.S. Marketing-Year Average (MYA)</td>
<td>$3.50</td>
<td>$4.46</td>
<td>$3.66</td>
<td>$3.50</td>
<td>-$0.16</td>
</tr>
</tbody>
</table>

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Featured Articles:

- May WASDE Provides First Crop Projections for 2015-16 Marketing-Year – Todd Davis
- From Beginning Farmers to the Next Generation - Farm Succession – Lee Meyer, Jennifer Hunter, Steve Isaacs
- Concerns about Land Prices – Steve Isaacs
- Chapter 12 Bankruptcy - Debt Reorganization – Jonathan Shepherd
- Kentucky Ag Leadership Program Accepting Nominations – Will Snell, Steve Isaacs
The 2015 soybean crop, based on the Prospective Plantings survey and trend yields is projected at 3.85 billion bushels (Table 2) which is 119 million bushels smaller than the record 2014 soybean crop. The 2015-16 soybean demand is projected to decrease slightly, 12 million bushels, due to slightly lower exports. The impact of reduced exports is partially offset by a projected increase in crushing demand (Table 2). Ending-stocks for 2015-16 soybeans are projected to increase to 500 million bushels or a 13.4% stocks-use ratio. If realized, the increase in stocks would pressure prices lower to a projected U.S. MYA price of $9/bushel as compared to the U.S. MYA price of $10.05/bushel for 2014-15 (Table 2).

The 2015 wheat crop is expected to increase slightly from the 2014 crop to a projected harvest of 2.087 billion bushels (Table 3). USDA is projecting a more average level of abandonment which if realized could increase harvested area by 1.6 million acres over the area harvested in 2014 (Table 3). On the demand side, use is projected to increase by 87 million bushels from 2014-15 with exports being the driver of demand growth (Table 3). A strong dollar coupled with export competition from other exporting countries could keep US wheat exports limited and place pressure on price. The 2015-16 U.S. MYA price is projected to decline $1/bushel from 2014-15 to $5/bushel (Table 3).

Clearly there is a long ways to go before the 2015 crops are in the bin so expect theses balance sheet projections to change throughout the growing season. The take-away message at this point is that soybean and wheat stocks are projected to increase while corn stocks might decline slightly. If weather throughout the growing season is conducive for above trend yields like in 2014, then you can expect further pressure on commodity prices as stocks continue to grow for the principal crops.

The 2015 soybean crop, based on the Prospective Plantings survey and trend yields is projected at 3.85 billion bushels (Table 2) which is 119 million bushels smaller than the record 2014 soybean crop. The 2015-16 soybean demand is projected to decrease slightly, 12 million bushels, due to slightly lower exports. The impact of reduced exports is partially offset by a projected increase in crushing demand (Table 2). Ending-stocks for 2015-16 soybeans are projected to increase to 500 million bushels or a 13.4% stocks-use ratio. If realized, the increase in stocks would pressure prices lower to a projected U.S. MYA price of $9/bushel as compared to the U.S. MYA price of $10.05/bushel for 2014-15 (Table 2).

The May WASDE had the greatest initial impact on the soybean market as the November soybean contract closed $0.18 ¾ lower on the day of the report (May 12). Since then, the November soybean contract has continued to depreciate due to the prospects of record domestic acreage and the projected increase in stocks. In addition, the South American has harvested another large crop which adds to global soybean stocks.

The May report had little impact on the December corn futures contract as the contact has been trading in the $3.70 to $3.90/bushel range throughout May. The July wheat futures contract has posted a nice rally unrelated to the May report. Concerns of too much rain in the Hard Red Winter wheat zone plus weather concerns globally has given some life to the wheat contract as it has increased from $4.81 ½ on May 13 to $5.15 ¼ /bushel on May 22.

"Todd Davis, todd.davis@uky.edu"
Kentucky’s KyFarmStart program has helped hundreds of beginning farmers in Kentucky over the past five years. The emphasis of the program has been on helping farmers who have less than 10 years of experience as farm managers develop whole farm and business plans. The program has also provided training in enterprise selection, soils and various production practices.

While meeting the needs of folks who are beginning a farming enterprise, some pieces of the program need to be changed to meet the needs of beginning farmers who have been part of an on-going farm, sometimes for generations. One of the extension agents wisely uses the term “next generation” to describe these farmers. They are beginners, because they have not been the core decision makers or managers on the farms. But often they have 10 or 20 years’ experience on the production side of farming (planting, harvesting, spraying, maintaining equipment, etc.) Typically, these are larger row crop farms, but some of the central Kentucky cattle and tobacco operations also fit this description.

Next Generation farmers have two sets of needs. One set is management – the financial, personnel and planning skills that any business needs to succeed. The other set is more complicated – it’s the communications and interpersonal skills needed to help the younger “next generation” find a place on the management team of the farm. Generations lead to hierarchical systems – with the older generation often having trouble sharing management responsibilities with the younger generation. And to complicate matters, next generations often bring more people – brothers, sisters, spouses – and their children, into the process.

“Farm Succession” is the term used to describe this situation. Farm succession is sometimes scary because it suggests an outright transfer of the farm from one generation to the next. However, the compromise situation where management decisions are identified and responsibilities are shared can improve the management of the farm and provide a path to gradual transition and most importantly, meeting the needs of the farm families. We’re shifting the focus of our USDA funded KyFarmStart program so we can help more farm families successfully deal with the farm succession issue. The first step is the two KyFarmStart Farm Succession workshops coming up this summer.

The workshops are scheduled for Thursday, July 23 in Owensboro and Friday, July 24 in Lexington. Speakers, including David Kohl, Steve Isaacs, Jolene Brown and David Marrison will address topics including the long run outlook for agriculture, business planning, evaluating the farm business, decision making and on-farm management and communications within the farm family.

~ Lee Meyer, lee.meyer@uky.edu
~ Jennifer Hunter, jhunter@uky.edu
~ Steve Isaacs, sisaacs@uky.edu

http://www2.ca.uky.edu/kyfarmstart/
Concerns about Land Prices

With lower commodity prices and diminished profitability in the grains sector, considerable concern is being expressed about land prices. The past decade has been a good one for land prices. USDA reports that national farm real estate values have increased 79% since 2005. Increases have averaged 8.2% annually over the past ten years...and that includes a negative 3.7% in 2009. It’s been a good run. Is it over?

Data from the Iowa Land Institute as reported in Iowa State’s Ag Decision Maker indicates that values have been declining there for several months. Results from the last two year’s surveys are reported below.

While Iowa cropland values have shown significant declines in the past two years, the same survey indicates that non-tillable pasture land and timber land have increased 4.7% and 3.3% respectively in the same period.

These data are not surprising given the decline in grain profits and improved livestock profitability. Is the same thing happening in other regions? Maybe, maybe not. Recent discussions with KY Farm Business Management specialists and lenders at the Southeast Ag Lenders School suggest that while the bloom is off the land value rose, we have not seen the double-digit declines of Iowa. Informal anecdotal reports indicate that southeastern land values are stabilizing with some softening. Clearly, the diversity of southeastern agriculture and alternative uses for land tend to mitigate the effects of lower grain profits.

Ag real estate has been on a good run. Will it continue? Not at the pace it has been. Will it crash like it did in the 80s? Not likely? Conditions are different. Will land values decline? Very likely, particularly in areas that are dependent on commodities with lower profitability. Ag land values are driven by expected profits...always have been, always will be. In fact, expected revenue divided by a capitalization rate (or interest rate) is the formula to derive land values. So, with declining profitability and the potential for increases in interest rates, declines in land values should be expected.

~ Steve Issacs, sisaacs@uky.edu

Farmland Value Survey of the Iowa Realtors Land Institute

<table>
<thead>
<tr>
<th></th>
<th>Sept 2013</th>
<th>March 2014</th>
<th>Sept 2014</th>
<th>March 2015</th>
<th>% change</th>
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<tbody>
<tr>
<td>High Quality Cropland</td>
<td>$11,674</td>
<td>$11,104</td>
<td>$10,701</td>
<td>$9,924</td>
<td>-15.00%</td>
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<tr>
<td>Med Quality Cropland</td>
<td>$8,815</td>
<td>$8,323</td>
<td>$8,045</td>
<td>$7,375</td>
<td>-16.30%</td>
</tr>
<tr>
<td>Low Quality Cropland</td>
<td>$5,785</td>
<td>$5,432</td>
<td>$5,199</td>
<td>$4,816</td>
<td>-16.70%</td>
</tr>
</tbody>
</table>

Source: Ag Decision Maker, Iowa State University. [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm)
Chapter 12 Bankruptcy- Debt Reorganization

Nobody’s long term business goals include bankruptcy. It is an action of last resort and one that carries a lot of misconceptions, fears, confusion, stigmas and is rife with emotions. Possibly one of the biggest misconceptions about bankruptcy is that it is the ultimate death blow to your business. This is not always the case. Chapter 12 bankruptcy allows for repayment of debt through reorganization with one of the biggest benefits being that the debtor can continue in the farming business.

Chapter 12 Bankruptcy Code was added to existing bankruptcy chapters in the 1980’s and allows “family farmers” and “family fisherman” to propose a plan to the courts to restructure their debt with a repayment plan. The repayment plan is structured over a three to five year period, but generally cannot exceed five years. It is an action that must be initiated by the debtor by petitioning the court. Chapter 12 Bankruptcy Code dictates that the debtor must submit a repayment schedule to the court within 90 days of filing the petition. During the duration of the bankruptcy and after, the farmer may continue to farm and the farm assets remain in the debtor’s possession (in most cases).

The terms “family farmers” and “family fisherman” cover an individual or an individual and their spouse, but do not exclude partnerships and corporations from using this form of bankruptcy. In order for corporations and partnerships to qualify for Chapter 12 bankruptcy, the corporation or partnership must be at least 50% owned by an individual or an individual family. Also, the farming activities within the partnership or corporation must be carried out by the individual, family or the family’s relatives. If you are filing chapter 12 as an individual or an individual and spouse you must meet four criteria:

1. Total debt cannot exceed $4,031,575 (farmers) or $1,868,200 (fisherman)
2. Must be engaged in farming or commercial fishing
3. At least 50% (farmer) or 80% (fisherman) of total debt must come as a result of farming/commercial fishing
4. More than 50% of the gross income for the preceding year must have come from farming/commercial fishing (for farmers, if the previous year failed this income test, then the previous two years before the most recent year must have resulted in more than 50% of gross income derived from farming)

In addition to the above four criteria for individuals and spouses and the 50% ownership rule mentioned above, corporations and partnerships must meet additional criteria to qualify. Specifically, assets of the corporation or partnership must be related to farming/fishing by more than 80%. Further, for corporations that issue stock, stocks cannot be publically traded.

When the petition is filed with the court, other documents are also required to be filed. These documents contain information such as a listing of all debts and assets as well as evidence of farming income, farm expenses and living expenses. Further, the court appoints a trustee who receives payments from the debtor and the trustee in return pays the creditors. Within 21 to 35 days of filing the petition the trustee will hold a meeting with the creditors. In this meeting the debtor is placed under oath and the trustee and creditors ask questions about the debtor’s financial situation and proposed repayment plan. This is followed up by a confirmation hearing within 45 days of filing the repayment plan. Here the judge determines if the plan is achievable and if it meets the requirements for Chapter 12 bankruptcy. If so, the plan is confirmed.

When fulfilling a confirmed repayment plan, the debtor gives the trustee all of their disposable income. Disposable income is generally defined for these purposes as what remains from gross revenue generated by the farm/fishing business after subtracting business expenses and family living expenses. The trustee retains a fee for handling the funds and then pays the remainder to the creditors. Ultimately, in Chapter 12 bankruptcy, it has to be shown that creditors will receive as much repayment under this chapter as if the farmer/fisherman had filed Chapter 7 bankruptcy (total liquidation). If this requirement is satisfied, and the farmer/fisherman is able to meet the repayment plan schedule, remaining unsecured debt is discharged at the end of the repayment plan. This does not mean that all unsecured debt will be repaid in total. As long as the debtor makes all payments in the confirmed plan, and all disposable income is given to the trustee, unsecured debt is discharged at the end of the bankruptcy. Failure to fulfill the repayment plan can result in the case being dismissed (no debt discharged) or allow for the case to be converted to Chapter 7 bankruptcy.

Continued on Page 6
One advantage of Chapter 12 bankruptcy allows for secured debt to be written down to the actual asset value with the difference being treated as unsecured debt. For example, assume a farmer owes $50,000 on a tractor but the tractor is only worth $35,000. As a result, the secured debt can be written down to $35,000 for the tractor and $15,000 of the previous debt will be treated as unsecured debt.

Generally debt cancellations (discharges of debt) that result from bankruptcy are considered taxable income. However, the amount of debt cancellation can be excluded from taxable income by reducing tax attributes for the tax year in which the debt cancellation was received. The Internal Revenue Service provides an order for which tax attribute reduction must occur and it follows:

- Net operating losses (for any NOL created in the current year and any NOL Carried forward to the current tax year)
- General business credit carryovers
- Minimum tax credits
- Capital losses
- Basis (both depreciable and nondepreciable property)
- Passive activity loss and credit carryovers
- Foreign tax credits

Tax attributes are reduced dollar for dollar except for credit carryovers. Credit carryovers are reduced $0.333 for each dollar reduction of debt cancellation excluded from taxable income. Tax attributes are reduced until the reduction equals the debt discharged or all tax attributes are reduced. It is important to note that the debtor may first choose to absorb some or all of the debt discharged as a reduction of asset basis before applying any remainder to the list of other tax attributes.

The option to exclude debt cancellation from taxable income by reduction of tax attributes does not entirely forgive the tax that would be due from the discharged debt if it were added to taxable income. Instead, reduction of tax attributes is a postponement of tax liability. With that concept in mind, it is important to strategically determine what tax attributes to “use up.” For example, if farmland is likely not going to be sold in the debtor’s lifetime, instead being passed on to the debtor’s heirs upon death, reduction of basis in the land may be more beneficial for the debtor by preserving other tax attributes if they exist. In this case, the land basis could be used to absorb some or all of the debt cancellation excluded from taxable income and the heirs will receive a “stepped-up” basis when the land is inherited.

Clearly Chapter 12 bankruptcy is an extremely complex legal action that requires competent legal counsel. This article only provides a brief overview of a chapter of bankruptcy that is available for qualifying farmers and fisherman and is intended only to be educational in nature. If your farming operation is financially stressed, it is advised that you reach out to farm financial experts to weigh your options.

~ Jonathan D. Shepherd, jdshepherd@uky.edu
Kentucky Agricultural Leadership Program Accepting Nominations

The Kentucky Agricultural Leadership Program (KALP) is soliciting nominations and applications for Class XI which will start in November 2015. KALP is an intensive two year program designed for young agricultural producers, agribusiness employees, and others associated with agriculture who want to enhance their leadership and communication skills and be on the “cutting edge” of decisions that affect agriculture, rural communities and society in the 21st century. A selection committee will assemble a diverse class of 20 high caliber individuals who are willing to make a two year commitment to KALP and a lifetime commitment to leadership in agriculture.

To date, the program has graduated 267 individuals from this program who have taken on active leadership roles at the national, state, and local levels. Various materials about the program, along with a nomination form are available on the KALP website, www.uky.edu/Ag/KALP/.

Nominations are due by June 15th. Please submit individual nomination forms (as an attachment) by e-mail to KALP-L@LSV.UKY.EDU, or return via U.S. mail to:

KALP
321 C. E. Barnhart Building
University of Kentucky
Lexington, KY  40546-0276

All nominees will receive information about the program and procedures for submitting the required application which will be due by July 15th. Application information will be available soon on the KALP website.

~ Will Snell, wsnell@uky.edu
~ Steve Isaacs, sisaacs@uky.edu