

Bluegrass Farm Analysis Association

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Merry Christmas!

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A Successful Annual Meeting!

Thank You!

I want to thank all of you who were able to attend the 1999 Annual Meeting. We had 42 people in attendance. 39% of our cooperators were represented and we were pleased to have the following guests: Gary Carter, Harrison County Ag Agent; Maner Ferguson, Fayette County Ag Agent; Dr. Larry Jones and Dr. Greg Ibandahl, UK Dept. of AgEcon; Dr. Lynn Robbins, UK Dept. of AgEcon Chairperson; Darwin Foley, Louisville Area Specialist in Farm Management; Linda Jones and Carol Eads, support staff for Bluegrass Farm Analysis; and my wife, Heather Adams-Blair.

If anyone has any suggestions for next year's Annual Meeting please feel free to call the office and we will gladly consider it.



Preparing for Check-In

I am making my rounds and I hope to visit everyone again before the Christmas Break. You can help me make this visit a productive one by being prepared to do the following:

1. Have your Federal ID # .
2. For those of you on MMAP, PLEASE get your checks current! We can not process a book until all checks are in and coded.
3. If you have money borrowed, call your bank and have them fax us your loan histories. If you deal with multiple banks, make sure you request histories from each bank.
4. Fill out as much of your record book as you can. If you are not used to filling it out, have all of your records handy and I will gladly help you.
5. Land Capital Inventory - This page in your record book must be updated! Fill in all the land that you own or rent. Also get your

basic quota for tobacco and put it on this page.

6. Depreciation Schedules - Update any sales or purchases.
7. If you would like a tax estimate, please call the office.

My purpose for this visit is to make sure we have most of the loose ends tied before check-in occurs. Your assistance with this matter is greatly appreciated.



New Cooperators Are Needed

If you know of anyone who may be interested in the services of Bluegrass Farm Analysis please give me their name and number and I will follow up with them. We are thankful to have a grant for recruitment of new cooperators in Woodford County but we also need new cooperators from our other 18 counties. Testimonials are the best sales piece and if you have one to share, please do so. Thank you for your years of service and your assistance in keeping this program strong.



Female Farmers Cultivate Future

Carla Batts Gerding, a Henry County farmer, is breaking into the asparagus business. "I'm looking for ways to keep our farm sustainable without depending so heavily on tobacco," she said.

Jane Elam, whose Fayette County tobacco and hay farm has been in the family for six generations, wants to keep it for generations

seven and eight. "I want to get innovative ideas for my grandchildren," she said.

Yesterday, both women traded green acres for a crowded seminar room in Louisville. They were among 310 women - about 100 others were turned away - who attended a conference put on by and for women in agriculture. The general theme was keeping family farms profitable.

"There are women who like farm life and want to work there, rather than seeking outside employment," said Alice Baesler, an assistant to state Agricultural Commissioner Billy Ray Smith and one of the conference's organizers. "Obviously, though, they cannot work on the farm if the operation is not making money."

As a group, women at the conference said their farms produced the traditional - tobacco, beef cattle, vegetables - but also the non-traditional, even the exotic - mushrooms, hot peppers, herbs, goats, llamas, and shrimp.

They heard about marketing, financing, farm safety, and seasonal labor, among other things. The advice they got: Be innovative, and band together.

Jill Long Thompson, the U.S. Department of Agriculture's undersecretary for rural development, said farm cooperatives have better chances of succeeding in the era of market concentration than individual farmers do if they try to go it alone.

"The buyers are, in many places, simple monopolies. That really puts us at an economic disadvantage. There are many of us but only one or two of them," Thompson said. "The future for us in agriculture - whether we are men or women, small farms or large farms - is going to be tied to how successful we are in forming cooperatives and working together." Individual, direct marketing can be a grind, some said.

Jennifer Gleason, who sells handmade soap and jelly from a farm in Robertson County, said she traveled the craft-show circuit to get established. "You work all week, and then you spend your whole, entire weekend selling your product," she said.

The current marketing strategy for her business, Sunflower Sundries, involves fewer shows - five next year - and more on-

farm sales. She also ships to 4,000 retail customers around the country.

Gerding, the asparagus grower, said she sells retail from her farm near Port Royal but wants to go wholesale, marketing to restaurants and stores in the Louisville area. Her farm, on land an ancestor received as payment for fighting in the American Revolution, will continue to grow burley, she said. "There's always going to be a market for tobacco," she said. "The total dependency on tobacco is what's dangerous."

Elam, of Fayette County, said she knew the next generations of her family could not make a living solely from the 160-acre farm. But it might be possible for them to preserve the farm as an educational center. "As farms get more scarce, especially in our area, we'd like to have a place where children could come and learn the ins and outs of agriculture, all different kinds of farming," she said. "Hopefully, this farm can remain in our family."

¹*The Courier Journal*, "Female Farmers Cultivate Future." Charles Wolfe, AP. November 12, 1999. B1.



Agri-holics Anonymous

For 26 years, I have told hundreds of audiences that the farm financial problem will never be solved until the producer himself accepts and takes a profit. Counting 1999, there have only been four dominant years where profits weren't available in my career. I know that's hard to believe - but it's true.

Unfortunately, too many producers begin to look at market prices after harvest. This is usually when prices are normally low. Most profitable opportunities arise when the seed is still in the sack. However, most farmers miss the financial boat because they are more concerned about old crop inventories than monitoring new crop prices. That's exactly what happened in 1998 that led the agricultural industry into its current spin.

Producers were holding their 1997 grain inventories, hoping prices would go higher, while missing 1998's good prices at the same time. This phenomenon allowed many farmers to have two bad financial years in just a few short months. But did you know that in 1997, December Chicago corn futures traded above \$2.75 per bushel for 54 days (10 weeks and 4 trading days!)? November board soybeans traded above \$7.00 for 71 days and KC July wheat traded \$4.00 or higher for 50 days. It all happened before May 5, 1997! Even in 1998, corn traded 124 days over \$2.75, soybeans 16 days above \$7.00 and wheat 53 days over \$4.00 - before April 2, 1998.

In 1999 we are seeing narrowed grain prices. Even so, between Oct. 1, 1998, and March 31, 1999, December corn futures still traded 51 days at or above \$2.50, November soybeans traded 31 days above \$6.00 and KC July wheat 21 days above \$3.50 - prices that seem to be attractive now.

²*Farm Progress*, "Devil's Advocate - Agri-holics Anonymous." Randy Allen. October, 1999, pp. 35.



Vote May Alter Tobacco Leasing

Burley tobacco growers and quota holders in Kentucky, Indiana, and Ohio will decide on a major change in their price-support program early next year, and their leaders expect some heated debate between now and then.

The vote - on whether to allow growers to lease tobacco quota across county lines - may make a major difference in where tobacco is grown and who makes money on it. And one tobacco executive says it could have important implications for American burley's position on the international tobacco market.

The Burley Tobacco Grower's Cooperative Association has taken one position on the vote, and the Kentucky Farm Bureau Federation - the state's largest

organization of farmers - has been on the other side.

The question was set up by a bit of last-hour legislating by U.S. Sen. Mitch McConnell, who quietly slipped enabling legislation into last month's U.S. Department of Agriculture appropriations bill. "I'm expecting this referendum to be pretty heavily participated in," said Hampton "Hoppy" Henton, Kentucky executive director for the federal Farm Services Agency, which will administer the vote Jan. 10-14.

As things stand, growers in one county can't lease quota - the legal permission to grow tobacco - based on land in another county. Quota was assigned to farms and farmers where tobacco was being grown when the federal tobacco program began in the 1930s. But it has long been possible for quota holders to lease their growing right to someone else.

For example, say a farmer's widow owns a tobacco quota but isn't up to growing the tobacco. She can lease the right to the neighbor, who can produce the crop on her land or his. She gets the income from her quota, and he can produce extra tobacco to help pay for his equipment.

As a practical matter, much of the burley that is grown is produced under various lease arrangements. But because the leased tobacco has to be grown in the county where the quota is held, there can be a lot of unused quota in the mountain counties of Eastern Kentucky, where it is hard to grow tobacco. Conversely, producers in fertile, flatter areas of Kentucky are knocking heads over scarce surplus quota. If quota could be leased across county lines, grower in Central or Western Kentucky could lease quota owned in Eastern Kentucky and grow the pounds down in the flatland where its relatively easy. Quota holders in the mountains who wanted to lease their quota would have more takers, and probably could charge more.

That concept sounded good to Tennessee burley growers, who had the same opportunity several years ago and voted in favor of it. Virginia farmers voted at the same time, but they turned the idea

down. Today, Virginia farmers produce only about 60 percent of the tobacco they'd be entitled to because a lot of surplus quota goes unleashed, said James Starkley, senior vice president of Universal Leaf Tobacco Co. in Richmond, VA.

Starkley said leasing across county lines "absolutely" makes sense, and he hopes Kentucky burley growers will endorse the idea - along with those in Ohio and Indiana, who also will vote in January. He said he thinks passage of the option would result in production of more burley, something he says would be good for farmers' position in the international market. "It's extremely important when in international trade to be seen as a reliable supplier," he said, noting that Kentucky has fallen far short of producing up to its total quota for several years.

He argued that cross-county leasing would boost production and make American burley farmers more reliable. "It's important in the long term to get the quota in the hands of people who will grow the tobacco," he said.

However, Burley co-op president Rod Kuegel said he thinks Starkley is mistaken about the amount of surplus quota in Kentucky. He and Danny McKinney, the co-op's chief executive officer, said somebody "at least attempted to raise" almost 100 percent of available quota last year.

Even Will Snell, the University of Kentucky tobacco economist whose word is usually considered golden by all participants in the tobacco economy, said Starkley may be thinking of earlier years. He noted that the quota has been cut in recent years - including by 30 percent this year - and that quota surpluses that may have existed have mostly dried up.

Kuegel, McKinney and other officers of their organization have weighed the issue and decided they think it probably would not be a good idea to change the way leasing is done. But co-op officials did agree with the Farm Bureau and others that it is a question the growers should be permitted to decide, and they asked McConnell to get the legislation through. It was a delicate matter - one former U.S. Senator Wendell Ford and former U.S. Rep. Scotty Baesler, noted tobacco champions,

shied away from. They hesitated to bring up anything about the tobacco programs in Congress because that often resulted in vigorous attacks on the program by tobacco's enemies.

McKinney said that climate has changed a little. The growers have worked with health organizations some, he said, and it has become clear that some questions "don't affect whether people smoke or not," but "just have to do with farmers and how they operate the program."

"Sen. McConnell did a great job," Kuegel said. "At midnight one night they tagged it on and got it through."

McKinney said given that Kentucky growers already grow most of the quota, the co-op officials decided a change to cross-county leasing would just result in a higher average lease price. In counties like Fayette and Woodford, where a lot of quota land is tied up in pursuits other than tobacco, cross-county leasing would "create a bidding war between the current growers and the guy three counties over," McKinney said. The result, he added, would be higher prices.

Kuegel, who also is a Daviess County burley grower, said he thinks cross-county leasing would give farmers in thriving tobacco counties such as his an unfair advantage over their counterparts in nearby counties. They can produce the burley more economically, he said, so they'll be able to bid up lease prices and take pounds away from farmers in, say, Ohio County, where raising burley is more of a struggle.

More efficient production, of course, interests Starkley and other buyers of American burley because U.S. burley costs a lot more than burley produced in other countries - and they'd like to see it more competitive.

But McKinney said stripping production from the poorer areas probably would "destroy the political and economic base" for tobacco in those areas - and be costly to burley producers in the long run. Farm Bureau president Sam Moore said current Farm Bureau policy is in favor of cross-county leasing, on grounds that "it would even the lease costs out across the state, and serve as an opportunity to put

quota in the hands of people who will grow the tobacco.”

But he said the topic will get a lot of attention at the organizations’s annual convention in Louisville early next month. The policy could change or it might not, he said. “In the past we’ve been opposed to it, and we’ve been neutral. The policy is subject to change.”

Quota owners, farm operators and tenant farmers - and some others who share the risks of raising burley - will be permitted to cast votes in January, Henton said. The number may reach 200,000, he added. Henton said ballots will be mailed to appropriate people whose names show up in FSA databases. It also will be possible to walk in and vote in any of the 93 county FSA offices across the state, he said. Since the FSA’s databases may under-represent tenant farmers, he said, many in that group probably should plan to visit an office to vote. A majority vote will carry the question, Henton said.

³*The Courier Journal*, “Vote May Alter Tobacco Leasing.” November 25, 1999. F1.



Smoking Rate Has Barely Budged

Despite years of anti-smoking campaigns, lawsuits and bans, the smoking rate among American adults has hardly budged during the 1990s - mostly because more and more 18 - 24 year-olds are lighting up. The Centers for Disease Control and Prevention said yesterday that 24.7 percent of adults smoked in 1997. As a result, the CDC expects to fall far short of its goal of reducing smoking to 15 percent of the adult population by 2000. “During the 1990s we’ve made virtually no progress whatsoever,” said Micheal Eriksen, director of the CDC Office of Smoking and Health. “The fact that we can’t get rates below 25 percent really speaks to the addictive power of nicotine.”

About 48 million adults smoked cigarettes in 1997, according to a CDC

survey that year of more than 35,000 people nationwide. The rate was the same - 24.7 percent - in 1995. It was 25.5 percent in 1990. Among most adult age groups, smoking rates actually declined from 1990 to 1997, but the percentage of smokers ages 18 to 24 increased during that period, to 28.7 percent, from 24.5 percent.

U.S. smoking rates have dropped drastically since 1965, when 44 percent of adults were lighting up. Over the following quarter-century, more health warnings came out, tobacco ads were banned from the airwaves and no-smoking signs appeared in restaurants, offices, and airplanes. However, smoking rates leveled off during the 1990s rather than continuing to drop. At the same time, public-awareness campaigns continued to warn of the dangers of smoking. The nicotine patch and nicotine gum went on the market. And states sued tobacco companies to recoup the cost of treating sick smokers.

Philip Morris, the nation’s largest tobacco company, had no comment on the CDC report.

Health officials anticipate a drop in smoking rates in 1999 because cigarette makers raised their prices after their \$206 billion legal settlement with 46 states over their medical costs.

And there is another sign that the numbers could begin falling. According to the U.S. Department of Agriculture, per-capita cigarettes consumption declined 15 percent between 1990 and 1997.

Shane Toepfer, 23, a student at Georgia State University in Atlanta, said the cost of cigarettes is a major reason he is trying to quit. “It costs too much money,” he said. “Smokers are aware of what’s out there - that it’s not good for you and it’ll kill you. They just don’t care.”

Anti-smoking advocates said the popularity of cigarettes among younger adults is troubling, but it is also the group where further reductions are most likely to occur. “We’re all pretty much agreed that the efforts to prevent youth from smoking, or getting those who have just begun to experiment to put it away, is where we’re going to get success,” said Joann Schellenbach, spokeswoman for the

American Cancer Society.

⁴*The Courier Journal*, “Smoking Rate Among U.S. Adults Has barely Budged During 1990s.” November 5, 1999. B9.



Agricultural History Lesson, Mark Francis

Shortly after the Civil War, Charles Goodnight of the Texas Panhandle got wind that his friend George Reynolds of Fort Griffin, Texas, was sending a herd of cattle north through his land. Goodnight sent a cowboy to greet Reynolds with a letter: “I simply say to you that you will never pass through here in good health.” Reynolds sent two herds anyway. No shooting broke out. But the story illustrates the hard feelings ranchers had about splenic fever, which was easily spread from herd to herd. Cattlemen often stood at trail sides, rifles at the ready, willing to fight to keep infected animals away from their own stock. This disease, also known as Texas fever or tick fever, affected not only most of Texas, but also southern California, Oklahoma, Arkansas, Mississippi, most of the Southeast, and even one county in southern Missouri.

Cattlemen today can thank Mark Francis, an Ohio veterinarian doing research and teaching at the Agricultural and Mechanical College of Texas, that it no longer is a problem.

Sending herds north to market was not the only problem for cattlemen. In the 1880s, Texas ranchers were trying to bring in superior breeding stock from the Midwest to improve their Longhorn herds. Those transplants died as well after about 30 days’ exposure.

By 1889, USDA researchers had concluded that the cattle ticks transmitted the disease. “No ticks, no Texas fever,” reported one researcher.

Because the fever apparently didn't affect Southern cattle, Francis and other scientists figured these bovines had immunity, which they did. He and another researcher found that injecting Northern cattle with infected blood gave the animal immunity. But it worked only in fall and winter, when the infections would not kill. This reduced mortality from 75% to 10%. (Scientists found later that while inoculating the cattle did protect them, it also made them carriers.)

Next the tick itself had to be eradicated, which meant large-scale treatment of cattle. In 1896, Francis copied and began promoting a dipping vat invented by Robert Justus Kleberg, manager of the King Ranch. The vat, filled with arsenical compounds and later other chemicals, became a key element in the fevertick eradication program that began in 1906.

In 1888, roughly 728,000 square miles of U.S. grazing lands were so infested with the fever ticks that few cattle besides native Longhorns could survive. By 1921, the tick had been eradicated from 70% of that area, and its numbers went down drastically from there. This knocked down quarantine zones, allowed the free flow of breeding stock and commercial cattle, and led to massive improvements in the U.S. cattle industry.

Fever ticks have never been completely eradicated from the U.S. They still occasionally find their way across the border from Mexico, which has no eradication program. But because of Mark Francis' work, U.S. cattle can be shipped throughout the U.S. and remain safe from Texas fever.

⁵*Progressive Farmer*, "Mark Francis-His Campaign Against Tick Fever Revolutionized the Cattle Business." Karl Wolfshohl. Page 34.



Tax Tips

Q: My mother gave 18 acres to me and my brother last year. In exchange, we agreed

to care for her. Does she need to file income or gift-tax forms? Do we?

A: The way this transaction is structured makes a big difference in its tax treatment. Anyone may give up to \$10,000 each year to any person without tax consequences or filing a gift-tax return. However, gifts made in return for services are classified as taxable compensation to the recipients are family members.

The fair market value of the property is taxable compensation to you and your brother since you received it in exchange for caring for your mom. Thus, your mother does not need to file a gift-tax return or include the transaction on her income-tax return. But you and your brother should include a pro-rata share of the value as income on your tax returns. This would likely be subject to both income tax and self-employment tax. This is not a good result.

Had the 18 acres been transferred without an exchange for services or consideration, and if its fair market value exceeded \$20,000 at the time of transfer, you mother would have to file a gift-tax return reporting the gift. In this situation, you and your brother would not have any income to report, and you and your brother would not have to include this value on your income-tax returns.

Your mom can make lifetime gifts of up to \$650,000 without any gift tax. This exclusion amount will increase each year through 2006, when it reaches \$1 million. You should contact your certified public accountant for a more detailed explanation of gift transfers and some help in structuring this transaction to minimize the impacts.

Francis X Smith II, CPA
Smith and Co., CPAs
Bardstown, KY

Q: This year I inherited some property with my mother died; I sold it for \$16,500. Do I pay taxes on \$16,500? I have already paid 1999 property taxes and attorney fees. Is this considered income?

A: Report the gain or loss from the sale of the property on your tax return. If the property was not used in a business or

rental activity, report the transaction as a capital gain or loss on Schedule D of Form 1040. You compute the gain or loss by subtracting your tax basis in the property plus any costs associated with the sale.

Since you inherited the property, your basis will most likely be the value of the property on the date of your mother's death. Contact the executor of your mother's estate to determine the value. You may also increase the basis by adding the cost of any improvements that you made to the property.

If there was no change in the value of the property between the time of your mother's death and its sale, there is no taxable gain or loss from the sale. The property taxes you paid may be claimed as an itemized deduction on Schedule A.

Richard C. Timberlake, CPA
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Section 179

You could permanently lose the Section 179 deduction on a capital asset by not claiming the election when filing your tax return. A record-keeping oversight may be costly with the Section 179 deduction increasing to \$19,000 for tax years beginning in 1999. This is because taxpayers have a limited amount of time to file an amended return and claim the Section 179 deduction. Basically, any asset that has a useful life longer than one year needs to be capitalized or expended by electing the Section 179 deduction. If the IRS audits your return and determines that you improperly deducted the cost of the capital item, you will not have the Section 179 deduction at your disposal if the Oct. 15 amendment deadline has passed.

⁶*Doane's Agricultural Report*, "Tax Tip." November 12, 1999. Page 1.



Legal Issues

Who Gets the Crop on Death of Life Tenant?

A 1999 Nebraska Supreme Court case has focused attention on what happens to the crop on the death of a life tenant. In the facts of the case, parents deeded a farm to their son in 1988 and reserved a life estate. The surviving parent died on July 27, 1996, with the land rented under a 40/60 crop-share lease. The corn and soybean crops were harvested and sold that autumn. The question was whether the parents' estate (the life tenant) got the landlord's portion or whether the landlord's share of the crop went to the son who held the remainder interest. The court acknowledged that some courts in similar situations have given the crop to the holder of the remainder interest, but the outcome in the Nebraska case is in accord with the majority view.

Clearly, it's a good idea to settle the question in the document creating the life estate.

(Heinold vs. Siecke, Supreme Court of Nebraska, August, 6, 1999).

What's A Building?

For years a major question for landowners has been whether specialized facilities on a farm are "buildings" which are depreciable over 20 years, are single-purpose agricultural structures, which can be depreciated over 10 years, or are sufficiently specialized that the facility does not fall into any of those classes and so is depreciable over 7 years.

A 1999 Tax Court case involving a tobacco barn concluded that the barn was a "building" and was properly depreciable over 20 years. The structure was built and used primarily for drying tobacco. As a building, the structure wasn't eligible for expense method depreciation. The outcome was a far cry from the structure's being depreciable over seven years, which would probably have meant the facility was eligible for expense method depreciation.

(Hart vs. Commissioner, T.C. Memo. 1999-236)

"Person" Determinations

The additional cash payments made to farmers in 1998 and 1999 and the higher levels of loan deficiency payments in 1999 have raised the question of when "person" limitations are made. A husband and wife are considered to be one person - and entitled to one payment limitation - unless, before marriage, they were separately engaged in unrelated farming operations or the spouses can separately meet the requirements to be a separate person. The latter includes a requirement that the spouses be "actively engaged in farming."

"Person" determinations are made as of April 1 each year, and the status on that date, according to the regulations, is to be "the basis on which determinations are made..." Actions taken after that date are not to be used to determine whether there has been an increase in the number of "persons." But actions taken after that date are to be used to determine whether there has been a decrease in the number of "persons".

(7 C.F.R. 1400.100).

⁷*Crop Decisions, "Legal Issues, Recent Rulings Affecting Your Business." Dr. Neil E. Hart. November, 1999. Page 12.*

Quotes

Never was so much owed by so many to so few. - Winston Churchill

The difference between fiction and reality? Fiction has to make sense. - Tom Clancy

A critic is someone who knows the way but can't drive the car. - Kenneth Tynan

The man who does not read good books has no advantage over the man who cannot read them. - Mark Twain

I've got vision; the rest of the world's got bifocals. - Butch Cassidy

Judgement is to law as water is to crops. It should not be surprising that law has

become brittle, and society along with it. - Philip K. Howard

Man will occasionally stumble over the truth, but usually manages to pick himself up, walk over or around it, and carry on. - Winston Churchill

Only two things are infinite, the universe and human stupidity, and I'm not sure about the former. - Albert Einstein



Your Suggestions Are Welcome

I encourage you to make suggestions for future BFA Newsletters. If you would like to hear about a specific topic please call the office and I will research it for you and provide a story for the next newsletter.



Happy Holidays

The Office of Bluegrass Farm Analysis would like to wish you all a safe and happy holidays. The office will be closed from December 24, 1999 through January 2, 2000. However, if you need to contact us please leave a message on the answering machine, as they will be checked periodically. If you have an emergency, feel free to call me at home - 606-224-8262.

Merry Christmas !!!!!!!!!!!!!!!!!!!!!!!



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