

# Kentucky Farm Business Management Program State Newsletter

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## Water Quality Act & Lease Vs. Buy

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### THE AGRICULTURAL WATER QUALITY ACT: Your Opportunity to be Proactive

*by Waylon Ramming, Ohio Valley Farm Analysis Association*

The Kentucky Agricultural Water Quality Act allows Owners and Operators of agricultural land within the Commonwealth the chance to individually select the best management practices (BMP's) that will most economically protect the water resources surrounding their operations. This procedure is a producer driven program. When a producer decides to prepare a protection plan, they are able to choose from a large selection of management practices to accomplish their goals.

Senate Bill 241 was passed in the fall of 1994 by the general assembly. The bill came to be known as the Agricultural Water Quality Act. The act authorized the creation of the Water Quality Authority. A state wide water quality plan was developed by the Water Quality Authority. The Authority is made up of 15 people appointed by the governor. These members come from a cross section of U.K. Cooperative Extension, governmental agencies, farm and environmental groups and the agricultural producers impacted by the Authority's actions. The state wide plan covers a wide range of topics from the

farmstead, crop and livestock production to silviculture and streams. The concept behind the Agricultural Water Quality Plan is that the agricultural producers are usually the most impacted and immediate consumers of the waters surrounding their farms. Thereby, they have a vested interest and willingness to implement adequate, voluntary protection plans. By selecting BMP's from the statewide plan, the producer can be part of a consistent plan that is tailored to his specific needs.

Almost all agricultural producers need a water quality plan. An agricultural producer has been loosely defined to include all owners or operators of 10 or more acres. This is to ensure a great majority of the land is under a water quality plan and all landowners share in the responsibility of obtaining water quality standards.

You can get started assessing the BMP needs for your operation by getting the relevant Kentucky Assessment Series (KY.A.Syst) publications from your County Extension office. This is a series of nine publications that you can select from as appropriate for your operation. You may also want to obtain the brochure titled "Understanding the Agricultural Water Quality Act" and the fact sheet "Frequently Asked Questions About the Agricultural Water Quality Act". The publication "Kentucky Agricultural Water Quality Procedures Handbook" available through your district conservationist will provide a certification form to file at the local conservation office, once you have completed your written plan. Technical assistance is available through many agencies listed in the back of the producers workbook. It is your

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responsibility to evaluate the success of your BMP's in reaching compliance. Additional measures may be required to reach and remain in compliance. Evidence of attempts to prevent pollution are important through maintaining a written record of actions.

The requirement of a plan for all producers statewide was approved by the Division of Water in October of 1996. The Plan is to be implemented within five years, October of 2001. It is better to begin the process as soon as possible. The Division of Water is charged with enforcing the Water Quality Act. The Divisions actions are complaint driven. If the agency were to receive a complaint about your operation resulting in a mandatory site visit to your operation, wouldn't you feel better with documentation in hand as to what you were trying to accomplish for water quality protection on your farm? The sooner you get started the more time you will have to determine which practices are needed for your operation at the least cost of compliance.

It is not too often that agriculturalist's have such freedom in areas of environmental issues. This flexibility should definitely be taken advantage of now while the potential exists. Why not make use of this opportunity we have been granted?

## LEASE VS. BUY: Pros and Cons



*by Rush  
Midkiff,  
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Analysis  
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on

Specialists have received many calls on leasing versus buying machinery in the last year. Leasing is often promoted as a tax saving strategy for the farmer. However, with accelerated depreciation and the Section 179 deduction for

equipment purchases up to \$18,000 for 1997, the tax benefits of leasing are not as great as they once might have been.

Assuming the farmer has decided to purchase a piece of equipment and it will increase the efficiency of the operation, the payment method is the next decision to be made. Remember that tax savings is a good benefit when purchasing equipment, but most of the money needed to buy the equipment has to come from profit, savings, or non-farm income.

If the farmer is purchasing the equipment, then negotiate with the dealer for the best purchase price. The next step would be to determine what the payments would be at the bank or other credit institutions. The farmer would then need to inquire about lease options with the dealer. The next step for the farmer would be to compare the true net cost of ownership under both methods over the life of the equipment. The farmer can look at the cash flow and tax benefits of both options on a year-to-year basis.

The tax benefits, purchase price, interest rate of a comparable loan at a financial institution, and the value of the equipment at the end of the lease or purchase all affect the true ownership cost of the equipment. If other capital purchases have or will exceed the Section 179 deduction, then leasing would offer more short term tax benefits. However, some leases have greater early year tax advantages but are not the best options in the long run.

Some final notes to mention: 1) Make sure that a lease is a lease and not a purchase agreement; and 2) If a piece of equipment is traded for the first year lease payment and the agreement is a lease, then the equipment traded must be reported as a capital sale and the corresponding lease payment must be deducted on your Schedule F.

If you have any questions about leasing, contact your Farm Analysis Specialist.

## Reminders!

\* The minimum wage will increase to \$5.15 as of September 1, 1997.

\* The 1996 Annual Summary is available at your local Farm Analysis office. Stop by and get yours today!

## Lost Laughs?

The average six year old kid laughs 300 times a day. The average adult laughs only between 15 and 100 times a day. Studies show that laughing decreases the level of stress hormones and strengthens the immune system.

*Dr. Lee Berk, Loma Linda School of  
Public Health*

## Closing Thoughts

I hope each one of you have enjoyed this state newsletter and have become better informed agricultural producers. We all wish you only the best during this summer and the upcoming harvest season. Good luck and hang in there!!!!

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