
KENTUCKY FARM BUSINESS MANAGEMENT PROGRAM STATE NEWSLETTER

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Introducing the New Extension Coordinator *Lee Meyer*

As the new Ag Economics Extension Coordinator, I'm looking forward to working closely with the KFBM program. My timing has been good – I was able to attend the annual Board meeting in Washington County on July 20. I'm sure with continuing congressional interest in the tobacco buyout, Will Snell is glad to have more time to focus on leaf policies and politics.

I am not coming into this position with an agenda. My first goal is to get to understand the KFBM program better. I'll need to ask lots of questions and work closely with the area specialists before I will be very useful as an advocate for the program.

What I am bringing now is my experience and interest in the livestock enterprises. It is clear that there is expanding interest in the beef enterprise in Kentucky. We hope to make this an asset for the KFBM program. One of the key issues among those in the Beef Integrated Resource Program (IRM) is "how can we help producers make financially good decisions?" Solid data are needed to do this.

As a result of these data needs, the IRM program is focusing significant effort on production and financial record keeping programs. Because this concept is the same as KFBM's, I think that there is a great opportunity to work together. The KFBM leadership agreed and supported this partnership at the July Board meeting. We hope to begin a new partnership with KFBM and the IRM program to provide a new service to clientele with beef enterprises. Beef Standardized Performance Analysis (SPA) is a financial records system used by the IRM program and led by Laurentia Van Rensburg. We

Kentucky Farm Business Management Program

Lee Meyer
Extension Coordinator
859-257-7288

Dave Heisterberg
Program Coordinator
270-886-5281

Bluegrass Association
Colby A. Blair
859-879-6809

Lincoln Trail Association
Rick Costin
270-737-4799

Ohio Valley Association
Craig Gibson
270-827-1395
Suzy Martin
270-685-8480

Pennyroyal Association
Rush Midkiff
270-842-5823
Ross Key,
Brian Lacefield, &
Terry Moss
270-886-5281

Purchase Association
Jennifer Rogers
270-247-5031

expect that selected KFBM specialists will begin assisting clientele in filling in Beef SPA books and helping in interpreting results. With the financial support of IRM (sharing of grant funds), the KFBM program will increase its funding base while providing a service which is completely compatible with its core mission.

We'll provide more information as this initiative develops. Hopefully, this will build on the strong base that KFBM provides to its clientele without diluting resources and weakening program. I'm looking forward to watching this program develop and will be interested in receiving any feedback, whether it is on the SPA program or any other topic.

Harvest Time Management
Craig D. Gibson

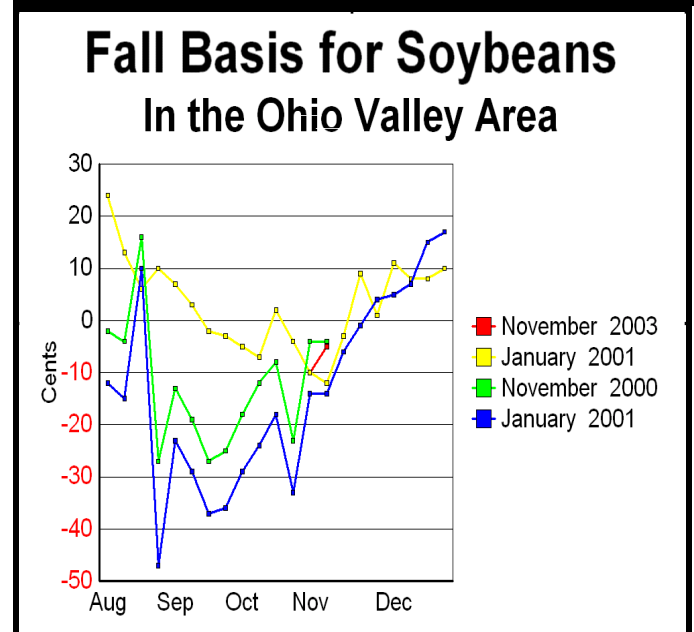
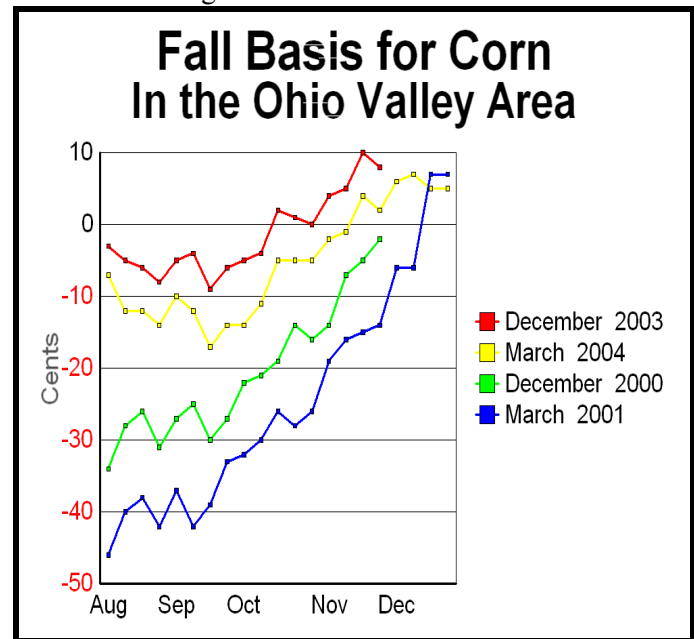
During harvest time, producers focus their attention on movement of harvested grain to commercial elevators or on-farm storage. However, producers should spend some time in preparation. Yes, equipment must be readied. This is very important as well as how the combine is operated and adjusted for conditions during harvest. However, there are other items beyond this.

Like many, Farm Service Agency did not believe loan deficiency payments (LDPs) would be available this fall. There may not be, but producers must be prepared. In past years, producers signed Form CCC-709, Direct Loan Deficiency Payment Agreement, at the time they reported their crop acres at the local Farm Service Agency office. This year, many did not. To be eligible for any LDPs for crops directly delivered to commercial elevators during harvest, Form CCC-709 must be signed **by producers and crop-share landlords prior to delivery of that grain.**

Another form that producers must have on file at the Farm Service Agency is Form CCC-237. Form CCC-633 LDP is used to request an LDP via fax for on-farm stored grain. However, so that the request is accepted by Farm Service Agency, Form CCC-237 must be signed by and on file for each person sending a Form CCC-633 LDP by fax. Producers do not have to renew Form CCC-237 annually. Making sure the form is on file is probably a good idea.

Having discussed these forms, is there likelihood that LDPs will be available? I think yes, as long as weather cooperates. There were two days during the

first week of August of this year that LDPs were available for corn. Basis will likely widen as harvest progresses. Below is a graph that illustrates basis during 2000 and 2003 for corn and soybeans. Even though the LDP rate is determined by the county loan rate and posted county price, not basis, basis can provide a clue when attempting to capture the maximum LDP. Past LDPs were the greatest about a week after the largest (most negative) basis for corn. Past LDPs rates were not quite as clear for soybeans. However, it appears that the greatest rates occurred before the largest (most negative) basis occurred. Therefore, at this writing, especially watch corn LDP rates during the third week of September and soybean LDP rates during the second week of October.



A final management note must be made related to energy costs, most specifically drying costs. Local propane prices are quoted around \$1.00 per gallon and natural gas is priced at \$11.46 per 1000 cubic feet. These rates are much higher than prior years and likely will cause producers indecision as to when to begin corn harvest. Some insight can be provided related to the decision of whether to dry grain on-farm or deliver directly to the elevator. Certainly, variables such as harvest loss, commercial elevator moisture discounting methods, extra trucking charges, on-farm drying efficiencies, and even selling price may influence the optimal decision. Below is a table that may assist some producers in which direction to take harvested grain.

Moisture levels reported are those levels where there are zero returns to on-farm drying compared to elevator moisture discounts. Moisture levels found above those reported will yield returns to drying on-farm. Producers must be aware that drying efficiencies do vary. In addition, the table assumes that producers will dry grain to 15%. Any drying below that level increases the total cost of drying due to greater operating costs and loss of weight (or bushels).

Fundamental Questions for the Fall Cattle Market

Kenny Burdine and Lee Meyer

Once again the 2004 beef cattle market has many in the industry scratching their heads. Fat cattle prices have softened since June and appear as prices in the \$90 per cwt. range simply were not sustainable as boxed beef prices fell throughout the summer. However, 2004 prices remain at levels slightly above 2003.

Of greater interest to Kentucky producers, feeder cattle prices have softened very little during this same time period. Finished cattle prices are expected to rally from current levels this fall and winter, meaning that current feedlot placements should be marketed on a stronger fat market. Also providing bullish support for the feeder cattle market, December corn futures have steadily decreased since early June. The USDA and most private analysts are predicting another record corn crop.

Generally, feedlots go through several months of profitability, and then go through several months of losses. They appear to bid past profits back into higher feeder cattle prices, which lead to losses in the future if finished cattle prices don't increase as well. January through December 2003 saw the longest period of feedlot profits in the last ten years. Feedlot profits in October 2003 exceeded \$250 per head. Undoubtedly, 2003 profit levels are explaining some of these incredibly optimistic feeder cattle price levels.

As we move into the last four months of 2004, I see these as fundamental questions that must be answered by this cattle market:

1) Is the recent softening in boxed beef prices a sign of consumers finally backing away from beef at these high price levels? Beef demand has been very strong in 2004 and consumers have shown some real resilience despite the price levels. Boxed beef movement usually picks up as we approach the Labor Day holiday. This may be a real important holiday for measuring the strength of the boxed beef market.

2) How soon will trading resume with our usual trading partners? At the time of this writing the United States has regained access to about one third of its export market (primarily Mexico). At the same time, live cattle imports from Canada also remain blocked. It is unclear how soon normal trade will

Decision Matrix for Corn Drying Under Different Energy Sources & Costs Under Different Selling Prices and in Consideration of Extra Trucking Costs						
Energy Source	Energy Cost	Extra Trucking Cost	Selling Price of Corn	Cents Per Bu. Breakeven Moisture Level	Shrink & Dry Breakeven Moisture Level	Average Breakeven Moisture Level
		(per bu.)	(per bu.)	(%)	(%)	(%)
Propane Gas	\$1.00	\$0.000	\$3.00	23.75%	19.00%	20.00%
	\$1.00	\$0.055	\$3.00	28.00%	22.25%	23.50%
Propane Gas	\$1.00	\$0.000	\$2.20	19.00%	18.75%	20.75%
	\$1.00	\$0.055	\$2.20	21.75%	22.75%	25.00%
	(per 1,000 cu. ft.)					
Natural Gas	\$11.46	\$0.000	\$3.00	23.00%	18.75%	19.75%
	\$11.46	\$0.055	\$3.00	27.00%	21.75%	23.00%
Natural Gas	\$11.46	\$0.000	\$2.20	19.00%	18.75%	19.75%
	\$11.46	\$0.055	\$2.20	21.50%	22.00%	24.25%

begin with Canada or how soon the United State can resume exports to Japan and Korea. Most experts are betting that we will celebrate New Years' 2005 before normal trade resumes with Japan or Canada.

3) Are feeder cattle supplies as tight as most indicators show? The July 2004 Cattle Inventory report showed the calf crop only 1% smaller than 2003. However, feedlots are bidding on feeders as though things are a lot tighter than that. Feedlot placement data also shows that feedlots are placing fewer feeder cattle weighing over 700 pounds and more weighing less than 600 pounds than is typical for the summer months. This is a sign of a tight market as feeders are reaching deeper and deeper to fill their lots.

4) Is this corn crop going to be as large as USDA is predicting? The cattle market is expecting it to be. If the corn crop is much smaller than expected, corn prices will undoubtedly increase and put pressure on fall feeder cattle prices.

5) How big will beef production be in the second half of 2004? Beef production and cattle slaughter have been running well below 2003 levels. However, there are factors suggesting that production could pick up considerably during September through December. Slaughter weights have been increasing since March and the Choice / Select price spread hasn't seen double digits since early June. Both are signs that cattle might be starting to backup in feedlots.

College Savings Accounts – A New Father's Perspective

Brian D. Lacefield

On August 4th I had a life-changing event. My wife gave birth to our first child, Brianne Elizabeth. She and Mom are both doing great. In preparing for her birth, I read several books concerning the pregnancy and the father's role, which went beyond just staying conscious in the delivery room. [A quick aside: One of the nurses in the delivery room was the wife of one of my cooperators. (Mona; big THANKS to you and Tina)] One book stated that in the 8th month the father will begin to obsess about money and finances. When I read this to my wife she said "this should be interesting since you already obsess about money and finances." I admit I spent some extra time on my Quicken at home, but I don't think I was obsessed. One item that caused some concern was college education expenses.

Read any popular press article and a common theme is the increasing cost of higher education. According to the Congressional Analysis of College Cost and Implications for America's Higher Education System in 2003 the average tuition and fees at a public university was over \$4,000, while those for a private school were over \$18,000. The College Board presently shows the total annual cost (including room, board, books and supplies) to be \$12,841 for in-state public schools and \$27,677 for private schools. Over the past 20 years (from 1982-2002) tuition has increased 7.32%, compared to 3.14% inflation over this same period. Assuming the same trend continue, I will need over \$45,000 for Brianne's freshman year 18 years from now, and over \$200,000 for a four year degree at a public in-state school. Wow, that's scary.

The good news is there is more financial aid available than ever before, presently over \$105 billion dollars. We also have several options for tax-free savings. Three such options include the Coverdell Education Savings Account, The 529 College Savings Plan and U.S. Savings Bonds. A fourth option is using your Roth IRA for education expenses.

Your Roth IRA should be the first to be funded annually. As a parent you should approach this like the instructions you are given on an airplane concerning the oxygen mask "get yours first and then take care of the child." You must fund your retirement first. If you fail on savings for college there are many opportunities for grants, scholarships, and subsidized loans. None of these will be available to you for your retirement. You can take withdrawals out of your Roth IRA for qualified education expenses penalty and tax-free. Unused dollars will be available to continue to grow tax-free for retirement.

The Coverdell Education Savings Account works much like an IRA. Contributions are made by the account owner for a named beneficiary. Money grows tax-free and withdrawals are tax free as long as they are for qualified educational expenses including tuition, room, board and supplies for primary, secondary or higher education expenses. Investments may be made in any non-insurance securities. The person establishing the account will maintain control of the money. The downside on these accounts are that annual contributions are limited to only \$2,000 dollars per year and if the money is not used by the time the child turns 30 then it is subject to tax and a 10 percent penalty.

Another popular choice for the tax-free college savings is the 529 College Savings Plan. These plans are typically state sponsored. Money may be invested in various portfolios (usually different stock and bond mixes). Savings grow tax-free and withdrawals are tax free if they are used for qualified higher education expenses. Control of the money is given to the person establishing the account. The plan has no annual contribution limit. However, total contributions cannot exceed \$235,000 per beneficiary. Although this is a state sponsored program, money can be used for out of state schools and private schools also. The main disadvantage of this savings plan is that withdrawals from the plan after December 31, 2010, will be federally taxable unless the law allowing the federal tax exemption is extended.

A fourth option for tax-free college savings are U.S. Savings Bonds. These grow tax deferred and if used for qualified education expenses they are tax-free. The return on these bonds will be guaranteed, but conservative. The current interest rate on a EE Savings Bond issued August 2004 is 2.84%. While the initial investment is guaranteed, this rate of return will not keep up with tuition increases.

This is just a brief overview of the college savings accounts available. Everyone's individual situation is unique and care should be taken putting together your plan. Discuss your situation and objectives with your tax preparer and financial planner. However, regardless of the savings plan chosen, **saving early and saving often is the most important thing.**

Tobacco Buyout Update

Will Snell

Congress is currently in the midst of their August recess, so no "official" legislative activity is occurring right now on the buyout issue. Prior to the August recess both chambers passed buyout legislation as part of a much larger corporate tax/trade bill. Briefly, the House buyout is a \$9.6 billion package (\$7/\$3 for quota owner/grower based on 2002 quota), financed by general treasury funds, which keeps approximately \$2.7 billion of Phase II intact, but eliminates the current tobacco program, and does not contain any FDA provisions. Alternatively, the Senate passed an \$11.6 billion compensation package for quota owners and growers (\$8/\$4 based on 2002 quotas), funded by a user fee on domestic tobacco companies and importers, which eliminates future Phase II payments, but did retain

some protection on the volume and location of tobacco production in traditional areas. For more specific details, check out several articles online at: <http://www.uky.edu/Ag/TobaccoEcon/policy.html>.

Differences between the House and Senate corporate tax bills will now have to be resolved in a conference committee. Prior to the August recess, the Senate named conferees to the corporate tax bill, which included both strong supporters of the buyout (e.g., Senator McConnell, Senator Bunning) as well as very vocal opponents to the buyout (e.g., Senator Nickels (R-OK), Senator Lott (R-MS), Senator Harkin (D-IA)). The House is expected to name conferees shortly after they return in September. The conference committee could adopt the Senate buyout, the House buyout, some combination of the two, or completely strip the buyout from the bill. Same goes for the Senate FDA component. Once the conference committee decides on its final version, the bill then returns to both the House and Senate floors for an up/down vote (i.e., no amendments). After passage of the conference report by the House and Senate, the bill would then move on to the President for his signature before it would become law.

What are the main buyout issues that are likely to be debated in conference? First proponents of the corporate tax reform component of the bill will weigh the potential political benefits versus the costs of keeping the tobacco buyout in the bill. Will stripping the buyout in the bill hurt in key congressional races, the Presidential election, or jeopardize the entire corporate tax bill which many view as a "must-pass" bill? If conferees agree to keep a buyout in the bill, will they attempt to reduce the compensation package, modify the base years/payment schedules, eliminate future production control/safety net provisions, require tobacco companies or taxpayers to fund the buyout, or keep/modify or toss out FDA provisions? The main point being is that all the issues are debatable during this process and thus, no one has any large degree of certainty at this point whether the buyout will survive, and if so, what will it look like in the end?

Hunting and Landowner Liability

Suzy L. Martin

Hunting is a sport enjoyed by many throughout the state of Kentucky. Some hunters are fortunate enough to know landowners and are granted permission, by them, to hunt their property. However, this is not always the case. It is becoming

increasingly popular for hunters to pay for the exclusive right to hunt a particular property. This article addresses the liability and risk issues landowners face when they decide to allow hunting on their premises.

If a landowner gives permission to a hunter to use their land for hunting/recreational purposes without taking any monetary compensation, then the landowner's liability is fairly limited under Kentucky law. Liability would only occur when there is willful and malicious failure to warn against a dangerous condition. From an insurance standpoint, most farmowner's policies would cover any damages.

However, the rules change when landowners receive money for use of their land for hunting purposes. When a property owner takes money for the right to hunt ground, then that operation becomes a "commercial" enterprise and as such is governed under different rules than those mentioned in the prior paragraph. The first thing a landowner ought to do is put together some type of written agreement with the person leasing the ground. This document should cover the basics of what land can be hunted, when it can be hunted, what game can be hunted, etc. Sample leases can be found on the Internet or one can be worked out with an attorney. Another issue that needs to be addressed in the lease agreement is who should have the insurance to cover any injuries suffered while hunting on the leased ground. A landowner could take their own policy out that is above and beyond their farmowner's policy. The other option is for the landowner to request the lessee to take out a policy.

A hunting lease is a good way to generate some additional revenues. Particularly on ground that otherwise would not be farmed like woods and wetlands. But at the same time those who own ground and lease it to others for hunting purposes need to be knowledgeable of the additional risks they face. They need to measure the downside against their monetary gain to decide if this is a good option for them.

University of Kentucky
Department of Agricultural Economics
400 Charles E. Barnhart Bldg.
Lexington, KY 40546-0276

Phone: 859-257-5762
Fax: 859-323-1913
<http://www.uky.edu/Ag/AgEcon/>

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Colby A. Blair, Editor
Bluegrass Farm Analysis Group, Inc.



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