
KENTUCKY FARM BUSINESS MANAGEMENT PROGRAM STATE NEWSLETTER

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Below Market Financing Available

Jody Welsh

The Governor's Office of Agricultural Policy has two exciting opportunities available right now through the Kentucky Agricultural Finance Corporation (KAFC). The first is the Agriculture Infrastructure Loan Program and the second is the Beginning Farmer Loan Program.

The purpose of the Agricultural Infrastructure Loan Program is to assist KY agriculture producers by providing them access to below market financing for the acquisition, renovation, and construction of agricultural structures that enhance the profitability of their farming operations. The loan is through a financial institution with the lender financing at least half of the loan and the remainder financed through KAFC. The interest rate on the KAFC portion of the loan will be fixed at 2% apr for the life of the loan for producers documenting tobacco involvement and at 4% apr for those without documentation. Lenders can charge up to .75% on the KAFC portion of the loan for administrative costs.

Documentation of tobacco involvement is done through one of the following ways:

- Evidence of a past Phase II payment
- Evidence of enrollment in the Tobacco Transition Payment Program
- An executed current marketing contract for tobacco production

The program is limited to \$100,000 or 50% of the project and the KAFC portion of the loan cannot exceed 10 years or useful life of the project. Also the property must be located in Kentucky and the applicant must have received at least 20% of their gross income from farming in the two prior years as shown by federal income tax returns.

Eligible projects are agricultural facilities including structures and permanently attached equipment with plan to improve profitability of farming operations for example:

- Dairy Facilities: freestall barns, milking parlors, waste storage, etc.
- Swine Facilities: gestation, farrowing, finishing, etc.
- Beef Facilities: permanent working facilities, commodity storage, etc.
- Equine Facilities: stables, arenas, etc. for business activities only
- Poultry Facilities: broiler houses, compost barns, etc.
- Grain Facilities: storage and drying bins, chemical storage, etc.
- Tobacco Facilities: greenhouses, barns, migrant housing, etc.
- Other long term structures at the discretion of the KAFC board

The purpose of the Beginning Farmer Loan Program is to assist individuals with farming experience who desire to develop, expand or buy into a farming operation. This loan again is through a financial institution with that lender financing at least half of the loan and the remainder financed through KAFC. The interest rate will be 2% per annum and is fixed for the term of the loan.

The applicant must qualify as a Beginning Farmer as someone who:

- Has not operated a farm or ranch for more than 10 years
- Must have participated in business operation of a farm for at least 3 years
- Substantially participates in the operation

Other terms include that the applicant must have a combined net worth of less than \$250,000 at time of application; personal off farm income is less

than \$50,000 annually and total household off farm income is less than \$75,000 annually as evidenced by the past two years tax returns.

The program is limited to \$100,000 or 50% of the project and the KAFC loan term will be 10 years, but may be less than 10 years for certain loans. There is no penalty for early repayment.

The Beginning Farmer Loan Program also requires a 5 year business plan and a Mentor willing to advise the borrower on record keeping and business analysis during the term of the loan must be identified and committed.

This loan may be used for:

- livestock purchases
- equipment purchases
- agricultural facilities
- permanent working capital
- down payment on real estate
- funds to invest in a farm partnership, LLC or other farm business structure
- other agricultural investments

Refinancing of existing debt is not eligible.

With both of these programs there are more terms and conditions so please contact your area specialist and/or Tim Hughes, Marketing and Business Coordinator for KAFC at 502-564-4627 or TimD.Hughes@ky.gov for more information.



West Kentucky Grain Market Project
Monthly Market Update
May 16, 2007
Dr. Steve Riggins

The USDA's May World Agricultural Supply and Demand Estimates (WASDE) report was supportive of prices for the longer term outlook. Wheat prices were supported by the estimate of world ending stocks at the end of the 2007/08 marketing year dropping to only 113.4 million metric tons (mmt). This compares to the current figure of 120.4 mmt for the about to end 2006/07 marketing year and 148.6 mmt for the 2005/06 marketing year. The 113.4 mmt projected ending stock figure for the new marketing year is the smallest level of world wheat carryover supplies since the 1981/82 season and the smallest relative to use since at least 1960. U.S. wheat supplies are projected to increase relative to the very tight supply/demand balance of the 2006/07 year but ending stocks are expected to stay quite small relative to use and to historical levels. This situation should support wheat prices very well for at least another 6-12 months as production potential remains uncertain.

In contrast to wheat, U.S. and global supplies and projected ending stocks of soybeans are record large for the marketing year that will conclude at the end of August. However, the May WASDE was supportive of prices in the longer term due to the rapid expansion at the U.S. and global level in the use of soybeans and corn to produce fuel. USDA's projections portray robust expansion in the use of soybean oil to produce soy-diesel and their data reflect the fight for acres for energy versus food/feed production.

This latter situation is well represented in the U.S. corn "Balance Sheet" for the upcoming 2007/08 corn marketing year that will officially begin September 1, 2007. Even with the tremendous increase projected in planted and harvested U.S. corn acres (up 12+ percent from last year – with much of the acreage coming out of soybeans) carryover stocks August 31, 2008 are projected to remain flat at only 947 million bushels compared to this year's 937 million bushel projection. If this

projection turns out to be reasonably accurate stocks relative to use would be under 8 percent, tighter than the current year's projected stocks/use ratio of 8.1 percent, and the second tightest on record exceeded only by the 5 percent stocks/use ration from the 1995/96 marketing year.

For soybeans the massive loss of acres to corn coupled with expected strong growth in soy- diesel production and continuing robust domestic and export demand provide the basis for USDA to project a sharp drop in 2007/08 soybean ending stocks from this season's record large level.

The foregoing paints a very positive picture for price expectations, yet the corn market is down significantly from its February high of \$4.295 for the December 2007 Chicago Board of Trade (CBOT) futures contract. Soybean prices have declined less sharply, especially in percentage terms, due to the perceived tightening of the supply/demand balance in the future, while wheat has bounced back on scattered global production problems and consequent very tight projected stocks/use ratio.

It is only mid May and some grain analysts believe corn yield will be well above the USDA's first estimate of 150.3 bushels per acre that was forecast in the May WASDE. Other analyst mention that the weekly export pace has been disappointing and USDA has lowered their forecast of total exports for the 2006/07 season and due to continued poor weekly exports rates USDA will eventually lower the annual projection further which will increase carryover stocks and add to next year's supply. These market analysts speculate that as long as the weather cooperates prices have done their job – use in the current year is being curtailed and plantings have increased dramatically.

The stage is now set for an exciting growing season. What is a farmer to do?

Marketing decisions will be unique for each farmer. What, if anything, has been done so far? How much on-farm storage exists and how much of the grain must leave the farm at harvest are also important considerations in decision making.

One other item from the May WASDE might be helpful to farmers as they contemplate their

individual situations. USDA projects the 2007/08 season's average farm price for the entire U.S. corn crop to end somewhere between \$3.10 to as high as \$3.70 per bushel. This wide range is due to the huge degree of uncertainty about first, crop size and second eventual consumption. However, there is a strong chance that prices will turn out to fall somewhere within this range.

One strategy would be to price corn at \$3.70 or better – odds are high this will turn out to have been a prudent action. It is likely that the midpoint of the range, \$3.40, is also a good target for sales. Farmers in Kentucky should add about 12-15 cents to these numbers to account for the Kentucky price usually averaging that much above the nation average price.

For soybeans the USDA projected season's average price range for 2007/08 is currently pegged at \$6.50 to \$7.50 while the wheat price range for 2007-08 is at \$4.35 to \$4.95 per bushel. It is unlikely to be a perfect growing season for corn and soybeans – the spring planting season has not been ideal and Kentucky wheat producers will long remember Easter of 2007 with dread. There should be much price volatility ahead. As mentioned countless times in this Column this is an ideal environment to obtain downside price protection and leave the upside open.



KDDC MILK Program

Jennifer Rogers

The Kentucky Dairy Development Council (KDDC) is administering a program entitled MILK (Market Incentive Leadership for Kentucky). This is a two year program for dairy producers within the state of Kentucky focused on quality, improved management, and increased production. KFBM is playing a significant role in the MILK Program. In order to participate in the MILK program and receive monetary incentives, dairy producers must be a member of KFBM and DHIA, as well as meet several quality and production goals.

To meet the production goal, dairy producers must experience a 10% increase in milk production in 2007 and 2008 above the 2006 base, calculated monthly.

Quality standards include a SCC less than or equal to 400,000 average for the month, and a PIC less than or equal to 20.000 cfu and no adulterated milk for the month.

If the program participation, production, and quality goals are met, then producers will receive an incentive payment of \$0.50/cwt on all milk produced, up to a maximum of \$10,000 per farm, per year. This incentive will be earned on a monthly basis and paid out in a separate check.

If you are interested in learning more about the MILK program please contact your KFBM specialist or the KDDC. More information is available on the KDDC website at www.kydairy.org.

Get to Know our New Specialists

Recently we have had the opportunity to add several new specialists to our program. The following introductions have been prepared so that you can get to know them.

Evan Conrad- Pennyroyal Farm Analysis Group, Inc.

I replaced Brian Lacefield as extension specialist in October 2006. I hail from Dry Ridge, KY in Grant County and am a 2000 graduate of Grant County High, and a 2004 and 2007 graduate of the University of Kentucky. I received my bachelors in Agricultural Economics with a minor in Business and my Masters in Agricultural Economics specializing in precision agriculture.

I grew up on a small tobacco, beef, and alfalfa farm in Grant County with my parents Chris and Judy, and my brother Kyle. While in high school I worked at a Southern States Coop and was active in the school band and FFA chapter. After completion of high school, I enrolled at the University of Kentucky. While there I became active in many activities including FarmHouse Fraternity, Ag. Student Council, and the Wildcat Pulling Team. Until entering into the graduate program, I worked at the Ag Machine and Research Center becoming a machine apprentice on the lathe and vertical mill.

I currently reside in Pembroke, KY in southern Christian County with my beautiful wife Amanda and two dogs Shelby and Zephyr. Currently my interests include farming in Muhlenberg Co. with my brother-in-law and spending time with friends and family. Other interest includes street rods, and spending time with my brother and dad at car shows and swap meets across the country.

Curtis Mahnken- Bluegrass Farm Analysis Group, Inc.

My family has been a part of the Lincoln Association of Illinois Farm Business Farm Management since before I was born, so you could say that my training for KFBM began at an early age. I was raised on a dairy farm in southern Illinois, about an hour southeast of St. Louis, in a

small town called Steeleville, Illinois. Growing up, we milked approximately 90 to 100 cows and farmed roughly 600 acres. My mom's side of the family lived about 30 miles down the road and raised beef cows, so I've experienced a great deal within production agriculture.

After receiving my undergraduate degree in agribusiness economics from Southern Illinois University in Carbondale, I went back to the farm and worked with my parents while trying to acquire financing to buy my own cows. After some pondering, I realized that what I wanted was to work with farmers and give back as much as I could to the agriculture industry, so I decided to pursue graduate school. I attended Michigan State University and recently finished my graduate studies in agricultural economics where my thesis was entitled: "Michigan Dairy Farm Efficiency and Profitability: 1995-2004."

I arrived at the University of Kentucky in June of 2006 to work with Dr. Carl Dillon and perform research in precision agriculture. I started my position in the Bluegrass Association early in 2007 helping to process Bluegrass books. I'm currently living in Lexington, have a wonderful fiancée named Amber, and I'm looking forward to getting out and serving the Bluegrass farmers.

Kassie Hurst – KFBM/KDDC Dairy Partners

I just recently joined the Farm Analysis Program as an Extension Associate in May of 2007 and will be serving as the state dairy specialist with an office in Bowling Green. I am originally from a dairy farm in Fleming County, KY. I recently graduated with my Bachelor of Science in Agricultural Economics from the University of Kentucky.

I was very active in college working as a student assistant for the Agriculture Economics Department as well as working as a Wildcat Assistant for the UK Advising Conference, and serving on the Corporate Relations committee for DanceBlue. I was also a Team Leader for Relay for Life, the Leadership and Diversity Chair for UK's Panhellenic Council, and a member of Alpha Omicron Pi.

Upcoming Retirements

Jennifer Rogers

The KFBM program will be losing two very valuable specialists in the near future. Both Craig Gibson and Terry Moss have announced their retirement as of July 31, 2007.



Craig Gibson – Ohio Valley Farm Analysis Group, Inc.

Upon his retirement Craig will have worked with the KFBM program for 31 years and 10 months. Needless to say, he has seen almost everything in his years of experience and has been a tremendous wealth of knowledge for the group. Craig says that his favorite thing about being an Area Farm Management Specialist has been the opportunity to meet and work with farmers, especially all of the on-farm visits. Craig has also enjoyed the challenge of answering questions asked of him by the farms that he works with. Craig will miss all of this interaction, as well as the opportunity to work with the dataset that all of the records provide to learn new things about the direction that farming is taking. Upon retirement Craig has indicated that he is not quite sure what he will be doing, although he plans to rest for a while, and then after resting has agreed to continue to complete 2007 tax returns. We know that you all join us in wishing Craig the very best.

Terry Moss – Pennyroyal Farm Analysis Group, Inc.

Terry began work as a KFBM specialist in December 1976. Prior to that he served as a graduate assistant in the UK Department of Agricultural Economics while completing the requirements for his Masters Degree. Terry remarked that the past thirty years have proven to be very rewarding to him personally from many different aspects. The most enjoyable part of the job for Terry has been working one-on-one with farm families during farm visits. Over the years,

these folks have become some of his very dearest friends. The personal contact with these families is what he will miss the most, as well as the comradery with his fellow specialists and staff. Terry hopes to stay involved in the agricultural community through his retirement, perhaps still working with area producers in a complimentary role with farm analysis. He also stated that he has some personal projects to catch up on, he might even squeeze in just a little time for some fishing, but not too much. We know that Terry will be missed and we wish him the best in his future.

Free 411

We received this little tidbit via email from Robert Flashman, State Specialist for Family Resource Management, University of Kentucky. We know that you are always having to call information to get a phone number, and the service is expensive, well, now you can get that information for FREE. You can dial 800-FREE-411 (800-373-3411) and get the phone number you need without incurring a charge. If you have questions about this you can visit the following two websites for more information and check this out for yourself.

<http://www.snope.com/inboxer/nothing/free411.asp>

<http://www.truthorfiction.com/rumors/f/free-411.htm>

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Cooperating