

FARM MANAGEMENT NEWSLETTER

Another Year, Another Crisis

For the last few years, it seems like agriculture has been running from one crisis to another. In 2018, it was the start of the trade fight with China and the spill-over skirmishes with the rest of the world. In 2019, it was the delayed and prevented planting problems across a wide swath of the United States. And in 2020, it is the COVID-19 outbreak.

While the virus and its spread are physical phenomena that directly impact agricultural production and consumption, the policy response has also led to significant changes in agricultural markets. The combination has forced most markets significantly lower, created sizable swings in price levels and volatilities, and left many farmers praying for a rebound.

The virus has taken advantage of our human need to interact with each other in order to spread. But those interactions also drive major parts of our economy. We travel for business and pleasure, going to conferences and vacations; we dine out for business lunches and family reunions; and we entertain ourselves in masse, at sporting events and concerts.

The public health policy response to the virus has been to create physical distance between individuals in all social interactions, limiting the spread of the virus as best we can. That led to the temporary shutdown of many businesses, a severe curtailment of business and personal travel, and a near- complete rescheduling of people's lives. Business transactions and job requirements that could shift to an online environment did, while only those jobs and transactions deemed "essential" continued as close to usual as possible.

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Thus, the damage to the demand side of the agricultural markets has been incredible. The closure of restaurants and the shift to significantly more at-home food consumption has driven a severe reworking of our food supply chain. The virus has struck at critical pinch-points in the food supply chain, our processing plants, creating imbalances between the farm and retail markets.

For crops, the impacts can be examined by exploring the three big sources of usage: livestock feed, biofuels, and exports.

The impact of COVID-19 on feed usage is mixed. In the short term, feed usage will increase. We had and continue to have a large number of animals in the production chain. The backlog appears to be shrinking, but a lot of cattle still remain to be cleaned up to get feedlots current.

The impacts in the biofuel arena also contribute to the feed storyline. The “stay-at-home” and “shelter-in-place” orders, along with the general business shutdowns, drove the need for fuel in the US down to its lowest level in roughly 50 years. The combination of record supplies and minimal demand forced ethanol production to freefall and ethanol stocks to surge to record levels. The severe

reduction of ethanol production also means a severe reduction in distillers grains production.

As businesses get back to some sense of normal, we can expect travel and fuel usage to increase. But it’s still an open question how quickly fuel usage will rebound. Even with some resumption of travel, it will take the ethanol industry some time to work through the ethanol already in storage. So both feed and fuel usage for corn are still facing tremendous uncertainty from COVID-19.

Exports have been the one usage area that has somewhat resistant to COVID-19. Export sales for both corn and soybeans have increased. The weakening of the dollar, the lower prices, and advance export sales are all supporting these changes.

While the drought may eventually lead to higher prices, that potential bump would be a lot closer to harvest than usual. And it would likely need some help from the demand side to create a large enough price swing to get farmers excited. Crop storage will be critical this harvest, and the impact from the August 10 derecho is not yet fully realized.

Hart, Chad. “Another Year, Another Crisis.” Accessed September 2, 2020. <https://www.extension.iastate.edu/agdm/articles/hart/HartMay20.html>

Cash Rental Rates for Iowa 2020 Survey

Cash rental rate information was gathered from a survey of farmers, landowners, agricultural lenders, and professional farm managers. They supplied information based on their best judgments about typical cash rental rates for high, medium, and low quality cropland in their counties, as well as for land devoted to production of hay, oat, and pasture. Information about rents for individual farms was not collected. The rental rates do not include the value of any buildings or storage structures, manure application contracts, or seed production contracts.

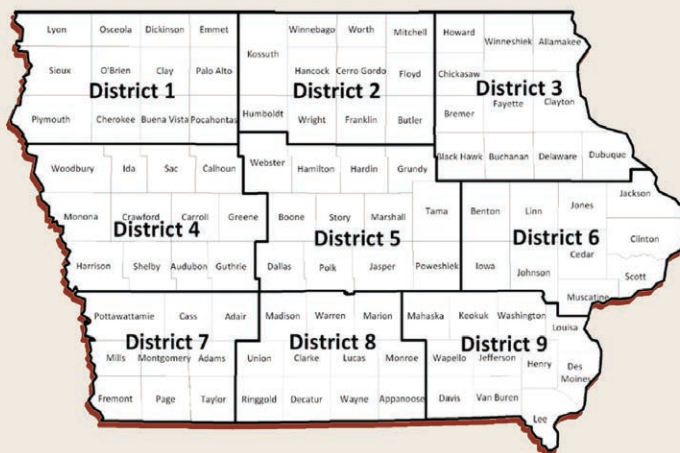
Determining Cash Rents

This summary can be used as a reference point for determining an appropriate cash rental rate for a particular farm. The following may justify a higher or lower than average rent in specific cases:

- Small size or unusual shape of fields
- Terraces or creeks that affect the time it takes to plant and harvest crops
- Difficult or restricted access to fields
- High or low fertility levels or pH index
- Existence of contracts for growing seed or specialty grains, or manure application
- Above-average local grain prices due to proximity to biofuel plants or feed mills
- USDA program variables, such as crop bases and assigned yields
- Longevity of the lease
- Other services performed by the tenant

Overall Average of Typical Cash Rents 2016-2020
Corn and Soybean Acres (\$ per tillable acre)

	2016	2017	2018	2019	2020
District 1	\$248	\$234	\$237	\$231	\$239
District 2	243	218	225	219	225
District 3	250	241	244	237	248
District 4	245	231	236	235	237
District 5	239	228	237	231	232
District 6	242	231	235	229	232
District 7	220	206	207	207	203
District 8	183	180	174	174	176
District 9	203	204	203	210	205
State	\$230	\$219	\$222	\$219	\$222



Plastina, Alejandro and Johanns, Ann. “Cash Rental Rates for Iowa 2020 Survey.” Accessed September 2, 2020. <https://www.extension.iastate.edu/agdm/wholefarm/html/c2-10.html>

Anyone driving past the Beckman farm would be impressed. A farmer would notice the modern line of equipment and the modern livestock facilities. A non-farmer would appreciate the picturesque setting, well-maintained American foursquare farm house and beautiful mature trees that comprised the grove. Noah Beckman had purchased the farm in 1910 and planted the grove the following year.



Every succeeding generation had added to this home farm and had taken pride in and care of what Noah had begun. Roger Beckman, the current owner, was proud of the fact that their's was a century farm. It was deeply satisfying that his son, Ben, had decided to return to the farm to continue the ownership and operation of the Beckman farm. Neither of Roger and Cindy's other two children were interested in farming. This, of course simplified the choice of who would operate the farm.

Ben had first attended a community college before transferring to Iowa State University where he graduated with a degree in Agricultural Business and a minor in Agronomy. It was during Ben's Junior year that discussions concerning his return to the farm family business had begun in earnest. Ben told both Roger and Cindy that he had always wanted to farm and that operating a farm business was what he really wanted to do.

Roger immediately made plans to rent additional acres, update the line of equipment and expand the livestock enterprise. Roger, being an astute businessman as well as a good farmer, had made it all work and the farm was more profitable than ever. Under Roger's management, in the three years since Ben had returned the profits had continued to grow. Ben, being a hard worker, had assumed an ever increasing portion of the physical work while Roger had concentrated on negotiating purchases, sales, and finances.

To say that Roger was surprised when Ben told him that he was thinking of taking a job with a large seed dealer would be a gross understatement. Roger was stunned, hurt, angry, disappointed, and a bit frightened all at the same time. He had not said much to Ben after the announcement. In fact, both Ben and Roger were studiously avoiding the topic.

Sound familiar? It is not uncommon for a transition plan to plateau at some point. This transition plan lost it's momentum at the point where Roger is managing and Ben is laboring.

True, Ben only returned to the operation three years ago and it would be unrealistic for Roger to hand over the management of a business that had been built by his effort. It is also true that Ben cannot acquire the necessary management skills to eventually manage the business if he continues to provide only labor. The problem is that neither Roger nor Ben have discussed, much less, agreed upon a time table and objective measures for the transfer of the managerial functions and responsibilities of this farm family business.

The first step in solving this problem is to recognize the problem through some objective measure of the managerial activity and who is responsibility for that activity. The list in Table 1 of managerial activities was developed by the late Dr. Andrew Errington, University of Plymouth, UK and has been used in numerous studies on farm family business succession planning.

Ben and Roger need to independently and honestly answer each question. They must record what the situation actually is, from their point of view, not what they want it to be or what it will be at some unspecified time in the future. Their problem exists now, not in the future. And, if their problem is not solved, the future they both desire will never come to fruition.

Upon completion of the transfer of management questionnaire they must discuss the results, recognize the changes that need to be made, and develop and implement a plan to bring about that change. Roger and Ben need to set a date, time, and place to resolve this matter. It cannot be left for discussion when they have nothing to do; for in an active farm family business there is always something that needs doing. It would be advisable to select a location to meet other than the farm so that they will not be interrupted. Ground rules should be agreed upon prior to the meeting and should, at a minimum, include the following:

1. **Listen to learn.** Keep an open mind and practice active listening. Take notes and ask questions to clarify anything that is not understood.
2. **Do not interrupt.** Exhibit good manners by allowing everyone the opportunity to finish what they have to say.
3. **Critique the message and not the messenger.** Focus on the content of the message and not on the character of the messenger.
4. **Trust the process.** Approach the problem with a positive attitude. Problems have solutions and the solution will be discovered only by honest, frank discussions.
5. **Be sincere.** You need to be honest in your comments and expect honest comments in return.

TABLE 1

TRANSFER OF FARM MANAGEMENT WORKSHEET

Select the degree to which you feel the following management responsibilities are being retained by the owner or transferred to the successor. Select 1 if the decision is being made solely by the owner or select 5 if it is being made solely by the successor. If the responsibility is being shared select 2, 3, or 4 appropriately.

	Retained	Transfer			
Plan day-to-day work	1	2	3	4	5
Make annual crop/livestock plans	1	2	3	4	5
Decide the mix & type of enterprises in the long run	1	2	3	4	5
Decide the level of inputs to use	1	2	3	4	5
Decide timing of operations	1	2	3	4	5
Decide when to sell crop/livestock	1	2	3	4	5
Negotiate sales of crops/livestock	1	2	3	4	5
Decide when to pay bills	1	2	3	4	5
Decide type & make of machinery & equipment	1	2	3	4	5
Negotiate purchase of machinery & equipment	1	2	3	4	5
Decide when to hire more help	1	2	3	4	5
Recruit and select employees	1	2	3	4	5
Decide amount and quality of work	1	2	3	4	5
Supervise employees	1	2	3	4	5
Decide work method/way jobs are done	1	2	3	4	5
Decide and plan capital projects	1	2	3	4	5
Identify sources & negotiate loans & financing	1	2	3	4	5
Livestock management	1	2	3	4	5
Keep farm records	1	2	3	4	5

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Greg Bopes is Assistant Vice President, Farm Manager, and Assistant Trust Officer for Ohnward Farm Management, a subsidiary of Ohnward Bancshares Inc. Bopes, a Maquoketa native and 2010 graduate of the University of Wisconsin-Platteville, has been involved in farm-related professional activities since graduation.

Greg works closely with his clients to guide, manage and implement decisions that will carry them through the challenges of farmland ownership. Owning farmland is a special opportunity whether the farm has family significance or is owned as an investment. Greg can offer expertise in managing the tenant relationship and has the confidence of clients locally and all over the United States that own farmland in Iowa.

He worked as Plant Manager and Crop Specialist at AgVantage FS in Maquoketa and has been involved in numerous community activities including the Maquoketa Fire Department and Rescue Squad.

Bopes' Notes

As we near harvest time during this unprecedented year, many conversations are centering around what yields are going to be for the current crop and what decisions need to be made in looking towards 2021 and beyond. With the September 1st lease termination deadline upon us, if 2021 lease conversations have not already happened, they will soon.

No different than anywhere else in the country, Iowa has felt the impact of the COVID-19 pandemic. Whether on Main Street or the family farm, 2020 has proven difficult to navigate at times. Iowa's agricultural industry started the year working with lower commodity markets and less bushels to market due to a wet year in 2019. Then in March when COVID-19 forced disruptions in the supply chain of meat and dairy production, farmers were again hit with challenges of getting their products to market. The bright spot of the year came for many in that conditions to put the 2020 crop in were very ideal. The crop was progressing nicely and looked to be poised to be record setting in some areas. Then on August 10th, a large section of Iowa was decimated by a derecho event that came through leaving many communities and farmsteads in a heavily damaged state along with causing significant damage to roughly 10 million acres of crop ground.

While we try not to dwell on these challenges, we always feel it is important to understand what tenants are dealing with when sitting down to draft a new lease. We like to also have a few tools in the toolbox such as the Iowa State University Farm Rental Rate Survey in addition to updated farm maps including CSR2 values. While these are only a few tools we use, they provide a great place to start the conversation on establishing the new lease. Other items to keep in mind are soil fertility of the farm and any projects that may need to be completed to help improve the farmland you own. With uncertainty of the COVID-19 pandemic, lingering effects of storm damage, and global ag commodity markets, the role of marketing plans are also key items to talk about. These conversations are not always the easiest that landowners and tenants have, but we have found that through communication and collaboration, agreeable lease terms can be found.

We are happy to visit at no cost with landowners who may have questions while they are trying to navigate through settling on a new lease with tenants. There are many different options landowners have in the type of lease you choose, it all depends on the individual situation.

Greg Bopes, Farm Manager and Assistant Trust Officer
Ohnward Farm Management