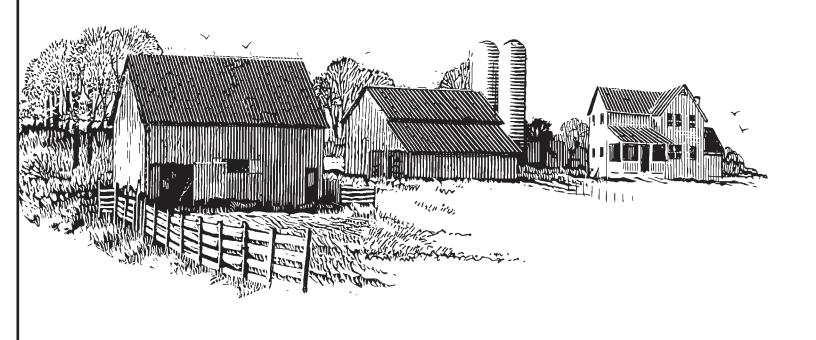
# A Resource Guide for Beginning Farmers in Oklahoma



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Suzette Barta
Former Assistant Extension Specialist

Damona Doye Extension Economist and Regents Professor

Jody Campiche
Extension Economist and Assistant Professor

Roger Sahs
Assistant Extension Specialist

Oklahoma State University

Department of Agricultural Economics

Oklahoma Cooperative Extension Service
Division of Agricultural Sciences and Natural Resources

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## **Table of Contents**

Part 1. What Do You Hope to Achieve with the Farm?	1
Part 2. Selecting Appropriate Enterprises	3
Part 3. Financial Planning for the New Farm	7
Part 4. Acquiring the Capital for Your New Farm	11
Part 5. Finding Opportunities for Education and Training	18
Part 6. Locating Land for Farming	24
Part 7. Understanding Land Use Regulations and Restrictions	26
Part 8. Gaining Access to Markets	29
Part 9. Tax Considerations	32
Part 10. Government Programs	36
Appendix	44

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# Part 1. What Do You Hope to Achieve with the Farm?

If you are considering becoming a farmer or rancher in Oklahoma, then you are about to embark on a journey. As with any long trip, your first step is to plan where you will go and how you will get there. The Oklahoma Cooperative Extension Service (OCES) at Oklahoma State University has developed this resource guide to help beginning farmers understand the steps needed to achieve the dream of having their own farm.

The first and most important step you should take in beginning a farm is to carefully research the property and planned enterprises before investing. Attend educational meetings (such as Cooperative Extension programs) before properties are purchased. Become acquainted with professionals such as the local Extension Educator–Agriculture, who can help. The OCES website, <a href="http://www.oces.okstate.edu/">http://www.oces.okstate.edu/</a>, provides links to county offices, publications and many other resources.

Buyers often grossly underestimate the technical difficulties of farming and ranching. People mistakenly think, "Anybody can do it." This is far from true. Farmers and ranchers need to know about growing crops and forages (fertilization, management), managing livestock (nutrition, health, genetics), marketing, general business management (accounting, taxes), legal issues and more. Furthermore, farmers and ranchers need reliable sources of information. Prospective landowners often get advice from the wrong people. It is important to seek assistance from unbiased sources who are not selling something or taking advantage of the inexperienced person.

While conducting research about the physical property and possible enterprises, consider your family and business values along with the mission and goals for the farm. What is it that you are setting out to do? Is it to become a landowner, building a land base on which you can retire? Is it to generate more income? How much? Or, do you want to become a noted livestock producer regardless of the cost? Your goal for a new farm may be to enjoy a rural lifestyle that provides an opportunity to work outdoors plus have more space for hobbies and projects without expecting to generate additional income. Or, your goal may be to establish a business operation that is intended to grow to support one or more families over time. Developing specific realistic goals can help the beginning farmer in several ways.

- 1. Goals provide the framework for developing more detailed plans, including identifying the resources needed to have a successful outcome.
- 2. Having a well thought out plan is important for communications with persons providing financing for the operation, whether a commercial lender or family member.
- 3. Goals can serve as reference points to help you monitor progress once a business plan is implemented.
- 4. When faced with uncertainty, goals can assist you in decision-making.
- 5. Goals can serve as tools for motivating your family or farm management team toward success.

Because the farm business often involves the whole family, it is best for the goal setting process to involve each member of the family. The family and the business are generally intertwined; thus, family goals and business goals should be set jointly. Goals should be challenging, yet achievable and specific enough that you can write them down and measure your progress toward them.

The fact sheet *Goal Setting for Farm and Ranch Families* outlines some basic steps for goal setting and includes a goal setting worksheet. This publication, as well as others relating to farm and ranch management, is located online at the following address: http://dasnr22.dasnr. okstate.edu/docushare/dsweb/Get/Document-1674/AGEC-244web2013.pdf. All documents are available to download free of charge in PDF format. If you are interested in a more

Goal Sheet:
http://dasnr22.
dasnr.okstate.edu/
docushare/dsweb/Get/
Document-1674/AGEC244web2013.pdf

OSU Extension Publication: AGEC-244

comprehensive guide, an excellent resource is <i>Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses</i> . It can be downloaded in whole at: www.sare.org/Learning-Center/Books/Building-a-Sustainable-Business.

## Part 2. Selecting Appropriate Enterprises

Before you go much further, it is crucial to identify the type of farming enterprise you want. While Oklahoma is known as a wheat and cattle state, Oklahoma Agricultural Statistics Service (OASS) data shows more than 15 commodities with sales of more than \$2 million each in 2013. Table 1 identifies the rank and value of production for Oklahoma commodities for 2013. Table 2 shows livestock inventory numbers for Oklahoma for 2008 through 2014. Table 3 presents crop acreage, yield and production for Oklahoma for 2013. The 2013 bulletin from the OASS is available online at <a href="http://www.nass.usda.gov/Statistics">http://www.nass.usda.gov/Statistics</a> by <a href="http://www.nass.usda.gov/Statistics">State/Oklahoma/Publications/Annual Statistical Bulletin/Bulletin2014.pdf</a>. In addition to commodity specific data, the bulletin contains information such as average rainfall, average temperature and pasture condition.

In terms of acreage harvested, winter wheat was the "top crop," followed by all hay varieties. Figure 1 charts wheat production by county in Oklahoma in 2013. For 2013, winter wheat averaged 31 bushels per acre, and all hay averaged 1.59 tons per acre. Crop yields and stocking rate vary considerably from county-to-county, due to differences in soils and climates and from year-to-year as weather and other conditions change. In livestock numbers, chickens totaled about 4.1 million head, all cattle and calves totaled 4.2 million head, and all hogs and pigs totaled 2.30 million head. In value of production, cattle and calves ranked first in the state with a production value of \$2.605 billion. Hogs and pigs ranked second in the state with a production value of \$951 million.

These statistics may leave you asking yourself what to produce. What is appropriate will certainly depend on the land resource base you are considering, including soil type, geographical location, climate and past use. It may also depend on the human resources (labor and management) that are available to you. The availability of a market for your product and the ability to finance operations are also critical.

Economists at Kentucky Cooperative Extension Service, Tim Woods and Steve Isaacs, emphasize that new or expanding enterprises should not focus on *what to produce*, but should instead concentrate on *how to select the right enterprise*. They advocate a more thorough approach because, in their experience, success or failure often depends on a lot more than just the choice of what to produce. They suggest these six factors to drive the decision: profitability, resources, information, marketing, enthusiasm and risk. *A Primer for Selecting New Enterprises for Your Farm*, by Woods and Isaacs, is available online at <a href="https://www.uky.edu/Ag/AgEcon/pubs/ext\_aec/ext2000-13.">www.uky.edu/Ag/AgEcon/pubs/ext\_aec/ext2000-13.</a>
pdf. The publication contains descriptions of the six decision factors, as well as detailed worksheets to help the new farmer/rancher raise some important questions regarding their potential new enterprise. The authors suggest printing multiple copies of the PRIMER so that you can work through the worksheets for more than one type of enterprise.

If profitability is a goal for the operation, consider developing a budget for individual enterprises (for example, stockers, goats or grapes) that maps out the resources needed, as well as projected income and expenses. Oklahoma State University offers spreadsheets to generate budgets for the following enterprises: alfalfa, annual forage, barley, blackberries, blueberries, canola, corn, corn silage, cotton, cow-calf, goats, grain sorghum, grapes, improved pecans, native pecans, oats, peaches, peanuts, perennial forages, rye, soybeans, stockers, watermelon and wheat.

http://www.nass.usda. gov/Statistics by State/ Oklahoma/Publications/ Annual Statistical Bulletin/Bulletin2014.pdf

Table 1. Rank and value of production, Oklahoma commodities, 2013.

Rank	Item	Value (\$ Millions)
1	Cattle and Calves	2,605
2	Hogs and Pigs	951
3	Poultry and Eggs	803
4	Winter Wheat	727
5	All Hay	545
6	Corn for Grain	234
7	Milk Production	170
8	Soybeans	127
9	Cotton and Cottonseed	85
10	Grain Sorghum	62
11	Canola	47
12	Pecans	20
13	Peanuts	18
14	Rye	14
15	Watermelon	3
16	Sunflowers	1
16	Oats	1

Source: Oklahoma Agricultural Statistics Service 2012.

Table 2. Livestock inventory for Oklahoma, January 1, 2008 – January 1, 2012. (Presented by 1,000 Head)

		<b>\</b> -		, -,	/	
Year	All Cattle & Calves	<b>Beef Cows</b>	Milk Cows	All Sheep & Lambs	All Hogs & Pigs (1)	Chickens (1), (2)
2008	5,400	2,053	67	80	2,350	4,908
2009	5,400	2,038	62	80	2,400	4,788
2010	5,500	2,073	57	75	2,290	4,542
2011	5,100	2,016	54	75	2,340	4,561
2012	4,500	1,728	52	70	2,300	4,257
2013	4,200	1,754	46	75	2,320	4,098

<sup>(1)</sup> December 1 previous year.

Source: Oklahoma Agricultural Statistics Service 2014.

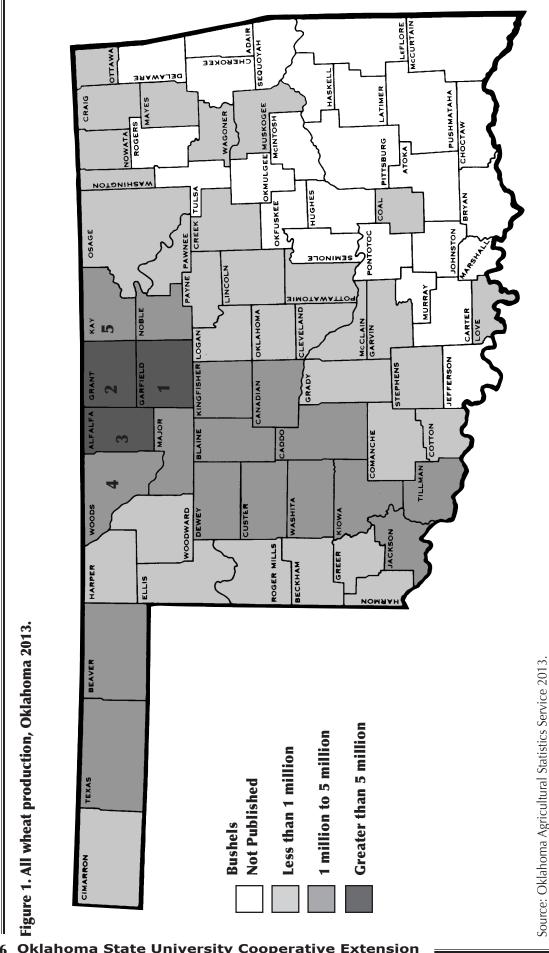
<sup>(2)</sup> Excludes commercial broilers.

Table 3. Crop acreage, yield and production; Oklahoma, 2013.

	Planted					Value of
	Purpose	Harvested				Production
Commodity	Acres	Acres	Yield	Production	Price per Unit	Dollars
Field & Misc Crops						2,404,883,000
Wheat Winter All	5,600,000	3,400,000	31.0 bus	105,400,000 bus	6.90 dols/bu	727,260,000
Hay All (Dry)		3,130,000	1.59 tons	4,471,000 tons	147.00 dols/ton	545,214,000
Hay Other (Dry)		2,900,000	1.50 tons	4,350,000 tons	95.50 dols/ton	415,425,000
Corn For Grain	370,000	310,000	145.0 bus	44,950,000 bus	5.20 dols/bu	233,740,000
Alfalfa Hay (Dry)		230,000	2.7 tons	621,000 tons	209.00 dols/ton	129,789,000
Soybeans	345,000	335,000	30 bus	10,050,000 bus	12.60 dols/bu	126, 630,000
Cotton Upland	185,000	125,000	591.0 lbs	154,000 lbs	0.773 dols/lb	70,498,000
Canola	205,000	149,000	1,400.0 lbs	288,600,000 lbs	0.226 dols/lb	47,144,000
Peanuts For Nuts	17,000	16,000	3,700.0 lbs	59,200 lbs	0.297 dols/lb	17,582,000
Sorghum For Grain	320,000	270,000	55.0 bus	14,850,000 bus	7.45 dols/cwt	61,945,000
Cotton Seed				45,000 tons	226.00 dols/ton	14,916,000
Rye	260,000	80,000	20.0 bus	1,600,000 bus	8.60 dols/bu	13,760,000
Oats	60,000	7,000	38.0 bus	266,000 bus	3.06 dols/bu	971,000
Corn for Silage		37,000	21.0 tons	777,000 tons		
Sorghum For Silage		10,000	20.0 tons	200,000 tons		

Source: Oklahoma Agricultural Statistics Service 2014.

A Primer for Selecting New Enterprises for Your Farm: http://www.uky.edu/ Ag/AgEcon/pubs/ext\_ aec/ext2000-13.pdf.



**Oklahoma State University Cooperative Extension** 

# Part 3. Financial Planning for the New Farm

One of the most basic issues you must address if you are considering farming is how much you expect the farm to contribute to your family's living expenses.

- Farm will not contribute to family's living expenses. (Off-farm income required.)
- Farm will provide a portion of the family's living expenses. (Off-farm income required.)
- Farm will provide all of the family's living expenses.

Land purchasers frequently overestimate the income potential from agricultural enterprises. If you do not yet have a handle on your farm's financial potential, then you need to assemble a financial plan for your operation. In most cases, a sound financial plan is a prerequisite to obtaining loans. A typical financial plan will include the following:

- 1. budgets for individual enterprises (for example, cow-calf, wheat and stocker);
- 2. cash flow plan;
- 3. income statement; and
- 4. balance sheet.

Fact sheets are available to assist producers in developing financial plans and interpreting financial statements. All of the following publications are free of charge at local Extension offices. They are also available online at <a href="http://dasnr22.dasnr.okstate.edu/docushare/dsweb/View/Collection-237">http://dasnr22.dasnr.okstate.edu/docushare/dsweb/View/Collection-237</a>.

- AGEC-751, Developing a Cash Flow Plan
- AGEC-752, Developing a Balance Sheet
- AGEC-753, Developing an Income Statement
- AGEC-790, Evaluating Financial Performance and Position
- AGEC-935, Capital Leases

Other OSU fact sheets that may be helpful in developing a business plan include:

- AGEC-243, Using Enterprise Budgets in Farm Financial Planning
- AGEC-302, Information Systems for Oklahoma Farmers
- CR-205, Oklahoma Farm and Ranch Custom Rates
- CR-216, Oklahoma Pasture Rental Rates
- CR-230, Oklahoma Cropland Rental Rates

The data in Tables 4 and 5 are presented to assist you in forming realistic financial expectations. In 2012, the number of farms in the state totaled 80,245 (Census of Agriculture). Sixty-five percent of the farmers reported they had at least some off-farm work for the year, and 58 percent reported farming was not their primary occupation. In terms of value of sales, 75 percent of the farms reported farm sales of less than \$25,000. The average market value of sales per farm, for all agricultural products, was \$88,848. The average expense for total production per farm was \$60,340. Net cash farm income statistics show that in 2012, 62.05 percent of farms experienced a loss.

Other farm financial data are available from the Economic Research Service of the U.S Department of Agriculture (ERS) (www.ers.usda.gov). For example, Table 5 presents costs and returns for wheat production and cow-calf production for the Prairie Gateway Region (western two-thirds of Oklahoma plus Kansas, southern Nebraska, eastern Colorado, eastern New Mexico, and much of Texas) for 2014. For wheat production in 2014, the gross value of production was \$175.89 per



**Fact Sheets:** osufacts.okstate.edu



IFMAPS
Center:
1-800-522-3755,
e-mail:
IFMAPS@okstate.edu
website:
http://
agecon.okstate.edu/
IFMAPS

A Partner in Farm Financial Planning (OSU Exension publication AGEC-239): http://dasnr22.dasnr.okstate.edu/docushare/dsweb/Get/Document-1649/AGEC-239-2013.pdf

OSU
Enterprise
Budget Website:
agecon.okstate.edu/
budgets/

planted acre. Total operating costs were \$111.59 per planted acre; total costs were \$278.15 per planted acre. The value of production less operating costs equaled \$64.37 per planted acre; the value of production less total costs equaled -\$102.91 per planted acre. For cow-calf production in 2014, the gross value of production was \$1,190.74 per bred cow. The value of production less operating costs equaled \$418.72 per bred cow. The total costs were \$1,410.10 per bred cow, for a value of production less total costs of -\$219.36 per bred cow. Averages mask the variability in costs and returns that occur on individual farms. However, the averages do point out that agricultural enterprises are not always profitable.

#### **Business Planning Assistance**

Oklahoma farmers and ranchers can call on IFMAPS (Intensive Financial and Management Planning Support) personnel to receive free, confidential assistance in farm business planning, including analyzing the potential for a new farm business. Contact your local county Extension office, call the IFMAPS Center at 1-800-522-3755, or e-mail IFMAPS@okstate.edu. Trained financial specialists work with families one-on-one to develop financial statements and evaluate alternative plans. The plans typically include budgets for the farm enterprises, a cash flow plan, income statement, balance sheet, debt worksheet and financial measures. For more information, see OSU AGEC-239, IFMAPS: A Partner in Farm Financial Planning available in local Extension offices or at <a href="http://dasnr22.dasnr.okstate.edu/docushare/dsweb/Get/Document-1649/AGEC-239-2013.pdf">http://dasnr22.dasnr.okstate.edu/docushare/dsweb/Get/Document-1649/AGEC-239-2013.pdf</a>.

#### **Enterprise Budget Software**

OSU Enterprise Budgets are Excel spreadsheets designed to help estimate production costs and returns while representing the management practices typical of an area. The software provides users access to important agricultural references during an "interactive" budget-building process. Spreadsheets incorporate historical data and specialist recommendations while allowing modification by the user. Examples of historical data include area yields and average prices. Examples of specialist recommendations include fertilizer requirements for specified forage or grain yields. Links to Internet databases and references point users to additional information.

Figures 1-3 show sample budgets for wheat, cow-calf and stocker enterprises. Note: actual income and expenses may vary greatly from operation to operation. Hence, it is important to customize budgets to match individual situations. The budget report summarizes key production items and prices, operating and fixed costs, and break-even prices and yields.

Table 4.

Data from 2007 and 2012 Census of Agriculture for Oklahoma.

	2012	2012	2007	2007
	% of Total		% of Total	
	Far	ms	Farn	ns
Number of Oklahoma farms	80,245	8%	86,565	100%
Off Farm Work				
Farmers with no off-farm work	27,846	35%	29,750	34%
Farmers with some off-farm work	52,399	65%	56,815	66%
Farmers with 200 or more days off-farm work	36,970	46%	37,167	43%
Operator by Primary Occupation				
Farming	33,790	42%	36,052	42%
Other	46,455	58%	50,513	58%
Number of Farms by Value of Sales ——————				
Less than \$2,500	29,794	37%	34,669	40%
\$2,500 to \$4,999	8,032	10%	9,059	11%
\$5,000 to \$9,999	9,680	12%	10,731	12%
\$10,000 to \$24,999	12,437	16%	13,494	16%
\$25,000 to \$49,999	7078	9%	6,886	8%
\$50,000 to \$99,999	5,198	6%	4,563	5%
\$100,000 to \$499,999	5,893	7%	5,326	6%
\$500,000 or more	2,141	3%	1,837	2%
Average Market Value of Sales per Farm ————				
All agricultural products sold	\$88,848		\$67,072	
Crops (including greenhouse)	\$23,373		\$13,719	
Livestock/poultry & products	\$65,475		\$53,352	
Selected Farm Expenses, Average per Farm ———				
Total production expenses	\$83,280		\$60,340	
Livestock/poultry purchased	\$21,144		\$16,907	
Feed	\$25,136		\$15,105	
Fertilizer, lime, soil conditioners	\$4,398		\$3,315	
Gasoline, fuel, oils	\$4,376		\$3,656	
Hired farm labor	\$3,859		\$2,946	
Interest Expense	\$3,661		\$3,317	
Chemicals	\$2,109		\$1,041	
Net Cash Farm Income of Operations —————				
Average per farm/dollars	11,899		11,885	
Farms with net gains¹/number	30,446	38%	33,709	39%
Average per farm/dollars	60,068		51,479	
Farms with net losses/number	49,799	62%	52,857	61%
Average per farm/dollars	17,550		13,364	

<sup>&</sup>lt;sup>1</sup> Farms with total production expenses equal to total of market value of agricultural products sold, government payments, and farm-related income are included as farms with gains.

Source: 2002 and 2007 Census of Agriculture – State Data, <a href="http://www.agcensus.usda.gov/Publications/2007/Full\_Report/Volume\_1">http://www.agcensus.usda.gov/Publications/2007/Full\_Report/Volume\_1</a>, <a href="https://chapter\_1">Chapter\_1</a> State Level/Oklahoma/index.asp.

Table 5.

Costs and returns for wheat production and cow-calf production,

Prairie Gateway Region.\*

<b>Cow/Calf Production</b>	2013	2014	<b>Wheat Production</b>	2013	2014
Gross value of production			Gross value of production		
Calves	515.59	752	Primary product:		
Stockers and Yearlings	128.42	156.96	Wheat grain	196.73	159.98
Other Cattle	138.52	181.78	Product: silage/straw/grazir	ig 16.89	15.91
Total gross value	782.52	1,090.74	Total, gross value of	_	
-			production	13.62	175.89
Operating costs					
Purchased Feed	127.13	130.63	Operating Costs		
Homegrown Harvested Feed		140.44	Seed	12.43	12.34
Grazed feed	108.28	109.24	Fertilizer	38.07	36.64
Total Feed Costs	400.85	380.31	Chemicals	8.89	9.03
			Custom Operations	11.22	11.54
Other			Fuel, Lube, and Electricity	20.94	20.94
Cattle for Backgrounding	97.20	141.77	Repairs	20.6	21.06
Veterinary and Medicine	25.63	26.83	Purchased Irrigation Water		
Bedding and Litter	0.68	0.71	and Straw Baling	0.07	0.07
Marketing	11.47	12.01	Interest on Operating Inputs	0.05	0.03
Custom Services	10.65	11.15	Total Operating Costs	112.28	111.59
Fuel, Lube, and Electricity	44.87	44.62			
Repairs	35.47	36.36	Allocated Overhead		
Interest on Operating Capita	0.28	0.20	Hired Labor	1.70	1.73
Total Operating Cost	627.10	653.96	Opportunity cost of Unpaid		
			Labor	18.18	18.52
Allocated Overhead			Capital Recovery of		
Hired Labor	40.30	39.04	Machinery and Equipment	71.40	78.52
Opportunity Cost of			Opportunity cost of Land		
Unpaid Labor	393.64	410.28	(Rental Rate)	49.99	51.71
Capital Recovery of			Taxes and Insurance	5.60	5.71
Machinery and Equipment	237.98	243.96	General Farm Overhead	10.06	10.25
Opportunity Cost of Land			Total Allocated Overhead	161.93	166.56
(Rental Rate)	0.23	0.23	Total Costs Listed	274.21	278.15
Taxes and Insurance	18.80	19.68	Value of Production Less		
General Farm Overhead	35.59	36.41	Total Costs Listed	-60.59	-102.27
Total Allocated Overhead	726.54	749.60	Value of Production Less		
Total Costs Listed 1	,353.64	1,403.56	Operating Costs	101.34	64.30
Value of Production less					
	-571.12	-331.94			
Value of Production less					
Operating Costs	155.42	436.63			
*					

<sup>\*</sup> Includes most of Oklahoma.

Source: Economic Research Service, U.S. Department of Agriculture.

Supporting reports, such as fertilization or feeding practices specified, may also be printed.

In addition to estimating the full economic costs and returns for an agricultural production activity, OSU enterprise budget software may be used to generate cash flow budget files for whole farm plans developed with Integrated Farm Financial Statements (IFFS) software, the program used by IFMAPS personnel. This compatibility provides an integral link to whole farm and ranch financial statements and plans.

Additional information on the budget software is on the OSU Enterprise Budget website: agecon.okstate.edu/budgets/.

# Part 4. Acquiring the Capital for Your New Farm

Whether farming is your hobby or your business, there is no doubt that it can be expensive. Capital is required to purchase or lease assets and to pay for operating expenses. For example, you may need capital to buy or lease land, buildings, machinery or livestock. You will also need funds for operating expenses including labor, feed costs, fuel and equipment, repairs and maintenance, utilities, veterinary expenses, seed, fertilizer, etc. Obviously, this is not an exhaustive list. The important question is, *How will you acquire the assets for your farm?* Buyers often purchase either too much or the wrong type of equipment, and they think it's necessary to own a new pickup, trailer, tractor, ATV, etc. These vastly increase the cost of production and eliminate potential for profit. Also, owners tend to overlook the cost of hired labor. Carefully consider every purchase. Make sure it is really needed. If it is, can it be rented or borrowed instead of bought? Be frugal.

Trying to make land payments with income generated by a farm is rarely realistic. Table 6 shows annual loan payments for a range of land prices and interest rates. In 2013, Oklahoma farm real estate values averaged \$1,520 per acre for cropland and \$1,330 for dryland pasture (<a href="http://www.nass.usda.gov/Statistics\_by\_State/Oklahoma/Publications/Annual\_Statistical\_Bulletin/Binder1.pdf">http://www.nass.usda.gov/Statistics\_by\_State/Oklahoma/Publications/Annual\_Statistical\_Bulletin/Binder1.pdf</a> or see <a href="http://www.agecon.okstate.edu/oklandvalues">www.agecon.okstate.edu/oklandvalues</a> for local information). Cattle may require 5 to 10 acres per head for native or improved pasture, depending on the size of the cattle, type of forage, rainfall, etc.

Table 6. Annual loan payments (\$/a) with alternative loan amounts and interest rates assuming a 20-year repayment period.

		Interest rate	
Loan amount (\$/a)	6%	8%	10%
1,200	104.62	122.22	140.95
1,500	130.78	152.78	176.19
1,800	156.93	183.33	211.43

Leasing farmland offers a way to begin farming or ranching without committing large sums of money to asset purchases up front. Cropland cash rental rates typically fall in the \$30 to \$45 range per acre per year, depending on the region and productivity of the tract. Native pasture often rents for \$10 to \$14 per acre with bermudagrass and other improved pasture renting for more.

#### Related Publications and Other Resources:

To help educate landlords and tenants with equitable lease agreements and current best management practices, visit the Oklahoma State University (OSU) Ag Land Lease website at www.aglandlease.info or www.aglease.info. A joint effort between OSU's Plant and Soil Sciences and Agricultural Economics Departments, the website contains a wide assortment of farm management spreadsheet tools, lease information and forms, rental rate and land value resources, legal and tax considerations, livestock and hunting lease publications plus the latest production practices in Oklahoma.



#### Real Estate Averages:

http://www.nass. usda.gov/Statistics\_by State/Oklahoma/Publications/Annual\_Statistical\_Bulletin/Binder1.pdf



#### Oklahoma Rental Rates/ Cropland:

http://dasnr22. dasnr.okstate.edu/ docushare/dsweb/Get/ Document-5994/CR-230web12-13.pdf

## Pasture (OSU Extension Publication

CR-216): http://dasnr22.dasnr.okstate.edu/docushare/dsweb/Get/Document-8705/CR-216web12-13.pdf

#### Custom (OSU Extension Publication

CR-205): http://dasnr22.dasnr.okstate.edu/docushare/dsweb/Get/Document-8064/CR-205%202011-2012web.pdf



Farm Service
Agency: http://www.
fsa.usda.gov

Specific addresses for the several referenced North Central Farm Management Extension Committee (NCFMEC) publications are:

Crop Share Rental Arrangements For Your Farm, NCFMEC-2 at aglandlease.info/wp-content/uploads/2012/05/Crop-Share.pdf

Fixed and Flexible Cash Rental Arrangements For Your Farm, NCFMEC-1 at aglandlease. info/wp-content/uploads/2012/05/Fixed-and-Flexible.pdf

Pasture Rental Arrangements, NCFMEC-3 at aglandlease.info/wp-content/up-loads/2012/05/Pasture-Rental.pdf

Recent Oklahoma school land lease auction information is also available through the Real Estate Management Division of Commissioners of the Land Office at http://www.clo.ok.gov/REM/REMHome.htm.

Similarly, custom hiring can help make farm plans financially feasible until an operation has grown to the size needed to justify machine ownership. Oklahoma farm and ranch custom rates are reported in OSU CR-205 available at the same website as rental rate reports.

Sources for financial capital may include:

- personal savings,
- agricultural loans,
- · combination of savings and loans, and
- a private lender (e.g., parent, grandparent, owner).

Chances are good that at some point you will need to seek out agricultural loans to finance a portion of your needs. The following is a list of financial sources and programs, some with lending programs aimed directly at agriculture and some specifically designed for beginning farmers.

- 1. **Commercial Banks.** You may be the most comfortable approaching your local commercial lending institution, especially if you already have a good credit history with the institution. However, not all commercial banks make agricultural loans. If you do not have an established relationship with a local lender, the Oklahoma Bankers Association (OBA) website lists financial institutions at http://www.oba.com/bankers/banks\_on\_the\_web.php. You will need to pursue the services of each individual bank to determine if they provide agricultural lending.
- 2. Farm Service Agency (FSA), http://www.fsa.usda.gov. The mission of the USDA's Farm Service Agency includes stabilizing farm income, helping farmers conserve land and water resources, providing credit to new or disadvantaged farmers and ranchers, and helping farm operations recover from the effects of disaster. The FSA makes direct loans for both farm ownership (FO) and farm operations (OL), and also guarantees loans made by conventional lenders. FSA has targeted loan funds to beginning farmers and socially disadvantaged applicants who are unable to obtain financing from commercial credit sources. The law requires FSA to reserve or target loan funds for exclusive use by beginning farmers as follows: direct operating, 50 percent; guaranteed operating, 40 percent; direct farm ownership, 75 percent; and guaranteed farm ownership, 40 percent. Funds are targeted for beginning farmers in the guaranteed program until April 1 of each fiscal year. In the direct programs, funds are targeted for beginning farmers until September 1 of each fiscal year. Below is a description of loan programs in FSA and other programs that may benefit beginning farmers. Look for an FSA office in your county on the FSA website or in the phone book under U.S. Government.
  - **a. Direct FSA Loans.** Applicants should be aware that a limited amount of funds is available for each state each year for direct loans. Funds are appropriated each year based on the government's fiscal year, which begins October 1. The FSA encourages applica-

tions even if they are out of funds for the current fiscal year, so the producer gets in the queue for funds when they become available.

- i. Direct Farm Ownership Loans. As of October 2013, the maximum loan amount for direct farm ownership loans is \$300,000 for up to 40 years. Rates are based on agency borrowing costs, but there are temporary limited resource interest rates available for those unable to repay at regular rates. The proceeds may be used to purchase land, construct buildings or other improvements, or to engage in soil and water conservation activities.
- ii. Direct Operating Loans. The maximum loan amount is \$300,000 for 1 to 7 years. Rates are based on agency borrowing costs, but—again—there are temporary limited resource interest rates available for those unable to repay at regular rates. The proceeds may be used toward the purchase of livestock, poultry, equipment, feed, seed, farm chemicals, supplies, and soil and water conservation activities. Proceeds may also be used to refinance indebtedness with certain limitations.
  - In addition, the FSA has developed the Microloan (ML) program to better serve the unique financial operating needs of beginning and very small family farm operations by modifying its traditional Operating Loan (OL) application, eligibility, and security requirements. The program offers more flexible access to credit and serves as an attractive loan alternative for smaller farming operations like specialty crop producers and operators of community supported agriculture (CSA). These smaller farms, including non-traditional farm operations, often face limited financing options. Eligible applicants may obtain a microloan for up to \$50,000. The application process for microloans is generally simpler and requires less paperwork that coincides with the smaller loan amount.
- iii. Loans for Beginning Farmers. A beginning farmer or rancher is an individual or entity who (1) has not operated a farm or ranch for more than 10 years; (2) meets the loan eligibility requirements of the program to which he/she is applying; (3) substantially participates in the operation; and (4) for FO loan purposes, does not own a farm greater than 30 percent of the median size farm in the county. Note: all applicants for direct FO loans must have participated in business operation of a farm for at least 3 years.
- iv. Loans to Socially Disadvantaged Applicants. Terms and use of the funds are the same as described for direct farm ownership loans. To qualify, the applicant must be a member of a socially disadvantaged (SDA) group such as women, African Americans, Native Americans, Alaskan Natives, Hispanics, Asians or Pacific Islanders. In the FO loan program, the percentage of loan funds targeted for SDAs is based upon the state percentage of the total rural population made up of SDA groups, and the statewide percentage of total farmers who are female. To qualify for FSA's regular farm loan program assistance, the applicant must meet the following requirements:
  - Have a satisfactory history of meeting credit obligations.
  - Have sufficient education, training, or at least 1 year of experience in managing or operating a farm or ranch within the last 5 years for a direct operating loan.
     Or, for a direct farm ownership loan, the applicant must have participated in the business operation of a farm or ranch for 3 years.
  - Be a citizen of the U.S. (or a legal resident alien), including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and certain former Pacific Island Trust Territories.

- Be unable to obtain credit elsewhere at reasonable rates and terms to meet actual needs.
- Possess legal capacity to incur loan obligations.
- v. Down Payment Farm Ownership Loan Program. FSA has a special down payment FO loan program to assist beginning farmers and ranchers and SDA farmers. To qualify, an applicant must make a cash down payment of at least 5 percent of the purchase price. FSA may provide up to 45 percent of the purchase price or appraised value, whichever is less, up to \$667,000. The term of the loan is 20 years at a fixed interest rate which is the greater of the direct FO rate less 4 percent or 1.5 percent. The remaining balance may be financed by a private party or commercial lender. FSA can provide up to a 95 percent guarantee if financed by a commercial lender and participating lenders do not have to pay a guarantee fee.
- vi. Sale of Inventory Farmland. Eligible beginning farmers or SDA applicants are given first priority to purchase acquired property at the appraised market value for the first 135 days after a property is acquired. If more than one beginning farmer offers to purchase the property, the buyer is chosen by a random drawing.
- vii. Joint Financing Plan. Beginning farmers may also participate in a joint financing plan that is available to other applicants. In this program, FSA lends up to 50 percent of the amount financed and charges a reduced interest rate on the loan.
- **b. Guaranteed FSA Loans.** Farmers interested in guaranteed loans must apply to a conventional lender, which then arranges for the FSA guarantee. FSA guaranteed loans provide lenders (e.g., banks, Farm Credit System institutions, credit unions) with a guarantee of up to 95 percent of the loss of principal and interest on a loan.
  - i. Guaranteed Farm Ownership Loans. As of October 2014, the maximum loan amount is \$1,392,000 for up to 40 years. Rates will not exceed those charged by the lender's average farm customers. The proceeds may be used to purchase land, construct buildings or other improvements, or to engage in soil and water conservation activities. Proceeds may also be used to refinance debts.
  - ii. Guaranteed Operating Loans. The maximum loan amount is \$1,392,000 for 1 to 7 years. Rates will not exceed those charged by the lender's average farm customers. An interest rate reduction of 4 percent is available for those unable to repay at regular rates with certain limitations. The proceeds may be used toward the purchase of livestock, poultry, equipment, feed, seed, farm chemicals, supplies, and soil and water conservation activities. Proceeds may also be used to refinance indebtedness with certain limitations. To qualify for either type of FSA guaranteed loan, the loan applicant must:
    - Be a citizen of the U.S. (or legal resident alien), which includes Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and certain former Pacific Island Trust Territories.
    - Have an acceptable credit history as determined by the lender.
    - Have the legal capacity to incur the obligations of the loan.
    - Be unable to obtain a loan without a guarantee.
    - Not have caused FSA a loss by receiving debt forgiveness on more than 3 occasions on or prior to April 4, 1996 or on any occasion after April 4, 1996.
    - Be the owner or tenant operator of a family farm after the loan is closed. For an OL, the producer must be the operator of a family farm after the loan is closed. For an FO Loan, the producer also needs to own the farm.
    - Not be delinquent on any Federal debt (income taxes, student loans, etc).

3. Farm Credit Services (FCS), <a href="http://www.farmcreditnetwork.com/">http://www.farmcreditnetwork.com/</a>. The Farm Credit System (Farm Credit) is a nationwide network of borrower-owned financial institutions and specialized service organizations. Farm Credit consists of six Farm Credit Banks and one Agricultural Credit Bank, which provides funding and affiliated services to more than 100 locally owned Farm Credit associations and numerous cooperatives nationwide. The fundamental purpose of this network of Government-sponsored enterprises created by Congress in 1916 is to provide American agriculture with a source of sound, dependable credit at competitive rates of interest. Farm Credit provides credit and related services to farmers, ranchers, producers and harvesters of aquatic products, rural homeowners, certain farm-related businesses, agricultural and aquatic cooperatives, rural utilities, and to certain foreign or domestic entities in connection with international agricultural credit transactions.

Below are the addresses of the five Farm Credit Associations in Oklahoma.

Ag Preference Farm Credit Services of East/Central Oklahoma

3120 N. Main 601 E. Kenosha

Altus, OK 73521 Broken Arrow, OK 74012

580-482-3030 918-251-8596

<u>www.agpreference.com/</u> <u>http://www.farmcreditnetwork.com/</u>

American Ag Credit - Ponca City Farm Credit of Enid

1909 Lake Road 1605 W. Garriot Rd. Ponca City, OK 74604 Enid, OK 73702 580-765-5690 580-233-3489

www.fcenid.com

Farm Credit of Western Oklahoma 3302 Williams Ave. Woodward, OK 73801 800-299-3465

www.fcwestok.com

**4. Oklahoma Beginning Farmer Loan Program (OBFLP).** The state has a program called "Aggie Bond" that allows lenders to earn federally tax-exempt interest income on loans to eligible beginning farmers and ranchers. The credit decisions and financial risks remain with the local lending institutions. However, the tax-savings allows the lenders to provide the loans at a reduced interest rate to the beginning farmer. In Oklahoma, the Oklahoma Development Finance Authority administers this program.

For the OBFLP, the term beginning farmer is specifically defined based on previous land ownership. The beginning farmer (including spouse and children) must not have:

- Owned land equal to 30 percent or more of the median farm size in the county where the property is located.
- Owned land exceeding a fair market value of \$125,000 at any time.
- A net worth (value of assets less total liabilities) that exceeds \$200,000.

The Farm Credit
Service: http://www.
farmcreditnetwork.
com/

Furthermore, the beginning farmer must:

- Reside in Oklahoma.
- Be at least 18 years of age or have a cosigner who is 18 years or older.
- Be the principal operator of the farm.
- Find an eligible institution willing to make the loan.
- Demonstrate the need for and the ability to pay the loan.
- Certify the land will be used for agricultural purposes.
- Document sufficient education, training and experience in the type of farming operation for which the loan is requested.
- Participate in an approved farm management program for at least the first 5 years of the loan, including IFMAPS.
- File a conservation plan with the USDA Natural Resource Conservation Service.
- Fulfill any other requests of the Oklahoma Development Finance Authority.

Additional information about the program can be found in a fact sheet by Oklahoma State University at http://dasnr22.dasnr.okstate.edu/docushare/dsweb/Get/Document-1807/AGEC-234web13. pdf. To participate in this program, request an application form and complete the application with a participating lender or contract seller to negotiate the terms of the loan or contract sale. Obtain the application form by contacting,

Oklahoma Development Finance Authority

5900 N. Classen Court

Oklahoma City, OK 73118

Phone: 405-848-9761

The OBFLP application process can take 2 % to 3 months to complete. Interim financing should not be obtained prior to application approval. Following approval, additional financing can be obtained to proceed with the project. Interim financing must be paid with the proceeds of the note when issued.

**5. The Oklahoma Agricultural Linked Deposit Program (OALDP)** is administered by the Oklahoma State Treasurer's Office: <a href="http://www.ok.gov/treasurer/Linked\_Deposit\_Programs/Agricultural\_Linked\_Deposit\_Programs/">http://www.ok.gov/treasurer/Linked\_Deposit\_Programs/Agricultural\_Linked\_Deposit\_Programs/</a>. OALDP is an economic development program aimed at reducing debt service costs to Oklahoma farmers and ranchers. The linked deposit loans are available to at-risk farm or ranch operations or to producers adding alternative enterprises who are Oklahoma residents and whose business operation is located in this state. The state treasurer invests in certificates of deposit with a commercial lender or in bonds, notes or securities for the Federal Farm Credit Service. The lender or owner-financer assumes the risk of the loan.

An at-risk farm or ranch may request funding of up to a maximum of \$350,000. For an at-risk farm or ranch to be eligible for an Agricultural Linked Deposit Loan, the following criteria must be met.

- The percent of gross income from farming must have been 60 percent or more in at least one out of the two previous tax years.
- The consolidated business/family debt-to-asset ratio must be at least 55 percent.
- The linked deposit loan must be for the purpose of operating the business or for refinancing loans made to operate the business.

To be eligible to obtain a Linked Deposit Alternative Agricultural Products loan, the farm, ranch or agri-business must certify in the loan application that the loan will be used for expanding or starting the production, processing or marketing of a product named as an alternative agricultural product. The Department of Agriculture determines what qualifies as an alternative agricultural product. The maximum funding for an alternative agricultural products operation is \$1 million.

Additional information about the program can be found in a fact sheet by Oklahoma State University at <a href="http://dasnr22.dasnr.okstate.edu/docushare/dsweb/Get/Document-1785/AGEC-235web13.pdf">http://dasnr22.dasnr.okstate.edu/docushare/dsweb/Get/Document-1785/AGEC-235web13.pdf</a>. The contact information for this program is:

Oklahoma State Treasurer's Office Agricultural Linked Deposit Program 2300 N. Lincoln Blvd., Room 217 Oklahoma City, OK 73105

Phone: 405-521-3191

http://www.treasurer.state.ok.us

- **6. Life Insurance Companies.** Life insurance companies have a history of investing in farm real estate mortgages. According to the Economic Research Service, these companies tend to prefer larger loans that are well secured and are intermediate to long-term in maturity. Furthermore, in recent years, they have begun to prefer agri-business loans over traditional farm loans. According to ERS, six of the most prominent lenders in this category are: AEGON USA, Citigroup Investments AgriFinance Group, Lend Lease Agri-Business, Metropolitan Life, MONY Life Insurance and Prudential.
- Private Individuals Land Installment Contracts. A long-term installment land contract is both an instrument of transfer and a method of finance. An owner-financed loan can be beneficial for both buyer and seller. Sometimes it allows a person who does not qualify for a loan with a lending institution to purchase farm assets. Friends or family members may be willing to finance a portion of a farming venture. In an installment contract, the buyer agrees to pay the seller a small down payment, and a series of principal and interest payments. Considerations in preparing an installment land contract include identification of the seller and buyer, an adequate description of the property, purchase price or other consideration, escrow agreement, abstract of title and title insurance, type of deed, transfer process, recording the deed, responsibility for expenses, method and time of payment (down payment, continuing payments, time and place, prepayments, grace period, default, crop and livestock liens), operation and use of property, costs and income, and defaults and remedies. With respect to operation and use, items such as possession, reservation of use, inspection of the premises, seller's right to participate in management, condition of improvements and assignments should be agreed upon. Likewise, rents and other income, taxes and special assignments, risk of loss and insurance, injuries to or by third parties, and condemnations should be considered. The contract may include the seller maintaining the deed until the purchase is complete. There may be tax advantages for the seller involved in an installment contract. Both buyers and sellers of property are encouraged to seek legal counsel before entering into an installment agreement. A bulletin, Long-Term Installment Land Contracts, NCR-56 is available from the University of Missouri Extension Service.

Oklahoma Beginning Farmers Loan Progam Fact Sheet (OSU Extension Publication AGEC-234): http://dasnr22. dasnr.okstate.edu/ docushare/dsweb/Get/ Document-1807/AGEC-

Oklahoma Finance Authority 5900 Classen Court

405-848-9761

73118

Oklahhoma City, OK

234web13.pdf

Fact Sheet

(OSU Extension
Publication AGEC235): http://dasnr22.
dasnr.okstate.edu/
docushare/dsweb/Get/
Document-1785/AGEC-

235web13.pdf

Oklahoma
State Treasurers
Office
Agricultural Linked
Deposit Program
2300 N Lincoln Blvd.
Room 217
Oklahoma City, OK
73105
(405)521-3191
http://www.ok.gov/
treasurer/

# Part 5. Finding Opportunities for Education and Training

Even if you grew up on a farm or have spent years working on a farm, there are always new things to learn. If your farming experience is limited, you definitely will want to take advantage of educational opportunities and technical assistance available to farmers. Joining a trade association is another way to gain access to market-specific information, and to meet and talk with other producers.

#### **Education and Outreach Organizations**

Oklahoma Cooperative Extension Service/Oklahoma State University, <a href="www.oces.okstate.edu/extension">www.oces.okstate.edu/extension</a>: Cooperative Extension Educators are housed in every county, where they work side-by-side with residents to address local issues and concerns. County personnel can call upon State, District, and Area Extension Specialists who develop programs based on research-proven, objective information to help Oklahomans solve problems, promote leadership and manage resources wisely. County Extension offices often host educational workshops on topics that cover a wide variety of production and management practices for a variety of crop and livestock enterprises. Example programs include record keeping, marketing outlook, soybean production, pecan management, grape production, pest management and more. Contact your county office for more information about programming in your area. For a list of county offices, see <a href="countyext2.okstate.edu/">countyext2.okstate.edu/</a>. In addition, an entire library of Extension fact sheets is available online at <a href="countyext2.okstate.edu/">countyext2.okstate.edu/</a>. Following is a very small sample of titles:

- EPP-2072, Blister Beetles and Alfalfa
- PSS-2774, Cheat Control In Oklahoma Winter Wheat
- HLA-6201, Pecan Varieties for Oklahoma
- ANSI-8202, Poultry for the Small Producer

Oklahoma Food and Agricultural Products Research and Technology Center/ Oklahoma State University, <a href="www.fapc.okstate.edu/">www.fapc.okstate.edu/</a>. The primary goal of the center is to help producers, processors and entrepreneurs add value to Oklahoma's food and agricultural processing industries. The center hosts a basic training workshop for food business entrepreneurs on every third Thursday of each month (excluding December). Other workshops offered by the center include financial management, marketing, the food industry, food safety and master canner.

Contact information:

Oklahoma Food and Agricultural Products Research and Technology Center

148 FAPC

Oklahoma State University Stillwater, OK 74078-6055

Phone: 405-744-6071 Fax: 405-744-6313

fapc@okstate.edu

#### Agriculture Business Management Program/Oklahoma Career Technology Cen-

ters, www.okcareertech.org/educators/agricultural-education/abm. The main objective of the Agriculture Business Management program is to help agricultural families achieve their business and family goals through improved management, organization and efficiency practices. The program is offered at 16 of 29 career tech centers across the state. For a list of participating tech centers, visit the website shown above and click on the Current ABM Instructors link.

**Kerr Center for Sustainable Agriculture**, <a href="www.kerrcenter.com/">www.kerrcenter.com/</a>. The Kerr Center publishes educational materials on a wide range of topics in sustainable farming and ranching. The Kerr Center also sponsors and organizes educational events such as workshops, short courses and conferences, including the Oklahoma Beginning Farmer and Rancher Program. The three-year project, which began in 2011, is supported by a grant from the USDA National Institute of Food and Agriculture and is designed to assist beginning farmers and ranchers with training, resources, and mentoring. At the end of the course, participants will have the knowledge and skills necessary to move forward with a successful farming plan.

The Kerr Center is partnering with the Oklahoma Farmer and Rancher Association (OFRA), the Rural Smallholder Association (RSA), and the Myskoke Food Sovereignty Initiative (MFSI). The Oklahoma Cooperative Extension Service is also a partner. For more information on this and other programs offered, visit their website.

Contact Information:

Kerr Center for Sustainable Agriculture

24456 Kerr Road Poteau, OK 74953

Phone: 918-647-9123

E-mail: mailbox@kerrcenter.com

#### Natural Resource and Conservation Service (NRCS)/U.S. Department of Agricul-

**ture.** NRCS and its partnering agencies administer a broad range of conservation programs to assist farmers, ranchers and other landowners in conserving natural resources. These programs provide incentives such as technical and cost-sharing assistance to install conservation practices. The NRCS website also contains some technical resources such as a soil report for every county in the state.

Contact information:

United States Department of Agriculture Natural Resources Conservation Service 100 USDA, Suite 206 Stillwater, OK 74074-2655

Phone: 405-742-1204

TTD Access: 405-742-1007

Oklahoma Department of Agriculture, Food and Forestry, http://www.state. ok.us/~okag/. Visit this website for a discussion of Oklahoma's top commodities, daily commodity prices and market news. As the Department of Agriculture is also responsible for overseeing some agricultural regulations, you will also find a schedule for public hearings that will be conducted as well as any other events. The Oklahoma Agriculture Enhancement and Diversification Program provides funds in the form of loans or grants for the purpose of expanding the state's value added processing sector and to encourage farm diversification. The department also publishes a hay directory online.

Oklahoma Cooperative Extension/OSU: http://www.oces.

okstate.edu/

Listing of County Offices: http://countyext2. okstate.edu/



**OSU Fact** Sheets: osufacts. okstate.edu



**Contact** Information:

Oklahoma Food and Agricultural Products Research and **Technology Center** 148 FAPC Oklahoma State University Stillwater, OK 74078-

6055 Phone: (405) 744-6071

Fax: (405) 744- 6313 Email: fapc@okstate.

edu

Oklahoma **Agricultural Business** Management: http:// www.okcareertech.org/

educators/agricultural-



**Kerr Center:** 

education/abm

hAddress: Kerr Center for Sustainable Agriculture 24456 Kerr Road Poteau, OK 74953 Phone: (918) 647-9123 Email: mailbox@ kerrcenter.com



#### NRCS:

www.nrcs.usda.gov/ Address: US Dept. of Agriculture Natural Resources Conservation Service 100USDA, Suite 206 Stillwater, OK 74074-2655

Phone: (405)742-1204 TTD Access: (405)742-

**ODAFF:** www. oda.state.ok.us/ Address: Oklahoma Dept. of Agriculture 2800 N. Lincoln Blvd. Oklahoma City, OK 73105-4298

phone: (405)521-3864

#### Risk **Management Agency:**

www.rma.usda.gov Address: Risk Management Agency/USDA Oklahoma City Regional

215 Dean A. McGee Ave. Suite 342 Oklahoma City, OK 73102

Phone: (405)879-2700 E-mail:

rsook@rma.usda.gov

Noble Foundation: www.

noble.org/ Address: Samuel Roberts Noble Foundation 2510 Sam Noble Pky. Ardmore, OK 73401 Phone: (580)223-5810



**Small Farmer** 

Address: Langston University Center for Outreach Program Technical Assistance Project P.O. Box 730 Langston, Oklahoma 73050

Phone: (405) 466-6154 Fax: (405) 466-6177

Contact information:

Oklahoma Department of Agriculture

2800 N. Lincoln Blvd.

Oklahoma City, OK, 73105-4298

Telephone: (405) 521-3864

Risk Management Agency/U.S. Department of Agriculture, http://www.rma.usda. gov. The Risk Management Agency leads a comprehensive educational program that assists producers and agribusinesses in understanding their increased risk exposure and responsibility in the current economic environment; to understand and make effective use of risk management tools and strategies; and to integrate these strategies in decisions that meet their business, personal and community goals. Educational workshops and seminars, often in partnership with Extension, are scheduled year-round across the nation including some workshops in Oklahoma. Topics include grain marketing, dairy risk management, employee management, and futures markets for beef cattle, etc. Visit their website for a calendar of training events.

Contact information:

Risk Management Agency/USDA

Oklahoma City Regional Office

215 Dean A. McGee Avenue, Suite 342

Oklahoma City, OK 73102

Phone: 405-879-2700

E-mail: rsook@rma.usda.gov

**Samuel Roberts Noble Foundation**, www.noble.org/. The Noble Foundation Agricultural Division is a knowledge-based resource providing guidance to people in the pursuit of conservation and responsible management of renewable natural resources, focusing on southern Oklahoma and northern Texas. To help agricultural producers and other stewards of natural resources achieve their financial, production and quality-of-life goals, they provide decision support through consultation and other educational activities. They have demonstration farms, conferences and workshops plus newsletters and other publications. They also collaborate frequently with other organizations and producers to encourage responsible and effective land management and agricultural pursuits. The Noble Foundation website is home to the eCattlelog—a free, online listing service for cattle producers. On the site you will find a long listing of agricultural titles available online. Information concerning public educational events is also listed. These include seminars such as beef quality assurance training and deer management field day. For more information about public education events, call 580-223-5810.

Contact information:

Samuel Roberts Noble Foundation

2510 Sam Noble Pky.

Ardmore, OK 73401

Phone: 580-223-5810

Small Farmer Outreach Training and Technical Assistance Project, Langston University, in cooperation with the USDA-NRCS, provides free assistance to small and underserved farmers, ranchers and other rural residents in the State of Oklahoma. This assistance is designed to help alleviate the financial problems confronting these producers. The areas of assistance include:

- bookkeeping skills,
- farm management skills,
- farm marketing skills,
- USDA loan applications,
- USDA cost share applications,
- alternative enterprises, and
- soil and water management.

#### Contact information:

Langston University

Center for Outreach Programs

**Technical Assistance Project** 

P.O. Box 730

Langston, OK 73050

Phone: 405-466-6154

Fax: 405-466-6177

#### **Agriculture Related Associations**

- 1. Oklahoma Ayrshire Association.
- 2. Oklahoma Brown Swiss Association.
- 3. Oklahoma Holstein Association.
- **4. Oklahoma Agribusiness Retailers Association,** <a href="http://www.oklahomaag.com/">http://www.oklahomaag.com/</a>. Enid, Okla.Phone: 580-233-9516.
- **5. Oklahoma Angus Association,** <u>www.oklahomaangus.com</u>. An organization of those who own or who are interested in Angus cattle. Phone: 405-880-1993.
- **6. Oklahoma Aquaculture Association.** Phone: 405-377-0092; e-mail: cgebhart@ionet.net.
- 7. Oklahoma-Arkansas-Texas Association of Milking Shorthorn Breeders.
- **8. Oklahoma Beef Council,** <u>www.oklabeef.org</u>. An organization supporting the Oklahoma beef industry. Phone: 405-840-3777.
- **9. Oklahoma Bison Association**, <u>www.okbison.org</u>. An organization with a mission to promote the bison industry in Oklahoma through seminars, newsletters, and the annual show and sales.
- **10. Oklahoma Cattlemen's Association**, <a href="www.okcattlemen.org">www.okcattlemen.org</a>. The primary focus of the OCA is to be represent the interests of Oklahoma's cattlemen at the Oklahoma Legislature. The OCA has continued an aggressive course of action supporting proactive legislation and challenging anti-industry legislation and regulations. The OCA has a recognized presence at the Oklahoma Legislature and the U.S. Congress. Phone: 405-235-4391.
- **11. Oklahoma Cattlewomen's Association,** <a href="http://okcattlewomen.org">http://okcattlewomen.org</a>. The Oklahoma Cattlewomen's Association, Inc. mission is to involve and support its members in promoting beef and the beef cattle industry. Phone: 405-235-4391.

- **12. Oklahoma Christmas Tree Association**, <u>www.okchristmastrees.com</u>. The Oklahoma Christmas Tree Association members grow fresh, real Christmas trees on farms in Oklahoma. Phone: 405-324-2697.
- **13. Oklahoma Cotton Council,** <u>www.okiecotton.org</u>. Organization that promotes and protects the interests of the Oklahoma cotton industry. 580-335-3541.
- **14. Oklahoma Crop Improvement Association,** <a href="www.okcrop.com">www.okcrop.com</a>. Oklahoma Crop Improvement Association (OCIA) is a non-profit association of seed producers and others interested in the production and distribution of high quality planting seed. OCIA is designated by OSU as the Seed Certifying Agency for the state of Oklahoma in accordance with the Oklahoma Seed Laws. The agency is responsible for the development and distribution of rules, regulations and standards for all certification of seed and other propagating materials in the state. 405-744-7108.
- **15. Oklahoma Farm Bureau**, <u>www.okfarmbureau.org</u>. Farm Bureau is an independent, non-governmental, voluntary organization of farm and ranch families united for the purpose of analyzing their problems, and formulating action to achieve educational improvement, economic opportunity, and social advancement and thereby, to promote the national well-being. There is a Farm Bureau office in every county of Oklahoma. Check their website or your phone book for a location. 405-523-2300.
- **16. American Farmers and Ranchers**, <a href="www.americanfarmersandranchers.com">www.americanfarmersandranchers.com</a>. American Farmers and Ranchers was organized in 1905 to help the family farmer while America was courting the Industrial Revolution. Today, with nearly 120,000 family memberships across the state of Oklahoma, they use a portion of the insurance premiums generated from American Farmers and Ranchers Mutual Insurance Company to support family agriculture and rural Oklahoma. Check their website or your phone book for your local Farmers Union agent.
- **17. Oklahoma Grain and Feed Association,** <u>www.oklahomaag.com</u>. Enid, Okla. Phone: 580-233-9516.
- **18. Oklahoma Greenhouse Growers' Association,** The Oklahoma Greenhouse Growers Association comprises growers and marketers of floriculture crops such as bedding plants, potted flowering plants, cut flowers, garden perennials, herbs, foliage plants, patio plants, groundcovers and hanging baskets. The association also includes those involved in related areas as well as students of horticulture. Phone: 405-942-5276.
- **19. Oklahoma Haflinger Association**, The Haflinger horse is the result of the mating of native Austrian mountain mares with a part-Arabian stallion. The Oklahoma association is centered in Ramona, Okla. Phone: 918-637-8458.
- 20. Oklahoma Meat Goat Association. <a href="http://www.oklahomameatgoatassociation.com/">http://www.oklahomameatgoatassociation.com/</a>
- **21. Oklahoma Nursery and Landscape Association,** www.oknla.org. More than 300 member companies including garden center retailers, landscape firms, wholesale nursery growers, manufacturers and distributors of horticultural products are served by the ONLA. Telephone: (405) 945-6737; e-mail: info@oknurserymen.org.
- **22. Oklahoma Pecan Growers' Association,** <u>www.okpecangrowers.com.</u> The Oklahoma Pecan Growers' Association strives to provide educational opportunities and support for its members with the objective of cost effective production and marketing of high quality pecans.
- **23. Oklahoma Peanut Commission.** <a href="http://www.ok.gov/portal/agency.php?agency\_id=60">http://www.ok.gov/portal/agency.php?agency\_id=60</a> The mission of the Oklahoma Peanut Commission is to provide peanut growers with a receptive and growing market for their peanuts and the information and tools for improved efficiencies.

- Through research and marketing initiative, the Commission is finding new ways to enhance production and increase consumer demand by promoting the great taste, nutrition and culinary versatility of Oklahoma-grown peanuts. Phone: 405-275-5994.
- **24. Oklahoma Pork Council,** www.okpork.org. OPC provides consumers with current information regarding food safety, nutritional value and preparation tips for pork products. This includes recipes, cookbooks, and educational materials for classrooms and promotional materials. OPC also provides producers with the latest research regarding management practices, nutrition needs of swine, odor management, nutrient material and educational programs dealing with other producer concerns. Toll Free: 888-SAY-PORK (729-7675).
- **25. Oklahoma Quarter Horse Association,** <u>www.okqha.com</u>. Bethany, Okla. Phone: 405-440-0694.
- **26. Oklahoma Sorghum Commission,** oksorghum.com. This organization is an affiliate of the National Sorghum Producers and represents Oklahoma in leading legislative and regulatory change through effective policy and relationships for a more profitable, diverse and competitive sorghum industry. Producer checkoff dollars are working to increase profitability for Oklahoma sorghum growers. Phone: 1-800-659-9808; e-mail: oklahoma@sorghumgrowers. com.
- **27. Oklahoma Soybean Board.** oksoy.org. This organization is an affiliate of the American Soybean Association—a nonprofit, farmer-controlled organization working to strengthen soybeans as a viable crop. Phone: 918-343-2326.
- **28. Oklahoma Wheat Commission.** <a href="http://www.ok.gov/wheat/">http://www.ok.gov/wheat/</a> In 1965, the Oklahoma Wheat Resources Act established the Oklahoma Wheat Commission, and with it a framework for Oklahoma wheat producers to invest in the promotion of their product, hard red winter wheat. The mission of the Oklahoma Wheat Commission is to promote and further develop the marketability and utilization of Oklahoma wheat through international and domestic market development, research and education. Phone: 405-608-4350.
- **29. Oklahoma Wheat Growers Association,** <u>www.owga.org</u>. The Oklahoma Wheat Growers Association, a member of the National Association of Wheat Growers, is a nonprofit partnership of U.S. wheat growers who—by combining their strengths, voices and ideas—are working to ensure a better future for themselves, their industry and the general public. Phone: 405-246-8053.
- **30. Southwest Dairy Farmers,** www.southwestdairyfarmers.com. The Southwest Dairy Farmers is an alliance of dairy farmers from Texas, New Mexico, Arkansas and Oklahoma. These producers have pooled their resources to provide consumer education in nutrition, promote dairy product use and provide dairy product information. Phone: 918-392-1717.

This is not an exhaustive list of associations, and appearance on this list should not be viewed as an endorsement by the Oklahoma Cooperative Extension Service or Oklahoma State University.

## Part 6. Locating Land for Farming

You may already own some farmland, or maybe know of some nearby land for sale. If not, you are going to have to start from scratch. This is especially true if you are thinking of purchasing land in parts of the state that you are not already familiar with. Local real estate offices, local producers and ag lenders are likely to be good resources. Another way to get information about available farmland is to use a real estate locater on the Internet. These land locators are generally very easy to use. Most sites work in a similar fashion. On the home page, you indicate you are interested in farmland in Oklahoma. Most listings have photographs and will list contact information for a local real estate agent. Below is a list of online real estate locators that you may want to browse as a starting point.

www.dairyrealty.com
www.farmlandforsale.net
www.landandranchsales.com
www.unitedcountry.com
www.farmandranchrealestate.com

#### **Evaluating Land**

Certainly, some tracts of land are more aesthetically pleasing than others. However, unless you are planning to market the land based on its beauty (camping, hiking, etc.), aesthetics is not necessarily the most important factor. Livestock operations, for example, must utilize land that has the potential for good forage production. For these operations, as more forage is utilized, relative to hay or purchased supplements, winter feeding costs are reduced and net return is increased (other costs being equal).

Careful consideration should be given to the key elements of forage production when choosing land for a livestock operation. These elements are precipitation, soil and the existing forage base. Obviously, precipitation and soil qualities are important in crop production as well as livestock.

Precipitation levels vary throughout Oklahoma. If you are considering two tracts of land in two parts of the state, the tract that receives the most precipitation may be more profitable. However, actual rainfall received is only part of the story. A tract that receives less precipitation but has better soil texture may produce more when compared to a site with more precipitation but poorer soil conditions.

Soil texture is a major factor in determining soil's water retention. Fine textured soils that contain high percentages of clay and silt hold more water than coarse-textured soils such as sands. Fine-textured soils are generally higher in fertility than coarse-textured soils. For forage production, the best choice is generally a medium-textured soil such as loams, sandy loams or silt loams.

Soil depth is also an important factor to consider. Shallow soils have less water-holding capacity than deeper soils. This will reduce the site's ability to produce forage. See Table 6 for soil productivity as affected by depth. Shallow soils may be either naturally occurring or a result of past mismanagement and erosion of the topsoil. Contact the local USDA Natural Resource Conservation Service office for information about soil characteristics of a specific site. Oklahoma has a Standard Soil Survey for all 77 counties with detailed information regarding the precipitation, soil texture, soil depth and the suitability of sites in the county for forage production, wildlife production and crop production.

To the untrained eye, many pastures appear similar. However, there can be great differences in the existing forage base and the ability to stock livestock. Identifying key forage species can help determine if the site has been overgrazed. Plus, some species are more important to the overall goals of the ranch than others. County Extension personnel can provide further advice on the forage production capabilities of land you may wish to purchase.

Table 6. Soil productivity rating as affected by depth.

Soil Depth Usable by	Relative Productivity
<b>Crop Roots (feet)</b>	(%)
1	35
2	60
3	75
4	85
5	95
6	100

Source: So You Want to be a Rancher? Oklahoma Cooperative Extension Service.

#### Other considerations—a checklist

- Access to property—crossing another person's property, quality of roads.
- Wetlands or archeological sites.
- Zoning and other land use restrictions—pesticide use, burning, etc.
- Existing easements.
- Flood potential and drainage.
- Old dumpsites on or around property that may contain hazardous waste.
- Groundwater contamination.
- Population growth potential.
- Uncontrolled hunting and fishing.
- Low pH, high salt content or low organic matter in soils.
- Parcel has the right number of acres required.
- Parcel has the right combination of land—tillable versus pasture.
- Property is convenient with regard to accessing markets.
- Property is convenient with regard to accessing support services.
- Land's location fulfills your family's needs—close to family, friends, and off-farm employment.
- Land is located in a farm-friendly community.
- Site is zoned for agricultural use.
- Property is accessible—good roads, easements, etc.
- Easements on the property will not limit your farming goals.

Natural Resource
Conservation Service
Office: www.nrcs.usda.

# Part 7. Understanding Land Use Regulations and Restrictions



#### Water Quality

Water quality issues are an important set of regulations impacting Oklahoma farmers. The Oklahoma Department of Agriculture, Food and Forestry (ODAFF) is the primary regulatory agency of agriculture in the state. In particular, ODAFF's Division of Agricultural Environmental Management Services works with producers and concerned citizens to protect the Oklahoma environment. See their website for more information (www.oda.state.ok.us/cps-groundwater.htm). Below are some of the programs administered by the Division of Agricultural Environmental Services.

#### **Concentrated Animal Feeding Operation Program**

There are three cases under which a permit may be required for an animal feeding operation. The Agricultural Environmental Management Services Division of the Oklahoma Department of Agriculture issues licenses in these situations and inspects the operations to protect water quality:

 Large CAFO: Animals are confined in an area without growing vegetation—including under roof—for more than 45 days in a 12-month period, and the operation houses more than the following number of animals:

1,000	beef cattle or heifers
1,000	veal calves
700	mature dairy cattle
2,500	swine weighing more than 55 pounds
10,000	swine weighing less than 55 pounds
5,000	ducks with liquid manure handling system
30,000	laying hens or chickens with liquid-manure handling system
30,000	ducks with dry-manure handling system
82,000	laying hens with dry-manure handling system
125,000	meat chickens with dry-manure handling system
55,000	turkeys
10,000	lambs or sheep
500	horses

2. Medium CAFO: Animals are confined in an area without growing vegetation—including under roof— for more than 45 days in a 12-month period, a stream or man-made conveyance drains the confinement area, and the operation houses more than the following number of animals:

300 beef cattle or heifers

300 veal calves

200 mature dairy cattle

swine weighing more than 55 pounds

3,000	swine weighing less than 55 pounds
10,000	ducks with liquid-manure handling system
37,500	laying hens or chickens with liquid-manure handling system
1,500	ducks with dry-manure handling system
25,000	laying hens with dry-manure handling system
37,500	meat chickens with dry-manure handling system
16,500	turkeys
3,000	lambs or sheep
150	horses

3. Designated CAFO: An agent of the federal or state regulatory agency has inspected the operation and determined that it is causing water quality degradation, regardless of animal numbers.

In addition, Swine Operations with more than 2,500 animals larger that 55 pounds or 10,000 animals less 55 pounds, fall under the State Licensed Managed Feeding Operation, or LMFO program. This program is also administered by the Agricultural Environmental Management Services Division of the Oklahoma Department of Agriculture.

#### Registered Poultry Feeding Operators and Applicators Program

The Registered Poultry Feeding Operations Program is designed to help control nonpoint source runoff and discharges from poultry waste application of poultry feeding operations. This program monitors poultry waste application to land or removal from these operations and assists in ensuring beneficial use of poultry waste while preventing adverse effects to the waters of the state of Oklahoma. All poultry farmers whose farms create more than 10 tons of litter per year are required to become licensed in this program.

People who apply poultry litter must apply for a second poultry applicators license. There are two applicator classifications: 1) a private applicator, and 2) a commercial applicator. A private applicator is anyone who applies poultry litter on his or anyone else's property, but does not receive monetary compensation for the application. Note: a poultry operator who applies litter on his own property must also be licensed as a private applicator. Commercial applicators are people who receive monetary compensation for their services. The main difference in the two types of applicators is the amount of the license fee.

All poultry operators, private and commercial applicators, must receive 9 hours of initial poultry waste management training within one year of starting their business. Every year thereafter, they must receive 3 hours of update training. The Oklahoma Cooperative Extension Service conducts this training program. Contact your county agricultural Extension educator for more details.

#### Pest Control

The ODAFF's Consumer Protection Services division ensures and enforces quality standards for agricultural products and regulates pesticide use. The laws regulated by this division impact the goods and services associated with Oklahoma's apiary, ag-lime, ornamental plant, vegetable plant, feed, seed, fertilizer and pesticide industries. See their website for more information <a href="https://www.oda.state.ok.us/cps.htm">www.oda.state.ok.us/cps.htm</a>. Here are some examples of the programs this division administers.

#### Pesticide Applicators Law

The use of pesticides in Oklahoma is governed by the Pesticide Applicators Law, covering not only agricultural applications such as crop spraying and fumigating of grain bins, but also regulating the pest control industry, including the control of termites, weeds, roaches, etc.

Consumer Protection Service Website: www.oda. state.ok.us/cps.htm

#### Oklahoma Insect Pest & Plant Disease Law

The Oklahoma Insect Pest & Plant Disease Law provides for ongoing routine inspection of nursery and floral stock, with the goal of minimizing the spread of insect pests and plant diseases in such products' commercial distribution. The law requires the licensing of anyone engaged in the business of selling such products called the Nursery & Dealers Certificate. You do not need a license if you sell only cut flowers or cut Christmas trees.

#### Oklahoma Noxious Weed Law

The Oklahoma Noxious Weed Law designates three plants—musk thistle, Scotch thistle, and Canada thistle—as noxious weeds. Upon written complaint, this division will inspect the type of thistle infestation, assess the nature and extent of the thistle infestation on the property, and determine the most appropriate treatment, control or eradication method.

#### **Food Safety**

ODAFF's Food Safety division assures the citizens of Oklahoma the food supply derived from meat, poultry, eggs and milk is safe, wholesome and properly labeled. Food Safety is divided into programs for dairy, meat, organic food, and poultry and egg. See their website for more information <a href="http://www.ok.gov/~okag/food/">http://www.ok.gov/~okag/food/</a>.

For example, in the dairy section, inspectors collect samples of milk from the dairy farms and from each product packaged by the processing plants at least four out of each six-month period. The samples are analyzed to determine if the milk or packaged dairy products meet the required federal safety standards. The meat section warns that this is a time of great change in the field of meat inspection. Producers should do their best to keep up with emerging new regulations. The poultry and egg section provides inspection and certification of poultry, eggs, egg products and organic foods to ensure customer satisfaction and safety at all levels.

Food Saftey
Division Website:
http://www.
ok.gov/~okag/food/

## Part 8. Gaining Access to Markets

In terms of getting your product into customer hands, most Oklahoma farmers will choose from three options:

- **1. Direct Marketing**—sell products directly to customers, such as through a farmers market or a cattle sale.
- **2. Cooperative Membership**—sell products to a cooperative that handles the marketing, often the primary method for grain and fluid milk sales.
- **3. Agreements with Processors/Distributors**—sell products to companies who process and/or distribute the products. A dairy farm may sell to a processor who also retails products or a cattle producer might sell to a meat packing facility.

However it is accomplished, the producer needs a marketing plan. The marketing plan outlines what you will sell to whom, where and for how much. Some basic components of a marketing plan will answer the following questions:

- 1. How much time and effort do I personally want to put into the marketing of my product?
- 2. Do I have the skills to deal effectively with customers?
- 3. Who is my customer? Individuals? Companies? Cooperatives? Government?
- 4. Do I need to store my product past harvest? How will this be done?
- 5. Does my product need to be specially packaged? What about labeling?
- 6. How will I transport my product to market?
- 7. Will I need product liability insurance?
- 8. What are the regulations that apply to the sale of my product?
- 9. What is my pricing strategy?

#### **Direct Marketing**

Some products may lend themselves to direct marketing more than others. For example, not many individuals purchase wheat grain for final use. Consumers might like to purchase raw milk from dairies, but government regulations are strict regarding processing of milk for consumption. Processing is probably too expensive for most family-owned dairies. Pumpkins, melons and gourds, on the other hand, are popular consumer commodities in the fall. In fact, families often like to pick their own pumpkins right out of the pumpkin patch. According to the USDA, the most popular farm products that are sold through direct marketing include fruits, vegetables, nuts, honey, meats, eggs, flowers, plants, herbs, spices, specialty crops, Christmas trees and value-added products such as maple sugar candies, cider, jellies, preserves, canned food and firewood.

If you like the idea of direct marketing and think your product is a good candidate for it, research your customers.

- Who are your customers? How old are they? Are they male or female?
- How do customers use your product? When and where do they use your product?
- How much disposable income do your customers have to spend on your product?
- Are your customers willing and able to come to you or do you need to go to them?
- What will your customers expect in terms of quality product and quality service?
- Will you need to educate your customers about your product?

You will also need to determine where your product will be sold.

- · Farmers market
- · Roadside stand
- Sales/Auctions
- Restaurants
- Your field (pick your own operation)
- Internet

Farmer Direct Marketing, a special division of the USDA, provides some resources for farmers engaged in direct marketing. One service they provide is a directory of farmers markets listed by state. Their website and this directory may be accessed at http://www.ams.usda.gov/AMSv1.0/. Contact information for more than 150 farmers markets in Oklahoma is currently listed in this directory.

#### Cooperative Membership

Oklahoma is home to more than 50 local agricultural cooperatives. One example is the Oklahoma Food Cooperative, an organization that connects farmers and producers with customers in Oklahoma. As the first food cooperative in the nation, it provides more than 4,000 different food and non-food products every month. However, most cooperatives involve grain handling, marketing and cotton ginning as well as farm supply retail and fuel sales. In addition, there are three agricultural processing cooperatives in the state: Producers Cooperative Oil Mill (PCOM) in Oklahoma City produces cottonseed oil, Oklahoma Cotton Cooperative Association Compress (OCCAC) in Altus processes bailed cotton, and Value Added Products (VAP) in Alva produces frozen dough.

Cooperatives are owned by their members. Like other businesses, cooperatives strive to achieve a profit for their owners. Unlike other businesses, profits are returned to owners/members based on how much they use the cooperative, and not on their share of ownership. Cooperative profits are distributed to members, most of who reside in the local community.

Even if you've decided to become a member of an agricultural cooperative, you still have a number of questions that your marketing plan must answer.

- 1. Should product be sold at harvest for cash?
- 2. Should product be held in on-farm storage for sale at a later date?
- 3. Should product be stored in a commercial elevator for sale at a later date?
- 4. Should product be sold in a cash forward contract?
- 5. Should product be sold with delayed pricing?
- 6. Should product be sold with a basis contract?

According to the OSU fact sheet CR-480, *Grain Producer Marketing Alternatives*, marketing decisions may be improved by following a set procedure.

- 1. The target price should be calculated based on production costs and cash flow needs.
- 2. Marketing alternatives available in the area should be determined.
- 3. The price each alternative is offering should be calculated.
- 4. The risk involved with each alternative, relative to the producer's risk-bearing ability, should be considered.





#### Agreements with Processors/Distributors

In Oklahoma, more than 790 million pounds of milk were produced in 2013. Most dairy farmers belong to dairy cooperatives, but others sell to dairy manufacturing firms including Braum's, Farm Fresh, Hiland, Gilt Edge, and others. Some of these plants, like Braum's, are vertically integrated and have their own dairy operation. Even so, they will still buy from other producers, typically through exclusive contracts.

As for fed cattle, a growing number are marketed through marketing agreements and contracts, participation in an alliance or membership in a cooperative. A strategic alliance can increase revenues and/or reduce costs through vertical affiliations. Several producer groups have worked to secure marketing agreements with beef packers and make them available to beef cattle producers. Breed association-sponsored, commercial, and natural/implant-free alliances may be available to producers. A recent Extension fact sheet provides updated information about alliances, AGEC-563, Beef Industry Alliances and Vertical Arrangements (Ward 2008). Producers should contact the Alliance Program in advance to determine the specific requirements of the alliance. Many alliances are available for producer participation but differ in the program's basic requirements. Advantages of participating in a strategic alliance are that the market is established by the demands of the alliance, delivery dates and location are negotiable, producers know ahead of time of what type of product they need to produce, and the cattle prices are based on the retail value of the final product. Some disadvantages include the need for larger lots and specific breeds or breed types with very specific nutrition and health programs. Producers will need to make initial plans several months ahead.

The poultry industry is highly vertically integrated. For instance, nearly all broilers grown in Oklahoma are produced under some contract between a poultry company and the grower. The poultry company furnishes chicks and feed, and supervises growth of the broilers through a service person. The grower provides the broiler house, equipment, labor and normal operating expenditures. The grower is paid per pound of usable broiler produced. The largest poultry processing and distribution companies may own, or mostly own, the enterprises involved in hatching and growing. The pork industry is also moving in this same direction.

Below are a few OSU Cooperative Extension fact sheets related to agricultural products marketing:

- AGEC-569, Marketing and Pricing Alfalfa Hay
- AGEC-585, Cattle Feeders' Marketing and Pricing Practices
- CR-480, Grain Producer Marketing Alternatives
- FACP-171, Marketing Basics for Value-Added Agriculture

## **IRS Website:** www.irs.gov



irs-pdf/fss4.pdf





### Part 9. Tax Considerations

As with any for-profit business, there are a number of tax issues to consider when you start farming. A good resource for farm tax information is Internal Revenue Service (IRS) publication 225, The Farmer's Tax Guide. This guide explains the need for good records and other information needed to better begin a farm business and is available on the IRS website, www.irs.gov. For new farmers and ranchers, the most likely problems related to taxes include

- 1. Payroll Taxes
- 2. Self-Employment Tax
- 3. Hobby versus Business Losses
- 4. Property Tax and Tax-Exemption

#### **Payroll Taxes**

If an employee is paid more than \$150 per year or total payments to all employees exceed \$2,500 per year, the business must get a federal ID number and report payroll taxes. In this case, the following actions must be taken.

- A taxpayer identification number (TIN) must be obtained by filing form SS-4 with the IRS. A printable copy of this form can be downloaded from the IRS's website and is located at www.irs.gov/pub/irs-pdf/fss4.pdf. A publication with instructions for completing the form is located at www.irs.gov/pub/irs-pdf/iss4.pdf. (This form and all IRS publications shown here may change each tax year. If you are in doubt as to whether you have the latest version of a form or publication, start out on the IRS homepage, www.irs.gov, and then find the forms through their search engine.)
- Federal and State Income Tax and Social Security and Medicare taxes must be withheld and deposited.
- Forms W-2 (wage and tax statement), W-3 (transmittal of wage and tax statements), and 943 (employers annual federal return form for agricultural employees) must be filed by January 31 for the previous calendar year. The IRS Publication 51, Agricultural Employer's Guide, will explain your responsibilities as an agricultural employer. The most recent version of this publication can be found on the IRS website at www.irs.gov/pub/irs-pdf/p51.pdf. Among other things, the publication discusses the following topics:
  - Social Security and Medicare taxes,
  - Income tax withholdings,
  - Form 943 Employer's Annual Federal Tax Return for Agricultural Employees,
  - Records you should keep, and
  - Income tax withholding tables.

Four IRS Taxpayer Assistance Centers are located in the state. Contact the one nearest you for answers to your tax questions.

Enid IRS Taxpayer Assistance Center

Oklahoma City IRS Taxpayer Assistance Center 55 N. Robinson

601 S. Harding

Enid, OK 73703

Oklahoma City, OK 73102

580-234-5417

405-297-4057

Lawton IRS Taxpayer Assistance Center

2202 SW A Ave. Lawton, OK 73501 580-357-5492 Tulsa IRS Taxpayer Assistance Center

1645 S. 101st East Ave.

Tulsa, OK 74128 918-622-8482

#### **Self-Employment Tax**

Individuals who are in business for themselves must report income and expenses from that business on IRS Schedule C (Profit or Loss from Business – Sole Proprietorship) or Schedule F (Profit or Loss from Farming), if the net income is at least \$400. This net income is subject to a 15.3 percent self-employment tax rate. For 2015, the maximum amount of net self-employment tax earnings, subject to the social security portion of the self-employment tax, is \$118,500 and is subject only to a tax rate of 12.4 percent. There is no maximum limit for the 2.9 percent rate for Medicare tax. For more information, refer to Publication 225, *Farmer's Tax Guide*, located on the IRS website at <a href="https://www.irs.gov/pub/irs-pdf/p225.pdf">www.irs.gov/pub/irs-pdf/p225.pdf</a>. Other requirements:

- Self-employment taxes are in addition to income tax due when net income for self-employment is combined with the individual's income from other sources on Form 1040.
- Self-employed individuals must make quarterly deposits of estimated income tax to avoid tax penalties.

If more than two-thirds of total gross income for all sources is from farming or ranching, quarterly estimated tax payments are not required if the individual's tax return is filed by March 1. For more information, refer to Publication 505, *Tax Withholding and Estimated Tax*, located on the IRS website at ttp://www.irs.gov/pub/irs-pdf/p505.pdf.

It is important to pay self-employment tax to ensure that an individual has social security coverage for old age, disability, survivor benefits and hospital insurance benefits (Medicare). The farm optional method for paying self-employment allows farmers and ranchers to voluntarily pay self-employment taxes and acquire social security coverage in low income years. For additional information covering self-employment taxes, please refer to the most recent version of Publication 225, *Farmer's Tax Guide*, located on the IRS website at <a href="http://www.irs.gov/pub/irs-pdf/p225.pdf">http://www.irs.gov/pub/irs-pdf/p225.pdf</a>.

Farmers and ranchers must be insured under the social security system before they can begin receiving social benefits. To be eligible for disability benefits, an individual must have the required quarters of coverage. For the latest explanation of the number of credits needed to be insured and the benefits available to a farmer and the family under the social security program, visit the local Social Security Administration (SSA) office or visit the SSA website at <a href="www.ssa.gov">www.ssa.gov</a>.

#### Hobby versus Business Losses

If a business shows no intent to make a profit, the IRS assumes the activity is a hobby and will disallow deductions for expenses in excess of income. The general test to measure profit motive is whether the activity has generated a profit in any three out of five consecutive tax years. This "hobby loss" test does not determine that a business must be considered a hobby, but only allows the IRS to look at the business in more detail. The actual decision of whether a business should be considered for profit is based on nine factors set forth in IRS regulations. Taxpayers can protect themselves by keeping good records that indicate a profit motive based on those nine factors.

1. Does the producer look like a business? For instance, good books and records are kept. Also, methods of operation are changed if they are not working, and techniques that hope to improve efficiency are attempted.



- 2. Can the producer take advice? Show evidence that experts have been consulted and their advice has been followed. Read books, took classes, attended workshops, paid advisers, etc.
- 3. Does the producer spend time on the farm? Expending time and effort on the farm is an indicator of profit motive. Employing competent persons to run activities on the farm may also indicate profit motive.
- 4. Is anything on the farm worth money? An increase in land value, cattle, or other assets could point to expected profit—even if current operations or practices are not showing a profit.
- 5. Has the producer done this before? If the producer has a history of turning unprofitable ventures into profitable ones, a profit motive could be assumed.
- 6. What has been happening on the farm? Are the losses mainly a start-up situation? Have there been unforeseen circumstances such as drought, fire, theft, depressed market conditions, etc.?
- 7. Has the producer made any money? An occasional small profit offset by persistent high losses would probably indicate there is no profit motive.
- 8. Is the producer making money doing anything else? If there is no substantial income from other sources, the profit motive is probably indicated. However, the existence of other income might just show good planning and would not necessarily negate the profit motive.
- 9. Is the producer having fun? The presence of personal pleasure or recreation in an activity can be used by the IRS to claim the activity as a hobby, but the other eight factors listed here must also be taken into account. The fact that a person enjoys a business is not sufficient to disallow the profit-making motive.

#### Property tax and sales tax exemption

Agricultural land and property in Oklahoma are taxable. Individual counties determine the acreage needed to be deemed agricultural status. Forty acres or more will normally qualify. Some counties allow a smaller acreage. Individual counties also determine property tax rates and listings for agricultural machinery, equipment and/or livestock. Each school district, career technology district, county government and other units of government using a property tax will set its rate from year-to-year within the limits set by law. In addition, each county has the authority to vote to exempt all household personal property and livestock in support of a farm family from property tax. Many counties have passed this exemption. However, when such an exemption is passed by the voters, there is a one-time adjustment of property tax rates to offset the reduction in revenue to local government bodies. Property tax rates statewide are catalogued in a publications found at <a href="https://www.rd.okstate.edu/">www.rd.okstate.edu/</a>; choose County Government Training, Related Publications, then look for the appropriate Ad Valorem Mill Levy report.

A homestead exemption can provide a reduction in property tax. Persons who own homes in the county are eligible for a homestead exemption provided the home is their actual permanent residence and they are citizens of Oklahoma. A homestead is exempt from ad valorem taxation up to \$1,000 of the assessed value (the property's taxable valuation less \$1,000). An additional homestead exemption is allowed to any homeowner who is eligible for a homestead exemption and whose gross household income is \$20,000 or less for the preceding year. You must file for the homestead exemption at your county assessor's office. It is not automatic. The assessment date is January 1st, so it is a good idea to file by that date in the year in which you first acquire your home. Periodically thereafter, the assessor will contact you to confirm your homestead status.

Agricultural producers are able to file for agricultural sales tax exemption. Sales tax exemption applies to certain farm supplies and machinery and equipment purchases. The exemption form must be filed with the county assessor. You must remain in compliance with property taxes

# Statewide Property Tax Rates: www.

rd.okstate.edu/ (choose CountyTraining Program, Related Publications)

Offices: oklahoma.
usassessor.com/(Select
County on the
sidebar)

to maintain this status. Oklahoma county assessor offices and the sales tax exemption form are available at <u>oklahoma.usassessor.com/</u>, then Select County on the sidebar. Sales tax exemption forms and assistance in filing them are available at the county assessor's office.

Motor fuel for farm tractors or stationary engines is exempt from fuel taxes. The exempt sale of motor fuel for farm tractors or stationary engines owned or leased, and operated by any person and used exclusively for agricultural purposes is perfected by a refund claim filed by the consumer. The refund claim must be received by the Tax Commission within three (3) years following the last day of the calendar month in which the tax was paid. Refund claims for agricultural use of gasoline shall be less the two and eight one-hundredth cents (\$0.0208) levied under the Motor Fuel Tax Code for gasoline used or consumed for agricultural purposes.

## Part 10. Government Programs

The Agricultural Act of 2014 was signed into law on February 7, 2014. Major changes affecting producers include:

- Repeals Direct Payments (DP), Counter-Cyclical payments (CCP), Average Crop Revenue Election payments (ACRE), and Supplemental Revenue Assistance Payments (SURE).
- Adds new commodity programs, Agriculture Risk Coverage (ARC) county, Agriculture Risk Coverage (ARC) – farm, and Price Loss Coverage (PLC).
- Landowners have opportunity to update base acres and payment yields.
- Upland cotton is no longer considered a covered commodity and is provided a safety net consisting of a reduced direct payment, called a transition payment, in 2014 (and possibly 2015), marketing loan support, and an area-wide revenue insurance program, called the Stacked Income Protection Plan (STAX).
- Reauthorizes a permanent livestock disaster assistance program (including the Livestock Indemnity Program, the Livestock Forage Program, and the Emergency Assistance for Livestock, Honeybees and Farm-Raised Fish Program) that will cover losses from 2012-2018.
- Producers whose average AGI exceeds \$900,000 are not eligible to receive payments
  or benefits from most programs administered by the Farm Service Agency (FSA) and the
  Natural Resources Conservation Service (NRCS).
- Producers who participate in ARC or PLC are required to provide significant contributions
  to the farming operation to be considered as "actively engaged in farming."
- Changes to payment limits by person or legal entity by crop year (cotton transition payments -\$40,000; combined PLC, ARC, marketing loan gains, and loan deficiency payments (other than for peanuts) \$125,000; livestock disaster programs \$125,000; Tree Assistance Program -\$125,000; peanuts \$125,000)
- Adds two new supplemental crop insurance programs, Supplemental Coverage Option (SCO) for covered commodities and STAX for cotton.
- Other changes to crop insurance (permanent higher subsidy for enterprise units, separate
  enterprise units for irrigated/non-irrigated crops, different coverage levels for irrigated/
  non-irrigated crops, option to exclude certain yield history from APH database if county
  suffers a 50% yield loss, farmers in the county can exclude that year's low yield out of
  their APH, revenue insurance for peanuts)
- Repeals dairy programs and adds new Margin Protection Program for Dairy (MPP) (the Milk Income Loss Contract Program continues through Sept. 1, 2014, unless it is replaced by the MPP prior to that date).
- Consolidates 23 duplicative and overlapping conservation programs into 13.
- The Conservation Reserve Program (CRP) continues through 2018 with an annually decreasing enrolled acreage cap.
- The contract portion of the Grassland Reserve Program enrollment has been merged with CRP
- Links basic conservation practices to crop insurance premium subsidy for highly erodible lands and wetlands.

- The Noninsured Crop Disaster Assistance Program (NAP) has been expanded to include protection at higher coverage levels, similar to buy-up provisions offered under the federal crop insurance program.
- NAP service fee waiver for beginning farmers and socially disadvantaged farmers.
- Provides \$100 million for the Beginning Farmers and Ranchers Development Program.
- Reducing crop insurance premiums for beginning farmers.
- Provides new resources for organic farmers, including funding the Organic Cost Share program at \$11.5 million annually.
- The credit title improves the FSA direct and guaranteed loan programs.
- FSA has greater flexibility in determining loan eligibility
- Improvements to FSA microloan and down payment loan programs

## **Base Reallocation and Yield Updates**

Owners of farms that participate in ARC or PLC for the 2014-2018 crops have a one-time opportunity in 2014 (or possibly 2015) to: (1) retain current base acres or (2) reallocate base acres (excluding cotton bases). The new commodity programs are paid on base acres of covered commodities (instead of planted acres). Covered commodities include wheat, oats, barley, corn, grain sorghum, rice, soybeans, sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe and sesame seed, dry peas, lentils, small chickpeas, large chickpeas and peanuts. Landowners may choose to reallocate their historical base acres to covered commodities planted from 2009 through 2012. Base acre reallocation is proportionate to the four-year average (2009-2012) of planted covered commodities. Prevented planted acres are also included in the base reallocation calculations. Upland cotton is no longer considered a covered commodity. All cotton base acres on each farm as of September 30, 2013 are converted to generic base acres. No commodity program payments will be received if cotton is planted on generic base acres. However, generic base may be planted to another covered commodity and that commodity would be eligible for ARC or PLC payments. Unless a covered commodity is planted on generic base acres in a given year, the generic base acres are not relevant (as far as the commodity payment calculation).

The updated yield for each covered commodity is equal to 90 percent of the farm's 2008-2012 average yield per planted acre, excluding any year when no acreage was planted to the covered commodity. Payment yields are used in the PLC payment calculation.

#### **Commodity Program Enrollment**

All of the producers on a farm must make a one-time, unanimous election of: (1) PLC/ARC-county on a covered-commodity-by-covered-commodity basis; or (2) ARC-farm for all covered commodities per farm number. If ARC-individual coverage is chosen, every covered commodity on each farm number must be enrolled in ARC. The election between ARC and PLC will be made in 2014 and is in effect for the 2014 – 2018 crop years. If an election is not made in 2014, the farm may not participate in either PLC or ARC for the 2014 crop year and the producers will only be able to enroll in PLC for subsequent crop years. If the sum of the base acres on a farm is 10 acres or less, no PLC or ARC payments will be issued, unless the producer is a socially disadvantaged farmer or rancher or is a limited resource farmer or rancher. Payments for PLC and ARC are issued after the end of the respective crop year, but not before Oct. 1. A web-based decision tool to help producers with commodity enrollment decisions may be found at: http://agecon.okstate.edu/agpolicy/dt1.asp.

Producers also have the option to participate in the marketing loan program or loan deficiency program for loan commodities. Loan commodities include wheat, oats, barley, corn, grain sorghum, upland cotton, extra long staple cotton, long grain rice, medium grain rice, peanuts, soybeans, other oilseeds, graded wool, non-graded wool, mohair, honey, dry peas, lentils, small chickpeas, and large chickpeas.

## **Price Loss Coverage (PLC)**

The PLC program is very similar to the counter-cyclical payment (CCP) program in the 2008 farm bill, but it includes new reference prices that are significantly higher than the target prices in the 2008 farm bill (Table 1). If the effective price, which is the higher of the national average marketing year price or the loan rate, falls below the reference price, a PLC payment will be issued. The PLC payment rate equals the reference price minus the effective price. A producer's PLC payment is equal to the payment rate times the payment yield times 85% times base acres for the crop. It is possible that if the price drops below the reference price and yields are at normal levels, PLC could result in a higher payment than ARC in a given year, especially when tied to the new SCO program.

**Table 1. PLC Reference Prices** 

Crop	2014 PLC Reference Price
Barley	4.95/bushel
Canola	0.20/pound
Corn	3.70/bushel
Cotton	NA
Grain Sorghum	3.95/bushel
Peanuts	0.26/pound
Oats	2.40/bushel
Rice	0.14/pound
Soybeans	8.40/bushel
Wheat	5.50/bushel

#### **ARC**

Producers of covered commodities have the option to enroll in either a new revenue protection program, called ARC, with the option to select farm-level coverage or county-level coverage.

## ARC-County

The county-level ARC program is paid on 85% of base acreage of the farm commodity while the farm-level ARC program is paid on 65% of total base acreage for the FSA farm including all commodities. It is important to note that with county-level coverage, producers could have a loss on their own farm, but would not receive a payment if the county does not suffer a loss as well.

Producers with yields that do not follow closely with the county average may want to consider farm-level ARC or use crop insurance for individual yield risk.

The county-level ARC guarantee is equal to 86% of the previous five-year Olympic average marketing year price (drop the highest and lowest) times the previous five-year Olympic average county yield. If any of the five-year prices are below the PLC reference prices, a "reference price" will replace it in the calculation. Reference prices set by Congress in the 2014 Act are listed in Table 1. County T-yields are used in a similar fashion to replace low county yields in the calculation. The actual county revenue is the actual marketing year average price multiplied by the actual county yield.

The ARC payment is limited to 10% of the benchmark revenue so payments would be issued when actual revenue (county or farm) is between 76% and 86% of the benchmark revenue. Payments are issued when the actual county crop revenue of a covered commodity is less than the ARC county guarantee for the covered commodity and are based on county data, not farm data. The ARC county guarantee equals 86 percent of the previous five-year average national farm price, excluding the years with the highest and lowest price (the ARC guarantee price), times the five-year average county yield, excluding the years with the highest and lowest yield (the ARC county guarantee yield). Both the guarantee and actual revenue are computed using base acres, not planted acres. The payment is equal to 85 percent of the base acres of the covered commodity times the difference between the county guarantee and the actual county crop revenue for the covered commodity. Payments may not exceed 10 percent of the benchmark county revenue (the ARC guarantee price times the ARC county guarantee yield).

#### **ARC-Farm**

The farm-level ARC calculation includes all covered commodities planted on the FSA farm number. The benchmark revenue for farm-level ARC is calculated as the five-year Olympic average of the sum of the revenues (yield times price) for all covered commodities on the farm using actual planted acres of the covered commodities. Payments are issued when the actual individual crop revenues, summed across all covered commodities on the farm, are less than ARC individual guarantees summed across those covered commodities on the farm. The farm for individual ARC purposes is the sum of the producer's interest in all ARC farms in the state. The farm's ARC individual guarantee equals 86 percent of the farm's individual benchmark guarantee, which is defined as the ARC guarantee price times the five-year average individual yield, excluding the years with the highest and lowest yields, and summing across all crops on the farm. The actual revenue is computed in a similar fashion, with both the guarantee and actual revenue computed using planted acreage on the farm. The payment is equal to 65 percent of the sum of the base acres of all covered commodities on the farm, times the difference between the individual guarantee revenue and the actual individual crop revenue across all covered commodities planted on the farm. Payments may not exceed 10 percent of the individual benchmark revenue.

#### SCO

For the 2015 crop year, producers of covered commodities who elect PLC (and participate in the federal crop insurance program) have the option to enroll in a new supplemental crop insurance program, called SCO. SCO is designed to cover the difference between 86% and the level of coverage of the producer's individual insurance policy. Producers who elect ARC will not be able to enroll in the SCO program. Although not eligible for PLC, planted cotton acreage can also be enrolled in the SCO program. SCO is designed as a shallow-loss insurance program that covers county-wide losses and complements a producer's individual insurance policy. For SCO, producers are required to purchase an individual insurance policy such as a revenue protection

(RP) or yield protection (YP) insurance policy. SCO takes on the characteristics of the underlying insurance policy meaning that if YP is the underlying policy then SCO would be yield protection only. The same would hold true if the underlying policy were RP. This is a new concept because producers have not previously been allowed to stack insurance policies for the same crop. However, SCO will not be available until the 2015 crop year which further adds to the complexity of the 2014 commodity program enrollment decision. SCO premiums are subsidized at 65% by USDA. However, it is important to note that SCO is an area plan which covers county losses as opposed to losses on the individual farm. In many cases, farm APH yields may be higher than the county yields. A producer may have a loss on the farm but not receive a payment if the county does not also have a loss. This also works the other way too, so a producer could receive an indemnity payment when no loss occurs on the farm but the county does have a loss.

Producers who enroll their 2015 crop of winter wheat in SCO (in September 2014) may elect to withdraw from SCO prior to their acreage reporting date without any penalty. This allows producers additional time to make an informed decision about ARC and PLC enrollment. If they choose ARC, they will not be charged a crop insurance premium so long as they withdraw from SCO prior to their acreage reporting date.

#### **STAX**

For the 2015 crop year, upland cotton producers will have to the option to enroll in a new supplemental insurance product similar to SCO. Upland cotton producers can choose between STAX and SCO for planted cotton acreage. A key difference between SCO and STAX is that with SCO, the producer's APH yield is used to calculate the liability. So, producers will want to consider this when comparing SCO and STAX. STAX coverage can range from 90% of the county revenue guarantee to 70% or the coverage level of the underlying policy (if there is one), whichever is higher. Meanwhile, SCO covers from 86% of the county guarantee down to the coverage level of the underlying policy. For example, a producer with 80% coverage on an individual policy could only get up to 10% coverage with STAX or up to 6% coverage with SCO (86-80%). A producer with 70% coverage on an individual policy could get up to 20% coverage with STAX or up to 16% coverage with SCO. The wider the range being covered by either SCO or STAX would result in higher premiums. Unlike SCO, an individual policy is not required with STAX. STAX premiums are subsidized at 80% by USDA and include a payment multiplier up to 120%.

### **COTTON TRANSITION PAYMENTS**

For the 2014 crop year, transition payments are provided to cotton producers on farms that had cotton base acres in 2013. The payment will be made on 60% of base acres for 2014. For the 2015 crop year, transition payments will only be offered in counties where STAX is unavailable. The payment will be made on 36.5% of base acres in 2015 (if STAX isn't available in the county).

#### MARKETING ASSISTANCE LOANS

Nonrecourse marketing assistance loans (MALs) and loan deficiency payment (LDPs) are extended for the 2014 – 2018 crops of wheat, corn, grain sorghum, barley, oats, upland cotton, extra-long staple cotton, long grain rice, medium grain rice, soybeans, other oilseeds (including sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe and sesame seed), dry peas, lentils, small chickpeas, large chickpeas, graded and nongraded wool, mohair, honey, unshorn pelts and peanuts. Provisions are mostly unchanged from the 2008 Farm Bill, except marketing loan gains and loan deficiency payments are subject to payment limitations.

#### **DAIRY PROGRAMS**

The Milk Income Loss Contract Program (MILC) was extended until Sept. 1, 2014 or earlier if the MPP program is in effect prior to that date. Dairy producers who were enrolled in 2013 do not need to re-apply. MILC payments are issued when the Boston Class I milk price falls below \$16.94 per hundredweight (cwt), as adjusted by a dairy feed ration formula.

MPP replaces MILC and will be effective not later than Sept. 1, 2014, through Dec. 31, 2018. MPP offers dairy producers: (1) catastrophic coverage, at no cost to the producer, other than an annual \$100 administrative fee; and (2) various levels of buy-up coverage. Catastrophic coverage provides payments to participating producers when the national dairy production margin is less than \$4 per hundredweight (cwt). The national dairy production margin is the difference between the all-milk price and average feed costs. Producers may purchase buy-up coverage that provides payments when margins are between \$4 and \$8 per cwt. To participate in buy-up coverage, a producer must pay a premium that varies with the level of protection the producer elects. A web-based decision tool will be available to assist producers with enrollment in the MPP program.

Another new program is the Dairy Product Donation Program. This program is triggered in times of low operating margins for dairy producers, and requires USDA to purchase dairy products for donation to food banks and other feeding programs.

The Dairy Indemnity Payment Program (DIPP) was also created to provide payments to dairy producers when a public regulatory agency directs them to remove their milk from the commercial market because it has been contaminated by pesticides and other residues.

## **CONSERVATION RESERVE PROGRAM (CRP)**

The CRP acreage cap is gradually lowered to 24 million acres for fiscal years 2017 and 2018. The requirement to reduce rental payments under emergency having and grazing is eliminated. Rental payment reductions of not less than 25 percent are required for managed having and grazing. Producers also are given the opportunity for an "early-out" from their CRP contracts, but only in fiscal year 2015. The rental payment portion of the Grassland Reserve Program enrollment has been incorporated into the CRP. The Transition Incentive Program (TIP) continues to allow for the transition of CRP land to a beginning or socially disadvantaged farmer or rancher so land can be returned to sustainable grazing or crop production. TIP now includes eligibility for military veterans (i.e., veteran farmers).

#### **NAP**

NAP has been expanded to include buy-up protection, similar to buy-up provisions offered under the federal crop insurance program. Producers may elect coverage for each individual crop between 50 and 65 percent, in 5 percent increments, at 100 percent of the average market price. Producers also pay a fixed premium equal to 5.25 percent of the liability. The waiver of service fees has been expanded from just limited resource farmers also to include beginning farmers and socially disadvantaged farmers. The premiums for buy-up coverage are reduced by 50 percent for those same farmers. Grazing land is not eligible for buy-up coverage. NAP is also made available to producers that suffered a loss to a 2012 annual fruit crop grown on a bush or tree in a county declared a disaster by the Secretary due to a freeze or frost. A web-based decision tool will be available to assist producers with NAP buy-up coverage amounts.

## RTCP FOR GEOGRAPHICALLY DISADVANTAGED FARMERS AND RANCHERS

The Reimbursement Transportation Cost Payment Program (RTCP) is re-authorized to provide assistance to geographically disadvantaged farmers and ranchers for a portion of the transportation cost of certain agricultural commodities or inputs.

#### FARM OPERATING LOANS AND MICROLOANS

Farm Operating Direct and Guaranteed Loan Programs continue to provide low-interest financing for producers to purchase farm and ranch operating inputs. Changes include an expansion of the types of entities eligible, favorable interest rates for joint financing arrangements, increases in loan limits for microloans, availability of youth loans in urban areas, and elimination of term limits for guaranteed operating loans.

#### **FARM OWNERSHIP LOANS**

Farm Ownership Direct and Guaranteed Loan Programs provide low-interest financing for producers to purchase farms and ranches and other real estate related needs. The 2014 Farm Bill revisions expand the types of entities eligible, provide favorable interest rates for joint financing arrangements, provide a larger percent guarantee on guaranteed conservation loans, increase the loan limits for the down payment program, and authorize a relending program to assist Native American producers purchase fractionated interests of land.

#### **DISASTER PROGRAMS**

The following four disaster programs authorized by the 2008 Farm Bill have been extended indefinitely (beyond the horizon of the 2014 Farm Bill). The programs are made retroactive to Oct. 1, 2011, which means that losses from years prior to the 2014 Farm Bill implementation are covered. Producers are no longer required to purchase crop insurance or NAP coverage to be eligible for these programs (the risk management purchase requirement) as mandated by the 2008 Farm Bill.

#### **Livestock Forage Disaster Program (LFP)**

LFP provides compensation to eligible livestock producers that have suffered grazing losses due to drought or fire on land that is native or improved pastureland with permanent vegetative cover or that is planted specifically for grazing. LFP payments for drought are equal to 60 percent of the monthly feed cost for up to five months, depending upon the severity of the drought. LFP payments for fire on federally managed rangeland are equal to 50 percent of the monthly feed cost for the number of days the producer is prohibited from grazing the managed rangeland, not to exceed 180 calendar days. The LFP sign-up process began in April 2014. Producers who owned livestock from Oct. 1, 2011 to the current date should visit their local FSA office to apply for LFP benefits.

## **Livestock Indemnity Program (LIP)**

LIP provides benefits to livestock producers for livestock deaths in excess of normal mortality caused by adverse weather or by attacks by animals reintroduced into the wild by the federal government. LIP payments are equal to 75 percent of the average fair market value of the livestock.

## Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish (ELAP)

ELAP provides emergency assistance to eligible producers of livestock, honeybees and farm-raised fish for losses due to disease (including cattle tick fever), adverse weather, or other conditions, such as blizzards and wildfires, not covered by LFP and LIP. Total payments are capped at \$20 million in a fiscal year.

## **Tree Assistance Program (TAP)**

TAP provides financial assistance to qualifying orchardists and nursery tree growers to replant or rehabilitate eligible trees, bushes, and vines damaged by natural disasters.

#### For more information:

http://www.fsa.usda.gov/Internet/FSA\_File/2014\_farm\_bill\_customers.pdf

#### For more information on OSU **Enterprise Budget Software see:** http://www.agecon.

okstate.edu/budgets/

## **Appendix**

See http://agecon.okstate.edu/budgets/ for information on OSU Enterprise Budget Software.

## Cow-Calf Enterprise Budget - 100 Cow Unit Size (sample only)

February calving percentage - 87.3 percent, calf death loss - 4.2 percent Livestock prices based on 2010-14 OKC data

Revenue projections based on current market information instead of historical price data may produce different profitability outcomes.

price data may produce t		,				XTENSIO
PRODUCTION	Wt.	Unit	Price/Cwt	Quantity	Total	\$/Head
Steer Calves	524.3	Lbs.	\$176.06	41.82 Hd.	\$38,600	\$386.00
Heifer Calves	514.7	Lbs.	\$158.01	16.82 Hd.		\$136.77
	,150.0	Lbs.	\$78.62	20.00 Hd.		\$180.83
Cull Replacement Heifers	825.0	Lbs.	\$148.90	5.00 Hd.	\$6,142	\$61.42
Cull Bulls	1,750.0	Lbs.	\$95.85 1.00		\$- \$-	
Other Income <b>Total Receipts</b>	Head	\$-	1.00 \$-	\$- <b>\$765.02</b>		
iotai keceipts			\$76,502	\$703.02		
OPERATING INPUTS	Unit	Price	Quantity	Total	\$/Head	
Pasture	Head	\$175.00	1 1	\$17,500	\$175.00	
Hay	Head	\$27.09		\$2,709	\$27.09	
Grain	Head	\$- ¢57.00	1	\$- ¢5 700	\$- ¢57.00	
Protein Supplement Salt	Head	\$57.00 \$-	1	\$5,700	\$57.00 \$-	
Minerals	Head Head	\$- \$12.75	1 1	\$- \$1,275	\$- \$12.75	
Other Feed Additives	Head	\$-	1	\$1,275	\$12.73 \$-	
Vet Services/Medicine	Head	\$6.58	i	\$658	\$6.58	
Vet Supplies	Head	\$2.91	1	\$291	\$2.91	
Marketing	Head	\$8.36	1	\$836	\$8.36	
Mach/Equip_Fuel,						
Lube, Repairs	Head	\$32.35	1	\$3,235	\$32.35	
Machinery/Equipment Labor	Hrs.	\$15.00	2.65	\$3,975	\$39.75	
Other Labor	Hrs.	\$15.00		\$8,850	\$88.50	
Other Expenses	Head	\$5.00	1	\$500	\$5.00	
Annual Operating Capital		6.25%	312.84	\$1,955	\$19.55	
Total Operating Costs					\$47,484	\$474.84
Returns Above Total Operat	ing Costs				\$29,018	\$290.18
FIXED COSTS		Unit	Rate		Total	\$/Head
Machinery/Irrigation		Oiiit	Nate		iotai	ъ/ пеau
Interest at		Dollars	6.20%		\$736	\$7.36
Taxes at		Dollars	1.00%		\$730 \$224	\$7.30
Insurance		Dollars	0.60%		\$71	\$0.71
Depreciation		Dollars			\$1,935	\$19.35
Livestock		Б. П	6.000/		440.000	<b>#40000</b>
Interest at		Dollars	6.20%		\$12,232	\$122.32
Taxes at		Dollars	1.00%		\$2,723	\$27.23
Insurance		Dollars	0.60%		\$1,184	\$11.84
Depreciation		Dollars			\$2,323	\$23.23
Land		\$/Acre				
Interest at		Dollars	0.00%		\$ —	\$ —
Taxes at		Dollars	0.00%		\$ —	\$ —
Total Fixed Costs					\$21,428	\$214.28
	ms.					
Total Costs (Operating + Fix	(ed):				\$68,912	\$689.12

Payne County-Central Oklahoma

Used machinery complement

25 percent heifer replacement rate with 0 purchased and 25 raised.

Primary forages - Native

See http://agecon.okstate.edu/budgets/ for information on OSU Enterprise Budget Software.

## Stocker Enterprise Budget - 150 Steers (sample only)

October purchase - 500 lbs., February sale - 776 lbs.

Livestock prices based on January 2014/2015 information

\$0.61 gain pasture cost

Revenue projections based on current market information instead of historical price data may produce different profitability outcomes.



PRODUCTION	Wt.	Unit	Price/Cwt	Quantity	\$/Head
Stockers	776	Lbs.	\$210.00	0.985 Hd.	\$1,605.16
Other Income		Head	\$ —	0.985 Hd.	\$ —
Total Receipts					\$1,605.16
OPERATING INPUTS	Wt.	Unit	Price/Cwt	Quantity	\$/Head
Stockers	500	Lbs.	\$300.00	1 Hd.	\$1,500.00
Pasture		Head	\$183.00	1	\$183.00
Hay		Head	\$9.00	1	\$9.00
Grain		Head	\$ —	1	\$ —
Protein Supplement		Head	\$ —	1	\$ —
Salt		Head	\$0.13	1	\$0.13
Minerals		Head	\$0.17	1	\$0.17
Other Feed Additives		Head	\$ —	1	\$ —
Vet Services/Medicine		Head	\$4.12	1	\$4.12
Vet Supplies		Head	\$0.71	1	\$0.71
Marketing		Head	\$8.00	1	\$8.00
Mach/Equip Fuel, Lube, Repairs		Head	\$15.72	1	\$15.72
Machinery/Equipment Labor		Hours	\$15.00	1.28	\$19.20
Other Labor		Hours	\$15.00	1.50	\$22.50
Other Expenses		Head	\$ —	1	\$ —
Annual Operating Capital		Dollars	6.25%	554.82	\$34.68
<b>Total Operating Costs</b>					<b>\$1,797.23</b>
<b>Returns Above Total Operating Cos</b>	its				\$(192.07)
FIXED COSTS  Machinery/Equipment	Unit	Rate			\$/Head
Interest at	Dollars	6.20%			\$2.65

FIXED COSTS	Unit	Rate	\$/Head
Machinery/Equipment			
Interest at	Dollars	6.20%	\$2.65
Taxes at	Dollars	1.00%	\$0.78
Insurance	Dollars	0.60%	\$0.25
Depreciation	Dollars		\$6.44
Land	\$/Acre		
Interest at	Dollars	0.00%	\$ —
Taxes at	Dollars	0.00%	\$ —
Total Fixed Costs			_\$10.12
Total Costs (Operating + Fixed):			\$1,807.35
<b>Returns Above All Specified Costs</b>			<b>\$(202.19)</b>

Caddo County - Southwest Oklahoma

Stocker phase - 120 days

Average daily gain - 2.5 lbs. - 1.5 percent death loss

Primary forages - small grain

Break-even (B-E) Analysis					
Break-Even Purchase P	rice (\$/cwt.)	Break-Even Selling Pri	ce (\$/cwt.)		
<b>Above Operating Costs</b>	\$261.59	<b>Above Operating Costs</b>	\$235.13		
Above Total Costs	\$259.56	Above Total Costs	\$236.45		

See http://agecon.okstate.edu/budgets/ for information on OSU Enterprise Budget Software.

## **Dryland Wheat Enterprise Budget - Grain only**

1,000 acres farmed, 160 acres for this budget Lo-till Rotation 2014 marketing year price projection



PRODUCTION	Units	Price	Quantity	Total \$/Acre
Wheat	Bu.	\$ 6.00	31.97	\$ 191.82
Small Grain Pasture	Acre	\$ 69.30	1	\$69.30
Other Income	Acre	\$ —	1	\$
Total Receipts	Acie	Ψ	,	<b>\$</b> 245.16
OPERATING INPUTS	Units	Price	Quantity	\$/Acre
Wheat Seed	Bu./Acre	\$10.20	1.50	\$15.30
Fertilizer	Acre	\$56.68	1	\$56.68
Custom Harvest Pesticide Acre		\$ — \$27.91	0	\$ —
Crop Insurance Acre Annual Operating Cap Machinery Labor Hrs.	oital Dollars 6.50%	\$7.00 70.89 \$4 \$7.67	1.61	
Custom Hire Acre		\$7.07		
Machinery Fuel, Lube		\$3.13	\$39.89	
Other Expense Acre	•	\$37.07 I \$-	ψ37.07	
Total Operating Costs	ų v	Ť		\$164.21
Returns Above Total Operati	ng Costs			\$80.95
FIXED COSTS	Units	Rate		\$/Acre
Machinery/Irrigation	\$/Value			
Interest at	Dollars	6.30%		\$15.08
Taxes at	Dollars	1.00%		\$3.71
Insurance	Dollars	0.60%		\$1.44
Depreciation	Dollars			\$26.40
Land	\$/acre	\$-		
Interest at	Dollars	0.00%		\$-
Taxes at	Dollars	0.00%		\$-
Total Fixed Costs				\$46.63
Total Costs (Operating + Fix	ed):			\$210.84
Returns Above All Specified				\$34.32

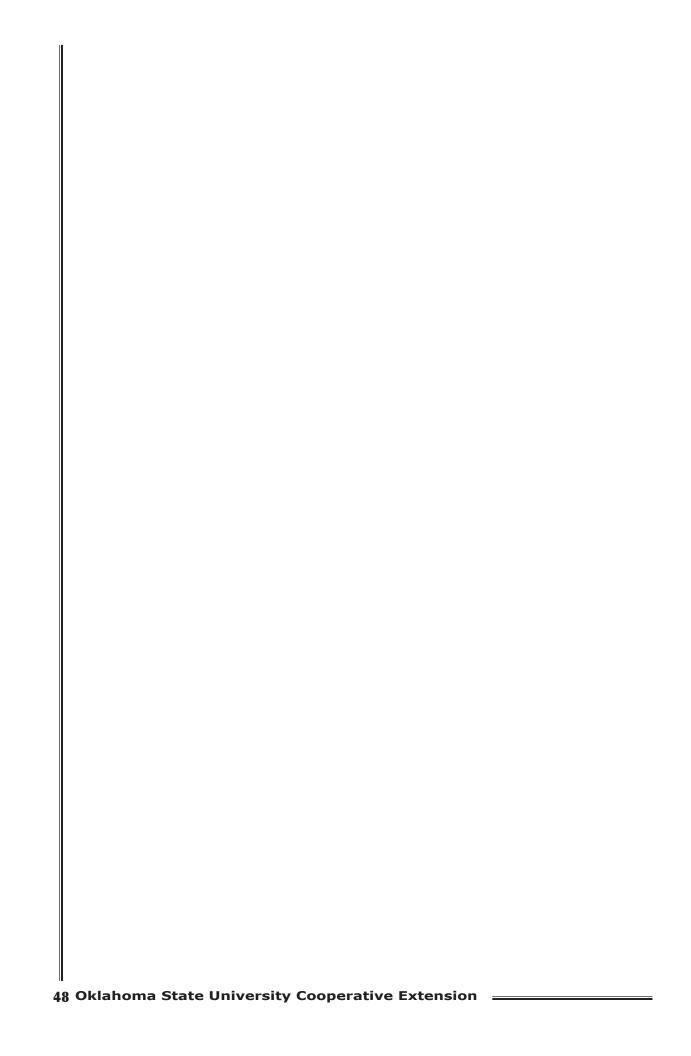
Okfuskee County - Northeast Oklahoma Owner-Operator
Owned equipment

Grain Break-even (B-E) Analysis					
B-E Yield at Bu.	6.00	<b>B-E Price at bu./acre</b>	29.31		
Above Operating Costs (bu.)	16	Above Operating Costs	\$3.24		
Above Total Costs (bu.)	24	Above Total Costs	\$4.83		

Break-even yield is the yield needed to cover costs given the expected price, pasture income, and other income such as government payments. Break-even price is the price needed to cover costs given the expected yield and other income.

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