



# Ag Decision Maker

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## Co-ops managing through low margins\*

By Keri Jacobs, cooperatives economist, 515-294-6780, kljacobs@iastate.edu

The current environment for Midwest farms marketing corn and soybeans presents challenges for identifying margin opportunities. Rising grain inventories, a stable basis, and hesitant selling by producers continue to depress overall grain margins.

Agricultural retailers, despite being faced with similar optics on the producer side — declining

average net farm incomes, low commodity prices and tighter lending situations for some — are faring a bit better.

Quarterly data from agricultural cooperatives in Iowa illustrates the trends in margins that reflect these factors and are likely impacting grain merchandisers and ag retailers (Figure 1). For this group, average year-over-year

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### Handbook updates

For those of you subscribing to the handbook, the following updates are included.

Historical Corn Yields by County – A1-12 (10 pages)

Historical Soybean Yields by County – A1-13 (10 pages)

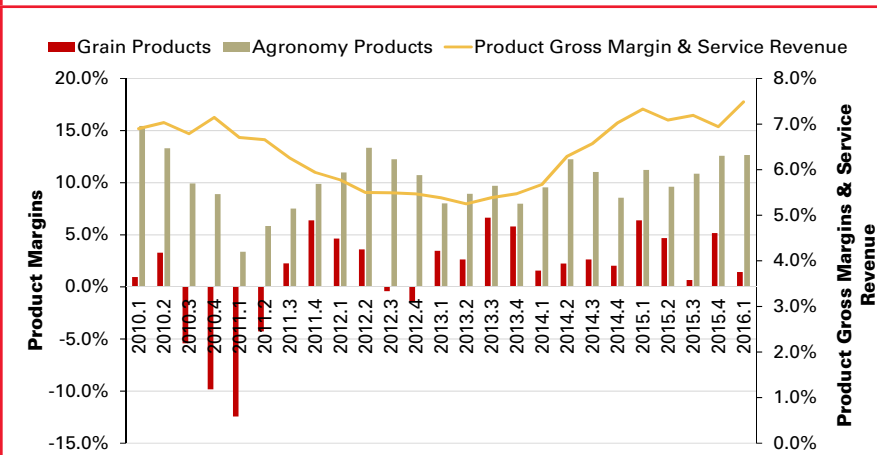
Corn and Soybean County Yields – A1-14 (4 pages)

Iowa Farm Custom Rate Survey – A3-10 (5 pages)

Please add these files to your handbook and remove the out-of-date material.

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Figure 1. Quarterly margins and service revenue for grain and farm supply cooperatives in Iowa



Source: CoMetrics, average of 31 grain and farm supply cooperatives in Iowa.

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grain product margins reported in the first quarter of 2016 came in at 1.4 percent, a substantial drop from the prior quarter's 5 percent product margin.

Yet, this lower margin does not suggest a significant deviation from the prior five-year average for the first quarter and is not surprising given the lack of producer interest in forward selling. The bright spot remains the stability of agronomy product margins and service revenues, both of which appear robust to the market conditions producers are facing.

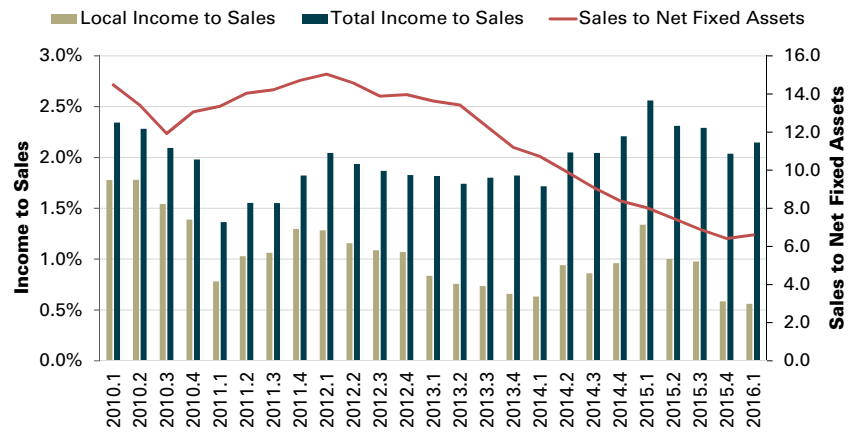
Margin as a percentage of sales is only half of the story. In general, grain and farm supply firms — many of which have feed and energy enterprises as well — have seen declining sales dollars generated per dollar of net fixed assets (Figure 2). While this is due partly to the significant investments made in fixed assets at all levels of the supply chain, the bigger issues are declining sales dollars in absolute terms and falling local income.

Cooperatives' story differs from other grain and farm supply companies because of the role regional cooperatives play. In addition to the income they make from their local operations ("local income"), local ag cooperatives receive patronage from their regional partners like AGP, CoBank, CHS, and Land O'Lakes, which is included in the total income calculation.

As illustrated in Figure 2, profitability at the regional level fills in the income slack local cooperatives experience. In Iowa, for example, cooperatives recorded about 1.7 cents of patronage from regional partners for every dollar of sales in the first quarter of 2016, compared with the prior five-year average of about a 1.0 cent per sales dollar.

Many cooperatives emerged from the 2012 - 2013 period of high corn prices with strong balance

**Figure 2. Quarterly income and sales for grain and farm supply cooperatives in Iowa**



Source: CoMetrics, average of 31 grain and farm supply cooperatives in Iowa.

**Table 1. Key financial indicators, average of grain & farm supply cooperatives in Iowa**

	5-Year Average	Q1 2016 YTD
Working Capital to Sales	5.3%	5.4%
Sales to Local Equity	10.82	6.42
Long-term Debt to Net Fixed Assets	53.9%	37.1%
Long-term Debt to Local Equity	51.7%	39.2%
Accounts Receivable Collection Days	43.18	18.97

Source: CoMetrics data from 31 grain and farm supply cooperatives in Iowa.

sheets, particularly working capital, and have been able to maintain that strength despite the recent margin environment. Key financial measures for cooperatives are given in Table 1. The data suggest that cooperatives built significant working capital, particularly through 2014, but are beginning to show signs of a trailing working capital-to-sales ratio. For most firms with a mix of grain and agronomy, a ratio in the 3-4 percent range is considered acceptable, with higher values indicating reserve strength.

As noted, sales are in a period of decline, and that shows through the slower sales-to-local equity measure. Long-term borrowing continues to be well below threshold leverage levels, and with the strength of working capital, their capacity to service debt ensures that additional borrowing is unlikely to be a hurdle in the coming quarters.

Co-ops managing through low margins, continued from page 2

Finally, most agricultural retailers are keeping an eye on credit challenges that may arise as their customers face tougher economic conditions. Current accounts receivable measures, including collection days, do not yet show signs of customer account issues.

Looking ahead, grain and farm supply companies, including cooperatives, in the Midwest will undoubtedly continue to face challenges managing grain margins and may begin to feel the effects of customer accounts receivable issues if production agriculture revenues and incomes continue to drop.

To date, data from Iowa suggests that cooperatives have strong balance sheets and are taking steps to help their member-producers manage through this period. Regional cooperatives' profitability and relationship with local cooperatives should continue to soften the blow of local cooperatives' declining margins and income.

*\*This article originally appeared in Feedstuffs, August 8, 2016 issue.*



## Mediation provides assistance to farmers facing financial difficulties

By Chad Hart, extension economist, 515-294-9911, [chart@iastate.edu](mailto:chart@iastate.edu)

When confronted with on-farm hardship, there are ways for farmers to seek help to remedy these situations. Mediation is an option available to farmers as they work with their creditors to find a mutually beneficial solution to a delinquent secured agricultural debt of \$20,000 or more.

As the farming community has worked through several years of lower commodity prices, some farmers have seen their balance sheets erode and financial stress has increased, leading to financial problems. Farm mediation provides a confidential approach to negotiate settlements to financial disputes that allows all parties to come together to construct a plan to settle the financial issues.

Iowa State University Extension and Outreach has partnered with [Iowa Mediation Service](#) to create a video "[Understanding Farm Mediation](#)" providing information and tips to help farmers better understand the mediation process. The video describes the mediation process while also discussing how to prepare for mediation. A companion video called "[Tips for Managing Margins](#)" includes information on how to survive these challenging economic times.

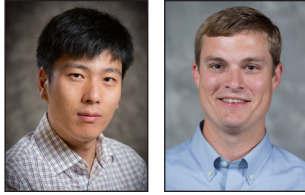
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### ISU Extension and Outreach video helps explain process, requirements of mediation

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While mediation is available should it be needed, ISU Extension and Outreach provides financial resources to help farmers create a financial plan for their operation.

- The [Iowa Concern Hotline](#) provides free legal information to both rural and urban Iowans. Services are available 24 hours a day, 7 days a week by calling 1-800-447-1985.
  - The Financial section of the [Ag Decision Maker](#) website includes Information Files and Decision Tools for understanding and analyzing financial statement.
  - The [Center for Agricultural Law and Taxation](#) provides information about the application of developments in agricultural law and taxation.
  - [Farm Financial Associates](#) are available to provide a no-cost look at a farm's complete financial situation.
  - The [Beginning Farmer Center](#) helps inform and support those who are new to farming. It also works with established farmers on succession planning for when they leave the industry.
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## USDA announces CRP changes to help improve water quality, wildlife habitat, and land transfers to beginning farmers

By Wendong Zhang, extension economist, 515-294-2536, [wzhang@iastate.edu](mailto:wzhang@iastate.edu); and Adam Janke, extension wildlife specialist, 515-294-7429, [ajanke@iastate.edu](mailto:ajanke@iastate.edu)

As USDA's flagship voluntary conservation program, the Conservation Reserve Program (CRP) provides incentives to producers who utilize conservation practices on environmentally-sensitive lands. For example, farmers are monetarily compensated for establishing long-term perennial cover, such as grasses and wildflowers or trees (known as "covers") to control soil erosion, improve water quality, and enhance wildlife habitat.

### New additions to CRP: CLEAR and SAFE Acres

In December 2016, USDA former secretary Tom Vilsack unveiled a new conservation initiative known as [Clean Lakes, Estuaries and Rivers \(CLEAR\)](#) under CRP to combat water quality challenges in areas such as the Mississippi River and Great Lakes Basin. CLEAR will assist landowners with the cost of building denitrifying bioreactors on existing filter strips and saturated buffers to filter nitrates and other nutrients from tile-drained cropland.

Through CLEAR, FSA is targeting existing Filter Strip (CP21) and Riparian Buffer (CP22) practices that are already enrolled in CRP or are part of a new enrollment offer in areas with a need to reduce nitrate loading to surface water from subsurface drain tile outlets. Research at Iowa State University and elsewhere has shown the potential positive water quality impacts of [bioreactors](#) and [saturated buffers](#) in Iowa and this new program will help landowners install these conservation practices on their properties.

USDA will also add an additional 1.1 million acres nationally to a number of key CRP practices that are critically important to wildlife, soil, and water conservation. These new authorizations include 700,000 acres for state priority wildlife projects under the State Acres for Wildlife Enhancement (SAFE) program, 300,000 acres for wetland restoration, and 100,000 acres for pollinator habitat.

Iowa is slated to enroll 115,000 new acres in three SAFE programs in the state that target high-profile wildlife habitat needs. A new practice for 2017 aims to enroll up to 40,000 acres of land in high-quality habitat for Northern Bobwhite quail habitat in southern Iowa (Figure 1) according to a recent press release from [Iowa NRCS](#). The new [Iowa Quail Program](#) is unique among other Continuous CRP practices because it emphasizes creating so-called early successional habitat through strategic plantings and frequent disturbances that create insect-rich

**Figure 1. Counties eligible for enrollment in the new Quail SAFE program in Continuous CRP are shown. Other Continuous CRP SAFE practices are available in every county in the state.**



USDA announces CRP changes, continued from page 4

habitats for bobwhite quail to raise their young. Landowners interested in restoring wild bobwhites, which have declined in abundance in Iowa for decades due to changes in availability of shrubby winter habitat and weedy fields and fencerows, should see positive responses of bobwhites to implantation of the new program. Iowa's other two SAFE practices – [Gaining Ground](#) and [Pheasant Recovery](#) – plan to enroll an additional 75,000 acres in grassland and wetland habitat targeting ring-necked pheasants, meadowlarks, pollinators, and other grassland-dependent wildlife in the state.

Signing incentives are being reduced by \$25 per acre on certain practices for fiscal year 2018 enrollments (incentives are currently between \$100 and \$150 per acre) and a cap on the maximum soil rental rate is being instituted for Continuous CRP at \$300 per acre.

**Early termination under TIP**

Recently, USDA announced several changes in the CRP program in order to make it easier to transfer agricultural land to beginning farmers. The former Deputy Under Secretary of USDA Lanon Baccam [announced](#) in Warren County, Iowa that beginning Jan. 9, 2017 and under the Transition Incentives Program (TIP), USDA will offer an early termination opportunity for certain CRP contracts, making it easier to transfer property to socially disadvantaged or beginning farmers or military veterans, including family members.

Normally if a landowner terminates a CRP contract early, they are required to repay all previous payments plus interest. This “early out” option under TIP waives this repayment if the land is transferred to a beginning farmer or rancher through a sale or lease with an option to buy. With CRP enrollment close to the Congressionally-mandated cap of 24 million acres, the early termination will also allow USDA to enroll other land with higher conservation value elsewhere.

This change to the CRP program is just one of many that USDA has implemented based on recommendations from the Land Tenure Advisory Subcommittee formed by Agriculture Secretary Tom Vilsack in 2015. As noted in *AgDM Information File C2-78, [Who Owns and Rents Iowa's Farmland?](#)*, over half of Iowa's farmland is rented from others and

the overwhelming majority of land transferred was within a family rather than to new beginning farmers.

Currently, the Transition Incentives Program provides two additional years of payments for retired farmers and ranchers who transition expiring CRP acres to socially disadvantaged, military veteran, or beginning producers when the receiving party is not a family member. Those new renters or landowners have to use “sustainable grazing or farming methods” to bring land back into production. Those seeking to use this option must alert USDA by August 31, 2017. Land under this option could be eligible for an early termination of the contract up to one year before a contract is set to expire. TIP funding was increased by more than 30 percent in the 2014 Farm Bill, providing up to \$33 million through 2018.

**Options for landowners with expiring CRP acres**

1. **Rent or Sell the expiring acres to a beginning farmer, military veteran or a member of a socially disadvantaged group** using the early termination option under TIP or at the end of the contract period.
2. **Let contract expire.** If contract holders opt to let the contract expire, they can plant, graze, or hay the ground after September 30 in the year the contract expires. USDA will also implement the 2014 Farm Bill's requirement that producers enrolled through general sign-up for more than five years can exercise the option to opt-out of the program if certain other conditions are met.
3. **Enroll in Continuous CRP or CRP Grasslands.** All or a portion of maturing CRP contracts may be eligible to be enrolled in either effort. The most recent CRP Grasslands ranking period closed December 16, 2016 and it is not clear when the next ranking period will be. The CRP Grasslands program allows producers to graze former CRP acres. The USDA will be enrolling lands into the Continuous CRP program, on a first-come, first-served basis of applications submitted by August 31, 2017. However, the 24-million acre nationwide enrollment cap set in the 2014 Farm Bill may result in some eligible acres not being accepted into the program. Any enrollments under the continuous sign-up would have a contract start of October 1, 2017. Open Continuous CRP practices

USDA announces CRP changes, continued from page 5

in Iowa include a number of popular programs such as SAFE and pollinator habitat (CP-42).

- 4. **Conservation Easements or Working Lands Programs.** These programs include the Agricultural Conservation Easement Program (ACEP) or state and private easement programs. Those planning to bring CRP ground back into production could also use the CRP Grasslands, Conservation Stewardship Program (CSP), or the Environmental Quality Incentives Program (EQIP).

For more information on the Conservation Reserve Program and other USDA Conservation programs, visit the [FSA CRP webpage](#), or visit your local [USDA Service Center](#).

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**Internet Updates**

- The following Information File and Decision Tools have been updated on [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm).
- ARC-CO Payment Calculator for 2016/17 – A1-32 (Decision Tool)
- ARC/PLC Payments by Crop and County – A1-33 (Decision Tool)
- Comprehensive Financial Statements – C3-20 (Decision Tool)

**Current Profitability**

- The following tools have been updated on [www.extension.iastate.edu/agdm/info/outlook.html](http://www.extension.iastate.edu/agdm/info/outlook.html).
- Corn Profitability – A1-85
- Soybean Profitability – A1-86
- Iowa Cash Corn and Soybean Prices – A2-11
- Season Average Price Calculator – A2-15
- Ethanol Profitability – D1-10
- Biodiesel Profitability – D1-15

**... and justice for all**

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