After the Freeze of 2012, How do I Prepare for the Future?

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Steps to Moving Forward

• Re-evaluate everything about your business
• Get a firm handle on your financial position
• Look for opportunities
• Address Risk
Re-Evaluation

• Time to retire?
  – Sell or lease?
  – Give my successor a chance?
  – Expand?
  – Get outside employment?

• Do I have a successor?
  – Are you listening to successor?
  – Parent want successor to be successful?
  – Parent’s job to train and educate successor to be more successful than they were (fly the nest)
  – Moves business to next level
  – Are you listening to advisors but making no changes?
Re-Evaluation Continued

• Will business support me and a successor?
  – If not, someone has to retire or leave
• In full production years did you have major income tax obligations?
• Sell some land reinvest in business? (downsize)

• Do I have under performing assets to sell?
  – Recreation land
  – Building lots
  – Sell second home?
  – Other things I can sell?
  – Sell & use proceeds for business?
Get Firm Handle on Financial Position

• Annual accrual balance sheet is minimum
  – Business analysis recommended
• Someone in business **must** become financially savvy
  – Create annual budget
• Know difference between cash flow and profit
  – Evaluate each block financially
  – Yield x price – expenses = profit
  – Then deduct an allocation of overhead, loan principle, family living, cap expenditures
  – An unprofitable block will produce cash flow
  – Keeping an unprofitable block creates bigger impacts later; like right now
Get Firm Handle on Financial Position
Continued

• Is my re-planting schedule adequate?
  – Annually renewing plantings?
  – No growth = falling behind

• If I retire, need income from farm?
  – What is my personal financial position?
  – Will I need land rent from the farm?

• Maximize resources you have
  – Irrigation?
  – High density?
  – More cost effective than buying land
New Opportunities

• Asparagus lease
  – Existing grower already has the labor
  – Asparagus easy sell environmentally
  – Industry needs virgin land
• Renew orchard with MI emergency loan funds?
• Other crops?
• Future goal: major income tax problems
New Opportunities Continued

• Lease established orchard
• State of MI emergency loan?
• Farm Service Agency emergency loan?
MI Emergency Loans

- 1% interest
- 5 year term
- Annual installments
- First year interest only
- 25% of principal years 2-5
- “Qualified” loans usually secured by real estate
- Max loan 75% loan to appraised value
- No origination fees
- Applicant to pay appraisal, title insurance, other misc. fees
- Covenants will apply, e.g. crop insurance coverage
- Funds can be used to refinance existing loans - be cautious; FCS 20 yr loan tier 1 at 4.95% now
- **Loans must be closed by March 31, 2013**
Address Risk

• NAP a no brainer for tart cherries
• Crop insurance
  – Do not consider insurance a profit center
  – Don’t need insurance until you need it
  – Goal from insurance: stay in business
Federal NAP (Non-insured Assistance Program Continued)

- Example: 100 acre tart cherry farm
- APH yield: 7,000 lb/acre tart cherry
- 2012 harvest: 0 pounds/acre
- Yield coverage: 50% x 7,000 lb/acre = 3,500 lb/a
- Price coverage: 55% x 5 year avg mkt price = $.222
- Economic coverage: 3,500 lb/ac x $.222/lb x 55% = $427/acre
- For “0” harvest payment reduced 20% (no harvest cost)
- Payment = $427 x 80% = $341/acre
- If 2012 harvest of 1000 lb; NAP pymt for 2500 lb;
  - 2,500 x $.222 x 55% = $305/acre + cherry sales 1,000lb/ac
- NAP Premium $250
Resources

- Tart Cherry Cost of Production 2010 AECReport6391 - Tarts.pdf
- Orchard/Vineyard Lease Template With Trees/Vines Pre-Existing
- Long-Term Orchard/Vineyard Lease (This lease is designed to accommodate an orchard/vineyard from pre-planting through its productive life).
MSU Extension Can Assist

• MSU Extension Farm Management Educators can assist commercial producers with compiling balance sheets and calculating future income projections
• Contact your local extension office to determine the educator for your area
• Or, contact Curtis Talley Jr. 231-873-2129 to determine the educator for your area
Thank You

• QUESTIONS???