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TRANSFORMATION IN NEBRASKA AGRICULTURE

If you were Rip Van Winkle and woke up to see changes in agriculture after the past ten years, you would be totally shocked. Bruce Johnson, an agricultural economics professor, recently shared 10 year transformation changes at a meeting sponsored by the Nebraska Agricultural Relations Council in Lincoln. Ten years ago, net cash receipts in Nebraska were 10.4 billion. The 2011 estimates are 23.6 billion or up 227%. Livestock gross receipts are estimated to be 9.2 billion dollars or a 56% increase from 10 years ago. Government direct payments are down 69% and net farm income up from 1.9 to 5.4 billion dollars.

The ethanol industry exploded from a 300 million gallon a year level to 1.5 billion gallons. Nebraska's ethanol production ranking is second to Iowa and a 10 year 566% increase in production. The seed corn industry grew by 50%. Nebraska farmers increased irrigated crops by 18% to 8.6 million acres and Nebraska out of country agricultural exports went from 3 billion to 5.8 billion dollars or a 93% increase.

All of these changes and more have led to essentially a doubling of land values in the last 5 years. What's interesting to note is that only in the last 18 months has the price of land in real dollars, adjusted to inflation, exceeded the previous land value highs before the 1980's crash.

An economic bubble problem exists when farm asset prices rise above what incomes can sustain. There's talk about a new plateau in the agricultural economy. But with any new plateau economist's talk about "over exuberance", then "mania", then "height of the folly" farm asset purchases. With one-half of agricultural land sales being cash or most other sales with 35 - 40% down payment, today is different than in 1985. The agricultural debt to equity ratio 25 years ago was .29 and today is half that. If there becomes a 25% correction, economists estimate Nebraska's debt to equity balance sheet still remains manageable at .226 and debt to farm assets at .184. So there is no talk of a bubble burst, but maybe a little talk about some air going out of the bubble.

With changes like these occurring rapidly, farm business communication with family is more important than ever. One recent trend has been family heirs are tending to retain ownership on the more valuable farm assets. It is more important than ever that family farms have sound professional advice including a good certified accountant and attorney. A good attorney is crucial to have estate plans in place with well thought out exit plans.

Estate planning is so important these days. Are there contingency plans for the family farm to meet the unexpected? Is there liquidity to buy out a family member that demands they want to cash out? How will the farm transition into the next generation?

Dave Specht, a professor at UNL, spoke at the same conference. He has a passion for family owned business and education. He said there is no one template to give a business for estate planning, every single family is different and unique. One story included an 80 year old feedlot owner with three sons, 55, 53 and 50 years of age, all involved in the family operation. Dad started out with nothing and built the successful family business, a farm success story. However, the sons had never been allowed to buy and sell the cattle. Evidently they couldn't do it as good



as Dad and all three were really close to a career change. Where is knowing what to do if Dad passes away tomorrow? There was no transition plan or the proper transition training to the sons.

Another outstanding speaker, Larry Kopsa, a CPA from York, said if you didn't remember anything else from his talk, remember this. Have a "Life Records" notebook with all your key information in there. Let the kids know it's there and communicate.

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