

# **Farm Tenure Financial Scenarios**

## **Prepared by Jon Jaffe of Farm Credit East**

### **Examples (See accompanying spreadsheets)**

#### **FARMS**

##### **Jones Vegetable Farm**

Joe and June Jones own a 50 acre farm that contains their residence, retail stand and storage barn. This farm contains 40 acres of crop acreage that they actively operate. Most of their crops are sold through the farm stand with the excess sold wholesale. They have two full-time employees and several part-time employees.

##### **Smith Fruit Farm**

Sam and Sue Smith own a 50 acre farm that contains their residence, retail stand and storage barn. This farm contains 25 acres of fruit trees and 15 acres of small fruit (strawberries, blueberries and raspberries) that they actively operate. Most of their crops are sold through the farm stand with the excess sold wholesale. They have one full-time employee and two part-time employees.

#### **SCENARIOS**

##### **Scenario #1: Traditional Ownership.**

Each farm above has full development rights available. Each farm has a fair market value of \$750,000. Both farmers were able to put 1/3 down (\$250,000) and financed the \$500,000 remaining total @5% interest over a 20 year term.

##### **Scenario #2: Development Rights Already Sold.**

Each farm above already has the development rights sold. This has reduced the fair market value of the farms from \$750,000 to \$400,000. These farmers put down \$150,000 and financed the remaining \$250,000, again at 5% interest and over a 20 year term.

##### **Scenario #3: Rental of Farm**

Each farm is rented from the current owner for \$1,500 per month for the land and farm buildings (shown in rental expense) and \$1,000 for the house (shown at bottom of spreadsheet).

#### **Discussion Points**

- 1) Tradeoff of Ownership Rights for Increased Net Earnings
- 2) Residence on Farm or Residence off Farm

Vegetable Farm - Case Study\*  
Scenarios--See text description in word document

	Scenario 1	Scenario 2	Scenario 3
<u>Income/Expense</u>	<u>W/ Develop Rights</u>	<u>W/O Develop Rights</u>	<u>Leased Only</u>
Sale of Resale Product	\$52,000	\$52,000	\$52,000
Cost of Resale Products	\$(26,000)	\$(26,000)	\$(26,000)
Sale of Raised Products	\$285,000	\$285,000	\$285,000
Cooperative Distributions	\$1,500	\$1,500	\$1,500
Ag Program Payments	\$7,500	\$7,500	\$7,500
Custom Hire Income	\$6,000	\$6,000	\$6,000
Other Income	<u>\$4,000</u>	<u>\$4,000</u>	<u>\$4,000</u>
Total Farm Income	\$330,000	\$330,000	\$330,000
Advertising	\$2,000	\$2,000	\$2,000
Car and Truck Expenses	\$3,000	\$3,000	\$3,000
Chemical Expenses	\$6,000	\$6,000	\$6,000
Custom Hire	\$3,000	\$3,000	\$3,000
Depreciation/Cap Replace	\$20,000	\$20,000	\$10,000
Fertilizer and Lime	\$22,000	\$22,000	\$22,000
Freight and Trucking	\$2,500	\$2,500	\$2,500
Gas, Fuel and Oil	\$26,000	\$26,000	\$26,000
Insurance Expense	\$8,500	\$8,500	\$8,500
Interest Expense	\$25,000	\$12,500	\$-
Labor Expense	\$76,000	\$76,000	\$76,000
Misc Exp	\$3,000	\$3,000	\$3,000
Office Expense	\$1,000	\$1,000	\$1,000
Professional Fees	\$1,500	\$1,500	\$1,500
Rent Expense	\$3,000	\$3,000	\$21,000
Repairs	\$7,000	\$7,000	\$7,000
Seeds and Plants	\$16,000	\$16,000	\$16,000
Supplies	\$56,000	\$56,000	\$56,000
Taxes	\$9,000	\$9,000	\$1,500
Utilities	<u>\$7,000</u>	<u>\$7,000</u>	<u>\$7,000</u>
Total Expenses	\$297,500	\$285,000	\$273,000
Net Income	\$32,500	\$45,000	\$57,000
Less Principal Payments	\$(25,000)	\$(12,500)	\$-
Less Residence Rental	<u>\$-</u>	<u>\$-</u>	<u>\$(12,000)</u>
<b>Net for Family Living</b>	<b>\$7,500</b>	<b>\$32,500</b>	<b>\$45,000</b>

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## Farm Fruit Farm - Case Study\*

### Scenarios

<u>Income/Expense</u>	Scenario 1 <u>W/ Develop Rights</u>	Scenario 2 <u>W/O Develop Rights</u>	Scenario 3 <u>Leased Only</u>
Sale of Resale Product	\$37,000	\$37,000	\$37,000
Cost of Resale Products	\$(19,000)	\$(19,000)	\$(19,000)
Sale of Raised Products	\$172,000	\$172,000	\$172,000
Cooperative Distributions	\$1,000	\$1,000	\$1,000
Ag Program Payments	\$1,500	\$1,500	\$1,500
Custom Hire Income	\$2,000	\$2,000	\$2,000
Other Income	<u>\$2,500</u>	<u>\$2,500</u>	<u>\$2,500</u>
Total Farm Income	\$197,000	\$197,000	\$197,000
Advertising	\$3,500	\$3,500	\$3,500
Car and Truck Expenses	\$4,500	\$4,500	\$4,500
Chemical Expenses	\$8,000	\$8,000	\$8,000
Custom Hire	\$2,000	\$2,000	\$2,000
Depreciation/Cap Replace	\$16,000	\$16,000	\$6,000
Fertilizer and Lime	\$12,000	\$12,000	\$12,000
Freight and Trucking	\$1,000	\$1,000	\$1,000
Gas, Fuel and Oil	\$6,000	\$6,000	\$6,000
Insurance Expense	\$6,500	\$6,500	\$6,500
Interest Expense	\$25,000	\$12,500	\$-
Labor Expense	\$36,000	\$36,000	\$36,000
Misc Exp	\$2,500	\$2,500	\$2,500
Office Expense	\$1,500	\$1,500	\$1,500
Professional Fees	\$2,000	\$2,000	\$2,000
Rent Expense	\$4,500	\$4,500	\$22,500
Repairs	\$5,500	\$5,500	\$5,500
Seeds and Plants	\$2,000	\$2,000	\$2,000
Supplies	\$14,500	\$14,500	\$14,500
Taxes	\$8,500	\$8,500	\$1,000
Utilities	<u>\$3,000</u>	<u>\$3,000</u>	<u>\$3,000</u>
Total Expenses	\$164,500	\$152,000	\$140,000
Net Income	\$32,500	\$45,000	\$57,000
Less Principal Payments	\$(25,000)	\$(12,500)	\$-
Less Residence Rental	<u>\$-</u>	<u>\$-</u>	<u>\$(12,000)</u>
<b>Net for Family Living</b>	<b>\$7,500</b>	<b>\$32,500</b>	<b>\$45,000</b>

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