



Unpacking & Planning for the True Costs of Owning and Leasing Farmland

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April 27, 2021



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University of Idaho
Extension



Food Systems

WASHINGTON STATE UNIVERSITY

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Today's Presenter



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True Costs of Farmland



Webinar Topics

- Financial factors affecting land tenure
- Financial information buyers and lenders want to see
- Key financial documents and statements
- Putting together a cash flow budget
- Resources available

Three Basic Paths to Land Access



LEASING LAND



BUYING LAND



ACCEPTING GIFTS
INHERITING LAND

Factors Affecting Land Tenure Decisions

Personal and
business goals

Your current
financial
position

Capital needs
of your
business

Earning
potential of
your business

Land Tenure Situations Come with Financial Obligations

It's important to understand both the costs of buying, leasing and even inheriting land

AND the costs of maintaining it over time

Factor in things like property taxes, upkeep, insurance, etc.

Carrying Costs

Property taxes

Water and other
utilities

Conservation practices

Needed improvements
&/or restoration

Special assessments

Health & Condition of Natural Resources



Soil



Water sources: quality and quantity



Forests, wetlands, protected habitat



Pastures & Perennial Crops

Infrastructure and Improvements

The **location**, **suitability**
and **condition** of:

Housing

Buildings, barns, sheds
and hoop houses

Farm roads/driveways

Fencing



Infrastructure and Improvements

The **location**, **suitability**
and **condition** of:

Water systems: e.g., irrigation,
wells, filtering, etc.

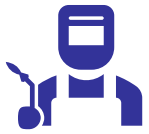
Septic systems and other
utilities

Conservation practices

Other facilities which may
affect your production options



Carrying Costs & Leases



Who is responsible for routine maintenance?



Who is responsible for maintaining infrastructure?



Who will pay for and own improvements?



Are there any limits on types of crops or livestock?



Is subletting allowed?

Taking Stock of Your Resources

Physical Resources

Marketing Resources

Management & Labor Resources

Financial Resources

Professional & Technical Assistance



Resource Inventory Worksheet



Name _____

Date _____

Directions

Use this worksheet to evaluate the resources you have, and to begin identifying the resources you need, to develop a successful farming or ranching enterprise.

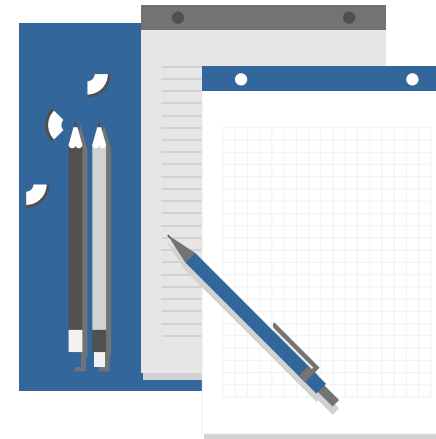
Physical Resources

Item	Quantity/Size	Condition including needed improvements	Current Value	Cost of Improvement	Purchase Price
Land					
Total Acres					
Cropland					
Soils					
Drainage					
Pasture					
Soils					
Drainage					
Woodlot					
Climate					



Can you compile your key financial documents?

- Bank Statements
- Tax Returns
- Credit Reports
- Investment or Savings Account Statements
- Credit Card Statements
- Student & Business Loans
- Mortgage Statements
- Ledger
- Bookkeeping or other record of farming income and expenses



What are Lenders & Landlords Looking For?



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Both Leasing and Purchasing Land Require a Financial Commitment

- A landlord will want to make sure you can make lease payments on time.
- A lender will want to make sure you can repay your loan.
- Both may require documentation to prove your credit-worthiness.

Three Main Financial Statements

Balance Sheet

Tells you your current financial position

Income Statement

Tells whether you are making or losing money in your enterprise

Cash Flow Statement

Keeps track of where cash comes from and where it goes

Lender & Landowner Concerns

Concern	Document / Financial Information
Your track record of handling debt	Credit Report
Down payments you can make	Balance Sheet & Net Worth
Ability to repay the loan / pay the lease	Income Statement & Cash Flow Budgets
Fallback position, if you can't pay	Collateral – Net Worth

Cash Flow Statements



Cash Flow Statement

Details all the sources of cash that you have,
as well as where all the cash goes

Includes 3 main parts

Cash flows from
**operating
activities**
(income
statement)

As well as: Cash
flows from
**investment
activities**

And: Cash flows
from **financing
activities**

Creating a Cash Budget

- A **Cash Budget** is basically a **forward-looking** Cash Flow Statement
- It looks at what you think your **cash needs** will be **relative** to what you expect for **income** throughout the year
- Cash flows often vary by time of year – Your Cash Budget addresses how you will deal with that.

Variable Costs

Cash Flow Budget Worksheet														
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	
3	Farm Income													
4	Retail sales	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Wholesale sales					-	-	-	-	-				-
6	Government payments	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Other	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Total Income (TI)	-	-	-	-	-	-	-	-	-	-	-	-	-
9														
10	Variable Costs or Cost of Goods Sold													
11	Labor	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Payroll taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Purchases For Resale	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Seed	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Inputs	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Fuel	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Other	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Total Variable Costs (VC)	-	-	-	-	-	-	-	-	-	-	-	-	-
19														
20	Fixed Costs or Overhead													

Fixed Costs or Overhead

19															
20	Fixed Costs or Overhead														
21	Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23	Real Estate Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
24	Land Rent	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	Machinery Rent	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	Repairs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
28	Marketing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	Owner Draw (salary)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	Total Fixed Costs (FC)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32	Gross Margin (TI-VC)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
33	Net Margin (NM)														
34	TI - (VC + FC)	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Other Sources / Uses of Cash

35	Other Sources / Uses of Cash													
36	Enter sources of cash as positive numbers and uses of cash as negative numbers													
37	(Equipment purchases)	-	-	-	-	-	-	-	-	-	-	-	-	-
38	Equipment sales	-	-	-	-	-	-	-	-	-	-	-	-	-
39	Funds borrowed	-	-	-	-	-	-	-	-	-	-	-	-	-
40	(Funds repaid)	-	-	-	-	-	-	-	-	-	-	-	-	-
41	Net Cash from Other Sources / Uses	-	-	-	-	-	-	-	-	-	-	-	-	-
42														
43	Monthly Cash Flow (NM + Net Cash from Other Sources/Uses)	-	-	-	-	-	-	-	-	-	-	-	-	-
44	Beginning Cash	-	-	-	-	-	-	-	-	-	-	-	-	-
45	Ending Cash	-	-	-	-	-	-	-	-	-	-	-	-	-

Adapted from the Simply Fresh Farm Budget Cash Flow Spreadsheet developed by Farm Credit East. For a more comprehensive budget worksheet go to:

www.farmbiztrainer.com/resources/groups/one-page-planning-suite/



Where to start? With your personal finances!

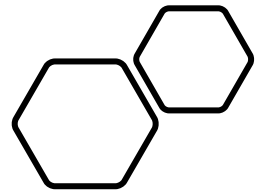
- Gather your key financial documents
- Develop a recordkeeping system
- Create a personal balance sheet
- Create a personal cash flow budget
- Create and update your personal cash flow statement





Next develop a land-based cash flow budget

- Rent or lease payment
- Itemize your carrying costs
- Compare the affordability of different land parcels



Free Resources available from Idaho Cultivating Success™

Financial Fitness for Farmers

- Balance Sheets
- Income Statements
- Enterprise Budgets
- Cash Flow Budgets

[https://www.cultivatingsuccess.org/
financing-mentorship](https://www.cultivatingsuccess.org/financing-mentorship)



Follow-up questions? Contact me!

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