Testimony of

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on

Future of Family Farms: Economics and Demographics

Before the

Small Business Committee
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Hearing on the Future of Family Farms

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Introduction

Thank you for the opportunity to speak with you today about family farms. I am a product of a family farm, have family involved in farming and have worked with family farmers throughout my career. In my current role as Associate Dean for Extension Programs and Outreach, I lead a team of dedicated extension professionals working daily to help family farms succeed. I am honored to address this topic and will be happy to answer questions or provide more information.

Farming continues to change as does the makeup and needs of family farms. You will be hearing from individual family farmers and their important perspectives on this panel. My comments are focused more about the demographics and economics of farmers. I describe a range of farmers that we see in Iowa and also, I believe, across much of the Midwest. I will then discuss the linkages between family farms and global markets and rural communities. I will also share my observations on challenges facing family farms and the role of land-grant universities in addressing them. Finally, I will share our programming at Iowa State University for farm succession planning and beginning farmers.

Farm demographics

Iowa's landscape gives the impression of homogeneous farms. Crop rotations, tillage methods, machinery, facilities and farmsteads often look similar. However, the number of acres farmed, financial conditions and reliance on off-farm income are difficult to see from the road. USDA's Economic Research Service annually surveys farmers regarding income and expenses of the farm business and family household income. All these families living on farms in rural Iowa are part of the farm economy. Table 1 summarizes select indicators for 2015, the most recent data available. Farms are divided into three categories based on gross cash farm income (GCFI) and occupation:

- **Residence farms**: less than $350,000 GCFI and principal operator is retired or primary occupation is not farming.
- **Intermediate farms**: less than $350,000 GCFI and principal operator's primary occupation is farming.
- **Commercial farms** and **nonfamily farms**: more than $350,000 GCFI and principal operator's primary occupation is farming.

For perspective, at current prices, $350,000 is the gross revenue from approximately 600 acres; and less if the farm also has livestock. Residence farms account for 46% of Iowa farms (over 40,000), control 15% of the land and 8% of the value of farm output. Approximately 90% of their household income is from off-farm sources. By definition, these rural residents have some farm income, but farming is not their primary occupation.

Intermediate farms and commercial farms identify farming as their primary occupation and probably look similar from the road. There may be different sizes or age of machinery and facilities, but similar brands and functions. They do differ in the number of acres farmed,

amount of livestock produced and sources of income. There is a similar number of farm families in both categories, but they differ greatly in the percentage of acres farmed and value of production. Intermediate farms in Iowa number nearly 26,000 (40%) and control 18% of the land and 12% of value of production. There are over 21,000 commercial farms (24%) that control 67% of the land and 80% of value of production. The average GCFI for commercial farms

Table 1. Iowa Farm Characteristics 2015 by Type of Farm*.

	Units	Total	Resident	Intermediate	Commercial
Farms	Number	87,501	40,374	25,882	21,244
Farms	% of total	100%	46%	30%	24%
Total value of production	% of value	100%	8%	12%	80%
Total acres operated	% of acres	100%	15%	18%	67%
Acres operated per farm	Acres/farm	357	118	218	980
Gross cash income	$/ farm	305,534	49,438	111,004	1,029,232
Livestock income	% of income	36%	15%	18%	41%
Crop sales	% of income	47%	50%	59%	46%
Government payments	% of income	4%	11%	6%	3%
Other farm-related income	% of income	12%	24%	17%	10%
Net cash farm income	$/ farm	87,916	NA	32,481	298,374
Net farm income	$/ farm	63,503	17,187	34,389	186,993
Household income from off-farm	$/HH	87,670	102,614	55,068	99,386
Total operator household income	$/HH	149,021	115,941	83,138	297,166
Operators under 45	% of farms	15%	17%	12%	16%
Operators 45-64	% of farms	55%	51%	55%	63%
Operators over 64	% of farms	30%	32%	33%	21%

Source: Agricultural Resource Management Survey, USDA, December 2016
https://data.ers.usda.gov/reports.aspx?ID=46940
*Farm type defined by USDA Economic Research Service:

- Less than $350,000 gross cash farm income
  - –Residence farms: principal operator is retired or primary occupation is not farming.
  - –Intermediate farms: principal operator primary occupation is farming.
- More than $350,000 gross cash farm income
  - –Commercial farms and nonfamily farms: principal operator primary occupation is farming.

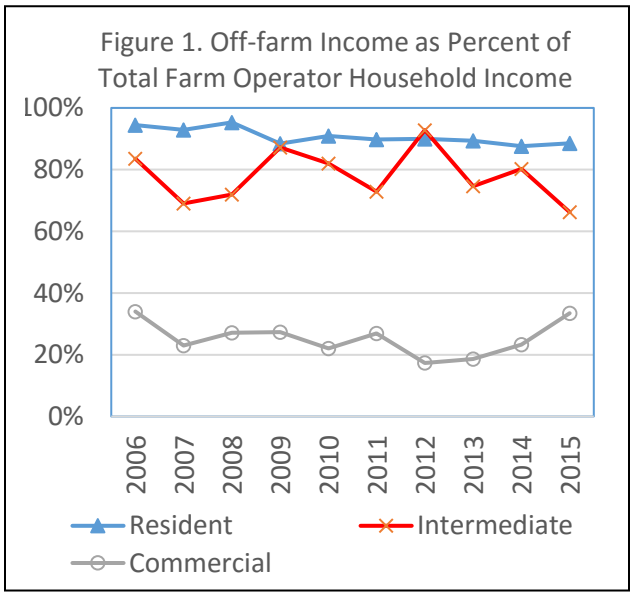
was more than $1 million in 2015. Commercial farms manage nearly 1,000 acres and, on average, have income balanced between crops and livestock sales. Intermediate farms have much smaller number of acres operated (218), a GCFI just over $100,000 and have nearly 60% of farm income from crops.

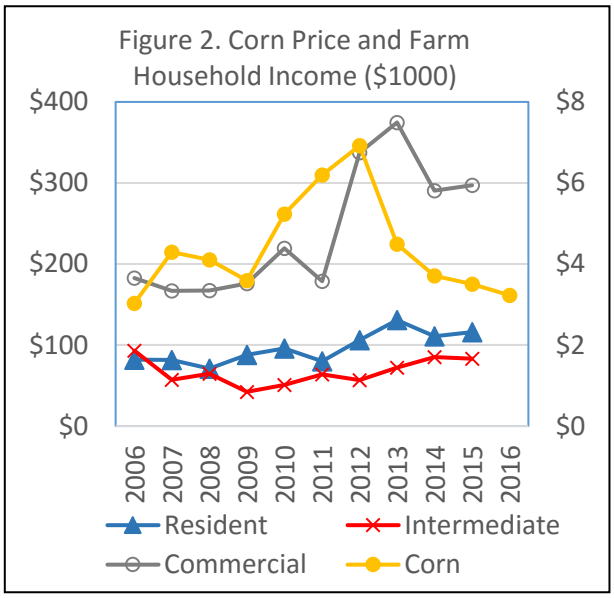
All three farm types have significant off-farm income: approximately $100,000 for residence farms and commercial farms and $55,000 for intermediate farms. Off-farm income is consistently 90% and 70 to 90% for residence farms and intermediate farms, respectively, and 20 to 30% for commercial farms (Figure 1). As such, commercial farms are more dependent on commodity prices for household income than the other two categories (Figure 2). Policies that impact markets and help farmers manage risk are more important to commercial farms,

whereas policies that impact rural employment are of more benefit to intermediate and residence farms. Conversely, rural businesses and communities depend on farm families as employees, entrepreneurs, volunteers and leaders.

Another telling statistic in Table 1 and Figure 1 is the level of household income to support farm families. The average of the intermediate farms category — the lowest of the three — is over $80,000 per year. If farming is to be the only source of family living expense, it takes a substantial and efficient operation to generate that level of income. Commercial farm operators are younger on average, 63% between 45-64 years old. One third of residence and intermediate farm operators are over 65.

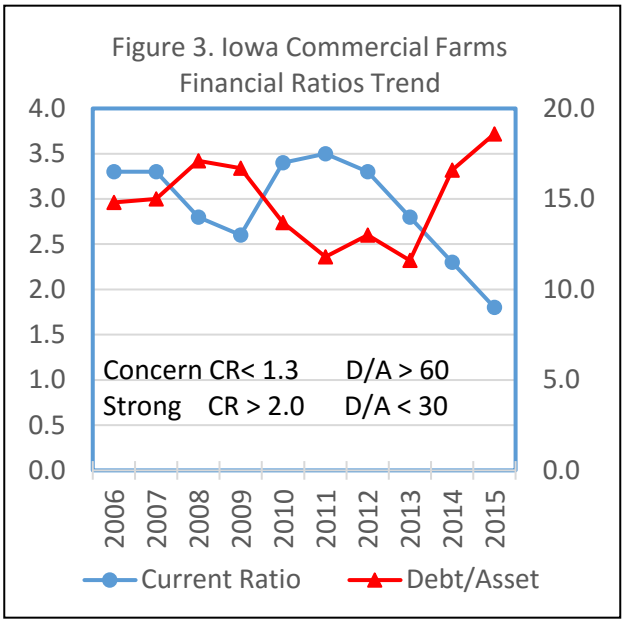
Obviously, farm income is directed to more things than just supporting the household. Farmers reinvest profits back into the farm operation by purchasing or improving land, machinery and facilities. It may be cash payments or financed purchases with annual loan service payments. The decision between family living expenses and investment in the farm is a balancing act as old as farming itself. If a family farm is going to sustain itself into future, it must maintain its assets, whether they be physical or in support of the family.

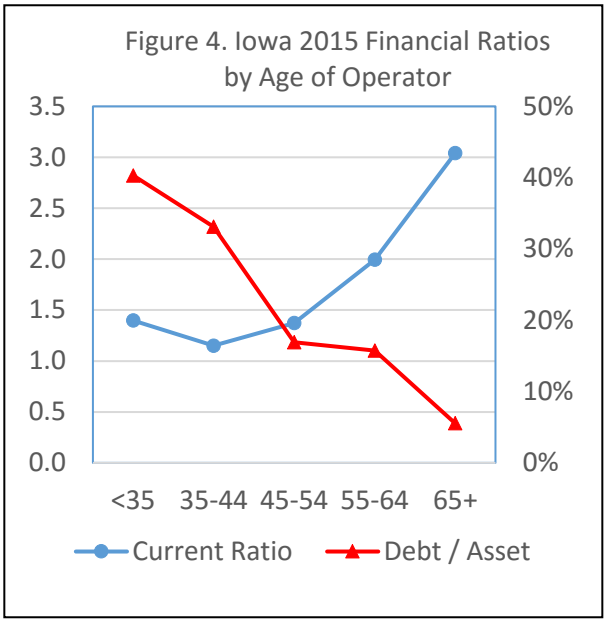




Current Conditions

Corn prices, along with most agricultural commodity prices, increased from 2006 to 2013 or 2014. In recent years, prices have fallen sharply. This change in farm income has impacted farm financial conditions (Figure 3). With the price decline, farmer's current ratio weakened as they used working capital or short-term borrowing to meet cash flow obligations. Current ratios for commercial farms, which were near $3.50 of current assets per $1 of current liabilities in 2011, declined to an average of 1.7 in 2015. Current ratios below 1.3 are considered a concern by lenders. The ARMS data set estimates that less than 5% of commercial farms are below the 1.3 current ratio.





The ratio of debt to assets has increased for commercial farms since 2013, but on average, these farms remain in a strong position. These two indicators reinforce what we hear from farmers and lenders. Farmers have working capital challenges, but not a debt crisis — they have the assets to refinance short-term debt to a longer term loan with more manageable annual payments, and continue to operate. With current commodity prices, the financial conditions of most farmers will slowly deteriorate. But economists are not expecting a crisis as was experienced in the 1980s. While not shown in the graph, intermediate farms have similar current ratio and debt/asset ratio profiles as commercial farms.

As might be expected, financial conditions differ with the age of farmers (Figure 4). Older farmers have less debt and more current assets than younger farmers. Agriculture has enjoyed relatively low interest rates for a number of years. Higher interest rates expected from the Federal Reserve will impact younger, higher leveraged farmers more than older farmers.

Ongoing Challenges

One way to think about challenges facing family farms is to think about access. The kind of access that benefits farmers the most will depend on their operation. This includes access to:

- **Markets**: global trade, local buyers, effective infrastructure and transparent pricing.
- **Capital**: tools to manage risk, innovative business structures and choice of lenders.
- **Technology**: product development and choice, data portability and public research.
- **Information**: public data, information and education, open access tools and broad-band.
- **Opportunities**: local employment and/or entrepreneurship to augment farm income.

Land-grant universities address these access issues through integrated research and extension programs in every state and every county. This federal, state and local partnership makes

unbiased, research-based solutions and education available all farmers, not just those who can afford consultants or who buy specific products. These integrated programs address farming topics such as production efficiency, risk management, financial analysis, facilities and equipment, natural resource protection and emerging issues from invasive species to unmanned aerial systems. Extension programs educate and inform both farmers and the agribusinesses, consultants and agencies that serve them. It's important to note that while farmers increasingly turn to their private-sector advisors, the information and training these advisors receive often originates with land-grant universities and extension programs.

Federal competitive funds and capacity-building funds help assure innovative research and attention to local challenges. State funds leverage federal resources and assure integration between research and practical extension education to address state and regional needs. Local resources help address a broad range of family farm issues from youth, to family nutrition and finance to agriculture; they also relay emerging questions back to land-grant researchers.

Sustaining Family Farms

Family farms face many challenges to sustain the farm business from one generation to the next. One challenge is managing a business in a globally competitive industry like agriculture while dealing with variable weather and markets, evolving technology, regulations and narrow margins. A second challenge is to grow a business that can support a family — and for some farms, a business that can support two or more families as the operation is transitioned from one generation to the next. Third, and often the most difficult challenge, is the communication and planning necessary within the family about the future of their farm business. It is relatively easy for a retiring farmer to hold a farm machinery auction and rent the land to a neighbor. It is much more difficult to transition the operating farm business intact to the next generation, related or not, and maintain a farm family in the community. This is particularly difficult when multiple siblings are involved.

Many states are addressing these issues in different ways. In Iowa, we have the first-in-the-nation Beginning Farmer Center and a comprehensive program to facilitate successful farm succession planning. The Beginning Farmer Center was created by the Iowa Legislature in 1994 to "assist in facilitating the transition of farming operations from established farmers to beginning farmers." The center is part of the College of Agriculture and Life Sciences and Extension and Outreach at Iowa State University.

The Beginning Farmer Center works closely with the ISU Extension farm management team to meet the needs of Iowa farmers and landowners. It coordinates programs and services that develop skills and knowledge in financial management and planning, legal issues, tax laws, technical production and management, leadership, sustainable agriculture, human health and the environment. Two programs led by the center target both families with a known successor and those looking for a new family. The *Returning to Farm Seminar* is a pair of two-day workshops for farm owner/operators and their known business successors, often family members. The focus is on starting the communication and planning that may continue over

multiple years. The *Ag Link* program links beginning farmers with established farmers desiring to transition their farm business to a new generation but that have not identified a family member. Ag Link is an intensive interview and consultation service to facilitate a successful match. In both programs, the goal is on sustaining successful family farm businesses intact rather than in pieces.

The Iowa State University Extension and Outreach program for beginning and transitioning farms is broader than the Beginning Farmer Center. We provide educational materials on farm succession to beginning and exiting farmers through many methods, including the internet, seminars and publications. Faculty and staff conduct targeted research on farm business succession planning, the needs for beginning farmers and other relevant topics. We also provide individual farm financial analysis for beginning farmers through the Extension Farm Financial Planning Program.

The Iowa State University Extension and Outreach Women in Agriculture program is a relatively new, but highly effective, avenue to educate and assist farm families planning for the next generation. Women care deeply about their farm and their families, and often are more willing to hold the discussions necessary to plan for the future.

Iowa State University, through a USDA Beginning Farmers and Ranchers Development Program grant, has launched three new programming efforts to assist beginning and transitioning farmers. First, Iowa State Extension is organizing “start-to-farm” groups of like-minded young farmers across the state. These groups identify educational needs that are addressed by Iowa State University and form long-lasting networks for the future. Second, we are collaborating with Iowa Veterans in Agriculture to address the needs of veterans returning to the farm, working in agribusiness or interested in starting a farm business. Finally, we are collaborating with a nongovernmental organization to train farm succession coordinators in the public and private sectors that can assist families with communication and plan development and implementation.

Thank you for the opportunity to share my thoughts on family farms and the opportunities and challenges they face.